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Market Studies of United States

no. 20

Residential Furniture
in the Northwestern U.S.A.



A
MARKET STUDY OF RESIDENTIAL FURNITURE
IN THE NORTHWESTERN UNITED STATES

Prepared For
Department of External Affairs
United States Trade & Investment Development Bureau
Ottawa, Canada

Dept. of External Affairs
Min. des Affaires extérieures

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By

Ross Associates, Inc.

Asheville, N. C.

U.S.A.

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PREFACE

The purpose of this study is to provide the Department of External Affairs, United States Trade & Investment Development Bureau and the Canadian furniture manufacturers with information on the Northwestern United States residential furniture market and recommendations on how the Canadian manufacturer can penetrate this market. While the study was under the direction of Vincent R. Ross, various associates within Ross Associates, Inc., participated in the collection and analysis of data and the preparation of the final report. The findings of the report are based upon extensive interviewing and research by members of the staff of Ross Associates. The intent of this report is to assist Canadian manufacturers who are considering entering the Northwestern U.S. market, as well as those who are currently exporting to this area.

ACKNOWLEDGEMENTS

We wish to express our gratitude for the advice and counsel provided by the many individuals and organizations who participated in the study. Without this fine spirit of cooperation, the results of the study would have been less meaningful. We at Ross Associates are especially appreciative for the assistance and guidance of the following:

- Department of External Affairs
- Project Steering Committee
- Department of Regional Industrial Expansion
- Canadian Consulate General, Seattle
- Canadian Consulate General, Minneapolis
- Canadian Furniture Manufacturers
- Northwestern U.S. Furniture Manufacturers
- Northwestern U.S. Furniture Retailers
- Canadian and U.S. Trade Associations

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AUGUST 1984

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MARKET STUDY OF RESIDENTIAL FURNITURE
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I. SUMMARY

This market study of the nine-state Northwestern United States assesses the residential furniture market in the area and presents recommendations on how Canadian manufacturers can maximize their penetration in the market. Canadians can share in this market, and they do have something to offer the U.S. retailers. There are some areas where improvement is needed. Specifically, marketing plans and designs need to be tailored to the U.S. marketplace.

Many U.S. retailers have not seen Canadian furniture nor have they been approached on buying furniture from Canada. These retailers should be made aware of Canada's offerings and the advantages of buying Canadian. The Canadian manufacturers should not be timid about expressing a desire to enter this market and taking the necessary steps to secure a share of the market.

Recommendations on gaining a greater share of the Northwestern U.S. market are:

1. Formulate a detailed marketing plan, including provisions for sales representation, sales inducements and product showings.
2. Design for the U.S. market.

3. Visit targeted retail accounts in the U.S.
4. Stress the attributes of buying Canadian furniture.
5. Utilize the resources and expertise available from the Canadian Government.

The implementation of these recommendations will enable the new exporter to penetrate the Northwestern U.S. market and the firm who is currently exporting to increase its market share.

II. INTRODUCTION

A proposal for a market study of residential furniture in the Northwestern United States was submitted to the Department of External Affairs on February 21, 1984, by Ross Associates. The project conformed to the "Terms of Reference" forwarded to Ross Associates by the Department. The study area in relation to other U.S. states and a sector division are shown as Exhibits I and II, respectively. The Northwestern U.S. market as defined for the study covers a vast expanse of land and includes the states of Washington, Oregon, Idaho, Montana, North Dakota, South Dakota, Minnesota, Nebraska and Iowa. A substantial portion of the study was devoted to statistical analysis and interviewing Canadian manufacturers and U.S. retailers.

A Pre-Project Briefing Meeting of the Steering Committee was held at the Department of Regional Industrial Expansion Regional Office in Winnipeg on April 5, 1984. Vincent R. Ross represented Ross Associates at this meeting. The purpose of the meeting was to clarify certain points in the proposal and establish the parameters of the study. Subsequent to this meeting, the Department of Regional Industrial Expansion Office forwarded catalogs and price lists of Canadian furniture companies to Ross Associates.

On May 11, 1984, a Mid-Project Review Meeting of the Steering Committee convened in Edmonton. Vincent R. Ross and James A.

Bayliss of Ross Associates both attended this meeting. At this meeting Ross Associates presented an interim report which included results of interviews with Canadian manufacturers and demographics of the study. The members of the Steering Committee discussed the report, made refinements in the study proposal, and established a timetable for the remainder of the project. The Steering Committee appeared before members of Furniture West at the association's semi-annual meeting and discussed the scope of the study and the progress made to date. Since these meetings were scheduled to coincide with the Furniture West '84 Furniture Market, the members of the Steering Committee were able to attend the market and gain a greater insight into the style, price and quality of Canadian furniture.

The purpose of this market study is to evaluate the market potential for Canadian residential furniture in the Northwestern U.S. and provide guidance on how Canadian furniture manufacturers can gain a foothold in this market. As in our previous studies for the Government of Canada, Ross Associates has strived to strike a balance between a voluminous report and one that is less wordy. However, we have not sacrificed quality or clarity in guarding against the traditionally weighty approach to report writing.

Numerous sources were consulted during the course of the study. Some of the more significant sources of information were:

- Department of External Affairs
- Project Steering Committee
- Dept. of Regional Industrial Expansion
- Canadian Consulate General - Seattle and Minneapolis
- Canadian Furniture Manufacturers
- Northwestern U.S. Retailers
- Canadian and U.S. Trade Associations
- U.S. Department of Commerce
- Computerized Data Base Firms
- Trade Publications of the Furniture Industry

We also utilized as source data the experience and information accumulated by Ross Associates in related studies for the furniture industry. Many associates of the firm contributed to this report.

III. DISCUSSION

A. Interviews

1. Preparation

Our starting point for the interviews in this study was the interview forms utilized in the 1981 Market Study of Residential Furniture in the Greater New York City Area. Although many of the questions were relevant to the current study, some deletion and amplification was required. These revisions were made to both questionnaires--Canadian furniture manufacturers and Northwestern U.S. retailers.

2. Canadian Manufacturers

A total of 26 Canadian manufacturers were interviewed during the course of the study. Exhibit V lists the manufacturers interviewed. The location of these firms spanned the continent of North America--from New Brunswick to British Columbia. Although our primary emphasis was obviously concentrated on furniture manufacturers, we did interview five manufacturers of related products. Included in the interviews was a good cross section of the various types of furniture. There were six upholstered, thirteen casegoods, one metal furniture and one firm that manufactured both upholstered and casegoods. The different styles of furniture were also represented in the interviews as shown in the tabulation below:

<u>Style</u>	<u>Number of Interviews</u>
Contemporary	9
Traditional	3
Colonial	1
Mixed	8

Nearly all of the Canadian companies with whom we talked appeared to have a sincere interest in exporting to the U.S. and expressed a desire to establish an on-going relationship with U.S. retailers.

Still another encouraging development surfaced during our interviews with Canadian firms--a willingness to be competitive in the U.S. market with sales inducements and credit terms. Several manufacturers stated in the current round of interviews that they would do "whatever was necessary" to gain a foothold in the Northwestern U.S. marketplace. Obviously, this cooperative attitude would be tempered by good business acumen, and it should not be construed that they intend to "give away the store."

It should be emphasized that not all Canadian manufacturers shared the philosophy or policies expressed above. Some of them were doing an excellent job of exporting to the U.S. three years ago, and they are successful in this endeavor today. Since economic conditions have changed in the last several years, it is conceivable that more

Canadian firms now look with increasing favor upon the export market in the U.S.

The more significant observations and findings from our interviews with Canadian manufacturers are listed below:

- a. Fifteen of the 26 firms interviewed were currently exporting to the U.S. or had exported in the past. Fourteen of the exporters reported that there were "no export problems" and the 15th said the problems "were minor."
- b. Of the 15 exporters, 12 sold through multi-line sales representatives. The remaining three firms utilized distributors or corporate contacts.
- c. Thirteen of the manufacturers have exhibited or plan to exhibit their products in the U.S. in the near future. Six will show at High Point, and seven will exhibit at regional markets.
- d. Most companies cited expanding the present market as the primary advantage of exporting. The main disadvantage of exporting given by five respondents was "possible credit problems," and four firms mentioned changing U.S. economic conditions. Significantly, 12 firms did not mention any disadvantages.

- e. Almost three-quarters of the manufacturers stated that their export capability, either currently or in the near future, would be \$1 million or more annually.
- f. No clear cut preference was shown for any particular type of sales outlet. Although several firms preferred "Mom and Pop" stores, others preferred larger independent furniture stores. Some companies expressed a preference for department stores or large furniture chain stores. Still others expressed a preference for a mix of independent, chain, and department stores.
- g. While only four firms were currently utilizing U.S. designers, many manufacturers stated that their products conformed to U.S. design standards. Frequent reference was made to utilizing successful U.S. design concepts in Canadian products.
- h. In reply to the question on differences between Canadian and U.S., nine companies mentioned that Canadian furniture was of superior quality, four commented that the U.S. was the design leader, and two said that Canadian furniture was smaller in size than U.S. furniture.
- i. The manufacturers perceive their products to fall into the following price ranges:

<u>Price Range</u>	<u>No. of Respondents</u>	<u>\$</u>
Low	1	See Exhibit XII
Low to Medium	6	
Low to High	1	
Medium	6	
Medium to High	12	
High	0	

- j. Only two companies stated that their most common U.S. sales terms were net 30, and nine firms quoted 2%-10, net 30. All firms were willing to pay the brokerage fees and tariffs. One company reported 2%-15, net 30, and another said their terms were 3%-15, net 30. Nine manufacturers shipped f.o.b. destination, and the U.S. port of entry was the f.o.b. point for five firms. In addition, the majority of the manufacturers were willing to adjust their sales terms if necessary to gain a share of the U.S. market.
- k. Over 80% of the manufacturers offer some sales inducements, and only four firms stated that they offered no sales inducements. An overwhelming majority stated that they were willing to offer inducements as required in the U.S. market.
- l. Twenty-one firms believe that their prices in the U.S. would be the same or lower than their products in the

Canadian market. Only five companies thought their U.S. prices would be higher.

- m. All but two firms would ship by common carrier, either exclusively or in conjunction with company trucks. Seventeen of the companies would ship by common carrier exclusively (15 by truck and two by rail and truck), and six by common carrier trucks or company trucks.
- n. Twenty-five manufacturers plan to ship directly to the retailers.

3. Northwestern U.S. Retailers

In-person interviews were conducted with residential furniture retailers throughout the area of study in the Northwestern United States. A total of 58 retailers were interviewed in the following nine states and 16 cities.

Washington: Seattle, Spokane

Oregon: Portland, Eugene

Idaho: Boise

Montana: Great Falls, Billings

North Dakota: Bismarck, Fargo

South Dakota: Sioux Falls

Minnesota: Minneapolis; Duluth

Iowa: Des Moines, Cedar Rapids

Nebraska: Omaha, Lincoln

As specified in the "Terms of Reference:", major emphasis was placed on medium- to small-volume purchasers. However, we did not entirely neglect the high-volume retailers because their input could be most useful in formulating our conclusions and recommendations. Three of the interviews were with retailers who operated from 12 to 16 stores. Examples of the type furniture stores interviewed are shown in Exhibit VI.

Since we did not want to distort the statistical analysis of the interviews, our one interview with a national retailer-- J.C. Penney Co.--was somewhat tempered in the final analysis. We did not include Penney's multitude of stores in our final tabulations. This conservative approach makes the total number of stores represented in the interviews less impressive, but it does provide us with a more meaningful and representative evaluation. The breakdown of the number of stores represented in the interviews is shown below:

<u>Number of Stores in the Organization</u>	<u>Number of Interviews</u>
1*	38
2	7
3	7
4-6	3
12-16	<u>3</u>
Total	58

*J.C. Penney Co. classified in a one-store-category for reasons enumerated above.

In addition to placing emphasis on medium- to small-volume stores, we also concentrated our interview efforts on stores that carried a mixture of styles. A few stores that specialized almost entirely in Contemporary, Traditional, or Transitional furniture were also interviewed. The style breakdown of the stores interviewed is as follows:

<u>Style</u>	<u>Number of Stores</u>
Mixed	110
Mostly Contemporary	8
Mostly Traditional	5
Mostly Transitional	<u>5</u>
Total	128

The various factors analyzed in each interview were weighed by the number of stores represented in the interview. For example, if there were more than one store under a single ownership in the area of study, each interview factor was multiplied by the total number of stores. We utilized this method of weighing because information on a store's annual dollar volume is, in most instances, considered to be highly confidential or not readily available.

