MALL★RATS

As the Internet mushrooms into earth's biggest mall, the battle to become the anchor shop turns nasty.

Written by Jeffrey Davis

Every other Saturday at Wal-Mart's corporate office complex in Bentonville, Ark., 200 or so "management associates" gather for a show of collegial unity—the late founder Sam Walton's shamelessly corny company cheer. "Give me a W! Give me an A! Give me an L!…" The finale: "Who's number one? The customer!"

Walton's cheer goes up at more than 2,400 Wal-Mart discount outlets around the United States, where managers have some 780,000 "sales associates" repeat the drill. In 600-plus Wal-Mart stores outside the United States, thousands are doing it, too. At Wal-Mart/Rio it's: "*Me dá um W!*" At Wal-Mart/Montréal: "*Donnez-moi un W!*"

Go ahead—laugh. The 800-pound gorilla of retail can take the ribbing. For all the criticism it has drawn throughout its four-decade run—for undercutting and displacing local merchants with stadium-sized megastores; for steamrolling the suburban heartland with neon, concrete, and lowbrow kitsch; for underpaying its legions of part-time employees—Wal-Mart is the brightest star in the $1.7 trillion U.S. retail universe, on a pace to break $130 billion in sales in 1998, and opening hundreds of new outlets around the world in 1999. "We want to dominate North America first," proclaimed venerable CEO David Glass in a *USA Today* interview in November, "then South America and then Asia and then Europe."

Strange as it might seem, you won't find much cheering in the executive offices in Bentonville these days, even amid talk of global domination. For the past year, a quiet but portentous battle over theft of trade secrets—with potentially huge ramifications for the future of online commerce—has been brewing between the offline megastore and its would-be Internet counterpart: the swift and wiry 80-pound gorilla of online retail, Amazon.com.

In October, the cannon finally fired on the flea; Wal-Mart filed a long-awaited lawsuit against Amazon, accusing it of conspiring to hire away key Wal-Mart information systems personnel and to replicate its logistics and data warehousing systems—all key ingredients in the company's long-term success. (The flea struck back, of course, alleging that Wal-Mart has been threatening other retailers with similar lawsuits if they recruit Wal-Mart employees.) Symbolically, the lawsuit is a turning point for the retail industry. Suddenly, even gigantic organizations see the Internet as a threat.

Whether the suit survives threats of dismissal or not, its subtext is clear: Still in its infancy, Internet retail is on the verge of its next evolution, and looking to traditional success stories like Wal-Mart for a leg up. With nearly 9 million online shoppers out there, few retailers can afford to ignore the Web any longer. New estimates from Forrester Research now place U.S. online sales at $7.8 billion (triple the $2.4 billion of 1997). Internet retail sales are expected to hit $108 billion by 2003, when more than 40 million households will buy online, accounting for 6 percent of the $1.8 trillion in U.S. consumer retail spending. Even longtime holdouts—Costco, Kmart, Nordstrom, and Starbucks—launched online businesses last fall.

Those online sales figures may seem microscopic sitting next to the staggering numbers put up regularly by Wal-Mart—$1 *billion* in profit for the quarter ended Oct. 31, 1998. But for key categories such as music, event tickets, travel, and electronics, Net sales will soon account for 10 percent or more of their respective U.S. markets. Seen from another angle, old-time retail is looking less and less invincible: It took Sam Walton 12 years (and opening 78 land stores) to break $150 million in sales. Amazon CEO Jeff Bezos did it in three—with a Website and a warehouse.

The number of online holiday shoppers, meanwhile, quadrupled in just one year; a recent study by Dell Computer and Louis Harris & Associates found that 43 percent of computer users were likely to shop online over the 1998 holidays, against only 10 percent in 1997. Finally, changing demographics are only opening the Net's retail door even wider: Today, households earning less than $25,000 make up a third of the population, yet generate barely 6 percent (hardly a surprise) of Net retail revenue. By 2003, as Net access becomes cheaper and faster, those households are expected to go online more and more to find better selection and prices—and account for up to 11 percent of online revenues.

Small wonder, then, that the Internet's little giants

Data warehousing
The gold mine for any retail business is its great volume of compiled transaction information, through which it can better know its customers, including their buying habits and preferences. One-to-one Net retailing has made data warehousing and data mining even more critical to long-term success.

