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BusinessWeek

THE INCREDIBLE SHRINKING BOOMER ECONOMY

BY DAVID WELCH



How companies are rethinking their businesses as the biggest spenders in history dial back

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Dan White, the new CEO of Norwalk Custom Order Furniture in Norwalk, Ohio

IN DEPTH

THE FAST-SHRINKING BOOMER ECONOMY

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ALTERNATIVE ENERGY, MILITARY-STYLE

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THE FACTORY THAT REFUSED TO DIE

038 | Norwalk Furniture probably shouldn't be in business today, what with the housing bust, Chinese competition, the credit crunch, and other woes. But it is. How one worker, 12 local families, and the mayor of Norwalk, Ohio, brought it back to life. | **BW** |



THE FACTORY THAT REFUSED TO DIE

By Nanette Byrnes

In an Ohio town with rampant unemployment, the mayor, a worker, and 12 local families fought to save Norwalk Furniture

The Norwalk Custom Order Furniture factory in Norwalk, Ohio, is 430,000 square feet, enough to encompass four football fields. On a rainy June afternoon, though, the facility is quiet—except for the sounds of a radio playing 1970s rock classics and the occasional hum of a sewing machine or pop of a staple gun. This time last year more than 300 people worked on the floor, producing hundreds of pieces of furniture a day. Now the headcount is 59.

That Norwalk is still producing furniture at all, however, is a business miracle. The 107-year-old manufacturer has been buffeted by the housing bust, Chinese competition, its own poor judgment, and the credit crunch—a toxic brew if there ever was one. Last year Norwalk's owners, the fourth generation of the founding Gerken family, gave up the fight and closed the factory's doors, unable to meet the demands of lenders. Dozens of retailers who relied on the company stood to go out of business themselves.

But instead of becoming one more piece of bad news floating on a sea of economic disasters, Norwalk has emerged as a survivor of sorts. An unlikely coalition of investors, factory workers, and politicians have joined together to reopen the factory. Now the business is above water, if just barely.

These people and thousands of fighters like them are the difference between 9.5% national unemployment and something even worse. Companies big and small are struggling to deal with the double whammy of slowing sales and restricted credit. U.S. bankruptcy filings surged to 7,874 in May, a 55% rise from a year earlier, according to bankruptcy tracker AACER. With loan delinquencies soaring too, banks—along with CIT Group and other other commercial lenders—are raising their credit standards: Federal Reserve figures show that banks have tightened up on small business lending for 10 consecutive quarters. “It’s very difficult for



The headcount on Norwalk's factory floor stands at 59, down from more than 300 last year

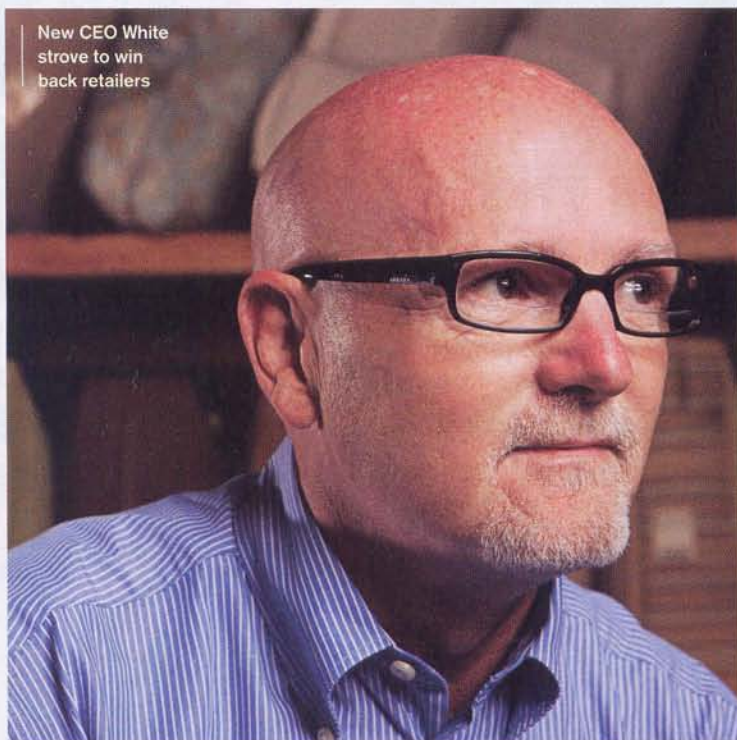
banks to embrace lending to smaller businesses," says Robert Coleman, editor of the La Canada (Calif.)-based *Coleman Report*, which tracks small business loans.

Against that grim backdrop Norwalk has somehow managed to survive. The company was founded in 1902, when upholsterer Charles Edward Gerken first crafted a chair for his son, Raymond. Over the decades, Norwalk came to own all or part of 13 different companies, from wood exporters to low-end furniture makers. None, however, was as profitable as the core custom-order furniture business, which produced its upscale wares in the Norwalk factory in Ohio and sold them through 57 franchises around the country and

"I'd love to blame someone else, but we screwed up."

