MY TURN I BY TERRY LEWIS

What Went Wrong With the Piano Industry: An Alternate View

Music Inc.'s June cover story looked at the decline of the piano market. Industry veteran Terry Lewis offers a different take on the situation

In times of crisis and grave business challenges, it is tempting to try to find scapegoats and poster children to blame for the state of affairs. The steady decline of piano business, which has accelerated during the past couple of years, appears to have produced at least one example of this, *Music Inc.*'s June 2009 cover story, "What Went Wrong With the Piano Industry ... And How to Fix It" by Greg Billings.

The problems facing the piano business are indeed serious and real, but they are not new. Piano suppliers, associations and some retailers have worked together tirelessly to try to reverse a general long-term trend. But many of the elements driving this trend are beyond the control and the resources of those who produce and sell the product.

Sometimes, there's just no one to blame. How inconvenient.

CHANGING TRENDS

The musical products industry relies heavily on consumer discretionary income and, to a degree, the economic health of educational institutions and commercial businesses that buy traditional pianos. For this reason, the piano market has always disproportionately reacted to swings in the economy, the stock market and real estate. This is especially true for big-ticket instruments.

In an apparent aberration (like most of the phenomena in the current economy), the recent housing bubble should have produced more business for acoustic pianos. Typically, robust real estate markets have increased the appetite for items to furnish these newly acquired homes, and equity lines should have provided ready cash for large purchases. While there was some evidence of this, new business was limited by the destruction of discretionary income as a result of the very high cost of homes and burdensome mortgage payments, as well as the highly leveraged situation and poor credit quality of many home buyers during the past few years.

Changing social trends have also continued to provide resistance to piano market growth. There are many more products and activities today competing for everyone's leisure time, in all age groups. While it's true that Mr. Billings and I grew up watching "The Mickey Mouse Club" and playing with Lincoln Logs, these were small potatoes compared to today's distractions. Experts predict that the video game industry's annual revenues alone will surpass those of the film industry in the foreseeable future.

PRODUCTION COSTS

In the June cover story, there were numerous references to price. The price-versus-quality-and-service debate has raged endlessly for decades. I agree that low prices don't create new customers, and many of the industry's most successful retailers continue to overcome lower-priced competitors with superior customer care and service. But this ignores a much longer-term trend regarding cost: The high relative cost to produce an acoustic piano today is staggering when compared to other products, especially electronic products.

There are some fundamental forces at work here that none of us can control. In 1928, just after the historical peak of the U.S. piano market, the average cost of materials as a percentage of the total cost of durable goods was 68 percent. The piano, at that time, was about average. By the mid 1990s, this ratio was down near 20 percent for the average product. But the piano did not benefit from this trend, owing to the fact that, by its very nature, the piano is comprised of massive volumes of metal, expensive woods and other materials that are not easily substituted or compromised in quality.

Today, the material cost ratio remains more than 50 percent for pianos, and woods, such as maple and spruce, have risen astronomically over the past couple of decades, as have the materials that are used to produce the furniture where at least some substitution has been feasible. On top of this, acoustic piano production is labor-intensive.

I am painfully and personally aware of the fundamental cost problem for acoustic pianos. Having traveled to Thomaston, Ga., in February 2007 to close one of the last domestic piano factories in America, I can say that it was the most difficult task that I had to face in my 38 years in this business. This decision was directly related to the monumental challenge to control the cost to produce an acoustic piano, which has a direct relationship to the decline of the traditional market for these products.

Hence, the relative cost (not relative price) of an acoustic piano has outrun the purchasing power of the middle-class family in most developed global markets. To highlight a quote from the June issue, "If the Baldwin Acrosonic was introduced today in an appropriate cabinet at $1,995, we'd have trouble keeping them in stock." Sure. Also true for a good, full-size automobile at $6,995, in an appropriate style and color, of course. Sorry, the good old days are gone.

The bottom line is that the average middle-class American family can no longer afford to buy an average-quality acoustic vertical piano as it once could. I believe that many would still like to. In my opinion, we have not "lost most of the last generation of pianists," as Billings put it. Since only 7 percent of the U.S. population actually plays a musical instrument with any proficiency at all, I'm not persuaded that there ever was such a generation. What we have lost is a key market segment as the industry continued to try to make a product that moved beyond the financial reach of Middle America. From a unit standpoint, keyboard interest still remains very high, but the market has been forced to seek acceptable substitutes driven by cost.

