EDITORIAL

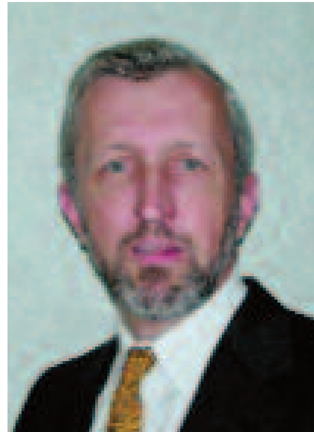
The Dangers Of "Net Never" Terms

"Net Never terms" is one of those wonderfully descriptive phrases that occasionally surfaces in the industry. Typically, it refers to those suppliers who are so desperate for extra business that they muzzle the credit manager, throw caution to the wind, and hand out economically nonsensical terms to their customers. "Net Never" may deliver a short-term high, but as with any overly exuberant undertaking, there's eventually a nasty hangover to contend with. When music products companies succumb to the temptation of goosing sales with easy credit, the damage is usually short-lived and limited in scope: companies either learn the painful lesson that a sale is only a sale when the cash changes hands or they go bust. Either way, bad management reforms or is purged and things quickly return to normal. Unfortunately, things aren't so simple with the larger economy.

With the benefit of crystal clear hindsight, it now appears that several large business sectors have been active proponents of the "Net Never" school of credit management. The largest and most visible perpetrators have been all those involved in lending to the housing market. From the Halls of the Congress down to the lowly local mortgage originators, there seems to have been a concerted effort to dispense credit with little or no concern for getting paid back. The auto industry seems to have been operating from the same playbook. For all those skeptics who asked whether exceedingly generous leasing terms were "too good to be true," the verdict is now in. They were.

We're only beginning to assess the full extent of the damage as banks and other lending institutions struggle to rebuild their depleted capital. However, it's safe to assume that inventory financing and consumer credit are going to be more costly and harder to secure going forward. There is no point in trying to sugarcoat the challenges ahead. Nevertheless, there are notable factors that should help our industry ride out the storm.

First and foremost, a large percentage of music products sales are not as heavily credit-dependent as either automobiles or housing. In difficult times, parents will defer many discretionary purchases, but not an instrument so their child can participate in a music program. In the case of a lot of m.i. products, as one manufacturer put it, "Our customers are musicians—they never have any money, they don't have any credit, and life is always a financial struggle for them. What's different now?" Houses of worship, schools, and other institutional customers also are less sensitive to credit limitations than the typical car buyer.



The media has designated the current banking crisis as "unprecedented," "unique," and "unlike anything before." We disagree. The details are different perhaps, but the underlying theme is a recurring one. Put another way, history may not repeat itself, but it often rhymes. Those with more than a 25-year career trajectory can remember that inflation-fighting measures by the U.S. Treasury Department in 1980 sent interest levels over the 20% level. This effective credit curtailment caused acute pain, every business was tested, and some weaker players folded. The good news is that within two years, the storm subsided and industry sales went on a five-year tear. We predict a similar outcome today. The U.S. is still home to the world's most productive asset base, we enjoy favorable demographics, and the desire for music is unquenchable. Don't get too caught up in the endlessly negative headlines—these problems are temporary and will soon recede into memory, just like the interest rate crunch of the '80s, the Savings & Loan crisis in the early '90s, and the dot com stock bust of the late '90s.

Brian T. Majeski
Editor
Email: brian@musictrades.com