

Performance and Supply Chain strategies of Amazon and Wal-Mart

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ABSTRACT

One of the most significant paradigm shifts of modern business management is that Individual businesses no longer competes as solely autonomous systems, but rather as Supply chains. Business management has entered the era of inter-network competition. Worldwide, organizations have established networks for inbound and outbound sourcing of raw materials, manufacturing products or creating services, storing, distributing and ultimately delivering the products and services to customers. The main agenda of this is to meet customer needs in a strategically approved and innovative manner that will be beneficial and productive to both the consumer and supplier. Supply chain management is management of material and information to furnish the highest degree of customer satisfaction at the lowest possible cost. Case study on Supply Chain Management of Amazon and Wal-Mart and a brief comparison between the two have been illustrated in this paper.

Keywords: business management, Supply chains, raw materials, manufacturing products, Supply chain management, Amazon, Wal-Mart.

1. Introduction

In today's expanding population it is very essential to meet the demand of people all around the world. To accomplish this, every leading company sets up certain goals and follows typical strategies of supply chain to meet the demand of various products and facilities for consumers. However, it is essential that the company provides product or service at the right time, to the right place and in the right price. This can be achieved effortlessly if the supply management is done effectively so that the company can maximize its highest benefits.

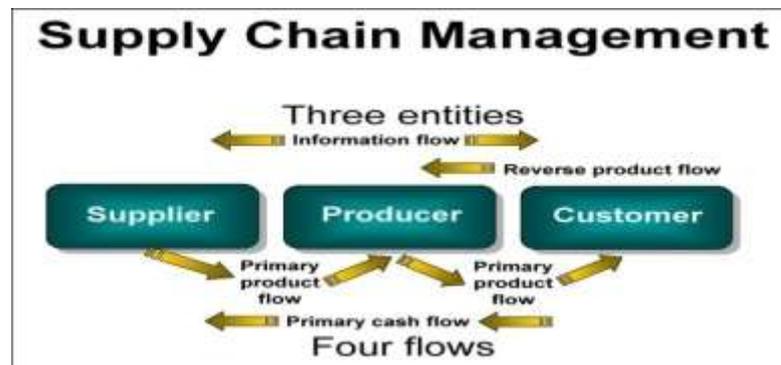


Fig.1: Supply Chain Flow

There are three major fundamental stages of the supply chain:

- Procurement stage (raw materials, equipment and manpower).
- Production stage (manufacture to finished goods and packaging).
- Distribution stage (warehousing, transportation and delivery).

Supply chain of Amazon:

Amazon is one of the companies that has excellent supply chain practices and balances between cost of distributors and level of services. It is an American company in Seattle, Washington, USA which is able to meet customer satisfaction as it provides a wider range of products at lower cost and high quality. Sometimes due to competition with other upcoming brands like eBay, Wal-Mart etc these companies use strategies like free shipping to attract the customers and get more profits. Many factors are to be kept in mind to achieve successful supply chain management. First and foremost are the cost of transportation and the level of service.

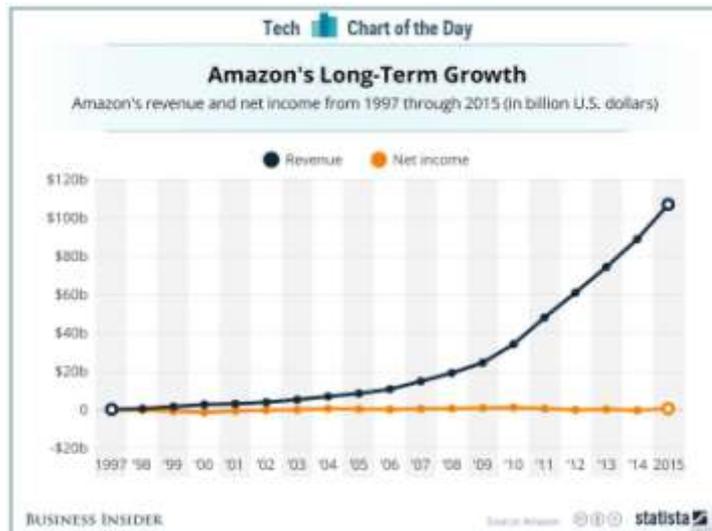


Fig.2: Amazon growth chart

At times the company faces problems due to the erratic demand of products in a particular area, it is because of this demand uncertainty the company cannot know for sure how much production must be done to avoid losses and gain profit. Thus, one must decide first which type of supply chain strategy must be used and what will be appropriate for the company's products. There are functional and Innovative strategies that can be implemented. Functional products have predictable demand and low demand margins while on the other hand innovative do not have any predictable demand rate. This entails strategies focused on deploying the correct amount of inventory in specific locations to respond to uncertainty, reducing lead time, and improving collaboration.

The company's primary goal is to provide service to the customers such that they can find everything on Amazon website itself and the product will be delivered to the customer within a promised frame time. Supply chain management plays a crucial role on Amazon's success hence having an effective distribution network to deliver merchandise to customers on time is its major target.

