

An Optimistic Outlook.... Have We Gone Nuts?

People are naturally acquisitive, they like their stuff, and they only stop buying when they're coerced by economic uncertainty or some other hardship. After enduring periods of forced restraint, they're also prone to let loose in a big way at the slightest sign of improvement. The above qualifies as a statement of the blindingly obvious. Nevertheless, two years into the "Great Recession," it's worth revisiting. The industry has unquestionably felt the sting of consumer cutbacks in discretionary spending ever since late 2008. However, at the cusp of a new year, with the NAMM show on the horizon, should retailers be preparing for a big rebound?

Call us hopelessly optimistic, accuse us of wearing rose colored glasses, or claim we're inhabiting another planet, yet we base our admittedly cautious optimism on more than just wishful thinking. We recognize that this recovery is still notably fragile and that the consumer is wary and pinched. And all the things that make him so—the lack of jobs and the sorry condition of housing—refuse to fade away.

Yet look almost anywhere these days and the data paint a picture of household finances on the mend. After three years of paying down debt, the Federal Reserve Bank reports that consumer debt has fallen by nearly \$1 trillion to \$11.5 trillion from nearly \$12.5 trillion in late 2008. In the same time frame, credit card debt has shrunk 16% to \$730 billion, and auto loans have fallen about 12% to \$70 billion. In a further sign of consumer retrenchment, discretionary spending has fallen to a 50-year low, according to economists at Citibank. Collectively, these sharp cutbacks in debt and discretionary spending suggest that U.S. consumers may have more spending power than they have had in a while, which together with an improving stock market could unleash a sizable pop in retail demand.

A few other indicators of consumer health deserve mention. The default rate on loans peaked last year and has been steadily declining ever since. Credit-card delinquencies are also down 21% from a year ago. The same goes for the troubled mortgage market, where delinquencies are down 15%.

The consumer's improving balance sheet is starting to be reflected at the retail cash register. Auto sales are running 13% over a year ago, Starbucks says store traffic increased 5% in the third quarter, and Target saw a 10% uptick in third-quarter sales. One final bit of good news: the November elections have once again given us a divided government. There is ample precedent for Democrats and Republicans checking each other's worst instincts as a proven formula for economic progress.



Add it all up, and we see a plausible rationale for improved sales in 2011. Unfortunately, this "rising tide" won't necessarily lift all ships. It will favor the prepared. Comparative shopping is a brutal exercise in self interest, as consumers place a priority on getting the most for their money. Taking advantage of rebounding consumer demand requires offering a compelling package at retail, whether it's great prices, a shopping experience, exemplary service, or some combination of all three. A retailer friend of ours summed it up pretty well the other day when he said, "Brick-and-mortar is still important, but don't expect people to come to a crummy store with three guitars on the wall. If you don't give them an experience, they'll go online."

There are so many different success formulas among m.i. retailers that it's difficult to generalize. But here's one suggestion everyone can apply to take advantage of an improving economy: Go to the NAMM show. Between the exhibits, the special offers, the new products, and the educational sessions, there isn't a retailer going that couldn't learn something of immediate tangible value. The cost of attending versus the potential return make it a no-lose investment. To register, contact NAMM at: www.NAMM.org.

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Profit From New Technology

Technology for connecting people and information has evolved at an accelerating pace. In 1890, when the first issue of *The Music Trades* appeared, people still marveled at the wonders of first class mail. Since then, we've seen the introduction of the telephone, the toll-free number, the internet, and most recently, Quick Response, or QR code. Working in conjunction with the estimated 70 million smartphones currently in use, QR represents a new way to link buyers with the vast trove of rich internet content.

For the uninitiated, QR is a small box filled with dots that



work like a barcode. Whether it's found on a print ad, catalog, or in-store sign, you just scan it with your smartphone and you are instantly connected to a website. Best Buy has

added QR code to the "fact tag" that hangs alongside most of the products in its stores, including m.i. gear. However, QR isn't just for mega retailers. Thanks to readily available free applications, anyone can create QR code. A QR code next to a complex new product in your store could instantly link potential buyers to an online video demo. That's just one of an endless number of possibilities. To get a better idea of how it works, take out your iPhone or

BlackBerry, scan the code on this page, and open the door to new opportunities.