Home Organ Retail The $64,000 Question

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Still young enough to continue my NAYMM membership and having more than 16 years experience on the floor selling home organs, I would like to share some thoughts on the current state of Home Organ Retail.

During the last few years I've seen an increasing number of dealers getting back into the organ business. The success enjoyed by dealers who never wavered from their business plans, coupled with a growing target age clientele has caused some music companies to re-evaluate the potential of the organ business.

"If I could play like you, I'd buy it." – The Consumer

Surveys show that people who cannot play a musical instrument wish they could. The organ salesperson converts that dream into reality. In assisting people to achieve their dream of playing music the organ salesperson creates his own market. This is the essence of the creative selling process we call home organ retailing.

During the "heyday" of the organ business this creative selling process was honed. It was fueled by the technology of the day and accelerated by a plethora of new retail opportunities -- shopping malls. Manufacturers raced ahead of one another opening mall stores and front pumping their latest advances to the constant throng of shoppers who passed "the pump" with the dream of being able to play music.

A decade of innovation brought features to the instrument a non-musician could learn with ease. Organ sales boomed! Industry veterans with more than 20 years experience remember the boom well. Now it's regarded as "The Good Old Days" of the organ business.

What constitutes an organ sale?

Mark Twain once commented, " The reports of my death have been greatly exaggerated." The same can be said of the organ business. We can all agree that unit sales of organs are a fraction of "heyday" levels, yet there remains a core group of organ dealers and manufacturers who continually succeed. The same trade publications that predict the demise of the organ business are touting the recent success of the piano business, where unit sales are lower than the piano boom of 80 years ago.

Lloyd Robbins of Rodgers posed an interesting question in last month's article "The Home Organ in Today's Marketplace."

"As far as the so-called decline of the home organ business, has anyone stopped to factor in the number of digital pianos with 'good organ sounds' that may have been purchased instead of organs in recent years?"

It may be time for us as an industry niche to reclassify product categories by marketing method. From NAMM we can follow trends of product categories and unit sales. Yet we cannot track to whom these instruments were sold. If a dealer markets a digital ensemble to an over 60 year old consumer and includes a comprehensive class lesson package with purchase that seems like an organ sale to me. If organ retailers don't view that as an organ sale they certainly should view it as competition.

Who sells these instruments and why do I need to know?

In his guest editorial last month in MMR magazine Brian Crewe solicited opinions for forming a national Home Organ Dealer Association, HODA. I applaud Mr. Crewe for both his idea and his effort, yet I believe there is a more practical solution.

Because the majority of the dealers and suppliers are already NAMM members why not lobby NAMM to create a new dealer category called Home Electronic Keyboard Dealers (or HEKD). By definition these stores would derive 75 percent or more of their sales from home organs, digital pianos and portable keyboards. In short this group would be the dealers who are following the creative selling doctrine of the organ business and would include those who market a different product, like digital ensembles.

My vision for such a group would be as follows:

- Collect vital business data so members could measure themselves against industry averages.
- Collectively promote music as a hobby on a national level (something like the dairy industry did with Got Milk? or Save The Music).
- Provide a secure, members-only forum on the internet where dealers and manufacturers could exchange promotional ideas and generally vent to one another. (NAMM already has a general forum available on its website, NAMM.com)
- Formulate some strategy for trade-ins that preferably would include some sort of blue book that is considered the industry standard. (My banker always asks the value of the pre-owned merchandise in my warehouse, I doubt I'm the first who had to answer that question.)

Is their really no measurable market demand curve?

Retailers and manufacturers of Home Organs claim there is no set demand curve for the products they market. The products are marketed in such a manner that the dealer creates the demand thus controlling the value to the customer.

Here are some statistics I've discovered in my experience selling organs at the retail level. They are indicative of what I have found in successful organ stores. My data is the result of my curiosity in asking owners, managers and salespeople, "How's business?"

- Unit sales are divided equally between first-time purchasers and step-up purchases.
- The 80/20 rule of selling applies to unit sales as follows: 80 percent of sales dollars are generated by the step up sales, while 20 percent are from first time purchasers.
- Fiscally healthy organ stores focus on unit sales and average unit sales in addition to carefully tracking attendance of lesson program and total database numbers.
- Successful dealers with a strong class lesson program realize today's first-time buyer is tomorrow's high-end customer.
- The most price sensitive consumer purchase is the first sale because the consumer has yet to believe they can play an instrument.

