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Wal-Mart's Rocky Path from Bricks to Clicks

By [Matthew Boyle](#) and [Douglas MacMillan](#) on July 21, 2011

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Since Wal-Mart Stores ([WMT](#)) first ventured into cyberspace 15 years ago, the Bentonville (Ark.) company has struggled online. Early on, Walmart.com featured a clunky digital version of the greeter who welcomes shoppers at each store. Even in the Web's early era of gaudy design, it was widely mocked, an off-key note that hinted at the company's inability to grok the Internet. Walmart.com still doesn't excel at features that are commonplace on other major e-commerce sites, such as personalization and recommendations. The company doesn't disclose its online sales, but analysts say Walmart.com does about \$6 billion a year in business, less than 2 percent of total sales and well below Amazon.com ([AMZN](#))'s \$34 billion in 2010 retail revenue.

For a long time, Wal-Mart's poor online performance didn't much matter. The retailer built hundreds of Supercenters every year in the late 1990s, and profits and revenue soared. Over the past two years, however, the company has cut its new U.S. store development by half. Sales at domestic Wal-Marts open for at least a year have declined in each of the last eight quarters. Over that time e-commerce has exploded, even among the lower-income households that are Wal-Mart's core customers. "It's the perfect storm," says Dale Achabal, executive director of the Retail Management Institute at Santa Clara University.

Chief Executive Officer Mike Duke has recently focused his company's considerable firepower—and \$11 billion cash hoard—on improving its use of the Web. He bought a Chinese online merchant, is testing home delivery of fresh groceries ordered online in San Jose, and, most significantly, has created @WalmartLabs. Run by Silicon Valley veterans Venky Harinarayan and Anand Rajaraman, the division is charged with bringing Wal-Mart up to speed with innovations such as smartphone payment technology,

mobile shopping applications, and Twitter-influenced product selection for stores.

It's an ambitious attempt at a technological makeover—but still might not be enough. “They're definitely late to the game,” says Natalie Berg, co-global research director at London researcher Planet Retail. “And it does not sound like they have a coherent strategy in place.” Eduardo Castro-Wright, who took charge of the company's online division in June 2010, says, “It's fair to say that up until about a year ago, when Mike Duke defined what we call the next generation of Wal-Mart as a major initiative for the company, that probably we were not as keenly devoted to creating the kind of shopping experiences across all channels that we are doing today.”

Wal-Mart's lackluster online history has deep cultural roots. The organization has long been dominated by store managers who feared e-commerce could cannibalize in-store sales, and thus their bonuses, according to a former Walmart.com senior executive. In Walmart.com's first few years, store managers fought against putting the site's Web address on shopping bags.

Among physical retail outlets, Wal-Mart generally has the lowest prices on the broadest assortment of goods. The company has struggled to replicate that advantage online. A March report from William Blair found that Amazon was the “clear leader” in online pricing. Amazon also has 14 times as many products. In digital camcorders, for instance, Amazon offers 2,016 varieties, vs. Walmart.com's 96, according to a February report from Wells Fargo Securities ([WFEC](#)). Shoppers have noticed. Internet traffic researcher comScore reports that Walmart.com saw 35.8 million visitors in June, a little more than a third of Amazon.com's traffic and half of EBay ([EBAY](#))'s.

Some retail analysts and the former executive argue that appointing Castro-Wright as the company's chief online strategist instead of hiring an e-commerce veteran is another sign that Wal-Mart still doesn't understand the Internet. Castro-Wright was in charge of U.S. retail stores from 2005 to 2010. “I don't pretend that I've been involved in e-commerce for a long time,” says Castro-Wright. He points to his stint in the 1990s as an executive at Honeywell International, where he oversaw “a pretty large contingent of engineers who wrote software for applications as complex as avionics” as proof of his suitability. “I have a vision of what needs to be done,” he says.

Fulfilling that vision will largely fall on Harinarayan and Rajaraman, the technologists in charge of @WalmartLabs. Harinarayan and Rajaraman have a long history in e-commerce. In 1998 the pair sold their shopping search engine, Junglee, to Amazon.com. They worked at the online retailer until 2000 and five years later founded Kosmix, a kind of search engine-meets-magazine. Users entered an interest, such as “Star Wars,” and Kosmix returned a host of related news, multimedia, and merchandise culled from around the Web. Wal-Mart bought the startup in April for \$300 million and asked Harinarayan and Rajaraman to integrate the latest innovations into the company's operations.

One goal of @WalmartLabs is to use social media and mobile apps to get shoppers to spend more at Wal-Mart's physical stores. For example: @WalmartLabs analyzes the millions of messages coursing through Twitter's network to hunt for patterns that will allow them to fine-tune the selection of products available at stores. “Maybe fishing is more popular in Arkansas, maybe cycling is more popular in Mountain View, [Calif.],” Harinarayan says. “Interests are a much better predictor of future transactions than what you bought in the past.”

One-third of Wal-Mart customers own a smartphone, and the company is investing in tools for them. Gibu Thomas, senior vice-president for mobile and digital units, is exploring apps that could tell users which items

are in stock at the store nearest them, and then direct them through the labyrinthine aisles once they arrive. “You can think of the mobile phone as kind of a docent for the Wal-Mart shopper,” Thomas says. In the next few months, he adds, Wal-mart will begin experimenting with new mobile payment technologies that may include near-field communication, a technology already available in some of Google ([GOOG](#))’s Android phones.

The plans for increasing online sales are more vague. The @WalmartLabs division is testing an app that allows Facebook users to give gifts without ever clicking away from the social network. Harinarayan says he’s also working on ways to create a more “aspirational” online shopping experience. Sites like Amazon “put everything into one big heap and let people find it,” he says. Sites such as Groupon and Gilt Groupe, on the other hand, show a “stream” of products to users, simulating real-world browsing and encouraging impulse buying.

While analysts are pleased to see Wal-Mart taking the Web more seriously, new concepts take a while to germinate at a company with \$420 billion in annual sales. Even updating Wal-Mart’s supply-chain and transaction systems to work with Web 2.0 programs won’t be easy. “Wal-Mart has very sophisticated technology, but those systems did not anticipate a Facebook-powered world,” says John Ross, a former Home Depot ([HD](#)) executive who’s now CEO of Shopper Sciences, which studies shopper behavior. “We think the company is on to something big and interesting here,” says David Strasser, an analyst at Janney Montgomery Scott. “But it will take time to surface in such a massive organization.”

The bottom line: *Walmart.com’s sales are less than a fifth of Amazon.com’s. A new division, @WalmartLabs, is experimenting with social media and mobile apps.*

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