

Legacy in the Making

TAYLOR GUITARS

When Taylor® Guitars began in 1974, its founders used to dream that one day, maybe, their upstart would be as big as Martin Guitar—their rival, who has been in business since 1833. Today, that dream is being realized. Not by following the conventional rules of guitar making, but by making unconventional choices, including always focusing on the long-term impact even when making near-term decisions. Recently, *The Legacy Lab* had the opportunity to talk to Taylor Guitars cofounder **Kurt Listug** about how having high ambition, plus a clear sense of purpose, helps to drive him to do things differently—writing new rules for an entrenched industry while continuously working to craft his brand's legacy in the making.



Can you tell us a little about the origins of Taylor Guitars?

■ I grew up playing piano. Later, I got a guitar when the Beatles happened, when I was going to college. A buddy of mine from college had a job at the American Dream, a guitar shop in San Diego, and I thought that sounded cool. So I pestered my friend, Bob Huff, for a while until a workbench

opened up at the American Dream. I didn't know how to work on guitars, but Greg Deering, who today famously makes banjos, was there and he taught me how to do some finish work and repairs. Around that same time, Bob Taylor started working at the American Dream. Bob was one of those guys who could take anything apart and put it back together. He was gifted. His guitars were great. Bob

and I worked at the American Dream for years. When the founder, Sam Radding, decided he wanted to sell the place, I went down to the Small Business Administration office to do some research.

I remember approaching my dad for a loan. He asked, 'Do you know how to make guitars?' My answer: 'No, not really.' To which he responded, 'So, who is the guitar maker?' I said, 'Bob Taylor.' And he said, 'If you can get Bob to be your partner, your mother and I would consider loaning you the money.' That is what happened. Me, Bob and Steve Schimmer, a friend of mine who also worked at the American Dream, put some money together—about \$10,000. We bought Sam out in October 1974. We gave Sam the sum of roughly \$3,700. We paid about \$1,500 for his tools and \$2,200 to cover some past-due bills from Gibson®. I was 21, Bob was 19 and Steve was a little bit older than both of us.

We lost our working capital pretty quickly. We struggled and had to figure things out while we were doing them. While repair work kept money coming in the front door, Bob and I decided to stop doing repairs so we could focus on building guitars. We felt that building guitars, not fixing

them, was our future. We used to dream that maybe someday we could be as big as Martin Guitar.

We went through a lot of stages in trying to sell our guitars. At one point in 1976 or 1977, we did a deal with two brothers who formed a company to distribute musical instruments made by little companies like ours. One of the brothers was Paul Rothchild. I grew up listening to The Doors, and on the back of their albums was: 'Produced by Paul A. Rothchild.' I remember thinking, 'Paul A. Rothchild, maybe I'll meet that guy someday.' Then Bob and I ended up doing business with him and his brother. They got our guitars into music stores all around the country because they had a sales force. But they weren't making us any money, and we had to split off from them after a couple of years.

In 1974, the shop we bought was doing about \$30,000 a year in revenue. From 1974 until the end of 1982, over eight years, we had grown to earning \$125,000 a year in revenue. When we started, Bob lived out of his van. I lived with my folks. But we always dreamed big. Steve was more conservative. So at the end of 1982, Bob and I bought Steve out. And that's when things really started to grow. We doubled our revenue in one year. In 1983, we incorporated. By 1986, we were making 22 guitars a week, had regular cash flow and could pay ourselves every week. That was right around the same time where you started hearing acoustic guitar making a comeback on commercials and in soundtracks. You heard a Taylor guitar on the soundtrack to

The Wonder Years. Then Eric Clapton did *Unplugged*. Then baby boomers started coming back and buying acoustic guitars, including Taylor guitars, and things started taking off even more.

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Bob was always more of the guitar maker, and I was more of the businessman. In the early 1990s, I started looking ahead to what it would take to grow further. I started to think long term about differentiation and brand building. The ads that I had seen and liked for other brands, and wanted to make for Taylor, did not speak about products or features. Instead, they spoke more to the person and what they got from owning, using and enjoying a product. They spoke to how people dreamed about things and what a brand meant to them in their life. Whereas other guitar brands conventionally focused on celebrity artist endorsements, we built a brand that, at first, showed a less conventional reverence for the trees that brought our guitars and players to life. When we started to invest in branding in this way, we were earning more like \$2 million a year in revenue. From that

point in the early 1990s until the early 2000s, we grew to earning greater than \$50 million a year. Over the last several years, we have grown to earning even more than \$100 million in annual revenue. Based on market research, we have become the top guitar brand, not only the number one acoustic brand, but the overall top guitar brand, acoustic or electric, in terms of retail revenue generated in the United States.

