

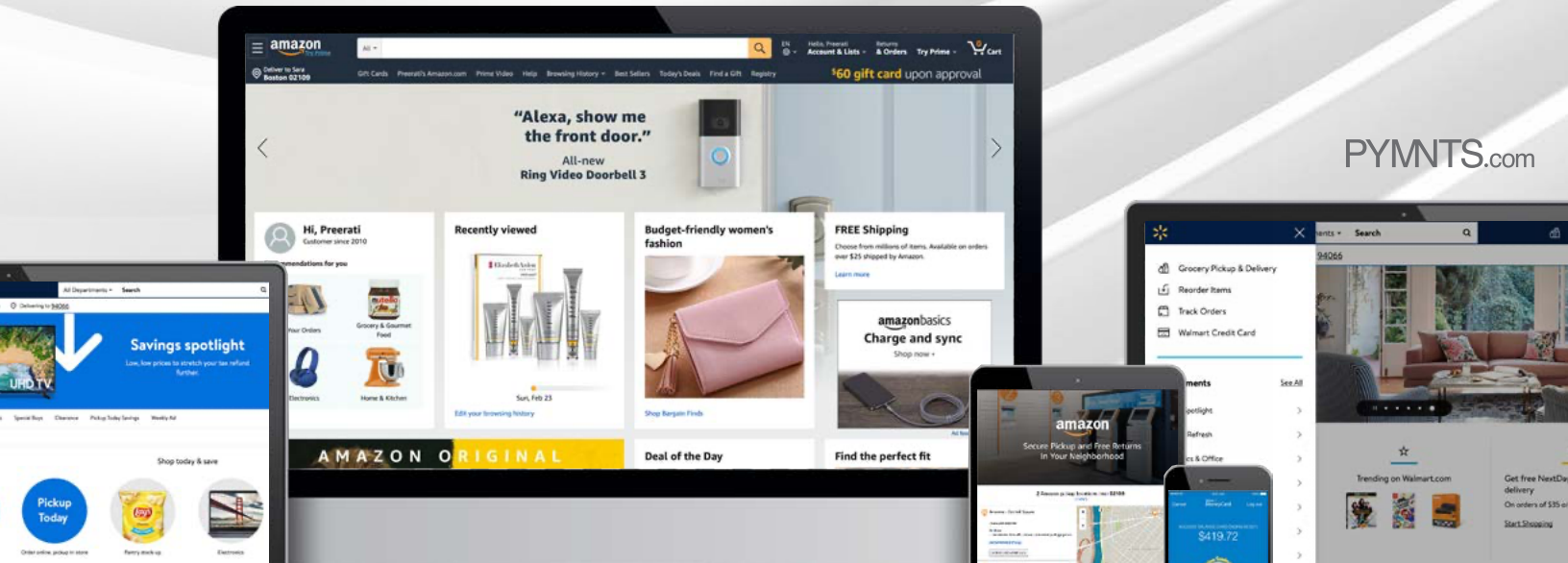
Walmart  vs. amazon

# WHOLE PAYCHECK

TRACKER®

Battle For The Digital-First Consumer

PYMNTS.com



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# INTRODUCTION

It may be overused to say it but the pandemic literally brought the best and worst of times to the retail sector in 2020, with conflicting implications that were every bit as evident and impactful on small stores and shops as they were for the giant industry leaders -- Amazon and Walmart.

Whether selling goods online, safely and swiftly delivering them to people's doorsteps or trying to keep brick and mortar stores open, stocked and staffed, it was an unprecedented year of challenges that triggered an unimaginably huge digital shift in consumer buying habits.

From the early demand spikes and product shortages of everything from masks to hand sanitizer to toilet paper, to three major surge-cycles of COVID infections, to adhering to 50 different sets of rules and regulations from state health departments, the 'rules of war'

that would normally apply to these two retail combatants in any other year went out the window.

