

The Importance of GIS in Guitar Center's Business Strategy

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Abstract

How can Geographic information systems (GIS) be used in the musical instrument retail industry to gain a competitive advantage? This question barely begins to scratch the surface on the beneficial significance that GIS has in this industry. Utilizing various sources including geocoded addresses, market research, ESRI tapestries, ArcGIS and Business Analyst Online, my research and spatial analysis will discuss why GIS is so critical for the success of Guitar Center. This analysis will also determine the role of concepts such as Porter's Five Forces and why a robust GIS should be used in tandem with a strong business information system in this industry sector. I will further discuss the insight I have gained as to how Guitar Center can strategically align their company vision and goals to be successful.

The Importance of GIS in Guitar Center's Business Strategy

Guitar Center currently has a strong business information system (BIS) that encompasses a centralized system of data management, customer relationship management, value chain, supply chain management, decision support systems, and enterprise resources planning. Increased visibility into business performance metrics allows them to quickly adapt to changing market conditions and new business models with predictive insights for financial planning and analysis to strengthen the decision support system. Businesses constantly need to envision what's coming, decide on investments into modern technologies, and adapt their business models to meet changing demands in order to stay ahead of the competition. It is important to identify "where and how to apply strategic capabilities of Information Technology" (Marakas & O'Brien, 2013) The BIS of Guitar Center would be made stronger with investment in a robust geographic information system (GIS). Utilizing locational data and attribute data will give us a spatial edge especially when coupled with existing customer databases. This is a digital transformation that will serve as a vital enabler of disruption for the competition. Data is extremely important in the musical instrument retail industry. For industry giant Guitar Center and countless other businesses like it, in this competitive landscape remaining profitable is a key aspect. GIS is currently used by manufacturers and retailers to ensure a competitive advantage over new entrants and rivals. According to ESRI "A manufacturing company's marketing strategists and sales managers use spatial analytics to quickly examine potential high-performing markets. They correlate proven demographic patterns, sales trends, marketing mix, and other data such as regulatory compliance. Maps and geospatial analysis give this team an advantage, they will reach the best markets ahead of competitors." (ESRI, 2019)

For this study I used ArcGIS and Business Analyst Online (BAO) to look at maps using geocoded addresses to correlate demographic patterns, consumer spending and consumer habits to perform a geospatial analysis focused on finding key market indicators that would underscore potential business opportunities. In my research I took a deeper look at the top retailers selling musical instrument products in the Southern California area. According to a MusicTrades.com market research report, the top three musical instrument retailers based on annual sales for 2019 were Guitar Center \$1.37 billion, Sweet Water \$725 million, and Sam Ash Music \$390 million (Musictrades.com,2019). Through research of these companies' websites, I discovered that the highest concentration of retail stores for both Guitar Center and Sam Ash Music were right here in Southern California. Using BAO and the geocoded addresses of all the locations for Guitar Center and Sam Ash Music for this region, I found tapestries and data sets that would appear to have been used by both companies in Los Angeles County. Sifting through the massive data sets in BAO, I found tapestries with information on how many people played musical instruments in the last twelve months current to 2019. Also, how many people purchased musical instruments or accessories and how much they spent in 2019 along with predicted values for 2024. Many store locations heavily align with where the most money is spent and where those who use their products reside. The numbers are staggering with \$101 million spent in Los Angeles county in 2019 and \$121 million predicted spending in 2024 (reference Appendix C). The big "ah-ha" moment for me was seeing the lack of stores in San Diego with areas of heavy consumer spending on musical instruments and accessories as well as a high number of potential customers who played musical instruments last year. My recommendation based on the maps provided in the Appendix, I propose Guitar Center open a store in San Diego County particularly in the Carmel Valley area which is a potential high-performing market. "Analyzing GIS data, the

decision-making process may encompass several stages of analysis given the organizational level (operational, managerial, and strategic) and expected outcomes and goals” (Farkas, 2016). With only one Guitar Center location in this region and ESRI data showing sales for 2019 totaling \$41 million with projected sales of 2024 at \$48 million as seen in Appendix D, the growth trend and open market revealed for this area should be considered in analyzing the GIS data for business expansion opportunities. For the purpose of analyzing future growth I added an additional layer to my spatial analysis which included music schools within San Diego County. This is significant because these are our future customers. With a high concentration of music schools in this area educating thousands of students annually, there is a consistent revolving stream of potential customers who are passionate about making music.

