

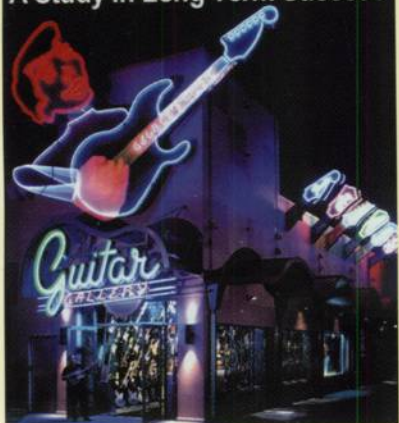
The Music Trades

JULY 2002

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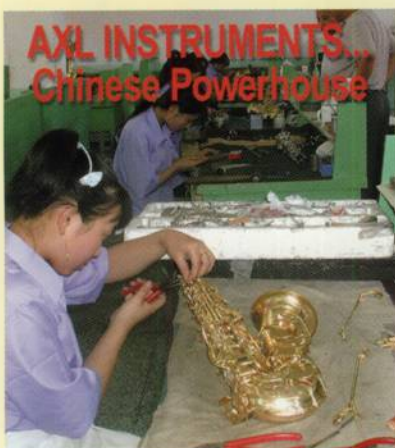
GEORGE'S MUSIC... A Study In Long Term Success



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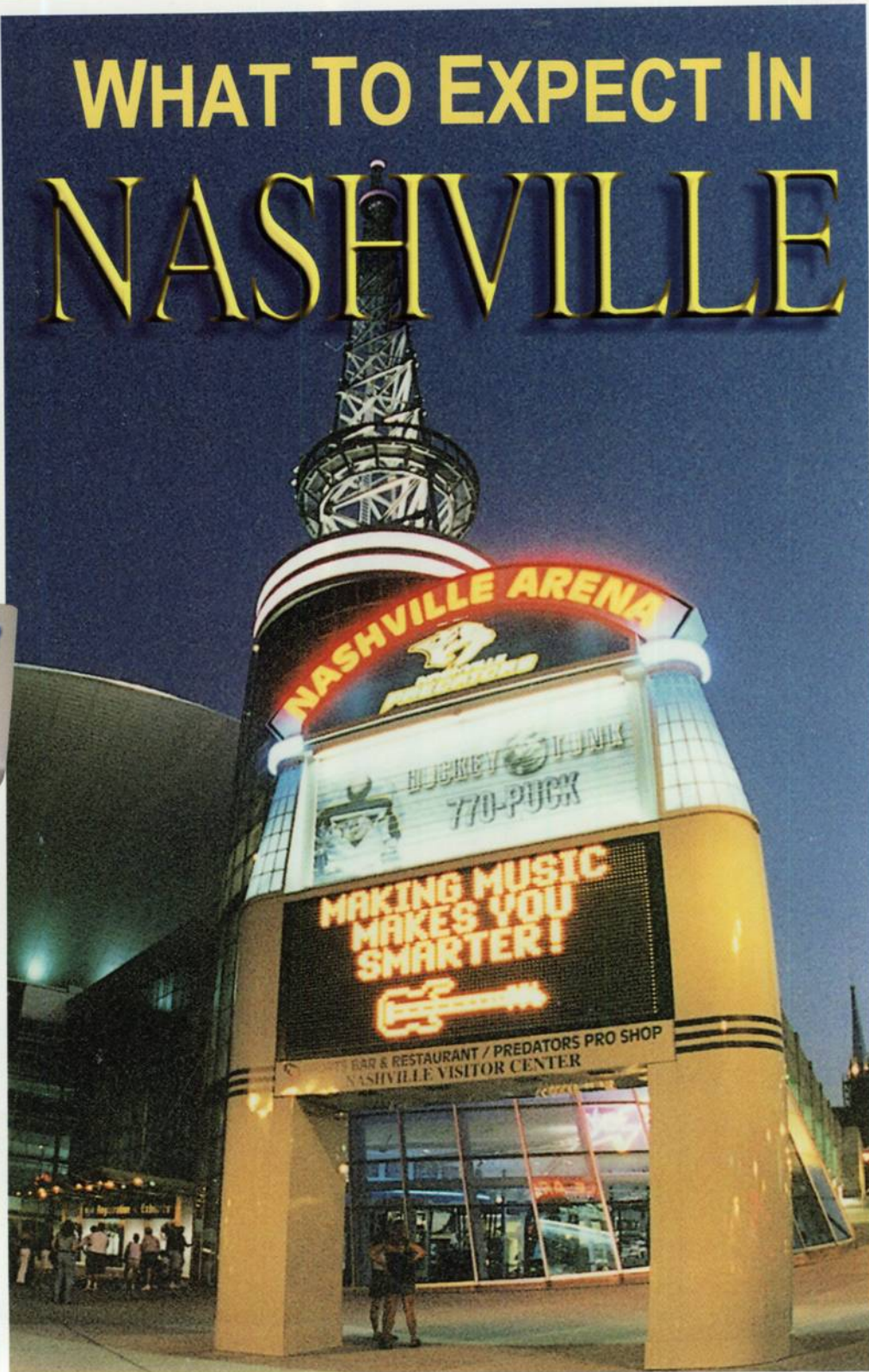
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DOING BUSINESS

