Walmart VS. amazon

WHOLE PAYCHECK

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Battle For The Digital-First Consumer

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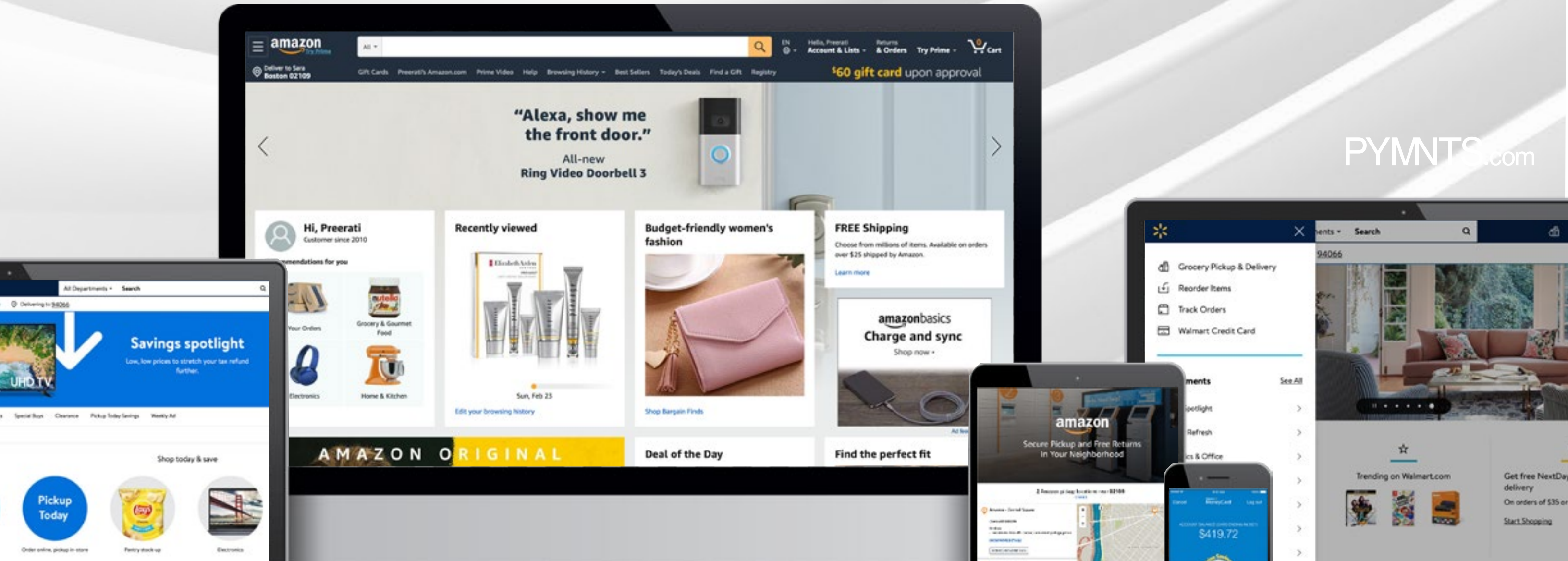

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INTRODUCTION

AMAZON NUDGES WALMART IN BATTLE FOR THE DIGITAL CONSUMER

Spoiler alert: This edition of the Whole Paycheck Tracker report, the exclusive PYMNTS data dive on the claim Amazon and Walmart make on their share of the U.S. consumer's whole paycheck, does not contain the customary exponential increases associated with these two retailers. In fact, our data shows an unprecedented drop in share of overall consumer spend for each of them. But within these numbers lies an insightful picture into the growth of the digital-first economy in 2020. And in order to gain those insights, it's necessary to do something no one would be excited about in these first hopeful weeks of 2021.

