

Furnishings Digest Newsletter

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Reading Time

16 minutes



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Celebrating 43 Years of Proprietary Furniture Research



BUSINESS IS GOOD... and getting better. Early Labor Day results appear very encouraging nationwide. The latest housing sales show gains in every geographic region, a very promising factor. Ad spending for Labor Day weekend and the prior week were back to pre-recession levels, counting all media. Of course, Labor Day is the most important home furnishings holiday of the year (in most years).

Lots of promotions are your-choice affordable sofas in a short cover and frame mix. This hits a chord with young homeowners.

No interest promotions were popular as well with Rooms-to-Go going out to 2020 (the year, not the vision). Most offer 3 years no interest with payments from the first month.

Do you doubt that business is better? Please take a look at **Table 1** to see 6 months (including August) of improved retail sales, factory shipments and strong mattress sales.

Monthly Trends

Table 1.

% Change y/y	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2014												
Total consumption of furniture & bedding (a)	(0.2%)	2.8%	3.6%	3.4%	3.1%	1.7%	2.3%					
Furniture stores sales (a)	(1.7%)	2.0%	3.1%	7.4%	4.8%	1.8%	3.1%					
Mattress factory shipments (b)	0.0%	0.9%	12.7%	3.0%	4.5%	7.7%	8.9%					
Furniture factory shipments (c)	3.4%	(2.0%)	10.0%	12.0%	5.4%	4.2%	N/A					
2013												
Total consumption of furniture & bedding (a)	0.0%	(3.4%)	0.3%	0.4%	0.5%	2.1%	0.3%	2.6%	3.7%	7.1%	3.7%	0.0%
Furniture stores sales (a)	7.2%	(9.3%)	2.2%	5.0%	0.1%	(1.8%)	7.3%	4.4%	4.1%	10.2%	6.9%	5.0%
Mattress factory shipments (b)	0.5%	(6.7%)	(3.3%)	8.5%	2.0%	3.5%	5.9%	6.6%	(0.6%)	4.3%	(1.3%)	7.0%
Furniture factory shipments (c)	10.4%	(2.0%)	(3.5%)	2.0%	3.4%	7.5%	9.0%	3.0%	10.5%	9.0%	10.0%	3.5%

Sources:

(a) U.S. Department of Commerce (data restated in 2013) (b) International Sleep Products Association (c) "Furniture Insights" a monthly publication by Smith Leonard

Of course, the real estate market is always local as is employment, but on a national basis, we see improvement in both the economy and home furnishings sales. If your business is not better, figure out why now. Don't wait.

Are we killing our golden goose? Mattresses are the most profitable sale on most stores' floors, hands down, but heavy promotions by Big Lots, Groupon, and other "non-furniture" retailers are flooding the market with brand-name \$299 and \$399 queens. Most of these outlets have few if any step-up options so the \$299 and \$399 units are the goal of the sale. Unlike the vast majority of knowledgeable mattress retailers who use entry-level

branded mattresses to generate traffic then explain the features and benefits of other mattresses that often are higher priced (LOL), these high-volume retailers appear perfectly happy at entry level prices and satisfied with those margins.

Tempur-Pedic, Select Comfort and most other recognized brands have educated most consumers that higher prices are easily justified to create the perfect sleep experience and its rejuvenating benefits.

Yes, there is a massive, stable market for sub-\$500 mattresses based on income and demographics but are the two getting confused with one another? Could a wealthier \$1,000 mattress qualified customer see a *Groupon* today-only internet deal for \$299 and the industry lose a step-up sale? (*Groupon* will sell you a \$1,200 mattress coupon for only \$299 or \$399 – today only, of course)

By the way, did you catch the Labor Day week Walmart newspaper insert offering *Beautyrest Studio* full and queen sets for \$377 and \$399 (“was \$397 and \$446”)? It also offered Simmons’ Studio \$99 twin foam mattresses and a \$94 *Beautyrest* twin foundation. The ad states “mattresses available in select stores only” and suggests that a wide assortment is on Walmart.com.

For years, mattress retailers were protected by the need for home delivery and credit to finance the purchase but, from the evidence, more consumers are willing to use the “take with” option these days. (Maybe this explains why the Ford F-150 pick-up is the best-selling single vehicle in the U.S. People are using them to “take-with”)

Smiles were everywhere at the early August *Nationwide Marketing Group’s* twice a year “PrimeTime University” at the Opryland Gaylord in Nashville, reinforcing our confidence in this recovery. Some numbers were almost hard to believe (a 52% sales gain in July?) but they were reported often. The appliance, consumer electronics, lawn mower and vacuum cleaner spaces were all busy but the furniture spaces were busier. New programs to assist their dealer-members with all types of advertising – including social media – were well received as were successful outdoor furniture, kitchen and grill opportunities.

