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Weight of the world bears down on Minnesota furniture manufacturer

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WADENA, MINN. -- Homecrest Industries began making furniture in the central Minnesota town of Wadena 50 years ago. As CEO Don Bottemiller presides over a landmark anniversary in 2003, he's doing everything he can to make sure the company his father founded survives into its **51st year.**

At the moment, the future of Wadena's largest employer, which makes patio sets and other types of casual furniture, is in the hands of a Minneapolis banker who has been assigned to the Homecrest "workout." What the man at U.S. Bank decides for this money-losing manufacturer will determine whether the factory's **250 workers keep making tables and chairs for the city's best wages and benefits.**

Bottemiller concedes that the bank's decision on continuing financing is "everything" to Homecrest. And he candidly admits his company wouldn't be waiting for a banker's verdict if he had been better able to deal with the global forces -- **particularly competition from China** -- that have produced **three straight years of multimillion-dollar losses.** 

After watching revenue drop 32 percent from 2001 levels and employment fall by more than half in the past four years, this 64-year-old entrepreneur isn't ready to give up.

"This isn't over yet," he said. "We've still got another verse to sing."

But even if Homecrest can avoid a swan song, Bottemiller said, the challenges he faces will continue to threaten and kill small manufacturers throughout rural Minnesota. **The state lost 46,000 manufacturing jobs between August 2000 and November 2002,** and rural companies are particularly pessimistic, according to a survey done in January by Minnesota Technology, which provides economic-development assistance to outstate firms. 

The survey found that half of the manufacturers in outstate Minnesota believe Chinese competition could reduce their sales by 20 percent in 2003. Homecrest is a case study of how outstate Minnesota workers who are paid \$22 an hour in wages and benefits can be put out of work by **counterparts in China making an hourly wage of 50 cents.**

"As far as China goes, this was something we saw coming," Bottemiller said. "But the rate at which it was coming, we completely missed." The competition from Chinese manufacturers is keen, their U.S. market penetration is deep, sophistication of product offerings is high and they have ample manufacturing capacity, cheap labor and a currency

advantage, Bottemiller said.

The possibility that his company will close was made more likely July 30, when the Teamsters union rejected Homecrest's request for concessions. Teamsters Local 374 officials in Duluth, which represents Homecrest workers, didn't return calls asking for comment.



The pressure has weighed heavily on Bottemiller, a low-key businessman with soft eyes reddened by sleepless nights.

"For me, it's a dream challenged," Bottemiller said, "because my dream was to have the enterprise here in Wadena that would be ongoing and provide meaningful employment to this and future generations. People get cast in different roles in life -- some by choice, some by chance. When I look at my role in this particular community, it's as a provider of employment, and that's what I do."

But that mission became more difficult in 1999, after the company moved into its new 210,000-square-foot factory. At about the same time, Bottemiller's attention was diverted from business matters to something more important -- caring for Nancy, his wife, who was dying of breast cancer.

Family roots

Bottemiller smiles as he talks about happier times, recalling a colorful corporate history that began when his father, Mert, and Mert's brother-in-law, Al Engelman, purchased a Wadena furniture store in 1945.

"My dad did retail, but he didn't really like it," Bottemiller said. "His roots really were in manufacturing, inventing. They started manufacturing in 1953, and started out with hassocks -- foot stools. They went into patio furniture in 1960."

The company became known for premium patio furniture sold in outdoor specialty stores. It offered custom tables and chairs built from steel and available in thousands of combinations of finish and fabric. Chairs featured the super-strong "Homecrest spring" that Mert invented. Don Bottemiller joined his father's company in 1966, planning to stay for a year or two. When his father and uncle decided to sell the business, Don stayed on to run it under Sperry & Hutchinson (S&H), the Green Stamp people who also were in the furniture business.

When S&H got out of that business in 1980, Don Bottemiller and two partners borrowed the money to buy Homecrest. By 1998, Bottemiller had bought out his partners and paid off the debt he took on in the leveraged buyout. He borrowed again to build a new factory in 1999.