In early 2008 the Gerkens grew concerned about Norwalk's performance. They persuaded factory workers to take a cut in benefits, hired restructuring firm Morris Anderson, and in April submitted a turnaround plan to their bank of 12 years, Dallas-based Comerica. But the bankers were reluctant to give the Gerkens all the money they asked for and demanded a personal guarantee as collateral, says Bill Gerken. The cousins balked. "Why would we sign those personal guarantees?" asks Gerken. "That would have been insane."

Banks, of course, were dealing with their own nightmare in 2008: the credit crunch. Comerica, which was headquartered



New CEO White strove to win back retailers



Gross organized protests to try to save Norwalk

through independent dealers that carried multiple brands.

Earlier this decade foreign competition in the furniture industry intensified, particularly at the low end. Imports from China rose 154% from 2001 to 2005, to more than \$12 billion. But because the strong housing market was fueling demand for high-end furniture, Norwalk kept production steady.

When the real estate market crashed, the company's fortunes quickly changed. Sales plunged from \$163 million at the peak in 2005 to \$137 million in 2007, according to investment bank Beacon Associates. In the first four months of 2008, the company had revenues of just \$40 million and was on track to lose \$4.9 million for the year.

Making matters worse, Jim and Bill Gerken, the fourth-generation cousins running the company, were slow to cut costs and pare the losses. Instead they tapped their \$13 million credit line to keep the business afloat. "Most of what happened to Norwalk was our own mismanagement," admits Bill Gerken.

in Detroit for 158 years before moving to Texas in 2007, held a worrisome number of loans made to hard-hit manufacturers in the upper Midwest and was heavily exposed to the California real estate meltdown. In July 2008, Comerica announced that its quarterly net income had dropped 71% from a year earlier (though its capital position remained strong). One day later it pulled Norwalk's credit line. "They were doing what other banks were doing at the time," says Norwalk's controller, Peg Whitehurst. A spokesman for Comerica says the bank was trying to find a solution for Norwalk outside of bankruptcy, even though the company was in default on its loan, and says Norwalk management's decisions led to its problems.

Without the credit line, the Gerkens could no longer meet payroll, and on July 18, 2008, they shut the factory doors, seemingly for good.

That's when Norwalk's mayor, Sue Lesch, sprang into action. Lesch grew up on a farm in nearby Peru, Ohio, and was

the owner of a construction company and served as a fundraiser for the Catholic Church before taking office in 2004. Since then she has spent much of her time on economic matters. With a population of 16,000, Norwalk is the biggest town in a county whose unemployment rate sits at 15.4%, among the worst in the country. "We've just been hit and hit and hit," says Lesch. Although she attends a prayer group and tries to walk every day to relieve stress, "I don't sleep well," she says.

Lesch focused much of her attention last summer on trying to save Norwalk Furniture. "This company not only was the largest factory in town—their were the best jobs in town," she says. Lesch repeatedly called the bank to badger it into recon-

tions and newspapers sent reporters, and by that afternoon the bank had agreed to talk to potential investors.

More than 1,000 miles away, near Denver, retailer Jodi Zippo's once-thriving business was crashing. Zippo, a former telecom executive, and her husband, Rob, a sales manager for an electronics manufacturer, had put their life's savings into a Norwalk furniture store in an upscale Colorado mall. Jodi had left the telecom field in 2001 to spend more time with her two young daughters. But she'd always wanted to build a business of her own, and she had a knack for interior design. In March 2007 she bought the Norwalk store—and quickly tripled the average sale amount, pushing the outlet from the 46th most productive of Norwalk's 57 franchise stores to No. 3. Business was so good that Zippo paid down \$125,000 of her \$415,000 small business loan, also held by Comerica, in just 12 months. But when Norwalk lost its credit line and closed, her business ground to a halt.

Zippo thought of shutting the store but was distraught at the idea of running into people who'd given her money for furniture and then gotten stiffed. Her husband told her it was O.K. to fail, but that only panicked her more. "I said back to him, 'Don't talk to me that way. It's not going to fail. I don't fail,'" Zippo recalls. "Deep down I thought, 'Oh my god. We're going to fail!'"

The agitating in Ohio was paying off, though. On July 28, Comerica agreed to meet with potential buyers. Over the course of a day, in a conference room at Cleveland's airport, the bankers talked with a series of private equity firms and individual investors. Comerica was there at the request of Ohio Lieutenant Governor Lee Fisher, who on Lesch's urging had put a \$1.8 million loan offer on the table. Eventually one group of private equity investors made an acceptable bid, and while they did due diligence through the month of August, Norwalk reopened its doors and resumed operations.

But by Labor Day the deal was in trouble. The investors have since filed suit in Huron County Common Pleas Court accusing Comerica of demanding they complete their due diligence faster than was possible, among other things. On Sept. 16, after the two sides couldn't come to terms, Norwalk closed its doors for the second time, almost certainly for good.

