

ROOM & BOARD

Room & Board was a privately owned home-furnishings retailer, offering products that combined classic, simple design with exceptional quality. Approximately \$250 million of revenue a year was generated through Room & Board's fully integrated and multichannel sales approach, consisting of its eight national retail stores, an annual catalog, and its Web site. Based in Minneapolis, Minnesota, Room & Board's story was one of contrarian success as a company that had abandoned the standard retail-industry business model, disavowed debt and equity-growth financing, and embraced a unique multiple-stakeholder model that valued quality and relationships ahead of the bottom line while producing stellar financial results. That the company had achieved consistency and harmony between its values and actions also added to its uniqueness. Its culture supported an energized, positive growth environment for its employees that fostered high employee engagement and, in turn, high customer engagement.

Room & Board was wholly owned by John Gabbert, who had created it more than 25 years earlier. Now Gabbert, having reached the age of 60, was confronting his biggest challenge: how to institutionalize the unusual business model, culture, and employee environment he had built. His primary objective was to preserve and protect his "relationship" business model, which was the heart and soul of Room & Board's success.

History

Gabbert grew up working in a family retail business that sold traditional home furnishings, and at the age of 24 succeeded his father as the CEO. Family dynamics proved challenging, so when he was 33, he left the family furniture business to pursue his own business model, initially basing his furniture company on IKEA's business model. He also diversified into other businesses, but by the late 1980s, feeling overextended and unfulfilled, he decided to focus all his energy on building a business with people he liked and on a model that represented quality. All this drew him into the design aspect of the furniture business.

This case was prepared by Edward D. Hess, Professor of Business Administration and Batten Executive-in-Residence. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2008 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. *To order copies, send an e-mail to sales@ardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.*

To Gabbert, quality relationships were just as important as quality home furnishings. This belief had helped shape Room & Board into a business focused on creating long-lasting relationships with customers, vendors, and employees, who were all fully integrated into the model of selling quality furnishings. At Room & Board, quality was also about providing value. That value was inherent in its products, which lasted and whose style and design were timeless—furniture that customers could count on enjoying for many years. But Room & Board went further by believing that a customer's home should be a favorite place where a customer should be able to create a meaningful special environment. This customization was made attractive by offering customers a multitude of special-order products, ranging from fabric choices on throw pillows to customer-designed solid-wood storage pieces.

Supply Chain

The retail-furniture industry was generally controlled by large manufacturers that dictated style, product availability, and price, and that made many products overseas with cheaper labor than could be found in the United States. Room & Board decided early on that it did not want to play that game, so the company created its own supply chain of approximately 40 different vendors, nearly all privately owned family businesses, many having grown alongside Room & Board over the years. Soon, more than 85% of the company's products were made in the United States—in places like Newton, North Carolina; Martinsville, Virginia; Minneapolis, Minnesota; Grand Forks, North Dakota; Shell Lake, Wisconsin; and Albany, Oregon—by craftsmen and artisans using hardwoods, granite, and steel of high quality. Most of these products were made exclusively for Room & Board, and more than 50% of the products were manufactured by 12 of its key vendors. Room & Board met with its vendors frequently to plan growth, discuss needs, and share financials to ensure that everyone was making a fair living while creating high-quality, well-designed products.

These vendor relationships evolved over the years into true partnerships, which allowed Room & Board to set an annual goal of having 85% of its products in stock at all times, contributing to quick deliveries. Special-order products were programmed ahead of normal production with the aim of delivering the product as fast as possible to the customer.

Under this model, Room & Board was more in control of its destiny; it had control over product quality, inventory availability, and the risk of supply-chain disruptions. This unique model carried its own risk, however, as almost all of Room & Board's suppliers were private, family businesses that shared the company's challenge of growing at a rate that sustained their economic health.

Culture

Room & Board had rejected common attributes of private-company culture: hierarchy, command and control from the top, information on a need-to-know basis, and, in the retail industry, high turnover resulting in customer-service challenges. Its culture was based on the principles of trust, respect, relationships, transparency, entrepreneurial ownership of one's job and career, and the importance of a balanced life. Room & Board eschewed rules, lengthy policy manuals, and elitism. Rather, it believed individuals thrived in an environment where they were empowered to make decisions, and everyone's view was heard and respected. These core beliefs were outlined in its *Guiding Principles*, partially based on the following expectation:

At Room & Board we hope you find meaning in your work. There is both tremendous productivity for the company and personal fulfillment for each staff member when someone finds their life's work. It's a wonderful circle of success.

Room & Board tried to achieve this "circle of success" by creating an environment of collaboration and engagement. This engagement was evidenced by deep relationships with customers, fellow employees, and suppliers. Respect for different views, openness to feedback, and responsibility for one's actions all drove the staff's behavior.

What worked for Room & Board as it tried to achieve balance was defined by Gandhi: Harmony exists when what you feel, what you think, and what you do are consistent. Many businesses talked a good game, but Room & Board actually tried to "walk the talk." In this company environment, there was a heightened sensitivity regarding the impact of actions across functions and an awareness of the real message being communicated.

