



## EDITORIAL

# Do Customers Really Shop?

**R**etailers in the music products industry are a pretty fractious lot. But there is one thing they all seem to agree on: getting a respectable retail price is increasingly difficult. 800 numbers, mail-order catalogs, and customers who are adept at playing competitive retailers against each other have combined in recent years to push down retail margins.

Further evidence of the pressure on gross margins can be found in our retail compensation report, which begins on page 90 of this issue. Despite an industry-wide sales increase of 10% in 1995, retail sales compensation edged up only 4.4% for the year. Since most sales compensation is based on gross margins, the only logical conclusion is that average margins were smaller in 1995 than the previous year.

The downward pressure on retail margins has a number of causes and has not been unique to the music products industry. As quality gaps narrow to insignificance in products, be it guitars, power amps, pianos, or keyboards, customers tend to view individual brands like commodities. Once features and quality are perceived as comparable, then price becomes the major selling point at retail. 800 numbers and catalogs further aggravate the situation, making it easy for customers to play one dealer off against another.

Is it possible that some of this decline in gross margins is self-inflicted? A story told by Richard Ash, CEO of Sam Ash Music, offers an interesting perspective. On 48th Street in New York, Sam Ash and Manny's Music are literally next door, and customers can walk from one store to the other in less than a minute. Over a six-month period a very popular product with a retail price of around \$1,500 was marked \$60 higher at Sam Ash than at Manny's, yet Sam Ash store managers found out about the price discrepancy only by accident; during that time frame, no customer actually complained about the higher price, and there were no indications that sales suffered. "If customers are not actively shopping price when you have two stores that literally share a wall, do you really think they're going to shop price when you have stores that are ten miles apart and across town?" asks Ash.

Every retailer can tell stories about the customer from hell: the belligerent one who troops into the store

armed with catalogs and price quotes and demands a rock-bottom price. Richard Ash's anecdote suggests, however, that these customers are a small minority of the total market. If so, establishing a storewide pricing policy to please the "grinders" may just be squandering profit dollars.

Setting prices is probably one of the most important management decisions at any retail business, and there is as much art to the process as there is science. Ready access to information and every customer's desire for a "great deal" have forced the prices of music products into a fairly narrow range. Get outside of the target range, and your sales will quickly evaporate. Within the range, however, the art of pricing is to create the impression of high value while squeezing out a few extra margin points.

Anyone who wants a quick lesson in the art of pricing need only consult the promotional flyers that Guitar Center and Sam Ash have been sending out from their newly opened Miami stores. The mailing pieces boast of "great savings" and feature top brand names, yet a customer trying to comparison shop would be completely in the dark. Similar guitars are offered with varied assortments of cases, straps, and small amplifiers; Guitar Center advertises drumset prices exclusive of hardware, while Sam Ash includes the hardware in the price; keyboards are packaged together with different combinations of stands, software, and headphones, making ready comparisons impossible.

If customers are not willing to walk 200 feet down 48th Street to double-check a price, are they going to drive across Miami and spend hours trying to unravel the value of different groups of accessories in order to determine a comparison price? Draw your own conclusions. Margin pressure isn't going away anytime soon; however, it would appear that with some artful pricing, creative merchants can hang on to a few extra points.

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