

Furnishings Digest Newsletter

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Reading Time

17 minutes



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Celebrating 46 Years of Proprietary Furniture Research



The Autumn High Point Market

I was anxious about the market since furniture and mattress sales have been disappointing since Memorial Day, our last successful holiday promotion. Arriving on Tuesday before the market, I had the opportunity to speak to 5 or 6 sales forces before the market, something I love to do. The reps, always in the know about what is really going on, reflected this general softness. Long before the market opened on Saturday, I had the opportunity to talk to about 8 of the larger furniture store chains who mostly agreed that sales have been tough, but they had been more flat than down vs. 2016. All kept saying that promotions have to be steady and prices good. 2017 has not been the rewarding year we were hoping for, for whatever the reasons. One common factor among these majors was their intention to continue to open new stores and refresh older ones, an encouraging sign. The capital spending in 2018 is planned to be higher than in 2017 for almost everyone.

One concern among these majors was the location of real estate, since in the past furniture stores could be in the near proximity to the more successful shopping malls. With the demise of many of these malls, do they need to rethink store locations?



Monthly Trends

Table 1.

% Change y/y	2017											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	3.4%	2.3%	4.7%	3.0%	2.7%	1.8%	3.7%	3.9%	2.4%			
Furniture stores sales (a)	2.8%	1.4%	1.4%	1.5%	6.1%	3.5%	3.1%	6.2%	1.4%			
Mattress factory shipments (b,d)	N/A	N/A	(0.1%)	N/A	N/A	(4.2%)	N/A	N/A	(6.5%)			
Furniture factory shipments (c)	2.0%	3.0%	5.5%	2.4%	7.5%	6.5%	10.0%	N/A	N/A			
% Change y/y	2016											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	6.0%	8.1%	4.8%	5.7%	3.9%	6.0%	3.5%	2.1%	2.7%	2.3%	2.6%	1.0%
Furniture stores sales (a)	1.8%	9.8%	6.4%	4.0%	0.2%	5.3%	0.0%	4.0%	5.7%	(0.6%)	5.9%	1.4%
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	4.3%
Furniture factory shipments (c)	(1.5%)	2.5%	3.7%	(3.1%)	(0.7%)	1.6%	(9.5%)	6.2%	6.1%	(6.0%)	4.5%	15.0%

Sources:

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

Asked about the internet, all complained that foot traffic was down, yet again, for the 4th or 5th year in a row, but in-store sales have not reflected this as they have been able to push for higher tickets per customer on furniture that may not be as easy to buy comfortably on the internet. Categories of strength continue to be the power lift/recliner/multi-seat motion with all the new features. While it requires demonstration, once again the consumer will pay a larger ticket if the perceived value is there, just like they have proven with mattresses. You can add today's better specialty massage chairs to this, although they must be displayed near the mattresses and sold with a healthcare message, not for relaxation.



Truthfully, many of the best massage chairs are not as comfortable for napping, sleeping or binge watching TV, but if you have a need for these chairs for your back, neck, legs, etc., nothing else will do and when pain is involved, the price isn't important.

This High Point market got good marks for casual dining, the breadth and innovation in accessories and décor, entertainment cabinetry that is adapting to the new normal sized HDTV's being 55' and 65' (which can now be bought in Ultra 4-K Smart versions for well under \$1,000), and some new looks in stationary upholstery, not just the occasional chairs which have been more fashionable in the recent past. We believe that stationary sofas set the styling for the home, and remain the most stylish single furniture item. That said, the accessories and décor often dictate the new trends first. And speaking of new trends, we continue to believe that the smaller boutique showrooms found in Market Square suites, Showplace, and Interhall as well as the second and fourth floors of the IHFC are where you will see the new trends for 2018 and 2019 and many of the designers wandering, looking for what is next. Remember, a trend has to have some size and momentum before a major manufacturer can commit to a new look or style.

Carrying this step farther, since so much of our furniture is made in Asia, we cannot experiment with new looks as easily as we could when each of the major lines had a sample shop in their backyard. (There I go again talking about the good old days).

