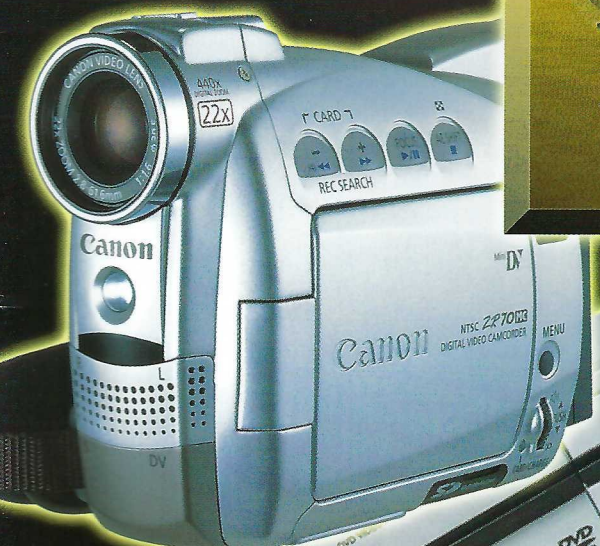


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SIZZLING SEGMENTS: SECURITY, REMOTE START

**NEW TECHNOLOGIES DRIVE SALES & BROADEN
CONSUMER INTEREST BY MICAH SHEVELOFF**

The manufacturers of automotive security and remote-start products are optimistic that the introduction of two-way communication technology along with vehicle-tracking systems will drive consumer interest while simultaneously improving the overall profitability of this highly competitive category. Manufacturers are banking on consumer acceptance of new products in the face of record R&D costs associated with the interface and bypass accessories required to ensure the aftermarket's compatibility with factory security and data bus systems.

"I am very optimistic about our new products, despite the current state of the economy," reported Howard Miller, president of Crimestopper. "Consumers seem genuinely interested in protecting their investment (in their cars), and the aftermarket offers a better security product than the OEM at this point in time," Miller added.

TWO-WAY IS HOT

"The OEM does not offer full security packages, although their systems have been steadily improving," said Miller. One of the newest and most exciting technologies to be offered by the aftermarket has been the two-way communication system available in both security

and remote-start devices. Consumers benefit from two-way technology by being able to monitor the status of their system and receive notification of an intrusion, all from their remote

across the U.S., and president Ed Santacruz acknowledges that the alarm/remote-start category is one of the only big growth areas of 2003, largely due to the popularity of two-way technology. "After a

three-year sluggish cycle, our alarm business has been booming," Santacruz reported. "Customers think that it is very cool to have a small LCD display on their key ring, which pages them at the first sign of an intrusion. The remotes also monitor remote-start status, indicating that your car is running by displaying a little exhaust pipe with smoke coming out of it. It really is a fun piece to own and to show customers," Santacruz concluded.



CRIMESTOPPER'S CS-2015FM TW1 SYSTEM

transmitter/receiver.

"Working within the rules of FCC compliance, typical range for our two-way systems is 800-1200 feet, depending on variables such as terrain," Miller stated. "That is certainly an adequate distance for many real-life applications, where consumers can start their cars, monitor vehicle status, and take appropriate action to protect their vehicle without jeopardizing their personal safety," Miller added, saying that he expects the development of two-way vehicle security to continue over the next several years.

Audio Express operates nearly 50 12-volt stores in several states

Jim Warren, spokesman for Seattle-based Car Toys echoed Santacruz, commenting that his company's alarm business "is solid, and is one of the best categories in 12-volt over the past six months.

"There's no cause for alarm here," he quipped, adding that "the main boost has come from average ticket, not unit gains. The two-way transmitter has proven immensely popular and has proven, via just an SKU or two, to add dramatically to the category."

THE GPS TRACKING TREND

Another new technology working its way from the drawing board

to retailer's showrooms is GPS-based vehicle tracking. "We are involved in the early stages of bringing our product to market, called TrakNet, which is capable of receiving commands both by phone and via the Internet," reported Crimestopper's Miller. "I think that the aftermarket will become more involved in the GPS tracking segment of the industry in the coming years," Miller predicted. Crimestopper sells packages of "uses" or "hits" starting at a base quantity of 60, so that the consumer has access to the various services available, such as vehicle locating or door lock/unlock. Consumers have no specified time limit in which to use the "hits," allowing them to benefit from the security of the GPS system without having to receive yet another monthly bill at home.

