

BUSINESS OF HOME

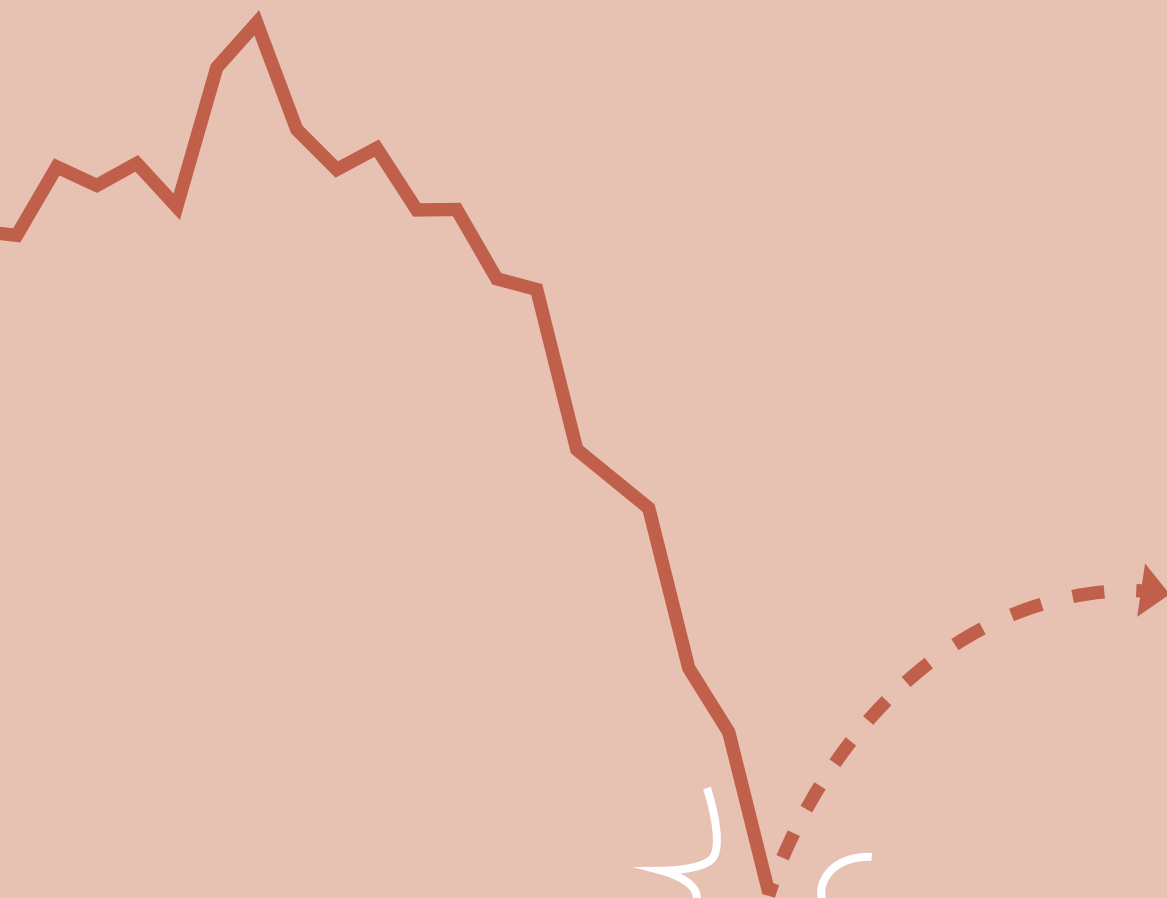
BOH

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Going Up

BUSINESS HAS BEEN GOOD.
HERE'S HOW TO KEEP IT THAT WAY,
NO MATTER WHAT COMES NEXT.





Is your business ready for a recession?

After two action-packed years, the interior design industry is showing some signs of cooling off. Here's how to know if your business is slowing down, and what to do about it.

BY FRED NICOLAUS

In the late aughts, Jared Miller was a great name to have in your Rolodex—but you didn’t want to call him. Years before, Miller had made the unlikely transition from concert promoter to financial adviser. A series of chance encounters had led him to Charlotte Moss’s office, where he ran the financial side of her New York-based design firm. Eventually Miller spun his services out into an independent consulting business, helping other designers get smart about their books. It was just in time for the Great Recession.

