

Profiles ◆ in ◆ Framing

Rehfeld's Downtown and Rehfeld's Art and Frame

Maximizing resources (and taking some chances) has kept this business growing.

by Robert Sher



Rehfeld's Downtown in Sioux Falls, SD opened at this location in 1998.

The Rehfelds' operation reflects 20 years of evolution and experience in the business. Today, the business relies on two customer bases and five product categories to create their revenue stream. Their main facility is located in a historic downtown with heavy tourist traffic. This location has 1,900 square feet of display area selling original art by local artists and giftware. A second location with 4,200 square feet of display features limited editions, with more than 350 of them pre-framed and on display in a gallery setting, alongside related giftware.

Owners:
Larry and Barbara Rehfeld

Location:
Sioux Falls, SD

How Many Employees:
Six full-time; seven part-time.

How Long In Business:
20 years in the industry

Square Footage:
15,700 total between
two locations. Display space
equals 6,100, and the
remainder is production
and storage.

Custom framing services are offered at both locations, with the actual framing done at the downtown shop in the 8,800-square-foot production area. With a mix of services and merchandise, the business relies on five revenue generators. Custom framing and pre-framed limited editions account for 45%; commercial framing 23%; print only sales 15%; giftware 10%; and sale of original art is 7%.

The retail operation now benefits from a 20-year reputation in Sioux Falls, and Rehfeld's has become the dominant custom framer/gallery in the area. Business is generated on the commercial

side by a handful of key accounts that offer turnkey hotel refurbishment services. As they win refurbishment contracts, they sub out the picture-framing portion to Rehfeld's. As a result, this portion of the business requires no marketing and sales—just relationship management.

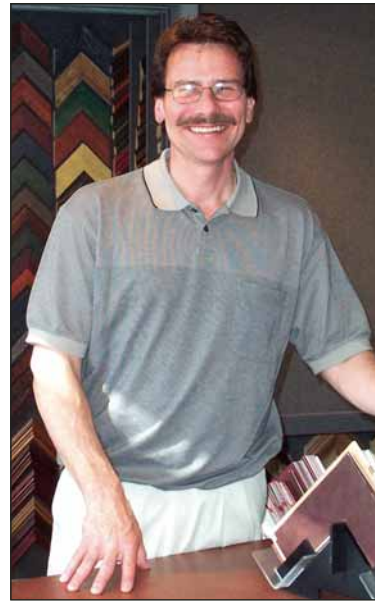
A team of four full-time framers produces the mid-price/mid-quality hotel jobs (often 200 frames per order), the top quality pre-framed limited editions to be displayed and sold at Rehfeld's Art and Frame on 41st street, as well as all custom framing jobs. Another division of the business does volume framing for hotel remodel jobs, typically accounting for 23% of his annual dollar volume.

Larry Rehfeld decided to focus on the mid-price hotel market. Although he personally knew the founders of the Super 8 chain of hotels, he found he didn't want to compete for this lowest price and quality sector of this business. He'd be competing with huge framers with greater economies of scale, and he'd produce a product that he just didn't feel good about, at very low margins. Likewise, he didn't want to target the very high end hotels, as

the selling process was more intense and complicated, the likelihood of on site installation is higher, and he'd have to source a higher grade of artwork including originals, and he didn't have the background in this area. The mid range was perfect for him, and some of the contacts that he had developed already focused on the mid-price range hotels.

The commercial framing operation and the retail presence work hand in hand. When there are drops in sales in the commercial side, he focuses his team on pre-framing art for his retail operation, often building stock in advance for the busy fall season. Likewise, when he has peak demands for framing, he has more people and resources to throw at fulfilling the demand.

Larry says, "It works well most of the time. Of course about every two years, it seems, I get hit in both divisions. For example, in the spring of 2001, eight hotel jobs



With 20 years experience in the framing industry, Larry Rehfeld has seen his share of ups and downs.

landed that were due in the fall, and we struggled to keep up. In the end, we had too little pre-framed art on display in our galleries, and that probably decreased overall sales in the gallery. But it was a great year overall."

The learning curve for commercial framing was intense at first. Rehfeld says, "I remember our first

commercial client all too vividly. The price he was willing to pay was less than the sum of the material costs to build the product! I scrambled to get new vendors and appropriate discounts." He had to learn how to pack and ship product without damage, and learned just how much space was needed for manufacturing and storing the finished product until it was all ready for shipment.

It was also difficult to come to terms with reducing the quality to match price. He says, "As a custom framer, I was mentally geared to



A mix of merchandise widens the customer base for Rehfeld's Downtown.



Original art by local artists plays a significant role in setting the Rehfelds' business apart.

make every frame job perfect, and I had trained my staff to do the same. Yet on the commercial side, we only can afford to spend a certain amount of time on each frame. For example, while we clean every piece of glass that goes into a gallery frame job or a custom frame job, we only clean the glass on a commercial job if it is obviously dirty.”

“Our commercial clients just want a decorative piece of wall décor that will last until the next time the hotel is remodeled, and they are not willing to pay for quality that the hotel or its guests really don’t care about,” Larry continues.

