Industry Trends

December 2002 Consumer Electronics Sales – Start of a Slow Down?

Author: Tom Edwards, The NPD Group / NPD Techworld

Industry Overview

Problems in the world-wide economy coupled with concerns regarding military actions finally seems to be threatening the recession-proof status that had been prevalent in the Consumer Electronics categories in the United States.

DECEMBER 2002 DOLLAR SALES WERE 2.7% BEHIND DECEMBER 2001

Year-to-date Consumer Electronics dollar sales are only 0.1% above 2001 levels

Shopping habits have also changed dramatically as the media advised potential customers to wait for the “bargains” that retailers would be forced to advertise to bring people in the door. Retailers advertised during Thanksgiving week and people flocked to the stores but they only bought the “bargains” that were promoted.

After Thanksgiving, the ads stopped and customers disappeared. The media was telling them to wait for the “bargains” that retailers would be forced to offer in the days before Christmas. Retailers did and the customer came back but the purchases were primarily what were being advertised.

The middle of the product assortment, the “better” of the classic “good/better/best” marketing strategy, disappeared as customers purchased “wants’ and deferred their “needs” for the future. Step-up products sold poorly in December. Most may have been replacement product.

Retailer promotions focused on what had been “hot sellers” during the year. Everything “Digital” continued sold well. Unfortunately, the highly promotional prices seen during the Christmas sales period drove the average selling price to record new low levels.

Dollar sales compared to the same month last year

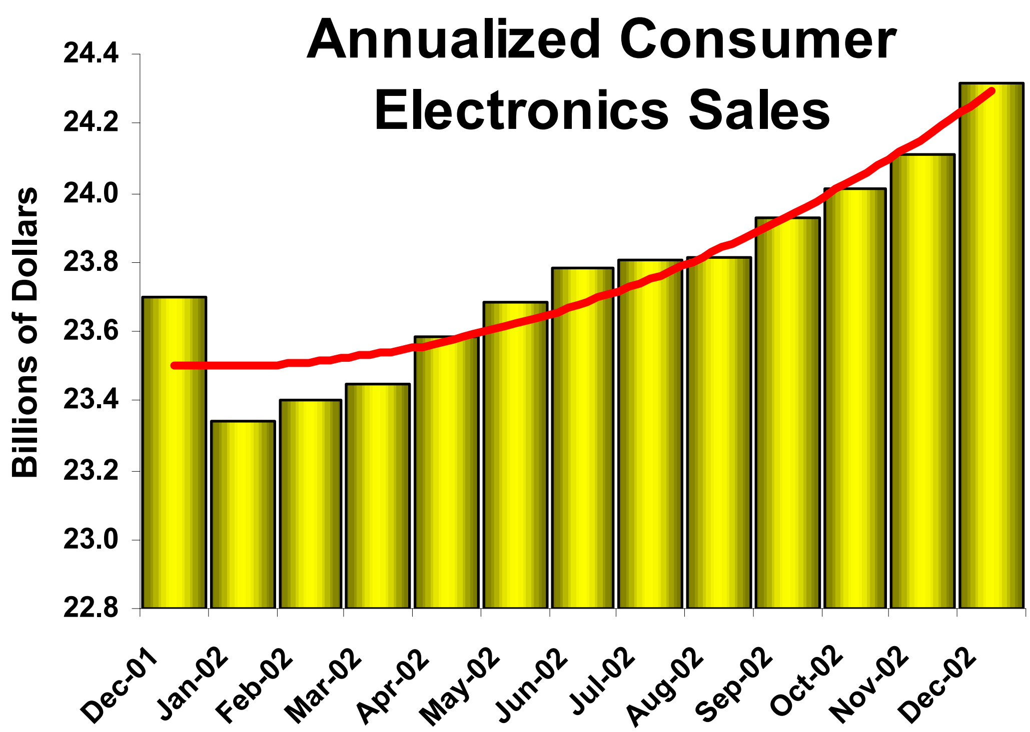
	June	July	August	September	October	November	December	YTD
Video	-2.3%	+7.2%	+2.5%	+3.4%	+5.3%	+3.1%	+6.3%	+3.2%
Audio	-7.3%	-4.1%	-9.2%	-3.4%	+3.4%	-4.9%	-7.1%	-6.3%
Mobile	-10.9%	+5.3%	+3.1%	+2.2%	+6.2%	-11.7%	-3.3%	+2.5%
Telecom	-7.5%	-5.8%	-9.9%	-9.7%	-4.8%	-1.2%	-5.6%	-8.5%
Imaging	+5.4%	-1.7%	+0.2%	+1.3%	+20.4%	+9.0%	+31.2%	+2.1%
Celltrak*	-24.5%	-9.0%	-8.7%	+15.7%	-8.7%	-9.8%	+29.6%	-14.2%

*Celltrak data is based on approximately 5% point-of-sale data and 95% consumer data. Celltrak dollars are not included in the Consumer Electronics totals.

ANNUALIZED CONSUMER ELECTRONICS DOLLAR SALES

The annualized sales dollars for the Consumer Electronics categories improved from $23.7-billion in the 12-months ending December 2001 to $24.1-billion in December of this year. Each column in the chart represents a 12-month period ending in the month indicated in the chart's axis.

The computer generated trend line shown in the following chart indicates a positive upward growth. There is a need for caution due to the unusual sales patterns in the last half of 2001 and the first quarter of 2002.



NOTE: This is not a good indicator of economic trends due to the impact of the events of 2001's September 11th on Consumer Electronics retailer's sales throughout the United States. The trend indicator may not be valid until next year's data periods as promotional schedules were drastically altered to reflect the mood of the consumer. First half 2002 availability also had product shortages.