With Rigorous Sales Training And Bullet-Proof Systems, It's No Accident That George's Music Is Celebrating 25 Years Of Increased Sales And Profits

With ten stores spread out in Florida and Pennsylvania, and more than 100 employees, George's Music has one of retailing's more unorthodox organizational charts. Shaped like an inverted triangle, customers occupy the top spot, followed in succession by sales associates, store managers, and the central office staff. George Hines, founder and chief executive of the m.i. chain, occupies the last rung. The chart can be found throughout the company, posted surreptitiously behind sales counters and over desks, and is designed to emphasize Hines's guiding principle: "We all work for the customer and we can never forget that." Every business pays lip service to the notion of putting the customer first. For Hines, however, it's more than just a slogan to frame and hang on the wall; it's the distilled wisdom gained through 25 years of highly successful retail experience.

Like many other music retailers, Hines opened his first store (in 1977) as a way to turn his love of the guitar into a livelihood. What set him apart from the average m.i. dealer was that, from day one, in addition to a passion for music and music products, he brought a finely honed analytic sense to his business. Chatting in his office in suburban Philadelphia, his capacity for analysis and plain old "gee-whiz" enthusiasm are evident as he shifts seamlessly between rhapsodizing about the beauty of a guitar's quilted maple top and commenting on its gross margin return on investment potential. Out of these two seemingly contradictory traits, Hines has forged a retail business that is as well designed and constructed as a fine musical instrument. Nowhere are his logic and passion more evident than in his approach to putting the customer first.

"Competitive retailers have pretty much the same product offering at pretty much the same price, and the standards of merchandising are pretty good too. It's also convenient to buy

online or through a catalog," states Hines, offering up his analysis of today's m.i. market. "Why buy from one store over another, or from any store at all?" Answering his own rhetorical question, he quickly adds, "The only thing a retailer has to offer is a relationship with the customer. To succeed, we have to provide them with an auditory, sensory, personal experience that makes them want to buy and want to come back." This concept of a positive customer experience may sound ambiguous, but not to Hines. He has defined it with precision, broken it down into component parts, created systems for measuring it, and, most importantly, developed a sales training curriculum for teaching his staff how to consistently provide it.

