Recession **Lessons**

From the importance of building and maintaining solid relationships to the need to continually trim debt loads, lessons from the recession have been abundant in the tile industry.

by Jeffrey Steele

In the tile industry, the recession has meant very difficult economic times. For Barbara Cashman, president and CEO of Greensboro, NC-based GlasTile Inc., which has manufactured fused glass tile since 1990, the downturn of the past few years took both a financial and personal toll. “When I lost a dealer during this time, we were saddened,” she says. “We lost good friends. We lost people we’d been working with for years. They haven’t passed away, but we don’t hear from them anymore.”

The steepest economic freefall to hit the United States since the Great Depression, “transcends business,” Cashman adds. “It’s personal.”

If she's learned anything during the last two or three years – and she has learned a lot, she says – it has been about the importance of relationships. Investing time and energy to develop and support business relationships paid off in hard times, and is one reason her company survived the storm. "It's not a contrived belief of ours" she says. "We have always had close relationships with dealers and customers, and some of our dealers actually took smaller profits, to support us, and so we could have the job. We would work those things out [and discuss] what we could do together to land a project."

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Tom Carr, president of Pan-American Ceramics, has given considerable thought to the recession and how his company responded to the downturn. Officials of the nearly 30-year-old City of Industry, Cal. tile importer took what to many might seem an unusual stance, Carr explains.

"From the very start, the message I gave our employees, customers and vendors was that we were not going to participate in a recession," he says. "It sounds funny, but if you start talking about how bad things are, people can always find an excuse. We would still buy product, bring in new products, pay vendors and pay employees. The fact that others were less likely to bring in new products during the recession brought us new customers."

Another company that refused to accommodate the downturn was Crossville, Tenn.-based Crossville Incorporated, which rode out the recession in fine style, says vice-president of business development Frank Douglas. "We never changed who we are," he reflects. "We never drastically altered our product mix, never altered the way we go to market, never wavered in our support of our customers or our sales force. We continued our education programs. And when we had to make unpleasant cuts, we did it in a fair way, so that everyone shared in the pain."

Crossville Inc. was fortunate in that it is privately held, constantly invests in its own future and operates in a sound financial manner, Douglas says.

Having seen the recession coming, and made adjustments, company officials still experienced reduced sales. Being a domestic manufacturer worked well for the company. As customers cut back on overseas orders, they took advantage of Crossville's domestic availability, he says.

Ironrock, the Canton, Oh.-based manufacturer of quarry tile products and architectural thin brick, took a different but equally viable strategy.

When the slump turned severe, Ironrock shed its Meredith Collection, which had been developed as an independent firm in the 1980s and later was absorbed into Ironrock. A high-end niche product, the Meredith Collection was discontinued so the company could focus on its core business of more utilitarian offerings, says Ron Williamson, the company's marketing services director.

At the same time, Ironrock worked on developing its marketing toward business segments that continued growing, such as school construction, green building and national restaurant chain accounts, he says. "It was basically a matter of finding segments that continued strong during the recession," he says.

Like many, Miles Distributors, a South Bend distributor of glass, ceramic and natural stone tile, with locations in Indiana, Michigan and Kentucky, responded to the recession by initiating a thorough re-examination of its labor force. It then began trimming employees. "When we got down to the size we needed, what we were left with was the 'A' players in the organization," says sales and marketing manager John Zolman. "Those employees are the best, and are the more productive and stronger workers in the company."

At U.S. Gypsum, field marketing and technical manager of the specialty products division Steve Rausch speaks for many industry observers. "We're not convinced it's over yet," he says of the long recession. "But we're getting through it because we had working capital put back [into the business]. And when all this started, we realized it would be bad. At that point, we didn't overreact. But we cut overhead. That was our plan of survival."

What They Would Do Differently

In hindsight, a number of industry players acknowledge they could have done things differently earlier in the downturn. The most common admission is wandering from the basics. "When times are good, it's easy to expand, buy new products and add staff," Carr says.

"But you have to re-examine some of those ideas even when times are good. In the good times, maybe you should be looking at paying down debt, tightening inventory and maintaining a handle on expenses and credit lines to the bank. The basic things everyone is doing now should have been done at all times, including the good times. We realize that now."

So does Cashman. She too gave into the temptation to add staff and equipment, as well as upgrade and expand facilities, in booming economies. It's more important to eliminate all debt, she says, noting businesses that went under often did so because they were debt ridden when the slump arrived.

