

SMALL ESTABLISHMENT SERVICE

VENDOR STORES

INPUT

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VENDOR STORES

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I INTRODUCTION

I INTRODUCTION

- This impact report is produced by INPUT as part of the Small Establishment Service. The report examines the current practices of stores and establishments selling information processing products and software to the small businessman. The products carried by these businesses are high technology products, primarily small computers, communications equipment and office equipment.
- These establishments generally fall into two SIC groups - wholesaling and retailing. A business that sells to businesses is considered a wholesale business (for SIC definitions) even though the recipient business is an end user and not a reseller. Businesses that sell to householders are considered retail businesses.
- The interviewed establishments sold to both groups - the household hobbyist, and the small businessman.
- This report examines the operating climate of the vendor stores, the changing nature of their clientele, and their views on the competition, currently and in the near future. Major vendors attitudes towards use of a retail approach to selling to the small establishment is explored along with their expected actions in this direction.
- These new channels of distribution to small businesses must be explored because:

- The cost of direct sales is rapidly increasing, especially as a percentage of manufacturing cost.
 - A salesman spends 30-35% of his time traveling - this is very inefficient and a store will decrease this expense.
 - It is very difficult to find competent sales people. A vendor store will increase the efficiency of existing competent salesmen.
 - Prices of viable business systems are declining to the \$10,000 and under level.
 - There are a large number of small businesses in the U.S. - over three million which can be reached with the vendor store approach.
 - Independent information products stores and services have been selling to this market for years, but they have not yet been thoroughly analyzed.
-
- The study provides information to vendors who are considering the retail store as a means of reaching the small businessman.
 - The sources used are listed in Appendix A.
 - Sample dealer/vendor agreements are in Appendix B.
 - A hobby system manufacturer's price showing packaged systems is in Appendix C.
 - The interview program is outlined in Appendix D.
 - The questionnaires used are in Appendix E.

A. DEFINITIONS

- The following definitions are used in this study.
 - Vendor Store - A street level (walk-in) facility having the vendor's name prominently displayed, carrying the products of the vendor primarily.
 - Business Oriented Establishment - A business that currently sells high technology products to small businesses.
 - Hobby Oriented Establishment - A business that primarily sells information handling equipment to individuals - hobbyists and homeowners. May also sell to small businesses and professionals but not primarily.
 - Hobbyist - An individual who has a high interest in computers from the most basic level on to full systems. The person is usually capable of building a computer from the board level.
 - Homeowner - A non-technical individual who purchases an assembled computer system rather than base boards. The primary intent of the purchase is to do useful work not just assemble the system.
 - Small Business/Businessman - A business enterprise or the owner of an enterprise employing less than 500 people.
 - Professional - A doctor, lawyer, engineer who might purchase equipment for business use in a very small office (1 to 3 people).

II EXECUTIVE SUMMARY

II EXECUTIVE SUMMARY

A. KEY CONCLUSIONS

- Specialized retail stores selling information processing equipment are definitely growing in importance and at a rate which exceeds the rate of growth of the market for this equipment. INPUT estimates that these stores represent a 7% share of a \$16 billion market today and will grow to almost 15% of a \$32 billion market by 1981.
- The great majority of these stores have been successfully established without benefit of any significant amount of professional planning. This lack of planning shows in their site selection, their market definition, their future expectations, etc.
- The fact of the success of so many of these stores is attributable to the large size of the untapped market for information processing equipment for small establishments. This market is so large and growing so rapidly that there is room for many relatively inefficient participants.
- The information equipment store market is ripe for a "GM" type franchise operation with national support, advertising, training, maintenance, standards, and most of all an established reputation.

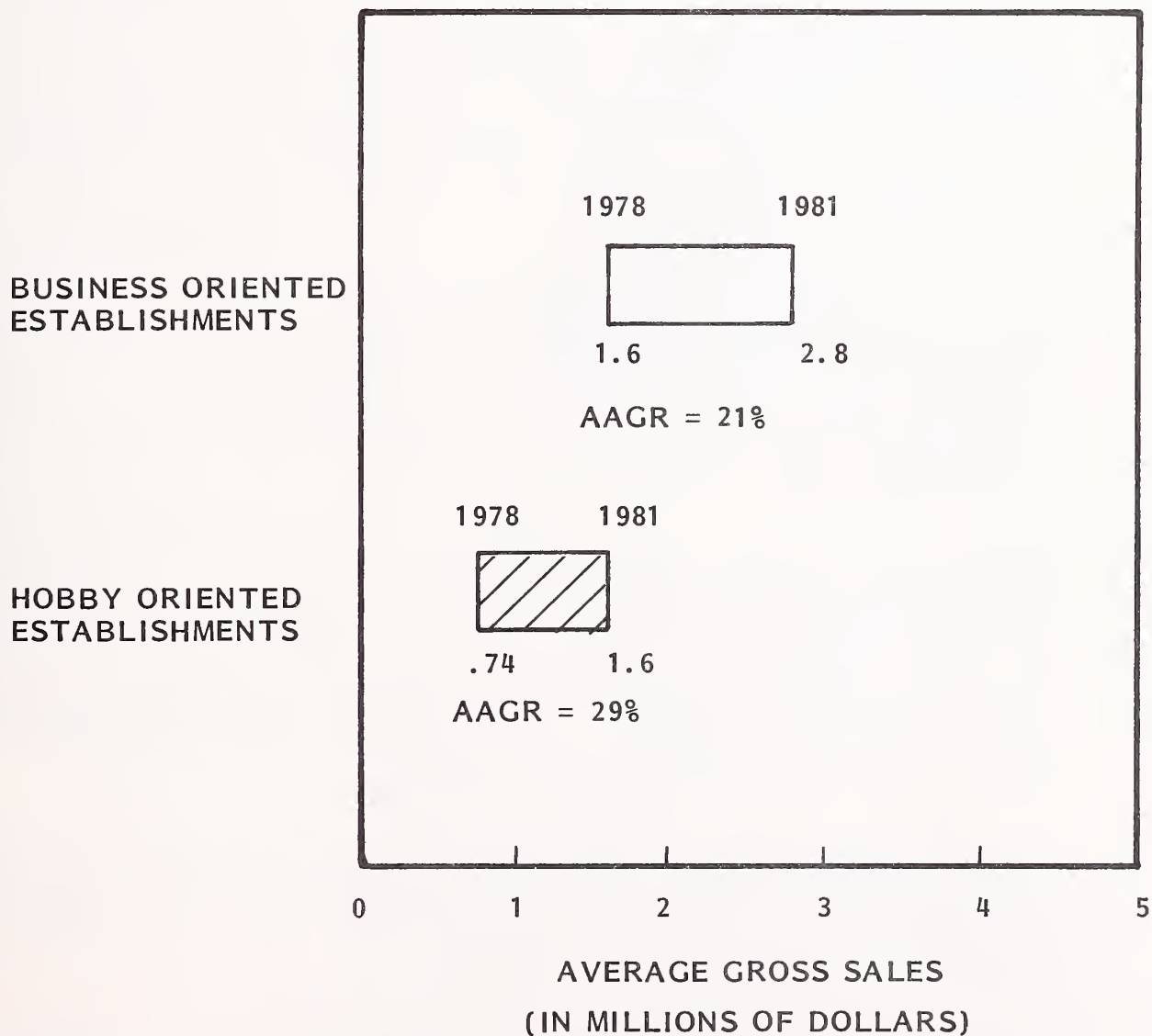
- The market for such stores is clearly the small business establishment. This includes small independent enterprises and branches of large companies as defined in the INPUT Small Establishment Service program. Also to be considered are specialized operations or individual professionals and managers working in large corporate headquarters.

B. EXISTING STORES OPERATIONS

- Information processing equipment stores today operate at an average annual sales level of \$1.2 million.
- These stores, both business oriented as well as hobby oriented, are growing in sales volume at a 20% to 30% AAGR, as shown in Exhibit II-1. This average growth rate will put the average store at about \$2.3 million in annual revenue by 1981.
- The total number of retail stores selling information processing equipment is difficult to estimate because of the wide range of types of stores. For purposes of this study, INPUT has considered only those stores for which information equipment is a major element of their marketing orientation. This eliminates stores such as Radio Shack and department stores, but it adds in many office equipment dealers. INPUT's estimate of the information equipment store population is approximately 1,000 units operating today. This number is also growing at about a 25% AAGR.
- The total sales of all of these stores is about \$1.2 billion today and by 1981 will be about \$4.6 billion.
- While a significant fraction of the total dollar volume of sales of these stores in 1979 is to hobbyists (perhaps as much as one-third), the hobbyist segment of their marketplace is growing at a much smaller pace than is that of businessmen and professional users (who buy from both business and hobby

EXHIBIT II-1

EXPECTED ESTABLISHMENT AVERAGE
GROSS SALES GROWTH 1978 - 1981



RESPONDENTS



BUSINESS ORIENTED (13)



HOBBY ORIENTED (11)

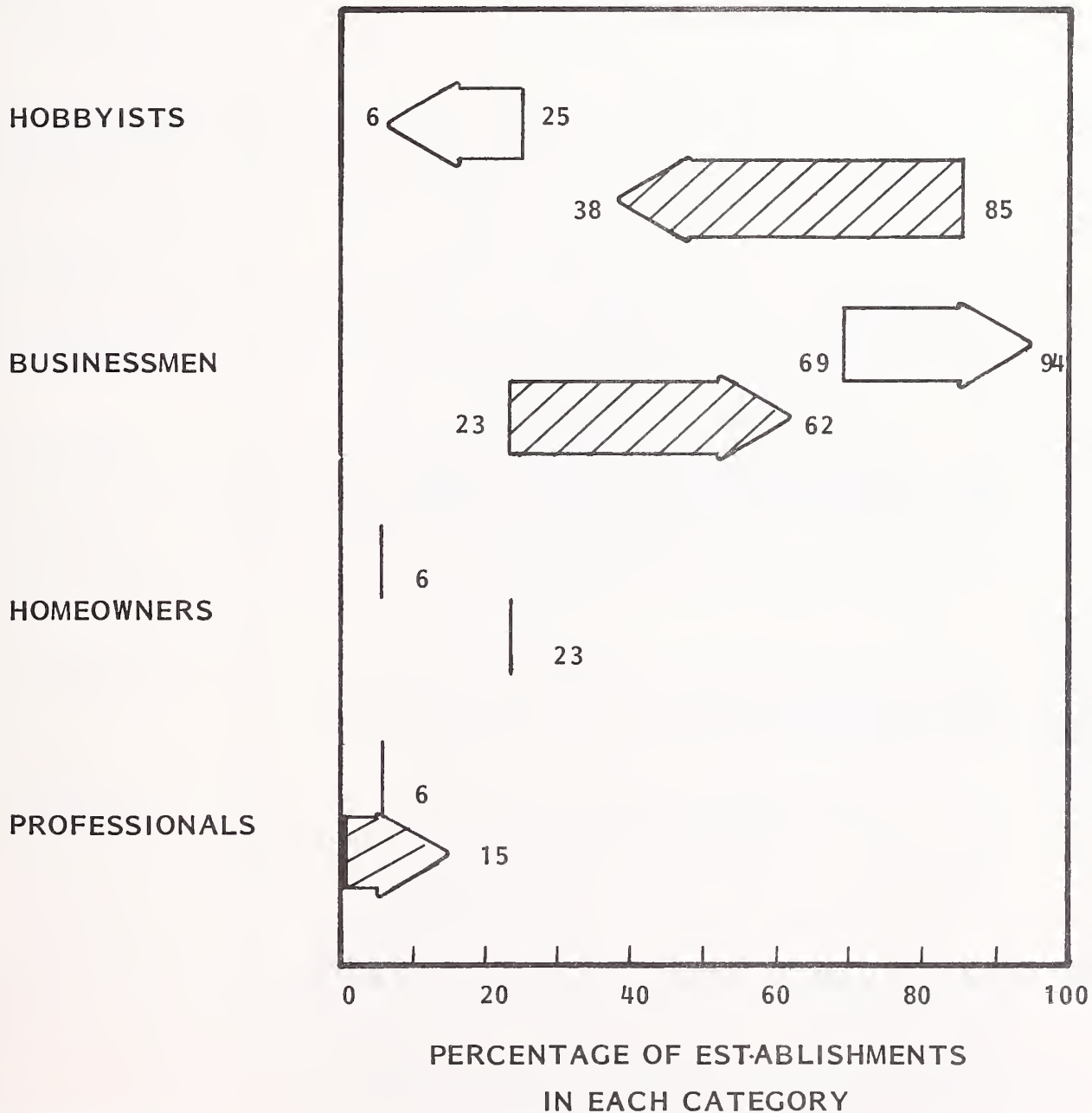
NOTE: BOTH BUSINESS AND HOBBY
ORIENTED ESTABLISHMENTS
SELL TO BOTH BUSINESS-
MEN AND HOBBYISTS.

oriented stores). By 1981 hobbyists will represent a much smaller fraction of the total; probably in the 10% range.

- Most of the stores are orienting their marketing strategies toward businessmen, as shown in Exhibit II-2. This applies both to many of those stores which were originally started with hobbyist customers in mind, as well as most of the stores who are now coming into the market from an existing base of business customers. One example of this latter group is the office equipment suppliers who are adding small computer systems to their product lines.
- In 1977, 3,200,000 small establishments spent over \$16 billion for information processing equipment (INPUT Small Establishment Service Annual Report, 1978). This is expected to double by 1981. Stores, as a distribution channel to this marketplace, represent about a 7% share in 1978, but are expected to grow to almost a 15% share by 1981.
- Most of the stores contacted are at either street level or shopping center locations. Their purpose in choosing such a location, while not extensively researched, is to be convenient to potential customers but not necessarily to attract casual, walk-in business.
- Software sold in these stores is derived from a wide range of sources. A considerable amount of software is written by employees in the store, often the owner himself, whose background is frequently in software. The rest comes from software houses, the system vendors, individuals operating as contractors and many others.
- All of the stores perform maintenance. The hobby stores do most of their maintenance work in the store while the business stores do their maintenance work on user premises.
- Customer training is perhaps the weakest customer interface which the stores now perform. One-fifth of the stores do no customer training at all.

EXHIBIT II-2

CUSTOMER MIGRATION - ORIGINAL CUSTOMERS TO CURRENT CUSTOMERS



RESPONDENTS



BUSINESS ORIENTED (16)



HOBBY ORIENTED (13)

NOTE: TAIL OF THE ARROW
IS ORIGINAL CUSTOMERS
AND POINT OF ARROW IS
CURRENT CUSTOMERS. NO
ARROW IS UNCHANGED.

- Although the stores are not paying close attention to competition in general, they believe that their future competition is going to increase most from other stores either operated by the system vendors or by general merchandise retailers. These changes are shown in Exhibit II-3 in which business oriented stores and hobby oriented stores indicate their expected competition.
- The average store operates in 2,340 square feet of space, half of which is devoted to selling.
- Approximately half of the stores are now operating at an annual sales level over \$500,000. As noted previously, the average store is selling about \$1.2 million worth of equipment and services per year.
- In terms of sales per square foot, advertising expenditures, and rental expenditures, these information equipment stores compare very closely with retail businesses in other product areas.
- The greatest apparent difference between these stores and normal retail stores is the much higher level of the average value of a sale in their information equipment stores.

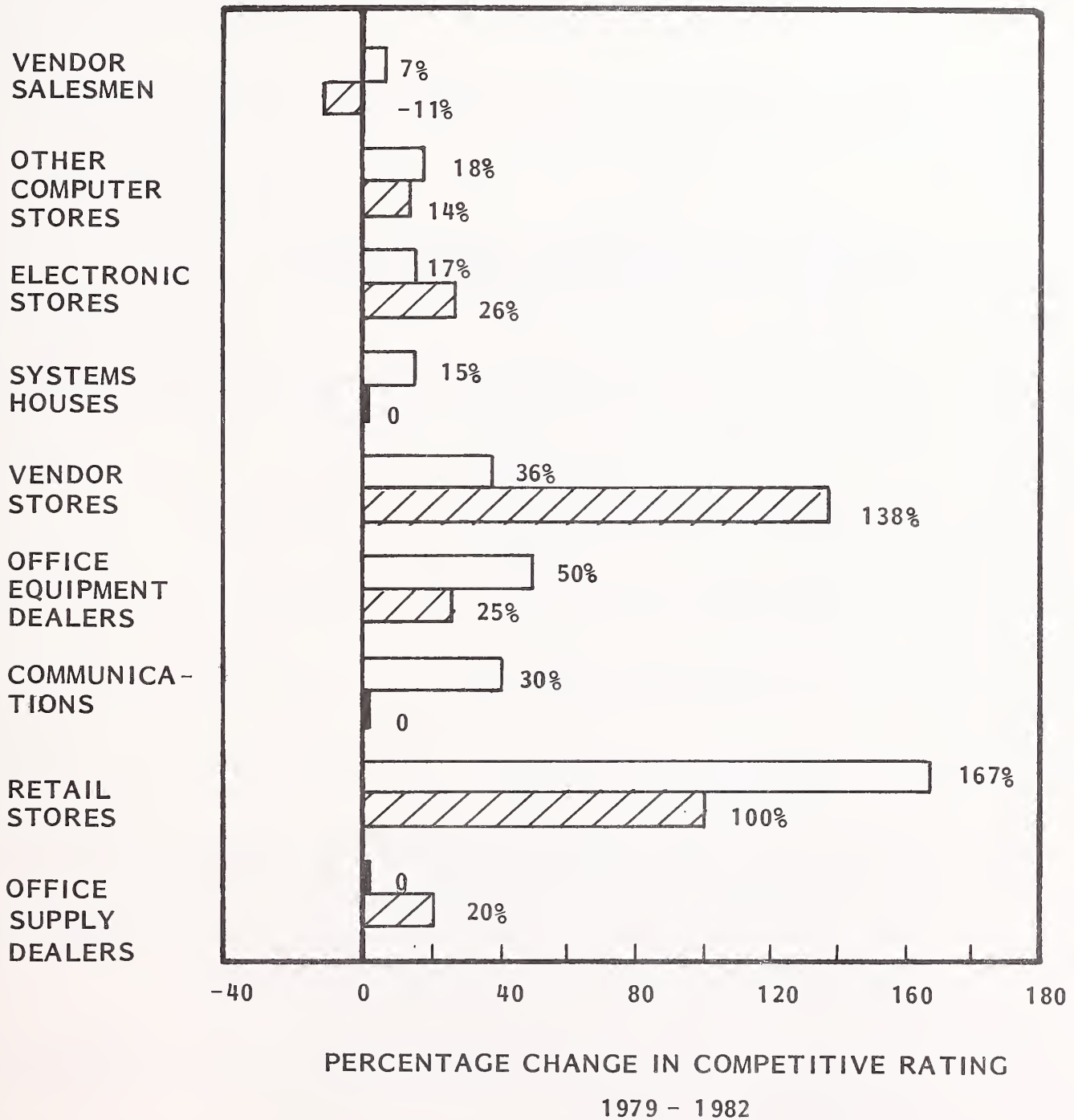
C. MAJOR VENDORS' ATTITUDES TOWARD STORES

- Most major vendors of information equipment are studying stores as one of a number of means of reaching the small businessman.
- During this study, the vendors expressed a positive attitude toward the use of vendor stores. This contrasts dramatically with the vendors' attitudes expressed a year ago in the INPUT study of Distribution Channels.
- Essentially, the vendors believe that a real proliferation of stores is three to five years away.

EXHIBIT II-3

EXPECTED COMPETITIVE CHANGE

1979 - 1982



RESPONDENTS

- ☐ BUSINESS ORIENTED (15)
- ☒ HOBBY ORIENTED (13)

- On the issue of store location, the vendors tended to agree with the store owners that the store should be visible and accessible to customers but not necessarily oriented to casual walk-in traffic.
- One big problem which the vendors recognize but have not resolved is how the stores would relate to their existing channels of distribution.
- Most of the vendors were very favorably inclined toward franchising as a type of relationship with the stores.

D. STORE OWNERS' ATTITUDES TOWARD VENDORS

- Dealers believe that the vendors should provide more marketing support to the stores, including:
 - Promotional support.
 - New product training.
 - Technical sales training.
 - Help in inventory financing.
- Pricing is the most important issue between the dealers and the vendors and here the dealers are not simply looking for the lowest price. Dealers are looking to vendors for the "proper" discount, that is high enough to make money but low enough to discourage widespread discounting.
- Warranty is a major problem to dealers. Their problems with existing vendor warranty policies include:
 - Too short a warranty period.

- Too long a turnaround on factory repairs.
- Too much warranty support for equipment sold by mail order houses.

E. STARTING A STORE

- Market definition is a key starting point because it has so much influence on other decisions, such as location, products, prices, maintenance requirements, and promotion methods.
- There are five market segments addressable with retail selling of high technology products.
 - (1) Small businesses.
 - (2) Branches of the Fortune 500/50.
 - (3) Professionals.
 - (4) Hobbyists.
 - (5) Homeowners.
- One of several different types of stores must be selected. Each of these vary with respect to the level of controls imposed versus the level of financial and other assistance which is available.
- Typically, some \$350,000 to \$400,000 would be required for start-up costs and operating expenses for the first year.
- Although there is much agreement on the subject of locating a store where it can achieve customer visibility and accessibility, there is much debate on the

use of the store for actual retail type buying as opposed to being a showroom. However, if the prime motivation for starting a retail store is to reach new markets at lower selling expense, then the small businessmen/customers must be attracted to the store. The site must be located in such a way as to be attractive to sufficient numbers of them.

- If, on the other hand, the store is to be a base for outside sales people or some other distribution channel, this market related site selection is much less critical.
- In a simple retailing operation little organization is required, but in a computer store with operations such as programming, customer training, maintenance, etc., a more elaborate organization is required with assigned responsibilities, budgets and schedules.
- A major element of the retailing strategy is the selection of products to be offered, which is in turn dependent on the market segments as targeted earlier.
- Product selection, particularly in a dynamic field such as high technology information products, will be an ongoing process and the products selected will and should be in various stages of their life cycle.
- There are many ways to communicate with customers, but for retailers the two most important are the image which the store and its people project and the sales promotion strategy employed.
- With small businessmen as the target market, the store and its personnel should present an image that is professional and businesslike and at the same time innovative and new but not experimental.
- One of the primary functions of the promotion strategy is to lower the cost of other customer contact efforts, particularly that of personal selling both outside of the store as well as inside. This can be accomplished by placing the

promotion effort onto educational or instructional types of external promotion and on to self-teaching store displays and demonstrations.

- Revenue projections for the average store could be based on a first year forecast of \$500,000 gross revenue and a 20% annual sales increase thereafter. These appear to be conservative forecasts and a growth rate of 40% per year is not unreasonable.

F. RECOMMENDATIONS

- Vendors of information equipment intended for use by small establishments should consider the use of retail stores as a viable and increasingly important channel of distribution to this marketplace.
- Such vendors should open a few retail stores now in order to learn the techniques of retailing to business. While information equipment stores are a small factor today, the small establishment market and particularly the store as a distribution channel are growing so rapidly that the learning time will be of major importance.
- Vendor stores should not be the only approach to the marketplace. Also considered should be other channels, such as:
 - Direct sales.
 - System house representation.
- A small equipment/small business retailing package must be prepared. Such a package with plans, procedures, documents, and training courses, as well as products should include:
 - Packaged systems (hardware and software).

- Marketing strategies and plans.
 - Sales and customer training programs.
 - Sales literature.
 - Maintenance arrangements.
- Vendors should establish relationships now with existing information equipment stores. A retailing package described above will be of immense help in establishing and expanding such relationships.
 - Vendors should consider making their sales office accessible to business customer traffic even on a walk-in basis. This must include a procedure for handling such customers which makes it easy for them to buy the company's products.
 - Financial help should be made available to capable entrepreneurs. Much of this help can be in the form of equipment inventory for which the risk to the manufacturer can be minimized.
 - The vendors themselves should organize for these new kinds of relationships with stores. As a minimum, a person/group in the sales organization should be designated as responsible for relating to the stores, including access to sales, maintenance, training, financial, and other support capabilities.
 - Vendors should target the business customer only, insuring that all elements of the distribution channels project an image that appeals to businessmen.

III EXISTING STORE OPERATIONS AND COMPARISONS TO RETAIL BUSINESS

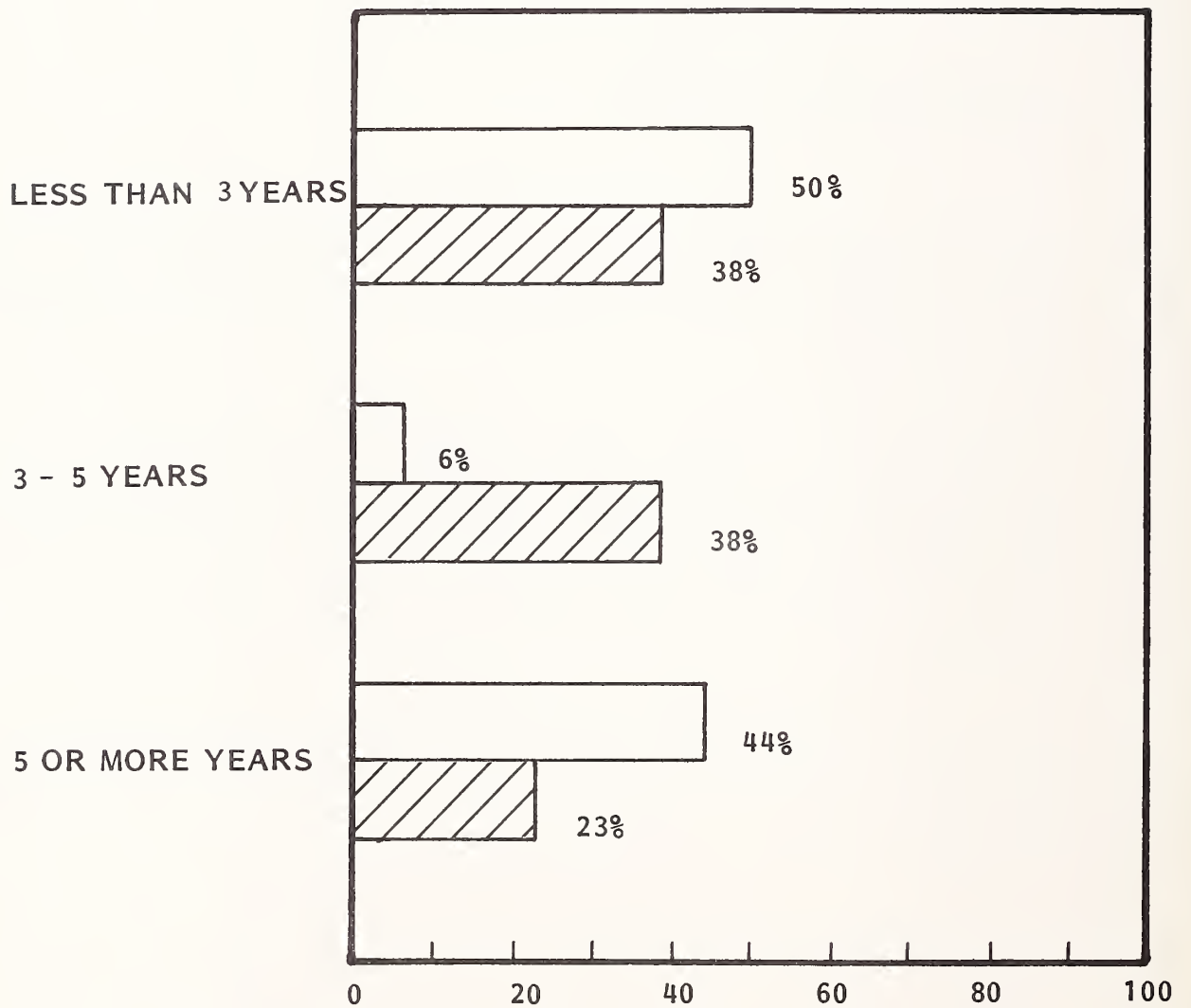
III EXISTING STORE OPERATIONS AND COMPARISONS TO RETAIL BUSINESS

A. PROFILE OF RESPONDENTS

- Computer dealers, office equipment dealers, and telephone equipment dealers were interviewed as a part of this study. A total of 29 such dealers were interviewed.
- These "stores" (we will review the concept of "stores" later in this section) were classified into those oriented primarily toward business customers and those oriented primarily toward hobby customers. As shown in Exhibit III-1, there were 16 business oriented stores and 13 hobby oriented stores included in the study.
- While these classifications of business and hobby orientation overlap considerably, there are many important distinctions between the two orientations, including:
 - Price ranges.
 - Levels of support required.
 - Levels of sales effort required.

EXHIBIT III-1

LENGTH OF TIME ESTABLISHMENTS
HAVE BEEN IN BUSINESS



PERCENTAGE OF ESTABLISHMENTS
IN EACH CATEGORY

RESPONDENTS



BUSINESS ORIENTED (16)



HOBBY ORIENTED (13)

- Time of day/day of week buying habits.

As we shall see later, many stores are changing their customer orientation.

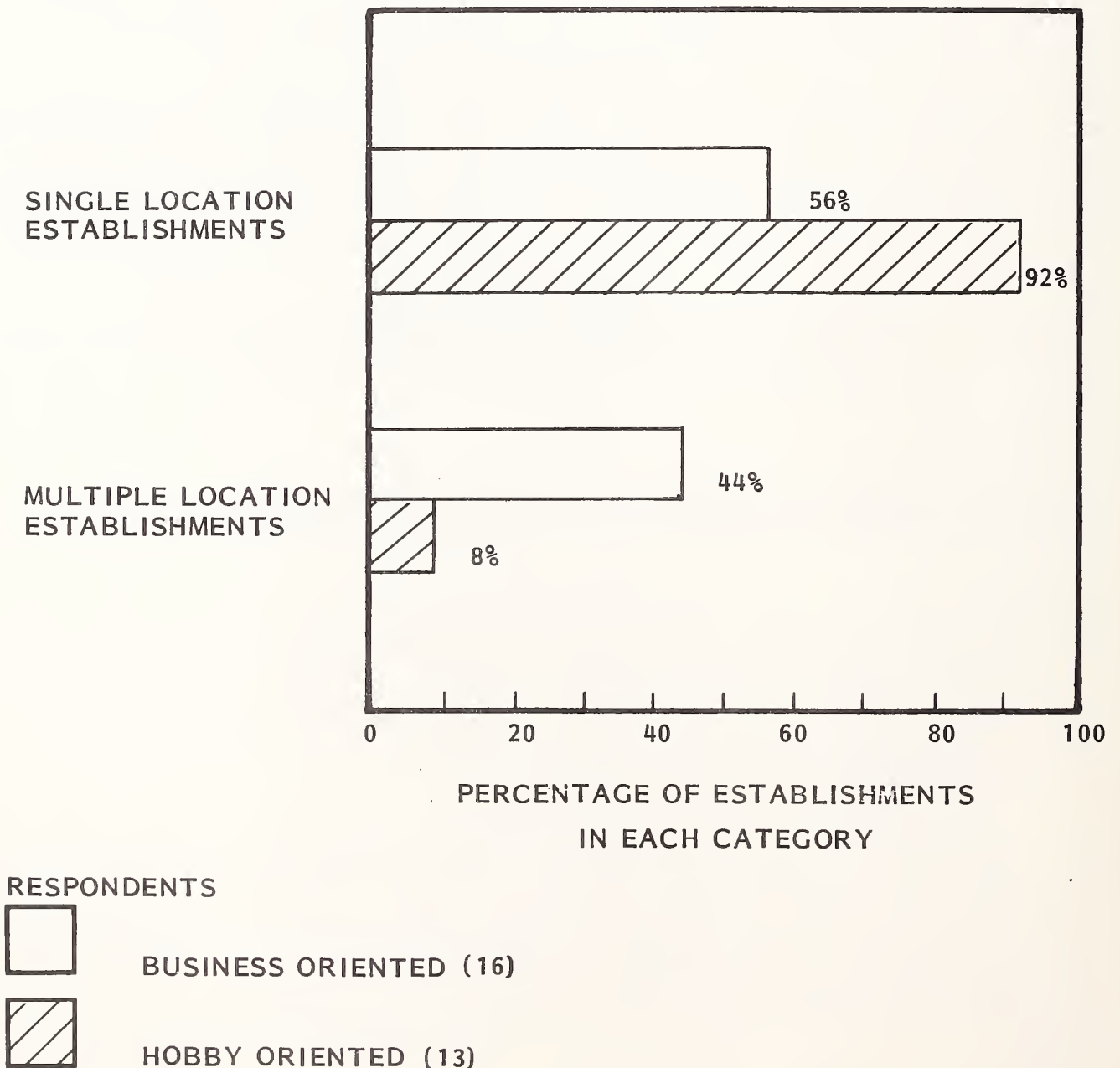
- The age of the stores is also shown in Exhibit III-1.
 - The average age of the business oriented stores is about nine years while that of the hobby stores is only three years.
- Those businesses which have specialized in supplying computers are essentially all in the newer group and those which have added computers to an existing product line such as stereos, office equipment, electronic repair services, etc., tend to be older companies.
- Considering the newness of the stores themselves and of the technology with which the stores are working, a surprisingly large number of these stores are part of a multiple location company. As shown in Exhibit III-2, approximately one-third of the stores in this study are part of a multiple location company.
 - A higher percentage (44%) of the business oriented stores were multi-location than that of the hobby oriented stores (8%).

B. THE CONCEPT OF AN INFORMATION PROCESSING PRODUCTS "STORE"

- The primary element in the concept of a "store," at least for purposes of this study, is a fixed location where the products to be sold are available to be seen, touched, and operated by the prospective customers and where the buying process can be consummated.
- The store may or may not be the first contact with the prospective customer. Locations where prospective customers might pass by and walk-in are a consideration in the site selection process. However, there is considerable and growing questioning of the real value of a walk-in customer.

EXHIBIT III-2

NUMBER OF BUSINESS LOCATIONS OF
SAME OWNER OR FRANCHISEE



- More commonly, advertising in the format of radio, newspaper, magazine, or direct mail is the first contact which brings customers to the store location.
- Similarly, the store may or may not be the first point of sales contact with the prospective customer. An increasing number of stores, particularly the business oriented stores, are using outside salesmen to call on prospects and using the store primarily as a means of demonstrating the equipment to the prospect in a second meeting.
- The stores in this survey were usually not a point of stocking for systems. While supplies and some smaller accessories were available for customer take out, the majority of the sales were for equipment with delivery times measured in weeks.
- These stores usually did have a sizeable investment in inventory but this was primarily for demonstration purposes.

C. THE CUSTOMERS AND HOW THEY ARE REACHED

I. PROFILE OF STORE CUSTOMERS

- In the mid 1970s, as a result of the availability of low cost computing capability in the form of microprocessors, computers priced in a range low enough to be accessible to amateur hobbyists became available.
- Initially sold by their developers by mail order and later by road show seminars, these microcomputers quickly developed enough attention, if not market potential, that a number of distribution mode entrepreneurs entered the market with specialized services.

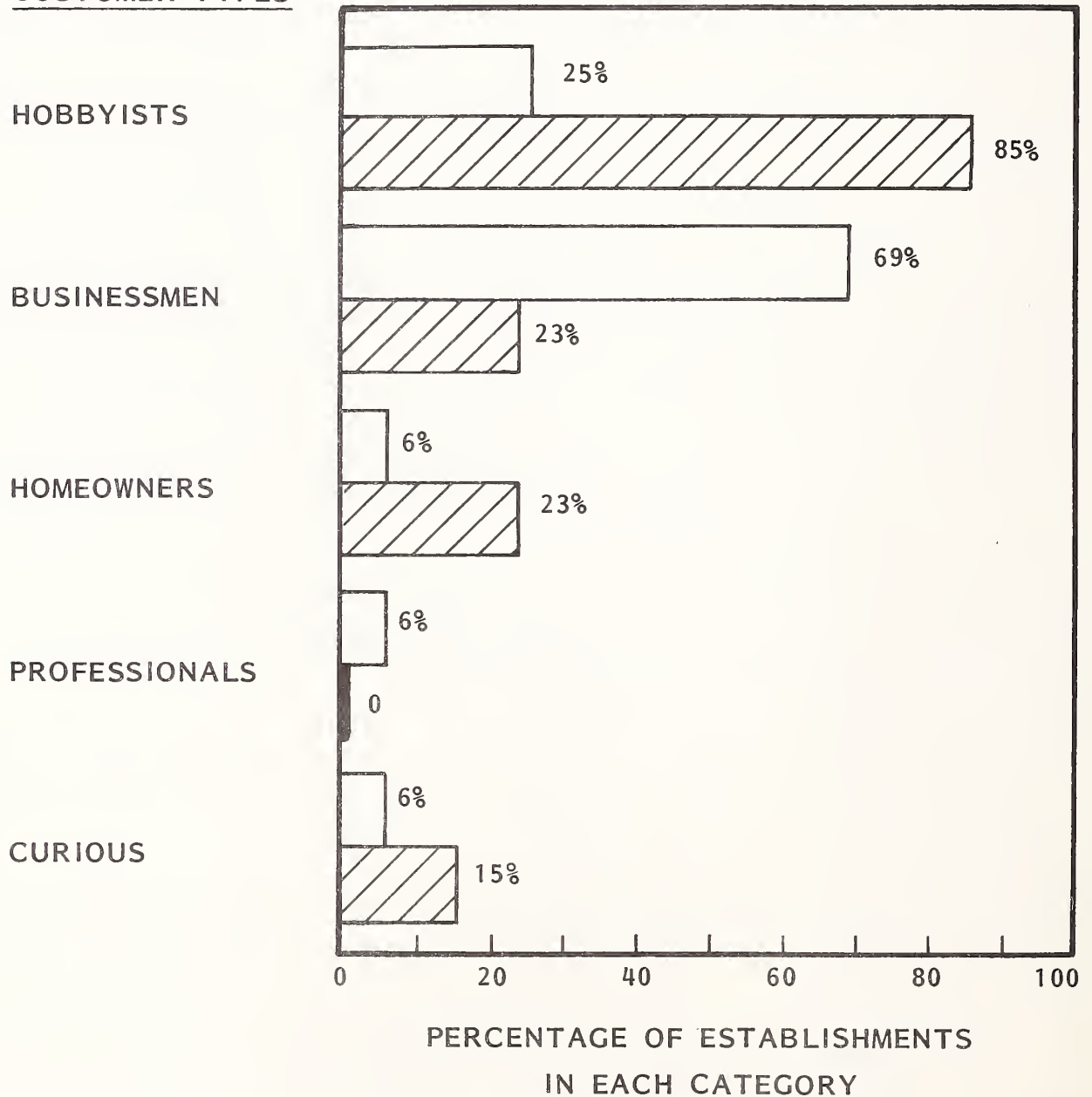
- The first of these were the magazines. Literally dozens of glossy magazines came into being; each devoted to the microcomputer, its operation, its use, and most of all its advertising and sale. Most prominent among these is Byte, now a subsidiary of McGraw-Hill.
- Along with the magazines came computer clubs, microcomputer software houses, books about microcomputers, even microcomputer market consultants.
- Finally (and this is still only in early 1976) some entrepreneurs started opening computer stores. These initial stores, really very specialized electronic supply stores, aimed at the amateur electronics hobbyist. Often this hobbyist was a ham radio operator using computers as a vehicle for the practical expression of his hobby.
- While these hobbyists provided the computer stores, clubs, and magazines with a rapidly developing market and an even more rapidly growing flood of publicity, an underlying theme of most of this interest was always a desire for practical applications and preferably applications which could make money for their originators.
- The stores themselves were for the most part a product of this desire to turn a hobby into a business. While by 1979 most of these early hobbyist originated stores have either changed hands or moved into a more clearly business oriented mode, our study still turned up many vestiges of these hobbyists origins in those stores which are still oriented to hobbyists.
- As these computer stores demonstrated that there was indeed some foundation for a retail level computer business, stores specializing in other areas began to add computers to their existing line.
 - The most dramatic of these is, of course, Radio Shack.
 - Other large stores adding computers include Montgomery Ward and other large department stores.

- Many smaller stores in businesses such as TV and mobile radio repairs, electronic supplies, stereo components, etc., have either added a line of microcomputers or have converted their business entirely to small computers.
- With these newer stores entering the small computer marketplace from an existing base of business experience, their customer orientation was quite a bit different. Most of these second product line stores had an orientation toward business customers right at the start. As shown in Exhibit III-3, some 75% of their original customers were either businessmen or professionals, whereas in those stores with a hobbyist orientation the comparable figures are only 23%.
- As these businesses matured (and keep in mind that we are discussing a set of stores which are only about six years old on the average) their customer base changed. As shown in Exhibit III-4, both the hobby oriented as well as the business oriented stores moved dramatically toward the businessman as their primary customer.
 - All (100%) of the business oriented stores are now selling to businessmen and professionals.
 - Seventy-seven percent of the hobby oriented stores are now selling to businessmen and professionals.
- Correspondingly, with this increase in orientation to businessmen there is a decrease in orientation to hobbyists.
 - The business oriented stores selling to hobbyist customers have decreased from 25% to 6%.
 - The hobbyist stores selling to hobbyist customers have decreased from 85% to 38%.