Plus, with over 2.7 million domestic employees between them, their importance as stable income providers was also never more important. Add in the spate of social justice protests that ground dozens of cities to a halt last summer as well as an uptick in extreme weather, flooding and fires that impacted numerous regions, as well as an unusually divisive political climate, and the trailing 12 month period was literally one for the history books.

## THE NEXT CHAPTER

Amidst that backdrop, Amazon and Walmart also found themselves somewhere they had never been before; tied. By the time they closed the books on the fourth quarter, the two companies were in a dead heat, with each claiming about a 9 percent share of total US retail sales.

According to PYMNTS' data, Walmart's gross US sales of \$438 billion were only about \$17 billion or 4 percent higher than Amazon's \$421 billion. This gross merchandise value comparison factors in the full value of items the companies sell themselves, as well as those they sell for others through their respective marketplaces.

Given that both companies posted record results, it would be hard to overstate the importance of Amazon's two-decade-long climb to catch its 60-year old rival, especially since as recently as 2014 Walmart still enjoyed a 4x advantage in share of retail sales, albeit still at that same 9 percent level.

The first test case of this new equal-footing reality will play out in March and April as the third round of \$1,400 stimulus payments that went out to more than 150 million households starts to get spent.

Speaking of spending, PYMNTS' data shows online shopping and e-commerce spending rose almost 40 percent last year, to 18 percent of total retail spending, up from 13 percent in 2019.

By most expectations, that digital shift is only going to deepen and accelerate this year, a trend that will continue to give Amazon a strong growth tailwind given that its 50+ percent share of online retail is 10x its rival's share of e-commerce, a fact that will make it incredibly difficult for Walmart to keep up going forward.

That e-commerce advantage is hardly new information and has propelled shares of the Seattle-based retailer more than 65 percent last year and more than 450 percent over the past five years, leaving it with a \$1.5 trillion market value that is roughly four times as large as its box store rival from Bentonville.

For the record, Walmart shares are up about 100 percent since 2015 as its sales grew about 20 percent, while Amazon's gross sales almost quadrupled.

**ONLINE VS. IN-STORE AND STIMULUS**

So with Amazon dominating the digital side, and Walmart controlling a bigger slice of in-store sales via its 5,500 US locations, the blended "share of total retail sales" metric becomes a more telling barometer as to who is winning the war in the Whole Paycheck matchup.

As you might have guessed, Amazon has, one-by-one, taken over four of the seven primary retail categories tracked by PYMNTS in the past five years. While on the macro front, Amazon is now essentially tied with Walmart's 9.5 percent share of total retail, it is actually ahead of it now in the broadest measure of all; share of total consumer spending, where roughly one-third of every dollar Americans spent last year went to a range of retail purchases.

It is very blunt math, but if Amazon and Walmart each have just over a three percent share of total consumer spending -- for a combined 6.5 percent -- that means if the government pumped \$1 trillion of stimulus into the

economy, \$350 billion of it (or approx. one-third) would go to the retail sector, of which just over \$11 billion of that (or approx. 3 percent) would find its way to the top lines of Amazon and Walmart.

For context, \$11 billion of additional stimulus spending revenue amounts to about 6 percent of the \$180 billion in gross sales Amazon did in the first and second quarter last year, and about 5 percent of Walmart's first-half 2020 gross sales. But for the full year, those stimulus-pop percentages drop to just 2.5 percent.

In short, the top two retailers are already so large that the highly anticipated third round of stimulus payments will be only modestly accretive early on this year and hardly noticeable over the course of the year.

**THE SUM OF THE PARTS**

With their gross sales essentially tied, the Whole Paycheck war will be fought in seven key battlezones this year, the majority of which are already leaning -- or outright pointed -- in Amazon's favor. With the exception of Health and Personal Care, Auto Parts and Food and Beverage, Amazon is in the lead



although it is actively trying to catch and surpass Walmart where it lags.