Unlike Guitar Center, where stores are based on a standardized floorplan, the ten George's locations vary considerably in physical specifications. Ranging in size from 5,000 to 12,000 square feet, they all feature bright lighting, clear departmentalization, and a large display of accessories near the entrance; however,

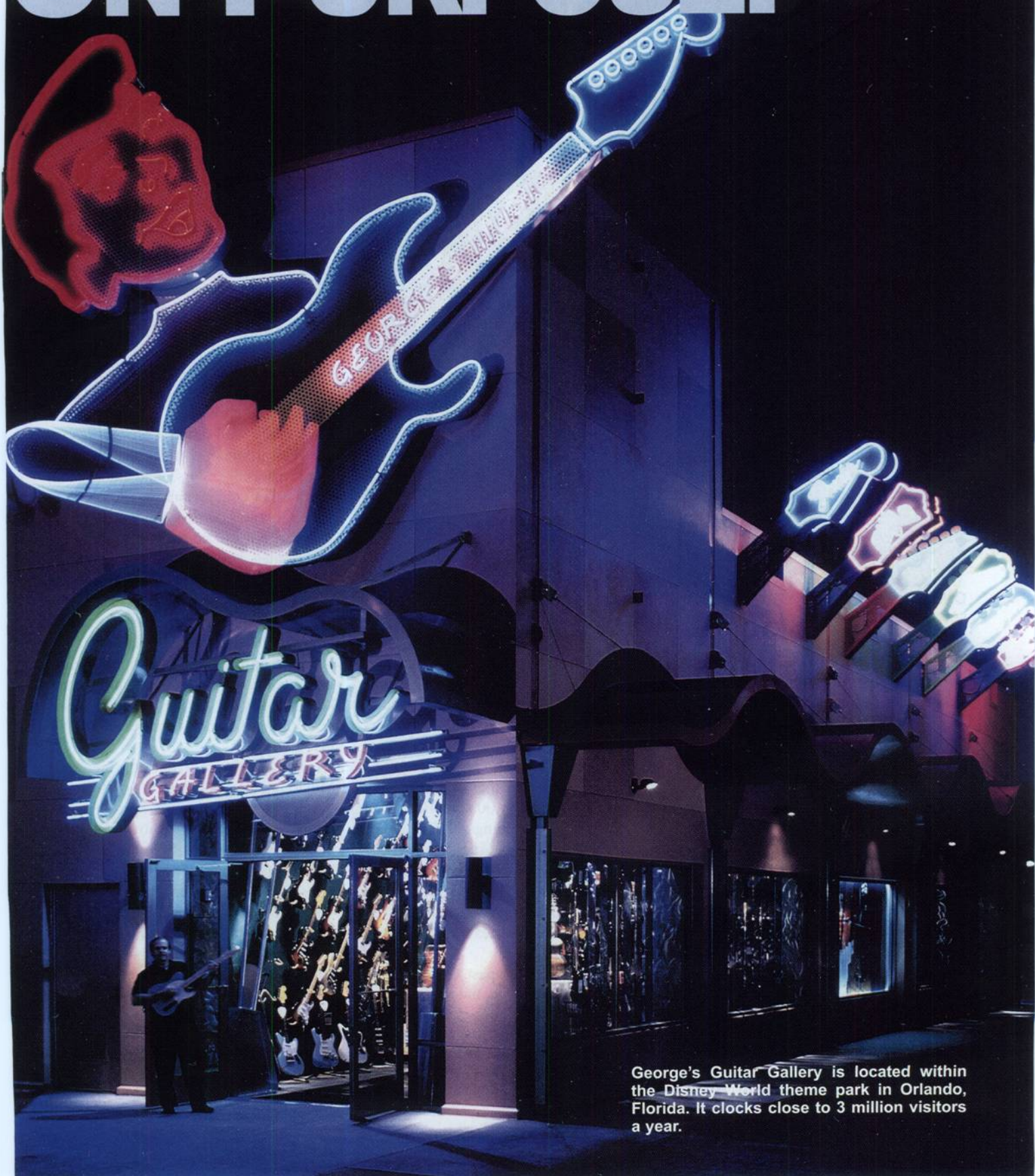
inventory, merchandising, and displays have been tailored on a store-by-store basis to best suit the real estate and local tastes. Stores in the Orlando area, for example, stock more t-shirts and impulse items to cater to the large tourist trade. Teaching studios are a prominent feature in a number of the suburban Philadelphia locations, but are not part of most Florida stores.