The insights depend on turning back the clock to 2020. Just a little. Just to July. Because at that point, both retailers were coming off the first green shoots of what would become a dramatic surge in eCommerce. Q2 of 2020 (April, May June) witnessed the arrival and immediate aftermath of the pandemic, with all of its fear-based binge-shopping for basics and its consumer adoption of contactless payments, curbside pickup, home delivery and other digital-first staples.

Q3 was an interesting time for Walmart and Amazon. Both of them continued to profit from the digital shift – and both of them used the July-September period to position themselves for what will undoubtedly be a watershed of earnings for Q4.

But let's not get ahead of the game. In Q3, both companies reported significant revenue spikes and digital-first validations. For Amazon, operating cash flow increased 56 percent to $55.3 billion over 2019. Net sales increased 37 percent to $96.1 billion in the third quarter, compared with $70.0 billion in the third quarter of 2019. For Walmart, its comp in-store sales increased 6.4 percent and eCommerce grew 79 percent.

Both companies, at the time of their earnings announcements, paid very little attention to Q3. In fact, both of them spent most of their time assuring analysts that they would be able to meet demand for what was expected at the time to be a fourth quarter that stressed available fulfillment and delivery capacity.

"This has been a big year for capital investments – we've invested nearly $30 billion in capex and finance leases to the first nine months of 2020, including over $12 billion in Q3," CFO Brian Olsavsky said on the Q3 earnings call. "We expect to grow our fulfillment and logistics network square footage by approximately 50 percent this year, which includes beginning additions to our fulfillment centers, as well as our transportation facilities. But half of the square footage growth will be on the transportation side and the rest [will be] toward opening more storage centers and delivery stations."

Walmart CEO Doug McMillon's comments about Q4 turned out to be prescient.

"The team is being flexible when it comes to meeting demand. For example, we've turned on nearly 2,500 stores to fulfill online orders. We can quickly flex this number as the holiday season progresses to help relieve pressure on our eCommerce fulfillment centers, if necessary," he said at the time. "This holiday season will obviously be unique. While many family gatherings may be smaller, we do believe families want to decorate, celebrate and enjoy food and gifts. They want a sense of normalcy. And our traditions help bring some joy and comfort to this difficult year. With the importance of social distancing in mind, we planned several holiday shopping events this year, so customers can enjoy special items and pricing over a longer period of time and shop in a way that's best for them."

And if they weren't discussing that, they were focused on their subscription and loyalty programs. Remember that Walmart launched its Walmart+ subscription program at the end of Q3, and Amazon's Prime Day came in early October – which was enough for Olsavsky to brag a bit about their results, which centered on the 150 Prime members and the $3.5 billion gleaned from third-party sellers.

Before getting into the PYMNTS numbers for each retailer, let's also remember that total retail sales for the third quarter of 2020, according to the U.S. Census Bureau, were estimated at $1.5 billion, an increase of 12 percent from the second quarter of 2020. The third quarter 2020 eCommerce estimate increased 36.7 percent from the third quarter of 2019, while total retail sales increased 7 percent in the same period. Online sales in the third quarter of 2020 accounted for 14.3 percent of total sales.

All of which sets the tone and sketches the landscape for Q3. Yes, it was a time of investment and positioning – but it was also a time when the back-to-school season came in soft due to the pandemic. It was a time when the COVID rates had started to drop, and Walmart in particular saw a return to stores as evidenced by the 6.4 percent bounce. And Amazon should have seen an increase in its Whole Foods, Amazon Fresh and Amazon Go properties. Both were also competing intensely for the grocery delivery business in Q3.

Q3 was also a time when these two retailers had a lot at stake, as they continued their quest for the U.S. consumer's whole paycheck and their slice of the burgeoning digital-first economy.

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About that spoiler alert. Both Amazon and Walmart failed to post gains in terms of percentage share of consumer spend. It's a very rare situation for each of them, and also gets to the heart of the purpose of this Tracker project. Primarily, it is a snapshot of spending share of the whole paycheck. But it is also a competitive benchmark to see how they compare to each other and how they are positioned within the retail industry as a whole. With that in mind, the industry dynamics that affected their market share is worth a look. Because if these two mega-retailers lost share, someone else must have taken it.

