



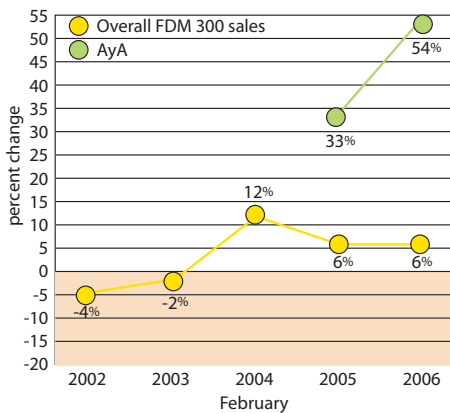
cabinets

AyA Kitchens & Baths

Sales skyrocket from nothing to \$37 million in a little more than five years.

by Michael Chazin, Contributing Editor

A comparison with overall FDM 300 sales



AyA has used a two-pronged expansion plan: new geographic markets and expanded end-use markets.

To reach \$37 million in annual sales in a little more than five years is pretty strong growth. “And we literally started from nothing”, says David Marcus, president of AyA Kitchens and Baths, Toronto. “We had no customers”

Marcus credits the business maturation process as one of the biggest contributors to the company’s success. He defines maturation as increasing distribution to expand sales and increasing capacity to keep up. Anyone familiar with the travels of kitchen cabinet manufacturing would suggest that maturation by itself isn’t enough to guarantee success, let alone year-over-year increases that frequently more than doubled from the previous year.

AyA Kitchens started at ground zero in mid-2000 when it purchased a plant full of wood working machinery. “We started at a time when the office

furniture industry was in serious decline, and some major players up here had gone bankrupt”, says Marcus. Those circumstances made it relatively easy to locate manufacturing space and qualified employees. Since then the labor market has tightened. In 2004 the company recorded sales of \$24 million, and it punched that up to \$37 million in 2005, which ranked it at no. 191 in this year’s FDM 300.

Built for Growth

Since starting in business, AyA Kitchens has had a two-pronged expansion plan. Increase the number of geographic markets that the company participates in; at the same time, expand the number of end-use markets. Part of the geographic expansion included selling into the United States, which now accounts for at least one-third of company sales.

The other growth driver has been to expand beyond semi-custom cabinets for home builders to include the retail and renovation market, as well as condominiums. Cabinets are sold through both corporate-owned branches and exclusive associates, who handle sales, installation and service. “They have rights to a territory and sell our product exclusively to the builder, and what we call the renovation market,” says Marcus.

Build a better quality program

The Woodmark Quality Certification program operates out of the Centre for Advanced Wood Processing at the University of British Columbia in Vancouver. The center contains a 12,000-square-foot wood processing laboratory, which includes advanced woodworking equipment, tooling and grinding support spaces, and wood finishing and wood drying laboratories. The center is also home to research and education facilities and whose focus will include export-oriented technology and inter-disciplinary research.

Companies that currently are in the process of implementing the Woodmark system have already derived

substantial economic benefits from the program, and each member company helps to promote the value of having a formal quality program. The system currently is working with kitchen cabinet, RTA furniture, bedroom furniture and custom millwork companies across Canada.

The Woodmark Quality Certification program is available to any manufacturer of wood-based products with direct control of a manufacturing facility. A full implementation package is provided to each new member company, and implementation is designed to be rapid and economical. Additional information is available from the Wood Products Quality Council, 604/822-0639: info@wpqc.com



As sales volume has increased, AyA Kitchens and Baths' manufacturing plant has evolved to meet demands for increased capacity.

AyA Kitchens and Baths' new Tribeca door style is featured in block-mottled Makore in this showroom display.

Atlanta offers a good example. AyA Kitchens didn't enter Atlanta until 2004, and the cabinet market there is still early in the growth cycle. AyA kitchens started working with custom home builders there. At first it was small volume, but the margins were good.

"In 2005 we did one condo project with our associate there who was just growing his business," says Marcus. That proved successful, but the associate had to divert resources to make it work, and his custom home business fell off. Subsequently he has built his infrastructure, and the future looks brighter. Three large condo projects are on the books for next year, along with a good amount of custom home work.

How to expand production

As sales increased at a near frenetic pace, the big challenge was to continue to increase volumes on the production side. Through the first five years of existence, manufacturing operations at AyA Kitchens were pushed to maintain production as volumes increased. The overwhelming majority of production is done in house. A few door styles are outsourced, and the company has started to buy hardware directly from Asian sources. It came as no surprise that as 2006 got under way, plant capacity peaked. A partial second shift was added to keep up with demand.

"We are pretty much at capacity now, but we only run a skeleton second shift," says Marcus. That needs to change to achieve greater utilization of the capital investment. Before production could expand on the second shift, however, that operation needed to get past its juggling

approach and develop a more balanced flow.

"Basically there is the ongoing challenge of moving bottlenecks," says Marcus. Fine-tuning operations involves maintaining a steady flow throughout the plant without any one department slowing down the movement. Right now the second shift has more finishing work that was originally anticipated. Before the second shift could expand to full capacity, the finishing bottleneck needed to be relieved.

Problems balancing production arose right around the time that AyA management recognized it was time to pull back on the hypergrowth and evolve into a more manageable growth mode. "We're at the point now where we have the volume we need for the business to be profitable," says Marcus. "The focus now is to bring growth to more sustainable levels and to tighten up on issues such as quality and productivity." The Woodmark Quality Certification Program offered by the Centre for Advanced Wood Processing at the University of British Columbia is helping to make those goals a reality.

The Woodmark Quality System or WQS requires companies to evaluate their manufacturing processes to determine critical areas that have the greatest impact on the quality of final product. With the use of QC tools, these areas are evaluated for inefficiencies and monitored to improve the productivity efficiency and consistency of products leaving each machine center. By eliminating errors and problems early in the process, operating costs can be

lowered through the reduction of waste, rejects and customer claims.

Time our for quality

Marcus concedes the effort to integrate WQS came just at the right time. During the rapid growth phase of those early years, many of the solutions that were implemented were meant as only temporary measures. As time went by, those temporary fixes became part of the way the company did business. To change those processes required a concerted effort to refine procedures. "To achieve that without a roadmap is always challenging," he says, "These were areas we had already identified, and WQS gave us a more formal approach to address them."

AyA Kitchens started on the Woodmark program at the beginning of the year and saw the effort really take off as the second quarter got underway. The plan is to be certified by the end of 2006. "We have already started to see benefits, and we are only part way through the program," he adds.

The timing seems perfect. Marcus says that so far this year's company sales have been driven more by production than by the sales force. As the housing markets starts to slow, and AyA Kitchens attempts to refocus efforts more toward retail and renovation, the balancing act becomes more difficult.

The goal is to blend work for single-family homes, condos or multifamily units, and retail and renovation in every market the company serves. The challenge is to keep orders rolling in as that transformation takes place.