The building was designed to accommodate more automated manufacturing processes than Homecrest used in the old plant. But Bottemiller didn't go far enough implementing "lean manufacturing," keeping the staffing higher than necessary.

The dot-com bubble burst in early 2000 and things only got worse in 2001. At Homecrest, expenses were high because of overstaffing, and revenue was dropping as consumers slowed their discretionary

purchases of items such as patio furniture.

"My wife passed away in October of the year 2000," Bottemiller said. "The last year of her life, my attention was not sufficiently on the enterprise, and that hurt a lot, and much of the management was home-grown with an 'if-it-ain't-broke-don't-fix-it' type of philosophy. We were not pursuing the attributes that were needed to run a manufacturing company today. Since that time, that's been changed."

But the market pressures are considerable. A soft economy and poor spring weather in a business that's driven by a springtime retail cycle didn't help.

And half a world away, Chinese manufacturers had targeted the "casual furniture" industry (among others), which includes the patio furniture that Homecrest makes.

Not only are wages 50 cents an hour, the undervalued Chinese currency makes exports cheaper by 20 percent, Bottemiller said.

By the time Bottemiller had recovered enough from his wife's death to resume active management of his company, the losses were growing. In June, the bank put Homecrest in a program to work out the loans that are in arrears. Bottemiller has brought in new managers, trimmed his workforce and taken other steps to convince U.S. Bank that credit should continue to be available. So far, the bank has continued the line of credit at least through the big Chicago furniture market show in September, where Homecrest's representatives will sell to retailers.

One of the products they'll be selling is a major change in strategy -- an admission that if you don't join them, they'll lick you. Homecrest has added a cheaper line of "cast furniture" made in China to supplement its higher-priced fabricated lines made in Wadena.

The Minnesota workers average 18 years of experience, according to Jeff Reinhart, the vice president of operations who joined Homecrest three years ago from Andersen Renewal, a unit of window maker Andersen Corp.

Reinhart loves to show visitors how he has modernized the process of cutting, shaping and welding the Wadena-made furniture from steel and aluminum and painting it before assembly and, finally, the addition of high-quality fabrics.

The company received a setback last month, Reinhart said, when union workers voted down the 12.5 percent cut the company asked for in return for profit-sharing.

"Some of these people aren't going to believe us until they see us locking the doors," Reinhart said.

Bottemiller said he plans to continue discussions with the union and with others who might help the company stay afloat. Those folks include Wadena Mayor Wayne Wolden, business manager of the Wadena campus of Minnesota State Community and Technical College. Wolden said he sees the effect of the weak economy in the growing numbers of

students enrolling to retrain for work after layoffs.



He doesn't want to see 250 Homecrest workers at the college, even though they qualify for retraining under federal programs that help workers displaced by competition from places such as China.

"This is an extreme case in Homecrest's situation with the Chinese competition," Wolden said. "He's in a fight for survival. If it weren't for local ownership, that plant would have closed years ago."

Wolden said Homecrest not only is the largest employer in town but is the largest taxpayer and the largest customer for the city-owned electric and water companies. Wolden is exploring the possibility of using revenue from the electric utility to buy some old Home crest properties that could be redeveloped for new businesses. It could help generate badly needed cash for the cash-strapped business.

Meanwhile, Reinhart departs Tuesday for one of his regular trips to China. In addition to being formidable competitors, one Chinese manufacturer has become a Homecrest supplier.

If the China product line and other strategies don't persuade the banker to provide financing through the long, cold winter, Reinhart said, the company will close, and he'll have to find another job. But after a career working for companies such as Andersen, Marvin Windows and Toro, he'll look for "something other than manufacturing."

For now, the banker, who isn't talking, is deciding whether Homecrest will get another year, as Bottemiller implements his new business strategy. Will Wadena workers get the chance to compete with workers in Shanghai and Beijing?

"The banker is everything to a small business," Bottemiller said. "If they don't believe in you, you don't exist."

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