

## How To Earn A Profit . . . . . Full Service Is The Key

The music industry is unique in a number of ways, one of which being the fact that musical products offer the highest gross margins at retail of any products available. Unlike the retail auto industry, which operates on a 21% gross margin, or the retail grocery business, which operates on an 11% gross margin, the local music dealer, according to NAMM, averages a 40% gross margin.

Given the low turnover rate of musical inventory, this high margin is necessary for the continued health and effectiveness of the community of music dealers. Unlike calculators, video games, and a host of other consumer products, musical merchandise does not have what economists refer to as "an elastic demand curve." In other words, a decline in the price of a musical product will not be offset by a resulting increase in sales volume.

Given these factors and the increasingly competitive nature of the music industry, music dealers would do well to direct their efforts towards maintaining a healthy gross margin. It's important to realize that while high retail margins have traditionally been part of the music business, they are not an inalienable right of every music dealer. Rather, they are something that must be earned every day by providing value to the local market.

To earn this margin, a retailer must offer more in the way of service than just having product in stock, or available on order. As a specialty merchant whose task is to fulfill the customers' musical desires, it is incumbent on the local music dealer to have skilled and *well compensated* sales personnel who match the customer with the right product, a complete repair facility capable of servicing product malfunctions, and educational offerings to ensure that the customer receives full satis-

faction from his purchase.

A dealer's service should also reach well beyond the four walls of his store and extend into the musical life of the community. Whether it is staging student recitals, holding artist clinics, or supporting school and church music programs, the dealer who helps music flourish in his community will be handsomely rewarded.

In the absence of such community and customer service, the music dealer becomes little more than a catalogue showroom, selling product and price. Price-oriented marketing strategies on the part of music dealers generally yield meager profits but, more importantly, do little to foster musical participation.

The responsibility for maintaining dealer profitability, and ultimately the vitality of the music industry, is shared by dealers and manufacturers. While dealers must strive to serve their markets, manufacturers must maintain marketing policies that offer the dealer adequate compensation for his efforts.

Unfortunately, competitive pressures in recent years have forced some manufacturers to adopt short-run policies to bolster sales at the expense of dealer profits. By opening additional outlets, or offering special terms to larger dealers, manufacturers may be able to improve their quarterly results; however, the long term results are devastating to the industry.

As a small industry selling highly discretionary products, the music industry is inherently fragile. The fact that it has prospered so well during the past fifty years is a tribute to the joint efforts of the dealers and manufacturers. The continued well being of the industry depends upon dealers shouldering their responsibility to serve their markets to the fullest extent, and manufacturers working towards enhancing dealer profitability.

## Polish Your Image With A New Label

With the growing recognition that people who don't play don't buy musical products, manufacturers and retailers have placed a renewed emphasis on providing musical education. This increased concern with education was manifested at the recent trade show in California as a host of products and software designed specifically for the beginning player were unveiled.

One small suggestion to enhance this praiseworthy new industry effort is to dispense with the term "Music Studio" as a label for retail teaching operations. For too many members of the buying public, "Music Studio" conjures up images of the worst accordion hucksters and hard-sell tactics under the guise of teaching.

The substance of a teaching program is obviously

more important than the name under which it operates. However, first impressions are lasting and important. To enhance the image of their teaching operations within the community, retailers might consider referring to them as a "Music Learning Center," "Music Education Workshop," or anything but "studios."

The admirable education efforts of retailers should not be tainted by the industry's past sins. Thus, we urge that the worn out label, "Music Studio," and all its negative connotations, be retired quickly and permanently.

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