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SEPTEMBER 2003 • \$4.00

## Expo 2003

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AUD 3 S 307 PKG 1325

MICAH SHEVELOFF

425 HILLTOP RD

ORANGE CT 06477-1537

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# Distributed

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# Audio's Dynamics

## ***Suddenly, traditional A/V specialists/installers find themselves in an entirely new arena***

by MICAH SHEVELOFF

Distributed audio isn't a new concept. Many homes built decades ago were outfitted with in-wall communications panels that could play music. Although crude compared with today's technology, they paved the way for a segment of CE retail that, much like two-channel audio in the '70s, has evolved into entry-level, mid-fi, and high-end offerings to suit the needs of a broad range of consumers. The category has begun to reflect powerful growth that promises a long, bright future for the enterprising hybrid retailer–designer–installer: the systems integrator.

There are many aliases, such as multi-room audio and whole-house audio, that really all refer to one core concept. "We are using the phrase "central sound" now, which is both more accurate and consumer-friendly," explained Kerry Moyer, senior director of product divisions at the Consumer Electronics Association (CEA). "Advances in digital technology have helped make central sound available to consumers at a wide range of price-points," Moyer explained.

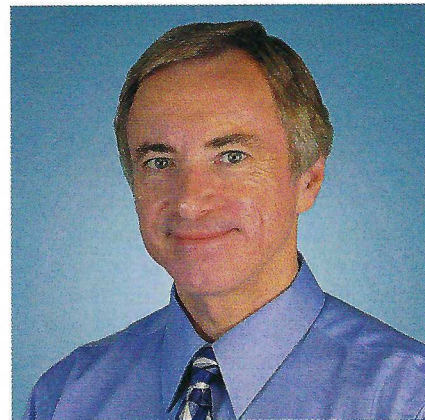
While "entry-level systems may be easier to install in an existing house," Moyer added, central sound systems are often sold through builders or to consumers before the home is constructed; thus, the audio integrator becomes just another contractor on the job site, running wire and doing prep work as the house is built. Central sound systems that are added to an existing home are referred to as retrofit jobs, some of which can be quite challenging. "We are starting to see small, digital amplifiers that actually mount in the wall as part of a central control unit," he said. Powerful networks, moving packets of digital information, have made it possible to distribute audio and video throughout the home, as well as digital source material such as HD Radio and satellite radio. "Home theater has

paved the way for central sound in the minds of consumers, because now people realize that audio can be installed — it can be invisible," said Moyer. "Central sound fits the modern lifestyle," he added. "Studies have shown that people tend not to sit around and listen to music as they once did. We are a mobile society, especially the youth in this country and their love for portable audio devices. Central sound is portable music throughout the house," Moyer elaborated. "It is a growth category for CE retailers, and the fidelity is much better than it was in the early days," he added. Moyer pointed out that there is a misconception regarding central sound: that it is a luxury item for the very wealthy. "There is a system available for every lifestyle and pocketbook. It is an option that is expected in today's high-tech home," stated Moyer.

Peter Dyroff is a principal in the Jarmac Group, a New England-area manufacturers' rep firm and distribution company, as well as a partner in AVAD (the Alliance of Value-Added Distributors). "There are very few CE retailers in our territory not involved with central sound in some form," reported Dyroff. "There are a few two-channel guys or home theater specialists holding out, but I would say it is less than 10% of the dealers in the region," he added. "Distributed audio (central sound) is where the audio business has moved to — those that don't do it are small players. Even some of the high-end two-channel salons now offer central sound," said Dyroff. "It is the business today." He has observed that although there is more profit opportunity in the central sound arena, many retailers have forfeited critical margin because they do not understand their own cost structure — especially when it comes to managing installers and labor charges. "In the custom business, the hard-

ware is more profitable than traditional audio gear, and many integrators operate with little or no retail facility," he explained. "The profitability is there for those integrators who take the time to understand what it actually costs them to do a system," he added.

Peter Hoagland, the chair of the Distributed Audio subdivision of CEA who also handles the marketing for the Russound brand, remarks: "There is a lot of potential business being left on the table." He cites the successful adoption of home networking technology (structured wiring is expected to be integrated into over 40% of new single-family homes) as an enlightening comparison to distributed audio (central sound) struggling to top the 10% mark. "Builders don't want to offer anything new unless it is a reflection of what consumers really want," said Hoagland. "As far as I know, not a single builder offers central sound as a standard feature," he added. Hoagland was formerly the chair of the Distributed Audio Alliance. "The purpose of the Alliance is to increase awareness using a two-pronged campaign, reaching out to both consumers and the builder community," he explained. "Home builders are more inclined to consider offer-



PETER HOAGLAND



## 'The volume control in the bathroom is truly passé at this point.'

ing something if consumers have expressed an interest in it. The Alliance is trying to overcome the incorrect perception that distributed audio is for the rich and famous by emphasizing that it is affordable, reliable and easy to use," he said.