A recreational music making class for teens

THE DIGITAL MYTH?

Since the introduction of the Yamaha YP-40 digital piano in 1983, the trend toward digital has been steady and relentless, and today the message is loud and clear: Digital pianos are here to stay. They have excellent piano tone and touch, and they are a legitimate alternative for the vast majority of consumers who would like to play. They are affordable, versatile, low-maintenance, easy to move and highly reliable. Software has opened up exciting, new horizons for enhancing one's musical performance and also for sharing musical experiences with others. Headphones encourage household harmony and embolden the bashful beginner. Moreover, most digital pianos offer additional features that other family members may be attracted to.

There is no doubt that digital pianos have taken enormous market share from acoustic verticals during the past two decades. Study after study has provided irrefutable evidence that, whatever we think as an industry, the market thinks that digitals are a pretty good alternative.

There is nothing wrong with having a love affair with the traditional acoustic piano, but from a business standpoint, it can be deadly. It's like buying stock in a company that makes a product you love even though the company itself may perform poorly.

In my experience, I have not encountered strong resistance to digital pianos from the educational community in recent years. Quite the contrary. There will always be a few among the academic elite who scorn anything that's not made of wood, felt, copper and glue. I am not suggesting that serious students and teachers shouldn't continue to show a preference for acoustic pianos or that digitals will one day replace concert grands in the concert halls of the world. But these are relatively small segments of the traditional piano market.

Wise retailers and suppliers will recognize that an "appropriate piano" is an instrument that the market will buy. To think that we can change the market is absurd. It is *we* that must change and adapt.

WHY RMM WORKS

This underscores another fundamental challenge for the piano market. The widespread expectation that one should be a serious student to justify making a piano purchase has cost the industry tens of thousands of sales. It's a cultural problem that will only be conquered when our industry and the educational community join hands and fully embrace the concept of recreational music making (RMM). And it is already happening, despite the naysayers. There is powerful scientific research concerning the benefits of RMM that points to a bright future if it's properly implemented and promoted.

Many will agree that the name "recreational music making" is cumbersome and lacks sufficient marketing impact, and I am among them. Perhaps the RMM critics can use some of their energy to propose a better name. It should also be pointed out that RMM is an internal industry term. It was never intended to be the name of an actual RMM program.

In the June cover story, two of the 15 initiatives in the author's "Piano Industry Recovery Plan" recommend "Teach the Fun" and "More Group Learning." These are key elements of RMM. The author also assumed that RMM is for older Americans. It would have taken the author only minutes to review NAMM's RMM Web site at namm.org or the Yamaha Music and Wellness Institute mission statement at yamaha institute.org to discover that RMM is for participants of all ages. Yamaha's successful Clavinova Connection center in Lake Forest, Calif., welcomes participants covering a wide age range. The statement that RMM should be targeting "77 million baby boomers" is also puzzling. This, in fact, is a well-publicized, major objective of RMM.

Lastly, although RMM tends to be keyboard-oriented, nowhere is it written that the objective of RMM is to "sell more acoustic pianos." The objective of RMM is to expand the number of active music makers significantly. Sales will follow for all categories, including acoustic pianos. Anyone who expects RMM to be a hotwire to jump-start acoustic piano sales will be disappointed, and its advocates have never made such a claim.

RMM is working where properly promoted, implemented and supported. To succeed requires persistence and dogged determination, just like any successful program. It is the industry's greatest opportunity to make inroads into the 93 percent of the U.S. population that does not play a musical instrument. That's a lot of headroom.

PMAI & NPF ACCOMPLISHMENTS

I am mystified by Mr. Billings' disdain for the Piano Manufacturers Association International (PMAI) and its "incestuous co-conspirator," the National Piano Foundation (NPF). In his eagerness to attack, he may have forsaken the homework. PMAI has had an extraordinary record of achievement, particularly in view of its meager assets and small membership.

