

# ANALYSIS

## Clash of the titans

US giant Walmart has made a series of changes recently that see it snapping at Amazon's digital heels. Could it possibly compete? **Victoria Pavlova** and **Howard Lake** report

**W**almart last week unveiled a same-day online grocery delivery service that will cover about 40% of US households by the end of the year.

It was the latest salvo by the Bentonville giant as it overhauls its operations to better compete with online Goliath Amazon.

Walmart, which rose to dominance when retail was all about bricks and mortar, has been reshaping itself in response to the digital earthquake transforming business and society.

Last December, Walmart even changed its legal name from Wal-Mart Stores to Walmart Inc, symbolic of this shift.

Walmart has won praise for the radical changes it has made in recent years to adapt to contemporary consumer habits and maintain its leading position. From acquisitions to new services, it has made big steps to modernise.

But it spooked investors last month after reporting that, in its fourth quarter, commerce growth slowed to 23% from 50% the previous quarter. Amazon, meanwhile, reported 38% growth in its fourth quarter.

Here, Retail Week looks at how Walmart's digital overhaul is going as it slugs it out with a rapidly growing Amazon to win custom.

### Walmart's vision

Walmart chief executive Doug McMillon's vision centres on three pillars: customers, staff and tech-led innovation – a vision he originally set out in 2014.

He told the annual shareholders' meeting that year: "Customers want the excitement and the immediacy of shopping in a physical store, and the freedom to shop whenever, however and wherever they want.

"Walmart can bring together our stores with new digital commerce capabilities to help

customers save money, save time and have access to what they want and need."

Walmart is competing on two fronts. While digital is crucial in the fight against Amazon, Walmart is first and foremost leveraging its biggest weapon, stores – a channel in which Amazon is also increasingly building, following its acquisition of Whole Foods and its pilot Amazon Go c-store in Seattle.

Walmart's stores – it has 11,700 worldwide and about 4,600 in the US – are being repositioned to serve as convenient pick-up locations for its growing online operations as well as catering for conventional shopping.

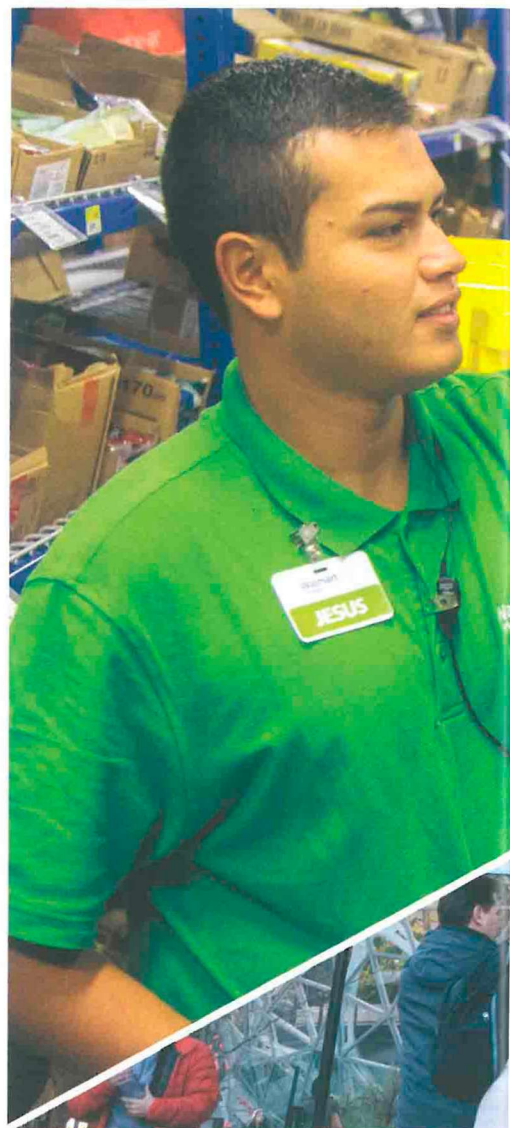
Planet Retail RNG research director Doug Koontz observes: "Walmart is one of the few retailers that can match Amazon or Alibaba's scale, and its investments to grow its ecommerce offering and expand its digital capabilities are an acknowledgement of the future world it will compete in."