Let's look at Amazon first. In no way does this report or these numbers take anything away in terms of gross sales. It continues to tell a tale of dramatic growth from quarter to quarter, and its year-over-year figures are proof positive that the digital-first economy arrived with startling speed and is here to stay.

By PYMNTS research estimates, Amazon sold $114.7 billion in goods and services during Q3, up from $105.6 billion in Q2. Compare that to Q1, before the pandemic and digital-first economy took hold. At that time, the number was $91.7 billion. It's not too far of a stretch to deduce that the 2020 shift to digital commerce added $23 billion to Amazon's top-line growth between April and October. The gross sales line of the report also shows the exponential growth the company has seen since we started the project in 2016. In that year, it had $86.2 billion in sales, which grew to $339.1 billion in 2019. It's probable that when the dust clears on 2020, Amazon will have grown to $400 billion in gross sales. Not a bad six-year run for a retailer that has focused its efforts on customer strategy and infrastructure.

Gross sales comprise the first cut of the Whole Paycheck Tracker; eCommerce is also broken out. There's a $3.8 billion

difference between the Q3 gross sales number and the eCommerce gross sales number, which serves as a good estimate for the revenue taken in from the company's brick-and-mortar properties: Amazon Books, Amazon Go, Amazon Fresh and Whole Foods. That difference has been fairly consistent this year.

For Q3, gross eCommerce sales came in at $111 billion. For Q3 2019, the number was $80.5 billion, showing about a $30 billion bump year over year. Interestingly, the digital shift stayed true to Amazon's results, even when it was a negative factor. Its physical store revenue dropped almost 10 percent in Q3 compared to 2019. Compared to Q2 2020, it didn't show much variation – indicating that the digital shift, as detailed in other PYMNTS studies, has had a dramatic effect on grocery shopping.

According to PYMNTS' latest Omnichannel Grocery report, 63.9 percent of U.S. consumers have bought groceries via digital channels during the pandemic, whether using a traditional desktop website, a mobile app or an aggregator. As to how they like to receive those groceries once ordered, at-home delivery tends to lead among consumers, with 42.2 percent reporting using it. That stacks up against the 39.7 percent who've opted for curbside pickup and the 35.2 percent who have picked up their orders in-store. Amazon has embraced all of those trends, but it's possible that their small scale in grocery and lack of a third-party delivery partner held it back in Q3.

Physical store issues aside, total Amazon eCommerce sales popped from $101.8 billion in Q2 to $111 billion in Q3.

Table 1

Physical Store	2017	2018	2018 4Q	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019	2020 Q1	2020 Q2	2020 Q3
Total Sales	5,798	17,224	4,401	4,307	4,330	4,192	4,363	17,192	4,640	3,774	3,788
Variation vs Same Quarter Last Year							-0.9%		7.7%	-12.8%	-9.6%
Variation vs Last Quarter				-2.1%	0.5%	-3.2%	4.1%		6.3%	-18.7%	0.4%

Source: PYMNTS.com

WALMART DECLINES

One of the biggest surprises in this version of the Whole Paycheck Tracker came from Walmart's gross sales. Remember that the numbers reported as part of the company's earnings announcement are global; this report focuses on the U.S. Even still, PYMNTS research shows a surprising drop in gross sales from $110.6 billion in Q2 to $105.2 billion in Q3. That means Walmart's pandemic bounce wasn't sustained for Q3. In Q2, Walmart benefited from its "essential" retail status, which meant it wasn't affected by lockdowns. Q1 for the company came in at $104 billion in gross sales. That went to the $110.6 billion in Q2 and then came back closer to its pre-pandemic levels. It still represents a significant increase over Q3 2019 ($98.8 billion).

