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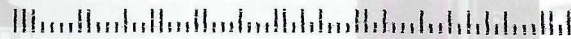
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BRAVE NEW WORLD

12-VOLT SHOPS SEEK OPPORTUNITY IN AFTERMARKET PARTS & ACCESSORIES BY MICAH SHEVELOFF

Mobile electronics retailers have long accepted that their category is affected by season, rapid changes in technology, and the hot and cold trends that drive their predominantly young consumer. The increasing popularity of aftermarket performance parts and cosmetic accessories has motivated some to consider adding this entirely new group of products and services to their recipe for long-term success, resulting in a challenging road toward profit.

"We realized that the average customer lifespan (the time frame in which a consumer remains actively interested in a given category) within the 12-volt arena was much narrower than we had originally anticipated," reported Chris Nelson, the mobile electronics buyer at Omaha-based Stereo

West. "We get the customer from age 16 to age 18, maybe into their early 20s if they do not attend college," Nelson explained. In order to address such an alarming trend, Stereo West went in search of products that would have increased "staying power," maintaining the interest of consumers for a longer period of time. "Within the performance parts and accessories category, we found that for many of these customers, personalizing their cars becomes a lasting hobby. The customer who comes in for a CD player and an exhaust upgrade today could likely be in for a bug deflector and running boards for their SUV in the near future," Nelson said. Stereo West has gone with a very visual merchandising strategy, creating a high-energy environment for customers. Products on display range from neon and driving lights

to exhaust systems, shift knobs, pedals and wheels. "The accessories market can be tricky because it is very fad-driven," Nelson reported. "What might be hip today could easily be un-hip tomorrow, so you have to be careful not to stock too deeply. Traditionally, there is a 45-to-60-day run on cosmetic parts before the Gen-Y customer base has moved on to something else."

THE GEAR IT TAKES

Stereo West has invested in a Hunter GSP 9700 wheel mounting and balancing system (www.GSP9700.com), as well as a pipe bender and a welder for doing exhaust. It has also installed a lift in one of the three Stereo West locations, with plans to add lifts at the other locations in the near future. "People are excited that we have such equipment, and it affords us the opportunity to do high-end upgrades correctly. Hunter has even referred consumers to us who are looking for professional mounting and balancing services in our area. These are long-term investments that add a certain amount of credibility to our shop as we attempt to break into a new market. Hunter has provided exceptional training and support along with the purchase of the machine," Nelson added; he also suggests sending one employee to work at a muffler shop for a few months in order to gain valuable experience. Although wheels tend to have a



A STEREO WEST CUSTOM WHEEL WALL AND (INSET) THE HUNTER WHEEL-MOUNTING MACHINE THE STORE USES

lower gross margin (12% to 25%, according to Nelson), there is not a lot of stock involved in items that can be delivered within 48 hours. "Wheels are mostly special-order items that are big ticket and [mean] quick turns."

Another key to Stereo West's success has been finding at least one employee who is passionate about cars — someone who is willing to dig in and learn about the performance parts and accessories category. "Often, your best candidates for such a position are within your own customer base," hinted Nelson. "They need to have a mechanical aptitude and be Web-savvy, so that they can explore the chat rooms, Web forums, and on-line car clubs in order to keep a finger on the pulse of what is going on out there," concluded Nelson, who suggests that the MERA (Mobile Enhancement Retailers Association) training model could go a long way towards improving the aftermarket parts and accessories business. "Generally, the distributors have decent product knowledge, and you can always call the manufacturer of the part directly for more detailed information, if necessary," he said.

'LIFESTYLE ITEMS'

In regard to advertising strategy, Nelson said that these are lifestyle items to the Gen-Y customer, and must be marketed to them as such. "The advertising must be relevant to them, not full of product/price-point information to which they immediately tune out," explained Nelson, who emphasizes that performance and style should be the focal points of a successful campaign. "We tell our story — who we are, and what we do. We keep it relevant to the car enthusiasts out there, backing off from the traditional product and price style promotions."

