

ASK ALAN | BY ALAN FRIEDMAN

Doing Inventory at 50

This January, I turned 50. Given this article's title, you may be asking "What does that have to do with inventory management?" Well, nothing really; I'm just a little older, a little grayer, a little wider around the waist and a little more cranky about it. But as I reflect on some of the milestones in my life, I now realize that inventory management had been lurking in the dark shadows of these events.

Given that, I thought it might be fun to write an article about my favorite subject: me. Here are a few of the major events in my life that have shaped my views on the importance of inventory management in music retailing.

1. 1964, Age 8

I vividly remember sitting in front of the TV at my grandmother's house on a Sunday night in February watching four English kids (frankly, anyone under 40 is now a kid to me) from Liverpool strum a Rickenbacker and Gretsch guitar and a left-handed Hofner violin bass. Somehow, it magically made girls scream in ecstasy. (Making any girl scream in ecstasy is a mission of mine that still remains unaccomplished.)

Enter: Hanging out in music stores, eyeing cool guitars. Exit hanging out on the football field eyeing mud. The typical music store inventory was now changing from flugelhorns to Fenders, and violas to Voxes.

2. 1970, Age 14

I got a job scrubbing grills and mopping floors for \$20 a week. My sole purpose was to save up for an electric guitar. I had my eye on a brand-new cherry red Gibson SG that cost \$240. Knowing I wanted an amp, too, my parents would only let me spend \$150 on a guitar.

Say what? Come on Mom and Dad, don't be square — it's my money. Whatever. I went down to

my local music store (Drome Sound of Albany, N.Y.), surveyed the rows of guitars and acquired a used, but mint-condition, blond pre-CBS Fender Telecaster for \$150, and a pre-CBS, black-faced Super Reverb for \$200.

When I got home, I discovered, much to my chagrin, that instead of sounding like Jimi Hendrix, I sounded like Hank Williams. No offense to country players, but "Voodoo Child" wasn't meant to be played with a Tele through a Super Reverb. Thank heavens for a knowledgeable salesperson who sold me

a "Big Muff" distortion box.

It was this same day that, without even knowing it, I had contracted a life-long, incurable disease: gearitis. I've since discovered this disease affects many music store owners, which is great if you're their customer and aggravating if you're their accountant.

3. 1972, Age 16

My *entré* into the world of live music was playing guitar in an all-Cream/Mountain/Blind Faith band called Riders On The Storm — go figure. I hated The Doors at the time and didn't understand why we weren't called Pressed Rat & Warthog. After all, it was an unwritten rule that all new rock bands were named after obscure animals (i.e. The Monkees).

Our keyboard player had a Farfisa organ, a P.A. and a place to practice. Our first gig was playing Blind Faith's "Presence of the Lord" at the keyboard player's church one Sunday morning. (I was the Jewish Eric Clapton.) To our surprise, there were no girls screaming in ecstasy. So, we added a rhythm guitar player and singer, changed our name to Highway Star and — you guessed it — became an all-Deep Purple (and occasional Humble Pie/Grand Funk Railroad/Allman Brothers/Led Zeppelin) cover band.

Accordingly, we went back to the music store to upgrade the P.A. and our individual gear. This was the day I learned that a mint-condition, pre-CBS



'Even as a music store incurs operating losses and negative cash flow, it has the ability to conceal its forthcoming demise by stalling vendor payments.'

blond Telecaster was only worth \$75 in trade-in value toward a \$300 white Stratocaster in my pursuit to become the new Ritchie Blackmore. This was my first official lesson in music store economics and the application of the "lower of cost or market" accounting principle to retail inventory. Given the screwing I got, I suppose it was technically the first day I had sex, too.

4. 1979, Age 23

I was living in West Hartford, Conn., and had just gotten married to my wife, Beth. I had a full-time job as a financial software programmer but continued playing out on weekends with my college band, Storm — our banner read "Storm: All-weather rock." Beth worked weekends, so I got a second job working on Saturdays at my best friend Jeff's

parent's music store.

It was during this time that I learned you can do \$4 million in sales out of 2,200 square feet of retail space, as long as you carry large amounts of cool, new product. I also learned about theft and shrinkage, the meaning of "an organized mess" and the eternal struggle between music store owners and their high-risk-tolerant children.

5. 1988, Age 32

I was now one of five partners in a C.P.A. firm, and I got a phone call from my friend Jeff. He asked us to become the store's accounting firm. They had opened a huge, second store in a major metropolitan area, and his parents were uncomfortable with the risk of their newfound debt. They decided to retire and sold the store to their son for a below-market price.

The day we came in to do our first accounting and financial statement engagement, we asked Jeff to do a complete physical inventory, something that had never been done. With excessive short-shelf-life combo/MI inventory financed by high-interest-rate floor planning, coupled with minimal management of the new store, we were alarmed by our client's lackadaisical attitude toward inventory management. What we didn't know until a couple of years later was that the store was technically out of business the day we walked in.

Here's where I learned my most important lesson about the dangers of poor inventory management: Even as a music store continues to incur operating losses and resulting negative cash flow, it still has the uncanny ability to generate enough cash flow to conceal its forthcoming demise by stalling vendor payments for at least a year or two. Sadly, two years later, Jeff's 40-year-old music store closed its doors from a myriad of mistakes, mostly its lack of meaningful inventory management.

6. 2005, Age 49.

It's now the end of 2005, and I'm a week away from my 50th birthday, which seems like a good time to reflect on my 25-plus years of involvement in the industry I love. Sure, they're not all fond memories. I can recall the negative effect that the demise of retailers like E.U. Wurlitzer, Thoroughbred and Mars had on vendor and floor-planning credit. I shudder at the growth of major chains, catalog houses and the Internet and their effect on those sacred and forbidden segments of music retailing, such as school music, band and orchestra rentals and print music.

Yes, our industry has had its share of mergers, acquisitions, bankruptcies, lawsuits and decep-

tive practices. So what? What industry hasn't? I'm done with the scare tactics. What's motivating me now is the prospect of a healthier retailing industry that embraces and applies sound fiscal advice and has proven itself worthy over the test of time. Can you tell I'm getting older?

TIME TO DO INVENTORY

This industry is not only made up of very creative people, but a lot of smart people, too. I always say our firm's financial advice doesn't come from being smart, it comes from being lucky. We're fortunate to be able to see all of the same stupid things most retailers are doing, especially when it comes to inventory management.

That's why this article is an introduction to a year-long series on each component of a good inventory management system, including inventory acquisition, accounting, accuracy, analysis, monitoring, sale, mark-down and blow-out.

As I turn 50, I have to do so without my mom and dad; they both passed away over the past year — another sign we're getting older. Even though I am still very sad and miss them both, I fondly recall something my dad used to tell me: "What we all want in life is to be happy, and happiness comes from making wise decisions. But wise decisions come from experience, and experience comes from making mistakes. So remember, making and learning from our mistakes will eventually lead to our happiness."

Thanks, Dad. I hope you're right, because I'm not feeling so happy about my vintage Tele trade-in right now. **MI**

Alan Friedman, C.P.A., provides accounting and financial services to music industry clients. He is a frequent speaker at NAMM U. seminars and can be reached at 860-621-3780 or

Luna Guitars Phoenix

Luna Guitars

Ignite your passion

www.lunaguitars.com
NAMM Booth 5466B