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## Creating, Capturing, and Sustaining Value: The Case of West Michigan Furniture Industry

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# Creating, Capturing, and Sustaining Value: The Case of West Michigan Furniture Industry

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## **Abstract**

The office furniture business in West Michigan has been going through the second major postwar slump in its history. The first slump was in the 1950s when America's furniture makers challenged the leadership of West Michigan furniture business by migrating to North Carolina. At the time, the effects on the West Michigan economy were mitigated through diversification, innovation, and niche markets strategies. The effects of the current slump have been far more devastating; more than 100,000 furniture-making jobs have been lost in the U.S. The larger firms have faced far more difficulties, though many smaller ones, such as John Widdicomb — the oldest area furniture business — have even gone out of business.

**KEYWORDS:** Furniture industry and trade, Michigan—economic conditions

# Creating, Capturing, and Sustaining Value: The Case of West Michigan Furniture Industry

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## Introduction

The office furniture business in West Michigan has been going through the second major postwar slump in its history. The first slump was in the 1950s when America's furniture makers challenged the leadership of West Michigan furniture business by migrating to North Carolina. At the time, the effects on the West Michigan economy were mitigated through diversification, innovation, and niche markets strategies. The effects of the current slump have been far more devastating; more than 100,000 furniture-making jobs have been lost in the U.S. The larger firms have faced far more difficulties, though many smaller ones, such as John Widdicomb — the oldest area furniture business — have even gone out of business.

We examine three hypotheses on the strategic challenges faced by the area furniture businesses:

*Hypothesis 1: The value creation capabilities of the Grand Rapids furniture companies are faltering.*

*Hypothesis 2: The value capture opportunities in the furniture industry are diminishing.*

*Hypothesis 3: Inter-firm differences in sustaining value are related to their transformative strategies.*

The data for the test of the hypotheses were obtained through interviews with the CEOs and senior executives of about a dozen area furniture makers in October/November 2003.

## Findings:

### *Hypothesis 1: Value Creation Capabilities*

Our interviews indicated that the competitive advantage of the area furniture makers was built on deep, multi-dimensional value creation capabilities, and these capabilities have continued to grow even now.

Effective use of established and emerging technologies is one of the core value creation capabilities. The leading West Michigan furniture makers have, as Dan Wiljanen, former Vice President of Human Resources, Steelcase, put it, “done a good job in keeping up of with technology, thus keeping them from becoming a threat.” In the 1960s, Steelcase deployed the technology for using color palettes and fabric options, as opposed to gray. More recently, Herman Miller, as underlined by Ken Goodson, Senior Vice President of Operations, developed a Z-Axis proprietary software enabling customers to configure complex offices and identify what they are purchasing before transmitting complete orders directly to the company's manufacturing and vendor network. It has made

some innovative, award-winning chairs, including the Aeron Chair, made from recycled plastic, and the Mirra Chair, made from a minimal number of parts, 96% recyclable.

Adoption of efficient manufacturing methods is another element of the value creation capabilities. Herman Miller adapted Toyota Production System to focus attention on what is going wrong and how to fix it, thus improving the quality of its products and containing the costs. Similarly improving cycle time and simplifying process methods have been adopted by a number of area furniture makers.

Further, area furniture business networks have helped even the upstarts. One of the interviewed firms started in the early 1980s, with “little knowledge of furniture manufacturing” and “with very little equipment for production.” Since then, guided by the learning from the local business networks, “production techniques, company procedures, and employee training have all become standardized,” and “the company has invested in more equipment to make production more efficient.” As a result, the company's workforce has learned to become more flexible, enabling the company to flood “the market with as many new and innovative items as possible with different sizes, variations, and finishes.”

Non-furniture business networks have also helped the firms develop innovative products and to diversify into high-growth niches. Many area furniture companies, such as American Seating, are using their knowledge and technology to design and produce automobile seating, with insights from the area auto parts industry. Similarly, companies such as Steelcase, Herman Miller, and Haworth are tapping the fast-growing local health and education industries by designing new products using software wizards.

Moreover, area furniture makers take huge pride in being American businesses, and they have been responsive to the changing consumer needs. They have grown by diversifying from office and residential furniture into home office furniture, as people worked more from their homes reflecting the trend towards service economy. Recently, they moved into home entertainment furniture.

Also, the furniture makers have focused on innovative research for developing value-added products. The leading firms, such as the Steelcase, are focusing on blending technology, architecture, and furniture to design complete offices. Knape & Vogt has enjoyed significant growth through its new value-added ergonomic office product lines and decorative residential product lines.

Importantly, area furniture makers have developed the lost art of craftsmanship and a right balance of technology and people. In 1980, the Kindel Company repositioned itself from bedroom furniture business into “highly detailed, complicated 18th and 19th century antique reproductions” and “high-end residential furniture.” As the CEO, Paula Forgarty, observed, “No machines in the world can accurately copy the kind of detail work found in the treasures of the best 18th Century American furniture. Kindel rose to the occasion. In England, we found a very talented master carver who joined us in 1980 and began an apprenticeship program for hand carvers that has been an outstanding success.”

