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Norlin Seeks to Scale Up profits
By Stan Luxenderg

The company was originally known as the Chicago Musical Instrument Company.

Even by the eclectic standards of today's conglomerates, the Norlin Corporation is an unlikely mix. It is a Panamanian holding company with head quarters in New York, and last year it grossed $238 million on a product line that includes Ecuador's best-selling beer, a clutch of high-technology switching devices that turn up, among other places, in commercial and military jet planes- and an assortment of electronic organs, pianos, Moog synthesizers, drums and guitars that made Norlin the biggest manufacturer of musical instruments in the United States. The mix didn't just happen. Norton Stevens, the 48-year-old Yale graduate who has been Norlin's chief executive since 1962, planned it that way. Dependent on one product- beer- that might prove vulnerable to shifts in Ecuadorian politics and consumer tastes, the company began to diversify in the early 1960's. The big growth areas seemed to be music and electronics. The tall, outgoing Mr. Stevens went off on a buying spree. While the company, originally called the Ecuadorian Corporation, continued to expand its beer base, it began to acquire a series of small technology companies. And in 1969 it took over the old Chicago Musical Company. At first blush, Mr. Stevens's diversification strategy seems to have worked like a charm. Norlin's sales have grown fivefold, and earnings have climbed from $5.48 million to $9 million since it pushed into the music business. But beer is still Norlin's biggest profit maker, and some of the acquisitions have not quite panned out. The company is still vulnerable to shifts in consumer sentiment and to swings in defense procurement policies. Norlin, in short, is one more example of the truism that conglomerate mixes often bring mixed results. Last year, for example, Norlin's music division accounted for 64 percent of sales but only 31 percent of operating earnings. The Lowrey line of organs chalked up record sales for the seventh consecutive year. Overall profits in the music division, however, declined because of a weakness in sales of traditional band and orchestra instruments. Their sales curve, sensitive to consumer spending generally, has not been helped by the trend to tighter budgets in grade schools and high schools, a major market for Norlin's brass and woodwind instruments. This year could be different, however. Lowrey in opening a new plant, and analysts say the company could, improve its music earnings if the organ growth continues. "All you need is a reasonably good consumer environment," said Stanley Lanset, vice president of Drexel, Burnham, Lambert. Norlin's best long-term bet is the ability it has shown in linking its musical and electronic know-how. For the tone-deaf and for those who have never taken a piano lesson, Lowrey organs offer a way to make music in a matter of minutes, a novice playing with two fingers can provide accompaniment for a Hawaiian luau or produce sounds that approximate the richness of a symphony orchestra. Sophisticated electronic technology, some of it borrowed from the computer industry, makes it possible. Although music traditionalists may scoff, more and more customers are finding that the organs-that-do-anything make pleasant home entertainment. Innovative use of electronics has been the key to much of Norlin's recent growth. The company has pioneered many of the developments that changed the home organ and are transforming the entire music instrument industry, which last year had retail sales of $2 billion. The company introduced electronic circuitry into one model of its Gibson guitars, the nation's best-selling brand. Norlin's potentially most growth, however, may involve its Moog synthesizers, the growing line of electronic music machines that have become standard equipment for many popular bands. The Moog is a symbol of the emphasis Norlin has put on research and development. The company boasts that 82 percent of its music sales last year came from products that did not exist five years ago. In 1977 Norlin spent more than $1.8 million on research. Much of the development work is aimed at applying new semiconductor and integrated-circuit technology to-musical instruments. When the company bought Moog Music in 1973, it acquired the research services of Robert Moog the synthesizer's inventor. Working with musicians and engineers, Mr. Moog has constantly improved his instrument. The most important recent development has been the Polymoog, which last year accounted for about $3 million in sales, or about 35 percent of the electronic instrument division's sales. The Polymoog represents a significant advance over earlier models. Mr. Moog's first machines permitted a musician to shape electrical signals into sound of

