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■ **Introducing a Very Effective Out-of-the-Box Thinker** ■ **Runco Enters Outdoor Display Market** ■ **Linear LLC Acquires Yet Another Company** ■ **Architects and Design Professionals Invited to CEDIA's Electronic Lifestyle Forum Next Spring** ■ **Sandbox Summit: A Playdate with Technology to be launched at CES** ■ **But first,**

For the 23rd consecutive year the i.t. Supplier Loyalty Test surveys have gone out to ...

...dealers, and vendors are awaiting the results (which will be published, as always, in December/January) eagerly or anxiously, but definitely with great anticipation.

Vendors trust the survey results. *"I like the inside track survey because it is a blind survey. It is surveyed independently, it is graded independently - so manufacturers get the truth,"* said one vendor. *"The survey gives vendors feedback from their dealers in an independent forum. It is incredibly valuable information that you cannot get from anyone else,"* another vendor concurred. *"It is a very unbiased report card of how we are performing on a lot of different parameters,"* noted a third vendor, one of the larger Japanese brands. Some of the areas that are measured are difficult for a bigger vendor to excel in, he felt, particularly when that brand is being compared to smaller North American companies. *"But it is a lot of good information that will make us take a look at how we handle certain situations, or certain criteria. Sometimes we may feel a grade is not fair or justified, and sometimes it probably is, and we shouldn't fool ourselves,"* he admitted. *"I think it is very positive to utilize the feedback, study it, and see if there are things we can do to help assure that we will do a better job in the future."* One vendor went so far as to say - and actually, he has been saying this for years - that the inside track survey has been *"part of the guiding principles of our company. Without it,"* he added, *"we would not have a gauge to measure objectively how to judge ourselves. It really gives us independent third party confirmation on whether or not we are upholding the standards that we have set to operate our company."*

What, specifically, do vendors do with the survey results? All those that I spoke with reported that they discuss them, in detail, in their annual company-wide meetings or in sales meetings or meetings with their independent rep forces. Typically, year-

over-year changes up or down on each parameter are noted, discussed, analyzed, and a course of action is decided on. Every vendor I spoke with could spontaneously recall specific areas that have received focused attention, based on the survey results - whether it was Dealer Training, Product Innovation, JIT Delivery, Brand Name Recognition, Quality of Reps or any one of the other parameters - if the results have shown the company has slipped against the competition or against its own previous year's performance, action is most definitely taken. Manufacturers, in other words, pay close attention to the survey and take it very seriously.

Therefore, they all also felt that the time dealers spend on completing the survey is, in the final analysis, an investment in the dealers' own businesses. As one vendor said, *"I urge my dealers to participate, because by participating and giving us feedback, they help us do our job better in taking care of them, our dealers."* And the higher the dealer participation, the more solid, the more valuable, the results.

This year, we received lists from 39 vendors. We requested lists of each vendor's top owner-operated independent retailers or custom integrators (national or regional chain stores and Internet accounts, etc. are NOT eligible to participate in this survey). The definition of "top dealer" was left up to each vendor. Furthermore, every dealer may grade the lines he is authorized to carry, whether he is a "top" dealer or a smaller account. This is just an attempt to increase exposure to the survey to all the dealers that all the vendors would particularly like to receive feedback from.

We merged those 39 lists with the inside track dealer subscriber list and the list of dealers who had participated in the survey last year. After all lists were merged and duplicates purged (though

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we kept track of what lists each dealer appeared on), hand addressed hard copy survey forms were mailed to **1,192** out of a total of **3,476** unique dealer accounts between October 17 and October 19. To receive a hard copy, a dealer had to appear on at least two vendor top dealer lists, or on at least one vendor top dealer list and on the list of last year's participants, or he had to be an inside track dealer subscriber, all of whom received a hard copy form. Incidentally, some of the inside track dealer subscribers stand at the very pinnacle of "most valuable dealers," since they appeared on between 8 and 14 vendor lists, while a few appeared on none of the vendor lists. That is just as it should be - inside track provides value to both types of dealers. Of the remaining **2,284** dealers who appeared on only a single list, we had email addresses for **1,665**, and between October 27 and October 30 these dealers received brief emails with a link to the inside track website, where they can download a survey form, print it out, complete it and mail or email it back to us by the **November 17, 2007** deadline. This left **619** top dealer accounts that appeared on only a single list, for whom we do not have an email address. In addition, about 5% of the email addresses provided bounced back as undeliverable.

