

IDEAS

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ASK ALAN | BY ALAN FRIEDMAN

DON'T AVOID YOUR CREDIT MANAGERS

In this fourth installment of a six-part series on credit in music product retail, we're getting down to some of the toughest issues credit managers and their music store customers face. One of those nasty issues is trying to coerce suppliers and inventory financiers alike into extending credit lines and making loans when a store's financial statement shows a downward trend or, worse, an operating loss for the year.

Hang onto your seat as I recap some of the candid remarks made during my panel discussion with credit professionals, "The Loan Rangers of Music Retailing," held during the 2007 winter NAMM show. The panel consisted of Larry Dunn, CFO and vice president of finance for Kaman Music; Karren Salter, general manager of customer financial services for Yamaha Corp. of America; Jim Satterberg, vice president of GE Commercial Finance; and Greg Grieme, CFO of BGE Financial — in other words,



If times are hard, get on the phone with your credit managers

the financial voices of a major supplier, distributor, inventory flooring financier and rental instrument lender. The following is an edited transcript of our discussion.

Me: Here's a favorite question of mine: If a music retailer shows a loss on its financial statements or tax returns in a particular year, does this send up a red flag or put that retailer on a "bad boy" list? Will you still sell to the dealer and, if so, do their payment terms change?

Salter: I'd like to answer this particular question because communication is the absolute most important message I can send you, coupled with cooperation.

If you have a year with some extraordinary events that cause you to incur a loss and you've identified those items and you have a recovery plan in place, you're not a bad boy or bad girl. Things happen, but the most important thing is to work with your suppliers' credit managers. We actually find it very good if we hear from you before we have to call you.

We have ways of working out payment plans to ensure a steady flow of merchandise, as this is a true partnership. We may want to speak with you

about any trends that are going the wrong way just to make sure you've identified the cause and a recovery plan is in place. It's always in your best interest to stay in touch with us.

Me: That's a great remark, Karren. I, too, believe communication is the key to every successful relationship. Sometimes you're going to have a bad year, cash flow will get tight, and some of your accounts payables to Kaman, Yamaha and other suppliers will become delinquent. So it's really important you call them to let them know cash is tight and that you wish to work out a payment plan.

Even if you work out a payment plan, you may wind up being overly optimistic in assuming sales will resume to a level adequate enough to pay all your bills on time. Sometimes that doesn't happen, and you can't adhere to the payment plan you agreed to. The worst thing you can do is stick your head in the sand. I still believe you should call up

your suppliers, be proactive by telling them you're still having a problem but wanted to let them know that you have every intention of making good on all the invoices you owe them, and request a little more time to pay them.

That goes such a long way in our firm, as we're in this relationship together. It's important to us that we have that dialogue with our clients, as we know things are going to happen that will affect our clients' cash flow. Nobody can predict the future, which is why that level of communication is so important. When invoices go unpaid, no news is not good news.

Salter: And another point is sometimes you may not know what's causing bad financial trends. We can ask a

number of questions to help you identify the things you should be looking at. It's good if you've been able to recognize what's going wrong and implement a recovery plan. But if you're unsure of what's going on, please do call us at the first sign of trouble, as we can help you work your way out of it.

Me: If you're listening closely, you'll realize Karren and other credit managers are your allies and are just another member of your professional team to consult with. They are, in effect, like your banker, as they certainly have banking expertise and related knowledge. So, if you're unsure of anything financially going on in your business, contact these people. I know all of them would help you, as it's in our

'When invoices go unpaid, no news is not good news.'

collective best interests to help one another.

Dunn: It is truly in our best interests to keep all of you in business forever because you are our customers, and we like to keep our customers forever. We want to work with you and certainly have an incentive to do whatever it takes to make the relationship work. We understand there's a seasonality to your business, which will undoubtedly cause peaks and valleys in both sales and cash

flow. We can adjust to that and will do whatever it takes to help you, as long as you're communicating with us. Yes, communication is the key thing.

Me: That's a great point, Larry. It's funny how these questions naturally lead to other questions, like this one, which is somewhat tougher and more sensitive in nature: How upset and/or concerned do you get when you're forced to write off one of your accounts receivables? Does this, understandably, cause you to be more stringent with your other retail store customers? Stay tuned for the answer. **MI**

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