Off-Shore Furniture Plants Carve Niche in Domestic Market
by Andrew Brod
Greensboro *News & Record*, July 29, 2001

The home furnishings industry has seen better times. Manufacturing employment in the industry is down, profits are being squeezed, and nobody's especially excited about the recent regional furniture markets.

And yet the future isn't exactly dreary. The traditional leading indicators for the industry, housing starts and home sales, are holding steady. The recent furniture-fabric show in High Point featured bold colors and some fresh styling, which often reflects the industry's optimism about future sales.

Taking at least some of the above into account, the American Furniture Manufacturers Association predicts that shipments of household furniture will rise moderately in 2002 after a disappointing but hardly disastrous 2001.

Into this mixed and uncertain picture, economic forces have introduced an additional source of uncertainty: foreign competition.

Furniture is one of the last American manufacturing industries to face significant import competition. Aside from niche lines, the industry has been mostly immune to imports, due to the high cost of transporting bulky products and the dizzying variety and near-custom nature of many lines of upholstered furniture.

But thanks to falling transportation costs and improving workforces abroad, foreign producers, as well as off-shore plants owned by domestic companies, have begun to make inroads in the domestic market.

The sector most affected by this development is case goods, which is wood and metal furniture that is relatively standardized and can often be shipped to the U.S. in pieces. Domestic makers of leather furniture are beginning to feel the heat as well, but imports of upholstered furniture have yet to prove to be a significant force.

According to the federal Commerce Department, from 1996 to 2000 the furniture trade deficit (the excess of imports over exports) increased by an average of 24 percent per year. Compared with that, the figures for 2001 so far look encouraging. In the first quarter of this year, the furniture trade deficit was only 9 percent larger than in the first quarter of 2000.

However, furniture imports tend to be at their lowest early in the year, so we can expect the gap to widen as the year progresses. And it's easy to pile up big growth rates when the starting point is small. In a sense, the role of international trade in the furniture industry is only now reaching a critical phase.

Some industry observers are predicting that domestic production of case goods and lower-priced lines will soon be a thing of the past, with production moving to Asia to take advantage of cheap labor, among other things.

The data lend credence to this view. The biggest furniture exporter to the U.S. is China, followed closely by Canada. The next three are Italy, Taiwan, and Mexico. Also in the top ten are Indonesia, Malaysia, Thailand, and the Philippines. In other words, except for Canada and Italy, this is the usual list of cheap-labor countries.

But it's more than cheap labor which has pulled some production overseas. The quality of labor, most notably in China, has improved dramatically. And it's often cheaper to build a new and modern plant elsewhere than it is to retool aging domestic capacity.

Besides, some foreign producers have no interest in competing on the basis of cheap labor. At the recent furniture market in San Francisco, one of the new developments was the growing presence of Australian manufacturers. Those in attendance in San Francisco tend to emphasize quality and styling over low prices.

So foreign competition has reached a critical phase in the furniture industry. Is that necessarily bad? Obviously it's a positive development for consumers, who seem not to care particularly where their furniture is made. And while strong import growth always reshapes an industry, it need not devastate it, at least not in the long run.

To be sure, competition from imports has ensured that apparel manufacturing in the U.S. will never be the same. But the automobile industry was also faced with withering competition from abroad, yet it survived and is thriving today. In the early 1980s, many of us wouldn't have dreamed of buying an American car, opting instead for Hondas and Toyotas. But today American cars are efficient and high-quality machines.

The question is, is furniture more like automobiles or apparel? Is a sofa more like a minivan or a pair of blue jeans?

The answer is, some of each.

"Blue-jean-like" furniture that relies on repetitive and labor-intensive production will continue to move overseas. That is the clear pattern in American manufacturing, both before and after trade agreements like NAFTA. After all, one of the main reasons the textile and furniture industries moved into North Carolina in the first place was the search for cheap labor. All we're finding out now is that case goods and lower-priced furniture lines can no longer be exceptions to the rule.

For those lines, the corporate model may be found in such companies as Greensboro's VF Corporation, which doesn't actually make much of the clothing it sells (including blue jeans!). Or there's Dell Computer Corporation, which doesn't actually make many of the PCs it sells. The relatively low-margin activity of production shifts elsewhere, while the relatively high-margin activities of design, marketing, and research stay here.

Whether remaining furniture lines turn out to be “blue jeans” or “minivans” depends on manufacturers’ ability to transform production itself into a high-margin activity. Either domestic furniture manufacturing will emphasize quality of product and quality of service, or it will follow the overseas trend.

The evolving emphasis on high-margin production will solve some of the industry’s long-standing problems. Capital investment, never the industry’s strong point, will become a hallmark. The new technologies that are changing the face of other manufacturing industries will finally take root in the furniture industry. And the big growth will be in furniture exports, not imports.

High-margin production will also integrate manufacturing with customer service and distribution. The apparel industry is experimenting with a concept called “mass customization,” which allows consumers a choice of a wide array of product options, with little waiting. Higher-end furniture lines have always offered many options, but with a wait, sometimes a very long wait. Whether or not they can implement mass customization, furniture manufacturers will have to learn to harness technology to listen more closely to their consumers.

The next few years in the furniture industry will be interesting indeed. But soon enough, the “blue-jean” manufacturers will have completed the shift overseas, while the “minivan” manufacturers will remain.

The remaining furniture manufacturers will have changed dramatically the way they do business, just as the big Detroit automakers had to change in the wake of their own brush with import competition.