Vendors may encourage and remind their dealers to participate in the survey and direct them to the inside track website. To safeguard the high standards of the Supplier Loyalty Test, vendors should not try to influence or pressure their dealers in any way. This survey is not a popularity contest. It is an opportunity for dealers to frankly and honestly grade vendor performance on the 16 parameters we measure. The overwhelming majority of the dealers who are familiar with the survey grade in a very differentiated fashion, they rarely just award strings of one single grade all the way across the 16 parameters. But each year there are new dealers participating, who may not have read the instructions closely. This requires monitoring to make sure rules are followed. One rule we instituted years ago is that a string of "0" across the board is automatically disqualified, because this is not rational grading. More recently, there have been cases - one or two a year - where a dealer has graded only a single company. We have accepted such a return where the grades were differentiated, i.e. not all the same across the board. The ultimate objective of the survey is to facilitate better vendor/dealer partnerships or, to use a well-worn expression, to help create "win-wins" in the industry.

Are you a "grocery store" or are you a "restaurant?" Are you a "fisherman" or are ...

...you a "hunter?" **Rob Gerhardt**, principal of Group Gerhardt, LLC, clearly loves analogies. An early CEDIA president and strong proponent of its Expo, Gerhardt had started out in the security business, then became a very successful custom installer whose company, however, failed some 14 years ago, very spectacularly and, because of his own high visibility, very publicly. He turned that debacle into a seminar, "*How to Learn from Failure*" (talk about making lemonade!) That must have been agonizing, but it was also a shrewd move, because what Gerhardt did is what he continues to teach: He invoked what is known in Marketing as *The Law of Candor*: You admit a failing or negative straightforwardly. Your audience obviously agrees it's a negative, and your admitting it wins them over, builds their trust, so that now you can launch into the positives, and you will be believed.

DECISIVE RESULTS BASED ON OUT-OF-THE-BOX THINKING

If Gerhardt loves analogies and metaphors, he has also clearly researched, studied and analyzed much, particularly in the areas of marketing, market research, consumer psychology and human psychology in general, and he is applying it all to our industry. I talked to several dealers whose testimonials I had found on the Group Gerhardt website. They had either read the series of articles Gerhardt had written for rAVe Magazine in 2004, or they had attended his seminars. These dealers credit Gerhardt with having influenced their thinking and catapulting their businesses to a whole different level. "*Rob's columns help you step out of the box, not think like an A/V guy anymore,*" one dealer said. "*I still refer to them often.*" "*That out of the box thinking was a foundation shaker,*" another dealer agreed and elaborated further: "*Because Rob has a real feel for the buying*

public in general and the modern luxury client in particular, he is uncannily accurate about the current market conditions and how to reach into that market and take advantage of it. He's helped us see that we needed to distinguish ourselves as a contract business that is less product- and more process-oriented. That it was important to make the process enjoyable for the client. He stressed the value of being candid with the client, and we are attempting to apply these principles in our business." Other dealers said, "*Rob's courses were a springboard for us,*" and "*he has influenced my thinking to such a deep degree that it has become a philosophy of doing business. And because of his seminars and what I learned and implemented, millions of dollars have flowed into my business.*"

NEW OPPORTUNITIES AVAILABLE IN THE EARLY MAJORITY MAINSTREAM STAGE

"*Learning from failure is not my preferred way,*" Gerhardt now deadpans, "*but the reality is, you do learn more from failure than from success.*" In the process of reorienting his own business from that of a dealer to that of a trainer of dealers, Gerhardt and his group created training courses, in person and on-line for, among others, Crestron. Gerhardt also continued to teach classes at CEDIA. "*So you stand in front of some 20 to 200+ dealers during each course,*" he said. "*There's a lot of useful information there, if you are willing to sort through it and start to match what is going on with why it is going on.*"

There are, on the one hand, certain market and consumer realities. There is, for example, the reported finding that the top 20% of the population have proportionally more money to spend than 30 years ago. These consumers "*trade up,*" they have

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become the “*new luxury clients.*” “*New luxury goods,*” Gerhardt said, “*are always based on emotions first. And they must provide a ‘Ladder of Benefits’ - differences in design, in technology, or both (that cannot be merely cosmetic). ‘There is also an assumption of quality - that the product will perform as promised and be free of defects.’*” Ultimately, what the new luxury client is looking for is something along the lines of “*the flawless, emotionally engaging experience of putting the key into the ignition of their new BMW.*” They want, in other words, the WHOLE product, i.e. the completely integrated system, surrounded by service and support. They are not interested in the component parts the same way the owner of that new BMW is not interested in the camshaft per se - what he/she cares about is the experience of owning and driving the new car.

