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Tower Records back in the groove

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About 15 months after coming out of a brief bankruptcy reorganization, Tower Records is off the sales block, planning new and rehabbed stores, and running a goofy ad campaign in San Francisco.

The West Sacramento music and entertainment retailer known around the globe is shoring itself up and making encouraging changes that look like part of a revival.

"The perception is that they're turning themselves around, that they're vastly improved. People aren't too worried about them anymore," said Ed Christman, retail editor at Billboard magazine. "I hear they are profitable again."

These days MTS Inc., better known as Tower Records, is focusing on expanding its business instead of trying to sell it. Because Tower Records strengthened its finances through restructuring, selling the company is no longer crucial, said Lloyd Greif, head of the Los Angeles investment banking company that helped Tower reorganize and market itself to potential buyers.

Tower, he said, is strengthening its balance sheet as it tries to reclaim its former glory.

More stores, digital initiative ahead:

Last month, Tower launched a high-profile advertising campaign in San Francisco, with TV and radio spots, billboards and other outdoor signs. The chain hadn't done anything like it in years.

Last week, Tower opened a new, 12,000-square-foot store in Tempe, Ariz. The store essentially replaced one that the company closed in that city about three years ago when its landlord, Arizona State University, reclaimed the strip center for other development.

Last November, Tower opened another new store, one of 14,000 square feet in Seattle that replaced a store of about half that size.

Tower plans more openings and renovations this year, but the company won't elaborate. Christman expects Tower will start opening new stores in 2006.

Based on demand in markets where Tower is absent or doesn't have enough stores, Greif figures Tower could expand by three or four stores a year, maybe for a total of 20 stores within five years.

Tower got into trouble by overexpanding internationally, he said, but the company "underexpanded" in the United States. With its new store initiative and marketing campaign, Tower could grow its value and "not too far down the road" go public or sell, he said.

Tower also knows it needs to be strong on the digital front, Greif said. Tower plans to address the demand for digital downloading with its own digital initiative, but Tower officials won't elaborate.

One small part is the ability to download songs to MP3 players at listening stations in stores. Customers can now use the kiosks, built by Synergy Media Group of Denver, to burn CDs.

Bondholders took over: Tower Records won't say much of anything about any of its plans, maintaining a silence that has become standard in recent years.

Until lately there was little to brag about. Music retailers have watched music sales slip, seen free and cheap music downloads take off, and watched competition grow from the big warehouse chains and online seller Amazon.com.

In 2002, Tower sold its Japanese operations and closed some stores and its magazine Pulse. In 2003, the company defaulted on its bond payments as it staggered under \$358 million in debt, and put itself up for sale.

In February 2004, Tower was in bankruptcy reorganization for just over a month. The bondholders took control, leaving founder Russ Solomon and his family with only a 15 percent ownership.

Until a few years ago, Tower had more than 200 stores and \$1 billion in annual sales. Editor Christman puts sales at half that now.

But after Tower reorganized, the company was named 2004 Retailer of the Year by the National Association of Recording Merchandisers. Tower also won seven of the trade group's eight advertising awards.

Improve the stores, consultant advises:

"This is an exciting time for us at Tower Records," Kevin Cassidy, executive vice president of retail, said in a statement about the Arizona store.

"This new Tempe location continues our trend of opening and refurbishing stores in Tower's key markets."

"The opening of the Tempe store is another clear step forward for the Tower business," Allen Rodriguez, Tower chief executive officer, said in a statement. "Entertainment retail is evolving and Tower is at the forefront of that evolution."

He said the Tempe store has touchscreen listening stations and a DVD selection as large and comprehensive as the music selection for which Tower is known.

Tower needs to add stores but its first priority should be renovating existing ones, said George Whalin, a Southern California retail consultant

who grew up four blocks from Tower's original store in Sacramento.

Tower's stores look the way they did a decade ago, he said, and a San Diego Tower he visited three weeks ago "was a dump."

"To be critical of them is hard for me to do," he added.

In a December article, editor Christman wrote much the same thing about the stores: "Tower once had the most exciting stores in the industry, but today many of its outlets are in need of a makeover."

Shoppers want a clean, organized store with good lighting and comfortable seats that allow them to linger, Whalin said.

A new Borders not far from Whalin's house has wide aisles, beautifully presented music, a large selection, and the ability to scan CDs for a sample selection.

