

Sithole Upholsterers¹

Johannesburg, South Africa

Main Characters

Ray Sithole	Chairman and founder of Sithole Upholsterers (pronounced "sit-O-lay")
Issy Sithole	One of Ray Sithole's four sons who works at the factory
Ervin Carroll	American small business consultant with Kavuma Consulting in Johannesburg
Greg Howell	Bank manager supervising the Sithole account

First Meeting

As Ervin Carroll drove through Industria, an appropriately named district in Johannesburg filled with many factories, warehouses and large delivery trucks, he wondered what to tell the bank manager who wanted to call a delinquent loan and shut down Sithole Upholsterers. Sithole was a furniture design and manufacturing company owned and operated by a family of colored² South Africans. Carroll was an American consultant who had been called by Issy Sithole in a last attempt to help keep the company afloat.

Issy had heard that Kavuma Consulting had a contract with the U.S. Agency for International Development (USAID) to provide free or subsidized consulting to businesses that had been previously disadvantaged under apartheid. Carroll had several years' experience consulting in the area of small business development. He had lived in neighboring Botswana for two years as a Peace

Corps volunteer and welcomed the opportunity to return to Africa after receiving his MBA in the United States.

After arriving at the factory, Carroll was introduced to Greg Howell, the white South African bank representative in charge of the Sithole account. Howell seemed uneasy and he asked that the meeting get underway right away. They were ushered into the board room by Ray Sithole, the chairman of the company. Ray's sons, Issy, Phillip, Pierre and Andre, soon joined them.

Howell began by stating the bank had tried to work with Sithole but the situation had become untenable. The bank had provided Sithole with an overdraft facility which effectively allowed them a R30,000³ line of credit. However, the overdraft was consistently exceeded and a series of checks was returned unpaid. When the bank sought assurance that this situation would be rectified, Ray explained that their customers were not paying on time and that he was already doing everything he could to collect from them.

"It's not our fault," Ray complained. "Our customers are paying very slowly. Sometimes we fill orders and then the customer says they didn't place the order or they don't want it. Then we have to store the merchandise until we can sell it, usually at a discount."

Howell replied, "I know about these problems, but based on what you told me three months ago, you should be profitable enough by now to operate your business and meet your debt obligations. If your customers aren't paying, then stop selling to them or convince them to pay on time. If you can't do that, you shouldn't be in business."

"I'm not a *sangoma*,"⁴ Ray yelled. "I've tried to get them to pay sooner, but they threaten to stop buying from us and without them we're finished!"

"Well, I'm sorry," continued Howell, "but we can't afford to finance you when you continue to bounce checks."

"Then raise our credit line!" Ray shouted as he banged his fist on the table. "We make great products and I've worked too hard. You can't close our business! You wouldn't be treating us this way if we were Afrikaners!"⁵

"That's rubbish," bellowed Howell. "That has nothing to do with it."

"Gentlemen, please," interrupted Carroll. "This isn't getting us anywhere." He turned to Howell and said, "Look, Greg, why don't you give me some time to look at the business and see what improvements can be made that would increase cash flow."

"I'm sure that there are many improvements that can be made," said Issy. "We know how to make furniture as well as anyone, but we don't have management expertise."

Howell thought for a few moments and then agreed to meet again in two weeks to find out whether or not Carroll thought the company was viable. Howell excused himself and the others breathed a sigh of relief as he walked out the door.

Company Background

Sithole Upholsterers designed and manufactured lounge suites (sofas, love seats and chairs). Much of their work was based on custom designs using fabric chosen by their clients, mostly interior decorators who resold the furniture to their clients.

The company was started in 1980 by Ray Sithole. He had been a foreman for an upholstery manufacturing company, and his wife, Grace, was a seamstress. In addition to the normal barriers any startup company faces, the Sitholes also had to overcome the obstacle of being colored in apartheid-era South Africa. Coloreds had limited rights. However, these rights were more extensive than those granted to the blacks.

