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Shutterfly Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Youssef Squali - Jefferies & Co.

Youssef Squali - Jefferies & Co.

A couple of questions, I guess starting with you Jeff. If I look at the velocity of orders or just the order per customer that you have throughout I guess the last five quarters, it's been coming down from about 1.8 to 1.6 or 1.67. I was wondering if you could help us understand the reason behind that.

Is it all macro driven or is it a, are you just seeing, people maybe buying more of the photo books and therefore, often not to buy additional product because of the higher price point. So, if you can just help us understand that would be great. Then on your Q1 guidance versus the actual, where did you guys go wrong, what was the biggest delta between guidance and actual? Then I have a follow-up.

Jeff Housenbold

So, on the frequency of orders by customer, we have been seeing a decline in that. I think there are three causes or factors to that. The first and probably the majority of it is a continuing mix shift from prints to photo books. So, in the past customers would come in and the industry average was 40 to 50 prints.

You could put several 100 images into one of our photo books and so they've been batching up with historically what were more frequent lower basket size purchases on 4/6 prints and then batching those up to a higher ASP orders from their photo books. So, a lot it's mix shift.

Second, I think there is some macroeconomic impact in that. We've been seeing stronger growth around holidays and less growth around the non-holidays and so people were spending when it matters and when they're gift giving occasions rather than spending on themselves.

Then lastly our promotional strategies as we've been moving more to free shipping on hurdles of \$25 to \$50 per quarter. We've been creating a reason for people to weigh until they have sizable orders, so that they can get the free shipping.

In terms of variances from our guidance, probably the biggest and it was a positive surprise, was really a little bit on the volume side, but more importantly an improvement in mix to personalize products and services and higher ASPs, particularly for calendars and photo books during the quarter. Outside of that, our cost structure came in pretty much where we had hoped it would throughout the quarter.

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