HOPPERS AT MANY Recreational Equipment Inc. stores have the opportunity to engage in unique “try before you buy” experiences. Fancy a new pair of hiking boots? There’s an indoor trail to try them out. How waterproof is that Gore-Tex parka? Test it under a genuine downpour in the rain room. And as these adventurers hike to new areas of the store in search of the next extreme experience, they find... the Internet?

Poised between the backpacks and the bicycles, dotted among the kayaks, tents and freeze-dried meals in each of R.E.I.’s stores are kiosks where customers and employees alike can access the company’s site on the World Wide Web. There, they can read a primer on camping stoves or get a checklist of needs for snow camping — virtual exercises that complement hands-on equipment testing and exemplify the power and importance of clicks-and-mortar.

A 62-year-old consumer cooperative, Kent, Wash.-based R.E.I. is in some ways an unlikely poster child for clicks-and-mortar — the realization that physical assets still matter in a virtual environment. The story of how R.E.I. became the largest online purveyor of outdoor gear provides other retailers a lesson in: integrating physical and virtual selling; innovating in their approaches to retailing; accepting and accommodating the inevitable conflicts between multiple channels, and acquiring a deeper understanding of their customers. (See Exhibit I.)

“They are one of the pioneers in online retail,” said Evie Black Dykema, an analyst with Forrester Research Inc. in Cambridge, Mass. “As a first mover, they’ve had the time and opportunity to get things out there and tuned. We now view them as a classic example of an elastic retailer.”

Amazon.com Inc. and other online pioneers sold the media and their venture financiers on a vision of a brave new world where Web browsers and mouse clicks replaced the tired realm of bricks-and-mortar. But today, even companies like Amazon.com and Webvan Group Inc.,

Lawrence M. Fisher has covered technology for The New York Times for more than a decade and has written for dozens of other publications. Mr. Fisher, who is based in San Francisco, holds an M.A. in journalism from the University of California at Berkeley. He is a recipient of the Hearst Award for investigative journalism.
the online grocer, are spending lavishly on warehouses, supply chain management and distribution infrastructure. They have realized that customers still care about traditional standards of service, such as timely delivery of goods and the ability to return items.

R.E.I.’s vision of electronic commerce assumed a synergy between online and offline from the start. Credit some insight on the part of senior managers, who not only hoped that the World Wide Web would help penetrate markets where their retail presence was spotty or nonexistent, but also saw the potential in a new medium that transcended the limitations of physical space or paper catalogues. R.E.I. had a mission to inform, and management looked to the Internet to create informed employees and customers alike.

“What we were hearing from our members was a need for product information,” said Jerry Chevassus, R.E.I.’s director of store development. “Our industry can be very ‘techie’ and intimidating at times. Our employees can be intimidating as well.”

From the beginning, R.E.I. has had high standards for the intimidating world of outdoor equipment. Founded in 1938 by Lloyd and Mary Anderson, two Seattle mountain climbers who imported a special ice axe from Austria for themselves and friends, R.E.I. was formed as a co-op to acquire high-quality climbing and camping gear at reasonable prices. The first 23 members each contributed one dollar to build group buying power; at the end of the first year, 82 members received dividends. Today, R.E.I. is the nation’s largest consumer cooperative, with 1.5 million members, each of whom pays a one-time membership fee of $15 and receives an annual dividend equal to about 10 percent of his or her purchases.

Cooperative ventures were a lively, growing concept in 1938, but are rare today. However, R.E.I.’s structure offered some unusual advantages when the company moved online. As a cooperative, R.E.I. is owned by its members, who elect the board annually. The board is accountable to the members, and the members, because of their close relationship with the co-op, often share their concerns, ideas and suggestions with the board, in addition to electing them. So R.E.I.’s executives already knew their customers on a level few retailers can claim.

In addition, R.E.I. returns about 85 percent of its earnings directly to its members in the form of its annual dividends. In exchange, R.E.I. gets a tremendous amount of information about its member customers — not only about their buying habits, but also demographic information. R.E.I. began its membership surveys in 1995; by 1997 they showed a remarkable 83 percent of members had access to the Web at work, 70 percent at home. The knowledge of its demographic — upper income, educated, concerned about the environment, and above all, wired — gave R.E.I. confidence in its first online offering.