Like I said earlier, Bob and I used to dream that someday we would grow as big as Martin Guitar. Martin started in 1833. Here we are after just 40 years, Taylor Guitars, and we are living our dream.

In your founding story, you shared that you and Bob were figuring things out as you went along. What was an important lesson that you learned from your early mistakes?

■ While there is often a common wisdom about the way things should get done, we found that the common wisdom is often wrong. Specifically, when we started, the common wisdom about making guitars was that it was more efficient to manufacture things in batches. We tried that and it was just plain wrong.

Back in the days when Rothchild was distributing our guitars, Bob met another guitar maker named Augie LoPrinzi who taught him that it's much better to have a done guitar than 10 half-done guitars. Bob learned Augie's method where you, basically, make a

guitar a day. Every day you start a guitar, and every day you finish a guitar, or you continue the guitar you started the prior day. There are defined steps in the process. Today, others, across industries, call this approach to making guitars ‘lean manufacturing.’

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When we did things by the older convention, we started off by making batches of 10 guitars. Six would get done, and four would get wrecked. It would take two months. Instead of having 10 done guitars in a month, we had six done every two months. Over time, we learned to shorten the time it took to make a guitar. We worked on improving every step of the process. Now, we make over 700 guitars a day; 700 get started every day; 700 move through the process—including getting sanded, sprayed and dried—every day; 700 get shipped every day. And the income, the checks, come in the mail for 700 guitars a day, and they get deposited every day. This is how our business is now structured.

So we had to learn that the batch system didn’t work, and we needed to think less conventionally about making a guitar a day. Learning to apply some uncommon wisdom was

an important lesson in helping to guide our ongoing and uncommon success.

Are there other lessons that you and Bob have carried forward not based on the mistakes you made early on, but based on some of the things that you got right from the start?

■ I think we were right to follow Bob’s instincts when it comes to what makes for a great-playing guitar. If you got a group of guitar players together in a room and asked them to raise their hands if they thought Taylor was the best-sounding acoustic, half the people would raise their hands. If you followed up by asking them to do the same if they thought Martin was the best-sounding, the other half would likely raise their hands. In contrast, if you asked that same group of players to raise their hands if they thought Taylor made the best-playing acoustic, just about everybody should raise their hands. While sound is a very subjective measure, playability is far more objective. Taylor is known for playability. Perfecting playability is something that Bob has worked on forever.

I remember before we bought the American Dream, Bob was working on a friend’s Guild®. It was a maple Guild. It didn’t play well and it needed the neck reset. Bob took the 14th fret out, where the neck joins the body. He sawed through the fretboard, popped the end of the fretboard off where it had been glued onto the body. Next, he reworked the

heel of the neck, changed the angle and bolted it back onto the body. I remember saying, ‘You can’t hack away on a guitar like that.’ And he said, ‘It is the most direct way to fix it.’ It made sense to him. It is not that he didn’t honor the old ways, it is that the guitar needed the neck angle adjusted, and he required a better way to do it and to put it back together. In Bob’s way of thinking, the old solutions were a function of the tools that were made available years ago. And he did not want to limit himself based on the tools that were available a long time ago if he could wind up making a better-playing instrument for today’s players.

When it came to manufacturing, we had to learn how to be less conventional as we went along. When it came to guitar repairs and designs, particularly as it related to playability, we were less conventional in our thinking right from the start.

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Earlier you mentioned the ideas of looking ahead and thinking long term when it comes to brand decisions. In the course of regular business, how far forward are you and Bob looking?

■ If you want to accomplish anything meaningful and lasting in life—if you want to improve yourself in some way, learn to speak another language, travel more, get healthier—then you need to get on with doing it. In our case, once our guitars were turning out well, our sales were good, our customers were happy, and we could afford to pay ourselves because we were profitable, we could have opted to stop and maintain. But Bob and I were ambitious and wanted something more. We looked further ahead, versus standing still, to better guide the actions we would take on a daily basis.

“As a matter of business routine, I always like to ask myself, ‘In 10 years time, will we be glad that we made each decision?’

If the answer is yes, that usually means making the kind of investment in personal energy and capital today because I know that, down the road, the business will be better off.”

