

# MUSIC USA 2002

# **MUSIC USA 2002**

A Statistical  
Review  
of the  
Music  
Products  
Industry



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# FROM THE CHAIRMAN & PRESIDENT/CEO

## Uniting the World Through Music

Last year was remarkable for many reasons—most notably the tragic events of September 11. But while these senseless acts of terrorism and the faltering economy that resulted may have left us weakened, they did not overpower us. As an industry and as individuals, we found a way to move forward and our determination is vividly reflected throughout the numbers you'll see in this year's *Music USA*.

Despite every challenge we faced—from terrorism to tough economic times—the music products industry chalked up its second best year in history. At \$6.88 billion, our business has grown significantly over the past decade. While many industries suffered dramatically in 2001, our sales decreased by less than 4 percent of the previous year's historic high (\$7.1 billion). One reason we've held our ground is because what we do brings value to people's lives. This was especially apparent after September 11, as we helped unite the world through music and millions experienced its innate ability to transform, heal and inspire. In fact, many music product segments experienced a surge in sales as people took comfort in the simple joys of making music.

STEVE WEST



JOE LAMOND



Positive public support can also be attributed to the many innovative initiatives and powerful market-building programs your association has worked so hard to attain—initiatives that have helped to put the industry in a league of its own. By funding groundbreaking research, NAMM has demonstrated the measurable benefits that making music has on people's minds, health and happiness. These revolutionary studies created widespread media coverage, and the increased credibility enabled us to partner with some of the nation's most successful companies—including Disney, Fisher-Price, VH1, Sesame Workshop and Texaco—to bring our message to the world and target different audiences.

Your association will continue to pursue its mission of creating more active music makers across the globe. Recently, industry leaders from 14 nations, representing 80 percent of the world's music products market, attended NAMM's Global Economic Summit in Estepona, Spain, to discuss future initiatives to grow our business. In the meantime, we invite everyone in the industry to take advantage of the outreach tools NAMM has already created, including the Einstein Kit, *Sesame Street Music Works*, Music Making and Wellness, New Horizons Band and Weekend Warriors. Don't be afraid to dive right in—public opinion about the value of music making is at an all-time high.

We hope that the industry statistics found in *Music USA* will prove useful to your company. As always, all of us at NAMM wish you continued success and look forward to assisting you with your ongoing business needs.

A stylized handwritten signature of Steve West.

Steve West, Chairman

A stylized handwritten signature of Joe Lamond.

Joe Lamond, President/CEO



# UNDERSTANDING THE DATA

All statistical data on musical products shipped in the U.S. and retail value of the shipments was compiled by the staff of *Music Trades* magazine. All unit and dollar volume figures represent shipments by manufacturers and distributors to U.S. retailers at an estimated retail value. Estimates of unit sales and retail value are based on data from a variety of sources, including the U.S. Department of Commerce, industry associations, corporate financial records and various government agencies in Europe and Asia.

Retail value was calculated by applying an average retail markup to the value of wholesale shipments. The markup is based on the results of a national survey of several hundred retailers.

It should be emphasized that dollar estimates in NAMM's *Music USA* are based on shipments to retailers, which may or may not have been sold during the course of the year. This method of calculation introduced a degree of inaccuracy into the data presented. However, in this era of "just-in-time" inventory management, shipments to dealers closely mirror sales to consumers.

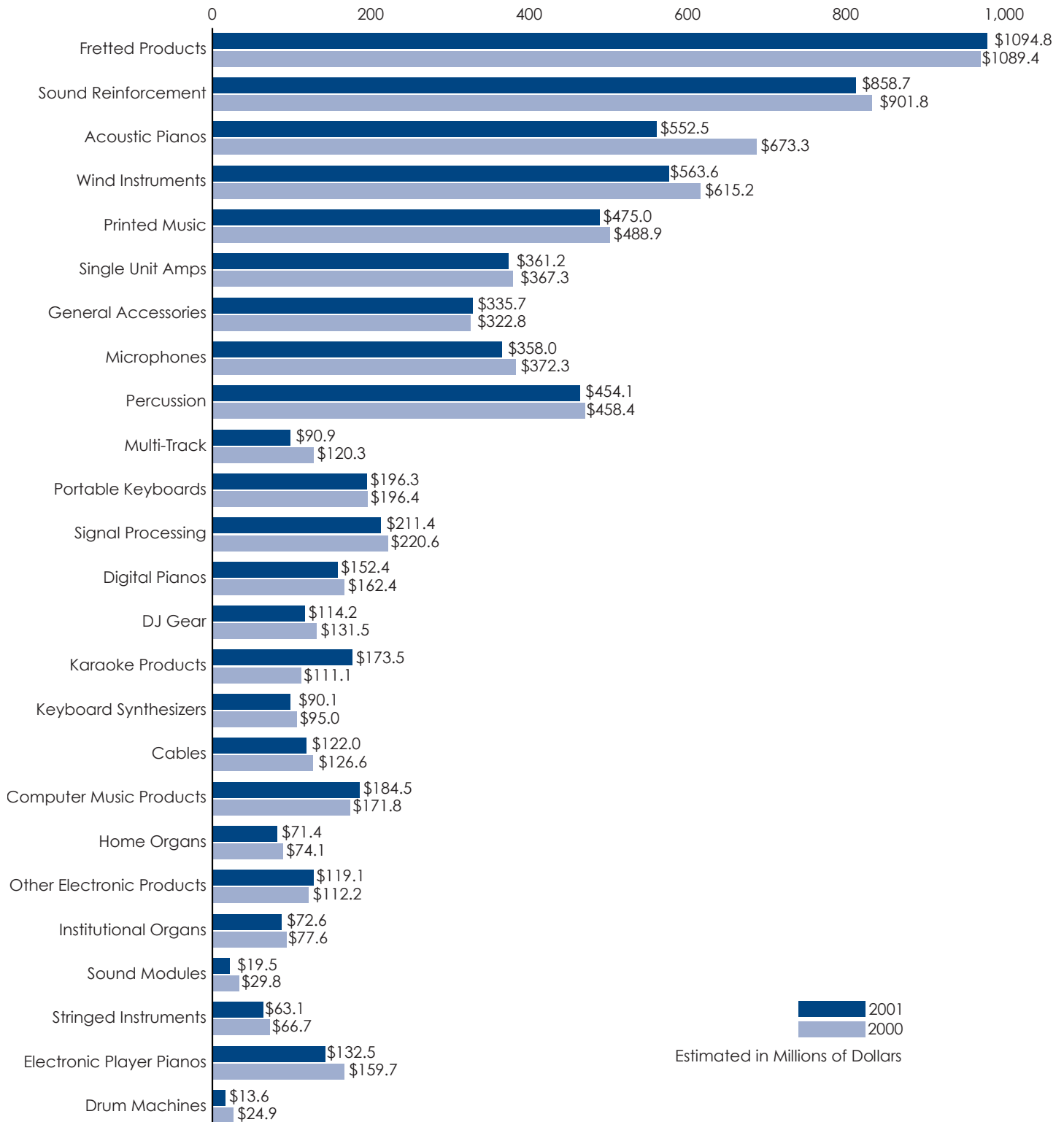
The vast majority of the \$6.88 billion in manufacturers' shipments were sold by the nation's network of specialized music and sound retailers. The exceptions are karaoke products and portable keyboards, where a substantial volume is done by consumer electronics retailers and other mass merchants. Throughout the report, with the exception of sound reinforcement products and microphones, categories are defined by the nature of specific products. In the case of sound reinforcement and microphones, where the same products are sold through several distribution channels, sales data represent an estimate of only those products sold by music and sound retailers.

Data in the following pages does not include any figures on the used instrument market, which is extremely substantial, but difficult to measure with any accuracy.



# PRODUCT SALES TOTALS

## (RETAIL 2000-2001)



# INTRODUCTION

It finally happened. After 12 years of unbroken sales growth, the U.S. music products industry posted a sales decline in 2001. Aggregate revenues of the 55 product categories tracked in the following report declined 3.9% to \$6.88 billion, compared with \$7.1 billion in 2000. Any inclination to mourn the end of the longest uninterrupted record of sales industry growth should be tempered by the simple fact that 2001 was the second best sales year of all time. Considering the incredible forces arrayed against any industry offering discretionary products, it's also remarkable the industry fared as well as it did.

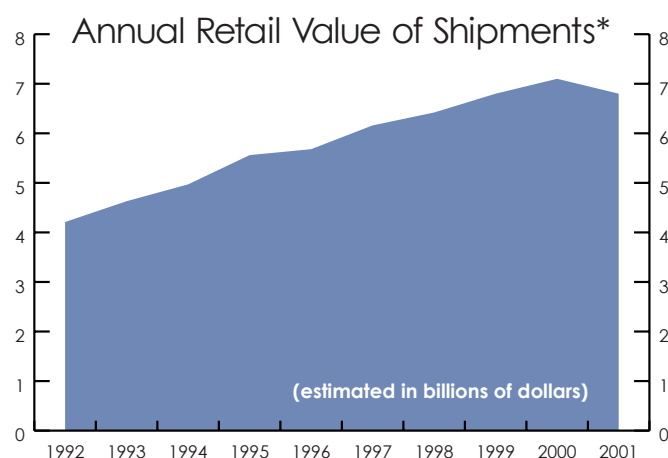
Given that memories are short, a brief review of the year is in order. After finishing a disappointing 2000 holiday sales season, the industry entered 2001 facing a public whose confidence had been rattled by the contentious Presidential election. Uncertain about the country's immediate prospects, consumers stayed close to home. For the first two quarters of the year, this consumer pattern was apparent in the sales results of retailers from Wal-Mart on down to the smallest mom and pop music store. The situation was only made worse by the continued slide of the NASDAQ, which shed 600 points, or \$900 billion in value, during the first six months of the year. The resulting destruction of wealth effect further reined in spending, and on July 7, the Treasury Department made it official: The country was in a recession. After limping through the summer months, the national psyche and the economy received the most damaging blow of all with the tragic events of September 11th. No 12-month period in recent memory contained more adversity. Against such a challenging backdrop, a 3.9% sales decline should prove reassuring.

When sales dollars drop, the instinctive reaction of most retailers is to wonder if customers are drifting away to a competitor or another activity. In 2001, sales declines in the music products industry had little to do with changes in consumer preferences and a lot to do with changing pricing structures. In 32 out of the 55 product categories tracked, the average selling price of the product declined. In some cases, like hard-disk recorders, the decline in selling price could be traced to dramatic improvements in computer memory and processing capability. In the case of traditional products, like acoustic guitars, drum-kits, and vertical pianos, price declines were the result of shifting production to lower-cost production environments, most notably China. People actually bought more guitars, drum kits, hard-disk recorders, and a host of other products in 2001 than in 2000. Unfortunately for retailers (not so unfortunately for the consumer) due to diminished retail prices, the dollars at the cash register went down.

Sales and profits are calculated in dollars, not units, and a check for unit volume is not terribly negotiable. However, the strong unit sales are encouraging nonetheless because they reflect the continued interest in all forms of making music. Unfortunately, price deflation is a trend that is hardly over. In just about every major industry, whether it's automobiles, computers or housewares, manufacturers and retailers are having to adjust to the fact that price increases are simply not an option. The best hope for our business is that better value, over time, will attract even more participants.

In the following recap we outline the trends and forces that defined the different product segments that make up the diverse music products industry. A few words about the sales data are in order. All figures represent estimates of the retail value of products shipped to U.S. retailers during the calendar year 2001. After calculating a wholesale figure, retail sales estimates are arrived at by using an average retail margin based on an analysis of selling prices at over 200 stores nationwide.

Given that the vast majority of industry firms are private enterprises, data is based on a combination of association shipment calculations, the financial data from publicly traded companies, import and export data from Europe and Asia, and a host of confidential data submitted by manufacturers and retailers. The following report is the best numerical snapshot of a dynamic industry that engages the talent and energy of over 100,000 individuals.



\* Figures for 1996, 1997 and 1998 have been revised to reflect sales of music software and drum kits through non-music store channels. The omission of these sales has, in the past resulted in a large under-reporting of the respective categories.

## SEGMENT DATA

### The Guitar Market

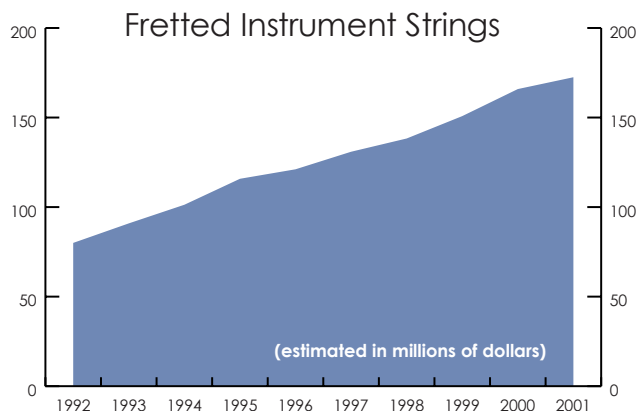
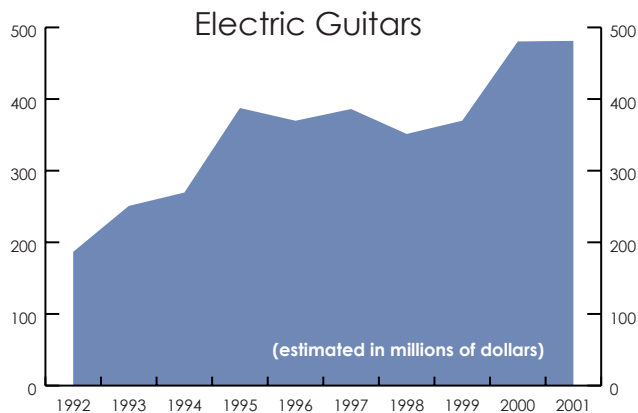
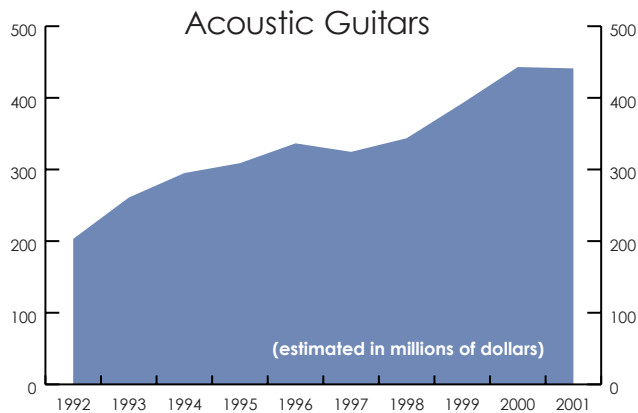
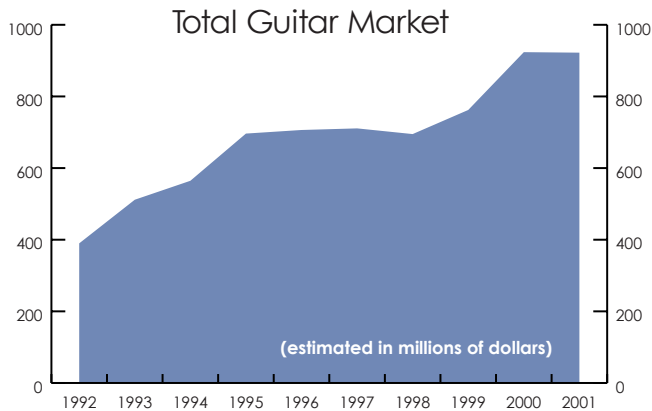
To understand the guitar's enduring popularity, look no further than *Billboard* magazine's compilation of the best-selling albums of 2001. Heading the list was The Beatles 1, the immensely popular compilation of the Fab Four's number one singles. Skipping albums by the Back Street Boys and Britney Spears, the next artists on the list, in descending order, were Limp Bizkit, Linkin Park, Staind, Creed and Alan Jackson. Of the top 100 albums of the year, no fewer than 63 featured guitar-dominated music. There was heavy metal, country, and classic rock: diverse styles or appealing to different demographics, but they all revolve around the guitar. No other instrument figures so prominently in such a broad range of musical genres. There are probably some people out there who don't like the guitar. But, as album sales indicate, they are far and few between.

Because of this enormously broad based appeal, the guitar remains the industry's best-selling instrument by a wide margin. In fact, in 2001, hard as it is to imagine, the guitar's popularity even increased. Electric guitar shipments advanced 7% to 895,110 units, while acoustic guitars edged up 4.2% to 847,388 units. Unfortunately, despite a hefty unit gain, the combination of intensified competition and a flood of bargain-priced instruments from China pushed average selling prices down, resulting in flat dollar sales for the year. These pricing pressures made it a difficult year from a profit standpoint. However, retailers and manufacturers alike took comfort in the vibrant interest in learning to play the guitar.

Interestingly enough, the surge in guitar sales occurred almost exclusively in the fourth quarter of 2001. With a tumbling stock market and recessionary fears in the early part of the year, retailers reported modest sales declines and weak demand for high-end product. After the September 11th tragedy, retail screeched to an abrupt halt for a few weeks leaving the industry to ponder what would come next. A few days after Thanksgiving the answer came in, and, boy, was it positive. From the largest to the smallest, retailers reported a sizable and unanticipated surge in guitar sales.

Was it because of a desire to stay closer to home? An urge to stop deferring pleasures in an uncertain world? Or maybe a surge in generous gift giving? The verdict is still out. However, it's safe to say that the guitar's popularity ratcheted up a few notches in 2001, as evidenced by record sales of 1,742,498 units.

