

## **AN INTERVIEW WITH JAKE JABS, PRESIDENT AND CEO OF AMERICAN FURNITURE WAREHOUSE**

Jake Jabs is one of the great entrepreneurs in the Rocky Mountain West. In February and June of 2015, JIMS Co-Editor-in-Chief Lawrence Cunningham had an opportunity to interview Jake at length regarding his domestic and international operations and his views about entrepreneurs. These interviews were conducted at The Business School at the University of Colorado Denver and at the American Furniture Warehouse Headquarters in Englewood, Colorado.

As an introduction to the interview, the JIMS editorial staff is sharing the American Furniture Warehouse Story <https://www.afwonline.com/about-us/> (with permission of the firm and with AFW modification) with our readers:

American Furniture Warehouse president and CEO, Jake Jabs, is not a run-of-the-mill businessman by any stretch of the imagination. The fourth of nine children, Jabs was born and raised in rural Montana, and his parents were immigrants from Russia and Poland. He credits his family for providing him a strong work ethic, a sense of family and a love of music. In fact, this long-time musician's entrepreneurial career began in guitar sales.

Later, after a brief stint selling home electronics in the early 1950s, Jabs' first serious venture into the furniture business came in 1968 when he opened Mediterranean Galleries, a high-end furniture store with locations in Denver, Colorado Springs, Pueblo and Billings, Montana. The Mediterranean trend ran its course and the Galleries closed five years later. Shortly after that, Jabs came across an opportunity that would become his life.

American Furniture Warehouse was founded in 1975 when Jabs purchased the struggling, 90-year-old American Furniture Company. With just one location at 58th and Bannock in Denver, Colorado, Jabs brought in fresh marketing ideas and new business philosophies, including a name change to American Furniture Warehouse, which set the company on the path to success.

Under Jabs' leadership over the last three decades, American Furniture Warehouse is vastly different than the one-store operation he purchased in 1975. The company has expanded into a fourteen-store operation that has experienced a remarkable growth trend over the years. As he has been since the beginning, Jabs is responsible for the day-to-day operations of the company and also leads the company's team of buyers - even taking multiple buying trips in the U.S. and overseas per year himself. Today, American Furniture Warehouse, which is headquartered in Englewood, Colorado, is one of the top retail furniture companies in the U.S. With sales topping \$500 million in 2014 and with over 2,000 employees throughout Colorado and Arizona, American Furniture Warehouse is one of the largest privately held businesses in the state. The company has fourteen locations throughout Colorado and Arizona; Aurora, Englewood, Centennial, Lakewood, Thornton, Westminster, Colorado Springs, Firestone/Longmont, Fort Collins, Glenwood Springs, Pueblo, Grand Junction, Gilbert and Glendale, AZ.

At today's American Furniture Warehouse, customers enjoy the largest selection of quality, stylish home furnishings and accessories at the lowest prices in the state. What's more, American Furniture Warehouse is known to have the largest selection of furniture under one roof in the United States. American Furniture Warehouse makes a priority of working efficiently and keeping costs low, so that those savings can be passed on to the more than one million customers the company serves each year.

In addition to its mission of providing customers with the best furniture at the lowest prices, American Furniture Warehouse is deeply committed to giving back to the community. Jabs traveled throughout more than 50 countries over the course of his career as a major furniture importer as well as in his early years in the Armed

Services. Those experiences have prompted him toward a lifelong study of various forms of government and business. In yet another form of giving back to the community, he often speaks to high school and college students on topics such as the basics of business and the keys to success. Widely known as an innovator and a pioneer in the home furnishings industry, Jabs is frequently sought out for comment on pressing industry issues.

This self-taught businessman credits American Furniture Warehouse's success to "the basic American philosophies of hard work, long hours, self-confidence, the courage to take risks, the desire to give value and service to every customer as well as the passion for community service." In addition, Jabs has built a business where "honesty is the best policy" is not just a catch phrase; rather it is a core operating principle.

