



EDITORIAL

HOW A GREAT COMPANY TANKED

Who hasn't heard of Rubbermaid? For consumers around the world, the name is synonymous with molded trash cans, plastic storage containers, and molded toys for kids. Between 1980 and 1994 the \$2.5 billion (sales) company won raves from Wall Street for consistently delivering double-digit sales and earnings gains, and for ten straight years *Fortune* magazine ranked it as "One of America's Most Admired Corporations," citing a record of innovation and artful management. Yet by early 1996 Rubbermaid's sales growth had stalled and its earnings had evaporated. Late that year, after the stock price slid from \$50 to \$28, Newell Corp. made a successful takeover bid.

This isn't a hardware magazine, but the rise and rapid fall of Rubbermaid is a powerful cautionary tale that mirrors some emerging trends in the music products industry. Three years after the acquisition, Newell Corp. management bluntly says that Rubbermaid wasn't done in by a more effective competitor, poor quality, out-of-line pricing, or a lack of product innovation. Rather, the company's woes were caused entirely by "excessive dependence" on two major retailers, namely Wal-Mart and Home Depot.

Over a period of years, as Wal-Mart and Home Depot secured a larger share of Rubbermaid's business, they demanded better pricing, enhanced return policies, and stepped-up "promotional consideration." These sweeteners enabled the retail giants to advertise desirable Rubbermaid products at deeply discounted prices, which prompted other retailers to abandon Rubbermaid, which in turn made the company even more dependent on Home Depot and Wal-Mart. The vicious circle rapidly accelerated until eventually Home Depot and Wal-Mart were able to unilaterally dictate terms, and Rubbermaid was transformed from a money-maker into a marginal enterprise. In outlining its strategy for restoring Rubbermaid, Newell management cites "rebuilding ties with alternative distributors" (a tactful way of saying no more deals) as its number-one priority. To date, the company's sales have declined about 15%, but profits have rebounded.

Most of the music industry suppliers we know will probably say that the Rubbermaid saga has no bearing

on them because they have a strict "one price" policy and Guitar Center, Sam Ash Music, and MARS receive the same prices and terms as independent retailers. No doubt there are some manufacturers that actually hew to a "one price" policy, but if that's really so, are the three chains misleading their investors and customers when they say that their outsized "purchasing power" allows them to offer the industry's best pricing? We tend to think that an aggressive buying program is an important component in the business model of all three chains.

"Partnering" is an oft-used buzzword, and everyone likes to say that in our enlightened business climate, adversarial negotiations have been replaced by win/win transactions; however, the three m.i. chains are under tremendous pressure to meet the profit expectations of outside investors, and we doubt any of them are wracked with guilt after they put the screws to their suppliers for the deal that helps them make their numbers.

There's nothing wrong with hard-ball tactics in the purchasing departments at Guitar Center, MARS, or Sam Ash. It's only natural for a retailer to try to extract the best terms possible, and in a free market it's also perfectly legal; however, when suppliers are confronted with demands for extended dating, "advertising support," unlimited returns, sales spiffs, volume rebates, store fixtures, free floor samples, key market money, clinics, etc., we hope they will remember the unfortunate turn of events at Rubbermaid. Inequitable pricing policies can quickly erode a distribution network and put a supplier at the mercy of a few large customers, and if this dependence on a few aggressive retailers can crush a huge company like Rubbermaid, with a history of profitability, a sterling reputation, and an internationally recognized brand name, can any music company expect to escape a similar fate?

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