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EToys Lured Holiday-Season Shoppers But Concern About Service Hurts Stock

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Abstract:
*While eToys was one of the biggest losers yesterday, in part because of a ratings downgrade from one analyst concerned about its customer service and gross profit margins, the stocks of other popular Internet "e-tailers" also declined, despite what is being seen as a solid **holiday** sales season on the **Web**.*

*Ms. [Lauren Cooks] Levitan said eToys' **performance** looked good until the week before Christmas when it suddenly deteriorated. "If you had a disappointing experience, as a consumer, you're probably not coming back to eToys," she said. "And we won't know for sure if they've fixed their **problems** until next Christmas."*

*Ms. Levitan said eToys stumbled in shipping goods punctually, damaging its reputation for flawless execution of orders. It plans to boost its capability by opening its first East Coast shipping center next year, adding 400,000 to 500,000 square feet of inventory space to an existing base of 600,000 square feet split between **sites** in California, Utah and Minnesota.*

Full Text:

EToys Inc. finished the Christmas season as the third most visited retail Web site, but that didn't stop some skittish investors from wondering how well the company, and some of its Internet peers, really did.

The online toy retailer's shares tumbled $5, or 16%, to close at $25.9375 at 4 p.m. on the Nasdaq Stock Market, sharply off their 52-week high of $86.

While eToys was one of the biggest losers yesterday, in part because of a ratings downgrade from one analyst concerned about its customer service and gross profit margins, the stocks of other popular Internet "e-tailers" also declined, despite what is being seen as a solid holiday sales season on the Web.

Amazon.com Inc. dropped $8.875, or 9.9% to $81.125; eBay Inc. fell 5.8%, or $8.3125 to $134 and Value America Inc. fell 6.5%, or 50 cents to $7.25.

Many Web sites have been struggling with a huge surge in demand this holiday season, and some have had difficulty meeting all the orders. However, the full extent of the problems and their possible financial impact won't be known for a few more weeks.

Yesterday's decline in eToys followed a downgrade by one analyst, Lauren Cooks Levitan of Robertson Stephens in New York, from "buy" to "long-term attractive."

Ms. Levitan said eToys' performance looked good until the week before Christmas when it suddenly deteriorated. "If you had a disappointing experience, as a consumer, you're probably not coming back to eToys," she said. "And we won't know for sure if they've fixed their problems until next Christmas."

Ms. Levitan said eToys stumbled in shipping goods punctually, damaging its reputation for flawless execution of orders. It plans to boost its capability by opening its first East Coast shipping center next year, adding 400,000 to 500,000 square feet of inventory space to an existing base of 600,000 square feet split between sites in California, Utah and Minnesota.

Despite her downgrade, Ms. Levitan indicated that she may go back to a "buy" if eToys shares get much lower.

Meanwhile, not all analysts seem concerned about such customer-service issues.

"Investors are concerned about competition and order-fulfillment issues," said Christopher Vroom at Thomas Weisel Partners in San Francisco. "But the recent problems show consumers are embracing the Internet as a distribution channel."

Analysts said some investors now are concluding that it will take e-tailers longer to become solidly profitable than expected. Ms Levitan, for example, now suggests investors view eToys as a long-term investment since it will take time for the industry to mature.

Online retailers haven't had difficulty attracting customers -- the overall customer base grew 37% this season over last, according to Media Metrix Inc., a New York research firm. The hitch was getting orders filled and products out the door.

"We were not perfect this year," acknowledges Kenneth Ross, spokesman for eToys, based in Santa Monica, Calif. "But we won't rest until we are. We're trying to better understand what we need to do."

Toys "R" Us Inc. was in a horse race against eToys, analysts said, for the whole holiday shopping season. At the beginning of the holiday season, Toys "R" Us was generating more traffic with its free-shipping promotion. But it later was eclipsed by eToys.

Both retailers have had to cope with delivery and customer-service issues. Toys "R" Us, hoping to placate some unhappy customers who didn't get their toys in time for Christmas as promised, has offered $100 coupons. Etoys has given $10 coupons to some unsatisfied customers.

Media Metrix said the traffic growth at online retailers was "phenomenal" in 1999, surpassing virtually every company's ability to stay even with demand.

The leader, Amazon.com, was visited by an average of 6.1 million separate customers, each week, during the period from Nov. 22 to Dec. 19, according to Media Metrix. Next came online auctioneer eBay with 4.2 million online customers; eToys with 1.9 million, Toys "R" Us with 1.7 million and Barnes and Noble with 1.6 million.

Amazon.com met its shipping schedules for customers at least 99% of the time, according to spokesman Bill Curry. While there were some problems with toys in short supply, Mr. Curry said in most cases the company "got the goods out the door." He attributed the success to the company's decision to invest $300 million in warehouse infrastructure last year.

Overall, "repeat business was very high, as well," said Doug McFarland, senior vice president of Media Metrix. "And that tells you some people must be satisfied."

Credit: Staff Reporter of The Wall Street Journal
