

by Margo Smith



A Great Leap Forward

Under new owner Phingsten Partners, Tropitone is expected to double or triple in size within five years.

Kee your eye on Tropitone! This solid casual industry player is positioned for an exciting leap forward. Founded in 1954, over time Tropitone has become known for products with consumer-appealing contemporary design and as a “go-to” source of quality contract furnishings.

About a year ago, company founder Doug Baker and long-time CEO Mike Echolds both recognized that, if they were to accelerate the company’s growth, what they truly needed was an institutional owner with substantive financial resources and expertise in oper-

ations, strategic planning and execution. The timing to seek such an owner was optimum. Baker felt ready to retire and Echolds was interested in focusing on other personal interests.

The search for a potential suitor began – with a winning result.

They met and selected Phingsten Partners, a private equity firm with a superb track record of purchasing solid mid-range companies, making them significantly better, and selling them for mouth-watering profits. In its 19-year history, Phingsten has acquired 60 companies through three funds and currently

has over \$1.2 billion of capital under management.

As it turned out, Tropitone was equally perfect for Phingsten. Phingsten’s ideal target company is a mid-range niche manufacturer making customized products with short order and lead times, and generating gross margins over 25 percent. Their objective, said Jim Norton, Phingsten’s senior managing director and current Tropitone

Tropitone’s showroom at the Chicago Merchandise Mart.

are all about fashion and speed, i.e., fashionable furniture fast,” said Norton. “This plays into our power alley. We had a similar investment in Norcraft, a high-end kitchen and bath cabinetry company. We tripled the size of that business in a five-year period.” Norton feels confident they can do the same with Tropitone.

Growth at Tropitone will come organically as well as through acquisitions, said Norton. “We do mergers and acqui-

gsten have no interest or intention in ever pursuing Big Box stores.

Pfingsten Strategy

Pfingsten’s key operating strategy is that of team-based continuous improvement. This model, Norton clarified, “applies a cross-functional approach to the business, leveraging the talents of an organization through a common set of problem-solving tools.” Pfingsten believes in the cross-functional approach

panies talk to each other and share best practices. That permeates throughout the portfolio.”

While there are regular meetings of the various portfolio companies, the functional areas at each one regularly speak, consult and counsel each other.

Pfingsten, with a 10-person office in Hong Kong, has special know-how and contacts in global sourcing and international marketing. It has helped its companies analyze international oppor-



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Jim Norton, Pfingsten’s senior managing director and current Tropitone chairman of the board.

sitions for a living, so acquisition is a natural for us. During our first year of ownership, we try to meet the vast majority of owners of the types of companies that would be a nice fit with Tropitone,” he said. “I am happy to report that we have found some and are in active dialogue with several companies. We expect some M & A (merger and acquisition) activity in 2009.”

If it ain’t broke, don’t fix it. Pfingsten has no plans to alter Tropitone’s current ratio of business between specialty retail and the commercial channels. They believe the balance is perfect. The real goal, explained Norton, is to have Tropitone own more of the space at each of its dealers. “Instead of having 20 percent of the real estate in a dealer’s store,” he said, “we would like to create a portfolio of products that will permit us to get 50 percent of that dealer’s showroom.”

While Tropitone continues to focus exclusively on the “better” and “best” categories, according to Norton, via acquisitions they may bring specific new trends to these price points, including new materials. The company also may explore new channels. However, Norton stressed that Tropitone and Pfin-

right down to the shop floor

Every employee in a Pfingsten Partners’ company goes through one of three formal training programs: one for senior and middle management, a second, larger program for team leaders, and a third for team members.

The senior and middle management program teaches managers how to lead and sponsor a team-based, data-driven, cross-functional organization. The team leader program equips participants with tools and knowledge in a variety of areas, and the team member program teaches employees the basic skills necessary to become a fully contributing team member.


“The team leader on the floor will generally be bi-lingual,” Norton continued. “You have to run the team initiative in Spanish, Vietnamese – whatever language will be understood by those employees.”

Pfingsten’s continuous improvement philosophy focuses on “best-in-class thinking,” said Norton. “We promote the sharing of information among the portfolio companies. Everyone looks to see who is doing something better. For example, all of our transportation logistics managers from our various com-

panies and establish a sales infrastructure in other countries.

An additional, and unique, Pfingsten practice that will enhance Tropitone’s growth is that it invests a minimum of 50 percent equity into the capital structure of each of the companies it acquires. “The reason we do it,” Norton said, “is because we recognize that growth and leverage do not go hand-in-hand. Our view is to over-capitalize a company to eliminate the stress that debt brings. We’re 100 percent different than the competition. Our primary goal is to build a better business.”