A good year for the guitar is good news for the entire industry. Not only are guitarists the most numerous of all musicians, they are the biggest spenders, buying more sound gear, recording equipment, accessories, print music and related products than any other group. The dominant trends in the guitar market of increased unit volume and lower selling prices were mirrored by most other guitar-related product categories. Thanks to a fourth-quarter surge in entry-level guitar and amplifier packages, amp sales nudged up 2% to a record 764,490 units. Dollar sales, however, were off by 1.6% to \$361.2 million. The ever-popular stomp boxes followed a similar trajectory with units up 9% to 759,000 and retail dollars down 1.1% to \$51.6 million. Fretted instrument strings tracked the market, posting a 4% dollar increase to \$172 million at retail.

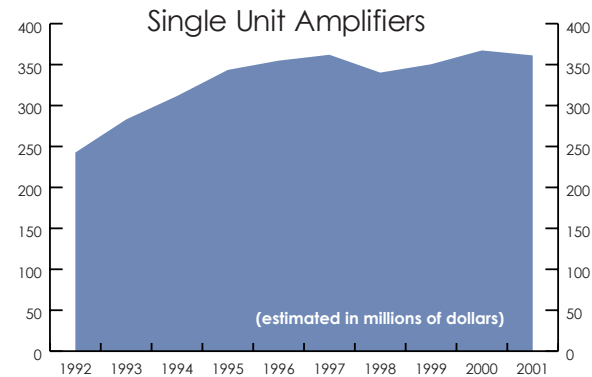
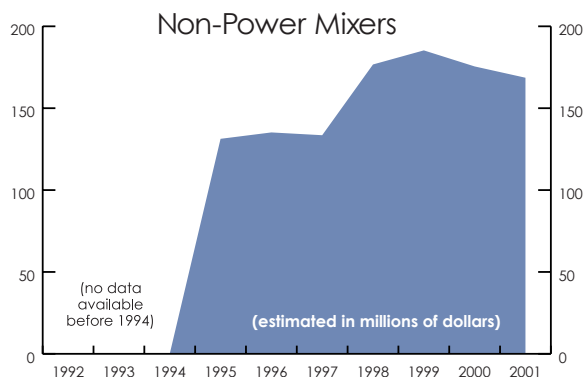
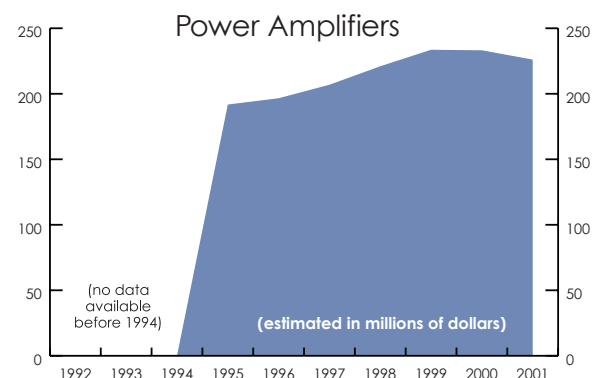
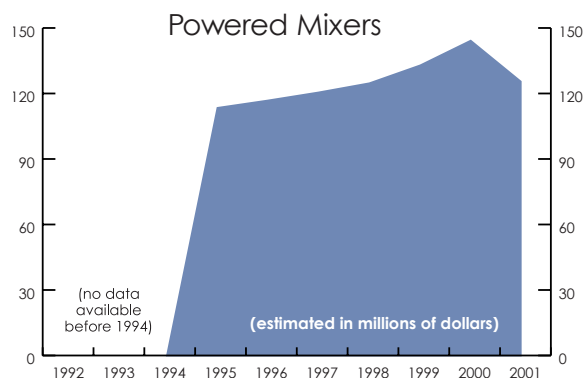
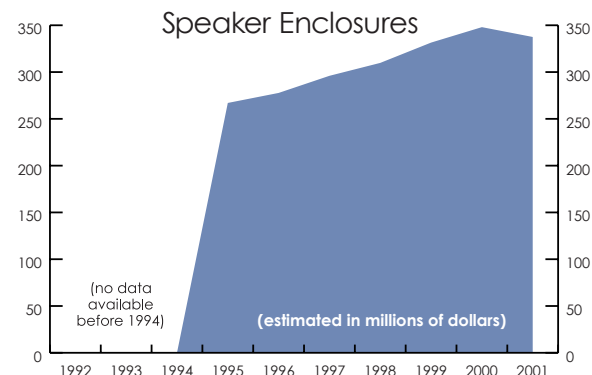
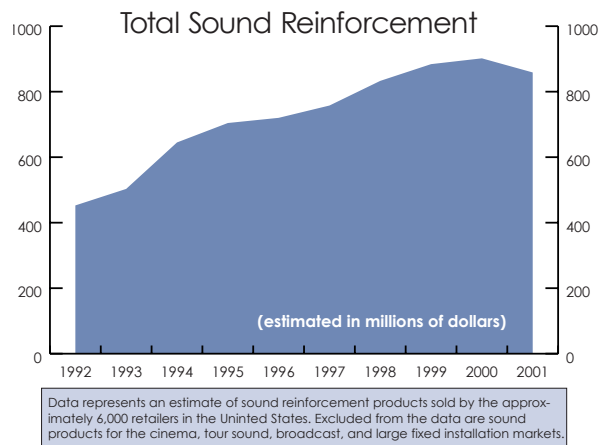


## Audio Products

By any measure, 2001 was a tough year for the audio market. The impact of a slumping economy was reflected in a 5% decline in the broad-based category to \$858,720,000 at retail. Diminished tax revenues cut into school budgets and decreases in discretionary income adversely affected collections at houses of worship, two of the largest purchasers of sound equipment. Retailers also complain that the continued dearth of clubs and other musical performance venues dragged sales down. On top of all that, a slumping economy took its toll on the sale of DJ gear and even corporate sound applications.

A cyclical slump in demand, caused by the recession, is only part of the challenge facing the audio industry. It's axiomatic that as technology matures, production disperses, and prices drop. Thirty years ago, when digital technology was in its infancy, a digital watch commanded a premium price. Today, now that chip technology is widely understood, digital watches are literally given away as premiums to hype a \$15 magazine sale. Maturation of technology is why television prices are generally lower today than they were a decade ago. For better or worse, same forces are at work today in the entry-level loudspeaker, microphone, power amp and mixer product categories. With many successful products based on decade-old designs, production has begun migrating to low-cost production sources in China, Indonesia and Singapore. The good news is better values for the end user. The bad news is that the industry has to move more boxes to maintain the same sales volume.

Managing this migration of manufacturing presents a number of challenges for U.S.-based firms. Most obviously, as production is outsourced to Asia, suppliers are wrestling with underutilized U.S. manufacturing facilities. Equally challenging is the issue of maintaining some product differentiation. As one manufacturer noted, My Chinese-made power amp is better than your Chinese-made power amp isn't what I'd call a compelling sales presentation. In the short term, these issues made 2001 a difficult profit year for just about everyone in the pro audio business.





## Audio Products (Continued)

Retailers felt the pinch as well. With the average selling prices of all audio products trending down, retailers were hard pressed to achieve any meaningful sales growth. From leading retailers like Guitar Center, down to smaller independents, all reported that hitting sales targets was tough in 2001. As one retailer explained, most of our customers come to us with a fixed budget, be it \$5,000, \$10,000 or \$20,000. This year, their money bought them the best system ever. But, better sound quality in the club our church doesn't translate into better profits for us.

There is, however, a silver lining to the current cloud hanging over the market. Over time, lower selling prices have an unfailing way of broadening markets and creating new selling opportunities. The small sound system business that has become a mainstay of the m.i. market is just a little over 20 years old. In that time, better product value has led to a nearly unbroken upward sales trend. There's no reason to believe that when this recession passes, the upward trend won't continue.

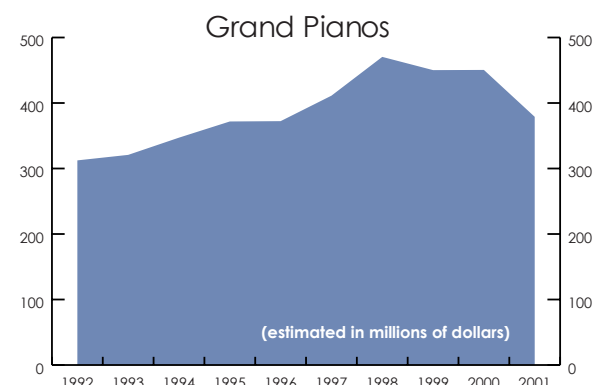
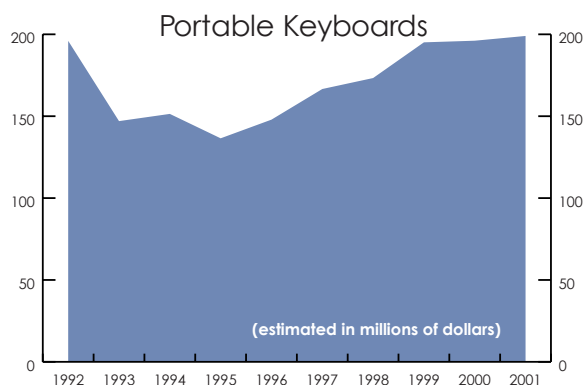
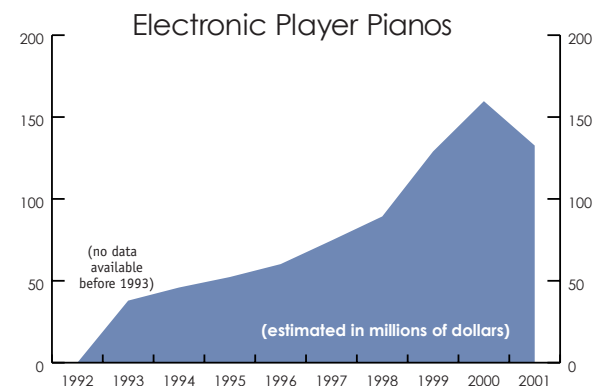
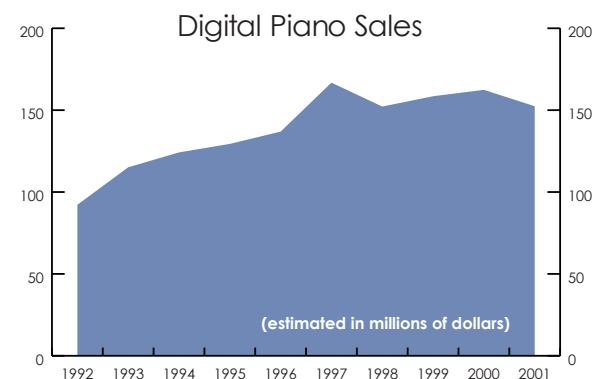
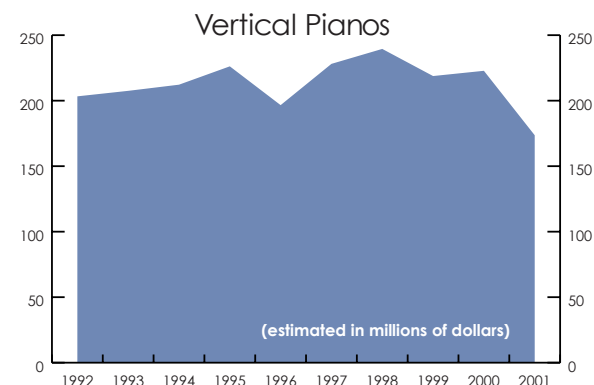
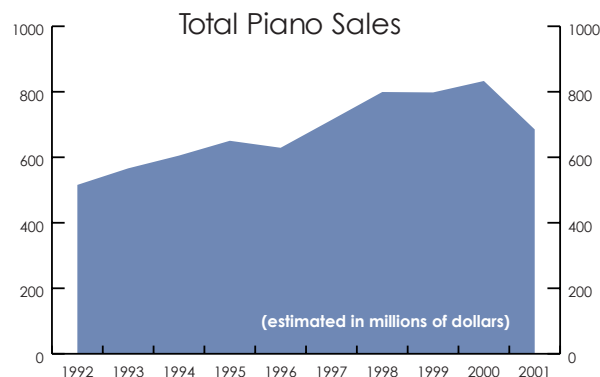
## The Home Piano Market

Fact 1: For all but the small minority that derives their livelihood from playing, a piano is an easily deferred purchase. Fact 2: Pianos are expensive, with grands retailing for an average \$13,500 and uprights a slightly less dear \$3,410. When these two irrefutable facts collided with difficult economic times in 2001, it's hardly surprising that piano sales dropped a precipitous 16% to 88,457 units.

Retailers across the board pointed to the sagging stock market to explain the 15.9% decrease in grand piano shipments. Jitters about employment, reduced bonuses and already high consumer debt levels helped explain the slightly larger 16% drop in vertical unit sales. With Chinese-made products garnering a larger market share, average selling prices dropped, pulling down retail sales dollars 22% to \$173.6 million.

These days, given that vertical piano buyers often seriously consider a digital piano, it is difficult to analyze the vertical and digital markets independently. Thanks to improved sounds, a more appealing complement of features, dramatic improvements in case styling, and no price increases, digital pianos fared best among home keyboards, declining just 1.7% in 2001 to 80,200 units.

When high-end portable keyboards, those selling for over \$199, are factored into the equation, the picture for entry-level keyboards appears much brighter. Last year, high-end portables, some of which included 76-note weighted keyboards,



## SEGMENT DATA

### The Home Piano Market (Continued)

surged 48% to 210,000 units. Even in the absence of hard data, there is more than enough anecdotal evidence to suggest that a good number of those units were purchased by consumers who in years past would have purchased a digital or inexpensive vertical piano.

The best news for piano retailers was to be found in a late-year sales rally. Whether it was a renewed confidence in the economy or a desire to cocoon, piano sales seemed to spike in the period following Thanksgiving. Better yet, this improved sales trend continued after the first of the year.

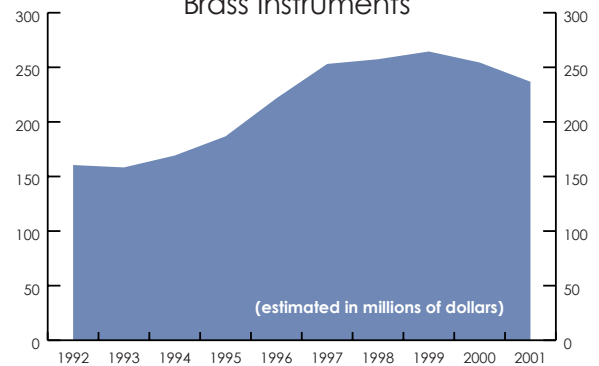
### The School Music Market

The school music market can be segmented into two broad categories: large instruments like sousaphones, baritone saxophones and bass clarinets that are most typically purchased in a school bidding process, and small wind instruments like trumpets and clarinets that are sold or rented to students. The modest unit volume declines in the market masks this important distinction. Sales of small horns remained declined slightly, indicating relatively little change in levels of student participation in school music programs. Sales of larger horns declined more steeply due to lower tax receipts and the resulting budgetary pressures.

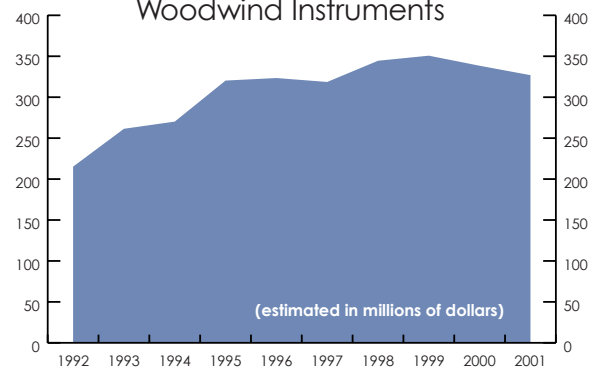
In an era of just-in-time inventory management, most manufacturer shipments to retailers closely track retail sales. This is not the case in school music. With pools of rental instruments that are sometimes in use for years, varying rates of rental returns, and fluctuating levels of reconditioned instruments available, manufacturer shipments provide only a rough approximation of sales levels at retail. This year's unit fluctuations are in a sufficiently narrow range to suggest little change in the enrollment levels at school music programs nationwide.

Longer term, industry prospects remain bright. An intensified national concern with educational quality, coupled with growing awareness of the mental benefits of musical participation bode well for school music programs.

