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NEWS ANALYSIS

By Arik Hesseldahl

Where the Tech Buffs Shop

NewEgg.com has carved out a loyal following among shoppers looking for the latest computer gear



Earlier this year, Stephen DiFranco, a vice-president for consumer sales at chipmaker Advanced Micro Devices, noticed an unusual trend in sales. Sales of what the company calls a PIB -- for processor in a box -- were surging at online retailers (see BW Online, 11/18/05, "[Boosting E-Tailers' Holiday Best](#)").

AMD ([AMD](#)) has long catered to the PC enthusiast and hobbyist crowd, selling boxed versions of its Athlon 64 and other microprocessors that can be swapped into PCs to make them go faster. But this was no ordinary sales surge, DiFranco says. "We saw a skyrocketing in sales through online sites that we would normally consider consumer-product Web sites."

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DiFranco says AMD doesn't break out specifics of its online sales, but one of the big contributors to that sales surge was NewEgg.com, a quiet power in online retailing of computers, computer parts, and technology products about which you'll probably be hearing a great deal more in the coming year. Indeed, NewEgg.com is one of AMD's biggest online outlets.

"DIY MARKET." Without attracting much attention, the online retailer, based in City of Industry, Calif., recorded sales of \$980 million in 2004 and is on a run-rate to break \$1.3 billion in 2005. It will likely go public in late 2006 or early 2007, says its co-founder and vice-president and Howard Tong (the chairman and CEO, Fred Chang, doesn't do interviews).

NewEgg grew out of ABS Computer Technologies, a lesser-known PC vendor and systems integrator launched in 1990. Tong joined ABS in 1998 with the assignment of creating an online PC and computer-components business as a subsidiary.

Seven years later, the tables have turned and ABS is now a subsidiary of NewEgg. "We found there was a huge DIY [do-it-yourself] market of PC gamers and hobbyists that we could reach," Tong says.

As luck would have it, those same tech-savvy hobbyists are also often the IT-support guys at their jobs. It wasn't long, Tong says, before sales of processors, cooling systems, video cards, and the like used for home gaming machines translated into purchase orders for hard drives, memory, and power supplies at small and midsize businesses. The site attracts about 500,000 visitors a day, he says.

EXTRA INFO. And those visitors are doing more than buying. They're sharing opinions concerning which hard drives are better and which vendor has better service plans. And that's helping NewEgg act like a branch of the marketing department of manufacturers whose goods it carries. "Anybody can be an e-tailer," Tong says. "We're taking it to the next level."

That next level includes detailed product photos -- each of NewEgg's eight warehouses has a photography studio -- and in some cases involves hosting vendor-produced videos, such as the AMD-produced clip demonstrating how to install a new processor in a PC.

But NewEgg has at least one other major difference from other retailers. While most simply take orders and then rely on distributors to fulfill them, NewEgg owns its product inventory and fulfills shipments directly from its eight warehouses: Five in California, two in New Jersey, and one in Memphis, Tenn.

EXPRESS SERVICE. Tong says owning the inventory gives NewEgg control over its ability to fulfill orders that most online retailers don't have.

"It's the most important thing we do in terms of assuring a quality experience," he says. "When you don't own your own inventory, you're really at the mercy of other entities. You can't control how soon the customer will receive their order. When we say we have it in stock. We have it in stock. When you order it, we can usually have the item picked, packed, and on the truck within three hours."

It may not be the most cost-efficient way of running an online retailer, Tong adds. Indeed, he admits that NewEgg doesn't always have the lowest price on an item -- "But we're always very competitive."

Gross profits, Tong says, tend to run at a thin 10%. But the payoff comes from fast shipping, which generates return business. "There are a lot of companies who set their bar at delivering in one to two weeks," he says. "No matter what you order, I can have it on your doorstep or loading dock tomorrow."

TINKER'S DELIGHT. So far, NewEgg has remained off the radar screen of most mainstream tech shoppers. But that's changing as its

reputation grows. The fact that more people have taken to tinkering with their computers should be a big help, says analyst Stephen Baker of NPD Techworld.

"A lot of guys have migrated away from tinkering with their cars to tinkering with their computers," Tong says. "NewEgg has done a good job finding its customers and going after them." If that's the case, expect NewEgg to crack the mainstream soon.

Hesseldahl is a writer for *BusinessWeek* Online in New York

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