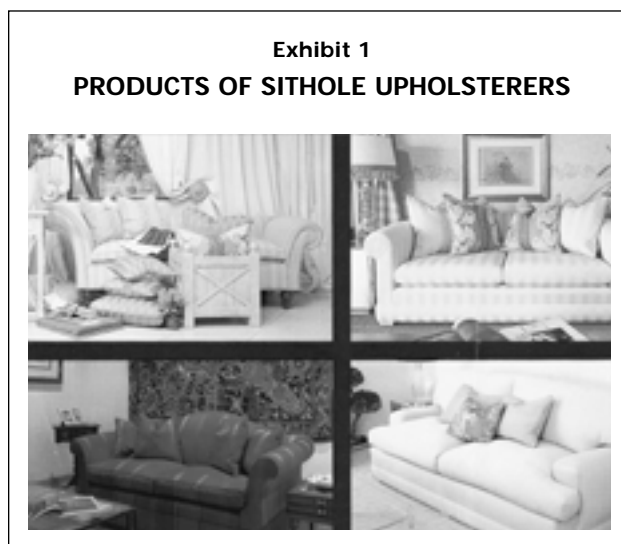
Customers would often bring old furniture they wanted refurbished to the factory and unload it without any prior conversation or approval. This effectively meant that Sithole had to warehouse these goods for their customers for free, adding to their overhead costs. Additionally, the customers would often demand that the furniture be ready so soon that overtime shifts would have to be scheduled. Ray knew that satisfying customers was the only way to remain in business.

The factory was housed in a three-story building in an undesirable area where many potential customers would refuse to come. The building, which had about 300 square meters of usable space on each floor, was condemned repeatedly by the authorities. The lighting was bad, the single elevator servicing the building sometimes got stuck and there was no parking area. However, it was the best facility they could afford, so they had to live with it.

Another facility might be possible in the future on some recently acquired land. The South African government allowed coloreds limited ownership of property in specified areas. Since it was prestigious to own property, Ray had purchased some acreage near Industria for R90,000. The terms required the purchaser to pay for the utility infrastructure plus a deposit. There would be a five-year period before the property was actually transferred and the mortgage interest rate was 28%, far above market rates. Carroll calculated that the final cost of the property, considering all these factors, at R350,000. The current market price of the land was R95,000.

One advantage the Sitholes had, though, was the family itself. They had four sons, all of whom worked for the family business. Ray felt that he could trust his sons with the business. None had college degrees, but each had worked in the business for several years, long enough to learn extensively about the craftsmanship involved in producing high quality furniture. In addition, they all shared a strong work ethic.

The company also had a strong commitment to quality. From the beginning, Ray insisted on making the best product possible and he understood that repeat customers and referrals would be important for the company's growth. Sithole's reputation for excellent quality was a great asset, and Ray never considered cut-



ting corners for the sake of a quick profit. Some typical products are pictured in Exhibit 1.

The eldest son, Issy, had worked in almost every functional area of the company. Carroll believed that, of all the brothers, Issy had the keenest intellect and deepest curiosity. Issy traced his strong drive and determination

to see the company succeed to his stint as a delivery truck driver. He said that getting out of the factory and meeting the customer had given him a perspective that fueled his vision of the company's future. "When I was delivering furniture," Issy said, "I got to see the most spectacular houses and meet very wealthy people. It

Exhibit 2
SITHOLE UPHOLSTERERS' BALANCE SHEET
(R000s)

	1996	1995
Fixed Assets		
Land and buildings	R90	R90
Machines and equipment	1,321	1,188
Trucks	84	84
Furniture and fixtures	104	96
Less: Accumulated depreciation	(362)	(267)
Total Fixed Assets	1,237	1,191
Current Assets		
Stocks:		
Raw materials	580	523
Work in process	97	108
Finished goods	34	26
Debtors	761	517
Cash at bank and in hand	22	54
Total Current Assets	1,494	1,228
Current Liabilities		
Creditors: amounts falling due within 1 yr.	151	123
Overdraft facility	30	12
Total Current Liabilities	181	135
Net Current Assets	1,313	1,093
Total assets less current liabilities	2,550	2,284
Creditors: amounts falling due after more than one year	365	365
Net Assets	2,185	1,919
Capital and Reserves		
Called up share capital	1,000	1,000
Profit and loss account	1,185	919
Shareholders' Funds	R2,185	R1,919

Exhibit 3
SITHOLE UPHOLSTERERS'
INCOME STATEMENT
(R000s)

	1996	1995
Turnover	R2,712	R2,500
Operating costs	(2,161)	(1,927)
Operating income	551	573
Interest	(108)	(103)
Profit on ordinary items before taxation	443	470
Taxation on profit on ordinary items	(177)	(188)
Profit for the financial year	R266	R282

Exhibit 4
SITHOLE UPHOLSTERERS'
STATEMENT OF CASH FLOWS
(R000s)

