The American Furniture Industry: What Will It Take to Survive?

AN ABTV INDUSTRY WATCH REPORT

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The first decade of the 21st century has not been kind to the American furniture industry. Having experienced the "Asian Invasion," which rapidly eliminated nearly all domestic wood production and disrupted upholstery production, the industry is now facing a severe economic slowdown, with incoming orders 20 to 40 percent below normal levels. The combined impact of the competitive off-shore onslaught and the domestic economic meltdown has put unbearable pressure on all furniture players, without exception.

Industry leaders Ethan Allen, La-Z-Boy, and Furniture Brands have watched helplessly as already slim profits turned into robust losses, and stock prices plummeted. Industry niche players, even the best of the lot, have scrambled to cut costs, shut down plants, and abandon marketing programs. Bankruptcies and orderly liquidations have been numerous, especially in the retail sector, and many more are yet to come. Typically, it takes time to bury a furniture company, for no matter how mortally wounded it may be, the liquidation of assets keeps it afloat longer than expected.

There is no rising tide to save the fleet. The aggregate demand for furniture is shrinking and the traditional channel of distribution is following in its path. Assuming the economy turns and that order levels improve, the survivors will face far less competition than before and may well have some interesting opportunities. During the near-catastrophic period from 2002 to the present, virtually all aspects of the industry have changed, so it will take new strategies and tactics to cope with the emerging structure. There can be no going back to the old ways. The likelihood of the 'same old same old' returning is about as good as the Dodgers returning to Brooklyn.

The industry is obviously going through a transformation, but the emerging form is not so easy to envisage. Upholstery manufacturing has changed; conventional wood manufacturing has disappeared; some retail channels are gone, while others have emerged; and heretofore neglected areas like information technology, systems, logistics, and global sourcing have become essential, not peripheral.

The purpose of this white paper is to get a good fix on the current state of the industry and to project from that some semblance of what we might expect in the future. Unfortunately, the severity of the economic downturn makes it difficult to distinguish what works from that which does not.

Significant findings include the following:

- Consumer shopping patterns are changing dramatically as the Baby Boomer generation leaves the stage.
- The retail channel of distribution continues to fragment with traditional formats losing ground to new venues.
- Superior product remains the most important variable, but information technology and logistical expertise are growing in importance.
- Appallingly inadequate marketing continues to plague the industry. Having failed to establish meaningful brand names of their own, suppliers have been forced to "rent" licensed brands from designers and celebrities.
- The industry remains unable to compete globally on the basis of price, but there may be an opportunity to compete on the basis of quality and customization.
- Efforts to consolidate the industry continue to be met with fierce resistance. Agility trumps size.
- The unprecedented macro-economic compression is distorting company performance across the entire industry, masking the results of individual companies.

Consumers Decide "Pretty Good" Is Good Enough

As the Baby Boomers aged, they were expected to buy a lot of furniture. Instead, they shunned elaborate purchases of home furnishings. Even the most conspicuous consumers, after spending extravagantly on oversized homes, showed little interest in fine furniture. Instead, they furnished their million dollar homes with $599 sofas—or nothing at all. Many McMansions featured rooms completely devoid of furniture. When they did buy furniture, they often selected inexpensive 'disposable' items from stores like IKEA, Rooms-to-Go, or Pottery Barn.

Unlike automobiles, appliances, and electronics, well-made wooden furniture hardly ever wears out. It keeps occupying space and rarely needs replacing. New houses feature built-in cabinets and walk-in closets with enough storage room to eliminate the need for dressers and chests. Even the new flat screen televisions have made the armoire entertainment center obsolete. Unless there is a growing population with an expanding housing industry, the demand for new wood furniture all but disappears.

Style changes can trigger demand, but wood furniture styling moves with glacial velocity. In the last 50 years, casual styling has moved from Colonial to Country, a short trip, and formal styling has moved from early 18th Century to late 18th Century reproductions.

Prior to the Baby Boom generation, consumers usually grew tired of upholstered products before they wore out, but upholstery stylists have pushed neutral fabrics that never seem to grow old.

