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Is the Grass Really Greener?

Myths and Realities About Crossing Over Residential and Commercial Market Segments in the Electronic Systems Industry

Are You Looking for Growth and Stability?

In today's volatile and uncertain electronic systems market, every company wants to grow and/or stabilize its business. That includes manufacturers, systems integrators, design consultants, and multi-line sales reps. For growth and expansion possibilities, many are looking over the fence to widen their market view into what may appear to be greener landscapes with beckoning revenue potential. However, "The grass is always greener..." is a cautionary tale. Far from a walk in the park, crossing into new markets can be fraught with unexpected weeds, rocks, and even land mines.

On the surface, it's logical and tempting to consider branching out into adjacent market segments, such as expanding out from commercial systems integration into residential or vice versa. While there are similarities between the two markets in terms of applications, technologies, and system components, there are also critical differences, including how business is conducted. When it comes to taking on new markets, sadly, there have been more failures and near misses than success stories over the years. What are the factors that spelled "hits" for some and "misses" for others? How can we apply these lessons today?

For starters, the most common mistake is to assume that the two markets are so similar that all you need to do is announce your intentions to the world and customers will beat a path to your door. It's not that simple. This white paper offers twelve examples of common myths about the residential/commercial crossover, and five actionable suggestions for things that you can do to plan for success.

Why the Grass Looks Greener

Here's a common scenario. You are a manufacturer of commercial AV gear and one of your authorized dealers installs a system in a dentist's suite of offices. The system includes digital signage for the waiting room and treatment rooms plus three zones of business music for the waiting room, office area, and treatment rooms, all with

integrated remote control. The dentist likes your brand's product and asks the dealer to set her up with a big flat screen television and multi-room AV—at home. The dealer—justifiably proud—tells you about the bonus project and how well your company's commercial product worked in the home environment. Your response: “What an opportunity! We need to get into the residential market in a big way!” You've just crossed over from commercial to residential, but is this a one-off exception or a platform for sustainable expansion?

The converse scenario—crossing from the residential market to the commercial sector—is also easy to visualize. This is not a new phenomenon; residential and consumer focused companies crossing into the commercial market has been happening with increased frequency since the 1980's.

Both scenarios—crossing from commercial to residential and from residential to commercial—apply not only to manufacturers, but systems integrators, value-added distributors, design consultants, and independent multi-line sales reps as well.

If your sales and profits are flat to down in the current market, if your core market feels like it's shrinking, it's both tempting and natural to look afield and expand your available market base for new opportunities. It's also natural to look for the quick wins—fast, easy entry into a new market. So why does the grass look greener in a different market segment as opposed to (for example) adding new capabilities or product lines to sell to current customers? Beyond sales and profit growth, rationale might include any or all of the following:

- Keep the factory, install crews, designers, or salesforce busy in slow times
- Balance the portfolio, including seasonality or market penetration
- Share back-of-house resources that can be allocated for greater efficiency
- Have something new and positive to tell the investors or other stakeholders
- Respond to client demand (like in the dentist office example above).

What About the Risk?

Isn't the risk lower simply to sell your current products (goods or services) to new customers? Logic dictates that the answer is likely “yes”—but there's a big caveat. So many companies in our industry don't do the planning and just leap into the adjacent/new market without the knowledge, certifications, complete products, team, and business relationships that are necessary to compete in 2010 and beyond. The antidote is to do your homework. Planning is your best risk management tool (more on this later).

A Word About Multiple Crossover Opportunities

While this white paper uses the commercial/residential AV systems markets to illustrate key points, crossing over into multiple adjacent segments such as new applications,

new product categories, and new channels is also increasingly common. Your company's perspective will be through the lens of your primary market focus.

Examples of market crossover include expansion of:

- MI (music products retailing) into commercial AV contracting
- Home theater and consumer electronics retailing into residential AV contracting
- Security systems into AV entertainment and communications
- IT data communications into AV integration
- Lighting into AV systems integration
- Single-brand into multi-brand (either organically or through acquisition)

The concepts and recommendations below are adaptable to your situation, regardless of which segment you are currently involved in.

Top Twelve Myths and Realities

Here are twelve common myths about the commercial/residential crossover. Please note that all are relevant whether your current core market is the commercial side or the residential side.

Myth 1: Product is product. If it works in one market, it can work in the other.

