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CZECH AND SLOVAK FEDERAL REPUBLIC
EVALUATION OF CREMONA
STRINGED INSTRUMENT COMPANY

Enterprise Restructuring and Privatization Project
for Central and Eastern Europe (180-0014)

Contract # EUR-0014-I-00-1056-00

Delivery Order #2

Prepared for EUR/RME/ER/ED

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INTRODUCTION

The purpose of this report is to assess the desirability of investing in Cremona and to arrive at some idea of a valuation of the company for investment purposes.

To make this assessment, we formed a team to bring together different experts for the project. First, DRT Czechoslovakia conducted a thorough review of Cremona's books and accounts. A team of accountants spent several days at Cremona's plant with the company's accounting and operations people. This enabled DRT to do three things. First, DRT has restated Cremona's accounts according to international accounting standards (Section 8). Second, DRT reviewed Cremona's sales and profit projections and made cash flow projections from them, from which a valuation could be derived (Section 8). Finally, DRT was able to form some judgments about the quality of Cremona's management, internal accounting and controls systems (Sections 3 and 4).

Second, Braxton Associates, a leading marketing consulting firm, undertook a marketing survey of the U.S., the U.K. and Germany. The U.K. and Germany were selected for examination because we understand that they are Cremona's two largest export markets at present. The U.S. was selected because it represents the largest potential market, and the one for which Cremona has the highest hopes. Their report does not constitute a marketing plan for Cremona, but it does provide a foundation on which a marketing plan could be constructed. Their conclusions are presented in Section 6 of this report. (The appendices include supplementary information about the U.S. and U.K. markets, including statistical summaries and recent articles from trade publications.)

Finally, Mr. Bruce Ross made an evaluation of Cremona's production capabilities. He has two decades of experience in guitar manufacturing, and spent nearly a week visiting Cremona's plant and reviewing its production facilities in detail. His conclusions are presented in Section 5 of this report.

Section 1 of the report is a brief overview of Cremona, highlighting what we believe are the key factors that an investor must weigh in considering an investment. We understand that the CSAEF has itself had extensive contact with Cremona, has visited the plant, and has talked with Cremona's management and other knowledgeable sources. For that reason, our overview of the company (Section 2) is brief.

1. SUMMARY AND CONCLUSIONS

- Cremona has several attractions as an investment:
 - ✓ It has relatively sophisticated plant and equipment with capable management in place.
 - ✓ It makes a good product at a competitive price, one that has been successful in Western markets and offers the potential for expanded export sales.
 - ✓ No major new capital expenditures are required beyond what those already planned, though some supplementary investment will be needed to help upgrade capabilities such as packaging.
- Cremona's weak point is clearly marketing. A detailed marketing study was outside the scope of this report, but this is clearly needed for the U.S. market. Creating a greatly strengthened marketing effort is probably outside the capability of Cremona's current management team and structure. Cremona will therefore need to add some internal marketing capability, and probably to build a new set of relationships in the U.S. An investor should anticipate the need for significant time, effort and expense to upgrade marketing capabilities. Moreover, it may be necessary to modify the product mix, which could require additional time and expense. We cannot estimate the exact time or expense required, but we note that the cash flow projections do not seem to anticipate adequately these costs.
- One implication of this analysis is that a passive investment is not likely to be successful unless accompanied by some additional marketing resources. An investor should be prepared to play an active role in stimulating and aiding the marketing effort either directly or through introductions and other associations. One ideal partnership, for instance, would be for an investor to enter in a relationship with a large distributor. The main point is that no investment in Cremona can be passive. Active involvement and help will be needed to make the investment a success.
- It was not possible to obtain from the company sufficient financial information to prepare cash flow projections with any degree of confidence. Several important considerations do not appear in the company's projections. For example, the company's projections did not anticipate the increased marketing expenses that we believe will be necessary to penetrate the U.S. market. Moreover, the increased production shown in the projections did not seem to be accompanied by corresponding increased costs of production. Perhaps anticipated cost-saving explains this, but we feel this needs more probing. Also, the company only presented us with two years of sales projections, whereas a minimum of five years is needed to produce a discounted cash flow calculation.
- Nevertheless, if one accepted the company's projections for the next two years and extended those for an additional three years, the discounted cash flow value would range from \$3.763 million (at 18 percent) to \$3.124 (at 25 percent). (These

valuations compare with a restated book value according to international accounting standards of \$4.130 million.) While the projections probably overestimate profits in the early years because they ignore marketing costs, they do not anticipate any increased profitability as a result of successful penetration of the U.S. market. Hence, based on the view that Cremona could--with effort--break into the U.S. market, a valuation of the company in the area of \$3 million is not unreasonable.

- Cremona management would not give the team access to their proposed privatization plan. It was therefore not possible for us to offer comments and recommendations on the proposed privatization plan and investment structure.

2. DESCRIPTION OF THE COMPANY

Cremona is the largest manufacturer of stringed instruments in Europe. It is located in Luby u Chebu (formerly Schonbach) in western Bohemia, close to the German border. It manufactures a range of bowed instruments and guitars. Its main production is dedicated to nylon-stringed classical guitars, of which it currently manufactures five different sizes. Among bowed instruments (or viol instruments), it produces mainly violins, but it also makes violas, cellos and string basses.

Stringed instruments have been made at Luby u Chebu for centuries (Elias Placht, a master violin-maker, is documented as working in Luby u Chebu as long ago as 1690). In 1873 a school for violin-makers was established, and by World War II there were 260 small enterprises engaged in violin-making in the area. This cottage industry was amalgamated into a series of cooperatives after the war and then finally in 1950 into a state enterprise named Cremona (after the town in Italy where Stradivarius made his instruments). The subsequent forty years saw the building of modern production facilities, with the present new factory completed in 1968. Cremona has come to dominate Luby u Chebu, employing a quarter of the town's population.

Following the "velvet revolution" in November 1989 the government decided to privatize Cremona as a separate entity (it had previously been part of the state musical enterprise). Cremona's management have prepared their own privatization project for the newly-established company.

In recent years, Cremona has placed greatest emphasis on improving and expanding its guitar production, for two principal reasons. First, the worldwide market for guitars is much larger than for bowed instruments. Second, bowed instrument manufacturing requires a higher degree of skilled labor than guitars, and Cremona was experiencing difficulty in attracting and retaining the skilled artisans needed to expand bowed instrument production. Consequently, Cremona has invested heavily in equipment and training to expand and improve its production of guitars.

Cremona has been successful in these efforts. Its products are generally well regarded, and the company has successfully penetrated Western markets, particularly in Europe. Until recently, high duties in the U.S. have prevented Cremona from entering the American market, but the extension of MFN and GSP treatment to Czech products earlier in 1991 has removed all duties, and Cremona has ambitions to expand dramatically its market share in the U.S.

3. EVALUATION OF MANAGEMENT

We regard management as generally capable and dedicated. The top managers, Messrs. Jirásek, Lukeš and Gross, have worked at Cremona for many years and have broad experience in the business.

- Jirásek - Chief Executive Officer

Vlastimil Jirásek has been CEO of Cremona since 1968. Having served as CEO for 23 years, he knows the business extremely well and is very familiar with Luby u Chebu and its workforce. He appears to be a very capable, if somewhat defensive and idiosyncratic, individual who manages his business in a relatively expert fashion. He gives the impression of being a shrewd and clever businessman who is committed to his company's effort to move effectively into the Western musical market, particularly the U.S. market.

- Lukeš - Chief Financial Officer

Karel Lukeš has a long association with the company, having started as an apprentice in the violin-making school. He obtained his business qualifications at the Prague School of Economics. From discussions held with him and from reviewing the internal controls and accounting procedures, he appears to be a capable manager who is supported by knowledgeable and diligent accounting staff. In collaboration with Jirásek, Lukeš is responsible for the preparation of the economic components of the privatization project.

- Gross - Chief Operating Officer

Jan Gross began his career in much the same way as Lukeš, by attending the violin-making school in Luby u Chebu. His technical skill and competence appear to be excellent and are matched by his hard work, drive and enthusiasm. He is also responsible for technical achievements such as the design of some of the high-technology machines now in use. While his technical skill and competence are clearly good, as a manager he can best be described as a follower rather than a leader and is quite reliant on Jirásek's leadership. Gross pays careful attention to the latest technological developments in his industry and monitors his competitors closely. He spent two years in U.S., where he provided re-tuning services and product repairs. Gross should be considered one of the driving forces and talents that seeks to keep Cremona current in technology and product design.

We note that some question has been raised about whether the managers' past communist activities would create problems for them under the recent Czech law barring people with certain communist-related activities from management positions in state firms (if any of them were so tarnished, they would have to leave their management positions). We were not able to verify independently that such problems would arise. However, once privatized, Cremona could hire them back if it wished.

4. EVALUATION OF INTERNAL CONTROLS AND ACCOUNTING PROCEDURES

CONTROL CONSCIOUSNESS AND ACCOUNTING PROCEDURES

Controls at the senior management level involve the delegation of responsibilities and monitoring activities using both financial and non-financial data. A review of the control environment reveals good control consciousness at both the management and staff levels. Job descriptions and duties appear to be understood well, although they are not documented in writing.

There are no accounting manuals or written instructions for the accounting system, but all accounting procedures are standardized in accordance with government regulations. These procedures are known and adhered to by the accounting staff. In addition, the size of the accounting staff is small, which facilitates better understanding and communication. (Also, in this type of manufacturing environment, accounting issues tend to be less complex.)

Financial reports are prepared every month from accounting information. Budgeting is used widely and actuals are compared to budgets every month. Variances are followed up to establish their cause and to enable better planning in the future. Financial data is compared to non-financial data to ensure consistency and enhance understanding.

Controls exist at the lower level to ensure proper processing of transactions and safeguarding of assets. Goods inwards dockets are prenumbered and matched with invoices on a daily basis. The new computer system, purchased at the beginning of 1991, is used to assist in this task. Some of the work appears to be duplicated, however, due to a lack of experience by staff in manipulating the system to meet requirements or due to inappropriate software.

Incoming invoices are assigned a number and then recorded on a summary. This summary is then sent to the Head of Finance to organize for payment according to due date. The legal period for payment is 14 days from receipt of invoice. The payment is authorized by two signatories. An authority is then sent to the bank directing it to pay amounts to the appropriate accounts.

One weakness in this system is that, because of the short time for payment, the authority for payment is approved prior to the invoices being reviewed for validity and accuracy. However, we were assured that unusually large invoices are reviewed as received.

Sales invoices are prepared by the sales department and assigned an invoice number. Invoices are checked for accuracy and processed by the accounting department.

Payments from debtors are received through the banking system. No cash or cheques are received directly. An advice is received from the bank showing which invoices have been paid.

SEGREGATION OF DUTIES AND COMPETENCE OF PERSONNEL

Segregation of duties appears adequate and is maintained during staff absence through holiday, illness or vacancies. Efforts are being made to cross-train employees at the lower level to cover periods of illness or vacancies. From information encountered in our review it appears that there is a low frequency of internal adjustments, which suggests good competence of personnel.

All staff are required to take an annual holiday in accordance with government regulations, and this is observed.

The appointment of staff is performed by the Personnel Officer and approved by the Chief Financial Officer. Staff are selected in accordance with experience and legal requirements. References are sought for new employees.

The current employment policy is to allow some attrition through retirement or resignation as a cost-cutting measure.

PROTECTION OF ASSETS AND RECORDS

Protection of assets and records occurs at different levels in the organization. At the overall level there is a security guard to prevent unauthorized access, loss and damage. A locked safe is used to store cash and other valuable documents. The company has a policy of not holding cash amounts over 10,000 Kcs; excess receipts over this amount are banked daily. Accounting records are locked in cupboards at the end of each working day. Key accounting data and sensitive sales information are kept by the Chief Financial Officer and locked away. The company maintains insurance to cover against loss, theft, fire and natural disasters; it does not cover loss of income.

The computer system is in a locked room, with log-on access restricted by password control. Only relevant staff are given access to the system. Backup data is stored in a locked safe in the same room as the computer terminal. (We have suggested that backup data should also be stored off-site in case of fire or other damage. No steps regarding disaster recovery planning have been taken. While this is not a major problem at the moment because the company is not yet computer-reliant, this need will become more pressing as the computer is used for more tasks.)

Cremona has had some problems with thefts of small pieces of wood and small tools from the plant. We were told that this was not a major problem but have suggested that the security guard could check employees' bags on departure from the premises.

5. EVALUATION OF PRODUCTION CAPABILITIES

The overall expertise and quality of product at Cremona is impressive. The company is fairly sophisticated in its approach to the manufacture of its musical instrument products--its level of technical expertise, for example, surpasses that of most domestic U.S. manufacturers. The quality of production management is also generally high. In particular, Jan Gross is talented and up to date in product design. Though we have concerns, on balance we believe that their production capabilities are flexible and competitive enough to survive privatization and increased competition.

PRODUCTION FACILITIES AND PROCESSES

Physical Site

Cremona is in the process of upgrading its production facilities for both acoustic guitar and viol family instrument production. It has a rather large facility (the largest in Europe) and significant production totals (90,000 guitars and 20,000 viol family instruments annually). Although the buildings are not new or particularly modern in design, they are fairly standard for the acoustic guitar manufacturing industry. Cremona has plans to combine some of their buildings to help achieve a better product flow, though dispersed facilities do not pose any significant problems.

Health and Safety

Cremona needs to improve its health and safety standards and has begun to take steps in this direction. These improvements include (1) completion of a fully automated finishing line for instruments; (2) automated sanding machines for both wood and finish sanding; (3) masks that draw outside air for workers that have to do hand sanding. Of special importance is the new finishing line that will finish all of the instruments as Cremona switches from polyurethane finish to a polyester resin finish. Our understanding is that the polyester finish is more dangerous than other types of finishes, so the automated finishing line should improve safety as well as quality.

Guitar Production

Cremona currently produces approximately 360 inexpensive guitars per day. Production techniques and materials are consistent with other prominent international manufacturers of guitars. Overall attention to design and detail are also consistent with other manufacturers' standards.

Cremona is planning to spend between 37 million and 40 million Kcs from 1990 through 1993 to renovate its guitar production line. Management believes that profits from its increased and efficient viol family production can be used to pay for the guitar efforts. They expect to complete this renovation some time in 1994.

All of Cremona's guitars are now made of laminated wood of a type that is used around the world for the production of inexpensive musical instruments. Cremona has

made the wise decision to use higher quality woods (mostly mahogany and spruce) for these guitars as well as a better-looking colored finish. (Cremona previously made guitars that were less appealing both in terms of aesthetics and design.) Our opinion is that Cremona's current "look" is appealing and acceptable throughout the world for guitars in Cremona's price range.

The company is also in the process of creating a new line of student classical guitars that are superior in design to their old product. These will range from 1/8 to full size and are designed to capture all phases of the beginning guitar market, from very young children to older, less sophisticated adults. The new guitars have a much better look and feel than the old guitars, and they should compete very effectively in the low-end market both in Europe and the U.S. Cremona hopes to sell between 10,000 and 15,000 guitars in the U.S. market next year. A fair retail price for a full-size instrument would be between \$125 and \$200.

Cremona also supports and markets a small group of master classical makers that produce a handful of master-grade classical guitars per year.

Viol Family Production

Cremona currently makes between 75 and 85 inexpensive viol family instruments per day. It also has a group of master craftsmen who make master-level instruments that are marketed and sold by Cremona.

Cremona expects to spend most of 1992 improving its viol family production. It plans either to purchase or to produce new tooling that will help make production more efficient and help increase productivity. It is changing the design of most of the viol family models to a more traditional shape and will consequently need to make new forms, purchase new carving machines, and create new fixtures that they expect will make this aspect of the production more profitable. Overall expenditures for this effort are expected to be at least 3 million Kcs.

A major problem currently facing Cremona is that it has lost some of its master craftsmen due to uncompetitive wages. We were told that these craftsmen are leaving for Germany, where they are "paid more for picking potatoes" than they can make in Czechoslovakia making instruments. Cremona is hopeful that as the economy in Czechoslovakia improves, it will be able to offer more competitive wages.

Another problem is the declining availability of good wood, particularly if Cremona plans to expand production.

Cremona's Technology

Cremona operates with a fairly sophisticated technology level when compared with the rest of the world's production facilities. In particular, Cremona has adopted the state-of-the-art technology represented by the CNC (computer numerically controlled) milling machines that process all of their instrument necks (both guitar and viol family). The two CNC milling machines used by Cremona were made by the Zuckerman Corp. of Germany,

considered by many to be the best and most reliable manufacturer of such machines. We were impressed by the quality of product that these machines produce.

Mr. Gross has focused particular attention on the Japanese and Korean instrument producers and has studied their production methods and technology. He has familiarized himself with their processes and procedures, and we are confident that he will be able to maintain and improve Cremona's technological competence. As noted above, he plans to have significant new technology in place by 1994.

RECOMMENDATIONS

A first concern is that Cremona uses a four-piece top for its guitars instead of a more traditional two-piece top. The company chooses to use the four-piece top because it is marginally cheaper, but our opinion is that it will **ultimately have to go to the two-piece top** to remain competitive.

A second concern is Cremona's perceived need to generate five different body sizes to accommodate what they feel will be different age-level needs. **Three different models would more than adequate**, and the firm could save a significant amount of money and time if they reduced the number of sizes produced.

Wages are a third--and important--production concern. Management acknowledge that they will have to raise wage levels after privatization, but **we do not feel comfortable that they adequately understand the implications or full costs of higher wages**; they have merely stated that they intend to offset this cost by "increased productivity."

6. EVALUATION OF THE COMPANY'S MARKETING PLANS

Cremona has had little or no market presence in Western markets. Through the old COMECON system, Cremona was the dominant supplier in the entire East Bloc region. Since these markets have shrunk or disappeared over the past few years, Cremona recognizes the need to find and maintain much larger Western markets. But the firm has little knowledge or understanding of Western markets, and particularly the key U.S. market.

Traditionally, all of Cremona's production was marketed by two divisions of the predecessor "music consortium" enterprise, one arm of which handled export sales and the other domestic sales. The export sales division has been spun off as a company called Praha Music, which is in the process of restructuring itself into a firm to be called PM Music. This means that Cremona has no marketing experience or capability itself.

Praha Music handles export sales for all Czech musical instruments, including pianos and brass instruments as well as Cremona's lines. It also plans to open retail shops in Czechoslovakia, competing with its former sister firm that handles domestic sales. For export sales, it acts as agent for a three-percent sales commission. It handles all invoicing and follows up payments, which are made directly to Cremona's accounts. Praha Music seems to be a capably managed firm. But we question whether all of Cremona's marketing effort should be left in the hands of an outside firm, especially one that has numerous other product lines.

There is no doubt that the U.S. offers by far the greatest opportunity for Cremona's expansion in Western markets. There is little or no brand loyalty and no prejudice against Czech products in the U.S., so there are no serious intangible barriers to Cremona's entrance into the market. Cremona could try to establish its own name-brand products, produce house brands for others, or both. More research is needed to determine the relative costs and benefits of these alternative approaches.

Cremona is currently planning to sell between 60 percent and 70 percent of its guitar production into Western markets in the next few years. The overall expansion plan is based on five steps:

1. enter with a new product (new guitar)
2. enter at last year's price levels (guitars and viol instruments)
3. gradually improve quality for both types of instruments
4. raise prices based upon consumer demand and distributor performance
5. make certain to meet delivery commitments

For advertising, Cremona currently splits advertising costs between itself and its distributors. Cremona produces brochures, calendars and articles and relies on distributors to do their own advertising for their name-brand products produced by Cremona. Cremona will subsidize distributor's advertising efforts by between 2 percent and 3 percent.

For the U.S. market, Cremona's products have traditionally been handled by a small, Chicago-based firm called Geneva International, though this firm has only handled viol instruments to date. Geneva has an exclusive arrangement with Cremona for the U.S. market through 1994. Plans beyond 1994 do not include exclusive arrangements; rather, Cremona hopes to work with several distributors to carry Cremona guitars under its or the distributors' trade names.

RECOMMENDATIONS

Our first recommendation is that **Cremona should aggressively target the U.S. market for guitars**. The U.S. is the largest and, over the last ten years, fastest growing market in both volume and value terms for all guitars. Although demand growth is now decelerating, it will remain fundamentally the most attractive global market for the foreseeable future. The U.K., on the other hand, is a small market. Also, there has been a large substitution penetration of electronic keyboard instruments for guitars in the U.K., a phenomenon not nearly so marked in the U.S. Likewise, the distribution structure in the U.S. is characterized by large regional and national chains that buy centrally in large volume and distribute through their own networks, minimizing the need for a physical distribution network in the U.S. on the part of the importer. Servicing the U.K. market, on the other hand, requires expensive physical distribution to a highly fragmented and numerous set of independent wholesalers and retailers, entailing significant cost for low volumes. Finally, U.S. distributors in interviews were generally much more open to the concept of Czechoslovakian guitars than were the U.K. distributors. In addition, the U.K. distributor that dominates the market for nylon-string classical guitars has an exclusive agreement with a Spanish manufacturer. This distributor has shown open hostility to the idea of a Czech supplier, believing Czech quality to be inferior.

Cremona should undertake several changes to expand into the U.S. market, however. Cremona will have to compete in the most competitive and crowded section of the market, low-end guitars. Moreover, Cremona's selected product niche of nylon-stringed classical guitars is the lowest-volume, lowest-growth segment of the guitar market. And, distributors wish to buy significant volumes, particularly in the U.S.

Cremona therefore needs to offer both nylon-string "folk" guitars and a steel-string product. Folk guitars and steel-stringed guitars have much larger markets than classical guitars--a steel-stringed product would double the size of the potential market and give the company access to the only acoustic guitar segment forecast to grow in all price categories over the next five years. Cremona currently has no steel-stringed guitars to supplement its nylon-stringed line. Cremona has the technical capability and equipment to do this, but it will require effort, time and expense to design and set up production.

The low-end guitar market, where Cremona's products are located, is dominated by Asian producers who entered the market over the last two decades and drove the then-dominant U.S. producers into liquidation. They produce a good product at a low price with high reliability. They have also mastered U.S. packaging requirements, including bar coding, pre-sorted deliveries, and computer links to distributors' central distribution sites.

Second, then, **Cremona will have to make some investment to match these features**, without which it may be difficult to attract the large distribution networks that dominate U.S. wholesaling. Specifically, Cremona will have to offer distributors lower prices than the competition.

Third, **Cremona should offer the capability to produce "house brands" for the distributors**. "House brands" are a common feature of music retailing and wholesaling and often offer high profitability to both manufacturer and seller. Establishing Cremona as a recognized U.S. or U.K. brand in the mind of the ultimate consumer against the established names in the market is likely to be completely beyond the financial and organizational capabilities of the company. The risk/reward trade-off for such an initiative is also highly unattractive. Establishing Cremona as a credible manufacturer of quality guitars through the "house brand" route, however, may provide the company the long-term opportunity to develop a successful independent brand by negotiating a requirement that distributors sell Cremona-brand guitars alongside the "house brand" offering.

Fourth, **Cremona should improve its distribution capabilities in the U.S.** Its current link with Geneva seems weak. We did not have the opportunity to interview or visit Geneva's management, and so can offer no opinion of them. However, Geneva is a small firm, with limited financial resources and virtually no experience in marketing guitars. Hence, one major question is whether it has the capability to implement Cremona's ambitions for penetrating the U.S. market. Also, Cremona must be able to compete on the basis of reliability service as well as price and quality. To do so, it needs the right distributor partners.

Finally, **Cremona should investigate creating color marketing brochures and in other ways enhance its marketing capabilities**. This should be done both internally and in cooperation with present or future distribution and marketing partners.

7. RESTATEMENT OF FINANCIAL ACCOUNTS IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

Below we provide a projected profit and loss account and balance sheet for 1991 and 1992, and a projected cash flow for 1991 and 1992. The projected profit and loss account was supplied by the client. The projected balance sheet and cash flow were derived by DRT from historical data as of December 31, 1990, and June 30, 1991 (provided in appendix).

We do not consider it appropriate to project the cash flow to 1997 because of the following limiting factors:

- the assumptions used for the projected profit and loss account were not clearly defined
- overall growth assumptions are unknown
- capital investment requirements are unknown
- working capital requirements are unknown
- anticipated small increases in costs (and sometimes decreases) do not seem to correspond to the disproportionately large increases in sales.

Due to these factors, and because DRT was unable to perform an audit on Cremona, it is difficult for the team to have a strong degree of confidence in the projections as supplied. (As mentioned above, all accounting procedures appear to be performed in accordance with government requirements. We therefore underscore that the inadequacies lie in the *forecasts* rather than the historical data.)