Our initial intent was to analyze all of the interviews in

one group--the entire Northwestern U.S. However, as the interviewing progressed, we thought there might possibly be a difference between the responses in one sector of the Northwestern U.S. and the responses of another sector. When we got to the interview analysis stage, we decided to break the interviews into two groups--eastern sector of the study area and western sector. The eastern sector includes the states of North Dakota, South Dakota, Minnesota, Iowa and Nebraska, with the western sector made up of Washington, Oregon, Montana and Idaho. This division of the Northwestern U.S. placed nine interview cities in the eastern sector and seven in the western. In effect, the study area would be separated by a line drawn on a map from Regina to Denver. We rationalized that we could always combine the two sectors into one group if the sector approach did not prove fruitful. Our only loss would be the time spent in making separate analyses of the interviews.

4. Summary of Interviews

While not all of the interview factors showed a difference between sectors, many of them provided a clear-cut distinction between the two sectors. The various major factors from the interviews are summarized below:

- a. Over 80% of the western sector stores are currently or, have in the past, imported Canadian furniture (45% currently, 40% in past). A little less than half of the eastern stores were importing or had imported furniture from Canadian firms (30% presently, 18% formerly). On the surface, these figures on imports are impressive. A more in-depth evaluation uncovers the fact that the number of Canadian firms exporting was relatively small and the dollar volume of exports not great. Nevertheless, the information provided by the retailers with experience in importing Canadian furniture was vital to the successful completion of this project.
- b. All but one retailer stated that they would consider purchasing Canadian furniture. Many retailers said that they were more interested in the product than the country of origin.
- c. Sixty percent of the eastern sector thought Canadian furniture designs were equal to those of U.S. firms, and 40% rated designs from Canada to be lower than the U.S. The western sector was not as complimentary, with ratings of 15% equal and 83% below.
- d. The two sectors were in agreement on the comparison of price of Canadian furniture to U.S. furniture. Slightly over half (54%) of the respondents reported

that the prices were equal, and 42% thought Canadian prices were higher. Only 4% believed prices from Canada were lower.

- e. Although the western sector was critical of Canadian design, they were much more charitable on quality comparisons. Almost 90% reported that Canadian quality was equal to the U.S. furniture manufacturer, and only 7% rated it lower. The eastern sector was of the opinion that Canadian quality was not as high. One-third of the stores reported that the quality was lower, and 57% stated that it was equal to the U.S.
- f. On the question of service, the western sector again provided more favorable responses than the east. Over 90% of the stores said that Canadian service was good, and 6% thought it should be improved. Only 65% of the eastern retailers believed that service was good, and the remaining 35% reported that it needed to be improved.
- g. The opinion on sales-inducement-comparisons was essentially the same in both sectors. An equal rating was given by 43% of the retailers, but 57% of them stated that Canadian firms gave less in the way of sales inducements than U.S. furniture makers.

- h. No import problems were reported by any of the interviewees. Almost without exception, they responded with an emphatic "none" to this question.
- i. An overwhelming majority of the stores stated that most of their Canadian purchases were through sales representatives.
- j. Over half of the retailers in both sectors thought their purchases of Canadian furniture would increase in the future, and 41% believed that the amount would remain the same. Encouragingly, only 4% stated that it would decrease.
- k. As was the case with Canadian furniture, a great majority of the U.S. furniture is purchased from sales reps.
- l. Sales percentages in the few furniture categories about which we inquired of the retailers was virtually the same in the eastern and western sectors. The composite figures are:

Casegoods	34%
Upholstered	55%
Metal/Glass	5%
Dinettes	6%

- m. Five factors that influence purchases were ranked by each interviewee. There was much variation in the ranking, but a composite of all interviews resulted in more definitive conclusions. The five factors ranked were: price, quality, service, reputation of the manufacturer, and design. In the eastern sector, price, quality and design tied for the number one spot, and service and reputation of the manufacturer both ranked number two. The west was different in that design did not share the top spot with price and quality, but fell into second position with service. In addition, the most significant difference in the rankings of the two sectors is that the reputation of the manufacturer was a poor third to the first and second most important factor groupings in the west. This may mean that there is less emphasis on brand name by the western consumer and, thus, an easier task for the Canadian furniture manufacturer to gain a firm foothold in this market.
- n. A wide variation existed between the eastern and western sectors on the most popular furniture style in the area. Seventy percent of the eastern retailers reported that Traditional was the number one seller as opposed to a mere 30% reported by the westerners.

Contemporary was the most popular style of the western sector in the opinion of 38% of the stores. The popularity of each style is given below:

<u>Style</u>	<u>% of Retailers</u>	
	<u>Eastern</u>	<u>Western</u>
Contemporary	22	38
Traditional	70	30
Transitional	2	22
Country	6	10

- o. Fabric preference in the area was not as pronounced in the east as in the west. Almost 70% of the western stores stated that velvets were the most popular fabric compared to 36% of eastern retailers. Although there was no clear-cut choice in the east of any one type of fabric, velvets were the leader by a small margin.
- p. Medium shade wood finishes were the area preference according to 69% of the interviewees. Both sectors were close to agreement on color preference.
- q. Respondents in both sectors were in agreement on wood species preference in the area, with 81% reporting oak as the definite leader.
- r. Purchase terms of U.S. furniture manufacturers is the only factor in the interview analysis that was not

weighted by number of stores. Since larger furniture chains frequently receive greater sales concessions, we did not want to distort the base data by applying weighting. Therefore, the following data on purchase terms has not been adjusted to place greater emphasis on higher-volume stores. Common purchase terms for furniture in the U.S. are net 30 or a 2% discount for payment within a given number of days. While 10 days is the most prevalent discount period, some manufacturers allow 15, 30 or 60 days before the discount period expires. Manufacturers appear to be more liberal with their purchase terms to eastern sector retailers. Slightly over 80% reported two percent discounts with varying discount and net periods, and only 16% stated net 30 terms were the most common: Less than two-thirds of the westerners reported that the most frequent purchase terms of U.S. manufacturers was 2%. Net 30 terms were more prevalent with 32% of the western retailers, double the number of the easterners.

- s. Easterners also seem to not feel the pinch of a tightening of credit terms by U.S. manufacturers as much as their western counterparts. A little over three quarters of the western sector interviewees

reported a tightening of credit terms, and 23% stated that previous terms were the same now. Only 42% of the easterners reported any tightening, with 55% countering that they were the same as always. The previous section on purchase terms seems to lend some credibility to these reported figures. Terms can be tightened by reducing the discount percent, the discount period or the net period.

- t. During the course of the interviews, we obtained data on KD (knock-down) furniture, waterbeds and conventional mattresses. Over two-thirds of the stores in both sectors carried some KD furniture, although it was not a high-volume item. Occasional tables were the most frequent KD item mentioned, followed by wall units and rocking chairs. However, Universal Furniture Co., the Southeast Asia furniture manufacturer, is making a major thrust into the KD occasional table market. At stake is a concept that has been tried and failed for several U.S. manufacturers.

The crux of Universal's program is that only accounts willing to order in container-load quantities were accepted as dealers. A container holds 550 to 600 units depending upon style. The tables will retail for \$99 to \$199 with typical retail markups.

But the perceived value is much higher, according to seasoned buyers. Pieces in the Oriental group could go for as high as \$249 to \$299 at stores serving more affluent customers expecting a higher level of service, they say.

Thus, the question that will be answered by the Universal program is not whether they will sell because the product is a value, but whether customers will buy KD products at these higher price points from a traditional furniture store.

We were surprised to learn that 58% of the stores sold waterbeds, with hybrids being the most common in the furniture stores. (This does not necessarily mean that hybrids are the most popular waterbeds because numerous waterbed specialty stores sell full flotation beds only or in greater numbers than hybrids.) Hybrids only, were carried by 41% of the stores, and full flotation and hybrids were sold by 17% of the stores. All but two of the retailers carried conventional mattresses.

- .u. Two-thirds of the western sector stores visit the High Point and San Francisco markets (68% and 67%, respectively). In the eastern sector, 62% of the stores also attend the High Point market. The Dallas market receives a respectable share of the Northwestern U.S. stores, with 31%

visiting from the western sector and 28% from the eastern sector. Interestingly, the Seattle and Minneapolis markets do not do as well. Only 17% of the western stores attend the Seattle market, and an equally poor showing of 14% of the eastern stores visit the Minneapolis market. The relatively low attendance at the Seattle and Minneapolis markets may be even lower if it were not for some stores merely attending out of courtesy to their sales representatives and/or manufacturers.

5. Analysis of Interviews

Several of the points or factors in both groups of interviews warrant further discussion, either because of the large number of interviewees in agreement or the importance of the factor. These factors are:

Future sales of Canadian furniture
Design of Canadian furniture
Freight costs
Canadian furniture quality and service
Sales inducements
Furniture markets attended
Sales representation
Furniture style popularity
Purchase terms in U.S.

a. Future Sales of Canadian Furniture

Canadian manufacturers and Northwestern U.S. retailers were optimistic concerning the sales of Canadian furniture in the area of study. Many Canadian firms expressed a willingness to be competitive in the U.S. with their sales terms and sales inducements. With the exception of only one retailer, all interviewees were willing to consider Canadian furniture.

b. Design of Canadian Furniture

The design of Canadian furniture in comparison to U.S. designs is an extremely important point. We got the impression from our interviews with Canadian manufacturers that they were of the opinion that designs were comparable in the two countries. This similarity in design was purportedly obtained by copying U.S. designs or, in a few instances, retaining U.S. designers. The Northwestern U.S. retailers, especially the western sector, were not in agreement with the manufacturers. Almost two-thirds of the stores commenting on Canadian design stated that the designs were below U.S. standards. Although most of the favorable comments concerning designs were aimed at Contemporary, there were some complimentary remarks on Canadian design in general as listed below:

"Good, especially in Contemporary."

"Very good."

"Fine for upholstered."

"Canadian design is real fine."

"Equal to U.S. design." (2 retailers)

Unfortunately, the favorable remarks were outweighed by the not so favorable. Some of these quotes were:

"Canadian firms have a narrow emphasis."

"They lag behind the U.S. in style."

"It's lacking,"

"Canadians have a tendency to be unimaginative, especially in casegoods."

"Early American is borax, and upholstered has a bolo look."

"They lack design finesse."

"They are somewhat behind our marketplace."

"Lacks sophistication."

c. Canadian Furniture Quality

Retailers gave Canadian firms high marks on quality and service. Over three-fourths rated the quality as at least equal to the U.S., and 83% reported that service was good. Canadian manufacturers expressed pride in the quality of their products.

d. Sales inducements

While slightly over one-half of the retailers believed that Canadian sales inducements were less than those offered by U.S. manufacturers, it is far less than the 94% who responded similarly on the same subject in the Greater New York City area market study three years ago.

e. Furniture Markets Attended

Almost two-thirds of the stores represented in the market study attend the High Point furniture market. Considering the great distance from the study area, this is a very imposing statistic. We were mildly surprised to learn that the Minneapolis and Seattle markets were not better attended by more stores from the Northwestern U.S. area.

f. Sales Representation

An overwhelming majority of Canadian and U.S. furniture is purchased through sales representatives. Consequently, adequate sales representation in the U.S. is of paramount importance to the Canadian furniture manufacturer. Many retailers commented that there had been no effort to sell them Canadian furniture. Some of their comments were:

"They should have a strong rep in the area."

"We would consider Canadian furniture if any reps came by."

"They haven't developed territories."

"No one has made an effort to sell me."

"We used to purchase from _____. We stopped because they lacked reps."

"I have never been approached." (Five retailers made this exact comment.)

g. Furniture Style Popularity

There is a vast difference in style preference within the study area. When one considers the sheer size of the Northwestern U.S., the existence of different style preference is not alarming. However, it should be pointed out that there is a definite difference in style preference. The eastern sector is strongly Traditional. Although the western sector shows a preference for Contemporary, Traditional runs a close second. In addition, Transitional styling is prominently mentioned as a style preference in the west. The Canadian manufacturer should keep these area preferences in mind when their U.S. marketing plan is formulated.

h. Purchase Terms in U.S.

