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Supply Chain News: Walmart vs Amazon 2014

No two companies currently dominate the North American and global retail landscape - though of course in different ways - than Walmart and Amazon.com.

That dominance, and the potential fortunes of each in coming years, is not just of interest to the retail sector. Obviously, it matters deeply and directly to consumer goods manufacturers, and indirectly to the preponderance of other types of companies, from packaging suppliers to commodity firms, because in the end most of their demand is ultimately determined by what the consumer buys.

So what is happening here should be of interest to most of us. I am going to take the easy way out this week and look at this in numbers and charts - and the data is fascinating.

In the early to mid-2000s, I was worried Walmart simply could not be stopped, and that the growing share of sales that many/most consumer product companies were experiencing from Walmart was a real issue. It was becoming a Walmart supply chain - and then everything else, which just didn't seem like a good thing to me. Nothing against the Bentonville giant, but who wants to see that level of domination?

I think the jury is still out on that one. As shown in the chart below, sales at Walmart US, Sam's Club and international grew 3.9%, 4.9%, and 7.4%, respectively, in 2013 (Walmart's fiscal 2014). (The chart also shows cumulative average growth over the past 10 years.)

The US sales growth number was above the 3.2% growth in overall US retail sales, excluding autos and parts - but nevertheless we think Walmart lost a bit of market share last year, as explained below

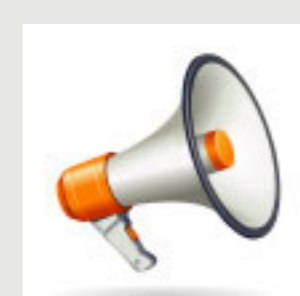
You will find various estimates out there of Walmart's share of US retail sales. For example, if you divide Walmart sales by total retail sales, the number will be relatively low. But if you exclude automobile sales, the number starts to rise.

Gilmore Says:

“In Q4, Amazon's shipping revenue (ad hoc + Amazon Prime service) was \$1.37 billion. Shipping costs were \$2.34 billion, meaning Amazon had a net loss on shipping of \$1.2 billion.”

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We like our unique approach, which combines Walmart's US and Sam's sales and compares it to US retail sales (based on Commerce Dept. data) excluding autos and parts, restaurants, gas stations and fuel distributors. Yes, Walmart sells some gasoline too, but not enough to be material, in our view.

As shown in the chart below, Walmart's share of applicable retail sales actually dropped a bit in 2013 to 11.3%, down from 11.5% in 2012, I believe because restaurant sales rose faster than general merchandise retail last year. That 11.3% level is down just under one percentage point from Walmart's highmark of a 12.2% share in 2009.

Walmart US same store sales growth was 1.8% last year, up from just .2% in 2012.

One notable piece of data that Walmart does not yet provide is its ecommerce sales - a practice common to many other large US retailers. The logical conclusion is that the numbers from Walmart and others are still very small.

There was a Fortune magazine cover story article more than a decade ago on "[The One Company Walmart Fears.](#)" Which company was that, in 2003? It was Costco.

Costco is a great company and still a threat to Walmart's dominance, but clearly now the real threat is Amazon - to Walmart and about every other retailer, both here and abroad.

Let's look at Amazon's growth in "merchandise" sales, which excludes media and services sales revenue (the media number I assume includes physical books as well as electronic media, but still think it is best to leave this category out).

Growth is slowing for sure, but still mighty impressive. US merchandise sales growth was 28% in 2013, down from 34.4% in 2012 and 57.4% in 2011, as the law of big numbers takes force (see graphic below).

That means, however, that Amazon still represents just 9% of Walmart's US sales (Walmart Stores + Sam's). You'll see reports that indicate a more favorable comparison, but those figures usually include Amazon's international and services sales.

But just about all of that is ecommerce business, and I am sure the Amazon total at this point dwarfs the Walmart online number. The threat, of course, is that Amazon can keep this 20+% type annual growth going - meaning sales would double every 3-4 years. Will Amazon really see that level of growth? That is the \$100 billion dollar question.

We've reported on Amazon's rising fulfillment costs a number of times, and will do so again here, but with a slight change from the past. Rather than dividing the reported fulfillment costs against total revenue, we are dividing those cost by just merchandise sales. We'll also note fulfillment costs include inbound logistics costs to get goods to fulfillment centers, but do not include outbound customer shipping costs.

As can be seen below, measured that way, fulfillment costs rose to 17.5% of merchandise sales in 2013, up from 15.7% in 2010. The big driver of those high costs is the continued massive construction of fulfillment centers in the US and around the world.

Shipping is a whole other topic. For 2013, Amazon's shipping revenue (ad hoc + Amazon Prime service) was \$3.17 billion. Actual shipping costs were \$6.63 billion, meaning Amazon had a net loss on shipping of \$3.49 billion for the year, representing 4.7% of global sales. Wow - no wonder it appears Amazon may actually increase the price of the Prime service in 2014.

Amazon eked out a \$274 million profit for the full year. Gross margins improved from 24.8% in 2012 to 27.3% in 2013 (that's with the shipping hit, which goes into COGS). Inventory turns in Q4 were 8.9, down from 9.2 in 2012. But importantly, on that meager profit, cash flow from operations was up substantially in 2013 to \$5.5 billion, up 30% from 2012. That is in large part why Amazon's stock price stays so high with lousy earnings.

I am out of room. Hope you enjoyed this look at our current and emerging retail giant.

What is your reaction to these Walmart and Amazon numbers? Just how big a threat is Amazon? Let us know your thoughts at the Feedback button or section below.

Dan Gilmore

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