IRENDA Luby u. Štebu, Bohemia

PROJECTED PROFIT & LOSS ACCOUNT

FOR THE PERIODS TO 31 DECEMBER 1991 & 1992

	000's Kčs 1991	000's Kčs 1992
DIRECT REVENUES		
Domestic	68,300	82,550
Export	90,500	123,750
TOTAL DIRECT REVENUES	158,800	131,300
INDIRECT REVENUES	90	84
TOTAL REVENUES	158,890	131,384
EXPENSES		
Raw materials	45,600	53,275
WIP and Inventory change	0	0
Wages	10,950	11,590
Wage tax	5,450	5,775
Supplies	14,345	16,090
Fuel	4,300	4,900
Utilities	2,250	2,250
Transportation	2,100	2,365
Depreciation	7,700	5,900
TOTAL DIRECT EXPENSES	92,695	102,675
GROSS PROFIT	66,195	78,709
OVERHEAD EXPENSES		
Indirect wages	10,100	10,030
Wage tax	6,050	6,225
Supplies	3,050	2,750
Admin wages	2,800	2,500
Contract Services	3,700	3,000
Wage tax, insurance	2,900	1,900
Other expenses	23,500	15,370
TOTAL OVERHEAD EXPENSES	52,100	41,775
OPERATING INCOME	14,095	36,934
NON OPERATING INCOME/(EXPENSE)		
Interest	(8,250)	(7,750)
Other Income	12,200	5,570
TOTAL NON OPERATING INCOME/(EXPENSE)	3,950	(2,180)
INCOME BEFORE TAX	18,045	34,754
ACTUAL TAX	9,925	19,115
NET INCOME	8,120	15,639

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CREMONA Lloy u Chebu, Bohemia

PROJECTED BALANCE SHEET

AS AT 31 DECEMBER 1991 & 1992

	Actual 31.12.90	000's Kčs 1991	000's \$s 1992
CURRENT ASSETS			
Cash on hand	3	0	0
Bank (Běžný účet)	4,521	6,983	143,575
Bank (Social Benefits Fund)	856	856	856
Forex Deposits	6,112	0	0
Prepaid stamps, coupons	24	24	24
Funds in transit	0	0	0
Trade debtors			
Domestic	5,554	8,421	4,179
Foreign	22,469	31,795	31,320
Other debtor-employee rent	(3)	(3)	(3)
Sub-total	39,536	47,975	204,962
STOCK			
Raw materials	13,868	23,043	35,524
Fuel	234	334	370
Short term capital assets	2,550	3,006	3,229
WIP	30,173	32,394	35,381
Finished Goods	1,913	8,015	8,878
TOTAL STOCK	48,738	66,791	73,982
PREPAYMENTS			
Housing allowances	118	118	118
Health benefits	229	229	229
Other	1,334	1,334	1,334
TOTAL PREPAYMENTS	1,681	1,681	1,681
TOTAL CURRENT ASSETS	89,955	116,447	280,625
FIXED ASSETS			
Land	20,000	20,000	20,000
Property, plant & equipment	124,029	124,029	124,029
Accumulated depreciation	(50,007)	(57,707)	(57,707)
Equipment not in use	531	531	531
TOTAL FIXED ASSETS	94,553	86,853	86,853
TOTAL ASSETS	184,508	203,300	367,478

CREMONA Luby a Chebu, Bohemia

PROJECTED BALANCE SHEET

AS AT 31 DECEMBER 1991 & 1992

	Actual 31.12.90	000's Kčs 1991	000's Kčs 1992
CURRENT LIABILITIES			
Trade Creditors	18,668	16,241	19,017
Wages payable	1,226	1,193	1,206
Wage tax payable	0	0	0
Sales tax payable	1,492	1,492	1,492
Bank debt	7,500	7,500	7,500
Social benefits	1,026	1,026	1,026
Benefits payable	8	8	8
Payable to government	5,791	5,791	5,791
Tax payable	0	827	1,593
Other creditors		12,306	10,743
TOTAL CURRENT LIABILITIES	35,711	46,363	48,376
LONG TERM LIABILITIES			
Bank debt	8,433	8,433	8,433
Debt, originally consortium	9,874	9,874	9,874
TOTAL LONG TERM LIABILITIES	18,307	18,307	18,307
TOTAL LIABILITIES	54,018	64,670	66,683
CAPITAL AND RESERVES			
Called up share capital			
Reserves			
Retained Earnings			
Profit & Loss Account			
TOTAL CAPITAL & RESERVES	130,490	138,610	154,249
CAPITAL, RESERVES AND LONG TERM LIABILITIES	184,508	203,300	220,932
<hr/>			
NET CURRENT ASSETS	54,244	70,064	91,603
TOT. ASSETS LESS CURRENT LIABILITIES	148,797	156,917	172,556

GREMOMA Luby u Chebu, Bohemia

PROJECTED CASHFLOW

FOR 31 DECEMBER 1991 & 1992

	000's Kčs 1991	000's Kčs 1992
OPENING BANK BALANCE	10,636	6,883
RECEIPTS		
Receipts from debtors-domestic	65,433	51,492
Receipts from debtors-foreign	84,951	124,462
FX receipts	6,423	7,623
Rental income-employee housing	90	84
TOTAL RECEIPTS	158,898	186,660
PAYMENTS		
Purchases	29,359	34,378
Wages	22,658	23,914
Wages tax	11,500	12,020
Income tax	9,098	18,549
Interest	8,250	7,750
Other expenses	81,786	75,202
TOTAL PAYMENTS	162,651	170,613
CLOSING BANK BALANCE	6,883	22,930

HISTORICAL DATA

31.12.90

30.6.91

ACCOUNTS RECEIVABLE TURNOVER	Credit sales	57,999		50,328	
	-----	-----		-----	
	Domestic	5,554	12 times	17,602	3 times
	Accounts receivable	-----		-----	
AVERAGE COLLECTION PERIOD		63,392		57,507	
	-----	-----		-----	
	Foreign	22,469	3 times	20,801	2 times
	Accounts receivable	-----		-----	
AVERAGE COLLECTION PERIOD		5,554		17,602	
	-----	-----		-----	
	Domestic	67995/365	90 days	33328/183	129 days
	Sales for year / 365	-----		-----	
ACCOUNTS PAYABLE PERIOD		22,469		20,801	
	-----	-----		-----	
	Foreign	63392/365	129 days	57507/183	98 days
	Accounts payable	-----		-----	
ACCOUNTS PAYABLE PERIOD		18,668		5,618	
	-----	-----		-----	
Purchases for year/ 365	32743/365	208 days	17677/183	52 days	
DAYS OF INVENTORY	Inventory	48,738		60,322	
	-----	-----		-----	
COGS / 365	72491/365	245 days	41942/183	263 days	
OTHER CREDITORS	Non-trade payables	17,043			
	-----	-----		-----	
Expenses other than purchases	77057/365	81 days			

ASSUMPTIONS

Collection of domestic debtors is 45 days	45
Collection of foreign debtors is 113 days	113
Payment of trade creditors is based on 130 days	130
Payment of other creditors is based on 80 days	80
Inventory is based on 263 days	263

RESULTS

	1990	1991	1992	Incr/(decr)	Incr/(decr)
				1990-1991	1991-1992
Trade debtors					
Domestic	5,554	9,421	6,479	2,867	(1,942)
Foreign	22,469	28,018	39,860	5,549	11,842
Forex	0	3,777	1,724	3,777	(2,053)
Trade creditors	18,668	16,241	19,017	(2,427)	2,776
Other creditors	0	12,306	10,743	12,306	(1,563)
Inventory	48,738	66,791	73,982	18,053	7,191
Wages payable	1,226	1,173	1,206	(34)	14
Income tax prov	0	827	1,593	827	766

JOURNALS

	1991		1992	
	DR	CR	DR	CR
DR/CR Domestic debtors	2,867		(1,942)	
DR Cash	65,433		54,492	
CR Sales		68,300		52,650
DR Foreign debtors	5,549		4,288	
DR Cash	84,951		124,162	
CR Sales		90,500		128,750
DR/CR Foreign debtors	3,777		(2,053)	
DR Cash	8,423		7,623	
CR Forex revenue		12,200		5,570
DR Cash	90		84	
CR Employee rent revenue		90		84
DR Interest expense	8,250		7,750	
CR Cash		8,250		7,750
DR Income tax expense	9,925		19,115	
CR Cash		9,098		18,349
CR Income tax provision		827		766
DR Depreciation expense	7,700		5,900	
CR Accumulated depreciation		7,700		5,900
DR Inventory	18,053		7,191	
DR Cost of sales	84,955		96,775	
DR Other expenses	52,100		41,775	
DR/CR Wages payable		(34)		14
DR/CR Trade creditors		(2,427)		2,776
DR/CR Other creditors		12,306		(1,563)
CR Cash		145,303		144,514

P R O F I T A N D L O S S A C C O U N T

PERIOD : SIX MONTHS TO 30.6.91 000's
 COMPANY NAME : CREMONA s. p. CZECHOSLOVAK CHOCOLATE

	NOTE	PER CLIENT	ADJUSTMENT	AS ADJUSTED
			(SE/ICR)	
TURNOVER	12	99,017	4,193	85,614
COST OF SALES	13	62,904	(21,316)	41,058
GROSS PROFIT		27,113		44,556
SELLING, DISTRIBUTION, ADMINISTRATION AND OTHER EXPENSES	13	0	17,296	17,296
OTHER OPERATING INCOME		0	(6,311)	6,314
OPERATING PROFIT		27,113		33,004
INTEREST PAYABLE	14	2,166	368	3,154
INTEREST INCOME	14	0	(81)	31
PROFIT BEFORE TAX		24,927		29,931
INCOME TAX	15	16,186		16,186
EXTRAORDINARY INCOME		5,828	5,328	0
NON DEDUCTIBLE EXPENSES		632		632
CONTRIBUTION TO FUNDS	11	0	0	0
RETAINED PROFIT (LOSS)		13,937		13,113

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B A L A N C E S H E E T

PERIOD : 30.6.91 000's
 COMPANY NAME : CREMONA s. p. CZECHOSLOVAK CROWNS

	NOTE	PER CLIENT	ADJUSTMENT	AS ADJUSTED
			DP/(CR)	
TANGIBLE ASSETS	1	91,061	11,165	92,226
INVESTMENTS	2	0	0	0
TOTAL FIXED ASSETS		81,061		92,226
STOCKS	3	60,322	(3,271)	57,051
TRADE DEBTORS	4	44,403		44,403
OTHER DEBTORS	5	(14,355)	15,485	1,130
CASH AT BANK AND IN HAND	6	2,933		2,933
TOTAL CURRENT ASSETS		93,303		105,517
BANK LOANS AND OVERDRAFTS	7	28,507	3,857	24,650
TAXES PAYABLE		5,215		5,215
TRADE CREDITORS	8	6,141		6,141
OTHER CREDITORS		1,982	(20,532)	22,514
ACCRUALS AND DEFERRED INCOME		459		459
TOTAL CURRENT LIABILITIES (AMOUNTS FALLING DUE WITHIN ONE YEAR)		42,304		58,979
NET CURRENT ASSETS		50,999		46,538
TOTAL ASSETS LESS CURRENT LIABILITIES		132,060		138,764
BANK LOANS AND OVERDRAFTS	7	0	(3,857)	3,857
LEASE LIABILITIES			(9,265)	9,265
LONG TERM LIABILITIES (AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR)		0		13,122
PROVISION FOR LIABILITIES AND CHARGES	9	95	(1,628)	1,723
CALLLED UP SHARE CAPITAL	10	105,564		105,564
RESERVES	11	8,897	(400)	9,297
RETAINED EARNINGS		3,567	7,622	(4,055)
PROFIT AND LOSS ACCOUNT		13,937		13,113
CAPITAL AND RESERVES		131,965		123,919
CAPITAL, RESERVES AND LONG TERM LIABILITIES		132,060		138,764

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P R O F I T A N D L O S S A C C O U N T

PERIOD : 2 MONTHS TO 31. 12. 1990 COO's
 COMPANY NAME : CREMONA s. p. CZECHOSLOVAK CIGARS

	NOTE	PER CLIENT	ADJUSTMENT	AS ADJUSTED
TURNOVER	12	28,947	DR/(CR) (4,654)	33,601
COST OF SALES	13	24,785	(3,018)	21,767
GROSS PROFIT		4,162		11,834
SELLING, DISTRIBUTION, ADMINISTRATION AND OTHER EXPENSES	13	0	5,772	5,772
OTHER OPERATING INCOME		456	(3,314)	3,770
OPERATING PROFIT		4,618		9,832
INTEREST PAYABLE	14	357	9	366
INTEREST INCOME	14	0	(9)	9
PROFIT BEFORE TAX		4,261		9,475
INCOME TAX	15	4,611		4,611
OTHER TAXES		47		47
EXTRAORDINARY INCOME		3,289	3,289	0
NON DEDUCTIBLE EXPENSES		3		3
CONTRIBUTION TO FUNDS	11	2,389	(2,889)	0
RETAINED PROFIT (LOSS)		0		4,814

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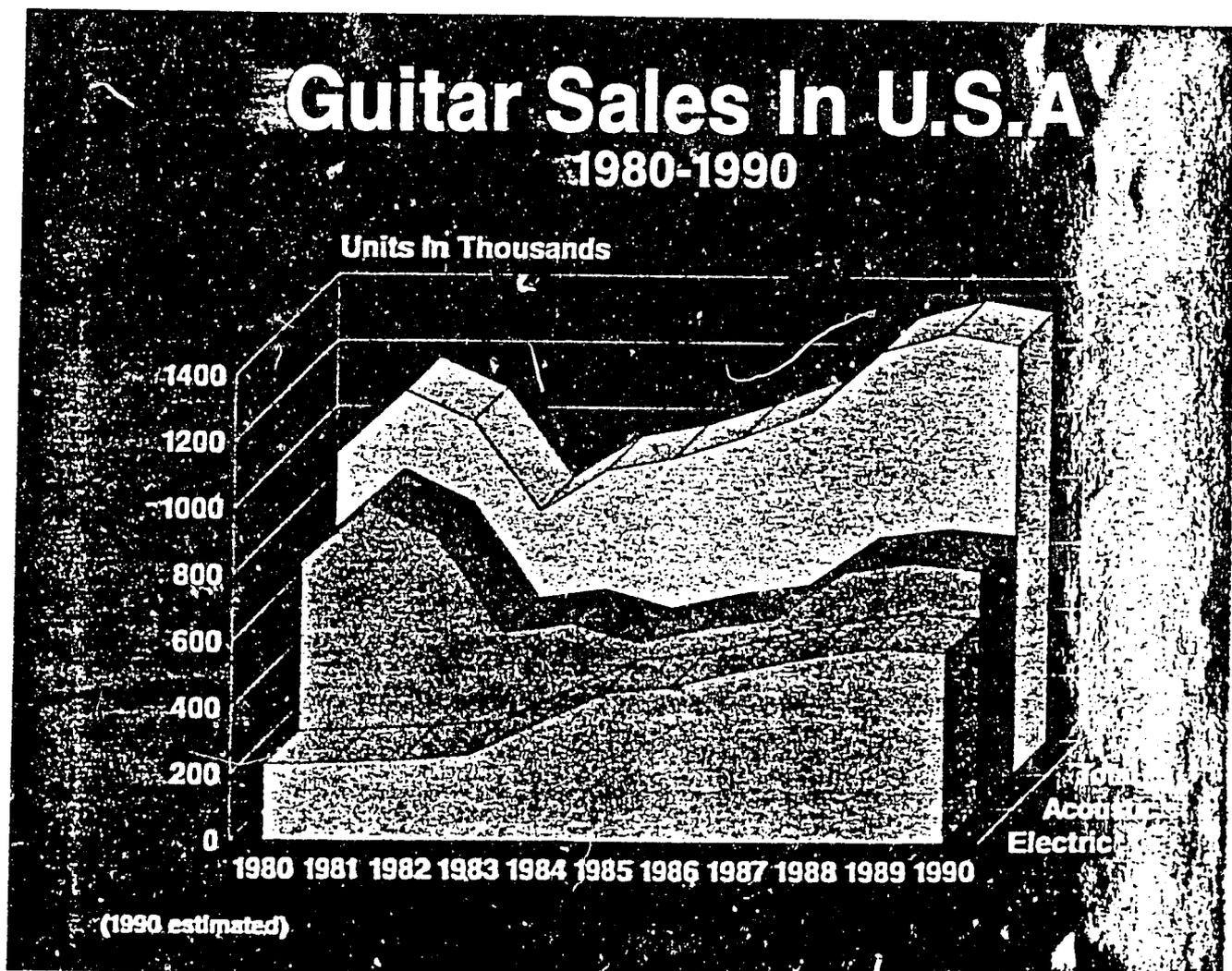
24

Guitar Market in U.S.

The Ever Resilient Guitar Market

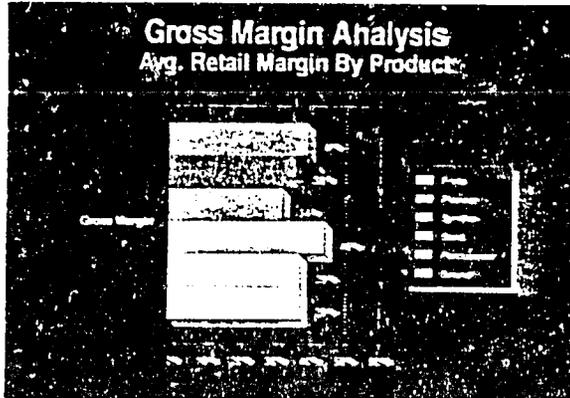
The bad news is, after an eight year run-up, it finally appears as if guitar sales have peaked. The final data for 1990 has yet to be compiled, however, all indications are that sales will be slightly off the 1989 peak of 1,380,000 units. The good news is that even with the slight unit decline, 1990 will rank as the second best guitar sales year in the past decade. Furthermore, due to hefty price increases on instruments from Japan and Korea, the industry's dollar volume will probably be over last year's dollar volume.

The exact cause of the slight sales decline over the past twelve months is difficult to pinpoint. While the guitar remains at the forefront of popular music, it appears as if some retailers trimmed their inventory out of concern for the future direction of the economy. Adding to the problem, many U.S. guitar distributors were faced with acute product shortages. Due to the dramatic increase of guitar sales throughout Asia, the major factories in Japan and Korea have been struggling with a large back-order situation.



While the industry has periodically faced shortages of acoustic guitars, 1990 represented the first time in memory when the supplies of low-end electrics from the Orient were tight.

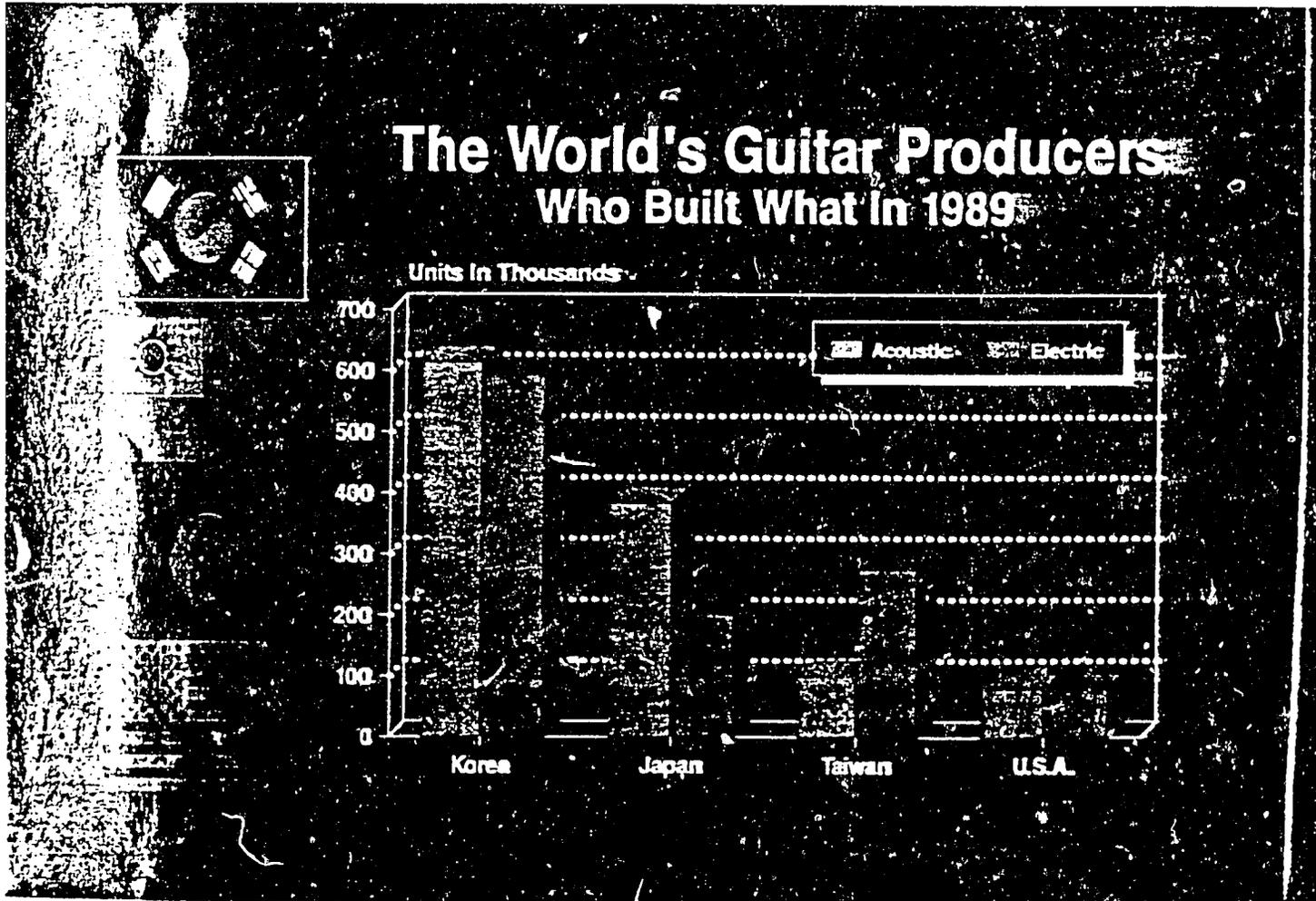
Despite the sales decline, dealers continue to rate the guitar near the top of the list in terms of profitability. (see chart) In a targeted telephone poll of 100 retailers in both urban and rural areas, guitars were ranked second only to rental band instruments in terms of gross margin. Percussion products, synthesizers, and pianos all trailed the guitar. Reasons for the guitar's profitability seem to include, a lack of obsolescence, limited mail order competition, and the fact that individual instruments are often



unique. As one retailer put it, "If a customer falls in love with a guitar that you have on display, chances are he won't shop you to death on it. You can't say the same for electronic products."

Barring some catastrophe, the future prospects for the guitar industry continue to look

bright. Despite the recent spate of price increases, the industry's product value level remains at an all-time high, the instrument's popularity does not show any signs of waning, and, it would appear that well heeled baby boomers are buying high-end product in increasing numbers. Adding to all of the above, retailers continue to make a good profit on all guitars sold.



Guitars 1991

An Overview Of The Market

Stung by the recession, guitar sales will post their second consecutive unit decline in 1991. While no one enjoys a down year, retailers and manufacturers can take comfort that the 9% decline wasn't more severe. Consider the plight of the auto makers (U.S. sales down 22%), home appliance manufacturers (U.S. sales down 19%), or department stores (sales down 17%).

While no manufacturers or retailers have escaped the recession completely unscathed, the impact has been far from evenly distributed. A challenging environment tends to accelerate market trends, and the current slowdown has been no exception. Over the past two years, in spite of extremely attractive pricing, the market has increasingly moved away from products with lesser-known brand names.

Increased competition has forced prestigious manufacturers like Fender, Gibson, and Charvel (to name just a few) to market low-priced instruments from the Orient. The presence of these desirable brand names at lower price points has taken its toll on low-end distributor sales. Retailers reason, "Why buy a Brand X guitar from the local wholesaler when I can get something with a name customers recognize for only \$25 more?"

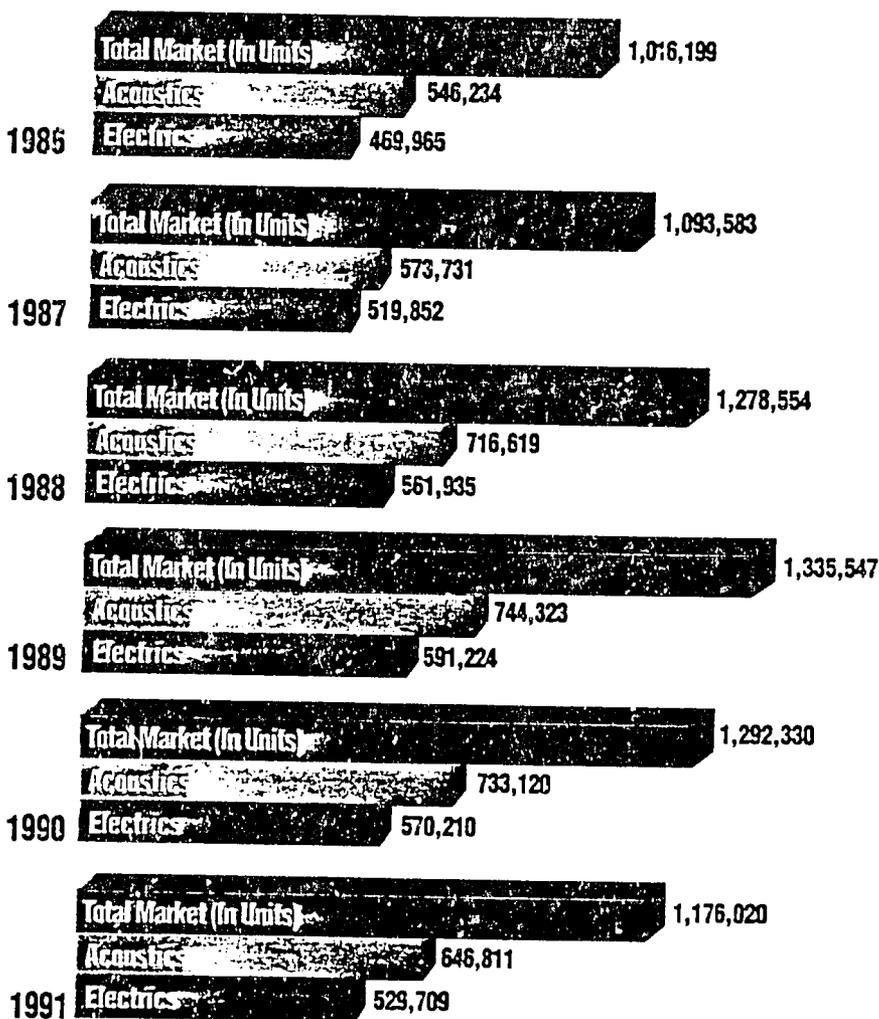
The recession has also had little or no effect on the performance of U.S. manufacturers, thanks to a burgeoning export market. Rock and roll remains a U.S. creation, and the rest of the world thinks it sounds better with American-made guitars. As a result, U.S. instrument production increased again in 1991.

Ironically, the market slow-down has had little or no effect on the sale of high-end guitars (retailing for over \$300). Manufacturers and retailers almost uniformly report steady sales in this segment of the market.



The U.S. Guitar Market

Unit estimates are based on data from the U.S. Commerce Department, The Japanese Ministry of Trade, Industry estimates, and the Korean Music Instrument Manufacturers Association.



What is most encouraging, however, is the continued popularity of the guitar. Playing styles and music tastes are in a constant state of flux, but the expressive capabilities of the plucked string seem to have a timeless appeal. Perhaps guitar pioneer Les Paul summed it up best when he noted, "Synthesizers and electronics are great, but I'll kiss the behind of Gene Autry's horse the day anything takes the place of the guitar."

Who Makes What

You Can't Keep Track Of The Players Without A Program

Ever since Japanese manufacturers displaced Harmony and Kay as the preeminent high volume guitar maker in the late sixties, Asia has been home to over 70% of the world's guitar production. Japanese guitar makers initially entered the U.S. market offering fabulously low prices. (U.S. wholesalers paid between \$5 and \$15 for Japanese acoustic guitars in 1968.) Today however, any retailer or player will attest to the fact that Asian manufacturers offer excellent quality as well as a good price.

Aside from forcing Harmony and Kay into liquidation by 1975, Oriental manufacturers also dramatically altered the nature of the guitar business. Between 1940 and 1960, Harmony, Kay, and all other U.S. guitar manufacturers produced and marketed their instruments under a single brandname. By contrast, most leading Oriental manufac-

turers have operated merely as contract production houses, leaving product development and the sales and marketing function to others. Companies like Fujigen Gakki, Terada, and Saehan are all major guitar producers, yet because they don't market under products under their own brand names, they are virtually unknown among US retailers and players.

While retailers or musicians knew with certainty that a Harmony guitar came from the Harmony plant in Chicago, there is no such certainty today. A brand X guitar could conceivably come from any of 16 major production centers in Japan, Korea, or Taiwan.

To shed some light on which guitars are made where, the following chart lists most of the major Oriental guitar manufacturers, and the brand names that they produce.

Japan

Atlansia	Chu Sin Gakki	ESP	Fujigen Gakki	Headway	Kasuga	
Atlansia	Charvel	ESP Focus Kramer	Casio Fender Greco Ibanez Heartfield Squire Westone	Riverhead	Blade Tune Washburn Yamaha	
Kawai	Morris	Shimokura	Terada	Takamine	Tokai	Yamaha
Fernandes Kawai Rockoon	Hurricane Fender Morris Bill Lawrence Aircraft	Boss Axe Chandler Mosrite	Aria Epiphone Terada	Takamine	Aria Greco Tokai	Yamaha

Korea

Cort	Saehan	Samick	Young Chang
Cort Hohner Kramer	Applause B.C. Rich Celebrity Fernandes Ovation Vester Westone	Aria Epiphone Hondo Marathon Samick Vantage Washburn	Fender Fenix Hurricane Morris Squier

Taiwan

Yamaha
Yamaha

CREMONA
Interview Feedback
United States

Interviews

- Samick Music Corporation - specialist guitar distributor
- Guild Guitars - national guitar distributors
- Guitar Center - national guitar retailer
- Yamaha Corporation of America
- Midwest Musical Instruments

Overview

- Market Size

Nylon/Classical	\$2 million	flat	} 600,000 units
Nylon Folk	---		
Steel String	---		} 500,000 units

"Nylon 'not reliable', most people only sell steel string"
"Guitar sales have peaked"

Imports losing out to low-price branded guitars by well-known manufacturers
- i.e. Fender, Gibson, Charvel

"US domestic gearing up for first time since 1960"

- Major Suppliers

- Taiwan
- Japan

CREMONA
Interview Feedback
United States
(Cont'd)

PRICE RANGES - KEY SEGMENTS

• **NYLON STRING**

			<u>Growth</u>
\$ 50 - 100	"Intro"	30%	} Declining Growth in all 3 segments
\$200 - 300	"Basic"	50%	
\$800 - 1,200	"Professional"	15 - 20%	

• **STEEL STRING**

\$ 50 - 100	-- " --	30%	20 - 30%
\$200 - 300	-- " --	50%	20%
\$800 - 1,200	-- " --	15 - 20%	0 - 5%

MAJOR SUPPLIERS - NYLON AND STEEL

- Kaman - US firm
 - US, Japan, Korean manufacturing
- Yamaha
 - Japan, Korean manufacturing
- Alvarez - US Company
 - Japanes manufacturing

"These three absolutely dominate the market for acoustic guitars"

"Alhambra from Spain is key manufacturer of classical guitars to the US"

CREMONA
Interview Feedback
 United States
 (Cont'd)

DISTRIBUTION

- Players

This is a list of musical instrument distributors in the US who specifically mention guitars as a product description or in their names.

