

# The impact of the internet on the retail industry



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For example, Wal-Mart is the largest retailer in the world and represents the traditional brick and mortar method of selling merchandise to customers (Carman 2011). In this case, the customers have to walk or drive to the store, physically select the goods they want, interact with the Wal-Mart employees, and finally walk to the cashier to pay for their goods. This demonstrates that there is physical contact and more interaction among the sellers and buyers in the Wal-Mart method of selling goods to the customers. On the other hand, Amazon is the largest online retailer in the world. Amazon uses a newer method of selling goods to customers, which is done via the internet. In this case, there is very little physical contact between the seller and buyer (Zimmerman 2010). Buyers use the internet at home, select the goods to purchase, pay with a credit card, and select a shipping method. The buyer looks through various online sites for items they want and at the price they are willing to pay. Finally, the buyer provides the seller with the billing and shipping information. Although in some cases the shipping information is not required especially when buying things like eBooks or iTunes. eBooks and iTunes can be downloaded instantaneously. Amazon and Wal-Mart methods of selling goods and services to the consumer differ, since Amazon uses the internet, and Wal-Mart uses the traditional brick and mortar method.

Due to increased change in technology and business across the globe, the two retailers have intensified their competition. Wal-Mart has integrated internet selling to its traditional brick and mortar method in order to adapt to the changing world (Carman 2011). On the other hand, Amazon has perfected the online selling, as well as, renting numerous warehouses and stores to keep their goods. Both companies are currently using the internet for selling

their goods. Subsequently, this has changed the financial aspect of both Wal-Mart and Amazon. Wal-Mart has perfected the traditional method of selling, while Amazon has perfected a newer online method of selling goods.

Porter's 5 Forces Analysis 1. Threats of New Entrants The barrier of entry is medium since there are competing companies. For example, Amazon's Kindle Fire versus Apple iPad (Zimmerman 2010). The threat of new entrants is medium to low, since new companies are gradually getting into the online business. For example, in December, 2011, eBay made revenues of about \$3.38 billion, which is about 19.3% of Amazon's revenue. 2. Bargaining Power of Suppliers: The bargaining power of the suppliers is very low since there are many suppliers who are willing to sell their goods online using Amazon.com. The goods are usually sold to a third party, and suppliers are paid quickly. 3.

Threats of substitutes: The threat of substitutes is very low, because of innovative services that improve the for the company that makes it difficult to substitute their products. In addition, there is high customer satisfaction since they get quality goods from the company. The company also offers well-recognized and trusted services. Lastly, this makes the threat of substitution very low. 4. Rivalry among industry competitors: There is stiff competition among the retail companies. The competition between Amazon and Wal-Mart is very stiff, since both companies are using almost the same methods to remain leaders in the retail industry. Both companies are using an online mechanism to sell their products, as well as, brick and mortar methods to store their products. 5.

Buyers bargaining power: The customers do not shift to other retail outlets. Ultimately, this is a result of the excellent prices Amazon and Wal-Mart offer their customers from being price leaders in the retail industry (Zimmerman 2010). They also have outstanding customer service compared to other retailers. Finally, the bargaining power of customers is very low. Amazon history Amazon was founded by Jeff Bezos in the year 1994. Bezos was dedicated to participate in the internet business, which was booming during that time. Amazon began as an online bookstore. Within the first two months the company sold books to all 50 states and over 45 countries. The sales went up by \$20, 000 per week.

Jeff Bezos gave the company the name Amazon which was one of the largest rivers in the world, as he hoped the company would be someday. The company's logo is an arrow eading from A to Z representing that they sell every product from A to Z. Amazon was incorporated in 1994 in the state of Washington. By the end of 1995, the company went public. In the year 1996, it was reincorporated in Delaware. Amazon was traded on the NASDAQ stock exchange in the year 1997. Within the first four to five months of going public, Amazon did not make a profit. As a result, the stockholders complained about the slow growth of the company. Amazon was able to survive the dot. com bubble that burst in the 21st century.