EXHIBIT III-3

ORIGINAL CUSTOMERS FOR ALL THE ESTABLISHMENTS INTERVIEWED

CUSTOMER TYPES



RESPONDENTS



BUSINESS ORIENTED (16)

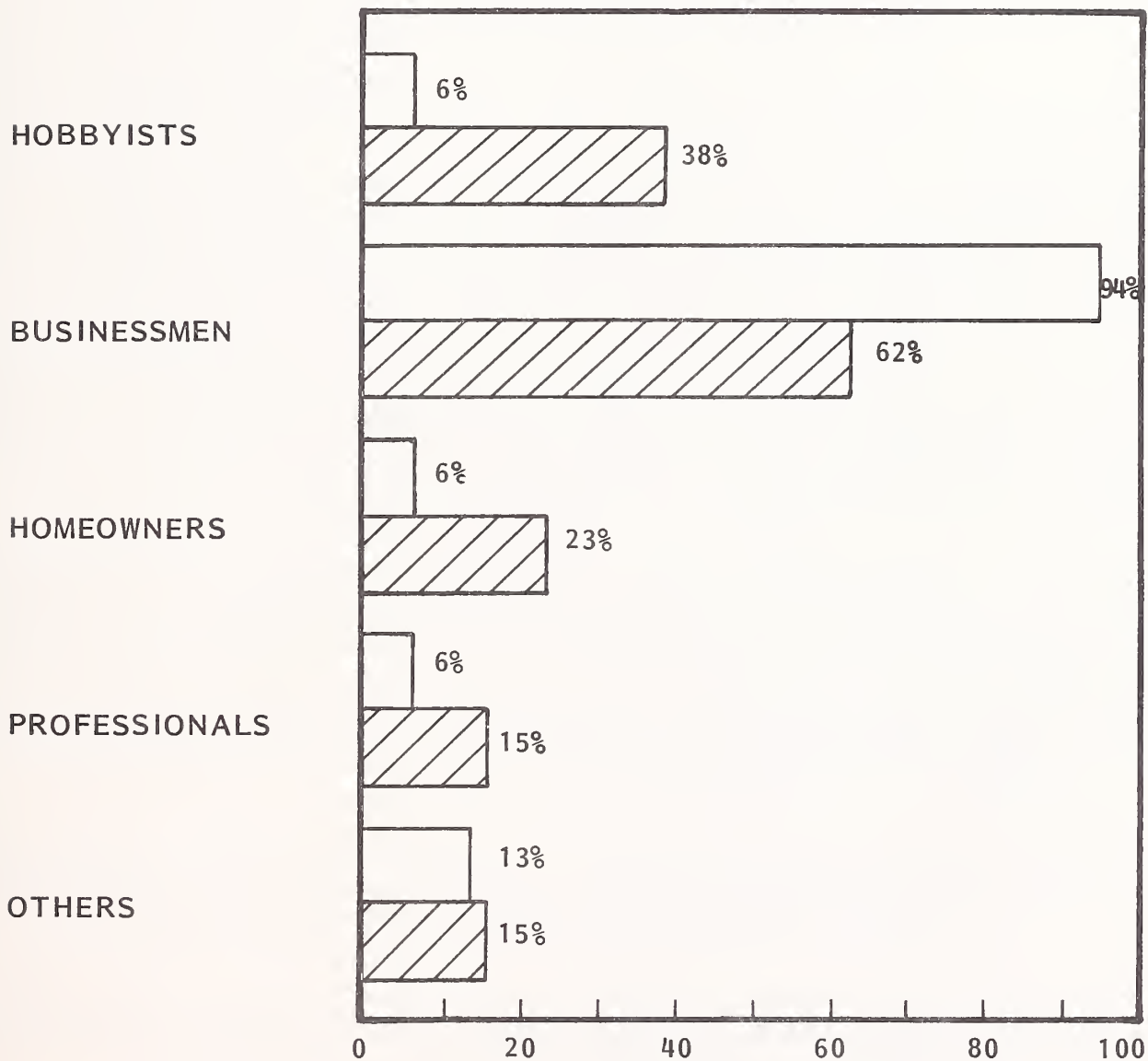


HOBBY ORIENTED (13)

NOTE: TOTALS ARE GREATER THAN 100%
DUE TO STORES SERVING MORE
THAN ONE TYPE OF CUSTOMER

EXHIBIT III-4

CURRENT CUSTOMERS FOR ALL
THE ESTABLISHMENTS INTERVIEWED



RESPONDENTS



BUSINESS ORIENTED (16)



HOBBY ORIENTED (13)

PERCENTAGE OF ESTABLISHMENTS
IN EACH CATEGORY

NOTE: TOTALS ARE GREATER THAN
100% DUE TO MULTIPLE RESPONSES.

- While these classifications are taken from our survey of 29 stores they need to be understood in context and evaluated more as a marketing strategy of the respective stores rather than as an objective estimate of their marketing performance.
 - The mix of customer types is as stated by the respondent in the store (the manager or owner of the store).
 - In general, they tended to classify their customers more by what they would like these customers to be. To put it differently, the hobbyist store tends to regard more of their customers as hobbyists while the business oriented store tends to regard their customers as businessmen.
 - Some of the store owners stated that they could not make a living by selling to hobbyists. On the other hand, we believe that the very strongly stated trend toward businessmen customers is at least partially overstated because many of the store managers/owners are probably reflecting the prevailing press view that businessmen, not hobbyists, represent the real market future for computer stores.
 - Nevertheless, in spite of these biases, the trend toward businessmen and professionals as customers is clearly a real fact of this marketplace.
- Some of the more logical reasons given by the respondents for this trend are those of normal merchandising economics,
 - The businessman spends more money than the hobbyist, both in aggregate terms as well as in the size of the typical sale.
 - The sales time and effort spent on the businessman is not significantly longer.
 - The repeat sales to businessmen are greater than in the hobby market.

- The majority of the business oriented establishments felt their customers haven't changed (Exhibit III-5), while the majority of the hobby stores felt the change in customer base evolved. A change in customer type that is not noticed immediately has enormous implications in inventory, advertising and in store image. Not only might the wrong products be in stock but the long-term commitments for equipment and the current suppliers might be out of phase with the approaching changes. Those that effected the change and those who noticed it and helped it along were certainly able to take better advantage of it than those who did not take a positive action towards change.

2. "WALK-IN" TRAFFIC ANALYSIS

- While both the business and hobby oriented stores show a sizeable percentage of buyers among their walk-in customers, as shown in Exhibit III-6, there is considerable question among both groups as to the real value of walk-in customers.
- Judging from the qualifying comments which the respondents added to the question of buyers versus non-buyers, most of the buyers only buy a minimal amount of merchandise; for example, a \$2.00 book.
- As we shall see in the section on store site selection, many of the reasons which respondents gave for their choice of site tend to militate against casual walk-in business and in favor of special trip or appointment types of visits by customers.
- As can also be seen in Exhibit III-6, appointment only business is the mode of operation for 29% of the business oriented stores.
 - The extent of this "appointment only" approach may be a guide to the level of commitment which a store has to the businessman market. For example, two hobby stores that are attempting to attract businessmen are now closed to normal traffic one day per week and are "by appointment only" on those days.

EXHIBIT III-5

IF THE CUSTOMER BASE CHANGED, DID IT EVOLVE
OR WAS AN EFFORT MADE TO CHANGE IT?

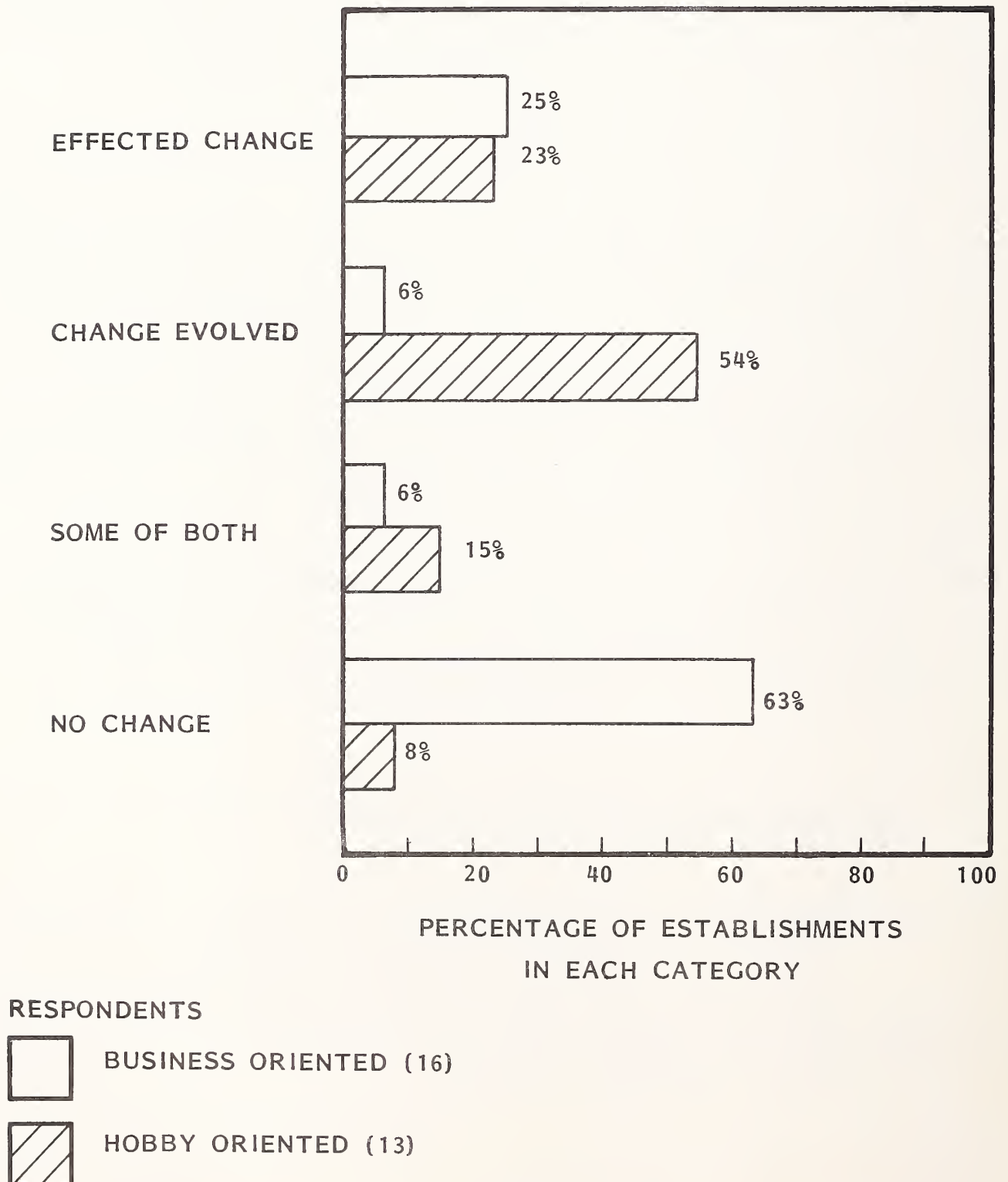
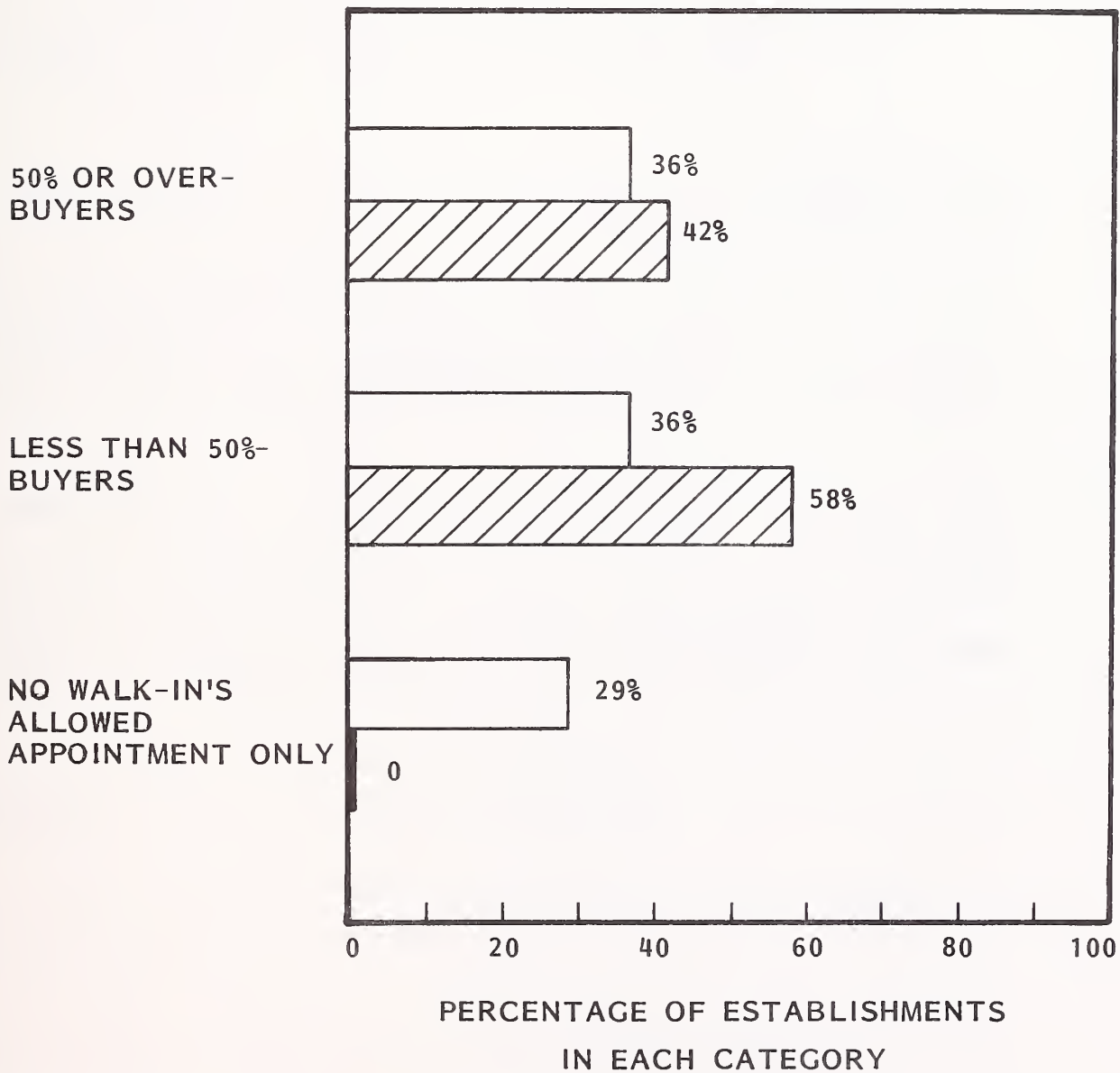




EXHIBIT III-6

ARE WALK-IN PEOPLE BUYERS
OR BROWERS?



RESPONDENTS

 BUSINESS ORIENTED (14)

 HOBBY ORIENTED (12)

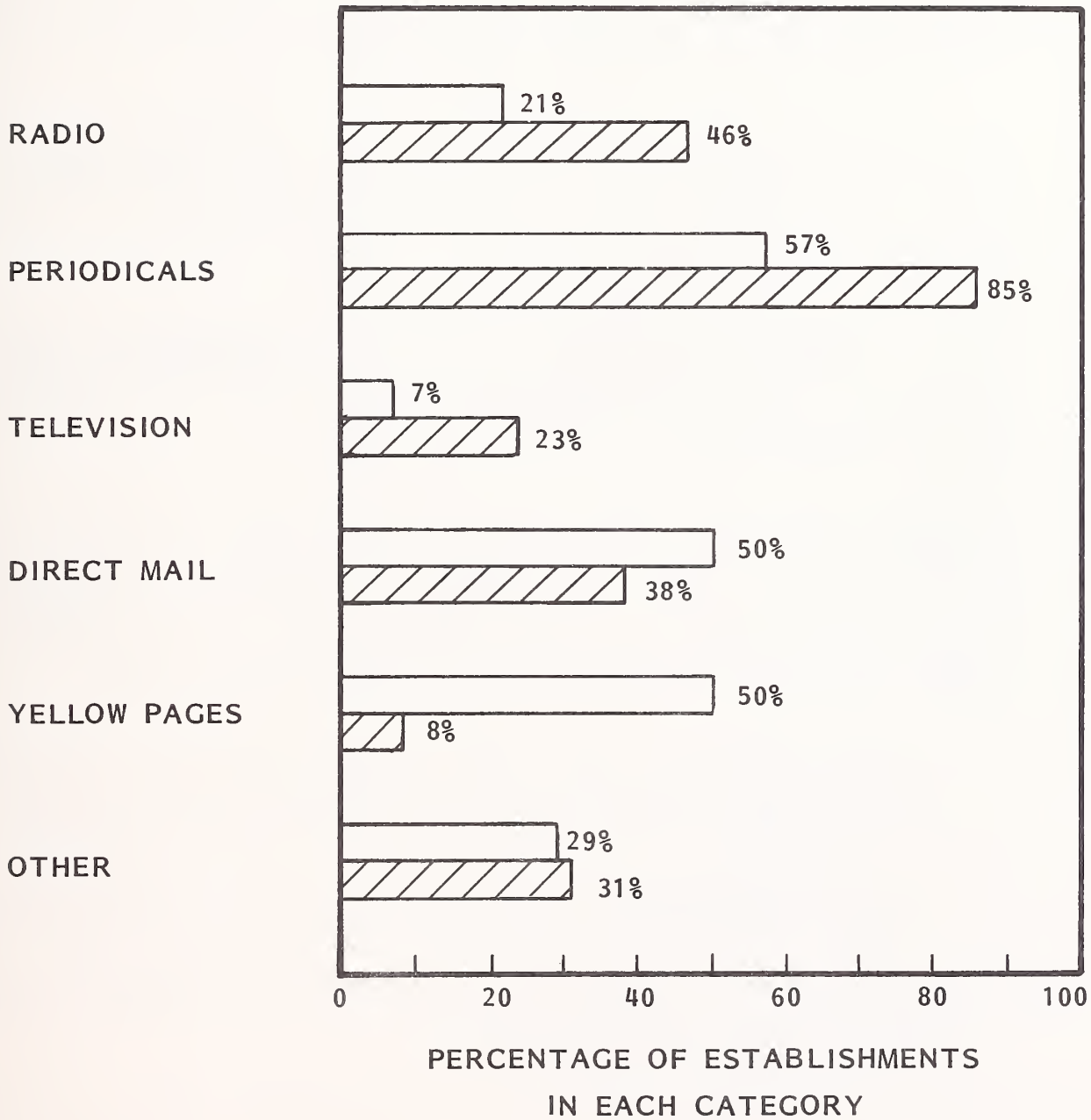
- An appointment only strategy, in whole or part, appears to be a growing element of the way stores are attempting to approach businessmen.
- To achieve any level of success such a strategy must be supplemented by some other media of first customer contact such as advertising or direct outside sales.
- A strategy of appointment only would move an establishment out of the category of retail stores and into the category of catalog showrooms. We will discuss this further when we compare computer stores to other retail establishments.

3. ADVERTISING

- In general, the information equipment stores spend about 3% of their sales on advertising. This ranges from 0.5% to 10% of sales. The hobby stores appear to spend more on advertising as a percent of sales than do the business oriented stores but the data is too narrow to make this statement conclusively.
- Hobby stores use more broad coverage advertising media than the business stores. As shown in Exhibit III-7, the hobby stores use radio, magazines, and newspapers as their primary means of reaching the customer, while business stores use newspapers, direct mail, and the yellow pages predominately, all of which are more direct and more local forms of advertising.
- The hobby stores using magazines were reaching for the mail order customer.
- The businesses that used television generally contributed funds to some manufacturer or franchisor who did the advertising on a very broad basis.
- The "other" category includes: computer clubs, word of mouth, trade shows, and school bulletin boards.

EXHIBIT III-7

ADVERTISING MEDIA USED



RESPONDENTS

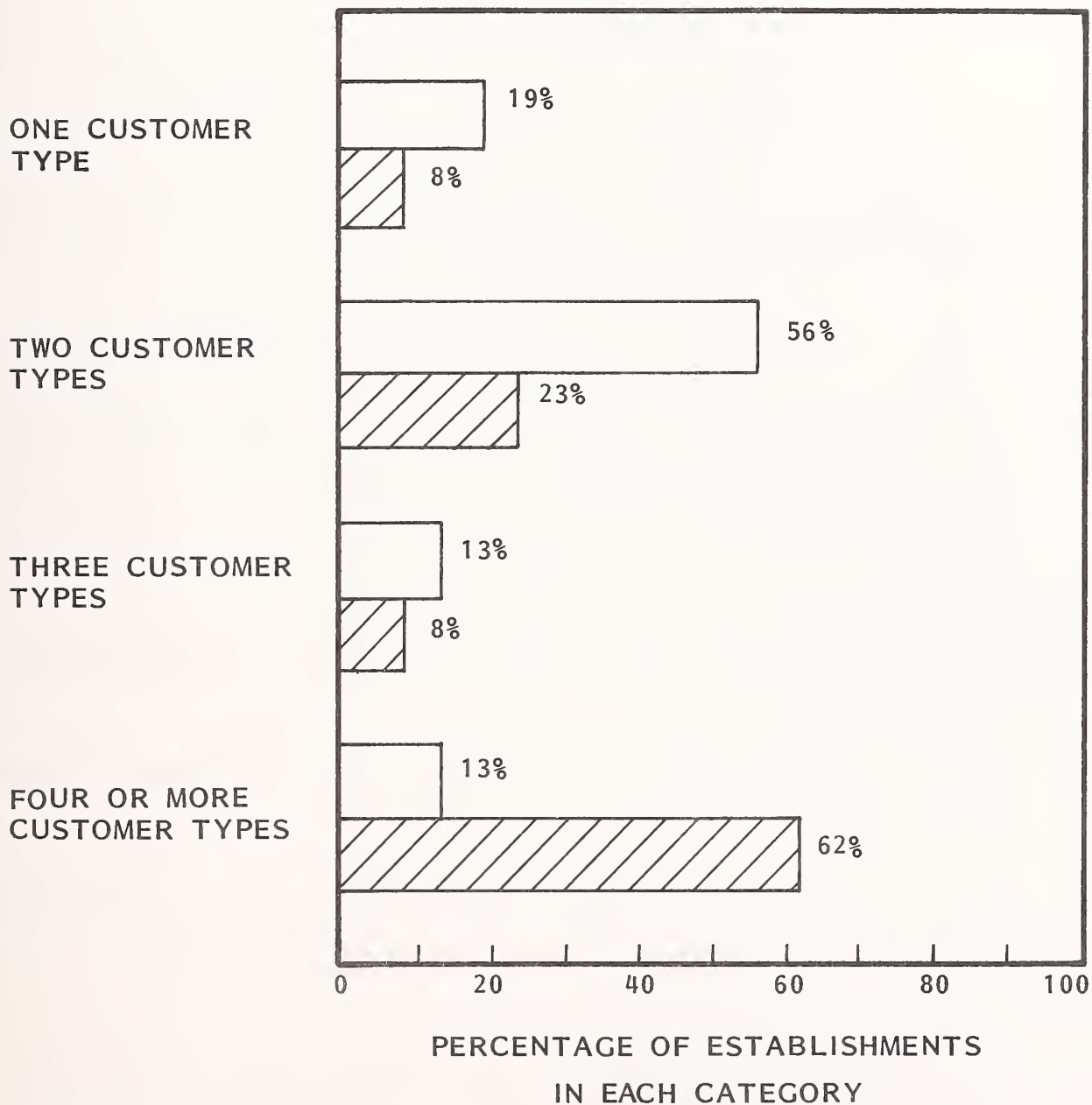
- ☐ BUSINESS ORIENTED (14)
- ☒ HOBBY ORIENTED (13)

NOTE: TOTALS ARE GREATER THAN 100% DUE TO RESPONDENTS USING MORE THAN ONE MEDIUM.

- Most respondents (89%) spent advertising money on more than one medium. The business stores, however, tend to concentrate their advertising in a limited number of media. The hobby proprietor scatters his advertising dollars more evenly.
- With a few exceptions, the hobby stores are attempting to attract any and all kinds of customers. This is evident both from the manner in which they handle their advertising dollars as well as more directly from their statements as to their intended customers, as seen in Exhibit III-8.
- Those hobby stores which have a specific customer focus are generally aiming at the school market. Also, their advertising is often similar to the more narrowly focused business oriented store.
- We can also see in Exhibit III-8, that 75% of the business oriented stores are focusing their advertising on one or two customer types; that is the businessman and the professional.
- Although these small stores, like most larger organizations, have little measurement of the effect of their advertising, if we relate the focus of their advertising to the pattern of their current customers, as seen previously in Exhibit III-4, their advertising is performing its function quite well.
 - Business oriented stores, with a strong advertising focus on the businessman, have him as their prime customer.
 - Hobby oriented stores, with a much broader focus on their advertising effort, show a similarly broad set of customer types in Exhibit III-4, especially when considered in the light of their original customer pattern, as seen in Exhibit III-3.


EXHIBIT III-8

ADVERTISING DIRECTED TOWARD MULTIPLE CUSTOMER TYPES



RESPONDENTS

 BUSINESS ORIENTED (16)

 HOBBY ORIENTED (13)

CUSTOMER TYPES

HOBBYIST
BUSINESSMAN
HOMEOWNER

PROFESSIONAL
EDUCATOR
GOVERNMENT MGR.

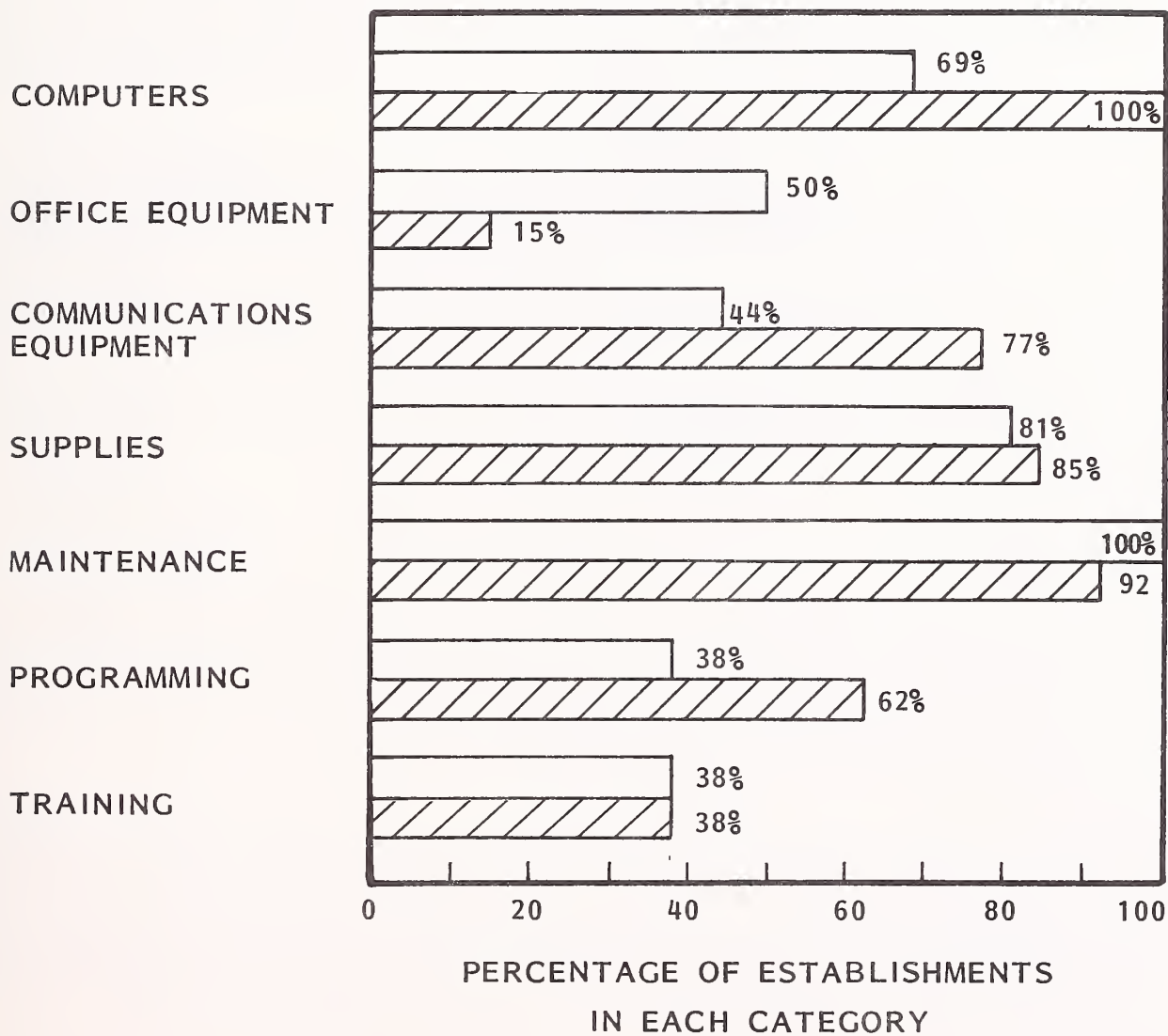
D. PRODUCTS AND SERVICES OFFERED

I. EXTENT OF PRODUCT LINE

- Of the 29 establishments interviewed, 25 had a product line which included computers.
 - The four stores which did not handle computers were business oriented stores handling office equipment, word processors, and office communication equipment.
- A total of 11 stores handled office equipment which includes word processors, copiers, typewriters, and calculators.
- While a total of 17 stores handled communications equipment, most of these were in fact modems and acoustic couplers used as communications accessories on a small computer system. Six of these 17 stores handled a broader line of communications gear including interconnect equipment, intercoms, radio pagers, CATV equipment, etc.
- Only one of these 29 companies handled a reasonably full line of computers, office equipment, and communications gear.
- Supplies and maintenance were handled by most of the stores, but reluctantly in many cases.
- About one-half of the stores handled programming and training, in most cases with a somewhat disorganized, necessary evil type of approach.
- Each of these product groupings will be discussed later in more detail, but a summary of the product lines of the aggregate of the business and hobby oriented stores appears in Exhibit III-9.

EXHIBIT III-9

PRODUCTS AND SERVICES SOLD



RESPONDENTS

☐ BUSINESS ORIENTED (16)

☒ HOBBY ORIENTED (13)

NOTE: TOTALS ARE GREATER THAN 100%
DUE TO STORES SELLING
MULTIPLE PRODUCTS AND SERVICES

2. SYSTEMS AND EQUIPMENT

- Most stores sold equipment from more than one manufacturer. This is especially true of the microcomputer equipment and accessories.
- Only the large franchised establishments carried only one manufacturer's equipment.
- The business oriented stores were more involved with franchises, agency contracts, etc., than were the hobby stores. The business establishments looked toward a nationally developed marketplace and accepted some controls. The hobby stores expressed much more concern for their freedom to operate whenever and however they chose.
 - For example, those stores that sold the Apple line of hobby computers had a franchise but it didn't restrict them from selling competing products. This seemed to be true of the other "name" brands as well.
- As shown in Exhibit III-10, the brand names of equipment carried differed widely between the two types of stores.

3. SALE PRICES

- The average sale price of computer systems in stores is about \$9,000. In this area the store managers/owners had a good feel for the distribution of the average value of a sale by the different categories.
- It is in the average sale price that we see the most important difference between the hobby stores and the business oriented stores. As seen in the top lines of Exhibit III-11, the business oriented stores had a typical sale of \$13,000 while the average sale in the hobby store was only \$2,500.

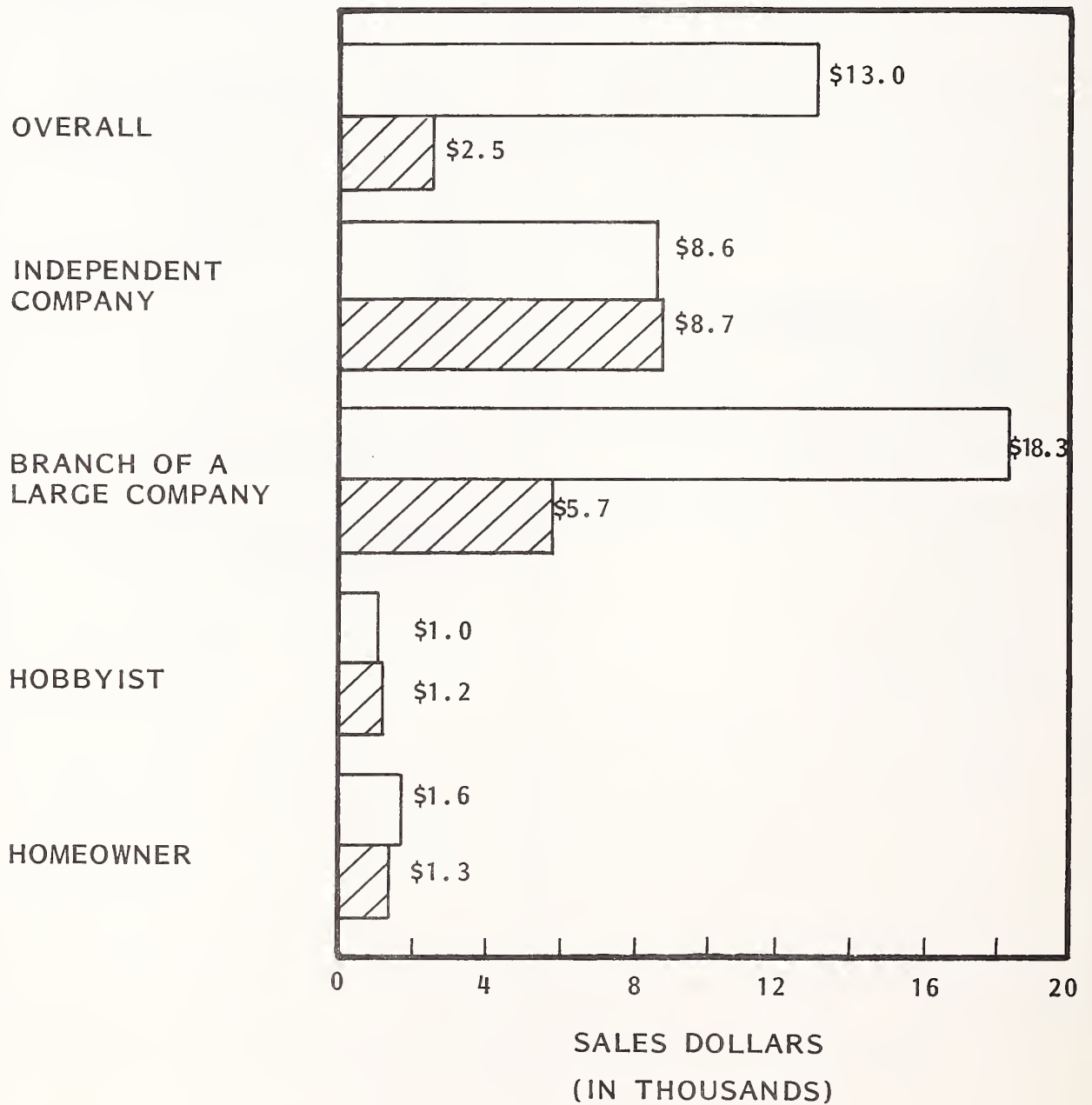
EXHIBIT III-10

BRAND NAMES OF EQUIPMENT CARRIED

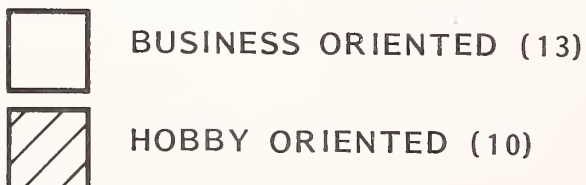
BUSINESS ORIENTED STORES	HOBBY ORIENTED STORES
<p>COMPUTER SYSTEMS</p> <p>DEC DATA GENERAL HEWLETT-PACKARD HONEYWELL PERTEC</p> <p>OTHER EQUIPMENT</p> <p>REDACTRON PHILIPS OLIVETTI OKIDATA CENTRONICS HAZELTINE EXECUTONE</p>	<p>COMPUTER SYSTEMS</p> <p>PET APPLE II EXIDY CROMEMCO</p> <p>OTHER EQUIPMENT</p> <p>HITACHI MICROMATION TELERAY</p>

EXHIBIT III-11

TYPICAL SALE
(AVERAGED RESPONSES)

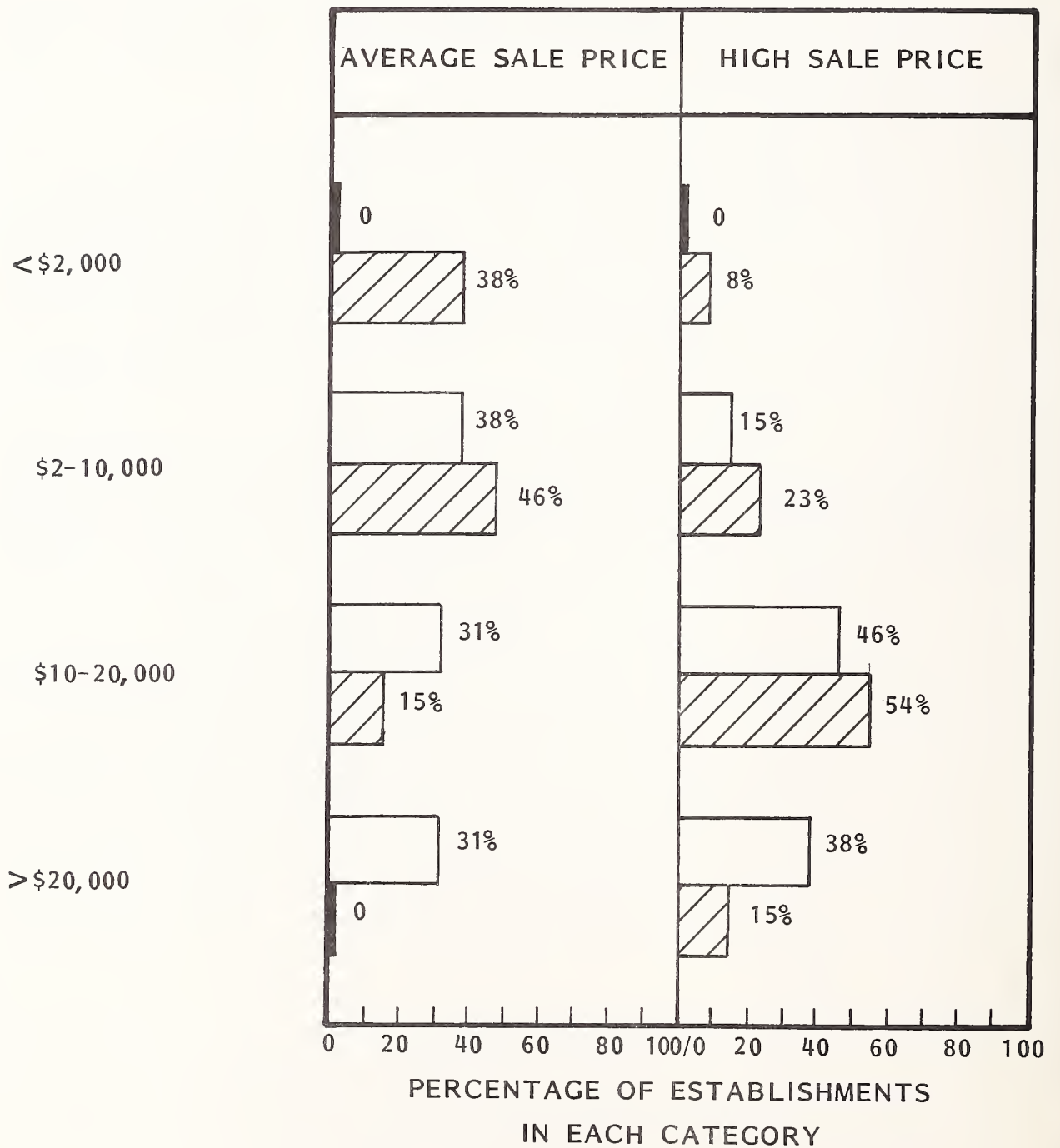


RESPONDENTS



- Also seen in Exhibit III-11 is the reason for the low average price in the hobby stores; that is the low average amount of the sale made to the hobbyist or homeowner.
- Nevertheless, while there is a significant difference between the average prices, we are, in both of these types of stores, discussing very high priced retail merchandise.
- Another point of some significance in Exhibit III-11 is that the highest priced typical sales are made to branches of large companies. This bears out the point made in the 1978 Small Establishment Service Annual Report that branches of large companies frequently have sufficient authority and confidence to purchase computer systems by themselves with only minimal corporate approvals.
- Shown in Exhibit III-12 is the distribution of stores by average and high sale prices for computer systems. As we would expect, the business oriented stores show a much higher average and high sale price.
 - Of more significance is the wide range of average sale prices from the largest to the smallest. Referring back to the discussion on store concepts, it seems likely that the business oriented store with an average sale price in the over \$20,000 range, would more appropriately fall into some non-retail SIC code such as wholesaling as he in fact does by federal government standards. In our sample, almost one-third of the business oriented stores (31%) fall into this high average price range.
- There is very little correlation between the average sale price and the size of the store in terms of annual revenues. This means that there is an even wider range of numbers of actual customers per store. This study shows a range from under 20 customers per year to over 500 customers per year, per store.

