by Bruce V. Bigelow

David McDonough remembers flying home to San Diego on Jan. 18, 1976, and thinking to himself, "I think I just got clipped for two grand."

UP AND DOWN - Former ComputerLand franchisees David McDonough (left) and Norm Dinnsen in the workshop of Computer Technology Resources, their San Diego repair business. The business partners have survived more than 30 years in the personal computer industry. CNS Photo by Nelvin C. Cepeda. McDonough and his colleague Norm Dinnsen were working in San Diego for NCR, the Ohio-based maker of cash registers and big mainframe computers, when they decided to gamble on a business venture of their own. Their decision was prompted by a trade magazine advertisement that read: "The computer stores are coming! Get in on the ground floor!"

After investigating the idea, McDonough wrote a $2,000 check to buy the exclusive rights for what would become the ComputerLand franchise in San Diego. But he doesn't remember feeling good about it.

During the flight that night from San Leandro, Calif., where he had signed the deal, McDonough felt he'd been scammed, and a question gnawed at him: Who's going to buy a computer in a store?
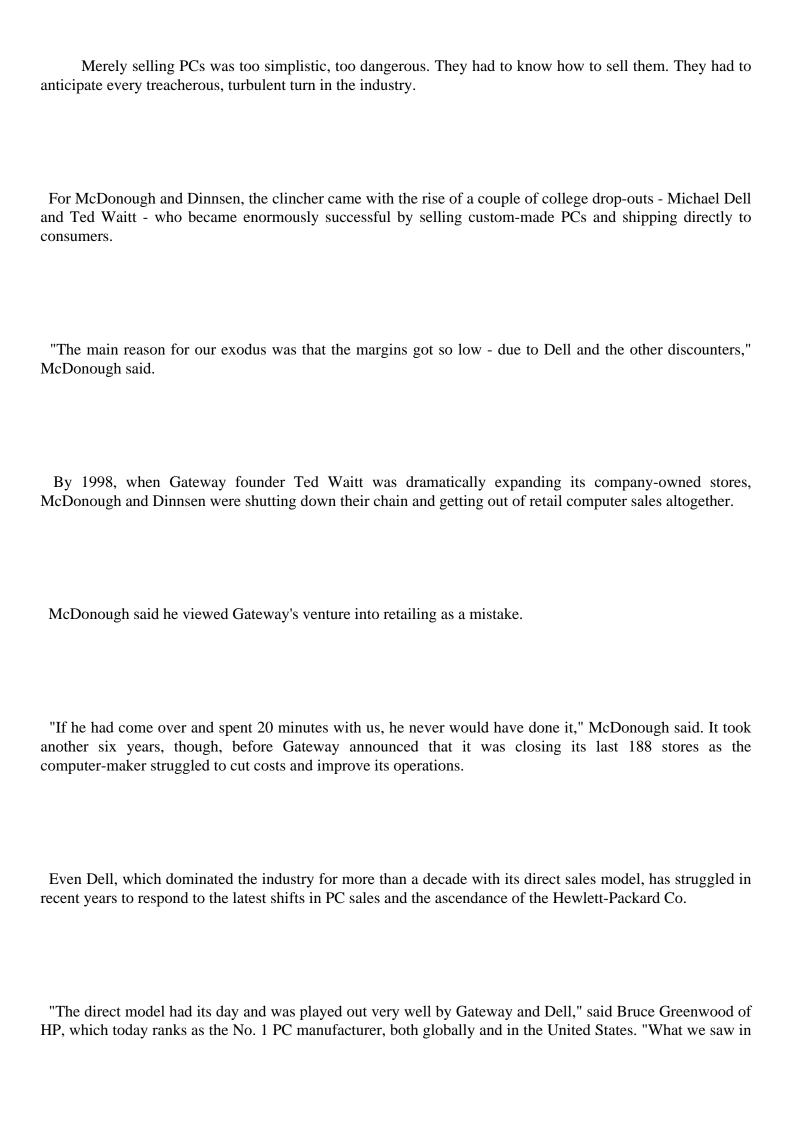
The answer seems obvious 31 years later.
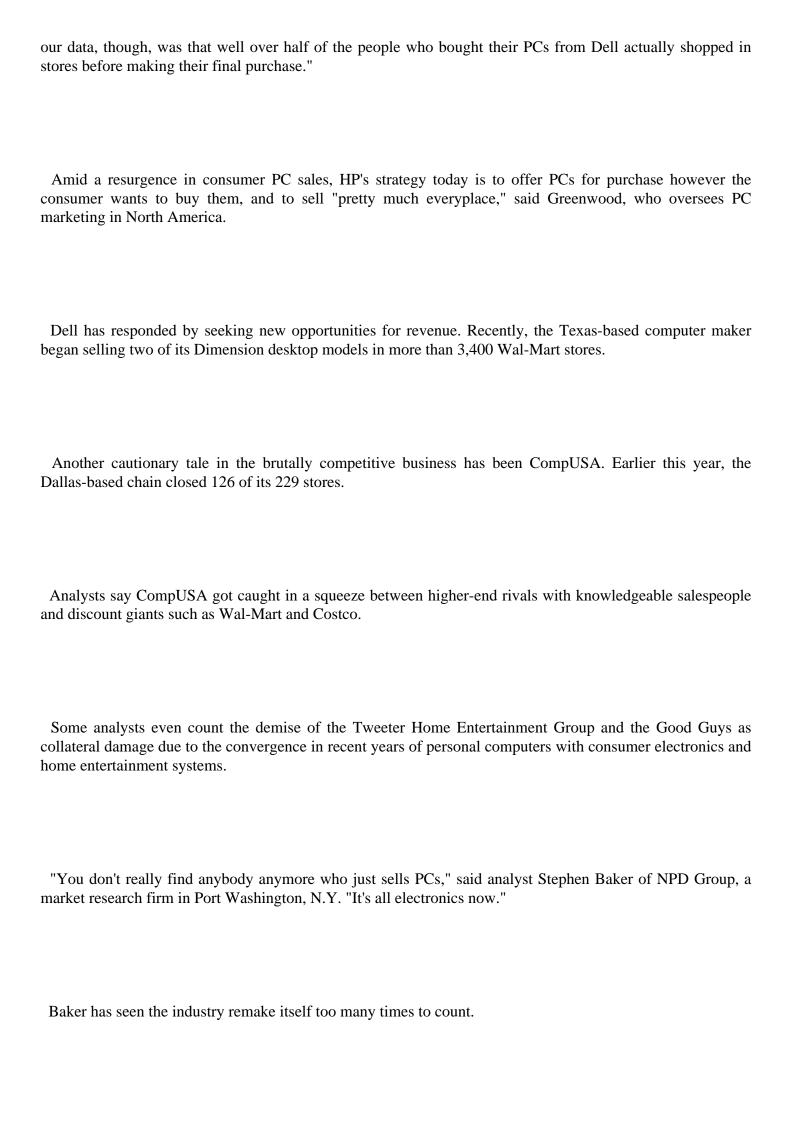
But the business of selling PCs has never been predictable. It has changed course over the past three decades like a rogue river in a thunderstorm, shifting suddenly from storefronts to value-added resellers, factory-direct orders and Internet-based sales - and back again.

