EDITORIAL

The Limits To Size

Three major drug store chains (Walgreens, CVS, Eckherd) dispense upwards of 60 percent of the nation's over-the-counter prescriptions. Just three manufacturers (Goodyear, Michelin, Bridgestone) deliver 70 percent of the tires purchased in the vast American aftermarket. There are only three companies in the world that manufacture commercial jet aircraft engines. With the recent acceleration of merger activity, many are starting to wonder if the music products industry is destined to undergo a similar consolidation, with a handful of large players emerging to control the lion's share of the business. Although merger activity has been brisk in the past two years, we think these concerns are both overblown and largely unfounded. Here's why.

The ultimate force that limits the extent of music industry consolidation isn't financial, managerial, or even legal; rather ,it has to do with consumer behavior and the nature of music itself. The industry's customers define their self image by the type of music they make, and the musical tools they use. Straightforward enough, but when you scroll through the iTunes offerings or, if you don't have an iPod yet, visit a local record store to check out the range of musical styles, you realize in terms of diversity, the U.N. has nothing on the community of musicians. From the crunchiest of folk to the edgiest of hip hop, not to mention jazz, both contemporary and traditional, country, Latin, rock 'n' roll, metal, classical, reggae, bluegrass, world, techno, and even klezmer, the number of distinct musical genres borders on the unquantifiable.

This dynamic is what raises major roadblocks to consolidation efforts. Adding corporate bulk may drive the kind of efficiencies that lead to lower selling prices, but it also inevitably results in homogeneity. For any enterprise that sets out to serve all of humanity, the first order of business is to avoid any marketing position that might cause offense, however slight. Put another way, it means you have to be relentlessly and totally bland. Being bland may work for a product like Crest toothpaste, because no one has a personal investment in the toothpaste they select. Music, however, is a very different story. Our customer base doesn't respond to a one-size-fits-all approach; they want retailers and products that resonate with their musical self image. To cite but one example, would proven products and marketing strategies for heavy metal mavens work on the growing population of contemporary church musicians?

Homogeneity isn't the only limit to consolidation. There's the fact that musicians simply do not like big corporations. Or, am I the only one who can't remember a pop song prais-

ing the Fortune 500 and the forces of unfettered capitalism? A little closer to home, consider that for the 20 years between 1965 and 1985, guitarists worldwide had mixed feelings about Fender simply because it was a division of broadcast giant CBS.

This is not to say that you can't be simultaneously big and successful, but that there are some real limits to consolidation in an industry like ours. Unfortunately for the managers, these limits aren't clearly marked. They're usually discovered only after a company has overreached. A reading of history also shows that there is a natural cycle with periods of consolidation followed by periods of fragmentation. At the turn of the century, outside of New York the piano business was dominated by a handful of retail chains (Lyon & Healy, Grinnell Bros., Kimball, Wurlitzer, Sherman & Clay, Jenkins Music) that each operated more than 65 stores. By 1925 the large chains were splintered by a shifting market and smaller, more nimble competitors. Twenty years ago two corporations (CBS and Norlin) controlled Steinway & Sons, Fender , Gulbransen, Gemeinhardt, Rodgers, Gibson, Lowrey, Story & Clark, F.E. Olds, and Moog. Today, every one of those brands is controlled by a standalone corporate entity.

How much longer will merger and acquisition activity continue in the music products industry? How big will Guitar Center become? We can't say for sure. However, as long as musical styles and musicians remains such a diverse lot, we feel confident in saying that there will always be an opportunity for anyone tuned in to the needs of specific niches and that the emergence of "General Music Inc." is highly unlikely.

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