EXHIBIT III-12
AVERAGE AND HIGH SALES PRICES FOR COMPUTER
SYSTEMS AND EQUIPMENT



RESPONDENTS

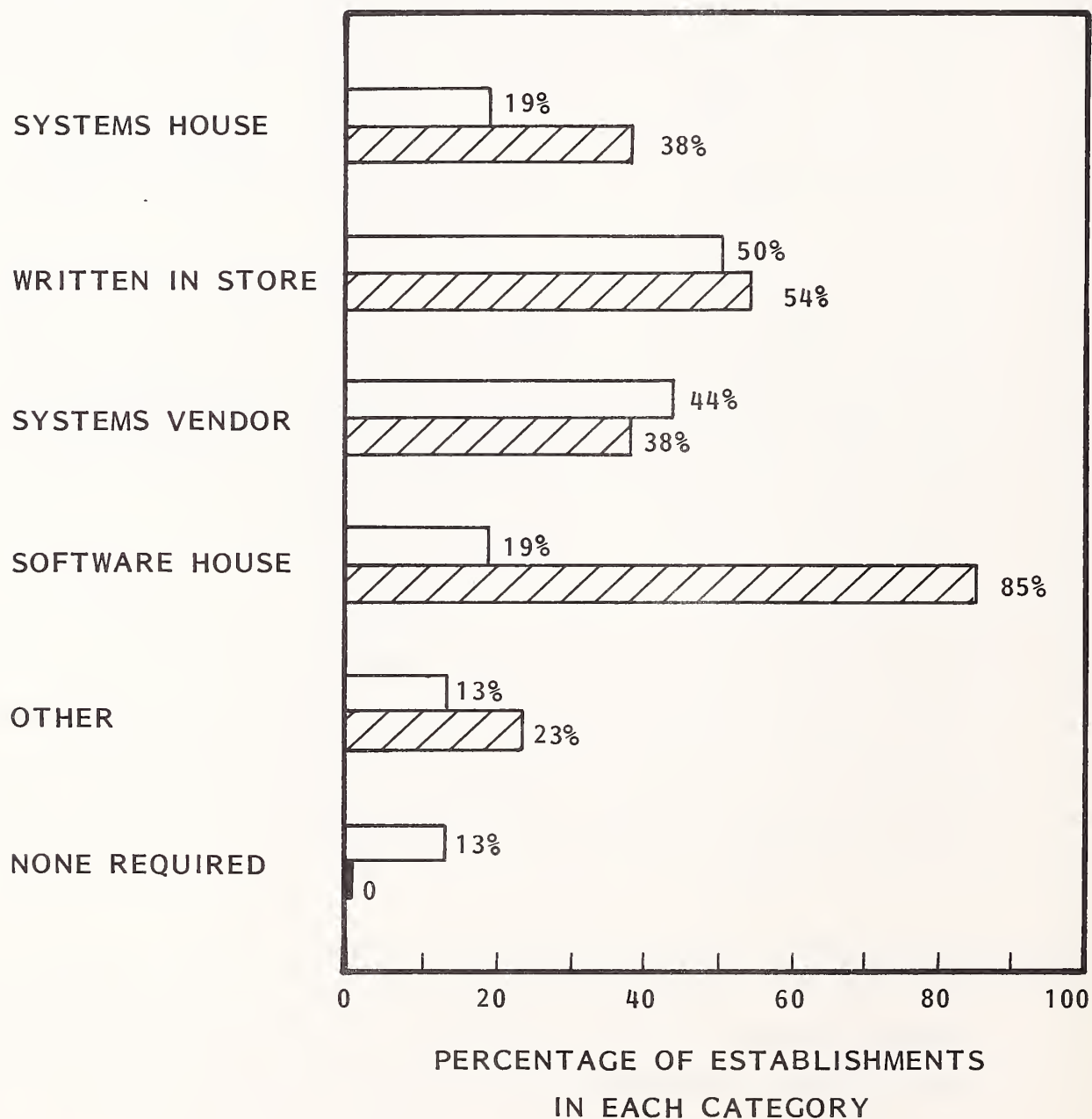
- BUSINESS ORIENTED (13)
- HOBBY ORIENTED (13)

4. SOFTWARE PRODUCTS

- In 80% of the establishments interviewed, software products could be purchased separately from the system. In some cases the purchased software would only run on a particular system.
- The software that is available for separate sale is obtained from many sources. In Exhibit III-13, 85% of the hobby stores received software from software houses. These programs are generally written for distribution to dealers and with little modification can be run on a variety of BASIC systems. These programs are, in effect, the microcomputer industry's version of the independent software packages long available for big mainframe computers.
- Both the business stores, as well as the hobby stores, write a considerable amount of software in the store. Computer stores have an attraction for computer oriented persons, both as owners and as employees at all levels. They often bring with them sufficient expertise and interest to be able to write programs for their customers either on a custom basis or, in some cases, as a package for addition to the store's product line.
- The "other" category in Exhibit III-13 includes a wide range of alternative sources. Because of the low initial capital required to enter the microcomputer software market, it has attracted a wide range of people operating in many different modes. The sources included here are computer clubs, other computer dealers, individuals operating as consultants to the store, as sellers through the store, or even as clearing houses for other individuals.
- Custom programming is provided in two primary ways by both kinds of establishments. It is either written by the store's own programmer or an outside "consultant" is used. Very little is written by the systems vendor (see Exhibit III-14). In this marketplace it is up to the individual dealer to arrange for satisfying the particular needs of his customer.

EXHIBIT III-13

SOFTWARE SOLD BY THE ESTABLISHMENT IS OBTAINED FROM MULTIPLE SOURCES



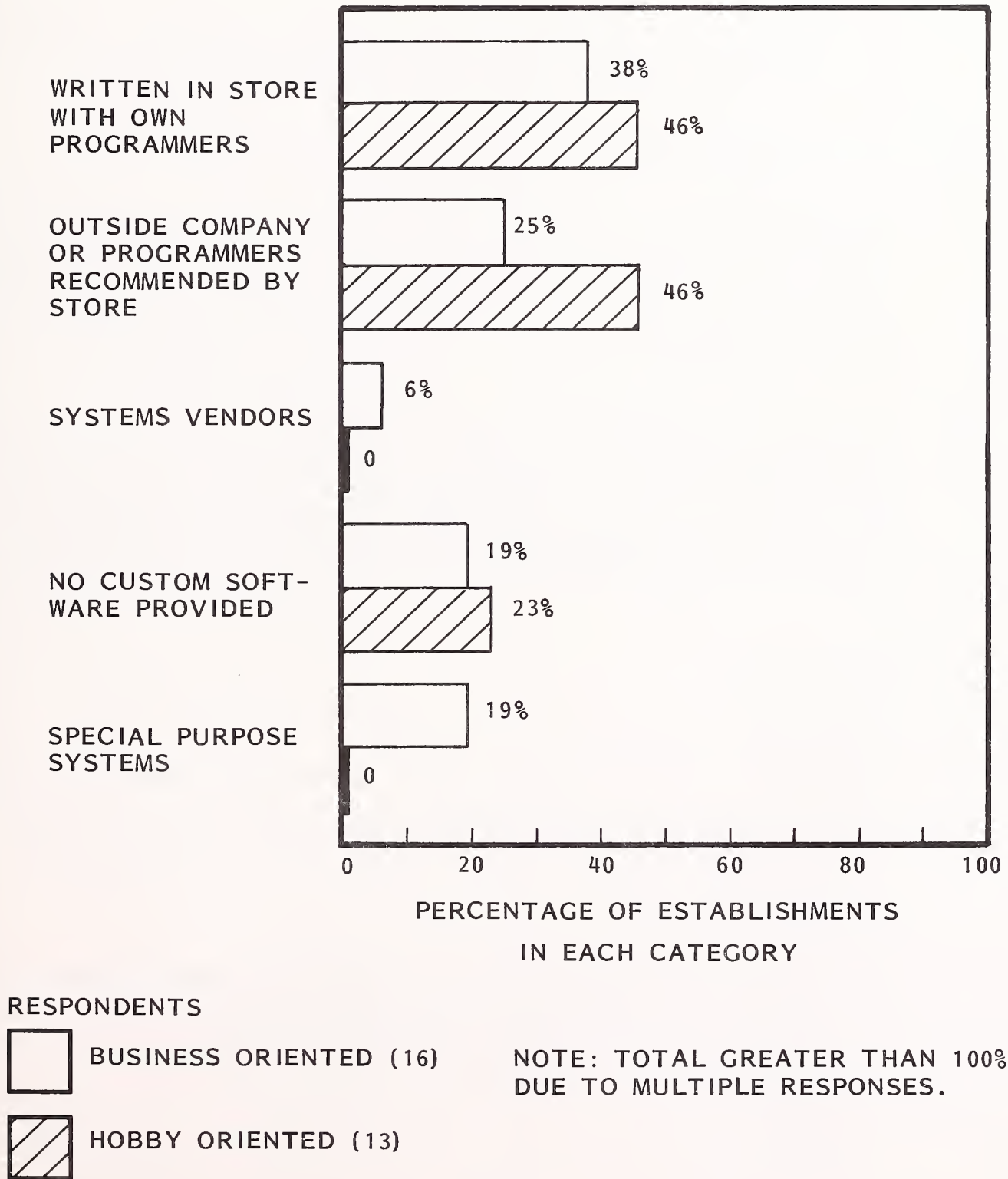
RESPONDENTS

- ☐ BUSINESS ORIENTED (16)
- ☒ HOBBY ORIENTED (13)

NOTE: TOTALS ARE GREATER THAN 100%
DUE TO SOFTWARE BEING OBTAINED
FROM MULTIPLE SOURCES

EXHIBIT III-14

HOW IS CUSTOM SOFTWARE
PROVIDED TO CUSTOMERS?



- There are many arrangements used to provide custom programming from outside services. Among those mentioned were:
 - The store subcontracts the job to an outside organization or individual.
 - The store recommends an outside organization or individual for the entire job.
 - The store recommends a programmer who is an outside consultant but the store rents him computer time and supervises the job.
 - The store will only modify existing programs.
- One hobby establishment claimed that "slaves" did the custom programming. "Slaves" are hobbyists who want equipment but can't afford it. The proprietor gives them the equipment in exchange for programming services for his business customers.
- Assuming most dealers would like to protect their software from replication and bootleg distribution, a question was asked concerning protection methods. Most dealers don't feel it is worth the trouble worrying about it because there is no real way to guarantee protection. Their comments constitute Exhibit III-15.

5. MAINTENANCE

- Maintenance is performed in some way by every one of the stores interviewed.
 - The hobby oriented stores try to confine their maintenance work to in-store maintenance.
 - The business oriented stores are almost exactly the opposite in their approach to maintenance. Almost all of them will perform on-site maintenance while only half provide in-store maintenance.

COMMENTS ON SOFTWARE PROTECTION

- "NONE"
- "DON'T WORRY ABOUT IT"
- "COPYRIGHT LAWS"
- "UNIQUE LANGUAGE"
- "SOPHISTICATED PROTECTION - BUILT IN ERASING"
- "NOT ECONOMICALLY FEASIBLE"
- "MACHINE LANGUAGE SERIAL NUMBER CHECK"
- "LICENSE AGREEMENT"
- "DON'T TRY"
- "LOW PRICE AND HOPE"
- "PROTECTED BY MANUFACTURER"

- Maintenance can be paid for in three general ways:
 - Under warranty.
 - Monthly contract.
 - Time and material charges.

All of the stores interviewed will do warranty work and almost all will work on monthly contracts as well as time and materials arrangements.

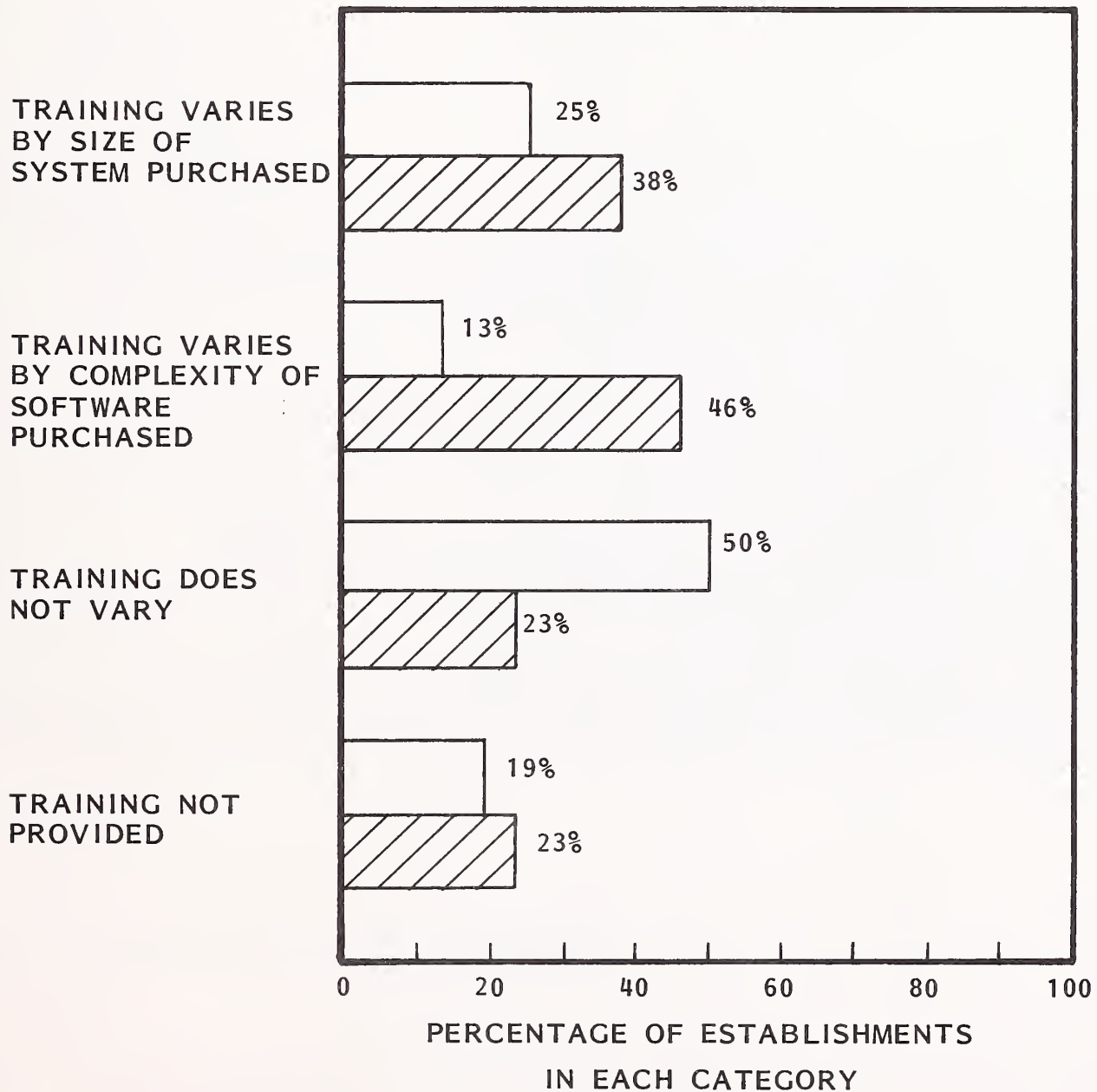
- The usual maintenance contract is written for 1% of the purchase price of the system per month.

6. TRAINING

- From INPUT's other studies in the computer services area, in computer usage in small establishments, and in value added network services, customer training was deemed second only to equipment maintenance in its importance to the ultimate user. While training may be of less consequence to the hobbyist user of computer systems, it is almost certainly of great importance to the business user.
- It is in this training area that the computer stores, both business as well as hobbyist oriented, show the greatest lack of customer support.
- As shown in Exhibit III-16, 21% of the stores provide no training at all. While the business oriented stores are slightly better in this area than are the hobbyist stores, the difference is insignificant.
- While the other 79% do provide training for their customers, the level of training, as shown in Exhibit III-16, and their comments on the subject in Exhibit III-17, indicate that training is at best an after-thought for most stores.

EXHIBIT III-16

HOW IS THE AMOUNT OF TRAINING PROVIDED
TO CUSTOMERS DETERMINED?



RESPONDENTS

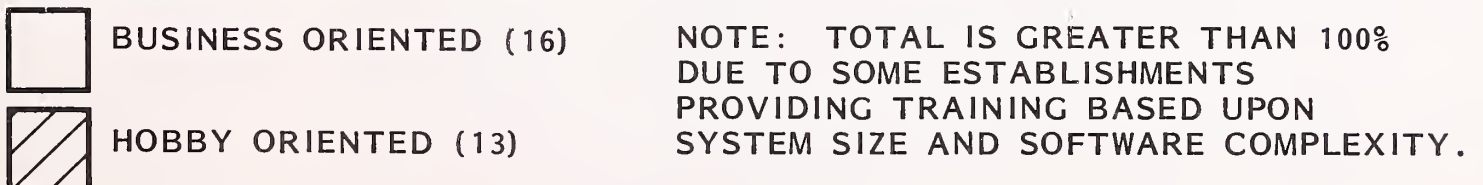


EXHIBIT III-17

COMMENTS ON TRAINING

- "VARIES INVERSELY WITH CUSTOMER INTELLIGENCE"
- "SEND PEOPLE TO LOCAL COLLEGE"
- "TRAIN BY TELEPHONE"
- "PLAY IT BY EAR"
- "GIVE THEM TECHNICAL PUBLICATIONS"
- "FREE USERS GROUPS"
- "5 HOURS FREE, CHARGE FOR ANYTHING ELSE"
- "2 PEOPLE TRAINED FREE"
- "PUBLIC SEMINARS"
- "DEPENDS UPON PREVIOUS CUSTOMER BACKGROUND"

7. FINANCING AIDS TO USERS

- For business oriented stores the primary financial aid offered to prospective customers is the availability of third party leasing arrangements. This is shown in Exhibit III-18. Usually the store operates as a matchmaker in making such arrangements.
- Hobby oriented stores also use third party leasing arrangements but credit cards are a close second for these stores.
- One business store said they would accept a VISA card for a \$12,000 system which they sell.

8. EXPECTED PRODUCT AND SERVICE CHANGES

- The most significant aspect of the changes stores expect to be making is the vagueness of any such plans. Very few of the store owner/managers indicated any aggressive plans for the future.
- When asked about their plans for changes for the next five years, none of these respondents had any concrete ideas. Most felt five years was too far away.
- The changes which they expect to be making over the next two years were somewhat more specific for some respondents. These are shown in Exhibit III-19.

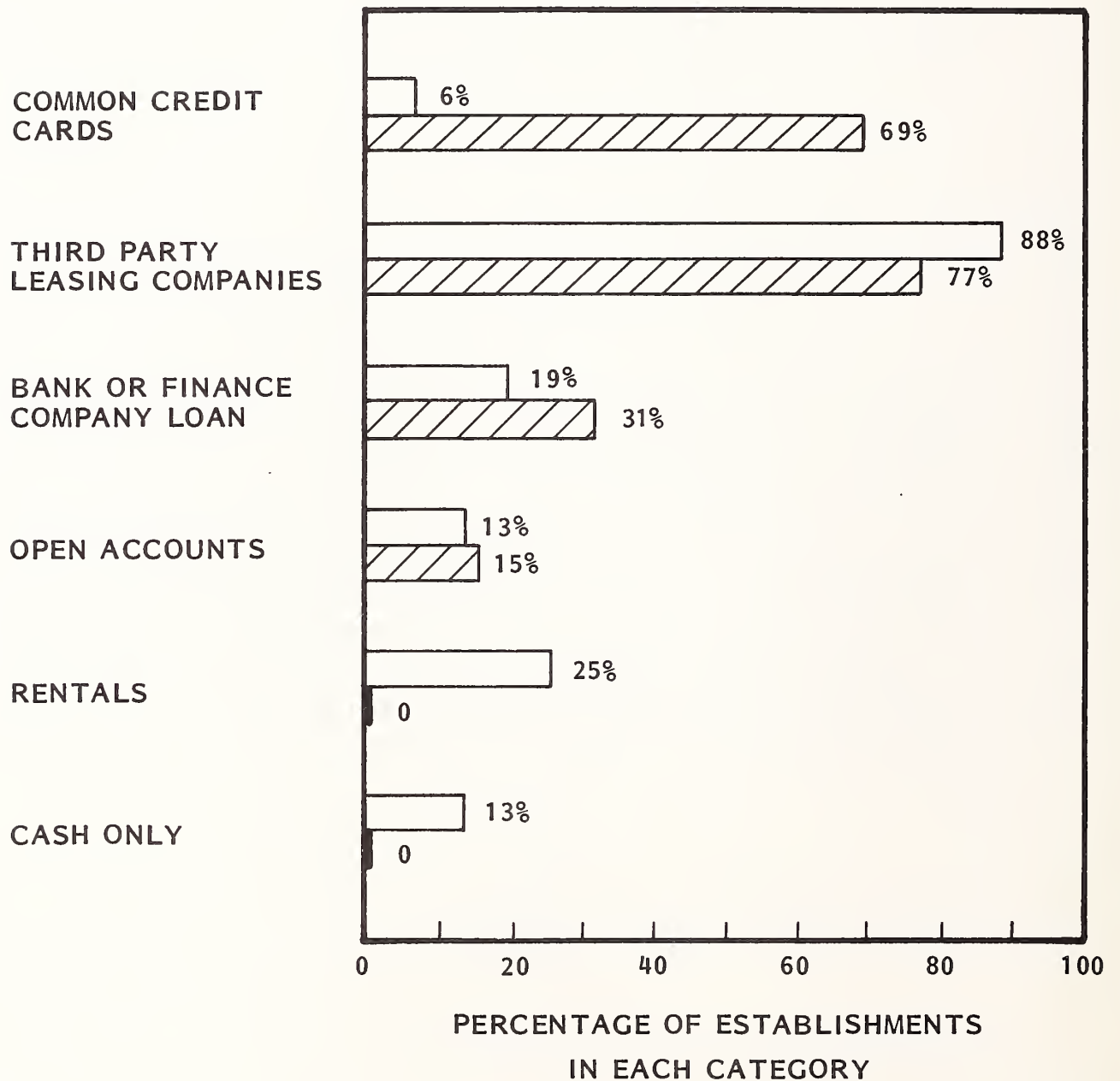
E. PHYSICAL ASPECTS OF THE STORES

I. STORE LOCATION

- Most of the stores in this survey were either street level or shopping mall locations. This is shown in Exhibit III-20.

EXHIBIT III-18

FINANCING HELP PROVIDED CUSTOMERS



RESPONDENTS

- ☐ BUSINESS ORIENTED (16)
- ☒ HOBBY ORIENTED (13)

NOTE: TOTALS ARE GREATER THAN 100% DUE TO USE OF MULTIPLE FINANCING AIDS

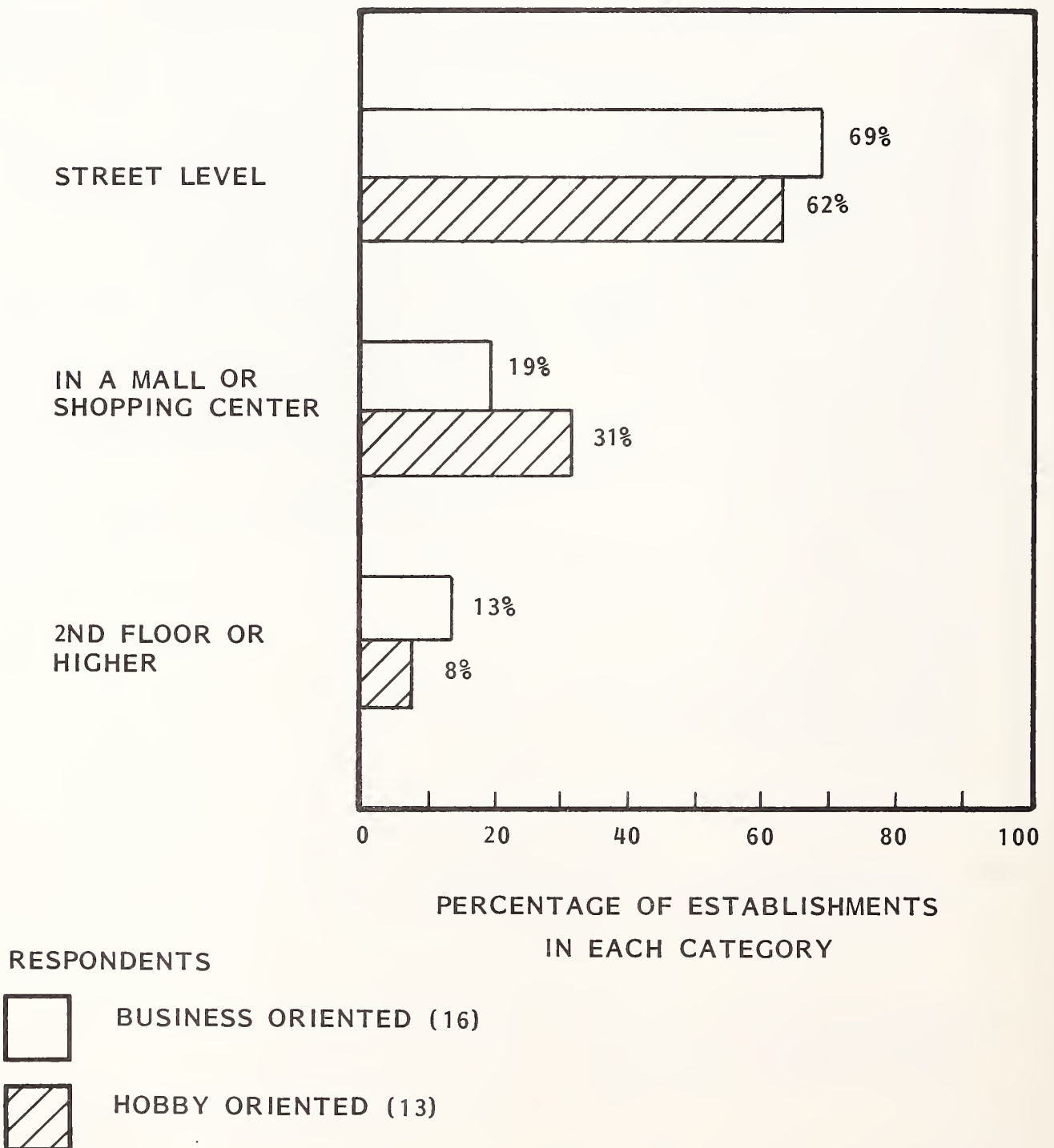
EXHIBIT III-19

PRODUCT AND SERVICE CHANGES EXPECTED
TO BE MADE IN THE NEXT TWO YEARS

BUSINESS ORIENTED ESTABLISHMENTS	HOBBY ORIENTED ESTABLISHMENTS
<ul style="list-style-type: none">- MORE VERTICAL MARKETING- ADD WORD PROCESSING, COPIERS, AND TRAINING PACKAGES- UPGRADE PRODUCTS IN ORDER NOT TO COMPETE WITH DEPARTMENT STORES- DROP TWO PRODUCT LINES AND ADD ONE BROADER ONE- SEPARATE BUILDING FOR COMPUTERS AND RENT SERVICES TO INDEPENDENT PROGRAMMERS- NO CHANGE - JUST INCREASE VOLUME- IMPROVE SERVICE- DON'T KNOW, THINGS CHANGE TOO FAST- ACQUIRE MORE PROFESSIONAL SOFTWARE- EXPAND SERVICES- MORE TURNKEY PRODUCTS THAT MAKE COMPUTER MORE OF A TOOL	<ul style="list-style-type: none">- MORE HAND HOLDING FOR SMALL BUSINESS- ADD MORE PERIPHERALS AND SOFTWARE- MORE HARDWARE AND MUCH MORE SOFTWARE- GO TO THIRD PARTY MAINTENANCE- NO CHANGE- INCREASE NUMBER OF BRANDS CARRIED- MORE PERSONAL COMPUTERS AS LONG AS THERE IS NO DEPRESSION- DON'T KNOW- MORE COMPLETE SERVICE

EXHIBIT III-20

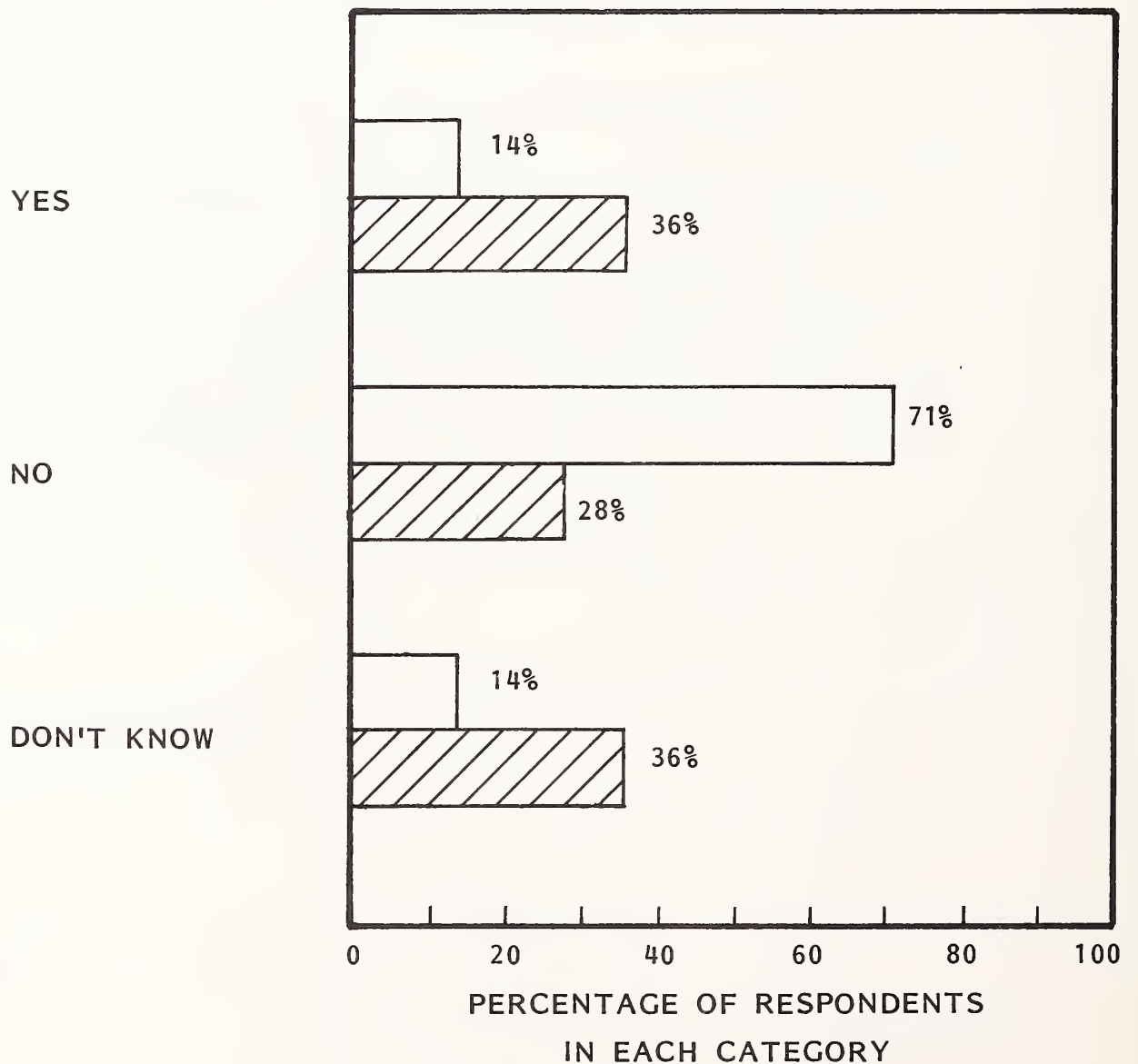
BUSINESS SITES



- In general, there appears to have been few market factors considered in the selection of the store site.
 - The store was certainly considered by the owners as a retail store and was therefore located in a retail setting; that is a street level, shopping center type location.
 - Very few of the stores gave any serious consideration to relating the types of customers they were trying to attract to the location of the store.
 - Transportation access did seem to be a very important consideration.
 - The cost of the space was also a consideration.
- On the other hand, most of the stores were satisfied with their location. None felt any need to move to a better location. To the extent that some of the stores had moved or planned to move, it was usually because additional space was required.
- The store owners/managers were asked if they had used professional help in the selection of the site.
 - While the responses shown in Exhibit III-21 indicate that about one-fourth of the stores did use professional help it turned out that this professional help was usually a real estate agent, some of whom were friends of the owner.
 - In one case the owner himself had prior experience in site location analysis and claimed to have done detailed demographic studies and location comparisons before choosing a site.

EXHIBIT III-21

WAS PROFESSIONAL HELP USED FOR
SIZE SELECTION?



RESPONDENTS

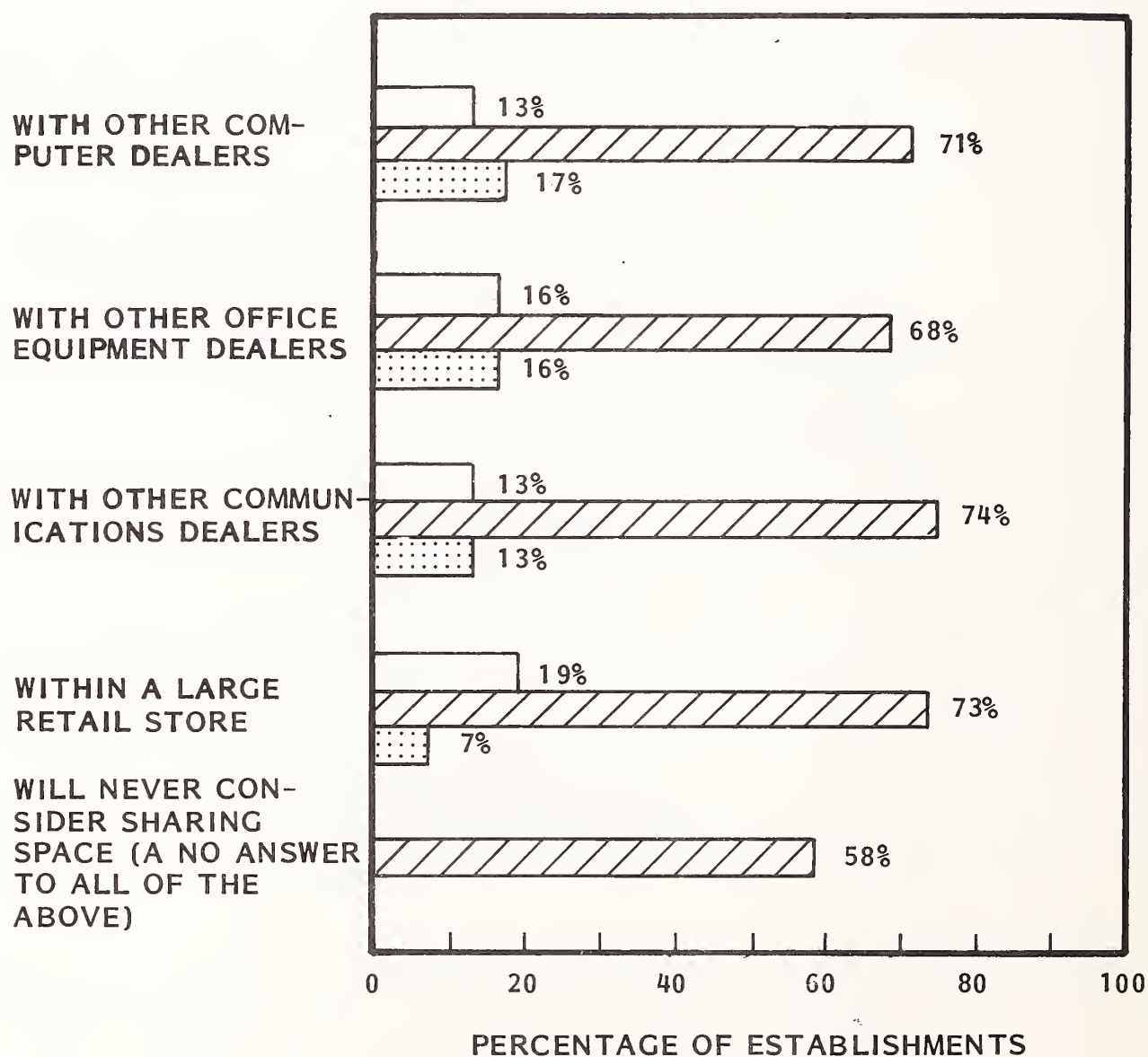
- ☐ BUSINESS ORIENTED (14)
- ☒ HOBBY ORIENTED (11)

2. SHARING OF SPACE

- Store owners/managers were asked to consider the possibility of sharing space with other dealers. These responses are shown in Exhibit III-22.
- Fifty-eight percent of the respondents refused to share space with any of the other dealer possibilities mentioned. Their reasons for refusing to share include:
 - They feared losing control of their business. This was a particular point at the hobby oriented stores.
 - They felt that other kinds of stores would not attract their kinds of customers. This point is somewhat at odds with the point made earlier about the lack of customer definition for site selection. So these entrepreneurs do have some subjective, unexpressed definition of "their kind of customers."
 - Some thought that the expenses would be too high if they shared space, particularly within a large retail store.
- None of the respondents were willing to share with just anybody. Some were willing to share with a selected partner for specific complementary reasons.
 - One business computer dealer selling products in the \$15,000 and up price range wanted to bring in an experienced computer dealer selling to the lower priced end of the marketplace.
 - Another dealer wanted to be considered as a subcontractor by a Sears or Montgomery Ward so that he could get programming contracts.
- Perhaps the most likely store sharing arrangement is that of the hobby stores opening a new establishment within the store of an existing office equipment dealer with the expectation of selling computer systems to the small business market. Several hobby stores expressed a desire for such an arrangement.

EXHIBIT III-22

WOULD YOU BE WILLING TO SHARE SPACE WITH OTHER RETAILERS?



25 RESPONDENTS

- ☐ YES
- ☒ NO
- ☐ POSSIBLY

3. STORE IMAGE

- The store owners/managers were asked to characterize the image which they believed their stores projected to their customers. These comments are listed in Exhibits III-23 and III-24 for the two different types of stores.
- There is little in these comments to distinguish the intent of the owners of the different types of stores.
 - There is somewhat more of a hardware/technology flavor to the comments of the hobby stores.
 - Once again we see the inability of most of these store operators to express their market intentions.
- Eight of these stores were visited by INPUT researchers in the course of this study. In these eight visits the distinction between hobby oriented stores and business oriented stores was very clear:
 - The hobby oriented stores presented an image of:
 - . Enthusiasm.
 - . Energy.
 - . Clutter of equipment.
 - . Disorganized display.
 - The business oriented stores presented an image of:
 - . Competence.
 - . Quiet.

