MUSIC USA

NAMM • 2003

A STATISTICAL REVIEW OF THE MUSIC PRODUCTS INDUSTRY

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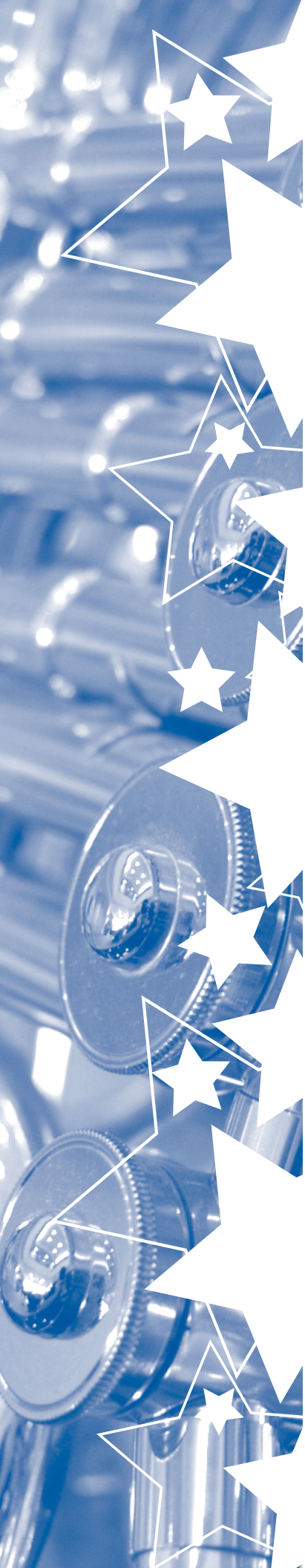

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ACKNOWLEDGMENTS

We wish to express our appreciation to *Music Trades* magazine for providing all U.S. music products industry sales and unit information and analysis. All such industry statistical data is copyright by Music Trades Corporation. Other sources of information within *Music USA* have been credited as indicated in the publication. We also wish to thank The Larkin Group (*Musical Merchandise Review*) for their assistance in providing the "Profile of the American Music Dealer."

EDITOR
Deborah Brada

ASSOCIATE EDITOR
Lara Severson

ART DIRECTION/DESIGN
Stuart Robertson

A MESSAGE FROM THE CHAIRMAN & PRESIDENT/CEO

Ebb and Flow.

It's the nature of all things, including business. But when you're caught in the current of a turbulent economic cycle, it's hard to see beyond the dark clouds on the horizon and know that the tough times will pass. The good news is that—despite all of the obstacles thrown our way over the years—the music products industry has consistently demonstrated stable and sustained growth. In fact, most of the challenges we face today in business were also faced by our parents and grandparents before us. And while it is our collective mission to strengthen the industry and create even more active music makers, we can take pride in the fact that, as a group, we've increased the size of the market during one of the most trying years in memory.

STEVE WEST

JOE LAMOND

NAMM exists to serve all our Members, large and small. We encourage you to take advantage of the many services your association provides to help your company thrive. From offering money-saving business services and market development programs to customized professional growth opportunities and world-class trade shows, we are dedicated to your success.

We hope you find this year's *Music USA* as intriguing as we do. Over the next few pages, you can check out new segment statistics, the very encouraging results of our recent Gallup Poll, the *2003 Cost of Doing Business Report,* and the latest Profile of the American Music Dealer. You can use this information to spot the trends, seek out opportunities, and learn a little more about how your peers are doing. The information reflects the increasing number of people around the world who now make music—and suggests an even brighter future for our industry.

Enjoy!

Steve West, Chairman

Joe Lamond, President/CEO

UNDERSTANDING THE DATA

All statistical data on musical products shipped in the United States 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.

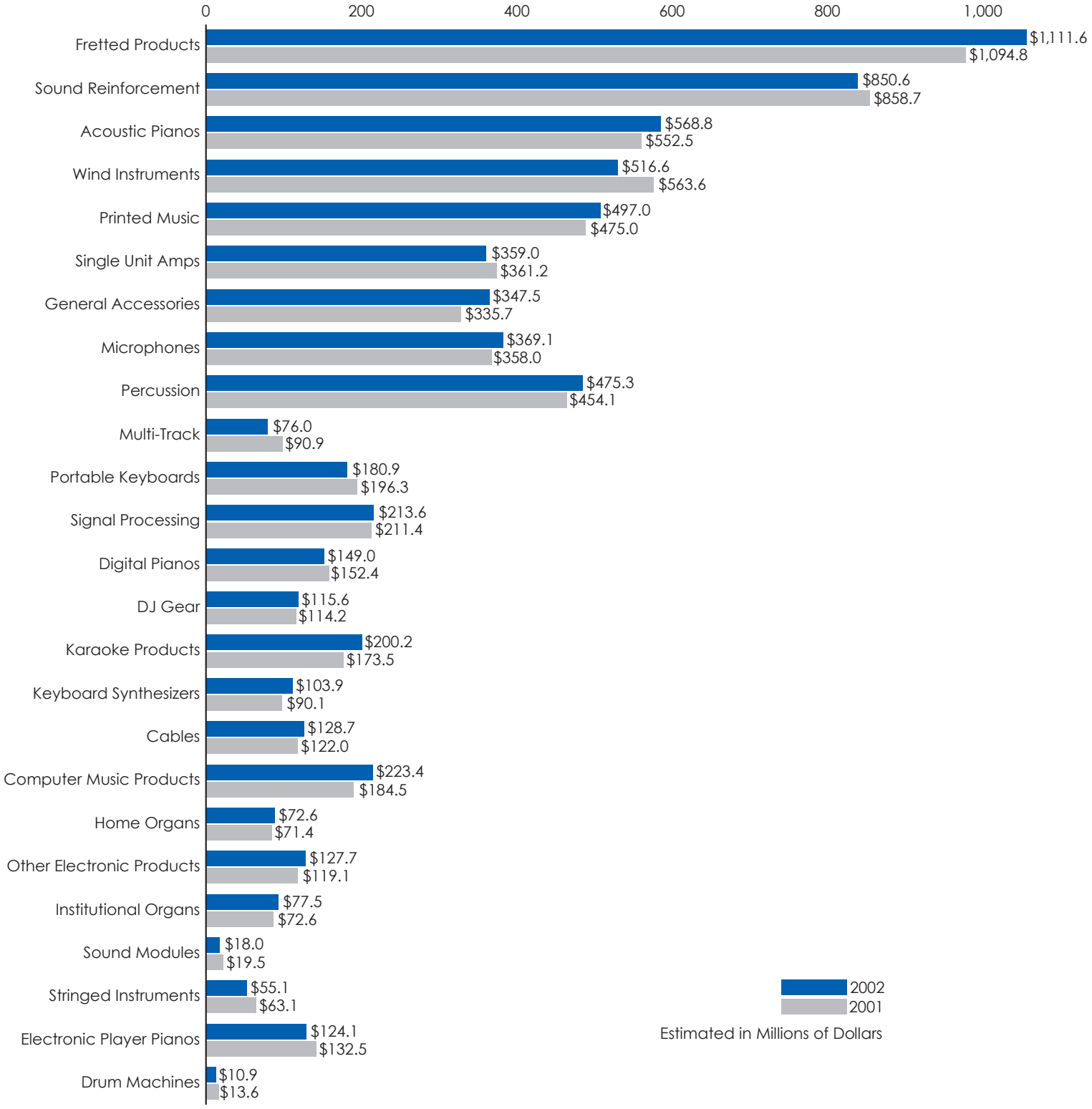
Retail value was calculated by applying an average retail markup to the value of wholesale shipments. The markup is based on the results of a national survey of several hundred retailers.

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 $6.9 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 2001–2002)



INTRODUCTION

Industry sales inched up 1.5 percent in 2002 to $6.97 billion, but failed to match the record level of $7.1 billion set in 2000. With a legion of high-profile industries reporting significant sales declines, the industry's modest uptick should have been cause for celebration. Just consider that the personal computer industry saw sales shrink by 9 percent. However, with expectations raised after a decade of heady growth, the current sales plateau left many retailers and manufacturers thinking the proverbial glass was half empty. These types of periodic disappointments typically lead to a lot of soul-searching as industry members look for ways to rekindle sales growth. It's usually a good idea to diagnose the problem before prescribing a cure, especially given the peculiar nature of the current malaise.

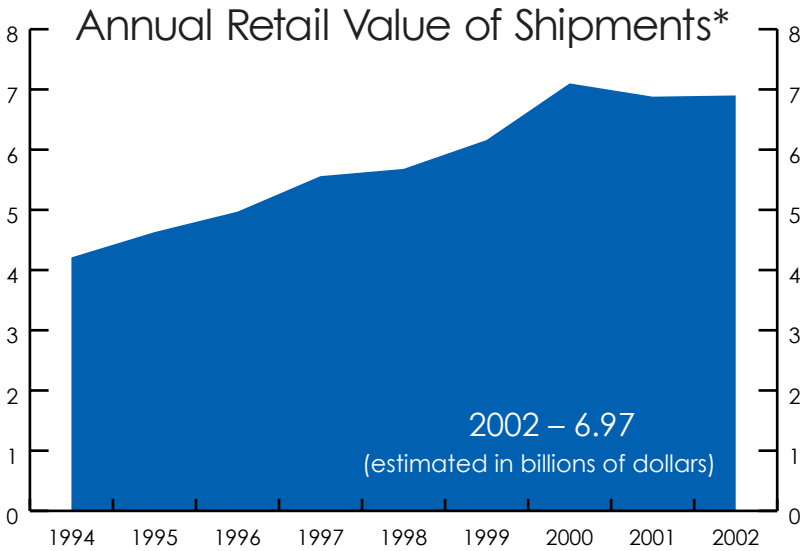
The media is full of dispiriting economic news: unemployment is rising, the stock market continues to sink, deficits are swelling, and consumer confidence is on the ropes. An intelligent person taking in all this information could justifiably conclude that the industry's current stagnation was due to a slightly spooked buying public that decided to pull back on discretionary spending. While that explanation makes perfect sense, it doesn't accurately reflect the current state of affairs.

Measured on a unit basis, most major product categories posted significant gains last year. Sales of guitars advanced 11 percent, piano sales increased 5.5 percent, and drum kits were up 11 percent. These unit advances indicate that consumers were hardly reluctant to open their wallets and spend on all types of music and sound products. Unfortunately for those in the business of making and selling the gear, prevailing prices headed south, so dollar volumes barely budged.

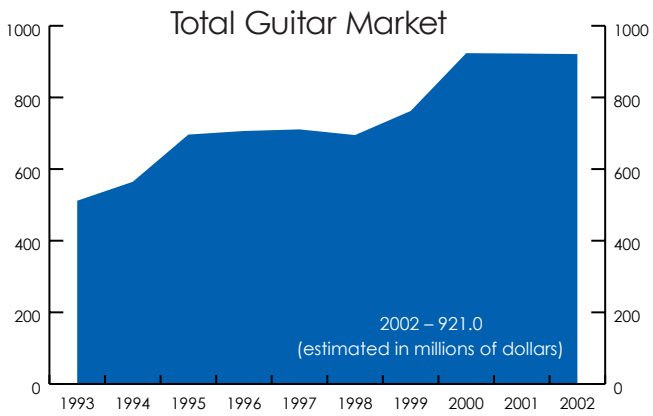
The cause of these falling prices can be traced back to the irrefutable law of supply and demand. With more efficient manufacturing methods and the opening of a slew of new factories in China, the industry's ability to crank out stuff has grown faster than consumer demand. When you have factories around the world operating below capacity and warehouses filling up with unsold merchandise, the inevitable outcome is a price war. It's this pitched battle, not consumer uncertainty, that is the primary cause of industry stagnation.

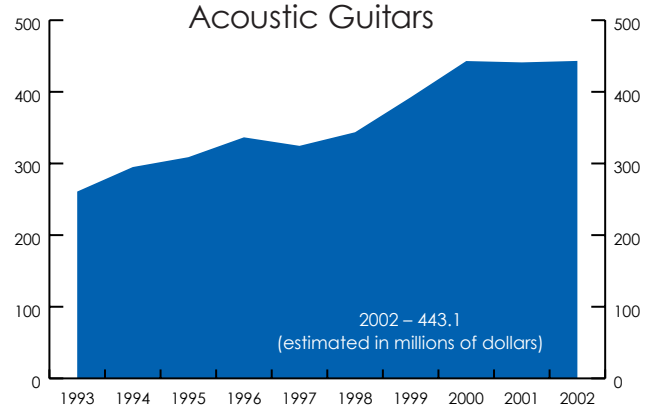
What is the cure for excess capacity? Given that collusion to raise prices is against the law in most countries, the only other alternative is patience. Over time, if a factory or a store doesn't generate a sufficient return, it is eventually closed. Some type of contraction in the industry's productive capacity is inevitable; the only question is how long it will take. The bad news is that such contractions are usually drawn out over several years. The good news is that better times await the survivors. In the case of the music industry, that news is doubly good, given the robust consumer demand for our entire range of products.

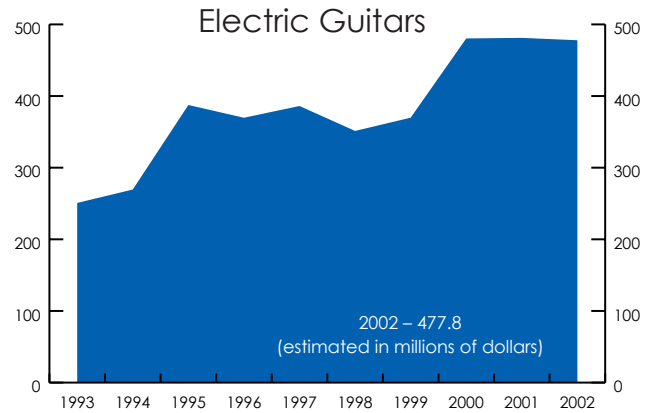
In the following pages, we offer more detailed analysis of 57 different product categories.

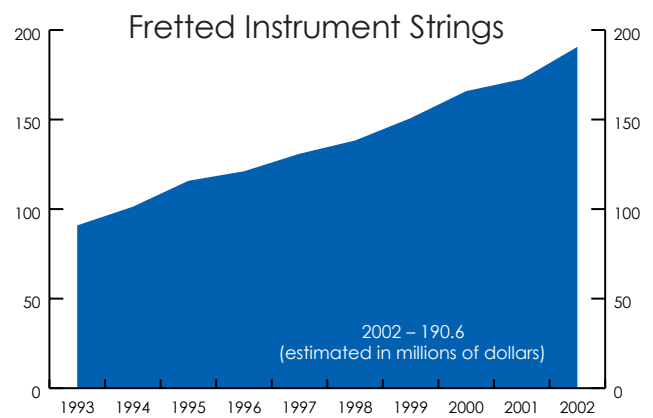


* Figures for 1996, 1997 and 1998 have been revised to reflect sales of music software and drum kits through non-music store channels. The omission of these sales has, in the past, resulted in a large under-reporting of the respective categories.









SEGMENT DATA

The Fretted Instrument Market

A review of guitar sales data neatly sums up the larger challenge faced by the entire musical products industry. The world's most popular musical instrument seemed to have broadened its appeal during the 12 months of 2002. Sales of acoustic guitars advanced a brisk 14.8 percent to 973,522 units, while electric guitars increased 8.2 percent to 969,103 units. The reason for these enormous unit volumes is easy to explain. First, despite the rise of hip-hop and techno music styles, the guitar remains at the center of current popular music. A cursory scan of the Billboard Hot 100 charts reveals that at least 80 percent of the best-selling CDs prominently feature the guitar. Secondly, the guitar appeals to the broadest demographic segment of any product within the industry. From 10-year-old beginners to 60-year-olds who got hooked in the folk boom of the '50s, there are large numbers of guitarists in every age group.

The good news is that interest in the guitar shows no sign of abating. The bad news is that excess global capacity has continued to push average unit selling prices downward. Despite a whopping gain in unit sales, dollar volume in acoustic and electric guitars remained unchanged in 2002. This stagnant dollar volume is the result of a "perfect storm" of factors. First, there is "the Chinese factor." With a prevailing labor rate of under $1 per hour, a Chinese manufacturer can produce a guitar at about half the price of a very efficient Western factory. The influx of Chinese imports has contributed to a downward realignment of price points. The pricing problem is aggravated by the high salesperson turnover at the chain stores.

Without knowledgeable staff capable of explaining the nuances of higher-priced guitars, consumers tend to migrate toward cheaper instruments. Finally, the bursting of the stock market bubble and consumer uncertainty had a serious impact on the sale of high-end instruments. Unit sales of electric guitars over $1,000 dropped by 20 percent. High-end acoustics fared better, but still slipped about 8 percent.

Sales of guitar amplifiers closely mirrored guitar sales, with units up nearly 8 percent and dollar volume virtually unchanged. Sales of ultra-high-end tube amps were off, largely due to economic considerations. Chinese-made products have taken a larger share of the market, further pushing price points downward. As one U.S. manufacturer remarked, "Outside of China, you can't be competitive at the under-$500 (retail) price point."

