

FACING THE MUSIC

CAMPUS INDY MUSIC STORE'S LONG RUN IS BURNING OUT.

— BY SETH WALKER —

A line forms outside the off-campus music store Face the Music. The store's not open yet, but people have been gathering outside for the last hour. Store employee Karl Payne expected this. He stayed late the night before, as he often does before the release of a highly anticipated new album, and stocked the shelves with extra CDs.

As the doors open at 10 am, college students pour in to get their hands on the new album by a rapper named Snoop Dogg. Payne and his coworkers weren't sure how many CDs they would need, so they ordered 300 for the first week. They sell over half of them in the first day, one of the best sales performances in the store's history.

single digits — it went to zero.

"The answer was pretty clear," says Lee, "CD burners."

College students, the store's main patrons and well-known early adopters of new technology, were ordering their school computers equipped with the new feature. They were buying one CD from the store and then using the burners to create copies for their friends.

In 1998, revenue fell another 10 percent. Lee cut his overhead, reduced employee hours and diversified. He increased his stock of accessories like CD carrying cases. He quit selling as many new CDs and increased the number of higher-margin used CDs. He knew that the solutions were temporary; fewer new CD sales often portend lower overall product sales.

On a warm spring day in 1999, Lee pulls into a tight parking space in front of his store, turns off the engine and unfurls his six-foot-five body out of the car. As he steps to the sidewalk, he notices three young women waiting for someone in front of his store. A woman emerges with a new CD in her hand and holds it up with a smile to her friends, but she receives a cold response.

"You bought that? You mean you *bought* that?" they ask.

Lee, standing next to them, had an awakening.

"That's when I knew we were really in trouble," he says. "I realized it was still cool to have music, but it was no longer cool to buy it."

Later that year, a new word entered Lee's vocabulary: Napster. The online service suddenly let people swap the "electronic" versions of songs and CDs that they'd copied to their computers with CD burners out over the web, thus further threatening sales.

At the same time, merger mania within the record industry was in high gear. Small- and medium-sized record labels were buying independent ones, and larger labels were getting ready to follow suit. Soon afterward, Universal bought Island Def Jam Music Group. Vivendi bought Universal. By 2002, one out of every four CDs sold worldwide was a Vivendi Universal album.

The effects of the mergers were devastating for small independent retailers like

Independent music stores like mine are toast.

— BOB LEE, OWNER —

The year was 1993, and Face the Music was in the middle of a decade-long run of unabated double-digit revenue growth. The store sold so many CDs each day that the UPS driver, a golfing buddy of one of the employees, agreed to make the store the first stop on his morning route.

Today, the picture at Face the Music is starkly different. According to owner Bob Lee, "Independent music stores like mine are toast." Face the Music, now in its 22nd year, faces a very uncertain future.

The factors behind the decline of Face the Music are not unique to small independent music retailers: Corporate consolidation, the rise of mega-retailers and unfriendly legislation present challenges to independent stores of all types. But the factors facing small music retailers are particularly complex and nefarious, and they foretell an ominous future.

In 1994, things were still looking good for Lee and Face the Music. Business was so good that he moved the store from its dark, narrow, 800-square-foot location on 13th Avenue to a larger space four doors down.

At the new store, the funky hip-hop beats and bright lights emanating through the 15-foot front windows attracted even more students. The expertise, knowledge and professionalism of Payne and other colorful local characters at the front counter like Bill Harkleroad, aka Zoot Horn Rolo, one of the great guitar players from the psychedelic rock era, brought in discerning connoisseurs. Face the Music's revenue growth continued.

Then, near the end of 1997, the store's financial records suddenly didn't make sense: Revenue growth dropped for the first time in 15 years. It didn't just drop into the



FACE THE MUSIC EMPLOYEES
KARL PAYNE & MEGHANN LEIGHTON

Face the Music and proved much more damaging than the rise of online music. The big record labels cut CD prices to compete with one another, or so they said. In reality, companies like Vivendi Universal lowered suggested retail prices and barely cut wholesale prices, thus passing lower profit margins onto CD retailers. According to Face the Music's financial records, by 2003 the store's margins on Vivendi Universal products fell from 28 to 16 percent.

Just when Lee thought things couldn't get worse, they did. Major retail chains like Best Buy decided to accept the lower margins offered by record distributors and started selling CDs below wholesale cost as loss-leaders to bring people into their stores for other products. Even though Best Buy faced a class-action lawsuit over the practice, CD retail chains like Tower Records were forced to compete. They lowered their prices, took business away from small retailers like Face the Music and then eventually filed for Chapter 11 bankruptcy themselves. Other major chains like Hastings or Musicland are either in Chapter 11 or have been sold multiple times.

Merger mania within the record industry, as well as conglomeration within the radio industry enabled in large part by the Telecommunications Act of 1996, also combined to limit the number of new artists appearing and getting promoted each year. Previously, artists with the promise of selling 50,000 copies of their first album would be nurtured for long-term potential. Now, major labels — in close conjunction with MTV and radio corporations like ClearChannel — use