In essence, the furniture industry faces a consumer audience composed of people who are largely indifferent to the category and unwilling to spend much on it. This situation is nothing new to the mass-market segment, but in the upper-end, the impact has been severe. Amazingly enough, no one seems to be doing any market research on consumer shopping patterns, so efforts to market the products are based on guess-work and usually resort to price discounting, which has limited appeal. Price elasticity does not always apply to furniture. When women's dresses are discounted, the customer feels the need to buy more dresses, but when sofas are marked down, the customer still only needs to buy one.

Channel of Distribution Continues to Fracture

Changing consumer shopping patterns have been matched by changes in the retail channel of distribution. The Internet has become an important factor, though more as a medium than as a retail channel. The need to see and touch the product coupled with transport and handling issues have kept the Internet at bay. Big Box retailers, like Costco, have been drawn to furniture, but they have not been successful. Department stores, like Macy's, used to consider furniture the lynchpin to the entire home-goods category. Today they are reluctant players. The upper-end purveyors, the 'carriage trade' stores, have disappeared, but interior designers remain a factor. Regional chains come and go and national chains never seem to find lasting success. Hybrids, like Crate & Barrel and Room & Board, combine 'bricks' and 'clicks' with great looking catalogs to capture the so-called 'lifestyle' category.

Finally, the big push to establish single brand, dedicated company stores has failed, with the notable exception of Ethan Allen, La-Z-Boy, and perhaps Ashley. The move to a vertical structure by Ethan Allen in the 1960s was at first dismissed by the rest of the industry as sheer folly. As it unfolded, however, it became the envy of the industry. Ethan Allen executive Pat Norton moved over to La-Z-Boy and was able to create a successful store program there, but no one else succeeded until the arrival of Ashley. Several of the industry's top brands attempted to establish store programs, with horrible results. Drexel Heritage moved in and out of various store programs so many times that they alienated their independent dealer base and lost credibility. Thomasville had initial success, but then it crashed and burned. Broyhill, Lane, Henredon, Pennsylvania House, Hitchcock, Norwalk, and others tried to become retailers without success. Today, only a few remain open. Bassett, Stickley, and Baker operate stores in trading areas where they had difficulty getting regular dealers to meet their needs. Mitchell Gold stores are an unknown. Furniture Brands still has a few stores that they would like to close were it not for the lease obligations. It is unlikely that any of these stores make money.

At times, it seems that there is a genetic difference between manufacturers and retailers. You can be one or the other, not both. The retail cauldron continues to bubble, causing much toil and trouble for the retailer and supplier. Consumers keeps sending distress signals saying their needs are not being met, but the retail responses are inadequate.

By its nature, furniture is a space-eater requiring large retail footprints and warehouses. This means high fixed costs. It is also hard to handle as it goes from the factory packing room to a container, to a truck or rail car, to a port, to a ship, to another port, to another truck, to a warehouse, to a delivery truck, to a consumer's home. This means high variable costs. Together, it means the consumer pays at least twice as much as the material, labor, and overhead cost of the product when it was packed.

A lot of this waste could be eliminated with the advent of a new retail format that requires less space. The technology to do this exists, but no one seems to be taking the lead in applying it.

Product Is Still King, but Its Crown Is Slipping

Furniture insiders have long claimed that the product itself is the key determinant of sales. During the shopping process, consumers, largely female, quickly dismiss the items they do not want and respond favorably to those that reflect their self image. No amount of marketing or selling can change this. Others, largely male, have insisted that most of the product looks the same anyway ("It's just a sea of brown."), so more attention should be paid to non-product variables.

Without question, the product is still king. The 'over the top' styling of the pre-meltdown period has been toned down somewhat, partially as a way to reduce cost, but the inevitable return to flashier styles could boost sales in a recovery. However, dependence on product while neglecting other variables can no longer be tolerated. Logistical expertise and the use of information technology are becoming the new keys to differentiation. No one ever raves about the product styling at Ethan Allen or Ashley, yet both of these brands have outperformed the field. Their customer service and use of computers make the difference, not their products.

