

IS PRIVATE EQUITY

PUSHING GUITAR CENTER

IN THE WRONG DIRECTION?

EXECUTIVE SUMMARY

Guitar Center is a nationwide retail chain that has long been a resource for bands and artists who need to buy musical equipment. The company has undergone a few different management changes over the last decade. It was purchased in 2007 by Bain Capital, a private equity firm. In 2014, majority control of Guitar Center was sold in a debt-for-equity deal to Ares Management, another private equity firm.

Financial analysts and store employees have raised concerns in recent years about the direction in which the company is headed. These include pessimistic financial outlooks, frustration by employees about a revised employee compensation system that emphasizes a questionable extended warranty product, and other ongoing labor issues.

Private equity firms purchase large corporations to make them more attractive so that, in a short time frame, they can be sold for a profit. In this report we will examine how private equity firms have been mismanaging Guitar Center. We will look at how they have handled the unique nature of the musical instrument retailing industry, which is unlike the typical retail corporate store front. Unless the private equity firms that currently control Guitar Center drastically change their way of approaching the consumers, employees, and music community, the company will continue to have a questionable future.

EMPLOYEE AND

LABOR CONCERNS

SQUEEZING THE WORKFORCE

Employees at Guitar Center tend to be long-term, professional salespeople who are very knowledgeable about the instruments they sell. Because of their experience playing instruments and using musical equipment, they often bring specialized knowledge and specific skill sets to the job.

Over time, workers have increasingly become frustrated with Guitar Center's complicated and unfair commission structure. Some workers feel that the commission structure is so broken that it has led to a less-qualified staff. In response to the worsening working conditions, workers began to organize with the Retail, Wholesale and Department Store Union (RWDSU) to begin to address their concerns.

GUITAR CENTER WORKERS FIGHT BACK

In spring 2013, employees at three New York City Guitar Center stores went public with a union drive. The drive came under the banner of "Reclaim Commission."



Guitar Center workers at contract negotiations

Workers demanded a sensible commission structure, and an end to the Pro Coverage Attachment penalty, in which workers would be penalized for not selling Guitar Center's Pro Coverage warranty on a minimum number of sales.⁴¹ The unionizing effort kicked off with an aggressive media campaign aimed at exposing Guitar Center's poor treatment of their workforce. The campaign was covered in national media outlets such as *Rolling Stone*⁴² and *The Huffington Post*,⁴³ along with local newspapers⁴⁴ and other publications.⁴⁵

In the past two and a half years, there have been six union elections at Guitar Center locations across the country. Workers were successful in unionizing locations in Union Square⁴⁶ in New York City, Central Chicago,⁴⁷ and Las Vegas,⁴⁸ with organizing activity continuing in other cities throughout the United States.⁴⁹

UNION BUSTING AND UNFAIR LABOR PRACTICES

Workers in New York, Chicago and Las Vegas were able to succeed in their organizing efforts, despite the company hiring outside “union avoidance”⁵⁰ advisers to prevent unionization, including the law firm Jackson Lewis. Even with this slew of consultants and legal counsel, Guitar Center is still coming under fire for its labor practices.⁵¹ The National Labor Relations Board is pursuing an ongoing investigation of numerous Unfair Labor Practice charges filed by the

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Union throughout the past nine months. The Unfair Labor Practices charges include allegations of a “Refusal to Bargain” in good faith in Chicago,⁵² Las Vegas,⁵³ and New York City;⁵⁴ coercive statements in Chicago;⁵⁵ and an illegal withdrawal of recognition of the union in Las Vegas⁵⁶ and New York City.⁵⁷

MUSICIANS' ALLIANCE

Many Guitar Center customers are amateur or professional musicians. They identify with the store's workers, who are usually musicians themselves. To date, more than 150 professional bands and musicians have officially signed onto a petition pledging their support for the workers and their campaign.⁵⁸ This list includes well known artists such as Roger Waters, Billy Bragg, Rise Against, Aloe Blacc, Tom Morello, Kathleen Hanna, Against Me! and many others.⁵⁹ Tens of thousands of individuals, many of them self-identified customers or former and current Guitar Center workers, have signed various online petitions⁶⁰ in support of the workers' campaign.

