"The Most Dangerous Things Music Retailers Do"

NAMM® | U

Grow Your Business

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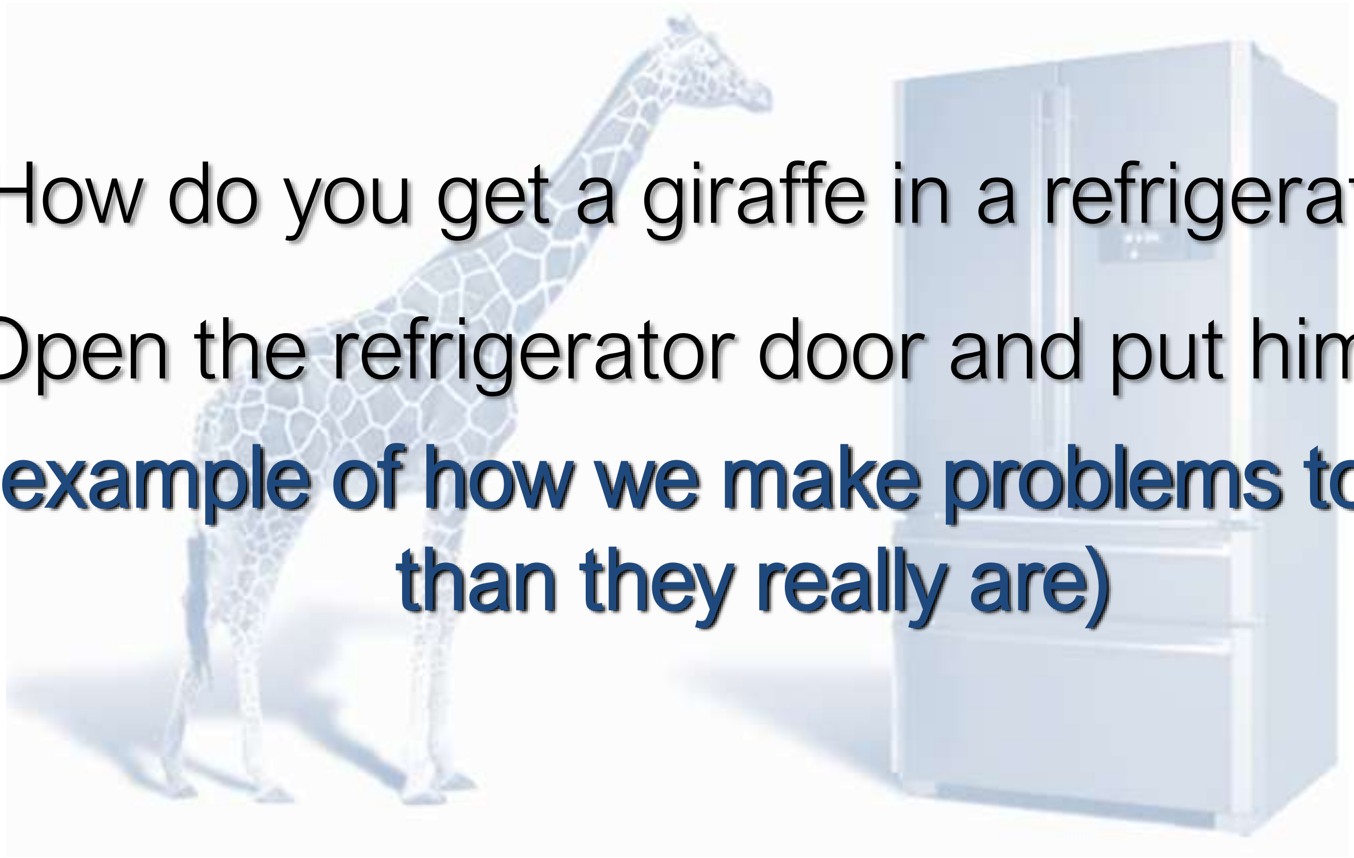
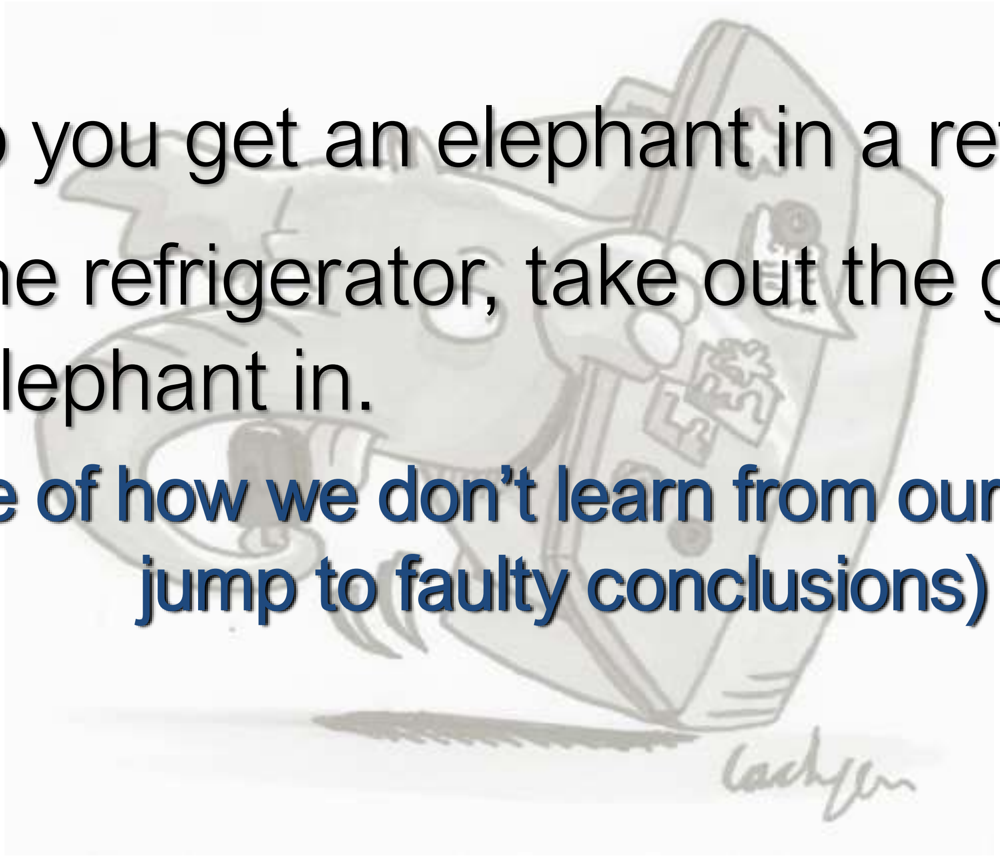


