

undercurrent

The Private, Exclusive Guide for Serious Divers

Earlier this year, Undercurrent published a five-part series on divers and Internet purchases. It was based on email responses from hundreds of divers, as well as email and phone conversations with nearly two dozen retailers. This is the industry's most thorough report on why divers shop the Internet, why they don't, and what some retailers are doing to compete.

Divers, the Internet and the Industry

It's no secret that divers who buy gear from Internet retailers save money. Some dive shops have come up with creative strategies to maintain their competitive position, but for the most part local dive stores are at a serious price disadvantage and a lot more than that.

For decades, we've heard the rallying cry "support your local dive shop." In the 1950s, companies like U.S. Divers sold gear by mail, but in the 60s dive stores began to spring up. *Skin Diver Magazine* carried ads for discount dive stores like Central Skin Divers in New York City; ads for discount camera houses followed and soon discounted Nikonos cameras were part of photo store ads. Dive stores didn't like the competition, so when Rodale's *Scuba Diving Magazine* was introduced in the early '90s it refused ads from mail order houses; in return most dive stores stopped selling *Skin Diver*, replacing it with *Scuba Diving Magazine*. *Skin Diver's* circulation fell, along with advertising revenue, and after efforts by several publishers to resuscitate it, the magazine stopped publishing in 2003.

Support Your Local Dive Shop

Today, the "support your local dive shop" mantra is vital to equipment manufacturers, who fear the Internet will put many dive stores out of business. In fact, in the past seven years, 687 new shops have opened, but 735 have closed. Fewer dive stores may mean that fewer divers will be certified, and beginners are the major market for manufacturers. While some companies sell gear through both the Internet and stores, others, such as Scubapro only sell their gear directly to dive stores, hoping to maintain price and prestige. And keep the dive stores alive and certifying new buyers. (Note: how Scubapro gear gets online is another story we'll discuss later.)

PADI (in fact, all agencies) exists to certify divers, so shrinking dive shops doesn't help. PADI does not accept-

ing advertising for Internet retailers in its magazine, *Sport Diving*. Nor does *Dive Training Magazine*. It depends on dive stores, where the magazine is distributed free and the higher the circulation the greater the advertising revenue.

A Dying Business Model?

But is "support your local dive shop" a dying business model, when equipment is so much cheaper from Internet suppliers (some of whom have dive stores)? After all, a basic Economics 101 theory is that consumers will naturally move to purchase products where the price is lower. Dive equipment is pricey. So, when a diver knows that \$800 BCD in his dive shop's window can be purchased for \$500 with just a few mouse clicks, he can be hard pressed to support his local dive shop — though he depends on the shop to be there when he needs it.

But what does a diver need from his local dive store that he can't get online? Well, the Internet can't certify divers or pump air or help a novice assemble his equipment for the first time. Those are needs. But, other services dive stores provide — face-to-face advice, technical information, hands on opportunities with gear, trips with local divers, the smell of neoprene, schmoozing — aren't essential to many certified divers. How, then, will the dive store landscape look ten years from now. And what will be the effect on sport divers?.

Undercurrent is neither advocating Internet shopping nor supporting local dive shops. We are interested in looking at how the Internet will affect us — not just where we buy our gear, but where people get interested in diving, get certified, buy air, meet fellow divers, and whether the dive store of today will morph into another form tomorrow. We emailed many of our 13,000 subscribers and an additional 15,000 nonsubscribers to garner their attitudes about Internet buying. We are also

contacting dive stores and talking with many people in the industry. The Internet is a boon for some, a bust for others. But what will the effect be on you and me, sport divers?

We will first look at the motivations of divers who buy gear on the Internet. Most Internet consumers don't worry about supporting their local camera store, book store or pharmacy. But, do we divers have a different relationship with dive stores than with other merchants? Let's begin this three-part series by seeing why divers shop the Internet.

The Internet can't certify divers or pump air or help a novice assemble his equipment for the first time.

The Cost of Equipment:

Yes, dive equipment is awfully expensive. One of our respondents, Keith Smith, said that he looked into diving five years ago, but "was scared away by the prices that the dive shops were charging, but last year I was looking online and found prices so low that three friends and I have purchased \$10,000 worth of stuff, including scooters." Divers on tight budgets have to make spending choices. Lee Chamberlain told us that "the difference of \$20 to \$100 can make the difference between a day or for that matter a week's worth of diving." And then there are families: Rick Goble told us that "I purchased fins, masks, and snorkels for my two sons who were taking their certification at a local shop and was charged 250 percent more" than he would have paid online.

