

# Music Go Round

## Thriving in the Used Market

**T**he first Music Go Round opened in June 1993 in Roseville, Minn – the second and third soon followed in Burnsville and Minneapolis. These three original stores were opened under corporate ownership before the parent company, Winmark, decided in 2000 to make the store chain a 100 percent franchise business. Not only are the outlets all franchised, but their inventory is 70 percent used, making Music Go Round a bit of an anomaly in the industry. So, who are the franchisees? Music Go Round's brand director, Tim Kletti, explains, "The profile of a typical Music Go Round franchisee is a 40-60 male, who has been outsourced, placed out of a job, or decided they were tired of working for someone else. The one thing they all share is a passion for music. Most of them are businesspeople from the corporate sector or former business owners."

Currently, there are 34 Music Go Round locations in 17 states. According to Kletti, Music Go Round store locations must be in a market with a population of at least 110,000 people in a five mile radius. They also look for markets with several universities or cities known for their music, such as Austin or Seattle. However, there are no franchises in the big markets. Tim explains why: "Our really high performing stores are in B and C markets – Louisville, Albuquerque, Denver – where the business economies are stable, real estate opportunities are stable, and because we sell mainly used equipment there is no competition. The competition for us is Craigslist and eBay. We have fewer stores than we used to, but store performance has doubled over the past ten years. That's where our growth comes from."

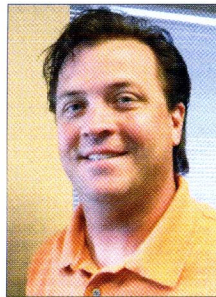
They also raised the bar on the amount of capital a franchisee must have to get in, along with quadrupling the minimum amount of used inventory required to open a franchise. All of Music Go Round's top-tier franchises have reached their used inventory mark or higher. According to Kletti, "Unlike new products, the used products have shown a direct correlation to overall sales growth. Our balance sheets look a lot different than other music stores, where they are dealing with a lot of vendor debt on delayed terms or extended terms. Because we buy used from our customers, we own 70 percent of our inventory. There are no terms or floor planning – we own it. From day one, our stores have 40 to 45 percent



equity in their business, which is a really healthy way to start. We have a solid start-up plan and a solid business plan.”

Four years ago, Tim implemented a three year development plan into the brand. The first step was to define the brand by determining what the customer wants, which were used products. They adjusted their inventory accordingly. As Kletti says, “Once we tackled our inventory, we then needed to work on our customer experience. What type of experience were customers having in our stores? Was it positive? Was it consistent? Were we really focused on the customers’ needs?”

The third tier of Tim’s plan was building community. They began this effort with in-store events, charity events, fundraisers. Every April, for example, Music Go Round stores will restring guitars for free in exchange for a donation to a local food



Tim Kletti

bank or shelter. Last April, they restrung 800 guitars and collected a couple thousands pounds of food for donation. Kletti notes, “These aren’t huge numbers, but it’s important to give

back to the community in some way.”

Music Go Round has also started a “Band of the Month” feature on their Web site. Once a month, unsigned bands are invited to submit their music and have fans vote for them on the site. The winners get to have their music be the sound track of Music Go Round’s Web site for a month. For Tim, going the distance to reach out to local musicians is very important – they are a large part of their customer base.

“Music Go Round is looking to expand and grow.” Kletti says. “We are looking to add more stores because right now the getting is good in this industry. We would be interested in conversions – stores that are having difficulty competing because of the economy. We’ve never done a conversion before, but will look at that potential. We are looking to add five to ten stores over the next three to five years. We want to show the consumer that this industry is not going away or shrinking. It isn’t becoming just three mass merchants online. Brick and mortar can survive, and we have a different and great way of doing it.”