

NAMM

Industry Insights:

A Global Perspective from NAMM Travel





A MESSAGE FROM THE PRESIDENT AND CEO

When I began my role as president and CEO of NAMM, I recognized that our industry continues to recover across many segments, and we must work together globally to grow as an industry. With NAMM being the largest music trade association and The NAMM Show being the only global gathering of our industry, it is essential that we understand our global markets in order to evolve and lead the industry into the future. So, we decided to travel the world to gain valuable insights, and as your association, we want to share them with our members.

In September and October, I traveled to countries across Europe, visited Brazil and met with Latin American leaders, and traveled to China and Japan. I made each trip with different NAMM staff and in partnership with various local industry associations. We spoke with a diverse subset of retailers, distributors, manufacturers and association partners, and took copious notes. While we all have access to the trade reports and sales data provided to our industry, there is nothing that can replace being on the ground and getting firsthand accounts of local market conditions. These trips proved to be incredibly valuable, and we are excited to share our observations with our members.

It is important to note that the following report is purely anecdotal and does not represent any official view or stance of NAMM. While based on many corroborated conversations with very knowledgeable global industry leaders, and reviewed carefully by trusted industry sources, the information I present below is based on my perspective and learnings from recent travels. My hope is that this global perspective can be helpful to our industry and allow us to all hear a firsthand account of what I have gathered, so we can all make more informed decisions about our recovery.

Enjoy!



A handwritten signature in black ink, which appears to read "John Mlynczak". The signature is fluid and cursive, extending to the right with a long, sweeping tail.

John Mlynczak
NAMM President and CEO

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GLOBAL TRENDS

Market Forces

The global markets are influenced by a combination of forces, with each territory affected by a different combination of these forces. To understand the markets, it is first necessary to understand the forces that are affecting demand and how they vary in each territory.

These forces include:

- **Geopolitical.** The ongoing conflicts in Ukraine and Gaza have broad effects on inflation, spending and trade.
- **Inflation and Interest Rates.** Both forces are impacting not only consumer spending but also the overall cost of doing business.
- **Exchange Rates.** The U.S. dollar is very strong right now, which by contrast, means foreign currencies are weak to the dollar. This is shifting purchase decisions and has an impact on imported goods in territories outside of the U.S.
- **Artist influences.** The strong live touring and artist influences are driving demand and inspiring music makers.
- **Post-Pandemic Inventory.** Categories that thrived during the pandemic, specifically digital pianos and guitars, are still largely over-inventoried, which is causing downstream effects through distribution and manufacturing.
- **Product Trends.** The focus on more digital music making and shifts in popular music genres in the younger generation are affecting product demand.
- **Music Education.** School music and private music instruction play a large role the global markets, especially the U.S. market and its impact on global suppliers.

Most of these forces are out of our control. However, what is in our control is influencing demand and increased support for music education. And right now, working together to increase global demand is one of the most important actions we can take.



Global Themes

While each territory has its own nuances, we did hear common themes throughout the world. The United States has a massive impact on all other global markets, with almost every conversation globally starting with questions about the U.S. — specifically when the economy will start to recover. With an estimated 46 percent of global music products sales in the U.S., it is no surprise that a slowdown in the U.S. market can have ripple effects across the globe. The decline in retail sales and consumer spending overall in the U.S. are often concerning overseas, and there is a strong desire to understand what factors will predict a recovery. Many conversations revolved around the 2023 headlines of rising interest rates and potential recessions. The uncertainty of the U.S. economy has led other countries to start focusing on their own domestic sales growth. This was a common theme in all territories. At the same time, the 2023 U.S. Q3 GDP reported a 4.9% increase that exceeded expectations. We hope this positive news brings back confidence in the U.S. economy.

However, live touring, along with the industries that benefit from people getting out of their house and gathering are soaring. It is no surprise people's desire to gather again is stronger than the economic challenges. Because of this, product categories that support live sound, lighting and touring are all doing well. It is also important to note that a 180-degree shift for our industry after these categories struggled during Covid. Also note that commercial audio and lighting categories are not typically sold at retail, so while U.S. retail sales show declines, the music industry overall is stronger.

