

THE AMERICAN PIANO COMPANY

This 1934 case study from the Harvard Business School covers the decline of the American Piano Company. Immediately after these events, in 1932, the Aeolian Company purchased the American Piano Company to form the Aeolian-American Corporation. This article was located by Jeff Morgan for the AMICA bulletin, and is presented here re-typeset for clarity.

The following summary of the history of The American Piano Company to May 21, 1927, is taken from a statement made as of that date by George B. Foster, then president, in connection with an offering of 170,000 shares of common stock of the company.

American Piano Company was incorporated in 1908 under the laws of the State of New Jersey and is with its subsidiaries the largest company of its kind in the United States. At the time of organization it acquired the assets and business of Wm. Knabe & Company, established in 1857 with a factory at Baltimore; Chickering & Sons, established in 1825, with a factory at Boston; and the Foster-Armstrong Company which has a factory at East Rochester, N.Y. and also a large foundry for the casting of piano plates for use in the Knabe and Chickering as well as in its own makes. Additions to the company's properties were made in 1924 by the purchase of Mason & Hamlin Company, with a plant at Boston. Previous to that time the Amphion Piano Player Company had been acquired in 1922 with a factory at Syracuse, N.Y., in order to provide adequate manufacturing facilities to meet the increasing demand for the company's reproducing action, the Ampico. A research laboratory is maintained in New York City through which the company's products are being continually improved. All plants are modernly equipped and well maintained, and are situated near shipping points favourable to transportation to all parts of the country.

The *Mason & Hamlin*, the *Knabe* and the *Chickering* pianos have long been recognized as being the highest quality of pianoforte manufacture. Through these three makes, American Piano Company has the largest output of high-grade pianos in the world. It has been the policy of the company to preserve the tradition and individuality of each of these organisations with the result that the goodwill and regard accorded their respective instruments has been steadily maintained. Without conflicting with this policy in any way, it has, however, been possible for the company to effect substantial economies through coordinated management.

The *J. & C. Fischer*, *Haines Bros.*, *Marshall & Wendell* and several other makes of pianos produced by the Foster-Armstrong Company are manufactured by large-scale production methods which permits their sale at medium and popular prices. The American Piano Company thus has a completely balanced output with a piano in every price class.

The development of the Ampico gave to the public a reproducing piano action which accurately reenacts the actual performance of the world's great pianists. Since its introduction in 1916, sales of the pianos of the various makes controlled by the company in which the Ampico is incorporated have in every year except 1921 shown an increase over the preceding year, and in 1926 were approximately 10% more than in 1925 and over 50% in excess of 1922. The Ampico may be obtained in the United States only in combination with the company's pianos and is protected by patents on its principal features as well as on machines used in its manufacture. An extensive library of music roll recordings has been developed for the Ampico which includes the performances of the greatest pianists.

Distribution of the company's products is made by leading dealers throughout the United States and in most of the principal countries of the world, and through the company's five retail stores, of which three are in New York City and two in Boston. In order to further the sale of the Ampico in Great Britain, the company has a British subsidiary which also operates a large retail establishment in London.

Net sales of the company (including Mason & Hamlin Company prior to date of acquisition) for the five years ended December 31, 1926, and net earnings available for dividends on the common stock after deducting depreciation, Federal Income Taxes at present rates and the dividend requirement on the preferred stock now outstanding, as certified to by Messrs. Peat, Marwick, Mitchell & Company, have been as follows:

	Net sales	Earnings Available for common dividends	Earnings per share on 226,245 1/2 shares common stock outstanding
1922	\$ 9,063,540	\$ 763,204	\$3.57
1923	11,703,738	1,334,179	5.90
1924	11,425,332	1,080,265	4.77
1925	12,176,454	1,128,321	4.99
1928	13,060,607	1,539,937	5.92

Dividends at the annual rate of \$3 per share in cash will be initiated on the new no par value common stock, payable quarterly beginning July 1, 1927.

The piano has in recent years come to be more fully appreciated by the general public, largely through the reputation of the reproducing mechanism. Last year sales reached the highest point in the history of the industry. The increasing use of pianos, especially those of high quality, and reproducing pianos is partly the result of the country's growing wealth and high standards of living, but has also been stimulated by the more general appreciation of good music fostered by the radio, the phonograph and the moving picture theatre. The piano industry, and especially the American Piano Company, has been particularly alert to the opportunities presented by these developments.

