 By Alan Friedman

Getting the Most Out of Your Suppliers

I ORIGINALLY WANTED TO CALL THIS ARTICLE *MUSIC STORE SUPPLIERS: A NECESSARY EVIL.* BUT THAT SOUNDED LIKE I WAS CALLING YOUR VENDORS OPPORTUNISTIC LEECHES WHO WANT TO SUCK EVERY DOLLAR OUT OF YOUR ORGANIZATION AND INTO THEIR POCKETS BY LOADING YOU UP WITH TONS OF THEIR PRODUCT. HMMM......

Now before all you vendors start writing searing "Letters to the Editor" calling for my immediate impeachment from the Think Tank (seems to be a popular trend these days), let's simply try to figure out why retailers are often at odds with their suppliers so that BOTH parties can start making concerted efforts to become better business partners. And since payments to music product vendors represent the single largest outflow of every retailer's funds, let's also discuss how you can get a bigger dollar return on your relationships with your suppliers (those money-sucking leeches I referred to earlier. Hey, relax, I'm just kidding).

Friend or Foe?

There's an old saying: "Understanding a problem is half the solution to fixing it." Accordingly, it's important to understand what makes your suppliers tick, what makes them happy, what makes them concerned and what makes them angry. It's also important to understand that your typical music product supplier is normally not just one person, but in most cases two or more people with whom you'll be forced to interact and conduct business. Let's assume, for discussion's sake, that each of your suppliers is made up of two key people: your sales representative (a.k.a. "The Rep") and someone in accounts payable or collections (a.k.a. "The Credit Manager").

Your sales rep is that really friendly person who (a) runs to greet you with a warm welcome at the NAMM Show when you first arrive at their booth; (b) offers you coffee, candy, aspirin, a comfortable chair, a list of the trade show specials, special payment terms "just for you" and a pillow for your head as you fall back in shock at the staggering dollar amount of the opening order for their product line; (c) visits your store to make sure you have an ample supply of their product brochures for your customers; (d) visits your store to load you up with more of their product; (e) calls your store to load you up with more of their product; and (f) quickly refers you to the credit department when you explain that you have no cash, but plenty of their product.

Your credit manager is that less-friendly person who (a) does not run to greet you, and most certainly is not bearing any gifts or gestures of goodwill; (b) couldn't care less that you're at the NAMM Show because they're usually not; (c) couldn't care less about the size of your company or your stature in the industry; and (d) is concerned only with your ability to pay their invoices in a timely manner, your ability to stay in business, keeping your payment terms short, keeping a tight lid on your credit limit, denying trade discounts taken with payments made two days late, putting you on credit-hold for untimely payments and always having your most current financial statements. Generally speaking, a credit manager is not the first person you would choose to go out and party with.

Now that I've totally alienated all sales reps and credit managers, let me say some nice things about these people who control your ability to provide product to your customers.

Some Nice Things

Both sales reps and credit managers very much care about the success of your business. Their survival depends on your ability to market and sell their product. On a personal note, they are people who, just like you or me, have responsibilities to their employers and families and have personal financial and career goals. In short, they too would like to keep their jobs and stay gainfully employed. But that's where the similarities among sales reps, credit managers and music store owners end.

Here's the problem. Although most sales reps do care whether you sell the inventory and pay for it timely, it's not their No.1 priority. Frankly, the credit manager doesn't care how much you bought or how fast it's turning, only that you pay for it in a timely fashion. And you (the retailer) don't want to hear about minimum orders, credit-hold, COD payments, finance charges, lack of liquidity or lackluster financial statements. You simply want the product in stock when you need it, and you want a whole year to pay for it. Although there are some sales reps and credit managers who care beyond their own pockets, I believe they're clearly the exceptions to the rule.

