



EDITORIAL

LACKING THE CONFIDENCE TO PRICE FAIRLY

Coverage in this month's issue of trade shows in China and Brazil provide yet more evidence of the industry's feverish scramble to push prices even lower. Whether it's audio products, guitars, or wind instruments, suppliers are racking up frequent flyer miles traveling the globe in search of the lowest cost producer. The result of this quest has been lower wholesale prices across the board, which retailers have promptly passed along to the final customer. We like to buy cheaply as much as the next guy and it's hard to argue against delivering a better value for the consumer. But, we are reminded of the physician's caveat: "as long as its done in moderation." In pursuing lower prices, any semblance of "moderation" has been tossed overboard, and the first casualty has been industry profits. In the last two years, the profits of EVERY publicly traded company serving the industry. We suspect that the private companies have suffered the same fate.

In dropping prices are suppliers and retailers responding to consumer demands, or are they just engaged in an industry-wide effort to undervalue music and sound products? We think the answer is the latter, and to make the case, we submit the example of two cases (pardon the bad pun). SKB Case builds a popular line of molded plastic guitar cases at its factory in Orange, California. The company uses a similar manufacturing processes to make molded gun cases for hunters. The "street" price on SKB guitar cases ranges from about \$70 to \$99 depending on the model. The "street" price on SKB gun cases is between \$90 and \$120. SKB management asked us not to publish the comparative wholesale prices of its guitar and gun cases, but confirmed that the hunting and fishing supply outfitters are working on a "much higher" gross margin than even the best music products retailers? Which raises a simple question: "Why?"

Is it because of competitive differences in the outdoor industry distribution channel? Nope. The \$25 billion outdoor market has a distribution system remarkably similar to the one we have in music products. We have Guitar Center (sales \$1.1 billion) and Sam Ash (sales \$390 million) and about six thousand independents of various sizes. They have Cabelas (sales \$1.3 billion) and Bass Pro Shops (sales \$1.1 billion) and about 15,000 independents that range in size from tiny bait shops to a number of \$50 million single store operations.

Is it because the average hunting and fishing customer is more affluent than your typical starving musician. Not true either. Both outdoor outfitters and music stores derive the vast majority of their business from hobbyists and enthusiasts, not professionals. While there are a lot of musical enthusiasts in high dollar locales like New York City and Los Angeles, the majority of hunting/fishing types can be found in less affluent rural areas. That helps explain why Cabelas' best performing stores are in locales like Kearney, Nebraska; Mitchell, South Dakota; and Wheeling, West Virginia, hardly bastions of great wealth. Like the music enthusiasts, hunting and fishing guys can

also compare prices on hundreds of web sites, shop via 800 numbers at dozens of slick catalogs, or peruse tons of used gear (excluding guns) on eBay.

What then explains the significant retail price spread between a plastic case for a shotgun and a plastic case guitar? Our theory is that the music industry, from the retail front lines all the way to the supplier's corner offices, lacks confidence in the true value of its products. You can see it in guitar showrooms where salespeople, so

worried about the prospect of having to match a lower price, start discounting before the customer has raised the first objection. You can see it at band nights, where retailers offer ridiculously low rental rates to allay perceived parental fears that their kid will quit. You can see it in the piano industry where retailers pack "suggested retail prices" to offer 80% discounts. The fact that Toys R Us can sell a "Barbie Castle" for \$10 more than an Epiphone SG guitar; that Skateboard.com's best selling board at \$229 is parity priced with some drumkits; and that a set of hockey pads for an nine-year-old cost as much as a clarinet only underscores the problem.

When it comes to raising industry prices, we unfortunately don't have any easy answers. However, we do know one thing for certain: it takes consistent profits for a businesses to thrive and grow, and until retailers and manufacturers start rethinking their approach to pricing, the music industry will struggle. Or is it that we really believe that a Barbie castle is worth more than a decent guitar?

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