The most surprising aspect of my research was Sweet Waters lack of brick and mortars stores. While their competitors have more than a hundred stores in the United States, Sweet Water has just one in Fort Wayne, Indiana and still managed to be number two in sales nearly doubling Sam Ash with most of the sales revenue obtained through e-commerce. Sweet Water is utilizing the long tail of the internet and is clearly a “customer-focused e-business that uses tools such as e-mail, chat systems, and discussion groups to nurture online communities of interest among employees and customers to enhance customer service and build customer loyalty in e-commerce.” (O'Brien, 2019) My research revealed that while Guitar Center and Sam Ash appear to have used GIS to strategically place store locations based on sales trends and other data, it is very likely that the competition is using GIS and IT to take a different route. Sweet Water's strategy of utilizing a flagship store and primarily an e-commerce presence allows the competition to do the dirty work of getting the product where the consumers can see it and touch it, cutting overhead costs allowing them to have lower prices than the competition. Recognizing

the savvy consumer will test products at competitor locations and find the best price online shopping with them as shown from their growing annual revenue. Utilizing GIS, I have set in motion a plan to combat the competition. By performing a spatial analysis, I have identified a need to bolster our online marketing and web application strategy. I have also discovered a potential market that could give Guitar Center a competitive advantage using GIS to stake out a position that is more profitable by protecting against the threat of new entrants and shielding our bottom line in the rivalry among existing competitors. With \$18 million up for grabs within a small area in San Diego and \$41 million in projected sales for San Diego County in 2024 the data shows a huge potential opportunity for growth. We can take steps to ensure consumers who visit the proposed store location become customers by using geo-fencing technology. A campaign for our mobile application will be advertised and communicated by our sales force. It will encompass application specific sale deals and utilize customer location. When a customer leaves our store with or without purchasing, a push notification will be sent to their mobile app offering a discount or deal to entice customers to return and purchase merchandise in our stores or online through the mobile application as opposed to purchasing through our competitors. Customers who sometimes feel neglected benefit by the personal attention and customized services provided by customer relationship management (CRM). Direct, personal interactions between the company and customer, termed "touch points," build and reinforce the customer relationship. With the increased use of the Internet, developing a strong relationship with customers is crucial for survival in this competitive market where consumers have access to so much information. It will also aide in the competition of rivalry defined by Porter's Five Forces in a defensive effort to increase consumer spending with Guitar Center in our brick and mortar

stores and through our mobile application as opposed to e-commerce sales through our competitor Sweet Water.

Conclusion

Guitar Center is too deep in its business strategy to follow the business model of Sweet Water as a primarily e-commerce business and nor should they. However, it would be beneficial for us to become more well-rounded by increasing web marketing and strategy to compete with Sweet Water head to head as it was revealed through industry research and spatial analysis that we are losing the e-commerce sales game. More importantly it is imperative that Guitar Center utilize GIS to strategically place new stores to maximize potential growth. GIS can also be applied to the strategy for success of the proposed store location and all our locations for that matter. As we compete with an online retailer that has less overhead, the competition is taking advantage of our infrastructure and savvy consumers who test products in our stores and purchase through them at a cheaper price. I propose to utilize geofencing technology to mitigate lost sales and bolster our competitive strategy. In store we will engage customers as we advertise our mobile app with posters as well as a strong emphasis from sales associates highlighting the benefits of our app including discounts, offers and deals. When customers use our app and leave the store geofencing technology will automatically send a push alert with a discount or offer that our marketing team will be working in tandem to establish to draw consumers back in as a Guitar Center customer. This use of GIS will increase loyalty and develop stronger relationships with customers. My spatial analysis provided insight that Guitar Center and the competition are clearly unaware of. By conducting industry research coupled with GIS, I provided a prime target for a new location in an underutilized market in Carmel Valley, San Diego. What is unique about Carmel Valley is the high level of consumer spending, the number of musicians, the

