

INTERIOR CRAFTSMANSHIP, INC.: RE-INVENTING A SMALL BUSINESS IN A STRUGGLING INDUSTRY THROUGH SUCCESSION PLANNING

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This paper presents a business case of an established small, family-owned furniture repair, restoration, and reupholstery company in northern New Jersey. Data is derived from documented sources as well as from a 2016 on-site study, which included interviewing the principles of the business. This case will focus on the tension that can occur when it comes to succession planning. At the end of this case, we will be exploring the variety of ways a small business in distress might deal with succession issues and lay the foundation for revival.

INTRODUCTION

Albert and Elana, husband and wife, established Interior Craftsmanship in 1975 in order to provide high-quality furniture repair and restoration services to consumers in northern New Jersey and the surrounding area. A 2016 on-site study of this company revealed a closely held, family-owned business with five employees; Owners Albert and Elana, two professional craftspeople with 40 years of combined hands-on artisan experience, and the owners' son, Alex. All five employees stated that, collectively, they take pride in having elite training, expertise, and a keen sense of aesthetics. They felt as though their skill sets and attention to detail gave their business a distinct advantage over their competitors. However, the company financials told another story. The revenue at the company had been decreasing over the past few years.

Alex was graduating college with a bachelor's degree in marketing. He had been working in the business, in one capacity or another, since middle school. He expressed that he would like to use his developing understanding of the business and his new business degree to take a hard look at the company.

Alex and his parents were at odds over how to move the company forward, but they agreed on three points. They knew that any plan for change would require time to develop and deploy. They also agreed that in order to compete, Interior Craftsmanship needed to retain the current high-level quality of work. And finally, they agreed that resistance to change could undermine their efforts. They ultimately disagreed on what the future of Interior Craftsmanship would look like.

Alex positioned his vision:

I want to take the business in a variety of new directions. I want to gradually take over responsibility.

His parents argued:

Change is good, but not so fast. We want to gradually give you more and more responsibility, but we want to be sure that you move in the right direction.

Alex was worried that they each had a different concept of the meaning of “gradual” transfer of responsibility. He was also worried that his parents wouldn’t be on board with his 21st century vision.

BUSINESS MODEL

Interior Craftsmanship provided furniture reconstruction, repair, and restoration. Albert managed operations, production, sales (price quotes, bidding and negotiating), and administrative tasks such as ordering materials and scheduling jobs. He rarely, if ever, actively sought new clients. As a result, their few new clients were generated through call-ins or walk-ins.

Elana was responsible for coordinating timing, scheduling clients, and answering customer questions and concerns. She was also managing customer relations and marketing. Elana limited her marketing outlets to newspaper advertisements, Coupon Clipper promotions, word-of-mouth promotion by satisfied customers, and customer inquiries. For these inquiries, Interior Craftsmanship created a web page in 2000, but their URL license was not renewed and expired in March 2015. As a result, they had no website. The business had a Facebook page, but no evidence of updates or activity since 2015. They had a Home Advisor listing with two reviews, both positive; one in 2014 and one in 2016. They had no other social media presence.

Elana expressed her view:

There's a lot to do to keep a business going. I am trying to balance everything. Working with customers to fill their orders is the most important part of my job. I do the marketing when I have time.

PERSONNEL

Albert was born in Macedonia. He graduated from high school having concentrated in furniture repair and upholstery, and subsequently worked in Europe for seven years. He came to the United States in the 1990s, and, having obtained a Green Card, settled in New Jersey.

Albert talked about his craft:

Nobody wants to learn about furniture repair here. In Europe, technicians are highly trained. In my high school, we spent one week in class and then one week in the factory doing the work we learned about the week before. We built on the learning and the doing at the same time. Europeans used to come to the USA for a better life. Now they stay in Europe. Americans don't want to start out at the bottom and learn this trade.