High interest rates are also affecting consumer spending globally to some degree, but more importantly, we heard about their impact on retail inventory costs. Financed inventory is costing more on the shelves with higher interest rates, and with lower consumer demand, the inventory is sitting longer. We heard concerns that this inventory will eventually reach a diminished return. Inflation is, of course, a factor everywhere but by and large seems to only affect consumer spending up to a certain income level. For consumers who have to make careful spending decisions based on the cost of energy and groceries, there is a definite lack of investment in luxury purchases. However, the sale of high-end products seems to be unaffected, as grand pianos and professional-level guitars are selling more than entry-level products for the most part.

Post-pandemic inventory is among the strongest forces in retail right now, as most conversations revolved around this topic. The problem exists beyond retail, as inventory not being reordered is creating a slowdown in factories and affecting manufacturing levels, so there is a chain reaction happening. The longer inventory sits, the more down-stream issues are created, and it will take our market longer to recover. The simple answer, which is of course easier to say than execute, is to move inventory.



School music is reported to be recovering in all conversations, not only with a strong back-to-school season in the U.S. but also with inventory and supply issues close to leveling out. The U.S. school music industry has a major impact on global brands that supply these instruments and accessories. However, music education still faces some challenges in global markets as described below.

Based on conversations we've had, consumer behavior across the globe has made a shift to online social influence, regardless of the strength of the economy or how developed a nation is. Retailers and manufacturers, as well as local distributors, are recognizing that the consumer purchase decision now starts long before walking into a retail store, or going to a website, to view a product. The future of our industry depends on our ability to influence consumer behavior with the value of making music more effectively than all the other influencers competing for their time, attention, and discretionary income. This is why NAMM is focused on helping increase demand, globally.

The global theme in all territories is to “grow the pie” and create more music makers. During the pandemic, certain categories felt the benefits of higher demand for home learning. Now that has flipped to touring, school music and institutional sales having high demand. Generally speaking, the entire market has had a taste of how increased demand moves our industry forward, and everyone agrees that this is where we focus. With that in mind, the work of The NAMM Foundation is more crucial than ever, and we will be increasing our efforts on initiatives designed to grow the market, with more opportunities for NAMM members to join us in this mission.



John Mlynczak (NAMM CEO and President) with Wang Shicheng, (CMIA President)

CHINA

Music China was an important trip for NAMM, and we gained valuable insights while maintaining strong relationships with our partners. We presented at the Global Industry Forum along with the Chinese Music Instruments Association President and participated in meetings with the Music China show organizers to share information. We also met with exhibitors, partners and visited retail stores in Shanghai.

The Music China show was returning after two years off and reported 122,000 pre-registrations and 120,000 square meters of exhibits — or 80 percent of 2020, according to show organizers. The aisles were full and bustling with music makers. As a domestic show, we heard many brands talk about the importance of Music China to reach the Chinese consumers. There were some visitors from abroad, but generally in our conversations, we heard that international visitors were waiting to see how the show recovered or had trouble getting a visa.

We heard in several conversations that the Chinese government is promoting investment in culture, which could mean prioritizing domestic sales and support of Chinese brands. There is desire to grow the music market in China with Chinese products and increase China's percentage of worldwide music product sales.

School music in China is slow to return, and we heard it is difficult to obtain a license for afterschool music, with only a few schools in populated areas of Shanghai now being granted licenses from the government to reopen their afterschool programs. We hope to see a continued investment on returning school music programs to pre-pandemic levels. Retail stores offer lesson programs in their shops, mostly located in populated areas, especially shopping malls, and this is the main source for music education in China. In addition to starting young students, we learned of an increasing focus on marketing music lessons to the elderly population.



We did hear about concerns of manufacturing stability in China, and the factories and OEMs are working hard to ensure stability, particularly as some brands start to explore other options. Many reported that this started pre-pandemic, escalated heavily during Covid lockdowns and continues to be fueled by rising costs and factory reaction to inventory slowdowns, especially in guitars. Some brands are exploring options for backup OEM factories across Asia, mainly in Vietnam and Indonesia. This was a consistent topic of discussion. However, one common theme we heard is that while other territories may have cheaper labor, the expertise of China's factories and the abundance of raw materials are still a strength. For wood instruments, the humidity of other territories in Asia is a concern as well. Our observation is many companies are evaluating or re-evaluating options during this period in order to make informed decisions about their future.

Inflation and a slow economy in China do have reported effects on costs and consumer spending, as we are seeing everywhere else in the world. This will make it difficult to increase domestic spending on musical products with cash-strapped consumers, but also increases manufacturing costs, further leading to concerns on OEM and Chinese factory cost effectiveness.