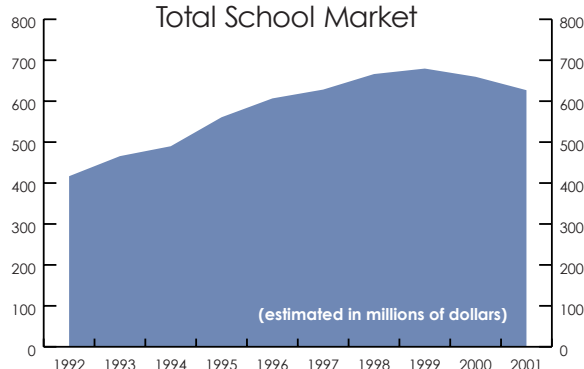
Brass Instruments



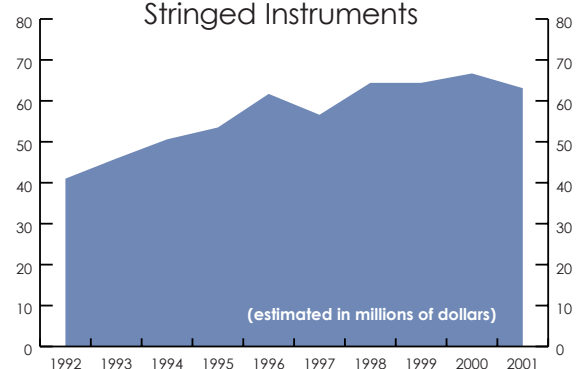
Woodwind Instruments



Total School Market



Stringed Instruments

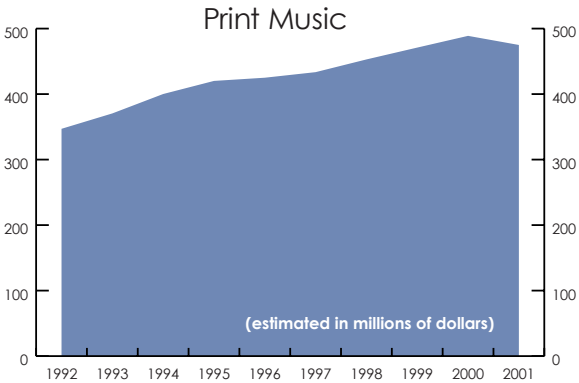


# Print Music

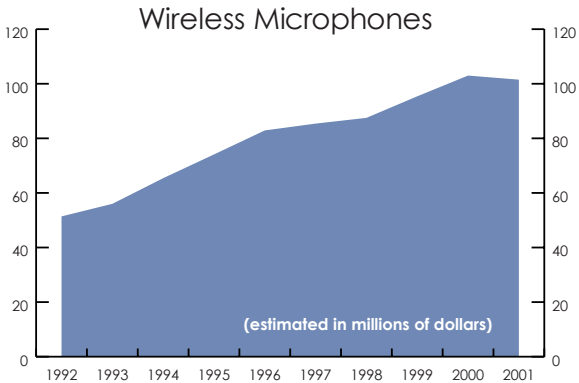
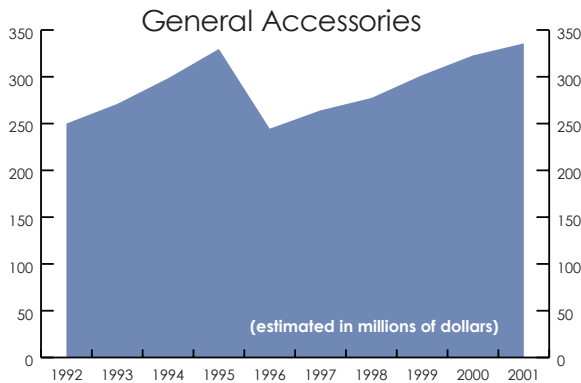
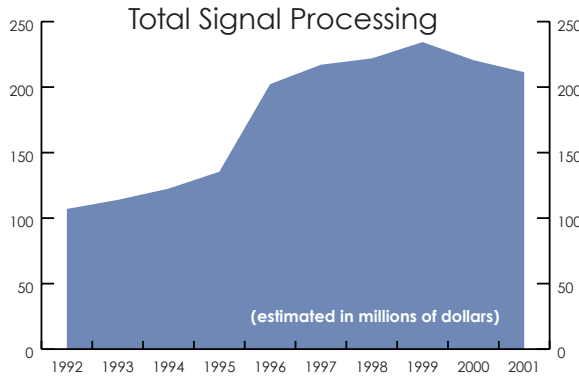
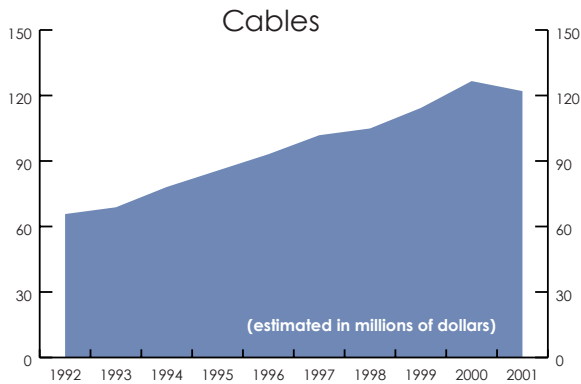
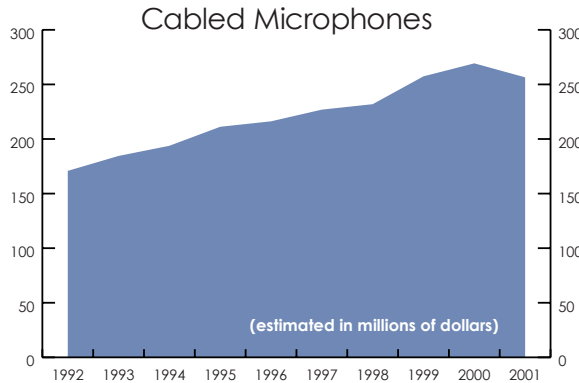
The printed music market as a broad product segment has much in common with the book market: Both are comprised of an incredibly diverse number of products and serve every demographic conceivable. The most visible part of the print market, pop folios, was adversely affected by a dearth of singable hits. Eight of the top twenty albums in 2001, as measured by *Billboard* magazine, were in the rap, hip-hop genre, which meant that there were eight fewer popular albums that could be translated into viable print music products.

The less glamorous institutional side of the market, which delivers band, choral and orchestral scores to churches and schools, was affected by a limp economy. Schools and churches both faced tighter budgets in 2001, which put a crimp in their music purchases.

Sales of guitar and piano methods were the brightest part of the market, reflecting continued interest in making music. Unfortunately, the gains were not enough to offset the declines in the other major print categories.



# Microphones, Cables, Signal Processing and General Accessories



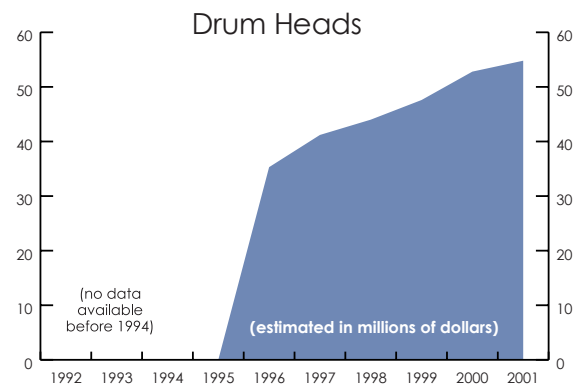
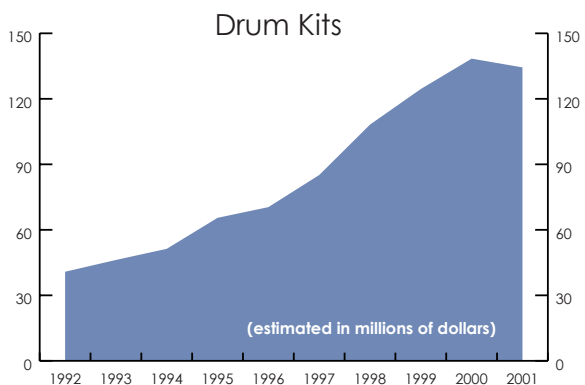
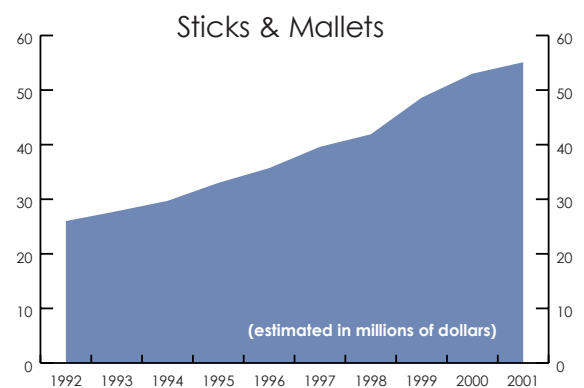
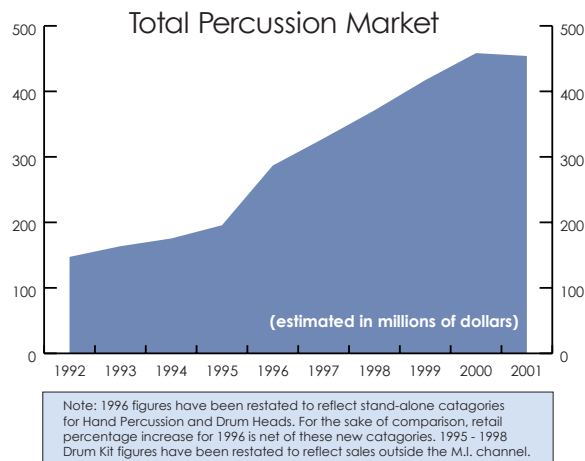
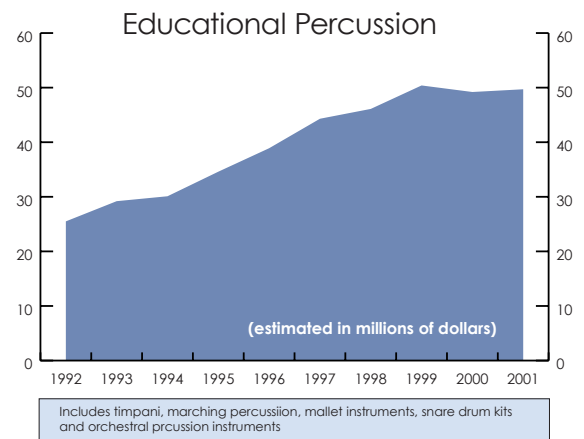
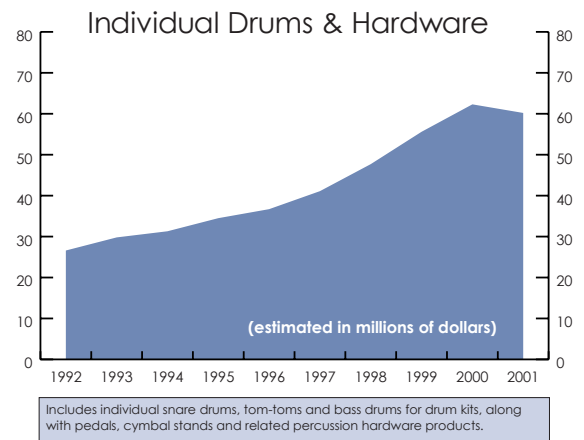
## The Percussion Market

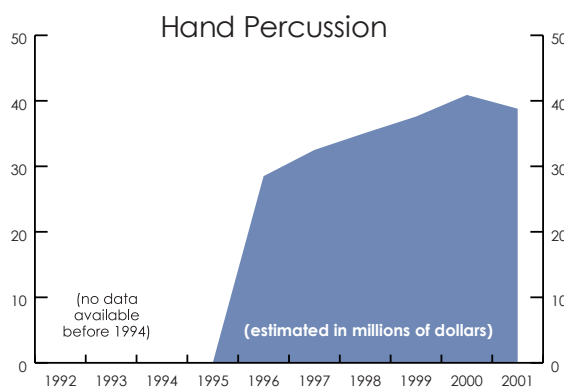
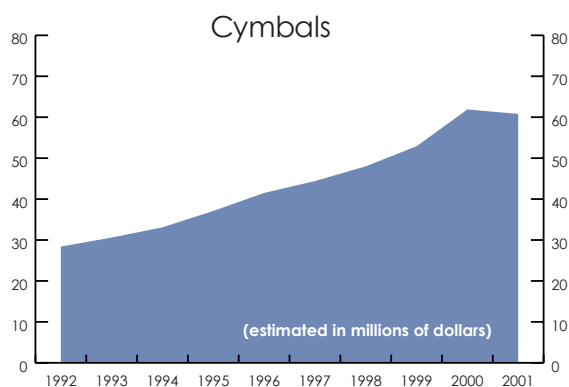
Just how much does better product value stimulate demand? For an idea, it's useful to consider drum kit sales. Over the past four years, the average selling price of a drum kit has declined by 19%. In the same time frame, unit volume has increased by 33%. The larger demographic picture has remained constant and musical styles haven't undergone a major upheaval, so it's safe to conclude that more bang for the buck (no pun intended) has been the primary force driving market growth.

In other segments of the percussion market, where value improvements have been less conspicuous, sales growth has been moderate. Hand percussion, cymbals and individual hardware sales posted modest declines for the year.

Drum sticks and drum heads, the industry's equivalent of the razor blade business, continued with predictable sales gains. Like razor blades, sticks and heads are indispensable commodities for all percussionists, and each year as the user base inches up, so do sales.

Educational percussion, marching drums, timpani and mallet instruments are almost exclusively purchased by schools. While other school-purchased instruments like background brass instruments posted declines in 2001, percussion managed to eke out a 1% gain. One explanation for the encouraging performance is that increased popularity of corps-style percussion has boosted demand for more elaborate marching percussion equipment.

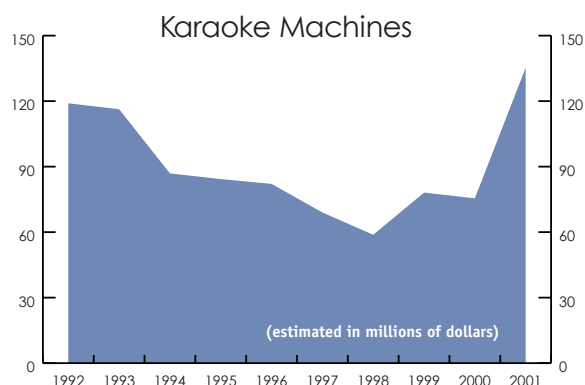




## Karaoke Products

The karaoke market was something of a good news/bad news story in 2001. The good news is that sales of karaoke machines zoomed an incredible 79% in the year, topping 1.1 million units. The bad news is that almost all of this growth bypassed the m.i. business. With major retailers like Best Buy and Circuit City prominently presenting karaoke machines for \$89 (about the same price as a Game Boy), it is not surprising that sales ramped up dramatically.

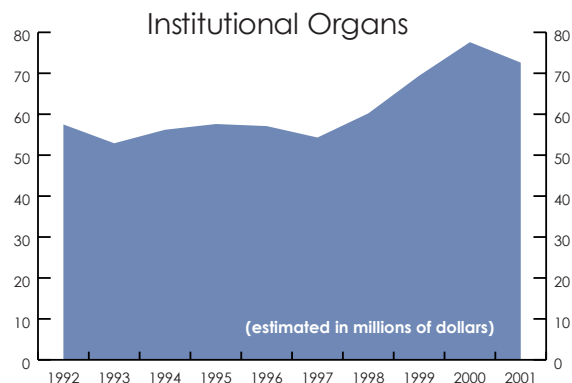
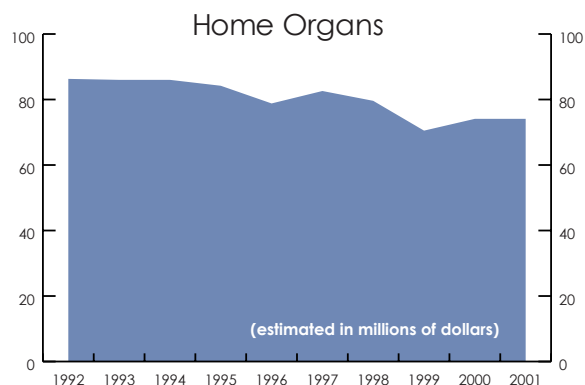
Most m.i. retailers instinctively cringe at the thought of mass merchants encroaching on their territory. However, in the case of karaoke machines, the activities of Best Buy and others may have a beneficial effect over the long term. First, because a larger base of machines means more potential software buyers who might find their way to a music store. Second, because as portable keyboards illustrate, mass merchants tend to view musical products as fad items: they position them prominently for a few years and then relegate them to an obscure corner of the store. As mass merchants have pulled back in recent years, portable keyboards have become one of the industry's faster-growing product categories. The same could conceivably happen to karaoke products.



## The Organ Market

Home organs fared remarkably well, given the prevailing economic news in 2001. Unit sales dropped a modest 3% to 9,400 units, far outperforming every segment of the piano market. One reason for this performance is probably the fact that senior citizens, the key organ buying demographic, are less affected by the economy than the broader population. Another reason is that organ sales depend more on retail promotional efforts than economic trends. Sales levels suggest that a small cadre of dealers continue to aggressively push lesson plans, concerts and other organ promotional events.

By contrast, the 6% decline in institutional organ sales can be directly traced to the economy. The stock market decline had an across the board adverse effect on institutional endowments and charitable giving. In the wake of this, churches and other institutions either canceled or deferred organ purchases.





