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GSI Commerce Q2 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) First question comes from the line of Mr. Anthony Noto of Goldman Sachs. Please proceed sir.

Anthony Noto - Goldman Sachs

Thank you very much. I was wondering if you could comment a little bit more on the category that underperformed, that you had mentioned.

Secondarily, Michael, I was wondering if you could comment on what progress you made on organic growth on the marketing services line, in terms of additional services adopted or penetration of clients, as it relates to new services. Thanks.

Michael Conn

Sure. You know, on the category we were talking to there was a couple areas that we mentioned that were weak. I think that first and most pronounced was a particular partner on the non-sports side that is an inventory owned partner. If you look at the product sales growth, which was down 6%, that year-over-year change was impacted by more than 2,000 basis points.

So I think clearly, it is in our results and we certainly will always have ups and downs with partners; but that was material impact that we did feel that we should point out.

I think if you look at where our guidance was, it was certainly something that we had looked for, but clearly a little bit more so on the weak side than we had expected.

Also note, 13% growth in merchandise sales for sporting goods was slower than we had seen in recent quarters. There, there's a few product trends that really had been hot for us that have slowed down; that did hurt us in the quarter. Flip side of that is, as we look to the back half of the year, as the licensed products category becomes much bigger for us, which has now become such a big piece of the business for us, we really do look for an acceleration in the sporting goods category in the back half of the year.

It is also important to note just where -- when you have weakness for us in a product sales category and strength as we saw on the service fee side of the business in nonowned inventory, it makes the net revenue look worse than really the underlying trend of the business. I think you can see that when you look at the gross profit line and how strong that grew.

Michael Rubin

To answer the question that you asked related to growth in the marketing services business, certainly on a year-over-year basis I think we are having certainly very nice growth from a marketing services perspective. But I think the latter part of the question you asked us is really the important part; which is kind of -- what type of additional offerings can we sell to both existing partners and new partners.

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