Tower Records is addressing the need to update each store individually, Greif said. In a December news release, Tower said the Seattle relocation would be the first of several stores that would be fixed up over the next 18 months.

The company has allotted more space for DVDs, Greif said, the sales of which have been a bright spot in the industry.

"Tower now offers one of the widest DVD selections of any retail chain," trade pub Video Business reported in April.

'Funk' in rhinestones on pink: The San Francisco marketing campaign, called "Entertain yourself," started last month and runs into July.

The sale of movie, TV and music DVDs has been strong for Tower. Greif said that's why the campaign emphasizes that Tower sells entertainment, not just music. The sale of movies and TV shows could eventually surpass music, he said.

The campaign says Tower has all types of music and movies. "The message is that Tower Records owns genres," said Luis Peña, part of the threesome that created Tower's marketing campaign.

The work was photographed and filmed -- nothing was done by computer, he said -- to create a handmade look that makes Tower's campaign stand out. The goal was to make the spots entertaining, "super simple" and humorous without making fun of the genre.

Tower's TV campaign consists of four music and three movie spots, Peña

said. The spots are 15 seconds, and begin and end commercial breaks. In one TV spot, a cheerleader energetically yells "Yay, team," then screams and drops her yellow pompoms after seeing a chainsaw-wielding man underneath a full moon. The other spots are equally simple and campy.

One print ad has a closeup of a hairy chest bearing a necklace that spells "rock." That hairy chest, Peña stressed, is his.

As for the outdoor signs, it's pretty dramatic to see a 40-foot billboard in the middle of downtown with rhinestone pins spelling out "funk" on pink fur, he said.

The ads seem to be everywhere in downtown, the Mission district and on public transportation, Peña said.

Peña, brother Miguel Peña and Matt Ashworth, all of San Francisco, were the creative team who put together the campaign between January and May. The team has worked with clients such as Pottery Barn, The North Face and Amnesty International. Ashworth, who specializes in creating brands and rebranding, has worked for JanSport backpacks and Diageo Chateau & Estate Wines Co.

Tower "trusted our body of work," which the trio appreciated, Peña said. The partners hope Tower will take the campaign nationwide. Peña had worked with Tower's marketing staff on a project five years ago.

It's been years since Tower has done TV or billboards, Whalin said, adding that the campaign means "ultimately they're trying to grow the business again."

Digital on one side, marts on the other: The long-term future of Tower Records and similar chains remains questionable as music and video continue to move toward all-digital formats.

Speculation about which retailer will stop selling VHS tapes has been in the news the last few months. But that's just a small change, probably, compared to what's coming.

iPods and other digital music players are having a significant impact on the way music is sold, Whalin said. Meanwhile, Tower continues to compete with mass merchants such as Wal-Mart, Costco and Best Buy. "The competition for customers' dollars is fierce," he said.

Tower's strength has been its selection, a tradition created by founder Solomon and a powerful marketing tool. Obscure albums are rare at Best

Buy, Wal-Mart, Target or Fry's, Whalin said.

Whalin and other industry observers predict the shiny silver discs will follow vinyl records into oblivion.

"My guess is that the long-term future of music CDs and DVDs is limited," he said, and will be replaced by some digital format or another. "I don't know at what point the store goes away."

Not quite yet, anyway: Stores won't disappear soon, at least not for five or 10 years, Christman said. It's mostly journalists, not people in the record industry, who think stores are going away.

It took from 1983 until 1991 for CDs to surpass cassette sales. After the first digital music download in the late '90s, some people predicted digital downloads would surpass physical sales by 2001, he said. It hasn't happened yet.

"For the foreseeable future, there's going to be a place for brick-and-mortar retailers," said Gary Bongiovanni, editor in chief of Pollstar magazine. But they won't get the sales they used to.

"Retail stores aren't going away," Greif said. Consumers like the treasure hunt and cultural experience of a store, he said, especially at Tower with its deep inventory and knowledgeable staff.

Tower Records' online store is one of the largest music stores in the business, Christman said, although it is smaller than Amazon.com. Tower started selling online in 1995, and launched Tower.com in 1996.

Last October, Fuse Music Network and AG Interactive put out a press release announcing an alliance to create the first interactive music experience that would unite TV, wireless and the Internet. An example was a "Daily Download" TV show in which viewers received a word of the day to plug into a Web site for free music downloads.

Tower was a partner in that promotion. In the press release, Tower said it planned more collaborations "in support of our digital download and subscription service."