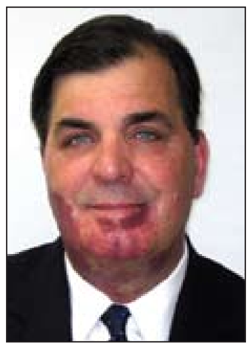
A Reengineered Harvey

An Interview with Michael E. Recca,
Interim Chief Executive Officer and
Chief Restructuring Officer, Harvey Electronics Inc.



Michael E. Recca

EDITORS' NOTE *Prior to assuming his current role in 2007, Michael Recca held posts with Deloitte, Cralin & Co. Ltd., and the Weatherly Cos. He later served as CEO of Vroman Foods. He became Harvey Electronics' Chairman in 1998 and has remained on the board since then. Recca also served as an officer and director of Sky Capital Holdings, before becoming a self-employed financial reconstruction consultant.*

COMPANY BRIEF *Harvey Electronics Inc. is a specialty retailer and custom installer of high-quality audio and video consumer electronics and home theater products in the Metropolitan New York area. Founded in 1927, Harvey operates stores in New York and New Jersey. One of its stores operates under the Bang & Olufsen brand name, offering audio and video components made by the Danish company. Harvey filed for Chapter 11 bankruptcy protection in December 2007 and expects to emerge from bankruptcy in 2008.*

You took over Harvey Electronics at a challenging time. What excited you about that opportunity?

I've been involved with Harvey in varying degrees for a long time. I discovered the company in Chapter 11 in the mid '90s, and we successfully emerged from it. The management team and I built a company that grew very rapidly from about $12 million in revenue to approximately $44 million. I became less involved in 2002, and got parachuted back into the structure of the company in the summer of 2007. We ultimately filed for bankruptcy in the fall of 2007.

I think there's a tremendous opportunity in the market for a reengineered Harvey. When I was first involved with the company, we migrated from being a price-competitive retailer, competing against The Wiz and other mass-market retailers, to become a high-end audio and video retailer. We were successful at that for a while, but you can buy a sophisticated flat-screen television pretty much anywhere. We can't compete with Best Buy, Circuit City, or other larger retailers on price, simply because of their volumes. But we can compete in the service aspect of the business. We're not selling products; we're selling the integration of those products into an environment. To be frank, if you want to buy a 36-inch TV and hang it on a wall, you won't get the best deal at Harvey. If you're looking for that television to be integrated into a home theater and a multi-room audiovisual system that can store hundreds of DVDs and CDs that can be accessed throughout the home, we offer those services, which are not available through the mass-market retailers. I see that becoming an increasingly attractive service to consumers. We are at the forefront of providing that kind of service and have an 81-year-old brand name that people trust.

What advantages does Chapter 11 status give you at this time?

We have a restructuring plan in place that includes the reduction of our retail footprint. We're not selling products that go into someone's trunk and then into his home; we're selling a service that takes months to complete. So we don't need 10,000 square feet of retail space. We can offer our services very effectively in 2,500 square feet. Through the bankruptcy process, we are able to shed our excess retail spaces and other costs in short order. So it really accelerates what we can accomplish over time, saves us time, and narrows our focus.

Has the economic downturn in the United States impacted your business?

It hasn't shown up yet. I joke that we don't have to worry about the recession because we've had our own for the past two years. Would I be happier if it was three years ago, and the housing market was raging? Sure. Am I terribly worried about this? No. Our customers are somewhat insulated from economic downturns. No one is recession-proof, but our customers are wealthier, older, and more insulated than the customers of mass-market retailers. So I think we're okay, and hopefully this turbulence will pass quickly and we'll move on.

Is there a major difference in the way you're addressing Harvey's reengineering now, compared to how you did so in the mid '90s?

It's absolutely different. The first time, the company attempted to be a very price competitive retailer and failed miserably in that. We were then able to occupy a market niche without a lot of competition. We leveraged our brand's reputation to sell a high-end product.

The transition we're going through now is somewhat different; we're moving from being a product company to being a service company that offers products. Today, the product is far less meaningful than it was in the past. These products have become commodities. We believe we can capitalize on our ability to integrate these products into an experience that is exclusive and not replicable by most companies.

How does your current role differ from that of a typical CEO?

Other than needing a lot of stomach lining, the hardest part of working in this company is breaking the mold. One of the things I tell the employees, over and over again, is, "When you come to work today, don't think of what you did yesterday, because what you did yesterday didn't work." The company didn't succeed. So we have to look at everything we're doing and find ways to do things differently. What else could we be doing? What don't we need to do any more? We have to break the status quo. We have to change.

One would think it takes a certain kind of personality to take on this kind of challenge as an executive. Do you enjoy the challenge? Are you ever frustrated by the process?

The biggest advantage of Chapter 11 is the ability it gives us to not worry about the past and just move forward. So I don't see that as challenging or frustrating at all. ●

Potential components of an integrated entertainment system