Then something extraordinary happened. A group of 12 local families called the company and said they were interested in making a bid for just the Ohio factory. Both Comerica and the Gerkens liked the idea. After just a few days of due diligence, the investors bought the plant for \$4 million. The next week the investors started taking applications to rehire workers.

The new company is called Norwalk Custom Order Furniture and is run by Daniel J. White, one of the 12 investors. White has long ties to the town of Norwalk—his family has lived there for more than 100 years—and he says concern for the community is what drove him to step in. Before taking the



Sales are rising at Zippo's store in Englewood, Colo.

sidering its credit decision. She drove to Columbus to lobby state officials for an emergency loan and to hunt up potential buyers. She assigned her business development team to canvass local investors as well. The team found several groups of potential investors, but Comerica wasn't negotiating.

When factory worker Kim Gross heard that Comerica was refusing to talk with potential buyers, she decided to organize a protest. The mother of three has deep connections to Norwalk Furniture. She has been sewing cushion backs and pillows there for 20 years. Her grandmother worked there before her. And Norwalk is where she met her husband, Jeff, a plant manager. Gross persuaded 40 fellow employees to take three pickup trucks filled with armchairs and sofas to Comerica's Detroit offices, two hours away. When they got there they put the furniture on the sidewalk, carrying signs and marching in hopes of attracting media coverage. "We thought, 'This is crazy. Why not let these investors make an offer?'" TV sta-



reins at Norwalk, White, a retiree, had founded Geotrac of America, a company specializing in the flood zone research required by mortgage lenders, which he sold in 2004.

For most of the other 11 Norwalk investors, the desire to save well-paying jobs wasn't purely humanitarian. Doing so would mean a stronger local economy, higher property values, and better business in general, says Tom Bleile, one of the investors and co-owner of the Saw Mill Creek Resort on the shore of Lake Erie, a half hour to the north. "If our community benefits, then we benefit," says Bleile.

In his first two weeks as CEO, White visited 28 of Norwalk's retailers. They had been without product for 30 to 60 days, and many were on the verge of bankruptcy. They'd been caught off guard by Norwalk's problems and "felt betrayed," White says. He quickly took steps to win them back. First he

Employees gather in Norwalk before demonstrating against Comerica in Detroit

only \$25,000. Still, she's out some \$150,000 worth of floor models and samples she sold for a fraction of their value last fall because she thought Norwalk would no longer be making them. All 31 lenders she has approached to refinance her Comerica loan have declined.

But now that Norwalk is back producing furniture, Zippo is selling it again, along with several other lines. Sales are improving, and she's current on her loan payments. The panic attacks she suffered last summer have eased. "We're past the scary part," she says.

For Kim Gross, survivor guilt may be creeping in. She and her husband, Jeff, were among the 94 workers who successfully reapplied for their jobs at the factory. Most of the 800 who applied were turned away, including many with decades' worth of experience. Gross has run into some of them at the grocery store, and the encounters have been awkward. Now Gross shops at odd hours to avoid her former factory mates.

Rightly or wrongly, much of the anger around town is directed toward the former owners. Bill and Jim Gerken may have mismanaged Norwalk, but they also fought desperately to save it. Now they're financially devastated. Bill says 90% of his net worth was tied up in the company, and all of it is gone. "No one lost more than I did," he says. Mayor Lesch says the Gerkens "were wonderful" through the process, talking to her every day. "It's so easy to point fingers from the outside," she says. "It's always more complicated than that."

While the Norwalk saga created rifts in this small Ohio town, it will be remembered more for bringing people together. Whenever a prominent company is about to close, "the temptation for too many people is to throw up their hands and say it's inevitable," says Lesch. "We said, 'Wait a minute, this is really, really important. We're going to stand up and fight!'" | **BW** |

FOR THE 12 FAMILIES THAT INVESTED IN NORWALK, REVIVING THE FACTORY MEANT A STRONGER LOCAL ECONOMY AND HIGHER PROPERTY VALUES

started work on the \$4.5 million in orders that had gone unfulfilled. Next he changed the company's production cycle to make sure retailers wouldn't have to wait months before they could start selling Norwalk's newest line.

White insists the new Norwalk is built to last. The company has no significant debt aside from the \$1.8 million loan from the state of Ohio and a \$225,000 equipment loan from the town of Norwalk. White expects the Norwalk plant to generate more than \$25 million in sales by 2011, less than half the level it once enjoyed but far more sustainable.

Jodi Zippo's outlook is brighter these days, too. When Norwalk closed last year, she was on the hook for \$280,000 worth of orders. Sitting at her husband's desk in their Littleton (Colo.) home one night, she called one customer after another to beg them for a chance to find another vendor. By the end of the night all but four agreed, and she had to refund

BUSINESSWEEK.COM For a glimpse into the manufacturing process at Norwalk Furniture in Ohio, check out the video at businessweek.com/go/09/norwalk