Who's To Blame For Poor Retail Profits?

Some nine months ago, we published a guest editorial authored by Brian Cohen of Brian Guitars, arguing against selling magazines that carry retail advertising. Cohen asserted that by carrying magazines, retailers either send business to mail order dealers or encourage their customers to price shop. The steady stream of letters we have received on this topic indicates that Cohen touched a raw nerve among many dealers. It also highlights the larger issue about retail profitability, particularly in synthesizers and other hi-tech products.

Both in our columns and on the floor of the recent NAMM show, retailers have been lamenting the lack of profitability in selling most hi-tech music products. The basic dealer tale of woe goes something like this: "A customer walks in and I spend an hour giving him a complete demo on an 'X' synthesizer. I try to close the deal, but he decides to think about it. In the meantime, he goes to every other store in the area and gives them the chance to beat my price and probably calls a few 800 numbers as well. A price cutting war ensues, and the 'lucky' dealer who finally wins the sale has to move the product at 10% over cost. The bottom line is, no one makes any money."

The over distribution of many hi-tech products is a significant problem that has largely been caused by manufacturer avarice. In pursuit of more sales, most manufacturers simply can't resist the temptation to gradually expand their dealer base. In the short term, opening more dealers is a faster way to increase sales than concentrating on building retail sell-through. Over the longer term, though, it has a way of back firing as product profitability erodes.

However, retailers also deserve a share of the blame for the industry's over-distribution problems. For every retailer who carefully chooses a limited number of product lines to represent, there are at least 50 who make a half-baked stab at trying to carry every line known to mankind. In response to this attitude, most manufacturers open more dealers arguing, "There's no way I'll make my sales numbers if I have to compete with ten other lines on a dealer's floor. The only hope is to get my product on more sales floors."

Dealers trying to carry too many lines and manufacturers opening too many retailers are problems that have plagued the industry for decades. However, with the advent of hi-tech products that take a lot of time to master and have a relatively short life cycle, the situation is now much more acute.

Recently, a leading m.i. dealer, with annual sales in excess of $12 million, explained what happened when he cut the number of synthesizer lines he carried from 7 to 3: Sales and profits both increased. With fewer lines, inventory was easier to manage, turnover was higher, and he was stuck with a lot fewer "dead products." Fewer products on the floor also proved to be a boon to the sales force. He related, "When we carried everything, salespeople would wait for the customer to express a preference before making a strong product presentation. The result was, that they were too tentative in their approach. Now, with three lines that cover the basic price points, they make a much more authoritative and aggressive sales presentation. There is no indication that we have lost any sale since we trimmed our lines."

Ultimately, profitable distribution rests on a partnership between manufacturers and retailers. Simply sitting back and waiting for manufacturers to cut back their dealer organizations is futile. However, retailers might try offering to cut back lines in their store in exchange for a better territory. Ultimately, everyone could benefit.

Brian T. Majeski
Editor