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January 2007

MMR

MUSICAL MERCHANDISE REVIEW

George's Music Stores -

a Thriving Business
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Relationships

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those long-term
relationships, not
just get new ones."

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customers
are your best
opportunity to
expand sales."



At George's Music, 'Building Relationships' Built the Business

By Kevin M. Mitchell

One can hear a lot from George Hines.

As the owner of the 10-store two-state dealership that is George's Music, you'll hear that business is more about personal relationships than anything else. As a founder and current chairman of the Finance Operations Committee of the Alliance of Independent Music Merchants (AIMM), you'll hear him discuss the importance of manufacturers and retailers communicating and understanding the challenges of each other's business. Heck, get him started on guitars, and he'll tell you about his personal preference for semi-hollow bodies.

But you won't ever hear him whine.

"I believe competition can make anyone improve if they keep their eyes glued to opportunities to learn and adapt to the



George Hines, founder of George's Music.

changing environment," he comments. "I am of a free-trade mentality."

Of course he has concerns, but his approach has little to do with trying to turn back the clock and everything to do with

focusing keenly on the way the market winds are blowing.

His combo/pro sound operation started modestly enough, and his love of music combined with a savvy business sense, smart decisions, and the ability to seek out and keep quality people has made him one of the more respected and admired people in music retail.

History

Hines grew up in Plymouth Meeting, Pennsylvania, just west of Philadelphia, where he started playing piano when he was six. He eventually also picked up guitar and would play in several local top-40 cover bands. He fared well enough that his musical abilities helped him make his way through Ursinus College, a small liberal arts college northwest of Philadelphia. He graduated in 1977 with a degree in secondary education and a minor in history, but



Open merchandising of accessories, parts: "putting them out where the customers can touch them."

the little teaching he did his final year of college would be the extent of students calling him "Mr. Hines." Just prior to graduating, he had already entered into a lease for a storefront in nearby Spring City with the intentions of launching a music store.

"I had decided that I wanted to do something with my passion, music," he says, then admits he knew next to nothing about the adventure he was about to begin. "When you're young, you're fearless!" he laughs.

Hines had little cash, and certainly no possibility to secure desirable lines, so he launched a store that was at first primarily a teaching operation that did a little consignment business (including selling instruments he had acquired). But he

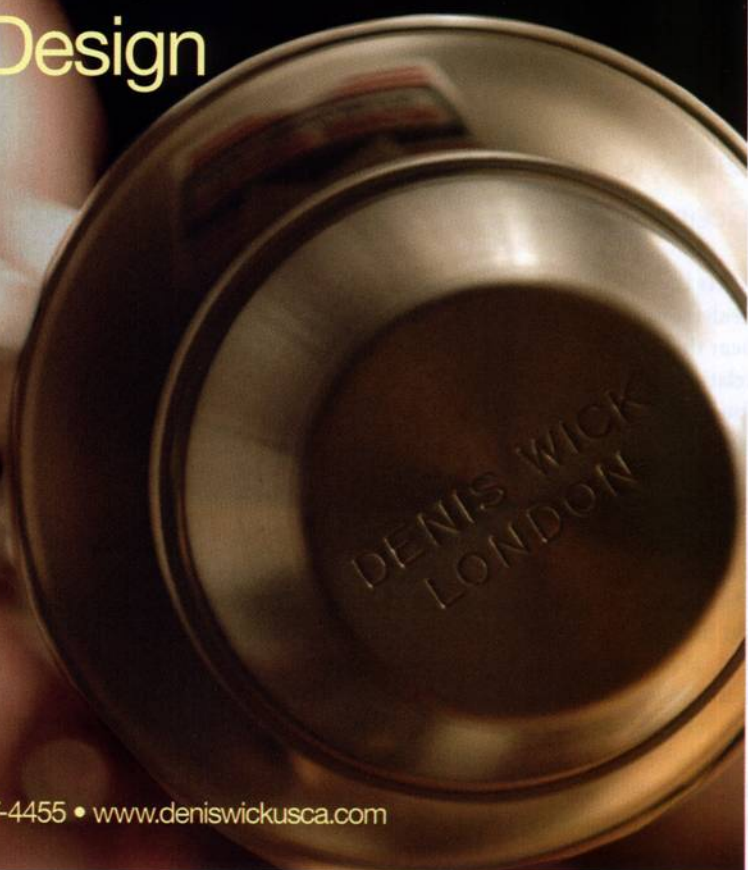
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had one simple idea based on his own experiences as a music retail customer: building relationships.

