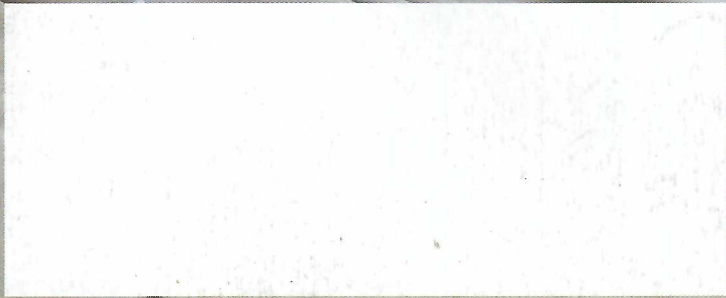


AudioVideo[®] INTERNATIONAL

A Dempa Publication

August 2001 • \$4.00



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A big-business shopping spree is consuming local electronics retailers. Who will thrive — and who is threatened?

BY MICAH SHEVELOFF

Consumer electronics retailers are spread across the nation like chess pieces partaking in a sport of survival. Several organizations, born in the early days of audio, have flourished in their communities to become quite successful. As crafty strategists plan the future of growing regional chain operations, these successful localized retail establishments have become desirable commodities, an efficient means to expansion with built-in momentum and brand recognition. The high-stakes sport of consolidation has allowed the growing chains to have immediate impact in a new community, paired against the colossal marketing resources of the largest national retailing powers.

Joseph Piccirilli, managing director of the Alliance for Value-Added Distributors, (AVAD), sees several opportunities arising from the recent flurry of acquisitions: "The majors could move upscale," says Piccirilli, referring to Best Buy and Circuit City. "Tweeter Etc. and Ultimate Electronics have the magic formula for selling the step-up products, which is exactly why Best Buy recently acquired Magnolia Hi Fi." The question is, whether the growing mid-sized chains will continue to expand, or be consumed by the national chains as they look to extract more upscale business from the markets in which they already exist. Piccirilli also pointed out, however, that while all

of this consolidation continues between relatively big organizations, opportunities will likely become available in many areas where there is no longer a strong independent retailer to serve the needs of the community. "The doors will open in local markets, and custom installers may go back into retail because of the strong lines that become available. The entire evolutionary process will start all over again," he said.

Ford Montgomery, owner of Chelsea Audio/Video in Beaverton, OR, has a front-row seat to the action in his community. "I think it will be interesting to analyze three aspects of consolidation in our industry: 1) how manufacturers will adjust to accommodate a national distribution strategy with fewer retailers at



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— Joe Piccirilli, AVAD

market, and we are waiting to see what changes occur, now that they are owned by Best Buy," said Montgomery. "We

are waiting to see if they become less specialist-oriented. Magnolia suddenly has an insert in the newspaper each and every week, facilitated by the media buying strength of its new parent compa-

ny. They never used to do that! I believe it will bring more consumers out into the marketplace looking for electronics, and I will be there to accept my share of the added business. Additionally, some of the employees [at Magnolia] have seen unfavorable changes, and left to find work elsewhere. One of them has even come to work here at Chelsea Audio/Video."

Another concern, added Piccirilli, is the 'Malling of America' syndrome, where all of these chain outlets begin to look and feel exactly the same. "The lack of individuality from store to store," he says, "may also result in opportunities for new-born independents. Suddenly, it has become a reality that a high percentage of the nation's electronics stores will be under one management umbrella."

In the view of Monster Cable president Noel Lee, "a singular and similar management style will make it easier to do business. We can reach many stores with training programs and merchandising strategies through one central group."

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— Ford Montgomery, Chelsea Audio/Video

their disposal 2) if consolidation is a trend, and whether it will continue or soon hit a wall, and 3) what new opportunities will arise from the changes caused by consolidation. We have Magnolia in our

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On the outside, looking in

Other manufacturers may not be as ready to celebrate the recent trends. Acquisitions mean diminishing shelf space for many brands that could be left 'on the outside, looking in' once the dust settles. The smaller manufacturers have fewer options to fall back on as their distribution channels get absorbed. Although new opportunities may present themselves in time, revenues could be affected for the immediate future. Richard Glikes, executive director of HTSA (Home Theater Specialists of America), agrees that the consolidation trend has made the vendor community nervous. "There is a diminished number of retailers available to choose from, for both the manufacturers and consumers alike," he said. Glikes emphasized that the growth of a company like Tweeter has to stop at some point, as they have been methodically consuming the middle-market business. "They are a receiver- and rear-projection-based retailer, and they are smart for focusing their energy on their expertise and core consumer," added Glikes. "If I were a mid-fi retailer, a trunk-slammer (a home electronics installer based out of a van, rather than a shop or storefront), or a low-end systems installer, their presence in my marketplace would give me reason for great concern."

The Tweeter Home Entertainment Group has displayed the most recent activity on the consolidation playing field, reaching agreements to purchase several multi-store operations throughout the nation, including the highly respected Sound Advice stores in Florida. Tweeter plans to have opened 20 brand new stores in addition to their acquisitions by the end of September 2001, bringing the staggering total to 151 by Sept. 30, the end of its fiscal year. "I am happy that they come from independent roots, started

small, and grew to be one of the country's largest electronics retailers," added Noel Lee. "They have succeeded in finding a way to be competitive with the nation's power retailers." Lee also added that manufacturers

must rely on a network made up of both large and small retailers for prosperity. "I value the small, independent retailers," said Lee. "I don't think their place is threatened by these mergers. The additional exposure created by the large retailers keeps the category out in front of the consumer, benefiting everyone."

Richard Glikes notices a difference between the expansion strategy of Ultimate Electronics and that of Tweeter Etc. "Ultimate unleashes a quality and quantity of advertising in each new community they enter that is awesome," said Glikes. "They are methodical, fol-



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— Noel Lee, Monster Cable

lowing a definite plan. Tweeter seems to leap from place to place, acquiring retailers where they can and implementing the Tweeter system, including an aggressive ad strategy. Time will tell who will suc-

ceed [in the long run]. I would bet on Ultimate," predicted Glikes.

Noel Lee points out that Tweeter brings more money to the table for everyone, by becoming a national force while maintaining reasonable margins and overall profitability. "Tweeter is a national retailer fighting a trend: They have grown in size; however, their profit structure has

remained intact," explained Lee. "The owners of the businesses Tweeter acquired benefited financially. These were not hostile takeovers," reminds Lee, who points out that these acquired operations now have increased power to promote and

the stability to carry more inventory. "They will simply do more business," said Lee.

"I think these types of acquisitions are inevitable in today's business climate," added Ford Montgomery. "From banking to floor covering, consolidations are happening everywhere, and as a result, have drawn some government scrutiny." Montgomery cited the recently failed merger of GE and Honeywell, slain due to anti-trust concerns. "Things come in and out of fashion in cycles, and I think it won't be long before we see these consolidation efforts really start to slow down."

An unclear horizon

The future shape of consumer electronics retail is unclear. "I don't know exactly what we will look like, or what we will be selling, but we are not going away," assured Montgomery, speaking for the independents. Consolidations are likely to bring new challenges to established retailers, and lay waste to those without a definitive plan or direction. Manufacturers will be forced to seek out alternative means of distribution, creating opportunities nationwide for thirsty entrepreneurs. Will a national chain discover the secret to providing knowledgeable help and personalized service? Will independent retailers be forced to band together in order to compete? In the end, it will likely be consumers who will determine which retailer, large or small, has assembled the best combination of service and value to have earned their business.



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— Richard Glikes, HTSA