Room & Board believed that success was rooted in shared accountability; therefore, there were no rules for personal leave or sick pay. All 670 employees were shown the company's annual strategy priorities and a complete detailed financial package every month, so everyone could understand the goals and the business. All financial and operating numbers were transparent to encourage responsibility for owning and, in turn, effecting Room & Board's success. In discussing the company's normal eight-hour day, Gabbert stated:

I learned a long time ago that most people only have so many productive hours a day—it is the number of productive hours that count, not the number of hours at work. We strive to have an environment which results in energy and productivity. That is why we have a full physical-fitness facility with classes going on during the workday, a masseuse, as well as a great kitchen for employees to prepare healthy lunches.

Room & Board also operated on the principle that people who have a balanced life, with a life outside work, were happier and dealt well with customers and with each other. Gabbert,

understanding that what set his company apart was its engaged employees, who tried to make every customer experience special, said:

I never wanted to be the biggest. I never thought about size. I just wanted to be the best and to spend my time at work with good people doing something more meaningful than just making money or keeping score.

Employees

The retail industry was generally known for its high employee turnover, with many part-time employees to keep expenditures on employee benefits low and commission-based compensation to lower fixed costs. But Room & Board was proof that a very profitable, quality business could be built by not following any of those common retail practices.

Instead, Room & Board had very low employee turnover, mostly full-time employees, and full benefits for part-time employees, and paid its retail sales staff on a salary basis rather than on individual sales. The rejection of a commission-based structure, together with its integrated and multichannel purchasing options, allowed Room & Board customers to shop and purchase in the manner that made the most sense to them. “We want customers to rely on us for the best advice and to trust that we have their best interests in mind—sales commissions run against that type of trust,” said Gabbert. Room & Board employed over 670 staff members, as shown in **Table 1**.

Table 1. Room & Board staff divisions.

Type	Number
Store personnel	237
Delivery personnel	220
Store and delivery leadership team	62
Central office staff	100

Room & Board stores more than five years old had average employee tenure of over five years, which was very high for the retail industry. Delivery and warehouse personnel in delivery centers open for more than four years had an average tenure of five years. Employee tenure was 5.7 years for the central office, and total employee tenure for the company averaged nearly five years.

Room & Board also took a different approach to measuring employee satisfaction: by tracking how many employees referred family and friends for jobs and how many employees

participated in the company's 401(k) program. Room & Board believed that these measures truly contributed to long-term employee engagement. Following the philosophy that employees needed good physical, mental, and financial health, Room & Board offered an extensive physical-fitness facility, a healthy-lunch program, and personal financial-planning services and 401(k) investment advice from an outside financial consulting firm at no cost. In addition, all employees could buy Room & Board products at a substantial discount.

Leadership Team

Room & Board was led by a six-member advisory board made up of John Gabbert and the members shown in **Table 2**. The leadership team was incentivized by a generous bonus program if key company objectives were met.

Table 2. Leadership team members.

Member	Title	Tenure
Bruce Champeau	Vice President of Distribution, Delivery/Technology	16 years
Kimberly Ruthenbeck	Vice President of Retail Customer Experience & Vendor Management	15 years
Mark Miller	Chief Financial Officer	11 years
Betsey Kershaw	Director of Brand Experience	5 years
Nancy McGough	Director of Human Resources	16 years

Key Expectations for Employees and Leaders

Room & Board's *Guiding Principles* was the foundation for the company's expectations and also served as a tool to help employees understand their connection to the business. The document, which spoke primarily to respect, individual accountability, and engaging the business, included the following statements:

- Respect is foundational to our work environment. Everyone is expected to build relationships based upon mutual respect and collaboration.
- Use good judgment when making decisions and apply principle, not rules, to each situation.

- The more you seek to understand how your role is related to our business objectives and tied to the broader success of the company, the more rewarding, enjoyable, and challenging the effort.

Just as all employees were expected to understand and embrace the core beliefs outlined in *Guiding Principles*, leaders were expected to adhere to their own additional roadmap. Room & Board set forth a number of leadership objectives for its central office, store, and delivery/distribution leadership team, including the following:

- You take ownership for your business—you're independent and therefore do not wait to be told what to do.
- You lead less with rules and rely more on principles.
- You value building relationships; collaboration is much more important to you than competition.
- You appreciate and desire longevity within your role. You do not seek to move from location to location or from department to department to get ahead; your growth occurs from richer experiences within your current role.

Financial Results

The Skokie, Illinois, store opened in 1986; the Edina, Minnesota, store in April 1989; the Denver, Colorado, store in 1991; and the Chicago, Illinois, store in 1993. See **Exhibits 1** and **2** for more information.

Delivery Centers

Another point of differentiation from other retailers was Room & Board's philosophy regarding deliveries. Many furniture chains outsourced their deliveries. Room & Board did not, operating its own delivery centers staffed by full-time Room & Board professionals. These teams delivered all the local products. For national deliveries, Room & Board had an exclusive relationship with a Minneapolis company. To ensure ongoing collaboration, a few employees from the national shipping company's office worked out of Room & Board's central location.