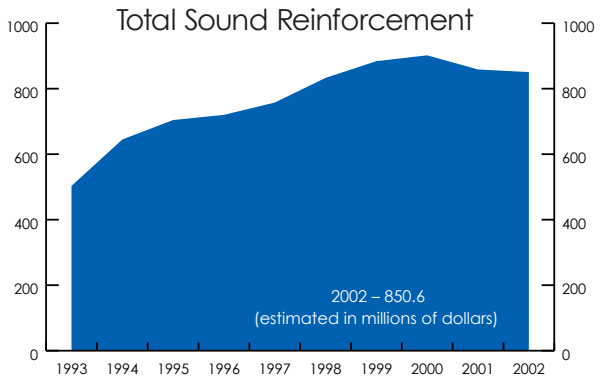
Guitar strings posted a 10.4 percent sales gain, due in part to a steady increase in the pool of guitarists. The gain was also helped by an increase in the sale of high-priced coated strings.

Sound Reinforcement

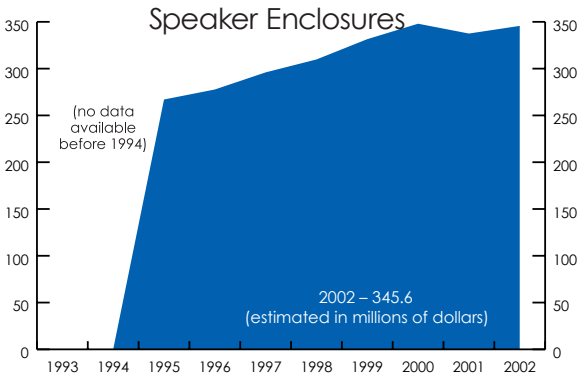
A modest decline of 2.9 percent in sound reinforcement sales masked dramatic upheavals in the marketplace. From all outward indications, consumer uncertainty, talk of war, and the protracted stock market slump had little impact on demand for sound systems. Music groups, churches, and a host of venues continued to purchase sound gear at a brisk pace. What changed over the past 12 months was what they bought and how much they paid for it.

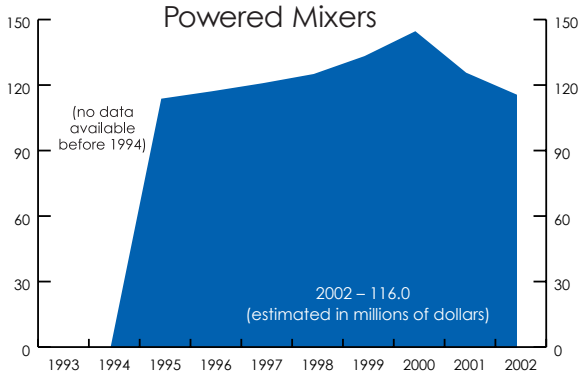
More efficient power amplifiers have resulted in extremely practical and cost-effective powered loudspeakers. Consumers apparently like the fact that, for most small installations, a powered speaker is easier to install and harder to blow up. This trend toward higher-priced powered speakers resulted in a 2 percent sales gain in the speaker enclosure category. The shift toward powered speakers also helped boost the sale of non-powered analog mixers. For the year, the category advanced 26 percent to 247,000 units with a retail value of $172.9 million.

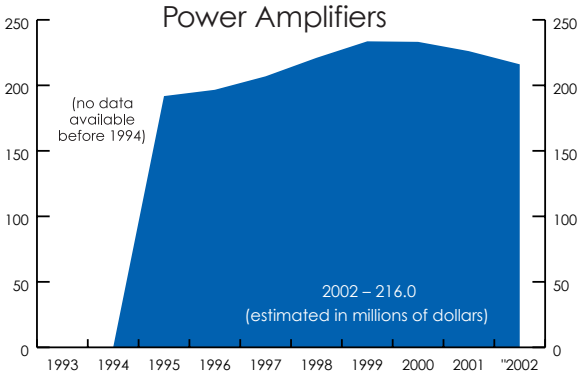
More power amps built into speaker enclosures translated into decreased sales of power amps and powered mixers. Both categories showed declines in unit and dollar value, largely reflecting the consumer preference for powered speaker cabinets.

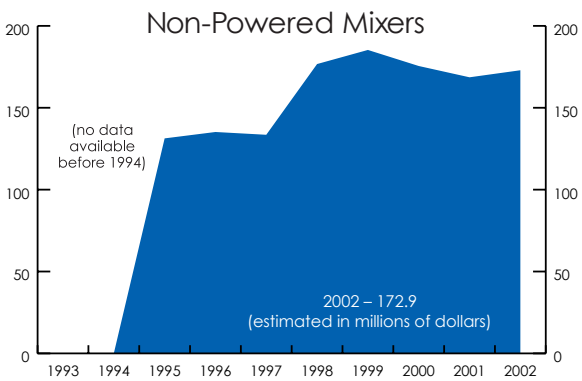


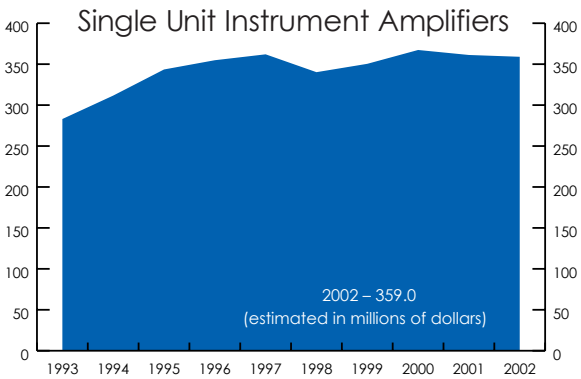
Data represents an estimate of sound reinforcement products sold by the approximately 6,000 retailers in the United States. Excluded from the data are sound products for the cinema, tour sound, broadcast, and large fixed installation markets.











Sound Reinforcement (Continued)

In addition to a shift in the basic product mix, the sound reinforcement market was affected by a torrent of lower-priced Chinese manufactured products. With labor rates as low as 80 cents an hour, Chinese factories are redefining industry price points, particularly in mature product categories such as speaker enclosures, power amps, and mixers. As one U.S. executive put it, "There's no way an American factory can be competitive at anything with less than a $500 retail price." The increased presence of Chinese products is amply reflected in reduced average-selling prices in every segment of the sound market. No one expects this trend to abate anytime soon.

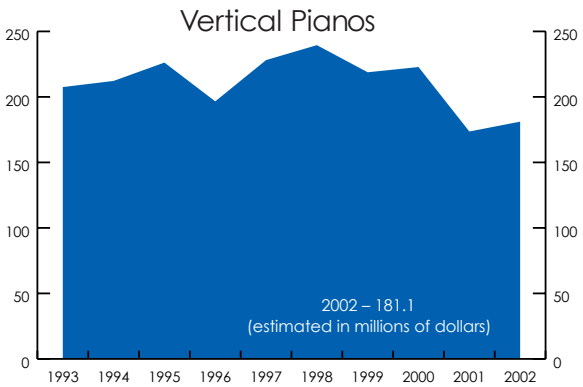
The Piano Market

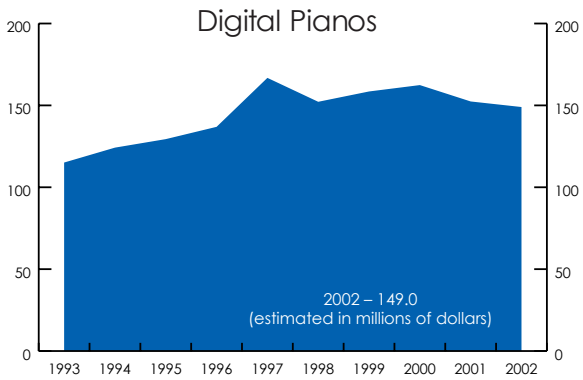
Unit and dollar sales both advanced in the piano market during 2002. The best explanation for the gain is that unlike the fourth quarter of 2001, which was hampered in the aftermath of the September 11 terrorist strike, the fourth quarter of 2002 was happily uneventful. However, the relatively stable sales numbers masked a dramatic shift in the piano market product mix.

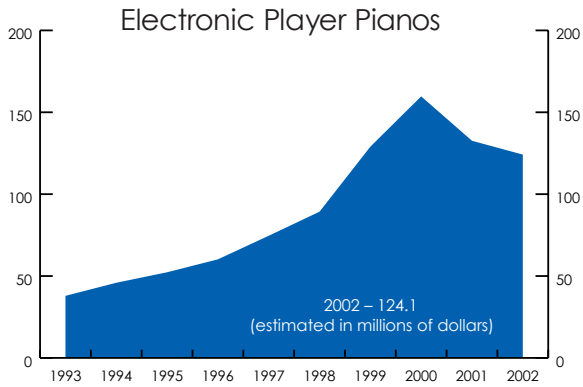
The vast majority of consumers, given the choice, would prefer a grand piano. With low-priced grands available from China and Indonesia, there is less of a cost obstacle. As a result, sales of grands retailing for under $10,000 advanced 61 percent to 7,694 units.

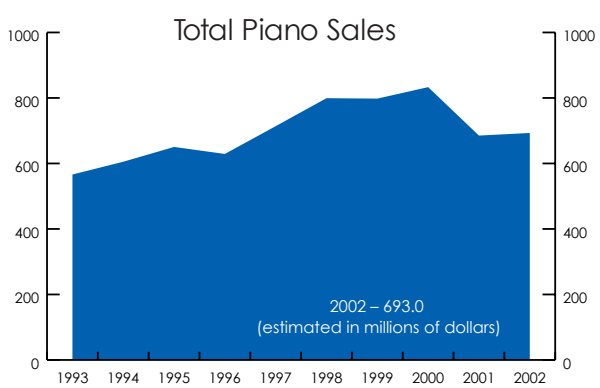
There has been a similarly dramatic shift in the mix of vertical pianos as well. The market for pianos under 44" has plummeted, due to competition from digital pianos and the higher value offered by larger consoles and studio pianos. Sales of 44" to 47" consoles advanced 17 percent to 30,128 units and studio pianos advanced 26.4 percent to 10,241.

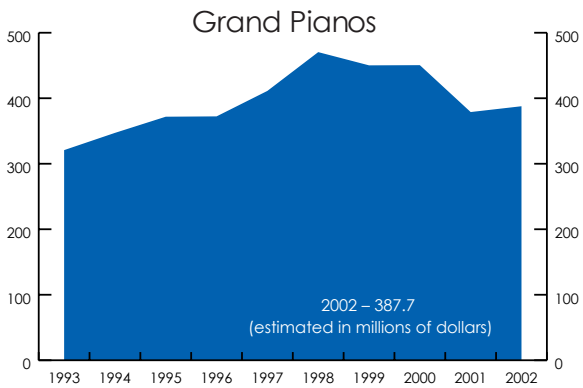
Unit sales of pianos equipped with digital player pianos were virtually unchanged. However, dollar volume decreased as retailers installed the player units on less expensive grands. Unit sales of digital pianos increased but dollar volume dipped slightly. The shift can be traced to the growing number of m.i. dealers who have begun selling entry-level digital pianos.





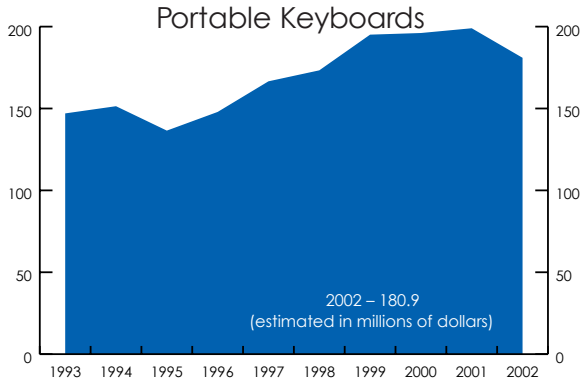






The Piano Market (Continued - Portable Keyboards)

The portable keyboard market continues to trend down, the victim of falling prices and increased competition from other electronic impulse items. Surveys and focus groups by one leading manufacturer show keyboards losing ground to computer games, and even computer music devices. Because of the dip in sales, mass merchants such as Wal-Mart, Best Buy, Toys "R" Us, and others have reduced the number of keyboards they display, further impacting sales.



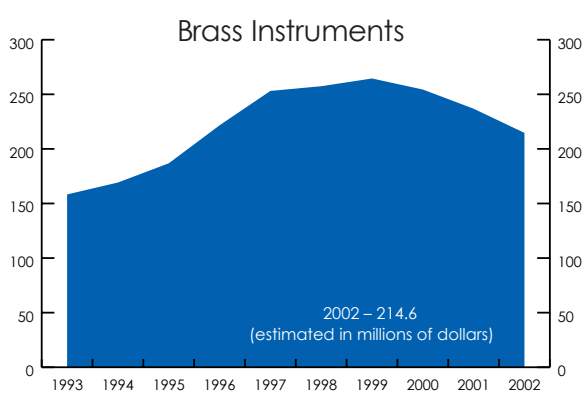
The School Music Market

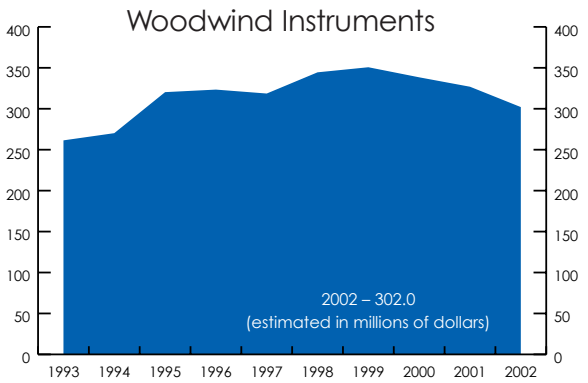
Data in this report is based on manufacturer shipments to retailers. In most cases, given the focus on inventory management, these shipments to retailers closely mirror actual retail sales. This is decidedly not the case in the school market, where manufacturers give extended terms to their retailers, who turn around and rent products to students. It's worth noting this because all indications are that the significant sales declines in brass, woodwinds, and strings are not a direct reflection of decreased participation in school music programs. Our conjecture is that over the past three years, manufacturers used various financial inducements to sustain excessive production levels. In 2002, however, unable to come up with an additional incentive to persuade retailers to buy unnecessary inventory, manufacturers were finally forced to cut back.

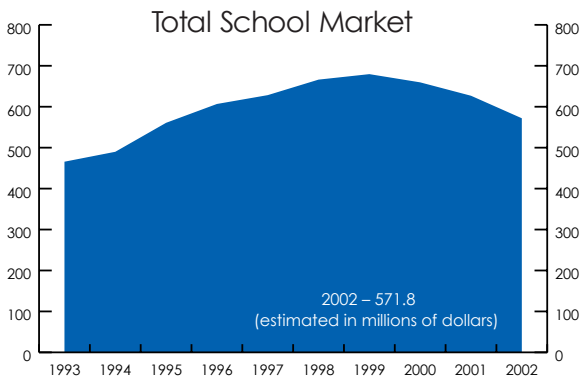
This hypothesis is borne out by the sales data. Unit declines were steepest in instruments, such as the flute, trumpet, and saxophone, which are typically rented. Unit sales of larger instruments, like Sousaphones, French horns, and marching brass, which are purchased directly by schools on bid, remained virtually unchanged.

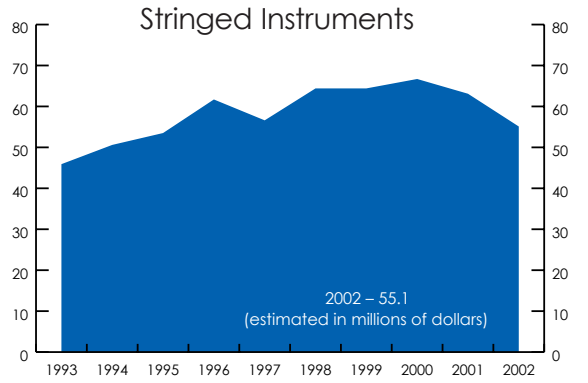
Another factor that has quietly impacted school instrument sales has been eBay, the extremely popular online auction service. Last year, eBay did some $350 million in music products sales, making it the nation's second or third largest retailer. By providing consumers and retailers with a ready vehicle for selling used products, the company has unquestionably had an impact on the rental of new instruments.

For the past decade, the school music market has been buoyed by rising enrollments in grades K–12 and a strong economy. Enrollments will continue to be strong through 2009. However, with 46 of the 50 states facing yawning budget deficits, retailers and manufacturers are rightly concerned that funding for music programs may come under pressure. The good news is that, according to a number of surveys, parents (not the school districts) already provide the lion's share of funding for school music programs.