Satisfying the shopper has been the consistent theme of Walmart's transformation. One of McMillon's first priorities was refreshing its vast network. Out-of-stocks, untidy and dirty shops staffed by disinterested low-paid staff were common perceptions among US shoppers.

Even as online sales rise, stores remain a powerful weapon in the retail armoury.

Miya Knights, head of industry insight at customer tech and insight specialist Eagle Eye, says: "While its digital strategy is to be commended for enabling Walmart to catch up with the competition, it must still tackle fundamental structural issues with its physical range and offer, which is over-spaced and underperforming.

"It must also consolidate its larger-format, out-of-town store base, where growth is slowing and being cannibalised by online."



### Going digital

While in-store changes have been made, digital acquisitions have been at the heart of Walmart's transformation.

That began with the acquisition of Amazon competitor Jet.com in 2016. Jet is a marketplace operator that only launched in July 2015 but has already enticed around 2,400 sellers and carries 12 million products. Sales exceeded \$1bn a year after launch and the ambition is to secure \$20bn in annual revenue by 2020.

After the acquisition, Jet chief executive Marc Lore was appointed chief executive of Walmart ecommerce for the US. Since then, Walmart has used Jet as a proving ground for most of its digital initiatives.

Having appointed Lore to drive ecommerce, Walmart needed to revamp its online proposition. It has been doing that through a range of millennial-centric pureplay acquisitions, including vintage clothing marketplace ModCloth, men's clothing specialist Bonobos, footwear seller Shoebuy and outdoorwear business Moosejaw.

Amazon's push into health and beauty has not gone unnoticed either. Similarly, Walmart



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## Walmart is now firmly on Amazon's turf. The golden rule in retail today is to avoid competing with Amazon on their terms

**Natalie Berg, NBK Retail**

bid for beauty subscription retail service Birchbox in 2017. Walmart is aware it has to make up ground and learn how to speak to an entirely new shopper segment.

In the key battleground of food, Walmart's latest strategy for grocery delivery will extend the service to 800 stores by the end of 2018.

It will offer same-day perishables to 100 US metropolitan areas and will use various intermediaries, including Uber, for fulfilment.

Walmart, which unlike Amazon does not have a consolidated subscription programme

such as Prime, has settled on a \$9.95 service fee and a \$30 minimum order value instead.

NBK Retail analyst Natalie Berg praises the "very big leap". She says Walmart has "already made significant strides in reconfiguring stores and supply chain to better serve online customers, but up until now they've steered shoppers towards in-store collection.

"Walmart is now firmly on Amazon's turf. The golden rule in retail today is to avoid competing with Amazon on their terms.

"They play by their own set of rules. Walmart's move is defensive, but arguably necessary as Amazon becomes a more credible grocery retailer."

### Jetting off

The crown jewel among Walmart's acquisitions, however, remains the Jet.com portal, which has allowed Walmart to chase its new prized shopper – the urban millennial.

This is why, for the time being, Walmart will keep its two customer propositions separate.

Unlike Amazon's integration of Whole Foods, which has already yielded Amazon pick-up in Whole Foods stores, the integration

of Amazon Prime into Whole Foods' loyalty scheme, and the introduction of Whole Foods' private label on Amazon's online marketplace, Walmart and Jet are clearly aimed at two different types of shoppers and will only integrate services when it makes sense.

Since the acquisition, Jet has maintained the fail-fast business ethic of a start-up. It has implemented various initiatives in fulfilment, product curation and user experience – three pillars Jet sees as essential to its proposition.

Rather than reinventing Jet, Walmart is allowing it to maintain this direction and it borrows from it when applicable.

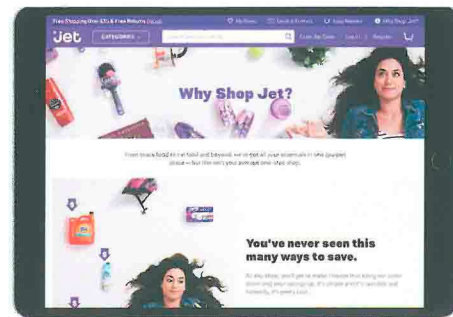
At the 2016 annual Walmart shareholders' conference, McMillon highlighted the fact that Jet Fresh, which provides home delivery of fresh groceries in one to two days, is now available to half of the US population.

