

{EMPLOYEESRULE}





by Zach Phillips, photo by Phillip Parker

Employees Rule

Amro Music has groomed some of the most committed managers in music retail. Its method?

A disclosure-heavy, open-book culture

Amro Music's Brian Stuhr reads a profit-and-loss statement on the 10th of every month. It spells out what he has made and spent for that period, and gives him a reference point for setting goals. If a number fails to add up, he'll sit down with the company's controller for clarification or, sometimes, a debate.

Stuhr doesn't answer to a bank. He's not indebted if the company should fail to turn a profit. He's not a store owner, even though he thinks like one. He's Amro Music's band accessory department manager.

From left: CJ, Chip and Pat Averwater

And among the company's employees, he's not unique in his "owner" mentality. "He's not reporting to somebody who's reading that P&L statement — he *is* the department," said Chip Averwater, Amro Music's chairman and, as of last summer, NAMM's new chairman.

"We don't have to manage [our department heads]," said Chip's brother, Amro President Pat Averwater. "They're running their own stores."

Twelve managers, in fact, are running their own stores at the Memphis, Tenn.-based music products retailer. While they're technically not proprietors, they all receive a customized department financial statement each month to help them think like the Averwaters do about the big issues: profitability, expenses, inventory, budgeting — the stuff that keeps owners up at night.

"How can we run anything without [giving managers financial statements]?" said CJ Averwater, Chip's son and Amro's general manager. "It's going to be micromanaging if we *don't* give it to them."

The statements are designed to give managers a scorecard, help them set goals and create a healthy sense of competition between departments. They also receive bonuses based on performance, so they share in the company's success. But the Averwaters' disclosure-heavy, hands-off leadership style serves a larger purpose for Amro. By sharing financial information with the 12 department heads, it gives the Averwaters the wherewithal to divide themselves in 12 different ways. It also makes the company's 90-some employees better businesspeople, and as such, it has sometimes meant the difference between profitability and loss.

+ SELLING ADDED-VALUE

The Averwaters know Amro Music's products can be purchased from other music product retailers, sometimes at lower prices. So, the company goes out of its way to sell its value as a full-service school music dealership. This includes hosting and participating in endless customer-focused initiatives. A few of the the most recent ones include:

- College instrument sampler programs in eight local universities
- Back-to-school clinics for directors, including "How to Get the Job You Want," "Getting Along with Your Administration" and "Starting Beginners on Double Reeds"
- Repair clinics during school's winter break
- Hospitality tents for directors at 11 area marching band contests
- A February clinic with Conn-Selmer's Dr. Tim Lautzenheiser
- Participation in VH1 Save the Music and Play it Again Memphis outreach programs
- An auditorium open to local teachers' piano recitals. As of October 2007, it had hosted 137 for the year
- Sponsoring clarinet and low brass clinics at the University of Memphis
- A sold-out, in-store concert with pianist Jim Brickman, featuring wine, cheese and the opportunity to meet Brickman

TAKING OWNERSHIP

Amro Music's individual financial statements include a detailed breakdown of a department's sales, cost of goods, gross margin, expenses and inventory for the month, year-to-date and previous year. The only generalized item is salaries, which are listed as lump sums under sales payroll and support payroll. Still, managers can ask the controller what percentage of a person's time they're being billed for, and this number is negotiable.

Such financial awareness carries over to all areas of Amro Music's business. It's a school music dealership with pianos and print music — a focus that has taken years of number-crunching to determine where the company was most profitable and best serving its customers. Touring the roughly 28,000-square-foot store, it's not uncommon to hear department managers tell how they saved the company money using their own financial statement.

Stuhr has his own story. By the late 1990s, Amro's accessory

department had incurred what Chip called "a big loss." Shrinkage, it turned out, was a major culprit, but not from theft as much as misallocation. When technicians took a valve for a trumpet repair or road reps took a box of reeds to go with a rental, these items were often written off as shrink. Over time, those numbers started adding up.

When Stuhr was promoted to B&O accessory manager in 1997, the problem became his pet project. The Averwaters helped by giving him some powerful tools: a department financial statement, a set of detailed reports, sophisticated computer software and, not least of all, a long leash.

