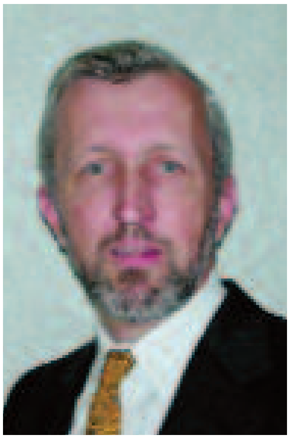
Held Hostage By The Whim Of Consumers

In 1991 we published the first-ever sales ranking of the nation's 100 largest music products retailers. (The ranking was expanded in 1993 to include 200 retailers.) Eighteen years later, only 49 of the original 100 on the list are still in business. The other less fortunate 51 either filed for bankruptcy, were liquidated as owners retired, or were acquired. It's hard to find a more compelling illustration of the extreme volatility of retail.

While everyone accepts that distribution channels change, no one is particularly adept at anticipating exactly what the changes will look like. Just consider some of the changes that took place since 1991. Guitar Center expanded from 14 to 315 stores, acquired Musician's Friend and Music & Arts, and emerged as the industry's first truly national chain. Amro Music, Alto Music, George's Music, Gruhn Guitars, Quinlan & Fabish, and Sweetwater Sound, to name a few, were too small to make the list in 1991, but today rank among the country's 50 largest retailers. Shining stars of 1991, including Biasco Music and DJs Music of Chicago, E.U. Wurlitzer in Boston, Goodman Music in Los Angeles, and Knut Koupee in Minneapolis exist today only in the memories of former employees and customers. In 1991 four out of the ten largest retailers on our ranking sold pianos and organs in enclosed shopping malls while Musician's Friend, now a mail-order powerhouse with sales of over $500 million, was way back in the pack, coming in at only 26. Today, seven of the ten largest retailers have major mail-order operations and there are few if any mall stores left on the list.

Just as back in 1991, when no one anticipated Guitar Center's national roll-out or the proliferation of internet retailers, no one today has a clear idea of how retail will evolve over the next five or ten years. That said, we'll go out on a limb with one prediction. Starting around 1915, John C. Freund, the founder of *The Music Trades*, regularly encouraged his readers to embrace the "department store" model by creating in-store departments that stocked pianos, band instruments, sheet music, "talking machines," and a few stringed instruments. His rationale was that multiple departments would be a bigger consumer draw and would add stability to a retail business. Although precise figures aren't available, we estimate that by the late 1920s at least 70% of industry sales were generated by these musical department stores.

Over the last 50 years, however, as the nation has grown larger and more prosperous and the range of products has expanded, retailers have become increasingly specialized and the department store model has gone by the wayside. This year's Top 200 ranking reflects this trend with an



incredibly diverse collection of businesses, including, among others, a DJ gear specialist, several vintage guitar dealers, and a few sheet-music-only dealers. We expect this specialization trend to continue and anticipate that the Top 200 will include more new niche players in the coming years.

Any retail business is ultimately hostage to the unpredictable tastes and buying preferences of 300 million American consumers. And size offers little protection against consumer whim. In 1952 the A&P grocery store chain, inventor of the supermarket concept, was considered so powerful that the U.S. Congress drafted anti-trust legislation specifically to rein it in. A decade later the once fearsome grocer was bankrupt and today exists as a marginally viable player operating in just three states. The fact that consumers can crush a colossus like A&P helps explain why they can also upend distribution in the relatively small music products industry.

Depending on your perspective, volatility is either sobering or grounds for encouragement. If you're presiding over an established business, it's a stark reminder of just how fragile a retail operation can be. Personnel issues, an ill-timed lease commitment, a momentary lapse in inventory management, or any number of other errors can quickly sink even the strongest business. If, however, you're a start-up with ambitious plans, the high failure rate screams opportunity. Every time an established player makes a misstep, it puts market share up for grabs. What should be encouraging is the fact that despite a difficult economy, the industry's retail channel continues to renew and reinvent itself. This year there are 18 newcomers on the Top 200 ranking, and if the past is any indication, we suspect that a decade hence, some of them will play a much bigger role in the market.

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