"I realized that having played most of my life, I had never developed a relationship with any of the people at the Philadelphia-area stores I shopped at. I thought there was an opportunity. So I opened a store that would get to know the customers."

The Spring City facility's 5,000-square-foot size was actually too big considering Hines' dearth of inventory, so he fixed that by building a wall 40 feet into the store, shortening it significantly. As the business grew, he kept moving the wall back.

"It was tough," he recalls of those first few years. "There were days in the beginning when no one walked in. But over the years I started getting this reputation for treating people well, and they would bring their friends. Slowly I made a few dollars, which I reinvested into the company." He still has the store, it's still profitable, and the manager of it, Tom Henderson, has been with him for 23 years.

By 1985 he'd opened his second store, this one in North Wales, another community just outside of Philadelphia. Twice as big as the first one, it was considered a large store at the time. He installed a live point-of-sale system that allowed both stores to communicate and share information with each other, plus automatically pay bills and keep track of and purchase inventory. This was long before others in music retail did such a thing.

From there, he opened up three more stores roughly every two years until he had a total of five in the Philadelphia area, strategically placed to surround the city. Hines was sure to always expand into safe, good shopping areas with good parking, as convenience was key to any decision about a new store.

Hitting his stride in the 1990s, Hines looked outside of his hometown to expand further. He had "gotten pretty good at opening stores," developed solid procedure manuals, and wanted to "test" his system in a market far away to see how they would stand up without constant handling by the owner. He talked with

manufacturers and did research before settling on Orlando, Florida, in 1995. The state proved to be a fertile market for George's Music, and stores in Jacksonville and, his latest, in a former Mars Music location in West Palm Beach, were opened.

Today he has a total of 10 stores with about 100 employees and owns six of the 10 buildings. He divides his time between the two states and has homes in each. His regional managers oversee service-quality audits every month at every store. With company vice president Neal Pomerantz, he also oversees the centralized buying carrying mostly the major brands: Fender, Gibson, Ibanez, JBL, Korg, Latin Percussion, Line 6, Ludwig, Marshall, Martin, Pearl, Peavey, Remo, Tascam, Taylor, Yamaha, QSC, and Zildjian, among others. "We stock what we think the customers want and those are high-quality products, and what we as musicians would like to buy. Brand is important in our industry, and it's an important part of our strategy."

Cultivating Relationships for the Long Term

MMR: What is your biggest challenge?

GH: People. You always want to get the highest-quality person you can. Unemployment has been so low for so many years, and we're not looking for clerks. We want career-minded people.

MMR: How do you achieve that?

GH: We do a lot of testing. We do a psychological survey [on applicants], the PASS Survey, and it's very good. It's 100 questions, and we know what our profile of a successful employee is. Then if we get someone working

who looks pretty good, we have another survey that gets into their strengths as a person, and that helps us determine our future leaders.

We also do a quarterly survey that allows our managers to rate people, and if we see people are improving, we may give merit raises and spend more time developing them. We're always looking at our

"I never complain about a competitor moving in.

You learn from the good things they do, and you don't try to do what they do. You push the things you can do better."

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people. So much is put into our people — it's our biggest investment.

The unique thing we've done is we put in an Employee Stock Ownership Plan (ESOP) since 1998. After six months of working here, an employee gets a piece of the company and the profits. For the last eight years, I've been mainly driving the company by sharing stocks and profits.

MMR: Who is George's Music's customer?

GH: It's the customer who is looking for a little more from a retailer. There are two needs: the physical need — the product, what it costs. Then there is the emotional need. When you walk in to purchase a product, you want to feel recognized and appreciated. When we train our associates to do business we try to focus on both sides of that.