Company Name	Sales Dollars	City	Telephone Number
Samick Music Corp	30,000,000	City of Industry	818-964-4700
Westheimer Corporation	16,000,000	Worthbrook	708-498-9850
Kramer Music Products Inc	5,000,000	Neptune	908-922-8600
A R Musical Enterprises	4,000,000	Indianapolis	317-545-2484
Class Axe, Inc	3,000,000	Warren	908-271-3395
Tone-King Corp	1,000,000	West Babylon	516-643-8333
Bryan, Bob Enterprises Inc	700,000	Fort Worth	817-237-6039
ESP Shibuya Enterprises	700,000	New York	212-819-1234
C&R Guitar	650,000	Tulsa	918-747-1407
Guitars Inc	600,000	Chicago	312-644-4464
L&L Sales Company Inc	400,000	Madison	615-868-6976
Lazar's Guitars Inc	260,000	Wonder Lake	815-728-0455
Roblar Enterprises, Inc	240,000	Bridgewater	908-707-9191
Roscoe Guitars	240,000	Greensboro	919-274-8810
Schoales Guitars	175,000	Burlington	802-862-2116
Hartman Wendell	89,000	Tulahoma	615-455-6702
D'Angelico-D'nerle Ltd	36,863	Farmingdale	516-293-8733
Texas Guitar Products	7,500	Dallas	214-943-5020

CREMONA
Interview Feedback
 United States
 (Cont'd)

DISTRIBUTION (cont'd)

- Players

The following list shows US musical instrument distributors by sales size, for the top twenty.

Company Name	Sales Dollars	City	Telephone Number
Yamaha Corp of America	660,000,000	Buena Part	714-522-9011
Kawai America Corp	82,000,000	Compton	213-631-1771
Samick Music Corp	30,000,000	City of Industry	818-964-4700
Korg USA Inc (del)	24,700,000	Westbury	516-333-9100
Coast Wholesale Music	24,500,000	Compton	213-537-1712
Midwest Musical Instr Co	22,000,000	Effingham	217-342-9211
Hoshino USA Inc	20,582,026	Bensalem	215-638-8670
Leblanc, G Corporation	19,000,000	Kenosha	414-658-1644
Hermes Trading Co, Inc	16,000,000	Mcallen	512-682-4341
Westheimer Corporation	16,000,000	Northbrook	708-498-9850
IMS Musical Supplies, Inc	15,128,096	Staten Island	718-966-1192
McAllen-American Corp	15,000,000	Mcallen	512-682-9502
Haas, L Co Inc	10,000,000	Hialeah	305-822-2300
Sahlein, J M Music Co Inc	10,000,000	Hayward	415-293-0388
Fischer, Carl Inc of Boston	9,700,000	Boston	617-426-0740
Mbt Distributors Inc	8,500,000	Charleston	803-763-9083
Boosey & Hawkes/ Buffet	8,500,000	Libertyville	708-816-2500
Davitt & Hanser Music Co	7,083,630	Cincinnati	513-431-5000
Alex Musical Instruments	7,000,000	New York	212-765-7738
Young Chang America, Inc	6,800,000	Artesia	213-926-3200

CREMONA
Interview Feedback
United States
(Cont'd)

DISTRIBUTION (cont'd)

- Vast bulk go through these distributors, very little direct delivery to retailer
 - Guitar Center notable exception
- Agents are common, sell for manufacturer direct to distributor (ca. 50% of total)
 - Key advantages
 - helps retailers/distributors with seminars
 - explains, sells new products
- Physical Distribution
 - Delivery by manufacturer from abroad to central East or West coast site
 - Distributor/retailer takes over physical distribution to own internal US network

DISTRIBUTION PRACTICES

- Terms
 - Bulk purchases only, no small lots
 - For \$200 retail price, requires \$100 maximum delivered price to distributor
 - called confusingly in the trade a "50% mark-up"
 - Actual %-mark up varies based on volume, but nylon/classical guitars are low volume and distributors will require significant discount

CREMONA
Interview Feedback
United States
(Cont'd)

ATTITUDE TO CZECHOSLOVAKIAN PRODUCTS

- Very positive, but nagging worry about quality and commercial reliability

"Location of manufacture isn't important"

"We only look at the product and its quality"

"Czechoslovakian products will be judged the same way as a Japanese, on the quality of the instrument, not the country"

"Musicians and salespeople listen to the product, if it sounds good and the price is right for the price point, we'll list it"

"How will I know that I'll get reliable quality and consistent delivery?"

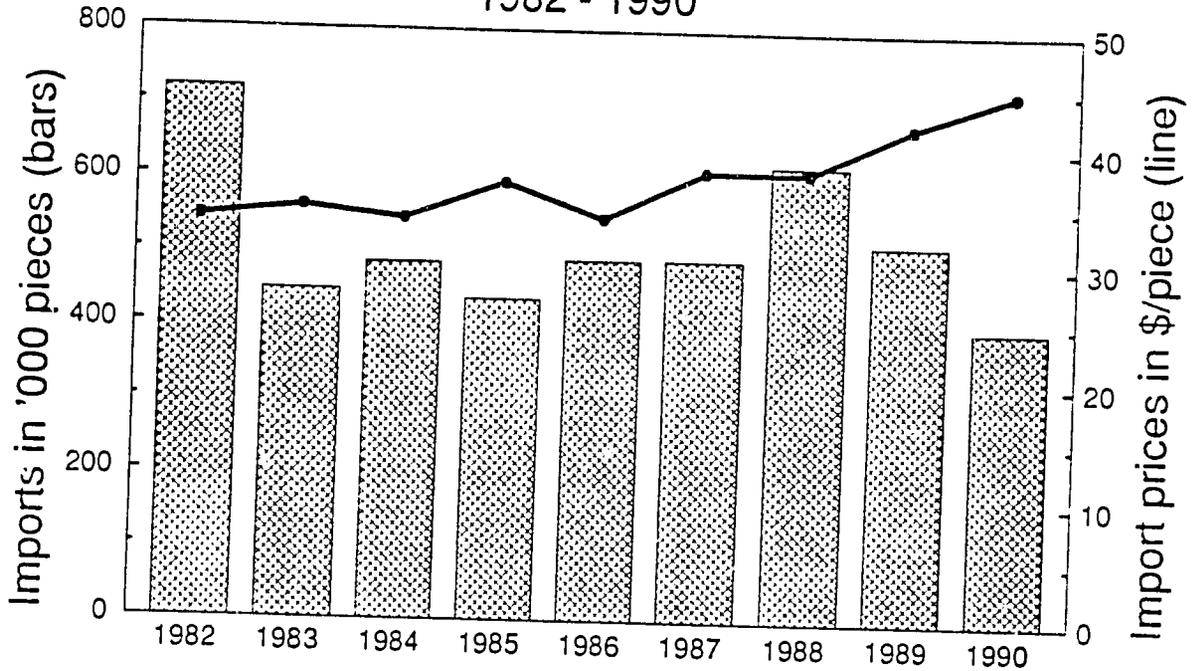
"I would be looking for them to prove they could make a consistent quality guitar and never let me down, that's what Far Eastern based companies give us basically. No worries and a very high margin product"

KEY SELECTION CRITERIA

- Price Competitiveness
 - but not most important
- Quality
 - entry level criteria, no differentiation
- Delivery Lead Times
 - Very important
- Exclusivity
 - If desirable guitar, very attractive

ACOUSTIC GUITARS FOR LESS THAN \$100

US Total Imports
1982 - 1990



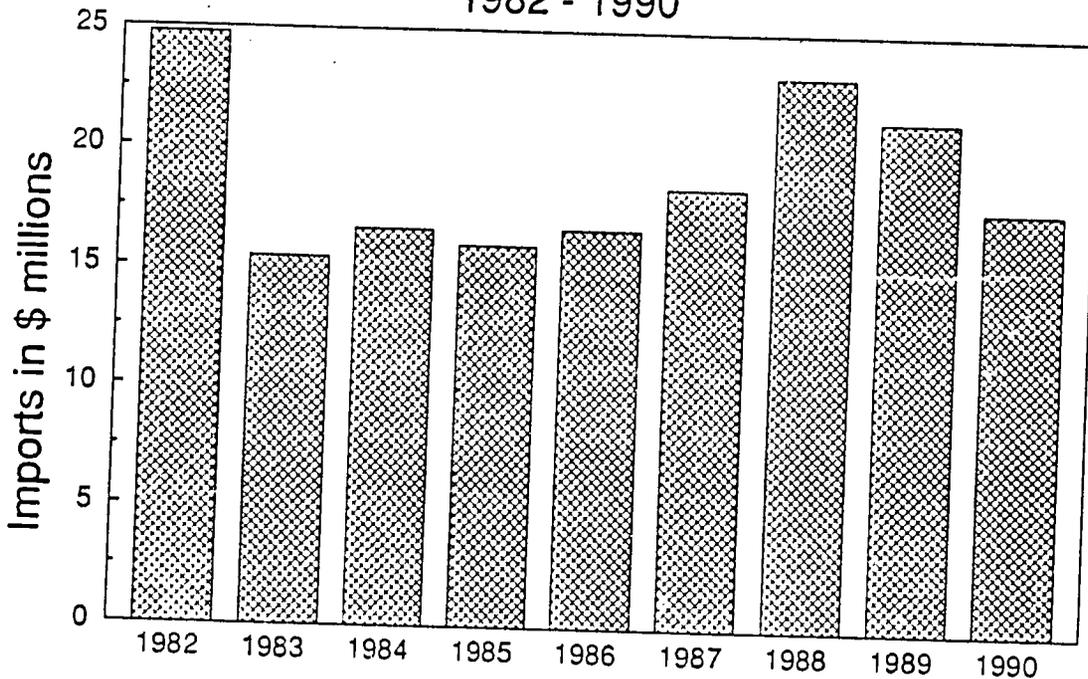
Imports are net of re-exports
All monetary figures in 1990\$

Source: Tradstat, World Trade Statistics

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ACOUSTIC GUITARS FOR LESS THAN \$100

US Total Imports
1982 - 1990



Imports are net of re-exports
All monetary figures in 1990\$

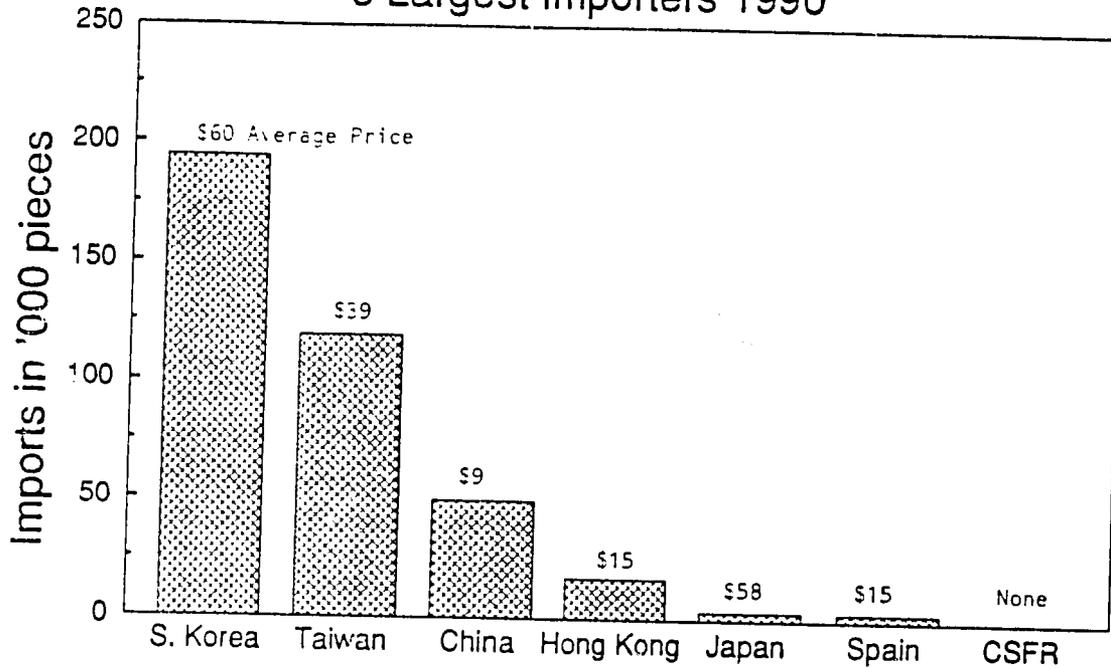
Source: Tradstat, World Trade Statistics

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US ACOUSTIC GUITAR IMPORTS

Guitars that value not more than \$100

6 Largest Importers 1990



Source: Tradstat, World Trade Statistics

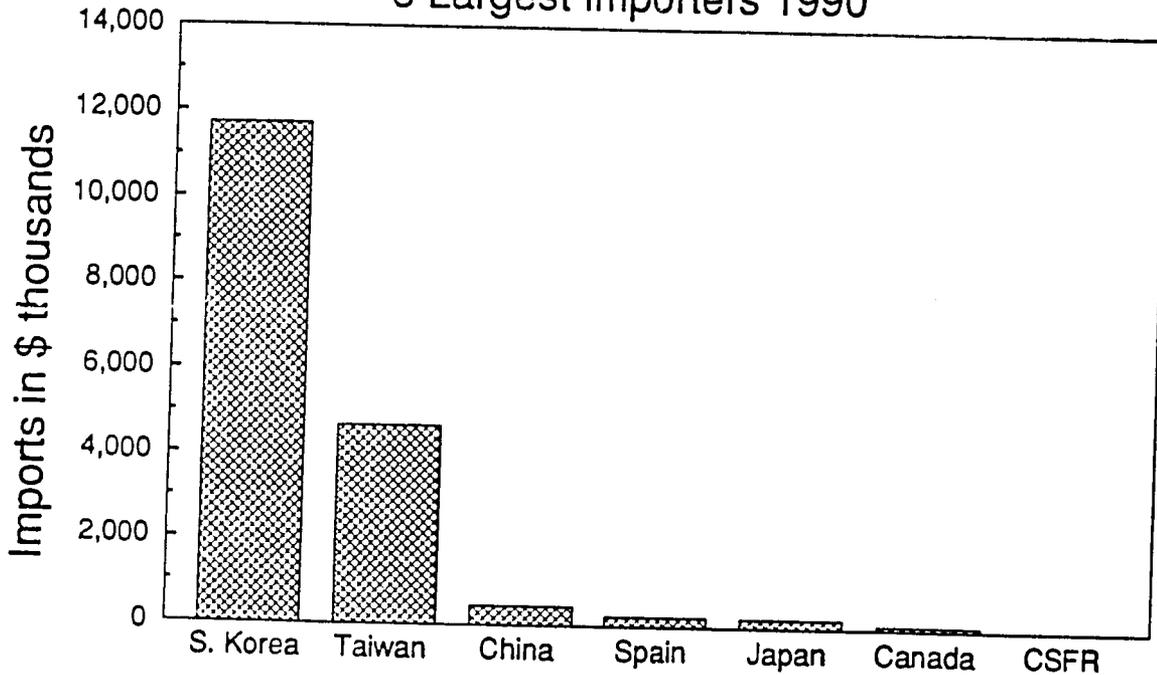
Share of top 6 = 97.5%

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US ACOUSTIC GUITAR IMPORTS

Guitars that value not more than \$100

6 Largest Importers 1990



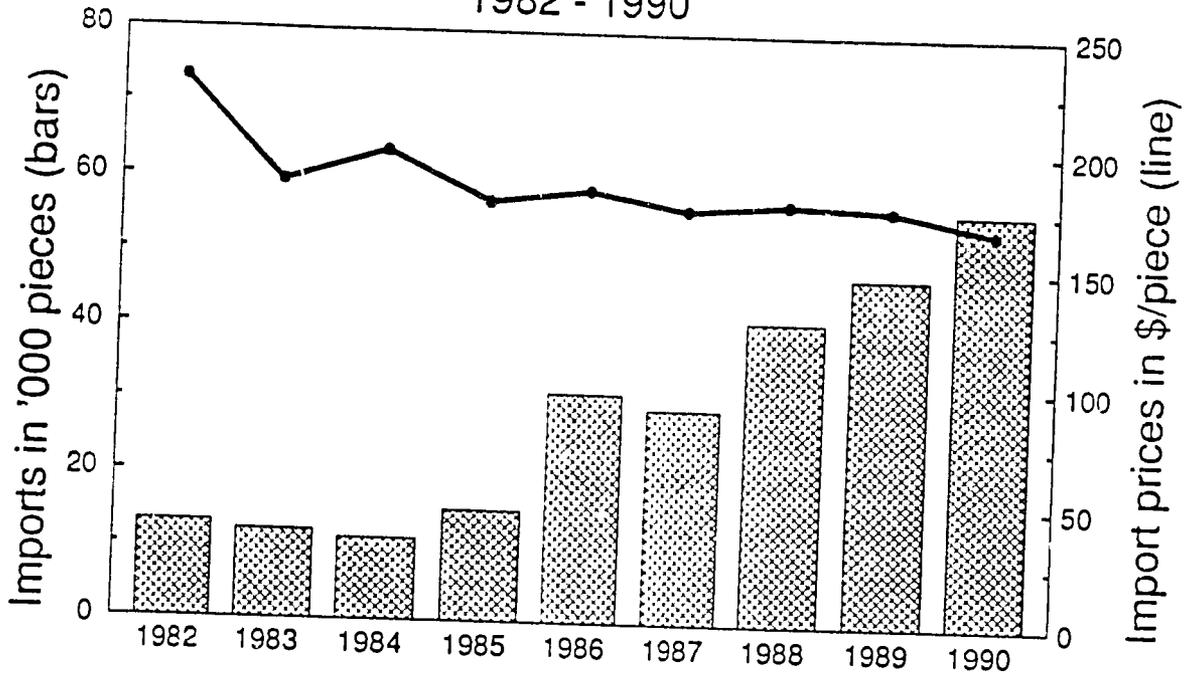
Source: Tradstat, World Trade Statistics

Share of top 6 = 98.0%

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ACOUSTIC GUITARS FOR MORE THAN \$100

US Total Imports
1982 - 1990



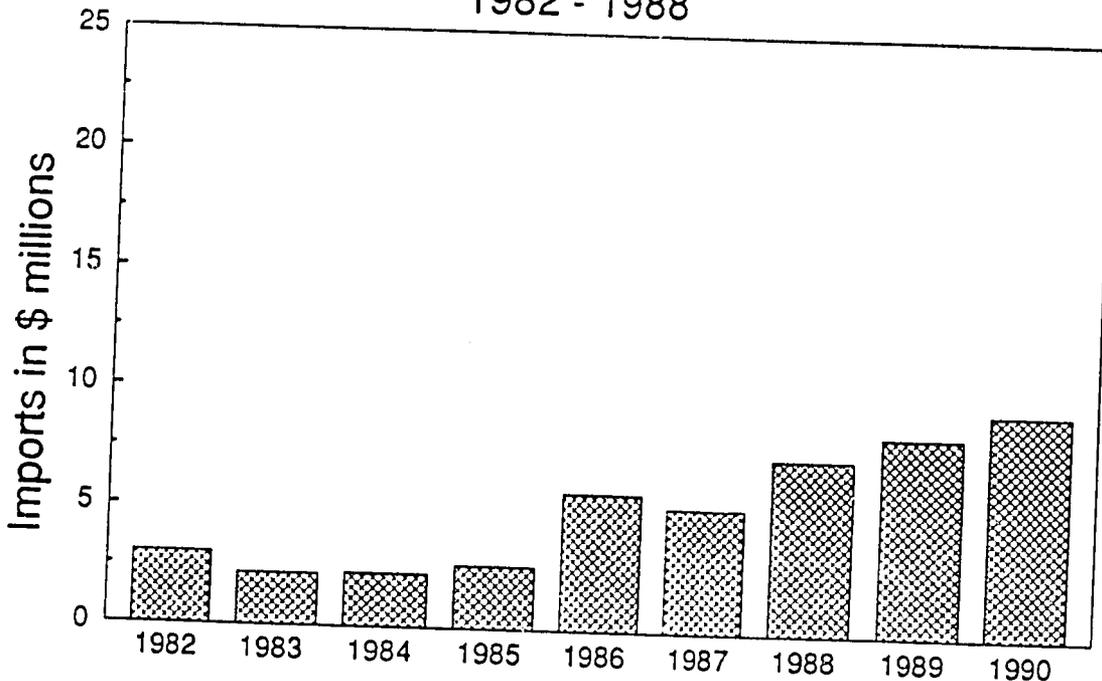
Imports are net of re-imports
All monetary figures in 1990\$

Source: Tradstat, World Trade Statistics

RJMB1311USIMP1A

ACOUSTIC GUITARS FOR MORE THAN \$100

US Total Imports
1982 - 1988



Imports are net of re-imports
All monetary figures in 1990\$

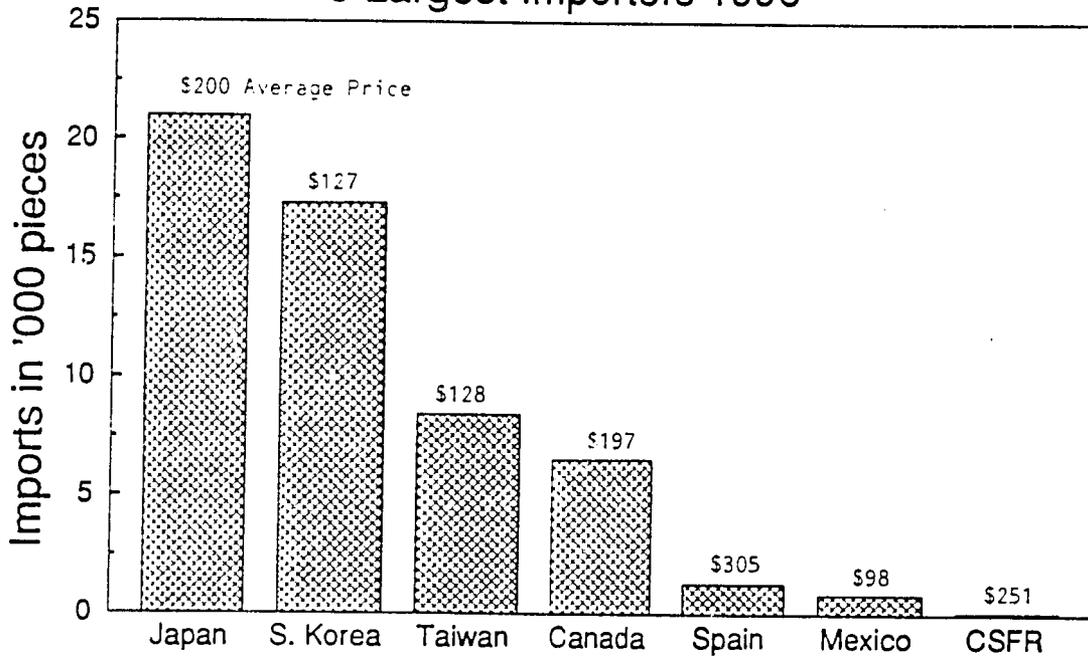
Source: Tradstat, World Trade Statistics

RJMB1311USIMP2A

US ACOUSTIC GUITAR IMPORTS

Guitars that value more than \$100

6 Largest Importers 1990



Source: Tradstat, World Trade Statistics

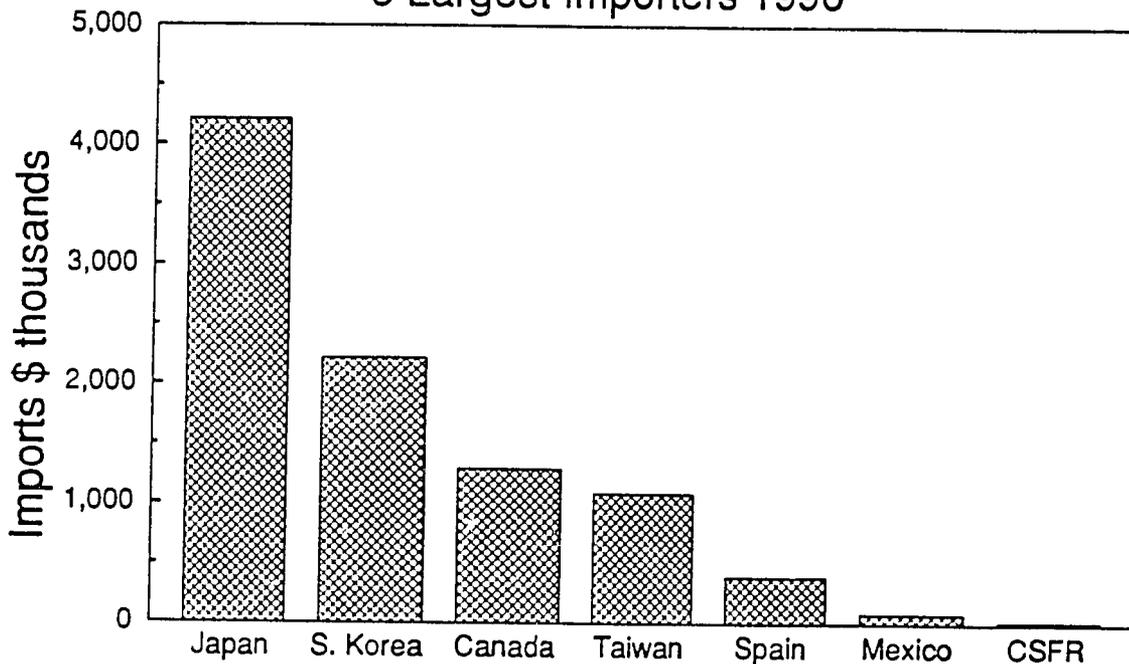
Share of top 6 = 98.5%

R:UMB1311USIMP3A

US ACOUSTIC GUITAR IMPORTS

Guitars that value more than \$100

6 Largest Importers 1990



Source: Tradstat, World Trade Statistics

Share of top 6 = 99.1%

R:UMB1311USIMP4A

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09007150 DIALOG File 648: TRADE & INDUSTRY ABAP
Use Format 9 for FULL TEXT

The ever resilient guitar market. (Cover Story)

Music Trades 4108 087(2) Oct. 1990

SOURCE FILE: T1 File 148

Illustration: graph

ARTICLE TYPE: Cover Story

AVAILABILITY: FULL TEXT Online LINE COUNT: 00037

SIC CODE: 3801

CAPIONS: Guitar sales in U.S.A. 1980-1990. (graph); Gross margin analysis: adv. retail margin by product. (graph); The world's guitar producers. (graph)

DESCRIPTORS: Musical instruments industry--sales statistics; Guitar--sales statistics

The Ever Resilient Guitar Market

The bad news is, after an eight year run-up, it finally appears as if guitar sales have peaked. The final data for 1990 has yet to be compiled, however, all indications are that sales will be slightly off the 1989 peak of 1,330,000 units. The good news is that even with the slight unit decline, 1990 will rank as the second best guitar sales year in the past decade. Furthermore, due to hefty price increases on instruments from Japan and Korea, the industry's dollar volume will probably be over last year's dollar volume.