Amazon grew past the dot- com bubble and became a major player in the online business. In the year 2001, Amazon made its first profit of \$5 million. People concluded that Bezos' unconventional business plan would work. Amazon has made several partnerships since its inception. In the year 2006, it partnered with ToysRUs. com, although the relationship was later

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terminated due to a lawsuit. Amazon also hosted and managed the website for “ Borders Bookstores”. That relationship was terminated in 2008. Amazon also hosted the retail website for Target from 2001 to 2011. They also partnered with Benefit Cosmetics, which launched a major E-commerce platform based on Hybris software and Arvato systems.

Amazon operates retail websites for Sears Canada, Bebe Stores, Timex, Marks ; Spencer, Mothercare and Lacoste. In October 2011, Amazon . com announced a partnership with DC comics for exclusive digital rights to many popular comics such as Superman, Batman, and Watchmen. The partnership caused well-known bookstores like Barnes ; Noble to remove these titles from their shelves. spread across North America, Latin America, Europe, Africa and Asia. The headquarters are located in Seattle’s south lake union neighborhood. In Europe, the headquarters are located in Luxembourg’s capital. Amazon has development centers located in a variety of countries across the globe. Amazon’s fulfillment centers are located in 15 states throughout the U. S.

The centers provide order fulfillment to third party sellers and warehousing. These warehouses are staffed with only a few employees. The employees unpack and inspect the incoming goods, place them in the store, and record their location. They also select the goods, and make up each individual package for shipping. To locate the goods easily in the warehouse, employees use a central computer system which records the location of each good, and maps the route for packaging employees. The employees also carry hand-held computers that communicate with the central computer

system, and monitor their rate of progress. Amazon sells a wide range of retail goods.

Some of the products sold include books, Blu-Ray's, computer software, consumer electronics, kitchen items, tools, lawn and garden items, toys, video games, baby products, apparel, sporting goods, gourmet food, Jewelry, watches, health and personal-care items, musical instruments, industrial and scientific supplies, and groceries. In the year 2007, Amazon announced “AmazonFresh”, a grocery service offering perishable and non-perishable food items. The items are delivered to customers at specified times throughout the day. Amazon also offers a discounted price on an item and free shipment once you sign-up for Amazon's “subscribe & save program”. Amazon launched the “Amazon Kindle” in November 2007.

This e-book reader downloads content over “Whispernet” via the Sprint Nextel EV-DO wireless network. By March 2011, the Amazon Kindle had over 850,000 titles. In September 2011, Amazon announced entry into the tablet computer market by introducing the “Kindle Fire”, which runs a customized version of the Android operating system. In the year 2010, Amazon announced that e-book sales for its Kindle reader outnumbered sales of hardcover books for the first time. During this period, 143 e-books were sold for every 100 hardcover books. This shows that online business has surpassed the traditional method. Amazon was able to sell music online by launching “Amazon MP3”.

This enabled the company to sell downloads exclusively in MP3 format without digital rights management. Prior to the launch of this service,

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Amazon had made an investment in Amie Street, a music store with a variable pricing model based on demand. Amazon became the first online offering DRM-free music from all major record companies. By the year 2008, Amazon was rolling out MP3 services to subsidiary websites worldwide. In the year 2012, Amazon announced it would be adding a gaming department to its company titled " Amazon Game Studios". After Amazon's Game Studio opened, they introduced well crafted games and videos. This was to cater for the customers' needs. This year Amazon has announced its launch of " AutoRip", a digital music service.

Finally, Amazon has a number of its own trademarks. In the year 2005, Amazon began selling products under private label, " Pinzon". Initially the label was for cover a more diverse list of goods. Another private label used by Amazon is " Amazon Basics", which is the private label for their electronics product line. SWOT analysis of Amazon Strengths 1. Brick and Mortar Locations Introducing store locations provides a unique perspective to Amazon's retail competition. This may create even more of a competitive advantage for Amazon. It has many warehouses located in different centers across the globe (Sera] 2012). The centers are located near airports for fast and easy shipment of goods. 2.