In reaction to lower orders and concerns of established brands leaving, some Chinese factories have now started to create and grow their own brands. We saw a combination of entry-level products, as well as mid-level to high-end products. The guitar industry may be flooded with new products in the coming years, and with MI already overstocked with inventory, the battle could play out on mass-market consumer channels. Launching these new products direct to consumer may seem easy: a video, some reviews and large ad spends will get you in front of the market quickly. However, we are hearing consistently from new brands that launching at The NAMM Show and engaging our industry is the goal. As for NAMM, we are already seeing an increase in Chinese brands exhibiting in January, with even more interest in 2025. We are working with companies who have established, quality brands that will provide a strong brand experience in their booths.

With the many challenges noted above, let's also be reminded that more brands promoting more products, all trying to create more music makers, is a positive overall trend. The importance of value-added retailers and customer service will be more essential than ever to ensuring that music makers are starting and continuing in a channel that is committed to growing them as lifelong music makers.



John Mlynczak (NAMM President and CEO), Steven Greenall (MIA UK President), Antony Short (MIA UK Executive Director), Alice Monk (MIA UK General Manager) with members of the UK Ministry of Trade.

EUROPE

NAMM visited the U.K., Germany and France, meeting with members of several European associations, including those from Italy, Spain and the Czech Republic. We were able to get a broad perspective on the overall European market.

Anyone who conducts businesses Europe already understands that it can be difficult. The U.S. has significant advantages with one currency, one language, and a less complicated tax system. The force most discussed as the biggest challenge in Europe right now is the cost of energy, as they have been hit hard mainly due to the loss of affordable oil from Russia.

Europe is consistently discussed as showing signs of recovery and benefiting from increased demand on products that support live touring and institutional sales. High-end pianos are also doing well, but entry-level and digital piano demand has slowed since the pandemic. There are concerns in retail stores over-inventoried categories, and there was much discussion about the cost of the financed inventory not moving.

It is also worth noting that the effects of Brexit are still felt. Although we do not hear much about Brexit anymore in U.S., it is still part of almost every conversation we had in the U.K. and Europe. The main concerns we heard are that many companies are working to set up entities in both the U.K. and Europe, and there are additional steps with adhering to compliance regulations in both territories.

School music is another advantage that the U.S. has, and a common theme across Europe is a desire for more publicly funded music programs. The U.K. is investing £25 million in 2024 for the purchase of instruments in Music Hubs, while also consolidating their hubs with fewer, stronger hub leaders. At NAMM, we hope there will be continued investment in school music. NAMM is working to share our model of advocacy for school music with our global partners.





Another focus in Europe affecting member companies is compliance with sustainability regulations, many of which are being passed quickly and having immediate effects on trade — specifically, requirements for the imports of certain woods like Brazilian Pernambuco used for string bows, African Blackwood used for woodwind instruments, and lead used for pianos. Many European associations are working with NAMM to make sure that the trade of musical instruments is considered when regulating materials we depend on, and that manufactures are using sustainable practices accepted by the regulators.

NAMM's visit to Europe also included fact-finding on the desire for a European trade show to replace MusikMesse. We met with the Messe-Frankfurt team directly, and they cited their belief that our industry needs one global gathering right now and that is The NAMM Show. We do recognize that not all Europeans are able to travel to southern California in January, and we are working closely with all of our partners in Europe to better understand if and when the industry would support a large European trade show. and as the industry grows, the consensus is that the world needs one very strong global gathering, and NAMM is the show that everyone wants to return to. We will continue to evaluate the need for more NAMM gatherings in other geographies in the coming years.



John Mlynczak (NAMM President and CEO), Tom Sumner (NAMM Chair), Elena De Lange (NAMM Associate Director of International Affairs), Jim Funada (NAMM Japanese Ambassador), with Mr. Shikoh Onodera, President of Japan Music Trades, with the office of the Japan Music Trade Staff

JAPAN

Japanese companies represent more than 30 percent of the global music products business, led by Yamaha, and these brands are longtime supporters of NAMM and leaders in our industry. Our travels to Japan are essential to ensure close relationships with these companies, and we met with manufacturers, retailers and association partners. The Japanese make careful decisions based on data and are very in tune with global markets. We have a strong takeaway for NAMM to continue to support Japanese companies year-round with data and insights from the U.S., as well as learnings from other global markets.

