

6 The Dumbest Things Music Retailers Do 9

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Grow Your Business

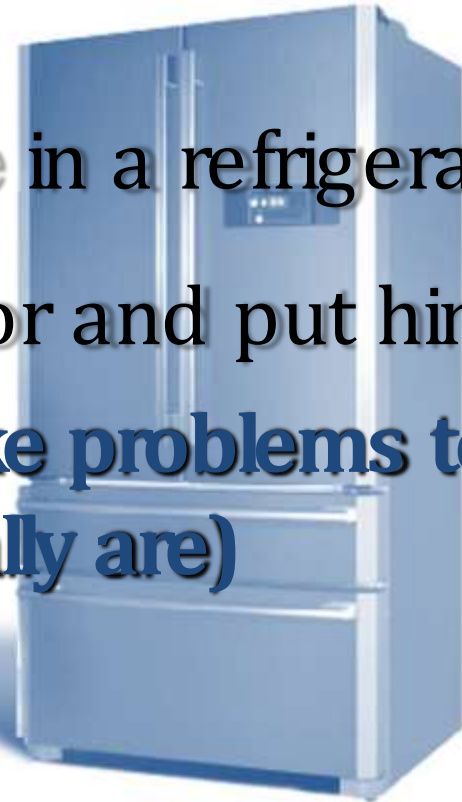
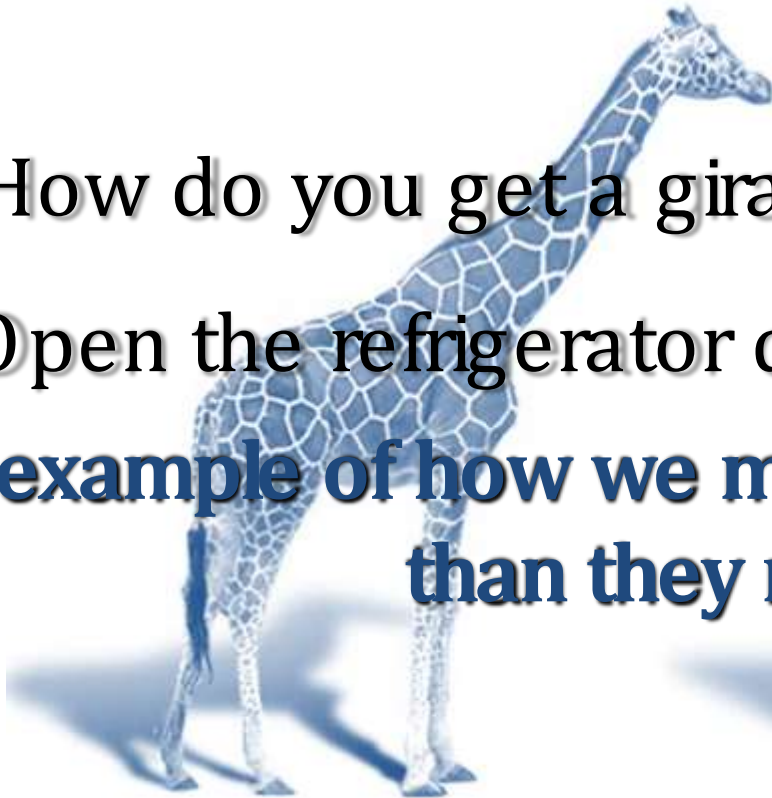
Presented by: *Alan Friedman & Daniel Jobe*



Q: How do you get a giraffe in a refrigerator?

A: Open the refrigerator door and put him in.

(An example of how we make problems tougher than they really are)

