

Wal-Mart buying online retailer newcomer Jet.com

August 8 2016, by Anne D'innocenzio



In this Thursday, Sept. 19, 2013, file photo, reusable shopping bags are offered for sale at a Wal-Mart Neighborhood Market, in the Chinatown district of Los Angeles. Wal-Mart announced Monday, Aug. 8, 2016, that the company has agreed to buy fast-growing online retail newcomer Jet.com, which had launched with a splash in 2015 when it announced its intention to challenge online leader Amazon. The deal underscores how serious Wal-Mart is about igniting its online business, which has been slowing even as it has been making big investments in new distribution centers and expanding services. (AP Photo/Nick Ut, File)

Wal-Mart is buying fast-growing online retailer Jet.com for \$3 billion in cash plus \$300 million in stock, scooping up a newcomer that launched a year ago with the intention of challenging online leader Amazon.

The deal announced Monday shows Wal-Mart is trying to compete more aggressively and effectively as it has seen its online business growth slow, even with big investments in distribution centers and expanding services. In June, it announced it was forming a partnership with JD.com in China to bolster its presence in that market.

Analysts say Wal-Mart buying Jet.com still won't enable it to catch up to Amazon in sales, but it will help widen the gap between itself and other retailers online. The deal also reflects the difficulties for startups like Jet.com to make it on their own in a sphere Amazon dominates with its network of distribution hubs and the powerful asset of its Prime membership program.

The move follows a series of acquisitions by major traditional retailers of online startups in an extremely competitive landscape. In January, Hudson's Bay, which owns Saks Fifth Avenue, purchased flash-sales site Gilt Group. And in June, Bed, Bath & Beyond bought One Kings Lane.

"This acquisition in tandem with its joint-venture in China with JD.com, demonstrates that Wal-Mart is attacking online retail with significant zeal," said Moody's lead retail analyst Charlie O'Shea. "As we believe 'catching' Amazon online is an unrealistic goal for any brick-and-mortar retailer, Wal-Mart now has a definite leg up on its competitors in the very important race to be No. 2 online."



In this Monday, May 2, 2016, file photo, Jet.com CEO Marc Lore speaks during an interview in Hoboken, N.J. Wal-Mart announced Monday, Aug. 8, 2016, that the company has agreed to buy fast-growing online retail newcomer Jet.com, which had launched with a splash in 2015 when it announced its intention to challenge online leader Amazon. The deal underscores how serious Wal-Mart is about igniting its online business, which has been slowing even as it has been making big investments in new distribution centers and expanding services. (AP Photo/Seth Wenig, File)

As part of the deal, which Wal-Mart expects to close this year upon regulatory approval, Wal-Mart Stores Inc. and Jet.com will maintain separate brands. Walmart.com will stay focused on the company's low price strategy and Jet.com will still provide a curated assortment of products. The acquisition will help Wal-Mart grab a higher-income customer who typically is younger than its own shoppers. Jet.com, launched in July 2015, sells 12 million products, from jeans to diapers

and has been growing fast. It has more than 400,000 new shoppers added monthly and an average of 25,000 daily processed orders.

Wal-Mart says it also will incorporate some of Jet.com's "smart" technology that lowers prices in real time by looking for ways to cut costs. For Jet.com, which has been pouring money into splashy TV ads and other marketing, the deal provides big financial backing.

"We're looking for ways to lower prices, broaden our assortment and offer the simplest, easiest shopping experience because that's what our customers want," said Wal-Mart CEO Doug McMillon said in a statement. "It's another jolt of entrepreneurial spirit being injected into Wal-Mart."

Marc Lore, co-founder and CEO of Jet.com, said in a statement the combination of Wal-Mart's retail expertise, purchasing scale, sourcing capabilities, distribution footprint and digital assets together with the team, technology and business of Jet.com will allow the company to deliver more value to customers.



In this Friday, June 5, 2015, file photo, Wal-Mart Chief Executive Officer Doug McMillon speaks at the company's shareholder meeting in Fayetteville, Ark. Wal-Mart announced Monday, Aug. 8, 2016, that the company has agreed to buy fast-growing online retail newcomer Jet.com, which had launched with a splash in 2015 when it announced its intention to challenge online leader Amazon. The deal underscores how serious Wal-Mart is about igniting its online business, which has been slowing even as it has been making big investments in new distribution centers and expanding services. (AP Photo/Danny Johnston, File)

Jet.com, which touts its service, delivers to two-thirds of the country overnight in its purple boxes. In some high-density regions such as New York City, Jet often can offer same-day delivery at no additional cost. In May, Lore told The Associated Press that Jet.com had expected to reach overall profitability in 2020 and to hit \$20 billion in general merchandise value with 15 million customers.

Lore also has experience competing with Amazon, as CEO of Quidsi,

whose main site was diapers.com. Eventually, it bought him out for more than \$500 million in 2010. McMillon confirmed on a conference call Monday that Lore will head up walmart.com and jet.com, and that Wal-Mart's top online executive, Neil Ashe, is departing.

In its fiscal year ended in January, Wal-Mart had online sales of \$13.7 billion, a fraction of its total revenue of \$482.1 billion. And its online figure pales in comparison to Amazon.com's annual net revenue of \$107 billion.

O'Shea noted that Apple.com is the only brick-and-mortar retailer that outranks Wal-Mart in online sales in the U.S. But Wal-Mart reported in May that global e-commerce sales rose 7 percent in the first quarter, weaker than the 8 percent in the previous quarter and far below the 20 percent increases seen less than two years ago.



In this Monday, May 2, 2016, file photo, employees at Jet.com work in

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So it trimmed its free-shipping pilot program ShippingPass to two-day delivery from three and cut a dollar off the membership to \$49 a year in an attempt to answer Amazon's Prime program. But while Amazon's Prime membership costs \$99 a year, it comes with a lot of perks like streaming music and video and household subscriptions.

Jet.com has also faced plenty of challenges. Three months after it launched, it ditched its annual membership fee of \$49.99, leading critics to question the business model. So Jet.com promised to undercut Amazon and other retailers by 4 percent to 5 percent instead of larger discounts.

O'Shea noted Wal-Mart is "paying a lot" for Jet.com, but it was too soon to say if it overpaid. Shares of Wal-Mart Stores Inc. slipped 50 cents to \$73.26 in midday trading Monday. Its shares are up 3 percent over the past year.

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