



A STATISTICAL REVIEW OF THE **MUSIC PRODUCTS** INDUSTRY

# MUSIC USA 2004 INTERNATIONAL EDITION

**NAMM<sup>®</sup>**

*believe in music | belong to NAMM*





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# MUSIC USA 2004

## INTERNATIONAL EDITION

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# A MESSAGE FROM THE CHAIRMAN & PRESIDENT/CEO

NAMM's mission is clear: to unify, lead and strengthen the global music products industry and increase active participation in music making. A very important part of our purpose is to gather, analyze and report reliable data about the music products industry so that you can make the best possible decisions for your business.

As our industry has become increasingly international, *Music USA* is expanding as well. In addition to all the detailed information you've come to expect on the U.S. market, we have added statistics from five more

countries to this year's version: Australia, Canada, Japan, Spain and the United Kingdom. We've aggregated all of this together into one useful tool for understanding the current global music products business environment. In the future, we hope to include more nations and broaden our scope even further.

NAMM remains committed to your success and we hope that you find efforts like this year's newly expanded *Music USA 2004: International Edition* beneficial to your business.

Sincerely,

**PAUL HEID**

A handwritten signature in black ink that reads "Paul Heid".

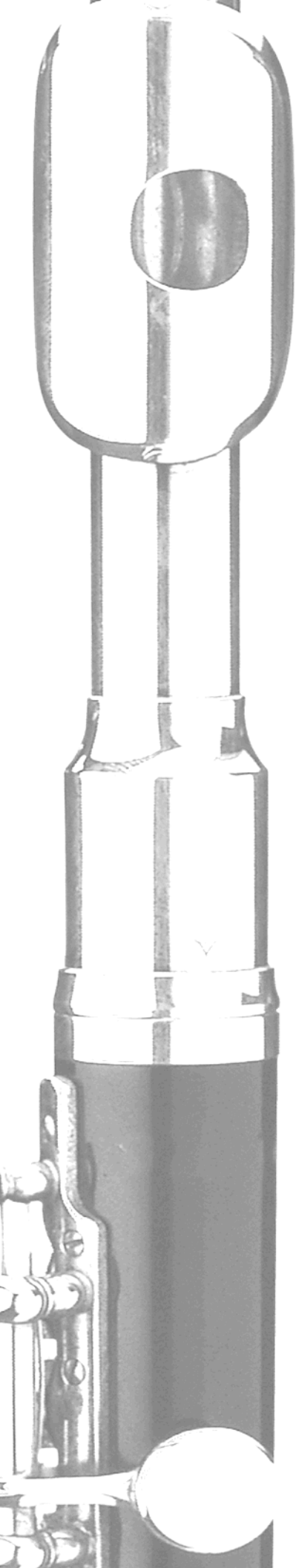
Paul Heid, Chairman

**JOE LAMOND**

A handwritten signature in black ink that reads "J. M. Lamond".

Joe Lamond, President/CEO





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## 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 *The 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.

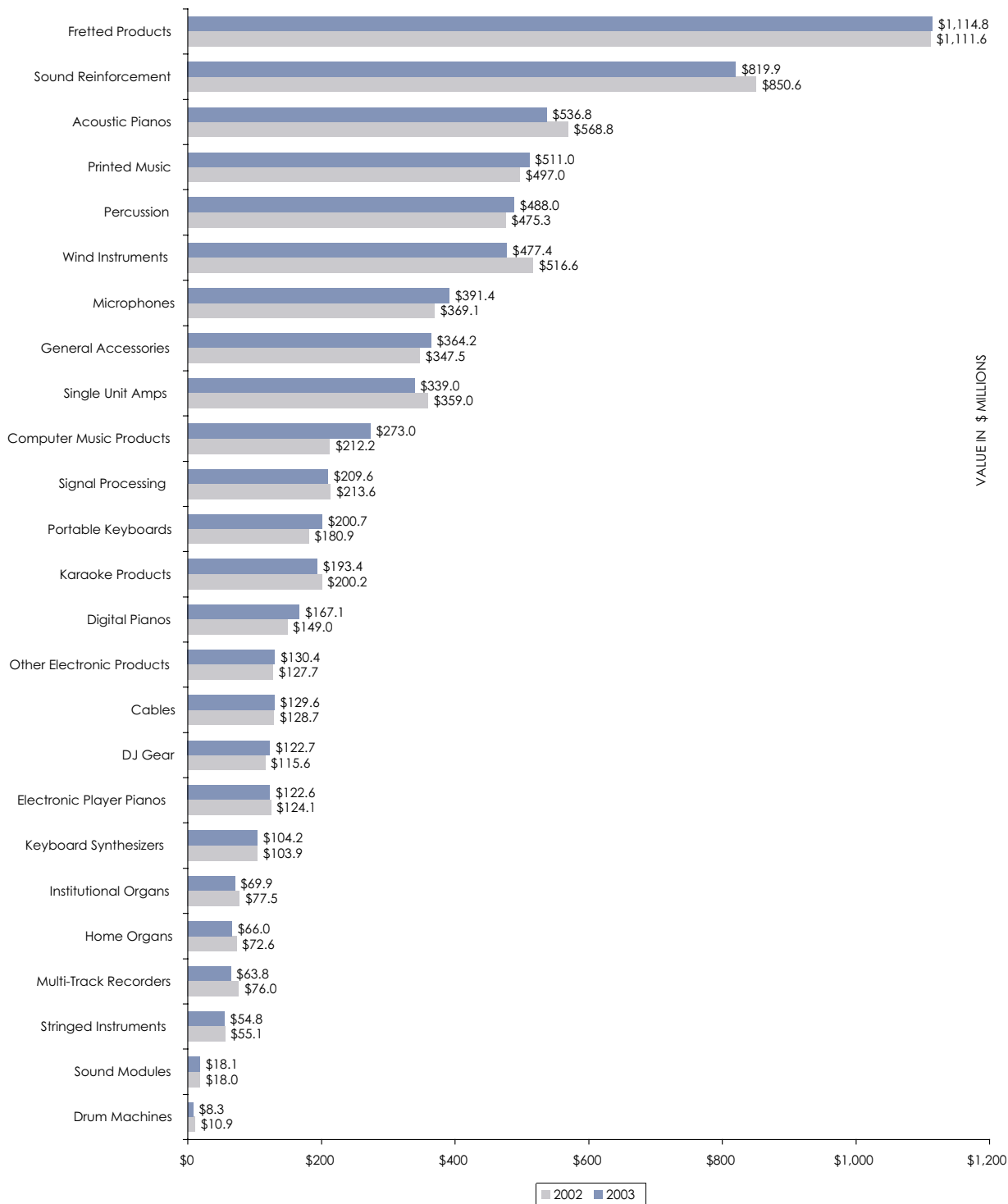
It should be emphasized that dollar estimates in NAMM's *Music USA* are based on shipments to retailers, which may or may not have been sold during the course of the year. This method of calculation introduced a degree of inaccuracy into the data presented. However, in this era of "just-in-time" inventory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

The vast majority of the **\$6.967 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.

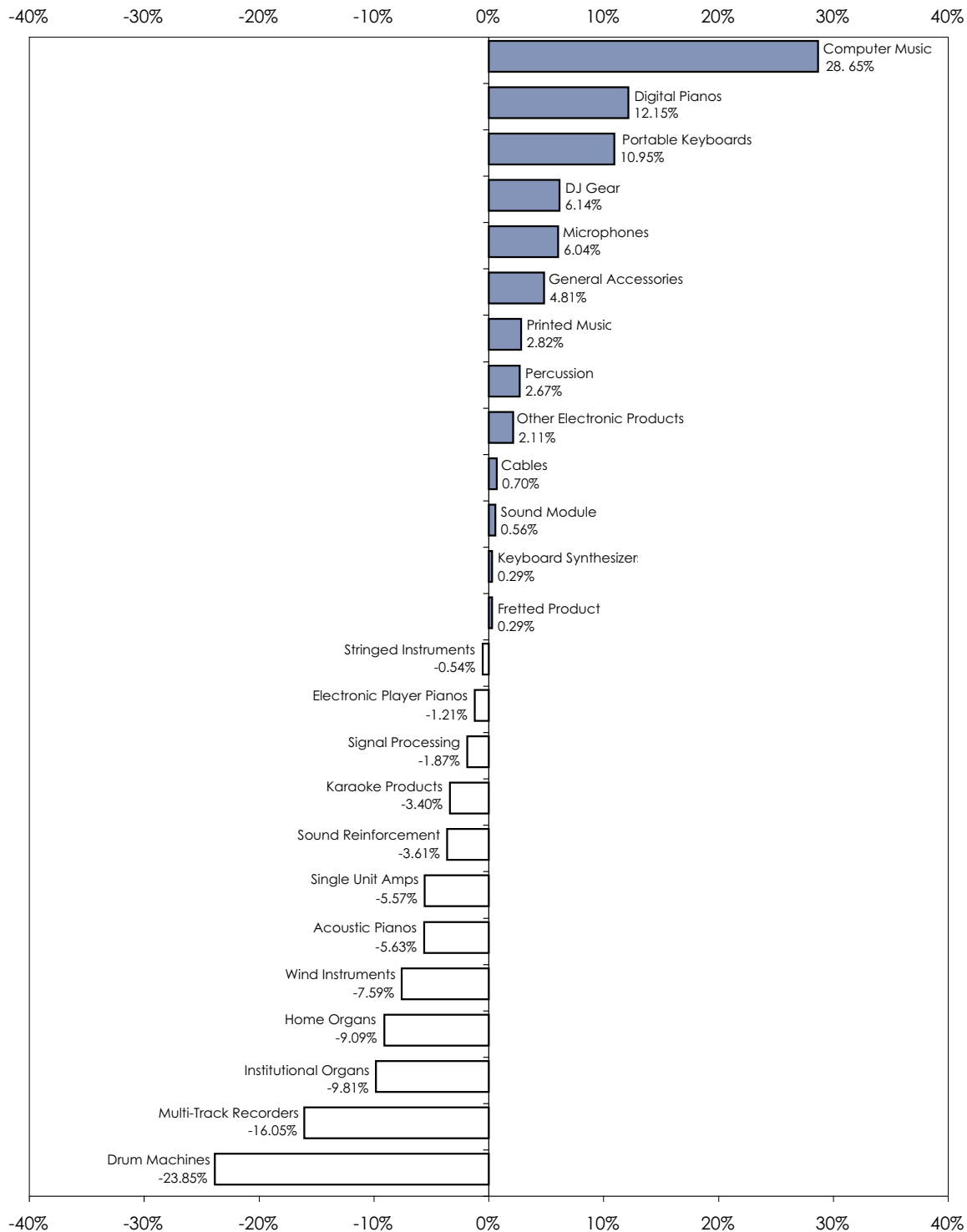
# INDUSTRY REVENUE AT A GLANCE

## Product Sales Totals (Retail 2002–2003)



# INDUSTRY REVENUE AT A GLANCE

## 2003 Industry Sales Gains and Declines (Percent Change from 2002–2003)



# INTRODUCTION

## 2004 Music Industry Analysis

A quick scan of unit and dollar figures in the following report is all it takes to appreciate what went on in the music products industry during 2003. Unit volume was up in just about every product category, thanks to robust interest in making and recording music. However, dollar volume sagged, the victim of lower-priced products from China and withering competition. The net result: Retailers and manufacturers worked harder and moved more product than ever before, but generated the same revenue. For 2003, industry sales were virtually unchanged from 2002: \$6.967 billion versus \$6.973 billion a year ago. Despite significant increases in unit sales for guitars, audio products and pianos, dollar volume in the industry's three largest categories slipped slightly from a year ago. These declines were offset by gains in printed music, percussion products and computer-related hardware. When the dust settled, however, total volume barely budged.

Given the turmoil that surrounded the year, however, it is significant that sales fared as well as they did. During the first six months of the year, the buildup to the invasion of Iraq, the subsequent conflict and conclusion of major hostilities kept consumers preoccupied and took a heavy toll on store business. Music retailers reported weak store traffic during the second quarter, as did Wal-Mart, Target, Best Buy and all major department stores. The war wound down just in time for the summer doldrums. Fortunately, business rebounded in the fourth quarter and finished on a high note.

Ever since the stock market bubble burst in 2000 and economic growth stalled, manufacturers and retailers have complained about the challenge of stringing three strong sales months together. A busy month or two is

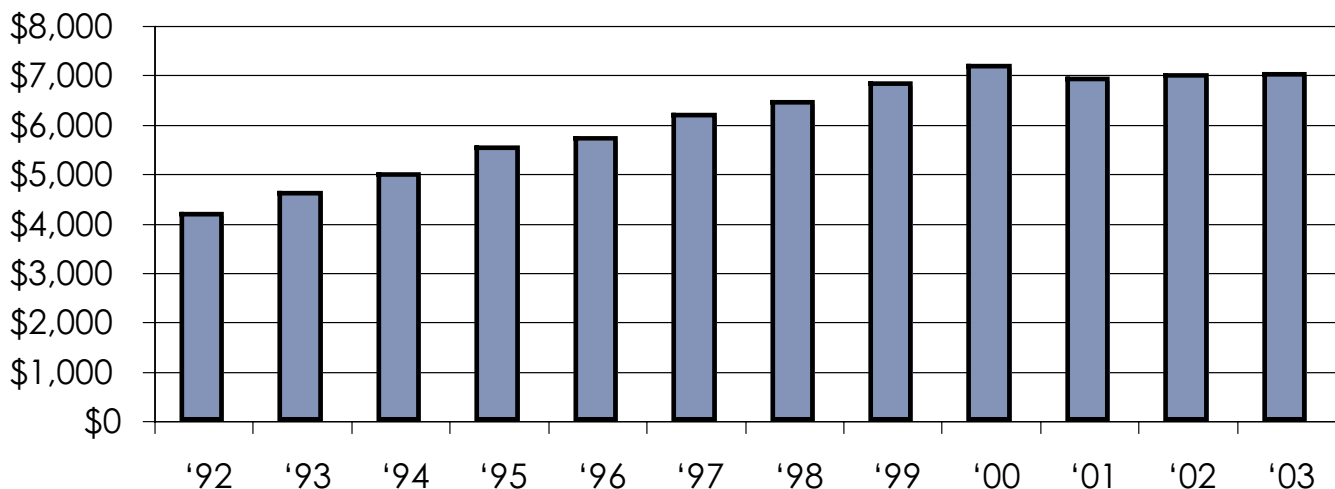
typically followed by one where "nothing seems to happen." As of this writing (in March), however, a decent number of industry companies have concluded their third strong month, which bodes well for the balance of the year.

Economists talk of price "elasticity," which is a fancy way of saying that if you lower prices, you will sell more. The retail environment of 2003 proved that the "elasticity" factor that works with potato chips and dishwasher detergent holds true for musical products as well. Lower selling prices coincided with strong unit gains in just about every product category. Were the lower prices the sole factor boosting unit gains? No. Population growth, improved consumer confidence, lower interest rates and innumerable other factors contributed to the gain.

Consider the following, however: Average acoustic guitar selling prices dropped by 25 percent and unit volume increased 20 percent; grand piano selling prices dropped nearly 10 percent and unit volume increased by 2.1 percent; digital piano prices were off 10 percent and unit volume jumped 25 percent. Similar scenarios played out in most of the product categories tracked in this report, which leads us to conclude that the link between selling prices and unit volume is more than coincidence.

If you can get past the challenge of remaining solvent in a climate marked by falling prices, the good news is that the pool of potential music makers seems to be expanding faster than the rate of population growth. This expanding base of customers, many of whom will make musical purchases over a period of decades, provides the industry with a promising future.

## INDUSTRY TOTAL (In millions of dollars)



# SEGMENT DATA

## The Fretted Instrument Market

For retailers, the guitar market in 2003 presented something of a good news/bad news proposition. The good news was that consumers purchased a record number of acoustics and electrics. During the past year, acoustic guitar sales surged 20 percent to 1,168,237 units. Electrics fared even better, moving up 21 percent to 1,173,314 units. The bad news was that due to falling prices, dollar volume failed to keep up. The value of acoustic instruments dropped 6.3 percent to an estimated \$415.1 million at retail, while electric guitars nudged up a mere 2.1 percent to \$488.1 million. For retailers, this meant that maintaining the same sales volume required uncrating more boxes, prepping more instruments, and processing more transactions at the cash register.

Falling prices can be attributed to two basic forces: Chinese imports and a modest decline in the volume of high-end (over \$1,000 retail) acoustics and electrics. Just as water always seeks the lowest level, guitar production has a way of continuously migrating to lower-cost manufacturing environments. This meant production continued its exodus from Korea to China and, to a lesser extent, Indonesia. Because of these new product sources, U.S. retailers were able to offer a reasonable-quality, entry-level acoustic for less than \$150 and a pretty decent electric for less than \$175. Less expensive entry-level instruments also served to pull down prices throughout the entire price range. As one retailer summed up, "The \$700 guitar is now a \$500 guitar; the \$500 guitar is now a \$350 guitar; and the \$350 guitar is now a \$200 guitar."

These lower average-selling prices had a profound impact on the market, changing the way guitars were both sold and purchased. With price points of under \$150, guitars became viable additions to the merchandise mix of mass retailers such as Costco and Wal-Mart, ushering in a new type of competition. Lower prices also made guitars more of an impulse purchase. At \$500, a parent might think twice before buying junior a guitar for Christmas, but at \$200 (about the price of a good skateboard), many just whip out their credit card. This helps account for the surge in guitar and amp packages during the fourth quarter.

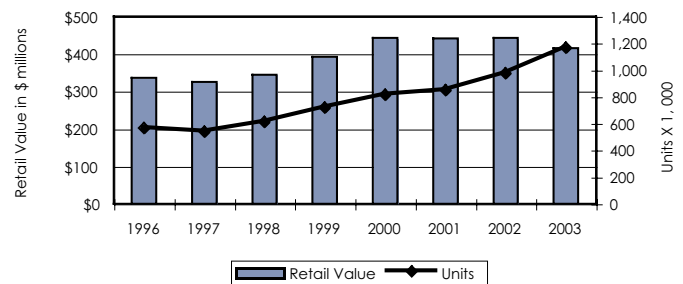
Guitar players are naturally inclined to collect instruments, and lower prices have led to what some describe as a "baseball card mentality" (i.e., "collect them all"). Instead of agonizing over whether to buy a Les Paul or a Stratocaster or a dreadnought or an arch top, today's players are likely to buy several. This trend is most graphically illustrated by the surge in the arch top guitar numbers. As selling prices have come down, sales in this niche category have steadily trended up.

The slowdown in the high-end market is strictly a factor of larger economic forces. When the stock market was at its peak in the late '90s and there was a widespread belief that the party would go on forever, there were legions of consumers who were willing to drop thousands on a Swiss watch, a custom Harley-Davidson or an exquisitely inlaid guitar. The universe of free-wheeling spenders is somewhat smaller in today's less exuberant climate. Nevertheless, high-end guitar sales remain just a hair below the peak established in 2000.

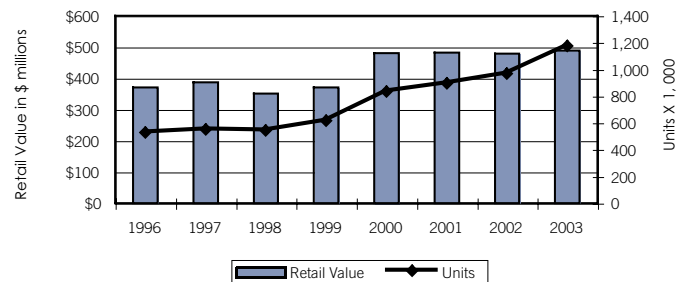
Selling at a rate of 2 million units a year, the guitar is far and away the most popular musical instrument. Week after week, guitar-centric music continues to dominate the *Billboard* charts. While popular music helps explain the continued sales growth of the guitar, demographic charts are perhaps even more important. Never before in the last 100 years has a single instrument appealed to so many distinct age groups. From 11-year-olds just barely able to get their fingers around a guitar neck, to 60-year-olds with fond memories of Woodstock, the guitar is the instrument of choice.

In the late '40s, folk singer and social activist Woody Guthrie once described his battered Martin guitar a "tool of subversion and dissent." In the ultimate twist of irony, the guitar has become totally mainstreamed—equally at home at a church service or a nightclub, or in a television commercial hawking dishwasher detergent. Message to all those baby boomers who once used the guitar in their protests against the establishment: You are the establishment, and so is your preferred instrument.

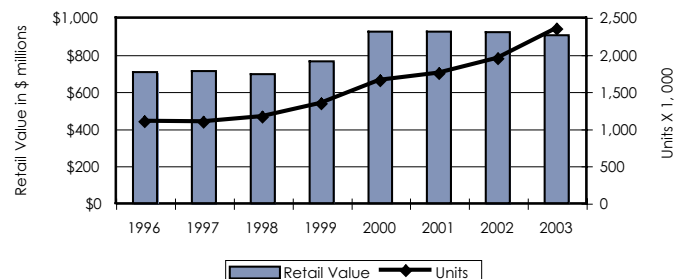
### ACCOUSTIC GUITARS



### ELECTRIC GUITARS

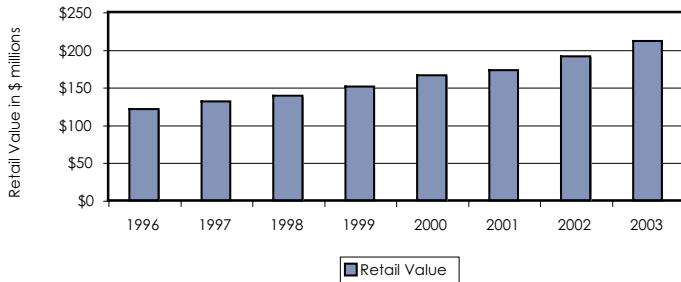


### TOTAL GUITAR MARKET



## The Fretted Instrument Market (continued)

FRETTED INSTRUMENT STRINGS

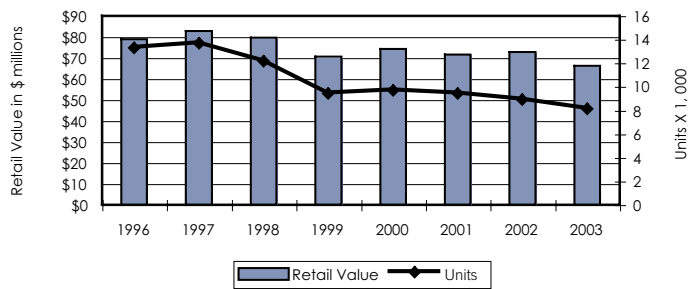


Rising costs of doing business and falling selling prices inevitably led to a profit squeeze. And that was certainly the case for most retailers and suppliers in 2003. However, despite the short-term financial pinch, the significant increase in guitar unit sales bodes well for the long term. Guitar players drive the sales of recording equipment, sound systems and an untold number of accessories, so it only follows that rising guitar units will eventually translate into sales growth in a broad range of product categories.

The increase in guitar amp sales closely mirrors the trajectory of the electric guitar market. Units moved up 18 percent while dollars declined 5.5 percent. Most of the unit increase could be attributed to the popular guitar-and-amp packages that have become an important component of fourth-quarter sales. This surge in amps with a retail price of under \$100, along with increased imports from China, account for the falling unit prices and declining revenue levels. More affordable modeling technology—the digital signal processing that enables an amp to emulate a wide variety of amps—also contributes to unit growth in the category.

Software manufacturers base future sales on the size of their "installed user base." Guitar string makers could use a similar metric. The sale of more than 8 million guitars over the past five years has unquestionably represented a significant growth of the universe of guitar players. This has fueled steady gains in the sale of guitar strings of all types. Interestingly, unlike instruments, guitar string pricing has held steady in recent years. The ironic result has been that the price of high-end coated strings isn't that far from the price of an inexpensive guitar. Reflecting this new reality, one merchant advertised a "free guitar" with the purchase of \$200 worth of strings and accessories.

HOME ORGANS

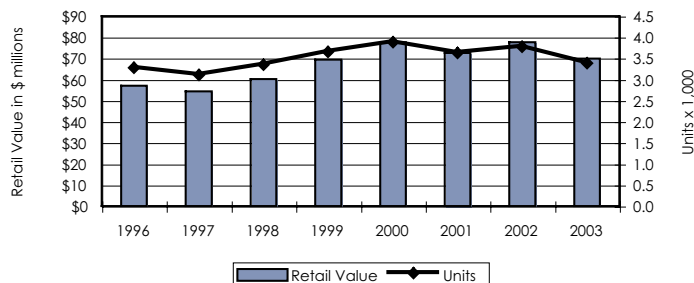


## The Organ Market

Shifting demographics as well as lower interest rates, which pinched the income of retirees, took a toll on the home organ market in 2003. The category declined 9 percent in unit volume. With fewer manufacturers participating, retailers decried the comparative lack of new products—essential to generating excitement on the retail floor.

What is news this year is the significant decline in the sale of institutional organs. The church organ market, which has been remarkably steady in years past, ran into serious headwinds in 2003. Many of the fast-growing non-denominational churches are turning away from traditional organ/choir music programming. In addition, the well-publicized problems of the Catholic Church have had an adverse impact on the country's single largest church organ customer.

INSTITUTIONAL ORGANS



## The Piano Market

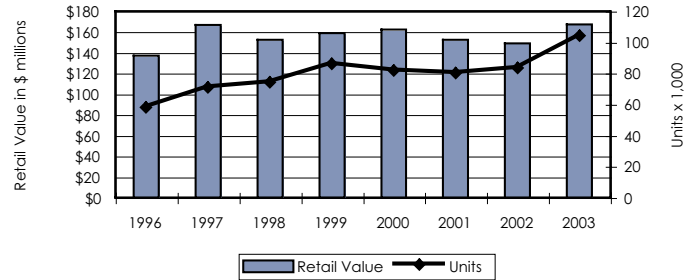
Of all the categories tabulated in this report, the piano market is probably the most sensitive to the economy. Pianos are purchased by parents who want to enrich their children's education; people who want a nice piece of furniture for their home; schools and other institutions; and lastly, people who play. If interest rates rise, the job market heads south or consumer uncertainty takes hold, each of these consumers usually finds a reason to defer their purchase.

Most economic indices show an improving U.S. business climate (although the indices were offset by nagging consumer anxiety, highlighted by the recent fracas about "exporting jobs"). This mixed picture was accurately reflected by the good news/bad news scenario in the piano market. On the positive side of the ledger, unit volumes increased 2.1 percent in grands and 5.9 percent in verticals. On the negative, a shift to lower-priced grands resulted in a 6.8 percent decrease in dollar volume. Part of the dollar decline was due to tight-fisted consumers who selected smaller, less deluxe instruments, and part was due to general price deflation, driven by a 20-plus percent rise in Chinese imports.

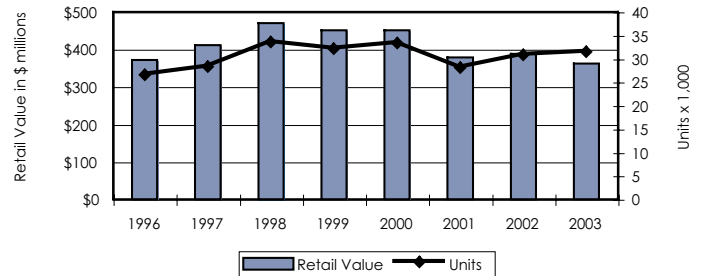
In the past, the piano market was defined as upright and grand pianos. That definition is no longer sufficient. Digital pianos are now the top-selling type of piano, with 104,125 units exceeding the combined total of acoustic uprights and grands. With few exceptions, these digitals are purchased as a substitute for a vertical piano. The other category with increased significance is re-imported used pianos from Asia. These pianos are whole-saled throughout the United States and, as the accompanying chart illustrates, have become one of the fastest-growing market segments, up more than 20 percent in 2003 and representing 9.2 percent of total acoustic unit volume. Manufacturers understandably find these used instruments an irritant. However, for retailers, they have become another way to appeal to value-conscious consumers.

The most encouraging aspect of the piano data is the steady increase in units sold. When digital pianos are included, the market is nearly 10 percent larger than five years ago.

