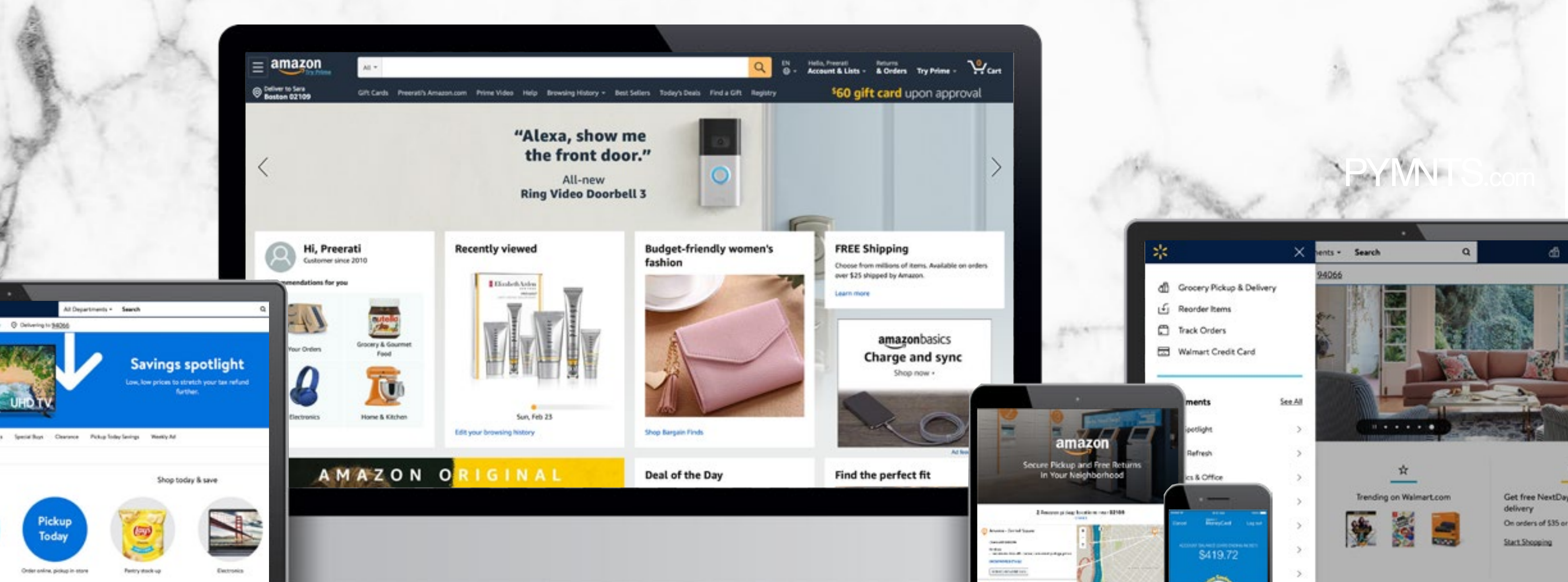
Walmart VS. amazon

WHOLE PAYCHECK TRACKER®

Battle For The Digital-First Consumer

WHO'S WINNING BY THE NUMBERS



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INTRODUCTION

AMAZON NUDGES WALMART IN BATTLE FOR THE DIGITAL CONSUMER

The second quarter of 2020 was not a time for the hard sell. It was the height of the pandemic, with hundreds of thousands contracting a still-unconquered virus on the way to 183,000 deaths in the U.S. by Sept. 1. Entire cities and even states were locked down, and retailing was split between "essential" and "non-essential" status. Americans were less concerned with how they were spending their paychecks as they were concerned with actually getting one.

It was under these conditions that Walmart and Amazon – as well as their competitors – operated in Q2. Yes, it was marked by aggressive moves from both companies to get more than their fair share of the $65,960 the average American spends each year. But both companies donated to various causes to help American workers during the pandemic. They also took care of their own workforces with bonuses and a greater focus on safety. And in the process, they both fought through Q2 with earnings that exceeded expectations – and for Walmart, a spike in eCommerce activity and revenue.

