

Hands On: Music to its ears

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The next time you're wandering the aisles of your nearest music store, don't bother looking for CDs produced by Somerset Entertainment. Although the Toronto-based firm has sold more than 45 million recordings over the past 12 years, not one of them was distributed through a traditional music retailer. Look instead to quaint gift shops and the harshly lit corners of big-chain drugstores.

If these sound like odd places to sell the latest U2 or Madonna disc, well, they are. But Somerset's specialties are nature sounds, Christmas compilations and the New Age melodies favoured by massage therapists and yoga instructors around the world.

Exploiting non-traditional distribution channels is a vital part of a marketing strategy that also includes unique merchandising technology and exhaustive market research. Such tactics have helped Somerset grow sales of its recordings to \$70.4 million in the 12 months ending Sept. 30, 2005, from \$41.7 million in 2002 — strong evidence that companies do well to follow their customers, not convention.

Sell in unexpected places

When it comes to a distribution model, Somerset proves that the obvious choice isn't always the best choice. "One problem with traditional record retailers is that the majority of their dollars are tied up in their focus on Top 40, new-release music," says Andy Burgess, CEO. Somerset's labels don't fall into that trendy category. Moreover, Somerset noticed a distinct lack of its target market — women 35 and older — in traditional music stores.

Burgess and his business partner, Gordon Gibson, knew they had to get their products into retailers where their prospects shopped, such as Sears Canada, Canadian Tire and Home Outfitters in Canada, Woolworth's in the U.K., Hallmark and other gift stores, as well as drugstore chains such as Walgreen's and Shoppers Drug Mart. However, such retailers weren't accustomed to selling music — and the ones that were had to be persuaded to display Somerset CDs in female-oriented locations such as the bath, candle and children's departments.

Encouraging large, set-in-their-ways retailers to do things differently requires "an incredible amount of effort," admits Burgess. That starts with aggressive, persistent salespeople. "We are a sales-based organization," says marketing director Jennifer Ansley, "and that's a key strength of our company."

Persistence paid off with Woolworth's, which turned down Somerset three times over the course of a year before finally agreeing to stock its products. Somerset simply had not accepted no as an answer. Sears Canada's buyers rejected Somerset various times over a year as well before a senior staffer in Sears' procurement department — a contact developed simply through networking — agreed to work with Somerset if it allowed Sears to sell the firm's CDs on consignment. That's something Somerset had never done before. But the salesforce is always willing to be flexible, says Ansley, because "we have confidence in our program and we know how it's going to perform, given the right circumstances. And it's hard for the retailer to say, 'no' because they have little to lose."

Consider the power of technology

You have a great product and established distribution channels, but are you attracting your consumer at the point of sale? Thanks to retail experience that includes a stint with Loblaws, Burgess is well aware of how product can sit around if not merchandised properly. Somerset's CDs would be especially vulnerable, as they are typically an impulse buy. So Somerset invested in six-foot-tall display cases embedded with proprietary electronics that encourage prospects to push a button and listen to 30-second samples.

"The strategic viability of the interactive display was clear to us from the beginning," says Burgess. Somerset figured consumers wouldn't buy the CDs unless they could hear them first, given that most people aren't in a music-buying mood when they're buying candles or baby shoes.

"Our product is concept-driven, not artist-driven, so it's not a destination purchase," says Ansley. Somerset knew it was vital that consumers have a way of sampling the product in order to stimulate the purchase — and a test at a gift store in Ontario's Niagara region confirmed the theory. Indeed, the firm's numbers indicate that CDs displayed in the interactive booths outsell those carried on regular store shelves by a factor of three or more.

No matter how viable a notion and how strategic a plan, with the expensive price tag attached to each interactive unit, Somerset initially paid a heavy price for the technology. "We missed our cash-flow projections partly because of the interactive costs," says Burgess. "And we had to go back to the bank and increase the credit lines." Nevertheless, he kept a close eye on how well the interactive units helped move product, and the financial returns convinced him to keep going — with the caveat that no money would be lost on the opening orders. "Technology makes sense when it supports and enhances a strategy," says Burgess. "But, otherwise, it can be an expensive experiment."

Know thy customer

Intending to limit guesswork and assumptions, Somerset places priority on knowing what customers want before it creates new products. This strategy allows the company to create marketing initiatives without having to predict consumers' fickle tastes. "We don't run our business as a gambling enterprise," says Ansley. "We like to be sure that our products are going to sell."

Conducting extensive market research became increasingly necessary over time. "As we went from releasing 10 albums a year to 90, it necessitated us to stretch more to come up with unique concepts that will work in the marketplace," explains Ansley. "We're continuously looking for new ways to spur creativity and gain some insight."

"It took a few of our own ideas to fail miserably for us to learn our lesson," recalls Burgess. "We gradually realized that we needed to work from the consumer's needs backwards."

Teams are sent into the field to determine trends among Somerset's retailers and of the music industry in general. They pore over magazines and visit music and lifestyle retailers. Somerset's *feng shui* CD is an illustration of an idea born from such research. "We noticed the *feng shui* trend in the gift and home-decor industries, and we had already had some success with our Zen products, so this became the next logical choice," says Ansley. With the data garnered in the field, Somerset then selects 100 or so concepts to bring to the focus groups. Outsourcing the test group recruitment is a considerable expense, but the firm saves money by conducting and moderating the sessions in-house.

Somerset (TSX:SOM.UN) raised \$96 million from an initial public offering in March 2005, and in December it acquired its largest U.S. competitor. The firm is now focussed on a growth strategy that includes increasing exports, boosting current customers' sales and launching new products lines. Burgess has said he hopes to reach \$100 million in sales within five years. Certainly that would be music to the firm's — and its many investors' — ears.