Roland: Sound Venture into Music Machines

By Hideichiro Nakamura

In Japan, as in other industrialized countries, there are high hopes for the potential of venture-capital businesses. Venture businesses play a significant role as technological trailblazers and pioneers in new industries.

In 1985–86, however, many Japanese start-ups were in serious straits. Things were particularly tough for producers of final consumer products. It is no easy task to get past the start-up stage and grow into medium-sized enterprises in the face of competition from big businesses that join the field after them.

Roland Corp. is one of the few real success stories in this rough and tumble world of venture capital. Roland started out in 1972 as a specialized maker of electronic musical instruments. Its aim was to make instruments "loved by music lovers." The goal was to be the best, not the biggest. Now, 15 years after its founding, the policy has paid off in annual sales of ¥35 billion.

Roland's instruments are applications of computer technology. As such, they are a tempting avenue for diversification to musical instrument manufacturers and electronics makers alike. This is especially true given the growing emphasis on leisure in Japan and the accompanying demand for leisure-related products.

Reasons for success

Roland expanded rapidly at first, besting the competition from other small producers. Five years after its founding, however, it ran into heavy weather as large companies muscled into the field. Yet Roland survived the challenge, going on to establish a solid niche for itself as a specialized maker of electronic musical instruments.

Why did it succeed? According to Roland's president, Ikutaro Kakehashi, the first key was to make a thorough study of the commercial characteristics of each instrument to be produced. The Japanese market for such products is small, but the U.S. market is the largest in the world. Obviously, for a product to be profitable it has to be one that will sell in both markets.

Kakehashi let Japanese wholesalers take care of selling Roland products at home, and concentrated instead on establishing an overseas sales network. To succeed, he calculated, a sales company would have to bring together at least nine people, and would need a constant supply of a minimum volume of products in order to support its activities.

To meet those requirements, Roland chose to make a variety of electronic audio products, from sequencers to rhythm machines, effecters, mixers, speakers and amplifiers, although its main products remained synthesizers and electronic pianos. Today Roland has 13 joint-venture sales companies in most of the major industrial countries.

Secondly, Roland did precisely what a successful venture-capital firm must do—it took the lead in product development. It adopted a policy of setting the prices of its product 10% higher than those of competing products, and making their performance 20% better. This way the company avoided being dragged into counterproductive price wars.

Third, Roland always tried to bring new products to market at the right moment. For that it established its own design technology using large-scale integrated circuits (LSIs) to stay ahead of its competitors. Of the 250 different Roland products now on sale, 20 have the largest share of their respective markets. All 20 use Roland-designed LSIs.

Managers of venture-capital companies need the entrepreneurial savvy to adjust their business as volume expands. It is no easy task, and the price of failure can be bankruptcy. Kakehasi, a mechanical engineer and music lover, best enjoys developing new products. But he has done remarkably well at adjusting his company to the growing and changing needs of expansion. To bolster his managerial resources, he has invited talented people from his client banks to serve as his managing directors for general affairs, personnel and accounting, and holds them fully responsible for management in all these areas.

When faced with intensifying competition in a given area, Kakehashi thinks positive. He emphasizes developing new products that will sell, rather than promoting sales of products already developed. He also stresses the importance of getting out of the laboratory and bridging what he calls the "gap" between the customer's language (needs) and the engineer's language (development). He serves as a bridge between the market and the laboratory, and is constantly busy collecting outside information and expanding the international sales network.

Perceptions of sound

Expanded product development is essential to overcome competition from big firms. Roland has assigned 280 staffers, or 30% of its work force, to its development department, and has development facilities not only in Tokyo, Osaka, Fukuoka and Hamamatsu, but abroad in Manchester (England), Chicago and Sydney.

The emphasis at the overseas development bases is on sound. This is because Japanese and Western people have different perceptions of sound. This is representative of the kind of long-term approach to development that makes it possible for Roland engineers to spend seven or eight years on a project. The man in charge of development is expected to give full play to his creativity. He is, says Kakehashi, the "boss who doesn't have to worry about money."