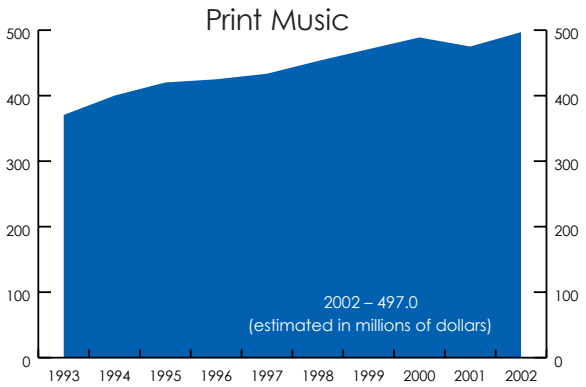




Print Music

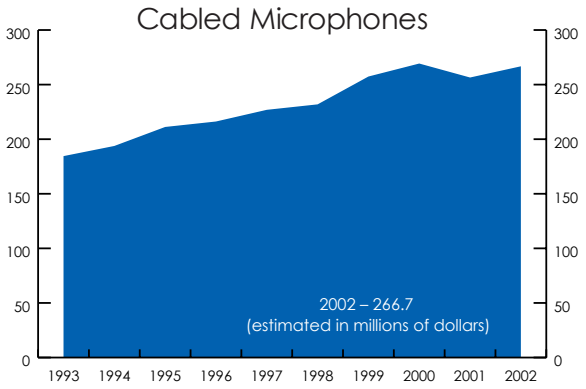
Want a quick gauge of public interest in music making? Look no further than the print market. Last year's 4.65 percent sales gain is a pretty good indicator of the growth in the number of musicians. In some respects, the numbers actually paint an even brighter picture.

Here's why: The print market is comprised of three submarkets—pop, which is completely artist-driven; the instructional side of the business, which includes the plethora of piano, guitar, and other instrumental methods; and the institutional market, which includes band, orchestra, and choral arrangements sold to schools and houses of worship. Major publishers agree that last year the pop market went through one of its periodic lulls due to a dearth of print-compatible hit music. However, this decline was more than offset by gains in methods and ensemble arrangements.



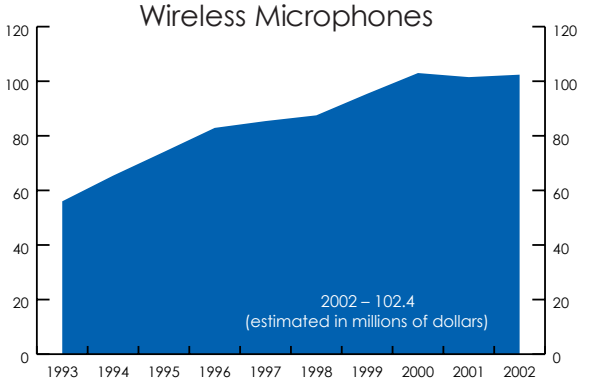
The Microphone Market

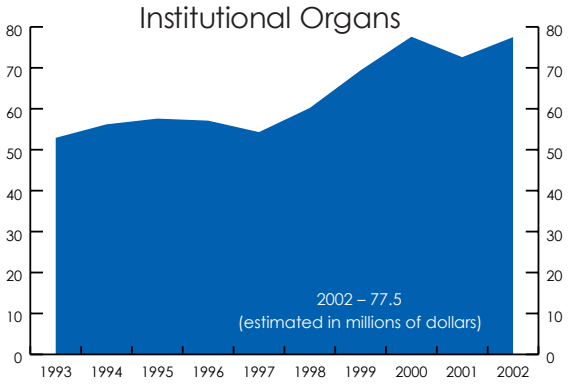
Advances in audio technology have awakened recording engineers, producers, and performing artists to a fast-expanding palette of microphones designed for particular applications. While top studios and performers have always used as many mics as necessary to get the right sound, steadily dropping prices are empowering even aspiring musicians on a budget to explore the new possibilities as well. This trend has helped boost wired microphone sales over the past year. In addition to the basic dynamic mics, like the ever-popular Shure SM58, the category has been expanded by the availability of relatively low-cost large-diaphragm and condenser mics. Wireless microphones and systems have also been expanded by improved pricing.

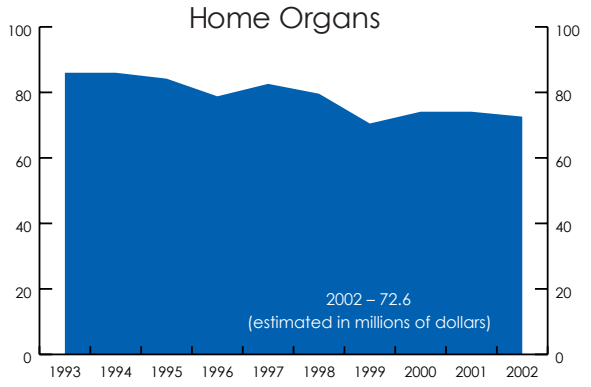


The Organ Market

There was little change in either the home or institutional organ market last year. In the case of home organs, falling interest rates reduced income levels for many retirees making it difficult to generate any meaningful sales growth. The same factor took a toll on church endowments, curbing sales growth.







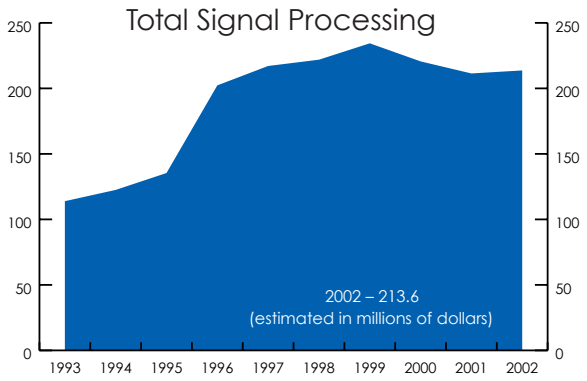
The Signal Processing Market

Guitar amps, rhythm machines, keyboards, and just about every other electronic device includes some type of digital signal processing. In addition, thanks to software "plug-ins," computer users have access to a nearly infinite offering of signal processors. Despite this, sales of rack-mounted effects, which include multi-effects, mic pre-amps, compressors, limiters, noise gates, EQs, and various sound enhancers, remained virtually unchanged in 2002. The reason is that the number of project studios continues to increase, and the current product values are unprecedented. Cheap, high-quality effects play into the widely held belief among musicians that "you can never have too many effects."

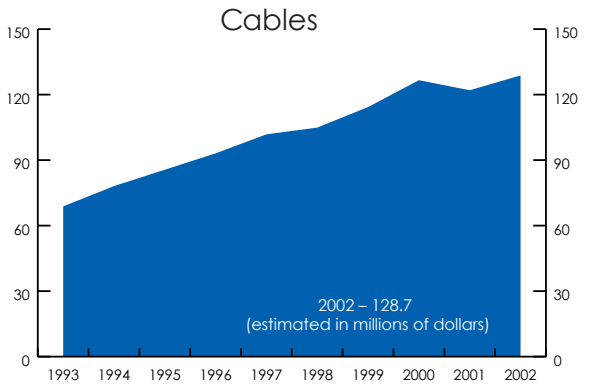
Despite the relatively strong sales level, there are fewer blockbuster products. By our estimate last year, consumers could select between over 400 different rack-mounted effects, ranging from a $99 compressor to a $2,500 multi-effects processor. Five years ago, there were fewer than 300 different rack-mounted processors on the market.

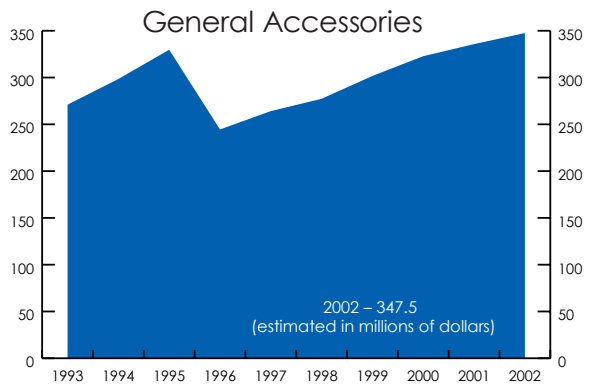
As microchips have become smaller and more powerful, engineers have been able to design signal processing capability into a variety of new packages. There are foot pedal-activated multi-effects devices, complete with rhythm machines, for guitarists; tabletop units that offer a variety of multi-effects, and even units that attach to a guitar strap. This catch-all of effects that fall somewhere between a rack-mount unit and a stomp box showed strong growth last year, in no small part because there were a slew of innovative products at competitive prices. Software-based DSP may be effective for the studio, but musicians playing in real time still want a special-purpose piece of hardware.

Sales of stomp boxes move almost in tandem with electric guitar sales. A record year for guitar sales in 2002 boosted stomp boxes by 0.4 percent. The category was also helped by steadily decreasing prices. With some stomp boxes available for as little as $29, they have almost become impulse items to be placed near the cash register.



Cables and General Accessories





The Multi-Track Market

The multi-track market is undergoing an evolution, fueled by the proliferation of cheap personal computers and music-related software. When it comes to delivering sheer data processing power per dollar, no company in the music products industry can come close to matching the prowess of Dell or Apple. As a result, an increasing number of musicians are harnessing the horsepower of a personal computer for musical ends. This trend, more than any economic factors, has taken a toll on hard-disk recorder sales.

However, it may be too soon to write an obituary for the product. What dedicated hardware lacks in brute processing power, it compensates for in terms of portability, durability, and ease of use. As a result, hard-disk recorders are increasingly being used as musical sketchpads for capturing ideas on the fly. The data is then downloaded onto a Mac or PC for further editing.

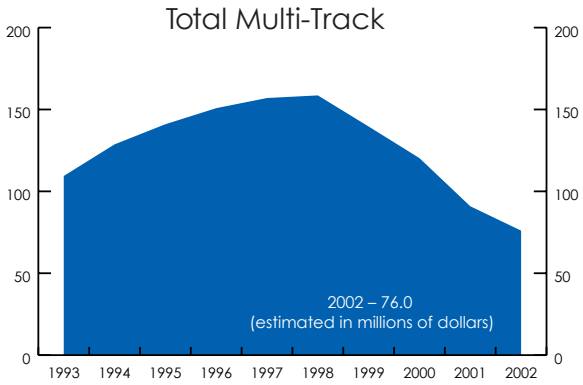
Five years ago, dedicated hard-disk recorders had an average price of over $2,000. The average price is now under $900, and with some hard-disk units carrying a street price of under $400, musicians are starting to buy them as an alternative to the venerable analog cassette. This shift to lower price points and an increased use of computer-based systems explains the drop in the market.

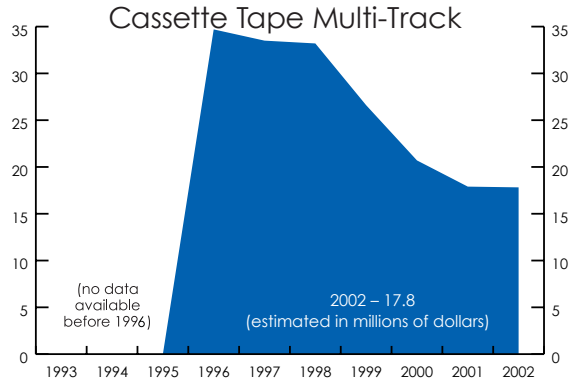
Digital tape machines are a sunset market. The few units that continue to be sold are purchased by people who have a significant commitment to the medium. Analog cassette units continue to remain popular, largely because of their extremely low price and ease of use.

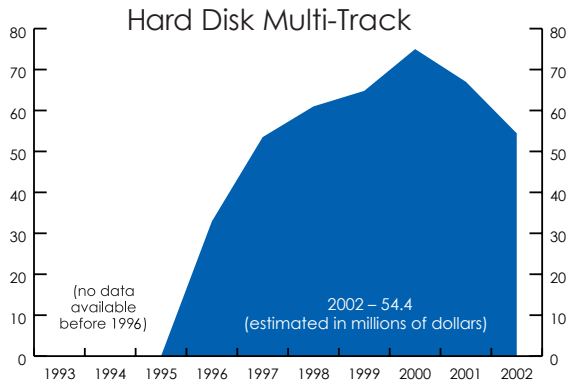
Karaoke Products

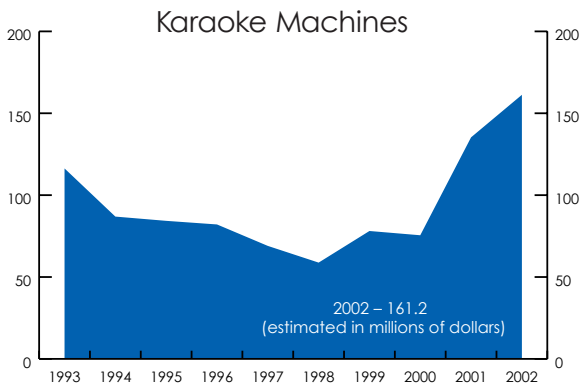
While everyone likes to sing, the real force in driving up sales of karaoke machines was expanded distribution. Over the past year, companies like The Singing Machine successfully garnered shelf space at Wal-Mart, Target, and a legion of other high-volume mass merchants.

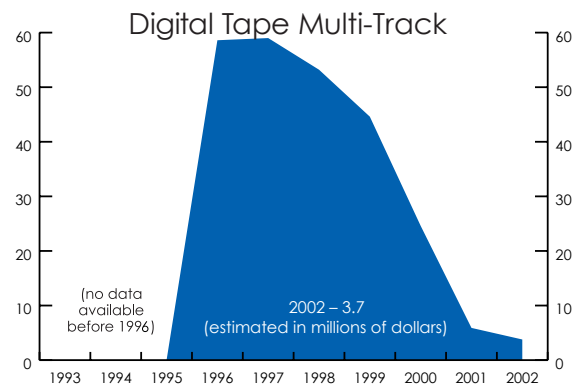
Increased hardware sales did not translate into a comparable rise in the sale of karaoke software. The reason for this disparity can be explained in a single word: piracy. The recorded music industry has been adversely affected by downloaded music and bootleg CDs in an era of cheap CD burners and the Internet. Karaoke producers face the same problem, only more so. As one exec put it, "If Warner loses 10 percent of a Madonna album to bootleg copies, they still sell a couple of million CDs. If we lose 10 percent on a run of 5,000, we don't make our break-even point."









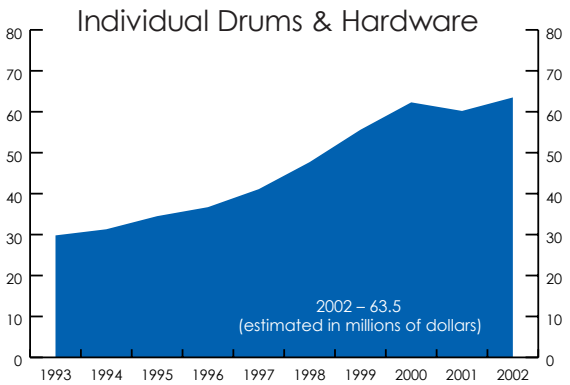


The Percussion Market

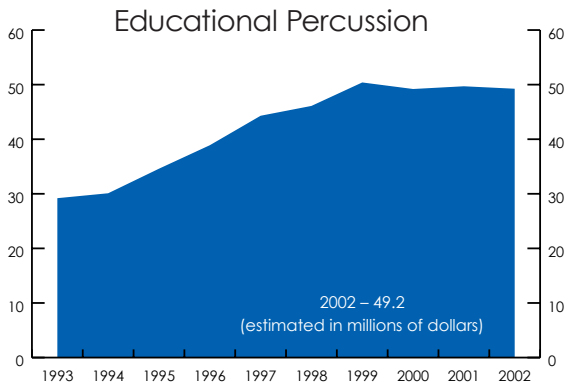
A steady decrease in the price of drum kits continued to attract new customers to the percussion market. Now that entry-level drum kits are widely available for under $400, retailers report that an increasing number are being purchased as gifts for aspiring young percussionists. As one dealer put it, "Parents used to buy their kids a snare drum kit and then wait and see if they continued." Now that drum sets are so cheap, they say, "Why not just buy the whole kit and be done with it?"

Sticks and heads are the percussion industry's equivalent of razor blades. They continually need to be replaced, regardless of the economic climate. With every new drum kit sold, the potential market for these "replaceables" increases. Thus sales gains in 2002 can be traced in large part to an increase in the pool of active drummers.

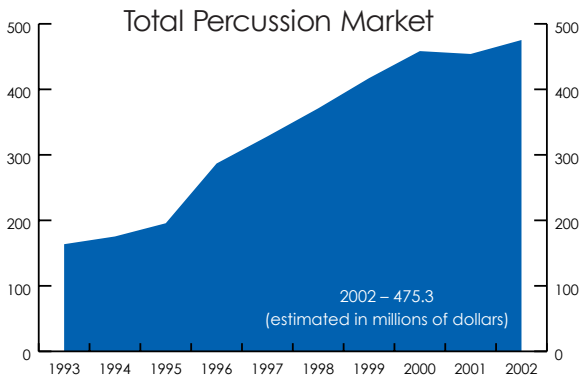
The events of the past year in the percussion market were a continuation of the past five years' trend line, with one notable exception. The year saw a noticeable spike in the number of Chinese-made cymbals brought into the U.S. market. If this continues, it could have an impact on cymbal pricing.