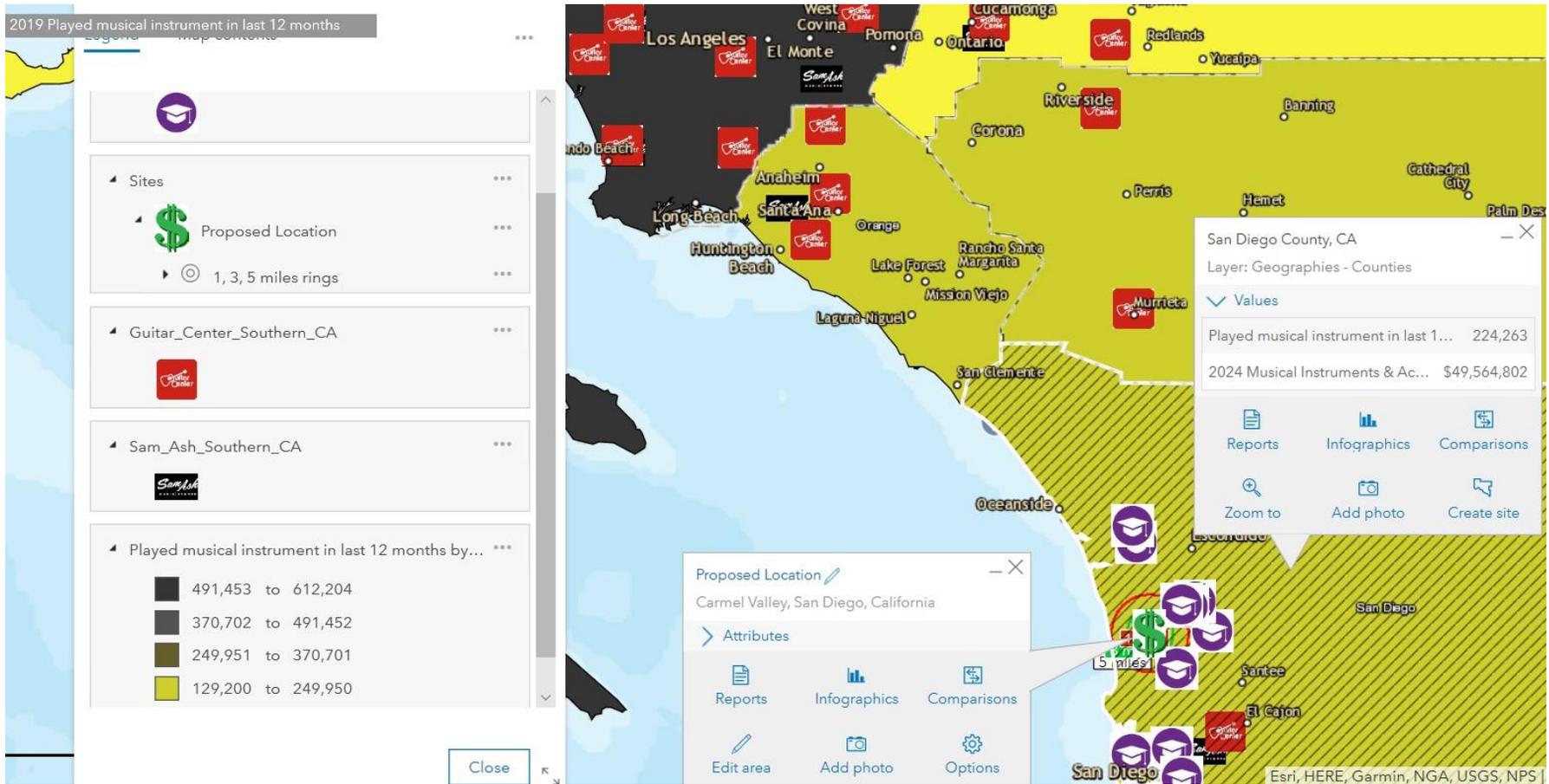
concentration of music schools and the demographics of the area in and around the surrounding region. (reference Appendix F, G)