A Clavinova Connection class

Over the years, this association has done more than any single force in the piano industry to bring previously diverse entities, such as Music Teachers National Association (MTNA), Piano Technicians Guild (PTG), Retail Print Music Dealers Association and others, together. As a result of PMAI's influence, MTNA has co-sponsored seminars and sessions on group teaching and RMM at annual MTNA conferences. (MTNA serves more than 24,000 piano teachers.) This inspired the PTG to offer RMM scholarships at recent conferences. PMAI also produced several excellent DVDs, which were filmed at MTNA's 2008 conference. Orders for these programs come in every day at the NPF headquarters in Dallas. It is having measurable impact on the traditional teaching community.

PMAI also drafted a code of ethics for manufacturers. It serves as a model for the entire industry, and I can personally attest to the fact that it made a difference because I was there. This initiative eventually led to a dealer code of ethics, which hundreds of retailers signed onto. They now proudly display their ethical commitment to reputable sales conduct in their stores across the country.

PMAI also sponsored individual group teaching seminars across the nation for private teachers who wanted to start group teaching programs but did not have a road map. Scores of traditional piano teachers attended these seminars. PMAI and its members discovered that, contrary to popular belief, there is virtually no resistance to group teaching in the traditional educational community — only a lack of information, training and support.

One of PMAI's best initiatives was the After School Group Piano Program. It was launched in 1998 and continued through 2001, and in my opinion, it was an unqualified success. In the last year, 132 students from 128 families were enrolled at four participating elementary schools. A total of 49 digital and acoustic pianos were rented, and 26 units were sold by the program's end. Additional sales were also made in the following months. And the local ABC television affiliate did a marvelous story on the program.

Everything that was accomplished in the PMAI After School Group Piano Program was replicable elsewhere, and PMAI produced a comprehensive manual with all of the necessary steps for successful implementation. But PMAI had neither the human or financial resources to roll out the program nationally. This depended on retailers, most of whom were enjoying very good piano business during these years. After vigorous promotional efforts to move the program beyond one market, only one dealer seized the opportunity.

I still believe that this innovative program could have worked anywhere, but a small, underfunded industry association cannot be expected to do everything alone. It is an extreme irony that the June cover story, coming from a retailer, stated, "The sooner we start pressing the case for piano instruction in elementary schools, the sooner we will see results." Indeed.

There have been several other successful PMAI/NPF programs over the past 20 years, and they are too numerous to mention. I believe that PMAI/NPF has done an amazing job considering the limited resources at its disposal.

DISPELLING PMAI MYTHS

The relationship between PMAI and NPF is also nothing unusual, evil, "incestuous" or conspiratorial. I cannot grasp what is being questioned. NPMA (which later became PMAI) was chartered in 1896, and in 1962, NPF was created as the informational and educational arm. NPF distributes a vast amount of materials to prospective piano buyers and other interested parties, such as writers. The fundamental relationship between PMAI and NPF is no different than that which NAMM has with its NAMM Foundation.

It has been suggested that PMAI "open voting membership to digital piano manufacturers." Roland became an associate member under my watch some time ago, and we were very glad to see Dennis Houlihan's enthusiasm for participating in association business and delighted to have Roland's input. While PMAI bylaws specify that only dues-paying acoustic piano manufacturers have a formal vote, that decision-making format is quite rare. In practice, initiatives are typically approved through voice vote, which includes associate members. PMAI has also aggressively recruited new members directly and through member companies for as long as I can remember, and it continues to do so.

The improved revenue stream for PMAI that has been strongly urged is a more difficult issue. The association's budget has suffered from both a decline in dues and the number of active manufacturers. A few years ago, PMAI members voted to cut dues by 50 percent, which remains in force today. Compounding the problem, some members have simply chosen to not pay dues on time or at all. An industry association, such as PMAI, however innovative, cannot be expected to do heavy lifting with the dearth of resources it has faced during the past few years.

But not all associations are in such a predicament. I'd like to invite retailers and suppliers to call on NAMM to lend more assistance to this most troubled sector in the musical products industry. NAMM was birthed by the piano industry more than 100 years ago, and I believe that it has an obligation to place the plight of PMAI, its members and piano retailers as a higher priority for attention and support.

Again, another serious gap in understanding about NAMM support was revealed in the statement, "NAMM shouldn't give PMAI another dime until it demonstrates that it's willing to put its own money on the line." Apparently, the author didn't know that NAMM's monetary grants to PMAI were provided as matching grants only.

