

inside track

Audio-Video
Retailer

your profit adviser: ! independent ! up-front ! daring

When D&M Holdings, the Parent Company of ...

... **Denon** and **Marantz**, announced its intention on March 11 to acquire **McIntosh** from **Clarion Corporation** ... there were clear indications that they are buying a company on the upswing. For one thing, fiscal year 2002 (which ended 3/31/03) marked the second time since Clarion had acquired McIntosh in the summer of 1990 that the company achieved profitability on worldwide sales, that year, of \$25 million. The only other period where McIntosh was profitable during the nearly 13 years under Clarion ownership was in fiscal 2000, when strong sales of the special edition 50-year anniversary amplifiers had lifted worldwide revenues to \$24 million.

McIntosh's improvement was also reflected in the results of the i.t. survey reported in Dec. '02/Jan. '03, where the company finished first in sales performance in the Electronics Group, with 52% of participating McIntosh dealers reporting increases in their McIntosh sales for calendar year 2002, and only 6% reporting decreases. McIntosh was also one of the most improved companies year over year on every one of the 10 core parameters the survey measures, with particularly spectacular improvements in *JIT Order Management, Ease of Doing Business, Appropriate Assortment, and Prompt Resolution of Service, Return, Repair Issues*. In fact, McIntosh finished in the top 5 among 29 electronics companies on 6 parameters and placed 5th Overall. These results are now further supported by in-depth telephone interviews of 13 McIntosh dealers in late March, during which most of these dealers characterized 2002 as an "excellent," sometimes even a "record" year with McIntosh (more about the reasons for this a little bit later on).

When asked about how they viewed the change in McIntosh's ownership, most of the dealers said they felt positive, based on published information they had read, and based on what they had either heard or experienced with regard to how D&M Holdings has handled Denon and Marantz thus far. Under the Clarion ownership McIntosh entered car audio. Today, total car audio sales are split 40% domestic/60% export, and McIntosh intends to stay in this business. For home audio, the split is exactly reversed: 60% is domestic and 40% is export sales. As part of D&M Holdings now, dealers believe, McIntosh stands to bene-

fit greatly from access to core technologies for the home side and the ability to take advantage of the group's purchasing power.

HOW MCINTOSH FITS INTO D&M HOLDINGS

In an interview with i.t. on April 3, **Merle Gilmore**, the chairman of D&M Holdings, stated that "*specialty AV and home theater, including the CEDIA dimension, is a very attractive market segment with growth potential and good profitability for both the manufacturers and the distribution channel.*" D&M Holdings, said Gilmore, is putting together a portfolio of complementary brands, keep the sales, marketing and product management aspects entirely separate, "*but build an industrial company behind the brands.*" The industrial company will be made up of technology capabilities, purchasing, logistics, and some level of core manufacturing capacity. Each brand, Gilmore stressed, can



McIntosh President Charlie Randall at the Binghamton factory

© 2003 by INSIDE TRACK PUBLISHING CORPORATION. All rights reserved.

inside track (ISSN 0885 6885) is published 32 times/year by INSIDE TRACK Publishing Corp., 18 Lost Mine Place, Ridgefield, CT 06877. Telephone (203) 431-4540, Fax (203) 431-4711, e-mail: insidetck@aol.com. Subscription Office: 10 Long Hill Dr., New Fairfield, CT 06812, Phone/Fax (203) 746-2648, e-mail: ITSubscriptions@aol.com. Corporate Office: 12901 S.W. 64th Ct., Miami, FL 33156. Telephone (305) 666-2055. President: Guenter Weber; Exec. VP: Ed Hirsch; Editor and Gen. Manager: Gisela Schoell. The subscription rate is \$239 for 1 year, \$135 for 6 months. No part of this newsletter may be reproduced or transmitted in any form without the express permission of the editor.

inside track inside track inside track

“take those core technologies and utilize them in that brand’s own unique way.”

Gilmore also discussed how the proper distribution can contribute to the success of each brand and to the success of the holding company overall. In terms of product positioning, he pointed out, Denon and Marantz are relatively close to each other, *“therefore it is important to us that we have distribution differentiation,”* which is achieved in this case because Denon focuses predominantly on regional specialist chains, while Marantz mostly targets the owner operated independent specialist retail channel. ... In the case of McIntosh and Marantz, the distribution channel (if not always the specific accounts) is the same which, from the point of view of the holding company is ok, since there is differentiation of product positioning (with Marantz positioned below McIntosh). The holding company, in other words, can maximize its objectives with both brands in the same channel when the brands have different product positioning. ...