The exact cause of the slight sales decline over the past twelve months is difficult to pinpoint. While the guitar remains at the forefront of popular music, it appears as if some retailers trimmed their inventory out of concern for the future direction of the economy. Adding to the problem, many U.S. guitar distributors were faced with acute product shortages. Due to a dramatic increase in guitar sales throughout Asia, the

major factories in Japan and Korea have been struggling with a "flood" of back-order situation. While the industry has periodically faced shortages of acoustic guitars, 1990 represented the first time in a year when the supplies of low-end electronics from the Orient were tight.

Despite the sales decline, dealers continue to rate the guitar near the top of the list in terms of profitability. (See chart) In a targeted telephone poll of 100 retailers in both urban and rural areas, guitars were ranked second only to rental band instruments in terms of gross margin. Percussion products, synthesizers, and pianos all trailed the guitar. Reasons for the guitar's profitability seem to include, a lack of obsolescence, limited mail order competition, and the fact that individual instruments are often unique. As one retailer put it, "If a customer falls in love with a guitar that you have on display, chances are he won't shoot you to death on it. You can't say the same for electronic products."

Barring some catastrophe, the future prospects for the guitar industry continue to look bright. Despite the recent spate of price increases, the industry's product value level remains at an all-time high, the instrument's popularity does not show any signs of waning, and, it would appear that well-heeled baby boomers are buying high-end product in increasing numbers. Adding to all of the above, retailers continue to make a good profit on all guitars sold.

COMP:RIGHT The Music Trades Corporation 1990

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08262067 DIALCG File 648: TRADE & INDUSTRY, AEAR
Use Format 9 for FULL TEXT*

Gretsch unveils new classic guitar line. (product announcement)
Music Trades v177 p59(2) Jan. 1990

SOURCE FILE: TI File 148

Illustration: photograph

ARTICLE TYPE: product announcement

AVAILABILITY: FULL TEXT Online LINE COUNT: 00045

SIC CODE: 3931

COMPANY NAME(S): Fred Gretsch Enterprises--product introduction

DESCRIPTORS: Musical instruments industry--product introduction; Guitar--product introduction

Gretsch Unveils New Classic Guitar Line

Fred Gretsch Enterprises has announced the immediate availability of a complete new line of hollow body, solid body, and acoustic guitars that replicate the Gretsch instruments that achieved international renown in the 40's, 50's, and 60's. Fred Gretsch, president said, "This new line is being introduced in answer to the rising demand for hard-to-find Gretsch classics. The cult following of these instruments has driven prices sky-high and diminished an already limited supply. Vintage Gretsch guitars will be the only competition for this new line."

In recent years, distinctive appearance and unique sound have made Gretsch guitars in high demand. Prices for a pristine 1954 Limited White Falcon or Penguin guitar can run as high as \$20,000, Gretsch commented. "Our new line will offer excellent price-value for virtually the same instrument. We will offer a range of models and price levels appropriate for professional musicians and other enthusiasts."

Great pains have been taken to ensure that the new Gretsch guitars are exact replicas of their predecessors. Materials of the new instruments include fine mahogany, rosewood and rock maple, pearl inlay, gold plated hardware, nickel silver frets, and hand polished finishes.

After reviewing a new Gretsch prototype, Randy Bachman, lead guitarist with Bachman Turner Overdrive, commented "When I opened the case on the black Du-Let, I thought I had been sent a real Gretsch. The appearance was

incredible. I totally loved the sound too. It is unlike any other guitar on the market. Built to play at today's volume levels, it is bright and clean in all switch combinations."

Newly introduced hollow body Gretsch models include: the White Falcon, in both single and double cutaway; the Country Classic, in single and double cutaway; the Tennessee Rose; and the Nashville. The instruments harken back to the Country Gentlemen models popularized by Chet Atkins, and associated with the Nashville sound. These models are exact replicas of the vintage instruments played by artists including Roy Clark and George Harrison.

New solid body models include: The Duo Jet, the Silver Jet, the Firebird, and the Roundup. The new instruments feature dual humbucking pick-ups with separate volume controls, the trademark "G" tailpiece, adjustable bridge, and chrome and gold plated hardware.

New Gretsch acoustics include both re-creations of vintage instruments and several brand new models. The prize of the group is the Synchronatic, first introduced in 1940. George Michael currently records on a vintage Synchronatic.

The complete line of Gretsch guitars will be on display at the upcoming NAMM show in Anaheim.

PHOTO : IN ACOUSTIC INSTRUMENTS, Gretsch is reissuing the famous Synchronatic, which was first introduced in the 40's. George Michael has recently been using a vintage Synchronatic.

PHOTO : THE CLASSIC GRETSCHE White Falcon of the 50's has been meticulously duplicated in the new line of Gretsch guitars marketed by Fred Gretsch Enterprises. Classic White Falcons have sold for as much as \$20,000.

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1/9/22

08013183 DIALOG File 648: TRADE & INDUSTRY ASAP

Use Format 9 for FULL TEXT

A.R. Music ... market to the first time buyer. (Kay Guitar Co. subsidiary's marketing plans) (Guitar Market Report)

Music Trades v137 p96(2) Oct. 1989

SOURCE FILE: YI File 148

illustration: photograph

AVAILABILITY: FULL TEXT Online LINE COUNT: 00062

SIC CODE: 5099

COMPANY NAME(S): Kay Guitar Co.--marketing

DESCRIPTORS: Musical instruments industry--marketing

A.R. Music.... Market To The First Time Buyer

The scenario is all too common. A young teen purchases a guitar, brings it home, and displays it to a crowd of awed friends. In this one simple transaction, the young buyer has done more than any advertisement could hope to accomplish in captivating the musical interest of his friends. "First-time buyers are the lifeblood of the music industry," states Tony Blair, president, Kay Guitar Company, one of the nation's leading suppliers of student fretted instrument and music accessories. "They set the stage for future purchases and are also major contributors to industry profits." Despite the crucial role they play in the industry, first-time buyers are often overlooked by retailers, according to Blair.

Blair's firm, which sells nearly 50,000 instruments per year to first-time buyers nationwide, closely tracks their needs and purchasing habits through warranty cards. "The information that we have gathered over the years indicates a number of clear trends. Namely, first-time

instruments are sold with higher margins than step-up or high-end guitars. And the sales of first-time guitars are also accompanied by more accessory business than any step-up or high-end sales," explains Blair. The findings, which Blair admits are basic, should be the cornerstone of a dealer's entry-level guitar program. "Our results are clear. The profit potential of beginner instruments is phenomenal when you factor in the accessory sales and the new business generated by your new customers showing their guitars to friends," he says. For this reason, Kay Guitar encourages its dealers to cultivate all areas of the student guitar market.

Escalating prices of imported guitars have taken a toll on the student market. "The price increases we have seen from suppliers in the Far East are a direct result of rising wages, duties, and fluctuating currencies. They are beyond our control, and we must learn to live with them," Blair explains. Well-planned merchandising programs can minimize the impact of these rising prices. "In the peak of the fall and Christmas selling season, dealers often advertise a complete package for sale, including instrument, case, accessories, and amplifiers. Kay dealers have found that these packaged promotions carry a higher price than just the instrument and can often scare customers away." Blair recommends that the dealer offer the guitar only, at a fair price--one that has a margin consistent with those found on higher-end instruments. "Once you get the sale, customers will be back in a matter of days to purchase the additional hardware and accessories they may need. Your new buyers are the best advertisement your store could ever hope for. These people are your most important customers and should be treated as such."

Blair, who now owns Kay, began his career 25 years ago as a music retailer in downtown Chicago. He left retail in 1973 and became a sales representative for Kay products in Indiana, Kentucky, Ohio, Tennessee, and southern Illinois. In the late '70s, Blair's parent company, A.R. Musical Enterprises, acquired all the trademarks and patents of Kay Guitar. Based in Indianapolis, the company employs 15 inside sales representatives and warehouses product in a modern 20,000-square-foot building.

For nearly a century, Kay guitar has been servicing the needs of first-time guitar buyers. With over 70 acoustic guitars, electric guitars, electric basses, amplifiers, mandolins, and banjos from \$59.95 to \$299 retail, Kay has the product needed to service this important segment of the market. Kay's line is also highlighted with an extensive line of cables and related products under the Cable Corp. and Performance Plus names.

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1/9/23

08013191 DIALOG File 648: TRADE & INDUSTRY ASAP

Use Format 9 for FULL TEXT

Do customers in Japan and New York want the same guitars? (Guitar Market Report)

Music Trades v137 p96(1) Oct. 1989

SOURCE FILE: TI File 148

illustration: photograph

AVAILABILITY: FULL TEXT Online LINE COUNT: 00039

GEOGRAPHIC CODE: AEJA

GEOGRAPHIC LOCATION: Japan

SIC CODE: 3931

DESCRIPTORS: Musical instruments industry--international aspects; Musical instruments--Japan; Guitar--public opinion

Do Customers In Japan and New York Want the Same Guitars?

For decades, the nuances of customer taste have challenged manufacturers in the fretted instrument market. What is a best seller in Japan is often a prescription for disaster in the United States. Testimony to this truism is the rising demand in the United States for Fernandes guitars. Fernandes, which is one of the top-selling brands in Japan, had

lanquished in the U.S. market for years until representatives from Gary Castelluccio and Associates redesigned the line for the U.S. market.

"Our first move with the line involved trimming models from a selection of nearly 100 guitars," states Gary Castelluccio, marketing director for Fernandes Guitars U.S.A. "In Japan, huge selections are important, whereas in the U.S. they create confusion for the dealer. After the line was reduced to a manageable level, several innovative design enhancements were added to the guitars for a more contemporary look." The line of Fernandes guitars that is manufactured in Japan carries some of the most competitive prices in the business today.

"We sell high-quality electric guitars that are built in Japan, and we sell them to dealers for the price of Korean guitars. Our value is excellent, second only to our service," Castelluccio says. "To be successful, we have to offer a customer service program that is as good or better than any other in the industry today. In short, our program guarantees customer and dealer satisfaction. If there's a problem, Fernandes is prompt to respond. Warranty service is an area where prompt attention to claims can make the difference. As a policy, we stock every replacement part and all warranty claims or complaints are handled and shipped same day. We go the extra distance when it comes to settling a problem, and it has won us the loyalties of customers and dealers."

Fernandes offers three series of guitars: Vintage, Revolver, and Basses. The Vintage series guitars are built to the same specifications using the same materials as the original, and retail prices range from \$469 to \$565 (all prices include hardshell cases).

The Revolver series guitars with locking tremolos are available in a wide range of configurations and retail from \$595 to \$1,179. Fernandes also offers six bass guitars retailing from \$500 to \$959.

PHOTO : SALES OF FERNANDES GUITARS have increased in the U.S., thanks to redesigned models and a

PHOTO : strong commitment to dealers and customer service. Pictured above (l-r) are: Yatuse

PHOTO : Saijo, head design engineer; Youjirou Mori, export mgr.; Gary Castelluccio, U.S. mktg.

PHOTO : dir.: Naoyuki Yanagishima, prod. development: Terry Dennis, U.S. service mgr.: Minoru

PHOTO : Nagase, gen. mgr., Fernandes.

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1/9/89
08013171 DIALOG File 648: TRADE & INDUSTRY ASAP
Use Format 9 for FULL TEXT
Guitar demand remains strong, competition intensifies. (Guitar Market Report)
Music Trades V137 p75(2) Oct. 1989
SOURCE FILE: TI File 148
illustration: photograph
AVAILABILITY: FULL TEXT Online LINE COUNT: 00047
SIC CODE: 3931
DESCRIPTORS: Musical instruments industry--forecasts: Guitar--supply and demand

Guitar Demand Remains Strong, Competition Intensifies

Overall demand for electric and acoustic guitars will remain strong for the foreseeable future, according to Tom Presley, fretted instrument product manager for St. Louis Music; however, profitably meeting that

Demand poses numerous challenges for the manufacturer. "There's a general surge of interest in the guitar, and dealers seem to be selling their products through very successfully, although competition at the manufacturer level has never been tougher," he says.

The remarkable comeback of acoustic guitars has been particularly surprising. Like most players in the market, St. Louis Music is struggling to secure sufficient supplies of its Alvarez and high-end Alvarez Yairi guitars. Fresley attributes the resurgence in acoustics to two basic factors. "A lot of former flower children of the sixties now have good jobs and can finally afford to buy the guitar they always wanted. This group has contributed to the industry-wide surge in the sale of high-end acoustics. On the other end of the market, kids are seeing more acoustic guitars on MTV. Lately we've been selling a large number of acoustics without soundholes. These guitars are purchased almost exclusively by rock and rollers who want to amplify the instrument using the piezo bridge pickup."

According to Fresley, the most important factor in selling acoustic guitars successfully is to maintain an adequate inventory. This is particularly critical in selling higher-priced models. He states, "A lot of dealers will stock acoustics only at Christmas; to sell them all year long you need a larger inventory. To sell high-end instruments, you have to offer customers a number of different instruments to choose from. They need comparisons to help them make up their minds, and a large stock enhances the retailer's credibility."

Competition in the electric guitar market is particularly intense, Fresley observes. "Aside from the fact that there are more people in the market, little has changed in the last five years. The market remains endorser-driven, and without a base of high visibility endorsers it's very difficult for a manufacturer to break away from the pack."

Fresley observes that the market seems to be shifting away somewhat from tremolo-equipped guitars. "The tremolos are still important, but we're selling an increasing number of guitars with a fixed bridge." He also notices a move to instruments with smaller bodies and a shorter 24-3/4" scale.

Striving to provide added value, St. Louis Music shop-adjusts every guitar prior to shipment. On all Alvarez guitars, frets are polished, the neck is adjusted, and the action is carefully set. Westone electrics receive a similar treatment. Fresley explains, "As they say, you only have one chance to make a good first impression. We do everything possible to make all our guitars play well. Dealers like it because it really helps the selling process."

PHOTO : HIGH-END ACOUSTIC SALES at St. Louis Music have been helped by "aging flower children who

PHOTO : now have enough money to afford a good guitar." All of the company's Oriental-made guitars

PHOTO : are adjusted and inspected in St. Louis prior to shipment.

PHOTO : ELEVEN SKILLED GUITAR TECHNICIANS adjust necks, polish frets, and play-test every Alvarez

PHOTO : and Westone guitar.

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1/9/90

09013167 DIALOG File 648: TRADE & INDUSTRY ASAP

Use Format 9 for FULL TEXT

Guitar market report: retailers and manufacturers assess current conditions and future prospects for the global market. (Guitar Market Report)

Music Trades v137 067(2) Oct. 1989

SOURCE FILE: TI File 148

46

illustration: graph
AVAILABILITY: FULL TEXT Online LINE COUNT: 00032
SIC CODE: 3931
CAPTIONS: 10 years of U.S. guitar sales: 1979-89.
DESCRIPTORS: Guitar--sales statistics: Musical instruments industry--sales statistics

Guitar Market Report Retailers And Manufacturers Assess Current Conditions And Future Prospects For the Global Market

After a dismal start in the early '80s, guitar sales have come roaring back to near record levels, as indicated in the charts on the following pages. The continuing popularity of the instrument, in both its electric and acoustic incarnations, is both a marvel and a blessing to the industry.

Guitars have had the longest run at the top of the popularity charts of any instrument. In other words, over the past two decades, more people have purchased guitars than any other instrument. Guitars generate not only sales, but unmatched profits. According to any sample of m.i. retailers, with the exception of accessories, fretted instruments generate the highest gross margins.

A strong market has also stimulated a resurgence in U.S. guitar manufacturing. The acoustic and electric guitars, as we know them today, are American creations, and U.S. guitar makers led the world until the early sixties. By 1980, U.S.-based guitar manufacturing had shrunk dramatically. Recently, however, the trend has reversed and even Japanese manufacturers are looking to start U.S. factories.

Reality has a way of consistently disproving the best forecasts. But, at the risk of future embarrassment, we predict continued prosperity for the guitar market. Guitars continue to occupy the forefront of popular music, and demand remains strong. Consequently, retailers should be able to rely on vibrant sales for the foreseeable future.

The prospects for manufacturers are not as clearcut. The recent growth in guitar sales has attracted a swelling number of guitar firms, which has resulted in unprecedented competition. As manufacturers vie for shelf space in the retail showroom, prices have been pushed to new lows. The consumer and retailer benefit from the improved product value, however, manufacturer profits suffer.

In the following Guitar Market Report, we analyze the guitar market, providing a look at several leading retailers and notable manufacturers.

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07685677 DIALOG File 648: TRADE & INDUSTRY ASAP
Use Format 9 for FULL TEXT

C.F. Martin expands guitar plant.
Music Trades v137 p29(1) May, 1989
SOURCE FILE: TI File 148
AVAILABILITY: FULL TEXT Online LINE COUNT: 00027
SIC CODE: 3931
COMPANY NAME(S): C.F. Martin and Co.--planning
DESCRIPTORS: Musical instruments industry--planning

C.F. Martin Expands Guitar Plant

C.F. Martin & Co., experiencing a "mini-boom" in the guitar business, broke ground on March 16 for an expansion project that will increase space at its Nazareth, Pennsylvania, plant by 10%. The 6,200-square-foot addition will be used as warehouse space for the company's line of imported guitars and accessories. The \$140,000 project is expected to be complete by June 1.

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Martin contracts with companies in Korea, Japan, and Taiwan to build guitars to Martin's specifications, then resells the instruments. They are offered as a lower-priced alternative to the company's mainstay, the handmade acoustic guitar.

Acoustic guitars are rising in popularity, and Chris Martin, president and the great-great-great-grandson of the founder, Christian Frederick Martin, attributes the market strength to more musical groups using the instruments and more television theme song music featuring the acoustic guitar. "Our business is up 25% compared to last year," Martin stated. "That's a welcome change from the hard times our company experienced in the five-year-period beginning in 1980, when the recession cut into sales."

Employment at the 150-year-old company is 290, according to Martin. About 7,500 guitars were made last year, and this year's output is expected to be 8,500. "If the good times continue," Martin said, "the company will have to add extra warehousing space next year. More inventory storage space is needed to respond quickly to market swings."

PHOTO: GROUNDBREAKING FOR MARTIN Guitar's 6,200-square-foot addition, to be completed in June. From left are: Bob Hoch, v.p. and sec./treas.; Chris Martin, Chairman; C. Hugh Bloom, pres.; and Pete Entstrasser, production mg. The addition, which will increase Martin's total space by 10% will be used as warehouse space for the company's imported guitars and accessories.

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 Sub account: LONDON MUSIC
 \$0.18 \$0.18 0.012 Hrs FileHomeBase
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File 648:TRADE AND INDUSTRY ASAP_83-91/OCT
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 **FILE648: Effective Nov. 1, 1991, there are new prices for TYPES
 and PRINTS. See HOMEBASE announcement.

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09372962/9

9372962 DIALOG File 648: TRADE & INDUSTRY ASAP
 Use Format 9 for FULL TEXT

read to relaunch Hondo guitar line: plans to offer broad selection of
 competitively priced student instruments.

Music Trades v139 p122(2) Feb, 1991

SOURCE FILE: TI File 148

illustration; photograph

AVAILABILITY: FULL TEXT Online LINE COUNT: 00058

SIC CODE: 3931

COMPANY NAME(S): Freed International--Marketing

PRODUCT NAME(S): Hondo (Guitar)--Marketing

DESCRIPTORS: Musical instruments industry--Marketing; Guitar--Marketing

Hondo, the company that introduced Korean guitars to the world market
 two decades ago, is now back in the hands of one of its original
 founders, Jerry Freed, president of Freed International. Freed, who started
 the company in 1969 with IMC co-founder Tommy Moore, has acquired rights to
 the brand name from International Music Company (IMC) and commenced
 distribution of a complete line of fretted instruments in January 1991.

For much of the last 20 years, Hondo has been a leading seller in the
 guitar market, accumulating sales in excess of 3,000,000 units. "The Hondo
 marketing program in 1991 is virtually indistinguishable with the one of
 1969 ... unbeatable price and value with a huge selection of models,"
 stated Freed. "Our manufacturing effort will also be supported by a
 distribution system second to none in the industry." The Hondo line will
 include dozens of fretted instruments retailing from \$59 to \$350 that boast
 today's most popular designs and features. "Our intent is to bring a new
 level of pricing to the student guitar market," Freed said. "Our line will
 be comprised of a huge selection of guitars and, in short, will offer the
 most competitive prices in the market today." Market conditions today
 closely mimic those of 1969 when Freed first launched Hondo. "The student
 market is all but non-existent today," Freed stated. "Spiraling costs in
 Korea and Japan have forced most manufacturers and distributors to raise

October 13, 1991 6:32pm Page 2

their guitar prices well beyond the reach of most first-time players." Looking to change the pricing structure of today's guitar market, Freed has aligned himself with several manufacturers in the Pacific. "Having spent much of the past 20 years in the Orient, I'm well acquainted with the capabilities of various guitar producers. In the group of factories Hondo will work with, each has a track record for building guitars of unsurpassed value. In these factories, we will build the freshest and most appealing designs reflecting what today's buyers want. I fully expect Hondo to be the number one selling distributor guitar in the world by 1993."

Named after Hondo, Texas, a small, aggressive hill country town, Hondo was launched in 1969 following a joint-venture agreement between IMC and Samick. Under the terms of the agreement, IMC would supply Japanese production technology and marketing expertise to the fledgling Korean guitar and piano maker in exchange for exclusive distribution of Samick-produced guitars. Freed's and Moore's company, IMC, invested more than \$250,000 and brought 65 engineers and workers from Japan to staff the joint venture.

Bringing a new level of quality from Korea, Hondo rapidly established distribution throughout the world. By 1972, Hondo had 14 U.S. distributors as well as representatives in 27 countries. By 1979, Hondo had 376 models on its price list, and its line closely followed the latest styles of all famous brands. "In 1991 we will follow the guitar market with the same vigilance that we did back then. Our customers can be assured that our design staff will be on top of the market and aware of all the popular styles," said Freed. In the mid-'80s, Hondo sales dropped following IMC's acquisition of Charvel/Jackson. Freed explained, "It's difficult to try to be everything to everyone in the guitar market. You can't go after the pro-player with direct to dealer sales and satisfy the beginner with sales through distributors at the same time. With Hondo now being sold by Freed International, IMC has made a commitment to pursue the professional end of the market."

Freed International, a worldwide marketing firm, manufactures and distributes Audio-Dyne microphones and accessories, directs worldwide distribution for musical instrument cases from SKB Case Corporation, and handles international and distributor sales of Horizon cables and accessories.

For more information on Hondo, write or call Freed International, 3906 Sandshell Drive, Fort Worth, Texas 76137; (817) 847-5400. Fax: (817) 847-6319.

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Class Axe, Inc.
B. C. Rich Guitars
150 Mount Bethel Rd
P O Box 4068
Warren, NJ 07059-5147

TELEPHONE: 908-271-3395
COUNTY: Somerset SMSA: 409 (Newark, NJ)

BUSINESS: Mfr & Import Musical Instruments

PRIMARY SIC:
5099 Durable goods, nec

SECONDARY SIC(S):
3931 Musical instruments and parts, nec

LATEST YEAR ORGANIZED: 1990 OWNER CHANGE DATE: 01/07/1991
STATE OF INCORPORATION: NJ DATE OF INCORPORATION: 04/24/1988
ANNUAL SALES REVISION DATE: 05/08/1991

	LATEST YEAR	TREND YEAR (1989)	BASE YEAR (1987)
SALES \$	3,000,000 \$	NA \$	NA
EMPLOYEES TOTAL:	12	NA	NA
EMPLOYEES HERE:	12		
SALES GROWTH: NA %	NET WORTH: \$	NA	
EMPLOYMENT GROWTH: NA %			

SQUARE FOOTAGE: 24,000 RENTED
NUMBER OF ACCOUNTS: NA

THIS IS:

- A MANUFACTURING LOCATION
- A SINGLE LOCATION
- A CORPORATION

DUNS NUMBER: 19-681-6573
President: Waltuch, Randall /Pres

NUMBER OF EXECUTIVES: 1

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08013177 DIALOG File 648: TRADE & INDUSTRY ASAP
 Use Format 9 for FULL TEXT

Guild re-focuses on acoustic guitars; under new management, Guild steps up acoustic production in the U.S. (Guitar Market Report) (company profile)

Music Trades v137 p84(4) Oct, 1989

SOURCE FILE: TI File 148

illustration; photograph

ARTICLE TYPE: company profile

AVAILABILITY: FULL TEXT Online LINE COUNT: 00165

SIC CODE: 3931

COMPANY NAME(S): Guild Music Corp.--management

DESCRIPTORS: Musical instruments industry--management; Guitar--manufacture

Guild Re-focuses On Acoustic Guitars

Under New Management, Guild Steps Up Acoustic Production In The U.S.

Fourteen months ago, prospects for the Guild Guitar Company were bleak. Straddled by burdensome debt, excessive overhead, and an unfocused marketing effort, the company defaulted on bank obligations and was forced into Chapter 11. While "Chapter 11" is technically a court-ordered restructuring, most music companies rapidly slide from Chapter 11 into liquidation. On January 25, 1989, Guild was saved from extinction when Chuck Faas acquired the company for \$2.1 million. Now, with a conservative business plan and strong financial backing, the acoustic guitar company has bright prospects once again.

A veteran of the industry, Faas has performed on keyboards professionally and has held a broad range of management positions. After leaving Sight & Sound Publications in 1982, he established Exclusive Musical Products to distribute Casio keyboards to music retailers. Two years ago he acquired Randall Instruments, the California amplifier manufacturer that had been founded by Fender veteran Don Randall. Casio keyboards, guitar amps, and acoustic guitars may seem to have no relationship, but for Faas, there is a common thread in each of his ventures. "In each case, I felt that there had been an opportunity that had been overlooked by others."

In the case of Guild, Faas contends that few recognized the true value of the company's skilled workforce. He elaborates, "Throughout the entire bankruptcy proceeding, everyone was scouring Guild's books to locate and value assets. People were arguing over buildings, inventory, equipment, and receivables, but no one paid attention to what I think is the company's single greatest asset...its workforce." Since concluding the acquisition, Faas has concentrated on nurturing the craftsmen who build Guild guitars and on focusing the company's marketing and production efforts on the high-end acoustic market. "We didn't make any drastic changes. Rather, we decided to concentrate on what we do best. We revised our production scheduling methods to make the factory operate more effectively, and we decided to adopt a marketing program that would include a selective dealer network to facilitate better gross margins."

With the possible exception of violins, acoustic guitars represent the most labor-intensive product in the music industry. Despite tremendous efforts by manufacturers throughout the world, no one has been able to

October 13, 1991 5:56pm Page 2

significantly reduce the labor component in an acoustic. To make inexpensive acoustic guitars requires inexpensive labor, which explains why large-scale acoustic guitar production has moved from the U.S. to Japan, to Korea, to Taiwan, in search of the cheapest labor. Similarly, to make a high-quality acoustic guitar requires an extremely skilled labor pool.

Faas's acquisition of Guild coincided with a fortuitous change in the acoustic guitar business. To the surprise of many, the acoustic guitar has made a tremendous recovery over the past two years. Chalk it up to changing musical tastes, a "back to basics" movement, or a strong economy -- whatever the reasons, retailers and manufacturers are reporting gains in their acoustic guitar sales.

While sales of Guild guitars in the U.S. market will account for less than 1% of the industry's total unit volume, the company has a strong worldwide reputation for building instruments of premier quality. Unlike many consumer goods, American-made acoustic guitars have maintained their desirability throughout the world. Economic necessity may force some guitarists to settle for a less expensive instrument, but, deep down, everyone seems to want an American-made acoustic guitar. The root of this appeal is argued by many, but according to Willie Fritscher, Guild's plant manager of 18 years, "The desirability of American-made acoustic guitars is a direct function of our raw materials and worker attention to detail."

