

RPM
expo
March 11-13, 2004
Long Beach, CA
www.rpmexpo.com

www.autoelectronicsmag.com

November/December 2003

AUTO Electronics

THE MAGAZINE FOR MOBILE ELECTRONICS PROFESSIONALS

Look Out!

A Backup Alarm Install

Surviving the Big Box

How two Northern Vermont 12-volt specialists survived...and thrived.

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How to live with a 600 lb Gorilla

BY MICAH SHEVELOFF
EDITORIAL ADVISOR

How two established 12-volt specialists survived and thrived after two big box retailers located in their small community.

Chittenden County Vermont is comprised of several rural townships in the northwest portion of the state that exist on an economy predominantly driven by the city of Burlington. Overlooking Lake Champlain and New York State to the west as well as mountainous terrain in virtually every other direction, Burlington is a truly beautiful city, and many families from both the greater Boston and New York City metro areas have relocated here to escape the big city pace. Employers in the area range from the University of Vermont and other smaller schools to IBM, IDX (medical billing systems) Burton Snowboards, Fletcher Allen Hospital, Husky Tool Company, and of course, the ski areas. 2001 census data indicates that the population of Chittenden County was just less than 150,000 people in total. There are two established independent audio retailers that sell mobile audio/video in the county (as well as home A/V products), both having been a part of the community for quite a long time. In November of 2001, Best Buy arrived in Williston, a town just outside of Burlington that has seen substantial commercial development over the past decade, and the mobile electronics landscape changed substantially. Today it features not only Best Buy, but Circuit City, along with the independents. Here are some observations from both Best Buy and the local store owners about how they coexist in a small community, and how the entire business climate has evolved for everyone selling mobile electronics products, accessories and installation.

Words from the Big Boy

Best Buy headquarters is located in the greater Minneapolis area, and I submitted several questions in an effort to understand what the number one electronics retailer had in mind when constructing a 45,000 square foot facility in the comparatively small Vermont community. Here are the answers I received from corporate headquarters.

Question: What about the greater Burlington, Vermont area motivated Best Buy to open a store there?

Answer: We are always exploring new sites for our stores. We look for high-traffic, easily accessible locations where a significant base of our target customers shop. We also look for the right combination of consumer traffic and compatible businesses, such as movie theaters. One of the many determining factors when deciding where to locate Best Buy stores is population likely to shop the location. With the larger surrounding area, research indicated sufficient population to support a store in Williston, Vermont and our sales experience validates the trade area size and viability.

Q: Is the Vermont store the same physical size as a Best Buy anywhere else in the U.S.?

A: The Williston store is approximately 45,000 square feet in size. Most of our stores measure between 30,000 and 45,000 square feet. The size of the store is typically relative to the size of the area population. Also, the smaller format designs carry the same products but with a less extensive breadth of assortment. BestBuy.com also



serves as an information resource and offers a wide range of products by combining online shopping with the strengths of our retail stores.

Q: Approximately how many employees are required to operate Best Buy in Vermont?

A: The average Best Buy store employs approximately 100 to 150 full- and part-time employees for positions including cashier, customer service, non-commissioned sales and management positions. The Williston store employs approximately 150 people.

Q: How was recruiting handled for sales people and installers?

A: Best Buy looks for people that are passionate about technology and entertainment and can help create a fun and easy shopping experience for our customers by holding job fairs in each new store market. The job fairs are held approximately 10 weeks prior to the grand opening and interested candidates complete an initial 20 to 30 minute interview on <http://careers.bestbuy.com>. Ads and editorial content in local media outlets let residents know about the job fairs.

We expect to hire more than 7,000 new associates in 2003, and we currently employ more than 62,000 people in Best Buy stores across the United States.

Q: Does the Vermont store receive the same training support that a less remote store location would?

A: Our training platform is consistent for all stores. Every employee receives a two week comprehensive training on the department products and services that that will be working with.

Q: Has Best Buy gotten involved in any community events, charities, causes, etc?

