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LET'S GET LOUD!

Manufacturers Analyze The Loudspeaker And Pro Audio Segment By Dan Ferrisi

Much as we did last month with our April issue cover story titled “Rattle & Strum,” in which we sought the expert analysis of four prominent members of the guitar manufacturer community, we present this month a roundtable of esteemed industry members who represent the pro audio market and have agreed to share their thoughts about its current trajectory and burgeoning trends. Boasting decades of industry experience between them, our participants are Ray van Straten, Senior Director, Marketing Communications and Training & Education, QSC; Andrew Beard, Senior Product Marketing Manager, Gibson Pro Audio; Mark Gander, Director of JBL Technology, Harman Professional; and Cobi Stein, Marketing/Artist Relations, Eminence Speaker. As you will see, not all of them observe the same market trends, although there is considerable unanimity about the segment’s overall robustness.

If you have thoughts about any of the topics touched on here—whether in agreement or disagreement with our participants—feel free to drop me a line at dferrisi@testa.com.

The Music & Sound Retailer: One narrative that has emerged since the last recession has been that many product groups have refocused on lower and middle-range price points, given that some consumers are spending less readily. To what extent, if any, has this trend manifested in pro audio?

Ray van Straten: I cannot remember a time when we were without competition from low-price players. There is always room at the bottom. The challenge here, of course, is that, although pro audio continues to be a growing market segment, the channel is going to have a difficult time growing revenue with low-priced goods. I just don’t believe there are enough customers to whom the “pie” can be distributed. It’s my assessment that customers are, to a large degree, spending less because the channel is vigorously promoting low-priced goods to grab customers’ attention and make a sale—any sale. Although this might create earlier entry points for new customers, it does little to cultivate a relationship with the aspiring professional users who need performance tools with which they can make a living. It’s really not that different from putting a cheap guitar in the hands of someone who wants to learn how to play. Overcoming the shortcomings of the instrument

The Good Stuff

Our Annual Review Of Charitable And Philanthropic Activity

By Dan Ferrisi

Virtually every piece I write for *The Retailer* is enjoyable to work on, inasmuch as I’m writing about music making, an activity that not only is fun and offers tangible health and wellness benefits, but also presents a way for people to express their creativity and showcase their artistry. “The Good Stuff,” though, is probably the most fun—and the most heartening—piece I write all year; it’s wonderful to review all the charitable, philanthropic and community-affirming work that MI industry members do on a yearly, monthly, weekly and even daily basis. These stories truly exemplify the idea of “doing well by doing good” and amply demonstrate that, although we’re all in business to earn a living and realize monetary success, there are things that are even more important than profit margins and the bottom line.

Once again, this year’s “The Good Stuff” presented a happy problem: There were far more submissions than we could possibly fit into a single story. So, we’ll present part two next month, featuring another 20 or so companies that are doing their part to make the world just a little bit better.

KHS America

Recently, Jupiter and Mapex invited the Nashville Symphony and Nashville Metro Schools to their corporate headquarters for donations of musical instruments. Jupiter Band Instruments teamed up with the Nashville Symphony and the Predators Foundation for its school

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MIKE MATTHEWS

President, Electro-Harmonix

By Dan Ferrisi

It seems like just about everybody in the music products industry—and, by extension, nearly all the luminaries whom we interview in Five Minutes With—has a personal connection to music in the sense of being a performer or an artist, or at least having been a roadie or otherwise connected to the music scene. It's certainly not everyone, though, who can lay claim to having known Jimi Hendrix and called him a friend! Mike Matthews has lived and breathed rock 'n' roll for decades, along the way founding and ably leading a manufacturing company—Electro-Harmonix—that continues to innovate and deliver high-quality products to this day.

Enjoy this conversation with an inimitable industry icon.