	1996
Operating	
Net income	R266
Additions:	
Depreciation	95
Increase in accounts payable	46
Subtractions:	
Increase in accounts receivable	(244)
Increase in merchandise inventory	(54)
Cash flow from operations	109
Investing	
Acquisition of equipment	(141)
Financing	0
Net change in cash for year	(32)
Cash, January 1, 1996	54
Cash, December 31, 1996	22

Exhibit 5
PORTRAIT OF THE PRODUCTION PROCESS



Cutting and assembling frames in the frame shop



Worker fastening liner to an assembled frame



Cutting fabric at tables and storing fabric in the storeroom



Fastening fabric over foam at the upholstery station



Seamstresses sewing fabric into cushions and pillows



Putting on the finishing touches

inspired me on two levels. First, I was proud that our products featured so prominently in these lovely homes. Second, now I want one of these homes myself! Another benefit of my stint in delivery is that I know Johannesburg like the back of my hand. Now, I am able to map the delivery schedule so it is as efficient as possible and avoids congested areas when I know there will be traffic there. Also, none of our drivers can tell me it took them two hours to drive over to so and so, because I know better!”

Ray had begun the business working out of his backyard and garage. He and the rest of the family faced a lot of uncertainty, particularly in the early days of the company. Ray had worked hard and felt that it was time to take a step back and retire and let his four sons take over the business. He wanted to sell it to them for R1,000,000. They were willing to take over the company, but they didn't know whether or not the price was fair. They wanted to provide a comfortable retirement for their father, but not at the expense of bankrupting the business. Recent financial statements for the company appear in Exhibits 2, 3 and 4.

There was also the question of how the company would be managed and organized when Ray stepped aside. Issy was probably the best qualified, but his brothers had resisted taking orders from him before. Once, when Ray and his wife went on an extended vacation to Australia—a sort of trial retirement—Issy was left in charge. Whenever he made a decision or tried to implement an idea, the brothers would call their father, complaining about their tyrant sibling. Ray usually sided with the brothers against Issy and eventually returned to reassume leadership of the company. Issy was furious about what had happened and was on the verge of resigning.

Production Process

The company manufactured and refurbished lounge suites: luxury sofas, love seats and chairs. The product line was at the high-end of the furniture market, featuring superior material, design and quality. Different stages in the production process, described below, are portrayed in Exhibit 5.

The production process began in the frame building station, where boards were cut to specification and assembled into frames. A foam-cutting station and liners station cut and molded the materials that would give shape to the frame. The operator of the upholstery station used a large electric staple gun to fasten the foam and the liners to the frame.

A 35-square-meter fabric storeroom in the corner of the factory held rolls of fabric until it was needed. Because the fabrics were expensive and it was essential that they

not be damaged or stolen, the storeroom was locked except when one of the fabric cutters was retrieving material.

There were six cutting tables, where the fabric was cut to fit the molded frame, now complete with foam and liner. As the fabric was very expensive, this was the most skilled position in the factory. One slip-up here could cause several square meters of fabric to be wasted.

The fabric was cut for pillows and cushions as well as for the furniture itself. Seamstresses sewed the cushions and pillows and added frills and accents as required. Another station fastened the fabric to the frame, while the cushion-filling station stuffed the pillows and cushions.

When the production process was complete, the product was inspected and wrapped in plastic. It was then either sent to dispatch for immediate delivery, or stored in the new goods storage area.

Because Sithole concentrated on making custom furniture for its interior designer customers, most production runs were in small quantities. Issy shared the role of production manager with his brother, Pierre. Pierre enjoyed the challenge of making new designs, even though that meant the furniture had to be reworked or scrapped more often. He designed about half of the patterns that the company sold, with the other brothers and their wives contributing the balance.

Pierre took a special pride in seeing one of his designs make it from the drawing board through the production process. Issy also enjoyed seeing the results of the family's creativity as well as its hard work in manufacturing. On the other hand, he would get frustrated when new designs resulted in wastage. He tried to encourage workers on the production line, particularly the fabric cutters and the frame makers, to make an extra effort to be careful when producing a new design. Ray thought that Issy's comments to the workers would slow down production, so he often told them that “time is money,” reminding them that customers were waiting for their furniture.

Industry/Market Environment

Sithole sold 90% of its products to interior designers, who then resold them to their customers, often at a considerable markup. Unfortunately, Sithole felt they were at the mercy of these designers, because without them Sithole would lose crucial sales. The designers dictated price and they were frequently slow to pay Sithole.

