

# BRACING FOR THE NEW YEAR AHEAD

Now that the dreaded R word is official, it's going to be a slow road back to economic recovery. We asked Steve Crowder, president of GuildMaster, and Lam Lee, founder of The Lam Lee Group, to share their thoughts on 2009 with us.

**HL&A:** The year 2008 was full of challenges for manufacturers, and 2009 will provide more of the same. What have you been doing to weather the financial storm?

**Steve Crowder:** Managing through difficult times requires the full engagement of a focused, educated, and informed workforce. Success will have everything to do with how well you communicate and encourage your people to stay in the game.

Showing the big picture, staying focused on critical numbers, making sure your people are acting on the right financial drivers, and persistently – let me repeat – *persistently* keeping score

and following the action will help companies stay on track. This is what rallies an organization to face challenges head on. This is what provides the focus, the alignment, and the sense of urgency we all need during economic turmoil. Most importantly, this is what brings people together. We meet weekly with our team to report our financial numbers and the stories behind them.

Keep in mind what your employees don't know *can* hurt you! The unknown can create a huge distraction in the organization. If you don't let your people know what's really going on, they will certainly fill in the gaps. Emotions can cloud our judgment, but communicating the actual numbers can put everything back in perspective.

**Lam Lee:** We have pulled together as a team to bring expenses into line with current and projected sales volumes. By downsizing our U.S. warehouse and focusing on a distribution center in China, the company will be able to reduce costs and provide better service and deliveries. With control of our own Chinese factory, we've made positive adjustments in its organization and have developed strong initiatives to retain our most talented workers.

**HL&A:** Who is your customer, and how have you seen that demographic change?

**SC:** Our designers and creative team are constantly in the marketplace attempting to wrap their arms around the consumer and the buying trends. This team has consistently forecasted accurately where the market is going in style and color.

The baby boomers still control the lion's share of what is spent on home furnishings; however, we anticipate some shift to the Gen Xers over the next few years. From a design perspective, our team sees increased movement each year towards more eclectic decorating and purchases.

Consumers are tired of browns and blacks and you see more color showing up in products other than just upholstery. GuildMaster home furnishings make an artistic statement that is casually elegant with a touch of whimsy. We call it functional art for the home in a variety of colors and finishes that add a personality punctuation point to any room. Our "look" definitely has a broad appeal at retail and our substantially scaled designs combine casual and formal elements for a sophisticated, rustic look that defines all of our products.

**LL:** The home furnishings industry has been tough for retailers since 2001, and it will probably continue in this vein for the coming years. Low-cost and big-box providers continue to squeeze the middle of the traditional wholesale distribution model.

After studying the traffic in our two permanent showrooms, we confirmed that a large percentage of our accounts serve high-end and designer-oriented customers. Lam Lee is currently transforming the company's direction and product line to more fully serve these customers. We began with the October 2008 introductions. Visitors to our High Point showroom saw a very focused presentation that kicked off a two-year plan for a transition that we anticipate completing by April 2010.

As our product design becomes more sophisticated and more honed, we are seeing customers becoming wealthier and more knowledgeable about fashion in the home furnishings industry.

**HL&A:** As disposable income has dwindled, have you noticed a change in buying patterns?

**SC:** Definitely in the current economic times, buyers and retailers will be much more selective in their purchases. It is a fashion-driven business, so companies that keep their eyes on the marketplace will be able to respond faster to changes. This is one of the reasons that we have spent the past few years working on our supply chain. When the economy dips, you do not want to be holding last year's inventory.

**LL:** Designers and their clients are weathering the storm better than most, but still not well. Customers who were decorating (or redecorating) entire homes are now choosing to do only a key room or simply "freshening" with new art, lighting, or accessories.

However, we understand that although the housing market crisis began the serious financial situation we currently face, it's the housing market that will bring us out of the crisis as property values begin to rise again.

Planning for that market return, we are transitioning toward being a high-end furniture company supported by accessories, art, and lighting. This gives us a unique and complete look in the market. Our styles and finishes in metallic and neutral tones complement and excite a broad range of wood tones.

The new Lam Lee collections are wonderful as the basis for elegant home décor or for layering creativity and excitement into a room. We are making classic forms current and contemporary by using unexpected scale, finishes, hardware, and other elements – we're "Lamitizing!"

**HL&A:** What are some of the issues impacting manufacturers with factories overseas? How do you keep from passing rising costs onto the consumer, or is it inevitable?

**SC:** My background is in manufacturing so I tend to work and think from that perspective. It's important in all industries to try and move manufacturing as close to the end-consumer as possible. By doing this, it's possible to eliminate some costs from the supply chain.

A restaurant is probably the most efficient at this in that all the raw materials are "assembled" within feet and minutes from the point of order and consumption. Dell Computer has done this for years in the computer industry and it is fanatical about squeezing time and costs from its supply chain. We are one of the few companies in this industry that has vertically integrated to provide made-to-order vignettes in less than 60 days without stocking domestically. We have built a lighting factory in China and an accessory and accent furniture operation in Indonesia. These operations have been built on lean manufacturing principles. We load containers by geographic region so that we can cross-dock in numerous locations in the U.S., eliminating multiple touches and shipping costs.

Thomas Friedman got it right in his best-selling book, *The World Is Flat: A Brief History of the Twenty-First Century*. We live and compete in a global economy and those companies that will survive will embrace and meet the challenges of global consumerism and supply chains.

Successfully weathering the storm will depend on how well you maximize one of your only true competitive advantages: your people. At GuildMaster, we have confidence in our people and trust them to find new ideas and ways to work through these tough times. We are not single-minded on cost savings and driving optimization. We encourage all innovation and creativity.

**LL:** The past 10 years have been more dynamic in our industry than the previous 50 – and the end doesn't seem to be in sight. China will continue to be a source of inexpensive goods, but not nearly what we've been experiencing. Global pressures of energy, labor issues, inflation, and fluctuations in the exchange rates must lead to serious price adjustments in China merchandise.

The main benefactors of inexpensive Asian production have been the end-consumers, and they don't seem to appreciate it. Manufacturers and retailers have been continuously chasing pricing to the detriment of margins and covering operational expenses.

As China's costs continue to rise, it is likely that production for some products will move back to the U.S. (and still be competitive!). These products will probably be at the high-end where quality, selection, and delivery are requirements.

Lam Lee's prices have risen on current products and pricing for items created for our new direction reflect this recent structure. Without reasonable margins, no business can survive. Our transition to high-end design was well received at market by our accounts, our sales force, and the press. We were aggressive in our introductions (in terms of quantity and styling) and are planning further enhancements for 2009. One of Lam Lee's major focuses for the high-end direction is private-label upholstery from an American manufacturer. We got our feet wet in October with 20 frames and we are planning more for spring 2009.

We also have a turn-key container program for direct-ship to dealers plus a warehouse in China and a centrally located distribution warehouse in Dallas – all of which increase our ability to serve our customers. After 26 years designing and manufacturing furniture, accessories, lighting, and wall décor; we've refined our ability to offer fashion-forward, totally coordinated displays. This makes selection and decision-making easier for our designers and dealers. ❖