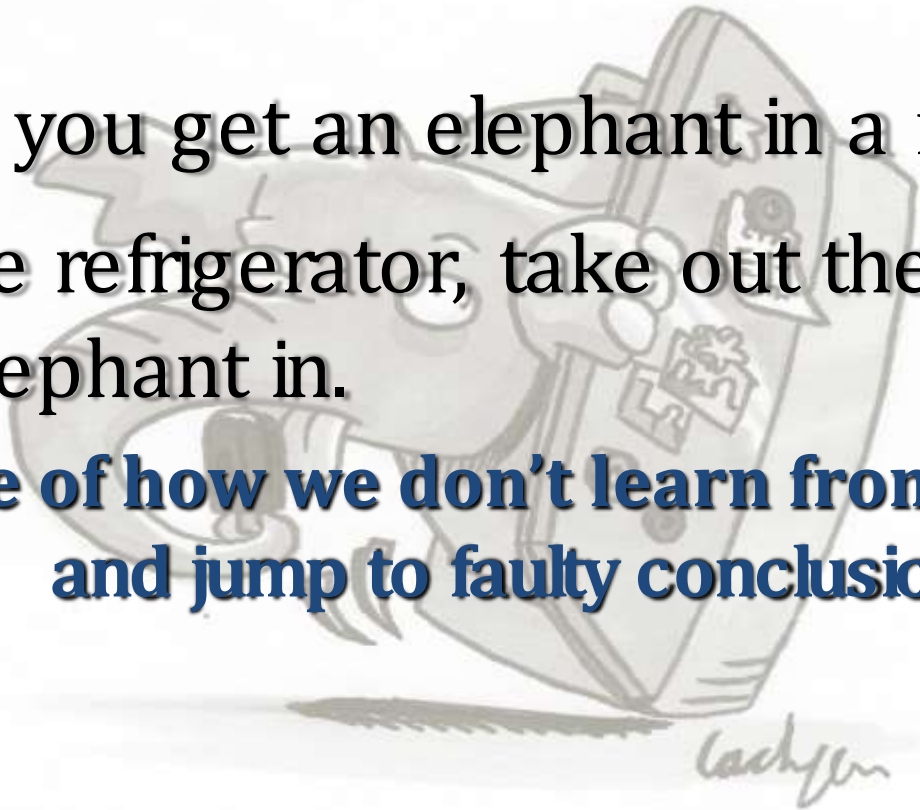




Q: How do you get an elephant in a refrigerator?

A: Open the refrigerator, take out the giraffe, then put the elephant in.

(An example of how we don't learn from our mistakes and jump to faulty conclusions)





Q: There's a meeting of all the animals in the jungle. Which animal doesn't show up for the meeting?

A: The elephant. (remember...he's in the frig)
(An example of how we tend to forget relevant facts when solving a problem)



Q: You want to cross a river that's filled with alligators. How do you cross safely to the other side of the river?

A: You swim across ... all the alligators are attending the jungle meeting.

**(An example of we can't seem to think
“outside of the box”)**



- This test was given to a group of Andersen Consultants – 90% of them got all the answers wrong
- This same test was given to a class of 6-year old kids – 90% of them got at least 3 of the 4 answers correct
- Moral: **Just because you're older, it doesn't make you smarter.**





I see stupid people
walking around acting like they are smart.

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The "20" Dumbest Things Music Retailers Do

(...keep track of how many of these you're doing...)

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#1. Too Much Inventory



- Ask yourself: (1) Can I sell this? (2) Will I make a profit? (3) How quickly can I sell this (4) How quickly do I have to pay for it?
- All about inventory “turns” and gross profit “dollars” (not gross sales or GP%)
- Blow out the dog merchandise (that’s costing you 30% more after 12 months !!)



MONTHLY RATES FOR INSTRUMENT RENTALS

Instrument	Brand	Used	New
Violins 1/16 - 4/4	Eastman • Glaesel • Scherl & Roth	\$10-17	\$18
Violas	Eastman • Glaesel • Scherl & Roth	\$10-20	\$18-25
Cellos	Eastman • Glaesel • Scherl & Roth	\$30	\$35
Clarinets	Armstrong • Selmer • Vito • Buffet	\$14-17	\$18
Flutes	Armstrong • Selmer • Gemeinhardt	\$14-17	\$18
Oboes	Armstrong • Linton • Selmer	\$30	\$35
Piccolos	Armstrong • Selmer • Gemeinhardt	\$17	\$18
Saxophones	King • Selmer • Jupiter • Vito	\$30	\$35
Drum Kits	Ludwig • Vic Firth	\$12-17	\$18
Percussion Kits	Ludwig • Musser • Vic Firth	\$12-17	\$18
Trombones	Bach • Holton • Jupiter • King	\$16-17	\$18
Trumpets	Bach • Holton • Jupiter • King	\$16-17	\$18
Baritones	Jupiter	\$30	\$35

Call for rates on French Horns, Bass Clarinets and other instruments.

