



EDITORIAL

The Rules Are Changing

The rise of mail-order catalogs and 800 numbers has intensified retail competition and presented most suppliers of big-ticket items with a serious dilemma that can be summarized as "To sell or not to sell." On the one hand, manufacturers are attracted to the large catalog retailers because they are good-pay accounts that deliver big orders. As an added benefit, the glossy catalogs are potent promotional vehicles for enhancing brand awareness among end users. On the other hand, local retailers tend to de-emphasize brands that are heavily promoted in the catalogs, so a manufacturer who sells through catalogs often loses vital grass-roots representation. What's more, there seems to be an inverse correlation between sales volume and loyalty. As a dealer's volume increases, his commitment to individual manufacturers tends to decrease, thus suppliers who are overly dependent for sales on a small group of large retailers are at greater risk.

For all those sales managers who have struggled to strike the optimal balance between mail order and local distribution, we have bad news. Thanks to the rise of the Internet, the challenge has just gotten a lot more difficult. The broader public has been aware of the Internet for less than 18 months, but in that short time, depending on what estimate you accept, between 10 million and 25 million users have gone on line. In the music products industry, a growing number of retailers are setting up web sites to promote their wares to this vast number of Net surfers.

The contrast between a catalog and a web site is significant. Lead-times on a traditional printed catalog are at least four weeks, while a web site can be updated daily. If retailers can adjust on-line pricing minute by minute, expect consumers to figure out creative ways to exploit this in pursuit of a better deal. And with interactive bulletin boards, the Internet may enable consumers to pit retailers from around the world against each other in a bidding contest. Needless to say, manufacturers will have to adjust their distribution policies accordingly. In addition to the catalog issue, they now have to ask "should we allow products and prices to be presented on the Internet?"

When talking about the latest technological marvel, it's easy to overlook deep-seated human needs. The Internet may seamlessly link millions of computers worldwide, but we still crave personal contact and like to buy from people we trust. We also like the social experience of going to a store to make a purchase, and we need to see and touch things before buying. All of which suggests that "virtual reality" on the Net will not replace storefronts anytime soon; however, as a reference source, the Net will provide customers with yet another source of pricing information.

Attempting to predict the impact of new technology is a chancy business. When Henry Ford introduced the first affordable automobile, no one anticipated that increased mobility would sound the death knell for large cities as people headed for the suburbs. Similarly, when the first personal computers were introduced in 1980, no one fully comprehended how they would reshape the corporate structure of every industry. Today the Internet is big and getting bigger, but no one is quite sure what it means. Will the Net become a universal communications vehicle similar to the telephone, or will it be more like ham radio of the '90s? Will it be a mass media that supplants newspapers and television, or will it be a specialized reference source that provides access to things like tax law, electronic specs, medical data, or zoning regulations? Is commerce feasible on the net, and if so, when?

Only time will provide accurate answers to these questions. One thing, however, is for sure. The rules of distribution are changing, the industry's suppliers have to start rethinking their strategies, and retailers have to react accordingly.

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