Although three quarters of the retailers reported that the most prevalent purchase terms included a 2% discount for payment within a given number of days, over half also stated that there was a trend toward tightening credit terms. This tightening has taken the form of reduced discount, shortened discount period or reduced

period in which the net amount of the invoice is due. In order to be competitive in the U.S. Marketplace, the Canadian exporter should keep abreast of what his U.S. competition is offering and react accordingly.

i. Freight Costs

There were numerous comments by the Northwestern U.S. retailers on the high cost of freight from their U.S. sources. Several mentioned freight costs which approached 20% of the total cost. Obviously, the cost of freight is a significant item of total cost and the retailers are concerned about it. The Canadian manufacturer should make every effort to capitalize on any freight cost advantage in presentations to U.S. customers. This could include consolidating shipments between manufacturers from the same general shipping area when full truck loads are not feasible.

B. Canadian Manufacturers--Strengths and Weaknesses

Canadian manufacturers can deal with the U.S. market from a point of strength in some areas. In other areas, improvement is needed to be successful in increasing their penetration of the U.S. marketplace.

1. Strengths

a. Contemporary Furniture

Canadian Contemporary designs appear to be fairly well accepted in the U.S., as indicated by the comments of several retailers. Significant quotes by Northwestern U.S. retailers were:

"Contemporary furniture has a distinctive look."

"Contemporary is very good."

"They are especially good in Contemporary."

"Contemporary designs are the same as U.S."

b. Exclusivity

Many U.S. retailers in the Northwestern U.S. stated that some degree of exclusivity was extremely important to them. They did not want the same furniture of a given manufacturer flooding their retailing area. The reasons for this desire for exclusivity are understandable. Each retailer strives to offer some merchandise that is fresh and different, and it is advantageous to the retailer if the customer cannot comparison shop the same furniture in other retail establishments. The Canadian furniture manufacturer is in a good position to exploit this desire by the retailer. Current penetration into the Northwestern market has not been extensive, and smaller Canadian firms are more flexible than larger U.S. furniture manufacturers.

c. Collaborative Design

Collaborative designs between the manufacturer and the retailer are of interest to the retailer for the same reasons enumerated above on exclusivity.

d. Dollar Valuation

The stronger position of the U.S. dollar at the present time in relation to the Canadian dollar makes it an opportune time for the Canadian company to make significant inroads into the U.S. marketplace.

Despite the added costs of U.S. tariffs, brokerage fees and additional administrative costs, exporting is more attractive now than at any time in recent history. The Canadian manufacturer should take full advantage of the dollar valuation differential.

e. Freight Costs

As mentioned earlier, the cost of freight is a major concern of the U.S. retailer. This is especially true in the Northwestern U.S., a location distant from the Southeastern U.S. furniture manufacturing center. Many Canadian firms are closer to some of the cities in the Northwestern U.S. study area and, consequently, have a lower freight cost to those cities. Another advantage of closer proximity to the retailer is better service resulting from the shorter in-transit time.

2. Weaknesses

a. Design

Although some Canadian firms have Traditional designs which are acceptable in the U.S. marketplace, the retailers with whom we talked stated that, in general, Canadian Traditional styling needs to be improved. Some items that are big sellers in the Canadian market do not conform to U.S. tastes. The U.S. consumers, while they do not necessarily have impeccable taste, do know what they want. If the Canadian Traditional furniture manufacturer is going to satisfy their taste, he must design accordingly.

b. Marketing Plan

In order to successfully enter a new market, a sound marketing plan is required. This is especially true of the U.S., where the manufacturers are sophisticated in their marketing approach. According to the retailers interviewed, Canadian firms as a whole have not done their homework. Marketing plans or marketing strategy have not been well formulated. Some of the factors that have to be considered in the development of a sound marketing plan are:

1. Size of potential sales area
2. Method of selling
3. Sales inducements

4. Pricing
5. Service level
6. Showing product

Because of the importance of this subject, it will be dealt with in more detail in the next section of this report.

C. The Marketing Plan

We mentioned the importance of a well-formulated marketing plan in the previous section. In this section, we will discuss some of the more important elements in the plan.

1. Size of Sales Area

The Northwestern U.S. covers a wide area and includes numerous furniture retailers. One of the first steps in formulating a marketing plan is to decide on the size of the sales area targeted for exports. Too large an area will result in inadequate coverage and poor service. This will cause disgruntled customers and, most likely, they will become former customers. Too small an area will not serve to maximize the benefits to be derived from exporting. A balance between the two sizes is difficult to fully achieve, but the time spent in this endeavor can be well worth the effort. If one is to err in the selection of the size of the sales area, it is best to be in the "too small" direction. It is an easier task to expand

the targeted sales area than to "mend the fences" in an overly ambitious sales area and seriously jeopardize the export program.

2. Method of Selling

There are many methods of selling to the targeted areas. Some of the methods are:

- Direct accounts
- Company salesmen
- Exclusive sales representatives
- Distributors
- Multi-line sales representatives
- A combination of any of the above

As stated earlier, an overwhelming majority of all furniture buying in the U.S. is through sales representatives. It is unlikely that many Canadian furniture manufacturers could justify or support exclusive sales representatives or company salesmen. However, a multi-line sales representative can be an excellent alternative.

The present-day furniture sales representative is asked to do a lot. A recent editorial in "Furniture/Today" stated that, "Perhaps no other group of professionals in the furniture industry is so caught up in the path of change. Going from hard driving order-taker to marketing expert is not an easy transition." A sales representative today is expected to

"service the line," which includes recommendations for warehouse stock, floor samples, fabric selection, and sometimes even interior design and customer service. Strong sales representatives are essential if the U.S. market is to be penetrated significantly by Canadian manufacturers.

3. Sales Inducements

Inducements by U.S. furniture manufacturers take many forms, are known by different names and sometimes are not obvious to the casual observer.

A manufacturer must always keep in mind that many inducements are directly related to prices and, therefore, are subject to the Robinson-Patman Act of 1936, i.e. all retailers must be treated equally. This is a matter of great importance and it is recommended that each manufacturer consult with a qualified attorney to be sure that his inducement plans fall within the law.

Inducements to retailers are usually limited to the following:

- a. Advertising
- b. Extended credit
- c. Volume discount
- d. Freight allowances
- e. Promotions
- f. Cash discounts
- g. Non-Monetary Inducements

These will be discussed along with some others that do not relate to the selling price and yet have proved to be very effective for some U.S. manufacturers.

a. Advertising

- (1). Cooperative Advertising. The manufacturer determines the plan. The media usually provides advertising slicks, radio and television scripts, newspaper and magazine supplements. The retailer should be required to submit tear sheets, copies of invoices and a report of media used and the exposure provided.

The manufacturer customarily pays one half of the advertising cost. The advertising is more effective when tied in with some kind of an event such as 4th of July, Mother's Day, Father's Day, Christmas, etc.

Cooperative advertising is a very common activity and can usually be avoided only by fairly large manufacturers who prefer to spend their advertising dollars in national brand name advertising, publicity and other sales aids.

- (2). Most manufacturers who do not have cooperative advertising programs still provide advertising materials to their retailers.

b. Extended Credit

This is often referred to as "dating." Payment for merchandise is due on the date of the invoice which is usually the date of shipment. As an inducement for sales, a manufacturer might elect to post-date his invoices to a later date, 30 or 60 days, which means that cash payment is due 30 or 60 days later than normal. Normal discount terms would also be effective on the later invoice date.

c. Volume Discounts

Some manufacturers establish different prices depending upon the number of pieces ordered. One small chair manufacturer is known to sell 1 to 24 chairs at a price of \$67.50 per chair. Any quantity over 24 is sold at a price of \$62.50 per chair. Some larger manufacturers offer price reductions in carload or truck load lots.

d. Freight Allowances

Making allowances for freight costs are not common practice because of the great difficulty in treating all retailers equally. Another problem is the common practice of shipping f.o.b. manufacturer. Freight allowances could be handled more easily by manufacturers who ship by their own trucks and collect freight costs from the retailer. Where this is done, the manufacturer could provide an inducement by charging less than the normal freight rates. Some manufacturers actually pre-pay freight but usually just during a promotion.

e. Promotions

It is common practice for manufacturers to sponsor sales promotions for their merchandise. These take the form of a discount from list prices to the retailer, usually 10% or 15% which the retailer is required to pass along to the consumer. There are usually other requirements which include, beginning on a particular date, purchasing a pre-determined number of pieces or suites, and terminating on a particular date.

Promotions are usually planned for late summer and fall and are tied to special occasions such as holidays or special local events such as festivals.

f. Cash Discounts

It is common practice to allow a discount to retailers for paying cash within a certain period of time. The terms most commonly used are 2%-10 net 30 with a penalty charge of 1-1/2% after the 30 day period.

Offering extended credit terms such as 2%-30 net 60 is probably the easiest, quickest way to offer an inducement to the retailer. It does have the disadvantage of not being tied to certain furniture with a known mark-up and may not be an encouragement to the retailer to sell more of that manufacturer's furniture.

g. Non-Monetary Inducements

(1) Warranties

An increasing number of manufacturers are getting away from the traditional "warranty against defective workmanship for 1-year" to something more liberal. One is known to offer a 24-month guarantee of freedom from defects in workmanship, material and construction.

One manufacturer of country-type Early American furniture is offering an unbelievable 20-year guarantee. One prominent retailer interviewed in the midwest was impressed with an unusual warranty by a Canadian manufacturer who had a patented loose cushion with a 10-year warranty against deterioration. They also had a 5-year wear warranty on all Draylon fabrics.

(2) Sales Education

Some very successful U.S. manufacturers provide sales and product training for retail floor salespeople. This is done on the retail floor, and at the factory, with lectures and plant and show room tours. Several companies use video cameras for sales training with simulated sales and critiques of playbacks. One provides KD furniture for assembly at the retail store to demonstrate construction and quality techniques.

Exhibit XIII is a survey of U.S. manufacturers and lists expenditures for Selling Expenses as a percent of Net Sales. It is interesting to note the amount of the sales dollar spent on what we have considered as inducements.

-Advertising Consumer	.45
-Advertising Dealer Aids	.63
-Advertising Agency Fees	.21
-Advertising Cooperative	.63
-Promotional Expenses	.23
-Delivery Allowances & Subsidies	<u>.06</u>
	2.21

A total of 2.21% of the sales dollar is expended for inducements with cooperative advertising and dealer aids heading the list.

4. Pricing

Pricing is indeed a complex matter, made more complex because retail sales must meet certain "price points." A manufacturer can do many things, but he must not jeopardize the retailer's profit margin or ability to maintain that magic price point at retail. An effective method by which the Canadian manufacturer can enter the U.S. market is to present a correctly styled, high quality product at a lower price than the competition. Although many retailers are reluctant to admit it, price is often the name of the game. The U.S. retailer must be convinced that Canadian firms have something to offer over U.S. furniture. Once a foothold has been established in the U.S. market, the Canadian firm can revert to more profitable pricing policies. New introductions and reasonable periodic price escalations are the methods by which prices are most frequently adjusted upward.

5. Service Level

The level of service provided by a supplier is of primary importance to the retailer. Will the order arrive on time? Will equitable adjustments be made by the factory on occasional defects or customer complaints? Will claims be handled expeditiously? Will the sales representative provide assistance in the area of customer service? Affirmative answers to all of these questions is what the retailer wants, and the manufacturer who can by example answer yes to them is the one who gets a lion's share of the repeat business. Perhaps the most

important single question pertains to delivery. Rapid delivery, low freight costs, on-time delivery and undamaged merchandise is the dream of every retailer. The closer that a manufacturer can come to fulfilling this dream, the closer he is to obtaining the initial and repeat orders.

6. Showing Product

Few people would buy a horse without seeing it, and the same applies to furniture. Retailers will not buy furniture without seeing it. Even the best sales catalog pales in comparison to actual touching and seeing the product. Markets and plant visits are means by which the retailer can see the product. The most effective way to display the product is at the High Point furniture market. Comments from both retailers and Canadian manufacturers during our interviews attest to the tremendous exposure provided at High Point. Quite a few Canadian manufacturers currently exhibit there, or are considering showing there in the near future.

