

The end of the furniture industry?



by Andrew Brod

Andrew Brod is the Director of the Center for Business and Economic Research at The University of North Carolina at Greensboro. You can reach him at 336-334-4867 or AndrewBrod@uncg.edu. Dr. Brod's columns are available at <http://cber.uncg.edu>.

The Great Recession of 2007-2009 has almost certainly ended. It may be many months before the National Bureau of Economic Research, the authoritative voice on the beginnings and ends of recessions, makes its announcement. But when it does, my guess is that it will announce that the recession ended this summer.

Recessions are always followed by expansions, but in the early months of an expansion, the economy is not yet an especially happy place. In particular, the unemployment rate, which is perhaps the most closely watched economic indicator, generally remains high until well after the recession ends. In this

brand-new expansion we're just starting, we can expect high unemployment to persist through 2010 and perhaps into 2011.

The unhappiness certainly extends to furniture. In spite of an upward blip this winter, retail sales have continued to fall in 2009. As of August, seasonally adjusted furniture retail sales had declined in 19 of the last 21 months. Sales are down 19 percent since the recession started and 24 percent since their high mark in January 2007. Home sales are headed in the right direction. They're up 30 percent from their low in January of this year. But they're still down 31 percent since the start of the recession

and 69 percent since their peak four years ago.

Amid the gloom comes a new report by the turnaround consulting firm Anderson Bauman Tourtellot Vos, "The American Furniture Industry: What Will It Take to Survive?" You can find it online at www.abtv.com, but it's not for the faint of heart.

The ABTV report paints a bleak picture of the furniture industry. It recounts in gory detail the losses racked up by the industry's biggest players in recent years, in both retail and manufacturing. It describes long-term challenges the industry faces, from changing supply chains to changing demographics. It warns that "there is no rising tide to save the fleet." But it claims that once the economy revives itself and people start buying furniture again, there will be opportunities for companies to develop new strategies for survival and even success.

Recessions have a way of making any industry's long-term problems loom larger. This recession was no different. The problems highlighted in the ABTV report include:

A move toward lower-priced furniture: Furniture spending hasn't kept up with spending on housing, in part because new homes tend to have large closets and built-in features that make such items as dressers and armoires less important than in the past. But even the furniture that is purchased reveals that consumers are less willing than their parents to pay for fine furniture.

An unmet demand for better service: "Traditionally, the industry has been known

for sub-standard customer service." Product is still king, but much of consumers' attitudes toward the home furnishings industry depends on the speed and quality of service. And yet right when the need to control distribution channels is greatest, the supply chain has become a temperamental and hard-to-tame beast.

A lack of good marketing:

With less furniture being made domestically, the industry's emphasis must turn to marketing. However, "Furniture people know how to make furniture. It remains to be seen whether or not they know how to market furniture." It doesn't help that there's a dearth of market research on furniture buying.

A fragmented industry:

Decades of attempts to consolidate the furniture industry have mostly failed, due to such factors as an absence of economies of scale, low entry barriers, and weak brand loyalty.

The report concludes that the way to salvation lies in branding. Of course other solutions, such as effectively managing one's supply chain, are important as well, but "This is a time to put a management team together that is focused on building a brand that will withstand the ups and downs of the economy and give the consumer... a reason to buy."

The ABTV report doesn't chart much new territory; few of its depictions of the industry will surprise anyone who's been around it for a few years. And some of the report's characterizations are a bit overwrought. For example, the report exaggerates the extent

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of import penetration when it says that "Conventional wood manufacturing has disappeared." Perhaps the key is the word "conventional," but of course one can still find domestically made case goods.

The report is unpersuasive about the need for industry consolidation. As a rule, when an industry can benefit from consolidation, it consolidates. The fact that the furniture industry has resisted such a transformation probably means that consolidation wouldn't make sense.

Perhaps the problem is semantic. It sounds bad for an industry to be "fragmented." That makes it sound broken. But we could just as easily describe the industry as "atomistic," which suggests relatively small players operating more or less in harmony.

The ABTV report is an excellent summary of the current state of the home furnishings industry. And its main recommendation, to do better branding and marketing of furniture products, is on the mark. Of course the industry has been trying for decades to do just that, and yet for most consumers the retailer — rather than the product — is still the brand. Can the industry reverse that trend and redefine itself to better connect with the consumer? The answer to that question may make the difference between an atomistic industry and a fragmented one. 