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## A break for passionate shopping

By Michael O'Hara | July 24, 2007

WHEN I WAS a teenager, I was a fixture at the local Tweeter store. In those days, I dreamed of jettisoning my generic tape recorder in favor of a rack-component system with speakers that towered over my room like the giant stone heads of Easter Island. I peppered the über-knowledgeable Tweeter salesmen with technical questions until I was able to aggregate enough cash to make the purchase.

Now, as an adult investment banker to the retail industry, I watched the precipitous decline and recent bankruptcy of Tweeter with great sadness and alarm. For me, Tweeter represents that class of retailer you shop if you are a knowledgeable enthusiast, or if you want help from one. These stores have been under attack over the past 15 years, and they are worth saving.

Fortunately, a recent US Supreme Court ruling may improve the mortality rate for retailers like Tweeter, but they will need the help of their key suppliers to make the most of it.

Most of the time, we consumers seek to satisfy our urges as quickly and inexpensively as possible. In these moments, we appreciate the Wal-Marts, Costcos and Best Buys -- global retailers making huge profits on razor-thin product margins against heretofore unimaginable sales volumes. [Best Buy](#) is expected to produce almost \$40 billion in sales this year; [Wal-Mart](#), nearly \$380 billion.

For things that appeal to us at a higher level, however, we shop retail specialists. These purveyors countervail the commoditization of mass discounters by providing many expert salespeople, pleasant shopping environments, and a carefully edited assortment of products. In our firm, we call these specialty retailers "Wal-Ternatives."

Wal-Ternatives exist to cater to passionate shoppers. While 95 percent of the world may lack passion for any particular merchandise category, each of us has passion for some product class, be it Italian shoes, electronics, or Himalayan incense. We all have some Wal-Ternative in our lives that we would miss if it were gone.

But Wal-Ternatives often cannot compete effectively against mass discounters, who feed their margins by eliminating most traces of customer service and store experience. Often, a specialty retailer ends up losing enough of their business to mass discounters that its business model becomes unprofitable.

Internet retailers take their toll on Wal-Ternatives. Who of us hasn't taken advantage of a knowledgeable salesperson in a bricks-and-mortar specialty retailer, only to go home and shop for the best price online? Economists call this "free-riding"; the specialty retailer provides the education, while the internet retailer (or mass discounter) gets the sale.

But Wal-Ternatives may have been handed a subtle but potentially potent weapon in their battle to stave off extinction last month by the highest court in the land. In *Leegin v. PSKS*, the Supreme Court reversed a century-old rule that prohibited agreements between manufacturers and retailers that set a minimum retail price to the consumer. The theory underlying the old rule was straightforward: These agreements prevent consumer prices from drifting to their lowest natural levels and therefore are bad for the consumer.

Under the new rule, vertical agreements not to undercut retail prices may be enforceable. As the court posited, getting the lowest price -- while remaining a general object -- isn't always in the best interest of the consumer. The court favorably cited economists who reasoned that helping a retailer resist the urge to cut operating costs to bare bones is sometimes consumer-friendly, as higher product margins facilitate retailer spending on customer service and store environment, and can provide the incentive to risk introducing new, unproven products to the retailer's shelves.

For manufacturers to truly help, they need to ensure that the big boxes can't undercut the Wal-Ternatives' prices; and they also need to provide specialty retailers with products that cannot be found everywhere else. In June, [Sony](#) took up this charge by announcing that it will begin manufacturing large LCD flat-panel televisions for Wal-Mart and Target under a new Sony sub brand, separate and distinct from higher-end units it sells specialty retailers such as Tweeter.

Recently, a white knight by the name of Schultze Asset Management rescued Tweeter from complete liquidation. Let's hope that its suppliers will value it enough to help it survive -- and feed the imagination of the next generation of tech enthusiasts. All of us passionate shoppers, not to mention 2,500 employees and a new owner, have a stake in the outcome.

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