When it comes to employee performance, however, George's Music sets an industry standard for consistent performance. Salespeople at the company operate with a precision and competence that lays to rest the all-too-accurate stereotype of the wannabe musician salesman hanging out in a music store and avoiding vagrancy charges until his record deal comes through. Walk into any George's Music location, and you'll get a visual acknowledgement from a salesperson within ten seconds of crossing the threshold. Within two minutes you'll

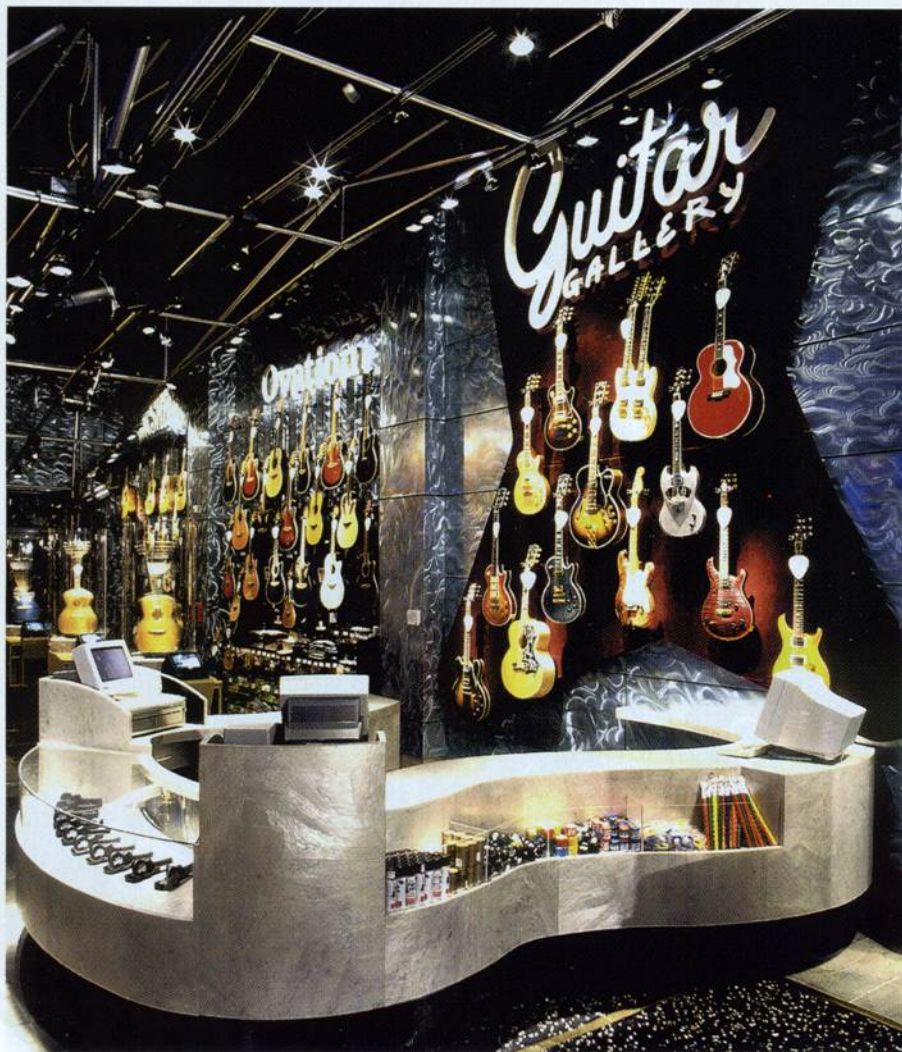


THE RIGHT IN-STORE EXPERIENCE is the most important thing a retailer has to offer, states George's Music founder George Hines. To provide it, he spends a good portion of his time "cheerleading" the sales staff.

ON PURPOSE!



George's Guitar Gallery is located within the Disney World theme park in Orlando, Florida. It clocks close to 3 million visitors a year.



ONE OF THE COUNTRY'S MORE UNIQUE music stores, George's Guitar Gallery specializes in "one-of-a-kind" instruments for affluent buyers.

be approached by a salesperson, who introduces himself by name, asks for your name, and in a casual, friendly manner, begins asking a series of unthreatening qualifying questions. This kind of disciplined congeniality is no accident, it's the by-product of one of the industry's most rigorous sales training programs.

