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Headline: When the world's largest retailers go head to head

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'Clash', an analytical account of the fight between Walmart and Amazon in the US, serves as a warning for all those bullish on e-commerce globally

New retailers typically attract customers by offering lower prices in order to beat incumbents. They do this by making do with fewer staff, by adopting bare-bones store designs or offering limited services. For example, Ikea requires customers to assemble their own products; the D-mart chain, for another, isn't known for its store aesthetics.

Online retailing, however, "flies in the face of historical precedent," writes Nirmalya Kumar, former head of strategy at the Tata Group, in his new book, Clash: Amazon vs Walmart. Not only do Amazon and other online retailers offer excellent service—they pack and deliver products reliably and quickly, saving customers time, effort and transportation costs—they do so "without a price penalty," he writes.

Clash is primarily an analytical account of the fight between the world's largest retailers, Walmart and Amazon, in their home market of the US. But the book is intended as a warning for all those who are bullish on e-commerce around the world. Kumar, who teaches marketing at Singapore Management University, shows that Amazon still loses tens of billions of dollars every year in online retailing in North America, which contributes a majority of its retailing revenues worldwide. "If Amazon, after almost thirty years of operations, is unable to break even on its online retail business in its best market, then it is unlikely that others can do better," Kumar writes.

Since Amazon doesn't publish independent numbers of its different businesses in North America, Kumar relies on the company's annual reports and other publicly available data to arrive at his estimates. Online retail refers only to the direct sales of goods by Amazon to customers; it doesn't include Amazon's marketplace business through which it facilitates the sale of products from independent sellers.

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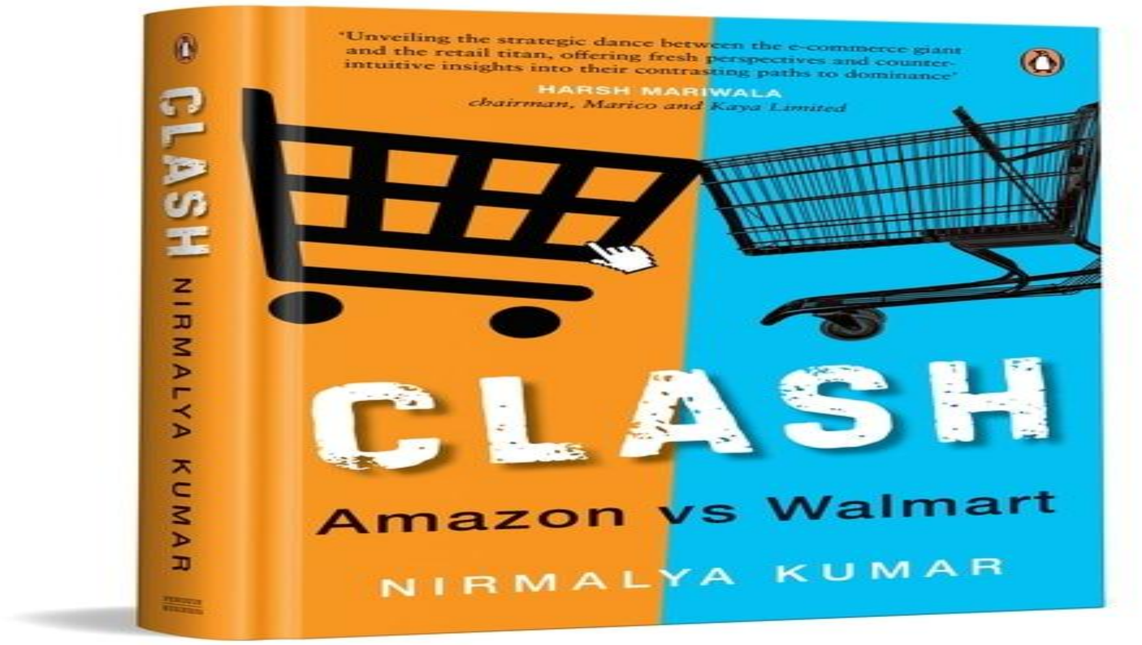
Kumar estimates that Amazon's online retailing business in North America posted an operating loss of at least $20.5 billion, and more likely, $27.5 billion, in 2021 on revenues of $171 billion. According to Kumar, ironically, what contributes most to this woeful financial picture is Amazon Prime, the popular subscription program that is arguably the single most important driver of Amazon's dominance. Prime increases Amazon's delivery costs to such an extent that the more people buy more from Amazon, the more money it loses. "Amazon, no matter its fame for exceptional execution, is a terribly run business when it comes to capital efficiency by traditional standards," Kumar writes. And if Amazon, the paragon of online retail, cannot run a profitable business, no one can.



However, Kumar's emphasis on Amazon's retailing business doesn't give a full picture of the company's overall financial health in e-commerce. If one includes its marketplace business and its advertising revenues, even according to Kumar's own estimates Amazon seems to break even or even show a decent profit from e-commerce.

What Kumar's analysis ends up showing is not the futility of online retail but the singular business model of Amazon that is perhaps nearly impossible to replicate. Amazon is not just a sophisticated technology firm, it is also a hugely successful retail business, a complex logistics machine, a content platform, publisher and more. Its success in e-commerce was achieved through luck and the uncommon perseverance of Jeff Bezos. The thriving e-commerce business enabled the company to launch Amazon Web Services. This hugely profitable cloud computing service in turn allowed Bezos to keep expanding the e-commerce business even though margins were contracting. Many other CEOs would have traded sales growth for margins. But Bezos was unwavering in his quest for dominance. More importantly, Amazon's track record and the ruthless, unforgiving work culture that Bezos cultivated has convinced investors that regardless of ups and downs, Amazon will continue to be one of the world's dominant technology companies for a long time.

On the whole, for e-commerce firms in India, what Amazon's success in US online retailing shows is that dominance pays. Which is not to say that Kumar's grim analysis of e-commerce is untrue. The Indian market, with its much smaller size, poor infrastructure and intense competition, is considerably worse for generating profits than the US.

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In the financial year ended 31 March 2023, the latest for which numbers are available, both Amazon India and Walmart-owned Flipkart, the two dominant e-commerce platforms, reported huge losses. Amazon Seller Services, Amazon's main India entity, posted a loss of ₹4,854 crore, while Flipkart Internet, the company's marketplace business, reported a loss of ₹4,026 crore. Despite this, Flipkart was valued at $36 billion in its latest funding round, according to a 24 May report in Mint.

For more than a decade now, investors around the world have backed and rewarded the pursuit of dominance in digital businesses rather than profits. Unless that mindset changes, e-commerce will continue to thrive, notwithstanding sober reminders of its profit-destroying characteristics.

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