



EDITORIAL

WHAT HAPPENED TO MANNY'S?

The day before the Nashville NAMM show opened, Deutsche Financial Services seized the assets of Manny's Music of 48th Street and then immediately sold them to Sam Ash Music, taking a reported \$700,000 loss in the process. Trade shows thrive on rumor and gossip, so the Manny's/Deutsche/Sam Ash transaction couldn't have come at a more opportune time. For three days, the demise of what was arguably the world's most famous music store dominated conversations all across Nashville. (Manny's will continue to operate as a separate division of Sam Ash.)

The perspective and concerns of various industry groups were reflected in the differing assessments of Manny's plight. A large contingent of suppliers were indignant as they braced for big bad debt write-offs. A smaller, but still sizable group expressed sadness, recalling the unfailing graciousness of the Manny's proprietors, the Goldrich family, and the store's unique heritage. But for scores of independent retailers, far removed from the New York market, Manny's collapse was cause for alarm. "If the world's most famous music store is overwhelmed by chains, what chance do I have for survival?" was a common refrain.

Manny's happened to hit a financial wall at a time when Guitar Center, Sam Ash, and MARS were in the midst of national expansion drives; however, the big box chains had little if anything to do with the collapse. Business failures are a grim thing, but independent retailers across the country should take some comfort in the fact that Manny's plight was the result of managerial missteps rather than uncontrollable external forces. In short, it wasn't inevitable.

There are two important lessons that both large and small retailers can take away from the story of Manny's. The first is, be thorough and careful in assessing risk. According to people familiar with the store, a little over a decade ago Henry Goldrich purchased his sister's 50% interest in the business for \$9.0 million, payable over ten years. Such a generous payout reflected what proved to be an extraordinarily optimistic assessment of the company's earning power and provided little margin for error to address issues like increased competition or a recession. With such an onerous fixed expense, Manny's quickly went

from being a very liquid business to one that had to struggle to maintain adequate inventory levels.

The second lesson is to be very careful when straying from your proven area of expertise. There was never any question that the Goldrich family knew how to move vast quantities of music gear on 48th street. However, in purchasing Audiotechniques, a struggling pro-audio retailer serving the broadcast and recording studio markets, they ventured into an area where their skills were clearly not as well developed. Another venture, Manny's Mailbox Music, never performed well due to limited understanding of the mail order/catalog business. Perhaps the most ill-conceived diversification effort was a Brazilian music distribution business. Enormous tariffs, a roller coaster currency, and rampant official corruption make Brazil one of the hardest countries in the world to do business in. Trying to export guitars, amps, and other m.i. gear to Sao Paolo was a money-losing venture that diverted the Goldrich family's time and effort away from the business of running their famous music store.

This combination of an exorbitant shareholder buy-out and three money losing ventures proved too much of a burden, even for the world's most famous music store. In retrospect, with a different buyout agreement and a laser like focus on being the best business possible on 48th Street, the Manny's story would have had a very different ending.

Just as Manny's difficulties were never pre-ordained by the emergence of larger competitors, it is far from inevitable that national chains will cause a massive consolidation among independent retailers elsewhere in the country; however, reviewing this sad tale, it's safe to say that people who assume risk too lightly or venture into businesses they don't fully understand are courting trouble, no matter how big or successful they are.

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