

Should Generic Products Command A Price Premium?

How does this sound for a business plan: Take a generic Strat-style guitar and amp, slap a name on it no one has ever heard of, offer it exclusively on the web, and then price it 38% higher than what you would expect to pay for an equivalent product sporting the Fender label. Most people in the industry would dismiss the idea as a complete non-starter. Yet National Music Supply seems bent on bucking the industry's collective wisdom. The eBay store is currently offering its proprietary Rockland guitar and amp package at \$335, plus an additional \$49.95 for shipping and handling. Fender Strat packs can be readily purchased for around \$280. Consider also that the Fender Strat pack includes an electronic tuner while the Rockland pack comes only with a pitch pipe.

This enormous price disparity doesn't seem to have had any adverse affect on National Music Supply's business. The company's site claims to have completed over "40,000 transactions." More telling still, eBay gives it a sterling 99.1% customer satisfaction rating and the customer "feedback" site is filled with over 22,000 (that is not a misprint) glowing testimonials. In the past month, there were 764 positive comments, versus only 11 complaints. "A beautiful guitar and the perfect birthday present for my son. I hope to do business with you again," wrote "nurseofamerica." "ddayam" wrote "Great guitar, great service. I would do business again with NMS in a second."

It's accepted wisdom that the internet is forcing the prices of all music and audio products downward to rock-bottom levels. Savvy buyers supposedly surf the net to find the best price possible, then either buy from the online merchant at "pennies over cost" or use the quote to bludgeon some other retailer into offering up a better deal. Sounds plausible enough, but how then do you account for a company like National Music Supply commanding a hefty price premium for a no-brand product? Is it because customers simply assume that if it's on eBay it's a bargain? Or are they just a lot lazier than we think, don't shop that hard, or will buy the first item that seems remotely attractive?

We don't profess to have a conclusive answer, but we do have a few thoughts on the subject. It's the rare customer who



has committed reams of pricing data to memory. Most are content to casually compare a few products and settle on the one they feel offers the most compelling value. Yet there is a tendency at retail to assume that every customer is a walking price encyclopedia, poised to grind out steep discounts. Is the industry cutting prices when they don't really have to?

It's hard to imagine that anyone who had visited an m.i. store or casually clicked on one of the many online vendors would willingly shell out extra

bucks for a Rockland when the best known brands—Fender, Ibanez, Peavey, Epiphone—are widely available for less. We suspect that National Music Supply's 800-odd customers last month didn't do a lot (if any) comparative shopping before buying.

Piano retailers learned long ago that if you can create a special sense of urgency, customers will buy without giving much thought to how much they're actually spending. That's why Going Out Of Business sales consistently generate such high volume. (It's also why most states have stringent regulations limiting the use of "GOB" events.) Does an eBay site create a similar sense of urgency that prompts people to pay first and ask questions later?

The smartest marketing brains at companies like Procter & Gamble conclude that if the price for brands like Tide Detergent or Ivory Soap are over 15% higher than generic brands, they can expect major market share losses. What does it say about our pricing policies when generics can command a 30%-plus premium?

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What would you buy, the famous brand or the generic?