We realize that the cost of High Point market space may be prohibitive for many Canadian firms, and they require an alternative to what the U.S. manufacturers and retailers regard as "the market." Regional markets in Seattle and Minneapolis, although not nearly as well attended as High Point, do provide a place where retailers can see the product. Canadian furniture markets and factory visits are also alternatives to a High Point showing. In order to minimize no-shows at Canadian

markets and plant visits, we suggest that the Canadian manufacturers absorb the cost of transportation and living expenses for invited U.S. retailers. However, if some Canadian manufacturers choose to use the major market approach, they should prepare themselves for a long-term investment. It has been the experience of many manufacturers, that a 3 to 4 year effort is not uncommon. A quick fix is seldom achievable.

D. Chain Furniture Retailers

1. National Chains

National chains centralize their product approval to buy or the actual buying itself at one location, usually the corporate headquarters. While the numerous outlets located throughout the U.S. may in some instances place occasional orders where the product has been previously approved for purchase, these outlets do not have the latitude to select new merchandise and order it. Some of the centralized product approval and/or buying locations for several giant retailers are:

Sears--Chicago

J. C. Penney--New York

Levitz--Los Angeles

There are no national chain corporate headquarters located in the Northwestern U.S. study area.

Canadian furniture manufacturers, especially the smaller firms, should carefully evaluate their capability to service a national chain before embarking on a program to sell this high-volume purchaser. National chains frequently require large quantities of a particular furniture item in a relatively short delivery time span. Also, special packaging and almost simultaneous delivery at many different retail locations are prerequisites for a lasting business relationship. Those manufacturers who do not comply with the rather rigid requirements of the national chain are in jeopardy of losing the account. However, in reality, firms that do not appear to have the capability and resources to adequately service the account, never secure a place on the approved list of suppliers.

2. Smaller Chains

For the most part, smaller chains function much like their larger national-chain-brothers. Purchasing is centralized and the service requirements are similar to those enumerated above for the national chains. Of course, the magnitude of the delivery problem is lessened by two factors. The geographic area served by a given smaller chain is significantly less than the entire U.S. and there are fewer retail outlets in total. Among the smaller chains located in the Northwestern U.S. are:

- Self Service Furniture, Inc., Spokane, Washington
- The Bon, Seattle, Washington
- Grantree Corporation, Portland, Oregon
- Dayton's, Minneapolis, Minnesota

E. Trends in the Marketplace

A study of the potential for sales of Canadian furniture in the United States must consider the requirements for making the initial sale, getting repeat business, and possible retaliation in some form by U.S. manufacturers. Our surveys of retailers have revealed that they would buy from Canadian manufacturers, but would expect comparable styles and a slightly superior value than U.S. manufacturers are offering. Current furniture news and literature indicates some of the conditions facing U.S. furniture manufacturers today and should be of interest to Canadian firms in planning their export strategies.

1. Retailers/Manufacturer Relationships

The most successful U.S. furniture manufacturers work very closely with their major retailers in developing new furniture introductions and often receive commitments from the retailers even before the markets begin. Some manufacturers have formed a Retailer Advisory Committee of about 12 knowledgeable, highly respected retailers. Each of the 12

is represented by the president, owner, or buyer. Shortly after each furniture market the company invites these committee members to the factory, at the company's expense, where they examine prototypes, new finishes, and share ideas about styles and consumer preferences. A retailer who participates in the creation of a new group can assure its success in the marketplace. A working relationship of trust and respect is of utmost importance in getting retail floor space.

Since this approach requires that a manufacturer have considerable resources at its disposal, we suggest a different strategy for the average Canadian manufacturer. Quebec, Ontario, and Western Canada have active furniture associations. Perhaps the associations could assume the role now played by some large U.S. manufacturers and promote and foster the committee(s) mentioned above for their respective regions.

2. Style

The last High Point, NC Furniture Market (April 1984) revealed that in casegoods, Traditional and Transitional styles are still very strong, but are being challenged by more and more Contemporary groups. Contemporary bedroom and dining room ranged from clean, straight-line designs

to the bold look of modern glossy lacquer (the wet-look). Some embellishments were rattan and veneers of yew, walnut, and teak. The new high-gloss lacquer finishes are now considered a sub-category of Contemporary which is appearing in a new variety of colors.

The new term, Casual Contemporary, refers to upholstery with fabric colors that are vivid and clear with new shades of blue, green and red.

Whatever it is called, Contemporary made a strong showing in both casegoods and upholstery at the Market. One must always realize, however, that styles sold at the retail level depend to a great extent upon the section of the country and are not necessarily in step with what is shown at the furniture markets. We should also add that there can be significant differences among stores within a city. For example, in one city our interviewers found one retailer located near a State University who sold primarily Contemporary furniture. Another, on the opposite side of the same city, in an affluent, aging residential area was selling mainly Traditional styles.

3. Finishes and Fabrics

In any consideration of U.S. finishes and fabrics, one must be aware of a vital and significant role played by the finishing material manufacturers and fabric mills. Generally, basic trends emerge in finishings and fabrics and fluctuations and changes within these trends occur rather slowly but significantly at each market.

The major finishing material suppliers have service men who work very closely with their accounts and assist them in developing new finishes for the upcoming market. Quite often these service men are prepared to present a completely developed finish with the expectations of supplying the finishing materials. A few of the larger furniture manufacturers can afford their own laboratories and finishing specialists. These finish service men from the suppliers are especially important to the smaller furniture manufacturer who has neither the facilities nor the expertise to develop complicated competitive finishes on their own. These service men exert a considerable influence on the finishes at each furniture market.



These are expensive, time-consuming procedures for the furniture manufacturers and the suppliers of finishing material and fabrics. It is unlikely that the same methods would be effective for the small, widely dispersed Canadian manufacturers. It is conceivable, however, that the associations which represent the Canadian manufacturers could sponsor exhibits in Canada in advance of the major furniture markets. Finishing materials suppliers and fabric mills could present their new finishes and fabrics and Canadian furniture manufacturers could have a more convenient and inexpensive way to keep abreast of the U.S. markets.

All this may sound as though this great to do about styles, finishes, and fabrics is somewhat overdone. However, any furniture manufacturer that wishes to enter the U.S. market must clearly understand that at most retail levels, furniture is considered a fashion item--and what sells the product initially is style and finish and/or fabric. What species of wood you use in your frames, or how many glue blocks you have in your drawer bottoms, while important in the long run, are secondary considerations.

One major U.S. manufacturer who is neither avant-garde, nor highly conservative, determines its style direction from the following sources:

- Consumer inquiries, dealer's suggestions, field selling teams;
- Home furnishings magazines, domestic and foreign;
- Competitor's products;
- Fashion trends in ladies' clothing fashions, bedding, domestics, china, silver, color trends, etc.;
- Extensive travel to various U.S. and European markets, antique centers, retail furniture stores, showrooms, etc.

4. Business Conditions

Everyone seems to be predicting a strong recovery of the furniture industry, tied directly to an increase in housing starts. That, indeed, has happened with a very strong spring sales level. One must remember, however, the fickle nature of the consumer. Recent increases in mortgage interest rates from 14.12% to 14.34% and a 10.5% decrease in housing starts seem to have already influenced the consumer. The unofficial result seems to have to be a slight down-turn in furniture purchases at the retail level. Those "in the know," however, tell us that aberrations can be expected and that the recovery will pick up steam again. Jerry Epperson, furniture analyst for Wheat, First Securities, Inc. says that very little furniture is purchased when a family moves into a new house. This occurs because most family's are confronted with a myriad of extra costs when moving to a new house. Usually the down payment is formidable in

itself, to say nothing of moving expenses, closing costs, utility deposits, etc. Little remains for furniture purchases in these early stages.

"The brisk housing demand of 1983 should translate into very favorable demands for furnishings this year," he said. This is the traditional pattern for furniture sales. The lag between housing starts and furniture sales is usually 6 to 9 months. "In addition, there is a significant amount of deferred demand left over from an extremely lengthy recession," Epperson said.

The American Furniture Manufacturers Association has predicted that the United States shipments of furniture at wholesale prices will increase from \$11.38 billion in 1983 to \$13.08 billion in 1984, an increase of 14.9%. In 1985 it is expected to increase again by 10.4% reaching a total of \$14.4 billion. Upholstery shipments make up about one-third of this total. While most official statistics, both Canadian and U.S., indicate that upholstery sales are more or less consistently about one-third of total furniture sales, retailer interviews project a different pattern. Under "Summary of Interviews," earlier in this report, retailers indicated that their sales mix was comprised of 55% upholstered furniture. Although we have been unable to account for this apparent discrepancy, the reader should be aware that the discrepancy does exist. Our best explanation of

the apparent contradiction in statistics is that it is more one of dealer perception than hard facts.

F. The Import Controversy

The U.S. furniture industry has become increasingly concerned at the flow of imports into the country, primarily from the Far East, but they are well aware that next to Taiwan, Canada is No. 2 on the list. At an annual rate for 1984, the dominant country shipping into the U.S. was Taiwan, with \$135.75 million. Canada's No. 2 position was at \$80.01 million. It is interesting to note that almost all retailers interviewed stated that they were not opposed to buying Canadian furniture.

Imports now claim over 10% of the total U.S. furniture market and are heading for a \$2 billion mark. In the wooden dining room and occasional area, it is estimated that the imports have captured 25-30% of that business. All of this has happened while exports of U.S. furniture declined by 8% in 1983. Chuck McKee, a writer for Furniture/Today says, "Observers within the furniture industry have suggested the severely negative import/export trade balance is due not only to the strength of the U.S. dollar which makes U.S. goods less attractive overseas - but to the inclination of U.S. manufacturers to concentrate on the domestic market during the economic expansion and consider the export market only during lean times."

Furniture manufacturers have mixed feelings on how they should respond to this invasion of their turf. Many are attempting to reduce their own costs by importing finished and unfinished parts and occasional furniture from some of the same overseas competitors. Recognizing the non-protectionist stance of the present U.S. administration, it appears unlikely that increased tariffs will be used to aid U.S. furniture manufacturers. It is possible that at some time import quotas may be established that will offer some relief, a relief that will come too late for some companies. There is a continuing effort in Washington calling for some kind of a deal with the Canadian Government to equalize furniture trade barriers between the two countries. Canada's exports into the U.S. have increased by 64% in the first quarter of 1984 over the same period in 1983. This is due partly to a lower U.S. tariff on Canadian imports and a differential in the value of the Canadian/U.S. dollars.

While Southeast Asian countries have made great inroads into the U.S. Market, they are trying to penetrate the Canadian market as well. Some of the same tactics are being employed. For example, furniture from Southeast Asia is produced KD and completely finished. It is shipped in cartons to strategically located assembly and distribution centers (usually major cities). From these centers it finds its way to the retailer.

G. Upholstery Flammability

Since 1973 the U.S. upholstery manufacturers have been represented by the Upholstered Furniture Action Council (UFAC) in all matters pertaining to upholstery flammability. UFAC has developed a voluntary program which has provided the consumer with products less likely to ignite from smoldering cigarettes. The Consumer Products Safety Commission, the federal agency having jurisdiction over upholstered furniture, has accepted the industry's voluntary program.

Recent information released by Canada's Consumer and Corporate Affairs Products Safety Branch reveals that there are flammability investigations underway in Canada. One of the considerations undoubtedly will be the British flammability program which would be far more restrictive than the UFAC program and probably no more effective. UFAC has also expressed an interest in assisting in the development of such an independent voluntary Canadian program. Interested manufacturers should discuss the matter with their own Canadian manufacturing associations and appropriate government agencies.

Some of the U.S. retail firms rely upon the added measure of safety designated by the UFAC hang tag on a piece of upholstered furniture. This could prove to be a detriment to manufacturers

who are not able to indicate compliance with flammability guidelines. The city of Boston and the entire state of California have specific flammability requirements in addition to the UFAC voluntary program. These requirements take the form of a detailed flammability standard to which all upholstered furniture sold in the area must comply. Fortunately, most of the U.S. has not resorted to these extreme measures to protect the consumer.

H. Statistical Analyses

As stated earlier in the study, a significant portion of time was spent on the statistical analyses of the study area. Although we do not want to inundate the reader with a myriad of statistics, we do want to present sufficient statistical data which is meaningful to the Canadian manufacturer and, at the same time, beneficial to the exporting endeavor. The three analyses below -- demographics, competition and share of market -- should be of particular interest to Canadian firms.

1. Demographics

After an evaluation of numerous statistical categories on which data was available, we selected the factors that most closely conformed to the criteria stated above. Exhibit VII shows statistics on the following categories:

- a. Metropolitan Areas are sometimes more than one city as designated on the report. All data are based on the area listed or their corresponding states.

