

>> insight

The Race to Zero

Custom Retailer
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Let's face it—many custom retailers have enjoyed a free ride the last couple of years when it comes to sales of video displays. Never before has such a large group of consumers been willing to pay such high prices for televisions.

Many dealers are selling fewer customers more expensive items, especially the video display. And why not? HDTVs, particularly of the flat panel variety The Race to Zero

, are a white-hot aspirational product category, and the margins have been rather pleasing for dealers thus far.

But the free salad bar days won't last forever, as any specialty dealer keeping an eye on the market trends knows. According to NPD Research, the average retail price for a plasma TV was \$6,512 in 2002. Last year, the price fell to an average of \$3,755.

Now to the present and future—The Race to Zero. Display prices are down over 40 percent from 2002 to 2004, with continuing significant decreases in 2005 and certainly beyond. LCD and plasma flat panels are now competing head-on with traditional CRT in terms of both price and the selling spaces of mass merchant retailers. Compare this to five years ago, when virtually all plasma displays were delivered and usually installed by specialty dealers. Today, that is no longer true. The Wal-Marts, Targets and Costcos are significantly growing their HDTV and flat panel businesses, and prices will become even more competitive as the products become more promotional.

Remember the 1970s and early 1980s, when any given audio specialty dealer swore it would never sell a video product? Back then, the video business, then known as the "TV business," was conducted largely by mass-market dealers and department stores. Even Bloomingdale's had a TV department.

Well, hello, it's the "TV business" all over again. High-tech video, plasmas and LCDs are going to be sold by virtually everyone in short order. As prices of these products continue their steady, significant decline, custom retailers looking to at least maintain their current revenue levels must figure out ways to sell more products to more customers, or find more expensive items to sell.

What to do?

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Look for an exit strategy? Tough, since Tweeter no longer appears to be actively looking to buy specialty dealers.

Close up shop? Well, only if you're close to retirement.

How about weaning yourself off the drug we call high video prices and give your customers other reasons to buy from you? How about being the best in your market?

You may think you've already sent this message out to the marketplace, but have you, really?

Probably not to the extent that you should have. Over the last few years, large video displays, with their strong emotional allure, have done a lot of your selling for you. Certainly, performance hasn't been primary on many of your customers' minds as it has in the past; it has taken a back seat to design and aesthetic appeal.

This environment, where the cabinets virtually sell themselves, has shifted the focus and mission of many dealers. Almost unanimously, they tell me that performance is not a characteristic that is high on the list of their customers' needs.

I disagree. All customers care about performance as a matter of course. It's like saying "I love my mom"—very few people wouldn't say that about their own mom. I was watching a focus group recently and it's always interesting to hear consumers talk about their expectations. They all want their systems to look great and sound great. They do care about performance.

One reason many dealers can't talk about performance is that their store displays are not necessarily superior to those of their competitors, especially mass merchants. For example, when it comes to distribution of video signals, many specialty stores show less care in distributing high-definition video than the larger chains do. I can't tell you how many stores I have visited where the displays and sound were just OK or even subpar.

It reminds of a demonstration I experienced years ago of a high-end stereo system that was hooked up out-of-phase. The salesman didn't realize it, nor could he understand why the customer left unimpressed and without making a purchase. (I did proceed to inform him).

Being the best implies all sorts of things in your store. For now, I'll just talk about the performance aspect:

Does everything work in the store, and I mean everything? If it doesn't work, get it out of there.

Is every picture top notch? Again, this is not typically the case. I was with a friend in Texas recently, visiting different stores. My friend was unimpressed by many of the video displays he viewed—so much so that he didn't purchase anything.

Such uninspiring store visits are not good for our business.

Does the audio make an impact? Most systems I hear are just plain boring. (I'm sure many of you are saying, "Well, he hasn't been in my store." Don't be so sure I haven't.) Home theater is not high-end audio. It needs to have authority.

Dialogue should be clear and intelligible. Bass should be prominent, and not just heard but felt.

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Are you up front in telling your customers that they're going to get great performance? Again, I have found this is not usually the case in most stores where I've overheard sales conversations. Many salespeople (through training) immediately try to sell high-performance cabling, but you shouldn't get to the cables until the customer is close or committed to buying. Very rarely do I hear a salesperson talk about getting the best performance from a system they are selling. Even though the largest consumer electronics retailer uses "Best" in its name, it doesn't mean you have to abandon the adjective in your communications and sales.

As we Race to Zero, turn the track around and give your customers reasons to spend more, and to do it at your shop. Being the best is one of the easiest ways to do this. But first, you must prove you're the best in your displays, and then create a message in all of your communications that tells potential customers that you're the best in the products and services you offer.