As gross sales since 2016 show, Walmart and Amazon are on different growth tracks. In 2016, Walmart's U.S. gross sales were $369.8 billion. The jump to $404.8 billion in 2019 shows a growth rate that any brick-and-mortar retailer would take in a heartbeat. And as more of its "nonessential" competitors came back online in Q3, the gross sales drop most likely went to specialty retailers, which we will explore later in this report.

In the eCommerce breakout, Walmart also took a hit. Its online U.S. sales for Q2 came in at $11.8 billion, up from $9.3 billion in Q1. That Q2 number fell substantially to $10.6 billion for Q3. The eCommerce share of Walmart's overall business also dropped from 10.7 percent to 10 percent. That could explain why Walmart recently announced two major moves to fuel sales. The Walmart+ program, which launched in mid-September, could be seen as an eCommerce-based initiative, with grocery delivery as its main value proposition. Although it wasn't an eCommerce-specific play, Walmart also tried to match Prime Day by holding its own sales to counterprogram against Amazon.

CONSUMER SPENDING SHARE SURPRISES

In some ways, Q3 was more about Amazon and Walmart's competition than anything else. For the first time since the Tracker project started in 2016, both retailers showed a drop in their share of consumer spending. Let's look first at Amazon.

The project measured share of overall retail spending and overall consumer spending. Again, the numbers at a macro

level would be cause for celebration at most retailers. Amazon accounted for 3.2 percent of overall consumer spending in Q3 and 8.7 percent of overall retail spend. Remember, this is during a quarter in which overall retail jumped 12 percent over Q2 and eCommerce spend went up 36.7 percent. There was a lot of runway for eCommerce business and competition. The drop in share of consumer retail spend from Q2 to Q3 was minimal (9 percent to 8.7 percent). There was no difference from Q2 to Q3 in share of overall consumer spend. It's not all bad news – Amazon's jump from Q1 to Q2 went from 2.6 percent to 3.2 percent of total consumer spending. Considering the size of the numbers

FIGURE 1: Amazon Share of Total Spending

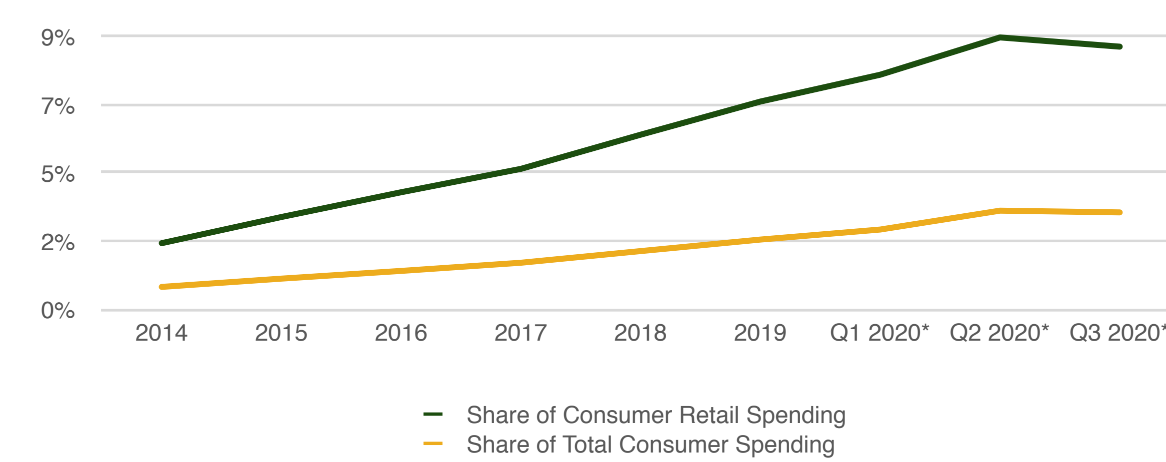
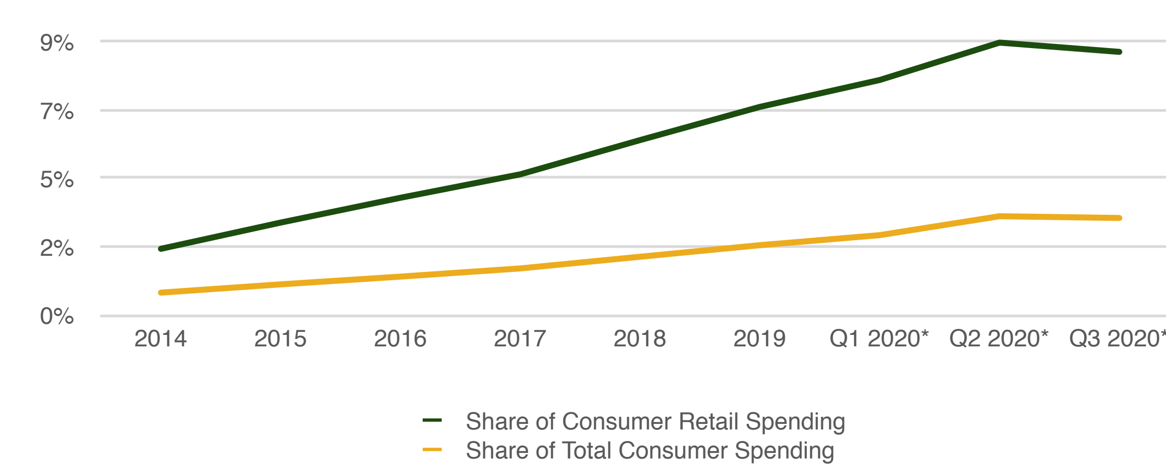


