

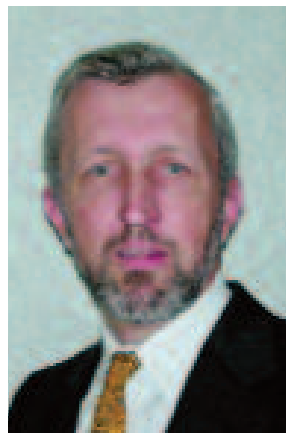
# The Importance Of “Animal Spirits”

“With finance companies exiting the music business as fast as they can, banks charging 21% interest rates, and shell-shocked consumers afraid to spend, all but the best capitalized retailers are in jeopardy. By our estimates, 1,200 retailers, or close to 18% of the total distribution network, have closed their doors in the past 12 months. The last time we witnessed a retail contraction of this magnitude was in 1932 at the absolute nadir of the Depression.” We penned these words in January of 1981 at a time when the industry was struggling in the face of a difficult economic climate, not terribly unlike what we’re experiencing today. Unemployment had topped 10%, retail sales were in the tank, Chrysler was begging Congress for a bailout, and a lot of the nation’s smartest minds had concluded definitively that “our best days are behind us.”

At the time, no one suspected that within a few years the industry would set off on a two-decade run of nearly unbroken sales growth, marked by incredible innovation: a remarkably productive time frame that witnessed the creation of MIDI and an entirely new category of electronic musical instruments, digital technology and home recording; public infatuation with the guitar; remarkably vibrant school music programs; and unimaginable unit volumes. The quick reversal of fortunes in the ’80s is worth remembering today as we slog through what is routinely described as the “worst economic crisis since the Great Depression.” We have no idea when the economy will turn or what future opportunities are around the corner. However, if history is any guide, great things lie ahead, at least for those who maintain a positive attitude.

The importance of attitude is hard to underestimate. Back in 1936, in the depths of the Great Depression, the economist John Maynard Keynes provided an oft-quoted summation: “A large proportion of our positive activities depend on spontaneous optimism rather than mathematical expectations,” he wrote. “Our decisions to do something positive can only be taken as the result of animal spirits, a spontaneous urge to action rather than inaction.” In simple English, Keynes was saying that attitude trumps cold logic when it comes to stimulating economic activity. Rational thought and planning are important, but absent a healthy dose of optimism and hope, our natural tendency is to seek safe shelter, curl up into a fetal position, and wait out the storm.

A recent example of the importance of attitude showed up in our local newspaper. The president of BMW North America



observed a slight but perceptible improvement in sales after he sent out a strongly worded memo to dealerships advising them not to run CNN News on the televisions in service department waiting rooms. “The relentless negativity of their reporting is a guaranteed sales killer,” he wrote. “After listening to one of these broadcasts, it’s more likely that a customer would throw themselves off a bridge than buy a new car.” His rhetoric may be a tad overheated, brought on by a particularly stressful time in the auto industry, but he makes the point that perception and attitude strongly influence business outcomes.

If current retail sales are any indicator (and we think they are) America’s consumers seem to be a little short in the “animal spirits” department right now. And given rising unemployment numbers, the housing mess, exploding federal and state deficits, impending tax hikes, and slumping GDP, who can blame them? However, in spite of these obstacles, great things await those who persevere. As we report elsewhere in this issue, the discovery of a 35,000-year-old flute suggests that demand for music products is far more lasting than the current economic slowdown. When the financial crisis of 2008 becomes a distant memory, along with the dot.com meltdown, the savings & loan crisis, the oil crisis, and all those other crises, people will still be making music and hoping to own the stuff our industry offers.

We profile three retailers in this issue: Thomann Musik in Germany, Baker’s Music Center in Colorado, and Piano Distributors in Florida. Their businesses are all different, but they share the conviction that the general public will purchase if presented with the right combination of value and service. And they are continually recalibrating their businesses to meet changing tastes and preferences. Their collective “animal spirits” are driving success in a difficult market and should serve as an example to everyone.

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