Fritscher maintains a strong allegiance to his company but is also quick to point out that the products of his native competitors like Martin, Taylor, and Ovation "outclass" and "outperform" the foreign competition. He explains, "It's the small things that make the difference in the sound of the instrument -- how we choose our raw materials, how we brace our instruments, and how we physically construct a guitar. There are no shortcuts that allow you to mass-produce high-quality acoustic guitars."

Guild's 50,000-square-foot factory in the ocean resort town of Westerly, Rhode Island, employs 60 and is equipped with a few automated machines and a variety of specialized presses and jigs. The plant, which has been in the same location since 1967, houses all shipping, warehousing, and manufacturing operations for the company. Administrative and sales functions have been consolidated into Guild's parent corporation, Faas Corp., in New Berlin, Wisconsin.

The direct production of a guitar proceeds at a relatively brisk pace, taking several weeks. However, before production can begin raw materials must be properly prepared and seasoned, a process that can take up to three years for certain woods. "One of the keys to a high-quality acoustic guitar is the wood from which it is constructed," explains Fritscher. "Sitka spruce, mahogany, curly maple, and rosewood go through an extended drying period in a series of kilns at our factory. All the woods must have a minimum of water content before they can enter the manufacturing process."

Because high-quality woods are so critical to guitar production, the task of procuring raw materials is a major management challenge. "These are not woods that you can buy at your local hardware store. You need a broker with contacts all over the world, a person who is capable of finding just what you need," states Fritscher. Sitka spruce, which is used for the top of the guitar, must be of a perfect natural color and have 12-17 growth rings per inch. Although Sitka has applications limited to airplane propellers, piano soundboards, acoustic guitars, and ladders, it is

becoming increasingly difficult to find. "Straight-grained, natural-colored Sitka is becoming rare. The sources have been diminished, so we have to plan for the future and secure as large a supply as possible."

Sourcing difficulties are not limited to Sitka spruce. Fristcher adds, "The current political unrest in Sri Lanka could disrupt our primary source for rosewood. And mahogany from Brazil is harder and harder to come by." These considerations result in what many would consider an excessive raw materials inventory. "Bankers want to know why we can't turn our raw materials eight times a year like auto companies. The nuances of building a guitar get lost on them," Faas explains.

Once raw materials have passed the scrutiny of Fritscher's watchful eye, they are released to the neck and body department. Necks are shaped on a bandsaw from solid blocks of mahogany, while the body is pieced together from meticulously matched strips of rosewood. The top is shaped out of thin sheets of Sitka spruce. Production equipment consists primarily of small hand saws, routers, and a variety of jigs. Automation in the Guild plant is limited to hydraulic presses that bend guitar sides and an automatic top sander. "Acoustic guitars don't lend themselves to mass production like electric guitars. A numeric router and an automatic lathe can cut hundreds of electric bodies and necks every hour without a single mistake. With acoustic guitars, there's no substitute for the skilled craftsman," says Fritscher.

From shaping necks to joining guitar sides to bracing spruce tops, virtually every assembly process at Guild is done by hand. Quality production requires visual confirmation of each step in the manufacturing process. Every worker is, in effect, a quality control inspector, responsible for ensuring that the preceding manufacturing processes were properly executed. These inspection skills are acquired only after years of experience.

Guild has accumulated a highly skilled pool of workers ever since it located its plant in Westerly 22 years ago. The company was founded in 1952 by Al Dronge, a one-time music store owner, wholesaler, and professional guitarist. When the Epiphone guitar factory folded in New York, he recruited five of the company's top luthiers, installed them in a modest loft, and began making Guild guitars. Guild grew and prospered during the guitar boom in the early sixties. The company's success attracted the attention of numerous corporate suitors, and in 1966 Guild was purchased by Avnet, a large conglomerate with interests in electronic and auto parts distribution.

In 1985, Avnet sold Guild to a group of Chattanooga, Tennessee, investors who were unable to operate the company successfully. Under the management of the investors, Guild was forced into bankruptcy in November 1988, having failed to meet payments on \$1,300,000 in bank debts. Faas ultimately won a bidding battle for Guild that included several major companies. "It was the skills of Guild's workers that attracted me to the company. Their ability to build high-quality products has never been questioned in the marketplace," stated Faas.

This year, Guild's workforce will produce approximately 5,000 acoustic guitars and electric bases. Production of all solid-body electric guitars was temporarily suspended after Faas bought the company. He explains,

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"We're examining our options in the market. Before we plunge in, we want to be able to offer a unique and distinctive product." He adds, "We have no grand plans...no imported electric guitar lines, no quickbuck schemes. Our intention is to do what we do best: build the highest quality acoustic guitars."

PHOTO : GUILD OPERATES A 50,000-SQ.-FT. facility in Westerly, Rhode Island. The company employs 60

PHOTO : factory workers.

PHOTO : GUILD'S NEW MANAGEMENT (l-r): Chuck Faas, president; George Staleos, vice-president;

PHOTO : Willie Fritscher, plant manager.

PHOTO : 1. Quality guitars require quality woods. Mahogany, rosewood, and spruce are all carefully

PHOTO : seasoned in humidity-controlled rooms prior to the manufacturing process.

PHOTO : 2. Hydraulic presses and heat are utilized to bend rosewood strips into the sides of the

PHOTO : guitar body. The presses are one of the few mechanized devices in the plant.

PHOTO : 3. A heat press is used to arch the back of a jazz guitar. Guild's dreadnaught acoustics

PHOTO : have a flat back.

PHOTO : 4. Guitar tops are made from sitka spruce. After the tops have been shaped and the sound

PHOTO : hole has been cut, they receive a precision planing. The planing brings the tops down to a

PHOTO : precise thickness.

PHOTO : 5. Top bracing has a major effect on guitar tone quality. At Guild, the spruce ribs are

PHOTO : affixed to the top by hand.

PHOTO : 6. The guitar top, back, and sides are joined together in a specially designed jig. Bodies

PHOTO : are allowed to cure for several hours in the press.

PHOTO : 7. After coming out of the press, bodies are inspected and then the binding is applied.

PHOTO : 8. Necks are shaped on a numerical router and then fine sanded before being glued to the

PHOTO : body.

PHOTO : 9. Bodies are carefully hand sanded before being mated with the neck. Imperfections are

PHOTO : identified and filled.

PHOTO : 10. After the neck is glued to the body, fret boards are masked, and the tone hole is

PHOTO : covered prior to finishing.

PHOTO : 11. Guitars are stained in the first step in the finishing process. Stain is applied by

PHOTO : hand.

PHOTO : 12. Stained guitars are then sprayed with lacquer in a climate-controlled environment.

PHOTO : Guild utilizes a nitrocellulose lacquer finish.

PHOTO : 13. Guitars receive extensive buffing and polishing after the spraying process.

PHOTO : 14. After the finishing process, the frets and fretboard are polished.

PHOTO : 15. All guitars receive a thorough hand polishing and inspection before the strings,

PHOTO : bridge, and hardware are installed.

PHOTO : 16. The final step in the manufacturing process is a comprehensive quality inspection and

PHOTO : play test. Cosmetics, action, and overall tone gux0i y x9e cx9eful+ evaluated before

PHOTO : instruments are shipped.

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? t2/3,k/1-11

2/3,K/1
10688384 DIALOG File 648: TRADE & INDUSTRY ASAP
Use Format 9 for FULL TEXT
Clarence Leo Fender (1909-1991): the man who put the electric guitar on the map. (obituary)
Music Trades v139 p62(5) May, 1991
ARTICLE TYPE: obituary
AVAILABILITY: FULL TEXT Online LINE COUNT: 00181
Clarence Leo Fender (1909-1991): the man who put the electric guitar on the map. (obituary)
Music Trades

...salesman from Radio Television Equipment Corp., stopped by the Fender factory. As an electronic parts distributor, Radio Tel supplied

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Fender with tubes and various other components, and Randall wanted to see ...Fender's guitars and amps and persuaded Leo to appoint Radio Tel as the national distributor of Fender guitars and amps. The same year, Fender introduced his first electric guitar. Equipped...and Don Randall severed relationships with Radio Tel and set up Fender Sales, an independent distribution company to handle all products manufactured by Fender Electric Instruments. After the split, F.C...

2/3,K/2

09372962 DIALOG File 648: TRADE & INDUSTRY ASAP

Use Format 9 for FULL TEXT

Freed to relaunch Hondo guitar line: plans to offer broad selection of competitively priced student instruments.

Music Trades v139 p122(2) Feb, 1991

SOURCE FILE: TI File 148

AVAILABILITY: FULL TEXT Online LINE COUNT: 00058

Freed to relaunch Hondo guitar line: plans to offer broad selection of competitively priced student instruments.

Music Trades

DESCRIPTORS: ... Guitar --

...Moore, has acquired rights to the brand name from International Music Company (IMC) and commenced distribution of a complete line of fretted instruments in January 1991.

...huge selection of models," stated Freed. "Our manufacturing effort will also be supported by a distribution system second to none in the industry." The Hondo line will include dozens of fretted...existent today," Freed stated. "Spiraling costs in Korea and Japan have forced most manufacturers and distributors to raise their guitar prices well beyond the reach of most first-time players." Looking...what today's buyers want. I fully expect Hondo to be the number one selling distributor guitar in the world by 1993."

Named after Hondo, Texas, a small, aggressive hill country...and marketing expertise to the fledgling Korean guitar and piano maker in exchange for exclusive distribution of Samick-produced guitars. Freed's and Moore's company, IMC, invested more than \$250...staff the joint venture.

Bringing a new level of quality from Korea, Hondo rapidly established distribution throughout the world. By 1972, Hondo had 14 U.S. distributors as well as representatives in 27 countries. By 1979, Hondo had 376 models on its...the pro-player with direct to dealer sales and satisfy the beginner with sales through distributors at the same time. With Hondo now being sold by Freed International, IMC has made...pursue the professional end of the market."

Freed International, a worldwide marketing firm, manufactures and distributes Audio-Dyne microphones and accessories, directs worldwide distribution for musical instrument cases from SKB Case Corporation, and handles international and distributor sales of Horizon cables and accessories.

For more information on Hondo, write or call Freed...

2/3,K/3

51

09372952 DIALOG File 648: TRADE & INDUSTRY ASAP

Use Format 9 for FULL TEXT

Yamaha SGD division unveils new marketing campaign. (Synthesizer, Guitar, and Drum Div.)

Music Trades v139 p80(2) Feb, 1991

SOURCE FILE: TI File 148

AVAILABILITY: FULL TEXT Online LINE COUNT: 00054

Yamaha SGD division unveils new marketing campaign. (Synthesizer, Guitar, and Drum Div.)

Music Trades

...box."

A 23-minute video demonstrating the technical wizardry of the SY77 synthesizer has been distributed to dealers as a tool for training new salespeople or as a demonstration tape for...

2/3,K/4

09192199 DIALOG File 648: TRADE & INDUSTRY ASAP

Use Format 9 for FULL TEXT

P.C. Rich makes transition from distributor to manufacturer. (New Jersey guitar factory)

Music Trades v138 p78(1) July, 1990

SOURCE FILE: TI File 148

AVAILABILITY: FULL TEXT Online LINE COUNT: 00066

B.C. Rich makes transition from distributor to manufacturer. (New Jersey guitar factory)

Music Trades

DESCRIPTORS: ... Guitar --

2/3,K/5

09007150 DIALOG File 648: TRADE & INDUSTRY ASAP

Use Format 9 for FULL TEXT

The ever resilient guitar market. (Cover Story)

Music Trades v138 p57(2) Oct, 1990

SOURCE FILE: TI File 148

ARTICLE TYPE: Cover Story

AVAILABILITY: FULL TEXT Online LINE COUNT: 00037

The ever resilient guitar market. (Cover Story)

Music Trades

DESCRIPTORS: ... Guitar --

...for the future direction of the economy. Adding to the problem, many U.S. guitar distributors were faced with acute product shortages. Due to a dramatic increase of guitar sales throughout...

2/3,K/6

08198505 DIALOG File 648: TRADE & INDUSTRY ASAP

Use Format 9 for FULL TEXT

The music store that ate my brain! There are music stores that advertise & promote ... and then there's the House of Guitars.

Popyk, Bob

Music Trades v137 p84(4) Dec, 1989

SOURCE FILE: TI File 148

AVAILABILITY: FULL TEXT Online LINE COUNT: 00167

... brain! There are music stores that advertise & promote ... and then

there's the House of Guitars .
Music Trades
DESCRIPTORS: House of Guitars --... Guitar --

...records, CDs, and tapes, but the truth is that the store is also a record distributor that wholesales to smaller stores. Over 100,000 records arrive every week.

The store has...

2/3,K/7
08013177 DIALOG File 648: TRADE & INDUSTRY ASAP
Use Format 9 for FULL TEXT
Guild re-focuses on acoustic guitars; under new management, Guild steps up acoustic production in the U.S. (Guitar Market Report) (company profile)
Music Trades v137 p84(4) Oct, 1989
SOURCE FILE: TI File 148
ARTICLE TYPE: company profile
AVAILABILITY: FULL TEXT Online LINE COUNT: 00165
Guild re-focuses on acoustic guitars ; under new management, Guild steps up acoustic production in the U.S. (Guitar Market Report) (company profile)
Music Trades
DESCRIPTORS: ... Guitar --

...management positions. After leaving Sight & Sound Publications in 1982, he established Exclusive Musical Products to distribute Casio keyboards to music retailers. Two years ago he acquired Randall Instruments, the California amplifier...Guild was purchased by Avnet, a large conglomerate with interests in electronic and auto parts distribution .

In 1985, Avnet sold Guild to a group of Chattanooga, Tennessee, investors who were unable...

2/3,K/8
08013173 DIALOG File 648: TRADE & INDUSTRY ASAP
Use Format 9 for FULL TEXT
Hartke's unique aluminum speaker cone. (Guitar Market Report)
Music Trades v137 p76(1) Oct, 1989
SOURCE FILE: TI File 148
AVAILABILITY: FULL TEXT Online LINE COUNT: 00037
Hartke's unique aluminum speaker cone. (Guitar Market Report)
Music Trades
DESCRIPTORS: ... Guitar --

...an enclosure designed for the guitarist. Scott Goodman, vice-president of Samson, the U.S. distributor for Hartke, explained, "The guitar market is more complex because there's not much of..."

2/3,K/9
07933553 DIALOG File 648: TRADE & INDUSTRY ASAP
Use Format 9 for FULL TEXT
Retailer roundtable - who buys digital pianos and why; retails profile the digital piano buyer and detail successful selling strategies. (includes profiles of six stores) (includes related articles)

Music Trades v137 p66(5) Sept, 1989
SOURCE FILE: TI File 148
AVAILABILITY: FULL TEXT Online LINE COUNT: 00246
Music Trades
DESCRIPTORS: ...Brian Guitars --

...effectively, you need a good margin, but if manufacturers don't exercise discipline in their distribution, the margins will disappear, and ultimately everyone will suffer."

West Music Iowa City, IA

Appealing...

2/3,K/10
07892175 DIALOG File 648: TRADE & INDUSTRY ASAP
Use Format 9 for FULL TEXT
Kawai reorganizes guitar distribution. (line of electric and bass guitars will be distributed directly to dealers)
Music Trades v137 p26(2) August, 1989
SOURCE FILE: TI File 148
AVAILABILITY: FULL TEXT Online LINE COUNT: 00026
Kawai reorganizes guitar distribution. (line of electric and bass guitars will be distributed directly to dealers)
Music Trades
COMPANY NAME(S): ... distribution
DESCRIPTORS: ... distribution ; ...Electric guitar --... distribution

Kawai Reorganizes Guitar Distribution

...America Corp. has announced that its line of electric and bass guitars will now be distributed directly to dealers by Kawai district sales managers. Prior to the new distribution plan, Kawai guitars were distributed by an independent sales organization based in Tennessee. Widely known in the world of music...

2/3,K/11
07685735 DIALOG File 648: TRADE & INDUSTRY ASAP
Use Format 9 for FULL TEXT
Guitar Center's first 25 years: from afterthought to industry showplace, the story behind one retailer's dramatic evolution. (company profile)
Music Trades v137 p102(9) June, 1989
SOURCE FILE: TI File 148
ARTICLE TYPE: company profile
AVAILABILITY: FULL TEXT Online LINE COUNT: 00244
Guitar Center's first 25 years: from afterthought to industry showplace, the story behind one retailer...
Music Trades
DESCRIPTORS: Guitar Center...Electric guitar --... Guitar --

...It" magazine to a list of 300,000. In addition, the company also produces and distributes a Buyers Guide that lists new products and specials.

PHOTO : RESPONDING TO THE GROWING DEMAND...
? t2/9/11

2/9/11

07685735 DIALOG File 648: TRADE & INDUSTRY ASAP

Use Format 9 for FULL TEXT

Guitar Center's first 25 years: from afterthought to industry showplace, the story behind one retailer's dramatic evolution. (company profile)

Music Trades v137 p102(9) June, 1989

SOURCE FILE: TI File 148

illustration; photograph

ARTICLE TYPE: company profile

AVAILABILITY: FULL TEXT Online LINE COUNT: 00244

SIC CODE: 5736

DESCRIPTORS: Guitar Center--management; Musical instruments industry--marketing; Electric guitar--marketing; Guitar--marketing

Guitar Center's First 25 Years

With 14 stores throughout California, Chicago, and Minneapolis, Guitar Center is one of the most potent retailers the music industry has ever known. In an industry populated by small, single-store retailers, Guitar Center's farflung chain is a model of internal systems and superior organization. Each of the company's stores is characterized by dramatic decor, effective displays, and extraordinarily diverse inventory. Furthermore, the company's highly motivated staff of sales specialists is renowned for its ability to effectively move enormous quantities of merchandise. Now celebrating its 25th year in business, Guitar Center stands as something of an industry-wide inspiration, reflecting the commercial opportunities to be had in retailing musical products.

The origins of Guitar Center date back to 1964 when Wayne Mitchell stocked a small Hollywood storefront with an assortment of inexpensive jobber guitars. At the time, Mitchell was the proprietor of the highly successful nine-store Organ Center chain, and he was interested in exploring new opportunities in the emerging music industry. For the first few years of its existence, Guitar Center was hardly a major factor in the Los Angeles retail scene; the store lacked major product lines like Fender and Gibson, little promotion was done, and Mitchell devoted the majority of his energy to his burgeoning organ business. Nevertheless, the store was consistently profitable.

From Organs To Guitars

In the late sixties, as the growth in organ sales slowed and the number of retailers increased sharply, Mitchell concluded that the best days of the home organ business were over. Subsequently, he began scaling back the Organ Center operation and devoted more time to expanding the fledgling Guitar Center. By 1977, he had exited the organ business completely.

In retailing organs, and automobiles before that, Mitchell had achieved an enviable record, simply by offering a broad selection at competitive prices and promoting heavily. Using the same basic principles in the the music business, he spurred the growth of Guitar Center. By 1970 the store carried most of the industry's premier product lines and had moved to a larger location on Sunset Boulevard. Two years later a second store was opened in San Francisco.

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Aside from his innate abilities as a retailer, Mitchell had an uncanny knack for surrounding himself with talented individuals. In 1972 he hired Dave DiMartino to handle accessories and later to establish Guitar Center's Artist Relations Division, which today services the "Who's Who" of the music industry. DiMartino, now vice-president, handles corporate development and site location. In 1975 he hired Ray Scherr and in 1978, Larry Thomas. With this strong management team in place, the pace of Guitar Center's expansion was increased. Stores were added in San Diego, Santa Ana, Covina, Sherman Oaks, Lawndale, San Jose, and Oakland, California. In 1979 the company ventured out of California for the first time, opening a store in Chicago. Today, Guitar Center's Chicago operation has been expanded to three stores. Most recently, the company opened a new store in Minneapolis as well as a specialized high-end pro audio store in Hollywood called "Integrated Audio Sales."

Joining Guitar Center represented a natural career transition for Scherr and Thomas, both of whom had spent several years at Buegeleisen and Jacobson, serving as wholesale jobbers vendors to Mitchell. In 1975, when B&J closed down, Scherr approached Mitchell about going into the wholesale business together. Mitchell wasn't interested in wholesale, but he persuaded Scherr to join Guitar Center. Two years later Scherr encouraged Larry Thomas to join Guitar Center at its San Francisco store.

Marty Albertson came to Guitar Center in 1979, when Thomas hired him as a salesman for the San Francisco store. Albertson had dabbled in advertising and music and had wanted to get involved in the music industry.

Salespeople Are Made

Wayne Mitchell died in 1983. Today Scherr serves as president, Thomas, Albertson, and DiMartino are vice-presidents, and the company is additionally staffed by a superb loyal management team. Despite the passing of the Mitchell, little has been changed in the company's overall approach. Scherr comments, "Wayne was a natural retailer, and we all learned a great deal from him. His fundamental approach to promotion, personnel, and general management proved very successful, and we have held to the same course."

The single most important ingredient in Guitar Center's success is the chain's 400 employees. Scherr comments, "No matter how big you get, you still have to sell musical products one at a time. And to do that effectively, you need seasoned, professional salespeople." He adds, "I hear a lot of people say I can't find good people for my store.' We feel that you just can't wait for qualified people to come to you. You have to develop them yourself." To create effective salespeople, Guitar Center maintains a rigorous training program. Three to four sales meetings are held every week at each of the 14 stores, and attendance is mandatory for all employees. The meetings cover a host of topics, ranging from the fundamentals of selling to how to best handle customer needs.

As a result of this training effort, Guitar Center's sales team is 100% homegrown. Rather than recruit salespeople from competing stores, the company prefers to cultivate its own personnel. Thomas explains, "If people have integrity, common sense, and are willing to work hard, we can train them to become good salespeople, and they become part of our team. If you

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just hire people whose band broke up, or who love to play with mixing consoles, you'll never have an effective sales staff."

Guitar Center also maintains a strict "promote from within" approach. Each of the 14 store managers and the regional managers began their career with the company selling on the retail floor and worked their way up. Promotions within the company are based on performance and not seniority, and before advancing to a higher position, employees are required to train their replacement. Thomas states, "Promoting from within has helped us maintain company loyalty and dedication. We offer people a real long-term career opportunity in music retail, which is a rare thing."

Specialization Is Vital

The Guitar Center stores are carefully designed to facilitate the selling process. Ranging in size between 8,000 and 20,000 square feet, all of the stores are divided into distinct departments for guitars, drums, keyboards, software, sound re-inforcement, and recording equipment. The departmentalization came in the early seventies as the company evolved into a full-line music retailer. All salespeople are also assigned to a specific department. Thomas explains, "With the tremendous amount of product on the market today, we've found that it's next to impossible for a salesman to be knowledgeable on, say, both drums and keyboards. We train our salespeople to be specialists in specific product areas."

The most striking aspect of each of the stores is the vast amount of inventory that is on display and accessible to the customer. Scherr comments, "A huge display is essential. We've found that if you want to draw people into your store, a broad selection is as important as our low prices. The opportunity to be able to see and try every instrument in the Gibson guitar line, for example, is exciting and fun for the customer. It's the kind of experience that keeps people coming back."

Marty Albertson adds, "Keeping merchandise out in the open where customers can handle it is an expensive proposition. Stuff gets stolen, and guitars get scratched up occasionally, but it's a necessary cost of doing business. If people can't easily try things out, you won't be able to sell as effectively."

Guitar Center is known throughout the industry for its willingness to buy in large quantities; however, few are aware of the exhaustive planning that precedes each major purchase. Thomas explains, "If you want to buy in large quantities, you'd better figure out how you're going to sell the stuff before you issue a purchase order." An aggressive promotional effort plays a major role in generating sales at Guitar Center. While the company makes occasional use of radio advertising, direct mail represents the bulk of its advertising activities. Each month Guitar Center mails out a 24- to 48-page "Buyers Guide" listing new products, sale items, and various promotions, to a mailing list in excess of 300,000. On a quarterly basis, the company produces a slick full-color magazine called "Rock It." While the Guitar Center Buyer's Guide is primarily a listing of products with little text, Rock It is an elegantly produced feature magazine containing interviews, extensive product reviews, and general features on music and musicians. Thomas explains, "The two publications work well together. The Buyer's Guide helps generate immediate business, while Rock It builds our image."

The Rockwalk Event

Direct mail advertising is augmented by a creative public relations effort. Guitar Center's management is forever thinking of creating events that will call attention to the store. For example, management created the concept of a "Rock Walk." Musical luminaries including Eddie Van Halen, Les Paul, Remo Belli, Bill Ludwig Jr., and Jim Marshall placed their handprints in concrete at the entrance of the store at a lavish grand opening ceremony. The late C.F. Martin III, patriarch of the Martin Guitar Company, was too ill to attend the ceremony, so Guitar Center sent Don Kelsey, a district manager, to Nazareth, Pennsylvania, to get Martin's handprints in concrete for inclusion in the Rock Walk. Subsequently, the event received unprecedented local and national publicity. In addition to coverage in all the Los Angeles newspapers, radio stations, and television stations, the story was carried by all the major wire services. Today, with close to 40 inductees, the Rock Walk is a Hollywood institution.

In another instance, Guitar Center helped establish a Guinness World Record by sponsoring the longest continuous guitar performance; the Chicago store stayed open for 12 days straight, without closing, for the event. While the majority of Guitar Center's events have a specific commercial purpose, company management makes an effort to make a positive contribution to the musical community. When drummer Mark Craney needed a kidney transplant, Guitar Center co-sponsored the fund-raising event. On a regular basis, the store stages product and information clinics. Some clinics include such institutional topics as fundamentals of copyright law and music publishing. "We derive our income from the musical community, and we feel an obligation to give something back to the community," explains Scherr.

Profitably operating 14 stores requires solid internal controls, and Guitar Center is something of an industry model. One of Wayne Mitchell's legacies at the company is an overriding cost consciousness. Scherr states, "We know the difference between luxuries and necessities, and we do everything we can to keep our overhead to a minimum." To accurately monitor sales and inventories, Guitar Center has been developing an elaborate point-of-sale computer system that makes it possible to generate store-by-store sales and inventory reports on a real-time basis.

What's Not Selling?

"Turnover rates vary significantly from product to product, so an overall turnover figure is not that useful in analyzing your inventory," explains Scherr. "We constantly compare present selling rates with past selling rates. If a product used to leave the shelves in 60 days, but now is taking 90 days, we take a hard look at it. We are as concerned with what's not selling as we are with what is selling."

A policy of limiting product lines also facilitates inventory control at Guitar Center. Scherr elaborates, "We don't try to carry everything. We have a limited number of lines that we support heavily. You simply can't be all things to all people. We believe strongly in loyalty to our suppliers; it makes good business sense. Our philosophy is similar to an auto dealer's approach; he doesn't switch from Ford to Chrysler because one of them had a bad product line-up one year, and neither do we." He adds, "You don't

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always need the biggest or most successful product lines to do well as a retailer."

Guitar Center's expansion throughout California, and more recently in Chicago and Minneapolis, has been meticulously planned and executed. Testimony to the effectiveness of this planning is the fact that the company has never retreated from a market it has entered. In selecting potential markets for establishing stores, Guitar Center pays little attention to the general competitive climate and instead analyzes demographics and cultural character. Explaining the rationale behind the recent move into Minneapolis, Scherr comments, "We felt that Minneapolis was a good site for a Guitar Center store because it is a very arts-oriented area. There's a lot of creativity in the city and a good demographic mix, which we felt made an opportunity for us."

Scrap The Crystal Ball

Well trained personnel and clearly defined policies have also played a critical role in Guitar Center's successful expansion. "Some dealers make the mistake of opening a new store and then worrying about staffing it. We never open a new store before we have the staff lined up. A store can be only as good as the people running it," asserts Scherr. "You also have to clearly lay down your policies and overall operating philosophy. People need a clearly defined framework in which to be successful."