FIGURE 2: Walmart Share of Total Spending



involved in overall consumer spend, that increase was staggering – and was simply not sustainable as consumers spent more and had more options for where to spend.

The story for Amazon improves when it turns to its share of U.S. eCommerce spend. After achieving a 51.2 percent share in Q1 2020, it dropped to 44.4 percent in Q2. The jump from that 44.4 percent to Q3's 48.3 percent says everything about Amazon's power in eCommerce. When the category increased 36.7 percent, it once again approached the 50 percent mark. But it also showed that its competitors took their fair share. With Amazon continuing to support its third-party merchants to compete with Shopify, it could be that Shopify took some share from Amazon. Shopify's Q3 numbers showed a 96 percent increase compared to Q3 2019.

Walmart's decline was more substantial. After posting 10.2 percent of total consumer retail spending in Q2, it too found that to be unsustainable in Q3 as it dropped to 8.7 percent, one point below its pre-pandemic share of 9.6 percent. In terms of total consumer spend, it also fell from 3.4 percent in Q2 to 2.9 percent in Q3.

As we will see in the next section, Walmart lost share in almost every spending category for Q3. The Tracker also found that Walmart dropped in its eCommerce share from 5.9 percent in Q2 to 5.3 percent in Q3. It stayed in the neighborhood of 10 percent of the total share of Walmart sales. It's interesting to note that Walmart's share of eCommerce spending peaked in Q1 at 6.3 percent. As the digital shift took hold in Q2, it dropped to 5.9 percent. Again, this could explain the multi-million-dollar marketing blitz behind the Walmart+ subscription program. Walmart is watching its share of eCommerce decrease while Amazon is posting substantial gains. Walmart+ is a

way to keep its eCommerce (specifically grocery) top of mind with consumers.