"The financial statement allowed me to see where I was, what I could do and what effect it might have on the bottom line, not to mention how much it might take to get me to a profit," he said.

"When you can see where you are, then you know pretty well what you've got to do to fix it. For example, I could look at my statement and see what

difference one or two tenths of a point in gross margin would make to the bottom line. I could see what saving 1 or 2 percent by paying my invoices early would do to the bottom line. And, of course, reducing shrinkage was a big issue."

Within three years, Stuhr had whittled down the department's deficit to a few thousand dollars by buying wisely, controlling shrinkage, setting competitive prices and promoting harder. By the early 2000s, accessories were in the black. As a side note, Stuhr mentioned his year-to-date inventory turn this past September was 4.87 — roughly twice the industry average.

"He's not reporting to somebody else who's reading that statement," Chip said. "He meets with Pat every quarter, but he *tells* Pat how he did.

"[He] prepares a plan and writes up the plan. In the first part, he tells what happened in the last quarter — how he did, his goals. And then they look at the financial statement. Pat just listens. He nods, or he says, 'Have you thought about this?'"

In other words, there are no surprises. Everything is already in writing.

"Occasionally, someone says, 'You let your people see the financial statement?'" Chip said. "No. They see their *own* statement.

"I don't think there's anybody on our staff who'd be surprised that we're trying to make a profit — anybody who'd be embarrassed or would resent that. That's what we grow our business with. That's how we increase inventory, improve the store, expand into new areas."

"When we're not making a profit, we need [employees'] help fixing it, and you can bet they know the ways," CJ said. "They see the opportunities



Chip Averwater (left) with Sen. Lamar Alexander

+ NAMM'S NUMBERS GUY

Joe Lamond, president and CEO of NAMM, has called Chip Averwater “one of the brightest minds in music retail today,” and not surprisingly, Chip remains a lifelong student of business. He earned his MBA in his mid-40s, and crunches numbers and financial formulas like it’s a hobby. He’s currently penning a book about what he’s learned during his years at Amro.

“Chip is a numbers guy,” Pat joked.

“I am not,” Chip said, blushing.

He is a numbers guy, of course. On the often baffling topic of accounting for rental instruments, Chip explained how Amro Music books its rentals as a sale with reserve for returns, as opposed to a depreciating asset — another common method — because it gives him a better immediate sense of the rental department’s performance. It’s a subject that confuses many school music dealers, but Chip shrugged and said, “It’s just a simple calculation.”

In a much-publicized move, Amro Music also shut down its combo operation in the mid-’90s because, after breaking down costs and expenses, Chip believed the company’s resources could be better used elsewhere. “We could’ve made money in [combo],” he said. “We just would have had to focus more time into it. We chose to focus it elsewhere.”

“As the third generation of his family to run Amro Music, Chip brings great credibility to the position of NAMM chairman,” Lamond said. “He’s faced the challenges that our members face and understands what the association needs to do to be relevant in today’s business environment.”

Among those challenges, Chip mentioned lower prices driven by Chinese manufacturing; consolidation; the Internet’s affect on nearly every sale; and the recent failures of some major retail players. “Pain has a way of spreading,” he said. “When some industry members aren’t healthy, the rest usually feel it. Compared to the Great Depression, maybe this is just a bump, but it’s been challenging nevertheless.

“But there are some encouraging signs that industry sales are picking up. I think a lot of people have made adjustments, and things are settling down somewhat. These kinds of things are cyclical, and I’m hopeful that the industry is headed for some really prosperous times.” — Z.P.

more closely than we do.”

LOWERING OVERHEAD

It’s not surprising Amro should hold numbers in such high esteem. In a tight-margin business like music products retail, the difference between red and black ink on the balance sheet can sometimes be a matter of running a tighter operation (i.e. watching things like shrinkage).

The company has instituted several controls to run a tight ship. One of them is the band instrument inventory manager, Phil Hopkins, also known as “The Horn Nazi.” Hopkins spends part of his workweek tracking down errant rentals and demo B&O instruments that have gone out with road reps — there are an estimated 250 to 300 out at any given time. He earned his nickname largely due to his eye for detail and near-perfect track record.

“In the first year I [did this job, 2004], we wrote off like \$70,000 worth of instruments,” Hopkins said. “Now, it’s down to \$5,000.”

