

## Why Shortages of Hot Gifts Endure as a Christmas Ritual

By NICK WINGFIELD and ROBERT A. GUTH  
Staff Reporters of THE WALL STREET JOURNAL

December 2, 2005; Page B1

Holiday gift shoppers scoured malls last year for [Apple Computer Inc.](#)'s iPod mini, and many had a hard time finding the colorful music player. This year, the iPod hunt is on again, only this time it's for the iPod nano and video iPod. Once again, many shoppers are coming up empty-handed.

Like the annual showing of "It's a Wonderful Life" on TV, shortages of hot-selling gadgets and toys have become a commercial rite of the Christmas season. Last year, videogame junkies scrambled to find [Nintendo Co.](#)'s DS portable game player. This year, they are chasing [Microsoft Corp.](#)'s Xbox 360 game console, which began vanishing from store shelves immediately after the product's release on the Tuesday before Thanksgiving.

Far from hurting, scarcity -- especially in the first days of a product's release -- can amplify its success by generating buzz, marketing experts say.



"For the Xbox, it would have been terrible to have that thing in stock. It would have been a marketing disaster," says Peter Sealey, an adjunct professor at the Haas School of Business, at the University of California, Berkeley, and a former Coca-Cola Co. marketing executive. Consumers expect to have to fight for hot products, he adds. "Shortages create a whole mystique of desirability."

Manufacturers of popular toys and electronics have long been accused of whipping up shopping frenzies by deliberately rationing product supplies. But Apple and Microsoft insist they have done nothing of the kind with the iPod and the Xbox 360.

"We're shipping every one we make, but it's still not meeting demand," says Katie Cotton, an Apple spokeswoman, referring to iPods.

"No one has designed it to be this way," says Molly O'Donnell, a Microsoft spokeswoman, of the Xbox 360 shortages.

Still, some consumers remain skeptical. Karen Connolly of Scituate, Mass., tried to place an advance order for the Xbox 360 two Fridays ago on [Circuit City Stores Inc.](#)'s Web site. But her order was too late. "Santa can't always get things either," she had to tell her nine-year-old son.

"I think they create these shortages to create publicity," Ms. Connolly says. "From a marketing standpoint, it's brilliant, but from a parent's standpoint, it's annoying."

Apple, for its part, appears to have some control over where consumers can find iPods this year. Over the Thanksgiving weekend, Piper Jaffray Co. analyst Gene Munster checked on availability of iPods at 11 [Circuit City](#), [Best Buy Co.](#) and [CompUSA Inc.](#) stores and also at 10 Apple-owned retail outlets. Eight of the Apple stores had all iPod models in stock, Mr. Munster said in a report published earlier this week. In sharp contrast, all 11 of the other retailers were out of at least one color or configuration of the iPod nano or the video iPod, which start at \$199 and \$299, respectively. Mr. Munster's conclusion: Apple is squirreling away iPod inventory for its own stores and Web site.

Apple's Ms. Cotton declined to comment on how Apple allocates inventory with retailers.

Selling iPods directly to consumers is more profitable for Apple because it doesn't have to share profits with a retail middleman. And the iPod draws people into Apple stores, where they can browse other Apple goodies, Mr. Munster says.

Meanwhile, shortages of iPods at independent stores continue. "The iPod nano is very hot, and we expected supplies to be scarce for a while," says Jim Babb, a spokesman for [Circuit City](#), which is out of stock of various models at stores in the Seattle and suburban-Philadelphia areas but in stock in New York and elsewhere.

Despite the iPod's scattered availability, unit sales of the product at U.S. retailers declined from the second to the third week of November, according to NPD Group Inc., which tracks sales. Stephen Baker, an NPD analyst, says the decline is surprising and very likely the result of spotty supplies, not weak demand.

Shortages make some consumers only more determined to get their hands on an iPod, which is perhaps the closest thing to a fashion icon in the electronics industry. Because Apple has been introducing fresh models several times a year and phasing out old ones, scarcity is now a common

condition for iPods. Production of new models is frequently constrained by component shortages during the early days of distribution, analysts say.

"What Apple does is create scarcity by upgrading [the iPod]," says Seth Godin, an entrepreneur and author of several best-selling marketing books. "That's a time-honored tradition."

In the case of the Xbox 360, some retailers have taken advantage of its scarcity by requiring consumers to purchase games and other accessories in order to get the console. Yesterday, Best Buy, of Richfield, Minn., apologized to customers who had to purchase unwanted items and offered a refund on those purchases. "We are aware of instances where Best Buy employee action was inconsistent with company guidelines for promotional activities surrounding the sale of Xbox 360," the company said in a statement.

The Xbox 360 scramble recalls October 2000, when Sony Corp.'s PlayStation 2 was the hard-to-find holiday purchase. Problems making a graphics chip for the game machine forced Sony to halve the number of PS2 consoles it shipped to the U.S. for the holidays. The shortage wasn't planned, but it didn't hurt. Gamers continued to flock to stores into the next year as shortages persisted, and Sony expanded its share of the videogame-console market.

Other companies are adept at the shortage strategy, limiting production at first in order to create greater awareness and sales later on. Nike Inc., for instance, often issues limited editions of its Air Force 1 shoes, which start at about \$100 and are quickly snapped up by sneaker junkies. Cellphone makers routinely introduce sleek, feature-packed new models of phones that are often hard to find during their early days on the market. **In automobiles, Mr. Sealey cites scarcities of BMW AG's Mini Cooper and Porsche AG's Boxster, both of which boosted consumers' desire for the cars.**

In other industries, such as toys, explosive consumer demand can create an unexpected blockbuster, such as Tickle Me Elmo, and catch a company off guard. And shortages are endemic in the videogames business, where new consoles are typically introduced every three to five years.

In many cases, some of the early demand is fueled by speculative buyers, who go to whatever lengths they must to purchase hot items on their release date, in hopes of reselling them on eBay Inc.'s auction site at a big markup over regular retail prices.

At an investor conference yesterday in Scottsdale, Ariz., Meg Whitman, eBay's chief executive, told an audience that users of the site have sold about 40,000 Xbox 360s -- or about 10% of the 400,000 consoles that Microsoft is estimated to have shipped to U.S. retailers. The consoles are selling on eBay for hundreds of dollars more than the \$299 to \$399 that the system sells for in two basic configurations.

Microsoft says it is making and shipping Xbox 360s as fast as it can. Just before the new system launched, a Microsoft executive said there would be "plenty" of consoles available for the holidays. Ms. O'Donnell says the company is making enough consoles to replenish stores before Christmas, temporary shortages notwithstanding. "We want to sell every Xbox 360 we make as soon as possible," she says. "Demand is outstripping supply."

As for Ms. Connolly, the frustrated Xbox 360 shopper, her brother pedaled his bike at 3 a.m. to a local Circuit City two days before Thanksgiving and managed to get one of the Microsoft consoles. She says her brother called her after nabbing the machine and said: "This is Santa. I got it."

--Desiree J. Hanford contributed to this article.

**Write to** Nick Wingfield at [nick.wingfield@wsj.com](mailto:nick.wingfield@wsj.com) and Robert A. Guth at [rob.guth@wsj.com](mailto:rob.guth@wsj.com)