Strengths and Weaknesses

Let's start with Walmart, because it had the most significant changes compared to Q2. Outside of gasoline sales, which could have been positively affected by the Walmart+ program, Walmart saw decreases in every category, from auto parts to sporting goods and hobbies. For every category that fell, there was a group of competitors ready to take their share – including, of course, Amazon. For example, home furnishings dropped from $7.3 billion in to $7 billion in Q3. Wayfair, on the other hand, posted a total net revenue increase of $1.5 billion to $3.8 billion, up 66.5 percent year over year. Home Depot counted $33.5 billion for Q3 2020, an increase of $6.3 billion, or 23.2 percent over 2019. Walmart's share of consumer spend in the furniture and home furnishings category dropped from 11.5 in Q2 to 9.2 percent in Q3.

Another concerning area for Walmart is electronics and appliances. After increasing from $5 billion in Q1 to $5.3 billion in Q2, it slipped to $5 billion in Q3. Again, there was a specialty competitor that took share from Walmart. Best Buy's in-store comp sales were up 23 percent overall, that Best Buy was doing to keep its in-store business going, in sync with its digital efforts.

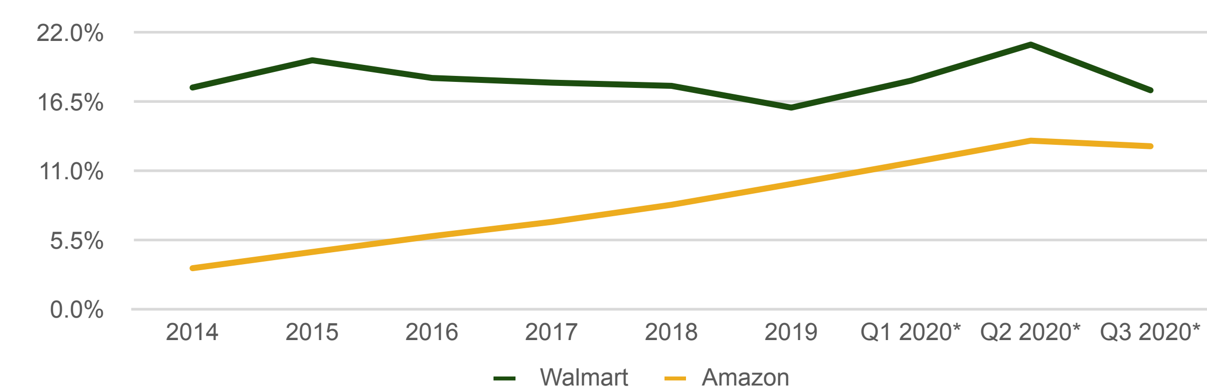
"We leveraged our unique capabilities, including our supply chain expertise, flexible store operating model and ability to shift quickly to digital, to meet what is clearly elevated demand for products that help customers work, learn, cook, entertain and connect in their homes," Barry said in announcing the Q3 earnings. "The current environment has underscored our purpose to enrich lives through technology, and the capabilities we are flexing and strengthening now will benefit us going forward as we execute our strategy."

It's also worth noting that Best Buy's domestic online revenue of $3.82 billion increased 173.7 percent compared to 2019 – and as a percentage of total domestic revenue, online revenue increased to 35.2 percent versus 15.6 percent in 2019.

Amazon showed consistent but relatively small gains in gross sales in every category, and some surprising category drops in terms of consumer spend share. Like Walmart, it took a hit in the furniture category. Its gross sales increased from $9.3 billion to $10.1 billion. But as its competition in that area gained traction in Q3, its share of consumer spend dropped from 14.7 percent to 13.4 percent. Same with electronics and appliances. Its gross sales went from $21.6 billion to $23.2 billion, but that was only good for a 23.7 percent overall spending share, down from 24.4 percent in Q2. The script flips, however, when the numbers are limited to eCommerce. Those numbers went from 41.7 percent to 46.5 percent.