The interior decorators would sometimes bring rough drawings of furniture to Sithole and want them to design and build the items. Usually, the decorators would specify

**Exhibit 6
PRODUCTION COSTS**

Name of Product	Average Wage Rate	Framing	Fabric	Springs S/UP	Foam Cutting	Foam L/UP	Stitching	UPH	Cushion Filling	Total Labour Costs	Total Overhead	Total Labour & Overhead	Total Materials Costs	Total Costs
Winchester Sofa	Hours to complete (Cost=Hours x Wage)	3.00 29.88	2.50 24.08	0.75 5.78	0.75 5.78	1.00 8.75	4.00 35.48	4.00 49.80	2.50 19.55	18.50 179.09	414.83	593.92	785.71	1,379.63
Sherwood T Sofa	Hours to complete (Cost=Hours x Wage)	3.00 29.88	3.50 33.71	0.75 5.78	0.75 5.78	1.00 8.75	4.00 35.48	4.00 49.80	2.50 19.55	19.50 188.72	436.38	625.10	785.71	1,410.81
Louw Sofa	Hours to complete (Cost=Hours x Wage)	3.00 29.88	2.50 24.08	0.75 5.78	0.75 5.78	1.25 10.94	4.00 35.48	4.50 56.03	2.00 15.64	18.75 183.59	420.22	503.81	785.71	1,389.52
Lost City Sofa	Hours to complete (Cost=Hours x Wage)	3.00 29.88	2.50 24.08	0.75 5.78	0.75 5.78	1.00 8.75	4.00 35.48	4.00 49.80	2.50 19.55	18.50 179.09	414.83	593.92	785.71	1,379.63
Devon Sofa	Hours to complete (Cost=Hours x Wage)	3.00 29.88	2.50 24.08	0.75 5.78	0.75 5.78	1.00 8.75	4.00 35.48	4.00 49.80	2.50 19.55	18.50 179.09	414.83	593.92	785.71	1,379.63
Slipper Sofa	Hours to complete (Cost=Hours x Wage)	2.50 24.90	2.00 19.26	0.75 5.78	0.75 5.78	0.75 6.56	2.50 22.18	3.00 37.35	2.50 19.55	14.75 141.35	334.02	475.37	694.19	1,169.56
Camelback Sofa	Hours to complete (Cost=Hours x Wage)	3.00 29.88	2.50 24.08	0.75 5.78	1.00 7.70	1.50 13.13	3.50 31.05	4.50 56.03	2.50 19.55	19.25 187.18	431.00	618.18	700.00	1,318.18
Wingback Sofa	Hours to complete (Cost=Hours x Wage)	6.00 59.76	1.50 14.45	0.75 5.78	1.00 7.70	1.50 13.13	2.00 17.74	4.50 56.03	1.50 11.73	18.75 186.30	420.22	606.52	750.00	1,356.52
Dartmore Sofa	Hours to complete (Cost=Hours x Wage)	3.00 29.88	2.50 24.08	0.75 5.78	0.75 5.78	1.00 8.75	4.00 35.48	4.00 49.80	2.50 19.55	18.50 179.09	414.83	593.92	785.71	1,379.53
Knole Sofa	Hours to complete (Cost=Hours x Wage)	3.50 34.86	4.00 38.52	0.50 3.85	2.00 15.40	2.00 17.50	4.00 35.48	4.50 56.03	2.00 15.64	22.50 217.28	501.03	718.31	850.00	1,568.31
Donge Sofa	Hours to complete (Cost=Hours x Wage)	3.50 34.86	2.50 24.08	0.75 5.78	1.00 7.70	2.00 17.50	2.50 22.18	4.00 49.80	1.00 7.82	17.25 169.71	387.90	557.61	700.00	1,257.61
Dorchester Sofa	Hours to complete (Cost=Hours x Wage)	3.50 34.86	2.50 24.08	0.75 5.78	2.00 15.40	2.50 21.88	3.00 26.61	4.00 49.80	1.50 11.73	19.75 190.13	441.77	631.90	700.00	1,331.90
Colefax Sofa	Hours to complete (Cost=Hours x Wage)	3.00 29.88	2.50 24.08	0.75 5.78	0.75 5.78	1.00 8.75	4.00 35.48	4.00 49.80	2.50 19.55	18.50 179.09	414.83	593.92	785.71	1,379.63
Delta Sofa	Hours to complete (Cost=Hours x Wage)	3.00 29.88	2.50 24.08	0.75 5.78	0.75 5.78	1.00 8.75	4.00 35.48	4.00 49.80	2.50 19.55	18.50 179.09	414.83	593.92	785.71	1,379.63
Modi Box Sofa	Hours to complete (Cost=Hours X Wage)	3.00 29.88	3.00 28.89	0.75 5.78	1.00 7.70	1.50 13.13	4.00 35.48	3.00 37.35	2.50 19.55	18.75 177.75	420.22	597.97	685.00	1,282.97
Louw Scroll Arm Sofa	Hours to complete (Cost=Hours x Wage)	3.00 29.88	2.50 24.08	0.75 5.78	0.75 5.78	1.00 8.75	4.00 35.48	4.00 49.80	2.50 19.55	18.50 179.09	414.83	593.92	785.71	1,379.63

