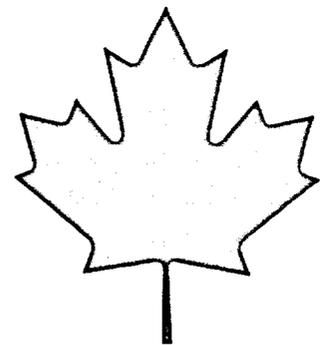


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of United States

No. 30

Market Trends, Opportunities and Constraints for Knock-Down (Ready-to-Assemble) Furniture in the United States



Market Trends, Opportunities and Constraints for Knock-Down (Ready-to-Assemble) Furniture in the United States

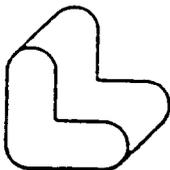
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Peter Louch & Associates
Westport CT, 1986

FOREWORD

KNOCK DOWN (READY-TO-ASSEMBLE) FURNITURE

This report deals with Knock Down (Ready-To-Assemble) Furniture which is defined as fully manufactured and finished furniture capable of being supplied to the ultimate customer packaged disassembled and ready to be assembled by the consumer at home after purchase. It provides an overview of the Knock Down (KD) (Ready-To-Assemble) Furniture market as well as practical advice on how to obtain business.

KD represents a significant challenge to Canadian manufacturers. There is a healthy growing market for most KD products in the United States. The market is dynamic and according to the Contractor's estimates the wholesale market has doubled to U.S.\$1 billion during the past three years.

The report is designed to assist both new and experienced exporters in their approach to this new and growing, but non-traditional segment of the U.S. residential furniture market. It evaluates both U.S. national and regional markets for a variety of knock down (KD) categories. It indicates that Canadian companies with drive can increase their sales substantially in the United States. Suggested market strategies designed to assist Canadian manufacturers to prepare market plans for their products are covered in the report. These strategies will enable Canadian manufacturers to obtain a greater share of the U.S. market through the identification of key elements which need to be taken into consideration.

The report was commissioned by the Department of External Affairs with the cooperation of the Department of Regional Industrial Expansion.

I would like to thank the Canadian companies who have participated in the supply capability survey for their valuable contributions and assistance in the development of the study.

I hope that you will find this report useful as you pursue sales opportunities.

A handwritten signature in cursive script that reads "Pat Carney". The signature is written in dark ink and is positioned above the printed name.

Pat Carney

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MARKET TRENDS, OPPORTUNITIES AND CONSTRAINTS FOR KNOCK-DOWN
(READY-TO-ASSEMBLE) FURNITURE IN THE UNITED STATES

1.0 INTRODUCTION

This report has been prepared for the Department of External Affairs, Ottawa, Canada.

Canadian furniture exports to the United States have increased steadily since 1979. In wooden furniture alone Canadian exports maintained a 31.4% growth rate over the five year period. Total furniture exports were \$US 343.8 million in 1984, an increase of 38% over 1983. Canada's increases are part of a worldwide trend which has resulted in a substantial increase in US exports from most furniture producing nations. The purpose of this report and the study which preceded it is to determine how important a role knock-down (ready-to-assemble) furniture will play in the US home furnishings and related industries in the future and therefore how important this apparently rapidly emerging category will be to the Canadian furniture industry.

The Department is aware that much of the storage furniture and contemporary "young look" furniture produced in Canada is being produced by newer and smaller to medium sized Canadian manufacturers. The knock-down (ready-to-assemble) category is

making an obvious impact on Canadian household consumer spending patterns. A further objective of this report is to determine whether the same trends are emerging in the US and how they can increase Canadian access to US home furnishings markets.

The US is Canada's largest trading partner in the furniture industry and could be the focal market for increased Canadian knock-down furniture sales. The Department wished to obtain an accurate picture of the market coupled with effective marketing strategies designed to enable Canadian companies to compete successfully with US and other producers.

The Department commissioned Louch & Associates, a Westport Connecticut and Los Angeles, California based consulting firm to conduct a study and produce this report. The report has been produced in two parts. The first which contains a full and workable background on the market and its potential together with an assessment of marketing strategies Canadian companies can consider when planning to enter the US market or extend existing marketing activities. The second part of the report provides a directory of retail and distribution contacts interviewed for the study. This is available on application from the Department of External Affairs, the Department of Regional Industrial Expansion, and Canadian Trade Commissioners.

Approximately twenty Canadian furniture manufacturers responded to the Department's request for information to support the study. These companies are interested in marketing a wide range of furniture products in the United States. This report has been prepared not only with these companies but with the entire breadth and potential of the industry in mind.

2.0 THE MARKET FOR KD FURNITURE IN THE UNITED STATES

The US market for KD products is composed of two distinct elements. Firstly a portion of the conventional furniture retailing market is involved with selling KD products and there is an accelerating interest in KD products amongst conventional retailers generally. Secondly branches of the retail industry which have not traditionally sold furniture are entering the market. These new retailers are taking advantage of the relative ease with which KD products can be marketed. This statement is of necessity a radical simplification. In retailing as in most aspects of the furniture industry there is considerable fragmentation which will become clear as the report progresses. If Canadian manufacturers are to penetrate the market successfully with KD products they must understand the gradual emergence of the category and its place in the overall market for furniture and home furnishings in the United States.

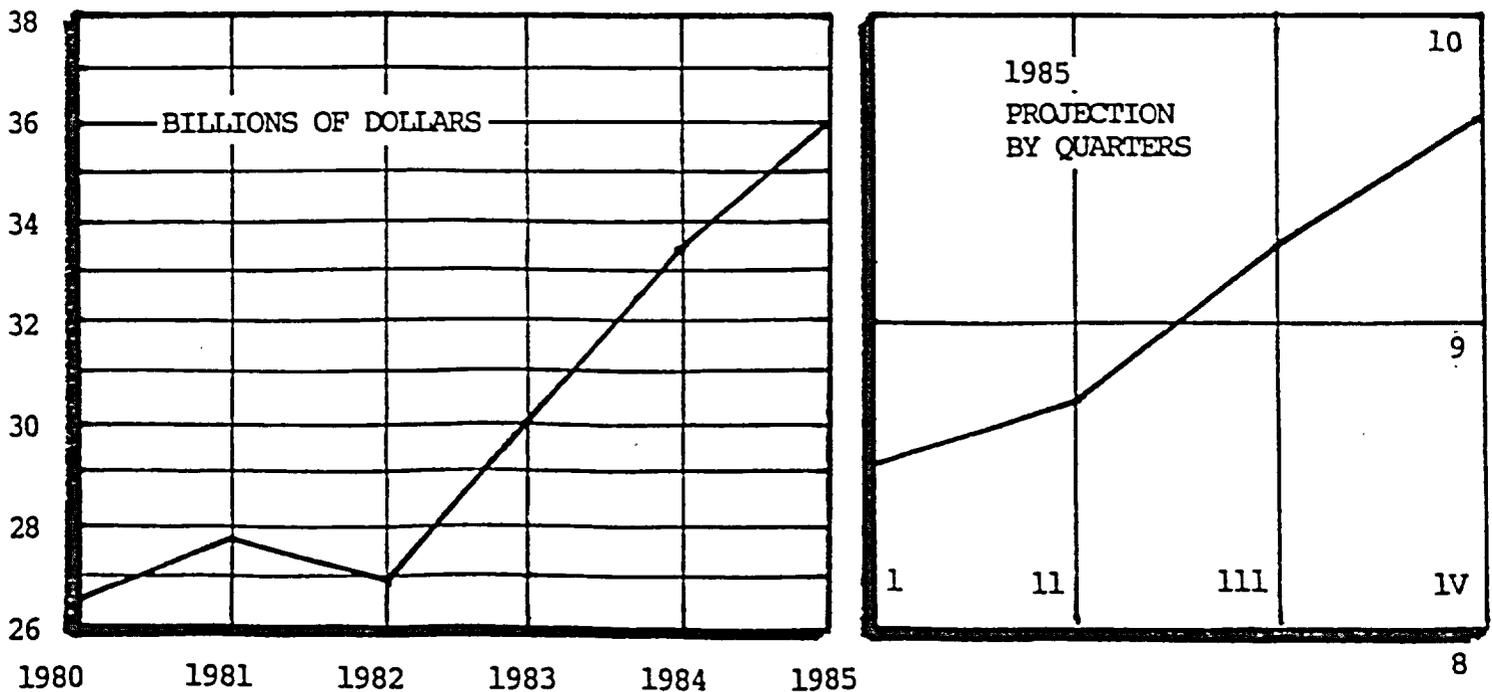
2.1 THE US MARKET FOR HOUSEHOLD FURNITURE

The United States possesses the world's largest furniture and home furnishings market. Seen within the context of total retail sales by merchandise group the furniture and home furnishings category totalled \$US 72.2 billion (or 6.3% of all US retail sales) in 1980. Forecasts indicate that sales will top \$US 100 billion by 1990. Furniture and home furnishings is the sixth largest US

retail sales category. (Appendix table 1 provides some detail on merchandise group sales).

The home furnishings merchandise group is itself made up of a number of categories consisting not only of furniture but also including floor coverings, kitchen-ware, electrical appliances, curtains, draperies and dry goods. These categories are shown in (Appendix table 2). Rebounding strongly from the recession of the late 70s retail furniture sales increased by 14.4% in 1983 (the first post recession year), and by 11.9%, to a total of \$US 33.5 billion in 1984. Projections for 1985 indicate estimated retail sales of \$US 36 billion. These projections are shown in the chart which follows.

RETAIL FURNITURE SALES 1980-1984 IN \$US BILLIONS WITH PROJECTION FOR 1985



The chart shows recent and projected retail furniture sales totals. Historically and practically retail sales totals are approximately twice ex-factory shipment totals. Thus shipment totals for 1984 are estimated at \$US 16.3 billion (slightly less than a true 50%, which would be \$US 16.7 billion) by the US Department of Commerce. Real growth in 1984 was an estimated 8.5 percent and the total shipped was an industry record high.

With sales of \$US 36 billion (approximately \$18 billion at ex factory/shipment totals) projected for 1985 the industry will experience another overall boom year.

The Department of Commerce reports that 1984 shipment increases were fairly uniform across the different branches of the furniture manufacturing industries. 1984 totals for the recorded branches of the industry were:

ITEM	SIC Number	1984 in \$US billions	Percentage increase over 1983
Wood Household Furniture:	2511	6.5	13.3
Upholstered Furniture	2512	4.6	12.2
Metal Furniture:	2514	1.8	7.0
Bedding:	2515	2.4	11.5

Source: US Industrial Outlook.

Note: Major categories only included

It can be seen immediately that the very basic US Government reporting figures do not make provision for KD furniture shipments as separate or even differentiated categories.

These overall figures disguise the fact that furniture imports have been increasing and still continue to increase at a substantially greater rate than domestic production and this is creating a great deal of concern in the US furniture manufacturing community. The total amount of furniture imported in 1984 was \$US 2.04 billion. This figure represented a substantial 32.9 percent increase over 1983 imports, which totalled \$US 1.43 billion. We shall be examining the question of imports and Canada's position as a leading furniture exporter to the US in a later section.

Changes in furniture prices were moderate during 1984 and increased by an average of 2.5%. This low price increase reflected the highly price competitive nature of the industry and its attempts to counter increasing foreign competition in the face of a 4.3% wage increase and even greater increases in raw material prices over the same period.

The US furniture industry is extremely fragmented. Whilst the official US Census of Manufacturers lists over 6,000 firms as furniture manufacturers covering the four SIC classifications only fifty percent of these employ more than twenty production workers and approximately ten percent of these employ more than two

hundred workers. In the upholstery industry , for example, no one manufacturer enjoys more than a three percent overall market share and this situation is common throughout the other three main production categories in the industry.

The US Department of Commerce prepared "A Competitive Assessment of the US Wood and Upholstered Furniture Industry" in an attempt to look at the future of manufacturing in these two categories in March 1985. The overriding conclusion reached was that the furniture industry is becoming rapidly more international. US manufacturers have not responded with investment to counter advances in production and shipping techniques made by overseas manufacturers. These advances have made penetration possible in mid-price range wood and metal furniture and much of this "new furniture" falls within the classification of "knock-down". The report concluded that the "clock" cannot be rolled back and that the US furniture manufacturing industry must be prepared to continue to face stiff foreign competition.

The Department of Commerce predicts a two to three percent annual growth between now and the year 2000 and that recent and long term trends indicate that a growing share of that expanding market will be captured by foreign suppliers.

To underline all of this it should be added that no major US furniture manufacturer has built a new furniture production plant in the US for the last five years.

2.2 KD FURNITURE AND FUTURE INDUSTRY TRENDS

Leading trade analysts stated publicly during 1985 that the furniture industry's future looks extremely promising.

Their predictions are based on the growth rate (could be as high as four and a half percent a year over the next ten to twelve years), and on the fact that demographics are changing in the U.S. market. It is a fact that there will be more single family homes and more split households with an increasing number of divorces. Trade analysts are not however presenting the complete picture.

The facts are that there is a two to four percent growth rate and that changing demographics should theoretically stimulate more sales in the furniture industry. Offsetting these "plus" factors are negative factors:

- o A four percent growth rate by itself will not ensure that all U.S. factories can remain viable and profitable faced by raw materials and labour increases which may cost substantially more than four percent.
- o As we have said the factories are in the main old fashioned and inefficient and cannot counter increasing competition with advanced technology.

- o Whilst changing demographics indicate increased sales the analysts neglect to say that houses are becoming increasingly smaller and more importantly that progressively increasing housing and other living costs will reduce the amount of disposable income available for furniture purchases.

- o Changing consumer attitudes to furniture purchasing will also not help the U.S. producer. Consumers are becoming more "eclectic" and this means that they could increasingly reject the more staid middle price U.S. domestic furniture designs in favour of the increasing selection of stylish contemporary designs offered from imported sources. The old days when it was mandatory for occasional and case goods manufacturers to produce a large number of matching options with each group of furniture produced are gone. Much of this new furniture will be KD with a strong international style. This type of product is already being produced by some Canadian manufacturers.

- o Previously unseen market categories have progressively strengthened their position in the market. Canadian manufacturers should note that Home entertainment furniture and computer furniture are two of these. The U.S. companies which are producing these burgeoning categories are often relative newcomers and they are now watering down

the buyer base for the U.S. furniture manufacturing establishment. The bulk of the furniture produced and sold in these new categories is KD and designed for consumer assembly.

- o Furniture imports now account for approximately twelve and a half percent of U.S. shipment totals and will continue to increase. At this stage an estimated \$US 300 million of these imports are KD furniture for consumer assembly and this category will continue to grow rapidly.

Thus despite analysts' predictions that the future looks good for the industry it clearly does not look encouraging for the mainstream U.S. furniture manufacturer.

In one sense the analysts are right because U.S. retailers who are able to respond to changing market conditions and tastes are assured of a profitable future over the next ten to fifteen years. An increasingly large percentage of the retail market will be available to those manufacturers who are positioned with the right KD product.

Most U.S. mainstream manufacturers do not regard KD products as serious furniture and this is a definite "plus" for companies producing and exporting to the U.S. Louch & Associates research over the last two years indicates that U.S. mainstream

manufacturers are not planning to produce K.D. A number have tried in the past but they did not succeed. Their failure in the main can be put down to three things

- o A lack of the correct plant and no desire to increase their capital investment. The lack of plant makes efficient KD production almost impossible.

- o An inability to stay with a radically new product long enough to see market impact occurring. This is not surprising because both the U.S. manufacturer and the retailer see the market as being primarily fashion responsive. This indicates to both that the market will respond rapidly to a new product direction. Traditionally U.S. manufacturers gauge the success of their new items over a very short period of time. This short time has not been long enough to really test a new marketing concept.

- o Sadly for the manufacturer one of the main problems he faced was that the retailers methods in the main are not correct for effective KD merchandising. This will be examined in detail later in this report.

U.S. industry seems to have a penchant for misreading the market. The automobile industry is a leading example. In the case of the furniture industry mainstream manufacturers having

considered KD and rejected it have focussed their attention on labour intensive imports of "style" furniture and see them as their main and continuing threat. Examples of these products are: U.S. mid-market products (which are labour intensive and include elaborate veneered contemporary and traditional furniture) manufactured in Taiwan, Korea and parts of Europe; Leather upholstered furniture (mainly from Italy and Scandinavia); and lacquered contemporary and traditional designs (mainly from Italy).

After examining these threats the industry has decided on imports itself (if you can't beat them join them). Now an increasing number of the larger U.S. manufacturers are actively engaged in import programmes to supplement their own production deficiencies. Examples include Stanley, Singer, Basset and Henredon to name just a few.

2.3 REASONS FOR THE INCREASING U.S. MARKET FOR KD PRODUCTS

The preceding information is designed to give Canadian manufacturers a background insight into what has been happening and what is likely to happen in the U.S. furniture market over the next decade. It is now possible to recapitulate the reasons for the rise and present state of the U.S. market for KD furniture products:

- o U.S. manufacturers not convinced of the validity of producing KD products for the market.
- o U.S. manufacturers without the specialised plant required for cost effective and troublefree KD production.
- o A slowly emerging breed of new furniture producers in the U.S. in the main concentrating on the production of very basic items; such as low cost wall systems, and entertainment furniture. Companies in this category include: Gusdorf, Case, Affordable, Bush. Products in this category are currently being merchandized by the discount stores and some mass merchants. Typical retail prices for some of these low cost pieces are: two door full height white or wood color wardrobe with four drawers - \$99.95; six drawer low chest - \$99.95; two drawer night stand - \$39.95.
- o The gradual establishment of numerous foreign furniture lines in the U.S. market. These lines fill a hitherto unprovided need for stylish, inexpensive, clean looking "eurostyled" furniture in the market-place. Many foreign manufacturers started to supply their products in the traditional way through importer/wholesalers. A number of these manufacturers have now begun to establish their own organizations with warehousing, assembly, and selling organizations in the U.S., as a means of strengthening their presence.

- o The reaction of the U.S. retailer to new product types was slow at first. Increasingly more retailers are investigating satisfying profit returns from KD retailing. Retailers do however need more education in the best methods of effective KD merchandising.

- o New retailers coming into the furniture field and making an impact. Examples are:
 - Foreign KD specialist retailers opening their own operations in the U.S. Conrans (U.S. branch of Habitat Mothercare in the UK) - Ikea (the Swedish retailer) - MFI (starting operations shortly in the New York area - the British giant KD kitchen and flat-pack furniture retailer).
 - Mass merchants, discount department store chains, and home centers attracted to the furniture market initially at the lower end by potential big-ticket sales.
 - An increasing number of smaller specialist stores run by merchants who realized new market potential earlier than most other merchants.