His timing was either perfect or terrible, depending on how you look at it. Miller had plenty of clients, but they weren’t coming to him to maximize profits. Instead, they were looking to survive. He spent the next few years traveling the country, helping designers cut back on expenses, tighten their belts and get through a period that tested even those who occupy the highest tiers of the industry. “My consulting business went from building firms to tearing them apart and putting them back together,” he says.

In the years since, Miller has become a more generalized financial adviser, but he still works with designers here and there. Looking at 2023, he’s candid about the possibility of another downturn—in fact, he argues that we’re already probably in it. “People saying that we’re in a recession is a lagging indicator,” he says. “Once people start talking about it, we’ve been in it for six months already.”

To be clear: No one is suggesting that the coming year is going to look like 2008. The Great Recession emerged from a very specific set of circumstances, which ranged from high-finance chicanery to runaway real estate speculation. This time, experts say, the landscape is different, and the pain won’t be as deep or as long-lasting. Fingers crossed!

Even if there is a big slowdown coming our way, it won’t look the same for every firm. The design industry is extremely regional, and some areas of the country will fare better than others. Working in a field that caters to the affluent also has its advantages. While interior design may not be recession-proof, it is certainly recession-resistant.

In other words, there’s no reason to panic but every reason to be prepared. Even if a lean period never comes, it’s always better to be safe than sorry.

How do you know that business is actually slowing down? That may sound like a silly question, but in a low-volume industry like design—where one month of purchasing can account for most of the year’s profit—it can genuinely be a little confusing to know how things are going.

The most important thing is to set aside time to look at your financials every month (or every quarter at minimum) and compare the numbers to past performance. Every firm focuses on different metrics, but you’re on the right track just by regularly reviewing basic numbers like income, cash, expenses and credit card balances. The point is not to put too much stock in a good month or bad month, but to look at trends.

“Your income doesn’t reflect everything. You should be looking at what’s in the pipeline, your expenses and what you have in progress,” says Monique Stemper, founder and president of design-focused consulting firm Stemper & Associates. “The most important thing is to compare—we tend to look at the prior year, but you can do month-to-month too. That way you can keep an eye on where things are going.”

If you want to get fancy, there are plenty of KPIs (key performance indicators) to explore. Tax attorney Braden Drake says that even small creative businesses can benefit from tracking a variety of numbers. Profit margin is a good one. Volume of new client



HIRE THE BEST

Coming off celebrating her firm’s 30th anniversary, San Francisco designer **KENDALL WILKINSON** says the best way to weather economic instability has been to get great help. “When you partner with the right accountants, outside consultants and business managers, you collect a body of knowledge and expertise that helps you navigate all the ups and downs of a long career,” she says. Her second piece of advice? Diversify. “I have been an importer of French antiques, a product designer and a shop owner,” says Wilkinson, who is launching her third collection of textiles and trims with Fabricut this year. “I have returned to my roots and am focusing on product design to add additional revenue streams to my business.”





DO GOOD WITH DOWNTIME

For Dallas designer **JEAN LIU**, a slowdown is an ideal time to tighten up everything about a firm that falls by the wayside during busier periods. That can include anything from maximizing workplace efficiency and organization to updating the website with new projects and copy. Leaner cycles are also a good opportunity to do charitable work. “I would like to spend more time working with the nonprofit Dwell with Dignity,” says Liu. “Even though I am a board member, I feel like my contributions over the last couple of years are barely scratching the surface of what is needed. The organization is growing, and I’d like to be more active in shaping its trajectory.”

yourself that you’re collecting points, that’s something to look out for,” she adds. Putting off paying sales tax because you need the money for expenses is also a huge warning sign, says Jeff Stracka of bookkeeping and accounting firm ID Bookkeeper.

Those principles are true in any business. For design in particular, the “kiss of death,” says Miller, is using a new client’s deposit to pay for the product on a different client’s job. “When you look into some designers’ books, it’s almost like an unintentional Ponzi scheme,” he says. By the time you need the cash from one job to close out another, it might be too late for a turnaround.

If things are good...

Think of financial wellness as a funnel. At the very top, when things are going well, you have plenty of space to maneuver. It’s only at the bottom, when things are bad, that you run out of options. Ironical, because when business is booming, it’s easy to get swept up in the chaos of a busy firm and put off planning for a rainy day. Instead, experts suggest carving out time to do just that—you’ll be glad you did in the event of a downturn.

