

# AudioVideo<sup>®</sup> INTERNATIONAL

FOR THE CONSUMER ELECTRONICS RETAILER

A DEMPA PUBLICATION  
MAY 2003 • \$4.00

**Custom Speakers:  
Designs for Living**





# Inventory management

*What savvy dealers and custom installers do when older stock gets stuck in the pipeline*

BY MICAH SHEVELOFF

The realities of economic turmoil have become a factor for consumer electronics retailers throughout most of America. Unemployment numbers are up, and even those with discretionary cash are reluctant to spend freely due to the uncertainties of the immediate and long-term future. A handful of respected retail authorities was asked how they manage stock levels and the inevitable onslaught of new-product introductions during these less-than-fruitful times.

**Steve Wood,**  
**VP Merchandising,**  
**Ultimate Electronics:**

We work with our vendors as part of our inventory-forecasting plan, looking fairly far ahead, the cycle being about six to eight weeks. We don't panic on a one- or two-week downturn, and we can respond fairly quickly with adjustments, if necessary. Our vendors are our partners, and they understand how important these cycles are to our business. As part of product life-cycle planning, our suppliers try and transition us into new models smoothly. It is well thought out and non-disruptive; it is certainly not wholesale chaos.

**Joseph McGuire,**  
**CFO, Tweeter**  
**Home Entertainment Group:**

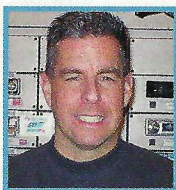
We are trying to measure our inventory purchases and SKU-selection process by measuring the yield for the SKUs and matching our inventory level to our projected sales.



**Mitchell Klein,**  
**president,**  
**Media Systems,**  
**Boston, MA:**

Manufacturers have been pushing really hard, trying to get us to take display items and back-up inventory. We have really had to force ourselves to remain true to our business model and resist all temptations. Even still, we end up with what I call "Oops Inventory" — items that are ordered by

mistake or end up sitting in the warehouse for a job much longer than expected. I am starting to sense some optimism, however, that things may begin to improve.



**Steve Medeiros,**  
**president,**  
**Sound FX,**  
**W. Warwick, RI**  
**(12-volt):**

I analyze what I have sold for the first three quarters of the year as I am planning to buy for the holidays. Usually, the manufacturers come at us with big promotions for the new models in the fourth quarter. I do NOT load up on new gear at that time. I focus on what I know I can sell through the holidays, and try and move all of the mid-line/high-end inventory in the store, so that when I go to CES, I can buy knowing that the barn is empty. I basically force my salespeople to sell the old models first by NOT having the new models in stock. Any leftover items hanging around get a small markdown and get put out front. The key to a sluggish economy is to only buy what you can sell while still taking advantage of manufacturers' terms.



**David Young,**  
**president, The**  
**Sound Room,**  
**Chesterfield, MO:**

Over the past six months, we have added a full-time dedicated buyer whose sole responsibility is to make sure we have what need when we need it, without having to have two of the item in stock. Just-in-time delivery is critical for the custom business, and during a sluggish economy, we have really tightened up our buying procedures. Our suppliers have been really responsive to our strategy, and we are working very closely with them while trying to support them as well. We have slimmed down the number of total suppliers that we have, in order to be able to better support the ones that are most im-

portant to our business. With our retail business, we try and always have the best-selling models in stock. It is easier with custom, because you order based on the jobs you've sold.

**Dave Wiggs, president,**  
**Sounds Like Music,**  
**Scottsdale, AZ:**

We have been working with our manufacturers to give us better breaks on new products and display models. We have continued to grow through this downturn, so we have not cut back on inventory, although we are using more sophisticated software and moving to a bar-code system for inventory-tracking. Volatile categories are of less interest to us, such as hard-drive storage devices and "budget" projectors (under \$20,000). New products in these categories tend to be less costly, making the older ones undesirable and hard to get rid of. It is critical that we get demo inventory at a lower rate. We have also added a few brands for fear that the instability of certain vendors might cause them to fail to meet future criteria as a top-level supplier for us. Price protection is very important to us with plasma, and we have done very well buying large lots of outdated key models to sell at a discount.

**Bob Graham,**  
**Breakers Mobile Electronics,**  
**Oxnard, CA (12-volt):**

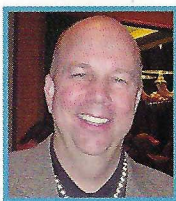
Our strategy has been to run our inventory levels notoriously low — about 35% to 40% of an average month's sales. This has kept cash flow healthy despite the miserable economy and soft 12-volt market here in Southern California. The strategy has also allowed us to take advantage of a recent spike in business. I am betting the farm that things are going to pick up now, taking advantage of some extended terms and deep discounts from our suppliers. We actually came away from CES this year having placed NO orders! We just held off on buying new models and signing dealer agreements until we could see what was going to happen.





**Walt Stinson,  
president,  
Listen Up,  
Denver, CO:**

We are managing inventory levels against revised sales projections, based on the sluggish economy. These trends appear to be uniform throughout most of our product categories. It is easy for consumers to postpone a durable-goods purchase — I don't think these sales have completely disappeared. We are committed to working with the manufacturers who want to help drive traffic and create incentives for consumers. We have been able to take advantage of some of the aggressive programs offered to us by our suppliers, and as for new models, I am much more interested in carrying what my customers want than what my manufacturers wish I had in stock.



**Eric Bodley,  
president,  
Home  
Entertainment  
Design, Bonita  
Springs, FL:**

We do as much business with as few vendors as possible, and

we have presented to them our marketing plan, so they understand that it is our mission to sell a proven group of products to our customers. We have our suppliers pretty conditioned at this point not to try and stick us with too many new products. It has always been my philosophy that in custom, you don't have inventory, you have mistakes. We take a weekly look at what is in stock, and try to move those items through existing jobs before they get too old. We do have a showroom, and we are constantly evaluating our display inventory as well, so as not to get stuck with an old model on the floor. One creative idea: We have an employee raffle if we need to move an item, so we might sell 30 \$10 raffle tickets to move a \$300 DVD player.



**Wayne Puntel,  
president,  
Audio Craft,  
Cleveland, OH:**

We certainly manage our inventory very carefully in this economic climate. I sit down weekly with our buyer and look at what we need, and we respond more cautious-

ly now. We still meet requirements for pre-paid freight orders, but we are not receptive to many of the large "buy-in" programs offered by the manufacturers. We also have to be very careful of the rapidly dropping prices, especially in video, where we have had to absorb the difference (between the price we bought at and a newer revised price) in at least one instance. With new models, if we don't need it, we don't bring it in. That being said, we always look at new technology, such as DVD-R. We will bring in recordable DVD in order to remain the leading specialty retailer in our market; however, we will be cautious with quantities.

### Conclusion

It's obvious that a sluggish economy must be assessed and responded to by each retailer within individual communities. However, what better place to start creating a game plan than the comments of experienced fellow retailers across the nation? It is often the teamwork within an entire industry that gets us all through the more difficult times, making inter-communication of this sort a valuable resource.

## Now you'll be able to find coverage of AudioVideo's annual

### Video Grand Prix Awards

in both the July and August issues.

**July's writeups (Part I) will focus on video categories such as DVD players, digital recorders, camcorders, digital still cameras and video accessories.**

**August's writeups (Part II) will focus on the best display devices in plasma, LCD, projection, direct-view and LCoS categories, as well as processors.**

**AudioVideo's Grand Prix issues are the most trusted and closely read publications in the specialty retailing industry.**

**Retailers: Please make sure you cast your vote, and make your choices count. A ballot is in this issue.**

