

Apple Retail Stores And The Value Of Scarcity

It's human nature to covet that which is rare. That's why gold, a material of limited usefulness, fetches \$1,700 an ounce, and why someone recently paid \$16.0 million for a Stradivarius violin that isn't even in playable condition. The attraction of the rare has some powerful implications for business in general and retail in particular. Consider the case of Apple and its growing chain of retail stores.

Macs, iPads, iPhones, and iPods are available at every national brick-and-mortar and online retailer, and in countless specialty stores as well. Given the millions of units sold, it's hard to imagine any current electronic item that is more readily available or commonplace. Yet despite this total market coverage—some would even say saturation—Apple's chain of retail stores is growing at a torrid pace. As reported on page 46 of this issue, the company's 326 stores generated 11.7% of total Apple sales last year, and management figures that number will climb to 15%-17% in 2011 as the company adds new stores.

Why would anyone buy from an Apple store when many other retailers out there offer more convenience, a lower price, or some combination of both? The answer is that Apple delivers something exceedingly rare in the retail environment: a genuine value-added service. Other electronics stores are good at stacking product high, promoting it heavily, and selling it cheap, but Apple stores seem to be better at showing customers how to get maximum benefits from cutting-edge technology. They also provide a shopping experience that can actually be described as fun.

As documented in an employee manual, the first priority of the Apple retail staff is "solving problems" and "showing customers how products can best be used." The store merchandising actively supports these goals. Instead of displaying items by category, products are grouped together as they would be used in a real-world setting. Prices are subtly displayed. Apple's extraordinary retail success demonstrates that if service objectives are met, the revenue will follow. For the most recent year, the stores posted sales-per-square foot of \$4,400.

The Apple retail phenomenon is unique for a number of reasons, not the least of which is the near cult-like allegiance to the brand. However, the stores still offer some valuable lessons to the m.i. industry about the economic value of scarce service.

Over the past three decades any semblance of scarcity in m.i. products has vanished. Thanks to major improvements in manufacturing and distribution technology, coupled with low-cost labor in Asia, prices have steadily fallen, and availability has surged. Consider that in 1954, when Fender introduced the Stratocaster with a suggested retail price of \$189, a four-door Ford Fairlane retailed for \$1,549, or about eight times the price of the guitar. Fender, like most of its competitors, was so

perpetually back-ordered at the time, retailers routinely confronted a four-month wait for shipments, and the scarcity prompted customers to regularly pay more than full retail. Today, America-made Strats sell for about \$1,000, or about 1/20th the price of a new car, and supply is so plentiful that the notion of a customer waiting for a guitar is unimaginable.

Products may have become cheap and plentiful, but genuine customer service remains a scarce commodity. By customer service, we don't mean just smiling, offering a few pleasantries, or giving a plausible sales pitch. We're talking instead about more tangible stuff that creates a memorable buying experience or produces an informed buying decision. Whether it's a unique gong room at Memphis Drum shop (see page 52) guaranteed to thrill percussionists, or the staff at Alto Music in Middletown,



New York that helps customers integrate software and hardware, or an accurate instrument appraisal at Gruhn Guitars, or the kind of institutional support Chicago-based Quinlan & Fabish provides for school music programs, it's true value-added service that defines the industry's most successful retailers.

While Apple is currently hailed as a model of corporate excellence, some Apple executives privately say that specialized music stores have several intrinsic advantages when it comes to delivering value-added service. Apple offers high-end Logic recording software, and millions of copies of its Garage Band multi-track program are in circulation. Yet, the Apple stores have been only marginally effective in promoting either of these products. One reason is that the stores don't stock the peripheral equipment—cables, mics, keyboards—necessary to do a good recording demonstration. The other is that the Apple retail staff generally lacks the musical skills necessary to present a compelling demo.

Much has been written about how m.i. customers are price driven and that they have access to nearly limitless information. Less has been said about the fact that the vast store of online "information" often increases confusion, and that enthusiasts want to have some fun when they make a purchase. As Apple has proven, stores that can cut confusion and offer some fun have tremendous market potential.

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