It takes more than a thorough knowledge of customers to launch a Web initiative, however. Analysts say...

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**EXHIBIT I**

**LESSONS FROM R.E.I.’S CLICKS-AND-MORTAR STRATEGY**

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Source: Lawrence M. Fisher
most successful clicks-and-mortar ventures begin with a senior executive who recognizes the transformative power of the Web and the mixture of threat and opportunity it represents. At R.E.I., that executive was Dennis Madsen, the executive vice president and chief operating officer.

“I came out of the direct mail side of R.E.I., so I understood what it took to sell to customers outside the bricks-and-mortar of the store,” Mr. Madsen said. “But I was frustrated by the limitations of catalogues. Early on, Prodigy came along, and we dabbled, but it didn’t work; the medium got in the way,” he said of the online service.

“When the Internet started to happen, it was clear to me that this new medium had all a direct marketer could dream of. It offered immediacy and wide assortment, and you could customize it for customers so they saw just what they wanted to see.”

Mr. Madsen began exploring the Internet in summer 1995. Netscape Communications Corporation had just gone public, and Sun Microsystems Inc.’s Java had just been introduced. There was an immense sense of the Internet’s potential, with companies rushing to launch their initial Web sites. But these were mostly static publicity-focused Web pages with promotional material: brochureware. They did no harm, but they were cost centers. R.E.I. had something else in mind.

“To give this focus, to figure out what to do with this technology that everyone was so enamored of, we chose to make it another profit center, a virtual store,” Mr. Madsen said. “This isn’t about technology, it’s about strategy. It’s about surrounding customers and fulfilling their needs.”

Even as Mr. Madsen approached the launch of rei.com, Wally Smith, R.E.I.’s president and chief executive officer, was overseeing the development of a new flagship store in Seattle, a store that would emphasize interactive selling. But unlike many bricks-and-mortar companies, which deferred online sales for fear of stealing from their retail channel, R.E.I. pressed ahead with its Web store.

“We knew it was going to cannibalize our catalogue, and it might have an impact at retail as well,” Mr. Smith said. “My philosophy there was ‘we’d better do it ourselves or somebody will do it to us.’ The medium was so compelling I knew it wouldn’t take long for a new entrant or a savvy competitor to realize this was a tool they had
R.E.I. had a leadership position in outdoor-gear retail, but it was by no means invulnerable. Some of the big sporting-goods chains were beginning to offer kayaks, bicycles and other items that accounted for a large portion of R.E.I.’s revenues. And while R.E.I. was an institution in the Pacific Northwest and California, it was weak in other regions, notably New England, where Eastern Mountain Sports Inc. was the dominant player. Even in some areas where R.E.I. had a retail presence, the stores were poorly located in order to keep real-estate costs down.

Under Madsen’s leadership, R.E.I. launched its first Web site, www.rei.com, on September 1, 1996, when few traditional retailers were even looking at online sales. It took just 20 minutes for the first order to arrive, and orders through the Web site rose quickly.

The doors of R.E.I.’s flagship Seattle store were opened within days of launching rei.com. Together, the remarkable store, which R.E.I. bills as “hands-on adventure in a store that celebrates the outdoors,” and the Web site offer a hands-on primer on the future of retail.

“What do retail stores need to do to remain competitive in light of the Internet? They need to be interactive,” said Mr. Chevassus. “If the product stays in a box, I don’t think it does you any good.”

Although the store design evolved just as the Internet was taking off, R.E.I. had always intended to incorporate information technology in the retail site. The Web provided a simple way to do so. “Part of our objective was to provide our members with the product information they needed, as well as create an interactive environment that takes the product out of the box and really gets it into the customers’ hands,” Mr. Chevassus said.