Reality: While some gear crosses over more easily than others, most manufacturers design, manufacture, and market products for either commercial or residential use, but not typically both. Differentiation parameters include connectivity, reliability, durability, user interface, ergonomics, cosmetics, and installability among others.

Myth 2: Regulatory standards (safety, interoperability, etc.) are the same in residential and commercial venues and applications.

Reality: This one is all over the map. While most consumer/residential products need to pass UL standards, those same products may not necessarily comply with (for example) NFPA fire safety standards. European Union safety regulations are different from those of Asia or Latin America. Commercial building codes vary from region to region, and are often different from residential codes. Networked AV systems have different latency and performance requirements in home playback applications vs. live event or broadcast applications.

Myth 3: My 20+-year reputation in my current market will get me in the door in the other market. It's a slam-dunk.

Reality: Whether you are a manufacturer, systems integrator, distributor, design consultant, or sales rep, your core customers already know your reputation for quality, performance, and ease of doing business. In a new market, you are up against dozens of entrenched competitors who have a head start. Any customer is going to ask this

question: “Why should I switch from the suppliers that I am already comfortable doing business with?” If you can’t answer the question with a well thought out, compelling answer, you are not ready to make the crossover.

Myth 4: Sales approaches and buying cycles are the same in both markets. The field salesforce can call on both types of customers easily.

Reality: Buyers’ criteria for decision-making and the decision making process are different in the residential vs. the commercial market. So are 1) the sales process, 2) project life cycle, 3) who the decision makers are, and 3) basic value propositions. The skills and knowledge required to sell to institutional customers (churches, schools, municipalities, corporate entities) are vastly different from selling to individual customers (homeowners and general consumers). The people doing the selling (whether direct, independent, or hybrid) need to be “of the market” not just “in the market.”

Myth 5: A dealer is a dealer. Retailers and distributors who sell commercial gear also sell residential gear. Design and installation skills are easily transferable.

Reality: There are multiple profiles of systems contractors, integrators, specialty retailers, distributors, and direct marketers. While basic AV technology, system design, and installation principles apply to both markets, there are technical skills and selling approaches that are unique to commercial and residential systems respectively. This also applies to those retailers who cross over both markets and provide custom or value-added services. Complicating things further, there are regional differences to account for, such as the U.S. vs. European or Asian channel management system.

Myth 6: The commercial market is bigger than the residential market.

Reality: That depends on the product category and the definition of the market sector and channel. Our industry is notorious for its sketchy and incomplete market statistics. The average size of a commercial system may be larger than that of the average residential system, but there are far more residences than business locations worldwide. As of 2008, there were approximately 114 million residences and 6.5 million businesses (many home-based) in the United States. The ratio is roughly extensible worldwide.

Myth 7: More product innovation occurs in the professional vs. consumer market.

Reality: As recently as ten years ago, this might have been true. Technology advancements in the world of television, film, music recording, and live event production set the stage for “consumer” applications and products that trailed the pro market by two to five years. Now the tables have virtually turned. Revolutionary innovations such as high definition television (HDTV), AV media servers, the iPod, and smart phones, have driven both product and market development in the consumer and professional markets worldwide.

Myth 8: Dealer training and certification are the same for both markets.

Reality: Like regulatory standards (Myth 2 above), there are many permutations of this, not only between residential and commercial, but also from one geographical region to another. For example, some states and municipalities in the U.S. require that a low-voltage installer have journeyman electrician certification. The legislation is changing rapidly and is monitored actively by industry trade associations such as CEDIA, ESTA, InfoComm, and NSCA. The pan-industry Electronic Systems Professional Alliance (ESPA) provides entry-level training and certification for both commercial and residential electronic systems technicians.

Myth 9: Big consumer brands are easy to sell into the commercial market.

Reality: While strong brands have advantages (see Myth 10), the playing field is a bit more level than meets the eye. The brand may have strong recognition advantages initially. For example, Sony makes personal listening devices and broadcast television cameras. Bosch makes power tools and sound and communications equipment. Yamaha makes motorcycles and home theater receivers. Brands are only as strong as they are able to prove that there is a credible fit with the application, channel, and end-user in order to be sold profitably and sustainably.

Myth 10: End-users don't care about brands, so sell them what we want to push.