Amid the pandemic, the quarter was marked not so much by competition for the whole paycheck in the short term, but by various positioning moves to get the whole paycheck in the longer term. No event was bigger than the one announced recently by Amazon to enter the wearables, fitness and device markets. With Halo, which is a Fitbit-type wrist device that measures everything from body mass to sleep patterns to voice tones, Amazon is opening a new revenue stream and joining the move toward connected fitness in a big way.

Other longer-term moves out of Seattle included the debut of the company's first Amazon Fresh grocery store, complete with smart shopping carts and more stirrings about the company's move into high fashion. It also made some moves in India, launching the territory's second annual Prime Day with (guess what) higher-than-expected results. While Prime Day might seem like a short-term revenue grab, it's not. Amazon will soon have a major competitor on the subcontinent in the form of Indian billionaire and retailing mogul Mukesh Ambani.

"Citing sources familiar with the matter, Indian financial daily Mint reports that Reliance Retail is about to go on a buying spree to bolster its eCommerce business in India," says The Motley Fool. "The potential acquisitions are expected to strengthen Reliance's online presence in furniture, intimate wear, and groceries. The company is expected to pay a combined $190 million for Urban Ladder (online furniture) and Zivame (innerwear)."

Walmart also played the long game in Q2. Like Amazon, its biggest (potential) disruption came outside of Q2 when it joined Microsoft's bid for TikTok. Unlike Amazon's entry into wearables, the Bentonville crew's entry into social media and gaming is a bit harder to see. It doesn't tie directly to long-term revenue as clearly as Halo does. But it is an ambitious long-term move and shows that Walmart is thinking more digitally about its future.

"The way TikTok has integrated eCommerce and advertising capabilities in other markets is a clear benefit to creators and users in those markets," said Walmart in a statement. "We

> TIKTOK IS AN AMBITIOUS LONG-TERM PLAY THAT SHOWS **WALMART IS THINKING MORE DIGITALLY ABOUT ITS FUTURE**.

believe a potential relationship with TikTok U.S. in partnership with Microsoft could add this key functionality and provide Walmart with an important way for us to reach and serve omnichannel customers as well as grow our third-party marketplace and advertising businesses. We are confident that a Walmart and Microsoft partnership would meet both the expectations of U.S. TikTok users while satisfying the concerns of U.S. government regulators."

Note the word "omnichannel" in the previous statement, because Walmart also used Q2 to break down any remaining barriers between its online and offline divisions. It combined job functions in Bentonville early in the quarter and shuttered the ill-fated Jet.com, which it bought for $3 billion in 2016. It also shut down two other minor eCommerce brands, all in the interest of eventually losing "omnichannel" and simply going with "retailing."

And as much as Q2 was a time of happenings, it was also a period of time in which one side set a date for a major initiative and one didn't. Amazon still held its date for Prime Day close to the vest. Walmart finally announced its launch date for Walmart+, which will be Sept. 15.

The following report will delve into Instacart's effect on Walmart's grocery plans in the hottest battleground between the two companies, as well as overall spending share of the two companies as they head into the critical end of the year in their quest to dominate the whole paycheck.

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By the numbers, both Walmart and Amazon exceeded all expectations. Because the Whole Paycheck Tracker is a comparison and a gauge of competition, the edge on earnings has to go to someone, and both checked in with amazing performances.

Amazon gets the first look. The company almost doubled its revenue and profit numbers while spending more than $9 billion on capital improvement projects.

Among those numbers: Operating cash flow increased 42 percent to $51.2 billion compared with $36 billion for Q2 2019. Net sales increased 40 percent to $88.9 billion compared with $63.4 billion in the second quarter of 2019. Operating income increased to $5.8 billion in the second quarter compared with $3.1 billion, and net income increased to $5.2 billion compared to $2.6 billion. Video hours on Amazon Prime doubled. Online grocery sales tripled.