In assessing technology and its future impact on the music industry, Guitar Center's management takes something of a "wait and see" approach. Instead of attempting to predict the future, the company tries to effectively satisfy customers' immediate needs. Albertson elaborates, "Eighteen months ago, we dedicated 1,500 square feet in each store to a computer and software department. We never could have imagined five years ago that we'd be selling computers and software. And right now I wouldn't want to try and guess what we'll be selling five years from today." Scherr adds, "The business has never changed overnight. It moves gradually. If you listen to your customers and pay attention to their needs on a daily basis, you'll be able to adapt to the changes. It's impossible for us, or any other retailer, to accurately predict where technology is going."

With a proven track record, and a strong management team in place, Guitar Center has ambitious plans for future expansion. The company is presently looking to add stores in certain markets it currently services and to open additional stores in new markets as well. Guitar Center's present success would tempt many to rest on their laurels; however, the company's top management remains committed to expansion. Scherr concludes, "We all really love retail, and we think the music industry is a great business to be in. With a disciplined approach towards growth, Guitar Center's next 25 years are going to be even more dynamic."

PHOTO : GUITAR CENTER'S MANAGEMENT all started their careers selling on the floor and worked their way up. This front line-experience has proved invaluable. (L-r) Ray Scherr, pres.; Marty Albertson,

vice-pres.; Dave DiMartino, vice-pres.; Larry Thomas, vice-pres.

PHOTO : GUITAR CENTER'S HOLLYWOOD STORE is the chain's flagship operation. The other 14 stores are all based on the Hollywood model and are

located on a well traveled thoroughfare with dramatic signage. All of the stores also feature easy access and convenient parking. "We want to make shopping easy for our customers," opines president Ray Scherr.

PHOTO : A HUGE SELECTION is one of the critical elements of Guitar Center's retailing strategy. The opportunity to see and try products that are usually found only in catalogs provides an exciting shopping experience for the enthusiastic musician. According to company management, a great selection is a much stronger draw than merely a low price.

PHOTO : ALL GUITAR CENTER STORES are carefully departmentalized, as is the sales force. Prominent neon signs add visual appeal to the various displays. Above, the pro-sound display at the Hollywood store.

PHOTO : GUITAR CENTER'S ROCKWALK earned unprecedented national publicity. Musical luminaries, including (l-r) Eddie Van Halen, Les Paul, William F. Ludwig Jr., Jim Marshall, and Remo Belli placed handprints in concrete at the entrance of the Hollywood store. The event was widely televised and picked up by all the major news services.

PHOTO : THE MAJORITY OF GUITAR CENTER'S ad budget goes into regular direct mail promotions. The company regularly mails the slick "Rock It" magazine to a list of 300,000. In addition, the company also produces and distributes a Buyers Guide that lists new products and specials.

PHOTO : RESPONDING TO THE GROWING DEMAND for home recording equipment, Guitar Center recently added a separate department to all of its stores. Featured lines include TEAC, Yamaha, and Fostex.

PHOTO : GUITAR CENTER RECENTLY stepped up its efforts to tap into the recording studio and sound market with the formation of Integrated Audio Sales. The new division specializes exclusively in high-end pro-audio equipment and is located in a new Hollywood facility.

PHOTO : ACCESSORIES ARE AGGRESSIVELY merchandised at all Guitar Center locations. All accessory counters feature well organized displays and a broad selection of products.

PHOTO : ALL PRODUCTS AT GUITAR CENTER are accessible to the customer. "Products may occasionally get stolen or damaged, but you can't sell unless the customer has the opportunity to try something out," states Albertson.

PHOTO : GUITAR CENTER IS one of the nation's leading percussion retailers. All stores feature a separate drum department. While the department is well stocked, product lines are consciously limited to avoid needless duplication and to improve inventory turnover.

PHOTO : GUITAR CENTER RECENTLY dedicated 1,500 square feet in every store for a computer and software display. The company also sells Apple, Commodore, and Atari computers.

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28oct91 14:10:30 User030425 Session D769.3

Sub account: LONDON MUSIC

\$9.60 0.100 Hrs File648

	\$2.75	11 Type(s) in Format	3
	\$2.20	2 Type(s) in Format	9
	\$0.00	11 Type(s) in Format	6 (UDF)
	\$4.95	24 Types	
\$14.55		Estimated cost File648	
\$1.02		DIALNET	
\$15.57		Estimated cost this search	
\$15.85		Estimated total session cost	0.111 Hrs.
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During the early '70s, Guitar Center refined its merchandising practices by expanding throughout all the major markets in California. In 1979 the company took the bold step of venturing outside of California and opening a store in Chicago. After a rocky start and a store relocation, Guitar Center's Chicago operations began generating positive results in the early 80s. Today the company maintains three stores in Chicago and is a major market factor.

Emboldened by success in Chicago, Guitar Center expanded with stores in Minneapolis and the greater Dallas area. Management is tight-lipped about revealing future expansion plans; however, there is widespread speculation that the company is exploring the possibility of future stores in Seattle, Nashville, and Boston. What is Guitar Center's secret for successfully managing such a geographically dispersed chain of stores? There are no secrets, according to Scherr. All it takes is good people, good internal controls and information systems, and proven merchandising techniques.

For store management, Guitar Center relies strictly home-grown talent. Rather than recruit from other stores, the company prefers to promote from within. Thomas notes, "If you just hire people whose band broke up, or who like to play with mixing consoles, you'll never get an effective team. Each of our store managers started on the selling floor and worked his way up. Along the way, they became knowledgeable team players."

To keep track of inventory and monitor daily sales, Guitar Center utilizes a slick point-of-purchase computer system. All incoming merchandise is barcoded, and when a salesperson rings up a sale using a bar-code scanner, inventory records are adjusted, and a sales record is generated. Using this up-to-the-minute information, management carefully monitors inventory and sales activities. Scherr notes, "If you watch the sales data on a daily basis, you'll be able to keep on top of sales trends."

Guitar Center stores are all located on well traveled thoroughfares and range in size from 8,000 square feet to 20,000 square feet. Over the years, the company has refined its display techniques to the point where all Guitar Center Stores have a uniform appearance. Central to the merchandising approach is a major investment in inventory. Scherr notes, "The opportunity to try lots of different products is what makes the experience interesting for the customer and keeps him coming back."

Having developed the skills necessary to manage a far-flung chain of stores, Guitar Center could very possibly become the first coast-to-coast music retailer. "We're constantly exploring expansion opportunities," notes Scherr.

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10637419 DIALOG File 645: TRADE & INDUSTRY ASAF
Use Format 9 for FULL TEXT
Returning a legend. (Fender Musical Instruments Corp. leads again in guitar-making) (company profile)
Cox, Tony
Orange County Business Journal v14 p1(2) Jan 21, 1991
SOURCE FILE: TI File 143 SUBFILE: A80
illustration: portrait
ARTICLE TYPE: company profile
AVAILABILITY: FULL TEXT Online LINE COUNT: 00088
SIC CODE: 3931
CAPTIONS: William Schultz. (portrait)
NAMED PEOPLE: Schultz, William--Management
COMPANY NAME(S): Fender Musical Instruments--Management
DESCRIPTORS: Musical instruments Industry--Management

68

Retuning a legend

Richard Nixon isn't the only Orange County native son staging a comeback these days.

Brea-based Fender Musical Instruments Corp., a once-proud guitar maker that by the mid-1980s had faded into a shadow of its former self, is again on the upswing.

Manufacturing, which had completely left U.S. shores, has returned strongly. Fender employs 720 workers in five U.S. facilities, including 150 at its Brea headquarters. That is up from 100 in 1985. In all, 75% of Fender's products are now U.S.-made.

Sales, which bottomed out at \$20 million in 1985, reached \$100 million last year - \$40 million higher, in non-inflation-adjusted dollars, than the glory days of the 1960s and '70s.

Just as impressively, Fender is again getting high marks for quality products and innovation.

The man at the center of this turnaround is William Schultz, 64, a tall, husky, Pennsylvania native who grew up playing the saxophone and selling band instruments.

An alumnus of Fender's giant rival Yamaha, he was recruited by then-owner CBS Inc. in 1981 to be Fender's chief executive officer. Many music aficionados believed CBS had run into the ground Fender's reputation for excellence fostered by founder Leo Fender, who sold out in 1965.

Schultz tried to solve quality control problems at Fender's operations, then centralized in Fullerton, but the company's fortunes only got worse. In the early 1980s, cheaper Asian-made guitars took over the American market, and Fender priced itself out of the crucial entry-level segment of the business.

Then, in March 1985, a Schultz-led group bought Fender from CBS. The company's 300,000-square-foot plant in Fullerton was not included in the deal but, considering that all of Fender's manufacturing had been shifted overseas by that time, Schultz really didn't need a big building. Fender had become a mere distributor, using its name to sell foreign-made instruments.

Schultz attributed the company's quality problems to cheaper materials used in foreign-made Fenders, especially those from Korea and Taiwan. And quality had slipped so badly in the Fullerton plant that he shut it down for a week to implement quality-control measures, before finally phasing out manufacturing there altogether.

After buying the company, Schultz moved it to its present location in a 75,000-square-foot office and warehouse in Brea. The resurrection of Fender had begun. He eliminated the company's keyboard and drum product lines, refocusing on Fender's core business of guitars and amplifiers. Fender later added public address systems and stage lighting to its repertoire with the purchase of Sunn Musical Instruments in Lake Oswego, Ore.

At this point, though, Fender still had little more than a legendary name going for it.

A funny thing happened on the road to mediocrity. In 1986, the dollar began to weaken sharply against the Japanese yen and other Asian currencies. Asian guitars were no longer such great bargains in the scheme of things, and Fender began firing up U.S. manufacturing plants.

"The strategy was to build 12 guitars a day in Corona, just to keep the "Made in U.S.A." image," Schultz said. "But the lean in the business, especially from Europe, was to American-made guitars."

"There's a lot of perceived value in American-made instruments, especially guitars and amps. We slowly shifted back, and we're now building in excess of 300 a day," he said.

Fender now has more than 920 employees worldwide. In addition to its main guitar manufacturing plant and custom shop in Corona, Fender has a string shop in Chula Vista; the Oregon lighting and sound systems factory; a new distribution center in Cary, Ill., and a manufacturing facility in Ensenada, Mexico. The company also has agreements to put its name on some Asian-made guitars.

Schultz wouldn't disclose income figures for the privately owned company, but said Fender is now "highly profitable."

"In the '80s, Fender sales were slow," said Luis Garzon, general manager of Guitar Center in Santa Ana. "They were expensive and poorly built. Now, Fender's probably the most popular line I've got. People want American-made. Fender has definitely come all the way back."

Fender still sells expensive guitars - retailing as high as \$1,700 for part of its trademark Telecaster and Stratocaster lines - but it also has a line called Squier directed at entry-level buyers. The Squier line, much of which is made in Asia, starts at \$229 and is discounted to as low as \$179 in stores.

Brad Tolinski, executive editor with Guitar World magazine in New York, said he's impressed by the way Fender has repaired its tarnished image. He said, too, that Fender is not resting on the laurels of its recent accomplishments but, instead, is introducing some of the best new products in the industry.

Schultz said Fender reached a milestone last year when the company returned completely to the hands of what he calls "music people."

Schultz and the other Fender employees and distributors who own the company bought out the 30% interest of Mesirow Financial, a Chicago investment banking firm that helped engineer the buyout from CBS in 1985. Schultz called it the "numbers people."

Last year, too, there were rumors that Fender might move its headquarters to Arizona. Schultz said he considered the state as a place to relocate its Oregon manufacturing operations and house a new distribution center and cabinet-making plant, but never the headquarters.

"There's a trend to move companies there, because of cheap offers," Schultz said. "But to pick up a whole company and move it ... We didn't consider moving the headquarters. We're in Orange County to stay, as far as I'm concerned. The company grew up here. Our roots are established here."

Fender elected to open an additional distribution center in Cary, renew its lease in Oregon and continue buying speaker cabinets from an Anaheim company.

"Right now, we choose to suffer with this complex organization that we have," Schultz said. "We've thought about a big consolidation of some stuff, and in five years we may centralize."

"Right now, we're concentrating on getting through the recession everybody says we're in, modernizing our factories even more and working in the marketplace."

PHOTO : CEO William Schultz: "A lot of perceived value in American-made."

1/9/12

09192159 DIALOG File #48: TRADE & INDUSTRY ASAP
#Use Format 9 for FULL TEXT#

B.C. Rich makes transition from distributor to manufacturer. (New Jersey guitar factory)

Music Trades V138 p78(1) July, 1990

SOURCE FILE: TI File 148

illustration: photograph

AVAILABILITY: FULL TEXT Online LINE COUNT: 00066

SIC CODE: 3931

COMPANY NAME(S): B.C. Rich--products

DESCRIPTORS: Musical instruments industry--products: Guitar--manufacture

A modern 28,000-square-foot facility in northern New Jersey is the new home of the B.C. Rich guitar factory. The plant will augment the company's current lineup of imported guitars with two series of U.S.-built instruments. The modern facility, staffed by 17, houses all areas of manufacturing, with the exception of neck fabrication.

"Twelve months ago, we made the decision to begin U.S. production," states Charles Stringer, president of Class Awe, Inc./B.C. Marketing. "Skyrocketing production costs in Korea, Taiwan, and Japan, as well as fluctuating currencies, are making those countries unreliable sources for cost-effective guitars. With our new facility, we are able to produce high-value, high-quality guitars for our customers."

For Stringer and his partner, Randall Waltuch, setting up a guitar factory posed a formidable challenge. "Fortunately, we were able to hire several people with a strong background in guitar production, as well as someone with years of experience in finishing. We now have the proper lathes and finishing equipment in place to produce the high-quality guitars that our customers 78 Music Trades July 1990 have come to expect," adds Stringer. "The Made in the U.S.A. logo that is proudly emblazoned on each guitar is important but by no means the most attractive feature of these new guitars. Our guitars offer U.S. hand-made quality at very competitive prices."

The new B.C. Rich Standard Series features a mahogany body, 22 frets, double-locking tremolo, Gotoh tuning machines, and a retail price of \$1,099. The higher-end Supreme Series is highlighted by neck and headstock binding, cloud inlays, an ebony fret-board, and will retail for \$1,399. A neck-through version of the Supreme will list at 1,599. "We are so confident of the quality and value of these guitars that we offer a return guarantee to the dealer," declares Stringer. "If dealers don't like what they see when they get our guitar, they can return it for a full credit-no questions asked."

The new B.C. Rich guitars will be available with a stunning array of graphics. In-house artist Tom Henry, who had previously done extensive work for Walt Disney, is on call to customize guitars for any customer. The company boasts a six-week turnaround time, with retail prices for graphics work beginning at \$100 per guitar. Stringer boasts, "We offer the most cost-effective and creative graphics program in the industry. We do it all in-house, and Tom's track record of turning out clever work is incredible." He urges dealers who are not involved with the selling of graphic guitars to investigate the market closely. "Graphic guitars are largely impulse items and generate plus business. This is an entertainment business, and guitarists like to stand out. Graphics are a natural and enhance the beauty of guitars."

The attention garnered by B.C. Rich's graphic guitars pales in comparison to media and consumer recognition of its new ad campaign. Labeled as repulsive by some and sensational by others, the company's new print ad for its Virgin guitar line has drawn fire from all quarters of the

industry. After accepting and printing the ad featuring a scantily clad female lying in bed next to B.C. Boner, Class A's skeleton mascot, Guitar For The Practicing Musician sent a letter of apology to all its readers. "I don't challenge a publisher's right to refuse advertising, but they should challenge an ad before they print it, not bow under pressure after the ad has appeared and drawn criticism from other advertisers and readers," claims Stringer. The ad was also featured in a recent issue of Advertising Age, in which a distraught reader labeled it as one of the most offensive ads of 1990.

Right or wrong, the ads have focused tremendous attention on the company and helped fuel sales. Defending the concept of the ad, Stringer explains, "The music business is an entertainment business. Look at the acts on MTV and on stages across America. Rock and-roll is a high-visibility show business. Our advertising may shock some conservative retailers and manufacturers, but it's highly targeted to the people who buy our guitars. Customers must like the ad, considering the fact that in the last three months we've sold 1,000 poster versions for \$10 apiece."

Expanded U.S. production of guitars will be followed by more reaction-oriented advertising, according to Stringer and Waltuch. "Having the means to produce our own line of high-quality U.S. guitars gives us a strong competitive advantage over imported guitar lines," Stringer says. "Coupled with advertising and promotion that will create remarkable awareness for our guitars, we expect the nineties will present us with great opportunity."

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09007694 DIALOG File 648: TRADE & INDUSTRY ASAP

Use Format 9 for FULL TEXT

Who makes what. (guitar manufacturers in Japan, Korea and Taiwan)

Music Trades v138 p83(1) Oct. 1990

SOURCE FILE: TI File 148

AVAILABILITY: FULL TEXT Online LINE COUNT: 00037

GEOGRAPHIC CODE: AEJA: AEKO: AECH: A

GEOGRAPHIC LOCATION: Japan: Korea: South: Taiwan

SIC CODE: 3931

DESCRIPTORS: Guitar--products: Musical instruments industry--Asia: Japan--Industries: Korea: South--industries: Taiwan--industries

Who Makes What

You Can't Keep Track Of The Flavors Without A Program

Ever since Japanese manufacturers displaced Harmony and Kay as the preeminent high volume guitar maker in the late sixties, Asia has been home to over 70% of the world's guitar production. Japanese guitar makers initially entered the U.S. market offering fabulously low prices. (U.S. wholesalers paid between \$5 and \$15 for Japanese acoustic guitars in 1968.) Today however, any retailer or player will attest to the fact that Asian manufacturers offer excellent quality as well as a good price.

Aside from forcing Harmony and Kay into liquidation by 1975, Oriental manufacturers also dramatically altered the nature of the guitar business. Between 1940 and 1960, Harmony, Kay, and all other U.S. guitar manufacturers produced and marketed their instruments under a single brandname. By contrast, most leading Oriental manufacturers have operated merely as contract production houses, leaving product development and the sales and marketing function to others. Companies like Fujiolen Gakki, Terada, and Saehan are all major guitar producers, yet because they don't market under products under their own brand names, they are virtually unknown among US retailers and players.

While retailers or musicians knew with certainty that a Harmony guitar

came from the Harmony plant in Chicago, there is no such certainty today. A brand X guitar could conceivably come from any of 16 major production centers in Japan, Korea, or Taiwan.

To shed some light on which guitars are made where, the following chart lists most of the major Oriental guitar manufacturers, and the brand names that they produce.

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09007690 DIALOG File 648: TRADE & INDUSTRY ASAP
Use Format 9 for FULL TEXT

Why top guitar makers demand Schaller. (Feucht, Germany guitar parts manufacturer)

Music Trades v138 p78(3) Oct, 1990

SOURCE FILE: TI File 148

illustration: photograph

AVAILABILITY: FULL TEXT Online LINE COUNT: 00109

SIC CODE: 3931

COMPANY NAME(S): Schaller--production methods

DESCRIPTORS: Musical instruments industry--production methods: Guitar--manufacture

Why Top Guitar Makers Demand Schaller

Despite High Prices And Lengthy Delivery Times, Schaller Components Are Standard Equipment On Most Premium Guitars

Guitar designer may argue about the merits of different woods, neck profiles, and pickup configurations, but when it comes to components, they all seem to agree: German-made Schaller parts are de rigeur for high-quality instruments. While there are no accurate statistics kept, many estimate that Schaller components are standard equipment on well over 50% of all guitars that retail for over \$400. Top-selling guitars like Fender, Gibson, Martin, Ovation, Paul Reed Smith, and Hamer (to name just a few) all feature Schaller machine heads, tremolos, and other metal pieces. This widespread acceptance is not without its problems: currently, the company is struggling to expand its production to fill customer orders and reduce a substantial back-order log.

How does a low-profile Germany metal working company achieve such international dominance, especially given that business costs in Germany are among the highest in the world? To hear Founder and President Helmut Schaller explain it, the answer is simple. "High quality, good designs, and dedication. Making guitar parts is the majority of our business, so we have to do it well if we are to survive," he says.

Investment Is Critical

Located in rural Feucht, outside of Nuremberg, Schaller Electronics is housed in a trim, 30,000-square-foot facility. The nondescript exterior of the building belies the wealth of advanced metal-working machinery inside. Computer-controlled cutting machines precisely mill tuning gears to tolerances of less than 1/1000th of an inch. Automated buffing machines and polishers are used to remove all imperfections from metal parts. And a state-of-the-art, environmentally safe plating system applies lustrous chrome and gold finishes that complement the appearance of any guitar. In total, the machinery at the Schaller plant represents an investment of \$6.0 million.

Schaller's international prominence involves more than just sophisticated machinery and equipment: however, the company has six tool and die makers and machinists on staff, and founder Helmut Schaller and his son Rene are also master tool and die makers. This tremendous expertise has enabled the company to design and produce guitar parts that combine functional design and durability. "Guitarists generally take their hardware

for granted, unless it doesn't work properly," notes Helmut. "Few people realize the amount of skill and design experience required to produce hardware, whether it's a tremolo, bridge, or machine head, that will perform flawlessly for years."

Quality Isn't Cheap

The durability and general quality of the finished product represents Schaller's stock in trade because the company is far from the world's low-cost producer. Machine shops in Taiwan and Korea, which boast low-cost labor and are not burdened with costly environmental regulations, are capable of producing guitar components that sell for roughly half the price of comparable Schaller parts. Despite the large price gap, Schaller has not suffered any competitive loss. "We don't try to compete for the low-end market," notes Helmut, "but when it comes to the more expensive instruments, our price is not a problem. No manufacturer is going to risk installing inferior products just to save a few dollars. If the components don't work properly, the player doesn't blame the component maker, he blames the guitar company."

Schaller's evolution into the world's leading guitar component maker was largely the result of chance augmented by hard work. Growing up outside of Nuremberg, Helmut Schaller apprenticed as a tool and die maker. During World War II, he learned the basics of electronics, serving in the radio corps of the German army. At the close of the war, he set up shop in Feucht selling and repairing radio sets, and later, televisions. While the radio and television business provided him with a comfortable living, he did not find it a very satisfying occupation.

"I was a master tool and die maker fixing radios, and I had this nagging feeling that I wasn't making proper use of my skills," recalls Helmut. A chance meeting with Fred Wilfer of the Framus Guitar Company in 1950 initiated his involvement with the music industry. When Schaller brought his war-damaged mandolin to Wilfer for service, the two struck up a conversation that concluded with Wilfer asking Schaller to make guitar amplifiers for him.

Tough U.S. Competitors

Thus, in the early '50s Schaller Electronics was launched in the back of the Schaller radio store. The company enjoyed modest success, building a limited line of guitar amps of Framus. However, when Fender, Marshall, Gibsons, and Ampeg began making a major sales drive throughout Europe starting in 1957, Schaller became concerned about the prospects for his amplifier venture. "It became apparent to me that I couldn't compete effectively with the larger American amplifier makers. They had more money, better tradenames, and a bigger product line. So I began to look for something else where I could find a niche," he states.

The "something else" was producing guitar pickups, which led to manufacturing guitar components. Drawing on his tool and die experience, Helmut personally crafted the all machinery to build his first set of machine heads. The first customers for Schaller's hardware were Framus and other European guitar makers. However, in 1966 when Charlie Kaman specified Schaller tuning machines for his newly introduced Ovation guitar, the company received a major boost. "Our growth in the guitar market closely parallels that of Ovation," says Helmut. "As the Ovation guitar became more successful, other guitar makers began expressing an interest in our components. The Ovation deal ultimately led to agreements with Fender, Gibson, and Martin, which really established us."

From machine heads, Schaller expanded its guitar component line to include bridges, tremolos, and a host of other specialized metal products, ranging from knobs to decorative pick-up covers to metal string spacers. Because of this unique expertise, guitar makers around the world now come to Schaller when they need to have highly specialized metal parts designed

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10976215 DIALOG File 648: TRADE & INDUSTRY ASAP
Use Format 9 for FULL TEXT

The biggest: how Guitar Center's professional approach yields impressive growth. (America's Top 100 Music Retailers) (directory)

Music Trades v139 n94(2) July, 1991

SOURCE FILE: TI File 148

illustration: photograph

ARTICLE TYPE: directory

AVAILABILITY: FULL TEXT Online LINE COUNT: 00075

SIC CODE: 5736; 5932; 3931

COMPANY NAME(S): Guitar Center Management--Management

DESCRIPTORS: Musical instruments industry--Management

Large, well designed stores, a highly professional management approach, and an ability to operate successfully in a variety of markets has propelled Guitar Center to the top position as the nation's largest music retailer. The company's 14 stores in California, Chicago, Minneapolis, and the greater Dallas area racked up an estimated \$89 million in sales for 1990. Aside from being the largest m.i. dealer in the country, Guitar Center is also the youngest firm to crack the top ten. The company is a mere 27 years old. Guitar Center's dramatic growth in such a relatively short time frame can be traced to management's uncanny ability to adopt proven retailing practices from other industries to the music business.

Like most in the music industry, Guitar Center President Ray Scherr and Vice-Presidents Larry Thomas, Dave DiMartino, and Marty Albertson began their careers selling on the retail floor. However, they have continually augmented this experience by diligently studying top retailers outside of the music industry. For the past 25 years, Scherr and his managers have looked to the giants of the retail industry for fresh ideas on inventory control, merchandising, sales training techniques, and all other aspects of store management. Scherr aptly sums up the company's operating approach: "We view ourselves as professional retailers who happen to be in the music industry."

The origins of Guitar Center date back to 1964 when Wayne Mitchell hung a Guitar Center sign over a small Hollywood storefront and stocked it with an assortment of inexpensive jobber guitars. At the time, Mitchell was proprietor of the highly successful nine-store Organ Center chain, and Guitar Center represented an experimental effort to tap the commercial opportunities of the rock-and-roll boom. For the first few years of its existence, Guitar Center was hardly a factor in the Los Angeles market; the store lacked major product lines, and Mitchell devoted the majority of his energies to his burgeoning organ business. Nevertheless, Guitar Center was profitable from its first day of operation.

Towards the end of the 60s, as the growth of the organ business slowed and the number of competitive retailers increased, Mitchell concluded that the best days of Organ Center were over. Subsequently, he began scaling back his organ retailing operations and expanding the fledgling Guitar Center. By 1977 Guitar Center had grown to six stores, and Organ Center no longer existed.

During a long and varied career, Mitchell used his unerring merchandising instincts to achieve success selling automobiles, organs, and m.i. products. Aside a feel for retailing, he also had a knack for surrounding himself with exceptional people. Between 1972 and 1979, he hired Scherr, DiMartino, Thomas, and Albertson to forge a strong management organization. After Mitchell died in 1983, Scherr and other Guitar Center employees purchased the company from his estate.

110. We have developed a lot of experience with what works and what doesn't," claims Helmer. "We share this experience with guitar makers to help them create a better finished product."

In addition to musical instrument hardware, the retailer occasionally sells small precision metal parts for instruments like Stahl violins and A. However, these outside jobs represent only a small percentage of Mandolin Brothers' total sales. "We take on jobs like this because our tool and die occasionally need to take on a real challenge job to stay in top condition," declares Helmer.

111. The management of the retailer is split between Helmer and his son, working as partners. The two split responsibilities among several divisions, with both remaining involved in all facets of the business. The pair share a tremendous enthusiasm for serving the music industry. Helmer notes, "If you don't enjoy what you are doing, I can't imagine how it can be successful. Gene and I are fortunate in that we find great pleasure in the challenge of building better hardware."

112. ASSEMBLING A FLO-D ROSE TREMOLO - Tremolos, with over 200 parts, represent something of a total R&D project for Mandolin Brothers. Professionals who play at the highest level take their own enjoyment and love special instruments."

113. Helmer and Wexler take obvious pleasure in showing instruments and talking to those who share their enthusiasm for guitars. And some customers will drop in the store just to talk about instruments even when they aren't in the market to buy. After only a short time, it is obvious to anyone that Mandolin Brothers is more than just a business: it's a labor of love and an avocation.

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Guitar Market in the U.K.

