

Furnishings Digest Newsletter

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Reading Time

20 minutes



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Celebrating 45 Years of Proprietary Furniture Research



After a soft summer, the Labor Day weekend was strong especially for mattresses and upholstery sales. Ad spending was the highest in 2016 and was rewarded. Improved results appeared in all the regions surveyed. Even with this strong holiday weekend for stores, the growth in online retailing is a hot topic.

Expanded credit options, room combinations and discounts appeared to largely replace giveaways like HDTV's this Labor Day.

Rooms to Go: 60 months interest free on \$600 or more (*Tempur-Pedic 100 months free interest*), no down payment; 28 coupons + 65" Ultra 4K HDTV with \$2,000+ room package.

Schewels: no payments until January 2017, no down payment, extra 10% off comparable 50% off current price.

Haverty: 60 months no interest (\$2,000 or more) on qualified mattress sets

Haynes: free interest for 4 years, 6% instant refund, free delivery and special military discounts.



As we enter our peak selling months of September, October and November, this was encouraging news. Employment is better, home sales are strong, consumers are upbeat and, except for the November election, all is looking good – relative to last year.

Make plans today for the October High Point Market to set your course for 2017!

LET'S TALK ONLINE RETAILING!

Retailers, Amazon is NOT your friend – it has announced it will begin selling its own brands of consumer goods like it does batteries today, but only to Amazon Prime members. With Amazon already controlling half of e-commerce sales, this could eliminate a lot of competition by placing their products first, not on the "bottom shelf" as done in stores with house-brands.



- Amazon has been acquiring its fleet of planes that will allow it to control deliveries and costs (bad news for Fed Ex, UPS, USPS and others).
- Amazon Prime's two-day free delivery has been a boon for procrastinators who wait until the last moment, but Amazon Now's free two hour delivery is in more than 20 U.S. metro-areas and growing.
- Remember, Amazon sees that its selection (the endless

aisle) and convenient, fast, to-your-location delivery as being more important than price to most consumers. Since May, Amazon has eliminated comparative prices on more than 70% of its selection. Had you noticed? This forces consumers to do their own comparisons, but many do not to take the time or doubt the price savings are worth the effort. As part of this strategy, Amazon is dropping many of its severe price cuts used in the past to stimulate sales.

- Amazon can do this because consumers rely on its search function, just to see what is available, what alternatives exist and to get some idea of price. Amazon believes it saves the consumer time which is often more important than price. Read that again!
- It has been widely reported Amazon is considering opening its own stores, starting with books, much like other e-tailers like Warby-Parker, Bonobos, and Birchbox. Many consumers still want the in-store experience, the opportunity to perceive the quality – an issue often ignored in e-retailing – and the success of buy-online-pick up at the store (BOPUS) is a compelling reason. This service reduces shipping costs, returns, and stolen or damaged deliveries. I believe Amazon will open retail stores, if for no other reason to address the issue of returns.

Sources: Chain Store Age, TWICE, The Week (7/22/16), Shoptalk



- Just to give some magnitude to this issue, in 2015, Amazon had \$79 billion in online sales. Walmart did \$13.5 billion online but had \$485 billion in total sales. Walmart just acquired e-commerce retailer Jet.com for \$3.3 billion. Jet's model is to price every purchase based on the total combined purchases in a consumers' basket, not item by item.
- The NPD Group says impulse buys are 45% of in-store purchases but only 23% online, because the consumer is less likely to come upon something they didn't know they wanted. As we all know, your online retailer will constantly repeat offers on items you have searched, but it cannot anticipate your wants. Doubt it? Search Amazon and other online retailers for something odd, like left-handed scissors, and watch in the coming months how often you are offered left-handed scissors. This difference in impulse spending implies a shrinkage in retail if online replaces instore retailing.

RETURNS & FAILURES

Returns and business failures are the two unspoken topics in retail, but even more so in online retailing. Clearly, billions of dollars have been lost in online retail start-ups, some of which grew to a large size. Some were absorbed into other retailers. In the home furnishings sector, two large online retailers, *Hayneedle* and *One Kings' Lane*, have been recently acquired by Jet.com (bought by Walmart) and Bed, Bath and Beyond, respectively. Both had estimated sales of \$200 million or more.

- According to the National Retail Federation \$260.5 billion worth of merchandise was returned in 2015, a 34% increase since 2010. According to consulting firm Kurt Salmon, about 9% of retail sales are returned but for online retail it can be 30% or higher. For example, Zappos, the online shoe retailer, encourages customers to buy five pairs of shoes and keep the pair they want and return the others. That is an 80% return rate! And in what condition are the returned shoes?
- The hidden side of returns is the



merchandise that consumers are unsatisfied with, but repackaging would be difficult so they do not bother returning it. It is given away, donated or disposed of, leaving an unhappy customer unlikely to buy again at the site. This is especially true if the unsatisfactory item was poorly described online or misrepresented.