Miller explained that Crimestopper has aligned itself with "a few companies" to assist it in developing interface kits for OEM security and data bus systems. "I expect that the aftermarket will have the capacity to respond to these new OEM technologies," said Miller, who pointed out that the development of OEM interface modules is evolving to become a field unto itself. Looking at other future trends, Miller expects that the remote-start business will continue to grow outside of "the frost belt.

"I hope that people in warm climates take advantage of remote starters," added Miller. "It's a shame that margins have decreased in such a competitive marketplace. The quality of the installations needs to be maintained in order to prevent consumers from becoming soured on the category," Miller cautioned. "Installer training is critical, and the specialized schools have been a big help. This is an installer-related business, and the majority of consumers want their systems professionally installed.

Our industry should begin to take care of itself by focusing on education," Miller concluded.

Joe Dentamaro, vice president of sales at Detroit-based Code Systems, explained that his retail brand, called Code Alarm, is streamlining its array of security and remote-start models. Code Alarm offerings will range from basic security to two-way alarm/remote start combo-units. "We are also working on a GPS-based tracking system that will interface with our security products through a data port we have engineered into our new line," said Dentamaro. "We expect to ship the tracking system by the fourth quarter," he added.

HIGHER TICKETS ON SECURITY

Dentamaro indicated that there is a strong specialist market for security and remote-start products, citing higher-ticket, feature-oriented systems and quality installa-



towards the future, Dentamaro does not believe that automotive manufacturers will dip into the remote start arena, at least in the foreseeable future. "The aftermarket security and remote start business should remain fertile for at least the next five years," he proclaimed.

For Code Systems' expediter market (installers that specialize in serving car dealerships rather than retail customers), the company offers the Chapman product line, for which new features are expected to make it easier for the car dealerships to accommodate their car buying customers. "We have created a system that has a lot mode and two consumer modes," Dentamaro explained. "There is a Master Module (basically a 15-button remote) that allows the salesman at the dealership to activate the various modes," he added. The expediter can stock a single Chapman product that will accommodate a

vehicle with a factory keyless-entry system or without, and protect the dealership's unsold inventory while it is sitting on the lot. Code Systems expects to deliver a Chapman remote-

start product that also works with a Master Module by the fourth quarter, according to Dentamaro.

Dentamaro also applauds the efforts of MERA and the Knowledgefest event for providing an important educational component and a forum for manufacturers, installers and retailers to share information. "The attendance was big this year, and I think Knowledgefest could be a hugely successful part of our industry," Dentamaro offered. "I would be disappointed in retailers who do

■■■ 'AFTER A THREE-YEAR SLUGGISH CYCLE, OUR ALARM BUSINESS IS BOOMING.'

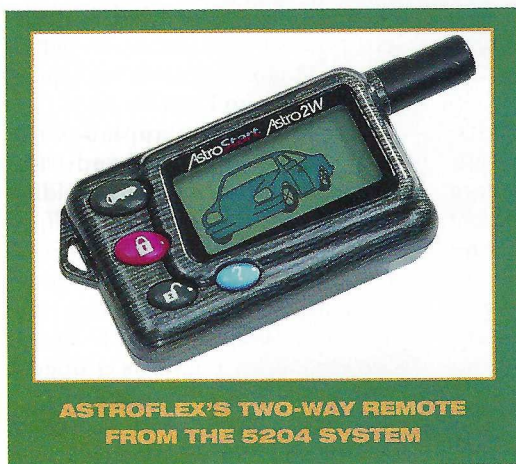
— ED SANTACRUZ, AUDIO EXPRESS, SCOTTSDALE, AZ ■■■

tions as key issues for consumers. Code Systems is supporting its dealers with a current line of 30 OEM bypass and interface kits, with about five additional models on the way. "Interface with data bus is a large part of our R&D budget right now, and I have no doubt that we have the resources to keep up with the changes in OEM technology," Dentamaro stated. "Code Systems has an advantage being based in Detroit, we work with the car companies all the time," he added. Looking



not support MERA's efforts," he added. Code Systems employs two full-time trainers who travel to dealers across the U.S. and provide educational seminars for distributors as well. Dentamaro noted that the rate of warranty defective alarm and remote-start product decreases dramatically after the installers receive training. "It saves the dealer's time and money, and helps ensure that the consumers are happy with their purchase. Nobody wants to have an upset customer in their showroom," Dentamaro added.

