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Audio-Video  
Retailer

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“Every day, we are asked to match Internet ...

... prices and, more significantly, change or void a contract as the customer discovers new, lower prices,” wrote a dealer in response to a 7-point email questionnaire I had sent out in early September to gauge the impact of unauthorized Internet sales on the business of independent specialists and custom installers. Fourteen dealers responded, some writing multiple times, while I followed up with others on the phone to discuss not only the problem and the many ways it manifests itself, but also what dealers feel the root causes are, which brands and products are most affected, how they - and their vendor partners - are dealing with those problems, what dealers really want to see done, and which of their manufacturers are doing a particularly good job policing the Internet.

## **GIVEN A SERIOUS THREAT TO THEIR BUSINESSES, DEALERS EXPECT MANUFACTURERS TO TAKE VISIBLE ACTION**

Practically every dealer who responded has been asked to match prices that customers find on the Internet. Sometimes, they are even asked to drop the sales tax. Even more shocking is the fact that

three of the 14 said that their customers have actually deducted from the final payment of installation jobs the difference between the dealer’s price for a particular product (often a plasma TV) and the price the customer found for that product on the Internet. *“It really ticks me off,”* said one of those three dealers, *“and it has impacted me financially more than a few times. But what am I going to do? Sue a Fortune 500 CEO over it with my resources??”*

Some dealers are fighting back by enforcing policies of their own and simply refuse to play the *“meet the price game.”* Some will not install equipment that the client does not purchase from them or, at the very least, they will charge full shop rate to remove and reconnect equipment supplied by the client. Several said they point out to their customers the dangers and pitfalls of buying from Internet sources, the vast majority of which are not authorized dealers. And while many manufacturers now have prominently placed warnings to that effect on their own websites, along with reasons why customers should buy from an authorized dealer, the manufacturers biggest gun, that the warranty will not be honored

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# inside track inside track inside track

if the goods are not purchased from an authorized dealer, does not seem to faze a lot of consumers, dealers report.

Besides the Internet sellers that will pop up on your screen when you do a simple search by brand name, using one of the many search engines, there is, of course, also e-Bay, where plenty of supposedly “*brand new*” product, often with warranty (though clearly not the factory warranty) is offered at incredibly discounted prices. “*Who is going to pay me \$3,500 for B&K’s top receiver, when there are half a dozen of them on sale on e-Bay for around \$2,000,*” one dealer wrote. Even more dangerous than e-Bay, another dealer pointed out, are the “*reverse e-Bay sites,*” such as [www.absoluteplasma.com](http://www.absoluteplasma.com), that ask dealers to bid the lowest price on a piece of equipment.

Dealers say they complain to their manufacturers, “*but nothing happens.*” Or, “*manufacturers say things are happening. But I don’t see the evidence.*” “*Manufacturers are tired to hear us complain,*” said one dealer. So when the problem with one brand becomes too bad, “*we’ll push another brand. There are lots of good products out there,*” this dealer added, “*but it’s the people behind those products that make the difference. Fortunately, there are still some people in this industry who know and understand that our integrity as businesses and as human beings is of the utmost importance. Those are the people we choose to partner with.*”

So – which manufacturers are really doing something about unauthorized Internet sales? Speaker companies in general, dealers say, do a better job of keeping their products off those sites than electronics companies - although there are significant differences in terms of enforcement. **B&W** and **Paradigm** were mentioned most frequently as the most effective and reliable “*policers.*” In addition, a few other

vendors received a thumbs up from one dealer each, including **Phase Tech**, **Lexicon** and **Yamaha** (although there is still lots of Yamaha product on the Internet). **NAD** and **PSB**, one dealer wrote, “*seem to be getting a handle on it,*” and “*it seems Fujitsu is trying hard, but you still see it everywhere.*”