Thanks to discounts, divers like Douglas Murphy buy better gear. After getting certified, he found the cost of gear "prohibitive at my dive shop and others in the Chicago area." Online "the pricing was at least 50% less, which allowed me to purchase mid-level products." He could afford to buy an integrated dive computer, "where at my local shop I would have had to settle for a basic pressure meter and would not have been able to afford a computer."

Even many high-end purchasers are price conscious. Denton Byers says, "I often giant-stride into the water with \$10,000 of gear on me, and that figure excludes any camera/hunting/video/rebreather gear. Through a dive shop, it would have been \$15-\$20,000, and some items I couldn't afford."

No Sales Tax

All but five states collect sales tax, with rates as high as 7%, plus add-ons from counties, cities, and local districts

that lead to 8 or 9% rates. States can't collect tax on out-of-state on line purchases, so for nearly all divers there is a cost incentive to shop online.

Convenience

To most Web buyers, convenience is as important as price. One can sit at home (or in the office on a boring day), place an order, and have it delivered the next day if he wants. Websites are open 24/7. There is no driving to the store, Janice Heasty says, "When I need a major item I have to drive 2 ½ hours." And there is no wasting time in the shop looking for merchandise they may not have. And, it can mean saving your bacon. Northwest diver Doug Banik recalled, "I was about to leave for L.A. and wanted to try my new drysuit in Catalina, but needed undergarments ASAP." A Seattle online shop, Edmonds Technical Diving, shipped them overnight to his L.A. hotel. "It arrived before I did!" Michael Weber (Leesburg, VA) got a charger for his Sea Doo Scooter shipped to Mallorca in three days.

Most online buyers pay shipping costs, though policies and promotions vary. Greg Barlow, a customer of Dive Rite Express, mentioned that their site (a factory-authorized reseller of Dive Rite brand gear) regularly offers free shipping. Still, Richard Osborne finds "even when I do pay shipping charges I am still ahead of the local dealers' prices."

For some people, returning an unwanted item in person is a hassle, not only in the time it takes, but perhaps in having to explain the reasons for the return — or persuade the retailer to accept it. Most Internet retailers have satisfactory return policies. Undercurrent subscriber David Steinberg (Portland, OR) has returned several items purchased from scuba.com, and says he's been issued "either an online certificate for credit or money back, no questions or hassle, all handled electronically, where possible." The biggest hassle is having to pack things up and ship them, though UPS and FEDEX will, for an additional fee, pickup parcels at most homes. Generally, the consumer pays the freight for all returned goods.

Unlimited Online Information and Selection

Internet purchasers love surfing the web, comparing the products and features side by side. "It's easier to look at a wider selection on Internet sites," says Denton Byer, "and you can get some unbiased comparisons that are manufacturer-neutral. I ended up selling half the gear I bought through my shop, because it wasn't the right gear for me. Not knowing what else was available was a big reason for this. When I'm ready to buy a product, I already know exactly what I want. The only decision left is where to buy it, and that gets determined by who has the best pricing."

Many local dive stores carry only two or three major brands of BCD's, regulators, etc., and clearly can't stock all sizes or gear. Some divers order a couple sizes over the web to try on. *Undercurrent* subscriber Chet Hedden (Tucson, AZ) told us he ordered six BCDs from an Internet retailer, determined which one suited him best, and returned the other five for refunds.

Speciality Items

Tech divers are becoming big Internet shoppers. They comprise a small market so their equipment is often not available locally. Raleigh, NC, tech diver Paul Winter noted that 120 cu ft HP steel tanks couldn't be obtained through any local shop "without putting cash up front and waiting for items that would in all likelihood not show up for six months." Dive Rite Express customer George Rousseau pointed out, "In Long Beach, CA, where I live only a few stores carry tech diving brands like Halcyon and DiveRite, so I have to purchase online." Mark Scheele purchased a Shark Shield online because local shops in New Mexico didn't carry them.

Undercurrent subscriber David Steinberg, like several respondents, won't purchase life support equipment online. He says, "I believe this is best left to the local dive shops and am willing to pay extra for the face-to-face business on such critical things." But he does go to the web for "common, noncritical, cheaper items, such as roller bags, gloves, fins, etc."

Authorized vs. Unauthorized Dealers

Selling dive gear on the Internet is big business and many divers find plenty of reason to shop for gear online, as we reported last month. The changes in buying habits are creating a great upheaval in the way the dive business — in fact, any business — is conducted.

