The NewCo Story

Imagine you are the Director of Sales for Sony Electronics. What would it be worth to you to be able to communicate with a potential customer at the very time he or she was looking to purchase an electronic product? (The very product that Sony sells.) In fact, not only communicate with the potential customer but actually be able to influence the buyer's decision.

What NewCo does is bring together the buyer and the manufacture at the very time of purchase. For example, we would let Sony know that customer "Bill" was currently in Best Buy's television aisle, looking for a new flat screen TV. We would even tell you what type of TV and who's TV, Bill was considering. So… if you knew that Bill was currently in Best Buy, looking at a Samsung, flat screen TV, and if you could communicate with Bill prior to him walking to the checkout line, would you try to sway him to buy a Sony TV? What would you say or what would you do to change his mind? Well, the time is here where you can communicate with Bill before he gets to the checkout line.

Using the NewCo "shopping" app, Bill now enters Best Buy looking for the best TV for the best value that fits his budget. He looks at all the different TV on display and picks out one that he likes. But, just to be sure that he (Bill) is getting the best value with his decision; he scans the barcode with his smartphone. What he has really done is tell the "web" that he is looking at buying a particular flat screen TV and he is looking for information that will either confirm his decision or help him make a better decision. For Example, Bill may be interested in information from Consumer Reports or other independent rating agencies, product reviews, feature lists from competing manufactures, and most of all, discounts, in the form of coupons from either the manufacture of the TV he selected or discounts other manufactures that may want Bill's business. So this is where Sony's Director of Sales (Susan) enters the picture. Susan now knows that a person in Pittsburgh is at the Ross Park Best Buy looking at Samsung's 40" 1080, HDTV. She also knows that this TV sells for 10% less than her Sony 40" model. So if Susan wants Bill's business she may send Bill a comparison between the Samsung TV and her Sony TV, or she may offer a better warranty, or she may offer a free Blu-ray player, or a coupon worth 20% off and sent it directly to Bill's smartphone or she may choose to do all these things or nothing at all. But what Susan now has with the NewCo app information, is the ability to communicate with potential customers at the very time Bill is getting ready to purchase. This is just one example of a customer telling the marketplace that they are getting ready to make a purchase. Now let's look at how this would work in a grocery store.

Bill is in the local Giant Eagle shopping for his family of 4. Each time he selects an item from the shelf, he scans the barcode which again tells the marketplace that Bill's out buying again and exactly what product he has in his hand. So let's say that bill just picked up Jiff peanut butter and scanned the barcode. If there is a Jiff coupon out there, it will be sent to his smartphone to use during checkout. This will provide consumer information to Jiff and automate the current paper coupon process. But… by Bill scanning the Jiff barcode, he also lets Skippy know that Bill is currently holding a jar of Jiff brand and he hasn't yet checkout. Now enters Susan who has taken a new job as the V.P. of Sales and Marketing for Skippy peanut butter. She can choose to send Bill a report as to how Skippy is better for you than Jiff, or she could send Bill a larger coupon if he buys Skippy instead of Jiff and Bill's phone will let him know that this "larger" coupon is now on his phone for whenever he ready for checkout. In essence, manufactures will "bid" for the consumer business at the time of purchase. (Kind of like FreeMarkets). Now let's take this a step further… Let's say Bill is a Diabetic. And he has several dietary restrictions. Now when Bill scans the products barcode, the product content information (included with the barcode) is overlaid with his dietary restriction and his smartphone will tell him whether he is making smart choices or if there is better alternative in the store that he may want to consider. In fact, the manufacture of this "better" alternative may want to connect with Bill to tell him the benefits of their product and may even want to send Bill a coupon to encourage him to make a change. What we are doing is not only making Bill an educated shopper, but we are gathering valuable consumer information as it is happening.

--------------------------------- END ---

CONSUMER TECH REVENUES WILL REACH RECORD HIGH IN 2011, ACCORDING TO CEA
2010 Revenues Grow Six Percent, Stronger Than Previously Forecasted

http://www.ce.org/Press/CurrentNews/press_release_detail.asp?id=12047

Arlington, Virginia 1/6/2011

The consumer electronics (CE) industry will reach a new industry peak in 2011, with revenues exceeding $186 billion, according to the semi-annual industry forecast released today by the Consumer Electronics Association (CEA)®. Industry revenues also had a stronger than anticipated 2010, growing six percent. CEA President and CEO Gary Shapiro announced the forecast in his opening remarks at the 2011 International CES®, the world's largest consumer technology trade show.

"Innovation has become the engine for our global economy and it is so important that CES, the CE industry, our customers and our colleagues around the world embrace innovation as the central element of our shared future," said Shapiro. "Innovation can and will restore the economy and the consumer electronics industry will lead the way."

Total CE industry revenues rebounded last year with growth that doubled July 2010 predictions. The industry will end 2010 with six percent growth to $180 billion. The CE industry will continue to see positive growth in 2011, with revenues growing more than three percent and reaching a new industry high of $186.4 billion.

Innovative new products, like tablets, eReaders and smartphones, helped spur consumer interest and brought stronger than expected growth throughout the year. Personal computer sales led the way in 2010, as the category became the industry's primary revenue driver for the first time. Led by mobile computing, shipment revenues for personal computers increased 34 percent in 2010 to $29 billion, more than 16 percent of overall industry revenues. The category will continue to grow in 2011, with nearly 59 million units being shipped to dealers and revenues of $32 billion projected. Within the personal computer category, mobile computing, especially tablets, saw strong growth in 2010, with revenues climbing 35 percent to more than $21 billion. Tablets represent a little less than a third of all mobile computing revenues in 2010 and will claim a 36 percent share of shipment dollars in the category in 2011.

The wireless handset category was also a bright spot in 2010 and will see continued growth in 2011. Smartphones continue to lead the way, generating nearly $18 billion in shipment revenue with more than 55 million unit sales in 2010. In 2011, smartphone revenues will increase nearly 20 percent to more than $21 billion and 72 million units are projected to ship to dealers.

"The CE industry rebounded and consumers rallied in 2010, embracing innovative new technologies while maintaining a collective enthusiasm for familiar products that have become increasingly affordable," said Steve Koenig, CEA's director of industry analysis. "The big story in CE in 2010 was the sudden infiltration of tablets into the mainstream, which will continue well into the New Year. In 2011, the industry foresees additional sales growth allowing CE revenues to achieve a new sales summit."

With U.S. household penetration over 70 percent, sales of total digital displays fell for the first time. DTV unit sales are down one percent in 2010, a result of market maturation and saturation. Internet-connected TVs were a bright spot within the display category. Unit sales grew 151 percent in 2010, resulting in more than $4 billion in shipment revenue. In 2011, sales will grow 63 percent and exceed $5 billion in revenue. 3DTVs will also see steady growth in 2011 as increased content from video games, Blu-ray movies and TV events, especially sports, will drive growth. 3DTV unit sales grew 91 percent in 2010 to 1.1 million units and will grow another 67 percent in 2011 to 1.9 million units.

With high-definition displays now solidly established in American homes, more consumers are upgrading their audio experience. Home audio unit shipments are up 27 percent in 2010. Overall, in-home technologies are up 5.8 percent as consumers continue to integrate their existing HD displays with other HD sources, such as surround sound, Blu-ray players and set-top boxes.

"Intense price competition continues to provide consumers with great deals on displays but are cutting into industry revenues," said Koenig. "The resurgence of home audio is a signal that consumers are spending money and beginning to focus on a complete in-home high-definition experience."

The *U.S. Consumer Electronics Sales and Forecast* 2006-2011 (January 2011) is published twice a year, in January and July. It was designed and formulated by CEA, the most comprehensive source of sales data, forecasts, consumer research and historical trends for the consumer electronics industry. Please cite any information to the Consumer Electronics Association (CEA)®. The complete report is available free to CEA member companies. Non-members may purchase the study for $2,000 at mycea.CE.org.

About CEA:
The Consumer Electronics Association (CEA) is the preeminent trade association promoting growth in the $186 billion U.S. consumer electronics industry. More than 2,000 companies enjoy the benefits of CEA membership, including legislative advocacy, market research, technical training and education, industry promotion, standards development and the fostering of business and strategic relationships. CEA also sponsors and manages the International CES – The Global Stage for Innovation. All profits from CES are reinvested into CEA's industry services. Find CEA online at CE.org.