New technology products follow a familiar bell-shaped adoption curve, and Gerhardt maintains that our industry is tracking that curve perfectly. “*The original CEDIA clients were Early Adopters. That meant, a high percentage of them cared about the pieces you were using in the system, and so CEDIA dealers fashioned their skills around that. As the industry expanded and has entered the Early Majority Mainstream stage, audio and video is no longer the most attractive part of the installations. They typically are ranked 4th or 5th behind, for example, lighting and overall systems control. But since the systems are so much larger, dealers are selling more audio/video than ever - it’s just a smaller percentage of the total system,*” Gerhardt said. Where the Early Adopter client got very excited - and was quite knowledgeable about - innovations, the pragmatic Mainstream client is “*terrified of constant change and innovation. They want industry standard!*” They want, in other words, predictably reliable, flawless results.

FOCUSING YOUR BUSINESS ON SERVING THE NEW LUXURY CLIENT

If you want to serve that pragmatic “*new luxury*” client, you must not only understand him/her, you need to focus your business squarely on delivering that WHOLE product. And that’s where Gerhardt says you have to choose between being a “*fisherman,*” i.e. a retailer who “*lures*” customers to his location, but has no control over who will show up, and a “*hunter*” who purposely selects whether he will hunt ducks or boar, and then prepares accordingly.

“*Clients of integration companies want the system designed, installed, and serviced, They are concerned about your company’s ability to make it all work, not about specific products,*” said Gerhardt. These clients assume that as the expert, you will choose the right products for the system. According to Gerhardt, your company needs to be able to provide (1) System Design and Integration, (2) Documentation, (3) Product, (4) Installation, (5) Project Management, (6) Calibration and Programming, (7) Ongoing Service and Support. Successful installers, Gerhardt stressed, “*take a pragmatic approach to product. They choose a limited number of vendors who consistently support their service policies and produce significantly better quality, consistently reliable products.*” This also means dealers need to partner with vendors who invest in their dealers, and who realize that they need

healthy, profitable dealers.

There are 3 positions available in this industry, Gerhardt points out - Retailer, Installer, and Integrator. The Retailer is like the grocery store - even the upscale retailer - the price of the “*ingredients*” will always be an issue. The Installer, and even more the Integrator, resemble a restaurant. In one of his articles Gerhardt relates how that realization had hit him when he stared at his \$13.00 plus bill for scrambled eggs and bacon at a restaurant in Indianapolis, one CEDIA Expo morning. He knew the cost of the ingredients for his breakfast represented less than \$2.00, but he also realized that he was not in a grocery store buying the ingredients. He was having a meal in a restaurant, an “*experience*” of which the bacon and eggs were just one part.

Now apply that to your business. Let’s say you decide that the niche you want to focus on is home theaters going into existing homes during the basement or bonus room build-out. Be sure that you have the necessary capabilities to deliver the WHOLE product. In this case, Gerhardt points out, you would need experts - if not on your own payroll, then very closely allied - in Networking, Electrical, Carpentry, Sheetrock, Painting and Repair. You also need the appropriate target clients and must be able to give them a compelling reason to BUY NOW. Gerhardt stresses repeatedly that you must make your systems easy to buy, not easy to sell (i.e. cheaper). He suggests you practice what he calls the “*Elevator Test,*” to state your claim, meaning, you need to be able to present, in the time it would take to ride up with your target client in an elevator that you offer: For [*the target client niche only*], Who are dissatisfied with [*current alternatives*], Our Product, which is [*a new category*], That provides [*key capabilities*], Unlike [*the alternatives*], We have assembled [*your WHOLE product*]. Your objective is to create a realization in their minds that this is the best solution for their situation. And since you sell solutions, not products, Gerhardt stresses, “*only use trusted tools - products and processes that you are intimately familiar with. Then use them repeatedly.*”

BUILDING CREDIBILITY AND A REFERRAL-BASED BUSINESS

Since it is ruinous to try and compete on low price in our industry, “*you must be a designer/installer and deliver excitement, quality, the WHOLE product to a growing market of pragmatic Early Majority premium buyers who can afford and appreciate what you offer,*” Gerhardt repeats over and over again. That requires a single-minded focus. “*Ignore everything else that wanders in, because to properly develop that niche, you must overwhelm initial clients with service. Clients must be completely satisfied with a WHOLE product that is flawless and emotionally engaging.*” Focus on that single niche and build a strong referral base, because this business has become 100% referral based. “*Your clients will only do business with people who already have done business with people they know.*” It’s a lesson many in our industry have taken to heart. “*You somehow break into one of those higher end builders or restoration guys and prove yourself to them. They can lead you to clients. That’s how it happened for us,*” one of the dealers I talked with said. Just be careful, Gerhardt cautioned, that the builder is merely the conduit to the client. Unless you want to be in the “*Fast Food*” business, don’t make the builder your client, because he sees you

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merely as another expense of building the house(s) that he has no emotional attachment to once they are sold.

