

CHAIN RETAILER OF THE YEAR  
GEORGE'S MUSIC

# THE LEAN MACHINE

George Hines of George's Music stays confident in uncertain times by seeking ways to run a leaner operation

George Hines has boiled retail success down to a science of putting measurable systems and processes in place. According to the founder and CEO of George's Music, this is especially key when facing rapid industry changes and preparing for a volatile economy. And still, Hines is ready to tweak his business strategy on the fly to keep up with fluctuations in the marketplace.

"I always like to compare new challenges to playing new sports teams," Hines said of his 10-store combo operation, with locations in Pennsylvania and Florida. "When you're playing against a different team every day or every week, you are constantly changing the way you run your offense and defense. In our industry, you've got to be pretty fluid right now. You have to be willing to recognize that there is a more constant change in how the game is being played."



George Hines

Hines said he believes that recent economic turmoil has reinforced the ways George's Music does business as it relates to monitoring the effects of such sudden changes.

"When you have measurable systems in place that clearly tell you what's going on quickly, it certainly assists in modifying your plan and changing your strategy," he said.

Specifically, Hines has always kept a watchful eye on several key indicators that measure precise accounting

change the way we do things."

#### **BANKING STRATEGY**

Indeed, some of the more pronounced changes taking place at George's Music these days have been in direct response to news reports from Wall Street.

Hines has become particularly concerned about his store's relationships with its banks. This fall, in the middle of the chaotic headlines, he moved quickly to secure his company's considerable cash assets in national and regional banks to

**'We try to drive traffic by giving customers valuable information or by creating a sense of exclusivity.'**

— **George Hines**

ratios and calculations to reveal how efficiently various aspects of the business are contributing to his bottom line. These key indicators have proven especially handy in recent times, to say the least.

"On the finance side, key indicators would include looking at cash flow, gross margin, expenses to sales and cash management that allows the company to be financially strong," he said. "In the purchasing department, we look at return on investment (ROI) for product categories, as well as specific vendors. On the sales end, we look at the customer satisfaction number, derived from mystery shoppers we hire and service-quality audits measuring systems and company standards that we run monthly. Each division in the company has at least one key indicator where if things change in that environment we can see it quickly, and then it's a matter of how fast we can

maximize liquidity. "We were constantly moving our funds in such a way that we were not putting ourselves at risk should a bank failure occur," he said.

A huge believer in having backup systems in place for everything, Hines said he now plans to add a third bank to the mix for added security.

#### **SELLING TO A CAUTIOUS CONSUMER**

This year has been "very good" for George's Music, according to Hines, but he's keeping a watchful eye on the fourth quarter. "If the consumer is fearful going into this fourth quarter, I think you will need to reach out to them more," Hines said. "You increase the amount of contact using blast e-mails and direct mail inviting them back to the store and helping them stay in touch with their musical hobbies to reduce their stress. You figure out how to use the benefits of music to offset the concerns they have about their

401(k)s and their jobs."

This is where long-term customer relationships have come in handy. "I think there has been too much focus on products and price and scarce focus on relationships to some degree, and that scarcity creates value," Hines said. "You can actually gain more ground by focusing on the emotional needs of your customers more than ever before.

"If you really care about your customers, one of the most important things you can do is to know them by name because recognition makes them feel welcome and appreciated for their business. We measure the percentage of business that we get from our 'regulars' — or key customers — compared to our total sales volume, and we constantly try to drive that number higher."

Another way George's Music builds those relationships is through in-store promotions designed to educate customers and provide them with unique product offerings.

"We'll have guitar manufacturers like Taylor and Martin come in with custom guitars from their factories that you can't get anywhere else," Hines said. "In the case of a cymbal manufacturer, Sabian comes in and does their Cymbal Vault, showing cymbals that you normally can't get. Every month, we also target customers who have purchased entry-level instruments and offer them a free orientation where they can learn how to tune and care for the instrument and receive a free set of strings. We try to drive traffic by giving them valuable information or by creating a sense of exclusivity."

According to Hines, the key to great customer service is, ultimately, profitability. "The reason is simple: no profit, no business. A strong balance

sheet allows you to withstand big fluctuations in the environment. It allows you to take care of your vendors. That's a responsibility in business, to keep yourself financially strong so that you can withstand a couple of shocks and take care of the suppliers that you need so much, as well as the people in your company, and be there for your customers."

#### **LOWERING COSTS**

Hines said one way to maintain profitability in a declining sales environment is to find ways to lower the cost of doing business.

"Technology is amazing," he said. "You can do so much now from a marketing and promotional standpoint for very little money compared to what we used to be able to do. And then you have faster and more accurate methods of communication. You can automate a lot of your systems through Web interfacing. These are more efficient ways of doing business, things that really help to shave costs."

Technology can also be used to enhance the customer experience. Hines said he believes that the future of retailing must include some sort of online sales presence. "E-commerce may be one of our greatest opportunities when you consider your existing customer relationships and the trend to online sales being more convenient for consumers."

Looking ahead, Hines remains optimistic but cautious. "There are upsides to every downside," he said. "We'll monitor what's going on around us, and if we see something that we think is a good investment, we'll be ready to move on it. Because the future is what we decide to make of it, and I prefer to make good of it." **MI**

— Ed Enright, photo by Shane East