



NEWS

USED COMPUTERS CARVE OUT A NICHE AT RETAIL



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The president of one of the few used microcomputer retail operations still in business insists there's a strong market for secondhand computers.

But others in the industry say that though there is a demand for used machines, it might not be at retail.

Bruce Ruedig, president of family-owned C.A.S. New and Used Computers Inc., one of the few survivors in the Midwest, says his four-store Chicago area chain earns only about 20 percent of its revenue from the sale of used machines.

A couple of years ago, used computer stores were being launched with high hopes for nationwide chains and international expansion. Some even talked of going public.

Now, most of them have scaled back their plans considerably, and many have gone out of business.

Many industry observers say there just isn't enough money in used PCs to make it worthwhile to sell through a traditional storefront operation. Some used-computer salesmen say there is more profit and less risk in a broker's approach.

On the retail side, Ruedig says his faith in the dwindling industry is justified. He estimates that his 4-year old company, which has stores in Chicago, Villa Park, Schaumburg and Glenview, sold \$1 million worth of older machines last year and \$4 million of new ones. Ruedig said the company is looking for a fifth site and total sales in the \$7 million range for 1987.

C.A.S. could most likely sell more used computers, Ruedig added, if the chain could get them at reasonable prices. Inventory is and always has been the biggest problem in the secondhand computer retail business, he said. He hopes the new International Business Machines Corp. line will encourage a big turnover in equipment in use.

The shortage in supply is the reason C.A.S. began stocking new IBM-compatibles and clones, a segment that has

eclipsed the original plan for selling used machines. That's the same reason MicroSeconds, a veteran Boulder, Colo.-based secondhand computer store, began building its own clones.

"We could get plenty of the older machines with outdated operating systems," said Jane Hartley, manager of MicroSeconds. "But we just couldn't get our hands on enough old IBM PC XT's and PC AT's to keep up with the demand," she said. Nonetheless, she estimates that the Colorado store sells more used than new machines.

Many used computer stores go out of business and others turn to selling clones because they are set up like used-car lots, said Alexander Randall, president of the Boston Computer Exchange.

"Their big mistake is buying the computers," Randall said.

His profitable operation works more like the New York Stock Exchange, he said. He doesn't buy and sell computers. Instead, he compiles a database of information on buyers and sellers and matches them up, taking his commission from the seller based on the sale price. His service works through a toll-free telephone number as well as on line through several electronic services.

"The markup is too low on used equipment—we're talking 10 to 12 percent –to support a roof, insurance, salesmen, warranty service and all that,"

he said.

Randall has written a book, "A Seat on the Exchange," which he sells for \$1,500. More than 70 buyers of the book have begun exchanges in other cities. He is working out a way to tie all those regional databases together into a national network.

Randall says his exchange arranges several hundred sales a week, but the smaller, newer exchanges are growing and have not reached that kind of volume. The Computer Exchange also finds that the demand is usually larger than the supply, but Randall said it has not been a major problem, and he expects it to become even less a factor when the regional databases are able to tap into each other.

Few traditional computer retail chains want to be bothered with the low-profit used machines. NYNEX Business Centers, a 90-center nationwide chain, said it recently began accepting old equipment for trade-ins but has no interest in reselling the outdated machines.

"We see trade-ins as just another piece in our salesmen's arsenal. We have no mechanism for reselling them," a NYNEX spokesman said. "There are too many new models coming out—not just new models but whole new generations—that we feel makes the old stuff that much less attractive."

NYNEX sells the used equipment to computer brokers, he said.

Ruedig, who began C.A.S. to sell used corporate airplanes, says he does not seek Fortune 500 customers.

"Our customers are evenly divided between the work-at-home market and small businesses," he said, adding that most of the stores' sales are one or two machines at a time.

"Sometimes, though, we stumble into a big sale. A customer who has bought a used model from C.A.S. for himself will come back with an order from his company."

Ruedig's biggest problem is not having enough used machines to satisfy corporate customers. If he can't fill the order with used models, he will suggest turning to "name brand" clones, such as Kaypro, Panasonic, Leading Edge and NEC.

If the customer insists on IBM, Ruedig said he sometimes can pick up a few models through "the gray market," the practice by which authorized IBM dealers sell models they can't get rid of to resellers "under the table."

"We don't see it as a problem, because we can service and repair them, but we don't make a practice of it," he said.

Ruedig said that to survive, C.A.S. has had to provide more service than a new computer seller and more than other used-computers sellers. A competitor who recently went out of business used to say he would send novice customers away, because his store's slim margins made it unprofitable to waste the time needed to get them up and running.

"We have had to be knowledgeable, and we have had to overcome prejudices against used and foreign equipment," Ruedig said. "Basically, we've had to work at making our customers happy." He said that all the used machines his stores buy are run through diagnostic programs and repaired before going onto the floor.

"We look at a customer's problem and try to suggest a broad range of solutions. We offer unlimited support, so we can't afford to make mistakes and match people up with systems that are wrong for them," he said.

Ruedig doesn't see a major risk in buying used equipment. He said most computers that break down are likely to quit within the first four to six hours. If they make it through that period, they probably are not going to have many problems.

"Most personal computers become obsolete before they physically die," he said.

In the used marketplace, Ruedig said, supply and demand determine prices much more than on the new market, where new models spur price cutting.

Randall said that he publishes a closing prices report every week, based on blue-book prices and real transactions.

Ruedig says he must buy lower and sell higher than a similar transaction conducted by an individual running classified ads.

"That's why we emphasize our added services," he said. "Some people don't want the hassle of buying something like a computer sight unseen."

