

# Industry Forecast

## July 2006

**This is a summary of interviews of top industry leaders, conducted by MERA's Issues and Information Committee.**

### **Forecast Advisory Interviewees:**

Chris Cook, AAMP of America  
Stephen Witt, Alpine Electronics of America, Inc.  
Dan Jeancola, CarToys  
Christopher Dragon, Harman Consumer Group  
David Salemi and Bernie Sapineza, Ibiqity Digital Corp.  
Rob Hephner, Image Dynamics  
Manville Smith, JL Audio  
James Geschke, Johnson Controls  
Chris Gibbins, Monster Cable  
Robert Lopez, Panasonic  
Rob Granger, UE Media



To: Mobile Enhancement Industry Professionals  
From: Bob Graham, president  
Mobile Enhancement Retailers Association (MERA)  
Date: July 17, 2006  
Re: Industry Forecast

As a result of MERA's board of trustees' 2005 strategic planning session, MERA established a new focus, outlining new goals to drive the association as it aims to elevate the success of specialty retailers in the mobile enhancement industry. One of the stated goals was that "MERA will be the first place retailers turn for industry insight and guidance." To this end, MERA's primary objective is to "increase our ability to collect, categorize and analyze data on emerging industry issues."

With input from select industry professionals who comprise MERA's newly formed Forecast Advisory Committee, MERA has compiled the following "Industry Forecast." This second report – a follow-up to the premier Industry Forecast issued in March 2006 – provides direction not only for retailers but also for MERA as a trade association, giving us guidance for development of well-targeted workshops and programs. Much like the first Industry Forecast, this updated report calls for the evolution of installers and salespersons that are more technical, with a better understanding of integration solutions and OEM bus systems. Going a step further, this report also urges retailers to be early-adopters of new technology in order to keep up with the demands of their consumers.

The industry forecast that follows continues to emphasize the need for mobile enhancement specialists that are more technically savvy than ever before. MERA is positioned to lead you into the future, but you must be open to accepting change and becoming proactive in your drive to keep up with this rapidly changing industry.

The current series of MERA-CEA Regional Workshops and the annual MERA KnowledgeFest event are designed to meet the unique needs of the mobile enhancement specialist and others in the specialty distribution chain. While different in their offerings, both formats offer workshops in response to the findings of this forecast compilation, as well findings from a series of industry surveys and occasional MERA-conducted focus groups. Each of these analysis tools enables MERA to be even better positioned to lead you to continued success in the mobile enhancement industry.

# Industry Forecast

Compiled by MERA • July 2006

1. Based on your perception of where the 12 volt industry is headed ... give me a snapshot of a successful retailer of the future.

- a. Merchandising

Retailers must departmentalize and create product-specific and solution-specific displays. Retailers must showcase what they do more so than what they sell. Retailers also need to get into the portable products category, such as iPod, satellite radio and portable navigation. Retailers must also find a way to communicate effectively with all segments of the customer base (soccer moms, early adopters, affluent technology seekers, youth market) that enter their store. Any new technology that is offered must be accompanied by a matching vehicle integration solution as well as an interactive demonstration of the accessories and the specialty labor integration that make it fit seamlessly into the vehicle. These categories must be clearly designated and be able to be communicated to the consumers clearly.

It is imperative that specialty retailers move quickly into the portable media categories as soon as possible or they run the risk of leaving future technologies to other forms of distribution such as the Internet or the big box stores.

- b. Installers

Installers must become more technical – they must understand OEM bus systems within the newest vehicles. The industry must create training opportunities so that the installers may become schooled in data bus technology. The industry must create vehicle data-specific resources and point installers toward useful blog sites and other forums filled with new and vital data gathered from the field. The new hi-tech installers of the future will command higher wages due to the increased knowledge that they must have to solve the complicated integration installation.

- c. Installer's role

Installers need to be part of a two-way communications system within the retail store regarding technology. This communication should involve sales, management and installation staff (e.g., weekly meetings).

- d. Sales Training

Salespersons must become more technical and fully understand how the integration solutions work. Salespersons must be fully knowledgeable regarding integration solutions. They must attend as many training opportunities as possible and stay up to speed via any and every mechanism at their disposal. Retail owners must make a commitment to provide opportunities for training of their sales staff. Sales people need to become better qualifiers so that they can fill the needs of the consumer, to be able to educate the consumer and to better understand the sales process.

2. What do you perceive as the biggest challenges facing the future of the 12 volt industry?

Learning to deal with OEM integration. With many new vehicles arriving from the factory with dashboard "stacks" that eliminate the possibility of radio replacement, our members

have to develop in-store presentations that teach the customer what is possible in the vehicle and show the customer that the retailer knows how to do the work. There is also a need to further professionalize our businesses to reduce rapid employee turnover. This stability will empower better-trained salespeople and installers to deal with the complexities of OEM integration and thus instill confidence in our customer base. Our members must have the capacity to adapt quickly to new vehicle changes and create showrooms that help educate consumers regarding what options exist for integrating their digital information sources into the newest cars. It has also emerged that the industry sees a challenge getting the specialty retailer to embrace the new technologies. This seems to be a major obstacle for the future.

The other challenge is to keep the younger generations interested in the mobile enhancement category, or at least keep it high on their list of priorities. In the '80s and '90s, mobile electronics was a top priority. Today, it has many more products and product categories vying for that same consumer dollar.

