

# The Montana Project

## Part 13: The Final Chapter... And A New Beginning

*Editor's Note: In September 2002, the first installment of The Montana Project appeared in PFM. In the interest of seeing if business principles that work in a metropolitan market would work in a rural location, Derek and Christine Vandenberg, owners of Frame of Reference, in Bigfork, MT, began collaborating with Jay Goltz, owner of Artists' Frame Service in Chicago, IL. Now, a year later, in this last installment of the project, Derek and Christine write about what they've learned, what they've changed, and what remains the same in their business approach. Thanks to Derek, Christine, and Jay for participating in this series...*

### From Derek and Christine: Reflections of Two Montana Framers

So here we are, 18 months after The Montana Project was originally conceived, and just over a year into its implementation. We have made some remarkable progress in the way that we think about our business, and we believe that we're well on our way to meeting the goals of the project. Those of you who have followed this entire series will remember that our original goal, as outlined by Jay, was to grow our business to double its current sales volume, and to increase our net income threefold over the next three years. Obviously, it's too soon to say if we'll get there, but there's no doubt that we have a much more realistic chance of this thanks to Jay's guidance and encouragement these past months. Although it's a tired cliché, we have truly learned over the last year to work smarter, not harder, and that has definitely pushed us down the road to success.

One of the big lessons we learned relates to inventory management. We have grown to realize that our buying patterns were not particularly efficient, and that this cut out some of our profit on materials. Back in October 2002, we talked about buying box quantities of length moulding. While our storage situation simply does not allow us to warehouse thousands of feet of stock, we *have* taken advantage of box quantities for a



Derek and Christine Vandenberg, owners of Frame of Reference

handful of larger production jobs, generating not only exceptional profit on those jobs, but also allowing us to have some decent moulding on hand for those emergencies that always seem to arise.

The key to buying moulding for stock, however, is only to buy quantities of items that you're certain you can sell; that lovely formal gold that we bought a couple

hundred feet of two years ago because it was 75% off—it's still upstairs, taking up space. Bargain hunters have to remember that moulding companies usually discontinue stuff and offer it at huge discounts for a reason; nobody else bought it, either!

As we discussed last month, we have started to do a better job tracking all of our purchases, and we're spending our money with the suppliers that make our dollars go the furthest, rather than buying based upon the convenience of a delivery schedule. We've also taken down corner samples from a few companies in the interest of ganging orders together to save on shipping—the ones to go right away were those from the companies that cause problems. After all, it doesn't matter how cool a moulding is if it's always coming in damaged, or is never in stock. Cool samples will always be on our walls for their advertising value, but we're pulling from a slightly narrower selection now.

While these are small alterations to our operation,

we expect that they'll generate a decent return; for every \$100,000 of annual revenue, a 2% savings on materials is worth \$600 (assuming that material costs are 30% of gross sales). As our business grows and our buying becomes even more savvy, that means a couple thousand extra dollars straight into our pockets every year!

On a similar note, we are buying shorter quantities on the artwork we sell and are taking advantage of the extended terms that some of our artists give us. This means that we are often able to turn our inventory even before we've paid for it. However, we've also expanded our photo frame and album offerings over the last year, and are carrying much more inventory on the books in those categories. Thus, the money we're "saving" on artwork has just been reinvested in the business. Still, long-term profitability is likely to increase because of this.

We have spent a great deal of time these last several months working on the efficiency of our production, and have made some fantastic progress in that area. We cannot say enough about the Wizard [computerized mat cutter]—even the smallest shops should not be without a CMC at this point, if not for the speed of operation, then for the incredible flexibility these tools allow in matcutting. (*Editor's Note: Last fall, Derek and Christine began renting a CMC for their shop.*) We're now doing things we would never have attempted, like logos and letter mats, and Derek gets a charge every time he completes a multiple opening mat, simply because it's so

quick and easy. The Wizard has helped us clean up the shop a bit, too, because we'll often cut "tester" mats from scraps lying around, just to ensure that the opening is correct on those odd pieces; this is an invaluable technique on multi-opening projects.

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We have also talked about larger saws, a new wallcutter, and a silent compressor as things we'd like to acquire. As a matter of fact, as profits increase, Derek is compelled to spend the money on tools. We'll come back to that, because it plays into a larger goal that we've just recently realized.

We're smarter about advertising. We're doing more color placements in print, and we've worked on honing our message—in fact, it's turned into two messages, because running a frame shop and selling fine art is in essence running two separate businesses. We promote our custom framing in some venues, and we promote artwork in others, targeting towards specific clients in each case. While many may not

realize it, art and framing sales have very little to do with each other; the customers may occasionally overlap, but only because art collectors often need a good framer. Very seldom is the reverse true—it's a rare framing customer that buys art, in our experience. We do consider ourselves very fortunate to have been able to make the gallery part of our business a success, and there's no doubt that this is tied into the type of community where we live, rather than on our ad campaigns.

Getting back to the ads, we've held off on radio in favor of placing print ads in more upscale publications to reach a larger and more affluent market. Newspapers are fine for framing ads, but art ads work better in quality magazines. We have discussed creating a brochure directed at corporate clients that highlights framing and installation services, and this will probably be our next big step in advertising. We did develop a logo and letterhead that we're quite pleased with, and we specifically selected colors and fonts that could be duplicated by a variety of publications, so now our ads are starting to have a consistent look, something we'd not been good at until just recently.