Even before a visitor reaches the door, it is clear the store at 222 Yale Avenue in Seattle’s Cascade neighborhood is no ordinary emporium. The entry path wanders through an arboretum of plants native to the Pacific Northwest, past a waterfall and then by a 580-foot mountain bike test trail packed with obstacles, inclines and drops. In the vestibule, a glass-enclosed 65-foot pinnacle, the world’s tallest freestanding indoor climbing structure, stands ready to provide novices their first experience in mountaineering. R.E.I.’s belaying experts stand by to guide them safely to the top. Add to that testing areas for hiking boots, rain parkas and dozens of other products, and R.E.I. shoppers could spend the day camping without leaving the store.

And, owing to R.E.I.’s policy of hiring salesclerks with real-world expertise in mountain climbing, skiing and paddling, customers can also talk to people who actually use the products they may buy.

“We make sure that customers are talking to a specialist,” Mr. Chevassus said. “Retailers need authenticity.”

Authenticity provides a good barrier to competition because it is hard to copy. “If you walk into our Seattle store and say ‘I want to climb Mount Rainier, has anyone here done that?’ I guarantee a dozen people there can say yes. It sounds kind of ‘aw shucks,’” but it’s really the best competitive tool I have,” Mr. Chevassus said. And R.E.I.’s authenticity goes right to the top. An early manager of the Seattle store, and later a chief executive, Jim Whittaker, was also the first American to summit Mount Everest.

Authenticity has a different meaning, however, when designing a Web site. Rei.com has informative articles targeted to product categories, without explicit selling. “So we might do a feature on paddling, how do you get started, how to choose a kayak,” said Dean Iwata, R.E.I.’s online merchandise manager. “We make it very readable, very fast, with not a lot of clicking. When you enter an R.E.I. store, somebody doesn’t try to sell you, but our staff are ready to share their knowledge. We’re trying to deliver that same quality of experience online,” he said.

What makes it authentic? The content is written by users, not copywriters, unless of course those copywriters are mountain climbers and kayakers as well.

There is a price paid for that authenticity, but it is hard to quantify. Some analysts say R.E.I.’s site has a homegrown look, which might be true to its roots, but lacks the slickness of a site like gap.com. “R.E.I.’s site is a
little more meaningful than most, but it’s certainly not the best I’ve seen,” said Ken Cassar, an analyst with Jupiter Communications Inc., a New York research firm specializing in electronic commerce. On the other hand, he added, “they seem to appreciate the benefits of the Web, and are willing to cannibalize their traditional channels.”

Instead of innovating its Web design, R.E.I. seeks to innovate its approaches to each channel. The flagship store quickly became a Seattle landmark akin to the Space Needle and Pike Place Market. With the success of the hometown store, R.E.I. has created similar interactive retail outlets, each with its own climbing pinnacle, in Minneapolis, Denver and, soon, Tokyo.

Alongside such stores, e-commerce offers attractive synergies. The average R.E.I. store costs $6 million, including everything from building costs to new fixtures, and is remodeled every five to 10 years. Startup costs for rei.com, in contrast, were $500,000, including all computers and programming.

Rei.com architect Matt Hyde, who had previously helped start R.E.I. Adventures, the company’s travel service, before leaving to start his own mountaineering firm about 10 years ago, saw the Web store as consistent with the values that brought him to R.E.I. in the first place. “Our value proposition for rei.com is to deliver any product, at any time, to any place, and to answer any question,” Mr. Hyde said. “That ties in nicely with our attributes as a physical retailer: assortment and knowledge.”

“Any product” means the Web store offers 10,000 items, a larger assortment than any physical store, even the 100,000-square-foot Seattle flagship. “Any time,” of course, means the site operates 24 hours a day, seven days a week, and Mr. Hyde notes that 30 percent of orders come in between 10 P.M. and 7 A.M. Pacific standard time, when none of R.E.I.’s retail stores are open. “Any place” means the site is available wherever there is a computer.

To make it more accessible, rei.com launched in five languages.

But it is in “answering any question” that the Web site adds value in a way other media do not. As Mr. Madsen points out, R.E.I. sells fun, but it is a highly technical kind of fun. Although R.E.I. hires outdoor enthusiasts, no one salesperson could ever have enough product knowledge to span all the store’s offerings, and no catalogue had room enough for more than cursory descriptions. The Web site knows no such limitations.