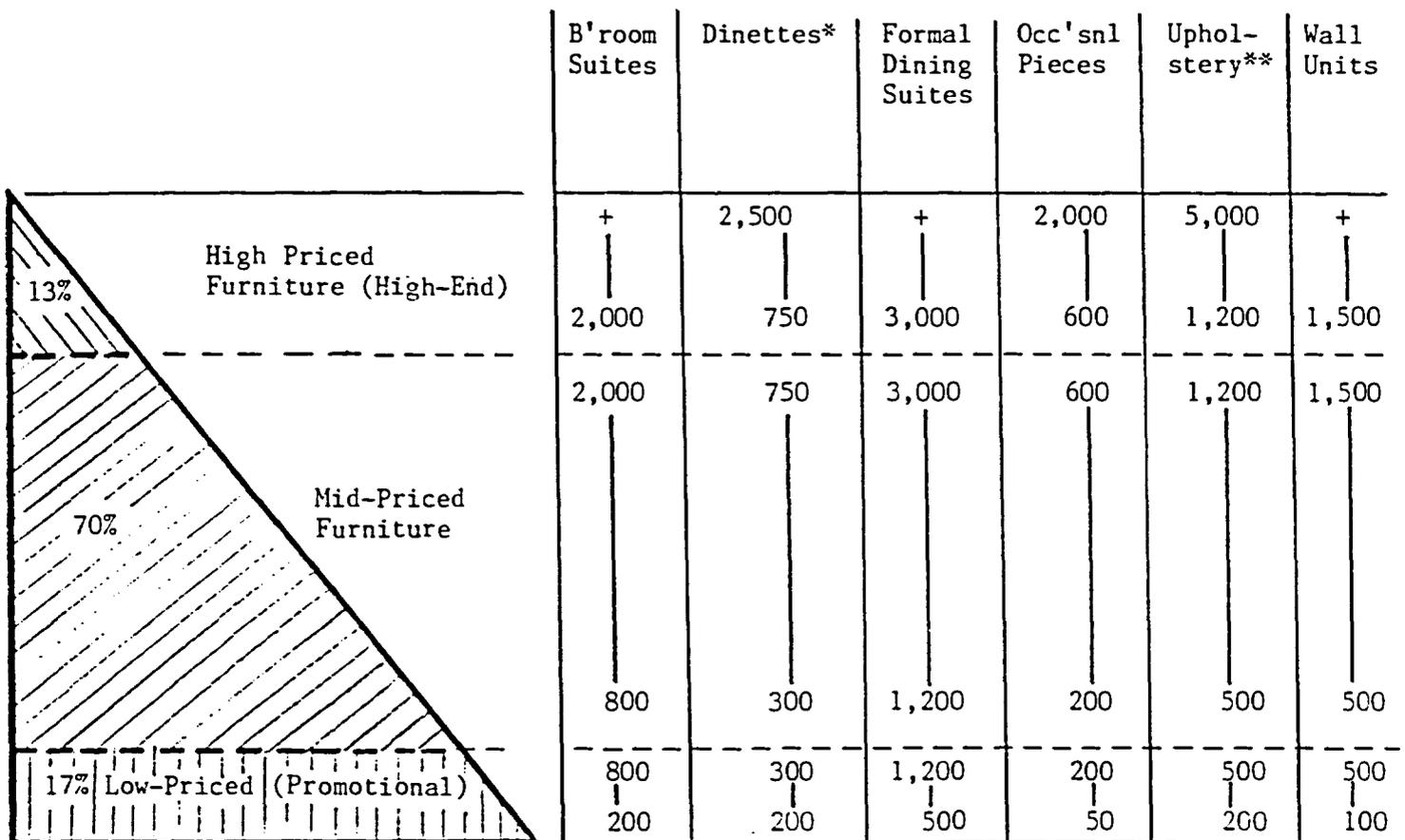
- o Acceptance of new product types by the U.S. consumer.

As a result of these market influences we presently estimate the total shipment value of household furniture produced and sold to the public in KD form to be around \$US 1 billion (a 6% - 7% market share).

2.4 PRICE SEGMENTATION IN THE U.S. MARKET

Canadian furniture makers attempting the U.S. market should have a working knowledge of how the market is divided into price and style categories.

RETAIL PRICE RANGE INDICATION FOR LOW, MEDIUM AND HIGH PRICED FURNITURE IN U.S. MARKETS IN U.S. DOLLARS



* Largely steel framed with melamine, paper, veneer or glass tops
 ** Based on three seater sofa

The above chart is purely indicative and in a market the size of the U.S. market there are always many exceptions to any general pricing rule.

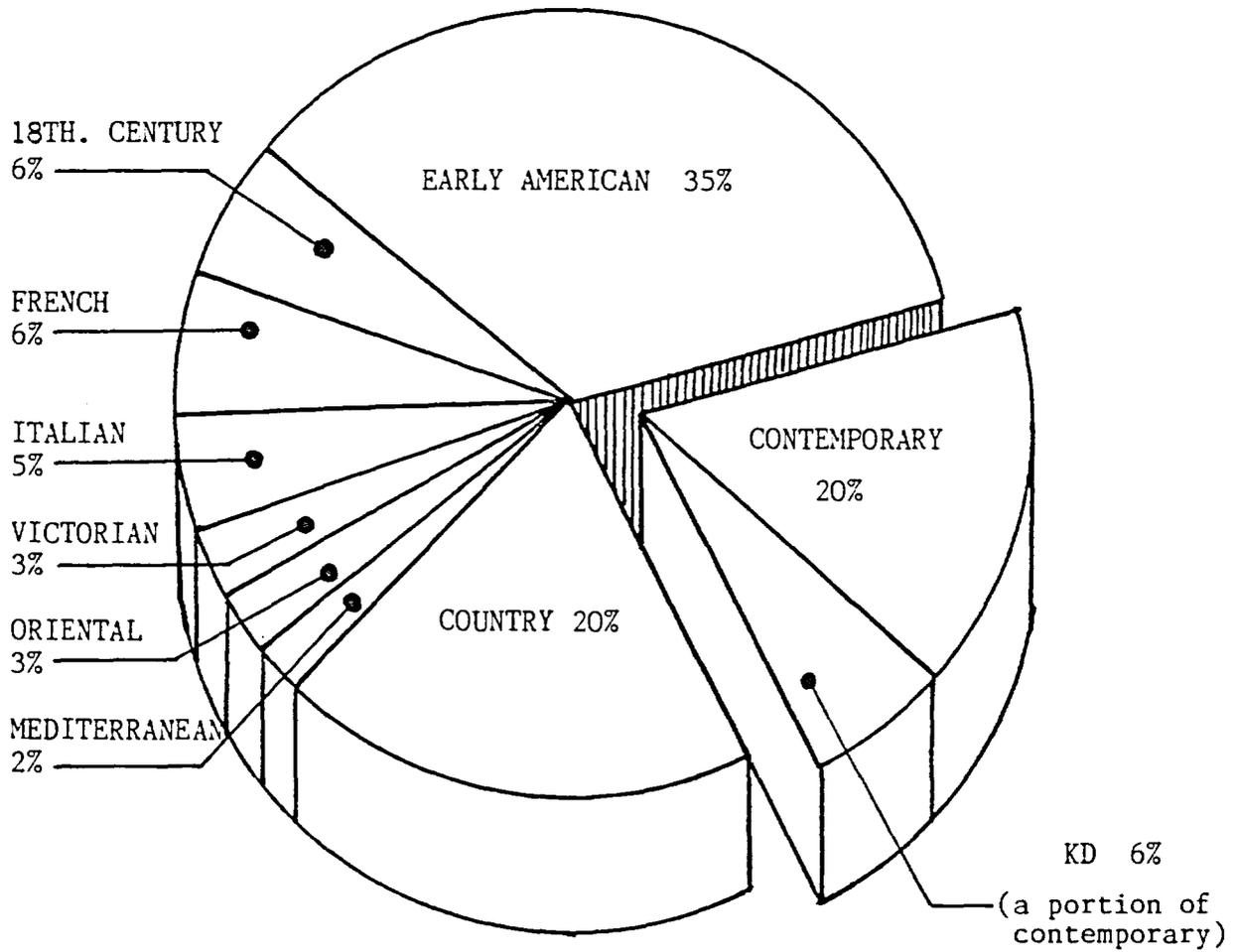
U.S. retailers and manufacturers reason that as prices increase consumers will be less likely to accept products which they must assemble themselves. At the current time KD products are largely restricted to the lower portion of the mid-price range and the promotional price ranges shown in the chart. U.S. retailers would expect paper and vinyl wrapped ranges and much of the painted tube product which is currently on the market to fall into the lower price segment. Lacquered, painted, and real wood veneered KD dining, bedroom, and storage furniture would belong in the mid-priced segment. Leather upholstered high back swivel chairs and some lacquered wall unit systems have currently moved well up into the mid-price range.

2.5 MARKET STYLE SEGMENTATION

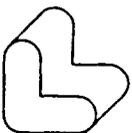
The relative market shares which different styles enjoy in the U.S. furniture market are shown in the chart below. Currently contemporary furniture enjoys the fastest growing market share and averages twenty percent in all categories (dining, bedroom, storage etc.). Readers should note that these individual categories often vary from the average shown but these potential differences are not important in the context of this study.

KD products are included in the contemporary segment which includes all modern products from the most to the least expensive. We estimate that KD accounts for 6% -7% of the total

THE RELATIVE IMPORTANCE OF FURNITURE STYLES
IN THE U.S. MARKET



Source: Louch & Associates.



furniture sold and has therefore become an important category in its own right

2.6 ASSESSMENT OF MARKET SIZE FOR KD FURNITURE BY PRODUCT CATEGORIES

As we have mentioned previously there is no specific data available to pinpoint the market share which various KD product categories have so far achieved. It is only possible to make an assessment in the most general way. The Table on the following page shows the relative volume achieved by each of the furniture production categories recorded by the US Department of Commerce in its Survey of US Manufacturers. We estimate total sales of all KD furniture were half a billion dollars (4%) of total shipments in 1982 and have projected sales by recorded category on that basis. We estimate current US produced KD shipment totals to be about \$US 700 million. These together with imports of KD products estimated at \$US 300 million now result in retail sales of over \$US 2 billion. The intense competition in the KD industry to produce new, attractive and cost effective designs, coupled with retailer and consumer product acceptance seem to indicate that KD product sales could double over the next decade. Key categories are modular bedroom furniture, and living room, hall and library furniture which include flat-pack storage systems and entertainment furniture.

PRODUCTION OF HOUSEHOLD FURNITURE EXCLUDING BEDDING
BY TYPE 1981-1984 (Value in \$US millions) ESTIMATES
OF KD SHIPMENTS BY PRODUCT FOR '82 & '84

Categories of furniture	1981	1982*	1984*
Total furniture (less bedding)	10,993	10839	13,942
Wooden furniture (non upholstered)	5,220	5,078	6,593
		Estimated KD totals	
Bedroom furniture:	1,715	63	98
Living room, Hall & Library furn:	1,367	42	80
Dining room & kitchen furn. (excl. cabinets):	1,151	42	66
Outdoor & unfin- ished furniture:	196	7	11
Infants & Child- rens furniture:	277	10	16
Household furn. for companies:	511	20	30
Upholstered wood furniture:	3,652	3,552	4,667
		Estimated KD total	
		-	210
Metal furniture:	1,498	1,573	1,868
		Estimated KD totals	
Dining room furniture:	376	15	21
Porch, lawn & outdoor furn:	364	13	20
Kitchen furn:	102	4	6
Other metal furn:	545	21	31
Wood TV/radio cabinets:	296	259	375
		Estimated KD total	
		-	56

Source: Census and annual survey of Manufacturers.

* Estimates only designed to show relative strength
of each US production category.

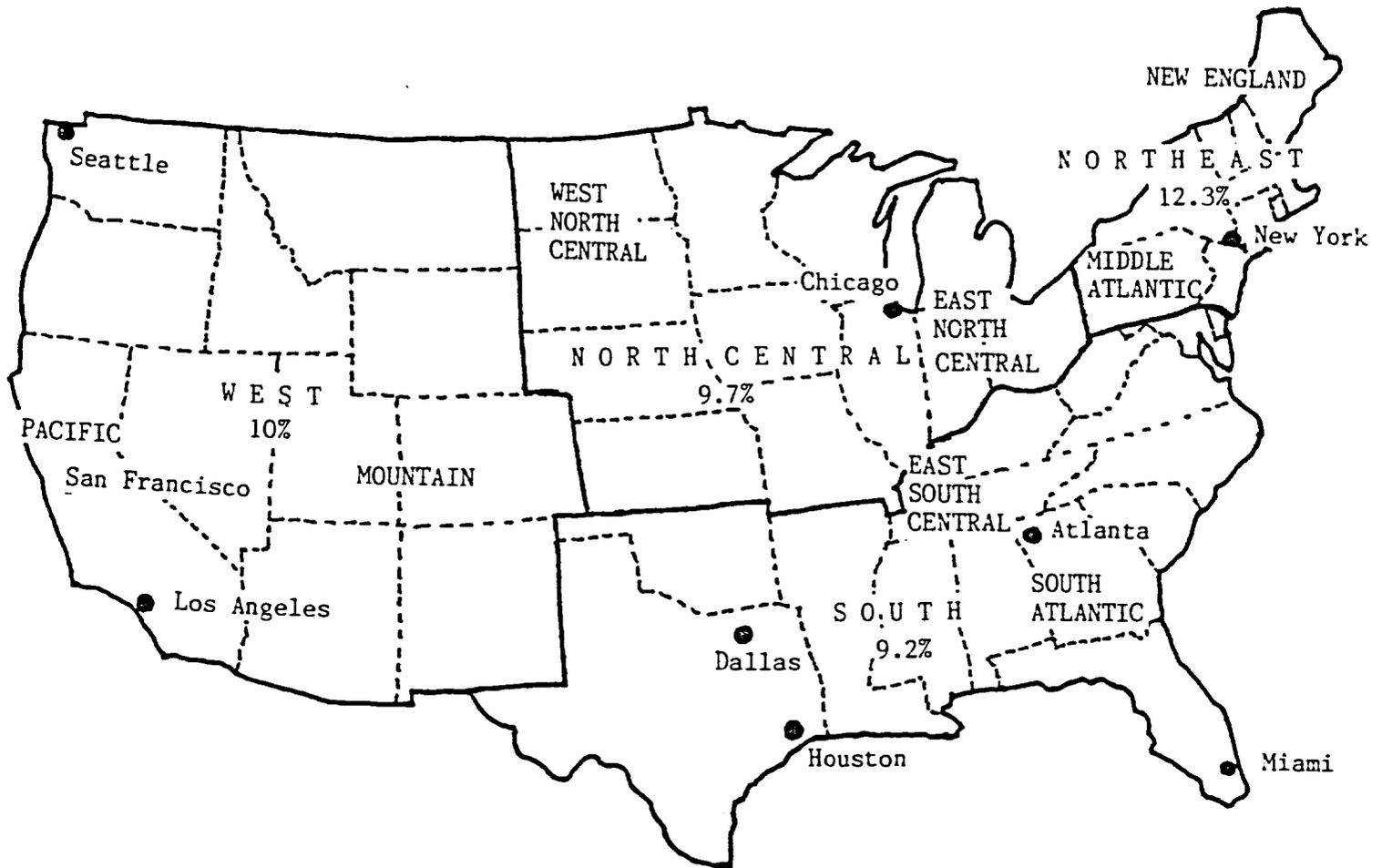
3.0 RETAIL FURNITURE MARKETS IN THE UNITED STATES

In a country the size of the United States it is not surprising that the market is not homogeneous. The country is divided into four main market areas shown on the map below. These four main market areas: The Northeast, the North Central, the South, and the West have developed certain specific market characteristics and requirements of their own. Distance was one reason for separate market development, climate, tradition, and emerging different lifestyles are other reasons.

The map also shows the relative sales growth in the main US market areas. The national average was 10.7% in 1984. The West showed a marginally stronger growth than Central and Southern markets. The Northeast performed substantially better but retailers in this region had been worse hit by the recession and had more ground to recover.

The North Central, Northeastern, and the top portion of the Southeastern markets are inherently more conservative than extreme southern and West Coast markets. For example by far the greater portion of antique reproduction and US "country styled" furniture is sold in these areas. The South and the West developing later than the North, blessed with warmer climates and not confined to traditional thinking, are far more receptive to casual, flamboyant styles and materials.

MAJOR MARKET AREAS IN THE UNITED STATES & FURNITURE RETAILER'S
SALES GROWTH 1984 vs. 1983



KD furniture designed to be stylish, functional, and cost attractive can find ready sales in all US markets and could represent the strongest category for national sales growth in the industry. Mimi Gleberman, a leading independent East Coast retailer whose family firm, J.H. Harvey is classified as one of the top 200 retailers in the US and operates KD specialty stores as well as "full service" stores feels that "As far as expansion goes, we can honestly say that ready-to-assemble has the greatest possibility".

The problem facing the U.S. retailer, who realizes that KD products offer major growth potential, is to identify the product types which he can sell without coming into headlong confrontation with mass merchants, home center chains and other specialists entering the field. There is a national Market for furniture despite regional differences. This market is in the hands of the mass merchants, the department stores, the leading home centers, D-I-Y chains and a very few of the larger independent furniture retail chains. Canadian manufacturers must make a choice between national and regional markets: there is a place for them in both. Both of these markets present their own problems from a marketing point of view.

Three key regional markets which are leaders in the introduction and retail acceptance of new furniture styles and trends are:

- The Northeastern region centered on New York.
- The West Coast market centered on Los Angeles and San Francisco.
- Portions of the "sun belt" states.

There is an apparent contradiction in the Northeastern region; for although this region is the main market for traditional furniture, it is also the main entry gateway to the U.S. from Europe and it is exposed to new trends early. Consequently contemporary KD furniture has found a ready market there.

The subject of "regionalism" in the U.S. furniture market could in itself form a complete market study. To conclude this section it

must be remembered that although there has been a continuous swing away from older industrialised centers in the North Central and on the Northeastern seaboard both of these areas will remain important as focal points for importing and distribution as well as major population centers. Collectively these two areas account for 57% of the US population; they contain 60% of the country's manufacturing establishments; and they are responsible for 55% of all national retail sales. If Canadian manufacturers are considering entering the stakes for national distribution they will find that representation and a strategically located shipping point in this area is essential.

The process of development still going on in the south and west should be viewed as a part of the Nation's process of expansion rather than a shift in demand with one part of the country contracting in favour of the other.

3.1 EFFECTS OF THE LACK OF MARKET HOMOGENITY ON MANUFACTURERS

TARGETING FOR U.S. MARKETS

Clearly, a market like the U.S. furniture market which lacks recognizable homogeneity will present the manufacturer who wishes to export with special problems and this is particularly so with the KD market. This is an emerging market -- still feeling its way. Retailers (many of them specialty stores with few outlets and often without much capital for expansion) who committed to the

category early are developing throughout the market; while the vast mass of the retail market is struggling to come to terms with the possibilities the category offers and the new level of public acceptance which this suggests.

Before a Canadian manufacturer can begin to effectively target, whether by region or by store, he must have a firm understanding of the different types of retail operation existing in the marketplace and how successful he is likely to be with each type.

3.2 RETAIL FURNITURE DISTRIBUTION CHANNELS IN THE USA

Retail distribution channels for household furniture in the US can be divided into seven basic categories which we shall examine below. The basic nine categories are: mass merchandisers, independent retailers (whether chains or single stores, publicly or privately held), department stores, specialty stores, catalog merchandisers, discount stores, home center/do-it-yourself merchants, and home electronics stores.

