Handleman decides to liquidate assets; McTevia calls it a good decision

Handleman calls it quits
Music distributor to liquidate by year's end

Nathan Hurst / The Detroit News

The soaring popularity of digital music downloads has sounded the death knell for Handleman Corp., which was launched 74 years ago in Metro Detroit and grew to be one of the nation's largest pre-recorded music distributors.

Handleman, which employs 200 at its Troy headquarters and 2,000 companywide, will liquidate its assets by the end of this year and wind down its operations by early 2009, the company's CEO said Monday in an interview with The Detroit News.

"The operating assets will likely be sold within the next six months, and we expect to wind down the business by early 2009," said Al Koch, Handleman's president and chief executive.

The company was founded in 1934 as a distributor of drug sundries by Phillip Handleman and his four sons. It gradually moved into the music distribution businesses, supplying and managing the music departments at such retailers as Wal-Mart and Kmart. In 2002, Handleman was named to Forbes Platinum 400, which recognizes the best of the biggest publicly traded companies in America.

Koch disclosed the liquidation of Handleman after the company announced earlier in the day that it plans to exit the pre-recorded music business that had been its mainstay for decades.

As part of that plan, about 260 workers from its Troy headquarters and Indiana distribution center will be laid off within the next few weeks. Koch couldn't say how many employees at each location would be affected by those initial layoffs.

The company said it will offer severance packages and the assistance of an outplacement firm.

Handleman, which posted a loss of $53.4 million last year on revenues of $1.32 billion, will continue to operate its other units -- including video-game maker Crave Entertainment Group Inc., Handleman UK Limited, Artist to Market Distribution and merchandiser REPS LLC -- until they are sold later this year, Koch said.

The decision to liquidate comes as sales of CDs have plummeted, with younger listeners moving to new digital download technologies -- like Apple Computer Corp.'s popular iPod + iTunes duo -- that allow users to store thousands of songs on portable players.

According to the Recording Industry Association of America, CD sales plummeted from 942.5 million dics sold in 2000 to 511.1 million in 2007. At the same time, singles downloaded from paid services such as Apple's iTunes grew from 139.4 million sales in 2004, the first year the recording association tracked such sales, to 809.9 million last year.

"Our decision to exit the North American music business was difficult but unavoidable," Koch said. "CD music sales have been declining at double-digit rates for several years both industrywide and at our customers' stores, resulting in a sharp drop-off in our business."

Koch said a movement of the company to digital music sales would've been difficult given the strong position of companies like Apple and Microsoft, which both developed their own music players and vertically-integrated distribution systems.

"It would've offered only modest revenue, a long run-up cycle and have required capital we simply didn't have," Koch said. "Pitching that against distributors who have lots of capital and experience would've been impossible.

Handleman said it has agreed to sell its music inventory and some assets connected with its Wal-Mart business to Anderson Merchandisers LP of Amarillo, Texas. Sales to Wal-Mart are the bulk of Handleman's U.S. music sales, the company said.

Handleman officials said there is a possibility that shareholders will receive a cash payout as part of the sale of the U.S. and Canadian units, though such a payout will depend on the company's financial health at the time of sale. Handleman's stock has plummeted in recent months and was de-listed from the New York Stock Exchange in late March.

Jim McTevia, founder of McTevia & Associates, a Bingham Farms-based corporate turnaround firm, said Koch's decision to liquidate Handleman's assets separately will ultimately give shareholders the most value. "This is a good time for them to hang it up," McTevia said. "The market of pre-recorded music is getting ever thinner, and getting rid of it piece by piece lets them get the maximum value of each division."

Handleman's relatively quick demise was largely unavoidable, on retail expert said. "It should've been expected," said Jeff Stoltman, a professor of marketing at Wayne State University.

"The rate of decay of pre-recorded entertainment -- and especially music -- has been quick as technology has advanced so fast."