application 5.1

STEINWAY'S STRATEGIC ORIENTATION

Steinway & Sons, which turned 150 years old in April 2003, is generally regarded as the finest piano maker in the world. Founded in 1853 by the Steinway family, the firm was sold to CBS in 1972, taken private in 1985 by John and Robert Birmingham, and sold again in 1995 to Dana Messina and Kyle Kirkland, who took it public in 1996. Steinway & Sons is the piano division of the Steinway Musical Instruments Company that also owns Selmer Instruments and other manufacturers of band instruments (http://www.steinwaymusic.com). Piano sales in 2002 were $169 million, down 7.6% from the prior year and mirroring the general economic downturn. Since going public, Steinway's corporate revenues have grown a compounded 6%–7% a year, while earnings per share have advanced, on average, a compounded 11%. The financial performance for the overall company in 2002 was slightly below industry averages.

The Steinway brand remains one of the company's most valuable assets. The company's president notes that despite only 2% of all keyboard unit sales in the United States, they have 25% of the sales dollars and 35% of the profits. Their market share in the high-end grand piano segment is consistently over 80%. For example, 98% of the piano soloists at 30 of the world's major symphony orchestras chose a Steinway grand during the 2000/2001 concert season. Over 1,300 of the world's top pianists, all of whom own Steinways and perform solely on Steinways, endorse the brand without financial compensation.

Workers at Steinway & Sons manufacturing plants in New York and Germany have been with the company for an average of 15 years, often over 20 or 30 years. Many of Steinway's employees are descendants of parents and grandparents who worked for the company.

THE EXTERNAL ENVIRONMENT

The piano market is typically segmented into grand pianos and upright pianos with the former being a smaller but higher-priced segment. In 1995, about 550,000 upright and 50,000 grand pianos were sold. Piano customers can also be segmented into professional artists, amateur pianists, and institutions such as concert halls, universities, and music schools. The private (home) market accounts for about 90% of the upright and 80% of the grand piano sales with the balance being sold to institutional customers. New markets in Asia represent important new growth opportunities.

The piano industry has experienced several important and dramatic changes for such a traditional product. Industry sales, for example, dropped 40% between 1980 and 1995. Whether the decline was the result of increased electronic keyboard sales, a real decline in the total market, or some temporary decline was a matter of debate in the industry. Since then, sales growth has tended to reflect the ups and downs of the global economy.

Competition in the piano industry has also changed. In the United States, several hundred piano makers at the turn of the century had consolidated to eight by 1992. The Baldwin Piano and Organ Company is Steinway's primary U.S. competitor. It offers a full line of pianos under the Baldwin and Wurlitzer brand names through a network of over 700 dealers. In addition to relatively inexpensive upright pianos produced in high-volume plants, Baldwin also makes handcrafted grand pianos that are well respected and endorsed by such artists as Dave Brubeck and Stephen Sondheim, and by the Boston, Chicago, and Philadelphia orchestras. Annual sales are in the $100 million range; Baldwin was recently sold to the Gibson Guitar Company. The European story is similar. Only Bösendorfer of Austria and Fazioli of Italy remain as legitimate Steinway competitors.

Several Asian companies have emerged as important competitors. Yamaha, Kawai, Young Chang, and Samick collectively held about 35% of the vertical piano market and 80% of the grand piano market in terms of units and 75% of global sales in 1995. Yamaha is the world's largest piano manufacturer with sales of over $1 billion and a global market share of about 35%. Yamaha's strategy has