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SERVICE



After Sales Consumer Electronics Servicing

By Melanie Lozinski

Back in the days when a deal was made on a handshake, service meant knowing that the local shop, which sold you your TV, would take care of the service and repair of that TV if anything went wrong. Sure, it might mean living without the set for a couple of days; or maybe if the shop had a demo unit kicking around, you might actually get a loaner to use in the interim.

Today, service and repair has taken on an entirely different meaning. It's a complex set of rules and regulations, guided

Peter Kelly, General Manager, Bay Bloor Radio, Toronto, ON: "Most of the service that you provide is to satisfy the client and make sure that the client is happy with their dealings with the company."

by the small print of manufacturers' warranties and extended warranties. There's the hassle of either getting your product to a retailer or shipping it yourself. And then there is the waiting until "they" decide whether the product is worth fixing or a replacement is in order. The digital world has brought wonderful new technologies that dazzle the eyes and excite the ears, but also intricate assemblies that challenge even the most experienced technicians. So what has become of the old-fashioned service and repair attitude of yesterday, and what can salespeople do to help bring back that warm, fuzzy feeling?

"I think that the biggest change that has taken place in the service and repair industry over the last few years has been that a large percentage of the new products sold are not serviceable," says Joe Bernardo, Service Manager, Toronto-based Kromer Radio. "A majority of new products sold today are disposable. As pricing for new product continues to drop, manufacturers are stocking and supplying fewer and fewer replacement parts and paying less and less for warranty service."

Bernardo uses the example of a DVD player first introduced at a \$1,000 price tag.

"Today, you can buy a basic player for \$49," he says. "With service rates averaging between \$55 and \$65 an hour, how can you justify repairing these products?"

According to Dominic Renda, President of NESAs, it's been the increase in off-shore products that has altered the service side of the consumer electronics industry.

"The most drastic change over the years has been the influx of these products and the appreciation of the Canadian dollar, resulting in the subsequent reduction in retail prices," he explains. "It's become a bit of a throw-away type of industry on the low-end products."

Frank Trigo, Executive Vice President, Bankers Warranty Group, believes that the increase in offshore product has affected this market. But he also feels that the repair and service side of the consumer electronics business has changed, in part, because of the advances made in technology.

"As technology has evolved and become more sophisticated, the products have become increasingly more challenging to repair," he says, citing the

example of a wafer-thin, integrated printed circuit board with over 100 soldered pins. "While manufacturing and production costs have gone down due to mass producing machines, the cost to repair the products has gone up. This makes many products uneconomical to repair."

According to Doug Griesbach, President of D&M Canada, servicing on the audio side of the consumer electronics business, in particular, has changed significantly over the past few years.

"The changes have evolved in stride with the rather dramatic rise from analog to digital services," he explains. "Service technicians had to be trained at a faster rate on how to repair the new technologies that were being sold to consumers. This was fine in the early stages, but as the industry drove itself to sell at lower prices to gain market share, the qualified service technician was feeling the pinch as repair rates to fix products under warranty were diminishing based on repair times. Many a small 'warranty depot' in smaller cities simply went out of business." Today, there are few left; and they consequently serve a surprisingly wide demographic.

Service today

Jacques Gagné, Service Manager, Montreal-based Groupe Dumoulin Electronique, refers to the changes in servicing as putting distance between the customer and the retailer.

"The major change comes from the fact that many manufacturers have their own exchange/repair program for certain categories of products, and the customer has to deal with them directly," he says. "No service centre is authorized to service these products while they are under manufacturer's warranty. After the warranty, the product becomes almost obsolete since there is very little provision for spare parts."

This distance, continues Gagné, isn't always appreciated by the customer.

"They now have to call the manufacturers or a service depot themselves and do their own follow up on the repair. Many manufacturers will try to troubleshoot the problem with the customer over the phone before the unit can be sent for repair or exchange. This is time consuming, which is not appreciated by the customer. Also, in the past, many stores have built their reputation on their service quality. It is becoming more and more difficult to maintain that reputation when you have no control over your service."

D&M Canada's Griesbach also believes that service was easier for the consumer in the past.

"The retailer was more involved with the end user," he agrees. "Many retailers had on-site service departments that would repair virtually everything they sold in the store. The service personnel were very well trained and very knowledgeable. Service was an important part of the sales process, and many a savvy sales person would proudly show off their service departments to potential consumers as their differentiator to the 'new chain store' entering the regional landscape."

Today, continues Griesbach, service has essentially shifted from the retailer to the manufacturer.