Key categories
Low-risk, low-cost purchases for books, music, flowers, and apparel lead the current Net retail market and are projected by Forrester Research to surpass $32 billion in sales by 2003.

Illustration by Steve Williams

such as Amazon are looking to exploit some key weapons—and brains—from land models like Wal-Mart. Can Amazon—with more than $500 million in sales expected in 1998, a market capitalization of more than $6 billion, 4.5 million customers, and a few Wal-Mart wizards running its back end and database systems—build out from books, music, and videos to become the anchor tenant in a new Internet "mall"? Can it become, as some are predicting, the "Wal-Mart of the Web"? A handful of major Net retail models—from powerful newcomers such as Bertelsmann-backed barnesandnoble.com to CDnow's new multipartnered ShopperConnection hub—are betting that it won't, and angling to become major shareholders of Net retail in 1999.

"From having worked closely with Jeff, I know that he's not interested in owning the whole world," says Glenn Fleishman, Amazon's former catalog manager and now a freelance writer and marketing consultant. "Just a significant piece of it."

Stealing key brains

Until recently, it seemed as though the major Internet portals—with Yahoo!, Excite, and America Online leading the way—held most of the keys to the future of retail ecommerce. As the biggest online magnets for potential shoppers, portals charge retailers dearly—in either long-term, multimillion-dollar sponsorship deals or shares of sales revenues—to stake out small plots of valuable portal real estate and drive more customer traffic to their sites. Portals call retailers "partners," but they serve more accurately as high-rent tenants.

Consumer-agent technology and price-comparison sites such as Junglee and CompareNet, on the other hand, have always held the promise of a direct consumer-retailer relationship—with shopbots available 24 hours a day to find any product at the best price—but it wasn't until Amazon announced two major acquisitions last summer that industry observers caught a glimpse of how the balance of retail power might shift.

www.comparenet.com

Amazon's pace was blistering. In June, the company added music to its offerings. In one quarter, it became the leading Net music seller, with more than $14 million in sales, much to the chagrin of stunned competitors such as CDnow and N2K. In the fall, it launched European book sites in Germany and Britain (www.amazon.de and www.amazon.co.uk) and added videos to its "media suite." Then came the acquisitions. In August, the company gobbled up Sunnyvale, Calif.–based Junglee and Cambridge, Mass.–based PlanetAll (an online address book and organizer for some 1.5 million users) for $280 million in stock. By November, Amazon announced it would be adding software to its product line, and it opened a "gift center," adding such items as Barbie dolls, watches, and PalmPilots to its array of offerings.

www.junglee.com
www.planetall.com

European book sites
In Germany, Amazon.de offers 335,000 German titles and supplies 374,000 U.S. titles not available in Germany. Amazon.co.uk sells 1.2 million U.K.-published titles and an additional 200,000 U.S. titles unavailable in Britain.

In creating this potential powerhouse of shopping services and offerings, Amazon.com looks to be molding itself into not simply a Wal-Mart of the Web but rather a next-generation, retail commerce portal. Imagine a customized site where—through a Junglee-like shopping service—you will not only shop easily with a trusted brand for books, videos, gifts, and more, but you will also research the features, price, and availability of millions of products from a single storefront that has Amazon's—and your—name on it. That's the promise and the challenge of Net retailing in the future (see "The Etail Mall," p43). As Bezos said recently in the *Washington Post,* "If we have 4.5 million customers, we shouldn't have one store. We should have 4.5 million stores."

Hot Commodities
Projected Net-retail market-growth leaders.

(In millions)	1998 REV.	2003 REV.	% GROWTH	MARKET SHARE 2003
APPLIANCES	$17	$2,275	13,282%	6%
CONSUMER ELECT.	$84	$6,132	7,200%	10%
FOOD & BEV.	$235	$10,836	4,511%	2%
GEN. APPAREL	$275	$11,699	4,514%	5%
FURN./HOUSEWARES	$83	$3,446	4,052%	9%

Source: Forrester Research.

That's what has gotten Amazon this far in its first three years of business: exhaustive focus on convenience, selection, and personalization. It lived up to its billing as "Earth's Biggest Bookstore" by building an inventory of more than 3 million titles. It was also among the first Net stores to facilitate credit-card purchases; greet customers by name and offer customized homepages; send purchase recommendations via email; and number and explain each step in the purchasing process.