That first year before he established a “routine” was a real challenge, but it has yielded fruits for both custom framing and commercial framing. His vendor group now regarded him as a larger customer overall, and many of the discounts he earned from doing the commercial work now extended to his custom framing needs. While some of his vendors only offer mid-quality materials suitable only for commercial work, others offer the full range of supplies. Typically, Rehfeld gets a

price about 5% below the “best” price level offered by such suppliers, increasing his profitability significantly. When he places orders for his commercial side, he’ll often supplement the order with gallery-side materials to take advantage of better pricing.

The commercial volume has helped him justify better equipment as well. He started his business in 1995 with a \$3,000 Speedmat cutter, but after the business was handling more and more jobs, he spent \$25,000 on a top of the line Eclipse in 1999, greatly increasing the speed of cutting 100+ identical mats for the commercial side, but also facilitating the fancy mat cuts for his gallery product, without increasing labor costs.

In 1997, he made an attempt to grow a second wholesale revenue driver. He designed a line of pre-framed prints, produced a printed catalog showing them and hired a regional sales rep to promote his frames into furniture stores. The net result was a \$20,000 loss. The real problem was in the selection of the sales rep group. Although they had claimed to have existing relationships with furniture stores, they did

not. Sales were nominal, little momentum was gained, and the program was abandoned.

His biggest risk was buying the 11,000-square-foot downtown building in 1998. It was a stretch financially, and the costs and disruption of consolidating his two operations into it was much greater than expected. Worse yet,



Framed samples for both the custom and commercial framing divisions are featured throughout Rehfeld’s Art and Frame on 41st street.



In 1999, a retail component was opened at the original location of Rehfeld’s Art and Frame.



A large, arched window allows natural light to brighten the showroom area at Rehfeld’s Art and Frame.

sales were sluggish in the year after buying the building. With the benefit of hindsight, he's not sure it was the right thing to do. Yet having his production facility and retail location together helped in many ways, and as is typical in real estate investments, the biggest benefits are long-term, and the most difficult period from a cash flow perspective is the first few years. That building, and the one he already owns on 41st street are key retirement assets for Rehfeld.

From the start, Larry Rehfeld has had clear ideas about the direction of his business, and what he wants from it. He prefers to manage a business, rather than be overly burdened and involved in hands on framing, or counter work. This may be a result of his past career managing a large organization, or the natural result of career growth after 20 years in this business.



Framers John Piper and Kristen Grohs discuss a framing job in the production area at Rehfeld's Downtown.

Regardless, he's worked to grow his business to a size that requires a full-time manager, and can afford to hire and retain key employees that do the day-to-day work. Currently, Larry typically works 50-hour weeks, and in busy or tough times works about 65 hours a week.

He enjoys the blend of products and revenue drivers, both because of the interest it brings to him as he runs his business, and for the stability it provides. Chances are when one area is down, others are up. While he seeks to grow his business at a healthy 25% per year rate for the next three to five years, he doesn't want any one part of his business to dominate, nor does he want to jump out of the niches that have brought him his success to date.

In particular, to step up to larger hotel jobs or to substantially expand that portion of his business, he'd have to make a serious capital investment, and he's not prepared to risk it all in the pursuit of such growth. Moreover, with a commercial operation much larger, he'd have far too much excess capacity in slow times, and would have to lay people off rather than divert their efforts toward pre-framing for the retail operations.

Looking back, Rehfeld admits that he hasn't been able to pull any more cash out of his business in the past seven years than he would have

had he been strictly a custom framer. The peaks and valleys of his present course have been severe, so his take home has been very volatile, whereas if he had just done custom framing, his monthly take home would have been much steadier. And peaks and valleys in any business lead to stress and strain, and Larry has certainly had his share.

Yet there is a big upside. Larry says, "Growing this business has been fun and interesting. I've been challenged and I've succeeded so far. Starting this year my take home will be much higher than I could have afforded as a custom framing operation only, but the big payoff is in the equity value of my buildings and of my business. Having bought and sold framing operations, I know that when my time to exit comes—five to 15 years from now—my business will have many fold the value of a custom framing operation. Knowing what I know now, I'd have made the same fundamental decision today that I made in 1995—to grow a business with several revenue drivers, including volume framing."

Still, I heard excitement in Larry's voice when he told me that this summer he and his wife Barbara would have a cabin at the lake, and would be spending a lot of long weekends there. After a steep seven-year growth curve and a prosperous 2001 and 2002 to date, he deserves that time at the cabin. ■

Timeline	
1982	Larry leaves position as Executive Director of a regional Council of Governments and buys a paint/wall coverings/custom frame shop in Sioux Falls, SD.
1989	Bring in two partners to grow the paint and wall coverings side of the business.
1992	Shop has evolved to be only custom framing and limited edition prints.
1994	Partnership disputes lead to Larry's sale of his share of the business to other partners. Larry begins planning for re-entry into the framing business.
1995	Starts wholesale only framing business, specializing in framing for hotels. Also opens kiosk in mall selling pre-framed art.
1996	Buys retail gallery/frame shop in historic downtown district, closes kiosk in mall.
1998	Buys 11,000 S.F. building in historic downtown district and moves both his commercial operation and retail gallery into new building.
1999	Adds second retail location at original 41st street address when it becomes available.
2001	Has a banner year.