Mass Merchandisers:

The big three mass merchants are Sears Roebuck (851 stores headquartered in Chicago); J.C.Penney Co.(597 full-line stores with a further 1,000 selling "soft lines" only); and Montgomery Ward, headquartered in Chicago with 338 stores. The furniture departments in mass merchants stores sell a restricted range of

household furniture. Generally very low to low-middle priced products are sold which are not usually very innovative but definitely appealing to middle American tastes. Mass merchants do sell some KD products (usually referred to as "lifestyle"). These products in the main consist of melamine or paper covered wall systems, with some dining and occasional furniture.

Catalog sales are a main feature of the furniture business for the mass merchants; in fact they have often found it easier to promote KD products through catalogs. Mr Charles Daniels, National Merchandise Manager for Sears, in Chicago feels this is because older more conservative floor staff in Sears furniture departments find it hard to make the switch from selling conventional furniture to selling "take-away" furniture. With the mass merchants as with many conventional furniture retailers a lingering feeling that KD means lower quality still persists. These attitudes date back to the US's early experiences with cheap, poorly designed KD in the early 70s; they are breaking down largely due to the innovative flood of attractively designed products now finding their way to the market.

Mass merchants tend to deal directly with factory sources to achieve the best pricing. Starting orders can be formidably large but mass merchant's credit is always good. Mass merchants will insist on advertising support if goods are to be featured in their seasonal catalogs.

Canadian manufacturers should also be aware that the mass merchants usually like items to be specially designed or are only

available to them on an exclusive basis. Staff changes can be a problem particularly if a program is in mid-development when the change occurs. At least one of the big three, J.C.Penney, has recently planned to drop furniture as a major category according to Mr Don Odell, Merchandise Manager for furniture.

Independent Retailers:

The independent retailers are the backbone of the retail furniture industry in the US. There are some 13,000 independent furniture retailers in the US. Collectively they control more than 26,000 retail stores. Independents range from single store, "mom & pop" operations to the large publicly or privately held store chains. It is estimated that independent retailers control as much as 75% of the total household furniture sold in the US. Industry estimates indicate that the number of independent retail stores is shrinking progressively while the number of smaller "specialty stores " and larger "full-line" stores are increasing.

Independents include the full gamut of furniture store types. Many stores specialize, selling primarily styles such as traditional or contemporary furniture; others specialize by price either as high, low, or medium price operators. The full-service stores which sell both traditional and contemporary carry furniture to cover all categories. The following Table shows the top 20 independent furniture retailers in the US.

THE TOP 20 US FURNITURE STORES, 1983

	NAME	HOME BASE	CO.VOLUME (\$ Million)	NO.OF STORES	TOTAL FLR SPACE
1	Levitz	Miami, FLA	644.4	83	4,500
2	Breuners	San Ramon, CA	185.0	17	815
3	American	Madison, WIS	165.0	4	225
4	Haverty's	Atlanta, GA	155.0	65	1,383
5	W.S.Badcock	Mulberry, FLA	151.0	198	1,326
6	Reliable	Columbia, MD	135.0	75	1,525
7	Rhodes	Atlanta, GA	130.0	58	1,365
8	Heilig-Meyers	Richmond, VA	128.7	99	1,860
9	RB Furniture	Irvine, CA	120.7	73	1,400
10	Wickes Furn.	Wheeling, ILL	110.0	15	495
11	Nebraska Furn.Mart.	Omaha, NEB	106.0	1	227
12	Seaman's	Carle Plce, NY	100.0	22	426
13	Fingers	Houston, TX	100.0	7	550
14	Art Van	Warren, MI	86.0	14	420
15	Value City	Columbus, OH	76.0	26	625
16	McMahan's	Carlsbad, CA	71.7	73	1,350
17	McMahan's	Santa Monica, CA	65.0	45	967
18	Huffman-Koos	Hackensack, NJ	62.0	10	535
19	Scandinavian Design	Natick, MASS	60.3	29	143
20	Lack's	Victoria, TX	60.0	30	1,085

Source: Furniture Today, based on company's statements & estimates.

The vast increase in US imports over the past 5 years is a major problem facing Canadian manufacturers who target the leading independent retailers. The foreign competition is stiffening and the leading retailers can afford to be very selective. Companies bringing imports into the US are becoming aware that they should consider increasing the range of their distribution to medium and smaller sized stores in order to maintain or increase their market share.

A glance at the top 20 retailers shows that there is no recognizable center or series of centers in the distribution of the major retailers. They are scattered all over the country. This lack of pattern follows throughout the whole industry.

Retailers generally double the purchase price to arrive at their margin although many of the "top-end" retailers add an additional 25% plus. Retailers talk in terms of 60% or 50% margins.

There is considerable confusion in the retailing community generally at present. KD products are a main reason for this. Tempted by the larger "ticket" sales offered by furniture, discount store chains and home centers are moving progressively into the furniture field. Naturally lower priced items have attracted these new furniture retailers. Independent retailers are concerned that they are not able to match discounters margins, which can sometimes be as low as 40% - 45%. For this reason many independents are considering upgrading the quality of the KD and lifestyle merchandise they sell.

Department Stores:

Department stores account for about 12.5% of total US retail sales for household furniture (Furniture Today). Like independent retailers, department stores can be categorised as High-end, medium, or lower-end merchants. Examples are Bloomingdales (high-end); Strawbridge & Clothier (medium, Philadelphia); and May Co. (Medium low-end, California). Most department stores operate a conventional furniture department, a housewares department, & a video and electronics department. Some department stores such as Strawbridge and Clothier and the Broadway also operate "Lifestyles" departments. For many years these "lifestyles" departments were where most KD furniture was sold in department stores.

Canadian manufacturers may find department stores offer excellent business prospects but they should be aware that department stores are extremely service oriented. The main methods of doing business are:

The "in-stock" program (department store makes an initial stock order to back a catalog or mailer program); in this case the initial order can be substantial, or the order will be accepted in pre-determined quantities at pre-determined dates. This theoretically makes sense; however, many manufacturers have found that the department store buying staff are prone to use staggered deliveries as an opportunity to review sales progress to date.

This can often result in a lower total commitment from the store. For this reason many US manufacturers find department store business very irksome. Another factor is that buyers change frequently. Department stores all sell pretty much the same product mix. For this reason they are likely to ask suppliers to change, modify, or develop new items or finishes (designed to give them a competitive edge). If there is a major buyer change during this process the entire program can be dropped.

The second method is that the store may carry the product as a "line item". Overall sales may be substantial but the manufacturer may be called to carry most of the back-up stock. In order to service this scenario it is usually better to have centrally established US shipping points. Many overseas manufacturers have therefore found it is simpler to sell to department stores through distributors. The equation -- increased costs to retail customer via local distribution, as opposed to lower retailer costs resulting from direct ex-factory supply must be carefully considered before commencing sales to department stores.

Department stores' credit is usually good but payment cycles are often extended and additionally department stores are prone to taking extra discounts almost as a matter of right. For this reason it is advisable to be "cash-strong" if considering doing business with department stores.

Production items which currently have a place in department stores are: in the main furniture department -- wall systems, bedroom systems with lacquer or melamine: in the housewares/lifestyles department -- take-away KD products including fold-up metal furniture, shelving, and wooden equivalents, some one-piece foam seating. In the video department -- entertainment system furniture and computer furniture.

A list of the major department stores is shown in the following table. Many of the leading department stores belong to groups which operate central buying offices in New York and in major capital cities around the world. Examples are: Allied Stores Corporation, Batus Inc., and Associated Dry Goods Corporation

Specialty Stores:

There are specialist retailers for most furniture categories established all over the US. Recognizable categories include: waterbeds; unfinished furniture; sleep shops; sofa and sofa sleeper specialists; gallery stores (selling a particular manufacturer's products by licence or franchise arrangement for example, Drexel Heritage, Ethan Allen); juvenile furniture; bar stools & dinettes; and KD (lifestyles). If a Canadian manufacturer produces a specific category for example, bunks and children's furniture then the juvenile furniture specialist stores are a definite market option.

THE TOP US DEPARTMENT STORES

	NAME	AFFILIATED	HOME BASE	NUMBER OF STORES
1	May Co.	May Stores	Cleveland, OH	135
2	Marshall Field	Batus	Chicago, IL	93
3	Alexanders	-	New York, NY	85
4	Broadway	-	Los Angeles, CA	40
5	(The Bon	Allied	Seattle, WA	35
	(Saks 5th Ave.	Batus	New York, NY	35
6	(May Co.	May Stores	Los Angeles, CA	33
	(Lord & Taylor	Assoc. Dry	New York, NY	33
7	(Joske's	Allied	Houston, TX	28
	(D.H. Holmes	-	New Orleans, LA	28
8	(Carson, Pirie,	-		
	(Scott		Chicago, IL	25
	(Goldblatt Bros	-	Chicago, IL	25
	(Strawbridge &	-		
	(Clothier		Philadelphia, PA	25
	(Thalhimer Bros	-	Richmond, VA	25
9	(Elder-Beerman	-	Dayton, OH	24
	(I. Magnin	Federated	San Francisco, CA	24
	(P.A. Bergner	-	Peoria, IL	24
10	(The Hecht Co.	May Stores	Washington, DC	22
	(Hess	-	Allentown, PA	22
11	(Macy's	R.H. Macy		
	(California		San Francisco, CA	21
	(Burdine's	Federated	Miami, FL	21
	(J.W. Robinson	Assoc. Dry	Los Angeles, CA	21
12	(Bamberger's	R.H. Macy	Newark, NJ	20
	(Emporium	-		
	(Capwell		San Francisco, CA	20
	(Gimbel's	Batus	New York, NY	20
	(Maas Bros	Allied	Tampa, FL	20
13	(Filene's	Federated	Boston, MA	19
14	(Hudson's	Dayton H.	Detroit, MI	18
15	(Rich's	Federated	Atlanta, GA	16
	(Lazarus	Federated	Columbus, OH	16
	(Neiman Marcus	-	Dallas, TX	16
	(Dayton's	Dayton H.	Minneapolis, MN	16
16	(Macy's, NY	R.H. Macy	New York, NY	15
	(Sanger Harris	Federated	Dallas, TX	15
	(Bloomingdales	Federated	New York, NY	14
	(Woodward &	-		
	(Lothrop		Washington, DC	14
	(Jordan Marsh	Allied	Boston, MA	14
	(John Wanamaker	-	Philadelphia, PA	14
	(Famous-Barr Co.	May Stores	St. Louis, MO	14
	(Wieboldt	-	Chicago, IL	14

Source: Furniture Today

Specialty stores and chains are a growth factor in the industry. Franchising has promoted the spread of the more salable specialist furniture retailing ideas. Canadian manufacturers will find that there is no recognizable pattern in specialty store location in the United States. Details of specialty store locations can be obtained from the Department of External Affairs, the Department of Regional Industrial Expansion , and Canadian Trade Commissioner posts. A good rule is to concentrate sales efforts on major metropolitan or regional centers such as Chicago, Dallas, Miami, New York or Los Angeles. It is a fact that the KD trend has gathered speed faster closer to the major cities.

Specialty retailers like other independents range from single store operations to sizable chains. Savage, Maryland based Scan is a good example. This chain specializes in imported contemporary lifestyle and KD products. At the other end of the scale single store operators can offer good business: Lifestyle Interiors in Oklahoma City, and Shelter Interiors, in Santa Fe, New Mexico are examples.

Specialty stores are generally much smaller than independent retailers and department store furniture floors. They carry mainly furniture and accessories. Many of the contemporary specialty stores started life to fulfill the needs of a specific socioeconomic group. Workbench and the Door Store in New York and New England for example cater for modern minded middle income

young professionals in a contemporary but conservative way.

Two specialty retailers have dominated the trade press news over the last two years they are: Conrans and Ikea.

Conrans, the US subsidiary of the UK based giant Habitat Mothercare Group (recently merged with the English Burtons group) is a specialty retailer operating 10 stores in the New York and surrounding area. This year a store was added in New Haven, Connecticut. Habitat the parent operation built its business on KD and attractive home accessories in the sixties. The Conrans' stores continue the tradition. Approximately \$20 million of Conrans sales are of furniture and about sixty percent of that is KD. Smaller items are handled as cash and carry while larger furniture items must be ordered from floor samples and are generally available for delivery or pick-up in 4 to 6 weeks. All furniture purchases can be picked up from the store or warehouse at a substantial saving over delivered prices. All KD items are sold disassembled.

Conrans have a specific crisp clean image and are backed in the UK by a large design team (several hundred designers). The company is often hard to please and it is not easy to be selected as a supplier. However if a good working relationship is established it will be profitable and long lasting for the supplier. Conrans has just moved its head office from New Rochelle New York, to New York City.

Ikea is a company well known to most Canadian contemporary furniture manufacturers. The company is possibly the world's largest contemporary furniture and accessories retailer with world group sales in excess of \$1 billion. Canadian sales are around \$100 million. Ikea, already established in Canada, overcame problems with an unsuccessful franchising program in the US Pacific Northwest and has now moved to commence operations in the US.

Ikea established its first US store in Philadelphia in the summer of 1985. With a sales target of \$30 million for its first year operations, Ikea is well positioned and exceeded its initial sales target very easily (\$US 8 million in the first quarter). The store has been so successful that retailers in the area are extremely worried. The second Ikea store opened near Washington D.C. in April 1986. Ikea reported that it received more than 25,000 customers on the opening day. Ikea plans ten other East Coast U.S. stores within the next five years.

Ikea's immediate success indicates the substantial potential which well thought out KD merchandising, supported by catalog and other direct mailings, has for major population centers in the U.S. We predict that Ikea will be a member of the nation's top ten retailers within three years.

Canadian suppliers should fare well with Ikea in the US due to previous Canadian supply experience. But they should be aware that several US suppliers including Klote (a long term friend of the founder and owner of Ikea) and the inventor of the one piece

moulded upholstered chair, are positioning themselves to share Ikeas's US expansion. Canadian suppliers also know that Ikea of necessity buys widely on the world market and often reduces its dependence on individual suppliers by ordering components only from some suppliers and completing assembly of the total components required for one piece of furniture in its own warehouse. Additionally Ikea has maintained "roll-over" orders with some suppliers and this caused some problems in the 1979-1982 recession.

All Ikea furniture is sold disassembled, with customers drawing the items they require directly from the floor warehouse. Ikea is generally regarded as the leader in KD retailing and is constantly investigating new and innovative techniques.

Specialty stores will be important outlets for Canadian manufacturers with KD products. Manufacturers will need to find suitable regional distribution solutions since only the strongest retailers have the expertise and capital to import directly themselves.

Specialty stores and store chains unfettered by links to in-city locations, together with franchise operations, will become increasingly more important in the future of furniture retailing.

Catalog and Mail Order:

The large mass merchants, Sears & Roebuck, Montgomery Ward, and J.C.Penney are all involved in the mail order business. However the most furniture oriented catalog house is undoubtedly Spiegel (also located in Chicago). According to Spiegel the company is unique because it offers full department store lines through its catalog. At this stage very little Spiegel furniture is sold KD. Katherine Hart, casegoods and occasional buyer sees the KD business gathering momentum. She claims consumer reluctance has held up progress but that this is now changing. The influx of "eurostyled" KD is a major factor in this change.

The largest mail order business ranked by volume of sales in 1984 (expressed in millions of dollars) were:

Sears Roebuck	\$2,275
Montgomery Ward	\$ 975
Spiegel	\$ 671
Fingerhut	\$ 500
J.C.Penney	\$ 465
Merchandise Services	\$ 240

The big four catalog houses produce spring and fall catalogs.

Key product evaluation and buying times are January for fall and June/ July for winter catalogs.

Airlines also offer access to the expanding catalog sales market. Most major carriers are now offering selected gift and leisure oriented catalogs. These are provided for travellers to read and hopefully to order from. Manufacturers who have unique, somewhat up-market products capable of United Parcel Service (UPS) shipment could consider contacting the airlines. Mary Rash, catalog manager for American Airlines concentrates basically on smaller furniture items which must be reasonably priced. Although the airlines will sometimes purchase and sell from stock they prefer to have the supplier drop ship for them.

Catalog showroom companies offer a further avenue to limited KD product sales. The leading catalog companies which do sell furniture are Service Merchandise and Best Products. Jim Price of best products deals mainly with the lower priced US suppliers such as Bush, Gusdorf, and Affordable but he did advise that the industry is looking progressively at more and more "eurostyled" furniture.

Discount Stores:

Are yet another avenue for potential sales growth in the US market. The Discount store chains began adding selected furniture items to their merchandise line-up three years ago.

Although furniture selling is still in its infancy with the discounters they are improving their ranges of merchandise and display skills. This is definitely an area to watch. At the present time typical products sold by discounters include: low priced wall units, desks, entertainment furniture, a selection of mass-appeal wood and metal dining chairs and tables, solid foam seating, coffee tables and accent pieces. These are usually displayed on standard linear racks, but center island displays are becoming increasingly popular. Marc Higberger of the Caldor chain (106 stores located in the New England and New Jersey areas) has recently been involved in converting all 106 Caldor stores to sell KD. The product mix chosen includes all the items mentioned above with the addition of smart european styled metal carts and chairs and some rattan furniture. This move by Caldors is typical of the type of upgrading the discounters are considering.

Home Center, Do-It-Yourself Merchants:

Mainstream furniture merchants tend to discount the impact and market share that home centers, mass merchants, and discount store chains are making on the retail industry. With more than 26,000 individual home center/D-I-Y stores located all over the US the home center offers KD producers a very real access to the market. Like the mass merchants and the discounters the home centers are lured by the large ticket sales which furniture can offer. Home centers will offer a serious threat to the

conventional industry because they are used to operating at a far lower margin (35-50% mark-up). The problem facing KD manufacturers is that most home centers still have very poorly developed display and merchandising programs and the selection of goods they sell is restricted, limited by the small amount of space they allocate to the category. The Product mix carried is very similar to that in the discount chains. KD kitchens which the industry has previously viewed with mixed feelings are now causing serious interest among the larger and stronger chains such as Channel, Rickel and Payless-Cashways. W.R. Grace which is number one in home center D-I-Y sales volume has seen the tremendous impact made by Ikea and plans to add extensive KD lines to its range of merchandize. These will consist of both household and kitchen furniture (the kitchens in the development phase are already being sold by the group's Rickel stores).

A further word on kitchens: A recent survey by National Home Center News highlighted the fact that 58% of consumers polled who planned to install new kitchens in 1983 viewed the project as D-I-Y, compared with only 38% in 1982. An extremely good omen for KD kitchens and KD products in general.

Canadian manufacturers need to be aware that the home center industry demands a very high level of distribution support from its vendors. Many of the chains rely almost solely on vendors to maintain adequate stocks and to keep displays in order. This means that regional warehousing and distribution are a must to

penetrate this market.

We would advise new suppliers to offer simple, attractive products and to include a professionally designed point of sale merchandising display program in order to capture home center business.

Electronics Stores and Computer Stores :

Electronics stores selling audio and video equipment are potential customers for KD video racks, microwave carts, and home entertainment furniture usually at the lower end of the market. Canadian manufacturers will find retail electronics chains located in all US market areas.

Computer stores form another potential source of customers. As the home computer market is maturing retailers are interested in adding computer work stations for the home and office in order to increase sales revenues and gain market share. The Tandy Radio Shack Corporation purchased the largest US flat-pack producer, O'Sullivan Industries (sales around \$US 140 million) in 1985 and are currently upgrading all their computer stores to make room for new O'Sullivan Tandy ranges.