Q: How do you get a giraffe in a refrigerator?

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)

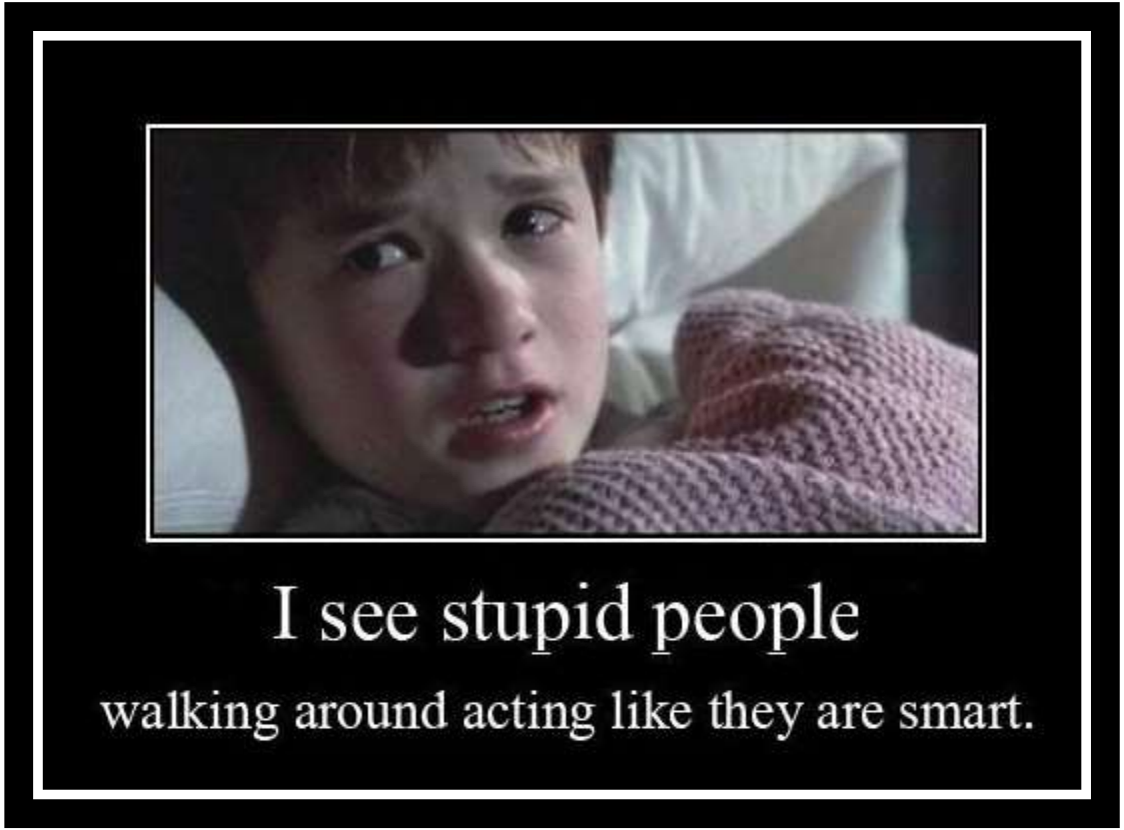
Q: You want to cross a river that's filled with alligators. How do you cross safely to the other side of the river?

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.

#1. Ignoring Your Largest Asset – Inventory!

Dangerous Pitfalls

- Not monitoring your inventory
- Being told what you need to sell
- No physical inventories!

Solutions to Bad Buying

- 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 !!)
- Take cycle counts!

#2. No Timely Review of Financial Data

Dangerous Pitfalls

- Unable to make sound decisions
- Receivable collection issues
- Missing trends in your business

Solutions to Timely Financial Data

- 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
- Utilize key employees to assist and hold you accountable
- Develop a budget or forecast to watch trends

RETAIL UP!

rain
RETAIL SOFTWARE

TylerNet Since 1980
Retail Management Solutions

AIMsi
tri-technical systems

#3.

Non-Integrated Accounting Software

Dangerous Pitfalls

- “Double-Entry” of data
  - Possibility of Errors
  - Labor intensive
- Difficult to pinpoint inconsistencies
- Internal Financial Delay – bankers or potential buyers

Acctg Software Solutions

- 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
  - Rain
  - Retail-Up
  - Tyler Systems

#4. No Rainy Day Fund

Dangerous Pitfalls

- Mismatched Debt Structure
  - Short-Term Debt (payables/LOC) = short-term assets
  - Long-Term Debt (multiple year loan) = fixed & rental assets
- No working capital
- Miss “big” business opportunities

Solutions to Excessive Debt

- Blow out excessive inventory, which will…
- Create immediate cash that can be used to reduce debt, which will…
- Reduce interest/flooring costs, which will…
- Increase profitability and cash flow

…and the "good" cycle starts again!!

#5. The Owner Is Wearing Too Many Hats

Dangerous Pitfalls

- Owner "is the only one" that can do: sales, repair, accounting, rentals, ordering, building repairs, take the money to the bank, sweep the floors, etc….
- No quality of life – business/personal

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Solutions to Being "Cheap and Stupid"

