A Glass Simultaneously Half Full And Half Empty

The 2011 Music Industry Census, starting on page 50 of this issue, represents our 20th effort at tabulating sales of the broad range of product categories that make up the music products industry. Regardless of whether you have a "glass half empty" or a "glass half full" outlook, take comfort: you can find ample support for your position in our data. Optimists will point to the 3.7% sales gain and conclude we're entering a recovery phase after the 2008 financial crisis triggered the worst year-over-year sales decline in 75 years. Pessimists will latch onto the fact that at $6.6 billion, industry revenues are still 17% below the peak levels achieved in 2005 and surmise "the best days are behind us." From a strictly factual standpoint, both are right. However, if you broaden the time frame and review two decades worth of data, we think the optimists are on stronger ground and that the durable interest in music will push revenues higher in the future.

When he said, "Without music, life would be a mistake," the German philosopher Friedrich Nietzsche was voicing an opinion apparently held by the great majority of humanity. Music has been integral to every society in recorded history and recent neurological studies even make the case that this affinity is wired into our DNA. Setting aside whether it's biological or cultural, the human urge to partake of music helps explain steady growth in the sales of music products for as long as we have been publishing (121 years). Revenues have been up in 15 of the past 20 years, and nothing less than a global calamity has been able to slow the upward trend. The 9/11 attacks and the subsequent disruption of global supply networks led to a two-year downturn, and it took the more recent combination of a financial seize up, a housing meltdown, and a recession to cause the most recent downturn.

We'll leave it up to the psychics to predict when the next world changing event is due to take place. But assume a somewhat more tranquil world over the next few years, and it's a reasonably safe bet that business will resume advancing at the 3% to 6% historical average. Even if the more favorable operating climate fails to materialize, the optimists can also bank on ingenuity and innovation to help move things forward.

The only thing more predictable than human interest in music has been the relentless improvement and expansion of the product offering. The most obvious examples of this innovation can be found in the digital realm, where microprocessor technology advances have made the previously unthinkable readily available. In 1969, the four-track recording capability at Abbey Road Studios was considered a marvel of engineering. Today, four-track digital recorders can be had for a few hundred bucks and are sold by the thousands, and computer-based recording products are an important product category. The cheapest portable keyboard on the market today has better sound quality, more polyphony, and more features than just about any 25-year-old synth. Innovation, however, hasn't been limited to high-tech products. When Fender introduced the Stratocaster in 1954, its retail price of $189 represented over three weeks of median income level pay. Thanks to remarkable advances in production technology, a comparable guitar can now be had for a week's worth of wages. You don't need a sophisticated economic model to figure out that a better product at a better price is a good recipe for growth.

Although not universally recognized as an "improvement," falling retail margins have also contributed to the increased accessibility (another way of saying sales growth) of music products. Hard as it is to believe, three decades ago a lot of the industry's products actually traded hands at "Manufacturer's Suggested Retail Price." Today's retailers sometime dream about a world where they could consistently achieve 50% gross margins, though their dreams usually don't include the dramatically reduced sales volume that typically accompanies higher margins.

We're in agreement with Yogi Berra, who said, "Prediction is very hard, especially about the future." Unexpected and disruptive events occur with regularity. However, it's hard to look at two decades of accrued industry sales data and not be optimistic. Population growth, rising incomes, and product innovation have consistently enriched the industry, and we suspect it will continue to happen. Our optimism is also based on an intangible that can't be found in the sales data: namely the adaptability of the businesses that make up the industry.

In 2008, an 18% decline in the sales of automobiles pushed General Motors and Chrysler into bankruptcy and sent them scurrying to Washington for help. In the face of a comparable sales drop, our tiny industry showed a lot more resilience. There were layoffs and painful cuts, but the lasting damage was remarkably slight, and three years later, things are on the mend. Here's hoping that future compilations of data justify our current rosy outlook.

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