Traditionally, the industry has been known for sub-standard customer service. Upholstery 'broken promises' were usually a result of unreliable fabric suppliers, and missed casegoods ship dates were caused by erratic factory schedules. The consumer has been greatly inconvenienced by this woeful practice, and the advent of off-shore production has exacerbated the situation. Those companies that manage their supply chain, no matter how lengthy, will gain competitive advantage by virtue of service reliability and inventory management.

In the meantime, the new product development process is badly in need of streamlining. Fraught with waste, the old process is costly and slow. Worse still, the results are only occasionally successful. It has been estimated that less than one third of new wood product introductions actually make it into production and only half of those retail well. Predicting winners may always remain an art, but the development process can be rationalized much more effectively. The idea of testing new product has always met with resistance and only spot usage of this technique has been made. In an admirable attempt to change this, Furniture Brands claims it is testing new products now. It remains to be seen how they will be able to avoid tipping their hand and giving their competitors the chance to copy their new introductions before they get to market.

Design piracy continues to be a real problem. Prior to the globalization of furniture, producers could at least keep new designs under wraps in their factories until the products were shown at market. The 'knock-off artists' could then copy them right away or wait to see if they sell at retail before doing so. Now, there may well be opportunities to see the prototypes in Asia before they get to market. Frequently, Asian producers are pleased to show you what they produce for their other customers.

This blatant practice of copying is often encouraged by retailers, but it only serves to confuse the consumer and lead to a sameness of design offerings. Most of all, it hurts the innovative companies that invest in fresh designs that are needed to attract new consumers and generate sales growth. The only way for the innovators to cope with this is by staying ahead of the imitators and improving their speed to market. This can be accomplished by rationalizing the new product development process, yet scant attention has been given to this concept.

Can Factory-less Execs Learn to Live with the Consumer?

It is no secret that the industry has long been factory-oriented and blissfully unaware of the end user. Now the factories are shut down, and it is time to turn management attention to the end user. The ongoing lack of marketing in the industry is striking. Furniture people know how to make furniture. It remains to be seen whether or not they know how to market furniture. Now that they have taught the Asians how to make it, they simply must become adept at marketing and distribution, or those functions will also be handed over to the offshore producers.

Not that long ago, nearly all consumer electronics were produced and marketed in America. The strong line-up of brands included Magnavox, GE, Sylvania, Motorola, Emerson, Zenith, and a host of niche players, like Scott, Fisher, Harmon-Kardon, and KLH, aimed at the audiophile segment. The development of solid state components and color televisions added a huge stimulus to sales, but in the late sixties imported electronic 'chassis' started to arrive from Japan. Soon, they began to show up in lower-cost models, but they were not taken seriously. After all, in those days, "made in Japan" meant cheap and shoddy. Despite this, in a few short years, the Americans ceased making nearly all consumer electronics and let the Japanese have the business. But what about those wonderful brands? A few migrated to other segments; most disappeared. Now the market is served by companies with names like Sony, Mitsubishi, Samsung, Panasonic, and LG.

The same thing can happen in furniture. Some offshore producer will become frustrated with his American customer/partner and decide to buy him out. This may already be happening. If the buyers happen to pick up a number of stores and a good brand name in the process, they will become formidable competitors. If the domestic companies do not develop marketing skills and the ability to infuse their brands with meaning, they will be wiped out as quickly as Magnavox was silenced by Sony. American retailers and suppliers, large and small, can no longer treat marketing like an unwanted house guest.

Making the Move from Provincial to Global

Historically, American producers considered the export market to be a waste of time and made only token attempts to develop international sales. They had enough domestic business to keep their plants running and the export business was tricky. Americans were not comfortable dealing with currency fluctuations, style and size differences, language issues, oceangoing freight procedures, and cultural idiosyncrasies. They lacked the patience required to build export sales. Likewise, when it came to importing component parts and finished goods, the same indifference was in evidence. They paid lip service to the need to be a global organization and looked for reasons to justify the lack of imports. The easiest culprits were quality and delivery reliability, but in truth, the American factories had their own problems with these issues.

