Painful Past Is A Prelude To A Brighter Future

It's been said that a short memory is the key to happiness. The accepted wisdom even enjoys some scientific support. Evolutionary biologists assert that the tendency to block out painful memories is a positive trait that helps us better cope with the present. If a traumatic experience never faded from our consciousness, they argue, we'd all still be paralyzed from the shock of being born. This human tendency to put the past behind us, whether based on science or not, helps explain the much improved mood at the recent NAMM show. After two years of the most wrenching economic upheaval most of us have experienced, a modest uptick was enough to blot out recessionary concerns and cause a celebration. However, before the events of the recent past fade completely from memory, a short review is warranted.

Just as the causes of the Great Depression in the 1930s remain hotly debated, there is still no definitive explanation for the more recent financial meltdown. However, some epic events are beyond dispute. Starting in early 2008, concerns about the quality of home mortgage loans prompted investors to shun all types of commercial paper. When this short-term financing dried up, in March of that year, Bear Stearns went bust. Lehman Brothers followed suit on September 15, and a day later, insurance giant AIG needed an $85 billion infusion of government funds to stay afloat. A month later, a clearly rattled Bush administration came up with untold billions to prop up the nation's largest financial institutions. Like mice running for cover the middle of an elephant stampede, members of our industry were not unscathed by this high-level financial drama. Days before the 2009 NAMM show, Textron Financial, which had financed close to $350 million worth of retail music products inventory, abruptly announced that it was shutting down. As a result, for many m.i. retailers, buying stuff was an afterthought; securing financing was the life-or-death matter.

To add to the somber mood, 2009 saw General Motors and Chrysler filed for bankruptcy and secure a $60 billion (give or take—who's counting anyway?) infusion of government funds; credit card credit lines were trimmed by 25%, reducing buying power by nearly a trillion dollars; the Case Schiller index recorded a 60% decline in housing prices from their 2007 peak; and auto sales were halved to a 45-year low. Not surprisingly, these events scared the hell out of the buying public, prompting them to dramatically curtail all discretionary and deferrable purchases. As purveyors of discretionary and deferrable goods, the music products industry was hit hard.

We offer up this brief recap not out of a sadistic desire to inflict pain, but to pay tribute to thousands of industry members and their remarkable ability to adapt to a harsh operating environment. By definition, a market-based economy is supposed to cull the weaker enterprises. Yet, despite a double-digit decline in sales in 2009 and 2010, there have been surprisingly few casualties. This is because the economic contraction spurred an instantaneous and industry-wide drive to rebalance inventories, adjust product offerings, and trim costs. There's nothing like the threat of imminent extinction to clarify the mind and prompt decisive action. Space precluded even a partial listing of the all the creative survival strategies, but suffice it to say they are all a tribute to human resolve and ingenuity.

The fact that our industry has effectively resized to a new sales level is another reason why moods were so positive at NAMM. The demand for what our industry offers has never wavered; unfortunate realities have just forced some to postpone their purchases. Now that there is some glimmer that the buying public is at least thinking about opening their wallets again, the upside potential is large. Lee Iacocca, the outspoken CEO who shepherded Chrysler through its first government bailout in the early '80s, remarked, "Consumers will stop spending when they have to, but they don't like it. Once they can spend again, they'll do it with a vengeance." His observations were vindicated by 1985 when auto sales generally, and Chrysler's in particular, came roaring back. We suspect the same holds true for the music industry. Demand will return, and when it does, many will be well positioned to prosper from it.

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