EDITORIAL

SOMEONE IS REALLY WRONG!

VENERABLE RETAILER SEARS ROEBUCK & CO. closed the year with sales of $48.0 billion, a net profit of $1.1 billion, and assets of $30.3 billion. On the New York Stock Exchange, this business was valued at $15.7 billion. Contrast this with Amazon.com, the highly publicized Internet book merchant. With annual sales of just $643 million, a net loss of $89 million, and assets of $228 million, Wall Street valued the cyber store at a staggering $16.8 billion.

Why is it that Sears, with 74 times the sales volume, 131 times the assets, and a proven history of earnings, should be worth less than tiny Amazon.com? The answer is that a large group of investors feel that traditional bricks-and-mortar storefronts are on the verge of being overwhelmed by online commerce. Pointing to soaring Internet usage, they conclude that storefronts are the commercial equivalent of a buggy whip.

Ironically, Wall Street has written off traditional stores right in the middle of the biggest storefront expansion in music products industry history. Guitar Center, Sam Ash, Musician's Friend, and MARS are adding stores across the country at an unprecedented pace, betting that bigger and better stores will translate into more business. Less publicized is the fact that scores of independent merchants (like Morrison Brothers Music of Jackson Mississippi, Strings and Things of Memphis, and Cascio Music of Milwaukee, all profiled in this issue) are also making heavy investments in expanded retail square footage.

Are these music retailers throwing money down the drain by building palatial new stores, just as consumers are deciding that they'd rather stay at home and shop on line? Or, have investors completely lost their senses, succumbing to the hype of Internet companies that have never earned a dime? Clearly, music retailers and the investing public are of two extremely different mindsets and someone is probably wrong in a big way. The question is who?

Will there be a place for traditional retailers? Or, is commerce inevitably going to migrate online? Before trying to answer that question, it's worth taking a look at just how problematic predictions are. Twenty years ago no one had an inkling about the potential of personal computers, the fax machine didn't exist, organ transplants were still a sci-fi fantasy, and only a handful of homes had cable television or cellular phones. Within the music industry, MIDI didn't exist (even in theory), Korean guitars and pianos had yet to hit U.S. shores in volume, and China was still a fervently Communist nation. Each of these phenomena evolved in ways that no one clearly anticipated. While we're on the subject of faulty crystal balls, let's not forget that economists predicted that oil was on track to hit $100 a barrel by 1985 (the price was $12.40 at year end), gold was destined fetch $1,000 per ounce, and the fast-growing Japanese economy would outstrip the U.S. by the year 2000.

The Internet certainly has potential as a retailing venue. Will it ever supplant storefronts? We doubt it. How this retail scenario will play out is certainly beyond our modest predictive skills; however, it's hard not to be optimistic. Over the past 20 years the industry's product offering has continued to expand and improve, the general public has become more prosperous, and a steady stream of unforeseen opportunities has materialized. The best advice we've heard in a long time comes from Mike Cascio, president of Cascio Music, in a feature that begins on page 122 of this issue. "We don't know how things are going to play out," he admits. "Our job is to keep our heads down and focus on running our stores right." Sounds simplistic, but things always seem to work out for the people who attend to business and run things right.

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