LinkedIn – ING, Various

> The general consensus and all the statistics are showing that online shopping and buying online is on the increase even when retail numbers overall are falling.
>
> Personally I would prefer to shop and buy online when the option is available. It is not always about getting the cheapest deal however it is very easy now to be able to compare online. Sites like shopping.com and getprice.com.au allow you to compare not just prices but the overall offer. The reason to buy might be based on availability, warranty, local access to supplier or a combination of issues.
>
> Why are people buying online more often?
>
> 1. more and better online sources (stores, portals etc)
> 2. better comparison capability
> 3. looking for a deal
> 4. some people a time poor and can't shop when the retailers are open so the 24/7 online option is easy
> 5. online stores are safer with better payments systems and more capabilities
> 6. online stores are green, help reduce carbon footprint and have lower CO2 emissions that traditional bricks and mortar.

Linked In, Various

prerna,
your figure is right . in 2008 i read that (some electronics mag)
it was 300 billion usd . forrrester research states that till 2015 it has a combined annual growth rate is around 10% . but for precise info you have to buy the report which is expensive. i am not affiliated.
regards
vinodhsen

IBISWorld - http://www.ibisworld.com/industry/retail.aspx?indid=1024&chid=1

Market Share of Companies

Best Buy Co. Inc. XX%
RadioShack XX%

Industry Statistics & Market Size

Revenue	Annual Growth 06-11	Annual Growth 11-16
$79bn	-3.1%	X.X%

Profit	Employment	Businesses
X.X%	389,257	39,008

Industry Analysis & Industry Trends

A surge of demand

Consumer electronics stores felt the full weight of the economic downturn, as consumer confidence plummeted and customer traffic spiraled. While growth will be modest, revenue is anticipated to pick up over the next five years due to a number of positive trends. As disposable incomes revive and business sentiment picks up, consumers will demand electronics that employ the latest technologies.... purchase to read more

Industry Report - Starting a New Business Chapter

New operators planning to enter the Consumer Electronics Stores industry will need to overcome a number of barriers. The most significant of these will be the level of external competition placed on the industry by players, including department stores like Sears and Macy's and discount retailers like Costco, Walmart and Target. These larger sized operators benefit from economies of size and scope, in that they are able to purchase a wide variety of merchandise, often at discounted prices. Hence, they are then able to pass on these cost savings to consumers via lower product prices, without effectively reducing their product margins... purchase to read more

World PR Line (2010) – http://www.worldprline.com/2010/06/06/global-emerging-trends-in-consumer-electronics-market/

June 6, 2010: Global Consumer Electronics Market Forecast to 2013. The global consumer electronics industry is set to witness phenomenal growth in the near future after the moderation of tough economic conditions. The prospective growth in the consumer electronics industry could be attributed to the revolutionary technological developments. The digital technology revolution has enabled the industry to make profit from the growing interaction of digital applications, such as camcorders, DVD player/recorder, digital camera, etc. With these technological advancement, the global consumer electronics industry generated revenue of around US$ 694 Billion in 2008.

Our new research report "Global Consumer Electronics Market Forecast to 2013" has predicted that the global consumer electronics industry will grow at a CAGR of around 5% during 2010–2013. During this time period, we expect that 3D TV will experience the highest CAGR of around 118% because manufacturers begin to implement 3D as a standard feature in their HD flat-panel product lines.

We have also found that the American region (mainly the US) is driving the global consumer electronics industry, closely followed by the EU. However, the growth pattern will change in future, with the emergence of Asia Pacific as the major contributor for the industry due to increase in demand from the developed countries. For instance – India is expected to grow at a CAGR of around 19% during 2010-2013.

We also expect the continuous development of digital technologies will add new features and improve quality of electronic devices. Moreover, the connectivity and mobility also play a vital role in accelerating the industry growth rate as younger generation is fascinated by such features. These factors indicate that the consumer electronics industry has bright future ahead, particularly in countries like China and India where the economy is moving at a fast pace.

"Global Consumer Electronics Market Forecast to 2013" provides extensive information and rational analysis of the global consumer electronics industry and its emerging trends. It gives an insight into the regional trends together with discussion on the product segmentation. We have thoroughly analyzed market size, growth opportunities, regional segmentation and trends in technology to give comprehensive overview of the market. We have also included the key players segment to give brief idea of the competitive landscape and business strategies of players.

PR-Inside.Com (2011) – http://www.pr-inside.com/report-global-consumer-electronics-market-r2860559.htm

2011-10-17 13:44:19 - **Global Consumer Electronics Market Forecast to 2013 - a new market research report on companiesandmarkets.com**

The global consumer electronics industry generated revenue of US$ 873 Billion, an increase of around 13% over previous year. The global consumer electronics industry will grow at a CAGR of around 7% during 2012-2015. During this period, the 3D TV is expected to experience the highest growth as manufacturers will start adding 3D as a standard feature to their high-definition (HD) flat-panel product lines.
The global consumer electronics industry is set to witness a phenomenal growth in the near future, with the rising technological innovations. The digital technology revolution has enabled the industry to earn profit from the growing interaction of digital applications, like camcorders, DVD player/recorder, etc. The biggest bright part for the consumer electronics industry during 2010

was the good performance of the LCD-TV segment.
We have also found that presently, the US is dominating the global consumer electronics industry, closely followed by the China. As per our research, two-thirds of the US households owned a HDTV in 2010, and LCD TV was leading the digital display market. Moreover, India and China, having low penetration of digital TV, are expected to cross 50% penetration rate by 2015. Besides, the number of digital TV penetration is expected to grow rapidly, with Asia Pacific and Europe capturing the maximum number of DTV homes. It is also expected that the HDTV will witness a significant growth during the coming years, with North America leading the global HDTV homes, at present.
Report scope
Our report Global Consumer Electronics Market Forecast to 2013 provides an extensive information and rational analysis of the global consumer electronics industry and its emerging trends. It provides an insight into the regional trends together with the discussion on the product segmentation. We have thoroughly analyzed the market size, growth opportunities, regional segmentation, and trends in technology to present a comprehensive overview of the market. We have also included the key players´ segment to provide a brief idea of the competitive landscape.

IBISWorld (2011) – http://www.ibisworld.com/industry/default.aspx?indid=1024

Consumer Electronics Stores in the US

U.S. Industry Report

(One of 736 available reports - see full list of available reports) Search for more industries | View a sample report

Industry Code: 44311, Aug 18 2011

About IBISWorld Industry Reports

A surge of demand

Consumer electronics stores felt the full weight of the economic downturn, as consumer confidence plummeted and customer traffic spiraled. While growth will be modest, revenue is anticipated to pick up over the next five years due to a number of positive trends. As disposable incomes revive and business sentiment picks up, consumers will demand electronics that employ the latest technologies.

In-depth industry market research presented in a logical and consistent format. Including pages of insights covering industry conditions, key statistics, competitor analysis and market share, product and customer segmentation and a 5 year forecast.

Key Industry Statistics

Key Industry Figures	2010	2011	
Industry Revenue	*78,330.1	XXXX	$ million
Revenue Growth	*-1.2	XXXX	%

Industry Gross Product	*11,211.3	XXXX	$ million
Number of Establishments	*50,886	XXXX	Units
Number of Enterprises	*38,777	XXXX	Units
Employment	*385,824	XXXX	People
Exports	--	XXXX	
Imports	--	XXXX	
Total Wages	*8,680.6	XXXX	$ million

CES (2011) - http://www.vg247.com/2011/01/05/ces-consumer-electronics-market-to-grow-10-in-2011-to-964-billion/

CES: Consumer electronics market to grow 10% in 2011 to $964 billion

The Consumer Electronics Association has forcasted massive growth for the consumer electronics market in 2011 to $964 billion – a 10 percent growth which is twice as fast as the overall global economy.

GDP is only expected to grow 4.5 percent in 2011.

With such growth, it’s easy to see why CEA analyst Steve Koenig described electronics as a “vanguard” leading the way during the economic recovery, and if things progress more advantageously than expected, consumer electronics may even reach $1 trillion in 2011.

Market sales worldwide were up 13 percent in 2010 to $873 billion, compared to a 9 percent drop in 2009 to $770 billion while the recession was in full swing. The most growth in 2010 was attributed to smartphones, which were up 51 percent for the year, and are expected by the CEA to grow 59 percent in 2011 with mobile PCs growing 26 percent.

In 2011, the CEA expects overall sales in North American to be up 15 percent, Western Europe up 23 percent, and Japan up 8 percent.

China's overall market is expected to grow from 13 percent in 2010 to 15 percent in 2011 due to consumer electronics sales bolstering the emerging markets, as last year consumer electronics alone grew 25 percent in China despite lower sales across all regions of the world in the electronics category.

Game consoles are not expected to fare as well this year as the category slipped in sales for the second year in a row in 2010 due to reaching "near saturation" in the marketplace.

The CEA is holding the Consumer Electronics Show in Las Vegas this week.