- 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

#6. Underpaying Your Most Important Asset: Employees

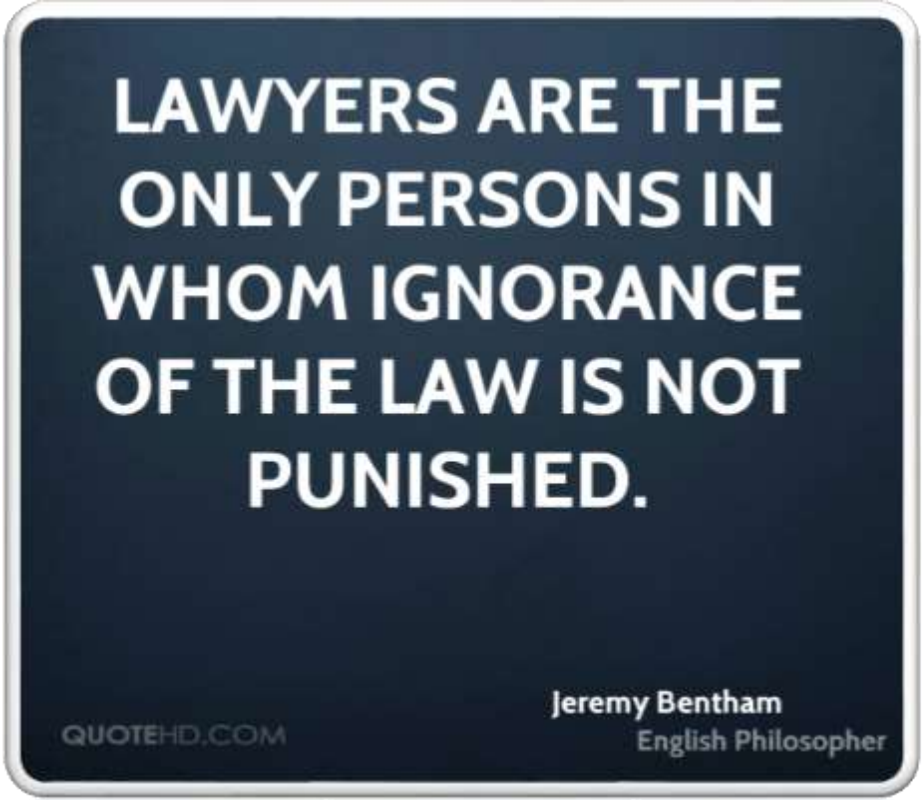
Dangerous Pitfalls

- They don't provide good service
- They find ways to "get paid"
- They go work for your competitor
- You feel like you are being "held hostage"

Solutions to Bad Comp 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

#7. Not staying compliant with State & Federal Laws



Dangerous Pitfalls

- Not charging, collecting and remitting the correct amounts of sales tax
- Not being registered to do business
- Open yourself to employment lawsuits

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Solutions to Stay Compliant

- Build your professional team:
  - Attorney – review all legal agreements
  - Accountant – tax compliancy
  - Insurance Agent – make sure you are covered
  - Banker – have access to funds
  - Payroll and/or HR Company – compliance
- Utilize your resources – NAMM, SCORE by SBA

#8. Ignoring your Infrastructure

Dangerous Pitfalls

- Employees that “do it all”
- Allowing employees to “figure it out”
- Forgetting to “inspect what you expect”

Solutions to Stay on Track

- Create and Build Infrastructure – include key staff members
- Write internal processes
- Think “customer perspective” and build infrastructure to provide excellent service

#9. "Tune out" your insurance needs

Dangerous Pitfalls

- Underinsured for inventory levels
- Not covering your teachers
- Thinking “nothing will ever happen to me”

Be properly insured!

- Build a trusting relationship with your agent
- Share your business plan with your agent
- Insurance policies to consider:
  - Business interruption
  - Sexual harassment
  - Umbrella Policy

#10. No Succession Plan

Dangerous Pitfalls

- Something unexpected happens
- You miss the "sweet deal"
- Your family is left to "figure it out"

Succession Solutions

- 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

Okay… what do ***you*** need to address?

- Ignoring your inventory
- Monthly financial reviews
- Non-integrated systems
- No Rainy Day fund
- Wearing too many hats
- Underpaying your people
- Out of compliance with state & federal laws
- Not working “on your business”
- Improperly insured
- No exit strategy


Q.
A.