But it hasn't been all roses in Seattle, either. Amazon has been criticized for inefficient inventory management while the company continues to post multimillion-dollar losses each quarter. According to an IceGroup study of Amazon's business model last August, losses were running at the equivalent of $7 per transaction. (Its gross profit margins and customer-retention rates, on the other hand, continue to improve steadily, factors that keep investors happy.) The company needed to ready logistics and back-end systems to handle an expansion of product offerings. Transaction costs needed to be cut to ensure the seemingly unattainable: a profitable quarter (now projected for sometime in 2000).

Recommendations
Amazon customers receive purchase recommendations via "collaborative filtering" software that mathematically predicts choices for consumers, based on previous purchase data and entered preferences.

"This market is now very much about mastering the distribution and fulfillment process," says Kate Delhagen, Forrester's director of online retail analysis. "It's also about acquiring a customer database, beefing that up, and extracting maximum revenue from it…. But as [the company] has grown Bezos has realized that this is just as much about mastering the logistics and the distribution challenges."

Such as? The clunky tasks inextricably tied to the physical world: shipping, handling, returns, payment processing, avoiding credit-card fraud, and inventory management. Enter Wal-Mart, its renowned back-end expertise—and, eventually, a lawsuit.

Between August 1997 and July 1998, more than a dozen of Wal-Mart's key information systems personnel—beginning with CIO Richard Dalzell (who left to become Amazon's CIO) and ending

The Etail Mall

Net retail is fast moving toward mass customization. Here's a look at the online shopping experience of tomorrow—from both sides of your PC monitor.

The Back End

Inventory replenishment
Retailer's inventory is automatically replenished based on customer activity and demand.

Forecasting demand
Based on real-time customer information, retailers and suppliers agree on volume and frequency of deliveries.

JON DOUGH (jdough@xyz.com)
Male, 35 years old $45,000 per year
44 long, 36" waist, 36" inseam

I LIKE	I HATE
Cool stuff	Waiting in line
Casual clothes	Cooking

Logistics
Delivery to customer, typically via third-party service. May include product configuration close to customer (where in components arrive and are consolidated or configured before delivery).

Pick & pack
Retailer can ship multiple disparate items from inventory. Either vertically integrated (retailer owns the inventory) or outsourced to logistics supplier that assembles, packs, and delivers merchandise.

Provisioning from the value web
The retailer only pays for goods when they are delivered to the customer; in-process goods are financed by the manufacturer. Goods provided by manufacturers converge at retailer's warehouse or logistics center.

Feedback loop
Connects customer activity with demand and provisioning. (Make more of what customers are buying.)

The Front End

Trigger
Something triggers the shopping experience. It might be a special-event reminder retained on a digital assistant, a personal to-do list maintained at a portal, or a friend's recommendation.

Enter the Web space
The customer asks questions like "What are my options?" "What's the price?" and "Who do I trust?"

Create profiles
A shopper can create a data profile detailing credit card and other information for use by one or many retailers selected by the shopper. The profile "learns" and grows based on shopping behavior.

Start shopping
The customer heads for a trusted brand name or an "aggregator" that presents options, or even a personal agent, like a robot or a broker.

Field offers
The customer gets personalized offers from retailers and aggregators, based on the customer's profile information.

Review options
Customer runs simulations, changes colors, custom-configures, etc.

Get help
The customer gets assistance from automated services, email, or (gasp!) real people.

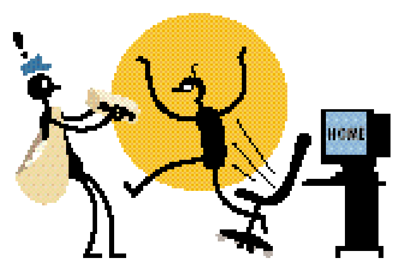
Check references
The customer checks out product reviews and exchange and refund policies.

Customize orders
Customer negotiates terms and conditions (Can I get it by Saturday?).

Complete the transaction
Customer secures transaction by paying or agreeing to pay on delivery.

Follow-through
Customer is notified of any change in the order's status, usually by email.

After-sale support
Buyer gets help setting up purchase or buying accessories; bills are adjusted and exchanges made if necessary.



