

Furnishings Digest Newsletter

December 2016

Reading Time

15 minutes



Jerry Epperson
Managing Director

Celebrating 45 Years of Proprietary Furniture Research



HOW'S BIZ?

November was better, thank heavens, than most months this year largely due to strong Thanksgiving/Black Friday sales.

Store traffic continues to diminish however, as consumers continue to adapt to a broader retail market. Most furniture stores blame the obvious, the internet, but large increases in furniture and mattress sales at Big Lots, Conn's, hhgregg, and other high traffic retailers are playing a role, too. For many of these, a 30% - 35% add-on mark-up is huge compared to other merchandise they offer.



For 2016, it appears home furnishings retail – all types of retail – will be up by 4.0% or so, a number hard to believe, and mattress gains should be +4.5% to 4.7%. Last year, retail grew 5.1% and mattresses 7.9% so the slowdown we all perceived was real.

While difficult to quantify, sales gains for most full line furniture stores were only 1% or less for the full year while internet sales gains may exceed +15%, with online furnishings sales exceeding 10% of all home furnishings sold for the first time.

Monthly Trends

Table 1.

% Change y/y	2016											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	4.2%	6.3%	3.8%	5.0%	3.0%	4.2%	2.9%	2.0%	1.6%	1.6%	N/A	
Furniture stores sales (a)	1.8%	9.8%	6.4%	4.0%	0.2%	5.3%	0.0%	4.0%	5.7%	(0.7%)	7.2%	
Mattress factory shipments (b,d)	N/A	N/A	0.2%	N/A	N/A	5.5%	N/A	N/A	(2.5%)	N/A	N/A	
Furniture factory shipments (c)	(1.5%)	2.5%	3.7%	(3.1%)	(0.7%)	1.6%	(9.5%)	6.2%	6.1%	N/A	N/A	
% Change y/y	2015											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	9.5%	4.2%	3.5%	3.4%	5.0%	5.9%	5.7%	5.3%	5.5%	5.3%	4.2%	3.0%
Furniture stores sales (a)	7.6%	3.1%	5.1%	4.9%	4.8%	6.5%	6.9%	3.3%	7.2%	6.9%	5.6%	5.6%
Mattress factory shipments (b)	12.0%	8.3%	3.2%	4.7%	5.0%	12.2%	6.0%	3.3%	13.6%	0.7%	6.5%	N/A
Furniture factory shipments (c)	10.0%	12.0%	3.3%	5.0%	5.4%	6.0%	7.4%	8.0%	3.2%	7.4%	4.5%	4.5%

Sources:

(a) U.S. Department of Commerce (b) International Sleep Products Assoc. (c) "Furniture Insights" a monthly publication by Smith Leonard (d) quarterly shipments

ONLINE

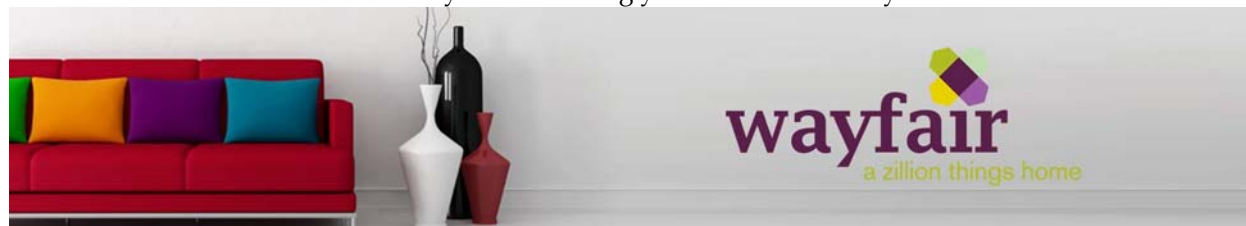
Readers will recognize that several times in 2016, we have attempted to discuss marketing shifts at Amazon. Removing comparable pricing last May, introducing more of its own branded products that will receive premium exposure online, developing its own captive delivery services and other moves will force others to counter in the general merchandise category.

The market leader in home furnishings is clearly Wayfair and I was fortunate to hear Niraj Shah speak last month and get a detailed current view of Wayfair and its plans.

Please notice that Wayfair and other internet platform companies are developing completely new technologies, methods and services that have not existed before, in many cases.

