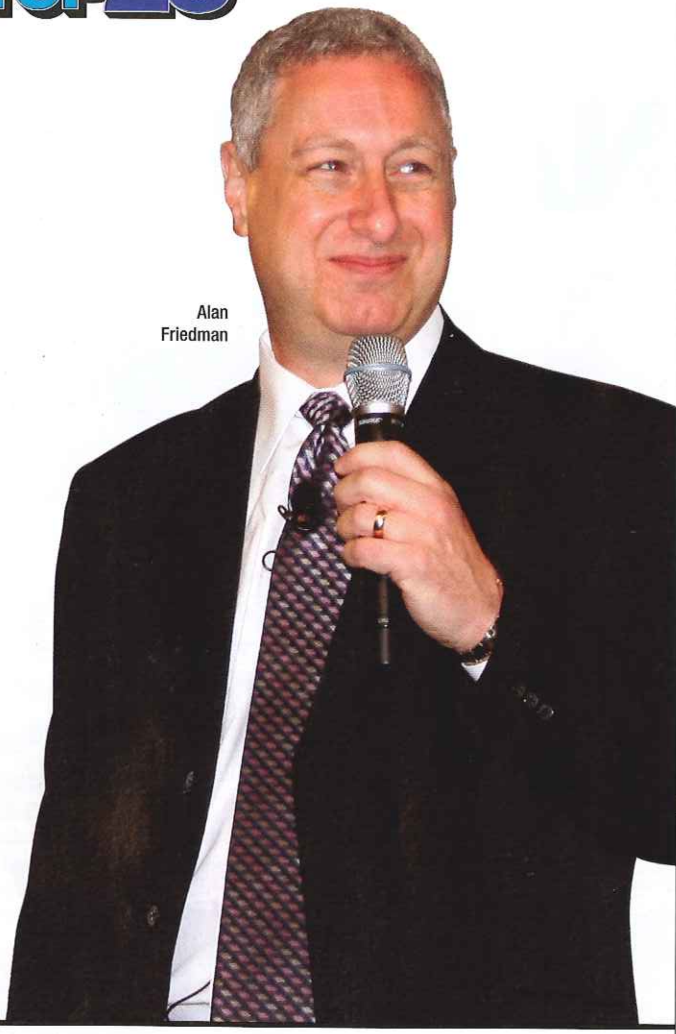
The TOP 25



Alan Friedman

BUYING & BUDGETING

MONITOR YOUR INVESTMENT

SATURDAY, 3:30 P.M., IDEA CENTER

Think you've made a buying mistake? Friedman suggested checking the GMROI, or gross margin return on investment. This is calculated by taking gross profit for the year and dividing it by average inventory each month (for the past 12 months). This number should be 1.5 or higher. It can also be applied to specific brands or segments.

GROSS PROFIT FOR THE YEAR ÷ AVERAGE INVENTORY FOR EACH MONTH (FOR THE PAST 12 MONTHS) = RETURN ON INVESTMENT (SHOULD BE AT LEAST 1.5)

"Implementing this one idea in our company can really benefit us in the future," said Mike Guntren, general manager of Ray's Mid-Bell Music. "It will help track the products that move quickly and produce the most profit, and will help influence our future buying habits."

BUYING & BUDGETING

HOW TO BUY SMART

THURSDAY, 11:30 A.M., IDEA CENTER

Music retail consultant Alan Friedman offered the following formula for making smart inventory buys. Multiply your anticipated gross profit percent (as a decimal) on the product being considered by the number of days in a year. (Friedman rounded it to 360 for simplicity's sake.) The resulting number represents how many days it should take to move that product. If you can move it in that time period, buy it.

GROSS PROFIT PERCENT X 360 (DAYS IN A YEAR, ROUNDED) = NUMBER OF DAYS, OR LESS, IN WHICH A PRODUCT SHOULD SELL

For example, if you can sell a guitar for $1,000 that costs you $750, you'll make $250 — a 25-percent margin. So, multiply 0.25 by 360 (the rounded-off number of days in a year), and you'll get 90. This means if you can sell the guitar in 90 days or less, buy it. If not, don't buy.

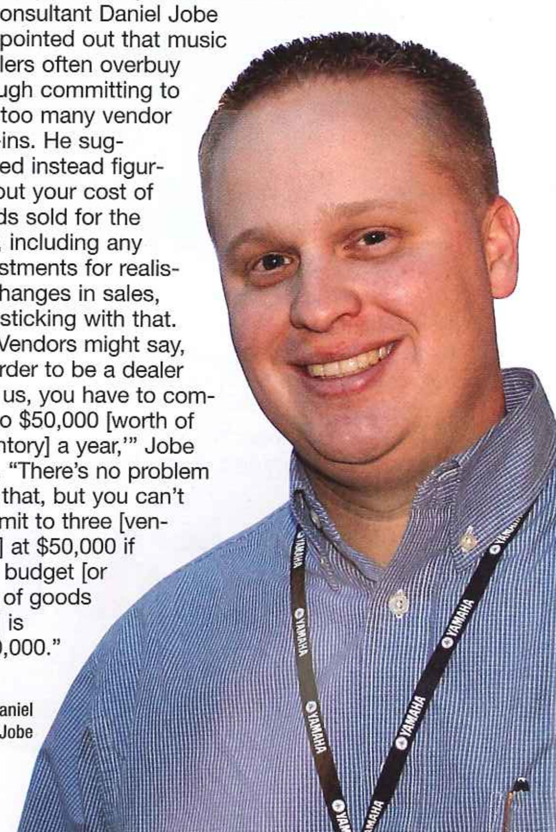
BUYING & BUDGETING

THINK BUDGETS, NOT BUY-INS

FRIDAY, 10 A.M., SHOW FLOOR

Consultant Daniel Jobe pointed out that music retailers often overbuy through committing to one too many vendor buy-ins. He suggested instead figuring out your cost of goods sold for the year, including any adjustments for realistic changes in sales, and sticking with that.

"Vendors might say, 'In order to be a dealer with us, you have to commit to $50,000 [worth of inventory] a year,'" Jobe said. "There's no problem with that, but you can't commit to three [vendors] at $50,000 if your budget [or cost of goods sold] is $100,000."



Daniel Jobe