

THE RETAIL DOCTOR | BY BILLY CUTHRELL

# A New Rental Market

In the late 1990s I read an interview with Warren Buffett where he discussed why he liked passive income models and pointed out Blockbuster as an example. Buffett felt like Blockbuster had good potential for long term growth — as long as they were being innovative in the marketplace. Buffett liked the business basics, which were to purchase or license a product, and then rent that product over and over again. The product eventually pays for itself and the rest is profit. By applying this model in volume and stacking on the crazy fees charged for late returns, they created a cash cow in video rentals.



**‘Millennials focus more on the experience instead of owning material goods. In other words, they love to rent.’**

Of course, Blockbuster’s huge blunder was not purchasing Netflix in late 2000. The company eventually was done-in by Netflix and disappeared all together by the mid 2000s. Blockbuster failed because they didn’t innovate and stay current in the marketplace, not because the fundamental idea of the model was weak or flawed.

In later years, Netflix and Apple figured out how to net even greater profits by cutting out the physical product and delivering (streaming) the goods directly to your TV. This in turn eliminated one less obstacle for the customer. Gone were the days of driving to the brick-and-mortar and the late return fees that Blockbuster happily levied against you.

Again, the fundamentals of video rentals remained the same — even with the absence of physical stores and DVDs or cassette tapes. Only this time, the delivery system was much easier and less costly for the consumer. Now the model looks like this: Purchase, lease or license a product, and easily rent it to your customers over and over again at a lower cost with greater margins.

Like movie rentals, the musical instrument rental market has offered a nice, passive revenue stream on my bottom line for years, and we realize income through the monthly rental fees, repairs and depreciation. I saw our rental market demographics changing, so looking forward meant looking at alternatives in my rental business.

I wanted a system that would cost less to maintain (such as streaming the content as Apple and Netflix do now) but allow for larger margins. However, you can’t stream an instrument rental, and I wanted to find a way around what ultimately did Blockbuster in.

How would I innovate rentals like Netflix? Could I mail instruments to renters like Netflix mailed DVDs in the early days? How would I go about streamlining our rental process? How would I tackle instrument/income “vacancies?” How could I solve rental and instrument needs while keeping margins up?

## THE YEAR-ROUND RENTAL MARKET

School band instruments were good money makers but there were several inherent issues that I never liked. First, band and orchestral instruments are costly up front. Even though these rentals brought in steady revenue for a large part of the year, there were still “vacancies” where no one was renting and the product was sitting idle.

Repairs were also a major issue. Unlike streaming movies where there’s nothing to break, instruments are completely different. Many students played instruments that needed minor adjustments throughout the school year but never brought them in for work. When we

finally got the instruments back for the summer, that small repair turned into a larger repair — costing us more money. Instrument returns, repair costs and trips to visit band directors equaled lots of lost income.

**MILLENNIAL'S LOVE RENTING**

I'm not big on labeling people into categories, but those born between 1982 and 2004 — “millennials” — focus more on the experience instead of owning material goods. In other words, they love to rent instead of purchase, so they are not tied down to “things.”

Many parents in this age group that were signing their kids into music lessons ask if they could rent a guitar, keyboard or drum set so they could make sure their child liked it before committing to the purchase. The desire to be free of owning material things, added with the desire to make sure something sticks before committing cash, meant we were starting to rent more guitars and amps than saxophones and trumpets.

**WHERE ARE WE NOW?**

I've yet to figure out the physical storage issue for returned instruments, whereas Netflix and Apple eliminated that need by placing the product on a hard drive, which can't be done with an instrument. But our instrument repair bills are down and products are out on rental contracts almost twice as long as a standard B&O product. That means no flood of returns for the summer and better cash flow over the long term. My rental fleets are paid for. All rental income — outside of repairs — is now strictly profit.

Although we're not completely at my goal for having two guitars, drum sets, basses or keyboards out on rental to replace every one band or orchestral instrument, we're getting closer. I also haven't figured out a better delivery system for instruments that would be the equivalent of streaming a movie to your TV, but hey, virtual reality is really becoming a thing now. Check back with me in a year. **MI**

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