EXHIBIT III-23

STORE IMAGE COMMENTS -
BUSINESS ORIENTED ESTABLISHMENTS

- "PROFESSIONAL AND BUSINESS"
- "FRIENDLY, PROFESSIONAL, NON-THREATENING, SOFT, QUIET"
- " A LITTLE IBM"
- "GOOD AND RELIABLE"
- "INTEGRITY AND HIGH QUALITY"
- "EXPERTS , COMPLETENESS, DEPTH"
- "SERVICE ORIENTED"
- "OFFICE ENVIRONMENT"

EXHIBIT III-24

STORE IMAGE COMMENTS -
HOBBY ORIENTED ESTABLISHMENTS

- "STATE OF ART TECHNOLOGY"
- "SOPHISTICATED FOR HIGH INCOME BUYER"
- "HONEST, LOW PRESSURE, NON-TECHNICAL"
- "INTEGRITY, HIGH QUALITY"
- "INFORMATIVE, EQUIPMENT EASILY AVAILABLE"
- "PROFESSIONAL, UNIQUE DISPLAY OF ELECTRONICS"
- "CLASS EQUIPMENT"
- "COMMUNITY LEADERS, HOBBY FOCAL SPOT"

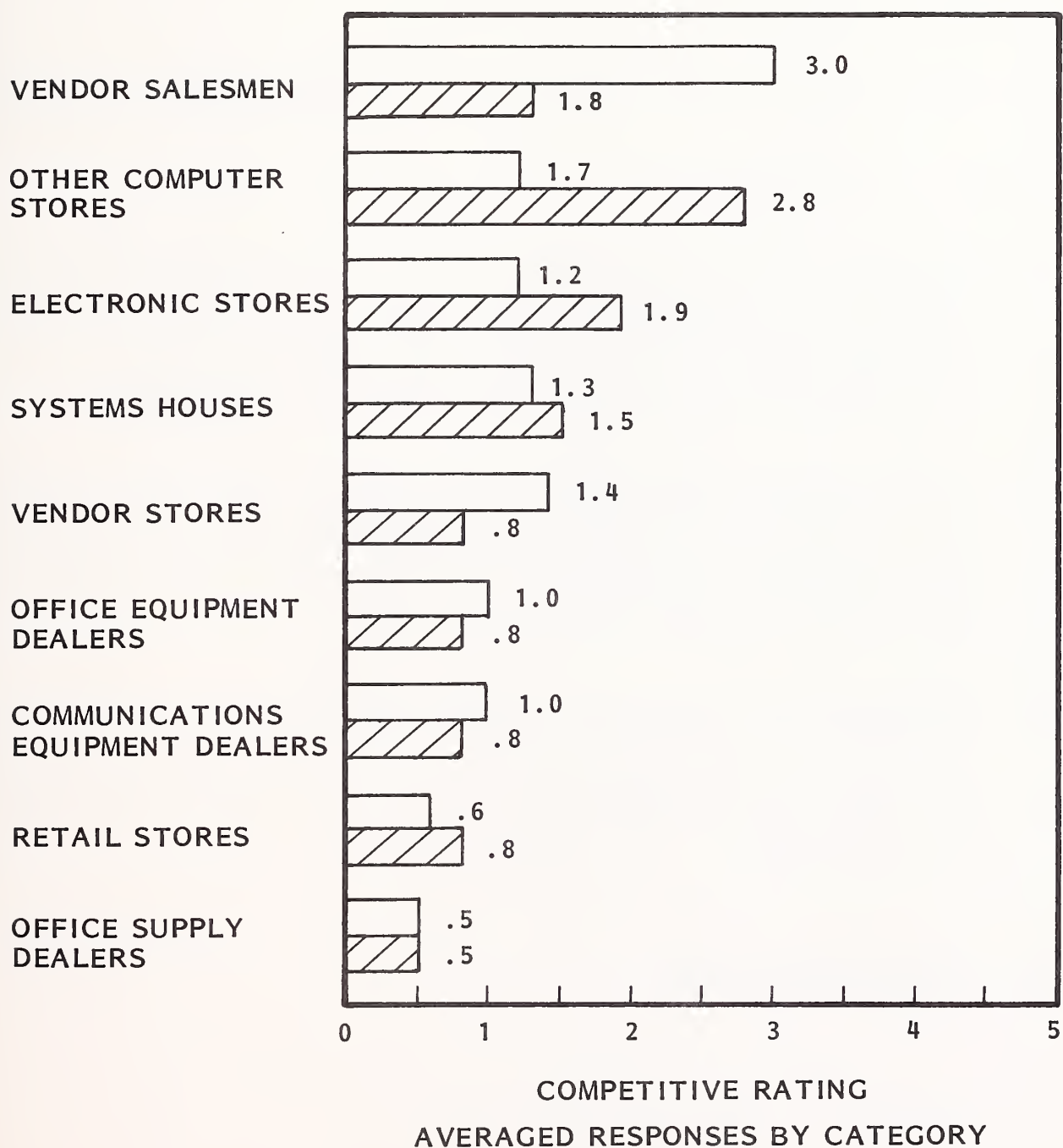
- . Organization.
- . Hum-drum.
- Although we cannot translate these different images into better or worse results, the fact that the images actually presented are so much different between types of stores and the expressions of the images intended to be projected by the proprietors are so similar tells us that most of these stores do have, and will continue to have, difficulty in communicating with their markets.

F. COMPETITION

- The store owners/managers were asked to evaluate the strength of the current competition and their competition in 1982.
- Many of the respondents found this to be a difficult question to answer without prompting because they felt that they are sufficiently unique as to not have any real competition.
 - Generally speaking, because of the small number of computer stores nationwide (less than 1,000 currently), these stores are the only ones of their kind for very large distances.
 - On the other hand, there are many alternative sources for either the same equipment or functionally similar equipment, such as mail order houses, all of which are very real and often unrecognized sources of competition to these computer stores.
- As shown in Exhibit III-25, the business stores believe that vendor salesmen are their primary source of competition. Hobby stores felt that other computer stores were their prime competitors.

EXHIBIT III-25

CURRENT COMPETITION - 1979



RESPONDENTS

- ☐ BUSINESS ORIENTED (15)
- ☒ HOBBY ORIENTED (13)

5 = MOST COMPETITIVE
0 = NO COMPETITION

- In considering their competition in 1982, there were relatively few changes in position of the various sources of competition (Exhibit III-26).
 - Vendor salesmen and other computer stores are still viewed by the respondents as the primary competitors for business and hobby stores respectively.
 - Vendor operated stores and retail stores apparently are regarded as becoming more of a competitive threat in the future by both types of respondents.
- In terms of specific vendors whose stores posed a competitive threat, Texas Instruments was viewed as the greatest threat. DEC was never mentioned, although they have already opened some stores which sell to the business community and have announced plans to open ten more this year.
- One respondent, who has been in business for two years, and is in the process of opening three more stores, has seen two competitors in his original town go out of business. He feels that he is doing well competitively because he "keeps up with what the people want."
- While most of the stores are well aware of Radio Shack, they do not feel that Radio Shack is as competitive to them as it is complementary to their line of products. In some cases, these stores co-exist in the same shopping centers with Radio Shack.

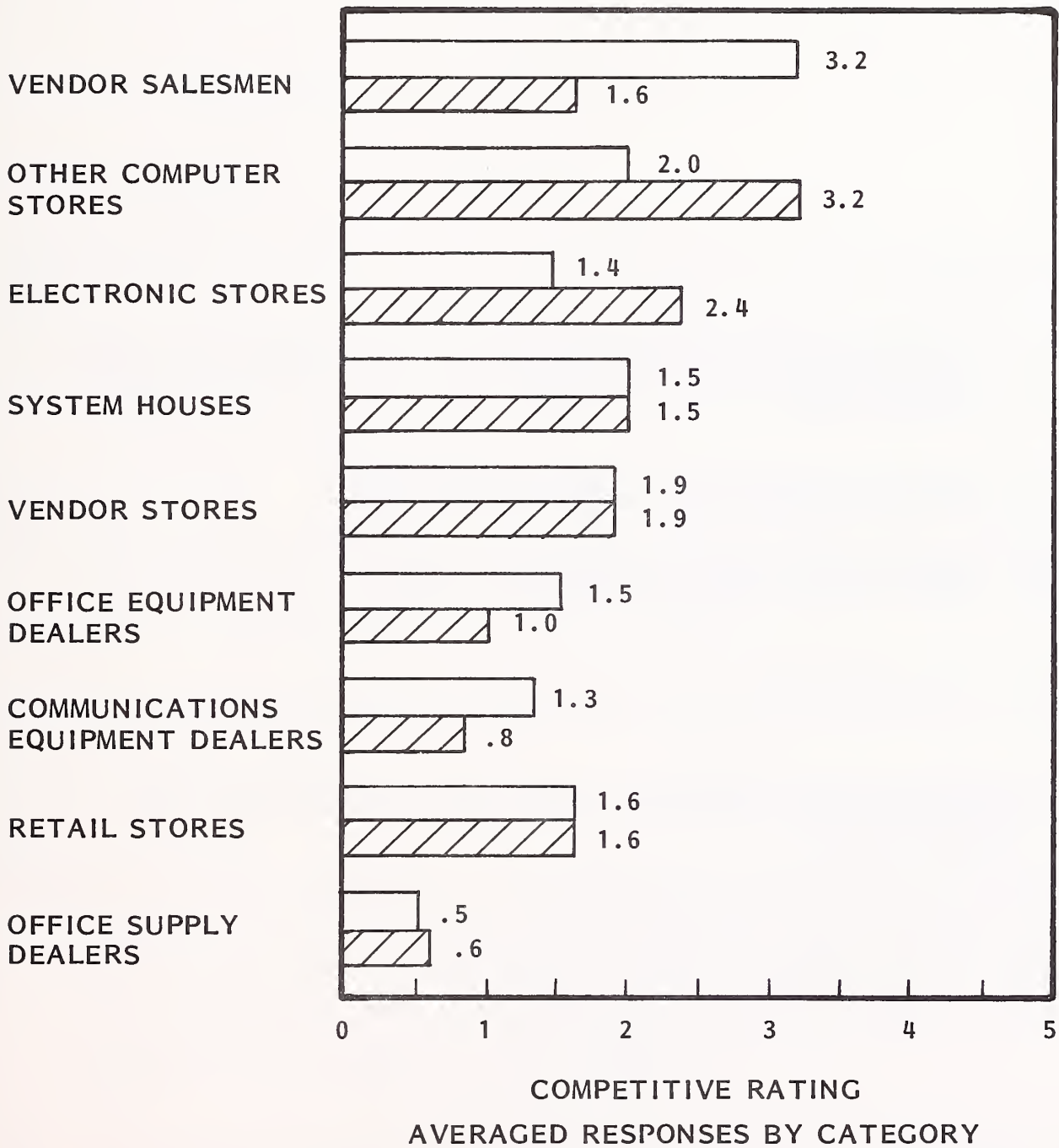
G. STORE OPERATIONS

I. SPACE

- The average store used 2,340 square feet, as shown in Exhibit III-27. With three exceptions (200, 20,000, and 22,000 square feet), all of the stores fell in a range of 1,000 to 5,000 square feet.

EXHIBIT III-26

EXPECTED COMPETITION - 1982



RESPONDENTS

- ☐ BUSINESS STORES (15) 5 = MOST COMPETITIVE
- ☒ HOBBY/HOMEOWNER STORES (13) 0 = NO COMPETITION

EXHIBIT III-27

ESTABLISHMENT SIZE (SQUARE FOOTAGE)

- ESTABLISHMENT SIZE RANGE: 200 SQUARE FEET TO 22,000 SQUARE FEET
- MEDIAN STORE SIZE: 1,600 SQUARE FEET
- MEAN STORE SIZE: 2,340 SQUARE FEET*

*EXCLUDING THE THREE OUTLIERS (200, 20,000, AND 22,000 SQUARE FEET)

- Generally, these stores allocated half of this space to selling and the other half to offices, warehouses, etc., as shown in Exhibit III-28.
- The selling area was a combined demonstration area and display area.
 - The hobby stores were generally more "hands-on."
 - The business stores tended more toward fixed displays and canned demonstrations.

2. BUSINESS HOURS

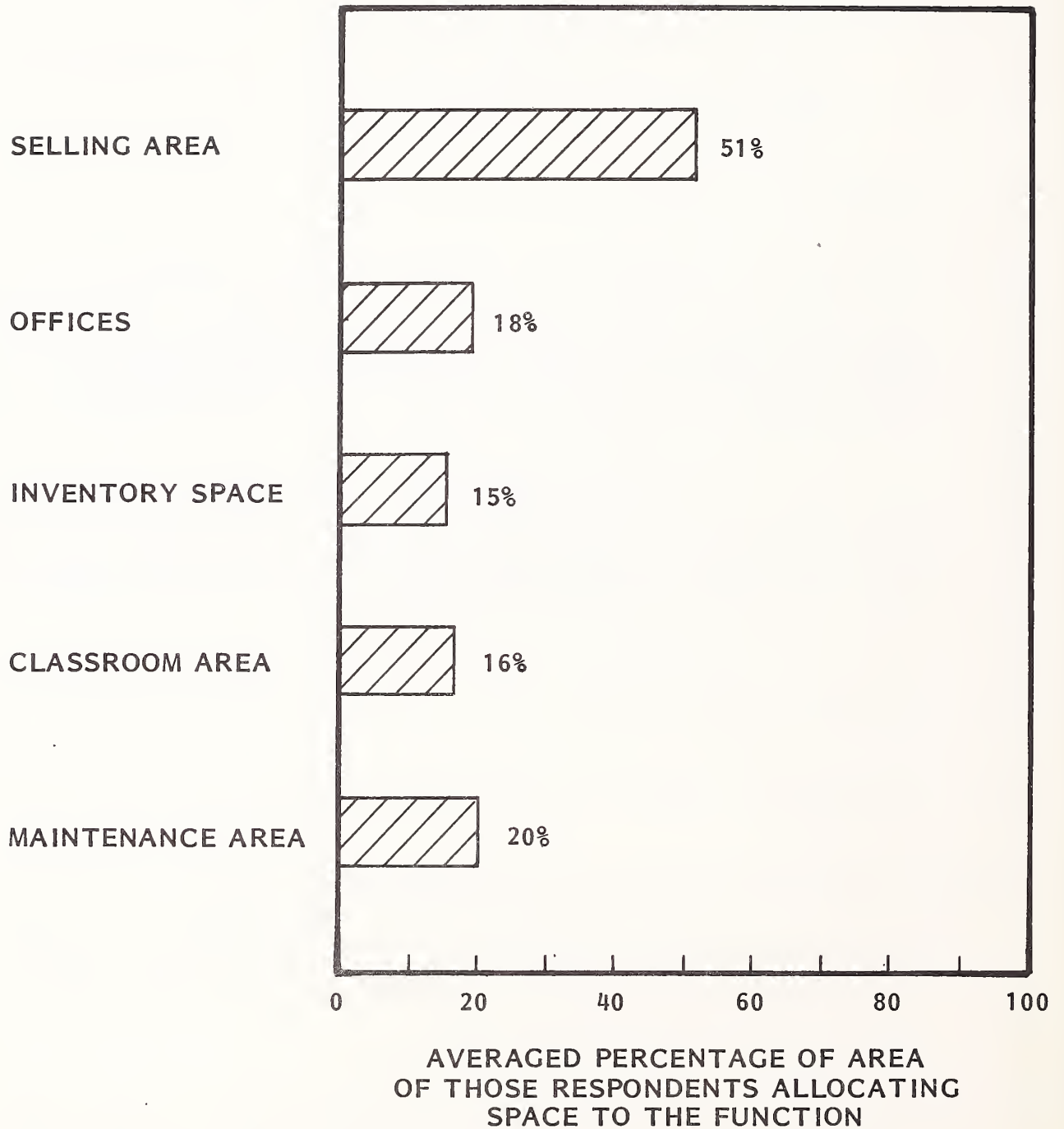
- There is little correlation between the stores' business hours and the orientation of the store. The primary determinant of the business hours is the location of the store. The data for these business hours are shown in Exhibit III-29, III-30, III-31, and III-32.
- Mall stores generally must be open the hours the mall is open. It is the mall stores who are open seven days a week and many more evenings during the week. Mall stores opened later and closed later.
- Street level establishments varied their opening times, but none were open late (after 7 p.m.).

3. PERSONNEL

- In general the staffs are small with the managers and/or owners performing one or more functions. The particular function depends upon the motivation for the establishment. If ex-programmers started the store, they will do customizing of systems and inside sales, etc.
- The business oriented establishment's personnel median is eight people, while the hobby store's median is three people. This does not include owners, part-time or office workers. The part time worker, in many cases, is the only

EXHIBIT III-28

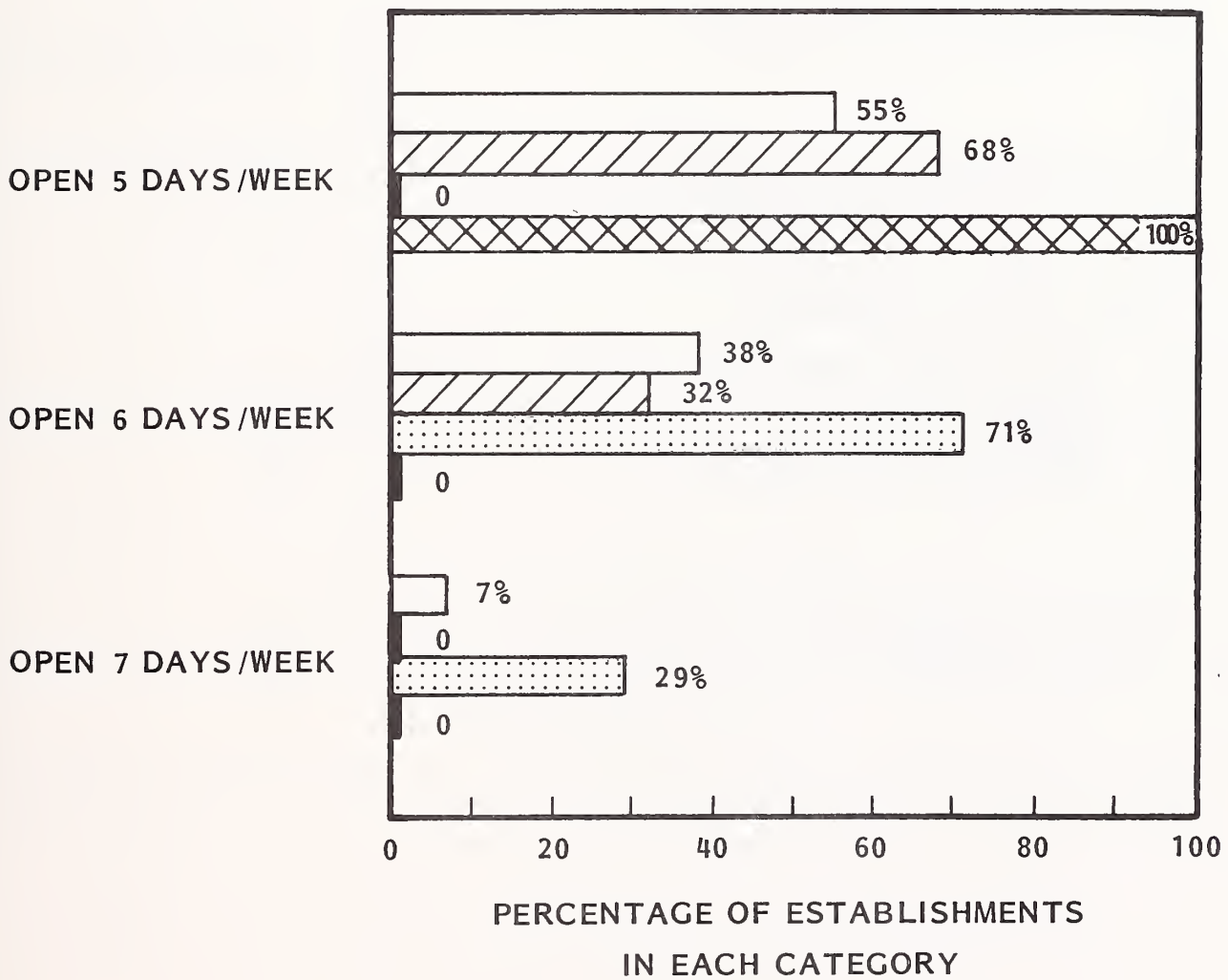
SPACE ALLOCATION



NOTE: TOTAL IS GREATER THAN 100% DUE TO NOT ALL RESPONDENTS HAVING ALL FUNCTIONS IN THEIR ESTABLISHMENT

EXHIBIT III-29

DAYS ESTABLISHMENTS ARE OPEN FOR BUSINESS



- ☐ ESTABLISHMENTS OVERALL (29)
- ☒ STREET LEVEL (19)
- ☒ MALL LOCATIONS (7)
- ☒ 2ND FLOOR OR HIGHER (3)

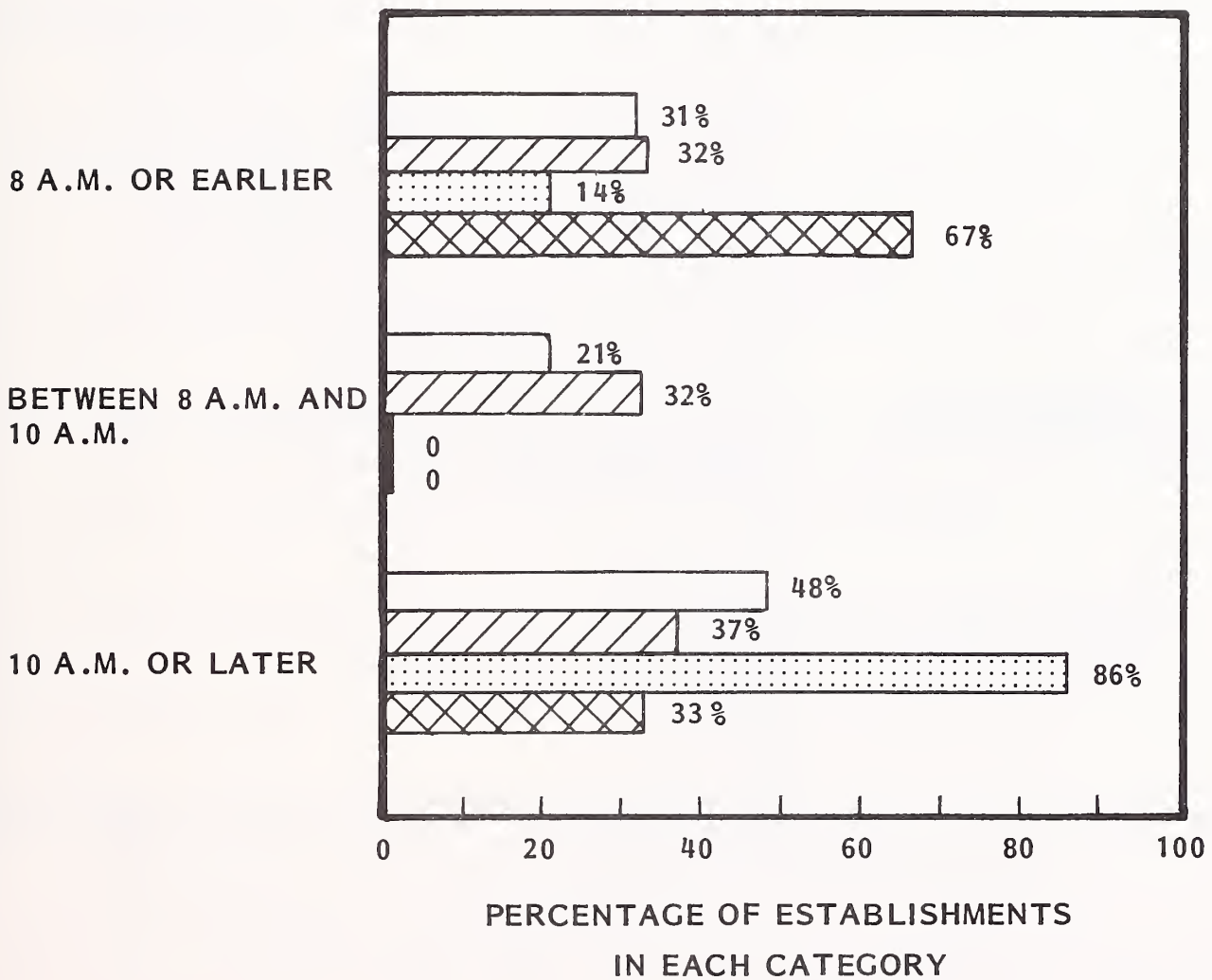
EXHIBIT III-30

WEEKLY HOURS OF OPERATION STATISTICS

RANGE OF HOURS OPEN/WEEK	36 - 71
MEDIAN HOURS OPEN/WEEK	46
MEAN HOURS OPEN/WEEK	
ALL ESTABLISHMENTS	47.8
STREET LEVEL	45
MALL LOCATION	58.1
2ND FLOOR OR HIGHER	41.7
OPEN ON SATURDAYS	52%
OPEN ON SUNDAYS	7%

EXHIBIT III- 31

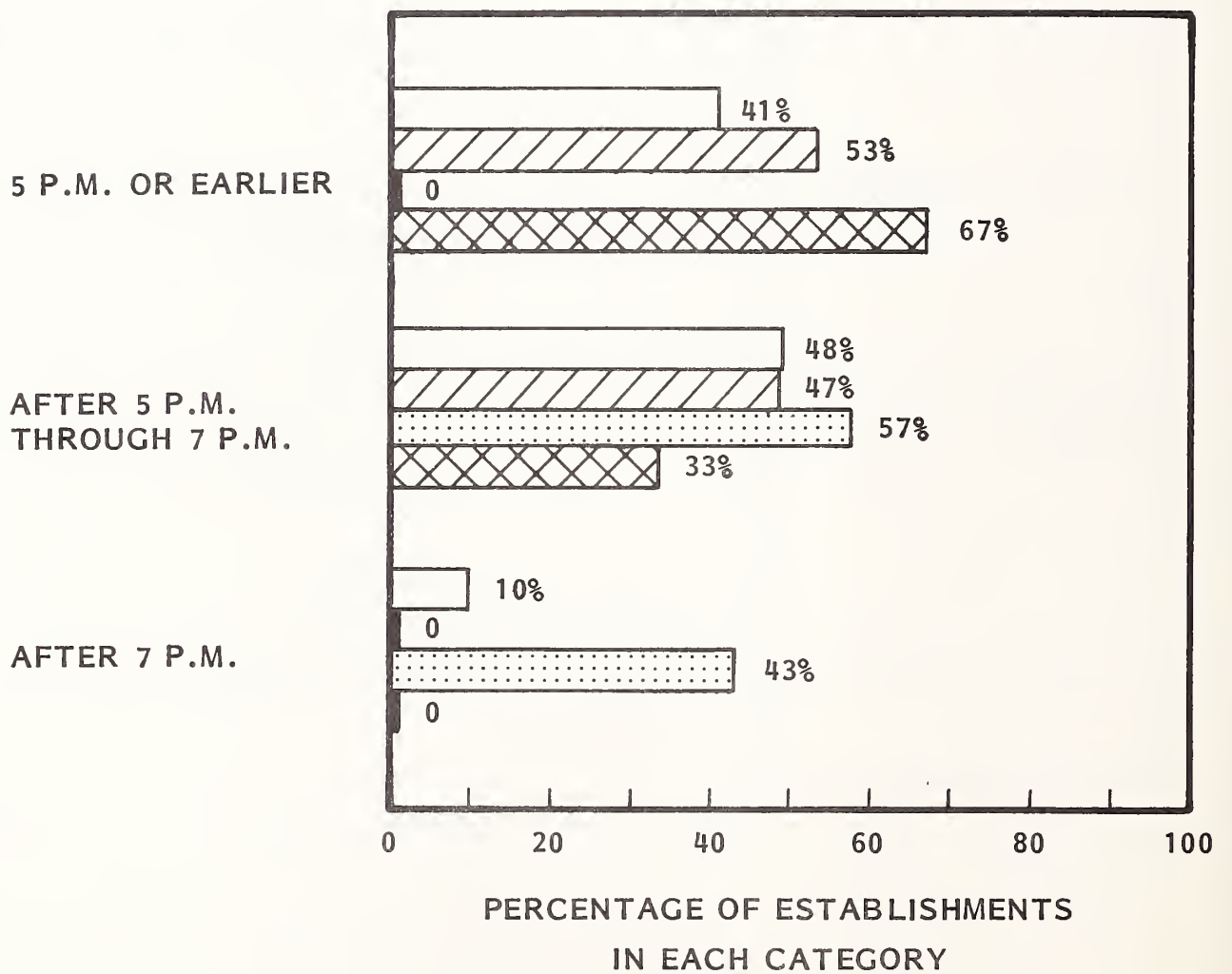
DAILY OPENING TIME ANALYSIS



- ☐ ESTABLISHMENTS OVERALL (29)
- ☒ STREET LEVEL (19)
- ☒ MALL LOCATIONS (7)
- ☒ 2ND FLOOR OR HIGHER (3)

EXHIBIT III-32

DAILY CLOSING TIME ANALYSIS



- ☐ ESTABLISHMENTS OVERALL (29)
- ☒ STREET LEVEL (19)
- ☒ MALL LOCATIONS (7)
- ☒ 2ND FLOOR OR HIGHER (3)

employee a hobby store will have. They are recruited from local schools and computer clubs which provide a steady stream of people. The computer club, in some cases, is started when the store donates a computer to the school.

- In Exhibit III-33, if one person did more than one function, the primary function was counted and not the secondary or tertiary one. For example, if the outside salesman did training, the establishment was considered to have a full-time outside sales function but only a part-time training function. Part-time functions were not plotted on the exhibit.
- If hobby stores are true retail operations then they should not need an outside sales function. Business oriented establishments have and will always have outside sales people just as office stationers, office furniture dealers, and business equipment dealers have this function.
- The fact that 23% of the hobby oriented businesses have an outside sales function shows that they are going after the businessman customer.
- Managers and assistant managers primarily receive a salary only (Exhibit III-34). Outside sales people get a salary plus commission or live on commission only. All other personnel are paid a straight salary, generally.
- One establishment paid all employees by salary plus an incentive program.

4. GROSS SALES

- As shown in Exhibit III-35, more than half of the respondents are now operating at a current sales level of less than \$500,000 per year.
- Obviously, some of the stores which had been in operation for long time periods could not answer for their first year revenues but about two-thirds of the stores had less than \$250,000 in revenue in their first year of operation - not a surprising result.

EXHIBIT III-33

ESTABLISHMENT STAFF (EXCLUDING OWNERS AND PART TIME PERSONNEL)

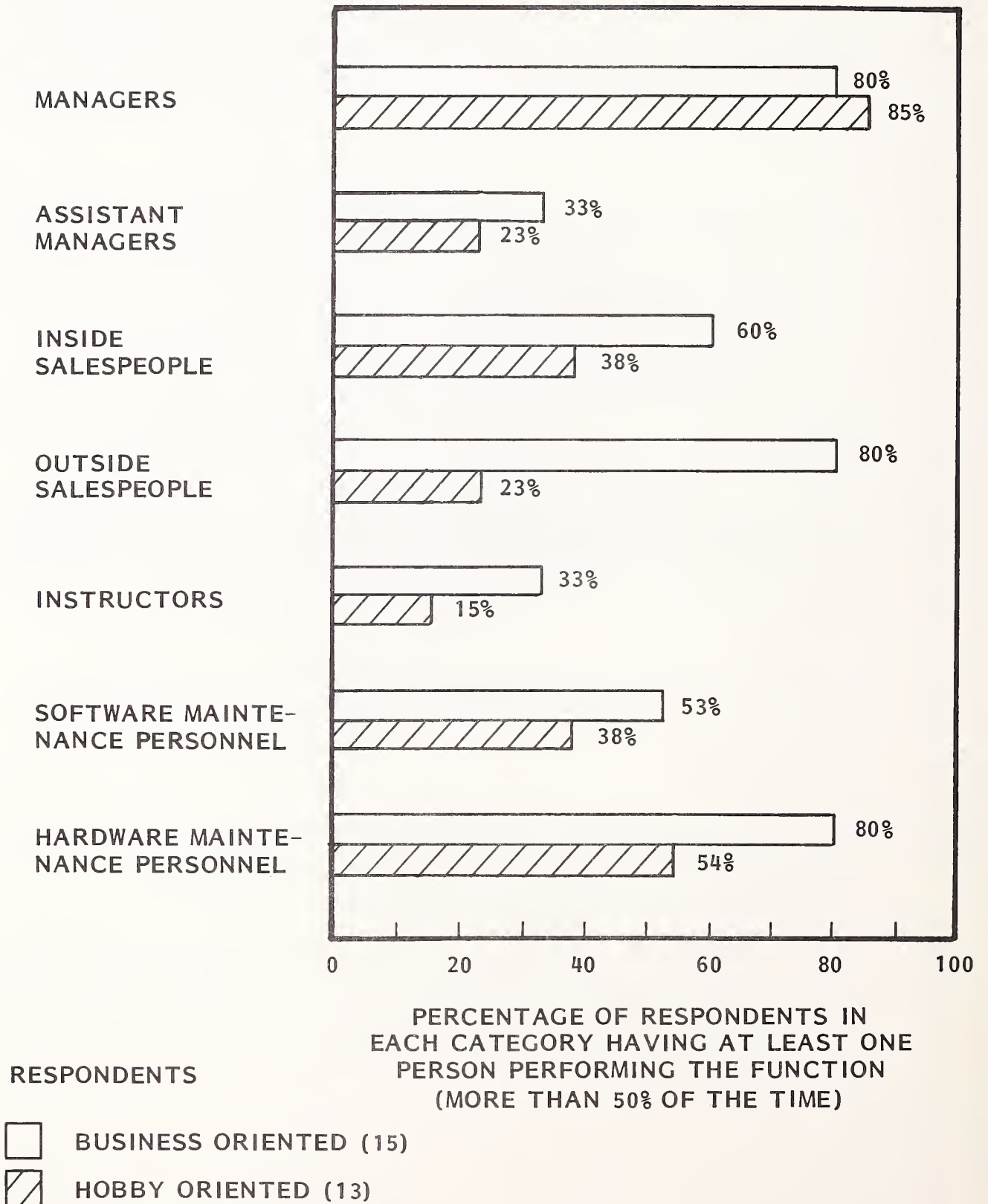
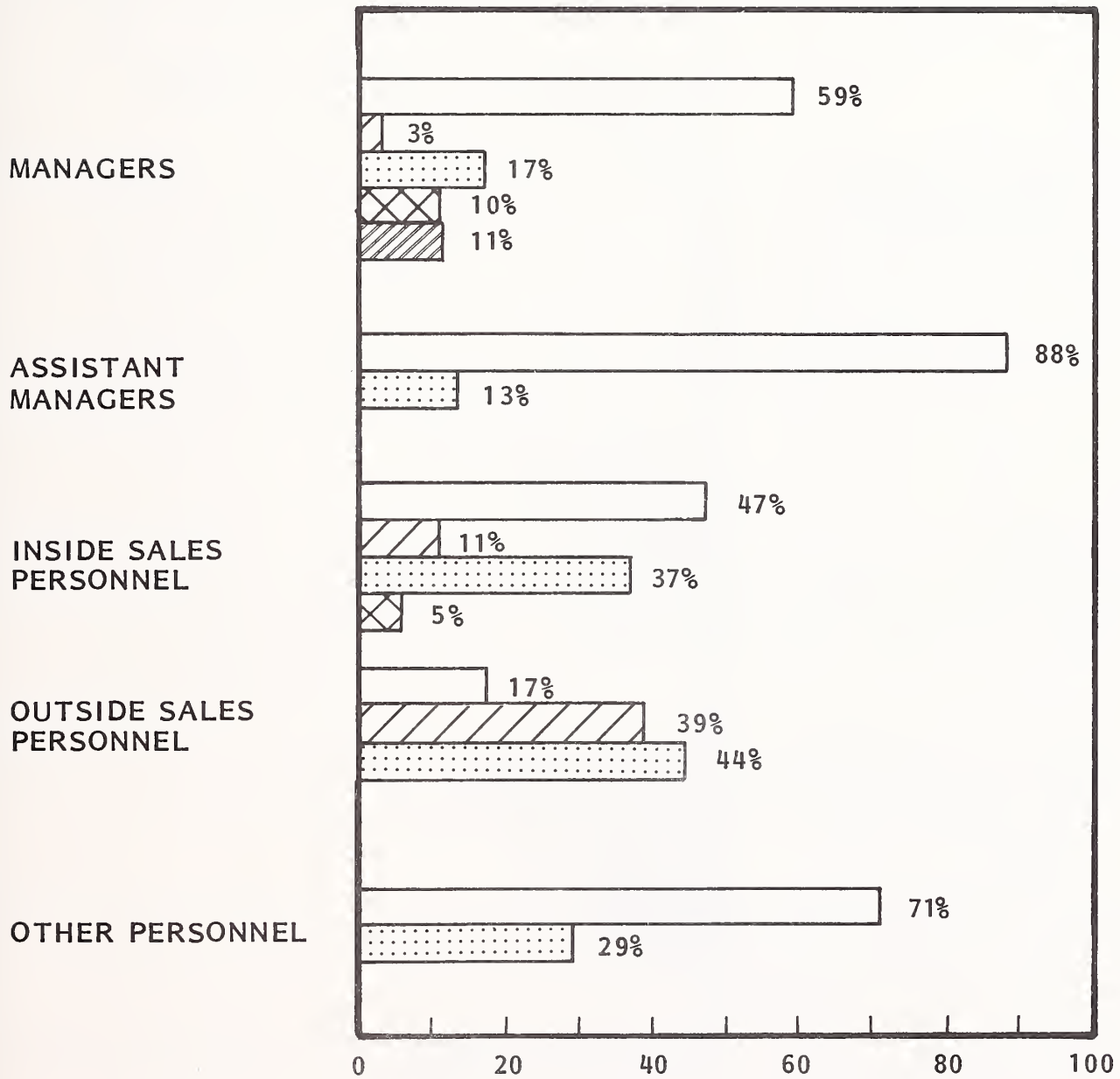


EXHIBIT III-34

STAFF COMPENSATION METHODS



PERCENTAGE OF ESTABLISHMENTS
HAVING THE FUNCTION

- ☐ SALARY ONLY
- ☒ COMMISSION ONLY
- ☒ SALARY PLUS COMMISSION
- ☒ SALARY PLUS COMMISSION PLUS BONUS
- ☒ SALARY PLUS BONUS

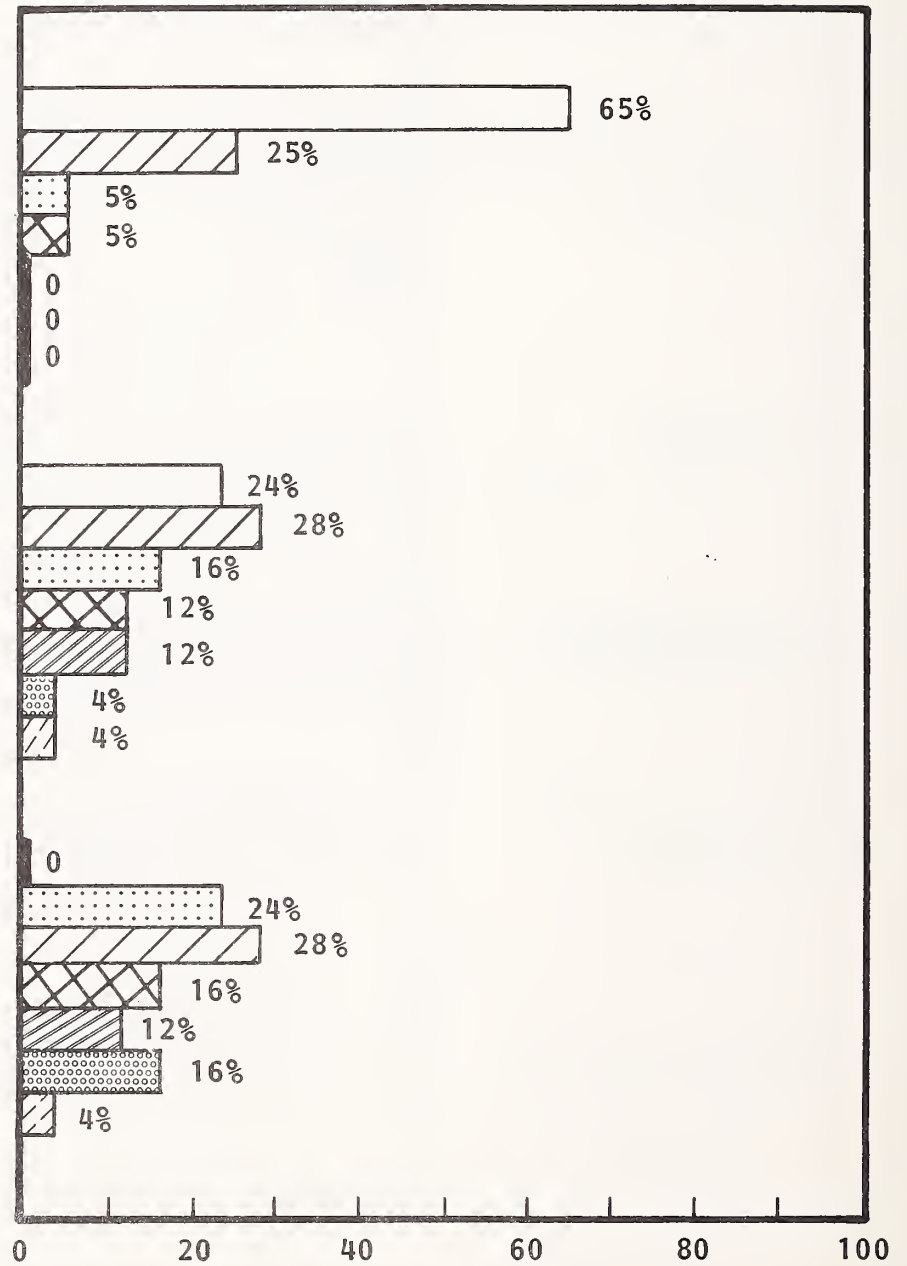
EXHIBIT III-35

GROSS SALES

FIRST YEAR IN BUSINESS

1978

1981



PERCENTAGE OF ESTABLISHMENTS

- ☐ UNDER \$250,000
- ☐ \$250,000-\$500,000
- ☐ \$500,000-\$1,000,000
- ☐ \$1,000,000-\$2,000,000

- ☐ \$2,000,000-\$5,000,000
- ☐ \$5,000,000-\$10,000,000
- ☐ OVER \$10,000,000

25 RESPONDENTS FOR 1978 AND 1981
20 RESPONDENTS FOR 1ST YEAR

- All of the stores expect to be over \$250,000 per year by 1981.
- In Exhibit III-36 we have distinguished the business stores from the hobby stores. Again, there is the not too surprising result that the business oriented stores are in general larger than the hobby oriented stores (in sales volume) but are not growing as fast, at least in terms of percentage annual growth. (However, they are growing faster in dollar volume growth.)
- During the three-year period for which data was given, the hobby establishment is projecting to more than double their business despite the fact that almost everyone expressed the feeling that the hobby market growth is soon to peak. Their expectations are probably based upon them moving into new areas, such as business systems, or in some cases upon their opening up new areas with additional stores.