Exhibit 7
CURRENT ORGANIZATION CHART
Sithole Upholsterers Current Structure

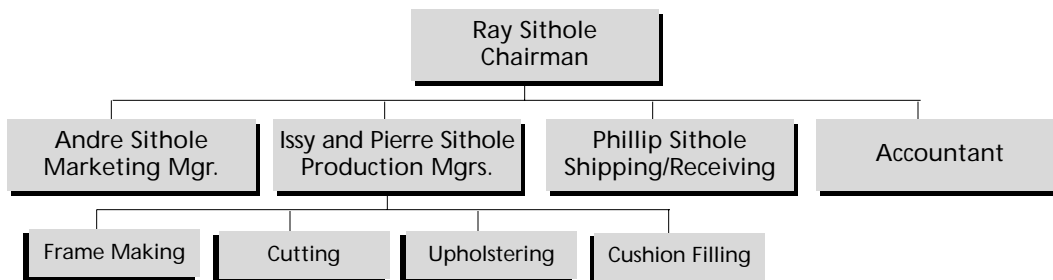
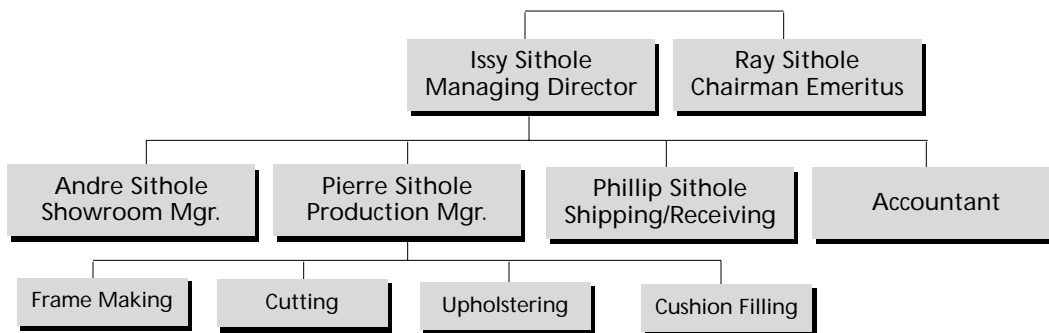


Exhibit 8
PROPOSED ORGANIZATION CHART
Sithole Upholsterers Proposed Structure



a fabric that they had in mind that matched other components of rooms in their clients' homes.

Identifying Problems

Carroll initiated a study of the production process by interviewing management and workers and by observing the factory in operation. He computed an average wage for each function on the factory floor and measured how long it took workers to complete their tasks. Based on this data, he constructed a spreadsheet of cost data that gave Sithole some information about production costs for each product (Exhibit 6). It showed clearly what products cost the most to manufacture and which were relatively cheap to make. It was the first time that Sithole had a cost-based model that they could use to set prices.

After three days at the company, Carroll related his findings to Ray, Issy and Pierre. They discussed some

details of the production process and the number of workers performing some tasks. When Carroll went over the cost figures he had calculated, the Sitholes were shocked. If Carroll's figures were correct, one of their most popular items was priced R300 below cost.

One concern about production that Carroll noted was the high demand for the elevator. Since production took place on three floors, work in progress was constantly being moved from one floor to another. This caused bottlenecks, and sometimes workers were idle waiting for a frame to arrive from the frame station on another floor. The company was employing a staff of full-time movers whose only job was to push inventory from one location to the next station on the production line.

Carroll suggested that Ray call Greg Howell and schedule a meeting for the following Monday. After reviewing the way the business was run and identifying some areas that needed work, Carroll wanted to present his recommendations to the Sitholes, but felt that Howell

should be present so the Sitholes would have some idea how their banker would respond to the proposal.