References

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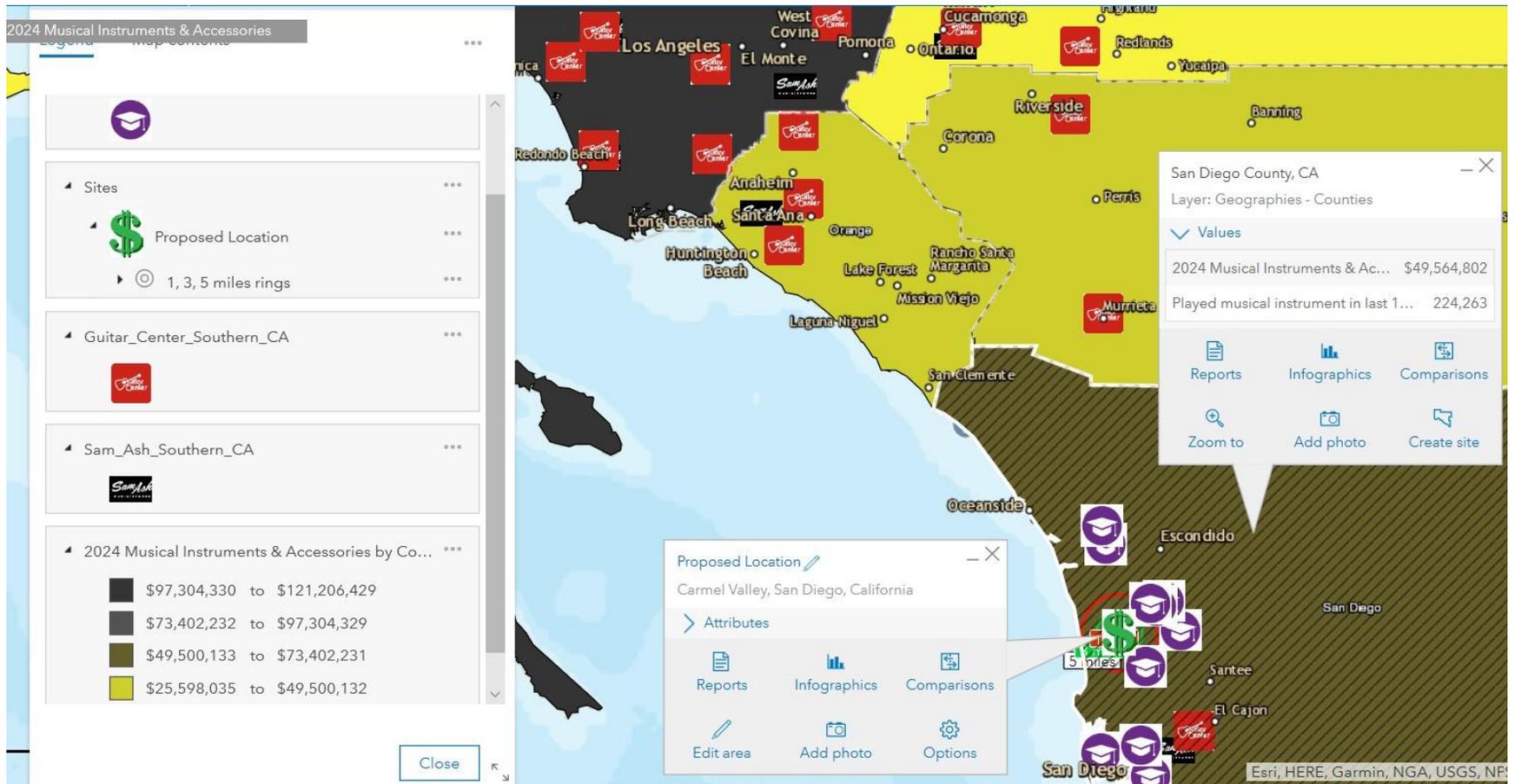
Appendix A

