

Furniture Economics: The Battle of the Furniture Markets **by Andrew Brod** ***Home Furnishings Retailer*, April 2005**

On April 14 the largest furniture exposition in the world will open for the first of its two 2005 engagements. Of course I'm talking about the International Home Furnishings Market in High Point, North Carolina. For years the IHFM has been *the* place to go to see new product lines and schmooze with manufacturers (and increasingly, importers). But now a new and aggressive competitor has appeared on the horizon, the new furniture market in Las Vegas, and the dominance of the High Point market may be challenged.

But before we talk about the challenger, let's take a look at the champion. The High Point market has been around since 1909, when area manufacturers capitalized on the growth of the industry in North Carolina by establishing the Southern Furniture Market. The market moved to its current twice-yearly schedule in the early 1980s and took its current name in 1989.

The IHFM now boasts 11.5 million square feet of showroom space, spread among nearly 190 buildings. The total square footage is more than three times the size of the next largest furniture market in the world. The IHFM attracts nearly 75,000 people twice a year, including nearly 3,000 exhibitors.

High Point's "market share" is impressive. A few years ago, my office at UNC-Greensboro conducted a series of surveys called "Mood to Market" in which furniture retailers were asked about their business outlook and their attitudes regarding the High Point market. The survey indicated that over 70% of the retail buying power in North America attends the High Point market, and for the larger April market the figure is roughly 80%. With the economy strengthening since those surveys were conducted, the market share could well be higher now.

The IHFM isn't important just to the furniture industry; it's also important to the Triad region of central North Carolina. In another study, my office calculated the economic impact of the High Point market, and found that it injects more than \$1 billion annually into the regional economy. The size of that impact was surprising to some, because the economic impacts of such big events as the Super Bowl tend to be only a third to a half as large. But it made sense given a distinctive feature of the IHFM: roughly two-thirds of the showroom space in High Point is either owned outright by exhibitors or is categorized as "permanent rental" space.

Exhibitors with permanent rental space can exert a great deal of control over their showrooms, often including reconstruction and redesign. Exhibitors with temporary rental space can redecorate but generally cannot do extensive work between markets. And it is the extensive between-market activity in High Point that generates roughly two-thirds of the overall economic impact of the IHFM. In the same way that many retailers depend hugely on December sales, many contractors and designers in and around High Point depend hugely on between-market work.

The magnitude of the IHFM's economic impact isn't a big concern to home-furnishings retailers, but it does explain why folks in central North Carolina view the challenge of the soon-to-debut World Market Center in Las Vegas with such trepidation. Part of the fear derives from Las Vegas' fundamental glitziness, its what-happens-in-Vegas-stays-in-Vegas coolness. Another part of the fear derives from many Southerners' basic insecurity about their own region.

But the biggest reason for concern involves hard facts. There are few cities in the world that can match Las Vegas' entertainment and convention infrastructure, for example the sheer number of hotel rooms within a few square miles. There are approximately 140,000 hotel rooms in Las Vegas, with more planned for the future. As a result, Las Vegas hosts some of the largest conventions in the world, and the city absorbs them all with nary a burp.

In contrast, every market in High Point stretches the city to its limits. Hotels bulge at the seams, hotel rates rise dramatically, and many attendees rent single-family homes to avoid the hotel scene altogether. Though the oft-cited figure of only 1,100 hotel rooms in the city of High Point is misleading (there are many more in the metro area), the IHFM's hotel capacity falls far short of Las Vegas'.

To many buyers and exhibitors, renting homes is a quaint and attractive aspect of coming to High Point each year. But according to the Mood to Market survey, the hotel squeeze is buyers' primary concern. When asked what most needs to be changed about the IHFM, a majority of retailers that planned to attend the October 2003 market pointed to the cost and availability of lodging in High Point.

Very few respondents wanted better transportation in and around High Point, which has been one of the focuses of the International Home Furnishings Market Authority since it was established in 2001 to oversee the market. Very few said they want better entertainment options or better transportation to High Point. And it's also fair to note that the second most frequent response was that nothing needs to be changed, that the High Point market is fine as is.

If these survey results are accurate, then the scope of the Las Vegas challenge is clear. It's less about the glitz of Las Vegas than about the cost of High Point. Judy Mendenhall, president of the IHFM Authority, likes to say that furniture people don't go to market to be entertained, they go to do business. According to the Mood to Market surveys, she's right. But the business orientation of market attendees is also at the core of the challenge she and the IHFM face.

The people behind the WMC in Las Vegas obviously know what High Point's Achilles' heel is. In January they announced a program whereby market attendees could benefit from low hotel rates in Las Vegas, starting at a mere \$52 per night. Of course it remains to be seen how long they'll sustain that program, but it's a savvy and aggressive move.

According to news reports, they expect somewhere between 30,000 and 60,000 attendees for the inaugural Las Vegas market that starts on July 25.

What should we watch for as this battle of the furniture markets proceeds? One important signal will be what happens with the San Francisco market, which is currently the primary Western regional market. Will Las Vegas replace San Francisco? It will also be interesting to pay attention to the October market in High Point, which is slightly smaller than the April market. The April market is in a better position to retain attendees because it takes place right when retailers are lining up merchandise for the fall buying season.

The impact of the new Las Vegas market, at least on High Point, will be gradual. The projected build-out in Las Vegas is 7.5 million square feet of showroom space, which would make it the second largest furniture market in the world. But for the inaugural market in July, fewer than 2 million square feet will be available. Nothing serious will happen to High Point as the result of 2 million new square feet of showrooms.

It will also be interesting to see the mix of exhibitors and merchandise in Las Vegas. The largest showroom there will be about 30,000 square feet, whereas many in High Point exceed 100,000 square feet. In addition, only a small proportion of showrooms at the WMC will be permanent rentals. Furniture is a style business and the ability of exhibitors to fashion just the right settings in which to display their merchandise is extremely valuable, both to them and to retailers. It may be that Las Vegas will end up specializing in mid-range merchandise, while high-end lines will continue to dominate in High Point. Also, because of its location, Las Vegas may end up specializing in product from Asia.

The most likely outcome is that Las Vegas and High Point will coexist as important furniture markets. Maybe High Point will shrink a little, and maybe not. Maybe Las Vegas will expand to 7.5 million square feet and maybe not. But a little healthy competition could lead them both to improve the cost and quality of what they offer to manufacturers and retailers. Competition isn't always fun for the competitors, but it usually yields benefits for the rest of us.

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