

inside track

Audio-Video
Retailer

your profit adviser: • independent • up-front • daring

One of the most attractive options a ...

... custom-oriented specialist has, is joining forces with manufacturers who have a solid track record of partnership with their dealers and who, at the same time, continually innovate to stay at the forefront of their fields.

BEING IN THE RIGHT PLACE AT THE RIGHT TIME, WITH GREAT KNOW-HOW AND CREDENTIALS

Over the last decade or so, as home theater and 2-piece projection has (1) moved into the realm of the attainable for upper-middle class clients and the dealers who serve them, and

as (2) improvements in technology have expanded both the options and the market for "big picture" (from dedicated, no-ambient-light home theaters to multi-purpose rooms with high ambient light conditions), the right screen has become a very important element in the "big picture" experience. Ten years ago, **Stewart Filmscreen** was evaluated in the i.t. survey for the very first time. Beginning with the 1999 survey, they have topped the Overall Results charts - initially in the combined Video Display and Screen groups - without interruption. Three years ago we separated screen companies from video display companies, to give the latter a chance to compete within a more homogenous group. But whether you look at just the Screen, or at the combined Video Display/Screen groups, Stewart remains No. 1 Overall either way. How, exactly, have they been able to sustain that position?

"They seem to have the best screens, and they are pushing the edges of performance," said a West Coast independent, who was one of 12 dealers I contacted for in-depth feedback. *"They are a high end company, and guys like me need high end products. Plus, their service is very professional."* Other dealers commented, *"Stewart has a broad range of products, and they always enhance them for the latest projection technologies."* *"The product works very well and has a very good fit and finish to it. All our customers tend to be extremely satisfied with the final look and how it works."* *"We like the quality of the product and the market position they have chosen."* *"They have been very progressive in keeping up with projector technology. As the brightness of projectors has increased, they've adjusted their line - and they have educated their dealers."* *"We have never come across a valid, stable [projector] technology that Stewart did not have a screen to work with."* And while one dealer noted that as projectors improve in terms of contrast ratio and brightness, *"they don't need the level of help that a Grayhawk or Firehawk gives them,"* that's



A Winning Team (L to R) -- Stewart CEO Patrick Stewart, Director of Sales Joaquin Rivera, Chief Financial Officer Tom Stewart

© 2006 by INSIDE TRACK PUBLISHING CORPORATION. All rights reserved.

inside track (ISSN 0885 6885) is published 30 times/year by INSIDE TRACK Publishing Corp., 18 Lost Mine Place, Ridgefield, CT 06877. Tel. (203) 431-4540, Fax (203) 431-4711, e-mail: insidetck@aol.com, www.inside-track-online.com. Subscription Office: 10 Long Hill Dr., New Fairfield, CT 06812, Phone/Fax (203) 746-2648, e-mail: ITSubscriptions@aol.com. Corp. Office: 12901 S.W. 64th Ct., Miami, FL 33156, Tel. (305) 666-2055. Pres: Guenter Weber; Exec. VP: Ed Hirsch; Editor & Gen. Manager: Gisela Schoell. Subscription rate \$239/year, \$135/6 months. No part of this newsletter may be reproduced or transmitted in any form without the express permission of the editor.

inside track inside track inside track

somewhat of a moot point, since all of Stewart's screen materials, be they Firehawk, Grayhawk, StudioTek 130 (a white screen with a 1.3 gain) or any number of other screen materials, are priced the same. This allows dealers to spec in a screen early on in the process, yet wait to choose the optimal material until it is entirely clear exactly how the room will be used.

Do customers know about Stewart's ties to the movie and aerospace industries and/or is it helpful to include that information in the sales presentation, I asked the dealers. "If a customer questions the screen, then I'll go into Stewart's credentials," one dealer said. "But if the customer is looking for

Stewart's new (and very expensive) Cinecurve variable masking screen with Lutron's super-quiet motors (the same motors Lutron uses to move shades). For another dealer the reason to bring in this very high end multi-masking screen was not merely to wow his customers now. "We wanted to make sure that we never had a situation - regardless of the projector, regardless of all the technologies that would come and go - where the screen was not big enough or could not be made small enough with the right aspect ratio," he said. "We wanted complete flexibility. Our system needs to be updated periodically. Therefore, we designed it so it would be easy to change, and the Stewart variable masking screen fit the bill perfectly."



