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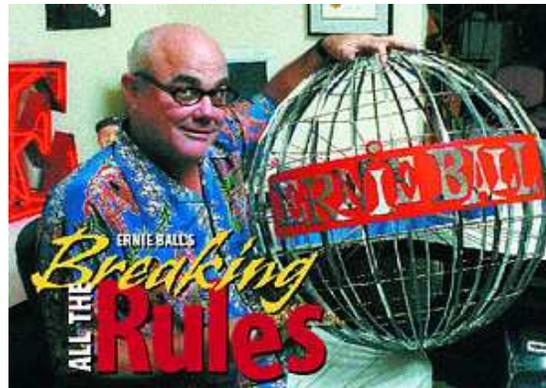


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Ernie Ball's Breaking All the Rules

By Lara L. Sowinski



And it's Paying Off

Ernie Ball is no stranger to adversity. From the very beginning in the 1950s, founder Ernie Ball and son Sterling, the current president and CEO of the San Luis Obispo, Calif.-based company, have managed to turn obstacles into opportunities while steadily growing its product line and overseas market share in a highly competitive industry.

Ernie Ball was the first to open a store in the U.S. that sold only electric guitars. "It was the first of his three failures. He got it right the fourth time," Sterling Ball says. "He had a relationship with all the professional musicians. They would come to his store and have him work on their guitars and buy his guitars." During that time, there were very limited options as to the type of guitar strings available. "You had no control over the thickness of the guitar strings or the combination. It was like the Model T Ford—you could get it in any color as long as it was black," Ball says.

"So, my Dad went to Leo Fender and asked him if he would make strings in gauges so you could put your sets together, and package a set for rock and roll, because rock and roll was coming and [guitarists] needed to be able to bend the strings and they needed to be more flexible," Ball says. "Well, Leo Fender wouldn't do it, Gibson wouldn't do it. So, my Dad did it and he called them Slinkys. That was in 1962."

Word of mouth and coverage in industry magazines like *Guitar Player* increased the popularity of the strings, while the rise of guitarists like Eric Clapton and Jimmy Page together with bands like Cream and Led Zeppelin also helped. "The magazines couldn't think of anything to ask these bands," Ball says. "So, they asked them what kind of strings they used and they all said Ernie Ball."

Overseas Expansion Takes the Stage



Ernie Ball's international sales manager Zach Frederick and his Export Department.

Although the company didn't intend to venture into foreign markets thirty years ago, when the opportunity surfaced Ernie Ball responded. "We got into exporting because somebody wrote us a letter saying, 'Gosh, I'm in England and these English bands are buying them in America,'" Ball says. "Why don't you sell them to us?"

By 1977, Ernie Ball had expanded its export business to roughly 14 countries. According to Ball, "We had a sales manager who thought we had done all we could in export. I was a young upstart. I had a friend who was working in another company who was a very good export manager. I said, 'Hey, could you send me some names, but don't tell the sales manager that I got these names.' I sent a mailing behind his back. I think I opened 21 new markets that way. It was then we became a pretty serious exporter."

The company didn't have a formal export strategy at that time. "Back then, in our industry, export was where you buried your mistakes. Export was where you could sell [outdated merchandise] two years later. We didn't treat it that way, though. We treated export as a very important part of our business," Ball says. "We looked for people who wanted to work with us and who could translate our unique marketing style to their market. Some distributors came to us and said, 'This is the way you're going to do it...run this kind of ad.' We didn't do that. We gave them the tools and said, 'Make this work for your market, and let us know where it doesn't.'"

Although Ernie Ball may have had a little less competition when it first opened new export markets, that's not the case today. "It's pretty fierce," Ball says. "I'd say there are at least fifty competitors and about five of them are really serious. We have to do really well. We have to make a really good product and service the living daylights out of it."

The Song Doesn't Remain the Same



International sales manager Zach Frederick examines a pair of fresh 'Music Man' instrument bodies.

Although the "string is the thing and the gauge is the rage," Ernie Ball's product line has expanded to include Music Man guitars and basses, volume pedals, and other accessories. Strings and accessories are sold in more than 5,500 music stores throughout the U.S., and the company maintains 68 distributors with exports to more than 75 countries.

The business environment has also changed radically over the years. And, while the company pursues a more traditional approach to some of those challenges, it has also found success in straying from the pack. For instance, the company does a lot of marketing directly to the consumer. "Guerilla marketing and grassroots marketing," Ball says. "Magazines don't like it when I tell them that, but print is not our only outlet for marketing."

Ernie Ball's mobile stage is one example. Zach Frederick, the company's international sales manager, says the vehicle was designed and built by Ernie Ball's own engineers. The self-contained mobile stage, which features all the equipment needed to perform a live show from amplifiers to instruments, also serves as a traveling showroom.

Likewise, the company has encouraged its foreign distributors to adapt some of these marketing strategies to their local markets. "There are a lot of examples of our marketing in America that's very different and very aggressive-it's very edgy. Now, a lot of our export customers are applying it to their markets," Ball says. "Zach put together a Battle of the Bands for Europe, similar to the Battle of the Bands in America, which is the largest live music promotion in the industry." Frederick says the company has also used the Internet for contest promotions such as the best guitarist and best bassist.

