



EDITORIAL

Forget The Magic Bullet

On a recent televised roundtable, Peter Lynch, the legendary stock picker, was asked, "What is the secret of successful investing?" To the obvious disappointment of the moderator, Lynch looked mildly puzzled, and instead of uttering some immutable truth that would make the entire viewing audience rich overnight, he shrugged and responded, "It's really a lot of little things." This seemingly insignificant encounter encapsulates one of the age-old problems in business. We are all probably guilty of spending too much time and effort in search of some "magic bullet" that will instantly enhance our fortunes instead of heeding Lynch's advice to work on the "little things."

This quest for "the one great solution" animates much of human activity as duly recorded in the daily papers. Consider the ongoing waste, fraud, and ineptitude that plagues our Federal Government. The task of reforming an enterprise with millions of employees, tens of thousands of facilities, and thousands of separate functions defies ready comprehension. This, however, didn't stop a commission headed by Vice-President Gore from issuing a pithy 12-page memo on "Reinventing Government" that revealed the secret to success: "We must empower our people." Needless to say, the vast benefits of this "empowerment" remain imperceptible to visitors to the Post Office, Passport Bureau, or other Federal agencies.

The private sector is also not immune from the lure of simplistic "big solutions." Over the past ten years Sony Corporation of Japan saw its huge consumer electronics business go from a glamorous, high-growth, high-profit operation into a gritty, stagnant affair plagued by major flops like the Betamax video system, a poorly received line of personal computers, and the abortive mini-digital cassette. Fixing a huge and ailing manufacturing operation is tough sledding. So, rather than tackle the nuts and bolts of building better products, management went out and bought a movie studio. Three years later the problems continue at Sony's electronics business, and the company has wiped out a third of its net worth, thanks to losses in movies.

Closer to home, scores of music retailers spend so much time chasing after the "grand strategy" that

they overlook the unglamorous essentials...thoughtful buying, good housekeeping, and rigorous cost control...that generally are the difference between the winners and the losers. This issue addresses some of the small but meaningful aspects of retailing.

Consider accessories. These mundane products, ranging from guitar straps to music stands, generate about 11% of the industry's total sales but contribute closer to 16% of gross profit and an even higher percentage of net profit. If accessories are such a critical profit producer, why do accessory counters in most music stores look so bad? Could it be that instead of dusting shelves and organizing inventory, management is spending its time pursuing the "big solution?" Starting on page 90, a cross-section of retailers explain some of the steps they have taken to expand their accessory business.

An editorial dealing with the quest for magic solutions wouldn't be complete without touching on the topic of sales growth. It's hard to argue against the wonders of an expanding business; however, it should be noted that growth alone doesn't solve business problems; it often makes them worse. Consider the case of Goodman Music. For four years the Los Angeles m.i. retailer ranked as one of the fastest-growing dealers in the country. Last month, however, Goodman filed for Chapter 11. Obviously, growth wasn't enough.

In an article on retail financing that begins on page 110, we detail what it takes to finance retail growth and how to distinguish between risky and sustainable expansion. Growth is wonderful, but it is helpful to know what it costs.

Big solutions probably come along once in a generation. For the rest of the time, though, business improvement is usually hard won, step by step. As the old saying goes, there is no one thing you can do to double your business. But there are probably at least ten things you can do that will increase it by 10%.

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