From the inception of scuba, the industry's business model has been to drive business to local dive stores. Some large manufacturers still cling to that model. In fact, 37 percent of retailers surveyed by the trade journal *Dive Center Business* agreed with the statement that, "The Internet is a major threat to our business.

Dive shops keep our industry alive," Tom Phillipp, product manager for Aqualung, told *Undercurrent*. By providing air fills, training, local and overseas trips, and rentals -- as well as sometimes sponsoring local clubs -- dive shops recruit new divers and help to retain them by building local loyalty.

Cynthia Georgeson, from Johnson Outdoors, parent of Scubapro and Uwatec, told us that an authorized dealer network ensures that consumers get genuine parts, factory warranties, limited guarantees, technical expertise

and support, plus personal service and advice. She adds: "Our dealers routinely check to ensure new products are functioning properly, and perform final detailing," such as adjustments to regulators and BCDs. Regardless, at least some e-tailers (e.g., scuba.com and diversdirect.com) also preassemble gear before shipping.

Manufacturers support local shops by naming them authorized sellers for their area. They receive product, marketing support, and training, but some manufacturers require that dealers sign agreements that restrict price cuts. The strictest dealer agreements, such as those from Aqualung and Scubapro, limit how much a dealer can discount merchandise from the manufacturer's suggested retail price (MSRP). It's generally no more than 10 to 15 percent. If a shop cuts more off a price it can lose its dealer agreements.

There are rumblings among retailers that this price protection is not uniformly enforced. Phil Ellis, proprietor of Dive Sports in Decatur, AL, was dropped this year as an Aqualung America dealer for discounting "covered" product for less than 90 percent of MSRP. Ellis, who aired his grievances with Aqualung on an Internet message board, claims he was forced to offer discounts to

Some manufacturers restrict dealer price cuts to no more than 10 to 15 percent; if a shop cuts more it can lose its dealer agreements.

compete with other dealers. He reported that a customer came into his shop with a written quote from a nearby competitor on a Suunto Vyper computer (distributed by Aqualung) at 35 percent below MSRP.

Some dealers get around pricing protections by bundling products that allow deeper discounts into packages, such as a Sherwood regulator with an Aqualung BCD.

Authorized Dealers vs. Gray Marketers

Beyond restricting discounts, some manufacturers like Scubapro and Aqualung prohibit mail order and online sales. To get around the restrictions, some mail order and Internet sellers — including so-called "gray market" operations — purchase the controlled products from a dive shop going out of business, from an overseas reseller, from a manufacturer closeout, or perhaps from an authorized dealer who buys more than he will sell and surreptitiously ships it to an internet seller with a markup. Of the most popular e-commerce websites, only a few are gray market discounters. The most dominant is Leisure Pro.

Most scuba e-tailers, like www.scubatoys.com, www.diversdirect.com, www.scuba.com,

www.diveriteexpress.com and even www.diversdiscount.com, have become authorized dealers for the products they sell. They don't discount as deeply as the gray marketers. However, there's no sales tax on Internet purchases and many can undercut local dive shops (especially when they offer free shipping – which some do on promotional “specials”). E-tailers sometimes throw in “freebies” (gloves or a mesh bag, for instance) to sweeten the purchase experience. You may not see Aqualung or Scubapro products on these sites, but you will find most other well-known brands.

Factory Warranties from Authorized Dealers

Another benefit manufacturers reserve for authorized dealers (and their customers) is factory warranties on dive gear. Often regulators and computers must be inspected or overhauled annually by authorized seller/servicers using factory-trained tech reps, to keep the warranty in force. Although many manufacturers offer free parts for the life of the warranty, there are service charges for each inspection and overhaul (\$15 to \$75, depending on the work performed). For shops with their own technicians, annual service provides income and an opportunity to sell other items.

To defend against online sellers, the manufacturing/dive store cabal argues that a diver who shops at an unauthorized dealer won't have a warranty and won't get repairs.

If you buy your gear from an unauthorized dealer, the warranty won't be honored by the manufacturer or an authorized shop. So, forget the free regulator parts. Jack Kuhn of Harbor Dive Center (Sausalito, CA) says those parts typically retail for \$18-\$22. It's up to the technician whether to replace any. And often, no new parts are necessary. So the free-parts benefit may not mean much.

