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Will Amazon.com Soon Be the Internet of Wal-Mart?

IN THE ROCK-PAPER-SCISSORS GAME OF DOT-COM RETAILING, clicks used to burn bricks. Now it seems that big bricks can soak up clicks with ease.

Britain's *Sunday Times* reported over the weekend that Wal-Mart Stores Inc. was in active discussions with Amazon.com regarding a possible "strategic alliance" between the two companies. Such a deal would indeed be a historic alignment of bricks and clicks if it were successfully concluded.

Neither party has commented on the story, however Amazon.com shares jumped 29% to \$12.88 on the unconfirmed news.

With some 29 million shoppers at last tally, Seattle-based Amazon.com is clearly the largest online shopping target on the planet, and a fitting match (if there is one) for the world's largest retailer. However, with just \$2.76 billion in annual sales at Amazon versus \$191.3 billion for Bentonville, Ark.-based Wal-Mart Stores, this is hardly a merger of equals.

Under the deal reportedly under discussion by Amazon founder Jeff Bezos and Wal-Mart CEO Lee Scott, Amazon would handle Wal-Mart's online strategy and gain a presence in the retailer's more than 4,500 stores.

Amazon would receive a cash injection and a percentage of the sales it makes through Wal-Mart, the *Sunday Times* reported. The story said an equity investment by Wal-Mart into Amazon would be unlikely.

While it's a bit early to speculate about Wal-Mart's long-term intent with regard to the Amazon talks, the retailer has a history of absorbing strategic allies after they reach a certain scale.

Without making reference to the Wal-Mart/Amazon story, online news service Digitrends reported the same morning on a recent Ernst & Young study which states that it appears most e-shops will either go out of business or seek alliances to survive in the coming years. We agree. If Amazon — by far the most successful pure-play Web retailer — needs a brick & mortar partner, then one might surmise that they all do.

For traditional retailers, the pounding down of prices in the recent stock market has made online retailers look like attractive acquisition prospects at a fraction of their peak valuations. Wal-Mart appears to know a low price when they see one.

In May 5, 1999, the Wall Street Journal asked the digital question, "As Web Retailing Surges, Where's Wal-Mart?" **VStoreNews** was privileged at that time to provide an opinion on Amazon founder Jeff Bezos' famously brash assertion that Amazon.com would be "The Wal-Mart of the Internet."

That article concluded with our opinion, "Amazon will never be the Wal-Mart of the Internet. [In time] I'm quite certain Wal-Mart will be the Wal-Mart of the Internet." (Read more about this: <http://vstorenews.com/press/wsj.html>.) The latest, fascinating turn of events portends that Amazon may indeed become the Wal-Mart of the Internet, but not quite in the way that Mr. Bezos originally intended.

What they're not saying:

The Wal-Mart / Amazon.com talks could be adverse news for the last independent online grocery operator Webvan, which observers expect will run out of cash by the end of this calendar year if current trends hold. Until today's news Wal-Mart was the **VStoreNews** top pick as potential acquirer of Webvan.

It also raises the competitive bar for Bluelight.com, the Kmart-affiliated web shopping site. Bluelight CEO Mark Goldstein stated this week that the service must reach operational break-even by the end of the fourth quarter of this year or face potential oblivion.

Progress of the rumored deal is likely to be watched closely by management at Ahold USA, the unit of the Dutch supermarket giant that has formed an affiliation with the Peapod online grocery service. Ahold announced an additional commitment of \$50 million in financial backing to Peapod today.

Companies referenced in this edition:

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Wall Street Journal <http://www.wsj.com>
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Coming Soon:

“Tenser’s Tirades — Essays on the Dot-Com Retail Phenomenon: 1996-2001”

A book by **VStoreNews** founder, James Tenser. Publication expected June 2001.

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