For example, one of the projects I’ve long been working hard on is growing international sales. One of the biggest opportunity markets for us is in Europe. In the past, the way Europe has been handled by us and our competitors has been to find a distributor in France, in Germany and the U.K. to import and market the products that we all make. In looking ahead, the problem we could foresee was that not enough distributors would soon be representing too many brands. In turn, they would not have enough resources to uniquely apply to our brand. That would limit our growth. Also, if we worked with different distributors in each country, each would price our product differently, and we would likely not get a consistent marketing message across the continent. Our consumer service reps, our service approach, would be inconsistent. So how would we maximize the opportunity to grow there? The way to do it was to invest in creating our own sales and distribution solution, which is a big undertaking. It also, by the way, entails constructing a business plan, terminating old distributors, cleaning up old inventory and past pricing schemes, finding a location, recruiting people and learning about HR in every country—because labor laws, like distribution laws, are different in every country. It is not easy, but in making the commitment to think about the long term, we make better short-term choices.

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that usually means making the kind of investment in personal energy and capital today because I know that, down the road, the business will be better off. Even if a long-term decision requires us to go outside of our comfort zone, if it’s for the sustained success of the business, we’ll do it. We’ve grown very comfortable with the idea of going outside of our comfort zone.

One of the interesting choices that you made, in terms of thinking long term while acting short term, was in hiring Bob’s successor to collaborate today on designing the future of your guitars. Can you share a little bit about the Taylor Guitars approach to succession planning?

■ Every company gets started by somebody. Their company, if successful, will outlive them—it will get sold or the founders will pass on—and so it needs to go through succession. Bob and I have been in this industry for a long time, and we have seen a lot of companies around us change ownership and change hands. We have our perspective on things. Ours is not a business created only for the sake of business. Ours is a business born of passion. So it was always going to be important for us to find a guitar maker who could bring our passion forward—someone with a name and a face, not just a corporation that would be mass-producing our life’s work.

I really admire what C.F. Martin & Co.[®] has been able to do since 1833. It is still a family-owned business, surviving the

Civil War and two World Wars. It is still a great competitor, a vital competitor that makes great guitars. In some ways maybe it's harder for Chris Martin than it is for us because he's not the guy who decided that he wanted to make guitars his life's work like Bob and me. He is doing a great job of having inherited the responsibility—and it is a lot of responsibility—that has been passed down the line.

When we look at most other guitar companies, including Gibson and Fender® guitars, leadership has often been passed to sales, marketing and finance people. Even though these great companies were started by an inventor, a tinkerer, a guitar maker—they ended up being led by people without creative or manufacturing skills. Their viewpoint tends to be driven by the idea of making more of what they already sell. They make and sell more Les Pauls, Strats, Teles and P-Basses, their old legacy products. They have a harder time than we do in creating new or modern legacy because they don't have the leadership of someone capable of creating new instruments. Again, creativity and manufacturing have taken a backseat to sales, marketing and finance.

Taylor Guitars is different because it was founded by Bob and me. We are equal partners, and we still own the whole company 50/50. The company is a combination of our interests and skills. I am not a guy who says, 'I designed all the features of a guitar on a spreadsheet. It seems to have some good price points. Can you guys go make them?' We are creating the best

instruments we have ever made right now. And Bob, from his perspective, has thought a lot about what is going to happen to the making of guitars when he is gone because, like me, he wants our company to continue as a vital one. Bob wanted somebody who could take the mantle of leadership in creating new instruments to help carry Taylor Guitars into the future. Bob handpicked Andy Powers, now our master luthier—our master builder.

Before joining us, Andy was involved in carpentry. He was a guitar maker, and he was, and is, a pro-level guitar player. Andy has a lot of the same passions, interests and values as Bob and me. He's been with us for five years now and is only around 35 years old. Andy can carry this brand into the future. When he is in his 50s, it will be his responsibility to find the next person to mentor, as his protégé, to help carry Taylor Guitars into the future. We do not want to end up as the brand that makes 20 flavors of the same models that we have always made and to keep making them forever, without real change, at every price point. Andy will help to make sure that Taylor Guitars always creates. He is not just here for five years to increase our value and then sell to another corporation. Andy shares our purpose. He has made a long-term commitment to carry the flame forward and pass it on again to protect and grow that purpose.

