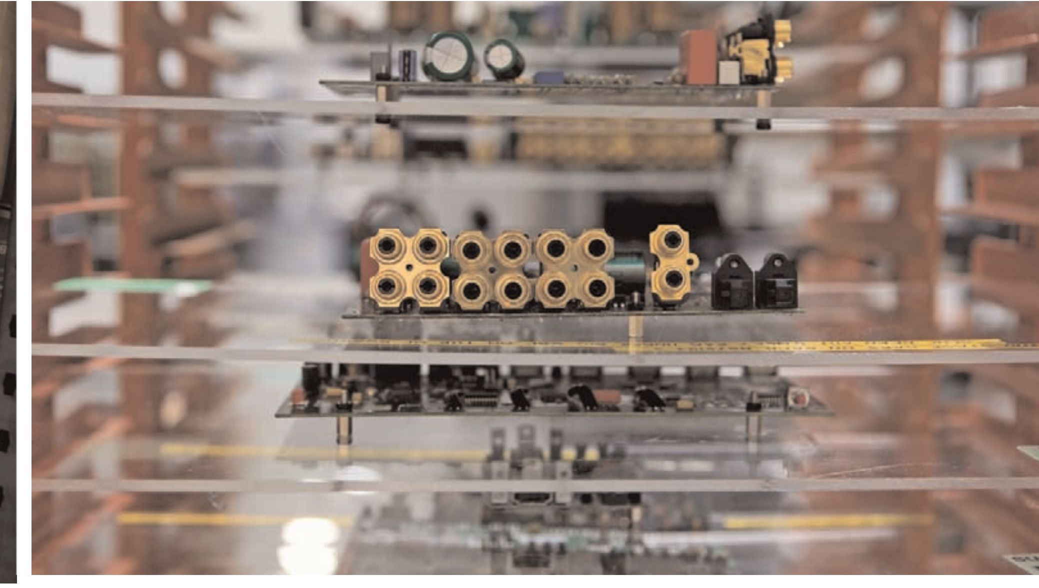


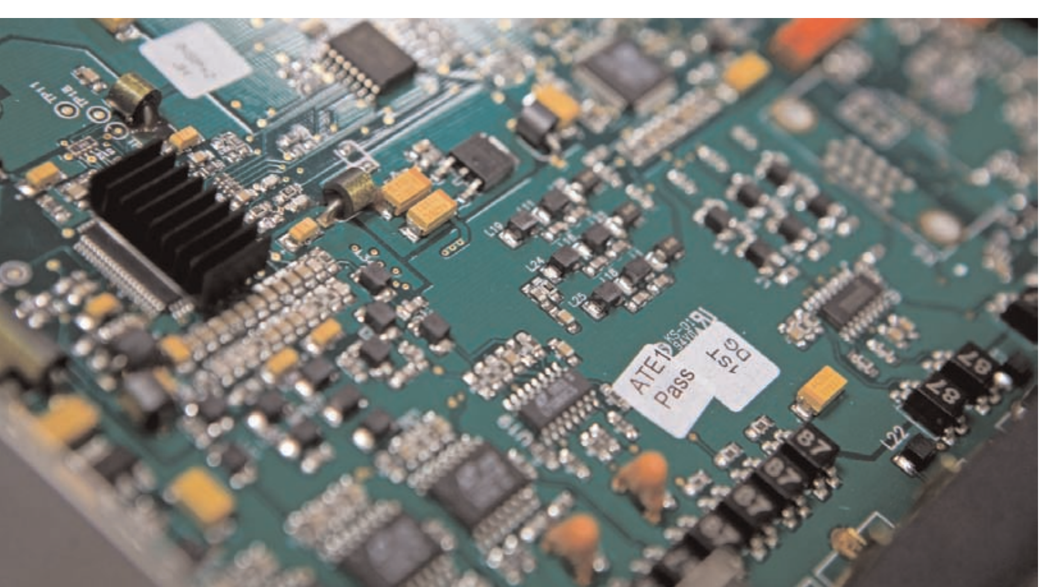
Words: Richard Cree **Pictures:** Nick Sinclair

A sound vision

More than 30 years ago, Meridian saw the future of home entertainment was digital. What keeps this British high-tech success story centre stage?

