Don't Judge Suppliers By Their Dealer Agreements

In 1983, the Federal Trade Commission made a startling about-face when it allowed audio manufacturer Pioneer Electronics to prohibit its retailers from transshipping products or selling to anyone other than an end user. In and out of the music industry, the landmark decision was hailed as a major precedent that would substantially alter the nature of supplier/retailer relationships across the country.

Before the ink was dry on the FTC's decree, several dozen music suppliers, both large and small, scrambled to draft their own agreements which prominently included language prohibiting transshipping. Subsequent publicity surrounding these agreements generally proclaimed that they would reduce unauthorized competition and thereby enhance retail gross margins. This margin enhancement would in turn lead to greater promotional activity on the retail level, which would ultimately stimulate major industry growth.

Two years later, after the initial publicity has subsided, it would appear that these agreements have had little or no effect on the industry's distribution patterns. Transshipping is as much a part of the landscape as ever, and retailers continue to experience severe pressure on their gross margins. What's more, the wave of industry promotion never seemed to materialize. What went wrong?

The first, and most obvious, answer to this question is, a dealer agreement isn't worth the paper it's printed on unless the supplier is vigilant in enforcing it. Every supplier in the music industry has its own distinctive approach in distributing product. Some are highly selective in choosing dealers and have a long tradition of discouraging transshipping. Others are indiscriminate in opening retailers, requiring only that a credit test be passed.

In the two years since dealer agreements became prevalent in the music industry, it has become apparent that they have had little effect in altering a supplier's distribution policies. Those who previously used a selective approach have continued to do so, complying with the pronouncements of their agreements. However, stringent-sounding agreements have done little to cramp the style of those suppliers who had a more freewheeling approach to distribution. For these companies, the agreements served only as a hollow marketing promise.

The cause of this situation does not rest with suppliers alone. Ironically, many dealers who have been vocal in demanding tough dealer/supplier agreements are also notorious transshippers. As one supplier quipped, "A lot of these dealers want us to shut down their competitors while giving them a free reign to do anything they want."

Is there a moral to this? Yes. Simply stated, market forces are far more powerful than any government decree, and those who hope to cure distribution problems through legislation are deceiving themselves. Supplier distribution decisions are based on real or perceived self interest, not on moral principles. If a given supplier feels that his best interests are served with a restrictive distribution policy, then tough-worded dealer agreements are unnecessary. By contrast, if a supplier believes that a free-wheeling approach will offer the best results, then no amount of legal language will alter that approach.

For a retailer analyzing the merits of various suppliers, it is safe to say that a review of a supplier's past distribution practices in the field will prove more instructive than a review of the text of a dealer agreement. Or, as the saying goes, actions speak louder than words.

In theory, a written supplier/dealer agreement is wonderful. However, the past two years have revealed that written agreements are not necessarily indicative of a supplier's actual distribution policies. Thus, for better or worse, the status quo in distribution will remain for the foreseeable future. If change is to occur, it will require something far more cataclysmic than an FTC decree.

Brian T. Majeski
Editor

How To Make A Quick Buck

Opportunities to make a quick buck in the music business have always been about as scarce as snow in July. However, in NAMM's Retail Music Products Industry Report, dealers can find literally dozens of quick and relatively easy ways to add dollars to their bottom line.

The NAMM report provides comprehensive financial analyses of every aspect of a retail music business. For added effectiveness, the information is segmented by store size, product offering, and geographic location. By comparing your results with the industry "norms" outlined in the NAMM report, you can quickly locate aspects of your business in need of improvement. It's a painless process that doesn't require much effort and can yield substantial rewards.

NAMM's invaluable Industry Report is broken down into four separate sections for keyboard stores, school music dealers, combo dealers, and full line stores. The price for NAMM members is $10 for each section. For non-members, the price is $20 per section. For $10 to $20, NAMM's Report can help you trim costs and gain a better understanding of your business. If you can find a better return for your money, grab it. In the meantime, contact NAMM at 5140 Avenida Encinas, San Diego, CA 92008 and order your copy today. It may be the last opportunity you'll ever have to make a fast buck in the music business.

Paul A. Majeski
Publisher