On the earnings call, CFO Brian Olsavsky pointed out that Q2 2020's numbers topped Q4 2020 –and that Q3 would be even bigger. "As a reminder, Q2 is typically our largest-volume quarter for the retail business. That's not the case this year," he said. "What that means is that we can flex into space normally used for second-half peak demand, despite the strong operating leverage in Q2. As we move toward peak in the second half of the year, we will ramp up our space needs even further, and we'll be adding significant fulfillment center and transportation capacity."

Walmart's numbers showed eCommerce growth and top-line increases as well. The retailer saw a U.S. comp-store sales increase of 9.3 percent over Q2 2019 and a 97 percent increase in eCommerce. The eCommerce performance comes on the heels of a 74 percent jump in Q1. Digital sales rose from 180 basis points in Q1 to 600 basis points in Q2.

While grocery wasn't broken out in the company's financials, CEO Doug McMillon called it out as a contributing factor to the comp sales bounce, with an average ticket size that grew 27 percent over 2019. If the grocery category continues on its current trajectory, it will add $8 billion in sales to the company's bottom line by the end of the year.

During the company's post-announcement earnings call, executives said that the quarter benefited from spending stemming from government stimulus packages. In addition to grocery, strong performances came from electronics and connected home products. Specific grocery numbers were not called out, other than a growth rate in the high single digits.

The company raised some concerns regarding Q3. Back-to-school sales, according to Walmart, are off to a slow start. Combine this with a possible absence of an additional stimulus package, and the company could have a hard time reaching the heights it has achieved during the pandemic so far.

"Back-to-school is just one component of the quarter," CEO Doug McMillon said. "And we'll have to sort out how customers want to shop as we go, but we think our inventory is well-positioned. And we'll just react location by location. I don't think we have a lot of liability exposure there. The sales exposure will be mixed as we go through the quarter and manage other parts of our business."

TRACKER OVERVIEW

As stated earlier, Amazon and Walmart tried to find a place within the business dynamics of the pandemic. And those dynamics were extraordinary during the month of April, for example, when the assignment of essential versus nonessential retail made Walmart, Target and grocery retailers the only game in town for essential goods. And if a consumer could wait long enough through possible shipping delays, the other essential retailer that was open was Amazon.

Gross sales in the U.S. via Amazon have increased from $86 billion in 2014 to $339 billion in 2019. Judging by its performance in Q1 ($77.1 billion gross sales) and Q2 ($105 billion), it's possible that Amazon could ring up over $400 billion for 2020. Why? Because the pandemic is still a limiting factor for consumers, and even though they have started to return to physical stores, the vast majority of U.S. citizens will not revisit pre-pandemic shopping habits until a vaccine is widely available. That means consumers will still look to spend a portion of their paychecks with Amazon before they consider going to a physical store, unless it's grocery.

Only about $4 billion of Amazon's Q2 revenue took place outside of the Amazon.com domain, meaning Whole Foods, Amazon Fresh and Amazon Go. It's interesting that the cumulative annual revenue growth rate for the Seattle-based crew since 2014 is 31.5 percent for total sales and 30.1 percent for eCommerce. That difference comes from the relatively nascent nature of its offline business as well as stiffer competition from other eCommerce players.