At first glance, the story of hi-fi firm Meridian has the whiff of the oddball English inventors about it. Founded in 1977 by psychoacoustics and electronics engineer Bob Stuart and industrial designer Allen Boothroyd, the company pioneered digital technology at a time when the rest of the industry was analogue.

Stuart and Boothroyd, full of "passion for music and blind optimism", were convinced the future was digital. It has taken the rest of the world 30 years to catch up. Thanks to advances in home cinema, multi-room music streaming and the omnipresence of Apple's iPod and iTunes, home entertainment has never been more digital. But Meridian has benefited from being a few steps ahead. The list of company achievements is impressive and includes the first audiophile CD player, inventing the technology (Meridian Lossless Packaging or MLP) that allows DVDs (including the new generation of Blu-ray discs) to feature high-quality sound and developing digital speakers that adjust their sound to match the acoustics of the room.



This preference for digital systems stems from Stuart's insistence on the purity and quality of digital music reproduction and Boothroyd's desire for design simplicity. From the start, Meridian turned the traditional hi-fi model on its head. Rather than place the amplifier in a box close to the source, Stuart decided it made more sense to have amplifiers in the speakers. It's an example of the Meridian culture for doing what feels right rather than what everyone else is doing.

The best example of this is the fact that the firm has kept manufacturing in-house and in the UK, when most businesses have outsourced. Stuart is proud to have stuck it out.

"I believe passionately that exporting your manufacturing base is not good in the long term," he says. "We have skills and people who can make the product better. A company loses flexibility when it gives away manufacturing. We struggled with this, because it was 30 per cent cheaper to produce in the East. Almost all our competitors exported their manufacturing base."

The good news is that thanks to the plummeting pound, making things in the UK is getting cheaper. "Just recently we found we can buy a speaker cabinet cheaper in Yorkshire than in China. That was a moment of victory for UK PLC. With the exchange rate, well educated staff and a great skill base you can get products made at competitive prices again."

Despite this pride in UK manufacturing, Meridian is not a parochial firm. As much as 80 per cent of its products are exported, with 40 per cent going to the US, where Meridian owns the distribution company. And this global demand is helping the business—for the time being—to keep up with last year's sales.

It may sound incongruous that a firm selling £30,000 speakers and £100,000 projectors isn't feeling the pinch, but Stuart suggests two reasons. "We are running much harder to stay where we are. Also we took steps two or three years ago to increase market share. We know of some competitors whose sales have gone down by as much as 60 per cent. Across the industry, the trend is for a 30 per cent fall."

Meridian has avoided this decline partly because its distribution has switched away from retail towards custom installations. The boom in home cinema and integrated home entertainment systems (often including lighting and security) has led to more products designed with this market in mind. These projects have longer lead times and Stuart believes this is helping.

"These custom integrators work on a different timescale. You can start talking to them now, but it might be 18 months before they finish. Our business therefore lags the market."

