

Hope For The Best . . . Prepare For The Worst

As the Dow Jones average entered a free fall on October 19, the news media immediately drew comparisons with the Crash of 1929, and scores of economic "experts" emerged from the woodwork to speculate on the state of the nation's economy. The one similarity we see between the stock market activity in 1929 and the present is that the predictions of experts have almost invariably been wrong. Two weeks after "Black Thursday" in 1929, the Harvard Economic Society pronounced boldly, "A severe depression, like that of 1920-21, is completely outside the range of possibility." Exhibiting similar foresight, three months ago noted market analyst Martin Zweig declared, "A 3,000 Dow is around the corner."

Whether the stock market's plunge represents the onset of a recession, or merely a technical correction, remains to be seen. However, it should prompt every enterprise to candidly analyze its market position and shore up any potential weaknesses. As the old saying goes, an ounce of prevention is worth a pound of cure, and if a recession is in the offing, it is better to be prepared.

During the recession in the early '80s, music merchants were most seriously affected by a critical lack of credit for financing inventory and consumer purchases. Twenty percent interest rates and a shortage of floorplanning credit made it difficult for retailers to maintain adequate inventories. Similarly, tight consumer credit made it hard for customers to finance big-ticket purchases. Now is a good time to shore up relations with your existing financial institutions and to investigate alternative sources of credit. To help your banker better understand the music industry, we suggest you procure a copy of NAMM's Retail Operations Manual.

While the music industry is not recession-proof, those retailers who maintain an active in-store education program seem to be largely impervious to economic downturns. Aside from providing your

community with a valuable service, teaching programs generate a steady stream of satisfied customers. Investigate the feasibility of creating your own teaching operation if you don't already have one. At the very least, make an effort to cultivate better relations with the music teachers in your area; they can be a great source of referrals.

Do you have any "dead" inventory on your floor that hasn't moved for months? If so, get rid of it now. Marginal merchandise never improves with age, and cash in hand is far more useful than dust collecting junk.

Even the most efficient operations can be improved. So, why not take out a copy of your most recent P & L and review each expense item. With a little comparison shopping, you can probably get better deals on insurance, stationery, and a host of other items. This type of cost-cutting can, over time, have a significant effect on your bottom line.

Is the industry in for some challenging times? We don't have a clue, and we are hardly trying to be prophets of gloom. Whether a recession materializes or not, you can place your business on a better foundation by following some of the suggestions outlined above.

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