

Baton Rouge Music Studios: A Case Analysis

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Abstract

This case requires students to analyze a small business on the verge of closing. All aspects of the business – accounting/finance, marketing, and management– must be examined. Recommendations regarding continued operation must address these areas.

Keywords: financial statements, financial analysis, accounting, finance, management

THE COMPANY

Baton Rouge Music Studios, LLC (hereafter, BRMS) is a “business dedicated to creating, developing, and implementing educational and performance based programs to Baton Rouge area youth” (Baton Rouge Music Studios website, 2011). Through private lesson offerings, students learn musical theory and technique. Unique group oriented programs enhance the student’s learning experience; “instructors model motivation and communication techniques that provide students with the skills necessary to work with other musicians in a constructive, critical manner” (Baton Rouge Music Studios website, 2011).

Baton Rouge Music Studios (BRMS) was founded in 2006 by Doug Gay, a professional touring and studio musician. Between 2009 and 2011, Doug played drums for Tab Benoit, a Grammy©-nominated Louisiana Blues artist. Income Doug earned as part of Benoit’s band was invested in BRMS. Doug’s wife, Courtney, remained at the studio while he toured. Prior to touring, Doug was the band director at a local high school and would tend to the studio after school dismissed. Growing weary of life on the road (250 days a year), Doug quit the Tab Benoit Band in May of 2011. However, the income earned as a touring musician helped to keep the studio afloat. After several months of poor financial performance, it was time to focus on business. The studio is open 5 days a week, 4 p.m. – 8 p.m. and is closed for all major holidays. The reception desk, which accepts payment from students and answers telephones, is maintained by Doug, Courtney, and the instructors at BRMS.

TEACHING PHILOSOPHY

The faculty at BRMS is comprised of professional musicians and educators. Besides Doug, there are seven instructors, teaching drums, guitar, bass, piano, voice, brass, and woodwinds. Each instructor executes what Doug has dubbed “purpose driven lessons.” Traditionally, there are two schools of thought in regard to private music lessons. The first technique is used by many professional contemporary musicians. They use a laid-back approach to teach students parts of recognizable songs; sometimes, several students informally “jam” with other students. Unfortunately, there are no public performances or recitals. The second approach uses a rigid curriculum. Progression through a series of instructional books is used to structure each lesson. Once or twice a year, students perform for family and friends via recitals; however, students rarely play alongside others. Students at BRMS not only receive a sound musical education in technique and theory, but also have the opportunity to learn how to play with other students. Students are prepared for several performance opportunities per year in rock and roll concert settings, such as at malls, auditoriums, and local festivals. Doug’s philosophy is that “music should be a tool that helps a student with self-discipline and accountability; but, music should also be fun” (Baton

Rouge Music Studios website, 2011). BRMS uses the best methods (and the most enjoyable ways) to teach these skills.

PROGRAMS

BRMS offers several programs. The following is a description of these programs and fee schedule:

Private Instruction

BRMS offers both ½-hour and 1-hour private music lessons. Lessons are held on the same day and time each week during the course of a month. Fees for private lessons are \$110 per month for ½-hour private lessons, \$200 per month for 1-hour private lessons (the market rate for private music instruction in this community). Fees are paid via cash or check. Once signed up for lessons, clients must give a 30-day notice of withdrawal in order to stop the invoicing process. Private lessons are scheduled with the front desk (scheduled time will depend on instructor and student availability).

RockLab

For beginner guitar and bass players, economical group classes called RockLab are available. Students, aged 6-11, have the opportunity to learn together under the leadership of a qualified group instructor. RockLab classes are one hour in length per week, and are scheduled according to student availability. The RockLab program is a five month program and is offered two times per year. The cost of RockLab is \$110 per month for 5 months, plus a \$50 rehearsal fee.

Young Band Nation

Young Band Nation (YBN) offers intermediate skill level students the opportunity to learn, rehearse, and perform together as band. No more than six students, usually those with similar musical skill and interest, are grouped to form a young band (each young band usually includes at least the following: lead singer, drummer, lead guitarist, and bass guitarist.) Young Band Nation is offered three times a year – spring (January, February, March, and April), summer (June and July) and fall (September, October, November, and December). Each semester has a different theme. Recent themes have included “Songs of the 80s,” “The British Invasion,” and “Write an Original Song.” Each semester has a syllabus and itinerary which gives the students and parents a clear timeline. Band lineups may change from semester to semester. Therefore, it gives the students the potential opportunity to play with many different students throughout the year. Band members meet at the studio once per week, for two hours. Students in YBN have a mid-semester, as well as, an end-of-semester performance.

