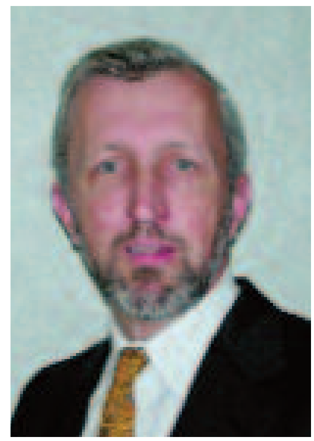
EDITORIAL

Forget About Trends, You're On Your Own

We've just come back from the NAMM show, where one of the favorite after hours pastimes involves sitting around a bar, solving the problems of the industry. In these lengthy converations, the tendency is to talk about the trends and external forces as if they're preordained and insurmountable. If the economy is declared "sluggish," you and your business have no choice but to suffer. If interest in gaming consoles like the Microsoft Xbox surges, it then follows that your sales are destined to trend south. If "consolidation" is the order of the day, prepared to be swallowed whole by a bigger fish. Scan the demographic data, income distribution tables, and inflation index, (to cite just a few sources of data available) and you can find endless justification for just about any sales projection that you can imagine. At the end of the day, however, how much does this stuff really matter to the nitty gritty challenges of keeping a business profitable? We suspect the answer is not as much as people would like to think.

Consider the two largest retail failures of the past year: Brook Mays and The Woodwind & The Brasswind. In the postmortem analysis of why these once successful businesses headed for bankruptcy court, random human error bulks a lot larger as a primary cause" then any larger "trend" or "external forces." As detailed in our NAMM show coverage (see page 64), Brook Mays CEO Billy Everitt attributed the collapse of his company to three simple words: "in my opinion." What he was referring to was a lawsuit brought by First Act after Brook Mays had mailed a flyer to band directors that was harshly critical of First Act wind instruments. Everitt said that if he presented his assessment of First Act instruments as an "opinion" rather than a statement of fact, there never would have been a lawsuit, banks wouldn't have cut off his credit prior to the critical school rental season, and Brook Mays would still be in business today.

The details of Woodwind & Brasswind are different, but the story has the same human error component. Company founder Dennis Bamber and minority shareholders Steven and Richard Zapf have a different take on what went wrong, but both would agree that intense personal disagreements brought down the once profitable and successful business.



The missteps at these two companies have reverberated throughout the industry with an impact every bit as significant as $3-a-gallon gasoline or Wal-Mart's decision to stock guitars. Between the two retailers, suppliers stand to lose over $60 million. To put that figure into sharper perspective, it represents close to 30% of the profits of all U.S. music products suppliers combined, from Alfred Publishing to Zildjian cymbals. It's also money that could have been spent productively on marketing expenditures, R&D, and inventory and equipment investments—things that would have had a positive effect on individual careers and the industry at large.

Suppliers aren't the only ones feeling the heat. In the past month we've heard of at least a dozen cases where retailers have had their credit lines called or reduced by bankers who got scared of the music retailing category after seeing two high-dollar bankruptcies in less than six months. Our banker friends tell us this is standard industry operating procedure. A big bankruptcy inevitably tars the reputation of everyone else in an industry and results in restricted credit for a year or two.

The industry has witnessed a major haircut for supplier profits and less credit availability for retailers—with not a major trend or force in sight. Rather, just a few people making some ill-advised decisions with some serious consequences. If there's a lesson, it's that maybe we should all spend more time focusing on making the best decisions possible and avoiding mistakes and less time worrying about trends. Trends and external factors ultimately won't sink you or save you. It's up to you.

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