I did several searches myself, on e-Bay as well as on various Internet search engines. On one particular day there were exactly zero e-Bay listings for **Revel**, **Triad** and **AudioControl**. Of 12 **Paradigm** listings only two were for “*new*” products (the rest were used products, legitimately offered by private individuals). Of 10 listed **Boston Acoustics** products, none were for new products, and 2 **Vandersteen** listings were also for used products. On the other hand, of 28 **Polk** units offered that day 12 were for new products, and of 67 **Klipsch** and 133 **Bose** products many were listed as “*brand new.*” On the electronics side, of 13 **Proceed**, 8 **Mark Levinson**, 11 **Arcam**, 15 **Bryston** and 30 **Rotel** units listed on e-Bay not a single one was a new product, where **Marantz**, **NAD**, **Yamaha**, **Onkyo**, **Kenwood**, **Pioneer**, **Mitsubishi**, **Sony** and **Nakamichi** each had hundreds of products listed on e-Bay that day, many described as “*brand new.*” Dealers reported that “*expensive but easy to ship items, such as plasmas, LCDs, DLPs, and high end surround sound receivers are most problematic.*” “*... anything that is UPS-shippable.*” “*Any hot product, such as the Pioneer Elite 50” plasma or the Sharp XV9000 projector.*” “*The biggest offenders are big Asian companies, and specifically DLPs, high end DVDs, and most of all, plasmas.*” “*Plasma is the worst.*” “*Plasma is the biggest problem.*”

## UNDERLYING PROBLEMS, CONFUSED CONSUMERS, AND A “WE-WON’T TAKE IT ANYMORE” DEALER ATTITUDE

As dealers see it, there are 3 main factors underlying the problem: (1) greed, (2) financial

# inside track inside track inside track

problems at a dealership, due to slow business, changes in models, the need for cash, and (3) manufacturers pushing for more commitment than a dealer in a given market can handle. *“The dealer wants to keep the line, so he takes the product and dumps the excess.”* With respect to (3) several dealers also pointed out that some manufacturers are looking for constant sales increases, no matter what the state of the economy, *“and if the dealer can’t do it, they increase the distribution.”* A fourth point, products available through distribution, *“which means manufacturers lose control, no matter what they may say,”* was mentioned by 3 dealers as also contributing to products ending up on the Internet.

*“There is no changing the fact that people want the best deal,”* one retailer said, adding, *“but they don’t know what a fair price is. They are confused.”* *“People certainly realize that all businesses need to make a fair and honest profit in order to stay in business,”* another dealer commented, *“but I believe that the consumer electronics industry as a whole is doing everything it can to lose the respect and confidence of the customer.”*

What do dealers want to see their manufacturers do? *“Screen out inappropriate dealers from the start. Don’t [indiscriminately] add dealers to achieve growth.”* *“Don’t lie to us. Don’t promise, ‘No Internet Sales!’ and then turn a blind eye.”* *“Enforce policies.”* And again and again: *“Cut off transshippers!”* *“Terminate offending dealers after the first offense.”* Furthermore, dealers want to see evidence of action taken, believing that *“hiding behind legal issues is a cop-out.”* *“Tell us about the outcome. Name names. Be specific.”* *“Send out letters with names of terminated dealers. Warn other dealers not to supply them.”* *“List the cut off dealers on the manufacturer’s web site, so we can show this to our clients.”*

*“We are tired of being the information center and showcase for Internet dealers,”* one dealer summed up his comments, and another elaborated on the age-old free-riding problem, now made exponentially worse by the Internet: *“People buying mid-fi to high end equipment usually do not purchase without first seeing and hearing it. When and where do manufacturers think that happens for the products purchased on line? When the consumer has a problem with their new purchase, where do manufacturers think they are going for help?”* Following are reports about the philosophies, policies and actions taken by 5 industry companies.

## FUJITSU

I found plenty of current Fujitsu Plasmavision models, including the PDS 4242, PDS 4233, PDS 5004 and PDS 6101 offered at thousands of dollars below the MSRP or with *“call for price”* come-ons on a number of sites, as well as on e-Bay. Interestingly, one Internet seller listed a warning regarding Fujitsu’s *“no warranty”* policy on units sold on the Internet and suggested customers consider *“similar products”* from competing manufacturers, a blatant bait&switch tactic.