The public offering of common stock of the American Piano Company in 1927 marked the retirement from active management of the Company of George O. Foster, president, and some of the other men who had been its executives during a long period. These men sold their common stock interests in the company, but most of them retained their holdings of preferred stock which, from the company's past dividend history, appeared virtually invulnerable. A syndicate of banking interests including the Bankers' Trust Company, two of whose executives already were on the company's board of directors, purchased the common stock and one substantial holding of preferred Stock, assumed the responsibility of distributing the stock to investors, and increased its representation on the board. Mr. Foster became chairman of the board of directors. C. A. Wagner, a vice president, was made president. The banking syndicate, which also included the firm of Dominick & Dominick, split the company's common stock five for one and offered the new shares to the public at 42.

For the 15 months ending Mar. 31, 1928, net sales of the American Piano Company were \$13,750,868 and the balance available for dividends after operating expenses, depreciation, and taxes was \$562,094; earnings per share of common stock were 16 cents. For the year ending March 31, 1929, net sales were \$11,424,799, and there was a net deficit after operating expenses, depreciation, and taxes of \$235,235. For the first nine months of 1929 the deficit was \$134,542 as compared with a deficit of \$85,239 for the corresponding period of 1928. The company had paid dividends as follows on its common stock, which, until 1927, had \$100 par value and thereafter had no par value: 1920, 6% in cash and 20% in common stock; 1921-1923, 6% annually; 1924, 7½% and 2% extra; 1925-1926, 8% annually; 1927, January and again in April, 2½% in cash and 2½% in stock, July, 75 cents on the new no par common, and October, 75 cents; none reported thereafter.

Early in 1928, following the sharp decline in the company's profits, Mr. Wagner resigned and was succeeded as president by George Urquhart, a vice president of the Bankers' Trust Company. Mr. Urquhart had been appointed assistant to Mr. Wagner about five months after the latter had become president. Coincident with this change in management, S. A. Tomkins, chief executive of the Bankers' Trust Company, was elected chairman of the board, Mr. Foster remaining as a director.

The following description of the distribution policy of the American Piano Company as it existed in 1926 appeared in *Printers' Ink*

In the case of the American Piano Company, also referred to in our correspondent's letter, and the various makes of pianos controlled by the American Piano Company in which the Ampico reproducing unit may be installed, a somewhat different method of marketing and advertising is followed. For example, all pianos are grouped according to a price and quality classification. The first group contains the Chickering, the Knabe and the Mason & Hamlin, all about equal in quality

and price. The second group, representing a middle range as to quality and price, contain the Haines, the Fischer and the Marshall and Wendell. The third group, still lower in price and quality, comprises the Foster, the Brewster and the Armstrong. In appointing dealers the company gives its retailers its exclusive agency for one make of instrument in the highest class, one in the second and one in the third. That is, a leading dealer in a certain city would control the agency for the Chickering, the Marshall & Wendell and the Brewster. Another leading dealer would have the agency for the Mason & Hamlin, the Haines and the Foster. Still a third would have the Knabe, the Fischer and the Armstrong.

Thus all three dealers would each have exclusive privileges, each would be able to compete with the others in all three price groups on an even basis and all would have a fair chance.

After Mr. Urquhart became president in 1928, the new management introduced several important changes in policy. One of the most drastic of these called for a revision in the company's plan of retail distribution. One dealer in each community where the company was represented was given an exclusive agency for the company's entire line. From the three retailers in each city, the company endeavoured to persuade the one it considered best to accept representation for the entire line. If he refused, the sales rights for the city were offered in turn to the other two. In the event of their refusal also, the company attempted to secure an outlet through a store not previously associated with it. Many of the existing retail representatives declined the company's offer on the ground that they had built their reputations chiefly on the sale of one of the company's three high-priced pianos. They evidently considered that if they were to market all the company's makes they would be forced to disperse their promotional efforts and would jeopardize their existing repute with consumers without the prospect of an adequate recompense.