Japanese companies represent an even larger portion of digital pianos globally and are currently affected by a surplus of inventory in retail stores worldwide. There is a shared understanding and responsibility to work together to increase demand of digital pianos again. The consistent theme was focused on increasing demand.

Domestic sales in Japan overall are struggling for similar reasons as the rest of the world: reductions in consumer spending due to inflation, and lower demand with over-inventory on home learning products that were popular during the pandemic. Japan has an additional challenge with a shrinking and aging population. Home piano sales are reported to be lower than 2019 levels. However, like in other markets, products that support live touring are up in sales, as are high-end pianos and institutional sales.

The yen is very weak right now, and it is a double-edged sword. For retailers, it creates challenges with imported products costing more, especially those purchased in U.S. dollars. But for Japanese manufacturers exporting into the U.S., there are profit gains on the exchange rate.





Tourism is very high in Japan right now due to the affordability with a weak yen, and Japan was one of the last countries to relax Covid restrictions, only recently allowing entry to tourists, including the Chinese. Tourism from around Asia is high, with an increasing number of European tourists. Retailers are reporting a drastic increase in international sales, sharing that on average 50 percent of visitors are overseas travelers — with one prominent retailer reporting 80 percent international sales. While we were there, the Japanese news was running stories on how they are working to convince tourists to visit more destinations in the country, as Tokyo and Kyoto are struggling with too many tourists right now.

The combination of high international tourism and a Japanese culture that favors hierarchy and brand status makes it clear why the big brands are opening Tokyo flagship stores:

- The Fender store is massive, beautifully merchandised, with the custom shop and some exclusive high-end products creating a destination shop for any guitar enthusiast. The location in Harajuku positions Fender on the same street as the luxury brands, a far different experience than the many densely inventoried retail guitar shops in Ochanomizu.
- The new Roland store in Harajuku offers a boutique retail experience that serves the Roland family of products. The store is set up like a stand-alone version of the Roland “shop in a shop” concept and offers knowledgeable staff with well-designed demo stations where customers can easily try products.
- The Yamaha store in Ginza, another high-end shopping area, offers a truly innovative approach to customer experience. The lobby is welcoming for shoppers on the street. The café includes a virtual band with a wall of books to read at a customer's leisure. There is a free immersive musical and video experience featuring prominent YouTube artists. And of course, a large music school and several floors of product displays. This experience is designed to welcome non-musicians into the world of music making and seems quite effective.

One incredible positive is the sale of electric guitars to the younger generation, fueled by the anime television series *Bocchi the Rock!*, where a high-school aged female who struggles with social anxiety learns guitar and joins a rock band to find confidence and makes friends. This is a powerful reminder of how much influence pop culture has on music making and the direct relationship to product sales. This film is significantly driving guitar sales in Japan and in China, and we see retailers with posters and lifestyle products of the film's characters in their stores. Not surprising, the specific models of guitars played by the characters are the most sold.



Music learning for young children, especially in piano, is driven by retail schools and Yamaha schools throughout the country. Like in China, these are positioned in populated areas, especially shopping malls, to capture new music makers' interest. These schools teach thousands of students each, and we observed very high-end studios with a professional curriculum. Without strong school music programs like in the U.S., new music makers are cultivated through these schools positioned across the country to attract students.

Japan also has an increased focus on teaching music to the elderly population, just as we observed in China, with retail schools reporting an average 30 percent of students are older adults. Businesses have found they can expand their lessons and sales with the aging population. This seems to be driven by the need to increase lesson revenue and domestic sales of entry-level instruments that are not moving in international markets, mainly the U.S.

School music in Japan drives domestic band and orchestra instrument sales but is currently threatened by a government regulation restricting public school teachers from working on their weekends. Music teachers were spending their nights and weekends working on music in the community and rallied to have legislation protect their unpaid time. This shift is now moving weekend ensembles to a community ensemble approach, where it is difficult for newly forming community groups to find instruments and funding. This is a recent regulation, and the market is in the early reaction phase, so we will keep watching and learning.

The Japanese are also appreciative of what NAMM does for advocacy for school music. Japanese companies cannot lobby in the U.S., so they rely on NAMM to be their voice. The news of the NAMM Fly-In returning in November of 2023 was well received.



Group photo from one of two presentations on the music industry at the **Connecta+** conference .

LATIN AMERICA

NAMM presented at the Connecta+ conference in Brazil, and hosted gatherings of Latin American distributors to better understand the needs of this region. We also visited local retailers and manufacturers.

