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Strategies for remaining profitable through a down economy

by MICAH SHEVELOFF

Political unrest, corporate scams on a grand scale and the dot-com overload have all contributed to the current state of economic disrepair in which we find ourselves as we burrow deeper into the 21st Century. As predicted, the symptoms of these strenuous times have blanketed most major communities in the U.S. like a slow-moving weather pattern. Unemployment is up; earnings and spending are down. These are not ideal conditions for consumer electronics sales — although some crafty retailers have devised a methodology for pushing through the dark clouds with sights set on better times ahead.

Craig Abplanalp, Definitive Audio:

“Definitive Audio operates two stores and an outside sales group in the Seattle area, and the company was founded in 1975. There are approximately 60 employees in total. Admittedly, we got lulled to sleep somewhat by the Roaring '90s, so we are looking closely at every aspect of our business in terms of costs and overall efficiency. Component costs have come down, so we have to sell more boxes in order to reach the same top-line sales number. Labor costs per component have not increased, so we have to do everything we can to make the installation process more efficient and less wasteful. One approach we have taken is to make our installations more alike from job to job, so that we are not reinventing the wheel for each sale. Timing is another

key factor; we try to assure the timely arrival of equipment and make sure everything is assembled and ready to go to the job site on schedule. It is also critical that we place free-freight orders with our manufacturers, whenever possible.

“Another change we have noticed is that consumers are keenly aware of the economic climate and are sharpening their pencils at the point of sale. They will leverage competitors' prices and the Internet against us, and it is having a direct impact on gross margin. Such a scenario makes it even more critical who we choose to do business with as vendor partners, working with those who create the largest real-world margins that hold up in the marketplace, as opposed to inflated numbers on a price sheet that never reflect what consumers will actually pay. We have become a member of a buying group, and that has added an additional two to three percent to the bottom line. Overall, we now take a nickel-and-dime approach to managing the minutiae; it all adds up to a pretty fair chunk of change, in the end.

“We did spend more in 2002 on our advertising campaign — mainly direct mail and soliciting referrals. We do a non-sales show event every June, pulling about 800 to 1,000 consumers through one location over a two-day period. The vendors give us huge support; it's like a mini CES for our customers. The year 2003 will be our 12th doing the event, and it gets people back into the store to see new

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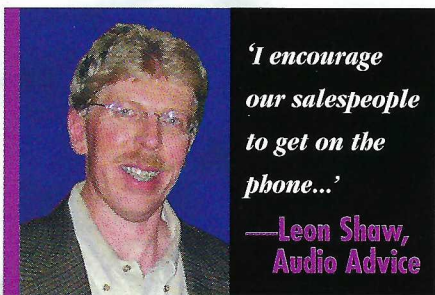
— Craig Abplanalp,
Definitive Audio

technologies. The show has really helped us maintain sales levels during a tough economy; floor traffic in the Seattle area right now is very soft. We do everything we can to communicate with our existing customer base, staying in touch with consumers who have supported us in the past. Amazingly, we grew our business in 2002, even despite the high unemployment rate in this community. We managed to hold steady on gross margins, but our expenses grew due to the replacement of our old store in Downtown Seattle with a new location.

“In the 1990s, we used to sell CRT projectors with a video processor as a high-end video package, totaling about \$5 million dollars in sales annually. That business has now been replaced with fixed-pixel devices such as LCD or DLP projectors that require much less setup and calibration, so not only has the cost to the consumer come down, but there is

also less opportunity for us to differentiate ourselves with our technical services. Plasma is everywhere and does not provide a good margin opportunity; however, the attachment rate of other components is critical, and it is a product that consumers want. With plasma, we give up a little margin, but get a lot back in the long run.

"We have invested in making sure that we have a better flow of information between the sales department to the installers because it reduces end-of-job confusion that often would delay final payment. There has been a cost associated with additional personnel, but the improvement in communication has been worth the investment. I also suggest reading a book called *The Tipping Point* by Malcolm Gladwell. The book focuses on how subtle things can promote tremendous change, and how critical it is that we pay close attention to even the smallest details of our businesses."