One such instance occurred in a city of about 250,000 population. The retailer who for years had carried the Mason & Hamlin piano in that community, when requested to assume responsibility for selling the rest of the line, responded that he would give up his distributorship for the Mason & Hamlin rather than accept those terms. In almost every year this retailer had been able to sell more Mason and Hamlin pianos than the company could allot to him from the restricted production of that make. He had spent some hundreds of thousands of dollars in advertising, and possessed intimate contact with the wealthy class of consumers. In the end, the company placed its pianos in the city's largest department store. This store previously had not carried any of the company's makes.

The *Music Trades* of December, 1929, commented as follows on this step:

This policy automatically eliminated two dealer agencies in each city in which the Mason & Hamlin, the Knabe and the Chickering pianos had previously been featured by three dealers as leaders. It obviously had the effect of doing away with the three dealer competition in many cities and towns having piano concerns featuring these three recognized leaders. It led to the practical submerging of one of these names as a leader and greatly detracted from the time-honoured standing of another. It did not serve to enhance the reputation or standing of any one of these three great names in the world of piano making.

It also led, incidentally, to the engendering of much bad feeling on the part of dealers who had in some cases for many years featured one or another of these instruments as their leader, and who had expended large sums in advertising over a period of years in creating a following in their respective communities for these famous instruments. The rancour thus instilled in the minds and hearts of some of the most loyal dealers who had carried these lines over a period of years led inevitably to the fiercest competition by these dealers to make sales for the new leaders which they were compelled to take on. It led in one instance to a suit for heavy damages brought by a Pacific Coast house which had carried one of these lines as a leader for approximately a quarter of a century. The suit, it was subsequently reported, had been settled out of court.

The injury done to the prestige of these great names in piano history in individual communities through the adoption of this policy, together with the policy of combining some of the manufacturing plants which had always been individualistic in character and confined to the production of one or another of the instruments bearing those distinguished names was incalculable. These moves were undoubtedly made through a lack of a full and complete comprehension of the traditions of the industry, and with no appreciable understanding of the resultant lessening in prestige, which would have been readily apparent to any piano man.

It has taken, in some instances, generations to create and establish the prestige of great names which have adorned the pages of piano history. The piano business is one peculiarly based upon reputation, and as an art industry the reputations so hardly won could not be too carefully guarded. A seasoned piano man would hardly have fallen into some of the errors which have marked the maladministration of the affairs of the American Piano Company, under its most recent direction.

It is a matter for the deepest regret that the great commercial edifice created by George C. Foster and William B. Armstrong, with their associates, should have toppled through the adoption of doubtless well-meant but mistaken policies. The distinguished name of Mason & Hamlin, which A. M. Wright did so much to place upon the high pedestal of fame, and the prestige attached to those other great names of Knabe and Chickering, were dragged down from the Temple of Art to a greater or less degree of commercialism through advertising policies which have been the subject of much caustic criticism throughout the trade. While these served to get a certain volume of business in the retail warerooms of the concern, they failed to show profits commensurate with the aggregate of business handled or of the very large expenditures for the retail advertising done to create this business. The price appeal so incessantly used in this advertising had a tendency to create false impressions in the public mind of real piano values and certainly was not calculated to enhance the reputation of the house. On the contrary, it had the effect of dimming the lustre of great names in the world of artistic piano production.

The establishment of exclusive retail distributors did not halt the decline in the American Piano Company's sales. As the next expedient to counteract the decline, the company instituted operation of its own retail stores. Good locations in high-rental districts were secured in each of the selected cities. Occupancy was assured by lease for periods as long as 20 years. In several of the cities where the Company opened a store of its own, its pianos were on sale at the time in another store. By 1930, the company had 12 stores in which the company's full line was sold. In addition to its pianos, the management undertook to sell in those stores a complete line of standard radios and radio equipment. These policies were explained by Mr. Urquhart as follows:

On September 3, the American Piano Company, the largest manufacturer and distributor of pianos in the world, will start to sell radios in its 12 retail stores. Several well-known lines will be handled and every major price group covered.

The new retailing activities will be in charge of Robert S. Rose, formerly general manager of Landay Brothers, who has become vice president to charge of radio promotion.

To clarify our reasons for entering the radio business, it is perhaps necessary first to describe the American Piano Company's distribution organisation. We now have some 300 exclusive dealers throughout the country, each of whom handles, in addition to all of our seven piano lines, other musical instruments, usually including radios as well.