11

CREMONA
Interview Feedback
UK

Interviews

- Arbiter Musical Instruments - distributions of Fender guitars
 - Distribute in UK, Belgium, Holland
 - Import from Taiwan, US, Spain
- Washburn - Distributors of electric and acoustic guitars
 - Import from Far East and US
- J Baker Sales - distributor of classical guitars in UK
- Young - Charles - distributor of electric and acoustic guitars
- Yamaha
- Juan Teijero Music Company Ltd

Overview

Acoustic Guitars

- Market size: Nylon/Classical £3m - flat to modest contraction
 Steel String £5m - flat

"Market peaked in 1989, in decline since then"

"Mostly due to cheap Spanish and Eastern European imports"

"Key market for classical guitars is educational institutions, highly price sensitive"

- Major Suppliers
 - Spain, "vast majority"
 - Far East, mainly Taiwan

CREMONA
Interview Feedback
UK
(Cont'd)

Price Ranges "Lower end"

- Nylon/Classical
 - £70 - £80 retail "£50 the cheapest" £50 wholesale
 - Bulk of nylon string guitars below £100 retail price
 - Spanish nylon string guitars popular in UK due to mystique associated with them
 - Yamaha nylon guitar retails at £129

- Steel String
 - Bulk sell below £100
 - Korean manufacturers selling retail at £70 - £80 have 40% market share in below £100 market

MAJOR DISTRIBUTORS

- Juan Teijero Music Company Ltd. - "Spanish" classical guitars, dominates classical market,
 - 6 other distributors, see previous list, but not guitar specialists

- Distributors/Outlets all independent, no chains and no wholesalers

- Juan Teijero
 - sole distributors of Ramirez guitars in UK with UK wide coverage
 - imported previously from Taiwan, discontinued due to "inferior quality"

11

CREMONA
Interview Feedback
UK
(Cont'd)

DISTRIBUTION PRACTICES

- Distributors act on exclusive basis for one manufacturer, manufacturers supply brands exclusively, not whole ranges
 - agents very unusual, although Hofner of Germany has previously done so
- Terms
 - Assume \$200 price
 - Means \$110 plus VAT
 - Current rule-of-thumb, 55% markup on the wholesale price
 - Thought by retailers to be too low, pressure for 60%

ATTITUDE TO CZECHOSLOVAKIAN PRODUCTS

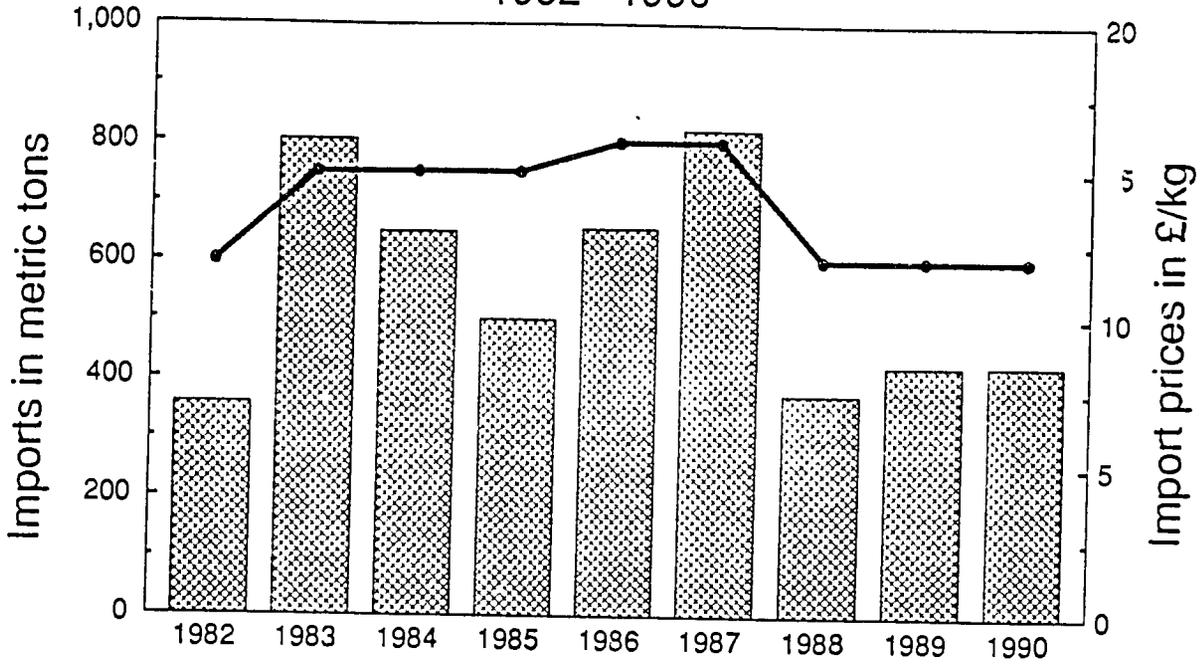
- Generally perceived to be of poor quality, unable to compete with Spanish guitars
 - "Too heavy"
 - "Construction is wrong"
- Juan Teijero once invited by "Czech manufacturer" to visit guitar operations, but declined because "we wouldn't be interested"

KEY SELECTION CRITERIA

- Price
 - Quality, "in \$200 range will be crucial"
 - Construction "needs a solid top"

ACOUSTIC GUITARS

UK Total Imports
1982 - 1990



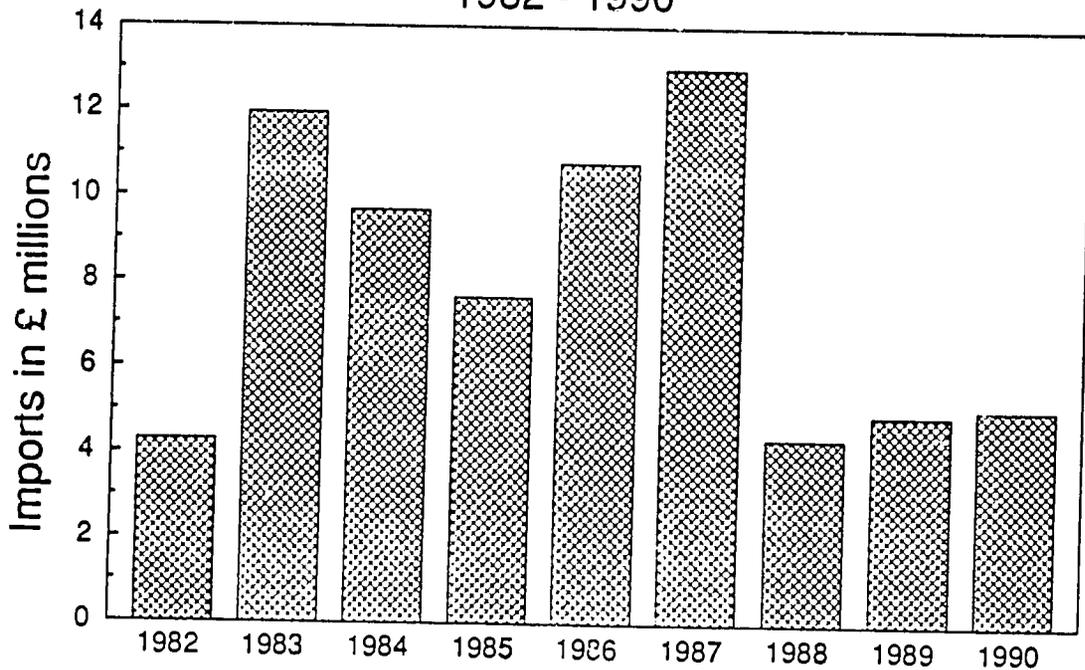
Imports are net of re-imports
All monetary figures in 1990£

Source: Tradstat, World Trade Statistics

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ACOUSTIC GUITARS

UK Total Imports
1982 - 1990



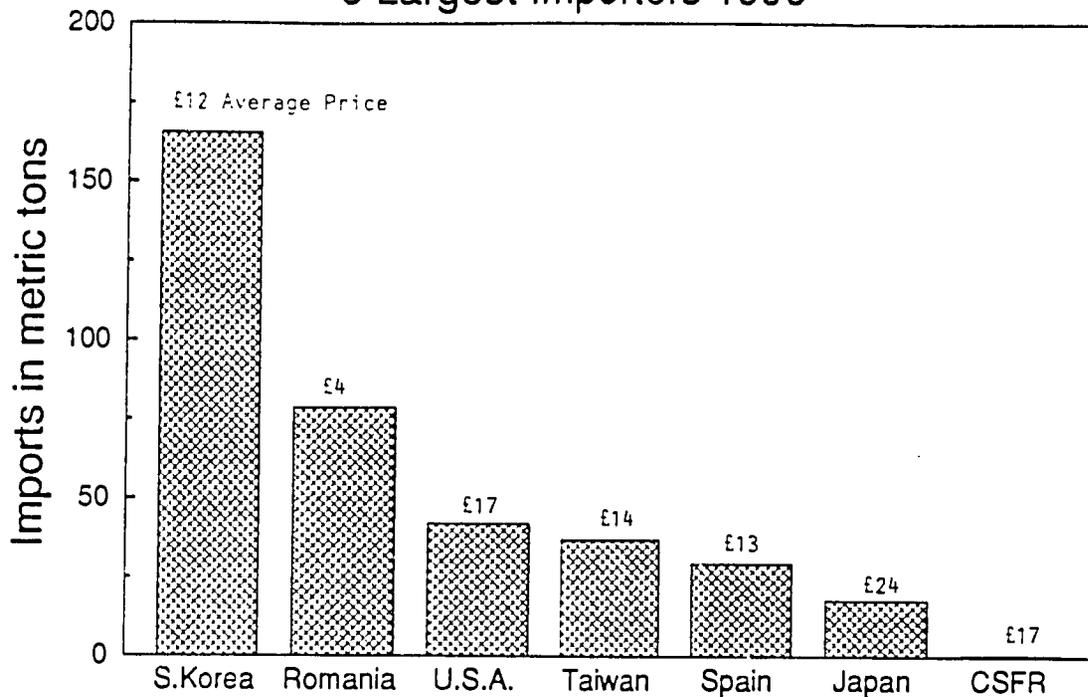
Imports are net of re-imports
All monetary figures in 1990£

Source: Tradstat, World Trade Statistics

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UK ACOUSTIC GUITAR IMPORTS

6 Largest Importers 1990



Imports are net of re-imports

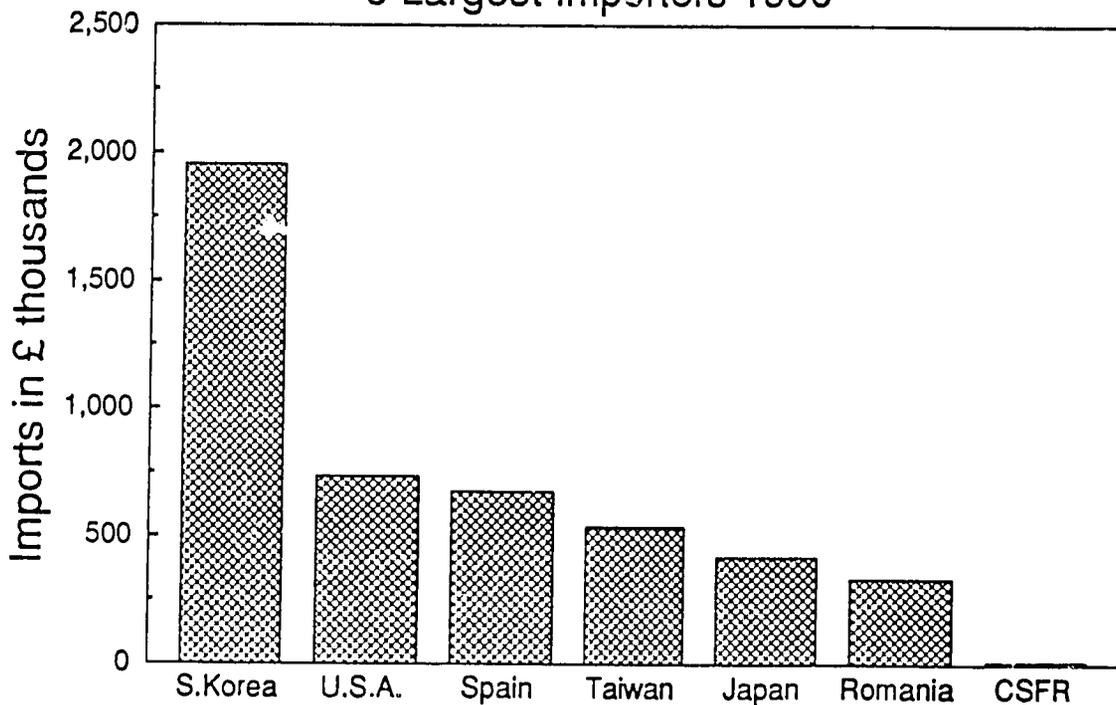
Source: Tradstat, World Trade Statistics

Share of top 6 = 87.5%

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UK ACOUSTIC GUITAR IMPORTS

6 Largest Importers 1990



Imports are net of re-imports
All monetary figures in 1990\$
Share of top 6 = 91.5%

Source: Tradstat, World Trade Statistics

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Eurcomonitor, Market Research Great Britain, September 1987

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MUSICAL INSTRUMENTS IN THE UK

INTRODUCTION

Electronic sound reproduction equipment has historically been blamed for the demise of music-making in the home, but it seems likely that the true culprit in this respect is the TV set. The myth of the whole family gathering around the piano or guitar is largely a middle-class nostalgia. Musical instruments have never been available to the public so freely.

Electric high-technology has also created a second revolution in music making (the first being the introduction of the simple electric guitar and piano). Digital recording means that anyone can produce a reasonable sound on a modern electronic keyboard or drum machine. A musical ear is still necessary, but the hours of tedious practice are less necessary; making music performance and composing more accessible. The proliferation of electronic musical instruments has, at the same time, revived the demand for original acoustic, or mechanical, equipment.

TOTAL MARKET SIZE

The UK market for musical instruments was estimated to be worth £210 million at retail prices in 1986. The market has shown little real growth since a strong rise in 1982-1983, which coincided with a general rise in consumer spending.

The instrument market as a whole is not a fast moving one, despite the influx of high-technology products. Instruments have long lives; even the electronic instruments are overtaken by technological advances fairly rapidly. They are high-precision products, generally expensive to manufacture, needing constant quality control tests, and expensive to purchase, especially any instrument which requires work by hand.

Bearing in mind this long life, it should be noted that the figures below do not include data for the second-hand market, which presumably adds at least £50 million to the market value of the trade. 'Used' pianos even feature strongly in UK exports (£4 million worth in 1985) and imports (£2 million). Many wood and string instruments, of course, improve rather than deteriorate with age.

In the long term, there has been a real depression on the instruments market in the form of cuts in public budgets for schools and other education and cultural institutions. (To the industry as a whole, the sale of one grand piano to the public sector is worth 50 consumer purchases of cheap keyboards, guitars, or clarinets.) The piano trade estimates that the cuts have pushed back demand to a quarter of its real value in 1976.

Table 1
The Market for Musical Instruments 1982-1986
retail value: £ million

1982	151
1983	185
1984	210
1985	200
1986	210

Source: Euromonitor based on apparent consumption and trade estimates

PRODUCTION AND TRADE

The domestic instrument comprises 204 establishments (1984 Census) employing 2,800; this emphasises the small-scale, precision-based nature of the industry. The number of companies in the industry has remained fairly stable since 1980. New companies, mainly involved in producing accessories (strings, plectrums etc) are springing up, but basic manufacture is on the decline. The number of acoustic piano makers is now down to four, from ten in 1976. Manufacture of some instruments, such as clarinets, is no longer economical.

Musical instruments are one of the best known cases of import dominance in UK industry. This is because the majority of instruments - keyboard guitars - most commonly on display are indeed imported, and the value of imports exceeds the value of UK production. However, this is one of a number of precision industries where unassuming British companies continue to supply high-quality goods for those who can afford them; exports are substantial and growing, accounting for 62 per cent of British output. The USA, Japan and West Germany are the main export destinations.

Imports account for 75 per cent of the market by value of sales (and probably for nine out of ten instruments sold). In this stable, but undynamic, market the imports' market share is now only creeping up gradually, and exports-in-production is also a steady ratio. Japan's electronic companies dominate imports, but Taiwan and South Korea are also important suppliers. Specialists in West Germany (pianos, percussive), France, the USA and Italy are also suppliers to the UK market.

There is a fairly clear division in the instruments market between expensive, hand-made instruments (usually West European or American) and the much more competitively priced instruments from the Far East or Eastern Europe. This applies not only to electronic keyboards, but to pianos and guitars; by and large, there is no insinuation that instruments from the Far East are of a lower quality, as in other industries, but simply that labour costs are lower. An upright piano imported from South Korea can retail for around half the price of a domestically produced piano of comparable quality, simply because of the wage differentials in the two countries.

Table 2
Production and Trade in Musical Instruments 1982-1986
£ million, msp

	1982	1983	1984	1985	1986*
Production	44	50	58	61	65
Exports	28	30	31	36	40
% production	50	60	53	59	62
Imports	56	67	70	74	75
% UK market	77	77	72	75	75

Source: Business Monitor PQ4920

Note: * provisional

MARKET SECTORS

The ubiquitous electronic keyboard dominates the market for instruments, especially now that computerised keyboards can reproduce the sound of virtually any instrument. However, the 'buzz' in many sectors of the market is about a revival in traditional instruments, made by craftsmen, which can reproduce accurately the classical or folk music as it would have sounded originally. This trend is not restricted to classical music, however; used electrical guitars from the 1950s and 1960s can now command premium or even 'antique' prices among enthusiasts of the rock 'n' roll and blues revival eras.

Detailed breakdowns by instrument of the musical instruments market are scanty, but it is widely acknowledged that electronic keyboards now account for 60 per cent of the instrument market by value - £120 million - because of their appeal to the consumer market and wide distribution pattern. Acoustic pianos are second in importance, worth an estimated £30 million a year, followed by brass and woodwind.

Table 3
Sales of Instruments by Type 1986
£ million, rsp

	£ million	%
Electronic keyboards	120	57.0
Pianos	30	14.0
Woodwind	12	6.0
Brass	10	5.0
Guitars	7	3.5
String instruments	7	3.5
Organs (acoustic)	5	2.0
Drums/percussion	4	2.0
Other instruments/parts	15	7.0
Total	210	100.0

Source: Euromonitor estimates

MANUFACTURERS

High import penetration means major companies in the UK operate as importers and distributors (sometimes owning retail outlets as show-cases) as well as manufacturers. Leading the field is Boosey and Hawks, the main brass instrument maker and a leading distributor of quality instruments and sheet music. Most other companies are specialists, often with a strong market position in particular instruments - Pearl Music claims leadership in drums with about 70 per cent of the market, Hohner has over 90 per cent of mouth organ sales, Casio claims leadership in the cheaper end of the electronic keyboards market.

In the electronic instruments range for professional use, the outstanding company is Yamaha-Kemble, product of a Japanese-UK merger in the early 1980s. Other well-known suppliers include Herrburger-Brooks, Roland, Rose Morris, Rosetti (Thorn EMI) and Premier Drum. Toshiba and Panasonic also moved into the electronic instrument sector.

RETAIL DISTRIBUTION

Distribution of musical instruments is naturally dominated by the specialist. However, falling prices for electronic equipment of all kinds have meant that amateur keyboards are available in general outlets - electrical retailers like Dixon's, variety stores like Woolworth.

department stores and even some grocery superstores. As in any specialist market, mail-order is important. Distribution is unusually concentrated in London in the Charing Cross Road area.

FUTURE OUTLOOK

Growth in professional music making for the future is concentrated at both extremes of the spectrum. On the one hand is the growing interest in early music (baroque, renaissance etc) played on authentic early musical instruments, and on the other the continuing trend towards electronic and technology-aided sound. This is evidenced by strong trends in:

The growing numbers of early music groups (their numbers have quadrupled since 1972) and the enthusiasm from early musical instrument makers; and

The increasing numbers of musicians whose 'live' backing and instrumental accompaniment on stage is pre-programmed on computer tape.

The more traditional musical instrument market is, by its very nature, slow moving. Products are built to last and there is a strong second-hand market. Alongside this is the absence of any strong marketing. These factors all point towards a fairly static future. An important consideration is the significant demise in demand from the educational sector owing to cutbacks, something which has increased the demand in hiring instruments; it also remains to be seen how much this will affect the number of musicians in the future.

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 Introduction

Mintel has not previously reported on the musical instruments market in Market Intelligence.

* About 40% of the population would like the chance to play a musical instrument but less than 10% do.

* The rise of the portable electronic keyboard and the scope it offers the player has been a big bonus for the music industry.

* The selling of musical instruments by the high street electronic multiples may mean that more people have an opportunity to buy one.

Definition

The market covered here deals mainly with the mass consumer side of the market - electronic and electrical instruments - but gives some indication as to the specialist area of the market. The specialist sector includes those instruments that are not designed or made for the mass market; these instruments are typically more expensive and are usually only played by serious musicians.

Worth an estimated GBP325 million at retail value in 1989, the musical instruments market remains a fairly dark sector with hardly any other market information available. However, it is thought to be an area that has tremendous potential.

Market Factors

Music is an important part of all of our lives, whether we can play it or simply listen to it. Most people today have access to either a stereo or personal stereo or radio and so are constantly in touch with the music world. Mintel's recent consumer research has indicated that many more people would like to play a musical instrument than those that actually do. Music can be

very relaxing medium and being able to play it on a musical instrument can be the height of one's creative impulses and personal satisfaction. Certain restrictive factors work against the widespread playing of music - such as the cost of the instruments and the time it takes to learn one; music playing remains the privilege of a comparatively small percentage of the population. Not being a dynamic consumer market, demand is low and the influences that drive it are these.

* The emergence of portable keyboards into the instrument market has done much to grow the industry. Most of these keyboards are imported from south-east Asia and enable the player to play the instrument far more easily due to its sophisticated programmes.

* An estimated increase of 100,000 children per year in the 1990s between the ages of 5 and 14, may contribute to growth in instrument sales. Children are major users of musical instruments.

* Although product pricing is thought to be a major contributory factor to the narrow use of musical instruments, consumer research has shown that 39% of all adults would like to play piano and 15% would like to be able to play guitar. With continued development in this area, it is possible that piano might come in the range of people's pockets in the future.

* An average rise of 4% per year in personal disposable income during the late 1980s encouraged people to buy musical instruments as an additional leisure item. A complementary decrease in interest rates during the same period led to easier credit facilities for consumers. The much higher interest rates which are likely to obtain during 1989-91 together with slimming down of PDI increases must necessarily restrict growth somewhat.

* A perceived increase in personal leisure time may be an encouragement for people who have never learnt a musical instrument to do so.

* The greater incidence of television programmes dedicated to music has given consumers the choice of different types of music and perhaps the inclination to learn an instrument.

Market Size and Trends

Although the musical instruments market has not been known in the past for its dynamism, the development and introduction of new high technology instruments has brought a new competitiveness back into the industry. These comparatively new instruments practically all come from Japan and are termed "portable electronic keyboards", which are designed partly to develop musicians who will trade up to other instruments eventually. They account for about a third of the UK instruments market alone, by value, which emphasises the importance attached to them. However, other sectors have also shown increased growth which points to a resurgence of interest in musical instruments. The market as a whole, has grown quite considerably since the mid 1980s to about GBP32 million in 1989.

Table 1 Retail sales of musical instruments, 1985-89

	GBPm	Index	GBPm at constant 1985 prices	Index
1985	214	100	214	100
1986	246	115	238	111
1987	303	142	293	132
1988	311	145	272	127
1989(est)	326	152	268	125
1990(est)	342	160	263	123

Source: Mintel analysis

In real terms the market has grown by some 25% since 1985, despite a very high level of growth in 1986 and 1987. The increase experienced in 1987 can mainly be attributed to the expansion of the portable electronic keyboards market. There was a peak of advertising expenditure in 1987 too, which might give an indication of why the market grew so considerably. In more recent years the market has not performed so well and this is partly due to fairly static imports. Imports are the crucial factor in the continued growth of the musical instruments market; in 1988 the countries of south-east Asia represented over 60% of all instrument imports. Indigenous production cannot compete with foreign imports, mainly on cost, and as a result almost 60% of British home production is exported.

As can be seen from Table 2, imports leapt by 32% in 1987 to reach an overall 64% rise since 1984. Imports during 1988 showed no change over the previous year.

Table 2 Imports of musical instruments to UK, 1984-88

	GBPm msp	Index
1984	70	100
1985	74	106
1986	87	124
1987	115	164
1988	115	164

Source: Business Monitor/Mintel

Portable electronic keyboards

Portable electronic keyboards were worth GBP86 million of the market representing 30%. Practically all these instruments come from Japan - the companies believe there would be no economic advantage in basing production plants in Western Europe - and are manufactured by companies such as Yamaha, Casio and Roland. The instruments appeal to all ages and, for the greater part, are targeted at the home market, a true consumer musical instrument. The keyboards are also relatively cheap, some start at about GBP30, and have built in programmes that allow the player to choose the

rhythm, style and simulated instrument sound as well as being able to record what has just been played. In fact, the instrument can imitate a whole band so versatile is it. Trends in popular music have pointed to a rise in simulated instrument sound which portable electronic keyboards can provide. This has allowed many aspiring musicians to emulate the music played in the charts by simply keying in the instrument sound they wish to play. These instruments are also available in many more outlets than most other instruments and this has managed to produce the demand presently being experienced. In 1989 it was estimated that these instruments accounted for 30% of the market.

Pianos

Keyboards of all types make up the greatest proportion of the market. Traditional piano sales fell from a high of 16,000 pianos sold in 1979 to a low of only 11,000 in the mid 1980s; however, sales have picked up and in 1988 were at 13,000. The price value of the piano market is difficult to quantify since prices range from under GBP1,000 to over GBP30,000 but it is estimated that this sector was worth about GBP25 million in 1988 and an estimated GBP22 million in 1989. A large proportion of acoustic piano production in the UK is exported because of low demand in the UK and a long standing tradition of

export. It is important to add that there is a good second hand market for acoustic pianos also, for which figures are not available, and this is due to pianos being able to maintain a high second hand market value because of their durability.

Traditional pianos have declined in popularity due to their cost, the technique necessary to play them and the appearance of cheaper electronic and digital pianos onto the market. Digital pianos have grown quite rapidly and have averaged growth between 20% and 30% a year since 1984 and are now worth in the region of GBP23 million, about 8% of the total market. It is estimated that their growth will slow in the early 1990s because of the market becoming saturated. Other keyboard instruments include synthesizers and electronic organs, these sectors were worth about GBP26 million and GBP21 million respectively in 1988. Growth in synthesizers is thought to be slowing down due to the popularity in electronic keyboards while electronic organs, although expensive, are a stable market after a period of decline.

Guitars

Perhaps the only other sector that can match the dynamism of the keyboard market is that of guitars. Once again, the market is mainly made up from imports, chiefly from Japan, South Korea and the USA. The market for guitars, both acoustic and electric was worth about GBP28 million in 1988, 9% of the total market. Electric guitars account for 6% of the total instrument market and 68% of the guitar market.

The acoustic guitar sector was valued at GBP9 million in 1988 and represented about 3% of the instrument market. Apart from imports from South Korea and the USA, acoustic guitars come from Spain and Romania - both with a tradition of manufacturing guitars. Both sectors of the guitar market have grown quite substantially in the past couple of years and it is thought that the guitar market will be worth about GBP30 million in 1989. This demand had been unforeseen by most guitar manufacturer's agents but perhaps the reasons are re-awakening of interest in the instruments market as a whole.

