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# INTERNET SECURITY

## CAN MANUFACTURERS EFFECT CHANGE IN THE BATTLE AGAINST UNAUTHORIZED 12-VOLT WEB SALES? BY MICAH SHEVELOFF

Unauthorized sales of mobile electronics products on the Internet (as well as goods from just about every other sector of manufacturing) have been a problem for legitimate retailers since the first computer was switched to 'on.' Admittedly, it is not a new problem. However, it has evolved to become a bigger and bigger headache for both manufacturers and retailers as computer technology has evolved, and an increased number of consumers find themselves using the Internet either for research purposes or to make a purchase online. Frustrated authorized resellers are tired of trying to compete with below-cost prices posted by every Joe Nobody with a Web site (and most likely, little or no inventory on hand). Most of these Internet operations maintain the unfair advantage of an already minuscule overhead by stealing intellectual property such as product descriptions, logos, and high-resolution artwork from those manufacturers and retailers who have invested in the professional services required to create a legitimate Web presence. Clearly, the mobile electronics industry, as well as numerous other retail product categories, must find a way to cripple these e-pirates in order to assure a prosperous future for themselves.

"We define transshipping as the sale, trade, barter, or exchange of our goods from, with, or to any unauthorized entities for the purpose of resale," explained Ray Windsor, vice president of sales and marketing at Eclipse. "We list product serial numbers on the invoice when we bill our dealers, and we trace those numbers when there is a problem," Windsor explained. "We do, indeed, discontinue business relationships with offending retailers for transshipping violations," he warned. Some of the larger retailers that carry Eclipse across the U.S. are Tweeter, Car Toys, Al and Ed's

■■■ HOW CAN YOU COMPETE WITH BELOW-COST PRICES POSTED BY EVERY JOE NOBODY WITH A SITE? ■■■

Autosound, and Good Guys. "Our retailers respect us for our transshipping policies," said Windsor. "We attempt to partner with those businesses that participate in a like business culture. There are a limited number of brands that attack the transshipping issue like Eclipse," he added. "As a manufacturer, we control the image of our distribution," Windsor continued.

Stringent transshipping policies help to reduce unauthorized Internet sales, but they certainly have not eliminated the problem

entirely. "The problem is twofold," began Garrett Mathews, manager of Internet marketing at Crutchfield, a VA-based catalog and online sales company that is an authorized reseller of many respected 12-volt brands. Crutchfield mails out 35 million catalogs annually; however, over 50% of its total business is done on the Net. "Number One, unauthorized retailers of competitive products are getting these goods without having to agree to MAP pricing policies, or having the standards of service and product knowledge required by our manufacturing partners," said Mathews.

"These sites are not equipped to do business properly, but they use the Internet as a playground to gain exposure, and put downward pricing pressure on legitimate businesses like us," he added. "Secondly," Mathews continued, "we are known for having great content on our site, and we have become prime candidates for having that content stolen and reproduced on Yahoo stores, Ebay auctions, and third-party sites. That gives a sense of legitimacy to these unauthorized retailers, who get our grade-A content and professionally written copy for free. We have contracted with a company called Net Enforcers to identify our content wherever it is out there. I am not sure exactly how big this

problem is yet, but it is on our Top 10 list of things that we are working on this year," concluded Mathews.

## FIGHTING BACK

Blaupunkt is one of the 12-volt manufacturers that have recently acquired the services of Net Enforcers in an effort to thwart unauthorized Internet sales. "Initially, we thought we could handle the problem internally," explained Ken Noda, director of sales at Blaupunkt USA. "We have a few authorized retailers on the Internet and a network of independent specialists across the U.S.," said Noda. "We want to police our markets," he added. Adam Cohen, vice president of Net Enforcers, Inc., highlighted what his company has set out to do. "Most of these sites are not authorized to sell online. They promise manufacturers' warranties, steal images and descriptive copy, and then find a way to get ahold of the products they need," Cohen explained. "We actively monitor Ebay, Yahoo stores, and third-party sites for infringements, and then make the hosts of such sites (called ISP's) aware of the illegal activity going on within their system. Both Yahoo and Ebay have been agreeable to complying with our notifications," said Cohen, who suggests that his service is ultimately protecting consumers from getting burned, buying goods with no warranty or other such malady. "Within our free-trade system, these guys can legally sell whatever products they choose to, but stealing images and text and lying about a manufacturer's warranty....now, you're breaking some laws," Cohen stated. "It's our objective to make it difficult enough for these businesses that they might decide it is no longer worth the effort," said Cohen. "If they have to go out and create their own text and images while working on slim profit margins, they might just give it up. They can't raise their prices, because why would con-

sumers deal with some unknown Web site for only a few dollars in savings?" he posed. "Once they get kicked off of their ISP, they might try and resurface somewhere else — but we will catch them again. Our goal is to make it too painful for them to operate profitably." Cohen related that Net Enforcers has agreements in place with such manufacturers as Blaupunkt, Alpine, Kicker, Kenwood, Audiobahn, Mitek, MA Audio, SAS/Bazooka, and Cliff Designs, in addition to the work they are doing for Crutchfield. "These manufacturers are really making the effort to improve the situation online," Cohen concluded.

