EDITORIAL

CAN'T WE ALL JUST GET ALONG?

Testy relations between manufacturers and retailers are one of the great constants of the music products industry. Despite the current rhetoric about "partnerships" and "win-win relationships," both parties maintain a deep-seated distrust of the other. And it's easy to see why.

Manufacturers, with their high fixed-cost operations, are always looking to maximize their sales volume. If that goal entails opening any and every retailer and forcing retail prices down to the lowest possible level, so be it. Get a group of manufacturers together, and sooner or later someone will start talking about "excessive retail margins" and asking why should "some idiot get 30 or 40 margin points just for uncrating a box and putting a product on display?" Heads begin nodding in agreement, and before long the group invariably concludes that "we could really build this business if we didn't have to work with greedy retailers."

Contrast that with retailers who long for better margins, a competitive cost advantage, or a combination of the two, and spend their idle hours dreaming of impossibly restrictive trade agreements. "What we really need is one retailer per state, mandatory five years without parole for anyone who violates a minimum advertised price agreement, and manufacturers who agree to reimburse us in full for any lost sales on their product," goes the reasoning. "If we could work this out, we'd really have the margins to promote this business properly."

Over the years, the balance of power between retailers has continually fluctuated. When manufacturers are on top, they tend to use their clout to open more dealers and then compel them to carry a "representative stock" (translation: all the stuff that's hard to sell). Retailers in the ascendancy use their buying power to extract better dating, better pricing, and "marketing support," a catch-all that covers everything from getting suppliers to pay for ads to writing a check to sponsor the sports car the store owner drives for a hobby.

For the most part, retailers and manufacturers manage to work through these seemingly irreconcilable differences. Not always, though, as the recent split between Guitar Center and Gibson indicates. Whatever the cause of rift, it's safe to say that both parties would probably have been better off if the relationship could have been maintained. All of which brings us to the point of this editorial: Manufacturers and retailers still need each other to survive and prosper.

Two recent examples forcefully make this point. Radio Shack has opted to replace its proprietary Realistic brand of consumer electronics with a selection of Sony products. Gross profit margins on Sony goods will be lower than the 45% earned on Realistic products; however, a Radio Shack spokesman explained, "High-profile brand names like Sony will increase our store traffic and will generate a higher level of consumer confidence at point of purchase."

> One dealer per state and a mandatory five year sentence (no chance for parole) for violating a minimum advertised price agreement!

An attempt to sell computers online at Compaq backfired badly when catalog and storefront retailers rebelled. Faced with the imminent prospect of retailers ready to drop Compaq for another product line, the computer maker quickly backpedaled. "The retail distribution channel is integral to our success," said a chastened Compaq official.

Amidst the acrimony, manufacturers tend to forget that retailing is a lot harder than it looks and that the most compelling promotion for any product is still floor space in a store where customers have hands-on access. Retailers, for their part, often overlook the fact that innovative brandname products are necessary to attract customers and their dollars. So at the risk of sounding like a marriage counselor, it's usually worth struggling through a relationship. No matter how painful sticking together can be, it's usually better than a split.

Brian T. Majeski
Editor