

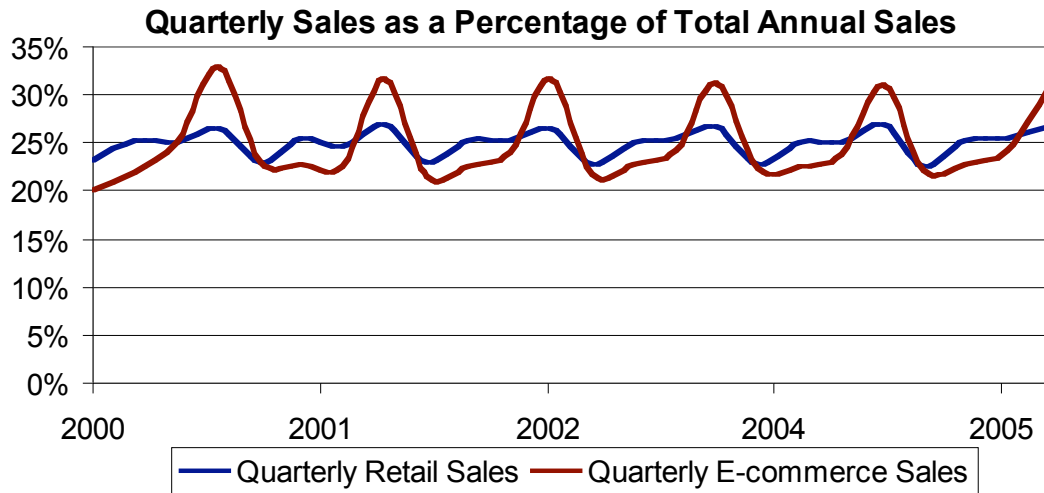
How paramount is the fourth quarter for retailers?
by Shawn G. DuBravac, CFA

While it is true the fourth quarter represents the largest percentage of total year retail sales compared to the first through third quarters – it's only marginally more than both the second and third quarters. The second and third quarters each represent just slightly more than 25 percent of total annual retail sales. With just under 27 percent of total annual retail sales, the fourth quarter gains all of its proportionate advantage at the expense of first quarter weakness – which is just under 23 percent of total annual retail sales.

But this is solely looking at aggregate retail sales. The aggregate figure by definition includes all retail sales across all retail sectors. Behind total retail sales is significantly more quarterly variation. For example, heating fuel dealers, as you would presume, do well in cold weather – with over 60 percent of annual sales coming in the first and fourth quarters. Book stores do proportionately more business in the third quarter – the summer reading effect. Garden and hardware retailers sell the most in the second quarter – planting and gardening season. Used car dealers sell proportionately less in the fourth quarter – apparently loved ones don't always love used ones for the holidays.

In the fourth quarter numerous retail sectors do proportionately more business. Furniture and home furnishing stores do about 28 percent of annual business in the fourth quarter, while clothing and accessory retailers as well as department stores each do about 32 percent of annual business in the fourth quarter. At 39 percent, jewelry retailers have the highest quarterly fraction in the fourth quarter - more than any retail sector in any quarter. For jewelry retailers, December alone represents over 23 percent of annual sales.

The fourth quarter is also significant for e-commerce retail – with nearly 32 percent of total annual online sales coming in the fourth quarter. As the graph on the next page illustrates, e-commerce is proportionately higher in the fourth quarter and less in the remaining three quarters of the year than total retail sales in the corresponding quarter. E-commerce is becoming more important, but it is still a very small percentage of total retail sales – increasing from 0.7 percent of total retail sales in the fourth quarter of 1999 to a CEA estimated 3.1 percent of total retail sales for the fourth quarter of 2006.



So how paramount is the fourth quarter for the consumer electronic industry?

The fourth quarter is in fact, a vital element for electronic retailers – representing approximately 33 percent of annual sales, with a significant portion of these sales coming late in the quarter. December represents just under 16 percent of annual sales for electronic stores, with November tacking on roughly another 10 percent of total annual sales. Sixty days represent nearly a fourth of total annual sales.

Online retailing is also becoming increasingly important for consumer electronics. According to CEA’s report, *The Demographics of Online vs. In-Person CE Shopping*, online retailing accounts for roughly nine percent of total spending on consumer electronics – over three times what it is for aggregate retail. This also holds in the crucial fourth quarter. As the following table highlights, as consumers have become increasingly willing to purchase holiday gifts online, they have also become more inclined to purchase consumer electronic gifts online.

Year	Percentage of Consumers at least Somewhat likely to Purchase Gifts Online	Percentage of Consumers at least Somewhat likely to Purchase CE Gifts Online
2006	56%	25%
2005	44%	23%
2004	46%	22%
2003	40%	16%

While the fourth quarter represents approximately 33 percent of annual sales for the entire consumer electronics industry, total annual sales of new products still early in the adoption curve tend to be even more heavily purchased in the fourth quarter. The table on the following page highlights how proportionately important fourth quarter sales were in 2005 using data from CEA’s factory-to-dealer data program. One can easily see products still relatively close to their introduction year and early in the adoption curve sell a disproportionate amount in the fourth quarter.

Product	Percentage of Annual Sales in the 4th Quarter	Household Penetration Rate	Year of Introduction at CES
Portable MP3 Players	46%	25%	1999
Flat Panel LCD Televisions	40%	7%	2001
Flat Panel Plasma Televisions	39%	13%	2001
Digital Still Cameras	38%	57%	1994
DVD	35%	82%	1996
Portable CD players	31%	56%	1981
Portable Radios	29%	56%	NA
Analog VCRs	27%	87%	1970
Analog CRT Televisions	27%	78%	NA
Cordless Phones	26%	87%	1982

The fourth quarter is largely important for the entire consumer electronics sector – representing 33 percent of total annual sales – but it proves particularly important for products and devices that are still early in the adoption curve or close to the introduction year. It is also evident that e-commerce continues to play an increasingly larger role in the retail sector in general and the electronics sector specifically. This is especially true with all important holiday gift giving. Holiday gift giving represents approximately 50 percent of total fourth quarter sales of consumer electronics – or roughly 16 percent of total annual sales.