‘Sustainable Bankruptcy’: the case of Furnitura Ltd.

Arnis Sauka

The Centre for Sustainable Business at SSE Riga
‘Sustainable Bankruptcy’:
the case of Furnitura Ltd.

Arnis Sauka
Have you ever tried to imagine what failure looks like? The person sitting in front of me – a nicely dressed, tall, athletic man in his 40s, Mr. Edgars Berzins1 – certainly looks nothing at all like someone who has failed. Yet our meeting is taking place because Edgars has agreed to share his recent business failure experience, the story of how Furnitura Ltd went bankrupt. “Failing in business is indeed a very tough, yet often necessary lesson, which helps one to move forward. Perhaps others can also learn from my experience, thus increasing their chances to survive and develop their own businesses,” Edgars will emphasize as our conversation goes on, confirming the evidence from previous research on business failure (e.g. Pasanen, 2005). However, considering the positive impact of previous management experience (Cressy, 1996; Lussier, 1995) and education (e.g. Burke et al., 2005) – unless highly educated entrepreneurs choose to leave entrepreneurship for a more predictable and sometimes better paid job – our conversation starts with Edgars’ background.

Looking for the knowledge to start his own business as well as for a business opportunity, while still working for the telecommunication firm, Edgars attended a number of executive education programs. “One of those programs offered M. Porter’s lectures here in Riga, where we analysed Porter’s diamond model. Being a physicist, and a person that is obsessed with various creative things, I was inspired by this model and I started to look for possible fields and industries where similar model could be implemented in Latvia.” After exploring a number of options, Edgars reached a seemingly obvious conclusion: Latvia is a land of forests, full of this natural resource. “So I decided to do something in this area; of course, at that time I had no understanding of this industry or what I would end up doing.”

1. Transition from top management to entrepreneurship

© Authors, Stockholm School of Economics in Riga, May 2012

All names are changed.
One of my mathematics teachers used to say that even if you have no idea how to solve a particular equation, there is always something you do understand, and this is what you should start with. This was also the case with Edgars’ business idea: “There was one thing that was clear: that there are only a few furniture companies in Latvia and the other two Baltic states, Lithuania and Estonia,” says Edgars. “Furthermore, I had a friend, an active person with an education in forestry and experience working for a number of furniture companies here in Latvia, which made this choice much easier.” Edgars made an offer to his friend to invest his money: starting a company capital that had been generated by having a good income stream from previous management positions. His friend, however, would be responsible for finding a promising market niche in the furniture business where they could invest. “Still, nothing serious really happened for about one year, and actually, I had already started to give up on furniture business idea,” remembers Edgars.

Eventually, however, an idea about how to penetrate the furniture manufacturing market came to his friend, involving something that was close to Edgar’s heart, namely information technology, “…and to this I said yes,” remembers Edgars. “Once the idea was brought up by my friend, in fact, I had a chance to develop it further in my EMBA studies,” says Edgars, adding that thinking about his entrepreneurship career he entered business school to gain some knowledge support. “With all the things I could do, also considering my previous experience in management, I felt like there were certain gaps in my knowledge. So I was partly studying, partly developing my business idea, also receiving useful feedback from my course mates.” Having a business idea he truly believed in, Edgars’ intention to start his own business was indeed serious. “To have time for developing my own company, in 2004 I decided to leave the company, where I worked as the head of the telecommunications department, which had an annual turnover of some 40 M EUR,” remembers Edgars with a smile.

Together with his friend, however, Edgars had noticed a potential market niche in the furniture business where they could invest. “Still, nothing serious really happened for about one year, and actually, I had already started to give up on furniture business idea,” remembers Edgars.

Eventually, however, an idea about how to penetrate the furniture manufacturing market came to his friend, involving something that was close to Edgar’s heart, namely information technology, “…and to this I said yes,” remembers Edgars. “Once the idea was brought up by my friend, in fact, I had a chance to develop it further in my EMBA studies,” says Edgars, adding that thinking about his entrepreneurship career he entered business school to gain some knowledge support. “With all the things I could do, also considering my previous experience in management, I felt like there were certain gaps in my knowledge. So I was partly studying, partly developing my business idea, also receiving useful feedback from my course mates.” Having a business idea he truly believed in, Edgars’ intention to start his own business was indeed serious. “To have time for developing my own company, in 2004 I decided to leave the company, where I worked as the head of the telecommunications department, which had an annual turnover of some 40 M EUR,” remembers Edgars with a smile.

