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2003 AWARDS



Kathwari has championed the reinvention of Ethan Allen, elevating the brand from one of America's best known to one of the most preferred.

## NRF GOLD MEDAL AWARD WINNER FAROOQ KATHWARI

**Creative leader, visionary retailer and generous philanthropist,  
Ethan Allen CEO transformed an established company into a sophisticated leader**

**L**istening in as Farooq Kathwari conducts a monthly conference call with his company's district managers provides a glimpse of his management style.

The chairman and CEO of Danbury, Conn.-based Ethan Allen Interiors is definitely hands-on, poring over a pile of spreadsheets and peppering managers with questions about gross margin plans and meeting goals. His tone is sometimes genial – thanking one participant for her recommendation on where to shop for shoes – and sometimes paternal – encouraging another manager to stay focused despite challenges.

Kathwari is a creative leader, a visionary retailer and a generous philanthropist rolled into one. His passion for retailing is matched only by his personal commitment to diplomacy, respect and religious tolerance in his native Kashmir.

Since joining the company in the early 1980s, Kathwari has championed the reinvention of Ethan Allen, elevating the brand



“Kathwari has proven that he understands the power of branding and connecting with his customer at many levels.”

— Tracy Mullin, NRF president & CEO

from one of America's best known to one of the most preferred. He realized years ago that in order to grow the Ethan Allen furniture business and stay profitable, the company needed to develop more stylish products, sharpen its pencil on pricing, build new stores and strengthen customer service.

He has succeeded at every turn. Today,

furniture manufacturers. For the fiscal year ended June 30, 2002, sales reached \$892.3 million, just slightly below a net of \$904.1 million during the prior year. Sales for the company's retail division actually increased 9.6 percent to \$459.6 million, but comparable-store sales were off by 2.4 percent, creating a drag on net sales. Still, at most stores, sales have

tripled since Kathwari took over in 1985.

Kathwari's marketing genius, distinctive leadership skill and keen insight into the consumer psyche are being recognized this month by the National Retail Federation. At the NRF 92nd Annual Convention & Expo, Kathwari will receive the coveted Gold Medal Award in recognition of his excellence in retailing, creative innovation and outstanding contribution to the industry.

“Since Farooq Kathwari took the helm of Ethan Allen, he has literally transformed an established, but dowdy, company into an exciting and sophisticated



leader in the retail furniture industry,” says Tracy Mullin, president and CEO of Washington, D.C.-based NRE. “Kathwari has proven that he understands the power of branding and connecting with his customer at many levels.”

Mullin describes Kathwari as “a true internationalist. He understands the global market and is intimately knowledgeable about the geo-political landscape. These traits have served him well in identifying trends and delivering unique products to his customers.”

Mullin also praises Kathwari’s design acumen and steadfast commitment to change, despite initial chaos. “He knew that Ethan Allen needed to deliver distinctive designs in order to stand out and be memorable and he had the courage of his convictions, despite a mass exodus years back of those who didn’t share his vision. He recognizes how important it is to differentiate his product from the mediocre.”

In contrast to most retail operations, Ethan Allen is a vertically integrated company. Every business process, including design concepts, manufacturing, selling and delivery, are carried out by Ethan Allen associates. Over the years, Kathwari has made some decisions that were not easily digested by employees or independent furniture dealers. The decision to update 50 percent of the company’s product line was not especially popular at first. Nor was the 1986 blueprint he laid out for independent dealers, eliminating regional pricing differences by taking on the responsibility of freight at the corporate level and selling to all dealers at one price nationwide.

Still, he had enough support in his court to lead a \$357 million buyout of Ethan Allen, thus fending off a hostile takeover bid in 1989 of Interco, the parent company. Four years later, Kathwari took the company public again, a move that helped raise the capital needed to build on the foundation he began laying for the company years earlier. Among the things Kathwari is most proud of is the culture of entrepreneurship at

“Customers want quality, they want direction, they want style. It’s our job to creatively meet their needs.”

— *Farooq Kathwari*

Ethan Allen and the company-wide commitment to customer service. “We give our associates and managers the room to be creative and to create new opportunities,” Kathwari says. “At the same time, we never lose sight of who is at the center of our business – that is the customer. Customers want quality, they want direc-

tion, they want style. It's our job to creatively meet their needs."

