



Hailun's Meteoric Rise

Drawing on technical talent from around the world to refine its pianos, Chinese maker has lofty global ambitions

At the Hailun Piano factory in Beilun, China, there's a plaque marking the day in 1986 when Hailun gained permission to become a privately owned company. Eight years into the leadership of Deng Xiaoping, China was in the midst of the economic and cultural awakenings that would combine to make it the world's largest piano market, and Hailun was there at the beginning. Named for founder and CEO Hailun Chen, Hailun started out as a manufacturer of piano parts and tooling but thrived in the experimental new economy and broke in as a full-fledged piano maker in 2002. By 2006, the company was making pianos for the U.S. market, a whirlwind turnaround by piano industry standards. As any number of tech companies can attest, however, there are no points for being the creative new upstart unless you can follow through as business picks up speed.







Left, workers at Hailun's new factory set and regulate the actions on uprights in production. Right, a sign of the times: a piano is tuned by smartphone app.

With 80 dealers, a stack of pending orders, and at least one entirely new line in the works, Hailun has reached that point. "A growing number of dealers are becoming dependent on our inventory," says Basilios Strmec, CEO of Hailun USA. "Everything we do must flow together to create a product that they can consistently sell and make money on. It's part of becoming an anchor brand."

That's where matters stand when *The Music Trades* has the chance to join a team from Hailun's American branch for a visit to the Beilun factory. It's mid-October, days before the start of the Music China fair across the Hangzhou Bay in Shanghai. Along with Strmec, the group includes Southern California native Paul Rea, Hailun's manager of product development and quality control. With a background in fields from prototyping to voicing, he's been living in Beilun for the past two months, supervising production from materials deliveries to the moment each piano is shipped out from the factory. "We call it 'birth to box,'" he says. The factory itself, funded by a \$58 million IPO on the Shenzhen Stock Exchange, is barely a year old. Set about a mile-and-a-half from the old Hailun factory, which still houses a handful production tasks, the new structure covers some 2.6 million square feet over five floors. Out front there's a row of flags, the Chinese flag in the center with the German, Czech, and American flags off to one side and the Austrian and Australian flags to the other. "This is not a Chinese company so much as a Chinese-American-European conglomeration," says Strmec. "Only the combination has allowed us to thrive."

As Strmec points out, most prominent Asian piano makers spent decades refining their products before finding success in the West. At Hailun the process has been much accelerated, thanks partly to a family tree that touches some of the most

venerable piano makers in Europe and North America. One of the company's original designers was Austrian Peter Veletzky, then head of the Wendl & Lung piano company, whose input literally set the tone for Hailun's pianos. To this day, its voicing specialists favor the dark, warm character of the classic European pianos over the brighter sound of most Asian-made instruments. Other renowned designers have followed, among them American Frank Emerson, who did scale design at Baldwin and Mason & Hamlin before putting his stamp on Hailun. At the company level, likewise: Just over three years ago, Hailun struck an agreement with Bechstein, offering the use of its factory in exchange for the German manufacturer's expertise. Hailun's factory now produces Bechstein's Zimmerman line, and Bechstein technicians visit regularly, both to supervise their own production and to advise the Hailun team. Hailun also has an informal advisory relationship with Petrof, whose line it distributes to half of China. "In Chinese culture, they don't mind accepting outside ideas, learning from others and integrating the best knowhow into new products," says Strmec, himself an Austrian who once served as a vice president for Bösendorfer. He now manages Hailun's U.S. operations from Seattle.

For part of this visit, the group from America will be visiting two of Hailun's subsidiary plants. Along with its main factories, Hailun is part-owner of a smaller facility specializing in metal parts and fittings, and another that produces the ebony-polished panels for its uprights. In both cases Hailun purchased a 51% stake in the operation, leaving the original ownership with 49%. While Hailun could have purchased 100%, says Strmec, the company chose this path to leave the subsidiary plants with a stake in their own work, a constant motivation to keep standards high. In the words of Jack Wu, export

