OPENING CASE

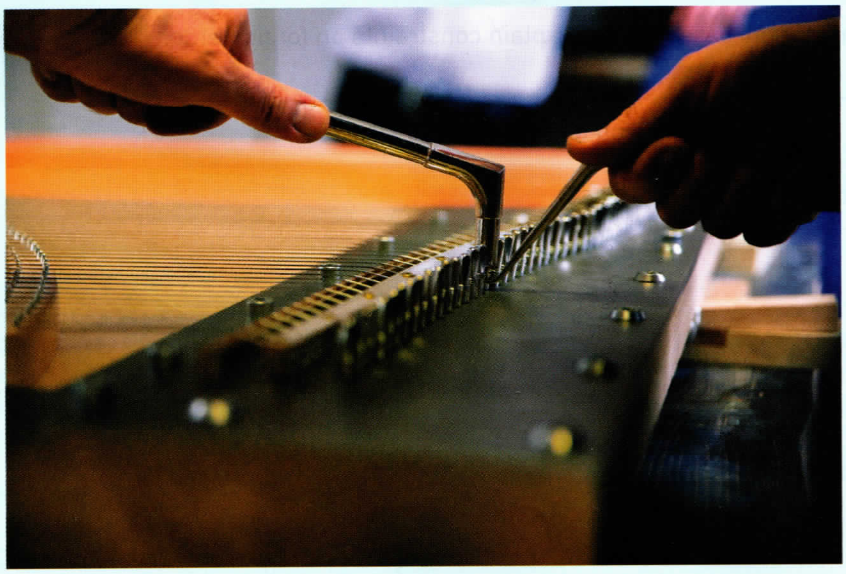
Pearl River Piano *enters foreign markets*

A grand piano from a famous maker is the aspiration and passion of pianists around the world. Professionals swear by their favourite brands, like *Bösendorffer* (from Vienna, Austria) or *Steinway* (from New York, USA). Some choose a handmade piano from a traditional family business like *Grotrian-Steinweg* (from Braunschweig, Germany). The manufacture of a piano is a traditional craft that requires highly specialist skills, true to the Latin origins of the word (*manu* = hand). Most people with a passion for music make do with a more mundane brand, such as *Yamaha* (from Yokohama, Japan). *Yamaha* brought together Japanese traditional passion for manufacturing excellence and a more recent passion for classical music to become the largest piano maker in the world in the 1990s. In 2008, Yamaha acquired the leading European manufacturer *Bösendorffer* for a stronger positioning in the premium segment.

With such a strong field of incumbents and strong loyalty to traditional brands, it may come as a surprise that a new kid on the block has been rolling up the market: in 2002, *Pearl River* (of Guangzhou, China) overtook *Yamaha* to become the largest piano producer in the world, making about 100 000 pianos every year. How did it achieve that? Given the relatively low prestige associated with Chinese-made goods, few would associate an aspirational product like a piano with 'made in China'. *Pearl River Piano* was founded in 1956 in Guangzhou, next to the Pearl river. *Pearl River*'s centre of gravity has remained in China, where pianos have become more affordable with rising income. The one-child policy induced families to invest heavily in their only child's education. As a result, the Chinese now buy half of the pianos produced in the world.

Pearl River succeeded in becoming the top selling brand in China. This may sound like an attractive market position. Yet rising demand has attracted numerous new entrants, many of which compete at the low end in China. These over 140 competitors have pushed *Pearl River*'s domestic market share from 70% at its peak a decade ago down to about 25% – although it is still the market leader.

Facing price competition at home, *Pearl River* sought new opportunities overseas. In North America, it started exporting in the late 1980s by relying on US-based importers. Making its first ever FDI, it set up a US-based sales subsidiary, *Pearl River Piano Group America* in California in 1999. Acknowledging



What challenges does a piano maker face when expanding overseas?