

A Few Thoughts On Pricing

Once there were a pair of guys who decided to go into business selling watermelons. They got a truck and drove 50 miles to a farm where they bought watermelons at a dollar apiece; then they drove back into town where they sold the melons at a dollar apiece. After a few weeks of doing business, the pair reviewed their finances and came to the unpleasant realization that their watermelon venture was losing money. Determined to turn the situation around, they conferred with accountants and management consultants and after considerable deliberation, decided that the solution was to buy a bigger truck.

The lesson to be learned from the watermelon entrepreneurs is that profits come out of gross margins, not gross sales. Gross margins are a factor of pricing, and determining effective retail prices in the music industry is no small feat. The task requires balancing many factors like, sales force capabilities, the competitive environment, the desirability and availability of a given product and inventory requirements. In the drive to best a competitor and make the sale, music retailers often price their products lower than necessary.

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are looking first for a product that will satisfy their musical needs, and second, for a reasonable price. Chances are, if a retailer can present a compelling case for the features, benefits, and overall value of a given product, the issue of price will become almost immaterial.

Elsewhere in this issue, the experience of the Texas based Brook Mays chain confirms this. Last year, the store revised its Christmas guitar package by replacing a \$99 instrument with a higher quality \$158 unit. In twenty stores, salespeople explained the benefits of the \$158 guitar, and there was not a single instance where a qualified customer balked at the price.

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With the Christmas season fast approaching, avoid the fate of the watermelon sellers, and give some serious thought to your pricing. If in your sales presentation you concentrate on value and features and benefits, chances you won't have to cut your price very often and you will enjoy better profits.

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Editor

Pricing varies from market to market, however, in pricing musical products, there are a few factors that should be kept in mind. The most important being: the average consumer has little or no idea as to what a musical product should sell for. Various market studies performed over the years bear this out.

A major electronic keyboard manufacturer showed a portable instrument with a suggested retail price of \$675 to a random sample of 1,000 potential purchasers and asked the question, "How much do you think this instrument should sell for?" Nearly 60% of those queried felt the instrument should sell for over \$1,000. Another 25% felt it should sell for between \$800 and \$1,000. The remaining 15% guessed the retail price within a plus or minus \$50 range. A similar study conducted by a major U.S. guitar maker in the late seventies revealed comparable consumer ignorance in terms of guitar pricing.

Retailers should take these research results to heart, particularly with the approach of the Christmas selling season. Customers walking into the store

Trade War Fizzles

With the U.S. trade deficit at record levels, there has been concern about the possibility of a ruinous trade war. Given the highly international nature of the music industry, any increase in the number of restrictive trade barriers around the world could have a damaging affect on total industry performance.

However, the fact that international trade was a non-issue in the recent elections is reassuring. Obviously, our elected representatives concluded that increasing trade barriers was not popular with the general public.