

## **KACEY FINE FURNITURE: Human Resources Management in the Face of Change**

Leslie Fishbein, president of Kacey Fine Furniture in Denver, Colorado, was not pleased with the recent city council approval of a new basketball stadium in the area bordering her flagship store. In 1992, when she had renewed the lease for the seven-story brick building in Denver's lower downtown (LoDo), she had been confident that this location put her company in a prime position to take advantage of the redevelopment planned for the neighborhood.

By 1995, though, events had changed her outlook. During a quarterly meeting with her employees, Leslie spoke candidly about the problems and challenges that lay before them:

We're at a major decision point for our company. We need to decide where we want to be and what we want to look like. We have six more years on the downtown store lease. Can we keep our energy high and make these six years pay off? Or will we faint and die on the vine? If we can keep the momentum up, we can look at these six years as planning years. But we have to share the same vision and work to achieve the same goals. We have a shared responsibility here. One hundred sixty families depend on you. If we work together, we can accomplish anything. But we can only succeed if we all play the game.

Conditions had not improved by the spring of 1996, and Kacey Fine Furniture faced six more years on an inflexible lease. Leslie was unsure how to keep her employees motivated, knowing that sales levels (and therefore their sales commissions and bonuses) would be increasingly difficult to maintain. Her plans for the company's growth were being threatened as she was diverted to a plan for its survival. Leslie lamented,

Our downtown store is our biggest concern right now. We are the front yard of the largest entertainment complex in a five-state area. Selling furniture is harder than it used to be, especially because downtown is no longer the furniture district that it used to be. When sales decline, employees become non-motivated and are reluctant to initiate changes or take on new responsibilities. We need to keep the energy level high and make sure that all our employees share the same vision so that we're all contributing to the same goals.

### **THE DENVER FURNITURE MARKET**

There were over 250 retail furniture stores in the greater Denver metropolitan area in 1995 serving a population of about two million people. Also in competition with Kacey were the more than 50 establishments that sold used furniture, as well as the many stores that competed in specialty or accessory goods, such as electronics, carpet & floor coverings, artwork and knickknacks. The ten largest furniture retailers in the Denver metropolitan area are listed in Exhibit 1.

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This case was prepared by Professor Joan Winn of the University of Denver as the basis for class discussion rather than to illustrate the effective or ineffective handling of a managerial situation. *All events and individuals in this case are real, but some names may have been disguised.* All rights reserved to the author. © Joan Winn, 1999.

Denver, described by Tom Edmonds of *Furniture/Today* as a "boom-or-bust town,"<sup>1</sup> was the fastest-growing furniture market in the U.S. in 1993, and new housing starts promised continued increases over the next several years. In 1993, the six-county Denver metropolitan area furniture sales hit \$514 million, with the top four independent furniture retailers commanding 74% or about \$380 million.<sup>2</sup> In 1994, Denver area furniture sales reached \$639 million, a 27.3% increase over 1993.<sup>3</sup> Pre-tax profit margins for full-service retailers typically hovered below 4.5%, as companies increasingly competed on price. Edmonds remarked, "The action here is fast and furious, to the point that abandoned service stations are finding second lives as sleep shops and futon stores."<sup>4</sup> Contributing to Denver's growth was a population boom fueled by the construction of a new airport and a new baseball stadium. However, most of the population growth was in the outlying suburban areas, as far as 20 miles away from downtown through increasingly heavy traffic. While economists predicted a slowdown, Rick Pederson, of real estate development firm Frederick Ross, had expected Denver's furniture market to remain strong. "1995 is still going to be a very good year. There's a good deal of furniture to be bought for those homes that were bought and were built in 1994."<sup>5</sup> Despite this optimism, 1995 returns indicated a sooner-than-predicted slowdown in sales.

The Denver furniture market was dominated by four full-line independent merchandisers, three national department store chains, and several gallery showrooms and smaller independents which primarily targeted upscale clientele. Competition was fierce between the four largest stores: American Furniture Warehouse, Weberg Furniture, Homestead House, and Kacey Fine Furniture. Each store carried a broad range of products. Homestead House and Kacey offered name-brand merchandise and positioned themselves toward a middle- to upper-middle quality range, and competed primarily on fashion and service. American and Weberg attracted people who tended to be more price-sensitive and less knowledgeable about quality and durability. In many cases, customer groups overlapped significantly, largely because of the subjectivity of furniture style and quality and partly because of the difficulty in differentiating store merchandise in out-of-store advertising. Inside the stores, the layout, sales staff, and merchandise gave clear signals of quality and price range. The department stores, specialty sleep shops, sofa houses, and electronics chains competed in both arenas. All major competitors had multiple store locations, including smaller stores in outlying areas. Kacey was the only major full-line retailer with its main store in the downtown area.