Understanding Click and Mortar E-Commerce Approaches: A Conceptual Framework and Research Agenda (2002) - http://jiad.org/article19

Abstract

In this post dot-com era, much e-commerce activity now arises from established firms with traditional physical outlets. Despite the growth in such click and mortar approaches to e-commerce, little research has specifically addressed this common business model. This article focuses on the underlying dynamics of click and mortar e-commerce businesses using a framework that outlines the potential synergies arising from the integration of e-commerce with traditional channels. Research and theory from such areas as transaction cost economics, interorganizational systems, competitive strategy, and economic sociology are used to develop the click and mortar framework. It details the sources of synergy, the management interventions that can help firms avoid damaging channel conflicts, and the types of benefits yielded by integrated click and mortar approaches. The framework is applied to a specific click and mortar case, an electronics retailer, in order to demonstrate its explanatory value. The heuristic value is demonstrated by deriving several example propositions to guide future empirical work.

Best Buy Sales at Risk as Surgical Shoppers Lose Impulse: Retail – 2011 : http://www.bloomberg.com/news/2011-10-17/best-buy-sales-at-risk-as-surgical-shoppers-lose-impulse-retail.html

It's a retail maxim followed by everyone from Best Buy Co. to Foot Locker Inc. (FL): Get shoppers in the door and then sell them stuff they didn't plan on buying.

Impulse purchases require people to browse the aisles, however, and that's happening less and less these days because Web-savvy consumers often already know what they plan to buy and simply pick it up and leave, said Bill Martin, the chief executive officer of ShopperTrak.

These mission shoppers visit fewer stores -- three per trip, down from five pre-recession, according to ShopperTrak. As a result, foot traffic may fall 2.2 percent during the holiday shopping marathon, says the Chicago-based research firm.

"There's been a fundamental change in buying behavior,"Martin said.

The shift will hit some chains harder. Electronics stores such as Best Buy are most at risk because it's so easy to research gadgets online first, he said. Apparel chains like Limited Brands Inc. may fare better because even mission shoppers have to stick around long enough to try on clothes.

While retail sales may rise an estimated 2.8 percent this holiday, according to the National Retail Federation, they'd be stronger if more mission shoppers browsed, Martin said.

Retailers are being forced to adapt at a time when they're closing stores and trying to attract consumers made cautious by a 9.1 percent jobless rate. The rising competitive pressures may accelerate an ongoing shakeout, said David Maddocks, who runs an eponymous consulting firm in Portland, Oregon.

"Most retailers are geared for people to come buy," said Maddocks, a former chief marketing officer at Nike Inc. (NKE)'s Converse. "Retail has to start gearing itself to sell, to get more out of every person that walks through the door."

Shopping Patterns

Martin has been analyzing shopping patterns for the past 15 years. Typically traffic and sales growth rise or fall in tandem. Last year he spotted something new. Even as retail sales grew 3.5 percent, according to the NRF, traffic declined 0.5 percent, he said.

When the trend continued this year Martin didn't know how to explain to clients what was happening, so he asked his researchers to dig for answers. They discovered Americans were turning into what he calls "surgical shoppers."

Men were the original mission shoppers, and they adopted e-commerce first because it saved time. Faster Web connections and a better shopping experience drew in more women. This has accelerated change in shopping behavior because women outspend men and retailers have long focused their efforts on them.

'Like a Man'

"Women now go into a store, hoping to go right to what they need like a man would," said Delia Passi, CEO of Hollywood, Florida-based Medelia Inc., which advises companies such as Home Depot Inc. (HD) on how to appeal to female shoppers."The science of retail shopping has changed, and unfortunately the retailer hasn't."

Retailers pay close attention to so-called conversion rates-- the percentage of people that actually buy something after walking in the door. As Americans make fewer trips to the mall, each shopper becomes more valuable and persuading them to buy more shirts, power drills and bed sheets becomes all the more crucial to retailers, says ShopperTrak's Martin.

In the recession and its immediate aftermath, many cost-cutting retailers stopped refurbishing stores and put fewer salespeople on the floor. That made the Web even more appealing, Passi said. Now stores are hustling to improve the brick-and-mortar experience with upgraded technology, service and merchandising, the better to engage mission shoppers.

Playing Catch-Up

"The retailer has let the consumer get too far ahead of them and now they are scrambling to fix that," said Tim Tang, who oversees retail technology solutions for Hughes Network

Systems LLC, a Germantown, Maryland-based subsidiary of EchoStar Corp. (SATS) “This season retailers are playing catch-up.”

Teen clothing chain Pacific Sunwear of California Inc. (PSUN)equipped employees with Apple Inc. (AAPL) iPads to help customers assemble virtual outfits. Lowe’s Cos., the second-largest home-improvement retailer, has been adding wireless Internet networks to stores, and gave iPhones to associates so they can check inventory faster and spend more time helping customers.

In a return to old-world service, retailers are teaching employees to read body language to better assess whether they’re browsing or buying and respond accordingly, said Jill Puleri, head of International Business Machines Corp. (IBM)’s global retail consulting division. Chains also have added back store greeters to improve the shopper’s mood, she said.

Conversation Starter

Foot Locker, the largest U.S. sneaker chain, trained associates to ditch the traditional “how may I help you?” for“what kind of shoe are you looking for?” It’s a subtle change that’s more likely to start a conversation, said CEO Ken Hicks. The company also revamped the store layout -- putting shoes and apparel together -- in the hopes shoppers would buy outfits rather than single items.

Retailers have also resorted to in-store entertainment and pumping in aromas to keep shoppers in stores, according to Mike Gatti, who runs the NRF’s marketing unit in Washington. Jordan’s Furniture, a New England chain owned by Warren Buffett’s Berkshire Hathaway Inc., used 3-D movies, ice cream parlors, laser shows and trapeze lessons to boost traffic.

“They are doing everything they can to get customers to stop and smell the roses,” Gatti said.

Brookstone Inc., the closely held electronics chain, couldn’t add Wi-Fi and iPads to its 300 stores fast enough, said CEO Ron Boire. Next he wants hand-held checkout devices to emulate the Web’s simplicity.

Boire has been speeding ahead because he's worried overall e-commerce will keep improving as stores get worse, and that will only accelerate the migration to the Web -- and more mission shopping.

AisleBuyer and Unified Mobility Partner to Bring In-Store Mobile Commerce to Canadian Retailers - 2011

http://www.consumerelectronicsnet.com/articles/viewarticle.jsp?id=1706346

BOSTON, MA and TORONTO -- (Marketwire) -- 10/05/11 -- AisleBuyer LLC, the leading provider of in-store mobile commerce solutions for retailers, brands and restaurants, and Unified Mobility, a leading Canadian enterprise mobility provider, announced today that they have entered into a partnership agreement. With this partnership, Unified Mobility is able to market and sell the AisleBuyer mobile commerce platform and applications to Canadian retailers.

AisleBuyer's mobile commerce applications allow Canadian retailers to interact and engage with their shoppers inside and outside of their stores to drive conversions, increase ROI and build lasting loyalty. The AisleBuyer solution provides mobile shopping and checkout applications for iPhone, Android, BlackBerry and tablet devices to optimize consumer interactions through every stage of the customer life cycle.

The AisleBuyer mShop mobile self-checkout application enables shoppers to use their smartphones to quickly and easily access detailed product information, get promotions and coupons and checkout without waiting in line to pay. AisleBuyer also arms retail employees with mClerk, the world's first mobile store associate application that delivers the functionality of both the point of sale system and a kiosk through a tablet. The AisleBuyer mDine application allows patrons to place orders and pay in real-time from their mobile devices at restaurants. All of these applications leverage the AisleBuyer mobile commerce platform to collect real-time data on customer shopping habits and personalize interactions between the retailer and the consumer. AisleBuyer eliminates the need to invest in any other in-store consumer-facing systems.

Unified Mobility, whose strong base of retail clients includes some of the best known retail brands in Canada, is encountering rapidly increasing interest in mobile commerce. "As brick and mortar retailers face increasing competition from online retailers, mobilizing the store has become a must have for every retailer," said Mark Langlois, Unified Mobility Managing Partner. "AisleBuyer's in-store mobile applications offer Canadian retailers a full mobile commerce strategy to help them stay competitive, gather new information on their shoppers and provide concrete ROI."

Why Best Buy Is A Better Purchase Than Amazon.com – 2011
http://seekingalpha.com/article/296296-why-best-buy-is-a-better-purchase-than-amazon-com

mazon.com (AMZN) stock has had quite a run. Investors have bid up the stock tremendously, focusing on strong revenue growth and significant market share gains. In this article, I seek to show why enthusiasm for the stock is completely unfounded and why Amazon may present a good short opportunity.