Overall the successful store can be viewed as one that consistently feeds new students into an effective lesson program where students are fulfilling their desire to play music and enjoying the associated benefits. Most successful dealers admit the first sale is the most challenging.

Manufacturers build a wide array of instruments, which for our purposes fall into one of two categories. Either the instrument is retailed as a first-time purchase or it is a step-up purchase. The ideology differs drastically for each of these product groups.

Manufacturers understand the power of brand recognition in the organ business. These companies realize if someone begins with their particular brand of instrument they are more likely to upgrade to a better model in their product line. Especially if the dealer adopts that same manufacturer's formal lesson program. This initial purchase is critical to establishing brand recognition.

Most successful organ dealers have grown their business by following the manufacturer's program to the letter. For those dealers considering entering the retail home organ market these plans offer your best chance for success.

Both dealers and manufacturers agree the first-time purchase is the most critical, however conflict lies in where marketing dollars are allocated at the wholesale level and what is considered success.

At winter NAMM last year I witnessed a senior manager of an organ manufacturer praise a rep for the number of new dealers he had opened during the show. Growing the dealer base in an industry with very little market penetration is a no-brainer. The next part of their conversation told me the story. "Let's get Mr. Bigshot Top Artist out there right away." Ask any manufacturer about dealer support and they will customarily discuss an artist program, a lesson program and sales training; all are legitimately important functions to foster good sell-through and step-up business. These functions will also lead to greater branding at the retail level. Very little focus is geared to the first-time customer.

Ask any wholesale rep about his last successful dealer promotion and he will invariably tell you a story of epic proportions. It seems all retail prospects who attended the promotion upgraded from every other brand manufactured for his company's flagship model and those consumers gladly paid top dollar for the privilege. Just once I'd like to hear, "I brought in Mr. Bigshot artist and we front pumped for six hours. Didn't get any deals, but we signed up a few students and got a great lead."

There is tremendous opportunity at the wholesale level for the company whose reps teach dealers the organ business and assist in marketing the first-time buyer. If an organ manufacturer is focused on achieving brand awareness beginning with the first purchase then it should shift its marketing resources to that area. If these manufacturers are concerned with losing sales to used organs and inexpensive portable keyboards then they should look to the digital piano market. Manufacturers of digital pianos are taking used pianos out of competition by lowering the wholesales and offering the consumer a new alternative that is price comparable to those used products.

The Truth About Pre-Owned Organs

Organs are manufactured in lines to attract the step-up customer. Each manufacturer determines how many organs are necessary in their line and usually attempts to get the dealers to stock them all.

Most dealers cherry pick.

And so begins the greatest single challenge facing the organ business.

The overall consensus from the manufacturer's perspective included in last month's MMR article was that dealers need to junk used organs. A few manufacturer's suggested seeding the market. The worn out 1962 no-automatic-anything model is basically worthless in all retail stores, but the three-month-old mid-range organ bought with hard earned front pump dollars certainly has its place in the retail inventory mix.

Organs are manufactured to be purchased, played and traded in. Consumers tell organ people everyday, "This is the last one I'll ever buy." But rarely is this the case if they continue lessons and are exposed to something a little better.

History notes Ford Motor Company faced a great challenge in the early days of the automobile industry . It seems after a number of years producing the Model T there were enough used models in the market to damper sales of new Model T's. The answer in the auto industry came through making slight changes on a yearly basis to differentiate the new model from the previous model. It appears some people just like to own the latest, greatest thing.

The PC I'm using to input this article was purchased six months ago at one-third the price of the unit I replaced. It's infinitely more powerful and I think it's cool. I gave the old PC away. Seems like no one wants a four-year-old PC.

In both instances the industry sets the standard for used market value by controlling the price of replacement products. Why then do manufacturers in our industry not lead the used market instead of following it?

The $64,000 Question

"… I don't believe that the home organ industry suffers from an 'integrity crisis' any more than the acoustic piano, digital piano, or any other industry segment does."