Scubapro warns customers: “Any Scubapro or Uwatec equipment purchased from a non-authorized source will not be covered by Scubapro Uwatec warranties. These non-authorized sources include Internet and direct marketing companies who obtain our products from questionable sources and do not undergo the rigorous training programs necessary for proper representation of our gear.” When Marcia Smullen (Big Sur, CA) tried to register a Scubapro regulator she purchased from Leisure Pro, she received a form letter saying, “We have no way of assuring the ultimate consumer that any item purchased via this source has not been tampered with or modified. Nor can we assume that our product has been properly tested and inspected.”

Pretty strong language, but spokesperson Georgeson told *Undercurrent*, “We are aware of product serial numbers having been removed or defaced so they are no longer readable, which is very risky for the diver. Scubapro relies on product serial numbers to track product service and warranty records. Consumers and dealers rely on product serial numbers to keep track of service upgrades and alerts on products.” Georgeson adds: “We are also aware of product counterfeiting, which is when a well-respected brand name is ‘stolen’ and put on a fake, lower-quality product and sold as the genuine article.”

Frankly, however, can divers be persuaded by such arguments, especially when the same issues don't seem to bother other manufacturers? Who tampers with regulators? What guarantees are there that an authorized dealer “properly tests” or that a nonauthorized dealer doesn't. What dive stores inform their customers of recalls or e-mail problems. Many online dealers have sophisticated email programs to reach their customers. And, if Scubapro is concerned about safe products, why not allow someone who bought it from a nonauthorized dealer to register it, so Scubapro can get in touch with her if there is a recall.

As for fakes, when we asked Scubapro if they have seen any, Georgeson did cite one — a BC ripoff by a California company in 1998, a story that *Undercurrent* broke to the dive community. But we've found no proof of others. Apparently, rogue manufacturers in foreign nations aren't producing knockoff scuba products. It's a small market and New York vendors don't peddle regulators on the street.

So the largest Internet dealer, Leisure Pro, competes by offering its own warranty program. A buyer sends the product to them for annual servicing or repair. Like many dive stores, they service some products themselves and send others out to independent repair facilities. However, they're not upfront about it. Several divers have complained to us that they aren't pleased to learn after their purchase that the factory warranty is invalid and Leisure Pro supplies the warranty. It means they have to ship it back to LeisurePro and can't carry it into their local dive store.

Since so much effort is focused on warranties to keep some brands exclusively in dive shops, one has to ask just how valuable are warranties?



Research ten years of back issues and Chapbooks at www.undercurrent.org

Do Warranties Have Real Value?

We reported that scuba equipment manufacturers honor warranties only on gear purchased through authorized dealers. To compete, some unauthorized gray marketers like Leisure Pro offer their own warranties. But either way, warranties on life support equipment require annual servicing, so we wondered how important they were to recreational divers.

To find out, we queried more than 15,000 divers about their Internet and warranty experiences and received more than 500 responses. From this sizeable — but not scientific — sample, it seemed as if Internet buyers were about as satisfied — or sometimes dissatisfied — as store buyers.

I can't justify \$50-\$100 per year to keep my regulators inspected/repaired to maintain the warranties. I just bite the bullet and pay for it when something needs to be repaired/replaced.

Subscriber Jim Aichele (Rolling Hills, CA), who ordered a SeaQuest Libra BCD from Leisure Pro for his wife, received a model with one dump valve, not a newer model with an extra valve on the right shoulder. After diving in Indonesia, says Aichele, “we saw the need for the second dump valve and contacted Leisure Pro.” They were told to return the used Libra, and four weeks later received a newer model with the extra dump valve “at no added cost.”

But some divers such as Marcia Smullen (Big Sur, CA), complain that Leisure Pro should disclose more clearly the gray market warranty issue. She says, “It’s a little late to find out the factory warranty is invalid after you’ve purchased a product from Leisure Pro and used it.”

Of course, manufacturer warranties are available from the Web sellers that are authorized dealers. Some, like *diversdiscount.com*, sweeten the deal with its own guarantee, which back all products against defect for one year, even if the manufacturer’s warranty is shorter.

This is not to say that Leisure Pro or any other online seller offers better service than dive stores. The point is that the reputable companies offer service, and where dive stores once had the advantage over the Internet, that too is disappearing.

Are Warranties Worth It?

Many divers consider warranties essential when buying high-ticket items. As subscriber David Israel (Lee’s

Summit, MO) puts it: “Two pieces of all but identical equipment, which would you choose, the one with a six-month warranty or a two-year warranty? It appears to me the manufacturer with the better warranty is telling us it builds a quality product that lasts and they will stand behind it.” Perhaps, but shorter warranties don’t cost a company as much as a longer warranty, so it’s a way to keep the price down.