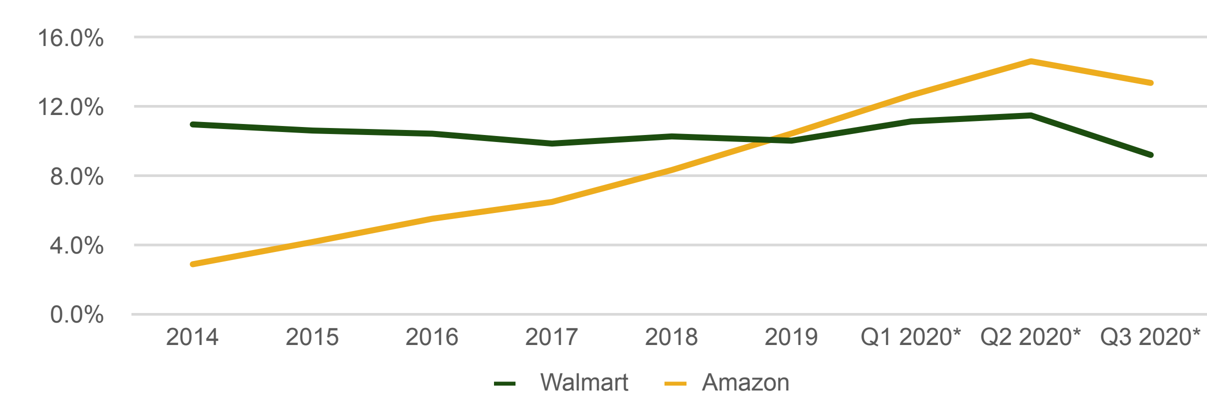
Amazon didn't show any significant vulnerabilities in Q3. Its pattern was slight drops in share of consumer spending and 3 percent to 5 percent increases in share of eCommerce spend. In fact, some of its category numbers for eCommerce are beyond dominant. For example, Amazon now owns 39.9 percent of furniture and 46.5 percent of the electronics category.

FIGURE 3: Share of Total Furniture And Home Furnishings



Source: PYMNTS.com

FIGURE 4: Share of Total Electronic and Appliance



Source: PYMNTS.com

Battlegrounds

Every category is a battleground for these two companies, but two stood out for Q3: apparel and grocery. Grocery has been a consistent growth initiative for both retailers – and despite efforts to increase their share through online and offline efforts, neither company posted much progress for Q3. Amazon, which started using stores as grocery fulfillment centers in Q3, saw a minimal gain from Q2 to Q3, from $5.6 billion to $5.8 billion (counting both online and offline sales), and its share of consumer spend stayed flat at 1.8 percent. Walmart didn't fare much better, going from $58.7 billion in Q2 to $58.9 billion in Q3. Its share of consumer spending in the category fell from 19.3 percent to 18.1 percent.

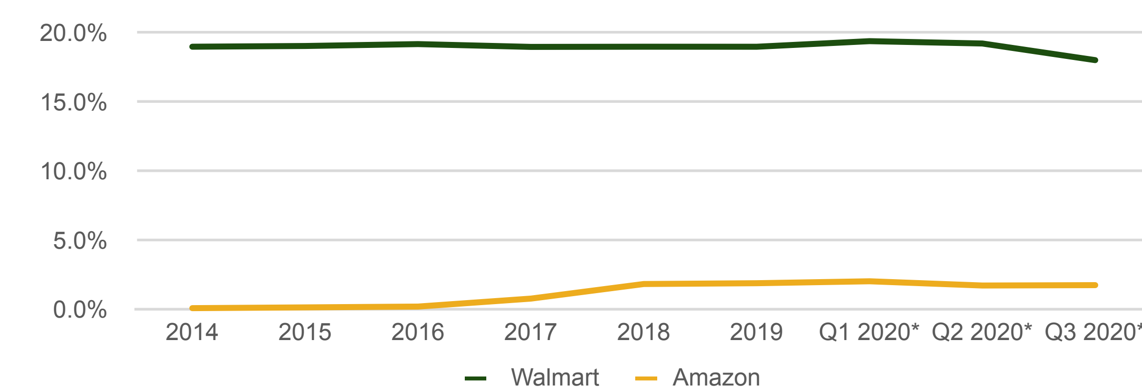
As we illustrated in other categories, competition was effective against Walmart and Amazon in Q3. Supermarkets are populated with aggressive, well-run companies like Kroger and Ahold Delhaize, which have stepped up their digital capacities and added to their loyalty programs. They simply won't become Amazon victims as retailers have in other categories. For example, Kroger was up 10.6 percent overall in Q3 and 108 percent online.