The headlong rush to move production offshore has abated somewhat and it appears that the obituary for the middle man was premature. Most retailers do not have the appetite to go directly to offshore suppliers due to the risks and the overhead required. They prefer to buy from domestic importers. Meanwhile, the Chinese have cooled some of their ardor for furniture production, just as the Taiwanese did in the 1990's. The cyclical demand, rising labor costs, and pollution concerns have led to widespread plant closings. The Vietnamese and Indonesians have absorbed some of the business, but they are no match for the Chinese.

Staying on top of international economies and political movements, not to mention the constraints our own Congress imposes, requires a sophisticated management team and visionary leadership. Due to the downsizing and offshoring of the last 10 years, the furniture ranks have been depleted, and fresh blood is needed.

Consolidation Strategies Continue to Fail

Michael Porter warned years ago that unless you can change the underlying reasons why some industries are fragmented, efforts to consolidate them will be met with overwhelming resistance. The furniture industry is a poster child for Porter's observation. Fifty years of consolidation efforts have failed to make a dent in the ranks of players. The underlying reasons for this fragmentation include the lack of economies of scale, heavy design emphasis, fragmented consumer tastes, readily available substitutes, no size advantage, low entry barriers, and weak brand loyalty. Porter says the presence of just one of these factors will block consolidation, yet all seven of them persist in the furniture business. Is it any wonder that the industry remains fragmented?

The focused niche players fare better in this chaotic structure, because they are more agile; but the large, publicly held companies continue to struggle.

- **La-Z-Boy** managed to lose a modest $13.5 million on sales of $1,450.9 during fiscal 2008, and in 2009 the company watched sales drop 15.4% and reported losses of $121.3 million. By stressing upholstery over casegoods and targeting the middle price points, management has avoided the big losses.

- **Furniture Brands**, on the other hand, managed to lose $385.9 million on sales of $1,743,176 in fiscal 2008. For an encore, they lost another $20.2 million on a 30% drop in sales in the first half of 2009.

- **Ethan Allen**, historically the best company in the business, reported a loss of $52.7 million on sales of $674.3 million in fiscal 2009. For the fourth quarter, sales declined a staggering 41.5%, resulting in a loss of $16.9 million.

The smaller, privately held companies suffer in silence without the need to report results publicly. Finding a bright spot is not easy, but one company certainly merits recognition. Ashley Furniture, based in Arcadia, Wisconsin far from the industry base in High Point, has captured the #1 position as a retailer and the #1 position as a supplier. They have done this by stressing customer service and information technology.

Lean Really Works, but…

With nearly all wood production and a healthy chunk of upholstery manufacturing already relocated off shore, it is easy to ignore the need to improve operations, but the cost is high. Furniture casegoods construction has traditionally relied on lots of work-in-process parts stacked on carts getting pushed through the factory using lots of indirect labor roughly following a flexible schedule. Management was expected to pack a certain amount of dollars per day but the items they packed may or may not have been on the schedule. As long as you could afford excess inventory, inaccurate delivery promises, and heavy indirect labor costs, the system worked well enough.

In the early 1990s, Masco and others tried to introduce so called Lean Manufacturing techniques that would permit the production of one item at a time. They were right to do so, but they botched the job and the old-line wood production people rejected the idea. Later, it took hold in a few places and began to pay big dividends at Henredon and Hickory Chair. Among the benefits were dramatic reductions of inventory, improved quality and fewer repairs. Finally, 20 years after the introduction of the idea, it is taking hold. Furniture Brands cited it in their second quarter conference call, and Ethan Allen announced a complete transformation of their domestic wood manufacturing to essentially a custom operation.

Upholstery production, unlike the wood 'push' system, has typically 'pulled' orders through the operations, but the plants were laid out by sequential departments and lots of work-in-process inventory, extra indirect labor expenses, and missed schedules were the norm. The application of Lean Manufacturing here meant organizing the plant around cells that cluster the relevant workers to build the whole item as a team. The results are most impressive, with big reductions in throughput time, work-in-process inventory, and shop floor space. But again, not many companies have taken advantage of the cellular method. It is easier to cling to the old ways.