Jesse Scott (Atlantic Beach, NC) summed up a frequently expressed attitude: “I consider warranties when deciding between brands . . . However, this is mainly for the major investment gear — BC, regulators, computers. For the rest of it, variations in warranties are not going to have a significant impact on the purchase decision.”

However, in one of our surveys of 7000 *Undercurrent* subscribers, more than half who responded found warranties of little or no importance, for a variety of reasons. Says Australian Web shopper Leslie Smith: “Warranties run out before any equipment I have has had trouble.” Chris Pacitto (Fort Myers, FL) agrees: “I have never had to have life-support equipment serviced under warranty . . . I buy high-end equipment and keep it for less than five years.”

Pacitto and other divers are put off by the cost of maintaining a warranty (generally, annual shipping and labor). It seems strange to Pacitto “that I’d have to pay for shipping to get a pair of defective fins replaced under warranty. Next time I’ll buy a different brand.” Roger Barlow (Jacksonville, FL) finds, “I can’t justify \$50-\$100 per year to keep my regulators inspected/repaired to maintain the warranties. I just bite the bullet and pay for it when something needs to be repaired/replaced . . . what does a lifetime warranty do for you if it costs you enough to buy new in a few years just to maintain the warranty?”

In the March 2005 issue of *Undercurrent*, we examined the need for annual regulator servicing and concluded: “Could it be that this is more essential to a dive store’s bottom line than to diver safety? Equipment servicing helps keep that traffic and money coming in.”

Subscriber Bill Conklin (Newburgh, NY) notes, “The value in getting a stout warranty is dependent on the company remaining in business and parts being available. It’s unusual for a firm to maintain parts availability for more than five years. The financial penalty for the warranty value-add purchase makes it more attractive to go discount and just replace the item every few years.” That brings to mind Dacor. Several respondents complained that Mares — which bought Dacor in 1999 — doesn’t repair their old regulators. Sure, they can participate in a Mares upgrade program that allows owners to trade up to a choice of Dacor or Mares regulators at prices better than any online price — but that’s not what they expected or wanted.

To keep a warranty in effect at each anniversary of the purchase date, a diver must bring the product to an authorized dealer or send it to the manufacturer along with proof of purchase and product registration. Many readers complained that this was unnecessarily inconvenient. As Chris Cubbison (Cincinnati, OH) put it: "I can go for more than a year between dives and always find that I have missed my annual service date when I finally do assemble my gear for a dive."

Of course, any warranty work is only as good as the tech rep who performs it. Mark Male told us he bought four regulators from Leisure Pro for his wife and kids, noting that the regulators "all had serious problems with free flowing in the first 20 dives." He sent them back twice, but the free flowing continued. Says Male, "It took a month each time before I got them back; you burn a dive season very quickly that way." When he got no satisfaction, says Male, "I was forced to move on and find a reputable place to buy my gear."

But local shops are hardly error-free, either. Subscriber David Hahn (Austin, TX) reported: "I have had three local Scubapro dealers make mistakes on servicing my MK20/S600, MK10/D350, and Air 2. I have been motivated to find tools, parts, and information, and undertake this endeavor myself. I simply refuse to pay \$30-\$35 labor per stage, plus parts, for faulty service."

Last year Fred Good, then proprietor of St. George's Lodge in Belize, told *Undercurrent*: "The statement most often heard after regulators fail (free flow) is, 'I just got this back from the shop!'"

When local shops prove less than cooperative about service issues, divers like John Zimmerlee (Marietta, GA) prefer the anonymity of sending their gear off for servicing. He reports, "I've been hassled when I return defective items to the brick-and-mortar store, but seldom when I return it to a web store."

One advantage of a manufacturer's warranty is product registration. As stated on www.scubatoys.com, "If the equipment is not covered under a manufacturer's warranty — not only would you have to pay to get your product fixed . . . you might never know there's a problem! And at a depth of 100 feet with a faulty regulator or failed BCD, you will probably not say to yourself, Yeah . . . but I saved a few bucks when I bought it . . . If purchased from a reputable dealer with full warranty coverage, registered owners of these items were notified — tracked by their warranty information on file with the original manufacturer — and problems corrected."

Products purchased through Leisure Pro can't be registered, so owners don't receive alerts from the manufacturer. However, Leisure Pro's website lists recall notices from the U.S. Consumer Product Safety Commission, and Leisure Pro e-mails them to its own customer database.

