THE CUSTOMER WHISPERER | BY GREG BILLINGS

MANAGING THE RECOVERY

Three years ago, I wrote two columns on dealing with the Great Recession, one on managing expenses and the other on motivating staff. I took my own advice, and like others who used the downturn as an opportunity to overhaul their operations, we're still in business.

We were foolishly exuberant in the good times, and we paid the price. But we're emerging from the recession with an improved balance sheet, leaner operation and better team than before. The only things we have less of are employees, debt, competitors and inventory. Still, as we enter recovery, there are specific things we can and must do to make the most of it and, hopefully, avoid repeating past mistakes.

The 2007–'09 recession was the longest and deepest in the postwar period. It was also a different kind of recession, precipitated by a financial collapse and real estate speculation and perpetuated by political opportunists willing to prolong our suffering in the hopes of electoral benefit. Recessions caused by the banking sector historically have very slow recoveries.

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Notwithstanding the deniers on TV and the Internet, the economy is growing, albeit slowly. More than 90 percent of our customers have jobs, have homes and are willing to spend, especially the wealthy. There's tremendous pent-up demand, and there's also a huge demographic wave of retiring baby boomers headed our way who will inherit $75 trillion from their parents during the next 10 years. They will need creative activities for their retirement. People are buying musical instruments every day, and they will continue to do so in increasing numbers.

When the economy is falling, it does just that. It falls straight down, sometimes with increasing velocity, and then bounces along the bottom. Recoveries are different. They begin slowly and go through fits and starts. Because we're climbing rather than falling, it's always a struggle. Growth eats cash. It doesn't start to seem easy until we reach a plateau near the top, and that's when we should start to worry. Instead, we project our growth into the future, and the cycle starts all over again.

THIS TIME IT'S DIFFERENT

We're having a different kind of recovery. Unemployment is going to be with us for a while. Manufacturing employment had been falling for 10 years prior to 2007. The recession was more the straw that broke the camel's back than the principal cause of our current unemployment problem. And we have never had a sustained recovery without growth in public-sector (i.e., government) jobs. But the public sector is laying off workers faster than the private sector can hire them. Those wanting a smaller government are getting their wish, but at a huge cost. So no, we are not having a jobless recovery. Businesses are hiring, but they're not hiring as fast as governments are laying off.

The housing crisis is primarily caused by oversupply, which, of course, depresses prices. Little by little, that supply is being sold. Parts of the country, such as South Florida, are actually experiencing housing booms — or maybe boomlets. But it's going to take time to absorb all this excess housing inventory. And let's not overlook the good news: People snatching up deals on foreclosed properties or short sales have more money available to furnish them with such things as expensive musical instruments.

Naturally, unemployment and foreclosures make good fodder for TV news and are a powerful psychological drain. Coupled with the debt debate, all this bad news has depressed consumer confidence. The sharp August drop in the Consumer Confidence Index was almost entirely the result of media coverage of the debt stalemate. Many of the smartest economists are now saying our biggest economic problem is a lack of confidence.

Unless there's a fresh catastrophe or scandal, certain elements of the media will predict pending economic disaster notwithstanding the facts. These experts have failed to predict every recession since World War II and have predicted dozens that never happened.

ATTITUDE, NOT APTITUDE

Business owners who buy into the bad news and wear it on their sleeves are like competitive swimmers who strap weights to their ankles. Wearing rose-colored glasses won't guarantee success, but it does no harm. Predicting failure, on the other hand, is likely to be a self-fulfilling prophecy. Nothing has more impact on a dealer's success or failure than the attitude of the owner. Recently, we've heard from dealers who think they're in a recovery, and their businesses are improving. I've also spoken with dealers whose business is lousy, and they invariably blame the economy.

Hard-core retailers innately understand that the economic and political cycles are like the weather. They always exist, and we're hopeless to affect them. We must generate wealth when the sun shines, store some of it for a rainy day and batten down the hatches when storms loom on the horizon. The trick is to not repeat past errors when the sun shines again — to stay lean and reinvest at least some of the profits. And it's really hard.

Customer profiles are also different in this recovery. Americans in the top 5 percent, by income, now account for 37 percent of all consumer spending. Appealing to these high-fliers is no longer optional. They have different expectations for merchandise and merchandising, so we have to modify what we sell and how we present it. At the same time, the Internet has become a haven for shoppers seeking only the lowest price. This recovery will see weakest demand in the middle price range for most products.

Steinway's marketing department recently sent a "good news" e-mail blast after a pause of more than two years. It reported successful sales events in New York; Paramus, N.J.; and Detroit. (Yes, Detroit.) High-end buyers are definitely back.