As subsidiaries of a public company Denon, Marantz and ... McIntosh will, of course, be measured on the achievement of certain numerical goals. But equally important, said Gilmore, are strategic goals, such as those aimed at *“strengthening the brand, strengthening the strategic positioning of the brand, and strengthening the relationship with channel partners and end users.”*

VISITING AN AMERICAN ICON

Given all these developments, the timing seemed perfect for accepting McIntosh President **Charlie Randall’s** standing invitation to come see the factory. ... My first impression: Set back from the road stands a relatively old building with the distinctive McIntosh name over the door. As you enter and walk beyond the reception area, you first see the honeycomb of administration cubicles - accounting, marketing, etc. - with the executive offices and conference room along one side wall. Beyond that you step into a totally different world: that of a busy and, intermittently, very noisy 45,000 sq.ft. factory. Production lines are set up by product in dedicated cells, explained Randall ... With only two more working days to go, the production board showed approx. 1/3 of the products to be built done, ... another approx. 1/3 showed single digit, with the remaining approx. 1/3 requiring low to mid-double digit numbers of units still to be built. For March that came to some 1,400 units built and tested, said Randall, adding that the monthly average is typically around 1,200, with the factory able to do 2,200/month or 100 units a day in a 22 day month, at full capacity. McIntosh builds approx. 25 days of inventory of everything in home electronics, plus 2 months worth of car audio equipment, Randall said.

We all have certain preconceived notions about brands, based on our exposure to them. As it does for many people in the industry, the name McIntosh, in my mind, evokes concepts such as tradition, quality, craftsmanship. ... My very first *“aha reaction”* happened as I observed people operating machinery: Next to huge programmable CNC precision presses, next to a programmable (and very expensive) “water laser” from Ingersoll Rand that does precision glass cutting, using an incredibly forceful water jet and ground -up garnet, stand positively ancient

looking - but perfectly functional - presses from Dreis & Krump and a winding machine that has been in service *“since Day One.”* (Given that McIntosh was founded in 1949 and has occupied the Binghamton facility since 1951, that makes this particular piece of machinery over 50 years old). Who services the old equipment, I asked. *“We do,”* was the answer. Clearly, caring about product quality at McIntosh encompasses an intimate knowledge of the tools used to build the products, be those tools old or new.

I also saw that most everything - cabinets excepted - is made in house, from metal housings that move along a convoluted conveyor system to be washed, dried, painted and then oven-baked - to extremely intricate looking semiconductor boards, to the silk screening on the glass panels. And all along the way product is inspected and QC-ed - at the level of the part and again at the level of the finished product.

But I really knew that I could be nowhere else but at McIntosh when I entered the Service Department and saw two rows of equipment, anywhere from 20 to 30+ years old, according to Service Manager **John Messemmer**, which their owners are insisting on having fixed and brought up to full functionality. Apparently, there are lots of consumers who’d rather keep their vintage McIntoshes than trade up to the newer version (and yet in this case they can have their proverbial cake and eat it, too, because old and new equipment will work flawlessly together). Some 80% of repairs done at McIntosh are on out of warranty units, and depending on those units’ ages, this can take 3-4 weeks, *“but we want to improve that,”* Randall said. In-warranty repair is usually handled within 7 working days, he added.

Many companies try to foster pride and team spirit through the wearing of team colors or a team “uniform.” Not so at McIntosh. People here seem to be too Yankee-individualistic for that. But compliment an employee on the exacting craftsmanship of a piece of equipment and you’ll hear, *“Yes, we are proud of it.”* There’s no question that there is great loyalty to the company. In fact, in some cases first and second generation members of a family are working here, and it’s not because there are no other options for them, Randall noted. The area has a number of high tech employers. McIntosh currently employs 150 people at the Binghamton facility, of whom 68 (45%) work in production. Twenty-seven (18%) are in engineering, while the remaining 55 are employed in sales, service, warehousing, maintenance, quality assurance and production engineering.

Toward the end of the tour I caught up with Chief Engineer **Larry Fish**, who is set to retire this June. He reminisced about hiring Charlie Randall back in 1985 straight out of college - in fact, into a college/work study program - and setting him to work designing and building test equipment. After that came work on amplifiers, and a lot of traveling with Fish. *“I always felt,”* Fish said, *“that Charlie had a heck of a future ahead of him.”* In April 2001 Randall was made McIntosh president - the 6th president (including interim holders of the office) since Ron Fone left in 1995. *“What was your No. 1 priority as you started in the position,”* I asked him. *“Restoring dealer confidence,”* he replied. The revolving door at the top notwithstanding, McIntosh always had a strong internal foundation, Randall felt,

inside track inside track inside track

"because everybody has been here forever, and no product is ever compromised, quality-wise." So Randall spent his first year in the job traveling the country. "Charlie came out in the field and asked the typical questions: What does McIntosh need to do better," one McIntosh dealer recounted. "But then he not only listened, he comprehended. And he acted on what dealers told him." "Since Charlie became president, things have finally stabilized again," said another dealer. "The new product is just very, very good. We are doing more business with them than we ever did before. Things have really picked up under Charlie!" And this is a dealer who is still debating whether to join McIntosh's Premier Dealer Program.

