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THE WALL STREET JOURNAL
WSJ.com

EARNINGS | SEPTEMBER 14, 2010

Retailers Turn to Gadgets

Best Buy, Others Stock Up on Handhelds for Holidays as TVs, PCs Lose Luster

By MIGUEL BUSTILLO

Electronics retailers are revamping their aisles to focus on hand-held gadgets this holiday season to excite consumers who have grown weary of their traditional big-sellers: televisions and personal computers.



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Associated Press

Handhelds are changing electronics retailing. Above, a Best Buy employee in Chicago delivers iPads in April.

Shoppers this Christmas can expect to see more smartphones, electronic readers and touch-screen computers in the most prominent store displays, underscoring a dramatic shift to powerful portable devices that is fast changing the face of consumer electronics retailing.

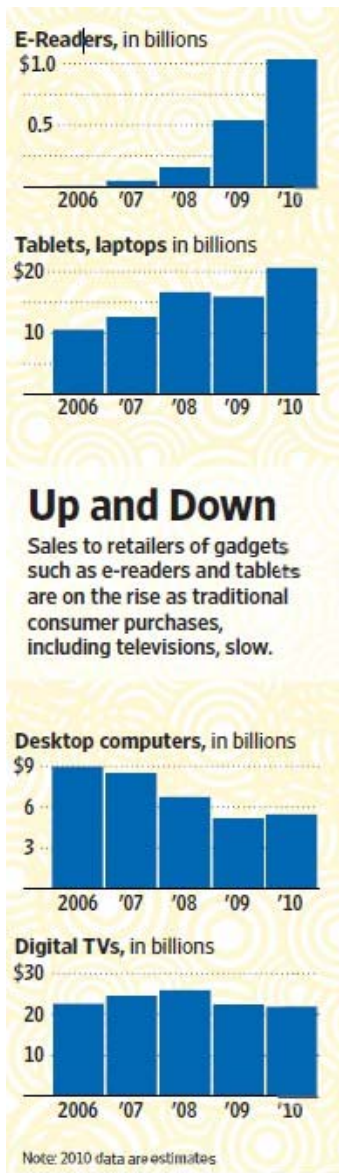
The new priorities are plainly evident in the changing strategy of **Best Buy Co.**, the nation's largest electronics retailer by revenue, which is now morphing into a mobile gadget specialist after decades of promoting the latest in big-screen televisions, desktop computers and high-fidelity stereos.

Best Buy, which reported a 61% jump in second quarter profit Tuesday despite flat sales at stores open at least 14 months, said it will showcase devices such as **Apple Inc.**'s iPad tablet

computer and **Amazon.com Inc.**'s Kindle e-reader this holiday season. It also plans to turn the middle of its stores into a playground for motion-sensing videogame accessories from **Sony Corp.** and **Microsoft Corp.**

The Richfield, Minn., retailer already has radically pared back its formerly expansive selections of movie and music discs as consumers gravitate to digital entertainment purchases. What remains will be further reduced to make way for the electronic fashions of the moment, it said. On Tuesday, Best Buy said it will expand iPad distribution to all of its 1,093 U.S. stores Sept. 26.

"People are willing to disproportionately spend for these devices because they are becoming so important to their lives," Best Buy Chief Executive Brian Dunn said in an interview. "We are really positioning the company to be the place where people can come and see the best of the connected world."



The chain's emphasis on gadgets and games is fine with customers such as Anthony Thomas, 36, a manager for a Texas software company. "Five years ago, I mainly came here for appliances and kitchen stuff," Mr. Thomas said after buying the videogame "Halo: Reach."

Best Buy is not the only large retailer looking to grab a bigger share of the gadget action: [Staples Inc.](#), best known for selling office supplies, also plans to start selling the Kindle this fall.

"I don't want to be a consumer electronics company and start selling big-screen TVs, but we are looking broadly," Staples Chief Executive Ronald Sargent said. "Most of our customers are small business owners and the Kindle is something they can enjoy while traveling."

Best Buy's strong results for the three months ended Aug. 28 were due to tight expense controls, increased sales of cellphones and services such as connecting televisions with home networks, and a stock repurchase program that reduced total shares outstanding. The earnings also underscored the trends buffeting consumer electronics retailers heading into Christmas. Best Buy said smartphone sales continued to rise compared with a year ago, as did portable computer totals, buoyed by the iPad.

However, television sales fell despite the rollout of new 3D models, with both average prices and total volumes notching "low-double digit" declines compared with last year. Mr. Dunn also said internal estimates showed that the iPad had cannibalized sales from laptop PCs by as much as 50%.

"It's a very different environment now," said Stephen Baker, the chief electronics analyst for market researcher NPD Group Inc. "The real cool stuff now will be the tablets, e-readers and probably the higher-end digital cameras."

Still, Best Buy projects annual revenues of \$52 billion, up about 5% from last fiscal year. Executives said Best Buy is well positioned to benefit from the changes in electronics, noting that the company offers the largest e-reader assortment in the industry and is heavily focused on its Best Buy Mobile business, which offers smartphones from multiple carriers under one roof, similar to the way such phones are marketed in Europe.

Its mediocre television sales mirror recent statements by retailers such as [Costco Wholesale Corp.](#) that U.S. television sales are slowing, and come as leading manufacturers warned shipments fell substantially in recent months, a trend that may pressure their profits.

[Panasonic Corp.](#) TV executive Yoshiiku Miyata said in an interview with the *Journal* last month that "there is definitely a slowdown in U.S. sales, while Sony's TV head Yoshihisa Ishida said last month he saw signs of "rapid deterioration" in the American economy and no longer expected to make U.S. sales targets.

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Slack TV demand has led to an inventory buildup that is spurring price cuts to spark sales, said analyst Riddhi Patel at researcher iSuppli Corp. She predicted that by Black Friday (the big shopping day after Thanksgiving), lower-tier brands of 32-inch HDTVs will sell for as little as \$199, with other name brands advertised below \$500.

"It has become largely a replacement market," Ms. Patel said. "New features are not driving sales in a significant way. People are saying, 'I could buy a television or something totally new like an iPad that I don't already own.'"



Bloomberg News

Retailers hoped new technologies such as 3DTV and internet-enabled televisions bundled with popular applications such as Twitter would help slow the downward trend in average television prices, which have been falling 20% to 25% a year in recent years.

However, 3DTV sales are off to a slow start, as programming for the expensive sets continues to be scarce and the requirement to buy additional viewing glasses for around \$100 apiece is turning off potential buyers.

For consumers, the situation likely means more lavish television promotions this Christmas season, with lower prices on fancier models and bundling deals that throw in free 3DTV glasses as well as Blu-ray movie players.

"You are going to see better and better deals on 3DTVs," said Richard Leeds, chief executive of **Systemax Inc.**, which operates the TigerDirect website and has begun opening stores after purchasing the brand names of fallen retailers CompUSA and Circuit City. "That is going to make adoption speedier."

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