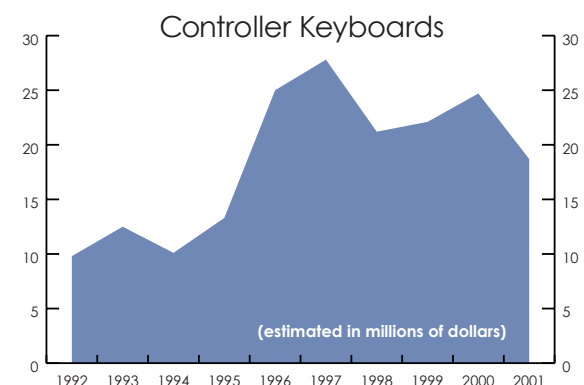
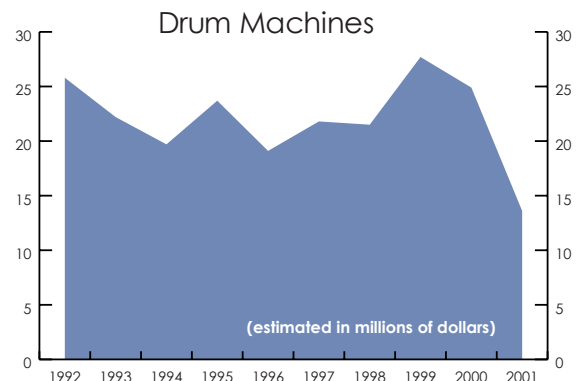
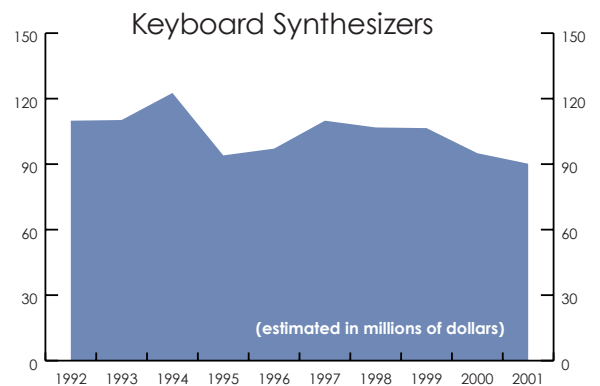
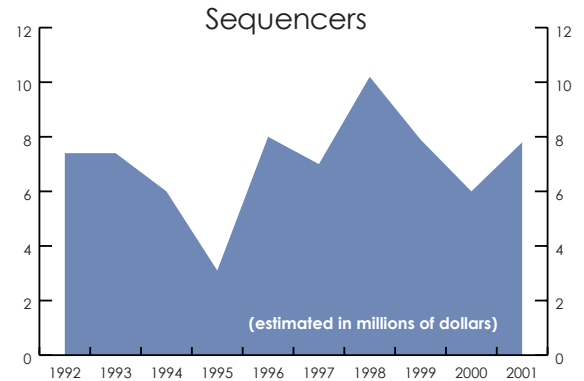
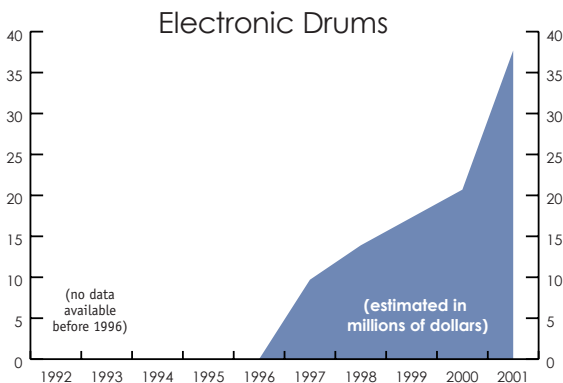
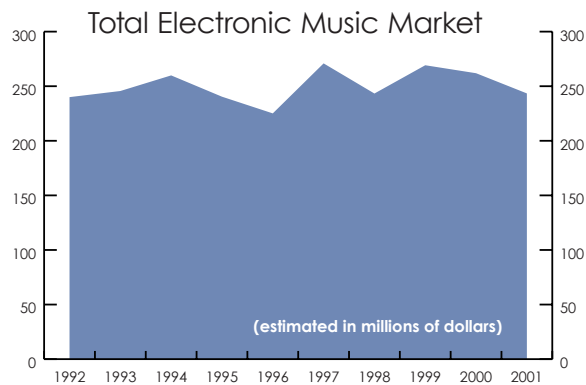
## SEGMENT DATA

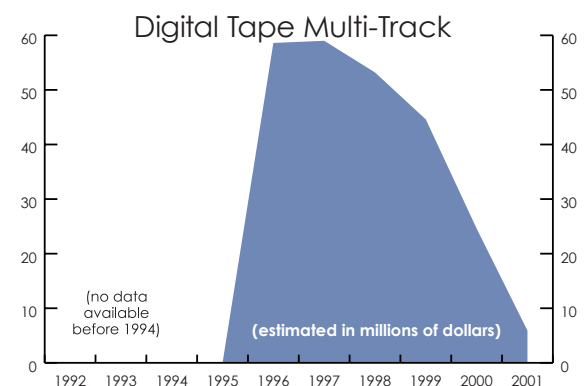
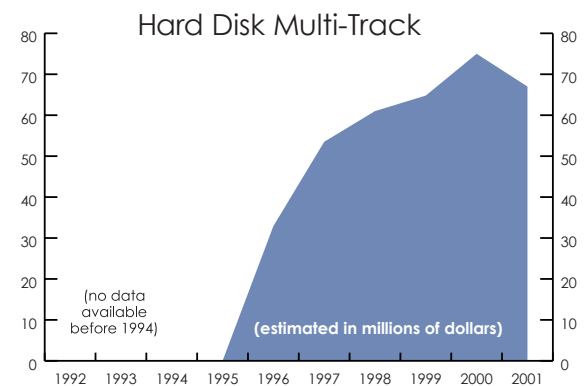
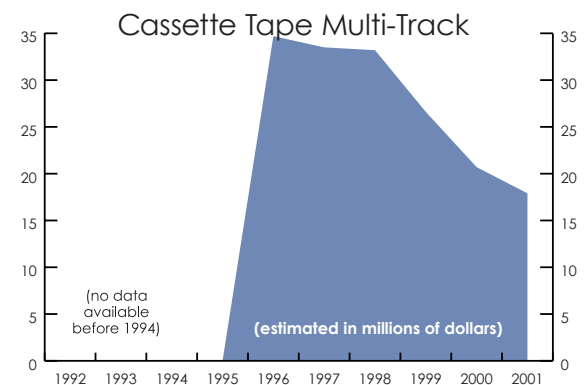
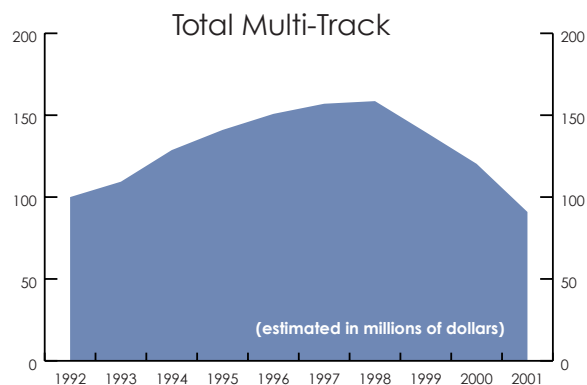
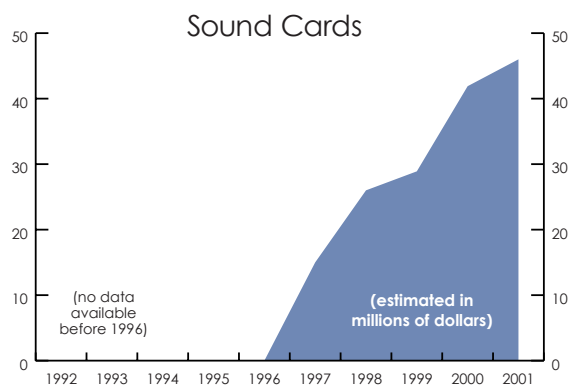
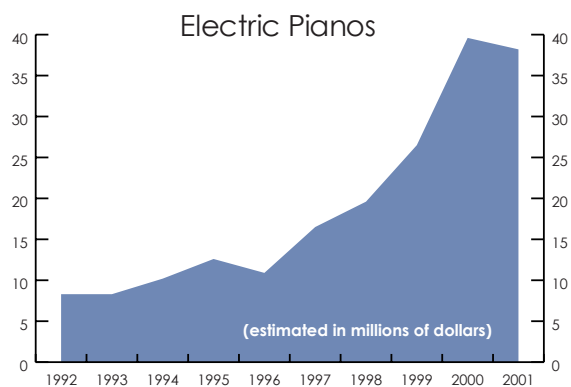
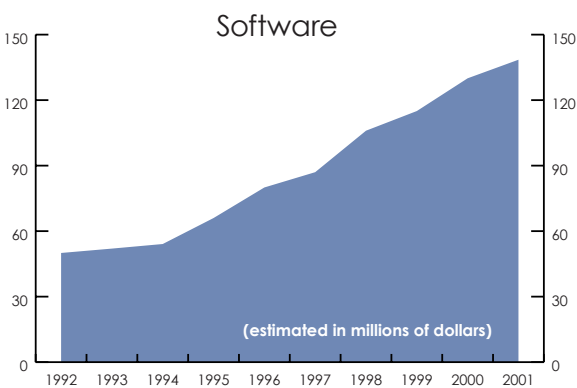
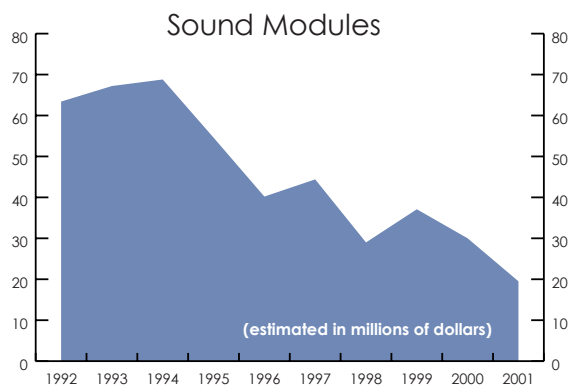
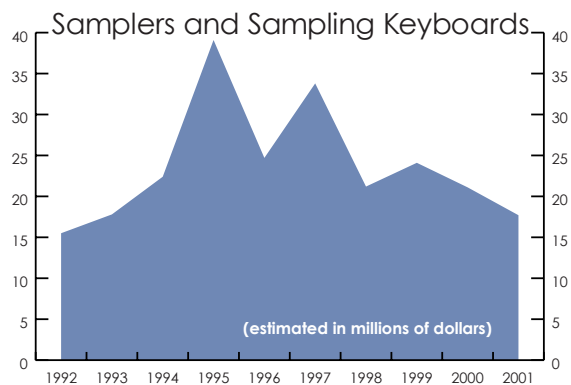
### Electronic Musical Instruments

Sales of electronic musical instruments declined by 7% in 2001. The decline was caused in part by larger national economic woes and in part by less apparent shifts in product preferences. Take keyboard synthesizers. Not too long ago, in terms of sound quality, there was a clear distinction between a synthesizer, a portable keyboard and a digital piano for the home. These days, however, the distinctions have become blurry to say the least. Synthesizer sales were flat in 2001 at 64,418 units. However, some of the 22% unit gain in high-end portable keyboards unquestionably came at the expense of synthesizer sales.

The declines in the sales of samplers, sound modules and sequencers were largely due to the fact that a growing number of consumers have gravitated toward software products for these functions. Now that high-powered PCs are available for under \$1,000, an increasing number of musicians find software a viable alternative to dedicated hardware products. The decline in dedicated drum machines sales can be traced to the fact that virtually every hard-disk recorder now includes some form of rhythm sequencer.

There is no software-based substitute for something to hit with a drumstick. This is perhaps why electronic drums remain the brightest growth area in electronic music products. The benefits of electronic drums are obvious: aside from being able to practice without disturbing the neighbors, electronic drums are far easier to record than traditional drums. Now that prices have come down, a larger segment of the market has access to these benefits.



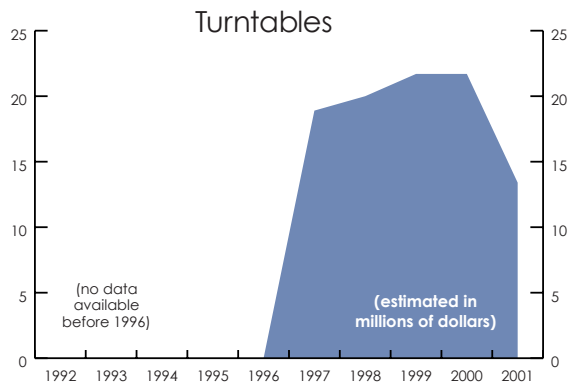
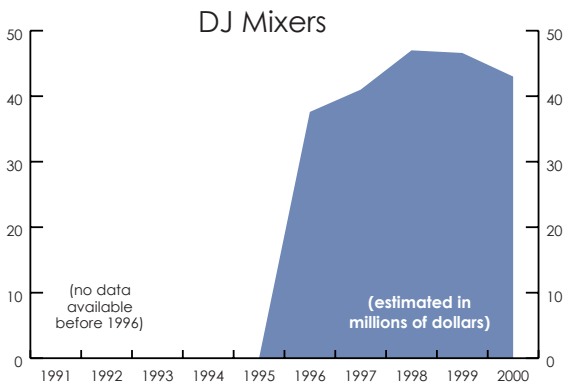
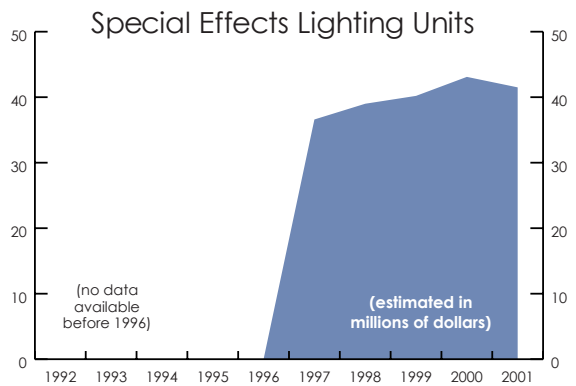
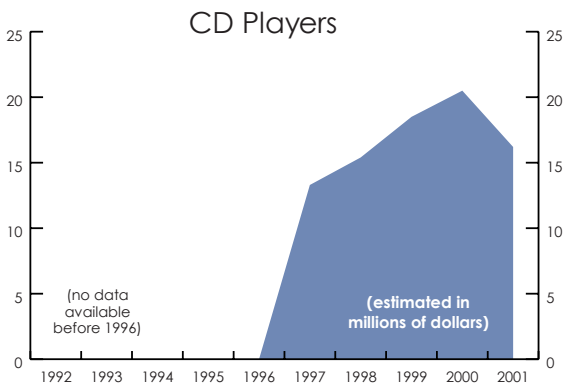
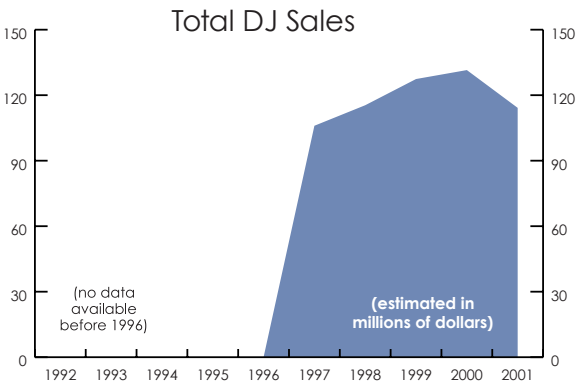


SEGMENT DATA

The DJ Market

Growth in the DJ market subsided in 2001, largely the victim of economic forces. The DJ market consists of three basic customer groups: the bedroom DJ; clubs and other venues installing fixed DJ systems; and the mobile DJ, by far the largest market group.

With a tighter economy and less disposable income, lavish parties were fewer in number, which meant less work for the mobile DJs. This in turn took a toll on retail sales. Within the market, CD players seem on the road to eventually displacing vinyl records and turntables. Last year, CD player sales were up 37% while turntables sales dropped 9.9%.