Ray was moved by Carroll's findings. He concluded that the company must do a better job of developing its human resources. "One of the things we need is training-from top to bottom," he said. "We know how to make furniture as well as anybody, but at the end of the day, you have to know about the business, too. How can you be successful when you do not know these things? We thought we were doing well with the Camelback sofa, which is one of our top sellers. We did not know that each time we sold one of them, we were losing money!"

Second Meeting-Carroll's Proposal

"*Kunjani, Buti*,"⁶ Carroll greeted Issy, as he arrived early for the meeting.

"That's very impressive command of the Zulu language, Ervin. However, we speak Afrikaans,⁷ not Zulu." Carroll apologized for his error, but Issy assured him he was not offended and they went inside the building.

Everyone was already in the board room except Howell, who had not yet arrived. They chatted for a few minutes over tea before Howell was shown into the room. "*Howzit*⁸ everyone," Howell inquired. He sat down and Ray gave Carroll the floor.

Carroll began by saying he was impressed with Sithole Upholsterers and that he had enjoyed the few days he had spent there. He praised the work ethic of the employees and the commitment of management. He had, however, identified some areas of concern. In addition to spending three days at Sithole, Carroll had talked with other people familiar with the furniture industry in South Africa, and they had given him some perspective on the environment in which Sithole operated.

The first issue that Carroll addressed was leadership. He told the Sitholes that it was common in family-owned businesses to find a lot of internal squabbling and that this could ruin a business if it got out of hand. Since Ray wanted to spend less time running the business, Carroll suggested that Ray relinquish control to Issy, who Carroll felt had the best grasp of each area of the business and who expressed a vision to improve the company's products, profitability and opportunities.

He distributed to everyone copies of the current and a proposed organizational chart, shown in Exhibits 7 and 8.

Carroll explained that if they all worked together, the situation would be best for all and that if they did not, the company might fold. Howell was nodding his head. Pierre and Andre looked agitated but said nothing.

Next, Carroll proposed that the entire company embark on a training program, which might be partially funded by the South African Furniture Industry Training Board. The workers would become more efficient on the production line, and management could receive training in business concepts such as financial controls and budgets, negotiating, accounting and operations.

An additional proposal was to open a showroom so Sithole could sell directly to the public and become better known in the marketplace. This was a serious decision not only because of the cost involved, but also because they risked damaging relationships with interior decorators who were the majority of their current customer base.

Ray interjected, "If we alienate the decorators, our sales will fall through the floor!" Carroll reminded him that the decorator took on average 90 days to pay and that they often removed the Sithole label from underneath the furniture so that their customers would identify the quality only with the decorator. He explained that a better strategy to grow their market would be to market directly to the ultimate buyers of the furniture. Also, he said, if they could market designs through a showroom and catalog, they would be able to sell more of the products they already know how to make, resulting in both larger production runs and less rejects.

Carroll then turned to Howell, who had been listening intently and asked, "What do you think, Greg? This plan may require some additional flexibility on your part, as well as some additional financing." Howell thought for a moment, then replied, "I will have to consult with the bank manager, but it's possible that we could do it. It does sound kind of risky."

Carroll continued, "What about the rest of you?" The others seemed lost in thought, except for Issy, who could barely contain his smile.

Questions for Discussion

- (1) Should Sithole go forward with the plan to open a showroom? What would be the advantages and disadvantages of this strategy?
- (2) How would you implement your recommendations for change? Would you recommend implementing Carroll's suggested restructuring with Issy as Managing Director? Was Carroll as effective as he could have been in the way he proposed these changes?
- (3) What should Sithole do with their property? Should they remain at the same premises?
- (4) Do you agree with Issy that Sithole should begin exporting their furniture? What are the implications of this strategy?

CASE STUDIES

NOTES

1. This case was written by Hunter L. Moore of Texas A&M University. This case is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.
2. Approximately ten million South Africans are classified as "colored." They are of mixed race, usually black and white, but sometimes Indian. The South African caste system under apartheid placed coloreds below whites, but above blacks.
3. The symbol R (as in R30,000) denotes rand, the South African currency. In 1996, the exchange rate was R4.5 = US\$1.
4. A *sangoma* is a witch doctor. South Africans are very superstitious and witchcraft and magic are feared and respected.
5. Afrikaners are the descendants of Dutch settlers.
6. "*Kunjani, Buti*" is a common greeting among Zulus in South Africa. Literal translation: "Hello, brother."
7. Afrikaans is the native language of the Afrikaners and coloreds in South Africa. It is derivative of the Dutch language.
8. "*Howzit*" is a slang term spoken by English and Afrikaners, short for "How's it going?"