KEY HIGHLIGHTS:

⇨ Digital Still Cameras had a 33% increase for the month.

⇨ Mobile Audio category dollars showed a loss for the third consecutive month but dollar sales are still up 2.5% for the full year.

⇨ Home Audio continues to decline with the exception of Home Theater Audio Systems as listening preferences change.

⇨ Portable Audio continues to show positive sales in Personal CD Players, Digital Music Players and Headphones with the shift to personal listening. Tape and Chip Recorders sold well in the business product oriented retailers. Much of the portable audio loss is from boomboxes and portable headset stereo.

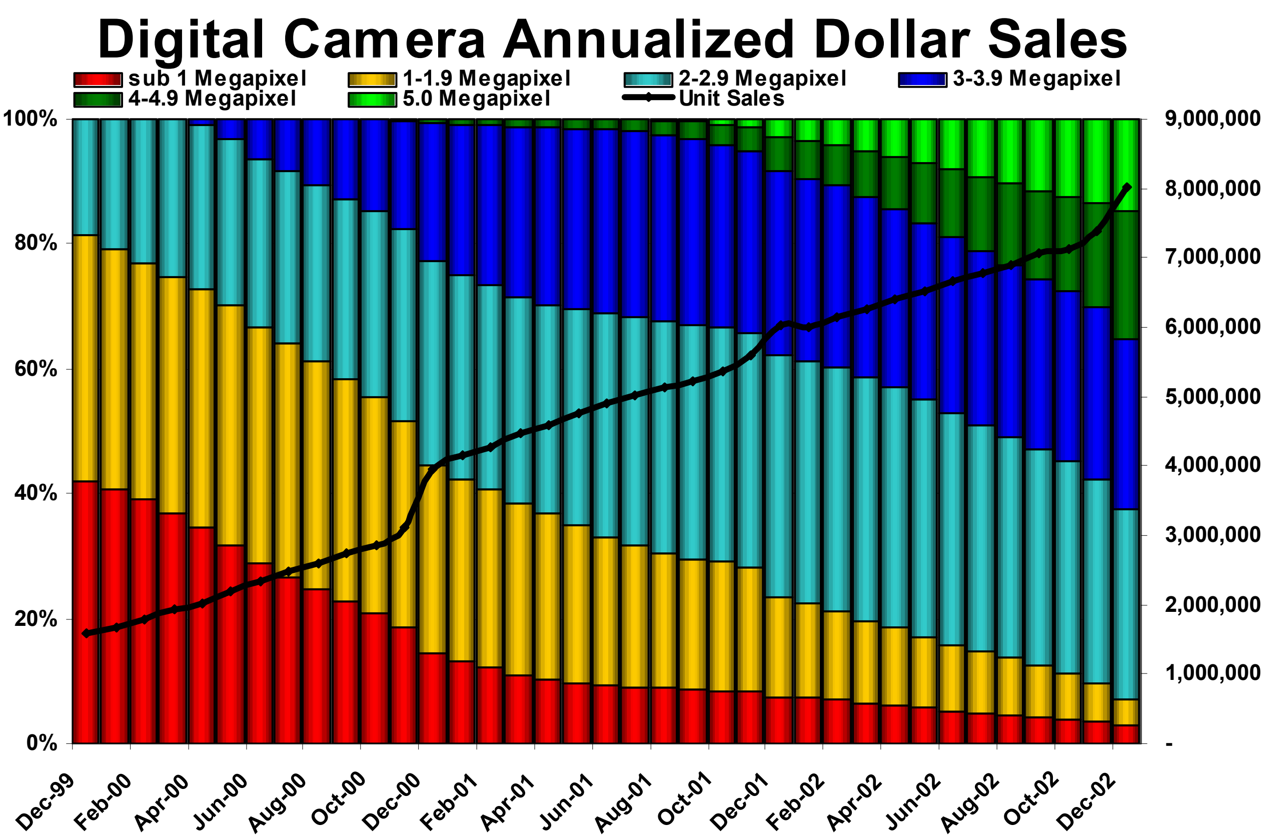
⇨ Color Television increases have been the large screen TVs that are associated with home theater systems. Digital TV units were up 86% for the year.

⇨ Analog NTSC televisions that were highly promoted and had a unit sales decline of 2.6% in November. Year-to-date NTSC is 2.3% behind, even with the strong November..

⇨ DVD units were only 28% ahead for the month compared to a strong December 2001. 58% of the year's DVD unit sales occurred in November and December.

FEATURED PRODUCT – DIGITAL CAMERAS

Resolution isn't the primary reason digital still cameras were one of 2002's hot products. The smaller, more reliable models that were easier to use to make memories that could be shared instantly created interest that drove sales. Easier computer usage encouraged purchases and sharing but bypassing the computer by placing the memory card directly into the printer made it even easier. Improvements reduced shutter speed lag to milliseconds and made the annoying



delay between the time the button was pushed and the picture taken history.

Resolution was still a big factor and did have some very positive benefits. The user had superb picture quality with higher megapixel count cameras. More important, resolution gave the customer a reason to step up to a better camera that allowed the retailer higher margins. Like all Consumer Electronics products, the average selling price of a digital camera declined but the shift towards higher resolution models reduced the impact.

Note: All data are The NPD Group / NPD Techworld's projected point-of sale panel and excludes direct sales, Internet, grocery, drug, Wal-Mart and Clubs. Direct sales and Internet are included in Telecom and Imaging categories. Cell Track data is a mix of point-of-sale and consumer data.