#2. Using The Wrong Accounting Method for Rentals





- Show ownership of rental assets in a fixed asset category (i.e. rental instrument pool); not in inventory
- Depreciate “rent-to-own” assets for 3 years, “rent-to-rent” for 7 years for tax reporting
- Record only the monthly payment you receive as rental income; remove asset cost and accumulated depreciation when sold



#3. Mismatched Financing





- Finance **short-term assets** with **short-term debt**; finance **long-term assets** with **long-term debt**
- Never finance store furniture, office equipment, vehicles, leasehold improvements or rental pools with cash, A/P or even lines of credit
- Only current assets (A/R, inventory) should be financed with trade credit or short-term bank debt
- Finance long-term assets with 3 to 10 year fully-amortizing installment notes



#4. Aging A/R and Rental Receivables





- Apply due diligence when extending credit (credit reports, references, F/S); get deposits, credit cards, signed promissory notes
- Start calling delinquent A/R the first week they're late, not a month later
- Consider charging interest and late fees
- Don't be afraid to get "aggressive" with collections...it's your money !!



#5.

**Not Knowing
“Who’s your
customer?”**



- Find a niche, exploit it by providing “great service”
- Create new related revenue streams (companion product sales? Rentals? Repairs? Lessons? etc.)
- Promote that niche product / service (with website updates, clinics, store events, etc.)
- Partner with other businesses
- Can't afford to be that niche? Change your model!

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#6. Poor Compensation Plan



- Reward staff for the behavior you seek
- Sales staff should be compensated based on sales & profit goals, not straight salary
- Find a way to measure and reward results achieved by non-sales staff
- Consider a “store-wide” bonus plan to improve sales and promote teamwork
- Take care of your #1 asset – your employees



#7. Internal Theft and Fraud





- Segregate all bookkeeping functions (cash & A/R, bill paying & A/P, purchasing & ship/rec)
- Take frequent physical inventories in teams of two; do “cycle counts”
- Timely reconcile cash, register tapes, and book vs. physical inventory differences
- Be aware of lifestyle changes
- Owners need to get involved!!



#8. No Physical Inventory





- Maintain and count inventory by separate and distinct departments (guitars & amps, drums, band, keyboards, print, etc.)
- Each month, do an inventory count of just one dept (a.k.a. “cycle counts”)
- Count inventory in teams of 2, but with only one employee from the department being counted
- Compare counts to inv data; reconcile differences



RETAIL UP!



#9.

Non-Integrated Accounting Software





- Use an “integrated” software solution that meets the special needs of music retailing (i.e. Point-of-Sale, Instrument Rentals, Repairs, Music lesson scheduling)
- Check out these Music Retailing solutions:
 - “AIMsi”
 - “Retail-Up”
 - “Tyler Systems”



#10.

**Outdated Technology,
No Verified Backup, No
Continuity Plan**



- Today's competitive environment **demands** you adopt current technologies:
 - Attractive, enticing & updated website with e-commerce and social media presence
 - Virtualization of workstations
 - Onsite and offsite “tested” backups
 - Internal / external I.T. specialist
- Get ready to say goodbye to onsite servers!



I'M TOTALLY AWESOME MUSIC STORE
 INCOME STATEMENT
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>\$</u>	<u>%</u>
REVENUES	\$ 1,000,000	100.0
COST OF GOODS SOLD	400,000	40.0
GROSS PROFIT	<u>600,000</u>	<u>60.0</u>

"I don't think so..."

#11.