Contract/Interior Design Showrooms:

A final distribution channel used by the furniture industry is the contract or interior design showroom. Since these showrooms

are open mainly to the trade they offer almost no potential to the KD furniture manufacturer. They can occasionally provide business for manufacturers making items which are also suitable for the hotel or hospitality industry such as: fold up chairs, carts, tables, and outdoor furniture. Additionally manufacturers with advanced KD wall system technology may consider bidding on room furnishings contracts for hotel accommodation.

3.3 RETAILER RESULTS FROM THE STUDY

800 US retailers were mailed a specially prepared questionnaire during the course of the study. The questionnaire was designed to gather a wide range of information which included: retailers' preferences, buying habits, familiarity with ready-to-assemble furniture, need for new products, preferred payment terms, supporting literature requirements, response to potential Canadian suppliers and so on.

Total response from the mailing was 138 replies. Replies were received from a complete cross section of the retailing categories described in the previous section (3.2). The replies came from retailers located all over the United States. The results from the replies follow together with comments where these were appropriate.

Readers should also note that in addition to mailings approximately 100 telephone interviews were conducted with US retailers. Also the consultants made personal visits to Chicago, Los Angeles, San Francisco, Dallas, New York, Philadelphia, Phoenix, High Point, and Indianapolis during the course of the study to look at prospects with the different types of retailers described in section 3.2 and to examine the degree of sophistication which the retail industry has achieved in KD merchandizing

The written results of approximately 100 retailer interviews can be obtained from the Department of External Affairs, the Department of Regional Industrial Expansion or from Canadian Trade Commissioners located throughout the United States.

RETAILER QUESTIONNAIRE RESULTS:

Question 1: The number of outlets you currently operate.

Retailers responding claimed they operated 1,638 stores. Replies were received from retailers in all categories. Specialty stores responding operated on average 3 stores each.

Question 2: The number of new outlets being planned.

Retailers reported they are currently planning to open 175 new outlets.

Question 3: What is the geographic spread of your retail operations?

Respondents buying offices are located throughout the United States. Retailers operation mainly covered the city where they were located, sometimes their home state, adjoining states, and in the case of national chains stores were located throughout the US.

Question 4: Retailers describe their type of operation.

Answer expressed as a percentage of the 135 total replies received. Note several retailers operated in a variety of ways therefore the total is more than 100 percent.

STORE TYPE	% OF TOTAL
Full Service Stores	33%
Gallery Stores*	6%
Specialty Stores	27%
Warehouse showrooms	6%
Buying Syndicate** (less than)	1%
Department stores	13%
Discount Department Stores	5%
Home Centers	5%
D-I-Y Stores	1%
Mass Merchants	10%
Other types of outlet described include:	
Furniture supermarket	1%
Mail order	1%

* Gallery Stores generally feature a specific manufacturer's product line and are usually operated under franchise from the manufacturer. Examples are Ethan Allen Stores, Drexel Heritage Galleries. There is no indication that KD retailers are operating on manufacturer's or other franchises.

** Buying syndicates/ buying groups. There have always been a number of buying groups which offer participating retailers the benefits of bulk buying discounts and prepared merchandizing and advertising programs. Increasingly today retailers are forming their own groups

to buy directly from factories at the most competitive rates.

Question 5: Do You currently sell KD furniture?

Yes: 78% respondents

No : 13% respondents

Thinking of adding

the category: 9% respondents

Question 6: How do you describe the KD products you sell?

KD (knock-down) 58%

QA (quick assembly) 11%

SA (self assembly) 0%

RTA (ready-to-assemble) 26%

D-I-Y (do it yourself) 0%

Other:

Unassembled 2%

Assembly Required 2%

Furniture to go 2%

Easy assembly 2%

Question 7: What product categories do you sell currently?

We selected 11 major product categories. These were: Bedroom furniture, storage furniture, seating (metal), seating (upholstered), occasional furniture, accent pieces, dining furniture, family room

furniture, kitchen and bath furniture, lighting, and accessories. 66% of all respondents said they sold all categories. 34% said they sold furniture for the kitchen or bathroom* Other low categories were metal seating, lighting, and accessories. 51%, 57%, and 57% respectively of retailers responding sold these categories. Only 16% of responding retailers sold furniture related to kitchens and or bathrooms. This is actually a higher percentage than we expected since the kitchen business in the US is handled almost exclusively by a distribution system outside the household furniture industry.

Question 8:(a) Do you sell imported furniture?

87% of respondents say they sell imported furniture.

(b) The approximate percentage of KD furniture sold which is imported.

On average 65% of all KD furniture sold by retailers responding to the questionnaire was imported *. With 30% of respondents reporting that over 90% of all KD furniture sold was imported.

* Readers should bear in mind that 2/3 of all KD furniture sold in the U.S. is produced by domestic U.S. sources. The above figures reflect the relatively small number of mass merchants, home centers, and audio/video retailers responding to the questionnaire.

Question 9:Where do your imported products come from?

Note: Figures expressed show % of retailers selling imported furniture from each source. Many retailers sell imports from a number of source countries.

Europe	42%	Other:	
Eastern Europe	21%	France	1%
Asia	25%	Germany	8%
Scandinavia	57%	Spain	1%
Italy	44%	Belgium	1%
Taiwan	51%	Thailand	1%
Singapore	14%	Brazil	8%
Canada	21%	Yugoslavia	1%
		Phillipines	1%

In the main the Scandinavian retailers sell almost exclusively products from Scandinavia. Most other retailers reported selling imported products from both Europe and Asia.

Question 10:Are you interested in new supply sources?

96% of respondents were interested in new supply sources. Most retailers interviewed know that they must keep an open mind to succeed in the furniture industry which is strongly influenced by fashion.

Question 11: What new products are you looking for at present?

Most retailers expressed interest in almost all product categories outlined for them. One or two retailers only expressed interest in specific categories.

Question 12: From which sources do you buy your products?

Most retailers buy from a variety of sources. Therefore percentages given are not accumulative.

Direct from factory:	80.0%
Via manufacturer's agent:	46.0%
From importer/wholesalers	40.0%
From warehouse showrooms:	5.0%
Via a retailer's buying group:	5.0%

It is clearly apparent that wholesalers are not the most popular source of supply. Also that retailers' move towards collective buying groups is not yet widely established.

Question 13: If you buy direct how do you pay for your purchases?

Most retailers use a variety of payment methods. Therefore percentages shown are not accumulative.

Letter of Credit:	40 %
Cash against documents:	23 %
Open A/C:	48 %
30 days:	29 %
60 days:	27 %
90 days:	9 %

A number of retailers stated that they look for the "best deal available". Clearly Letters of Credit are still an acceptable method of doing overseas business, BUT open account trading terms are clearly preferred. This aspect is discussed later in this report.

Question 14:How do you prefer product prices stated?

Again a number of retailers are prepared to accept prices quoted on a variety of bases, therefore percentages are not accumulative.

Ex-factory:	40 %
Ex US warehouse:	14 %
FOB:	25 %
Delivered yr store:	25 %
CIF:	17 %

Question 15:What payment discounts do you normally expect from suppliers?

Almost all respondents expressed an interest in discounts. Typical

discounts range from 2%-5%

Question 16:(a) Do you advertise to consumers?

93% of all respondents advertise direct to consumers.

(b) What type of ads do you use?

Newspaper ads:	76 %
Seasonal catalogs:	38 %
Inserts in weekend newspaper editions:	31 %
Consumer direct mail:	55 %
Other:	
Magazine advertisements:	2%

Question 17:What discount level do you normally expect from suppliers for advertising?

Less than 50% of respondents answered this question. Answers ranged from 2% to 10%. The acceptable amount appears to be 5%. Some retailers stated they take what they can.

Question 18:(a) Have you sold Canadian products?

58% of all respondents stated that they have had some experience with Canadian products.

(b) Was your experience satisfactory?

Not all retailers who answered part (a) answered part (b). Most retailers who did answer the question claimed a satisfactory experience, and received good quality products. One or two retailers said they has suffered shipment delays, and problems with quality or packaging.

Question 19:Can you describe the consumer for your KD products?

Almost all retailers agreed that consumers buying KD products are in the 25-45 age group, and that consumers incomes range from \$20,000 to \$50,000 .That they are often setting up home for the first time, or furnishing children's rooms, or home offices.

Consumers are described as discriminating. It was also noted that consumers purchasing KD also buy fully assembled furniture.

Question 20:What price level do consumers expect to pay for products?

Low:	29 %
Medium:	55 %
High:	4 %

Note: not all retailers answered this question.

Question 21: Are consumers interested in price and style, or both?

All retail respondents felt that consumers are equally interested in price and style.

Question 22: Do you feel KD furniture is best sold in the same store as conventional furniture or as a separate operation?

Same store same department:	31 %
Same store separate department:	40 %
Separate Store	14 %

Currently retailers feel that it is important to sell KD products in a separate department but that this can be located in a conventional store. We expect that this belief will change following the European experience which clearly indicates that specialist KD stores are far more sales productive. The US retailers reaction is natural considering that the vast majority have substantial investments in conventional furniture sales but less of an investment at this time in KD.

Question 23: How important is selling literature?

55% of respondents felt that good quality selling literature is important to them. 70% claimed that literature is important for consumers. Retailers clearly stated in phone interviews that consumers are well educated, that they like to have as much information on the

products they are considering. The phrase commonly used in the trade press is "today's well informed consumer".

Question 24: Do you sell products marked with your own brand name?

36% of respondents answered yes to this question. Retailers are starting to turn to private labeling as a way to compensate for increased sales competition from mass merchants and discounters.

Question 25: Where do you prefer to meet new sources?

Atlanta:	2 %
Chicago (Housewares Show):	14 %
Dallas:	30 %
Denmark (Copenhagen):	31 %
High Point:	55 %
K Design Show (New York):*	36 %
Milan (Salon del Mobile):	23 %
Neocon (Chicago contract show):	2 %
Paris (Salon du Meuble)	4 %
San Francisco:	17 %
Stockholm (Swedish Furniture Fair):	4 %

* The management of the New York based K Design show announced that the show will not be held again.

The National Home Furnishings Association (NHFA) announced it will hold The American International Furniture Fair (AIFF) in conjunction

with the Dallas Summer Home Furnishings Market, and that the AIFB will include a separate section for KD manufacturers.

4.0 THE TARGET CLIENTELE FOR KD FURNITURE

The study showed that retail buyers' opinions are divided as to who their customers are. Typical comments included: "Mostly bought for children's rooms, or by newly weds for their apartments" -Lifestyles (Valpariso, Indiana; "20 to 40 years old in the middle income bracket" - Caldors, Connecticut; "All ages. KD furniture is used in home offices, small apartments, and by new career persons" - Emporium Capwell, California. Zody's, the California based discounter said: "Inner city, Hispanic and Black, lower income, blue collar, all ages. This last comment should be discounted mainly due to the location of many of the company's stores.

Although retailers were not able to agree on a common verbal description for KD purchasing consumers. The overwhelming majority of all retailers interviewed agreed that their customers had the following common characteristics:

- o 25 to 45 years old.
- o Salaries of \$25,000 to \$50,000
- o Upwardly mobile young urban professionals.
- o Like contemporary design, but do not limit their purchases to KD items.

- o Newly in the housing market owning smaller (starter) houses, apartments and condominiums.

These characteristics are extremely important for the KD industry. Consumers in the 21-39 age bracket now number 76 million, fully one third of the US population: compared to 30 million in the seventies.

These people commonly called the Baby Boomers stay single longer, they are better educated than their parents and they have consumer appetites to match their incomes. They buy over 70 percent of the electronics equipment sold, and consequently they buy the majority of the KD furniture developed to hold electronics and computers. They are a group in transition and are a huge potential market for goods and services which relate to the home. Industry estimates show that over 50 percent more Baby Boomers are likely to be in the market for furniture than adults over forty, because they are establishing new households.

In the immediate future interest rates on mortgage loans should continue to drop and this will favour increased home ownership in the under forty age group.

There will be an increase in single family homes, and at the same time the number of single person households is also growing. Both young unmarried working women and men in the \$25,000 plus wage bracket constantly barraged by the media and the shelter magazines are aware that an attractive home is now within their

reach. Additionally with more under forties couples working and over 50% of them with children, they no longer have the time for shopping which their parents had. The Baby Boomers are used to almost immediate gratification and KD home furnishings, provided they are well designed, attractively packaged, and reasonably priced, can fill the bill.

These points all add up to a strong potential market for KD in the future with the younger consumer at its center. Many US retailers feel that the KD consumer grows out of the KD market after achieving mid-life security. Habitat, the English parent of the US retailer Conran's and Ikea have largely disproved this idea. They have proved that their consumers have stayed with their concept. It is important to note that these merchants continue to make subtle changes in their merchandise to hold their customers. This degree of change is perhaps too subtle for the American retailer to see at this stage. The young American consumer responded to clean European styled furniture much faster than the market predicted. In order to continue to build on this vital market segment and to counter future reductions in the level of disposable income, KD manufacturers must continue to develop better products.

Much emphasis has been placed on the under forties but over \$40,000 income group, the young upwardly mobile urban professionals. Canadian KD producers should be aware that this group is only 4 million strong (5% of the population) and that its buying habits indicate a far more expensive and elaborate

product than most KD producers currently manufacture.

Recent demographic studies on older Americans have shown that the over fifties market is estimated to be worth \$800 billion. Most marketers have chosen to ignore this huge potential market which is generally associated with high quality brand names. It remains to be seen whether the more innovative KD producers can attract a market share here.

The results of this study also show clearly that consumers are interested in both style and quality and that they tend to buy in the medium price bracket.

5.0 CANADIAN MARKET PENETRATION AND IMPORTS

US figures show that Canada's furniture exports totalled \$US 343.8 million in 1984 and she maintained her position as the US's second largest furniture exporter, responsible for 17% of the US's total furniture imports. Despite an apparently healthy increase in total exports (38% over 1983), Canada's gains were overshadowed by increases from three serious competitors and one future competitor. Italy increased her exports by 78%, Denmark by 56%, and West Germany by 53%. Although all three countries are well behind Canada in their total volume of exports Canadian producers can expect to face stiffening competition from each of these countries. Italy, Denmark, and Germany all possess well

equipped, highly automated factories for KD production. In addition they have extensive experience in the more advanced European KD furniture markets. These western countries compete on a fairly equal basis with Canada. Container freight costs from western Europe for example are fairly similar to costs Canadians must pay for long haul US road deliveries to Florida, the South and the West Coast.

Mexico also increased her exports by a substantial 65%. The increase came in the main from one company, Grupo Industrial Certimex. Mexico has recently signed a furniture technology sharing agreement with Italy and Canadians can expect to see increasing US export activity from Mexico. At the present time production quality is very low, almost exclusively aimed at the domestic market. The Mexicans are now serious about up-grading their production and KD is one of their targets.

Taiwan, the leading US exporter and other Asian countries have traditionally been seen as the most serious competition for US furniture business. Whether by accident or design the Taiwanese produce products in two categories: US mainstream, low to middle market dining and occasional furniture - most of which is produced strictly to US designs; and low price copies of successful mass merchantable KD chairs, tables and occasional tables together with copies of lifestyle metal furniture. We do not consider them competition in the eurostyle KD markets because of their general lack of good quality contemporary design.

It should be noted that European participation in the major US furniture markets has intensified over the last two years. There is every indication that more countries than ever before will be marketing their products in the US.

The Southern Furniture Market Center in High Point reported that there were more than 170 foreign exhibitors showing at the last market in October.

This activity was initially spurred by the strength of the US dollar. But imports have now secured such a definite grip on the market that industry analysts believe they are now an established part of the US furniture buying pattern.

In 1984 imports, shown in the following table accounted for 12% of total US furniture shipments (US 1984 total industry shipments were \$US 16.3 billion while imports were \$US 1.98 billion). The market share enjoyed by imports is even greater if bedding production figures are removed from total industry shipments (bedding by its very nature is not easily exported). In this case imports would account for 14% of industry total shipments.

We have previously stated that total sales in the KD category could be as high as 7%. On this basis we estimate total KD industry shipments of \$US 1.08 billion for 1984. While KD imports could be as high as \$US 373 million (18% of total imports)

US FURNITURE IMPORTS BY COUNTRY OF ORIGIN, 1983 -1984, (in \$US
millions). INCLUDING KD FURNITURE ESTIMATES

Country	1984	1983	Percent increase	Estimate KD total
Taiwan	\$ 513.9	\$ 379.3	35 %	\$ 70.0
Canada	343.8	249.0	38	25.0
Italy	181.8	102.2	78	20.0
Denmark	173.4	111.2	56	130.0
Yugoslavia	117.0	90.9	29	10.0
West Germany	90.2	59.0	53	40.0
Philippines	59.4	52.1	14	5.0
Mexico	56.8	43.4	65	0.0
United Kingdom	54.4	58.0	14	10.0
Singapore	45.2	41.4	9	30.0
All Other	352.3	256.4	37	40.0

US Domestic KD Production \$ 700.0

Estimate of US KD shipment total inc. imports \$ 1,080.0

Source: US Customs Service, US Dept. Commerce.

It must be clearly understood that there are no official figures available to support the percentage of KD exports from exporting countries, or the US. The estimates in the table are based on the consultant's assessment of the furniture manufacturing nations mentioned and should be regarded as purely indicative.

A brief explanation of some of the figures in the table is

required: The majority of all furniture manufactured in Taiwan is for export and it is manufactured KD. In the case of the US the bulk of the supply is assembled in the US from components by major US manufacturers and sold as assembled furniture. Universal Furniture and Mission Furniture are examples. Canada's strongest US exports are contract furniture and upholstered furniture. Although Italy produces some of the finest KD production equipment and much Italian furniture is manufactured by KD methods most Italian production is sold as assembled furniture. The bulk of furniture produced in Denmark is exported and the majority of the production is sold as KD furniture. Much of the West Germany's US exports consist of KD kitchens. The majority of these are sold assembled in the US. US domestic production is estimated from the approximate volume of the market leaders. The US is by far the largest market supplier but the majority of products produced are low price products.

Canadian manufacturers who responded to this study reported \$CN 19 million in US export sales of KD products. Of the twenty five companies which responded 14 have exported to the US and 11 have not. Allowing for companies which did not respond we estimate total Canadian KD exports of \$CN 25 million. It can be seen clearly that there is plenty of scope for Canada to increase her exports in the category. In order to do so skillful marketing will be necessary.

58% of retailers questioned responded to the question concerning previous experience with Canadian suppliers. 67% of these have

bought Canadian KD furniture while 33% had no knowledge of Canadian suppliers. The response to the quality of the merchandise was generally excellent. This positive reaction should encourage Canadian manufacturers to increase their export efforts.

The small number of complaints mentioned included: slow deliveries; freight expensive on small orders; damage in shipping; delays on deliveries. One retailer felt that the product he had purchased was wrong for his mix. Several retailers felt that Canada should be a good source for new product since they knew that KD retailing has recently become very popular, particularly in Quebec. We believe that Canada is ideally positioned to take advantage of the US trend to KD.

5.1 PROJECTED 1985 IMPORT GROWTH:

The latest industry figures released in December for the first nine months of 1985 indicate continued strong import growth. The total for the year's imports may reach \$US 2.5 billion. This would represent a 25% increase for the year. Major gains for the first three quarters are being registered by Taiwan ,up 31%; Italy, up 57%; West Germany, up 51%. Japan increased its shipments by 58% and joined the list of top ten exporting countries. Canada's growth rate is lower than average at 25% and Denmark is only showing a 10% increase.

