AMERICAN GUITAR MANUFACTURING: OLIGOPOLY AND THE ECONOMICS OF A CRAFT INDUSTRY

ROBERT J. WALLER*

The construction of guitars in America is distributed among approximately thirty firms, although 85 to 90 percent of the output (in both units and dollars) is concentrated in the hands of seven Four of these major producers have been involved in recent merger agreements, and two are still privately owned. The competitive aspects of guitar manufacturing are considerably enhanced by the large volume of imports currently entering the United States, overwhelmingly led by the Japanese. Manufacturers of lower-priced guitars reach consumers primarily through distributors and retailers, while the builders of more expensive instruments ship the majority of their outputs directly to the retail music store. Buyer concentration is relatively limited, although large distributors may have some bargaining power.

No definitive and general statement can be made concerning the degree of variance in product design found in the industry. Opportunities for differentiation by this method depend upon the kind of guitar under consideration. Differences in quality are present, and price serves as a rough barometer in judging quality. Buyer knowledge is low overall, excepting professional musicians and small groups of amateurs. Brand names are therefore an important part of guitar merchandising, particularly in higher price ranges.

Domestic firms wishing to enter guitar manufacturing encounter several barriers. The most impregnable is product differentiation, because of the heavy emphasis on brand names. Neither patents nor control of raw material and distribution systems provide any hindrance to new producers. Some absolute cost advantages may be associated with the high knowledge component needed in producing guitars on a large scale, including the specialized equipment required. Economies of scale are not a barrier to entry.

Commercial guitar manufacturing in the United States began early in the nineteenth century The major firms, without excep-

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* An assistant professor of management and economics at the University of Northern Iowa, Mr Waller is interested in economic theory, economic and business history, administrative and organization theory. He received his doctorate from Indiana University in 1968. This abstract of his D B A thesis was the basis of a longer paper read at the Conference.

tion, originated as small shops with few employees. Guitar output grew in a steady but modest fashion until 1963, when production accelerated rapidly and reached a peak in 1965; it has since declined.

The production processes of large-scale guitar manufacturers still retain much of the same flavor as several decades ago, although some technological advancement has occurred. Because wood, the primary raw material in all types of guitars, is a difficult substance to work to close tolerances, guitar manufacturers have faced substantial difficulties in mechanizing production. The major advances have been drying kilns, which shorten the time needed for finishing agents to dry, and quick-setting resin glues.

Because of the high-labor component in guitar manufacturing, a dilemma has presented itself to the industry. Due to their inability to make cost-cutting innovations in the production process, manufacturers have experienced a profit squeeze as wages have risen. They have attempted to counter this problem simply by raising prices, which constitutes an attack on superficial symptoms versus real causes. Other problems faced by domestic guitar manufacturers are the rise of strong foreign competition, shortages of key raw materials, a dearth of skilled workmen, rapidly fluctuating musical tastes, and, in some cases, growing excess capacity.

On the basis of data collected by the author, formal collusive agreements appear to be absent from domestic guitar manufacturing. As might be expected, however, the firms are highly sensitive to each other's changes in price, product design and quality, and marketing techniques. The pricing policies of the major guitar producers conform to the standard practice of "cost plus a fair return."

Price leadership, if it exists at all, is relatively informal and is not rigidly followed. Guitar firms tend to exhibit more independence in the realm of product design and quality than they do in pricing. No evidence was found of any predatory tactics directed at either existent or potential competitors. Price-cutting, tying contracts, patent restrictions, and vertical integration are not present, or at least are not inferable from the data collected. There is some waste of resources through advertising in the guitar industry, but these outlays are not excessive. The leading manufacturers interviewed have marketing expenditures of less than 10 percent of total costs.

A relevant consideration is whether a purely competitive structure in guitar manufacturing could do better than the present oligopolistic pattern. To approach atomism would require a large number of firms fabricating identical instruments in each of the various styles. In terms of consumer want satisfaction, the divergence of musical and aesthetic tastes among guitarists probably would make this arrangement highly unsatisfactory.