More specifically, as emphasized by previous empirical evidence, the external environment plays an important role in either accelerating the growth of companies or, on the contrary, fostering the possibility of business failure. In this light, favourable economic conditions are important as they might help to generate sufficient demand, at least during the start-up phase (e.g. Cressy, 1996). In 2004, when Edgars started his business, the situation in the Latvian economy indeed seemed rather promising. Namely, Latvia was about to join the European Union, which implied some economic development with investments coming in. “And during economic development one industry that certainly develops is construction: one could easily predict that houses and offices would be built and they would all need furniture,” says Edgars.

So they started to develop the business idea, soon realizing, however, that it would not be as easy as they had initially thought. In particular, they understood that users, i.e. their customers, would simply not be able to put their home furnishing wishes and needs on the computer screen. “When it is done,” explains, Edgars “…all the users will need to do is press the button and the computer calculates all the costs of furnishing a house or the particular parts of a house. The integrity of the system would lie in further steps, that is, the program would send all contents produced by the user directly to the factory, where production could start. Fast, easy and efficient!” says Edgars, adding that apart from having a value-added product, they also seemed to have picked a good time to implement the idea.
At the end of the day, the main product, i.e. the value that Furnitura Ltd. offered to the customers, consisted of a number of items. First, they bought software from the company in Germany: a program in CD format. As Edgars explains, “This software allowed us to create a space in a digital format: with doors, windows, angles, height, width and other parameters, exactly like a customer’s house or office.” Once the space was created, the customer could choose various furniture elements from and electronic catalogue and furnish the virtual space according their needs and wishes. “To make the processes easier for the customer, both the creation of the space and the arrangement of the furniture elements were carried out by professionals, who usually worked in pairs: one talked to the customer to find out his or her needs, another one put these ideas on the screen.” The real competitive advantage of the product, something that was different from what was available on the market at that time, was the integrity of the system with its bookkeeping and manufacturing departments. Edgars explains: “Our customers could see on the screen what their potential order would look like and pushing just one button in 15 minutes they also knew how much it would cost and when it could be delivered. If something was not according to their expectations, anything could be changed easily: for instance, the colours of the furniture or furniture parts, the allocation in the chosen space, and materials of furniture which, of course, influence both the quality of the products and the price of the total order.”

Such a solution saved lots of time and actually allowed them to close the deal with the customer much more easily, which was not at all common in the industry. “After visualizing needs and wishes on the screen, which was nothing new for the industry, the rest was very complicated,” emphasizes Edgars. “Namely, the sales process was followed by preparing and sending a financial offer to the customer. But... customers usually wanted to change something in their order – for instance, adjust colours, some parts, materials – and all this influenced the price. Thus, a new price offer had to be prepared, then usually also a third, fourth or fifth as customers’ tastes and wishes tend to change quickly when it comes to furnishing their houses,” says Edgars, noting that the whole process to close the deal could indeed sometimes last weeks and even months and during this time customers might also change their minds about making an order at all. “With our system, it was much easier and faster, and customers liked that!” concludes Edgars.

When the technical solution was clear and while building the factory, it also became clear to Edgars that the commercial sector was developing very rapidly in Latvia. “Office houses were being built, banks were expanding, almost everyone needed new offices and all of them needed furniture, of course,” says Edgars. “Then we also looked at what the market offers in office furniture and realized that locally, only two Latvian companies, 2 companies from Lithuania and 1 firm from Estonia were producing office furniture. The rest of the office furniture at that time was brought in from other countries, but that involved transportation costs, making products more expensive, and most of these companies could not work individually with their customer from a distance.”

Considering the market gap and expanding commercial sector, the focus of Furnitura was obvious: to concentrate on producing office furniture. An argument from Edgars’ friend, who helped with the management of the company, that office furniture is also simpler to produce, was also convincing. “Later on we also offered kitchens, mostly because the majority of offices also had a kitchen of some size, and the target customers for kitchens were not only offices, but also households,” says Edgars, adding that “the production of kitchens was, of course, more complicated as there are simply more parts and more possible solutions for any single kitchen, but we quickly learned this also.”