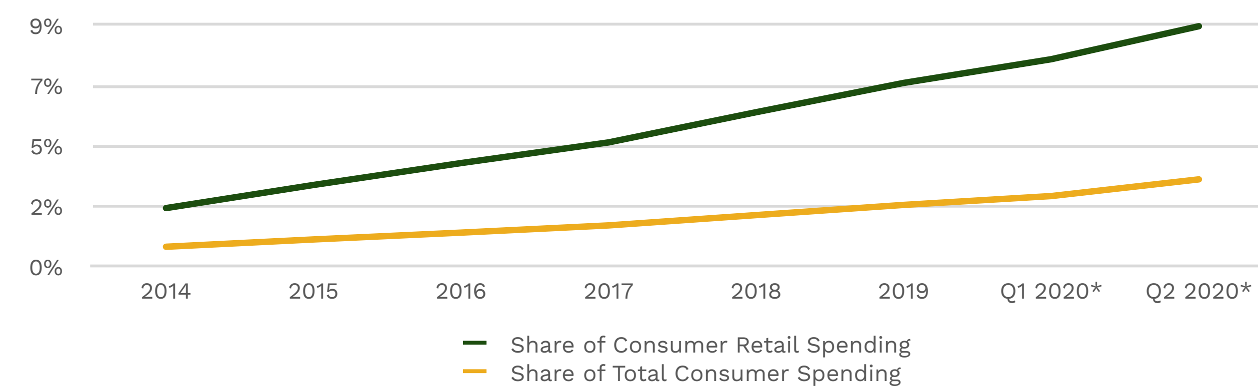
When it comes to Amazon's share of consumer spending, things get a bit more complex. Amazon accounted for 3.2 percent of total consumer spending in Q2 (across all categories, including retail) and 9 percent of total retail spending. Check that against Q1 (7.7 percent of total retail) and the results are significant, considering Amazon's revenue base. Now compare it to Q2 2019 and the 6.4 percent number shows that Amazon has gained 2.6 percentage points in a year.

Now go back to total share of eCommerce – again, the numbers bear some investigation beyond the surface. Amazon touched just north of 50 percent for Q1 2020 in eCommerce market share (51.2 percent). That dropped to 44.4 percent in Q2 2020, which is still a number any other company would give their whole paychecks for. It even dropped from Q2 2019 (46.6 percent). But the numbers are misleading. The U.S. government Census department put the eCommerce increase from Q1 2020 to Q2 at 44 percent – a total number of $211 billion. For Amazon to drop only 7 percent in total eCommerce share with that kind of overall increase is actually quite an achievement.

Now on to Walmart. Considering the pandemic and its hybrid online-offline model, its results were more subtly impressive. Its gross sales in the U.S. (online and physical) jumped about $7 billion from Q1 2020 to Q2 – from $103.9 billion to $110.5 billion However, that's roughly similar to 2019, when it jumped from $95.1 billion (Q1) to $101.8 billion. That correlates to the relatively flat in-store comps the company reported for Q2 this year, which was impressive when considering the pandemic. eCommerce sales jumped from $9.3 billion in Q1 to $11.2 billion in Q2, almost double the $5.7 billion in Q2 2019. That $11.2 billion for eCommerce represented 10.2 percent of total company sales, more than double the 4.7 percent reported at the end of 2018.

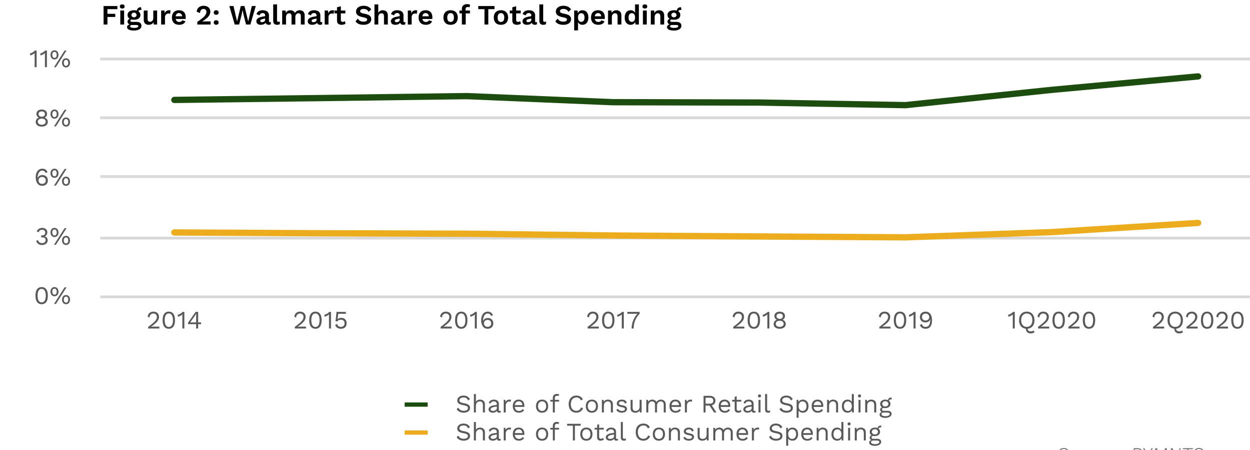
When it comes to consumer spending, Walmart accounts for 3.4 percent overall and 10.2 percent for retail. That's up from 9.6 percent in Q1 2020, but roughly even since 2016. Bottom line: In 2019, Amazon accounted for 6.8 percent of total retail spend, and Walmart grabbed 8.9 percent. 2020 has been better for Amazon so far. For Q2 2020 Amazon took 9.0 percent of consumer retail spend and Walmart increased to 10.2 percent. Amazon has been closing the gap with Walmart over the past five years, and trends suggest they will continue to reduce the gap in the next few years as the battle for the whole paycheck pulls to about even.

