

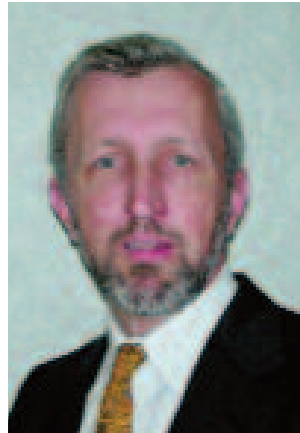
Where Are All The First-Time Buyers?

The most unsettling trend line in our annual compilation of industry sales data is the precipitous drop in entry-level guitar sales. Unit sales of acoustic guitars in the under \$350 price point decreased 12% from last year's levels. Sales of electrics in the same price point fell off even more, declining 24% from the record levels set in 2005. Stepped up competition from Wal-Mart, Costco, and the other mass merchants is responsible for some of this decline. However, based on our read of the import data, the mass market channel also experienced a double digit decline in its guitar sales.

The consensus explanation for this drop, offered up by Guitar Center management and most independents, is that over the past year there were just fewer first-time buyers walking into stores. But this begs the larger question, "What made them stay away?" We don't profess to have the answers—accurately predicting the buying habits and interests of 300 million Americans is well above our paygrade—but we do have a few thoughts on some industry shifts that might have had an adverse effect on the entry-level market.

In a 1992 American Music Conference consumer poll on music making, respondents were asked to list the "barriers that kept them from taking up a musical instrument." The most frequently offered response was "inability to find a good teacher," which came in well ahead of "lack of time," "it's too hard to learn," "can't afford an instrument," and "don't have enough talent." Although much has changed in the past 15 years, access to good instruction remains a critical element in the sale of music products of all types. This was forcefully confirmed in a February 2007 roundtable we conducted with a group of independent retailers from around the country. One of the few things they all had in common was a strong belief that a lesson program was absolutely essential to attracting students and turning the first-time buyer into a second-, third-, or fourth-time buyer.

If American Music Conference were to redo its 1992 survey today, we suspect that "inability to find a good teacher" would loom as an even larger barrier in the mind of potential music makers. Why? Because over the past decade, more than 1,000 independent dealers who offered some type of lesson program have closed up



shop largely due to competition from catalog/internet retailers or Guitar Center. It would be nice to think that some creative entrepreneurs had stepped in to fill the void with an alternative lesson program, but the fact is, they haven't. In markets around the country, it has become harder to find a music teacher. Yellow pages are of limited use. Google

likes to say it has "organized the world's information," but even the internet isn't much of a resource. Type in "guitar teacher" and the town of your choice in a search engine and all you're likely to get is a long list of "online teaching methods" or DVDs, which are useful, but no substitute for the living, breathing alternative.

We've always divided the world of music makers into two broad categories: the compulsive and the impulsive. The "compulsives" are a relatively small group who are so dedicated to their musical muse that no river is wide enough, no mountain is high enough, to hold them back. The "impulsives" include a much broader population who, under the right circumstances including access to education, might be inclined to get involved in music. To sustain a three-million-unit-a-year guitar market, the retailers and manufacturers have to effectively address the "impulsives." The state of pop music and larger social and demographic are beyond our control, but providing access to education is not.

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