Even before the Internet captured the public’s imagination, R.E.I. executives had been searching for a way to provide employees with more information on their ever-expanding, ever more technically sophisticated product offerings.

“In the preceding two or three years, we had toyed with the idea of developing some proprietary information system in the stores,” Mr. Madsen said. “It didn’t go anywhere. The tools weren’t there. It wasn’t a profit center, it was pure cost and we just couldn’t step up to a $2 million to $3 million expense to help our sales staff,” he said. “With the Internet, we could justify it based on the revenue stream it would generate. It’s now the hub of the company, providing information both for our employees and everybody on the Web, and paid for out of the Web site’s revenue stream.”

Mr. Madsen’s original vision of an information system for employees had included kiosks running a simple user interface and connected to a central database server. Now R.E.I. brings its Web site to kiosks placed throughout its retail stores, another pioneering move since emulated by The Gap and others.

These kiosks are available to customers and employees alike, and since they run a standard browser linked to rei.com, they are easy and accessible. On the other hand, they are still a work in progress. In their initial implementation, the kiosks were slow, and they crashed often, so relatively few customers actually used them. R.E.I. has improved the speed and stability of the system, and customer use is growing steadily, albeit from a small base.

Nevertheless, the kiosk system shows the potential for integration of the physical and virtual worlds. One

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canny application is a configurator for automobile roof racks, long a source of mystification and confusion. Plug in what combination of bicycles, skis or kayaks you want to carry and what make and model car you own, and the site generates a complete bill of materials for either Yakima or Thule racks, the two leading brands. If the store is missing an item, you can order it online, right there.

The same kind of integration continues at the cash registers, which are now Web enabled. “If you buy a new pair of hiking boots, and they’re out of beeswax, the cashier can go online and order it for you,” Mr. Hyde said. Each store is encouraged to publish its own pages on the corporate site, with a map and directions, but also employee recommendations and articles. “We’re trying to build a relationship between physical retailing and online retailing that will be very powerful for the customer,” he said.

The growing pains with the kiosks are illustrative of the kind of infrastructure issues R.E.I. has faced since going online. Information technology is a moving target. R.E.I. executives say that while it is very difficult to know what technology is needed because it changes so rapidly, they try to be in a position to react and change quickly.

When rei.com launched in fall 1996, Netscape was essentially the only company offering a complete suite of electronic commerce software (which it bundled with an Oracle database). “We chose Netscape early on, and they were clearly the leader,” Mr. Hyde said. “But not long after getting the system up we realized it was too limited. When you go from a few thousand people checking out your site, to a million every month, you need a lot of infrastructure. People outside this industry discount what is needed to service that growth,” he said.

By October 1998, the original system was at the breaking point, and R.E.I. was in search of a new solution. “We thought we would upgrade with Netscape, but that wasn’t working out,” Mr. Hyde said. In 1996, the co-op was among the software company’s major accounts, but by 1998 that was no longer the case. “Netscape was over-committed,” Mr. Hyde added.

At the same time, the International Business Machines Corporation had begun a massive push into electronic commerce. With the future of smaller players in question, R.E.I., which had already committed to running its sites on I.B.M. hardware, shifted to I.B.M.’s Net.commerce Web server software and DB/2 database to make the sites more robust and flexible, Mr. Hyde said. R.E.I. owns and maintains the infrastructure and has a service agreement with I.B.M.

Although Mr. Hyde asserts that he is a retailer, not a programmer, he has kept all programming for rei.com in-house, and unlike many e-mERCHANTs, he did not outsource site design. Rather than turn to a major production shop like the U.S. Web Corporation or Razorfish Inc., R.E.I. produces its content and design, from copywriting to digital photo production, internally. To some extent, this is another artifact of the co-op’s penurious ways, but Mr. Hyde insists it is also a strategic move.

