Editorial

Do The Numbers Add Up?

TYPICALLY, THERE ARE DOZENS of breakfast meetings at a NAMM show and most draw little fanfare. This year however, one in particular stood out: The Ace Music Supplier Appreciation breakfast. For as long as anyone can remember, manufacturers have been trying to win the hearts and minds of their dealers by food, wine, and other gestures of hospitality that are best left unmentioned here. However, when a retailer buys his suppliers breakfast, you have the equivalent of a "man bites dog story"...some real news.

In between offering cordial thank yous to suppliers, Mark Begelman, president of Ace Music, used the breakfast to lay out his plans for transforming his four-store Miami based operation into a 66-store colossus with annual sales of $490.0 million. The timetable for this ambitious undertaking is a mere five years. For the uninformed, Begelman was a founder of Office Depot, the $7.0 billion (sales) office supply retailer, who bought Ace Music a year ago with the intention of creating a national m.i. chain. In a polished, articulate, and compelling presentation, he attempted to answer questions about the roll out his new Music and Recording Supertore (MARS) chain. On reflection though, the presentation actually raised more questions than it answered. Consider a few of the following.

66 stores doing $490.0 million works out to about $7.5 million per location. Yet as of last year, excluding major mail order operators like Musician's Friend and Sweetwater Sound, there were fewer than 40 locations in the industry with sales of $7.5 million or higher. Does Begelman beleive that the MARS retailing concept is so dynamic that it will produce sufficient industry growth to support such a vast increase in high volume locations? Or, is he planning on cleaning out dozens of smaller competitors? Is there enough business to be had to support 66 $7.5 million stores?

The MARS retailing concept calls for 30,000-sq.-ft. locations in high visibility sites and $1.5 million in leasehold improvements. Add to that another $1.5 million in inventory, and each location will have an asset base of around $3.0 million. A year ago, industry leader Guitar Center earned 2.9% net profit on sales. If MARS fares as well, its individual locations will net about $220,000. Not bad. But, the resulting 7.3% return on assets is hardly the kind of number that will get outside investors excited. Consider that Guitar Center typically earned over 10% on assets, and high flying retailers like Home Depot, Toys R Us, and Circuit City consistently net over 12%.

Begelman also said that each MARS location would spend annually $300,000 on advertising, or 4% of sales. This represents nearly twice industry averages. Is the margin there to support such outlays?

Anyone can make projections. Generating actual results is where the challenge comes in. The first MARS store opens in Tampa on March 13, and the answers to the above questions will start to surface in the months to come.

Brian T. Majeski
Editor

Dick Harrison's Example

DICK HARRISON RETIRED as chairman of Baldwin Piano & Organ Company this month, concluding a distinguished 41-year career in the music industry. At a time when the executive suites of most companies resemble a revolving door, 41 years at a single company is an exceptional achievement. However, Dick's tenure at Baldwin was distinguished by much more than longevity.

After receiving an MBA from Cornell, he joined the company in 1955 as assistant treasurer. Through a combination of diligence and sheer intelligence, he quickly moved beyond the finance department to play a role in manufacturing, marketing, and sales. He was named CEO of Baldwin Piano in 1974.

The '70s and '80s were not kind to the U.S. piano industry. A declining market and a flood of imports caused the demise of over a dozen U.S. firms. Thanks to Dick's astute management, Baldwin managed to thrive and prosper. In the '70s Baldwin diversified into insurance and financial services. When those businesses soured, Dick successfully led a leveraged buy-out of the piano company, ensuring its future viability.

Throughout his career, Dick generously gave his time to scores of industry organizations. More importantly, his friendship, honest counsel, and frank sincerity proved invaluable to hundreds of dealers across the country. At Baldwin, he earned the respect of his co-workers with his self-effacing wit, his strong work ethic, and his generosity of spirit. Despite considerable accomplishments, he remained modest to a fault.

On a personal note, through word and deed, Dick provided me with an example that has proved invaluable throughout my career. I wish him well in all future endeavors and feel privileged to call him a friend. *BTM*