NAMM 2009: A Time For Sobriety

By Peter Lawrence Alexander / January 9, 2009

As music merchants and manufacturers make the pilgrimage to NAMM, many, if not all, will have to ask some serious marketing questions.

Because all music retailers are now privately held (Guitar Center was taken private by Bain Capital and delisted), we don't really know how tough it is out there except for anecdotal quotes that pop up here and there from music dealers and reps.

However, thanks to a chart published by *The Wall Street Journal* we can get some idea.

If the store is a discounter, sales are edging up, slightly. No one is booming. If you're high end, sales are going down. Pawn shops, even in Beverly Hills, are doing big business right now.

Circuit City is on the verge of collapse. And the Borders Group has been given 30 days to get its stock up to $1 a share or the company will be delisted.

The Sonic Control Music Tech 21 tracking daily all U.S. Music publicly traded stocks tells us something about products sold at retail. Mackie (LTEC), is trading well below $1 a share. Harmon is down $100 per share. Apple is off over $90 per share. AMD, Primedia, Make Music (Finale), and Sonic Solutions are all trading below $4 per share.

Today, January 9, 2009, the U.S. Government announced that the jobless rate has now risen to 7.2%. Of course, the good side of that statistic is that 92.8% of Americans *are* employed.

Now that's a number to cling to.

But latch to it a recent study, also reported in the *Wall Street Journal*, citing that in January 2009, 90% of American consumers refuse to buy anything at list price. And that figure is up from 75% in December 2008.

It should also be noted that Apple, while maintaining the price on its computers and software, devalued the work of songwriters and composers on iTunes a little more by dropping the price of some songs to a low of 69 cents.

Consequently, going to NAMM, retailers the world over are going to have answer some tough sales/marketing questions:

- Why should a customer buy from *you*?
- What makes you special over another company: brick and mortar or online?
- What is the role of music technology software in your product mix as more developers go direct-to-customer with digital download sales and prices at or below dealer cost?

If music retail owners think the answer to differentiating themselves from other dealers is, “We’ll beat any deal!” they should ponder the question, “Does anyone remember SoundChaser?”

They beat lots of deals. And they’re gone. And ultimately, so will many merchants disappear who maintain that stance because without profit margins and volume purchasing, retailers cannot sustain slashed pricing and make it. That’s as true for OEMs as it is for barbecue joints.

We don’t talk too much about chicken in music technology, but maybe we should since Pilgrim’s Pride, the nation’s second largest chicken provider, is in bankruptcy, and Tyson may not be far behind.

Everybody has to eat. And at $4 or less per chicken, you’d think Tyson and Pilgrim’s Pride would be swimming in moolah. But they’re not, and they’re genuine mass merchandisers.

Almost nothing in a music store is a mass merchandised item unless they’re selling Holy Donuts on the side.

It’s all, nearly 100% of it, specialty retailing. Most everything in a music store, excluding t-shirts, possibly guitar picks, and items like that, requires instruction and training.

So where are the guitar lessons? Where are the keyboard lessons? Where’s the MIDI school? Where’s the recording school?

Where’s the *service*?

Now that the industry has successfully turned specialty retailing into a commodity marketing environment, *where is it going?*

IBM had to answer a similar question. When they decided to release IBM PCs to retailers, they were shocked to discover that retailers cut the prices so low that their machine was now being sold like pork chops. So the guys in the backroom who could work both a calculator and a spreadsheet began doing some serious financial analysis.

IBM discovered that once a product hits commodity pricing, you can’t make money on it any more.

So what did IBM do?

They stopped making the IBM PC. They closed their short-lived IBM stores (one of which was on Ventura Blvd in Encino, California). And today, the IBM Think-Pad is now made by Lenovo.

Then came Apple.

Apple learned from IBM. At retail, online, even at their own stores, Apple products are not commodity items because they control the discounting. And people pay. And Apple is debt free with plenty of cash in the bank.

How many music stores, software developers, manufacturers and retailers can say that?

Before the Internet, there was this thing called a *sales territory* where if a store took on a line exclusively, no other store in the area could get the line. The only hitch in that theory came when retailers were allowed to advertise in music publications citing, you guessed it, "we'll beat any deal," however they worded it. So you could have the exclusive dealership in Charlotte, NC, only to lose the sale to a store in Minneapolis or New York City who could sell lower because with bigger volume comes bigger discounts.

Some retailers responded to that problem by refusing to carry music magazines, ignoring the reality that customers could buy the same magazines at Barnes and Noble, Books-a-Million, newsstands, and other book stores.

