Home Theater Showroom Model

A Venture Capital Proposal using the Remaining Assets of Circuit City

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In November 2008, Circuit City filed for bankruptcy. Around this time, their stock hit bottom at 10 cents a share, down from $30 in May 2006[1]. After a loan of $1.1 billion failed to keep them afloat through the holidays, they announced they would be liquidating their assets and going out of business[2]. We believe this presents an opportunity to purchase an existing national infrastructure at a low cost and launch a new business.

Business Plan

Our Home Theater Showroom Model is based on the acquisition of Circuit City's remaining assets. By purchasing this existing infrastructure, we will instantly have a national network of stores at our disposal. Since their business just went bankrupt, we can make this purchase for a low price, thereby minimizing start-up costs. By taking over Circuit City's current locations, we won't have to search for rental space, or worry about warehouse or storage space. In order to generate additional revenue, we may even consider renting or leasing some of our excess stores, especially in locations with multiple stores in close proximity.

With these resources, we will start a new business, unaffiliated with the old Circuit City, where customers can "test-drive" high-end electronics products before they buy them, and manufacturers make more profitable sales directly to customers, eliminating the middleman.

Our showrooms will have multiple products from different manufacturers, and knowledgeable staff to explain the differences. We will let consumers buy the product in-store through our online database that connects the customer directly to the manufacturer.

By cutting out the middleman, the customer will be able to pay factory prices, which will be cheaper than those of online retailers or brick-and-mortar stores. Finally, purchasing through us has an added convenience for the customer because the manufacturer will deliver the product directly to the customer's home.

Our Stores

Our showrooms will feel small and welcoming, equipped with comfortable couches and designed to look like a number of luxurious living rooms, each displaying a different set of home theater equipment. Customers purchasing high-end electronics don't just want to see the product before they buy it; they want to *experience* it. By creating a living room environment, we allow customers a chance to experience products as if they were in their own home. In essence, what we are selling is "try before you buy".

Customers will be able to test different combinations of products to customize their home theater system. By having multiple viewing rooms set up, each customer can experience each variation of television and sound system with ease.

Each showroom will have almost no inventory, keeping only the display copy of each item on the floor. This will allows us to completely utilize the floor space of each store by eliminating the storage space in the back. This also removes the risk of getting stuck with inventory we can't sell. Additionally, we will not have any need for shelf-stockers, truck drivers, deliverymen, and warehouse personnel, thereby minimizing costs. We will only require only a few knowledgeable salesmen to work the floor.

Our Products

We will focus mainly on high-end electronics for home entertainment systems. This will include such items as televisions, projectors, sound systems, and media PCs. Focusing ourselves to only the high-end items in each of these genres has two benefits. First of all, customers looking to purchase an expensive item are more likely to want to test it out first. This means we will have the right products available for the customer base we attract. Secondly, by focusing on the most expensive items, we will have more room to maneuver when price competing with Best Buy and other competitors.

In addition to the high-end items, which will be the primary focus of our contracts, manufacturers will also have the opportunity of offering their lower-end items in our showroom as a comparison for customers. This would allow the sales people to demonstrate the superiority of the high-end items. Additionally, by providing a range of products, which will appeal to a larger audience, manufacturers are likely to make more sales. Finally, we will differentiate ourselves from Best Buy by acting as a specialty retailer instead of a mass marketer of electronics.

Contracts with Manufacturers

Our main source of profit will be through contracts with different electronics manufacturers. Manufacturers will pay us to display their products in our showroom. Our showroom essentially becomes an arm of the manufacturing company. Purchasing an item through our store eliminates the middleman like Best Buy or Amazon, since we offer customers the manufacturer-set price and ship directly from the factory to the customer’s house.

Due to our chosen method of shipping directly from the manufacturer to the customer, we will only sign contracts with companies that already have the infrastructure in place to ship a single item to a customer. We don't want companies to have to change their shipping policies at all to sell through our stores. Our showrooms should be a convenient way for companies to advertise in the market. Many companies already have websites set up where you can order single items and have them delivered to you. Our showrooms provide another way for the manufacturers to publicize their products, and increase the number of direct sales they make. In this respect, we can compare the service we provide to that provided by other, more common, forms of advertising.

In addition, by working directly with manufacturers, they will be able to send us the newest generations of their products as soon as they are available. This way, we will always have the cutting edge products to show to our customers. In our contracts, manufacturers can opt to pay higher prices for prime display space in the stores, such as the first display when you enter the store, space visible from the windows, or eye level shelving.