GROWING MCINTOSH BY HELPING DEALERS SUCCEED

To get the details about this program I called Director of Domestic Sales and Marketing, **Steve Mulnick**. The Premier Dealer Program was launched in January 2002, he said, and it was designed to give consumers the ability to go to one place and see a typical representation and demonstration of the McIntosh product line. To maintain their Premier status, dealers agree to have on display McIntosh home theater electronics, 2-channel electronics and loudspeakers. *"Not everything,"* Mulnick stressed, *"just a representation that enables them to present the various technologies that we provide in our products,"* and allow McIntosh to refer consumers to a Premier dealership with confidence. ... Overall, the Premier program requires an investment of approx. \$36,000 at dealer cost, but there is no requirement to back stock. Dealers are also asked to purchase something from each of the 3 product categories at least once a quarter, and McIntosh reps will, in fact, check that. In return, Premier dealers earn an extra 5% margin, some very long dating, and preferential treatment when it comes to getting back-orders (if any) filled. They also get new products first. Going forward, Premier dealers can earn additional rebates in each quarter where their sales exceed the previous year's quarter. Still, Premier is an entirely voluntary program. *"If it turns out that it does not make sense for a particular dealer because he can't sell through the product, he can opt out,"* said Mulnick. ... At the same time, McIntosh limits membership in this "club" geographically, with the approx. 100 target Premier dealerships out of the total 267 authorized McIntosh dealers already pretty much filled. Meanwhile, McIntosh is adding additional enticements and programs in typical traditional/innovative McIntosh fashion.

Way back when, McIntosh had an internal advertising agency, JRB, that supported dealers on direct mail advertising campaigns, including list management. To bring this concept into the 21st century, they have now contracted with **WEBStores of America**, an organization that was co-founded by **Howie Diamond**, an ex-McIntosher, who cut his Internet teeth, so to speak, at KnowledgeLinks/GetPlugged.com Both Goff and Mulnik noted that *"we recognize that people use the Internet as a research tool. Therefore we think it is important that our dealers have a website to market themselves on the web"* - most emphatically not to sell product - but to give the consumer the ability to research the product and to find out where he can audition it close to home. Premier dealers who sign on early get a "bio page" describing their businesses listed on the McIntosh website. On that page are clickable links, *"Ask the experts,"*

"Arrange an audition," "Request a proposal," that generate an email directly to the dealer. Dealers also get their own 5-page website, giving them not only a presence on the web, but also the ability to track and retrieve visitors to their websites in concert with McIntosh - even capture what those visitors were doing on the site. McIntosh plans to collect all consumer email addresses (with the consumers' permission) into a database per dealer, to which the dealer can add other email addresses for an electronic mailing list. Ultimately, McIntosh will be able to produce customizable newsletters - creating, in effect, a *"cyberspace version of JRB."* Webstores of America charges \$5,000 to create these so-called Special Edition Webstores. McIntosh, according to Diamond, *"has budgeted funds to underwrite \$2,000 for a finite number of these, so Premier dealers getting in early can get in at only \$3,000."*

How else can a manufacturer improve his success chances through facilitating his dealers' success? In a word - training. McIntosh has always had strong technical training programs. What they have added now is a series of presentations, to be tailored to each dealer's situation, on how to successfully present and sell McIntosh to consumers. To do that, they have tapped **Ken Zelin**, who used to co-own *House of Music* in San Francisco. Zelin's store held the No. 1 position in domestic McIntosh sales for 12 years running, and after a 1 year "trial run" doing trainings for McIntosh as a consultant, Zelin has now sold his store and as of April 1 has come on board with McIntosh as Director of Sales Training and Dealer Support. *"He is going to teach our dealers the proven effective and efficient ways of selling McIntosh,"* Mulnik said. Zelin clearly believes in product focus over a bewildering array of product choices. *"In a store that carries 5 brands of high end equipment, not only do the salespeople not know everything about all the brands - it's impossible, I barely know everything about McIntosh, and I focus - but it can't all be in stock, either,"* he said. *"And if the customer wants the product today, you sell him down to what is in stock."* Focus, knowledge, and the ability to demonstrate key advantages of a product line - and why they matter - make a dealer credible and successful, Zelin has found. As an example, he noted that within a few minutes a dealer can explain and demonstrate what makes McIntosh amplifiers fundamentally different, better - and how the company has assured this: Dealers need to explain and show why there is *"Sentry Monitor Current Protection," "Power Guard Clipping Protection,"* - *"and why McIntosh amps have meters,"* and relate it to how that benefits the customer. ...

So - at long last, things seem to be coming together for McIntosh. Dealers continue to report strong improvement across the board, particularly with respect to product availability. They expect further improvements in the company's ability to come to market with new technologies and products in a more timely fashion because of the association with D&M Holdings. Add to that the new dealer support programs - Premier, Webstores, Training - and you understand why Charlie Randall said in his March 11 letter to McIntosh dealers, *"I believe it is appropriate to say that the future has never looked brighter."* McIntosh is at (607) 723-3512 or at www.mcintoshlabs.com on the Internet.

inside track Vol. XIX.07, April 8, 2003

Authorized for dissemination on www.mcintoshlabs.com

inside track inside track inside track

