

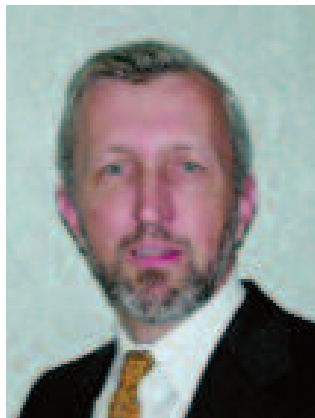
Times Are Tough, So What Else Is New?

One of the few things that hasn't seem to change at all since we first began publishing in 1890 is the universally held belief that the market challenges we face today are far more daunting than anything encountered by our predecessors. This mindset was on prominent display at the just concluded NAMM show in Indianapolis where retailers and suppliers routinely said things like "It's not like the old days where you could sit back in your store and wait for customers, you really have to go out into the market," or "customers are smarter and more demanding than ever," or "You have to be smarter and more focused than ever before." To listen to them you'd think that ten, twenty, thirty or fifty years ago, running a retail business was a franchise to mint money and all you had to do was sit behind a desk and watch customers happily stuff cash into the register.

It is no small feat to keep a music retail business afloat in today's market. The combination of medium sized gross margins and extra-large sized inventory requirements pose a unique challenge to profitability, not to mention tough competition from chain stores and internet sellers, and ingenious customers who work overtime looking for ways to get more for their dollar. However, it's worth pointing out that it has always been tough to make a music store run well. If it weren't, more people would be doing it.

Scan through our 115-year collection of back issues and you'll find that every few years brings a new set of challenges that seriously tax the effort and ingenuity of music retailers. Consider a few of the more dire circumstances:

- In 1893, there was a currency collapse that rendered paper money virtually worthless. Struggling to make sales, dealers were reduced to bartering. One memorable column we ran was entitled "To Make Profitable Piano Sales, Learn To Properly Value Livestock."
- With the Depression in full swing in the early 30s, there were so many pianos repossessed that for two years, the industry actually took back more instruments than it sold.
- Between 1952 and 1956, the industry labored under price controls and a 10% excise tax that prompted NAMM president Russell Wells to write, "the government has conspired to make it mathematically impossible to run a profitable retail store."
- The growth of rock and roll and the decline of downtown shopping districts in the '70s came together to render what had previously been the dominant retailing format—the multi-story full line store—unworkable. Between 1974 and 1978, the biggest retailers in the business, Lyon &



Healy in Chicago, Jenkins Brothers in Kansas City, Grinnell, in Detroit, and Thearles in San Diego, all closed their doors.

- In 1980, everyone was taken by surprise when the prime rate vaulted to 20%. By 1983, some 1,200 stores (or about 18% of the distribution network) had closed their doors, unable to afford finance charges on inventory.

For all these trying times, it should be noted that the industry has only had one ten year period where sales were actually lower than the previous decade (1930-1939), and that was during the Depression, arguably the most dire economic climate in 200 years of American history. The obstacles confronting today's music retailers have been well documented, whether it's deflation, eroding margins, fickle customers, or rising payroll costs. Whether these issues are more taxing than swapping cows for pianos or wrestling with 20% interest rates is open to debate. However, one thing is incontrovertible: today's market for music and sound products is the largest and richest in history.

Surging unit sales indicate an unprecedented consumer interest in all things musical, and rising dollar volume reflect a society that has more disposable income than our immediate predecessors could have imagined. With a billion-dollar-plus audio segment, guitar sales topping 3 million units, and a burgeoning accessory category, the sales opportunities have never been greater. The hard part is the fact that this market growth has attracted new tough competitors, ranging from Wall Street financed Guitar Center to all those unknowns using the internet to sell the gear they have stacked up in their garage. Building a profitable business in the face of these competitors is not a job for the faint of heart. But, take comfort: ten years from now, people will be describing how easy you had in 2005.

Brian T. Majeski
Editor

email: brian@musictrades.com