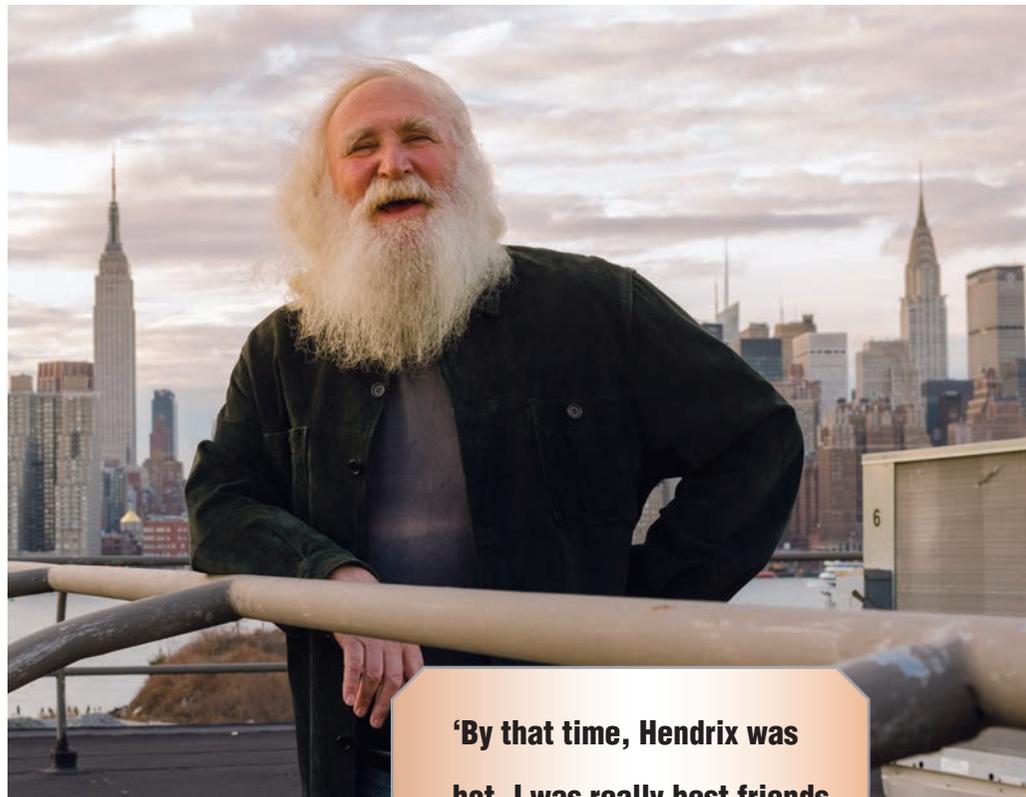
The Music & Sound Retailer: Let's start with your background. Touch on some of the highlights of your own story as it pertains to the music products industry and music broadly speaking. Tell us about the path you've traveled.

Mike Matthews: Well, I've got to actually go back to when I was a kid...five or six years old. The primary thing is, I've always been into business, even when I was five or six. I grew up in the Bronx in the '40s. I started fishing Spalding balls out of the sewers and selling them on the street. A neighbor was a guy who built binoculars for World War II, and he sold me all his stash of lenses and prisms. I sold these prisms in junior high school. It was a big fad because everybody was making rainbows all over the school, annoying the teachers. And it goes on and on.

Early in college, I was promoting rock 'n' roll shows with name groups, such as The Coasters, The Drifters, The Isley Brothers, The Young Rascals, The Byrds, The Lovin' Spoonful and Chuck Berry. So, I was always into business.

But also, when I was a kid, my mother started giving me piano lessons when I was five. And then, when I was six, I got classical lessons. I used to give concerts in elementary school, but then I quit. I was a bad kid...I used to climb up the rafters in school. The teacher punished me and canceled one of my concerts. So, I said, "Screw it" and I quit studying classical piano.

Rock 'n' roll started when I was in high school, and I started playing around...boogie-



'By that time, Hendrix was hot. I was really best friends with Jimi back when he was Jimmy James.'

woogie on the piano. But when I went to college, I saw my first rock 'n' roll band: an all-black R&B band. This was in 1958. I really loved them, and I started practicing electric piano like these guys play guitar. I formed my first band in college, and that was a lot of fun. I really got into playing. When I was in college, I studied electrical engineering: not that I saw myself as an electrical engineer, because I knew deep down that I'd always eventually go into business. So, those three things gave me my background.