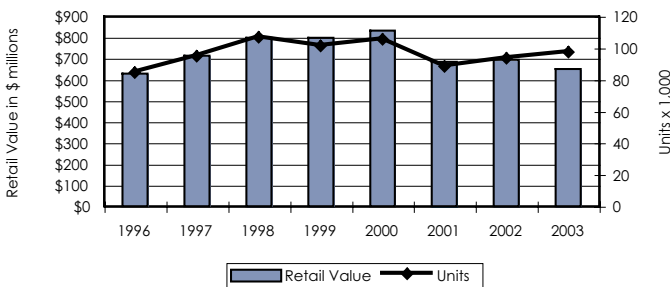
DIGITAL PIANOS



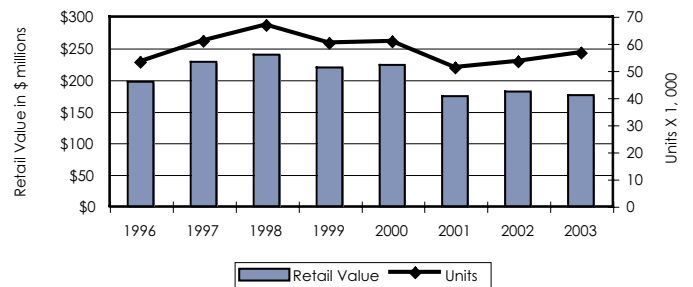
GRAND PIANOS



TOTAL PIANO SALES



VERTICAL PIANOS





## The School Music Market

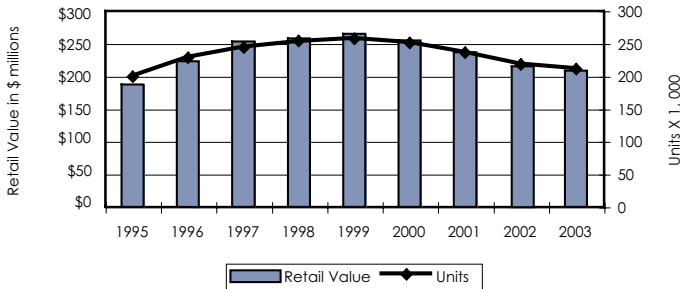
The past 12 months have been tough for the school music market. During that time, sales of brasswinds slipped 3.1 percent while woodwinds were off by 10.8 percent. Stringed instrument units fell 2.9 percent, but dollar volume was virtually unchanged. Despite the ongoing concerns of a national funding crisis in school music, all indications are that the industry's sales woes had little if anything to do with the number of children participating in instrumental music programs. Rather, the cause seems to be a combination of falling unit prices and new competition.

In the '60s, U.S. guitar makers were besieged by low-cost Japanese competitors. In the '70s U.S. piano makers faced a flood of Japanese pianos. By contrast, the U.S. band instrument industry has been relatively insulated all these years. But a flood of Chinese imports over the last few years has changed that situation. Imported student instruments have forced down the average selling prices of brasswinds and woodwinds. Violins have always been imported, but the increasing concentration of Chinese-made instruments has forced selling prices down.

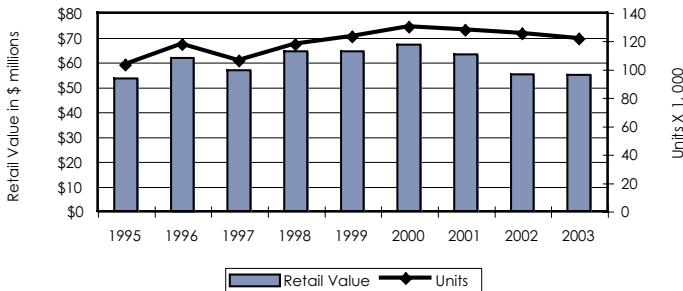
With regard to new competition, much has been made of First Act introducing a line of band instruments into the aisles of Wal-Mart and a few other large mass merchants. Clearly, these instruments have siphoned some business away from traditional music retailers. However, a more potent but less obvious competitor seems to be eBay. As of this writing, eBay listed 1,880 clarinets for sale, 1,452 trumpets and a mind-boggling 3,275 flutes. While some of the instruments are obviously junk (e.g., the "Native American Cedar Flute With Wampum Ornamentation" for \$42), listings contain hundreds of "like new" top-brand instruments. eBay claims to have sold 50,000 saxophones last year, which, if accurate, is a staggering number given that manufacturers shipped only about 83,000 new altos and tenors last year.

School music dealers are to be forgiven if they feel somewhat under siege by these new players in the market. However, when debating whether the glass is half empty or half full, there are still solid grounds for optimism. First, demographics remain in favor of the school business for the foreseeable future. Second, all indications are that the public's appreciation of the value of music training continues to rise. And finally, the industry's rough patch has coincided with the trough in the economic cycle. As the business cycle inevitably revives, it is not unrealistic to assume that instrument sales will rise as well.

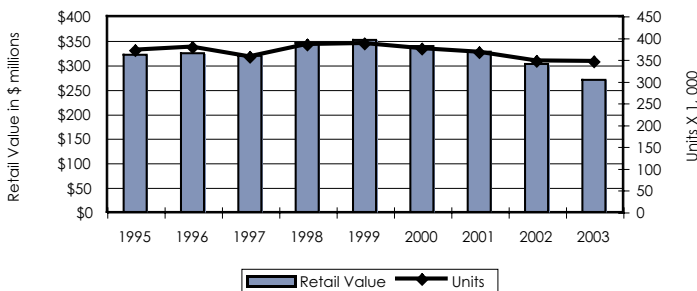
### BRASS INSTRUMENTS



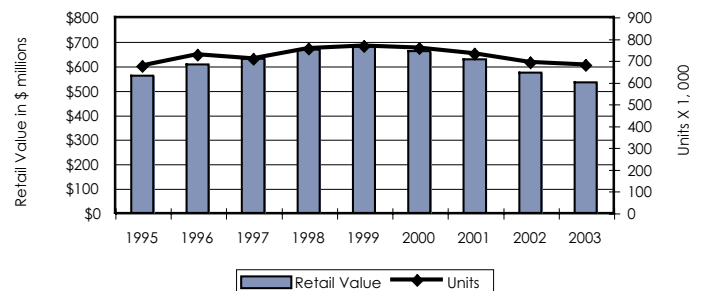
### STRINGED INSTRUMENTS



### WOODWIND INSTRUMENTS



### TOTAL SCHOOL MUSIC



## The Sound Reinforcement and Audio Market

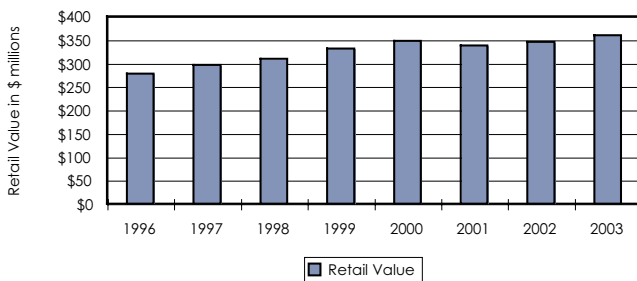
Traditional audio products—loudspeakers, power amplifiers, and to a somewhat lesser extent, analog mixers—have often been compared to car tires. Like tires, these audio products are based on decades-old technology that has been continuously refined and improved. In concept, loudspeakers, amps and mixers haven't changed much over the past 25 years. However, thanks to better materials, more consistent manufacturing methods and more precise digital controls, they perform a lot better, weigh a lot less and, perhaps most significantly, cost less.

How much less? Consider the following. Twenty-five years ago it was big news in *The Music Trades* when a power amplifier was available for less than \$1 per watt. Today 2,000-watt amplifiers are routinely available for less than \$400, or 20 cents a watt. In the same time that the average price of an automobile rose from \$6,400 to \$23,000, the price of the top-selling microphone remained unchanged. Ten years ago the street price for a 16-channel mixer was about \$1,600. Today a comparable, if not better, product can be bought for about half as much.

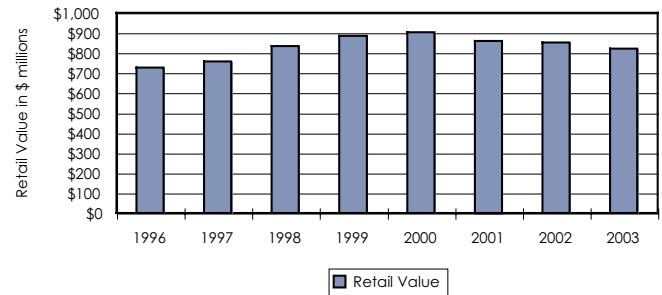
This trend toward lower prices gained momentum in 2003 as more production headed to China. As the accompanying charts indicate, lower average selling prices dragged overall revenue down in most of the major sound reinforcement categories. The notable exception was loudspeakers, where continued growth in the use of powered loudspeakers continued to push sales up.

The biggest change in the sound market in 2003 had little to do with products or technology. Instead it had to do with the customer base. Management staffs, comprised largely of baby boomers who were weaned on the era of rock and roll, have finally come to acknowledge that houses of worship—not concert arenas or nightclubs—are now their largest customer group. The growth of non-traditional church services has expanded the customer base for every component in the audio chain—from microphones to loudspeakers and everything in between.

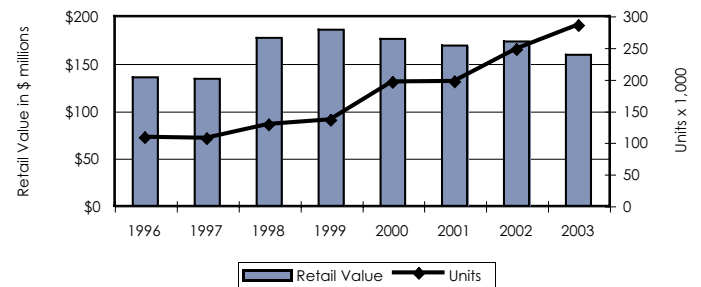
SPEAKER ENCLOSURES



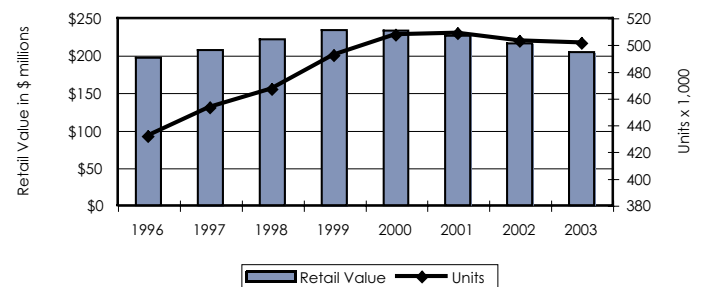
TOTAL SOUND REINFORCEMENT



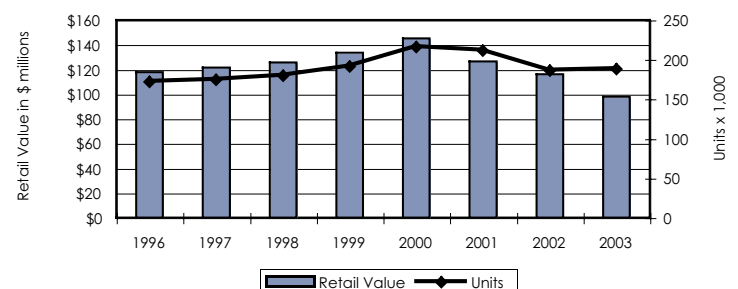
NON-POWERED MIXERS



POWER AMPLIFIERS



POWERED MIXERS



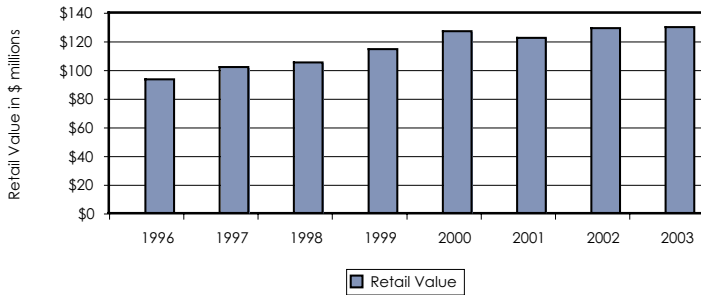
## The Signal Processing Market

The signal processing market continues to evolve. Thanks to the magic of cheaper and smaller microprocessors, more and more products have onboard DSP capabilities. Guitar amps, powered mixers, hard disk recorders and even some guitars now come equipped with a broad palette of audio effects. For the growing number of musicians who use computers to record, the availability of low-cost "plug-ins" provides an almost limitless number of reverbs, compressors, limiters, pre-amps and chorus effects. Despite all of this "non-traditional" signal processing gear, unit sales of rack-mounted effects, pedal boards and stomp boxes held relatively steady in 2003.

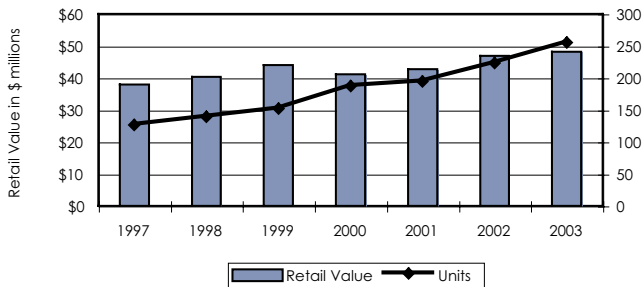
From a technical standpoint, the basic signal processing device has a lot in common with a personal computer. The comparison also extends to pricing. Cheaper chips and flash memory (combined with the low cost of assembly plants in China) have resulted in major price reductions. These were most apparent in the family of rack-mounted effects, where the average retail selling price dropped to \$196 from \$245 a year ago.

Guitarists still require effects that can be controlled via foot pedal, which has largely insulated multi-effects floor processors and stomp boxes from competition from computer "plug-ins." Unit volume in both of these categories advanced, but dollar volume fell due to lower selling prices.

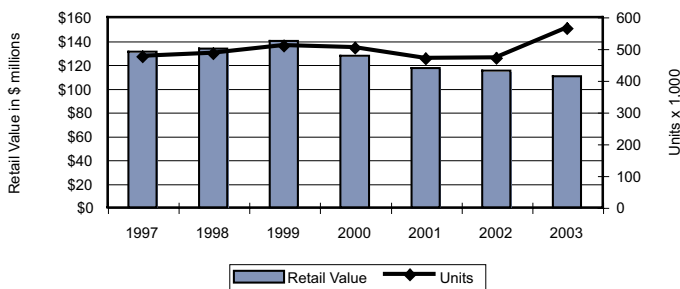
### THE CABLE MARKET



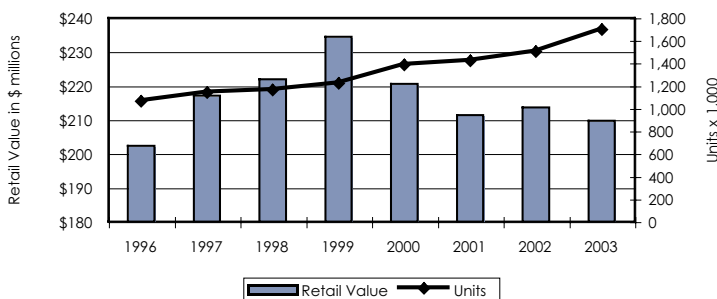
### MULTI-EFFECT FLOOR PROCESSORS



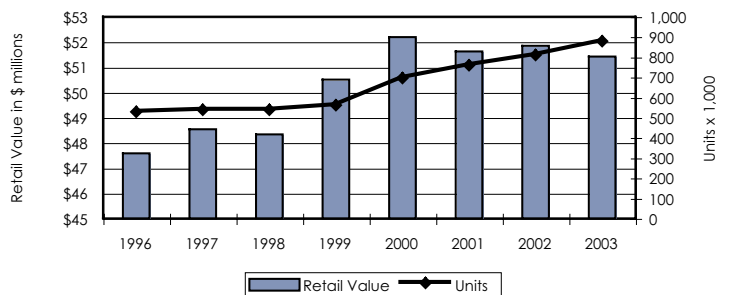
### RACK-MOUNTED PROCESSORS



### TOTAL SIGNAL PROCESSING



### STOMP BOXES



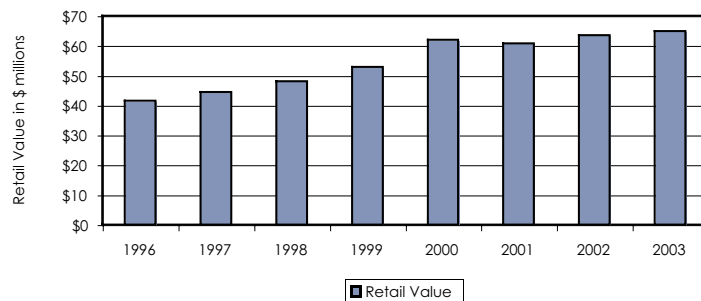
## The Percussion Market

The percussion market is one of the broader categories in this report, and includes everything from ethnic hand percussion to concert timpani. Not surprisingly, results varied significantly among the product groups. Due in large part to the "China factor," sales of drum kits followed the trajectory of most other instrument groups. Unit sales advanced 4 percent to a record 215,800, but average-selling prices failed to keep up, limiting revenue gains to 1 percent.

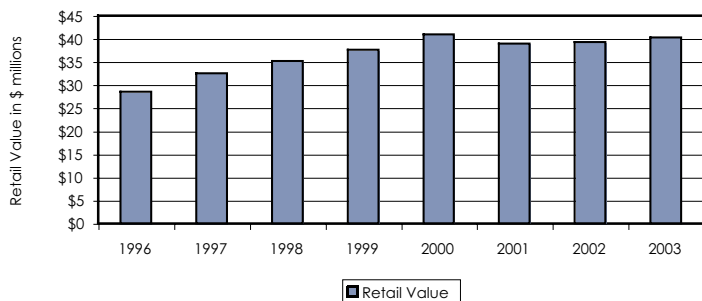
Although we don't track unit volumes in the cymbal, hardware, educational or hand percussion categories, the number of shipments from Asia to the United States indicates that unit gains far outstripped the modest increases in dollar volume.

One of the bright spots in the percussion market has been in drumsticks. A decade of record drumkit sales has expanded the base of drummers. But of greater significance, to date no one has discovered native Chinese woods that lend themselves to making drumsticks. Consequently, with a bigger market and some price protection, stick makers across the board enjoyed good revenue gains.

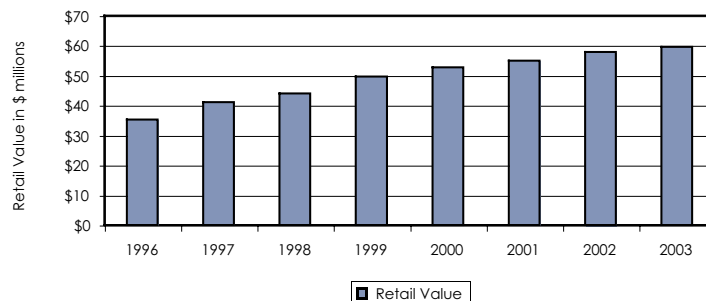
### CYMBALS



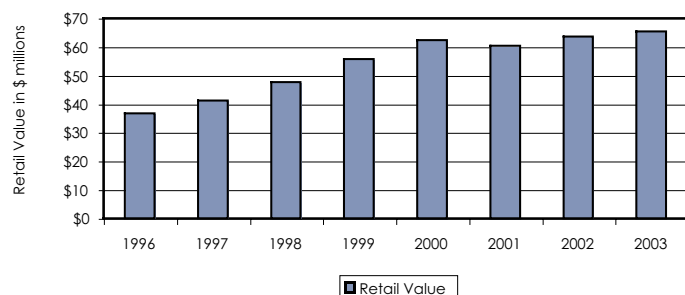
### HAND PERCUSSION



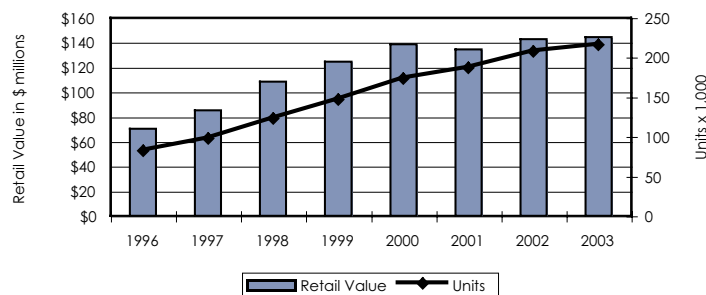
### DRUMHEADS



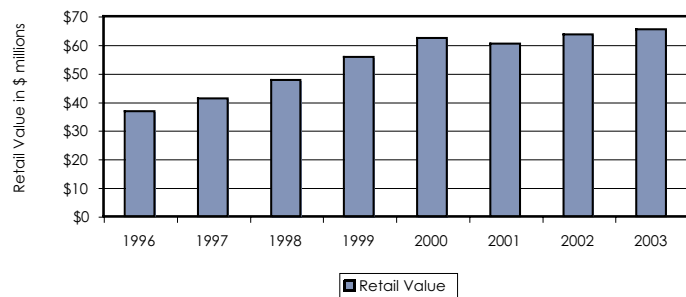
### INDIVIDUAL DRUMS, HARDWARE



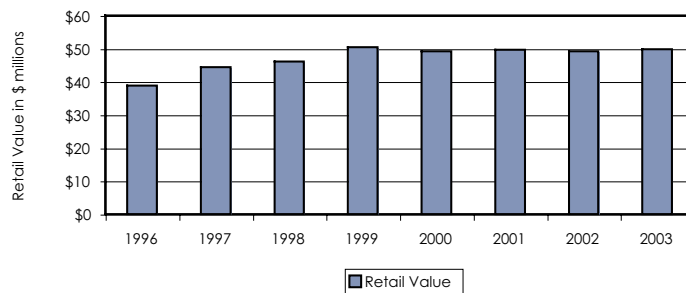
### DRUM KITS



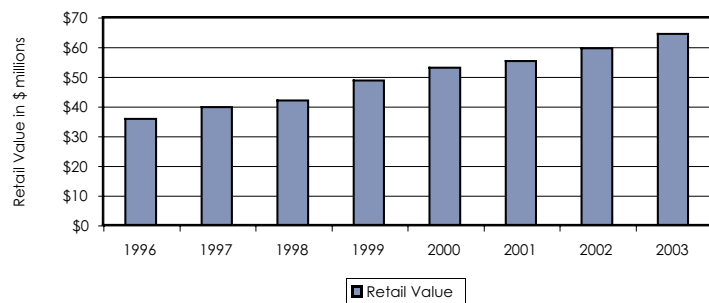
### INDIVIDUAL DRUMS, HARDWARE



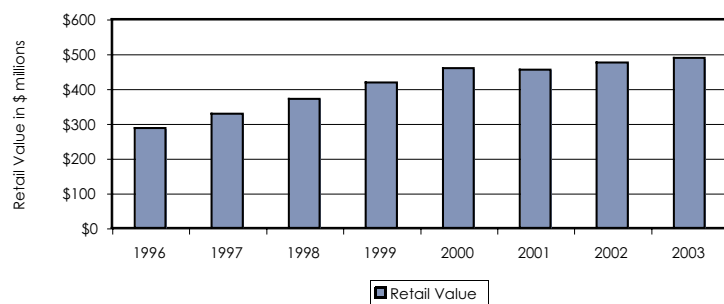
### EDUCATIONAL PERCUSSION



### STICKS AND MALLETS



### TOTAL PERCUSSION

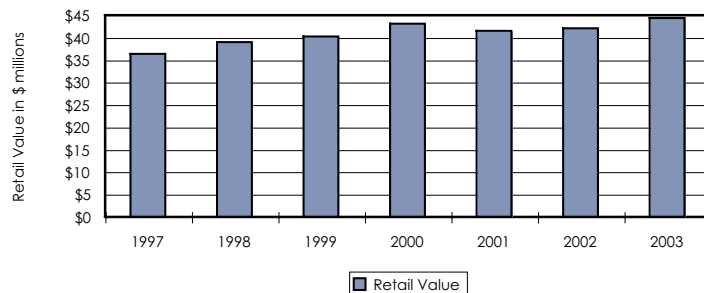


## The DJ Market

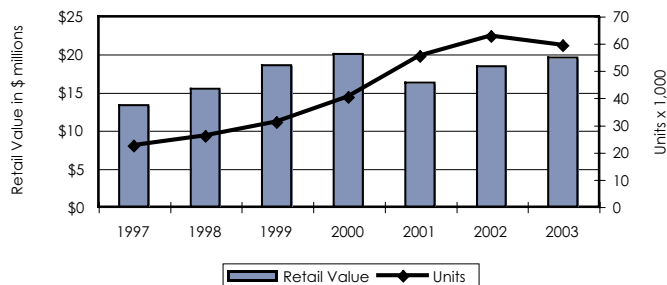
Sales of DJ products advanced 6.1 percent in 2003, driven largely by new and improved CD players that more closely mimic the performance of the "low-tech" vinyl turntable. The innovative technology incorporated in the new generation of CD players made it one of the few categories where retail selling prices actually trended up; no small accomplishment in a market characterized by rapidly falling prices.

The DJ market can be segmented into three broad categories: the amateur home market, mobile performing DJs and fixed installations. Anecdotal evidence from retailers suggests that the amateur market showed little growth, the mobile DJ market continued to expand and fixed installations suffered a modest decline (largely due to economic conditions).

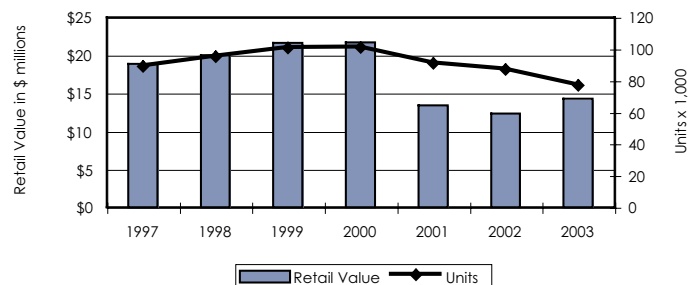
### SPECIAL EFFECTS LIGHTING UNITS



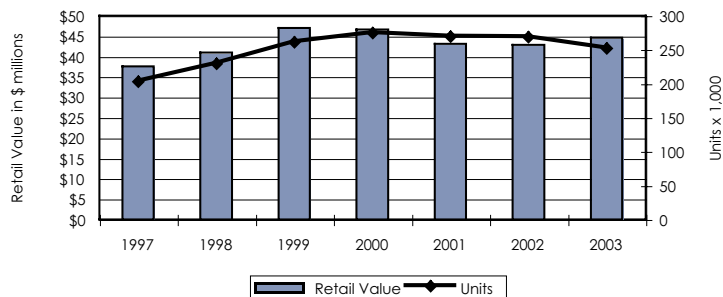
### CD PLAYERS



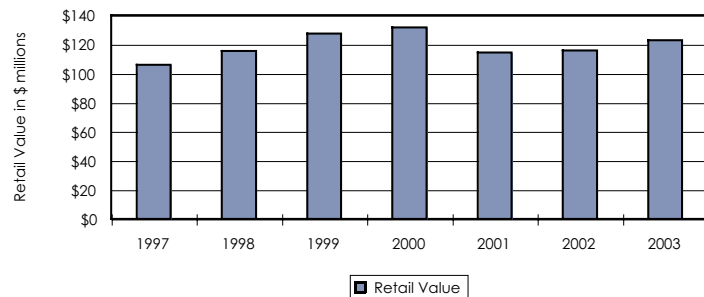
### TURNTABLES



### DJ MIXERS

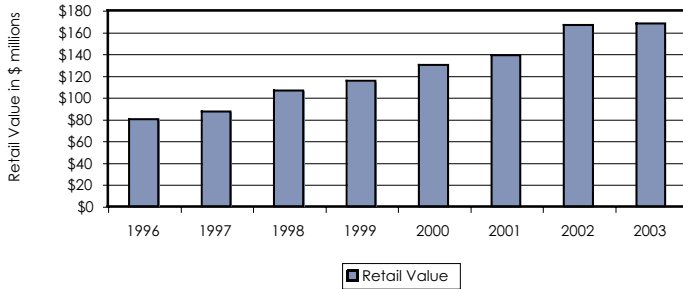


### TOTAL DJ SALES



## The Recording and Computers Market

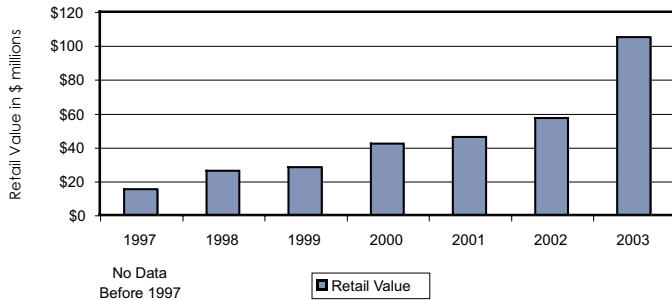
### SOFTWARE



Any discussion of recording products has to include computers and software, and any discussion of computers and software has to include recording functions. Thus, we combine these two categories. More and more musicians are turning to the computer as a tool to capture and edit recorded music. This major trend continues to take a toll on the sale of dedicated hard-disk recorders. Hard-disk unit sales dropped 11 percent in 2003 and unit dollar value was off 11.5 percent. Certain high-end buyers continue to use dedicated hardware because it is more robust and less prone to failure. On the low end of the price spectrum, small hard-disk recorders are beginning to replace the traditional cassette multi-track machine as a musical sketch pad for capturing ideas on the fly. Most other recording applications are gravitating toward computer-based solutions. Ironically, despite better and cheaper digital tools, the cassette multi-track, now celebrating its 25th year, continues to sell surprisingly well. Its appeal can be traced the combination of low cost and ease of use.

Software remains a challenging market. The major suppliers saw limited sales growth for a combination of reasons: an increasing percentage of upgrade sales as opposed to higher-ticket complete program sales; a growing number of "bundle" deals, whereby software is included with a hardware sale; and most significantly, rampant piracy. The tragedy of the software market is that due to illegal copying (some estimate that for every program sold, five copies are made), the manufacturers and their creative staffs don't fully reap the rewards of their labors.