Once the business idea was in place, everything developed nicely for Furnitura Ltd. in fact, very nicely! “Even though at later stages we borrowed some money from the bank to make expansion faster, I had enough financial capital in the first year of the start-up,” says Edgars, emphasizing that this money was invested not only in the production process, but also in other activities that were primarily targeted to increase the market share in the office furniture business. “Even though there were only a few competitors in the market at that time, these were comparably big companies, with some 10-15 years of experience in the market. Our intention from the very beginning was to show our potential customers that we can be better than these companies: not only better in quality but also at least as big,” says Edgars, demonstrating a high ambition for growth, which, according to recent entrepreneurship literature, if not resulting in overconfidence, often has a positive impact in the actual growth of the company (e.g. Wiklund and Shepherd, 2003; Aidis, Mickiewicz and Sauka, 2011). This, however, meant that Furnitura Ltd. had to grow quickly: “... not so much in profits, as we predicted that most of the investments would go into expansion, but in turnover and thus market share,” explains Edgars, adding that the key expansion strategies of Furnitura Ltd. were closely linked with the sales service and customer support which, as described earlier, came together with the value added product.

“When it comes to sales, I believe that this is a crucial element for the success of any business,” says Edgars. “In our case,” he continues, “we came with some innovation in our sales approach; namely, we were the first ones to sell furniture in Latvia using direct sales. I am sure that precisely this strategy was behind most of the success that we achieved in the first years,” he continues, explaining that all the other furniture companies in Latvia were “…sitting in their shops, putting advertisements in the media from time to time and waiting for customers to come to them. Our approach, however, was working proactively and finding our customers ourselves.”

“My experience developing the sales staff for a bank and various companies tells me that when it comes to sales, it is not so much about ‘advertisement tricks in the media’, but much more about direct contact with your customer. And this is also how we worked at Furnitura Ltd: actively looked for people who are building houses and offices, getting to know how and when they need to furnish their offices and knowing it well in advance, that is, before, for instance, radiators are built in places which are actually meant for certain furniture elements,” continues Edgars. As he explains further, the value added here lies in the approach, namely, Furnitura Ltd. aimed to first make customers think about the environment they were creating and then to build this environment. “What happened in the construction business before was quite the opposite,” remembers Edgars: “people were building houses first and only then thinking about what this environment, where they were supposed to work and live, would look like, often remaining unsatisfied as many things simply can not be done anymore once the house is built.”

3. The first three years, from 2004-2007:
key strategies leading to a success story

the case of Furnitura Ltd.
"Having a strong direct sales force brings many advantages, but this is, of course, not without risk," continues Edgars. Indeed, for companies using direct sales staff, there is always the question of whether to let salespeople sell themselves, or to make them sell the company. The risk in selling themselves is obvious: the best salespeople could simply leave the company with most of their best customers and open their own business—and this has happened more than once... "In our case," explains Edgars, "it was close to impossible for salespeople to sell themselves, as all sales were supported by the IT system. However, this software, bought from the company in Germany, was simply too expensive and required too much knowledge how to sell a salesperson to acquire and start his or her own business, at least in such a way as to threaten the market position of Furnitura Ltd."

When it comes to customer support, seemingly small yet important services to customers also helped Furnitura Ltd. to establish a good reputation on the market as well as the growth in turnover and the market share that came with it during the first three years. One such support program was only delivering to the customer furniture that was immediately ready for use. "This was different than how the market worked at that time: the majority of our competitors brought parts of furniture to customer offices together with technical staff equipped with drills and other tools who put everything together," says Edgars. Furthermore, it was not only about delivering the product at the right time and ready to use, it was also about delivering the product exactly as the customer wanted to see it, Edgars continues. What he means by this is that Furnitura Ltd. always constructed their products so that they fit in the space where they were meant to fit exactly. "Namely, no small gaps from the wall, even if the wall surface is angled, for instance," says Edgars.

Apart from sales and customer support, the initial success of Furnitura was also laid in their diversified customer portfolio and diversified product range, factors that are important for the success of firms across the industries (e.g. Reid, 1993). Namely, our customer portfolio in Latvia, a market which we aimed to concentrate on initially, was indeed good in terms of size and also well diversified to avoid the unnecessary risk of putting all one's eggs in one basket," says Edgars. Indeed, Furnitura Ltd had many banks, car dealerships, and companies of all sizes, basically everyone that needed office furniture, in their customer portfolio. At some point we also made a decision to expand our product range," says Edgars. "Following the development of the household market, we started to offer kitchens not only to offices, but also to households." With this move, Furnitura Ltd. also initiated another innovation in sales that they intended to use in order to penetrate a market other than Latvia. Edgars explains: "The household market is different from the office market as you can allow much more freedom and inner competition among salespeople involved in selling your products, not having to fear that, for instance, two sales agents will knock on the same door to sell Furnitura kitchens. Bearing this in mind, we started to develop a network of sales agents to sell kitchens for household markets: anyone could become our sales agent."