“And we probably doubled our business, too,” Pat added. “Phil’s ability to remember numbers is uncanny.”

Pat recalled how he once noticed what he thought was a missing flute under an employee’s desk after Hopkins had finished scanning band inventory. “Because of Phil’s reputation for accuracy, I proudly marched this missing flute to him, announcing, ‘I think I found a flute you may be looking for,’” Pat said. “He read the serial number. ‘Nope, this one was under Janice’s desk.’ I took the flute, turned around, shook my head and walked away.”

Related to its rental program, Amro Music has other ways it has cut expenses. The company serves roughly 240 school music

programs a week, and the majority of that business is outside Memphis in rural communities. Three of the company’s six road reps also live at least 100 miles away. So, Amro recently had reps rent their own storage spaces close to their homes where they can store product. It keeps them from driving back and forth to the store as often, saving time and tons of gas money. It has also freed up valuable stock room space in Amro’s headquarters.

RETAIL-CENTRIC SOFTWARE

Technology helps, too. Hopkins and Stuhr separately credited Amro Music’s customized software for making their jobs easier and their work more accurate. Chip personally invested about two years of his time into developing this software through its three different iterations, working alongside Amro’s IT manager, Bill Flanagan, who handles the specifics.

It’s general sales software, with several adaptations for music products retail. Among these is automatic reordering with seasonal reorder points for every item Amro stocks, a feature that’s especially helpful for employees purchasing merchandise. Flanagan has made other customizations for different departments. Hopkins, for instance, can track serialized inventory by scanning labels on the end of instrument cases. The scanner is then connected to a computer, which generates a report of what’s been accounted for, what’s in the wrong location and what unexpected items were found.

“[General sales] software never has all the specifics for a music store, particularly things like rental, rent-to-own, serial-numbered inventory, repair, installment payments and sea-

sonal reordering,” Chip said. “So that’s what we had to program.”

TALENT ORGANIZATION

Obviously, the Averwater’s *laissez-faire* management style requires industrious, committed employees. Here, hiring great people and paying them well goes in tandem. “A good salesperson doesn’t sell 20- to 30-percent more than an average salesperson — it’s 200- to 300-percent more,” CJ said. “Do you think we can afford to pay that person more? You bet we can. It’s not the good person we can’t afford; it’s the average person.”

CJ warned of being too hasty to hire someone when a position opens and trying to make them fit the position with training. Instead, he said Amro Music approaches hiring, at least at the macro level, as building an organization of talent whenever and wherever it can be found. He stressed being weary of a great interviewer and placing

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— Pat Averwater**

more stock in someone’s past track record. “Occasionally, we take a chance on someone who hasn’t accumulated much work history, but that’s such a gamble,” CJ said. “A history of success is the gold currency of hiring. Create a good culture, and they’ll find you.”

Incidentally, several Amro employees have been at the company for more than 30 years — one for 62 years. Their tenure may have a lot to do with the company’s culture, but no culture can sustain itself without financial soundness behind it. Once again, that soundness begins and ends with employee ownership — and the necessary tools to produce an owner mentality, like the P&L statement.

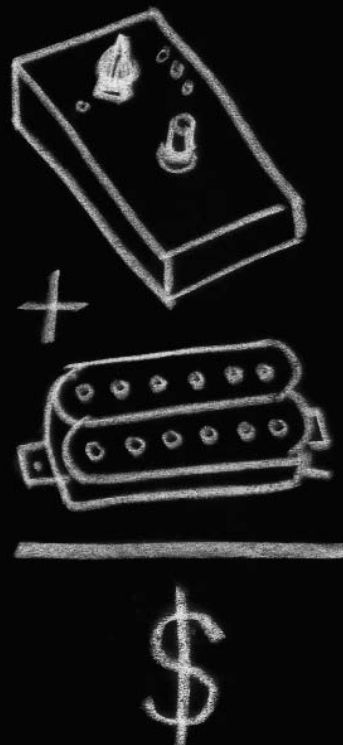
“It makes work fun because it’s a little bit like keeping score,” Chip said. “When you watch a baseball game and you don’t know what the score is, it’s not much fun at all.” **MI**

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