### SOUND CARDS AND RELATED HARDWARE



In 2004, however, the biggest-selling recording program will generate precisely zero dollars of revenue. That's right—nothing. Apple will include GarageBand, a four-track recording system, in all Macs this year. A good-selling software program in the music industry typically generates 8,000 to 10,000 units a year. By contrast, GarageBand will be installed in over 4 million Macs by year's end.

While GarageBand may hurt some software sales, on balance it should be beneficial to the industry at large. A glance at the Sound Cards and Related Computer Hardware category explains why: The basic PC or Mac comes with huge memory and processing capabilities. What it lacks is a user interface that is well-tailored for music and recording applications. The traditional computer keyboard and mouse may be fine for handling word processing or a spreadsheet, but it comes up short if you're trying to manage a 16-channel recording console. Answering this need with Digital Audio Work Surfaces (DAWS), input/output devices, monitor speakers and even small keyboards has created the single fastest-growing product category in the industry. With all these computer recording systems, the demand for auxiliary hardware has skyrocketed. Better yet, the demand shows no sign of slowing down anytime soon, especially with the advent of products like GarageBand.

## The Electronic Music Market

Ever since the technology to create and capture music in the digital realm emerged over 15 years ago, there has been a convergence of electronic musical instruments. Keyboard synthesizers have onboard recording capability; digital recording devices include percussion synthesizers; and signal processors include recording capability. From a keyboard synthesizer to a hard-disk recorder, the core underlying technologies are remarkably similar; what differs is the configuration. There were wild swings within select electronic music categories as product configurations continued to evolve. However, overall the market remained steady.

A bumper crop of new keyboard synthesizer models contributed to a 2.5 percent increase in the number sold. Due to lower selling prices, however, dollar value remained virtually unchanged. The same held true for sound modules.

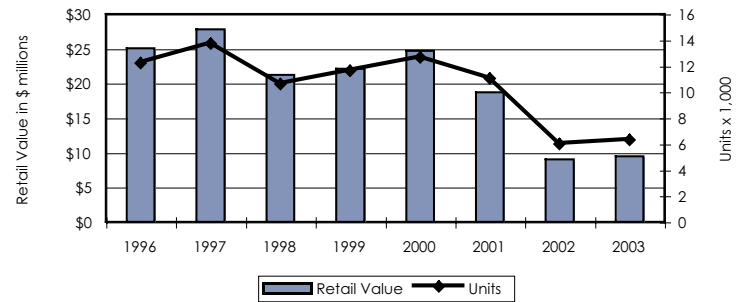
Drum machine sales trended down because a growing number of hard-disk recorders incorporate a programmable rhythm track section, and because computer looping is increasingly utilized to create background tracks.

Electronic pianos and professional organs enjoyed strong gains, rising 16.9 percent to nearly \$80 million at retail. Growth in this segment is driven in large part by the demand for instruments with a high-quality, weighted piano-type keyboard, as opposed to the spring keyboard found on most synths. To a somewhat lesser extent, growth was aided by continued demand for electronic organs that mimic the famous tone-wheel sound.

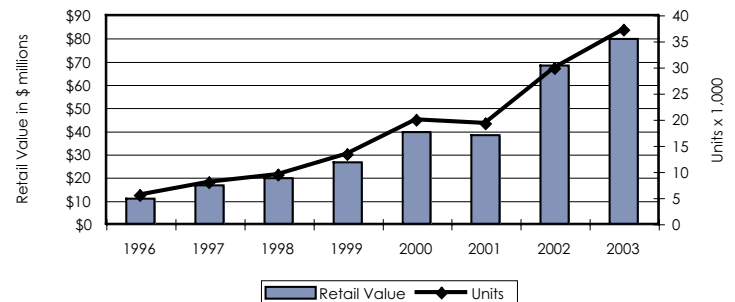
Growth has slowed in the electronic drum market, though the category posted a 2.1 percent gain in retail value. Electronic drums offer tonal versatility, are easy to record and have complete volume control. These characteristics have proved extremely attractive to the church market (church musicians apparently appreciate the ability to control volume within a sanctuary).

This year we discontinue coverage of dedicated sequencers and rack-mounted samplers. Both products have been largely displaced by computer applications and have fallen to insignificant levels.

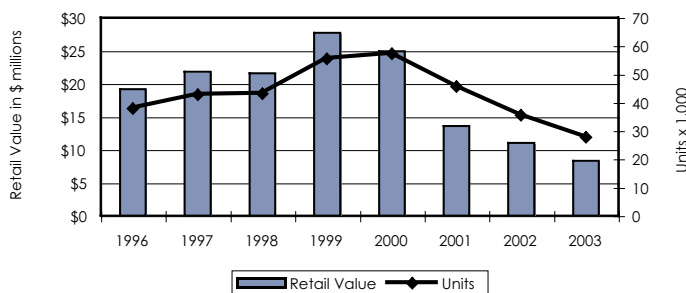
### CONTROLLER KEYBOARDS



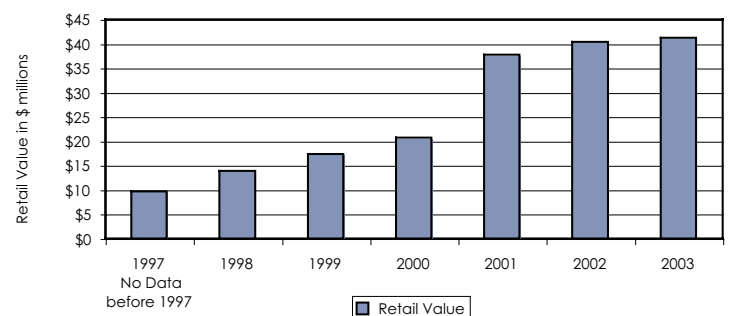
### ELECTRONIC PIANOS/PROFESSIONAL ORGANS



### DRUM MACHINES



### ELECTRONIC DRUMS





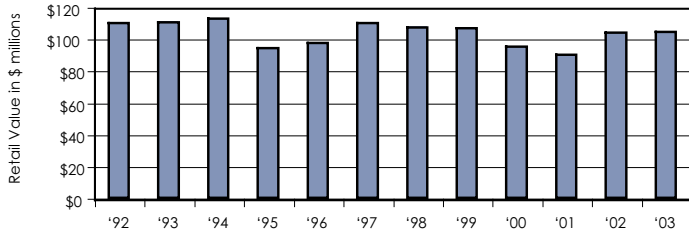
## The Print Music Market

Print music is one of those slow but steady categories, nudging up a few percentage points each year. A combination of small unit gains and price increases typically associated with CD book packages has propelled the category upward in the low single digits.

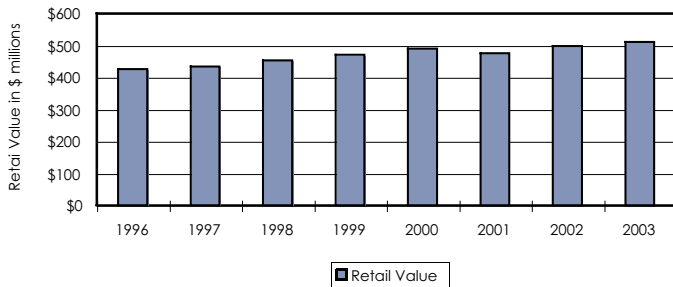
Sales of recorded music have fallen by over 35 percent in the past few years, due largely to the rise of illegal downloads online. By contrast, despite the availability of print music and guitar tab online (not to mention ever cheaper copying machines), sales of print have been largely unaffected. The reason: while a downloaded CD sounds as good as the one you buy in a store, an illegally copied music book is neither as legible nor practical as the authentic item.

Print publishers of all types have enthusiastically embraced new technology in the form of combining CDs and DVDs with their books, and consumer response has been strong. Consumers have been less interested in accessing sheet music, even legally, online. Internet music sites represent an insignificant share of the market.

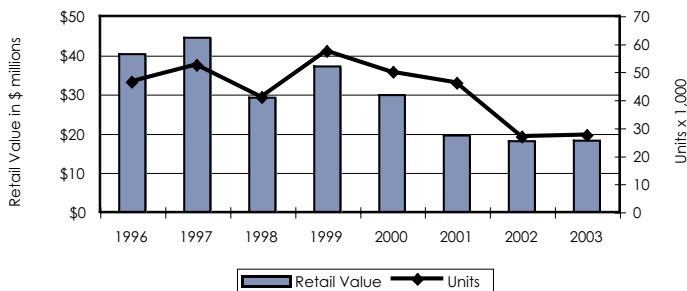
### KEYBOARD SYNTHESIZERS



### PRINTED MUSIC



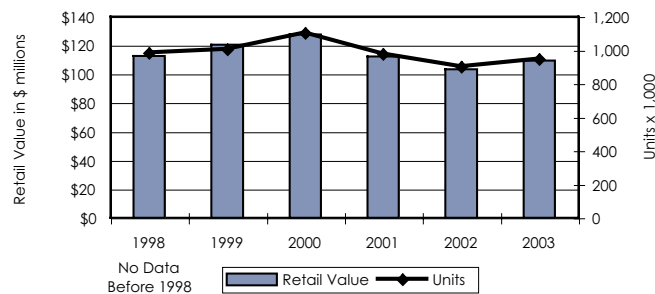
### SOUND MODULES



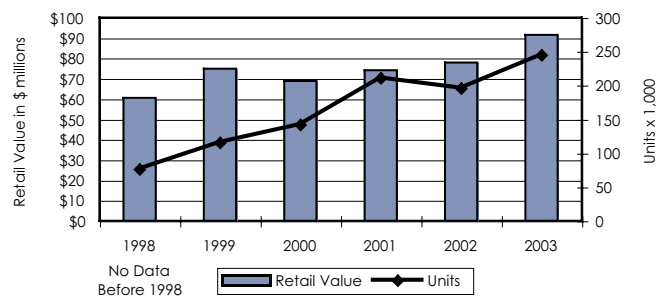
## The Portable Keyboard Market

Low-end portable keyboards are the single most widely distributed product in the industry, appearing on the shelves of every mass merchant and consumer electronics retailer. The sales gain is a reflection of generally stronger retail sales in 2003 and continuing improvements in product packaging. The same holds true for higher-end portables, which are primarily sold through the MI distribution channel. The current portable, with an average selling price of \$375, has better tonal quality, more features and greater flexibility than the best pro keyboard of a decade ago. An extreme price/value relationship has fueled significant sales growth.

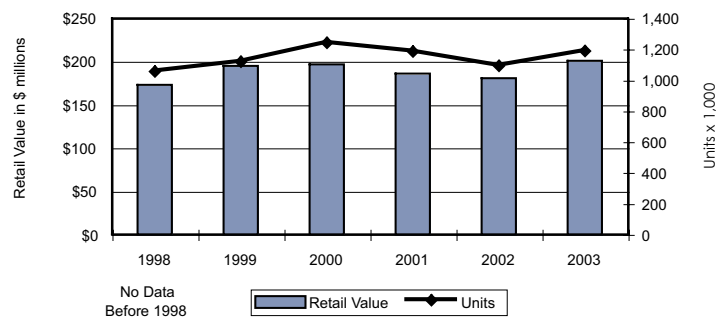
KEYBOARDS UNDER \$199



KEYBOARDS OVER \$199

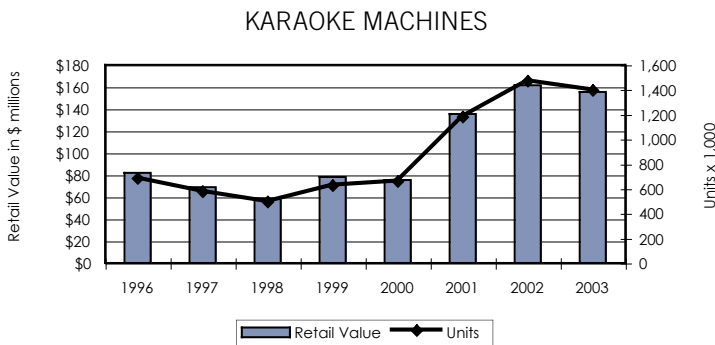
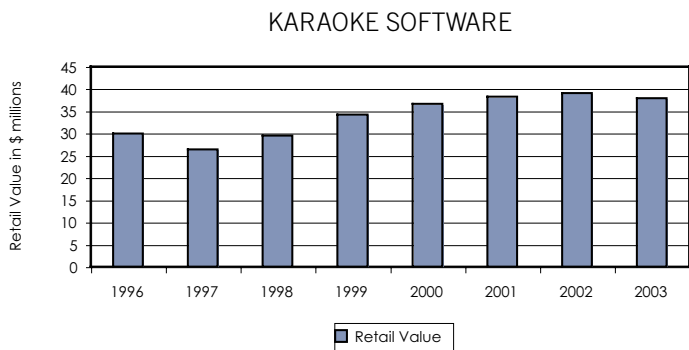


TOTAL PORTABLE KEYBOARDS



# The Karaoke Market

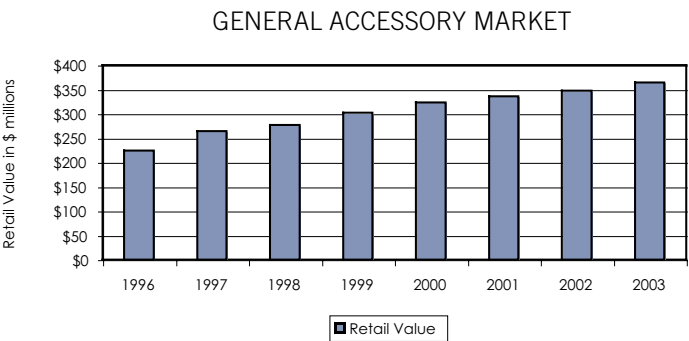
It was a tough year for karaoke, highlighted by the accounting scandal that rocked Singing Machine Company, the largest supplier of sing-along machines. In short, the company was hit hard when a number of large retailers sent back truckloads of karaoke machines due to lower-than-anticipated sales levels. The woes of Singing Machine also had an impact on software makers, because most karaoke machines are shipped with a bundle of CDs. Software makers also complain of continued piracy problems. Apparently, professional karaoke jockeys, or KJs, routinely burn copies of CDs and then either sell or give them away. These problems aside, public demand for sing-along products remains strong.



# The General Accessory Market

Years ago the Gillette Company concluded that it was worth selling razors at a loss to stimulate highly profitable blade sales. A somewhat similar situation exists in the music products industry. Talk to any retailer and they'll confirm that accessories remain the single most profitable product category. Customers will shop for the best guitar price, but rarely question the price of a strap, tuner or case. As a result, accessories sold in conjunction with a guitar often generate more gross margin dollars than the guitar itself.

The category also seems largely immune to economic pressure. The bursting of the NASDAQ bubble crimped sales of expensive guitars, but had no discernable impact on the sales of stands, cases or any other small goods category. In 2003 the category performed in line with past years, rising 4.8 percent and outpacing overall industry sales.



# THE NUMBERS

## What They Mean and How We Get Them

The sales data presented in the preceding pages provides a snapshot of activity in the music products industry during the 12 months of 2003. The numbers are estimates of supplier shipments to retailers within the 50 states. The estimated retail value, based on a survey of 300 retailers, is arrived at adding an average retail margin.

Sales data is based on a variety of sources: data compiled by industry associations; import and export data from the governments of Japan, Korea, Germany, France, China, Indonesia and the United States; filings by publicly traded companies in the United States, Germany and Asia; internal documents provided by a number of helpful retailers and suppliers; and informed speculation on the part of executives and salespeople at every level of the industry.

We are frequently asked about the accuracy of the data presented. No column of numbers can fully capture the activities of thousands of hardworking engineers, factory personnel and salespeople who make up our industry. However, we feel confident that the data and analysis in the previous pages provide the best available picture of trends and consumer preferences in a continuously shifting market.



# MUSIC AND SOUND

Industry Summary 2003



# MUSIC AND SOUND

## INDUSTRY SUMMARY

(Millions of Dollars)

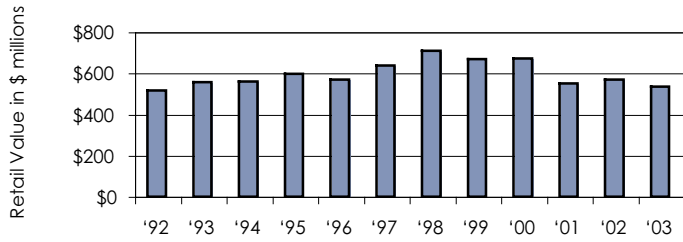
Segment	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Acoustic Pianos	\$516	\$566	\$559	\$598	\$569	\$639	\$710	\$669	\$673	\$553	\$569	\$537
Cables	\$66	\$69	\$78	\$86	\$93	\$102	\$105	\$114	\$127	\$122	\$129	\$130
Computer Music Products *	–	–	–	\$66	\$80	\$102	\$132	\$143	\$172	\$185	\$212	\$273
Digital Pianos	\$92	\$115	\$124	\$129	\$137	\$167	\$152	\$159	\$162	\$152	\$149	\$167
DJ Gear	–	–	–	–	–	\$106	\$115	\$127	\$132	\$114	\$116	\$123
Drum Machines	\$26	\$22	\$20	\$24	\$19	\$22	\$22	\$28	\$25	\$14	\$11	\$8
Electronic Player Pianos	–	\$38	\$46	\$52	\$60	\$75	\$89	\$129	\$160	\$133	\$124	\$123
Fretted Products	\$470	\$603	\$666	\$812	\$827	\$842	\$833	\$913	\$1,089	\$1,095	\$1,112	\$1,115
General Accessories	\$250	\$271	\$298	\$330	\$245	\$264	\$277	\$302	\$323	\$336	\$348	\$364
Home Organs	\$86	\$86	\$86	\$84	\$79	\$83	\$80	\$71	\$74	\$71	\$73	\$66
Institutional Organs	\$58	\$53	\$56	\$58	\$57	\$54	\$60	\$69	\$78	\$73	\$78	\$70
Karaoke Products	\$150	\$146	\$116	\$114	\$112	\$95	\$88	\$112	\$111	\$174	\$200	\$193
Keyboard Synthesizers	\$110	\$110	\$113	\$94	\$97	\$110	\$107	\$107	\$95	\$90	\$104	\$104
Microphones	\$222	\$241	\$259	\$285	\$299	\$312	\$319	\$353	\$372	\$358	\$369	\$391
Multi -Track Recorders	\$100	\$109	\$129	\$141	\$151	\$157	\$159	\$140	\$120	\$91	\$76	\$64
Other Electronic Products **	\$41	\$41	\$47	\$68	\$69	\$85	\$86	\$98	\$112	\$119	\$128	\$130
Percussion	\$147	\$164	\$175	\$196	\$287	\$328	\$371	\$417	\$458	\$454	\$475	\$488
Portable Keyboards	\$196	\$147	\$151	\$137	\$148	\$167	\$173	\$195	\$196	\$196	\$181	\$201
Printed Music	\$347	\$371	\$400	\$420	\$425	\$434	\$453	\$471	\$489	\$475	\$497	\$511
Signal Processing	\$107	\$114	\$123	\$135	\$202	\$217	\$222	\$234	\$221	\$211	\$214	\$210
Single Unit Amps	\$243	\$283	\$312	\$344	\$355	\$362	\$340	\$350	\$367	\$361	\$359	\$339
Sound Modules	\$63	\$67	\$69	\$55	\$40	\$44	\$29	\$37	\$30	\$20	\$18	\$18
Sound Reinforcement	\$453	\$503	\$645	\$704	\$720	\$758	\$833	\$884	\$902	\$859	\$851	\$820
Stringed Instruments	\$41	\$46	\$51	\$54	\$62	\$57	\$64	\$64	\$67	\$63	\$55	\$55
Wind Instruments	\$376	\$420	\$439	\$507	\$545	\$572	\$602	\$615	\$593	\$564	\$517	\$477
Industry Total	\$4,159	\$4,583	\$4,962	\$5,492	\$5,678	\$6,152	\$6,422	\$6,802	\$7,148	\$6,881	\$6,962	\$6,977

\* 1995–1996 figures reflect only sales of software. Sound cards were added in 1997.

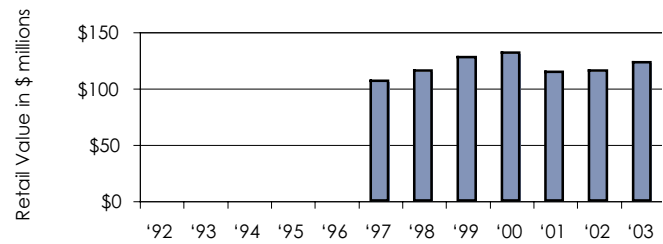
\*\* Origin

Sequencers and samplers not counted in 2003.

