



Stiernberg Consulting White Paper Connecting the Dots Q1 2010

Business Megatrends and Our Industry 2010

Twelve Factors Shaping the New Competitive Environment

Economic crisis has taken center stage across all industries and has captured and sustained heightened focus worldwide. Looking to 2010 and beyond, “recovery” will be the watchword as the global economy crawls “back to flat” and begins to show signs of modest growth.

While there are unique aspects that characterize the converging entertainment technology, music products, and AV systems industry, what effects the global business environment at large also plays out in our industry—in both predictable and unpredictable ways.

Overview

Stiernberg Consulting watches the business and technical trends that have an impact on the converging entertainment technology, music products, and AV systems industry. Our work spans multiple industry sub-segments and our client mix is diverse. Since 2002, we have periodically shared our observations on industry megatrends. This white paper is shared with industry colleagues and friends—please feel free to circulate it within your organization.

What Are Megatrends?

The word *megatrend* came into popular usage following the 1982 publication of John Naisbitt’s book of the same name. Megatrends have three key characteristics:

- Long-term impact—not a “spike”.
- Impact on multiple facets of the industry and its stakeholders: manufacturers, retailers, contractors, distributors, reps, consultants, publishers, inventors, and investors.
- Relates to critical success factors. Ignoring a megatrend trend compromises success.

Industry Outlook for 2010 and Beyond

Business in the converging entertainment technology, music products, and electronic AV systems industry in 2010 is recovering, albeit slowly, and with a unique set of challenges. Against the wave of global megatrends, what are the ripple effects in our industry? This paper explicates megatrends that are currently in the forefront.

1. **Recovery spawning multiple “Re-’s.”** Just like a receding tide that reveals the rocks that were always there, a receding economy reveals the weaknesses of enterprises that were always there but were masked by waves of growth. The economic downturn has driven smart companies to re-think, re-focus, and re-tool their products, their operations, and their planning. In 2009, the most agile firms had the edge. Other “re-’s” are emerging as trends in the industry, including the following:

Re-engage. With competition more stringent, smart companies are doing more to partner with their vendors and their customers. The new attitude is “We’re all in it together.”

Re-energize. Staff morale sinks when jobs are less secure. Likewise, employees at all levels have to work harder to cover for positions that were eliminated. Smart managers are offsetting these uncertainties with improved communication that keeps staff in the loop. Great managers are providing leadership and building teams that capitalize on group strengths and energize the company.

Re-align. In 2009, many firms learned lessons about which products, programs, and processes were of highest value and which were not. Those that were most in synch with the external market environment worked, and those that were out of synch...well...sank. As part of re-aligning, the smart companies made sure all aspects of the re-tooled enterprise were consistent with the new set of goals and objectives.

Re-forecast. Smart companies are doing *more*, not less forecasting, strategy evaluation, and tactical planning. They understand that being prepared with “what-if” scenario planning allows them to be more agile and more responsive to the uncertainties of the recovering market. Economic recovery occurs unevenly and varies, depending on the technology or product category, the application, the geographical location, the vertical venue market, and the end-user base. More than ever, wise companies are keeping a watchful eye trained on the external competitive environment, understanding that while it is a moving target, they still need to plan using solid market intelligence.

2. **Globalization.** “Globalization” has been so widely publicized that it’s almost a cliché. The megatrend first emerged in the 1990’s when businesses that once were regional or national began trading internationally, widening their reach. At the same time, Pacific Rim manufacturing became a force impacting all industries, including our own. However, from 2010 into the future we can safely say, “This is not your father’s globalization.” The new globalization demands that we don’t think of “domestic” vs. “international” business or issues, but that we think of “global” business.

Here are the key factors in the new global order:

- Development of the Middle East as an economic center. Despite its well-publicized economic downturn, Dubai aspires to replace Hong Kong as the financial center of Asia.
 - Watch for new brands of consumer and professional goods born in China that may take over dominant lead from stalwart leading brands. This same phenomenon is occurring in our industry—new brands may dominate whose names we don’t even know yet.
 - One World, Many Markets. Will a product, promotional campaign, or channel program that works well in North America really fly in China, Russia, or India? We need to do a better job of acknowledging, targeting, and embracing regionalization--multiple geographic markets with differing business climates. Truly global competitors have known this for decades.
 - Global marketing is not “one size fits all.” There are new demands to “narrow cast” marketing to demographic groups in a dynamic and shifting cultural landscape. For example, there is a rise of a previously non-existent demographic of consumers. Example: “*Sex and the City Goes Global.*” (Appealing to successful career minded single Asian females 25-40)
 - What will be the main export in demand from the US in 2010 and beyond? Management. Global regions have strong workforces and some top leadership (owners/founders), but there is a huge shortage of middle management. This includes business unit managers, project and program managers, and customer account managers.
 - Rise of India and China as viable markets and fertile ground for new competitors. With nearly 3 billion people (combined population), India and China are emerging as strong markets for entertainment and communications gear of all kinds. They are likely to “leapfrog” in AV and music products as they already have in IT.
3. **Networking at all levels.** The AV “system” (pro or consumer) dominates as the driving context for gear. AV networking is becoming mainstream for all levels of systems. Our industry is still going through some growing pains in terms of ease of interoperability, but the savvy end-user is less concerned about black boxes and more focused than ever before on applications, ease

of use, and simple solutions. Likewise, social networking is soaring to new heights. Interpersonal connectedness dominates all aspects of our lives. Expectations for communication are that it be effortless, instantaneous, and network-wide, from proprietary corporate intranets to Facebook and Twitter.

4. **Green Consciousness.** Once seen as a fringe movement, environmental awareness and concern have become increasingly mainstream in global culture. Even though AV end-users don't place rigid demands on manufacturers of pro and consumer audio and video gear, they do notice and favor products from companies that are built and sold using green materials and processes. In addition, consumers are becoming savvy in terms of spotting brands' "real" green efforts vs. "greenwashing."
5. **Third-Stage Convergence.** Convergence is not a new trend. Stage One (technology convergence) and Stage Two (product and market convergence) are already mainstream. Stage Three Convergence focuses on the need for integration of internal operations—business vs. technical factors. Example: Involve actual end-users in the product development process. Get R&D out of the lab and integrate it with sales, marketing, finance, and operations through a conscious product management process.
6. **The Experience Differentiator.** With the increasing commoditization of service—from DIY AV system design to outsourced technical support—the new competitive differentiator is your customer's experience. Everything from home theater system configuration to piano lessons is available online, immediately, and affordably (often free). Do you treat your customers in a way that builds your brand, encourages referrals, and drives repeat business? Buyer experience makes a critical difference.
7. **Re-Intermediation.** This is not a new megatrend, but it continues to be prominent. As margins get squeezed, the temptation (especially for manufacturers) is to dis-intermediate: take out the middleman. Ironically, there is growing emphasis on two-step distribution, including the mainstream brands offered by AVAD, Almo, Full Discount, Music Distributors Group, American Music & Sound, Starin, and many others. Two-step is hot and getting hotter, as these distributors innovate ways to add value to their customers and to their suppliers. They understand and promote the value of local warehousing, training, merchandising, and dealer support.
8. **Lean Everything, but to a point.** We've been hearing about Toyota's lean manufacturing approach for years now. The 2008 slogan "Flat is the new up," led to radical cuts in 2009. In the era of "7% down is the new flat," everything needs to be based on lean thinking: staffing, promotional budgets, expense accounts, and company valuations. Still, savvy companies are investing in growth—growth of capabilities, people, and infrastructure in addition to sales, market share and profits. In the midst of financial starvation diets, remember to "cut fat, not muscle." Lean is vital, while emaciated is dead.

9. **AV Everywhere.** “Content is king,” and the ever-increasing thirst for on-demand information and entertainment drive the design and use of the systems that our industry provides. Digital or analog, entertainment and communications media are more plentiful, easier to find, and less expensive than ever before. Many of us remember the following lyric from a song by 1970’s pop music legends the Eagles: “*Everything. All the time.*” From endless music streams to downloadable movies to online photo albums, AV is everywhere. What’s the business point? Make sure that you send your business message to your customers in a way that makes you stand out from the incessant bombardment that competes for their attention.

10. **High Performance Backlash.** With MP3 being embraced by the recording and broadcast industry as the “digital quality standard” for audio, it appears that un-compressed media may be another relic from a bygone era. But wait! Why are sales of audiophile recordings (especially vinyl) increasing? How do so many high performance AV gear brands stay in business, despite luxury-market prices and narrow distribution? We see the beginnings of increased demand for high performance digital audio, tied to high definition video. “High definition” is becoming simultaneously hip and generic across markets and product categories. “If the picture looks this good and I paid dearly for it, I want it to sound good too.”

