

# Furnishings Digest Newsletter

June 2017

Reading Time

25 minutes

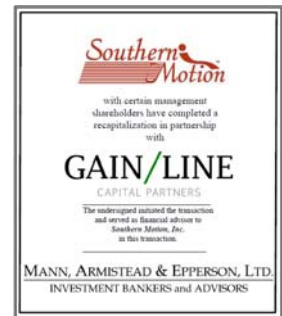


**Jerry Epperson**  
Managing Director

*Celebrating 46 Years of Proprietary Furniture Research*



Please let me open this Digest with some personal thoughts: First, I could not be more proud of our firm for completing several high profile transactions. We recently announced the **Southern Motion** recapitalization that was completed last month. This highly successful growing company in a hot sector has been an advisory client of our firm for a number of years. We, primarily Howard Armistead and his staff, worked with them in positioning the company in the best manner, assembling a memorandum describing the company and its strengths and long-term goals, then discussing the likely candidates. These days we have domestic strategic investors, foreign companies, and private equity groups to consider and prioritize based on our client's preferences. We went through a formal structured process and a newly formed private equity group, Gainline Capital Partners, stood out in many ways, especially in their appreciation of Southern Motion's talented management. The negotiations and necessary legal and accounting diligence went smoothly and, as mentioned earlier, we are proud to have been Southern Motion's long-term financial advisor and investment banker.



This is a good example of what my partners, Jimm Mann and Howard Armistead, have been doing successfully for decades, working with companies to resolve corporate issues, deal with complex capital planning and/or to maximize shareholder value. In my opinion, they are the best with the most furniture and mattress industry experience. Among the three of us, we have well over 100 years of experience in successfully assisting our corporate clients.



This follows the previously announced **Art Van Furniture** transaction earlier this year in which it was recapitalized with management and THL Partners, with Mann, Armistead & Epperson playing a role together with a

larger New York firm, RBC. We are proud of that to be sure.



Second, I was honored to receive the American Heritage Award from the **Anti-Defamation League** at an impressive black-tie event at the Grand Hyatt in New York City. It was especially meaningful because I shared this honor with friends, recognized designer Jena Hall and the hardest working person I know, Ashley's Todd Wanek. A dear friend, Ellen Gefen, presented me with the award. Lots of long time friends were there adding to the memories, as well as my wonderful family. I cannot express my gratitude to the ADL and its staff, and to all that contributed to make it a special event. Yes, I wore a tuxedo!

**Back to Business...** I have tried to remind myself to not overreact to sloppy, disappointing, and frustrating furniture sales this time of year, but it is still difficult not to mention it. After all, some of today's frustrating environment is of our own making, but we still have lots of factors to consider.

1. If not for the BIG holiday weekends, Presidents' Day and Memorial Day, we would be experiencing almost a 6% sales decline so far in 2017, the worst performance since the recession in 2008-2009. Even including the holiday weekends, our sales are likely down 3%; less for mattresses and upholstery, more for wood furniture.

As we have said too often, other big-ticket retailers and our industry have taught the American consumer to wait for the big weekends for the truly great prices. After yelling at them for a couple of decades, they actually believe they need to wait to buy. Who would have thought they would believe us? Next thing, they might believe we really mean "Today ONLY!" or "Lowest Price EVER!". In many stores, banners screaming these words have been hanging in the same place for many years.



The problem is real, without question, and since we have only two first half of the year big promotional weekends, January-June always underperforms the second half. Fortunately, we now have Independence Day, Labor Day, Thanksgiving and Christmas coming up, plus the new man-made promotions, Black Friday and Cyber Monday. Will Amazon's "Prime Day" grow to be as important? More consumers move in the summer months and need to furnish soon thereafter of course, helping second half sales.

Our shared problem is that while these big weekends are great, sales cools down soon after, making us wonder why everyone works the non-holidays. Maybe instead of stores that are open only on weekends, as some do, we will develop a new breed that are only open holidays. Of course, some of the larger retailers are expanding the holidays to include several weeks or even the month. Instead of having Independence Day they want Independence Month.

Sadly, doing business during non-holidays has become so challenging for some that they lower prices to create traffic. What do they do then to compete with the low prices on the holidays? Every purchase today seems a challenge, or so I am hearing from many furniture stores.

Remember Why People Buy New Furniture				Table 1.
Change Homes	Marry	Natural Disaster	Fire	Inheritances
Bonus	Remodel Home	Move in Together	Health Related Issues	Relative Moves In
Child Leaves Home	Promotion	Add a Room	Graduate College	New Technology
Want to Entertain	Working at Home	Tax Refunds	Have a Child	First Apartment
Keep up with "Jones"	New Electronics	Change Color Scheme	Buy Vacation home	Gain Weight
Divorce	Worn out/ Ugly	Comfort	New Pets/ Dog	Children Ruin Stuff

Do I have a solution? Would it be possible to remind our consumers that there are lots of reasons for buying furniture and mattresses? We show some in our **Table 1**.

2. Making this even more frustrating is the economic factors that are continuing to improve. The major economic forecasters are saying our growth will continue to be painfully slow, but we are growing. Some economists recognize that one bright light continues to be housing.

Interest rates remain low, consumer credit remains ample, the average consumer credit rating is at the best it has ever been, employment rates are high and would be higher if we had the correctly trained people to fill the available jobs, and so much more. We SHOULD be doing better, darn it all.

