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Staying Lean Helps Furniture Retailers to Weather a Tough Economy

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The furniture industry has weathered some exceptionally troubled economic times over the past few years.

Sadly, a quarter into 2008, the fiscal landscape for furniture retailers continues to remain bleak. Truth be told, the industry is mired in the longest, deepest recession in at least a decade, reflecting the fact our current overall economy has sunk into a similar recession.

The latest figures from The Consumer Confidence Index, which had declined in January, shows numbers fell again sharply in February. The index now stands at 75.0 (in 1985, it totaled 100), down from 87.3 in January. The Expectations Index declined to 57.9 from 69.3. The Present Situation Index decreased to 100.6 from 114.3 in January.

The Consumer Confidence Survey is based on a representative sample of 5,000 U.S. households. The monthly survey is conducted for The Conference Board by TNS, the world's largest custom-research company.

This most recent survey, which had a cutoff date of Feb. 19, also had consumers noting that they expected business conditions to continue to deteriorate.

When faced with layoffs, foreclosures and other economic hardships spurred by a recession, consumers get cautious. And when they get cautious, they stop spending their hard-earned dollars on items they want and buy only what they need. The retail industry has always been a barometer of the economy because they are at the end of the supply chain. And the supply chain falters when consumers cut back on discretionary purchasing when money is tight.

Because furniture is a discretionary item, it's one of the first consumer goods to fall victim to consumer belt tightening in times of economic uncertainty. Simply put: the furniture industry is not recession-proof.

In fact, a number of big names, such as Levitz, Bombay and Domain Home Furnishings, have either filed for Chapter 11, closed their doors or both. Others, such as Ethan Allen, have had to close some of their retail outlets.

While it's impossible to stimulate demand for furniture in a recessionary economy, there are things retailers can do to both remain solvent and wait out rough fiscal times.

- **Identify market place needs: Stay close to the trends.** Put more focus on what the customer really wants vs. what you think they want. Be quick to respond to patterns and color schemes, for example. Don't be on the tail end of a trend.

- **Reduce inventory:** Too much inventory can kill you in a recession. Go lean and consolidate your manufacturing capacity wherever possible.

- **Procure a higher percentage of inventory from domestic manufacturers or companies that inventory imported product domestically:** While it's impossible to avoid stocking imports, try to buy as much as possible from domestic furniture suppliers. It will help reduce inventory investment because domestic suppliers generally have faster turnaround than imports, which can be up to 90 to 150 days on some items. By using domestic suppliers, you can keep closer to a just-in-time inventory.

- **Negotiate down your order minimums:** You might pay a higher unit cost, but you won't have as much in stock.

- **Realize some of the unit cost increase must be passed on to the customer:** You have to live off of your gross margins, and cost increases must be passed through to the customer in such tight times.

- **Set tough targets in developing an overall lean organization and stick to them:** Trim overhead. Cut waste. Look for ways to streamline operations.

There are no signs the economy is going to improve anytime soon. Consumers will continue to postpone major purchases until it does. And, obviously, it's going to impact retailers of major purchase items, particularly furnishings.

That's why it makes no sense to maintain high inventories and run your operations like we're still in a retail boom. Times are tight, and your business should be, too.

The retail industry is highly competitive, and in a sense, Darwinian. Only the strongest will survive during a recession. And in the current market environment, the strongest are the leanest.

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