EDITORIAL

Beware Of Doomsayers

What is it about people that draws them to apocalyptic forecasts? Putting the Bible aside and dealing with just secular issues, we are continually assaulted with urgent messages about "the end of the world as we know it" and "the coming of a new order." It happens every day in local newspapers, major magazines, and on television. At *Music Trades* we have certainly not been immune, occasionally publishing guest editorial "doomsday scenarios." These gloomy tracts usually touch on some or all of the following points: Small retailers are under assault from larger competitors, catalogs, and 800 numbers; margins and retail profitability have gone completely to hell; business is tougher and more competitive than it ever was; therefore, it follows naturally that in a very short time period the industry will be controlled by a handful of "mega" dealers.

Like most dramatic theories, the industry scenario of dramatically eroding profitability, followed by the extinction of smaller retailers, has a certain ring of truth to it. Everyone we know of can point to examples of small dealers who packed it in, and it's no secret that being consistently profitable at retail is tough daily challenge; however, before the final obituary for all \$1.5-million-a-year-and-under retailers is written, we would suggest that everyone take a look at 1995 edition of NAMM's *Cost of Doing Business Survey*.

For those who haven't had the chance to review this book, the *Cost of Doing Business Survey* provides a detailed look at the industry's retail financial performance. NAMM screens hundreds of actual financial statements to generate average yardsticks for profitability and expenses. The resulting volume is an excellent management tool for retailers. It also casts the predictions of doomsayers in a different light.

Consider the widely accepted axiom that "mail order, 800 numbers, and brutal competition have destroyed retail margins." NAMM's numbers provide a somewhat different perspective. As illustrated in the accompanying chart, over a ten-year period there has been some erosion in margins, but hardly the sort of dramatic collapse that signals an imminent crackup. NAMM data also suggests that inventory turnover rates, another performance bellwether, have not shifted all that much either.

STATIC RETAIL FINANCES

	Gross Profit		Inventory Turn	
	1994	1985	1994	1985
M.I. Stores	**35.1%**	**33.8%**	**2.3**	**2.1**
School Music	**37.8%**	**36.0%**	**1.9**	**1.4**
Home Keyboard	**42.5%**	**42.4%**	**1.7**	**2.0**
Full Line	**37.5%**	**39.5%**	**1.7**	**1.7**

Source: 1995 NAMM Cost of Doing Business Survey

This static financial data does not indicate that the industry is immune to change or that certain groups of retailers have a permanent lock on the market. But it does suggest that predictions of smaller dealers about to be replaced by catalogs, the Internet, or some other means of delivering product to end users, are still premature.

What gets lost in talk about how tough retail is today is the fact that retail has always been tough and will probably continue to be tough as long as customers are self-centered, reluctant to part easily with hard-earned money, and willing to pit dealer against dealer to get a better price. In the 105 years since we have been keeping circulation records, roughly 20% of our dealer subscribers close their doors in any given year. There is a different story behind each store closing, but some of the recurring reasons include a depressed local economy, an inability to cope with a changing product mix, a desire to try another career, general business ineptitude, or retirement. So, while retailing is a challenge today, it is not particularly more difficult than it was 10, 40, or even 100 years ago. Some of the immediate problems have changed, but, given the constant failure rate, it's always been hard. If it weren't, more people would no doubt be doing it.

It's worth keeping this in mind the next time someone predicts a coming retail Armageddon. If smaller dealers could compete effectively with Sears and Montgomery Ward, both of which owned their own instrument factories, we think they can handle any of the industry catalogs. If they could survive the Great Depression, the absence of product during World War II, and 21% interest rates and a "baby bust" in the early '80s, we don't think they are about to be displaced by a computer terminal. It's also worth noting that in the '30s countless experts predicted that Communism would prevail; in the late '40s energy experts envisioned that houses of the '90s would all be powered by nuclear boilers; in the '50s aviation firms were claiming that it was only a matter of time before there was a helicopter in every garage; and more recently it was a given that in 1992 all European nations would merge into a seamless economic unit that would overpower the rest of the world. Or in other words, keep your eye on the customer and your financial statements and beware of any absolute prediction for the future.

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