As one of the largest, most successful Internet retailers, Amazon generates revenue from many products and services. Merchandise and content is purchased for resale from vendors and third-party sellers. In addition, Amazon manufactures and sells the Kindle e-reader.

One side note before I project Amazon's future revenues: The firm's financial health is extremely solid. Amazon's pristine balance sheet carries a tangible book value of $5.856 billion as of June 30, 2011, very little debt, and cash and marketable securities totaling $6.355 billion. Off-balance sheet operating and capital commitments are negligible, amounting to under $900 million per year, an extremely small percentage of Amazon's costs. The firm is equipped to handle a difficult economic environment due to its strong financial position.

Amazon divides revenue into two segments, North America and International, and further into three sub-segments: media, electronics and other general merchandise, and "other." The "other" segment represents insignificant non-retail activity plus Amazon Web Services (AWS).

The majority of revenue is derived from the media and electronics segments. The media segment consists primarily of book sales, but also other items such as music and DVDs. The electronics segment consists of many items such as computers, tablets and televisions, as well as non-electronics items. Amazon's future revenue will be determined primarily by their share of the global books and electronics markets. I will first project media segment revenues by examining the U.S. market for book sales.

As data from the U.S. Census Bureau shows, this is a slow-growth market (click to enlarge charts):

Book Sales from the US Census Bureau:

(In Millions of $ per year)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR
Book Sales	15450	16236	16877	16889	16983	17184	16870	16051	15662	0.17%
Growth Rate		5.1%	3.9%	0.1%	0.6%	1.2%	-1.8%	-4.9%	-2.4%	

Since this is a mature market, future growth within Amazon's domestic media segment must come from gaining market share. Below shows Amazon's strong revenue and market share gains since 2006:

North America Media Segment					
	2006	2007	2008	2009	2010
Net Sales	3582	4630	5350	5964	6881
Growth Rate		29.3%	15.6%	11.5%	15.4%
% Market Share	21.1%	26.9%	31.7%	37.2%	43.9%
US Books Sales (In Millions of $ per year)	16983	17184	16870	16051	15662

While still impressive, the growth rate within Amazon's domestic media segment has slowed because there is only so much revenue that can be generated from a mature market once a certain level of penetration is achieved. Amazon has shown the ability to increase market share 5-6% per year, to the point where they may control 75% of the market by 2016. Assuming a 1% growth rate in U.S. book sales the next five years, I project Amazon's domestic media segment revenues through 2016 below:

	2011	2012	2013	2014	2015	2016
Revenue	7910	8787	9682	10594	11523	12469
Growth Rate		11.1%	10.2%	9.4%	8.8%	8.2%
% Market Share	50%	55%	60%	65%	70%	75%
Projected US Books Market	15819	15977	16137	16298	16461	16626
Growth Rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Amazon's international media segment has also grown revenues significantly as shown below:

	2006	2007	2008	2009	2010
International Media revenues	3485	4612	5734	6810	8007
Growth Rate		32.3%	24.3%	18.8%	17.6%

I project Amazon's international media revenues to grow slightly more than its domestic segment, due to significant opportunity within emerging markets:

	2011	2012	2013	2014	2015	2016
Int. Media Revenue	9849	11819	13592	15630	17193	18913
Growth Rate	23%	20%	15%	15%	10%	10%

The U.S. electronics market is also a slow-growth market. However, it has grown faster than the market for book sales as shown below:

U.S. electronics and appliance store sales 2001-2010 bricks and mortar (in millions of $ per year) Source: Department of Commerce												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	10 yr CAGR
Revenue	82363	80395	83897	86796	94524	101449	107826	110849	108869	98384	100471	2%
Growth Rate		-2.39%	4.36%	3.46%	8.90%	7.33%	6.29%	2.80%	-1.79%	-9.63%	2.12%	

If Amazon's electronics sales are added, the CAGR increases to nearly 3%. In an article dated July 5, 2011 by Steven Smith and Alan Wolf, it is estimated Amazon had $7.9 billion of electronics sales in 2010 within the U.S., representing approximately 72% of segment revenue in "electronics and other general merchandise." (click here)

Below U.S. electronics sales are shown including sales from Amazon:

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	10 yr CAGR
Total market with Amazon	82363	80810	84386	87427	95334	102486	109280	113104	112051	102919	108371	2.78%

Amazon has begun to take significant market share within electronics since 2005 as shown below:

	2005	2006	2007	2008	2009	2010
Amazon US Electronics Revenue	1037	1454	2255	3182	4535	7900
Market Share	1.0%	1.3%	2.0%	2.8%	4.4%	7.3%

According to a recent NPD study (click here): "For example, only 19% of people surveyed by NPD said they would be 'extremely' or 'very likely' to buy a new television online, even though 56% of them research which TV they want to buy online.

Other products that people are reluctant to buy on a web site include a Blu-Ray player (21%), a camcorder (also 21%) and oddly enough a mobile phone or smart phone (23%). The products with the highest percentage of people willing to pay for them online include computers and computer software (both 34%), an eReader (32%) and a digital camera (30%)."

Although Amazon has grown revenues significantly, it may be difficult to capture more than 20% market share due to the reluctance of many consumers to purchase expensive durables online. For many people there is comfort in testing an item at a store, walking out with their purchase, as well as the value and convenience of customer service when buying and returning.

I project Amazon's market share to slow when it reaches 20% as shown below:

In Millions of $ per year	2011	2012	2013	2014	2015	2016
Amazon US Electronics Segment Projected Revenues	18604	25549	32894	37269	41877	46728
% of revenue from electronics sales	72%	72%	72%	72%	72%	72%
Amazon Electronics Sales	13395	18395	23684	26834	30152	33644
Total US Electronics Market	111622	114971	118420	121973	125632	129401
US Electronics Market Growth Rate	3%	3%	3%	3%	3%	3%
Amazon Market Share	12%	16%	20%	22%	24%	26%

Due to potential from emerging markets and the slow growth of the U.S. electronics market, I project Amazon's international segment to grow revenues faster than the domestic segment. Amazon's international segment's electronics revenues since 2006 and my future projections are below:

Amazon International Electronics and other general merchandise segment					
	2006	2007	2008	2009	2010
Revenues in Millions of $ per year	1337	2071	3110	4768	7365
Growth Rate		54.9%	50.2%	53.3%	54.5%

My projections:

	2011	2012	2013	2014	2015	2016
Revenues	11931	17897	26845	37584	48859	58630
Growth Rate	62%	50%	50%	40%	30%	20%

My total projected revenues for Amazon are as follows, which include "other" segment revenues reaching nearly $5 billion domestically within five years due to growth of Amazon Web Services (AWS):

	2011	2012	2013	2014	2015	2016
Amazon Projected Revenues	49944	66497	86305	105052	124072	141908
Growth Rate	46.0%	24.9%	23.0%	17.8%	15.3%	12.6%

Amazon not only faces the challenge of a mature domestic market within its core products but also a challenge improving margins. Amazon's past gross margins are below:

	2006	2007	2008	2009	2010
Amazon Net Sales	10711	14835	19166	24509	34204
Growth Rate		38.5%	29.2%	27.9%	39.6%
Cost of Sales	8255	11482	14896	18978	26561
% of Revenue	77.1%	77.4%	77.7%	77.4%	77.7%
Gross Margin	2456	3353	4270	5531	7643
Gross Margin %	22.9%	22.6%	22.3%	22.6%	22.3%

While many companies such as Google (GOOG) and Intel (INTC) have had success increasing gross margins as revenues have grown, Amazon has had trouble doing so. Its gross margin year after year has been remarkably similar. Why? Google and Intel offer products which are vitally important and hard to replicate, while Amazon sells commodities and competes mostly on price. Below are gross margins from competitors:

	Gross Margin TTM
Best Buy	25.0%
Wal-Mart	25.2%
Barnes and Noble	26.1%

Competitors have remarkably similar gross margins. From Amazon's past execution and the performance of its competitors, it seems unlikely Amazon will be able to improve gross margins much above 25%. Investors are making a mistake by treating Amazon as a unique internet firm. Although Amazon's top line growth needs to be recognized, investors will soon realize Amazon is just another retailer unable to improve gross margins because it is in the business of selling commodities and competing on price.

Below I will examine Amazon's other costs and show why they will also have difficulty increasing their operating margins, which not only has to do with the difficulty of improving gross margins, but also increasing fulfillment, shipping and technology costs.