Astroflex, an *AudioVideo International* Autosound Grand Prix award winner this year, is prepared to introduce new two-way security and remote-start models to its dealers. The units incorporate an LCD-type remote that provides key data to consumers about the status of their system. Astroflex will also be introducing two remote-start systems designed for vehicles with a standard transmission. There will be a base model with an option for keyless entry, and a fully deluxe version with security features. Astroflex is also working on a substantial selection of override and interface modules



ASTROFLEX'S TWO-WAY REMOTE FROM THE 5204 SYSTEM

with an anticipated fall introduction. Roger Klene, vice president of sales for Astroflex in the U.S., indicated that while the remote-start business has

been traditionally stronger in cold climate areas, the Sun Belt "is starting to happen."

"More customers are electing to have a remote start installed right when they buy a new car, and we are seeing more sales during what has been considered the off-season," Klene reported.

Ungo is getting ready to release five new products featuring a technology called Ungo Net, a software-driven program that will allow installers to easily add modules to an Ungo security system without having to rewire the original installation. The software can be controlled by either a laptop computer or a PDA (Palm and Windows CE versions). "Our circuit boards have been redesigned to handle much more current, and two-way FM remotes will be available as an upgrade kit," explained Ungo representative Jeff Abrams. The new lineup will include a basic security system without Ungo Net capability, up through the flagship version that offers three programmable outputs and one FM remote in addition to a traditional AM-style transmitter. There will also be a remote start/keyless system (without Ungo Net capability), all with a target ship date of late July.

Jim Jardin, director of marketing at Directed Electronics (DEI), agrees that there are two emerging trends in the automotive security arena; GPS-based tracking systems and two-way communication devices. Both categories of



UNGO'S REMOTE

product are currently available from DEI, and selling quite well, he said. "The consumer can duplicate all remote functions by accessing a Web site as one of the benefits of our GPS system," said Jardin. Purchase of a DEI GPS tracking system includes one full year of stolen vehicle tracking capability with no additional charge or activation fee. Optional features include anytime vehicle tracking via computer or phone, parental overspeed notifications, and roadside assistance that can be added by purchasing an annual service plan.

The two-way alarm/remote start systems are available in two different technology formats from DEI. The more costly FM versions (referred to as Responder systems within the Viper, Python, and Clifford brands) are available in both alarm/remote-start combo and alarm-only versions. Responder systems are 100% FCC compliant, and have a range of up to a half mile. The more cost-efficient AM-based two-way systems (referred to as XHF two-way in the Hornet brand) is also compatible with traditional Hornet transmitters. Retailers such as Audio Express have credited the two-way systems with revitalizing interest in the car security category. "The manufacturers are becoming quite clever with the cosmetics of the remote controls," said Audio Express' Santacruz. "The remotes are smaller, with colorful shells and factory-like icons. Remote start systems are selling in non-frigid areas like Phoenix, mainly because the unit's two-way capabilities," Santacruz explained. "If someone

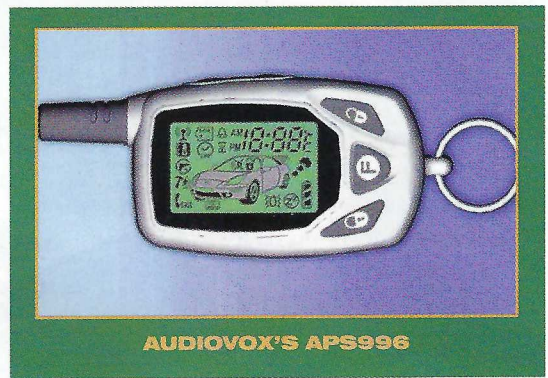


is going to pay \$500 to \$700 for an alarm, they want it to do a lot of stuff, and remote-start and vehicle monitoring are things you simply can't get from the factory alarm systems," he added. Santacruz expects there to be a big potential for sales of the GPS-based systems, not only for vehicle security, but for monitoring the kid's car as well as tracking employees on the road. "These are all good reasons why we should be selling high-tech car security products," concluded Santacruz.

