

The Lipstick Effect And Other Bits Of Good News

Ralph Waldo Emerson once noted that “Nothing great was ever achieved without enthusiasm.” We’d go a step further and assert that, forget about “great;” enthusiasm is a necessary component of even passable, reasonably good, or halfway decent outcomes. Absent some level of enthusiasm, who even bothers getting out of bed? Given the steady diet of grim tidings offered up by the news, maintaining the requisite bounce in your step and smile has become a challenge. Speaking personally, during this morning’s ten-minute drive to work, the newscaster altered my outlook with the announcements that Bank of America was shedding 35,000 jobs, U.S. automakers and their dealers were teetering on the brink of insolvency, and a one-time Wall Street hotshot had swindled \$50 billion from investors around the world. And yet, despite the disheartening headlines, there are surprising pockets of good news. Herewith, in an effort to help foster a more positive attitude, is a brief review.

Gasoline Bonus. The Commerce Department reported that retail sales in November dropped 2%, further confirming the official assessment that we are in a recession. However, during that period, energy prices fell by 22%, auto sales were off 33%, and sales of building materials dropped by 10%. Factor out these big units, and sales of everything else actually edged up .06%. There is a growing consensus among economists that the huge decline in gas prices—the average price of a gallon of regular is \$1.88 as of this writing, compared with \$3.22 a year ago—has given consumers a reason to spend more in other areas. This is one reason “Black Friday” sales outpaced expectations.

Lipstick Effect. After watching sales of his lipsticks rise during recessions, former Estee Lauder CEO Ronald Lauder coined the term “The Lipstick Effect.” In 2001, shortly after the September 11 terrorist attacks, he noted, “Women traditionally turn to lipstick when they cut back on life’s other luxuries. They see lipstick, which sells for as little as \$1.99 at a supermarket, up to \$20-plus at a department store, as a reasonable indulgence and pick-me-up when they feel they can’t afford a whole new outfit. Sales across Estee Lauder’s many brands have increased 11% over the past three weeks.”

In the music products industry where small goods represent close to 25% of total revenues, we have our own version of the “Lipstick Effect.” Reports from a variety of retail and manufacturer sources indicate that small goods sales over the past quarter have certainly not been adversely affected by the economy, and may have even increased



slightly. The consumers, who may be deferring big-ticket items, still need straps, picks, heads, cables, and all the other high-margin accessories.

It May Already Be Over.

The U.S. Department of Commerce, the official keeper of economic data says that there have been 10 recessions since 1945. (The official definition of a recession is two consecutive quarters of economic decline.) The average

duration of a recession has been a little over ten months. The wonks who crunch all this data, now state that the recession officially began in the second quarter of 2008, or about eight months ago. Thus, by the time you read this column, the recession will have been about ten months old, and if it is not officially over, historical trends suggest that it will be well on the way.

It Will Be Over Before You Realize It. In 1992 voters elected Bill Clinton to fix a recession—“It’s the economy, stupid”—that had actually ended eight or nine months earlier. John F. Kennedy also campaigned in 1960 against a recession that had ended months before he was elected. This time around should be no different. Expect several months of improving results before anyone starts to notice.

Henry Ford once observed, “If you think you can or you think you can’t, you’re probably right.” If you think you can prevail over the current economic problems, you probably will. And you’ll be around to enjoy a bigger and better industry. After each of the last ten recessions, our industry emerged stronger and larger. We don’t expect any different this time around.

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