

New Forms Of Retail Spell The End Of “Average”

For decades, NAMM’s annual Cost of Doing Business Survey provided a pretty accurate snapshot of the financial dynamics and profitability of music retail operations. Based on survey data from the association’s membership, the report presented averages on critical financial metrics, including gross profit, inventory turnover, sales per-square foot, and salaries, occupancy, insurance, and promotional expenses as a percentage of sales. To help retailers benchmark their own financial statements against the industry averages, NAMM segmented the data into four basic retail formats: keyboard stores, school music stores, combo/m.i. stores, and full-line stores. When NAMM began issuing the report, nearly all music retailers in the country comfortably fit into one of those categories. NAMM discontinued the publication in 2009 because with chain stores and online retailers, it was increasingly difficult to obtain meaningful averages. Since then the challenge has gotten exponentially harder.

NAMM’s four original retail categories still exist and account for a significant share of the industry’s \$7.0 billion in revenues. However, in the years since the last Cost of Doing Business Survey was compiled, the number of retail formats has metastasized to the point where there are hundreds, if not thousands of “music retailers” that defy any neat categorization. In this fractured environment, “typical cost structures,” “average gross profits,” and “inventory turnover ranges” are next to meaningless.

Quinn The Eskimo, profiled in this issue, is just one example of the growing number of hard-to-classify retailers. Primarily an eBay store, Quinn initially traded in vintage horns of all types, but has since expanded to new products. Among the 600-plus items in his inventory are Selmer Mark VI saxophones, Otto Link mouthpieces, a Buffet bass clarinet, and a wide range of accessories. Proprietor Matthew Stoecker favors the eBay platform because it puts his product offering in front of a lot of parents who are searching for step-up instruments for their children. He must be doing something right, because his revenue exceeded \$5.0 million last year, and he enjoys eBay’s top rating for customer satisfaction, which covers prompt delivery, quality of merchandise, and refund and return policies. We’re not privy to Quinn’s P&L, but we suspect that putting it next to the P&L of most school music retailers would be the ultimate apples-and-oranges comparison.

The retailers actively selling on the Reverb.com platform, also profiled in this issue, represent another group of businesses that aren’t based on traditional retail models. A small number of sellers on the fast-growing digital marketplace with 50 or more product listings, and names like Guitar Gear, Gear Outlet, and Good Stuff, are on track to generate \$140 million in revenue this year. Many of these sellers also operate traditional brick-and-mortar stores, but a decent number have built

their businesses almost exclusively on the Reverb platform. The financial dynamics of these businesses also bear little relation to those of traditional retail categories. But, the fact that their ranks are expanding suggests that their numbers must add up.

How much revenue is generated by what, for lack of a better term, could be described as non-conforming retailers? We can’t pinpoint it with precision other than to say it’s a large and growing number. In addition to companies like Quinn The Eskimo and those trading on Reverb.com, 80% of the 200 largest m.i. retailers in the country, including Guitar Center and Sweetwater, do business on the Amazon or eBay platforms. Some do it to liquidate slow-moving inventory, others see it as a way of reaching new customers, and still others say the incremental sales allow them to negotiate better deals and bigger rebates from their vendors. Whatever the reason, this channel is having a large but hard to measure impact.



When Guitar Center or Sam Ash opens a new location, local retailers face a competitive challenge, but at least they can assess it. They can see the deals being offered online, in ads, and in flyers. They can also visit the stores to assess inventory and the retailer’s sales approach. Performing a similar assessment on the growing ranks of non-conforming stores is much harder. We suspect that prior to reading this, most school music dealers never heard of Quinn The Eskimo, even though many have probably lost sales to him.

This transformation has been made in part by technology, specifically the internet and the logistics provided by UPS and FedEx. However, it also reflects increasingly demanding consumers who want products and services tailored to their specific needs. In a world where Starbucks needs to offer 42 basic coffee beverages (not including sizes or special customer requests), it’s probably unrealistic to expect that the diverse group of music consumers will be satisfied by four basic retail types. Whether industry members view this trend as “positive” or “negative” doesn’t really matter. The buying public has endorsed it, and there will probably be more unconventional retail formats to come.

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