any form or frequency. By using various controls, the performer could make sounds resembling, those of anything from a muted French horn to the unearthly music produced for the movie soundtrack of "Star Wars." The instruments were limited, though, because they could produce only one note at a time, like a clarinet. Now the Polymoog enables a musician to play many notes simultaneously, like a piano. This was made possible by a new electronic chip. Some observers believe the development of the Polymoog may have opened the Way for making the synthesizer a common home instrument. With the polymoog selling for $3,200 or more and the older Minimoog at $1,195, most customers are professional musicians or music school. Increasingly, however, amateur pianists have been buying the synthesizers. Norlin's researchers are now working on making synthesizers cheaper and easier to play. They have to-competitive products from, ARP, Oberheim, Yamaha and others are marking inroads on the market. In fact, ARP has caught up with Norlin's $6 million Moog sales. I think they've got a real market out there if they can tap It," said J. Penn- exter Macdonald 2d, a vice president of Salomon Brothers. An amateur pianist, Macdonald began following Norlin's stock after he bought a Polymoog and discovered it could give new dimensions to his favorite Bach compositions. "I'm having to go back and rethink pieces I thought I knew well," he said. The electronic influence has been particularly important in the organ field. Every year Norlin restyles half of its organ models, a process that helps meet competition and encourages owners to trade up to more expensive units. Twenty years ago home organs had simple keyboards. In 1956 Lowrey introduced its first special effect, a glide that permitted the player to push a button so the traditional organ sound would resemble the twang of an Hawaiian guitar. In 1970 Lowrey introduced its Genie, a feature that permitted a player to press one key and get the sound of a three-note chord. In the 1970's, with the introduction of electronics, competition among music companies to bring out more sophisticated models accelerated tremendously. Retail sales have doubled to more than $460 million, according to the National Association of Electronic Organ Manufacturers. Norlin's keyboard division, composed mainly of Lowrey, has increased its sales to $94.9 million. Lowrey became the leading organ in 1975, passing Cerro Marmon's Hammond. Other competitors include Wurlitzer, Thomas and MacMillan. Current Lowrey models offer dozens of special features. With the latest generation, Lowrey's Genie, the musician can push one key and produce chords that sound like a guitar, banjo, piano or all those instruments playing together. The musician can press a tab to activate a built-in memory circuit that can automatically produce a five-piece rhythm section. This leaves the hands free to play melody lines. With Lowrey's $10,000 top-of-the-line model, a player can produce sounds that resemble violins, trombones or even music that seems to be coming from a piano. The organ, of course, can-still be made to sound like an organ. To Interest customers in this elaborate equipment requires a strong selling effort. Lowrey has discovered that the best places to display its organs are shopping malls. In the open fronts of its mall stores, Lowrey stations a salesman who plays the organ attracting crowds. Many of the people are reluctant saying they can't read music. The salesman persuades them to try anyway. And in a minute, using color-coded guides, they are playing "Jingle Bells" with two fingers. "You may not make the sale that day or that month or maybe even that year, said Nelson Varon, one of Lawrey's biggest dealers with five outlets in the New York area. "But In a couple of years, maybe around Christmas time, the family will begin to think that an organ would make a good present. Mr. Varon, who sold 1,000 new Lowreys and 200 used ones last year worth a total of $1.8 million, offers five free lessons with each purchase. He has a full time director of musical education for students who want to continue taking lessons. Seven hundred now attend classed in the stores. The malls generate most Lowrey sales. The marketing strategy has become so important that Norlin recently set up a new subsidiary that leases the store space and subleases it to a local dealer. The package includes marketing assistance, servicing and dealer training. Other companies, such as Wurlitzer, have begun using similar approaches. But Lowrey, which pioneered the mall approach, has kept its lead. That's where the glamour is, but Norlin has not forgotten that its big money is in beer. Some $23 million of the $40 million budgeted for capital expenditures has been earmarked for a new brewery in Ecuador that will raise the company's capacity from 2.5million to about 3.5 million barrels a year. Ecuador's citizens appear to be thirsty. Norlin's thirst is for frothier profit margins. The Vicissitudes of the Moog - Before Robert Moog brought out his first synthesizer in 1964, electronic music had been a strange concept explored only by a few scientists. Today synthesizers are standard equipment on concert stages, and the American Music Conference estimates that retail sales are more than $17 million. A gifted pianist, while a student at Bronx High School of Science, Mr. Moog had long been intrigued by the possibilities of electronic music. While studying for a Ph.D. in engineering physics at Cornell University, the scientist and a colleague developed the synthesizer and auditioned it at an audio-engineering show. "We did it just for the fun of it," Mr.Moog recalled. "The demand for it rose quite unexpectedly." The first orders came from a choreographer and a composer doing work for television commercials. Mr. Moog was in business. Although he tried to interest musicians in his machine, Mr. Moog met

with little success until Columbia Records released "Switched-On Bach" in 1968. This collection of Bach compositions, played on the then-unknown synthesizer, shook the music world. Professional musicians, though intrigued by the machine, told Mr. Moog that his synthesizer was too large for stage performances. So in 1970 the company brought out the Minimoog, a machine that was compact and portable but was capable of producing a wide variety of sounds. Since then Mr. Moog has sold 10,000 of the Minimoogs. By 1970 Moog had 42 employees, including five engineers, in his factory at Trumansburg, N.Y., near Cornell, and was grossing $750,000 a year. Then a recession hit Madison Avenue, and Moog's sales to television commercial producers dried up. Caught with a huge inventory and little capital, Mr. Moog was forced to seek outside investors. "I went around trying to sell the company," he said, "I talked to some very sharp marketing people. But nobody could see the future of the company." In the summer of 1971 Mr. Moog managed to merge with Musionics, a company near Buffalo. Thanks, to the, infusion of new capital and increased factory space, production jumped from about 40 Minimoogs a month to a peak of 300. In 1973 Norland purchased Moog, and Mr. Moog became research director, a position he held until the end of 1977. These days he is a consultant of the company. Mr. Moog is now working on making the keyboard touch-sensitive, so that the player can control volume by- how he presses key. Other Moog researchers are experimenting with making it possible to hook up the machine to small personal computers.