The tight race also means there will be increasing focus on new competitors, alternative marketplaces and direct-to-consumer sellers that are getting stronger by the day and hungrily trying to swipe sales from the Big Two, but especially Walmart, which saw its share of e-commerce sales drop each quarter last year, from 6.3 percent in Q1 to 5.1 percent in Q4 PYMNTS' data showed.

Inversely, while Amazon's quarterly e-commerce share results swooned in Q2 and Q3, they started at 51 percent in Q1 and finished at nearly 54 percent in Q4, while delivering a comfortable year on year gain as well.

As always, both companies are involved in a lot of new projects aimed at delivering growth. For example, Amazon is dabbling in things like telemedicine, cashierless payment systems, drone delivery and streaming NFL games.

For its part, Walmart has committed to investing \$14 billion back into the business this year and is still ramping up its Walmart+ membership program, improving its delivery and curbside and in-store pickup services, while most recently paying greater attention to streaming commerce via platforms like TikTok and bringing in big name designers to spruce up its private label clothing.

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## Amazon vs. Walmart: The Overview

As Amazon and Walmart square off for another year of commercial combat, they'll be fighting each other to get a bigger slice of what is already the biggest piece of the overall consumer spending pie -- retail.

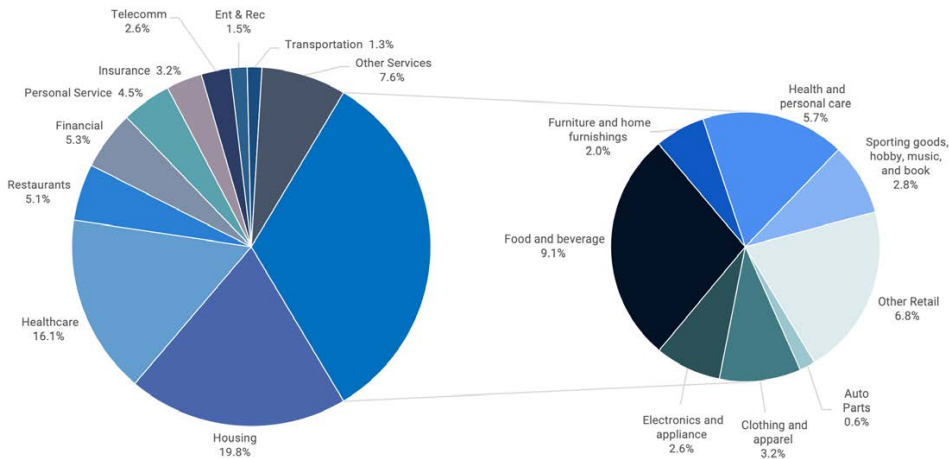
According to the latest PYMNTS' findings the average US consumer spent over \$62,000 last year, a full one-third of which -- or more than \$20,000 -- was spent on a variety of goods, ranging from groceries to personal care items to shoes, clothes, electronics and more. Add in housing and healthcare expenditures, and the top three categories alone mop-up 70 percent of consumer spending. And yet, no segment can claim a larger share than retail, be it for online or in-store purchases.

Because the stakes are so high and consumer spending has so much influence over the broader economy, the fate and fortunes of the category's two dominant players -- Amazon and

Walmart -- is vitally important. But even with their bulging bottom lines and towering top line sales figures, the two retail leaders combined account for less than seven percent of that giant slice of retail pie, meaning the other 93 percent of it is up for grabs in what we like to call a battle for the Whole Paycheck.

The other big change within that giant 33 percent retail slice is the growing portion of it that is being done online. PYMNTS research shows the digital shift that was accelerated by the pandemic last year saw the largest annual increase in the e-commerce share of total retail ever, pushing it up by nearly 40 percent to almost one-fifth of total retail sales versus only about 13 percent the year before.

**FIGURE 1: Typical Household Spends \$62,334 Each Year**



That means of that \$20,000 the average consumer spent in stores last year, about \$3,700 of it was spent online. While that is a huge year-on-year increase and a meaningful stake, it still reflects the importance that traditional brick and mortar stores hold in the overall retail calculus.

