

{RETAILFIRSTAID}



# RETAIL

# FIRST AID

Stagnant foot traffic, non-existent sales, tight credit — sound familiar? **You're not alone.** Look to these four financial strategies to weather the economic storm

*By Jeff Cagle*

In December 2007, Liz Reisman moved Creative Music Center from the back of a small business complex to a more visible, 5,000-square-foot facility on the main drag in Monroe, Conn. Foot traffic increased immediately, but new customers kept commenting that they didn't know Creative Music Center sold musical instruments, despite its brand-new \$4,000 roadside sign. (The sign had the store's name in large print next to an even larger treble clef logo.)

"People would walk in and say, 'We thought you were just a music school,'" Reisman said. "They didn't know the breadth of what we did, and the sign didn't communicate that to them. At first, I refused to believe it. I mean, how could I spend that much money on a sign and have so many questions about what we did? But as the months went by, the questions kept coming. It was really very frustrating."

When the economy slowed last year, she sat down to plan how to weather the oncoming storm. Her plan included investing in a new sign with the hope of boosting store traffic and revenue.

"I did *not* want to replace that sign," she said. "I'd had it built in 2007 for a ton of money, and here it was 2008, and I'm [thinking of] replacing it. But the first sign was a mistake, and I had to suck it up, spend the money and replace it."

Creative Music Center's new sign features an acoustic guitar sticking out toward oncoming traffic, along with "sales, rentals, lessons and repairs" in bullet points under the store's name and logo. And according to Reisman, after the sign went up in December 2008, the questions stopped overnight.

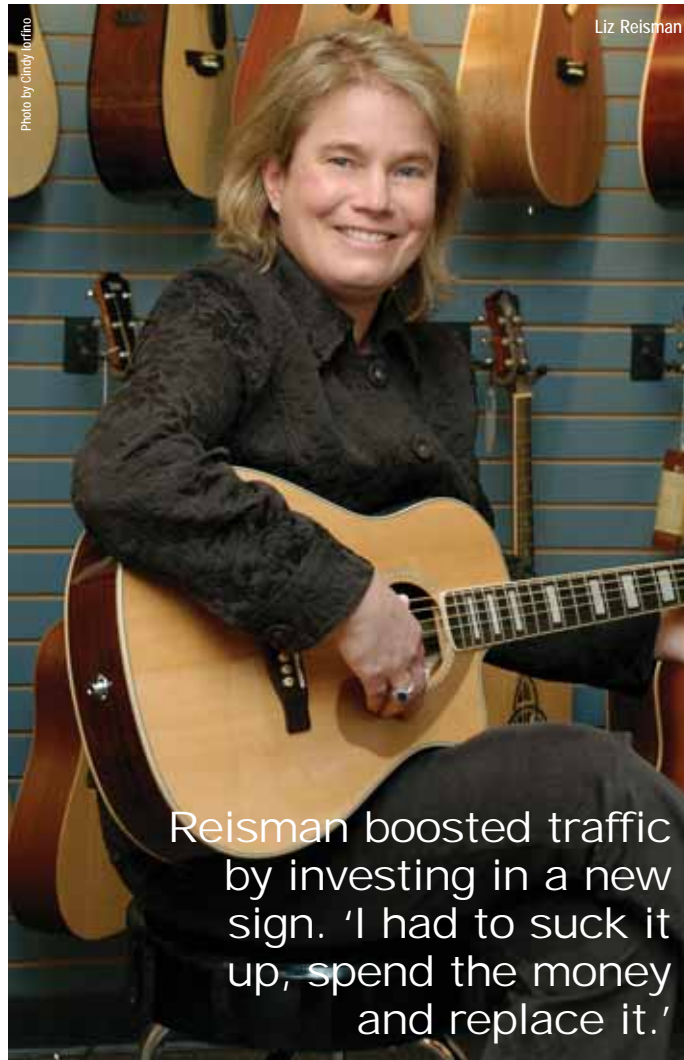
Foot traffic increased, and fretted instruments sales, in particular, skyrocketed in the coming months. (Reisman said overall gross fretted sales were up year-to-date 68 percent in January and 78 percent in February.) Reisman's sales boost will now help offset losses due to a more cautious clientele in the economic recession.