Our industry must study these and use them to improve our existing assets if we are to compete in the future. The most dramatic changes are in logistics where our merchandise changes locations too many unnecessary times before arriving in the consumers' homes, and utilizing our own information including knowledge of our customers. The easiest sale will always be to a pleased recent customer, and the most expensive will always be getting strangers into your store.

Please take a moment to see how Wayfair is reaching your customers today.



THE WAYFAIR PRESENTATION

In early November, Niraj Shah, the CEO, Co-Chairman and Co-Founder of Wayfair, made an excellent presentation to the A.H.F.A. annual meeting at Kiawah Island, S.C. Keep in mind the audience was primarily vendors, many selling to Wayfair.

Formerly known as CSN, the Wayfair identity was created in 2011. It offers 4 additional brands, Joss & Main (2011), AllModern (2006), Dwell Studio (2013) and Birch Lane (2014). Its online catalog has 7,000,000 home products from more than 7,000 vendors. It has 5,500 employees, which include 1,000 engineers and data scientists. It holds minimal inventories and trailing 12 month revenues were \$2.87 billion. Its most recent quarter-to-quarter sales growth was +72%. (Was yours?)

Wayfair describes its typical customer as being a 35-to-65 year old woman with annual household income of \$50,000 to \$250,000 (median \$82,000).

It believes its total potential U.S. market is \$250 billion, of which \$90 billion is furniture, and the remainder is a broad range of home-related merchandise. It believes Canada, Europe and the Far East together total another \$250 billion potential market. Wayfair is aggressively growing in these markets, too.

Its model is "more customers create more repeat customers", which then fuels more revenue and thus enables more strategic investment. In the second quarter, it had 6,672,000 active customers, up 65% from 4,044,000 a year ago; 1,687,000 repeat orders, up 52% from 1,109,000 a year earlier; advertising spending was \$351MM, up 57% from \$224MM in the same quarter in 2015, and net revenue for the latest 12 months was up 73% to \$2,868MM from \$1,661MM.



Wayfair sees first time customers as having the highest cost, and repeat customers being more profitable. It wants to be the #1 player in home goods on the internet, believing in most consumer categories that beyond the first two internet names, the competition weakens dramatically. The customer has no incentive to go past the first or second choice. Online is a “winner takes most” game.

Home Related Sales Growth					Table 2.
\$billions	2015	2020	2025	2015-2020	2020-2025
Online	\$21	\$43	\$86	15.0%	15.0%
Offline	225	234	225	0.9%	(0.6)%
Total	\$246	\$277	\$312		
%Online	8.5%	15.5%	27.6%		
(Estimates by Wayfair)					

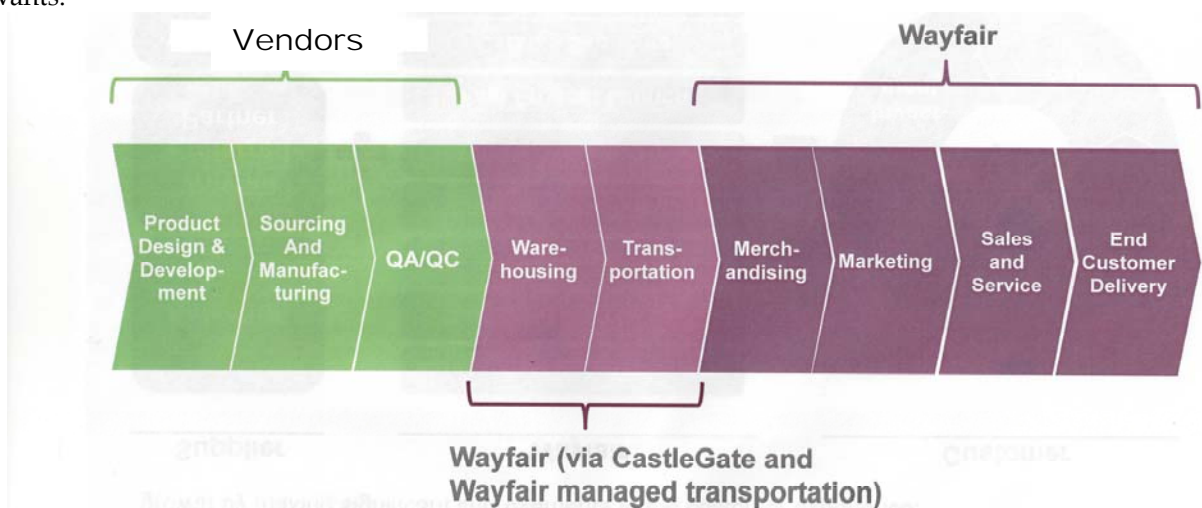
Mr. Shah pointed out that in 2013, online penetration in home-related products was 7%, while for apparel it was 15%, and in consumer electronics, 54%. He expects over the next decade, half of customers today will be replaced by Millennials who are more confident buying online.