- b. Population Total
The total population for the study area is 7.6 million. It is almost evenly divided between the western and eastern sectors with 50.2% of the total in the west and 49.8% of the total in the east.

- c. Average Annual Change %
The change for the entire area is a plus 1.5% which is a higher rate of growth than the U.S. average of 1.1%. However, the western sector is growing at a healthy rate of 2.0% while the eastern sector is slightly less than the national average at 1.0%.

- d. The % Population 25-55 Years of Age
This is the segment of the population that is the focal point of the Market Study. Of this group, the larger percentage is comprised of 25-35 young married couples and families. The western sector leads the eastern sector with 39.5% of its population in this age group to 37.4% for the east.

- e. Household Totals (1000)
This is a 1980 count of the total number of households in the study area which total over 2.5 million. It is

interesting to note that the western sector has 57.3% of this total to 42.7% for the east.

f. Female Households

The total for the study is 248,000 households. The division between west and east is relatively even with 51.1% of the total for the west and 48.9% for the east.

g. Persons Per Household

We found no statistical difference between west and east as to the number of persons per household -- both sectors averaged 2.6.

h. New Housing Totals

This reflects the actual number of new building permits issued for the study area. While the total for the area was 53,532, a hefty 58.9% were issued to the western sector with 41.1% going to the eastern sector.

i. % In 1-Unit Structures

The new housing total for 1-unit structures amounted to 57.0% for the entire study area. There was a considerable difference between west and east in that 52.0% of new homes in the west were single-unit dwellings as compared to 64.1% for the east.

j. % In 5-Unit Structures

The difference between west and east was even more pronounced in 5-unit structures than in 1-unit structures. While the average for the entire study area was 39.8% of the housing total, the western sector accounted for 51.6% of the total to 22.5% for the east.

These statistics raise some interesting points regarding potential furniture sales. Because floor space is usually at a premium in apartments, condos, and similar structures, which make up the bulk of 5-unit structures, many furniture manufacturers have readied themselves for this particular market. Standard sizes in both casegoods and upholstered furniture have been reduced to accommodate these smaller surroundings. Many furniture companies now refer to producing a piece of furniture as to either the "big way" or the "small way."

k. Valuation (Million Dollars)

The total valuation of the study area was \$1,418.9 million. Again the western sector leads the east by a substantial margin with 55.2% of the total for the west and 44.8% for the east.

l. Home Furnishings Sales (Million Dollars)

Total sales of home furnishings for the study area amounted to \$1,404.9 million. Again, the west leads the east with

53.7% of the total to 46.3% for the east. This is understandable as the west has consistently led in all the categories such as number of households, new housing totals, and housing valuation that would contribute to the west's lead in sales.

m. Income Per Capita

Total average income per capita for the study area is \$9175. Based on the statistics we have seen so far, one would conclude that the western sector would have a substantial edge over the eastern sector. In reality, there is less than a \$100 difference between the two, with the east leading at \$9207 to \$9139 for the west.

Also, per capita income is not necessarily indicative of the sales potential in a given area. For example, Omaha has a per capita income of \$8,510 but retail home furnishings sales of \$218 per capita. On the other hand, Minneapolis has a per capita income of \$10,025 with sales of \$158 per capita.

2. Furniture Manufacturing Plants In Study Area

a. Wood Furniture Plants

The total study area accounted for 16 wood furniture plants with a combined sales volume of \$115.8 million. Exhibit VIII gives the location and size of these plants with the western sector accounting for 11 plants and

the eastern sector for 5 plants. All of the plants had less than 250 employees with the exception of one plant in the east.

Because of the relatively small size of most of the plants, their sales distribution is mainly on a regional basis. Exhibit X gives the sales volumes and market shares as a % of the total U.S. market and as a % of the regional market.

b. Upholstered Furniture Plants

The total study area accounted for 22 upholstered furniture plants with a combined sales volume of \$136.8 million. Exhibit IX gives the location and size of these plants with the western sector accounting for 13 plants and the eastern sector for 9 plants. All the plants had less than 250 employees with the exception of Flexsteel Industries in Dubuque, Iowa with employment in the 500-999 range and sales of \$24 million.

With the exception of Flexsteel, as indicated in Exhibit X, sales distribution of most of the plants listed, is on a regional basis because of their relatively low volumes.

The sales breakdown by sector is \$55.4 million in wood furniture for the west and \$60.4 million for the east. For upholstered furniture, it is \$41.4 million for the west and \$95.4 million for the east.

3. Furniture Sales in Study Area

If furniture sales are extracted from the "Home Furnishings" data, we find that total sales for the study area approximate \$670 million. Of this total, about \$411 million is in casegoods and the remaining \$259 million in upholstered furniture. The western sector accounts for about \$328 million in casegoods and \$201 million in upholstered furniture. Comparable figures for the east are \$342 million and \$210 million respectively.

4. Furniture Supplied to Study Area

Item number 2 above, detailed the furniture sales by regional manufacturers in the study area. These sales amounted to \$252.6 million. Comparing this figure to sales for the total area, we find there is a shortfall in the area of \$417.4 million (\$670 mm-\$252.6 mm). Obviously, this volume must be supplied by manufacturers outside the area. Of this \$417.4 million, \$256 million is in casegoods and \$162 million is in upholstered furniture.

An analysis of suppliers to the area shows a good representation of manufacturers from Bassett on the lower end of the scale to Baker on the higher end with such firms as Broyhill, Singer, Pennsylvania House, Ethan Allen, and Drexel-Heritage in between. All of these companies supply both casegoods and upholstered furniture.

However, as we get into the western sector, a little more of the California manufacturers influence becomes apparent, particularly in upholstered furniture. Upholstered furniture has much more weight and bulk per dollar of value than casegoods, therefore, freight costs become a limiting factor in sales much before their counterparts in casegoods.

A look at manufacturing statistics for 1982*, the latest year for which they are available, indicate that California is fast becoming a leading producer of furniture. For example, the leading states in value of total casegoods shipments were North Carolina (\$1.44 billion), Virginia (\$625 million), California (\$619 million), and Tennessee (\$221 million). The leading upholstered furniture producing state was North Carolina, which accounted for \$1.17 billion of the \$3.55 billion U.S. total. Next was Mississippi with \$537 million, California with \$387 million, and Tennessee with \$307 million. Therefore, it is safe to assume that California should become an increasingly prominent supplier to the Western market and the entire U.S. as well. However, with the bulk of furniture manufacturing in the U.S. still concentrated in the Southeast, (you can't get much further away from the Northwest) it appears that the western-Canadian furniture manufacturer could take distinct advantage of the freight differentials between the two areas.

*Source: U.S. Census Bureau's Census of Manufacturers. 1982.

5. Furniture Retailers In Study Area

As we mentioned earlier, there is about \$670 million in sales in the study area. Of this amount, about \$90 million is supplied by major department stores, not including the giants such as Sears and Penney's. They are listed below and ranked by sales:

The Bon, Seattle	\$28 million	16 stores
Dayton's, Minneapolis	\$26.5 million	6 stores
Meier & Frank, Portland	\$12.9 million	6 stores
Frederick & Nelson, Seattle	\$12.5 million	9 stores
Younkers, Des Moines	<u>\$10.2 million</u>	<u>4 stores</u>
Total	\$90.1 million	41 stores

Source: Furniture/Today June 1984.

The giant furniture retailers such as Sears, Penney's and Levitz account for about \$200 million in sales in the study area while the smaller department stores (under \$10 million), in the Grantree category, account for about \$45 million in sales. All of these sales total to \$335 million. If we remember our shortfall of \$417 million that must be supplied to the area, we can attribute the remaining sales of \$82 million to the independent dealer ($\$417 - \$335 = \$82$).

In summary, it appears that there is ample sales opportunity in the study area for any type account which the Canadian furniture manufacturer wishes to serve.

I. U.S. Tariffs

Exhibit XI is an explanation of the U.S. tariffs on residential furniture and parts. Also listed are the current rates of duty, as well as the rates in effect each year 1985-1989. Since the exhibit is self-explanatory, we will not elaborate further at this point.

However, if export problems are to be kept to a minimum, it is wise to retain the services of an experienced broker. In addition, all necessary forms and documents should be completed carefully and accurately with no brokerage fees or tariffs passed on to the customer.

One final point -- all furniture shipped to the U.S. must be identified with its country of origin.

IV. CONCLUSIONS

The Northwestern U.S. covers a vast area, much of which is sparsely populated. As far as Canadian furniture sales are concerned, this area is relatively untapped. A few manufacturers have made inroads in the Northwestern U.S., including some firms from Eastern Canada. However, in reality, only the surface has been scratched.

If the Canadian manufacturers are to be successful in this market, they will have to make a concerted effort to acquaint the U.S. retailers with the attributes of Canadian furniture. The primary strengths--Contemporary furniture, price, exclusivity, collaborative design and freight cost advantages--must be pointed out to the retailers. In addition, some designs will have to be Americanized, current sales inducements should be liberalized, and effective sales representation is imperative. The development and implementation of a comprehensive market plan is an absolute necessity to successfully penetrate the Northwestern U.S. market or, for that matter, any U.S. market. As evidenced by the success enjoyed by some Canadian furniture manufacturers in the U.S., diligent effort and careful planning can bring about the desired result.

The next section of the report provides more detail on what is required to gain a greater share of the Northwestern U.S. market.

V. RECOMMENDATIONS

The amount of effort required to be expended by a Canadian firm will be dictated by the company's desired degree of penetration

into the market. While one manufacturer may want to serve the entire area, another may have less ambitious goals and strive for only a small piece of the total pie. Nevertheless, planning and some change in thinking and company policies are needed to be successful in exporting--regardless of the size of the market or the volume of the exports. Adherence to the following recommendations will enable the Canadian manufacturer to gain an increased share of the U.S. market.

A. Marketing Plan

An effective marketing plan must be formulated and implemented. Since this subject was covered in greater detail earlier in the report, it should suffice at this point to merely reemphasize the importance of the marketing plan. However, some elements of the marketing plan--sales representation, sales inducements, and showing product--are so vital to the exporting success of the Canadian manufacturer that these elements are included as separate recommendations below:

1. Sales Representation

Good sales representation is an absolute must. U.S. retailers have become accustomed to the many functions provided by a sales rep, and it is unlikely that they will buy from a firm that does not have good representation.

2. Sales Inducements

Canadian firms should review their current policies on sales

inducements to U.S. furniture retailers. Although there appears to have been some improvement in the inducements offered in the last couple of years, many U.S. retailers report that Canadian sales inducements are below those granted by U.S. manufacturers.

3. Showing Product

Before placing an order, retailers want to see the product. Therefore, Canadian manufacturers must display their products, preferably at the High Point market. If it is not economically feasible to show at High Point, then U.S. regional furniture markets, Canadian furniture markets and manufacturer plants or showrooms provide avenues for exhibiting the product. Regardless of the exhibit location, some showing is better than no showing. Along these lines an interesting comment was recently made by Gene Stumpff, president of U.S. Industries home furnishings division. "We feel the entire industry is re-evaluating the importance of regional markets because of the attrition rate of the small, independent retailer and because major retailers are focusing on fewer and more select resources." This comment was in response to a question as to why U.S. Industries will no longer show its Brookwood and Hammary lines at the regional markets in Atlanta and San Francisco.

Stumpff added, "Private showings appear to be much more cost effective and will be our direction for the future." If this greater emphasis on private showings and on major markets such as High Point and Dallas becomes an industry trend, then the regional markets may provide an increasing opportunity for the Canadian manufacturer to successfully show its wares -- particularly if the smaller retailer is the marketing target. The smaller retailer is unlikely to spend the time and money necessary to visit the major markets.

B. Design for Market

Although Canadian Contemporary designs fared better than Traditional designs with the Northwestern U.S. retailers, Canadian manufacturers should market styles in the U.S. that suite the tastes of American Consumers. This may require some separate designs for the U.S. market. For example, a Canadian manufacturer may use one or more of the following steps which are employed by a major U.S. manufacturer in introducing a new design to the marketplace.

Once a decision is made as to style direction and specific piece assignments, sketches are prepared by the design department, from which detailed drawings are made. From these drawings, samples are built and reviewed by management, design, sales representatives, and key accounts. Revisions are made, if necessary, before the final samples are approved for introduction at Market.

