EDITORIAL

FOLLOW THE MONEY!

The detective struggling to get to the bottom of a case is invariably instructed to "follow the money." In our annual Retail Compensation survey, which begins on page 66 of this issue, we follow the industry's money trail and uncover some troubling trends at retail in the process. To sum up, the rewards of rising sales don't seem to be making their way into the paychecks of the industry's frontline sales staff.

Over the past five years industry sales have expanded at a brisk 6% annual pace, close to triple the rate of inflation. During the same time frame, retail sales compensation has lagged, increasing at approximately the rate of inflation. Pay raises matching the inflation rate are not necessarily a bad thing, but, given larger industry trends, we think they reflect some of the competitive pressures currently affecting music retailers.

The law of supply and demand is about as predictable as the laws of gravity, death, and taxes. Reduce the supply of a commodity, whether it's gasoline or guitars, and the price inevitably rises. With MARS, Guitar Center, and Sam Ash scrambling to staff new stores, independent retailers complaining about struggling to find enough salespeople, and a record level of classified advertising in the columns of *Music Trades*, it would appear that there is an acute shortage of retail salespeople. Yet if a shortage exists, why haven't competing retailers bid up pay scales to attract new hires?

The short answer is that they can't really afford to. Thanks to the marvels of computer technology, most retailers now have the number-crunching capability to base sales commissions on gross margin rather than gross sales. As competition has squeezed gross margins, pay scales for salespeople have suffered as well. It's hard to fatten up sales commissions as you're watching your gross margins slim down.

This issue of how salespeople are compensated strikes at very the core of a retailer's approach to business. Companies like Wal-Mart and Barnes & Noble pay sales staff a modest salary based on the belief that investments in merchandising and inventory are what really generate the business. People are merely the facilitators. By contrast, the music industry has traditionally operated on the assumption that a skilled and motivated sales staff is the critical ingredient for sales success.

As our compensation data indicates, the home keyboard business still relies on an assertive, commissioned sales effort. On the m.i. side, however, lagging pay scales indicate a group of retailers with some unanswered questions. Can a beautifully merchandised music store with a great selection operate successfully with a staff of minimum-wage clerks who couldn't make the cut at the local McDonalds? Or, if you pay top dollar for a great staff, can you run a viable store with lackluster merchandising and a more limited inventory?

Most retailers we know would probably say that good people would prevail over good merchandising any day of the week; however, when you follow the money, you have to wonder. If they truly believed that good people are what determines retail success, you'd think they might be a bit more generous with the compensation, especially in a full-employment economy where companies in every industry have positions that go begging.

Is it the merchandising or is it the people? Our instinct and past experience tell us that people are really what determine the success of a music retailer, but if you discount what some people say and just follow the money, it's apparent that not everyone agrees.

Brian T. Majeski
Editor