Store Locations, Music Schools and Musical Instruments Played in Last Twelve Months
in San Diego County



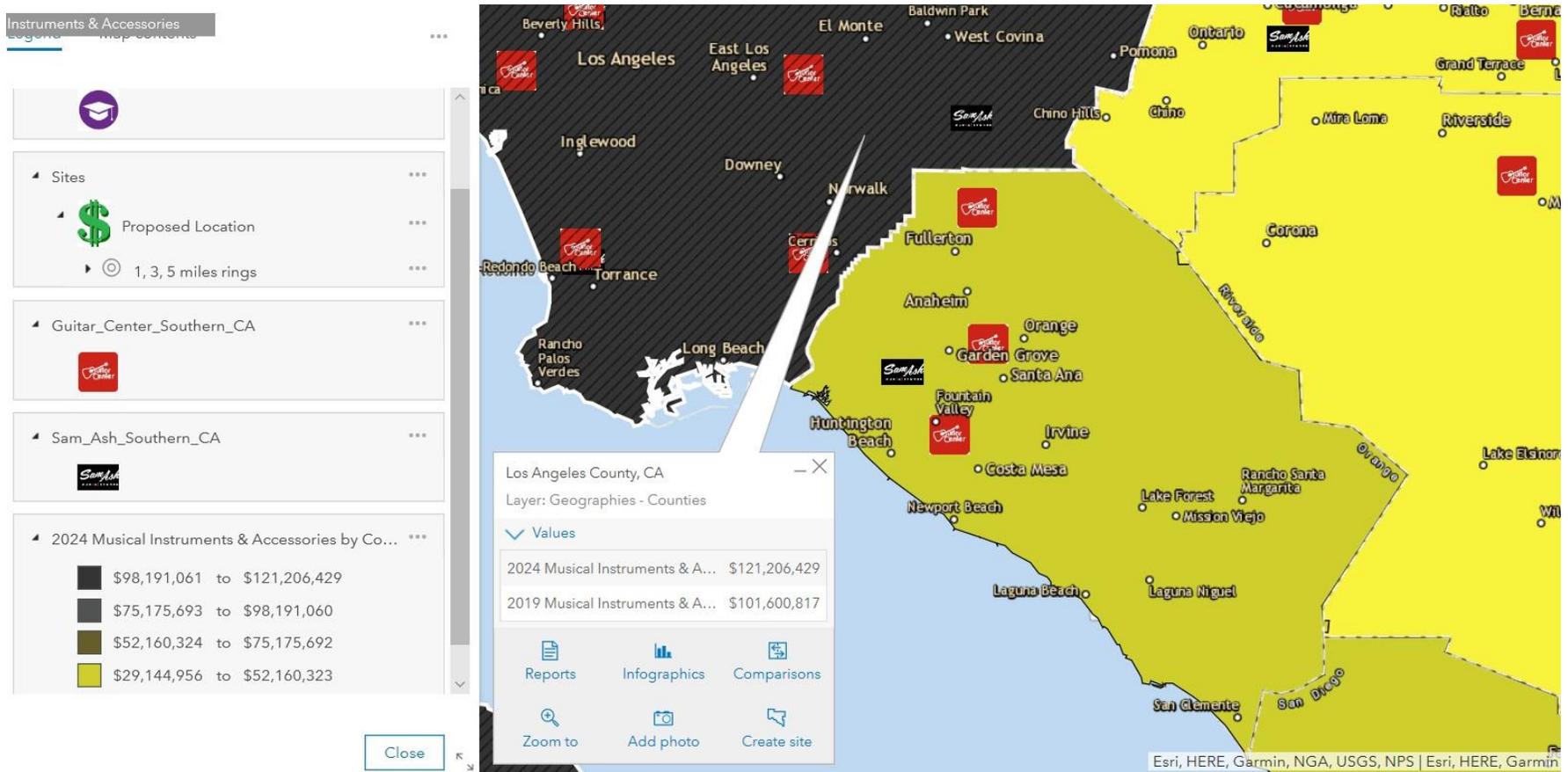
Appendix B

Store Locations, Music Schools and Musical Instruments and Accessories Consumer Spending in San Diego County