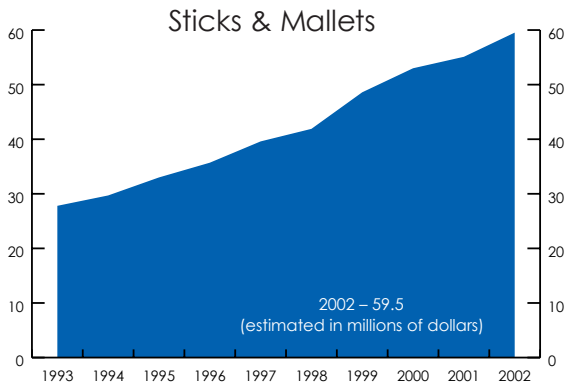
Includes individual snare drums, tom-toms, and bass drums for drum kits, along with pedals, cymbal stands, and related percussion hardware products.

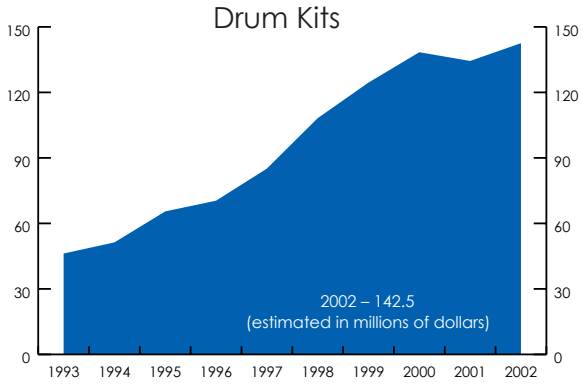


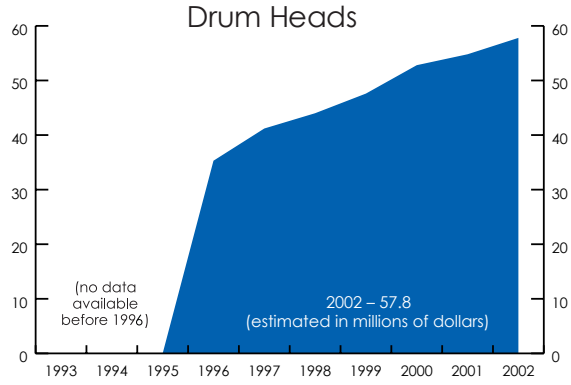
Includes timpani, marching percussion, mallet instruments, snare drum kits, and orchestral percussion instruments.

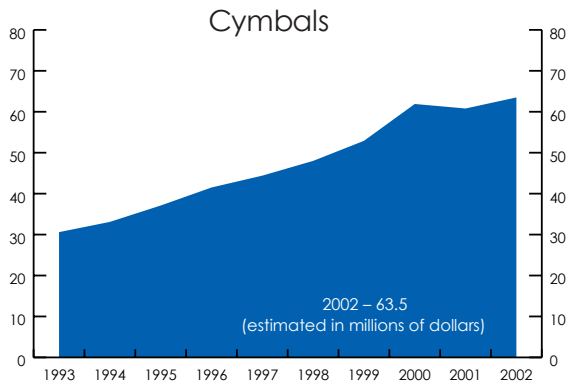


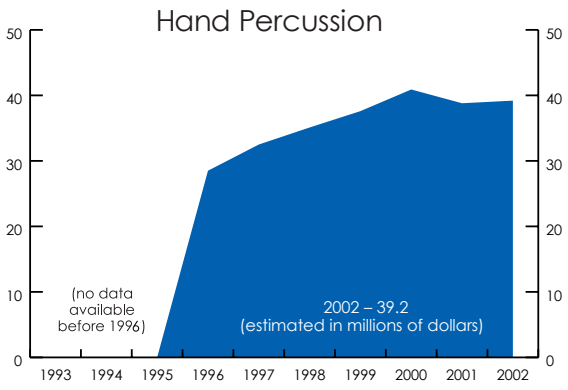
Note: 1996 figures have been restated to reflect stand-alone categories for Hand Percussion and Drum Heads. For the sake of comparison, retail percentage increase for 1996 is net of these new categories. 1995 - 1998 Drum Kit figures have been restated to reflect sales outside the m.i. channel.









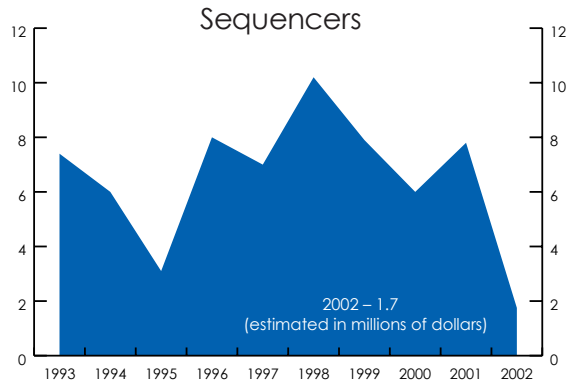


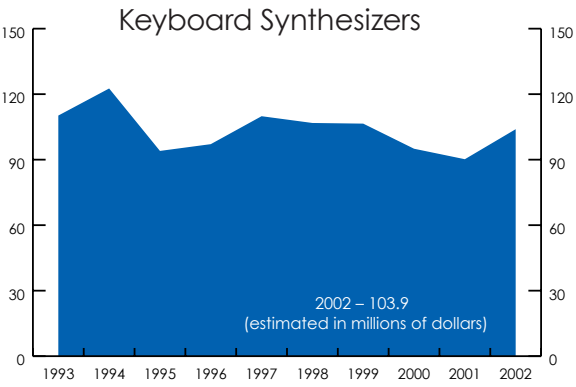
Electronic Musical Instruments

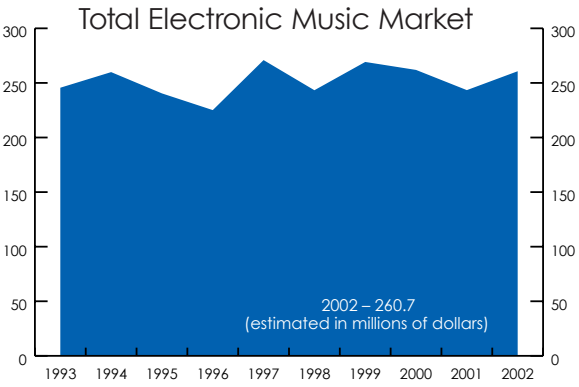
Summing up the diverse electronic music category, it was a good year for keyboards, while most other products posted significant declines. Keyboard synthesizer unit sales dipped slightly, but a shift to higher-priced workstations with features such as built-in CD burners helped boost sales revenue by 11 percent. The surprise story of the year was the dramatic growth in the sale of professional electronic pianos and organs. In the case of digital pianos, some are being used as a keyboard controller in a project studio environment, while others appeal to musicians who want the feel of a weighted keyboard. The gains in the sale of professional organs are a testament to the ongoing appeal of the vintage tone-wheel sound. Keyboard sales have also no doubt been helped by the prominence of piano-playing pop artists such as Norah Jones.

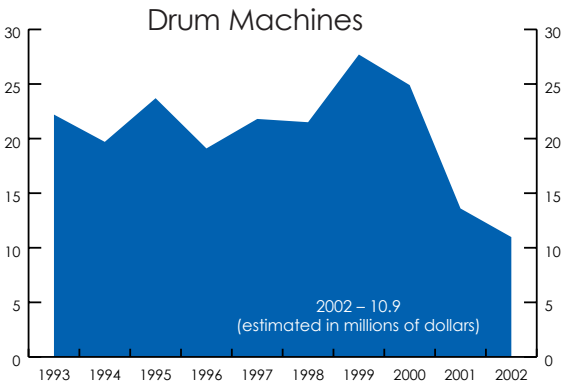
Samplers, drum machines, and sound modules experienced continued declines. The problem facing these products is that musicians are finding the same functionality in other areas. In the case of samplers, there is a sizable software industry that sells samples of every conceivable musical instrument or sound effect, obviating the need for a musician to make his own samples. Aggravating the problem, limited sampling capability is available on a large number of keyboards. Dedicated drum machines face a similar problem. A vast catalog of software-based rhythm loops is readily available and full-featured drum machines are now routinely incorporated in keyboards, hard-disk recorders, and some multi-effects. Why buy a sound module? many musicians ask, when most keyboard synthesizers have 256-note polyphony and more voices than the average player can ever use. While it's doubtful that these dedicated components will ever vanish completely, their functions will increasingly be performed by computers and software, or by other more versatile pieces of hardware.

Better packaging, a broader spectrum of price points, and growing player acceptance helped boost sales of electronic drums by 9 percent in 2002. Electronic drums are prized in volume-restricted applications such as churches, in-home practice rooms, and, because they are easier to record than acoustic drums, some recording studio situations.



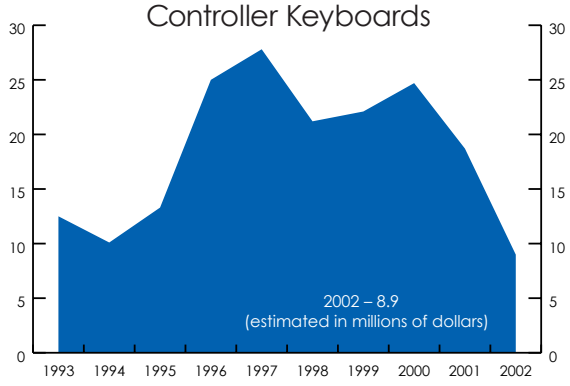




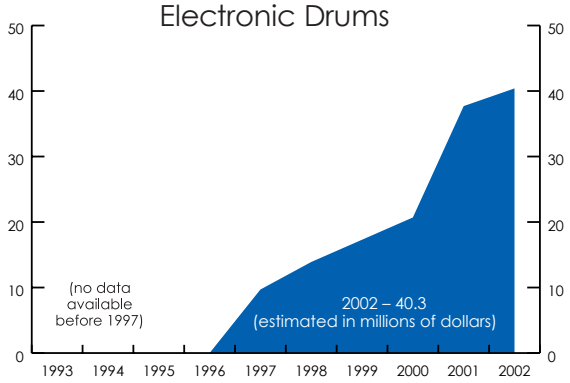


Electronic Musical Instruments (Continued)

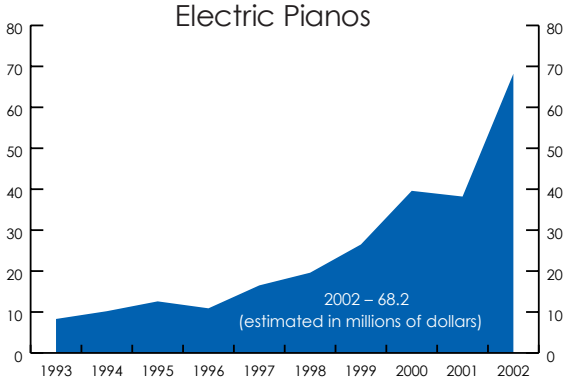
Controller Keyboards



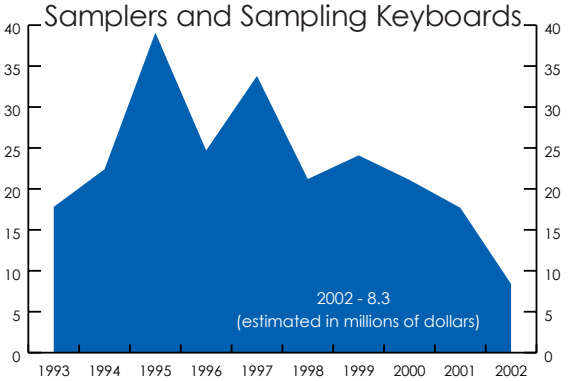
Electronic Drums



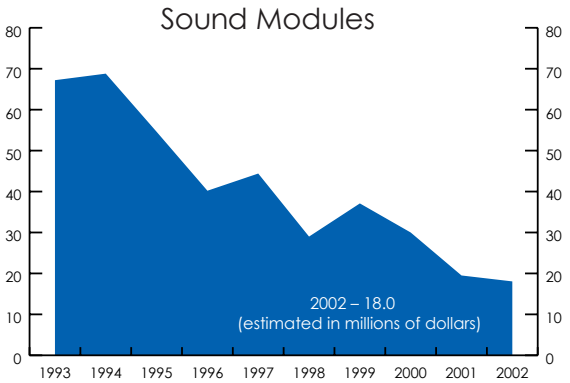
Electric Pianos



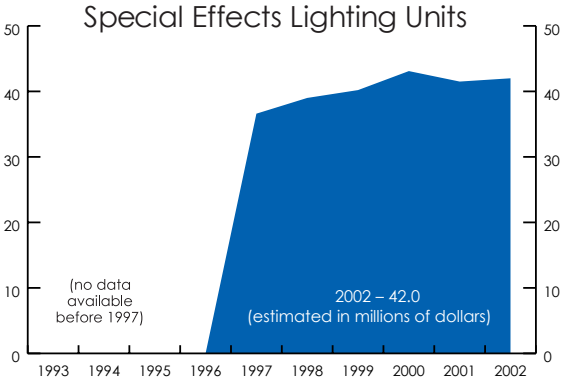
Samplers and Sampling Keyboards

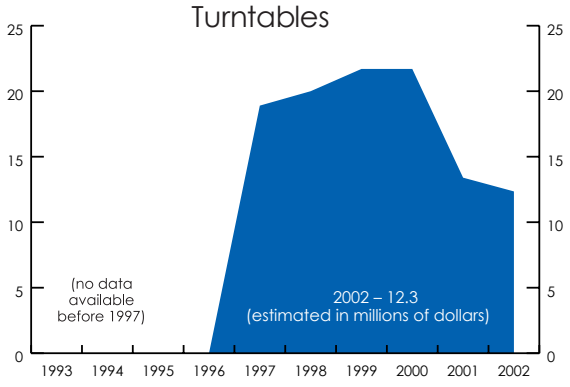


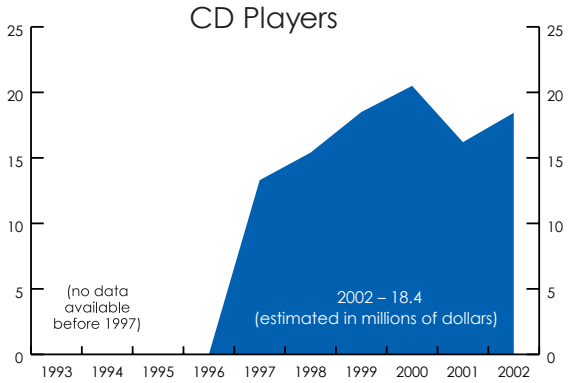
Sound Modules



Special Effects Lighting Units







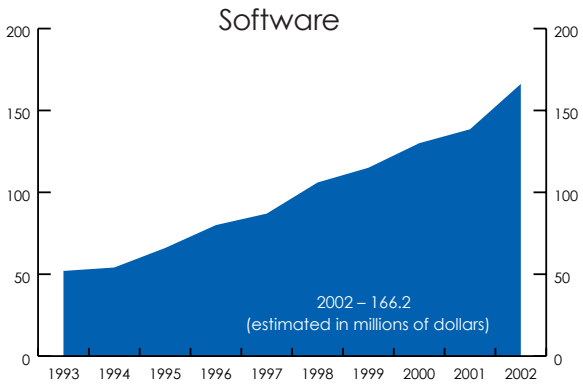
The Computer Music Market

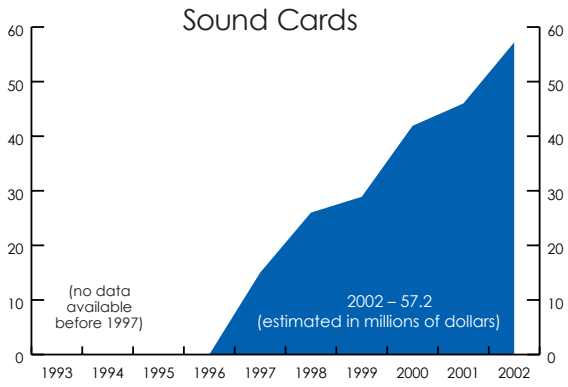
Twenty-five hundred years ago, the Greek mathematician and philosopher Pythagoras was the first to detail the similarities between music and mathematics. The fact that pitch, tempo, and harmonic values could be readily expressed numerically was intriguing in theory but of nominal practical value, that is, until the advent of the computer. Being able to readily transform a sound wave into a string of digital code has opened exciting new creative horizons. And now that a high-powered personal computer can be bought for as little as $500, musicians have been embracing computers and software in increasing numbers. This helps explain the explosive sales growth in both the software and computer hardware categories.

Music software, which includes recording products; plug-ins, which provide additional features to other programs; samples; loops; and notation programs, advanced by 20 percent to $166.2 million. Music-related computer hardware, which includes sound cards and I/O (input/output) cards for running audio signals in and out of the computer, posted a similarly robust gain, increasing 24.3 percent to $57.2 million. Gains in computer-based products have primarily come at the expense of dedicated hardware products such as hard-disk recorders, rack-mounted samplers, and sequencers.

Unfortunately, the dramatic growth of computer-based music products gets only two cheers. On the positive side, software and hardware cards have provided the musical community with incredibly powerful and cost-effective tools for composing, recording, and scoring. On the negative side, the dynamic nature of the market has made it extremely difficult for manufacturers and retailers to be reasonably compensated for their efforts.