To fill in the gaps of distribution caused by the recent establishment of this exclusive distributor plan, we have put into operation 12 retail stores of our own. These stores are located in New York City, Brooklyn, Fordham, and Jamaica (New York), Newark, Chicago, Milwaukee, Cleveland, St. Louis, Boston, Philadelphia and Atlanta.

These stores are not in any sense competitive with those of our dealers, and we do not operate a store in any city where a worthwhile dealer is available. They are in a sense "model" stores, from the viewpoint that we use them as experimental stations for working out better merchandising methods. Until now they have confined their activities entirely to the sale of pianos.

For the past year or so, however, it has seemed reasonable to us that, in view of the popularity of the radio, it would be worthwhile for our stores to handle this line. Because of the difference in price—the average for a piano being \$1,000, as compared with about \$150 for a radio—and the fact that probably 10 people can afford a radio to every one who can buy a piano, it seemed logical to us that we could build up a considerable volume of radio sales with a very slightly increased overhead. The only important item of expense in putting over the new line would be the employment of additional salesmen.

Because of our facilities and resources, not the least of which is an established following of customers who are already musically-minded, I think we can sell radios in competition with the independent radio dealers, and can give the customer better service.

We look to these two factors for the success of our program—although we shall, of course, be careful to select the best available lines. It is, I think, obvious that radio in the past eight years has become a necessity, while the piano, because of its higher cost and because it requires skill to operate, is largely a luxury. On the other hand, we feel that many people who have purchased pianos from us are in the market for radios.

The question arises: why buy a radio at an Ampico store? In some cases it may mean considerable travel and difficulty. Would the radio they could get at our store be better than the one they could get at neighbourhood shop? In many cases the radio, being a standard brand, would not, even though we intend to adhere to the policy of carrying only what appears to us to be the best instruments in each price class. The main advantage in buying a radio from us, therefore, will be because of better service and technical facilities offered. We want to emphasize in our advertising and in our personal salesmanship the value of that service, and we want it to be more than a mere business catch-phrase. Two or three weeks after each radio is sold our service men will call, to make sure that the machine is functioning as it should and to make whatever minor adjustments may be necessary, without cost.

We shall also emphasize the fact that our greater resources will enable us to employ better technical minds.

Our decision to handle radios is in line with what, it seems to me, is a trend to concentrate the sale of radios more and more through music dealers. Like radios, pianos were formerly sold through a variety of outlets, including furniture and department stores. Their sale is now confined wholly to music stores. The same is true of the phonograph. The time is coming in the radio business when the public will realise that the hay, grain and feed men are not, as a rule, sufficiently versed in the technical aspects of radio to sell it intelligently.

The piano industry is learning much about marketing practices from radio. We are learning to advertise more aggressively. We are now bringing out yearly models. and are attempting to dispel the mistaken idea that an old piano—or any other musical instrument, for that matter, is better than a new one.

In the final analysis, however, the piano industry is not competitive with radio, but cooperative. Lower in price and requiring no skill for its operation, radio is a worthwhile line to carry. The instrument of the masses of the people, radio is doing much to make them musically-minded. Musically-minded people constitute the piano market. In this educational work, therefore, the two industries are working together. Properly coordinated, both should profit from it.

The company's balance sheet as of March 31, 1929, is shown in Exhibit 2.

Exhibit 1

AMERICAN PIANO COMPANY AND SUBSIDIARY COMPANIES

Consolidated balance sheet, December 31, 1926

Current Assets:	\$	Current Liabilities:	\$
Cash	1,194,187.05	Bank Loans	\$ 950,000.00
Notes Receivable (less Reserve)	644,152.75	Accounts Payable	456,337.04
Accounts Receivable (less Reserve)	2,015,823.54	Accrued Liabilities	192,801.77
Inventories	<u>5,471,728.72</u>	Reserve for Federal Income Tax	<u>370,000.00</u>
Total assets	<u>9,325,872.36</u>	Total liabilities	<u>1,969,138.81</u>
Preferred Stock held in Treasury (at par)	4,600.00	Deferred Credits	192,167.72
Investment in and Advances to Subsidiary	40,707.48	Reserve for Contingencies	550,000.00
Other Investments	42,243.17	Preferred Stock (par value \$100)	6,000,000.00
Real Estate, Plant, Equipment,	3,906,625.05	Common Stock (226,245½)	4,524,910.00

etc. (less depreciation)		shares no par value)*	
Prepaid Expenses	245,647.04	Surplus	<u>4,727,566.54</u>
Deferred Charges	164,524.87		<u>17,963,785.07</u>
Patents, Trade-marks and Goodwill	<u>4,235,363.30</u>	<i>*Each share of common stock of \$100 par value has been changed into five shares of common stock without par value.</i>	
	<u>17,963,785.07</u>		