Making the Lean Conversion takes skill and fierce, almost religious, dedication at the top. It also costs money and should not be attempted timidly. Innovative manufacturing methods do not seem to fit furniture operations as well as expected. Dozens of companies have tried to implement Enterprise Resource Planning systems only to incur huge expenses and experience massive disruptions. And those few who got to the finish line found the payoff to be marginal. Likewise, efforts to reduce lead times have not resulted in sales increases. A reduction from three months to three weeks will make an impact, but cutting lead times to one or two weeks means nothing to the consumer who may be repainting the room and will refuse delivery that fast.

Industry Overview

Domestic residential furniture shipments in 2008 were 12.6% below 2007, and the performance of publicly held companies felt the impact.

Public Companies Sales and Net Profits for the Most Recent Period

(in % vs. Prior Period a Year Ago)

Furniture Manufacturers	Sales	Net Profit
Bassett	-27.2%	Loss
Chrocraft-Revington	-39.4%	Loss
Ethan Allen	-41.2%	-73.4%
Flexsteel	-25.0%	-84.2%
Furniture Brands	-35.9%	Loss
Hooker	-26.7%	-98.8%[1]
La-Z-Boy	-22.7%	Profit[2]
Stanley	-28.4%	Loss
Furniture Retailers		
Havertys	-23.0%	Loss
Pier 1	-10.9%	Loss
Jennifer Convertibles	-21.9%	Loss
Bedding Companies		
Sealy	-20.5%	-32.9%[3]
Select Comfort	-20.7%	Loss
Simmons	-19.6%	Loss
Tempur-Pedic	-22.4%	-1.3%
Foreign Companies		
Brick*	-15.1%	Loss
Dorel*[4]	2.8%	-20.2%
Ekornes*	2.8%	33.0%
HTL	-2.9%	Loss
Kasen	-47.2%	Loss
Man Wah	11.5%	-5.8%
Natuzzi*	-35.6%	Loss
Samson	-7.7%	-25.6%

Table provided by Mann, Armistead & Epperson

Source: Company Reports
Note: Updated as of Aug. 13, 2009
*Foreign Companies are compared on a six-month basis excluding those denoted with a **
1. Current quarter excludes $0.673 million due to intangible asset impairment charges
2. Only shows "Profit" because company showed a net loss a year ago
3. Current quarter excludes 17.4 million due to refinancing and extinguishment of debt and $2.7 million loss on convertible notes
4. Home Furnishings revenues only

So far, this year does not look any better…

Some Frightening Numbers

(% Changes Compared on a Year-Over-Year Basis)

	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	April	May	June
Total Consumption of Furniture & Bedding[1]	(8.7)%	(9.5)%	(9.4)%	(10.6)%	(6.1)%	(10.4)%	(11.2)%	(11.2)%	(9.1)%
Furniture Store Sales[1]	(11.6)%	(12.4)%	(13.4)%	(13.2)%	(10.7)%	(14.2)%	(14.7)%	(14.5)%	(12.6)%
Mattress Factory Shipments[2]	(22.1)%	(29.2)%	(16.6)%	(16.4)%	(17.2)%	(16.7)%	(16.6)%	(14.7)%	(12.1)%
Furniture Factory Shipments[3]	(20.0)%	(21.0)%	(22.0)%	(24.0)%	(20.0)%	(17.0)%	(21.0)%	(17.0)%	N/A

Table provided by Mann, Armistead & Epperson

Data have been restated.
Sources:
1) U.S. Department of Commerce
2) International Sleep Products Association
3) Smith Leonard

Now, on the following page is a look at the Top 25 Sources for the U.S. Furniture Market as reported by Furniture/Today.

Note that sales dropped 10.4% on average and over half of the companies had double digit sales declines. Only three companies had sales increases and well-regarded companies, like Stanley, Hooker, and Ethan Allen, had some of the largest declines. Also, the famous brands fared no better than the non-branded firms, and the high-end suffered along with the low.