My first job out of college was selling computers for IBM during their heyday in the '60s. But I still had music in my blood; I wanted to quit IBM and go out and make it. I was married then, and I wanted to go out and make a little stash so my wife wouldn't go bonkers. At that time, The Rolling Stones had their big hit, "Satisfaction." It went for weeks and weeks, and was the longest-running number-one hit at the time. Everybody wanted a Fuzztone. And Maestro couldn't make them fast enough. This guy, Bill Berko, on the music street in New York—48th St.—was building Fuzztones, onesies and twosies, and

selling them. He asked if I wanted to go in with him. I said, "Sure." I figured, "OK.

I'll make a stash this way." So, I started doing that with him and then he dropped out. He didn't want to be bothered. So, I was left to do this myself.

Now, I wasn't building them myself. What happened was, Al Dronge, the Founder of Guild Guitars...he wanted them. And I had a contract house that would build them. By this time, Hendrix was hot. That's a separate story, because I was really best friends with Jimi back when he was Jimmy James. I met him when I was promoting Chuck Berry. And that's a whole long story. Anyway, Dronge wanted them all, and he decided to call them Foxy Ladies. So, I was picking these up once a week, bringing a load over to Hoboken where Guild was and they'd cut me a check. And then, I'd go back to work at IBM. Meanwhile, because Hendrix was hot, one of my colleagues at IBM introduced me to a designer, Bob Myer, at Bell Labs: a great inventor that has about 60 or 70 pioneer patents for them.

Shots from the Electro-Harmonix facility.



And, so, I wanted to come up with a device so everybody could sound like Hendrix, who had that long sustain, without distortion. His fingers would just make the notes sing as long as he wanted. I went over to test one of the prototypes—to pluck the guitar—and, in front of it, he had a little box. I asked, “What is that?” He said, “Well, I didn’t realize the output of

the guitar was that low. So, I built this little preamp.” I played it and, all of a sudden, the amp was loud as hell. And I asked, “What’s in that?” He said, “Just one transistor.” Wow...now that’s a product! And that was the first product of Electro-Harmonix: the LPB-1 for Linear Power Booster, launched back in 1968. I started selling those, and then I quit IBM. That’s

how it started.

The Retailer: On a day-to-day basis, what are your key responsibilities and duties? What’s the best part of your job?

Matthews: Well, I do everything. I have a few accounts, so I keep up with sales. The lifeblood of the company is sales; that’s

the only way you’re going to get money. And you need money to grow, and for everybody in the company to grow. But for sales, one of the keys is successful new products. And I guess because of my background and experience—I’ve been doing this so long—that’s one of my key strengths: picking which products to go after. I mean, it’s easy to pick

something too complex and then the development goes on and on and on. There's more potential for problems. It's more about picking something new that can be developed cost effectively and brought to market in a reasonable time. So, I really work closely with our development team.

We have an excellent team of seven engineers, and they're constantly working on all sorts of products. Some are analog and some are digital. And, now, we've even started working on a guitar amplifier. The effects market is really cluttered. I mean, I see hundreds of companies...companies I've never heard of. Most all of them are making different variations of distortion, fuzz and overdrive pedals. So, we keep developing analog pedals to compete in that market. But also, we dig coming up with exotic digital pedals that are warm as hell and that are novel and new. We've had quite a few successful ones...the POG: the Polyphonic Octave Generator, our Superego and Freeze pedals, our Ravish sitar pedals and there are many more, like our line of Next Step effects, the Crying Tone Wah and Talking Pedal and others. These are designs for wah wah and other pedals with no moving parts.

My approach is very hands-on and I'm involved with all aspects of the business, from engineering to accounting, sales to production—you name it—on a daily and ongoing basis.

The Retailer: Let's talk about Electro-Harmonix's growth and development. Tell me about how it's changed and evolved over its multi-decade history.