(NOTE: I wished there were other online-only retailers in Table 3’s comparison, meant to show Wayfair has a low capital model for inventory with a focus on technology and advertising.)

Spending as % of Revenue Table 3.

	Inventory	Physical Footprint	Investment/ Technology	Advertising
Wayfair	1%	5%	10%	12%
Williams Sonoma	20%	18%	4%	7%
RH	34%	24%	6%	5%
Target	12%	34%	2%	4%
Bed Bath & Beyond	24%	14%	3%	3%

Wayfair averages 40 million contacts per day, so it can give vendors feedback on what the consumer wants.



“A website without advertising is nothing”. Wayfair is spending at a \$400MM/year run rate in media: TV, online (display, search and social) and print (catalogs, mailers). All production is done in-house, as well as all media buying. It has close partnerships with Facebook, Google, Pinterest and others. One hundred million direct mail pieces will go out in 2016. Wayfair’s customer base is 23 million who they email or app notify daily. It has 80 million site visits/month and 690 million page views.

Data on households is accumulated from individual’s home and office computers, smartphones and the apps.

Along with its own TV show “The Way Home” on Lifetime, Wayfair has 11 integrations across 8 networks, with 4,000 spots/week reaching 150 million viewers. The networks include HGTV, Food, Cooking, FYI, A&E, Lifetime and others.

Wayfair uses delivery as a differentiator. It has 3 million sq. ft. in warehousing now; will have 7 million by the end of 2017, and wants to have an “Uber-like delivery experience” with its own physical operations.

In rough numbers, Wayfair is spending \$400MM in transportation/logistics, \$400MM on advertising and \$400MM on headcount. Castlegate (Wayfair’s logistics wing) has warehouses in California, Nevada, Kentucky and New Jersey and will be adding in 2017 additional warehouses in California, Texas, Georgia and New Jersey. They will offer same day, next day or two day delivery (depending on location) for small parcels and less than a week on large parcels. It has 3 day delivery for large parcels in some large markets and 5 day elsewhere. It has its own home-delivery locations in Seattle, Portland, San Francisco, Los Angeles, Denver, Dallas, Houston, Chicago, Detroit, Cleveland, Boston, NYC, Philadelphia, Baltimore, DC, Raleigh, Atlanta, Tampa, Orlando and Miami. In many markets, customers can select the day and time of delivery on large parcels.

Using their data, 30 TB of user clickstream browsing data, 500MM customer browsing sessions, and 240MM device log-ins, Wayfair can create “hyper-targeted promotional offerings” with 2 to 3 times the success of normal mass promotions. Read that again: It is powerful and the way retailing is evolving.

After the presentation, Mr. Shah was asked questions which we hope we understood correctly.

- Average order? \$250
- Current run rate of sales? \$3 Billion
- Larger items of furniture? \$400MM in upholstery;
wood has 4 categories about \$200MM each
- Returns?
 - “Threading the needle on returns”
 - Keep it and refund \$ on RTA
 - Pick-up larger items
 - Small items easy return
 - Return rate? 5%



NOTE: This implies \$1.2 billion of furniture and mattress “large parcel” sales, or 40% of total revenues (\$3 billion). If the average sale is \$250 per order, that is 12,000,000 units or orders per year. Just as a lark, that can work out to 11,250,000 orders at \$160 and 600,000 orders at \$2,000, which is an average of \$238. Interesting...And do any of the wood categories include RTA, which might be described as “small parcel”?

THE NEW FORECAST

We recently released our most detailed furniture and mattress industry forecast for 2016-2020. To purchase this or any of our studies, please contact Jin Ko, research@maeltd.com or 804-644-1200.

Mann, Armistead & Epperson, Ltd.
119 Shockoe Slip
Richmond, VA 23219
1-804-644-1200
www.maeltd.com

Wallace “Jerry” W. Epperson, Jr., C.F.A.
Managing Director

Jin S. Ko
Financial Analyst

About the Furnishings Digest Newsletter

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