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**Wal-Mart, Amazon Gear Up for Holiday Battle**

**Retail Rivals Increasingly Encroach on Each Other's Turf, Setting Stage for December Shopping Showdown**

**By**[**GEOFFREY A. FOWLER**](http://online.wsj.com/search/search_center.html?KEYWORDS=GEOFFREY+A.+FOWLER&ARTICLESEARCHQUERY_PARSER=bylineAND) **And**[**MIGUEL BUSTILLO**](http://online.wsj.com/search/search_center.html?KEYWORDS=MIGUEL+BUSTILLO&ARTICLESEARCHQUERY_PARSER=bylineAND)

For [Wal-Mart Stores](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=WMT) Inc. and [Amazon.com](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=AMZN) Inc., the holiday shopping season is shaping up to be a battle between the Godzilla of retail and the King Kong of e-commerce.

The current price war over hot coming books is just the tip of the iceberg. In recent months, the two companies have increasingly copied each other's playbooks online and are treading more on each other's turf. Walmart.com Chief Executive Raul Vazquez said in an interview that Wal-Mart would continue targeting rivals such as Amazon with other hard discount promotions this holiday season. "We intend to establish the price leadership we have in stores in the online world," he said. He didn't elaborate.

*Reuters*

Wal-Mart's Raul Vazquez at an Arkansas store last year. Shipping has become one of the battlegrounds between Amazon and Wal-Mart.

An Amazon spokesman declined comment.

Signs of the battle between Amazon and Wal-Mart have grown over the last year, as Amazon extended its expansion into a general store by acquiring shoe and apparel retailer Zappos.com and adding private label electronic accessories like blank DVDs to its virtual shelves. Wal-Mart responded earlier this month by beginning to sell diapers and thousands of other health and beauty products online for home delivery. Amazon is also gearing up to begin television advertising for the first time in several years, according to a person familiar with the matter.

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In the latest escalation, Wal-Mart announced last week it was cutting the price of 10 popular books online to $10. When Amazon quickly reciprocated, Wal-Mart dropped its price to $9. After Amazon copied that move too, Wal-Mart cut its price to $8.99.

Meanwhile, Wal-Mart took a page from Amazon's marketplace program in September by announcing it would start something similar, in which it would sell merchandise from other retailers on its Web site in exchange for a share of the revenue. Amazon's marketplace program has been crucial to its recent success at widening the scale of its business, and now accounts for nearly a third of sales.

And the two are also are duking it out on shipping, with Wal-Mart countering Amazon's free shipping programs by recently expanding its 97-cent shipping on many products. Wal-Mart says its online presence is important to driving sales in physical stores too. The company offers customers the ability to buy items online and have them delivered to a store near their home for free. It also allows customers to look online and see whether their local Wal-Mart store is stocking what they want.

"Physical stores continue to be incredibly convenient for people," Mr. Vazquez said. "That find in store function is used by millions of people every week."

Amazon struck back at that last week when it formally launched same-day delivery service in seven cities. Orders for same-day delivery have to be placed in the morning in most cases, but can be as late as 1 p.m. in Amazon's home town of Seattle. Over the last year, Amazon has also unveiled mobile-shopping apps, which allow customers to use their cellphones to compare its prices while in other stores, even letting them snap a photo of a product or its barcode to look up a product automatically.

Amazon has also won a legion of new customers with a $79-shipping program called "Amazon Prime" that offers automatic two-day shipping for many products. A PiperJaffray survey in May estimated that the program has attracted two million members, who increase their spending 20% after signing on.

And the battle for online supremacy is just beginning, as traditional store merchants take online sales more seriously. E-commerce currently makes up less than 5% of American retail spending, yet many in the industry believe it might become as much as 20% over time.

"E-commerce is a double-digit growth opportunity, not just now but for years to come," said Eric Best, CEO of Seattle-based Mercent, which helps brands sell their products through a variety of sites. "You ignore that at your peril if you're Wal-Mart."

Amazon is one of the few large U.S. retailers that managed to grow significantly over the last year, thanks to the cost-savings of not running physical stores. Analysts expect Amazon to post revenue gains of nearly 18% when it reports third-quarter earnings Thursday, according to [Thomson Reuters](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=TRI).

For now, Wal-Mart is far behind Amazon online. Trade publication Internet Retailer estimates Walmart.com had $1.7 billion in online sales last year, while Amazon had $19 billion. Wal-Mart disputes Internet Retailer's figures because they don't account for merchandise that's bought online and picked up in stores, but declined to disclose details.