"While a few strong independents across Canada still carry on traditional service, it is the manufacturer who is doing much of the heavy lifting with the end user," he says. "To accommodate these changes, we've added personnel in call centres to walk consumers through the set-up of their systems. We also hired a good number of our techni-

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Frank Trigo, Executive V.P., Bankers Warranty Group: "Some people have a negative connotation when it comes to extended warranties, so the salespeople focus on getting the customer to buy the product; and because they don't want to jeopardize the sale, they bring up extended warranties at the end of the presentation where it becomes almost a throw-away idea."



Dominic Renda, President, NESAs: "The most drastic change over the years has been the influx of (off-shore) products and the appreciation of the Canadian dollar, resulting in the subsequent reduction in retail prices. It's become a bit of a throw-away type of industry on the low-end products."

cians to repair the higher-end models directly at our warranty facilities. The size of our staff has grown about 30 per cent over the last five years. The high-end customer really feels much better knowing his product is being repaired by a 'factory' technician. Consumers are patient and understanding as long as they feel the repair will take place in a timely manner. For the most part, our brands and products are in the premium category. Therefore, our consumers have a higher level of service expectations for us to achieve."

Although the average consumer electronics retailer is a bit more removed from servicing the end customer today, not everyone believes that this is a turn in the wrong direction. Bankers Warranty Group's Trigo thinks it may be just the opposite.

"In some ways, it is better for the retailer to be less involved in the service and repair side," he explains. "Retailers want happy customers who have a positive experience in their stores. When a product fails, it is generally frustrating to the customer, so they may come into the store with a negative perception of the product or even the brand. If you combine that with a poor repair experience, the results could be disastrous and could even hurt your business. On the other hand, being able to service what you sell, and doing it well can result in a positive experience for customers that can help create brand loyalty and repeat business. Some of the smaller independent retailers can use this as a competitive advantage. But you can't just dabble in it; you need to make a commitment to doing it well. It needs to be a core competency, not an ancillary offering."



Gordon Turnbull, President, VRS Systems, Winnipeg, MB: "We didn't make much money under the warranty work. But if we got that customer once, then he kept coming back."

Packaging service

Bay Bloor Radio is one of those landmark independents alluded to above that has been offering its customers reliable and efficient servicing since its inception.

"It never changed for us," explains Bay Bloor Radio's Peter Kelly. "We're doing things the same way we've been doing them since I've been here. And I've been here 20-plus years."

Kelly explains that servicing is part and parcel of what the company is, and the very basis of the company's philosophy.

"When a client buys a product here, we try to make sure that we take care of them as much as we can," he says. "For example, if the client buys a \$799 system, we deliver it for them, set it up, and make sure it's working. If something goes wrong with it and they bring it back to our service department, then we transport it according to the warranty and, if necessary, we set it back up when it's been fixed."

For those times when the product is out of warranty, Bay Bloor Radio has a staff of five who will examine the product and provide estimates. "We explain the merits of whether the product should or shouldn't be repaired," says Kelly, who adds that the service department has never generated any significant amount of revenue. "Most of the service that you provide is to satisfy the client and make sure that the client is happy with their dealings with the company."

If the product sold breaks down within the first 30 days after the sale, then Bay Bloor Radio replaces it: no questions asked. After that, it's the manufacturer's warranty or the cost of repairs.

Kromer Radio is another one of the few remaining consumer electronics retailers that still maintains in-house service and repairs, as well as mobile service. Today, this segment of the business represents around five per cent of the annual revenue. During the company's first 10 -15 years of business, it accounted for as much as 20 to 30 per cent.

Kromer Radio's service department currently has a staff of four. At one time, the department had a staff of approximately 12 people.

An example of a company that has taken the service part of the business and packaged it into an effective marketing tool is Best Buy Canada. The company's Geek Squad originated in the U.S. in 1994, and was part of the Best Buy business plan when it launched in Canada in 2002. The service team includes in-store service agents, as well as mobile agents who help on-site. According to Heather Seabrook, Communications Specialist for Best Buy Canada, the most popular services that the Geek Squad is called upon to resolve is computer support (especially for security measures). Prices vary, but can run around \$79 for basic in-store computer set up, and \$129 for remote computer set up. The company launched a home theatre installation service last year. For an on-site home theatre consultation, prices run around \$99, but that fee can be put towards the eventual cost of installation, which varies depending on the size and installation requirements. A 46" flat panel mounted on the wall with the wiring concealed, for example, can run upwards of around \$499.

"We have a Geek Squad in every store we open," says Seabrook. "It's definitely a big part of the business in that service is something our customers are telling us they want and benefit from."

The Geek Squad is available for servicing any consumer electronics product or brand, not just the ones carried by Best Buy Canada. The company markets its service arm with a lot of in-store advertising, but receives a lot of its business from people other than Best Buy customers.

"Word of mouth is key for us," says Seabrook. "Referrals are a huge part of the business."