A description of fulfillment costs from the most recent 10-K:

"Fulfillment costs represent those costs incurred by operating and staffing our fulfillment and customer service centers, including costs attributable to buying, receiving, inspecting, and warehousing inventories; picking, packaging, and preparing customer orders for shipment; payment processing and related transaction costs, including costs associated with our guarantee for certain seller transactions; and responding to inquiries from customers. Fulfillment costs also include amounts paid to third parties that assist us in fulfillment and customer service operations."

Fulfillment costs ranged from 8.4%-8.7% of sales from 2006-10. However, in 2011 they have increased to 9.1% of sales. It appears it is costing Amazon more to prepare and process orders. This may not seem like a big deal, as these costs for the first six months of 2011 have only increased 90 basis points compared to the first six months of 2010. But when your operating margins are below 5%, 90 basis points is a big deal.

Net shipping costs are part of "costs of sales." From 2006-09 net shipping costs as a percent of revenue ranged from 3%-3.5%. In 2010 they increased to 4.1% of revenue. In 2011, they are up to 4.8% of revenue, an increase of one full percentage point over the first six months of 2010. As Amazon enters the more expensive electronics market and is forced to compete on price, it appears they have no choice but to eat more shipping costs.

A description of Technology and Content expenses from the 10-K:

"Technology and content expenses consists primarily of payroll and related expenses for employees involved in application development, category expansion, editorial content, buying, merchandising selection, and systems support, as well as costs associated with the compute, storage, and telecommunications infrastructure used internally and supporting AWS."

Since 2007, technology and content costs ranged between 5.1% and 5.5% of sales. They have increased to 6.5% of sales the first six months of 2011, a 90 basis point increase from the first six months of 2010. Again, a big deal when operating margins are below 5%. There is no sign of these costs decreasing as a % of revenues, as Amazon states in the latest 10Q, "We expect these trends to continue over time."

The factors above explain why Amazon's operating margin the first six months of 2011 was almost chopped in half compared with the first six months of 2010.

Now that we have an idea of Amazon's future revenue growth and costs, we need to determine the best way to value Amazon.

An EV/EBITDA valuation will not work because Amazon's closest competitors are much slower growth retailers. Currently, Amazon carries a ridiculous EV/EBITDA multiple over 40, nearly 4x e-Bay's multiple.

Free cash flow will also not work because Amazon has been spending aggressively on capital expenditures the past 18 months as they expand rapidly. Shown below:

	2010	Q1 and Q2 2011
Net Income	1152	391
Depreciation and Amortization	568	446
Stock-Based Comp	424	254
Excess Tax Benefits from Stock-Based Comp	-259	-61
Capital Expenditures	-979	-731
Free Cash Flow	906	299

Amazon has some work to do if they seek to achieve their ultimate goal stated in the 10-K as follows:

"Our financial focus is on long-term, sustainable growth in free cash flow per share."

Both of the above measures would underestimate the value of Amazon. I believe a discounted earnings model is more appropriate, which measures the future earnings power of the underlying business. Below is my discounted earnings model on Amazon. The assumptions are derived from my explanations above. I assume slightly lower tax rates each year due to a greater percent of revenue from abroad generated in lower-tax jurisdictions, as well as a slight dilution of share count consistent with the trend due to Amazon's stock compensation. There is no sign of share buybacks in the future. Although Amazon purchased a small amount of shares in 2008, there have been no share repurchases since:

Amazon Discounted Earnings Model	2011	2012	2013	2014	2015	2016
Amazon Projected Net Sales	49944	66497	86305	105052	124072	141908
Growth Rate	46.0%	24.9%	23.0%	17.8%	15.3%	12.6%
Cost of Sales	38457	51203	66455	80890	95536	109270
% of Revenue	77%	77%	77%	77%	77%	77%
Gross Margin	11487	15294	19850	24162	28537	32639
% of Revenue	23%	23%	23%	23%	23%	23%
Fulfillment Costs	4495	5652	7336	8929	10546	12062
% of Revenue	9.0%	8.5%	8.5%	8.5%	8.5%	8.5%
Marketing Costs	1498	1995	2589	3152	3722	4257
% of Revenue	3%	3%	3%	3%	3%	3%
Technology and Content Costs	3246	3990	5178	6303	7444	8515
% of Revenue	6.5%	6%	6%	6%	6%	6%
General and Administrative Costs	749	997	1295	1576	1861	2129
% of Revenue	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Other Costs	200	266	345	420	496	568

% of Revenue	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%
Operating Margin	1299	2394	3107	3782	4467	5109
% of Revenue	2.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Other Income	25	120	155	189	223	255
Earnings before Taxes	1324	2514	3262	3971	4690	5364
Taxes	25%	24%	23%	22%	21%	20%
Net Income	993	1910	2512	3097	3705	4291
Diluted Shares Outstanding	460	469.2	478.6	488.2	497.9	507.9
Earnings per Share	2.16	4.07	5.25	6.34	7.44	8.45
Discounted Earnings per Share	0.53	3.61	4.24	4.65	4.96	5.12
Cost of Capital used	10%					
Terminal Growth Rate	5%					
Sum of Discounted Earnings	23.12					
Discounted Terminal Value	107.58					
Amazon Fair Value per Share (after net cash per share adjustment)	139.88					

To justify a value of the most recent high near $250 per share, Amazon would have to gain control of 100% of the U.S. books AND electronics markets by 2016. This assumes the same strong revenue growth I projected abroad, and gives you an idea of how challenging it will be for Amazon if they do not begin to focus on cost control. If Amazon is able to increase gross margins to 26% from 23%, a fair value of $250 per share can be justified. While it seems fulfillment, shipping and technology costs will be higher in the future, as all are geared to remaining competitive and providing better customer service, if Amazon is unable to improve gross margins, the stock price will eventually suffer. With Wal-Mart's (WMT) gross margin barely above 25%, a firm with perhaps the best ability in terms of "bargaining power with suppliers," it appears unlikely Amazon will be able to improve gross margins to 26%. Given Amazon's long-term performance, gross margins in the 23% range seem more likely.

Now I will turn my attention to Best Buy (BBY).

Why on earth would a slow growth, bricks and mortar electronics retailer be appealing as an investment?

While Best Buy is not as liquid as Amazon, the firm remains in solid financial condition. As of the end of May 2011, tangible book value stood at $3.5 billion, cash and equity investments totaled over $2.5 billion, and the firm had virtually no net debt. Like Amazon, Best Buy's financial condition gives the firm the ability to handle a prolonged slow growth economy.

Best Buy's electronics sales and total revenues are not as bad as the recent stock price is reflecting. When domestic electronics sales are examined and broken down in further detail, it is evident larger items such as televisions are suffering much more than smaller items such as tablets.

Below are bricks and mortar electronics and appliance store sales in the US since they peaked in 2007:

US Electronics and Appliance Store Sales (Bricks and Mortar) Source: Department of Commerce						
	2006	2007	2008	2009	2010	% below peak level
Total Sales	107826	**110849**	108869	98384	100471	9.4%

Total sales are 9.4% below their peak reached in 2007. A piece of these sales relates to computer and software stores. Although total electronics and appliance sales are down significantly since they peaked, sales at computer and software stores are 8% above the level reached in 2007. After a trough in 2001 after the technology crash, computer and software sales have grown solidly, were the least sensitive to the Great Recession, and produced the strongest recovery of the electronics/appliance store group. If we strip out computer and software sales and focus solely on appliances and other electronics, we see a market still suffering:

US Electronics and Appliance Store Sales (Bricks and Mortar) ex computer and software						
	2006	2007	2008	2009	2010	% below peak level
Total Sales	88049	**90303**	88335	78766	78320	13.3%

If Amazon's sales are added to total electronics and appliance sales, the decline from the peak level reached in 2007 is only 4%, not 9.4%. If Amazon's sales are added and the computer and software store sales are stripped out, electronics and appliance sales are still down 7% from the peak achieved in 2007. This tells me only some of Best Buy's struggles with electronics may have to do with losing market share to Amazon, much of it relates to weak sales of larger durable items such as television and appliances in general. The same can be said for car sales, which remain well below 2007 levels in the United States.