Leadership of PMAI has also been called into question. Retiring Executive Director Don Dillon, assisted by his wife Brenda, a prominent music educator, served the organization with dedication and humility. A lack of knowledge about the supplier side of the industry and PMAI is again apparent in the following statement: "Restrict representation to each company's chief executive. End the musical-chairs rotating presidency. Pick the best leader, and let him or her lead."

What?

First of all, CEOs and presidents of all PMAI member companies have always been strongly encouraged to attend PMAI meetings, and their full participation has always been welcomed. But I can tell you firsthand that few of them are interested in or able to occupy the PMAI presidential chair. Moreover, they are often not the best candidates to do so (particularly in the case of offshore suppliers), and they know it. Bruce Stevens of Steinway was one exception and exemplary of a heritage of strong PMAI leadership, which I have also observed first-hand for more than 25 years.

Some CEOs freely delegate piano industry relations to senior managers who are directly in charge of their piano businesses. These managers are the most qualified and can make good decisions and solid contributions. It's one of the many reasons that these people get hired in the first place.

The two-year rotating PMAI presidency is typical of industry associations, and it is similar to the system that NAMM uses to select a chairman every two years.

Perhaps PMAI's most notable "failure" has been the fact that it has not effectively and publicly proclaimed its successes and accomplishments loudly enough, but Don and Brenda Dillon have always been more interested in results than self-promotion.

"Fix PMAI?" It appears that it's only the record that needs fixing, along with adequate funding and industry support to carry forward the PMAI mission more effectively.

EVENT SALES

Anyone with any exposure to the retail piano business during the past few years will know that store traffic has steadily declined, and with few exceptions (such as Midtown Manhattan), walk-in traffic is no longer sufficient to support a storefront without supplemental promotional activity outside of the store.

Outside sales events have become a necessary part of the business in today's market. But like anything else, these promotions can be done effectively, or they can turn into an utterly depressing and wasted effort.

Solid experience and lots of energy are required to be successful in outside sales events. Suppliers are increasingly entering the warehouse club arena directly, helping their retailers avoid some of the pitfalls of these shows and sharing the experience necessary for successful execution. (Costco now has a membership that exceeds the population of Italy. Just one warehouse club location is a compelling treasure trove of qualified prospective buyers.)

College sales have also accounted for an increasing share of the retail sales pie. June's cover story recommended that, "Dealers need to abandon college sales and other deceptive marketing practices and focus on developing pianists in their local communities."

I was heavily involved with the development of the college sale promotional model and the supplier support programs that enabled the promotions to succeed. My experience has been that those who are opposed to college sales generally do not have a suitable local institution within their territory, are not financially strong enough to qualify for the required inventory to host them or simply don't have the ambition.

I shudder to think how much more difficult selling pianos would have been in the last decade had it not been for this successful formula for outside merchandising. But there are other silver linings. It is a win-win-win-win situation (note that there are four "wins") in a way that other outside promotions cannot match.

'Ultimately, college sales may prevent a going-out-of-business sale.'

The institution and its students win because the school has a continuous supply of fresh, serviceable pianos that are far superior to the battered and neglected warhorses that they replaced. (I had never heard of the "green piano" problem at schools until I read the June issue of *Music Inc.*)

The retailer wins because it can support a larger selection of instruments, and it has a credible location to present them. The program also encourages dialogue and relationship-building between the retailer and the institution, which can be an important marketing ally. And students that use these instruments are more likely to be future customers for the sponsoring retailer and its brands.

The supplier wins, as well, because it has the opportunity to generate more business and gain market share. Pianos that would otherwise sit in a warehouse are out in the community. Finally, customers win because they get moderately used pianos at a reduced price with a new-piano warranty, and otherwise skittish prospects can make their purchases in a more comfortable environment.

Sometimes, outside professional event salespeople are retained to assist with college sales, but this is normally done at the dealer's discretion. No sales promotion is inherently deceptive unless performed as such. Like any other outside promotion, it's expected that college sales will be done with honesty, integrity and competent execution. And ultimately, they may prevent a going-out-of-business sale.

HOW DO WE COPE?

We are a small industry, but we have exciting products and have historically demonstrated brilliance in marketing and merchandising. Despite this, it may not be possible to restore an acceptable level of business vitality as soon as we would like, no matter how hard we try. But we must lay the groundwork now for future success for when the turnaround arrives — and it will. Not all suppliers and retailers will still be there when it happens, but those that survive will be stronger, better at what they do, and ready to take advantage of the next phase of growth and prosperity just as in previous cycles.