Along with his passion for retailing, Kathwari is recognized for his devotion to conflict resolution in Kashmir. The founder of the Kashmir Study Group, Kathwari has worked in concert with others to direct peace proposals at India and Pakistan in an effort to bring peace to Kashmir. A presidential advisor, Kathwari serves on the boards of the Council on Human Rights, the Institute for the Study of Diplomacy at Georgetown University and Refugees International.

STORES Magazine executive editor Susan Reda recently had the opportunity to chat with Kathwari in his Manhattan office.

***How did you start out? Was your first job in retailing?***

While I was going to school at NYU, I started working in a small printing company. ... I was one of four people so I did everything from printing to bookkeeping – it was great. Looking back, I sometimes feel that I learned more from that experience than I learned at graduate school because it was so hands-on. I had no knowledge of bookkeeping, but in one year's time I was doing balance sheets and labor schedules all by hand.

A year later one of the people I was working with encouraged me to look for a job on Wall Street. This was really a compliment because I was studying marketing. I went to the first building on Wall Street and began looking for a job. On the sixteenth floor, I got a job at Bear Stearns as a financial analyst. Not bad when you consider that my experience consisted of bookkeeping with a small printing company.

A year later, the executives at a new firm called Rothschild Inc. approached me. They were looking for someone who was a junior financial analyst. I joined the company in early 1968, while I was still in the final stages of school. I stayed there for six years and ended up being the CFO and the chief administrative officer.

***So how does someone so immersed in finance segue into retailing?***

While I was going to NYU, I also started a business importing upholstery fabrics from Kashmir. Kashmir is very well

**Kathwari got his start in retailing with his own business: importing upholstery fabrics from Kashmir.**



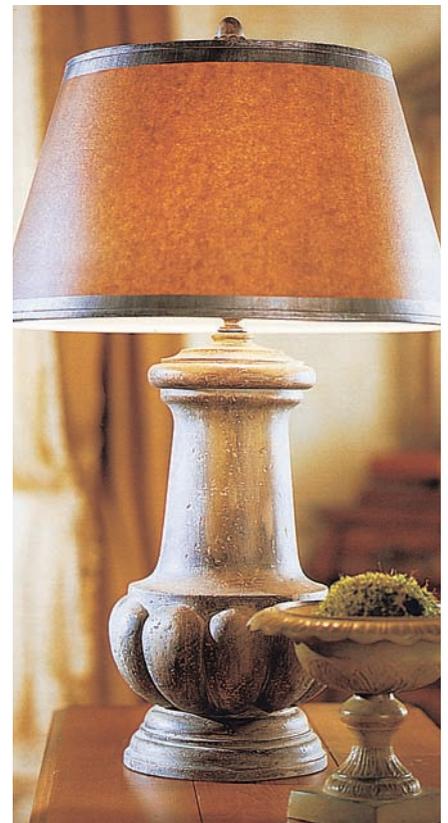
known for arts and crafts. One of my associates at Rothschild knew the chairman of Ethan Allen. He introduced me to him one day in 1970 and Ethan Allen became a customer of these fabrics.

Over time, Nat Ancell, who was one founder of Ethan Allen, realized that I was more of a merchant than a financial guy and he asked me to join the company. I remember telling him that while his offer was attractive, my agenda was to run my own business. I proposed that we set up a partnership.

Back then, the company manufactured furniture and sold it to Ethan Allen Galleries, which were basically owned by independent dealers. Typically, they carried the Ethan Allen furniture program, but all the accessories – pictures, mirrors, lighting and such – were purchased from others. My suggestion was that we set up a joint venture and my company would sell these products to the dealers. When he agreed to that I gave up my CFO job.

***It seems like quite a jump from importing fabrics to supplying accessories for hundreds of dealers.***

In order to make it work, I had to import all these products, so I set up offices in places like Italy and Hong Kong. I remember traveling to China in 1976, after Nixon visited there.



**Ethan Allen has started marketing the message that "we make decorating fun and easy."**



After becoming president of Ethan Allen in 1985, Kathwari transformed the stores into “world showcase stores”

ing that I merge my business with theirs and join Ethan Allen. I told them, ‘Don’t ask me to come aboard unless you’re interested in me running the business, because that

is the only way I would consider it.’ They gave me responsibility for running the company-owned stores, which at that time consisted of about six or seven units. I proved myself there, and a few years later, in 1985, I became president of Ethan Allen.