Since so many of the larger internet and “big box” retailers are dependent upon imports, a new “i-America” package using made in America *Serta, Catnapper, Jackson* and *Vaughan-Bassett* furniture and mattresses was very popular with *Nationwide’s* small to mid-sized retail members.

Of course, I was so overwhelmed by the larger (80”) ultra-HDTV units, I wanted to “accidentally” damage my current HDTVs so I could replace them. Every retailer should place a new 60” ultra-HDTV next to an older 42” one (and a 50” ultra next to an older 32” HDTV) to show the difference clearly to your customers. Even if you don’t sell TVs they will help sell recliners, motion and cabinetry.

Nationwide Marketing Group calls these events a “university” because of the days of educational programs, showing its members the latest in marketing, logistics, advertising, branding and other key factors to be a competitive home furnishings retailer today.

One long-time friend, a multi-store furniture chain owner told me he couldn’t afford not to be a member.

REVITALIZED, REJUVINATED & REFRESHED... is the way I felt after a recent furniture store tour in Michigan. In my opinion, few in our industry have the opportunity to see the latest and greatest. Following the programs in Nashville, I spent a few days in the Toledo and Detroit areas.

Touring high-end *Gorman’s* and *Scott Shuptrine* (owned by *Art Van*), then *Art Van’s* new Pure Sleep mattress specialty stores, and then both *Gardner-White* and *Art Van*, gave me a whole new confidence in our industry.

While I cannot go into all the truly exciting things I learned, *Gardner-White* has introduced same-day delivery (reminding me of Miami and Houston) while *Art Van* is testing a new upscale “Urban” setting in a few of its stores that should, with its main floor and its clearance center, offer a good-better-best strategy.

If you are in our industry and don't visit other markets to see what is working, you are likely giving up a lot of sales. One last point: Detroit is rebounding rapidly. You have to see it to believe it.

BEN BERNANKE SPEAKS... Former Federal Reserve Chairman, Ben Bernanke, recently testified at some AIG litigation. He noted that our 2008-2009 recession could have been-and in some ways was - worse than the Great Depression, but for different reasons. Among his points:

- Far more Americans have 401K's, pensions, stocks, bonds and mutual funds, and were more exposed to the stock market than in the 1920's and 1930's.
- The 70 year rising home price "sure thing" came to a crashing halt, crushing many consumers' net worth and retirement plans; and
- The combination of rapidly rising imports and new labor-saving technologies combined to not only increase unemployment but made many realize that job opportunities with their existing skill set were minimal, shocking many in terms of their future.

Mr. Bernanke says the recovery we are experiencing is more like the U.S. recovery after the very disruptive years of World War II. After a period of uncertainty, steady growth should resume.

Retail Sales of Furniture		Table 2.
Period of Weakness	First Year of Recovery	Gain
2008-2009	2013	+0.6%
	2012	+4.7%
	2011	+2.5%
	2010	+2.2%
2001-2002	2004	+8.0%
1990-1991	1993	+7.7%
1982	1983	+13.3%
1975-1976	1977	+15.9%
1970-1971	1972	+13.4%

Comparing the recovery of the furniture and mattress industry this cycle vs. past recoveries, confirms this (Table 2). In our opinion, we are only beginning to see the recovery in both housing and home furnishings.

HOUSING... After softer numbers earlier in the year lead to some speculation that housing was losing momentum, most of the current news is positive (Table 3). More properties are being listed for sale, affordability has improved, mortgage rates are back down to 4.1%, and new apartment construction is up 24% this year because of low vacancy rates (4.1)% and higher rents (avg. \$1.24 sq.ft.). Housing starts will exceed one million units but the big gains continue to be in multi-family

July Housing Stats		Table 3.
	Year/Year	
Housing Permits	7.7%	
Housing Starts	21.7%	
Single Family	10.1%	
Multi-Family	49.5%	
Housing Completions	8.0%	
New Single Family Home Sales	12.3%	
Existing Home Sales	(4.3%)	
Existing Home Inventory	5.8%	

THINGS WORTH PONDERING...

- Mexico is about to emerge as the next major auto manufacturing source because of labor costs and free trade agreements with 44 countries that allow it to sell to North and South America, Europe and Japan duty-free. *Infiniti, Mercedes, BMW, Hyundai-Kia, Nissan Honda, VW and Mazda* have plans to build cars in Mexico, where the average workers' age is 24 and the daily wage is \$40 (*Forbes*, 9/18). Could furniture be next? *La-Z-Boy* and *Ethan Allen* already have operations there.
- Many movie theaters are upgrading to compete with better home entertainment. Improvements include reclining seats, better food and improved video and audio. Look into advertising in these theaters between movies. It is cheap and you have a captive audience but keep your ad PG. (*Kiplinger*, 8/8)
- Americans have to develop an efficient market for used everything. Adults need to "declutter". The older generation is leaving homes full of dishes, silverware, electronics, furniture, jewelry, clothing and everything else for the younger generation to dispose of however they can. *AARP magazine* (September) lists options for disposing of all of this. For furniture, it suggests consignment stores first, then antique stores, then eBay or Craigslist, yard sales, then give it away/donate it. Americans need help and an efficient, profitable market will develop. We suggest you consider consigned furniture to supplement your clearance center.
- Hasn't it been wonderful having months without Congressional wrangling over debt ceilings, spending resolutions, budgets or threats of closing the government? That will end after the November elections, unfortunately, but the debates will roll over into 2015. Nuts.
- "The Future of Sleep" (*Washington Post*, 8/25) discusses "dream management", "the perfect sleep experience", "genetically modified sleep", "curing narcolepsy", "smart pajamas" and "human hibernation".

