



EDITORIAL

Local Dealers R.I.P.?

Are the big really getting bigger? Is the music products industry soon to be dominated by a handful of "category killers"? Are the days of the independent local retailer soon to be over? These are all valid questions that have dominated conversation in the industry in the wake of several noteworthy events: Guitar Center's recapitalization, Sam Ash Music's move into the Miami market, and the purchase of Ace Music by Mark Begelman, a founder of Office Depot. No one should ever underestimate the pace of change, but before writing an epitaph for the local m.i. dealer, we think there are a few points worth making.

Big stores have some powerful advantages, not limited to a broader merchandise selection, bigger advertising reach, a larger staff, and access to better "deals." However, it should be noted that these advantages are nothing new and that they have never precluded opportunities for upstart retailers. In this issue we profile Modern Guitar, a four-year old Reno, Nevada, retailer that has used a vibrant education program to gain ground on several entrenched rivals. Founded with less than \$600, the company will gross over \$1.0 million this year. Last month we featured Upstairs Records, a thriving new business that has grown and prospered in the shadow of Sam Ash Music by focusing on the under-served d.j. market. Modern Guitar and Upstairs Records are different businesses, but the two case studies powerfully illustrate that with imagination, hard work, and a creative approach, new retailers can grow and prosper despite the presence of older, larger competitors.

History teaches the same lessons. Twenty-five years ago Guitar Center was an afterthought adjunct to a Los Angeles-based chain of home organ stores. Thirty years ago Sam Ash was a tiny Brooklyn-based store struggling against much larger rivals in Manhattan. What enabled both operations to expand steadily was not some influx of capital, but the insight and hard work of the management. Finding the right niche or competitive advantage isn't easy, but then if it were, everyone would be a raging success; however, people are doing it every day throughout the industry.

It should also be noted that large retailers often become victims of their own success and actually give their upstart rivals unintended assistance. Lyon &

Healy dominated the Chicago market for over a century before finally going bust in 1985. Right up until the end, complacent management was convinced that it was "entitled" to a share of business by virtue of its size, long-standing reputation, and stature. Customers thought otherwise, allowing dozens of competitors throughout the region to step in and take over the business. Similar scenarios played out at Thearles Music in San Diego, Grinnell Brothers in Detroit, Whittle Music in Dallas, and dozens of other one time "industry leaders." Thus, fledgling retailers can take heart that success at their larger rivals has the tendency to breed complacency, which in turn creates opportunities.

Finally, the current concern over category killers echoes a panic that dates back to 1905. That year retail giant Sears Roebuck & Company included 28 pages of musical instruments, sheet music, and related products in its nationally distributed catalog. Sears used its financial muscle to pound handsome concessions out of manufacturers and even bought a controlling stake in the Harmony Guitar Company, once the world's largest guitar maker. Colonel F.B.T. Hollenbeck, a retailer from Little Rock, Arkansas, and NAMM president at the time, declared, "We are staring into the face of a grave crisis! If independent dealers do not immediately band together and boycott any and all manufacturers who supply giants like Sears and Montgomery Ward, then their days are numbered indeed!" Like many of the contemporary analyses, Hollenbeck's concern was misplaced.

As businesses go, nothing is more fluid than retail. In recent memory, downtown department stores have been eclipsed by regional shopping malls, which in turn have taken a beating at the hands of "warehouse" clubs, which are now squeezed by a variety of "big box" category killers. The retail formulas that have driven the success of the current crop of industry leaders are not cast in stone. As the formulas inevitably shift, opportunity is created for newcomers. Retail, at every level, has always been and always will be a tough business. Given the way things change, however, we feel that obituaries on local dealers are more than a little premature.

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