

You May Have More Leverage Than You Know!

As they were walking out of a store after a sales presentation, a sales manager was overheard remarking to his rep, “I can’t believe that he [the dealer] didn’t ask us for a better deal.” This true story has particular relevance at a time when a lot of independent retailers are lamenting the “non-level” playing field. There is no question that Guitar Center and a handful of other large players use their heft to extract concessions. However, in too many cases, independent retailers seriously underestimate their leverage when it comes to dealing with their suppliers.

Before anyone dismisses the above as wishful thinking, consider some basic math. A number of the industry’s largest suppliers are publicly traded, so their financials are an open book. On average, these companies have a net profit margin of roughly 4% of sales. Put another way, the first 96 cents of every sales dollar covers their operating costs; they only start making money with those last four cents. The vital importance of those last few sales dollars are reflected in standard sales rep compensation programs. Details vary, but in just about every case, commission rates jump to a substantially higher level for every sales dollar generated above quota. Even if you’re a small dealer, your order could make the difference between a rep beating quota and getting a nice bonus, or falling a little short and getting an unwanted call from the sales manager. The leverage is there; the question is just how to use it.

The most basic suggestion is to vote with your dollars. Concentrate your inventory dollars with those companies and product lines that make a positive contribution to your business. Forget the rest, regardless of their brand status. If you can’t make money with it, it probably doesn’t belong in your store.

If you tell a manufacturer that you’re dropping his line because it doesn’t make money for you, you will get his attention. But just threatening to withhold an order unless an additional discount is forthcoming isn’t the key to improving your business. When you ask for an extra discount, you’re cutting into your supplier’s profit, so expect to meet with resistance. If, however, you lay out a plan for how a few key concessions will prompt you to buy more, you can expect a more cooperative response.

Competing Best Buy and the Circuit City stores near our offices prominently display a full line of Panasonic flat



panel televisions. The products at the two stores look the same and are priced comparably, but on closer examination, have different model number designations. Obviously, Circuit City and Best Buy management are trying to avoid the “commodity trap” by making it a bit harder for consumers to price shop. Guitar Center

does much the same thing, working with key vendors to create products that are different (if only slightly) from what’s available in other stores. Given the relatively small volumes within the m.i. industry, it’s not unreasonable for independents to ask their suppliers to create a unique model designation for them.

Shop for a Nikon D50 online and you’ll get a slew of retailers slugging it out to see who can sell it to you for \$10 over cost. At B&H Photo, they offer the camera as a package with a case, a private label lens and flash, and a few other accessories. The package deal removes them a bit from the direct price competition, creates value in the eyes of the consumer, and allows them to generate a reasonable gross profit on an otherwise low-margin item. Similar opportunities abound in the m.i. industry with cables, cases, software bundles, and other accessories. A supplier may balk at giving you an extra ten, but present them with a creative bundling idea, and they may be willing to throw in some accessories at little or no extra charge.

At the most basic level, the key to business is finding something that sets you apart from the competition. Just about any retailer in the industry has the leverage to enlist their suppliers in the task. The first step is asking. Don’t be shy about using your leverage.

Brian T. Majeski
Editor

Email: brian@musictrade.com