If our business is unable to generate enough consumer interest, and we fail to bring enough customers into the store, then manufacturers will be unlikely to give us good deals on their merchandise. In order to overcome this obstacle, we will instate several methods to attract customers to our store. For example, we will hold promotional events to help draw customers into our store, and also offer good deals on the flashier, more attractive products that consumers are most interested in, such as televisions.

Why Manufacturers Will Be Willing To Pay

For the manufacturer, we are primarily offering them a way to advertise their products and connect them directly to customers. Our showrooms will provide an interactive method of advertising. After testing the products, customers can spread good reviews to their friends, who might end up buying the product. The more customers that we can get into the store, the more beneficial it becomes for the manufacturer to place their products with us. Even if we don't make sales through our store, the customers that come in are getting more first hand exposure to the company's products, which can only be good for the manufacturers.

In addition to offering a new way to advertise their products, we offer them a way to make more profitable sales. If a company like Sony wants to sell their products through an electronics store, they sell the products to the mega-store for X dollars, which is already a mark-up from production costs, C. The store, let's say Best Buy, will then sell it for Y, which gives them a profit of Y-X, and gives Sony a profit of X-C per item. However, if Sony sells their product directly to customers through our showrooms, then they can charge Y2 (where $X < Y2 < Y$), simultaneously making a larger profit (Y2-C) and giving the customer a better deal. This is a win-win situation for customers and manufacturers. However, since purchasing through our showroom requires the customer to pay shipping costs, the margins will have to be large enough to absorb this cost. This is why we will focus on high-end, high-price items.

Market Analysis

The home entertainment market caters to individuals and families with disposable income, usually looking for the most state-of-the-art gadgets for their home. Household amenities such as home theater systems are a staple of middle and upper class families. With new technologies in the entertainment industry being unveiled seemingly every day, maintaining a cutting edge home entertainment system has become trendy. Consumers are always looking for the best screen size, the best resolution, the best wattage, etc, and they are willing to spend a premium to get it. This holds especially true for men, who are probably, in general, more likely to be technophiles than women. As such, our target demographic is middle- to upper-class men aged 25-44.

Consumers have become accustomed to the two competing styles of retailing: brick and mortar versus online. The distinction between the two is clear: immediacy of acquiring purchase. At this time, consumers travel to their local retailer with the expectation that they will have whatever they need in-hand by the time they arrive home. This will not be the case with our store and will definitely seem strange to first-time customers. In this respect, we would need a positive spin, courtesy of our marketing team, to make the transition more comfortable. Since buying cars or large furniture items is already handled in a similar manner, this transition should be feasible.

For the average consumer, his/her buying decision is dictated by four factors: utility of local retailer (includes proximity, variety, price), size of purchase, urgency of purchase, and price of purchase. Items relevant to home entertainment, such as TVs or speakers, are generally larger and thus more expensive to ship. Subsequently, consumers are more likely to prefer to make their purchase in-store and bring it home themselves.

However, the added cost of shipping can be offset by the savings earned by ordering directly from the manufacturer. Finally, shipping times are less likely to be a significant deterring factor for customers, because many of them will already be used to waiting for purchases made online, and won't be in a hurry to receive their purchase.

By allowing consumers to test a large variety of products first-hand, we offer the flexibility of local retailers with the competitive pricing of online vendors. The only drawback, as described, is the shipping delay, but we expect that consumers will not be in immediate need of their purchase.

Why The Customers Will Come

An essential part of our business plan is getting a critical mass of customers into the store. We will increase our customer base by offering a service that is not already provided by other electronics dealers, test-driving products before you purchase them. This is our main selling point, and it will appeal to a wide range of customers.

As described previously, by connecting the customer directly to the manufacturer, we can offer them prices that are lower than physical stores and competitive to online retailers. Additionally, the items will be shipped directly to the customer's home, which is an added convenience.

We will be selling the idea that we are a one-stop-shop for a high-quality home theater system. We stock all the components one would need to completely furnish their home theater. We offer this service as another convenience so people can leave the store knowing they have everything they need and it will arrive at their house in a few days.