CEC Wheels is a California-based importer and distributor of high-end European wheels and accessories for European, domestic, and Japanese vehicles. "We don't carry any 12-volt electronics prod-



AT DISTRIBUTOR CEC WHEELS INSTALL BAY, ENHANCEMENT JOBS LIKE THIS FENDER/WHEEL COMBO (INSET) ARE COMMON

ucts, we have no expertise in that area," explained CEC VP of business development Jeff Cadavid. "A growing part of our customer base at wholesale has been retailers and redistributors in the mobile electronics industry," Cadavid reported. Cadavid attributes much of CEC's success within this new category to the quality of the retailers involved: "It has been very smooth going for us, because those shops seeking us out are the higher-end guys — they already have the trust of their customers, which is oftentimes more than half the battle. These consumers won't turn over their expensive cars to just anyone; they have found a shop that they are comfortable with, and they tend to stick with them. From that point, it's a short jump to selling a set of \$4,000 wheels," added Cadavid, who pointed out that mobile electronics retailers have an exceptional opportunity with the performance parts category because they already have a captive audience. "Naturally, retailers would want to maximize the potential of each sale, and more importantly, extend the longevity of that customer relationship. Performance parts and accessories give the consumer more reasons to come back and see you, to become a lifelong customer of your business," Cadavid said. Much of the aftermarket business is done straight out of an application cata-

log, providing easily installed bolt-on components. "It is a mistake to offer these products as an afterthought — you must offer value to your customers by becoming truly educated about this product category. Ask yourself these questions: Do aftermarket accessories fit into my business plan? Do I want to do this myself? Is there competition in the area? Will I add real value for my customers? Another option for some retailers has been to create a strategic alliance with a local performance shop, rather than to try and compete with them, promoting each other's goods and services. Such a strategy allows each business to take advantage of an expanded customer base without having to be the 'expert' in an entirely new category," Cadavid explained. CEC provides a diverse group of services to its customers, including technical support and sales training. It even operates a showroom in the Los Angeles area that serves as a laboratory and a training facility for retailers who are invited in from all across the U.S. Cadavid feels that it is quite logical for the lines between the traditional car audio store and the performance upgrade shop have become blurred: "There is opportunity to serve the customer and it is profitable, with margins ranging from 20% to 40%, typically." Cadavid encourages those interested in pursuing the category to



SOME ACCESSORIES WHICH DISTRIBUTOR KEYSTONE OFFERS INCLUDE AMERICAN AUTO SEAT REPLACEMENTS (ABOVE), STREET GLOW NEON ACCENT LIGHTS (RIGHT) AND POLAR BEAR'S GRILLE GUARD (LEFT), DESIGNED FOR SUV FRONTS



attend the next SEMA show, which he deems a "well-run event." CEC can be seen on the Internet at www.cecwheels.com.

POWER-TINTING

Quality Auto Tint and Car Stereo was founded in 1977 in Colorado Springs, but in the mid 1990s, Anthony Rivera began to notice dramatic changes in his business. "Our car audio revenues began to decline due to the emergence of Circuit City, Best Buy, and Car Toys all moving into the area and offering installation," Rivera commented. Rather than battle it out with the power retailers, Rivera began the process of diversifying his business model, starting with window tint. "Tint is highly profitable and requires a low initial dollar investment. The key is training your staff to do the work properly," said Rivera. "There was no reason that we had to be married to the electronics portion of the industry. I went to the SEMA show one year, and got some really great ideas," he added. In Rivera's assessment, the high-performance market is still growing, offering a legitimate opportunity to add profit dollars and create additional consumer traffic into his store. "There is a lot of money to be

made in lighting, such as neon, colored light bulbs, clear corner lights, and fancy LED upgrades for alarm systems. Wheels and tires don't have as big of a margin; however, most sales are special order — meaning that we use the customer's deposit money to pay for the inventory, and the installation takes very little time. We invested in a touchless style mounting and balancing machine (about \$6,000) and it easily paid for itself the first year we had it," stated Rivera, who noted that a rep came out to his store and trained his techs on using the new wheel machine. "Another great thing about selling custom wheels and tires is the excitement created by the category. We have wheels displayed in our front window, as well as a dedicated computer kiosk

performance accessories requires good salesmanship and a hands-on knowledge of automobiles. If you want to diversify, you have to find ways to create floor traffic, and stay busy," Rivera concluded.

Another supplier of parts and accessories is Keystone Automotive Operations (www.key-stone.com), and Keystone executive Larry Montante points out that performance parts allow the progressive electronics retailers to create new profit opportunities for themselves. "Most of the stereo shops are looking to add sport compact [car] and truck accessories as they are diversifying their businesses and selling more products to customers who are already shopping in their stores," noted Montante. During difficult economic times, many

■■■ 'THE ACCESSORIES MARKET CAN BE TRICKY BECAUSE IT IS VERY FAD-DRIVEN. WHAT'S HIP TODAY COULD BE UN-HIP TOMORROW.' ■■■

retailers might be wary of taking on an entirely new market segment, considering the merchandising and promotional requirements as well as the start-up costs.

containing a software program called SoftWheels that allows consumers to dress up their own cars with new wheels and tires, suspension upgrades, window tint, even a paint job! It is not uncommon for one of our customers to leave and come back with 10 friends, all gathered around the computer. Becoming successful with perfor-

Montante indicated that Keystone has developed turn-key planograms that can be placed (ready to go) for as little as \$5,000 in the sport compact, truck, and traditional performance categories. A planogram is a product assortment designed to fit in a certain size area. It is cosmetically attractive and comes complete with restocking cards to make life



simpler for the retailer. This cost-effective approach is designed to ease new accounts into becoming part of the "\$20-billion-plus specialty auto aftermarket." As Montante sees it, the mobile electronics retailer can use the aftermarket category to insure continued growth.