Otherwise, it cuts across all age groups. The average age is 34 years old, and the customer is primarily a hobbyist, but passionate about music.

MMR: Has the demographic changed since you've been in business?

GH: It's gotten a little older since I started and I think it will continue to do so.



George's Music's Retail Support Team at corporate headquarter in Berwyn, Pa. (from left): Eric Locovara, Jim Jones, Bill Trevena, Beth Weiner, George Hines, Scot Fisher, Doris Vermillion, Neal Pomerantz, and Sarah Ammon.

We have a fairly good amount of repeat customers. In some stores it's really high, up to 86%. We try to cultivate those long-term relationships, not just get new ones. Long-term customers are your best opportunity to expand sales. Sometimes you can spend so much time searching for the next customer that you're not tak-

ing care of the ones you have. That's human nature to some degree.

MMR: Are accessories an important part of your strategy?

George Hines: Yes! [Laughs.] We've always been aggressive with accessories. As early as with our second store,

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we put them out where customers could touch them. We rarely put stuff behind the counter. Yes, there's more theft, but the extra sales and margins easily offset the losses. Customers love it. If it wasn't for accessories, I don't know what I'd say about this industry! It's what makes the business profitable.

MMR: And print?

GH: We do well with that too. Hal Leonard is an especially amazing company. Print is profitable, moves nicely, and is a customer draw. I'm a really big believer in educational DVDs. I wish we had the quality of print back when I was starting as we do today!

MMR: Anything new you're carrying that's doing particularly well for you?

GH: We are pleased with most of the new offerings from the top manufacturers, but have noticed an increase in microphones, powered speakers, M-Audio products, Ibanez's Semi-Hollow products, and the electronic drums from Roland and Yamaha.

MMR: Are teachers a part of every location?

GH: We have teachers at most, but not all, of our locations and have about 2,000 students a week. When you look at return on square foot, teaching versus retail, I could never get teaching to out-perform retail. But we look at it as a service and obligation to the industry. If you don't seed for the future, you don't have any future to harvest.



Back in the day: George Hines and Carl Palmer of Emerson, Lake & Palmer at a late 1980s drum clinic in Springfield, Pa.

MMR: Do you do repair at all your locations?

GH: We have some in-house people, but at the majority of our locations we contract the work out. I try to personally pick those people — for example, when I first moved into Orlando, I found some incredible repair people, and I use them exclusively.

As an independent retailer, if we intend to survive, we need to be profitable. There's a reason "some" operations don't

do in-house service, and I'm sure all our big-store competition would love to see us all do our own in-house service! [Laughs.]

But it is an important aspect, the ability to back the consumer up when they have an issue with a product. The nice thing about today is that so many of the products are so well made ... I remember amps breaking down all the time, and now it's rare to see that happen.

MMR: What's your approach to your floor plans?

GH: We do a lot of custom work for our displays, and they are mostly on wheels so we can modify a floor plan as the market changes. When we open a store, we go in with an idea, but it always changes.

The only thing that is hard and fast is what we give to the non-retail floor portion, which includes back-end operation, lunchroom, office space, and so on. It taps out at 15% of overall square footage and goes as low as 10%.

Taking AIMM

MMR: Tell us how AIMM came about.

GH: Back in 1997, I invited friends Skip Maggiora [of Skip's Music in Northern California] and Bob Bankston [of Pro Sound Music in Colorado Springs] to meet in Orlando and we decided to start an organization that would allow us to be leaders, not followers. We believed the industry was changing rapidly and wanted to be part of the change in a positive way.

MMR: What changes were you seeing?

GH: In the 1970s and 1980s, the manufacturers controlled the business by who had what line and who didn't. Then in the 1990s, some of the large retailers started exercising control. By the late 1990s, the consumer was becoming the driving force of the industry, partly due to the influence of the Internet.

We thought the easiest way to address the consumer's needs was to get an organization where the best retailers

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and best vendors worked together. So we handpicked an independent retailer network, asking the brightest people to join us. We interviewed leading manufacturers who would be open to this kind of collaboration, and most saw it as a positive. In 1998 we had our first trade show.

