

BBE SOUND, INC.

A leading audio innovator's diversification is helping to build a global, cross-market brand.



BBE's new D82 Sonic Maximizer plug-in for computer recording applications.

IN AUDIO, A FEEDBACK loop is typically viewed as a situation to be avoided, but that's precisely the goal at BBE Sound. Located in Huntington Beach, California, BBE Sound has created a unique promotional feedback loop among its signal processing products for musicians and studios, its G&L electric guitar line, and its audio technologies licensed to consumer electronics manufacturers whereby the company's brand image in each market compounds and fortifies its marketing impact in the other commercial sectors.

A music products industry veteran since 1959, BBE Chairman and CEO John McLaren left his native Manchester, England, to work at Steinway Hall in New York before relocating to California to join Yamaha. After rising over the next 16 years to senior executive vice president, in the 1981 he left Yamaha to accept a challenging appointment as president of the CBS Musical Instrument Division, which at the time included Steinway, Fender, Rhodes and other illustrious brands. Among the noted Yamaha executives who would follow him were Bill Schultz and Ed Rizzuto. But within a few years John grew disillusioned

with the parent company's apparent lack of passion and dedication to its m.i. businesses, and on his 50th birthday he quit CBS. Following a brief interlude of publishing the *McLaren Report*, an industry newsletter, John was introduced to Barcus Berry Electronics. A spin-off of the original Barcus Berry transducer manufacturer, the company was formed in 1984 to license sound enhancement



BBE has a fast-growing line of guitar effects pedals.

technology.

Developed by inventor Bob Crooks, the technology addressed the phase and amplitude distortion inherent to loudspeakers. Crooks' circuit automatically compensated for these problems, allowing speakers to more faithfully reproduce amplified sound. "I went to hear a demonstration of the circuit, not expecting much," John recalls, "but the clarity and detail in the sound made the hairs on my neck stand up. As a musician, I knew immediately that this was something special."

By then the company had already consumed nearly all of the venture capital funds originally invested, but John took over the company in 1985, renamed it BBE Sound to better distinguish it from the Barcus Berry company, and invested his own money while raising additional outside capital. John's son, Dave, who joined BBE in 1993 and is now executive vice president, recalls, "It was a tough period, as the company didn't have a chip small enough for licensing and there was only a home audio processor sold through a direct mail campaign with ads in the back of audiophile magazines." John reasoned that the people who would embrace the technology's concept were musicians, so he had the device repackaged into two rack-mount models. With his extensive network of contacts in m.i., he was able to get the products established fairly quickly.

By 1987 there was finally a single-channel chip ready to be licensed. With dogged persistence John convinced Aiwa, then a part of Sony, to incorporate the BBE High Definition Sound circuit

into its mini-component stereo systems. Per John's advice, Aiwa marketed the feature aggressively in its print and television advertising, stressing that BBE technology, used by musicians and sound professionals around the world, was now available to consumers in home audio. Aiwa's sales, profits, and stock price soared, and its annual report cited BBE High Definition Sound as a major contributor to the company's turnaround. Consumer electronics companies licensing BBE sound improvement technology now include Alpine, Clarion, JVC, Samsung, LG, Panasonic, Sony, Philips, Pioneer, Sanyo, Sharp, and Toshiba. Its semiconductor partners who produce chip devices incorporating BBE technologies include Mitsubishi, Sanyo, Toshiba, and Yamaha, among others.

"With the launch of the BBE 802 and 402 Sonic Maximizers, the sales effort desperately needed more muscle," John recalls. "In 1988 Rob Rizzuto came on board and put his relentless drive and charisma to work, quickly ramping up sales. Dealers and reps thought of the Sonic Maximizer as a marvelous, but

esoteric, device, but Rob showed them how it could be one of the easiest high-margin add-on sales a dealer can make."

