IDEAS

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MANAGEMENT | BY GREG BILLINGS

29 REASONS...

The past 20 months have seen a string of major music retail failures. From Brook Mays to Bradford's, venerable retailers and a bevy of lesser-knowns have closed. Big-box and online competition, partnership squabbles, inopportune comments, bad management and even terrorism have been blamed. Overlooked in the gossip and commiseration is any discussion of why other dealers survive and even prosper in difficult times. Here's a list of reasons why no one ever went out of business, categorized for your convenience.

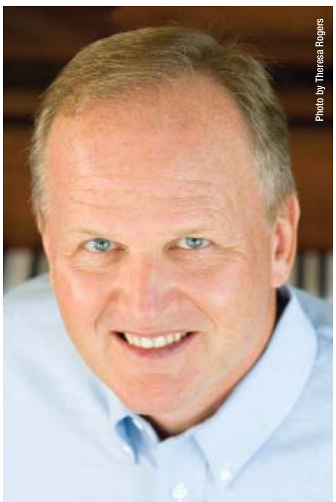

Photo by Theresa Rogers

...why nobody ever went out of business

MERCHANDISING

Nobody ever went out of business because:

1. Their store was too small. How many times has someone, usually new to the business or at the end of a career, built the Taj Mahal, only to be crushed by the overhead? Tight quarters force efficiency, improve inventory turn and increase sales per square foot. Have you ever heard, "If he just had a bigger store, he would have made it?" If you're bursting at the seams, count your blessings.

2. They didn't have enough locations. The history of music products retail has many examples of smart people who grew themselves out of business. Let's not forget the rule of halves: Each additional storefront generates half the volume of its predecessor.

3. Their location was too good. Real estate is a very efficient market. We get exactly what we pay for. Look at the best retail locations in your town, and you'll see successful businesses.

4. Their store was too well-merchandised. Our customers shop all the best retailers and, consciously or subconsciously, compare. Tomorrow morning, enter through your front door and take a look from your customers' perspective. I promise you'll see things you don't like.

5. They didn't have enough lines. Did you ever notice the big failures are always the guys with the most lines? Line "hogs" tend to have lousy inventory turns, lousy vendor relationships and confused salespeople. Do we really want competing products at every given price point? My grandfather used to say, "Pick a horse and ride it."

6. They weren't afraid to steer customers away from major lines to higher-margin, lesser-known brands. Let's face facts. Major brands are easier to sell because of their brand equity. Therefore, the manufacturer keeps a bigger piece of the "margin pie." This is true in most industries. Have you ever noticed the lack of enthusiasm Best Buy salespeople have for Sony TVs? If you're going to follow the path of least sales resistance, you're going to have to make your profit with accessories or volume. I submit that there is no such thing as enough volume to make up for bad margin. You just go broke faster.

MARKETING

Nobody ever went out of business because:

7. They had too much PR and not enough advertising. Advertising is capital-intensive and has short-term benefits. If your advertising expense is greater than 5 percent of sales or you're not spending it wisely, you are probably on a path to destruction. Public relations is labor-intensive and has long-term benefits, which leads us to...

8. They gave too much back to their community. Community involvement is the key to getting lots of valuable free press coverage. But, it takes work and creativity. Advertising is easy but expensive. Most of our failed brothers advertised themselves right out of business.

9. Their name wasn't cute enough. Customers need to know who you are, where you are and what you do. And they'd better be able to figure it out in a matter of seconds. Most of the great trademarks are the founders' family names. (I'm amazed at the number of customers who think there's actually a person named Hal Leonard.) Therefore, "John Smith Pianos" makes a lot more sense than "88 Keys to Universal Enlightenment." Guitar Center has certainly been a more effective moniker than Mars Music. Furthermore, our current crop of customers is very savvy, so deception is a big mistake. If you're going to call yourself a superstore, you'd better have a retail presence as impressive as OfficeMax.

10. They made it too easy for their customers to buy. Today, most products can be purchased with a few clicks of the index finger. We'd better have financing, delivery, service and instruction figured out well before the customer walks into our store, and we'd better be prepared to explain how easy it will be for our clients to start enjoying their new purchases right away. Instruments should be clean, in tune, accessorized and easy to find.

FINANCIAL

Nobody ever went out of business because:

11. Their margin was too high. As we've learned the hard way, the road to bankruptcy is paved with thin margins. The Internet makes it impossible to offer the lowest price. There will always be someone out there with a lower price. Get over it. Figure out how to add enough value to your products and services to both attract customers and generate a reasonable profit. In a competitive situation, we are much more likely to win customers by offering a better product or more service than by offering a lower price. If lower prices were the key to success, we'd be selling more guitars and pianos than we were five years ago, but we aren't. The best plan is not to carry products that put us in direct competition with bottom feeders.

'As an industry, we are overstocked. There are two ways to generate a profit in this business: Sell it fast, or sell it long.'