Graphic by XPLANE (www.xplane.com)
Art by the Patricia Seybold Group (www.psgroup.com)

NET RETAIL

"Bezos isn't interested in **owning** the **world.** Just a significant **piece** of it."

with logistics exec Jimmy Wright (who became Amazon's first chief logistics officer in July 1998)—flew the corporate coop in Bentonville. They took new jobs at either Seattle-based Amazon or Redmond, Wash.–based DrugStore.com, the budding Net retailer that hopes to sell over-the-counter and prescription drugs online. It's backed by Amazon's venture-capital big brother, Kleiner Perkins Caufield & Byers.

As tight-lipped Wal-Mart officials explained, the company just couldn't bear to watch one key information systems employee after another leave, especially at a company where employee retention and loyalty are prized and rewarded. When the Amazon/DrugStore hiring combine didn't seem to be curbing its pace over an entire year, Wal-Mart lawyers assumed it was more than just employees that the Net merchants were after.

www.drugstore.com

"Why else is a Seattle company coming to Arkansas to recruit?" asks Wal-Mart spokesperson Mike Maher. "They hired away 15 of our employees [who] have very specific knowledge of what we have. If they haven't already started doing it, it's inevitable they will re-create our proprietary system."

Amazon, DrugStore, and Kleiner Perkins officials all declined to comment on the suit. Bezos, for his part, declined invitations for an interview to talk about the company's future. The one Amazon official who would—Rick Ayre, Amazon's vice president and executive editor—was, not surprisingly, coy: "What I'll say about our vision is that it's helping our customers discover the next great products, the ones that will change their lives."

So what might Amazon have wanted so badly from the Wal-Mart brains to help launch it into the next generation of online retail?

Consider that the world's biggest store is also the ringleader of information technology in the retail industry. Wal-Mart's 25-terabyte database is second only to the U.S. government's. The company has pioneered virtually every modern high-tech retailing technique—including bar code scanners, "point-of-sale" systems, data warehousing, and just-in-time delivery. At Wal-Mart, Dalzell presided over an IT group that helped it slash $1.4 billion from inventory costs during 1997. More recently, the company continues to mine its massive database, analyzing sales from all of its stores down to the contents of each shopping cart. Managing these logistical challenges, especially for such a large conventional retailer, is expensive; Wal-Mart spends $500 million annually on IT alone—the equivalent of Amazon's total projected revenues for 1998.

Big Bucks, But Slower Pace

Projected Net-retail market-growth laggards.

(In millions)	1998 REV.	2003 REV.	% GROWTH	MARKET SHARE 2003
FLOWERS	$212	$906	327%	10%
BOOKS	$630	$3,002	377%	18%
SOFTWARE	$665	$3,179	378%	25%
APPAREL ACCESS.	$207	$1,168	464%	3%
SPECIALTY GIFTS	$63	$544	763%	6%

Source: Forrester Research.

Several sources close to the company confirm that Amazon recruited Dalzell aggressively—and that it took a generous package to roust him from Bentonville. SEC filings list Dalzell's signing bonus at $149,174—his annual salary is $92,871 versus Bezos' $79,197—and in August 1998, his one-year anniversary as an Amazon employee, the new CIO cashed in more than $3 million in company stock options.

"I think they went out and stole some key brains," Delhagen says flatly. "It's an extremely sore spot for Wal-Mart to lose anyone, let alone someone important who knows a lot about their business." Nonetheless, lawsuits such as Wal-Mart's are difficult to win in court, unless you can prove that employees left the company with more than just their brains—meaning software or system manuals.

One former Amazon official laughs off the conspiratorial charges. Stealing brains, after all, is the American way. "Any CIO who developed a good organization will want to recruit his or her lieutenants and brain trust…. It seems like Wal-Mart wants to indenture their employees, and not give them the chance to leave Arkansas."

There may be limits, of course, to what the future holds for Amazon.com as an Internet "mall."

"I chuckle whenever I hear that Amazon wants to be the 'Wal-Mart of the Web,'" laughs Toby Lenk, the former Disney executive now running online toy seller eToys (see "Santa's New Helpers," Dec. '98, p34). "Wal-Mart is very broad and very shallow…. Everything [Amazon] did in books is total anathema to the Wal-Mart model: massive selection, massive service and editorial, personalization…all these things are about focus, depth, being a 'category killer.' Can Amazon be best-of-breed in 1,000 categories? Not a chance."

