
Crown Point Cabinetry

Introduction

It was 2002 and Brian Stowell, CEO of Crown Point Cabinetry, was reflecting on the incredible change he had seen in his nine years of leadership at the small manufacturing company. Located in rural Claremont, New Hampshire, Crown Point supplied high-end custom kitchen cabinets to customers throughout the United States. The company was a respected and desirable employer in its small community, boasting an inspired and motivated workforce. It had earned the trust of thousands of customers nationwide. But it wasn't always that way.

Industry

The U.S. cabinet industry was highly fragmented, with more than 5,000 manufacturers supplying stock, semi-custom, and custom cabinets¹ through multiple distribution channels. In 1998 the largest manufacturer held 15 percent of the market, while the second largest held just 7 percent. Over half the manufacturers employed fewer than 10 people.

Demand for cabinets followed residential construction industry trends. Distributors and dealers each represented about 30 percent of manufacturers' cabinet purchases, while home centers and builders shared the remainder evenly. Less than 1 percent of cabinets were purchased direct from manufacturers. As big-box home improvement retailers emerged in the '90s, the trend toward stock cabinets strengthened while the custom share of the market weakened, from 26 percent in 1989 to less than 15 percent by 1999.²

¹ Stock cabinets, typically sold by large home-center retailers, are pre-designed, often unassembled cabinets that come in specific widths and heights, with minimal optional features. Custom cabinets are "one off," designed specifically for a particular customer, with no restrictions on features or sizes. Semi-custom are a hybrid of the two, with standard widths and heights and variable features and design options.

² Figures are quoted for unit sales. Dollar market share for custom cabinets has declined from 31 percent in 1990 to 26 percent in 1999.

This case was written by David Vanderschee T'02 under the supervision of Professor Vijay Govindarajan and Julie Lang T'93 of the Tuck School of Business at Dartmouth College. The case was based on research sponsored by the William F. Ahtmeier Center for Global Leadership. It was written for class discussion and not to illustrate effective or ineffective management practices.

© 2002 Trustees of Dartmouth College. All rights reserved.

To order additional copies please call: 603-646-0898

Crown Point, at 85 employees, was a relatively large manufacturer, although some cabinet-making firms employed upwards of 1,000 people. Crown Point made custom cabinets and, with an average sale in 2001 running over \$25,000 for a kitchen cabinet set, competed in the high end of the cabinet-making market.

History

Norm Stowell founded the business in 1979, producing the first cabinets in his garage. Embracing principles of quality and service, by 1992 Norm had grown the business to more than 100 employees, which included all seven of his children. While revenues were growing substantially, the bottom line was suffering. Brian Stowell, one of the Stowell offspring involved in the company, managed sales in 1992 but took a special interest in running the business. With the agreement of his siblings and his father, Brian assumed the lead executive role in 1993.

Crown Point's Products and Production Process

Crown Point manufactured cabinets in its 33,000 square foot facility (about half the size of a soccer field). The facility was small by light-manufacturing plant standards, as evidenced by cramped work-in-process and finished inventory. Each kitchen cabinet, available in a variety of styles, woods, and finishes, was custom designed to exacting customer specifications. The design was transferred to the production floor where raw material (mainly maple, oak, pine, and other woods) was cut to make cabinet frames, doors, and boxes. Work was separated by task on the floor. Each piece was hand sanded and finished with stains or specialty paints. The final product was assembled, blanket wrapped, and shipped via furniture truck. Order to delivery generally took 14 to 20 weeks, with lead time (time to get the sale into production) consuming most of that period. The actual manufacturing time typically was 10 days. Although investments had been made in new cutting and finishing equipment, the dedication to handcrafting every part of each cabinet made the workers' interaction with the wood an ongoing critical part of making a Crown Point cabinet.