Protecting the Environment:
A System of Pipes for Combusting Chemical Residues

an entry level theater, those credentials can actually backfire, because now Stewart is perceived as the *crème de la crème* [with prices feared to reflect that position]. "The typical sales argument is our recommendation," responded another dealer. "However, all the customer sees when he walks into the door here are Stewart screens." We use Stewart's credentials a lot," noted yet another dealer. "Screens are still something very foreign to our customers, so credentials such as an Academy Award are a huge plus."

HOW DEALERS VIEW STEWART'S PRODUCTS AND SUPPORT

In terms of numbers of Stewart screens sold per year, the dealers in this sample spanned quite a range, from 5 or 6 per year at the low end all the way up to 80-100/year, with the majority installing somewhere between 12 and 25 per year. Typically, dealers said they've been selling more fixed than motorized screens, with a few reporting they had also installed Stewart's micro-perforated and/or their latest variable masking screens. Of course, before you can sell, you must show and demonstrate. "I want to up the ante on what my customers see when they walk in here," explained a dealer who had just taken delivery of

Product reliability is always important, particularly so when the product is built in. Dealers' comments here included, "I can't recall ever having had a broken one or anything wrong with any of their screens," and "one defective out of 12 last year, and that is the only one I can ever remember. They sent an advance replacement and paid freight for the bad one to go back. Their service is stellar," an opinion, incidentally, all dealers I spoke with shared, including the one dealer who complained about multiple problems, from wrinkled screens to chipped and peeling paint, to mechanical failure of the electric motors, and screens that did not have the proper tension. Even this dealer acknowledged that Stewart is "quick to respond. They do anything to help us. And sometimes they just send a new screen." The dealer who, in this group of 12, is selling the most Stewart screens reported that "problems are infrequent - we have maybe one or two issues a year. Often, that is due to miscommunication, and they take action immediately."

The vast majority of the dealers contacted also had high praise for Stewart's design tool, *Screen Assistant*, which even a novice can master quickly. "I love that software," said one dealer, "it helps us design our systems, so we don't need to call Tech Support all the time." "It's very hard to make a mistake in *Screen Assistant*," one dealer said. "We review it here, then our rep reviews it, and finally Stewart reviews it and sends us a written confirmation with prices." But for dealers with very complicated installs, "you call their 800 number, get a screen engineer on the phone, and they walk you right through it."

TO BE OR NOT TO BE (AND HOW TO BE) IN THE ENTRY LEVEL

Despite the very high regard that the dealers in this sample hold Stewart in, most - though not all - also carry at least one other brand of screen, typically to have something to offer at the entry level where, given the drop in projector prices, "entry level" is now understood to be screens at or below \$1,000 MSRP. About half the dealers I spoke with made very spirited pleas for Stewart to participate in the entry level, while the other half was adamantly opposed to the idea. "How can you tell a customer who is buying a little Hitachi projector for \$1,700 that he should spend the same amount for a screen," said one of the dealers who is in the first camp. "Now I have to go to one of Stewart's competitors, and that means, they are letting me deal with the devil! Of course," he allowed, "they may well have looked at it

inside track inside track inside track

and decided it is counter-productive for them to go too far down-market. But I don't know. B&W's image hasn't been harmed by their having \$200/piece speakers! I sell lots of the expensive and lots of the inexpensive ones!" Another dealer's pro-entry level argument went like this: "When Krell came out with their first integrated amp, we looked at it as "Baby's first Krell." It's a way to introduce people to a brand and get them involved in that brand." But other dealers advanced equally strong arguments against Stewart's going down to entry level: "They are very clear that their position is the premium market position. Plus, I'd rather sell a \$70,000 home theater than a \$7,000 one. My engineering, programming, scheduling, installation costs, etc. are the same [or close to the same]. Another dealer stressed the same principle, that "it's not worth my installer's time to put up a \$3,000 projector and a screen at half that price." In his business, customers with those kind of budget constraints get steered toward a Mitsubishi big screen TV. However, where dealers' home theater packages start at \$10,000, Stewart, which offers a very nice 82" fixed screen at a sugg. retail of \$1,600, remains well within the ballpark. Of course, not every dealer does the bulk of his business with \$10,000 and above systems. And even dealers who do, often also want to show customers that home theater is not only "a rich man's game." Still, as one strong Stewart dealer said, "we do entry level, and I'd love for Stewart to offer that. But our focus is on 'best of class.' If Stewart feels they cannot offer under \$1,000 screens, I'd understand."