Even in an unprecedented year of mall closures, store-hour restrictions, capacity limitations and drastically reduced foot traffic, old fashioned stores still booked 80 percent of retail sales.

Using purely online retail metrics, the digitally-native Amazon is in a league

of its own, with killer dominance and an astounding 51 percent share of US e-commerce sales, with particular strength in five key categories, including; a 38 percent share of Sports, Hobbies Music and Books; 40 percent of Health and Personal Care products; 42 percent of Furniture, 45 percent of Clothing and Apparel and 50 percent of Electronic and Appliances.

Taken together, those unmatched online results have lifted Amazon's share of total retail sales to more than 9 percent and left it for the first time ever in a virtual tie with Walmart, which has been hovering at about that same

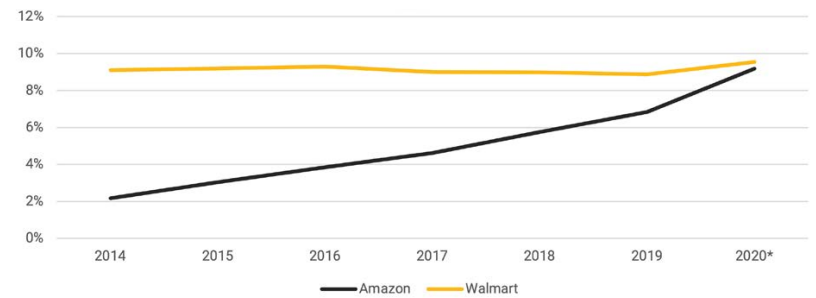
market share level for the past six years. Amazon, however, has grown its share from just 2.2 percent in 2014 to 9.2 percent for 2020.

The COVID factor is perhaps most clearly visible in the quarterly retail sales figures, where Walmart begin 2020 with a comfortable 2-percentage point margin, which evaporated over the next two quarters and finally saw Amazon pulling away completely in Q4, and finishing the year with an 11.2 percent

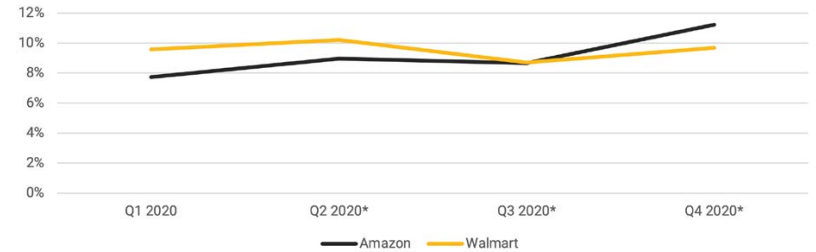
share that was 1.5 percentage points ahead of Walmart.

Barring the unforeseen, it is distinctly possible that for the foreseeable future the 2nd and 3rd quarters of 2020 will be remembered as the last time that Walmart was able to keep up with Amazon in this critical total retail sales metric, and that by this time next year, it will have fallen behind on the full year front as well. Of course, only time will tell.

**FIGURE 2: Share of Consumer Retail Spending by Year including 2020**



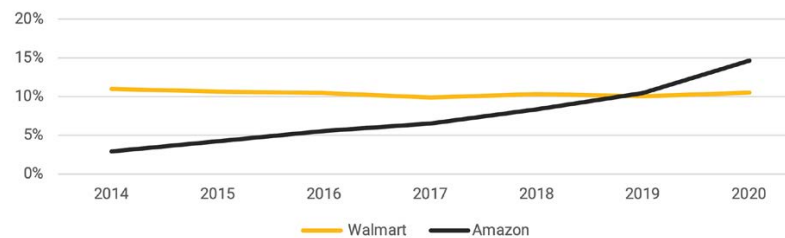
**FIGURE 3: Share of Consumer Retail Spending by Quarter for 2020**



## Strengths and Weaknesses

If you look at the seven category share comparison charts it's impossible not to see the big trend. For example, it took Amazon five years to catch up to Walmart in the Furniture and Home Furnishings category, but once it did in 2019, it just blew out the lead in 2020 and posted a 4 point full year share margin advantage over its stagnant rival.