A Change in Philosophy

Crown Point's environment was similar to that at many small manufacturing shops. Growing sales, a dedicated management group, and a satisfied dealer network had not translated into healthy financial performance. Some employees were loyal, but a large number of jobs opened up four or more times each year, yielding an average annual employee turnover of 300 percent. Many individuals described management/employee relations as "horrible." One employee recalls "the managers used to have a real attitude, like they were on a power trip. They would stand over our shoulders trying to make sure everything was right. And when it wasn't, they were sure to tell you about it."

Absenteeism was rampant. Management's reaction to this problem, and to many other problems, was to wield a heavy hand. Administrators enacted a policy of denying holiday pay for anyone who called in sick before or after a holiday weekend. It seemed to have little effect.

The most significant problem, however, was poor in-process quality control.³ As Brian recollects, "While our finished quality was great, we were building a cabinet three or four times before it got out of the shop." Early in 1993 Brian decided to experiment with a different approach.

A New Attitude

Standing atop a table on the shop floor, Brian called a meeting of the company to lay out his vision.

"Starting today," he said, "things are going to change. Right now we are wasting tremendous money on rework and wasted materials. I don't want that money going out the door; I would rather give it to you. People are leaving here with no retirement benefits. It breaks my heart to see this happening. I want to be able to afford to give people these things. From now on, if you don't care about first-time quality, there won't be a job for you. If you do care, you'll always have a job here."

He continued on a second theme: "Today this place isn't a particularly desirable place to work. My vision is that one day people will say to you, 'You work at Crown Point? Wow, I'd love to get in there.'"

Employees were skeptical but Brian asked them to trust him. As a goodwill gesture, he decided the company would provide donuts and coffee every morning for breakfast, although it couldn't really afford the expense. The announcement of change introduced a period of restructuring and painful transition. Management critically evaluated employees based on their quality of workmanship and cut the payroll from 76 to 53 people by 1994. During that period, unit and dollar sales increased.

Team-Based Management

Unlike most of the management team at Crown Point, Brian Stowell's wife, Becky, had experience in other business settings. As a family member and shareholder, she was privy to many of the struggles Crown Point faced. Foremost among these struggles were the restructuring decisions management was making. Deciding which

³ In-process quality control is defined as the monitoring and control of quality during the production cycle. Finished quality refers to the quality of the finished product.

employees were the source of quality problems was challenging and politically charged. Twelve months after Brian's speech, Becky offered a simple yet radical solution: get rid of the management layers and let employees decide who among their peers was worth keeping. She advocated a team-based management approach that empowered employees with personnel and management decision-making responsibility. The philosophy was adopted, and eight production line managers were placed in work teams alongside the employees they formerly supervised. Some managers quit rather than be "demoted." Others adapted effortlessly. Still others tried but were unable to work under the new system.

The production departments were converted into teams consisting of up to 12 people. Meetings were held daily to facilitate communication, air grievances, suggest work improvements, and schedule production. A pattern quickly developed wherein two or three individuals would dominate discussion while the rest remained silent. To combat this problem, all employees were offered communication training and teams were broken into smaller groups.

By 1994 teams had designed co-worker review sheets, or "scorecards." These were used to evaluate team member performance and recommend salary increases up to a maximum percentage set by management. The scorecard, which has remained unchanged since its inception, was intentionally subjective in nature. Varying levels of scorecard detail were offered by employees but one thing seemed constant: many employees received repeated criticism, but very few were denied the maximum salary increase. The result was that almost all employees received the same (maximum) percentage increase.

Since their inception, teams have been vested with the power to hire and fire teammates. The head of human resources first interviews candidates for a team opening. Recommended candidates are then interviewed by the team. Over 75 percent of candidates that HR passes have been rejected subsequently by the team.

Gainsharing

In 1997 Crown Point instituted an incentive system designed to reduce labor costs. Labor typically constitutes 25 percent of costs for a cabinet manufacturer. Brian and Becky⁴ proposed sharing labor cost savings with employees through a program termed gainsharing. The system worked as follows:

1. Brian multiplied sales figures for each month by a set percentage, based on a reasonable estimate of what the company could afford to pay for labor. This figure was used to determine a maximum bonus pool.

