

DON'T BE AFRAID TO FINANCIALLY REINVENT YOURSELF

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KNOWING THE EXACT FINANCIAL CONDITION AND POSITION OF THE COMPANY AT ANY POINT

MOST IMPORTANTLY, FOCUS ON YOUR F

UNDERSTAND THE "LIFETIME VALUE" OF YOUR CUSTOMERS

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FINANCIAL MANAGEMENT AND CONTROL IS THE ONE TASK YOU SHOULD NEVER GIVE UP ENTIRE

ATTENTION TO DETAIL HAS ALLOWED ME TO MAKE SMART BUSINESS DECISIONS

EXPLOIT YOUR STRENGTHS AND PROVIDE VALUE-ADDED SERVICES TO YOUR CUSTOMERS

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# CPA'S TALK

BY ALAN FRIEDMAN

LESSONS IN INVENTORY MANAGEMENT,  
FINANCIAL CONTROLS, AND SMART  
DECISION-MAKING FROM RETAILERS  
WITH FINANCIAL TRAINING

**SINCE 1998**, I've written about every accounting, tax and financial topic related to music product retailing that I could think of. My contributions total more than 60 articles in the pages of *Music Inc.* — and considering the fact that any one of those topics, in the wrong hands, had the potential to cure insomnia, I tried to make each piece both informative and fun to read, sprinkled with my own special brand of demented humor.

But — and I won't be offended if you haven't noticed — the frequency of my articles has dwindled in recent years. In truth, I ran out of new topics to write about. I've been so desperate for a fresh idea of late that I considered writing an article on two taboo subjects, sex and illegal retailing. It was to be titled "50 Shades of Grey Market Products."

Like I said, I was desperate. But the turning of the calendar offers a new beginning, and a fresh start. I didn't give up. And eventually I thought, 'What better place to look for an interesting subject than in someone else's

head?' Rather than simply write another article as a voice of financial authority, I could capture the words of those whom I regard as some of the brightest financial minds in the industry. I'd check in with some seasoned retailers, businesspeople who truly understand the critical financial aspects of running a music retailing business. I wanted their wisdom to be supported by many years of valuable financial experience, both in and out of music retailing, and cloaked in an esteemed financial designation ... like that of a CPA.

The conversation below is the result. The three successful music retailers you'll hear from were CPAs earlier in their careers. They run different types of operations from one another, and their sales volume, store size and store count vary widely — meaning that, no matter who you are, there's probably something valuable here for you.

Most people would agree accountants aren't known for their vibrant personalities, even if they're also music retailers. Question: "What's the definition of an accountant?"

Answer: "A guy who wanted to be a mortician, but didn't have the personality." ... or ... "A guy who shows up at the scene of a battle and shoots the wounded." Trust me, there's no shortage of accountant jokes.

But the three music retailing CPAs highlighted here are anything but number-crunching desk jockeys with little to say. They're all really smart people, who take financial risks but do their homework before doing so; they're not afraid of making changes to their businesses, but do so with thought and planning; and they rely every day on the financial training and experience they gained in their earlier work lives. And they all have a keen sense of humor, too.

Above all, they're passionate about music retailing, never take their eye off the financial ball of achieving success and, like so many music retailers, they were all sweet enough to share their hard-earned pearls of wisdom. Here's an introduction:

**Lori Supinie** is the president of Senseney Music, a single-store full-line dealer in Wichita, Kan.

She has five years of public accounting experience, worked 13 years as comptroller/CFO for Senseney Music, and in 2008, bought the business from the prior owner.

**Mark Gordon** is the president of Gordon-LaSalle Music & Affiliates, a combo multi-store regional dealer based in Southbridge, Mass. Mark has one year in public accounting, four years in private accounting, and has owned his music stores for the past 31 years.

**Allan Greenberg** is the executive vice president of opera-

ten find common threads that underscore their success and the financial lessons they've learned along the way.

## QUESTION #1 – How has your experience and training as a CPA helped you run your music store(s)?

**Supinie:** My experience as a CPA has helped me immensely with what I consider the most important aspect of running any business — knowing the exact financial condition and position of the company at any

Lastly, my public accounting experience has given me invaluable insight into the world of banking, financing and corporate taxation. This has translated into a significant amount of expense savings on both internal and external accounting resources.

**Gordon:** The biggest benefit of my earlier years in both public and private accounting is that it gave me the confidence that I could achieve financial success by being self-employed.

When I opened my first store in 1981, I already had my degree, as well as five years of professional accounting experience. This made the financial day-to-day operations, which included inventory management, payroll and tax reporting, and cash flow management, that much easier to handle. Accounting has always been regarded as an

Supinie



Gordon



Greenberg



tions at Music & Arts, a national school music dealer (and division of Guitar Center) headquartered in Frederick, Md. He has 10 years of public accounting experience and 12 years as CFO of Music & Arts (when it was independently owned), plus another eight years as executive vice president of operations of Music & Arts under Guitar Center's public and private ownership.