If we examine Best Buy's share of the bricks and mortar market and total market share including Amazon sales, the numbers are not as bad as the stock price is reflecting. Keep in mind that Best Buy's fiscal year ends in late February/early March, so Best Buy's fiscal 2006 revenue in compared with market data from 2005 and so forth:

Best Buy Fiscal Year	2006	2007	2008	2009	2010	2011
Best Buy Total Domestic Sales	27380	31031	33328	35070	37314	37186
Market Share % of Bricks and Mortar	26.99%	28.78%	30.07%	32.21%	37.93%	37.01%
Market Share % including Amazon	26.72%	28.40%	29.47%	31.30%	36.26%	34.31%

	2007	2008	2009	2010	2011	% Below Peak
Best Buy Domestic Consumer Electronics Sales	13964	13664	13677	**14552**	13759	5.5%

We see that Best Buy still retains significantly more market share of the total U.S. electronics markets than they had in 2007. Sales of consumer electronics items specifically are relatively similar to where they were in 2007, while the overall market including Amazon is still down significantly if computer and software store sales are stripped out. Computer and software are reported in Best Buy's home office segment, while consumer electronics consists of items such as televisions. The decline in consumer electronics sales since 2010 is not as bad as it looks. Keep in mind Circuit City virtually shut down in 2009 after they declared bankruptcy. Best Buy was able to take advantage of one of their largest competitors going out of business and gained significant market share in 2010. However, that extra share proved to be unsustainable as newer entrants such as Amazon began to increase their presence after Circuit City's demise.

While Best Buy may not reach market share levels enjoyed in 2010, market share is also not in free fall. Instead of dealing with competitors such as Circuit City, Best Buy must deal with a different competitor in Amazon. There are enough consumers who find comfort in purchasing a large durable such as a television at a store, and when overall sales pick up, Best Buy should benefit.

Based on my projections for the total electronics and appliance market, it should grow 3% annually the next five years and Amazon could have 26% of the market by the end of 2016. My Best Buy sales projections are below, which assumes they retain 37% of the bricks and mortar market:

Best Buy Projected Domestic Revenue						
	2012	2013	2014	2015	2016	2017
Projected Domestic Revenue	36344	35733	35052	35201	35328	35430
% Share of Bricks and Mortar	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
% Share of Total Market including Amazon	32.56%	31.08%	29.60%	28.86%	28.12%	27.38%
Projected Bricks and Mortar Market Sales	98227	96575	94736	95139	95480	95756
Projected Electronics/Appliance Market Sales	111622	114971	118420	121973	125632	129401

While areas such as consumer electronics and the entertainment segment have been struggling, Best Buy's home office division has been a bright spot, sparked by sales of tablets and mobile devices, not only domestically but also abroad through the partnership with Carphone Warehouse in Europe. In addition, Best Buy is growing appliance sales abroad by taking advantage of China's emerging middle class. The home office division both domestically and abroad has grown same store sales strongly the past three years, as the tablet and mobile markets continue to grow. Same stores sales grew 10.4%, 12.8% and 3.6%, respectively, in the domestic home office division in 2009, 2010 and 2011, while sales grew abroad 5% in the home office division in fiscal 2011. Due to Best Buy's focus in China, same store appliance sales grew abroad in fiscal 2010 and 2011, 7.3%, and 15.2% respectively.

Despite meager top line growth, Best Buy is making every effort to add shareholder value. Instead of opening many big box Best Buy stores, which increase capital expenditures substantially, Best Buy is focusing its efforts on growing areas by opening Best Buy mobile locations to take advantage of mobile and tablet demand in the U.S., as well as expansion of Five Star Stores in China to take advantage of appliance demand in a growing emerging market.

In fiscal 2012, Best Buy plans to open 150 small-format mobile stores within the United States and only 6-8 big Best Buy stores. In years past they opened as many as 100 big Best Buy stores domestically. To take advantage of the Chinese appliance market, Best Buy plans to open 40 to 50 Five Star stores. Substantially fewer openings of big Best Buy stores will reduce capital expenditures remarkably and help free cash flow. Capital expenditures were as much as $1.3 billion in fiscal 2009 but were only $744 million in fiscal 2011 and are on pace to be only $800 million in fiscal 2012. Lower capital expenditures help free up cash to add shareholder value through buybacks and dividends.

Earlier this year, Best Buy authorized a $5 billion share buyback program, which is fairly significant considering their current market cap is only $9 billion. So far this year, Best Buy has reduced share count by 7%. This has potential to substantially increase earnings per share over time. Best Buy also announced a 7% increase of the dividend. At its current price, Best Buy has a 2.64% yield, which is now remarkably more than the current yield of the 10-year Treasury.

In my opinion, Best Buy is making good use of its capital. Share buybacks, dividends, expansion in growing areas, contraction in slower areas, and a focus on controlling costs have the potential to stop the recent slide in the stock price and provide much better future returns.

Below I will value Best Buy using the same discounted earnings model I used for Amazon. I choose to use discounted earnings instead of free cash flow because I feel a free cash flow model does not capture the effect of future share repurchases.

Because the mobile phone and tablet markets are growing abroad as is appliance demand in China, I project Best Buy's foreign revenue to grow 3% annually. Gartner estimates 1.6 billion mobile phones were sold in 2010 worldwide and sales are on pace to exceed 1.7 billion in 2011. Gartner also estimates global tablet sales will be 63.3 million in 2011 up from 17.6 million in 2010. They estimate sales of over 300 million globally by 2015.

Click here for an article showing strong home appliance demand in China, helped by the country's subsidy program.

Quote from the article:

"During the first five months of the year, a total of 45.23 million units of home appliances worth RMB 109.5 billion under the subsidy program were sold, up 71% and 103% from the same period last year, respectively, according to data released by the Ministry of Commerce on Saturday."

My projections for Best Buy's International Revenues are below:

	2012	2013	2014	2015	2016	2017
Best Buy Projected Foreign Revenues	13479	13883	14299	14728	15170	15625
Growth Rate	3%	3%	3%	3%	3%	3%

Figure 2 Estimated 2009 Industry Interactive Budgets Are Less Than $30 Million

	Travel and hospitality	Financial services	Consumer goods	Retail and wholesale trade	Media and entertainment	High-tech and manufacturing	Business services
Search marketing	$18.00	$11.00	$3.75	$12.00	$3.60	$2.79	$1.20
Display advertising	$6.00	$10.00	$15.00	$5.50	$8.80	$4.70	$0.24
Email marketing	$3.00	$3.20	$1.50	$2.30	$1.85	$1.25	$0.50
Social media	$0.68	$0.20	$1.40	$0.40	$0.25	$0.55	$0.30
Mobile marketing	$1.43	$0.75	$0.50	$0.25	$1.23	$0.30	$0.03
Total IM budget	**$29.11**	**$25.15**	**$22.15**	**$20.45**	**$15.73**	**$9.59**	**$2.27**
Percent of total marketing budget	29%	3%	2%	14%	2%	10%	19%

Source: Forrester estimates (in millions)

55668 Source: Forrester Research, Inc.

Direct-to-Consumer Advertising of Prescription Drugs: Promotion spend: $29.9 Billion in 2005

http://www.nejm.org/doi/full/10.1056/NEJMsa070502

Consumer Goods (CPG/FMCG) :

Appliances

Clothing and Accessories

Consumer Electronics

Marketers use CPG coupons as a tool to research the price sensitivity of buyers to their products and their use is increasing. In 2010, more CPG coupons were distributed than the prior year, reaching 332 billion - the largest single-year distribution quantity ever recorded in the United States. Redemption volume in the United States also grew 3.1% to $3.3 billion.

Overall in 2010, 87.7% of all coupons were distributed in the free-standing insert (FSI) coupon booklet. The FSI total growth was 19 billion coupons, the largest volume increase of all media. The second largest share of coupons distributed was via handout in-store media, amounting to 5.2% of the 2010 total.

NewCo will transform this “brick and mortar” CPG coupon marketing business into an online system that will bring enormous added value to both the marketers and to their consumers alike. Using NewCo’s system, CPG marketers will obtain better, more accurate information in much less time and with much less cost. The consumer will be given access to product discount offers electronically, at the “time of decision”, while the redemption process will also be automated, removing the need to clip, carry and redeem paper-based coupons at checkout.

NewCo will generate revenues by selling consumer price sensitivity, competitive comparisons and demographic data to CPG marketers and by enabling marketers to create very targeted coupon campaigns and will collect this information through coupon campaigns.

The business model that NewCo will create for CPG marketing is similar to Google’s Search and

mpetitive(by sending out coupons with different dollar values to different groups).

that is widely-used in the marketing of consumer packaged goods (CPG).

By using technologies that are widely available, NewCo will be an electronic marketplace between CPG consumer and marketer, and obsolete the existing brick-and-mortar business model.

which will capture a large portion of the brick-and-mortar business and to transact product and consumer data by means similar to Google’s “Ad Words”

The current processes used by CPG marketers is a growing, multi-billion dollar business that is only moderately effective,

creating a new Google-like business model around a long-standing “brick and mortar” business of consumer packaged goods (CPG) marketing.

of dramatically improving a “brick and mortar” business model for the marketing of consumer packaged goods (CPG).

business model for of using technologies that are now readily available.

, will improve the consumer experience while at the same time will strea

of equity and coverage of marketing and operations until it becomes cash-positive within a two-year period. In exchange,

becoming cash positive.