3. We have been preaching that the most important spending ages for buying furniture and mattresses are 35 to 54, and that the small 57 million person Generation X dominates that age segment, being 39-52 in 2017. Clearly, they are incapable of purchasing at the level of the 78 million Baby Boomers when they dominated the 35-54 segment. Coming to save the day is the 83 million Millennials, now 20 to 38, but only aging one year each year so their progress into the 35 to 54 age group will be very gradual.

This is the easy reason why business is weak in a macro-sense and why it should continue to improve with these generational shifts. It also explains, to some degree, the slow growth economy. Some products that sell best to people over 55 or under 35 are doing ok today. Keep in mind that our furnishings also have some different age shifts that are worth noting in your plans, **Table 2**.



4. Economic growth is highly dependent upon population growth and productivity, both of which are nearly flat today in the U.S. The fast growing over-55 population is saving more and spending less, often downsizing the home after the kids flee. Older folks borrow less, save more, recognizing that they might actually get to retire. The older population are working longer keeping younger people from advancing to higher paying jobs. So we have a rapidly aging large population segment which is also experiencing greater longevity, while at the same time we have weak birth rates. It is a recipe for a slow growth.

5. There are other factors, too. More people are living alone in America. In 1960, only 15% of our households were single, but that is almost 30% today. These households live in less space and need less. Even those that get married are waiting longer to do so and are having fewer children. The 2.5 children per household in 1966 and earlier is now under 2 per household. This likely means less need for larger homes. By the way, this is not just an American issue. Global population growth peaked in 1963 at 2.22% per year; today it is about 1.0% and declining.

6. The level of participation in our workforce has fallen steadily from 67% in 2000 to 63% now, with more deciding to just not work. That has a depressing impact on spendable incomes and productivity. Contrast that to the 1970's to 1990's, when women went from being a small portion of our workforce to almost 50%. That was rapid participation in the workforce, but more women working is one of many reasons for the slow birth rate. Some of this shift in work participation is a change in the skills needed. We have obviously gone from an agricultural to a manufacturing-based economy to more recently a services-driven economic base. Are we going to a shared-services base? All these demographic factors are shifting consumer needs and wants.

7. For almost everyone, the priority of items that are "necessary" has shifted in the last twenty years. How could you cope today without your smart phone, laptop or tablet, smart watch and smart HDTV? What about your washer and dryer, dish washer, microwave and vacuum cleaner? In some cases, the perception of needing a college degree has created an artificial market that has been abused by many "for-profit" colleges that taught little but created a massive load of college debt on the young graduates. On some level, most of what we sell is a necessity. You would have a difficult life without something to sit on, sleep on or eat on.

8. We cannot overlook retailing as well. The internet alone has expanded our retailing “square footage” almost infinitely. More and more outsiders are finding home furnishings an exciting new add-on category that is very profitable, at least relative to their other product offerings. Consider the markups on appliances and electronics relative to furniture and mattresses. No wonder our products look good. The furniture and mattress displays at Big Lots, Kroger, Conn’s and elsewhere keep growing. Today, consumers can decorate their entire home without visiting a furniture store, a department store or the internet!

**Conclusion & Suggestion...** I was taught that today’s business weakness and economic challenge creates opportunities for those with foresight and the energy to pursue alternatives. Personally, I believe in the home furnishings sector and thanks to our bulk, complexity, infinite number of sku’s, fragility, huge price range (want a \$299 fabric sofa or a \$20,000 fabric sofa, both the same size?), global logistics and home delivery challenges, we will demand a much more complex retail solution than any other product. Further, I have not yet seen the perfect retail solution yet.

### **So what can you do?**

*First*, the current economy and recent weak home furnishings spending numbers may be a an opportunity to go to the upcoming Las Vegas market and leverage your attendance with vendors to give you additional ammunition to gain share in the coming six months and on the important big holidays;

*Second*, you know how your current marketing programs are working so do something new, really new. Seek consumers who do not know your story;

*Third*, the frustration we all feel may give you the opportunity to upgrade your staff, especially your floor sales team, to give you the best advantage in the coming years;

*Fourth*, your most expensive advertising expense is your store’s visual appearance. Look at it as if you were seeing it for the first time and think of the impression it gives. The only thing worse than someone coming into your store, looking around and leaving is someone who pulls up in the parking lot and then drives away;

*Fifth*, honestly evaluate the success of every item on your floor. If they are not selling, they are keeping something off the floor that could be selling. Vendor loyalty is one thing; loyalty to any item is silly. Some retailers don’t want to admit to making a buying mistake and keeping the item only prolongs the pain;

*Sixth*, seriously calculate your cost of each customer, both as a visitor and as a customer who purchases something. Include every cost of advertising including occupancy expense. It is a HUGE wake up call to realize you are paying \$50 to get every visitor to your store and \$150 for every visitor who makes a purchase. It makes you and hopefully your sales team recognize the value of every visitor; and

*Finally*, the time to make changes is when business is slow. When times get better, and they will, we are all more reluctant to rock the boat.

### **Yet Another Pat On Our Back...**

We have included “tombstones” describing some of the transactions in which Mann, Armistead and Epperson has been involved in recently. These add up to well over a BILLION DOLLARS that has been invested into the home furnishings industry. Let us know how we can help you.

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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@maeltd.com](mailto:research@maeltd.com) or call (804) 644-1200.