

FERRER FURNITURE⁽¹⁾

At 8 am on 26 November 2008, Jaime Ferrer and his brothers and sister had a third business meeting with Eduardo Jiménez to discuss the company's financial situation, which had prompted them to seek external advice. The devastating economic crisis had triggered a steep decline in sales in both the company and the entire furniture sector, and delays in payments to suppliers had become a major concern. After 2007, when total group company recorded revenues of 15 million euros (5 or 6 years ago the figure was less than 5 million) and profits of around 500,000 euros, with surplus cash, it seemed inexplicable that the company could be in such a perilous situation in late 2008. After recent efforts to "sort out its accounts", it seemed they were in a better position to take decisions. The situation was so desperate that they could not delay confirmation of the diagnosis a single day, as discussed at the last meeting, in order to finalise an action plan and its urgent implementation by taking the necessary measures. A long day of work lie ahead of them.

BACKGROUND

Jose María Ferrer was born in 1933 into a very humble family in a small rural town in the province of Teruel. He only went to school for 5 years because he had to start working in the fields. He was 11 years' old at the time. Three years later, his family moved to Valencia to start a new life. He held various jobs before he was able to start working with his father in a fruit store in the evenings, and selling electrical appliances and furniture with a "dita"⁽²⁾ (type of payment guarantee) in the afternoons.

⁽¹⁾ Case from the Research Division of Instituto Internacional San Telmo, Spain. Written by Professor Esteban Jiménez Planas, as a background document for discussion and not as an illustration of the effective management of a particular situation.

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⁽²⁾ Traditional type of credit sale under which the product served as a guarantee of payment.

Eventually, he managed to sell mattresses and beds produced by a manufacturer in Zaragoza, from where he transported the products in a van on weekends. In the 1960s, he set up his own “bedroom furniture” factory and went on to sell his products in many provinces through representatives working on commission.

In the mid-80’s he created a “furniture hypermarket” called Muebles Paterna, selling standard furniture products. The hypermarket was located in a warehouse near the factory on the outskirts of Valencia on the exit road to Paterna, in an area that developed into an important shopping zone in the following years.

Both the factory and Muebles Paterna were very good businesses for many years and allowed José María to accumulate substantial wealth (see Annex 1).

However, with time customers began to demand something different. Muebles Paterna was quickly falling out of step in terms of both its products and sales methods. Store chains were becoming more and more fashionable in all products and sectors: food, clothing, accessories and also furniture. Brands gave consumers confidence. Customers did not want to buy furniture in a “poor” place any longer. Aware of these changes, Jose María accepted an offer from a furniture franchiser who had contacted one of his sons. Thus, in mid 2004, they opened a new franchise store with the furniture brand “Hogar XXI”.

Each business had different customers: Muebles Paterna’s customers were aged between 35 and 60 years, while Hogar XXI attracted customers in the 25 to 45 age bracket, with higher purchasing power and who were not afraid of going into debt to finance their purchases but demanded better delivery and assembly service and stores with a more modern image and greater “marketing” support. Hogar XXI’s sales were almost always on order and the showroom was only used to display its products. Hogar XXI’s opening was providential because, although Muebles Paterna’s traditional business remained profitable, the factory’s deficit was increasing.

In 2005, a new franchise – Supermobel – was opened with 1,500 m² of space and selling different models. It was aimed at medium to medium-to-low-income customers (including the new immigrant population), with more austere shops located in industrial estates, aggressive marketing on radio and through brochures, affordable prices and showcased products aimed at convincing a high percentage of customers to purchase the products on display.

In 2006, José María Ferrer, the founder of the business, now retired, suffered a serious illness that forced him to leave the business once and for all. As a result, his children had to assume full responsibility for making decisions. All five of Ferrer’s siblings had worked in the group from an early age.

After the commercial success of the first Supermobel store, the franchiser announced its intention to open a second store in Valencia. To prevent the entry of competitors, Jaime and his brothers and sister decided to endorse a second store in the franchise. In late 2007, they rented 2,100 m² of empty premises in a good location and invested

more than 300,000 euros adapting the premises and paying 7 euros/m² per month in rent.

In the summer of 2007, while the Spanish economy was showing signs of exhaustion, the international financial crisis began. For many years, economic growth, especially in the housing sector, had led to many years of prosperity in the furniture industry, but the housing sector stagnated rapidly. According to some, the economy had started to slow down, while others believed that the economy was already in a serious crisis⁽³⁾. (see Annex 2 for an extract from the quarterly analysis of the economic situation and the furniture industry in June 2008).

By mid 2008, the Ferrer family had to make a tough decision, namely to close the factory. Their father had always opposed closing the factory. At one meeting, he banged his fist on the table and exclaimed *“while I am here, the factory will not close”*. However, losses continued to accumulate and, although they remembered their father’s declaration very clearly, they instructed their legal advisors to file voluntary bankruptcy proceedings. They spoke with their creditors and banks to ensure their decision did not affect the other companies; they planned to close the factory and lay off the remaining 14 workers.

THE GROUP IN 2008

At year-end 2007, the Ferrer Furniture group⁽⁴⁾ reported revenues of 14.6 million euros and 500,000 euros in profits (see Annex 3 for a summary of the 2007 P&L account).

The group was formed by nine companies encompassing all the different business lines (see Annex 4). All property (see Annex 1) belonged to the group’s holding company.

Although the group once had as many as 100 employees, including those at the factory, in the summer of 2008 this number had decreased to 68, with most working in sales and customer services. (See table in Annex 5). Thanks to preventive measures taken by the founder, as well as the fact that the workers were distributed among different companies and workplaces, there had never been any trade union representation or labour disputes.

Three of the five Ferrer siblings belonged to the board of directors: Antonio was head of Sales; Alicia was responsible for Finance and Administration; and Jaime was in charge of Operations. They were committed to the company and worked long hours, and were extremely sensitive to customer services issues.

⁽³⁾ The Spanish General Election took place on 9 March 2008. The word “crisis” was not mentioned by the economic authorities.

⁽⁴⁾ From a legal standpoint, there is no “group” of companies as such. Here, the term “group” is used to refer to all the companies.