At CEDIA last year Stewart introduced their *Media Screen*, which might well be seen as a component in an upscale "Home-Theater-in-a-Box." It consists of a 72" screen (also available in 80") with a nice frame, finished in a piano lacquer, and with speakers attached. The sugg. retail is \$3,900. Dealers can complete the package with a projector, DVD player, receiver, subwoofer, etc. of their choice, and offer the entire package at less than \$10,000. However, the overwhelming majority of the dealers I interviewed were absolutely not in favor of this approach. "I love Stewart," said one dealer, "but I don't want them going into my speaker business! I can do entry level home theater better for less money, without Stewart selling me loudspeakers!" Another dealer itemized how he puts together a Hitachi LCD projector, a Denon receiver and DVD player, a B&W 5.1 system and 'a screen' - "all for \$5,000, and I make a decent margin. I endorse the idea of a package, but I do my own version of it." "Stewart's Media Screen takes the 'custom' out of custom." "I don't see the point, when I have a 73" Mitsubishi DLP that has a 1080p chip in it, is only 21" deep, and is amazing." The upshot here is that while dealers will put together their own pre-designed home theater packages at various price points, Stewart really touched a nerve by making the speakers part of the package they offer. Not only are speakers high margin items, "they are the dealer's signature!"

HOW TO FURTHER IMPROVE THE PARTNERSHIP

Eight of the 12 dealers I spoke with belong to either HTSA, HES or PRO, all of which have programs with Stewart. It's the 4 who have no buying group affiliation who said that Stewart has no programs for dealers. Not unless you ask, that is. "There are no official programs, but if you ask, you do get help from them. If we need something, our Stewart rep - a great rep, by the way -

gets [Director of Sales] Joaquin Rivera up here, and we talk about how we can make it work for everybody. Joaquin never feels like I am trying to beat him out of the last nickel, and I always feel like he is giving me all he can." Which, as this dealer clearly recognized, is all in the spirit of partnership.

Stewart offers a 40% margin on their screens, and a few dealers commented that years ago the company used to have a much narrower distribution, "but that's not been a problem. The obtainable margin is fair." Of course, there were a few dealers who felt that the screen category could "easily justify 50 points." "... and on less expensive screens we can get 50%!" But when I played that back to other dealers, they all but called their colleagues greedy: "The margins are good! Service is, I think, fantastic. They do training. They do everything we ask." "Yes, I wish Stewart had 50% margins, too," said the particularly partnership-oriented dealer. "But it is really important to us that our manufacturers remain healthy and financially vibrant, and in a premium position in the marketplace."

How can Stewart improve even further (setting aside, for now, the "go/don't go" debate among the dealers with respect to Stewart entering the sub \$1,000 MSRP screen market)? As



One of Five Quality Control Steps

dealers thought about that question, they sort of mentally checked off all the parameters they grade companies on in the survey, and several stopped at Just-in-Time Delivery, one of the areas where Stewart typically does not come out on top. But that's because "they are building most screens to spec, and that takes 2-3 weeks, which is not a problem." Dealers were quite

inside track inside track inside track

aware that Stewart now stocks the fixed “snap screens,” and typically gets them to dealers within 5 days. The motorized screens “take about 5 weeks. Knowing that, we can plan - and you can rely on Stewart’s shipping estimates.” “Just do a better job communicating with us which types and sizes of screens are available in the Quick-Ship program,” one dealer suggested. Other than that, nothing came to mind for most dealers. Training at dealer locations is readily available, and while some of my interviewees said their guys had been to factory training, none of them had been, themselves. After I told them a bit about my own visit to the Stewart factory (see below), one said, “I would enjoy that! It would probably assist me in selling the product with even more enthusiasm!”