With more opportunities to grow and give back to the community, American Furniture Warehouse will continue to make a positive impact for years to come.

### **The Interview:**

Lawrence Cunningham: Jake, you've had a long, successful business history in Denver. Why have you been successful?

Jake Jabs: The main reason that I have been successful is that I was never in the business solely for the money. Entrepreneurs often are not in it to get rich but rather because they try to contribute or use their skills in a meaningful way. Entrepreneurs take risks and they are successful because they often know how to judge risks. For example, we have taken risk in opening our Arizona stores. Even at my age, I enjoy taking calculated risks.

American Furniture manages a large logistics operation for our customers. For example this month I am taking delivery of twenty-one new tractors and forty new trailers. The tractors are \$140,000 and the trailers are \$27,000. This equipment is not cheap but it is necessary to keep our inventory up to date, deliveries on time and customers happy so we feel we will make our money back on this investment. Making investments in our logistical systems is expensive and risky but it does wonders for customer service.

I have also been successful because I have a passion for my business. I like what I am doing and I enjoy giving people value for their money. The greatest thing for me is to have people tell me how they love our products, great prices and value for their money. Most entrepreneurs live for the same words.

LC: Jake how have the challenges facing your business evolved over time?

JJ: One of the difficult challenges is finding good employees. I need to find twenty one new over the road drivers, and right now, these over the road drivers don't grow on trees, they're hard to find.

We also need more people in government who understand the challenges facing business. Regulation is a very difficult area for small business because there is often a divide between small business owners and those in all levels of government.

We also need to have our educational institutions focusing on areas where they can help small business. That was one of my goals in establishing the Entrepreneurship Institute at the Business School of the University of Colorado Denver. I wanted to help close the gap for others who are following in my footsteps. I wanted entrepreneurs to have better skills in these more challenging areas and hoped that people in who went through the institute and wound up in government would have a better sense of what entrepreneurs faced.

Another challenge is how to compete in a worldwide market. Since American Furniture imports from many overseas markets we face challenges in many countries. My employees need to understand the regulations and the appropriate ways of doing business. We are not just sourcing with American factories but with factories in Mexico, China, Vietnam and Korea.

I am not sure if business people in the United States really understand all we need to know to compete internationally. I sometimes worry about competing internationally but I worry more about America competing

internationally. Are we doing all we need to prepare and help small business do this? Sometimes our regulation really impacts our ability in America to do business internationally.

LC: You are right on the mark. The future of Denver is clearly small and medium size product/service businesses and therefore our businesses we need to know how they expand internationally or at least source internationally. Let me switch gears if I may.

LC: In the past we have talked about advertising and how the TV market is so fragmented today. We discussed the growing importance of social media. Have you found social media useful?

JJ: Traditional advertising is over for the most part. I often joke that your newspaper is today just a bump in the driveway that you run over! So what do you do? Enhance the newspaper with social media. The nice thing about social media is that you can use testimonials. Prompt customers to offer testimonials on social media like Facebook. Encourage customers to share their great experiences on social media. Believe me that's worth a lot. I have a full time person just doing social media now.

LC: Has it paid off?

JJ: It has paid off by spreading the word about our products and services but also our charity activities. Today what you really need is word of mouth. You need people recommending you. That's one of the reasons we're so successful. We want our social media to have a common theme which is if you want good furniture come to American Furniture. Social media strategy is creating a buzz about the new things you are doing. Its people recommending you. Its people talking about you. We want people to talk about those things that we hold as core values-honesty. You need to be honest. If you're not honest, people can blog you and say bad things about you.

LC: What motivated you to go international?

JJ: The furniture business in America changed just like the TV Business. Sourcing in the furniture business became international and most of the competition sources internationally on a regular basis. We feature many imported items to compete with Walmart, Target, Costco, Sam's Club, Pier 1 and IKEA.

