EDITORIAL

JUST SAY NO

FOR YEARS, A MAJOR CONVERSATION POINT at every NAMM show has been the bullying sales tactics of the industry's suppliers. At every meeting, restaurant, bar, or gathering place, where there were more than three retailers present, you could count on hearing about arrogant sales managers, unrealistic quotas, ridiculously high stocking levels, and the manufacturer's willingness to indiscriminately open every dealer in a trading area. Underneath the hyperbole, most of the complaints had some degree of validity. In their pursuit to increase sales volume, manufacturers don't always place a high premium on retail profitability.

Our standard advice to retailers, in both casual conversation and our editorial columns, has been, "Just say no." With a pencil and paper and some rudimentary arithmetic, you can quickly figure out whether or not meeting a manufacturer's requirements increases or decreases profitability, and if a line doesn't make financial sense, it should probably be dropped. Saying no to suppliers is easier than some dealers may think. Of the 1,000 or so companies exhibiting at the recent NAMM show in Los Angeles, only handful have products that are so unique that they can't easily be replaced with another brand. Or as one of our readers once quipped, "Suppliers are like busses, if you don't like one, let it pass because another will be by in a few minutes."

In a twist of irony, at this year's NAMM show it was the suppliers who were complaining the loudest about rough treatment at the hands of aspiring national retailers like Guitar Center, Sam Ash, and MARS. They all had stories to tell about conversations that began with retailers complaining that "No one is asking for your product anymore," and ended with a laundry list of demands to "rectify" the problem, including better pricing, co-op advertising, unlimited return privileges, extended terms, clinic programs, display allowances, and other considerations "to be negotiated as the need arises."

The aggrieved parties have changed, but our stock response remains the same. "Just say no." It doesn't take too much for a manufacturer to determine when it becomes unprofitable to meet a retailer's demands, and losing money on a customer, regardless of their purchasing power, is never a particularly good idea. Giving special considerations to a small group of large retailers isn't sound from a strategic standpoint either; it tends to discourage other retailers from supporting the product and makes the supplier ever more dependent on a handful of major players who are fervently driven by the belief that "It's our God-given duty to fully exploit the weakness of every supplier, and help them lose money whenever possible."

Just as no suppliers are truly indispensable to a retailer, no single retailer is truly indispensable to a supplier. There are a lot of viable distribution strategies that don't include big concessions to a handful of major retail players. Furthermore, retailing is the most fluid of all businesses where today's stellar performers are often tomorrow's has beens. Thirty years ago, Lyon & Healy and Grinnell Brothers were far and away the industry's largest retailers. Today, they're only a memory. Suppliers should also keep in mind that efforts to take retail businesses national is a highly risky proposition; witness the casualties in sporting goods, consumer electronics, and even pet supplies.

Demanding consumers make for an unforgiving business climate, and only profitable companies can respond to a changing market. Given this truth, no business can support unprofitable relationships. So, next time someone offers you an unattractive deal, whether you're a supplier or a retailer, think twice before you sell your soul for some incremental volume. It's probably better to "Just say no."

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