A: Best Buy is dedicated to being an engaged corporate neighbor. That's why we contribute 1.5 percent of our annual pretax earnings back to the communities where we have a business presence. Through the Best Buy Children's Foundation, we fund organizations that develop and deliver innovative, interactive, technology-based educational programs that are accessible to K-12 students. The Foundation also supports the Best Buy Scholarship program, which awards college scholarships to qualifying students. Best Buy is proud to partner with a variety of non-profit organizations, including Dollars for Scholars, Junior Achievement, United Way and Toys for Tots/Toys for Teens. For more information, go to www.BestBuy.com. Also, this fiscal year, Best Buy is com-

mitted to giving \$10,000 to local United Ways in each new store market.

Q: Was the "small town" existing competition a concern when opening in Vermont?

A: Often times, we don't compete with "small town" stores as these typically offer more niche products and services. Best Buy focuses on offering a wide assortment of technology and entertainment products and services, including in-store computer services. We offer a broad and deep assortment of everything from complete solutions making it easy to enjoy a digital lifestyle to products such as software, CDs, DVDs, mobile phones, laptop/desktop computers, high-end flat screen TVs and wireless home networking. Our aim is to offer customers the most choices at the best price. We also offer a seamless, easy-to-use online shopping experience with BestBuy.com.

Q: Are there Best Buy stores in any other similar communities in the U.S.?

A: Since every community is unique, this is a difficult question to answer. I can tell you that since nearly every major market in the U.S. offers Best Buy stores, most of the stores we are now opening are located in markets where we already have a presence. This level of presence enables us to leverage local investments we have made in distribution and advertising, and makes shopping at Best Buy stores more convenient for our customers because of additional locations.

Currently, we operate more than 560 Best Buy stores in 48 states, and we reach an estimated 300 million consumers per year. We are on target to open more than 60 new Best Buy stores this year.

Q: Address overall performance in some way such as: Given another similar opportunity, would Best Buy likely open such a store again?

A: As we don't comment on the performance of individual stores, I can't answer this question. I can tell you that in the past 10 years, Best Buy Co., Inc. has grown from \$1.6 billion in annual revenues to more than \$20.9 billion today. Also, during the same time period, net earnings from continuing operations have grown from \$20 million to \$622 million.

On a Local Level

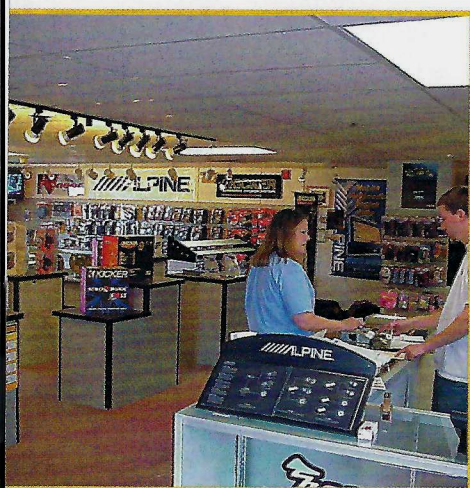
Don Smith is currently the manager at Best Buy in Williston, and he noted that it is not the company's philosophy to compete with the local independent shops.



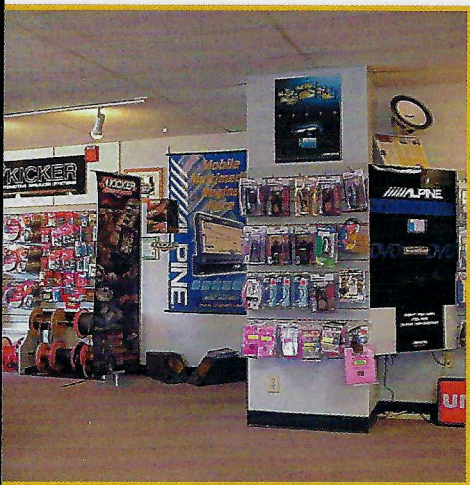
Best Buy customers are greeted by clean, well-lit aisles packed with 12-volt products no matter where in the country they are shopping. Compare this picture, which was taken in Broomfield, Colo., to the two below which were taken in Burlington, Vt., to see the Best Buy formula carried through the different locations.



Best Buy stocks many of the do-it-yourself audio installation accessories, along with offering complete install bay services.



At Great Northern Stereo, a customer completes a sale in the cash wrap area.



Great Northern Stereo's showroom floor is kept clean and well-stocked.