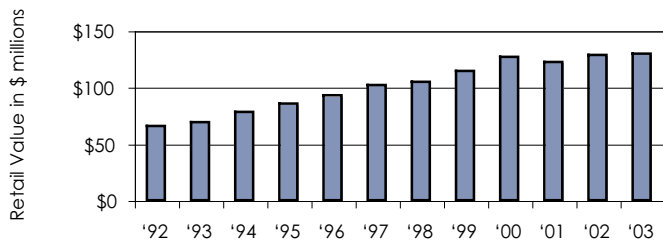
ACOUSTIC PIANOS



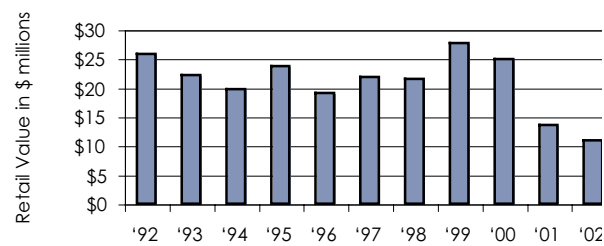
DJ GEAR



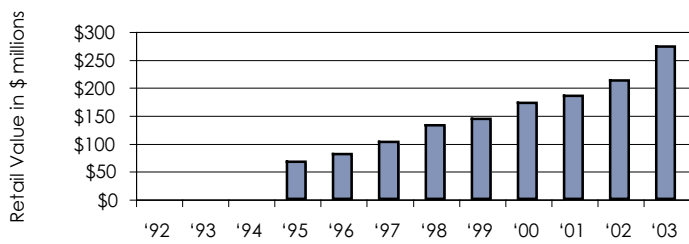
CABLES



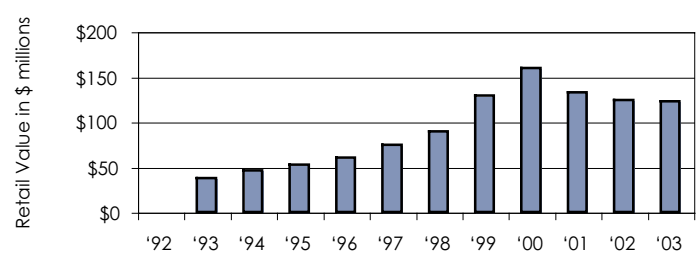
DRUM MACHINES



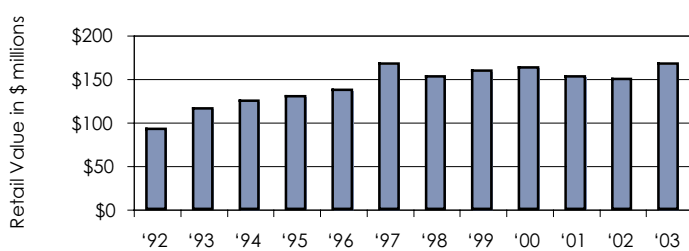
COMPUTER MUSIC PRODUCTS



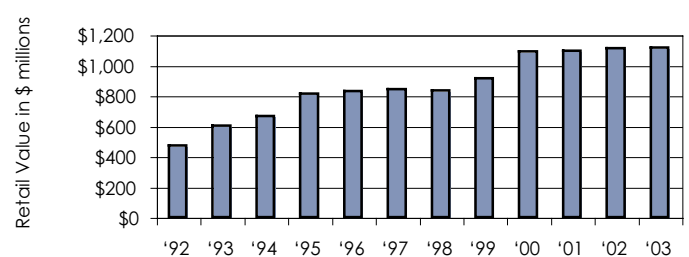
ELECTRONIC PLAYER PIANOS



DIGITAL PIANOS

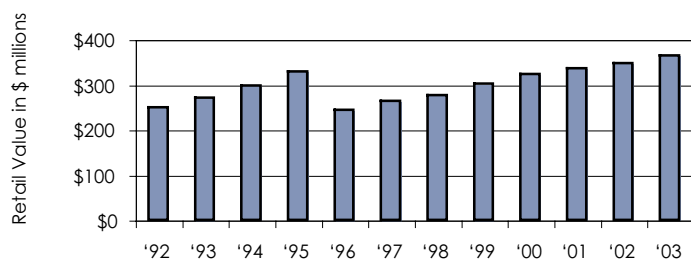


FRETTED PRODUCTS

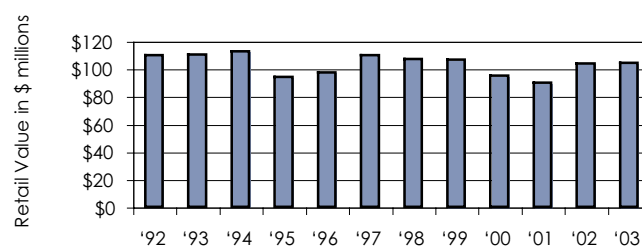


## MUSIC AND SOUND INDUSTRY SUMMARY

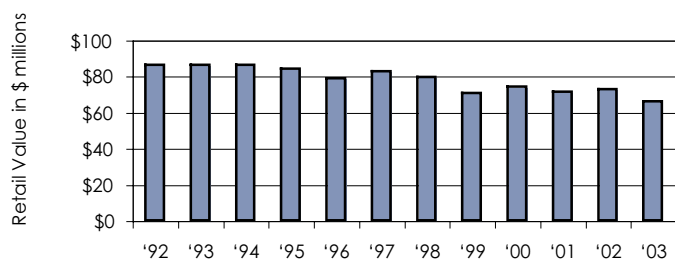
### GENERAL ACCESSORIES



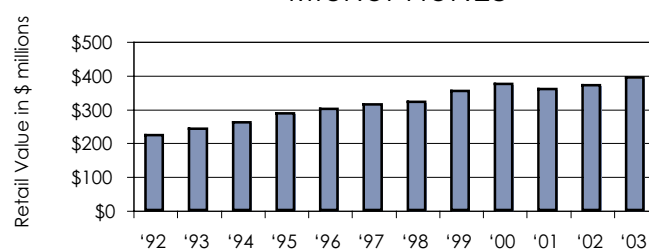
### KEYBOARD SYNTHESIZERS



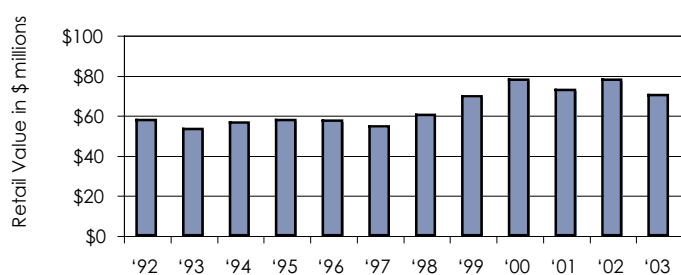
### HOME ORGANS



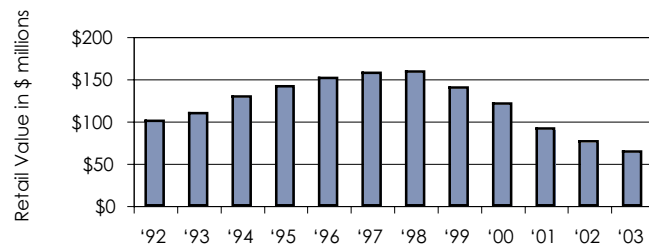
### MICROPHONES



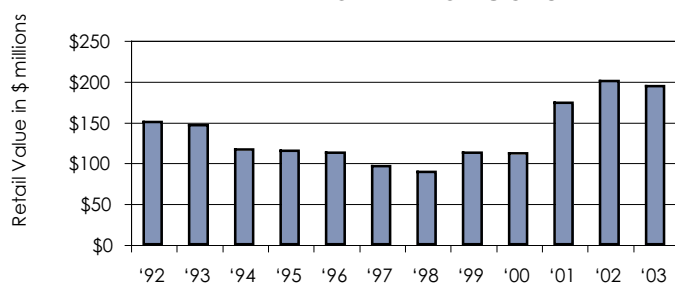
### INSTITUTIONAL ORGANS



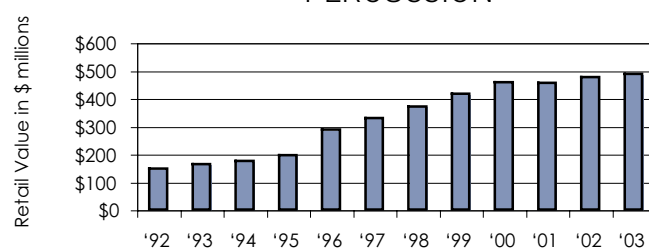
### MULTI-TRACK RECORDERS



### KARAOKE PRODUCTS

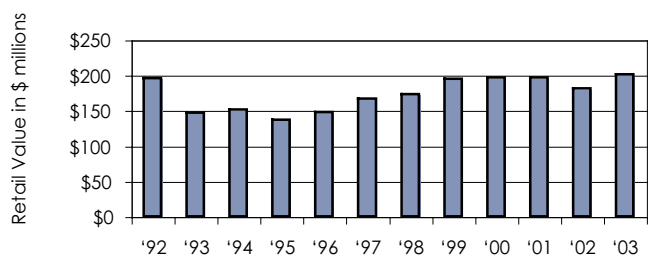


### PERCUSSION

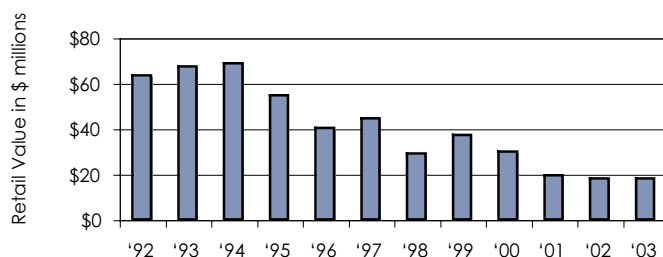




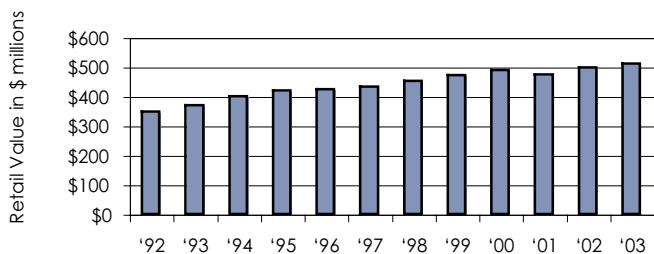
### PORTABLE KEYBOARDS



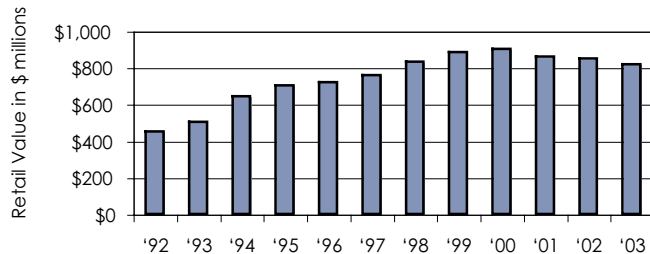
### SOUND MODULES



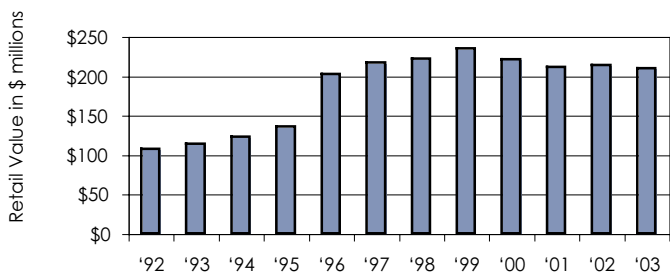
### PRINTED MUSIC



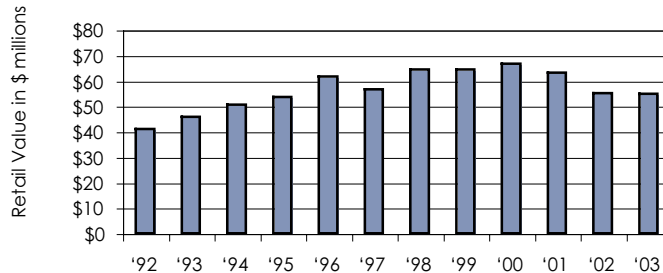
### SOUND REINFORCEMENT



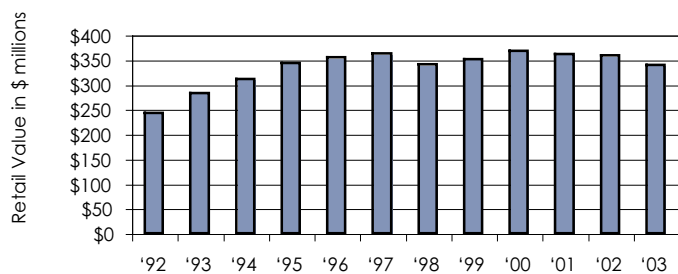
### SIGNAL PROCESSING



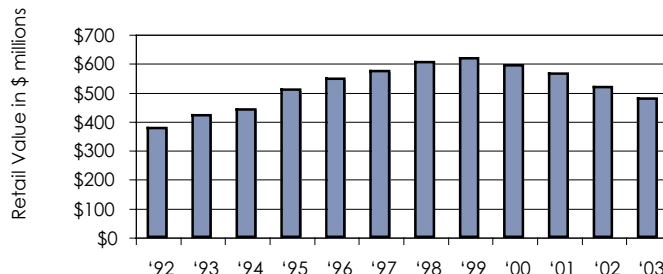
### STRINGED INSTRUMENTS



### SINGLE UNIT AMPS

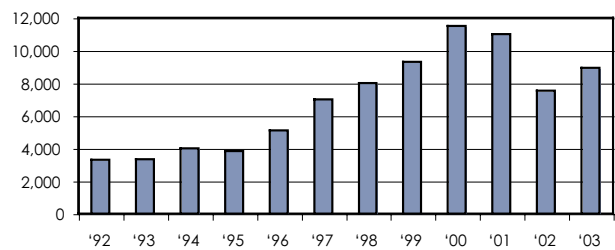


### WIND INSTRUMENTS

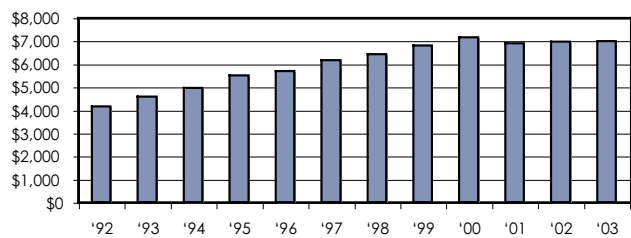


MUSIC AND SOUND INDUSTRY SUMMARY

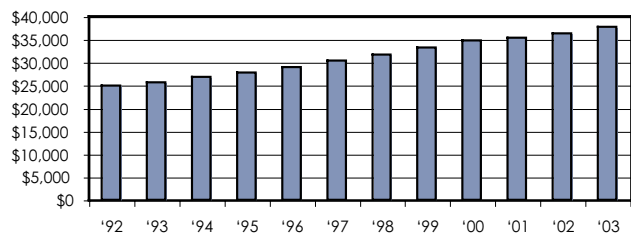
DOW JONES INDUSTRIAL AVERAGE



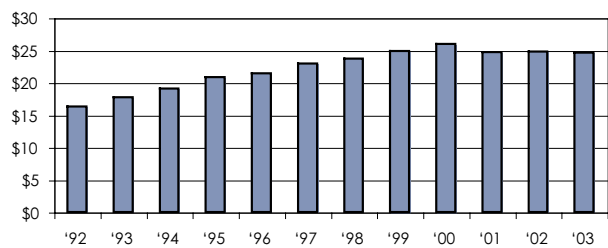
INDUSTRY TOTAL  
(In millions of Dollars)



GROSS DOMESTIC PRODUCT PER CAPITA



MUSIC SALES PER CAPITA



# U.S. IMPORTS OF MUSIC AND SOUND PRODUCTS

(by harmonized code) Source: U.S. Commerce Dept. for Jan. 2003 through Dec. 2003

Description	Harmonized Code	Value	Units
Single Loudspeakers in Enclosures	8518.210000	\$358,222,757	40,255,188
Multiple Loudspeakers, Mounted in Same Enclosure	8518.220000	\$378,526,589	15,697,248
Other Headphones, Earphones, Microphone/Speaker	8518.302000	\$446,329,445	157,975,164
Audio Frequency Electric Amplifiers	8518.402000	\$333,793,725	8,580,006
Upright Pianos	9201.100000	\$65,243,015	46,713
Grand Pianos	9201.200000	\$187,746,634	39,937
String Musical Instruments Played with a Bow	9202.100000	\$28,658,539	357,089
Guitars under \$100, Exclude the Value of the Case	9202.902000	\$64,450,587	1,913,456
Guitars	9202.904000	\$32,054,415	172,018
String Musical Instruments	9202.906000	\$18,537,249	49,682
Keyboard Pipe Organs	9203.004000	\$8,373,426	79
Piano Accordions	9204.104000	\$2,393,596	37,620
Mouth Organs	9204.200000	\$7,454,857	302,762
Brasswind Instruments, Not over \$10	9205.100040	\$116,286	35,993
Brasswind Instruments, over \$10	9205.100080	\$40,664,061	137,087
Bagpipes	9205.902000	\$537,197	3,504
Clarinets	9205.904020	\$17,740,142	84,798
Saxophones	9205.904040	\$31,488,659	77,020
Flutes and Piccolos (Except Bamboo)	9205.904060	\$11,750,429	168,973
Drums	9206.002000	\$68,781,396	1,490,058
Cymbals	9206.004000	\$14,640,667	596,539
Set of Tuned Bells as Chimes, Peals or Carillons	9206.006000	\$6,959,734	915,602
Percussion Musical Instruments	9206.008000	\$17,415,177	2,948,817
Musical Synthesizers (under \$100)	9207.100005	\$1,246,635	60,576
Musical Synthesizers (\$100 and over)	9207.100010	\$54,257,306	87,266
Keyboard Instruments (More than one keyboard, under \$200)	9207.100045	\$42,154	1,237

(Continued on pg. 30)

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

(Continued )

Description	Harmonized Code	Value	Units
Keyboard Instruments (More Than One Keyboard, \$200 and over)	9207.100055	\$3,894,826	2,244
Keyboard Instruments (More Than One Keyboard, Handheld)	9207.100060	\$5,149,807	126,047
Keyboard Instruments (under \$100)	9207.100065	\$49,736,478	943,541
Keyboard Instruments (\$100 or over)	9207.100075	\$141,100,716	381,494
Fretted Stringed Instruments	9207.900040	\$146,936,546	1,684,815
Other Electric Instruments	9207.900080	\$7,043,054	199,314
Music Boxes	9208.100000	\$82,851,261	15,020,993
Other Musical Instruments	9208.900040	\$500,327	97,582
Mouth-Blown Sound Signaling Instruments	9208.900080	\$8,562,617	35,477,263
Metronomes, Tuning Forks and Pitch Pipes	9209.100000	\$6,450,138	n/a
Mechanisms for Music Boxes	9209.200000	\$425,831	836,610
Musical Instrument Strings	9209.300000	\$22,367,871	14,584,997
Parts and Accessories for Pianos	9209.918000	\$22,460,246	n/a
Mutes, Stands, Music Holders	9209.922000	\$3,238,531	n/a
Tuning Pins for Stringed Instruments	9209.924000	\$1,168,218	4,351
String Instrument Bows and Chin Rests	9209.926000	\$11,453,632	n/a
Other Stringed Instruments Parts	9209.928000	\$21,977,446	n/a
Parts and Accessories for Pipe Organs	9209.934000	\$11,410,679	n/a
Parts and Accessories	9209.938000	\$168,700	n/a
Collapsible Keyboard Instrument Stands	9209.944000	\$6,395,635	n/a
Fretted Instrument Accessories	9209.948000	\$32,421,890	n/a
Mutes, Pedals, Dampers, Spurs for Drum Pedals	9209.991000	\$28,294,740	n/a
Parts and Accessories for Bagpipes	9209.992000	\$357,432	n/a
Parts and Accessories for Woodwind Instruments	9209.994040	\$30,268,729	n/a
Parts and Accessories for Other Wind Instruments	9209.994080	\$6,164,134	n/a

# U.S. EXPORTS OF MUSIC AND SOUND PRODUCTS

(by harmonized code) Source: U.S. Commerce Dept. for Jan. 2003 through Dec. 2003

Description	Harmonized Code	Value	Units
Microphones and Parts Thereof	8518.100000	\$49,630,211	n/a
Single Loudspeakers in Enclosures	8518.210000	\$123,849,786	6,304,077
Loudspeakers	8518.290000	\$232,717,195	28,983,723
Headphones	8518.302000	\$83,906,732	12,663,123
Audio Amplifiers	8518.402000	\$292,830,895	2,195,263
Parts of Microphones, Loudspeakers, Amplifiers	8518.903000	\$167,442,782	n/a
Upright Pianos	9201.100000	\$1,860,107	1,029
Grand Pianos	9201.200000	\$4,100,787	761
Other Keyboards	9201.900000	\$2,226,539	4,010
String Musical Instruments Played with a Bow	9202.100000	\$2,084,944	4,197
Guitars	9202.903000	\$54,107,136	128,882
String Musical Instruments	9202.906000	\$11,832,486	69,702
Keyboard Pipe Organs	9203.004000	\$2,256,715	4,682
Accordions	9204.104000	\$414,825	1,497
Mouth Organs	9204.200000	\$261,873	2,791
Brasswind Instruments	9205.100000	\$15,692,342	37,751
Woodwind Instruments	9205.901000	\$11,169,905	45,165
Other Wind Instruments	9205.906000	\$3,927,902	125,634
Percussion Instruments	9206.002\0000	\$26,976,375	859,670
Musical Synthesizers	9207.100020	\$3,571,253	12,443
Keyboard Instruments	9207.100080	\$7,789,584	41,180
Fretted Stringed Instruments	9207.900040	\$41,765,427	94,254
Musical Instruments, Electrically Amplified	9207.900080	\$33,670,840	272,819
Music Boxes	9208.100000	\$1,707,158	108,301
Fretted Stringed Instruments (Misc. Category)	9208.900040	\$22,112,304	186,308

(Continued on pg. 32)

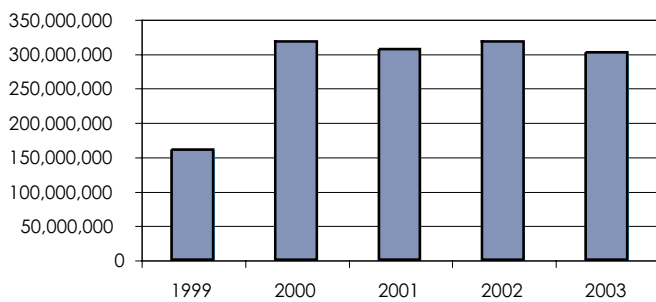
## U.S. EXPORTS OF MUSIC AND SOUND PRODUCTS

(Continued )

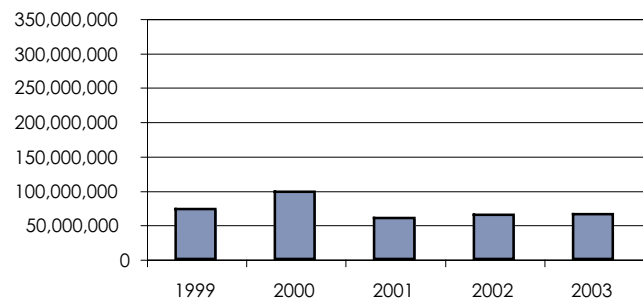
Description	Harmonized Code	Value	Units
Mouth-Blown Sound Signaling Instruments	9208.900080	\$2,871,055	383,190
Metronomes, Tuning Forks and Pitch Pipes	9209.100000	\$1,237,395	n/a
Parts and Accessories for String Instruments	9209.300000	\$38,712,138	12,772,789
Parts and Accessories for Pianos	9209.918000	\$3,411,453	n/a
Parts and Accessories for Fretted Instruments	9209.920000	\$25,705,559	n/a
Parts and Accessories for Electronic Instruments	9209.940000	\$15,260,646	n/a
Other Parts and Accessories	9209.990000	\$44,331,414	n/a

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

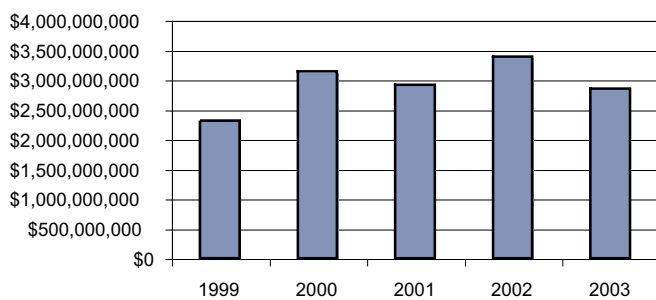
NUMBER OF IMPORT UNITS  
(By Harmonized Code)



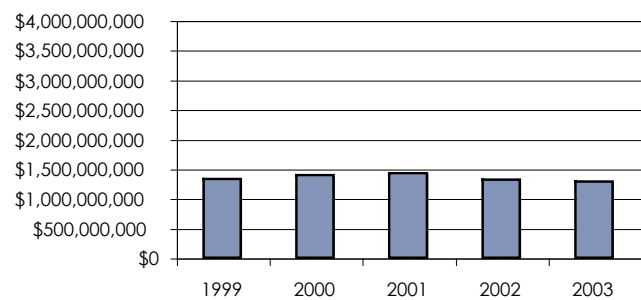
NUMBER OF EXPORT UNITS  
(By Harmonized Code)



VALUE OF U.S. IMPORTS  
(By Harmonized Code)



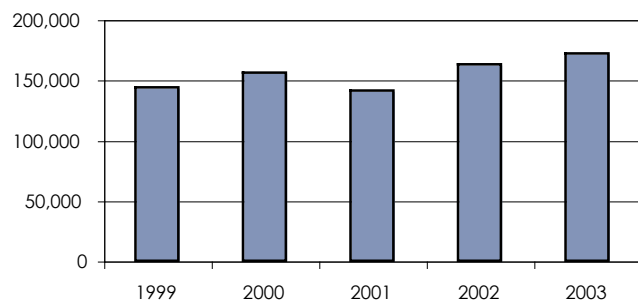
VALUE OF U.S. EXPORTS  
(By Harmonized Code)



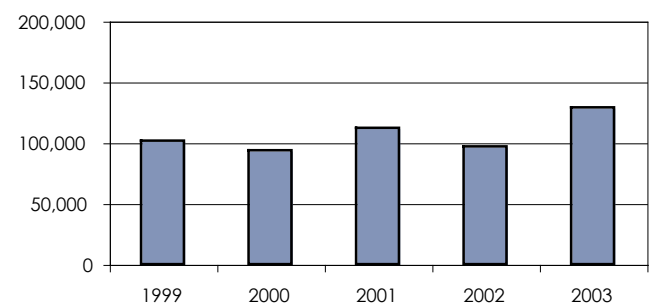
## U.S. IMPORTS AND EXPORTS OF MUSIC AND SOUND PRODUCTS

(Continued )

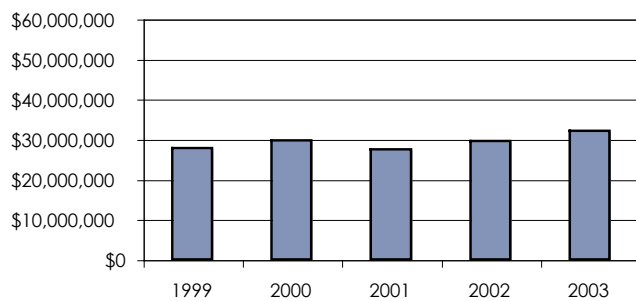
NUMBER OF GUITAR IMPORTS  
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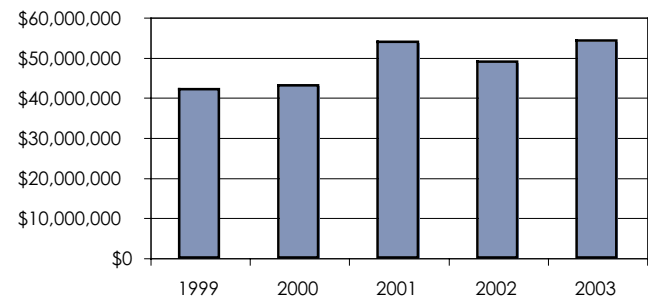
NUMBER OF GUITAR EXPORTS  
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VALUE OF GUITAR IMPORTS  
(By Harmonized Code)

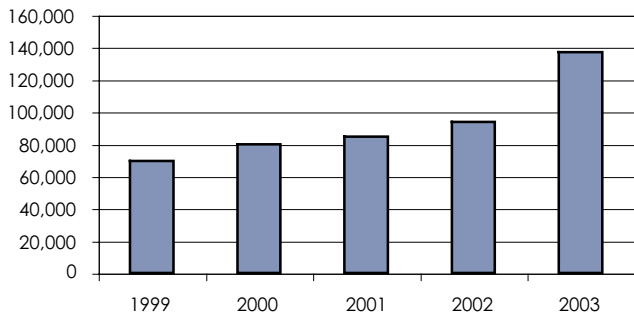


VALUE OF GUITAR EXPORTS  
(By Harmonized Code)

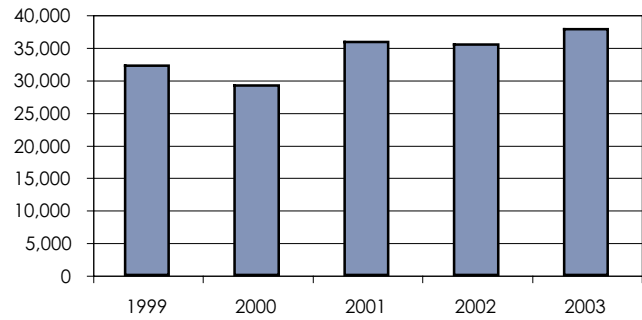




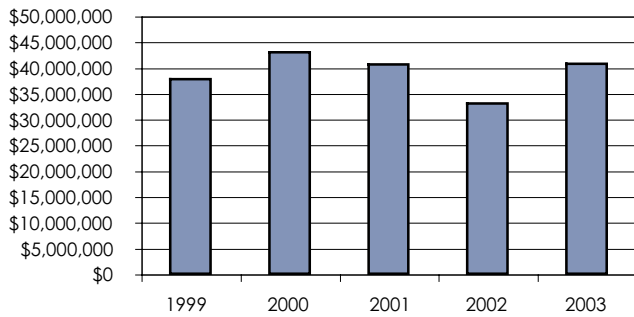
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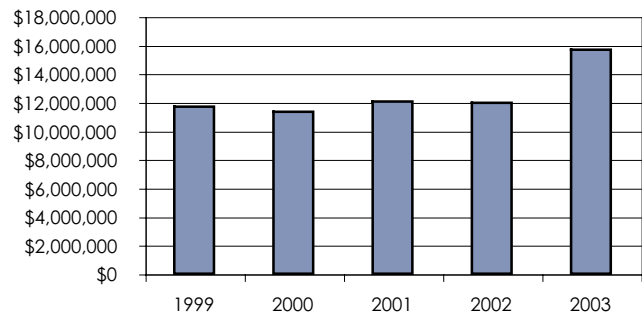
### NUMBER OF BRASSWIND EXPORTS



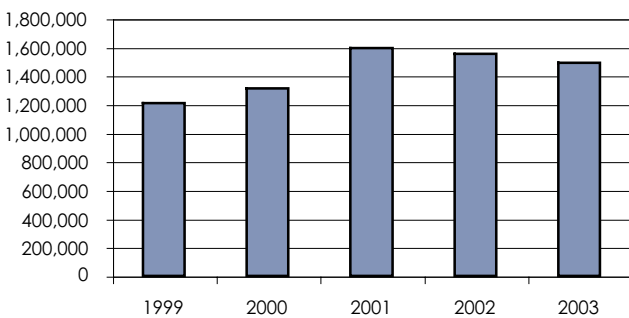
### VALUE OF BRASSWIND IMPORTS



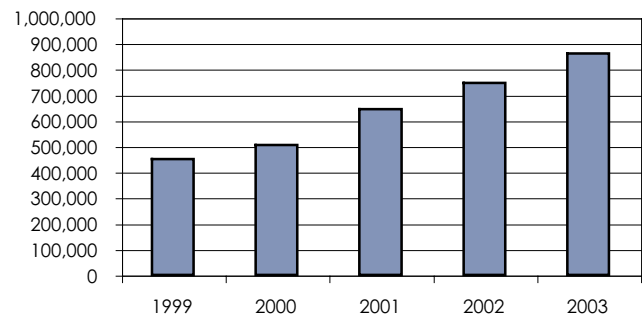
### VALUE OF BRASSWIND EXPORTS



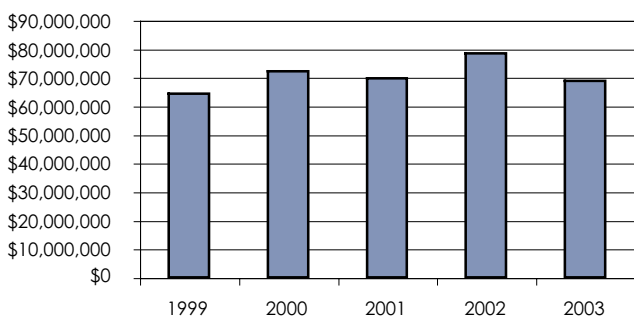
### NUMBER OF DRUMS & PERCUSSION IMPORTS



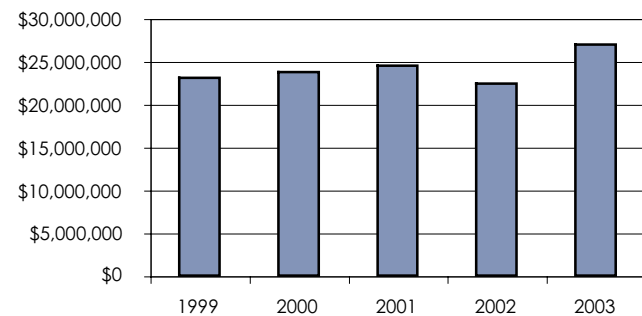
### NUMBER OF DRUMS & PERCUSSION EXPORTS



### VALUE OF DRUMS & PERCUSSION IMPORTS



### VALUE OF DRUMS & PERCUSSION EXPORTS





# INTERNATIONAL DATA

For the first time in *Music USA* history, we are pleased to introduce our new international section. This is an important step toward creating a global overview of the music products industry and we hope that, as this section continues to expand in the future, it proves to be a valuable tool for you as you make vital business decisions.

# AUSTRALIA

The Australian music products industry recorded a relatively strong 2003 financial year result. Overall, unit imports increased by 6 percent compared to the previous year, while import value increased by approximately 3.5 percent. More than 1.6 million musical items, including instruments, strings, print music and accessories were imported at a value of \$202 million (Australian). When that \$202 million at import is extrapolated to a retail sales value, then the market would have exceeded \$500 million in total.

The 3.5 percent growth in industry value means that the industry performed in line with the national final private consumption and the Australian economy overall, which grew by 3.4 percent over the same period.

The Australian economy is strong and has been so for the past three years – consumer confidence is high and spending is up. Guitars in particular were strong, with lots of positive reinforcement of the guitar within contemporary music at the moment. The guitar category overall recorded a 20 percent increase in unit imports coupled with an 18 percent increase in import value.

Import value declines were primarily caused by two factors: increasing lower cost product from China, Indonesia, India and Vietnam, and the increased value of the Australian Dollar.

Average unit values overall are therefore falling and are likely to continue to do so throughout 2004—the industry now has to sell more units to return the same sales value (the reverse situation from the period 1998 to 2001). The result of these two trends saw average unit value declining by nearly 3 percent during the 2003 financial year.