While each furniture retailer believed that it was targeting a particular market niche, there was little visible difference in advertising copy or media. There appeared to be little discernible store or brand loyalty, and most customers shopped around. As competition for consumer dollars increased, specialty and department stores positioned themselves against the low prices of the discounters and touted the service of the showroom and design centers. Corrine Brown, owner of the upscale Roche Bobois franchise in Denver, believed that customer service was the key to success. She explained:

I still make house calls on weekends and evenings. I do a lot of the sales training too. There's always [employee] turnover in this business. If people aren't making money with us they're in the wrong business. This is the easiest hard business in town that I know of. Design is not a factor--being a good [interior] designer has nothing to do with being

successful in our store. We can cover for that. But being a people person--understanding the psychology of selling--is so much more important. The sales training, teaching people how to open, to qualify, to expand the sale, to service, to make sure a customer will come back to you instead of someone else. We cover people on salary during training but then they're paid straight commission. We pay the highest commission in the city but they have to work for it. Most of our sales are pretty large. We have a very sophisticated clientele so it takes a pro to close a sale. Even the dollar amount, the more demanding they are, the more willing they are to trust you. Why do you hire a financial counselor when you have a huge amount of money to invest? You'd never think of doing it on your own. You want expert advice as to what stocks are good. So that's why there's room at the top. That's why the good designers make good money. Because good customers trust that their image will be maintained intact.

Leslie observed,

There are three very big players here in Denver. We're number four. We're the littlest of the big guys. All things being equal, there's a fairly equivalent playing field--not necessarily in terms of customer perception but in terms of reality. What I mean is, a sofa is a sofa. It's a prosthetic device. We have designed it for our health, welfare, safety and comfort but once you get that accomplished the real difference is in customer service. We can't compete head-to-head with the big guys because we're one-fourth their size. So we elected to take a different road.

Our *modus operandi* is to make sure we're sleek and flexible and can move around them. Now I believe the key to that is people. They believe the key to that is made with bricks and mortar or other resources such as inventory or price or selection and I don't think that. There are a lot of alternative distribution outlets now for our products. A lot of customers don't have the brand or store loyalty that they might have had in the '50s or '60s. So what we're hoping is that we can give a fashion-focused, value-oriented reason for coming in.

Hopefully they'll come in because we have a specific appeal in terms of financial transaction or greater service after the sale. We're one of the only ones that offers a full range of products. We carry everything for your home, including window coverings, floor coverings, electronics, furniture. We're trying to make ourselves into a one-stop shop.

Sam Fishbein, who was responsible for all of Kacey's marketing, believed that Kacey's edge over the larger chains lay in its customer orientation. Kacey tracked buyer purchases by style, color, and price range. All order information, including inventory, purchases, and customer accounts, were tracked and analyzed. Sales people were trained and evaluated on customer satisfaction and service after every sale. Sam Fishbein believed that "everyone's looking for a good deal, but if the service isn't there, the price doesn't matter."

## COMPANY HISTORY

Kacey Fine Furniture began as Kacey the Linoleum King in 1950. "I didn't want my name on it," explained founder Jack Barton, "because I didn't want the store to be a reflection of me; I wanted the store to focus on delivering the best products and services to our customers." Jack chose a name that he thought would be easy for people to pronounce and remember. In 1965 he changed the name to reflect his new product line: fine furniture. His wife, Shirley, joined the store in 1966 when the store employed only two sales people and a driver who used his own truck for furniture deliveries. Jack mused: "We were overwhelmed with customers, sometimes 5 or 6 in one day."

Jack and Shirley's oldest daughter Leslie started working at Kacey Fine Furniture in 1974 after graduating from the University of Colorado with a degree in Fine Arts. She married Sam Fishbein in December 1976. Sam had recently completed a degree in marketing at the University of Colorado and was working as a building materials salesman. Knowing nothing about the furniture business, Sam eased into the business by helping with Kacey's promotions and advertising. Within five years, Sam's marketing skills and Leslie's managerial and design skills transformed Kacey from a small family business to a major player in Denver's growing furniture market. By 1984, Sam and Leslie were running the show.

Kacey moved into its current location on December 23, 1982, having been given notice in September 1982, to move by the end of that year. The building they had occupied for 15 years was sold quickly because the owner had died. The new owner planned to raze the building to build a more modern structure. Kacey was able to secure a 10-year lease on a seven-story, 65,000-square-foot brick building in lower downtown, only a few blocks away from the previous location. In addition to its larger showroom space, this new location had ample room for parking behind the building. The move was difficult, however, for the employees whose schedules and duties were interrupted and whose sales commissions suffered during the transition. Some employees left, fearing the vulnerability of the company—and their jobs.