We are starting this recovery with fewer competitors, and it's going to be pretty hard for new competitors to appear. If a new player does get in, he's going to be working on his own money, so he's likely to play a pretty conservative game.

There are specific things we can do to make this recovery easier and more profitable. And there are ways to avoid past mistakes as things continue to improve. (See "Recovery Plan" sidebar.) But it's our attitude rather than our aptitude that will determine our altitude. There is nothing to be gained by talking down the recovery, discussing debt or complaining about the government. There's much to be gained by providing an encouraging word. Don't defeat yourself and your staff with a depression mentality before you even open your doors and turn on the lights. MI

Greg Billings whispers to customers at the Steinway Piano Gallery in Naples, Fla. He welcomes questions and comments at greg@steinwaynaples.com.

RECOVERY PLAN

1. **RECOGNIZE THAT WE'RE IN A RECOVERY, AND SPREAD THE GOOD NEWS.** If your cable TV talking head is trashing the economy, change the channel. Make sure your employees know things are getting better, even if you have to tell them every day. Be a leader. If you have a wet blanket, shut him up or fire him. If you're the wet blanket, shape up.
2. **TELL CUSTOMERS HOW GOOD THINGS ARE AND THAT YOU HAVE CONFIDENCE IN THE FUTURE.** Let them know that you appreciate them sticking with you during the difficult times and they can expect even better service in the future.
3. **MAKE YOUR STORE MORE APPEALING TO HIGH-END BUYERS, BOTH WITH FACILITIES AND PRODUCT.** They demand service they can't get online, and they don't mind paying for it.
4. **BE GRACIOUS ABOUT THOSE WHO ARE NO LONGER WITH US.** Gloating about former competitors or boasting will come back with a bite. Look for market opportunities created by their demise.
5. **GENTLY NUDGE YOUR ADVERTISING BUDGET, BUT BE SMART.** Don't go back to the black holes of print and broadcast. Tweak your website, make more Facebook posts, take more pictures and shoot more video. Mail more targeted, timed offers to your in-house list. Come up with a coupon. (Coupons are hot right now.) Offer a gift card. Approach big sale events with caution. Be suspicious of anything proposed by a supplier.
6. **TAKE ADVANTAGE OF THE FACT THAT YOU HAVE FEWER COMPETITORS, AND PUT PRESSURE ON SUPPLIERS.** If they want their product promoted, make them come up with the money — or most of it. There aren't enough good music retailers, and there are too many suppliers. This is a great time to demand exclusivity and leverage emerging lines. Cherry-pick, push for terms and freight allowances, but don't buy anything you can't sell within 90 days. If you get a nasty supplier letter telling you what a lousy job you're doing, ignore it.
7. **REFINANCE WHILE RATES ARE LOW AND WHEN YOU DON'T NEED THE MONEY.** This is a great time to replace a floor plan with a line of credit from a local bank. A LOC enables you to take advantage of cash discounts that help offset interest charges.
8. **ANY BILL THAT DOESN'T OFFER A DISCOUNT SHOULD BE PAID WITH A REWARD-BEARING CREDIT CARD.** Costco has a free Amex card that pays back up to 4 percent, and Amex also offers a Plum Card that pays 1.5 percent, 10 days. The billing cycle can make this 1.5 percent 45 days. Lowe's has a card that pays 5 percent. Most routine expenses, such as utilities, can be put on automatic payment to a rewards card, saving time and money.
9. **REVISIT ALL THE COST CUTS YOU MADE THREE YEARS AGO.** There are more to be gleaned. LED light bulbs pay for themselves in a year and save money for 10 years. The big-box office supply stores have coupons available all the time. Credit card processors are very competitive, and NAMM has a slew of other programs to reduce members' expenses.
10. **IF YOU'RE NOT ALREADY USING A PAYROLL SERVICE, EVEN FOR JUST FIVE EMPLOYEES, IT'S TIME TO SIGN UP.** We've found that the savings on workers' comp insurance alone has saved us enough to pay the entire cost of our payroll service.
11. **WRITE A NEW BUDGET, AND RECALCULATE YOUR BREAK-EVEN POINT.** If you don't know what it is, ask your accountant. It's your most important economic tool.
12. **GROW WITH CAUTION. PROMOTE FROM WITHIN.** A fancy title, more responsibility and a little extra cash might yield more productivity than a new employee who will have to be trained and has, at best, a 50/50 chance of survival. Overtime is still a bargain compared to the cost of a new employee. If you're going to hire, employment is a buyer's market now. — *G.B.*