

THE FRAMEMAKERS

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Robert and Teresa Norman faced a big decision. They were contemplating Robert leaving his job managing his father's painting business to set up their own retail picture-framing store. As they thought about this dilemma, their minds wandered back to the events that had led up to the impending decision. Robert had been raised in a small town about 20 miles south of Brandon, Manitoba. His father was a painter, and Robert had worked in the painting business part time for several years. Upon graduating from high school, he completed a two-year business administration in interior design course at a college in the United States. It was there that he met and married his wife, Teresa.

Teresa had studied interior design at college. She came from a small farming community near Robert's hometown. One of her favourite pastimes when she was growing up was taking pictures of the beautiful scenery and making frames for them. Teresa, an only child, had always been very independent. Her parents, farmers, spent a lot of time tending to the farm. Teresa started helping them when she was very young by doing the bookkeeping and other administrative jobs.

Although Robert had always thought he might come back to take over his father's painting business, he wanted to obtain some outside business experience first. As a result, he found a job in a Zellers store in Winnipeg after his graduation. Robert enjoyed working with people in the retail setting but felt frustrated working for a larger company. He wanted to be on his own and dreamed of someday running his own business. While Robert worked at Zellers, Teresa had been developing her photography skills, working for local retailers preparing catalogues. Though she was fairly busy with this, she did not feel as if she were being challenged.

Finally, after two years with Zellers, the Normans decided to leave Winnipeg and return to Brandon where they could begin to take over the painting business. Robert's father was pleased with their decision and, since he was approaching retirement age, allowed his son to assume a major role in the business. Norman managed the business for six years with Teresa doing the bookkeeping. But although it provided a steady income, he could see that the growth possibilities in terms of income and challenge were limited. In addition, he soon realized he didn't like painting as much as he thought he would. As a result, he and Teresa started looking around for sideline opportunities to earn a little extra money. One they particularly enjoyed was assembling and selling picture frames.

One day, while in Winnipeg to obtain some water-seal paint, Robert ran across a small retail store called U-Frame-It. He went in to look around and talk to the manager about the business. He was impressed by the manager's enthusiasm and noticed that the store was extremely busy. Robert immediately began wondering about the possibility of starting his own picture-framing store.

Excited by what he had seen, Robert returned to Brandon without even buying his paint and told Teresa what had happened. She was extremely enthusiastic about the idea. Robert's father was skeptical and, as Robert had expected, disappointed that they wanted to leave the family business.

Robert and Teresa needed to make their decision quickly. The manager of the U-Frame-It store had indicated that the franchise chain was looking at Brandon as a possible site for another outlet sometime in the future.

After a few days of evaluating their small business decision, Robert and Teresa Norman decided to open the picture-framing retail outlet in Brandon. Robert had learned a great deal about the business from his visit with the U-Frame-It franchise in Winnipeg. He convinced his

father that the opportunity had promise. Both were aware that many people were now becoming do-it-yourselfers in home decorating.

His college training had taught Robert the importance of thorough investigation before starting a business. He realized he should do this even before deciding whether to start the business on his own or to become a franchisee. He contacted the Professional Picture Framers Association (PPFA) and learned that the average customer spends \$32 per visit at a framing store. In checking framing costs with the U-Frame-It manager in Winnipeg, he confirmed this information. A typical per-customer profit statement for a framing shop was as follows:

Revenue	\$32	(100%)
Materials	15	(47%)
Overhead (rent, utilities, wages, etc.)	9	(28%)
Profit per customer	8	(25%)

Robert knew there was one other framing store in Brandon, a city of 35,000. Using Winnipeg as an example, Robert calculated that a framing store could service a population of approximately 25,000 people and earn an acceptable profit.

While Robert was collecting his information, Teresa was conducting some of her own market research. She visited the only picture-framing store in Brandon and noted that the store was the busiest between the hours of 11 a.m. and 3 p.m. She also observed that many customers had some time to wait for available workstations and for the glue to dry. During this time, they browsed around the store looking at the merchandise.

Robert also attended an industry supplier seminar in Minneapolis. He was encouraged to learn that the do-it-yourself framing business was experiencing rapid growth throughout North America. While there, Robert learned about several picture-framing trade magazines and bought subscriptions for them. He also made valuable contacts with suppliers and other dealers.

Things looked more positive each day, so Robert closed down the painting business, and he and Teresa began preparing to open their new store, which they would call The Framemakers.

Robert and Teresa Norman immediately went to work organizing their new business. They had contemplated signing a franchise contract with U-Frame-It but decided against it when he found out he would have to pay a \$20,000 franchise fee and royalties of 10 percent of sales just for the name and set-up assistance. In addition, the franchisor required that the stores follow a set format and that all supplies be purchased from them.