Top 25 Sources for U.S. Furniture Market

Rank	Rank Last Year	Company	Estimated U.S Furniture Shipments in $ millions 2008	2007	Percent Change
1	1	Ashley Furniture Inds.	$2,812.0	$3,049.5	-7.8%
		U.S. sales accounted for 95% of shipments each year. Excludes sales of company-owned retail stores. Total 2008 revenues, $2,960 million.			
2	2	Furniture Brands International	$1,673.4	$1,998.8	-16.3%
		U.S. sales accounted for 96% of shipments each year. Total 2008 revenues, $1,743.2 million.			
3	3	La-Z-Boy	$1,166.1	$1,341.9[R]	-13.1%
		For the trailing 12 months ended Jan. 24, 2009 and Jan. 26, 2008. U.S. sales accounted for 89% of shipments in 2008 and 90% in 2007. Total 2008 trailing 12-month revenues, $1,310.2 million.			
4	4	Klaussner Furniture Inds.[e]	$578.8	$661.5	-12.5%
		U.S. sales accounted for an estimated 98% of shipments each year. Total 2008 revenues, $590 million.			
5	5	Sauder Woodworking	$566.4	$556.8	1.7%
		Includes contract furniture shipments of $70 million in 2008 and $65 million in 2007. U.S. sales accounted for 96% of shipments each year. Total 2008 revenues, $590 million.			
6	7	Dorel[e]	$465.7	$453.2[R]	2.8%
		U.S. sales estimated at 90% of shipments each year. Total 2008 revenues, $2,181.9 million.			
7	6	Ethan Allen[e]	$425.6	$511.9	-16.9%
		For the trailing 12 months ended Dec. 31, 2008 and 2007. Excludes sales from retail stores. U.S. sales accounted for 96% of shipments in 2008 and 96.5% in 2007. Total 2008 wholesales revenues, $534.1 million. Total 2008 trailing 12-month revenues, including retail sales in Ethan Allen stores, $867.2 million.			
8	8	Lacquer Craft	$370.7	$404.2	-8.3%
		U.S. sales accounted for 90% of shipments each year. Total 2008 revenues, $466.6 million.			
9	9	Flexsteel Inds.	$335.6	$355.4[R]	-5.6%
		For the trailing 12 months ended Dec. 31, 2009 and 2007. Includes contract furniture shipments of $91 million in 2008 and $98 million in 2007. U.S. sales accounted for 99% of shipments each year. Total trailing 12-month revenues, $376 million.			
10	15	Natuzzi[e]	$311.5	$291.7[R]	6.8%
		U.S. sales accounted for 36% of shipments in 2008 and 35.2% in 2007. Sales of accessories and raw materials have been excluded. Total 2008 revenues, $979.9 million.			
11	13	Bernhardt[e]	$271.6	$292.0	-7.0%
		U.S. sales accounted for 97% of shipments each year. Total 2008 revenues, $280 million			
12	10	Berkline[e]	$271.6	$320.1	-15.2%
		U.S. sales accounted for 97% of shipments each year. Total 2008 revenues, $280 million.			

Top 25 Sources for U.S. Furniture Market (continued)