Planning for the future should be a continual process, especially in a down economy. But sometimes retailers just need a shot in the arm, a Band-Aid like Reisman's sign to get through a rough year. *Music Inc.* columnist and retail financial guru Alan Friedman, a founding partner of Friedman, Kannenberg & Co., nailed down four key strategies to help ensure the short- and long-term success of music dealerships.

### + NO. 1: BORROW MONEY

Borrowing money can prove challenging in a rough economy. This is especially true for school music dealers with a significant rental pool, which can provide cash flow over a long period but in small increments. According to Friedman, two of the worst things a retailer can do when borrowing money are trying to pay for a rental pool out of cash flow or with short-term financing, and borrowing over a long period of time to fund operating costs.

"If you're going to borrow money, you want to make sure you're borrowing it wisely to



Reisman boosted traffic by investing in a new sign. 'I had to suck it up, spend the money and replace it.'

grow your business or to match cash flows," Friedman said. "You need to borrow on a long-term basis over three, four or five years, and advertise that debt."

"What you don't want to do over a long period of time is borrow money to fund operating losses. While that is the prudent thing to do for a year if you record a loss and are tight on cash and you need it to get through the rough year or to recover, you don't want to make a habit of doing that because then you're just throwing good money after bad. You ultimately want to fix the profitability of the business before you resort to operating money."

Ray Guntren, president of

Ray's Midbell Music in Sioux City, Iowa, said banks were initially unenthusiastic about loaning him money. His rent-to-own contract was creating a problem, and his balance sheet needed to be repositioned to state his store's rental assets correctly and subsequent depreciation. Guntren's accountant stepped in, explaining to the banker that depreciation was a non-cash expense. Since his rental assets were put on a contract with a three-year payout, Guntren requested funding those assets on a three-year payout, so rental income was flowing to match bank loan payments for the assets.

"Our next job was to always pay on time and communicate

any changes in the business climate that may have occurred," Guntren said. "Our banker suggested and we adopted a simple loan and pay-back plan. He established a line of credit at the beginning of the year, which positions us to buy right and take every early pay discount that we can. At the end of the year, after we have tapped all available funds, we then convert the line of credit to a three-year note, and the bank in turn establishes a new line of credit for us. We have done this effectively for the past eight or nine years."

### + NO. 2: INVEST MONEY

Getting money from a bank might not be a viable option with the current credit crunch. Other options for borrowing money to invest can include money from savings accounts, retirement funds or home equity lines. But putting personal finances on the line can come at a great cost.

"If you're not running your business in a fiscally responsible manner and you're not generating revenue during a rough economy to keep your business afloat, investing money from a savings account or leveraging critical assets like a home could be the worst thing you could do if you fail," Friedman said. "You've got to make an assessment to whether the business is ultimately going to survive before you make that investment."

If banks aren't lending money and the risk of your personal financial security seems too great, outside investors are another option for raising capital. Jeff Tarae, CEO of Music Matters in Roswell, Ga., went to outside investors when his plans to grow the dealership ran into the closing credit door.

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Tarae and his business partner looked to three areas for investors: their family and friends, customers who had previously expressed interest, and staff members.

Tarae said approaching outside investors requires a much more focused business plan than when dealing with a bank, which might only require profit-and-loss statements from the past few years before establishing a line of credit. As such, this provided him with an opportunity to sit down, review the past few years, and crystallize Music Matters' short- and long-term goals.

"Our business plan was comprised of a financial analysis, personnel [information], customer demographics and what makes us different," Tarae said. "The main [objective] for us was showing a stable business with potential growth opportunities, leading into why we're looking for this money."

Tarae said it took four to five meetings before his company found an investor. "There is money out there looking to be placed, and there are people who are willing to take some type of risk," he said. "But it really needs to be backed up with a stable business plan, preferably [from someone] who has a fair amount of operating experience. The combination of the stability of the business and the future plans for it allowed us to have some very productive conversations both with experienced investors and others who were looking to invest their own capital in small businesses."

### + NO. 3 INCREASE REVENUE

Borrowing and investing money may be two short-term options in a rough economy, but neither add to a business' bottom line. Still,



Mike Schaner, general manager of PM Music in Aurora, Ill., said he has found that using long-term debt to finance long-term assets, such as a store's rental pool, can also increase cash flow and provide opportunities to increase revenues in other departments.

