

The Winds Of Change Are Blowing

Pick up a newspaper or turn on the evening news, and chances are someone in business, politics, or education will be invoking "the need for change." The specifics of the supposedly needed transformations are largely unimportant, as the word "change" has taken on the status of a mantra. President-elect Bill Clinton successfully secured the nation's highest office by continually intoning the key word "change." Corporate America has also seen its share of changes—witness the recent upheavals at former unshakable pillars of the business community, IBM and General Motors. While the word "change" appears on the verge of becoming a cliché, an important grain of truth underlies all this status-quo bashing, namely that in today's information-based economy, relying on past practice as a guide is an invitation to catastrophe.

On page 88 of this issue we explain how a growing number of keyboard dealers are successfully staging temporary selling events in warehouse clubs like Price Club, Costco, and the Sam's Club Division of Wal-Mart. In effect, these promotions give retailers the opportunity to present their products to thousands of customers who would never cross the doorway of a music store. For the moment, they seem to represent a highly cost-effective way of garnering some much needed plus business. A year from now there may be a different story to tell; however, the industry's recent contact with the warehouse club concept offers some interesting lessons.

For the uninitiated, warehouse clubs are large discount retailers offering a broad cross-section of products ranging from housewares, to food items, to clothing, at deeply discounted prices. Stores are open to members only, with membership available to those who own their own business, belong to a union, credit union, etc. Ten years ago these clubs garnered only a small share of total retail sales, generating revenues of under \$1.0 billion. By 1992 they have become a major force in retailing, with sales of well over \$25 billion, and growing. Furthermore, they are only starting to reach out to the East Coast.

The meteoric growth of the warehouse clubs focuses attention on one of the major issues of retailing: achieving the proper balance between service and price. At warehouse clubs, customers forego any semblance of service for a rock-bottom price. Does the fact that the clubs are expanding at the expense of "full

service" department stores, and other supposedly service-oriented merchants, indicate that customers are now interested only in price? No. Rather it reflects the fact that much of the so-called service offered by retailers is of little value to the customer and that given the choice between meaningless service and a good price, the customer will choose price every time.

The question of what constitutes service worth paying for is particularly apt in the music industry, especially in the current competitive climate where prices are continually under pressure. Far too many retailers assume that by opening a store front and stocking it with merchandise, they are providing "full service" and are thus entitled to a large share of business in the market.

A member of our staff recently shopped for a guitar at one such dealer, whose Yellow Page ad states, "Complete Service." When the staffer asked the salesperson to explain the difference between a \$2,000 Martin D-28 and a \$299 no-name guitar, the response was, "You'd have to be a great player to understand." This same dealer probably wonders why customers turn to 800 numbers seeking the lowest price possible. With "service" like that, who wouldn't shop price?

Department stores lost share to warehouse clubs because they asked customers to pay for service that they never provided. Many music stores run a similar risk. The single most powerful influence in making a purchase is a well trained, knowledgeable salesperson. If a music store can't provide this simple service, it becomes the equivalent of an overpriced warehouse club.

Retailers in every industry are currently grappling with this issue of service versus price. Music dealers could benefit as well from a similar exercise. But instead of adding up costs and determining, "These are the prices I need to support the organization," they should take a hard look at the quality of their service, in terms of displays, salespeople, product selection, location, repair facilities, and whatever else, and ask, "Does all this stuff justify the price we're asking?" Those who fail to address this issue properly are likely to be overwhelmed by competition from inside or outside the industry, calling for a change.

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