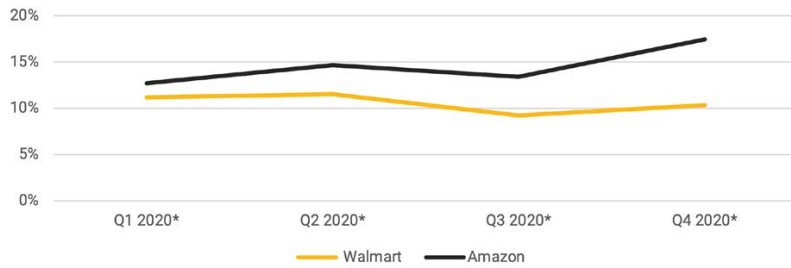
**FIGURE 4: Share of Total furniture and home furnishings by year up to 2020**



When the same category is viewed on a quarterly basis, the impact from the COVID-fueled nesting, work from home and increased online shopping trends

are simply stunning, as Amazon grew its 1.5 percentage point margin advantage in Q1 to a full 7 point chasm over Walmart in Q4.

**FIGURE 5: Share of Total furniture and home furnishings by Quarter 2020**

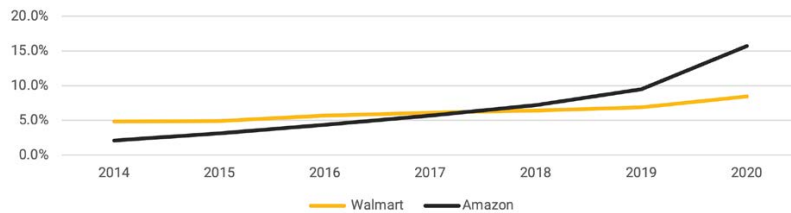


A similar category leadership change followed by new and widening sector dominance was also seen in the Clothing and Apparel group. As the chart ((below)) shows, Amazon trailed Walmart by more than a 2-to-1 ratio in 2014 before catching up in 2017, then pulling ahead in 2018 and finally just expanding its lead over the past two

years to where it is now approaching a 2-to-1 advantage.

In dollar terms, PYMNTS' data show Amazon ended 2020 at \$70.5 billion in gross apparel sales, (versus \$38 billion for Walmart in the category) which amounts to about 16 percent of its \$420 billion gross annual sales -- its third biggest contributor behind electronics.

**FIGURE 6: Share of Total Clothing and Apparel, by year up to 2020**

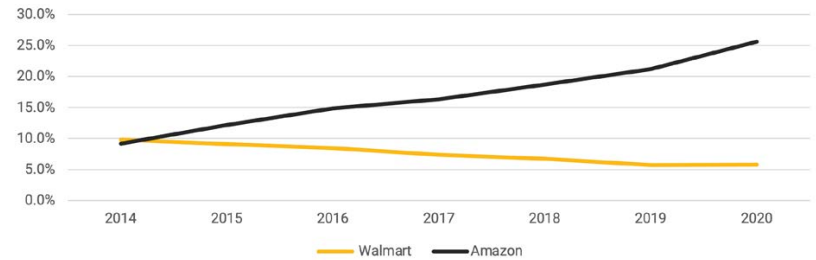


As much as clothes and furniture demonstrate category lead changes, Electronics and Appliances and Sporting Goods, Hobby, Music and Books segments are examples of increasing long term dominance paired against a long term downtrend.

