“The Most Dangerous Things Music Retailers Do”

NAMM® U

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”)

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• 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!
Not monitoring your inventory

Being told what you need to sell

No physical inventories!
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
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
#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
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
- 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
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”
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

LAWYERS ARE THE ONLY PERSONS IN WHOM IGNORANCE OF THE LAW IS NOT PUNISHED.

Jeremy Bentham
English Philosopher
Dangerous Pitfalls

- Not charging, collecting and remitting the correct amounts of sales tax
- Not being registered to do business
- Open yourself to employment lawsuits
Build your professional team:
- Attorney – review all legal agreements
- Accountant – tax compliance
- 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”
- 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”
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