One thing is certain, however: We won't get there spreading blame around among ourselves for the current situation. As an industry, we need to recognize the true market situation for what it is, and we need to be realistic and honest about what we, as an industry, can do about it. Things that are beyond our control can still be managed. I am hopeful that the industry will join together in a powerful partnership of unity and purpose as never before and effectively prepare itself for better times ahead. **MI**

Terry Lewis retired from Yamaha Corp. of America as executive vice president in June 2008 after 26 years with the company. He'd previously worked for Schmitt Music and is currently president of International Business Relations, a business consulting firm. He's also a director for the Yamaha Music and Wellness Institute.

AN ALTERNATE PIANO INDUSTRY RECOVERY PLAN

1. GET INVOLVED IN RECREATIONAL MUSIC MAKING (RMM) — NOW
Call RMM whatever you want to call it. (I happen to like NAMM's "Wanna Play?") Only 7 percent of the U.S. population plays a musical instrument. Almost all of the other 93 percent would like to. Just another 1 percent would translate into 15-percent market growth for musical products. And the magic of a properly implemented RMM program will soon become apparent to anyone who is willing to make a sincere effort.

2. CALL FOR MORE INDUSTRY ASSOCIATION SUPPORT
The piano industry needs its own stimulus plan. Unlike the government, the musical products industry can't print money. But whatever financial resources are available should stay in the U.S. market and support the product categories that need the most help, including pianos.

3. REDEFINE 'PIANO'
Digital pianos are fine for the majority of players — and, in some ways, even better. Don't cling to acoustic pianos with a passion that clouds your best business judgment. If you don't have a strong digital line, get one. Then, let the market decide.

4. SHOW A PLAYER PIANO TO EVERYONE
Pianos with player capability are now a respectable double-digit percentage of the market, and that share is growing. They are capturing customers that would have otherwise never considered an acoustic or digital piano. Many customers are not even aware that these products exist, and those that do know aren't always aware of the dazzling array of features that make them so enjoyable.

5. BE CLEAR AND DIRECT WITH YOUR SUPPLIERS
Tell them what products you need now and what you would like to see in the future — not occasionally but constantly. Ask them to support outside promotional activities, and present them with a good plan. Ask for favorable terms that can sustain a reasonable inventory to do bigger and better promotions without breaking your budget. Let them know that you are willing to go out and find business aggressively.

6. EMBRACE THE WEB
Even if dealer agreements do not permit online sales, there are many things that the Web can do to increase your local exposure. In addition to your own store site, give attention to online business directories, lists, customized e-mail campaigns, linking opportunities and local search engine optimization for your business and its products. If you don't have the expertise, local colleges are full of affordable whiz kids who would love to have a summer job.

7. REACH OUT TO EDUCATORS AND SCHOOLS
Almost all of the teachers and retailers that I know love to talk. With current business conditions as they are, this is a great opportunity to use extra time to get out and cultivate relationships with teachers and schools, or improve the relationships that you already have. I have personally observed that recreational music making is a subject that will be of interest to nearly all of them — but do your RMM homework first.

8. DO COLLEGE SALES
Do college sales and any other event sales that have been known to work in your market. As long as the volume of floor traffic remains low and the cost of getting people to come in remains high, this may be the most decisive factor in a retailer's ability to survive the current downturn. Be sure to work closely with your suppliers on all of your outside promotional ideas.

9. MANAGE FOR SURVIVAL
Don't risk losing your best people, but painful steps may have to be taken to adjust compensation or reduce non-essential staff. If you're not on the sales floor yourself, consider personally taking your share of drop-ins until you're sure that the clouds have passed — and don't be above working outside events. Also, consider renegotiating your lease, and review all outside services — accountants and lawyers — for a better deal. And, of course, watch your inventory every day.

10. BE READY FOR THE REVERSAL
When I was at Yamaha, we experienced recessions in the early 1980s and another in the '90s — nothing like the current situation, but the keyboard business was down significantly and the business mood was gloomy. We went ahead with market-building programs and products, which paid off big when the market came around later. When business rebounded, it exploded, and our market share shot ahead.