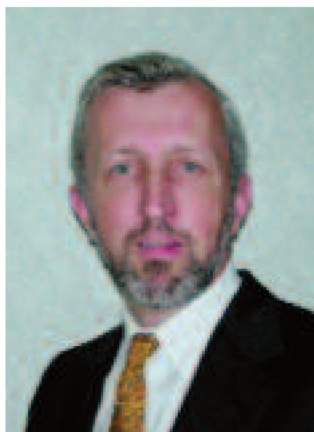
The Korean Wrecking Crew

There's a long-standing joke in the U.S. (probably dating back to the days of Thomas Jefferson) about running the other way whenever you hear the dreaded words, "I'm from the government and I'm here to help." The Korean Federal Trade Commission recently did such a thorough and effective job of torpedoing Young Chang Piano, we've been wondering if similar advice is now being dispensed in Seoul. If not, it probably should be. In the name of "protecting consumers," Korean officials stuck it to Young Chang employees, customers, lenders, shareholders, as well as owners, leaving the future of one of the world's largest piano producers very much in doubt. How does a regulatory agency lay waste to 40years of hard work and investment? The answer is, quicker and easier than you'd think.

It's a sad story, but one that bears retelling. Founded in 1955, Young Chang had become the world's second largest piano maker, behind Yamaha, in 1985. By 1997 the combination of a decline in the Korean piano market and a costly Chinese expansion made the company technically bankrupt and the property of its major lender, the Korean Exchange Bank. Like any other financial institution, the Korean Exchange Bank had no interest in owning a piano company, so it actively shopped Young Chang to every piano company in the world, as well as scores of other potential investors. Seven years went by without a single serious bid. Who wanted a big factory in Korea with costly labor contracts when Chinese competitors were rapidly gaining market share? Young Chang would probably have been liquidated if J.S. Kim, CEO of Samick, hadn't agreed to buy the company in February 2004. He reasoned that merging the factories and global distribution networks of Young Chang and Samick would yield a company with sufficient heft to meet the Chinese challenge.

Everyone seemed to think Kim's plan made sense—with the exception of the Korean Trade Commission. By cleverly overlooking the fact that imported Chinese pianos were rapidly gaining ground in the declining Korean market, it concluded that the merged Samick and Young Chang operation represented a monopoly that needed to be broken. On September 9, 2004, it ordered Samick management to immediately sell its interest in Young Chang and remove itself from day-to-day management at Young Chang. The first repercussion of this decision was that Young Chang's bank called in loans, and the piano maker was forced into Chapter 11.

With Young Chang piano plants idled and hundreds of workers out of a job, Samick's Kim appealed to the government to reconsider its decision. The government's response gave little grounds for hope; a Trade Commission official publicly declared, "We never reverse our decisions." Apparently unaware that Young Chang was for sale for nearly seven years without takers, the official optimistically added, "This is a company with tremendous value that will be attractive to many buyers."



In its best year, before the advent of Chinese manufacturers, Young Chang sold about 10,000 pianos the U.S. market. The newly appointed court trustee supervising the company recently projected that Young Chang would sell 12,000 pianos in the U.S. His first step in achieving this ambitious (some would say wildly optimistic) goal was to dismantle Young Chang's U.S. sales operation. A year ago, Kim had folded Young Chang's U.S. sales operations into Samick Music Corp. in City of Industry, California. Last month, the trustee voided the consolidation and ordered Young Chang to reestablish its own distribution arm. As a result, the "unauthorized" Young Chang distributor, SMC, has several thousand Young Chang pianos in inventory, while the official Young Chang distributor, charged with hitting an outsized sales goal, lacks the resources to lay in inventory. Finance companies have backed away from the situation, so the new Young Chang America can't even offer dealers floor planning.. Moreover, in the midst of the Chapter 11 filing, Young Chang lost rights to the Pramberger brand, which had graced its best-selling models. Confronted with such confusion, piano dealers, in the words of Yogi Berra, are "staying away in droves."

Over the years the piano industry had its share of hardball tactics. In 1873 Steinway abruptly canceled Baldwin as a dealer, hoping to put the upstart manufacturer out of business. In 1893 a competitor was arrested for trying to burn down the Kimball piano plant in Chicago. At the turn of the century, manufacturers in New York routinely tried to stir up labor unrest at their competitors. However, in 115 years of reporting, no piano maker has ever crushed a competitor with the speed and effectiveness of the Korean Trade Commission. Although the Commison earned it, we're not sure it's a distinction they would be proud of.

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