The early '80s were expansion years. In 1981, Leslie and Sam opened a small (6,500 square feet) store in the mountain town of Frisco. In 1983, a 30,000-square-foot store was opened in the northwest suburb of Lakewood. Later that year, they leased 126,000 square feet of warehouse space in a former Gates Rubber Company facility. By 1984, sales reached \$4 million.

Sales grew over the next three years, but the late 1980s brought an economic downturn which made the furniture industry a difficult business. By 1988 Kacey was barely breaking even and morale was low. In 1990 Leslie and Sam sold their house and worked without a paycheck to avoid laying off any of their employees. Leslie and Sam, while role models of hard work, found it increasingly difficult to get their employees to take initiative. Employees were paid on a commission basis, which directed their behavior toward making a sale, with little thought about operational efficiencies, vendor relations, or customer service that might bring in repeat business.

Leslie explained:

In 1987 we were at \$14 million and in 1989 were at \$12 million. We went backwards which was not a fun thing to do. We really were frustrated because I wanted people [employees] to take it upon themselves to handle problem situations and satisfy customers without coming to me or a manager for help all the time. I couldn't figure out why they weren't capable or comfortable making decisions. As it was, I was working 10-14-hour days and I didn't want to make all the decisions in my company. I was tired of that.

We're not a high tech industry. Our concerns center around people as our major resource: we're labor intensive as are most small businesses, especially if you're in the retail business. We're driven by sales and the quality of sales people drives our business to a large degree. As an owner I was very interested in trying to get people to act like owners -- to take greater ownership. Because we're a small business, we each wear lots of hats. I wanted people to have greater accountability and responsibility. But they kept coming to me as if I had all the answers.

## EMPLOYEE INVOLVEMENT TO THE RESCUE

Leslie discovered a vehicle for increasing her employees' accountability and responsibility in a 1992 seminar run by Jack Stack, CEO of the Springfield Remanufacturing Corporation. Springfield Remanufacturing Corporation had emerged from an employee-buyout of one division of International Harvester's bankruptcy reorganization in 1979. Stack's book, *The Great Game of Business*,<sup>6</sup> is a managers' guide to profitability through employee involvement and open-book management. Leslie and Sam Fishbein found that Stack's managerial philosophy squared with their own orientation toward employee involvement, and in October, 1992, began its implementation.

The Great Game of Business is a company-wide open-book management system. It's become part of our corporate culture so that everyone shares the same mission and buys into the plan. We teach all of our employees cash flow analysis, income statement, balance sheet--based on their level of education or understanding. They are involved in decision making at all levels of the organization. We have a gain-sharing program based upon what everybody achieves according to preset profit goals. We paid out \$750,000 in bonus checks in 1994. All employees received at least 11% in bonuses. The managers got 45% of their salaries as bonuses. It's very lucrative. I believe in the "what's in it for me" aspect.

When we started the Great Game of Business I was worried about certain parts of the company. I went to people in the warehouse and shop who are very important to our business and I said to them, "If you can understand arcane baseball statistics, which make no sense to me, you can understand business." And they looked at me wide-eyed because most people don't get any economics, any information about how a business runs, what impacts it, what expenditures are, how to balance it to make a profit or not. They don't learn that in school. Our education system is totally deficient in this.

We tell our employees, "this is the company you work in, this is what it does, this is how you impact everybody, this is what your decision will do, we're going to let you make that decision but you'll have more information to make it." That opens up a whole new world to somebody. Sometimes they'll come to me [for advice] and I'll say, "you can make as good a decision as I can. I've never done this before either," and it's interesting to see how that works. They often know what they need to do better than I do. Certainly I've made a lot of mistakes and mine are usually pretty costly.

We spend a lot of time, energy and resources teaching our employees things that most people don't have access to. The reason I think this is so critical is because you can stop me but you can't stop 160 people. We are in a fairly competitive environment. Denver is considered one of the most competitive retail furniture environments in the country. We are the littlest of the big guys here and so we look to have a strategic advantage through our people.

Tom O'Donnell, Operations Manager, believed that Kacey's company-wide gain-sharing bonus plan gave delivery drivers

...a chance to keep up with the rest of the world. These people typically live month-to-month and something unexpected--like a car repair--can put them under. Bonuses can add 10% to their base salary and allow them to get ahead.