The finishing processes for the product (casegoods) are as important as the original design concept itself. The finish development follows the same course as a new design, in that it is tested, refined, and tested again before the approved end result is achieved. This manufacturer feels so strongly regarding the authenticity and originality of its finishes, that it employs the use of its own color studio and graphic arts department whose sole responsibility is the creation of new finishes that will complement each new design.

Upholstered furniture follows much the same development as case pieces, except, of course, that fabric selection assumes the same relative importance as finish in casegoods. If the style is Traditional, frames are contoured to the shape of the finished piece to facilitate and maintain the smoothly tailored outside. This is coupled with great care to inner construction and cushioning. If the style is contemporary, it is not avant-garde, but typifies maturity of style and proportion, keyed to simple geometric shapes and cleanness of line. Emphasis is on inviting comfort, deep seating, and thick cushioning.

C. Visits to Retailers

Executives of Canadian firms should initially visit prospective accounts to discuss the company's products, express a sincere interest in the retailer's business, and invite the retailer to attend the next showing of the firm's furniture. Follow-up visits by these company executives and/or sales representatives just prior to the showing and immediately thereafter could prove beneficial to the Canadian manufacturer.

D. Stress Attributes

Canadian manufacturers should stress the attributes of buying Canadian furniture. Among the many things that would be of interest to the U.S. retailers are: a lower price, reduced freight costs, exclusive sales arrangements, collaborative designs, superior service and improved quality. Many retailers have had little or no exposure to Canadian furniture and, consequently, know almost nothing about the advantages of purchasing from Canada.

E. Governmental Assistance

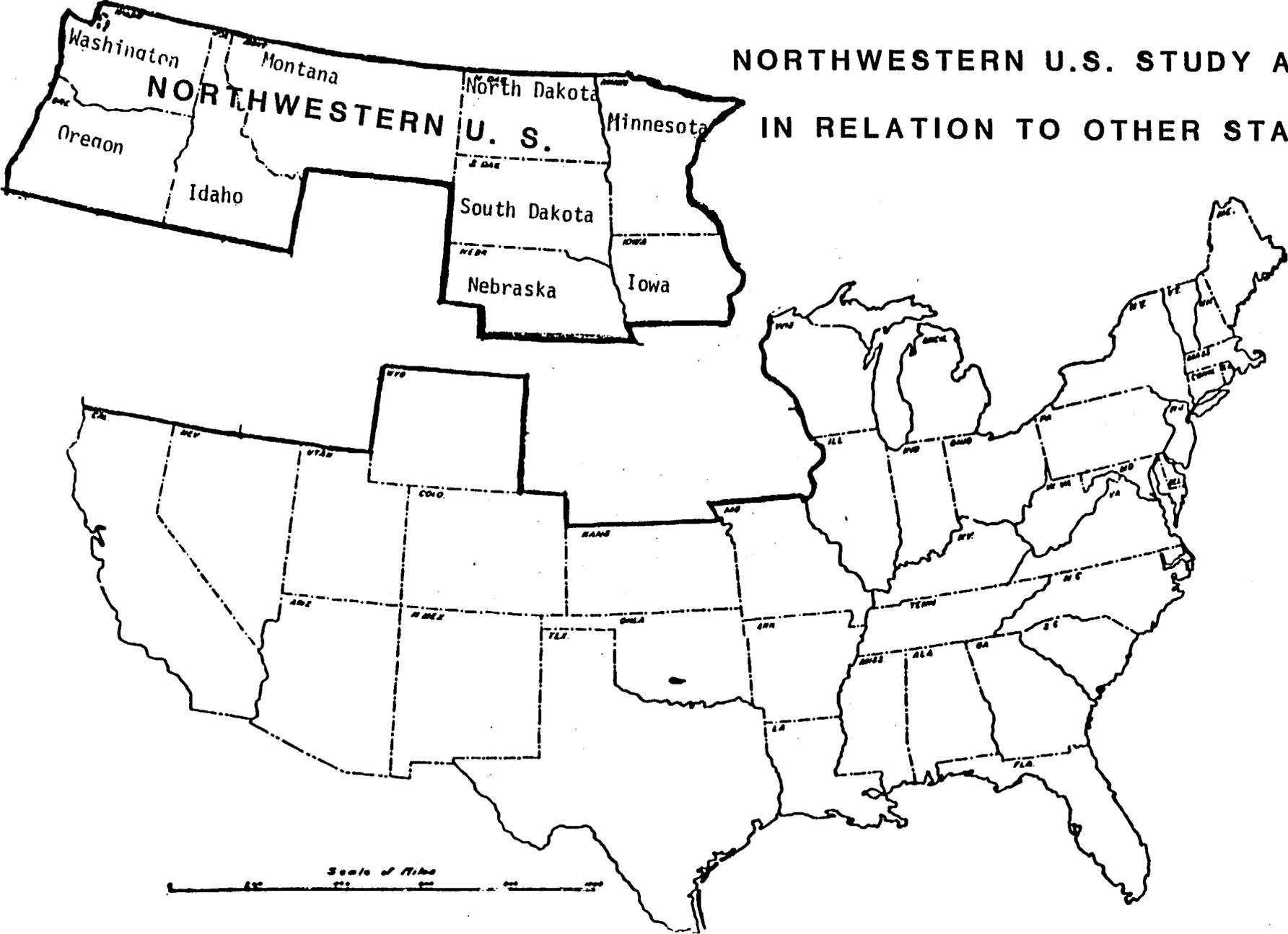
The Government of Canada actively supports the export of Canadian products. In our past projects with the Government, we at Ross Associates have been impressed with the breadth of knowledge and assistance available to industrial firms interested in exporting. Canadian manufacturers should fully utilize the wealth of information, advice and assistance that

the Canadian Government will willingly and capably provide.
There is no need for an individual firm to "re-invent the wheel"
or expend unnecessary effort when the Government may already
have the desired information readily available.

TABLE OF EXHIBITS

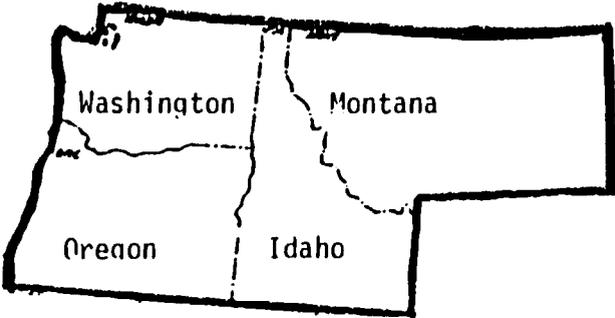
- EXHIBIT I - Map of Northwestern U.S. Study Area in Relation to Other States
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**NORTHWESTERN U.S. STUDY AREA
IN RELATION TO OTHER STATES**

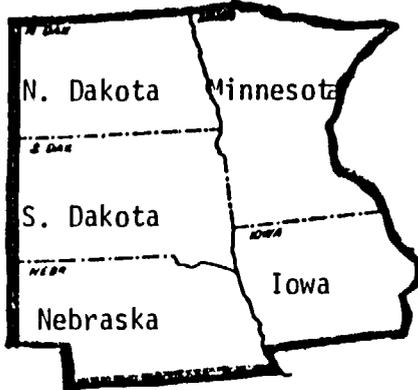


SECTOR DIVISION OF NORTHWESTERN U.S. STUDY AREA

WESTERN
SECTOR



EASTERN
SECTOR



INTERVIEW OF NORTHWESTERN U.S.

NAME: _____ DATE: _____

ADDRESS: _____

INTERVIEWEE: _____

CANADIAN FURNITURE MANUFACTURERS: _____

IF NONE, WHY AND WOULD YOU CONSIDER: _____

COMPARISON OF CANADIAN TO U.S. FURNITURE:

DESIGN: _____

PRICE: _____

QUALITY: _____

SERVICE: _____

SALES INDUCEMENTS: _____

IMPORT PROBLEMS _____

SOURCE OF CANADIAN FURNITURE PURCHASES: _____

EXPECTATIONS FOR GROWTH OR DECLINE OF CANADIAN PURCHASES: _____

ATTRIBUTES OF CANADIAN FURNITURE: _____

AREAS WHERE IMPROVEMENT DESIRED: _____

TOTAL NUMBER OF LINES CARRIED: _____

SOURCE OF U.S. FURNITURE PURCHASES: _____

APPROX. % OF SALES:

RANK OF FACTORS INFLUENCING PURCHASES:

CASEGOODS _____

PRICE: _____

SERVICE: _____

UPHOLSTERED _____

QUALITY: _____

REPUTATION OF MFGR.: _____

METAL/GLASS _____

DESIGN: _____

OTHER: _____

DINETTES _____

OTHER _____

VOIDS IN EXISTING PRODUCTS LINES: _____

OTHER IMPORTS _____

INTERVIEW WITH CANADIAN FURNITURE MANUFACTURERS

(For Market Study of Residential Furniture in
the Northwestern United States)

SALES

1. Name and location of U.S. customers.
2. Year exports commenced and current volume of exports to U.S.
3. Variation in volume of exports.
4. How product sold (sales representatives, company salesmen, corporate contacts, or distributors).
5. Growth expectation of exports to U.S.
6. Export problems encountered.
7. Limitations or restrictions imposed by company or customer.
8. Advantages and disadvantages in exporting to U.S.
9. Sales outlet preference (department stores, local furniture stores, or national chain stores).
10. Exhibit at U.S. furniture shows.

PRODUCT

1. Type and style of furniture exported.
2. Difference between Canadian and U.S. furniture (size, quality, design, etc.).
3. Primary fabric and/or finishes.
4. Use of U.S. designers.
5. Design changes in product line to accommodate U.S. market.
6. Future changes in products exported to U.S.
7. Comparison of "Returns and Allowances" -- Canada versus U.S.
8. Degree of acceptance in U.S. market.
9. Price range of products manufactured (low, medium or high).

PRICING

1. Terms of sales to U.S. importers (discount, f.o.b. points, and tariff payment).
2. Possibility of extending credit terms in future.
3. Sales inducements (quantity discounts, selling aids, freight allowances, sales promotions, advertising allowances, etc.).
4. Differential between pricing in U.S. and Canadian Market, exclusive of exportation costs.
5. Additional cost of exporting over domestic sales.

DISTRIBUTION

1. Mode of shipment.
2. Destination of shipment (retailer, distributor, or company warehouse).
3. Quality of service by carrier.

CANADIAN MANUFACTURERS INTERVIEWED BY ROSS ASSOCIATES, INC.

Agland Industries, Richmond, B.C.
Atlantic Furniture Mfg. Ltd., Vancouver, B.C.
Beechwood Chair Mfg. Co., Ltd., Calgary, Alberta
Birchwood Furniture Ltd., Calgary, Alberta
Cdn. Wood'N Things Ltd., Calgary, Alberta
Century Craft Ltd., Winnipeg, Manitoba
Dynasty Furniture Mfg. Ltd., Calgary, Alberta
Fournier Stands Mfg., Winnipeg, Manitoba
G III Limited, Winnipeg, Manitoba
Grange Mattress Co., Richmond, B.C.
Hamilton & Still Mfg. Ltd., Vancouver, B.C.
J. D. Furniture (Mfg.) Ltd., Calgary, Alberta
J. P. M. Gervais, Inc., St-Cesaire, Quebec
Magnussen Furniture, New Hamburg, Ontario
Manitoba Bedding Co. Ltd., Winnipeg, Manitoba
Meubles Carrier, Inc., Granby, Quebec
Meubles Morigeau Ltee, St-Francois, cte Montmagny, Quebec
Mobilier H.P.L. Ltee, Arthabaska, Quebec
Nadeau & Nadeau Ltee, St-Francois de Madawaska, New Brunswick
National Lamp Mfg. Co., Ltd., Winnipeg, Manitoba
Palethorpe & Dowling Ltd., Vancouver, B.C.
Sklar-Peppler Inc., Whitby, Ontario
Strathroy Furniture, Strathroy, Ontario
Tella Systems Inc., Montreal, Quebec
Troister & Co. Ltd., Downsview, Ontario
Victoria Brassworks Ltd., Concord, Ontario

EXAMPLES OF THE TYPE FURNITURE STORES
INTERVIEWED IN NORTHWESTERN U.S.

