EDITORIAL

PEOPLE MAKE THE DIFFERENCE

When Wayne Mitchell opened the first Guitar Center in 1964, no one had the slightest inkling that the tiny Los Angeles location would evolve into the industry's largest retail chain with sales currently approaching the $1 billion mark. Just six years ago, the Baldwin Piano & Organ Company boasted a solid balance sheet, a nearly 140-year history of solid profitability, and one of the industry's most revered trade names. The notion that in a few years the piano maker would be faced with the prospect of liquidation was inconceivable.

There are several common threads that link these divergent stories. On the most obvious level, they illustrate that unexpected outcomes are remarkably commonplace and that our predictive abilities remain woefully limited. The success of Guitar Center and the collapse of Baldwin also shed light on the singular importance of management. Amidst the headlines about "globalization," "technology," and various "mega-trends," the role of individuals is often overlooked. Larger economic and social trends are important, but we would contend that the knowledge and skill of people in leadership is the single greatest factor determining the success of an enterprise. Or as a friend of ours likes to say, "Business is easy, people are hard."

Technology, demographic trends, and the other larger socio-economic forces of the past three decades affected all of the nation's 6,000 music retailers equally. Why then did Guitar Center, and not some other store, rise from obscurity to an industry leadership position? To find the answer, we think you only have to look to the people running Guitar Center. Over a period of years, they painstakingly refined a business model that simply worked better. Incremental profit gains achieved through tighter inventory management, more effective promotion, and strict internal controls provided the funds for national expansion—and the rest is history. It may sound overly simplistic, but management's mastery of a myriad details, from merchandising to staffing, made the difference.

On a sadder note, management's lack of mastery at Baldwin also made the difference. As Baldwin is mired in the bankruptcy courts, it is tempting to say that the company was the victim of Asian competition, diminished interest in the piano, or any number of other forces beyond control. But, on closer analysis, we think management shoulders most of the responsibility for the company's current plight. CEO Karen Hendricks alienated Baldwin's retail base early in her tenure, and in doing so deprived herself of the market information necessary to develop a cogent product strategy. She also presided over a period of unprecedented management turnover. Isolated from customers and staffed by a continuously changing cast of characters with no industry experience, is it really a surprise that her stint at the head of Baldwin ended so badly? The only surprise is that Baldwin's board of directors ignored four years of obvious warning signals from bankers, customers, and employees and remained steadfast in their support of a poorly equipped CEO.

As the evening news is increasingly filled with stories about lay-offs, consumer uncertainty, and possible recession, we think the stories of Guitar Center and Baldwin should provide some comfort. While we can't control the economy, by attending to management details we can exert control over the direction of our business. Success or failure is not pre-ordained; it really is in our hands.

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Editor