Figure 1: Amazon Share of Total Spending



Source: PYMNTS.com

Figure 2: Walmart Share of Total Spending



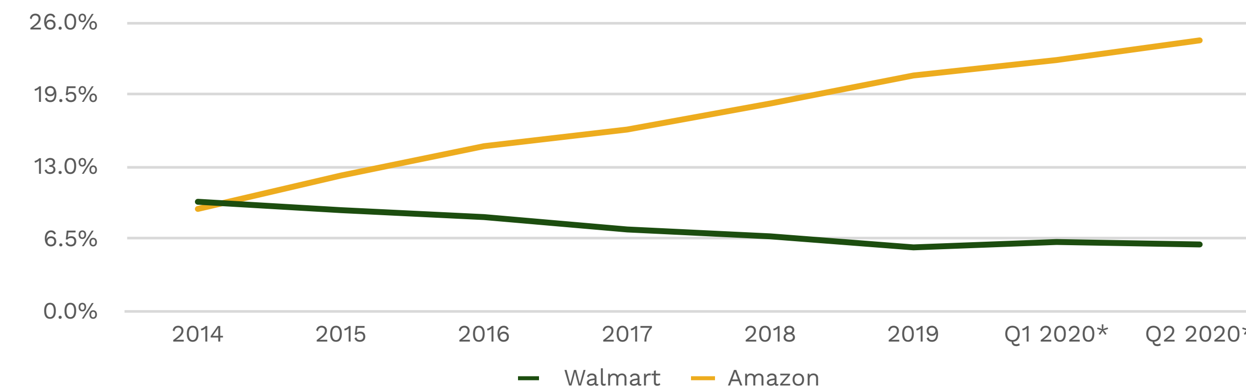
Source: PYMNTS.com

STRENGTHS AND WEAKNESSES

The details of the purchase dynamics during the pandemic can be seen through individual categories, and here Amazon has a much stronger story than Walmart. Excluding grocery (which will be dealt with in the Battleground section), Amazon had several category breakthroughs, while Walmart had only one. Note: Grocery will be defined as two categories: food and beverage plus health and personal care.