Geographic Coverage Amazon is well known all over the world, and has distribution centers in many countries. This enables them to have a broad customer base (Sera] 2012). 3. Diversified Offerings Amazon offers diversified products which suits a vast majority of consumers' needs. The products are offered at attractive prices, which enable the customers to purchase the goods they want (Sera] 2012). 4. Strong Distribution

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Capabilities Amazon has well-equipped distribution centers worldwide. The centers have employees who organize items for shipment within a short period of time (Sera] 2012). This allows Amazon to ship products quickly and efficiently. 5.

Cost Reduction Mechanisms Amazon has a cost reduction mechanism whereby they offer discounts for customers who buy goods in bulk, and offer free shipment of goods upon subscribing to " Amazon Prime" (Sera] 2012). 6.

Strong Brand Name Amazon uses a well-known trademark " Pinzon" for textiles and other household goods. For electronics it uses " Amazon Basics". These private labels have earned Amazon a superior reputation. Weakness 1.

Weak operating performance Amazon recorded a loss in the year 2012, due to its stake in Living Social. Amazon makes money by taking a small percentage of the sale price of each item that is sold through its website. .

Technological problems In January 2013, Amazon experienced an outage that lasted for about 49 minutes. This left the site inaccessible to customers.

As a result, this caused a major inconvenience and panic among customers, especially those who use credit cards to purchase goods. 3. Shipping

problems In some cases, customers complain about poor delivery time and product availability. Opportunity 1. Availability of internet services to

customers worldwide. Customers can purchase goods from everywhere across the globe (Sera] 2012). Customers can purchase goods from Amazon. com, as long as, they have an internet connection. Nowadays, ore

consumers are purchasing items from Amazon. com via mobile devices and

People all over the word have an interest in viewing videos. Amazon has a fantastic reputation of providing high quality DVDs.

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It also provides the option of downloading the videos and books from its website. 3. Kindle segments The Amazon Kindle allows customers to download e-books from the site. It also allows members to borrow certain titles for free reading. This encourages customers to become members of Amazon Prime. Threats 1. Stiff competition from brick and mortar stores. Amazon competes with other well-established brick and mortar stores like Wal-Mart and Target (Sera] 2012). These brick and mortar stores are also well distributed throughout most of the world , and use the internet to sell their goods. 2. Seasonal goods. Some goods are seasonal, which means that their sales go up at a specific time periods during the year.

These items are labeled as shakers and movers by the Amazon and have a great impact on the net revenue of the company. 3. E-commerce maturing E-commerce is gaining popularity across the globe and many companies have started to sell their goods online (Sera] 2012). Most of the major retailers like Wal-Mart are slowly abandoning the traditional brick and mortar methods of selling their product. They have transitioned to more online sales. This gives Amazon a great challenge in the online business. Wal-Mart Business description Wal-Mart is an American multi-national retail corporation with chains of stores and warehouses worldwide. According to fortune magazine “ Wal-Mart” is the world’s third largest public corporation.

Wal-Mart is the largest retail market and employs close to two million employees, hence the largest private employer all over the world. The Walton family who owns 48 percent stake controls the company. Wal-Mart is also the largest grocery retailer in the United States. In the year 2009, Wal-Mart generated 51% of its revenue from the grocery business. Wal-Mart also <https://assignbuster.com/the-impact-of-the-internet-on-the-retail-industry/>

owns and operates Sam's club retail warehouses in North America. Wal-Mart has 8,500 stores in 15 countries under different names. In the United States, it operates under the name Wal-Mart in all the 50 states and Puerto Rico. In Mexico, it operates under the name Walmex, in the United Kingdom as Asda, Japan as Seiyu, and in India as Best Price. It has other stores in Argentina, Brazil, and Canada.

It was very successful in some countries like China and South America. The company was unsuccessful in both Germany and South Korea. Business model The key elements to Wal-Mart's business model include; value proposition based on everyday low prices, distribution channel to communicate with and reach its customers, customer relationships and customer segment, key activities like purchasing goods, delivery of the goods, and total cost control, key resources, key Solis Ramon & Emili 2012).

Wal-Mart history Wal-Mart is an American public corporation that runs a chain of large discount department stores and warehouses and operates across the globe. It was founded in the year 1962 by Sam Walton in Arkansas.