“When I took the leap of faith that we could launch this compelling value proposition, and that it could be big, I realized we needed to make this a core competency,” Mr. Hyde said. “It couldn’t be outsourced. At that moment I knew I had to give this to bright, motivated people inside the organization.” Starting with its very first Web site, R.E.I.’s own programmers have used off-the-shelf Web authoring tools to develop the company’s Internet presence.

Similarly, R.E.I. has always written its own advertising materials, and in fact, it advertises very little. The Web launch, for example, was primarily promoted through direct mail to members and in-store notices.

Because of the strong connection to members, “we could begin by marketing our Internet store to our customers rather than to the world at large,” said Shelley Olds, R.E.I.’s marketing manager. Early on, R.E.I. also purchased banner ads on sites like Outside magazine’s, but has found better returns from partnering, such as when it formed an associates link with Della.com (née Della & James), an online gift registry. Della.com customers can select products from R.E.I.’s site for inclusion in their gift registries, and Della gets a small cut on each sale in return for providing the link.

Some positive patterns emerged quickly. “New customers were finding us on the Internet,” said Ms. Olds. “In our stores, about 25 percent of our business comes from non-members. Online it’s about 40 percent. So we believe online has given us a better share of wallets,” she said.

Interestingly, this suggested that R.E.I.’s Web site might be a more effective way to find new customers and
In the current rush to “dot-com” traditional businesses, one successful online venture is looking back to the world of bricks-and-mortar in hopes of spawning even more growth.

Datek Online Holdings Corporation, the nation’s fourth largest online brokerage firm, is a success story by any measure. With $300 million in revenue and 320,000 active customers, Datek has grabbed 11.3 percent of the online trading market just three years after entering the marketplace. In transaction volume, Datek trails only Charles Schwab, E-Trade and TD Waterhouse.

When Datek’s new chairman and chief executive, Edward J. Nicoll, decided that Datek needed a physical presence, he drew on his experience at the TD Waterhouse Group Inc., which he founded in 1979. Although a vast majority of Waterhouse customers said they had never visited a branch office, they derived a certain comfort from the fact that they existed. When Waterhouse mounted a national advertising campaign for a new Milwaukee branch, the response rate all across Wisconsin “doubled or tripled overnight,” Mr. Nicoll says.

To replicate Waterhouse’s success at Datek, Mr. Nicoll is opening test branches in New York City, Minneapolis and Seattle. Datek will open walk-in centers with kiosks of computer terminals and small staffs to answer questions and deposit checks. The company intends to keep its branch simple. “Gateway Computer has opened branches around the country and when you go in, you can try the product. But there’s no inventory. They simply take your order and ship the system to your house. We’re thinking along those lines,” Mr. Nicoll explains.

To Mr. Nicoll, Datek’s bricks-and-mortar branches represent a marketing, more than a revenue-generating, opportunity. “In 1998, we spent $7 million a quarter in marketing. From the fourth quarter of 1999 on, we started spending $35 million, more than $140 million a year. I could take $50 million of that $140 million and open 50 branches in the U.S.,” Mr. Nicoll says.

In his attempt to remake Datek, Mr. Nicoll is also considering other services to attract more customers. So far, Datek has relied solely on the young, aggressive power-users who want the speed advantage Datek provides in processing transactions. But Datek offers a narrower suite of services than any of its competitors, and Mr. Nicoll is concerned that if the stock market cools down, Datek will suffer because it lacks other products.

For now, Datek will offer options-trading, check-writing, and no-fee I.R.A. accounts — all areas well within its core expertise. Don’t look for Datek to offer mortgages, car loans or vanity credit cards anytime soon.

In the long run, Mr. Nicoll realizes that Datek must broaden its offerings. As a friction-free medium, the Internet doesn’t provide much incentive for a customer to stay with any particular trading company, which is why marketing is so important. “What it may come down to is your ability to pay more for a customer than your competitor can,” he says.
develop its brand than building new stores was. R.E.I. put up its Japanese Web site — japan.rei.com — in response to the company’s surprisingly strong catalogue sales in that country. The site, which carries 3,000 products and is growing daily, launched in June 1999, with traffic doubling between August and September.