But if the builder (or architect or designer) has led you to a target client, *“impress that client with your company’s installation competency: You have done it all before and know how to make it work right the first time. Only then move on to the discussion of the system itself,”* says Gerhardt. What you need is credibility, and one of your most important tools here is a presentation that relies on a portfolio of your previous work and on third part recommendations. You should meet in your conference room, and you should have some demo tools (touch pad, key pad, inwall speaker) for discussion purposes. But don’t do product comparisons. That’s a retailer’s tool. Do what Gerhardt has done, invoke the *Law of Candor* - volunteer disadvantages, then (if your company is small, for example) stress the attention an important client gets, and the security your documentation and selection of major manufacturers creates. Discuss worst case scenarios and how they can be resolved.

Group Gerhardt, today, still offers training. In fact, Rob Gerhardt will teach a course, *“Let’s Actually Learn Something*

that Will Change Our Business” at the Long Beach Courtyard in Long Beach, CA on November 10 and 11, immediately following EHX. Dealers can attend the same course on December 7 and 8 in Orlando, FL. In addition, Group Gerhardt is now a *“Service Resource”* for the HTSA Buying Group and will do targeted training courses for HTSA members and, potentially, other groups of dealers as well. They are also contemplating to organize and illustrate Rob Gerhardt’s lectures and put them on a self-paced presentation DVD. Beyond that, Group Gerhardt has also created a series of products such as, for example, their *“Portable Showroom.”* Mostly, though, *“we are, today, an engineering and documentation company that has a proposal service,”* said Gerhardt. *“We will see about \$60 million worth of proposals and systems this year. We see what works and what does not work. What I think is no longer an issue. Now, it’s what I know.”* Among the things he knows is that this kind of business is available not just on the East and West Coasts. *“The largest projects I have seen in the last few years have been in Ohio, Tennessee, Louisiana and Arkansas,”* Gerhardt said. For more information go to www.grouperhardt.com or contact them at **770-934-4558**.

INDUSTRY NEWS ... INDUSTRY NEWS ... INDUSTRY NEWS ... INDUSTRY NEWS

■ ■ **Runco** is expanding into the luxury outdoor living market with the new WP42HD weather-proof LCD display, the first in the company’s new Climate Portfolio. The technology, explained VP Worldwide Sales & Marketing, **Bob Hana**, came out of parent company **Planar’s** commercial business unit, where it has been successfully employed in a wide range of environments that are subject to temperature or moisture extremes, from displays in the cockpits of jet airplanes to those on gas station pumps. Putting that technology in a luxury 42" high definition LCD display will expand opportunities for dealers who, so far, have only had outdoor audio products to offer their discerning clients. The WP42HD has a custom aluminum cabinet, sealed to ensure protection from the elements, and features a specially designed ventilation system to provide adequate cooling. The \$8,995 MSRP unit, which surpasses International Electrotechnical Commission (IEC) weatherproof standards, has RS232, DVI and RGB/computer inputs and will begin shipping this month.

■ ■ With the acquisition of Canton, MA-based **International Electronics, Inc. (IEI)** in October, **Linear LLC**, the wholly owned subsidiary of **Nortek**, has added a company to its extensive portfolio that is *“a market leader in access control stand-alone keypads, lock sets and systems access control products, including the flagship eMerge browser-managed integrated security management system.”* Linear Chairman **Grant D. Rummel** noted that, traditionally, Linear has been in access control for perimeter security, including telephone and gate entry. Now, *“IEI’s experience and innovation in the areas of access control software adds substantially to our systems depth.”*

■ ■ **CEDIA** will make a second appearance on the national TV show *Designing Spaces* on November 9 and 10 at 7 AM EDT/PDT on TLC and WE. The 2007 Holiday segment will highlight the importance of hiring a CEDIA Certified member to create your dream system. Local cable affiliates for ABC, NBC, CBS, FOX, PAX and UPN will run the CEDIA segment through December 2007.

■ ■ **CEDIA** has announced the cancellation of its new building- and decorating-themed Spring EXPO trade show and will instead offer members the opportunity to interact with residential architects, builders and interior designers during the CEDIA Electronic Lifestyles Forum, scheduled for April 30-May 2, 2008 at the Adolphus Hotel in Dallas, TX. According to the association, more than 100 architecture and design professionals are set to attend the Dallas event.

■ ■ **Sandbox Summit: A Playdate with Technology** will debut at the 2008 CES with a special exhibit in the Sands Convention Center. The exhibit will showcase the latest high tech toys and media that children are using today and explore toys being designed for the kids of tomorrow. The conference portion of the Sandbox Summit will bring together educators, toy manufacturers, ce companies, policy makers and media to discuss how technology is changing the ways kids play, learn and connect in the digital world. The keynote speaker will be **Gary E. Knell**, president and CEO of **Sesame Workshop** who will be joined by Sesame Street’s **Elmo**.

*So much for today.
Yours sincerely,
Gisela Schoell, Editor*