

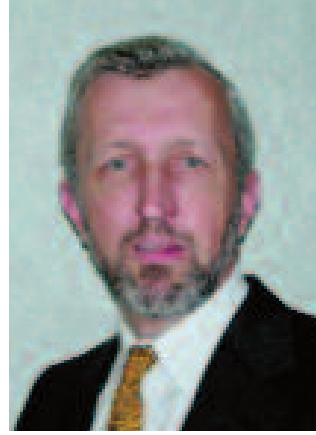
# A Zero-Sum Game

**M**usical instruments on the shelves of Wal-Mart, Costco, Target, and other mass merchants have sparked one of the more heated debates in recent memory. One side argues that mass merchants expand the market for music products by exposing instruments to the millions of consumers who would never darken the doorway of a specialized m.i. retailer. This group also asserts that every time a mass merchant sells a guitar, a trade-up prospect has been created for m.i. dealers. The other side counters that music products are a zero sum game and that every sale by a mass merchant comes at the expense of the specialized m.i. channel. Conclusive resolution has yet to emerge, but new evidence strongly bolsters the “zero sum” argument.

Our quarterly Import Tracker column (see page 28) reveals that guitars imports dropped sharply in the first quarter of 2006 after 18 consecutive quarters of growth. For the three months ended March 31, 771,592 guitars were brought into the U.S., 23% fewer than the 1,006,333 imported in the same period last year. If mass merchants were truly expanding the market, why would imports take such a heavy hit, especially after a Christmas season that saw guitars prominently featured in stores ranging from Linens ‘n Things to Circuit City? Issues of timing and “inventory balancing” could account for some of the decline, but most evidence leads to the conclusion that mass merchants cannibalized rather than cultivated demand and created a major inventory overhang in the process.

From Guitar Center down to the smallest “mom and pop,” virtually every m.i. retailer reported that mass merchants had taken a big bite out of their fourth-quarter entry-level guitar sales. The situation was made worse by the fact that these same m.i. dealers had laid in extra inventory in anticipation of a strong fourth quarter. When Christmas came and went and they were left with a large pile of unsold instruments, they took the only reasonable course of action: they trimmed their orders. Manufacturers felt the pinch immediately and slowed their purchases from Asian factories, which was reflected in the steep decline in imports. The only guitar category to post an increase was acoustic guitars with a retail value of over \$300, and it should be noted that these are instruments that are not found in the mass merchant channel.

Type in the word “music” on Google and you get 3.3 billion (that’s right, *billion*) links to sites that offer streaming video and audio, musical instruction, places to shop, fan pages, downloads, and chat rooms. Despite rampant piracy, the Recording Institute of America forecasts that CD sales



will top one billion units this year. Apple sold eight million iPods in the fourth quarter of 2005 alone. Ticket sales for all types of professional musical events (this excludes school performances) are on target to top 100 million this year. There are also approximately 5,000 radio stations nationwide that play music 24 hours a day, as well as five or six music television networks. This doesn’t even include all the musical activity that takes place in churches, social gatherings of all types, and schools. We cite these statistics to underscore the fact that music is one of the world’s most desired, heavily promoted activities. And with so much music everywhere you turn, is it reasonable to assume that the presence of a few inexpensive instruments on the shelf of Wal-Mart are going to create a well spring of new demand?

Well-crafted surveys conducted over the past decades by industry associations and various manufacturers consistently uncover the same conclusions: virtually everyone loves music, and virtually everyone would like to be able to play. (Those who don’t represent a statistically insignificant group.) Translating these positive feelings into active music making has been the industry’s perennial challenge.

Fortunately, there is a time-proven formula for success. It can be summarized as follows: Get an enthusiastic music teacher, rely on the universal appeal of music to recruit students, and over time the number of music makers will increase. It’s not a particularly sexy idea, it’s certainly not fast acting, and it takes a tremendous amount of effort. But there is ample data to suggest that it works, which if import stats are any guide, is more than can be said for piling instruments high at a mass merchant. As suppliers craft their distribution strategies, we would urge them to think about what holds the best promise for expanding the market: retail outlets that offer music education or those who simply draw millions of consumers?

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