In addition, the company had dedicated delivery teams for just Room & Board products. It was not unusual for customers to assume that these delivery professionals were Room & Board employees, not just because of their Room & Board uniforms, but also because they adhered to the same principles that all Room & Board employees followed: namely, that the customer experience during every step of the process was hassle-free and treated as an opportunity to

create long-lasting relationships. The individuals who had the last interaction with customers about purchases were viewed as brand ambassadors and acted as such.

Room & Board's goal of providing a great customer experience at every step of the buying-and-receiving process required delivery personnel to deliver and set up the product and leave the customer happy. Delivery times were scheduled to allow time for customer interaction, discussions, and the proper placement of the new purchases. If there was a problem, delivery personnel were empowered to solve it on the spot because they were trained to "leave the customer in a good place." The focus on interaction with the customer, from the beginning of the experience to the end, drove customer satisfaction, in terms of loyalty and referrals, to a rate of more than 95%.

Real Estate

To avoid the high rent typical in retail malls, Room & Board owned most of its locations, and searched out freestanding sites with ample parking and easy access for customers. The company often chose to renovate an existing location, blending its store in with a particular environment rather than building a new one. This practice served as inspiration to customers who dealt with similar challenges when designing and furnishing their own spaces. Moreover, it prevented Room & Board from adopting a "cookie cutter" image for its stores and fostered the company's philosophy of unique design. The central-office facility was furnished with Room & Board products, so even employees who were not in customer-facing roles understood what the company sold, its quality, and its lasting design.

Pricing Model

Room & Board's pricing model was simple: no sales, no volume discounts, and no discounts for interior designers. Everyone paid the same price. As John Gabbert put it:

Nothing makes me madder than to buy something and then see it go on sale. I feel taken advantage of. That is why we have no sales, and we guarantee all prices for a year after purchase for each calendar year. If we sell a product within a year of your purchase for less than you paid, we will refund the difference.

Competition

Direct comparison with other retailers was impossible to make because Room & Board's exclusive designs, corporate structure, and long-lasting heirloom-quality products were not paralleled by any other company. Ultimately, Room & Board was competing for any of the

dollars that customers spent on their homes no matter what the other retailer sold. Design Within Reach and Crate and Barrel were two companies that carried similar modern home furnishings and midcentury products.

Design Within Reach was a public company. In fiscal 2006, it had \$110 million in sales through its 63 stores, which ranged in size from 1,100 square feet to 11,000 square feet. Although Room & Board stores were fewer in number, they were much bigger, at 30,000 square feet to 45,000 square feet.

Crate and Barrel had grown from a small, Chicago family business, started in 1962, to a chain of over 160 mall-based stores owned by the private German company Otto, which also owned Spiegel and Eddie Bauer. Over 50% of Crate and Barrel products were imported from Europe.

Conclusion

Room & Board had achieved the enviable market position of managing its growth and avoiding the capital-market pressures produced by debt financing and equity partners or by being a public company. It had built a loyal and highly engaged work force dedicated to its way of doing things, and managed to be a model of productivity and engagement without sacrificing quality. The company did not strive for the lowest operational costs, but instead embraced a vertically integrated business model and earned good net margins.

The beauty of the Room & Board success story was how it had created a consistent, seamless, self-reinforcing system that cut across culture, structure, execution philosophy, employee hiring, and benefits. The result was a company with a high-performance environment that manufactured 85% of its products in the United States, paid its people well, sold quality products, and made good profits.

Room & Board had adhered to a multiple-stakeholder philosophy of capitalism, much like the European model and less like the sole-stakeholder model more common in the United States. It believed it would do well if its customers, employees, and suppliers did well. To create shareholder value had not been Room & Board's sole purpose. But now the company was looking at expanding—into Los Angeles, Seattle, Atlanta, Miami, and Washington, D.C.—but at its own pace and on its own terms. Room & Board's task was figuring out how to institutionalize its way of doing business beyond the life of its founder and how to strengthen its culture and high employee and customer engagement, while growing at a rate that sustained its economic health.

Exhibit 1
ROOM & BOARD
Financial Results

Year	Sales (in millions)	New-Store Openings
1995	\$33	
1996	45	
1997	53	Oakbrook, IL
1998	67	
1999	82	
2000	98	
2001	92	
2002	95	South Coast, CA
2003	110	
2004	132	New York, NY; downtown Chicago store moves to Rush & Ohio location
2005	173	San Francisco, CA
2006	208	
2007	\$229	

Source: Room & Board.

Exhibit 2
ROOM & BOARD
Financial Results

Key Metrics	Goals
Sales growth	10% annually
Net profit	8% pretax
Customer satisfaction	>96%
Product in warehouse at time of sale	>85%
Vendor lead time	<7 weeks
Channels of Distribution	Approximate Breakdown
Store sales	70%
Phone sales	12%
Web sales	18%
Markets	(\$ in millions)
Colorado	\$18
Minneapolis	\$24
Chicago	\$44
San Francisco	\$33
Southern California	\$23
New York City	\$46
National sales	\$42
Main Product Lines	
Sofas and chairs	36%
Bedroom	17%
Dining room	12%

Source: Room & Board.