You will notice in this ad we have a chair featured for \$29. I shopped Crate and Barrel and they have this chair for \$149. I went to my supplier in China and asked them to make the same chair for \$29. Often we run specials with imported items that are competitive and then, you wind up selling people a recliner, sofa, bedroom set or mattress. If we weren't importing we wouldn't be able to stock our stores.

Larry you will notice items in our ads like this Bombay Chest for \$139. If we made it in America it would probably be \$400. Importing is something we have to do to be competitive with our competitors.

LC: So, the important factors are cost, quality and competition?

JJ: Yes, Americans demand good quality furniture products at competitive prices.

Products always require a learning curve. Let's say I wanted to make that chair you are sitting in in a foreign market. We would send them our pictures and they would send samples back. If we need a better quality and they make it better quality. Once they figure out how to make the chair, they would be able to produce it very efficiently. The advantage is they have a labor structure that allows them to build thousands and thousands of the same item.

Foreign suppliers will reduce the cost through mass production. Their factor cost are cheaper including basically unskilled laborer, cheaper labor, cheaper cost of doing business, overhead and heat, lights, gas. Everything's cheaper such as transportation. They also can build huge quantities.

My theory on American manufacturers is that they try to build too many products.

Let's say you go into Broyhill, Thomasville or Basset. They are making chairs, sofas, desks, bedroom sets, mattresses, home office. They are making this whole entourage of stuff and the prices aren't good. Don't get me

wrong. We buy American whenever we can but the labor rates are quite different overseas and this places American manufacturers in many product areas at a disadvantage. In China they are specializing. We often buy from fifteen factories because they do not make all the products in one factory. They specialize.

LC: How did you find the international sources you use and how did you evaluate them? How did you pick them? How did you do the evaluation?

JJ: It starts by going to market. When you go to market you walk around and see hundreds of vendors, hundreds of them. The Guangzhou show we just went to they had 3,000 vendors there. So, you look around and think that will sell. You do it by the seat of your pants. You just take a chance you know. At the beginning you have to take some risks. After you are doing a lot of business, you start looking for the factories that could do volume. A lot of big factories that do a lot of business with Costco and Target don't show at these markets. They don't want their products exposed to everybody.

Often you need to find agents. We have an agent who started as a Mormon missionary to Taiwan. He learned to speak the language. He married a married a Taiwanese lady. He moved to China. He became our lead guy. We would give him assignments but he would also represent other firms.

I have five people sourcing for us in Asia. We actually have three ex-missionaries that source for us in China. One was doing sourcing for Lazy Boy. She is good at sourcing because she understands that part of her job is quality control in the factory.

You need someone checking on quality in the factory. They need to check the runs to make sure that it meets our quality standards. Our agent also has her sister and mother working for her checking for quality.

LC: Previously you have touched upon the evolution of your Asian sourcing and suppliers. How have things changed?

JJ: Many Chinese fled to Taiwan in 1949. They had money and went into manufacturing. They produced furniture in Taiwan and Hong Kong. Wages and other costs increased in each location until they had to move to reduce costs.

When the Chinese introduced economic reforms, they instituted free enterprise zones in the Pearl River Delta. Taiwanese manufacturers set up factories in these zones and often worked in conjunction with their relatives who had stayed in China.

When costs in China became more expensive and duties were instituted, the Taiwanese factories moved to Vietnam. Furniture factories are today in many countries. The factories move where costs are low, infrastructure is low and government regulation is low. The factories are built in record time.

Many Taiwanese today own big factories in Malaysia. Malaysia has a lot of wood, a great climate and good labor. Some also have gone to Indonesia.

LC: You've looked at a lot of entrepreneurs over the years. Can you tell the winners from the losers? And if so, how?

JJ: You can at least tell if they have a business plan. More importantly, the chances of success improve if the entrepreneurs can tell you where you going to get the money, who's going to invest money in your thing, where you going to get your investors.