Great Northern Stereo's listening room allows customers to mix and match amps, subs, separates and head units.

"We are a full-service retailer and we cover a lot of bases in our store," Smith said. "We try to establish a foothold as a retailer and give back to the community, as well."

During our conversation, a salesperson named Matt Lussier, began enthusiastically discussing car audio with a prospective customer.

"Matt is an example of a model employee—he is an enthusiast and has his personal car loaded up with gear," Smith explained. "He is comfortable and confident when talking with mobile electronics consumers, and he takes a lot of pride in his work."

After the two weeks of training provided to new employees at Best Buy, they are tested to be sure that their knowledge remains current. In the car audio sales area, Best Buy has designed a customer interface called a Boom Room that allows consumers to choose a system and crank it up.

"At times, customers like to explore and be their own salesperson for awhile," Smith said. "The Boom Room gives them that control right at their fingertips."

Specialty on the Other End of Town

Great Northern Stereo was founded in 1978, and it is located on a busy commercial road (Route 7) just south of downtown Burlington.

"There certainly is no such thing as absentee ownership anymore," said company president Mal Parker, referring to the highly competitive marketplace that keeps him quite busy these days. "Sure, it's a tough pill to swallow sometimes, having Best Buy move into the area. We have chosen a direction, and formulated a plan for going forward. We wanted to make sure that we did not become collateral damage in the clash of the titans," said Parker, in reference to the battles waged between Best Buy and its across-the-street competitor Circuit City. Parker's VP at Great Northern is John Gunther, who views the market this way: "Best Buy has effectively grabbed the \$300 and under sale in 12-volt."

A Battle on Two Fronts

Great Northern Stereo operates their Route 7 location in addition to a facility in Williston that they call The Superstore.

"We converted the space we had been using for mobile electronics in Williston to an area for home theater products," Gunther said. "Our low-end 12-volt business took a big hit with the arrival of Best Buy. Remote start sales were greatly affected, as well."

Part of Great Northern's plan for continued success has been the stability of their team internally.

"Our sales staff is unquestionably one of our strengths," said Gunther. "These guys have been with us for a very long time, and they are encouraged to share their input with us about how our company should be run. I am sure they feel good about that. There is not a lot of dictating from the top down at Great Northern," Gunther stated. "Finding new employees is very difficult, and getting the good ones is almost impossible," he added.

Another way that Great Northern maintains a feel for their market is constant communication.

"We have sales meetings every Saturday, and we shop Best Buy at least once every single week," Gunther explained. "We get very specific about prices, sometimes breaking it down unit by unit. We can not afford to pretend that they don't exist."

Certain aspects of Great Northern's operation have grown and improved as a direct result of Best Buy's arrival in town.

"We manage our inventory better now than we ever have," Gunther said. "We have also become quite adept at anticipating when Best Buy will be closing out a given product or category. When they close out, they close out in a big way, and at a steep discount. We have had to learn to discount the same things, and timing is critical."

Satellite of Love?

"I suspect that Best Buy grabs a lot of the satellite radio business, and I feel like our suppliers (Alpine, Pioneer, Sony) are uncertain about exactly how to approach that market," Gunther related. "They don't want us to give the hardware away, but cost is an issue for a lot of consumers thus far."

Satellite radio is one of the new technologies that is being promoted heavily, and a national chain like Best Buy is ideally positioned to make use of that marketing inertia.

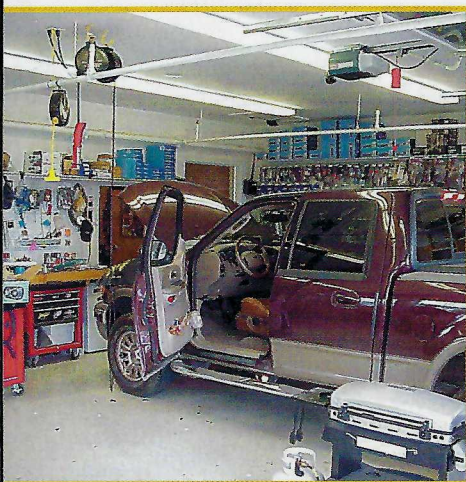
"We certainly can't compete with their advertising budget, so we have gotten better at what we do in every conceivable way," Gunther said. "We have changed our approach to some things, and diversified by diving into other profitable ventures, such as custom home audio installation. It is a crazy industry that we are in, but I think the manufacturers and the consumers are really starting to appreciate the value of



The Creative Sound staff is (from left): Roger Phelps, Cris Folley, Peter Sheppard, Jayson Dattilio and Jason Ouelette.