The guiding philosophy of Sam Walton was to offer customers a variety of goods at discounted prices. The initial strategy was to locate the store in small towns where consumers had few options for retail shopping. Wal-Mart's success in the small towns was met with a lot of criticism. The major criticism was that Wal-Mart eliminated hometown merchants. This is because Wal-Mart offered variety of goods with reduced prices compared to the hometown merchants, which eventually eliminated them from the business (Stone 1997). After Sam Walton's death in 1992, Wal-Mart has undergone

difficult times. Wal-Mart executives proved that over the years the corporation worked under set principles but not any one person.

Between the year 1997 and 2001 Wal-Mart's stock value increased by over 500 percent. This motivated employees who were unhappy with the poor performance in earlier years. Wal-Mart today Currently, Wal-Mart gross revenue totals \$288 billion in annual revenues and over \$10 billion in profits. It is the world's largest retailer, and employs close to two million people. In the United States alone it has 4, 300 stores (Stone 1997). The stores are well distributed in all 50 states. On April 23, 2001, Wal-Mart announced that it is testing its new Wal-Mart To Go' home delivery system where customers were able to order specific items offered on their website, such as, groceries and other household goods.

After the initial test was carried out; there was no official report whether the system was successful. In November 2012, Wal-Mart launched their first mail subscription service called Goodies. According to this service, the customer pays a subscription to have five to eight food samples delivered each month. In the year 2010, Wal-Mart agreed to buy Vudu, a three-year-old Silicon Valley online movie service (Fox News2007). It has become the third most popular online movie service with a market share of 5. 3 percent (Stone 1997). Additionally, Wal-Mart also has private labels, such as, " Equate". About of its goods are sold with a private label. The first label was introduced in the year 1991. It went by the name " Sam's Choice".

Financial Analysis The Internet and the Wal-Mart business model have affected Amazon in many ways (Stock Analysis on Net. 2013). For example,

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one of the easiest ways to analyze the effect of the Internet on Amazon's operations is to examine its financial statements before and after the "boom" of the new Wal-Mart model. Lastly, a thorough review of Amazon's business model compared to Wal-Mart's model, will help show trends in performance over the years.. Stock Price The stock price reflects the present value of the future cash flow of a company. performance of each company. The following graph presents a comparison between the historical stock prices of both Amazon and Wal-Mart: Figure 1 .

Amazon and Wal-Mart stock prices from January to November 2012

According to the prices depicted on the graph, Amazon has the highest stock prices. This is due to the fact that Amazon sells goods for higher prices in comparison to Wal-Mart. The internet has noticeably impacted both companies (Stock Analysis on Net. 2013). Since Wal-Mart introduced a website for selling goods online, the stock price has increased. On the other hand, the two companies have different business models. Wal-Mart focuses on offering a wide variety of goods to customers at relatively low prices. This is not the case with Amazon, which focuses on delivery of goods to a customers' location. The two companies have different operational costs, which affect the stock prices.

Wal-Mart largely employs the traditional brick and mortar store approach, whereby the customer walks or drives to the store to select goods, pay the cashier, and walk/drive home. This reduces the transport/shipping cost, as well as, the prices. Amazon uses the Internet as a mechanism of selling goods. Goods are delivered to the customer's doorstep. This increases the operational cost, hence leading to higher stock prices. Holding Period Return

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An element closely related to the price of a stock is the return obtained for investing in it. This case is another clear example of how the Internet model affected Wal-Mart and Amazon (Stock Analysis on Net. 2013). A total returns chart depicts the return to an investor from both price appreciation and dividends. The graph below shows that Wal-Mart is up 28.8% over the last year, while Amazon.com is up 31.43%. The total return is higher for the two companies compared to their competitors. The total returns for the two companies seem to be increasing. This can be attributed to the increased online selling of the two companies, hence faster flow of goods. Amazon has perfected online selling, which has higher total holding return than Wal-Mart. On the other hand, Wal-Mart has been relying on the brick and mortar method. Therefore, the Internet has an immense impact on retail sales worldwide. Figure 2. Wal-Mart and Amazon holding period return in the year 2012

Sales are a key factor for the success of any business.

