

Is Discounting Dead?

New York's 48th Street is the birthplace of discount pricing on musical instruments and related products. For over 60 years, musicians have flocked there to secure products at "40% Off." Today, with the possible exception of a few streets in Tokyo, there are no other city blocks in the world that can rival the sales volume of 48th Street. However, these days on the "Street," a surprising amount of merchandise is being sold at full retail price or a very short discount.

Revised pricing policies on 48th St. reflect the new market realities of electronic products and hold an important lesson for all music retailers. Just as advancing technology has prompted musicians to re-evaluate their art, it should prompt retailers to re-view their operating policies. Marketing and pricing policies designed with traditional instruments in mind may not translate well into the realm of hi-tech and MIDI products. Of particular importance is the area of pricing.

For the customer who is interested in purchasing a step-up trumpet or a guitar, a discounted price provides a strong incentive to buy. For years, retailers throughout the country have utilized the prospect of big savings to close sales. However, when a customer walks in the door looking to assemble a MIDI system that meets certain specifications, price becomes a secondary issue. In the words of Henry Goldrich of Manny's Music, the landmark store on 48th St., "MIDI customers want to talk to someone who can answer their questions and help them select the products that fit their needs. Genuine sales assistance is a lot more important than a low price."

The complexity of MIDI electronics presents both a challenge and opportunity to music retailers throughout the nation. The challenge lies in simply mastering the workings of the technology. The opportunity arises because customers will pay a premium to those individuals who can assist them in understanding MIDI and its applications. In short, MIDI makes it possible to sell service rather than price.

Utilizing service to sell MIDI is analogous to certain techniques in the computer industry. Those computer retailers who assist customers in assembling complex computing systems are referred to as VAR's, or Value Added Retailers. Those retailers who have successfully marketed MIDI products seem to have adopted a "Value Added" approach that places emphasis on instructing the customer.

Shifting the selling emphasis in musical electronics away from price is more than a question of maximizing profits; it is a requisite for survival. To start with, electronic products carry shorter margins than traditional products, thereby offering less room to discount. Secondly, electronic products have an obsolescence factor. (A two-year-old trumpet or guitar retains its value; a six-month-old synthesizer may be worthless.) Even with the best planning in the world, every retailer will occasionally be forced to take some type of a mark-down due to the obsolescence of a given product; strong gross margins make these type of write-downs easier to absorb.

Low prices may have helped you move guitars, trumpets, and pianos, but they won't necessarily help you when it comes to moving hi-tech electronic goods. If you are serious about securing your share of the MIDI market, look for areas where you can add value to the transaction before you look to cut prices.

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