Breaking the Rules

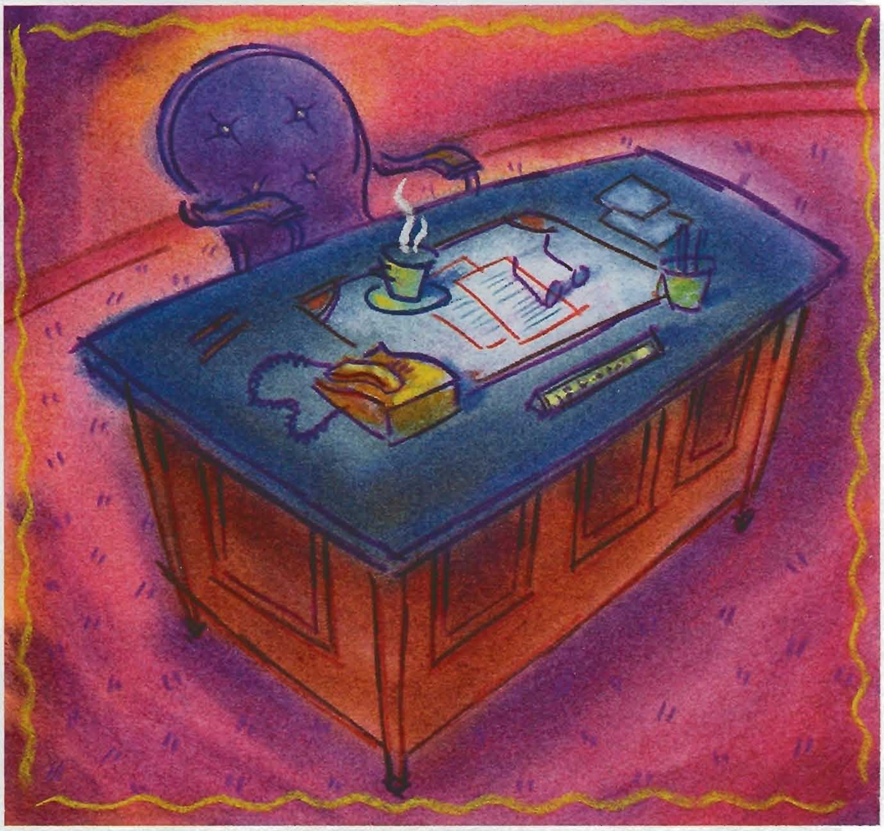
Now that we understand each party's mindset, let's see how we can make things better for everyone, especially you, the retailer, and your cash flow.

The first rule is: There are no rules. Everything is open for discussion; everything is negotiable. With this in mind, here's my list of five things you can do to enhance your relationship with your suppliers:

1 ***Negotiate and Ye Shall Receive.*** One of the most important techniques used in improving overall cash flow is negotiating extended payment terms. Most suppliers require payment 20 to 30 days after you receive their bill. If you're like most business owners, you probably assume these payment terms are non-negotiable. NOT TRUE!!! Some of your suppliers may be willing to offer you better credit terms based upon your business relationship with them, your payment history, your continued business loyalty and/or the size of your most recent order.

This is one of those situations where it can't hurt to ask. But be prepared to justify your request, as suppliers will only extend payment terms for those who present a strong case. Remember, everything is negotiable.

2 *Don't Be Afraid To Say No.* What gets retailers in trouble all the time is agreeing to buy more inventory than they can possibly sell. This happens due to a multitude of (poor) reasons: bigger discounts for larger orders, extended payment terms, free interest/no flooring



charges, other (stupid) incentives (i.e. trips, T-shirts, etc.). Yes, even discounts and extended payment terms aren't enough incentive if you can't sell all the product you buy.

The cost of old products that hang around forever will (a) surpass any profits on the goods you did sell; (b) prevent you from having the cash to buy fresh/newer merchandise; and (c) erode your credibility with your suppliers. Better to say "No thanks" up front than to say "I can't pay you" on the day an invoice is due.

3 *Cooperative Efforts.* Another way to improve cash flow is to reduce the burden for certain mutually beneficial costs, such as advertising. Through cooperative advertising, you can get suppliers to share in your cost of advertising their product.

The advertising cost reimbursement you receive is usually based on how much product you buy from that supplier. Also, the supplier will probably want some control over the ad size, placement and wording. However, the supplier may be able to supply you with print-ready ads or scripts, thereby minimizing your ad production costs.

4 *Consistency and Communication.* There's nothing suppliers like more than a dependable and consistent payment pattern. Your payment history is probably the biggest factor your suppliers will consider when making credit decisions. A consistent payment history, even if consistently late, goes a long way in helping your suppliers feel safe in extending you their trade credit.

Sometimes you may not be able to pay your suppliers in a timely fashion. If this happens, call and inform your suppliers in advance—before your name goes on their list of overdue accounts. Be prepared to explain the circumstances preventing you from paying their bill. Be reassuring and offer an honest estimate of when they can expect your payment. Most suppliers will continue to work with you and will view these moments as an exception to your normal payment practice.

5 *Be Proactive with Financial Information.* As financial information becomes readily available, be sure to send select important data to key vendors. Financial statements, with an independent C.P.A. firm's report attached, is critical to establishing financial credibility with your suppliers. Make no mistake about it—credit managers love documents like budgets, projections and business plans illustrating your plans and financial expectations.

Some Final Thoughts

Try adopting a team approach with your suppliers. Be flexible and open-minded, and try to understand the financial constraints under which sales reps and credit managers have to work. This will do more to serve your needs than cramming your terms down their throats. Actually, some of their credit policies (which, at times, can aggravate you) may actually help you and prevent you from over-buying or making costly inventory-financing mistakes. Finally, don't ever give up on these vital relationships with your suppliers. Who knows, maybe someday you can party with a credit manager.

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