The first step in the preparation process is bringing in as much money as you can, as expediently as possible. Start by invoicing monthly—better to have many small invoices than one big one at the end of a project—and if you aren’t already, always collect all the money for purchasing up front. Beth Bender of professional services firm The Dove Agency says this policy guards against clients dragging their feet on payment (or changing their mind after you’ve fronted the money) if the broader economy falters down the line.

Oh, and raise your rates. “Even though you’re passing along the cost of the furnishings so that inflation is getting passed along, your other costs are not covered—and those are all increasing,” she says, citing line items

inquiries is another. Even things like website traffic or social media stats can be helpful. If you get most of your clients from Instagram, for example, you can track your stats on the app—likes, follows, engagement—to gain insight into your future. “Those predictors can tell you what’s going to be happening with your business one or two months from now,” he says. “If there’s trouble, you’ll start to see it there: It’s the ‘where there’s smoke, there’s fire’ principle.”

If you are listening to your clients carefully and looking at your books on a regular basis, you’ll start to develop an intuitive understanding of how things are going. For most firms, the answer will fall within a range of “doing OK” to “doing great!” But there are some red flags to watch out for. One is carrying credit card balances for an extended period. Any longer than two months is not ideal, says financial adviser Christine Mills. “If your balances are climbing, and you’re telling



INVEST IN SIDE HUSTLES

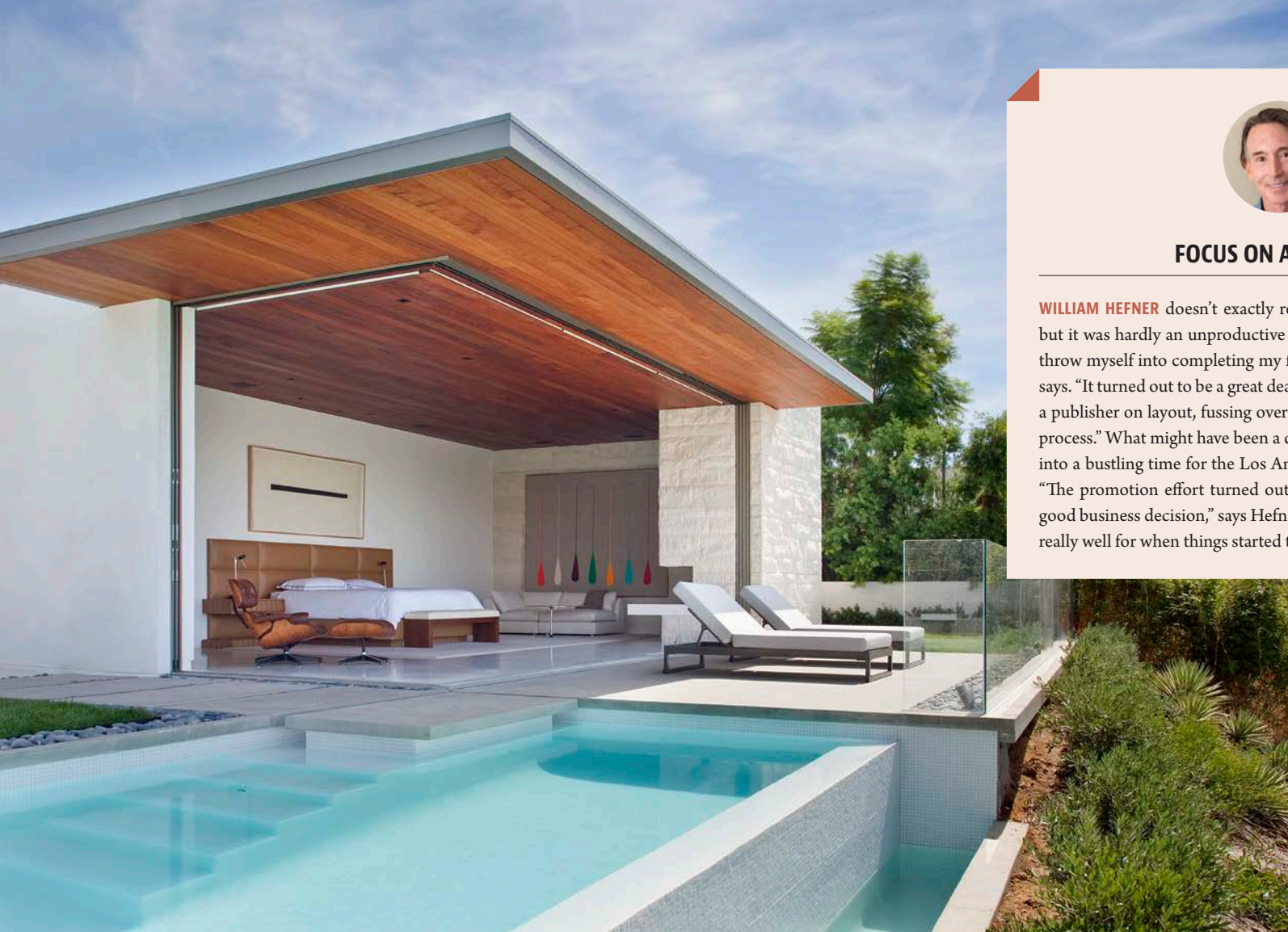
GIOA TRAN and Vernon Applegate founded their California-based firm, Applegate Tran Interiors, in 1999, but until recently they kept their showroom side hustle—the Poliform location in San Francisco—on the down low. “We have owned [the showroom] for several years, but we opted to keep that quiet so as not to confuse the design community,” says Tran, who didn’t want friends or design clients to feel pressured to shop with him. After a banner year during the pandemic, the pair opened a newly built 9,000-square-foot showroom—a point of pride that changed their perspective as they realized that the marriage of product and service could amplify both businesses. As it turns out, design clients *wanted* to shop with the duo, and the showroom’s interiors generated interest in the design business. “Our investment [in the space] was significant, and we realized that this part of our business held great potential as a second considerable revenue stream—so much so that our usual separation of Poliform and Applegate Tran has now slowly morphed into a deep understanding of the synergy between our two brands and the opportunity to merge these businesses.”





