

February 2003 Consumer Electronics Sales – A Slow Down or Growth?

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Industry Overview

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

FEBRUARY 2003 DOLLAR SALES WERE 2.0% AHEAD COMPARED TO FEBRUARY 2002

Year-to-date Consumer Electronics dollar sales are 2.1% above 2002 levels

The trends seen during 2002 continue into 2003. People are purchasing their “needs” rather than their “wants.” The categories that sold well in 2002 continue to do well while the categories that struggled continue their downward trend. Growth is being fueled by volumes generated by lower average selling prices that are influenced to some extent by lower manufacturing costs but are primarily due to reduced profit margins.

The middle of the product assortment, the “better” of the classic “good/better/best” marketing strategy, disappeared as customers purchased “needs” and deferred their “wants” for the future. Step-up products continue to sell poorly. Many of these purchases may have been replacement products in categories such as component audio and VCR.

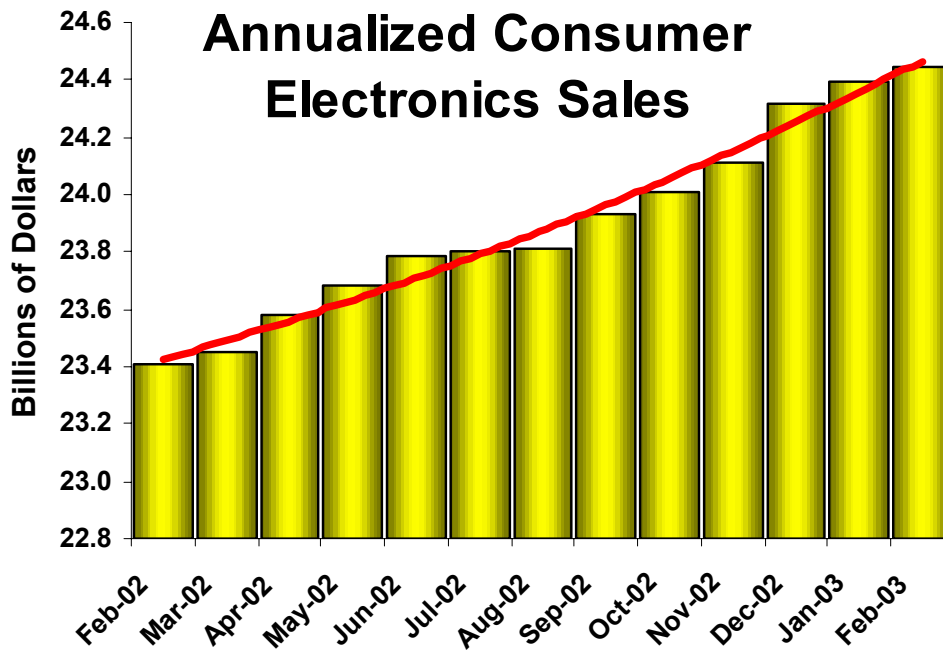
Dollar sales compared to the same month last year

	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	YTD
Video	+2.5%	+3.4%	+5.3%	+3.1%	+6.3%	+2.4%	+1.4%	+1.9%
Audio	-9.2%	-3.4%	+3.4%	-4.9%	-7.1%	-9.5%	-6.5%	-9.4%
Mobile	+3.1%	+2.2%	+6.2%	-11.7%	-3.3%	-14.1%	-18.4%	-16.4%
Telecom	-9.9%	-9.7%	-4.8%	-1.2%	-5.6%	-5.2%	-3.4%	-4.3%
Imaging	+0.2%	+1.3%	+20.4%	+9.0%	+31.2%	+10.7%	+2.0%	+6.0%

Annualized Consumer Electronics Dollar Sales

The annualized sales dollars for the Consumer Electronics categories improved from \$23.4 billion in the 12 months ending February 2002 to \$24.4 billion in February 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 comprehensive indicator of economic trends due to the impact of the events of 2001's September 11th on Consumer Electronics retailers' 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.

