EDITORIAL

PLANNING FOR THE WORST

WATCHING A GATHERING OF EXPERTS discussing the economy on CNN recently called to mind the joke that if you laid all the economists in the world end to end, you still wouldn't reach a conclusion. Clearly, these wise men were offering up predictions, not because they had an inside track on the future, but because they were being asked by someone wielding a microphone. With Asian markets collapsing, jitters and Wall Street, and growing uncertainty among American consumers, efforts to understand the causes and consequences of these economic events are understandable. We're not sure that any satisfactory answers will be forthcoming.

If nothing else, economic turmoil in other parts of the world should put American businesses on notice that sales and profits don't automatically go up every year. Given the exceptionally benign national climate, a lot of us may have lost sight of this unpleasant reality. For the past ten years, a near perfect mix of favorable demographics, growing disposable income, and high consumer confidence, augmented by liberal doses of readily available capital and no inflation, have generated heady growth throughout the music products industry. These wonderful circumstances have been reflected by dramatic expansions at both the retail and wholesale levels.

What would happen if the party abruptly came to an end tomorrow? We're not making any productions, but planning for unpleasant contingencies is usually a healthy excercise, especially given that in flush times, waste and sloppiness have a way of creeping, unnoticed, into organizations.

For retailers we would suggest getting out the accounting text book and calculating a break even point. From there, put pencil to paper and analyze how you could align your expenses to cope with a 5%, 10%, or even, perish the thought, 20% sales decline. It's a useful excercise that can help you to identify areas that are in need of improvement.

When it comes to making sweeping economic predictions, we're as clueless as anyone else. But, without being pessimistic, it's useful to prepare for a worst -case scenario. Regardless of whether things get better, stay the same, or get worse, you'll be better prepared.

Brian T. Majeski
Editor

THIS IS GROWING THE MARKET?

FOR THE LAST FEW YEARS, retail chain operators have publicly declared that they will grow by "expanding the market," rather than just snapping up market share. It's a line that makes for good copy in the local newspaper, but seems somewhat at odds with reality. How else to explain the recent MARS Music $5 per month band instrument rental? The rapidly growing chain is widely advertising cut-rate band instrument rentals on a three-month introductory basis.

Of all the segments of the music products industry, none has been as heavily researched as school music. We have a file cabinet literally bursting with studies conducted by educator groups, manufacturers, and associations detailing why kids join bands, stay in bands, or drop out. For 40 years, these studies have consistently identified peer pressure, parental support, the quality of the local music programs, and scheduling as the critical factors determining whether or not a kid joins the band or orchestra. We have yet to read any research indicating that "excessive rental charges" are keeping kids out of the band.

Offering the lowest rental rate in history may be a good strategy for a store trying to break into a new market, and it may help generate store traffic. It may also help MARS gain the reputation as the lowest-price store in town. In the meantime, $5 per month for a new horn is a certified loss leader. More importantly, it shouldn't be confused with efforts to bring more people into the market.