Leon Shaw, Audio Advice:

"Founded 25 years ago, Audio Advice in Raleigh, NC is a 15,000-square-foot facility employing about 40 full-time people. I think we are fortunate that although we are in the custom installation business, we come from a retail background. We have a well-established retail clientele, and we know how to get consumers excited, whether it is a new product line or a monthly educational event held in our store. We have increased the frequency with which we send out our newsletter (now it is sent every other

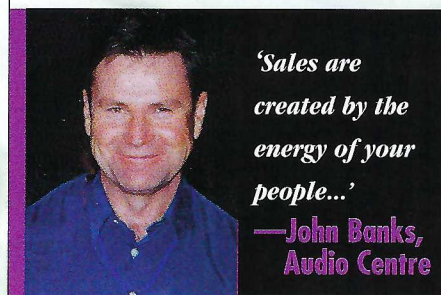
month), and we have modernized our Web site.

"I encourage our salespeople to get on the phone, especially to those customers who made a substantial purchase almost one year ago. Some people have a yearly event that allows the 'faucet to flow.' Through conversation, we ask open-ended questions that we hope will lead to a sales opportunity. We have increased the number of plasma sets on display from three to seven, with several more planned for the near future. This past November, we held a big two-day event supported by about 20 of our vendors. We provided high-end catering and limousines for our builder clients and new builder prospects. We were able to tour consumers through the entire store, showing them new products in every category. Both consumers and builders alike were impressed to see all of the vendor support, and our vendor partners have indicated that they plan to support us again for the next event in the fall of 2003.

"It is important to not overreact to a down economy by discounting too heavily and sacrificing margin. There are other areas of focus, such as being careful to bill consumers for all services rendered. We have tried to eliminate all 'verbal events' that put our manpower out into the field but cannot be tracked — we need to be sure that all labor is accounted for. We manage inventory very carefully so that we can always take the discounts on the invoices, and we do just-in-time arrival, whenever possible. We are in the process of making the transition to a bar-code system to better enhance our inventory management.

"We have spent more on advertising this year; however, our total is well below the industry average, having jumped from one percent of sales to two percent this past year. We have promoted our custom business by having a group of dedicated custom salespeople out on the road, knock-

ing on builders' doors. My sales staff now consists of five retail salespeople and five in the custom category. It is also critical that you grow and maintain a good database. We do a targeted mailing with 600 to 800 nice postcards, and we usually get about a 10 percent response rate. When the consumers show up, there is a representative from the vendor on hand, and even though the event might be directed toward one product area, the customer gets the chance to see the entire store. Another thing to watch out for is categories of product that you might have neglected or overlooked altogether. We took on a British 2-channel line called Musical Fidelity, and all of a sudden, I discovered that the product (and the 2-channel category) is generating huge traffic in our showroom. During a lean economy, it may be valuable to seek out strategies that you may have been neglecting — anything that will generate consumer excitement."



John Banks, Audio Centre:

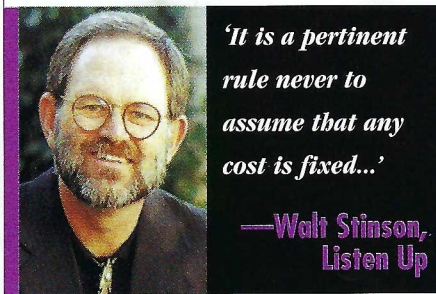
"Audio Centre, located in the city of Montreal, Canada, is a two-store operation that has been in business for 25 years and employs anywhere from 75 to 85 people at any given moment. Although we have directed our attention to several aspects of our business during these times of economic uncertainty, our primary focus has been to enhance profit margins. We have analyzed each product category in regard to margin, asking ourselves how we can do better. One concern is unnecessary discounting; not taking the salesperson's word for the 'market re-