The current cost of YBN per student is \$100 per month. Students enrolled in the YBN must also be simultaneously enrolled in private lessons at BRMS, which is not included in the fee structure for YBN (i.e., private lessons are an additional cost.) The content of YBN is exclusively under the supervision of Doug Gay.

Punch card/Gift card system

This program allows clients to pre-purchase lessons. Clients must call 48 hours in advance to schedule a lesson. After completion of a lesson, the cost (\$30 per half hour, \$55 per hour) is deducted from the card's remaining balance. Cards are available in denominations of \$30 and up.

One Hit Wonder

For adults and children unable to make a long term time and/or financial commitment to private lessons, BRMS offers the "one hit wonder" program. Clients must call 72 hours in advance to schedule a "one hit" lesson. The cost is \$30 per half hour, \$55 per hour.

PHYSICAL LOCATION

BRMS is housed in 2500 square feet of Class A office space in the southern part of the community, just south of the Louisiana State University (LSU) campus. Other tenants include doctors, attorneys, and insurance agencies. Most students enrolled in BRMS programs live in the general area. Doug has signed a month-to-month gross lease at the rate of \$3,650 per month. Eight parking spots are included.

ADVERTISING

BRMS has relied primarily on word-of-mouth to promote its programs. Community performances by Young Band Nation students also serve as advertising for the programs offered by the studio. Several local television stations, as well as, the LSU student newspaper, have covered BRMS. Doug has always felt that a marketing plan for the studio would be its secret weapon to tap if times got tough.

CHALLENGES

BRMS has encountered numerous challenges over the last few months. Revenue is unstable during the course of the calendar year. For instance, participation in summer programs is usually low. Meanwhile, expenses during this portion of the year remain roughly the same (monthly profit and loss statements for March and June 2011 are presented in Tables 1 and 2). To keep the studio operational, Doug and Courtney have borrowed from family members and do not take salaries; however, they are committed to remaining open. Future dreams for the studio include: CD and

promotional packages for members of Young Band Nation as they begin to record their original music, live streaming performances for family and friends to see students perform in real time, in-house venue for Young Band performances and workshops; and a full suite of rehearsal spaces open to the Baton Rouge music community (by the hour or by the month rentals).

QUESTIONS

1. After viewing the financial statements provided, what areas need to be addressed? How can BRMS increase revenue, while reducing its expenses?
2. Comment on BRMS marketing program. Suggest ways in which the studio's profile could be enhanced through advertising.
3. Could better management make a difference in the survival of this firm?

TEACHING NOTES

1. In terms of revenue generation, there are several areas that should be addressed by students:
 - The instability of student fees in the summer months is related to such things as family vacations, summer school and other activities. Some students are unwilling or unable to commit to an ongoing 2-3 month program during this time. An alternative revenue generating program would involve 1-2 week intensive band camps, available to students of different skill levels, instruments, and ages. The program could even be offered to adults, marketed as a rock and roll dream camp, with a performance at a local restaurant or coffeehouse as the program finale.
 - Generation of revenue only occurs for four hours each day, Monday through Friday; however, the space is leased for 24 hours per day, seven days a week. Doug should investigate offering private music lessons or group lessons for preschoolers and their mothers/fathers/caregivers, as well as, to children who are homeschooled. Programs such KinderMusik© and Music and Me© have been very successful. Local daycares and school before care/aftercare programs should be approached; programs could be tailored to the needs of the client.
 - Since the price point for private lessons is at the market rate, an increase would likely drive away students. However, the current rate of \$100 per month for Young Band Nation students is too low, especially when compared to the amount of time each student spends at the studio in conjunction with the program. It is reasonable to believe that the program could continue to succeed at a rate of \$150 per month. Also, the semester lengths should be standardized in order to generate income over the entire calendar year: Spring – January, February, March, April, and

May; Summer – June, July, and August; Fall – September, October, November, and December.