REPACKAGE YOUR SERVICES

GRAY WALKER believes the key to staying the course during a bad economy is simple: Find a way to package your services that works for the moment. "Create plans for developing future clients by stepping out of your normal fee structure," says the North Carolina-based designer. "Come up with a flat fee for a certain amount of hours of design consultation only. In tight times, people still like to paint, rearrange furniture and freshen up without breaking the bank. Give the service a fun name and sell it!"



FOCUS ON A PROJECT

WILLIAM HEFNER doesn't exactly recall the 2008 recession fondly, but it was hardly an unproductive time. "That's when I decided to throw myself into completing my first book, *California Homes*," he says. "It turned out to be a great deal of work: writing, working with a publisher on layout, fussing over images and micromanaging the process." What might have been a distressingly quiet period turned into a bustling time for the Los Angeles designer—and it paid off. "The promotion effort turned out to be a great distraction and a good business decision," says Hefner. "I think it positioned the firm really well for when things started to improve."

that include everything from rent and staff salaries to legal services and advertising. "A lot of times if we get a designer who comes to us in a tight situation—especially coming off the recent market—it's because they haven't been raising their rates."

It's not a bad time to raise margins on product, either—especially because doing it in a leaner time will be more challenging, says Stracka. "You want to push your markups up to 30 percent, or even 40 percent," he says. "Designers can be hesitant to do that, but that's what separates the profitable firms from the ones that struggle."

Once you've maximized revenue, start putting away extra cash. Among experts, the general consensus is that you should have at least three months of expenses in the bank at all times. If you have a larger firm, more is advisable (Miller says six months is ideal). The goal is to set up a cushion so that you don't have to fire employees abruptly if you hit a rough patch.

"If business starts to fall off because clients are nervous and they're not spending as much, or you can't get a job started because they want to wait and see where the market's going, having an emergency fund means you can weather it without borrowing money—and borrowing money is expensive right now," says Miller. "The firms that aren't building emergency cash funds are the ones that are going to have the problems."

If setting aside that much cash sounds daunting, at least start saving toward it—one month of reserves is better than none. Circumstances can change quickly, and even a small buffer can be the difference between a business carrying on or shutting down. "A boom time can come to a stop really fast," says Bender, who advocates for at least a three-month emergency cash fund, which "can give you enough time to find a new client, or at least give employees some notice—you're not ripping out the rug and shutting the door."

If things are slowing down...

