Why The Economy Matters Less Than You Think

Anyone who puts much stock in the analysis offered by the general media would be forced to conclude that over the past month, the economic health of the nation vacillated wildly from one day to the next. On November 1, an economic expert writing in the New York Times gravely intoned, "The nation is now in a recession that should last at least 18 months." Two days later, the Wall Street Journal reported, "GNP advanced a surprising 1.8% last month, indicating that fears of an impending recession are exaggerated." Adding to the confusion, the media has also been filled with the amazingly divergent and self-serving economic analysis of candidates running for office. From our standpoint, this steady barrage of contradictory pronouncements generates a lot of confusion but little enlightenment.

We have no particular insights into the current state of the economy, nor for the outlook for the next twelve months. We also suspect that most of the pundits offer their predictions not because they have any unique wisdom, but rather, because they are asked to. As an industry, it seems as if we place too much credence on the supposed "state of the economy." The music industry is not recession-proof, and it is unquestionably affected by the larger economic forces. Ultimately however, management skill has a much greater impact on the profit and loss statement than general business conditions. In other words, rather than fret over the rate of inflation, velocity of GNP growth, or the balance of trade, retailers would do well put their own house in order.

A review of the harsh recession of 1981-3 provides some useful guidance for preparing for any future economic difficulties, should they arise. During the early part of the eighties, the music industry was hammered by a combination of soaring interest rates, intensified global competition, and plummeting consumer demand. Faced with these harsh conditions, over 1,200 retailers shut their doors. Those retailers that survived, with few exceptions, were those with a strong education program and access to financing for inventory and consumer purchases.

For the past century, viable education programs have represented one of the most effective sales generators known. Among other things, in-store lessons generate store traffic, create new customers, build good will, stimulate accessory sales, and can produce profits as well. The benefits of music education are hardly new, yet the number of retailers who run a strong education program are, unfortunately, in the minority. Those looking for a compelling reason to start an education program should see the report in this issue on Skip's Music in Sacramento, California. A creative education program at Skip's has provided the foundation for a highly successful and stable retail business.

If your bank or floorplanning firm pulled your line of credit tomorrow, would you have any alternative sources you could call on? If not, you should start searching for some immediately. A tougher bank regulatory climate has made credit harder to come by. Nevertheless, there are still financial institutions willing to offer music dealers credit. If you start your search for credit after losing your credit line, chances its too late.

There is not much you can do about the health of the economy. However, there are some positive steps you can take to insulate your business from any downturns. Education and financial independence are two good places to start. In the final analysis there are really no good or bad times, only good or bad management. Its all up to you.

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