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Looking for Green in the Ivories

By NANCY MILLER

Sales of Steinway pianos are picking up as the market for luxury goods starts to recover. Buyers shouldn't expect any discounts—and neither should investors.

IT'S A SURE SIGN that the luxury market is coming back to life when \$80,000 Steinway pianos begin rolling out the door.

Sales of **Steinway Musical Instruments'** grand pianos in the U.S. jumped 11% in the third quarter from the depressed level a year earlier. "The big money is coming out again," says Jerome Murphy, a third-generation piano dealer with M. Steinert & Sons in Boston.

Wall Street, expecting a virtuoso performance, has lifted the stock (ticker: LVB—as in Ludwig van Beethoven) some 26% from its 52-week low, to about \$17.09. That's probably too high, even though it's below the almost 18 that the shares hit recently. Steinway continues to face significant hurdles, with sales in Europe still hammered. But the stirrings in the U.S. do shed light on the shifting attitudes of wealthy consumers here.

"We are seeing a nascent recovery in the luxury market in the U.S." says Joel Bines, director in the global retail practice at consulting firm AlixPartners. During the recession, conspicuous consumption by those who still had money was deemed déclassé. But now, Bines says, "frugal fatigue" has set in. Some luxury brands, he says, have ramped up sales by lowering prices just enough to entice "aspirational consumers" into the stores. Now hanging next to that \$2,500 little black dress is a somewhat more affordable \$1,800 outfit.



Courtesy of Steinway

Hitting the High Notes: *Prices of some Steinway grands have jumped 48% over the past decade.*

2007. Production was more than halved, to a record low of 4.3 units per day, says Julie Theriault, a director for the Waltham, Mass.-based manufacturer.

Inventory control is only part of Steinway's pricing power. Scarce competition and unquestioned cachet also help. Dealers can wow buyers with stories of Rudolf Serkin or Diana Krall sashaying through their showrooms.

But those factors can't completely immunize Steinway from the ill effects of recessions, because in bad times, a Steinway purchase can be delayed. Even now, consumer confidence remains shaky. One dual-income couple recently backed off from a Steinway B purchase because they were nervous about the payments, which they had lined up for less than 8%, M. Steinert's Murphy says.

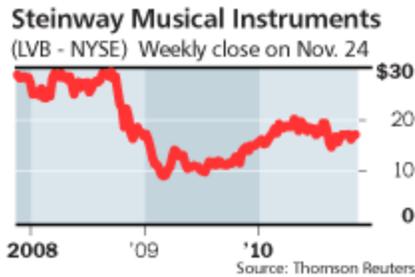
And Steinway has rehired members of the restoration crew to fill requests from current owners to fix their instruments—which is a lot cheaper than buying a new one, observes Anthony Gilroy, the company's marketing and communications director.

Steinway, however, never discounts. Ever. That's part of the pianos' prestige.

Even during the worst of the recession, Steinway raised prices on its grand pianos about 5% a year. This unflinching practice means that, over the past decade, the price on the classic Steinway Model B grand piano—currently \$81,200—increased 48%, far outpacing the 29% rise in inflation.

Rather than lowering prices, the company fine-tunes production, as buyers—typically ages 40 to 50, with annual incomes of \$300,000 and more—loosen and tighten their purse strings with the ups and downs of the economy.

Thus, at its storied factory in Astoria, Queens, just across the East River from Manhattan, the company laid off one-third of the production staff in 2007 and 2008. Those still with jobs worked only 152 days in 2009, down 26% from



Demand will have to firm further before the stock looks more tempting. David Trainer, CEO of Tennessee research firm New Constructs, thinks that profits, probably 62 cents a share for this year, would need to grow 10% compounded annually over the next 10 years to justify their recent price near 18. The shares now change hands at 20.9 times expected profits for next year. At their current level, Trainer considers them "dangerous."

For Steinway, with a modest market value of \$206 million, the recovery story is still unfolding.

Wealthy individuals, schools and other institutions are creeping back as buyers. In fact, institutional sales slipped by just single digits during the worst years, unlike individual sales, which plunged 40%.

The Bottom Line

Steinway's sales gains bode well for the luxury market in general. But the piano company's shares, up 26% from their 52-week low, appear to have gotten too far ahead of themselves.

Steinway is hoping the recovery will follow past patterns, with sales picking up sharply one or two years after a recession. Even that couple who pulled back from buying a Steinway B may return to Murphy's shop. The wife, Murphy points out, is a musician. "The piano that she's got is OK, but not adequate for her to play," he says. "We'll get her yet."

The turnaround will be complete whenever one particular Steinway finally sells. Three years ago, on the eve of the recession, an anonymous buyer successfully bid \$510,000 at a charity auction for this one-of-a-kind concert grand, which features a handcrafted marquetry case by renowned artist Silas Kopf. But the sale never went through. The buyer couldn't get financing. "It was unfortunate timing," says Kathi Anderson of Walden Woods Project, the seller, a Lincoln, Mass., charity devoted to preserving the legacy of Henry David Thoreau.

Humble old Thoreau might have raised an eyebrow, but the world may soon again be ready for a half-million-dollar piano.

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