So, of course, the question on everyone's mind is, are we going to make it? Can we really double our business and triple our income in three years? Well, yes and no. What we have learned over the last year is that there are two things that are limiting our growth. One is, of course, us! We're stubborn, and we're idealistic, and we want to have a business that pleases us, not just one that makes us a

comfortable living.

In truth, we could overhaul our moulding choices, cutting down to just two or three vendors who we could then try to get a bigger discount from for giving them more of our business. We could start stocking a lot more moulding, buying box quantities, and saving even more. We could jump on the next Beanie Baby type craze, and put in a couple of items each year that the tourists would devour, even if we hated the sight of them. Our profit would skyrocket, and we'd both be tired of the whole thing in just a few years.

One of the joys of this business is the constant flux in what we're doing for our clients at any given time; our offerings change, and our "look" changes, and folks who've been framing with us for five years now still come in and are wowed by what we're doing today. We love that, we think our clients definitely recognize that we love what we do, and we're willing to sacrifice profits to keep that ideal. One change we certainly will make is the addition of some hired help next year; we simply cannot hope to get much larger and still do everything ourselves. We need a life, in addition to a successful vocation.

The other thing that will keep us from meeting our goal is geography. In a town of 3,500, you simply cannot generate \$500,000 annually framing pictures. We are bucking the trend by stretching our sphere of influence to encompass the entire Flathead Valley; people will often travel 80 miles roundtrip to have us frame for them, and we're often delivering

things as we run errands in Kalispell, or when we travel to Whitefish to have dinner with Derek's parents.

And yet, we know that framing alone isn't going to carry us long-term. Because of that, we're going to work on expanding our art gallery. The price range of the artwork we show has jumped steeply over the past three or four

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years; where we once showed framed prints on the wall in the \$200 to \$600 range, we're now showing 90% original artwork, and most pieces currently on display are in the \$1,500 to \$5,000 range. We're thrilled that we can successfully sell fine art of this type, and we've developed a very loyal following. Still, we know that the sub-\$500 customer is still out there, and we could move a lot more artwork, particularly to the summer visitors, if we only had a place to display it. We believe that the volume we could do in this price point could generate some substantial revenue, so long as these pieces did not displace the

higher-end offerings.

And so there it is—the Big Goal that is the culmination of The Montana Project. We're on our way to meeting the goals that Jay helped us establish, but we want to be physically bigger, because we see that as the smartest and most logical path to becoming more profitable. Bigger means more room to display artwork for sale, and also, for the first time, room to do displays specifically targeted to the custom framing client. Bigger means more efficient layout in the production shop, more storage for moulding, more room for the new saws, a place to put the compressor so that you don't have to move every time you're on the phone and the beast cycles. Bigger means more room to put employees, rather than facing the thought of bumping into each other each time you try to get from one place to another.

We're looking at the numbers now, thinking about just how much we'd have to increase sales in order to justify a rent increase, or perhaps even a mortgage. Real estate is nearly nonexistent in this little three block stretch of Electric Avenue where we know we have to stay to be successful, so we're putting feelers out to see if we've got even a chance at anything.

We sort of anticipated an emotional letdown at the end of The Montana Project. We both wondered if we'd still endeavor to grow once the public scrutiny ended, or if we'd settle into a routine of striving to be adequate, rather than exceptional, now that nobody's watching over us. In truth, we have both grown up a lot over the past several months,

and the biggest lesson we've learned is to stop always thinking about the short-term in favor of mapping out long-term goals.

Derek doesn't worry about our business debt anymore, because he's come to realize that debt is the means to an end for any business. Christine has discovered how healthy it is to focus on the direction your business is going (rather

than just completing the day's tasks), and that a business plan has to be more than a tool that you use to get money from banks (only to put it on a shelf once the loan has been processed). We're planning, and budgeting, and thinking about paddling in a specific direction, rather than just seeing where the tide will eventually take us. That's the biggest success of The

Montana Project—learning to steer our ship, rather than just clinging to the sides of it. Now that we clearly understand that, the money will come. Thanks, Jay!

### Jay Says:

I am very happy with the progress that has been made over the last year. It has become obvious to me,



*Jay Goltz, owner of Artists' Frame Service*

at least, that Christine and Derek now think things through using business analysis, instead of having an emotional

response to every new thought. In answer to the BIG question, "Will big city tactics work in a little town?" I have come to my own conclusion. It's not the city limits that matter; it's the limited ability to get out of one's comfort zone. Good business is good business, and while the size of the city might call for a different tactic, it still requires the same business analysis.

I would like to thank Christine and Derek for having the courage to share some of their innermost thoughts, as well as being the good sports to withstand my tirades. They never asked for anything to be edited out, including the famous "cheese admission." I applaud them and hope that you will too, by sending a letter to the editor. Speaking of the editor: Thanks Anne for the fine job you did in executing The Montana Project in such a well thought-out manner. See you in Las Vegas! ■