Employee training at George's Music starts with an elaborate screening process. Knowledge of music and musical products is useful, but Hines is more concerned with a potential employee's personality. A standardized psychological test is utilized to uncover an applicant's basic honesty, ethical standards, and general people skills. Those who get a passing grade receive a more involved personal interview before a hiring decision is made. "We can teach product knowledge, we can't shape per-

sonality," says Hines. "We want to see if people will be able to work within our organization, and whether their head is really into meeting the needs of the customer before we bring them in." This employee screening is an arduous process. Hines says that one year they reviewed close to 1,000 applicants to fill just ten job openings. This type of screening results in an incredibly stable pool of employees; the average tenure of a salesperson is over four years and a number of managers have celebrated ten to 20 year anniversaries with the company.

Those who make it past George's initial screening test are indoctrinated in what could best be described as "George's Retail Bootcamp." Salespeople spend a week at the home office, where they sharpen their basic skills in a classroom setting and under

supervision on the retail floor. After the first week they are moved to a store where they receive another 30 days of on-the-job training. Part of the process involves a daily log where the store manager and trainee jointly chart progress in mastering basic skills and monitor attitude and enthusiasm for the job. There's even a George's interactive CD-ROM that graphically covers store procedures and sales techniques.

In every store interaction, Hines wants his sales staff to initiate a conversation that "uncovers the customer's true needs," the rationale being if you truly understand what customers are looking for, you have a better chance of providing it for them. What are proper leading questions to ask a parent? A teenager? What type of physical posture puts customers most at ease? When should you ask a closing question? These are just a few of the topics Hines covers through video-taped role-playing exercises and carefully crafted sales scripts. Training doesn't stop with sales, however; Hines has equally well defined procedures for handling refunds, complaints, lay-away sales, special orders, and just about every other conceivable scenario.

The George's Music training program, which resides in a series of thick three-ring binders and a video library, is treated like a closely guarded state secret. Hines makes no apologies for keeping the specifics of the program under wraps. "Our training program is our single most important competitive advantage. It's what sets us apart in the market," he says. "We've spent 25 years developing it, and it's not something we just give out."


Augmenting the training, George's Music has a sophisticated point-of-sale system that generates productivity reports to measure just how well store managers and salespeople are performing. Average size of the sales transactions, average number of items on each sales receipt, and sales divided by the number of customers who enter the store are just a few of the yardsticks Hines and his central management team review daily. "The number of customers walking into a store each day represents the size of the opportunity for the salespeople," he explains. "Our job is to measure how well they're taking advantage of the opportunity." He also regu-


larly uses outside shopping services to evaluate the performance of the sales staff. The outside services are not meant to be a means of keeping tabs on the sales staff, but rather a way of evaluating the effectiveness of the training, ensuring that basic procedures are being met, and, most importantly, that the overall in-store experience is pleasant.


In keeping with the company's unusual view of organizational hierarchy, the

first reaction to under-performing employees is not a stern rebuke from the head office; instead, sales and productivity lapses are met with stepped up training, either from store managers or regional sales managers. While Hines continually holds his store employees to high performance standards, the critique is a two-way street. He regularly invites store personnel to be equally rigorous in evaluating the performance of the head

office. "Our corporate office exists to serve the salespeople in the store," he states. "We ask them regularly if we're giving them the tools they need, whether it's the right product, the right advertising, or the right training. We ask them what we could do to be more helpful, and we really listen to them. The worst thing for an organization is when



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HOW SERIOUS IS GEORGE'S About Customer Service? A customer 800 line is linked directly to the home office. When it rings, everyone scrambles to respond.

the field staff views the home office as the enemy."