Keystone also provides an array of support services to its dealers at retail, offering vehicle-specific full-color catalogs highlighting products from over 200 manufacturers that include accessories, suspension and performance upgrades, wheels, and more. Additionally, Keystone has created market-specific catalogs that address the Sport/Compact and Contractor (trucks) groups. There is also a support program for retailers called DriverFX that provides the dealer with marketing tools that strengthen store image using sale flyers, custom imprinting services, window posters, Web listings, and special consumer promotions, all received on a monthly basis. "The in-house marketing and graphic design group at Keystone is made up of 35 people," explained Butch Lahmann, Jr., retail marketing manager at Keystone. In order to assist the dealer network in the ever-changing automotive arena, Keystone maintains a staff of over 250 technical salespeople who receive training on a daily basis. "We use a very hands-on approach and offer our dealers a high level of support," added Lahmann. "Just by investing in the planogram and signing up for the DriverFX support program, the 12-volt retailer will have the tools they need to be successful. They're in business," he added. Keystone also has a business-to-business Web site called ekeystone.com that allows

accounts to access (for a small monthly fee) a complete on-line catalog featuring over 400,000 parts, check account status, place orders, or look up specific parts. There are many pictures on the site, and it can be viewed minus the pricing so that consumers in the store can benefit from the site as well.

THE INTERNET'S EFFECT ON PROFITS

Andy Haber, president of Source Car Audio in Marietta, GA, began selling parts and accessories in 1999, and found it to be a vital and profitable venture for his establishment until the first quarter of 2002, when he noticed a dramatic decline in sales. "Internet traffic has hurt the entire business, eroding profitability from what was once a great market,"

■■■ **THE HARD-CORE SPEED GUY IS NOT MY CUSTOMER. MY CUSTOMER IS THE AV/ CLIENT WHO WANTS TO ADD CAR 'JEWELRY'.** ■■■

Haber explained. "Although this category does create excitement and bring consumers into the store, we have customers buying items such as intakes, exhaust, and cosmetic parts on-line, for within 10% of what we pay for them. Some consumers are fearful of getting stuck with the wrong part and prefer to rely on our expertise and reputation, but others seem to stray for only a few dollars difference in price," said Haber. Source Car Audio also sells wheel and tire packages, which according to Haber, bring a large number of customers into the store. "There is more of an adult clientele, typically a better-educated consumer, interested in wheels and tires. They still shop the Net, but often that additional knowledge works in our favor at the point of sale," Haber explained.

Source Car Audio purchases most of its wheel and tire packages already mounted and balanced, ready to go. Occasionally, Haber will subcontract mounting and balancing services to a local tire store in his area. "I have attended the

SEMA show the last several years and have found it to be an excellent source for ideas. It is a good show and very useful to me."

In direct response to Haber's assessment that the Internet has squeezed his profits, Rhode Island-based retailer Steve Medeiros of Sound FX agrees that some customers do shop on-line: "The Internet has eroded margins; however, our business plan is based on making 15% to 20% on such items as intakes, exhausts systems, and lighting. We don't have to stock these items, and those are the margins that the market bears," explained Medeiros. "My customer needs our expert advice regarding fitment and what is truly best for the car. The customer's comfort level is the key to making the sale, and we do shows to back up our

commitment to the category," he added. Medeiros' Sound FX locations will host eight events this season to promote its after-

market and audio/video business. "The hard-core speed guy is not my customer. He/she would be likely to bring their car to a tuner shop. My customer is the audio/video client who wants to add car 'jewelry,' such as wheels, clear corner lights, intake and exhaust. That customer will pay for our expert advice and installation, just as they do for audio and video components," concluded Medeiros.

It is clear that many 12-volt retailers are exploring the potential benefits of diversifying by adding aftermarket parts and accessories as a supplemental source of profits, and as a means to extending the lifespan of their relationship with consumers. Attendance at the SEMA show is continually on the rise, as the car electronics retailer and the parts and accessories shops across the U.S. begin to converge their respective trades. It appears to be an example of the natural evolutionary process that occurs in business, promoting those who adapt to change quickly and effectively towards growth and long-term stability.