Apparel is the other battleground category. The back-to-school season was largely seen as soft this year, but the actual decline was not quantified. The PYMNTS Tracker shows that softness. Amazon eCommerce sales were only up from $16.2 billion to $17.5 billion for Q3, and its share of overall consumer spend in the category dropped from 17.8 percent to 14.3 percent. Walmart saw a

more dramatic drop from a lack of back-to-school sales, going from $9.6 billion in sales for Q2 to $9.1 billion in Q3. And its share of spend in the category dropped from 10.5 percent to 7.4 percent.

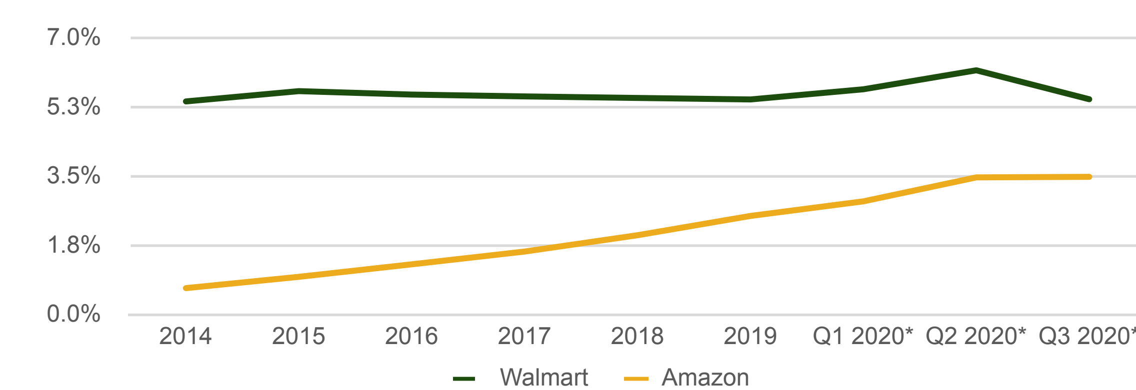
Neither company will find those results acceptable, even though the back-to-school season was off. Walmart has introduced a new private-label fashion line and just recently started a fashion livestreaming program with TikTok. It will need to see results from Q4 and from Q1 of 2021. Amazon, which has had a love-hate affair with fashion, just launched its "Made For You" custom clothing campaign and continues to build its luxury apparel offerings with Luxury Store sections.

FIGURE 5: Share of Total Food and Beverage



Source: PYMNTS.com

FIGURE 6: Share of Total Clothing and Apparel



Source: PYMNTS.com

CONCLUSION

Bottom line, it was a quarter that any retailer besides Amazon and Walmart would be happy to take in the U.S. But it's clear from the data, and anecdotal evidence, that the "Amazon effect" and the "Walmart effect" might be losing their power. Target, for example, could never compete with Walmart in terms of scale. But its Q3 earnings showed a 20 percent increase in offline sales and a 155 percent spike online. It might not be directly responsible for Walmart's spend percentage decreases, but it shows that it can compete with Walmart. Other categories, grocery and electronics in particular, show that Amazon isn't unbeatable – it's just dominant.

No coincidence, then, that both Amazon and Walmart ended up at the same place for Q3. Both have captured 8.7 percent of total consumer retail spend. Next up is Q4, and all the questions about Prime Day and its counterprogramming – and the effect of the early Christmas season and its place in the digital-first economy.

ABOUT

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