The End Of An Era . . . Conglomerates Leave The Music Business

1984 was a memorable year for the nation at large. Dazzling Olympic performances uplifted the spirit, the first second term president in 12 years contributed to a feeling of stability, and an improving economy bolstered national confidence. It was equally memorable for the music industry, but for some surprisingly different reasons. For all intents and purposes, 1984 marked the end of conglomerate participation in the music industry. While a few large, diversified companies maintain successful divisions in the music industry, most notably Kaman Corp. and Gulf & Western Inc., they stand as exceptions to the rule.

In the '60s and '70s, large conglomerates acquired their way into the music industry with great fanfare. They proudly proclaimed that they would revolutionize our small industry with their professional management techniques and vast financial resources. Over the past twelve months, though, they quietly prepared their exit, and, without exception, left the music business poorer than when they entered.

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By way of historical perspective, the music industry was a relatively stable industry from the close of World War II until the early sixties. The advent of "The Beatles" and the emergence of rock and roll touched off explosive growth in the sales of guitars, drums, and all related products. Simultaneously, electronic advances ushered in easy play organs, further stimulating industry growth.

This attractive growth curve peaked the interest of Wall Street financial types, who began touting the music industry as a "dramatic growth opportunity." Music was lumped in with other leisure time products like power boats, skis, and snow mobiles. Hoping to hitch a ride on this growth curve, CBS, Norlin, Macmillan Inc., Avnet, Talley Industries, Lear Siegler, Beatrice Foods, Magnavox, Seeburg, MCA, and Gulf & Western gleefully paid substantial premiums to acquire a host of musical instrument firms. Among the prominent firms that looked into making music industry acquisitions, but were unsuccessful, were RCA, ITT, and Textron.

At the time, the entrance of billion dollar companies into the music industry literally scared the pants off independent music entrepreneurs. They were understandably fearful of competing with deep corporate pockets and skilled professional conglomerate managers. Ultimately, their fears proved groundless, as the conglomerates performed poorly.

Where did these large companies go wrong? The question is worth pondering, as it offers some insights into the nature of this industry. While each company's situation was different, there are some common threads that can be found in all situations.

Possibly the most fundamental problem of the conglomerate was a failure to grasp the small size of the music industry. By virtue of their enormity, these large, diverse enterprises require an elaborate bureaucracy to keep management properly informed. However, when this type of structure was laid on top of music companies, they were virtually crushed. To use popular terminology, the pin-stripe corporate culture proved difficult for free wheeling, independent music companies to assimilate.

The most obvious affect of this large corporate structure was a serious decrease in profitability. The addition of financial analysts, strategic planners, market researchers, and a host of other posts to previously spare organizations resulted in bloated general and administrative expense, with no improvement in performance.

On a more subtle level, corporate bureaucracy effectively stifled creativity and product development at music companies. It is interesting to note that few significant product breakthroughs or marketing improvements emanated from conglomerate-run music enterprises, in spite of considerable financial resources.

On the subject of marketing, many conglomerate managers looked to Procter & Gamble for their model and structured their approach after successful shelf goods strategies. The common element of these programs was an inordinate emphasis on consumer promotion, and total indifference to the actual product and the most important link in the sales chain: the music dealer. Common wisdom was that the music dealer was just a guy who uncrated a product at the back door, doubled the price, and moved it out the front door. This attitude, over time, eroded the good will of conglomerate music subsidiaries, as the dealer base grew increasingly alienated.

Most acquisition activity took place in the late sixties and early seventies, possibly the most dynamic growth phase in the history of the U.S. music industry. Conglomerate managers invariably took these sharply surging growth rates and extrapolated them into the next century and contentedly sat back assuming growth would simply occur.

As the market flattened slightly during the mid-seventies, the pressure to maintain these lofty growth predictions prompted the conglomerates to force-feed excessive product to their dealers, thereby antagonizing an already alienated constituency.

Nevertheless, increasing sales, inflation, and a booming export market, effectively masked the fundamental problems that were brewing. In the early '80s, a major market contraction, coupled with the demise of the export market, revealed that the conglomerates had lost their dealer loyalty and, furthermore, had little in the way of new and exciting products to offer. Losses began mounting, and in the last 18 months conglomerate captains made the decision to abandon ship.

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While notable exceptions do exist, by and large, the conglomerate experience provides a blueprint for what not to do. The lessons can easily be distilled into some simple commandments. Retailers and manufacturers thrive on a mutual partnership; manufacturers who don't make dealer profits a primary concern will pay dearly. Secondly, every marketing strategy begins with the product. Bad strategy can kill a good product, but good strategy can't save a bad one.

The most interesting footnote to the conglomerate story is the performance of some of their ex-subsidiaries, now in private hands. In spite of decades of corporate mismanagement, a number of these companies are slowly regaining their former prestige, thanks to the efforts of dedicated music people, who understand the retailers' role and cherish the creation of exceptional products.

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