If the value creation capabilities of the area furniture makers remain robust, then why have they faced so many problems over the past few years?

*Hypothesis 2: Value Capture Opportunities*

Our interviews indicated that unanticipated shifts in the external environment, some short-term but most potentially permanent, have been the key factors making the structure of the furniture-making industry less aligned with the focus of the area businesses and limiting their ability to capture value. Over the past decade, the U.S. economy has been exposed to a significant low cost competition from overseas, particularly from China. Since 2000, the quality of furniture imported from China has improved significantly, tipping the scales “in a major way toward imports.” The U.S. retailers have set up systems for buying entire pieces of furniture direct from the automated factories in China. Chinese wood furniture sales have risen from 3 percent of U.S. sales in 1990 to 43 percent in 2002 (~\$3 billion). In 2003, the sales of foreign-made wood furniture outstripped the sales of the domestic-made furniture.

barely used office furniture into the market and depressing the prices for new furniture. The lucrative channels for high-end furniture, such as the contract furniture market (the huge deals to fill the office buildings) accessed through a network of dealers, have been penetrated by low cost leaders such as the Iowa-based Hon Industries, whose competencies cater to mass merchandisers. Also, the customer preferences have shifted: “Our tagline was it’s not furniture, it’s an heirloom. Today nobody wants heirlooms, they want disposable furniture. . . . We live in a disposable world,” noted a former executive of John Widdicomb.

In the 1990s, downsizing became institutionalized as the mode for restructuring among U.S. corporations. However, the West Michigan furniture companies found it difficult to adopt downsizing early on because the value-based relationships with employees were at the heart of their formative success. Many remained vertically integrated, trying to capture value from start to finish. With the rise of low cost competition, they have reluctantly adopted lean approaches by downsizing administrative staff, laying off factory workers, closing facilities, and selling off subsidiaries. In the process they have lost valuable talent resources, and regaining the trust of the workforce is a huge challenge.

*Hypothesis 3: Inter-firm Differentials in Sustaining Value*  
 So, how have some of the firms survived and kept growing, even as the industry structure became very unattractive with greater difficulties in capturing value?

Our hypothesis is that inter-firm differentials in sustaining value are related to transformative strategies. Vipin Gupta (2003) defines transformative strategies as the entrepreneurial leadership initiatives “focused on the management of change through superior and effective learning about the diversities of cultural approaches and discovery of the techniques for making these approaches meaningful and fruitful.”

The U.S. Wood Furniture Shipments (\$ millions)					
	1999	2000	2001	2002	2003 (e)
<b>U.S. shipments</b>	<b>17,455</b>	<b>18,836</b>	<b>17,748</b>	<b>19,117</b>	<b>20,241</b>
<b>U.S. production</b>	11,091	11,285	10,122	9,991	9,271
<b>Outside U.S.</b>	6,364	7,551	7,626	9,126	10,970
<i>% outside U.S.</i>	<i>37%</i>	<i>40%</i>	<i>43%</i>	<i>48%</i>	<i>54%</i>

Moreover, the depressed local and national economy has limited the demand for higher-end furniture — the main area of focus for the area furniture makers. Many of the larger furniture makers were focused on Fortune 500 companies; however over the past two years, the top 100 customer accounts of Steelcase cut their furniture spending by 45 percent. Many office buildings have closed, putting

A great illustration of how to weather the turmoil using cultural options is Kindel Furniture, as reported by Amy Walbert, head of marketing:

a) Focusing on authenticity and scholarship: “We pick an object [that] is important . . . We are able to tell a story with the objects we make . . . We have a lot of auction house stories of

things that have been sold for a lot of money and we reproduce them. What this does for marketing is amazing.”

b) Recognizing the talent: “We have reaped the benefits of people going out of business ... We have had so many good craftsmen in this town and since many [firms] are gone, now they are knocking on our door.”

c) Using the network embeddedness: “West Michigan has a strong network, which is good for manufacturers of furniture. We are the recipients of that and we are lucky.”

d) Sustainable ecology: “We make mahogany [furniture]. We try to buy responsibly from people who reforest or manage forests. Ecology is important in trying to explore new species of wood.”

e) Creative Diversity: “We have many women in this factory in non-traditional roles. There are women in carving and in high positions. There are guys using heavy equipment to smooth out and buff materials and with that they need touch-ups. The people doing heavy equipment are men, those doing touch-up are all women. A woman is president of the company.”

Further, sustaining value requires connecting the cultural discoveries with the functional value creation, as illustrated by Rob Sligh, CEO, Sligh Furniture: “We dramatically reshaped our business from an identity as a manufacturer to a company that adds value through research, design, development, sample making, supply chain management and logistics, sales, marketing, and customer service.”

## **Conclusions**

The last few years have been very turbulent for the West Michigan furniture makers. Since mid-2003, the U.S. economy has shown signs of recovery, allowing area companies to enjoy significant growth. However, if the area businesses have to sustain their leadership in the face of competition from companies such as the Hon Industries, they must pursue culturally responsive, meaningful transformative strategies.

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<sup>1</sup>References: Vipin Gupta (2003); *Transformative Organizations: A Global Perspective*, CA: Sage Publications.