# **MUSIC AND SOUND**

Industry Summary 2002



# MUSIC AND SOUND INDUSTRY SUMMARY

(Millions of Dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Acoustic Pianos	\$515.7	\$566.2	\$559.3	\$598.1	\$568.9	\$639.3	\$709.9	\$669.0	\$673.3	\$552.5
Cables	\$65.7	\$68.8	\$78.1	\$85.6	\$93.1	\$101.8	\$104.9	\$114.3	\$126.6	\$122.0
Computer Music Products*	n/a	n/a	n/a	\$66.0	\$80.0	\$102.0	\$132.0	\$143.2	\$171.8	\$184.5
Digital Pianos	\$92.2	\$115.1	\$124.2	\$129.4	\$136.9	\$166.8	\$152.2	\$158.5	\$162.4	\$152.4
DJ Gear	n/a	n/a	n/a	n/a	n/a	\$106.0	\$115.4	\$127.4	\$131.5	\$114.2
Drum Machines	\$25.8	\$22.2	\$19.7	\$23.7	\$19.1	\$21.8	\$21.5	\$27.7	\$24.9	\$13.6
Electronic Player Pianos	n/a	\$37.9	\$45.9	\$52.3	\$60.2	\$74.6	\$89.3	\$129.0	\$159.7	\$132.6
Fretted Products	\$469.8	\$602.5	\$665.8	\$812.1	\$827.4	\$841.7	\$833.2	\$912.9	\$1,089.4	\$1,094.8
General Accessories	\$250.0	\$271.0	\$298.4	\$329.7	\$244.5	\$264.1	\$277.3	\$301.7	\$322.8	\$335.7
Home Organs	\$86.3	\$86.0	\$86.0	\$84.2	\$78.8	\$82.6	\$79.6	\$70.5	\$74.1	\$71.4
Institutional Organs	\$57.5	\$52.9	\$56.2	\$57.6	\$57.1	\$54.3	\$60.2	\$69.4	\$77.6	\$72.6
Karaoke Products	\$149.8	\$145.5	\$116.0	\$114.3	\$112.1	\$95.3	\$88.3	\$112.3	\$111.1	\$173.5
Keyboard Synthesizers	\$109.9	\$110.2	\$122.6	\$94.0	\$97.1	\$109.9	\$106.8	\$106.5	\$95	\$90.1
Microphones	\$222.2	\$240.5	\$259.2	\$285.3	\$299.1	\$312.3	\$319.4	\$352.8	\$372.3	\$358.0
Multi-Track	\$100.0	\$109.4	\$128.7	\$141.0	\$150.8	\$157.0	\$158.6	\$139.6	\$120.3	\$90.9
Other Electronic Products**	\$41.1	\$40.7	\$47.2	\$68.0	\$68.6	\$85.1	\$86.1	\$97.9	\$112.2	\$119.1
Percussion	\$147.3	\$163.6	\$175.4	\$195.6	\$286.8	\$328.2	\$371.0	\$417.1	\$458.4	\$454.1
Portable Keyboards	\$196.0	\$147.0	\$151.4	\$136.5	\$147.9	\$166.6	\$173.3	\$195.1	\$196.4	\$196.3
Printed Music	\$347.0	\$370.5	\$400.1	\$420.1	\$425.0	\$433.5	\$452.9	\$471.0	\$488.9	\$475.0
Signal Processing	\$107.1	\$113.9	\$122.5	\$135.4	\$202.3	\$217.1	\$221.9	\$234.4	\$220.6	\$211.4
Single Unit Amps	\$242.6	\$283.0	\$311.6	\$343.5	\$354.8	\$362.0	\$340.2	\$350.4	\$367.3	\$361.2
Sound Modules	\$63.4	\$67.2	\$68.8	\$54.6	\$40.2	\$44.4	\$29.0	\$37.1	\$29.8	\$19.5
Sound Reinforcement	\$452.7	\$503.1	\$645.0	\$704.3	\$720.1	\$757.7	\$833.0	\$884.1	\$901.8	\$858.7
Stringed Instruments	\$41.0	\$45.9	\$50.6	\$53.5	\$61.7	\$56.6	\$64.4	\$64.4	\$66.7	\$63.1
Wind Instruments	\$375.7	\$419.7	\$439.4	\$507.1	\$545.0	\$571.7	\$601.9	\$615.2	\$592.8	\$563.6
<b>TOTAL</b>	<b>\$4,208.6</b>	<b>\$4,634.8</b>	<b>\$4,972.1</b>	<b>\$5,557.2</b>	<b>\$5,677.5</b>	<b>\$6,152.4</b>	<b>\$6,422.3</b>	<b>\$6,801.5</b>	<b>\$7,147.7</b>	<b>\$6,880.4</b>

\* 1995-96 figures reflect only sales of software. (Sound cards added in 1997.)

\*\* Includes sequencers, samplers and electronic drums. (Controller keyboards and professional electronic pianos added in 1991.)



# U.S. IMPORTS OF MUSIC AND SOUND PRODUCTS

(by harmonized code) Source: U.S. Commerce Dept. for January 2001 through Dec. 2001

	Harmonized Code	Value	Units
Single Loudspeakers in Enclosures	8518.210000	355,259,267	31,621,966
Multiple Loudspeakers, Mounted in Same Enclosure	8518.220000	450,412,962	18,939,322
Other Headphones, Earphones, Microphone/Speaker	851.302000	483,211,263	159,220,748
Audio Frequency Electric Amplifiers	8518.402000	307,557,502	7,565,089
Upright Pianos	9201.100000	45,600,622	28,452
Grand Pianos	9201.200000	176,110,912	43,487
String Musical Instruments Played with a Bow	9202.100000	31,371,851	326,865
Guitars Under \$100, Exclude the Value of the Case	9202.902000	60,215,911	1,380,680
Guitars	9202.904000	27,492,661	140,937
String Musical Instruments	9202.906000	12,736,863	344,698
Keyboard Pipe Organs	9203.004000	15,668,241	214
Piano Accordions	9204.104000	2,708,246	90,313
Mouth Organs	9204.200000	5,603,737	292,754
Brass-Wind Instruments, Not over \$10 Each	9205.100040	119,805	25,988
Brass-Wind Instruments, Over \$10 Each	9205.100080	40,547,787	84,399
Bagpipes	9205.902000	637,224	4,865
Clarinets	9205.904020	11,652,356	48,653
Saxophones	9205.904040	25,659,428	54,910
Flutes and Piccolos (Except Bamboo)	9205.904060	9,061,670	125,842
Drums	9206.002000	69,639,540	1,593,060
Cymbals	9206.004000	13,593,159	538,941
Sets of Tuned Bells as Chimes, Peals or Carillions	9206.06000	7,516,585	912,845
Percussion Musical Instruments	9206.008000	16,576,191	3,059,108
Musical Synthesizers (Under \$100)	9207.100005	2,086,105	50,019
Musical Synthesizers (\$100 or Over)	9207.100010	57,708,323	94,802
Keyboard Instruments (More Than One Keyboard, Under \$200)	9207.100045	168,145	6,062
Keyboard Instruments (More Than One Keyboard, \$200 or Over)	9207.100055	6,027,262	3,412
Keyboard Instruments (More Than One Keyboard, Hand Held)	9207.100060	6,429,392	149,569
Keyboard Instruments (Under \$100)	9207.100065	48,561,311	835,159
Keyboard Instruments (\$100 or Over)	9207.100075	126,981,140	372,660
Fretted Stringed Instruments	9207.900040	132,349,609	1,237,678

## U.S. IMPORTS OF MUSIC AND SOUND PRODUCTS Continued

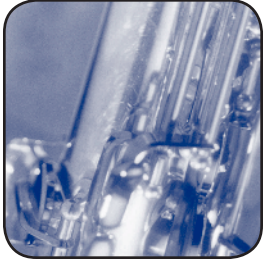
(by harmonized code) Source: U.S. Commerce Dept. for the year 2001 through Dec. 2001

	Harmonized Code	Value	Units
Other Electric Instruments	9207.900080	10,610,890	310,364
Music Boxes	9208.100000	149,044,613	23,275,215
Other Musical Instruments	9208.900040	1,121,699	175,318
Mouth-Blown Sound Signaling Instruments	9208.900080	8,289,063	28,414,476
Metronomes, Tuning Forks and Pitch Pipes	9209.100000	9,988,175	n/a
Mechanisms for Music Boxes	9209.200000	1,780,540	2,182,072
Musical Instrument Strings	9209.300000	15,796,233	22,294,760
Tuning Pins for Pianos	9209.924000	395,326	6,464
Parts and Accessories for Pianos	9209.918000	33,207,974	n/a
Mutes, Stands, Music Holders	9209.922000	2,291,653	n/a
Tuning Pins for Stringed Instruments	9209.924000	1,966,640	4,819
String Instruments Bows and Chin Rests	9209.926000	8,464,596	n/a
Other Stringed Instruments Parts	9209.928000	20,430,706	n/a
Parts and Accessories for Pipe Organs	9209.934000	7,145,667	n/a
Parts and Accessories	9209.938000	340,619	n/a
Collapsible Keyboard Instrument Stands	9209.944000	3,808,765	n/a
Fretted Instrument Accessories	9209.948000	26,696,603	n/a
Mutes, Pedals, Dampers, Spurs For Drums Pedals	9209.991000	25,324,434	n/a
Parts and Accessories for Bagpipes	9209.992000	169,275	n/a
Parts and Accessories for Woodwind Instruments	9209.994040	30,124,469	n/a
Parts and Accessories for Other Wind Instruments	9209.994080	8,387,166	n/a

# US EXPORTS OF MUSIC AND SOUND PRODUCTS

(by harmonized code) Source: U.S. Commerce Dept. for the year 2001 through Dec. 2001

	Harmonized Code	Value	Units
Microphones and Parts Thereof	8518.100000	62,766,942	n/a
Single Loudspeakers in Enclosures	8518.210000	151,277,487	5,260,945
Loudspeakers	8518.290000	194,618,485	31,962,611
Headphones	8518.302000	64,146,305	4,145,092
Audio Amplifiers	8518.402000	363,284,985	2,852,106
Parts of Microphones, Loudspeakers, Amplifiers	8518.903000	256,069,885	n/a
Upright Pianos	9201.100000	4,255,666	2,416
Grand Pianos	9201.200000	5,695,312	1,089
Pianos	9201.900000	2,128,764	3,829
String Musical Instruments Played with a Bow	9202.100000	7,489,121	17,803
Guitars	9202.903000	53,775,677	112,109
String Instruments	9202.906000	11,601,210	76,953
Keyboard, Pipe Organs	9203.000000	2,687,196	14,068
Accordions	9204.100000	789,549	3,038
Mouth Organs	9204.200000	329,999	4,378
Brass-Wind Instruments	9205.100000	12,048,797	35,814
Woodwind Instruments	9205.901000	19,647,057	66,293
Other Wind Instruments	9205.906000	3,261,029	83,400
Percussion Instruments	9206.000000	24,458,137	643,951
Music Synthesizers	9207.100020	4,416,178	18,108
Keyboard Instruments	9207.100080	8,777,527	34,739
Fretted Stringed Instruments	9207.900040	43,092,346	83,557
Musical Instruments, Electrically Amplified	9207.900080	32,272,892	225,131
Music Boxes	9208.100000	3,358,915	191,547
Fretted Stringed Instruments	9208.900040	15,483,180	390,783
Mouth-Blown Sound Signaling Instruments	9208.900080	4,771,332	383,269
Metronomes, Tuning Forks and Pitch Pipes	9209.100000	1,434,212	n/a
Parts and Accessories For String Instruments	9209.300000	39,361,455	13,274,260
Parts and Accessories For Pianos	9209.910000	3,066,869	n/a
Parts and Accessories For Fretted Instruments	9209.920000	30,604,627	n/a
Parts and Accessories For Electronic Instruments	9209.940000	18,352,041	n/a
Other Parts and Accessories	9209.990000	41,386,004	n/a



# **GALLUP SURVEY 2000**

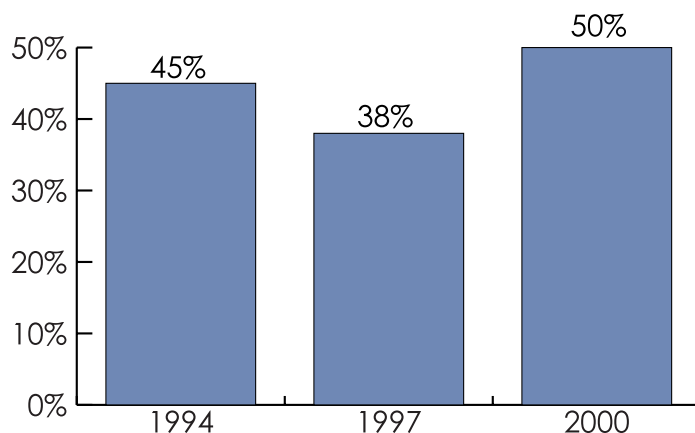


# GALLUP SURVEY 2000

NAMM - The International Music Products Association® commissioned the Gallup Organization to conduct a national telephone survey to profile household participation and attitudes regarding the playing of musical instruments and, where appropriate, compare these findings to previous national surveys.

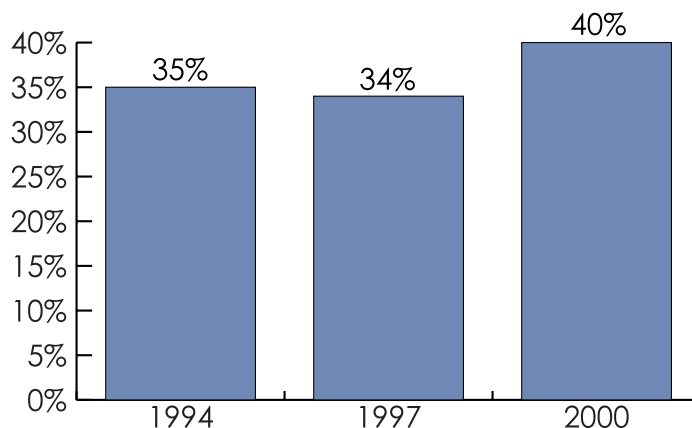
## Percentage of households who currently have at least one musical instrument player

One-half of households (50%) have at least one person, age five or older, who currently plays a musical instrument. This proportion has increased substantially over the 38% reported in 1997.



## Percentage of households with two or more players

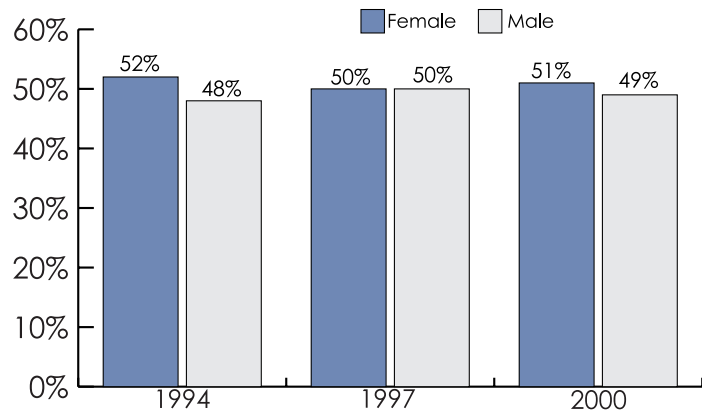
Also, in 40% of households, two or more persons play a musical instrument, compared to 34% in 1997.





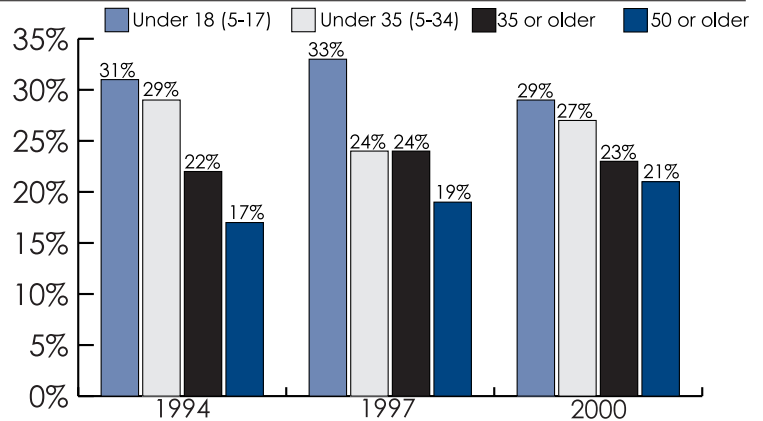
### Gender of persons among households with at least one member who plays

The gender breakdown among those who play musical instruments remains at approximately 50% males and 50% females.



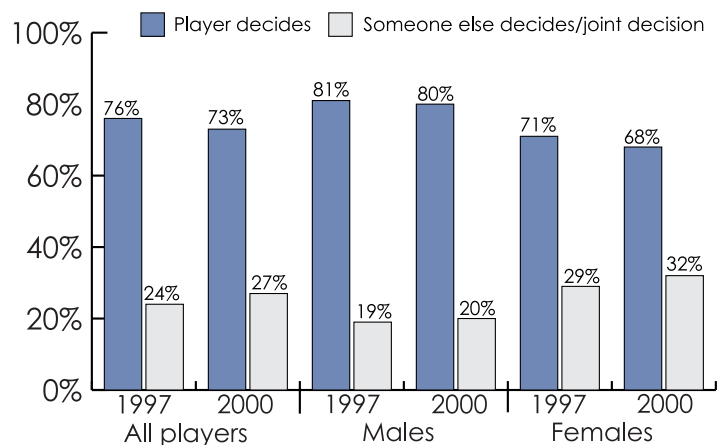
### Age of persons among households with at least one member who plays

There is a continuing decline in the proportion of players who are under age 35. In the year 2000, the median age was 34.

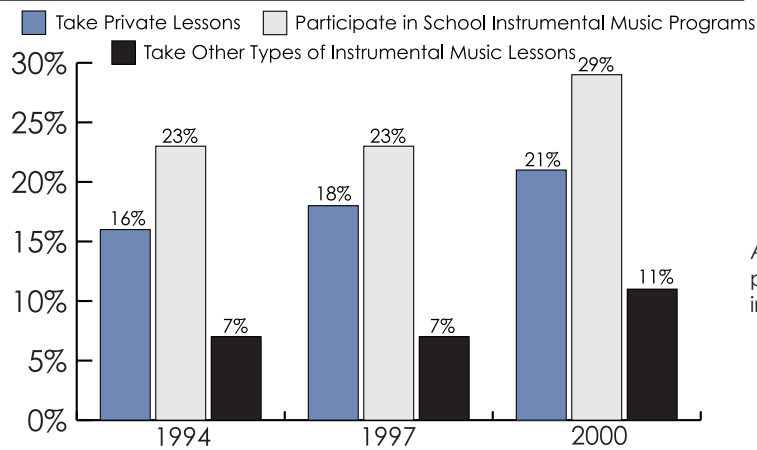


### Who decides what instrument should be played?

Most players continue to decide for themselves what instrument they will play. By gender, males continue to decide for themselves more often than females.