If you have ever used coupons at the grocery store, then you know the routine. You cut coupons out of newspapers and magazines, take them to the store and use them to get discounts on certain products. A coupon is the same as cash. For example, if you have a $1.00 off coupon on a box of cereal, the cashier takes the coupon as though it were cash. It's not that common any more, but some stores will even double a coupon's face value.

Once the cashier accepts the coupon, the store has a problem. It now has a small scrap of paper that is worth cash, but in order to get the cash the store has to mail the coupon to the manufacturer. On the back of most coupons in fine print, the manufacturer lists the mailing address and states that it will also reimburse the store some amount of money for processing --

typically 8 cents per coupon. Redeeming a coupon would not be that bad if there were only a few of them, but major grocery chains collect millions of them. At that scale it becomes a major headache! The whole process seems hopelessly antiquated, but coupons remain enormously popular and that is why they continue. A coupon is, essentially, free money, and free money is hard to stop...

Coupon Q&A

Why do marketers distribute CPG (Consumer Packaged Goods) coupons? To research the price sensitivity of different groups of buyers (by sending out coupons with different dollar values to different groups).

Why do stores redeem coupons and even accept the associated overhead costs? To get consumers in the store. Not doing so will cause people to go elsewhere.

Why do consumers go through the trouble of clipping coupons? To save considerable amounts of money.

Opportunities for Efficiencies and Cost Savings Await

LIVONIA, Mich., Jan. 20, 2011 /PRNewswire via COMTEX/ -- Valassis (NYSE: VCI), one of the nation's leading media and marketing services companies,announced today that shoppers saved $3.7 billion with coupons in 2010, according to the Annual Topline U.S. CPG Coupon Facts Report for Year-end 2010, released by NCH Marketing Services, Inc., a Valassis company. An additional $200 million was saved in 2010, representing a 5.7% increase from 2009.

In 2010, marketers distributed more consumer packaged goods (CPG) coupons than the prior year, reaching 332 billion - the largest single-year distribution quantity ever recorded in the United States, exceeding last year's prior record by 6.8% or 21 billion coupons.

"Marketers are distributing more coupons in the marketplace to reach today's value-centric consumer," said Suzie Brown, Valassis Chief Marketing Officer. "For years, we have heard that the consumer is king and this rings so true today. Shopping and savings go hand in hand."

Paper Coupon Process

1) CPG marketer starts a campaign and issues coupons through magazines and newspapers.
2) Consumers clip coupons and take them when grocery shopping.
3) At the grocery store, the consumer redeems coupons at checkout.
4) Grocery store scans the coupons and the coupon value is counted as cash paid by the consumer.
5) Grocery store sends coupons to Corporate.
6) Corporate sends coupons to a clearinghouse to sort and separate by CPG marketer.
7) Clearinghouse sends coupons to the CPG Marketing.
8) CPG Marketing now has feedback on which coupons are redeemed at which stores.
9) CPG Marketing sends the coupon cash value to the Grocery Store.
10) CPG Marketing pays the clearinghouse for services and shipping.

Online Coupon Process

1) Consumer navigates to a web site and selects coupons to be used.
2) Consumer prints the coupons at home.
3) The consumer takes the printed coupons to the grocery store for redemption.
4) The rest of the process is the same as the Paper Coupon Process.

Mobile Coupon Process

A Mobile coupon is an electronic ticket solicited and or delivered to a mobile phone that can be exchanged for financial discount or rebate when purchasing product or service. Customarily coupon are issued by manufacturers of consumer packaged goods or retailers, to be used in retail stores as part of a sales promotion. They are often distributed through WAP Push over SMS or MMS, or other mobile means. The customer redeems the coupon at store or online. In some cases customer redeems the mobile coupon at store; some retailers forward the redemption to a clearinghouse for final processing.

1) CPG marketer starts a campaign and issues coupons via SMS (text) to a lead list.
2) [I need more detail here]

NewCo's Value Proposition

1) Save consumers time and more money on their purchases
2) Give consumers on-the-spot brand and savings options.
3) Reduce stores' overhead costs associated with paper coupons
4) Enable CPG marketers to distribute coupons immediately, with no printing costs or delay.
5) Enable CPG marketers to target specific store locations and communities and to vary coupon offers accordingly.
6) Give CPG marketers immediate feedback on coupon campaigns; there is no latency associated with store collection policies and clearinghouses.

How Paper Coupons Work

If you have ever used coupons at the grocery store, then you know the routine. You cut coupons out of newspapers and magazines, take them to the store and use them to get discounts on certain products. A coupon is the same as cash. For example, if you have a $1.00 off coupon on a box of cereal, the cashier takes the coupon as though it were cash. It's not that common any more, but some stores will even double a coupon's face value.

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If you use coupons, you know that when you reach the check out counter, you hand the cashier your coupon(s). The cashier scans them and puts them into the cash drawer. What happens next depends on the store, but here's a typical process. At the end of the day the coupons in each cash drawer are added up as if they were cash, and that amount is added to the cash sum to be sure the overall total for the drawer is accurate. Then all of the manufacturers' coupons (and any coupons issued by the grocer) are sent in plastic bags or pouches to the store's corporate headquarters, typically once a week.

In the big store chains, the value of the coupons can easily total several million dollars per week. There is a person in headquarters in charge of processing the coupons. That person boxes all of the bags of coupons (still separated by the individual stores from which they came) and ships them to a third-party clearinghouse.

This is where the real work starts. The clearinghouse has to sort through millions of coupons, largely by hand. The first goal is to separate the coupons by manufacturer. Another goal is to separate coupons with scannable UPC codes from damaged (torn, smudged, etc.) coupons. This is so much hand work that some clearinghouses pay other clearinghouses -- in Mexico, for example -- to do part of the work. One system places scannable coupons face up on a conveyor belt, where they are moved along under a scanner that reads the UPC codes and tallies the amounts, then adds up the total value of each manufacturers' coupons. Damaged coupons that can't be scanned have to be sorted by hand and added up separately. The other system is to do the whole thing by hand. The clearinghouse then sends all the sorted coupons with an invoice to the manufacturer.

Several things can happen here. The manufacturer might reimburse the clearinghouse for the amount of the invoice, and the clearinghouse will send a check to the store for the amount of the coupons. Or the manufacturer will send a check directly to the store and the store then pays the clearinghouse. The clearinghouse is paid a certain amount per coupon by the store, plus shipping and handling. The whole cycle takes about a month. In many cases, the manufacturer will recount the coupons to avoid fraud -- a process that may send the coupons through another clearinghouse!

This is another great example of how a simple idea -- "let's give people a little scrap of paper that they can redeem for 25 cents off a can of beans" -- turns into a whole lot of work for somebody!

Source: http://money.howstuffworks.com/personal-finance/budgeting/question426.htm

Digital Coupons:

Digital coupons are a form of consumer promotion that allows consumers to find and redeem coupons without ever touching a piece of paper. Digital coupons should not be confused with print-at-home a coupon which utilizes an altogether different technology. Digital have the potential to appeal to consumers who may otherwise not look for paper coupons to bring to the store and may reach a desired demographic of young affluent families. A recent study by Scarborough Research found that consumers who obtain coupons via text or e-mail tend to be young, affluent, educated and female. The marketing research firm Leo J. Shapiro & Associates found that consumers interested in using scannable mobile coupons were more likely to be younger, affluent and with families.

In 2008, the number of such coupons distributed in the consumer packaged goods segment via digital coupons accounted for less than one tenth of one percent of the total U.S. coupon distribution marketplace. Even though several companies have emerged, each with its own unique approach to digital couponing, digital coupons will not replace paper coupons anytime soon, they are a new and growing distribution vehicle. These include handheld devices in stores and screens built into grocery cart handles that alert shoppers to deals, text messaging and iPhone applications with the two technologies that appearing to lead the way involve delivering coupons to consumers' mobile phones and linking coupons to loyalty cards.

According to eMarketer, mobile phones are expected to exceed 91% penetration this year. As a result, many marketers see them as a means of reaching a broad base of consumers appealing of to marketers. Only 26.3% of mobile phone subscribers are using the mobile Internet A number of mobile coupon services, however, require that the phones be Web-enabled, which reduces their potential reach according to eMarketer. This figure is expected to grow over the next several years, the projection is that it will remain under 50% even by 2013.

