

Secrets To A Long And Happy Corporate Existence

The “Fiscal Cliff,” that ominous, man-made formation, is fast approaching as we write this, and partisans from both sides of the aisle are strenuously making their policy arguments with the aid of detailed ten-year forecasts of tax revenue, government spending, and economic growth. Prepared by the Congressional Budget Office staff, and sporting numbers with one, sometimes two decimal places for added accuracy, these projections are treated as fact rather than a “best” guess. The confidence with which they are presented got us wondering about the acumen of Washington’s top forecasters, so we took a look at the Congressional Budget Office website and compared ten years of their projections with ten years of actual results. Guess what? The only sure thing about the CBO is that their projections are consistently wide of the mark. This is not meant to lambast the folks in Washington, although the self-serving careerism that is passed off as “noble public service” could no doubt benefit from a healthy dose of public ridicule. Rather, it’s meant to point out the inherently problematic nature of forecasting. If an army of well-credentialed academics working with an unlimited budget in the Capital can’t accurately call the turn of future events, what hope does a small industry like ours have?

Life is never lacking for suspense, and the natural human reaction is to attempt to look over the horizon to anticipate. Unfortunately, the exercise rarely provides much more than a false sense of security. Companies are almost inevitably come face-to-face with unanticipated events, economic, competitive, technological, or otherwise. How then to prepare for the completely unexpected? The corporate anniversaries we highlight on page 94 of our annual Year in Review provide some guidance. Enterprises that can endure for decades must be doing something right.

This year’s roster of advanced corporate birthdays includes Renner Piano Action, (130 years), AKG Microphones (65 years), Sabian Cymbals (30 years) and a number of other notable “senior citizens.” Such a diverse group doesn’t lend itself to sweeping generalities. Each one has its own unique success formula. However, they all have common ground on two fundamental principles.

Let’s call the first one the deferred gratification principle. Every one of these durable enterprises has a record of re-investing in the business. Rather than fund extravagant compensation or fancy boats, corporate profits have been consistently applied to better equipment, better products, and improved brand building, as well as a rainy day fund. We seriously doubt that past “long-range” business plans at

the Renner Action company anticipated two World Wars, several economic calamities, or the rise of lower-cost Asian competitors. Yet a decent balance sheet and a well maintained production facility allowed the company to prevail against these hardships. Dig a little deeper and you’ll find that every other company managed to skirt past serious problems in the same way.



The second one could be termed the “staying hungry” principle. There’s nothing like success to breed complacency, and over the years, we have written countless epitaphs for former market leaders that failed to adapt to a changing competitive landscape. Big-number birthday celebrations are almost exclusively for those enterprises

that continually refine their business to better serve the market. To cite one example, Ernie Ball demonstrated its continued vitality after passing the five-decade mark with the introduction of a truly new and different guitar string, made of cobalt.

These principles are a lot easier to articulate than to put into practice over a long time frame. Put another way, talking the talk takes a lot less effort than walking the walk. However, one simple step in the right direction is to attend the upcoming NAMM show (January 24-27) in Anaheim. Whatever the cost, consider it an investment in the future of your business. Exposure to new companies, new products, unusual financial opportunities, and smart people all but guarantee a solid return on the money spent.

More importantly, it’s a source of information that can help guide you through an uncertain time. The economy remains shaky, the dynamics of retailing are in flux, and the optimal product mix is changing. Having expressed skepticism about the merits of forecasting, let us make a modest exception. After several days walking the aisles of the show, it’s a safe bet that anyone will be better equipped to deal with the challenges of the coming 12 months. There’s still plenty of time to make arrangements to attend. For more details, contact the folks at NAMM or visit www.namm.org.

Brian T. Majeski
Editor

brian@musictrades.com