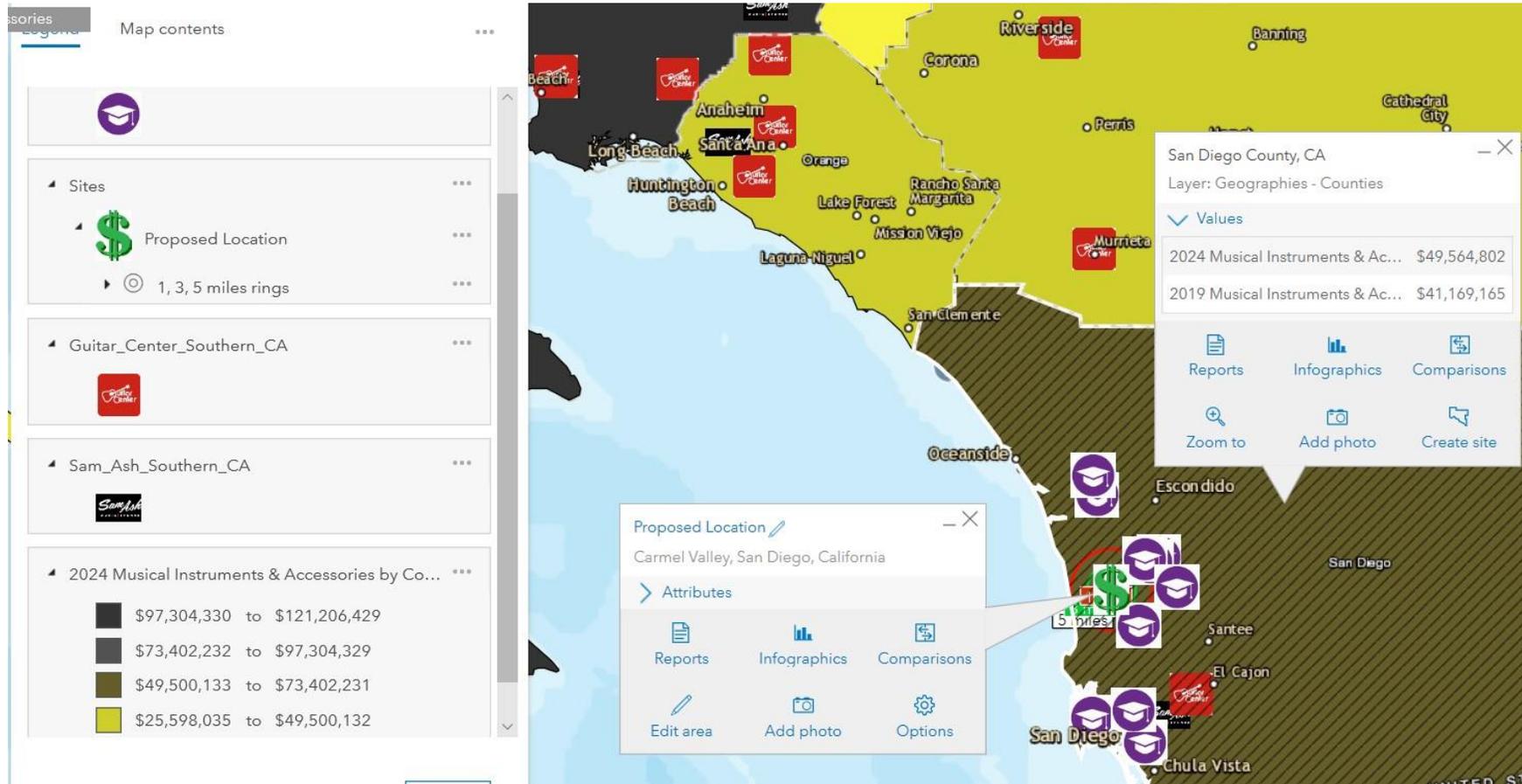
Appendix C

Los Angeles County Musical Instrument and Accessories Consumer Spending 2019 and 2024