⁴ Becky Stowell, Brian's wife, became a full-time employee in 1994 and vice president of Crown Point in 2001.

-
2. From this figure, actual labor costs for regular hours, overtime labor costs, and a holidays/vacation budget were subtracted.
 3. The remaining funds were distributed evenly each month as a percentage among employees, based on wages earned.
 4. Each month was started anew regardless of the previous month's performance. Every Monday afternoon, a meeting was held to go over, among other things, the results to date for gainsharing bonuses. Over 95 percent of the time since their inception, gainsharing bonuses have been paid out, averaging 11–20 percent of annual compensation from 1997 to 2001.

An undesired result of the gainsharing system was animosity toward individuals who worked overtime. Since gainsharing was based on total company performance and payout was tied to wages earned, individuals who worked overtime received a disproportionate share of the gainsharing bonus. Attrition seemed to take care of the problem as individuals who needed to work overtime (due to consistently unfinished work) were eventually counseled out by other members of their team.

Backorder Penalty/Reward System

Crown Point prided itself on on-time and complete delivery. Orders that left the shop incomplete were identified as “backorders.” A backorder required further shipment of missing parts and field installation of those parts. As gainsharing bonuses were paid, the number of backorders seemed to increase. Brian repeatedly pointed out the long-term impact backorders had on the business. He explained that because the business was so dependent on satisfied customers and word-of-mouth advertising, it was critical that every order be received complete and on time. The speeches didn't seem to help.

Beginning in 1998, a \$250 penalty was applied to the gainsharing pool for every backorder experienced. No impact was noticed, so the penalty was increased to \$500. Again there was no measurable impact. Finally, in 1999 the penalty was increased to \$1,000 and a lunch was promised for every employee for every week in which no backorders occurred. The frequency of backorders declined noticeably. Workers cheered when a week passed without a backorder, and lunches were soon being served nearly every Thursday. Not everyone was happy, though, particularly front office personnel who had the added task of arranging lunch for 85 people every week. And some people wondered whether the \$500 weekly lunch bill was justifiable.

Wage Increases

Gainsharing bonuses approached 20 percent in the first year of implementation. The following year, 1998, Brian and Becky decided to raise wages. They rationalized that employees were better able to secure loans and plan/pay for items when they could

count on a secure salary. Wages were raised again 14 months later—in 2000—and again in 2001. These wage increases had the effect of keeping gainsharing bonuses contained at less than 25 percent on an annual basis. Employees, predictably, were delighted at the increases although some feared the increased labor rates would ultimately result in job losses. Brian assured them that the extra money was a direct result of continued labor savings due to increased productivity and that job security was still a priority.

Safety

A safety program was instituted under Norm Stowell's stewardship. In 1994 a safety team was established under the direction of Becky Stowell and Jeff Stowell, Brian's brother. The team wrote rules and guidelines for work, and employees were empowered to remove others from the shop floor for safety violations. The safety team determined penalties, including dismissal, for violators. Everyone was subject to the same rules; even the founder and president was "retrained" on safety standards. Serving on the safety team became a necessary but sometimes unenviable part of working at Crown Point as team members sometimes agonized over decisions to fire friends who violated safety rules.

Crown Point has long been a part of a self-funded, self-managed workers compensation trust made up of a select group of small manufacturers. The group administers workers compensation insurance with the state of New Hampshire. Inclusion in the group requires an impeccable safety record and commitment to safe work practices. As a tribute to Crown Point's safety record, the company today enjoys the lowest experience mods⁵ within this group. As late as 1992, Crown Point's experience mod was 40 percent above state average. By 2001 it had dropped to 32 percent *below* state average.

Community Citizenship

Crown Point considers community citizenship an important part of doing business. In 2001 Crown Point won the Claremont Chamber of Commerce's first annual Company of the Year award. This award was based on quality and quantity of nominations received from community citizens. Many of the nominations for Crown Point received by the chamber reportedly were from Crown Point employees.