The key is find a demand, that's the secret to free enterprise, find a demand. There has to be a demand for the product. The problem that I see in a lot of business plans is that the entrepreneurs never sat down and asked if there is really a demand. If there is not a demand who cares? This factor separates many of the winners from the losers.

The ones that really win are the ones who find a demand. We found there was demand for a good furniture store in Arizona. I use to call on those dealers down there and there just wasn't a good dealer down there. They

followed the customer around and pressured the customer to buy. They tried to sell them warranties, fabric care and polish care with huge mark-ups. Why do you need a warranty for a well-built sofa?

LC: So you believe one of the major challenges for budding entrepreneurs is proving the case for demand?

JJ: Yes, that's right. Bill Gates found a need for software programs to run on computers in hopes of evolving the home computer.

LC: I know business passion is a favorite topic of yours. Why is passion necessary?

JJ: I had a start out with a guitar music store and I love music. I still play music. I still have a guitar sitting right over there. I play for my employees now. I was successful because I was working in excess of 40 hours a week. Working 80 or 90 hours a week wasn't a problem because I had a passion for what I did. I am the same way with furniture. I have a passion for furniture. I still buy most of the furniture.

You have to have a passion if you are going to work the 60, 70, 80 hours a week. And if you have a passion, it's not work, it is fun. If you don't have a passion for what you do, you're probably not going to put the time and effort to be successful. Entrepreneurs and small businesses don't run on 40 hours a week. Small businesses are not nine to five jobs.

LC: So it has to be an all-consuming passion

JJ: Seven days a week. If you enjoy it, it's not work. I come down here on Sundays and go through my reports because it's quiet and I can go through these reports and make my buying decisions without any interruptions. I do it on Sunday. Saturdays I go visit stores.

LC: Again, let me switch gears. Should entrepreneurs be looking internationally as well as domestically when they start a business? If you were going into the furniture business today, you'd almost have to look internationally wouldn't you?

JJ: Yeah, absolutely.

LC: You do a couple things differently I'd imagine.

JJ: Yes, because it is a different business. Larry, look at this ad and tell me where it is made.

LC: I believe in India.

JJ: India, yeah. Obviously.

LC: I'm cheating.

JJ: The furniture coming out of India is fresh, new and different.

My daughter Terry mentioned that high end people want this restored vintage looking furniture. Right now, it is in vogue with high end decorators.

LC: What are the competitive advantages of the Indian suppliers?

JJ: They have great labor and they do a very good job of recycling their existing supplies of timber.

LC: What would be the three or four things that you would stress with any aspiring entrepreneur?

JJ: Entrepreneurs need to focus on finding a demand. Because of social media, entrepreneurs can't deceive the public. You need to harbor your cash and carefully use your credit so you have good credit. Good credit opens doors.

When I bought the old American, there was a major recession. Furniture stores were going out of business. A recession is an opportunity to buy businesses that have assets they want to turn into cash. They were going

broke. The Old American was selling all their assets such as trucks, forklifts, warehouse racks, typewriters and adding machines. I gave them \$80,000 cash for \$1.5M worth of assets. I was going to open a furniture store so I could use those assets

JJ: I had this 180,000 square foot empty warehouse. I had to fill it full of furniture so I went to North Carolina and bought \$1M worth of furniture. I had a 1 credit rating, and they shipped it on my credit rating. If I didn't have a 1 credit rating, I never would have got the thing going. Now I had this 180,000 square foot store full of furniture and I had to sell it. That's when I started making all the commercials.

The second issue is get an education. Education develops confidence. I always appreciated my college education. I always figured if I couldn't make business go, I would go into education.

The last item is passion. I know we already talked about this but I don't know that I can stress passion enough. It just seems to me that if you have passion and never quit working that you will live a lot longer. Seems like you have a reason for sticking around.

It comes down to three or four things to remember, passion, value your customer, great services and honesty in transactions.

LC: Thank you so much.

JJ: It is my pleasure