5. EXPENSES

- The range of expenses of the survey responses was very broad. Many respondents would not give expense information or in many cases the respondent did not know.
- Eight respondents gave reasonably complete information and this data was used to calculate a set of averages, as shown in the bottom of Exhibit III-37.
- The most interesting number on this chart is the cost of goods sold (inventory expense) at 46%. If we add to that 46% the 30-45% discount received from the equipment manufacturers, the revenue received from these goods is only 65-85% of expenses. This says that the stores must sell other services such as programming, training, and maintenance just to break even, much less make a profit.

EXHIBIT III-36

GROSS SALES-BY BUSINESS TYPE

1978 AND EXPECTED 1981

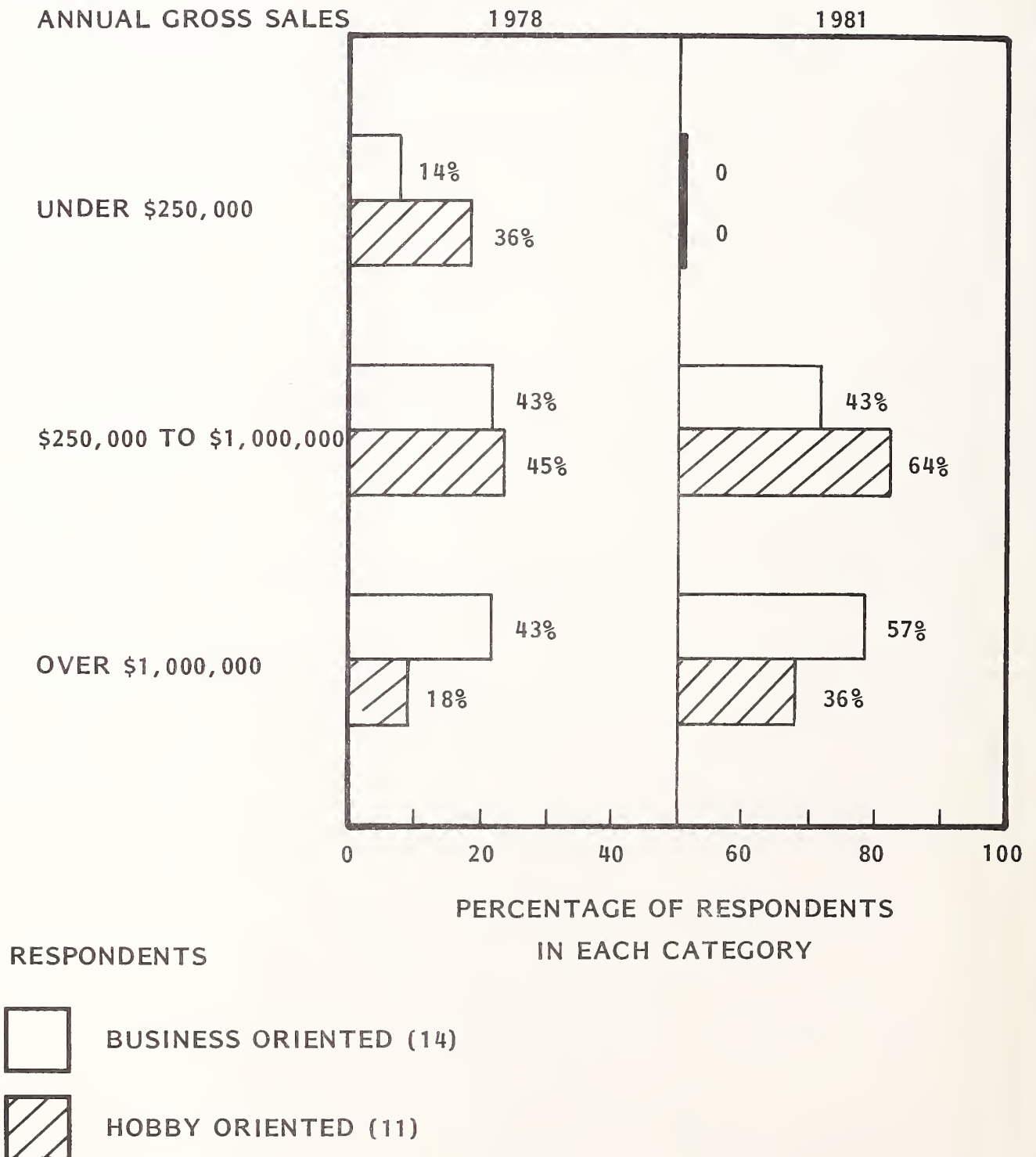


EXHIBIT III-37

ANNUAL EXPENDITURE STATISTICS

<u>RANGES</u>	<u>LOW</u>	<u>HIGH</u>
RENT INCLUDING UTILITIES	\$ 3,600 to	24,000
SALES PERSONNEL EXPENSES	8,000 to	350,000
TECHNICAL PERSONNEL EXPENSES	4,000 to	750,000
OFFICE PERSONNEL EXPENSES	5,000 to	80,000
ADVERTISING	2,500 to	140,000
INVENTORY EXPENSE	19,000 to	3,000,000
RENT INCLUDING UTILITIES/SQUARE FOOT	3.00 to	13.33

- ONLY EIGHT RESPONDENTS GAVE COMPLETE EXPENDITURES AND DIDN'T OWN THEIR OWN BUILDINGS. THE FOLLOWING AVERAGES ARE BASED UPON THESE FIGURES.

<u>ITEM</u>	<u>PERCENT OF TOTAL EXPENDITURES</u>
RENT INCLUDING UTILITIES	5%
TOTAL PERSONNEL	44
SALES PERSONNEL	22
TECHNICAL PERSONNEL	17
OFFICE PERSONNEL	5
ADVERTISING	5
INVENTORY EXPENSE	46
OTHER EXPENSES	LESS THAN 1/2%

- THE AVERAGE RENT (INCLUDING UTILITIES) = \$7.49/SQUARE FOOT /YEAR

H. COMPARISON TO RETAIL BUSINESS

- Most government business classification systems classify businesses selling to other businesses as wholesalers even though the purchase is to be used in the business and not resold. The study respondents then are wholesalers and retailers. Because selling these products in a retail milieu is novel, the establishments, both business and hobby oriented, are looked upon as retailers.

I. SPECIAL CHARACTERISTICS OF RETAILING VERSUS RESPONDENTS

RETAILING

- The average size of a sale for retailers is less than the average sale for other businesses.
- Final consumers make many unplanned, impulse purchases.
- Retail customers must be drawn to the particular store location, even if they are searching for the product.

RESPONDENTS

- The average respondent's sale is much higher than the typical retail sale.
- Unplanned, impulse purchases may be confined to books and some supplies, but the large monetary outlay for equipment and software precludes unplanned buying.
- Businessmen do not yet think of going to an establishment for any kind of substantial equipment. They expect the establishment to come to them via salespeople. Over 80% of the respondents had outside salespeople in the small business market.

2. CLASSIFICATION OF RETAIL INSTITUTIONS

- Retail institutions are classified by several methods.
 - By ownership:
 - . Independent.
 - . Chain.
 - . Franchise.
 - . Leased department.
 - . Cooperative.
 - By retail strategy mix:
 - . Convenience store.
 - . Specialty store.
 - . Supermarket.
 - . Department store.
 - . Discount store.
 - . Catalog showroom.
 - By non-store retailing:
 - . Vending machines.

- . Door-to-door.
- . Mail order.
- By product versus service retailing.
- Even though, nationwide, the number of establishments selling computers is relatively small, they do not fit into any one classification. Any single establishment also fits into each classification in multiple ways, reflecting their attempt to face various types of prospects.
- By ownership - Independent, chain and franchise fit the respondents and the business generally. As yet, there are no leased departments in large retail stores nor are there any consumer cooperatives.
- By retail strategy mix - All of the establishments would have to be called specialty stores or businesses. Some do carry separate product lines such as cameras and computers, audio equipment and computers, etc., but still they are specialty stores. Some are almost showrooms since walk-in traffic is not permitted, but they are catalog showrooms in the retail sense.
- By non-store retailing - Many of the hobby oriented establishments depend upon mail order sales. Some establishments handle mail orders only.
- By product versus services retailing - Virtually 100% of the respondents sell both services and products. Programmers, maintenance and training are actively sold and must be sold in order to sell the product at this point in the computer retail selling cycle.

3. SALES PER SQUARE FOOT COMPARISON

- Originally, inside sales per square foot per year was asked of each respondent.

Not only did the respondents not know the figure, they never computed a total sales per square foot figure either.

- For Exhibit III-38, the midpoint of the 1978 sales range was divided by the total size of the establishment.
- In retailing, a standard measure for comparison is total sales per square foot of selling space. Total sales in a retail business refers to inside sales only; there are no outside sales. Therefore, it is difficult to make comparisons because there is no way to separate the respondents' inside sales from total sales.
- Two sales per square foot figures for the respondents will be used for comparison.
 - Sales per square foot of selling area.
 - Sales per square foot of total area. The second set of figures might approximately compensate for outside sales.
- Respondents annual sales per square foot of selling area figures:

Range	\$84 to \$1,250
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Median	\$417
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Mean	\$511
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- Respondents annual sales per square foot of total area figures:

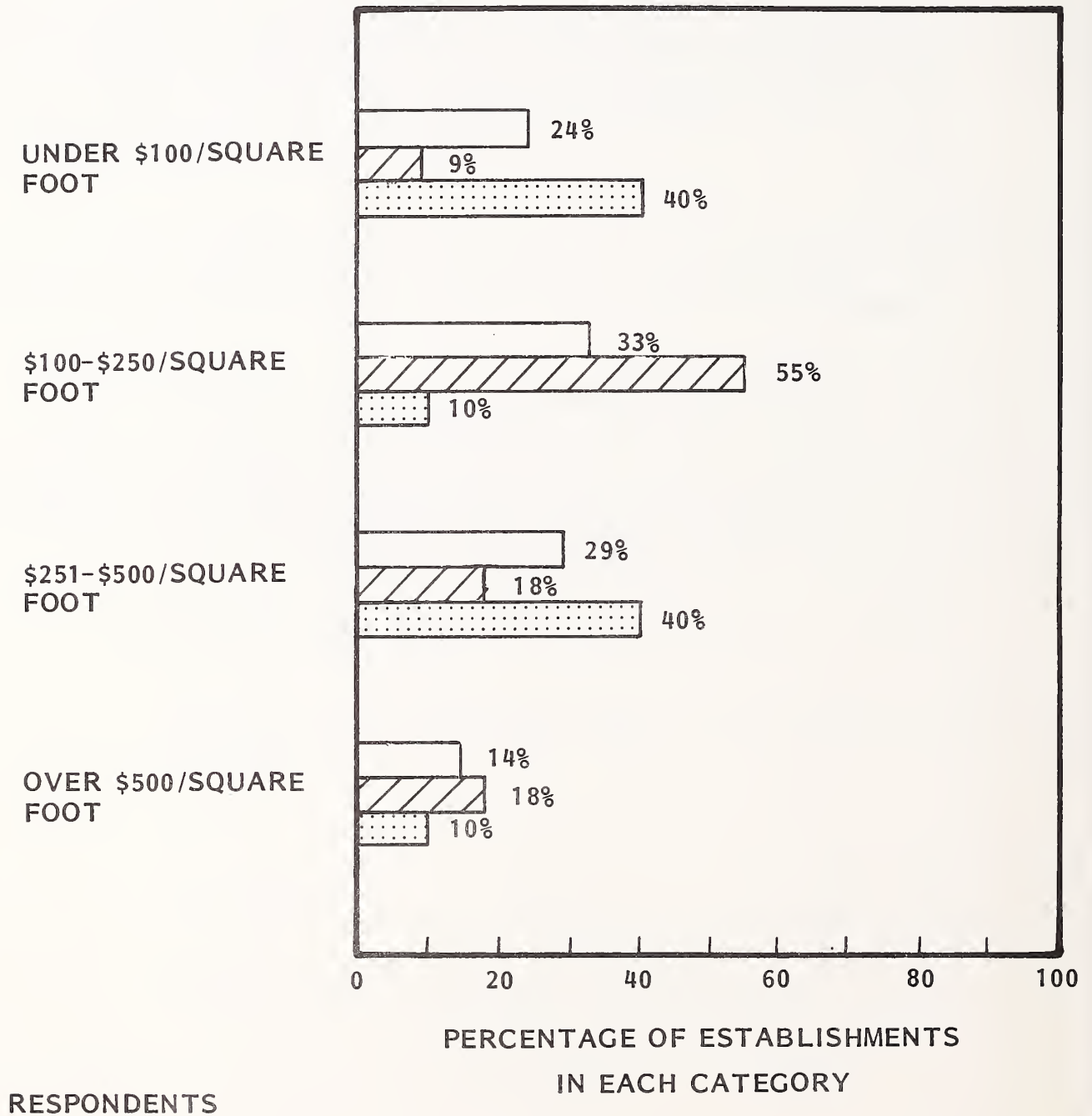
Range	\$42 to \$469
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median	\$234
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Mean	\$213
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EXHIBIT III-38

1978 GROSS SALES PER SQUARE FOOT



- ☐ OVERALL (21)
- ☒ BUSINESS ORIENTED (11)
- ☐ HOBBY ORIENTED (10)

- Both of these sets of figures exclude the three widely different sized stores referred to earlier (200, 20,000, and 22,000 square feet).
- Typical annual sales per square foot of selling area for various retail businesses:

LEASED DEPARTMENT IN LARGE RETAIL STORE (1976 DATA)

Auto Repair	\$ 42.00
Travel Service	\$490.50
Watch Repair	\$277.00
Furs	\$427.00
Sewing Machines	\$148.00
Fine Jewelry	\$361.00
Candy	\$29.00-451.00
Liquor	\$123.00-276.00

SEPARATE STORES (1976 DATA)

Specialty Stores	\$134.91
Department Stores	\$ 92.72
Discount Stores	\$ 71.07
Supermarkets (1978 Data)	\$221.00-361.40

- Either set of respondents' data doesn't put them out of line with normal retail businesses.
4. ADVERTISING AS A PERCENT OF TOTAL SALES COMPARISON
- Respondents' advertising expenditures as a percentage of total sales:

Range	.5%-10%
Median	2.0%
Mean	2.9%

RETAIL ADVERTISING EXPENDITURES AS A PERCENTAGE OF TOTAL SALES (1976 DATA)

<u>Store Type</u>	<u>Percent</u>
General Merchandise Store	3.5%
Specialty Stores	2.6%
Department Stores	2.6%

- The study respondents' figures fit well within the range of retail establishments.

5. RENT AS A PERCENT OF TOTAL SALES COMPARISON

- Respondents' rent as a percentage of total sales:

Range	.2% to 10.6%
Median	2.9%
Mean	3.5%

SHOPPING CENTER STORE RENTS AS A PERCENTAGE OF TOTAL SALES (1974 DATA)

<u>Store Type</u>	<u>Percent</u>
Supermarket	1.0%-3.1%
Drugstore	2.0%-4.5%
Department Store	2.5%-4.0%
Variety Store	2.5%-4.0%
Women's Apparel Store	1.0%-12.8%
Men's Wear	4.0%-8.0%
Shoe Store	4.0%-8.0%

- Using the rent as a percentage of total sales measure as a basis for comparison, the establishments under study are well within the ranges of retail stores in shopping centers.

IV MAJOR VENDORS' ATTITUDES

IV MAJOR VENDORS' ATTITUDES

A. DISTRIBUTION CHANNELS

- This chapter presents the attitudes of major vendors toward the use of new distribution channels to reach small businesses.
- Direct selling currently is the primary means of reaching small business end users, and is likely to remain so for the next three to five years.
- Several vendors do use other channels (now), especially those vendors that do not stress computer products.
- Most vendors are now studying multiple distribution channels and feel that changes toward using these new channels will take place slowly.
- Vendors perceive that new ways to reach the small businessman are necessary because:
 - Sales expense is increasing rapidly to a point where it is not practical to utilize direct salesmen for all sales.
 - A direct salesman spends 30% to 35% of his time traveling, which is inefficient. Because a store handles only a small geographic area, and much business is transacted in the store, this travel is minimized.

- It is becoming increasingly difficult to find, train and keep sales direct personnel. Because a store is often run by entrepreneurs, a new source of personnel is available.
- There is no firm consensus among vendors as to the best new way to reach the small businessman. The major means being considered are:
 - Vendor or franchised stores.
 - Business products centers, such as a major store or even a shopping mall of about 20 stores, just for businessmen. The concept is that such a large selection would attract businessmen.
 - "Third party" sales such as banks, selling turnkey systems.
 - Industry seminars in which initial prospecting and product explanations are accomplished with a group of customers. However, the final sales is performed in the tradition of one to one.
- Over half of the vendors interviewed said that their company had changed or was in the process of changing distribution channels to small businessmen. Each approach was different, experimental and proceeding slowly with caution. Some of these approaches are listed in Exhibit IV-1.

B. ATTITUDES TOWARD VENDOR STORES

- This year a positive attitude of vendor respondents towards vendor stores was found. This contrasts to the neutral or negative feelings expressed last year during the INPUT study on Distribution Channels. The change in such a short period of time is dramatic.

EXHIBIT IV-1

APPROACHES PRESENTLY BEING USED TO REACH SMALL BUSINESSMEN

- DIRECT SALES
- SYSTEMS HOUSES
- DIRECT MAIL
- INDUSTRY SEMINARS
- RETAIL STORES
- COMPUTER SERVICE VENDORS
- THIRD PARTIES
- OFFICE PRODUCTS STORES
- STATIONERY AND SUPPLIES STORES
✓ (PAPER MERCHANTS)

- Most vendors feel positively towards stores and they are now studying the use of stores as one of many new ways to reach new markets and to reduce selling costs.
- However, most vendors think there are better, more profitable approaches than vendor stores available now and that vendor stores won't proliferate for another three to five years.
- One vendor feels that an important criteria for deciding to open a store is the presence of a retail market - where the customers are looking for your product not where you have to look for the customer - this vendor thinks that this won't happen for a while.
- Another attitude expressed by several vendors is that the store, especially if opened soon, should be primarily a demonstration center with no walk-in traffic permitted.
- Over half of the vendors interviewed thought franchising was another very viable approach to the "vendor store" problem. A new franchise establishment is preferable; however, some vendors would consider franchising existing stores or dealers.
- Vendors have not resolved problems of how the store would relate to their existing channels of distribution. Controlling the items sold and controlling the price level of the items sold are two ways of differentiating the store's "territory" from that of other channels. Another approach would make the stores a support base for other channels.
- The major advantage of a vendor store is seen (by vendors) to be the ability to reach new markets at a lower cost of sales than traditional methods. Distributors and system houses will also lower sales costs and permit the reaching of new markets but not to the same extent as a store.

C. ATTITUDES TOWARD PRODUCTS AND SERVICES SOLD

- Hardware products and turnkey systems are seen to be good items to sell from a store if priced under \$10,000. Note that many independent stores are now selling turnkey products in the \$20,000 range.
- Some vendors felt that products up to \$40,000 could be sold from the store while one thought little over \$1,000 could be sold. The opinions range from "a few hundred dollars" to \$40,000 with a median at \$10,000.
- Vendors think that modified hardware and modified software are not good products to be sold from a store. Modified "anything" especially software is more trouble than it is worth. Stores should not be specialized but should sell "off of the shelf" primarily.
 - In Chapter III, Exhibit III-12, 38% of the business oriented establishments and 62% of the hobby establishments sell programming services. This service is split between modifying packages and providing custom programming. At this point in time owners of stores feel they must sell more than standard "off the shelf" items.
- Software, in general, was downrated as a good product for a store. The feeling is that it is too complicated for a store to demonstrate and when modified, it becomes too specialized.
- Vendors would prefer having a vendor store sell only their own products, not just computers but all of the company's products. "After all, the store is part of the company." Many vendors also realize that they may not have full product lines and then would tend to permit stores to carry complementary products. This is especially true where the stores might be aiming towards a particular market and some specialized equipment might be required to face the market as a "full line supplier."

- Vendors were also more willing to permit stores to sell "foreign" software than hardware.

D. STORE LOCATION

- Vendors are just beginning to look at store sites and evaluating different locations.
- There is no consensus yet as to which type of site would be best. Replies ranged across all possibilities, such as:
 - Downtown business area.
 - Not downtown business areas, but regional shopping area.
 - A mobile showroom which can bring the entire equipment demonstration to the businessman.
- All vendors agreed on the need to be visible in some way and to be near good transportation. The definition of "good transportation" may vary with the energy situation but nevertheless customers must get to the store.
- Sixty percent of the vendors felt a walk-on capability is desirable.

E. STORE IMAGE

- The store image, it was felt, should be professional, business like, and simple. However, it should not look like an office.

- Some vendors felt the look should be one of "a lot of equipment" indicating flexibility to meet any problem that arises.
- As pointed out in Chapter III many stores had "a lot of equipment" look about them but the owners felt this was business like and professional.

F. APPROACHING THE SMALL BUSINESSMAN

- Small businessmen can be induced to come to the store, the vendors felt, by industry specific, application directed, sales promotions using direct mail, telephones, and seminars.
- The stores interviewed did use direct mail as one main means of reaching their customers. However, they tended to use periodicals more than direct mail. For example, trade journals could be used to reach vertical markets. The business oriented stores that did use direct mail put 73% of their advertising budget into direct mail.
- Once in the store the approach should be "hands-on," low key, educational and application oriented. The vendors felt that the businessman must be made to believe that the store understands his unique business and his unique problem. The store must also not let him feel there is only one solution to his problem. They must be flexible in attempting to meet his needs.

G. INDEPENDENT BUSINESSES VERSUS BRANCHES

- Over 70% of the vendors interviewed thought stores could sell to branches of large companies provided the price is low enough to avoid the corporate purchasing maze or a capital expense committee review.

- Note that the business oriented vendor store respondents reported their largest sales were to branches of large companies. Again showing that large vendors were less optimistic than the actual stores on the size of orders.
- Sales to branches were \$18,300 on the average compared to \$8,600 to independent companies. However, the hobby oriented stores found the typical sale, both to branches and independent companies, to average between \$6,000 to \$8,000.

V FRANCHISING

V FRANCHISING

A. DEFINITION OF FRANCHISING ARRANGEMENTS

- Traditional or product and trade name franchising consists of product distribution arrangements in which the franchisee is to some degree identified with a manufacturer's supplies. Typical of this type of franchise are automobile dealers, gasoline service stations, and soft drink bottlers.
- Business format franchising occurs when a franchisor establishes a fully integrated relationship that includes not only product, service, and trademark but also a marketing strategy and plan, operating manuals and standards, quality control, and a communication system that provides for a two way information flow. The newer types of franchises, such as fast food stores, motels, and business services and real estate services, take this form.
- In addition to the two basic definitions given above, distribution agreements, agency, and dealer agreements are all considered franchises in this study. In exchange, for an agreement to move a specified amount of goods and to have no directly competitive product, the retailer is entitled to use the franchisor's name and trademark, and to participate in cooperative advertising schemes, etc.

B. VENDORS ATTITUDES TOWARDS FRANCHISING

- Eighty percent of the vendors thought very positively about franchising. Sixty percent felt that in many respects it is better than company owned stores, because the franchisee has a greater incentive to succeed and the franchisor achieves a broad distribution of his products while using someone else's money.
- The interested vendors were not limited to a particular product line. Computer manufacturers, communications equipment manufacturers, and office product makers, all felt that franchising was a good investment alternative to a vendor owned store.
- Some vendors already distribute products by using some form of franchising.
 - DEC franchises distributors.
 - 3M sells office products through office supply dealers.
 - Honeywell has authorized distributors for non-computer products.
 - CDC sells services through third parties.
 - GTE franchises distributors for interconnect equipment.
 - Wang qualifies software houses.

All of these are forms of franchising - implying approval of the manufacturer before his products can be sold and then the use of the manufacturer's name to enhance sales. Annual quotas, royalty payments, etc., may also be involved.

- The respondents indicate they will attempt to reach the small businessman with marketing experiments along these lines.

C. FRANCHISOR/FRANCHISEE ATTRIBUTES AND RESPONSIBILITIES

- Computer stores and office products dealers were thought by vendors, to be the best franchising risk because of:
 - Technical knowledge of the owners of computer stores.
 - Business experience of office product dealers.
 - Market knowledge attributed to both types of stores.
- Vendors would also require good credit and a substantial financial commitment for a prospective franchise.
- At this point in time, no vendor would consider franchising a large retail chain store, such as Sears.
- Vendors felt that they would be sought out by potential franchisees because of the:
 - National reputation of the vendor.
 - Stability of the vendor which implies ongoing support and a continual flow of new products.
 - Reliable, well priced, full product line which they offer to prospective franchisees.
- Vendors felt their obligations to the franchisee included:
 - Marketing support, such as special support representatives and visits to the manufacturing plant for a large sale.

- Training which will increase the store salesman's knowledge and the training of key customers.
- Sales promotion, such as advertising, sales literature, etc.
- Maintenance support, including technicians back in the factory and training of store maintenance personnel.
- Most vendors would require the franchisee to buy a certain amount of products each year. However, no specific amounts were mentioned which shows that the issue has not been thought through yet.

D. DEALERS' RECOMMENDATIONS TO FRANCHISORS AND SUPPLIERS

- Dealers were surveyed to obtain their recommendations to vendors as to how the vendors can improve relationships with dealers.
- Dealer recommendations fall into three areas: Marketing, Warranty, and Pricing.

I. MARKETING

- Recognize the difference between a proper marketing job and just "shipping iron," which implies a strong level of support of dealers, especially from dealers selling to businessmen for sales to businessmen.
- The dealer needs:
 - Promotional support, such as advertising and sales literature oriented to specific applications and specific industries.

- Training in new products before they are advertised or delivered so that store personnel will be knowledgeable when customers arrive in response to a sales campaign.
 - More adequate technical training for sales personnel.
 - Some help in financing inventory, such as 30, 60, 90 day credit, or an open account. Shipping on consignment is also a possibility.
 - Customer oriented technical representatives which are vendor personnel assigned to assist the store at customer sites and in the store with technical problems.
- Restrict advance advertising of new products because:
 - Customers expect the product to be in the store and are disgruntled when it is not.
 - It makes it very difficult for the dealer to sell his existing inventory which is more of a new product introduction control than an advertising control.
 - Set realistic delivery schedules and meet them. The chief complaint of the dealers is that delivery promises were broken.

2. PRICING

- Pricing is the most important issue between the vendor and the dealers.
 - Provide proper margins - 35-45% is reasonable. Less than 35% and the dealer can't survive; greater than 45% leads to widespread discounting.
 - Dealers think that manufacturers should allow the dealers to set price from demand and availability because this would increase their margin

as the dealers may be able to sell above list. (Note that this complied with the philosophy of many vendors.)

- Do not drop prices without letting the dealers know in advance.
- Dealers think that mail order houses should be discouraged because the local dealer ends up supporting equipment bought elsewhere. The manufacturer does not reimburse them for this warranty support.

3. WARRANTY

- Dealers think that manufacturers should extend the warranty period to one year because customers learn to use computers at a slower rate than they learn to operate simpler equipment.
- Improve turnaround time on equipment sent for repair. Most critical is the vendor keeping his commitments.
- Have realistic minimum repair charge; not \$75 minimum for a \$5 part.
- Should have local warranty service centers - having to say "the warranty is good in Chicago" doesn't help business, although specific distances were not mentioned. Shipping to a depot for repair is acceptable.
- Manufacturers should recognize the dealers as a viable outlet for reaching new markets and support them as if they were part of the company.

E. FRANCHISING IN THE UNITED STATES

- Franchising is a big business. Franchise sales of goods and services are expected to reach nearly \$300 billion in 1979, a 9% increase from the \$275 billion estimated sales recorded in 1978. The number of establishments are

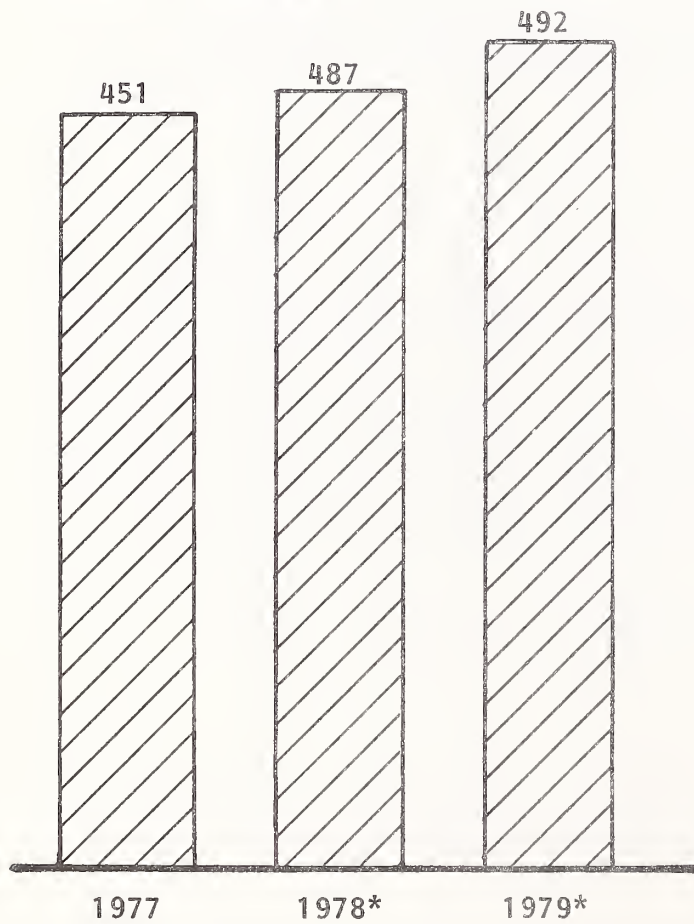
nearly a half a million and the number of employees are greater than 4 million (Exhibit V-1).

- Retail franchising accounts for 90% of all franchising gross receipts, and in addition, retail franchising sales are expected to amount to 31% of all retail sales in 1979 (Exhibit V-2).
- Two franchise businesses are similar to computer systems businesses.
 - Automobile and truck dealers - they sell big ticket items to small businesses and must have maintenance and warranty service.
 - Business aids and services - they reach the small businessman with a range of services from accounting and general business systems to security systems and tax preparation services.
 - Exhibit V-3 shows some growth characteristics of these two types of franchise businesses over the past ten years. While the number of automobile dealers has declined, the sales per establishment has increased by over 200%. In the business services area the sales per franchise growth has not kept up with the recent tremendous growth in sales and number of franchises. These new businesses are attempting to establish themselves in the business world. The growth is primarily attributable to the new tax preparation services and real estate agencies.
 - Automobile dealers are an example of a traditional franchise while business services are generally examples of business format franchising.
- The success of both of these franchises which are very different from each other but similar to possible information processing offerings is another indication of the expected success of a franchise approach.

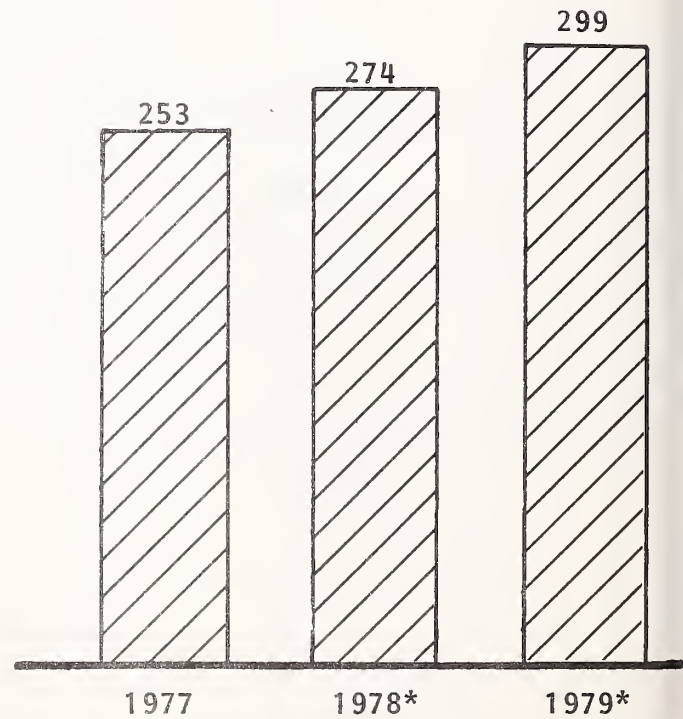
EXHIBIT V-1

TOTAL FRANCHISE ESTABLISHMENTS AND SALES

ESTABLISHMENTS (THOUSANDS)



SALES (\$ BILLION)



*ESTIMATED

EXHIBIT V-2
RETAIL FRANCHISING

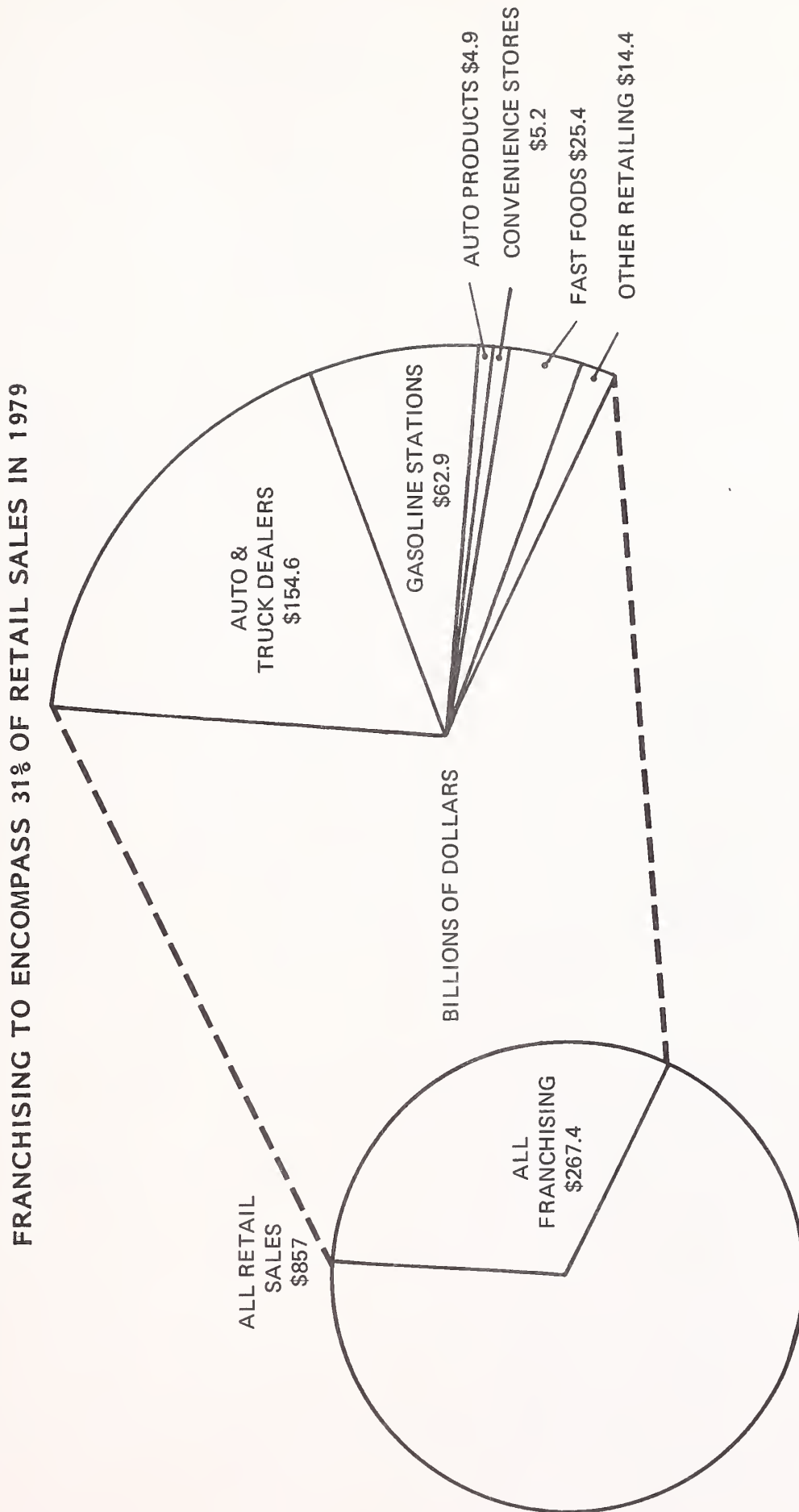


EXHIBIT V-3

FRANCHISING GROWTH

1969-1979

YEAR	ALL FRANCHISING	AUTOMOBILE AND TRUCK DEALERS	BUSINESS AIDS AND SERVICES
1969			
SALES	\$115.9B	\$61.2B	\$.7B
ESTABLISHMENTS	383,908	37,800	8,645
SALES/ ESTABLISHMENT	\$301K	\$1.6M	\$81K
1974			
SALES	\$173.4B	\$85.9B	\$1.3B
ESTABLISHMENTS	440,701	32,394	19,516
SALES/ ESTABLISHMENT	\$393K	\$2.6M	\$67K
1979*			
SALES	\$298.6B	\$154.5B	\$5.2B
ESTABLISHMENTS	492,379	31,510	46,622
SALES/ ESTABLISHMENT	\$606K	\$4.9M	\$112K
PERCENT CHANGE 1969-1979			
SALES	158%	152%	643%
ESTABLISHMENTS	28%	-17%	439%
SALES/ ESTABLISHMENT	101%	200%	38%

*ESTIMATED

VI STARTING A STORE

VI STARTING A STORE

A. INTRODUCTION

- This section is a step by step outline of the considerations and decisions that must be reviewed once the initial decision is made to "go retail." It assumes a vendor has decided to "go retail" in order to reach new markets less expensively than using a direct sales force, and analyzes "how to do it."
- The retailing concept, while a subset of a broader marketing concept, should be stated at the onset of any discussion on planning a retail business. It has three elements:
 - Customer orientation - a retailer must determine the characteristics and needs of customers.
 - Coordinated effort - a retailer must integrate all plans and activities to maximize efficiency.
 - Profit orientation - a retailer must strive to generate sales while attaining acceptable profits.

These retailing concepts should be fairly easy to adopt. Customer characteristics and needs are researched. Integrated short-run and long-run plans are developed. Changes in customers, the economy, competition, etc., are

monitored. Plans are based on profitability, rather than on sales volume expansion or sales volume stability.

- Development of a retail strategy, defined as an overall plan or framework of action, is important because it:
 - Forces the retailer to study the legal, economic and competitive environment.
 - Shows the retailer how to differentiate his business from competitors and to develop an offering that appeals to a chosen group of customers.
 - Helps coordinate the total effort of the business.
 - Anticipates crises and often helps avoid them.

The interdependent steps in developing a retail strategy are shown in Exhibit VI-1.