Alpine, one of the companies to enlist the services of Net Enforcers, summarized the state of affairs in this way: "Alpine of America will take a strong position to protect its brand and authorized-distribution partners by fully policing the Internet." Explained Steve Witt, vice president of brand marketing:

**SOME DEALERS STRONGLY FEEL THAT MORE AGGRESSIVE PURSUIT OF VIOLATORS IS NEEDED**

"Alpine is aware of the unauthorized use of its trademarks and copyrighted materials on the Internet—this initiative [with Net Enforcers] is in direct response to the changing retail environment and is intended to support Alpine's authorized dealers." Witt added, "This initiative will include a significant stepping-up of actions against unauthorized retail on the Internet. However, we will not be totally successful without the support of our retailers."

Many retailers have voiced concern that their manufacturer partners have done precious little to support them in the battle against transshipping, and some wonder if the problem does not originate at the manufacturers' own loading docks. "Alpine does not engage in supply activity to any unauthorized

distribution," Witt responded. "We respect the fundamentals of a partnership and expect our retail partners to do the same," he added. "We will be effective in reducing the amount of Alpine product on the Internet," Witt concluded.

Those retailers who have seen the tremendous quantity of products suddenly appear on the Internet with damaging effect to their margins refuse to believe that it is all caused by small-time Internet pirates. "If Brand X was really as aggressive as they claimed to be about busting transshippers, their products wouldn't be all over the Net," said Rich Inferrera, 12-volt industry veteran and president of Rich's Car Tunes in greater Boston. "If you eliminated Internet sales and put that business back into legitimate retail stores, very few of them would be crying about the state of the economy right now. They would all be nice and healthy," he added. Across the U.S., on the

West Coast, similar opinions abound. "The manufacturers are the cause of the transshipping problems," reported a frustrated Isaac Goren, president of California-based Sounds Good Audio Video and Marine. "They pursue one or two companies in order to give the perception that their brands are clean, but I believe that their only concern is moving boxes. If Brand X really wanted to support their dealers, they would not make us sign yearly dealer agreements prohibiting us to sell on the Internet, while at the same time authorizing Crutchfield to sell the same Brand X online," added Goren. "If Brand X is selling to the mass merchants and allowing authorized Internet distribution of their products, why should they even care about transshipping?" Goren commented. "It makes no sense."

Alpine's vice president of sales, Glenn Ihrke, related that some of his company's violation-hunting activities have unearthed a few surprises: "Through making purchases



and tracking serial numbers, we have caught seven transshippers over the past 45 days. "Six of the seven were independent specialists — the very channel damaged the most by unauthorized Internet activity," Ihrke pointed out. "We have taken the appropriate steps with those dealers," he added.

### BAITING THE BUYER

JL Audio president Andy Oxenhorn has also taken a close look at the Internet problem; "Many of these sites," he said, "use a prime manufacturer as bait, list their full line of products, but do not actually have much of anything in stock. Then they take two or three weeks to scramble madly in order to

try and fill orders.

"JL Audio," Oxenhorn continued, "goes out and buys unauthorized goods, traces the source, and terminates dealers. We are constantly monitoring our products out there. It's a frustrating battle at times, because we go and terminate an offending dealer, and their entire inventory winds up on the Net the next day. We end up tracking the same stuff over and over.

"Another legitimate problem," Oxenhorn related, "is employee theft and employee purchase at the retail level. Those products wind up online, as well. We are always looking for ways to tighten our security, and we have not authorized anyone for Internet sales of JL Audio products." JL Audio has begun hiding internal serial numbers on products so that they can more easily trace the source of transshipping violations. "It's incredible, what we see — transshippers are mangling our products, literally destroying them

in an effort to remove the serial numbers," said Oxenhorn.

Clearly, Internet security has become a hot topic — an emotional issue with retailers, many of whom have seen their profits and gross sales diminish at the hands of rogue online sites. A high percentage of car audio consumers are young, inexperienced consumers who are prime targets for scam artists. The commoditization of a product category that requires knowledgeable sales and installation services is a scary proposition. It could easily lead to mass consumer dissatisfaction at a time when OEM systems are gaining ground on the aftermarket at a rapid pace. "The bottom line is customer satisfaction," summarized Alpine's Witt. "We believe that manufacturers and retailers must be synchronized to effectively deliver premium value and the level of customer satisfaction that consumers expect and deserve."

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