Dyroff agrees that there is now a wide range of products available within the category. "Consumers can choose a package made up of a volume control, an IR repeater, and a pair of loudspeakers all the way up to a system based on AMX or Crestron integration," he explained. "Many of the traditional Japanese home audio receivers now offer a second zone," added Dyroff, who pointed out that CE manufacturers must consider the encroaching position of the computer hardware suppliers entering the central sound market with such devices as hard-drive recorders and computer-based home control systems. "Distributed audio is becoming a digital network—it works based on CAT5 and Ethernet, so the computer companies can play ball in this arena as well," said Dyroff.

### Manufacturers' & retailers' perspectives

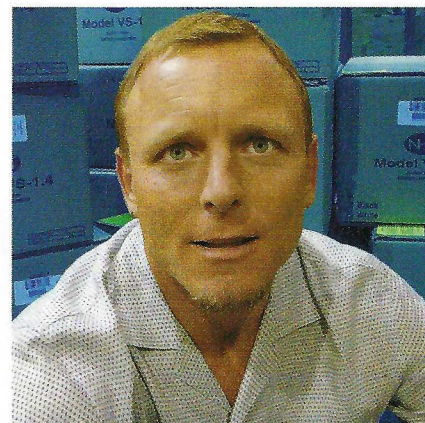
The manufacturers supplying central sound products have their own perspectives on how the category has grown and where it is headed. "The only dealers not doing distributed audio are deliberately avoiding it," explained John Johnsen, director of sales for the Rockford Home Group, makers of NHT, MB Quart Home and Fosgate Audionics. "Some retailers feel that it is not part of their core competency and do not wish to make the investment," Johnsen said. "Many were led into the category because it was 'easy and profitable,' but then struggled because the business model was so different from that of a traditional audio store," he added. "Many custom ventures have failed despite the profitability of distributed audio because the dealers did not structure their businesses properly — labor and time costs can eat up all of the profits, indicating how vastly different a custom business is from traditional audio," said Johnsen.

Another hurdle for retailers to overcome has been the behavior of customers shopping for an entire segment of the consumer electronics business that they are unfamiliar with. "Consumers are doing more research on the Internet and talking to friends because the bulk of the market does not really know what they are getting into. After they begin to feel comfortable with the category, they then demand that the incoming bids are competitive," Johnsen explained. Jack Schroeder, president of Sound Designs, located in the Greater Milwaukee area, agrees that consumers are shopping, but that they are also interested in finding a stable company with a solid reputation for excellent customer service. "Ninety-five percent of our business comes from word-of-mouth referrals," said Schroeder, who started his company in 1991. "My first two jobs totaled about \$40,000 to \$50,000; now we are doing about 200 homes per year," he explained. An average system from Sound Designs ranges in price from approximately \$15,000 to \$50,000. The company does distributed audio, home theater, high-end video displays and home automation. "This whole industry got started because people wanted speakers around the house — now we can offer them a keypad-controlled system that lets them see their 400 CDs. That's the version of distributed audio that my company really promotes," said Schroeder. "The volume control in the bathroom is truly passé, at this point. It should really be a keypad," he added. Through the 1990s, Schroeder reported, nearly 70% of Sound Designs' business was done through new construction, whereas now the split is about equally with retrofit work. "We bill hourly for our technicians plus materials (a billing practice called time-and-materials) when we do retrofit work, as opposed to the solid bids usually required for new-construction jobs. Time-and-materials jobs tend to be more profitable," Schroeder explained. In other words, it is impossible for any contractor to foresee all possible problems that he might encounter doing a system. The flexibility of a time-and-materials quote allows the dealer to maintain profitability regardless of alterations or unexpected problems that might crop up during the installation.

Much like traditional audio, the central

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JOHN JOHNSEN

sound arena has divided itself naturally, creating a separation among low, middle and high-end products. "Dealers doing production homes must have competent products to fill holes, which they get from the classic soup-to-nuts suppliers," explained Rockford's Johnsen. The brands that specialize in a certain product type or application usually manufacture the mid-level and high-end components that wind up in spec-homes or custom homes," Johnsen added. Rockford's NHT brand is a comprehensive line with a focus on application. "It would not be a sound strategy to have a million SKUs (different products). We have kept the product count down and the focus on quality and application," Johnsen added. Integrators do look for stability when choosing to have a relationship with a vendor. "There have been a lot of audio companies that have gone out of business or had crippling software-related problems," warned Schroeder. "We look for reputable companies with products that are tried and true, rather than always seeking out the latest and greatest," he concluded.

Audio Advisors and CEDIA president Jeff Hoover stated simply: "Our growth in distributed audio seems to be limited only by our capacity to grow our company. Almost 100% of our current custom projects contain some variation of this discipline." Between the outfitting of new homes and the retrofitting of existing ones, central sound provides profitable opportunity, while the daily operation of such a business presents different challenges from that of a traditional store. But, suggested Dyroff, "If you are a specialist retailer, it should be your mission to bring change, to bring what's new to consumers."