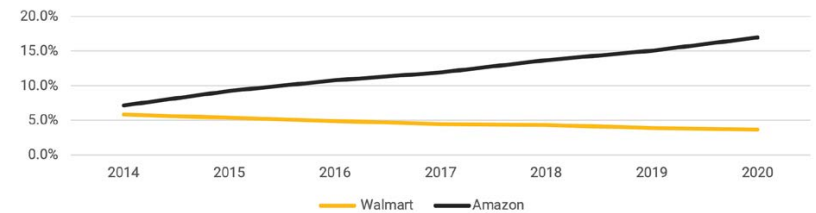
In five years, Amazon's margin over Walmart in this lucrative \$93 billion category has grown from a modest 3 percentage points in 2015 all the way up to the present 20 point, 4-to-1 sales drubbing posted in 2020.

Although the annual dollar amounts involved in the Sporting Goods/Hobbies/Music & Books category are smaller than Electronics, the 4-to-1 share margin gap is the same, at \$67 billion in gross sales to \$14 billion. Again, Amazon's share has been rising for six years while Walmart's share has been steadily dwindling. The result is that this lucrative leisure segment is now Amazon's third biggest revenue driver, while it has become one of Walmart's smallest categories.

**FIGURE 7: Share of Total Electronic and Appliance, by year up to 2020**



**FIGURE 8: Share Sporting Goods, Hobby, Music, And Book, by year up to 2020**







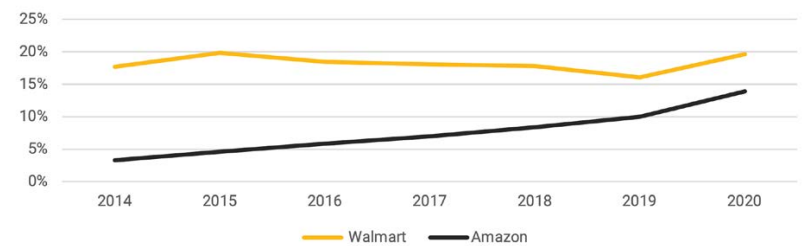
# The Battlegrounds

For the time being Walmart still has a larger -- but shrinking -- share in three important categories than Amazon, but unsurprisingly, the online giant is doing everything it can to change that.

As is the case in all of the other categories where Amazon has recently claimed the lead, the competitive trend lines in Auto Parts and Health and Personal Care are following

the exact same pattern; Walmart's share is essentially flat over the past five or six years while Amazon's has consistently grown.

FIGURE 9: Share of Total Auto Parts by year up to 2020



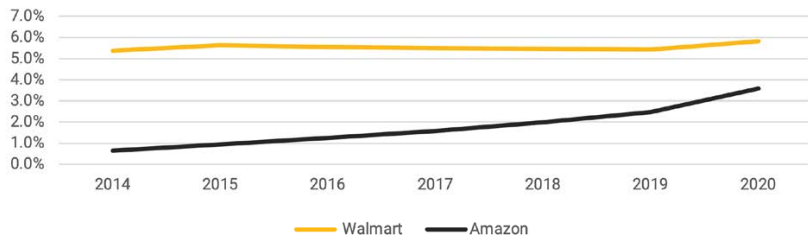
For example, in Auto Parts, the six-fold share advantage Walmart enjoyed in 2014 has slipped to less than six percentage points today, with approximately 20 percent to 14 percent stakes. In dollar terms, PYMNTS' data show Walmart did about \$17 billion in total auto parts sales last year versus \$12 billion for Amazon.

What's interesting here is that while the gap tightened last year, Walmart's share actually rose quite sharply from

2019, meaning Amazon's online offering is likely to have taken share away from other, traditional auto parts retailers who are hard pressed to compete with its e-commerce expertise, aggressive pricing and clout.

That brings us to Walmart's \$46 billion Health and Personal Care franchise, it's second largest category behind groceries, but alas, one that it has been unable to grow from an approximate 5.5 percent share for at least six years now.

