

Overcoming Strategies for Beating the Big Box Boys

Goliath

<BY LESLIE STEVENS>

If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle.

— Sun Tzu, *The Art Of War*

They're here... at least for now. I say that in part because Gateway just announced the closing of all its retail stores. Not that we needed to witness another painful crash and burn to prove it's difficult for corporate "know-it-alls" to conquer the custom business. But these days, big-box retailers are not only making inroads into our market, they're also abducting our well-developed talent. Beyond that, they're gearing up for even more action on our traditional turf. As just one example, the information technology association CompTIA, has just announced a new "home entertainment" training and certification program. The objective is to enable mass merchants to penetrate the custom installation market by training huge volumes of technicians across the country. Just what you wanted to hear, eh?

Before serving up some offensive and defensive strategies for dealing with this impending competition, I'd like to play the devil's advocate for a moment. First, isn't it possible that C-tailers can capitalize on the deep pockets of the box movers, which are laden with a bunch of fat? If not for the giants and their correspondingly giant ad budgets, who would have the "cha-ching" to preach the gospel about home theater and integrated systems to the wealthiest people on earth? At least now, average consumers are starting to realize that real home theater is more than a silver HTiB.

The second reason I think that big-box retailers have some merit is that they provide new business opportunities for dealers. For now, at least, box movers lack the know-how to design and install quality systems, so they're pretty much at the mercy of custom dealers—like you. Many of these giants are open to subbing out jobs to

a specialist. Like you.

But while it's possible to use a giant's size against him, the threat is still very real. As you know, big-box retailers have a dual strategy for penetrating the custom integration market, which includes both the builder channel and direct to the consumer. To further complicate this, you have to deal with consumers walking in off the street, taking up your valuable time so that they can educate themselves on technology. Then, they purchase product from the lowest seller, whether it's a big-box retailer or the Internet.

So let's discuss your offensive and defensive strategy against big-box movers, and how you can benefit from them. Also, you need to know how to spot a cost-comparison shopper quickly and determine if you can convert this individual into a profitable customer, or need to send them away. In preparation for this discussion, I interviewed several respected dealers to learn what goes on in their own backyard, and what they do about it.

I Know Something You Don't Know

Tangora Technologies, a C-retailer from Delmar, N.Y., is surrounded by Tweeter, Best Buy, Circuit City and Sears, all within a ten-mile radius. Says company president Mike Tangora, "Our staff is trained to quickly identify to the needs of potential customers. We conduct interviews to find out

the level of equipment they might buy, and we seek to uncover their budget without them knowing it."

Tangora continues, "If a customer comes to us and asks about parts and pieces, we immediately educate them on the benefits of a complete system, including integrating it with the rest of their equipment. We point out that big-box retailers won't do that for them. Their delivery guys have no clue about other electronics in the home. By the time we're done explaining this to them, we usually have them hooked."

On the other hand, if a customer is really concerned about the price of the TV, the company has a unique approach to addressing the situation. Says Tangora, "If the cost of the plas- >>>



Big-boxes like Genesis and Best Buy don't have to be bad news.

ma is really important to them, we send them to the local big-box retailer, knowing that 60 percent of these customers will come back to us to see if we will match the price. At that time, we recommend they purchase the TV from the box retailer, and have them deliver it. We will build the rest of the system, which includes installation for the plasma. This satisfies the customer, because they feel they paid the lowest price for the TV. We win as well, because we would otherwise have only made a few hundred dollars on the plasma, and it would have taken two men and three hours to get it delivered and installed. By doing it this way, we make money on time and material, and our installers don't have to break their backs carrying a 42-inch plasma upstairs. Furthermore, we don't have to worry about warranties, instructions or other related issues."

Tangora Technologies is also skilled at dealing with Internet shoppers. They can immediately tell if someone is looking to get the best price possible, but still utilize Tangora's talents. Says Tangora, "It's pretty simple to



A custom showroom at Tangora Technologies.

identify who these guys are. Basically, they do one of three things: Come in with 15 sheets downloaded from the Web, send us e-mails with pricing questions, or ask for a price breakdown on equipment. At that point, we pretty much steer them to another retail outlet."

Other People's Money

According to Dennis Sage, president of Phoenix-based Dennis Sage Home Entertainment, "We feel big-box movers provide value to the custom installation market. The best thing about them is their endless advertising, which brings a new awareness about our industry. People hear buzz words, and more and more consumers want a home theater and distributed audio system."

