

# Is Wal-Mart A Real Threat?

The musical instruments appearing on the shelves of Wal-Mart, Costco, and other mass-merchants have been a source of growing industry concern. A widely asked question is, "Will these retail behemoths, with their vast buying power and marketing reach, severely wound the specialized music dealer?" Clearly, Wal-Mart, with annual sales of \$245 billion (35 times larger than the entire music products industry), is an intimidating rival. However, before m.i. dealers run up the white flag, a little perspective is in order.

In conversation, we all refer to the "music industry." However, a more accurate description would be the "music industries." The \$7 billion business we work in is actually a conglomeration of many discrete industries that have little in common. To cite just one example, violins and audio systems both produce sound, but when it comes to sales and marketing, product development, or customer profile, they're about as similar as a bicycle and a Boeing jet, two transportation vehicles.

When people talk of Wal-Mart, Costco, et al "entering the music industry," the proper response is to ask "which music industry?" Are they planning to lay in old Gibsons, Fenders, and Martins to make a run at the vintage guitar market? Will they stock cutting-edge software and computer peripherals in a bid to become "the" destination for hi-tech music? Are there plans for a grand piano and church organ salon in the next generation of Wal-Mart Supercenters?

We think it's safe to answer the preceding questions in the negative. Mass merchants' interest in music is limited to a narrow band of products that retail for \$300 or less. This includes a few guitars priced at \$120 and under, band instruments in the \$199-\$299 range, and drumkits that sell for \$275. In the scheme of the industry, these price points represent a comparatively minor part of the business.

In 2003, m.i. dealers sold \$903 million worth of guitars. Guitars retailing for under \$150 produced about \$83.5 million of that revenue, or less than 10 percent of the total. Percussion sales in 2003 were \$488 million. Drumkits retailing for \$300 or less amounted to around \$18 million, or less than four percent of the total. Accurately gauging the mass merchants' potential share of the school music market is more difficult because the prevalence of rentals and used instruments. However, the inexpensive Chinese imports on the shelf at Wal-Mart address a comparatively small slice of the \$532 million school market.



In short, mass merchants are taking aim at product categories that account for under seven percent of the aggregate sales volume of our industry. Within these entry-level price points, how do the mass merchants stack up against m.i. dealers? Their biggest advantage is a staggering volume of customer traffic. This is offset by a few significant weaknesses.

Mass merchants don't stock printed music, drumsticks, drumheads, guitar strings, valve oil, or any of the other accessories a beginning musician needs. If a customer has a question about an instrument, their floor staff is incapable of providing an answer. Finally, in the school market, mass merchants have to labor against a large number of vocal band directors who tell students that cheap horns that come off a boat, unadjusted, from China are unacceptable. Add it all up, and we think that the average m.i. dealer is well equipped to compete.

Every retailer we've ever met is naturally wary of new competitors and genetically programmed to fight for every sale. Thus, the concern about Wal-Mart is fully justified. However, we think Guitar Center's Marty Albertson has a reasonable take on the situation. He recently told financial analysts that because of the limited product selection, he didn't view Wal-Mart as a competitor, and that the retail giant might even help the industry by exposing music products to a larger audience.

Whether mass merchants provide a benefit remains to be seen. However, if history is any guide, we don't think they will be a major problem. In 1902 F.B.T. Hollenback, NAMM's second president, warned that retailers faced Armageddon in the form of Sears Roebuck. One of his first official acts was to organize a NAMM member boycott of any manufacturer that sold to the dreaded Sears. These days m.i. retailers collectively seem to be on firmer footing than the once mighty Sears. All of which leads us to conclude that no one should underestimate the strength and resourcefulness of retailers.

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