DEI's Jardin also indicated that the company uses a pro-active approach to new-product development that incorporates input from installers, tech support staff, and the design engineers. "We love data bus, and we will have interface solutions for the various systems even as they become more common," reported Jardin confidently. DEI was the MECP manufacturer of the year in 2002, and Jardin emphasized the importance of quality installations. "We want consumers to ask for MECP certified installers," he stated. "Our

product is only as good as the installation," concluded Jardin.

Tom Malone, senior vice president at Audiovox, reported that sales of security products are up 18% this year. "It is still a very strong business for us," said Malone. "Car dealerships are looking at pre-load programs (having security devices installed on unsold inventory) and being more aggressive," he added. Malone attributes some of the success Audiovox has had with the increased complexity of today's automobiles. "Retailers and expediter are choosing to align themselves with a vendor that can provide a full range of technical services and data. We have the assets to put that together," he explained.



AUDIOVOX'S APS996

the new technologies to really revive the security industry, creating an entirely new generation of consumers and bringing high volume back to the category.

Malone also acknowledged the challenges of keeping up with the data bus advances that are embedded in today's vehicles. "Our engineering teams are looking at new cars constantly, and we anticipate

that data bus interface is the future, and will make for cleaner, more streamlined installations," he said, even despite the high cost of research and

development that manufacturers must face during the early stages of the technology.

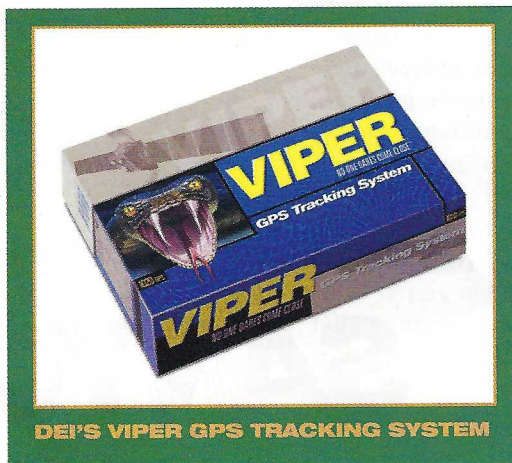
Piquing consumer interest in two-way systems and GPS-based tracking devices appears to be fueling a general resurgence of interest in the automotive security arena, with CE retailers poised to benefit from the excitement. There are however, obstacles to conquer along the path to success. New York City legislators examined two bills in mid-June designed to ban the use and/or sale of any car alarm with a sounding device, based on concerns of rampant noise pollution. With all of the advances being made in sophisticated features and technology, the industry may have to shift gears and focus on preventing false alarms in order to retain consumer acceptance in metropolitan areas.

■■■ **'[OUR ALARM BUSINESS] IS SOLID, AND IS ONE OF THE BEST CATEGORIES IN 12-VOLT OVER THE PAST SIX MONTHS.'**

—JIM WARREN, CAR TOYS ■■■

Malone also indicated that Audiovox is carefully monitoring how much of the security market migrates to the two-way technology. "The new systems have had a nice effect on business," he added. "Consumers are warming up to the two-way packages faster than expected," related Malone. Audiovox expects to ship two-way alarm-only (without remote start) in the fall of 2003.

Audiovox is also building a data port into its alarm products to accommodate future upgrades such as GPS-based tracking devices, for which Audiovox plans to offer a flat fee for lifetime service in order to eliminate any monthly charges, a common point of objection for consumers. Malone expects



DEI'S VIPER GPS TRACKING SYSTEM