5.2 IMPORT DUTIES

US RATES OF CUSTOMS DUTY APPLICABLE TO FURNITURE AS AT JANUARY 1986 (percent ad valorem)

TSUS* Item	Commodity	Rate of Duty
Furniture made of natural fibers:		
727.11	Furniture & Parts of unspun fibrous vegetable materials eg: rattan, & Cane	11.8%
Furniture made of wood:		
727.15	Bentwood furniture & parts	7.3%
Other wooden furniture:		
727.23	Folding Director's Chairs	5.7%
727.25	Other Folding Chairs	5.7%
727.27	Other teak chairs	4.0%
727.29	Other wooden chairs	5.7%
727.35	Wooden furniture other than chairs eg: Tables, wall furniture, bedroom furniture	2.8%
Furniture parts:		
727.40	Parts of furniture	5.8%
Plastic Furniture:		
727.47	Made of reinforced or laminated plastics	7.1%
727.59	Other plastic furniture	2.4%
Metal Furniture:		
727.70	Metal furniture eg: Outdoor furniture, chairs, tables, wall furniture	4.7%

Source US Dept.of Customs. * TSUS is short for Tariff Schedules of the United States.

Most KD furniture from Canada would be classified under TSUS 727.35, Furniture other than chairs, a rate of 2.8% applies for 1986 This category includes wall furniture, entertainment furniture, bedroom and dining furniture made out of wood and wood products. Most wooden Chairs will be classified under TSUS 727.29 and attract a 5.7% duty rate. Metal and leather Furniture TSUS 727.70, with a duty rate of 4.7%; while TSUS 727.47 and 727.59 cover furniture made out of plastic attracting

7.1% and 2.4% respectively. The above notes are only indicative. For accurate information on documentation, tariff classifications, and valuation for duty Canadian exporters should refer to the Market Entry Section of the USA Marketing Division (UTM), Department of External Affairs, in OTTAWA. Phone number (613)993-7484

For non-customs information covering such matters as correct labeling for the US, consumer product safety, environmental protection, flammability regulations (for foam & fabrics), US corrugated container strength specifications and so on, contact the Market Entry Section of the USA Marketing Division (UTM) Department of External Affairs at the above telephone number.

5.3 INDUSTRY & GOVERNMENT REACTION TO INCREASING IMPORTS

As mentioned previously the US Department of Commerce produced "A Competitive Assessment of the US Wood & Upholstered Furniture Industry" in March 1985.

This assessment was produced following lobbying by the American Furniture Manufacturers' Association. Both Government and Industry were aware of the accelerating import situation. The report was seen as a first step in evaluating imports before any effective pronouncement could be made from Washington.

The report concluded that the industry has rapidly become more "international" and that while no government action could have stopped this long term pattern, US policies and programs may have accelerated the trend.

The report must be seen in the light of the end of the first

series of Generalized System of Preferences (ended on January 3rd, 1985), and the start of the current series in 1985. The U.S. extends duty free treatment to furniture imports for certain countries so designated.

Primary beneficiaries are Taiwan, Yugoslavia, Singapore, Romania, and The Republic of Korea. Using their preferred status all of these countries have established strong exports in furniture to the US.

The report indicated that it is important to remember that US manufacturers had also become beneficiaries. Many US manufacturers developed component and even whole item business with these countries and these imports now feature strongly in the production line-up of many major US producers.

GSP has been renewed for a further nine years, but its re-organized provisions have provided the President with far more discretionary power than the old GSP allowed including a complete review of countries which have previously enjoyed beneficiary status. Currently Yugoslavia, Roumania, The Republic of Korea, and Singapore enjoy duty free status for furniture. Taiwan had already been removed from the free list for most furniture items including wooden furniture, wooden chairs and metal furniture.

The current climate indicates that Congress, backing US industry (not only the furniture industry), is looking for acceptable ways to persuade countries with whom the US suffers from a significant imbalance of trade to reconsider their duty free position of their own volition.

The American Furniture Manufacturer's Association urges action

but is diametrically split on the question because so many of its members are major importers. Consequently the spokesmen it has chosen for the issue have been in the main weaker members.

CANADA'S POSITION:

Canada's position is different and results from a different set of circumstances. US tariffs facing Canadian manufacturers range from a 1986 high of 11.8% to a low of 2.4%. US manufacturers on the other hand face a tariff range of 16.7% to 13.2%. These rates will be further reduced to a range of 16.1% to 12.6% on January 1st 1987. Previously US manufacturers did not seem concerned about this.

In our opinion two facts changed their view:

- o US exports to the Arab countries were the preserve of about 5 of the larger traditional US furniture manufacturers. Reduced building construction in the Gulf States, a result of lower oil exports, has severely affected furniture exports.
- o The closest alternative market for conventional American High-end products is the Canadian market. Export sales to Canada dropped appreciably in 1984. Naturally Canadian duty rates are seen as the main culprit. It is more likely that US producers are losing ground to increased standards of Canadian quality in the home market.

The Canadian issue also provides the US industry with a convenient outlet to vent its emotion over the whole imports issue.

We understand that Canada and the US have been discussing this matter for over 18 months with a view to finding a mutually

acceptable solution. The US's International Trade Commission advised that it produced an extensive study for Congress based on possibilities of free trade with Canada. Furniture was one of the product categories covered by the study. A further study in 1986 is a definite possibility. If lower tariffs result the Canadian KD furniture industry may face some competition in the home market at the low-end of the KD market (vinyl wrap, paper wrap, and the lower grade melamines). But Canadians should have no problem with medium and above priced KD products.

6.0 MARKET ENTRY OPTIONS, DISTRIBUTION CHANNELS, TRANSPORT, PRICING PRODUCTS FOR THE MARKET

There are several options available for Canadian manufacturers planning to enter the market for KD products in the United States:

IMPORTERS/WHOLESALERS:

The traditional and possibly the simplest method of distribution is to sell to a US based importer/wholesaler who buys the goods on his own account and accepts responsibility for importing and marketing. This will include establishing a price list, handling sales promotion directly, as well as stocking and servicing.

Although this is an easy option for the Canadian manufacturer it does have drawbacks:

- o The question of distribution will be entirely in the hands of the importer/wholesaler. If the Canadian supplier finds the importer/wholesaler presents his products in a way which is inconsistent with his own ideas and policies there is very

little he can do except change the distributor.

- o Usually the importer/wholesaler will insist on a predetermined contract period. The Canadian supplier MUST insist that the contract is tied to an acceptable level of performance to protect his company against insufficient sales and unacceptable presentation levels. The Canadian supplier must be prepared to spend both adequate time and cash on thoroughly investigating potential importer wholesalers BEFORE making a deal.

- o This method is the most expensive. Importer/wholesalers generally mark-up products 50%-60% to cover their own overheads, and the mark-up can sometimes be as high as 100% - if the product looks like it can take it. The product will then be subject to the 100% mark-up applied by most retailers. Most KD products are price sensitive and this method of distribution may severely restrict sales. The method is primarily suitable for selling a limited range of goods which can absorb this type of inflated mark-up. It may be possible to reduce wholesale costs by supplying importer/wholesalers with sales promotional support (literature, cash support for retailer advertising, and so on).

- o Importer/wholesalers generally negotiate the keenest ex factory price they can. The term "first cost" is heard frequently in the industry. These days most importers know that a typical factory's "first cost" will include marketing

and sales overheads for the home country. They will expect these to be removed if the factory is serious about exporting to them.

- o With the huge increase in exports over the last three years the stronger retailers are seriously questioning importer wholesaler margins.

In our opinion Canadian manufacturers should not plan to work with this method of distribution if they intend doing volume business in the US KD market.

MANUFACTURER'S AGENTS:

An alternative method is to hire an agent or agents to assist with entry into the market. We have seen that the US market breaks down into a number of distinct marketing regions. It may be unwise to appoint one manufacturer's agent to cover the whole US. just as it may be unwise to appoint too many agents too quickly. A better solution is to target one region, select an agent, define his territory, and develop that territory before proceeding to expand into other areas.

Canadian manufacturers will find that many furniture manufacturers agents have contacts not by region, but by type of store. Agents do not usually have their own warehouse facilities, but this need not necessarily be a drawback. An agent with good customer relations can often make direct sales possible without the necessity of a US warehouse. This applies mainly to the

larger retail chains, mass merchants, and discounters. If the Canadian product is designed more for specialty and high end stores then a warehouse is a definite advantage.

There are no fixed costs for manufacturers agents. Since they must often hire commission salesmen and be responsible for their payment their services usually start at 13% of the invoiced value of the goods (whether being invoiced ex-factory, CIF, or delivered to the retail customer). If extensive services are required, for example advertising production, a showroom, advertising discounts for retailers, extensive sales promotional travel then the cost will be higher. The normal maximum would be 25%. Agents are well aware that the mass merchants and larger chains like to deal directly with the supplying factory, whenever possible. It is advisable to guarantee your agent a small percentage, even in these cases. His presence and availability to the retailer is a definite asset.

It will help to tie the agent to a performance contract and to pay him more in the establishment phase. Consider a bonus scheme as an added incentive. Be prepared to bring the agent to your factory for product and company familiarization, at your own expense. Also budget to enable Canadian sales management to spend time on the road with the agent. Details of some potential agents are available from the Department of External Affairs and Canadian government Trade Commissioner posts.

WAREHOUSING OPTIONS:

There are two main possibilities to be considered.

- o The US is serviced by a very effective and efficient network of warehousing and distribution specialists. Canadian companies wishing to enter the market and offer local or regional deliveries, while minimizing their capital outlay, should investigate this option. The better warehouses can offer a wide range of services including: receiving international shipments; short or long term storage , under controlled conditions; inventory control; repacking, if required; delivery facilities; and even customer invoicing if this is considered desirable.

Many companies with sophisticated products use these services as a long term solution to their distribution problems. They are able to concentrate on selling their products knowing that their distribution is being handled professionally. Some warehouse companies even offer selling services. The cost of these services varies on a company by company and a commodity basis, but are generally estimated at about 6% of the wholesale value of the goods. Details of some warehousing companies are provided in the Appendix. Bear in mind that the nature of KD furniture products (protectively pre-packaged, in easy to handle sizes) makes the warehouse company option an attractive proposition.

- o The second alternative is to rent one's own warehouse. This involves considerable cost outlay, and possibly US based

personnel. It may be possible to make a management arrangement with the "right" agent, but these arrangements can very easily get out of hand.

THE SALES FORCE:

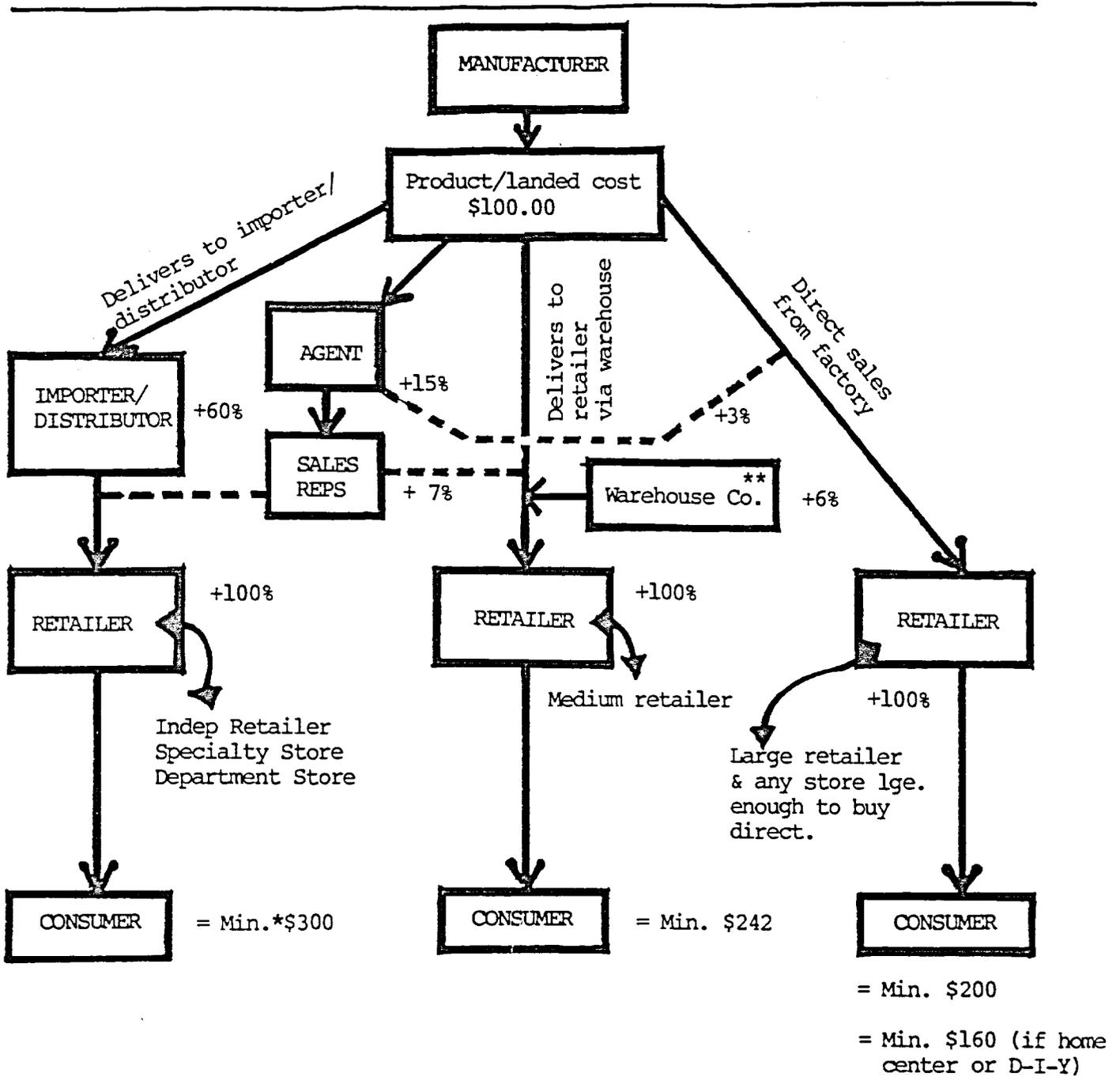
Some Canadian KD manufacturers have found that they can make sales using their own Canadian sales team. This is a matter of preference. It can cost considerably more to travel extensively in the US than to pay a commission salesman.

Most US furniture manufacturers operate with extensive networks of salesmen who work exclusively on commission and can be controlled or directed by a sales manager or by the right manufacturer's agent. A good agent will be able to build a suitable sales network. As with most solutions involving manpower selection, mistakes can happen. Manufacturers should be prepared to take time to develop the sales force. We estimate up to two years after the key sales management position is filled or an agent is selected.

US sales reps are paid between 5% and 10%, depending on their reputation and value to the manufacturer. The industry average is 7%. Some of the larger US manufacturers prefer to handle critical negotiations with their larger customers themselves. If the account falls into a particular reps territory it is often advisable to pay him a small percentage, say 2%-3% to keep an eye on the account.

THE THREE MOST COMMON ROUTES IMPORTED PRODUCTS
TAKE TO THE RETAIL MARKET

Showing probable percentage add-ons
over base landed cost and effect on
price consumer must pay



- Notes: 1. Transport, duty, broker costs not included.
 2. Dotted lines - - - : These costs are included in preceding percentage.
 * Minium \$300, could retail for as high as \$400.
 ** Or Company's own warehouse.

Most US manufacturers advertise for new reps. Often at market times (the rep will be in town and it will be easy to interview him). The International Home Furnishings Representatives Association has a contact service and a regular newsletter to its members. Address details are:

International Home Furnishings Representatives Association
518 Davis Street

Evanston, IL 60201

Tel:312/328 7733

John Condit, Executive V.P.

DISTRIBUTORS:

It is sometimes possible to find a distributor operating in a regional market with his own showroom and warehouse facilities. This will offer the same range of possibilities as an agent with the added benefit of the showroom and warehousing. Distributors margins generally tend to be around 25% of the invoiced cost to the retailer, provided the distributor does not have to handle the financial transaction.

PRICING:

In order to be successful in the US KD market Canadian manufacturers planning to export to the US must first analyse what a product can be sold for once the cost of getting it to the market has been absorbed. The US retailer thinks only in price points and the manufacturer MUST too. US price points work in very much the same way that they do in the Canadian market - they are targeted to store types, locations, and merchandise

quality and type. It should always be remembered that KD products have the very real added bonus of greatly reduced freight and storage costs.

Canadian companies as a general rule like to quote ex-factory prices. Some are happy to provide prices free to the Canadian border with duty and brokerage paid in Canadian dollars. These obviate the need to commit to US handling, inland transport, and of course sales costs, but while they may seem to provide simple solutions they WILL NOT BE SUFFICIENT in the majority of cases. The U.S. is a buyer's market. Canadian manufacturers must be prepared to price products according to market requirements.

These are:

- o Ex-factory or at-the-border prices in \$US, guaranteed for a minimum of nine months when dealing with the large chains, mass merchants, and discounters. Sometimes department stores buy directly overseas. Prices should include up to 10% for negotiables. Such things as advertising discounts, payment discounts, and settling quality claims (department stores are notorious for this).
- o Delivered to the customer, all costs included in \$US. Generally this is only practical with large (truckload quantities) to the large retailers.
- o Ex-US store, many of the larger retailers operate their own

trucks and are prepared to pick up from regional distribution centers. Smaller retailers will expect to take delivery via public or specialized furniture carrier. Market practice indicates that one distribution point is sufficient for regional distribution but that a minimum of three shipping points is necessary for national coverage. Los Angeles, Chicago, Dallas, Atlanta, the New York area, Buffalo, Philadelphia, and Detroit are all suitable major trucking points.

It is common practice for the manufacturer to work from one distribution warehouse and use selected trucking companies consolidation warehouses as his regional shipping points. It can be very expensive to move goods around in the market place although the KD factor will certainly help.

In calculating retail price points it must be remembered that the retailer's mark up will usually be at least 100% for independent furniture retailers, specialty stores, and department stores. When working with discounters, and home centers the mark up required should be approximately 60%. Remember that retailers generally talk in terms of retail prices less their margins; thus a 60% margin in US retail terminology is actually a markup of 115%!

6.1 CHANGING RETAIL AND WHOLESALE DISTRIBUTION PATTERNS

We have already discussed the confusion which now exists in the

mainstream of the furniture retailing industry created by the changes taking place in furniture retailing. These changes include: discounters, mass merchants, and home centers entering the furniture business and looking seriously at KD furniture as a new source for revenue expansion; specialty stores flexing their muscles also looking at expanding; and, the industry in general looking at franchising as a part of the new direction in the retail furniture industry.

The American businessman has proved time and again that once he has been shown a good idea he can respond to it rapidly, bringing talent and considerable capital resources into play behind the profit motive. We predict this will be the case with the expansion of KD into the retail industry. Recent examples of this include the phenomenal growth of the computer industry, the rapid emergence of the convenience store industry, and the complete about turn of the automobile industry to produce competitive european styled cars.

