Design within Reach

Source: Book: 4 steps to Epiphany by Steve Blank

THE FURNITURE BUSINESS DOES NOT STRIKE many people as ripe for innovation. Yet during the halcyon days of dot-com companies (when venture capitalists could not shovel money out the door fast enough), the online furnishing market spawned a series of high-profile companies such as Furniture.com and Living.com. Operating on the James Dean School of Management (living fast and dying young), companies like these quickly garnered millions of dollars of investors' capital and just as swiftly flamed out. Meanwhile, a very different startup by the name of Design Within Reach began building its business a brick at a time. What happened, and why, is instructive.

At a time when the furniture dot-coms were still rolling in investor money, the founder of Design Within Reach, Rob Forbes, approached me to help the company get funding. Rob's goal was to build a catalog business providing easy access to well-designed furniture frequently found only in designer showrooms. In his 20 years of working as a professional office designer, he realized one of the big problems in the furniture industry for design professionals and businesses such as hotels and restaurants was that high-quality designer furniture took four months to ship. Customers repeatedly told Rob, "I wish I could buy great-looking furniture without having to wait months to get it." On a shoestring, Rob put together a print catalog of furniture (over half the items were exclusive to his company) that he carried in stock and ready to ship. Rob spent his time listening to customers and furniture designers. He kept tuning his catalog and inventory to meet designers' needs, and he scoured the world for unique furniture.

His fledgling business was starting to take wing; now he wanted to raise serious venture capital funding to grow the company.

"No problem," I said. Pulling out my Rolodex and dialing for dollars, I got Rob in to see some of the best and brightest venture capitalists on Sand Hill Road in Silicon Valley. In each case, Rob went through his presentation and pointed out there was a $17.5 billion business-to-business market for high-quality, well-designed furnishings. He demonstrated that the current furniture distribution system was archaic, fragmented, and ripe for restructuring, as furniture manufacturers faced a convoluted system of reps, dealers, and regional showrooms preventing direct access to their customers. Consumers typically waited four months for product and incurred unnecessary markups of up to 40%. Listening to Rob speak, it was obvious he had identified a real problem, had developed a product that solved that problem, and had customers verifying he had the right solution by buying from him.

The presentation was so compelling that it was a challenge to identify any other industry where customers were so poorly served. Yet the reaction from the venture capital firms was uniformly negative. "What, no website? No e-commerce transactions? Where are the branding activities? We want to fund Web-based startups. Perhaps we'd be interested if you could turn your catalog furniture business into an e-commerce site." Rob kept patiently explaining his business was oriented to what his customers told him they wanted. Design professionals wanted to leaf through a catalog at their leisure in bed. They wanted to show a catalog to their customers. While he wasn't going to ignore the Web, it would be the next step, not the first, in building the business.

“Rob,” the VCs replied sagely, “Furniture.com is one of the hottest dot-coms out there. Together they've raised over $100 million from first-tier VCs. They and other hot startups like them are selling furniture over the Web. Come back when you rethink your strategy.”

I couldn't believe it: Rob had a terrific solution to sell and a proven business model, and no one would fund him. The tenacious entrepreneur that he was, he stubbornly stuck to his guns. Rob believed the dot.com furniture industry was based on a false premise that the business opportunity was simply online purchasing of home furnishings. He believed the underlying opportunity was to offer to a select audience high-quality products that were differentiated from those of other suppliers, and to get those products to customers quickly. A select audience versus a wide audience, and high-quality furniture versus commodity furniture, were the crucial differences between success and massive failure.

Ultimately, Rob was able to raise money from friends and family and much later got a small infusion of venture capital. At its peak, Design Within Reach was a $180 million public company. It had both retail stores and an e-commerce website. Its brand was well-known and recognized in the design community. Furniture.com? It's been relegated to the dustbin of forgotten failures.

Questions?

1. What was the pain point?
2. What was the MVP?
3. Why did Rob refuse to start e-com business?