11. **Looking Good.** Design consciousness and emphasis on aesthetics have pervaded virtually all industries. No longer limited to fashion, luxury, or “high end” gear, emphasis on industrial design is a key differentiator and competitive advantage as we look to the future. Target stores promote “Design for Everyone” to the mass market. “Euro Design” has implied high style, quality, and function for decades. Now our industry is responding with affordable gear that embraces aesthetics along with performance and function. In the future, if your product looks pedestrian, generic, or shoddy, it will be passed over in favor of competitive brands that have it all.

12. **“Next-Of-Skin” Technology and Miniaturization.** Miniaturized gear is here to stay and becoming more integrated than ever. Several product and cultural trends are converging to create widespread adoption of personal technology devices that are “human amplifiers” (something that extends basic human capability, like cars or power tools). A ubiquitous accessory is the “earpiece headphone,” most commonly used as the wireless receiver for a mobile phone. But other technology has also become wearable. Like wallets and briefcases, iPhones, Androids, Blackberries, and their clones have become indispensable both as tools and as personal fashion accessories. “Don’t leave home without it” now applies to my music, my phone, my database, my calendar, my camera, my television, my game system and more. What unexpected impacts will this spawn? Will Baby Boomers embrace stylish

hearing aids as functional fashion accessories—with less resistance than their parents did?

What Do We Do Now? —Three Success Tips

The impact of the megatrends differs substantially from one industry segment to the next and from company to company. Your response to each opportunity or threat is unique to you. Still there are patterns of relevance that transcend company size, structure, or focus. That's why they're megatrends. Here are three success tips that you can use to stay ahead.

1. Acknowledge multiple options. There is no single best way to do anything, so be flexible and adaptable. Be comfortable with ambiguity and stay focused on what works for you.
2. Keep track of the competitive environment and the trends. Pay attention all the time. With market conditions changing rapidly and unpredictably, make sure your business radar—your market intelligence system—is activated and finely tuned.
3. Do the planning despite the temptation to “just do it.” Most of your competitors do precious little planning. The better your planning skills, the stronger and more sustainable your competitive edge. The paradox of planning is that that it's the single critical success factor that makes your company *more* agile and better equipped to compete in an ever-changing market.

Here's to the Future!

Whether you call it a rebound, recovery, or restructuring, the entertainment technology, music products, and AV systems industry is emerging from the downturn of 2008—2009 leaner, meaner (figuratively—we're really pretty nice folks), and better equipped to serve customers than ever before. Embrace the megatrends and keep moving. Here's to a great year in 2010!

About John Stiernberg

John Stiernberg is founder and principal consultant with Stiernberg Consulting. He has over 30 years of industry experience including eight years as music retailer, twelve years working for audio equipment manufacturers, and seventeen years as business analyst and consultant. In addition to technology industry affiliations including CEA, CEDIA, InfoComm, NAMM, and NSCA, he is a member of NARAS and the American Federation of Musicians. John Stiernberg was the NSCA Educator of the Year 2000. John's book *Succeeding In Music: Business Chops for Performers and Songwriters* is published by Hal Leonard Books.

About Jeanne Stiernberg

Jeanne Stiernberg is principal consultant with Stiernberg Consulting. She has over 30 years experience, including 21 years in the field of communicative disorders as clinician, teacher, and administrator, plus sixteen years as market analyst, consultant, and author. In addition to technology industry affiliations including CEA, CEDIA, InfoComm, NAMM, and NSCA, Jeanne is a member of the Audio Engineering Society, the Association for Strategic Planning, the American Speech-Language-Hearing Association, and the Society of Competitive Intelligence Professionals. Jeanne is principal research consultant for the NSCA *Market Intelligence Briefings* series since 2001.

About Stiernberg Consulting

Stiernberg Consulting is the Sherman Oaks (Los Angeles) CA-based business development firm. We focus on the converging entertainment technology, music products, and AV systems industries exclusively. Founded in 1993, the company serves clients in three primary areas: planning, market intelligence, and merger, acquisition, and alliance work. Please visit www.stiernberg.com for more details.

About This Series

Stiernberg Consulting monitors market conditions, talks with industry stakeholders, and identifies trends and issues on a continuous basis. Our White Paper Series brings the results of these efforts to the industry. Topics range from market dynamics to best practices. All white papers are offered free of charge.