We Were All Wrong

For as long as we can remember, the music industry has operated with what could best be described as an exceptionalist attitude. We thought we were unique and governed by a different set of rules. The time-consuming challenge of mastering a musical instrument was supposed to winnow our customer base down to a small, hardy band of enthusiasts who weren't like the masses. General consumers snapped up consumer electronics gadgets whenever Best Buy ran a sale, but musical buyers behaved differently. Music retail was also supposedly different. But guess what? It looks like we were wrong.

Conventional wisdom had it that musical instruments were "inelastic." In plain English, that means that we thought sales wouldn't increase if prices went down, like with, say, personal computers, because who would buy an instrument if they didn't know how to play? However, as the data in the Music Industry Census (see page 66 of this issue) clearly illustrates, falling prices have sent unit volumes through the roof. The numbers are most compelling for the guitar market. In 1996, when the average selling price of a guitar was $645, the industry sold just under 1.1 million units. In 2004, however, when the average selling price had dropped to $309, the market more than tripled to 3.3 million units. Throw in the units moved by mass merchants like Wal-Mart and Costco and in 2004 guitars represented a 4.5 million unit business. In the face of this numerical evidence, it's hard to make the case that lower prices don't bring in a lot more customers.

The must-have consumer electronics product of the moment is Apple's marvelous iPod. Last year, Apple sold five million iPods worldwide, which means that U.S. sales were in the neighborhood of 3.5 million units. If the iPod is undeniably a mass market item, couldn't the same be said about the guitar, which generates 30 percent higher unit volume? Granted there's a difference: The iPod represents a single product, and the guitar business is highly fragmented with many distinct product types and price points. However, the point worth making is that lower selling prices have effectively made the customer base for music products broader than at any time in the 115 years we have been chronicling the

industry. Like it or not, we're now dealing with products that have mass appeal.

This expansion of the customer base makes it necessary for retailers to weigh strategic decisions about what segment or segments of the market they can effectively address. Can any single store do justice to the entire scope of the guitar market, from the $100 impulse buyer to the discerning player ready to spend $2,500? Will beginners and pros feel comfortable in the same store? We don't pretend to have the answers, but we suspect more retailers need to start asking these questions. We base this assertion on a recent review of a few hundred Yellow Page ads where the most common tag line is still "Your Source For Everything Musical," not "The place where beginners get the best start" or "Where to find the instrument of your dreams."

Specialization is the order of the day in other businesses with broad consumer appeal. In apparel for example, Abercrombie & Fitch exclusively targets the 16 to 24 year old demograpic, while Talbots and Brooks Brothers focus on middle-aged customers. By the same token, when Toyota (U.S. sales: 1.8 million cars) created the Lexus brand it designed a different type of dealership because its research indicated that customers willing to buy a $50,000 car had different expectations. Is music retail in need for a similarly specialized approach?

The combination of market forces and entrepreneurship will provide the definitive answer soon enough. In the meantime, however, four million-plus guitars and all the ancillary products that go with them represent a big enough market for a host of different retail businesses and formats.

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