Rob's success, however, presented challenges of another sort. "The technology was still in its infancy," Dave explains, "and the early pro m.i. units had some performance and reliability issues." Fortunately, in 1990 Paul Gagon, who brought engineering experience from CBS and Fender, came on board and dramatically improved the products."

Though sales were growing, so were expenses. Faced with the difficulty of supporting the company with just two products, John pushed for expansion. With a wealth of guitar industry experience in the company, John had several conversations with Leo Fender about buying G&L Musical Instruments in nearby Fullerton. "Each time we got close to doing a deal," recalls John, "Leo backed off, confiding, 'This is what keeps me alive.'" Following Leo's death in 1991, his wife, Phyllis, sold G&L to BBE because she believed BBE would help G&L achieve the level of success Leo had dreamed of. Today, Phyllis

remains honorary chair of G&L.

"For years Leo had been injecting cash to keep G&L going," Dave recalls. "Though we were thrilled at the opportunity, it was a daunting challenge because we couldn't continue to absorb the losses as Leo had. We had to move fast." But with diligence and marketing savvy, G&L became a success for BBE Sound on many levels. BBE gained sales volume and strength with reps and dealers because G&L guitars were sold largely through the same distribution channels as BBE's m.i. products.

Economies of scale were realized in everything from electronic components to advertising space. Also, having a glamorous guitar company helped accelerate the popularity of BBE Sonic Maximizers among artists. Dave explains, "G&L's fine instruments naturally attract artist endorsements, which provides opportunities to introduce more artists to the BBE products. This further enhances the reputation of our brand and the technologies we license to the consumer electronic industry. Today, millions of musicians and sound profession-

als around the world love what BBE does for their sound, and these people have wide spheres of influence. Undoubtedly, the synergy with G&L has played an important role."

Dave adds, "Managers at consumer electronics companies appreciate that BBE is immersed in the music community, building beautiful instruments that inspire musicians, making equipment that heightens the thrill of live performances and captures more nuance and detail in recorded works. By the nature of our activities, the message heard by the licensees is, 'Who would know more about sound than these people?'"

This "validation by association" is reciprocal. As many of the world's leading consumer electronics manufacturers have licensed BBE technology, BBE's credibility is strengthened in pro audio and m.i. markets. Recognizing the huge potential in this "feedback loop," BBE's goal is to achieve a level of brand recognition comparable to what Ray Dolby accomplished with his noise reduction technology. "The difference," John adds, "is that BBE technologies can be used

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anywhere there is amplified sound. The market potential is limitless."

BBE has also begun seeing its development of products for consumer electronics lead to promising products for the m.i. market. Recently it began licensing a new technology designed to improve the quality of compressed MP3 audio. "MP3 compression removes 'pixels' from the audio picture," Dave explains. "We've developed BBE MP technology that examines what's left after MP3 compression and generates additional information to replace the missing material,

making the sound richer and fuller. This technology will be of particular interest to the growing number of mobile and nightclub DJs who are working with MP3." He adds that today's car audio market is influenced by hip-hop culture, so the DJs and remix artists who use BBE sound enhancement processors will be significant to the brand's car audio licensees.

Several years ago BBE's management team resolved to grow the BBE brand in the m.i. market by venturing into areas that, in Dave's words, "are a significant departure from BBE's high-tech products. For example, an analog guitar pedal is very old technology. We've got this team with so much personal experience with pedals that once we came to terms with our high-tech brand doing low-tech products, a torrent of creativity was unleashed." Having solved technological challenges that hampered an effort in the early '90s to produce a Sonic Maximizer pedal, BBE introduced a successful foot pedal version called the Sonic Stomp in 2005, opening the door for the company to develop a full range of effects pedals.

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The line now includes 15 products, and more are nearly ready for market.

