

Wal-Mart's Transition to the Web

Wal-Mart began its love-hate relationship with the Internet in July of 1996 when it launched a bare bones site targeted at the online B2C retail market. At that time, the company did little with the site, as they waited for more of their customers to get on-line. The site operations were conducted from the corporate headquarters in Bentonville, Arkansas. Competitive pressures to beef-up the site did not arise until 1999 when they began reworking the site to prepare for the holiday season. However, when the holiday season arrived, the company had trouble delivering items on time. As early as December 10th, Wal-Mart could not guarantee that purchases from the web site would be delivered by Christmas. Thus, in January of 2000, Wal-Mart announced yet another makeover of their site. The new site would include everyday household items as well as special features such as a travel center, which offered airline tickets and hotel reservations. Reviews of Wal-Mart's new site were lack-luster, sitting difficult navigation and search capabilities. In September of 2000, the site was ranked fourth among department stores in the number of unique visitors, behind J.C. Penny, Sears and Target.

It appeared Wal-Mart knew all along that the website was filled with problems, which is why Wal-Mart and Accel announced the break-out of ***Wal-Mart.com*** just days after the site re-launched for the third time in early 2000. This division would operate as a co-owned independent company located in Silicon Valley, isolated from Wal-Mart's headquarters in Arkansas. This entity would have a separate board and management team, which would be hired in the following months. Additionally, two outside fulfillment centers would handle shipping. While full details of the financing and ownership arrangement have not been disclosed, it is known that Wal-Mart owned at least an 80% stake, with Accel making up the remainder.

Another overlooked reason for spinning off Internet operations into a separate company was the avoidance of sales tax—a key factor for price-sensitive on-line shoppers. Because Wal-Mart had physical presence in all 50 states, all Internet customers would have to pay sales tax. By spinning off the Internet operations, Wal-Mart.com could avoid sales tax in states in the 47 states where the dot-com did not operate.

Wal-Mart was finally positioned to manage the technical transitions related to the Internet. Through its partnership with Accel and its creation of a separate entity it was on track to begin to exploit the Internet to its benefit. Wal-Mart learned from its mistakes and created systems to manage future technical transitions. Wal-Mart.com enjoyed the benefits of purchasing leverage available to the parent company as well as the brand recognition and advertising opportunities. Wal-Mart found the right set of incentives and dialogue between the two companies that provided the customers with an integrated full-service offering. Once this equilibrium was reached, Wal-Mart began to fully appreciate the synergies of the Internet.

Like Wal-Mart, similar chains within the retail industry can assess their core competencies and technical limitations in order to gain a competitive advantage. One of Wal-Mart's core competencies is its operational ability to streamline the supply chain through cross-

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docking inventory systems and efficient means of communication through technology. Perhaps the transition difficulty in the early years rested in the area of Wal-Mart's technical prowess. While Wal-Mart has achieved technology efficiency in its supply chain, shipping to a store is a much different game than shipping direct to a customer. Wal-Mart had an expertise in operations, not in one-to-one customer relationships. In this case, the web presented much more than just a technological advancement. Wal-Mart's use of the web gave it the ability to use the channel to reach customers to develop more efficient relationships.

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