



EDITORIAL

A Few Thoughts On ‘Service’

Mark Begelman knows something about big discounts. A little over a decade ago, the founder of the Office Club chain turned office supply retailing upside down with unprecedented price cuts. The standard practice in office supply retailing had been to sell everything at manufacturer's suggested list price. If the box of Bic pens had \$2.75 printed on the side, that's what customers paid for it. Thus, when Begelman began offering 40% off at Office Club, he created a sensation among consumers. Along the way he built a multi-billion dollar business and helped precipitate a massive consolidation in the number of office supply retailers.

Now that Begelman is the owner of Ace Music in Miami, Florida, and has announced plans to create a national chain of m.i. stores, what is his take on the music products industry? Begelman's observations are presented in depth in an interview that begins on page 72 of this issue. But one of his statements deserves some additional commentary. When asked if his proposed m.i. chain would compete heavily on price, he responded, "I don't see any significant opportunity for offering lower prices...pricing in the music industry is already normalized. Musicians are getting great deals as it is."

Begelman is hardly naive, and he recognizes that competitive pricing is a critical element in any retail strategy; however, he says that his stores will derive their competitive edge from "value-added programs" that he is not yet ready to reveal, and not from rock-bottom pricing. There is a certain irony in this state of affairs. Based on letters, phone conversations, and our observations in the field, a vast number of local m.i. retailers spend most of their time struggling to come up with ways to effectively meet price competition from catalogs, 800 numbers, and other competitors. They pay lip service to the notion of "service," but have little to offer aside from a local presence and a low price. By contrast, the man who built a huge office supply chain on the appeal of discount pricing says that "value-added services," not price, is the key to success in the music industry.

In the broadest of terms, retailers compete on price, products, and service, not necessarily in that order. Begelman contends that since competition has already

pounded prices down to the lowest possible level, retailers no longer have an opportunity to set themselves apart by slashing prices. Retailers who try will run up against one of the immutable laws of economics: You can't survive in business if revenues fail to exceed expenses.

Retailers also can't look to specific product lines to set themselves apart from their competitors. Thanks to a knock-down, drag-out brawl for market share, the product offerings of the top 500 manufacturers in the music products business are remarkably uniform in terms of price, value, features, and overall customer appeal. By our estimates, there are less than five "must-have" product lines in the industry that will generate plus retail business. The rest are all in a pack and can usually be substituted by the dealer at will.

For retailers striving to gain a competitive edge, all that's left is service. Unfortunately, customers, not retailers, define what constitutes good service. At Schmitt Music, service entails providing lessons for thousands of students each week. At Guitar Center, service involves in-depth inventory and exceptional merchandising. Both retailers are successful, so their notion of service obviously resonates with the customer.

Having visited hundreds of m.i. retailers over the years, I have never met one who didn't say that they "provided excellent service." (In many cases though, the customers would probably see things differently.) However, when a successful outsider like Mark Begelman sees a lack of "value-added" services in music products retail, it should give industry retailers pause to reflect on what they are doing to create new customers and win the loyalty of existing customers. Unlike office supplies, music products stir passions and provide a myriad of opportunities for getting customers involved. In the months to come, we will be focusing on retailers who have profited by taking a creative approaches to "service." It's not enough to talk about service; you have to deliver it in ways that keep customers coming back.

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