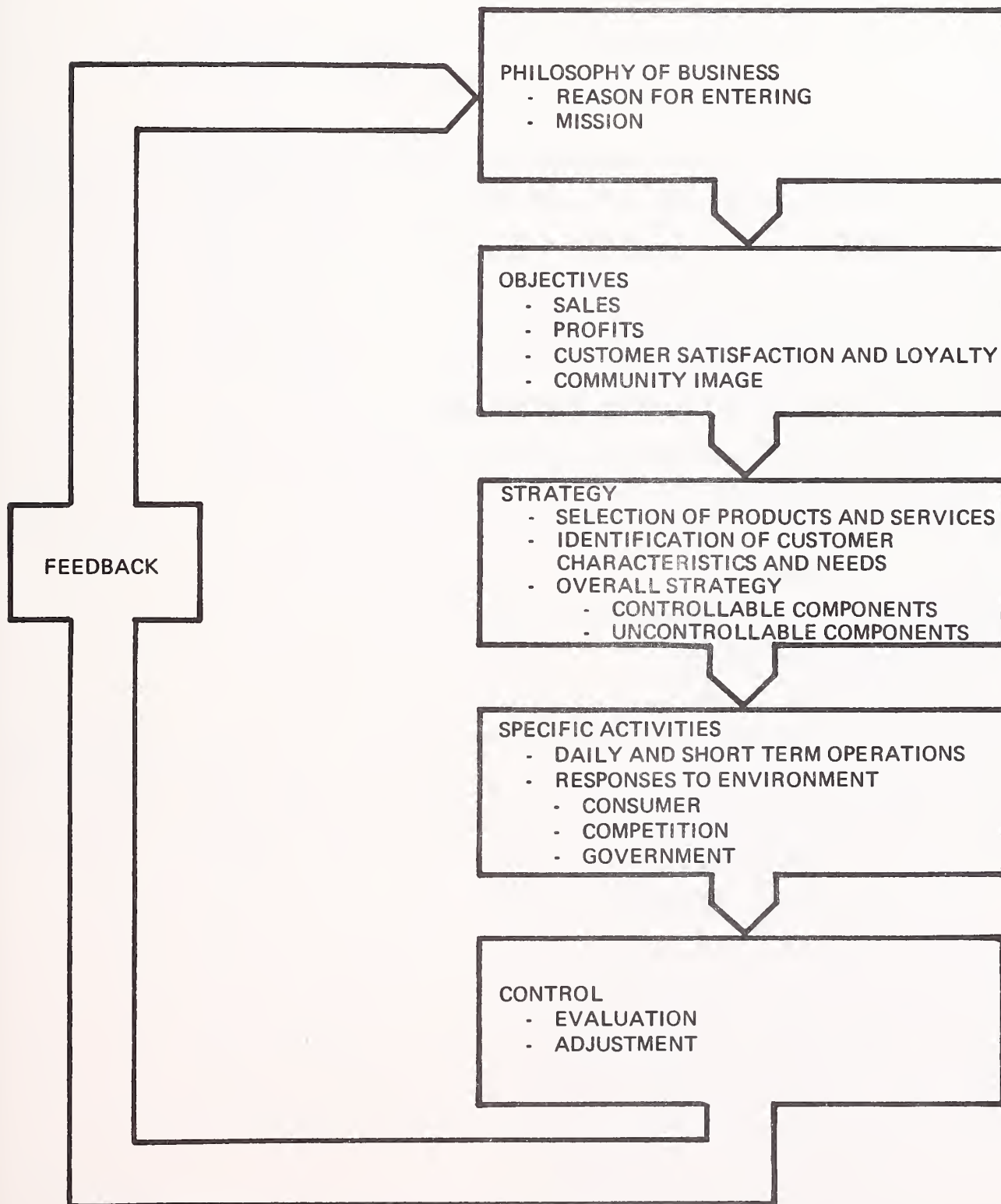
- All decisions are interrelated. The topics must, by the nature of the medium of a report, be discussed serially. However, the interrelationship will be discussed. Ideally, a dynamic medium should be used so the effect of one decision will immediately be shown on all of the rest of the decisions.

B. CHOOSING THE MARKET

- The nature of the products and services to be sold help define the market segments.
- At the initiation of the analysis a strategy to sell to a single segment or to multiple segments, and which defines specific segments to sell to, is important because that decision will strongly influence other decisions on:

EXHIBIT VI-1

DEVELOPMENT OF A RETAIL STRATEGY



- Location of the store.
 - Products to sell.
 - Price of the products or of a turnkey system.
 - Maintenance of products once sold.
 - Promotional methods of retaining users.
- There are five market segments generally considered possible to reach with a retail approach selling high technology products or services. Each will be briefly discussed. They are:
 - Small businesses.
 - Branches of the Fortune 500/50.
 - Professionals.
 - Hobbyists.
 - Homeowners.
1. Small Businesses - There are over three million small establishments in the country with less than 500 employees. This 99% of all U.S. establishments employs about 70% of all employees. Covered in the SES program are:

<u>Number of Employees</u>	<u>Number of Establishments</u>	<u>% of Employees</u>
0-19	2,750,000	21
20-99	375,000	25
100-499	75,000	24

INPUT estimates that these companies spent \$31.3 billion in 1977 for information processing equipment and services with outside vendors.

2. Branches of the Fortune 500/50 - There are 165,000 branches of the Fortune 500/50 companies that are considered in the small business group. These establishments are spread over the range of SICs. As INPUT determined in 1978 these branches have a reasonable amount of autonomy in purchasing information processing equipment and services. This autonomy varies by industry, by company, and by type of purchase, but as prices of system products decrease and as reliable standard application software becomes available more and more products will fall within the specifying and purchasing range of these branches.
3. Professional - A very elusive term and a hard market to pin down. In general, it refers to doctors, lawyers, accountants, engineers, etc., who are in business for themselves. The number of businesses that are in this category are included in the segment called Small Businesses.
4. Hobbyists - are relatively new purchasers of equipment in large quantities and are probably the original reason for the existence of the computer retail store. This segment came into being when micro-computers and systems became available at very low prices. The hobbyists are "board buyers." They buy kits, they buy boards and circuits, they buy all components, especially used or obsolete equipment, and they have the knowledge and skills to assemble a functioning system. They come in all ages, with all backgrounds and levels of experience. The hobbyists are an enthusiastic, technically competent

group with little money to spend. Many respondents felt they couldn't make a living catering to hobbyists and so they are moving their image, inventory and investment towards small businesses. The market size increases as more people get interested through schools and work, as the price drops, and as computer retailers sponsor local clubs, seminars, etc.

5. Homeowners - are non-computer technical people who might buy a system and use it without extensive training, much as they might use a component stereo set. They could plug the system in, follow some simple instructions to load a program and then use it. A larger market has not yet developed in this segment. But because every household (at least as many households that buy simple plug-in stereos), is a potential customer the market is expected to develop in the coming 10-15 years. There are over 74,000,000 households in the U.S. (1976). Over 40% have annual incomes over \$15,000 and about 15% have annual incomes over \$25,000. This latter group, about 11,000,000 households, are prime prospects for systems. Using the 1980 census data when available the characteristics and demographics of the groups with the largest disposable incomes will be pinpointed.

C. TYPE OF STORE

- Several means of retailing products will be briefly discussed. All are types of stores. Mail order arrangements will not be considered.

I. VENDOR STORE

- This is a store operated by a major equipment or services vendor, with the vendor name prominently displayed. All aspects of the retail strategy are controlled by the vendor. If the vendor's product line is broad enough for the chosen market segment then only the owning vendor's products need to be carried.

- If the vendor's product line is not broad enough either in price, product or service, then other vendor's products or services should be carried. If, for a particular industry, some very specialized equipment or services might be required, then another vendor might be brought into the store generally on a very low key basis. The controlling vendor might arrange to have his own name put on the "foreign" product or service.
- In exchange for total control the vendor assumes all of the costs (and risks) of the store. The capital requirements (discussed in the next section) are greatest compared with other methods of retailing.

2. FRANCHISE STORE

- This is a store totally associated with a particular vendor, but not owned by the vendor. The agreement between the franchisor and franchisee usually spells out the complete business agreement.
- As mentioned in Chapter V, there are two types of franchising:
 - Product and trade name franchising.
 - Business format franchising.
- In product and trade name franchising (automobile dealers), the vendor retains some control, especially over product and distribution. The vendor's name is prominently displayed and a high percentage of business is due to the vendor name. Usually the vendor performs product image advertising while the franchisee does price and promotional advertising.
- In business format franchising, the franchisor retains a major control over all aspects of the business. The small businessman benefits from the experience, buying capabilities, and the image of a large multiunit chain organization. The franchisee must adhere to vendor store formats, product lines, accounting practices and business policies.

- In both kinds of franchises the franchisee usually pays a franchise fee plus a percentage of gross sales or profits to the vendor.
- The vendor provides products or services exclusively to the franchise as well as site selection help, training, promotional material, and image advertising programs.
- The vendor can achieve broad retail representation of his products or services and maintain reasonable control with a fairly small investment. The franchisee uses his own capital for start-up and operating expenses. Some inventory expenses might be borne by the vendor, (i.e., shipping goods on consignment, etc.) as well as initial local promotional materials and advertising.
- Strong entrepreneurially oriented major vendor salesmen might make good franchisee prospects.
- Broad based companies might sell a range of business products through a store. An RCA for example, might sell interconnect systems, closed circuit TV security systems, communication services, electronic equipment maintenance service, and car rental services through a single business retail outlet.
- Some disadvantages for the vendor are:
 - A individual franchisee can ruin the overall image and reputation of the vendor because standards are not maintained.
 - Lack of uniformity can adversely affect customer loyalty.
 - Resale value of individual units is injured if some franchisees perform poorly.

3. LEASED DEPARTMENT

000081

- This is a department in a retail store - usually a department, discount, or specialty store - that is rented to an outside party. The proprietor of a leased department is responsible for all aspects of its operations (including fixtures) and normally pays the store a percentage of sales as rent. The store imposes various stipulations on the leased department to ensure overall consistency and coordination.
- Leased departments are used to broaden merchandise or service offerings into product areas requiring highly specialized skills or knowledge not possessed by the parent store organization.
- Large department stores and large office equipment dealers are prime prospects as lessors. Office equipment dealers with good reputations and large loyal customer bases are timorous about getting involved with computers and should be eager to extend and modernize their product line at minimal risk through leasing.
- A form of a leased department, that some respondent vendors expressed an interest in, is the "business products and services center." An outside organization organizes the center and rents space to many business products vendors. The central location of a host of services and products is expected to draw the small business owner. Each of the lessees can use his space for sales, showroom or seminar as he chooses. Rent may be fixed or a percentage of sales.

4. AUTHORIZED DEALER

- Distribution contracts and agency agreements are approximately similar means of retailing a product, retaining almost no control, and requiring no capital investment.
- If there are several competing vendors for certain outlets, obtaining the dealer might require vendor concessions such as training, consignment of demo units, etc.

- The agreement details both parties responsibilities. The store proprietor usually must:
 - Accept a certain amount of product initially.
 - Accept an annual quota and achieve it in order to retain the product line.
 - Sometimes not carry a directly competing product.
 - Sometimes provide a certain amount of display space.
 - Sometimes contribute to vendor advertising.
- The vendor usually must provide:
 - A specific amount of training.
 - A certain amount of technical support.
 - Promotional materials.
 - Technical materials.
 - Warranty and regular maintenance service.

5. SHOWROOM STORE

- A showroom store is not much different than a sales office, except that it is geared around getting leads for sales people to follow-up.

- The store operates by holding seminar classes, etc., as lead gathering tools. One main function is education. Product demonstration is another important function. All demos are part of the seminar class or are given by appointment only.
- A showroom store can be a franchise operation or a vendor operation. The capital requirements and control limitations are similar to the respective operations discussed before.

6. SELLING TO LARGE RETAILERS

- This is actually a wholesaling operation that achieves retail distribution of the product in a uniform manner with the only cost to the vendor being a reduced mark-up because of the large volume order.
- Sales of this nature can be with the vendor's name or the retailer's name. When sales of the computer Montgomery Ward is selling reach over a million dollars annually it will most likely become a private label brand.
- If sales become large enough, the retailers may take control by refusing to buy at the "list" vendor price. In addition, private labeling allows the large retailer to produce a set of specifications and solicit the product from any vendor who will meet those specifications.

D. CAPITAL REQUIREMENTS

- The amount of start-up capital required by a vendor store and the amount of operating expenses for the first year are very dependent upon the choice of market segment, the type and size of the store.
- The respondents felt that the amount of money needed is now greater than the "shoe string" which they started with because:

- There is more competition to face. If there is no computer store in the trading area chosen for the store, there is always Radio Shack and mail order operations.
- Manufacturers are requiring larger and firmer commitments for products.
- The respondents felt that \$50,000-100,000 was sufficient start-up capital for going after the hobby market, while the business market required more money (\$125,000-250,000) because of the need for "finer fixtures," larger systems for demonstrations, and more permanent store personnel.
- It was very difficult for the respondents to separate start-up capital from first year operating expenses. In a one owner store, salary and inventory are often the biggest expense items.
- Two business store owner respondents felt that considerably more money is necessary. One, a business only computer store selling nothing under \$15,000, felt that \$1 million was necessary to start and to carry the first year, with \$200,000 of that going into inventory. The second, an interconnect system distributor, who will be moving into other office products, also felt \$1 million was necessary for the first year, including start-up capital.
- In a Standard & Poor survey done in 1978, a typical speciality store had the following costs:

Construction	\$20-30/square foot
Fixtures	13-16
Working Capital	13-14
Pre-opening	3-5

- For a 2,000 square foot store, using the midpoint of each range this yields:

Contruction	\$ 50,000
Fixtures	29,000
Working capital	27,000
Pre-opening	<u>8,000</u>
	\$114,000
plus 20% for inflation	<u>22,800</u>
TOTAL	\$136,800

- Taking out construction costs of \$60,000 and adding other expense items averaged from respondents replies yields:

<u>COSTS</u>	<u>AMOUNT</u>
Fixtures, working capital, pre-opening	\$ 76,800
Rent @\$7.50/sq. ft./yr. x 2,000 sq. ft.	15,000
Personnel costs	130,000
Inventory	<u>150,000</u>
TOTAL	\$371,800

Other expenses can come from working capital. Personnel costs include an outside sales function, programming and maintenance people.

- Between \$350,000 and \$400,000 should cover start-up expenses plus operating expenses for the first year for a 2,000 square foot rented facility selling computer systems to small businesses. It is expected that this store will be able to sell \$500,000 the first year.
- A smaller store would cost less. Not having an outside sales function would reduce costs as would not having any training or programming services. As the marketplace looks today all of those functions are necessary in order to sell to the small businessman.
- A franchisee would need the same amount of capital to start and operate a store. This money might be raised from outside sources. Some vendors help

their franchisees with some percentage of the costs. Inventory costs are most often covered by the vendor.

E. SITE LOCATION

- The respondents showed a preference for easy access locations, such as, street level or mall location, but the easy access features were not stressed or utilized by many stores.
- Only one business oriented owner wanted to move away from his main street location to an industrial park. The main street walk-in location brought many homeowners who he felt were not worth the time spent with them.
- The vendors also did not agree either on a particular site type or even a set of criteria for locating a site. Many vendors interviewed felt downtown business or industrial areas would be best if transportation and traffic patterns to the site were good.
- DEC and COMPAL stores are all street level walk-in stores using no outside salesmen.
- The store owner respondents who were business oriented and those that were making new efforts towards the small business market generally used outside sales people to reach that market.
- The use of outside sales people within a chosen business district makes the precise location immaterial within the district. An important consideration would then be salesmen's ease of access and the proper environment for demonstrations, attracting personnel, etc.

- However, the point of having a retail store for selling to small business is to have them come into the store. Having outside sales people may not reduce selling expenses sufficiently to justify the store.
- Since the prime motivation for starting a retail store is to reach new markets with reduced selling expenses, then the whole venture must be predicated on the small business users buying from a store. Even if some direct sales people are required now, it would be folly to choose a site that made it difficult to achieve the prime purpose of the project.
- A considerable body of research exists dealing with specific retail site locations. Site research as been done for:
 - Stores selling to consumers.
 - Stores with a reasonable amount of competition.
 - For supermarkets.
 - Regional shopping centers.
 - Inner city locations.

Very little exists for stores selling to business (with little competition) which are the characteristics of a vendor store.

- Some of these techniques (see Appendix A: Sources) may prove useful when adopted for business use.
- Geographic customer data is available to vendor stores. For example, the Federal Government publishes maps of each Standard Metropolitan Statistical Area (SMSA). Maps of greater detail are available from the U.S. Geologic Survey, while city maps are available from Rand McNally and other commercial map makers. Local street maps are published by Chambers of

Commerce, and for extreme detail, city engineer's maps are available. In addition, Chambers of Commerce publish directories of businesses within each city or area.

- INPUT publishes, as part of the SES program, the average annual amount of money spent per employee for information processing equipment and services for each industry. This information used in conjunction with the maps, showing industry location data, can help localize an optimum area for a vendor store.
- Analysis of the competition and their product and industry strengths will provide additional data for consideration in site location.
- A market survey of the businesses in the area to determine from whom they buy business equipment, whether they go to the store for the equipment, demonstrations, etc., and if not, what might motivate the purchasers to go to a store is also a useful factor for site location.

F. RELATIONSHIP TO OTHER DISTRIBUTION CHANNELS

- The retail store must be integrated into a total vendor marketing plan. The main purpose in opening a retail store is to reach new markets at lower cost than would be possible using other channels, especially direct sales personnel. If the markets are chosen carefully, then the products offered through the stores can be directed very specifically to the chosen market. This market may be identified by industry, by company size, by application, or by size of the sale.
- If the store offers standard systems products with no modifications permitted then conflict with direct sales personnel will be minimized. If a customer requires system modifications then referral to another distribution channel can occur. This referral is another form of market control.

- Value-added distributors, such as system houses, usually provide a system product requiring some customization for each sale. This type of product does not have to be sold from the store. However, if the software package is fairly standard then it might be sold from the store, thus providing, the distributor with an additional product.
- Non value-added distributors (wholesalers) usually sell to resellers - retailers or value-added systems houses. They will only be affected by installation of a vendor store if there are other retailers in the area.
- A retail store will be the least threat to other channels if its market is well defined, its product mix and price range is rigidly controlled, and if it offers a minimum of or no ancillary services such as programming, software modifications and hardware modifications.
- Another approach to interrelation with other distribution channels is for the retail store to act as an area base housing direct sales personnel for other markets or for other products, and in general to use the store as another selling resource.
- The store can be part of an integrated market approach under control of a regional manager. The region can then get credit for the store's performance and all can share in its success.

G. STORE ORGANIZATION

I. PERSONNEL

- Small independent specialty stores, such as computer stores, generally do not require much organization. All of the retail functions are performed, with each employee at times performing different jobs. However, if the retail operation encompasses unique skills, such as programming, outside sales, training and maintenance, a more elaborate organization may be needed.

- The average number of people, excluding office personnel, employed by the business oriented respondent was ten, while the hobby oriented respondents averaged five. However, some vendor stores with considerably more employees were found during the course of this study.
- If programming, maintenance, and outside sales functions are part of the store operation then managers or assistant managers will be needed for each group. Training at the users' establishments was usually done by the outside salesperson.
- Outside sales and/or programming can be performed by the store owner(s) or manager depending upon their background.
- Each vendor store will require a manager and an assistant manager. This organization assigns overall responsibility and provides back-up. If no outside functions will occur (if maintenance will be taken care of by the manufacturer and if no software modifications are permitted), the addition of a part-time office worker should complete the staff.
- As additional functions are assumed by the store, additional personnel will be required. An aggressive promotional program, an extended business day or week, customer site training, and in-store maintenance all require additional personnel.

2. SPACE

- One-half of the space of the respondents' establishments was allocated to selling and demonstrations. In many establishments, especially those that operated by appointment only, the demonstration systems were used by the business for their own in-house work.
- The rest of the space was split up differently depending upon the functions of the store.

- Inventory space averaged 15%, but ranged from 5% to 50%.
- Classroom space averaged 16%, but ranged from 5% to 45%.
- Office space averaged 18%, but ranged from 5% to 50%.
- Maintenance space averaged 20%, but ranged from 5% to 45%.
- There was a difference in selling area between the business oriented and the hobby oriented establishments - 41% versus 61% respectively. The hobby store had less office space, training space, programming space, and less need for an outside sales office, so more space was devoted to selling.
- The vendor store then should allocate about 50% of the total space to selling, displays, and demonstrations. The remainder of the space is highly dependent upon the particular functions performed and services offered by the store.

3. OVERALL SIZE

- The median store size of the respondents is 1,600 sq. ft. (Exhibit III-25), but the range is from 1,300 sq. ft. to 8,000 sq. ft. This means that half of the establishments are from 1,300 through 1,600 square feet in size with the other half strung out from 1,700 to 8,000 square feet bringing the mean up to 2,340 square feet.
- A 2,000 square foot facility then could be broken up in the following manner:
 - 1,000 sq. ft. for selling, display, and demonstrations. Cabinets within this area could store part of the inventory of promotional materials, media, such as floppy disks and other small items.
 - 200 sq. ft. for the manager's office area.
 - 200 sq. ft. for inventory.

- 200 sq. ft. for classroom and programmer space. Part of this might also be used for inventory if necessary.
- 400 sq. ft. for hardware maintenance, system assembly and test, etc. Part of this space will also be used as a receiving and shipping area if required.

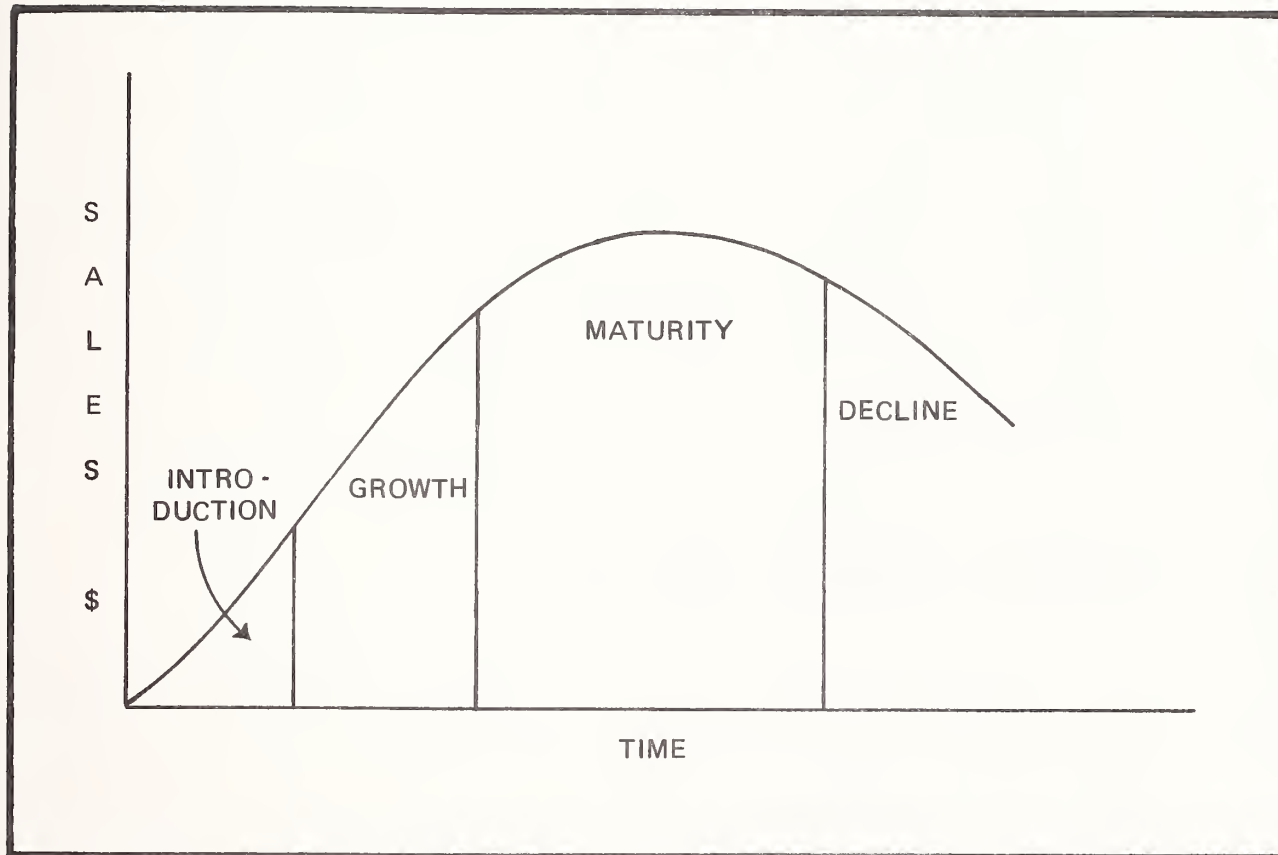
H. PRODUCTS AND SERVICES DECISIONS

- The products and services offered for sale in a retail establishment must be part of the overall retail strategy. The various retail product assortment strategies are:
 - Wide and Deep - many product categories and a large assortment within each category.
 - Wide and Shallow - many product categories and a limited assortment in each category.
 - Narrow and Deep - few product categories and a large assortment in each category.
 - Narrow and Shallow - few product categories and a limited assortment in each category.
- Within the realm of retailing, computer stores are very narrow and are rarely deep. The DEC store in Manchester, NH is narrow and shallow. DEC sells basically only one system for businesses and the same system with a better printer for word processing. They sell supplies, word processing services, education and maintenance.

- Within the realm of computer stores there are few variations within the pattern. Few respondents could be considered wide and deep. It requires a high inventory investment and many of the inventory items have low turnover.
- Again, within the range of computers the assortment strategies of wide and shallow, narrow and deep, and narrow and shallow might prevail. Also within any product category the depth is determined partially by the term used to describe the category. For example, a store may be shallow in disk drives; less shallow if they are called bulk storage because tape drives and cassette drives are included; and even less shallow when included in the category of all storage devices because memory boards of all sorts can be counted. The terms are relative and must be used with some intuitive feelings.
- A hobby store or a "hobby store moving to small business store" would be considered to have a wide and shallow product assortment. The products would have to range from ICs and blank boards through \$15,000 to \$25,000 systems. The hobby stores rarely carry \$15,000 to \$25,000 systems; their systems are usually no more than about \$5,000.
- A narrow and shallow product assortment, such as the Manchester DEC store is very limiting. A narrow and deep strategy may be confusing to small business customers. Does he really care about or know the real difference between a 116K byte diskette with a 200msec average access time and a 160K byte diskette with a 250msec average access time? The small business user will really be interested in a total system to solve his data processing problems.
- In order to attract a variety of small businesses ranging from the 1-19 employee group up to the 100-499 employee group a computer store's assortment should be narrow and moderate. A basic number of product categories with the assortment in each category having significant system differences should be stocked so that systems can be sold from about \$5,000 to about \$25,000 (turnkey cost at \$25,000). It must always be remembered that systems are being sold not components.

- In a retail product assortment, it is a good strategy to carry products that are in different stages of their life cycle. The length of the life cycle varies with each product. Thus, even if all products carried were in the introduction stage initially, within a short period of time the differences in their growth rate would be apparent. Technological development plays an important role in the product life cycle.
- Exhibit VI-2 shows the product life cycle graphically and the chart on the bottom shows the various strategies that must change as the products age. Computer products for hobbyists are, according to the respondents, in the late growth stage while homeowner and small business products are in the introductory stage.
- Computer systems in the \$5,000 to \$25,000 price range should be carried. They should be complete systems including systems software and a common or business language compiler or interpreter. Application packages should be sold to be used with no modification at the low end of the price scale and some modification should be available at the high end of the systems price scale.
- Training and education should be available for a fee to all customers. Training manuals about both the system and applications should be included in the system price. Education is an important function at this stage in the market growth. Informative familiarization courses should be available for a fee to business people. The courses will get the businessmen used to coming to the store, used to and feeling comfortable with the equipment.
- Maintenance should be provided in the store for small systems and provided on-site for larger systems. Third party maintenance on-site is acceptable, but the customer must feel taken care of by the store. The store must sell maintenance contracts, which help produce a secure feeling for apprehensive first time users.

EXHIBIT VI-2 RETAIL PRODUCT LIFE CYCLE



STRATEGY VARIABLE	INTRODUCTION	GROWTH	MATURITY	DECLINE
TARGET MARKET	HIGH INCOME INNOVATORS	MIDDLE INCOME ADOPTERS	MASS MARKET	LOW INCOME AND LAGGARDS
PRODUCT	ONE BASIC MODEL	SOME VARIETY	GREATER VARIETY	A FEW STANDARD MODELS
DISTRIBUTION	LIMITED OR EXTENSIVE	MORE OUTLETS	MORE OUTLETS	FEWER OUTLETS
PRICE	PENETRATION OR SKIMMING	WIDE RANGE	LOWER PRICES	LOWER PRICES
PROMOTION	INFORMATIVE	PERSUASIVE	COMPETITIVE	LIMITED

- Systems grow in various ways and the \$5,000 to \$25,000 price range is not absolute. These should be base systems, adding terminals and communications interfaces can enlarge the system substantially.
- It would also be ideal to have some software compatibility in the upward growth of the systems. Add-on business to an existing customer can be very profitable, and if the customer can be assured that he won't have to redo his data base as his system grows he will become a loyal customer. Compatibility at the data base level is very important, applications compatibility is next in importance. The "application will run on the upgraded system with no changes," is a positive feeling to be able to instill in a customer and is an excellent selling tool.

I. COMMUNICATING WITH CUSTOMERS

- Communication with the customer is necessary to convey the philosophy, objectives, and strategy of a company. The retailer has information to be presented to the customer and this information must be interpreted if sales are to be made. The variety of physical and symbolic forms used to transmit this information can be grouped into store image and promotional tools.

I. STORE IMAGE

- There is a large body of research available on store image (see Source 4 in Appendix A) which shows that there are many elements all combining to create an overall store image. Among the more important elements are:

GENERAL ELEMENTS

General Attributes

SPECIFIC ITEMS

Time store has been operating
How well store is known
Geographic coverage
Target market

Physical Attributes

Visibility of storefront
Uniqueness of storefront
Interior layout and design

Personnel Attributes

Amount of personnel
Knowledge of personnel
Friendliness of personnel
Neatness of personnel

Product Attributes

Innovativeness
Quality
Availability
Assortment

Price Attributes

Level
Range
Competitiveness

Communication Attributes

Amount of communication
Content
Believability
Media used

Community Service Attributes

Amount
Level
Reception by consumers

- These items can be manipulated to create the desired store image. Through using well designed market surveys, the created image can be tested and then more finely tuned.
- The image is very subjective. The business respondents and the hobby respondents used the same adjectives to describe themselves even though the stores were completely different.
- Because both vendors and respondents agree that the store should be "professional and business like," the store image elements should reflect this feeling.

- Physical Attributes:

- The storefront should be inviting, innovative, and reassuring.
- The storefront should be in a business area or in a business products milieu.
- The interior should be informative and educational, perhaps with exciting graphics showing how computers solve business problems.

- Personnel Attributes:

- It is extremely important that personnel be "dressed for business."
- Knowledge of business problem areas and specific industry knowledge is important if distinct businesses are part of the target market.
- Personnel should be friendly and open, but not pushy. A low key, but not indecisive, selling posture should be maintained. It takes skill and practice but personnel must become attuned to listen

for the point where the prospect is at the peak of interest and not let it wane, but confidently close the sale.

- . If possible, when the customer makes several visits to a store, the same person should take care of him. The possibility of this occurring is increased if at the first visit an interest form is filled out and filed for reference when he returns. This form should be used only if the information can be obtained in a very low pressure manner.
- . Product displays should reflect quality and reliability.
- . The small businessman feels he is being innovative daring, pioneering and is scared of it. He must be assured that he is on the forefront of new technology but in many ways it is a tried and proven system and with store personnel as guides he will have a solid, reliable system.
- . Having a very limited product assortment makes the businessman feel that "one size fits all", while his problems are unique to him. Being able to configure a reasonable number of systems and relating each building block to some aspect of his problem or business is very necessary in order to give him confidence in the system and store.
- . Compatible components are very important for this kind of selling. Application software that is also compatible with all of the systems is necessary if solutions are the real product being sold.
- . The first time business user will shop around for a store and/or personnel with whom he feels a rapport. He will not shop around for price provided the systems that are claimed to be able to solve his problems are not at opposite ends of the price range.

- A basic system price range \$5,000 to \$25,000 with add-ons bringing the top price to about \$50,000 is reasonable for this market.
- Communication Attributes:
 - Advertising and promotional material should stress permanence and reliability while being informative and inviting.
 - A main message should say, "Yes, I'm new but I will be around for a long time to help you with your information problems."
 - Another should say, "Come on, visit us and learn about....."
- Community Service Attributes:
 - Business groups are always looking for speakers. Volunteer to speak in an educational way (not selling).
 - Volunteer services to the Chamber of Commerce to do some statistical analyses for them.
 - Be available to talk about computer careers at the local schools.
 - Be attuned to other possible projects that will enhance an image of reliability, service and a good neighbor.

2. PROMOTIONAL STRATEGY

- Retail promotion is broadly defined as any communication by a retailer designed to inform, persuade, and/or remind the target market.
- Advertising, publicity, personal selling, and sales promotion are the four elements of promotion.

- Advertising is "any paid form of nonpersonal presentation and promotion of ideas, goods and services by an identified sponsor."
 - Publicity is the nonpersonal stimulation of demand for a product, service, or business by planting news about it in a medium and that is not paid for by the sponsor.
 - Personal selling is an oral presentation or a conversation with one or more prospective purchasers for the purpose of making sales.
 - Sales promotion consists of those marketing activities, other than those mentioned above, that stimulates purchasing such as displays, shows, demonstrations, and various non-recurrent selling efforts not in the ordinary routine.
- Retail advertising objectives include:
 - Short term sales increases.
 - Store traffic increases (which presumably will lead to sales).
 - Development and/or reinforcement of the store image.
 - Informing customers about product or store attributes.
 - Easing of the job of sales personnel.
 - A retailer selects one or more objectives as a base for his advertising strategy.
 - Retail advertising differs from manufacturer advertising in that:
 - It is more geographically concentrated and can be more responsive to the targeted market segment.

- Emphasizes immediacy as well as trying to develop a favorable attitude.
- Stresses price over product attributes and usually for several products in one ad. Manufacturers usually talk about product attributes and use one ad for one product.
- The respondents used several media to get their messages across; in one case using a billboard located at the community train station.
 - The business oriented establishments primarily used newspapers, direct mail and the yellow pages (Exhibit III-6).
 - Several business oriented establishments indicated they were going to go to local radio next year.
- The media shown in Exhibit VI-3 are the usual ones used to reach business people as well as hobbyists and homeowners.
 - Television is least likely to reach a specific targeted market.
 - Newspapers should be used for image and product/service advertising.
 - Direct mail is used primarily for product/service and specific applications and because a tailored mailing list can reach a particular group.
 - Radio can reach the business market if the programs and time of their presentations are chosen carefully.
 - Yellow pages are used for image and to say "yes, we are in the business" messages.
- Industry trade journals and newspapers are good media for reaching specific industry segments, and in addition are comparatively inexpensive.

EXHIBIT VI-3

ADVERTISING MEDIA - ADVANTAGES AND DISADVANTAGES

MEDIUM	ADVANTAGES	DISADVANTAGES
NEWSPAPERS	<ul style="list-style-type: none"> • FLEXIBILITY • LONGEVITY • GRAPHICS • EDITORIAL ASSOCIATION 	<ul style="list-style-type: none"> • WASTE (GOES TO MORE THAN TARGET MARKET) • BLACK AND WHITE
DIRECT MAIL	<ul style="list-style-type: none"> • LOW TOTAL COST • TARGETED AUDIENCE • TAILOR MADE FORMAT • QUICK FEEDBACK • TIE-IN (CAN BE INCLUDED WITH INVOICES, ETC.) 	<ul style="list-style-type: none"> • LOW RESPONSE • JUNK MAIL • THROW AWAY • OBSOLETE MAILING LISTS
YELLOW PAGES	<ul style="list-style-type: none"> • WIDESPREAD USAGE • LONG LIFE (ONE YEAR) 	<ul style="list-style-type: none"> • LIMITED FLEXIBILITY • LONG LEAD TIME FOR NEW ADS
RADIO	<ul style="list-style-type: none"> • SHORT LEAD TIME • NONESCAPABLE MEDIUM FOR DRIVER AND RIDER • MARKET SEGMENTATION • WIDE REACH 	<ul style="list-style-type: none"> • NO VISUAL IMPACT • NEED FOR BREVITY • NEED FOR REPETITION
TELEVISION	<ul style="list-style-type: none"> • AUDIOVISUAL MESSAGES • CREATIVITY 	<ul style="list-style-type: none"> • HIGH MINIMUM COSTS • NEED FOR BREVITY • NEED FOR REPETITION • UNDIFFERENTIATED MARKET

- Business magazines published by state or regional Chambers of Commerce reach the business owners directly and are also inexpensive. These journals should be used for image development rather than for discussion of product attributes because they are published infrequently and cover a very broad area.
- Alumni publications of local colleges are also an inexpensive way of reaching a professional market.
- Publicity seeks to:
 - Create, maintain or improve the store image.
 - Show the retailers as a contributor to the business community.
 - Demonstrate innovativeness and creativity.
 - Present an objective, usually unidentified, image.
 - Increase awareness of the store and its objectives.
 - Minimize total promotion costs.
- Articles and stories can be written about community services activities and developments at customer sites.
- Application stories written in conjunction with satisfied customers might be placed in local papers, trade journals, and sometimes general business magazines.
- The introduction of a new product by the vendor could generate a "first installation" story.

- The opening of the store itself, especially when computer stores are a relative novelty, might occasion the visit of the mayor, president of the Chamber of Commerce, etc.
- The major disadvantage of publicity is the general lack of control over the message, its timing, its placement, and its coverage.
- Personal selling factors include:
 - An attempt to persuade the customer to consummate a purchase.
 - The salesperson must be skilled in putting the customer at ease and establish a rapport starting with the initial greeting.
 - The second step is determining the customer's wants.
- There are two approaches next in the general retail selling cycle.
 - The sales pitch.
 - The need-satisfaction approach.
- The need-satisfaction technique is the best technique that will, in the long run, close the sale and result in a satisfied customer. At this stage in the retailing of computers to small business the initial approach must be demonstrative, informative and educational.
- Recognizing different customer needs is extremely important in personalizing the demonstration sales pitch.

- The "close" is not like in a typical retail store, "Would you like this gift wrapped?" or "Have you decided on the red one or the blue one?" It is like the close in direct selling of computers, "Let's plan a schedule for data conversion so that you will be ready to go when the system is delivered." The theory is the same - ask the closing question so that no reasonable response is "no."
- The main disadvantage of personal selling is the high cost. This can be minimized by putting more money into self-teaching store displays so that direct contact efforts can be directed towards selling rather than informing.
- Sales promotion is:
 - A supplement for other promotional tasks.
 - Used to maintain customer loyalty.
 - A tool for increasing short run sales.
- In the true retail sense, the major types of sales promotion efforts are too gimmicky for the business market; for they include items such as: contests, sweepstakes, stamps, and prizes. While occasionally these might be appropriate they should be approached with extreme caution. Inappropriate use could destroy a slowly built up business image and give off a "hobby flavor."
- More appropriate promotional efforts might be:
 - Industry seminars with a strong applications base.
 - By invitation only educational seminar series right after work.
 - Short interesting demonstrations (1/2 to 3/4 of an hour) during lunch time with sandwiches and beverage served. Again by invitation and R.S.V.P. only.

- All of the seminars, classes, or demonstration sessions must be well prepared, well controlled and professional with appropriate take-along reminder material available. Feedback can be achieved by using response cards. If necessary a mailing list can be built and coded by level of interest.

- There are five steps to establishing a promotional strategy:
 - Determine objectives.
 - Establish an overall budget.
 - Determine the promotional mix.
 - Implement the mix.
 - Evaluate and review the mix and/or objectives.

- Broad objectives are increasing sales, increasing store traffic, informing customers about products and services, establishing a store image, improving customer relations, and maintaining customer loyalty.
 - Specific objectives must be chosen and detailed.

- There are several methods of establishing a promotional budget:
 - All you can afford method - whatever money is left over is used for promotion. It is not linked to objectives.
 - Historical method - a first year sum is chosen and a flat percentage is added each year. Gut feeling is used and evaluation is difficult.

- Competitive parity method - increase or decrease the budget based upon what competitors do. It is hard to get data and it assumes all firms are similar in needs.
 - Percentage of sales method - retailer picks a percentage of sales and varies the budget as sales varies. This provides too much money in high sales periods and too little in low sales periods.
 - Objectives and task method - retailer sets objectives and then determines the cost of the tasks. Too complex for small retailers.
- The percentage of sales method was used by most respondents, averaging about 5% (Exhibit III-34). Some chose a fixed amount and split it evenly among various media.
 - Initially a combination of percentage of sales and objective-task method would work well. Determine a reasonable sales forecast, set aside a fixed percentage for promotion, define the objectives, allocate funds based upon the tasks to achieve the objectives, and then adjust funds if necessary.
 - Determine the promotional mix, remembering that advertising and publicity are most effective in developing awareness, while personal selling is most effective in changing attitudes and stimulating desires. This is especially true for complex and expensive products or services.
 - Implementing the mix involves determining which specific media to use, the timing or promotion, the content of the messages, the make up of the store sales force, and the specific sales promotion tools.
 - Evaluating and revising both the promotional objectives and the mix is an important part of the strategy. A number of research approaches for testing the effectiveness of a promotional effort exist. Even though it is a difficult and subjective task, the retailer should still study and adjust the mix as he feels best.

