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Blistering Web Biz Buoys Holiday Sales

Despite key shortages, solid sales momentum holds on through the big finish

By Alan Wolf -- TWICE, 1/5/2006

NEW YORK — CE retailers and their suppliers reported solid sales momentum in the final days leading into the holiday shopping weekend.

Despite shortages in key product categories — most notably Xbox 360, Apple iPod and name-brand plasma displays — business remained brisk through December, buoyed by a significant spike in online orders and strong demand for gift cards.

“It’s been an awesome month,” reported Mike Abt, president of Abt Electronics, “and our online business has been taking off.”

Jeff Davis, sales VP at D&H Distributing, which fulfills CE and IT orders for Amazon.com, Target.com, Walmart.com and Dell, among others, said, “Internet sales have been much stronger than we predicted, and we predicted a big increase.”

Newegg.com, which boasts \$1 billion in annual sales of CE, IT and communications products, said orders over the final weekend before Christmas rose 43 percent year-over-year, with volume spiking 58 percent on Sunday.

Similarly, much of Circuit City's projected full year sales gains — which were raised from between 5 percent and 8 percent, to between 8 percent and 10 percent, to reflect the strong fourth quarter — were attributed to its multichannel strategy amid flat in-store traffic.

Why the change in channels? Abt attributes the shift to consumers' increased comfort level with the Internet and online transactions, while Davis cited higher gasoline prices and wider adoption of broadband connections. Phil Schoonover, president and CEO-elect of Circuit City, credited the chain's 24/24 guaranteed pick-up time promotion for robust Web sales, and to heavy-spending multichannel shoppers who shop more often than their in-store counterparts and spend more when they do.

Whatever their motivation, consumers bought an estimated \$5.5 billion worth of CE, PCs and peripherals online during the first six weeks (Oct. 29 – Dec. 9) of the 2005 holiday season, according to a report by Goldman, Sachs & Co., Nielsen/NetRatings and Harris Interactive. The categories accounted for 27 percent of total online revenue during the period, while video game hardware and software, together with toys, pulled in another \$1.4 billion, representing 7 percent of all cyber sales.

All told, total online sales were expected to exceed \$19 billion for the entire November/December period, representing a 24 percent increase over prior-year sales, according to comScore Networks, while the Goldman, Sachs report projected that the e-commerce channel would garner fully 27.5 percent of total holiday sales, up almost 6 percent from 2004.

The strong holiday showing, both online and off, helped preclude some of the extreme promotional activity that marked Black Friday weekend, and was feared would return before Christmas. “I think [retailers] learned that there were no profits at the end of the day,” said Abt, whose company refrained from Thanksgiving discounts.

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Elsewhere, Warren Chaiken, president/COO of Almo Corp., a Philadelphia-based distributor, said business continued to be “extremely strong” in the days leading up to Christmas, and that the company was “crushed” with fulfillment orders on the weekend before the holiday.

Similarly, Best Buy enjoyed “a strong start to the holiday season and continues to expand its market share,” CEO Brad Anderson said during a December conference call, noting that he was optimistic about the fourth quarter. Brian Dunn, president of Best Buy's retail operations, added that “I like our competitive situation as we approach the end of the holidays,” thanks to compelling consumer offers, faster check-outs and more instant rebates.

Best Buy also saw an increase in gift card sales, which pushed some of its glad tidings into January. According to the company's own consumer survey, more than two-thirds of shoppers planned on purchasing gift cards last season, while the National Retail Federation predicted that gift card sales would total \$18.5 billion for the 2005 holiday period, up 6.6 percent over the previous year.

Top 10 Product Searches On Yahoo! Shopping (Dec. 4-10, 2005)

1. Xbox 360
2. iPod
3. PSP
4. iPod nano
5. GPS
6. digital camera
7. iPod mini
8. MP3 player
9. portable DVD player
10. Nintendo DS

Source: Yahoo! Shopping © TWICE 2006