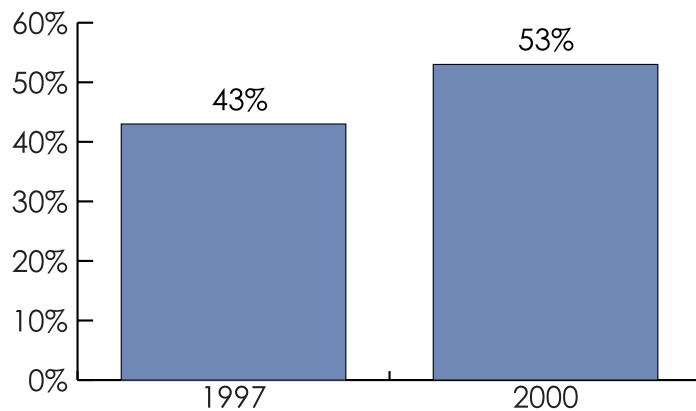


## Player participation in formal music activities



Across the board, the number of people participating in formal music activities has increased substantially since 1997.

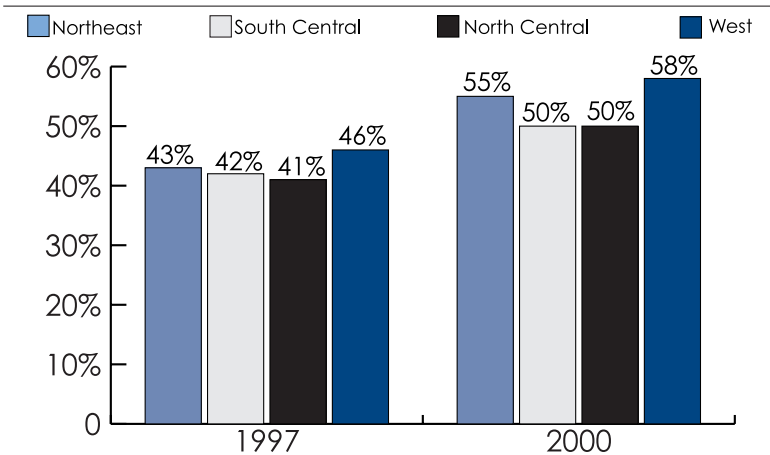
## Someone in household owns a musical instrument



Over 50% of households in 2000 owned at least one musical instrument, compared to 43% in 1997.

## Someone in household owns a musical instrument

(By region of the country)

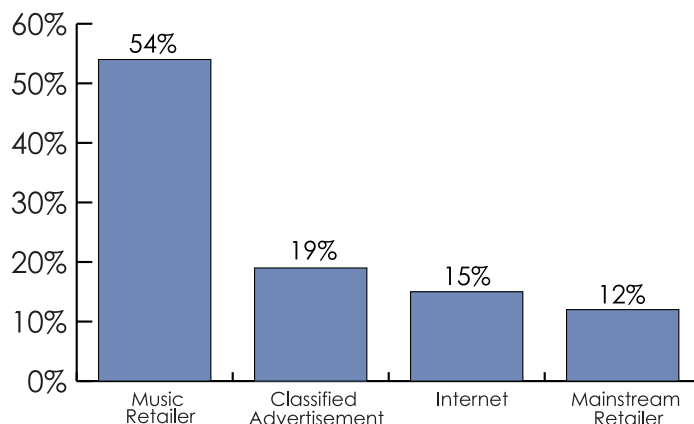


The highest percentage of musical instruments are owned by households in the western region of the country.

## Sources would most likely consider if shopping for or buying a musical instrument

(Asked for first time in 2000)

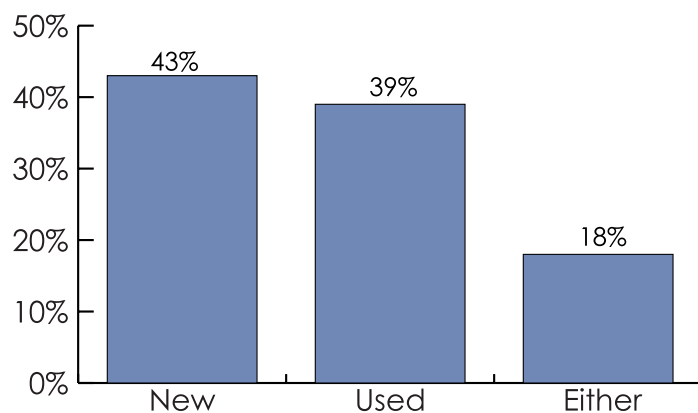
Over half those questioned prefer buying a musical instrument face-to-face in a specialty retail environment.



## Would purchase new vs. used when shopping for or buying a musical instrument

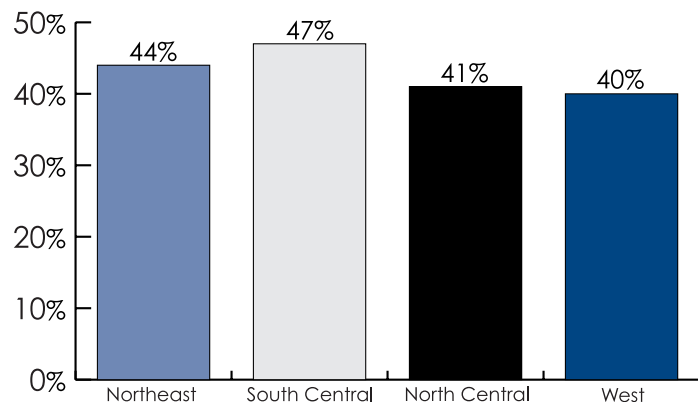
(Asked for first time in 2000)

Most people questioned would purchase new musical instruments as opposed to used.



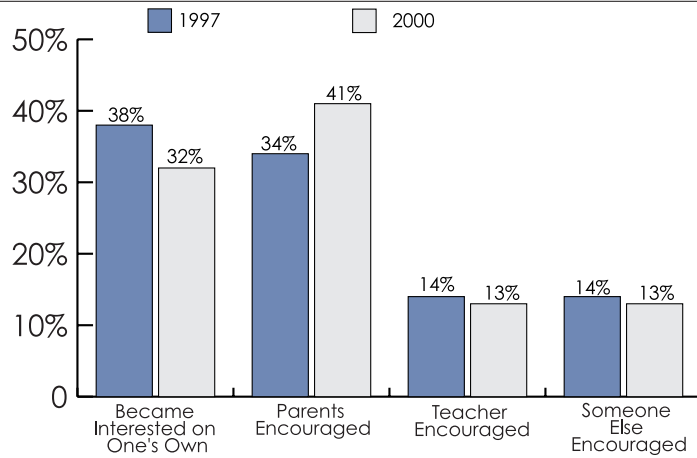
## Would purchase new when shopping for or buying a musical instrument

(By region of the country. Asked for first time in 2000)



## What motivates people to start playing?

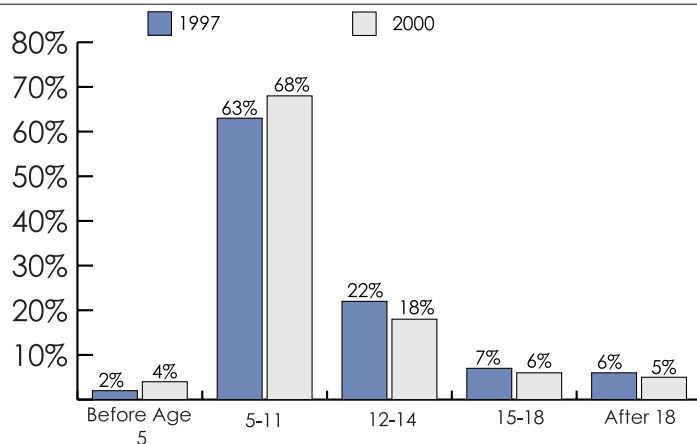
(All current or former players)



Significantly more were encouraged by their parents in 2000 than they were in 1997. Conversely, significantly fewer became interested on their own compared to 1997.

## Age at which first learned to play

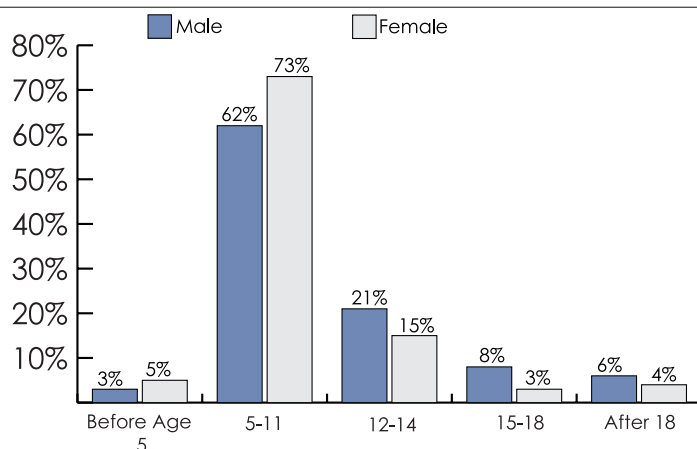
(All current or former players)



In both 1997 and 2000, the typical ages for first learning to play a musical instrument were 5 to 11. In both years, females were significantly more likely than males to first learn to play during these pre-teenage years.

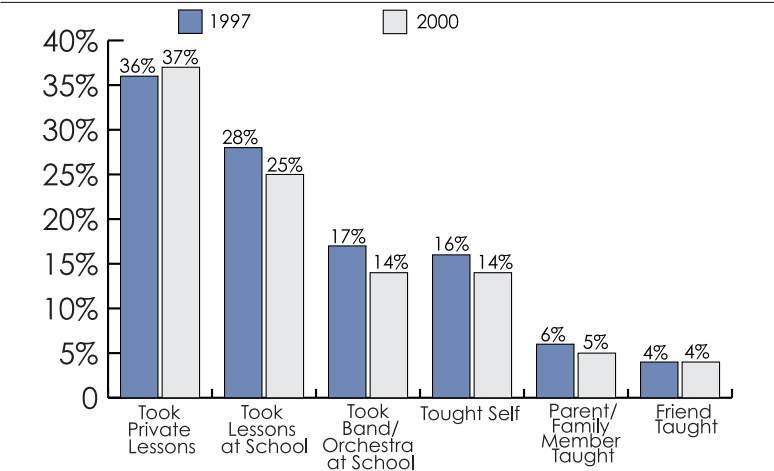
## Male vs. Female

(Age at which first learned to play)



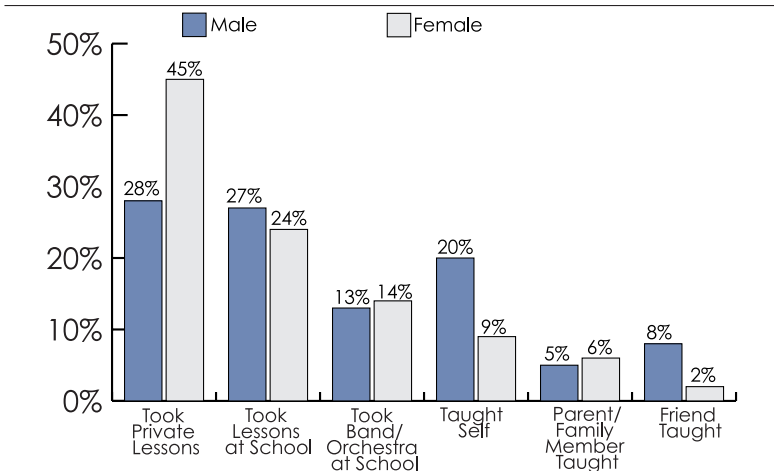
How did you first learn to play an instrument?  
(All current or former players)

As in 1997, most persons in 2000 said they first learned to play a musical instrument either through private lessons or lessons at school.

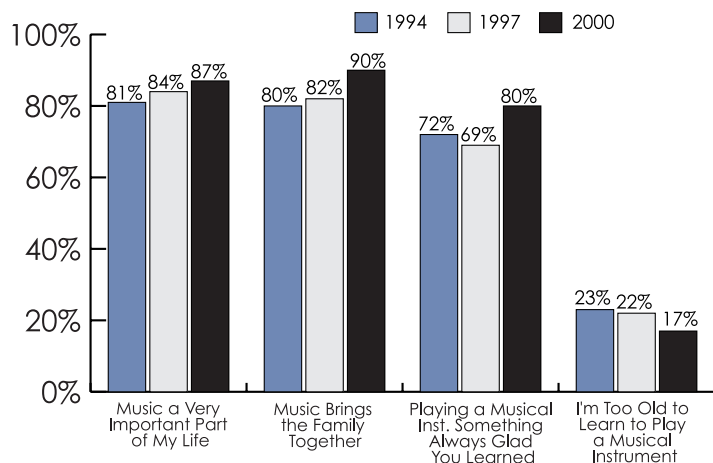


Male vs. Female:  
How did you first learn to play an instrument?  
(All current or former players, by gender)

In both surveys, females were significantly more likely to take private lessons than were males.

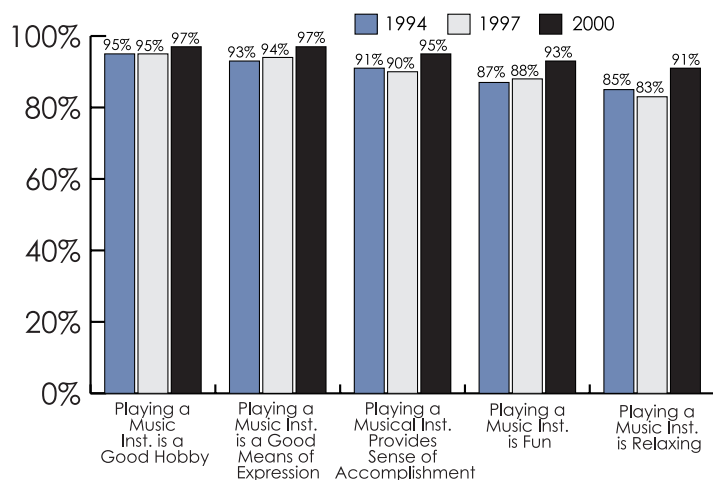


## Percentage of respondents who agree

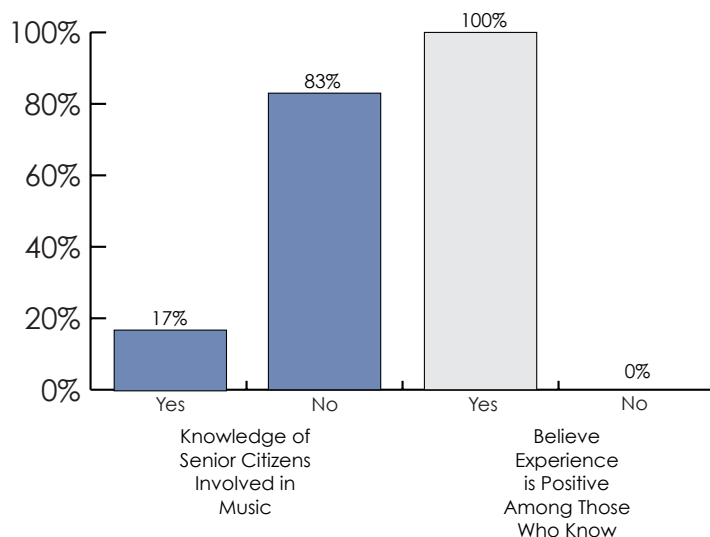


## AMERICAN ATTITUDES About Music Making

## Percentage of respondents who agree



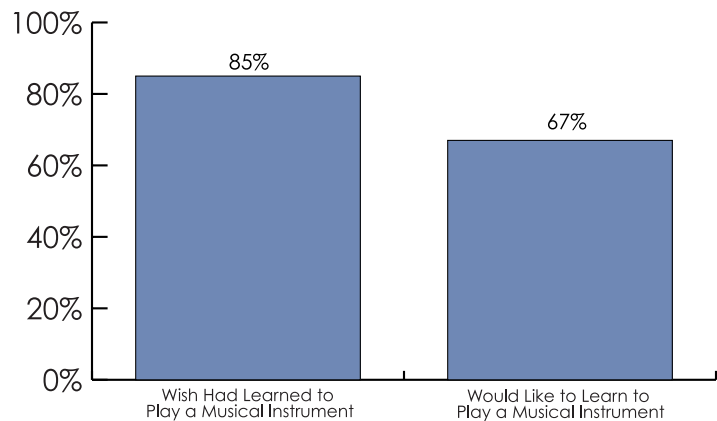
## Knowledge and opinion about senior citizens being involved in music (Year 2000 Respondents)



## AMERICAN ATTITUDES About Music Making

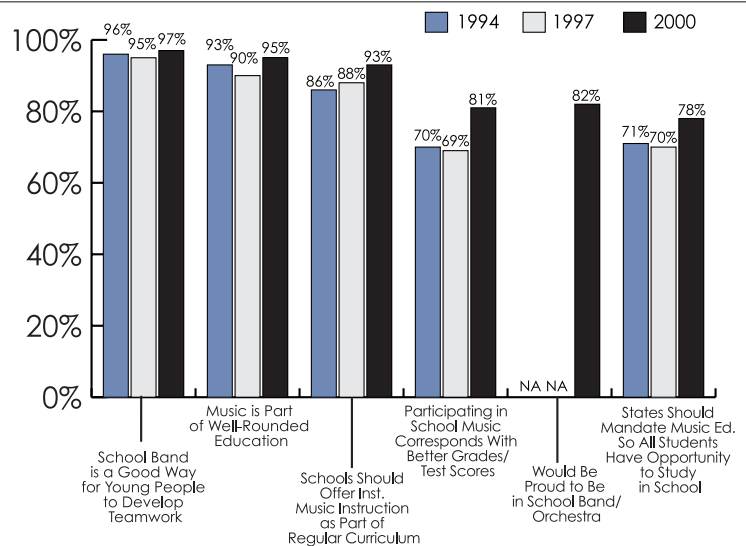
Over half of those questioned are potential new customers.

