Why Is The Music Industry Like Two Men In A Lifeboat?

For a nearly $4 billion industry, music is exceptional in that it has only one channel for distributing products to the general public. Unlike the $8 billion home audio industry, to cite one example, which sells through specialized retailers, department stores, photo stores, mass merchants, discount chains, and virtually anyone else who can pass a credit check, the music industry depends almost exclusively on specialized music retailers. Excluding the auto industry, how many other $billion-plus markets can you think of that have such a limited distribution channel?

This severely circumscribed distribution places special demands on both the retailer and the manufacturer. In short, success depends on a mutual partnership between the two parties. Elsewhere in this issue, retailer Chris Gleason offers a primer on how manufacturers and retailers can work together more effectively. Voicing similar sentiments, several piano manufacturers in the "Piano Market Report," which begins on page 58, call on retailers and suppliers to put aside their animosities and apply themselves to the task of building the market.

Music retailers and their suppliers are not unlike two men thrown together at sea in a small lifeboat. The two may not like each other, and they may find their circumstances unpleasant, but if they have a shred of intelligence, they recognize that survival depends on cooperation and peaceful coexistence.

The bulk of the music industry's products are costly, difficult to demonstrate, and appeal to a relatively small portion of the population. For these reasons, mass merchants, department stores, and discount chains have no interest in stocking them. Thus, music manufacturers have little choice in selecting their distribution channel: It's either music stores, or nothing.

If sporting goods take a nosedive, K-Mart can always shift its emphasis to women's clothing or countless other product categories. Music dealers, by contrast, have no such options. Without exception, they are ill equipped to sell anything except music products. With this kind of dependency, retailers and manufacturers sink or swim together.

The biggest sources of conflict between manufacturers and retailers have to do with money and profitablity. In the case of most suppliers, we would urge them to adopt a "Less is More" approach when it comes to franchising dealers. Opening every dealer in a trading area may boost sales over the short term, but over the long term it leads to intense price competition, which decimates the retailer's profits. After a period of selling products slightly over cost, retailers begin to look for other sources of supply, and a manufacturer can find himself without any distribution. Furthermore, if you want to earn a retailer's undying enmity, try opening everyone else in town after you have promised him "an exclusive."

Retailers, for their part, should recognize that their future depends on strong, financially sound suppliers. Thus, trying to browbeat a rep into selling a product below cost, or offering "net never" terms, is counterproductive. Depriving a manufacturer of a reasonable profit simply jeopardizes the future availablity of desireable products.

Is the music industry's current distribution system ideal? Probably not, but on the other hand it's all we've got. If there was a way to sell musical instruments by postcard, it would have been done long ago, and the industry would be a very different place today.

Better relationships between manufacturers and retailers can not be ordered by decree or achieved in a court of law. It requires each party making an effort to deal fairly and look at a situation from another point of view. For a more in-depth analysis of what makes for good partnerships, we would urge everyone to carefully read Chris Gleason's article, which appears on page 88 of this issue.

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