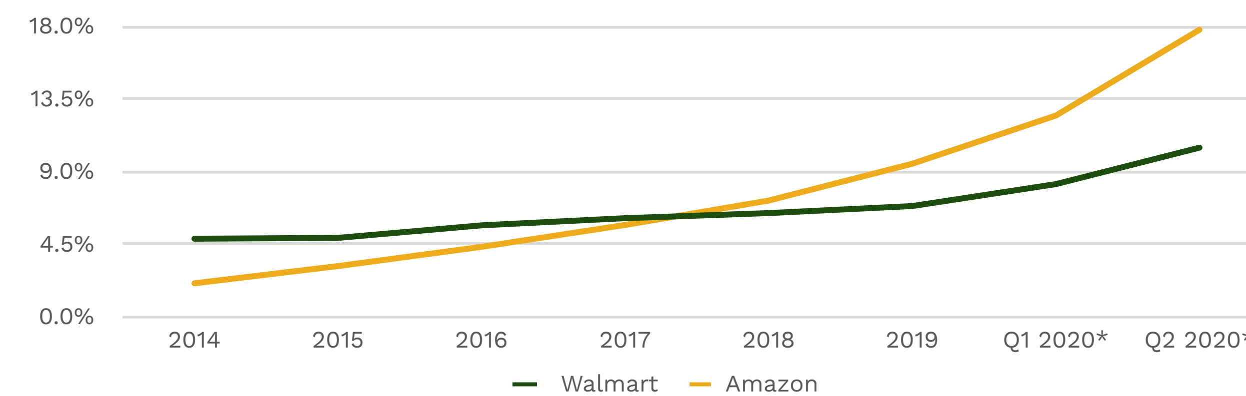
Outside of those two, Walmart failed in more categories than it succeeded. The pandemic was notable for its spikes in exercise equipment and sporting goods, as can be seen in quarterly earnings from Peloton, Dick's Sporting Goods, Hibbett Sports, Target and other retailers. But Walmart sales in the category showed minimal bounce, from $3.5 billion in Q1 2020 to $3.7 billion in Q2. By contrast, Amazon added almost $2 billion in sporting goods sales from $16.5 billion in Q1 to $19.4 billion in Q2. Why the difference? Most likely in selection and ticket price. For any consumer buying an exercise bike, for example, Amazon has choices from obscure manufacturers

Figure 3: Share Of Total Electronics and Appliance



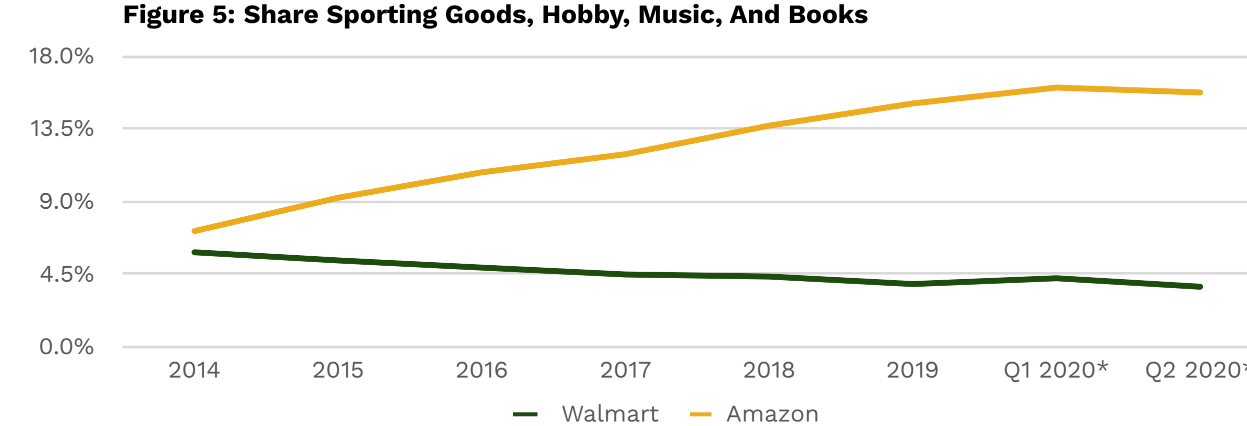
Source: PYMNTS.com

Figure 4: Share of Total Clothing and Apparel



Source: PYMNTS.com

Figure 5: Share Sporting Goods, Hobby, Music, And Books



Source: PYMNTS.com

at below $500 up to $2,000 NordicTrack machines. Walmart's selections are primarily under $500. The consumer spending share for sporting goods was 15.7 percent for Q2 at Amazon and 3.7 percent at Walmart for what was arguably the hottest nonessential product category of the pandemic.

