

THE CHANGING FACE OF RETAILING

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Over the last decade, the Internet has had a significant effect on our lives, but perhaps not as dramatic as staunch supporters of the information superhighway predicted. The Internet is certainly not causing the downfall of traditional shopping as we know it. While the hype about the Internet is subsiding and the Web is slowly becoming an ordinary part of everyday life, shopping malls and department stores are selling more goods and making more profits than ever. In fact, traditional stores are thriving while many of the most touted e-tailers are still not showing a profit or living up to expected levels of customer service. Worse yet, they are going out of business. Many existing e-tailers may go out of business by the end of this year.

In fact, traditional shopping continues to be one of America's favorite pastimes, as American as baseball and apple pie. The initial wave of excitement over virtual shopping and the convenience of "point and click" is subsiding because it's not as much fun anymore, and consumers continue to enjoy the traditional shopping experience. People like the act of physically going into a store to *see* and *feel* the merchandise and enjoy the ambiance of the shopping environment. Also, we should not overlook the fact that a significant number of people in the United States still do not own a computer or have an Internet connection. Those of us who do are losing the excitement of online shopping — we want to get out of our chairs and experience going into a store and being with people.

For music lovers, however, the Internet offers some unique benefits that the majority of traditional music stores still do not have. Consumers go to the Web to search for tunes by song title, album title or artist; to get song reviews and band information; for good pricing and more, all in one place. The most significant feature the Internet brings to music shoppers is the ability to sample thousands of CDs. The music is right there for them to hear. Click once to sample music and click once more to order. Early on, consumers and e-tailers got excited about this ability that traditional music retailers did not immediately offer. And then came Napster: Click once to find your music and click once more and get it, for FREE. Wow, what a way to build business and customer loyalty — all free music at your fingertips from the privacy of your home, office or dormitory. Could anyone beat it?

How Did The Industry Deal With The Internet?

To begin with, major labels such as AOL Time Warner's Warner Music Group, EMI Group, Bertelsmann's BMG Entertainment, Vivendi Universal's Universal Music Group and Sony Music Entertainment sued Napster to stop the free music-sharing. While the legal system began to squeeze Napster's business, many new alternative file-sharing services popped up, claiming legal impunity. Some in the industry argue these file-sharing companies will not survive the legal pounding, while others are convinced these companies will not only survive, but will flourish. On the other hand, unrealistic business

models, bad license deals, lawsuits and lack of support from major record labels have forced many independent Internet-based music companies out of business.

While fighting Napster and those who facilitate free music distribution over the Internet, the major record labels began to create subscription services of their own to directly engage in digital music sales over the Internet. If unanswered, each successful step toward such subscription services will affect traditional music retailers' sales and will most likely bypass them all together.

By the late 1990s, traditional music retailers began to shift their focus toward Internet-based business models. Back then, traditional music retailers still controlled 99% of the music distribution in the United States. They went on a spending binge to build their own e-commerce business, rolling the dice on what many thought to be the most promising and lucrative technological opportunity ever.

Retailing Outside The Box

Today, traditional music retailers subsidize money-losing Internet ventures by sapping profits generated by their stores. Many comfort themselves with the perception that they are a casualty of a bad market or overstated optimism, while the real cash cow (traditional stores) falls victim to neglect, stifled by old business models and flawed perceptions. It is time for traditional music retailers to think outside the box. It is time to review the extraordinary efforts and expenditures they have made in e-commerce compared with the efforts and expenditures made on modernizing their traditional music stores.

Music retail management can no longer accept the validation of their traditional music stores' successes and failures by playing the old tapes of reasoning that date back to the 1960s: "We need new media/format to stimulate sales. We need new big hits to bring people into our stores. We need more signage and advertising to inform shoppers. We need better coop deals to bring in more cash. We need better store locations. We need to close poor performing stores; etc." One can argue favorably that the successful implementation of any one of these initiatives would bring welcome spikes in sales. But one cannot argue the fact that in order to sustain consistent growth and improve the competitive nature of traditional music retailing, such initiatives today are simply not enough.

As the Internet has introduced music shoppers to many valuable services and technologies, and as shopping is becoming more of an entertainment experience, traditional music retailers must start to think outside the box. As music merchandising evolves, forward-thinking leaders will stand out by taking advantage of the many technologies currently available to them and creatively integrate them into their traditional retailing environment.

Today, most traditional music stores serve a single-purpose: to make them convenient for the music shopper to find a specific CD and purchase it. They are not designed to cultivate "shopping." In fact, once music shoppers are inside a traditional music store, they see thousands of music CDs but they cannot experience them. Only being able to sample a few newly released CDs that they have most likely already heard further

discourages shoppers. Also, they are subjected to overhead music without knowing what CD is playing. This environment does not facilitate shopping.

Today, music shoppers are very sophisticated, demanding the highest quality of service and unprecedented attention to their needs. Having many choices in where and how to buy music, traditional retailers must show their customers that they are important and win back their loyalty by meeting their expectations.

Why Should Music Retailers Invest In Technology?

To most shoppers, traditional music stores have not really changed much since the days of vinyl records and 8-tracks. Ultimately, the successful music retailers will have to quickly and aggressively begin integrating their traditional shopping models with new technologies and creative merchandising concepts. As technologies and music formats change, so should the traditional music retailers.

Considering the downward slide of their captive and loyal music shoppers, music retailers must strive to meet music shoppers' needs and bring to their stores new and fun technologies. If music retailers do not "get with the times," they will continue to experience this decline from what used to be an almost 100% music sales channel. Integrating new technologies into existing music retail models allows music retail management to create, test and ultimately implement a more engaging and exciting shopping experience. Such efforts will increase store traffic and sales, as well as provide the technological foundation to allow music retailers to be ready players for digital music distribution.

While still controlling the greatest volume of music sales, music retailers, using a single voice, must burrow into the inner workings of record labels' digital music initiatives in order to quickly establish their own foothold for in-store digital music distribution. It is important for music retailers to create their own in-store digital music services as a competitive alternative to other distribution channels.

Today, music retailers have the greatest opportunity to create a killer shopping environment. However, to succeed in today's competitive, global marketplace, music retailers must bring new technologies integrated with creative merchandising concepts that meet the challenging expectations of sophisticated music shoppers.
