IDEAS

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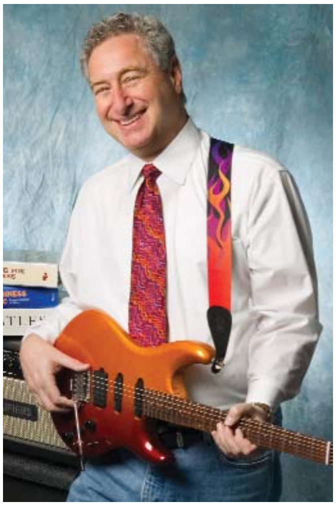
ASK ALAN | BY ALAN FRIEDMAN

SHOW ME THE MONEY

In this sixth and final installment on the hot topic of tightening credit in music products retail, we'll give the bottom line on what music dealers can do to improve their chances of securing supplier credit and other financing vehicles.

The following inside scoop on credit comes from a panel discussion with credit professionals, called "The Loan Rangers of Music Retailing," held at the 2007 winter NAMM show. The panel consisted of Larry Dunn, CFO and vice president of finance for Kaman Music; Karren Salter, general manager of customer financial services for Yamaha Corp. of America; Jim Satterberg, vice president of GE Commercial Finance; and Greg Grieme, CFO of BGE Financial — the financial voices of a major supplier, distributor, inventory flooring financier and rental instrument lender. Here is an edited transcript of our panelists' final words about extending credit to music product retailers.



Credit managers on how retailers can secure financing

Me: What one piece of advice would you give to retailers with regard to improving their ability to obtain credit, increase credit or obtain more favorable payment terms?

Grieme: The single most important thing a retailer can do is make sure they communicate with us. You need to call us ahead of the times you anticipate having problems paying us and not wait for us to call you when those payments become 15 or 30 days late.

Dunn: It's also important to remember that when we make a commitment to you by giving you payment terms, we kindly ask that you do everything you can to abide by those terms. Whether they're 30-day terms, extended terms or band program terms, the best thing you can do is honor our commitment to you by paying us within the agreed-upon terms. And the best thing you can do to increase your credit line is simply pay us within those agreed-upon terms.

Satterberg: The principles of our business are relatively simple. We loan you money, and we simply ask to get it back with a little bit of interest. The rules are pretty simple because we go out of our way to help you understand exactly what we're looking for. There's a term to everything we finance, and if you can't make a payment or have a question about any amount owed to us, just call us up and ask us. We're glad to help you out because you don't want surprises any more than we do.

Me: OK, how about some questions for the panel from the audience?

Audience Member No. 1: What role does a Dun & Bradstreet (D&B) report play as you monitor our accounts as your customer? I get calls from them on a fairly frequent basis, where they're telling me they've noticed I've gotten 10 or 12 hits on my report as I apply for new accounts with new vendors.

Me: We use Dun & Bradstreet, and we provide information on a monthly basis that's transmitted by tape. We know there can be cases of dispute on balances that have aged out, so we understand when we see something like that.

But one of the values offered to us by using the D&B report is they provide public information regarding searches, judgments and liens that we may not have picked up during our underwriting process. When we file our UCC security filings, we do a search at that time but usually don't continue it for another four years or so. So, we'll pick up new filings by using the D&B reports. We understand there are going to be disputes from time to time, but if it's on every account, we'll call you.

Satterberg: We also use it as a tool to gather information about a business that we may not otherwise have. When we're putting together documentation for a credit-line request, we'll use a D&B report as part of our exercise because it's a useful source of good information. Plus, the more information we have tells us that we're about to do business with someone established.

Audience Member No. 2: I don't mean to be critical, but when I see companies like Mars Music, Thoroughbred Music or Woodwind & Brasswind going out of business owing millions of dollars to our industry's suppliers, I assume my costs to acquire product are going to go up automatically because the suppliers now have to recoup that money. So my question is why do our vendors lend so much money or extend so much credit to a company like Mars?

Me: Mark Begelman, founder and CEO of Mars, talked a great story in the beginning and wowed a lot of suppliers. But you also have to remember he had a really good track record for growing a business, taking it public and providing a great return to his inventors. He loved music and played guitar. So he thought he could do it in music products retailing.

Salter: But he also realized he was new to the music retailing industry and provided collateral and guarantees, in addition to regular financial reporting.

I hope everyone understands that credit is an art, not an exact science. Yamaha looks at every dealer individually based on information provided by the dealer, as well as sales reps, vendors and our marketplace objectives. That's where risk-management comes in, and yes, there are a lot of factors for us to consider when extending credit to any retailer.

Dunn: I don't think there's any company that's going to raise its prices to cover those losses because there are other companies that provide similar products and probably didn't take any losses. It's a cost of doing business. A company like ours lost $1 million on Mars, and we're still trying to recover from that loss. And shortly after that was Brook Mays Music, and now we have Woodwind & Brasswind. It's just part of our business, and while it does hurt us, it won't [affect your] product pricing.

Audience Member No. 3: My question is from the perspective of a brand-new retailer. We're opening our store in about a week. Nobody is willing to extend us credit. What is the best way for a brand-new retailer to establish credit and get the help that you all provide?

Me: There's a pretty well-known notion that many businesses will fail within their first five years for one predominant reason: They were under-capitalized at their inceptions.

So I think you, as a new owner, need to ask yourself honestly if you have a sufficient amount of capital to open a new store before you start worrying about whether you can attract vendor credit. If you have, in fact, sufficiently capitalized your new company, you may be able to attract vendor credit by providing an opening balance sheet that shows you've properly capitalized the company.

Salter: I would not want to discourage you from opening your store if you've had a long history and fair amount of experience in the industry, as well as personal assets invested in the business. What we would want to see is a profit-and-loss forecast of revenues and expenses as part of a well-thought-out business plan. Credit lines can start small and grow with your business and payment performance.

Satterberg: We would also want to know who your vendors are, and what's your plan for profit, as well.

Audience Member No. 4: I'm also a new business, very small and in a niche market. In addition to buying prudently, I'm using low-interest-rate credit cards. I'll borrow from those cards, but I'll pay them off on time and in full before any higher interest rates kick in. I'm also careful to keep my credit score as high as possible. I want to know if you think I'm on the right path.

Salter: I do. But I think having a well-thought-out business plan is one of the most important things you can do. Not all dealers qualify for bank financing, so low-cost credit cards may be a good solution as long as short-term debt is used only for short-term assets.

Me: Start off with good accounting habits. Make sure you implement and properly use a good accounting software solution. Get in the habit of capturing all your business transactions, accurately tracking inventory and generating meaningful financial statements every month.

Salter: And make sure you break out all sources of revenue, like retail sales, rental income and repairs, on your financial statements. You can get the guidance you need from either a competent CPA, an industry consultant or a local chapter of an organization like SCORE (Service Corps of Retired Executives). They can help you.

Grieme: And don't forget about the resources offered by the SBA (Small Business Administration). They can also assist you in getting loans.

There you have it: the final words on credit. When you see Larry, Karren, Greg and Jim at the next NAMM show, make sure you give them the credit they deserve for the credit they give and for talking about the tough topic of, yes, credit. **MI**

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