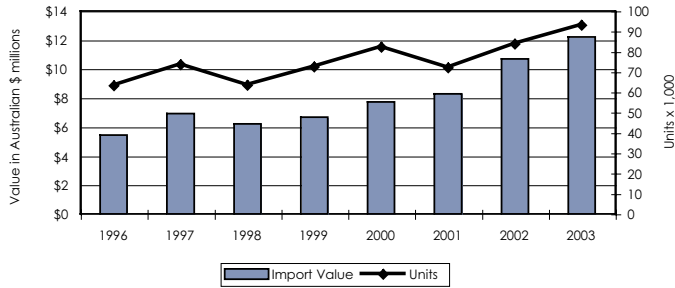
***The following charts are based on import data collected by the Australian Bureau of Statistics (ABS) in association with the Australian Music Association (AMA).***

***Commentary is by Ian Harvey, Executive Officer of the Australian Music Association.***

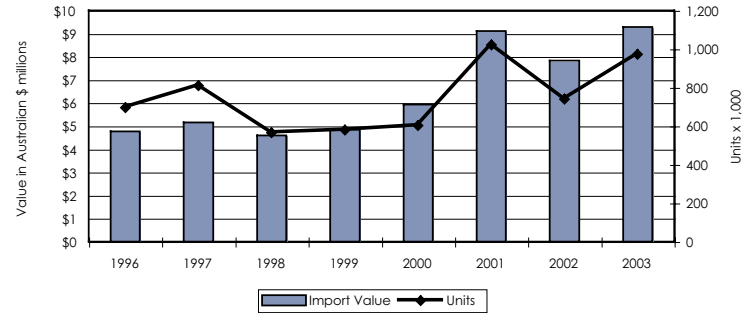
# INTERNATIONAL DATA

## Australia

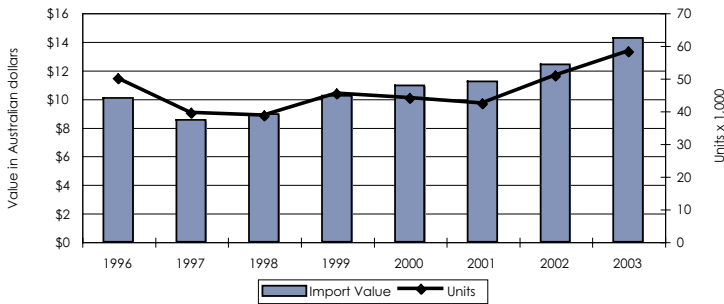
### ACOUSTIC GUITARS



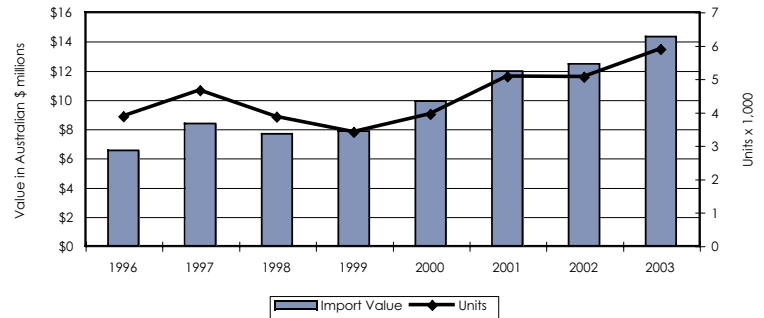
### GRAND PIANOS



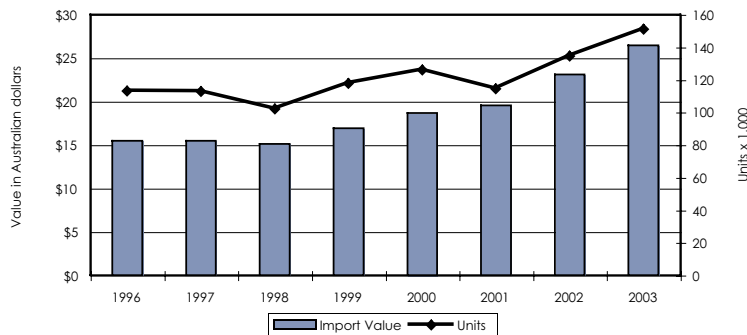
### ELECTRIC GUITARS



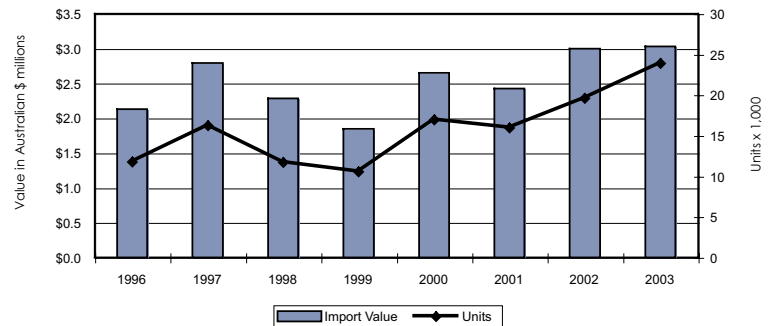
### UPRIGHT PIANOS



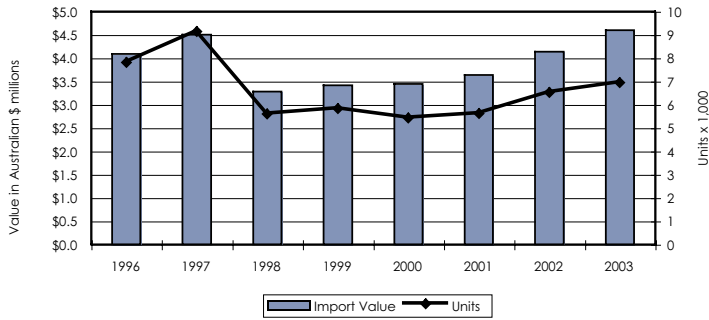
### TOTAL GUITARS



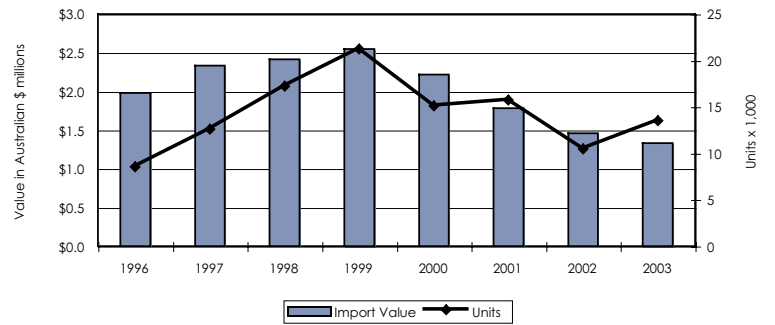
### ORCHESTRAL STRINGED INSTRUMENTS



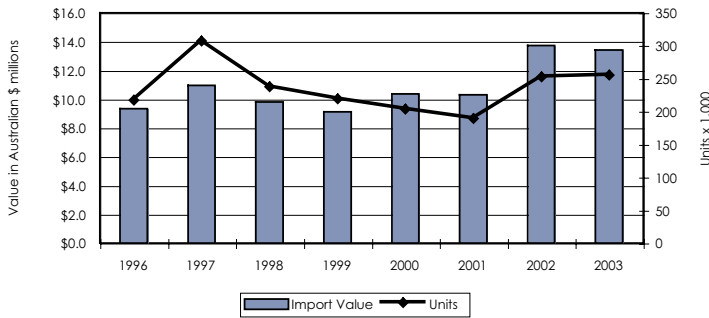
TOTAL BRASSWIND



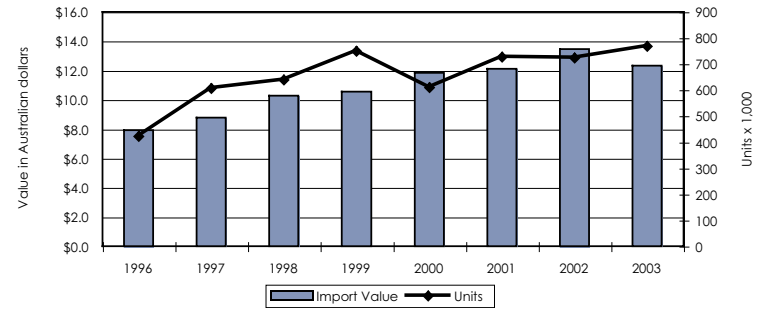
MUSIC SOFTWARE



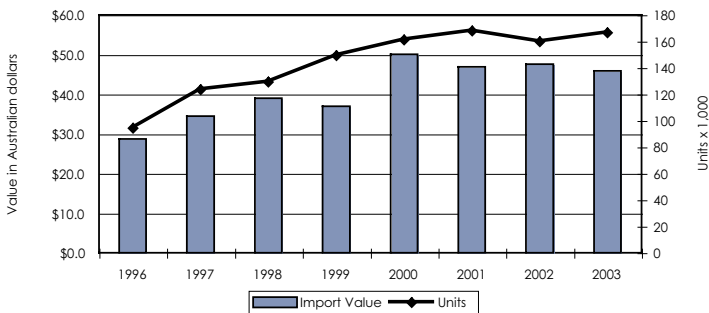
TOTAL WOODWIND



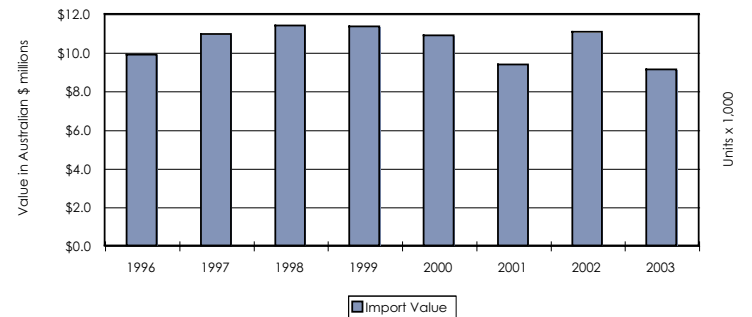
TOTAL PERCUSSION



SOUND REINFORCEMENT & RECORDING



PRINTED MUSIC



# CANADA

Canada has retained its ranking as the sixth largest music and sound products market in the world, with consistent growth during 2002 and 2003.

Recent figures published by the U.S. *Music Trades* confirmed that as of the calendar year 2002 (latest available survey results), Canada's annual sales in music and sound products was \$535 million U.S., up approximately 4 percent over 2001. Further trend information for 2003 via MIAC "Select 12" reports indicates growth in 2003 was up to the 5.5 percent range for the year.

In addition, Canada's survey ranking in per capita sales was a lofty No. 4 position at \$16.77 per person based on a population of 31.9 million.

These survey results point to the strength and buoyancy of the Canadian music and sound products market, which has grown steadily over the past few years.

Four Canadian companies were also ranked among the world's top 225 suppliers. They include the well-known JAM Industries/Coast-Erikson (\$108 million in sales), Godin Guitar Company (\$39.5 million), Yorkville Sound (\$30 million), SF Marketing (\$22.1 million) and SABIAN Limited (\$21 million).

Given that the current size of the world music and sound products market is in the \$17 billion U.S. range, Canada's ranking at a solid No. six in market size (plus fourth per capita) represents approximately 3 percent of the world total.

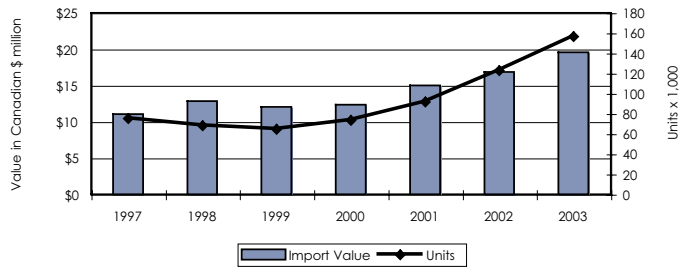
Some trend information provided by Statistics Canada for 2003 in various categories is as follows: acoustic guitars +16 percent (over 2002), electric guitars +8 percent, upright pianos -13 percent, grand pianos +8 percent, digital pianos -20 percent, stringed instruments with bow +5 percent, total woodwind -10 percent, total brass -10 percent, portable keyboards +10 percent percussion -15 percent and printed music -9 percent.

Considering its population size at 31 million, Canada has done well to remain ahead of countries such as China (1.3 billion population), Italy (58 million) and Korea (38 million) in its market size.

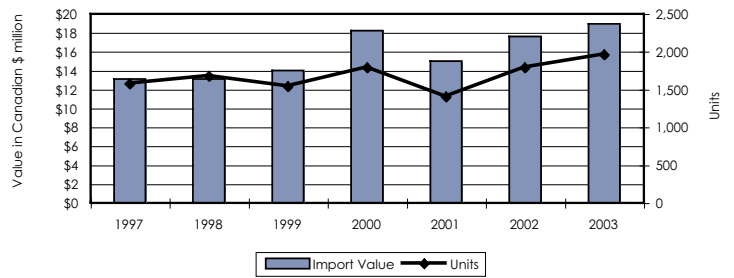
Canadian growth outlook for music and sound products in 2004-2005 remains positive in the 4 percent to 5 percent range according to current economic projections.

***The following charts are based on import data collected by StatsCanada.  
Commentary is by Al Kowalenko, Executive Director of Music Industries  
Association Canada (MIAC).***

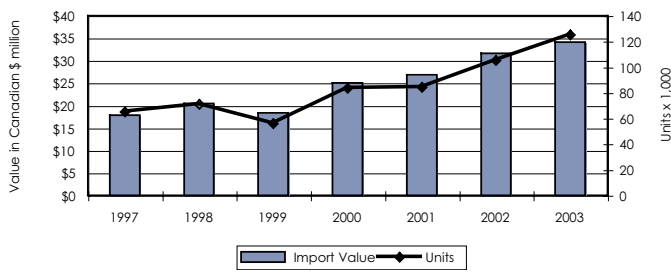
### ACOUSTIC GUITARS



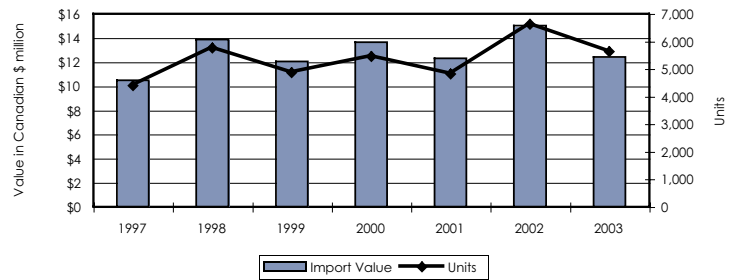
### GRAND PIANOS



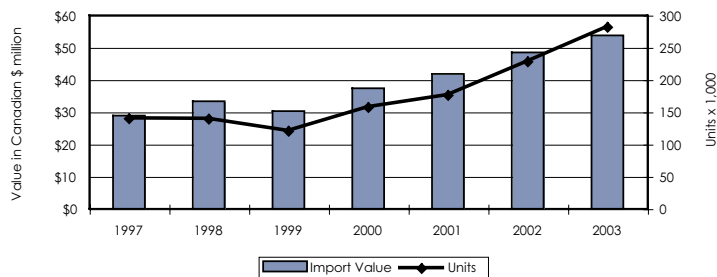
### ELECTRIC GUITARS



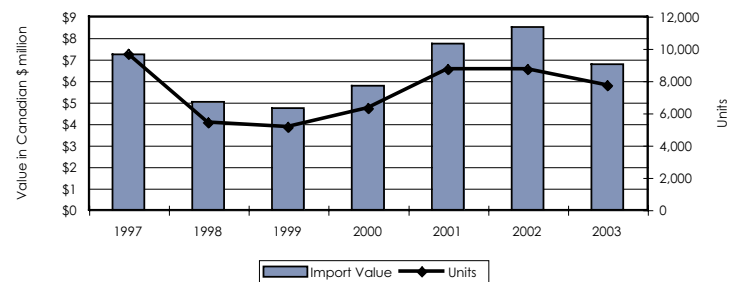
### UPRIGHT PIANOS



### TOTAL GUITARS



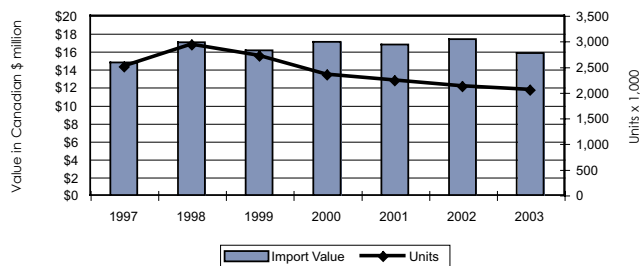
### ELECTRIC PIANOS



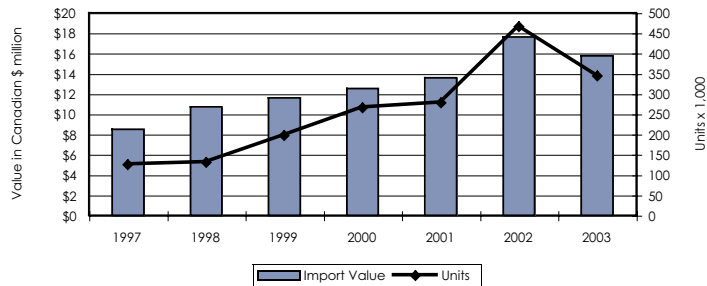
# INTERNATIONAL DATA

## Canada

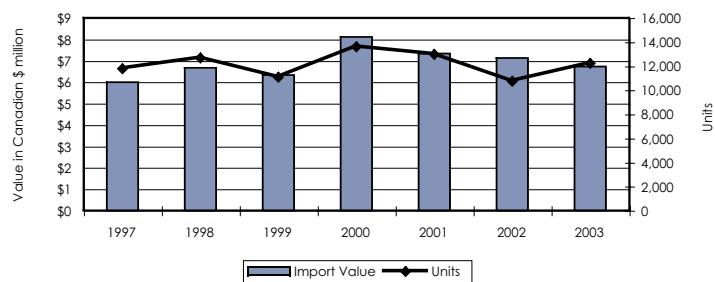
### PRINTED MUSIC



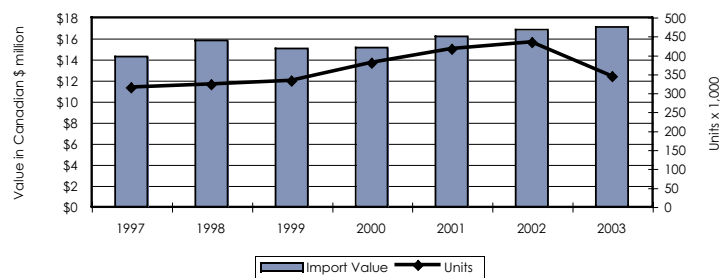
### TOTAL PERCUSSION



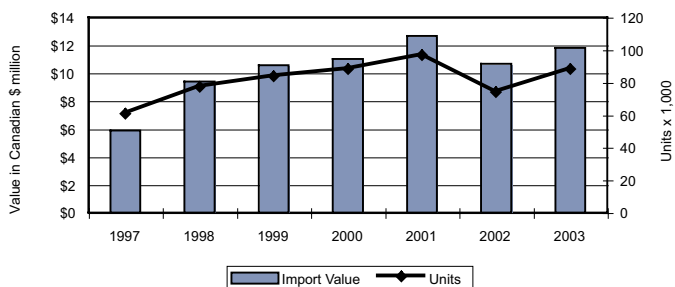
### TOTAL BRASSWIND



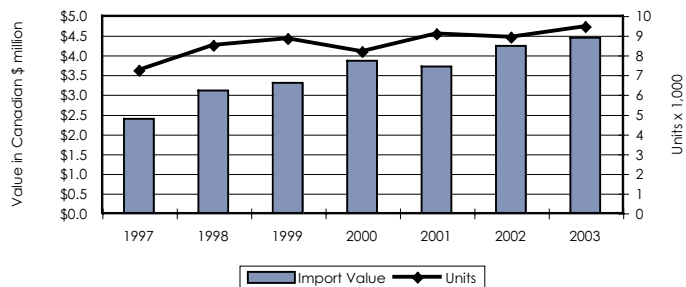
### TOTAL WOODWIND



### PORTABLE KEYBOARDS



### ORCHESTRAL STRINGED INSTRUMENTS





# JAPAN

According to the industry statistics compiled by the Japan Musical Instruments Manufacturers' Association, the total value of shipments from factories in 2003 was up 6.7 percent from a year earlier. The upward change is the first in five years. The Japanese economy seems to have finally gotten rid of the long recession. One of the reasons for this uptick is an increase of exports, which were up 14 percent from a year ago.

The annual retail survey conducted by *Japan Music Trades* shows that 34 percent of respondents indicated that their sales were up over the previous year compared to 26 percent in 2002. A total of 42 percent said that their sales had declined compared to 62 percent the previous year.

Some 32 percent reported that sales of upright pianos had increased and this percentage has doubled from 15 percent a year ago. And 25 percent (up from 10 percent a year ago) of the respondents reported that sales of electric guitars were up, 25 percent reported an increase in amplifier sales (13 percent in 2002), 20 percent noted an increase in the sale of effects (9 percent in 2002) and 16 percent reported an increase in sales of digital devices (up from 2 percent last year).

As in 2002, many retailers noted that grand pianos had most contributed to the sales increase in 2003.

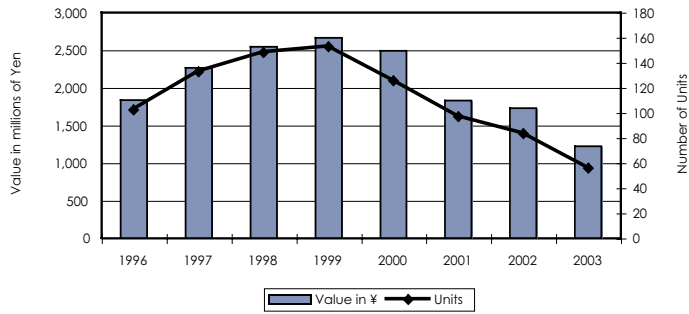
***The Japan charts are made by NAMM based on the statistical data compiled by the Japan Musical Instruments Manufacturers Association (JMIMA) and published in the April 2004 issue of Japan Music Trades.***

***Commentary is from the March, April and May issues of Japan Music Trades and used with permission.***

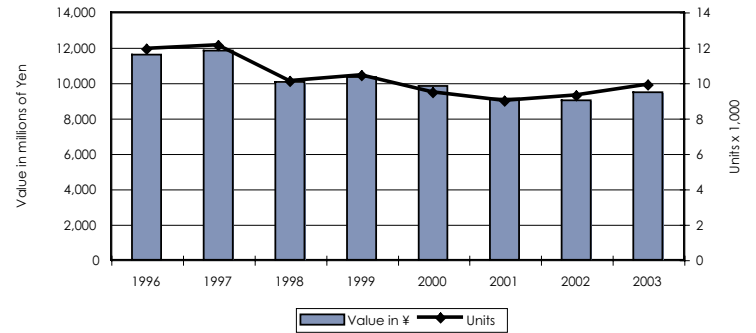
# INTERNATIONAL DATA

## Japan

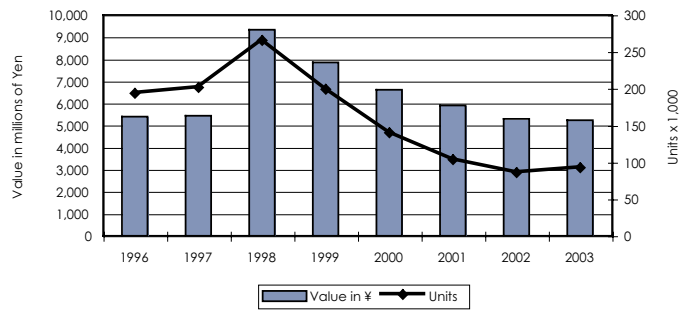
### ACOUSTIC GUITARS



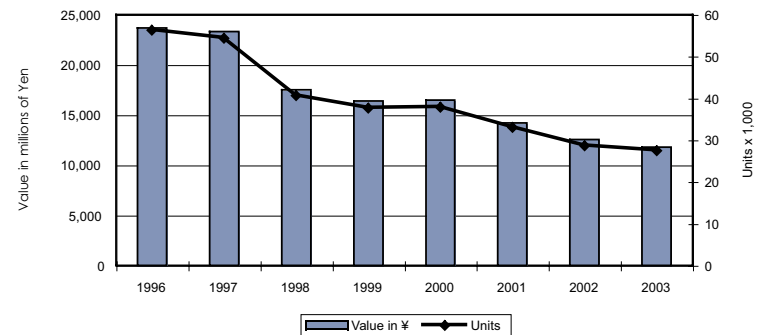
### GRAND PIANOS



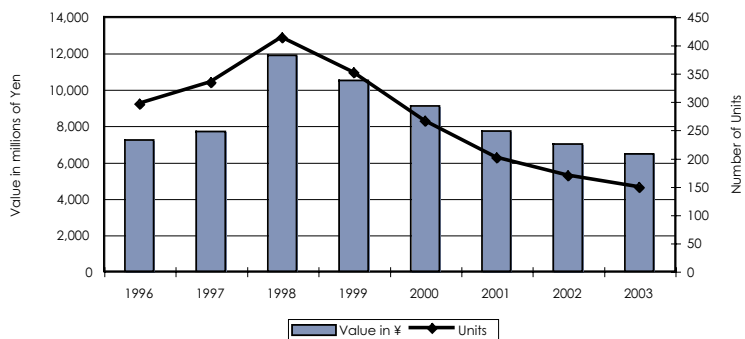
### ELECTRIC GUITARS



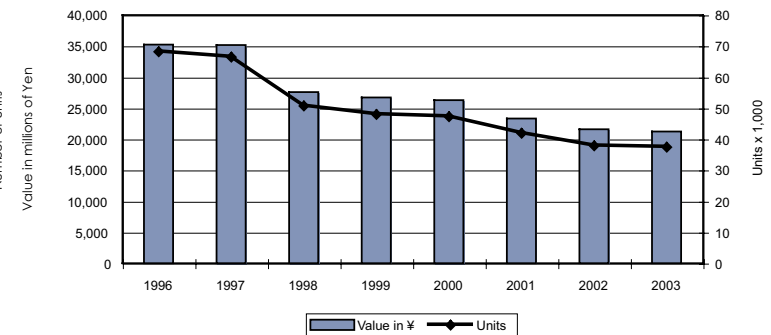
### UPRIGHT PIANOS



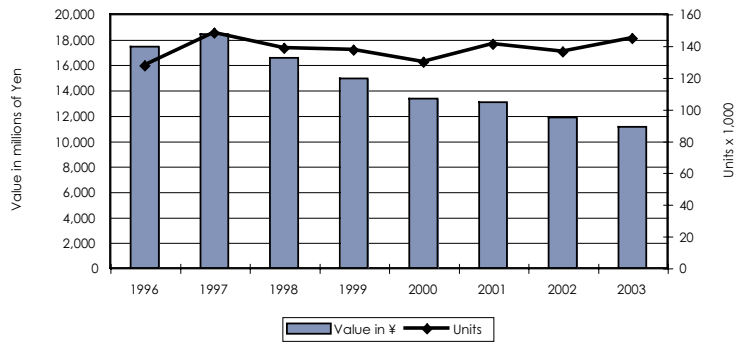
### TOTAL GUITARS



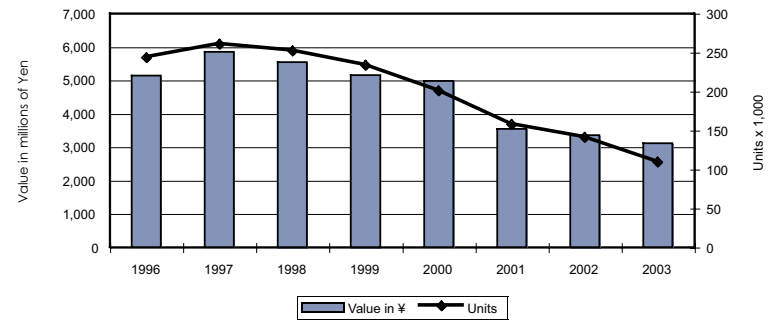
### TOTAL PIANOS



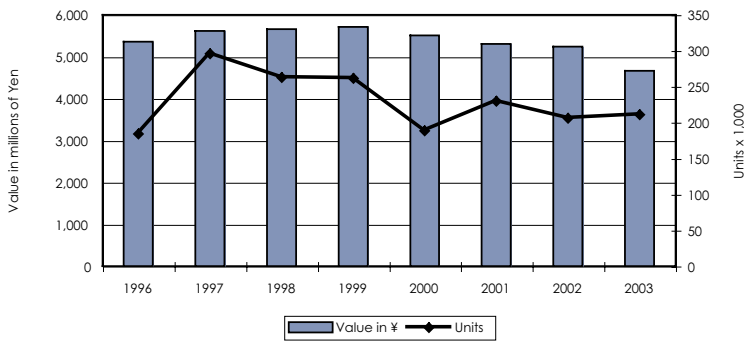
ELECTRONIC PIANOS



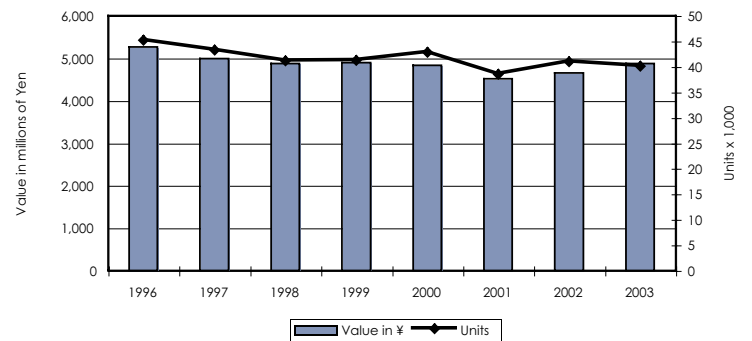
TOTAL STRINGED INSTRUMENTS



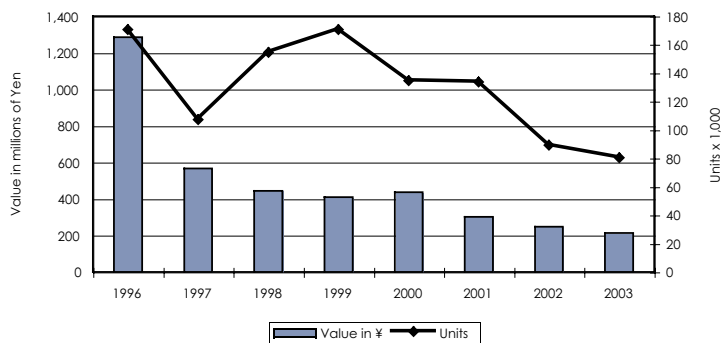
TOTAL PERCUSSION



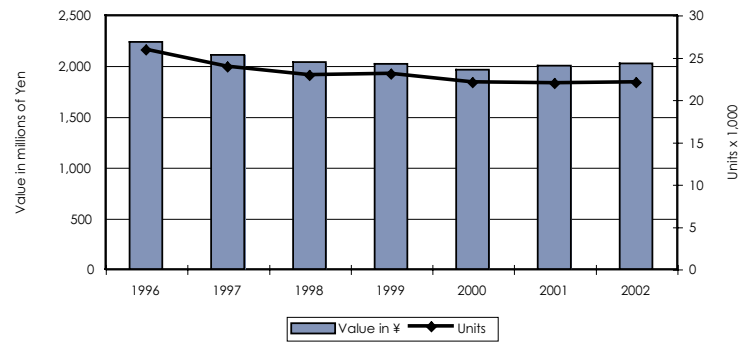
TOTAL WOODWIND



PORTABLE ELECTRONIC KEYBOARDS



TOTAL BRASSWIND



With music products sales totaling more than \$191 million (U.S.), Spain has continued to move up the ranks of the top 20 world music markets, going from No. 16 in 2000 to No. 12 in 2003. Devaluations of the peseta during the 1990s made Spanish exports more competitive, but the strength of the euro since its adoption has raised recent concerns that Spanish exports are being priced out of the range of foreign buyers. However, this is being offset by increased market integration of trade among the euro nations.