I hope we always remain a company that is driven by our employees and not by a corporation. That might mean that the dollar value of this company

is less than if we were to sell it to an outsider. But it is not our primary motivation to maximize our conventional value. It is more important to live a life of purpose and to live the life that we want to live. Just chasing more money, at this point, doesn't do much for us.

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The notion of embracing your personal and cultural values, beyond maximizing your brand's monetary value, feels like a very important idea. Can you elaborate on the enduring values of Taylor Guitars?

■ For Bob and me, it always comes down to doing the right thing by people. When the credit market blew up in 2008 or 2009, we shrunk by about 30 percent. We couldn't keep spending money to build guitars only to add them to our inventory. We had

to cut back. Still, our first priority was to be fair to our people. We aimed to protect manufacturing jobs by cutting back on the number of days we were working, and we reduced pay proportionately. Once we nearly recovered, after about a year, we decided to profit share by paying out a discretionary year-end bonus. Then, the next year, once we were fully back on track, Bob and I decided to pay the ones who stayed with us the back wages they had not been paid the previous year because we just felt it was the fair and right thing to do. We did not understand when something horrible like that happened at other corporations, why most of the executives still got their full pay, but the high percentage of people actually manufacturing the products had to make a sacrifice. After all, the ones who traditionally have to take cuts are the ones who can least afford it. Bob and I always take the point of view that we can afford to do the right thing. Doing the right thing for people is always the right thing to do, and we have a lot of loyalty as a result.

In the early days, there was a guy named John who printed a catalog for us. He really went all out to give us really good service. Back then, we were more in startup mode and were late in paying our bill. Over time, as we learned about how sales worked, it crossed our mind that he likely lost a commission because of our late payment. So years later, we called him up and asked him about it. He confirmed that he did, in fact, lose his commission. What did we

do? We told him we wanted to make things right. We invited him to our place and gave him a guitar. He was floored. He said, 'No one has done that before.' For us, from a personal and cultural values point of view, it will always be our priority to do the right thing for people.

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Based on reputation, it seems that Taylor Guitars doesn't just aspire to do good for the people it employs or the people it works with, but also for the world that it operates in. Yours seems to be a brand with a social conscience. Can you remark upon your social values?

■ I can give you an example of our values in action. An opportunity came up with a supplier of ours named Madinter in Spain. They had been buying ebony from a company in Cameroon, and the fellow running the company wanted to sell his company and retire to spend time with his wife, who had cancer. Madinter did not have the money to buy the company. They needed a partner, so they approached Bob and me. We

got very excited about it and put together a leveraged buyout that made Madinter and us equal partners. The purpose, beyond co-ownership, was to take responsibility for the sustainable running of the mill.

As we got to know the people who worked in the mill, we learned that there were a lot of challenges. The environment there made it feel like a fourth-world country. So, Bob started traveling to spend meaningful time there and to make real improvement. The things that we sometimes take for granted living here—the moral code, workplace habits and overall level of education—were all very different. One thing that Bob observed was that the process for manufacturing was very wasteful. Customers of the mill, including guitar companies, only wanted black ebony, which was only found in one out of every 10 trees and could not be found until a tree was cut down. Effectively, the mill would cut down 10 trees, use one and leave nine to rot. Bob educated on the importance of not being wasteful, of not wasting 90 percent of a precious resource because the black had a little brown in it. He made it his mission to change people's minds about what is beautiful. That ebony that was being wasted was beautiful. We use a lot of ebony now that has a little bit of brown in it, and it's beautiful wood. We were recognized for our work by the Secretary of State two years ago with an Award for Corporate Excellence.

We are five years into our ongoing work with the mill in Cameroon, and

our work carries on. The industry is going to run out of wood, so we all needed to learn about forestry, including growing wood. Bob's met people through this initiative who have made it their life's work propagating different species. They have learned and taught others how to grow seedlings. Bob's enacted a plan where he pays people a dollar per seedling to grow it to a certain number of days old and then another dollar per seedling to nurture it to the next stage. He has motivated the growth of thousands of small ebony trees from small seedlings and saplings. He's working out in real time how he can grow enough ebony to replace the ebony that is being used. So, yes, we care very much about both the people we employ and the world in which we live.

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Taylor Guitars has come a long way from its origins as a local repair shop run by some kids from San Diego. As you reflect upon your success, beyond sales success, what kind of impact do you feel your brand has made? And where are you on your overall brand journey?