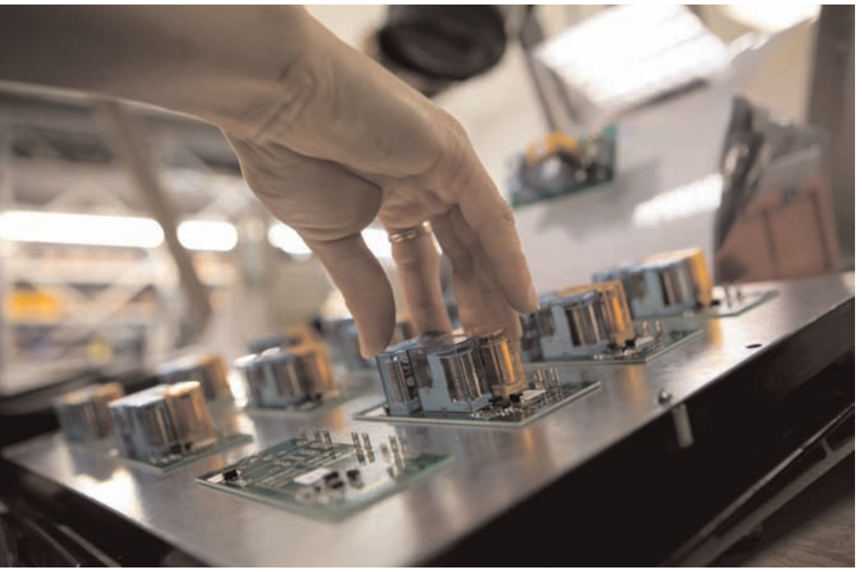
Another challenge for Meridian—and one that's keenly felt by designer Boothroyd—is that this market demands a different type of product. "The job of a designer in this market is to make the product disappear. People aren't worried so much what things look like, they want the experience."

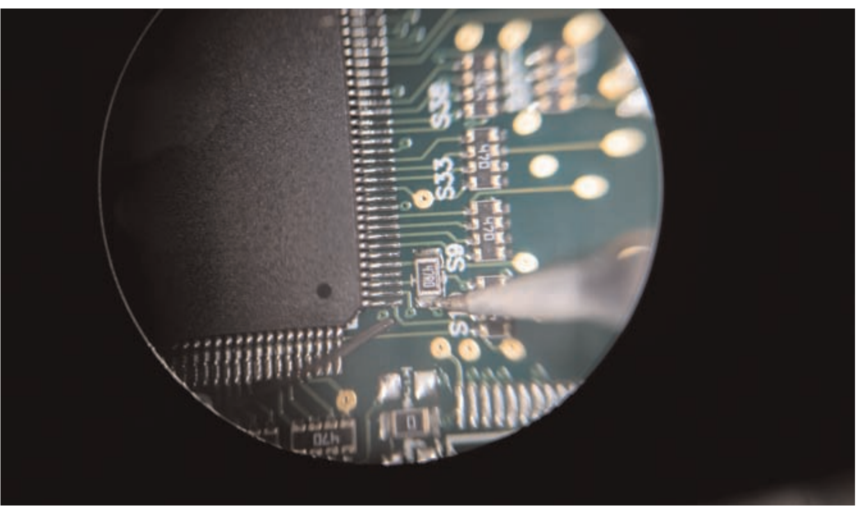
Although this is a challenge that seems to appeal to Boothroyd's minimalist inclinations, it is in contrast to most of his work at Meridian, which he describes as "wrapping the sexiest boxes possible around the technology" and which has helped the firm win numerous design awards.

Stuart says he would rather be at the top than the bottom of the market. "We've always tried to sell to enthusiasts and music lovers and we've noticed during the downturn that our most expensive products have remained stable. In consumer electronics the middle and lower market has been decimated. I'd rather be selling £100,000 projectors than £1,000 projectors. At the bottom of the market, the highly efficient outsourced manufacturers

PEAK PRACTICE

Company Meridian
Sector Home entertainment
Staff 110
Market share not available
Annual turnover Over £10m
In their own words:
"We build high-end, high-performance audio-visual products and we don't compromise on quality. Our goal is to provide simple-to-use, complete and exciting solutions rather than products"





haven't made money for years. If you want to make money you have to be in a niche. People who appreciate fine things will come to you."

But for all the bullish talk, the recession is taking its toll. Last November, Meridian shed 17 staff (the first time it has done so). Stuart blames this on having "bulked up" ready for growth that hasn't happened. "The recession makes business hard. The thing we fear the most is a second downturn. The first has led to falling demand on the High Street. Retailers have gone from September until now de-stocking and living off inventory. Many are short of working capital and this is the beginning of the summer in a seasonal business.

"A second downturn could be nothing to do with the FTSE, but simply the fact that the channel runs out of money. We are frightened for our supply chain—a major customer or supplier could go bust."