The last complete year of statistics for Spain is 2002 and at that time, the strongest showing was from orchestral strings, driven in particular by sales of violas and cellos, which increased the orchestral strings market by 8 percent between 2001 and 2002.

In the guitar market, electric and acoustic guitars declined slightly in terms of both units and value, and although the value of electric/acoustic guitar sales increased by almost 5 percent, the total guitar market ended up slightly lower. It is worth noting however that information regarding guitars is often difficult to assess given the large number of artisan businesses dedicated to guitar making.

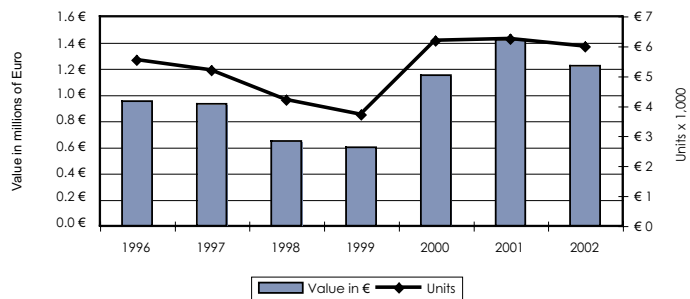
Grand pianos regained some of the ground lost in 2001, finishing the year up in both units and value, while upright pianos decreased by 9 percent, bringing down the total piano category by 2 percent.

The brass market edged down slightly in terms of units, although it ended up slightly higher in actual value led by sales of tubas, which increased 11 percent in units and 19 percent in value.

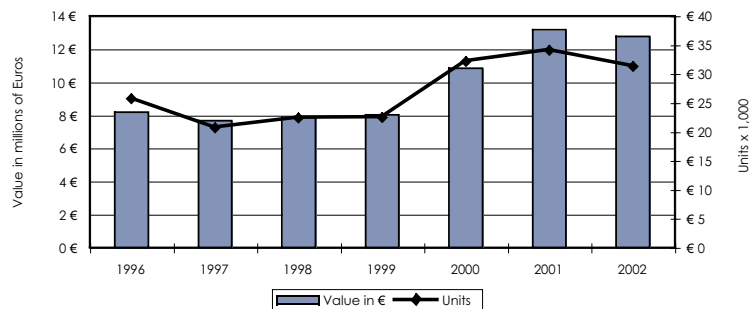
In the woodwind market, units of oboes and flutes increased, although their sales value decreased slightly. Clarinets and saxophones declined slightly in both units and value, and woodwinds overall ended up lower, although woodwinds are still one of the biggest segments of the music products industry in Spain.

***The following charts were supplied by COMUSICA, the Spanish Music Products Association.***

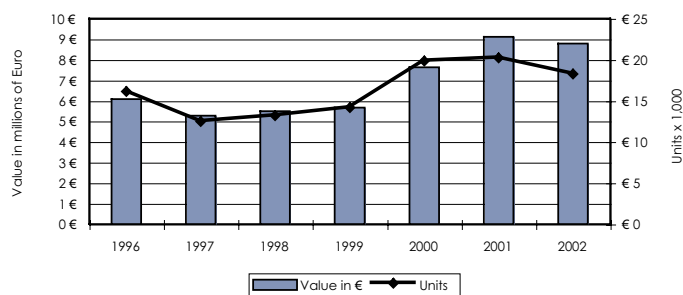
ACOUSTIC GUITARS



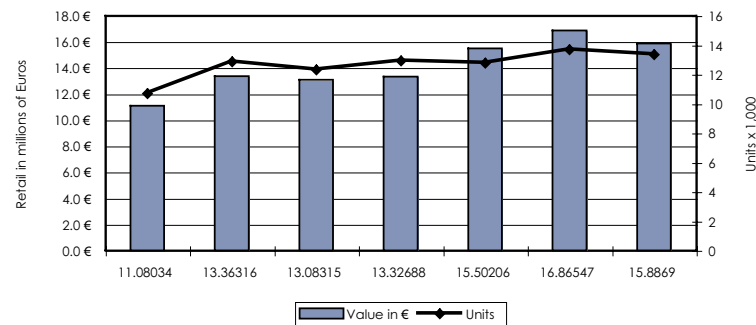
TOTAL GUITARS



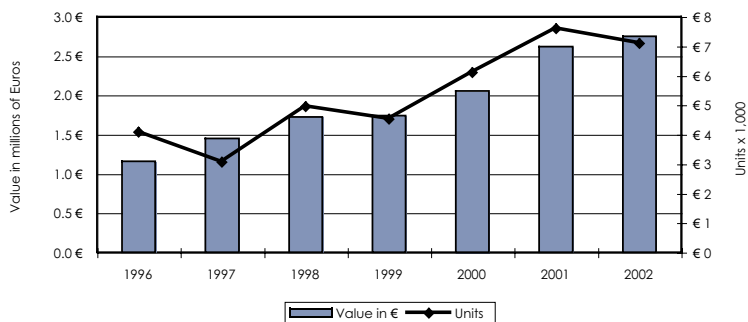
ELECTRIC GUITARS



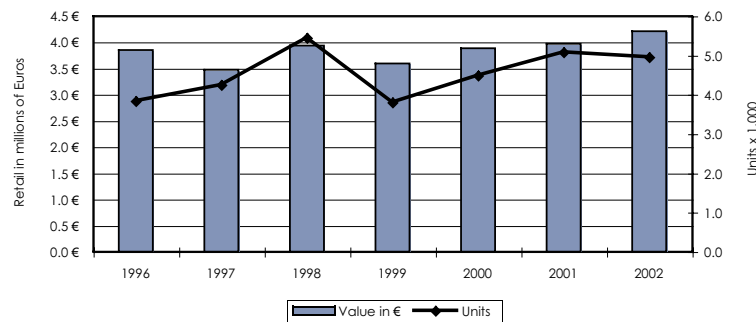
TOTAL WOODWIND



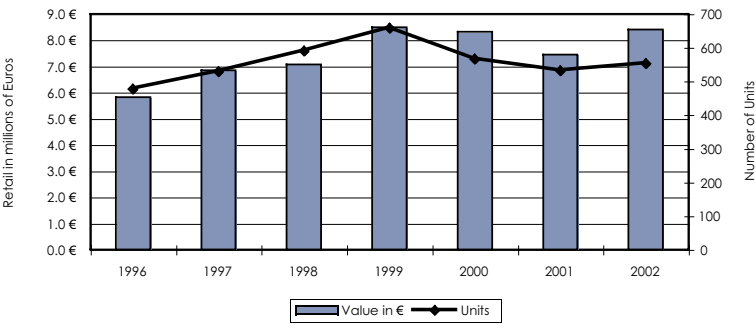
ELECTRIC/ACOUSTIC GUITARS



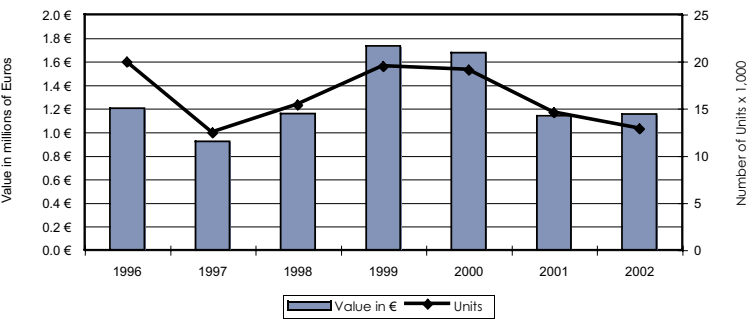
TOTAL BRASSWIND



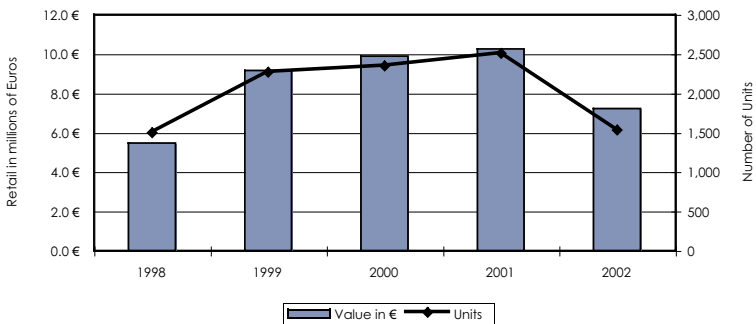
GRAND PIANOS



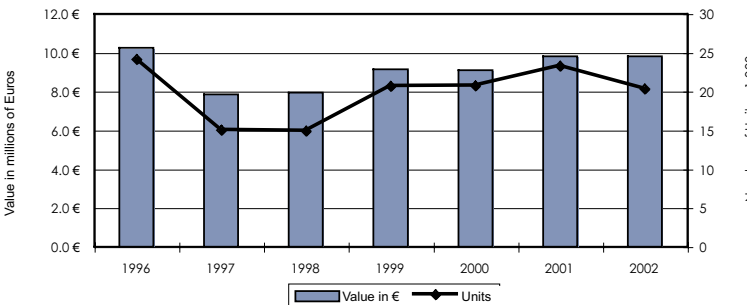
KEYBOARDS UP TO €150 (\$185 U.S.)



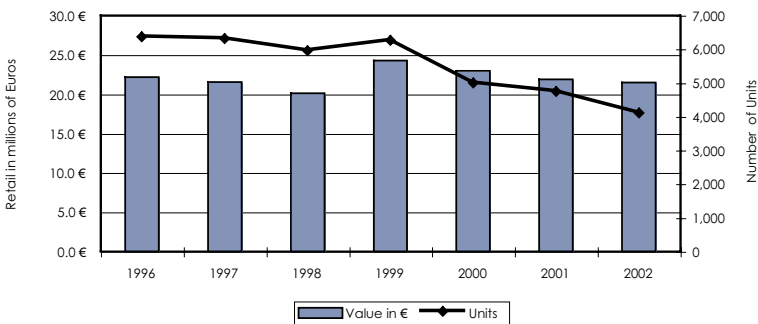
UPRIGHT PIANOS



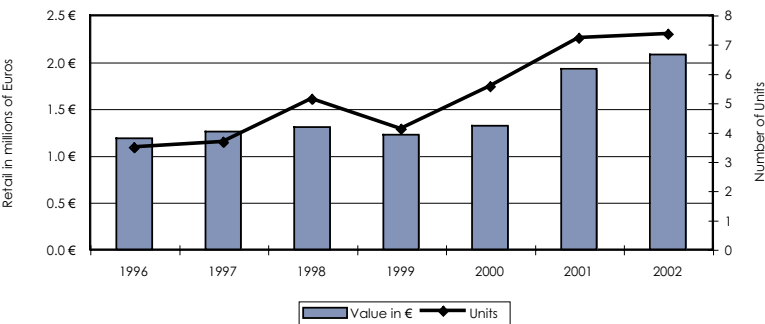
KEYBOARDS MORE THAN €150 (\$185 U.S.)



TOTAL PIANOS



ORCHESTRAL STRINGS



# THE UNITED KINGDOM

The United Kingdom (U.K.) market in 2003 continued the trends we saw developing in 2002. The cornerstone of the U.K. music retailer was again founded on the continued dominance of the guitar market. After substantial growth in the previous two years, this market did stabilize at a slightly lower level, albeit as the dominating force in the mainstream industry.

Keyboard sales that traditionally held steady sway as the market leader saw a continuing decline as reflected by the withdrawal of Technics. Keyboards now stand at less than 50 percent of market value from 10 years ago. Digital pianos have been constantly strong, helping to plug the gaps left by keyboards and the decline in some areas of high tech.

There are four trends worth mentioning in the evolving U.K. market:

The first trend is the growth and infiltration of computers and computer music into the mainstream of the musician's hardware portfolio. The computer continues to affect the dedicated hardware sales in the synthesiser, digital effects and hard-disk recording market. The computer growth as a musician's tool also has had a detrimental effect on the profit margins that are traditionally required in our industry.

The second trend having an impact on the U.K. market is the continuing move of manufacturers to Far East production: "The Chinese Effect." Prices in all areas are falling due to the lower cost of production, whilst ironically, standards from these manufactures are improving constantly. This will only be good in the short term if we can sustain growth. The inevitability is that U.K. and European manufacturers will be under immense pressure to move their own production or be seen as uncompetitive.

Thirdly, we have a developing trend of European integration of distribution. With no barriers to trade in an ever-increasing single market, many large companies are re-evaluating warehousing and logistics.

We would be remiss not to mention the Internet and specifically eBay. Thanks to the growth of Broadband, this area has started to have an important impact on the U.K. music marketplace. The growth in Internet trading will not diminish; it will definitely be a catalyst for change in the U.K. market place.

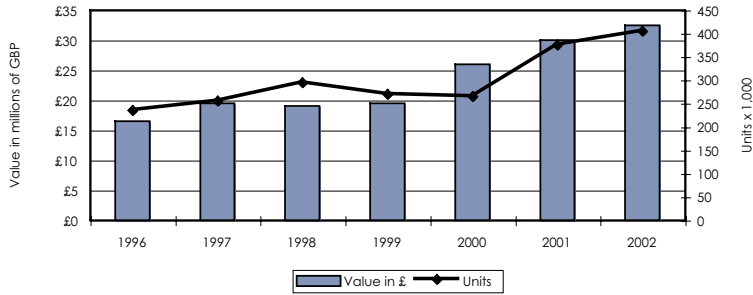
***The following charts are based on data published by the Music Industries Association (MIA) and published in their annual report "Signposts to Success."***

***Commentary is from Alan Greensall, Statistics and Trends Committee Chairman at the MIA.***

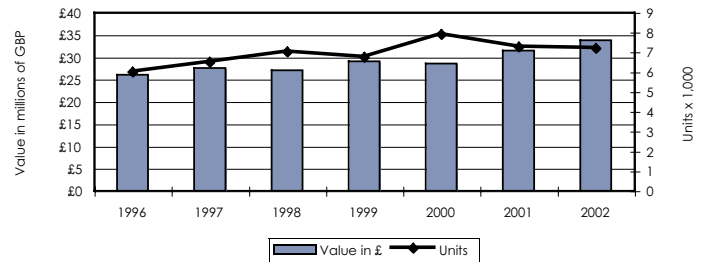
# INTERNATIONAL DATA

## United Kingdom

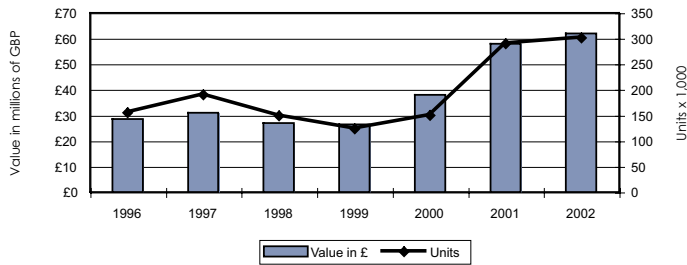
### ACOUSTIC GUITARS



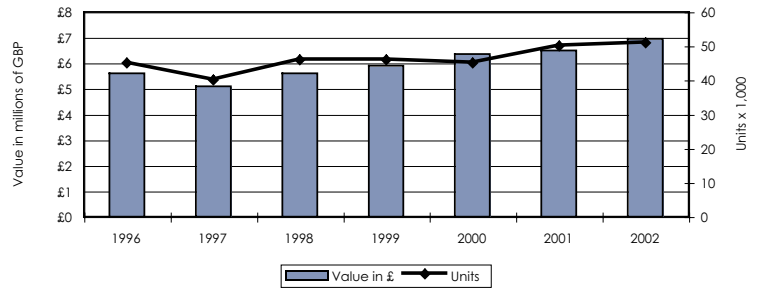
### ACOUSTIC PIANOS



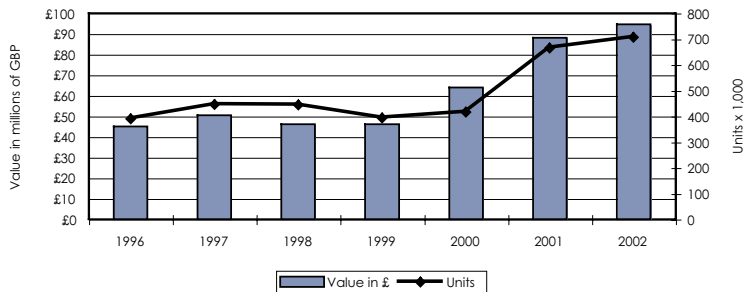
### ELECTRIC GUITARS



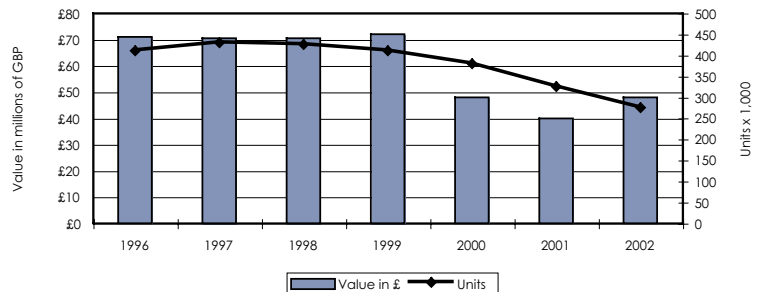
### ORCHESTRAL STRINGED INSTRUMENTS



### TOTAL GUITARS

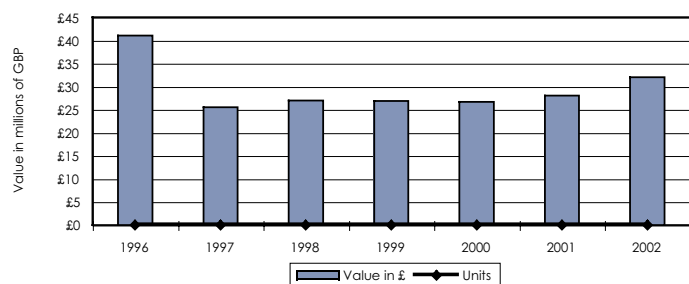


### PORTABLE KEYBOARDS

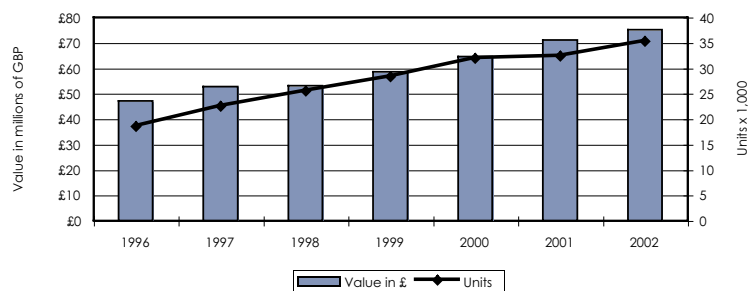




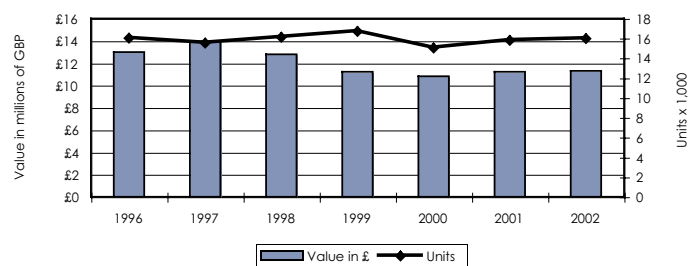
### PRINTED MUSIC



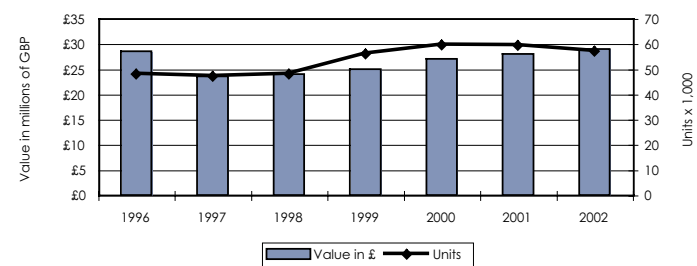
### TOTAL PIANOS



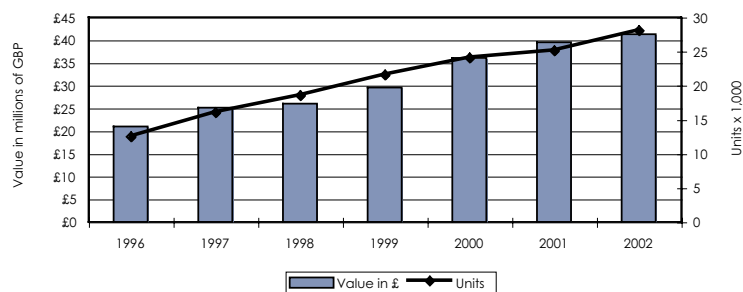
### TOTAL BRASSWIND



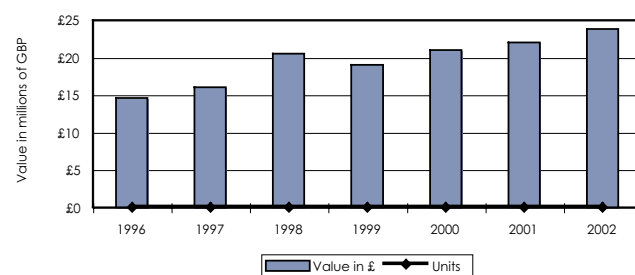
### TOTAL WOODWIND

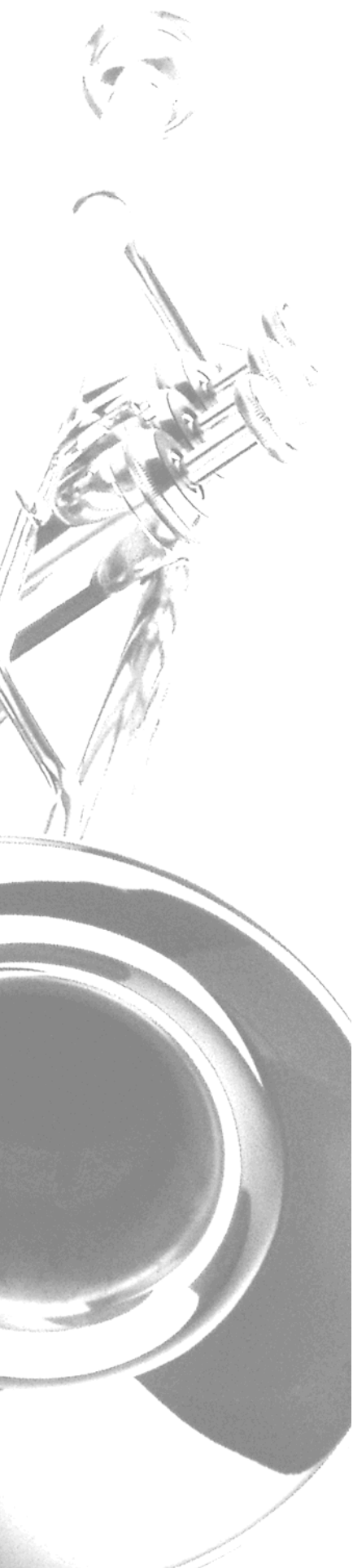


### DIGITAL PIANOS



### TOTAL PERCUSSION





# GALLUP SURVEY 2003

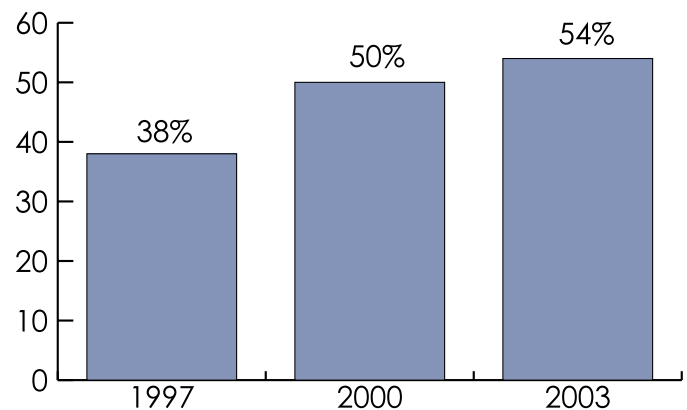
Page 1

# GALLUP SURVEY 2003

Every three years NAMM, the International Music Products Association®, commissions the Gallup Organization to conduct a national telephone survey to profile house participation and attitudes regarding the playing of musical instruments and, where appropriate, compare these findings to previous national surveys.

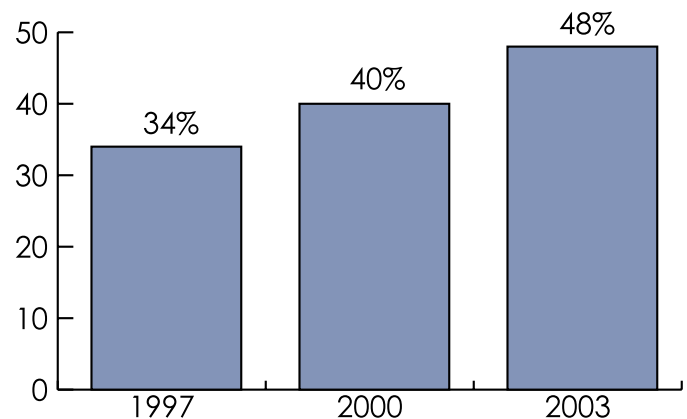
PERCENTAGE OF HOUSEHOLDS THAT CURRENTLY HAVE AT LEAST ONE MUSICAL INSTRUMENT PLAYER

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%).



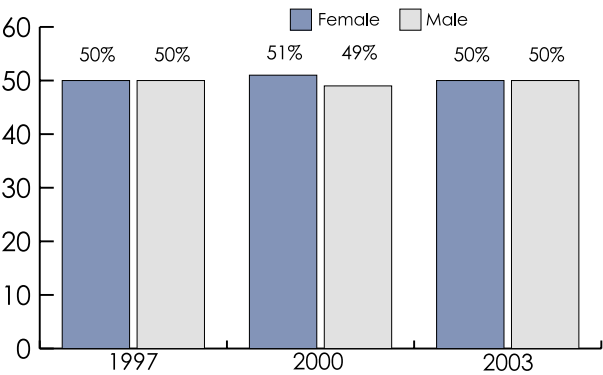
PERCENTAGE OF HOUSEHOLDS WITH TWO OR MORE PLAYERS

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



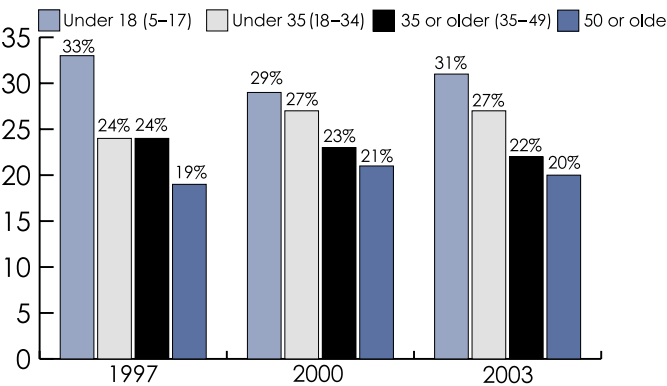
The gender breakdown among those who play musical instruments is 50% males and 50% females.

GENDER OF PERSONS AMONG HOUSEHOLDS WITH AT LEAST ONE MEMBER WHO PLAYS

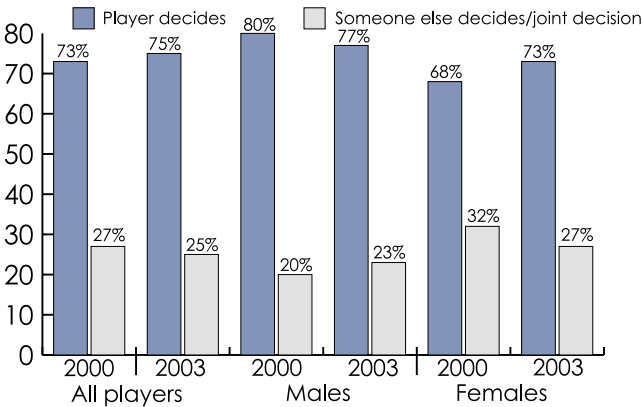


While there is an increase in the number of players under the age of 18, there is a slight decline in the number of players over 35.

