Sound The Alarms... The Industry's Got A Problem

For the last two years, the industry has enjoyed strong sales as retailers and manufacturers alike have been buoyed by the surge in demand for virtually every product category. Despite a favorable economic climate, the profit performance of the industry's retailers leaves much to be desired. NAMM's newly released Survey of Operating Performance for Music Dealers reveals that gross margins and inventory turnover rates are at ten-year lows for every type of music retailer: full line, keyboard, school music, and combo.

Turnover and gross margin are the two most important factors affecting a retailer's profitability. When margins are shaved and turnover slows, the warning bells should sound because financial health is deteriorating. The accompanying chart graphically illustrates the industry's ominous decline. What is particularly disturbing is the fact that margins and turnover are worse today than they were during the recession of 1982-3.

	1980		1989	
	Gross Margin	Turnover	Gross Margin	Turnover
Full Line Stores	**40.1%**	**1.8**	**37.2%**	**1.6**
Keyboard Stores	**43.5%**	**1.8**	**43.2%**	**1.7**
School Music Stores	**42.0%**	**1.7**	**34.7%**	**1.3**
Combo Stores	**36.5%**	**2.9**	**32.3%**	**2.3**

The causes for this unfortunate state of affairs vary from product type to product type; however, in all instances, manufacturers and retailers share in the blame. In the realm of hi-tech products, obsolescence is the primary culprit in dragging down margins and turnover. The synthesizer that carried a dealer cost of $1,000 could very retail for $795 six months later. Manufacturers, for the most part, could do a better job keeping their retail customers appraised of pending product introductions. Retailers should consider placing smaller orders on a more regular basis, to limit their exposure. Also, they should be ruthless in blowing out slow-turning merchandise. As they say, bad merchandise doesn't improve with age.

The acoustic piano has its own set of difficulties. Korean pianos that are widely stenciled lead to fierce price competition that devastates margins. Thanks to indiscriminate distribution policies on the part of some manufacturers, retailers regularly hear the customer refrain, "Your competitor says that his brand 'A' is really the same piano as your brand 'B,' but he'll give me an extra 10%. Can you match it?" Retailers, and their appetite for purchasing pianos from the Orient by the container-load, have also contributed to the problem. Buying containers does yield savings on a per-unit basis, but it requires a substantial volume commitment, which adversely affects turnover rates. Furthermore, when the full costs and risks of servicing instruments are factored in, the savings offered by purchasing by the container are not quite as attractive.

Margins in the school music business have been hurt by retailers' unwillingness to raise their monthly rental charges. Pricing any product is a sensitive business, and most enterprises don't discover that they have overpriced their products until it's too late. Nevertheless, we suspect that there is still some room for $5 to $10 increases in rental charges.

The retail practice of "stockpiling lines" to keep them out of the hands of competitors is yet another contributing factor. As a retailer, if you're not going to commit to a product line, you don't deserve it. Taking on a line to keep it out of the hands of your competition will simply squander capital.

Placing the blame for eroding retail profitability is largely an irrelevant excercise because the problem affects everyone in the business. Manufacturers are only as healthy as their dealer base. One relatively easy way to start improving your profitability is to get a copy of NAMM's Operating Survey. The book exhaustively details financial norms for all types of stores. Comparing your P&L with the results in the NAMM survey is the fastest way to pinpoint areas in need of improvement. Write for a copy of NAMM's financial survey today, and see about improving your profitability. Doing so would represent a real contribution to the industry's health.

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