EDITORIAL

Do You Compete With Idiots?

"How can anyone afford to beat our prices by 10%? They must be losing their shirt. Either that, or they're a front for a money laundering operation or maybe a drug smuggler!" Comments like this come up all the time in our conversations with retailers and manufacturers. In our 105 years of covering the music products industry, there have been countless examples of retailers and manufacturers who went bust selling under cost, and there have been a few cases of full blown mob-style corruption. However, 99.9% of the time allegations of hemorrhaging red ink or criminal conduct are completely unfounded. Ignoring for a moment the ethical issue of slandering a competitor, charges like these are bad business because they preclude exploring alternative strategies.

After consistently losing deals to another lower-priced store, if a retailer concludes in frustration, "My competitor has to be losing money," the analysis process has come to an abrupt end. It only stands to reason that if the competitor is losing money, there's no point in reviewing your own cost structure in search of savings that allow you to successfully match his prices. There's also no point in attempting to divine the reasons why he is more efficient. (He's losing money, after all.)

When confronted with a tough market situation, too many of us succumb to the temptation of denying reality and blaming our woes on the insidious or idiotic actions of a competitor. This tactic may provide some short-term comfort, but the painful truth is that in most cases better pricing on the part of a competitor reflects better operations. Denial needs to be weeded out of the management process whenever possible. The single most effective way to dispel the irrational is by identifying and examining the root causes of the competitiveness gap.

Elsewhere in this issue we present actual case studies of two retailers. Both stores are in similar markets, and both are practically identical in size and scope; however, one generates nearly three times as much actual profit as the other. The vast difference in profitability between the two stores is not the result of any single thing. Rather, it is the cumulative result of dozens of seemingly insignificant details. Things like keeping employee theft to the absolute minimum, taking every cash discount possible, pounding insurance companies for better deals, getting the most out of each salesperson, borrowing money more effectively....the list goes on and on.

In other words, as our case studies illustrate, a tremendous competitive advantage on the retail floor is achieved by attending to lots of seemingly mundane details. This is hardly an original conclusion. However, it's lost on those who are too quick to accuse competitors of operating at a loss.

Next time you find yourself losing out, before you decide your competitor is in the red, or that he's getting special deals from his suppliers, try and find out what his occupancy cost is, how many salespeople he has and how they're compensated, what type of advertising and promotion he does, how he finances his inventory, and everything else you can. After conducting this exercise, you may be able to safely conclude that he *is* in fact losing his shirt and that his days are numbered. More likely, though, you'll come up with a lot of ideas for enhancing the performance of your own business. Either way, you'll be ahead.

Brian T. Majeski
Editor