

What Future Catastrophes Are We Creating Today?

About two years ago, overly optimistic home buyers who borrowed heavily and bid up home prices abruptly began defaulting on their mortgages. This caused a crisis of confidence in the U.S. banking system, which then called into question the solvency of banks around the world that held billions in U.S. mortgage backed securities, which prompted lending of all types to come to a halt and scared the daylights out of the buying public, which eventually slowed every facet of the economy, including music products. We quantify the far-reaching effects of this global chain reaction with market data on the 37 largest music markets, beginning on page 54, and a sales ranking of the world's 225 largest music products companies. The results are not terribly pretty: After two decades of slow but persistent sales growth, the industry suffered a significant setback last year, experiencing a decline of 13.7%.

There are a few lessons to be drawn from these disheartening numbers. First is the interlinked nature of the world's economy and our industry. If you examine a "made in the USA" acoustic guitar, to cite just one example, there is a high likelihood the tuning machines were made in Taiwan or China; the rosewood sides came from Indonesia or Africa; the spruce top originated in Canada, and the fret wire was made in Sweden. This cross-boundary collaboration, which delivers maximum value when business is on the rise, also ensures that economic woes will not remain localized in a downturn. As our numbers clearly indicate, the financial woes that began with overleveraged U.S. home buyers quickly took a toll on music products sales in every corner of the world. No one fully escaped.

The second lesson is that what we call the "economy" is, like the global eco-system, far too complex for anyone to fully understand. In the 1890s, British political theorist Herbert Spencer argued convincingly that individual home ownership added stability to society by encouraging a long list of human virtues. Spencer's reasoning prompted the U.S. Congress to draft tax laws to encourage home buying (mortgage and real estate tax deductions) and to prod banks to make financing more available. These policies in turn led to a widespread belief that homes were a "no-risk investment." Who would have ever guessed that a century later, these well-intentioned theories and policies would lead to so much hardship? You could just as well ask what future catastrophes are being set up by our current activities. Anyone who claims to be able to predict the complex interactions of 6 billion people is either ignorant or suffering from seriously misplaced confidence. Thus,

take any and all forecasts with a healthy dose of skepticism.

The final lesson is that we still can exert some control over our destiny. A selection of corporate profiles, beginning on page 84, illustrate how well-managed businesses can and do prevail in even the toughest operating environments. While a tailwind in the form of a growing economy is always welcome, the success of any business ultimately depends on a series of discrete decisions: whom you hire, how much you borrow, what kind of inventory you buy, how you promote. We like to think the data we present over the course of the year provides a useful roadmap in guiding these decisions. However, there is still no substitute for the clarity that comes from firsthand experience, which is why everyone should start planning to attend the NAMM show in January.



The economy may improve, but it may not. Opinions vary widely. Are we facing an inflationary or deflationary climate? No one knows for sure. Despite this uncertainty, you will still have to make decisions that will have consequences for the next 12 months and beyond. Attending NAMM, with more than 1,000 exhibitors and a slew of worthwhile educational sessions, ups the odds that you'll make better choices. It's inexpensive, it's fun, and it's proven to improve just about every business, so make a point of being there. You'll be better off regardless of how the larger economy performs.

With our Online Scorecard column that debuts in this issue, we provide another data point for gauging industry sales trends. By measuring sales and price levels on the eBay platform, we offer an additional perspective on consumer preferences. A proliferation of products and a growing number of distribution channels make it increasingly difficult to precisely measure what we call the music products industry. This new column reflects our ongoing efforts to sharpen our data with another measurement tool.

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