Frankly, this High Point market was a surprise on the upside for me. Retailers were clearly looking to 2018 and have big plans for new promotional programs, with many being excited about a growing acceptance with social media and the other new methods of reaching the consumer today. My saying that is a bit ironic because I read my Richmond Times Dispatch every day, and check on Facebook occasionally, but more often than I did last year. Our retailers are learning, with some doing much better than others, but no one should count out our brick and mortar stores. Not until we can put a fully functional holographic sofa, mattress or chair that people can test by sitting on in our homes, will our stores lose their value. Of course, I may be biased.



One of the joys of High Point is getting caught up with companies and individuals, some of which I have lost touch with over the years. I always learn. I am going to mention just a couple.

A\F\D

Art and Frame Direct (AFD) - George Eouse runs one of the most interesting and wide ranging companies that show in High Point. You may have noticed that his old showroom at the corner of Hamilton and Kivett has been leveled, now sold to Mystery Kompany R which will be building a massive showroom there. I have been to going to AFD for many years, dating back to when George showed in the theater on Main Street.

George and his family-run company have moved to a building he has purchased across the old I-85 from FurnitureLand South, a landmark we all know. His new showroom is larger, more organized, better lit and just as much fun. You never know what you will find with his massive array of authentically sourced

rugs (not machine copies), art which they frame for you, an assortment of resin characters and animals, furniture from gaudy to not quite as gaudy, outdoor furniture and statuary and some really distinctive pieces of sculpture. George has an eye for what is different and it comes in from all over the world. At the end of each High Point market, he auctions off much of his product in the showroom. He also has auctions of his imports in various cities around the U.S. between markets so he is both an exhibitor/wholesaler and a retailer of sorts. His primary warehouse and corporate headquarters is in Orlando. In his new showroom, he also allows some of his vendors to sell as well. In the long run, I think AFD plans to operate this new location year-round, not just during the April and October markets.



Acme Furniture- I first visited Acme Furniture about a decade ago when it was first showing imported bedroom furniture from China. I believe I met owner George Chen at that time. I had been told by some retailers that I should visit Acme again, and I am glad I did. It is still run by the

Chen family, but it has become a whole-home importer with extensive collections. It has large, very well done separate catalogs for bedroom, dining room, living room furniture and accessories, that can be ordered and the orders will be filled from eight U.S. warehouses in Los Angeles, San Francisco, Ft. Worth, Phoenix, Miramar, FL, Dayton, NJ, Woodside, NY and Norcross, GA. In addition, it has several drop-ship catalogs set up for e-commerce which is about 30% of its business. The assortment is impressive and the catalogs attractive. The U.S. warehouse strategy reminds me of Coaster and others. Again, it was an entirely different company than what I remembered.

You Are Still Loved!

The interest in furniture manufacturers, importers and retailers (including the mattress sector) remains very high among strategic acquirers and private equity groups. Valuations remain good. Call us for more information – this is what we do for a living and we are the best.

Warning!

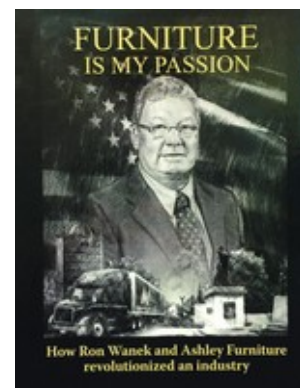
Get ready for some new bad-press about rent-to-own and its financing relatives. A lady in Texas had paid over \$3,000 toward her bedroom suite, which she could have bought for \$2,750 cash only to find she had to pay \$5,000 more if she wants to keep it. According to the Dallas Morning News, failure to make payments could result in felony theft charges and a trip to jail.

How Low Can You Go?... how low can you go?