Robert's college training had taught him the importance of drawing up a business plan, so they prepared the following outline for their business:

- *Target market.* They thought the new store should cater to the price-conscious individual who wanted to save a few dollars by doing his or her own framing. What he had learned about the do-it-yourself market seemed particularly suitable for the new business. They judged that the target market was between the ages of 35 and 60 and could spend up to an hour in the store. This was based on their observations of the other framing store in Brandon.
- *Financial.* Based on data from the U-Frame-It franchise, Robert estimated start-up costs to be about \$100,000. Since they were planning to lease space for the store, the capital requirements included only the purchase of shelves, fixtures, initial inventory, and tools. Because he and Teresa had \$25,000 in equity to put into the venture, they expected to be able to borrow the remaining \$75,000 from a local bank.

- *Personnel.* Robert and Teresa were hesitant to hire any employees until they were sure the business would be successful. In addition, they wanted to be totally involved in the business to better learn about all aspects of framing. The two would work full time, each doing whatever needed to be done.
- *Regulations.* They knew The Framemakers would need a business licence, which they would obtain from the city hall. They would operate the business as a proprietorship until the need to incorporate became evident.
- *Layout.* After looking at the U-Frame-It shop in Winnipeg, Robert drew up an interior layout plan he believed allowed efficiency and convenience for the store.
- *Location.* Although there weren't many available locations in Brandon, Robert recognized the need to locate in a high-traffic area of the city. This would not only be convenient for regular customers but, they hoped, would attract some walk-in customers as well.

After developing this business plan, Robert and Teresa began making contacts to get the business going. Within the next month, Robert was busy negotiating with suppliers, landlords, his banker, and the city hall to get the business started as soon as possible.

After selecting their location, Robert and Teresa Norman began securing merchandise for their initial inventory in earnest. They soon learned, however, that suppliers wanted to be paid before making deliveries. Therefore, Robert approached his local bank's manager to obtain the money he needed to get started. Although he had known his banker for a long time, he was surprised to find a less than positive reaction toward his proposal. Robert requested a \$75,000 business loan, with he and Teresa contributing \$25,000 of their own money to the estimated \$100,000 cost of the venture.

The bank manager asked Robert to go home and prepare a detailed description of their needs, as well as a projected operating statement for the first year's operations. The Normans were upset by this negative reaction and decided to visit other banks to obtain the funds they needed. But they found out they would need to provide the requested information to obtain the money no matter where they went. Robert and Teresa spent two days working feverishly and came up with the statements shown in Figure 1.

Figure 1

The Framemakers Financial Requirements, Year 1		
Item	Amount	Source of Information
Inventory	\$ 45,000	General estimate
Equipment and fixtures	35,000	Approximation
Opening promotion (trade show)	2,000	Price of booth
First month's rent	2,000	From landlord
Three months' salary (Robert and Teresa)	12,000	Estimated \$4,000/month
First three months' advertising	3,600	One ad on TV and radio, and in newspaper
Miscellaneous	400	Estimate
Total	\$100,000	

The Framemakers
Projected Income Statement, Year 1

	Per Customer (Professional Picture Framing Association Figures)		20 Customers a Day for 240 Days
Sales	\$32	100%	\$153,600
Expenses	24	75	115,200
Profit	8	25	38,400

When Robert took the proposals to the bank, the manager seemed impressed but still would not give approval for the loan. Some uncertainties about the statements still bothered the banker. Finally, after two weeks of collecting information—and pleading—the Normans' loan for \$75,000 was approved. A major reason for the approval was their past dealings with the bank and their good credit standing. Now they could begin purchasing supplies to get started.

Before long, however, the Normans realized that they had underestimated many of their expenses. They learned, for example, that utilities, rent, and telephone all required initial deposits of \$200. They also needed some additional supplies, even though they had overbought some unnecessary supplies from especially persistent salespeople. The landlord required the first and last months' rent before letting them move in. The equipment costs and inventory levels were higher than they had estimated. Finally, since the Normans had decided it would be better to incorporate their business, they faced additional legal costs for which they had not planned. The result of all these additions was that The Framemakers needed another \$10,000—and the Normans hadn't even opened the doors!

Robert and Teresa didn't know what to do. They were hesitant to go back to the bank and ask for more money because of the difficulty they had had obtaining the first loan. However, they knew their chances of obtaining funding elsewhere were slim. On top of that, the time for the grand opening was rapidly approaching.

Questions

1. What aspects of Robert and Teresa Norman's backgrounds will contribute to their success with the picture-framing store?
2. What positive things have Robert and Teresa done in investigating the feasibility of the new store and what additional information might they have collected? From what sources could this information be obtained?
3. From the information provided, evaluate the business plan they have prepared for their new business.
4. Weigh the relevant pros and cons for the Normans of operating a U-Frame-It franchise instead of starting their business from scratch.
5. Evaluate the Normans' initial approach to obtaining financing for The Framemakers.
6. Assuming you are the banker, evaluate the financial requirements and projections Robert and Teresa prepared.