McDonough and Dinnsen say they overhauled their business several times to adjust to the wrenching changes, and the arc of their careers has in many ways paralleled the industry itself.

They financed their venture by taking out a second trust deed for $35,000 each on their respective homes. They used the $70,000 to open their first ComputerLand store in 1977.

In the beginning, the former NCR sales executives sold mostly computer hobbyist kits to engineers from Cubic Corp. and elsewhere.

In their first three days, they sold a soldering iron, some computer hobbyist magazines and other equipment - but no computers. Their sales totaled $400.

But the business gradually improved. They sold their first Apple II in 1979 to an engineer with SAIC, the San Diego defense contractor. They sold the first IBM desktop computer in San Diego, and the first Compaq PC, too.

"It was very exciting in those days because when you called Apple, Steve Jobs answered the phone," Dinnsen said.

In a 1978 article about the new retail computer stores, Fortune magazine reported, "ComputerLand's most important customers are small insurance offices, one-man consulting enterprises, retail stores and a myriad other businesses, including a man who makes his living betting on dog races."

The article concluded, "Supposedly these computers will one day sell by the millions, an enticing prospect for the entrepreneurs who are getting in on the ground floor."

Such predictions seem quaint in retrospect.

In just the three months that ended in June - the second quarter of 2007 - worldwide PC shipments totaled 61.1 million, according to a report released earlier this month by Gartner Inc. It represented an 11.7 percent increase over the same period last year.

The market research firm said PC shipments in the United States during the quarter totaled more than 15.7 million units - a 5.9 percent increase that was nearly double what Gartner had forecasted for the period.

"What really flipped the business was when IBM introduced their PC in 1981," McDonough added. "It literally flipped from hobbyist sales to a serious retail business with sales to big corporations. It got to the point where you'd walk into our store on Convoy Street, and you literally could not walk down the aisles because they were full of computers to be shipped to General Dynamics."

By the mid-1980s, McDonough and Dinnsen were operating a $100 million business empire, with 14 ComputerLand stores in San Diego and Los Angeles counties, and close to 350 employees.