"Loyalty-Marketing Programs in the Retail Food Industry," states that 75% of customers participate in a loyalty program, including 41% who use their loyalty cards almost every time they shop. Since onsumers are already accustomed to using loyalty cards, linking digital coupon discounts to a loyalty card, a retailer can provide consumers with the convenience of using digital coupons without requiring them to utilize Web-enabled mobile phone applications. While marketers utilize many different forms of paper coupon media to deliver discounts how, when and where consumers want to receive them, digital couponing will likely do the same thing. Digital coupon technologies (such as mobile coupons) may be used more in the restaurant market segments, other digital coupon technologies (like down-loading coupons to loyalty cards) may be faster to market in retail grocery industry. Advances in digital coupon distribution will grow faster if they can work within the parameters of existing POS technologies and still meet the unique redemption management goals. It is important to first define your marketing objectives utilizing digital coupons distribution by first identifying which consumers you want to target, then evaluate your results and refine your promotions.

Source: NCH Marketing Services, Inc., http://www.santella.com/coupon.htm#COUPONING%20ENTERS%20THE%20DIGITAL%20SCENE

PRESS RELEASE: **Value-centric Shoppers Save $3.7 Billion in 2010 Using Coupons Coupon Distribution Posts Record-breaking Year in 2010**

LIVONIA, Mich., Jan. 20, 2011 /PRNewswire via COMTEX/ -- Valassis (NYSE: VCI), one of the nation's leading media and marketing services companies,announced today that shoppers saved $3.7 billion with coupons in 2010, according to the Annual Topline U.S. CPG Coupon Facts Report for Year-end 2010, released by NCH Marketing Services, Inc., a Valassis company. An additional $200 million was saved in 2010, representing a 5.7% increase from 2009.

In 2010, marketers distributed more consumer packaged goods (CPG) coupons than the prior year, reaching 332 billion - the largest single-year distribution quantity ever recorded in the United States, exceeding last year's prior record by 6.8% or 21 billion coupons.

"Marketers are distributing more coupons in the marketplace to reach today's value-centric consumer," said Suzie Brown, Valassis Chief Marketing Officer. "For years, we have heard that the consumer is king and this rings so true today. Shopping and savings go hand in hand."

Overall, 87.7% of all coupons were distributed in 2010 in the free-standing insert (FSI) coupon booklet. The FSI total growth was 19 billion coupons, the largest volume increase of all media, according to the NCH report. The second largest share of coupons distributed was via handout in-store media, amounting to 5.2% of the 2010 total. NCH also reported a 37% increase in the number of digital coupon offers.
In addition, the report indicates marketers continue to modify their offering characteristics. The following offer trends reveal:

- An average $1.46 face value distributed, representing a 6.6% increase from 2009;

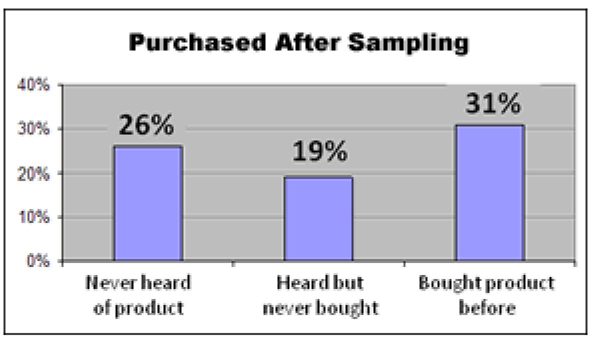
- 26% required the purchase of two or more items to obtain the offer discount; and
- 9.1 weeks average expiration, approximately a week and a half shorter than the prior year, a 14.2% decrease.

Redemption volume in the United States grew 3.1% to 3.3 billion CPG coupons in 2010. The increasing trend in consumer use of coupons was further supported by NCH's Consumer Survey, finding that frugal consumer shopping habits as a result of the recession continued in 2010, maintaining overall high consumer coupon use and an increasing regularity of coupon use. In 2010, the survey reveals that 78.3% regularly use coupons compared to 77% in 2009, 75.8% in 2008 and 63.6% of consumers in the pre-recession survey of 2007.

"Consumer demand for coupons remained high in 2010 as shopping habits created during the most recent recessionary period sustained throughout the sluggish economic recovery that occurred during the year," said Charlie Brown, NCH Vice President of Marketing. "In fact, a third of the respondents in NCH's Annual Consumer Survey said that they used more coupons in 2010 than the prior year."

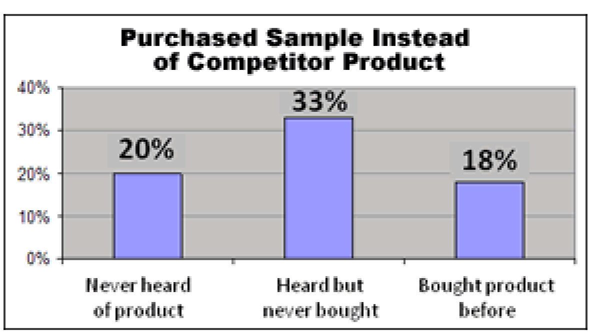
SOURCE Valassis
http://www.santella.com/Trends.htm

SAMPLING IS EXPENSIVE BUT IS AN EFFECTIVE TACTIC



A research study conducted by Arbitron, in combination with Edison Media Research, found that nearly 30% of consumers are offered product samples at least once every three months and 64% of them will accept and try the product. The Study was conducted in early 2008 and found that product samples produced a same-day sales lift. Over a third (35%) of consumers who tried a sample purchased the product during the same shopping trip.

This effect extended across all customers regardless of whether this was their first introduction to the product or a repeat purchase. Not only did sampling allow for same-day sales increases, but the long-term outlook was positive as well. Nearly half of those sampling the product had intentions of purchasing that product in the future, with that number growing to 85% among those that had purchased the product before. These results indicate that sampling can contribute to customer retention and increased brand loyalty.



In many cases, sampling-inspired purchases actually resulted in brand switching. Survey results indicated that

24% of shoppers decided to buy the sampled product rather than another product that they had planned to purchase. While sampling is one of the most expensive promotional tactics, it can also be among the most effective, if executed properly. The bottom line is sampling not only entices consumers to try your product but also is an effective tactic that encourages initia**l and repeat purchases.**

http://www.santella.com/coupon.htm#COUPONING%20ENTERS%20THE%20DIGITAL%20SCENE

Types of Coupons

The **grocery coupons** have the advantage of being usable with most retailers and not with only one brand or store. As the other types of coupons, grocery coupons are intended for people who are willing to save money when purchasing groceries but also to direct people towards buying a new type of product which normally will not have as many buyers as with the grocery coupons. They may also be used to increase the sales of a certain newspaper for example, as many people who have discovered the savings they can do with these coupons, tend to buy more than just one copy of that newspaper or magazine.

Some grocery stores double the value of a grocery, especially for products that normally are not very well sold.[5]

Delivery methods

Customers may get these coupons from various sources, including national newspapers and the Internet, with web sites offering free printable grocery coupons can be printed at home and use them at retail store. Some major grocery chains also produce digital coupons that may be loaded onto the retailer's store card at home, or at a coupon dispensing machine located in store.

Print media

Clipping coupons from newspapers has been the most popular way to obtain coupons. Though Internet and Mobile Phone coupons are gaining wide popularity. One problem with coupons from newspaper inserts is the mass amount of clutter and disorganization. One way to increase savings with clipped newspaper coupons is by using one of the many coupon organizers on the market today.

Many retailers and companies now offer protection from unauthorized copying or use via several verification methods including unique barcodes and coupon ID numbers, holographic seals, and watermarked paper.

Other than newspaper, there are also coupon book publishers who compile vouchers and coupons into books for sale. Such companies include Entertainment Publications in the United States and the Worthy Book in Malaysia.

Internet coupons

Online retailers often refer to coupons as "coupon codes," "promotional codes," "promotion codes," "discount codes," "key codes," "promo codes," "surplus codes," "portable codes," "shopping codes," "voucher codes," "reward codes" "discount vouchers" or "source codes." Internet coupons typically provide for reduced cost or free shipping, a specific dollar or percentage discount, or some other offer to encourage consumers to purchase specific products or to purchase from specific retailers. Because paper coupons would be difficult to redeem, typically secret words or codes are distributed for consumers to type in at checkout. Marketers can use different codes for different channels our groups in order to distinguish response rates.

Mobile coupons

A Mobile coupon is an electronic ticket solicited and or delivered to a mobile phone that can be exchanged for financial discount or rebate when purchasing product or service. Customarily coupon are issued by manufacturers of consumer packaged goods or retailers, to be used in retail stores as part of a sales promotion. They are often distributed through WAP Push over SMS or MMS, or other mobile means. The customer redeems the coupon at store or online. In some cases customer redeems the mobile coupon at store; some retailers forward the redemption to a clearinghouse for final processing.

Source: Wikipedia
http://en.wikipedia.org/wiki/Coupon