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Druckemiller, Caleb, "Audio-Technica Strategic Audit" (2023). *Honors Theses, University of Nebraska-Lincoln*. 634.

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Audio-Technica Strategic Audit

An Undergraduate Honors Thesis Submitted in
Partial Fulfillment of
University Honors Program Requirements
University of Nebraska-Lincoln

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Bachelor of Science in Business Administration
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May 20, 2023

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Abstract

Audio-Technica is a multinational audio equipment design and manufacturing company specializing in the production of headphones, microphones, and turntables. The company has been a gold standard for professional use since its inception and has recently ventured into consumer markets. Using both internal and external analysis tools, this audit aims to evaluate how Audio-Technica has established itself in the highly competitive audio equipment industry. Specific techniques include Porter's Five Forces and PESTEL analyses. After conducting this examination of Audio-Technica and its industry environment, strategic recommendations will be made to best position the company moving forward.

Key words: Audio-Technica, strategic audit, PESTEL, Porter's 5 Forces, headphones, audio equipment

Audio-Technica Company Background

Audio-Technica (A-T) is an audio equipment company founded in the Shinjuku district of Tokyo, Japan, in 1962. Originally created for the manufacturing of phonograph cartridges, the company has since branched out into designing and producing turntables, microphones, headphones, and more. It offers a substantial range of product lines aimed at the highly interested everyday consumer up to professional recording artists and musicians.

The company generates mid-eight-figures revenue on a yearly basis with upper estimates getting close to \$80M (*Audio-Technica U.S.: Revenue, Competitors, Alternatives*, n.d.). Inside the U.S., specifically, A-T has attained a 1.6% of the market share within the audio & video equipment manufacturing industry (*IBISWorld - Industry Market Research, Reports, and Statistics*, n.d.). During the last few years, the company has seen a transition within its leadership team as the longtime President and CEO of 25 years, Phil Cajka, stepped down from the position and was replaced by Manabu Aoki as the new head of the organization (*Audio-Technica Announces Retirement of Phil Cajka, A-T U.S. President/CEO, and Company Succession Plan*, n.d.).

The company consists of two main divisions, a North American division with headquarters in the U.S., and an Asian division headquartered in Japan. These two divisions run parallel to one another with crossover in both product lines and research and development. The two sides operate under one CEO as a unified organization.

Multiple competitors are holding significant market shares. Sony, Sennheiser, Bose, and Shure are the most relevant competitors to A-T to be discussed in this paper. Each company has a slightly different aim with its product suite. Sony and Sennheiser are highly competitive within the headphone space, while Shure is a well-known and popular microphone brand. A-T comes in

at a variety of consumer and professional price points, meaning it is competitive in a broad market.

Industry Background

The global headphone & earphone market value is estimated to be nearly \$23B in 2023, with a CAGR through 2028 expected to be at 7.9% (*Earphone and headphone market*, n.d.).

Overall, the headphone & earphone segment makes up 27% of the audio equipment market.

There are several driving factors for the highly expected growth in this market. The two primary factors are the mainstream adoption of wireless headset technology and the increase in work-from-home employment which provides employees with much more isolated work time where they can consume music and podcasts (*More than Dialed In: Audio Is a Co-Worker Remote Employees Can Rely On*, n.d.).

The global microphone market was valued at \$6.3B in 2021 with an anticipated CAGR of 5.4% moving through 2030 (*Microphone Market Size & Share | Global Trends Report, 2030*, n.d.). The growth in this market stems from a higher need for devices that incorporate microphone technology without it being the main function – this is for items like a smartphone. Another large driver of growth within this market comes from the prevalence of “influencer” culture, where many young people aim to be internet famous and maintain YouTube channels or podcasts (Suciu, 2022), which require the use of a quality microphone for long-term success.

PESTEL Analysis (Macro-environment)

The PESTEL analysis is a framework used to evaluate the macro-environment surrounding an organization or industry. It analyzes the Political, Economic, Social, Technological, Environmental, and Legal factors that sit external to a specific organization or

industry's control. For the purpose of this audit, the PESTEL analysis will look at the professional audio equipment industry (Washington State University, 2022).

Political

The biggest political influence on the industry is regulations controlling the production and usage of equipment. For instance, the European Union has imposed specific limits on the materials that can be used in the manufacturing of electronics (*RoHS Directive*, n.d.). Through the restriction of certain material usage, the production costs as well as product designs may be affected. This directive was updated as recently as 2017, meaning that it still is relevant in the current political climate and could continue to harm audio equipment manufacturer business operations moving forward.

Another factor within the political sphere is trade policy. While not inherently linked to this industry specifically, many tech products are manufactured in Asian factories. There has been long-term tension in the political climate between the United States and China, which has already led to tariffs and trade restrictions. There lies an inherent risk for this industry by having both Asian and North American divisions as they are at the mercy of both governments staying on good terms if the two divisions are to synergize properly.