Seabrook sees the successful Geek Squad model transitioning across multiple categories, as consumer electronics products become more integrated in the future. In addition to the servicing available from the Geek Squad, Best Buy Canada also offers its customers extended warranty plans. The two are treated as separate areas within the business model.

Customer reaction

For customers who have expensive consumer electronics equipment in their homes or vehicles, paying for prompt quality service isn't that much of an issue. Not surprisingly, Kromer Radio's service department is busy with plasma and LCD repairs, as well as older-style rear projection TVs, CRT TVs, car radio electronics, older audio components and high-end DVD players. It's the less expensive equipment that sometimes raises an eyebrow or two when the repair estimate is provided.



Gaétan Blais, National Sales Director, Cornerstone United Ltd.: "Extended warranties provide services that are sometimes unavailable to retailers. And they offer the opportunity for retailers to capture customers for the long term."

"We often get situations where someone may have paid \$200 for an item, but it's going to cost \$200 to repair it," says Bernardo. "Unfortunately, I run into this scenario a lot. For the most part, the customers are pretty understanding."

At Toronto's Bay Bloor Radio, Peter Kelly has encountered his share of clients who have mixed feelings about the cost of repairs.

"When people buy an automobile, they know that it's worth less the minute they drive it off the lot," he says. "They also know that they have to spend money to maintain that automobile. Yet when it comes to consumer electronics equipment, most people have a hard time spending \$300 on a new bulb for a projector."

Kelly also often runs into the scenario where the customer had paid \$300 on a piece of equipment five years ago and is willing to spend \$180 for the replacement part instead of just purchasing another product for less money. "In the end, the customer ends up with a five-year old product that works alright when he could have had a brand new one for \$300," he says.

The ever-dropping prices of consumer electronic equipment can play havoc with a store's service and repair reputation. Kelly recalls the oft-mentioned \$1,000 first-generation DVD player.

"When people brought them in to get fixed, the prices had already dropped so

much that they were selling for \$500," he explains. "But they were going to cost \$500 to be repaired. Customers had a hard time with that one so we ended up splitting the cost with a lot of them just to make sure that they were satisfied customers. We try hard to let them have a reasonably good experience."

Like the majority of today's retailers, Groupe Dumoulin Electronique doesn't have a service and repair department to speak of. This, acknowledges Gagné, can be difficult on the business.

"Being able to be involved efficiently in the service and repair area is an added value to sales," he says. "Unfortunately today, it is more and more difficult to do so in a profitable manner. The small percentage of units that can be serviced do not generate enough revenue to compensate for the high cost of maintaining a service facility."

Different strokes

That's not to say that it's unreliable or unviable in all cases.

Meet VRS Systems Inc. Founded in 1983 by Gordon Turnbull, VRS Systems began as a repair centre in Winnipeg dedicated to servicing VCRs. Shortly thereafter, the big-box stores came onto the consumer electronics scene and Turnbull found himself servicing their customers under the manufacturers' warranty.

"We didn't make much money under the warranty work," explains Turnbull. "But if we got that customer once, then he kept coming back."

Today, VRS Systems sells service and repair franchises under the trade name The Video Re-Fit Shop. The company tries to match older, existing service repair shops to prospective franchisee owners. There are currently four shops in Winnipeg and one in Regina, ranging in size from a two-man operation to an eight-man crew. The company is also currently working on closing deals on other franchises outside of Winnipeg.

"We offer franchises right across the country," says Turnbull. "But we're concentrating on Saskatchewan and Manitoba for the time being."

The franchises vary in cost, but include a \$22,500 franchise fee for the site location, help with the front end, training and set up. A fully equipped, turnkey operation can cost around \$150,000. But Turnbull says that the return on investment usually takes between three to five years, with franchises capable of generating annual sales of a \$500,000 and up.

"I'd say that about 80 per cent of what we do today is TVs," says Turnbull, adding that around half of that work is done under manufacturer's warranty, around 20 per cent is done through extended warranties, and the remaining 30 per cent is COD out of warranty. The out-of-warranty work is increasing as the large-screen TVs age. "We're getting more and more units that are out of warranty."

Turnbull refers to service and repair offerings at consumer electronics retailers as a declining art.

"There aren't many of us around," he says. "We're getting lots of work. My franchisees are profitable, but they work hard for their money. It's an older trade, but the growth is there for those companies that deliver good customer service."

And, according to D&M Canada's Griesbach, it's a trade that high-end manufacturers are trying to support.

"Technicians and service depots need higher levels of revenues to stay in business," he says. "We at D&M will answer their needs. Premium brands are not throw-away products, therefore we need the strong relationships to continue with service depots. Service is really pretty simple. We know there is a 1.5 to 3 per cent failure rate in our industry. We can plan for that."