Creative Sound takes pride in its clean displays of 12-volt products.



Finding qualified installers to fill the Creative Sound bays is challenging in the competitive retail environment of northern Vermont, but owners Roger Phelps and Cris Folley work hard to keep the staff stable.

the independent retailer. We have formulated a plan, and we are moving forward!"

Just Across the Cornfield: Creative Sound

Greater Chittenden County is like its own little micro-economy, explained Cris Folley and Roger Phelps, partners at Creative Sound, a single-store home and car audio/video sales and installation facility, also in Williston. Creative Sound was founded in 1967, and purchased by Cris and Roger in 1993. IBM is here, and there is disposable income in the area, both Cris and Roger said. In 1993, Cosco opened a store in the area, and it suddenly became in vogue to bargain shop. People drove from all over the place to shop at that Cosco, and I think that had a lot to do with the perception that this would be a viable market for some of the larger retailers, mused Folley and Phelps. Up until the arrival of the national chain stores (Circuit City and Wal-Mart are in town as well), consumer electronics retail had been handled by localized one-store operations. The big retailers generate excitement about value shopping by promoting the perception of lowest price. That does not mean that they are actually offering the lowest prices, as some customers have discovered after coming back into our store, reported Folley and Phelps. Creative Sound has a traditionally younger car stereo customer (16 to 25 year olds) buying custom systems for both sound quality and the competition circuit. Creative Sound has worked with Kenwood to host DB Drag events in an effort to promote the category.

Folley and Phelps say there is no question that a lot of their customers have gone to Best Buy looking for a bargain, but come back to Creative Sound after they realize what they are missing in terms of customer service and the overall knowledge of the sales force.

For years, the independent retailers in this community have established a level of customer service that consumers have come to expect. Best Buy's presence has had an effect on our revenues however, because that customer who has made a purchase has been taken out of the market for awhile, Folley and Phelps say. We have to wait until that consumer is ready to buy again. Folley and Phelps did share a story of having had an installer move on from Creative Sound and end up at Best Buy. With all of the new retail development and electronics stores suddenly in the area, filling positions both in sales

and in the installation bays with qualified personnel becomes challenging. "We maintain a cooperative but competitive relationship with the people we know over there," Folley explained.

The Creative Sound owners credit the dedication of their entire staff for their stability and success even in the face of new competition in town. The tool we use to compete against Best Buy's huge advertising budget is our word of mouth referrals, they explained. We are upbeat with the kids in the car stereo room, and often their parents (who were already customers here) bring them in for their first system. We emphasize who we are and what we do at Creative Sound, but now with Best Buy here, customers expect all of that customer service from us along with the lowest prices. Another competitive edge we have is to offer better systems and to do better demo's. Customers come in after having shopped at Best Buy and say, "I never knew it could sound this great." We can show them true high-end potential in our store.

As I stood outside the Creative Sound facility, I was treated to the thunder of low-flying F-16 fighter jets belonging to the Vermont Air National Guard. The Williston retail developments are not far from Burlington's newly renovated airport. "This used to be all cornfields" Folley reminisced as we discussed advertising strategy in the face of Big Box competition. "We do a lot of radio, that is our captive audience. We don't sell the black box, anymore. We sell what the black box does," he concluded, placing the emphasis on the knowledge and services customers can expect from their trusted local stereo shop.

A Free Enterprise Example

Northern Vermont may be small compared to other major markets around the U.S., but it remains an interesting study because Chittenden County provides challenges to retailers such as economic diversity and rugged winter months, all in a somewhat isolated and highly competitive arena. Consumers can't just run 15 miles to yet another chain store, or another independent shop. Retailers in Vermont know that each customer that walks through their door is of high value to them, and they must perform their duties and services on a high level in order to succeed. It is an excellent example of free enterprise working as it should, with consumers choosing where they shop for mobile electronics based on the confidence they have in getting the most for their hard-earned dollar.

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