This offer puts Jet in direct competition with Amazon Fresh. While the latter is still ahead on fulfilment, Jet's high tolerance for experimentation means it is well positioned to win on experience.

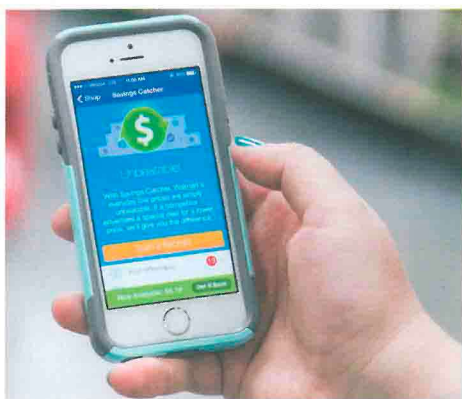
Liza Landsman, then president of Jet.com, said in 2017 that "the focus is winning every



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**Clockwise: Whole Foods Market, New York City; Walmart-owned Jet; a dedicated in-store Walmart collection point; Walmart's new app**



shopping occasion, for two adjacent but unique customer bases”.

For example, as it targets an upmarket shopper base it is more likely to position more upmarket brands and smaller pack sizes towards the top of search results.

She said: “That mom is a target customer, a primary shopper on both sites, but on Jet we’re going to have more primary brands in beauty like Bliss and Butter London.

“On Walmart.com we’ll have great brands targeted to that demographic, so you’ll find brands like Neutrogena and Maybelline more of the focus on that site. The focus is on winning every shopping occasion, but the difference is in assortment.”

**Walmart is playing on two fronts, improving the experience for its existing shopper base while carefully building an online bridge to its future shopper**

## Online revamp

The wider Walmart approach, unlike Amazon’s, is slow, steady and careful in order not to alienate core shoppers. Last month, almost two years after acquiring Jet (and Lore), Walmart made its first tentative step in revamping its main ecommerce portal.

Walmart.com unveiled a new design for its home and furnishings section, focusing on a curated, “aspirational” shopping experience.

It includes a home destination page featuring collections curated according to design trends and in-house stylists, nine shop-by-style options and editorial images and design tips. This is likely a glimpse of a wider Walmart.com redesign, spearheaded by Lore and scheduled to launch later this year.

Such moves indicate Walmart’s direction – it is playing on two fronts, improving the experience for its existing shopper base while carefully building an online bridge to its future shopper.

But omnichannel as well as purely online will be at the heart of Walmart’s plans. Retailers with large store networks that fail to utilise opportunities such as online pick-up points would be wasting a precious resource.

PlanetRetail RNG’s Koontz maintains: “Walmart’s future success will be dictated by its ability to utilise physical stores as part of an omnichannel offering, and its supply chain,

systems and organisation require much greater integration before true digital transformation can be achieved.”

Walmart’s latest Supercenters are very much designed for omnichannel.

Online grocery pick-up has dedicated in-store collection spaces with digital touchscreens at the entrance where shoppers can confirm their selection, then wait for a staff member to assemble their order. Vehicle pick-up is also available adjacent to the store.

Its innovative ‘pick-up towers’ are now in a rapid rollout phase, and recently made their first UK appearance in Walmart’s Asda business. These have now been augmented by automated 24-hour click-and-collect points sited outside Supercenters and a new petrol-station-cum-collection-point called Walmart Pickup and Fuel.

All this reflects McMillon’s original vision of simplifying shoppers’ lives. It has led to a flurry of initiatives such as a new function for Walmart’s shopper app that lets customers see the cost of their purchases when items are added to a basket.

Walmart has also mapped its entire US network so every store can be easily navigated.

Amazon already offers instant refunds on some items, and Walmart is now matching that offer. It is also taking the friction out of online returns by providing dedicated customer service desk lanes for items purchased on Walmart.com.

Walmart has already come a long way in a relatively short time. Now it is entering a critical phase of its omnichannel development. Efforts to date have been substantive; it now has to move to another level. That is likely to place further pressure on profit.

But from the start Walmart has flagged that its transformation would carry a hefty price tag. Despite the shares sell-off last month, investor forbearance – as long practised by Amazon investors – will be essential if the vision is to come to fruition.

Walmart’s eventual success or failure will be watched closely – the world’s largest retailer will serve as a bellwether of physical retail. Its successful transformation would mean others can do the same. **RW**