What's Holding Us Back?

The sales data is in for 2015, and the good news is that the industry posted another modest revenue gain. The bad news is that at $7.1 billion, the retail value of music and sound products is still below the record levels set in 2005. This shortfall raises a host of troubling questions. Does it reflect a declining interest in making music? Or, with memories of the 2008 financial crisis still fresh, are consumers reluctant to spend on discretionary items? Maybe the industry is losing the battle for discretionary income to smart phones, online gaming, or any number of other pursuits. All of the above are valid concerns that no doubt have some bearing on lagging industry revenues. However, we would argue that two seismic technological trends are the primary culprits.

The first of these can be summed up under the heading of "Moore's Law." Gordon Moore was the founder of semi-conductor giant Intel, and in 1965 predicted that every two years microprocessors would double in power and drop in price. Events have powerfully vindicated his forecast, and the exponential improvements in computing power explain why today's smart phone has more power than the 1970s era mainframes that powered the Social Security system and cost around $20 billion.

Moore's Law has had a similarly significant impact in the realm of music products, dramatically improving performance while driving down prices. Consider what's happened in the realm of recording. In 1996, Roland introduced the VS 880, the first integrated computer recording system with a retail price of $3,000 ($4,900 in 2015 dollars). With a laptop and readily available software, today's musican can assemble a far more powerful system for less than half the price. And, if you want to really record on the cheap, there's Apple's Garage Band—a four-track program that's included free of charge with each of the 6.5 million Macs sold last year, and is leagues better than the original "PortaStudio" cassette recorders. The high-powered microprocessors that Moore envisioned have had a comparable effect on a wide range of other music products—keyboards, recording devices, signal processing, and even more traditional products like loudspeakers, many of which now boast built-in mixers and digital effects.

If you're inclined to see the glass as half full, you could say that these advances have been a boon to consumers, saving them big bucks while giving them access to powerful, horizon-expanding creative tools. From the half empty perspective, though, free Garage Band, cheap software programs, and inexpensive keyboards have depressed sales revenues at industry manufacturers, distributors, and retailers. Unfortunately, there is no evidence showing that these lower selling prices have attracted more potential musicians into the fold.

How much have technology-driven price reductions impacted industry sales? A precise number is elusive, but given that 31 out of the 53 product categories tracked in this report include some type of microprocessor technology, we think the trend has shaved around $600 million, or 8.4%, off the industry's top line.

The second major trend impacting industry revenues is the online marketplace for used products. Musical instruments retain value like few other products, as evidenced by the lofty prices paid for vintage stringed instruments, amps, and horns. For this reason, the used market has always been sizable. As far back as a century ago, piano retailers were complaining about competition from used instruments. "The damn things last too long," was a common complaint.

However, with the advent of online marketplaces Craigslist and eBay, the used market has advanced to an even higher level. Manufacturers used to worry about what would happen if all the products in closets and under beds suddenly appeared on the market. Scan the online marketplaces and it appears that fearful scenario has come to pass. The inventory on Craigslist in any of the top 50 cities in the U.S. would fill several good sized brick-and-mortar music stores. Type in "used guitar" on eBay, and you're presented with 10,504 (as of 2/28/2016) discrete items, ranging in price from a $43,000 vintage Les Paul to $29.99 for a well-used First Act acoustic. This substantial offering helps explain why so many consumers, especially those under 30, routinely review used gear first when making a purchase. Although we lack the tools to quantify the impact of used gear, anecdotal evidence and the expanding roster of online items suggest that it is large.

These two headwinds aren't likely to subside anytime soon. Technology continues to advance—although many are now saying that due to the laws of physics, improvements in microprocessors are destined to slow. And, the timeless nature of a lot of musical products ensures a robust used market. But, despite these challenges, 2015 was still the fifth-biggest year in industry history, and the $7.1 billion expended on music and audio gear is still big enough to provide ample opportunity.

Sales growth in the music industry has never advanced in an orderly or predictable fashion. A multi-decade sales graph looks a bit like a Rocky Mountain landscape, with numerous peaks and valleys. However, if you look past the short term fluctuations, the trend has been steadily upward, driven by the deep seated human desire to create music, and a legion of creative entrepreneurs offering tools to help satisfy it. We agree with Yogi Berra, who famously said: "Predictions are hard, especially about the future." However, the ingenuity on display at the NAMM show gives us confidence that, over the long term, the industry will continue to advance.

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