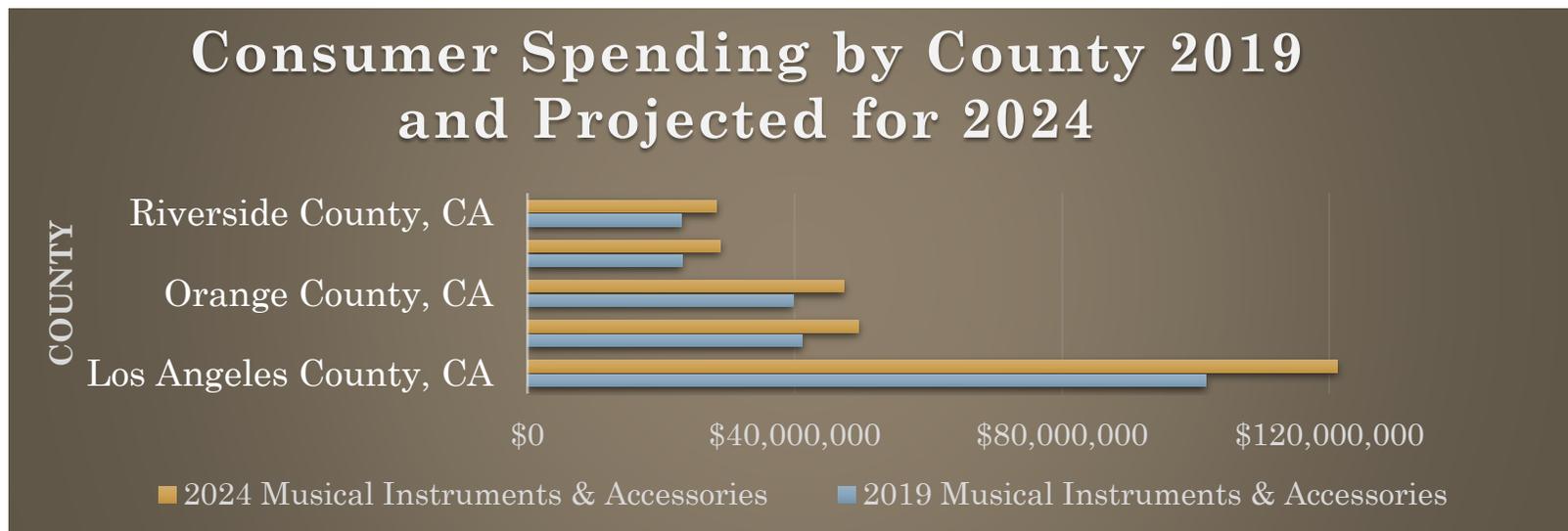
Appendix D

San Diego County Musical Instrument and Accessories Consumer Spending 2019 and 2024