Matthews: Well, I guess there are two phases. I started the company in 1968, and we grew real fast. I was very ambitious and very aggressive. I wanted to double our sales every single year. And some years, we did. Whenever there would be a problem, I would solve it. But then, in the late '70s, I was expanding into too many different things at once, I was battling with racketeers and Panasonic stopped supplying me with bucket brigade chips. You know, we were the first company to bring out analog delays, and our Deluxe Memory Man. We had some earlier versions that

used the Reticon bucket brigades. But this Deluxe Memory Man used these nice Panasonic chips. They were supplying me and then, all of a sudden, they gave all their chips only to the Japanese companies: some of our competitors, and also to the karaoke market. So, between all that, we collapsed. I went bankrupt in the early '80s. And then, I started Electro-Harmonix up again in the early '90s. First, I concentrated in dealing with Russia and selling

integrated circuits and vacuum tubes. There was a long history behind that.

So, there's two phases of Electro-Harmonix. Now, the second phase—phase two—I learned from the collapse. I'm much more conservative. In the '70s, I paid my bills in 90 days; now, I pay all my bills in 10 days. I was borrowed up to the hilt from the bank. Now, I don't borrow a dime from the bank, although we have a big line of credit and I've got

plenty of cash...in line with being conservative. There are always contingencies, and problems can arise. So, it's a different way we run the company now.

The Retailer: When you look at EHX as it currently exists, what would you say you're the proudest of? What makes the company stand apart, not only from its competitors but also from all companies in the music products industry?

EHX's breadth of products is impressive.



Matthews: I'm proud that a product like our Big Muff, which we brought out in 1969...we're still selling thousands of them a month. I mean, this is, like, over 40 years. Usually, consumer electronic products of any type are hot for a year or two and then they're obsolete. Even with electronic music products, there are very few products that are out that many years. So, I'm proud of the longevity. I mean, we still sell a large quantity of LPB-1 Linear Power Boosters, our very first product from 1968. But I'm also proud of the novel products we have that are really unique that nobody has. Like I mentioned before, the POG. A guitar player can play bass, or he can make his guitar sound like a 12-string, or he can make it sound like an organ. The Ravish...you really can make your guitar sound like a sitar. The Freeze was the predecessor of the Superego. Whatever

notes you're playing, or chords, if you hit the footswitch, that will sustain indefinitely until you release. And then, you can play over it. So, it's a novel product. And now with our Superego, with the effects loop, you can invent new sounds. So, I'm proud of those new things we're introducing to the marketplace.

It's also important to recognize which ones you should go after and which ones you shouldn't. You can get bogged down in the wrong development project. And that can hurt. It just drains capital and ties up time. We're careful in what we choose to work on.

The Retailer: Are most of the team members working at Electro-Harmonix personally involved in the music scene and playing music products?

Matthews: Most musicians out there—most people who buy sound effects—to them, the

overwhelming majority, it's really a hobby. They dig playing. But gigs...you play maybe once a month, twice a month or whatever. Most people have regular, full-time jobs. Now, almost all of our engineers play guitar. Two-thirds of our salespeople play guitar. But, on the other side, we have non-musicians in some other areas who are really good: in purchasing, our controller, etc. Our Director of Marketing, Larry DeMarco, plays guitar. But all of our guys, if they play gigs, it's like one or two a month. There are very few people who become full-time professionals. Our market does include the full-time professionals, but the much larger market are the guys who really dig it as a hobby. They have their home studio to create stuff, they'll play a gig here or there, they'll jam with their friends or with a looper. By the way, we were the first company to come out with

a looper. That was our 16-second digital delay, back in 1983.

The Retailer: Does personal familiarity with Electro-Harmonix products help the team in research and development, marketing and sales?

Matthews: Well, yeah. You've got to have a feel. If you're working on the development, you've got to design something that sounds good and also feels good for the player. There are certain nuances. You can sit in the audience and not tell the difference, but, as a guitar player, it matters. If the sound effect is good, and it's right, and it has the expressiveness, which is very important to us, then you're going to play better. That's the whole thing. Everybody wants to play better and better and keep getting better. So, we pay real close attention to each product really being expressive. That way, the musician...what he's playing and what he feels...it comes out and he hears it.