A Manufacturer's Representative

Nowhere in our industry is there such a disparity in retail pricing as is found in the home organ segment. There is no possible explanation for an instrument that carries an asking price of $25,000 in one market area and $75,000 in another market area.

Successful home organ retailing requires truly creative selling. Through focused effort the home organ retailer cultivates and grows his local market. Current industry practices allow the dealer to set his pricing schedule to ensure healthy margins.

Home organ purchases at the retail level are emotional purchases. Home organ sales at the wholesale level are rational purchases. Dealers understand actual retail price potential and are not willing to sacrifice margin.

That being said: THERE IS NO SUCH THING AS A $64,000 HOME ORGAN. Meaning, if a manufacturer produced an instrument that should retail for $64,000 and carried a wholesale price that reflects actual industry margins, then no dealers would buy it.

There is no such thing as MSRP for home organs. This can be both a blessing and a curse to our industry segment. Manufacturers claim pricing is handled at the retail level, however there are many components that factor into the final asking price of an organ. For purposes of semantics in this article call MSRP or List Price, ACCEPTABLE PRICE.

The Ancott Book lists virtually every home organ available in today's market with a suggested retail price whose margin reflects market segment trends. On the whole, home organs in this book carry a (xx) percent gross margin. Most music products retailers would consider that an ACCEPTABLE PRICE. For those readers who are not yet marketing home organs, this should paint a clear picture of why this is a profitable niche in our industry.

Because the home organ business relies on repeat business, the pricing dilemma is a question of how to handle trade-ins. The last decade gave birth to a trend. Some dealers raised their asking prices to allow more room for trade negotiation. This pricing strategy has spawned the single most difficult integrity crisis to the home organ business.

It is most curious that while the same model instrument can have wildly varying asking prices from dealer to dealer, the net sale and adjusted gross margin end up basically in the same ballpark. This means that although an organ is touted as $25,000 in one store and $75,000 in another, given the same trade it sells for approximately the same net price (after trade) in both stores. The difference lies in the trade allowance.

The used organ market has grown far beyond the limits of our industry. At any given moment a consumer can browse through thousands of ads for used organs on the internet. While most involved in the organ business believe there is no measurable demand curve for organs, they should take a careful look to cyberspace. Those dealers who turn a blind eye to this arena are ignoring a competitor more fierce than the store down the street. Those manufacturers who ignore the dynamics of the used market are ignoring an erosion of their market share.

Every instrument is manufactured with the end consumer in mind. Part of the process of bringing something to market most certainly includes a good idea of what the acceptable retail price should be. As a dealer I am personally offended when a manufacturer speaks of the "apparent value" of an instrument. I am equally offended when I am told, "Do you know what they sell these for in __________?" As a dealer I would much prefer to know the intended acceptable price and how much I will pay wholesale. From that point it's my responsibility to make the sales.

Manufacturers skirt the acceptable price issue like a Washington DC politician debating campaign finance reform, yet they obviously share wholesale pricing guidelines with the trade press, the Ancott Associates and each other. If the home organ business is going to improve its integrity as a market segment, then the manufacturers need to take the lead. When a manufacturer will not quote a retail price range to an end consumer, what signal does that send to the consumer? When a manufacturer's representative is present at a promotion where an instrument is retailed at twice the acceptable retail price, does that not set the retail price?

The Future of The Home Organ Business

The home organ segment of our industry is at a crossroad. Demographics show the potential for growth could be exponential. The population is aging and average life expectancy is increasing, meaning these consumers will be retired longer and will retire with more discretionary dollars. Science shows the positive effects of making music, and current technology allows students to sound better. Yet with all these components in place the market segment is fragile enough to be torn apart by the predatory pricing policies frequently employed by both retailers and manufacturers.

It is only a matter of time until the home organ consumer awakens as our sleeping giant. If all parties involved do not conduct themselves ethically, as well as professionally, then the entire market segment will suffer.

As a member of NAYMM I have a long career ahead of me dedicated to growing my business, and as a steward of our industry. I enjoy the home organ business and implore everyone currently involved in marketing home organs at any level to seed the market for the next generation.

Everyone employed in the sale of home organs should market their instruments understanding these instruments will come back into the market in the future. Instruments marketed following a less than ethical marketing strategy will haunt not only the selling company but the industry as a whole.