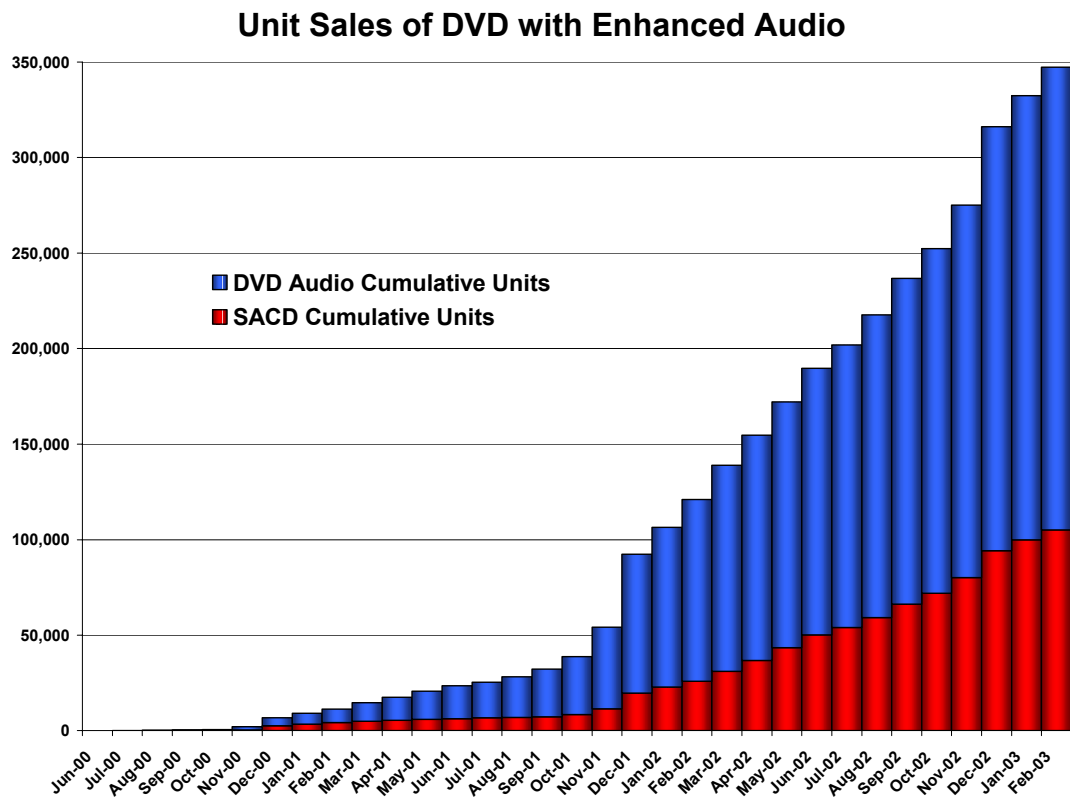
Key Highlights

- Digital Still Cameras had a 19% unit sales increase for the month with a 15% increase in dollars.
- Mobile Audio category dollars showed a loss for the fifth consecutive month.
- Home Audio continues to decline as listening preferences change. The exceptions are Home Theater Audio Systems that increased unit sales by 50%.
- 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 large screen TVs that are associated with home theater systems. Digital television unit sales had a 52% increase in February.
- Analog NTSC televisions that are promoted primarily on the basis of price had a unit sales increase of 5% in February.
- DVD home deck units were 49% ahead in February but portable DVD players saw a growth of 184% as average selling price declined \$157 to \$411.

Featured Product – Enhanced Audio Formats in DVD

With the average selling price of DVD players approaching \$100, the search for profit margin contribution is critical. DVD devices that provide premium audio reproduction are opportunities for retailers, manufacturers and software providers.

Consumer awareness of the advantages of DVD players equipped with Super Audio Compact Disc (SACD) and DVD Audio is limited. Ads and reviews in audio/video magazines have called attention to the product and word of mouth recommendations are increasing. In store displays and the recommendations of sales people are still the key drivers that will build sales.



Since the first sales of the DVD Audio equipment format in June 2000, NPD data indicates almost 350,000 devices with enhanced audio have been sold in the retail store channels tracked. SACD was first sold in November 2000.

These data include both home deck DVDs and Home Theater Audio Systems with enhanced audio. Direct sales are not included in these data.

Although enhanced audio unit sales are only slightly less than 2% of all DVD home deck sales, the product with enhanced audio represents almost 5% of dollar sales in the first two months of 2003.

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. Celltrak data is a mix of point-of-sale and consumer data.