

EDITORIAL

The Industry's Delivery System

At the most basic level, retailers represent a delivery system that takes goods from the factory, delivers them to the public, and provides related services. Different industries develop strikingly different retail "delivery systems" that are tailored to meet the specific needs of their products and customers. Consumer electronics products have turned to discount mass merchandisers as the most effective delivery system. The auto industry makes use of some 25,000 exclusive, franchised outlets. The music products industry continues to rely on somewhere between 5,000 and 6,000 specialized merchants to "deliver" the bulk of its goods.

Everyone is aware that products change, consumer behavior changes, and technology changes. But for some reason, in the music products industry, many hold to the belief that our specialized delivery system is somehow immune to change, that by virtue of some sacred decree, the industry has always relied on specialized merchants and will for all eternity.

Now, we are not saying that the industry's network of local retailers is currently in danger of extinction or even that an alternative to the specialized dealer looms on the horizon. However, we would note that the business world has undergone mind-numbing changes in the past decade, and that those who view change as an "impossibility" will probably not cope very well in the years to come.

Consider some of the other well established "delivery systems" that have been overhauled in recent years. Through a variety of steps, Wal-Mart management figured out how to be profitable on a 16% gross margin. Lower prices drew customers in droves, and in the process, Sears, which operated on a 28% gross margin, was left in the dust. Using a similar strategy, Toys R Us figured out how to deliver products more economically than specialty toy merchants and department stores. Today, the company commands a nearly 50% share of the U.S. toy market, and specialty toy merchants are an increasingly rare breed. By offering lower prices, Home Depot is having much the same effect on the local hardware stores. In the not-to-distant future, the advent of interactive shopping on television should usher in even more changes.

Could the music industry's retail delivery system undergo similar upheaval? The answer to the question depends more upon the performance of local retailers

than any other single factor. Nature abhors a vacuum, and if the industry's specialized retailers fail to provide customers value they demand, it's a safe bet that an alternative delivery system will develop. How then do retailers keep outsiders at bay?

The high labor component and comparatively slow-turning inventory of music retailers makes it suicidal to adopt a Wal-Mart approach to pricing. But low-price isn't everything, and with the service component, a local merchant can deliver the required value.

Last month's issue carried a feature on S.M. Hanson music of Salina, Kansas. Proprietor Steve Hanson believes that service means teaching his customers how to play. Thanks to this education program, he reports that mail order competition is only a minor annoyance. "If you show someone how to use their instrument, you can really build a loyal customer," he says. Prosser Piano & Organ in Seattle has also used a teaching program to grow its business, despite a soft home keyboard market. Impeccable product presentation, a knowledgeable sales staff, and a unique inventory enabled Matt Umanov Guitars of New York City to secure premium prices in one of the most competitive markets in the country. In New Haven, Connecticut, salespeople at Brian Guitars make a point of greeting repeat customers by name and writing thank-you notes to anyone who buys an instrument. By offering personal service that a mass merchant couldn't hope to duplicate, these retailers, and hundreds of others like them across the country, are working to ensure a bright future for specialty merchants.

Every retailer should be asking hard questions. Are your displays current? Do your salespeople know what they're talking about, and do they know how to listen? Do you know your customers by name? Are your pianos and guitars in perfect condition and are your electronics set-up for easy demonstrations? Do you offer education? Is your store clean?

M.I. dealers who don't answer the above questions in the affirmative are specialty merchants in name only. (In reality, they are overpriced, understocked warehouse operations in second-tier locations.) If specialty retailing is to survive in this industry, dealers are going to have to concentrate on providing unique services that others can't match. Otherwise they are sitting ducks for Wal-Mart styled operations, home shopping networks, and catalogues that know how to deliver products at the lowest price possible.

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