In fact, Fujitsu’s Senior VP **Tedd Rozylowicz** stated categorically that all those Fujitsu models offered for sale on the Internet are a mirage, since *“90-99 percent of the product does not get through to the Internet seller.”* Authorized Fujitsu dealers, he suggested, should feel comfortable pointing out to their clients that because of Fujitsu’s strict policies it is highly unlikely they will be able to actually get the Fujitsu product when they try to order it from an unauthorized Internet seller. And anyone offering Fujitsu Plasmavision for sale on any Internet site is, by definition, either an unauthorized dealer or an authorized dealer violating his contract, since no one is allowed to sell Fujitsu on the Internet.

# inside track inside track inside track

Rozylowicz noted that he had *“a file about 6 inches thick”* on cases where *“legal notices from our trademark attorneys have been sent, telling them [the Internet sellers] to cease and desist from selling our product, or face legal action.”* Many of them, Rozylowicz said, have complied and removed the product from their sites. Others *“may still be advertising it, but I know for certain they are unable to get the product.”*

On May 15, 2002 Fujitsu instituted its *“No warranty”* policy on units bought from illegal Internet sellers, and has posted it prominently on its website. The company also vigorously goes after transshippers and has, since May, terminated 30 of them. Rozylowicz: *“We have a one-strike-and-you’re-out policy.”* As to the argument that most consumers don’t care about a factory warranty if they can get product for thousands of dollars less, Rozylowicz warns they may find out the hard way how valuable the company’s 3 year warranty is, when they try to obtain service on a set bought on the Internet: Fujitsu will not cut consumers any slack. *“And if they need warranty work on a board or something like that, it’s going to cost them thousands of dollars.”*

Here is a video company fully prepared to back up its dealer partners, a video company that acknowledges that customers *“will go someplace to see the picture,”* that plasma panels have to be sold by a qualified salesperson and, in the vast majority of cases, be installed by a qualified installer. And here is a video company that is not going to stand for its partners’ getting a bad deal. *“This is about offering the best product we can,”* Rozylowicz said, *“and about developing a brand - and respect for a brand. This is about having proper distribution.”* Fujitsu believes its dealer partners are entitled to a decent profit margin in return for their efforts. And as one of a handful of custom installation oriented companies I have come across, Fujitsu actively discourages dealers

from carrying inventory (other than demo units, which dealers are expected to carry). *“It is not to the dealers’ advantage to stock,”* Rozylowicz said. *“We ship - usually within 2 days - from 5 warehouses across the country (IL, NJ, CA, TX and FL). We’ll drop-ship to the install location. Just tell us where and when you want it. We make thousands of shipments a month. We have a very clear understanding of how expensive this product is,”* he added. *“By loading dealers up, we are only asking for trouble.”*

There is another disincentive to carrying inventory: Fujitsu will not price-protect. So why take an unnecessary chance that you may see your inventory lose value? But when prices come down, as they did for the model 5004 recently (from \$15,000 to \$10,000 MSRP), Fujitsu is fully stocked, and all dealers can immediately take advantage of the new, lower prices - and they have. *“The response has been absolutely phenomenal. Sales have gone through the roof.”*

Based on what parameters does Fujitsu choose dealers, I asked. *“First and foremost, they have to be creditworthy. Secondly, we expect them to be able to sell 6-12 units a year. That covers most of the HTSA, many of the PARA, and a lot of the CEDIA folks.”* There are no plans to do business with a national account like Circuit City or Best Buy, nor with Tweeter, by now, for all intents and purposes, a national specialist. Fujitsu also stopped doing business with Ultimate Electronics *“because of their approach to selling our product.”* Fujitsu, which has about 300 dealers currently, professes to be serious about wanting to create a loyal partnership with its dealers. Said Rozylowicz, *“this is about doing business the right way.”* The company is at **(973) 575-0380** and at [www.plasmavision.com](http://www.plasmavision.com) on the Internet.

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