AGE OF PERSONS AMONG HOUSEHOLDS WITH AT LEAST ONE MEMBER WHO PLAYS

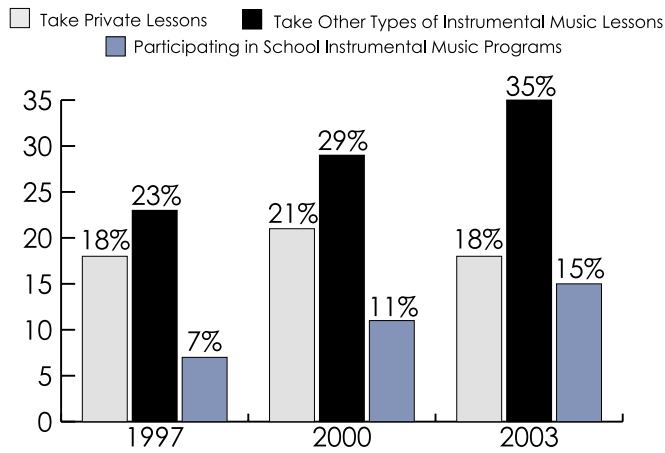


WHO DECIDES WHAT INSTRUMENT SHOULD BE PLAYED?



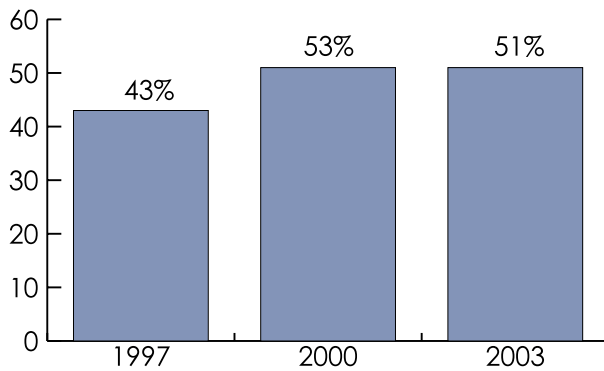
Most players continue to decide for themselves what instrument they will play. By gender, males continue to decide for themselves more often than females.

## PLAYER PARTICIPATION IN FORMAL MUSIC ACTIVITIES



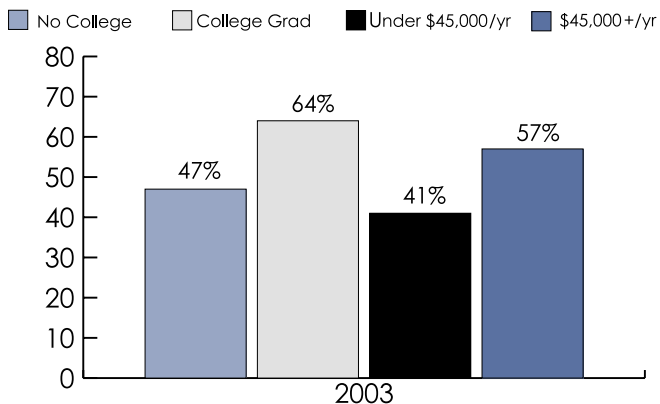
The number of people participating in school and other types of instrumental music activities has increased substantially since 2000.

## SOMEONE IN HOUSEHOLD OWNS A MUSICAL INSTRUMENT



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

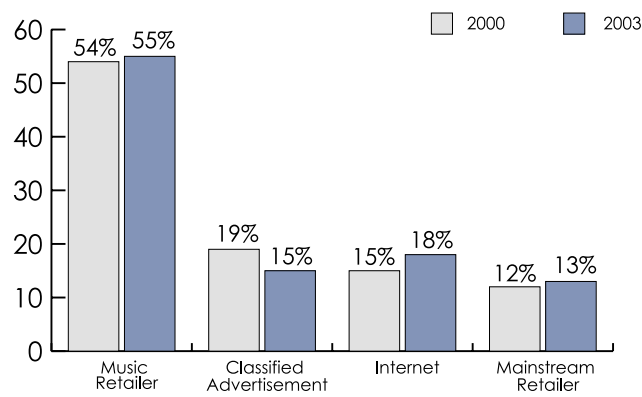
## SOMEONE IN HOUSEHOLD OWNS A MUSICAL INSTRUMENT (By education and income)



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

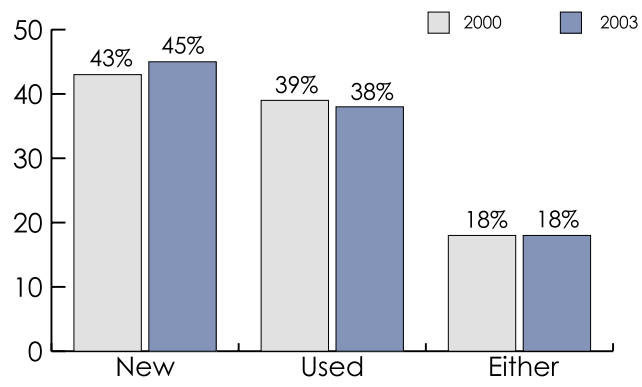
Over half of those surveyed prefer buying a musical instrument face-to-face in a specialty retail environment.

SOURCES WOULD MOST LIKELY CONSIDER IF SHOPPING FOR OR BUYING A MUSICAL INSTRUMENT

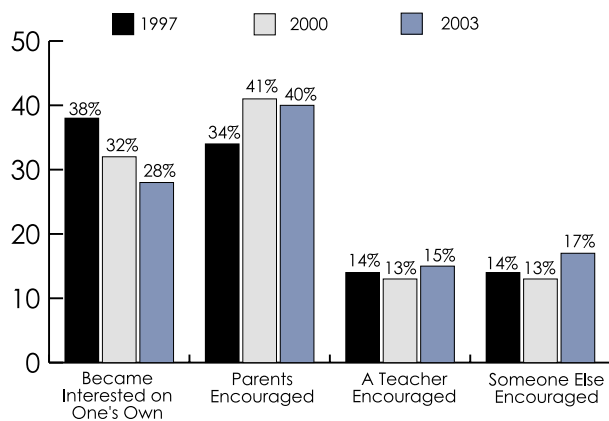


More people surveyed would purchase new musical instruments as opposed to used.

WOULD PURCHASE NEW VS. USED WHEN SHOPPING FOR OR BUYING A MUSICAL INSTRUMENT

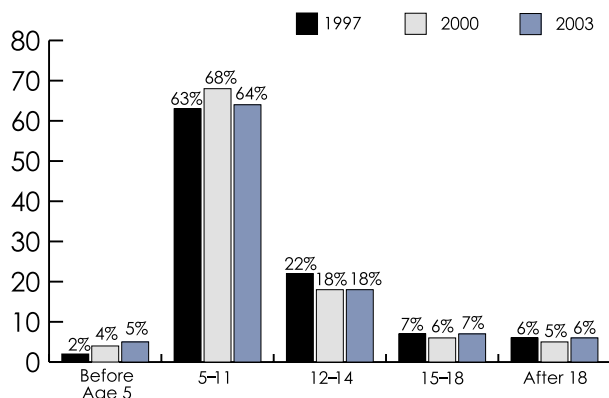


### WHAT MOTIVATES PEOPLE TO START PLAYING?

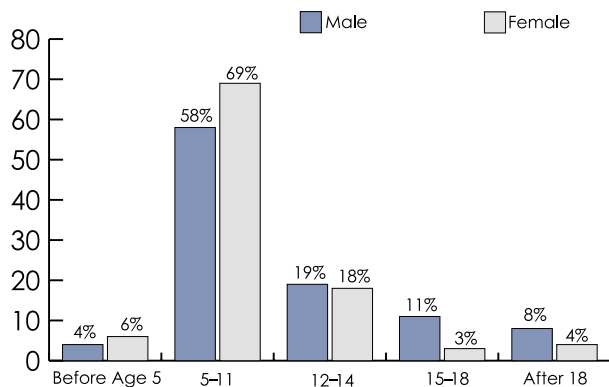


More people were encouraged by a teacher or someone else than in previous years. Fewer became interested on their own or encouraged by their parents.

### AGE AT WHICH FIRST LEARNED TO PLAY



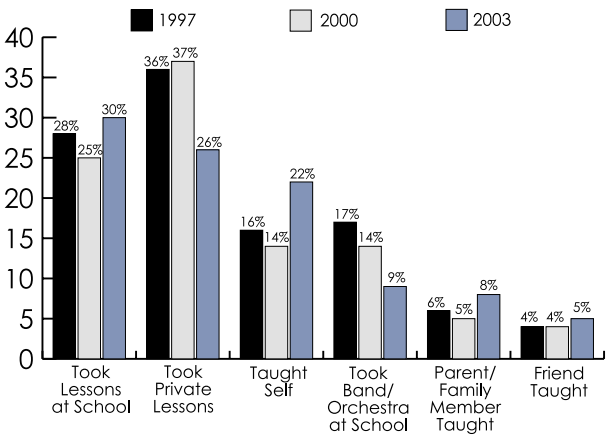
### MALE VS. FEMALE (Age at which first learned to play)



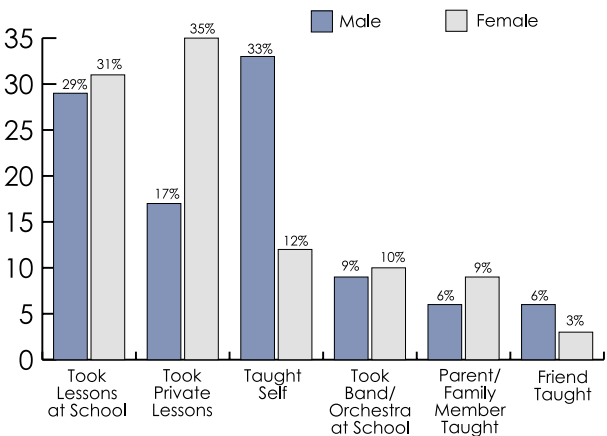
In 1997, 2000 and 2003, the typical ages for first learning to play a musical instrument were between 5 and 11. In all years, females were significantly more likely than males to first learn to play during these pre-teenage years.

As in 1997 and 2000, most people 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.

HOW DID YOU FIRST LEARN TO PLAY AN INSTRUMENT?  
(All current or former players)

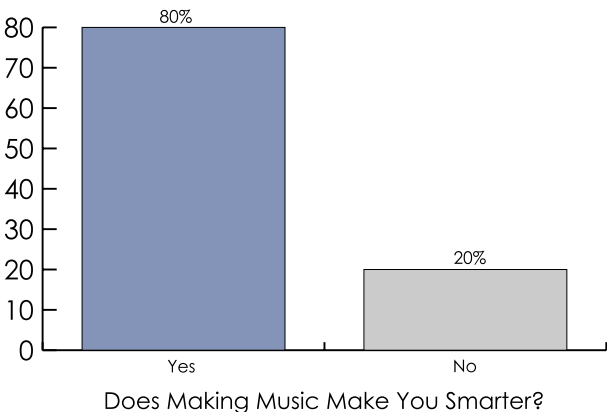


MALE VS. FEMALE  
HOW DID YOU FIRST LEARN TO PLAY AN INSTRUMENT?  
(All current or former players, by gender)



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)

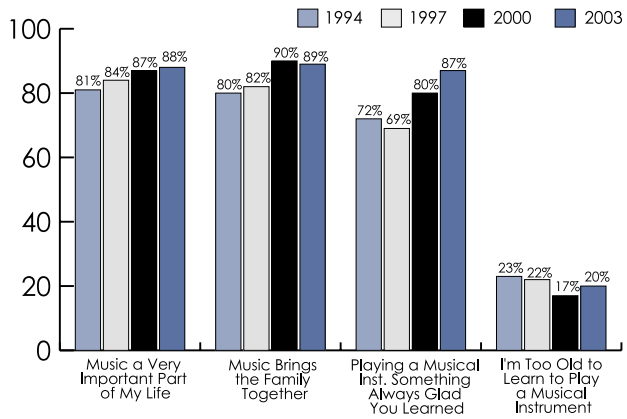


Four-fifths of respondents agree that making music makes you smarter.

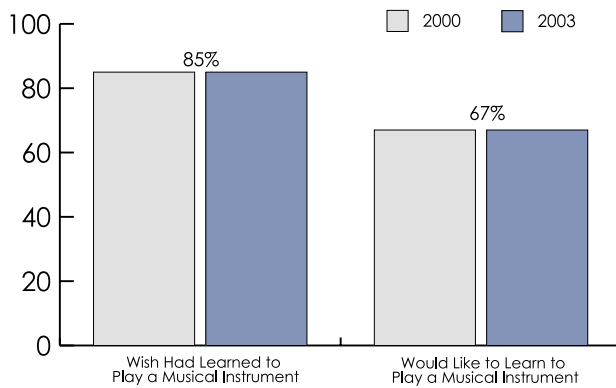


## AMERICAN ATTITUDES About Music Making

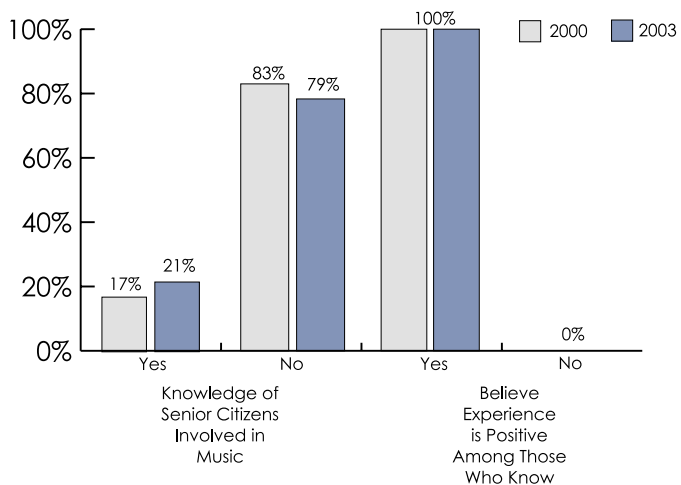
PERCENTAGE OF RESPONDENTS WHO AGREE



PERCENTAGE OF RESPONDENTS WHO AGREE

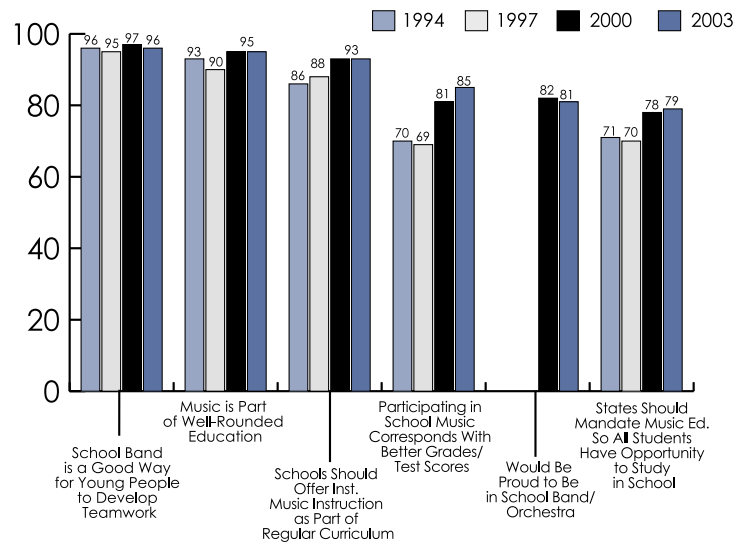


KNOWLEDGE AND OPINION ABOUT SENIOR CITIZENS BEING INVOLVED IN MUSIC

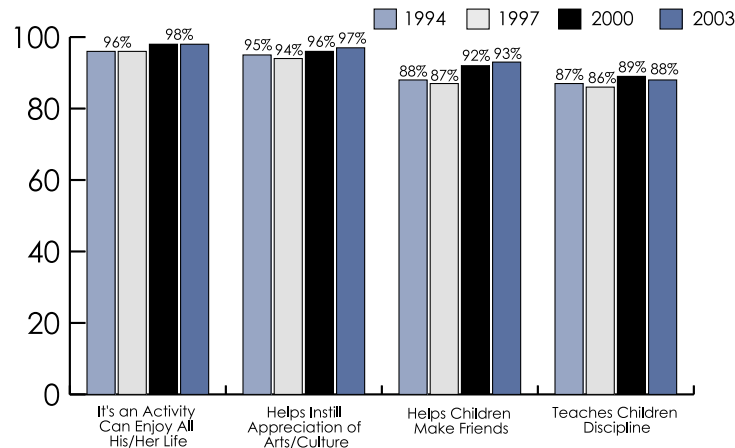


Over half of those surveyed are potential new customers.

AGREEMENT WITH ATTITUDES ABOUT MUSIC EDUCATION IN SCHOOLS  
(Percentages who “completely or mostly agree” among all respondents)

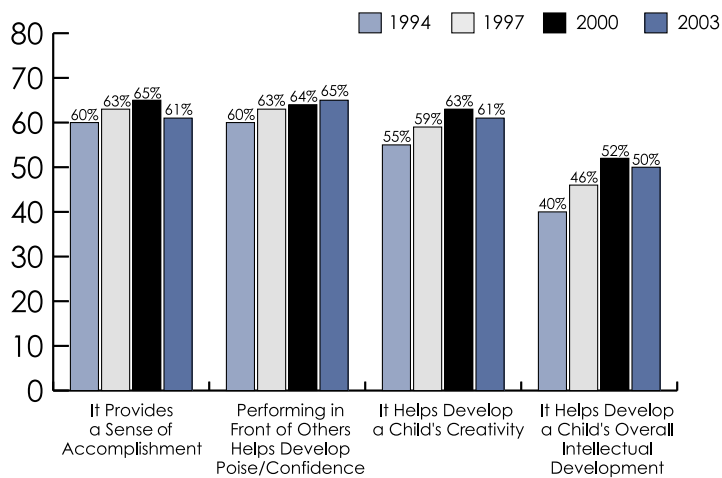


WHY SHOULD CHILDREN LEARN TO PLAY MUSICAL INSTRUMENTS?  
(Percentages who “completely or mostly agree” among all respondents)

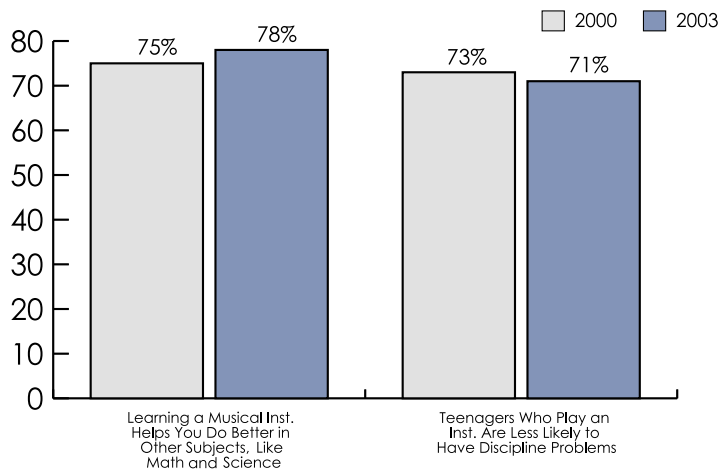


## AMERICAN ATTITUDES About Music Making

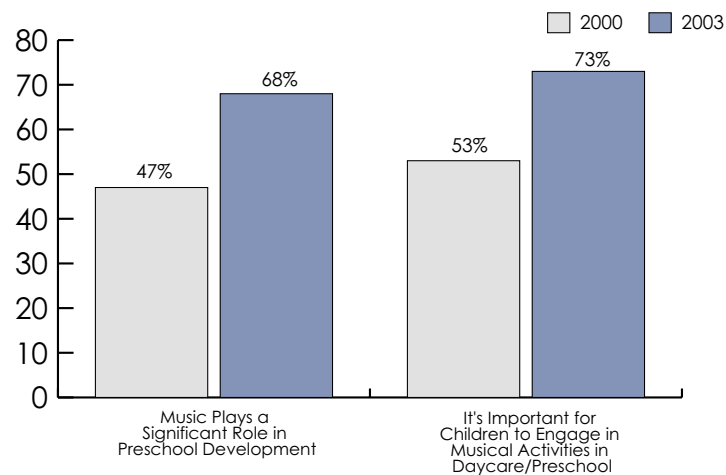
AGREEMENT WITH OTHER ATTITUDES ABOUT REASONS  
A CHILD SHOULD LEARN TO PLAY MUSICAL INSTRUMENTS  
(Percentages who "completely agree" among all respondents)



PERCENTAGE OF RESPONDENTS WHO AGREE

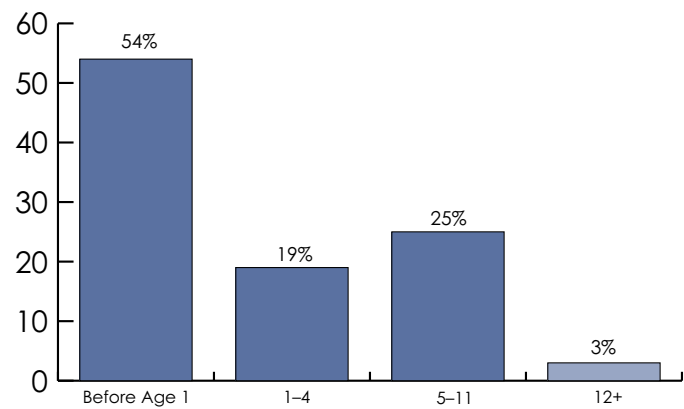


AGREEMENT WITH ATTITUDES ABOUT MUSIC  
AT THE PRESCHOOL LEVEL



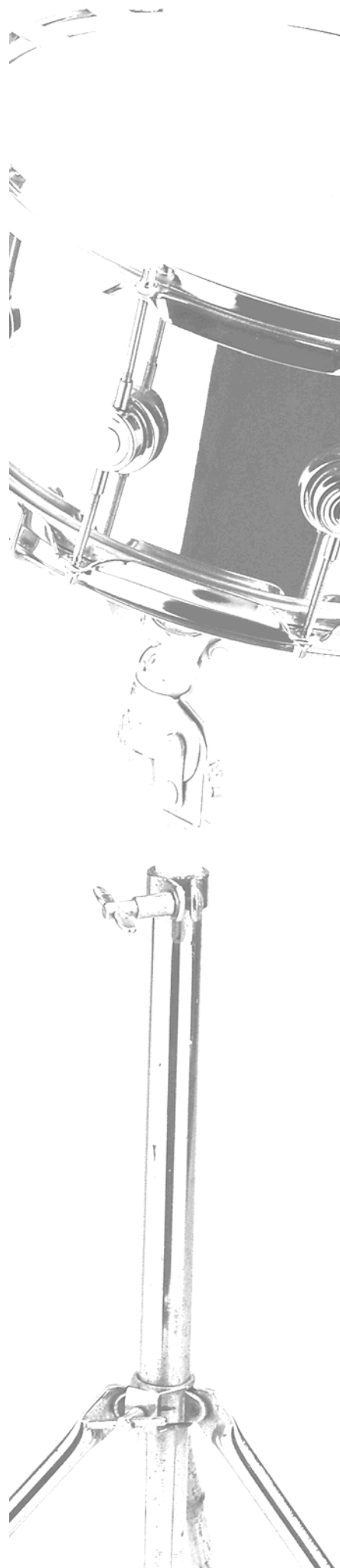
A vast opportunity exists for tapping into the preschool-age market, since almost three-fourths of respondents believe children should be exposed to music by the age of 4.

AGE BELIEVED CHILDEN SHOULD BE EXPOSED TO MUSIC



# MUSIC RETAILING 2003

The Cost of Doing Business



## THE HIGHS AND LOWS OF 2003

## COMBO/SOUND STORES

Excerpts from NAMM's 2004 *Cost of Doing Business Report*

## 2003 SUMMARY NET INCOME STATEMENT • HIGH VS. LOW PROFIT FIRMS • COMBO/SOUND STORES

KEY PERFORMANCE MEASURES	ALL COMBO/SOUND TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
<b>PROFITABILITY</b>				
Net Profit Before Tax to Total Revenue	1.20%	-1.3 - 3.2	3.50%	-1.60%
Net Profit Before Tax to Total Assets	3.00%	-2.6 - 10.6	10.60%	-2.60%
Net Profit Before Tax to Net Worth	11.70%	-2.2 - 19.3	19.30%	-2.20%
EBIT to Total Assets	6.60%	-0.3 - 10.9	10.90%	-0.30%
<b>SPACE PRODUCTIVITY:</b>				
Total Revenue Per Store	\$839,618	574,259 - 1,530,580	\$1,097,366	\$778,487
Total Revenue Per Sq. Ft. of Total Area	\$216.42	179.59 - 258.44	\$280.16	\$220.71
Operating Margin Per Sq. Ft. of Total Area	\$70.39	50.01 - 87.09	\$77.12	\$82.48
<b>INVENTORY PRODUCTIVITY:</b>				
Gross Margin	34.80%	31.3 - 37.5	31.10%	34.20%
Sales to Inventory	3.5X	3.1 - 4.5	3.8X	3.4X
Gross Margin Return on Inventory	\$1.18	1.06 - 1.41	\$1.26	\$1.16
Inventory Turnover	2.3X	1.8 - 2.5	2.4X	1.9X
<b>PERSONNEL:</b>				
Merchandise Revenue Per Employee	\$106,950	90,684 - 206,231	\$110,075	\$107,564
Merchandise Revenue Per Selling Employee	\$190,756	154,092 - 274,341	\$274,341	\$190,756
Selling Payroll -- % of Merchandise Revenues	11.00%	8.2 - 14.2	9.30%	9.90%
Selling Payroll -- % of Merchandise Margin	30.30%	23.1 - 43.2	29.30%	34.10%
Merchandise Margin Per Employee	\$35,173	31,898 - 65,025	\$41,595	\$65,025
Merchandise Margin Per Selling Employee	\$65,025	48,200 - 76,438	\$76,438	\$65,025
<b>TOTAL ASSETS:</b>				
Asset Turnover	2.6X	2.1 - 2.7	2.7X	2.5X
<b>SALES PERFORMANCE:</b>				
Sales Growth Over Previous Year	-4.30%	-5.1 - 0.7	-1.60%	-4.90%
<b>FINANCIAL MANAGEMENT LEVERAGE:</b>				
Total Debt to Total Assets	65.30%	41.0 - 71.5	59.40%	68.40%
Accounts Payable to Inventory	67.30%	51.4 - 81.3	59.40%	N/A
Floor Plan to Inventory	52.90%	32.9 - 69.2	42.90%	N/A
<b>LIQUIDITY:</b>				
Current Ratio	2.2X	1.3 - 3.0	2.2X	2.0X
Quick Ratio	0.3X	0.2 - 0.8	0.4X	0.2X

KEY PERFORMANCE MEASURES	ALL COMBO/SOUND			
	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
<b>INCOME STATEMENT</b>				
Net Sales	100.00%	100.0 – 100.0	100.00%	100.00%
Cost of Goods Sold	65.20%	62.5 – 68.7	68.90%	65.80%
Gross Profit	34.80%	31.3 – 37.5	31.10%	34.20%
Net Instrument Rental Income	1.80%	0.0 – 1.2	2.80%	1.50%
Lesson/Studio Income	1.80%	0.0 – 2.1	2.20%	1.70%
Repair & Service Income	0.80%	0.0 – 0.5	1.00%	0.80%
Other Operating Income	0.30%	0.0 – 0.3	0.10%	0.60%
<b>Total Operating Profit</b>	<b>39.50%</b>	<b>35.9 – 44.1</b>	<b>37.10%</b>	<b>38.90%</b>
<b>Operating Expenses:</b>				
Owners Compensation	4.30%	0.9 – 6.6	5.20%	3.90%
Selling Salaries & Commissions	11.10%	8.0 – 14.6	9.20%	12.00%
Administrative & Other Salaries & Wages	2.40%	0.0 – 4.4	1.70%	3.30%
Fringe Benefits	2.40%	1.5 – 2.8	2.40%	2.70%
Advertising & Promotion	2.80%	1.5 – 3.4	2.50%	2.80%
Occupancy	6.80%	4.3 – 9.7	5.40%	7.60%
Computer, Technology & e-Commerce	0.10%	0.0 – 0.2	0.10%	0.20%
Other Operating Expenses	7.40%	5.5 – 8.8	6.60%	7.10%
<b>Total Operating Expenses</b>	<b>37.20%</b>	<b>33.4 – 42.2</b>	<b>33.00%</b>	<b>39.40%</b>
Income From Operations	2.20%	-0.2 – 3.8	4.10%	-0.50%
Interest Income & Finance Charges	0.00%	0.0 – 0.0	0.00%	0.10%
Other Non-Operating Income	0.40%	0.0 – 0.1	0.10%	0.70%
Interest Expense	1.10%	0.1 – 1.5	0.70%	1.50%
Other Non-Operating Expense	0.30%	0.0 – 0.0	0.00%	0.20%
Total Other Income (Expense)	-1.00%	-1.7 – -0.1	-0.60%	-1.00%
<b>Profit Before Tax</b>	<b>1.20%</b>	<b>-1.3 – 3.2</b>	<b>3.50%</b>	<b>-1.60%</b>