Exhibit 2

AMERICAN PIANO COMPANY AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet, March 31, 1929

Assets \$		Liabilities \$	
Plants and Equipment *	3,891,479	Preferred Stock	6,000,000
Idle Plant **	556,361	Common Stock	4,559,180
Trade-marks, Patents, etc.	4,231,240	Mortgage Payable	132,000
Investments	48,601	Notes Payable	1,475,000
Cash	737,760	Accounts Payable	362,894
Accounts Receivable	989,284	Mortgage Installment	113,500
Notes Receivable	384,155	Accruals	125,667
Instalment Contracts Receivable	818,097	Tax Reserve	264,604
Inventory	3,553,982	Contingent Reserve	403,195
Prepaid Insurance, Taxes, etc.	264,269	Deferred Credits	194,648
		Surplus	1,844,543
Total	<u>15,475,231</u>	Total	<u>15,475,231</u>

Source, *Moody's Manual of Investments*, 1930.

*After depreciation to March 31, 1929, \$2,259,626.

**After depreciation to March 31, 1929, \$263,415.

It was reported that the American Piano Company in the second quarter of 1929 practically discontinued production of reproducing pianos, upon which until then it had been concentrating its efforts. Three piano manufacturing companies, the Aeolian Company, the A. B. Chase-Emerson Corporation, and Pratt, Read & Company, planned, it was reported, to enter upon the national distribution of motorboats during 1930. Other piano producers, with the object of counteracting seasonal demand or of utilizing unused plant capacity, were manufacturing in 1930 such asides as clock cases, ping pong tables, tennis racquet presses, house furniture, and lunch room accommodations of the dining car type. Some of these products the piano companies made for other concerns, and some they themselves distributed. In very few instances, however, were such new products suitable for distribution through piano stores.

On December 18, 1929, the Irving Trust Company was appointed receiver in equity for the American Piano Company. The petition for a receiver stated that the plants of the company had been appraised at \$3,698,000; that current liabilities due and unpaid amounted to \$1,200,000; liabilities not yet due to \$250,000; that there were in addition large contingent liabilities; and that assets were much in excess of liabilities.

One of the first acts of the Irving Trust Company, upon its appointment as receiver, was to close all but four of the company's retail stores. One store each was retained in New York City, Boston, Cleveland, and Chicago. Later, the Chicago store also was closed. The volume of sales through the stores which were closed was not sufficient, in the receiver's opinion, to justify the scale of rentals being paid.

The receivership of the American Piano Company brought back into active connection with the company's affairs those former executives who, in 1927, had released their Common stock interests but retained their holdings of preferred stock. These individuals, together with the Aeolian Company, another manufacturer of pianos, and the Bankers' Commercial Security Company, Incorporated, which under the original ownership had financed the installment sales made in the company's own stores, formed the group which worked out the plan for reorganization and established the American Piano Corporation. George O. Foster again was installed as president.

In accordance with the plan for reorganization, a new Company, the American Piano Corporation, was Chartered May 8, 1930, under the laws of Delaware. The directors included George O. Foster and William B. Armstrong. During May, the new Company acquired all assets of the old American Piano Company and its subsidiaries for \$1,348,167 and assumed responsibility for liabilities of \$862,166 as well as for obligations of \$2,500,000 claimed by creditors in court actions. The new company started business on June 1, 1930.