This system gives them the rules of the game. They see how they can make a difference. Last month we had a bad snow storm. Everyone was here at 6am. We had no delays. No tow bills. We had seven trucks instead of six on Saturday because one of our drivers volunteered for extra duty. We delivered \$208,000 worth of furniture on Saturday [which was a record for a single day's deliveries].

Mike Bradford, Kacey Chief Financial Officer, was responsible for making sure that every manager's sales and profitability targets were recorded and monitored. At bi-weekly staff meetings, all financial information was displayed interactively on a computer-driven 60" color television. [See Exhibits 2 and 3 for Kacey Financial performance summaries.]

Leslie explained,

Everybody has certain expense categories that they're responsible for, so if they're over budget they have stand up in the meeting and explain why. For example, I went over on our cleaning budget because I felt that the stores had to be cleaner than they were, so I authorized increasing our cleaning schedule--we have a contract with an outside cleaning company--without going to the committee. So I had to stand up at a Great Game of Business meeting and say, "this is my rationale for doing this. If you all disagree, I'll cut it back," but everyone agreed. If anyone is over budget in any area, including wages, then they have to stand up and defend their position. It may be justified, but we don't want expenses to become runaway. We need to understand where they come from. It's easy to see retained earnings. They can see that I haven't taken much out.

All employees understood the cost of repairs and maintenance, display supplies, utilities, promotions, returns, sales tags and light bulbs. Employees took the lead in cost-cutting. Leslie recalled,

One of the managers decided that we weren't dealing with our freight problem very well. Everything has to come in from somewhere and freight is a very significant factor in our company's profit picture. So he went to school and learned everything he could about freight. Now, if you know anything about freight, you know that it's very arcane. But as a result of his ideas we now have one of the lowest incoming freight rates of anybody in the country. We were delighted to reward him for it and participate in that.

### The Emerging Company Culture

Kacey Fine Furniture had had a "family focus" since its inception. "Kacey's been in my family since I was a little kid," remarked Leslie. "It was part of our life." In 1995, Kacey was still oriented toward families and community involvement.

Because we're a family corporation we have lots of families who work for our company. We have brother-sister, husband-wife, nieces, nephews, cousins, lots of people who work together. We not only allow nepotism, we promote it. We make sure that one family member does not supervise another family member but they can work side by side. It gives us a chance to have a more coherent team to start with. We make sure everyone knows they stand alone so a brother or cousin or spouse doesn't affect their performance.

Several employees expressed the difference in attitude at Kacey's compared to other stores where they had worked. Brenda, a sales associate who had worked at Kacey for several years, expressed a typical sentiment:

There's a real difference here in how they take an interest in what we have to say. They take our suggestions to heart. They listen to what we have to say and they care about what we say and they're not just thinking of themselves...it's a group effort. We actually get paid for ideas that they put into effect, or just suggestions--we have a place to voice our opinions.

Leslie's interpretation of Stack's Great Game of Business involved more than opening the books to her employees. In preparation for changing employees' behavior, she hired a management consultant and conducted employee satisfaction surveys. She tried to understand why some employees worked well together and why others remained isolated. She examined her own behavior as well, and decided that poor performance was better dealt with through training and coaching than through reprimands and firing. An inspirational motivator herself, she didn't want to be too tough on employees, while at the same time she knew that she needed a better control system that didn't require top-down management authority and control.

Leslie acknowledged,

We're not an easy company to work with or for. Because we're retail we're open 9 to 9. The only time we can have our company-wide meetings is at 7:30 in the morning. We're not a democracy, but we require a great degree of participation, involvement, and continuing education and that's not really easy. We have a lot of meetings at our company and we expect a lot of people to participate at odd times. For example, our quarterly meetings are mandatory for everybody and they also need to participate in one major huddle [department] meeting a month. We don't do company picnics or parties, because we have enough meetings and we believe your private time is your private time and we don't want to impinge upon that. But we do try to find ways to have fun. We do skits and songs at our quarterly meetings and have games where we give out goofy prizes.

Quarterly meetings began to take on a different tone. Some of the early meetings were orchestrated by Leslie and her father. They performed skits, conducted sing-a-longs and role-plays, and gave out prizes for cost-reduction ideas such as delivery routings and scheduling, and revenue-generation ideas such as billboard-type logos on their delivery trucks earned cash bonuses. As employee suggestions and involvement increased, the nature and format of the meetings changed.

Mike Bradford's job changed from compiling information and tracking revenues and expenses to conducting accounting and training seminars. Everyone was required to understand basic accounting principles, and short-courses were designed to accommodate employees' work and family schedules and preferences. A tuition-reimbursement program was instituted so that employees could take courses at nearby universities, in subjects ranging from finance and accounting to graphic design.

