

# Music Trades

DECEMBER 2014

## THE GLOBAL MUSIC INDUSTRY



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Data On The World's  
Top Markets

### THE RANKINGS

The World's Top 225  
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By Revenue

### THE PLAYERS

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Companies That Are  
Driving The Industry



Workers at the modernized Seifhennersdorf, Germany plant, site of Bechstein production. The company produces its W.Hoffman line in Hradec Kralove in the Czech Republic.

# BECHSTEIN PIANO GROUP

Management, manufacturing facilities, and product line tailored for today's global piano market

**“THE BECHSTEIN IS TO** pianists what the Stradivarius is to violins,” declared Hans Von Bulow in 1857 after he premiered Lizst’s B-minor piano sonata to an enthusiastic audience in Berlin. In every decade since, acclaimed musicians around the world have consistently lavished praise on Bechstein pianos. The story of the company behind the pianos, however, has not been quite so consistent, filled with triumphs, tragedies, and several close brushes with disaster. Yet in 2014, as Bechstein celebrates its 161st anniversary, the company is one of the world’s best-positioned piano makers, with a revered trademark, highly efficient manufacturing facilities, and a strong management team in place.

Today’s Bechstein organization has four well-defined brands that offer pianos for every segment of the market.

The flagship C. Bechstein brand combines the finest materials and craftsmanship in limited production, crafting exquisite grands and upright pianos for the most discerning players. Bechstein-branded grands and uprights offer a more affordable option for serious amateurs and institutions. The W. Hoffman brand is a mid-priced line, and the Zimmerman brand addresses the entry-level price point. All Bechstein branded pianos are produced at a plant in Seifhennersdorf, a small town in Eastern Germany, outside of Dresden and near the Czech border. W.Hoffmann grand and upright pianos are produced about 100 miles to the east in the Czech town of Hradec Kralove. Zimmerman grands and uprights are designed by Bechstein pianos and produced in China under the supervision of a Bechstein quality team. The diverse product offer-

ing reflects management’s goal to offer exceptional pianos at every price point. The pianos are distributed throughout Europe, North America, and most recently, China through a network of partners. Chairman Karl Schulze explains, “Our goal has been to offer a range of products that deliver value for the money and will secure our market position over the longer term.”

This long-term outlook has been supported by a well over €35 million investment in buildings and equipment at the Seifhennersdorf and Hradec Kralove operations. High-tech computer controlled machinery is used in the production of metal parts, such as the cast iron frame, and basic wooden components including rim parts. The machinery shapes component parts to precise tolerances but hasn’t automated piano production. Rather it has freed up craftsmen for tasks such as action adjustment and regulating that require a skilled hand and a discerning ear. Both plants also boast precise climate control systems and acoustically optimized rooms for the intonation process, which reflects the emphasis on quality.

Much of the global piano industry is awash in red ink, and the past decade has seen several high-profile European piano makers fold. Bechstein, however, is a notable exception. Producing 4,000 pianos annually, the company earned a €2.5 million after-tax profit last year and carries little debt. This happy state of affairs is the result of an illustrious tradition and the energetic management of Schulze, who has headed the company since 1986.

Born in 1826, Carl Bechstein began apprenticing as a piano maker as a young boy. At 27, he set up his own workshop in Berlin, determined to create a new piano that had the volume and tonal quality to do justice to the emerging “romantic” style of music. His success could be measured by a collection of first prize medals from exhibitions across the continent, along with the endorsements of musical titans like Franz Liszt and Richard Wagner. Bechstein’s abilities as a design engineer were matched by his business acumen: By 1870, his company was one of Europe’s largest piano makers, with two plants in Berlin serving a clientele that included noted artists and royalty. Carl Bechstein died in 1900, but the growth



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*The husband and wife team of Berenice Kuepper and Karl Schulze have structured Bechstein to compete in a tough global piano market.*

and success of his company continued under the management of his three sons, Carl, Edwin, and Johannes.

Like every other piano maker in the world, Bechstein saw its sales volume and finances collapse during the worldwide Depression of the 1930s. These economic woes were followed by the calamity of World War II, and at the War's end in 1945, Bechstein's piano plants were in ruins. Despite diligent efforts by the Bechstein family, the company never achieved its pre-war glory or production levels. In 1963, in need of a capital infusion, the family sold out to the U.S.-based Baldwin Piano.

Baldwin's investment in new factories and machinery ensured Bechstein's survival. And, a "hands-off" approach gave the Berlin management the autonomy necessary to preserve its unique piano building tradition. However, Baldwin's management lacked the interest or strategy to capitalize on the Bechstein legacy. In 1986, it tried to hire Schulze to run the company. He refused and countered with an offer to buy Bechstein. The deal was completed shortly thereafter.



*Bechstein's majority shareholder, Stefan Freymuth, is taking an active role in management.*

In many respects, Schulze resembles company founder Carl Bechstein. He was attracted to the piano at an early age and became a skilled technician. As the owner of a successful piano retail business, he developed sales and marketing skills and a sharp eye for finance. Buying Bechstein presented a once-in-a-lifetime opportunity to put these skills to work. Although the purchase represented a considerable financial risk, he explains, "It was a challenge I couldn't pass up."

The challenges of running the company in the early years would have overwhelmed any but the most dedicated piano maker. The Berlin Wall unexpectedly came down in 1989, just as Schulze was revamping Bechstein's Berlin manufacturing operation. The world cheered Germany's reunification, but for Schulze it meant scrambling to find a new production facility outside of Berlin. Fortunately, he was able to take control of the former East German state-owned piano plant in Seiffhennersdorf. "We weren't very happy about having to leave Berlin on such short notice," he says. "But in spite of all the difficulties, the move proved

to be the right decision."

In 2007, Schulze acquired the Bohemia Piano operation in Hradec Kralove, allowing him to begin production of lower-priced pianos that had previously been outsourced. "The operation has given us control and the ability to create a distinct identity for the W.Hoffman brand," he says.

Bechstein shares have been traded publicly since 1996, and in 2003 Korean-based Samick made a substantial investment in the company. The relationship never worked as planned, and Bechstein ended up buying back its shares. Starting in 2009 the Kuthe Company, a Berlin real estate development firm, began acquiring Bechstein shares, eventually acquiring much of Schulze's stake in the company. Kuthe representative Stefan Freymuth is now taking an active role in managing Bechstein.

Schulze and Freymuth have a friendly, informal relationship based on what Schulze calls "the right chemistry." Freymuth adds, "Our cooperation doesn't need a formal framework, it just works. We both have very similar points of view. I don't intend to fight the company or revolutionize its internal structures."

Freymuth and Schulze both have a realistic assessment of the global piano market: they acknowledge that unit sales are not likely to increase. "You can count on three fingers the countries with any growth potential," says Freymuth. However, they are also confident that opportunity remains for well-managed companies that can deliver exceptional quality, like Bechstein. Freymuth adds that with a sound and conservative management style, Bechstein's "legacy will be secured for the next generation."

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