A wood chopper, some moldings, and a garage. It doesn't seem like much to start a nearly $1 billion business with. But it is from just such scant materials that Hobby Lobby Creative Centers has evolved.

"In 1970," recalls founder and President David Green, "we borrowed $600 and bought a wood chopper, that cost us $450, and spent the other $150 buying moldings. And I didn't know how to use it, didn't have any directions, so I messed all the moldings up except for six or seven samples I gave the salesman. He came back with $3,000 worth of orders and I went to the molding company and said, 'Look, we don't have any money, but we have these orders.' That was it."

David Green, founder of Hobby Lobby, built the company from a 300-square-foot shop in Oklahoma City to a 179-store chain with sales of $820 million.

Lobbying For Dominance

By John Collins

With the Midwest as its cornerstone, Hobby Lobby Creative Centers head into the new century healthy, hungry, and with a plan to reach $3 billion in annual sales.

That manufacuring company, housed in a garage, was Greco Products, a picture frame company. Two years later, the first Hobby Lobby opened in a 600-square-foot space. With the back half occupied by the frame company, that first store was about "the size of a small living room," says Green.

Today, that living room has grown into a 179-store chain with annual sales of $820 million. And it remains solely owned by Green and his children. But can the company, with a goal of reaching $3 billion in annual sales in the next decade, maintain its growth without the influx of cash that selling stock in itself would provide? Green believes it can. Moreover, he views being privately owned as a distinct advantage.

"Generally, companies that are publicly held are at a disadvantage in that they're having to make a lot of short-term decisions. Wall Street wants [results] today; they don't want it three years from now. We think that all of our decisions are long-term decisions. We can do that because we're privately held."

He adds that basing expansion plans on profit keeps the chain from growing too quickly. "We earn enough profit to grow as fast as we'd like to grow. Sales are not as important to us as just being a quality company. We're trying to put together a quality company, not a quantity company. "

Managed Growth. Rather than expanding at a frenetic pace, the chain uses a plan of systematic growth, where all stores are within a 1,000-mile radius of its headquarters in Oklahoma City. Currently, corporate offices and a warehouse distribution center take up 1 million square feet, with a recently completed 722,000-square-foot manufacturing facility next door. Over the next 10 years, they plan to add 2 million more square feet to the warehouse. And with more than 40,000 items stored in there, it's an integral piece to growing the company.

"We're unusual in that we carry 41,000 items in our warehouse," says Green. "There's no one in the industry that even comes close to that. I think Michaels has about 11,000. Everything in our store other than seasonal goods is in the warehouse, except for patterns and cards, so we're a very controlled company."

So instead of targeting high-growth areas such as Florida or California for expansion, Hobby Lobby sticks with its strategy to dominate the Midwestern

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and Southern markets. Green's rationale is simple. "The shortest distance between two points is a straight line. If I want to do a billion dollars, why do I need to go coast-to-coast? When [Michaels] did what we did this year – about $820 million – they were coast-to-coast. We can do it within a little circle of about 1,000 miles."

Green says the company has an 8- to 10-year plan to achieve annual revenue of $3 billion from about 500 stores within that 1,000 miles. "There's that much sales to be done, so why would we want to go outside that, as far as supervising and control, and shipping from a central spot? MJDesigns did that. They were in Dallas and jumped over to the East Coast. Why do you do that and leave prime pickings right there in Texas? We have as many stores now in Texas as Michaels and MJ combined (Hobby Lobby 65, MJDesigns 17, Michaels 32)."

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> – DAVID GREEN, HOBBY LOBBY

MANUFACTURING SALES. But it's more than a cohesive distribution and expansion plan that makes the company prosperous. It also manufactures many of its own products and store fixtures. Besides continuing to operate Greco for framing materials, Hobby Lobby owns the manufacturing entity known as Worldwood, which is next door to the corporate offices. From here they produce all wooden fixtures seen in Hobby Lobby stores, as well as craft wood, picture frame moldings, T-shirts, sweatshirts, throw pillows, candles, and potpourri. In fact, Endless Possibilities, the Worldwood division that manufactures candles and scented products, is the chain's number one vendor.

Does operating a separate production company take away from the company's bottom line? Not as Green sees it. "Why do we make our own wood, why do we do everything? It's to buy at a better price. In this business if you don't have margins, you're dead. If you're out there buying millions of dollars worth of product, why don't you make it? There's no salesman commission involved, it's right next door. If you can't do it and make a profit instead of buying it from someone else, then you've gotta be pretty slow."

After signing leases in Pensacola, Florida, and Wisconsin, the company is now in 20 states and still within their comfort zone of 1,000 miles. The chain is seeing same-store sales increases of about $200,000 to $250,000 per store, with 1998 same-store sales increasing 7½ percent. Is there a formula to this success that can be duplicated? To hear Green tell it, it boils down to two words that are not necessarily practiced fervently today: customer service.

"We just think the whole idea is that you're here to serve the customer. That's why we have 41,000 items in the warehouse. We've worked real hard to put this together; you can't do it overnight. I think sometimes our competitors have run after what's hot at the time, rather than having a core-based business. And to get business, a lot of our competitors have done a lot of promoting, give-aways, to get people in. The less you do of having your core business in there, the more you have to promote."

To keep its base of regular customers satisfied, Green says the company has 36 buyers who stay on top of every category in every store. "We're promoters second, we're merchants first. We spend a lot of time and a lot of effort to create buyers that are able to focus on every category and sub-category."

Those buyers won't be focusing solely on trends in 1999, Green says, and he cautions against retailers trying to hit the jackpot with the latest Beanie Baby-type craze. "Is there a macrame out there? No. Is there a wearable art? No. Everybody's wanting the big fix, and I think that's where we get in trouble; looking for a quick fix. I think if [all retail craft stores] did well on merchandising all the things we consider boring, every day, that we could all make a living on this." ◆