**No Separate
 Measure of
 Revenue
 Profitability**



- “Sales” and “Cost of Goods Sold” need to be segregated to arrive at a true gross profit %
- Rental income should be reported net of depreciation; lesson income, net of teacher salaries; repair income, net of repair wages, repair parts and contracted repair services
- These are “material” sources of music retailing income & expense and s/b reported separately



Solutions to Proper Reporting of Music Retailing Income

SMART MUSIC, INC.
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2016

	<u>\$</u>	<u>%</u>
REVENUES (Schedule 1)	\$ 2,400,000	100.0
DIRECT COSTS (Schedule 1)	<u>1,325,000</u>	<u>55.2</u>
GROSS PROFIT	1,075,000	44.8
OPERATING EXPENSES (Schedule 2)	<u>1,000,000</u>	<u>45.6</u>
INCOME FROM OPERATIONS	75,000	(0.8)
OTHER INCOME (EXPENSE)		
Interest and dividend income	5,000	0.2
Interest expense	<u>(30,000)</u>	<u>(1.3)</u>
NET INCOME	50,000	<u>(1.9)</u>
BEGINNING RETAINED EARNINGS	<u>100,000</u>	
ENDING RETAINED EARNINGS	<u>\$ 150,000</u>	

SMART MUSIC, INC.
SCHEDULE 1 - ANALYSIS OF REVENUES AND DIRECT COSTS
YEAR ENDED DECEMBER 31, 2016

	<u>\$</u>	<u>%</u>
RETAIL SALES		
Sales	\$ 1,000,000	100.0
Cost of goods sold	<u>(700,000)</u>	<u>(70.0)</u>
	<u>\$ 300,000</u>	<u>30.0</u>
RENTALS		
Income	\$ 900,000	100.0
Rental Depreciation	<u>(300,000)</u>	<u>(33.3)</u>
	<u>\$ 600,000</u>	<u>66.7</u>
LESSONS		
Income	\$ 300,000	100.0
Instructor costs	<u>(150,000)</u>	<u>(50.0)</u>
	<u>\$ 150,000</u>	<u>50.0</u>
REPAIRS		
Income	\$ 200,000	100.0
Repair labor expense	(150,000)	(75.0)
Repair parts expense	<u>(25,000)</u>	<u>(12.5)</u>
	<u>\$ 25,000</u>	<u>12.5</u>



#12.

No Budgets





- If you want to be profitable, then “plan for it”
- Most acctg software solutions have budgeting
- If not, use spreadsheets (i.e. Excel) to budget revenues, CGS and other direct costs, detailed overhead expenses – and cash flow projections!!
- Update it monthly with actual results and make any necessary adjustments to assure profitability by year-end



#13. Excessive Debt



- **Blow out excessive inventory, which will...**
- **Create immediate cash that can be used to reduce debt, which will...**
- **Reduce interest and flooring costs, which will...**
- **Increase profitability and cash flow**
...and the “good” cycle starts again!!



#14. Poor Vendor Relations



- Successful relationships with suppliers are maintained through “open, honest and frequent” communication, especially when unexpected problems occur
- Even if it’s bad news, keep vendors in the loop – when invoices grow old, no news is NOT good news
- You’d be surprised how much a vendor will help when treated with respect



#15.
**No Timely
Review of
Financial
Data**



- Use a single “integrated” music retailing accounting software
- No less than “once a month” review:
 - Financial statements (balance sheet and P&L)
 - Sales and inventory analysis (GMROI)
 - A/R and A/P aging reports
 - Updated budgets



#16. No Tax Planning





- Before the end of your business fiscal year, meet with your accountant to determine an estimate of taxable income and potential tax liabilities
- Develop a “tax minimization strategy” by deferring revenue and accelerating expenses **BEFORE** your business year-end
- Employment bonuses, purchases of “needed” goods & services, and Sec. 179 depreciation are often an effective way of reducing tax liabilities



#17. Poor Professional Advice





- Your advisors should all have, at a minimum, a strong understanding of retailing, if not “music retailing”...
 - **Accountants**...retail inventory analysis, “rental” accounting & taxation
 - **Bankers**...finance inventory & rental pools
 - **Lawyers**...federal & state rental contract and labor laws
- Are you well-versed on...
 - Virtualized computer networks, trends in website dev. & social media?
 - F/S analysis, tax return prep and compliance with U.S. tax law?
 - Labor laws, landlord leases, rental contracts? **If not, then don't !!**



#18. No Succession Plan (exit strategy)





- The time to do succession planning is “before” something unexpected happens
- Start grooming a successor now! It usually takes 5 to 10 years to groom one’s management ability
- If no heir is apparent, start “planning” to sell the business at its highest value
- Wills, trusts and insurance can help minimize estate taxes and leave more to your family



#19.