At the same time, Stuart says his firm is suffering from the withdrawal of credit insurance, which means good companies are now a higher risk. "It's a very odd scenario where you could talk yourself into stopping doing business."

But there is also an upside to recession, in that it has brought the industry closer together. "We've found people more willing to talk. In good times if you lose 10 people there's a stigma attached. The management must be rubbish. But everyone is talking about pay cuts, four-day weeks, downsizing. In the UK there are four competitor companies I have known for 30 years. In October, we started to get together regularly for what we call G5 meetings. We talk about the state of business and what's happening to credit and whether we can help each other."

Any recession also brings opportunities. And Meridian seized one late last year, with its first acquisition, of US start-up Sooloos, makers of a fancy new digital music server system.

"We'd never bought a company or merged before and we had no idea how to do it. But it went well. That's because there was willing on both sides and a shared culture. We bought this company because it was an exact fit with our product goals and our marketing strategy. I have wanted to be in the music server business for four years, but didn't want to come out with just another product. Just moving the music from a hard disk to playback is trivial. The real challenge was to catalogue music and navigate it and deal with metadata and turn it into a product where people say 'this is so cool, I have to have one'."

It's a challenge the Sooloos system lives up to. With its large screen and clever organising of the music—which can be grouped in all sorts of ways including by mood, genre or even the producer that worked on an album—it has the feel of flicking through a record collection.

Sooloos was started by what Stuart describes as the typical "raging optimists and dysfunctional types that start companies". Originally, the two companies planned to work together on products and distribution but it became clear that the impact of the recession was going to be very serious for Sooloos. "It all came about quickly. We started talking in August, had serious talks in September and by December 8 we had bought it."

Stuart says Meridian itself has changed as a result of the injection of new blood. "We've taken the best of both cultures. What has been interesting is that a 30-year-old company has embedded practices that you don't see in a start-up, while they have some practices that are frankly scary. We've tried to bring on board some of their more rapid reactions. One of the problems a company can have is that it can accumulate deadwood in methods and procedures. You need to have a process, but you don't need so much process that you become resistant to change."

The acquisition follows a major investment in Meridian in 2007 from a consortium of investors known as the Muse group, which includes luxury goods firm Richemont and film company Regency

Music maestro: Bob Stuart says the recession has brought industry competitors together. "We talk about the state of business and whether we can help each other"

Entertainment. While the film connection is obvious, the luxury goods expertise from Richemont has also had an immediate impact on the firm's product, as Boothroyd explains:

"Muse is a major high-end brand group. They bought their expertise in luxury goods. Although we were selling luxury goods to people in that income bracket we weren't thinking about them in the way we perhaps should." This has included

"WE'D NEVER BOUGHT A COMPANY AND WE HAD NO IDEA HOW TO DO IT. BUT IT WENT WELL"

making compact all-in-one systems that can be sold to a different audience. "We wanted to make Meridian more digestible for people without stellar budgets and we wanted to distil what we knew about high-end systems into something that was small. Bob and I had ferocious arguments about how big or small something could be."

The result of those arguments was an innovative, dome-shaped compact system produced in association with Ferrari. The phenomenally successful F80—an all-in-one DAB radio and CD player that sells for £1,500—used Meridian's digital technology on a smaller scale. While Boothroyd admits "the jury is out on whether associating one brand with another is a good idea", an alternative compact system, this time in association with Dunhill, has also been launched.

Asked to outline the challenges facing Meridian, Stuart is unequivocal. And he doesn't mention new products, brand tie-ups or having to adjust to new trends in home entertainment. It's something more immediate and less in his control:

"The biggest problem we face is export credit guarantees. We have perfectly good customers where insurance has been taken away because of the change in the credit situation. That's a major problem. At the end of last month one-third of our order book couldn't be shipped because customers were in some way uninsured. I realise that all these systems can be abused, but if they can help the banks, why can't they help manufacturers and people who employ and want to export?" D