The two retail powers are also parting ways on two other important categories: electronics and appliances. Amazon rose from 22.6 percent of total spend in Q1 to 24.4 percent in Q2; Walmart dropped from 6.2 percent in Q1 to 6.0 percent in Q2. Walmart's biggest percentage sales growth outside of grocery came in apparel. It added more than $500 million to its quarterly tally in this category, jumping from $9.0 to $9.5 billion and taking 10.5 percent of spend. But Amazon still outperformed in this category on a total spend basis, going from $13.8 billion in Q1 to $16.2 billion in Q2 for 17.8 percent of total consumer spend. With Amazon holding a summer apparel sale in June and pushing to enter the high-fashion category, Walmart will need a fairly dramatic move to shore up its apparel share of consumer spend.

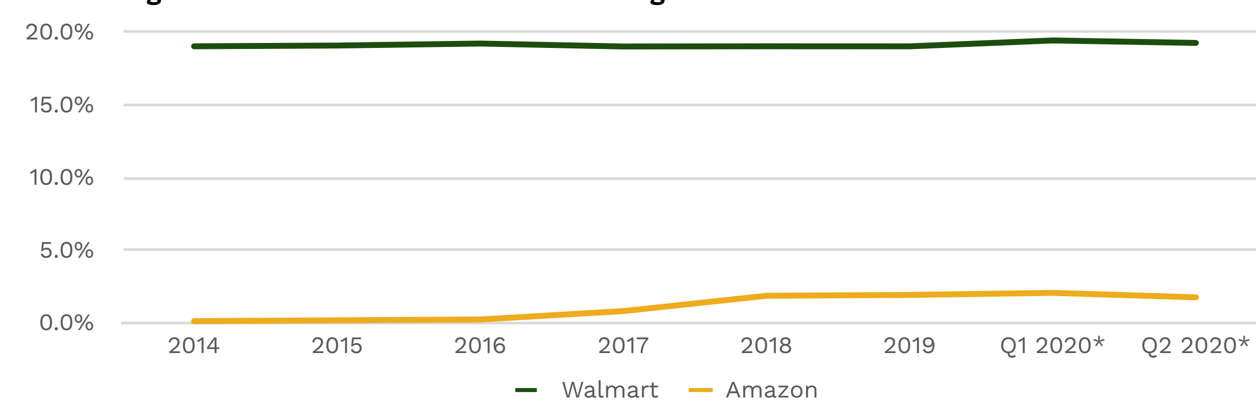
The other category worth noting is furniture. Amazon caught up to Walmart on total spend percentage in 2019, and continues to pull ahead. For Q2 they took 14.7 percent (Amazon) and 11.5 percent (Walmart). But Amazon continues to pull more dollars in the category. At the end of Q2 2019, it logged $6.3 billion in sales, jumping to $9.3 billion for Q2. Walmart should technically have an advantage with physical stores, but its category take was $7 billion for Q2 last year and $7.3 billion this year. This could be good news for Wayfair, which is holding onto its market share. Its Q2 revenue showed total net revenue increased $2.0 billion to $4.3 billion, up 83.7 percent year over year.

Battleground: Grocery

By the numbers, retail takes 30.8 percent of the U.S. paycheck. Eight percent of that goes to food and beverage, while 5.3 percent goes to health and personal care. Put them together (13.3 percent) and you roughly have the grocery category. It is here – this more than 13 percent of the U.S. consumer's paycheck – where Amazon and Walmart will go to war for the balance of 2020 and into 2021.