Brass and woodwind

Brass and woodwind instruments, such as saxophones, trumpets, clarinets and flutes, are also an important area, worth about GBP20 million at retail sale prices in 1988 and grew to an estimated GBP21 million in 1989. Imports come mainly from Japan and the USA. Other countries of origin include Taiwan, West Germany and Czechoslovakia. This area has grown in popularity due to the new interest in jazz music and the inclusion of brass sections in many rock bands. The saxophone, especially, has become a very popular instrument although its price generally restricts it to serious players. This instrument combines style and image too: it is very much an "in" instrument.

Percussion instruments including: drums, xylophones, cymbals, castanets, triangles and others was worth GBP3.7 million in imports during 1988. The majority of these came from Japan, Taiwan and the USA. In retail values the market was worth about GBP10.7 million in 1988 and an estimated GBP11 million in 1989. Exports amounted to under GBP3 million in 1988 - about 10% of total exports.

There is no clear indication of the size of the market for violins, violas, cellos and double basses. However, since these are highly priced instruments but with a relatively low appeal, except at the learning stage and for serious minded players, it is felt that their market value was under GBP10 million for 1989 and maybe lower.

There has been renewed interest in playing a musical instrument in recent years which is partly due to the accessibility of new musical instruments. Without doubt the portable electronic keyboard has had much to do with this new found appeal, it has also spilled over into other instrument sectors. For the majority of people wishing to learn a musical instrument the downside has always been the cost - both of the instrument and the lessons - and the time

involved. The Japanese, however, have proved that costs can be brought down and instruments developed that can almost teach the player. Many instruments though, will continue to remain out of the reach of the ordinary player because of their cost and this will invariably distinguish the dedicated player from those who play for fun.

It is well accepted that after leaving school, many children give up learning a musical instrument, however, as Table 3 shows, the actual number playing a musical instrument increases over the age of 16.

Table 3 People in UK playing and learning a musical instrument, 1986

Age	Lessons		Total
	Playing	%	
6-10	23	15	38
10-15	15	16	31
16-20	4	19	23
21-30	2	17	19
31-40	1	11	12
41+	-	8	8

Source: Yamaha-Kemble

According to this research only 8% of those over the age of 41 play a musical instrument making it the pressure of the young. It is interesting to note that lessons tail off after reaching 16 years old, the most common school leaving age, but that playing an instrument picks up until the early 20s and then fades away again. This phenomenon is most probably explained by time and availability - after 20 years old most people would have jobs and other commitments that would limit their opportunity to play a musical instrument.

The Supply Structure

Home production and foreign trade

The musical instruments market is of particular interest due to the fact that about 80% of the market is supplied from abroad. Of this figure over 50% is imported from Japan. Home production for sale in the UK has not grown at all in real terms, during the last five years and imports have steadily increased. Most of the musical instruments made in the UK, about 60%, are exported. It now seems as if imports have hit a plateau - perhaps due to the relative maturity of the market.

Table 4 Imports by country of origin, 1988

	GBPm mso	%
Japan	52.5	51
USA	7.6	8
South Korea	6.5	6
West Germany	4.9	5
Taiwan	3.3	3
Italy	2.8	3
Others	24.4	24
Total	102.0	100

Source: HM Customs and Excise/Mintel

Table 4 shows imports by country of origin and it is interesting to note that 60% of all imports emanate from south-east Asia. The countries of Japan

South Korea and Taiwan have managed to penetrate almost every sector of the instrument market. Their strength lies in their ability to develop the latest technology, especially Japan, and their relatively cheap labour - Taiwan and South Korea. Manufacturers from the USA also use Taiwan, South Korea and Japan to build their instruments because of the cheap labour and innovative production techniques they can supply. In addition the market has been aided by extreme fluctuations in exchange rates in favour of South Korea and Japan.

Instruments are also manufactured in even cheaper countries such as Indonesia and the Philippines. European and American manufacturers cannot effectively compete with these countries on prices but do so on quality - even this is changing though, as many professional musicians have endorsed Japanese products such as Yamaha and Roland.

Table 5 Exports by type of instrument, 1988

	GBPm msp	%
Pianos	6.7	23
Electric guitars and accordions	4.7	16
Electric keyboards	4.5	16
Wind instruments	4.4	15
String instruments including guitars	3.3	11
Percussion	2.9	10
Others	2.7	9
Total	29.2	100

Source: HM Customs and Excise/Mintel analysis

Exports only amount to under 30% of import value, with the main destination being the continent. Almost a quarter of all exports, in value terms, are pianos - many of them originating from the Yamaha-Kemble factories. A large number of exports are re-exports, in which they have been imported from cheap production areas only to be stamped with a company's name and sent abroad again.

Companies and brands

The best known manufacturer in the UK is Boosey and Hawkes Musical Instruments Ltd. The factory in the UK produces Besson brass instruments and Buffet flutes. Included in the Besson brass range are trumpets, cornets, trombones, horns, euphoniums and tubas. The group specialises in orchestral and band instruments and possesses an international distribution network. Its other factories in Europe are Buffet Crampon, manufacturing clarinets, bassoons, oboes; J Winter manufacturing instrument cases;

Roderick Paesold producing hand crafted violin, viola, cello, double basses and string instrument bows; and the recently acquired J Keilerth company producing saxophones.

Boosey & Hawkes M I Ltd., is a major force in the promotion of instruments playing and is involved in many music festivals, contests, trade fairs as well as promoting clinics and workshops throughout the country. It is a major exporter of musical instruments with over 80% of its UK production sold overseas through wholesalers, agents and the Group's overseas subsidiaries.

Another significant part of the Group is Music Publishing which is an extremely active side of the business. A further Group activity is the Bank Festivals Company, well known for its staging of the National Brass Band Championships. In 1988, pre tax profits for the Group rose by 82%, confirming its confidence in the future.

The company is a major force in the promotion of instrument playing and is

involved in many music festivals, contests and trade fairs. The best known activity in which the company is involved is the National Brass Band Championships. Boosey and Hawkes is also very active in the promotion of music at schools and colleges. The company is a major exporter of music instruments and has established overseas subsidiaries in the Japanese and American markets. Music publishing is another side to the business that is very important. In 1988, pre-tax profits for the group rose by 82% confirming its underlying strength.

No other company has made such an impact on the international music instruments market as Yamaha has done. The group now dominates the world market for pianos, wind instruments, percussion and electronic instruments. It has managed to do this not only by a policy of acquisition, but by developing new technology and, consequently, new instruments to enable it to stay ahead of the competition. In the UK, Yamaha is the dominant force without question, and strengthened its position by the acquisition of Premier, the percussion manufacturer, in 1988 and by winning control of Kemble, the Milton Keynes based piano manufacturer.

Kemble, which also makes pianos for Chappell and Broadwood, has been injected with a major investment programme from Yamaha, with plans to boost piano production to 10,000 units per year in 1990. Kemble make a range of 12 piano models for Yamaha, which is to be increased to 40. Most of the Kemble production is for export.

Yamaha is not a recent entrant into the music industry either: the company has been making pianos since 1898, one of the longest running companies, with an eventual aim to build the highest quality pianos on the market.

This fact is further confirmed by the emergence of the South Koreans and Taiwanese, who are able to build even cheaper models, thereby eroding Yamaha's share in the cheaper price models.

To some extent Yamaha has countered these developments by moving production of some instruments (eg guitars) to low cost areas such as Taiwan, Korea and Indonesia. Yamaha does not wish to hold on to market share in cheaper instruments at the expense of quality, however, but wishes to pursue a policy of development that will give it the lead in the market for value-added products.

Yamaha has always been a keen advocate of music promotion and is involved in many music festivals and competitions. The company also likes to participate in education and has what it calls a "stateschool roadshow" which provides keyboards for children. It is also the sponsor of Soundscape at the University of East Anglia. In 1988, Yamaha suffered a fall of 33% in pre-tax profits due to adverse trading conditions and the impact made on the market by the South Koreans and Taiwanese.

Casio Computer Corporation, the Japanese company, has also made inroads into the UK instrument market but only in the electronic and electrical sectors. The company imports all products from Japan and distributes them mainly through the multiple retailers, like Dixons and Currys. Casio plans to start production in Europe by 1992 but has yet to finalise plans for what product it will build there: Europe accounts for 30% of all Casio's exports. The main types of product that Casio makes are portable electronic keyboards, electric guitars and digital horns. Its products range in value from GBP29.95 to GBP499 and are aimed principally at the home market.

The company came to the UK in 1988 to produce up to 10,000 keyboards a year. The move to Italy followed trading difficulties due to the strong Yen.

Comus International, the Italian company, better known as the Bontempi/Farfis group, manufactures children's instruments - 10 million are sold every year and more professional type organs, which Farfisa is well known for.

Other major keyboard manufacturers include Technics, from Japan, and Hohner from West Germany. Hohner has not performed too well with its electronic instruments and has decided to concentrate more on its traditional instruments, such as mouth organs and accordions. Kawai, the second largest musical instrument manufacturer in the world, still has little presence in the UK.

Major guitar manufacturers are mainly Japanese and American companies. Fender, maker of the legendary "Stratocaster", has the largest market share in electric guitars worldwide. This American company has managed to stay competitive by producing guitars in low cost areas, like Korea and Mexico, as well as in Japan.

Gibson, a major name in guitars, is apparently making a comeback; its Epiphone brand is made in Korea. Charvel is another well known company, using American and Korean production centres. Yamaha has moved all its guitar making operations to Taiwan. Ibanez and Washburn are two Far Eastern makes of guitars that are very popular in the UK. Rickenbacker, another USA manufacturer, is also starting to make a comeback into the guitar market but is an acquired taste and also extremely expensive.

The world percussions market is dominated by the Americans and Japanese too. Pearl, a Japanese company, is reputed to have a majority share in this market. Other prominent Japanese players are Tama and Premier - owned by Yamaha. American companies include Ludwig and Gretsch - a company that used to make guitars as well.

Brass instruments are quite a specialist area due to the high prices they can command. There are many manufacturers in this sector with most of the high quality instruments coming from the USA, West Germany and Japan. Yamaha is again, a prominent force in trumpets, and brass and woodwind generally. Saxophones Selmer, of France, owned by Vincent Bark of the USA, is also a major name in saxophones. Conn, King and Holton are all American manufacturers of quality brass instruments. Boosey and Hawkes is well represented through their subsidiaries in all areas of woodwind and brass. Paxman of the UK and Alexander of Mainz are the top french horn manufacturers.

Other string instruments, such as violins, cellos and double basses are very specialist. Boosey and Hawkes is a well known name with its Paesold range and Suzuki of Japan also produces good quality violins. Two West German companies that are well known manufacturers are Otto Klier and Benedikt Lang.

Advertising and Promotion

The advertising and promotion of musical instruments cannot be compared to more dynamic consumer goods and markets. This is mainly due to the very specialist nature of this market and the fact that it is not part of the throwaway philosophy that is applied to most consumer goods.

Musical instrument sales are not particularly responsive to advertising methods either - although this might apply to the latest electronic "gizmo" to come out of Japan. In fact, the market enjoys a lot of free advertising from the mediums of radio, film and television where music of all styles blares out almost continuously. The actual playing of a record at home can almost be an inducement to run out and buy an instrument - as every teenager knows - and the number of live music shows every day means that the instrument manufacturers do not have to rely on normal ways of advertising.

For instance, a popular tune that incorporates the sound of a particular instrument, might increase sales of that instrument by itself with no other marketing used - who could forget that when the Beatles broke onto the music scene in the early 1960s, electric guitars were a "must" for many aspiring teenagers.

Most advertising carried out in normal methods tends to be in the musical press, such as New Musical Express (NME), Sounds, Melody Maker and other more

elite music periodicals, with names as irresistible as Straight No Chaser. The largest advertisers are the Japanese hi-tech companies such as Yamaha and Casio - who have every incentive to plough large amounts of money into promotion since they are market leaders in the music industry.

Table 6 Above the line advertising expenditure on musical instruments, 1985-89

	GBP000	TV/radio %	Press %	% of sales
1985	811	3	97	0.37
1986	1,459	10	90	0.59
1987	2,175	13	82	0.72
1988	2,017	20	80	0.65
1989	1,806	23	77	0.55

Source: MEAL/Mintel analysis

From a high in 1987, advertising expenditure has slowly dropped to its 1985 level of GBP1.8 million. It is also interesting to note that the percentage split of expenditure on television/radio and the press has gradually narrowed

In 1985, virtually all advertising was directed through the press, whereas no television and radio accounts for almost a quarter of advertising expenditure. Main users of television and radio are Casio and Technics. Yamaha remains the largest advertiser overall, devoting all its advertising to the press. Ax Musical Instruments is the fourth largest advertiser.

Advertising, however, is not the only medium for musical instrument promotion. actual promotions of festivals and band competitions also account for a major part of marketing activity. One of the best known events in the UK musical calendar is the National Brass Band Championships, held by Boosey and Hawkes which involves up to 20,000 musicians and a finale at the Royal Albert Hall. The success of this contest has led to the formation of the European Brass Band Championships. Boosey and Hawkes also holds a wind band competition among many other promotional events worldwide.

Yamaha Corporation, the largest company in the UK musical instruments market gets involved in a wide variety of promotional events besides having the greatest advertising expenditure. Band Explosion is a competition for rock bands and is a worldwide event. Electone is a competition for electronic organs and there is also a junior Electone contest. Yamaha's Clavinova festival is for players of digital pianos.

Yamaha puts a lot of money and effort into its promotional activities - not surprising since the company has the widest selection of instruments on the market - and has recently sponsored music scholarships for piano. Yamaha also gets involved in many of the trade fairs - such as the British Music Fair - and does a lot of work for television - Royal Institute lectures (BBC2). In addition the company runs about 100 Yamaha music schools in the UK.

Technics, the Japanese company, also runs about twelve music academies (basically music schools) - in association with Technic's dealerships. Certain instrument manufacturers provide bands and individual musicians with free instruments. This practice though is not widespread and is limited to major brand names. For instance, Fender, the guitar manufacturer, has what it calls its "Signature Series" - these instruments are made to the design of individuals but are also available to other customers. The particular individual the guitar is designed for, always receives them free, hence the Clapton series designed by Eric Clapton means he will always get free guitars. There are other signature guitars - such as the "Jimi Hendrix". Other people can usually get custom made guitars through the custom shop though these tend to be one off models.

Despite all promotional activities carried out, which earn the large instrument manufacturers a lot of goodwill, the most effective form of advertising and marketing remains the sound emanating from the instruments themselves.

Distribution

It is difficult to compare distribution in the musical instruments market with other markets due to the former's specialist nature. Although store groups such as Dixons, Currys, Argos, Rumbelows, and Boots, mail order companies such as Freemans and warehouse companies like Comet all sell musical instruments it is generally at the home market end and does not touch on professional equipment at all. However, it is now a very important sector since the growth in portable electronic keyboards etc accounts for the greater part of retail sales. Department stores, like Harrods and Selfridges, also have extensive instrument sections.

It is estimated in the trade that there are about 740 musical instrument retailers, selling instruments and accessories exclusively, in the UK supporting about 2,339 outlets. The retailers themselves tend to specialise in certain areas: some shops will deal in stringed orchestral instruments like Guivier of London - others will deal with more modern equipment - Rose Morris - and others, still, may deal in brass and woodwind instruments like Bill Lewington of Shaftesbury Avenue. It is rare to find a shop that will sell instruments of all types, catering to entirely different customers though there are outlets, such as Chappell of Bond Street which sell all instruments. Similarly, City Music, a larger retailer has eight stores. One certainty is that there are no national chains of musical instrument retailers. The largest chains tend to be fairly localised and sell mainly modern equipment. Calsboro is a chain of eight shops selling modern equipment; ABC Music has six shops and is based in Esher; Dawsons of Warrington have eight shops; Sound Control of Dunfermline have six shops; Rose Morris is a wholesaler with two retail outlets in London. There are no chains of over ten shops and most of them are localised operations.

The fact that there are so few instrument shops in the UK is explained by the knowledge that they are selling into a relatively small and specialist consumer market, and the existence of one shop in a fairly large town is usually enough to satisfy local demand. Of course, in cities, such as London, many more exist. The quoted figure probably does not cover all outlets that sell second hand instruments as well. All retailers, unless also a manufacturer, receive their instruments from wholesalers or directly from the manufacturer - acting as a wholesaler.

Since many instruments are imported, some retailers and wholesalers stamp their own names on them creating a type of own label market. These "own label" instruments are usually much cheaper and vastly inferior to the named manufacturer articles but they do offer the purchaser a chance to start learning an instrument at a cheaper rate.

Unlike most consumer markets, there is a flourishing second hand market for musical instruments. Most of these instruments would be sold through the established instrument retailers and good quality orchestral instruments will often appreciate in value. There is no real market for the latest electronic equipment, since it is outdated quite quickly by the latest technology; however, it will always be saleable. The very existence of the second hand market does little to help increase sales in the new instrument market, but it is something that the retailers and manufacturers accept as part of their business. In fact, it can add prestige to a company's standing if its instruments fetch good prices on re-sale.

In October 1989, the Music Industries Association and the Music Retailers Association launched Musician Style 89, a marketing drive to stem the loss of trade to the high street electronics multiples like Dixons and Currys and to promote the fashion for playing musical instruments again. The programme involved four competitions and various school workshops to promote...

Instruments.

The Consumer

To gain an idea of the popularity of different types of musical instrument, Mintel appointed the British Market Research Bureau (BMRB) to conduct a survey in which a nationally representative sample of 961 adults were interviewed. The work was carried out during December 1989. Respondents were initially asked:

"Which of these musical instruments can you or anyone else in your household play?"

Table 7 displays the results of the survey.

Table 7 Ability to play musical instrument by household, 1989

Base: 961 adults

	%
Piano	23
Recorder	19
Guitar	17
Electronic organ	16
Violin	7
Mouth organ	6
Drums	5
Flute	4
Clarinet	3
Trumpet/Cornet	3
Accordion	2
Banjo	1
Saxophone	1
Others	4
Don't know	48

Source: BMRB/Mintel

As Table 7 shows, the piano is still the most popular household instrument with almost a quarter of all respondents either playing it or having someone in their household playing it. This figure is not so surprising since the piano remains one of those instruments that most people learn to play music on.

The recorder, with 19%, is also a favourite school learning instrument. The guitar, electric and acoustic, has been popular ever since the advent of rock and roll music brought it to prominence. State of the art electronic organs and keyboards are also gaining in popularity thanks to the innovative technological skills of the South East Asians.

Sadly, it seems, traditional orchestral instruments are not played on a widespread scale. This can be a combination of cost - these instruments can be extremely expensive despite new manufacturing processes - and education, a surprisingly small number of people carry on playing an instrument after they leave school.

The fact that new forms of entertainment have encroached on people's recreation time which appeal to a vast proportion of the population also has to be taken into account. The arrival of television has been blamed many times for the decline of home music, though obviously it is only one factor among many.

Table B Demographic analysis of ability to play instruments by household, 19
 Base: 961 adults

	Piano	Recorder	Guitar	Electronic organ*
	%	%	%	%
All	23	19	17	16
15-19	36	33	23	27
20-24	20	17	30	8
25-34	18	22	22	15
35-44	23	39	27	29
45-54	20	15	11	7
55-64	16	8	9	16
65+	28	6	4	9
AB	46	27	22	20
C1	28	22	21	15
C2	17	19	17	17
D	14	19	16	16
E	14	7	3	8
London/TVS	23	21	20	16
Anglia/Central	26	19	19	16
Harlech/TSW	36	18	16	12
Yorkshire/Tyne Tees	18	19	15	21
Granada	24	22	13	11
Scotland	17	16	16	17
Working	21	23	21	17
Not working	25	21	15	17
Retired	23	3	4	9
Children	24	32	25	24
No children	22	12	12	11
Owner occupied	27	22	17	17
Rent council	14	14	13	14
Rent other	16	14	26	13

* includes portable keyboards

Source: BMRB/Mintel

In Table B there is a more detailed breakdown involving the four most popular musical instruments. As mentioned previously, the piano is the most popular type of household instrument and over a third of 15-19 year olds are in households where it is played.

It can be assumed that, in this instance, it is mainly the respondents who can play it since they would, in most cases, still be at school. The fact that 46% of socio-economic group ABs have a piano playing member of the household gives the impression that being able to play the piano is a privilege reserved for wealthier families.

This can, perhaps, be mainly explained by the fact that pianos are expensive items, out of the reach of most families. Also piano lessons can be quite costly. Geographical analysis shows that over a third of households in the Harlech/TSW viewing areas have a piano playing member, although no obvious reason exists as to why. Those people who own their home are more likely to have a piano player.

The recorder is a popular instrument for children to learn on and as a result those people aged 15-19 and 35-44 are more likely to be in a household where one is played. The latter group would probably have children at the age when they start learning to play a musical instrument. This can be validated still further when 32% of those families with children are recorder players against only 12% of adults without children.

The third most popular instrument is the guitar, which is especially favoured by the younger groups. The highest percentage of guitar players is in the 20-24 age group at 30%, closely followed by the 35-44 year olds at 27%. The guitar is one of those instruments that is ideal for learning since it is relatively inexpensive, particularly acoustic guitars, and is easy to carry around. Whereas most school leavers will rarely play the piano or recorder again, guitars seem to hold their attraction. Those households with children are twice as likely to have a guitar player as those that do not, confirming its "learner" potential. Its universal appeal and relatively low price mean that it is played in all types of accommodation but with a particularly large percentage in ordinary rented accommodation.

Since the Japanese developed their comparatively cheap keyboards, in the 1980s, they have grown immensely popular, particularly among the young. This is confirmed by 27% of 15-19 year olds and 29% of 35-44 year olds, the latter group it is thought, may refer more to the children in the household since these people are more likely to have children at the instrument learning stage. ABS are more likely to have an electronic organ player than other socio-economic groups and households with children are also twice as likely to have one than those that do not.

The violin, mouth organ and drums all achieve about the same level of popularity. However, the differences are made apparent here with the discovery that the violin is played in 18% of AB households and in 10% of those with children whereas the mouth organ is played by 10% of retired households and 12% of non-council tenants. The drums, on the other hand appeal to 12% of 15-19 year olds and 13% of non-council tenants. It is also interesting to note that 48% of all respondents did not know whether anyone in their household could play a musical instrument - perhaps practising at home has gone out of fashion.

The second question asked of respondents was:

"Thinking of yourself personally, which of these instruments do you really wish you could play?"

The results are displayed in Table 9.

Table 9 Desire to play musical instruments, 1989

Base: 961 adults

	%
Piano	39
Guitar	15
Electronic organ	13
Saxophone	9
Drums	7
Accordion	4
Violin	4
Clarinet	3
Flute	3
Mouth organ	2
Banjo	1
Double Bass	1
Oboe	1

Trumpet/Cornet
Other
Don't know

Source: BMRB/Mintel

When respondents were asked what they wished they could play, the piano came out on top again with 39% choosing it. The recorder had meanwhile fallen out of favour as a popular family instrument to be replaced by the guitar with 15% and the electronic organ with 13%. The fourth most popular instrument was the saxophone, which only 1% of households could play but 9% wanted to be able to play. There are certain restrictive factors explaining the small use of the saxophone, namely the cost - saxophones cost about GBP500 for the cheapest - and the noise factor. Drums also seem to be more popular than actually played - noise and space being the prohibitive factors involved as well as cost. The accordion is also high in the wishful thinking stakes.

Table 10 Demographic analysis of desire to play instruments, 1989

Base: 961 adults

	Piano %	Guitar %	Electronic Organ %	Saxophone* %
All	39	15	13	9
15-19	22	19	10	18
20-24	32	28	6	22
25-34	33	22	12	15
35-44	45	20	13	9
45-54	43	13	15	4
55-64	45	6	20	2
65+	43	2	10	1
AB	34	11	12	10
C1	46	17	10	12
C2	41	15	16	10
D	28	17	12	7
E	40	10	13	2
London/TVS	44	15	10	10
Anglia/Central	36	15	13	7
Harlech/TSW	37	14	15	13
Yorkshire/Tyne Tees	37	12	15	6
Granada	36	11	13	9
Scotland	27	18	16	6
Working	37	20	12	12
Not working	37	13	12	7
Retired	47	2	17	1
Children	35	19	13	10
No children	41	12	13	8
Owner occupied	41	14	12	8
Rent council	32	13	15	6
Rent other	34	28	13	17

* low sub sample

Source: BMRB/Mintel

Almost 40% of all respondents wished they could play the piano. It seems that this is a stronger desire among the older age groups: 45% of both 35-44 year olds and 55-64 year olds expressing this wish, as did 43% of 45-54 year olds and the over 65s. This ambition is also prevalent in socio-economic groups C1, C2 and E with 46%, 41% and 40% respectively. It is thought that these groups would be less likely to own a piano, thereby increasing the desire. About 50% of retired people also wished they could play - giving the impression that people like the idea of playing a piano more as they get older.

The guitar has a quite different following, and is very much a young person's instrument, although the desire to play it is stronger after the teens: 28% of 20-24 year olds and 22% of 25-34 year olds wished they could play.

There is a marked decline in interest with age - perhaps connected with a lack of flexibility in the finger joints.

There is an apparently equal aspiration to play the electronic organ although perhaps a little stronger in the older age groups - 20% of 55-64 year olds expressed this view.

The saxophone is one of those instruments that has gained in popularity during recent years due to new musical trends. As such it is in younger age groups that a yearning to play it is more noticeable - 22% of 20-24 year olds and 18% of 15-19 year olds. Also these people are more likely to be working, 12%, and in rented accommodation, 17%.

Finally, the drums, which have always been popular among young people - 19% of 15-24 year olds wish they could play - seem to appeal to lower socio-economic groups, 11% of Ds, and, strangely enough, those people with children, also 11% - perhaps as a noise drowning catharsis.

The Future

The ambition to play a musical instrument has been shown to be cradled by a large percentage of the population, according to Mintel's recent consumer research. More variation in leisure time activities and, until very recently, more personal disposable income have both helped people to realise their dreams and learn a musical instrument. However, to be seriously involved in music takes a lot of time and effort, not to mention money, and these have been the overriding restrictions on a wider instrument playing public.

The most important development in musical instruments, in the last two decades, has been the application of electronics which has enabled the Japanese to exploit, produce instruments that their leadership in hi-tech brown goods markets and thereby corner the world market. The cost of these instruments is relatively low, since they can be mass produced in the factories of South Korea and Taiwan, and this has made them available to the ordinary man in the street - who really only wants to tinker about on one anyway. This has meant the emergence of a dynamic consumer market in electronic keyboards and a move away from the traditional musical instrument retailer. The long term effects of this on the traditional instrument market are still too early to gauge, but it is felt that if children are encouraged to play at an early age on something that is fun to play on, that they will then move on to a more traditional instrument later on in life. There will, therefore, be some kind of knock on benefit for the independent music retailer in the long term - however, it is hoped that getting used to electronics in music will not deter children from ordinary non-electronic instruments.

Since the musical instruments market is so varied - a consumer side and a specialist side - any forecast of the market must take into account how one side will affect the other. It is estimated that, at present, the market is fairly mature, although there is a lot of room for growth in keyboards and it should continue to grow in value by about 5-10% a year in the short term at current prices.

Forecast

The pattern of musical instruments sales has been one of dynamic increase followed by a fading of growth after 1987 in real terms. It seems likely that the market is now likely to level out at the 1990-91 level, and this is reflected in Mintel's forecast.

The medium term projection is calculated using the SPSS computer model which measures the correlation between the recent path of the market and a basket of independent variables. Any weighting of the calculation towards those elements which are fundamental to several variables is offset by the system.

The only factor significant enough to measure against a future music instruments market was personal disposable income. Despite the straitening of expenditure during 1989-90, however, consumer demand remains strong particularly in the children's sector. The forecast sales for music instruments reflects this balance of factors, giving a rather static projection in real terms. The 1994 value is calculated to be GBP339 million, a 1% decline on the 1990 figure.

Table 11 Forecast sales of musical instruments at constant 1990 prices, 1990-94

	GBPm	Index
1990	342	100
1991	332	99
1992	339	99
1993	338	99
1994	339	99

Source: SPSS/Mintel forecasting

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