Percentage of respondents who agree  
(Asked for first time in 2000)



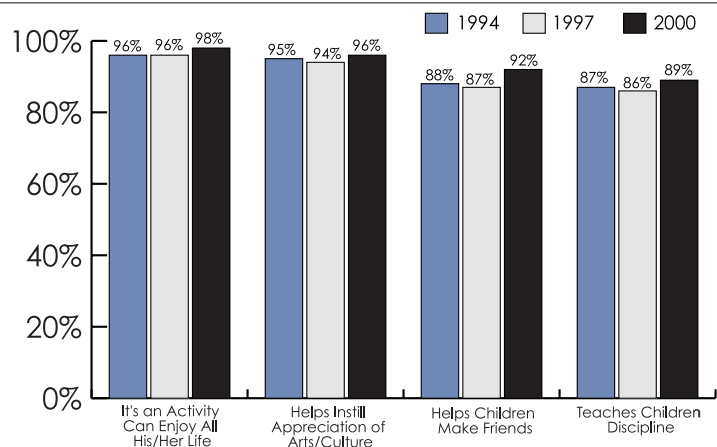
## Agreement with attitudes about music education in schools

(Percentages who "completely or mostly agree" among all respondents)



## Why should children learn to play musical instruments?

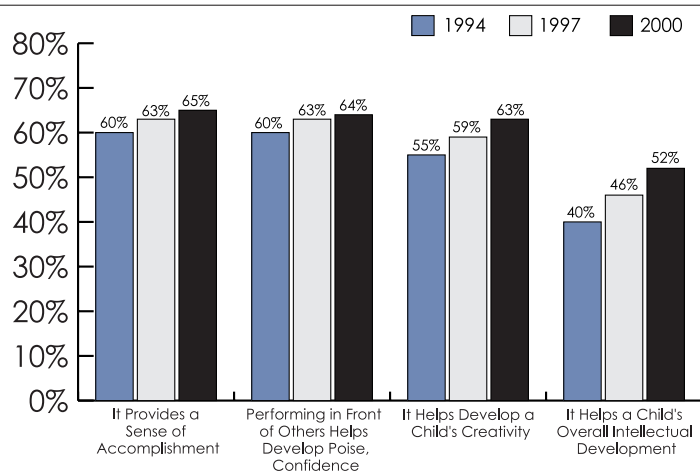
(Percentages who "completely or mostly agree" among all respondents)





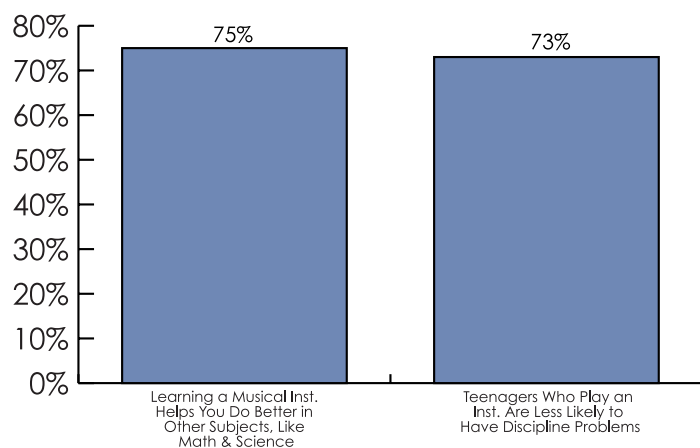
## Agreement with other attitudes about reasons a child should learn to play musical instruments

(Percentages who "completely agree" among all respondents)



## Percentage of respondents who agree

(Asked for first time in 2000)

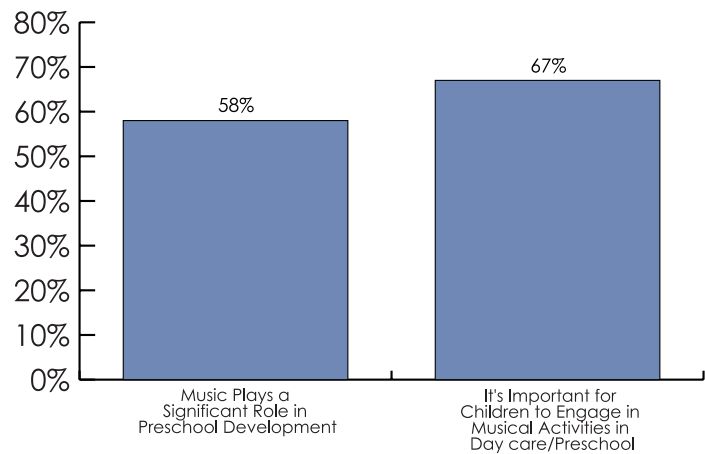


## **AMERICAN ATTITUDES**

### About Music Making

#### Agreement with attitudes about music at the preschool level

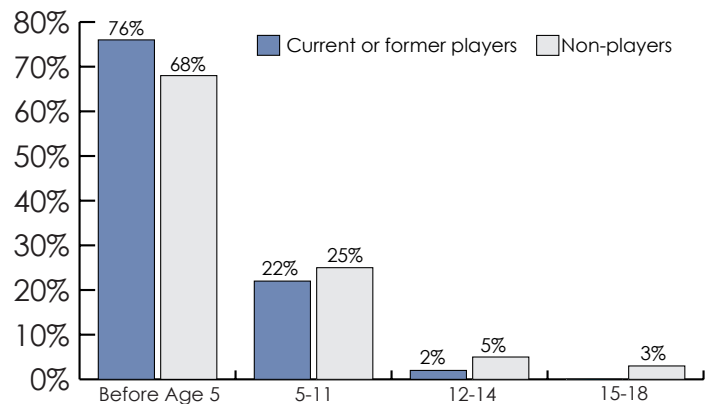
(Asked for first time in 2000)

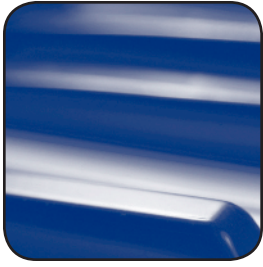


#### At what age do you believe children should be exposed to music making?

(Year 2000 Respondents)

A vast opportunity exists for tapping into the preschool-age market, since over 4% of people learn to play before age 5 (see pg. 27.)





# **MUSIC RETAILING 2002**



# THE HIGHS AND LOWS OF 2001 COMBO/SOUND STORES

Excerpts from NAMM's *Cost of Doing Business Report 2001*

## 2001 SUMMARY INCOME STATEMENT • HIGH VS. LOW PROFIT FIRMS • COMBO/SOUND STORES

	High Profit Firms	Low Profit Firms
Net Sales	100.0%	100.0%
Cost of Goods Sold	68.8%	72.0%
Gross Profit	31.2%	28.0%
Net Instrument Rental Income	2.4%	3.4%
Lesson/Studio Income	0.6%	3.7%
Repair & Service Income	1.1%	1.0%
Other Operating Income	0.4%	0.5%

<b>Total Operating Profit</b>	<b>35.7%</b>	<b>36.6%</b>
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### Operating Expenses:

Owners Compensation	6.6%	5.4%
Selling Salaries & Commissions	3.9%	9.7%
Administrative & Other Salaries & Wages	0.6%	3.2%
Fringe Benefits	1.7%	2.9%
Advertising & Promotion	1.9%	1.8%
Occupancy	5.7%	6.7%
Computer, Technology & E-Commerce	0.3%	0.0%
Other Operating Expenses	6.4%	9.9%
Total Operating Expenses	27.1%	39.6%

Income From Operations	8.6%	-2.9%
Interest Income & Finance Charges	0.0%	0.0%
Other Non-Operating Income	0.0%	0.2%
Interest Expense	0.5%	2.7%
Other Non-Operating Expense	1.7%	0.2%
Total Other Income (Expense)	-2.2%	-2.7%

<b>Profit Before Tax</b>	<b>6.5%</b>	<b>-5.6%</b>
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# COMBO/SOUND STORES

KEY PERFORMANCE MEASURES	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
<b>PROFITABILITY:</b>				
Net Profit Before Tax to Total Revenue	1.2%	-0.6 - 8.4	6.5%	-5.6%
Net Profit Before Tax to Total Assets	6.6%	-0.8 - 23.4	24.2%	-0.8%
Net Profit Before Tax to Net Worth	13.2%	-0.4 - 31.2	31.7%	-0.8%
EBIT to Total Assets	8.5%	4.0 - 23.4	24.2%	3.5%
<b>SPACE PRODUCTIVITY:</b>				
Total Revenue Per Store	\$823,544	434,941 - 1,062,338	\$434,941	\$896,238
Total Revenue Per Sq. Ft. of Total Area	\$141.68	106.23 - 250.02	\$102.86	\$141.68
Operating Margin Per Sq. Ft. of Total Area	\$60.50	40.02 - 106.69	\$53.39	\$71.09
<b>INVENTORY:</b>				
Gross Margin	30.0%	29.4 - 36.5	31.2%	28.0%
Sales to Inventory	4.5X	3.3 - 6.3	6.0X	4.0X
Gross Margin Return on Inventory	\$1.22	0.96 - 2.13	\$1.67	\$0.93
Inventory Turnover	2.5X	1.9 - 3.3	3.1X	2.1X
<b>PERSONNEL:</b>				
Merchandise Revenue Per Employee	\$171,283	146,318 - 202,741	\$184,825	\$165,687
Merchandise Revenue Per Selling Employee	\$242,446	157,073 - 342,054	\$194,643	\$274,053
Selling Payroll -- % of Merchandise Revenues	7.6%	4.1 - 10.3	3.8%	10.2%
Selling Payroll -- % of Merchandise Margin	26.7%	16.1 - 33.7	12.0%	32.3%
Merchandise Margin Per Employee	\$53,078	45,286 - 67,512	\$65,960	\$50,515
Merchandise Margin Per Selling Employee	\$73,310	47,223 - 116,859	\$65,796	\$80,824
<b>TOTAL ASSETS:</b>				
Asset Turnover	2.7X	2.5 - 3.1	2.8X	2.7X
<b>SALES PERFORMANCE:</b>				
Sales Growth Over Previous Year	14.0%	1.6 - 22.3	11.6%	15.2%
<b>FINANCIAL MANAGEMENT:</b>				
<b>LEVERAGE:</b>				
Total Debt to Total Assets	74.0%	58.3 - 80.8	66.1%	76.7%
Accounts Payable to Inventory	76.5%		N/A	N/A
Floor Plan to Inventory	47.0%		N/A	N/A
<b>LIQUIDITY:</b>				
Current Ratio	1.4X	1.1 - 1.8	1.4X	1.2X
Quick Ratio	0.3X	0.3 - 0.6	0.5X	0.3X

# THE HIGHS AND LOWS OF 2001

## KEYBOARD STORES

Excerpts from NAMM's *Cost of Doing Business Report 2001*

### 2001 SUMMARY INCOME STATEMENT • HIGH VS. LOW PROFIT FIRMS • KEYBOARD STORES

	High Profit Firms	Low Profit Firms
Net Sales	100.0%	100.0%
Cost of Goods Sold	53.5%	61.1%
Gross Profit	46.5%	38.9%
Net Instrument Rental Income	0.4%	1.4%
Lesson/Studio Income	0.3%	0.8%
Repair & Service Income	-0.3%	0.4%
Other Operating Income	0.7%	0.2%
<b>Total Operating Profit</b>	<b>47.5%</b>	<b>41.7%</b>
<b>Operating Expenses:</b>		
Owners Compensation	4.1%	3.5%
Selling Salaries & Commissions	9.1%	11.2%
Administrative & Other Salaries & Wages	2.8%	5.0%
Fringe Benefits	1.6%	1.8%
Advertising & Promotion	4.2%	4.8%
Occupancy	7.6%	5.1%
Computer, Technology & E-Commerce	0.1%	0.2%
Other Operating Expenses	8.1%	6.7%
Total Operating Expenses	37.5%	38.2%
Income From Operations	10.0%	3.5%
Interest Income & Finance Charges	0.1%	0.2%
Other Non-Operating Income	0.1%	0.4%
Interest Expense	1.3%	2.4%
Other Non-Operating Expense	0.6%	0.2%
Total Other Income (Expense)	-1.8%	-1.9%
<b>Profit Before Tax</b>	<b>8.2%</b>	<b>1.6%</b>

# KEYBOARD STORES

KEY PERFORMANCE MEASURES	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
<b>PROFITABILITY:</b>				
Net Profit Before Tax to Total Revenue	4.9%	1.6 - 6.7	8.2%	1.6%
Net Profit Before Tax to Total Assets	8.2%	3.1 - 13.8	13.8%	2.8%
Net Profit Before Tax to Net Worth	23.8%	4.9 - 34.5	31.9%	12.1%
EBIT to Total Assets	10.4%	8.0 - 16.7	17.3%	7.9%
<b>SPACE PRODUCTIVITY:</b>				
Total Revenue Per Store	\$1,379,524	882,077 - 2,278,703	\$1,006,079	\$1,934,212
Total Revenue Per Sq. Ft. of Total Area	\$219.80	152.55 - 357.46	\$294.49	\$184.50
Operating Margin Per Sq. Ft. of Total Area	\$90.22	49.99 - 127.58	\$123.97	\$83.55
<b>INVENTORY:</b>				
Gross Margin	42.6%	37.7 - 47.8	46.5%	38.9%
Sales to Inventory	3.1X	2.1 - 4.1	2.8X	3.1X
Gross Margin Return on Inventory	\$1.18	0.76 - 1.88	\$1.16	\$1.19
Inventory Turnover	1.8X	1.2 - 2.2	1.7X	1.8X
<b>PERSONNEL:</b>				
Merchandise Revenue Per Employee	\$213,306	144,651 - 293,994	\$265,818	\$206,798
Merchandise Revenue Per Selling Employee	\$430,807	263,529 - 563,037	\$352,387	\$451,317
Selling Payroll -- % of Merchandise Revenues	9.7%	6.7 - 12.0	7.9%	11.7%
Selling Payroll -- % of Merchandise Margin	20.5%	18.4 - 29.0	19.2%	25.4%
Merchandise Margin Per Employee	\$94,236	73,960 - 115,236	\$109,141	\$87,194
Merchandise Margin Per Selling Employee	\$184,484	118,714 - 237,800	\$174,449	\$196,186
<b>TOTAL ASSETS:</b>				
Asset Turnover	2.2X	1.6 - 2.5	2.2X	2.2X
<b>SALES PERFORMANCE:</b>				
Sales Growth Over Previous Year	1.1%	-8.7 - 7.1	5.1%	-7.4%
<b>FINANCIAL MANAGEMENT:</b>				
<b>LEVERAGE:</b>				
Total Debt to Total Assets	66.6%	47.2 - 87.7	58.6%	79.8%
Accounts Payable to Inventory	81.0%	51.3 - 98.4	71.9%	81.0%
Floor Plan to Inventory	62.6%	54.5 - 90.0	62.6%	61.6%
<b>LIQUIDITY:</b>				
Current Ratio	1.6X	1.2 - 3.2	1.6X	1.9X
Quick Ratio	0.3X	0.2 - 0.6	0.3X	0.3X

# THE HIGHS AND LOWS OF 2000 FULL LINE STORES

Excerpts from NAMM's *Cost of Doing Business Report 2001*

## 2000 SUMMARY INCOME STATEMENT • HIGH VS. LOW PROFIT FIRMS • FULL LINE STORES

	High Profit Firms	Low Profit Firms
Net Sales	100.0%	100.0%
Cost of Goods Sold	62.0%	64.6%
Gross Profit	38.0%	35.4%
Net Instrument Rental Income	13.5%	12.6%
Lesson/Studio Income	6.4%	3.4%
Repair & Service Income	2.5%	2.3%
Other Operating Income	0.6%	0.6%
<b>Total Operating Profit</b>	<b>60.9%</b>	<b>54.3%</b>
<b>Operating Expenses:</b>		
Owners Compensation	6.8%	4.5%
Selling Salaries & Commissions	12.5%	14.4%
Administrative & Other Salaries & Wages	5.2%	5.0%
Fringe Benefits	3.5%	2.9%
Advertising & Promotion	4.1%	3.9%
Occupancy	8.3%	7.6%
Computer, Technology & E-Commerce	0.3%	0.4%
Other Operating Expenses	10.8%	15.7%
Total Operating Expenses	51.5%	54.3%
Income From Operations	9.4%	-0.1%
Interest Income & Finance Charges	0.6%	1.4%
Other Non-Operating Income	1.7%	0.6%
Interest Expense	2.8%	2.7%
Other Non-Operating Expense	0.2%	0.4%
Total Other Income (Expense)	-0.6%	-1.2%
<b>Profit Before Tax</b>	<b>8.8%</b>	<b>-1.3%</b>