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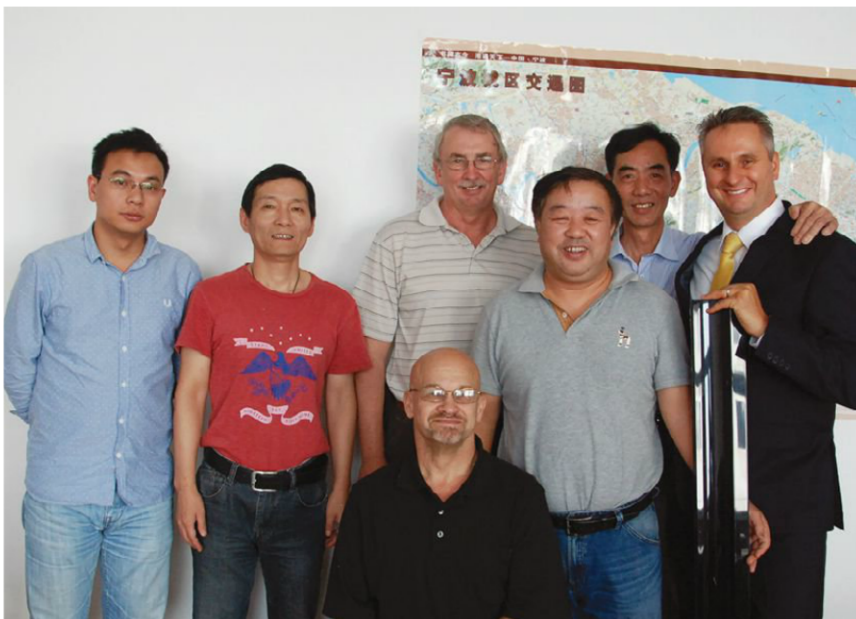
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At Hailun's upright panel subsidiary: (l-r, standing) Jack Wu, export manager; Yu Lin, assistant; Paul Rea, director of product development and quality control, Hailun USA; Mr. Wen Hu, factory owner, panel and upright polyester factory; Mr. Chin, assistant; Basilios Strmec, CEO Hailun USA; (front, seated) Eddie McNabe, quality control manager, Hailun USA.

manager at the main factory who does much of the translating for the Western visitors, "When they have a part in the factory, they know they must work hard." As Strmec adds, "It's actually a very American idea—the sharing and aligning of interests."

Also located in Beilun, the metal parts factory makes components not only for Hailun but for outside piano makers including Mason & Hamlin. At issue for the Hailun team is an upgraded part for its patented HLPS system (pronounced "helps"), a mechanism that allows its grand piano lids to be opened with the slightest effort and glide gently closed instead of slamming. While the average grand piano lid weighs around 35 pounds, HLPS effectively reduces that weight to just two or three pounds—an ease and safety improvement for all players, but especially for children and the elderly. "It's a family-friendly piano," says Strmec. "Let go of the lid, and it will not come down on a child's fingers. The benefit is so tangible, so obvious, that people just love it and our dealers are hooked on it. We are the only ones who have this."

After engineering an upgrade to the system, however, Hailun needs to iron out the wrinkles in the new design,

essentially a two-piece hinge to be installed under the lid. A switch in suppliers for one component means the original alloy in another part is now too soft, so it's been replaced with aircraft-grade aluminum. When the pieces are first fit together, it also turns out the size of one component is off by a millimeter or two. While it should function, the team explains, they have to plan for all contingencies in assembly and transportation: In case something is jostled the wrong way, the components must fit like a glove so the mechanism remains sound. With limited time to finalize the design, the Hailun team goes back and forth with engineers at the subsidiary factory, with Wu translating. Measurements are taken, schematics are drawn up, and at the end Strmec calls out: "Can we have ten of these today so we can start testing?"

"We are a hands-on, nitty-gritty kind of company," he says. "The reason I'm involved is that for me there is no tolerance for mistakes in our finished product. The product that goes out needs to be perfect."

At the main factory, quality control is Rea's domain. Among his other duties, he's on the receiving end of a computer system that logs every technical call

from a Hailun dealer. Onsite in China, he's able to step in and correct any glitches at the source, sometimes literally scribbling corrections on the product in erasable marker. Any problems brought to his attention are added to a formal checklist of items to be inspected before each piano leaves the factory. "Having Paul here on a constant basis is integral," says Strmec. "He brings a lot of experience from the American market, and also the 'big picture' that not everyone here would have otherwise. We need our product to be flawless, because as a Chinese-branded company, we start with a handicap in perception."

As a footnote, the question of whether to be branded as a Chinese company was a very real issue when Hailun was preparing to hit the international piano market. One option, used by other Chinese piano brands before and since, would have been to adopt an old European name, or coin a new one with a European sound, to better fit the traditions of the market. Ultimately, however, the company chose to stay with the founder's name, already the name of the factory where its pianos were produced. "At the time we were the only Chinese piano company with a presence in the West that had the guts to put a Chinese name out there on the market," says Strmec. "We're authentic, and I like that about our brand. There are no smoke and mirrors."