There are a number of possibilities for the expansion of the KD industry these include:

- o Discounters, home centers, mass merchants, and other non-traditional retail sources become seriously involved in selling furniture. They allocate products the right type of selling space and up grade the quality of the merchandise they sell. In this case wholesale distribution systems will expand to meet the need, and efficient larger scale stocking

warehousing and extended delivery services will be necessary. Americans are very good at solving large scale distribution problems of this sort.

- o Conventional furniture retailers, including the larger independents and chains realize that they need to invest seriously in the category to stop erosion of their market share. In addition to moves being made by the large scale retailers further losses are occurring to the computer after market and the electronics industry. The conventional retail furniture industry can probably achieve the service level it will require without the total distribution system overhaul described above.

- o The stronger distributors, possibly allied with the larger manufacturers, will decide to move into the retail field themselves. This was the case in England and on the Continent where distributors have changed the entire retailing pattern, and by applying their warehousing and distribution skills to retailing have almost completely cut traditional retailers out of the low to medium end KD market. The market composition is different in England and on the Continent. There, kitchens have always been considered a part of the furniture industry and consequently the advantages of tying together retail sales of "flat-pack", (KD), kitchens, storage and bedroom systems were readily grasped.

Companies which have led the way include: MFI, Texas Home

Care (UK), Fly (Mobilier Europeen -France), Home Stock (Belgium), Porta Mobel (Germany -furniture hypermarkets), and of course Ikea (Germany - control 40% of the KD retail market, and France). In England the MFI group was recently sold to Associated Dairies and leading staff members have been invited by mass merchant leaders and home center leaders like K Mart and W.R.Grace to advise them on KD retail systems installation.

Although Conrans and Ikea do sell kitchens, it is unlikely the furniture retailers will add them. The Home centers are looking at kitchens seriously. According to European analysts it is just a matter of time.

There are three main consumer reasons behind changing furniture retail distribution patterns. These were discussed in chapter 4.0 (target clientele) but they should be briefly recapped here they are:

- o Younger better educated consumers.
- o Although single family housing units and one member homes are increasing, housing costs are escalating and discretionary income will be spent with greater care.
- o With more than two thirds of middle class women working there is no longer the time for extensive browsing. Consumers are forced to shop hurriedly and narrowly. Stores are

becoming either full service or no service. There seems to be no room in the middle.

6.2 PRODUCT TRENDS

We have previously discussed the KD product mix being sold by the main forms of retail distribution (see chapter 3.2). European influenced design with attractive colour mixtures, in metal, upholstered, and board based storage furniture for living rooms and entertainment use, together with modular bedrooms and juvenile furniture, should all continue to be popular. The only limitations are the designers' skills and acceptable pricing.

The only remaining field which KD has not penetrated to any great depth is the serious upholstery market. Certainly there are many of the so called lifestyle products on the market but only recently have manufacturers started looking at "serious" KD upholstered furniture. Because this is an extremely price competitive field most manufacturers and retailers do not see any intrinsic value in selling designs as KD. It is possible for a retailer to buy everything except european designs featuring specific visible or hidden technology at prices he likes.

KD can serve a major function if it can provide high style at a significant saving over conventional production. KD systems and hardware manufacturers have worked hard over the last ten years to make cost effective KD assembly hardware available for almost all cabinet making needs; but the upholstery market has been largely ignored. Interest in KD upholstery systems is now

developing. There should be a significant increase in the availability of this type of product in the near future. One Canadian company has recently launched an attractive marketable range of KD upholstery.

As the US market continues to change there will be significant advantages for KD upholstery: At the factory level inventory can be reduced significantly by working with arms, backs, and seats instead of complete one piece, one style traditional upholstery frames. From the retailers point of view shipment costs can be lowered drastically. One west coast KD specialist advised that he gains 40% savings by shipping his upholstery KD. Additionally retailers hard pressed by rising space and rental costs should see the advantage of saving 40% on their requirement for upholstery storage.

In the low to middle US markets for melamine and vinyl wrapped products there has been a substantial improvement in product quality in the last six months. The large US producers, O'Sullivan, Gusdorf, Bush, Case, and Affordable have been progressively adding sophisticated machinery to their plants. These additions are making it possible for them to add state-of-the-art design embellishment and quality. Solid oak soft edges, and high quality fully wrapped mouldings feature heavily in new designs. These advances could make competition tougher for Canadian KD producers in this segment.

There is a constant flow of new companies into the market many of

them with extremely imaginative, high quality products. Adeptus (UK), Designer Modules (Chicago), Van Pelt (the Netherlands), De Kooning (Richmond Virginia), are examples.

We have mentioned that mainstream US manufacturers say they are disinclined to get into KD production. However changing furniture production technology, spearheaded by the European machinery manufacturers, is more and more KD oriented. One should not lose sight of the fact that some of the stronger members of the traditional US manufacturing industry may turn to serious KD production to halt loss of market share. Equally it must be remembered that there is no magic secret in KD production. The industry, whether "flat -pack", upholstery, or metal based IS BASICALLY JUST A RELATIVELY NEW DIRECTION IN AN OLD INDUSTRY. The technology along with the latest plant is there to be purchased.

7.0 PREPARING PRODUCTS FOR THE MARKET

Retailers of all types interviewed during the study stressed the importance of good quality attractive selling literature when merchandizing KD products. Instruction sheets, clearly labeled - well designed cartons with eye catching graphics are all important. The KD market will become increasingly competitive. Those products which catch both the retailers' and the consumers' eye will be the products to sell. Providing Canadian products are innovative in design and attractively priced they can be very successful in the US marketplace. Those Canadian companies which are already selling successfully have worked hard on the image and presentation of their products. Elements which will increase the potential for success include:

SELLING LITERATURE FOR THE RETAILER AND THE CONSUMER:

Traditionally, retailers expect extensive cataloguing with conventional lines. It is acceptable to cater for both retailer and consumer in one professionally designed colour brochure. It is important to include front, back, and side elevations and full dimensions for each piece.

PACKAGING:

US retailers are split 50/50 on the question of selling products they buy assembled or unassembled. This is true even with some of the young contemporary/lifestyle specialists. Packaging can

be expensive, but in terms of reduced returns and retailer and consumer good will it is a good investment. Ensure adequate protection for all pieces in the pack, use extra foam or folded card corner inserts. Remove the possibility of movement inside the pack in transit.

It is not always necessary to use white cartons, or four colour labeling. Use a good graphic designer, and try to develop a house style, which makes all the products recognizable. In planning packaging for KD products it must be remembered that the aim is for a consumer to take the packed product with him or her. Packs should therefore not be too heavy. Flat-pack manufacturers have found that it is often necessary to pack larger pieces such as beds, wardrobes and so on in more than one pack. Mass merchants and discount chains are not yet used to handling products which occupy more than one package.

ASSEMBLY INSTRUCTIONS:

Clear, concise instruction sheets are a must with KD products. Earlier generations of Americans struggling with poor instruction sheets and early badly designed products swore off KD permanently. It has taken years to overcome the residual bad will created in both consumers and retailers. Illustrate the necessary assembly operations clearly on the instruction sheet and minimize the amount of written description used.

POINT OF SALE MATERIAL:

This is sometimes a valuable sales aid. In the furniture industry it is normally restricted to stand-up showcards and posters. Some KD manufacturers, particularly those selling fairly involved modular systems find that self vending type merchandise racks work well. They also provide space for information, assembly details and so on.

MARKETING TECHNIQUE:

Manufacturers with experience of successful KD marketing techniques at the retail floor level may decide to discuss these techniques with US retail customers, many of whom may have less experience. At the present time mass merchants and discount chains are particularly anxious to learn.

8.0 SALES PROMOTION

A variety of Sales promotional methods are used by the US manufacturing and retailing industries to assist in the sale of their products, they include:

ADVERTISING:

Advertising expenditures vary on a manufacturer by manufacturer and a retailer by retailer basis. Canadian companies entering the US market must be prepared to spend on advertising. House

advertising is good for image and market presence building. Generally there is a huge spate of advertising before markets and shows. Once the target market has been determined - department stores, specialty stores, mass merchants, or home centers it will be possible to decide which portion of the trade press is appropriate. A list of publications, with circulation figures, and their specialties is provided in the appendix. Retailer co-operative advertising is a serious consideration when doing business in the furniture industry. As we have seen in the questionnaire results most retailers expect advertising discounts or cash support from their vendors. The discounts usually range from 3% to 10% of the invoiced value of the products being sold. Those retailers who do produce seasonal or other special promotional catalogs are usually very professional and expect serious returns from their mailings. Manufacturers may also be called upon to contribute to press advertising campaigns. When this happens make sure that the money will be used for an actual advertisement not just as a non-specified contribution. Contribution amounts requested by retailers averages 5%-6%.

PUBLIC RELATIONS AND FREE EDITORIAL: Public relations consultants can generally be hired for a fairly modest rate. A good PR person can really help launch a market newcomer or product range and many PR people can help obtain initial orders through their contacts with buyers.

Most trade press publications will be prepared to feature a new product in their product news sections. Beyond that they will usually, subtly indicate that further editorial support will only be forthcoming after some advertising has been purchased.

TRADE SHOWS AND MARKETS:

The United States has an almost infinite number of trade shows, regional or city furniture focus events, and permanent showroom centers. Canadians planning to enter the US market often find the picture thoroughly confusing. Market and tradeshow participations can be costly. For this reason new exporters should severely restrict their activities to the leading shows and markets, where they stand a good chance of seeing the maximum number of buyers.

HIGH POINT, DALLAS, SAN FRANCISCO, and ATLANTA.

Regional markets are held four times a year by the furniture industry in the United States.

High Point is the nation's largest furniture market. The High Point spring market is held in April, the fall market is held in October, about one week before the Milan Fair. The influence of the AFMA (American Furniture Manufacturers' Association) is very strong here. The market complex continues to grow with the continued addition of new or renovated buildings in the town. A Ready-to-Assemble building opened for the first time at the October '85 market. This building is managed by the newly formed

Ready-to Assemble Association (details in the Appendix) There were 22 exhibitors in October. Plans are underway to double the available space by April 1986. Canadian manufacturers should consider this as a serious opportunity to exhibit among colleagues.

Many US retailers consider High Point a "must visit" situation. This is because the large southern case goods factories make their new releases there. Many foreign exhibitors are finding it is almost impossible to obtain premium space and there are general complaints that the complex is now too big. We estimate that the large retailers spend 90% of their time with their regular suppliers leaving only 10% to shop new sources in High Point. Space rates can be high and a lease is necessary. It is mandatory to man booths at both markets. A group of Canadian manufacturers occupies permanent space in one of the main buildings. Attendance at the High Point markets is not audited but generally believed to be in the vicinity of 18 - 20,000 buyers per market.

Dallas, San Francisco and Atlanta hold two markets a year in January and July. The Dallas market, based on the impressive Dallas Market Center and World Trade Center complex is the second largest market in the US. Attendance at the January and July markets is usually in the vicinity of 18 - 20,000 buyers and audited attendance lists are available to all exhibitors.

The American International Furniture Fair (AIFF), produced by the National Home Furnishings Association will take place in Dallas for the first time in July 1986. This event is an international style in-out trade fair, held at the same time as the Dallas Summer Market. This Fair is unique because it is the only event in the US produced by retailers and it will strongly feature imported product. KD furniture has been allocated a special pavilion at the AIFF. Organizers believe that this event will fill the void left by the cancellation of K Design the New York based show. San Francisco and Atlanta are considered more lightweight and are definitely more regional in character, although San Francisco is good for the West Coast market.

Details for Dallas, the AIFF, San Francisco and Atlanta are provided in the appendix.

Specialized Industry Sector Shows

In addition to the furniture markets there are a number of specialized industry fairs held regularly in the US. These include:

The Consumer Electronics Show: held twice a year (January and June in Las Vegas and Chicago respectively) This show has become a regular with KD manufacturers who specialize in furniture for home electronics and computers.

The Housewares Show: held annually in Chicago appeals to manufacturers producing metal furniture, foam seating lighting,

and other lightweight products suitable for housewares departments.

The National Housewares Show: Produced annually in Chicago.

This show is a definite possibility in view of the heightened interest home center retailers are showing in KD products.

Details for specialized industry sector shows are given in the Appendix.

9.0 MARKET STRATEGIES

This report is intended to be a working tool for Canadian furniture manufacturers producing all types of KD products who wish to market their products in the United States. Whilst there are a number of Canadian manufacturers already selling in the US there are many potential exporters who are not.

For this reason we cover the following essential points:

- Market evaluation;
- Preparing a market entry plan;

Additionally, recommendations and assessments specified in the instructions for the report are included.

MARKET EVALUATION:

It is first important to determine if there is a worthwhile market for the specific KD products Canadian companies wish to

export to the US. Information on The types of retailers operating in the Market area and overall market requirements can be determined from chapter 3.2 of the report. Once it can be seen that there could be some market potential it is necessary to plan one or two visits to the US to test potential customer's responses. In the furniture industry it is often difficult to make appointments to see key buyers. For this reason an adequate contact list is important. The Department of External Affairs and staff Commercial Officers in strategically located Canadian Consulate General's Offices throughout the US can provide access to local contacts and information. Some Consulates can provide visiting businessmen with phone and desk facilities for short visits.

Once the prospect list has been developed it will help to send each prospect a package of literature, any small appropriate finish or fabric samples and an introductory letter. Make follow up phone calls, and arrange as many firm appointments as possible before leaving Canada.

Key objectives will be to discuss product price competitiveness, retailers style requirements, delivery and potential order sizes and , if possible, to obtain a sample order.

A further objective is to examine US distribution requirements at first hand. It may be possible to arrange interviews with potential sales and distribution representatives. This needs to

be arranged well in advance. Word of mouth recommendations are invaluable but most companies find it necessary to advertise. Most trade journals feature a special advertising section for sales and distribution.

With major markets taking place every ninety days and frequent special sector shows it is usually possible to combine an evaluation trip with a visit to a major trade event. Extra benefits will include access to selling and distribution people and opportunities to compare competing product pricing and styles.

The Canadian Government provides a number of programs designed to assist new exporters with initial export costs.

Manufacturers should consult External Affairs U.S. Trade and Investment Bureau and The Department of Regional Industrial Expansion to ascertain what programs are applicable to them.

MARKET ENTRY PLAN:

It is essential to prepare a detailed market entry plan before commencing any major new export venture. The correctly prepared plan will provide an invaluable guide and reference for both

small and large companies. The plan will outline all the steps which are necessary to launch and maintain an export program. It will also include a complete assessment of capital and human resources which will need to be committed to ensure success. The following information should be included in the market entry plan:

- **Results of the Market Evaluation:-** A critical look at prospects uncovered during the evaluation phase. Is the product acceptable in its current form, does it need to be modified: Is pricing acceptable (is it necessary to reduce margins to gain market acceptance in the early stages). Which retailer category or categories offer the best results: Which form of distribution will suit the product, the market and the manufacturer.
- **Timing:-** When can export sales commence. It is necessary to plan to fit potential export orders comfortably into overall production and financial planning and not to take orders until they can be realistically fulfilled.
- **Distribution and Selling:-** Provide an accurate outline of the distribution and selling organization required to maintain the export operation both in the US and in Canada. This will include a full evaluation of distributors' margins; travel to the market area; marketing costs

including - advertising, trade shows, probable costs involved in retailer co-op advertising programs; any other related set-up costs in the market area should be estimated, plant, space leasing, equipment and so on.

- In-House Reorganization:- The costs of supporting the export operation in Canada including: allocation of manpower, effect on overheads, extra staff which may be required, communications costs, and product development costs.

- Budget and Sales Forecast:- Company management and financial people need an accurate sales forecast which reflects all the elements discussed above. This is the final stage in preparing the market entry plan and it will determine whether the marketing operation can be viable. If the initial plan is not viable it will provide a full outline making modification possible. The budget and sales forecast will also be required by the company's financial institution if extra capital is required.

Market establishment could take up to two years and it is therefore advisable to prepare a plan that covers a three year span.

Operations Plan:

Once the decision to export has been taken it will be necessary to prepare an operations plan. This plan will set out the

timescale for each phase of the operation. It will detail personnel, responsibilities, and reporting procedures. It is in effect the daily operating schedule designed to make the export program a reality.

SELECTING A MARKET ENTRY AND OPERATIONS PLAN:

This report has been prepared in the main for smaller and medium sized companies. The writers realize that the final market strategy selected will vary with almost every company. Management's personal preferences, the geographic location of the Canadian operation, experience gained in domestic markets, availability of cash and human resources, and many other factors can all influence a company's final marketing solution for entering any new market. It must be emphasized that it IS NECESSARY to complete a formal planning and evaluation process as outlined above before proceeding.

The report has also been prepared for companies which produce a wide range of products including: metal seating, upholstered seating, flat-pack products of all kinds, metal bedding, dining furniture, occasional, accent pieces, and contemporary lighting. The actual products manufactured and the simplicity or complexity of the range of items being offered will also affect the market entry strategy which a company adopts. For these reasons it is not possible to tailor individual solutions which

will suit all Canadian manufacturers. We have therefore included the following general pointers which may assist companies to select their basic direction.

- o Use your market evaluation to find out whether there is a large enough market in one or two of the US market regions which are the closest and least expensive to service directly from your home base. For example you may decide that the market in the upper Mid-West or the Northeastern quadrant of the US provides you with enough customers. This formula can work with some products, KD upholstery for example, providing the product has mass appeal and volume sales potential. In this case a company may be able to sell and service a large enough market from its home base. It will be essential to spend regular follow up time with customers. For this reason it is vital to allow for enough manpower and travel expense.

- o Companies manufacturing flat-pack products and intending to compete with the established suppliers must be prepared to travel extensively and service customers with bulk buying capacity; or to appoint an agent, a distributor, or a sales representative organization. This study discusses these questions in detail and can provide insight into how the system works. In either case it is usually necessary to plan expenditure on trade show exposure and possibly on advertising. KD freight advantages should make it possible to ship from the

Canadian factory competitively. It may be necessary to supplement direct deliveries with regional distribution facilities when full truck load orders or satisfactory drop shipments are not possible.

- o Some Canadian companies however produce high-tech, designer oriented products. For these companies it will be almost always necessary to appoint regional distributors or to work with a US based sales organization. The developing market is there for these products in the US, but the retailers are not conveniently clustered, and to achieve a satisfying level of sales it will usually be necessary to sell widely all over the country. This is often too expensive for smaller companies. For this reason it is usually better to focus marketing budgets on selected trade shows which maximize the opportunities of meeting a wide range of retailers and provide a focus point for sales reps to meet with management and discuss new introductions and selling policies regularly.

PROMOTIONAL STRATEGY:

The Furniture industry is a style industry, and although this will not effect contemporary KD products as much as conventional furniture it is necessary to create product awareness in the market, amongst retailers and possibly distributors and also consumer awareness. For this reason

Canadian companies should plan to include the following in their marketing plans:

- o Participation in either a major market such as High Point Dallas, or San Francisco (advisable if limiting initial operations to the West Coast); or participation in a special category trade show such as the American International Furniture Fair, the Housewares show and so on. Canadian companies should regard initial trade show exposure as a test marketing experience and not be disappointed if extensive orders are not taken. Notes of style requirements should be taken and every effort made to follow up leads developed at the time.

Provision of suitable product literature outlined in the study. It will be far more effective to produce four colour literature. Literature should be professionally designed to the best possible standard.