***The changes you made in those stores were a precursor to the changes that would later be rolled out across the company. What were some of the things you did?***

Basically, we remade those units into what we called “world showcase stores.” We re-merchandised the stores with only Ethan Allen products and improved store

displays. We created a strong and consistent advertising program for the stores. We also worked on improving management training. It was very fundamental and we saw that it was working. That strategy became the basis, in 1986, for what we called the standards of marketing and for the plan to create a national network of stores.

Structurally we changed the whole business in the ’80s – starting with the names over the door. We decided that since we had a strong brand the stores would have the same name. We also committed ourselves to a single brand message. Rather than working with literally 100 agencies, we chose to bring the advertising in-house and speak with one voice.

Also, at that time, 70 percent of our business was done in four months of the year – the winter sale and the summer sale. In order to meet demand, the dealers had to order six months in advance.

The company was called KEA International, which stood for Kathwari Ethan Allen. It was a little presumptuous, I guess, but I was young. Even though I was working in partnership with Ethan Allen, I continued to sell fabrics to companies such as F. Schumacher and to other furniture manufacturers including Henredon, Baker and Drexel.

***When did you actually join Ethan Allen full time?***

It was in 1980, shortly after Ethan Allen was sold to Interco, a conglomerate out of St. Louis, that the founders approached me again, this time propos-

When we looked closely at this, we realized it didn't make sense, so we began centralizing inventories. We also launched an advertising program designed to equalize our sales in the four quarters.

The changes we made to our pricing didn't make us very popular. We decided that instead of raising the manufacturer price to allow shoppers to feel like they were getting a discount, we lowered our prices to a regular price that was a credible price, making it very hard to give a discount of greater than about 12 percent on a regular price basis.

***Shortly after these changes began to take root, Interco came under a hostile takeover. You saw it as an opportunity to take Ethan Allen out of the fray by leading a management-led buyout. What were some of the hurdles you faced?***

Every idea goes through stages of rejection, then perhaps toleration, then separation and eventually acceptance.

In 1986, when we decided that all the changes needed to be made, I was a lot younger. You don't think of all the consequences when you are younger; you are brave and sometimes make major decisions. When we took the company private three years later, we were already well on the road to being a vertically integrated company and the results we were delivering were enough to convince some of my friends on Wall Street, along with some banks and institutions, to help me raise financing. But change is never easy and this was no exception.

For example, we wanted the dealers to be exclusively Ethan Allen, which was difficult for many to accept at first. We made changes in the manufacturing plants, too, that were somewhat complex because we determined that colonial furniture was no longer the predominant style and that there was a need to introduce new styles.

Around that time, I invited 4,000 of our Ethan Allen associates to Danbury to discuss the changes. I had a banner made to hang outside the building with Benjamin Franklin's words, "If we don't hang together, we hang separately." I told everyone that if we worked together we would reap the rewards together, too. Shortly after, 80 percent of the senior management walked away mostly due to retirement. The changes were so massive that they just couldn't handle it. The silver lining was that it gave me the opportunity to promote some good people



**Early in his career, Kathwari re-merchandised the stores with only Ethan Allen products and improved store displays.**

from within. They struggled a little bit initially, but it's amazing how people come up and meet the challenge.

It's really all about change. You have to go through the process. You have to tell people that change is necessary and then you've got to manage it. Change requires an element of chaos, but managing that chaos is critical.

***I've read that a lot of the people you promoted were women. In fact, weren't you recently recognized by a women's organization?***

Yes. The organization is called WithIt (Women in the Home Industries Today). I was recognized for "mentoring" development of women leaders. In many cases, women were the most qualified and they wanted the challenge so they were awarded management positions. In most traditional organizations, the men are running the businesses and the women are in second and third positions, but when the men leave, guess what happens? It creates an opportunity. It is a tremendous advantage for us to have a significant number of management level positions occupied by women, as well as thousands of talented

designers in our stores. Obviously the decisions were not made on gender, but on promoting the most qualified person.

***How is the home furnishings business different today than it was when you first started selling imported fabrics in the late 1960s?***

The first real signs of change began to surface in the '70s as an offshoot of changes in apparel. Historically, changes take place first in the way one dresses. If you turn back the clock to that time, it was the beginning of the rise of retailers like The Gap and Limited – specialty chains that changed the whole structure of how Middle America was dressing. People began branching out from department stores – shopping at different places where fashion was more prevalent.