A bitter battle

As Amazon pushes outward from bookselling, it won't be without competition from serious players aiming for a shot at Net retail dominance. The biggest salvo has come from Bertelsmann—the Germany-based publishing giant announced in October that it was paying $200 million for a 50 percent stake in Amazon's primary online competitor, barnesandnoble.com (now a joint venture between Bertelsmann and Barnes & Noble).

"This venture has one purpose," Bertelsmann CEO Thomas Middelhoff said shortly afterward in an interview with *Fortune.* "To compete with Amazon.com in the United States."

That Middelhoff had unsuccessfully proposed a Bertelsmann-Amazon partnership first—he reportedly even sent a corporate jet to fly Bezos to Bertelsmann offices in Germany from a vacation spot in Turkey to try to close a deal—seems to have fueled the second blow. Barnes & Noble announced an agreement in November to buy the Ingram Book Group, the largest U.S. book distributor (and supplier for 57 percent of Amazon's book purchases) for some $600 million in cash and stock.

An amusing public-relations scrimmage followed, with each company positioning itself as an underdog. Bezos struck a note of solidarity with independent booksellers: "The combination of the country's biggest book retailer with its biggest distributor, and…its biggest publisher group, undoubtedly will raise industry-wide concerns…. Goliath is always in range of a good slingshot."

Barnes & Noble spun back: “Well, Mr. Bezos…we suppose you know a Goliath when you see one. Your company is now worth more than Barnes & Noble, Borders, and all of the independent booksellers combined. Might we suggest that slingshots and pot-shots should not be part of your arsenal.”

Bertelsmann—the third-largest media company in the world, with divisions covering books, television, new media, and music—may be a relative newcomer to Internet retail, but it has international clout as a company that clearly “gets” the Net. The $17 billion company owns 45 percent of AOL Europe (as does America Online), and last year the two teamed up to buy CompuServe’s European operations. The German giant also has a strategic partnership with Lycos, by which it helped launch the top portal in Europe.

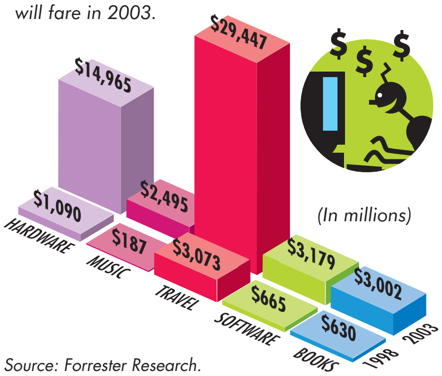
Despite projections of a commerce portal for itself, the New York–based CEO of Bertelsmann’s global online bookseller (BOL), Chip Austin, a former Prodigy executive, insists that as far as Net commerce goes, the company will stick to markets that it knows best—books and music, especially in Europe, where Amazon’s recent launch will not go unchallenged.

[illegible] expand globally into markets [illegible]ed before, and they’re going to try [illegible]here they don’t have much experi-[illegible]ave to all go right.”

[illegible]ndnoble.com simply aims to domi-[illegible] books, video, and software, here [illegible]route that many expect of Amazon, [illegible]th Bezos the whole way, and with [illegible] between those two companies,” [illegible] also leaves Amazon with a poten-[illegible]on] thought it was making a cool steal with the Wal-Mart boys,” she adds, “consider that B&N will now have access to every order. They’ll see the inner data workings of the company. If you’re Bezos, you have to think, ‘Maybe the tables have now turned on *me*.’” At the moment, Amazon spokesperson Bill Curry doesn’t seem worried. “We do all the shipping to our customers. And over time, what Ingram knows will be less and less of the whole picture.”

Hardware, Travel Expect Massive Growth

How 1998’s most popular shopping categories will fare in 2003.



Source: Forrester Research.

“Not a mall”

While Bezos builds Amazon.com 2.0 around personalization and a retail portal strategy, a group of the Internet’s most successful competing retailers is already taking off in a different direction—defensively—and launching an entirely new model.

