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Housing Slump Forces Cuts at a Company Town

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WARROAD, Minn.

THREE THINGS matter big in this flyspeck city just south of the Canadian border: hockey, walleye and Marvin.

Not necessarily in that order. Yes, Warroad, nicknamed “Hockeytown, U.S.A.,” has sent six of its sons to the N.H.L. And the walleye plucked from Lake of the Woods are served for breakfast, lunch and dinner down at the Lakeview Restaurant.

But Marvin — as in, Marvin Windows and Doors — is the commercial engine in these parts and has been since George G. Marvin arrived in 1904. So when times get tough at Marvin, as they are now, the 1,700 or so residents of Warroad hold their collective breath.

But in this season of economic unease, when neither Washington nor Wall Street seems to have the answers, the descendants of George Marvin are going against the grain. Unlike so many other companies, Marvin Windows has neither laid off workers nor reduced health insurance benefits. And, its executives vow, it won't.

Marvin Windows might seem like a footnote in the nation's economic ledger. It employs roughly 4,300 people, about 2,000 of them here, and has annual sales somewhere from \$500 million to \$1 billion. But what this company is doing — and, more to the point, what it is *not* doing — is worth knowing.

Marvin Windows and Doors is a throwback to another era. For starters, it is a private company. No public stockholders are complaining that the latest numbers fell short, that the share price is down.

What's more, Marvin takes an old-fashioned, even paternal view of its role here in Warroad, where the Marvin family has run things for just about as long as anyone can remember. The company has cut employees' pay and reduced perks like tuition reimbursement and 401(k) matching. Employees haven't received profit-sharing checks in two years, nor have the 16

members of the Marvin family who work for the company.

But, unlike its top competitors, Marvin has refused to fire people.

Many here wonder if Marvin can hold out, particularly if, as many fear, the economy sinks into another recession. Company executives say they aren't panicking yet.

"Housing isn't in a recession. It's in a depression," says Susan Marvin, the company's president and a granddaughter of George Marvin. "While it's challenging for our people right now, and not everybody understands all the reasons why, the alternatives are devastating. These people would have to pick up and leave."

Some have, for places like the booming oil fields of North Dakota. Others are working two jobs to make ends meet.

THE change is palpable in Warroad. This is a place where Marvin employees get the first Monday of November off for "Deer Monday," so they can go hunting. And where on the Fourth of July the company hands out two nickels to children in town, as George Marvin did during the Depression.

When the housing market collapsed and, with it, the market for windows and doors, competitors shuttered plants and cut work forces. But as a fourth generation of Marvins prepares to take over, the most obvious — some would argue most effective — option was off the table.

While Marvin's story might seem quaint, even naïve, Ms. Marvin says the no-lay-off policy is as much a business wager as an act of benevolence. She says she is confident that it will ultimately pay off. Already, she says, Marvin is gaining market share from weakened rivals.

Ms. Marvin acknowledges that her family's private company may have more leeway than public counterparts. It has forgone profits for two years to keep everyone employed, for instance. Nonetheless, Ms. Marvin suggests that corporate America could learn a thing or two from Marvin's approach and long-term outlook.

"You can't cut your way to prosperity. You can't grow if you are cutting your lifeblood — and that's the skills and experience your work force delivers," she says, adding later: "Today, I think, to a great a degree, I think things have gotten out of balance. We see Wall Street almost punish companies that take the long view."

Several other window manufacturers are based in the upper Midwest. (The abundance of white pine and the proximity to the Mississippi River were two reasons companies located there).

Andersen is outside of St. Paul. Pella is in Iowa. Several dozen smaller operations are scattered throughout the region.

Like Marvin, many of these companies are privately held, often by descendants of their founders. Among the four biggest manufacturers, only Marvin and Jeld-Wen of Oregon continue to be managed by family members. Marvin is the smallest of the four.

Not surprisingly, the fortunes of window manufacturers are tied closely to housing construction and have followed the same precipitous rise and fall. New housing starts began climbing in 2000 and peaked in 2005, at more than two million, as new subdivisions sprouted across the country, particularly in the South and West.

Marvin's chief executive, Jake Marvin, says his company's peak year for profitability was 2006, and it continued to perform well through 2008.

Then the financial crisis hit, and housing construction collapsed. In 2005, an estimated 34.1 million windows were shipped for new construction. This year, that figure is projected to be 11.9 million. Mr. Marvin says new housing used to account for 60 percent of his business. These days, it is closer to 25 percent.

Most manufacturers responded to the collapse by closing plants and laying off employees, so much that the industry work force is a third smaller than it was a few years back, says Michael O'Brien, the chief executive of the Window and Door Manufacturers Association, a trade group.

Making matters worse, some manufacturers were saddled with debt from acquisitions they made in the boom years. Others confronted formidable financial problems.

Jeld-Wen, for instance, has closed 21 facilities and reduced its work force by 25 percent in the last three years, according to Standard & Poor's. The company is still struggling to fix its finances.

Other companies have made more modest layoffs, and like Marvin, they are trying to gain market share during the industry shakeout.

Kathy Krafka Harkema, a spokeswoman for Pella, says her company closed two plants, one in Iowa and one in Arizona. The move resulted in just over 300 layoffs. But Pella, which has roughly 8,000 employees, has remained profitable during the downturn, she says.