Economic

This industry is driven by the consumption of art and media. Without consumer desire for the content, there will be a lack of funds flowing into the organizations that create and promote music, podcasts, movies, and other products that make use of audio equipment. Because art and media are not necessary for basic survival like food or shelter, it relies on the use of discretionary income. During economic upswings, consumers will be willing to spend money on extraneous

content without concern, but as conditions worsen, such as they have during the last 9-12 months in the United States and concerns of inflation increase, wallets become tighter and spending drops (Lee, 2023). It remains to be seen just how much people pull back on entertainment spending as the world recovers from the COVID pandemic that saw many out-of-the-home entertainment opportunities disappear for the greater part of a year.

Social

As the world has entered a digital age where much of our time is spent on computers and consuming virtual content, it has become easier than ever for the average person to make themselves heard by many other people. Because of the “influencer” persona taking over the social media stratosphere, many adolescents desire to make their personality a sellable brand. This has led to an increased demand for equipment such as microphones so that content creators can record high-quality podcasts or skits to begin building an audience (*Global: Consumer Electronics Revenue 2013-2026*, 2023). There has also been significant innovation in the ease of digitally recording music, making at-home music studios more prevalent among smaller artists. This has also increased the demand for professional audio equipment as people see small, local artists continue to gain in popularity and build music careers from one viral TikTok or YouTube demo, leading to the belief that they too can become an overnight success.

Technological

The biggest source of technological movement for this industry comes through the innovation of product design. Microphones have been around for the better part of a century now, but they continued to be more specialized and varied. Many environments require differing

microphones, and this will continue to grow as music becomes more experimental due to the advancement of digital audio workspaces (F. M. I. Inc, 2023).

One recent innovation in this space is the usage of artificial intelligence (AI) to recreate the voices of famous or deceased musicians. Within a short time, AI recreations have become scarily accurate and have been used to finish unreleased songs by artists so fans can have a complete product even though the artist never actually recorded the final mix (Macaulay, 2021). This has larger ethical implications, but still demonstrates the current innovation and technological advancements in the industry. Voice-changing microphones have been around for years, but technological advances are coming close to producing microphones that automatically pitch-shift vocals and change them to sound like a different artist.

Environmental

As with most industries in the twenty-first century, sustainability concerns exist for audio equipment produced in mass. Most tech components are manufactured in a manner harmful to the environment. The issue becomes how to reduce waste and still provide the desired products (Mahy, 2020). One solution presented is to move towards a more community-based approach to equipment by making more open-source music studios and decreasing the cost of booking time. This would help decrease the number of personal purchases made by the majority of musicians, but of course, comes to the detriment of the audio equipment industry's top line.

Legal

Intellectual property, including patents and trademarks, are the most valuable resources within the audio equipment industry. Being able to protect a specific microphone design allows for a competitive advantage when approaching the market. As the use of AI expands, many

physical music listening products are incorporating AI into the analysis of the music listening environment, user ear shape, number of walls, etc. Companies that are better able to incorporate this tech will want to protect their technology (Hooijer & Baloyi, 2016).

Porter's Five Forces Analysis

Michael Porter published the Five Forces analysis in 1979 as a model that could be used to analyze an industry's competitive environment through the lens of five essential factors. The five factors are as follows: the bargaining power of buyers, the bargaining power of suppliers, the threat of new entrants, the threat of substitutes, and competitive rivalry (Harvard Business School, 2023).

Bargaining Power of Buyers

Buyers have significant bargaining power, although that is shifting. Traditionally, due to the inaccessibility of at-home audio recording, the equipment was mostly purchased by recording studios, event venues, etc. This led to a narrow pool of buyers, even if there were many within that market sector. However, as personal audio recording has become more attainable in a home environment, many individual consumers have started purchasing audio equipment. This may lead to a reduction in buyer power as the pool of purchasers begins to expand significantly (Allied Market Research, 2023).

Bargaining Power of Suppliers

There are a moderate number of suppliers with the ability to provide the necessary tools and materials for the production of microphones and headphones. However, there can be a large cost associated with switching suppliers due to the intricacies involved in the manufacturing process (Wells, 2021). Physical casts, along with the complex wiring and small components that

need to be soldered into the shell of headphones, can be difficult to quickly recreate at a different factory. This is a challenge that may need to be addressed in the coming years if manufacturing begins to move back into the United States because of supply chain and logistics issues.

The Threat of New Entrants

There is a low threat of new entrants in this industry because it requires significant capital along with time for research and development. To see a positive return on investment may take more time than financiers are willing to wait, especially in today's economic conditions (Sommer, 2023). Beyond that, there are already established brand favorites and "essential" products which make it difficult for a new company to create market share. A new entrant would not only have to spend the time and money to create an innovative product but then convince consumers to give up already established and well-liked products with long-term proven success; not an easy task (Technavio, 2023).

The Threat of Substitutes

There is a low threat of substitutes within this industry due to the specialized nature of audio equipment in its use. A speaker system is required to create audio playback, whether those speakers are the size of earbuds, headphones, or a concert arena. There is yet to be a product introduced to the broad market that can replace the capabilities of the speaker. On the microphone side, the only level of substitution occurs within other forms of the microphone i.e., smartphones. Even so, the smartphone microphone is not considered professional grade, therefore not providing the same level of quality.