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Anti-Flag



Last Internationale

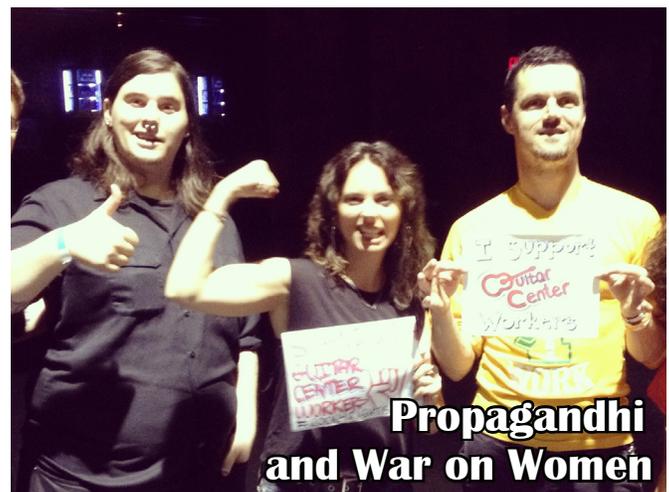


Rise Against

Quicksand @QuicksandNYC
We support @guitarcenter workers asking for fair wages & benefits: bit.ly/124fimW
@BainCapital, respect #workersrights!
#Rock4Rights



Fucked Up



Propagandhi and War on Women

GUITAR CENTER'S

PRO COVERAGE WARRANTY

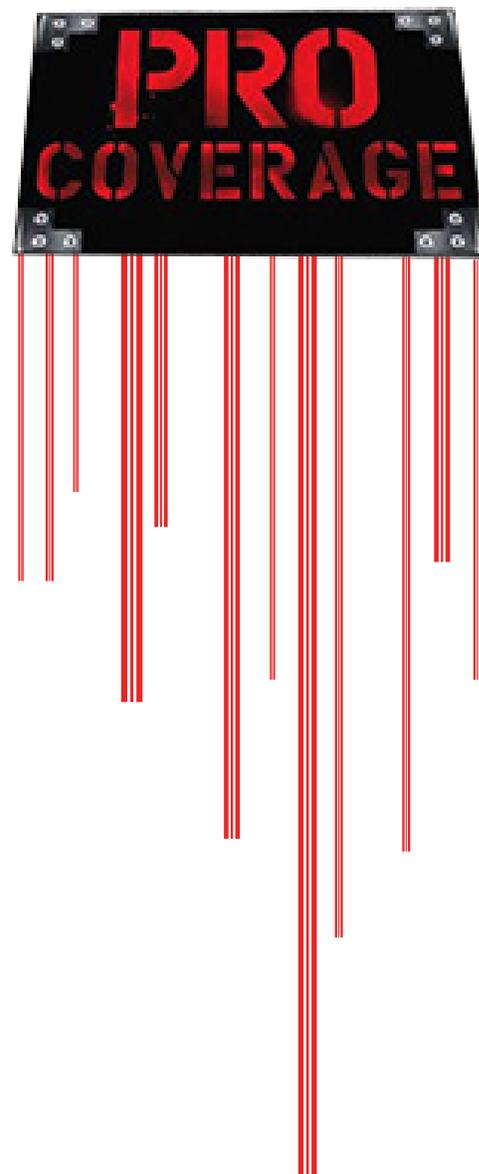
GUITAR CENTER'S EXTENDED WARRANTY: PRO COVERAGE

In addition to employee dissatisfaction with working conditions and pay structure at Guitar Center, another source of frustration is the pressure to sell the company's extended warranty plan, Pro Coverage. In this section we will detail employee and customer complaints regarding Pro Coverage and why it may be a questionable product for some musical instruments.

WHY PRO COVERAGE?

Pro Coverage is an extended warranty offered by Guitar Center that can be purchased for two, three, or five years and varies in price based on the instrument or type of gear. Items under \$200 can be covered by the replacement plan (where the item can be replaced directly by Guitar Center if they malfunction) and items over \$200 are eligible for the "repair plan."⁶¹ Guitar Center is currently working with Asurion Service Plans, Inc.⁶² which also insures mobile phones, computers, televisions, and other electronics.⁶³

Consumer Reports has made its own assessment of extended warranties (though it should be noted that they have not reviewed Pro Coverage in particular).⁶⁴



From: [REDACTED]
Sent: [REDACTED]
To: [REDACTED]
Subject: THE PCA ISSUE...

Yesterday was solid at 39% but we are once again, the worst in the district in PCA for the month at just 29%. Starting with next weeks schedule, if you are not selling PCs, you will not get hours. These changes will be made upon determining whether you are a “can and wont” or “cant but will”. This means are you a person who has the knowledge of the PC program but don’t pitch it 100% of the time with enthusiasm or you do pitch it, believe in it, but just need more training. “Can and wont” sales associates will not get as many hours as they are used to. You will see a reduction in hours simply because we need our best PC people on a majority of the time.

If you have any questions, see the IPR posted on backstage. Its updated every day.

This is a job and will be treated as such.

thanks

[REDACTED]
General Manger,
Guitar Center,
[REDACTED]

Figure 1: Email from a Guitar Center General Manager complaining that his employees’ Pro Coverage sales are one percent below the quota for the month. The abbreviations “PC” and “PCA” refer to Pro Coverage.