Mr. O'Brien at the window and door association says consumers remain skittish.

"It's always, 'Next year it will turn around,' " he says. "It's a challenge. No one thought we'd be where we are today, having not pulled out of it."

THE fortunes of Warroad and Marvin Windows, like those of Detroit and the Big Three automakers, are deeply intertwined. Back when this was a Chippewa village, the Sioux invaded by way of the Red and Roseau Rivers, a route that ended at the mouth of the Warroad River — the “war road” in the town’s name.

Today there are more Marvin employees in Warroad, about 2,000, than there are residents, 1,722. (The company’s other employees are scattered at plants in North Dakota, Tennessee, Virginia and Oregon.) The company’s factory sits on the western edge of town. The visitor center, which includes a company museum that holds a lock of George Marvin’s hair, is nearby, as is company headquarters. The Marvin Home Center, a spacious hardware store, is closer to the town center.

Mayor Bob Marvin is the brother of Jake Marvin, the chief executive, and Susan Marvin, the president. The town library, the senior center, the indoor swimming pool at the high school — all were financed by Marvin or the Marvin family. So was most of the 1,700-seat hockey arena. A Marvin scholarship fund provides college tuition for about 20 Warroad graduates each year.

“These are people we went to school with,” Jake Marvin says. “We go to church with them. We see them in the same restaurants. Indeed, a lot of us have married local girls and boys.”

He later added, “We could be anywhere. But we are in Warroad.”

JAKE MARVIN, a stout 63-year-old with slicked back hair, wire-rimmed glasses and a deep, gravelly voice, says he never saw the economic collapse coming. But when it came, he says, it wasn’t too difficult to decide what to do.

Marvin Windows has laid off employees only once, in the late 1960s, Mr. Marvin says. He had no appetite to do it again. His grandfather kept his eight employees through the Depression.

Jake Marvin could afford to make that decision. His company had no debt and had some money in the bank. Call it luck or shrewd planning, but while others splurged on acquisitions in good times, Marvin Windows stuck to its knitting and grew organically.

Nonetheless, given the severity of the financial crisis, it became clear that something had to give. Other than jobs and medical benefits, everything was on the table.

Salaries were cut by 5 percent. Hourly workers were pulled back to 32 hours a week. While 32-hour weeks weren’t uncommon during slow winters, this time the hours were reduced indefinitely. Raises were suspended, too.

In addition, Marvin stopped paying tuition reimbursement and financing a program that

brought professors to Warroad to teach classes. Employees could no longer cash in vacation days they didn't use. Pizza parties and award ceremonies were nixed.

Employees were encouraged to take unpaid leave, and many did. Through attrition, Marvin pared its work force back to about 4,300 from a peak of over 5,000.

"Every month, something came off the table," Mr. Marvin says. "We wanted to find a point where we could operate indefinitely until the market turned around."

MARVIN'S no-layoff announcement was cheered by employees, and in April 2009, Ms. Marvin and a Marvin employee were hailed as "great Americans" on national television. But much of that euphoria has worn off in the three difficult years since, as the reality of smaller paychecks has taken hold.

"Is 32 tough? Absolutely," says Travis Kelley, a 16-year Marvin plant employee who took a second job at a local supermarket, Doug's, to help pay the bills. The cut in hours was harder than it might seem because Marvin workers made so much in overtime. "We were taking home some big checks," Mr. Kelley, 39, says.

Nonetheless, Mr. Kelly said he was grateful for the job and had come to realize that he might have been spending too much anyway. "I sold off my toys — snowmobile, a couple of guns," he says. "Now when I am home, I am home."

Another Marvin employee, Nathan Hoy, 30, is working a second job at the Warroad Municipal Liquor Store. His reduced hours have taken a toll. "You drive less, drink less, go out less often," he says.

In Warroad's downtown, at Lake Street Floral and Gifts, Toby Larson says business is down 40 percent. He attributes the decline to the cuts at Marvin and the broader economic malaise.

"As far as the person who used to buy off the sidewalk or cooler, that doesn't happen any more," he says.

Over at Thomson Thrifty White Pharmacy, the owner, Dennis Thomson, says customers are still filling prescriptions and buying items "they need to live." Sales of discretionary items at the front of the store have fallen off.

With little chance of a quick turnaround, some Marvin employees have quit to try their chances elsewhere. Mike Gamache, who worked for the company for 15 years, says he was treated well and earned a two-year college degree on Marvin's dime.

But he left about six months ago, along with three friends from Warroad, to work in the North Dakota oil fields. “It got to the point where you start looking around. I didn’t see where the economic prospects for the company were getting any better,” he says. “If someone offers you \$6 an hour more and tons more overtime, can you blame a guy?”

The Marvins don’t dispute Mr. Gamache’s assessment. But they don’t have second thoughts about their no-layoff stand either, at least not publicly. Layoffs, they say, would hurt everyone here.

“I’ve talked to other business people about it, and they have challenged it. They have challenged the wisdom of it,” Susan Marvin says.

Asked how long Marvin can keep its promises, given the potential for another recession, Jake Marvin replies with a question of his own: “How long does that second recession last?”