For GlasTile Inc., 2006 was a boom year. That's when the company should have been taking stock of its line of credit and its equipment, and should have been exploring the idea of repairing existing equipment rather than buying new, Cashman reflects. "The focus really wasn't where it should have been, because none of us expected we'd be in the situation we're in now, and for the length of time we have been in that situation," she says.

Speaking for U.S. Gypsum, Rausch says with 20:20 hindsight that many things could have been done differently. "USG's in the entire building process: new construction, remodeling and commercial," he reports. "In almost every past situation, you ended up with one or sometimes two segments going bad, but not all three at the same time. What happened this time is all three segments went bad, and we haven't seen real recovery in any one of those segments.

"We're not seeing new jobs come on the boards. We're not seeing jobs that were on the boards get reactivated. Commercial work has all but ground to a halt. When you look at residential home builders, you know what's happened there." Had anyone known how deeply the recession would be felt, more sizable cost cutting would have been undertaken immediately at USG, Rausch reports. "We're still sitting on a lot of cash," he adds. "We know there will be a lot of opportunities. You can't drain yourself to the point that when the economy does start back up you can't take advantage of it."

Lessons to Carry Forward

Many industry observers report absorbing lessons during the slump they plan to take with them into a brighter economic day.

At Miles Distributors, that lesson is the notion of redefining the word "busy," Zolman reports. Now that the company has reduced its staff to "the A Team," officials believe they won't respond to very busy periods the way they formerly did. "When we pick up again, and get busy, it doesn't mean we have to throw another body in there," he says. "In the past, we were so intent on getting another staff member to handle busy times, that we didn't ask whether that was the right person to hire, or whether we even needed another person."

For Carr, one essential lesson has been the importance of always keeping channels of communication open. "Take time to communicate with employees," he says. "They see the news and understand, and know you're not lying to them. A lot of that communication is missing during the good times. The lesson I'd take forward is the need for communicating with employees, customers and suppliers. They're all key components of your business."

Another takeaway from the recession for Carr is the significance of teaming with the right suppliers. When times are difficult, he says, it's critical to be on the same page with key vendors. That's because a struggling economy can spur suppliers to make changes that may not be in your best interests. "You have to have an understanding before that happens," Carr stresses.

Rausch reinforces the point about teaming with the right people.

"You need to be dealing with substantial companies," he says. "I'm all in favor of dealing with the local mom-and-pop store. But if you're in the tile business and putting a job together, you want to make sure the tile manufacturer is solid, the setting materials maker is solid and the backer board people are solid. What your tile dealer is doing is putting together a complete assembly to make a job happen. Because of that, they've got to look at the whole system. They must have suppliers that can stand up with them and back them up." The lesson to tile dealers, he says, is to align with solid suppliers who view them as partners.

"The tile dealer has a customer in John Q. Customer, but he must have a partner on our side of the equation, or he's going to wind up not having his own customer satisfied . . . You have to have value in that complete chain. The sweet taste of a low price quickly fades, under the bitterness of poor quality. That's a huge problem for many people. You want value, not low price."