By showing a company such as Tropitone how to adopt and use the proven techniques of continuous improvement, eliminating any of their financial stress, providing an environment with standard problem-solving techniques, and recognizing and nurturing talent, Pfingsten continues to be a gold medal level equity player.

Within the next six months, the industry should be able to see how Pfingsten’s input and strategies influence Tropitone’s performance. If all works as planned, many other casual furnishings entities may be knocking at the Pfingsten door. 

by Margo Smith

After Echolds

Cap Hendrix brings a strong management background to his new job as CEO of Tropitone, which is to aggressively grow the company over the next few years.

When it comes to breadth and strength of management experience, few can hold a candle to Cap Hendricks, Tropitone Furniture's new president. Over a career of more than 35 years, Hendricks has held executive positions at companies as diverse as Toro (of lawnmower and irrigation fame), Thermador Kitchen Appliances, Del Mar Window Fashions, Frito Lay (a "crunchy" division of PepsiCo), Culligan Water Technologies, and Catalytic, Inc. (chemicals). In addition, he has served on the board of Alliance (pharmaceuticals).

Hendrix is thoroughly delighted with his new position. "Charlie Farrell (Tropitone's chairman of the board) and I have been friends and working colleagues for over 20 years," he says. It was through Farrell, he says, that he got to meet Mike Echolds, former Tropitone CEO, and Doug Baker, Tropitone's founder, and "fell in love with the company." He has been involved with Tropitone ever since, having served for nearly 10 years as part of the company's special advisory board.

Having participated in the selection of venture capitalists Pfungsten Partners as purchasers of Tropitone two years ago, Hendrix was certainly a known quantity to the new owners. So, when Echolds decided to step away from active management this past summer, it seemed a natural move for Pfungsten to ask Hendrix to become president.

His decision to accept was not difficult. "I have an emotional investment in Tropitone," he says, "and knew that I wouldn't mind spending the next several years of my life doing this. I love the

people and it was the right thing to do."

Hendrix also was aware of the strong operating expertise and unique prowess that Pfungsten brings in support of his efforts as the new president. "We have already incorporated their approach of team-based continuous improvement," he says, and Pfungsten also has a great track record and special skills in mergers and acquisitions – skills that Tropitone is likely to use in the future.

Hendrix and Echolds have worked well together. Both share the same core values and emphasis on relationship-building with customers and suppliers, says Hendrix. It's their backgrounds that are different.

Echolds spent his entire working life with Tropitone. "With that comes a very deep understanding of the company, the industry, and the economy's affect on the industry," says Hendrix. He, on the other hand, has substantive experience in a variety of industries – package goods as well as complex, highly engineered durables.

"I have special know-how in product development, manufacturing and operations, as well as marketing and sales.

"If you take the combination of Mike's very big 35-year experience with Tropitone and the industry, and combine that with the broader, deeper business

background and different skill set that I bring, then I think we have a pretty darn good chance at being successful." Echolds will continue to serve as an advisor to the company.

In discussing the future, however, Hendrix was tight-lipped regarding any specifics of his plans for Tropitone. All he would say was that "Given the addi-

tion of the competencies from Pfungsten and the strengthening of our balance sheet that comes along with it, we will take advantage of situations that Tropitone simply could not take advantage of before," i.e., sales through additional channels and/or acquisitions.

Tropitone's goal, he says, is to continue to build competencies in delivery and product development to please the most demanding of their customers at the lowest possible cost.

To this end, says Hendrix, Tropitone will "source parts and sub-assemblies anywhere in the world, as long as they meet our requirements." The strategy is to increase the return on investment, but not by loading dealers with inventory that they will be pressured to sell. The company's business model has




Cap Hendricks, Tropitone Furniture's new president.

been and will continue to be "fashionable furniture fast" and, like all smart producers, they are keeping a weather-eye on all things economic.

Similar to many other furniture producers, Tropitone instituted a mid-season price increase in 2008 and an additional increase for the 2009 season. Hendrix declined to reveal the percentages of these increases.

Pfungsten, he says, has provided Tropitone with "very specific, attainable targets" in terms of growth and productivity for the next five years. "We want to grow the business much larger than it is today," he says, "and we intend to do that organically and, if the opportunity (arises), acquisitively."

The casual furniture part of Hendrix's career began with 10 years on the board of directors. Chapter Two is just beginning. 

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