But in a market where heritage and national origin still color consumers' choices, a young Chinese company needs another selling point—and Hailun believes it can be technology. While the HLPS system is probably the company's proudest differentiator, it's just one in a handful of signature innovations by Hailun. In another such effort, the company redesigned the key beds on its uprights, making them out of metal alloy instead of the traditional wood. As Strmec explains, gravity and humidity cause a wooden key bed to sag over a period of decades, leaving many an old upright not worth playing or repairing. Alloy, however, holds up over time—shoring up the buyer's investment in the instrument. As a result, the Hailun team calls its products "the only rebuildable uprights in North America." "The way we have been successful,"

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says Strmec, “is by pushing technology forward in small steps.”

Inside Hailun’s new factory, the company’s technical sensibility pairs with the clean, airy look of new construction. Somewhere in the building, a worker can be found tuning a piano via smartphone app, and he’s not the only one to give this factory a decidedly 21st-century feel. State-of-the-art CNC machines take manufacturing to a new level of precision, while new efficiencies and environmental safeguards are embedded in the very structure of the building.

An innovative filtration system, for instance, siphons would-be pollutants from Hailun’s polyester spray process into a perpetual “waterfall,” passing them through a series of filters before the purified water is recirculated. The factory is also built to withstand an earthquake of 7.8 on the Richter Scale—a requirement Strmec insisted on after thousands were killed or injured in the collapse of a textile factory in Bangladesh.

With each of its four operational floors covering a full acre, the new factory has

allowed Hailun to take more of its process in-house—notably the production of its own actions, once split between one of its subsidiary factories and a major third-party manufacturer. Around six months ago the factory acquired specialized machinery for making the action parts, with the goal of making these components not just better but more closely tailored to Hailun’s pianos. Elsewhere in the factory, space has been devoted to Hailun’s newest endeavor, a digital piano line scheduled to ship in China early this year, and in the U.S. about two years later. Digital R&D and production experts have come onboard for the project, employing a Chinese-made computer chip in the models destined for the Chinese market. For Western markets, the company plans to take the product a step further, using a European-made chip equipped to faithfully reproduce samples from both a Hailun-brand piano and a range of other instruments, “such as a Sauter, Petrof, or Bösendorfer,” says Strmec. “We feel digital will be part of a portfolio that matches us up with our dealers’ needs as an anchor brand that covers all the bases.”

All told, Hailun’s factory employs about 1,100 people. Not long ago, however, it would have taken many more to do the same work. Advanced CNC machining has taken much of the manual labor out of the equation, says Strmec, adding, “A few years ago, these rooms would have been filled with people.” The same is true for Hailun’s subsidiary factories, which have also made major machine upgrades in the past two or three years. Part of the impetus is the rising cost of labor in China, which can be offset by mechanization. Yet Hailun management and its factory staff are equally firm that there’s a larger issue at stake: the quality and precision in modern machine-manufacturing, and the need to seize that edge in the face of mounting competition. As Wu sums up on behalf of the team at the ebony panel subsidiary, “Machine-made products are more consistent. Every factory, if it’s going to survive, must think of the future—and quality must be its first priority.”

In the view of Hailun’s visiting Westerners, the intensifying focus on quality is a sign of China’s evolution as a

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manufacturing power. When China first opened up to the world economy three decades ago, its trump card was pure low-cost labor. As Strmec puts it, "All they knew was that if they picked up the phone and said, 'I can make this part for two cents,' the guy in America would go crazy. Since then the economy in China has completely metamorphosed. They've learned that price is just one component of marketing—quality is another. The market is seeing the evidence of that in our products."

Meanwhile, 27 months out from the IPO that funded its factory, Hailun's stock price has shot up 133%. Company management credits two factors, one fairly straightforward, and one with a long trail through Chinese policy and culture. The first, simply, is Hailun's credibility as an international enterprise. With its strong partnerships and customers around the globe, shareholders have been quick to show their confidence in the company's stability and

prospects. The second factor, intriguingly, relates to Chinese government plans to soften its one-child policy. Whereas current Chinese law makes it a



The finished product: One of Hailun's elegant grands stands near the entrance to the new factory.

crime to have a second child, with a heavy fine as penalty, proposed changes would remove the criminal stigma, says Strmec, permitting families to have a

second child in exchange for a government fee. "Where there are more children, there will be more music education," he elaborates. "And where there's more music education, there will be more piano buying."

If Hailun's future depends on meeting that market on the front lines, management knows the work it does behind the scenes will be just as critical. From something as big as a new factory, to something as small as a millimeter shaved from a part at a metalworks plant, Hailun's view holds that it's all built into the product that reaches the showroom. "We reach through to the very bottom of where things come from," says Strmec. "The factory is doing wonderful things, but our job is to ensure that all these things come together in a superior product. As a maturing player in our market, we see that as a promise to keep to our customers. We want to leave them saying, 'Hey, Chinese works.'"

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