By 1995, department managers had created their own awards. A monthly newsletter became a forum for idea exchange and information sharing. Employee birthdays, marriages and anniversaries, births and transitions were celebrated. Illnesses and tragedies brought compassion and assistance. Different people took turns making presentations or announcements at the company-wide gatherings. New employees were introduced, promotions and accomplishments acknowledged, teamwork and departmental productivity publicized. Customer-appreciation letters as well as customer-complaint letters were read and publicized in company newsletters.

Increasingly, managers took on the role of coaches and trainers instead of schedulers and disciplinarians. Employees often formed study groups and shared information and ideas. The lines separating owners and managers and staff and customers became less distinct as titles and job descriptions took a back seat to camaraderie and strategic planning. Each department had control of its own operations, with profit sharing based on store-wide and company-wide profitability. Approval for new ideas or programs was based on cost-revenue projections and employee participation, not management preference. Employees at one store decided to change their hours of operation to allow more evening shopping opportunities. ("Can you imagine me suggesting such a thing?" Leslie remarked.)

I think that education is one of the most critical things we can do as a business. The more education my workforce has and the more involved that they are in understanding issues--even contemporary issues--the more responsible they will be. I think of my employees as citizens and they must relate to the world as a whole. We also have a "great voter turnout" program. Now that may not seem very important to you but it is to me. I don't care who you vote for but I want to make sure they participate. As a consequence of understanding more about business and what they can do to affect their businesses, they've actually had more outreach into the community and I'm absolutely delighted about that. It's something that I kind of predicted but didn't think would happen as quickly as it did.

## THE CHANGING LODO NEIGHBORHOOD

The South Platte River, the major waterway between the Rocky Mountains and the Great Plains, divided the western third from the eastern two-thirds of the city of Denver. Until the early 1970s, Denver dominated the six-county metropolitan area. In 1973, 45 acres bordering the west bank of the Platte River were cleared and sold for commercial and industrial redevelopment. In 1976, 169 acres of land east of the Platte River were developed into the Auraria Higher Education Center, which housed Metropolitan State College of Denver, the University of Colorado at Denver, and the Community College of Denver. The national economic downturn, fueled by heavier dependence on foreign oil, took its toll on Denver, creating high unemployment and a deteriorating downtown area, as the population shifted to outlying suburban areas. By the late 1980s, only one-third of the metropolitan area population remained within the Denver city limits.

In 1986, the 45 acres on the west bank of the Platte River, known as "lower downtown" or LoDo, was a run-down commercial and industrial center adjacent to the largest tract of undeveloped land in the metro area. While much of the land was still owned by the Southern Pacific Railroad, the mayor commissioned a steering committee, composed of "community, business, railroad and property owner representatives from neighborhoods within and adjacent to the Central Platte Valley"<sup>7</sup> to develop a comprehensive plan for the area. Following the recommendations of the committee's 1991 comprehensive plan amendment, LoDo underwent urban redevelopment. Art galleries and retail establishments cropped up between the railyards and the warehouses, taking advantage of low rent and ample parking. Following the rehabilitation of some of LoDo's historic buildings, the granting of a major league baseball franchise in 1993, the relocation of Elitch Gardens (a \$95 million, 67-acre Amusement Park) to LoDo in 1995, the Gates Foundation pledge in December 1994 of \$1.2 million toward a \$64 million public aquarium to begin construction in 1996, "the development of hundreds of units of new housing, the opening of 16 new restaurants and bars in [1994 and 1995], plans to create a new historic district and revise the area's zoning"<sup>8</sup> and the proposed construction of additional sports and entertainment complexes, the face of LoDo began to change visibly.

On March 31, 1995, the first Colorado Rockies' exhibition game was played at Coors Field, one mile north of Kacey's downtown store. The baseball season officially opened on April 26, 1995, to a capacity crowd of 50,200; attendance averaged 45,000 throughout the summer and fall of 1995.

The Rockies played in the National League Championship Series in 1995, ensuring their popularity with the home crowd for the 1996 season.

As lease rates increased from \$8-\$10 to \$18-\$20 per square foot, many art galleries moved away from LoDo and restaurants, brew-pubs and housing units moved in. By 1996 there were 60 restaurants in LoDo--up from 35 in 1993--all sustaining year-round traffic. "One of the things Coors Field has done has been to demystify lower downtown for people who didn't know what it meant," observed Richard Holcomb, executive director of the Lower Downtown District Inc.<sup>9</sup> Townhouses and loft apartments increased from 270 in 1993 to 340 in 1996, with more than 370 new units planned by 1999. The number of LoDo residents was expected to double, from 1,500 to 3,000.

