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Walmart Waives White Flag In E-Commerce Battle With Amazon

Walmart Buys Jet.com

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Walmart is spending $3 billion in cash plus $300 million in stock to acquire the e-commerce marketplace start-up Jet.com in an effort to reboot its online business - serious money for a company with a market capitalization of $230 billion.

So why spend that kind of money on a start-up that has been around for only one year and its founder has told investors that it won't be profitable until 2020?

The answer is quite simple. It's just three words. Or 3 companies to be exact:

1. **Amazon**
2. **Alibaba**
3. **Google**

Plus one important fact – e-commerce will go from a 9.1% share of total retail sales in 2015 to a 12.4% share in 2020. ***Retail continues to go digital. Brick and mortar continues its death spiral.***

Amazon. It has gone from just selling books to anything you can buy at Walmart and more. Amazon had revenues in 2015 of $107 billion while investors are giving its stock a market cap of $365 billion, placing it in the top 5 most valuable companies in the U.S. In comparison, "old world, brick and mortar" Walmart had revenues of $482 billion in 2015, yet is valued at far less than Amazon. The internet retailer has launched Amazon Fresh to deliver groceries next day to your home. It also allows you to shop at neighborhood stores, building on the marketplace environment it has fostered on its website. Amazon Prime gives its best customers free next day shipping in exchange for an annual membership fee. Amazon is innovating to drive incremental revenue and profits for its shareholders. Amazon is the future of retail.

Alibaba. It is the Chinese e-commerce giant that delivers 1 out of 2 packages in China. It runs the Taobao website (which is just like Ebay) and is a top 20 globally visited site. It owns Alibaba.com which is claimed to be the largest online B2B platform for small businesses. Alibaba runs Alipay which is the dominant mobile payment network in China holding 80%+ share of the $235 billion market according to the Wall Street Journal. Founder Jack Ma wants to be outsell Jeff Bezos' Amazon and he has declared on several occasions that there is nothing and no one that will get in his way to the top. A look at the stock price of Alibaba Group reveals this morning it sits at roughly $210 billion, i.e., $7 billion more than Walmart. Alibaba is the 21st century of retail.

Google. I should really say Alphabet, but for discussion's sake, let's keep it at Google. Its market cap this morning sits at $550 billion which is more than double Walmart's value. While we all know Google for its search engine, online ads and cloud computing, it launched a shopping delivery service in 2013 in the San Francisco Bay area to deliver store bought goods to consumers and businesses. The service has expanded to multiple cities since then, such as New York, Boston, Los Angeles, Chicago and Washington, D.C. I see the Google Express people every time I shop at Costco and in chatting with them, they tell me that they get busier every single day. Google likes retailing and has figured out the last mile in getting stuff to people. Founders Larry Page and Sergey Brin want to grow their company and retail might just be that opportunity.

It's clear that Walmart.com has had difficulty in getting consumers to buy products online, generating less than $14 billion in sales last year, despite a multi-million dollar investment and a significant amount human capital devoted to it. But why now and why Jet.com?

Why Now?

Online sales at Walmart are growing at 7-8% year-on-year. That may sound good, but realize that online sales are growing at a 12% rate according to Javelin estimates. In other words, Walmart.com is falling behind leaders like Amazon and that gap is growing.

Why Jet.com?

Walmart.com needs a super hero to rescue itself from oblivion and that person is Marc Lore, founder of Jet.com. He is also the former founder of Diapers.com and which he sold to Amazon a few years back for millions. He is the one who brought the Kiva robots to Amazon warehouses. He is the one who developed a competitive business model to Amazon and said he could undercut their prices by 5-15%. He used that business model to raise $565 million from 19 investors in 4 rounds of financing over three years, including money from Alibaba and Google Ventures. Hmm, what an interesting coincidence - Not!

So it's clear that Walmart is desperate and that this is a hail mary pass to the end zone. They just paid $3 billion for a quarter back named Marc Lore. The reality is that Walmart has taken its eye off the game of retailing. It is too focused on squeezing its vendors, employees, and even the card networks to realize that its business model needs to evolve before it goes down the path of Circuit City and Blockbuster.

Good luck Walmart. For your sake, I hope the that the guy in the end zone who catches your hail mary pass is not named Jack, Jeff, Larry or Sergey.

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