The revolution in clothing that took place in the '60s and '70s then spilled into the home. The vast majority of homes in the 1940s, '50s and '60s were colonial homes. But, by the mid '70s and '80s, home designs changed. Colonial became a relatively small portion and you had all kinds of different styles.

Also, Americans began dressing differently for different occasions and that, too,

had an impact on the home furnishings industry. When you had a colonial home, you basically furnished every room with colonial furnishings. But as people began dressing differently for different situations, they began 'dressing' the rooms in their homes differently, too. Today people might have a formal dining room or living room, but a den that is country and a bedroom that is contemporary. The home is now eclectic.

For Ethan Allen that meant shifting the focus from colonial to a much broader range of styles. Ninety percent of homeowners now have eclectic designs in their homes ranging from traditional to contemporary. In the early '90s we changed 40 to 50 percent of our product line in a one year time period that had been there for 40 years, and we introduced several new styles, including European, contemporary and country collections that are both casual and formal. Today, all styles are selling well across the board and almost 100 percent of our product lines have been changed.

**What does the near term future hold for Ethan Allen?**

“... we determined that colonial furniture was no longer the predominant style and that there was a need to introduce new styles.”

— **Farooq Kathwari**

Over the last 10 years we've worked to position Ethan Allen as a preferred brand in home furnishings – not just a known brand. We've been spending about \$70 million a year conveying the message that we are more stylish and more affordable. Now we've started to market what is really our main idea today: that we make decorating fun and easy. We're just in the process of publishing our first decorating book. It's a

hardcover book and it will come out next month. It's intended to help the consumer make a decision.

**Ethan Allen introduced a financing plan a while back that was considered groundbreaking in the home furnishings industry. Has it been a winner with shoppers?**

Yes, it has. It makes furniture affordable over a longer period of time and allows consumers to budget for their home furnishings the same way they would budget for a car. It's a simple

finance plan. And it's about to get even easier with the new Ethan Allen Finance Plus card.

**Over the last few years, Americans have shifted quite a bit of their attention to the home. Do you expect their appetite for new furniture to continue for some time?**

The next decade, maybe longer, will be the decade of the home. People's biggest interest and thought process is creating a beautiful home. They've spent money on their clothes and money on their automobiles, now they're focusing on their



homes. I think we're coming into one of the best periods in our history.

Still, we have to keep the focus on helping the consumer because it's not going to happen by itself. Decorating a home can be a traumatic experience. Most people don't understand quality or how to put things together and most don't even know what they want. Our job is to help them and with 300 stores and 3,000 design consultants, we're in a strong position to do that.

***You've been described as being very hands-on, yet you encourage new ideas and creativity. How would you describe the way you run the business?***

I believe that the best way to run a business is the entrepreneurial way – but with a discipline. There are a lot of folks out there who are entrepreneurs but have no discipline. And, there are plenty of executives who are so disciplined that they end up with a bureaucracy. I believe in entrepreneurial, but with a discipline, and our retail structure reflects that. Our district managers, for example, have responsibility for anywhere from four to seven stores. It gives them the chance to be hands-on without burying them in bureaucracy.

***What role does technology play in Ethan Allen's business?***

Technology has revolutionized our manufacturing. I think we've seen more technology introduced here in the last 12 years than in the last 50 years. Using computer-aided equipment allows the machinery we use to perform multiple functions more precisely while using less labor. Computers also help to reduce the set-up time. Years ago the set-up time to make just one part might take one or two hours. With the computer you just press some buttons and it's ready to go. It has helped to lower cost and improve quality.

It also plays a leading role in logistics. We deliver finished product on the ground to our six national distribution centers. From there, product is moved to our home delivery centers and then to the consumer. We use sophisticated technology to manage logistics, including all aspects of scheduling and tracking, all along the way.

We're also using technology for in-store merchandising. Only eight or 10 years back, designers had to draw each store layout, then position the room displays. Today, using the CAD systems,



**Kathwari says the next decade will be the decade of the home. People will be focused on creating a beautiful home.**



**According to Kathwari, change requires an element of chaos, but managing the chaos is critical.**

## BRINGING PEACE TO KASHMIR

**A** native of Kashmir, Farooq Kathwari devotes a great deal of effort to trying to bring peace to that troubled part of the world. In 1996, Kathwari formed the Kashmir Study Group in an effort to help bring about a peaceful solution to the crisis that has plagued the people of Kashmir, India and Pakistan for decades.