While many divers prefer to purchase gear with a solid warranty, many if not most divers don't see warranties as the deciding reason to choose one brand over another. Subsequently, it doesn't seem that there is a competitive edge for a manufacturer to refuse to honor warranties from unauthorized Web sellers or to argue that one should buy their gear in a dive store to maintain the warranty. It's a dying sales model.

Who Will Survive?

We've explored the effect of the Internet on divers, raising the question of whether the age-old industry mantra "support your local dive shop" may be a dying business model. Scuba gear and dive travel can be purchased cheaply and conveniently over the Web. Training is offered at resorts worldwide, in comfortable warm water. Gear can be shipped to third parties for factory-authorized service and returned overnight. Used gear can be acquired on eBay or at chains such as Play It Again Sports. From California to Maine, tanks can be filled at small sports shops or even grocery stores at dive sites. There are 50 fewer dive stores now than seven years ago. Will the trend continue?

A few manufacturers (notably, Aqualung and Scuba Pro) cling to the support-your-local-dive-shop model, allowing their products to be sold only through authorized brick-and-mortar dealers. Dealers sell the gear at manufacturer-dictated prices, while in return gaining marketing support and sales and service training. Manufacturers' warranties usually require the diver to return the gear to the dealer for annual servicing or repair. Aqualung and Scuba Pro do not allow their authorized dealers to sell their products on the Internet.

The manufacturer's suggested retail price typically allows retailers a 50 percent gross profit on equipment (which is also a 100 percent markup — a "keystone markup." This permits a small store to make a decent profit. However, gray-market discounters such as LeisurePro have disrupted the arrangement. They get equipment from channels other than the manufacturer and take slimmer markups. So, many divers have migrated to gray-market sellers on the Internet, where they save hundreds of dollars on major gear.

Most small dive stores can't meet the Internet prices, as an article in *Dive Business Magazine* points out. Here's why: Consider the difference between working on a 50 percent gross profit and a 40 percent gross profit. For example, suppose an average customer spends \$500 on each purchase at Ben's Dive Shop and Ben pays \$250 for those goods. The gross profit is \$250. If the monthly overhead (rent, phone, utilities, employees, insurances, etc.) is \$20,000, Ben has to have 80 of those customers in

a month to cover his nut ($80 \times \$250 = \$20,000$).

However, Ben is losing customers to the Internet, so to compete, he gives away accessories to add value and lowers his prices. The customer is getting about a 17 percent discount because what Ben has been buying for \$250 he is now selling for \$417. He's making \$166 per sale (40 percent gross profit). But his \$20,000 overhead hasn't changed, so to make it back, he has to attract half again as many customers. Instead of 80 sales, he has to make 120. For a small dive store, jacking up a customer base by 50 percent is very difficult. And that may not even be enough, because Internet discounts, especially when there is no sales tax, can amount to more than 17 percent.

To many manufacturers, supporting a local dive store is not about preventing them from cutting prices or using the Internet, but rather enabling them to profit. Even longtime holdout Oceanic sees online sales as critical to its business. Doug Krause, product manager for the Oceanic and Aeris brands, told *Undercurrent*, "The Internet is becoming the equivalent of the Yellow Pages — it will soon be a standard means of making life easier for our customers."

On its Web site, Oceanic offers an "online convenience store." Once a shopper finds a particular product and price, he can be directed to nearby dealers and authorized Internet resellers, such as www.scuba.com. He can buy the item in person or can buy online, and the dealer ships the merchandise and earns a commission. Dive stores can link from their own websites to Oceanic's, where a shopper can get more information. It's not an entirely free marketplace, because dealers must follow Oceanic's pricing guidelines, but there is a range of discounts from the list price.

Internet Sales for the Small Manufacturer

Sue Swigart, owner of Dive Goddess in Fort Worth, TX, has abandoned the old model. Until 2001, she sold her fashion skins and accessories through dive shops and had exhibited at various dive expos, but she told *Undercurrent*, "It just wasn't working for us, the dive shops or the customer." While selling wholesale, she also had been e-tailing through www.divegoddess.com although at higher mark-ups so as not to compete with dive stores. After four years, says Swigart, "It was obvious that mom-and-pop stores just couldn't produce enough volume. The customers were frustrated because whatever size or print they wanted was not the one the dive store had." She also had to insist on minimum orders from shops. "Because we could not afford to offer onesy-two orders at a wholesale price."

Since going all online, Swigart notes, "We have never looked back. We can offer discounts without worrying about stepping on any toes. We can instantly announce, via e-mail, to all our customers that we have new products.