The caveat behind this idea was the observation of the Furnitura Ltd. management that most of their salespeople were woodworkers that could not only explain the features of the product they were selling but also set it up in their home or offices. "So we trained these people to work with our software, gave them the access code, allowed them to build their own customer portfolio and the like. What salespeople got in return was being either self-employed or micro companies, charging directly from customers for setting up kitchens."

Edgars continues. This was good for both them and for Furnitura, as the setting up service was usually offered as an additional service after the furniture was bought by the customer, and some furniture companies did not offer this at all. "With this strategy we thus offered 'full service' to our customers and they really liked it," explains Edgars, emphasizing that "sales agents were also happy since often there were bits and pieces that Furnitura simply did not want to produce, like one or two specific shelves that were not in our product range but in the customer’s opinion fit nicely in a Furnitura kitchen. Our sales agent-woodworkers could then do it themselves, again charging directly from the customer and thus having yet another income stream." All in all, the intention of Furnitura Ltd. was to develop this sales agent network into a networking marketing company and expand globally. "And some first results were achieved already during the first years, as Furnitura managed to establish its first network of agents in Estonia," remembers Edgars.

As a result, by 2007, only 3 years after Furnitura Ltd. launched, the company managed to win the ‘Sales Tiger’: a competition that is run by “Dienas bizness”, a leading business newspaper in Latvia, and distinguishes the most successful, fastest developing companies in Latvia. "This award was basically given to us since in only 3 years we were able to catch up to all our competitors, companies that had been market leaders for the previous 10-15 years," says Edgars. "Our sales amount was more than 2 M EUR and growing, we employed some 40 full-time employees in house plus another 40 sales agents working for the company as entrepreneurs. We also recently introduced a sales salon: a big showroom where our products could be presented to customers, where agents could come together with customers, sit and plan together and the like," he continues. "It seemed like the only way for the company was up. Unfortunately it was not..."
What went wrong during 2007 and 2008?

world economy at that time,” continues Edgars, highlighting that “we all knew that there is some trouble with the US economy from time to time, but we also knew that since World War 2, in one way or another this country has always managed to overcome its problems. For instance, exchanging real money against bonds and ‘staying alive’, that is, always coming up with some solution. Well, not this time…"

Both the overconfidence of entrepreneurs (e.g., Cooper, Woo and Dunkelberg, 1988; Buensie and Barney, 1997) and their willingness to stick to the amounts they used to have even during the economic downturn (e.g., Sauka and Welter, 2010) have been found to be reasons that may increase the risk for failure. But Edgars is shaking his head as a response to these arguments, saying that at the beginning of 2007 it was neither about over-confidence nor the willingness to expand at any cost. “We seemingly had all the prerequisites and reasons for expansion back then,” he says. “Even though the economy in Latvia and other parts of the world was going down, we really did not feel any trouble!” he continues, noting that their customers were still building offices, needing furniture and making orders. Also, the turnover of Furniture Ltd was increasing: “The company was growing and our competitors were trying to copy us: we were a success story!” And indeed, Furniture Ltd was growing and our competitors were trying to copy us: “The key lesson we learned from our bankruptcy is that one should always, always, always monitor cash flow and if something goes wrong, take immediate action! Looking at the profit and loss statement showing the big losses of Furniture Ltd. at the end of 2007, I realized that myself for the first time,” continues Edgars. The profit and loss statement of Furniture Ltd indeed showed the huge losses at the end of 2007, following a sharp increase in demand, one could find a furniture manufacturer or distributor on almost any corner of the street!” remembers Edgars. “So the only sales argument was price: forget about all your advanced technology, no one is interested in this!” continues Edgars, noting that prices went down, whereas nearly every day one or two of your employees came into the office asking for a salary rise with a real threat to leave Furniture Ltd. to work for one of its competitors.

