

## Retail Consumer Electronics Stores – Appraisal Factors

### Introduction

Revenue from the consumer electronics market is expected to grow to \$59.5 billion by 2010—a 19.8% increase over 2005 volume. Sales of Video products (televisions, DVD players and digital cameras) represent 79.7% of the market's total value. The upward mobility of the consumer electronics market is driven primarily by the surging popularity of plasma, HDTV and LCD flat-panel televisions. Lower prices, due to increased competition, account for the growth in market size and household penetration.

Prices of plasma and LCD televisions dropped 25% to 30% in 2006, faster than expected, as retailers such as Best Buy and Circuit City were forced to lower their prices in response to the entrance of Wal-Mart and other regional players into the HDTV market. However, because consumers demand superior service as well as low prices, in-store customer assistance, custom installation and post-purchase support may pose problems for new entrants to the HDTV market. These services may be a way for specialty electronics retailers to differentiate themselves from their purely price-driven competitors.

Based on recent liquidation and appraisal experience, Tiger Valuation offers the following appraisal factors for consideration.

### Appraisal Factors

- Consumer electronics goods tend to have short product lifecycles. Stocking the latest generation items is critical to retaining current customers and obtaining new ones. Lenders should monitor companies' inventory aging reports by category especially with regard to core departments such as TVs and home theater systems. Older merchandise in these groups generally recovers less than current releases.
- Any build-up of service inventory or Return-To-Vendor (RTV) merchandise must be guarded against. Liquidating agents attempt to have these items excluded from eligible inventory in a GOB (Going-Out-of-Business) scenario, potentially lowering the return to the estate.
- It is important to understand the amounts of "open box", demo and/or display models on hand. Many products such as high-end TVs can no longer be sold as first-quality once they have been removed from their original packaging. In many cases, retailers' financial statements will carry these items at full value.
- Installation, activation, delivery and other service components need to be carved out of historical financial data to isolate merchandise-only sales performance. Non-merchandise transactions can serve to inflate projected achievable sales for a GOB event and can artificially increase gross margin.
- Though revenue from services should be excluded from gauging historical financial results, these services would be expected to continue as long as possible during a liquidation event. Not providing customers additional services such as installation during a sale would negatively impact gross recovery values.
- Consumer Reports (November 2006) issued a warning that extended warranties are bad deals for consumers. (Retailers typically retain a 50% commission on extended warranty sales.) What affect this warning will have on future profits remains to be seen.

### Conclusion

While industry analysts predict slower performance in the consumer electronics market for 2007–2008 as the current releases of new products approach the maturity stage, today's consumers continue to demand the latest features and innovations at competitive prices. Fittingly, manufacturers are constantly changing the design of existing products, upgrading older releases and developing cutting-edge concepts that will replace today's technology. Merchants experience added pressure to remain current due to the ability of modern consumers to compare models and pricing quickly and easily on the Internet. Retailers must keep pace with real-time market pricing and find new ways to offset lost margin dollars. Large amounts of aged or obsolete product in the inventory mix could necessitate deep discounts to entice customers to make purchases during a GOB sale, thus lowering gross recovery dollars.