- In the coming eighteen months, truck and rail freight costs will be rising but ocean freight should be stable because of a large glut of cargo ships (*Kiplinger*, 8/29).
- According to the major credit card companies, slow payments (90 days or longer) are now only 1.16% of credit card debt, down dramatically from 3.12% in 2009, in the depths of the recession.

CONFIRMING GOOD BUSINESS...The domestic public home furnishings companies are showing good sales gains in their most recent quarter (Table 4), confirming overall home furnishings sales are good, and getting better.

Key Residential Furnishings Statistics				Table 4.			
	Q Ended	Sales	Net Income		Q Ended	Sales	Net Income
Furniture Manufacturers				Bedding Companies			
Bassett Furniture Industries, Incorporated	5/31/14	4.9%	160.3%	Mattress Firm Holding Corp.	7/29/14	35.2%	1.2%
Compass Diversified Holdings	6/30/14	9.5%	Profit	Select Comfort Corporation	6/28/14	13.2%	(14.6%)
Culp, Inc.	4/27/14	5.2%	(26.0%)	Tempur Sealy International Inc.	6/30/14	8.2%	Loss
Ethan Allen Interiors Inc.	6/30/14	9.1%	108.5%	Foreign Companies			
Flexsteel Industries Inc.	6/30/14	8.9%	32.8%	Bestar	6/30/14	5.4%	139.5%
Hooker Furniture Corp.	5/4/14	9.1%	31.9%	Chinlink International Holdings Limited	3/31/14	40.0%	Loss
La-Z-Boy Incorporated	7/26/14	7.0%	36.4%	Ekornes ASA	6/30/14	(2.7%)	(30.7%)
Stanley Furniture Co. Inc.	6/28/14	(0.5%)	Loss	HTL International Holdings Limited	6/30/14	(0.4%)	277.7%
Furniture Retailers				Kasen International Holdings Ltd.	6/30/14	(18.0%)	28.7%
Aaron's, Inc.	6/30/14	22.2%	(67.1%)	Leon's Furniture Ltd.	6/30/14	(1.3%)	14.4%
Conns Inc.	7/31/14	30.4%	(7.9%)	Man Wah Holdings Ltd	3/31/14	25.5%	35.9%
Haverty Furniture Companies Inc.	6/30/14	2.3%	(0.0%)	Natuzzi SpA	3/31/14	(11.1%)	Loss
Pier 1 Imports, Inc.	5/31/14	6.1%	(75.6%)	Samson Holding Ltd.	6/30/14	(4.0%)	28.2%
Restoration Hardware Holdings, Inc.	5/3/14	21.5%	Profit				

Notes:

"Profit" is shown without a % for companies that showed a net loss a year ago

Sources:

Capital IQ as of September 3, 2014

QUIZ... Of the largest 100 furniture stores in 1990 (according to the May 13th, 1991 *Furniture Today*), how many are still around today? 31, 41, 51, 61, or 71?

Answer: The answer rhymes with the first name of the highly respected chairman of *Rooms-to-Go*.

SEE YOU THERE...I will be speaking at these events:

- September 25th (Thursday) A.H.F.A Upholstery Manufacturing Summit, Hickory, N.C.
- October 19th (Sunday) 10am N.A.H.F.A. Retail Resource Center at the High Point market (Plaza Suites 1)
- October 19th (Sunday) 2pm informal presentation and book signing at the High Point market (Surya showroom, Showplace 4100)

Also, October 20th (Monday) 4pm in the Market Square courtyard, I will be among many authors signing their new books.

COMING IN OCTOBER: My new book "Fifty Years of Furniture Styling : Fond Memories"

FOR SUBSCRIBERS:

An updated *Retail Distribution Study*, and a new *Furniture and Mattress Forecast*, will be released later this year.

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About the Furnishings Digest Newsletter

Driven by founding partner Jerry Epperson's respected insight and long-term commitment to the furniture and mattress industries, Mann, Armistead & Epperson, Ltd. publishes the monthly Furnishings Digest Newsletter in addition to various manufacturing, retail, distribution, strategy and demographic reports that are available for purchase individually or by annual subscription. For more information, please email research@maeltld.com or call (804) 644-1200.