What you're about to get from this article, in other words, is more than 100 years of financial experience.

To elicit their valuable wisdom, all I had to do was come up with three thought-provoking questions. Dear readers, take note of their answers! While many of their remarks were insightfully unique, you'll of-

point in time. That experience and training prepared me on how to generate and interpret financial statements, and knowing what critical financial data and reports need to be generated to financially manage one's business. The best part is I don't have to delegate those tasks to anyone, nor do I have to rely on anyone else to ultimately keep me informed about the financial goings on at my store.

Using my knowledge of general ledger systems and experience in setting them up from scratch, I'm able to accurately account for our store's operations and transactions using (Tri-Technical Systems's) AIMsi Accounting Software. I'm also able to do all of this utilizing just one bookkeeper and our store manager to accomplish all internal accounting tasks.

exact science (with the apparent exception of taxes!) with exacting manners of handling and recording all business transactions. While all accounting systems require a fair amount of attention to detail, that attention to detail has allowed me to make smart business decisions, generate profits which have, in turn, let me continue to invest in my business, and expand my business in a controlled and well-planned manner.

**Greenberg:** During my public accounting years I was able to spend a fair amount of time with clients engaged in wholesale distribution. This resulted in my gaining knowledge and experience in inventory management — so much so that I used to write articles on inventory management for our firm's



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newsletters. Those years also taught me the importance of understanding all of the key components of a balance sheet (like cash, inventory, receivable and payables) and how to unemotionally make business decisions to manage those key financial components. If inventory wasn't turning, it was time to purge it. It also provided me with income statement disciplines, such as budgeting and managing

"Inventory Analysis Report." It gives us sales, cost of goods sold, gross profit, inventory turn and GMROI (Gross Margin Return on Investment) data by many different inventory types all the way down to the SKU. Frankly, we're able to manage our inventory pretty effectively by running that report on a "product category" basis. It's a wonderful report and, once you understand the financial data it provides, you can effectively manage

but we did build and expand on our online presence. Currently, more than 90 percent of our on-hand inventory is vintage, used and collectible products, and much of this inventory is purchased and sold through our store's website, [sellyourmusicalinstruments.com](http://sellyourmusicalinstruments.com). Our website lets us use our existing stores as processing centers, which lets us consolidate overhead costs, such as order processing, shipping and repairs.

and expect to generate enough cash flow to cover overhead expenses. You can't strip vital cash out of your company as owner's compensation and perquisites when you're losing money and your banker has shut you off. You've got to run your store in a fiscally responsible manner at all times.

**QUESTION #3 – What one piece of financial advice would you give our readers and music store owners that stems from the lessons you learned as both a CPA and operator of a music retailing business?**

**Supinie:** The one piece of advice I would give to all music store owners is that while it's important to delegate duties to capable store staff, financial management and control is the one task you should never entirely give up to others.

In my earlier years, I was so immersed in the financial details of the store's operations that I couldn't see the big picture. I couldn't see the financial trees through the forest, so to speak. So, yes, it's good for store owners to delegate some or most of the time-consuming detailed work, such as recording sales data, entering rental contracts, handling the daily cash deposits, paying vendor bills and reconciling bank accounts, to name a few.

But all of those tasks should be supervised or reviewed in some way by store management and owners. Incompatible duties should be segregated where possible, cash and inventory discrepancies should be investigated and resolved to the owner's satisfaction, and financial statements and reports should be generated, analyzed and acted upon by management on a regular, timely

## TRY TO NOT THINK SOLELY ABOUT MAKING A SALE

expenses. Lastly, it gave me the opportunity to work alongside some very smart people, like our lawyer Bob Ott who mentored me on business acquisition and valuation. That experience has proved invaluable in my role today with Music & Arts.

**QUESTION #2 – What do you consider the biggest financial challenge facing today's music retailers?**

**Supinie:** Without a doubt, I believe inventory management and control is the biggest challenge facing all music retailers. It's the largest asset and biggest investment on most retailers' balance sheets. The trick is learning how to make that inventory asset work for you and generate a proper return on your inventory investment.

To assist us, we use a great report generated by our AIMsi Accounting Software called the

your entire store's inventory to maximize profit and cash flow, and minimize degradation to cash flow from unprofitable, slow turning or obsolete goods.

**Gordon:** There was a time in our store's past when I was operating nine retail locations. At that time, I found the most challenging financial task was financially tailoring each store to its specific local marketplace. We were finding our attempts to attain a respectable gross profit level from selling new gear were becoming more and more difficult. After analyzing financial statements on a store-by-store basis, we decided to sell six of our retail locations and change our product mix to include used inventory.

The used gear brought in much higher levels of gross profit dollars, which let us financially survive. We never deviated from this change in product direction,

sufficient to cover overhead. With competitive retailers like Amazon, Costco and Target in the music product retailing game, it feels like a race to zero gross profit. With the import of cheaper priced goods, you've got to sell two to three times more just to make the same gross profit dollars.