ality' in terms of lowering price. We have had to do serious research in order to find out what the competition is really doing out there. Taking back the latitude from our sales staff, is there not two to five additional points to be had? Added up over the course of time, that's a lot of money! We have had meetings with our salespeople in an effort to raise their awareness of how the business operates, and the importance of margin. After speaking to several other retailers regarding these issues, I have come to realize that the salespeople are impacted less (based on their current pay plan) by sacrificing a few points of margin than I am, as the owner of the business. In an analysis of our current pay plan, I may have to make changes in a dated structure that was geared towards traditional audio profit margins. I have to give credit to PARA — I utilized the membership association and gained critical information from being able to network with other member dealers. It has been a highly valuable resource for me.

"Cost-cutting is another area that has been examined closely. Through good times, the infrastructure of the business may become padded — key employees requiring their own assistants as an example. Even though it may have been done with only good intentions, these things begin to creep up on you, especially during times when top-line revenues are uncertain. I needed to reel it in, but I had to examine how to do it effectively. Having been in business for 25 years, I have seen both up- and down-turns, and I realize that I usually reacted too late—creating rushed responses that were not smartly executed. This time around, we created a plan before it was required, involving senior management and warning them that a cost-cutting plan was in place. When it came time to implement the plan, the groundwork led to a rallying of the staff — it has been a testimonial to having a great team.

"Having been in the marketplace for

25 years and had the chance to establish an image for ourselves, I have found that we are able to cut back on some marketing efforts with almost no effect on sales. I am a firm believer that sales are created by the energy level of the people in your company — acquiring any skill tends to energize people, so we are doing more training. It keeps the staff busy, and they have a little glow on them when a customer walks through the door."



Walt Stinson, Listen Up:

"Founded in 1972, Listen Up is a Denver-based operation with four stores and a custom showroom. Listen Up maintains approximately 110 employees. All costs have to be looked at, especially fixed, long-term costs like leases, which often can be renegotiated in a down economy. It is a pertinent rule never to assume that any cost is fixed. It is also preferable to increase advertising, but be critical; make sure that what you do spend money on will make a difference in your business. We did cut back on speculative advertising, and reduced the frequency of our radio spots for short bursts. Consistency is one of the key elements in advertising; we were able to ride on less frequency for a little while in order to bring the numbers in line. Focus on advertising that you can get your vendors to participate in. In a down economy, everyone has to become more aggressive — work with your strategic long-term partners and go after mutual goals. Sitting back on your hands is not an effective strategy during difficult times.

"I have found it highly useful to

have up-to-date and accurate operating statements, and find the expertise necessary in order to analyze the statements frequently. Having the ability to set budgets and monitor how you are doing is the key to navigating through a down economy. When the market is soft and demand drops, prices erode. It is important not to lose your cool by slashing prices and cutting your ad budget. You must proceed with an optimistic attitude and ride out the storm. People tend to overreact, and it can be a very costly mistake — it can even cause people to lose their companies.

"It is critical that you have the right people in key positions throughout the company, and it may be time to give a hard look toward areas or divisions that are not currently profitable. A down economy is not the time to cut back on training or to address the compensation plan. We recognize our salespeople with even greater frequency, sending the message that we appreciate their effort, and communicating to the entire staff that you can do well in a down economy."

These are thoughts from an experienced group of four retailers who have weathered ups and downs and every other imaginable economic trend for the better part of three decades. Their perspectives on how to manage the current lull in consumer confidence is a virtual action plan for all of those in search of prosperity and better times ahead. Their collective advice boils down to this: manage your businesses with a watchful eye, reach out to your customers, merchandise new and exciting products and work closely with carefully selected vendor partners. Their response to uncertain times, it's clear, is detailed planning, a sense of optimism, and a reliance on each other as a vast resource for support and collaboration.

And their wisdom just may enable you to turn the tables on a down economy.