Maybe you've taken an honest look at your numbers and noticed a downturn. New projects are coming in at a slower rate, clients are dragging their heels and money isn't flying in the door the way it once was. Don't panic. Just try to get lean, say the pros.

The first thing to do is maximize the projects you do have, and keep cash coming in at a steady pace. If clients are starting to ask more questions about price when making selections, don't get bogged down or turn it into an argument, says Bender. Simply come prepared with a range of options and get decisions (and money) made quickly.

Now is also a great time to focus on your top clients. "One of the worst things you can do is completely pull back on marketing," says Bender. "Instead, maximize your outreach to your most profitable clients, whether they're

new or existing ones, to let them know you can do things like holiday decorating or event design."

Slower periods are also an ideal time to cut back on unnecessary spending. The challenge, of course, is to define "unnecessary." In some firms, that might be fairly obvious—Miller recalls visiting a design business in the aughts that ordered fresh flowers for the office every week—but in others, it's a little harder to tell.

Start with the low-hanging fruit: software subscriptions you don't need; expensive dinners—or even snacks—for the team; travel to markets; and spending on business coaches and PR, especially if you're not seeing a tangible benefit. "PR people would hate me when I worked with firms because I would ask those clients to give me a list of everybody that the PR people contacted, the response and the follow up," says Miller. "With things like that, you don't know what the results are going to be until about six months after you've started. So I wanted to know, for those six months of bleeding cash, what are you actually doing?"

When making cuts, it may feel a little hopeless to pare back small line items—but while it's true that you may not be able to turn your financial fortunes around just by switching to a free Spotify subscription for the office, a careful audit of small expenses can add up to real savings, especially for newer businesses. Moreover, it puts you in a





DON'T PANIC

"The first time you hit a downturn, it's terrifying—it sends you into the depths of despair, and you think about firing everyone, selling your condo and moving back in with Mom," says Georgia- and New York-based designer **ELAINE GRIFFIN**. "But like all creative businesses, interior design is cyclical. Just like spring always follows winter, after a famine there's always a feast. Business slowly builds back up and then things take off. The second or third time it happens, you know what to do." To stay busy and calm during a slowdown, Griffin advises designers to button up systems, develop content for social media and learn new skills: "Use the time. It will get busy again, and you won't have time to organize your closets and update your branding when it does."



mindset of frugality. “Cutting \$300 may not seem like a huge deal, but as a percentage of revenue, that might be significant, particularly for lower-revenue business owners,” says Drake. “It’s helpful to think about proportions, not just dollar amounts.”

Next up, you’ll want to take stock of your payroll. If things are only a little slow, it might be too early to think about layoffs. But it’s wise to consider baking some flexibility into your staff expenses. If you’re running a small firm and business is erratic, hiring part-time workers is a good way to stay nimble. “There are so many contract workers on the market right now,” says Mills. “And if you want to hire them full-time down the line, you can.”

If you don’t, that’s OK too. As a growing number of companies spring up around the country that provide remote services for tasks like purchasing, bookkeeping and logistics, it’s easier and easier to build a firm that can scale up and down with market conditions.

Another thing to consider: the bright side of a slowdown. While it may feel stressful to have less business coming in, Stemper says designers would be wise to stop, take a breath and do the things they’ve always been meaning to do—whether that’s organizing the library, freshening up the firm’s website and contracts or training staff on new skills. Time is money, as they say, and you can put those extra hours to good use. “It can be hard to think about that kind of thing when business is slow because it feels like there’s so much uncertainty, but things will pick up again,” says Stemper. “You’ll look back on this time and wish you’d appreciated it more.”

If things are bad...

Let’s say you’ve taken an honest look at your firm, and it’s not good. Business has significantly slowed down, and you’re facing some hard choices. Again, the key is to stay calm, say the experts—panic will only make things worse. “If you’re in a bad situation, especially if debt has become a problem, it makes it hard for you to even think properly and be creative,” says Mills. “So you want to tackle this kind of thing head-on.”

The first step in a cash crunch is to hit pause on your own paycheck. Obviously, not every designer is in a financial position to stop bringing in income. But if you can, the basic rationale is simple: If you can keep the business running, you can make it up to yourself down the line. If you stop paying your employees, well, the whole business is likely to grind to a halt pretty fast.

If that’s not an option, or it isn’t enough, you’ll have to start considering deeper cuts.