J. REVENUE - GROWTH

- The average gross sales for the first year as reported by the respondents did not differ very much between the business oriented and hobby oriented stores:
 - Overall \$ 282,000
 - Business \$ 295,000
 - Hobby \$ 266,000
- Two factors tend to raise this first year gross sales figure today:
 - Many of the business stores began with a hobby orientation or a mixed orientation. This may not have slowed their growth but kept the total dollars lower. The two businesses who knew what their first year sales were averaged \$375,000.
 - Small businesses are now more aware of computers and computer stores. As a result, they are more disposed to entering the store and buying.
- Sales of 2-3 systems per month with an average price of \$15,000 plus maintenance contracts at one percent per month seems achievable and would result in gross sales of about \$500,000 for the first year.
- Revenue would result from selling the entire product mix, not just systems, but for simplicity only systems were assumed. Seminar courses, peripheral equipment and software would also contribute the first year's sales.
- After systems are installed, an increasing share of total revenue will come from other sources. Industry estimates are:

-	System sales	50%
-	Peripheral	20%
-	Software packages	20%

and the other ten percent from a range of products and services that depend upon each store's product mix.

- Projecting the modest 20% growth that the business respondents feel they will average over the next few years results in the following sales:

<u>End of Year</u>	<u>Sales</u>
1	\$ 500,000
2	600,000
3	720,000
4	864,000
5	1,036,800

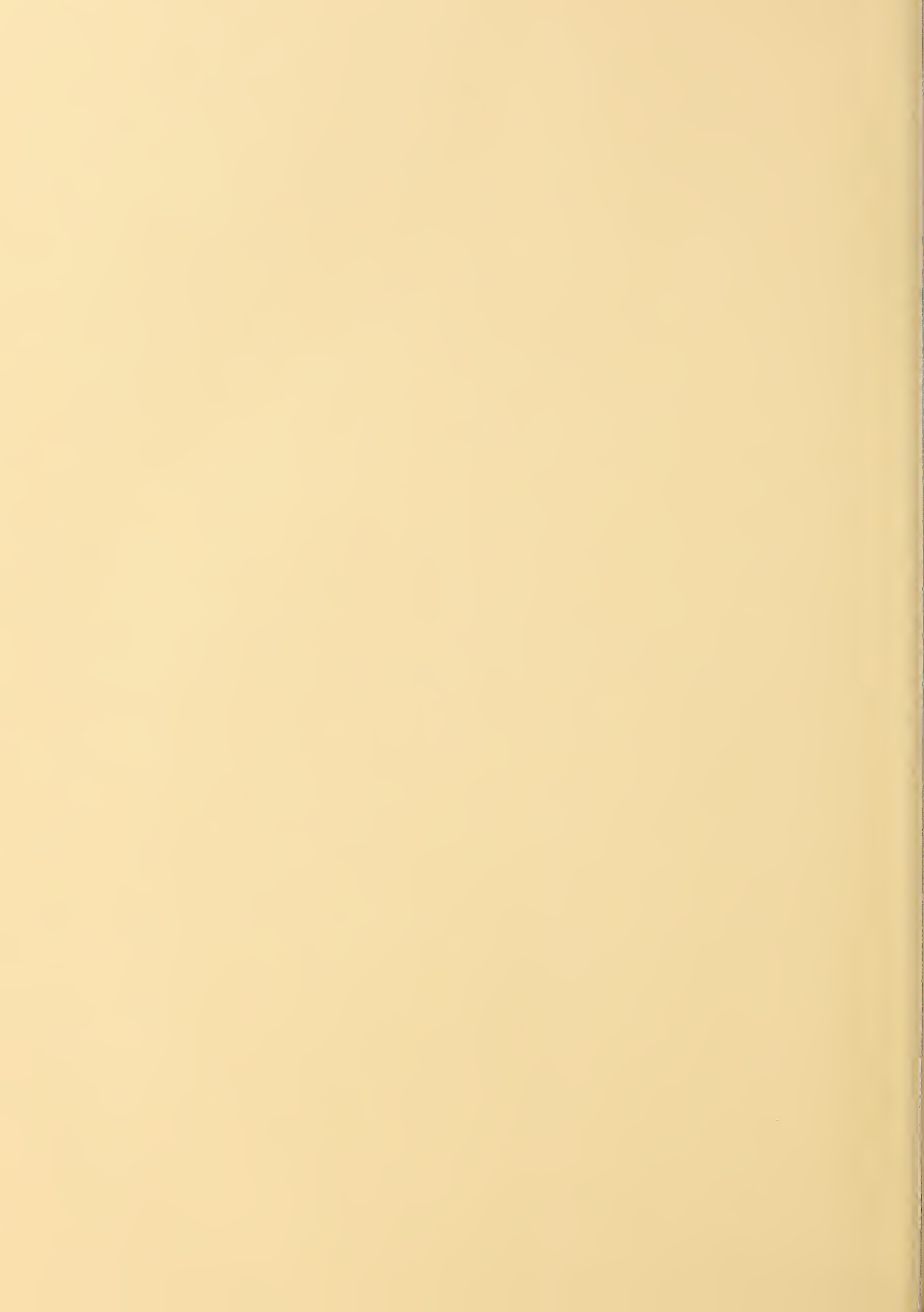
- Growth in the first two or three years was probably higher than 20% and that average figure is a very cautious one estimated by relatively inexperienced entrepreneurs facing a highly volatile marketplace.
- Doubling the annual growth rate for the first five years would result in fifth year sales of over \$2.5 million. This does not appear to be unreasonable considering the pace of the technology, the increasing acceptance of software packages, and hopefully, the "snowball effect" of businesses buying from retail computer systems stores. However, finances and lease base control may be a problem as the business size increases and additional cash is required.

APPENDIX A: SOURCES USED

APPENDIX A: SOURCES USED

1. Edwin K. Rams, Analysis And Valuation Of Retail Locations. Reston Publishing Company, Inc.
2. William Applebaum, et al, Guide To Store Location Research. Addison Wesley Publishing Company
3. John D. Mills, Site Selection Guidelines. Marketing Guidelines, Inc.
4. Berman & Evans, Retail Management. Macmillan Publishing Company, Inc.
5. U.S. Department Of Commerce, Franchising In The Economy 1977-1979.
6. INPUT, Inc., Small Establishments Service Annual Report 1978.
7. U.S. Bureau of the Census, Statistical Abstract of the U.S. - 1977.

APPENDIX B: SAMPLE DEALER AGREEMENTS



PCC MICROSYSTEMS DEALER PROGRAM

- NON-EXCLUSIVE - SALE OF COMPLEMENTARY PRODUCTS OK
- TWO YEAR TERM - WITH THREE, ONE YEAR EXTENSIONS PLUS RENEWABILITY
- STOCKING INVESTMENT - DEMONSTRATION SYSTEMS DEALER IS SELLING
E.G. 1 PCC 2000 + PRINTER + SOFTWARE (5 PACKAGES) =
DEALER NET OF \$9295
- DEALER SUPPORT - PRODUCT TRAINING
SELLING SKILLS
SERVICE
LITERATURE, MANUALS
- WARRANTY - PCC MADE - 180 DAYS
OTHER MANUFACTURER - 30 DAYS
- SERVICE - PCC 2000 - PCC SERVICE IN MAJOR CITIES
MITS 300 - DEALER SERVICE
- PRICING AND DISCOUNT - END USER SYSTEM PRICES FROM \$6K - \$19K
EARNED DISCOUNTS FROM 30% - 40%
- INITIAL STOCKING - MAXIMUM DISCOUNT - UP TO 40% ON PCC 2000
- EARNED DISCOUNTS - SYSTEMS 1 - 12 A
SYSTEMS 13 - 24 B
SYSTEMS 25 UP C
- AFTER 18 MONTHS, PRIOR 12 MONTH PURCHASES REVIEWED AND DISCOUNT
SET FOR RENEWAL PERIOD AHEAD - EFFECTIVELY ALLOWS SIX MONTH
START-UP GRACE PERIOD

MICROSYSTEMS DIVISION
20630 Nordhoff Street
Chatsworth, CA 91311

SAMPLE

PCC MICROSYSTEMS DIVISION DEALER AGREEMENT

Dealer Name and Address	Effective Date of Agreement
(hereinafter "Dealer")	Terms of Payment

1. APPOINTMENT OF DEALER

A. Pertec Computer Corporation acting by and through its Microsystems Division (hereinafter "PCC"), agrees to sell to Dealer and Dealer agrees to purchase from PCC, under the terms and conditions contained herein, the PCC PRODUCTS including accessories and replacement parts set forth in the current PCC/MSD Price Book (hereinafter "PRODUCTS") plus any modifications, enhancements and improvements to such PRODUCTS. Dealer shall use its best efforts to diligently exploit the market for PRODUCTS, however Dealer may also market other products, especially those which are complementary to PRODUCTS.

B. PCC hereby grants to Dealer the right to sell, lease, service and otherwise distribute PRODUCTS within the United States.

2. TERM OF AGREEMENT

This Agreement shall be effective as of the date first set forth above and, unless otherwise terminated in accordance with the provisions hereof, shall remain in effect for a term of two years. Thereafter, Agreement shall

automatically renew for successive one year periods up to a maximum of three (3) additional years, unless terminated by either party as of the anniversary date upon sixty (60) days prior written notice.

3. ORDERS AND DELIVERY

A. Each Dealer order for PRODUCTS shall be subject to written acceptance by PCC within thirty (30) days from receipt of same, such acceptance to be subject to reasonable availability of PRODUCT.

B. In the event of Force Majeure, PCC shall not be liable for any delay in shipment or non-delivery of PRODUCTS covered by this Agreement, nor for any other default in the performance of this Agreement arising therefrom, and Dealer shall be bound to accept the delayed shipment or delivery if made within a reasonable time after such event shall have abated.

4. PRICES

- A. Prices to Dealer for PRODUCTS are F.O.B. PCC's factory, U.S.A. and are set forth in the current PCC/MSD Price Book (as it may be amended from time to time), and subject to the discount structure and policy described in Exhibit A. All freight and insurance shall be paid by Dealer.
- B. PCC reserves the right to change prices effective upon thirty (30) days prior written notice. PCC will honor all orders received and accepted prior to the effective date of the change and scheduled for delivery not more than sixty (60) days after date of price increase. PCC also reserves the right to add or delete items from the PCC/MSD Price Book upon thirty (30) days written notice to Dealer.
- C. Prices to Dealer for training, sales literature, publications and product support shall be PCC's published prices.
- D. Payments called for under this Dealer Agreement shall be due from Dealer on the terms set forth on the face of this Agreement.

5. DEALER COVENANTS

- A. Dealer shall use its best efforts to promote actively the sale of PRODUCTS. Without in any way limiting the generality of the foregoing, the Dealer shall:
 - (1) Purchase, stock and make available for sale and demonstration PRODUCTS representative of PCC's small business computer systems in quantities of not less than one (1) demonstratable system of each of the PRODUCTS to be sold by Dealer.

- (2) Perform or provide for installation and adequate service, maintenance and repair of PRODUCTS sold or distributed by Dealer.
- (3) Adequately support all software sold, licensed or distributed by Dealer.
- (4) Endeavor to protect patents, copyrights, proprietary rights, trademarks and tradenames of PCC or licensed to PCC and not make use thereof or reference thereto except as specified in this Agreement or authorized by PCC in writing. PCC hereby authorizes the Dealer to use the title "Authorized Microsystems Dealer of Pertec Computer Corporation." Dealer shall also use its best efforts to protect all information and data supplied by PCC and designated as confidential or proprietary and Dealer shall promptly report any infringements of which Dealer becomes aware and shall cooperate with PCC in its efforts to protect such information, patents, copyrights, trademarks and tradenames.
- (5) Dealer shall be deemed an independent contractor hereunder and as such, Dealer shall not be nor hold itself out as an employee or agent of PCC. Dealer acknowledges that it does not have any authority to act for or in the name of PCC or to bind or to commit PCC in any manner whatsoever.

- B. No compensation or other expenses shall be paid to Dealer by PCC for the performance of the duties set forth in this Agreement. Dealer's sole compensation will arise from the resale of PRODUCTS purchased by Dealer.

6. TRAINING AND SUPPORT

- A. PCC will make available classes at PCC's designated locations, training courses for product information and hardware maintenance. Travel and other expenses of Dealer's personnel will be borne by Dealer. Copies of training manuals and training courses will be provided at PCC's published prices.
- B. PCC will make available to Dealer those pamphlets, advertising literature, maintenance manuals, aids, promotional materials and sales materials regarding PRODUCTS it may have available. Prices for such publications will be PCC's published prices.
- C. During the term of this Agreement, PCC shall provide Dealer with product support consisting of, but not necessarily limited to:
- (1) Hardware and software technical consultation at PCC-designated support centers.
 - (2) Revision of PCC-furnished publications.
 - (3) Factory service capability for warranty repair in accordance with Paragraph 7.
 - (4) During the term of this Agreement and for three (3) years thereafter, factory service capability for out of warranty repair.

These PCC activities shall be furnished at PCC's published prices.

7. WARRANTY

PCC warrants to the Dealer that PRODUCTS manufactured by PCC will be free from defects in material and workmanship for a period of one hundred eighty (180) days from date of shipment. PCC warrants that PRODUCTS manufactured by companies other than PCC and sold by PCC will be free from defects in material and workmanship for a period of thirty (30) days from date of shipment. PCC's obligation under these warranties is limited to replacing or repairing, at its option at its factories, PRODUCTS that, within the warranty period, are returned prepaid insured to PCC and that are found by PCC to be defective. Return authorization must be obtained from PCC Microsystems Product Service before returning PRODUCTS. The repaired PRODUCT will be returned prepaid to Dealer.

This warranty shall immediately be null and void if, in PCC's sole judgement, the PRODUCT has been subjected to misuse, abuse, neglect, accident, improper installation or application, alteration or neglect in use, storage, transportation or handling, or if the serial number and/or other PRODUCT markings have been removed, defaced, or altered.

THE FOREGOING WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES EITHER EXPRESSED OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, LENGTH OF USEABLE LIFE, AND OF ANY OTHER OBLIGATIONS ON THE PART OF PCC. IN NO EVENT SHALL

PCC BE LIABLE FOR INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES, AND IN NO EVENT SHALL THE LIABILITY OF PCC ARISING IN CONNECTION WITH ANY PRODUCT SOLD (WHETHER SUCH LIABILITY ARISES FROM A CLAIM BASED ON CONTRACT, WARRANTY, TORT, OR OTHERWISE) EXCEED THE ACTUAL AMOUNT PAID BY DEALER TO PCC FOR SUCH PRODUCT.

8. SERVICE

- A. With respect to the PCC 2000 family of PRODUCTS, Dealer shall: (delete the clause which does not apply)
 - 1. Employ PCC Service Division to service PRODUCT sold in locations set forth in Exhibit B. Such intent must include completion of Exhibit B Service Agreement; or
 - 2. Provide service with a Service organization other than PCC Service. Such intent must include completion of Exhibit C - Service Agreement.
- B. With respect to other PCC PRODUCTS, Dealer shall provide service through a Service organization other than PCC Service.

9. SOFTWARE AND TRADEMARKS

- A. Dealer is granted a non-exclusive license to use the PCC operating software set forth in the current PCC/MSD Price Book for use only on PCC-furnished PRODUCTS. Dealer further agrees that Dealer has no rights to the software other than the license rights provided hereunder. Dealer may relicense or sublicense the software to its customers only under the same conditions and limitations of this Agreement.

- B. All trademarks, tradenames, and copyrights granted or applied for in connection with PRODUCTS are and shall remain the sole property of PCC.

10. PATENT INDEMNITY

- A. If a permanent injunction shall prohibit use of PRODUCTS or any part thereof within the United States by reason of any patent infringement covered by this indemnity, or if PCC shall reasonably believe that such an injunction may issue, PCC shall, at its option and expense, either:
 - (1) Procure for Dealer the right to continue use of PRODUCTS or part thereof; or
 - (2) Replace and modify the PRODUCT so that it becomes non-infringing; or
 - (3) Require the return to PCC of such PRODUCT or part thereof and refund the purchase price, less a reasonable amount for use, damage or obsolescence.
- B. PCC shall have no liability whatever to Dealer for any actual or claimed patent infringement arising out of (i) compliance with Regulatory Agency requirements, (ii) use of PRODUCTS or any part thereof in a manner not contemplated by PCC, and (iii) any patent other than a United States Patent.

- C. The foregoing states the entire liability of PCC for patent infringement. In no event shall PCC assume any responsibility or be liable for any damages claimed against Dealer by customers or by other third parties and Dealer agrees to hold harmless and indemnify PCC against such claims.

11. TERMINATION

- A. This Agreement shall terminate if either party shall be in default of any of the terms and conditions of this Agreement and shall fail to cure such default within sixty (60) days after receipt of written notice of the other party. In addition, this Agreement may be terminated immediately upon receipt of written notice if either party becomes insolvent, makes an assignment for the benefit of creditors or becomes the subject of an action in bankruptcy, which, if involuntary, is not dismissed within thirty (30) days.
- B. Upon termination of this Agreement, howsoever the same shall occur, PCC will fill such orders as have been accepted by PCC and the Dealer shall accept the PRODUCTS subject thereto and pay the purchase price therefor in accordance with the provisions of this Agreement.
- C. Dealer shall return to PCC all PCC-furnished proprietary or confidential data except for that data specifically required to service and maintain installed PRODUCTS.
- D. The above rights are in addition to all other legal rights and remedies of the parties.

12. GENERAL

Neither this Agreement nor any rights or obligations of the Dealer hereunder shall be assignable or transferable by the Dealer, in whole or in part, by operation of law or otherwise, without the prior written consent of PCC. Subject to the above, this Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the respective parties hereto.

This Agreement shall be governed by and construed in accordance with the laws of the State of California.

This Agreement and any addenda hereto contain the entire understanding between the parties hereto with respect to the subject matter hereof and supersede any and all prior contracts, correspondence and discussions. In the event of any conflict between a provision of this Agreement and any catalog, purchase order or other document with respect to PCC or the PRODUCTS this Agreement shall control.

In the event that any provision or any portion of any provision of this Agreement shall be held invalid, illegal or unenforceable, the remainder of the Agreement shall remain valid and enforceable.

All notices required or permitted hereunder shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested to the parties at their addresses appearing herein or at such other address as either party shall designate in writing. The failure

of either party to enforce at any time any provision hereof shall not be constructed to be a waiver of the right to enforce such provision or of the

provision itself. This Agreement can be altered, amended or varied only by a written document signed by responsible officers of PCC and the Dealer.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

PERTEC COMPUTER CORPORATION

DEALER

BY _____

BY _____

TITLE _____

TITLE _____

EXHIBIT A

PRICING POLICY AND DISCOUNTS

A. The prices listed in the PCC/MSD Price Book, current at the time of purchase, shall apply to all Dealer Purchase Orders. The products are grouped into the following categories:

- (1) PCC 2000 Family
- (2) MITS®/ALTAIR® Products
- (3) Terminals/Printers/Accessories
- (4) iCOM® Products

PCC reserves the right to delete, add to or change the category designation of any product in the PCC/MSD Price Book.

B. Dealer prices shall be determined based upon the cumulative number of PCC 2000 Family and MITS/ALTAIR Products Systems (those identified with a "#" symbol in the PCC/MSD Price Book) hereinafter "# Systems", purchased from PCC by Dealer during the current Pricing Period. Pricing Period shall mean the consecutive twelve (12) month period which begins as follows:

- (1) The initial Pricing Period shall begin six (6) months from the date of the Dealer Agreement;
- (2) Thereafter each successive Pricing Period shall begin on the anniversary of the initial Pricing Period provided the Dealer Agreement has not expired or been terminated prior thereto.

C. The price of products purchased by Dealer shall be the price shown in Column A, B or C as earned by the number of (#) Systems purchased by Dealer during the current Pricing Period. Pricing Column A, B or C shall apply as set forth below:

<u>Quantity of (#) Systems</u>	<u>PCC/MSD Price Book Column</u>
1 - 12	A
13 - 24	B
25 Plus	C

As an example: except as set forth in Section D of this Exhibit, the first twelve (12) (#) Systems purchased by Dealer during a Pricing Period shall be the price shown in Column A, the price for the next twelve (12) (#) Systems shall be the price shown in Column B and additional (#) Systems may be purchased at the price shown in Column C.

The number of Systems purchased will be determined by the number of (#) Systems shipped to the Dealer and invoiced during the Pricing Period; however, shipments invoiced by PCC which are not paid by the Dealer within the terms of payment set forth in the Dealer Agreement will not be counted as Systems purchased.

EXHIBIT A

PRICING POLICY AND DISCOUNTS

PCC's normal cycle for purchase order acceptance, delivery and invoicing must be considered by Dealers as the end of the Pricing Period approaches. Upon absence of written notice to the contrary, the Dealer may assume that the lead time for any products will not exceed thirty (30) days after receipt and acceptance of order. Orders which are placed in one Pricing Period, but shipped in the succeeding Pricing Period, will accrue in the Pricing Period during which shipment and invoicing occurred, except in cases where delivery was delayed or rescheduled by PCC for its convenience. In no event will any shipment accrue towards Systems purchased in more than one Pricing Period.

- D. After the initial Pricing Period, the level at which the Dealer shall be entitled to start purchasing product will be based on number of (#) Systems purchased in the immediately preceding Pricing Period. By way of examples:
 - (a) If the Dealer has purchased fifteen (15) (#) Systems during the preceding twelve (12) month period, the first twenty-four (24) (#) Systems purchased during the next Pricing Period will be priced from Column B and thereafter from Column C;
 - (b) If the Dealer always purchases a minimum of twenty-five (25) (#) Systems in each Pricing Period, all purchases will be priced from Column C.
- E. Dealer may also purchase Terminals/Printers/Accessories and iCOM Products; however, as noted in the PCC/MSD Price Book, additional discounts are not earned through volume purchasing.
- F. The Initial Stocking order will be priced from Column C and will be scheduled for delivery during the ninety (90) day start up period. The initial quantity of Systems purchased will count toward the cumulative quantities required to qualify for Column B and C pricing.

EXHIBIT B

DEALER NAME: _____

ADDRESS: _____

I _____ intend to employ the PCC Service Division to service the PCC 2000 Products I sell and will employ them to maintain the PCC 2000 Products in my inventory.

I understand the options accompanying the sale of a PCC 2000 or related products that are available to me through the PCC Service Division and will require my customers who employ the services of PCC Service Division to execute a Service Agreement in the form attached hereto as amended from time to time by PCC Service Division.

DESIGNATED SERVICE AREA

ATLANTA	DALLAS/FORT WORTH	NEWARK	PROVIDENCE
BALTIMORE	DETROIT	NEW YORK CITY	SAN FRANCISCO
BOSTON	HOUSTON	ORANGE COUNTY, CA	ST. LOUIS
CHICAGO	LOS ANGELES	PHILADELPHIA	WASHINGTON D.C.
CLEVELAND	MINNEAPOLIS/ST. PAUL	PITTSBURGH	

BASIC PCC 2000 System with two floppies, 64K memory; or related products and a printer supplied by PCC.

4 hour response	\$160/month	} including installation at dealer or user site.
next day response	\$120/month	
5-day response	\$100/month	
installation	\$200 one-time charge	
remove/reinstall	\$300 one-time charge	
time and material	current hourly rates for next day response + 15% for 4-hour response. Minimum charge 2 hours.	

Quarterly Contracts:

3 calls/quarter	\$240/quarter	5-day response
	\$330/quarter	next day response
4 and up	Time and Material	

These prices are subject to change after the first year of the Service Agreement upon 30 days written notice to Dealer.

By _____

Date _____

Title _____

BETWEEN PCC Service, a division of Pertec Computer Corporation and

Customer _____

Date _____

Customer Address _____

Maintenance Agreement Number _____

City _____ **State** _____ **Zip Code** _____

Customer Number _____

MAINTENANCE SERVICE

PCC Service, a division of Pertec Computer Corporation (hereinafter referred to as PCCSD) will provide "Maintenance Service", as defined in this Paragraph, for the equipment listed in the Equipment Schedule or Schedules (hereinafter collectively referred to as "Schedule") attached hereto and made a part hereof as the same are executed from time to time by the parties hereto (said equipment being hereinafter called the "Equipment").

a) As used in this Agreement, "Maintenance Service", means (i) keeping the Equipment in good operating condition and furnishing and installing spare parts required therefor and (ii) making periodic inspections, tests and adjustments (herein called "Preventive Maintenance").

b) Unless PCCSD otherwise elects, Maintenance Service shall not include: (i) maintenance, repair or replacement of parts resulting from catastrophe, accident, neglect, misuse, fault or negligence of the Customer, or causes external to the Equipment such as, but not limited to, failure of or faulty electric power or air conditioning, or any causes other than ordinary use; (ii) service and repair of accessories, apparatus, attachments or any other devices not identified in the Schedule; (iii) changes, modifications or alterations in or to the Equipment or any accessories, apparatus, attachment, or other devices; (iv) furnishing accessories or supplies; (v) rebuilding or overhauling the Equipment; (vi) installation/removal services; and (vii) waiting time. Such excluded Services shall be performed at PCCSD's then current rates.

c) All parts will be furnished on an exchange basis and will be new parts or parts guaranteed to perform as new when used in the Equipment.

PERIOD OF MAINTENANCE

a) Remedial maintenance service will be provided on an "On-Call" basis during any nine-hour period from 7:00 AM to 6:00 PM (with one hour lunch) Monday through Friday, excluding PCCSD's holidays ("principal period of maintenance" or "PPM"). The Customer, by giving thirty days' written notice to PCCSD, may extend the PPM at PCCSD's then current rates for Extended Maintenance Service. Preventive maintenance will be provided at a mutually agreeable time within the PPM.

b) Remedial maintenance begun during the PPM or any extended maintenance period shall be continued for up to two additional hours beyond the PPM or extended PPM at no additional cost. Any additional maintenance will be performed during the next PPM or continued at PCCSD's then current rates, at the option of the Customer.

c) Except as provided above, remedial maintenance service outside the PPM or any extensions thereof will be made available at PCCSD's then current rates. A minimum charge of two hours, including travel time, will apply to each such after hours remedial maintenance service call.

ACCEPTANCE

This Agreement is subject to acceptance by PCCSD at its home office located in Los Angeles, California.

TERM

a) The term of this Agreement shall commence on (i) the commencement date specified in the Schedule or, (ii) the day after completion of all initial repair and adjustments provided for under "Inspection and Repairs", whichever last occurs, ("Commencement Date"), and shall continue so long as the Term of any Schedule shall remain in effect. The Monthly Maintenance, Extended Maintenance, and/or Remote Location Charges on any or all of the items of Equipment may be changed by PCCSD after the first anniversary of this Agreement, effective upon the first day following the expiration of the then current billing cycle, by giving the Customer at least thirty days' prior written notice. After receipt of notification of any such change, Customer may terminate this Agreement by giving written notice of termination to PCCSD at least twenty days prior to the effective termination date. In addition, at the expiration of its Initial Term, or at any time thereafter, a Schedule may be terminated by either party upon thirty days' prior written notice, which termination will be effective only upon the expiration of the Initial Term or the then current billing cycle.

b) Notwithstanding the foregoing, this Agreement may be terminated in whole or in part at the option of PCCSD in the event that (i) the Customer defaults in the payment or performance of any of its liabilities or obligations pursuant to this Agreement and such default continues for a period of ten days after written notice thereof specifying the default or (ii) the Customer becomes the subject of any voluntary or involuntary bankruptcy, insolvency, reorganization or liquidation proceedings, makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts when due. The right of termination provided in this Subparagraph (b) is in addition to any other remedy available to PCCSD at law or in equity in respect to default by the Customer or in any proceedings referred to in clause (ii) hereof.

c) If the Customer does not elect to have PCCSD restore the Equipment damages as described under Maintenance Service (b) (i), then in that event PCCSD shall have the right at its option, to terminate its obligations under this Agreement as to such damaged Equipment.

INSPECTION AND REPAIRS

Prior to the Commencement Date of maintenance under this Agreement, the Equipment shall be subject to inspection, at no charge to the Customer, by PCCSD to determine if it is in acceptable condition for maintenance under this Agreement. PCCSD shall notify Customer of any repair or adjustments it deems necessary to bring the Equipment up to an acceptable condition for maintenance under this Agreement. Upon written authorization of Customer, PCCSD shall make such repairs at its then current rates. Should Customer fail to authorize such maintenance or to pay all charges therefor, PCCSD shall have no obligation to perform the maintenance services contemplated by this Agreement.

EXHIBIT C

DEALER NAME: _____

ADDRESS: _____

I _____ intend to
provide technical service to my customers on all PCC Products with a
Service organization, other than PCC Service.

In that respect, I agree to have technicians trained on PCC Products
before making the first delivery to a customer. I also agree to
stock the recommended spare parts required to maintain the PCC Products
which I will sell.

By _____

Date _____

Title _____

Agreement No. _____

DEALER AGREEMENT FOR
COMPUTER EQUIPMENT, SERVICES AND SOFTWARE PRODUCTS

Between

COMPUTER MANAGEMENT GROUP, INC.
P. O. Box 4721
Manchester, New Hampshire 03108

(hereinafter called CMG)

and

Customer: _____

Billing Address: _____

City: _____ State: _____ Zip Code _____

CMG and Customer agree that the following terms and conditions shall govern the purchase and sale of computer equipment and services and the licensing of Software Products:

1. Equipment/Software Products

1.1 Customer hereby warrants that equipment and Software Products licensed under this Agreement will be sold, leased or transferred only to end-users of said equipment and Software Products as stated herein. Any deviations, modifications, or variations from this paragraph shall be made only with the express written consent of CMG.

1.2 The prices for all equipment, services or Software Products ordered under this Agreement will be CMG's then current published commercial prices at the time the order is accepted by CMG, less any applicable discounts. Equipment and Software Products eligible for discount are annotated in the price lists.

1.3 Terms and conditions applicable to the licensing and support of Software Products are set forth in the Software Product License Supplement.

2. Effective Date and Terms

2.1 The effective date of this Agreement is the date it is signed by CMG.

- 2.2 Upon execution of this Agreement Customer will issue a purchase order setting forth Customer's initial order.

3. Purchase Orders

Customer shall issue to CMG a purchase order for any equipment, services and Software Products covered by this Agreement. Purchase orders will contain as a minimum:

- (a) Identity of equipment (by model number), service or Software Product desired,
- (b) Quantity requested,
- (c) Shipment instructions including requested delivery dates of not less than 30 days from the date of the purchase order or in accordance with CMG's standard lead times, and
- (d) Reference to the terms and conditions of this Agreement and Agreement Number.

Each purchase order must state that it is subject only to the terms and conditions of this Agreement. Only the provisions of this Agreement will apply to any purchase order placed by Customer.

CMG shall not accept any purchase order or other instrument which does not expressly reference and incorporate the terms and conditions of this Agreement or which contains any other terms or conditions.

All purchase orders are subject to acceptance by CMG.

4. Delivery and Title

- 4.1 Any equipment shipped by CMG will be delivered F.O.B. Merrimack, NH, in accordance with a mutually agreeable delivery schedule.
- 4.2 Title to equipment will pass to Customer on the date the equipment is shipped by CMG.

5. Cancellation

- (a) Standard CMG equipment
If Customer requests cancellation in writing of any order within 60 days of scheduled shipment date and

CMG accepts such cancellation, Customer will pay to CMG a cancellation charge of 10% of list purchase price due.

- (b) Customized or Special CMG Equipment
If Customer requests cancellation of any customized or special CMG equipment and CMG accepts such cancellation, Customer will pay to CMG a cancellation charge. Such charge will be established at the time Customer's written request for cancellation of such customized or special CMG equipment is received by CMG or at any time prior thereto, if requested by Customer in writing.
- (c) Any equipment cancelled will automatically be removed for the discount provisions of this Agreement. The cancellation charge may not be applied toward any subsequent reordering of equipment.

6. Rescheduling

- 6.1 If Customer requests rescheduling of any equipment and CMG accepts such rescheduling, such requests must be submitted to CMG in writing and the new delivery date must be within the delivery term.
- 6.2 If a request for rescheduling of equipment is received by CMG within 30 days of shipping date and accepted by CMG, Customer will pay to CMG a rescheduling charge equal to 5 percent of the list purchase price of the equipment.

7. Terms of Payment and Additional Charges

- 7.1 Upon execution of this Agreement, Customer will furnish CMG with the address of a single billing location of CMG's use.
- 7.2 Payment shall be a ten percent (10%) deposit with any order with the balance due prior to shipment.
- 7.3 Customer will pay, or reimburse, CMG for all taxes imposed on Customer or CMG on any interest in or use of the equipment, services and Software Products or upon this Agreement, exclusive of personal property taxes which will be paid by

CMG except as hereinafter provided. Personal property taxes assessed on the equipment after the date title passes will be paid by Customer.

- 7.4 All charges for transportation, rigging and drayage for the equipment will be paid by Customer.
- 7.5 Any other charges incurred under this Agreement not specified hereunder will be due and payable upon receipt of invoice.
- 7.6 If Customer fails to pay any charges when due and payable, Customer agrees that CMG will have the right to invoice and Customer will pay a late payment charge of 1-1/2 percent per month, but not in excess of the lawful maximum, on the past due balance.

8. Installation of Units

Customer agrees that Customer assumes responsibility for installation, support, maintenance and repair of each unit and all other equipment purchased. At Customer request and subject to the availability of qualified personnel, CMG will provide, at mutually agreeable times, field engineering services to assist Customer in the installation of the units upon the following terms and conditions:

8.1 Charges

- (a) The charges for initial installation of each unit and accompanying items of equipment initially comprising a system will be \$125.00 plus an amount equal to CMG's then current published commercial monthly maintenance charges for all such units and items.
- (b) Installation of units and accompanying items occurring more than 50 miles from a Field Engineering District Office will be provided on a special quotation basis only.

8.2 Notification

Customer agrees to notify CMG by purchase order at least 15 days prior to the scheduled shipment date of equipment for which Customer is requesting installation service.

8.3 Service

Prior to shipment, Customer, at its expense, will prepare its premises for installation and will provide all installation facilities including space, electrical power, cable troughs, special cables and connector requirements, communications modems, fittings and the like in accordance with CMG site specifications. CMG will perform installation during CMG's normal working hours. Customer will provide the necessary labor for unpacking and placement of the equipment and packing for return of units when necessary, which CMG will supervise at no additional charge.

If installation or removal of the equipment by CMG representatives is precluded by local law, union agreement or otherwise, CMG will supervise the installation or removal and Customer will bear any additional costs caused thereby.

9. Operating Supplies

All supplies for use with the equipment will be provided by Customer and will meet the specifications set forth by CMG. Upon request, CMG will sell to Customer in accordance with CMG's then current published commercial prices and policies those supplies which it has available.

10. Risk of Loss

All risk of loss is on Customer on the date equipment is shipped regardless of who selected the method of shipment. Customer will examine each shipment promptly upon receipt and inform CMG immediately of any shortage or damage.

11. Training

CMG offers two methods of training:

- (a) Customer is entitled to 40 hours of non-chargeable scheduled group training (valid for one year upon signing of the Agreement by both parties) at a training center designated by CMG.

CMG will provide all necessary equipment and software.

Customer will be responsible for all transportation, meals and lodging.

- (b) Customer is entitled to 40 hours of non-chargeable customized training at a site selected by customer.

Customer will provide the equipment and place of training and will be invoiced \$75.00 per day for meals and lodging. Transportation will be invoiced as a separate item.

Any additional training required may be arranged by Customer and CMG at CMG's then current daily rates.

Definition of a day is construed to mean a normal 8-hour day, Monday through Friday, from 8 to 5 with one hour for lunch and appropriate intermediate breaks.

12. Documentation

- 12.1 The documentation provided by CMG is determined by CMG's then current terms, conditions and policies:

- (a) One set of applicable hardware manuals will be provided upon delivery of the first Central Processing Unit.
- (b) One set of applicable Software Product manuals will be provided for each licensed Software Product for the first Central Processing Unit delivered.

Customer may purchase certain applicable additional copies in accordance with CMG's then current published commercial prices and policies.

- 12.2 Except as provided hereinafter in Section 12.3, it is understood that Customer may disclose the documentation supplied by CMG to Customer's sublicensees. Title to all applicable rights in patents, copyrights, trademarks and trade secrets in such documentation will remain in CMG. Customer agrees that Customer and its sublicensees will (a) protect CMG's rights in the documentation in a manner consistent with the maintenance of patent, copyright, trademark and trade

secret rights as applicable, (b) not copy such documentation in whole or in part, (c) use the documentation in Customer's and its sublicensees data processing operations only, and (d) not sell, transfer or otherwise make the documentation available to others. Customer agrees to make all documentation readily available at Customer's facilities to CMG's service personnel upon request.

- 12.3 With respect to any information contained in documentation such as but not limited to that which includes maintenance information, logic block diagrams, schematics, wire lists, Software Product source code and flow diagram information, which is indicated to be CMG proprietary, Customer shall, in addition to its other obligations under this Agreement, hold such documentation in confidence, not disclose the information therein to any other party and use such documentation and the information therein only for the purposes of maintaining and operating equipment purchased under this Agreement. It is understood that such proprietary documentation is licensed to the Customer for its sole use, that title thereto remains in CMG and that CMG shall have the right to the return of all such proprietary documentation if the Customer is in default of any of its obligations under this section 12. The foregoing obligation with respect to confidential treatment of such information does not apply to information which was rightfully known to Customer prior to its receipt from CMG, or is or becomes public knowledge by acts other than those of Customer after receiving such information.

13. Warranty

- 13.1 CMG warrants that Customer shall acquire good and clear title to the equipment free and clear of all liens and encumbrances subject to the provisions of Section 16.
- 13.2 CMG further warrants the equipment to be free from defects in workmanship or material under normal use and service for 30 days from the date the equipment is shipped from a CMG location. Expendable components are excluded from this warranty.

13.3 This warranty shall extend only to Customer as an original purchaser.

13.4 There are no express or implied warranties, including the implied warranties of merchantability and fitness for a particular purpose, not specified herein respecting this Agreement or the equipment, Software Products, documentation and services provided.

14. Limitation of Remedy

14.1 Customer's exclusive remedy and CMG's entire liability in contract, tort or otherwise shall be the repair or exchange of any parts which are (1) returned by Customer to CMG within 30 days from the date the equipment was shipped from a CMG location, or, if CMG installs the equipment, 30 days from the date the equipment is installed and ready for use, and (2) found by CMG's inspection to be defective in workmanship or material. All exchanged parts will become the property of CMG. Any on site labor which CMG performs will be provided in accordance with CMG's then current published commercial rates and policies.

14.2 In no event will CMG be liable for any indirect, special or consequential damages arising out of this Agreement or the use of any equipment, Software Product, documentation or service provided under this Agreement.

14.3 No action in any form arising out of this Agreement may be instituted by CMG or Customer more than one year after the cause of action has arisen, or in the case of nonpayment, more than 1 year from the date of last payment.

15. Indemnification

Customer will indemnify and hold harmless CMG from any loss, claim or damage to persons or property, other than the equipment purchased hereunder, arising out of this Agreement or Customer's possession or use of such equipment, services and Software Products provided, which indemnity will survive the termination of this Agreement, provided that such loss, claim or damage was not caused solely by the fault of CMG.

16. Security Interest

CMG reserves a security interest in each item of equipment, all additions and accessions thereto and all replacements, products and proceeds thereof to secure payment of Customer's obligations. Such security interest will be retained until Customer's obligations are paid in full. Customer agrees that CMG will have the right to file this Agreement or financing statements pursuant to the Uniform Commercial Code or other applicable law to evidence or perfect CMG's security interest in the equipment. At CMG's request, Customer will join with CMG in executing such financing statements. Customer also agrees that CMG will have the right to invoice Customer and Customer will pay all fees, taxes and assessments associated with the filing of this Agreement or financing statements.

17. Default of Customer

17.1 Customer default occurs upon any of the following:

- (a) Nonpayment or nonperformance of any obligations of Customer in this Agreement and the continuance of such nonpayment or nonperformance for a period of 30 days after CMG's written notice thereof to Customer.
- (b) Dissolution, insolvency, appointment of a receiver, assignment for the benefit of creditors or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Customer or any guarantor or surety for Customer.

17.2 If Customer defaults, CMG will have the right to exercise any one or more of the following remedies:

- (a) Declare all unpaid charges to be immediately due and payable.
- (b) Require Customer to assemble applicable equipment, Software Products and documentation provided hereunder and make them available at a time and place reasonably convenient to CMG.
- (c) Take possession of applicable equipment, Software Products and documentation provided hereunder, wherever located and without demand or notice. Customer hereby waives a prior hearing and process of law for CMG's exercise of such right.

- (d) Sell, lease or otherwise dispose of any equipment publicly or privately.
- (e) Terminate this Agreement in whole or in part.
- (f) Pursue any other remedy existing at law or in equity.