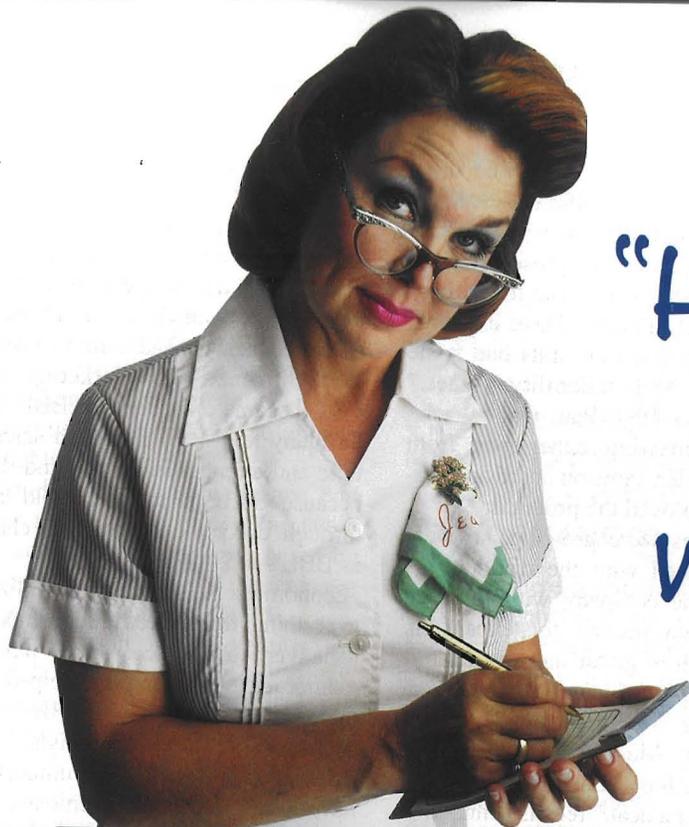
Meanwhile, BBE's range of high-tech products continues to grow. In response to the substantial migration of recording industry from hardware to software, BBE recently introduced the D82 Sonic Maximizer, the company's latest plug-in

version of its signature 482i. And the company is close to launching a suite of sound enhancement plug-ins employing some of the DSP codes developed for the licensing program. "Without revealing too much," says Dave, "BBE will soon be introducing "a proliferation of plug-ins."

As has been the case since John McLaren took BBE's helm in 1985, the dynamic "feedback loop" among the company's multifaceted interests continues to fuel growth and innovation.

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“How about
a BBE
with that?”



Here's a tip—stop leaving money on the table!

“Sonic Maximizers are great because making the sale is as easy as the pushing a button.”

Clay Bailey, owner
Bailey Bros. Music
Montgomery, AL

“I love Sonic Maximizers because my average sale goes up every time I sell one.”

Larry Fischer, owner
Metro Sound and Lighting
St. Paul, MN

“It's the only product I sell by turning it off. It's so easy.”

Evan Sheely, owner
Bass Northwest
Seattle, WA

“BBE makes any gear sound better, but more importantly, every customer who walks through my front door is a potential BBE sale.”

Ryan Clement, Manager
Grandma's Music
Albuquerque, NM

Profitable restaurants pump up the average meal tab and fatten margins with luscious dessert treats. Profitable music dealers do it with BBE Sonic Maximizers. They're irresistible to customers once they hear the big improvement in sound quality that only a Sonic Maximizer can provide.

It's easy as pie. Have a Sonic Maximizer on demo in every department: guitar, bass, keyboards, recording, PA and DJ. Don't let a customer leave the store without a demo, and make sure you've got good stock of Sonic Maximizers, 'cause you'll be selling them like hotcakes.

BBE PROFIT FACTS:

- Sonic Maximizers are the best “plus sale” item in your store
- Everybody is a customer for a Sonic Maximizer
- Easy to demo: Just punch the “BBE Process” button and get ready to ring the register
- Powerful national advertising and editorial coverage in major music and pro audio magazines.
- Great word-of-mouth references from your customers help you ring up even more sales of BBE Sonic Maximizers

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BBE
Sound Inc.

Call us at (800)233-8346 to get started today.