We ship all over the world. The catalog accurately reflects exactly what is available to ship within 48 hours . . . None of this would have been possible without the Internet."

But that puts her in direct competition with dive shops, at least in the eyes of two magazines: *Dive Training* and *Sport Diver*. They refuse to carry ads for "rogue businesses." It's how they protect their own products. *Dive Training* is distributed free through dive shops and editorializes monthly about how consumers should support their local dive shop. If dive shops disappear, so does the magazine's distribution. Swigart learned that *Sport Diver* "does not to sell advertising to any advertiser who does not sell through dive shops." The magazine is owned by PADI, and a strong dive shop network is necessary to attract new divers for PADI training.

But with resistance, there is hope

For many years the Diving Equipment and Marketing Association (DEMA), diving's trade group, seemed to ignore the Internet, at least publicly. No more. It has recognized that the Internet "is not going away," says DEMA's Nicole Russell. "We must learn to live with it."

Dave McClure, president of the US Internet Industry Association has presented Internet seminars at DEMA trade shows. Besides being an Internet guru, McClure is a partner in www.scuba-challenge.com, a community of recreational divers, organized as a virtual dive shop, tour operator and dive information center. He has noted that while 71 percent of the shops surveyed by *Dive Center Business* were actively working to keep customers from buying off the Internet, other shops were putting excess inventory up for bid on eBay. Obviously, there is no single dive business strategy regarding the Internet. McClure believes, however, that dive shops can effectively use e-commerce as an important weapon in their sales arsenal. And some are.

Keys to Survival

As we've documented, sales of diving goods and services over the Internet, often at deep discounts, are forcing many manufacturers and retailers to change their traditional business models.

A straightforward way to compete is to offer service that's impossible to get online and convince divers it's worth paying for.

Tackling the Internet Head-On

"We love it when customers come in with downloaded information," said Dave Farrar, owner of Gypsy Divers in Raleigh, N.C. He tells them to "Come look at our equipment, ask questions, try things on. Get catalogs to help you choose your perfect system."

Farrar says that his staff informs customers how Gypsy Divers adds value to the purchase: “We assemble it, configure it to your needs, and guarantee the fit.” A diver can’t get the right fit without trying on the gear, one thing e-tailers can’t offer.

“We make sure you are aware of the gear’s features and we’re trained in how to use these features,” says Farrar. “We register the warranty for you, and we’re here to resolve any warranty issues. We guarantee your satisfaction or all your money back, instantly — no questions asked. We advise you when your annual service is due and honor the annual service warranties. We will always be here for free, cheerful consultation on all the places and ways you can use your new stuff. We want you diving and happy.” They can even arrange financing for gear purchases.

Gypsy Divers adds value to the purchase: “We assemble it, configure it to your needs, and guarantee the fit.”

“All we ask,” says Farrar, “is that before you transmit a credit card number to someone in a warehouse in another state who doesn’t know you, give us one last chance... show us the system and pricing you have found in cyberspace. We’ll make certain you’re getting the right size, the current model, the right features, etc. And we’ll tell you the cost difference if you were to buy the same system from us, with all the above values added.” Farrar estimates that 8 out of 10 online shoppers wind up buying from his store. A Scuba Pro dealer, he chooses not to sell any merchandise over the Internet, though their Scuba Pro dealer agreement would allow them to put other brands on the Web.

Neither does Aqualung dealer Aqua Hut (Ardmore, PA), which also competes with Internet price-cutters by offering value-added services such as pool tests of new gear, occasional complimentary bench checks for regulators, and loaner equipment for people who suddenly realize they need something for an imminent trip. Owner Christine Vilardo told *Undercurrent* she’s even given full refunds or replacements on BCDs after they’ve been used on a week-long dive trip, “although we try to advise customers on the right product — and to set it up properly for them — the first time.” In return for this commitment to customers, Vilardo expects her customers to use Aqua Hut for all their scuba needs.

Of course, to provide this service, shops must hire, train and retain competent, customer-oriented personnel, which is not easy to do when profits are squeezed. Although markups on dive gear are substantial, training, repairs and rentals generally operate on thinner margins,

according to *Dive Center Business Magazine*. In other words, services are underpriced to lure prospects, with the hope that they’ll buy all their gear from their local shop.

Shops near popular dive sites on the coasts, or at lakes or quarries, have an advantage because their clientele is likely to dive frequently and use their services often. The same goes for those specializing in niches such as wreck or tech diving. But what about the rest of the dive retail universe? The flourishing dive shop of the future will have to think big and broad.

