

# Will Used Guitars Devastate The Market?

In a 1995 *Music Trades* interview, Fender CEO Bill Schultz said that his biggest concern was that a wave of used guitars would flood the market. “If those thousands of guitars ever come out from closets or from under beds, it would be devastating,” he said. Two decades ago, most shrugged off his concerns, confident that all those unused guitars would remain safely tucked away, collecting dust. No one is so confident today. The volume of used guitars currently changing hands has become so sizable, the “used wave” has apparently arrived. Fortunately, though, it hasn’t had the “devastating” impact that Schultz feared.

The existence of a used market derives from the exceptional durability of a well-made guitar. Unlike most consumer goods, quality instruments retain their value for decades, even centuries. Witness the enduring demand for Stradivarius violins and certain vintage frets. Even commonplace production guitars experience only modest depreciation: Ten-year-old models regularly sell at just a 10%-20% discount to comparable new instruments.

Used sales have been facilitated by an ample supply of product: U.S.-based guitar factories have produced more than 5 million instruments during the past decade, and most of them remain in good working order. However, the biggest factor driving the growth of used instruments is the emergence of online marketplaces.

Consumers in search of used instruments were once limited by the selection of their local retailer, pawnshop, or classified section. Today they have ready access to a vast online inventory. Reverb.com lists about 150,000 guitars on any given day, ranging from a \$120,000 collectible Martin D-200 dreadnought to a \$19.95 Starkids toy acoustic. eBay lists 190,000 guitars on its site spanning a similar price range. Thousands more are available on Craigslist, although the decentralized nature of the site makes it difficult to tabulate the total inventory. This expansive selection is a magnet for guitar enthusiasts searching for a deal or a unique “treasure.” What’s more, the ability to readily compare prices, view pictures, and read reviews provides the confidence that turns lookers into purchasers.

Retailers have been quick to exploit the traffic these marketplaces generate. Reverb and eBay collectively host over 5,000 sellers that transact more than \$10,000 in business annually. Every single retailer on the *Music Trades* Top 200 ranking also reports listing products on both sites. Consumer interest, ample selection, and product value explains why our surveys show that used instruments generate approximately 20% of the average retailer’s guitar revenues. Some vintage specialists report that as much as 70% of their sales are in used instru-

ments, while with some larger online sellers, the number is closer to 5%. But all agree that a quality used guitar in good condition is a highly desirable commodity.

The overlap between the online marketplaces, storefronts, and retailer websites makes it difficult to precisely determine the size of the used guitar market. The large number of untraceable transactions between individuals compounds the problem. However, online volumes provide some useful insights. Reverb is tracking to move about \$400 million worth of guitars this year. eBay is set to move another \$300 million. A cursory review indicates that about 70% of the guitars listed are used. Do the math and it translates into over \$500 million in used guitars sold each year. Depending on your estimates of eBay and Reverb’s share of the market, used guitar sales could be anywhere from \$700 million to \$1.0 billion a year.

If you’re a guitar maker, the disheartening news is that competition from your past production is unlikely to abate anytime soon. Consumers are drawn to the value of used guitars and retailers see them as an important profit center. The reassuring



news is that the sale of new instruments has held up remarkably well. Despite increased availability of used gear, new guitar sales advanced 8.8% to 2.63 million units in 2017, just slightly below the pre-recession level of 2.7 million units. The strength of the used market also reflects a vibrant and enduring interest in the guitar. Whatever estimate you settle

on for the used market, when you add up new and used sales, it’s safe to say the guitar market has never been bigger.

We confess to a deep and abiding love for the guitar, which might render our analysis somewhat less than 100% objective. However, Jefferies, a prominent investment bank with no sentimental attachment to fretted instruments, apparently shares our optimism. Having thoroughly reviewed the books at Gibson and analyzed trends in used sales, it values the guitar maker at somewhere between \$348 and \$418 million. Gibson’s stellar tradename and “solid market fundamentals” provide the basis for this generous valuation, which is approximately 80 times what Henry Juskiewicz and Dave Berryman paid for the company in 1986.

If millions of used guitars were to magically self-destruct, guitar makers would certainly enjoy a sales windfall. High quality construction standards ensure that that won’t happen. Fortunately, though, there’s still plenty of business to be had for all segments of the market.

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