The Internet Isn't The First Retail Revolution

The consensus among experts in the "wired" realm is that 1995 marked the dawn of the internet age. That year, in our sales ranking of the Top 200 m.i. retailers, "mail order" retailers accounted for a paltry 9% of the group's aggregate sales volume. This year, internet, or "direct response," retailers represent slightly more than 30% of the Top 200 revenue. By any criteria, the explosion in online retailing constitutes disruptive change. And as retailers lose sleep recalibrating their strategy to compete in an online world, it's tempting to think that this is the first time the distribution channel has faced such wrenching overhaul. History offers a different perspective: Music and audio retailing has been in a continual state of upheaval since we began publishing in 1890. It's not easy, and it's not always fun, but fickle consumers abruptly altering their buying habits is a fact of life.

Since I joined *Music Trades* in 1978, several once-potent retail models have been undone by these changing consumer preferences. For the first few years I was on the job, I was regularly penning obituaries for once-formidable retail operations, including Lyon & Healy in Chicago, Grinnell Brothers in Detroit, Jenkins Music in Kansas City, Whittle Music in Dallas, and Campbell's Music in Washington D.C. The names and cities were different, but the story behind each of these failed businesses was the same. These were highly successful "full line" stores that had survived the Great Depression, World War-induced product shortages, and numerous economic crises. However, they couldn't withstand customers who wanted to shop closer to their suburban homes and specialty retailers who were willing to focus intensely on a narrow market segment. By 1980 these downtown "musical department stores" that had defined industry retailing for decades were a dinosaurs.

Around the same time, enclosed shopping malls were being hailed as the replacement to the moribund downtown location. Malls were vibrant, they attracted hordes of people, and they were opening all over the country. Because of the constant foot-traffic, mall stores didn't have to spend on costly print and direct mail advertising, and the opportunity for nearly limitless "face-to-face" customer contact was seen as a way to grow the music market. Many industry suppliers were so convinced, they began aggressively pushed their retailers to open mall locations and by the mid-'70s there were at least 600 music stores in regional shopping malls.

Within a few years, the limitations of the shopping mall became apparent. High rents and long operating hours made for high overhead, and the comparatively small store size limited product selection. These shortcomings gave rise to an entirely new retail format: the big box "category killer." Companies like Toys "R" Us, Best Buy, and Office Depot typified the trend, drawing customers with the promise of low prices and broad selection. Guitar Center successfully applied these retail concepts to the m.i. industry. By the time they readied their national rollout, the m.i. business had all but abandoned shopping mall locations.

MARS Music took the big box concept to its logical conclusion, reasoning that if big is good, bigger must be better. MARS ultimately failed but at least its 44,000-square-foot mega-stores provided a useful education in the limitations of the big box concept. The vast scale proved confusing to customers, the minimum-wage staff, necessary to keep costs low, were less than inviting, and at an average of 30 minutes away by car, they lacked convenience.

The recent crop of internet retailers has succeeded by addressing these consumer complaints. The ability to peruse a broad selection of inventory from the comfort of home has attracted legions of customers and put pressure on the big box stores. The tension between brick-and-mortar and e-tail is evident in the m.i. distribution channel and every other facet of retail as well. New Best Buy stores are in the 30,000-square-foot range, compared with 40,000 square feet a few years back; Home Depot has closed more than 80 underperforming locations; Circuit City went bust; and Sports Authority continues to struggle.

This is not to suggest that internet retailers are on easy street right now. They face their own challenges, suggesting that the evolutionary process is far from over. The combination of intense price competition and the rising cost of getting a business's URL at the top of a Google search means that someone, someday is going to be writing obituaries about some of these currently fast-growing internet operators.

Even though the retail landscape continues to change, successful practitioners remain in every format. Our Top 200 includes downtown stores, big box locations, specialists, generalists, and even a few mall locations, as well as the online companies. At risk of sounding trite, the common thread uniting these retailers seems to be an understanding of the needs of the customer and a willingness to adapt.

It's been said that mankind is a creature of desire, not necessity. The desire for better, faster, cheaper, and cooler is the catalyst that drives retail change. Until there is a fundamental alteration in our genetic wiring, prepare for more upheaval in the years to come.

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