Care should be taken to develop an adequate product packaging and presentation program which not only protects the product but also acts as a selling aid. Graphics on cartons, and instruction sheets are both important, some products may be suitable for point of sale presentation. The type of display unit used should be carefully considered, costs can often be factored into the price structure.

o The costs of using the various types of distribution system in the marketplace have been discussed in the body of this report. Care must be taken to ensure that the right system is selected and that it will provide not only hands on sales servicing but also trouble shooting and fast replacement in case of defective merchandise. Remember that US retailers respond to the man on the spot; they regard local representation as an indication of serious intent and professionalism. We believe that Canadian companies in all KD product categories will not need to work with importer/wholesalers but that they should be able to tailor a suitable cost effective distribution network using a combination of the following: Manufacturers agent, sales representatives, distributor, warehousing distribution centers, and their own sales management. The specific mixture will depend on the product (degree of service required), the size of the company and other factors. Each company must consider its own specific requirements.

o As discussed in the report US manufacturers are currently feeling the pressure of escalating imports. We have said that there are very few among the larger conventional US furniture manufacturers who are at all equipped to consider KD production. We have also said that it is likely that US manufacturers will be forced to consider producing KD as an alternative to increasing loss of market share. It is logical

to assume that there would be interest from selected US furniture manufacturers in possibilities of technology and production sharing with well established Canadian manufacturers in return for major US distribution. US manufacturers are currently making deals with Italian and other European manufacturers. Canadian companies who are interested in this possibility could consider contacting U.S. manufacturers with potential.

10.0 SUMMARY AND CONCLUSIONS

There is a healthy growing market for most KD products in the United States. The market has doubled to \$US 1 billion during the last three years. Currently the total market share enjoyed by KD products is estimated at 6-7% of total furniture shipments, including imports.

Despite considerable concern over the growing rate of imports in the US furniture industry (estimated to reach \$US 2.5 billion for 1985) the U.S. domestic KD industry is clearly the largest supplier and contributes about 66% of all KD products purchased in the US market. Canada is the second largest furniture exporter to the U.S. but the fifth largest KD supplying nation. Taiwan, Denmark, West Germany and Singapore all individually export more KD product to the US than Canada. It is generally believed in the industry that european companies are better equipped to produce high quality KD products using the latest technology. The fact is that US manufacturers are increasingly up-grading their equipment. The reason why these US companies are not overly visible in the marketplace is because they produce low priced largely unglamorous merchandise for the mass markets.

Canadian companies with drive can increase their sales substantially in the US. The Canadian products which were

submitted for the study and those which were shown in the 1985 New York K Design show clearly indicate that Canadian manufacturers are well equipped with technology and some design to compete; the lower value Canadian dollar also helps.

Most Canadian manufacturers are substantially smaller than the US big six KD manufacturers. Canadians will find it difficult to compete with the large volume economics these companies use in the low price market unless they are prepared to invest substantially in additional plant space, equipment, and marketing funds. They should not try to meet US manufacturers head on in this price category, but rather continue to design the types of up-market medium priced products which the US manufacturers do not make. Canadians should also be prepared to invest in design and research. It is not necessary to design for US taste above the lower price points because KD has succeeded in creating a style of its own and the designs are helped by down sizing in new US homes

The target market for KD products is largely the under forties age group which represents 30% of the US population and has rapidly increased its awareness of quality and design in the KD field. The battle for the largest market share in the KD market will be in the lower end portion of the cases goods categories as it was in England. Given time KD stands to revolutionize and possibly restructure some areas of US retailing. The market for

KD kitchens should be watched carefully: it could become one of the largest categories. KD kitchens were not included in this study. The topic is covered briefly in the Appendix.

Canadian companies can compete on far more equal terms in metal based KD products. There most US facilities producing these categories are smaller. Wood, occasional dining, bedroom, and contemporary upholstered products offer substantial possibilities, competition from Asia is in the main not design oriented and most of the major US manufacturers focus on traditional type products.

Canada is under considerable pressure to reduce duty rates. If this occurs manufacturers producing low priced KD products in Canada could come under pressure from US competition.

Canadian companies already in the market have a good reputation. only minor delivery and quality complaints were registered. Existing exporters and companies which are considering exporting can build sales from this reputation.

At the outset of the study it seemed logical to assume that the main potential for sales would lie in the major metropolitan areas. In a sense this is true. Most of the major chains operate more stores there and some of the strongest in the new breed of specialist retailers are well established in

the major cities. It was found however that furniture retailing by its very nature is extremely fragmented with major buying influences and chain headquarters scattered all over the country. For this reason it will be necessary for manufacturers to target the type of stores which offer their product type the best possibilities and then to search them out across the country. The store types are clearly identified in the study and lists of retailers in all categories together with interviews are presented in the appendix.

Major upheavals are currently affecting the retail market. Mass merchants entering the KD market are causing serious concern among the old established furniture retailing community. Department stores are beginning to consider their future in the furniture business and may not continue to offer the small but secure "item" market they previously gave to KD suppliers. Three of the world's largest KD retailing specialists are beginning to make their presence felt in the market place and the number of dedicated smaller specialist retailers is growing. but they are widely spread.

The choice of store type, and of marketing region is a matter of preference for the individual manufacturer but it should be remembered that 75% of the US population lives east of the Rockies and this may simplify the choice of initial target markets for some companies.

Canadian KD manufacturers should not find it necessary to use importers and wholesalers to reach the U.S. market. Their proximity makes it preferable to use less expensive routes through agents, distributors, and sales representatives. Canadian producers will find it necessary to invest in preparation and marketing in order to match the relatively high level of presence created by both US and overseas market leaders in the industry.

We have provided outline market strategies designed to assist Canadian manufacturers prepare market plans for their products. Important elements in each case are the need for qualified sales representation, correct product preparation, attractive pricing, and adequate servicing. We suggest that Canadian companies investigate all these aspects thoroughly before launching an active market program. Time spent in preparation will lead to better results as marketing progresses.

This report has been produced to provide Canadian manufacturers with background and marketing information which will assist them in increasing Canadian KD product exports to the US market.

APPENDICES

Appendix Table 1. RETAIL SALES BY MERCHANDISE GROUPS

Merchandise Group	1980		1990	
	\$ Billions	% Total	\$ Billions	% Total
Automotive	\$ 352.5	30.8	\$ 438.2	30.6
Convenience Goods	355.0	31.0	406.4	28.3
Electronics	22.0	1.9	80.7	5.6
Apparel	99.4	8.7	115.5	8.1
Furniture & Home Furnishings	72.2	6.3	100.4	7.0
Home-Related Goods & Services	92.8	8.1	114.3	8.0
Miscellaneous General Merchandise	23.2	2.0	38.9	2.7
Recreational Services	43.4	3.8	56.8	4.0
All other Goods & Services	85.8	7.5	82.7	5.8
Total:	\$1,146.2	100 %	\$1,433.9	100 %

Source: Marketing Science Institute, Cambridge, Mass.

Appendix Table 2. HOME FURNISHINGS SALES BY CATEGORIES

	1980		1990 (forecast)	
	\$ Bil.	% of Tot.	\$ Bil.	% of Tot.
Furniture & Bedding	\$ 19.8	27.4	\$ 23.9	23.8
Floor Coverings	7.8	10.8	10.3	10.3
Curtains & Draperies	13.4	18.6	21.9	21.8
Kitchenware & related Furnishings	15.1	20.9	26.8	26.7
Major Household Appliances	11.5	16.0	9.4	9.4
Small Electric Appliances	4.5	6.3	8.0	8.0
Total	\$ 72.1	100.0	\$ 100.0	100.0

Source: Marketing Science Institute, Cambridge, Mass.

THE NEW YORK TIMES, SATURDAY, MARCH 22, 1986



The New York Times/Dan Miller

Customers checking beds at IKEA's furniture outlet outside Philadelphia. Richard Verdi, waiting to pay, at the store's checkout counter.

By LINDSEY GRUSON

Special to The New York Times

PLYMOUTH MEETING, Pa. — Last year IKEA, the Scandinavian furniture giant, nervously spent nearly \$2 million to promote the opening of its first store in the United States, a sprawling warehouse-style outlet in a shopping mall in this Philadelphia suburb.

"The United States is awesome, just awesome, the largest market in the world; we were pretty scared," said Bjorn N. P. Bayley, president of IKEA's North American subsidiary.

Now, nine months after the June opening, the company's fears that its distinctive retailing techniques would fizzle here have long since been replaced by euphoria.

No Deliveries

IKEA's supermarket-style approach to selling furniture and accessories — complete with shopping carts, checkout counters and an inventory of 15,000 moderately priced items — drew 150,000 customers a week at first. Most of the furniture is of the knockdown type, designed to be assembled at home. And all of it is carted away by the customer,

strapped to the roof of a car or jammed in the trunk, since the company does not deliver or ship.

The store's phenomenal success has suddenly turned IKEA (pronounced eye-KEY-ah) into a nascent force in the American market, with retailers scampering here from around the country to see what all the fuss is about.

A spokesman for John Wanamaker, Joyce Mantyla, said: "They're fabulous. All stores respect stores that do it well and they can't do it any better. We certainly admire them." Wanamaker's, which sells a more expensive line of furniture, does not consider IKEA a competitor.

Long Lines

IKEA's crowds have leveled off since the first frenzied month, to 30,000 a week, but the store's parking lot still overflows with shoppers from as far away as Massachusetts. At times, the huge two-level store, with six acres of retail and storage space, has become so crowded that harried managers have locked the doors, leaving long lines to form outside.

Buoyed by the experience, IKEA is going ahead with plans to open a second store in the United States in April, in Dale City, Va., a Washington sub-



urb. The company, which began in Sweden more than 40 years ago and is now based in Denmark, operates more than 70 stores and had sales last year of more than \$1 billion.

"It's the first real supermarket concept to come along in a furniture store," said Wallace W. Epperson, a retail analyst and senior vice president at Wheat First Securities. "It's the most revolutionary thing in furniture retailing since Levitz gave us instant gratification in the early 1960's," he added, referring to one of the first chains to keep merchandise on hand for immediate delivery.

"Everybody has to watch them because they're that successful," another industry expert said. "Anybody

Continued on Page 37

IKEA Venture in U.S. Is a Hit

Continued From First Business Page

who can command that large a volume is going to have an influence."

To be sure, the success has not come without glitches and criticism.

Some analysts, for example, question the durability of IKEA's furniture, which is largely made of laminated materials. And the company admits to several marketing miscalculations here — offering beds that are smaller than the American norm, for example — and to difficulties in stocking its huge inventory.

Moreover, some skeptics say that much of what IKEA is doing is not new at all. Knockdown furniture and the clean contemporary look have been a growing part of the American retail scene for years, they say, pointing to such chains as Conran's and the Workbench.

But no other store has put these retailing touches together in as grand a way, offering such a sweeping variety of inexpensive and smart-looking goods piled high on shelves or grouped in cozy display settings, according to analysts and industry experts.

With sofa beds and chairs selling for as little as \$98 and \$9, respectively, IKEA is snaring consumers who never thought they could afford designer furniture, these analysts say. And customers of every budget are attracted by such other store novelties as a supervised playroom for children and a 200-seat Swedish restaurant.

A Focus on Concept

"I guarantee you there'll be more IKEA-type stores in the United States within 12 months," Mr. Epperson, the analyst, said, adding, however, that "their success is the concept, not the merchandise."

"We don't just sell furniture, we

give ideas," said Markus A. Meier, the store's manager. "We sell room settings."

The company, one of the largest furniture chains in the world, has been spreading its ideas since 1943. IKEA is an acronym taken from the name of its founder, Ingvar Kanprad, and the town and county, Elmtaryd and Agunneryd, where he opened his first store that year.

Though it still has major design, manufacturing and shipping facilities in Sweden, the largely family-owned company has moved its headquarters to Denmark for tax purposes. Most of its stores are in Western Europe — it has its largest sales in West Germany — and there are also outlets in Japan and Canada.

The dollar's strength in recent years, which made imports more attractively priced here, contributed to the company's decision to finally enter the United States. It settled on the Philadelphia area, after first considering the West Coast, because of the availability of reasonably priced space and the proximity to Canadian and European distribution centers.

Sales Forecast Exceeded

Despite ringing up \$8 million in sales in the first three months here — \$3 million more than IKEA's rosiest forecast — company officials acknowledge that they underestimated the gulf between their traditional European base and the developing American market.

IKEA beds, for instance, are built to European dimensions, slightly smaller than their American counterparts. Some customers have been put off by the difference, since it forces them to replace fitted linens.

In addition, IKEA's product mix reflects the company's European heritage. The store here, for instance, is heavily stocked with armoires, which

are big sellers abroad. But even small American homes usually have walk-in closets, making the bulky pieces unnecessary.

'Pleasant Problems'

"We've made a lot of mistakes," Mr. Bayley, the North American unit's president, acknowledged. "But it's only pleasant problems that we have." Indeed, in the short run, at least, most of the store's problems grow out of its success.

The large crowds and extended shopping hours here forced the company to hire more employees than expected, raising costs. IKEA planned to have a staff of 130 people, but found that it needed about 225.

And the store is often out of the most popular items. About 1,500 customers are currently waiting for out-of-stock orders, down from a high of 6,000 in September, according to the store's manager, Mr. Meier.

"In the beginning it was a bit overwhelming," Mr. Meier acknowledged. "But we're getting used to the patterns."

Nonetheless, the company's two Canadian warehouses, which stock the nine stores there, are not big enough to also keep the Plymouth Meeting outlet fully stocked. So IKEA must fill most orders from Europe, which can take months.

That can alienate its customers, who "expect to have everything right away," Mr. Meier conceded.

The company could reduce many of these bottlenecks by opening a warehouse in the United States. So far, however, the only definite plan for expansion is the Dale City store.

"We wanted to make sure we weren't totally out to lunch," Mr. Bayley said when asked why the company had no further growth plans. "We wanted to take a breather."

MAJOR MANUFACTURERS IN THE US KD MARKET

We mentioned in the body of the report that US manufacturers account for approximately \$700 million of the KD products sold (at factory prices) in the United States. The major manufacturers are listed in the following appendix.

Readers should note that we have not supplied dollar volume estimates for all companies listed but that seven of the major US manufacturers listed have total estimated sales of approaching \$600 million. These companies are:

Case, Affordable, O'Sullivan, Foremost, Gusdorf, Royal Creations, and Bush. Sales estimates are not given for a number of the smaller companies. Singer Furniture is of course a major supplier but it is not possible to estimate the value of KD products produced as a percentage of the company's total sales.

A number of smaller manufacturers which can never the less be considered substantial suppliers (sales in the region of \$5/10 million companies total turnover) are also not listed. We have, however, listed several of the leading overseas suppliers which have firmly established distribution facilities operating in the US.

Unfortunately the major manufacturers tend to take the limelight in view of their heavy volume of sales. There is not space to provide data on the many small US companies which are actively involved in producing innovative and salable products to mention just a few: Eurostyle, Finmark, Modulus, MDI, T Copeland and Sons, Vivere, Basic Line, Staxx, FM International, Hubbard Maximus, L & B Wood Products, New Moon.

Case Manufacturing Co.
2601 Greengate Drive
Greensboro, NC
USA

1/800/334 6205

Jack Houseman, National Sales manager

Case specializes in electronics furniture using solid wood frames and veneers. Products produced include home entertainment furniture, television stands, audio component racks, video game and computer furniture.
Estimated sales volume \$30 million.

Delta Design Inc.
6718 Old Wake Forest Road
Raleigh, NC
USA

919/876 8461

Bruce Sauls, V.P. Marketing

Formerly Contextural Design. Company produces products in solid oak butcher block, solids and veneers. Produces a full range of wall units, bookcases, home electronics and computer furniture.

Affordable Furniture
202 Spaulding Sreet
Dowagiac, MI
USA

616/782 8661

A.H. Wilson, V.P. Marketing

Products: entertainment centers, T.V. and stereo carts, microwave oven and utility carts; home office and computer furniture, wall units and bookcases. Laminate and engraved finishes. Distributes through mass merchants, catalog houses, national chains, home centers, electronics specialty stores, department stores, catalogs. National Sales Manager, Frank Aquila.
Estimated sales volume \$150 million.

O'Sullivan Industries Inc.
19th & Gulf
Lamar, MO
USA

417/682 3322

Tom O'Sullivan, National sales manager

O'Sullivan, one of the two largest US KD suppliers was purchased 18 months ago by Tandy Radio Shack. With sales in excess of \$120 million the company has traditionally produced entertainment and electronics furniture. Planning to produce a more general line of RTA furniture in 1987.

Whittier Wood Products
3787 West 1st Avenue
Eugene, OR
USA

503/687 0213

Everett Slijper, Sales Director

Not strictly a KD producer but generally sells alongside other KD products. Whittier produces a high quality range of unfinished but ready to assemble dining furniture and is planning to move into KD shortly.

The Sunlight Corporation
21600 Nordhoff Street
Chatsworth, CA
USA

818/709 4455

Tom Mann, Sales manager

Sunlight sells mainly imported product specializing in electronics and home entertainment furniture. Retail price points are from \$99 to \$199. Company produces an elaborate eleven step finish on white oak veneer over solid select hardwood. Distributes through mass merchants, catalog houses, home centers and furniture stores.

Fournier Accessory Furniture Inc.
7301-32 Avenue North
Minneapolis, MN
USA

612/593 0300

Gregg Sammons, President

Fournier is the US offshoot of a Canadian company. The company produces a line of entertainment centers, tv and stereo carts, home office and computer furniture.

Singer Furniture
880 Johnson Ferry Road NE
Atlanta, GA
USA

404/256 3850

Phil Malone, V.P. Marketing

Singer's KD furniture is mainly produced in a company operated plant in Brazil. Products currently under production include, bedroom settings, dining settings, as well as a full range of electronics and home entertainment furniture. Solids and high pressure laminates are both used.

Foremost Furniture by Sauder
502 Middle Street
Archbold, OH
USA

419/446 2711

Gene Metz, V.P. Marketing

A complete range of wall furniture, bedroom furniture, electronics and home entertainment furniture. All furniture has laminate finishes. Prices points (retail) range from \$29.95 to \$169.95.

Estimated sales volume \$165 million.

Casard Furniture Manufacturing Corp.
2637 East Green Street
High Point, NC
USA

919/882 8176

Ken Owens, V.P. Marketing

Casard produces a full line of electronics and home entertainment furniture covered in vinyl laminates
A member of the Case Group.

Gusdorf Corporation
11440 Lackland Road
St Louis, MO
USA

314/567 5249

Robert McCarthy, V.P. Marketing

Full range of electronics, home entertainment furniture and computer furniture. Price points from \$21.95 to \$499 at retail.
Uses solids and laminate finishes.
Estimate national sales \$40 million.

Van Pelt Lifestyle Furniture
2175 Lemoine Ave
Fort Lee, NJ
USA

201/461 7700

Michael Rush, Marketing Director

KD industry watchers have been following this Belgian company with its own US operation closely. However industry sources claim the company has not yet done business with any of the major US retailers. Company uses real wood veneers with solid wood trim.
Reputed volume under \$20 million.

Primex International/Ambras
230 Fifth Avenue
New York, NY
USA

212/679 5060

Hal Rose, V.P. Marketing

Primex's products are made in Brazil. Company produces dining, bedroom and a full range of electronics and entertainment furniture. materials used include pine, walnut, mahogany. Sales estimated under \$10 million.