Software makers face rampant piracy issues. So much so, that one maker of recording software estimated that only one out of every ten users actually purchased a legitimate program. Retailers who stock the products face competition not only from other stores and catalogs, but also from the manufacturers themselves. Virtually every software maker sells direct from its Web site. Computer-related music products are here to stay—in a big way. Hopefully in the coming years, more companies will be able to translate the demand into a profitable business model.

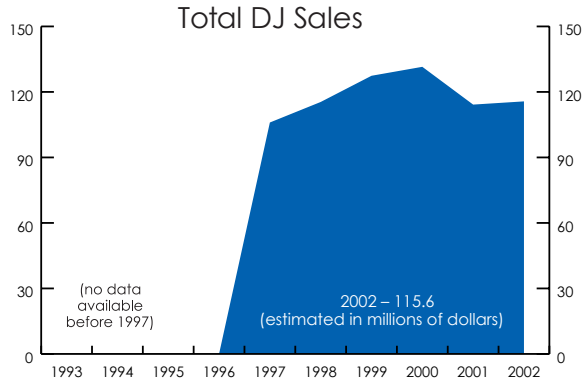


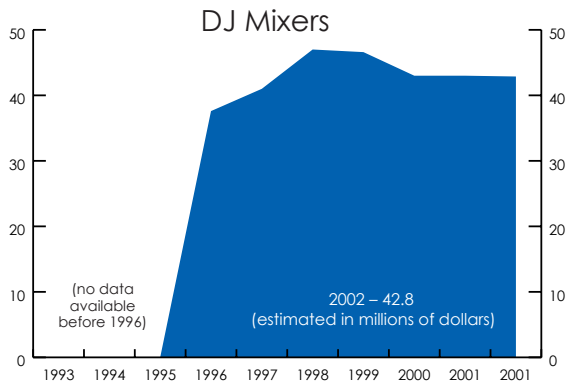


The DJ Market

Purveyors of DJ products typically divide the market into three basic categories: the mobile DJ, who performs at parties and gatherings; DJ installations in clubs or theaters; and the teenage "bedroom" DJ. A tightened economy adversely impacted both mobile DJs and the sale of gear for fixed installations. The decrease in disposable income has apparently prompted consumers to reduce their club outings and scale back spending on parties. These declines were somewhat offset by a modest increase in the sale of DJ kit packages aimed at the entry-level "bedroom" market. However, the overall market slipped slightly in 2002.

Within the DJ market, CD players continued to gain ground at the expense of turntables. The trend should accelerate further in 2003 with the introduction of CD/MP3 player combinations.





MUSIC AND SOUND

Industry Summary 2002

MUSIC AND SOUND INDUSTRY SUMMARY

(Millions of Dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Acoustic Pianos	$566.2	$559.3	$598.1	$568.9	$639.3	$709.9	$669.0	$673.3	$552.5	$568.8
Cables	$68.8	$78.1	$85.6	$93.1	$101.8	$104.9	$114.3	$126.6	$122.0	$128.7
Computer Music Products*	n/a	n/a	$66.0	$80.0	$102.0	$132.0	$143.2	$171.8	$184.5	$212.2
Digital Pianos	$115.1	$124.2	$129.4	$136.9	$166.8	$152.2	$158.5	$162.4	$152.4	$149.0
DJ Gear	n/a	n/a	n/a	n/a	$106.0	$115.4	$127.4	$131.5	$114.2	$115.6
Drum Machines	$22.2	$19.7	$23.7	$19.1	$21.8	$21.5	$27.7	$24.9	$13.6	$10.9
Electronic Player Pianos	$37.9	$45.9	$52.3	$60.2	$74.6	$89.3	$129.0	$159.7	$132.6	$124.1
Fretted Products	$602.5	$665.8	$812.1	$827.4	$841.7	$833.2	$912.9	$1,089.4	$1,094.8	$1,111.6
General Accessories	$271.0	$298.4	$329.7	$244.5	$264.1	$277.3	$301.7	$322.8	$335.7	$347.5
Home Organs	$86.0	$86.0	$84.2	$78.8	$82.6	$79.6	$70.5	$74.1	$71.4	$72.6
Institutional Organs	$52.9	$56.2	$57.6	$57.1	$54.3	$60.2	$69.4	$77.6	$72.6	$77.5
Karaoke Products	$145.5	$116.0	$114.3	$112.1	$95.3	$88.3	$112.3	$111.1	$173.5	$200.2
Keyboard Synthesizers	$110.2	$122.6	$94.0	$97.1	$109.9	$106.8	$106.5	$95	$90.1	$103.9
Microphones	$240.5	$259.2	$285.3	$299.1	$312.3	$319.4	$352.8	$372.3	$358.0	$369.1
Multi-Track	$109.4	$128.7	$141.0	$150.8	$157.0	$158.6	$139.6	$120.3	$90.9	$76.0
Other Electronic Products**	$40.7	$47.2	$68.0	$68.6	$85.1	$86.1	$97.9	$112.2	$119.1	$127.7
Percussion	$163.6	$175.4	$195.6	$286.8	$328.2	$371.0	$417.1	$458.4	$454.1	$475.3
Portable Keyboards	$147.0	$151.4	$136.5	$147.9	$166.6	$173.3	$195.1	$196.4	$196.3	$180.9
Printed Music	$370.5	$400.1	$420.1	$425.0	$433.5	$452.9	$471.0	$488.9	$475.0	$497.0
Signal Processing	$113.9	$122.5	$135.4	$202.3	$217.1	$221.9	$234.4	$220.6	$211.4	$213.6
Single Unit Amps	$283.0	$311.6	$343.5	$354.8	$362.0	$340.2	$350.4	$367.3	$361.2	$359.0
Sound Modules	$67.2	$68.8	$54.6	$40.2	$44.4	$29.0	$37.1	$29.8	$19.5	$18.0
Sound Reinforcement	$503.1	$645.0	$704.3	$720.1	$757.7	$833.0	$884.1	$901.8	$858.7	$850.6
Stringed Instruments	$45.9	$50.6	$53.5	$61.7	$56.6	$64.4	$64.4	$66.7	$63.1	$55.1
Wind Instruments	$419.7	$439.4	$507.1	$545.0	$571.7	$601.9	$615.2	$592.8	$563.6	$516.6
TOTAL	**$4,634.8**	**$4,972.1**	**$5,557.2**	**$5,677.5**	**$6,152.4**	**$6,422.3**	**$6,801.5**	**$7,147.7**	**$6,880.4**	**$6,900.0**

* 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 2002 through Dec. 2002

	Harmonized Code	Value	Units
Single Loudspeakers in Enclosures	8518.210000	384,104,076	38,996,844
Multiple Loudspeakers, Mounted in Same Enclosure	8518.220000	471,953,171	18,218,667
Other Headphones, Earphones, Microphone/Speaker	8518.302000	455,452,742	168,201,239
Audio Frequency Electric Amplifiers	8518.402000	330,272,458	7,430,546
Upright Pianos	9201.100005	115,831,931	81,535
Grand Pianos	9201.200005	551,587,234	64,129
String Musical Instruments Played with a Bow	9202.100000	30,516,137	367,793
Guitars Under $100, Exclude the Value of the Case	9202.902000	70,236,141	1,886,173
Guitars	9202.904000	29,457,652	162,732
String Musical Instruments	9202.906000	14,572,525	362,561
Keyboard Pipe Organs	9203.004000	11,466,173	201
Piano Accordions	9204.104000	2,538,591	105,123
Mouth Organs	9204.200000	7,600,129	368,640
Brass-Wind Instruments, Not Over $10 Each	9205.100040	128,488	57,940
Brass-Wind Instruments, Over $10 Each	9205.100080	33,050,318	93,632
Bagpipes	9205.902000	773,269	6,928
Clarinets	9205.904020	14,461,377	59,108
Saxophones	9205.904040	21,530,492	48,482
Flutes and Piccolos (Except Bamboo)	9205.904060	9,858,681	175,058
Drums	9206.002000	78,431,072	1,553,846
Cymbals	9206.004000	14,978,954	591,326
Sets of Tuned Bells as Chimes, Peals, or Carillions	9206.006000	10,367,625	1,483,901
Percussion Musical Instruments	9206.008000	17,248,656	3,079,215
Musical Synthesizers (Under $100)	9207.100005	1,964,627	52,408
Musical Synthesizers ($100 or Over)	9207.100010	61,292,782	95,229
Keyboard Instruments (More Than One Keyboard, Under $200)	9207.100045	48,009	1,410
Keyboard Instruments (More Than One Keyboard, $200 or Over)	9207.100055	5,297,478	2,596
Keyboard Instruments (More Than One Keyboard, Hand Held)	9207.100060	10,583,693	186,484
Keyboard Instruments (Under $100)	9207.100065	56,058,563	942,360
Keyboard Instruments ($100 or Over)	9207.100075	125,947,712	347,418
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 2002 through Dec. 2002

	Harmonized Code	Value	Units
Other Electric Instruments	9207.900080	8,895,451	286,071
Music Boxes	9208.100000	110,634,612	17,821,682
Other Musical Instruments	9208.900040	338,752	57,064
Mouth-Blown Sound Signaling Instruments	9208.900080	7,947,752	37,609,394
Metronomes, Tuning Forks, and Pitch Pipes	9209.100000	11,299,462	n/a
Mechanisms for Music Boxes	9209.200000	1,144,432	2,083,220
Musical Instrument Strings	9209.300000	17,524,277	13,253,036
Tuning Pins for Pianos	9209.924000	1,228,816	3,433
Parts and Accessories for Pianos	9209.918000	21,359,254	n/a
Mutes, Stands, Music Holders	9209.922000	2,063,931	n/a
Tuning Pins for Stringed Instruments	9209.924000	1,228,816	3,433
String Instruments Bows and Chin Rests	9209.926000	10,559,673	n/a
Other Stringed Instruments Parts	9209.928000	18,826,537	n/a
Parts and Accessories for Pipe Organs	9209.934000	11,327,696	n/a
Parts and Accessories	9209.938000	104,638	n/a
Collapsible Keyboard Instrument Stands	9209.944000	5,663,295	n/a
Fretted Instrument Accessories	9209.948000	26,998,912	n/a
Mutes, Pedals, Dampers, Spurs For Drums Pedals	9209.991000	29,725,788	n/a
Parts and Accessories for Bagpipes	9209.992000	408,967	n/a
Parts and Accessories for Woodwind Instruments	9209.994040	25,442,200	n/a
Parts and Accessories for Other Wind Instruments	9209.994080	6,173,879	n/a

US EXPORTS OF DOMESTIC MUSIC AND SOUND PRODUCTS

(by harmonized code) Source: U.S. Commerce Dept. for the year 2002 through Dec. 2002

	Harmonized Code	Value	Units
Microphones and Parts Thereof	8518.100000	48,744,545	n/a
Single Loudspeakers in Enclosures	8518.210000	115,934,340	5,255,204
Loudspeakers	8518.290000	206,024,729	33,290,827
Headphones	8518.302000	72,940,873	8,094,556
Audio Amplifiers	8518.402000	330,469,968	2,609,528
Parts of Microphones, Loudspeakers, Amplifiers	8518.903000	224,052,861	n/a
Upright Pianos	9201.100000	3,438,693	2,066
Grand Pianos	9201.200000	4,052,148	624
Pianos	9201.900000	1,998,913	3,287
String Musical Instruments Played with a Bow	9202.100000	2,112,099	4,468
Guitars	9202.903000	48,900,766	96,658
String Instruments	9202.906000	11,259,291	76,746
Keyboard, Pipe Organs	9203.000000	3,825,994	5,840
Accordions	9204.100000	637,431	2,405
Mouth Organs	9204.200000	587,053	6,211
Brass-Wind Instruments	9205.100000	11,977,152	35,402
Woodwind Instruments	9205.901000	19,060,306	72,192
Other Wind Instruments	9205.906000	3,506,579	110,749
Percussion Instruments	9206.000000	22,376,071	746,346
Music Synthesizers	9207.100020	4,106,387	18,114
Keyboard Instruments	9207.100080	8,041,179	41,065
Fretted Stringed Instruments	9207.900040	38,913,210	77,643
Musical Instruments, Electrically Amplified	9207.900080	31,513,205	233,424
Music Boxes	9208100000	2,544,681	142,816
Fretted Stringed Instruments (Misc. Category)	9208.900040	27,148,569	274,444
Mouth-Blown Sound Signaling Instruments	9208.900080	5,935,666	682,052
Metronomes, Tuning Forks, and Pitch Pipes	9209.100000	984,485	n/a
Parts and Accessories for String Instruments	9209.300000	37,483,051	12,148,732
Parts and Accessories for Pianos	9209.910000	2,795,551	n/a
Parts and Accessories for Fretted Instruments	9209.920000	21,168,238	n/a
Parts and Accessories for Electronic Instruments	9209.940000	19,971,858	n/a
Other Parts and Accessories	9209.990000	36,505,074	n/a

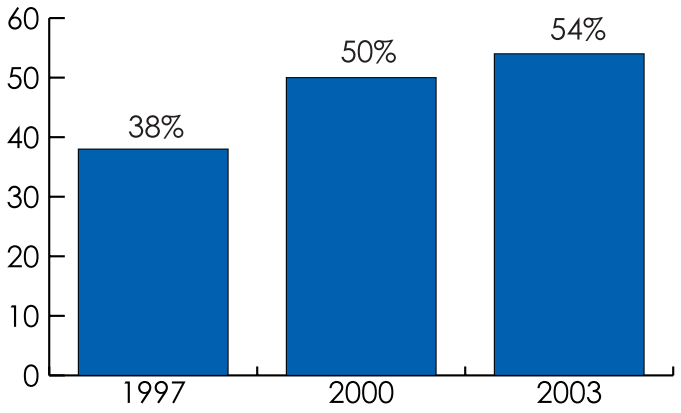
GALLUP SURVEY 2003

GALLUP SURVEY 2003

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.

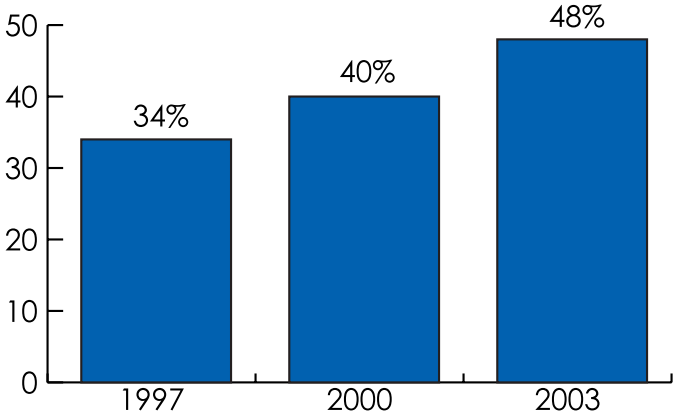
Percentage of households who currently have at least one musical instrument player

More than one-half of households (54%) have at least one person, age five or older, who currently plays a musical instrument. This is the highest figure since this study began in 1978 (51%).



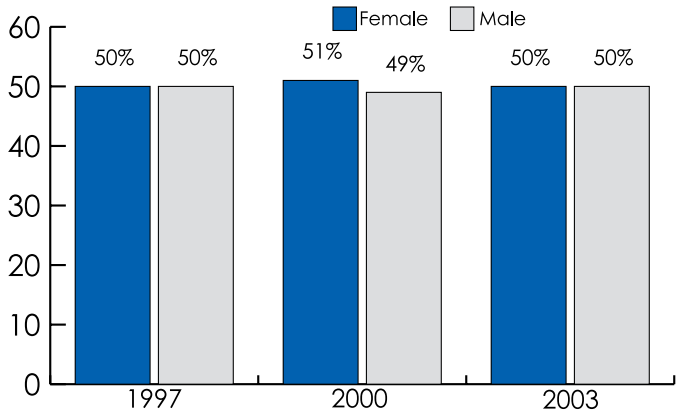
Percentage of households with two or more players

Also, in 48% of households, two or more persons play a musical instrument, compared to 40% in 2000.



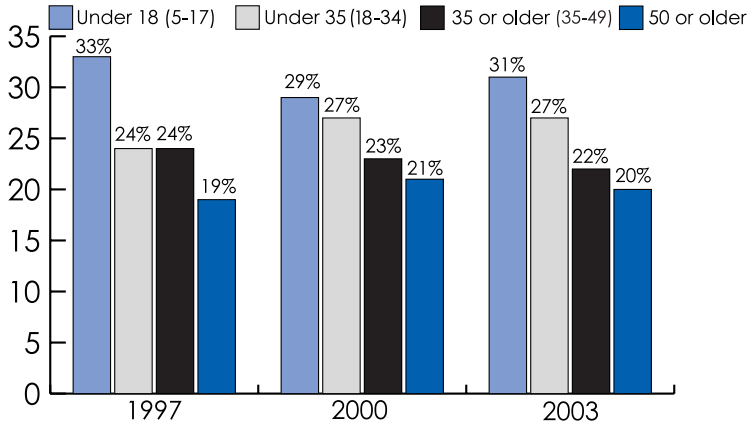
Gender of persons among households with at least one member who plays

The gender breakdown among those who play musical instruments is 50% males and 50% females.



