

INVESTOR'S BUSINESS DAILY

Wal-Mart Making Push Online, Where It's A Pygmy Vs. Amazon

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October 19, 2009

The 800-pound gorilla of the offline world shook big e-tailers last week by rolling out a full-fledged price war vs. Amazon.com (AMZN).

Wal-Mart the world's largest retailer, is pre-selling 10 hot new books for less than \$10 on its walmart.com Web site. Wal-Mart's punch is aimed at Amazon's flagship books business. The titles include Dean Koontz' "Breathless," Stephen King's "Under the Dome," and Sarah Palin's "Going Rogue."

Wal-Mart late Thursday announced it would sell the titles for \$10. Amazon quickly matched and by Friday morning both had lowered the price to \$9. Wal-Mart then lopped off a penny to \$8.99.

Target.com (TGT) late Monday matched walmart.com — and said the books qualify for free shipping.

Some analysts say Wal-Mart's salvo is directed at all major e-tailers on the eve of a difficult holiday season where all players will tout sharp discounts to lure shoppers in a still-woozy economy. They say Wal-Mart is making a brazen bid to challenge Amazon's e-tail dominance. It also intends to leapfrog players like eBay, (EBAY) Staples (SPLS) and barnesandnoble.com (BKS).

"Wal-Mart obviously wants to be a leading destination of both the online and offline shopping worlds," said Kaufman Bros. analyst Aaron Kessler. Given Wal-Mart's dominance in physical stores, Kessler says the company sees no reason why it shouldn't be among the "top two or three players" in e-commerce.

Forrester Research analyst Sucharita Mulpuru says the "war" between Amazon and Wal-Mart actually started in late August when the latter launched Walmart Marketplace. That added nearly 1 million items to Wal-Mart's Web site in areas like home, baby, apparel, toys and sporting goods. She says Wal-Mart also kept the screws on Amazon on Oct. 13 when it began selling a range of health and beauty items for home delivery on walmart.com.

"I think the marketplace addition actually poses more of a threat to Amazon than books," Mulpuru said.

Cut-Throat Christmas

Wal-Mart's latest move against Amazon in books may pay off in a tough holiday season where Wal-Mart's expected to dominate traditional retail sales. Discounters like Wal-Mart and Target will be the main winners in the critical year-end period, the National Retail Federation predicts. Its 2009 holiday forecast estimates that holiday retail sales will fall 1% to \$437.6 billion.

Wal-Mart also is seizing an opportunity to win more customers after hitting a rough patch, analysts say. Its low prices are popular with shoppers in a recession. But business isn't great. Same-store sales at the retailer slid 1.2% in Q2.

Wal-Mart No Online Giant

Wal-Mart's public image has been dented by a spate of labor disputes over the last several years. But it has settled some of its differences with organized labor. And Wal-Mart is pushing hard this holiday season with an aggressive TV ad campaign in addition to its recent book gambit to rake in more business.

At the same time, some analysts say Wal-Mart has a steep hill to climb before it can seriously challenge Amazon or other big e-commerce players.

Although Wal-Mart posted total sales of \$405 billion this year, only a sliver comes from e-commerce. Online strategist Internet Retailer says that Web site walmart.com was the 14th largest online retailer in 2008 with \$1.7 billion in sales. Amazon, by comparison, was at the top with \$20 billion in sales.

Forrester's Mulpuru points to Amazon's strong brand recognition, track record and extensive electronic infrastructure in executing online sales. She says Wal-Mart has a long way to go before it can overtake Amazon.

"Amazon is still the first stop for lots of shoppers. They have a deep repository of customer reviews, excellent site personalization features and an easy checkout," Mulpuru said. "Asking what can Amazon do to stop Wal-Mart is like asking what can Google (GOOG) do to stop Microsoft (MSFT) — does either Amazon or Google really need to worry just yet?"

But Kaufman's Kessler says Amazon and other e-tailers have plenty to fear from Wal-Mart long term. "Wal-Mart certainly has the resources and capital to become a major online player," Kessler said.

DVD Disaster

At the same time, Wal-Mart has stumbled before in its online forays. In June 2003, Wal-Mart expanded its online DVD rental program, intending to corner the lucrative online DVD rental market. But in May 2005, Wal-Mart let Netflix (NFLX) take over its DVD unit for an undisclosed sum. Wal-Mart exited online DVD rentals and Netflix gained a vast new audience against rival Blockbuster.com.

"Wal-Mart's DVD experience shows that it's not always easy for an offline company to go into the online space," Kessler said.

EBay's Third-Party Way

One beneficiary of Wal-Mart's deeper e-commerce thrust may be eBay. Some brick-and-mortar retailers are reluctant to partner with Amazon as third-party sellers. Some object to Amazon's reportedly hefty cut. They're also leery of relying too much on a dominant seller.

Now that giant Wal-Mart is stomping more heavily in the e-commerce patch, some of its brick-and-mortar rivals may feel pressure to team up with eBay.

Eric Best, the CEO of Mercent, says third-party sellers regard eBay as less of a threat since its main business is auctions, not e-tailing. Seattle-based Mercent sells online services and software that connect third-party sellers with big e-tail sites like Amazon.

"There's a neutrality to eBay that's attractive to third-party sellers," Best said.

EBay's e-commerce efforts are also works in progress. Analysts say it's cutting its dependence on its ailing auction business and may offer better deals for third-party sellers to lure partners.

Sears (SHLD) is another e-commerce player that may attract more third-party sellers as Amazon and Wal-Mart slug it out.

Sears said last month that it's creating a program to allow other retailers to sell on its site. According to Internet Retailer, Sears generated considerably more online sales last year than walmart.com. Sears raked in \$2.7 billion in 2008 vs. \$1.7 billion for walmart.com.

But Best notes that Wal-Mart is trying to narrow the gap by grabbing more unique visitors than Sears and other rivals. The idea is that more visitors translate into higher online sales.

Walmart.com was the 4th-most trafficked U.S. site in September with 31.1 million unique visitors, comScore said. Ebay had 70.2 million visitors while Amazon had 68.7 million visitors.

Wal-Mart says it's ramping up its visitors by converting shoppers at its thousands of physical stores across the U.S.