EDITORIAL

YOU CAN'T PAY SALARIES WITH MARKET SHARE

What do the consumer electronics industry, the auto industry, the food industry, and the music products industry have in common? Not very much, other than the fact that in each of the past ten years they have all commanded a smaller share of the nation's personal income. In other words, consumers have spent proportionately less of their after-tax income money on all of the products listed above.

When you use sales as a percentage of personal income as a performance yardstick, the music industry can look like a pretty grim business. From a high of around .207% of personal income in 1975 to the current level of around .1%, it would appear that the industry has drastically fallen from public favor and, if current trends continue, is on its way to oblivion in a few decades.

Should we be alarmed? We think not. Take the case of food industry, which at $280 billion in sales, is around 62 times larger than the music business. In 1890, the year *Music Trades* was founded, the U.S. Census estimated that the average family of four spent 38% of its income on food. In 1992 that percentage slid to 12%. Is anyone suggesting that the food industry has lost its marketing touch, that the populace is eating less than it did 100 years ago, or that the various foodstuff makers and sellers are in danger of extinction? No. They would point out, however, that improved production methods have brought food prices down, that a more prosperous society produces many more things on which to spend money, and that there is only so much anyone can eat.

The same factors have been at work in our industry. The Music Industry Census in this issue documents that in 1993, unit volume advanced in virtually all major product categories, with the exception of portable keyboards and acoustic pianos. Dollar volume was up as well, advancing 10% to a record $4.57 billion.

If unit and dollar volume is moving up, how come our share of income is heading south? One of the primary reasons is due to steadily decreasing prices. A few examples underscore the magnitude of this trend: In 1980 the first Synclavier digital work station sold for $50,000; today you can by more features, better sounds, and more performance in any number of synthesizers that sell for under $2,000. But dramatic price drops haven't been limited to technology-based products alone. For the past decade, the suggested retail price of a basic five-piece drum kit has hovered around $1,000. Guitars and band instruments have exhibited similar price stability. We could list scores of other examples, but suffice it to say that industry pricing has in no way kept pace with inflation and that it takes less money today, on an inflation adjusted basis, to buy musical products than ever before.

The other factor that has driven down the industry's share of the economy is shifting demographics. For better or worse, the industry's primary customer base consists of individuals between the ages of 10 and 40. Take a look at the Census and you'll see that the population has aged and that 10-to-40-year-olds currently represent a smaller percentage of the population than at any time in this century. The number of citizens over 65 now exceeds the number under 18. And while 18-year-olds spend a decent sum on musical products, those over 65 are more likely to buy prescription drugs, nursing home care, and cruise vacations. With our core customer base accounting for a smaller share of the total population, it's no wonder that our share of income has declined.

If you want to be pessimistic, you could complain that our prices are down, our core market represents a smaller share of the population base, and our share of personal income has declined. We take a more optimistic view because in spite of these factors industry sales advanced nearly 10% in 1993 to a record level. So what if we have become a smaller piece of a bigger pie? A sales gain of nearly $400 million has helped pad the pockets of thousands of retailers and manufacturers. To put it in perspective, consider the following: Mr. Jones makes $40,000 a year and spent 8.75% of his income to purchase a $3,500 upright piano. Mr. Smith makes $150,000 a year but spent a mere 6.6% of his income to buy a $10,000 grand. Who would you rather have as a customer?

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