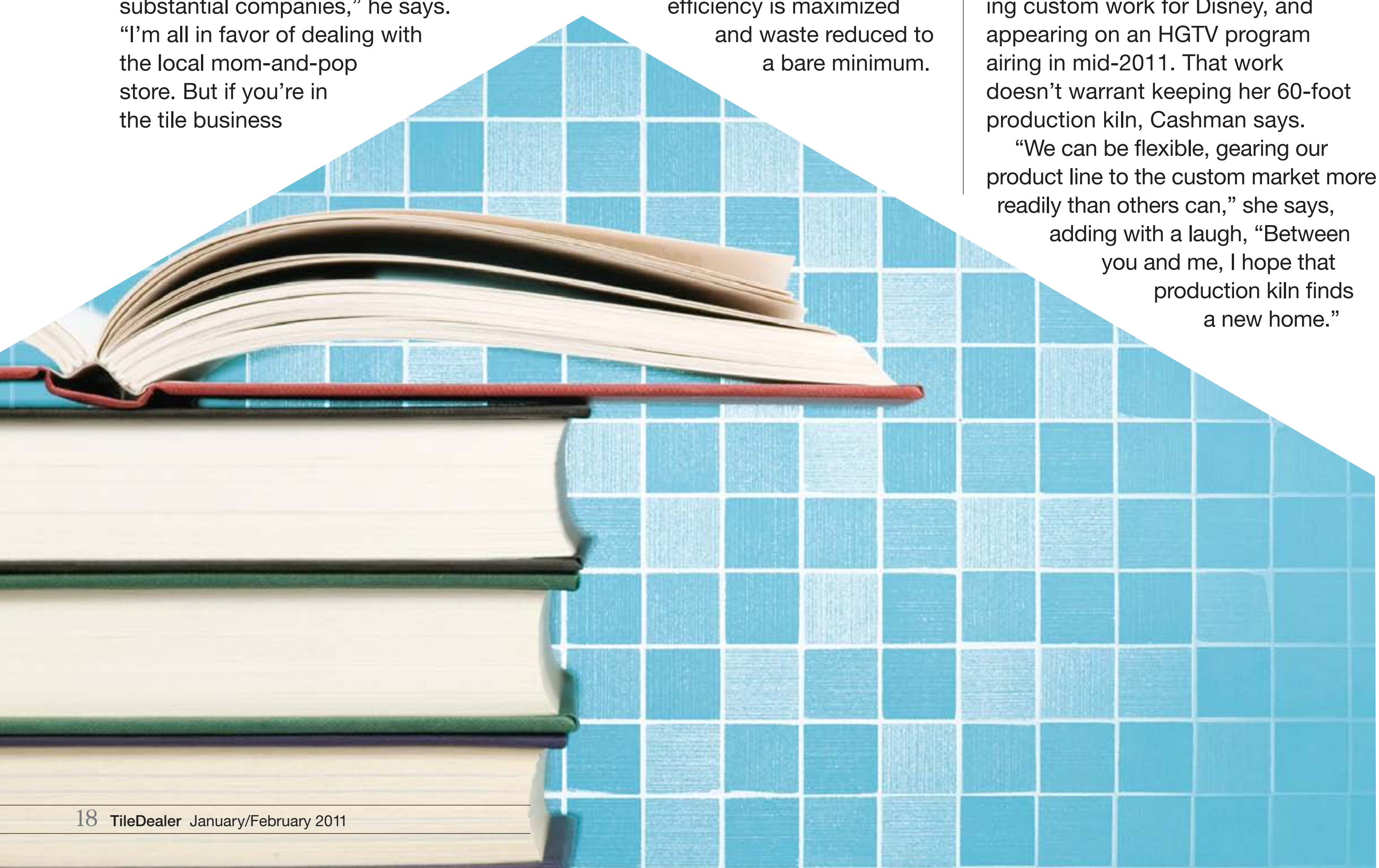
At Ironrock, the lesson was the wisdom of maintaining a lean manufacturing operation, in which efficiency is maximized and waste reduced to a bare minimum. "Everyone has a laser focus today on all those issues that can cost, and be cost prohibitive," Williamson says.

The recession also hammered home the benefit of cross marketing. Ironrock cross marketed its architectural thin brick into new applications like brick veneers and stone veneers. The company gave its quarry tile distributors a chance to market its thin brick as well. "You've got to look for that kind of opportunity in a down economy," he asserts.

GlasTile also recognized a silver lining within the dark economic clouds. Noting "the recession changed our whole market scenario," Cashman says in better economic eras, her company had always created a very high-end product. But the calls it's now getting as the economy rebounds are for custom work. That has resulted in GlasTile's smaller accounts staying continually busy, while its production accounts languish.

GlasTile is busy, but busy in a different way than before, producing custom work for Disney, and appearing on an HGTV program airing in mid-2011. That work doesn't warrant keeping her 60-foot production kiln, Cashman says.

"We can be flexible, gearing our product line to the custom market more readily than others can," she says, adding with a laugh, "Between you and me, I hope that production kiln finds a new home."



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The long recession has also given Cashman a chance to reflect on the importance of technology in getting the word out about her product line. The future of tile industry marketing, she asserts, will depend to a great extent on social networking through forums like Facebook, Twitter and LinkedIn.

"We're going to have to be much more Internet focused," she says. "Relationships are the basis for everything, and social networking is all about relationships, but in a different way. Personal relationships with our customer base have netted us a solid business model." TD

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