Royal Creations
9120 Center Street
Rancho Cucamonga, CA
USA

404/459 5767

David Grossman, V.P. Director of Sales

Royal creations are rumoured to be undergoing restructuring. The company produces electronics and home entertainment furniture, wall furniture and other storage furniture. Estimated sales \$20 million.

Bush Industries
312 Fair Oaks Street
Little Valley, NY
USA

716/938 9101

William Schaeffer, V.P. Sales & Marketing

Furniture produced includes electronics furniture wall units, and room dividers. Generally regarded as an industry leader. Sales estimated at \$50 million.

Dico Corporation
3731 North Ravenswood
Chicago, IL
312/935 9239

312/935 9239

Frank Aldenhuijsen, President

Dico produces tubular steel bed and bunk frames in the Netherlands. Bright colours and woven mesh bed bases are main features.

Swedline
33081 Camino Capistrano
San Juan Capistrano, CA
USA

714/661 3111

B.G. Frick, President

Swedline was originally formed by ex employees from the giant Swedish Match company. The company sells white melamine storage products at various price point. Supply is from Sweden. Reputed volume in excess of \$6 million.

Linon Imports Inc.
303 Fifth Avenue
New York, NY
USA

212/686 5732

Jimmy Ziosis, President

Linon's products are manufactured in Rumania. The company specializes in solid wood dining furniture and has recently moved aggressively into room dividers. Estimated voume \$10 million

The following companies are Canadian companies which are regarded as major suppliers in the United States. To the best of our knowledge only one of these companies, Palliser Furniture, maintains a US factory or major distribution center

Amisco Industries Ltd
33 Fifth Street
L'Islet, Quebec
Canada

418/247 5025

Joe Boucher, President

Amisco produces an up-market range of painted tubular metal furniture. Range includes dining, bedroom and storage furniture.

Pallisser Furniture Limited
55 Vulcan Avenue
Winnipeg, Manitoba
Canada

204/668 5600

Bill Elmiger, Design Director

One of the larger Canadian kd case goods manufacturers US base is in Fargo North Dakota.

Sheres Industries Inc.
10280 Ray Lawson Boulevard
Ville D'Anjou, Montreal, Quebec
Canada

514/351 7910

Allan Sheres, President

Sheres produces metal furniture and has added a large collection of wood and melamine products from Europe.

THE TRADE SHOWS & MARKETS

The Market System:

High Point:

The largest regular furniture market in the US.

Markets are held twice a year 2/3rd week in April (Spring Market) and 3/4th week in October (Fall Market). The nucleus of the High Point market is the Southern Furniture Market Center. A collection of five buildings in the center of town. In recent years a considerable number of other buildings some new and some renovated have vastly increased the total square footage of space rented to furniture manufacturers as showrooms.

Finding space is a major problem for manufacturers at High Point. Most of the larger buildings, including the SFMC, the National Building, the Hamilton Wrenn complex all look for long term (3/5 year leases). Space is rented without improvements and most renting companies find it necessary to alter premises to suit their specific purposes. Rents usually start at about US \$10.00 per sq. ft. Most buildings mandate that it is necessary to maintain a physical presence at both of the semi-annual markets.

Market Square, an old converted furniture factory offers some temporary space from about \$10.00 per sq. ft. per market.

Accommodation is extremely difficult in High Point, and facilities such as restaurants are very few.

On the plus side Labour for renovations is inexpensive.

Most major US retailers and manufacturers feel that a presence at High Point is necessary. The market is reputed to attract approximately 18/20,000 buyers twice a year, but the SFMC does not offer attendance lists.

High Point owes its pre-eminence to the fact that it is located in the heart of the Southern US case goods manufacturing region.

Consequently US buyers go there to preview new offerings in case goods. In recent years many national groups including Germany, the U.K., Italy, Singapore, & Denmark have tried exhibiting there but not been pleased with the results. Other national groups currently exhibiting include: France, Spain, and Sweden.

The main reason given for dissatisfaction given by overseas exhibitors has been that despite the heavy cost of participation they do not receive any promotional support from the organizers. Exhibitors are largely responsible for their own promotional efforts.

Canada used to maintain a permanent presence. The Canadian space is now occupied by a group of individual Canadian companies. The main form of promotion at High Point to take an ad in the Market Directory.

A group of manufacturers attempted to form a permanent showroom - exhibit center for KD companies in 1985. Unfortunately after occupying space for one market the group lost the space to a large US manufacturer. Most companies which took part in this initial group felt strongly that it was a definite advantage to exhibit together. This seems to indicate that it takes retailers time to accept a new

idea and it should be noted that many retailers were actively looking for this center after it had closed.

Southern Furniture Market Center

P.O. Box 828

High Point, NC 27261

919/889 6144

William Di Paolo, Director of Leasing.

High Point National Furniture Mart

P.O.Box 2723

High Point, NC 27261

Ivan Gary, Manager

919/884 8491

Market Square

305 West High Street

High Point, NC 27260

Ms. Pat Walker, Director of Leasing

919/889 4464

Dallas:

Dallas ranks as the 2nd most important furniture market center in the US. Furniture markets are held twice a year in the 3rd week in January (Spring Market) and in the 2nd. week in July (Summer Market). Additionally other furniture related and lighting shows are held during the year. The Dallas Market Center (DMC) consists of a collection of buildings housing permanent showrooms and about 1/2 million sq. ft. of temporary tradeshow space. During the market periods all of this space is in use. Unlike High Point companies leasing space at the DMC are usually able to do business throughout the year. Dallas is at the heart of a major metroplex. The permanent showrooms service the needs of the professional furniture buying merchant and the large Texas decorator and designer community. Dallas regularly attracts between 18/20,000 buyers to each of its two annual furniture markets.

Dallas Market Center

2100 Stemmons Freeway

Dallas, TX 75207

919/655 6100

Jock Stafford. Director of Leasing (Homefurnishings)

American International Furniture Fair (AIFF)

National Home Furnishings Association

405 Merchandise Mart

Chicago, IL 60654

312/836 0777

Peter Louch, General Manager

The American International Furniture Fair is a new event sponsored by the Dallas Market Center and produced and owned by the NHFA. The Fair

is an annual event produced in conjunction with the Dallas Summer Home Furnishings Market. The Fair is being produced in response to industry demand for a concise location where US retailers can view a representative selection of imported furniture. The Fair takes the form of a trade show housed in the new Infomart building, the latest addition to the DMC complex. Organisers report that over 250 manufacturers will exhibit their products there during the 1986 Fair, including national groups from Germany, Hungary, England, Denmark, France, Italy, Thailand, and Taiwan.

AIFF exhibitors can benefit from AIFF heavy industry promotion. Additionally the NHFA has designed a radically new support system intended to simplify dealings between suppliers of imported furniture and retailers.

Atlanta:

Markets are held twice a year 3rd/4th week in January and mid 2nd/3rd week in July. Atlanta is a major trade show center in its own right. 50 shows a year are produced there with two of them being for the furniture industry. The market consists primarily of permanently rented showroom but there is approximately 170,000 sq. ft. of temporary space available also. Space rents \$US 11.95 to \$ 8.35 per sq. ft. Renters take a minimum of 3 years lease (a 7% annual increase can be expected.) The market is regarded as mainly regional.

Atlanta Market Center
240 Peachtree Street
Atlanta, GA 30043

404/688 8994

Tom Fulghum, V.P. Leasing.

San Francisco:

Markets held twice a year in sequence with Dallas and Atlanta. The market in San Francisco consists of 11.5 million sq.ft. Plus other buildings which open for furniture display during the market such as the Showplace.

Space in the Western Merchandise Mart rents for approx \$12.00 per sq.ft. One year is the minimum lease period. When asked if obtaining space is a problem Mr Preiser said that it was always possible to fit the right company in.

Western Merchandise Mart
1355 Market Street
San Francisco, CA 94103

415/552 2311

Donald M. Preiser, President

Chicago:

The National Housewares Show is held twice a year in Chicago. The Show takes both parts of the 630,000 sq. ft McCormick Place facility. Plans are underway to extend the facility by a crash building program this year. The National Housewares Manufacturers Association which

owns and produces the show expects that it will increase in size to approx 800,000 sq. ft. The show is held twice in Spring and Fall. The Housewares Show regularly attracts 60,000 visitors, and is restricted entirely to the trade. Space rents at \$4.00 per sq. ft. We visited the show in April 1986. About 20 KD furniture companies exhibited there. Interviews with these companies showed that they see many of the major mass merchants there, but almost no conventional furniture retailers. The main problem with this show is that the furniture maker may find himself situated next to completely unrelated products; also incidental costs in Chicago are high and this tends to preclude the construction of the type of display which shows furniture off to advantage. The Housewares Show claims that it has dropped its "priority" reservation system in favour of open reservations in five product categories.

National Kitchen and Bath Industry Show
Gralla Publications
1515 Broadway
New York, NY 10036

212/869 1300

Ms Rachel Hall

The Kitchen & Bath Industry Show will be of interest to Canadian manufacturers making KD kitchens. The show is held twice a year. the main or National show is held in a different city each year during the spring (usually in early April). The 1987 show will be in Atlanta at the Georgia World Congress Center. The Kitchen and Bath West Show is also an annual event. The 1986 edition will be held December 11/13th at the Anaheim Convention Center. The National show covers 150,000 sq.ft of exhibit space and attracts approximately 30,000 visitors.

Other Shows:

Other shows which may interest Canadian manufacturers include:

Waterbed Show
Waterbed Manufacturers Association
2500 Wilshire Boulevard
Los Angeles, CA 90057

213/384 3179

Mr Delrich, Executive Director

The Unfinished Furniture Show
Unfinished Furniture Institute
1850 Oak Street
Northfield, IL 60093

312/446 8433

Ray Passis, President

Accent on Design held in New York.

Design Centers:

Most major US cities have a permanent mart building wholly or partially devoted to furniture showrooms. There has been a radical increase in the number of these centers over the last decade. Boston and Houston being two of the latest additions. In the main companies such as importer/wholesalers who concentrate on supplying interior designers, architects and specifiers are the main tenants. Additionally some furniture manufacturers or their regional representatives also take space in these buildings. Design centers usually hold regular market events once or twice a year. Examples of leading design centers are The Pacific Design Center, in Los Angeles; 200 Lexington Avenue, in New York; The Merchandise Mart in Chicago.

In our opinion Canadian KD manufacturers will find it is far too costly to take space themselves in these regional buildings.

THE TRADE PRESS

CompetitivEdge
 National Home Furnishings Association
 405 Merchandise Mart
 Chicago, IL 60654
 312/836 0777

CompetitivEdge is the leading monthly revue. It reaches an audience of approximately 21,000 retailers. 4,000 of these retailers are the Association's own members.

Furniture Today
 200 South Main Street
 P.O.Box 2754
 High Point, NC 27261
 919/889 0113

Furniture Today is a weekly newspaper which reaches an audience of approximately 26,000. Furniture Today maintains a strict policy of pure news reporting and will not provide advertorial.

Home Furnishings Daily
 Fairchild Publications
 7 East 12th Street
 New York, NY 10003

The furniture equivalent of the famous Women's Wear Daily. HFD is newspaper format and published once a week. HFD provides substantial advertisers with advertorial. It is hard to say what the total furniture buyer readership is for HFD. Most people in the trade feel that only 6-7,000 pure furniture buyers read the paper. The bulk of HFD's readership (26,000) consists of major appliance, electronics, and home textiles people

Better Homes and Gardens Remodelling Ideas
 Special Interest Publications
 Publishing Group of Meredith Corporation
 1716 Locust Street
 Des Moines, IA 50336

Can be good for free editorial if you have an exciting new product, but this is a public magazine.

National Home Center News
 Lebhar-Friedman Inc.
 425 Park Avenue
 New York, NY 10022
 212/371 9400

Generally regarded as the leading magazine for home center owners and buyers.

Home Center Magazine
Vance Publications
400 Knightsbridge Park Way
Lincolnshire, IL 60069
312/634 2600

Monthly magazine for home centers.

Kitchen & Bath Business News
Gralla Publications
1515 Broadway
New York, NY 10036
212/869 1300

Monthly magazine specifically for the kitchen and bathroom industry.
Companies with K/B products might consider this one.

SOME US WAREHOUSING OPERATIONS

Hall's Warehouse Corp
P.O.Box 183
330 Oak Tree Avenue
South Plainfield , NJ 07080
201/756 6242
Bruce Jayne.

John M. Moran Ltd.,
24 South Main Street
Pennington, NJ 08534
609/737 9666
John Moran

Market Craft Inc.
P.O.Box 4127
Heritage Drive
Portsmouth, NH 03801
603/436 7983
P.R.St Jean

Distribution Services International Inc.
30 Pulaski Street
Bayonne, NJ 07002
201/451 7023
P.W. Fagerman

STATEMENT OF OBJECTIVES

The objectives of the study determined by the Department of External Affairs are as follows:

- To evaluate US national and specific regional markets for a variety of knock-down furniture product categories including bedroom furniture, dining room furniture, and living room furniture, concentrating on those specific products which are suitable for production in knock-down form. Products assessed for these markets could be made of wood, wood substitutes, metals, plastics, upholstery, or a combination of these materials. The specific regional areas covered include New York, Chicago, Florida, Texas, and California.
- To provide background information on consumer preferences and buying habits and to estimate future distribution, design and price trends in the industry.
- To examine distribution alternatives and distributor's requirements. To provide information on tariffs, transportation costs, pricing structures, federal or state regulations and any other matters affecting the ultimate salability of Canadian knock-down furniture in the US.
- To evaluate the level of product preparation, sales promotion, and marketing support required to launch products successfully on the US market.
- To supply effective and workable market strategies designed specifically to assist small and medium sized Canadian manufacturers to sell successfully in US markets.

DEFINITIONS

The terms knock-down (KD), ready-to-assemble (RTA), Quick Assembly (QA), Self Assembly (SA) are all in current use describing fully manufactured and finished furniture which is capable of being supplied to the ultimate consumer packaged disassembled and ready to be assembled by the consumer at home after purchase. Furniture of this type is usually packaged individually (parts for one complete piece of furniture in one carton). Exceptions are sometimes made with larger pieces such as beds where packing in one carton would make the piece too heavy or unwieldy for the consumer to transport in comfort.

There has been a great deal of controversy in the world furniture industry as to the most suitable phrase to describe the category. Some US manufacturers and retailers have shied away from the cachet

"knock-down" claiming that the phrase automatically creates a picture of low priced shoddy merchandise in the mind of the consumer. The giant Swedish retailer Ikea prefers "self assembly" and others have tried "cash-and-carry", "carry-home", or similar phrases. At the present time the original phrase "knock-down" seems to be holding its own and is being used widely promoting the category in the US.

The term "knock-down" or its abbreviation KD has been used for simplicity throughout this report.

Kit Furniture: this term is used primarily in Europe and covers KD products whether they are finished pieces needing only final assembly or unfinished wooden parts requiring more basic woodwork and finishing. In the United States the term "kit" is definitely synonymous with the latter and suggests an altogether quality product.

Flat-Pack: is basically a trade or manufacturing term describing products such as modular storage, shelving, or kitchen furniture manufactured on a completely horizontal production line (usually fully automated) out of converted particle board. The particle board can be painted, veneered, or plastic laminated. Medium density fiberboard (MDF) is becoming increasingly common in "flat-pack" construction.

INFORMATION GATHERING

The following methods have been used to gather information for this study:

- Statistical analysis to determine market size, market potential, and growth patterns for the furniture industry and the KD category in the United States, and also to gauge the volume and changing patterns of US furniture imports.
- Controlled mailings of questionnaires to 800 retailers of the type most closely involved with KD retailing in the geographic areas selected for the study and across the US. A further mailing to 100 companies involved in the different elements of the furniture distribution system. The information obtained has been presented in tabulated form in each case.
- Individual telephone interviews with companies from the above categories together with selected personal visits to retail stores in the market areas.
- Extensive travel to European furniture fairs to examine the latest trends in KD design, production, and marketing, and consultations with European manufacturers associations and research sources on

the future of the KD industry.

- Evaluation of all the information obtained to build an effective picture of the potential the market offers Canadian manufacturers using our own specialized knowledge of the KD industry to provide effective marketing strategies.

KD KITCHENS IN THE U.S. MARKET

European KD kitchen manufacturers have been eyeing the U.S. kitchen market for several years and a number of U.S. manufacturers have been trying out the market in a rather half-hearted way.

The structure of the market has largely precluded KD:

Over 80% of the U.S. market for Kitchen and bathroom cabinets is in the hands of the large network of kitchen and bath dealers and distributors operating in the U.S. Most dealers have seen very little point in selling KD. Under traditional market conditions they make a considerable amount of their profit by installing the cabinets they sell. The U.S. supply of cabinets in the mid-price range is extensive and dealers can obtain almost every type and style of cabinet competitively. The trade argues that there is no need for KD when good quality fully assembled cabinets are available in all mid-price ranges. Dealers are, however, becoming increasingly interested in low priced KD cabinets. They are starting to see that KD (frameless) construction can provide inexpensive cabinets which are in many cases much better finished and sturdier than the cheap U.S. models.

The trend starts at the top:

Leading European kitchen makers like Allmilmo, Poggenpohl, Alno and others began to realize that their standard construction method (KD) would make it possible for them to access the U.S. market. With freight minimized they could offer their products to a top-end market which is always hungry for the best in design and features. In order to successfully penetrate this market leading manufacturers found it necessary to invest in prestige showrooms, warehouse facilities and trained labour for assembly and installation teams. One High-end U.S. kitchenmaker which produces a KD line is St. Charles.

But works its way down to mass production levels:

Mid and low-priced European producers have now started to look seriously at the U.S. as a potential market. These manufacturers need volume sales in order to justify U.S. marketing expenses. Rather than following the costly and often painful route convincing the conventional dealers and distributors to market their products they are approaching home centers and mass merchants. The home center chains in particular are interested but they lack vital marketing experience with the KD kitchen concept.

In Europe, mass merchants and direct warehouse selling organizations seized the KD kitchen potential and now virtually control the market. These organizations developed the retailing expertise and stocking and support philosophy, which are vital to successful KD merchandizing, by trial and error.

Most of the U.S. home centers which are now trying out KD kitchens lack the trained committed staff which are vital in the early years of KD merchandizing. They are also not yet prepared to commit enough

dedicated display space.

There is potential for Canadian companies:

There is substantial and growing potential for KD kitchens in the U.S. In order to tap this potential Canadian manufacturers must do more than sell the kitchens; they need to supply as much marketing support as possible. Staff training, initial assistance with staffing, effective point of sale merchandizing aids, and display layout are key elements. The main sales targets should be home centers, mass merchants, and carefully selected dealers.

Manufacturers should be interested to note that MFI, the giant mass market British kitchen retailer, has recently opened its first three U.S. kitchen stores. MFI's stores in the U.S. are called Priceless. All three are located near Philadelphia. The Priceless stores are following the same formula as MFI in England, the "Box and Door" program. All cabinet carcasses are available in one finish only, this ensures maximum production cost efficiency. Doors are not packaged with the carcasses, but are packaged separately and available in a wide range of designs and finishes. Both consumers and builders shop at MFI in England.

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