Buyer Bargaining Power

Manufacturers have significant power in setting the prices of their contracts. They have at their disposal a number of other ways to advertise and sell their products, so they will only sign with us if it is beneficial for them. Individual suppliers would be concerned about whether or not our business will be able to provide adequate publicity for its products, and whether or not our store would be able attract customers to come and sample our merchandise. As discussed before, we may have to offer the manufacturer a type of contract in which we offer free or low-cost advertising for the first few months, in order to demonstrate our ability to draw customers. After demonstrating these important qualities to our suppliers, we may able to begin charging more for advertising rights. Once our business starts to become successful, we can then try to counteract some of the supplier power. The easiest way to do so would be to charge for premium shelf space and even give our prime manufacturers individual showrooms and displays to highlight their products over those of their competitors.

Industry Analysis

Our company will compete with parts of both physical stores and online entities. It will not, however, be fully competing with either type of store since the company has no inventory and will only be providing a service to customers and advertising for certain manufacturers. The existing competitors in this market are as follows:

- **Best Buy:** Their home entertainment department will be the main competitor for the company as we will both provide services involving the purchase of high end electronic products such as LCD TVs, home theater systems, DVD and Blu-ray players, media computers, and accessories such as specialized cables. They also compete with the company in terms of also having showrooms for customers to try out products, but theirs are much more limited. However, Best Buy attracts a slightly different customer base. They are known for offering cheap deals on electronics, so they will attract shoppers looking for lower-end products.

- **Amazon.com and Newegg.com:** Since these companies have no physical stores, we will be competing with their online sales and shipping of products in the home entertainment department. They also provide good deals and shipping directly to a customer's home. Amazon markets itself to the mass market and general public, while Newegg focuses on "tech-savvy" people. We will try and attract people from both these customer bases.

- **Wal-Mart and Costco:** The competition with Wal-Mart is the same as with other physical stores like Best Buy and RadioShack. Wal-Mart does not have showrooms dedicated to home theater products, but they buy in bulk, so they can offer low prices and good sales. However, they mostly focus on lower-priced electronics.

- **RadioShack:** Their home entertainment department will also be competition in the market as they compete with the company over customers and purchases including televisions, home theater systems with the main focus being on home theater systems and speakers. RadioShack usually does not have showrooms for home theater; therefore, our company will have an edge in this respect.

- **CompUSA:** No longer a competitor as of 2008, because they have only 12 stores open to the public.

In-store electronics dealers, such as Best Buy, Radioshack, and Costco can act as substitutes for our business. However, our store offers a significant advantage over in-store retailers in terms of prices. Since our business will effectively be selling items directly from manufacturer to customer, we will be able to offer lower prices than in-store retailers.

Another significant substitute for our business will be online electronics retailers, including Amazon.com and Newegg.com. The advantage our store holds over online retailers is that we give our customers an opportunity to try out the product firsthand. Because our business will be utilized by customers who require assistance in purchasing items, our ability to offer in-store help would be very valuable to the customer. For these reasons, we see our business as being able to provide the ideal balance between in-store convenience and online pricing.

Rivalry

Our business will encounter competition from other, established home theater retailers. Best Buy would most likely be our largest competitor. They currently lead the home entertainment industry, and played a significant role in driving Circuit City out of business. In order to minimize this rivalry, we will try to differentiate ourselves from Best Buy by specializing in home theater systems, and ignoring a large portion of the electronics market.

Our business will also meet much of its competition from online retailers, namely Amazon.com and Newegg.com. Because of our business strategy of selling directly from the manufacturers, we will be able to offer similar prices to those given by online retailers. However, Amazon and Newegg have no infrastructure in place with which they could imitate our showroom structure.

Our company has a different revenue source than Best Buy. Best Buy makes money from selling a product at a markup from their costs whereas we will just be paid through contracts with manufacturers. Another difference is that where Best Buy has a section devoted to TV's and a different section devoted to sound systems, we will have rooms set up just like living rooms. This will give our customers the whole experience at once, providing them a clear advantage over Best Buy when shopping.

Conclusion

The responses to the company entering the market will be varied according to the type of store – either physical or online. Online stores can offer shipping deals or big sale prices to ensure continued business through their stores. Physical stores are more restricted on price due to fixed costs, but they can advertise the variety of inventory in their local stores and warehouses. In addition, they can emphasize the fact that you can walk out of the store with the product in hand instead of waiting and paying for shipping. The alternative is also that competitors could completely ignore the company's entrance into the market. They could hope that consumers generally ignore the company and its new business plan because the switching costs are too high.

The failure of Circuit City has left the electronics market with a single remaining mega-store, Best Buy. It is unclear at this point how exactly this will affect the market. Perhaps there is only room for one electronics mega-store, and Best Buy has won that spot.

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