Plus consumers are in charge. They walk in retail stores armed with QR code readers on their iPhones to compare prices. Unfortunately, much of the independent music store community has become just another distribution channel, with little customer loyalty.

So, how do you combat all of this? By understanding what is financially going on in your store and making some smart, unemotional and probably much-needed business decisions. You've got to find a niche, exploit your strengths and provide value-added services to your customers. Remember, cash is king. You can't sell or rent product on credit and not get paid in a timely manner. You can't sell at an 8 percent gross profit margin

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basis. Major purchasing decisions need to be made, inventory levels often need to be raised or lowered, employee compensation needs to be reviewed and adjusted, and expenses need to be controlled — all having an effect on cash management. These are the types of business decisions that rest squarely on the owner's shoulders. In short, financial management and control can be delegated, but never abdicated.

**Gordon:** I have a couple of pieces of financial advice to all music store owners.

First, don't be afraid to financially reinvent yourself. If a music store is financially struggling or in the midst of a financial crisis, the store owner must be willing to change everything completely around — even if they're uncomfortable with change.

Also, be sure to select a computer system that will assist you in controlling your day-to-day operations. We've been using The Tyler System for over 20 years and have found it to be great for managing inventory and other key retailing operations.

Lastly and probably most importantly, focus on your passion. Like many music store owners, I started off playing guitar and studying music performance but became disillusioned with the financial realities of a career as a working musician. So I decided to open up music stores instead. Since I opened my stores, my passion has become achieving financial success by investing in both myself and my company. The most recent example of this is my decision to focus on growing our Internet presence. So, be passionate in whatever you do.

about making a sale. Instead, try to find out who they are, why they've chosen to visit your store and what their musical needs are. Are they looking to buy a guitar? Are they in need of renting a band instrument? Are they looking for lessons? Once you ascertain the answers to these questions, you'll begin to make smarter financial decisions. You'll begin to figure out who your customer is, which will help you figure out what to stock. Are they merely looking for a guitar for their nephew (equating to a possible low margin "one time" sale), or are they a parent wanting to rent a clarinet for their daughter, which may lead to reeds, method books, lessons, repairs and a step-up instrument sale over many years?

Answers to these questions will help you figure out what and how much to stock, the financial resources you'll need to support lessons and repair departments, and a more accurate expectation of sales and margins. Ultimately, the goal is to financially build your business on a model that captures custom-

ers with the greatest chance of lifetime value and serves them accordingly.

to improved cash flow. 3.) Find a niche that differentiates you from your competitors, but don't be afraid to overhaul your business model into something completely different if the old model no longer works. 4.) Know who your most valuable customers are, determine what they want and need, and financially build your store around those answers. 5.) Educate yourself on as many financial business matters as you can, and fill in the gaps by hiring competent financial professionals.

As I now have the opportunity to sit back and reflect on these remarks, I am grinning from ear-to-ear. Why? Because I feel vindicated for the spoonful of financial medicine our firm has been shoving down the throats of many retailers for the past 28 years. While our training and experience gives us the confidence we're delivering the right advice, it's really nice to hear that same advice from three really smart CPAs who are in the day-to-day trenches of running a music retailing business.

Yes, most accountants do seem a bit weird at first, but it's nothing more than their ability to speak a foreign language of debits and credits. And while the combination of a CPA running a music store may seem a little odd, it's no more odd and arguably just as valuable as a Senator who plays bass or a baseball player who's mastered the guitar.

I guess it's human nature to be wary of any financial advice, even if it comes from a CPA — unless, of course, that CPA can re-pad a clarinet, re-tube a 100-watt head, and play any Led Zepelin tune on the accordion in 5/4 time. Since our three CPAs can do these things, heed their expert advice and reap the financial rewards. **MI**

## YOU CAN'T STRIP VITAL CASH OUT OF YOUR COMPANY

Next, every store owner should have some basic understanding of accounting or hire a financial professional to teach them those basic but needed skills. There are several great courses online and at local colleges to assist you in learning basic accounting skills. However, having been a financial counselor to our firm's clients many years ago, the best bang for your buck is to retain the services of a reputable CPA. The benefits will outweigh the cost by a long shot.

**Greenberg:** I have two pieces of financial advice. First, it's impossible to know everything about the fiscal management of your business. So make sure to hire knowledgeable and experienced financial advisors on your team. Second, make sure you understand the "lifetime value" of your customers. In simpler terms, try to figure out how long you expect your customers to remain customers of your store. When a customer walks into your store, try to not think solely

et's summarize the top five pieces of advice in the CPA's remarks: 1.) Managing your inventory by analyzing product turns, margins and GMROI is at the top of the financial list of important things to do. 2.) Managing every other major balance sheet account is as important as tracking revenues and expenses because it leads