Fact Or Fiction, Has Business Really Gotten Harder?

One of the few constants in 125 years of publishing is the phrase "business is harder today than ever." It's popped up in every era. In the 1890s, when piano makers feared that kids would abandon music in favor of that new-fangled device, the bicycle; in the 1930s, when talking pictures replaced theater orchestras and reduced the ranks of working musicians; in the 1970s, when inflation wreaked havoc with pricing; during the deep recession in the early 1980s, when interest rates soared to 20%-plus; in the late 1990s, when a flood of Chinese imports drove average selling prices down; and today, as there is widespread concern about sharper competition and lackluster sales growth.

We suspect these laments are a basic component of the human experience. If Paradise and eternal life weren't enough to satisfy Adam and Eve, is it reasonable to expect the rest of us to be content with a visibly imperfect world? However, are they based on fact, or just another way of saying, "My current reality is not as appealing as my fuzzy memories of an idealized past or my outsized expectations." We're better fed and clothed than any generation in history, and enjoy amenities our forbearers would have a hard time imagining. Yet, those who complain about challenges unique to the 21st century have a point. Keeping a business afloat today is difficult for a new set of reasons, giving credence to the "business is harder" refrain. Evolution and statistics help explain why.

Ted Williams in 1941 became the last hitter in Major League Baseball to bat over .400 in a season. It's one of the longest standing records in professional sports. The best explanation for the inability of current players to match Williams' batting average was offered by the late evolutionary biologist Stephen Jay Gould. He theorized that over the past six decades all players in baseball—pitchers, infielders, and outfielders—have become uniformly better skilled. The same natural selection forces driving evolution led Major League Baseball to embrace "best practices" in training and recruitment, with the result that everyone has gotten better. With less difference separating the performance of the best and worst player, gaining a competitive advantage becomes harder. Statistically, this has been reflected in a narrowing variance in batting averages.

What do Ted William, baseball, and batting averages have to do with the music industry? The relentless pursuit of best practices in our industry has led to a similar narrowing in the gap between the best and worst, whether in retail, manufacturing, distribution, or product performance. Thanks to better communications, innovative designs, practices, and marketing techniques get adopted quickly, making it increasingly difficult for any enterprise to sustain a competitive advantage over the long term. Consider a few examples.

Three decades ago, a handful of forward-thinking guitar makers began installing computer-controlled machinery to improve quality and efficiency. These investments initially yielded a significant competitive edge. Today, however, digitally controlled production technology can be found in every guitar plant in the world, and instead of providing a market advantage, it's just a requisite to participate. Call it "table stakes." Players have benefitted because features like a compound radius neck, once available on only high-priced instruments, are commonplace on entry-level products. However, the reduced product differentiation has translated into less pricing power, which ultimately means a narrower profit.

Not too long ago, only a handful of retailers had point-of-sale systems that enabled them to track inventory in real time and measure the profit contributions of individual SKUs. This kind of IT prowess was a key component in Guitar Center's national rollout 15 years ago. Today, POS systems are commonplace, and just about every retailer uses some variant of GMROI (gross margin return on investment) in planning their inventory. Initially, these advances enabled retailers to pocket the resulting efficiencies. Today, with such transparent online pricing, they translate into reduced selling prices.

In the early 1980s, only a handful of large manufacturers could marshall the upfront investments necessary to develop digital technology-based products. Not anymore, as off-the-shelf digital tone generation and effects chips are as accessible as water, and not much more expensive. As a result, great sound can be found everywhere. iPhone keyboard apps sound better than many 1980s era electronic keyboards.

Just as contemporary batters, squaring off against better pitching and fielding, have been unable to better Ted Williams' .400 average, companies in the music products industry, faced with more capable competition, a more efficient distribution channel, and less product differentiation, have a harder time finding a sustainable competitive advantage. Bold predictions are an invitation to being proved wrong, but we doubt these trends will moderate anytime soon. On one hand, we suspect that we'll continue to hear "business is harder than ever." On the other hand, those who can hang in should take some satisfaction from being able to clear a much higher performance bar.

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