

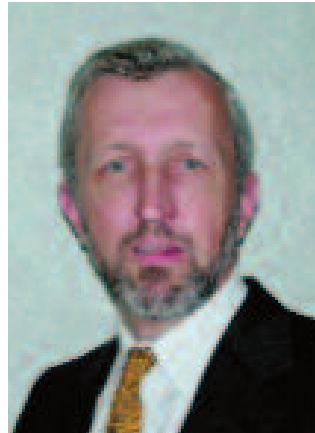
Stop Chasing After More Customers

At any industry gathering, talk inevitably gravitates towards how to expand the market. Some suggest an industry-wide marketing blitz to raise consumer awareness. Others call for innovative new technologies to generate excitement. Still others advocate an overhaul of our distribution practices to reach a bigger slice of the population. But what everyone seems to agree on is that the way to accelerate growth is to attract a wave of new customers. It's hard to argue against the benefits of an expanding the customer base, but we're not sure that's the most effective strategy for jump-starting industry sales growth.

There is a lot of talk about the deficiencies in industry marketing efforts, but the reality is, we do a pretty good job of attracting first-time buyers. In the United States, we would argue that over 80% of the population has at one time in their life had some experience trying to learn a musical instrument. That's a higher percentage than any sport, with the exception of fishing. Don't believe us? Consider a few hard numbers. Over 80% of all musical instruments are purchased for individuals who range in age between 11 and 26, a demographic group that currently includes 63 million members. Last year, the industry sold over 6 million new instruments, not including harmonicas, recorders, or other small instruments; unit sales of all instructional methods topped 8 million copies; and an estimated 5 million kids participated in school music programs. But that's only part of the story: eBay moved over \$600 million worth of used gear; used piano sales outstripped new piano sales by a significant factor; and untold millions of instruments were resurrected from closets and attics to be passed along to beginners. Granted some people buy multiple instruments, and a not insignificant volume of sales are to people outside of the 11-to-26-year-old demographic. Nevertheless, measure volume of product sold against the potential customer base, and the only conclusion is that the industry has a surprisingly high level of market penetration. Boosting the percentage of people who attempt to pursue music by even a few percentage points is probably what a professional marketer would term an "exercise in diminishing returns."

What these numbers tell us is that sub-par sales growth is less a failure to attract new customers than a failure to retain them. Too many first-time buyers struggle with their instrument for a few weeks, then put it in a closet and never look at it again. Rather than expending effort to try and scare up new customers, we might be better served by exploring ways to hang on to those we already have.

Retailers who operate teaching studios instinctively under-



stand this. As one put it to us recently, "teaching people to play is how we convert a first purchase into a second, third, or fourth purchase." Guitar Center doesn't provide in-store education, but they also recognize that serious customers, not first-time buyers, are where the business is. In an investment presentation a few years ago, they revealed that the 15% of their customers who were classified as professionals or serious hobbyists generated 80% of their sales.

Working to get more business out of an existing customer base is hardly a revolutionary idea. It's the concept behind frequent flyer miles and all the other preferred customer programs. In the music industry, however, retaining customers is more challenging, simply because mastering a musical instrument can be an arduous and time-consuming process. A discount coupon alone won't do anything.

We doubt that there's a single magic formula for retaining more of our first time buyers. However, there are a lot of small ideas and programs that could make a cumulative difference. The first that comes to mind is the Guitar and Accessories Marketing Association effort to train teachers to organize school guitar program. Over the past decade, this program has created over a million guitar players who have gone on to patronize the industry's retailers and manufacturers. Anyone who is operating a teaching studio is also making an important contribution. There are also opportunities to make private and school music educators more effective. This short list is hardly a comprehensive action plan for the industry. However, if more people stopped worrying about attracting new customers and began focusing on getting more out of the ones we already have, we think there would be an outpouring of ideas that would generate some serious sales growth.

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