As Roland has evolved, so has its R&D. Development is now at a point where it requires support from basic and peripheral technology. Development is carried out by many groups working in parallel. The problem is finding enough engineers qualified to develop electronic

instruments. Roland is a popular job choice among music-loving students who have spent much of their time in college pursuing extracurricular musical interests. But what the company really needs is students who have studied electronics in earnest. The reason is simple. Such instruments, company offcials say, are a "mass of computers."

Technology poses more than a hiring problem. Semiconductor makers and other electronic parts producers consider Roland an instrument maker, and tend to hold back on providing up-to-date information on the parts it buys. Prices are also high. Kakehashi's answer to this double challenge—the difficulty of hiring talented engineers and closing the information gap—was Roland DG, established in 1981.

Roland DG is seeking to accelerate the evolution of CAD and CAM, computer-aided design and manufacturing, through computer peripherals. Currently the firm produces small plotters with excellent cost performance, high-speed, high-quality drawing machines that open the way to large personal plotters, and personal modeling machines designed to assist in the production of small-lot products and the testing of pilot models and NC data. Annual sales have reached ¥5 billion.

Roland's success in this area comes from the technological commonalities with electronic musical instruments in such areas as control devices, circuit structure and program size. Thanks to DG, the company now finds it easier to hire electronics majors, and to get up-to-date information. At the same time, the purchasing cost of parts has dropped. Roland is a successful example of the economies not of scale but of scope.

Roland's joint ventures are the nucleus of its overseas sales network. These overseas subsidiaries were all established and are managed under three basic policies set by Kakehashi.

First, all are 50-50 joint ventures. Attorneys and friends insisted that the company should maintain majority ownership of 60%, or at the very least 51%. But the president chose equal partnership. His thinking was, and still is, that in a joint company in which the parent company holds even 51% interest, any human relationship based on trust is cut off the moment the parent exercises that 1% voting right. Mutual trust, he believes, is the key to a successful joint venture.

Second, Roland sends no executives to its overseas companies. All day-to-day decisions, including pricing and wages, are left to local management.

Third, audit reports signed by a certified public accountant are submitted regularly to Roland in Japan. Monthly settlement reports are also filed within 30 days of the settlement day. And board meetings are held twice a year.

In short, full confidence is placed in the local partners in a policy of complete localization. For it to succeed, however, it is essential to select good local partners.

Question of caliber

One of Roland's standards for choosing partners is experience. The prospective partner must have enough experience in the business, and a keen desire to become an independent owner. Another requirement is that he be about 10 years younger than Kakehashi. The reason for this is that older men might have trouble succeeding him and also gaining a good understanding of musical instruments.

Photo: Yamano Gakki Co.

Roland Corp. makes a variety of high-tech musical instruments ranging from rhythm composers to advanced electronic keyboards.

Then there is the question of caliber. Does the prospective partner, Roland asks, have the ability to manage a larger company as business volume expands.

It is difficult to find such partners. Fortunately, the musical instrument industry is not a large one. The musical instrument shows held twice yearly in the United States and once a year in Frankfurt are the places not only to trade products but also to find would-be partners. Prospective partners may also be recommended by overseas subsidiaries.

Transactions between Roland and its joint ventures are quoted entirely in the yen. If the dollar were the currency of settlement, the producer would have to keep safety margins for exchange rate shifts that could weaken its enthusiasm for rationalization.

By using yen, the producer is free to concentrate on rationalization, and leave exchange rate and market forecasts to the marketers. The underlying idea is that maker and seller should split their difficulties under a "headache-sharing" plan. In fact, the extreme appreciation of the yen has forced the Japanese side to reduce its margins and lower product prices, but the principle of headache sharing has not been abandoned.

Roland's overseas companies earn ¥45 billion in annual sales. Roland U.S.A., with 90 people on its payroll, achieved ¥9.3 billion in sales for the year ended September 1985, which produced a pretax profit ratio of 26% on sales and a dividend rate of 50%.

Roland thus maintains a closely knit network of overseas joint ventures, which are managed by their younger managers on the basis of mutual trust, with Roland itself taking the lead as supplier. The subsidiaries enjoy full autonomy in running their operations. This successful localization policy sets a fine example for other Japanese companies to follow as they face the growing need to globalize their operations.

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