Kathwari, who left Kashmir in 1965 to pursue an MBA, feels that the citizens of Kashmir have suffered the most from the conflict between India and Pakistan, and that the economy, health services and educational institutions of Kashmir have been gravely impacted.

The conflict struck a tragic note for Kathwari in 1992 when his son, Irfan, was killed in Afghanistan, one of the areas where the conflict has spilled over. Although his son was born and raised in America, Kathwari recalls that "romantic notions of the fight against the Russians" drew Irfan there. He went despite the family's opposition, and died in a mortar attack in one of the last battles for the capital, Kabul.

The objective of the Kashmir Study Group – comprised of 25 individuals with diplomatic, academic and political backgrounds – is to engage in fact-finding, to analyze possible steps toward a solution and to interact with the parties in this shared conflict – looking for common ground, exploring recommendations and urging actions that might bring the Kashmir conflict to a settlement.

In 1998 the group developed the Livingston proposal, referred to as "Kashmir – A Way Forward." Although Kathwari describes initial reactions to the proposal as "guarded," over time it has been generally viewed as positive. As a result of the proposal, many suggestions to improve the situation have been discussed and some dialog has begun. The proposal envisions, in part, a reconstituted Kashmir entity possibly straddling the line of control with its own government and constitution, and special relationships with India and Pakistan.

During the last two to three years, Kathwari reports that there has been progress. During a recent speech in Geneva, he noted that the leadership of Pakistan has publicly stated that they will accept a solution acceptable to the people of Kashmir, and India's leadership is also moving from their rigid positions.

"Fortunately, it appears that the framework of ideas we have proposed could help to lead to a peaceful solution, but this is a very difficult issue that has been discussed for years," notes Kathwari. "In some respects, it is similar to going through the whole image change here at Ethan Allen. First, there's the process of rejection. Then you go through a period of being tolerated, and eventually your ideas are considered in earnest.

"Still, the fact that our ideas are being considered favorably and are helping the various parties to think of ways to solve the conflict and end the bloodshed is progress."



the layout of every store is stored in the system – along with product images. The process has been streamlined and is far more efficient.

Right now, we're in the process of installing new point-of-sale systems in our stores. These terminals enhance our ability to become more efficient and enable us to deliver more information to the consumer. In May, we launched a national bridal registry that allows couples to register using the Internet.

***Ethan Allen has also started selling gift certificates. Have shoppers been receptive?***

Since we introduced the gift cards, the average sale is 13 times the average rate of sale in our stores. In January, we're planning to make room planning available on the Internet so that the consumer will be able to work on designing a room from the comfort of their home. They'll be able to use our database to play around with furniture that has been scaled to fit in the rooms. Using our website, shoppers can apply for a credit card and get credit approval on-line. Technology is a tool that helps us to deliver better customer service and it's reducing our costs.

***A few years ago you climbed Mount Kilimanjaro. That type of experience is typically life changing. What did it teach you about yourself or about business?***

I think of hiking and mountain climbing as an example for managing change. When you climb 20,000 feet, you have to manage change – breathing is involved, water is involved – your priorities change. If you go too fast, you won't make it. So, it teaches you to manage change and to come down a little bit if you have to. In business, people don't like to come down, but there's nothing wrong with it. The ability to come down is as important as the ability to go up.

The overwhelming feeling that I have when I'm climbing and I reach the peak is probably relief. But, it also makes you realize how much more you can do that you didn't think you could do. I think that humans have so much more capacity than we think we do.

***You're involved in several humanitarian causes. Why do you feel it's important for yourself and others in your position to get involved with issues outside of retailing?***

I think that it is important for CEOs to get involved in humanitarian causes

because they need to feel other people's pain. When you feel the pain and the suffering that others endure, it helps you to make tough decisions. When I look at what's going on in Kashmir and see how painful it is for those people, it puts business decisions in perspective. It reinforces that fact that everything in this world is relative. It gives you balance.

*If we were sitting in your home, what would the furniture look like?*

*“Technology is the tool that helps us to deliver better customer service and it's reducing our costs.”*

*- Farooq Kathwari*

It's very comfortable and livable. I would describe it as eclectic because I have several different styles. My home is a mixture of things we have collected over the years. I do have a favorite chair – it's Ethan Allen's Radius chair. It's a very modern-looking recliner and it's extremely comfortable.

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