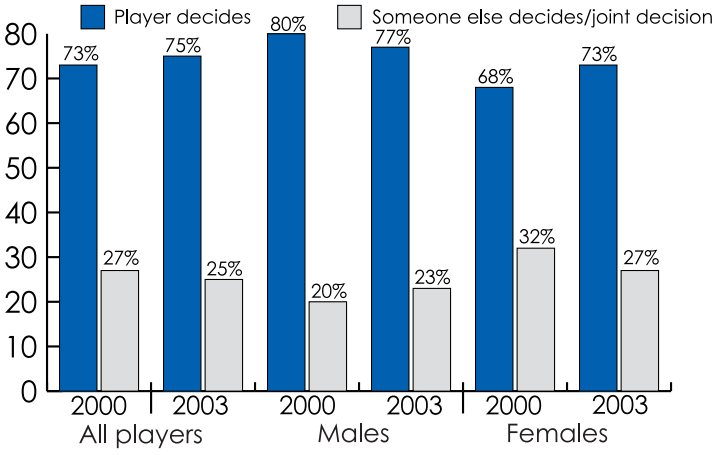
Age of persons among households with at least one member who plays

While there is an increase in the number of players under the age 18, there is a slight decline in the number of players over 35.

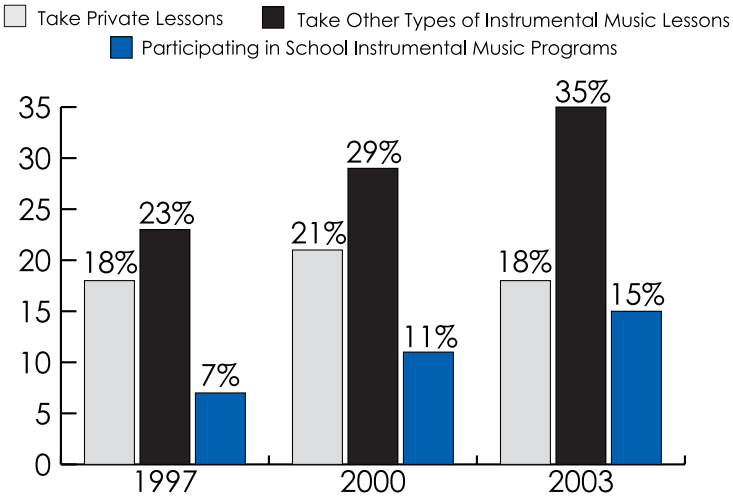


Who decides what instrument should be played?

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

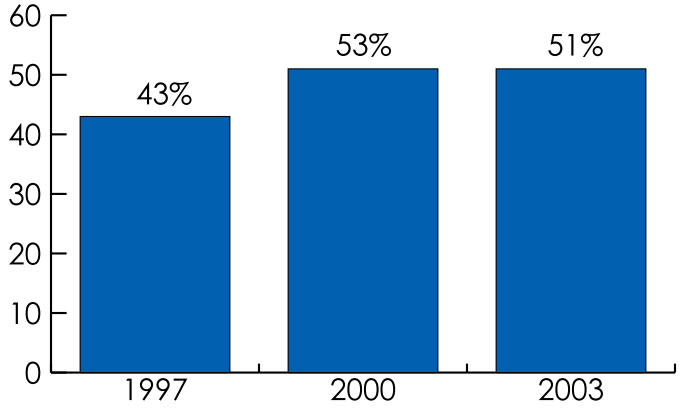


Player participation in formal music activities



The number of people participating in school and other types of instrumental music activities has increased substantially since 2000.

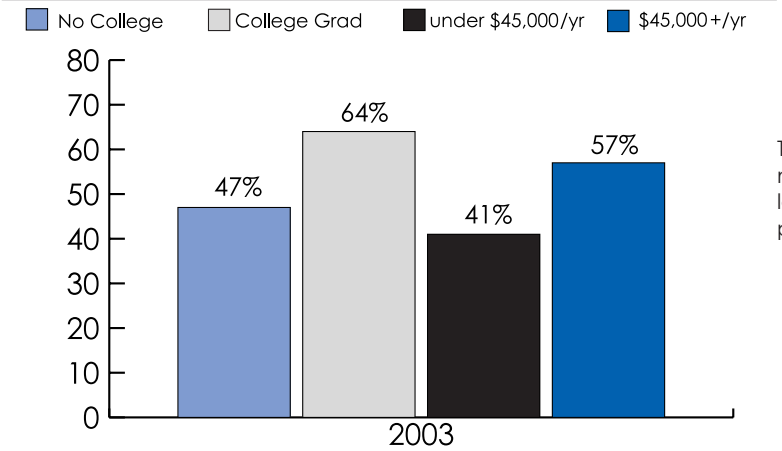
Someone in household owns a musical instrument



Over 50% of households in 2003 owned at least one musical instrument, compared to 43% in 1997.

Someone in household owns a musical instrument

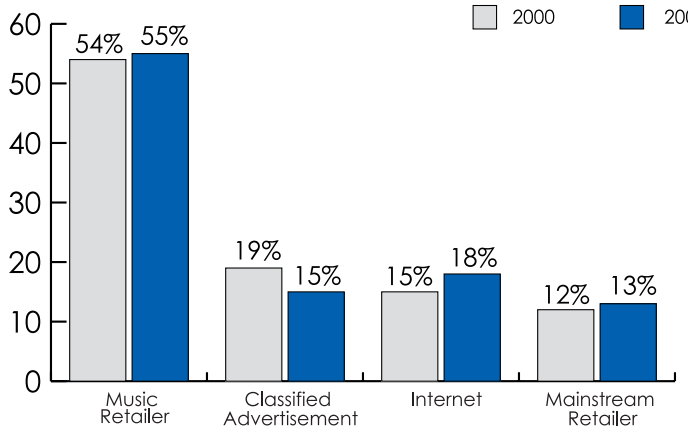
(By education & income)



The highest percentage of musical instruments are owned by households with college graduates and incomes over $45,000 per year.

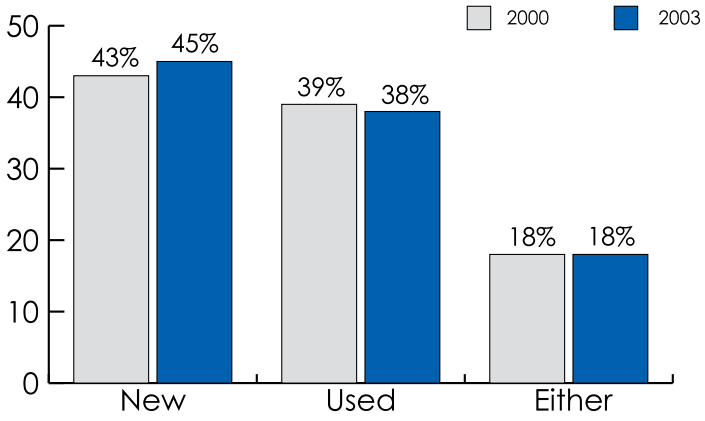
Sources would most likely consider if shopping for or buying a musical instrument

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

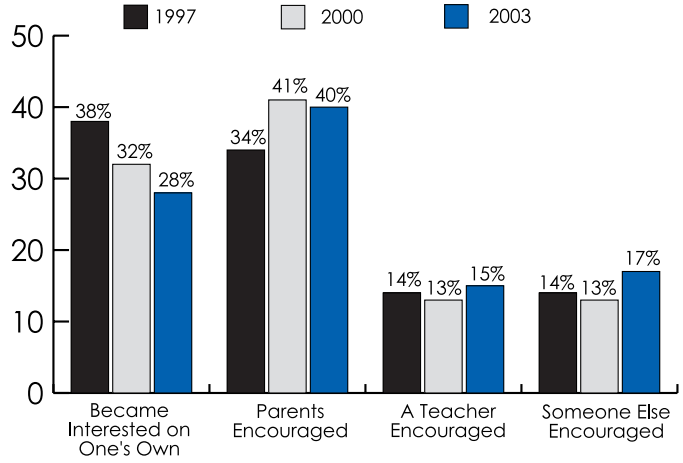


Would purchase new vs. used when shopping for or buying a musical instrument

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

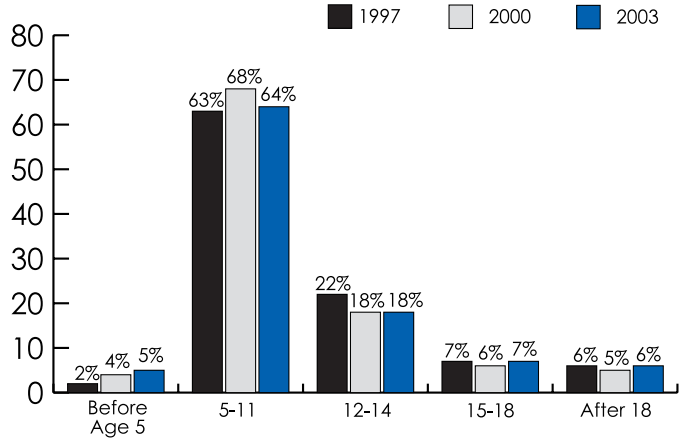


What motivates people to start playing?



More people were encouraged by a teacher or someone else than in previous years. Fewer became interested on their own or encouraged by their parents.

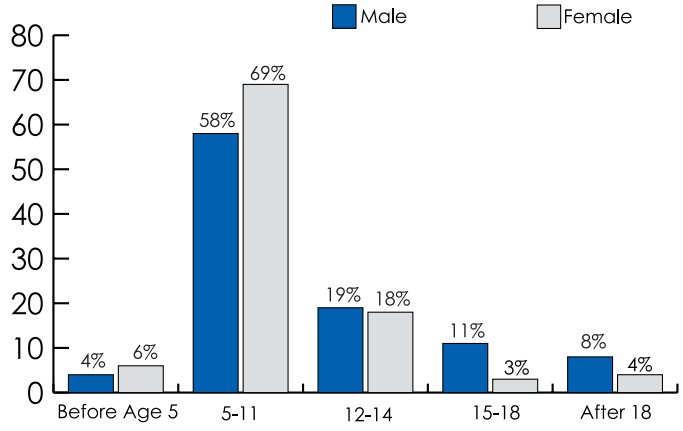
Age at which first learned to play



In 1997, 2000, and 2003, the typical ages for first learning to play a musical instrument were between 5 and 11. In all years, females were significantly more likely than males to first learn to play during these preteenage years.

Male vs. Female

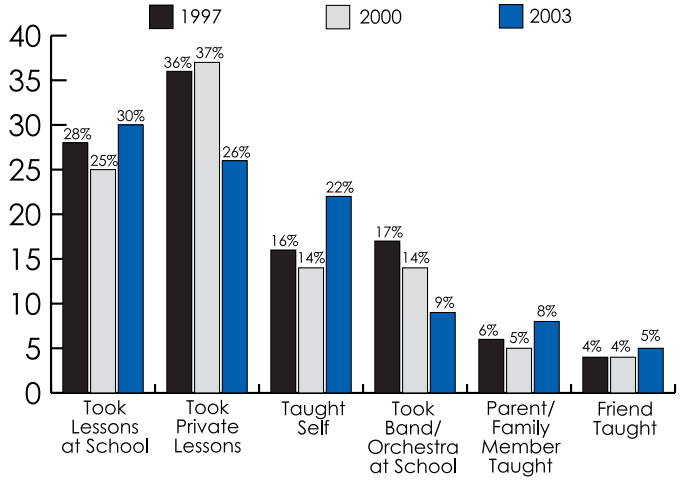
(Age at which first learned to play)



How did you first learn to play an instrument?

(All current or former players)

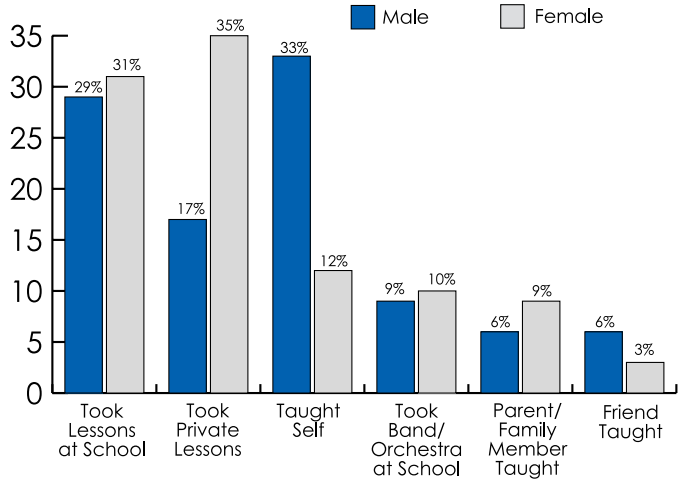
As in 1997 and 2000, most persons in 2003 said they first learned to play a musical instrument either through lessons at school or private lessons. More players taught themselves than in 2000.



Male vs. Female
How did you first learn to play an instrument?

(All current or former players, by gender)

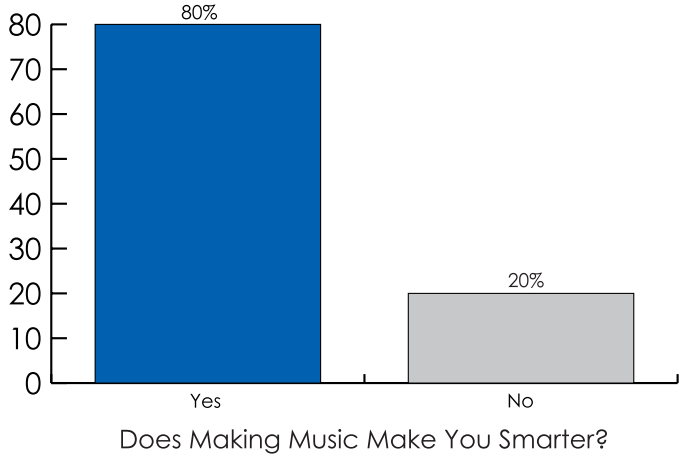
In all surveys, females were significantly more likely to take private lessons than were males.



Agreement with attitudes about learning to play musical instruments

(Asked for the first time in 2003)

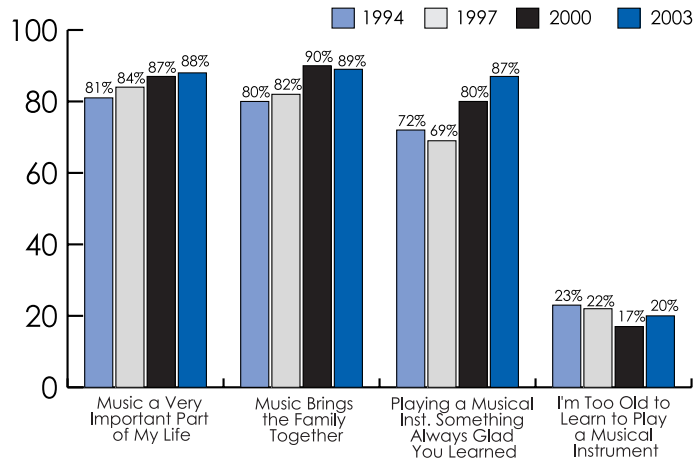
Four-fifths of respondents agree that making music makes you smarter.



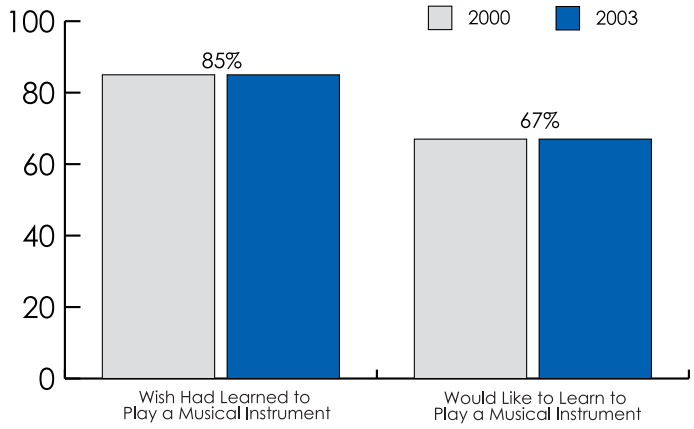
Does Making Music Make You Smarter?