Why? Again, there are many reasons, but first of all Furniture Ltd, like many other companies, were simply used to the fast growth over the past three years. “What happens during economic growth,” explains Edgars, “is that you inevitably lose some rigour and do not pay attention to things that are very important!” What Edgars means by this is that just as economists usually judge the growth of the economy by looking at GDP figures that come at the end of the year, Furniture Ltd also judged their performance drawing on a profit and loss statement. “In business, the equivalent of the GDP figure is the profit and loss statement, which for various reasons can be evaluated after a full year, as situation per quarters, for instance, with all the investments, etc. might not provide a clear picture of what is going on”. What Furniture Ltd. learned from their bankruptcy, however, was that the first thing to look at to notice a crisis either in the economy or a company is the company cash flow! “But trust me, only a few are paying attention to their cash flows, especially when everything is developing rapidly. Instead, owners and managers look at the turnover and profits!” says Edgars, confirming empirical findings that the inability to control cash flow is among the main reasons behind bankruptcy, especially during an economic downturn (Sauka and Welter, 2010).

In addition, the construction business – the main stakeholders creating the demand for the furniture business – was starting to slow down. “More and more often we had a situation in which ready-made products lay in our stock as customers either could not pay for the order or, due to a lack of funding, construction work on a particular office building, for instance, took more time than initially planned. As a consequence we could not get the final payment share from the customers, which also negatively influenced our cash flow,” says Edgars, emphasizing that in furniture manufacturing and the manufacturing business in general it is actually not that easy to have complete control over your incoming and outgoing funds. Namely, without advanced programs and experts on board, it is very difficult to follow the exact costs of the business, “…especially during 2005-2007, when prices of raw materials were changing rapidly and constantly,” says Edgars. “For instance, we acquired stock, say, at the end of 2006, started to use it in mid-2007, then additional stock had to be bought at different prices: sometimes higher, sometimes lower. Different parts of the stock went to different customers’ orders, all for different selling prices… in a word, the final result was far from clear with all these changes.” And since the company was growing, at least looking at the turnover, Furitura Ltd. invested money and time in development, rather than control mechanisms for cash flow: “This was indeed considered as being of secondary importance at that time,” concludes Edgars.

But even with big losses at the end of 2007, Furniture Ltd. had no intention to stop! “We understood the problem: we had overslept 2007,” says Edgars, “but we also thought that not everything was lost and were looking for the solution.” The company’s strategy was keeping the information about the internal problems inside the company and moving forward. “First of all, I took on the cash flow issue, had very serious conversations inside the company, and employed a professional financial director to constantly monitor the inflow and outflow.” Since some additional finance was required to get out of trouble, Furniture Ltd. also took out a bank loan “to recover and, as we thought, continue to grow.”

Looking at things in more depth, the Furniture Ltd. management soon realized what where the key problems leading to considerable losses at the end of 2007. First and foremost it was all about the increase in costs. As Edgars explains, “close to all fixed and variable costs were increasing during 2007, some of them afterwards as well, and without constantly monitoring our cash flow, we simply did not anticipate the consequences of this.” The rise in costs came together with a sharp decrease in income, not in the form of a decrease in demand, which came later, but a constant decrease in products’ prices. “This was all mainly caused by the economic growth, in particular the huge competition, which was indeed crazy, and not only in our market segment at that time. When we started in 2004 there were almost no furniture manufacturers in the market, whereas at the end of 2007, following a sharp increase in demand, one could find a furniture manufacturer or distributor on almost any corner of the street!” remembers Edgars. "So the only sales argument was price: forget about all your advanced technology, no one is interested in this!”

The rise in costs came together with a sharp decrease in income, not in the form of a decrease in demand, which came later, but a constant decrease in products’ prices. "This was all mainly caused by the economic growth, in particular the huge competition, which was indeed crazy, and not only in our market segment at that time. When we started in 2004 there were almost no furniture manufacturers in the market, whereas at the end of 2007, following a sharp increase in demand, one could find a furniture manufacturer or distributor on almost any corner of the street!" remem-

But even with big losses at the end of 2007, Furniture Ltd. had no intention to stop! “We understood the problem: we had overslept 2007,” says Edgars, “but we also thought that not everything was lost and were looking for the solution.” The company’s strategy was keeping the information about the internal problems inside the company and moving forward. “First of all, I took on the cash flow issue, had very serious conversations inside the company, and employed a professional financial director to constantly monitor the inflow and outflow.” Since some additional finance was required to get out of trouble, Furniture Ltd. also took out a bank loan “to recover and, as we thought, continue to grow.”