Alex was a recent college graduate with an undergraduate degree in marketing. He was technology-savvy, outgoing, and motivated to solve problems and succeed. His work in college included management and finance courses and some accounting. His capstone project was a study of their upholstery business. He worked in the company on a part-time basis during college, and since graduating six months ago worked full-time assisting his father.

Alex responded:

Our best advertising is not the superior work we perform as highly-trained technicians. We need to look at this another way. We need more volume, more lucrative revenue streams. My father is always talking about how technicians aren't the artisans they used to be and how Americans don't have the patience to start at the bottom and work their way up. OK. That's what we have. We need to look at our customers' expectations and meet or exceed what they want and expect. No more, no less.

WORKFORCE

All five employees performed the production work of repairing, upholstering, refinishing, sewing, designing, assembling, and painting. The two full-time technicians were trained in Europe. They each attended separate specialized high schools dedicated to classroom and on-the-job training specifically for upholstery, wood restoration, and furniture repair. Albert and Elana apprenticed together in the

United States; honing their craftsmanship over many years. Alex learned from the employees and showed promise as a motivated and skilled technician.

Over the years, when demand was high, Interior Craftsmanship sought to hire additional technicians. Through the 1980s and 1990s, they attracted highly-skilled, European-trained craftsman because of the high volume of work and the high number of available craftsmen who immigrated to the United States during that time (Gjelten, 2015).

Albert and Elana had difficulty finding qualified artisans in the 2000s. They cited three reasons for this. First, during the 2000s, the rate of Europe to America immigration decreased from 70% to 11% (Zong, 2015). Therefore, there was a smaller pool of qualified candidates. Second, they cited that highly skilled technicians in the furniture and upholstery industry were aging and retiring (IBISWorld, 2017 and Worf, 2016). And the third reason they cited was that there was a lack of quality training in the United States.

Alex and Elana tried to hire entry-level candidates willing to apprentice. Technicians in this industry are usually hourly workers who start at or just above minimum wage. They advance in salary as they master skills.

Albert explained the situation this way:

We can't find candidates willing to start at the bottom. We are looking for people who want to invest time and effort and move to higher levels of skill and then, higher salaries. Nobody wants to work hard and grow.

TECHNOLOGY

The company had no online footprint. Alex was aware that having both a website and social media presence was key to marketing product and services. He wanted to extend the company's reach and create an online community of individuals who values uniqueness and individual expression. He wanted to develop an e-commerce platform that included allowing customers to build sample furniture online. He also wanted to blog in order to establish a community of like-minded consumers interested in sharing ideas.

Alex said:

We need an active website with e-commerce that supports the custom end of the business. I want customers to be able to choose a style online and then work with our designers on fabrics and other specifics.

Elana responded:

We get our customers from word-of-mouth. I guess a website would help spread the word, but who would buy furniture from the Internet?

FINANCIAL SNAPSHOT

The 2016 income statement showed a gross revenue of \$232,426 and a net income of \$39,231 after subtracting the cost of goods sold and other expenses. Wages were the company's biggest expenses at \$49,143. Technicians' combined salaries were approximately \$42,000 per annum, which is below industry average and below the average for the region (Bureau of Labor Statistics, 2016).

Revenue and expenses were projected to remain flat for 2017, so the projected income statement for 2017 was similar to 2016.

Albert and Elana explained:

We are frustrated with year-to-year lack of growth. We have a lot of competition.

Research revealed that in 2015 there were 24,491 furniture repairs businesses operating nationwide. This is down from nearly 27,000 upholstery businesses in the United States in 2008 (IBIS World, 2017). Research also revealed that competitors of the same size as Interior Craftsmanship grossed approximately \$400,000 per annum. Having a high number of competitors resulted in offerings across a wide range of highly diversified and customizable products.

