EDITORIAL

Why So Little Cheering?

As the data in the Music Industry Census on page 78 indicates, 1994 was a good year for music products. Overall industry sales advanced 8.8% to a record $4.97 billion, and 19 out of the 23 product categories we track experienced both unit and dollar gains. With sales growth like this, why then isn't there more jubilation in the streets? Despite the substantial growth in consumer demand, most retailers we talk to are subdued.

We suspect that this lack of enthusiasm is due to the continuing squeeze on profits. An increase in the number of "800" numbers and catalog retailers, combined with customers who are skilled at grinding for the best possible price, has made it that much harder for retailers to sustain fat margins. In years past, 48th Street was the mecca for low prices. Today, thanks to these trends, pricing is uniformly low from coast to coast.

This phenomenon is not exclusive to the music products industry. Department stores, mass merchants like K-Mart, and scores of specialty retailers are also struggling to bolster their gross margins. Don't expect things to let up anytime soon. With shopping by television and computer lurking somewhere over the horizon, distribution should become more crowded and competitive before it becomes less so.

Nordstrom's has shown that great service, superlative displays, and a broad inventory selection is worth a few extra margin points. Unfortunately, though, the best merchandising and sales support in the world is probably not enough to return gross margins to the level of a decade ago. Thus, retailers have to focus on improved efficiency, in addition to pricing, to shore up their bottom line.

Wal-Mart epitomizes retail efficiency and offers a few worthwhile lessons for the music products industry. Over the past five years Wal-Mart has averaged a 20% gross margin compared with 29% for Sears. Despite Sears's better gross margin, Wal-Mart has consistently produced a better profit: 3.5% on sales versus 2.9% for Sears, and 19.5% on net worth versus a meager 12.8% for Sears. The consensus among retail analysts is that, through the effective use of technology to manage people, marketing, and inventory, Wal-Mart has bested its rivals.

When it comes to using technology, music industry retail remains mired in the Dark Ages. Lots of music retailers use computers to balance their books, but only a handful have taken the next step and installed point-of-sale systems. This is unfortunate because point-of-sale systems, like those used in grocery stores, drug stores, and thousands of other retailers, are what really produce efficiency. Bar-coded merchandise is scanned at the cash register and inventory, sales, and cash records are instantaneously adjusted. Aside from eliminating a lot of clerical work and producing more accurate records, the systems also provide management with instantaneous data.

Thanks to the PC revolution, point-of-sale hardware and software is well within the means of most music stores. The primary hang-up is the fact that to date only a handful of manufacturers have put bar-coding on their products. If ever there was a worthwhile undertaking for the industry's many associations, it's encouraging suppliers to bar-code their products. If bar-coding were universal, point-of-sale systems would unquestionably proliferate, and retail profitability would improve.

Better profits at retail. We can't think of anything else that would better position the industry to reach out and expand the market. Here's hoping the industry's suppliers "see the light" and cooperate to make bar-coding and a better future a reality.

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