Appendix E

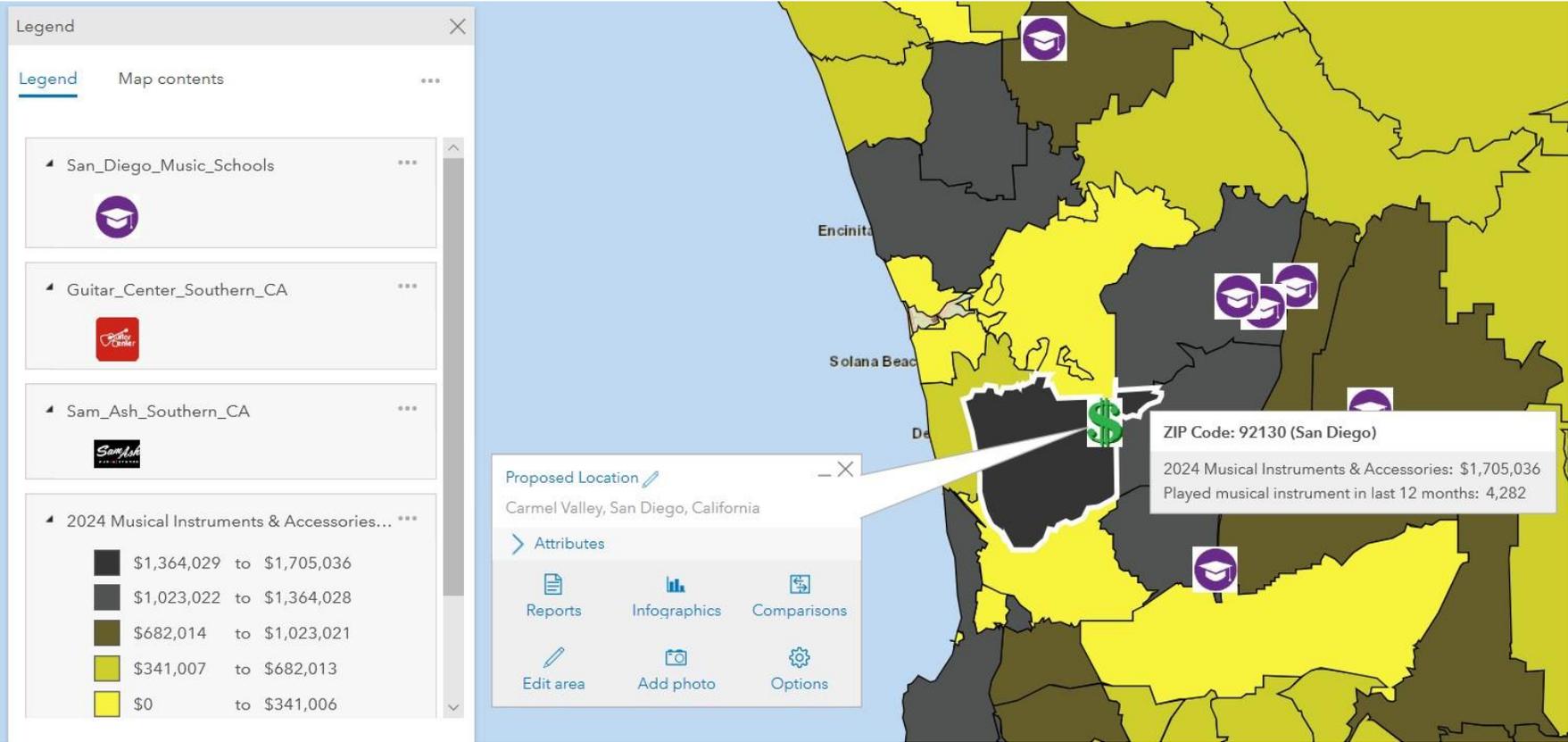
Musical Instrument Consumer Spending by County For 2019 and 2024



County	2024 Musical Instruments & Accessories	2019 Musical Instruments & Accessories
Clark County, NV	\$28,880,895	\$23,178,295
Imperial County, CA	\$1,695,936	\$1,394,703
Kern County, CA	\$8,218,089	\$6,777,635
La Paz County, AZ	\$157,070	\$143,704
Los Angeles County, CA	\$121,206,429	\$101,600,817
Mohave County, AZ	\$2,049,530	\$1,697,100
Orange County, CA	\$47,376,313	\$39,756,820
Riverside County, CA	\$28,356,998	\$23,077,019
San Bernardino County, CA	\$21,704,912	\$18,142,875
San Diego County, CA	\$49,564,802	\$41,169,165
San Luis Obispo County, CA	\$4,154,944	\$3,452,581
Santa Barbara County, CA	\$6,129,588	\$5,111,161
Ventura County, CA	\$11,599,373	\$9,853,787
Yuma County, AZ	\$1,725,490	\$1,464,209

Appendix F

Music Schools, Consumer Spending and Zero Store Locations



Appendix G

San Diego County Demographic Summary for Proposed Location