In even the best run stores, there are always the occasional customer complaints. At George's Music these are viewed as an opportunity rather than a headache, and the company even has a dedicated toll-free "Customer Hot Line" that rings in the head office. The phone doesn't ring often, but whenever it does, everyone in the office drops whatever they're doing and dashes to respond. All calls are logged, and action is taken to make sure the customer call ends up a happy one. "If a customer is unhappy, we are unhappy until we can resolve the issues and learn from our mistakes," states Hines. He subscribes to the belief that customer loyalty is enhanced by deftly handling a complaint. Equally important, the chance to talk to an aggrieved customer offers an opportunity to get a new perspective on your retail operation.

If people are the most important variable in the retail equation, inventory is a close second. Just as Hines regularly monitors the performance of his people,

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he continually evaluates every SKU on his floor. With the point-of-purchase software, he has ready access to gross margin and inventory turn rate for each of the approximately 11,000 standard stock items. With such accurate data, Hines and his staff are well equipped to stand up to suppliers trying to muscle inventory on the floor; however, he states that the information has made for more conciliatory negotiations. "Good relations with our vendors is a key part of our success," he states. "When a particular item isn't moving well, we share

the information with the supplier and ask, 'What can you do to help us fix this so we're both happy?' With this approach, we've gotten a tremendous amount of valuable assistance."

Hines mastered the basics of retailing because of a simple imperative. "I had to eat," he states. He had grown up playing guitar and keyboards and stayed active with music while he was at Ursinus College in Pennsylvania. He studied history with an eye to becoming a teacher, but as graduation neared he decided to try his hand at retail. In

August 1977 he opened the first George's Music in a small store front in Spring City, Pennsylvania, about 25 miles west of Philadelphia. The monthly rent for the store was \$100, and inventory consisted of seven or eight of his own guitars, a few drumsets, and \$1,000 worth of accessories he purchased from NHF Musical Merchandise.

Limited inventory, an out-of-the-way location, and a nominal promotional budget is hardly a recipe for retail success; however, Hines made his first store successful in spite of these limitations. A teaching program generated initial store traffic, and,* hungry for business, he treated each customer who darkened his doorway as "the most important person in the world."

Countless store owners who make a single location successful through their personal dynamism stumble when they open a second location simply because they can't be in two places at once. Hines managed to avoid the problem by meticulously analyzing everything he did during the day, from the time he opened the door until he locked up, then distilling it into a comprehensive list of tasks and procedures. In 1985, when he opened his second location in a 10,000-square-foot space in North Wales, northeast of Philadelphia, he used this list to define employee responsibilities and provide training guidelines.

Opening a second store was perhaps the single biggest challenge in Hines's career. He explains, "At the first store I did everything, from taking out the trash to designing the store fixtures. Once I opened a second store my job changed from doing everything in the store to training and supporting people to do the same tasks. It was a learning experience, and it took a lot of advance planning." After opening his first branch location, subsequent locations became easier to get off the ground. By 1992 George's Music had five locations ringing Philadelphia.

With a number of well established, aggressive retailers, greater Philadelphia has always been a keenly competitive market. By the time Hines had his five stores up and running, he recognized that future expansion called for moving beyond Philadelphia. After a careful analysis of the demographics,

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BORROWING GOOD IDEAS FROM BEST BUY, the displays at George's Orange Park, Florida, store are built out from the wall, creating space for back stock.

income levels, and economic trend lines of Virginia and Florida, he opted for a store in Orlando in 1995.

At first glance, a cluster of stores in Philadelphia and another cluster 1,000 miles south in Florida doesn't make much logistical sense. For Hines, however, his unorthodox store placement was nothing if not logical. "With communications and the right systems in place, there's not a lot of difference between running a location ten miles away and one a thousand miles away," he says. "Once I felt that I had the sys-

tems in place to add stores, I looked for the best market opportunities, and Florida topped the list." The same combination of favorable demographics and population growth that lured Hines to the South prompted Guitar Center and Sam Ash to open Florida stores three years later in 1998.