Gypsy Divers has leveraged its service skills and formed Air Tech (www.airtechscubaservices.com) to service dive gear from other shops and individual divers around the country. In April 2005, *Undercurrent* reported a favorable experience having a Scuba Pro regulator and Air II properly overhauled and well within Air Tech’s guaranteed 10-day turnaround.

Dive stores are finding bigger opportunities by taking away business from travel agencies. By offering group trips to their customers, they can keep friends diving together while making good money. For example, the Galapagos Aggressor charges \$2,995 per person, double occupancy, and offers shops a 15 percent commission plus two free spots. That comes to \$5,391 in commissions. Sell those two free spots for an additional \$5,990 and the profit hits \$11,381. Arrange the flights through an airline and rake in more dollars. While there can be managerial headaches, there is no inventory stacking up in the backroom.

But, to make money, there has to be a sufficient flow of customers, starting with novices seeking certification. Shortened training courses attract customers because it is easier to get certified. Problem is, they aren’t in the store for long. Twenty years ago, to get certified, a diver had to spend six nights and the better part of a weekend in a dive store. That’s a lot of time to make sales. Today it’s faster, less personal, and open water certification is likely to be in the Caribbean, where gear is rented and sold. And, shorter courses can produce less confident divers who are more likely to drop out. Dropouts don’t buy equipment and they don’t buy travel.

Furthermore, there are still hobbyists running shops. Dusty Neef says the closest dive shop is about 70 miles from where he lives (Pampa, TX) and is also an office supply store and nail salon. The store has to order most items he’s looking for. A diver we’ll call John reports suffering with two part-time dive shops near his home in Bloomsburg, PA. He says, “The owners both have full-time jobs elsewhere, so their shops are no more than a hobby or a tax write off. They don’t put their heart into it.”

One shop ordered a dry suit for him, and it took three returns and six months before he got something he could use — though he still wasn’t satisfied with the fit. When

he came in looking for a HP tank valve, the proprietor of the other shop asked, "Why would I stock something I only sell once in ten years? Two months later the shop owner called and said the tank valve John had ordered was in. "I never told him to order it." says John. "I went home, called Leisure Pro and had one in a couple days."

Look for Mega Shops

At DEMA's dive industry show, expert Dave McClure predicted that smaller stores will merge into mega shops that can carry more inventory at lower costs and greater operating efficiencies.

World Watersports, for example, has become a "multi-channel player competing not just on the Internet, but in bricks-and-mortar-retail as well," says executive vice president Chuck Whiteman. From its initial Divers Direct out-

Dive stores are finding bigger opportunities by taking away business from travel agencies.

let in Key Largo, the chain now has six stores in Florida stocking more than 25,000 different watersports products, including a "Divers Direct Pro Shop" store-within-a-store, plus catalog and Internet commerce divisions. The Internet accounts for less than 10 percent of the chain's volume, says Whiteman.

In May, the chain announced a partnership with Gander Mountain, the nation's largest retail network of stores selling hunting, fishing, camping, marine and outdoor products. This fall, Gander Mountain will introduce scuba and snorkeling products and services in four stores:

Middletown, NY; Spring, TX; Lakeville, MN and Lake Mary, FL. World Watersports will recommend and supply diving products and services, train Gander Mountain associates, and develop relationships with local dive instructors.

That partnership will emulate the L.A.-based Sport Chalet (www.sportchalet.com), which operates sporting goods superstores in California and southern Nevada. The company offers more than 40 services for serious jocks of all sorts, including scuba training and dive boat charters, in 36 locations. A typical store includes a pool for scuba and watersports instruction and demonstrations, and an air compressor. With such a wide-ranging product mix, these stores can stay busy year-round, instead of being subject to the seasonal appeal of a single sport such as diving. The publicly traded chain just announced that sales sales increased 17 percent in the quarter ending July 2 increased 17 percent, while net income jumped 36 percent.

As these emerging chains know, there are plenty of people who prefer a hands-on retail environment, where they have established relationships with the staff and, perhaps, other customers. A good local shop is a focal point for trading information, planning dives, and making new friends. But to some buyers, only price matters, and the best prices are on the Net. There's another subset of shoppers who trust the information they receive over the Internet more than a retail salesperson who may be biased toward the lines he carries, and may be less knowledgeable than the customer. To survive, dive stores must view the Internet as a tool rather than an enemy, recognize their customers' options and find a way to offer something they need or want.

— by Larry Clinton and Ben Davison