FIRST-HAND IMPRESSIONS FROM A FACTORY TOUR

Stewart Filmscreen is a family-owned business that was founded



Viewing Areas of Screens Are Taped Off for Painting

by **Roy Stewart** in 1947. One of Roy’s 4 sons, 76-year old **Patrick Stewart**, currently holds the CEO post. Patrick’s son, company president **Grant Stewart**, divides his time between the original factory in Torrance, CA and the plant in Amelia, OH. In addition to those two factories, Stewart also has assembly plants in Singapore and Denmark, which serve the Asian and European markets, respectively. Pat’s nephews, **Don Stewart**, Executive VP Engineering & Sales, and **Tom Stewart**, VP Finance, operate out of the Torrance headquarters. Director of Sales **Joaquin Rivera** conducted my full day tour. With only 6-1/2 years at Stewart under his belt, he might almost be called a “newcomer” at this company, where key employees tend to have long tenures. But Rivera has been able to carve out a solid place for himself in the company and with Stewart’s dealers.

Once past the reception desk, we entered a large area with easily more than 20 individual cubicles that house dealer support personnel. These are sales engineers, designers, and tech support people, who may cover either the Consumer, the Commercial, or the International segment of the business. Looking at the names and into the faces, it strikes me that there is something of a mini-U.N. working here: **Sjolander, Permonohadi, Yopez, Roche, Savali** - quite a collection of ethnic backgrounds interspersed between such anglo names as **Kimber, Tucker, McKenzie**. I shake hands with Sales Operations Manager **Hideki Okamoto**, a long-term Stewart employee and a familiar face. I meet Product Manager **Diana Ha** and Plant Manager **Mark Robinson**, who have been with the company for 15 and 20 years, respectively. The group consisting of **Steve Tucker, Medi Permonohadi, and Gary Browning**, I learn, developed, maintains, and updates the Screen Assistant software which, Rivera notes, will also go on the Stewart website the first week of April and will even be available in 3-D, “just to make it cool!”

Rivera then leads the way past outdoor assembly areas - here light-weight metal tubes lie stacked, there wooden crates are being built - and in passing I notice metal containers, the size of cement mixer drums, that hold Stewart’s top secret chemical formula. We duck around corners, through narrow connectors, walk past a network of massive pipes. “Stewart is an environmentally conscious company,” Rivera comments, pointing to those pipes. All chemical residues are combusted at high temperatures. “The Blackhawk screen is no longer produced because the fumes were harmful to the environment,” he says. After rounding a few more corners, we walk through yet another door and finally reach the room that leaves visitors momentarily speechless. You face an immense glass wall behind which lies an almost entirely empty room about the size of a lap pool. Everything is white - walls, floor, ceiling. A robotic spray rig moves along a rail that runs the length of the room and sprays a white mist up against the ceiling where, Rivera explains, there’s a mold that is held up through negative air pressure. The filmscreen formula is sprayed on, the rig advances, sprays the next section, and when it’s all done, the material is allowed to cure under precisely controlled temperature conditions. Once the solvent has evaporated in 3-4 days, the material is ready to be scored, pulled off the mold, and rolled onto metal tubes. The entire floor gets scrubbed (because of the negative air pressure, no errant particles can float up toward the ceiling), and the room is ready for another filmscreen to be made.

The next room reminds me of a monochromatic fabric store. There are racks reaching all the way up to the ceiling, holding long rolls of film screen materials. There are huge tables where the screens are cut. In the next room, cut screens hang suspended from the ceiling, and in the room after that the hung screens have their viewing areas taped off. Huge glass-topped “cabinets” with rows of strong lights underneath are, Rivera explains, QC stations. All Stewart screens must pass 5 QC steps, first, when the material is still up against the ceiling mold; next in this QC room under strong lights from the front and back; then before the screen is cut to size; after that, when it is hung; and for the fifth and final time after it has been painted. Along every step of the way, if an imperfection is found that

inside track inside track inside track

watch one of the new CineCurve screens with variable masking being tested, then it's off to a separate building that houses the demonstration and training center. Now I'm in for nothing but treats: A 3-D demo, where the images float in the air in front of you. Then we walk upstairs to a lounge, where normally dealers who come for training get to kick back and relax during breaks. The Stewart Media Screen is set up there and, sorry to say, I totally forgot about speaker margins, I just sank into one of the two comfy seats facing the large screen. The projector was discreetly tucked away into the cabinet between the two seats, and I just got lost in the life-size images of the streetscapes on screen. That, of course, makes me your typical female customer.