		Company	2008	2007	Percent Change
13	11	L & P Consumer Products Unit	$264.6	$316.4	-16.4%
		Includes shipments of finished product only, including contract shipments of $21.5 million in 2008 and $23.5 million in 2007. Shipments of components by parent Leggett & Platt are not included. U.S. sales accounted for 94.4% of shipments in 2008 and 93.5% in 2007. Total 2008 revenues for continuing operations, $4,076 million.			
14	12	Hooker Furniture	$253.0	$305.9	-17.3%
		Fiscal year ended Feb. 1, 2009 and Feb. 3, 2008. U.S. sales accounted for 97% of shipments each year. Total 2008 revenues, $261.2 million.			
15	17	Bassett Furniture Inds.	$237.3	$242.7	-2.3%
		Fiscal year ends Nov. 29, 2008 and Nov. 24, 2007. Excludes sales from dedicated stores. U.S. sales accounted for 98% of shipments each year. Total 2008 revenues, $288.3 million			
16	14	Bush Furniture[e]	$220.1	$292.0	-24.6%
		Excludes revenues from the surface technology segment. U.S. sales accounted for an estimated 84% of shipments each year. Total 2008 furniture revenues, $262 million.			
17	16	Stanley Furniture	$206.1	$264.3	-22.0%
		U.S. sales accounted for 91% of shipments in 2008 and 94% in 2007. Total 2008 revenues, $226.5 million.			
18	23	Lexington Home Brands[e]	$200.0	$195.3[R]	2.4%
		U.S. sales accounted for an estimated 93% of shipments each year. Total 2008 revenues, $215 million.			
19	20	Best Home Furnishings	$194.7	$216.3	-10.0%
		U.S. sales accounted for 94% of shipments each year. Total 2008 revenues, $207.1 million.			
20	19	Home Meridian International[e]	$189.1	$217.8	-13.2%
		U.S. sales accounted for 99% of shipments each year. Total 2008 revenues, $191 million.			
21	21	Lifestyle Enterprise[e]	$186.0	$205.5[R]	-9.5%
		U.S. sales accounted for 84% of shipments each year.			
22	22	Sherrill Furniture[e]	$179.5	$196.1	-8.5%
		U.S. sales accounted for 97% of shipments each year. Total 2008 revenues, $185 million.			
23	18	Standard Furniture	$177.8	$223.7	-20.5%
		U.S. sales accounted for 99% of shipments each year. Total 2008 revenues, $179.6 million.			
24	24	Franklin[e]	$176.9	$184.2	-4.0%
		U.S. sales accounted for 98% of shipments each year. Total 2008 revenues, $180.5 million.			
25	NR	Century Furniture Inds.	$133.0	$148.0	-10.2%
		U.S. sales accounted for 95% of shipments each year. Total 2008 revenues, $140 million.			
		Top 25 total	$11,867.0	$13,245.3	-10.4%

e = Furniture/Today estimate
NR = not ranked
R = revised
Rankings are by total furniture shipments to the United States, including bedding, contract and accessories for some companies.
Non-furniture revenues (such as textile products, components, investment income) have been excluded and are described in the notes, with specific amounts given when possible.
All figures, except those supplied by publicly held companies, are Furniture/Today market research estimates.
All figures for 12 months ended Dec. 31, 2008 and 2007 unless otherwise indicated.
Source: Furniture/Today market research

Retailers had to contend with similar adversity as housing construction stopped and consumers learned to live with the furniture they already owned. Here is a look at the top stores broken out by conventional vs. specialty formats. As with the suppliers, the picture is equally dreary for the retailers.

Top 10 Conventional Furniture Stores

(Ranked by sales of furniture, bedding and accessories)

		Estimated Furniture, Bedding, Accessory Sales in $ Millions		Percent Change	Number of Units	
Rank	Company	2008	2007	2007 to 2008	2008	2007
1	Ashley Furniture Home Stores	$2,095.0	$2,475.0	-15.4%	390	353
3	Rooms To Go	$1,520.0	$1,740.0	-12.6%	118	114
4	Berkshire Hathaway Furniture Division	$1,197.3	$1,316.9	-9.1%	33	32
6	American Signature	$1,063.4	$1,130.0	-5.9%	131	129
7	Raymour & Flanigan	$953.7	$881.8	8.2%	86	73
9	Ethan Allen	$912.0	$1,107.2	-17.6%	246	260
13	Havertys	$691.1	$784.6	-11.9%	122	123
16	Bob's Discount Furniture	$457.8	$418.1	9.5%	31	29
17	Art Van	$440.0	$470.0	-6.4%	30	30
18	Badcock Home Furniture & More	$393.2	$408.2	-3.7%	320	323

Top 10 Specialty Stores

(Ranked by sales of furniture, bedding and accessories)