Looking at things in more depth, the Furniture Ltd. management soon realized what where the key problems leading to considerable losses at the end of 2007. First and foremost it was all about the increase in costs. As Edgars explains, “close to all fixed and variable costs were increasing during 2007, some of them afterwards as well, and without constantly monitoring our cash flow, we simply did not anticipate the consequences of this.” The rise in costs came together with a sharp decrease in income, not in the form of a decrease in demand, which came later, but a constant decrease in products’ prices. “This was all mainly caused by the economic growth, in particular the huge competition, which was indeed crazy, and not only in our market segment at that time. When we started in 2004 there were almost no furniture manufacturers in the market, whereas at the end of 2007, following a sharp increase in demand, one could find a furniture manufacturer or distributor on almost any corner of the street!” remembers Edgars. “So the only sales argument was price: forget about all your advanced technology, no one is interested in this!”

“The key lesson we learned from our bankruptcy is that one should always, always, always monitor cash flow and if something goes wrong, take immediate action! Looking at the profit and loss statement showing the big losses of Furniture Ltd. at the end of 2007, I realized that myself for the first time,” continues Edgars. The profit and loss statement of Furniture Ltd indeed looked shocking and Edgars remembers asking his colleagues: “…how come? We are the best, strongest, and biggest in the market, have everything we need for development, are not spending where it is not necessary, and have not done anything stupid… So where are all these losses coming from?”
In December 2008 Furniture Ltd. officially closed down its business. The formal reason for this was that their credit line had ended and the bank did not prolong it. "But I knew they would prolong it" says Edgars. "Simply after all the effort we invested to penetrate the market and establish ourselves as a reputable brand, we never reached a profit margin and after all the problems we faced during 2008, I thought it was enough!" he continues. Also, looking back from today’s perspective, Edgars believes that this was the right decision to make: "Even if we had reached an agreement with the owners of the premises we were renting, all this would still be senseless. One of our main rivals, for instance: despite having much more experience in the market, they still had to merge with another company and move to much smaller premises. But a merger was definitely not something that I wanted to do with my company.

Even though the factory has been taken away, Edgars still had the sales part of Furniture Ltd. and they continued with this business, outsourcing the manufacturing part to others. But it soon became clear to him that this business would also not last long... "Just looking around, I saw restaurants and cafes going bankrupt: people were not even going out for lunch or dinner any more! This is when I realized that we – not only Furnitura Ltd. but the entire Latvian economy – were in the waterfall already. And the feeling was that this would be for a long time."

With time other businesses also started to realize the situation; even banks became more flexible with their previously very strict terms and conditions. “Our problem was that we happened to be in trouble at the very peak of the crisis, where many people – including the company that rented the production premises, our suppliers and the bank – did not yet understand what was going on and thus were not flexible at all.” At the peak of the economic crisis, at the end of 2008 and in early 2009, it was indeed a moment of shock for the Latvian economy and even experienced organisations did not know how to deal with such a situation. “For instance, banks were mostly just taking away property from anyone who could not pay on time, as if the banks knew what to do with this property afterwards! One of the consequences was that people who lost too much simply left the country,” says Edgars.

When asked whether he had lost everything and had intended to leave the country, he answers with a very firm “no!” “I never placed all my eggs in one basket and probably because of that have more or less already recovered from the bankruptcy of Furnitura Ltd.,” he continues. “Yes, the moment when the factory is taken away from you is full of pain, but I am sure that real entrepreneurs will always find their way out of any problems.” More specifically, one of the lessons Edgars has learned from his bankruptcy experience is that when getting rid of ballast to make a balloon fly, one should be cautious not to throw away too many assets. “There are things you can not and do not want to lose and one should also always leave some water and food on-board to have enough strength to survive and start flying again,” continues Edgars, adding that “... after all, no matter how far you fall, you will rise again sooner or later!”
And this seems exactly what Edgars was doing himself. Namely, when asked what he does for a living today, in particular whether he is working in some good management position for a big company, as he has done earlier very successfully, Edgars shakes his head emphatically: “When you enter entrepreneurship, I do not think that there is a way back. At least for me, as I am still in business and have been here since 2004!” Regarding recent empirical evidence that a previous experience of bankruptcy increases the risk of further failure (e.g., Metzger, 2007), Edgars disagrees. “It can be compared with soldiers going into the battlefield: before the first fight everyone is optimistic, but those who have been injured will know much better what should be done to protect their shoulders the second time! There is no better way to learn how to become a successful entrepreneur than by having such an experience, sometimes including having one or two bankruptcies: these are not things that can be learned by reading books, for instance,” Edgars continues. “Sure, the knowledge that came from my EMBA studies and other education played a significant role in my case as it provided me with a pillow when I happened to fall! Namely, I was smart enough to diversify my business activities so that the company failure did not automatically mean my own failure,” he adds.

