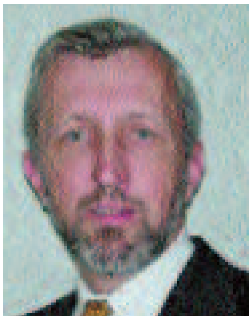

EDITORIAL

WHEN OLD HABITS COLLIDE WITH SELF PRESERVATION

One of the more important stories to emerge from the NAMM show involved something that didn't happen: Retailers didn't get excited about lower prices. To understand why this is such a significant story, keep in mind that retailers are hard-wired to like lower prices. Just as kittens can't resist a moving piece of string, or your leg jumps when the doctor hits your knee with the little rubber mallet, retailers' eyes light up anytime a supplier announces a price cut. What does it take to diminish this reflexive enthusiasm for a better deal? (Hint: Long nights at the Hilton bar or an overstocked store back home seem to have little or no effect.) The answer is when lower prices are at odds with the equally deep-seated self-preservation instinct.

For most of the past 60 years retailers have viewed lower prices as an opportunity to boost margins or close more sales. However, the recent flood of Chinese-made imports has prompted many to reconsider this point of view. Today you can buy a very decent guitar for under $200, a hard-disk recorder for $600, serviceable clarinets for $300, and digital pianos for $1,000. On a price-performance basis, these products represent the best consumer value in recorded history. To paraphrase the late Winston Churchill, never have so many gotten so much for so little.

With prices at an all-time low, retailers are raising the question, "If suppliers shave these already low selling prices another 15 percent, will we see better margins and more sales, or will we just cut the size of our average transaction?" The noticeable lack of enthusiasm over better pricing at NAMM suggests that they already know the answer to the question. Under the best-case scenario, lowered average selling prices mean moving more boxes out the front door just to keep an even sales level, and forget about profitability.

The current decline in prices has nothing to do with consumer unwillingness to spend on what we have to offer. Rather, it's a self-inflicted wound: a simple case of rapidly increasing production capacity chasing slowly growing demand. Unfortunately, there is no quick fix for excess capacity. The only cure is to let factories continue to operate at a loss until the money runs out and they have to close. However, while we're waiting for the shakeout, there are a few things that can be done.

For starters, retailers should be asking their suppliers for products and packages that allow them to charge more. Whether it's added features, limited editions, or creative bundling with accessories, the push should be for features that add to a product's perceived value and selling price. Automakers offer a useful lesson. The standard car audio system costs the manufacturer about $150. When they install a premium brand name system, they double their cost, but they can then raise the car's price by over $1,000. As an industry we should be exploring similar ways to boost prices.

For the past decade, the industry has grown and prospered by using greater efficiencies to offer improved product value. Presently, we seem to be a victim of our own success. Going forward, the emphasis needs to be on creative marketing to support higher prices, or at least a maintainence of the status quo.

Brian T. Majeski
Editor
email: brian@musictrades.com

THANK YOU YAMAHA

IN THE MIDST OF EVERYDAY business struggles, it's easy to overlook the fact our industry is engaged in an exalted cause: We serve an art form that has few equals when it comes to enriching the human condition. In bringing together an extraordinary collection of talent in a concert to honor Sir Elton John, Yamaha Corporation of America helped remind us all of this higher purpose. On a more mundane level, the Yamaha concert extravaganza unquestionably provided a boost for trade show attendance.

By bringing more people to a show and then helping to inspire them in their work, Yamaha provided a true industry service. Everyone should pause briefly and offer a word of thanks. A complete review of the concert appears on page 86 of this issue.