

AUDIO UPDATE

OEM, custom models, and private labels: Inside marketing information for the audio consumer.

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Several months back I had a small adventure that may serve as a cautionary tale. It all started when my almost-20-year-old washing machine had a final, unfixable breakdown. My wife researched the new machines in *Consumer Reports* and decided on a Maytag. We went shopping at Trader Horn, a large discount appliance store, where we selected a Maytag that seemed to have the features we wanted in our price range. Before handing over our plastic, we reaffirmed with the salesman that the store would refund the difference if we found our chosen machine advertised elsewhere at a lower price in the next 30 days.

Several weeks later, I came across a Maytag catalog in another store and idly leafed through it looking for our washer. Its model number and specific combination of features was nowhere to be found, although all of the other machines bore a family resemblance to the one we bought. Puzzled, I called Maytag's 800 number and was told that my washer was a "special-order unit" and not part of the other Maytag line. In a flash, it all became clear—and demonstrated that I can be as naive as the next guy when shopping outside my areas of experience and expertise.

Custom models vs. house brands

Many years ago I became aware of a marketing technique in the audio industry that I found slightly offensive from my holier-than-thou perspective of the time. Several of the largest phono-cartridge manufacturers were marketing their high-end cartridges under special model numbers to large audio dealers and chains. The idea simply was to prevent comparison price shopping by audiophiles seeking discounts. Stores selling a Stanton, or a Shure, or an Audio-Technica with special model numbers could easily guarantee that you couldn't buy the same model

elsewhere for less. The custom-labeling technique provides the dealer with a proprietary house model that nevertheless has the advantage of bearing a well-known manufacturer's name.

The true house brand works somewhat differently. For example: Many large discount audio dealers have found it profitable in the past to market their own brand of speaker systems that usually do *not* bear the store's name. Speakers are especially suitable for that ploy because they are a "blind" item. That means there's no way for a layman, even if he peeked behind the grille cloth, to judge the quality—and hence the costliness—of the drivers (and crossover) housed in the enclosure. And since audio neophytes frequently can't tell good sound from bad, cheap inferior designs can be sold at large fictitious discounts, which nevertheless provide a far higher profit margin than the standard brands.

A manufacturer of private-label speakers once complained to me that each year when his contract expired, his major dealer would seek a new, lower price on the product. And the manufacturer, if he wanted to continue doing business, had to further cheapen the system. The resulting deterioration in sound didn't bother the dealer as long as the external appearance of the system was pretty much maintained.

Occasionally, you could have a quasi-house-brand situation where a speaker brand might be sold nationally under its own name, but a large dealer or chain might have an exclusive in their own selling area. That brings up the question of limited distribution—which I'll discuss later.

OEM

The term "original equipment manufacturers" originally referred to parts suppliers who provided the resistors, capacitors, and other components

used by manufacturers in their products. The term has broadened to include those manufacturers who supply complete products with the brand label—and front panel—of your choice. At one time, when my wife was involved in use-testing VCR's for *Videoplay* magazine, she happened to have for testing VCR's from Quasar, Panasonic, and Magnavox. Despite the fact that their front panels, knobs, and pushbuttons were all different, once the top covers were removed, it was obvious from the identical innards that they all came off the same (probably Matsushita) assembly line. (The fact that each of the three machines performed differently at the slow speed was almost certainly the result of random alignment and QC differences rather than circuit differences.)

A number of former American brand names are now owned by Japanese, Taiwanese, and Koreans, who are producing quite creditable equipment under those names. I know of one U.S. manufacturer who produces his limited production, big-ticket items at home and farms out his receivers and other mass-market items to Far-Eastern factories. Other U.S.-owned brand names are all produced overseas but with the cosmetics, features, and sometimes the circuitry specified here.

Fair trade

A now-obsolete term, a "fair traded" component was one that the dealer was not allowed to sell for less than the manufacturer's list price. Declared an illegal practice about 10 years ago, fair trade was replaced by various limited distribution schemes. In order to maintain control of the products' retail prices, the manufacturer would sell only to dealers who were also concerned with maintaining a no-discount policy on the product. A manufacturer has the right to sell only to those dealers who conform to certain criteria (demo facili-

ties, salesperson competence, quality image, etc.), but a no-discount policy was not something that could be legally demanded.

Over the years, all this has engendered a number of dealer-manufacturer lawsuits, with the dealer usually doing the suing. I testified as an expert witness in one case where a limited-distribution (at the time) Japanese manufacturer was being sued by a large audio retailer. The retailer's claim was that the manufacturer's representative had promised him the

line and taken a large order, but it was never delivered because he discovered that the retailer also owned a discount-appliance operation. The dealer was suing for \$100,000 in damages because he claimed that he kept a section of his store empty awaiting the arrival of the ordered equipment and lost substantial sales as a result.

How did I get into the act? The manufacturer's lawyers wanted me to testify that the dealer could have filled his shelves with other brands of

quality equipment that would have sold just as well. In other words, I said to the lawyers, you want me to say that the equipment under dispute was good, but nothing special. They nodded. I told them that I would be happy to testify to that effect, since that's exactly what I had been telling the company sales manager for years. In any case, I did my expert witness number at the trial—and the judge ruled against us. The manufacturer subsequently won on appeal without my help.

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