17.3 Customer agrees to pay CMG all costs and expenses, including reasonable attorneys' fees, incurred by CMG in exercising any of its rights or remedies. No delay or failure of CMG to exercise any right or remedy will operate as a waiver thereof.

18. General

- 18.1 This Agreement may be assigned only with the prior written consent of CMG.
- 18.2 CMG will not be liable for any failure or delay in performance due in whole or in part to any cause beyond CMG's control.
- 18.3 This Agreement may be amended only by an instrument in writing executed by Customer and CMG.
- 18.4 This Agreement is governed by the laws of the State of New Hampshire.
- 18.5 This Agreement represents the entire agreement between the parties and supersedes all prior oral and written proposals and communications.

19. Supplements and Addenda

The following are a part of this Agreement:

- (1) Software Product License Supplement, CMG _____;
Dated _____.
- (2) Dealer Price List.
- (3) Special Conditions.

CUSTOMER

COMPUTER MANAGEMENT GROUP, INC.

By: _____

By: _____

Title: _____

Title: _____

Date: _____

Date: _____

SOFTWARE LICENSE AGREEMENT

COMPUTER MANAGEMENT GROUP, INC.
P. O. Box 4721
Manchester, New Hampshire 03108

Name and Address of Customer: _____

Licensed Programs: _____

Licensed Systems (Types and Serial Numbers): _____

Date: _____

IMPORTANT: All CMG programs are sold only on the condition that the Customer agrees to the following license. READ THIS LICENSE CAREFULLY. If you do not agree to the terms contained in this License, contact the Software Marketing Department at CMG immediately and return these programs to CMG without use and CMG will refund the purchase price.

1. LICENSE: CMG hereby grants and the Customer accepts on the following terms and conditions nonexclusive licenses to use the software program(s) (Licensed Programs) listed above. Each program license granted under this Agreement authorizes the Customer to use the Licensed Program in any machine readable form on the OmicroN Series computer systems whose serial numbers are shown above (Licensed Systems), and only on such Licensed Systems. The Customer shall not provide or otherwise make available any Licensed Program, including but not limited to program listings, object code and source code, in any form to any person other than its employees or CMG's employees, without prior written consent from CMG, except as expressly permitted in paragraph 2 below.

2. COPYING OR TRANSFERRING PROGRAMS:

(a) This Agreement and any of the licenses, programs or materials to which it applies may not be assigned, sub-licensed or otherwise transferred by the Customer without prior written consent from CMG, except as hereinafter expressly provided.

(b) Any Licensed Programs which are provided by CMG in object code form may be copied, in whole or in part, in sufficient number for use by the Customer with the designated Licensed System, for back-up purposes, or for archive purposes, provided, however, that no more than five (5) copies will be in existence under any license at any one time without prior written consent from CMG. The Customer agrees to maintain appropriate records of the number and location of all such copies of Licensed Programs. The original, and any copies of the Licensed Programs, in whole or in part, which are made by the Customer shall be the property of CMG.

(c) The Customer shall not copy, in whole or in part, any source code or listings of any Licensed Programs which are provided by CMG under this Agreement. The Customer shall take reasonable steps consistent with steps taken to protect its own proprietary information to prevent the unauthorized copying or use of any of the Licensed Programs, listings or other materials provided under this Agreement.

(d) Customer may provide the object code version of a Licensed Program to its customer to whom Customer transfers a Licensed System on which such program is licensed, provided that such transferee first agrees in writing to limit the use of the Licensed Program to the Licensed System being transferred and to be bound by the provisions of this Agreement, and CMG is furnished with a copy of such agreement. No copying or transfer of source code or source code listings shall be permitted without CMG's prior written consent.

(e) The Customer may modify any Licensed Programs for its own use and merge it into other program material to form an updated work, provided that, upon discontinuance of the license for such Licensed Program, the Licensed Program supplied by CMG will be completely removed from the updated work. Any portion of the Licensed Program included in an updated work shall be used only on the designated Licensed System and shall remain subject to all other terms of this Agreement.

(f) The Customer agrees to reproduce and include CMG's copyright notice on all copies, in whole or in part, in any form, including partial copies in modifications, of Licensed Programs made hereunder.

3. TERM: This Agreement is effective on the date set forth above and shall remain in force until terminated by CMG as provided below. CMG may discontinue any license or

terminate this Agreement upon written notice to Customer if the Customer fails to comply with any of the terms and conditions of this Agreement, or as provided in the section of this Agreement entitled "Patent and Copyright Indemnification." Within one month after the date of discontinuance of any license under this Agreement, the Customer will furnish CMG a certificate certifying that through its best effort, and to the best of its knowledge, the original and all copies in whole or in part, in any form, including partial copies in modifications, of the Licensed Program received from CMG or made in connection with such license have been destroyed or returned to CMG. No refund of the purchase price of the discontinued Licensed Programs shall be made if such discontinuance or termination is due to Customer's default.

4. PATENT AND COPYRIGHT INDEMNIFICATION: CMG will defend at its expense any action brought against the Customer to the extent that it is based on a claim that Licensed Programs used within the scope of the License hereunder infringe a copyright in the United States or a United States patent, and subject to the limitation of liability stated herein, CMG will pay any cost, damages, and attorney fees finally awarded against the Customer in such action which are attributable to such claim, provided that the Customer notifies CMG promptly in writing of the claim and CMG may fully participate in the defense and/or agrees to any settlement of such claim. CMG shall have no liability for any claim of copyright or patent infringement based on (1) use of other than a current unaltered release of the Licensed Program available from CMG if such infringement would have been avoided by the use of a current unaltered release of the Licensed Program available from CMG or (2) use of combination of the Licensed Program with non-CMG programs or data if such infringement would have been avoided by the use without combination of the Licensed Program with such programs or data. The foregoing states the entire liability of CMG with respect to infringement of any copyrights or patents by the Licensed Programs or any parts thereof.

5. DISCLAIMER OF WARRANTY: CMG makes no warranties with respect to the Licensed Programs, which are provided on an "as is" basis. CMG's sole obligation shall be to make available all published modifications or updates made by CMG to Licensed Programs which are published within one (1) year from date of purchase.

6. LIMITATION OF LIABILITY: THE FOREGOING IS IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. IN NO EVENT WILL CMG BE LIABLE FOR CONSEQUENTIAL OR INCIDENTAL DAMAGES EVEN IF CMG HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

7. GENERAL:

(a) This is the complete and exclusive statement of the Agreement between the parties, which supersedes all proposals, oral or written, and all other communications between the parties relating to the subject matter of this Agreement. This Agreement may only be amended or modified in writing signed by authorized representatives of both parties.

(b) This Agreement shall be governed by the laws of the State of New Hampshire.

(c) The waiver of one breach or default hereunder shall not constitute the waiver of any subsequent breach or default.

(d) Should litigation arise concerning this Agreement, the prevailing party shall be entitled to its attorneys' fees and court costs, in addition to any other relief it may be awarded.

CUSTOMER:

COMPUTER MANAGEMENT GROUP, INC.

By: _____

By: _____

Title: _____

Title: _____

Date: _____

Date: _____



Mohawk Data Sciences

1599 LITTLETON RD., PARSIPPANY, N.J. 07054

(Agreement Number)

DS

SERVICE BUREAU AGREEMENT FOR MDS SERIES 21 PRODUCTS

AGREEMENT dated as of the _____ day of _____, 1978 between Mohawk Data Sciences Corp., a New York corporation ("MDS"), and _____ ("Supplier").

WITNESSETH:

WHEREAS, Supplier represents that it has been for at least one year in the business of providing data processing services, that it currently serves more than five customers, that it owns or leases a mainframe computer to serve said customers, that it has demonstrated particular expertise in the data processing field to said customers, and that it employs at least five persons of which at least two are capable of programming MDS Series 21 products; and

WHEREAS, MDS represents that it is in the business of manufacturing data processing equipment, including its Series 21 family of intelligent distributed data processing systems (the "Products"); and

WHEREAS, MDS desires Supplier to apply its expertise and experience towards the promotion of MDS Products among Supplier's customers, and Supplier desires to do so as set forth herein.

NOW, THEREFORE, MDS and Supplier hereby agree as follows:

1. GRANT

MDS hereby grants the non-exclusive right to Supplier to solicit, from Supplier's customers, the lease or sale of MDS Products.

2. TERM OF AGREEMENT

This Agreement shall become effective as of the date set forth above and shall remain in full force and effect for a period of 12 months, and shall be automatically renewed for successive 12 month periods thereafter, unless sooner terminated upon at least 30 days' written notice prior to any anniversary date hereof, or as set forth in Section 6 hereof.

3. OBLIGATIONS OF SUPPLIER

- A. Supplier agrees to use its best efforts to promote, feature and stimulate the use of the Products among Supplier's data processing customers and to persuade its data processing customers to execute sales or lease agreements for the Products with MDS by explaining and demonstrating the capabilities, applications and advantages of the Products.
- B. Supplier agrees to direct those customers interested in purchasing or leasing the Products to MDS Sales Representatives and assist in any customer discussions, if so requested by MDS.
- C. Supplier agrees to make reference to only the prices and terms contained in the standard MDS contract and commercial price book. Supplier shall make no warranties, express or implied, and shall only make reference to those contained in MDS standard contracts. Supplier shall have no authority to create any obligation of any kind on behalf of MDS, and Supplier agrees to indemnify and hold MDS harmless from and against any loss, claim or damage incurred by MDS by reason of any breach of this paragraph by Supplier.
- D. Supplier agrees to pay all costs necessary to complete its services hereunder.
- E. Upon written request, Supplier shall promptly return to MDS, at the end of this Agreement, all advertising literature supplied by MDS and not distributed to prospective MDS customers.

4. OBLIGATIONS OF MDS

- A. MDS shall furnish Supplier a reasonable supply of advertising literature and specifications.
- B. MDS shall use its best efforts to negotiate a contract with those potential customers directed to it by Supplier, but MDS shall not be obligated to deviate from its standard methods of doing business, credit policies, pricing, contractual terms and conditions in order to obtain a contract with such potential customer. MDS reserves the right, at its sole discretion, not to consummate a lease or sales contract with a potential customer referred to it by Supplier based on MDS' assessment of the qualifications of said customer, and MDS shall have no liability or obligation to the Supplier by reason of its failure to enter into any such contract.

- C. Subject to the provisions of Section 4D below, MDS shall pay Supplier the following fees for each "successful contract referral" of a "System" as defined below, derived from Supplier's referral in accordance with the following schedule:

	System 21/20	System 21/40 or 21/50
1. For each System ordered by a different customer	\$200	\$400
2. For multiple Systems ordered by the same customer:		
1st System	\$200	\$400
2nd System	187	375
3rd System	175	350
4th System	162	325
5th System	150	300
6th System	137	275
7th System	125	250
8th System	100	225
9th System and each additional	75	200

A "System" means MDS Series 21 equipment having one central processor or controller with all interconnected peripheral devices.

- D. A "successful contract referral" as defined must satisfy the following requirements:

1. The customer and MDS shall have signed an MDS lease or sales agreement and the customer has paid the full purchase price thereof in case of an outright sale, or paid three months rent in case of a lease or three installments in case of an installment sale.
2. The customer must have been persuaded to execute the subject contract directly through the active efforts of Supplier, which efforts must be properly documented by Supplier.
3. Supplier shall not be entitled to receive a fee for renewals of successful contract referrals.

- E. Payment of any fee earned by Supplier shall be made directly or by credit against Supplier's account, at the option of MDS.

5. PURCHASE OF PRODUCTS

During the term of this Agreement, MDS agrees to sell Products to Supplier at the discounts from list price set forth in Schedule I below. This discount schedule is valid for a 12 month period commencing on the effective date hereof, and will apply to all Products delivered and invoiced within that period. Such discounts are subject to change without notice after such 12 month period, and in any event shall not apply in the event of the termination of this Agreement.

The Series 21 base price to which the discount is applied, will be the prevailing MDS published list price at the time any order is placed. The base price does not include services such as software, software support, installation, maintenance, training and documentation, which are charged separately in accordance with the MDS practice from time to time.

Products may be purchased by Supplier by executing the then current standard form of Agreement for the Sale of MDS Equipment.

SCHEDULE I SERIES 21 PURCHASE DISCOUNT SCHEDULE

Quantity	Equipment		
	21/40	21/50	Peripherals
1- 24	18%	20%	12%
25- 39	21	23	14
40- 59	24	26	16
60-100	26	28	18
Over 100	28	30	20

6. TERMINATION

Notwithstanding the provisions of Section 2 hereof, this Agreement may be terminated by either party upon 30 days' prior written notice. Upon termination there shall be no further obligations of either party except with respect to any accrued amounts owed to Supplier on successful contract referrals prior to the date of termination.

7. STATUS OF PARTIES; LIMITATION OF LIABILITY

Nothing contained in this Agreement shall be construed to constitute Supplier, its employees or representatives, as agents or employees of MDS, nor shall either party have any authority to bind the other in any respect, it being intended that each shall remain an independent contractor responsible for its own actions.

Supplier agrees that in no event shall MDS be liable for incidental, special or consequential damages, including loss of anticipated profits or other economic loss, arising out of the transactions covered by this Agreement or in connection with the furnishing, or the inability to furnish, Products to Supplier or any customer of Supplier.

8. CONFIDENTIALITY

In conjunction herewith, it is anticipated that MDS may disclose to Supplier, or Supplier may come in contact with or observe, certain confidential information that is the property of MDS. Supplier agrees to hold in strict confidence and not to disclose to any third party any confidential information that is the property of MDS. The foregoing security restrictions shall not apply to information which is within the public domain.

9. PUBLICITY

Supplier agrees to submit to MDS all advertising, sales promotion and other publicity matter relating to Products furnished or services performed hereunder wherein MDS is mentioned or language is used from which the connection of its name may, in its judgment, be inferred or implied; and Supplier further agrees not to publish or use such advertising, sales promotion or publicity matter without MDS' prior written approval.

10. ASSIGNMENT

Neither party shall assign its interest in this Agreement without the prior written consent of the other party. Any attempted assignment in violation of the above shall be void.

11. APPLICABLE LAW

This Agreement shall be governed by and construed under the laws of the State of New York.

12. ENTIRE AGREEMENT

Both parties acknowledge that they have read this Agreement, understand it and agree to be bound by its terms and further agree that it constitutes the entire Agreement between MDS and Supplier with respect to the subject matter hereof and supercedes all previous agreements, promises or representations.

13. NOTICES

All notices hereunder shall be in writing, by registered mail, and shall be directed, as the case may be, to MDS at 1599 Littleton Road, Parsippany, New Jersey 07054, Attention: Contracts Department and to Supplier at _____

IN WITNESS WHEREOF, MDS and Supplier have caused this Agreement to be duly executed on their respective behalves as of the date first set forth above.

MOHAWK DATA SCIENCES CORP.

SUPPLIER _____

By: _____

By: _____

Title: _____

Title: _____

CALMICRO DEALER QUALIFICATIONS AND CONDITIONS

The following items describe the terms and conditions for an authorized CALMICRO dealership:

1. Non-Exclusive and Exclusive Dealership (U.S.)

At the present time, dealerships authorized by CALMICRO are on a non-exclusive or exclusive basis with respect to dealer territories. Within a 12-18 month period, subject to dealer performance and CALMICRO's review, CALMICRO will enter into an exclusive dealership if the dealer operated on a non-exclusive basis. CALMICRO will consider an initial exclusive dealership for U.S. Dealers. Inquiries should be made to CALMICRO for exclusive dealership conditions.

2. Exclusive Dealerships (overseas organizations)

U.S. overseas organizations and foreign companies can qualify for an exclusive CALMICRO dealership. Upon receipt of inquiry, CALMICRO will send specific terms and conditions.

3. Dealer General Qualifications

Based on an extensive market analysis for small business systems, and secondary source of sales to larger companies and organizations, CALMICRO has determined that successful microcomputer sales require business know-how and experience. Accordingly, CALMICRO requires assurance that prospective dealers have the following experience and know-how in order to qualify for a dealership:

- own and operate an independent business
- sound financial practices
- experience in marketing and sales and customer relations
- knowledge and appreciation of business systems applications

The above criteria and basic capabilities in order to sell to customers and maintain a successful dealer business.

- 3.1. Since a dealership represents an opportunity in a new market--small business microcomputer systems--CALMICRO understands and is willing to authorize a dealership to a new entrepreneurial enterprise. If a prospective dealer falls under this category, CALMICRO must be given assurance that the initial capitalization is sufficient to maintain operations, that the individual or partners have a sound business plan, and appropriate background and experience to enter into the competitive business. Any materials given to CALMICRO which substantiate such qualifications will be considered proprietary, and will not be disclosed or released to any person or organization.

3.2 CALMICRO recognizes that certain individuals who are employees of academic institutions, and are also active consultants to businesses can be successful CALMICRO dealers. Persons with this type of background can qualify for a dealership.

4. Requirements for CALMICRO Dealership, Non-Exclusive (U.S.) (1)

CALMICRO's business analysis and market opportunities studies have concluded that the most effective and viable dealership arrangement can best be implemented under conditions which afford the dealer a maximum cash flow position. Accordingly, CALMICRO does not require a dealership fee of any kind. CALMICRO requires the following dealer purchase of inventory (for resales and demonstration) and sustaining orders:

- 4.1. Initial purchase of two (2) CALMICRO 7800 microcomputer business systems. Each system is completely bundled (software included as described in attached CALMICRO dealer material).
- 4.2. To maintain the dealership, orders of a minimum of twelve (12) systems per year are required. CALMICRO will consider special circumstances that may arise which deviate from the above minimum orders based on local business conditions for the dealer (2).
- 4.3. CALMICRO dealers will be required to identify their company as an authorized CALMICRO dealer for all local advertising, including literature and materials given to customers and prospective sales.

5. CALMICRO Provided Services to Dealers

CALMICRO will provide the following services to all CALMICRO dealers:

- 5.1. One year free software updates in releases to the dealer for their customers;
 - 5.2. CALMICRO will provide user documentation with each delivered system to the dealer;
 - 5.3. CALMICRO will provide lease/purchase materials to all dealers. These forms are from independent national leasing companies;
 - 5.4. CALMICRO will provide a maintenance plan to its dealers;
 - 5.5. A monthly newsletter will be sent to CALMICRO dealers. Features include new releases of CALMICRO systems, company R & D plans, marketing news, items about other dealers;
- (1) Initial purchase inventory for exclusive dealerships will vary with the territory. Interested exclusive dealers are asked to make inquiries to CALMICRO regarding the number of systems for initial purchase.
 - (2) CALMICRO will provide information on yearly sales orders for exclusive dealers.

- 5.6 CALMICRO will offer periodic training programs to all dealers. These will be conducted at regional locations and CALMICRO's facilities;
- 5.7. CALMICRO will, on a yearly basis, engage in dealer bonus plans based on dealer sales accomplishments. These will include cash prizes, paid travel, and merchandise (computer components);
- 5.8 CALMICRO will list all dealers and dealer locations when buying booth space in computer shows;
- 5.9. CALMICRO will provide national advertising in appropriate media;
- 5.10. CALMICRO will provide updated sales literature and marketing information on a periodic basis to enhance dealer sales.

6. Maintenance Service by Dealers (U.S.)

CALMICRO requires all dealers to offer a maintenance plan to their customers. As presently planned, CALMICRO maintenance is as follows: a) CALMICRO/Dealer maintenance plan (1) b) SORBUS. The dealer has an option to either a) provide dealer service maintenance, or b) through another maintenance organization. If a maintenance plan other than CALMICRO/Dealer or SORBUS is used, CALMICRO will require a written assurance, including type of service, costs, etc. The dealer will be required to maintain a minimum spares inventory parts. Specific inventory information will be sent to the dealer by CALMICRO prior to a dealership agreement with CALMICRO pertaining to different maintenance plans.

7. Order Delivery: Schedule and Payment (U.S.)

Based on present conditions, dealers can expect a delivery within 30-60 days from a signed order. This schedule may be accelerated depending on arrangements made with CALMICRO to its equipment suppliers. The initial purchase by the dealer will require prepayment with the order.

All subsequent purchases will require a 25% deposit with the order, the balance to be paid C.O.D. CALMICRO will deliver all orders to the dealer, with the dealer paying shipping charges.

8. System Checkout and Test

CALMICRO will check out and test all systems prior to delivery to the dealer. This will take 2 weeks, which is considered within the 30-60 day delivery schedule. All systems will be checked by CALMICRO for equipment and software acceptance standards.

9. Customer Training

All authorized CALMICRO dealers will be required to provide necessary training to their customers. CALMICRO will, on occasion, visit dealers to discuss training programs. CALMICRO dealers should plan to include necessary training during the customer installation period.

- (1) Details will be provided when a dealership arrangement is negotiated.

10. Dealer Training Program

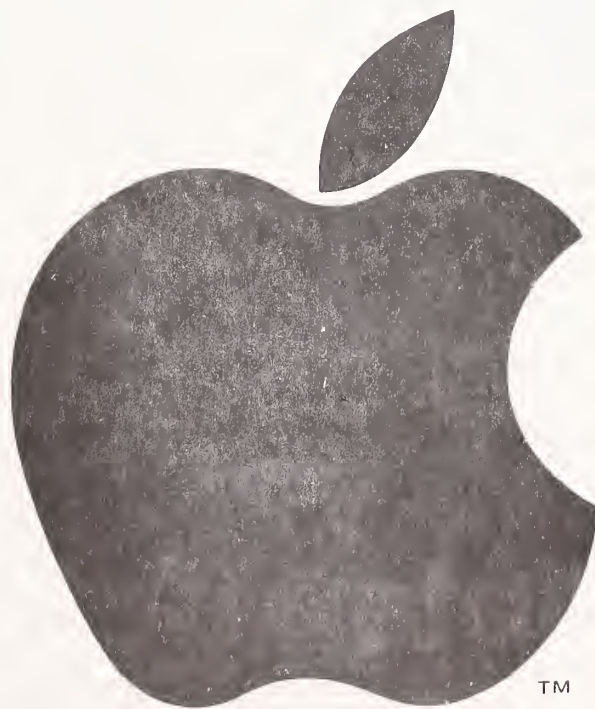
CALMICRO encourages all dealers to attend a three-day orientation and training program at CALMICRO's facilities prior to initiating a sales program. This program is mandatory for new start-up business ventures (refer to 3). CALMICRO's orientation and training programs are offered at no cost to the dealer.

The terms and conditions as presented will be included as part of a formal contract agreement to be executed between the prospective dealer and CALMICRO. When such an agreement is duly signed by the respective parties, an authorized CALMICRO dealership will be established.

Prices and terms subject to change without notice.

APPENDIX C: APPLE COMPUTER INC.
SUGGESTED RETAIL
PRICE LIST

Apple
Computer Inc.
**Suggested Retail
Price List**
Effective June 1, 1979



TM

SUGGESTED PRICES APPLICABLE
IN U.S.A. ONLY



10260 Bandley Drive
Cupertino, California 95014
(408) 996-1010

Suggested Retail Price List

June 1, 1979

Apple System Packages for every application

Description	Model No.	Suggested Retail Price
STARTER SYSTEM		
Apple II Plus System — 16K RAM	A2S1016	1195.00
Tape Recorder	A2M0018	40.00
		<u>1235.00</u>
STUDENT'S SYSTEM		
Apple II Plus System — 32K RAM	A2S1032	1345.00
Disk II Floppy Disk & Controller	A2M0004	595.00
		<u>1940.00</u>
SCIENTIST'S SYSTEM		
Apple II Plus System — 48K RAM	A2S1048	1495.00
Disk II Floppy Disk & Controller	A2M0004	595.00
Communications Modem & Controller	A2M0017	390.00
Video Monitor — 9" B & W	A2M0005	240.00
Centronics μ P1 Printer & Controller	A2M0010	695.00
Clock/Calendar Card		199.00
		<u>3614.00</u>
BUSINESS MANAGER'S SYSTEM		
Apple II Plus System — 48K RAM	A2S1048	1495.00
Disk II Floppy Disk & Controller	A2M0004	595.00
Disk II Second Disk Drive	A2M0003	495.00
Video Monitor — 9" B & W	A2M0005	240.00
Centronics 779 Printer & Controller	A2M0011	1545.00
The Controller - Gen'l Business Software	A2D0012	625.00
		<u>4995.00</u>

Description	Model No.	Suggested Retail Price
APPLE® II SYSTEMS		
Apple II is a completely assembled and tested computer system. The system includes a rugged molded case, typewriter-style keyboard with N-key rollover, high-efficiency switching power supply, ROM-resident BASIC interpreter, monitor, assembler and disassembler; two game paddles, demonstration programs on tape cassettes, AC power cord, cassette cable, reference manuals and BASIC Programming Manual.		
16K Bytes RAM	A2S0016	1195.00
32K Bytes RAM	A2S0032	1345.00
48K Bytes RAM	A2S0048	1495.00
APPLE® II PLUS SYSTEMS		
Apple II Plus is a completely assembled and tested computer system. The system includes a rugged molded case, typewriter-style keyboard with N-key rollover, high-efficiency switching power supply, ROM-resident Applesoft Extended BASIC interpreter, monitor, assembler and disassembler; two game paddles, demonstration programs on tape cassettes, AC power cord, cassette cable, and reference manuals.		
16K Bytes RAM	A2S1016 ^[2]	1195.00
32K Bytes RAM	A2S1032 ^[2]	1345.00
48K Bytes RAM	A2S1048 ^[2]	1495.00
LITERATURE		
Apple II Reference Manual	A2L0001	10.00
6502 Hardware Manual	A2L0002	15.00
6502 Programming Manual	A2L0003	15.00
Parallel Printer Interface Manual	A2L0004	2.00
Apple II Basic Programming Manual	A2L0005 ^[1]	6.95
Applesoft II Reference Manual	A2L0006	10.00
Communications Interface Manual	A2L0007	2.00
High - Speed Serial Interface Manual	A2L0008	2.00
Programmers A #1 Manual	A2L0011	2.00
Disk II Floppy Disk Manual	A2L0012	2.00
Consumer Guide to Personal Computers	A2L0015	2.00
Best of Contact '78	A2L0020 ^[2]	2.50
INTERFACE CARDS		
Prototyping/Hobby Card	A2B0001	24.00
Parallel Printer Interface Card	A2B0002	180.00
Communications Card & DB25 Connector Cable	A2B0003	225.00
High - Speed Serial Interface Card	A2B0005	195.00
Language System with Pascal (48K RAM & Disk II Required)	A2B0006 ^[2]	495.00
Centronics Printer Interface Card	A2B0007	225.00
Applesoft II Firmware Card	A2B0009	200.00
ACCESSORIES		
Disk II — Drive Only	A2M0003	495.00
Disk II — Drive & Controller (32K Min. RAM Recommended)	A2M0004	595.00
Video Monitor — II (B & W)	A2M0005	240.00
Vinyl Carrying Case	A2M0009	30.00
Printer II — Centronics Micro P1 & Controller	A2M0010	695.00
Printer IIA — Centronics 779 Tractor & Controller/90-Day WTTY	A2M0011	1545.00

Description	Model No.	Suggested Retail Price
Memory Expansion Module — 16K	A2M0016 ^[4]	160.00
Modem IIB with Interface	A2M0017 ^[2]	390.00
Tape Recorder	A2M0018	40.00
Programmers Aid #1 Firmware (For Use with Integer BASIC)	A2M0019	50.00
Modem IIB Only	A2M0021 ^[2]	199.95
Clock/Calendar Card	A2M0024	199.00
Auto — Start ROM Package (For Apple II Only)	A2M0027 ^[2]	65.00
TAPES — DISKETTES		
Centronics Micro P1 Paper	A2C0000	4.00
Blank Diskettes (Box of 10)	A2D0000	50.00
Dow Jones Portfolio Evaluator/Stock Quote Reporter Disk	A2D0007 ^[2]	50.00
Microchess 2.0 Chess Disk	A2D0009	25.00
Disk Utility Pack with DOS 3.2	A2D0010 ^[2]	25.00
The Controller (General Business System)	A2D0012 ^[2]	625.00
Apple Post (Mailing List System)	A2D0013 ^[2]	49.95
Bowling Program Diskette	A2D0018 ^[2]	15.00
The Cashier (Retail Store Management)	A2D0025 ^[2]	250.00
Dow Jones Stock Quote Reporter Cassette (Com. Card & Modem Req'd)		
Discontinued — See A2D0007	A2M0022	N/A
Blank Cassettes	A2T0000	3.50
Checkbook Cassette	A2T0001	20.00
Applesoft II Language & Demo Cassette	A2T0004	20.00
RAM Test Tape with Manual	A2T0006	7.50
Finance 1-2 Cassette Package	A2T0011	25.00
Datamover/Telepong Cassette (Com. Card & Modem Req'd)	A2T0012	7.50
Microchess 2.0 Chess Tape	A2T0013	20.00
Bowling Program Tape	A2T0015 ^[2]	15.00
Pascal with Language System (48K RAM & Disk II Required)	A2B0006 ^[2]	495.00
MISCELLANEOUS		
Vinyl Diskette Holder Pages (Pkg. of 10)	A2G0001	8.50
Desk	A2M0034 ^[2]	220.00
Desk Return	A2M0035 ^[2]	130.00

NOTES:

1. Price change
2. New product introduction
3. Prices subject to change without notice. Freight and dealer set-up charges not included.
4. Memory expansion module includes 8 RAMs/RAM test tape/instructions.



10260 Bandley Drive
Cupertino, California 95014
(408) 996-1010

APPENDIX D: INTERVIEW PROGRAM FOR
VENDOR STORE STUDY

APPENDIX D

INTERVIEW PROGRAM FOR VENDOR STORE STUDY

BUSINESS TYPE	ON-SITE	TELEPHONE	TOTAL
BUSINESS ORIENTED ESTABLISHMENTS	4	11	15
HOBBY ORIENTED ESTABLISHMENTS	2	11	13
VENDORS	-	12	12
SITE VISITS - NO INTERVIEWS			
BUSINESS	1	-	1
HOBBY	1	-	1
HOMEOWNER	1	-	1
TOTAL	9	34	43

APPENDIX E: QUESTIONNAIRES

VENDOR STORE STUDY
VENDOR QUESTIONNAIRE

1. Do you sell your products to small business end users via:
(check all that apply)

- ☐ Direct Sales Personnel
- ☐ A store identified as owned by you using the company name.
- ☐ Computer Store selling primarily to small business
- ☐ Computer Store selling primarily to hobbyists
- ☐ Office Products Store
- ☐ Systems House
- ☐ Other _____

2A. Do you think other vendors will alter their methods of distribution?

- ☐ Yes ☐ No

2B. Why?

2C. If yes, how?

3. Why would your company consider changing?

4. Do you think this will happen?

☐

Yes

☐

No

5. What do you think of a major vendor having its own stores as a means of reaching the small businessman? A store is defined as street level, with vendors name on the door, with inside and outside sales people selling equipment and services.

6A. What do you think of selling the following in a store?

	Good	Fair	Bad
Products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stand alone Software	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Turnkey Systems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Modified Hardware	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Modified Software	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Maintenance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6B. Why do you feel those that you rated poorly are inappropriate for a store?

7. What price range of products do you think could effectively be sold from a store?

8. How should a company induce the small businessman to come visit the store?

9. Once in the store, what do you think the thrust of the sales approach should be?
10. What should be the relationship of the vendor store to other sales channels, such as company field salesmen, distributors, etc.
- ☐ Control Territories
 - ☐ Control Items Sold
 - ☐ Control Prices
 - ☐ Only Standard Products & Software
 - ☐ Other
11. What long term strategic advantage does a vendor store have for a major vendor?
- ☐ More Sales
 - ☐ Reach New Markets
 - ☐ Require Less Salesmen
 - ☐ Reach Consumers
 - ☐ Other

12A. Would you expect the store to carry the products of one vendor exclusively?

☐

Yes

☐

No

12B. Why?

13A. Do you think a store could sell to both independent small businesses and branches of large companies?

☐

Yes

☐

No

13B. Why?

14. What image would you expect the stores to project?

☐

Office

☐

Professional

☐

Casual

☐

A Lot of Equipment

☐

Other

15. What are the important criteria in deciding where to locate a store?

16. Is a "walk-in-off-the-street" capability desirable?

☐

Yes

☐

No

17. What do you think of franchising as a method of achieving broader distribution of your products?

18. What would be the important criteria in choosing a franchisee?

19. What attributes does a company have that would make having its franchise desirable?

20. Should a company consider franchising

- ☐ Computer Hobby Stores
- ☐ Office Equipment Dealers
- ☐ Office Supply Stores
- ☐ Communications Systems Stores
- ☐ System Houses
- ☐ Large Retail Chains
- ☐ Other

21. Franchising is a form of control. In what ways should a company control the franchisee?

- ☐ Must sell your products exclusively
- ☐ Must maintain a certain liquidity
- ☐ Must accept a fixed amount of product initially
- ☐ Must accept an annual quota
- ☐ Must not sell a directly competitive product
- ☐ Must pay a product royalty on some measurable basis
- ☐ Other

22. What should the company's obligations be to the franchisee?

23. What do you think of the viability of the following distributors to sell information products and services?
(5 = excellent, 1 = poor)

- ☐ System Houses
- ☐ Stocking Distributor
- ☐ Non-stocking Distributor
- ☐ Computer store with vendor name
- ☐ Computer hobby store
- ☐ Office Products Distributor
- ☐ Electronic Hardware Distributor
- ☐ Other _____

24A. Do you think the independent distributor could become a systems house for small businesses?

☐ Yes

☐ No

24B. Why?

- 25A. Do you think the discount schedules should be the same for both the franchise store and independent store?

☐

Yes

☐

No

- 25B. Why?

26. How do you think the distribution of products and services will change during the next five years?

<u>Percent Sold By</u>	<u>1979</u>	<u>1984</u>
Direct Salesmen	<input type="checkbox"/>	<input type="checkbox"/>
Company stores	<input type="checkbox"/>	<input type="checkbox"/>
Independent store	<input type="checkbox"/>	<input type="checkbox"/>
Office Products store	<input type="checkbox"/>	<input type="checkbox"/>
Systems houses	<input type="checkbox"/>	<input type="checkbox"/>
Communications systems store	<input type="checkbox"/>	<input type="checkbox"/>
Other _____	<input type="checkbox"/>	<input type="checkbox"/>

27. What interactions do you foresee in the next five years that will tend to make the small businessman more accepting of high technology, especially computers?

28. How do you think vendors will relate to independently owned vendor stores selling products and services from multiple vendors?

VENDOR STORE STUDY
STORE QUESTIONNAIRE

I. GENERAL

1. How long has this store been open for business?

2. Is this your only location?

☐

Yes

☐

No

3. Is the store located

☐

At street level

☐

In a shopping mall

☐

On the 2nd floor or higher up

4. How did you choose the store location?

5. Did you receive professional assistance for site selection?

☐

Yes

☐

No

5A. If yes, what kind of person or organization did you use?

6. What kind of customers are you trying to attract?
(Check all that apply)

☐

Hobbyists

☐

Small Businessmen

☐

Homeowners

☐

Professionals

☐

Other

7. How do you let the community know that you are "open for business"?

Percent of Advertising Dollars

Radio Advertising

Newspaper Advertising

T.V. Advertising

Direct Mail

Other

8. Please indicate what percent of your "walk-in" people are:

%

Browsers

Buyers

9. What kind of image do you feel the store projects?

10A. When the store opened, what type of customers did you attract?

10B. Have they changed?

☐

Yes

☐

No

10C. If yes, how?

11. Do you feel this change is desirable?

12A. Did you effect the change or did it just evolve?

☐

effected change

☐

evolved

12B. If you effected the change, why did you feel it was necessary?

12C. If you effected the change, did you accomplish what you set out to do?

13. Please rate the strength of your current competition and how you project it will change.
(Scale of 1 to 5 with 5 high and 1 low)

<u>Type of Vendor</u>	<u>Competition</u>	
	<u>Current</u>	<u>1982</u>
Vendor direct salesmen	_____	_____
Vendor owned stores	_____	_____
Other computer stores	_____	_____
Electronic equipment stores	_____	_____
Systems Houses	_____	_____
Office equipment dealers	_____	_____
Retail stores	_____	_____
Office supply dealers	_____	_____
Communication equipment dealers	_____	_____

14. Do you carry products of more than one manufacturer?

15. Do you have a franchise from any manufacturer?

16A. How much start-up capital is desirable?

16B. How much operating capital is necessary for the 1st year?

17. What recommendations do you have for manufacturers who want to sell through stores?

18. What do you recommend they not do?

II. PRODUCTS AND SERVICES

1. What do you sell in the following areas?

Computers

Office Equipment

Communications Equipment

Supplies

Services

2A. How do you expect your product and/or service offerings to change in the next two years?

2B. How do you expect it to change in the next 5 years?

3. What is the average price and high price for the following products?

	<u>Avg. Price</u>	<u>High Price</u>
Computer Systems	_____	_____
Word Processing Systems	_____	_____
Copiers	_____	_____
Communications Systems	_____	_____

4. What kind of financial arrangements are available to you for financing your inventory?

5. What kind of financial arrangements can you provide your customers?

6A. Do you find many customers coming in to buy add on equipment for systems bought elsewhere?

☐

Yes

☐

No

6B. What percent?

7. What kind of add-on equipment do they buy primarily?

8. Is software available separately?

☐

Yes

☐

No

9. Where do you obtain the software you offer for sale?
(check all that apply)

___ Systems House

___ Written in store

___ Systems vendor

___ Software house

___ Other

10. How do you protect the software from replication?

11. How is custom software provided to your customers?

12. How is maintenance provided?

13. How is maintenance paid for?

15. Does the amount of education and training provided, if any, vary by:

- ☐ system size
- ☐ software provided
- ☐ does not vary
- ☐ is not provided formally

III. STORE INFORMATION

1. How large a population does your store serve?

	Numbers of
People	<div></div>
Businesses	<div></div>

2. How large is the store?

_____ Square Ft.

3. How is space allocated in the store?

<u>Function</u>	<u>% of Total Space</u>
Selling Area	_____
Product Display	_____
Product Demo	_____
Inventory	_____
Offices	_____
Classrooms	_____
Maintenance	_____
Other	_____

4. When is the store open for business?

Days/Week	_____		
Hours/Week	_____		
Monday	_____	to	_____
Tuesday	_____	to	_____
Wednesday	_____	to	_____
Thursday	_____	to	_____
Friday	_____	to	_____
Saturday	_____	to	_____
Sunday	_____	to	_____

5. What type of and how many people are on the store staff?

Managers	_____
Ass't Managers	_____
Inside Sales People	_____
Outside Sales People	_____
Instructors	_____
Software Maintenance Personnel	_____
Hardware Maintenance Personnel	_____

6. How are they compensated?

	<u>Salary</u>	<u>Commission</u>	<u>Other</u>
Manager	_____	_____	_____
Asst. Mgr.	_____	_____	_____
Inside Sales	_____	_____	_____
Outside Sales	_____	_____	_____
Other	_____	_____	_____

7. Do sales people rotate assignments (inside vs. outside)?

☐ Yes ☐ No

7A. Why do you feel your method (rotating or not rotating) is best?

IV. SALES & EXPENDITURES

1. In what range does the store's gross sales fall?

	<u>1st year</u>	<u>1978</u>	<u>1981</u>
Under \$250,000	_____	_____	_____
\$250,000 - \$500,000	_____	_____	_____
\$500,000 - \$1,000,000	_____	_____	_____
\$1,000,000 - \$2,000,000	_____	_____	_____
\$2,000,000 - \$5,000,000	_____	_____	_____
\$5,000,000 - \$10,000,000	_____	_____	_____
Over \$10,000,000	_____	_____	_____

2. How much is the typical sale?

Overall	_____
Independent Small business	_____
Branch office	_____
Hobbyist	_____
Home owner	_____

3A. What is the ratio of outside sales to inside sales?

3B. What is the approximate revenue per square foot for inside sales only?

4. What is the income range for sales people?

	High	Medium	Low
Inside sales	_____	_____	_____
Outside sales	_____	_____	_____

5. What is the store's typical annual costs?

	<u>Currently</u>	<u>% of Increase Necessary to Achieve 1981 Goal</u>
Rent	_____	_____
Utilities	_____	_____
Sales Personnel	_____	_____
Technical Personnel	_____	_____
Office Personnel	_____	_____
Advertising	_____	_____
Inventory	_____	_____
Supplies	_____	_____
Other	_____	_____

V. MISCELLANEOUS

1. Has your employee turnover been

High _____ Medium _____ Low _____

2. What methods do you use or where do you find competent personnel?

Sales

Technical

3. Do you expect the availability of competent personnel to be a greater or less problem by 1981?

☐ Greater ☐ Less

4. How do you feel about sharing a store with a

Computer equipment dealer _____

Office equipment dealer _____

Communications system distributor _____

5A. Would you be willing to rent space within a large retail store?

☐

Yes

☐

No

5B. Why?

6. Today who is your major competition?

7. Where do you think the competitive thrust will come from in the near future?

