

“Krause’s: Turning On a Dime”

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“We have a saying around here,” jests **Michael Gibbons**, president of Brea, California-based **Krause's Sofa Factory**. It is “Turning on a dime is too big of a radius.” In other words, Krause's is extremely customer-responsive.

This stance classifies Krause's as a “new wave” retailer, according to economists at this year’s National Retail Federation Conference in New York City. “The consumer has been the Achilles Heel of the U.S. economy over the past year. The light at the end of the tunnel has flickered into darkness,” says Stephen Roach, senior economist at Morgan Stanley in New York. To combat this, Roach and other economists suggest that retailers do exactly what Krause's is already doing: respond to customers’ needs quickly and accurately.

Gibbons, whose company is both a manufacturer and a retailer of medium-priced upholstery, came to the conclusion in February 1990 that his business would soon be operating in a recessionary economy. He immediately began developing new and better strategies for surviving a tough economic environment.

“We figured the customers were going to be careful about how they spent their money, so we had to be careful about how we spent ours,” he recalls.

Krause’s turned most of its attention to pinpointing customer needs. Gibbons says management concluded that the company had one group of customers who were tight with their disposable incomes. They wanted less expensive sofas without sacrificing quality. Krause’s response: a \$399-\$499 sofa selection.

Another group of more affluent customers was found to be less concerned with pinching pennies. Instead, they were seeking a unique value for their dollars. Krause’s response: a \$1,400-\$1,500 leather sofa selection.

The bulk of Krause's sofas are still sold in the \$799 range, but now the company is catering to two groups of consumers it might have been neglecting previously.

Reiterating the company's mission statement, which graces the walls of all showrooms and offices, Gibbons says, “One of our beliefs is that you have to be *very* receptive to customers and react to their needs. Being both a manufacturer and a retailer, we’re in a very *reactive* position.”

Indeed, customers can choose from 100 styles, 50 sizes, and 1,000 fabrics or leather and have their selections delivered in four to six weeks.

With an infusion of capital from new investors in April 1991, and sales of over \$100 million expected for 1992, Krause's also has been in a “reactive” position to acquire locations from competitors who are closing their doors. Five major home furnishings chains – RB Furniture, Barker Bros., W.J. Sloan, Angelus, and Furnishings 2000 – have closed or filed for bankruptcy protection in the last 18 months.

“We have acquired three California store sites from **Furnishings 2000** in the past year,” Gibbons reports. “Those three locations, in Glendale, Sherman Oaks, and Santa Rosa, have been ranked in Krause's top 10 locations in sales volume since they opened. We are currently looking at adding several more former Furnishings 2000 locations to our mix.”

In addition, Krause’s has preliminary agreements to takeover **RB Furniture** sites in Lynwood, Washington, the Seattle area and Mesa, Arizona. Negotiations are underway for three more RB sites, and several more may follow.

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Gibbons views the current climate in the furniture industry as a golden opportunity for Krause’s. “The competitors’ closures have alleviated considerable frustration at trying to find the right sites in certain markets,” he says. “Many of these companies had outstanding locations in furniture malls or other proven high-traffic areas. This allows us to expand our presence in some highly targeted markets such as Seattle, while also filling gaps in Southern California.”

Also, Krause’s is adding employees from some of the failing retail chains to its own ranks.

“A headline in *Forbes* magazine a few weeks ago read something like: ‘To succeed in a recession, you have to be lean, mean, and smart.’ I interpret this as being tighter on pricing, aggressive, and not assuming the world is the way it used to be. You have to find out how it is today and respond. If your whole strategic plan is shrink, shrink, shrink, then you're going to shrink to nothing.”

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Note: Krause’s Sofa Factory (aka, Krause’s Furniture, Inc.) was acquired by Equivest Partners, Inc., (the predecessor name of Fairmont) in May 1986. Michael Gibbons co-founded Equivest/Fairmont. Krause’s acquired certain assets of both Furnishings 2000 and RB Furniture.