# FULL LINE STORES

KEY PERFORMANCE MEASURES	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
<b>PROFITABILITY:</b>				
Net Profit Before Tax to Total Revenue	3.9%	-0.2 - 5.4	8.8%	-1.3%
Net Profit Before Tax to Total Assets	2.4%	-0.6 - 6.5	6.6%	-0.7%
Net Profit Before Tax to Net Worth	7.3%	-1.2 - 20.1	19.2%	-1.2%
EBIT to Total Assets	6.8%	3.1 - 10.5	10.5%	3.0%
<b>SPACE PRODUCTIVITY:</b>				
Total Revenue Per Store	\$1,183,700	619,655 - 2,035,465	\$1,496,783	\$1,209,752
Total Revenue Per Sq. Ft. of Total Area	\$214.50	126.65 - 282.59	\$234.14	\$173.53
Operating Margin Per Sq. Ft. of Total Area	\$90.85	68.75 - 127.68	\$107.79	\$78.54
<b>INVENTORY:</b>				
Gross Margin	37.1%	33.2 - 40.4	38.0%	35.4%
Sales to Inventory	2.7X	2.1 - 3.4	2.7X	2.7X
Gross Margin Return on Inventory	\$1.02	0.68 - 1.44	\$1.04	\$0.90
Inventory Turnover	1.7X	1.4 - 2.0	1.7X	1.6X
<b>PERSONNEL:</b>				
Merchandise Revenue Per Employee	\$132,554	109,923 - 157,324	\$135,942	\$131,333
Merchandise Revenue Per Selling Employee	\$234,177	172,918 - 288,102	\$235,989	\$219,389
Selling Payroll -- % of Merchandise Revenues	11.3%	10.5 - 15.2	11.2%	12.5%
Selling Payroll -- % of Merchandise Margin	31.9%	26.2 - 42.0	29.4%	33.8%
Merchandise Margin Per Employee	\$54,104	43,765 - 70,197	\$56,981	\$52,082
Merchandise Margin Per Selling Employee	\$101,112	68,366 - 127,675	\$112,874	\$99,230
<b>TOTAL ASSETS:</b>				
Asset Turnover	1.6X	1.4 - 2.0	1.8X	1.5X
<b>SALES PERFORMANCE:</b>				
Sales Growth Over Previous Year	3.4%	-1.6 - 9.4	4.5%	0.2%
<b>FINANCIAL MANAGEMENT:</b>				
<b>LEVERAGE:</b>				
Total Debt to Total Assets	63.5%	47.6 - 78.8	60.5%	64.8%
Accounts Payable to Inventory	53.4%	35.9 - 70.5	51.3%	60.7%
Floor Plan to Inventory	23.9%	12.3 - 43.0	39.6%	19.8%
<b>LIQUIDITY:</b>				
Current Ratio	1.7X	1.4 - 3.1	1.9X	1.7X
Quick Ratio	0.5X	0.2 - 0.9	0.5X	0.5X

# THE HIGHS AND LOWS OF 2001 SCHOOL MUSIC STORES

Excerpts from NAMM's *Cost of Doing Business Report 2001*

## 2001 SUMMARY INCOME STATEMENT • HIGH VS. LOW PROFIT FIRMS • FULL LINE STORES

	High Profit Firms	Low Profit Firms
Net Sales	100.0%	100.0%
Cost of Goods Sold	65.0%	58.7%
Gross Profit	35.0%	41.3%
Net Instrument Rental Income	25.8%	18.5%
Lesson/Studio Income	6.4%	5.0%
Repair & Service Income	9.2%	9.0%
Other Operating Income	0.3%	0.2%

<b>Total Operating Profit</b>	<b>76.7%</b>	<b>73.9%</b>
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### Operating Expenses:

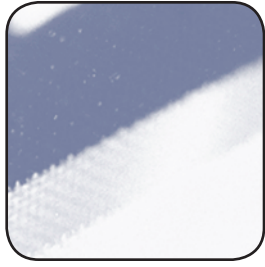
Owners Compensation	8.6%	12.3%
Selling Salaries & Commissions	15.0%	14.9%
Administrative & Other Salaries & Wages	6.9%	6.4%
Fringe Benefits	4.3%	4.8%
Advertising & Promotion	2.6%	3.7%
Occupancy	7.4%	7.6%
Computer, Technology & E-Commerce	0.2%	1.2%
Other Operating Expenses	16.8%	14.8%
Total Operating Expenses	61.7%	65.7%

Income From Operations	15.0%	8.3%
Interest Income & Finance Charges	0.8%	2.0%
Other Non-Operating Income	0.0%	0.4%
Interest Expense	4.0%	2.0%
Other Non-Operating Expense	0.1%	0.8%
Total Other Income (Expense)	-3.3%	-0.4%

<b>Profit Before Tax</b>	<b>11.7%</b>	<b>7.9%</b>
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# SCHOOL MUSIC STORES

KEY PERFORMANCE MEASURES	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
<b>PROFITABILITY:</b>				
Net Profit Before Tax to Total Revenue	9.4%	2.8 - 13.9	11.7%	7.9%
Net Profit Before Tax to Total Assets	9.3%	6.4 - 13.5	14.0%	7.9%
Net Profit Before Tax to Net Worth	21.7%	11.3 - 36.9	39.2%	15.1%
EBIT to Total Assets	12.6%	9.6 - 17.1	17.5%	9.3%
<b>SPACE PRODUCTIVITY:</b>				
Total Revenue Per Store	\$963,059	380,115 - 2,103,598	\$1,451,209	\$834,898
Total Revenue Per Sq. Ft. of Total Area	\$196.24	137.27 - 288.02	\$230.03	\$205.42
Operating Margin Per Sq. Ft. of Total Area	\$98.24	64.43 - 148.07	\$98.24	\$100.84
<b>INVENTORY:</b>				
Gross Margin	37.8%	30.4 - 44.8	35.0%	41.3%
Sales to Inventory	2.8X	1.8 - 3.9	2.7X	2.8X
Gross Margin Return on Inventory	\$1.17	0.74 - 1.35	\$0.84	\$1.25
Inventory Turnover	1.7X	1.1 - 2.4	1.5X	1.8X
<b>PERSONNEL:</b>				
Merchandise Revenue Per Employee	\$104,753	84,026 - 169,707	\$168,986	\$88,543
Merchandise Revenue Per Selling Employee	\$241,046	117,423 - 329,783	\$286,568	\$177,087
Selling Payroll -- % of Merchandise Revenues	11.9%	9.3 - 18.6	12.2%	11.5%
Selling Payroll -- % of Merchandise Margin	29.1%	22.5 - 47.6	31.9%	29.1%
Merchandise Margin Per Employee	\$53,962	39,280 - 72,973	\$67,843	\$46,335
Merchandise Margin Per Selling Employee	\$97,014	57,944 - 137,134	\$136,824	\$77,925
<b>TOTAL ASSETS:</b>				
Asset Turnover	1.6X	1.0 - 2.3	1.9X	1.0X
<b>SALES PERFORMANCE:</b>				
Sales Growth Over Previous Year	4.5%	-2.8 - 11.6	12.0%	-0.3%
<b>FINANCIAL MANAGEMENT:</b>				
<b>LEVERAGE:</b>				
Total Debt to Total Assets	61.7%	33.4 - 75.0	56.7%	66.7%
Accounts Payable to Inventory	N/A		N/A	N/A
Floor Plan to Inventory	N/A		N/A	N/A
<b>LIQUIDITY:</b>				
Current Ratio	2.2X	1.5 - 3.8	2.9X	2.0X
Quick Ratio	0.7X	0.2 - 1.6	1.1X	0.7X



Profile of the  
**AMERICAN MUSIC DEALER 2002**



# U.S. DEALER BASE REBOUNDS

## with 2.9 Percent Unit Gain

Following the steepest decline in seven years (-2.3 percent) last year, the U.S. music products retail universe bounced back in impressive fashion in 2001-2002, posting a 2.9 percent increase in storefronts. In the 12 months from May, 2001, to this May, total outlets increase from 8,208 to 8,447 stores nationally.

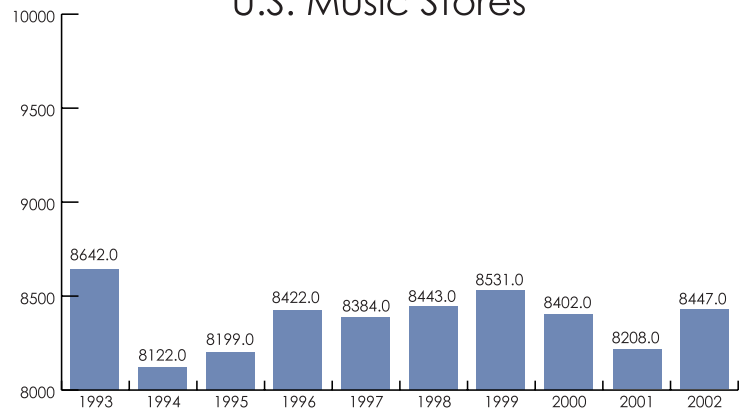
Over the last decade, and despite robust industry growth, the storefront scenario has been a topsy-turvy affair, to say the least. In the period of 1991-93, stores registered a string of significant dips: -4.9 percent, -3.4 percent and -6.4 percent. The situation turned around after that, as the store universe booked gains in four of the next five years. Shrinkage again took center stage in 1999-2001, with decreases of 1.5 and 2.3 percent. However, the growth over the last year more than wipes out last year's net loss of 194 stores with a net addition of 239 units.

The increase in stores may come as something of a surprise, given that the conventional wisdom held that the business – and the entire American economy – was in a contraction mode during the last year, if not an outright recession. This dire assessment turned out to be considerably overblown, as the trade recovered rapidly from the tragedies of September 11th and most dealers experienced a solid fourth-quarter selling season. The U.S. economy then entered 2002 with robust growth in the opening months and the economic pundits from Alan Greenspan on down quietly put the “r-word” on the shelf until further notice.

The increases, including some sizable gains in states that had been among the leading decliners last year, were geographically widespread. In all, 32 of the 50 states saw a net gain in stores. It's also noteworthy that the increase was not the handiwork of the big-box chains during the last year. While Guitar Center forged ahead with a dozen large- and small-format locations to pass the 100-store

mark, Mars Music shuttered nine stores at the end of the first quarter this year, and Sam Ash added just two outlets. Brook Mays and Music & Arts continued to take over dealerships around the country, but their bold moves did not add appreciably to the total store count. Clearly then, the expansion was driven by small and mid-sized operations who decided the time was right to enter the business or to expand with an additional store or stores.

U.S. Music Stores



# 8,447 MUSIC PRODUCT STORES:

## What They Sell

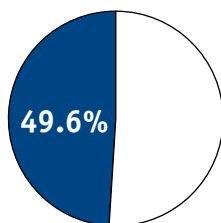
As the chart indicates, all major product categories had declines in terms of the number of stores representing them. Sound reinforcement/recording, fretted, and print saw drop-offs in excess of 4 percent, while keyboards, band & orchestra, and drums/percussion had more modest drops. In the case of fretted and sound

reinforcement/recording, the shortfall might, at least in part, be attributed to independent dealers shying away from these categories as acceptable margins become harder to achieve in the face of big-box competition.

	1998	1999	2000	2001	2002	% Change 00-01
Keyboard/Piano/Organ	4,328	4,341	4,281	4,070	4,000	-1.7%
Band & Orchestra	4,036	4,187	4,152	3,900	3,791	-2.8%
Drums/Percussion	4,277	4,296	4,301	4,076	4,020	-1.4%
Sound Reinf./Rec. Equip.	4,109	4,091	4,005	3,963	3,792	-4.3%
Fretted Inst.	5,880	5,828	5,714	5,627	5,378	-4.4%
Print Music	4,384	4,384	4,331	4,320	4,137	-4.2%

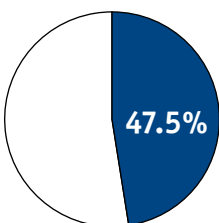
## PROFILE OF THE AMERICAN MUSIC DEALER

keyboard/piano/organ



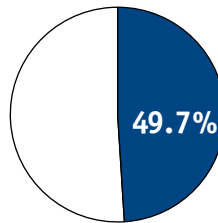
49.6% of all music stores  
sell keyboards, pianos  
and/or organs

band & orchestra



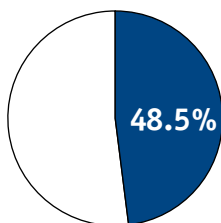
47.5% of all music stores  
sell band & orchestra  
instruments

drums/percussion



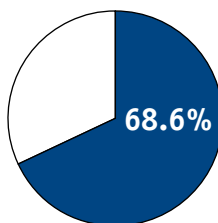
49.7% of all music stores  
sell drums and/or  
percussion

sound reinf./rec. equip.



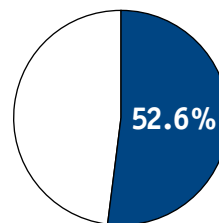
48.3% of all music stores  
sell sound reinforce-  
ment and/or recording  
equipment.

fretted inst.



68.6% of all music stores  
sell stringed and/or  
fretted instruments

print music



52.6% of all music stores  
sell print music

## SPECIALTY STORES

Among all U.S. music products retailers, just over one-quarter (27.5 percent, or 2,320 stores) focus on a single product category. The number of specialty dealers of this ilk declined from last year, when they accounted for 29.4 percent of all retail locations.

Most numerous among the specialists are keyboard stores, which comprise 9 percent of all storefronts. Guitar shops account for 7.6 percent of all music stores. As the chart shows, the numbers of all specialty dealerships, with the exception of print and band & orchestra, declined during the year.

*(Ed. Note: In addition to the specialty stores listed above, 71 dealers classified themselves as specialists, but did not indicate their product specialty.)*

	1998	1999	2000	2001	2002	% Change 01-02
<b>Keyboard/Piano/Organ</b>	852	878	868	824	768	-6.8%
<b>Band &amp; Orchestra</b>	224	323	309	287	291	+1.4%
<b>Drums/Percussion</b>	159	172	178	169	161	-4.7%
<b>Sound Reinf./Rec. Equip.</b>	252	270	279	276	259	-6.2%
<b>Fretted Inst.</b>	662	706	675	658	644	-2.1%
<b>Print Music</b>	106	112	111	111	126	+13.5%

# STATE BY STATE BREAKDOWN

	Stores '02	Stores '01	Unit Change	% Change
ALABAMA	139	138	+1	+0.7%
ALASKA	32	36	-4	-11.1%
ARIZONA	134	126	+8	+6.3%
ARKANSAS	97	103	-5	-5.8%
CALIFORNIA	1,010	963	+47	+4.9%
COLORADO	141	136	+5	+3.7%
CONNECTICUT	132	133	-1	-0.8%
DELAWARE	27	27	-	even
DIST. OF COLUMBIA	5	6	-1	-16.7%
FLORIDA	408	411	-3	-0.7%
GEORGIA	242	234	+8	+3.4%
HAWAII	50	44	+6	+13.6%
IDAHO	43	41	+2	+4.9%
ILLINOIS	381	373	+8	+2.1%
INDIANA	193	189	+4	+2.1%
IOWA	104	102	+2	+2.0%
KANSAS	93	93	-	even
KENTUCKY	141	129	+12	+9.3%
LOUISIANA	98	102	-4	-3.9%
MAINE	40	42	-2	-4.8%
MARYLAND	119	117	+2	+1.7%
MASSACHUSETTS	241	226	+15	+6.6%
MICHIGAN	267	265	+2	+0.8%
MINNESOTA	162	164	-2	-1.2%
MISSISSIPPI	67	69	-2	-2.9%
MISSOURI	172	179	-7	-3.9%
MONTANA	30	30	-	even
NEBRASKA	60	59	+1	+1.7%
NEVADA	45	43	+2	+4.7%
NEW HAMPSHIRE	49	47	+2	+4.2%
NEW JERSEY	217	197	+20	+10.2%
NEW MEXICO	69	66	+3	+4.5%

	Stores '02	Stores '01	Unit Change	% Change
NEW YORK	514	493	+21	+4.3%
NORTH CAROLINA	245	252	-7	-2.8%
NORTH DAKOTA	27	26	+1	+3.8%
OHIO	360	360	-	even
OKLAHOMA	107	99	+8	+8.1%
OREGON	152	150	+2	+1.3%
PENNSYLVANIA	413	401	+12	+3.0%
RHODE ISLAND	35	37	-2	-5.5%
SOUTH CAROLINA	111	107	+4	+3.7%
SOUTH DAKOTA	21	20	+1	+5.0%
TENNESSEE	208	193	+15	+7.8%
TEXAS	486	446	+40	+9.0%
UTAH	82	77	+5	+6.5%
VERMONT	31	31	-	even
VIRGINIA	204	182	+22	+12.1%
WASHINGTON	212	199	+13	+6.5%
WEST VIRGINIA	53	50	+3	+6.0%
WISCONSIN	155	157	-2	-1.3%
WYOMING	23	24	-1	-4.2%
<b>TOTAL</b>	<b>8,447</b>	<b>8,208</b>	<b>+239</b>	<b>+2.9%</b>

\*District of Columbia figure also includes certain Virginia-based stores within the Metropolitan Washington, D.C., area.

## STORE COUNT INCREASES IN 32 STATES

From a geographical perspective, the industry did a nearly total about-face over the last 12 months. In the July 2001 issue, we reported store declines in more than three-quarters of the 50 states, 38 to be exact. This year, increases abounded, with 32 states having a net increase and another 5 holding steady.

The few states charting decreases are mainly in the Southeast, the central part of the country extending from Minnesota to Louisiana, and in New England. Yet, in these same regions other states fared well. For example, while Florida, Mississippi, Louisiana and Arkansas were down, other Southern states booked gains. Likewise, three New England states were off for the year, yet Massachusetts bounced back from a 3.1 percent decline in 2001 to post a 6.6 percent increase in outlets.

The largest gainers were literally all over the map, with top growth states ranging from Hawaii to New Jersey and Washington state to Kentucky.

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# NOTES

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# MUSIC USA 2002



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