In October, leading online music store CDnow (which has also announced a merger with its nearest competitor, N2K), computer product retailer Cyberian Outpost, eToys, and video retailer Reel.com announced a joint partnership in a new consumer “network” of stores. The network (launched Nov. 20) has since been named ShopperConnection and CDnow CEO Jason Olim—who led the partnership—signed on six additional Net retail partners to give it some heavyweight punch: Preview Travel, PC Flowers, Virtual Vineyards, Garden.com, and leading discount Internet brokerage Datek Online.

“In part, it’s a defensive move,” admits Cyberian Outpost CEO Darryl Peck. “Some people think Amazon is the only ecommerce site on the planet. They’re not the only brand around. I think that if all merchants online—who are not Amazon—could find ways to work together it could be successful.”

Home Shopping Booms

Projected average online spending per U.S. household.

Despite being trumped by Amazon in the music-selling category, CDnow and N2K account for some 1.2 million customers, and their combined annual revenue is $75 million. Throw in the other shops and suddenly ShopperConnection looks like a serious contender in the Net retail space, comparable to Amazon in volume and sales, and broader in product and service offerings.

On the other hand, ShopperConnection won’t support a central clearinghouse for billing or shipping, and all buying will still occur on individual merchant sites. In other words, it’s a group of merchants selling independently, but under one big roof.

But don’t call it a mall.

“It’s not a mall,” sniffs Reel.com vice president of marketing Dave Rochlin.

“It’s not a mall,” adds Matt Laessig, CDnow strategic alliance manager.

“I wouldn’t call it a mall,” concludes Peck. “A mall is a destination. A network is a linking between destinations. We’re a network.”

Semantic quibbles aside, it looks as if ShopperConnection simply aims to share as many customers as possible from prime, non-Amazon merchants. Laessig and other network partners are cagey when asked about how the network will operate as a business model. Customer data won’t be shared among the merchants (although

Laessig says traffic will be analyzed); a central “hub” site will link customers to all the merchant sites, but all shipping and order information will be filed independently.

CDnow’s Laessig explains the network’s impetus: “We wanted a way to acquire customers at a lower cost and further develop our brand in association with other powerful brands…. Nobody better knows or understands online retailing or the online customer than this association collectively.”

Portals must **wedge themselves** into the revenue stream.

Derek Brown, retail analyst for Volpe Brown Whelan in San Francisco, is less enthusiastic. “These companies are trying to build their own brands—they have finite resources for that. They should be focused on building their own brands, not a third-party network. It may drive incrementally more traffic, it may lower acquisition costs a little bit, but it’s not a major incentive to own these stocks.”

Laessig does say that the network’s steering committee is looking into a possible “common wallet” feature for participating consumers. Still, Brown and others remain deeply skeptical of the network/mall model: “It really does nothing to improve the convenience for customers. If I’m buying a product at CDnow and CDnow says I might want to buy a computer at Cyberian Outpost, I still have to go through the process of filling out my shipping data, giving my credit card to another company, and getting a product shipped from another company at a different time. It doesn’t do anything to make that experience more convenient.”

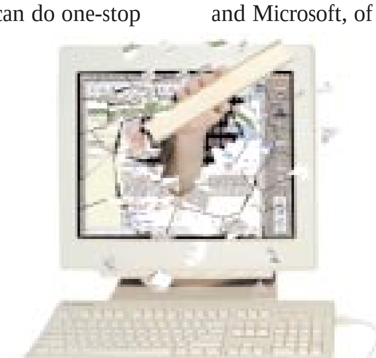
Portals as partners

The Net portals, of course, will figure significantly in the retail landscape of the next five to ten years. Up until now they’ve served as great customer hubs and aggregators—a deep well of customer traffic that Net retail merchants could dip into for the tidy sum of several million dollars over two to five years.

But as Amazon and others move outward—and potentially away from their dependence on portals for traffic—the portals themselves will have to wedge themselves into the Net retail revenue stream and emerge as tomorrow’s ecommerce facilitators: sites that won’t be taking inventory, but through which customers can do one-stop shopping with any number of retailers that have a relationship with that portal.

“On one hand, if I’m a portal I need to be aware of where my bread is being buttered,” says Brown. “At the same time, there’s a real question that comes into play about who owns the customer.”

In November, Excite took a clear step in that direction with the launch of its Holiday Shoppe, featuring products from a handful of merchants (such as Beyond.com, Gump’s, and 1-800-Flowers). Customers click on a “buy it” button and—if they’re already registered Excite users—they’re sent to the merchant site with all the relevant shipping and customer data ready to go. “From Excite’s perspective, the consumer value proposition is, register with us once and be able to buy product across categories with all your shipping and credit info in one location,” notes Brown.