"We've been able to use that [increased cash flow] and invest it in other areas to increase top-line revenues in other departments," he said. "It freed things up for us to purchase step-up instruments that will sell faster, and we put some money into the additional lesson rooms we've built in the past year."

Raising revenue also lets retailers flex their business savvy and creativity. **Reisman, for example, challenged her sales staff to sell 50 guitars from the beginning of November until Dec. 31 of last year.**

"I was cautiously optimistic

## Guntren has raised his rental rates \$1 per month to boost revenue

that we'd hit the number, but what drove it home was when my 13-year-old daughter created this huge drawing of a guitar in which each fret represented one guitar sold," Reisman said. "We hung the poster in the lunch room, and every time we sold a guitar, we colored in a fret. Pretty soon, the whole staff was [doing it], and everyone checked the sign to see our progress."

By the end date, Reisman's staff had sold 94 guitars. She credited the Hawthorne effect as the inspiration for the idea, paraphrasing it by saying whatever gets measured increases

10-fold, but whatever is measured and written down increases 100-fold.

Reisman also planned more events to increase traffic in her store. She mentioned that even if an event doesn't raise revenue by itself, the buzz often creates a sense of community and translates into additional sales. More recently, **she began hosting an event per month, then one or two each weekend in December. These included a visit from Santa, a fastest drummer contest with drummer Liberty DeVitto and a holiday community sing-along.**

"We hosted the events to generate buzz with our customers and buzz with the media," Reisman said, noting that her store received mentions in the calendar sections of local newspapers.

Guntren suggested raising prices as another way to increase revenue, but he cautioned only doing so in departments, such as rentals, where the increases can be made in small amounts. "We process quite a few rental payments each month," he said. **"An increase in monthly rental rates of \$1 per month can result in thousands of additional dollars added to your income statement.** The \$1-per-month additional charge is hardly noticeable to the consumer."

### + NO. 4: DECREASE EXPENSES

Business owners can also use the tough times to re-evaluate expenses and see where they can trim.

Grant Billings, owner of the Steinway Piano Gallery in Madison, Wis., said that he implemented a system of "times 12" to cut costs. **He multiplies every monthly expense by 12 to think about the big number, then multiplies his potential savings by 12 to decide if it's**

worth cutting the cost with the inconvenience. This method helped him look into his telephone usage. He eliminated a line, dropped down to a simpler plan and saved more than \$600 annually.

Billings also took a closer look at his utilities. He removed track lights that weren't being used efficiently and replaced floodlights with spotlights of the same wattage, running them at about 85-percent power. He said it saved a bit on the store's electric bill but cautioned that cutting too deep into essential utilities can send the wrong message.

"The biggest mistake a retailer can make right now is letting their operations look shoddy," he said. "Dead light bulbs need to be replaced, scuffs

on walls need touching up. I was tempted to cut back on our cleaning service, but after thinking about it, I decided that cutting back on these expenses sends a message to customers and employees that you've given up. It has never been more important to make sure everything is neat, orderly, dusted and clean than it is right now."

In drastic situations, cutting expenses means a complete re-evaluation of a dealer's business model and downsizing or going back to its roots. This was the case with Sylvia Woods of Sylvia Woods Harp Center in La Crescenta, Calif.

Woods' Harp Center operated as a mail-order business for nearly 25 years before she opened her brick-and-mortar location in 1992. In the past

several years, she noticed profits shrinking and eventually drying up. She refocused on her core mail-order and online business. In doing so, she cut expenses by cutting back from seven to four harp lines, sharing office space with her four employees and downsizing the retail store from 4,000 square feet to 1,900 square feet. The latter slashed rent and utility costs by 60 percent.

"Fortunately, I have great employees who are committed to making this business work," Woods said. "In spite of all of this, employee morale is up, and my employees are happier than they have been in a long time. We're working to increase Internet sales with more frequent e-mail newsletters to our customers and improving our

Web site by adding how-to videos and music downloads.

"Our sales are lower than they were a year ago, and it is hard to tell how much of the drop is due to the economy or due to our downsizing. But what we can be sure of is that by cutting our expenses we're much more likely to be able to weather this recession and come through on the other side with a profitable business."

"Whether you've been in business for a year or 15 years, you can't be afraid to continue to reinvent the way you conduct business and adjust to the market conditions," Tarae said. "If you continue to approach your business around that philosophy, you'll be able to adapt and plan properly with what's currently going on." MI

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