On April 26, 1995, Entertainment Development Group announced an agreement with United Artists Theater Circuit, Inc., to construct an 80,000-square foot theater and entertainment complex on the 16th street mall, at the southeast edge of LoDo.<sup>10</sup> The following month, Ascent Entertainment Group (owner of the Denver Nuggets basketball team) acquired a National Hockey League franchise by purchasing the financially distressed Quebec Nordiques, renamed the Colorado Avalanche. The Avalanche's first season success in the Stanley Cup playoffs overlapped the 1996 baseball season with sell-out crowds for both teams' games throughout April and May.

LoDo was changing from a low-rent commercial district to a high-rent entertainment area, with increased activity in the area east of Cherry Creek. The buildings between Auraria Parkway and the railroad tracks, however, that once housed the furniture district, were soon vacant and Kacey's seven-story building was a drive-by landmark, a destination place only for those who went out of their way to stop.

Although the number of housing units increased, furniture sales in LoDo suffered. On April 10, 1995, Franklin Furniture, located two blocks from Coors Field, announced that it planned to move to the suburbs by spring of 1996. "Business has been getting worse in the last two years because there is no parking," and sales have dropped 20%, owner Jerry Kozatch explained.<sup>11</sup> While Franklin Furniture owned its building, it had to buy parking permits for trucks at its loading dock.

Despite public criticism of both the building of a new basketball stadium (the current Nuggets stadium was only 18 years old) and the revenue consequences of public subsidies, the City Council approved a contract for the new stadium. PepsiCo had agreed to pay \$68 million (of the \$132 million estimated costs) for its name on the stadium and exclusive advertising and "pouring" rights. After heated negotiations between Phil Anschutz, majority owner of the Southern Pacific Railroad's 43-acre Platte Valley site, and Ascent Entertainment, construction of the "Pepsi Center" stadium was expected to begin by the end of the summer of 1996. Construction was expected to take two years. Leslie explained how the changes affected her store:

The Nuggets [basketball] stadium is going directly behind my store. That is an absolute, unqualified disaster. We are beside ourselves right now because between the baseball and ice hockey here now, this is becoming a sports and entertainment area. Frankly, the

consequence for a retail store is that nobody's going to get in or out of here. The city council members don't seem to understand that if you add 20,000 people coming for a Nuggets game to the Auraria Higher Education [college campus] night student traffic, same-time use with Elitch's [amusement park], the Aquarium and the [proposed 12-screen movie] theaters, you could have the potential of anywhere from 50,000 to 75,000 to 150,000 people trying to get into an area. Now the parking spaces that they have for all of us is 44,000, with the Rockies [new baseball stadium] it's 88,000. We're already seeing a decline in customer traffic during Rockies games. Now they want to move the Nuggets closer to us also. (sarcastically) I can hardly wait.

## WEATHERING THE STORM: BRACING FOR A DOWNTURN IN 1996

Both the extent of the changes in LoDo and the evolving nature of those changes troubled Leslie when she contemplated the future of her downtown store. What had once seemed promising now appeared threatening to Kacey. Leslie explained,

The original plan for the Platte Valley included mixed use, which was retail, *residential* and commercial. That would have been a whole different idea. People who come downtown for sports events are not the people who come downtown to buy furniture. We looked at our lease to try to figure out if we could get out of the situation that we're going to be in, but the owner won't budge. With all the changes taking place in this area, I think there are better uses for this building than us, but it doesn't appear that the principal agrees with us. He has refused to let us sublet the building or buy it from him. If customers can't get here, our sales people may have to be more adept at housecalls and getting into the customer's home and taking things to them versus having the customer come to us. And that's not entirely unfeasible. It's possible, but that would require a lot of training and orientation.

Not everyone believed that the downtown location was a liability. Operations Manager Tom O'Donnell believed that "as we become more of a dominant regional player, the visibility of our downtown store will be more of an asset." He explained,

Each of our stores is different, yet the downtown focal point draws customers from all of our outlying stores. We may need to reorient our sales staff and change our service options, but this might not be a bad thing. There's lots of money to be made on in-home sales and that market is wide open. There's a lot of potential for creativity. We could drop down to four--even three--floors at this location and still keep our image while we're in the process of relocating to a better location. We have six more years on this lease, but even if we started today, it would take us at least two years to get a big, full-size formal showroom up and running in another location.