Pulp friction: Online booksellers come out swinging.

AOL may have the ultimate advantage versus other Net portals in playing this game for keeps since, as a proprietary network, it already has all of its clientele’s data. (It also has a key partner in newly acquired Netscape.) “They’ve already got your credit card info and billing info and email address,” says Brown. “They’ve got a leg up in moving into that transaction flow.”

In October, Excite CEO George Bell told a group of investors that by 2002, the second-ranked portal behind Yahoo! would be running on a much more retail-heavy revenue model: 50 percent would come from advertising, 20 percent from direct marketing, and 30 percent from ecommerce.

That’s roughly the same path Yahoo! is heading down, says Jeff Mallett, COO of Yahoo!, which—two days after Excite launched its holiday gift-buying site—launched its own Yahoo! Shopping hub.

“Ecommerce definitely has the biggest growth potential for us,” Mallett says, but quickly adds that Yahoo! isn’t aiming to become an Amazon-like merchant mall. “We’re focused on one thing, which is to bring as many qualified credit card–carrying consumers to the front door of merchants [as we can].” Has Yahoo! considered other ways to leverage all that valuable consumer traffic? “We took a good hard look and chose not to get into the pick, pack, and ship business,” Mallett says. “We are only successful if there’s hundreds and thousands of successful merchants on the Web. Our job is to get people to them, not to set up stores. We want to be a consumer network.”

http://shopping.yahoo.com

There are a handful of big retail players on the periphery, of course—AOL, with its sheer mass in the marketplace and Netscape in its portfolio; Time Warner, with its horizontal breadth in books, video, and music; Infoseek, which already has Disney as a major investor and which will launch its Go Network portal in January; and Microsoft, of course, with whatever it decides to do (just before Thanksgiving, Amazon signed on as the premier music merchant on MSN Shopping). Following a name change, a buyout of SpeedServe, and a promise to move into Amazon territory—books, videos, and games—Buy.com (formerly BuyComp.com) founder and CEO Scott Blum said in November, “It’s our goal to leapfrog past Jeff Bezos and Amazon.” Land-based retailers slow out of the gate are catching up as well. Macy’s relaunched macys.com in November, with a hugely expanded inventory, an impressive interactive gift selector, and a limited-time offer of free shipping to entice holiday shoppers.

NET RETAIL

PLAYERS

Amazon.com www.amazon.com **CEO:** Jeff Bezos
1998 revenues: $546 million (projected) **Net retail categories:** Books, music, software, videos, gifts. **Customer base:** 4.5 million **Offerings:** More than 3 million book, music, and other titles. **Recent moves:** Acquired Junglee and PlanetAll; launched holiday gift-buying site.
Prognosis: Amazon remains the dominant player in ecommerce, despite Bertelsmann and Barnes & Noble's recent joint venture. Its four-month jump to the top of the music category in 1998 proved how extensible the Amazon brand is, especially as the company builds out from books, music, and videos in 1999. A profitable quarter isn't due till 2000, but if the company decides to begin selling ad space—which it hasn't done yet—that might change quickly.

Barnesandnoble.com www.barnesandnoble.com **CEO:** Stephen Riggio
1998 revenues: $65 million (projected) **Recent moves:** Cash influx from Bertelsmann; parent company Barnes & Noble acquired Ingram Book Group. **Key partners:** Bertelsmann, AOL **Customer base:** 720,000 (as of Aug. 1, 1998)
Offerings: 600,000 titles **Prognosis:** Now that its parent company owns the country's biggest book supplier (Ingram), barnesandnoble.com looms larger as an Amazon.com competitor. But it will be playing catch-up for the time being: Even with its land-based brand clout and aggressive marketing in 1998, its third-quarter sales ($17.2 million) were no match for Amazon's ($153.7 million); meanwhile, the company dropped its 1998 revenue projections from $100 million to $65 million.