R.E.I. kept the site authentic and localized content by hiring native Japanese speakers in Washington to develop the site. For example, on the rei.com site, ordering an item that is out of stock prompts a “sorry” message that includes a figure shrugging with his palms up. But R.E.I.’s Japanese site developers said this gesture would be considered impolite in their country, so it was replaced with a bowing figure.

More importantly, the rapid growth of the Japanese site helped give R.E.I. executives confidence to launch a retail store in Tokyo, which is scheduled to open in April 2000. “We entered Japan online; we’re following with retail,” Mr. Hyde said.

Meanwhile, the growing pains continue. R.E.I.’s direct sales and distribution infrastructure, which supported 1998 revenues of $587 million from its 53 stores in 22 states, and a catalogue business of $45 million annually, positioned the company well for the move to e-commerce. But the infrastructure was built to service the relatively mature catalogue operation, and Internet customers, R.E.I. has learned, expect much more immediate response than do catalogue buyers. Rei.com ships 93 percent of its Internet orders within 24 hours, 3 percent better than last year, but not as fast as Mr. Hyde would like. A “just-in-time” system, currently in the planning stage, will allow the company to process orders within an hour of placement.

Unlike Amazon.com, which deals with a few large distributors, R.E.I. buys from thousands of vendors, ranging from large corporations to tiny mom-and-pop craftspeople. This is both a blessing and a challenge. It’s a blessing because most of these vendors limit distribution, partly because they believe their products need informed resellers, and partly to avoid commoditization. That helps keep prices and profit margins relatively firm in the outdoor-gear business, and R.E.I. does little discounting online or off.

But it’s also a challenge, because each vendor relationship must be renegotiated to reflect the Web. Some vendors maintain their own e-commerce sites, which raises the possibility of disintermediating retailers like R.E.I. Others provide links to R.E.I.’s site, rather than shouldering the burden of fulfillment on their own. The major bicycle manufacturers — Cannondale, Trek and Specialized — are notable in their absence from rei.com, and indeed from electronic commerce altogether. They cite the need for skilled assembly, adjustment and after-market service
provided by dealers, and the risk of litigation from riders injured on bikes put together at home.

Managing rei.com’s growth internally, with no outsourcing, has strained R.E.I.’s human resources, as well. “There’s a little bit of a chasm between our retail business and online. Retail had been growing at 10 to 15 percent a year, and this other thing is quadrupling every year,” Mr. Madsen said. “People act differently in this environment. We’ve been challenged to hire enough new employees who can hit the ground running. It’s a matter of skill sets and there is a limited pool; 4.1 percent unemployment is great, but in our business we have negative unemployment. There are far more jobs than people,” he said.

People with the requisite skills and motivation do not come cheap, and technical people are a lot more expensive than salesclerks. R.E.I.’s Seattle store employs about 300 people, while rei.com has just 60, but Mr. Hyde said the payrolls for that store and for rei.com are about the same.

Mr. Hyde said R.E.I. was unprepared for the rapid growth of its Web store, but has compensated by being flexible. Yet that very flexibility creates strains. One employee, originally hired as a copywriter, went on to develop the outlet site, and is now a supervisor, managing the largest group of people within rei.com. “That speed is hard on people. It’s a great opportunity, but it’s hard, and that’s happening a lot as we grow this business,” he said.

Analysts add that one crucial aspect to R.E.I.’s success is something it did not worry about: the cannibalization of its existing business. “Companies know you have access to multiple channels, and they can pitch products to you across them,” said Forrester Research’s Ms. Dykema. “You may start out by researching your purchase online, but end up in a store. You don’t want to end up on top of Everest with something too tight or too loose,” she said.

Outdoor gear is in some ways an unlikely product for online sales because it is so subject to comparison shopping. Visiting an R.E.I. store means being able to compare the heft of different backpacks, squeeze the down sleeping bags, or feel the difference between a Patagonia fleece pullover at $99 and the R.E.I. equivalent at $49. “What we’re struggling with is how do you blend content and other information so you’re providing an experience for what you lose on the Internet: touch, feel and smell,” said R.E.I.’s Mr. Iwata.