The outstanding capitalization of the new company consisted of the following securities:

\$700,000 first secured 7%, one-year gold notes

827,084 6% five-year gold debentures

240,000 shares Class A nonvoting, no par value stock

742,708 shares Class B voting, no par value stock

Seven hundred and twenty thousand shares of the class B stock were placed under a voting trust for 13 years; voting trustees included George O. Foster, R. W. Lawrence, and W. D. Loucks. Each share of \$100 preferred stock of the old company could be exchanged for three shares of class A stock of the new company, and such exchange carried with it the optional right, upon payment of \$10, to receive \$10 of debentures and one share of class A stock of the new Company and also voting trust certificates for eight shares of class B stock of the new company. Each share of no par value common stock in the old company could be exchanged, upon payment of \$1, for \$1 of debentures of the new company and 1/10th of a share of the class B stock.

As part of the arrangement for reorganization, the Aeolian Company purchased the name, inventories, and factory equipment of the Mason & Hamlin Company, but not its factory buildings, for \$450,000. The one-year notes issued under the refinancing plan were secured by certain assets of the company, chiefly factory buildings and sites, proceeds from the sale of which were to be used in retiring this indebtedness. The class A stock of the American Piano Corporation was entitled to receive dividends share for share with the class B stock. In the event of liquidation, class A stock carried prior right to the proceeds up to \$10 a share, the class B stockholders to receive whatever further amount was realized. A syndicate headed by George C. Foster and William D. Loucks underwrote the financial transactions of the reorganization, receiving as compensation voting trust certificates for 240,000 shares or class B stock. Practically all the preferred stockholders of the American Piano Company accepted the terms of the reorganisation plan; some of the common stockholders, by calling to exercise their rights under the plan, relinquished their equity in the reorganized company.

The American Piano Corporation started business on June 6, 1930. In contrast with a loss for the American Piano Company of approximately \$125,000 a month just prior to the receivership, and of approximately \$80,000 a month during the receivership, the new company's books showed successively smaller monthly deficits for June to August, 1930, and a net profit in September. The results of the company's activities for the two years following its formation are reflected in the consolidated balance sheet, Exhibit 4. For the year ending June 30, 1931, sales were \$2,631,000 and net income \$42,758. For the year ending June 30, 1932, a deficit of \$163,222 was reported.

In order to make the meaning of some of the accounts on the balance sheet (Exhibit 4) clear, the following explanation is given. Wholesale notes and accounts receivable resulted from transactions with the company's retailer customers. So also did the accounts receivable of the American Piano Trading Corporation; but this subsidiary had been set up for the specific purposes of assuming the liquidation of the wholesale accounts of the American Piano Company whose collection was considered most doubtful. Retail accounts receivable and instalment contracts receivable arose only out of the sales which had been made to consumers by the company's own stores, partly under the old regime and partly under the new. The reserves for tunings and piano rentals also were an aspect of the company's retail sales. The former covered the company's liability for the tuning service which was given for a period to retail purchasers of its pianos; the latter related to the depreciation suffered when rented pianos were returned to the stores,

Faced, under the refinancing terms, with the requirement of providing for \$700,000 in one-year notes and more than \$500,000 in five-year debentures, the executives of the new corporation recognized as their two chief tasks the rehabilitation of its distributive system and the economical operation of manufacturing facilities.

Piano retailers had been thoroughly disaffected by the American Piano Company's later distribution policies. Sales to independent retailers, which, at the middle of 1927, had represented 85% of the company's total sales, had fallen by the end of 1929 to 15% of total sales. A strong effort to regain the

goodwill of retailers was initiated by the new company. The eight makes of pianos left to the company after relinquishing the Mason & Hamlin were divided into two groups of four each, one headed by the Knabe, the other by the Chickering. A retail sales agency for each group was sought in each city. It was thought that Mr. Foster's long previous connection with the piano trade would facilitate the enlistment of these new outlets.

By the spring of 1931, the company had succeeded in reestablishing its pianos in the stores of most of these former retailers of the American Piano Company whom it could use to advantage. Few of these retailers, however, produced a volume of sales during 1931 which the company deemed satisfactory. Moreover, the company found it difficult to induce new blood to undertake the retail sale of its pianos. This condition, an executive of the company stated, was true of virtually all important products except electric refrigerators during that year. According to the same man, wholesale and retail sales of pianos for the United States as a whole had held approximately to their 1930 level through August of 1931, but had declined thereafter, contrary to the normal seasonal movement.

The company discontinued the sale of radio receiving sets in the three stores that finally were retained, viz., New York, Boston, and Cleveland.

