EDITORIAL

ARE PRICES TOO LOW?

The economy seems to make front page news on a daily basis. With the stock market off its peak, a new administration in power, and a sense that growth has slowed or even stalled, the general public has an intensified interest in the current state of commerce. The news media for its part has rushed to satisfy that interest, offering up the opinions of a parade of economic experts. The result is a torrent of often conflicting and usually confusing information. In one recent issue of *The New York Times*, front page stories trumpeted that consumer confidence in April was near record levels and that retail sales had risen an unexpectedly strong .8% for the month. A few pages back, a roundtable of academic economists warned that consumer angst was so deep, a worldwide depression was inevitable. Predicting the behavior patterns of your immediate family is difficult enough, so we're willing to cut some slack to those intrepid souls who are willing to guess how 280 million American citizens will behave in the next 6 months.

Interviews with a cross section of retailers that appear on p. 118 of this issue reveal a fairly broad consensus that consumers have cut back their discretionary spending. For piano merchants, the cutbacks have been acutely felt. For the general m.i. business the problem has, for the most part, been minor. Interestingly enough, a large number of m.i. retailers polled feel industry pricing trends represent a bigger challenge to their business than anything dealing with the general economy.

Over the past five years, improved technology, better manufacturing methods, and off-shore sourcing have come together to force prices down in just about every product category. The entry-level electric guitar that used to retail for $150 a few years ago now sells for $100. The consumer who once spent $5,000 to $10,000 to equip a home recording studio can now get the same capabilities for around half the price. Not too long ago, a power amp that sold for "a dollar a watt" was considered an excellent value. These days, a dollar easily buys two or three watts of power.

It's hard to make the case against lower prices, because it's impossible to think of anyone who doesn't like to get more bang for their buck. However, as one retailer told us, "When the price of an entry-level guitar drops, we have sell a lot more units just to stay even at the cash register. I'd like to raise our prices because I'm not convinced that a $30 or $40 price cut brings in any new customers. But competition makes that impossible."

Economists refer to this concept as "price elasticity." With a truly elastic commodity like gasoline, when you lower the price, people respond by buying huge gas-guzzling SUVs. Music products, for better or worse, aren't very price-elastic. A $50 price reduction on a guitar isn't going to magically turn non-players into players, it just means the people who were already committed to buying a guitar will now spend $50 less. So it would seem that the recent trend to higher-value products is making it harder for retailers to achieve their sales targets.

Regulating prices in a free market is illegal, if not impossible. All it takes is one person angling for more market share to push prices down. However, as the major manufacturers conduct their product planning, we would suggest that they focus efforts on how to trade customers up, rather than aiming at a rock-bottom entry-level price. If prices drop much lower, there will be a legion of struggling retailers, regardless of which way the economy turns.

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