But there are some advantages online as well, notably in cross-merchandising. On rei.com, the travel section includes books, clothing and other related items; in a store such doubling up is limited by physical space. It also has advantages over the catalogue operation, because the Web site can launch a new product instantly without waiting for the next printing, and can change day by day.

Similarly, the outlet site, www.rei-outlet.com, added in July 1998, can show a huge range of products, not just the odds and ends that did not sell at a particular store. R.E.I. buys products specifically for the outlet site, and features products not offered in its stores or at the main site. “The outlet site has a different value proposition than rei.com, and we don’t feel the two stores compete,” said Devony Hastings, a spokeswoman for rei.com. “Outlet was
developed for people who are price-focused when they shop.” In contrast, prices on rei.com are the same as in the retail stores.

Although R.E.I. made the online store a separate business unit, with its own profit and loss responsibility, it made a conscious decision not to spin it out as an independent business, as some bricks-and-mortar companies have done.

“The fact that we’re a physical retailer is my greatest asset,” Mr. Hyde said. “It’s ludicrous to say virtual-only is the way to go. I have a brand name. I have 53 stores with 4,000 employees, a warehouse, company writers. Legacy systems has a bad connotation, but I had a pricing database already, so I didn’t have to touch pricing. I leveraged all of our infrastructure. For somebody to replicate that would be $100 million or more,” he said.

Many bricks-and-mortar companies have spun out their online operations to reap the potentially rich rewards of an initial public offering as a dot-com company. But Mr. Hyde said he saw this as a fleeting and illusory opportunity. “If the public markets weren’t misbehaving around the Internet, nobody would even bring this up,” he said.

While a spin-off could raise working capital, getting co-op members to agree to such a major step could be daunting, not to mention convincing investment bankers — there is little precedent for underwriting offerings by co-ops. R.E.I. executives, who are pressured less to increase shareholder value than they are to maintain members’ dividends, insist they have not ruled out any possibilities, but they tend to brush aside questions about an I.P.O.

“Probably the most compelling reason we don’t do it is that by keeping the synergy between online and physical, we can really provide a service that helps the customer,” Mr. Hyde said. “If we were to spin this off we would be in competition with our physical stores, and really, I want to be in collaboration with my physical stores,” he said.

This collaboration manifests in small but significant ways. Any customer, for example, can return an item purchased online or through the catalogue at any R.E.I. store, and receive an instant refund or credit. The Gap has recently adopted this policy for its online sales, but R.E.I. has been doing it since 1996.

For 1999, R.E.I. will record about $50 million in sales from its Web sites, and rei.com has been profitable since 1998. BizRate.com, a market research firm, now rates R.E.I. the largest online retailer of outdoor gear.

“We are clearly the leader, and we have an Amazon-sized lead,” Mr. Hyde said. “Amazon does $1 billion out of an $80 billion book market; we do $50 million out of the $5 billion market for outdoor gear.” Nevertheless, he added, “the Internet is a humbling medium. We are in the crosshairs of all the competitors and startups, and they are well funded.” Still, as a profitable company, R.E.I. can afford a few tricks the startups cannot. “We subsidize shipping,” he said. “Most items go out for $2.50. I look at it from the standpoint of what the barriers are to online shopping, and shipping is one,” he said.

Overall, R.E.I.’s clicks-and-mortar strategy has paid off. “There is a bit of jealousy or competition between our catalogue, our retail business and this new upstart called online, but that has receded quickly,” Mr. Madsen said of a phenomenon e-commerce experts call the “little brother syndrome.” But he added that the integration of the Web and the physical stores helped mitigate this common problem. “Everyone now realizes the tremendous potential online has to better service our customers. In the startup phase it was critical to set it up as an independent entity, but now they’re starting to blend together, and ultimately, this is an Internet company, which uses the Web as the hub for everything. My belief is we’ve just scratched the surface.”

R.E.I.’s Web site might be a more effective way to find new customers and develop its brand than building new stores.