Department Stores

The Bon, Seattle, Washington
J. C. Penney Co., Portland, Oregon
Dayton's, Minneapolis, Minnesota
Miller & Paine, Lincoln, Nebraska

Multi-Store Furniture Stores

Self Service Furniture, Inc., Spokane, Washington
Grantree Corp., Portland, Oregon
Rubenstein's, Eugene, Oregon
Gevurtz Furniture Co., Tigard, Oregon
Ken's Suburban Furniture, Bellevue, Washington
Carpet-Furniture Barn, Great Falls, Montana
Anderson Furniture Co., Duluth, Minnesota
Furniture City, Fargo, North Dakota
Hansen's Furniture, Bismarck, North Dakota
Black's Casual Home Furnishings, Des Moines, Iowa
Lincoln Center Furniture, Lincoln, Nebraska
Baer's House of Quality, Sioux Falls, South Dakota

Single-Store Furniture Stores

Liberty Furniture, Spokane, Washington
Gem Furniture, Boise, Idaho
American Furniture, Great Falls, Montana

Holliday Furniture, Billings, Montana
Sigman's Furniture Galleries, Billings, Montana
Rausch Furniture's Home Center, Bismarck, North Dakota
Simon's Home Furnishings, Fargo, North Dakota
Frank's Furniture Barn, Crystal, Minnesota
Anderson's Furniture, Minneapolis, Minnesota
Gabbert's, Minneapolis, Minnesota
Carroll's Fine Furniture, St. Paul, Minnesota
Doherty Furniture, Richfield, Minnesota
Beck's, Duluth, Minnesota
Smulekoff's, Cedar Rapids, Iowa
Balster's, Marion, Iowa
Cole Furniture & Carpets, Des Moines, Iowa
Nebraska Furniture Mart,* Omaha, Nebraska
Elan, Omaha, Nebraska
Armstrong Furniture and Interiors, Lincoln, Nebraska
Spencer Furniture, Inc., Sioux Falls, South Dakota

*Extremely large store.

DEMOGRAPHICS OF THE STUDY AREA

	1	2	3	4	5	6	7	8	9	10	11	12	13	
	METROPOLITAN AREAS	Population Total	Average Annual Change % (1970-1980)	% Of Population 25-55 Yrs. Age	Households Totals (1,000)	Female House-holders (No. Husband Present)	Persons Per Household	New Housing Total	% In 1-Unit Structure	% In 5 Or More Unit Structure	Valuation (Mil. Dol.)	Retail Sales (Mil. Dol.)	Personal Income Per Capita (Dollars)	
								New Housing Authorized	Building Permits			Furniture, Home Furnishings-Equipment		
Western Sector	1	Seattle-Everett, Wash.	1,607,469	1.2	41.8	618.0	52,305	2.54	16,985	38.8	47.4	713.0	296.9	10,788
	2	Spokane, Wash.	341,835	1.7	37.2	128.4	11,793	2.58	1,370	67.4	22.4	57.9	71.3	8,485
	3	Eugene-Springfield, Oreg.	275,226	2.5	40.2	103.5	8,721	2.59	1,477	73.0	16.6	67.9	50.2	8,116
	4	Portland, Oreg.	1,242,594	2.1	40.7	477.5	42,683	2.56	9,546	64.0	24.3	417.2	251.4	10,067
	NA	Lewiston, Idaho *	27,986	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	5	Boise, Idaho	173,036	4.3	39.7	63.1	5,455	2.69	1,513	87.6	2.6	59.9	40.2	9,528
	6	Great Falls, Montana	80,696	0.1	37.8	21.3	2,395	2.66	83	78.3	21.7	4.2	17.5	8,094
Eastern Sector	7	Billings, Montana	108,035	2.1	39.3	39.9	3,194	2.66	581	56.5	34.1	14.6	26.5	8,893
	8	Bismarck, North Dakota	79,988	2.7	37.9	27.9	1,919	2.79	546	42.9	41.8	23.0	14.6	8,833
	9	Fargo, North Dakota	137,574	1.3	36.1	48.8	3,178	2.64	641	53.5	29.3	26.0	32.9	8,622
	NA	Rapid City, South Dak. *	46,492	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	10	Sioux Falls, South Dak.	109,435	1.4	35.4	42.3	3,778	2.70	1,028	72.5	25.8	29.3	22.5	8,619
	11	Minneapolis-St. Paul, MN	2,113,533	0.7	40.0	599.4	66,381	2.71	13,415	62.7	25.2	826.8	334.4	10,025
	12	Duluth, Minnesota	92,811	NA	33.6	35.4	3,461	2.51	414	20.3	NA	11.0	NA	NA
	13	Des Moines, Iowa	338,048	0.8	39.1	88.8	11,668	2.61	1,262	63.4	15.7	47.7	62.1	9,941
	14	Cedar Rapids, Iowa	169,775	0.4	38.7	44.4	4,790	2.68	822	40.5	26.6	21.9	32.9	10,037
	15	Omaha, Nebraska	569,614	0.5	38.4	146.2	20,734	2.74	2,781	82.2	8.2	59.3	124.0	8,510
16	Lincoln, Nebraska	192,884	0.8	37.5	47.6	5,390	2.52	1,068	79.6	13.3	39.2	27.5	9,072	
	Total	7,632,533			2532.5	247,849		53,532			2418.9	1404.9		
	*Eliminated at Mid-Project Review Meeting, May 11, 1984.													
	Wgt. Avg. Where Approp.	477,033	1.5	38.3	158.3	15,490	2.6	3,346	57.0	39.8	151.2	87.8	9,175	

RETAIL HOME FURNISHINGS SALES - MILLION \$ - BY STATE IN STUDY AREA

Western Sector - 49.0% of Sales

Population - 45% of Total Area

Washington - \$669 million

4.1 million

Oregon - 481 million

2.6 million

Idaho - 150 million

0.94 million

Montana - 122 million

0.70 million

\$1,422 million

8.43 million

Eastern Sector - 51.0% of Sales

Population - 54.1% of Total Area

N. Dakota - \$97 million

0.65 million

S. Dakota - 94 million

0.69 million

Nebraska - 261 million

1.6 million

Minnesota - 578 million

4.1 million

Iowa - 450 million

2.9 million

\$1,480 million

9.94 million

Total
For
Study
Area - \$1,902 million

Total
Population -18.4 million

LOCATION AND SIZE OF WOOD FURNITURE PLANTS IN THE STUDY AREA

EXHIBIT VIII

State and City	No. Of Plants With Average Employment Of--					
	20-49	50-99	100-249	250-499		
IDAHO (None)						
IOWA						
Council Bluffs		1				
MINNESOTA						
Bayport				1		
Hutchinson		1				
Richfield		1				
Winona	1					
MONTANA						
Missoula	1					
NEBRASKA						
Lincoln			1			
NORTH DAKOTA						
Valley City		1				
OREGON						
Albany		1				
Bend	1					
Portland	2		1			
SOUTH DAKOTA (None)						
WASHINGTON						
College Place			1			
Seattle	1					
Tacoma		1				
Totals	6	6	3	1	19	
Western Sector	5	4	2	0	11	
Eastern Sector	1	2	1	1	5	

LOCATION AND SIZE OF UPHOLSTERED FURNITURE PLANTS IN THE STUDY AREA

EXHIBIT IX

State and City	No. Of Plants With Average Employment Of--					
	20-49	50-99	100-249	250-499	500-999	
IDAHO						
Meridian	1					
IOWA						
Burlington	1					
Council Bluffs	1			1		
Dubuque					1	
Eldora		1				
MINNESOTA						
Minneapolis	1					
MONTANA (None)						
NEBRASKA						
Omaha		1	1			
Scottsbluff		1				
NORTH DAKOTA (None)						
OREGON						
Beaverton			1			
Canby		1				
Portland	2		2			
SOUTH DAKOTA (None)						
WASHINGTON						
Kent		1				
Seattle		1				
Tacoma		1				
Tukwila			1			
Wapato			1			
Yakima		1				
Totals	6	8	6	1	1	22
Western Sector	3	5	5	0	0	13
Eastern Sector	3	3	1	1	1	9

SHARE OF MARKET REPORT

WOOD FURNITURE PLANTS

Study Area By States	Company	Estimated 1981 Sales (Mil. Dollars)	Share of Market (% of U.S.)	Share of Market (% of Regional)
IDAHO		(2.4)	(0.5)	(2.1)
Emmett	Creative Forest Prod.	2.4	.05	2.1
IOWA		(25.2)	(.53)	(21.8)
Dubuque	Flex Steel Indust., Inc.	7.6	.16	6.6
Fort Madison	Iowa State Indust., Inc.	7.1	.15	6.2
Muscatine	Hon Industries	3.3	.07	2.9
Council Bluffs	General Wood Works Co.	2.8	.06	2.5
Anamosa	Iowa State Industries	1.4	.03	1.2
South Amana	Krauss Furniture Co.	1.2	.02	0.8
Bloomfield	Nockenwood Indust., Inc.	1.2	.02	0.8
Amana	Amana Society Furniture	1.2	.02	0.8
MINNESOTA		(20.5)	(4.2)	(17.4)
St. Louis Park	Blessing-Campbell	6.9	.14	5.8
Hutchinson	Harris Pine Mills, Inc.	2.6	.05	2.1
Fergus Falls	Lake Region Rehab. Indust.	2.4	.05	2.1
St. Paul	U. S. Bedding Co.	2.3	.05	2.1
Bayport	St. Croix Mfg. Inc.	2.3	.05	2.1
St. Paul	Westin Nielson	1.4	.03	1.2
St. Paul	Bechik Products, Inc.	1.4	.03	1.2
Winchester	McDole Ron, Inc.	1.2	.02	0.8
MONTANA		(10.8)	(.22)	(9.1)
Billings	Rocky Mountain Furn.	6.1	.13	5.4
Miles City	Eastern Montana Ind.	3.5	.07	2.9
Seeley Lake	Rustic of Lindbergh Lake	1.2	.02	0.8

SHARE OF MARKET REPORT

UPHOLSTERED FURNITURE PLANTS

Study Area By States	Company	Estimated 1981 Sales (Mil. Dollars)	Share of Market (% of U.S.)	Share of Market (% of Regional)
IDAHO		(14.2)	(.41)	(10.5)
Lewiston	Troy Lumber Co.	7.2	.21	5.4
Nampa	Home-Style Industries	7.0	.20	5.1
IOWA		(71.10)	(2.04)	(52.3)
Dubuque	Flexsteel Industries	24.0	.69	17.7
Burlington	Chittenden-Eastman Co.	10.3	.29	7.4
Muscatine	Hon Industries	8.6	.25	6.4
Council Bluffs	Charles Custom Mfg.	7.2	.21	5.4
Des Moines	Sealy of Des Moines	7.2	.21	5.4
Council Bluffs	Charles Schneider & Co.	6.4	.18	4.6
Milford	Style-Craft, Inc.	3.1	.09	2.3
Owasa	Dunlap Industries	3.1	.09	2.3
Tennant	Turner Furniture Mfg.	1.2	.03	0.8
MINNESOTA		(5.4)	(.15)	(3.8)
Minneapolis	Baker Furniture Mfg.Co.	1.4	.04	1.0
Cokato	Rich Well Furniture	1.4	.04	1.0
Minneapolis	Mitchell Mfg. Co.	1.4	.04	1.0
Minneapolis	Northwestern Upholster.	1.2	.03	0.8
MONTANA				
None				
NEBRASKA		(17.5)	(.49)	(12.7)
Omaha	Mastercraft Furn. Co.	9.3	.27	6.9
Omaha	Canar Mfg. Co.	2.9	.08	2.1
Omaha	Chardon Company	2.9	.08	2.1
Omaha	American Upholstery Co.	1.2	.03	0.8

SHARE OF MARKET REPORT

UPHOLSTERED FURNITURE PLANTS

Study Area By States	Company	Estimated 1981 Sales (Mil. Dollars)	Share of Market (% of U.S.)	Share of Market (% of Regional)
NORTH DAKOTA		(1.4)	(.04)	(1.0)
Dickinson	Ken Haags Construction	1.4	.04	1.0
OREGON		(21.9)	(.62)	(16.0)
Tualatin	Stanton Industries	8.3	.24	6.2
Beaverton	Leonetti Furn. Mfg. Co.	5.0	.14	3.6
Portland	Tempo Furniture Corp.	4.1	.12	3.1
Bend	Northwood Corp.	2.1	.06	1.5
Portland	Sealy Mattress Co.	1.2	.03	0.8
Portland	Rose City Upholstery	1.2	.03	0.8
SOUTH DAKOTA				
None		0	0	0
WASHINGTON		(5.3)	(.15)	(3.9)
SouthTacoma	Slyter Chair, Inc.	2.9	.08	2.1
Seattle	Marvin Furniture Mfg.	1.4	.04	1.0
Spokane	Horizon Furniture Mfg.	1.0	.03	0.8
Total		136.8	3.90	100.0
Western Sector		41.4	1.18	30.4
Eastern Sector		95.4	2.72	69.6