In 2002 a committee of Crown Point employees was formed to collect funds from employees, matched by the company, for distribution to community initiatives. The

⁵ An "experience mod" is a number indicating the multiple at which a firm is above or below the state average for workers compensation insurance. Experience mods are based on both frequency and severity of worker injury claims. The state average firm has an experience mod of 1.

company receives numerous requests to receive awards or recognition for community sponsorships. Employees on the citizenship committee take turns accepting these awards on behalf of the company.

Communication

Largely as a result of the team-based structure, communication in the company has flourished. Brian introduced an open-door policy, toured the shop regularly, came to know all employees by name, and participated in many of the daily production team meetings. (Production teams met three times a day to review production and quality progress.) Employees have used their freedom to approach Brian with their concerns. The weekly shop-wide meetings are used to communicate financial performance, safety information, and general company announcements. Some of Brian's community business colleagues marvel at the openness of information shared, much of which they consider proprietary, noting they would "never let [their] employees know how much money [they're] making or spending on labor."

Crown Point has not been plagued by many of the disputes common among family-owned businesses. Communication among family members has always been good. Brian notes that even though many of the changes he instituted were not supported by his father, Norm chose to take a hands-off approach and gave Brian and Becky the freedom to succeed or fail.

Other

Crown Point has added numerous other benefits for employees since 1993. A 401K retirement plan was implemented in 1996. Initially, the company paid the plan's administrative costs but did not match employee donations. By 2001 it was matching contributions to 50 percent of employee donations, up to a maximum of 10 percent of a worker's salary. Ninety-five percent of employees participate in the retirement plan—about 20 percent greater than average for plans of its type. Annual company picnics, a box suite at a nearby urban sports arena, a company-sponsored downhill skiing program, a soft ice cream maker and popcorn popper in the lunchroom, and continued and expanded daily breakfasts are examples of the some of the perquisites reserved exclusively for employees.

Sales and Marketing

Until 1993 Crown Point, like most other custom cabinet manufacturers, used an extensive dealer network (76 in total) to sell its cabinets. Direct sales accounted for less than 25 percent of sales in 1994, rose to 50 percent in 1998, and reached 95 percent in 2001. The reason for the transition was simple. Brian felt the 30 percent

margin captured by dealers could be better used internally to fund an in-house design/sales team and increased advertising. The design team received calls from potential customers, solicited business from design professionals and contractors, prepared quotations, and closed sales. The team grew from 1 to 13 people and was compensated one-third base pay and two-thirds commission. Crown Point's marketing budget grew more than fourfold from 1994 to 2001, with much of the increased expenditure allocated to trade journal advertising. A 2002 show of the nationally syndicated home improvement television program *Bob Vila's Home Again* highlighted Crown Point's factory and quality workmanship as part of a Vermont home renovation project, bringing invaluable attention to the company

Results

It would appear that the goals Brian laid out in his 1993 speech have been achieved. In-process quality has improved dramatically, allowing for significant productivity gains and materials savings. The attitude at the plant is telling. One of the employees echoed the feeling of many there: "I do quality work because that's what the customer wants," he said. "The Stowell family has done so much for me, I want to do more for them." A local Claremont resident confided that many in the town wish they could work at Crown Point because, as he noted, "they treat their help real well." Another employee stated, "People are impressed when they find out I work for Crown Point."

The financial results have been solid. Sales more than tripled between 1993 and 2001. Gross margin as a percent of sales increased 6 percent and is over 15 percent better than the U.S. average for cabinetwork plants. Net margin moved from breakeven to over 10 percent. And all this occurred while base wage rates (including gainsharing) increased 2.5 fold.

Even more remarkable, employee turnover has been reduced to near zero, absenteeism is negligible, and management employee relations are at an all-time high. As praise poured in from customers, the community, and the employees, Brian wondered what it was that turned it all around. Could something have been done differently? Were there other ways to get these results? Could the Crown Point experience be transferred to other business settings? Finally, noting that increasing competition from local cabinetmakers was a threat to the business, he wondered how Crown Point could extract further productivity gains from an already inspired workforce.