■ When I think about our impact and success, I think we are in the right place. We have a lot of demand for what we make. We're opening a new factory in Tecate, Mexico. There are new instruments that we have designed, which having more capacity will allow us to make. We are a responsible company. Bob is doing a similar project in Hawaii to the one we did in Cameroon—albeit focused on replenishing Koa resources.

Most importantly, we continue to contribute a lot to the world of music. We make musical instruments that are easy to play and that inspire people to want to pick them up, write music and perform. I remember when Taylor Swift's parents first called. Back then, the family was living in Pennsylvania. She was maybe in middle school—eight or ninth grade. Taylor had gone to Fred's Music Shop and saw one of our guitars, a Koa Taylor Jumbo, and came home wanting one. She told her folks that if people were going to take her seriously, it would help if she had a professional-level guitar. Taylor Swift has significantly impacted more girls wanting to play guitar. And we've contributed to that in some small way in so far as she chose to use our guitar and has

stayed loyal to us. We make guitars that she's interested in.

Bob and I are in our 60s now. We are both blown away by the success of Taylor Guitars and, more than anything, really, really grateful. While we dreamed big, I'm not sure we ever thought it would really be as successful as it actually is today. Somehow, by making good decisions, treating people right and sticking to it, we have gotten to this stage. We are, again, really grateful and still having fun doing what we get to do each day.

When you think about what you have built, what is the legacy, and really the legacy in the making of Taylor Guitars?

■ In Taylor Guitars, I feel that Bob and I have created the next great guitar brand. When we started, there was Martin, there was Gibson and there was Fender. And while the guitar industry has grown a lot, we have separated ourselves from other entrants by creating a new model—caring for the people who work for us, our customers and the environment, including protecting our natural resources.

We are doing good quality business in an industry that isn't known for doing good quality business. Ours is a business made up of people who are passionate about music and guitars, plus some big companies working to grow by leaning on the dealer channel rather than creating new, more exciting instruments or

by working to create more demand for the products they make. We are very different. We are focused on trying to help the channel by creating guitars that nobody else has made. I am really proud of the way we do business, including how we treat our employees and our retailers—and all the work Bob is doing on our collective behalf with sustainability.

Today, there are really four big, successful and great guitar brands in the world, and we are one of them. Pursuing our passion, having a purpose, doing things unconventionally, helped us to create that. To me, that is amazing.

As someone already succeeding in building an enduring brand legacy with Taylor Guitars, what advice would you have for others looking to achieve the same enduring result?

■ Find something that you're really passionate about, that you believe in, that you'll keep at no matter what. Find something where you're going to feel rewarded by the work, not just the successes. No matter what you do, there are going to be really hard times. So make sure you're working at something that you care about more than anything in order to compel you to keep going on your journey.

Others will be quick to judge. People kind of have their conventional measures of how well you are doing: 'How many people do you have working for you now? Eight? You guys are doing great.' To be honest, in the

beginning, even we had our conventional measures of success. We had friends making \$300 a week, and we wondered, 'What would it be like to make \$300 a week? That would be so good.' That said, usual measures don't always tell you how things really are, including whether you're really paying your bills. So pursue what you love. Don't chase someone else's measures of success. Work through the hard times, overcome obstacles and always think about the long-term goal, not just the short-term result. When you climb that mountain, and you get to the top, get ready to climb to the next higher mountain range.

For us, Taylor Guitars was our dream. If we quit on our dream, we would always have to live with the fact that we quit on ourselves. And for us, we always believed that no matter how tough things got, things were never going to be better if we worked for someone else helping them to work on their dream. From the very start, we were determined to never give up on our dream.

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After only 42 years, Taylor Guitars has usurped Martin, their over-180-year-old key competitor, as the number one manufacturer of acoustic guitars in America. And while sales and profits are high, the way the brand got there was not by following any established route or shortcut. It was, instead, by taking the long view of success. For Taylor Guitars, making the choice to put people (employees, customers and retailers) plus the environment first has meant that substantial sales and profits have followed. Accordingly, those who work for, and with, Taylor Guitars do not do it only for the sake of a job but also because of a shared passion. They are participants not only in what Taylor makes and the way its products are manufactured but also in what the brand believes. Significantly, the reality that the brand's founders are training successors in their lifetime as mentors and protégés to help ensure that their original purpose lives on is testament to how important it is for their dream of Taylor Guitars to never end—for them to forever write history every day.

BY MARK MILLER

Mark Miller is the Chief Strategy Officer at Team One, an ad agency with global expertise and proprietary research into premium categories and aspirational consumers.