Hines situated his first Orlando store on a busy thoroughfare across the street from the Universal Studios amusement park. As anticipated, the location brought both local and tourist traffic. Unexpectedly, it also lured in a contin-

BUILDING BETTER RETAILERS

AS IF RUNNING A ten-store chain wasn't challenging enough, four years ago George Hines set out to establish a group of leading retailers and manufacturers with a mission to help enlarge the industry by improving relationships, operational efficiencies and product development and promotion. In his own stores he had observed that the power in the industry had shifted from the manufacturer to the retailer and was now firmly with the consumer; so he asked, "If we improve retail and manufacturer cooperation in marketing to the consumer, can we expand the industry?" Teaming with Skip Maggiora of Skip's Music in Sacramento, California, and Bob Bankston of Pro Sound Music Centers in Colorado, he set out to find a definitive answer. The three created the Association of Independent Music Merchants, better known as AIMM, with a mission of enlarging the music industry by fostering a deeper relationship and understanding between retailers and manufacturers. Product development and promotional ideas help the group better serve the consumer, and semi-annual group meetings help improve the retailers' understanding of how to expand their businesses and lead during a time of great change in the industry. "We also believe that AIMM has helped put some of the fun back into our businesses," said Hines.

Comprised of 38 large independent retailers who operate 230 storefronts and generate approximately \$600 million in sales, AIMM is a cooperative organization that can best be described as a clearing house for good ideas from some of the best and most experienced minds in musical retail and manufacturing. Under the direction of John Anning and Mark Amment, two full-time AIMM employees, the organization works to foster cooperation between retailers and manufacturers and to enhance retail marketing efforts. Hines notes, "Instead of manufacturers and retailers trying to leverage advantage over one another, we're focusing on coming up with better ways to serve the customer, and it is working."

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gent of Disney real estate executives who were opening a "Disney Entertainment" village inside the Disney World theme park. Would Hines be interested in opening a music store within the village? they queried. Not one to act on a whim, but willing to examine unusual opportunities, Hines put pencil to paper and began drafting financial scenarios for a music store within the world's most popular amusement park.

Two years later, after negotiations and consultation with Disney management, he opened George's Music Guitar Gallery on a Disney retail zone that also includes a House of Blues restaurant, Gloria Estefan's "Bongos" night club, and a Virgin Records superstore. With distinctive pegheads adorning the outside of the store, the Guitar Gallery is a dramatic outlet specializing in unique, high-end guitars. But are tourists visiting Disney World prime guitar customers? Aren't they more interested in T-shirts and Mickey Mouse ears? Hines does a brisk wearables business at the store but is equally enthusiastic about his guitar sales. "Eighteen million people visit the Downtown Disney district each year and 15 percent of them visit the Guitar Gallery," he explains. "For inventory, we asked our manufacturers to build us the best products possible...unique, limited edition instruments you can't find anywhere else. The sales have been great. One typical customer is the guy who bought his wife a \$25,000 Martin guitar as a gift." The international traffic at the Guitar Gallery has also given Hines a unique insight into the musical tastes of different nations. The English love Ovation guitars, Germans have a predilection for Fender, and the Japanese tend to be the most traditional in their tastes.

In Philadelphia and Florida, Hines has gone head-to-head with Sam Ash and Guitar Center, and while he concedes they represent tough competition, he points out that sales and profits at George's have risen every year and that 2001 was the best year in the company's history. Given Florida's heavy dependence on tourism and the decline in travel after September 11, he is particularly proud of the fact that George's managed an eight percent sales gain for the year.

Having built a far-flung chain and suc-



MAKING IT FUN at the home office, George's Music Staff, (l-r) Eric Lacovara; George Hines; Jim Jones; Elvis is in the building; Doris Vermillion; Neal Pomerantz; Scott Fisher.

cessfully matched national competitors, he is embarking on a new challenge. At 47, with no family involved in the business, he has created an Employee Stock Ownership Plan (ESOP) with the idea of gradually transferring ownership of George's Music to a group of senior employees. "These are the people who

have built this company, so it's only fair that they should share in the rewards. I also like the idea of building a business that will outlast me." The unpleasant reality is that few retail businesses survive their founders, but given Hines' track record, don't be surprised if he beats the odds again.

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