MMR: Has it been successful?

GH: It's been unbelievable. We currently have 52 leading independent retailers with more than 200 storefronts and do more than \$700 million dollars on the retail side, which represents approximately 10% of the total domestic retail market, and we have some of the biggest manufacturers in the industry involved.

That fact that we've been around nine years says a lot!

Communicating with each other, you start to understand the problems the manufacturers are dealing with, and you have empathy — and vice versa. Last year we did a leadership conference at NAMM. The AIMM preferred vendors gave us a list of non-AIMM leading re-



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tailers who they thought could use a little inspiration and, at our own expense, we put the conference on for more than 30 dealers. It was unbelievably successful.

AIMM has been one of the most significant things I've been part of in my career in the music industry.

The Competition

MMR: Let's talk about competition.

GH: Obviously in all my markets I'm dealing with the big chains, and I never complain about a competitor moving in. You learn from the good things they do, and you don't try to do what they do. You push the things you can do better. For us, it's a people game. We started with nothing, so it was easy to focus on people. We use service shops every month, and rate every store. We keep pushing the envelope on service.

MMR: The mass merchants are getting more involved, selling more instruments. What's your take on that?

GH: A year or two ago, I was hopeful because I was thinking we could work together, manufacturers and retailers, and tap into the larger public and create more players. Then what happened is there seemed to be a breakdown in how this was being implemented, and some of us underestimated the amount of customers who, after getting something at a mass merchant, would not come into the normal music channel.

In other words, there was a failure with manufacturers and retailers in figuring out how to turn those people into continuous players. I'm not blaming anyone, but when a customer of a mass merchant store breaks a string, something minor like that happens, the instrument goes under the bed and that's the end. That's not good for the industry. So my concern is the breakdown we're having in figuring out how to get those players into the mainstream retail music stores.

MMR: So you see it as a growing challenge?

GH: Let's look at it like this: for mass merchants, getting into musical instruments makes sense. You think change

happens fast for us, for them it's mind-numbing! You have a Best Buy, and in all their stores there's a big footprint selling CDs and DVDs. In a few years, that'll be gone as the consumer gets those products digitally. Target and Wal-Mart, too, will be affected. Well, if the recorded music is going, why not replace it with musical instruments?

For manufacturers, it's a good short-term burst. There is nothing better than moving a huge amount of product into a new market. But if the dollars are just being traded, and there is less profit for them per instrument because the way the mass merchants do business is very different than we do business.

For us retailers, we've traded dollars in the short-term. That would be fine if in the long term that customer continued to play. If they try it once and it doesn't work for them, they are not going to try again. So right now it isn't looking good for us. Just look at overall guitar sales from last year — they are not improving.

It's bad for us, it's bad for vendors, and in the long term, we're mortgaging our future together. It's a watershed period for the industry.

MMR: Any ideas around this?

GH: We need to do a summit on this issue, and sit down and talk together, and develop a strategy in creating long-term players. But there is fear on the part of manufacturers that the retailers might be angry, and the retailers are also fearful that these players won't continue to play.

I say let's skip the fear. If it's going to happen, let's turn this into a good thing for the industry.

Let's get these people not only excited about their instrument, but about playing it. An instrument in a box is not going to make it happen. I like the term "customer for life." These [mass merchant customers] are not customers for life, and we're not talking to each other about it.

MMR: What about online sellers?

GH: The Internet allows our customers to become educated, allows for the strong retailer to thrive if they look at ways to use the online experience to enhance the in-store experience.

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and buying online
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MMR: What about the sales tax issue — the point that brick and mortars have to charge for it but online stores don't?

GH: If the difference between someone not buying from me or buying online is because of sales tax, then I'm not doing my job.

Retailers have advantages — service, return privileges, you get to talk to someone ... if you exploit your pluses you'll be fine. If you focus on product and price, you'll lose. They win that game.

MMR: Thoughts on MAP?