McDonough and Dinnsen said computer makers would fly them all over the country, "but it went from riding at the front of the plane, to riding in the back of the plane, to riding on a Greyhound bus."

As fate would have it, getting in on the ground floor of the computer revolution wasn't enough. Retailers weren't simply riding a wave of PC sales. It was more like a flash flood, Class 6 whitewater.

Merely selling PCs was too simplistic, too dangerous. They had to know how to sell them. They had to anticipate every treacherous, turbulent turn in the industry.

For McDonough and Dinnsen, the clincher came with the rise of a couple of college drop-outs - Michael Dell and Ted Waitt - who became enormously successful by selling custom-made PCs and shipping directly to consumers.

"The main reason for our exodus was that the margins got so low - due to Dell and the other discounters," McDonough said.

By 1998, when Gateway founder Ted Waitt was dramatically expanding its company-owned stores, McDonough and Dinnsen were shutting down their chain and getting out of retail computer sales altogether.

McDonough said he viewed Gateway's venture into retailing as a mistake.

"If he had come over and spent 20 minutes with us, he never would have done it," McDonough said. It took another six years, though, before Gateway announced that it was closing its last 188 stores as the computer-maker struggled to cut costs and improve its operations.

Even Dell, which dominated the industry for more than a decade with its direct sales model, has struggled in recent years to respond to the latest shifts in PC sales and the ascendance of the Hewlett-Packard Co.

"The direct model had its day and was played out very well by Gateway and Dell," said Bruce Greenwood of HP, which today ranks as the No. 1 PC manufacturer, both globally and in the United States. "What we saw in

our data, though, was that well over half of the people who bought their PCs from Dell actually shopped in stores before making their final purchase."

Amid a resurgence in consumer PC sales, HP's strategy today is to offer PCs for purchase however the consumer wants to buy them, and to sell "pretty much everyplace," said Greenwood, who oversees PC marketing in North America.

Dell has responded by seeking new opportunities for revenue. Recently, the Texas-based computer maker began selling two of its Dimension desktop models in more than 3,400 Wal-Mart stores.

Another cautionary tale in the brutally competitive business has been CompUSA. Earlier this year, the Dallas-based chain closed 126 of its 229 stores.

Analysts say CompUSA got caught in a squeeze between higher-end rivals with knowledgeable salespeople and discount giants such as Wal-Mart and Costco.

Some analysts even count the demise of the Tweeter Home Entertainment Group and the Good Guys as collateral damage due to the convergence in recent years of personal computers with consumer electronics and home entertainment systems.

"You don't really find anybody anymore who just sells PCs," said analyst Stephen Baker of NPD Group, a market research firm in Port Washington, N.Y. "It's all electronics now."

Baker has seen the industry remake itself too many times to count.

"During the '90s, there was this big move toward volume," he recalled. Compaq, with its efficiencies of scale, "changed the whole margin structure of the business in '91 and '92.

"Then online sales worked for awhile. Online was great when people wanted a very specific configuration for their computer. But that's not the case anymore. Most of the value is there in the standard components. Now, whatever is on the shelf does 90 percent of what 90 percent of people want to do 90 percent of the time."

Today, Baker says one of the ways to make money in what has become a low-margin business is through high sales volume - complemented by higher-margin sales of peripherals, printer cartridges and other accessories.

At Best Buy, the Minnesota-based retailer that now ranks as the largest U.S. seller of consumer PCs, spokesman Jeff Dudash said, "We spend a lot of time listening to what our customers are asking for."

As a result, Best Buy's strategy has expanded to encompass supporting the life cycle of a personal computer - from the initial purchase to return trips for accessories, games and software, and tech support by its Geek Squad.

"There are just so many hidden costs in retailing," Dinnsen said. He listed customer returns, extended hours, demo equipment, and intra-store transfers. The problems only got bigger as the business expanded.

Managing people was another challenge that got worse as business boomed.

In the early days, McDonough said they had to guard against their salesmen giving a customer $1,000 worth of memory to close a PC sale. It only got harder to supervise employees and maintain internal controls as their business expanded.

Like most retailers, they had to get a line of credit. They needed a warehouse for inventory, insurance for inventory.

"In computer sales, new products would go from 100 percent of value to 50 percent of value in six months," Dinnsen said. "The only way we could rely on to make money in retail was to get rebates from the manufacturers."

After closing their flagship ComputerLand store, the partners renamed their business Computer Technology Resources, or CTR, and focused their operations on a small but profitable niche in PC service and repairs.

They now have fewer than 35 employees and are generating less than $5 million a year in revenue, "but it's very profitable," said McDonough, who is now 62 and plays golf on most Wednesdays. "We've gone from small to big to small in a very volatile industry."

30 years in the volatile PC market by Bruce V. Bigelow