The Retailer: What is Electro-Harmonix's philosophy as regards working with dealers and the dealer channel? Is working closely with dealers a big part of EHX's fundamental approach to business?

Matthews: Well, yeah. Fundamentally, we deal direct with dealers, even overseas all over the world, except in a very few countries where we have exclusive distributors. We deal direct with the dealers, because we want to pass the best pricing on to the musicians. Most companies, at least in the foreign markets, they'll pick an exclusive distributor. And there are advantages there: They'll advertise, for example. We advertise overseas, too. But they end up having an extra middleman that marks things up, and that makes the goods eventually more expensive for the ultimate consumer.

Dealers want the best price and they want products that are going to sell profitably. When a dealer buys a product, the most important thing is how fast it turns around, as opposed to sitting on the shelf. Sell-through is very important to dealers, especially in today's economy. They need products that they're going to buy and sell in a reasonably rapid time.

The Retailer: Is there any-

thing that the dealer channel could do that would be helpful to Electro-Harmonix as a company? Do you have any suggestions for the channel that would help retailers, as well as EHX itself?

Matthews: Well, the dealer has to make a profit to survive and grow, just like we do. We have almost 100 different pedals. We know which sell the most in units and in gross dollars: which ones are proven bestsellers... what's really hot and upcoming. We try to guide dealers and provide advice to make sure they are stocking—or at least trying—products we know are really going to work for them.

We like brick-and-mortar dealers and we like to add dealers that have a brick-and-mortar presence, not just a Web site. We are also very strict on controlling MAP.

The Retailer: That probably endears you to a lot of those brick-and-mortar retailers.

Matthews: Yeah, I think it does. Of course, it's also im-

portant for brick-and-mortar retailers to have a Web presence and a large number of them do. Regarding MAP, as I said, we are very strict on controlling it. And if people are violating it, we will cut them off. Every dealer has to be able to make a reasonable profit.

The Retailer: Both in the U.S. and globally, economic times during the past few years have been difficult. How well has EHX withstood the tough economy? What proactive steps has the company taken to try to minimize economy-related pain?

Matthews: Well, we moved proactively to slow down expansion in terms of hiring people and in remaining conservative by making sure we have cash in the bank. Our growth in sales during this tough time has slowed a lot, but we have remained profitable and continue to grow. We always have good cash in the bank. And we push real hard to come out with new products to keep that going. But, you've just got to work harder and smarter.

If you contract, then you die. We've still been growing at a slow pace, and the cash position has remained solid. That hasn't been contracting. And we have zero bank debt. I'd rather have it that way than growing faster and having higher risk on the financial side.

The Retailer: What does Electro-Harmonix's future hold? What future changes can we anticipate? What new avenues might you explore?

Matthews: We still have a lot of novel ideas that we're working on with the pedals: from analog to exotic new digital stuff. But, right now, we're toying around and building some guitar amps. We think that this can open up a new area for us, especially if we combine them with some of the right sound effects that'll go in them. We have a prototype now of something that we really like.

We're studying costs and suppliers and everything from transformers to speakers to cabinet design. So, we're working hard on it, but I don't have

a time estimate. I hope we can launch something by the end of this year, and then quickly follow it with a couple of other models. We're not looking to immediately come on the market and be a big player. There are too many guys that have been in it for years and know what they're doing. But we want to get a piece of the market as a challenge, and have something really good as a guitar amp. So, that's a new area that we're working on.

The Retailer: It must be very satisfying to look at the company you've built over this period of several decades.

Matthews: It's satisfying, but we can't sit back on our laurels. We're dealing with a tough market where everybody is trying to survive and grow. So, you've still got to come out with some new stuff.

The Retailer: Is there anything you'd like to add?

Matthews: I've just got one more thing to say... ROCK 'N' ROLL! 