We're not the upper-end designer market, nor are we the lower-end American or Weberg market. Our most serious competition in this area is probably Ethan Allen. Our market niche is an educated, serious furniture buyer. You're talking about a consumer who's going

to spend \$10,000-\$20,000 on a dining room or bedroom suite, or get into a specific design group and over a period of three or four years spend maybe \$25,000. That's a major lifetime commitment. When you're going to spend \$25,000, you'll spend the day and go where you can get the best price. We can't build seven or eight complete stores. Nor is it necessary. You'd end up with seven or eight times the amount of shop-worn furniture in the process anyway. But we need one key dominant store where we can refer people to, where an entire group can be shown. And that's the kind of store we have downtown today. Is it the right building, the right facility? It really doesn't matter if it's a different building, different numbers of floors, a little smaller, a little larger. It allows us to have a central theme and I think that's important. To be a leader in this market, we need to have a dominant regional presence. I think a flagship store is a good idea, but only if we can offer the personalized service people want.

Leslie was sure that accessible, attractive showrooms were essential. People needed to see and touch furniture before they would buy it. Bringing fabric samples to someone's home would not be enough. Whether or not they moved away from downtown, the next six years would place a strain on all Kacey employees. Leslie believed that employee confidence and sustained profitability would be essential for the company to position itself for a big move.

Even if we decide to move away from downtown eventually, we need to stay put and deal with what we have now. The suburban area rents are priced at the top of the market right now. Denver is a competitive market; our margins are low. If we can hang on until the shakeout, we'll have some options.

Leslie knew that the human resources systems that she had worked so hard to establish would be severely tested. She hoped that the Great Game of Business would be enough to maintain the commitment and enthusiasm that would be needed to keep the downtown store profitable until feasible relocation options could be explored. But already, the spring 1996 sales figures did not look promising. If sales continued to dip below projections, employees would not get fiscal-year-end bonus checks in June. Would her "Great Game" strike out? Leslie was not sure how to rally her employees for the challenging times that lay ahead.

## Exhibit 1: Top Denver Area Full-Service Furniture Stores

The Largest Furniture Retailers in the Denver Metropolitan Area 1993-94						
STORE	Sales(\$millions) *1993/1994	1994 Sales* Metro Denver Only	Number of Stores <sup>1</sup>	Sq Feet (000)	Sales per sq foot	Employees
American Furniture Warehouse	\$ 85.0/ \$104.0	\$94.0	4/8	412	\$253	350
Weberg Enterprise	\$132.1/ \$138.5	\$60.0	4/32	980	\$150	
Homestead House	\$101.0/ \$119.0	\$22.0	4/21	190		425
Kacey Fine Furniture	\$24.0/ \$ 28.0	\$26.5	3/4	115	\$233	160
Montgomery Ward**	\$770.0/ NA		7/347			
Levitz**	\$985.6/ \$1036.3		3/135	6,570	\$165	6500
Ethan Allen**	\$87.0/ \$123.5		3/54 <sup>2</sup>			5880
La-Z-Boy Furniture Gallery**	\$372.4/ \$412.2		4/263	42 average	\$171	
Sears HomeLife**	\$900.0/ \$600.0		2/NA	12		
Thomasville**	\$202.1/ \$228.0		2/86	120		8000
Foley's Home Store**	\$52.0/ \$53.0		1/40	6		
<b>INDUSTRY TOTAL</b>	<b>\$42,500/ \$45,300.</b>	<b>\$639</b>			<b>\$120</b>	

\*Sales in millions. Figures are for calendar year or most current fiscal year. <sup>1</sup>Denver metropolitan area/Total US <sup>2</sup>Company owned stores only; there are also 233 dealer-owned stores.  
 \*\*National chains; sales totals reflect nation-wide operations.  
 Source: *Furniture Today*, May 23, 1994, March 6, 1995, May 29, 1995, July 31, 1995, August 21, 1995.