- Brick and mortar retailers can discount and return these items to their shelves but it is a much larger problem for online retailers. Some sell returns to liquidators, and these items end up in discount stores, pawn stores or even flea markets. Large chains like Walmart, Target and others, including online retailers, use wholesale B2B “eBay”-like liquidators like Redwood City, California-based *B-Stock Solutions* who offer pallets or truck loads of merchandise, sold often without knowledge of the condition. Another is Washington, D.C. *Liquidity Services* that has six warehouses around the U.S., and sells through its website *Liquidation.com*. A new generation of entrepreneurs are buying these returns and reselling them online, sometimes refurbished but often not.
- Return rates are not known for the major home furnishings e-tailers who often bury these numbers. According to research from IHL Group, to the average American retailer, returns cost 4.4% of revenues. Surely, online retailers must record higher cost of returns, which is a major factor in these retailers ever reaching profitability. Fortunately for them, investors so far have been more interested in sales growth, not profits.



- Finally, there is the definition of furniture vis-à-vis home furnishings. *Wayfair*, the best public example, is reporting billions of dollars in sales but an average ticket of less than \$300. You can buy textiles, accents, décor, accessories, wall décor, tabletop, rugs, bedtop, and small scale items but not what most furniture stores call furniture; i.e. sofas, bedroom and dining room suits, mattresses, recliners, home office, entertainment cabinetry, and so forth. The result is a new generation of consumer-assembled furniture that can be efficiently delivered and serves a wide market. While online retailing is recognized as 8% to 9% of all retailing in the U.S., we believe the percent of “home furnishings” sold is modestly below that level, and the percent of full sized assembled furniture is even lower. That said, the logistics in our industry are progressing so rapidly that we expect home delivery of full-sized assembled furniture will become more cost efficient in the coming few years for all retailers.

Sources: Washington Post (7/1/16), Los Angeles Times (12/29/15), Fortune (1/1/16), Associated Press (5/14/16)

QUICK KIPLINGER THOUGHTS:

- “Consumers are spending again, the housing market is good and incomes are growing” (6/3/16).
- Robots will help create the “smart-home” and replace many home cleaning and lawn care tasks – vacuum, mop, clean pools, mow lawns, etc. (6/31/16)
- \$15 minimum wage will eliminate entry level jobs, and have already had that effect in California, New York and D.C. (6/10/16).
- To compete with the expanded Panama Canal, the Suez Canal is offering up to 65% off on Asia-Norfolk and other East Coast ports. (6/10/16)
- Department stores have been weaker than other retailers in 2016 and are fighting back with mobile apps, staffing with tablets, and more ties to online sales. (6/24/16)



- Virtual reality will have \$1 billion in 2016 revenue, and grow to \$100 billion in 2025 and have the same impact as smartphones and personal computers. (7/8/16)
- Builders like constructing large, luxurious, profitable homes, and not small ones. Finding building lots is a problem. (7/8/16)
- U.S. interest rate of 1.6% was highest among other developed nations; U.S. stock market is the world's safe haven (7/15/16)
- RV sales will hit a 39 year high in 2016, best since 1977 (7/15/16)
- 69% of U.S. metro areas are back at pre-recession employment levels; in 2017, 82% will. The strongest metro areas? Salt Lake City, Orlando, Stockton, Austin, and Ann Arbor (7/22/16)
- The U.S. should benefit from more foreign investment in U.S. manufacturing. Narrowing difference with wage rates in China; lower power costs in U.S., and more demand for "made in America" should all help. (7/29/16)
- This will make you sick! Of 4,599 U.S. hospitals, only 102 got the highest rating (8/7/16)



DID YOU KNOW?

- Political campaigns prefer to place their ads on local shows so this year we will have 80,000 hours of local news to get the spending. Some TV stations have 12 to 14 hours of live local programming. (BusinessWeek, 8/1/16)
- July 2016 was the hottest month ever according to the National Oceanic and Atmospheric Administration. (Time, 8/29/16)
- Although the bankrupt Hanjin ships carried 3.2% of all containers, many of its ships are on-hold in international waters until the port fees and other costs can be worked out. Check with your vendors to see if you will be affected - before you have problems.



- Doubt improvements stimulate sales? After very disappointing sales of 3D HDTV's in 2012-2014, (blamed largely on a lack of available content) some doubted that Ultra 4K HDTV's would be a big hit in 2015 and 2016.

Today, \$1,000 and below 55" and some 65" brand-name Ultra 4K HDTV's have become commonplace. IHS now forecasts 34% of households will have them by 2019. Regular HDTV's have dropped well below \$500 and are not available in the larger sizes. Labor Day saw 43" HDTV's for \$239.

These great HDTV's drive furniture sales, and encourage entertaining in the home. (TWICE)

YOU HEARD IT HERE!

Our furniture and mattress stocks are getting more investor attention largely because anything housing related is perceived as having a more promising outlook than other goods and services that appear to have peaked like auto sales. This impacts private transactions, too, which are heating up. Call us to discuss this.

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About the Furnishings Digest Newsletter

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