Competitive Rivalry

This is a very competitive industry with a wide variety of established brands and products all fighting for consumer spending. Beyond that, many tiers of products exist, meaning that companies must either pick a specific price range and hope that economic conditions stay favorable, or they can try to compete at all price points and hope the cost of continuous product research and development results in a higher top line. This has led to segmentation in the industry with certain brands being associated with specific quality benchmarks (Mordor Intelligence, 2023). As things progress, there could be an even larger segmentation in product variety as artificial intelligence is integrated into products on a wide basis.

Audio-Technica's Current Strategy & Strengths

Audio-Technica has a variety of strengths that constitute its current success. First, the company has a strong brand reputation in both the professional and public sectors. For an audio hardware company, this is especially important. Artists and creatives want to feel comfortable with their equipment and establish a level of trust in the consistency of their recording/performance setup. By developing this strong brand image, A-T has kept customers within its product lines and can slowly advertise other products that tie a customer to the A-T ecosystem. In relation to this, A-T already has a wide variety of products offered at various price ranges. This diversity in offering allows A-T to compete at multiple price levels in the audio equipment industry. The company has a strong focus on innovation which can be seen in the consistently award-winning products pushed to the marketplace. The accolades received by the company dictate a rhetoric of performance and high quality, which can be used to market new releases and garner attention from those consumers typically committed to other brands.

On the other side, a large drawback is its lack of market presence. Not because it has failed to establish a brand and awareness, but because of the large number of firms in the audio equipment industry vying for the same consumer base. There are niche markets within the space, but overall, it is a very saturated industry. Brands like Sony, Bose, Shure, and Sennheiser are all operating within the same market space as A-T, making it difficult to distinguish one from the other to the average consumer. Another potential weakness for A-T is in its revenue concentration. A significant amount of its revenue comes directly from headphone sales. While demonstrating its strong presence within that industry slice, this also means the company is subject to consumer preference swings. If a large economic downturn were to occur, non-professional consumers are likely not to purchase studio-grade music equipment. Working to create other pipelines of consistent revenue would benefit A-T. Finally, A-T does not spend as much money on advertising as similar brands. It is missing increasing exposure to existing consumers who might need a slight bump to purchase another item as well as a large base of consumers who may be in the market for high-quality audio equipment but are unaware of the A-T brand.

Strategic Recommendations

After conducting industry research and analysis on Audio-Technica, there are three recommendations for organizational strategy to best position A-T moving forward.

Social Media Marketing

Audio-Technica could strongly benefit from an increased marketing presence. Its name is well-known amongst audio equipment enthusiasts but can get lost in the eyes of the public. A simple but effective way to build brand recognition is through social media advertising. A great

platform for A-T to advertise on would be TikTok. With the rising desire of the younger generation to become influencers, short-form podcast content has become popular on Tiktok. This has led to some creators on the platform choosing to branch into podcasting as a form of content for their audience. Marketing on Tiktok and other social media platforms would begin to place A-T in the minds of creators and users looking to produce podcasts. The functionality of ad click-throughs connecting to Audio-Technica's website would allow for product purchases to be made without ever leaving the TikTok app.

Product Innovation

As noted earlier, artificial intelligence is rapidly being adapted for use within the audio equipment industry. To stay ahead of its competitors, Audio-Technica should look to implement this technology into its products as soon as possible. There are many ways this integration could occur. One application to create demand would be microphones that use AI to automatically dampen room noise and background sounds in a recording. The rise of home music studios was previously mentioned, meaning upcoming artists are recording audio in the same space where their family lives, in the same area where city construction is happening, etc. Without the proper room treatment that a traditional music studio provides, these background noises can affect the quality of a recording and even call for re-recording. A microphone that is automatically able to use AI and isolate the vocal frequencies of the artist would be a big advantage for amateur musicians.

Beyond microphones, A-T's largest revenue slice is held within its headphone offering. An innovation within this space is the use of AI to adapt which audio frequencies are emphasized by the headphones for the listener depending on their ear canal shape. The Apple AirPods Max has made use of this functionality. Apple's product is consumer-grade whereas A-T could

implement this technology into professional-grade headphone offerings, giving A-T an advantage compared to its rivals.

Pricing Models

With the risk of economic downturn at the forefront of the public, A-T should prepare for lower levels of consumer spending. To combat this, there are two strategies A-T can adopt. First, A-T can create lower tiers of products that appeal to consumers less willing to spend on premium products. While in the long term, this could be a beneficial strategy, it may also dilute brand reputation away from the quality benchmarks it is currently recognized for. The other strategy would be to offer bundles of equipment at a discounted price. This would help incentivize consumers looking to begin building a foundation of equipment by providing the necessary tools in a singular package. If consumers can get more product for their money, they may be willing to spend the extra money and acquire all their desired items.

Conclusion:

Audio-Technica has achieved great success through its more than six decades of operations. While recent events have boosted the company's performance, there is still a risk of market preferences moving away from A-T's products. To combat these risks, Audio-Technica should look to increase its brand awareness beyond its current consumer base while also continuing to lead the industry with its product innovation. If A-T can do so, it is primed to have strong growth over the next 5-10 years in a world consuming audio media more than ever.

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