Managing Technology For Profit

Electronic technology has greatly enhanced musical creativity in the past decade. On a more mundane level, it has also introduced new challenges into the realm of music retailing. For the first time in history, music dealers are being forced to come to grips with the problem of product obsolesence.

Traditional musical products have changed little over the past thirty years. As a result, depreciation of inventory has been nominal. After two years on the shelf, a trumpet is still saleable. By contrast, a two-year-old synthesizer is virtually worthless.

Changing technology is a fact of life, and it also offers great opportunities. Continual new product introductions generate excitement and create new sales opportunities; however, these changes require a new discipline in inventory management. Given that some products have a saleable life of only six to eight months, maintaining a reasonable turnover is critical.

Often overlooked is the fact that retailing is the most asset-intensive of all business. Almost without exception, every retail store requires more assets to generate a dollar of sales than do steel companies, auto makers, or oil companies. Thus, asset management, or inventory control, is the most important element in achieving success in retail.

Probably the two most important ingredients for successful inventory control are a zeal for the task and constant watchfulness. These two factors are more important than ever, given the fact that the saleability of many electronic products diminishes rapidly.

Without launching into a dissertation on proper inventory control, there are a few points relevant to contemporary products that are worth mentioning.

Be extremely wary of "deals," closeouts, or any special inducements to buy. If a manufacturer is offering a special price or terms to move merchandise, chances are it is because the product is not selling very well elsewhere, or because it is about to be superseded by a newer and better unit.

While certain deals can look tempting, money invested in well selected products, purchased at the going rate, will generally yield a better return. As you consider deals, remember the words of the struggling dealer: "One more good deal and I'll be broke."

Limit your lines! Given the proliferation of electronic keyboards and various accessories, it is easy to be enticed into carrying numerous product lines. Don't get caught in this trap. The addition of a product line mandates an additional inventory investment and additional service costs and increases the challenges of inventory management. Rarely will the costs of an additional line be offset by a sales increase.

Recognize the fact that you can't be everything to everyone, and select a limited number of product lines that cover important price points. In addition to improving your return, a limited line strategy will also aid your sales efforts. Electronic products are complex and require considerable sales effort. Thus, a sales force totally conversant in the features and benefits of one or two product lines will be far more effective than one that is groping to unravel six or seven lines.

Finally, treat every single purchase as an investment: Ask yourself what kind of margin a product yields, how fast will it sell, what kind of service expenses are associated with it, and how long will it be saleable. Constantly asking these questions, adopting a skeptical attitude towards "deals," and limiting product offerings will help you avoid some of the pitfalls associated with selling electronic-based products.

Brian T. Majeski
Editor

International Trade In Music

Elsewhere in this issue, three industry figures comment on international trade and its importance to the music industry today. Many retailers, given their local outlook, often fail to recognize the role international trade plays.

For domestic suppliers, exports make it possible to increase unit output and thereby achieve greater economies of scale. These economies mean better consumer value.

Imported musical products also play a key role in the domestic music industry by filling market niches that are not serviced by U.S. firms.

International trade has also been a source of serious controversy in recent months. American manufacturers have alleged that some of our trading partners utilize various restrictions to exclude U.S.-made goods. The counter argument is that American firms have not made products suitable for certain export markets. There is a certain amount of accuracy in both arguments. For additional insights into current trading conditions, turn to page 46.

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