**3. Do you think that increased Internet use in American homes could help small independent 12 volt retailers gain marketing leverage vs. big box retailers? (e.g. Blogging, information highway, as a link to the consumer)  
If so ... how?**

Yes. Retailers must use the Internet to expand their exposure to consumers. Retailers must be involved in news groups, forums, and other information channels leading to the consumer. They must work with Internet providers to capitalize on local Internet searching capability (e.g., Geo Cities). Retailers must develop a website that tells consumers what they do and how well they do it, setting them apart from the other retailers. It is extremely important that the retailer website be top-notch; younger consumers are completely conditioned to do research on the Internet, a poorly executed website will do more harm than good.

Retailers must clarify their message ... possibly using three strategies.

- 1) *Awareness for the store – The Internet is a way to lower costs and to create the brand image for their store.*
- 2) *Information delivery to the consumer – Retailers must have a website to tell their story: Who they are, why consumers would want to come to their store. It can be part photo album like retailers used to do in the early years.*
- 3) *Making the connection with consumers – Chat rooms, Blogs on their site (store brand) answer consumer questions.*

Retailers must also be equally or better informed than the consumers who shop at their stores. The Internet can be a tool that they use to complement staff training efforts. They can also use the Internet in their stores as a way to share information with their customer and to produce a more effective presentation. Manufacturers can help to draw the retailer into the process by connecting the consumer to the retailer.

**4. Is Bluetooth/wireless technology likely to create opportunities for 12 volt retailers to interface mobile electronics technology with the modern automated home?**

Yes. Many vendors are developing portable media and control systems that will allow for mobility from the home to the car and then to the office. This will allow consumers to integrate portable products such as cell phones/smart phones (which many contain musical files and photos), personal media and control products with their car's playback systems. This

can be accomplished using Bluetooth technology. The 12 volt specialist will have an opportunity to install and integrate these Bluetooth products for their customers.

Bluetooth technology is a wonderful opportunity. It could be a negative because it is easy to install just like USB, but it has opportunities as long as specialty retailers jump on it right away. In three to five years there will be a huge quantity of used cars on the market without Bluetooth, combined with a much higher demand and consumer awareness for the technology.

5. Are you designing products to interface with OEM available Bluetooth technology (i.e. will mass storage devices be Bluetooth enabled?)

Yes. Bluetooth will likely become a standardized language for communicating audio and control functions between portable devices such as **phones and iPods** (the two top priorities) and the modern vehicle. It is only a matter of time before virtually all devices are Bluetooth enabled. Wireless technology between media storage (e.g.: trunk-mounted hard-drive) and dash-mounted controls are in our future plans.

6. In concert with wireless devices, what other technologies do you see impacting the mobile electronics industry?

The evolution of wireless will move eventually to WiMAX and Zigbee (2008). Long-range broadband connections that are focused on bandwidth and improved operating range are the future for wireless devices. The future of wireless is the following:

Bluetooth - max 50ft/ usable 30ft  
WiFi – 300/150ft  
Zigbee – 33 to 246 ft  
WiMAX – 2 mile/ 1 mile

**Vehicle Information Infrastructure (VII)** – Will create a new category for retro fit. This car-to-car communication (smart breaks, smart cruise control, smart steering, collision warning) is already approved by the FCC and will be here in 2010.

**BlueTooth** – The mobile phone gateway will evolve to a mobile device gateway. All wireless devices (iPods, navigation, phones, PDAs) will be enabled to connect to the infrastructure of the vehicle. These devices will be able to be managed by the vehicle displays, switches and use voice recognition

**Smart Phones** – By 2008 there will be 1.87 billion Smart Phones in the market.

**iPod** – Currently 60% of iPod users use them in their car, but they are not currently satisfied with the integration solutions available. Retailers have to create a full-range demonstration to expose the consumer to the possibilities that exist for them. It is recommended that iPods be included in demo cars.

**OEM bus systems** – The development of devices that operate within the OEM bus systems are critical. Such systems could be developed with the support of the OEM. The aftermarket will develop such devices with or without the participation of the OEM

**OEM Computer technology** – The future of the 12 volt industry will certainly involve a mobile computer compatible platform and the delivery of audio, video, and gaming type programming to the car. The car will become another node in a person's network of devices.

**Wideband Video Streaming** – This will be an upcoming technology.

**GPS** – Use of phone with GPS and cheap portable GPS will have a huge impact on the industry and create additional opportunities for retailers.

**Specialty Categories are currently on the rise** – Portable Navigation is up 120 percent (as of June 1). This creates huge opportunities. Retailers need to create separate displays. Music and phone are now on the same device. iPod is still a must and retailers have not fully embraced this category. A new site and devices are emerging from “Playsforsure.com” which is a Microsoft type iPod.

7. Do you expect changes regarding supply chain and inventory purchasing programs that will affect the specialty retailer? Please elaborate...

The specialty retailer needs to identify and study its supply chain method, possibly move to a "just in time" model. Partnering with a manufacturer that understands the specialty retailer's need for readily available product and information is key. Poorly constructed "loading" programs and demanding unreasonable purchasing commitments is detrimental. The specialty retailer must learn to accurately forecast its product needs to the vendor within very short time frames. One way to accomplish this is through the use of distributor/stocking reps. Control of inventory levels, mix and the two-way flow of information is vital.

These changes may have the effect of reducing overhead costs and helping with inventory turns. This may allow the retailer more flexibility in its quest to keep up in the new tech sectors and to stay competitive with the big box retailers. These changes in purchasing must be balanced by the possibility that not participating in vendor programs or adopting a distribution type model could lead to a change in profitability.

Retailers need to take time to learn about their supply chain options now. Those who wait and adapt late may not survive the rapidly changing landscape. Retailers need to modernize their distribution format, much the same way the home A/V segment has. Independents need to organize and share competencies – for example, unifying their buying.