

EDITORIAL

Retailing In The Information Age

Ever since a dealer wrote in to allege that Sam Ash Music used its size to extract unfair concessions from manufacturers, our letters column has been filled with commentary on whether or not large dealers are bludgeoning their smaller counterparts out of existence. Strip away the principled language and you'll find that envy motivates many of the complaints. After all, most small dealers aspire to be larger dealers. Reading between the lines though, we sense that the challenge of remaining solvent has become an increasing source of frustration for many retailers; mail order catalogs, 800 numbers, and other large competitors are the obvious targets for venting that frustration, but we think the problem is much larger than the industry and these obvious targets are symptoms, not causes of the problem.

At issue here is how does a local retailer justify his existence to the customer in the information age. Twenty years ago, local retailers were the consumer's only source of information on music products, and most other goods as well. If a customer wanted to know what was available, how much it cost, and when they could get it, they had no choice but to consult with their local dealer. By controlling the flow of this type of information, the dealer could effectively insulate himself from competition in other trading areas. A dealer in Peoria for example could set his own price, because how could the customer possibly find out what prevailing rates were in New York City, or Chicago. Today, all that has changed.

With toll-free numbers, catalogs, magazines, and a consumer base that has learned how to exploit them, local retailers no longer have an unchallenged information monopoly. The commodity exchange illustrates the impact of an open access to information. Commodity traders use elaborate computers and communications networks to continuously track what buyers throughout the globe are willing to pay and adjust their prices instantaneously. The result is, if you're in Sioux Falls, South Dakota or Singapore and place an order for an ounce of gold, you'll end up paying exactly the same price. Thanks to information, there is only one price worldwide.

The pricing dynamic on musical products is not quite as instantaneous as the commodity market, but its getting closer all the time. If you're trying to sell a high end trumpet in North Carolina, there is a high probability that your customer will come through the

door brandishing a copy of the latest Woodwind and Brasswind catalog demanding that you match the price. Every local dealer can also relate stories of having to contend with price quotes from dealers like Sweetwater Sound and others. Dealers in smaller areas that could once set their own prices have lost that ability. They have to match prices of the big city dealers or forgo the sale.

The numbers confirm this pricing pressure. The 1973 edition of NAMM's Cost of Doing Business Survey noted that the average gross margin of all music products retailers was 40.9%. By 1993, according to NAMM, that number had slid a full four points to 36.9%. Given that most retailers don't net four percent on sales, margin erosion like that represents the difference between a comfortable profit and a struggle for survival.

We think that customer attitudes, not mail order and 800 numbers are the root of this problem. Survey after survey shows that what really sends people up the wall in buying a car is the concern that someone else is getting a better deal than they are. The same holds true for every other type of product as well. Now, thanks to the easy flow of information, people interested in music products can ease this concern by rapidly finding out what other people are paying. This is a very natural and understandable instinct that will ultimately overwhelm any toughly worded dealer agreement. It also makes life difficult for more than a few retailers.

So, what to do. The easiest thing would be to go with the flow and pare your expenses down to the point where you could match any price around. The more challenging option is to try and justify a higher price with better service. In 104 years of covering the industry, we have never heard from a retailer who didn't claim to offer exemplary service. Unfortunately, what customers and retailers consider service often varies dramatically, and the customer has the only opinion that counts.

Rather than offer a few bromides in this limited space on what constitutes customer service (You've heard them all before: "help the customer solve his problems," "go the extra mile," "have a friendly attitude," "Listen attentively.") in the coming months we will highlight retailers with a unique and successful approach to customer service; dealers who provide that something extra that helps keep them from working on commodity broker margins. Customers will ultimately buy the way they want to buy, whether we like it or not and trying to change customer attitudes is ultimately a futile exercise. Our challenge is to give the people what they want. Easier said than done.

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