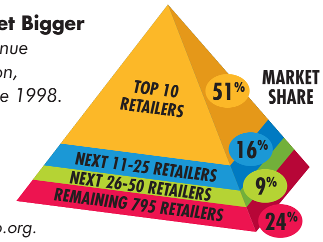
Bertelsmann www.bertelsmann.com **CEO:** Thomas Middelhoff
1998 revenues: $17 billion **Net retail categories:** Books, music.
Customer base: Not available **Offerings:** Not available; plans to launch its own global online bookseller. **Recent moves:** Bought a 50 percent stake in barnesandnoble.com.
Prognosis: The third-largest media company in the world now has a big foot in the Net retail door, with its $300 million investment in barnesandnoble.com. It also holds a 45 percent stake in AOL Europe and 2.5 percent of the company as a whole, and is poised to dominate online media sales internationally and move into any number of new Net retail categories. You think Wal-Mart is big?

Buy.com www.buy.com **CEO:** Scott Blum
1998 revenues: $110 million (projected) **Categories:** Computers, books, games, software, videos, music. **Offerings:** 1.5 million items. **Recent moves:** BuyComp.com purchased more than 2,000 "buy" domain names and relaunched in November as Buy.com. Acquired SpeedServe, the parent company of BookServe.com, VideoServe.com, and GameServe.com; and formed alliance with Ingram Entertainment, SpeedServe's parent, the leading national home-entertainment distributor.
Prognosis: Once a dirt-cheap computer retailer, has relaunched as a Net megastore that aims to go head-to-head with Amazon.com and others in 1999.

ShopperConnection www.shopperconnection.com (CDnow, N2K, eToys, Cyberian Outpost, Reel.com, Datek Online, Virtual Vineyards, Preview Travel, Garden Escape, PC Flowers & Gifts) **Lead executive:** Jason Olim, CEO, CDnow
1998 revenues: Not available **Categories:** Music, toys, hardware, videos, wine, travel, flowers, gifts, financial services.
Offerings: 760,550 items. **Prognosis:** With Amazon looming large in '99, Olim linked hands with nine "best of breed" merchants in hopes of linking as many customers as possible to a non-Amazon retail hub. Together, they offer a wider product array and two service merchants (Preview Travel and Datek), but can the hub be greater than the sum of its parts? Not likely.

Wal-Mart Online www.wal-mart.com **Lead executive:** Glenn Habern, senior VP, new business development **1998 online revenues:** Not available **Offerings:** 20,000 computer products, 30,000 video titles; 7,000 music titles. **Other categories:** Not available
Customer base: Unavailable **Prognosis:** Who will wake the sleeping giant? Discount land-based stores like Wal-Mart and Costco are hubs for convenience goods, researched goods, and replenishable goods—making them the only retailers able to make inroads in all three primary sectors of Web consumer commerce. If Wal-Mart does make a significant move online in '99—possibly in the grocery market—watch out.

The Big Get Bigger
Market revenue concentration, January-June 1998.



Source: Shop.org.

But perhaps the biggest wild card in the online retail landscape of the next five years is Wal-Mart. Currently the company is a distant fourth in online book sales, with a site that relies on clunky navigation and selection and, as Fleishman says, "It feels like nobody's home. There are small and large things wrong with it, and it doesn't compete on an ease-of-use standpoint with other online merchants." Everyone in Net retail, it seems, has a different idea of where to point the slow-footed gorilla online. Wal-Mart officials declined to answer questions about its online future; says spokesperson Bryan Holmberg about the company's new executive in charge of Wal-Mart Online, Glenn Habern: "We're shielding him from the press for now."

As Lenk and others theorize, Wal-Mart's future on the Net isn't too bright for one primary reason: Its target demographic—$25,000-a-year household income—is a poor match for online retail where well-heeled consumer median income is in the $50,000–$60,000 range.

"Their brand and philosophy don't translate," Lenk says. "Good prices translate but their current customer base doesn't, and what they do online has to be a whole lot more."

But Forrester's Delhagen foresees a rude awakening for those who dismiss the sleeping giant: "[It has] huge volume, and the moment it turns its sights on an [online] market" (such as groceries, a market it has entered recently in its land-based superstores) "with all that good technology expertise in-house, [it] could do some damage."

We thought we'd find a clue or two about the future of Sam Walton's company in the retailing tome *Wal-Mart: A History of Sam Walton's Retail Phenomenon.* We shopped for it on Wal-Mart's site, but couldn't find it. Turns out it's on sale at Amazon.com—discounted 20 percent to $16.■

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