STEWART FILMSCREEN COMMENTS

"That screen was not designed for a home theater," said Don Stewart in a follow-up phone conversation, *"it's for women. We had quite a few ladies in here, and they all loved it. What we got from them is that they don't want separate speakers. They wanted one unit, because that's clean and uncluttered."* Also, he added, *"there's a gap between the 62" plasma and the 82" home theater screen, which this unit attempts to fill. And as far as that Mitsubishi rear projector or the plasma with the built-in speakers - I don't hear dealers yelling about that!"* Rivera's comment: *"Dealers cannot lose sight of who they are serving."*

Out of the company's illustrious history - Roy Stewart's personal friendship with Walt Disney, the early work with all the great film studios and with the big names in the military/aerospace industry - has grown, it seems, a real aptitude for collaboration, for learning from the customer, for meeting specs, for seeking the win-win. Today, 47% of Stewart's business is on the consumer side in North America. Commercial business in North America represents 27%, 7% is done with the film industry, and the international consumer, professional and simulation business makes up the remaining 19%. In other words, today, the dealers on the consumer side are responsible for almost half of Stewart's business. That makes them very important partners, and Stewart listens to them. But for now at least, though Don Stewart admits there have been long discussions, even arguments, about it internally, the company is not interested in making entry level product. As Rivera points out, *"it's hard to be all things to all people. We would rather concentrate on our strengths and maximize them."* He's also very passionate about dealers not getting bogged down too much at the extreme entry level. *"A few years back we lost 18 dealers because they ventured into the less expensive market,"* he said. *"They didn't understand that now they had to do 10 times as many projects, just to stay even, and with 10 projects you have 10 issues to deal with."*

Rivera also stressed that it is not margin percentages but profit dollars you take to the bank (keep in mind that 40% of \$1,600 is more than 50% of \$1,000!) Stewart wants dealers to make their full 40% on the company's products - that's why the screens get QC-ed 5 times before they are shipped. That's why dealers are trained, why *"we want to make sure the dealer does it right the first time. If he doesn't, we all lose - the dealer loses money because he has to go back to the customer a second time. Stewart loses because we have to take the screen back."* Don Stewart apparently felt that dealers weren't comparing apples to

apples, weren't aware of the custom touches Stewart offers. *"Look,"* he said, *"even on that \$1,600 screen, if the dealer needs it to sit off the wall 16" and the top has to tilt out 2" more, we'll go to our machine shop here and build brackets to accommodate that."* Also, Stewart does not offer *"good, better, best"* solutions, because choosing the right screen depends on the application. *"What distinguishes our company is the continuous drive for the highest quality optical surfaces and the highest quality performance,"* Don Stewart said. Their latest screen material, the ISF-certified Grayhawk Reference, for example, was developed to meet the demands of **Joe Kane** for the world's only gray reference screen.

While these kinds of efforts will always continue, the factory in



A CineCurve Screen with Motorized Multi-Masking

Torrance has now begun the process of developing standards - and the mindset - for lean manufacturing and its emphasis on cutting out waste. A company like Stewart, I said, sort of thinking out loud, given the take-over climate in our industry, must have received feelers? *"Yes,"* Don Stewart replied, *"but the answer today is that every one in the family enjoys going to work. And the other thing is, our biggest resource here are our employees. They've helped get us to where we are today. If we sold, sure, the new owners would say they won't change a thing - but 6 months later they would. And then some of our great, long-term employees would be left out in the cold. That would make me feel like we'd abandoned our people."* Stewart Film-screen is at www.stewartfilmscreen.com and at **800-762-4999**.

inside track Vol. XXII/05, February 28, 2006

authorized for dissemination on www.stewartfilmscreen.com