AMERICAN ATTITUDES
About Music Making

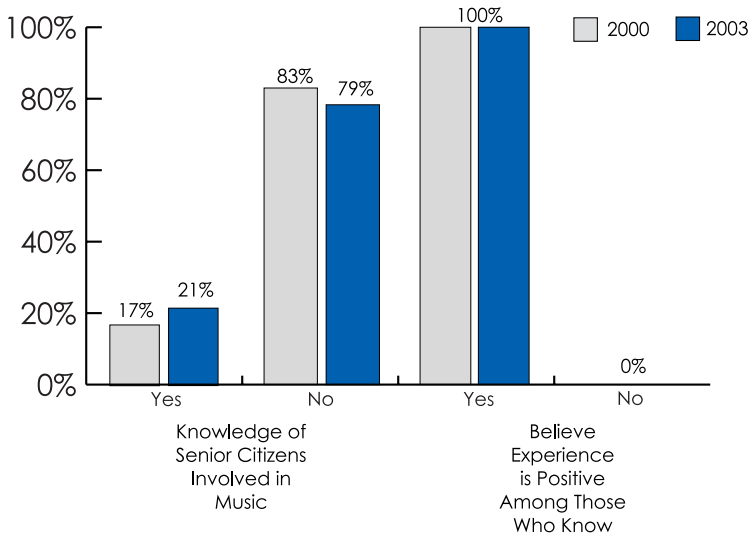
Percentage of respondents who agree



Percentage of respondents who agree



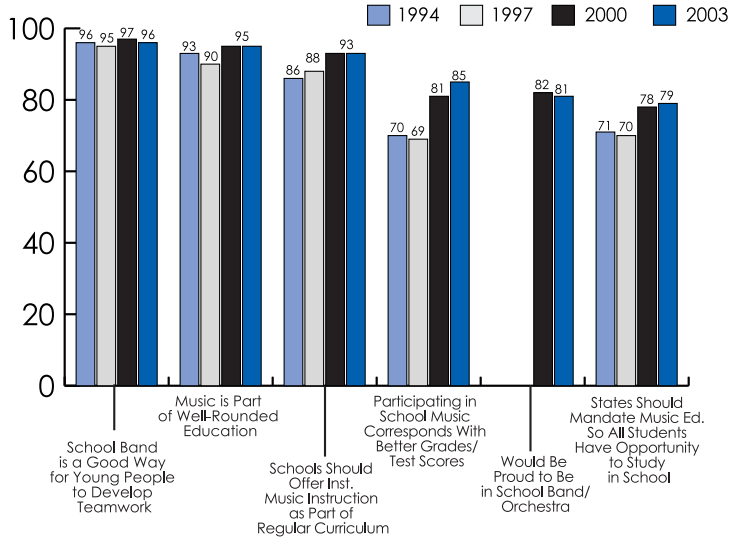
Knowledge and opinion about senior citizens being involved in music



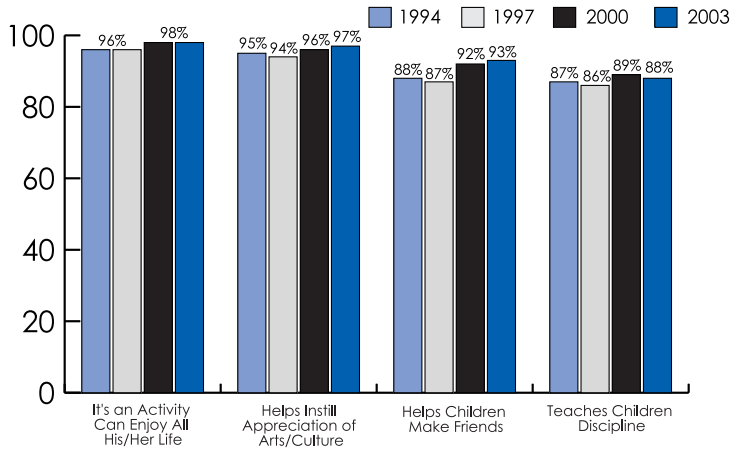
AMERICAN ATTITUDES
About Music Making

Over half of those questioned are potential new customers.

Agreement with attitudes about music education in schools
(Percentages who "completely or mostly agree" among all respondents)

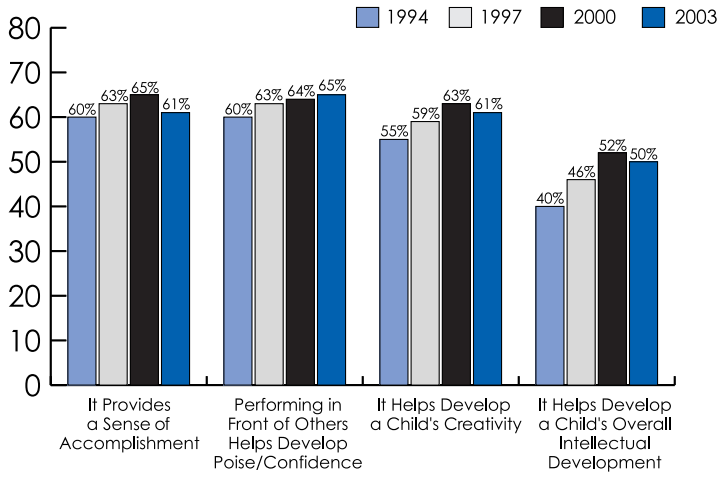


Why should children learn to play musical instruments?
(Percentages who "completely or mostly agree" among all respondents)

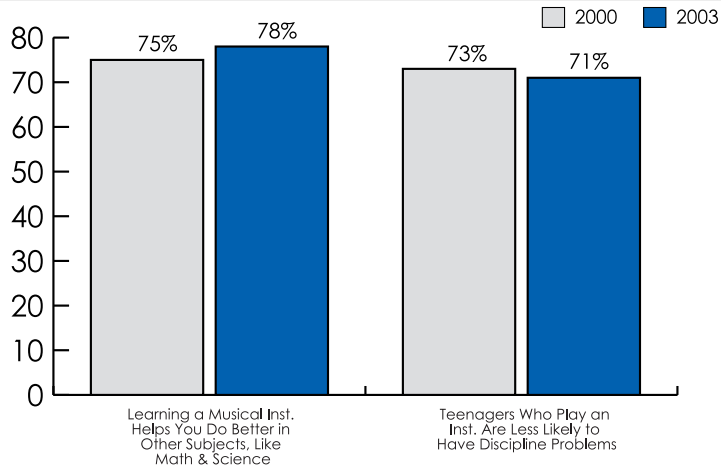


Agreement with other attitudes about reasons a child should learn to play musical instruments

(Percentages who "completely agree" among all respondents)

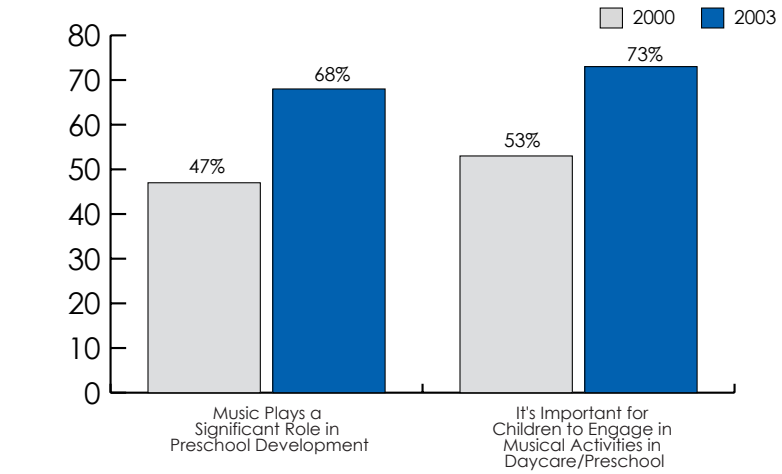


Percentage of respondents who agree



AMERICAN ATTITUDES
About Music Making

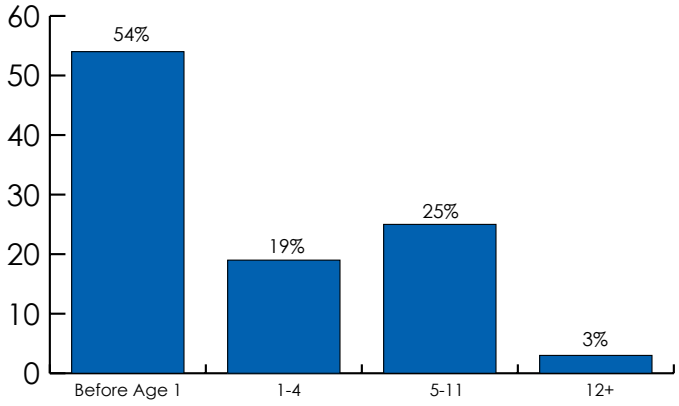
Agreement with attitudes about music at the preschool level



Age believe children should be exposed to music

(Year 2003 Respondents)

A vast opportunity exists for tapping into the preschool-age market, since almost three-fourths of respondents believe children should be exposed to music by the age of 4.



MUSIC RETAILING 2002

THE HIGHS AND LOWS OF 2002 COMBO/SOUND STORES

Excerpts from NAMM's 2003 *Cost of Doing Business Report*

2002 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	65.0%	67.8%
Gross Profit	35.0%	32.2%
Net Instrument Rental Income	1.2%	1.2%
Lesson/Studio Income	0.5%	4.2%
Repair & Service Income	0.8%	1.0%
Other Operating Income	0.4%	0.2%
Total Operating Profit	**38.0%**	**38.8%**
Operating Expenses:		
Owners Compensation	4.0%	6.3%
Selling Salaries & Commissions	8.8%	10.5%
Administrative & Other Salaries & Wages	0.8%	4.1%
Fringe Benefits	1.3%	3.6%
Advertising & Promotion	1.8%	2.0%
Occupancy	4.6%	5.6%
Computer, Technology & E-Commerce	0.0%	0.1%
Other Operating Expenses	11.4%	9.5%
Total Operating Expenses	32.6%	41.7%
Income From Operations	5.4%	-2.9%
Interest Income & Finance Charges	0.0%	0.2%
Other Non-Operating Income	0.3%	0.2%
Interest Expense	1.0%	0.6%
Other Non-Operating Expense	0.1%	0.1%
Total Other Income (Expense)	-0.8%	-0.3%
Profit Before Tax	**4.6%**	**-3.2%**

COMBO/SOUND STORES

KEY PERFORMANCE MEASURES	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
PROFITABILITY:				
Net Profit Before Tax to Total Revenue	0.3%	-1.3 - 3.0	4.6%	-3.2%
Net Profit Before Tax to Total Assets	4.0%	-1.2 - 7.5	8.3%	-1.7%
Net Profit Before Tax to Net Worth	13.0%	0.1 - 20.0	14.2%	0.0%
EBIT to Total Assets	5.7%	0.2 - 9.7	10.1%	0.2%
SPACE PRODUCTIVITY:				
Total Revenue Per Store	$1,113,100	842,681 - 2,217,220	$799,235	$1,113,100
Total Revenue Per Sq. Ft. of Total Area	$197.34	172.21 - 275.94	$153.90	$195.37
Operating Margin Per Sq. Ft. of Total Area	$60.84	56.20 - 76.86	$54.73	$74.09
INVENTORY:				
Gross Margin	33.8%	31.1 - 35.5	35.0%	32.2%
Sales to Inventory	3.6X	2.7 - 4.5	3.0X	4.2X
Gross Margin Return on Inventory	$1.29	0.80 - 1.63	$1.11	$1.36
Inventory Turnover	2.3X	1.6 - 2.6	1.8X	2.7X
PERSONNEL:				
Merchandise Revenue Per Employee	$172,038	120,751 - 208,705	$178,243	$121,258
Merchandise Revenue Per Selling Employee	$230,475	179,428 - 272,735	$204,002	$259,949
Selling Payroll -- % of Merchandise Revenues	11.8%	10.4 - 12.8	11.9%	10.8%
Selling Payroll -- % of Merchandise Margin	34.9%	28.7 - 38.8	34.3%	36.4%
Merchandise Margin Per Employee	$57,112	38,677 - 71,160	$59,529	$42,738
Merchandise Margin Per Selling Employee	$79,024	58,570 - 105,323	$68,755	$90,370
TOTAL ASSETS:				
Asset Turnover	2.2X	1.5 - 2.8	1.7X	2.8X
SALES PERFORMANCE:				
Sales Growth Over Previous Year	4.9%	-4.1 - 6.6	6.7%	-1.9%
FINANCIAL MANAGEMENT:				
LEVERAGE:				
Total Debt to Total Assets	68.2%	31.8 - 76.1	67.6%	76.9%
Accounts Payable to Inventory	N/A	N/A	N/A	N/A
Floor Plan to Inventory	N/A	N/A	N/A	N/A
LIQUIDITY:				
Current Ratio	1.5X	1.4 - 3.1	1.5X	1.6X
Quick Ratio	0.3X	0.1 - 0.8	0.3X	0.3X

THE HIGHS AND LOWS OF 2002 KEYBOARD STORES

Excerpts from NAMM's 2003 *Cost of Doing Business Report*

2002 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	54.4%	59.6%
Gross Profit	45.6%	40.4%
Net Instrument Rental Income	2.0%	1.6%
Lesson/Studio Income	1.0%	0.9%
Repair & Service Income	0.6%	0.8%
Other Operating Income	0.4%	1.3%
Total Operating Profit	**49.6%**	**45.0%**
Operating Expenses:		
Owners Compensation	3.8%	4.1%
Selling Salaries & Commissions	8.7%	9.7%
Administrative & Other Salaries & Wages	3.8%	4.9%
Fringe Benefits	2.0%	3.0%
Advertising & Promotion	6.1%	5.9%
Occupancy	6.5%	6.7%
Computer, Technology & E-Commerce	0.2%	0.1%
Other Operating Expenses	8.2%	8.6%
Total Operating Expenses	39.4%	42.9%
Income From Operations	10.1%	2.1%
Interest Income & Finance Charges	0.1%	0.0%
Other Non-Operating Income	0.1%	0.4%
Interest Expense	1.6%	1.7%
Other Non-Operating Expense	0.4%	0.4%
Total Other Income (Expense)	-1.7%	-0.7%
Profit Before Tax	**8.4%**	**0.4%**

KEYBOARD STORES

KEY PERFORMANCE MEASURES	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
PROFITABILITY:				
Net Profit Before Tax to Total Revenue	4.3%	0.4 - 5.8	8.4%	0.4%
Net Profit Before Tax to Total Assets	6.7%	0.9 - 12.8	12.9%	0.9%
Net Profit Before Tax to Net Worth	15.6%	0.6 - 30.8	28.8%	1.3%
EBIT to Total Assets	9.5%	4.3 - 15.0	15.3%	4.3%
SPACE PRODUCTIVITY:				
Total Revenue Per Store	$1,549,873	1,032,801 - 2,645,686	$1,513,765	$1,628,411
Total Revenue Per Sq. Ft. of Total Area	$276.63	190.97 - 330.18	$324.39	$262.56
Operating Margin Per Sq. Ft. of Total Area	$103.97	84.45 - 154.03	$109.30	$96.67
INVENTORY:				
Gross Margin	43.7%	37.6 - 49.0	45.6%	40.4%
Sales to Inventory	2.9X	2.4 - 3.6	2.9X	2.8X
Gross Margin Return on Inventory	$1.35	1.04 - 1.58	$1.41	$1.29
Inventory Turnover	1.6X	1.4 - 2.0	1.6X	1.5X
PERSONNEL:				
Merchandise Revenue Per Employee	$263,614	214,591 - 387,817	$259,834	$285,753
Merchandise Revenue Per Selling Employee	$517,090	372,495 - 594,227	$559,322	$500,955
Selling Payroll -- % of Merchandise Revenues	8.3%	6.4 - 12.0	8.7%	8.3%
Selling Payroll -- % of Merchandise Margin	19.6%	15.0 - 28.5	18.6%	19.9%
Merchandise Margin Per Employee	$117,457	76,581 - 159,390	$131,803	$111,262
Merchandise Margin Per Selling Employee	$239,710	168,829 - 292,418	$270,368	$218,252
TOTAL ASSETS:				
Asset Turnover	2.1X	1.5 - 2.5	2.1X	2.1X
SALES PERFORMANCE:				
Sales Growth Over Previous Year	1.1%	-5.1 - 15.5	0.2%	1.6%
FINANCIAL MANAGEMENT:				
LEVERAGE:				
Total Debt to Total Assets	56.9%	47.9 - 85.2	54.7%	74.7%
Accounts Payable to Inventory	70.0%	56.6 - 99.3	62.7%	99.3%
Floor Plan to Inventory	61.2%	43.5 - 88.1	50.7%	89.1%
LIQUIDITY:				
Current Ratio	1.7X	1.3 - 2.6	1.7X	1.7X
Quick Ratio	0.4X	0.2 - 0.6	0.4X	0.3X

THE HIGHS AND LOWS OF 2002 FULL LINE STORES

Excerpts from NAMM's 2003 *Cost of Doing Business Report*

2002 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	61.4%	63.2%
Gross Profit	38.6%	36.8%
Net Instrument Rental Income	10.4%	10.1%
Lesson/Studio Income	5.3%	1.3%
Repair & Service Income	2.2%	2.4%
Other Operating Income	0.9%	1.0%
Total Operating Profit	**57.4%**	**51.6%**
Operating Expenses:		
Owners Compensation	4.4%	5.8%
Selling Salaries & Commissions	11.2%	15.1%
Administrative & Other Salaries & Wages	6.3%	5.2%
Fringe Benefits	2.6%	3.6%
Advertising & Promotion	3.4%	4.0%
Occupancy	7.2%	6.2%
Computer, Technology & E-Commerce	0.2%	0.3%
Other Operating Expenses	12.8%	12.1%
Total Operating Expenses	48.2%	52.2%
Income From Operations	9.2%	-0.6%
Interest Income & Finance Charges	1.1%	1.7%
Other Non-Operating Income	0.4%	1.2%
Interest Expense	1.7%	2.4%
Other Non-Operating Expense	0.2%	0.7%
Total Other Income (Expense)	-0.5%	-0.2%
Profit Before Tax	**8.7%**	**-0.8%**