Sales for Wal-Mart are relatively higher than Amazon. This is because Wal-Mart is well established and has a broader customer base than Amazon. Wal-Mart customers tend to be low-income earners with low access to technology, and form the largest population across the globe. According to the graph below, sales for both companies are increasing. This can be attributed to the increased availability of internet access worldwide. More customers can shop online than before, hence increasing the sales.

Although, Wal-Mart has the largest sales, Amazon remains a major threat. This is because the sales for Amazon are increasing at a higher rate (Cooper 2013).

In a very short period of time the sales are going to be equal. Figure 3.

Walmart and Amazon Internet sales from 2005 to 2009 According to the is because Amazon has invested heavily on technology and logistics in comparison to Wal-Mart. This has enabled Amazon to participate in a transition of physical to digital retail. Which is supported by a “store less” business model, and ultimately leading to long-term economic returns. In the year 2011, Amazon. com reported revenue of \$49 billion which is an increase of \$14 billion from the previous year. On the other hand, Wal-Mart has perfected offline business with many supply chains all over the world.

However, online innovation has been a major weakness for Wal-Mart.

According to the current performance, Amazon will be the leading retailer, given that Wal-Mart has not improved its online performance. Net income

Taking into account the expansive difference in sales volume of each company, it could be expected that incomes would follow a similar pattern.

According to the recent financial statement released by Amazon, sales seem to be rising, but net income is decreasing. For example, in the year 2010, the net income was \$1, 152, 000, in 2011 the net income dropped to \$631, 000, and in the year 2012 the net income dropped further, resulting in a \$39, 000 loss.

This is a clear indication that the company is operating under slim profits, eventually losing almost \$40, 000 in income. The reason for Amazon's decreased net income is due to limited profits from the sales made through 3rd party companies. The company also lowers prices of goods and services in order to compete favorably with other well-established brick and mortar stores like Wal-Mart (Stock Analysis on Net. 2013). On the other hand, Wal-

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Mart's net income is increasing year after year. For example, in the fiscal year 2010, the net income was \$16, 389, 000 while the following year the net income dropped to \$15, 699, 000. Last year's net income rose to an all-time high 16, 999, 000.

This can be attributed to the fact that Wal-Mart is well established in the retail market and has been smart in terms of creating innovative ways to sell goods in their stores. Wal-Mart's fiscal year ends January 30th, versus Amazon on December 30th every year. Wal-Mart's increased income can also be attributed to the impact selling goods online, combined with the standard brick and mortar method. This has boosted the sales of Wal-Mart, as well as, increased its customer base from different corners of the world. The net income from Wal-Mart's internet sales has made a positive impact to the retail performance of the company. It can be projected that if Wal-Mart improves in online innovation, its sales and net income can increase further this year. Current Ratio

The current ratio is an indicator of the ability of a company to pay back its short-term liabilities with its short-term assets like cash or inventory. According to the graph below it seems that Wal-Mart has a current ratio of 0.9, while Amazon has a current ratio of approximately 1.1. Figure 4. Wal-Mart and Amazon current ratio from 2006 to 2013 Wal-Mart has had a current ratio of 0.8 for the last five years. The current ratio seems to have stabilized at less than one. A current ratio of less than one means that a company will have a problem meeting its current liabilities (Stock Analysis on Net. 2013). This means that Wal-Mart is facing serious challenges to settle its current liabilities, such as, salaries for its employees.

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The current ratio for Wal-Mart is highly affected by its expansion increase. This can lower its current assets, while increasing the liabilities, hence lowering the current ratio. The company has to adopt online marketing techniques in order to increase sales, further increasing the current ratio. On the other hand, Amazon current ratio ranged from 1.4 to 1.1 during the last 5 years. The current ratio is not at its optimum point of about 2:1, but it seems to be better placed than the one of Wal-Mart. Amazon's current ratio of 1.4 shows that it can meet its current liabilities comfortably. This is due to the fact that Amazon has fewer liabilities compared to Wal-Mart.