Reality: End-users (whether commercial or residential, professional or consumer) do care about brands. From Google to Starbucks or from Nokia to MTV, mere mention of the name conjures up meaningful images in the minds, hearts, and wallets of end-users worldwide. Even in commercial AV markets where brand of gear is arguably less important than to consumers, institutional end-users can ask, "Why haven't I heard of (fill in your brand name here)?" They need to know that you and your products are reputable, reliable, in it for the long haul, and (increasingly) green. Add to that the fragmentation of our industry, and strong brands are increasingly relevant and valuable.

Myth 11: End-users don't care about quality, so low-end systems are easier to sell because of price.

Reality: There is no question that there has been price and margin erosion in our industry as all categories of product (both goods and services) become increasingly commoditized. Some of this is driven by technology advances, some by competitive issues, some by the worldwide economic downturn. Amidst all of this change, end-users actually care more about quality (performance, reliability, fit and finish, industrial design, purchase experience, etc.) than ever before. The IT industry has shown us all that we can expect future generations of (for example) computers or mobile telephones to be more reliable, have more functionality, and last longer—even as prices continue to decline.

Myth 12: We can enter the new market with our existing people, products, and programs.

Reality: Proclaiming to your team “We’re in a new market now, so go for it!” without accounting for the nuances simply doesn’t work. Products are likely to need different features, packaging, agency certifications, and owner’s manuals. Channel partners are likely to be different, and relationships need to be managed with specificity; business programs, promotional campaigns, training all have different requirements—you get the picture. From a staffing standpoint, your people may have the capacity to take on more work, and even given the specific skill set, but may lack the targeted experience, and relationships that are required to do business with a new set of customers.

Five Success Tips

Once you’ve acknowledged the differences between your current market and a new target market, you can identify 1) the gaps in your company’s capabilities and relationships and 2) the critical success factors needed relative to making the crossover. Here are five success tips.

1. Approach the new market as a new business. While you are not necessarily starting from scratch, reckon with the idea that entering a new market is more than just an engineering project or a selling program. There are implications at all levels of your current organization: R&D, finance, sales, marketing, production, shipping, customer service, and management.
2. Do the planning first, including the market intelligence. Do a mini-business plan, including a revenue forecast and income statement, setting up the initiative as a strategic business unit. View the new sector as more than just a widening of your current market but instead as addressing a new, additional market. Find out what you don’t know about the new market. Identify your strengths and weaknesses relative to the set of new competitors that you will encounter. Planning costs far less than trial and error!
3. Pay attention to the numbers. Start small and set achievable goals, objectives, and milestones. Be sure to quantify your success metrics. In addition to modeling increased sales and profits, set targets for new customer acquisition, number and average size of projects, margins, staffing, and promotional expenses. What gets measured gets done.
4. Profile your current customer base first. Identify their key characteristics, buying criteria, and the skills your firm has developed in creating value for them. Now profile the targeted new customer base, and list the capabilities and tools needed for success in that new market. Identify the leverage points (strengths) and gaps (weaknesses). Where there are parallels, there is a higher probability of success.

5. Hire people from the target market with relationships and experience. Once you've done the planning and made a "go" decision, you will likely need to hire people in both technical and business roles. Make sure that they have the right stuff, including the optimal combination of technical and business chops, experience in the market, and relationships that can accelerate your company's progress.

Bottom Line: Crossing Over Can Be Good Business

While there are risks inherent in crossing over, they can be managed through careful planning and the targeted market intelligence. It's far less risky and expensive to do the planning and then decide not to enter a new market than to leap ahead and find out later that you should have done something else with your precious company resources (time, money, creativity, sweat). Having done the planning, if you do decide to enter the new market, you will have substantial advantages and insights.

There is always room in most markets of our industry for great companies with compelling products, top-notch people, and targeted programs. Just make sure that 1) your expectations are manageable, 2) you understand the new terrain, and 2) that the quality of your crossover strategy is consistent with the quality of your current products, people, programs, and brand reputation. The grass may indeed be greener, but the new lawn requires special care. Good luck!

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.

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Founded in 1993, Stiernberg Consulting provides business development services in three primary areas: Planning, Market Intelligence, and M&A advisory work. We offer targeted programs and services geared to business growth and the development of results-oriented action plans. We serve the converging entertainment technology, music products, and electronic systems industry worldwide. Please visit <http://www.stiernberg.com> for complete details.