Latin American countries have several factors that make it challenging to do business. There are high import taxes, compounded with high taxes on every transaction in the supply chain, with a weak currency that fluctuates rapidly with inflation, driving imported products to cost almost double what they do in the U.S. This leads to many OEM brands imported from China that are inexpensive enough to be profitable after all the taxes are applied. However, we also saw Brazilian companies still manufacturing the most beautiful instruments all by hand using local materials. These brands had strong brand loyalty for their quality and tradition of use in Brazilian music.

School music is almost nonexistent in Brazil, with just the recorder being taught in primary schools. Without strong school music, the market is driven primarily by live music, popular music and social media influencing people of all ages to start playing music. Brazilian culture is rich with musical heritage and has created globally renowned styles (Samba, Bossa Nova) so there is plenty of influence for society to start making music.

With a large and young population (215 million, second to the U.S. in the Western Hemisphere), Brazil is moving rapidly toward electronic music, with over 50 percent of music consumption being electronic styles — many of which are produced on a mobile device. Social media has heavy influence, and we observed billboards and advertisements all over showing and targeting the 18–25 demographic almost exclusively. The future of the generation has arrived in this market in a big way.





Many retailers are struggling in LATAM, seemingly more so than in any other area. In addition to pricing issues, customers now have many inexpensive options to buy instruments, due to the rapidly growing channel of mass-market retailers like Ali Express and Amazon. The biggest challenge for retail is in the first-time purchaser. However, if there is one word to describe the market and the culture, it is resilient. In many ways, retail innovation is very advanced, as they have had to innovate to survive. We saw creative business models such as retailers offering free tuning for newly purchased online instruments, or setting up hands-on demo stations for products then facilitating direct-from-distribution, drop-ship orders. But the real inspiring trend is the universal focus on customer experience and content creation. Successful retailers have robust marketing and content teams that are driving customers to their stores. Their showrooms are experiences, with products connected and ready to touch and play, with welcoming and knowledgeable staff. Retail is remodeling to host events to engage their local community around music making. In many conversations, retailers in this market have said they recognize that their value as a retailer is to serve as a specialty shop for a community of musicians to continue to learn their craft.

The potential for growth in LATAM is very high, not only in domestic sales but also in terms of manufacturers that wish to export and grow their brand in other markets, especially the U.S. The quality of handmade guitars, drums and overall luthier craftsmanship is exceptional. These brands poured their hearts out to us with their dreams of one day attending The NAMM Show. Our visit demonstrated that we recognize the importance of LATAM and the growth opportunities for creating more music makers.



NAMM KEY TAKEAWAYS

NAMM is the global music products association, and we are committed to serving our members to help grow the industry. We feel it is essential that we listen to and understand the global industry to ensure our programming and benefits support all global markets. We also recognize the importance of the international community feeling welcomed and part of NAMM, not like foreigners visiting a U.S. show. Through our travels and detailed conversations, we have some clear takeaways that will help guide our mission and the industry in the future.

The first takeaway is that our industry is very nuanced. Our members have specific needs in specific territories based on their product category, and we need to ensure they are getting what they need from NAMM membership and at The NAMM show. Our focus is on segmenting our membership, understating their personas, and analyzing our data to serve each segment to understand how all segments empower each other. Our ability to facilitate the right connections and target our marketing messages to the right segments is vital to our growth. The NAMM Show is not just a gathering of 100,000 people; we are a gathering of 100, 1,000-person communities that each have specialized needs.

Association partnerships are the key to our global growth. Each country has several of its own localized associations, each with a specialty. Many of these associations are small, serving around 50-400 members. We met with these groups in all territories and continue to work closely as the global association in order to share knowledge locally and globally. From our learning on this trip, we are expanding our International Coalition to ensure consistent communication and collaboration with our global association partners.

The most common theme globally is the desire to understand the markets and conditions outside of each country. This includes both quantitative and qualitative data sharing, as well as insights and sharing of best practices. This report is a first step to NAMM's Industry Insights initiative, where we will provide quarterly updates to our membership worldwide and facilitate collaboration that helps grow our industry. Our mission is to strengthen this industry, and right now, we can do that by educating our members on how to best compete in the future market, working with global partners, aligning global efforts to promote the pleasures and benefit of making music to the public and, of course, gathering the global industry annually. In times of rapid change and innovation fueled by challenges, it is more important than ever to bring everyone together.



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