# THE HIGHS AND LOWS OF 2003

## KEYBOARD STORES

Excerpts from NAMM's 2004 *Cost of Doing Business Report*

### 2003 SUMMARY INCOME STATEMENT • HIGH VS. LOW PROFIT FIRMS • KEYBOARD STORES

KEY PERFORMANCE MEASURES	ALL KEYBOARDS		HIGH PROFIT	LOW PROFIT
	TYPICAL	MIDDLE RANGE		
PROFITABILITY				
Net Profit Before Tax to Total Revenue	3.70%	0.6 – 5.9	7.40%	0.20%
Net Profit Before Tax to Total Assets	5.90%	0.8 – 10.8	11.00%	0.70%
Net Profit Before Tax to Net Worth	14.80%	1.5 – 35.4	35.40%	1.60%
EBIT to Total Assets	9.80%	4.6 – 12.9	13.00%	4.50%
SPACE PRODUCTIVITY:				
Total Revenue Per Store	\$870,859	487,254 – 1,683,497	\$680,447	\$872,718
Total Revenue Per Sq. Ft. of Total Area	\$250.95	133.24 – 321.29	\$315.68	\$242.42
Operating Margin Per Sq. Ft. of Total Area	\$84.71	54.30 – 136.48	\$129.44	\$84.71
INVENTORY PRODUCTIVITY:				
Gross Margin	41.80%	36.7 – 47.1	46.40%	36.40%
Sales to Inventory	3.0X	2.4 – 3.5	3.3X	2.9X
Gross Margin Return on Inventory	\$1.23	0.94 – 1.40	\$1.35	\$0.99
Inventory Turnover	1.8X	1.4 – 2.2	1.8X	1.8X
PERSONNEL PRODUCTIVITY:				
Merchandise Revenue Per Employee	\$204,104	156,589 – 264,783	\$170,200	\$243,003
Merchandise Revenue Per Selling Employee	\$465,675	241,848 – 546,100	\$366,700	\$532,612
Selling Payroll: % of Merchandise Revenues	10.70%	8.0 – 13.1	10.70%	8.40%
Selling Payroll : % of Merchandise Margin	25.60%	19.1 – 29.0	26.70%	25.60%
Merchandise Margin Per Employee	\$89,212	66,261 – 113,793	\$87,696	\$98,609
Merchandise Margin Per Selling Employee	\$194,878	99,012 – 266,090	\$184,779	\$207,078
TOTAL ASSETS:				
Asset Turnover	1.9X	1.6 – 2.4	2.0X	1.8X
SALES PERFORMANCE:				
Sales Growth Over Previous Year	9.40%	1.9 – 14.2	11.80%	2.10%
FINANCIAL MANAGEMENT LEVERAGE:				
Total Debt to Total Assets	64.20%	49.9 – 90.7	56.40%	71.70%
Accounts Payable to Inventory	80.60%	56.9 – 97.9	78.60%	80.60%
Floor Plan to Inventory	61.60%	39.2 – 83.5	67.00%	61.60%
FINANCIAL MANAGEMENT LIQUIDITY:				
Current Ratio	1.6X	1.1 – 2.0	1.7X	1.5X
Quick Ratio	0.3X	0.2 – 0.4	0.3X	0.3X



KEY PERFORMANCE MEASURES	ALL KEYBOARD			
	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
<b>INCOME STATEMENT</b>				
Net Sales	100.00%	100.0 – 100.0	100.00%	100.00%
Cost of Goods Sold	58.20%	52.9 – 63.3	53.60%	63.60%
Gross Profit	41.80%	36.7 – 47.1	46.40%	36.40%
Net Instrument Rental Income	1.50%	0.0 – 1.4	1.70%	1.20%
Lesson/Studio Income	0.50%	0.0 – 0.6	0.50%	0.50%
Repair & Service Income	-0.10%	-1.7 – 0.5	-0.30%	0.00%
Other Operating Income	-0.40%	-1.8 – 0.1	-0.60%	-0.10%
<b>Total Operating Profit</b>	<b>43.30%</b>	<b>38.7 – 48.2</b>	<b>47.70%</b>	<b>38.10%</b>
<b>Operating Expenses:</b>				
Owners Compensation	4.30%	2.0 – 6.8	3.80%	5.00%
Selling Salaries & Commissions	9.80%	7.3 – 12.8	11.00%	8.80%
Administrative & Other Salaries & Wages	2.50%	1.2 – 3.0	1.90%	2.90%
Fringe Benefits	2.90%	1.8 – 3.8	2.70%	2.60%
Advertising & Promotion	5.20%	4.1 – 6.2	4.80%	5.20%
Occupancy	6.30%	4.8 – 8.6	6.60%	5.50%
Computer, Technology & e-Commerce	0.20%	0.0 – 0.1	0.20%	0.10%
Other Operating Expenses	7.60%	5.5 – 9.9	8.50%	6.70%
<b>Total Operating Expenses</b>	<b>38.70%</b>	<b>32.9 – 44.7</b>	<b>39.60%</b>	<b>36.80%</b>
Income From Operations	4.60%	1.3 – 7.0	8.10%	1.20%
Interest Income & Finance Charges	0.20%	0.0 – 0.1	0.30%	0.20%
Other Non-Operating Income	0.60%	0.0 – 1.0	0.50%	0.70%
Interest Expense	1.40%	0.4 – 2.2	1.10%	1.70%
Other Non-Operating Expense	0.30%	0.0 – 0.1	0.40%	0.20%
Total Other Income (Expense)	-0.90%	-2.1 – 0.2	-0.80%	-1.00%
<b>Profit Before Tax</b>	<b>3.70%</b>	<b>0.6 – 5.9</b>	<b>7.40%</b>	<b>0.20%</b>

# THE HIGHS AND LOWS OF 2003

## FULL-LINE STORES

Excerpts from NAMM's 2004 *Cost of Doing Business Report*

### 2003 SUMMARY INCOME STATEMENT • HIGH VS. LOW PROFIT FIRMS • FULL- LINE STORES

KEY PERFORMANCE MEASURES	ALL KEYBOARDS		HIGH PROFIT	LOW PROFIT
	TYPICAL	MIDDLE RANGE		
PROFITABILITY				
Net Profit Before Tax to Total Revenue	2.00%	0.4 – 4.2	6.40%	-2.10%
Net Profit Before Tax to Total Assets	2.70%	0.5 – 6.5	7.20%	0.60%
Net Profit Before Tax to Net Worth	4.90%	1.2 – 15.4	16.50%	1.60%
EBIT to Total Assets	5.40%	1.8 – 9.0	9.40%	1.90%
SPACE: PRODUCTIVITY:				
Total Revenue Per Store	\$1,740,201	1,102,805 – 2,728,798	\$1,668,548	\$1,740,201
Total Revenue Per Sq. Ft. of Total Area	\$217.04	180.15 – 286.08	\$241.10	\$186.36
Operating Margin Per Sq. Ft. of Total Area	\$91.31	63.89 – 124.53	\$91.31	\$93.68
INVENTORY PRODUCTIVITY:				
Gross Margin	39.10%	35.1 – 43.7	40.20%	37.80%
Sales to Inventory	2.6X	2.0 – 3.3	2.5X	2.6X
Gross Margin Return on Inventory	\$1.03	0.77 – 1.33	\$1.01	\$1.03
Inventory Turnover	1.6X	1.3 – 2.1	1.6X	1.6X
PERSONNEL PRODUCTIVITY:				
Merchandise Revenue Per Employee	\$129,018	111,237 – 159,529	\$141,168	\$122,467
Merchandise Revenue Per Selling Employee	\$240,581	177,974 – 308,629	\$250,539	\$240,581
Selling Payroll: % of Merchandise Revenues	14.50%	10.9 – 19.4	13.00%	15.00%
Selling Payroll: % of Merchandise Margin	37.00%	27.8 – 47.3	33.30%	41.40%
Merchandise Margin Per Employee	\$57,806	44,019 – 63,849	\$59,997	\$54,456
Merchandise Margin Per Selling Employee	\$100,640	79,962 – 131,041	\$101,858	\$101,495
TOTAL ASSETS:				
Asset Turnover	1.8X	1.3 – 2.4	1.8X	1.7X
SALES PERFORMANCE:				
Sales Growth Over Previous Year	0.30%	-3.0 – 5.2	4.10%	-1.80%
FINANCIAL MANAGEMENT LEVERAGE:				
Total Debt to Total Assets	58.10%	28.4 – 73.0	47.50%	61.40%
Accounts Payable to Inventory	46.40%	23.0 – 63.1	49.10%	30.50%
Floor Plan to Inventory	20.10%	10.0 – 46.1	32.20%	13.40%
FINANCIAL MANAGEMENT LIQUIDITY:				
Current Ratio	2.5X	1.4 – 4.4	3.0X	1.8X
Quick Ratio	0.5X	0.3 – 1.3	0.8X	0.4X

KEY PERFORMANCE MEASURES	ALL FULL- LINE STORES			
	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
<b>INCOME STATEMENT</b>				
Net Sales	100.00%	100.0 – 100.0	100.00%	100.00%
Cost of Goods Sold	60.90%	56.3 – 64.9	59.80%	62.20%
Gross Profit	39.10%	35.1 – 43.7	40.20%	37.80%
Net Instrument Rental Income	8.70%	0.7 – 12.2	9.10%	8.70%
Lesson/Studio Income	4.40%	0.1 – 3.2	7.20%	1.80%
Repair & Service Income	3.20%	0.1 – 3.1	4.90%	1.90%
Other Operating Income	0.70%	0.0 – 0.4	0.30%	1.00%
<b>Total Operating Profit</b>	<b>56.10%</b>	<b>43.8 – 60.6</b>	<b>61.60%</b>	<b>51.30%</b>
<b>Operating Expenses:</b>				
Owners Compensation	5.20%	2.4 – 5.6	5.30%	5.30%
Selling Salaries & Commissions	14.90%	10.8 – 19.2	13.80%	15.60%
Administrative & Other Salaries & Wages	4.50%	0.0 – 6.9	4.60%	4.70%
Fringe Benefits	4.30%	2.5 – 5.2	4.00%	4.30%
Advertising & Promotion	3.70%	2.2 – 4.4	3.90%	3.50%
Occupancy	7.90%	5.4 – 8.4	8.60%	7.40%
Computer, Technology & E-Commerce	0.30%	0.0 – 0.4	0.30%	0.30%
Other Operating Expenses	12.30%	6.8 – 12.9	13.10%	11.70%
<b>Total Operating Expenses</b>	<b>53.00%</b>	<b>43.5 – 58.0</b>	<b>53.60%</b>	<b>52.70%</b>
Income From Operations	3.10%	0.9 – 5.3	8.00%	-1.40%
Interest Income & Finance Charges	1.00%	0.0 – 1.4	0.70%	1.30%
Other Non-Operating Income	0.10%	0.0 – 0.0	0.10%	0.20%
Interest Expense	1.90%	0.3 – 2.6	2.10%	1.70%
Other Non-Operating Expense	0.30%	0.0 – 0.0	0.30%	0.40%
Total Other Income (Expense)	-1.10%	-2.1 – 0.1	-1.60%	-0.60%
<b>Profit Before Tax</b>	<b>2.00%</b>	<b>0.4 – 4.2</b>	<b>6.40%</b>	<b>-2.10%</b>

## THE HIGHS AND LOWS OF 2003

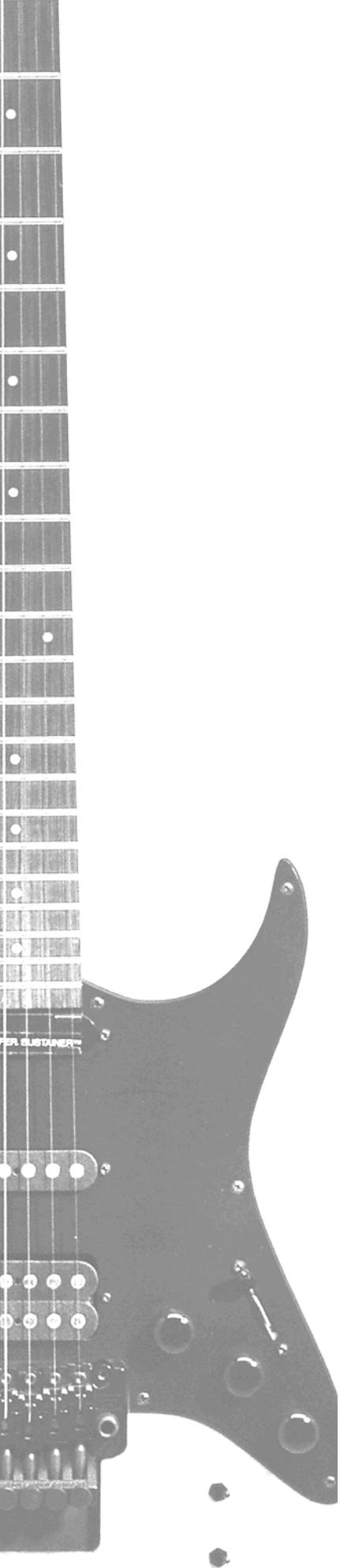
## SCHOOL MUSIC STORES

Excerpts from NAMM's 2004 *Cost of Doing Business Report*

## 2003 SUMMARY INCOME STATEMENT • HIGH VS. LOW PROFIT FIRMS • SCHOOL MUSIC STORES

KEY PERFORMANCE MEASURES	ALL KEYBOARDS		HIGH PROFIT	LOW PROFIT
	TYPICAL	MIDDLE RANGE		
PROFITABILITY				
Net Profit Before Tax to Total Revenue	9.30%	1.6 – 15.4	16.90%	1.70%
Net Profit Before Tax to Total Assets	7.60%	1.6 – 17.6	18.60%	0.50%
Net Profit Before Tax to Net Worth	13.30%	0.1 – 44.8	42.00%	2.80%
EBIT to Total Assets	10.00%	5.5 – 21.4	22.50%	5.50%
SPACE PRODUCTIVITY:				
Total Revenue Per Store	\$1,073,462	763,446 – 1,646,979	\$1,011,731	\$1,610,236
Total Revenue Per Sq. Ft. of Total Area	\$217.39	190.35 – 303.35	\$287.97	\$210.03
Operating Margin Per Sq. Ft. of Total Area	\$125.41	85.66 – 147.72	\$127.17	\$123.65
INVENTORY PRODUCTIVITY:				
Gross Margin	41.00%	34.6 – 47.3	44.10%	37.90%
Sales to Inventory	2.6X	1.6 – 4.5	2.9X	2.4X
Gross Margin Return on Inventory	\$1.04	0.68 – 1.71	\$1.06	\$0.95
Inventory Turnover	1.6X	1.0 – 2.2	1.8X	1.5X
PERSONNEL PRODUCTIVITY:				
Merchandise Revenue Per Employee	\$106,627	86,502 – 143,346	\$118,241	\$95,439
Merchandise Revenue Per Selling Employee	\$195,212	125,318 – 248,971	\$214,676	\$186,718
Selling Payroll: % of Merchandise Revenues	16.70%	13.0 – 22.7	13.80%	18.90%
Selling Payroll: % of Merchandise Margin	42.50%	28.9 – 57.2	33.60%	48.10%
Merchandise Margin Per Employee	\$55,370	46,461 – 69,188	\$58,852	\$49,214
Merchandise Margin Per Selling Employee	\$98,428	72,850 – 127,126	\$118,016	\$94,433
TOTAL ASSETS:				
Asset Turnover	1.5X	1.1 – 2.0	1.5X	1.5X
SALES PERFORMANCE:				
Sales Growth Over Previous Year	0.80%	-5.2 – 10.7	5.60%	-1.50%
FINANCIAL MANAGEMENT LEVERAGE:				
Total Debt to Total Assets	71.80%	24.0 – 81.2	76.70%	64.00%
Accounts Payable to Inventory	N/A	N/A - N/A	N/A	N/A
Floor Plan to Inventory	N/A	N/A - N/A	N/A	N/A
FINANCIAL MANAGEMENT LIQUIDITY:				
Current Ratio	2.6X	1.3 – 4.3	2.6X	2.8X
Quick Ratio	0.8X	0.2 – 1.4	0.9X	0.6X

KEY PERFORMANCE MEASURES	ALL SCHOOL MUSIC STORES			
	TYPICAL	MIDDLE RANGE	HIGH PROFIT	LOW PROFIT
<b>INCOME STATEMENT</b>				
Net Sales	100.00%	100.0 – 100.0	100.00%	100.00%
Cost of Goods Sold	59.00%	52.7 – 65.4	55.90%	62.10%
Gross Profit	41.00%	34.6 – 47.3	44.10%	37.90%
Net Instrument Rental Income	22.80%	5.2 – 29.1	26.60%	19.00%
Lesson/Studio Income	1.70%	0.0 – 1.6	1.90%	1.40%
Repair & Service Income	4.90%	0.6 – 8.3	4.60%	5.20%
Other Operating Income	5.30%	0.0 – 3.1	6.10%	4.50%
<b>Total Operating Profit</b>	<b>75.70%</b>	<b>53.2 – 87.8</b>	<b>83.30%</b>	<b>68.00%</b>
<b>Operating Expenses:</b>				
Owners Compensation	7.10%	4.2 – 8.1	7.00%	7.10%
Selling Salaries & Commissions	16.40%	10.8 – 21.7	13.60%	19.20%
Administrative & Other Salaries & Wages	6.60%	2.9 – 10.4	6.40%	6.90%
Fringe Benefits	6.50%	3.8 – 8.0	6.90%	6.20%
Advertising & Promotion	4.30%	1.7 – 5.7	4.60%	4.10%
Occupancy	6.80%	3.4 – 8.6	8.00%	5.70%
Computer, Technology & e-Commerce	0.20%	0.0 – 0.3	0.20%	0.30%
Other Operating Expenses	16.70%	10.0 – 21.7	16.50%	16.90%
<b>Total Operating Expenses</b>	<b>64.70%</b>	<b>48.5 – 76.0</b>	<b>63.10%</b>	<b>66.20%</b>
Income From Operations	11.00%	0.8 – 16.7	20.10%	1.80%
Interest Income & Finance Charges	1.60%	0.0 – 0.6	0.60%	2.60%
Other Non-Operating Income	0.00%	0.0 – 0.0	0.00%	0.00%
Interest Expense	2.60%	0.4 – 3.8	2.60%	2.60%
Other Non-Operating Expense	0.70%	0.0 – 0.0	1.20%	0.10%
Total Other Income (Expense)	-1.70%	-3.5 – 0.0	-3.20%	-0.10%
<b>Profit Before Tax</b>	<b>9.30%</b>	<b>1.6 – 15.4</b>	<b>16.90%</b>	<b>1.70%</b>



Profile of the  
**AMERICAN MUSIC**  
DEALER 2004



# UNITED STATES STORE COUNT INCHES UP SLIGHTLY IN 2004

For all the talk about American music products dealers being skewered by big-box stores, eBay, other Internet auctions, and catalogs, the retail reality is remarkably steady. According to the 13th annual MMR Profile of the American Music Dealer, the dealer base even inched forward a tiny bit in the last 12 months, going from 8,412 to 8,422 stores.

The increase—just over one-tenth of one percent—may be microscopic, but it underlines the truth that music dealers have proven to be a very resilient lot in the new century. Competing with chains, catalogs and cyberspace for the music consumer dollar (not to mention price compression engendered by low-priced imports from China and elsewhere), dealers have nonetheless managed to 'hang in there.' In fact, the store count has hovered around the 8,400 to 8,500 mark since 1996, belying the notion that the proverbial big shakeout is imminent. Between 2000 and 2001, stores slipped 2.3 percent, but rebounded with a 2.9 percent increase in 2002. The year 2003 saw a 0.4 percent decline (mainly due to the demise of the 50-store Mars Music chain). This year's net gain of 10 stores suggests the market continues to have room for the boxes, "e-tailers" and catalogs as well as the mom 'n pop, specialty and regional operator.

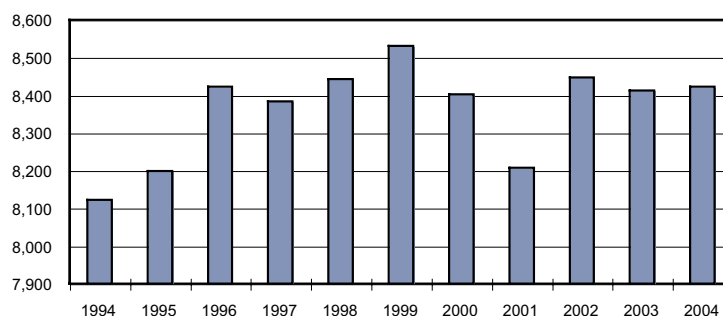
In terms of product categories, there were few surprises this year. The stores carrying keyboards notched a healthy gain, and are now represented in 6.7 percent more stores than last year. However, the universe of keyboard-only stores contracted by a hefty 18.7 percent (which came on top of an 11.6 percent drop in 2003). Conversely, the number of band and orchestra specialty stores rose by 11.2 percent.

Twenty-five of the 50 states had a net loss of stores this year, while 20 states

bettered their 2003 store count, and five states had no change from last year. Declining states tended to be clustered in New England, the Great Lakes, Mid-South and Deep South. The West fared better, particularly California, where the number of stores surged ahead by 11.3 percent over 2003.

Looking ahead, there is little reason to expect any dramatic increase in the American music products store count over the next 12 months. But by the same token, the consistently steady store counts of the last decade indicate there is also little reason to predict any major contraction, either.

U.S. MUSIC STORES



## 8,422 MUSIC PRODUCT STORES:

### What do they sell?

As this chart indicates, only the keyboard category notched a significant increase in terms of the percentage of U.S. stores stocking the principal music products categories. Fretted instruments showed a modest gain in representation after three years of decline. Print music was the only category losing ground over the last year.

	2000	2001	2002	2003	2004	chg. '03-'04
<b>Keyboard/Piano/Organ</b>	4281	4070	4000	4264	4548	+6.7%
<b>Band &amp; Orchestra</b>	4152	3900	3791	3863	3915	+1.3%
<b>Drums/Percussion</b>	4301	4076	4020	4052	4072	+0.5%
<b>Sound Reinf./Rec. Equip.</b>	4005	3963	3792	3774	3838	+1.7%
<b>Fretted Inst.</b>	5714	5627	5378	5237	5255	+0.3%
<b>Print Music</b>	4331	4320	4137	4134	4080	-1.3%

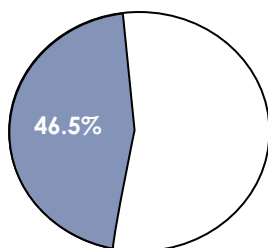
## Percentage Shares By Product Type

Since MMR began its music store census in 1991, we have determined that most of the major product categories are found in approximately half of U.S. stores. As the charts below illustrate, this continues to be the profile in 2004. The exception, of course, is the fretted instrument group: guitars and related fretted instruments are merchandised in approximately two out of every three outlets nationally. The

figure is actually closer to 75 percent if one excludes non-guitar specialty stores (drum shops, etc.) from the universe of retail stores.

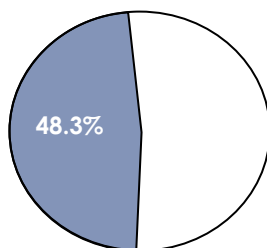
Only keyboards showed a significant increase in percentage share over the last 12 months.

BAND & ORCHESTRA



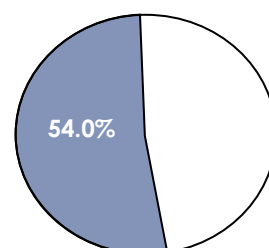
46.5% of all music stores sell band & orchestra instruments

DRUMS / PERCUSSION



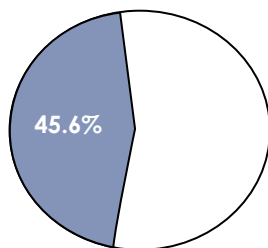
48.3% of all music stores sell drums and/or percussion

KEYBOARD / PIANO / ORGAN



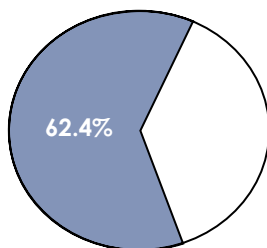
54.0% of all music stores sell keyboards, pianos, and/or organs

SOUND REINFORCEMENT / RECORDING EQUIPMENT



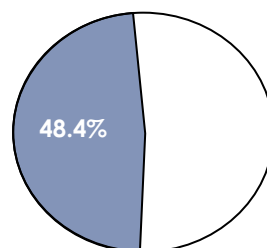
45.6% of all music stores sell sound reinforcement and/or recording equipment

FRETTED INSTRUMENTS



62.4% of all music stores sell stringed and/or fretted instruments

PRINT MUSIC



48.4% of all music stores sell print music

## SPECIALTY STORES

The 2,110 specialty stores—retailers focusing on a single product category—account for 25.1 percent of all U.S. music products stores. The number of specialty storefronts declined by 126 units during the year, or 1.5 percent. Obviously, the most striking trend is the downward level of Keyboard/Piano/

Organ specialty stores, which declined 18.7 percent during the year, following an 11.6 percent drop last year. Band & Orchestra specialists showed a healthy increase in storefronts, while other specialty categories held relatively steady.

	1999	2000	2001	2002	2003	2004	% Change '03-'04
<b>Keyboard/Piano/Organ</b>	878	868	824	768	679	552	-18.7%
<b>Band &amp; Orchestra</b>	323	309	287	291	296	331	+11.8%
<b>Drums/Percussion</b>	172	178	169	161	197	197	186
<b>Sound Reinf./Rec. Equip.</b>	270	279	276	259	252	254	+0.8%
<b>Fretted Inst.</b>	706	675	658	644	667	645	+3.3%
<b>Print Music</b>	112	111	111	126	121	118	-2.5%



## STATE-BY-STATE BREAKDOWN

State	Stores '04	Stores '03	Unit Change	% Change
ALABAMA	138	146	-8	-5.5%
ALASKA	34	32	+2	+6.3%
ARIZONA	146	135	+11	+8.1%
ARKANSAS	93	90	+3	+3.3%
CALIFORNIA	1094	983	+111	+11.3%
COLORADO	147	141	+6	+4.3%
CONNECTICUT	134	129	+5	+3.9%
DELAWARE	26	25	+1	+4.0%
DIST. OF COLUMBIA*	5	5	--	even
FLORIDA	397	418	-21	-5.0%
GEORGIA	226	239	-13	-5.4%
HAWAII	46	51	-5	-9.8%
IDAHO	45	42	+3	+7.1%
ILLINOIS	372	379	-7	-1.8%
INDIANA	203	207	-4	-1.9%
IOWA	104	103	+1	+1.0%
KANSAS	94	94	--	even
KENTUCKY	153	149	+4	+2.7%
LOUISIANA	97	104	-7	-6.7%
MAINE	39	39	--	even
MARYLAND	124	117	+7	+6.0%
MASSACHUSETTS	223	233	-10	-4.3%
MICHIGAN	259	268	-9	-3.4%
MINNESOTA	159	162	-3	-1.9%
MISSISSIPPI	81	80	+1	+1.3%
MISSOURI	179	188	-9	-4.8%
MONTANA	33	32	+1	+3.1%
NEBRASKA	58	58	--	even
NEVADA	46	44	+2	+4.5%
NEW HAMPSHIRE	52	55	-3	-5.5%
NEW JERSEY	215	214	+1	+0.5%
NEW MEXICO	58	61	-3	-5.0%

State	Stores '04	Stores '03	Unit Change	% Change
NEW YORK	512	510	+2	+0.4%
NORTH CAROLINA	239	245	-6	-2.4%
NORTH DAKOTA	25	26	-1	-3.8%
OHIO	352	364	-12	-3.3%
OKLAHOMA	100	100	--	even
OREGON	144	146	-2	-2.4%
PENNSYLVANIA	401	410	-9	-2.2%
RHODE ISLAND	31	33	-2	-6.1%
SOUTH CAROLINA	114	110	+4	+3.6%
SOUTH DAKOTA	18	18	--	even
TENNESSEE	211	216	-5	-2.3%
TEXAS	458	471	-13	-2.8%
UTAH	75	76	-1	-1.3%
VERMONT	29	31	-2	-6.5%
VIRGINIA	186	194	-8	-4.1%
WASHINGTON	213	205	+8	+3.9%
WEST VIRGINIA	52	55	-3	-5.4%
WISCONSIN	162	160	+2	+1.3%
WYOMING	20	19	+1	+5.3%
<b>TOTAL</b>	<b>8,422</b>	<b>8,412</b>	<b>+10</b>	<b>+0.12 %</b>

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

## Decreases in Half of the States

Although 25 of the 50 states showed decreases in stores, the remainder showed gains in music products stores over the last 12 months, while 20 had an increase in storefronts. Five states plus the District of Columbia saw no change from 2003 numbers.

Most of the states experiencing decreases in stores over the last year are in the eastern half of the country. A year ago, growth states included the Northeast, Great Lakes, Mid-South and Deep South. This year, the opposite was the case, with those regions squarely in a downsized mode. The Far West, for the most part, bounced back in 2004 after registering drops a year ago. California in particular bounced back nicely, as the store count rose 11.3 percent on a net increase of 111.

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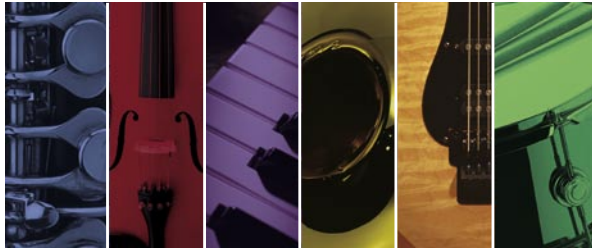
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# MUSIC USA 2004

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