EDITORIAL

INDUSTRY THREATS REVISITED

TWENTY YEARS AGO THIS MONTH I began filling this column with my thoughts on the comings and goings of the industry. The editorials that have accrued over the past two decades chronicle an extraordinary evolution. The emergence of digital technology, the migration of production all over the globe, and upheavals at retail are just a few of the noteworthy developments that have transformed the industry landscape. But even more amazing than this dizzying pace of change is the industry's remarkable resiliency. In every year of my tenure at Music Trades, there's been at least one hot "issue" that was widely believed to represent a "life and death" threat to the ongoing "health of the industry." Fortunately, the industry is still with us, bigger and better than ever, while most of these burning "issues" have receded into the distant corners of memory.

In the late '70s, the most prominent peril was conglomerate ownership. A few years earlier, big public companies like CBS, Beatrice Foods, Macmillan Publishing, Norlin, and Gulf & Western had snatched up a slew of high-profile music and sound manufacturers with the promise of "dynamic growth" through "professional management." But, driven by quarterly earnings forecasts and indifferent to any subtleties of product, the antics of conglomerate managers quickly began resembling a Marx Brothers comedy. No one was laughing, though, because it appeared that the future of venerable manufacturers like Steinway, Fender, Gibson, JBL, C.G.Conn, and others were in serious jeopardy.

After losing millions, the conglomerates made an unceremonious exit from the music industry, but not before another "crisis" appeared. As the '80s opened, inflation was rampant and the prime interest rate stood at 18%. Music retailers, as less desirable credit risks, were forced to borrow at well over 20%, and I wondered how the industry's retailers would survive. Many didn't. Between 1980 and 1984, close to 20% of the industry's dealers shut their doors, unable to earn enough to cover their flooring charges. With a seriously diminished retail network, manufacturers worried that reduced product exposure and promotion would lead to precipitous sales drops. But by 1985, when interest rates returned to more reasonable levels, surviving retailers emerged stronger than ever, and industry growth resumed. A few years later, lofty interest rates had all but been forgotten.

In 1980, when Casio unveiled two inexpensive portable keyboards, industry retailers and manufacturers asked the dismissive question, "Who'd ever want these things." Mass marketers were more receptive, and within three years, K-Mart, Toys R Us, and a host of others were selling over four million portables a year. Confronted with such an unprecedented sales explosion, we worried that as digital technology inevitably supplanted traditional instruments, everything musical would migrate to the shelves of mass merchants and the industry "as we knew it" would collapse.

Portable keyboard sales peaked two years later and began a long downward slide, just in time for video games to take center stage as the most feared peril on the horizon. The argument went that as video games became more graphically exciting, they would pull teenagers away from guitars, drums, keyboards, and other musical pursuits, sending industry sales into a tailspin. "How can we compete with the marketing dollars of Nintendo?" was a common lament.

Interspersed between conglomerate mismanagement, frightening interest rates, mass marketers, and video games, we found time to wring our hands about a rapidly declining birth rate that would leave us with no customers between the ages of 12 and 18, budgetary pressures that would eliminate every school music program in the land, foreign manufacturers who were destined to overrun the U.S., and most recently, "Big Box" chains poised to wipe out every other retailer.

After 20 years of commenting on pending catastrophe, there are only two things that I can count on with certainty. 1. Future scenarios, no matter how logically outlined or supported with "data," never play out according to plan. 2. Unlike hula hoops, music and sound products appeal to one of mankind's oldest and most basic needs: that of making music. It may not be quite as basic as food and shelter, but it's pretty close. The conclusion: The deep-seated appeal of music will continue to provide fertile ground for creative entrepreneurs, and most of the so-called threats are either way overblown, or just opportunities in disguise.

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