EDITORIAL

DO CATEGORY KILLERS KILL?

THREE YEARS AGO NEWSWEEK magazine's technology editor, Steven Levy, emphatically declared that the Internet was the "biggest technological development of the late 20th century" and that by the year 2000 "commerce on the Web will overshadow all other forms of retailing." Apparently a lot of retailers around the country missed his column. How else to explain the feverish expansion of retail space going on today in virtually every product category? Cyber shopping may be around the corner, but at retail the guiding principle seems to be "build bigger, more elaborate stores."

Consumers and Web retailers also don't seem to be doing their part to make Levy's forecasts materialize. As reported in this month's Industry Briefings, IBM has decided to close its "World Avenue" Internet mall due to a lack of interest. Amazon.com, the highly touted Internet book seller, racked up worldwide sales of just \$16.0 million last year, which is less than a single Barnes and Noble outlet in Paramus, New Jersey, and below the sales of 28 music products retailers.

Four years ago, in a research report on hardware giant Home Depot, a financial analyst from the Wall Street firm Lehman Brothers predicted "a draconian consolidation in all facets of retail as category killers (like Home Depot) proliferate." Home Depot is a formidable competitor that strikes fear into the hearts of independent hardware sellers everywhere; however, evidence of a "draconian consolidation" is hard to come by. The U.S. Census indicates that between 1986 and 1996 the number of hardware store shrunk by less than 1%, from 107,000 outlets to 106,000 outlets. The Census also shows that in the same ten-year period the total number of retail establishments increased by 7%.

These two examples highlight some of the perils of sweeping predictions. Grand theories like these make for good reading and entertaining conversation; however, are they useful? Based on our experience within the music products industry, we think retailers should be more concerned about the "micro details" of their own businesses rather than the "mega trends" transforming the world, business, commerce, and the general public.

Consider the following: In the six years since we first published a sales ranking of music products retailers, 14 of the 100 largest retailers of 1991 have ceased to exist. The list of 14 includes a cross-section of m.i. dealers, school music firms, home keyboard dealers, and full-line stores from across the country. It includes retailers who were operating in thriving local economies and those who were facing depressed markets. The human element of business makes for a different story behind the demise of each of these retailers, and all would include the raw material for interesting case studies.

Differences aside, in every case the business failures can be traced back to a series of mundane managerial missteps, not some overwhelming national trend. These companies were felled by a combination of poorly planned expansion, lax cost controls, a boss who took too much money out of the business, or a lack of leadership, not the Internet, category killers, the graying of America, the nihilism of Generation X, video games, shrinking leisure time, competition for the discretionary dollar, the disintegration of the family unit, school budget cutbacks, or any other grand theory you'd care to bring up. Put another way, if some decisions had been made differently, many of these 14 companies might be more than just a memory today.

Retail is a tough business. Profit margins are slim, competition is fierce, customers are fickle and demanding, and the pace is frenetic. It's also a highly fluid business that continually evolves; however, the greatest threats to survival for any given business seem to lie within and not without. To those retailers on this seventh annual Top 200 ranking, we offer our congratulations for succeeding in such an unforgiving environment, and the admonition that even the greatest success is a fragile thing that demands vigilant care.

Brian T. Majeski
Editor