12. They didn't have enough inventory. Most music stores have too much inventory. That's why we have chronically low inventory turn. (See the NAMM Cost of Doing Business Survey, any year.) Maybe it's because many of us are musicians who love gear. Maybe it's because we're optimists or maybe it's a lack of discipline, but as an industry, we are overstocked. There are two ways to generate a profit in this business: Sell it fast, or sell it long.

13. Their floor plan limit wasn't high enough. Here's another unpleasant fact: Floor planning is a drug, and very few dealers ever kick the habit. Floor plans encourage overbuying.

14. They didn't buy enough manufacturer specials. If a supplier is willing to pay 180 days of finance cost or offer other similarly ridiculous concessions to move stock from his books to yours, there must be a pretty good reason. We all know our average credit card sale is higher than our average cash sale. Our suppliers know the same is true of floor plan transactions.

15. They took too many cash discounts. Floor plan buying also robs us of our cash discounts. Here's an example. If a business has total sales of $1 million and cost of goods sold of $600,000, they might gain $12,000 in cash discounts. Conversely, with an inventory turn of two times, they might spend $18,000 in floor plan interest charges. That's a $30,000 difference. In lean years, cash discounts could be the difference between red and black ink. Buying with cash or a bank line of credit and rigorously taking discounts invariably leads to disciplined buying decisions and increased inventory turns. And you'd be surprised how many suppliers will give open terms when you tell them you don't have a floor plan.

16. They paid more attention to their balance sheet than their income statement. If you think of your business as a poker game, your income statement will tell you how you did in the last hand, but your balance sheet will tell you how you've done in a lifetime of gambling. If you don't understand your balance sheet, have your accountant keep explaining it until you do. It's not that difficult.

17. They were too busy chasing down warranty reimbursements. Manufacturers count on dealers' lack of organization and persistence to minimize their warranty expense. Train your service staff to be vigilant, take the time to fill out the forms and show your supplier reps you are knowledgeable and serious. You will recover thousands of dollars that are rightfully yours each year. Like cash discounts, these come in small amounts that add up to big numbers.

MANAGEMENT

Nobody ever went out of business because:

18. Their staff was too well-trained. No matter how wonderful the facility or product mix, a retailer succeeds or fails on the interaction between its people and its customers. Think about selling as a free-throw shooting contest rather than a full-court scrimmage. The one thing you can control is how good a job you do when you step to the line, and if you do a great job, you will win. The more effort you invest in training, the better your people will be when they step to the line.

19. They spent too much time writing an annual business plan. Most small businesspeople don't take the time to write down a sales forecast, expense budget and marketing plan. Spread sheet programs make this formerly arduous task easy and, for some of us, even a little fun. It can be done in a week. Add a few paragraphs of narrative, a mission statement and a cover sheet, and you'll have a document that will pleasantly surprise your banker. You'll also have a much better handle on your business, and you'll be able to make better financial decisions. Which leads us to…

20. They knew their break-even point. Once you have a sales forecast and an expense budget, you're only a few clicks of the mouse from a break-even number. You can only fix what you know is broken, and when you know your break-even number, you can make good business decisions.

21. They used $0-based budgeting. Just because we did something in the past is not necessarily a good reason to do it in the future. When budgeting, each expense — especially payroll and promotion — should be justified for the coming year. Which leads us to…

22. They were afraid to make tough decisions. The budget process presents difficult choices with regard to personnel, promotion and margin. Fortunately, those choices can be addressed long before they become a crisis.

23. They had a succession plan. A wise man once said, "If you don't have a succession plan, one will find you, and you won't like it."

RELATIONSHIPS

Nobody ever went out of business because:

24. They were too generous to their employees. A hundred years ago, music dealers worried about their ability to attract, train and retain good people. Not much has changed except we now have a much more mobile work force. Finding good people and keeping them is still our most compelling task. Unfortunately — or fortunately — personnel management isn't only about the money. Recognition, encouragement, flexibility and appreciation are powerful forces that can help keep and motivate our best people.

25. They didn't get the tattoo. (That is, they didn't fall in love with their products or suppliers.) We can spend years selling a major brand, only to learn the company's pricing and distribution policies make it difficult to generate sufficient margin. Which brings us to…

26. They refused to be bullied into low-margin, non-exclusive products. At some point, you may have to look your suppliers in the eye and just say "no"! Several of our demised friends might still be here if…

27. They weren't afraid to say "no" to a big supplier. Sometimes, you have to walk away. Of course, it is always possible to disagree without being disagreeable. No one ever got into trouble because...

28. They were too kind to their customers and vendors. I've known many of my reps and their bosses for more than 30 years. Occasionally, we sell a piano to clients I'd helped 25 years ago in another state, under a different business name and with different brands. People have long memories, so I'll leave you with this final thought.

Nobody ever went out of business because:

29. They had too many friends.

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