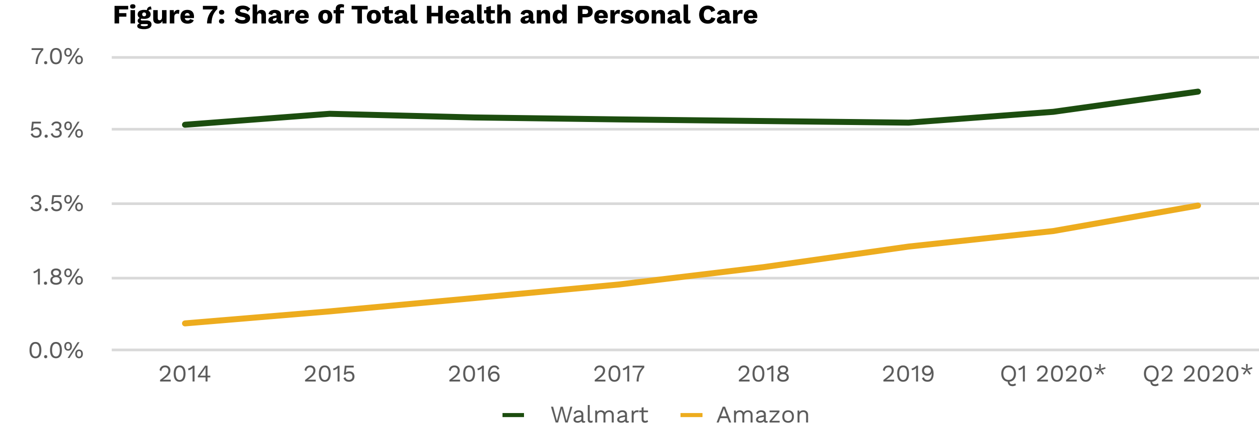
And strictly by the numbers, it makes sense. Even if grocery is defined by food and beverage only, it's still the largest retail category for consumer spend. Put it together with health and personal care, and no other retail spend category even comes close (apparel is at 3.4 percent). As Amazon and Walmart lean

Figure 6: Share of Total Food And Beverage



Source: PYMNTS.com

Figure 7: Share of Total Health and Personal Care



Source: PYMNTS.com

in on the biggest category relatively late in the game, the battle for 2021 will expand beyond the two whole paycheck contestants and include aggressive moves from Target as it comes in, and from Kroger and other supermarkets as they defend their turf.

Walmart and Amazon have put so much emphasis on grocery – both online, offline and home delivery – that the current snapshot will change dramatically. Still, that snapshot shows a complicated base from which they both work.

Amazon is more complicated due to its four-pronged approach to the category: Amazon.com, Whole Foods, Amazon Fresh and Amazon Go. It was not a completely successful formula in Q2. Amazon's physical store revenue (mainly Whole Foods) dropped almost 13 percent in Q2 2020 compared to Q2 2019. Compared to Q1 2020, the drop was even higher at 18.7 percent. This could be an indicator of consumers being too COVID-concerned to visit physical stores. It is not a line item broken out in the company's quarterly earnings. However, food and beverage is broken out. It barely moved from Q2 2019 to 2020. It's no coincidence that Amazon has been so aggressive in the category – and it begs the question as to whether Amazon will acquire another chain, or convert a mall-based retailer like JCPenney to Whole Foods locations.

Walmart, on the other hand, has put some big grocery numbers on the board, which should only increase as Walmart+ is rolled out and the partnership with Instacart is deployed. Its food and beverage category went from $58.7 billion in Q1 2020 to $62 billion in Q2. Compare it to Q2 2019 and the numbers are even more impressive, jumping from $56.7 billion in Q2 2019. That's a $5 billion difference in the biggest consumer retail category. Compare it to Q2 2019 and the numbers are even more impressive, jumping from $56.7 billion in Q2 2019. That's a $5 billion difference in the biggest consumer retail category.

Table 1 shows the drop in Amazon's physical stores, Whole Foods, Amazon Fresh and Amazon Go

Physical Store	2017	2018	2018 4Q	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019	2020 Q1	2020 Q2
Total Sales	5,798	17,224	4,401	4,307	4,330	4,192	4,363	17,192	4,640	3,774
Variation vs Same Quarter last year							-0.9%		7.7%	-12.8%
Variation vs Last Quarter				-2.1%	0.5%	-3.2%	4.1%		6.3%	-18.7%

Source: PYMNTS.com

ABOUT

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PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.