

# A PROVEN FORMULA FOR GROWTH

In the early '80s, a lot of intelligent industry observers were convinced that the guitar was on the road to extinction. The managements of CBS, then owner of Fender, and Norlin, then owner of Gibson, had put both companies up for sale at a fraction of their asset value, and had made public an extremely dismal assessment of their future potential. The bankers for Martin Guitar shared the same outlook, and around the same time were making the case for liquidating the company. Three decades, and millions of unit sales later, everyone would agree that those premature obits for the guitar business were wide of the mark.

This ancient history is relevant today because it highlights a common human tendency. When in doubt about the future (which is always) we generally assume that the status quo will continue indefinitely. In the early '80s, many looked at five years of slumping guitar sales and a recession, did a straight-line extrapolation, and confidently predicted an irreversible downward trend. Similarly, today, as industry revenues have flat-lined for the better part of a decade, a large contingent is relying on the same straight-line extrapolation method to argue that music products are stuck in a permanent rut. They assume that the next ten years will be a replay of the past, and trot out the vast quantities of available used gear, technology driven price deflation, residual consumer caution, and sketchy demographics to bolster their case.

This type of thinking is both shortsighted and, more likely than not, wrong. This assertion is not based on any particular forecasting ability. We're as uncertain about what comes next as anyone. However, we benefit from some historical perspective, derived from 126 years of accumulated archives. This history strongly suggests that betting against industry growth is a losing proposition. The past 12 decades have seen seismic cultural change and technological disruption and constant fluctuations in the economic climate, but through it all, the music products industry has shown a persistent upward trend. Measured either by gross revenues or the number of people gainfully employed, it's bigger today than it was in the 1990s, the 1980s, or certainly the 1950s or 1960s. The phrase "it's always darkest before the dawn" also seems to apply. Historically, just

about the time things look the bleakest, some unexpected catalyst emerges to accelerate revenue growth.

The military bands of World War I triggered the big band and jazz movements, which dramatically expanded the market for woodwinds and brasswinds; the unanticipated baby boom following World War II fueled a fast-growing school music business; the Beatles came out of nowhere and rapidly transformed the guitar into the preeminent popular instrument; and a stream of technological developments—the player piano, the electronic organ, the electric guitar, synthesizers, MIDI, and software—created expansive new business opportunities. We have no insights into the nature or origins of the next catalyst for growth: these forces are unpredictable and usually come from the last place you'd expect. But if history is any guide, something will come along, and ten years from now, the music products industry will be bigger than it is today.

This rosy outlook is based on two potent forces that have remained constant over century of tumultuous change: the deep seated human desire for music, and the type of talented individuals who dedicate their career to satisfying that desire.



Archaeologists recently uncovered a 40,000-year-old flute made from the bone of a vulture wing, providing irrefutable evidence that music has

been an integral part of every society since long before there were any historical records. NAMM-funded research has provided a scientific explanation for this remarkable durability. Humans are biologically hardwired for music, and it is nearly universally viewed as the most exalted of all art forms.

In the music industry, serving that exalted art form is truly a higher calling. We don't just sell widgets or move boxes; we bring beauty and expression into the world, enriching the lives of untold millions. This higher calling has consistently been a magnet for talent, attracting an incredible number of creative, resourceful, and tenacious individuals. Contrary to the teaching of some economists, this type of human capital, not impersonal forces of "history" or some supposedly inevitable trend lines, is the source of all progress. Behind every innovative new product or pioneering retail format is the imagination and toil of driven individuals.

Abundant human talent, coupled with the human need for music, has been a proven growth formula in the past. We suspect that it will continue to create expanded opportunities far into the future.

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