Now there's the Internet. So what does line exclusivity mean today? How do you program a shopping cart to decline an order when it comes from outside a dealer's sales territory? How much should a company pay an individual to specialize in "order declines" and deal with angry customers over the phone or by e-mail, or worse, on multiple forums with the customer complaining all along the way that the store refused to sell to them?

What retailer wants to respond on the Internet with posts like, "I'm sorry, but per our contract with Chicken Little Electronics and Alligator Nuggets, you're outside our sales area and we can't sell or ship to you."

Imagine customer response to that online! It doesn't bear thinking about.

Even with music technology software, you can't maintain an exclusivity as now software developers are more aggressively selling direct, and as we saw at Christmas, and now post-Christmas, at or below dealer costs – and internationally at that.

This trend has been developing for years and now it's really taking off. But even here, those selling direct mostly, or who are scroogingly meditating on selling 100% direct, are going to be in for a rude awakening when they discover how much more in advertising they're going to be paying because dealers who supported them online, or in printed catalogs, may no longer feel obliged to.

Music technology software folks, especially those who make virtual instruments, forget that this is a much smaller marketplace than guitar sales. They forget that their products follow the sales of sequencing and notation programs, and that half of those sales are U.S. and the rest are The World. And the one really big thing they forget is that because they need sequencing and notation programs to operate their virtual instruments, (unless their products are virtual piano, guitar or bass amp emulations), all the legal customers are registered in the computers of Apple, Avid, Cakewalk (partially owned by Rolandcorp), DigiDesign/Sibelius (Avid), Make Music, Mark of The Unicorn, and Steinberg – and they're not making their customer lists available for direct advertising because of privacy laws.

Nor are they reporting current installs. Think about it. How many times a year do you see news stories on how many iPods or iPhones Apple has sold vs. how many copies of Logic they've sold? Or how about Sonar? Or Cubase? Or Digital Performer?

How many customers are software developers actually developing for? Where's that number?

This means that virtual instrument creators must spend advertising money looking for a needle in a haystack. As a result, the advertising cost to find those existing buyers is going to be outrageously expensive. Companies who think Google Adwords is the solution will faint when they see their click thru charges angle upwards to $1 to $5 per click through. I know because I almost fainted.

While it's not popular to say, I'm sorry, but NAMM itself is part of the problem. Every year, NAMM proudly, or is that foolishly, advertises that it's closed to the public, except for hundreds of the public who get in via free passes because they're good customers. So every year, products are getting more technically sophisticated, and every year, because these products rarely, if ever, make the evening news, the buying public gets left further and further behind.

Since so few retailers can afford to hire specialists who teach, train, tech support and explain, isn't it wiser to open up NAMM for 1 or 2 days while the industry is there doing demonstrations and can meet potentially new customers and answer basic questions without insulting the same customers behind their backs at the retail level by calling them MIDI Idiots or some derivation thereof?

Maybe I've missed something, but where did the sales philosophy come from that states you can increase sales dramatically by calling your customers *stupidos*? Or the more politically nickname –*newbie*? And then make customers that you want to fork over hundreds or thousands of dollars for your products feel embarrassed because they need to ask questions about products, the computing power of which needed to operate, is literally, greater exponentially than the computers used to put 12 Americans on the moon in the Apollo program?

That observation didn't come from me, it came from Tom Stafford who *did* walk on the moon.

Who in a retail store, or tele-sales line, can clearly and simply articulate the differences between a Core2Duo, a Quad Core, an Eight Core, or a comparable CPU from AMD and which will best run sequencing software programs 1-7 and virtual instrument programs 1 to 1285 with how much RAM and with which audio and MIDI drivers that operate flawlessly?

Norman Augustine, the past-president and CEO of Martin-Marietta wrote a terrific book called Augustine's Laws. In it is a chart that's both funny and tragic because it cross tabs declining college board scores (reading levels) with the increase of the number of pages of aircraft repair manuals.

So at a time where we're having this explosion in music technology, from keyboards to digital recorders to USB Guitars, the reading comprehension levels of the proposed target audience, including the sales staff at many locations, are sinking or have *sunk*.

This is not a rant. These are the serious sales/marketing issues the industry doesn't want to talk about.

So I restate the question: *Where is the industry going?*

Disclosure*: Peter Alexander is CEO of Alexander University, Inc., and through Alexander Publishing, deals corporately with many of the same issues with book and music distribution.*

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