GH: It's the price you should start at and move up. A lot of people think that's where you start and then negotiate down. [Laughs.] I look at it as the bottom, and see where I can go up. I look to see if the customer perception allows me to move it up, or if I can add value to the product in some way. If we started looking at MAP that way, we'd all make more money!

I think we could again work with the manufacturers on this, explain how retailers want the return on investment, and help the manufacturers pick better MAPs. It's not a good MAP if it's set too low. If it's set too low I probably will make the decision to buy less of it or none at all.

"Changing People's Lives"

MMR: It's great that you've built successful stores based on customer service, but how do you get that message across with a new store in a new market?

GH: We have a couple of different tag lines. "Customer-Focused and Employee-Owned" is one.

MMR: What is your marketing/advertising strategy? What is working for you?

GH: One of the things we've done at all the grand openings in Florida is radio. We use three stations to get a cross of the market and demographic.

But within the last two years we've increased the amount of television we use in most of the markets, and it's been good for us. It's an image campaign. We don't just run it for spot campaigns, but on a monthly basis in three out of four of our markets. It lets people know where we're at, who we are, what we do. Then we measure the people count coming in the store.

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A new car drawing was part of a grand opening promotion to launch the George's Music location in Orlando, Fla. in 1995.

MMR: Are you using the Internet?

GH: Blast emails are something we've been doing for years. Obviously, the cost is low. But we ask permission to stay in touch with them, and we have about 100,000 customers on our list.

MMR: Do you do direct mail?

GH: Yes, and it tends to be an event-oriented promotion.

We have a "Springing the Blues" event in our Jacksonville market, and we get 90,000 people coming out for it over the weekend. It's the 10th year we've been doing it and it takes place in a pavilion on the beach.

We also do "Blues in the Schools," and bring in professional blues musicians to get kids excited about playing blues music. We also donate support material to local school libraries for it.

MMR: Your Web site is nice, has some fun features, but is basically a business-card with little selling, except for eBay.

GH: The site has been around a long time, and we call it the George's Music Musician's Support Site. It's for when you want to do things with your music, want to register and protect your band name, join a drum or guitar club, things like that. Web sites need to be supportive of customers.

MMR: Any e-commerce plans?

GH: There are opportunities there, but the hardest thing is being able to do it

at a high level. I have to make money at it, and it has to be tied into the store. I can't do it for the sake of doing it. I want our stock price to go up, and it has to be congruent with the philosophy of supporting the customer.

MMR: What is your role in George's Music?

GH: My primary role is head cheerleader. Everything is focused on the customer.

"What I really like about it is we're actually changing people's lives."

We have an inverted-pyramid management system, and so I'm basically at the bottom because I'm the farthest from personal contact with the customer, so I have to support everyone above me. I try to inspire people to do a good job. Another role is teacher and developer. One of my greatest challenges is developing people.

A third role is protector of the company culture. When anything is ever being discussed, the first question is, "Is it good for the customer?" The second is, "Is it good for the associates?" The third, "Is it good for the company?" The culture of the company is very important. So is keeping the focus on the customer.

Finally, I watch the bottom line.

MMR: Are you good at that part?

GH: Last year was the healthiest year the company has ever had. In the 29 years of George's Music, we've seen recessions, competition, global issues, production situations that lower the

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ticket prices of instruments, changes in the demographics ... it's like a sports team. You don't play the same game with every team.

MMR: What's in the company's future — will you be expanding further?

GH: If I see a need, an opportunity, I will. We're looking at different locations. Could be a new store, could be an acquisition.

Growth is an interesting concept. If I can keep it growing in quality of people and profits, providing more services ... all options are on the table.

MMR: What is your favorite part of all this?

GH: What I really like about it is we're actually changing people's lives. It's a big, big thing. I can't imagine my life without music. It's such a positive force.

You think of the real needs of people. There's food, shelter... and I like to put music really high on that list. The sheer power of making music provides something important to the human spirit, and I think what I'm doing is very important -- I wouldn't have done it for these years if it weren't. It's never been about the money, but the money you make is a validation as to whether you're providing a good service or not.

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