**FIGURE 10: Share of Total Health and personal care, by year up to 2020**



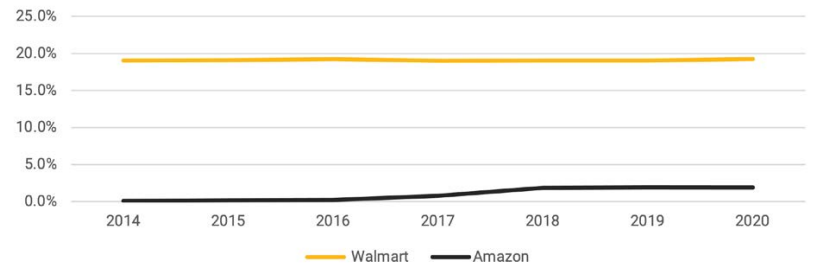
As much as Walmart isn't gaining share here, it isn't losing it either. Unfortunately for Walmart though, the same cannot be said for Amazon which once again has sold more and more health and personal care products year after year and steadily grown its stake.

Last year, PYMNTS' data show Amazon did over \$28 billion in gross merchandise sales in the category, which is more than sector stalwarts like Kimberly-Clark,

Colgate-Palmolive or Clorox albeit less than Procter & Gamble's \$70 billion.

Last, but definitely not least, is Food and Beverage, where Walmart still holds an Amazon-like 10x margin advantage over its rival, via an astounding \$245 billion in revenue which accounted for 55 percent of its gross sales. To suggest that F&B is anything short of vital for Walmart would be missing the big picture.

**FIGURE 10: Share of Total Health and personal care, by year up to 2020**



Drilling more deeply into the space, you can see that for all that dominance, Walmart has again been unable to grow its share over the past several years and has essentially been treading water at 19 percent for at least six years.

For its part, Amazon has gone from virtually nothing in 2014 to about 2 percent in 2018 thanks mainly to its acquisition of Whole Foods, but has been uncharacteristically stagnant ever since.

Specifically, PYMNTS's data show since 2018 Amazon's F&B business has added just \$2.8 billion in incremental revenue, or about 13 percent, as it went from \$21.5 billion to \$24.3 billion in 2020, which happened to be the best year for grocery sales in the history of mankind.

For the record, Walmart's F&B sales grew by \$20 billion or 8 percent last year alone.

It is for this exact reason that Amazon has recently been reported to be itching for a "food fight" of sorts, and is in the process of building out the AmazonFresh physical store base from a 10-store pilot program to a major brick and mortar player.

While Amazon has not publicly acknowledged any such large-scale plans to augment its 500 existing Whole Foods stores, its investment in a midwestern grocery store chain and distributor last summer as well as two dozen local planning and permitting inquiries at a time of abundant retail vacancies all suggest otherwise.

If true, it would still take years for Amazon to close the grocery gap that 5,500 US Walmart stores provide, but then again, there's no bigger target for it to aim at.

# CONCLUSION

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There's no disputing the fact that the world is increasingly going digital and as much as 2020 was a seminal year for online shopping it remains to be seen how much of that e-commerce shift will stick once life returns to a post-COVID normal that allows people to freely go out and shop as they please.

There is also the recent surge in highly popular hybrid services, such as curbside pickup and BOPIS (buy online, pickup in store) to factor in that consumers -- and merchants -- have grown accustomed to.

Add in the fact that Walmart is testing out new ideas like streaming commerce on TikTok, hiring big name designers, and mulling the possibility of becoming its own bank all at a time when it just increased its capital expenditure budget by 20 percent to \$14 billion this year, and things start to get interesting.

For its part, Amazon-watchers say the \$1.5 trillion commercial giant is still a competitive beast that pursues and protects business as aggressively as it did as a Seattle start-up 25 years ago. Even though founder Jeff Bezos will hand over the day-to-day CEO duties July 1st to his hand-picked successor Andy Jassy, few foresee him as a hands-off executive chairman who will be relegated to the boardroom.

And so, with vaccinations rising, the nation (hopefully) on the cusp of normalcy, with another round of stimulus checks in hand, the backdrop for these two mega-cap retail competitors has been set, with Amazon and Walmart starting off 2020 in an unprecedented statistical tie.

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