- JCP has an Ashley sofa for \$224 with the 25% off coupon in its November 5th circular. What do we do when business is bad?
- European-based Lidl, the grocer + everything else store that is growing coast-to-coast has an IKEA dresser look-a-like (shown side-by-side) for \$69.99 while IKEA gets \$129.99. Does this mean IKEA is now the high-end? After all, its dresser is made with authentic particle board, fiberboard and ABS plastic, vs. Lidl's which has scratch-resistant melamine resin coating.
- And get ready for a new race to the bottom thanks to some new mattresses from a brand-name manufacturer in China. Cheers!

Congratulations To:

- Badcock & More that has seen revenues grow steadily from \$463 million in 2013 to \$692 million in its June 2017 fiscal year. Pretax income grew 4-fold in that same time – very impressive!
- Ron Wanek, who started his furniture manufacturing in 1970 with a loan from his father and cash from selling his home. Forbes, (11/14/17, pages 156-157), says he is now worth \$2.1 billion but he would likely say he is most proud of his family. Get Ron's new book. It is a good read.
- To the Millennials: Forbes (10/24/17, page 105) says "\$30 trillion will pass to the Millennial generation in the coming decades mostly from their parents, the Boomers". "Over my dead body", say the Baby-Boomers.



- Nationwide Marketing Group and Mega are merging to have a retail presence of \$18 billion and 14,000 storefronts. WOW!

Stuff You Should Know

- Black Friday is now officially Black November in retailing.
- “About 70 percent of the multibillion-dollar home damage costs caused by Hurricane Harvey won’t be covered by insurance.” (CNN.com)
- “There were 6.17 million job openings in the U.S. in July, the highest figure on record.” (Bloomberg.com)
- “Smartphones are responsible for essentially all of the growth in web traffic since the beginning of 2015. Smartphone web traffic has increased 68 percent since then, while traffic from desktops and tablets has declined 30 percent and 16 percent, respectively.” (Recode.net)
- “Fewer Americans say they are planning to hit the sales on the Friday after Thanksgiving this year, as consumers grow accustomed to deep discounts year-round. Just 35 percent of shoppers who plan to buy items during Thanksgiving week say they will do some on Black Friday, down from 51 percent last year and 59 percent in 2015. Retailers have conditioned the consumer to believe everything’s on sale everyday, which means the deals on Black Friday are not significantly different from any other time.” (The Washington Post)
- America’s obesity epidemic has reached a new peak. A record 40 percent of adults and about 20 percent of adolescents are obese, according to the Centers for Disease Control and Prevention. In total, about 70 percent of Americans are either overweight or obese. (NBCNews.com)
- The median net worth for Americans with a college degree is \$292,100, compared with \$67,100 for those with just a high school diploma, according to the Federal Reserve. (Qz.com)



Kiplinger Says

- One plus for the U.S. economy: Household finances are in good shape. Rising home and stock prices have pushed up combined household wealth to \$96.2 trillion this year. On average, the ratio of consumers’ debt payments to their disposable income is much lower than before the Great Recession began. That gives most folks the wherewithal to keep spending, which is vital to GDP growth. And relatively few are racking up higher credit card bills...another promising sign. (9/29/17)
- Retailers are in for a good holiday season this year. The economy is picking up. Consumers have money to spend and are willing to spend it. Figure on holiday sales growing by 3.8% from 2016 levels...the biggest annual bump since 2014. Household finances are in good condition thanks to low unemployment, rising home prices and a stock market that keeps setting new highs. (10/6/17)
- Small businesses of all types will see sales perk up in coming months, especially those in areas rebounding from storm and fire damage. The rapidly approaching holiday season will also help make cash registers ring. (10/13/17)
- 2018 is looking like a very solid year: 2.6% growth... tied with 2015 for the highest since the recession and a step up from 2.2% this year. After faltering to start 2017, the economy is humming, and the momentum promises to carry over into 2018. (11/3/17)
- The total damages from the California wildfires will likely reach \$4.5 billion... high for a fire event, but modest compared with hurricane-related damages in Texas, Florida and Puerto Rico. About 6,200 homes were destroyed in the fires.

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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 or call (804) 644-1200.