

IDEAS

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ASK ALAN | BY ALAN FRIEDMAN

THE COST OF DOING BUSINESS SURVEY

Let's face it. Things aren't getting easier in music products retail. I suppose I keep hoping business will get easier each subsequent year, but it never does.

As we think back on the events of 2006, I can't help but ponder the financial demise of music retailing stalwarts like Brook Mays, Woodwind & Brasswind, others that preceded them and those that will surely follow them. Throw in a heap of helping of weighty industry issues (like MAP policies, a lack of Internet sales tax, the closing of U.S. factories coupled with falling prices on imported goods), and you've got a fair amount of uncertainty and understandable skepticism.

THE YEAR IN REVIEW

Our firm is lucky enough to compile the financial results of a cross-section of music retailing clients each year during tax season. If 2006 was a color, it would be very dark red — the perfect blend of bright red and black ink. For the first time



The best things in life are free when it comes to measuring the financial performance of your store

ever, we had as many companies losing money as those truly making money, with the vast

majority landing slightly north of break-even. And the spectrum has been pretty wide in the magnitude of profits and losses.

But as much as I hate to see red ink and notable retailers fall off the map, I feel compelled to examine the reasons why certain stores made wild profits, while others lost hundreds of thousands of dollars and some went out of business.

While some of the reasons for poor performance or failure have varied, I've noticed one clear consistency among those stores that have enjoyed a good year: Their owners have been deeply involved in the day-to-day running of the store, and they continue to seek and implement newfound knowledge for their business operations. They all also participate in the NAMM Cost of Doing Business Survey and, equally as important, know how to read the reported results.

WHAT'S WRONG NOW?

As I'd mentioned before, the reasons for this past year's lackluster performance have been consistently inconsistent,

but here's my best guess at the top 10, in no particular order: (1) misguided or ineffective advertising; (2) increased Internet competition, resulting in less walk-in traffic; (3) a rise in gas prices; (4) cheaper (but often not comparable) product found in big-box, non-music retailers, like Costco; (5) rising costs for labor and essential employee benefits, like health insurance; (6) retailers who haven't a clue how to use the Internet to increase store revenue; (7) rising interest and flooring costs; (8) poor accounting policies and a lack of internal control over key assets, like inventory; (9) a complete lack of any financial analysis; and (10) store owners who are not involved in their businesses or who rely on old business models that used to work but don't anymore.

Some of you will think I've lost my mind because I didn't mention Guitar Center and its school music and direct-response affiliates. I promise I haven't been living in a cave this past year. I'm just so sick and tired of store owners blaming GC (and

NAMM and eBay and China and their seventh-grade French teacher) for their problems. Frankly, I hated my seventh grade French teacher, and I'm probably scarred emotionally because I couldn't "properly conjugate certain key French words," which "shows my ignorance and lack of effort." Still, neither my French teacher nor GC is the reason for the poor financial performance of some music stores.

Smart retailers need to realize two important facts about Guitar Center: It's run by very smart people who we all can learn from, and like a big ship on the ocean, they are somewhat predictable and can't react as quickly as your typical music store owner to changing market conditions. You may hate me for saying this again, but your prob-

lems have more to do with your own lack of knowledge, innovation and commitment than they ever will with Guitar Center.

What I really want is for all of you to prove me wrong by participating in a free program that remains a vital resource to improving your store's financial performance: the Cost of Doing Business Survey. Hereafter, I'll simply call it the "CODB."

WHAT'S THE CATCH?

There is no catch. Each year, NAMM engages an independent firm, Industry Insights, to gather operational and financial data that has been submitted by various music store owners on a short, standardized, easy-to-read survey form. Industry Insights gathers and compiles the sur-

vey data and reports key financial performance data by store type, store size (in terms of annual sales) and geographical location. This reporting is sent back to participating dealers with appropriate comparisons to peers' data under complete confidentiality. The only thing NAMM does is pay for this service — it doesn't see a single store's financial data.

All you, the retailer, have to do is sit down for no more than 30 minutes and fill out the survey. You can even save time by simply attaching a balance sheet and income statement from your tax return, accounting software or accountant-prepared financial statement to the survey.

Is it worth it?
You're kidding, right?

THE BOTTOM LINE

Rather than writing a 10-page dissertation of the benefits of participating in the CODB survey, here are 10 short reasons why it's an annual "must" for every music retailer:

- ➔ It's totally "free."
- ➔ It takes 30 minutes or less to participate.
- ➔ It's confidential.
- ➔ The survey report is the only resource available for meaningful financial data on all types and sizes of music product retailers.
- ➔ The report provides vital statistics and ratios on profitability, liquidity and sales performance, making it one of the most useful management tools for both music product retailers and their advisors.
- ➔ The report is a great tool for bankers to use in granting loan requests.
- ➔ The report guides retailers on relevant product categories and chart of accounts, as well as the dealer's accountant on the proper financial and tax reporting for tricky issues like rental

- ➔ instruments and trade-ins.
- ➔ The report is a vitally important data resource for valuing your business.
- ➔ The report is a great tool for credit managers to use in granting and extending trade credit.
- ➔ The report is the only true benchmark available to measure your financial performance compared to your peers, as well as the music product retail industry as a whole.

EASIER NOW THAN EVER

The CODB is simple to fill out and even simpler this year. There's now an online version of the survey form that can be found at <http://www.iisecure.com/NAMM07cod/Register.asp>. You can also download an Excel version of the survey form at the Web site, which auto-calculates participants' responses. This secure survey site is hosted by Industry Insights and lets participants submit their information directly and confidentially, as well as receive their survey reports via e-mail. You can also download a PDF copy of the survey from my firm's Web site, fkco.com, if you prefer the old No. 2 lead pencil.

No matter what, if you need any help in the participation process, please don't hesitate to contact either Judy Dodds at NAMM (judyd@namm.com) or Shawn Six at Industry Insights (ssix@indins.com).

Given the enormous benefits derived from the CODB survey, I can't think of a single reason why every music product retailer shouldn't take a half hour to participate in a program aimed at financially bettering their life. After all, the best things in life are free ... except for a '59 Les Paul Standard in sunburst. **MI**

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