## Exhibit 2: Kacey Income Statements

Year ending May 31	1995	1994	1993	1992	1991
<b>Revenues</b>					
SO1: Downtown	\$15,033,979	\$12,320,080	\$10,020,263	\$9,482,092	\$7,753,878
SO2: Frisco	\$1,732,679	\$1,468,804	\$1,367,449	\$1,079,747	\$1,004,290
SO3: Lakewood	\$9,076,013	\$7,947,617	\$6,930,604	\$6,143,633	\$4,236,460
SO6: Clearance Center	\$1,613,965	\$1,015,733	\$859,796	\$753,378	\$336,130
Total store sales	\$27,456,636	\$22,752,234	\$19,178,112	\$17,458,850	\$13,330,758
Sales to employees	\$136,056	\$81,345	\$29,757	\$38,761	\$19,822
Gross sales	\$27,592,692	\$22,833,579	\$19,207,869	\$17,497,611	\$13,350,580
<b>Cost of Goods Sold</b>					
SO1: Downtown	\$8,290,229	\$6,596,012	\$5,304,338	\$5,243,989	\$4,182,463
SO2: Frisco	\$930,948	\$781,933	\$735,892	\$603,851	\$563,568
SO3: Lakewood	\$4,991,667	\$4,268,936	\$3,670,655	\$3,407,935	\$2,405,011
SO6: Clearance Center	\$1,106,015	\$829,448	\$645,986	\$710,304	\$338,566
Total CGS	\$15,318,859	\$12,476,329	\$10,356,871	\$9,966,079	\$7,489,608
<b>Operating Expenses:</b>					
GSA	\$3,584,175	\$2,770,602	\$2,932,294	\$2,252,403	\$1,836,821
Advertising/promotions	\$2,017,409	\$1,787,992	\$1,736,428	\$2,003,507	\$1,367,629
Misc delivery/handling	\$1,332,509	\$1,168,338	\$871,999	\$730,076	\$543,265
<b>Operating Expenses</b>					
SO1:	\$1,935,630	\$1,646,453	\$1,535,856	\$1,378,142	\$1,202,442
SO2:	\$383,060	\$351,600	\$312,963	\$233,868	\$214,542
SO3:	\$1,153,459	\$1,054,519	\$884,150	\$691,905	\$569,044
SO6:	\$440,267	\$220,057	\$208,291	\$123,318	\$105,010
Total Operating Expenses	\$10,846,509	\$8,999,561	\$8,481,981	\$7,413,219	\$5,838,753
Other (vendor fees)	(\$37,292)	(\$54,838)	(\$19,487)	(\$4,953)	\$41,165
Net Profit before bonus/tax	\$1,464,616	\$1,412,527	\$388,504	\$123,266	(\$18,946)
<b>Bonus paid</b>					
	\$853,035	\$709,658			
Net Profit before taxes	\$611,581	\$702,869	\$388,504	\$123,266	(\$18,946)
Taxes	\$224,544	\$258,115	\$151,283	\$15,799	\$5,344
Net Profit	\$387,037	\$444,754	\$237,221	\$107,467	(\$24,290)

### Exhibit 3: Kacey Balance Sheets

Year ending May 31:	1995	1994	1993	1992	1991
Cash on Hand	\$187,324	\$707,593	\$122,192	\$63,231	\$416
Accounts Receivable	\$260,976	\$96,321	\$197,556	\$126,364	\$111,810
Inventory at Landed Cost	\$4,074,981	\$3,559,222	\$3,136,816	\$2,708,124	\$2,723,128
Income Tax Refundable	\$18,409				\$22,064
Prepaid Expenses	\$123,864	\$42,901	\$40,610	\$60,613	\$84,302
Deposit--Current					\$20,500
Deferred Tax Asset	\$147,431	\$126,486	\$120,420	\$94,392	\$90,810
Property/Plant/Equipment (PPE)	\$2,245,904	\$2,156,540	\$1,679,323	\$1,575,045	\$1,648,284
Less: Accumulated Depreciation	(\$1,373,182)	(\$1,379,567)	(\$1,240,236)	(\$1,138,400)	(\$1,223,772)
PP&E Net	\$872,722	\$776,973	\$439,087	\$436,645	\$424,512
Other	\$269,780	\$301,628	\$309,291	\$240,403	\$162,872
<b>TOTAL ASSETS</b>	<b>\$5,955,487</b>	<b>\$5,611,124</b>	<b>\$4,365,972</b>	<b>\$3,729,772</b>	<b>\$3,640,414</b>
Line of Credit	\$0	\$0	\$65,000	\$0	\$180,000
Current Portion/due on account	\$68,516	\$59,348	\$5,982	\$14,761	\$22,850
Accounts Payable	\$1,128,497	\$1,254,240	\$978,993	\$860,185	\$953,219
Accrued Liabilities	\$701,471	\$604,636	\$459,096	\$252,388	\$226,067
Customer Deposits	\$1,798,175	\$1,648,861	\$1,501,211	\$1,622,601	\$1,382,851
Income Tax Payable		\$110,134	\$157,192	\$12,578	
<b>Total Current Liabilities</b>	<b>\$3,696,659</b>	<b>\$3,677,219</b>	<b>\$3,167,474</b>	<b>\$2,762,513</b>	<b>\$2,764,987</b>
Long-Term Debt	\$228,538	\$290,652		\$5,982	\$21,617
Equity	\$2,030,290	\$1,643,253	\$1,198,498	\$961,277	\$853,810
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$5,955,487</b>	<b>\$5,611,124</b>	<b>\$4,365,972</b>	<b>\$3,729,772</b>	<b>\$3,640,414</b>

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