"Our distributors are our marketing partners," Frederick says, and Ernie Ball has committed itself to building on those relationships in the face of mounting price pressure. In the meantime, "There are different challenges we face as an exporter," Ball says. "Chinese products are getting so good and they're so cheap." Also, the traditional model whereby the "manufacturer sells to foreign distributor, who sells to foreign retailer, who sells to consumer" is also under scrutiny, he says. "There's so much margin pressure now that redefining that relationship and maintaining the distributor is a real challenge. A lot of companies are setting up their own distribution or representatives. We're very committed to our distributors and we're looking at creative ways to utilize technology and partnering in different ways to try and find some savings." While other companies have chosen to drop distributors altogether, Ernie Ball hasn't followed that trend. "We're looking at redefining our distribution model, but not eliminating our distributor," Ball says.

Furthermore, "with European customers being as Internet savvy as they are, you can no longer afford a 30 percent difference in price for the same product in Germany as in the United States. They're wise to that, and they won't pay it," Frederick says.

On the front end of the business, purchasing and order fulfillment are key areas that sustain a steady rhythm at Ernie Ball, even as prices for exotic woods used in the guitars continues to rise. "Rosewood and mahogany have become threatened materials," Ball says. At the same time, the company now competes with the furniture industry for woods like bird's eye maple that weren't as high in demand twenty years ago. As for keeping a consistent supply of raw materials, Ball says, "Our purchasing department, systems, and MIS infrastructure are very good. We have never had a crisis." Ball says he considers such materials commodities. As a result he'll buy it when it isn't needed just to have a plentiful supply on hand.

"It's a left brain, right brain thing. The left side is the Slinkys (strings). It's something you have to have in stock. It's one of the most successful product categories in the entire music business. We have to be able to fill customers' orders on the spot. We ship domestic orders the same day we get them, and export customers' orders are shipped within 3 to 5 days from receipt. Our back orders last year for strings were less than 1 percent," Ball says. "So we're fulfilling well over 99 percent of our business. On the instrument side, we build every instrument for our customer-they're all custom built. We have approximately a four and one-half month lead-time right now. So, on one hand we're very cautious, low-inventory,

build-to-order, play it safe. We operate in two different kinds of mindsets here."

The (Tuning) Fork in the Road



Ernie Ball 'Music Man' guitars awaiting final assembly and testing.

Perhaps one of the most noteworthy moves Ernie Ball undertook occurred less than two years ago. Similar to other events encountered by the company that could have been setbacks, this one turned out to be a blessing in disguise.

"A disgruntled ex-employee who was in charge of making sure we were Microsoft compliant turned us in to the Business Software Alliance," Ball says. The BSA was created in 1988 and includes such companies as Microsoft, Adobe, Borland, and Symantec. One of the goals of the organization is to crack down on software piracy. Ball's biggest complaint was what he says was the heavy-handed treatment his company received.

"We were raided by armed Federal Marshals and completely shut down for a day. Then you have to swear you won't touch any data other than what is minimally necessary to run your business," he says. "I don't believe you should treat a customer that way." After the investigation was completed, Ernie Ball was found to be noncompliant by 8 percent. Recalling that time, Ball says, "A lot of professionals I hired went back and audited their own software and found they were out of compliance by 20 percent. It's nearly impossible to be totally compliant."

The company ended up paying a \$90,000 settlement. "Thirty-five thousand of it was Microsoft's legal fees, which is automatic in cases like these, so the penalty was actually lower," says Ball, who decided at that moment his company would become "Microsoft free." According to Ball, "Everyone said we couldn't do it. It took us about one year [to convert from a Microsoft system]."

Ernie Ball uses Sun Microsystems' StarOffice-which is equivalent to Microsoft's Office suite-on a Linux-based network and UNIX mainframe. "There are a few snags," Ball says. "But, the problem with Microsoft is that when it crashes on your desk your IT person's got to get up and go in there and fix it. When you're on a Linux system they sit at their computer and dial in and fix it. And, I haven't had to buy XP, and I haven't had to buy new computers."

The StarOffice application suite runs on Solaris operating environment, Windows, and Linux, and is designed to be compatible with Microsoft Office. Target audiences include small businesses and home offices, education, large enterprises with mixed platform environments, and government.

"The Department of Defense uses StarOffice," Ball says. Truly, the immense cost savings alone that can be achieved with StarOffice are undeniably attractive.

Earlier this year, the U.K. government's Office of Government Commerce signed a deal with IBM, Sun Microsystems, and Microsoft covering the use of desktop productivity software in government departments. Although the arrangement wasn't necessarily a defeat for Microsoft, it wasn't a win either, and it legitimizes the company's competitors. According to a Sun Microsystems' technical consultant, if the U.K. government didn't upgrade to XP for five years, opting for StarOffice instead, it would save one billion pounds (approximately \$1.4 billion). While that amount is debatable, it's likely that increased deployment of StarOffice combined with cutbacks in hardware upgrades would at least realize savings in excess of one hundred million pounds, or just over \$142.3 billion.

While Ball describes the pace of the ever-changing business as more akin to a metronome than a pendulum, the company's philosophy has remained consistent-look for opportunities in adversity and don't be afraid to be a pioneer, even if it means playing solo.

Lara is a features editor for WORLD TRADE MAGAZINE. /

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