In manufacturing, two important changes were made by the new management. First, both the Knabe plant in Baltimore and the Chickering plant in Boston were closed. The manufacture of these pianos was concentrated, with that of the Ampico reproducing device and the company's other pianos, first in Syracuse and East Rochester, New York, and later wholly in East Rochester. The Knabe and Chickering pianos were produced in separate divisions of the latter factory. With the final concentration of all the American Piano Corporation's manufacturing operations in the East Rochester plant, which had ample capacity to provide for the company's requirements, the Amphion plant in Syracuse also was closed. This plant, together with those of the Chickering and Knabe companies, and the Mason & Hamlin factory building, the company endeavoured to dispose of as promptly as suitable terms of sale could be negotiated. By the end of 1930, the Mason & Hamlin plant had been sold. The company also had found a purchaser for one of the three buildings on the Baltimore site subsequent to June 30, 1931, when the balance sheet shown in Exhibit 4 appeared. In April, 1932 a portion of the Syracuse plant was sold.

Second, measures were adopted for securing economy in manufacturing methods. By revised designs and processes, the company broadened the application to its lower-priced pianos of the principles of standardization and interchangeability of parts. As a class, piano manufacturers were said to have made less progress in this respect than most other industries. It was a widely accepted belief that expert hand craftsmanship was essential to the achievement of proper tone quality in pianos. This attitude, in turn, was reflected in a prevalent opinion among consumers that pianos of the same make and type varied substantially in their characteristics, and in the consequent desire manifested by consumers to test several instruments in a store before purchasing.

American Piano Corporation executives, however, had come to the conclusion that further use of machinery need not impair the tone of a piano, and if properly applied to a piano of good design, might even be expected to improve its tone. That practice, furthermore, would permit the sale of pianos at somewhat lower prices; and in the company's judgment, the high prices charged for pianos as compared with other kinds of merchandise going into the house was an obstacle to the expansion of retail piano sales comparable with those influences arising from changed modes of living. The company anticipated the eventual extension of new manufacturing methods, perhaps in restricted fashion, into the manufacture of its highest-priced pianos.

As a matter of fact, for many years the bulk of the manufacturing operations on pianos had been machine operations, inasmuch as virtually all materials and parts were produced in that manner. The field for further exploitation of mechanical procedures lay principally in assembly. An illustration of the company's approach to reducing the cost of assembly was its treatment of period models during 1931. Instead of producing pianos in several distinct variations of the Louis XV style, for example, it sought to provide for such slight differences in buyers' tastes by making interchangeable legs in varying modified designs.

In November, 1930, the company reduced the prices of its pianos about 25%. From that time through 1931, prices were held at approximately the same level. Officers of the company were of the opinion at the end of 1931 that declines which had occurred in material and labour costs would warrant prices approximating those which had prevailed 15 years previously. They feared, however, that a further

reduction in prices, unless competitors followed suit, would damage the reputation of their company's makes of pianos in the eyes of consumers, who might interpret such action as indicating a depreciation in quality.

Coordinating with the reductions in the prices of its pianos, the company had formulated plans for adapting its products more nearly to what it conceived to be the requirements of consumers. The first of these to be executed was the manufacture of a baby grand piano under the mark of Haines Brothers, one of the three makes which had formed the company's medium-priced group in 1920, to sell at retail for \$345. Up to November, 1930, the lowest price at which baby grand pianos of this make customarily had been sold was approximately \$600.

In Exhibit 3 are presented statistics on the piano industry compiled by the United States Census Bureau. Various causes were adduced by those interested in the piano industry to explain the decline in demand for pianos. Among these were the counterattraction offered by automobiles and moving pictures for recreation outside the house; the trend toward apartment living quarters in cities; and the development of the phonograph and radio. Some thought a trend in fashion to have been at least partly responsible; they contrasted with the existing situation former conditions under which the possession of a piano had been regarded more seriously as an indication of social position.

The value of radio apparatus manufactured in the United States, as reported by the Bureau of the Census, was as follows: 1921, \$10,648,000; 1923, \$26,979,000; 1925, \$150,046,000; 1927, \$149,658,000; 1929, \$411,637,000. The first broadcasting station was KUWA, Pittsburgh opened November 2, 1920. Other stations followed rapidly. The National Broadcasting Company was organized late in 1926 and early the next year chain broadcasting began, with programs sponsored by advertisers.