FULL LINE STORES

KEY PERFORMANCE MEASURES	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
PROFITABILITY:				
Net Profit Before Tax to Total Revenue	3.7%	0.4 - 6.1	8.7%	-0.8%
Net Profit Before Tax to Total Assets	4.1%	0.7 - 12.5	12.7%	0.8%
Net Profit Before Tax to Net Worth	8.7%	0.0 - 21.4	21.9%	1.1%
EBIT to Total Assets	8.0%	3.8 - 14.3	14.4%	3.8%
SPACE PRODUCTIVITY:				
Total Revenue Per Store	$1,146,252	598,571 - 1,967,073	$1,010,714	$1,125,368
Total Revenue Per Sq. Ft. of Total Area	$210.58	155.66 - 312.64	$239.87	$192.69
Operating Margin Per Sq. Ft. of Total Area	$91.28	64.04 - 126.40	$96.59	$85.03
INVENTORY:				
Gross Margin	37.6%	33.8 - 41.7	38.6%	36.8%
Sales to Inventory	2.6X	2.1 - 3.6	3.2X	2.4X
Gross Margin Return on Inventory	$0.98	0.74 - 1.43	$1.22	$0.85
Inventory Turnover	1.7X	1.3 - 2.4	1.9X	1.5X
PERSONNEL:				
Merchandise Revenue Per Employee	$125,677	91,771 - 163,679	$128,428	$121,535
Merchandise Revenue Per Selling Employee	$204,598	144,365 - 318,982	$239,947	$202,525
Selling Payroll -- % of Merchandise Revenues	13.0%	10.1 - 17.6	12.6%	13.6%
Selling Payroll -- % of Merchandise Margin	33.9%	25.2 - 46.7	32.3%	36.6%
Merchandise Margin Per Employee	$54,450	42,915 - 65,982	$57,058	$49,967
Merchandise Margin Per Selling Employee	$96,925	62,129 - 122,238	$100,689	$90,178
TOTAL ASSETS:				
Asset Turnover	1.7X	1.3 - 2.2	1.8X	1.5X
SALES PERFORMANCE:				
Sales Growth Over Previous Year	-0.6%	-6.8 - 8.2	4.0%	-1.3%
FINANCIAL MANAGEMENT:				
LEVERAGE:				
Total Debt to Total Assets	58.1%	35.5 - 75.4	56.2%	59.8%
Accounts Payable to Inventory	47.4%	36.7 - 74.8	42.3%	50.4%
Floor Plan to Inventory	19.6%	7.1 - 54.1	12.6%	28.3%
LIQUIDITY:				
Current Ratio	2.2X	1.5 - 3.7	2.3X	2.1X
Quick Ratio	0.5X	0.2 - 1.0	0.5X	0.7X

THE HIGHS AND LOWS OF 2002 SCHOOL MUSIC STORES

Excerpts from NAMM's 2003 *Cost of Doing Business Report*

2002 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	62.5%	66.3%
Gross Profit	37.5%	33.7%
Net Instrument Rental Income	18.1%	31.9%
Lesson/Studio Income	13.1%	3.1%
Repair & Service Income	5.9%	14.2%
Other Operating Income	1.2%	1.7%
Total Operating Profit	**75.7%**	**84.6%**
Operating Expenses:		
Owners Compensation	9.1%	8.5%
Selling Salaries & Commissions	13.9%	28.0%
Administrative & Other Salaries & Wages	5.7%	8.2%
Fringe Benefits	4.4%	4.3%
Advertising & Promotion	4.4%	4.9%
Occupancy	6.7%	10.0%
Computer, Technology & E-Commerce	0.6%	0.3%
Other Operating Expenses	18.0%	21.1%
Total Operating Expenses	62.5%	85.2%
Income From Operations	13.2%	-0.6%
Interest Income & Finance Charges	0.2%	1.2%
Other Non-Operating Income	0.0%	1.8%
Interest Expense	2.2%	3.1%
Other Non-Operating Expense	0.0%	0.2%
Total Other Income (Expense)	-2.0%	-0.2%
Profit Before Tax	**11.2%**	**-0.8%**

SCHOOL MUSIC STORES

KEY PERFORMANCE MEASURES	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
PROFITABILITY:				
Net Profit Before Tax to Total Revenue	4.4%	2.4 - 9.6	11.2%	-0.8%
Net Profit Before Tax to Total Assets	7.1%	3.7 - 12.3	12.7%	3.7%
Net Profit Before Tax to Net Worth	14.7%	2.3 - 35.0	35.7%	9.4%
EBIT to Total Assets	10.2%	6.3 - 15.1	15.5%	6.3%
SPACE PRODUCTIVITY:				
Total Revenue Per Store	$1,188,730	785,080 - 1,718,137	$1,188,730	$1,253,291
Total Revenue Per Sq. Ft. of Total Area	$216.92	137.32 - 257.31	$216.92	$211.75
Operating Margin Per Sq. Ft. of Total Area	$98.67	61.53 - 147.42	$98.03	$114.40
INVENTORY:				
Gross Margin	35.6%	29.8 - 43.0	37.5%	33.7%
Sales to Inventory	2.6X	2.0 - 3.3	2.6X	2.6X
Gross Margin Return on Inventory	$0.98	0.85 - 1.20	$0.95	$1.02
Inventory Turnover	1.6X	1.3 - 2.0	1.6X	1.8X
PERSONNEL:				
Merchandise Revenue Per Employee	$103,241	82,829 - 126,511	$117,564	$96,572
Merchandise Revenue Per Selling Employee	$175,450	143,388 - 281,803	$253,153	$150,421
Selling Payroll -- % of Merchandise Revenues	16.0%	10.5 - 26.7	14.3%	19.8%
Selling Payroll -- % of Merchandise Margin	42.8%	29.2 - 108.2	42.3%	63.8%
Merchandise Margin Per Employee	$44,506	32,952 - 62,725	$46,797	$43,750
Merchandise Margin Per Selling Employee	$87,060	53,890 - 137,168	$118,682	$77,701
TOTAL ASSETS:				
Asset Turnover	1.7X	1.2 - 2.0	1.7X	1.5X
SALES PERFORMANCE:				
Sales Growth Over Previous Year	0.0%	-10.4 - 9.6	-8.9%	0.1%
FINANCIAL MANAGEMENT:				
LEVERAGE:				
Total Debt to Total Assets	68.3%	31.7 - 89.5	56.3%	77.6%
Accounts Payable to Inventory	91.1%	N/A	N/A	N/A
Floor Plan to Inventory	33.0%	N/A	N/A	N/A
LIQUIDITY:				
Current Ratio	1.9X	1.0 - 2.6	2.2X	1.5X
Quick Ratio	0.5X	0.3 - 1.5	0.5X	0.5X

Profile of the

AMERICAN MUSIC DEALER 2003

U.S. STORE COUNT DIPS SLIGHTLY IN 2003

An iffy economy and geopolitical unrest have rocked the country and the world in recent times, but in terms of storefronts, it was pretty much "business as usual" for U.S. music products dealers over the last 12 months. After posting an impressive 2.9 percent increase in stores last year, the universe of music outlets declined a modest 0.4 percent from mid-2002 to mid-2003. As of May 1, 2003, there were 8,412 stores operating in the 50 states, down from 8,447 a year ago.

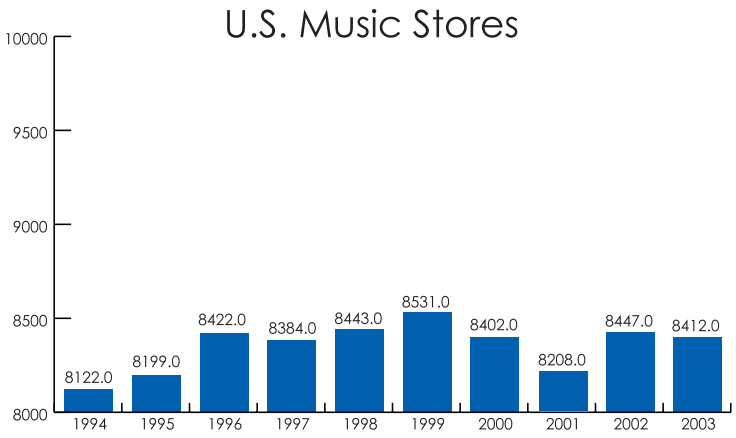
Superstores Sway the Numbers

The bankruptcy of Mars Music in late 2002 would appear to be in large part responsible for the overall decline in units over the last 12 months. When Mars rapidly unraveled, 50 Mars Music superstores were unceremoniously shuttered after auctions and going-out-of-business sales were held from coast to coast. Sam Ash Music quickly acquired the leases on four former Mars outlets and, somewhat later, Pennsylvania-based George's Music took over a single Mars outlet in Florida. So the net store loss generated by the Mars debacle was 45 stores in one fell swoop. Given that the national decline was just 35 stores, the retail industry actually achieved a miniscule net gain of some 10 stores year to year if the Mars numbers are not included in the tally.

Of course, with Guitar Center continuing to roll out a dozen or more large- and small-format outlets per year, the industry's leader continues to be the most prominent force for store expansion. When all is said and done, and putting aside the Mars and Guitar Center activity, one would have to deduce that the true store-count picture in the United States was absolutely flat.

The national storefront picture continues to be an up-and-down affair year to year. After cresting at more than 8,800 units in 1992, the industry endured two negative years (including a -6.4 percent posting in 1993–94). Modest growth marked four of the next five years, followed by two more down years through 2001. Last year's 2.9 percent increase, followed by this year's small dip, continues the topsy-turvy trend. Despite these shifts, the graph shows the store count has been reasonably stable, for the most part hovering right around the 8,400 mark.

Last year, 32 of the 50 states saw gains in the total number of music storefronts. The picture was quite different this time around: Only 17 states saw increases, while 28 had declines, and 6 were even with last year. Geographically, the best performers were states in the Great Lakes, Mid-South, and Deep South regions.

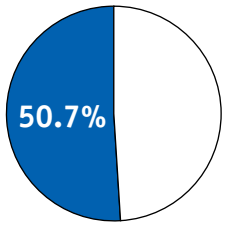


8,412 MUSIC PRODUCT STORES: WHAT THEY SELL

As the chart indicates, only the Keyboard/Piano/Organ category increased its presence significantly in terms of representation in U.S. stores. Band & Orchestra and Drums/Percussion posted small increases, while Sound Reinforcement/ Recording Equipment, Fretted Instruments, and Print Music were marginally less well-represented than in 2002.

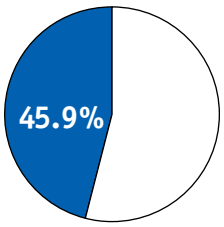
	1999	2000	2001	2002	2003	% Change '02-'03
Keyboard/Piano/Organ	4,341	4,281	4,070	4,000	4264	+6.6%
Band & Orchestra	4,187	4,152	3,900	3,791	3863	+1.9%
Drums/Percussion	4,296	4,301	4,076	4,020	4052	+0.7%
Sound Reinf./Rec. Equip.	4,091	4,005	3,963	3,792	3774	-0.5%
Fretted Inst.	5,828	5,714	5,627	5,378	5237	-2.6%
Print Music	4,384	4,331	4,320	4,137	4134	-0.1%

keyboard/piano/organ



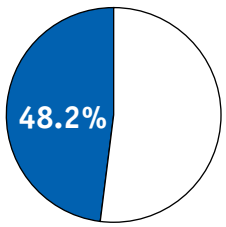
50.7% of all music stores sell keyboards, pianos, and/or organs

band & orchestra



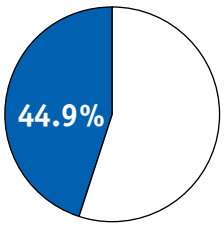
45.9% of all music stores sell band & orchestra instruments

drums/percussion



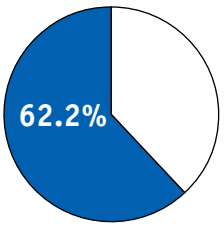
48.2% of all music stores sell drums and/or percussion

sound reinf./rec. equip.



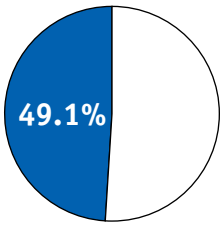
44.9% of all music stores sell sound reinforcement and/or recording equipment

fretted inst.



62.2% of all music stores sell stringed and/or fretted instruments

print music



49.1% of all music stores sell print music

As has been the case for the last decade-plus, most of the major categories of musical instrument and sound products are found in about half of all U.S. music stores. As the graphs above show, five of the six categories are carried in from 45 percent to 50 percent of stores. The exception is the fretted instrument category, stocked in two out of every three stores in America. Of course, fretted's share is even higher—more than 75 percent—if non-guitar specialty businesses like piano dealers, drum shops, school music, and print music specialists are excluded from the count.

SPECIALTY STORES

The 2,236 specialty stores—retailers focusing on a single product category—account for 26.6 percent of all U.S. music products stores. The number of specialty dealers declined 3.4 percent over the last year. The specialty category was unusually volatile in spots this year, as keyboard-only stores dipped 11.6 percent and drum/percussion shops notched a 22.4 increase. Other categories were the picture of stability. For example, print music has fluctuated by a mere 15 stores over a five-year span, and the guitar shop count is almost exactly where it was in 1998.

	1999	2000	2001	2002	2003	% Change '02–'03
Keyboard/Piano/Organ	878	868	824	768	679	-11.6%
Band & Orchestra	323	309	287	291	296	+1.7%
Drums/Percussion	172	178	169	161	197	+22.4%
Sound Reinf./Rec. Equip.	270	279	276	259	252	-2.7%
Fretted Inst.	706	675	658	644	667	+3.6%
Print Music	112	111	111	126	121	-4.0%

STATE–BY–STATE BREAKDOWN

	Stores '03	Stores '02	Unit Change	% Change
ALABAMA	146	139	+7	+5.0%
ALASKA	32	32	--	even
ARIZONA	135	134	+1	+0.7%
ARKANSAS	90	97	-7	-7.2%
CALIFORNIA	983	1,010	-27	-2.7%
COLORADO	141	141	--	even
CONNECTICUT	129	132	-3	-2.3%
DELAWARE	25	27	-2	-7.4%
DIST. OF COLUMBIA*	5	5	--	even
FLORIDA	418	408	+10	+2.4%
GEORGIA	239	242	-3	-1.2%
HAWAII	51	50	+1	+2.0%
IDAHO	42	43	-1	-2.3%
ILLINOIS	379	381	-2	-0.5%
INDIANA	207	193	+14	+7.3%
IOWA	103	104	-1	-1.0%
KANSAS	94	93	+1	+1.0%
KENTUCKY	149	141	+8	+5.7%
LOUISIANA	104	98	+6	+6.1%
MAINE	39	40	-1	-2.5%
MARYLAND	117	119	-2	-1.7%
MASSACHUSETTS	233	241	-8	-3.3%
MICHIGAN	268	267	+1	+0.47%
MINNESOTA	162	162	--	even
MISSISSIPPI **	80	67	+13	+19.4%
MISSOURI	188	172	+16	+9.3%
MONTANA	32	30	+2	+6.7%
NEBRASKA	58	60	-2	-3.3%
NEVADA	44	45	-1	-2.2%
NEW HAMPSHIRE	55	49	+6	+12.2%
NEW JERSEY	214	217	-3	-1.4%
NEW MEXICO	61	69	-8	-11.6%
NEW YORK	510	514	-4	-0.8%
NORTH CAROLINA	245	245	--	even
NORTH DAKOTA	26	27	-1	-3.7%
OHIO	364	360	+4	+1.1%
OKLAHOMA	100	107	-7	-6.5%
OREGON	146	152	-6	-3.9%
PENNSYLVANIA	410	413	-3	-0.7%
RHODE ISLAND	33	35	-2	-5.7%
SOUTH CAROLINA	110	111	-1	-0.9%
SOUTH DAKOTA	18	21	-3	-14.3%
TENNESSEE	216	208	+8	+3.8%
TEXAS	471	486	-15	-3.1%
UTAH	76	82	-6	-7.3%
VERMONT	31	31	--	even
VIRGINIA	194	204	-10	-4.9%
WASHINGTON	205	212	-7	-3.3%
WEST VIRGINIA	55	53	+2	+3.8%
WISCONSIN	160	155	+5	+3.2%
WYOMING	19	23	-4	-17.4%
TOTAL	**8,412**	**8,447**	**-35**	**-0.4%**

* District of Columbia figures also include certain Virginia-based stores within the metropolitan D.C. area.

** Ed. Note: The unit increase for Mississippi from 2002 to 2003 is probably overstated. MMR's circulation department uncovered a number of stores in the Magnolia State that, while not new, had been overlooked in past research efforts.

STORE COUNT DOWN IN 28 STATES

The decrease in music stores was only 0.4 percent in the last year, but this decline was spread out widely, as 28 of the 50 states hit mid-year with fewer outlets than a year ago. (In 2002, the scenario was almost exactly reversed, with 32 states on the upswing.)

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