Firms Said to Stop Supplying Tower Records

At least three major music companies suspend deliveries to the struggling retailer, which has ceased paying its bills, sources say.

By Charles Duhigg and Geoff Boucher, Times Staff Writers
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At least three major music companies cut off CD shipments to Tower Records on Thursday after record executives said that the iconic music retailer had stopped paying its bills.

Universal Music Group, Warner Music Group Corp. and EMI Group sources confirmed privately that each of the companies had stopped sending albums to the Sacramento-based chain, which has struggled with declining sales as digital technologies have changed the way consumers buy music.

Sony BMG Music Entertainment also suspended shipments, according to industry sources.

The four record companies declined to comment.

The move comes just days after Tower Records named a new chief executive: crisis management and bankruptcy specialist Joseph D'Amico. Tower executives informed record companies this week that they would not pay outstanding invoices, according to sources familiar with the conversations.

Towering executives, including D'Amico, did not return phone calls. A Tower spokesperson declined to comment.

Industry insiders and analysts said it was unclear whether Tower Records had run out of money or was attempting to pressure the record companies to extend better terms.

If the music companies suspend shipments for long, Tower Records could be forced to shutter its 89 locations, including the famous store on Los Angeles' Sunset Strip, analysts said.

Tower Records confirmed Thursday that it was working with a Los Angeles investment bank to sell the company.

The retailer reportedly received at least five bids this year from private equity firms. When a sale failed to materialize, D'Amico was hired in what is the third management shuffle in four years.

The hard line by record companies, insiders said, is a response to Tower's unilateral decision to withhold payments after music executives had extended the chain credit for years.

"There are some music companies that have been trying very hard to keep Tower afloat," said an executive at one of the music companies familiar with the talks who requested anonymity because of the situation's delicacy. "They owe a lot of money."

Music fans bemoaned the potential loss of a retailer that catered to fanatical tastes.

"Led Zeppelin changed my life, AC/DC changed my guitar playing, and Black Sabbath changed my approach to songwriting — and I found all of them because of Tower Records," said Dave Mustain, lead singer of the veteran heavy-metal band Megadeth. "What could they possibly put in the place of that Sunset store? Another Starbucks?"
Others pointed out that Tower Records had averted crises before — most notably in 2004, when the retailer filed for bankruptcy protection but emerged less than a month later, after bondholders took control of 85% of the company’s stock.

"Being on hold doesn’t mean Tower is going to close up shop tomorrow, but it means they need a serious plan,” said Geoff Mayfield, senior analyst at the music industry trade publication Billboard. "The industry isn’t in a hurry to lose another retailer. There will be a lot of people who will want to support them in coming up with a plan.”

Tower Records began in 1960, when a music enthusiast named Russ Solomon began selling records out of his father’s Sacramento drugstore. In less than a decade, Tower Records expanded to San Francisco and Los Angeles, and soon thereafter across the nation and abroad.

Tower pioneered the mega-store concept, building multilevel stores with exhaustive inventories and passionate and knowledgeable staffs. Tower’s late-night hours and in-store concerts drew crowds.

By the mid-1990s, Solomon was listed by Forbes magazine as one of America’s richest men. Amid soaring profit, the company launched a major expansion financed by bonds worth $110 million.

But soon afterward, profit at Tower Records and other music-only retailers began to decline amid pressure from Internet piracy and chains such as Best Buy Co. and Wal-Mart Stores Inc. Retail music sales decreased by 17% from 2000 to 2005, according to the Recording Industry Assn. of America.

In 2003, Tower’s parent company, MTS Inc., tried to sell the retailer after it defaulted on a $5.2-million payment, but there were no takers. Less than a year later, the Solomon family lost all but 15% of the company after it filed for bankruptcy protection.

This year the company installed in-store kiosks that would eventually allow customers to burn compilation CDs of current and out-of-stock songs. Last month the company launched a digital store where listeners could download individual tracks for 99 cents apiece. Industry analysts said the efforts were gaining traction.