**The Emperor Is Wearing
Too Many Hats**





- Wearing “too many hats” leaves you, at best, a jack of all trades and master of none
- Are working “on” or “in” your business?
- If you’re not an expert, then hire one!
- What’s the value of your business if you do many key or unique functions and you get hit by the proverbial bus?
- Delegate and manage



#20.
Work / Life
Balance



- Step back and assess
- Work smarter, not harder
- Attend NAMM U programs and take the online courses
- Re-affirm your short & long-term goals; get professional help if needed
- ...or get out !! Remember, life is way too short if it's no longer fun

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Solutions to Quality Life

NAMM[®]
idea
center



NAMM U Events
▶ 2016 Summer NAMM Sessions

Idea Center

Retail Boot Camp

NAMM U Online

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**Dumb
happens.**

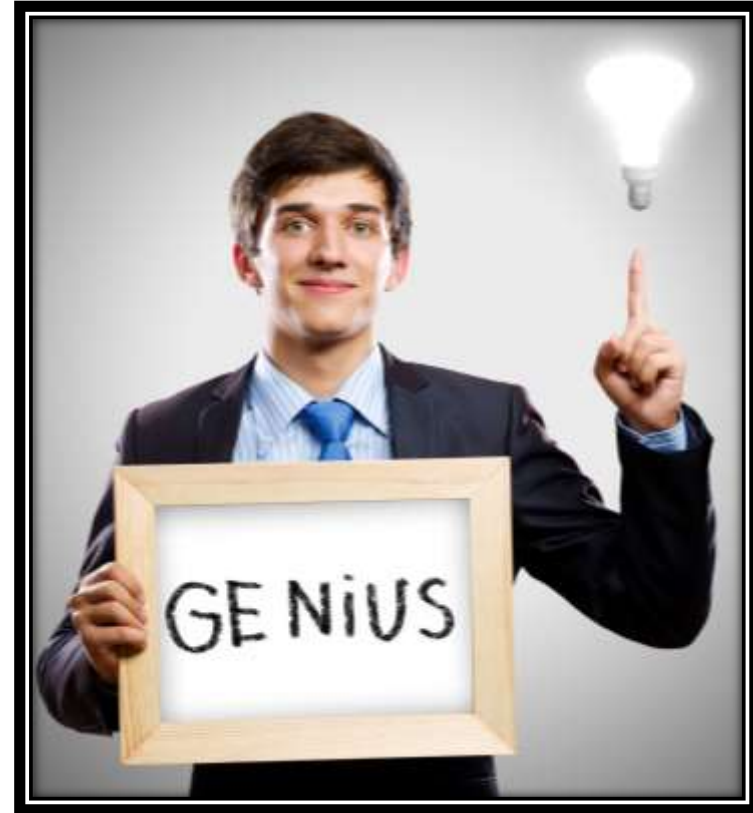
**Okay...Let's get
the results...**





“0” Dumb Things

You're either
“lying” or
you're not a
music retailer





“1-5” Dumb Things?



With a little fine tuning, you'll continue to run a successful music store, retire with lots of money, and join an AC/DC cover band



“6-10” Dumb Things?

- Using today’s info, pay closer attention to your business so you can make it to retirement
- Go to NAMM U Online
- Forget about the AC/DC cover band – you’re too old anyways





“11-15” Dumb Things?

- You've got some business issues that need your attention...
- Get together with your staff and address these problems
- Hire some professionals to help you
- Sign-up now for Retail Boot Camp at the 2017 NAMM Show!





“16-19” Dumb Things?

- **Hurry, there's little time left!! Fill your NAMM Show schedule with NAMM Idea Center sessions and go to NAMM U with your entire staff for some training**
- **Hire some more professionals, including a shrink**
- **Spend hundred of dollars at the NAMM Bookstore on self-help books...and some nice swag...:>)**
- **Read the last 25 years of Alan Friedman's financial column in Music Inc. magazine**
- **Cash in your 401(k), buy a Lotto ticket, sell your '59 Les Paul brown burst, and hope for the best.**





“20” Dumb Things?

