EDITORIAL

MISSING THE MARK BY A MILE

You run a retail business. You're on the front lines every day, watching customers, monitoring sales trends, and analyzing the competitive balance of the marketplace. Projecting out for the next 12 months and weighing all factors, you have a pretty good idea where your business will be at year end. Or do you? Over a year ago we polled the nation's 200 largest music products retailers and asked them to offer up a few simple forecasts for their business in 1998. (Survey results are presented in the Top 200 report that begins on page 88 of this issue.) Comparing projections with actual results, now that 1998 is history, suggests that the industry's retailers shouldn't place too much confidence in their forecasting skills.

As sales-oriented personalities, most retailers tend to be optimistic by nature; yet, as a group, the Top 200 woefully underestimated the vitality of the U.S. economy and the strong demand for music products. Collectively, the Top 200 predicted a 7.9% sales increase for 1998. In reality, 1998 sales for the group came roaring in at 14% higher than the previous year. Ironically, home keyboard dealers, the group that enjoyed the most dramatic gains during the year, were the most conservative in their sales projections, calling for only 5% average sales gain. On the subject of store expansion, the Top 200's projections far exceeded reality. As a group, they anticipated adding 117 storefronts in 1998. As it turned out, only 60 new storefronts were added during the course of the year.

In calling sales for 1998, the Top 200 underestimated gains by about 80%. In terms of projecting new storefronts, they overshot the increase by about 95%. Taken together the two miss-hits nearly cancel each other out; however, we doubt that a plus-or-minus accuracy rate of 80% is something most forecasters would crow about.

We live in an era of polls and scientific forecasts. Tune into any news program or scan the front page of a major newspaper, and you'll soon encounter phrases like, "poll findings reveal Americans believe..." or "according to new studies, experts predict..." Collectively, this reporting gives the impression that anticipating the behavior patterns of 260 million American residents is just a matter of plugging numbers into the right computer program. In reality, as the forecasting experience of the Top 200 illustrates, even the most conscientious projections are often upstaged by the unexpected.

At a point in time where a horde of self-proclaimed visionaries are offering sweeping predictions ("The days of independent retailers are over," "Bricks and mortar retailing is about to be rendered obsolete by the Internet," "We're entering a new millennium," and so on), it's worth keeping in mind just how problematic the forecasting business is. If retailers have a hard time predicting how many stores they plan to open in 12 months, just how accurate are forecasts of e-commerce levels in 2009? Or as one sage noted, "Forecasts are like a white cane to the blind man...useful, but no substitute for vision."

Faced with a torrent of change and limited predictive skills, how is a retailer supposed to chart his course? The best advice we can think of comes from Ray Scherr, now retired from the music industry but one of the architects of Guitar Center. When asked how he planned for the future in a 1989 *Music Trades* interview, he said, "You have to learn to really listen to your customers. If you do that, they'll tell you what you need to do." Ten years later Scherr's are among the few observations that have lost none of their currency.

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