According to Sage, 85 percent of his business comes from new construction. However, Sage is not concerned that the big guys will under-bid his work. Sage maintains great relationships with the builders in his area. He is continuously involved with community activities, and as we know, people like to do business with individuals they know and trust.

Sage puts it like this: "The builder knows he can call us anytime and talk to the owner of the company. We offer them the knowledge, expertise and longevity that retailers can't give them. Installers from big-box retailers aren't at the same level as we are. Their turn-over is huge and they can't service the builder as they need."

"With respect to the homebuyer," says Sage, "if we do our job correctly, they won't go to box movers. We feature a vignette style showroom, with dedicated rooms for home theater, music, lighting and video. Home buyers come to us and we educate them on the options available."

Sage invests heavily in sales training to provide the customer with a great experience. Sales managers are taught to listen to their customers and learn as much as possible about their lifestyle. Sales managers are instructed to discuss solutions and demonstrate them. Since Sage's sales reps are on commission, they try hard to identify the needs of the customer. This kind of attention just isn't available at non-commissioned big-box stores, and customers know it.

Sometimes consumers venture in off the street and ask Sage to match prices that they found elsewhere. Says Sage, "This is usually not an issue for us. Very few products we carry are found in retail stores. We favor products from manufacturers that respect the custom channel." When Sage's company sells a product that is also widely available at mass retailers, he handles it this way: "We tell them that they'll match the other guy's price, as long as we get to match their service, meaning, the customer will get the product at the lower price, but no service will accompany the product."

Regarding mass merchants who offer to install product for free, Sage handles it like this: "We ask the client why they think their getting free >>

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installation, and this immediately makes the customer nervous. Sage continues to explain, "The sales rep for the big-box retailer will say 'yes' to everything, just to close the sale. But that's not the guy completing the installation, which means that many times there will be conflict. We guarantee that our sales force and installers are in complete sync with one another."

Taking The High Road

Roger Koehler, president of The Big Picture in Englewood, Colo., has been facing big-box retailers for years. Soundtrack, for example, had previously initiated a program for builders, then retracted their efforts, and now, once again is making a renewed attempt. However, The Big Picture's strategy continues to remain consistent, which is to differentiate the company through excellent service. Koehler further states, "We welcome ads that are placed by the big guys. Our best weekends are when their ads come out. Retail giants aren't really our competitors, it's the guy selling hot tubs down the street who is."

In regards to the issue of free installation that box retailers offer, The Big Picture addresses the issue like this, says Koehler: "We let them know that we offer free in-home consultation, regardless if they purchase a system from us. Large retailers don't even offer that service. During the consultation, our sales managers demonstrate how they can configure our client's remote control through their PC so that their system will be totally programmed for their lifestyle. Each installer has their own laptop that they take with them into the field."

Several months ago Best Buy opened up literally within 20 feet of Genesis Audio & Video in Irvine, Calif. Best Buy's opening day fell smack dab on the same day that Genesis hosted its pre-planned function for high-end clients and guests. It was a private affair, catered with expensive wine

and fancy appetizers. By dusk, when the party was about to start, the parking lot was filled with people looking for great deals on electronics.

According to Genesis president Bill Anderson, "We were apprehensive about people soaking up our time with technical questions, and then going to Best Buy to purchase products. Over the next few months, we experienced a lot of argumentative people coming into the showroom. But as time went by, this tapered off, and now we're pretty much back to focusing on our traditional referral-based business, which in reality, was never a worry for us since we focus on high-end home theater."

Manuel Escobar, president of PSS Electronics is in agreement that service is king. According to Escobar, "The issue surrounding big-box retailers is simple. People want service, and right now their complaining about the headaches they're getting from big retailers. 90 percent of our clients trust us and don't feel the need to go to mass merchants. We offer them "Noudstrom" service. It starts with sales 101 and good follow-up. We then take the time to teach our customers how to operate their system."

Since customer service is the crucial differentiator, I did some checking to find out what customer service meant to big-box retailers. Best Buy's Web site, for example, offers just 15 minutes of instruction time to the consumer. I guarantee their installers would spend more than 15 minutes at my house, and I wouldn't pay more—my expectation would be to receive adequate instructions without dipping into my wallet.

In other words, the big boys won't give me what I expect. The smaller guys can. In essence, this is the recipe for the C-tailer's success.



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