

# DIRE PREDICTIONS SIGNAL EMERGING OPPORTUNITY

**W**arren Buffet once remarked, “Be fearful when others are greedy, be greedy when others are fearful.” The great investor was pointing out that following the herd isn’t a formula for success in investing or other endeavors. Whenever the masses bid prices up, convinced that a specific investment or commodity is a sure thing—think tulip mania in Holland in 1630, or more recently the dot.com bubble of 2000—it’s probably a good time to head for the exits. Conversely, opportunity is more plentiful when the public mood darkens and the outlook appears bleak. At the nadir of the financial crisis in 2008, the consensus was that the economy would never recover. Those who looked past the gloom and bought an S&P index fund would have more than tripled their investment.

Buffet’s wisdom is worth keeping in mind, given the prevailing attitudes towards brick-and-mortar retail. “Fearful” doesn’t begin to capture the scope of the despair. “Are Retail Stores Doomed,” declared a recent headline in *The New York Times*, reflecting the tenor of most news stories. *Bloomberg* chimed in with the equally upbeat report, “Retail Closings In First Quarter Of 2017 Surpass All Of 2008.” This is not to discount these concerns. The growth in retail square footage in the U.S. has outpaced the growth of retail sales for at least three decades, creating what some are describing as a “bubble.” Given that the amount of retail square footage per capita in the U.S. is six times the level of Japan and Europe, it’s not a leap to conclude that there are too many shopping malls and big box stores. That’s no doubt why Sears, J.C. Penney, Macy’s, Men’s Wearhouse, and numerous other chains are aggressively closing locations. This pessimism has also been felt in the music industry: Guitar Center unsecured bonds with a 2020 maturation date currently trade at 50 cents on the dollar, hardly a vote of confidence.

You can’t ignore the intensified competition facing all retailers. More customers are shopping online, many visit local stores and then buy online, and the consumer’s access to pricing data has seriously eroded pricing power. But the magnitude of the despair would suggest that brick-and-mortar retail is destined for extinction. On that front, we think the fears are overblown.

Brick-and-mortar retailers continue to enjoy significant, if

perhaps underappreciated, competitive advantages. According to a recent consumer survey conducted by *Retail Dive*, 62% of the populace still wants to visit a store to see and try out a product before making a purchase. Do the math and you come up with a potential 195 million American customers. Another 58% of the country is drawn to brick and mortar by the immediate satisfaction that comes with being able to take an item home with them. By gender, women place a higher importance on seeing before buying, while men are more excited about the pleasure of immediate ownership. One in five among both genders cite “easy returns” as an important reason to patronize brick-and-mortar. Only 7% say they shop exclusively online.

This national survey data, while illuminating, doesn’t provide clear-cut action steps for adapting to a tough market. So, we’ll offer a few modest suggestions for capitalizing on the strengths inherent in a brick-and-mortar store. Based on observations of a large cross-section of retail music stores,



there appear to be four “value-added” activities that draw traffic, inspire consumer confidence, and ultimately provide the foundation for a solid business.

In no particular order of importance, they include: an active lesson program that brings people into the store and inspires prospective customers; for lack of a better term, “encyclopedic product knowledge” that involves details like knowing the exact gauge of wire used in a particular pickup, which helps customers confidently navigate the vast number of purchase options; a full-service school rental and service operation, characterized by close relationships with music directors; and finally, competence in designing and installing sound systems.

This is hardly a complete list, but most of the successful retailers we observe incorporate some combination of the activities listed above to bolster their retail operations. Given that no one predicted the upheaval caused by online retail, we’re hesitant to make bold predictions about the way products will be bought and sold in the future. But it’s not going out on a limb to think that trying before buying will remain important to some, as will expertise, and that a large swath of the populace still enjoys the shopping process, especially when it involves avocational products, like music making.

Are there too many stores? Maybe. Is it tough to make a buck running a music store? Absolutely. But, the certainty with which the pundits are predicting the end of brick-and-mortar suggests that there are some untapped opportunities to be had.

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