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# TIME

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# Global Business

■ LIFE AT THE TOP ■ TOP BUSINESS TEAMS



Amped Ivan Messer, on the TV screen, has 45 McIntosh components in his million-dollar home theater

## LIFE AT THE TOP

**A New Tune for High-End Audio.** McIntosh, beloved by fans but bereft of strategy, got a remix from its latest owner

BY KRISTINA DELL

"NOTHING BUT THE BEST OR WHY BOTHER?" is Ivan Messer's motto. His son describes him as a "first class or stay home" kind of guy. So it came as no surprise to his family when the 51-year-old money manager from Coral Springs, Fla., spent five years and a million dollars building a home theater. His setup includes 14 speakers, 16 amplifiers and 400 amps of current—more power than entire homes consume. "The system makes the speakers and walls disappear,"

says Messer. "You could get seasick watching *Master and Commander* in my theater."

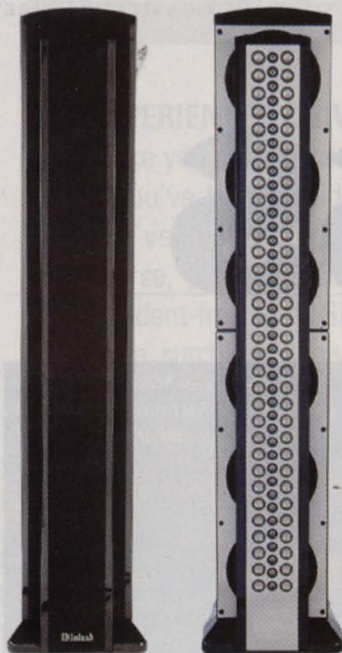
Even more important to Messer than his 10-ft. (3 m) screen or \$60,000 overhead projector is the McIntosh name that adorns every piece of audio gear. And we're not referring to Steve Jobs' brand—that would be MacIntosh—but to the American producer of hi-fi components, which has cultivated an insanely loyal following over the past 50 years. Messer started accumulating the brand about 20 years ago, as soon as he could afford its bank-breaking prices.

He spent \$25,000 on his first system—a steal compared with the four 7-ft.-tall (2 m) XRT2K Mac loudspeakers he recently purchased for \$45,000 each. "It's a big boy toy," he says. "If there were another brand better, I would get it, but 90% of what McIntosh makes is the best in its class."

But being the best—or the highest priced—doesn't guarantee profits. Attacked by Japanese copycat brands from below and other cult brands from above over the past decade, the audio market has become a rough place for niche labels like



## The Sound of Money. At these prices, McIntosh components aren't for the casual listener



**Can you hear me now?** The towering XRT2K speakers are Mac's flagship items and will set you back \$45,000 each



**Signal control** Retailing for \$9,000 and weighing 54 lbs. (24 kg), the C1000 tube preamplifier has both solid-state and vacuum tubes



**Sound check** The soon-to-be-released AP1000 audio processor will cost about \$11,000 and can electronically unify sound position in a room

McIntosh. That led to a buyout 4½ years ago by D&M Holdings, a Japanese audio company traded on the Tokyo Stock Exchange—a far cry from the rural headquarters of the McIntosh Laboratory in Binghamton, N.Y.

D&M Holdings was itself formed by the merger of Denon and Marantz, two struggling, mid-to-upper market Japanese audio firms, with an investment by the private-equity group Ripplewood Holdings. Soon after, D&M went on a consolidation spree, snapping up additional A/V brands like Boston Acoustics, Snell Acoustics, Replay TV, Escient and recently Calrec Audio, a British company that builds mixing consoles for broadcast production. Mac fit as the crown jewel. “I call us a big start-up,” says Victor Pacor, D&M’s president. In the past fiscal year, the company had sales of almost \$1 billion and earnings of \$53 million.

Perhaps you’ve heard that tune before? It’s the strategy that Bernard Arnault used so brilliantly in creating LVMH out of a bunch of high-end, underachieving fashion labels: share resources, consolidate the back end to cut costs but nourish the brands’ creativity, quality and individuality. “They have more money to do better development and make better products,” says audiophile Tim Schwartz, 47, of Goodyear, Ariz., who owns \$250,000 worth of McIntosh gear. “The company is leaving them alone so Randall can do his thing.”

That would be Charlie Randall, 42, since 2003 McIntosh’s amicable and revered president, who started working at the company when he was a 19-year-old student at Rochester Institute of Technology. Randall was there in 1991 when the outfit was bought by Clarion, a car-audio specialist, which transformed the brand into a supplier for the luxury-car market.

But ultimately, Randall wanted McIntosh to return to its roots, making superior vacuum tubes and solid-state amplifiers with enormous amounts of power and bulletproof accuracy. (Higher power and lower distortion rates are what characterized the revolutionary amplifier that launched the company in 1949.) By adding leading-edge CD players, music servers for digital files and iPod docks, Mac would be set for the next generation of audiophiles. D&M Holdings liked the plan. “We told

**‘We told them, “Here is an opportunity to create what you want.” You can’t do that when you’re struggling to make payroll.’**

—VICTOR PACOR, PRESIDENT, D&M HOLDINGS, ON THE RATIONALE FOR ACQUIRING MCINTOSH

them, ‘Here is an opportunity to create what you want,’” says Pacor. “You can’t do that when you’re struggling to make payroll.” One such venture: the first McIntosh turntable, to address the underground resurgence of vinyl. Yours for \$8,000.

D&M has also infused much needed capital and resources into Binghamton’s baby to expand its global footprint. Since the takeover in May 2003, McIntosh’s export business has boomed; nearly half its retail is now outside the U.S. Mac sales have increased 59%, while production costs have decreased 11.5%. The net effect: gross profits are up a stunning 80%.

Rapid expansion has not altered the company’s small-town feel. The Binghamton factory, while churning out a wide range of products, creates only a few of each per month, so outsourcing isn’t efficient. Besides, customers swear by Mac’s personal touch, with many making a pilgrimage to upstate New York for a factory tour. (Diehards bring their owner’s manual so Randall can autograph it.) “Mac is one of those companies like Harley-Davidson that is nostalgic and supports U.S. jobs,” says Schwartz. “How could you leave something like that?” There is still some hand assembly, and a final inspector, Shirley, approves each product before shipping. “We are never the earliest developers of a technology,” says Randall. “We wait for the dust to settle, and then the technology is mature enough so we can add to it.”

Still, who can afford \$45,000 speakers? Rock stars, pro athletes, doctors, lawyers and audiophiles so obsessed with music they will skimp on other areas. “No one buys McIntosh when they’re paying college tuition,” says Pacor. L.A. Reid, chairman of Island Def Jam Music Group, got hooked 20 years ago. His first piece was a Mac preamp, and today he has Mac gear in his home and every professional music setting. “I am superstitious and had so many hit records with the preamp that I kept it and still have it today,” says Reid. Those hits include Kanye West’s *Late Registration* and OutKast’s *Speakerboxxx/The Love Below*. “I think the average untrained person can hear that it’s a smoother, silkier sound, a very warm sound that doesn’t mistreat the music but enhances it.”

After a factory demonstration, my amateur ears attest that the sound I heard was off the charts. I don’t know if it was the widespread dynamic range, the subwoofer that made my pants shake or the power that seeped into my bones. I inquired about the cheapest McIntosh purchase. “It’s \$3,500,” Randall said. Not so bad, I thought. “But that’s just for the power and preamp.” The \$45,000 speakers are extra. —WITH REPORTING BY TOKO SEKIGUCHI/TOKYO ■