		Estimated Furniture, Bedding, Accessory Sales in $ millions		Percent Change	Number of Units	
Rank	Company	2008	2007	2007 to 2008	2008	2007
2	Ikea	$1,950.0	$1,790.0	8.9%	35	31
5	Williams-Sonoma	$1,185.0	$1,450.0	-18.3%	611	585
8	Pier 1 Imports	$920.2	$1,083.8	-15.1%	1,018	1,041
10	La-Z-Boy Furniture Galleries	$833.0	$924.3	-9.9%	302	305
11	Sleepy's	$831.0	$694.0	19.7%	692	616
12	Crate & Barrel	$711.0	$739.3	-3.8%	166	160
14	Select Comfort	$533.2	$695.2	-23.3%	471	478
15	Mattress Firm	$501.0	$514.0	-2.5%	522	457
21	Cost Plus World Market	$369.0	$375.0	-1.6%	296	298
24	The Sleep Train	$326.4	$349.5	-6.6%	234	224

Source: Furniture/Today's Survey of Top 100 U.S. Furniture Stores

Marketing Holds the Hope for Revival

As has been stated, many furniture companies will not survive this recession. Those that have a chance to survive should look to sales and marketing to get out in front while most of their competitors are still in a foxhole.

In every recession, companies that continued with their marketing and advertising activities through the worst times stood out from competitors, since marketing is often the first area that is cut when budgets need to be trimmed. History has shown that those who keep focusing on marketing often gain market share that persists for years, if not decades, after the economy rebounds.

In furniture companies, of course, marketing has traditionally been weak. Leaders in the industry have long been reluctant to try to grasp the consumer's perspective or to try to improve the customer experience. Even dire circumstances have not induced furniture companies to try to learn from other consumer goods sectors.

It's time for furniture manufactures to take the blinders off. Furniture companies determined to stay alive will need to be open to change – in technology and in what information they capture and make use of, in manufacturing and distribution, and most of all in marketing and branding.

Furniture executives would do well to study the fashion industry, and to learn why women will pay $500 for a plain black dress when quite similar garments are to be had for $100 or even $50. The answer of course is branding. The company that can sell the dress for $500 has created a perception in the consumer's mind of what the label stands for. The company has found a way to add value to a product. It is not weakness for furniture executives to look at Proctor & Gamble, VF Corporation, Unilever, Toyota Motor Corporation, Colgate Palmolive, Ralph Lauren and others to learn new marketing techniques for their own brands.

Companies that have the cash reserves to attack the market as the recession ends should also be looking closely at their product lines and their people. This may be the time to scrap certain lines and to think about introducing new products. It is definitely the time to scrutinize the sales and marketing workforce, eliminating marginal performers and hiring the most skilled people to be had. Needless to say, very good people are on the market now, not only in sales and marketing but in every other discipline as well.

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 of their products a reason to buy. The alternative is to compete with the low-cost producer and private label brands. In that type of scenario, the company's destiny will forever be dictated by others such as suppliers and retailers that will put margins under continuous pressure. The ability to make money will be diminished and may mean the eventual liquidation of many within the furniture sector.

Conclusion

As difficult as the last decade has been for furniture, the long-awaited 'recovery' may not be any easier. As demand picks up, production will have to increase, and this takes working capital. Who will provide it? The retail channel has been damaged. Where will the repairs come from? The offshore producers have been questioning their business models. Will they be there when you need them? Consumers have survived without buying furniture for a long time. What will bring them back? Many brands are disappearing.

The furniture industry needs to reject the old formulas that no longer get results, to replace the old dogmas that have lost their meaning, to refuse to settle for mediocrity, and to insist on world-class performance. It's the only way to survive.

This report was produced by Anderson Bauman Tourtellot Vos (ABTV), a turnaround management firm headquartered in Greensboro, NC, in collaboration with Michael K. Dugan, author of *The Furniture Wars: How America Lost a Fifty Billion Dollar Industry* and Chair of the Business School at Lenoir-Rhyne University in Hickory, NC. Mr. Dugan advises ABTV on matters relating to the furniture industry.

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