- Doug should consider investing in a consultation with an attorney familiar with copyrights and franchising agreements. Since Doug's ideas regarding music education are novel, the market may be ripe to establish his programs in other communities.

A couple of expenses are too large for a business of this size and drag down the studio's profitability:

- The studio is overpaying for rent. It does not need Class A office space. Retail space in a strip shopping center that is centrally located would offer a larger footprint and more parking at a lower rate. Furthermore, the landlord is likely to build out the space to the tenant's needs. The dream of housing rehearsal space, available for rent to the community, may be possible with a change in location. Currently, market rates for retail space in this area of the Baton Rouge community run between \$10 and \$20 per square foot per year. Many rents are negotiable. Other improvements, such as an in-house performance venue and recording studio will have to wait.
 - Payroll expenses for instructors at the studio are astronomical. By the looks of the statements provided, the expenses barely cover the revenue generated by these instructors. It is likely that the studio's other programs have been subsidizing private lessons (and can hardly afford to). BRMS treats these instructors as employees, rather than independent contractors. Thus, BRMS has been responsible for benefits, Social Security payroll taxes and Federal/state withholding. BRMS should avoid a knee jerk reaction such as elimination of private lessons, dismissal of current instructors, and/or eradication of all instructor benefits. Such a move would have a disastrous effect. Private lessons serve as a feeder for all of the other programs offered by the studio. Dismissal of beloved instructors would likely drive away many students. Elimination of benefits would force the resignation of many instructors. The solution may be to reduce the amount of benefits to current instructors and to ease in new instructors and treat them as independent contractors, thereby substantially lowering payroll expense.
2. BRMS should continue to pursue free publicity via the following: coverage by local newspapers, magazines, TV and radio stations. In the spring, several "fairs" are held around town publicizing summer camps available for children; Doug should consider promoting his programs through these fairs. Campers with

a positive experience are likely to become regular students. Social media marketing (Facebook, Twitter, etc.) should also be pursued. BRMS is most likely to attract new students through this avenue, since most teens are tech-savvy. It is also low-cost.

3. The studio should consider hiring a part-time receptionist/office manager. This employee could man the front desk, answer phones, and deal with scheduling during the studio's busiest time of day, 4-8 pm. This would lend an air of professionalism to the business. Certainly, a college student could handle the responsibility. This would also allow instructors to focus on their lessons, rather than have to deal with the business side of things. However, neither the receptionist nor any of the instructors should accept payment for lessons and post to accounts. Institution of a new payment policy is necessary. All ongoing lesson programs (private lessons, RockLab, YBN, as well as, any new programs) should be paid through direct draft, eliminating any collection issues.

Reference:

Baton Rouge Music Studios. www.brmusicstudios.com. 2011.

Table 1

Baton Rouge Music Studios, LLC
Consolidated Statement of Income
For the Period March 1, 2011 to March 31, 2011

Operating Income

Income from Lessons	
Private Lessons	\$13,280
RockLab	330
Young Band Nation	5,200
Other	<u>0</u>
Total income from lessons	\$18,810
Tab Benoit income	<u>\$ 2,600</u>
Total Operating Income	\$21,410

Expenses

Payroll expenses	\$16,287
Computer, internet	150
Rent	3,650
Storage	221
Office supplies	400
Cell phones	260
Electricity	150
Phone – land line	150
Water	31
Insurance	150
Bank service charges	<u>388</u>
Total Expenses	\$21,837

Net Income \$ (427)

Table 2

Baton Rouge Music Studios, LLC
Consolidated Statement of Income
For the Period June 1, 2011 to June 30, 2011

Operating Income

Income from Lessons	
Private Lessons	\$11,060
RockLab	330
Young Band Nation	1,600
Other (punch cards, One Hit Wonder)	<u>285</u>
Total Operating Income	\$13,275

Expenses

Payroll expenses	\$12,590
Computer, internet	200
Rent	3,650
Storage	221
Office supplies	600
Cell phones	260
Electricity	400
Phone – land line	150
Water	31
Insurance	150
Bank service charges	<u>0</u>
Total Expenses	\$18,252

Net Income **\$ (4,977)**