Supply chain of Wal-Mart:

Wal-Mart was founded by the Walton's. Co-founder Sam M. Walton opened a franchise Ben Franklin variety store in Newport, Arkansas in 1945. The phenomenal growth of Wal-Mart is attributed to its continued focus on customer needs and reducing cost through efficient supply chain management.

Wal-Mart strategy was to provide a broad assortment of quality merchandise and services at 'every day low prices' (EDPL) and was best known for its discount offers. The company directly procures from manufacturers and eliminates the intermediaries thus reducing the cost of product. It emphasizes the need to reduce the purchasing cost and makes sure that the product is not available elsewhere at a lower cost. This is possible as Wal-Mart has collaboration with Neo Vista Company which provides it with ERP software that tailors to match the requirement of a database environment and makes a great collaboration with the NCR databases. This software enables an employee of Wal-Mart to access key information about an item sold in real time. Wal-Mart being highly productive has helped in setting a standard of efficiency and business productivity. The vital importance of data mining at Wal-Mart which involves reaching the information from any location has made supply chain at Wal-Mart IT driven.

Wal-Mart's own warehouses directly supplied 85 percent of the inventory, as compared to 50-65 percent for competitor.

To replenish inventory efficiently Wal-Mart uses cross docking logistics to reduce transportation costs and eliminated inefficiencies. Cross docking is a process where products are transferred from inbound to outbound truck trailers without intermediate extra storage.

Comparison of Wal-Mart V/S Amazon

In the past Wal-Mart was the undisputed ruler of retail. Its \$444 billion revenue in 2012 was 16 times the revenue of Amazon and equal to 3% of the U.S economy. As Amazon's online retail growth surpassed that of Wal-Mart's traditional retail model, a rivalry emerged between the two companies. Amazon is currently valued at \$244 billion to its rivals \$206 billion.

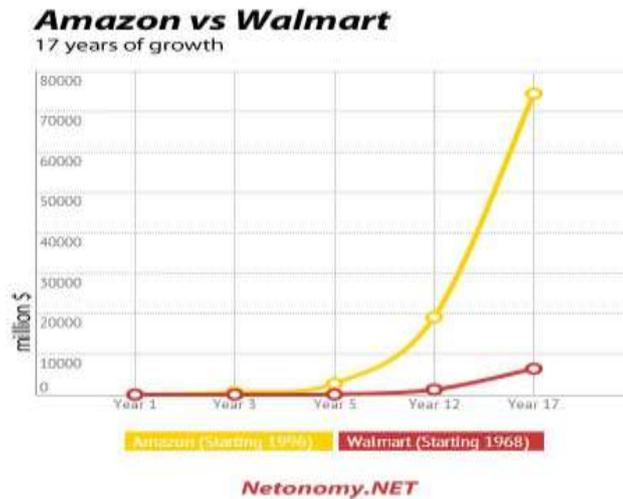


Fig.3: The chart above is a comparison in terms of historic revenue.

Table no. 1: Wal-Mart Vs Amazon

[1] Company Name	[2] Wal-Mart (WMT)	[3] Amazon (AMZN)
[4] Employees	[5] 2.2 Million	[6] 154,000
[7] Shareholders	[8] 250,000	[9] 2,744
[10] Market Cap	[11] \$187 Billion	[12] \$307 Billion
[13] Revenue	[14] \$486 Billion	[15] 100.5 Billion
[16] Net Income	[17] \$15.5 Billion	[18] 328 Million
[19] Dividend	[20] 1.95	[21] N/A
[22] Dividend Yield	[23] 3.33%	[24] N/A
[25] Share Price	[26] \$58	[27] \$655

Scenario of supply chain in India

India being the fourth largest country in terms of purchasing power parity (ppp) ,constitutes one of the fastest growing markets in the world. Increasing uncertainty of supply chain networks, shortening of product life cycles have forced Indian firms to widen their horizon of production planning and implementing innovative ideas. Indian firms need to act fast to capitalize on opportunities to be competitive with the world market. Action is required by the Indian government to improve the infrastructure for better functioning of various supply chains. Firms and their supply chains need to closely integrate themselves into a network, carefully manage the complexity that ensues, align their business strategy with logistics and supply chain operations.

Today’s market face fierce competition due to advancement in increased globalization leaving companies to pursuit goals as to not only ensure profitability, thus redefining their competitive zone. To achieve long term cooperative relations with customers is a must as it assures these companies long term benefits. To succeed today and to pave the way for a better future, firms in India need to create strong linkages with their logistics and supply chain partners.

CONCLUSION

In conclusion, Supply Chain plays an important role in a contemporary digital commercial environment, also contributing to the improvement of strategic management based on its existing supply chain standards. To improve SCM practices, it is a must to promote information sharing, planning and forecasting for the overall performance of the company. Every link in the supply chain is connected to technology that includes central data base and satellite network. The key to Wal-Mart’s success is its leading innovative progression of technology using Data Mining techniques and software’s. On the other hand, Amazon continues to have global success being a customer- centric company where customers can discover things to be bought at lowest prices. The research work presented in this paper was to give a brief idea about supply chain planning and strategies followed by companies, Amazon and Wal-Mart.

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