What Edgars implies is that he has had businesses other than Furnitura Ltd, in fact, more than one, which indeed worked as a pillow making his landing much softer. Already in 2005 Edgars was involved in a business selling food supplements. He recently acquired 100% of this business, as Edgars explains, “All of my life can be divided into certain stages that were previously unfamiliar to me. That is, after physics I entered the bank business, which was a developing industry with a big potential for growth, and I grew there myself. Then I was in furniture manufacturing, where I was kicked out once the industry was overdeveloped, and here I learned a lot. And then again I came to the pharmaceutical industry which, as I understood, was empty and developing!” he says, adding that even though thousands of different pills exist, in general people are very uneducated and do not understand that their health is very much influenced by what and how they eat. “When I read that analgesic pills make up some 60% of all medicine sold in Latvia, I understood that many things can be done in this industry.”

If course, food supplements business also had to survive hard times, mostly because of a decrease in demand for the product. Yet, as mentioned earlier, this was not the only company Edgars had that had functioned as a pillow. In October 2008, a couple months before Furnitura Ltd. went bankrupt, he launched another business dealing in beverage machines. “It was indeed the worst time to start a company back then,” admits Edgars, “but even in October 2008 I did not yet realize that the ‘abyss’ stood directly in front of me and I was simply looking for possibilities to increase sales amounts using existing resources.” Namely, Edgars’ strategy was not to hire new personnel, but instead to find a way for existing employees to work more effectively in terms of generating profits. “So we bought expensive, good quality beverage machines – thank God not too many – placed drinks, including food supplements’ drinks, inside and started sales. And this business not only still exists, but is actually developing slowly.”

In addition, Edgars owns a female gym studio, a business that partly developed from the food supplements business and was also started in October 2008. “These are gyms meant exclusively for female customers and this business is also growing,” says Edgars. Now, returning to the bankruptcy of Furnitura Ltd, a seemingly logical question when one talks to Edgars was “how is it that when you were going down at the end of 2008 with one comparably big company and having major problems in another company, you were still launching another two businesses? What was your thinking behind that?”

“Sustainable Bankruptcy”: the case of Furnitura Ltd.

To conclude, having other companies, Edgars was able to diversify his personal failure risk. “If I only had one company, the furniture business, I would have lost it and would not know what to do next. Now, even though one of my companies has failed, I do not feel like a failed person or a failed entrepreneur!” says Edgars. “Yes, it was a very tough experience and I could not recover from it for some time, but this is something that every one should be aware of when starting their own business,” he concludes. “But now I know how to protect my shoulders from bullets, and even though my body still hurts a bit from all the experiences I had to go through, even though some financial capacity has been lost and maybe not all bills have been paid to the doctor, it is more than clear that things are almost back to normal.”

And the facts speak for themselves, as recently Edgars has launched yet another company, dealing in solar heating systems, i.e. energy saving heating for houses, so diversification continues. Indeed… it is not how fast you rise and how much you are able to reach that defines success, but whether you are able to get back on your feet after falling hard. And Edgars’ story is indeed a good example that getting back on one’s feet after falling is possible!

As we are shaking hands good-bye, Edgars adds something which, in my opinion, is crucial to know for any entrepreneur, both potential entrepreneurs and those who have been in the business for some time. His words are as follows: “When I was listening to Philip Kotler’s lectures back in 2007, when he did his trip to Riga, there was a sentence that I missed while reading his book. And the sentence goes like this: ‘Entrepreneurs, think about what you will do during the economic downturn.’ What this sentence meant I learned only later from my experience of failure. And this lesson still holds: all of you running a business and expanding, think about what you will do when the economy goes down.”
‘Sustainable Bankruptcy’: the case of Furnitura Ltd.

References


The Centre for Sustainable Business at SSE Riga

The Centre works in the areas of research, training, and popularising sustainable business activities in the Baltic countries.