Exhibit 3

NUMBER AND VALUE OF PIANOS MANUFACTURED IN THE UNITED STATES, BY TYPES, 1921-1931*

	1921 Number	Value	1923 Number	Value	1925 Number	Value
Grand						
Baby	15,613	7,756,868	38,024	16,100,916	40,357	16,244,241
Baby, player	348	279,927	1,397	931,195	5,287	2,042,350
Baby, player reproducing	2,261	2,576,610	5,372	4,492,002	7,597	6,517,357
Parlour	2,562	1,609,190	5,899	3,834,410	9,170	5,433,129
Parlour, player	21	20,393	106	107,776	156	103,801
Parlour, player reproducing	1,432	1,514,402	2,631	2,957,420	2,543	3,526,957
Concert	101	72,575	666	932,422	579	452,861
Upright	85,655	17,557,337	105,748	21,676,047	87,285	16,873,982
Upright, player	101,534	29,850,973	170,549	46,295,896	143,031	38,166,755
Upright, player reproducing	5,309	2,836,637	12,658	4,048,998	5,476	2,193,001
Automatic and Electric	3,374	2,192,839	4,539	2,380,497	4,303	2,322,543
Total	221,210	66,267,751	347,589	104,362,578	306,584	93,676,977
	1927 Number	Value	1929 Number	Value	1931 Number	Value
Grand						
Baby	43,772	17,540,842	36,929	12,851,376	24,712	7,013,460
Baby, player	490	306,025	-	-	-	-
Baby, player reproducing	7,223	5,550,097	5,905	2,672,047	168	94,419
Parlour	8,757	5,319,799	7,767	4,159,979	5,517	2,378,117
Parlour, player	42	30,422	-	-	-	-
Parlour, player reproducing	1,182	1,695,631	2,165	2,135,268	311	259,928
Concert	293	290,034	234	154,821	68	44,404
Upright	69,864	12,261,827	49,039	7,869,761	18,329	2,580,124
Upright, player	76,447	20,027,574	17,336	4,116,294	1,692	273,975
Upright, player reproducing	4,096	1,419,933	1,445	459,668	146	34,217
Automatic and Electric	5,974	2,768,591	-	-	-	-
Other**	-	-	10,153	3,579,481	427	102,102
Total	218,140	67,210,775	130,973	37,998,695	51,370	12,780,746

*Census of Manufactures, 1927, and 1931.

**Includes Baby Grand, player; Parlour Grand, player; and coin-operated and similar types

Exhibit 4**AMERICAN PIANO CORPORATION AND SUBSIDIARY COMPANIES****Consolidated Balance Sheets, as of June 30**

<u>Assets</u>	<u>1931</u>	<u>1932</u>
Cash	\$ 125,648	\$138,014
Accounts and Notes receivable*	724,241	799,762
Inventories	1,073,764	732,065
Total Current Assets	\$1,923,653	\$1,670,441
Investments	12,503	12,503
Mortgage Receivable Plus Interest		71,250
Prepaid Expenses and Deferred Charges	146,513	92,736
Land and Buildings*	737,187	722,659
Machinery and Equipment*	217,686	192,199
Furniture and Fixtures, Stores*	64,784	57,708
Total Plant and Equipment	\$1,019,657	\$972,566
Factories to be Sold (less mortgage outstanding)	398,000	358,000
Leasehold Improvements	1	1
Patents, Trade-marks, etc.	1	1
Total Assets	\$3,500,333	\$3,171,498
<u>Liabilities</u>		
Accounts Payable	\$ 57,660	\$12,625
Accrued Liabilities	74,574	71,703
Total Current Liabilities	\$132, 234	\$84,328
Funded Debt	737,084	704,029
Deferred Credits	27,054	8,039
Reserve for Contingencies	115,224	100,270
Other Reserves	102,202	57,830
Class A Stock	1,200,000	1,200,000
Class B Stock	371,354	371,344
Surplus	814,881	651,658
Total Liabilities	\$3,500,533	\$3,171,498

*Less reserves

Source: Standard Statistics Company, *Standard Corporation Records* , October 15, 1932.