Selling Direct… Who Really Makes The Decision?

As evidenced by the outpouring of reader comments, Sweetwater CEO and founder Chuck Surack struck a nerve with his recent guest editorial (December) on the downside of manufacturers selling direct to consumers. Responses to Chuck's comments fell fairly predictably into "pro" and "con" columns. A chorus of retailers gave an enthusiastic "thumbs up" to his argument that manufacturers who bypassed the retail distribution channel risked shortchanging the consumer while undermining critical business partners. "Manufacturers have to make a decision whether to be our partners or our competitors" was a common retailer refrain. Manufacturers vigorously countered that risk-averse retailers, reluctant to stock untried products, stifled innovation and left them no choice but to sell direct. As one put it, "If no retailer wants to buy a product that I believe in, what am I supposed to do, throw it away?" Both sides obviously have a point. However, we're not sure that distribution policies can be reduced to a black-and-white issue.

There are significant costs associated with moving a product into the hands of a consumer: stocking inventory and merchandising it in an appealing fashion, having a staff ready to provide guidance and answer questions, and delivering after-the-sale service, which often involves dealing with quirky individuals and their off-the-wall demands. Anyone who doubts the magnitude of these costs need only consider that Sweetwater needs a sprawling 63-acre campus and 1,000-plus-member staff to successfully serve as the middleman between manufacturer and consumer. Regardless of whether a manufacturer or retailer does the selling, someone has to shoulder these costs. Yet, it would appear that some manufacturers view going direct as simply an opportunity to seize extra margin points, without fully staffing up to provide an adequate level of service. Those who do so run the risk of creating unhappy customers while antagonizing and even weakening important retail partners.

However, as was apparent at the recent NAMM show, scores of exhibiters are opting to sell direct because of a lack of interest on the part of retailers. As the founder of one fledgling company explained, "Retailers said they wouldn't buy our product because no one's walking in and asking for it." In this case, is a retailer justified in bashing a company for selling direct while simultaneously refusing to buy their products?

What gets overlooked in the debate is the fact that there is no one-size-fits-all distribution model for the music products industry. How retailers and manufacturers divide the responsibilities for addressing the consumer has to be evaluated on a case-by-case basis. Selling a $100,000 grand piano bears little resemblance to selling a $19 tuner. Similarly, a complex recording system that includes software and hardware from multiple manufacturers requires a different distribution approach than an entry-level guitar. Thus, in answer to the question, "Is it OK for a manufacturer to sell direct?" perhaps the best answer is, "It depends."

If it's a company with a well-established product line, demanding retail stocking requirements, and rebates tied to ever-increasing sales targets, we'd advise caution about launching an aggressive consumer direct program. The same would apply to a product that requires a high level of aftermarket support. In both cases, gains on the consumer direct side could be easily offset by a combination of diminished retail support and lower levels of consumer satisfaction. Competing with retail customers will inevitably strain relationships, as no one really likes doing business with a competitor. In the case of a product that's been spurned by the retailer channel, however, why shouldn't a manufacturer take its chances going direct. It could be the difference between failure and success, and it might even create future opportunities.

Ultimately, though, the opinions on the subject that filled the columns of the last two issues, as well as the thoughts expressed above, won't matter much. The way a product gets sold will be decided by the buying public, not the industry's retailers or manufacturers. Not too long ago, the industry was convulsed by arguments concerning the legitimacy of mail order, and later, online retailing. A contingent of brick-and-mortar retailers forcefully urged boycotts of suppliers who sold to catalog and website retailers, and a sizeable number of suppliers complied with their demands. Eventually, though, the issue was settled rather decisively by the millions of consumers who, through their actions, expressed a preference for shopping online. Today, with sites like Reverb.com and eBay, virtually every retailer has become an online merchant.

The rise of the internet, the presence of national chains, and online behemoths like Amazon have added an unprecedented level of complexity to the industry's distribution network. Manufacturers and retailers of all sizes regularly tell us of the challenges of navigating this maze, while trying to maximize sales, maintain sustainable margins, and keep highly demanding end-users satisfied. Suffice it to say it's no easy task. We don't have any pat answers, but the common trait of successful companies is a focus on the consumer's interest, backed by superlative service and a compelling value proposition. They are the decisions makers, after all.

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