What to Look Out For

RED FLAG

A telltale sign that your business is in trouble? You’re taking money from new client deposits to pay for furnishings on an older job. “When you’re borrowing from one project to pay for another, you’re almost as good as closed,” says adviser Jared Miller.

HIGH STANDARDS

In a downturn, you may be tempted to take on smaller projects. That’s fine, says consultant Monique Stemper, but don’t pick up work that cheapens your aesthetic or will hurt your reputation in the long term. “It’s easy to give this advice, and harder to take it, but don’t change your style or lower your standards ... in my experience designers always regret taking on work that doesn’t fit.”

STAR POWER

A harsh reality: If things are bad, you may have to lay off employees. In that situation, try to keep the ones who really make the business run. “If you have an amazing employee, do everything you can to hold on to them,” says Stemper. “Don’t impulse fire, because someone else will snatch them up in a heartbeat.”

VIBE CHECK

Income and expenses will tell you most of what you need to know about the health of your business, but more subtle cues—clients slowing down the cadence of communication, more questions about budgets—can be a warning sign as well. “A delay in collections is definitely something we look out for,” says consultant Beth Bender.

In a design firm, the two biggest expenses are usually payroll and rent. The good news about the latter is that you don’t really need it to run a business. If you’ve gotten used to having an office, it might be hard to let go, but if the pandemic era taught us anything, it’s that the modern workplace is flexible. Using your own home, going fully remote, coworking—all are valid options. “Design businesses can run well without that overhead,” says Bender. “You might need to start thinking about whether an office is really that important to you.”

If you have to let employees go, aim to be calm and rational in making your choice, say the experts. Look at who’s bringing in money, or who has a unique skill that can’t be contracted out more affordably. Try to make only one round of cuts, and make sure you’re following local employment laws—the last thing you need is a lawsuit while struggling to keep the business afloat.

Just because you’re cutting back hard on expenses doesn’t mean you should stop searching for new business. One of the great things about the design industry is that marketing doesn’t have to be a costly line item. Donate design consultations to charity auctions. Get more active on social media. Mingle socially with potential clients. Your next great client could come from simply asking. “I had a client in 2008—when no one was spending—who sent around nicely packaged cards to past and present clients, just offering to come spruce things up a little,” recalls Stemper. “She did it with inexpensive accessories, but then, of course, the client is thinking, ‘That sofa sure looks old,’ and the work started to build on itself.”

If all else fails...

In an industry that is literally about keeping up appearances, going through a rough patch can feel like it carries more of a stigma than it needs to. The truth is that every business has ups and downs, and there’s nothing embarrassing about going through a lean period. If you don’t want to weather the storm, there’s also nothing wrong with putting your firm on pause, or even considering a career switch.

In the thick of the 2008 recession, it was not uncommon for designers to take a break from the industry, or seek other work within it. Design industry recruiter Lloyd Princeton finds that designers often have savvy sales skills and can land jobs working for brands or in showrooms. Taking a position at another design firm is also a reasonable move—why not put your skills to work while letting someone else worry about making payroll?

The one thing to keep in mind if you’re weighing a career pivot, say the experts, is to be honest with yourself. If you’re only working for another designer because you’re waiting on your next client, you might want to stick it out rather than jump ship from your own firm. “If you ultimately don’t want to run your own business, that’s a non-issue,” says Princeton. “But if you just need more clients, that is an issue.”

The good news is that if you approach your finances with clear eyes, you likely won’t get to that point. The experts agree there’s no magic trick to riding out a slow period—and that firms only get into real trouble when they choose to turn a blind eye to their books. “Not being aware of a problem is the number one issue,” says Drake. “Number two is ignoring it.” ■



TRY NEW REVENUE STREAMS

New Jersey designers **MIRIAM SILVER VERGA** and **HILLARY KAPLAN** founded their firm in the wake of the Great Recession. Five years ago, they branched out into retail with their Westfield shop Mimi & Hill. Having two sources of revenue, they say, has made their business so much stronger—but they’ve been careful to grow slowly. “We added a small retail shop and outgrew it within three years,” says Verga. “Last fall, we launched a three-month pop-up, which exceeded our expectations, fueling another expansion. Finding a central location that could house our shop and 20 employees took a year of searching and six months of remodeling, but it was so worth it. Now either our retail will pay the rent or our design business will—the dual income stream makes expanding so much more palatable and definitely helps us weather economic ups and downs.”