

BUSINESS CASE STUDY

Tied in knots: Chiloian Gallery's carpet dilemma

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Tracing its roots to 19th century Armenia, the modern set-up for Chiloian Gallery was established in Los Angeles, California, in 1976 by brothers Patrick and Antranik Chiloian, forming the 5th generation of carpet dealers in the family. Spending their youth in Lebanon, the brothers learned the antique carpet trade, as well as the methods and techniques in antique carpet restoration, from their grandfather. With the onset of war in Lebanon in 1975, they moved the business to the United States. The Chiloian Gallery initially began as a wholesaler of antique rugs and carpets to the Californian market, later expanding to retail by opening galleries in Beverly Hills and back at home in Beirut, Lebanon in 1980 and 1994 respectively. Today the brothers derive most of their expertise from the basics of carpet restoration, but infuse this knowledge with up-to-date technology, adding a modern touch to a trade that is as old as the hills.

Maintaining exceptionally high levels of inventories of antique carpets of different origins, designs and sizes from around the Orient has provided the firm with high levels of product availability. This availability has also been the core of the gallery's business model. According to general manager of the Lebanese operations of the firm, Antranik Chiloian, 'When you walk into one of our galleries, you would notice that we have carpets of all geographic dispositions, designs, patterns and colours that could cater to the varying needs of the market. In essence, we try to provide our customers with carpets that would be aligned with their individual tastes and preferences and they would leave the store with a carpet they could identify with and call their own.' He feels that it is this high level of availability that differentiates this firm in a very competitive market such as that of luxury art and provides it with a competitive advantage over competing firms in Lebanon.

In 2010, the firm opened a new state-of-the art 500-square-meter gallery in Ashrafieh, Beirut. This move was undertaken in order to get the firm closer to the heart and working hub of Beirut, as the previous location had been in Rabieh, in Beirut's suburbs. Accompanying this move, however, was a much higher need for inventory. As is the case for most antique businesses, Chiloian Gallery maintains very high levels of inventory, which in effect lead to more purchases that contribute to higher expenses. In 2012, for example, this heightened influx of inventory led to a record-low ROI of 1.17 for the firm. This reflected a hiccup in the financial structure of the firm when, due to political turmoil in Lebanon, the market for antique carpets froze for a year and inventory was still being purchased, culminating in high costs for the firm. Chiloian Gallery's upper management felt that a shake-up of the current revenue and expenses structure was necessary in order to return ROI to at least the company's benchmark of 1.5, while accommodating for sudden fluctuations in demand. The Chiloian Gallery faced a choice between either lowering inventory purchases to lower expenses while sacrificing product availability, or maintaining the current level of inventory purchases while dealing with higher costs.

Another concern for the firm at the time was how it would market itself. For the past few years, billboard signs and magazine advertisements had been the norm in the antique carpet industry in Lebanon. Chiloian Gallery, however, had up until then relied on spreading its brand image only through the quality of products and the service it provided. The company had not believed in marketing its brand name through advertisements targeted at the mass market. Being a provider of luxurious goods, it claims to advertise itself solely through years of building trust with its customers and providing them with authentic and unique carpets of the highest calibre. According to advising director Patrick Chiloian "Buying art today is more of an investment for the future. Just as you would trust your banker for a healthy return on your investments, the same applies to art pieces as trustworthy art dealers are just as high in demand as the next best investment banker." However, in today's modern age, word of mouth may not spread fast enough and reach potential clients. The dilemma presented to the firm was either to maintain the current marketing method or to move into more formalized methods of marketing. Overall,

the firm's management is still confused over what is to be done and what strategy the firm will undertake for the future. They are essentially choosing the level of inventory to be maintained by the firm and how the firm will choose to market itself.

Sources

Personal Interview with Antranik Chiloian, general manager of Chiloian Gallery 3-7-2015.

Telephone Interview with Patrick Chiloian, advising director of Chiloian Gallery 4-7-2015.