Alex wanted to expand the customer base. He said:

I know my parents started the company working directly with customers and that worked well for them for many years. We've also worked for designers and retail stores. In other words, designers have come to us to do the work behind the scenes for their customers. Retail furniture stores have come to us to repair furniture so they can sell it. I know restaurants, hotels, bars and large companies who want to customize their offices are going to our larger competitors. I want to get a piece of that revenue stream for us.

Albert was doubtful. He said:

I don't think we can fill so many orders. Who is going to do all that work? Who is going to go get all that work? It's not possible. I want my son to take over, but I'm afraid he has ideas that are just too big.

Alex continued:

We have had this conversation many times. My father keeps looking backwards. I'm looking to the future. I think we will be successful if we expand our offerings to include upholstery, woodwork, and leather repair

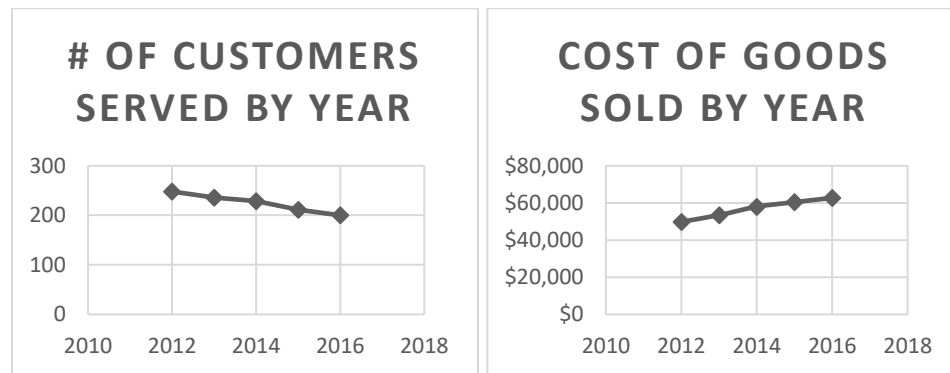
because most businesses do not offer all three. I think we will succeed if we are a one-stop shop for contractors, designers, and consumers. I want to look into this and expand. I want to use technology and social media to put us ahead of the competition.

Also, our current customer list only contains 200 customers. I did some forensics on the number of customers we've served each year over the past five years and determined the average amount of money spent per customer. The numbers show that there is an untapped market and tremendous potential if we can reach more customers.

The changes Alex spoke of were represented by an overall decline in the number of customers serviced, and an increase in the cost of goods sold over the past five year. These changes can be observed in Exhibit 1.

EXHIBIT 1

Internal Data from Interior Craftsmanship – Data Table in the Appendix



ALEX'S DILEMMA

Alex was conflicted about how to proceed. He explained his dilemma this way:

21st Century customers are demanding. They want fresh looks and they like frequent change. They shop online or at least they snoop online and then go somewhere they think they can get what they want. Mass production can't give them that. I want to add to our customer base by giving customers what they want: customizable choices. I want us to be a one stop shop where they can get whatever they need. People don't think of the upholstery industry as being particularly technology-based. I want to build a website that gives customers a way to build their own base, then come to us to finalize and price their project. This will be a new way to attract new customers to an old profession.

I also want to be on Facebook, Twitter, LinkedIn, Pinterest, Instagram, Etsy and Home Advisor. Those are the places where our customers are. These are modern communities. That's where we need to be!

My parents don't understand this. I don't blame them. They did not grow up with technology. How do I explain this to them? How do I get them to trust me? I can't take over if they don't trust me. I think that without me, the business will bring in less revenue every year. I don't want the business to close. This business is very important to my parents.

He had a three-fold plan in mind:

- 1) Add to the customer base through social media
- 2) Expand offerings to include upholstery, repair, woodwork, and leatherwork
- 3) Add a technology component

APPENDIX

<u>Year</u>	<u>Customers Served</u>	<u>Cost of Goods Sold</u>
2012	248	\$49,856
2013	236	\$53,438
2014	229	\$57,940
2015	211	\$60,411
2016	200	\$62,708