SHARE OF MARKET REPORT

WOOD FURNITURE PLANT

States of Study Area		Estimated 1981 Sales (Mil. Dollars)	Share of Market (% of U.S.)	Share of Market (% of Regional)
Pendleton, OR	Harris Pine Mills, Inc.	7.1	.15	6.2
Auburn, WA	Harris of Pendleton	7.3	.15	6.2
Dubuque, IA	Flexsteele Industries, Inc.	7.6	.16	6.6
Fort Madison, IA	Iowa State Industries	7.1	.15	6.2
St. Louis Park, MN	Blessing-Campbell	6.9	.14	5.8
Billings, MT	Rocky Mountain Furniture	6.1	.13	5.4
Bend, OR	Russ-Kerns, Inc.	6.1	.13	5.4
Lincoln, NE	Harris of Pendleton-Lincoln	6.1	.13	5.4
Miles City, MT	Eastern Montana Industries	3.5	.07	2.9
Muscatine, IA	Hon Industries	3.3	.07	2.9
Albany, NY	R. Neal & Son, Inc.	3.0	.06	2.5
Auburn, ME	Triangle Pacific Cabinet	2.9	.06	2.5
Kirkland, WA	Haroldson Industries, Inc.	2.8	.06	2.5
Council Bluff, IA	General Wood Works Co.	2.8	.06	2.5
Hutchinson, MN	Harris Pine Mills, Inc.	2.6	.05	2.1
Fergus Falls, MN	Lake Region Rehabilitation Ind.	2.4	.05	2.1
Emmett, ID	Creative Forest Products	2.4	.05	2.1
St. Paul, MN	United States Bedding Co.	2.3	.05	2.1
Bayport, MN	St. Croix Mfg. Co., Inc. (Branch)	2.3	.05	2.1
Kent, WA	Lunstead Designs, Inc.	2.2	.05	2.1
Seattle, WA	Blaser Die Casting	2.1	.04	1.7
Sioux Falls, SD	Starmark	2.0	.04	1.7
Forest Grove, OR	Marbles Cabinet Shop	2.0	.04	1.7
Valley City, ND	Arkota Industries	1.4	.03	1.2

SHARE OF MARKET REPORT
WOOD FURNITURE PLANT

States of Study Area	Company	Estimated 1981 Sales (Mil. Dollars)	Share of Market (% of U.S.)	Share of Market (% of Regional)
Arlington, WA	Modern Furniture Mfgs.	1.4	.03	1.2
Tacoma, WA	Dalkey, Inc.	1.4	.03	1.2
St. Paul, MN	Westin Nielson Corp	1.4	.03	1.2
Anamosa, IA	Iowa State Industries	1.4	.03	1.2
Omaha, NE	Fox Custom Cabinets	1.4	.03	1.2
St. Paul, MN	Bechik Products, Inc.	1.4	.03	1.2
Seeley Lake, MT	Rustics of Lindbergh Lake	1.2	.02	0.8
Bend, OR	Sageland, Mfg., Inc.	1.2	.02	0.8
Eugene, OR	Whittier Wood Products, Inc.	1.2	.02	0.8
South Amana, IA	Krauss Furniture Co., Inc.	1.2	.02	0.8
Spokane, WA	KOP Construction Co., Inc.	1.2	.02	0.8
Bloomfield, IA	Nockonwood Industries, Inc.	1.2	.02	0.8
Winchester, MN	McDole Ron, Inc.	1.2	.02	0.8
Amana, IA	Amana Society Furniture	1.2	.02	0.8
Rapid City, SD	Wave Mfg. Co.	.9	.02	0.8
Portland, OR	Chappel Mfg. Co.	.8	.02	0.8
Junction City, OR	Jimco Furniture	.8	.02	0.8
Springfield, OR	Waterbed Factory, Inc.	.8	.02	0.8
Spokane, WA	Glenn W. Green Co.	.8	.02	0.8
			2.91	99.5

SHARE OF MARKET REPORT
UPHOLSTERED FURNITURE PLANTS

States of Study Area	Company	Estimated 1981 Sales (Mil. Dollars)	Share of Market (% of U.S.)	Share of Market (% of Regional)
Dubuque, IA	Flexsteele Industries, Inc.	24.0	.69	17.7
Burlington, IA	Chittenden-Eastmen Co., Inc.	10.3	.29	7.4
Omaha, NE	Mastercraft Furniture Corp.	9.3	.27	6.9
Muscatine, IA	Hon Industries	8.6	.25	6.4
Tualatin, OR	Stanton Industries	8.3	.24	6.2
Council Bluff, IA	Charles Custom Mfg.	7.2	.21	5.4
Des Moines, IA	Sealy of Des Moines	7.2	.21	5.4
Lewiston, ID	Troy Lumber Co.	7.2	.21	5.4
Nampa, ID	Home-Style Industries	7.0	.20	5.1
Council Bluff, IA	Charles Schneider & Co.	6.4	.18	4.6
Beaverton, OR	Leonetti Furniture Mfg. Co.	5.0	.14	3.6
Portland, OR	Tempo Furniture Corp.	4.1	.12	3.1
Milford, IA	Style-Craft, Inc.	3.1	.09	2.3
Owasa, IA	Dunlap Industries	3.1	.09	2.3
Omaha, NE	Canar Mfg. Co.	2.9	.08	2.1
Omaha, NE	Chardon Company	2.9	.08	2.1
South Tacoma, WA	Slyter Chair, Inc.	2.9	.08	2.1
Bend, OR	Northwood Corp.	2.1	.06	1.5
Dickinson, ND	Ken Haage Construction	1.4	.04	1.0
Minneapolis, MN	Baker Furniture Mfg. Co.	1.4	.04	1.0
Cokato, MN	Rich Well Furniture	1.4	.04	1.0
Seattle, WA	Marvin Furniture Mfg. Co.	1.4	.04	1.0
Minneapolis, MN	Mitchell Mfg. Co.	1.4	.04	1.0
Omaha, NE	American Upholstery Co., Inc.	1.2	.03	0.8
Tennant, IA	Turner Furniture Mfg., Inc.	1.2	.03	0.8

U. S. TARIFFS

For purposes of the Tariff Schedules of the United States (TSUS), the term "furniture" includes "movable articles of utility, designed to be placed on the floor or ground, and used to equip dwellings, offices, restaurants, libraries, schools, churches, hospitals, or other establishment, aircraft, vessels, vehicles, or other means of transport, gardens, patios, parks, or similar outdoor places, even though such articles are designed to be screwed, bolted, or otherwise fixed in place on the floor or ground; and kitchen cabinets and similar cupboards, seats and beds, and sectional bookcases and similar sectional furniture, even though designed to be fixed to the wall or to stand one on the other;..."

Residential furniture and parts thereof are generally classifiable in the following manner depending on the component materials in chief value present in the furniture. For tariff purposes, the component material in chief value is determined at the time that nothing further needs to be done to the component other than assembly and includes labour, material and overhead. For example, an upholstered sofa would likely have as component materials wood, textile materials, and rubber or plastics materials. The total cost of production for all components divided into these basic groupings should be calculated on a pro-rata basis at time just prior to when all such components are to be assembled together into the finished article.

Rates of Duty - Furniture and Parts

<u>TSUS Item No.</u>	<u>Description</u>	<u>1984</u>	<u>Final Rate Apr. 1/89</u>
727.11 727.13 & 727.14	OF UNSPUN FIBROUS VEGETABLE MATERIALS	13.9%	7.5%
			<u>Final Rate Jan. 1/87</u>
727.15	OF WOOD		
	A. Bent-wood furniture	8.8%	6.6%
	B. Other furniture of wood		
	1) Chairs		
727.23 + 727.25	(a) Folding chairs	6.5%	5.3%
727.27	(b) Teak chairs	5.3%	3.4%
727.29	(c) Other chairs	6.5%	5.3%
727.35	2) Other than chairs	3.4%	2.5%
727.40	3) Parts (of wood) of furniture	6.9%	5.3%
727.45	OF TEXTILE MATERIALS (except cotton)	10.9%	7.0%
	OF RUBBER OR PLASTICS		
727.47	A. Of reinforced or laminated plastics	9.4%	6.0%
727.50	B. Of other rubber or plastics	2.4%	2.4%

<u>TSUS Item No.</u>		<u>1984</u>	<u>Final Rate Jan. 1/87</u>
727.52	OF COPPER	4.9%	4.2%
727.55	OF MATERIALS OTHER THAN ABOVE	6.3%	4%

Many rates of duty are progressively reducing as a result of the Multilateral Trade Negotiations concluded in Geneva in 1979. Final rates are noted above. Rates of duty will reduce in stages each year until 1987 in accordance with the schedule below. New rates become effective in each year as indicated.

<u>TSUS No.</u>	<u>Pre-Toyko Round 1979</u>	<u>Effective - April 1st</u>					
		<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
727.11, 727.13, 727.14	16.0%	12.8%	11.8%	10.7%	9.6%	8.6%	7.5%
		<u>Effective - January 1st</u>					
727.15	12.5%	8.8%	8.1%	7.3%	6.6%		
727.23, 727.25	8.5%	6.5%	6.1%	5.7%	5.3%		
727.27	8.5%	5.3%	4.7%	4.0%	3.4%		
727.29	8.5%	6.5%	6.1%	5.7%	5.3%		
727.35	5.0%	3.4%	3.1%	2.8%	2.5%		
727.40	8.5%	6.9%	6.4%	5.8%	5.3%		
727.45	17.5%	10.9%	9.6%	8.3%	7.0%		
727.47	15.0%	9.4%	8.3%	7.1%	6.0%		
727.50	6.0%	2.4%	2.4%	2.4%	2.4%		
727.52	6.0%	4.9%	4.7%	4.4%	4.2%		
727.55	10.0%	6.3%	5.5%	4.7%	4.0%		

Further clarification of tariff and other U.S. market access questions as well as assistance in obtaining official tariff/valuation rulings can be obtained from:

U.S.A. Marketing Division (UTM)
Department of External Affairs
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel. (613) 993-7484

Retail Price Categories

<u>Casegoods</u>	<u>Bedroom</u>	<u>Dining Room</u>
Low	\$799 and below	\$1599 and below
Medium	\$800 to \$1699	\$1600 to \$2999
High	\$1700 and above	\$3000 and above

Upholstery

Low	\$399 and under
Medium	\$400 to \$699
Upper Medium	\$700 to \$999
Low Upper	\$1000 to \$1499
Medium Upper	\$1500 to \$1999
Upper Upper	\$2000 to \$3000
Custom & Design	\$3000 and up

Casegoods

Selling Expenses, As a Percent of Net Sales

	%	%
Indirect Labor		
Executive Salaries	.72	
Clerical	.61	
Salesmen Salaries & Commissions	4.03	
Other Indirect Labor	.47	
Total Indirect Labor		5.83

Employee Benefits

FICA & Unemployment Comp.	.18	
Workmans' Comp.	.02	
Holidays & Vacations	.03	
Group Insurance	.07	
Pensions	.08	
Other Benefits	.08	
Total Employee Benefits		.46

<u>Other Selling Expenses</u>	%	%
Product & Operating Supplies	.10	
Royalties and Outside Designer Fees	.24	
Rentals	.11	
Showroom Expenses	.47	
Auto & Truck Expenses	.06	
Advertising, Consumer	.45	
Advertising, Dealer Aids	.63	
Advertising, Agency Fees	.21	
Advertising, Cooperative	.63	
Promotional Expenses	.23	
Samples	.72	
Outside Commissions	.52	
Professional Fees	.08	
General Travel and Entertainment	.30	
Delivery Allowances and Subsidies	.06	
Other Expenses	.52	
Total Other Selling Expenses		5.33
Total All Selling Expenses		11.62

FURNITURE MARKETS

ATLANTA MERCHANDISE MART
240 Peachtree St., N.W.,
Suite 2200
Atlanta, GA 30043
404:688-8994

BOSTON FURNITURE SHOWS, INC.
New England Trade Center
110 Railroad St.
P.O. Box 229
South Hamilton, MA 01982
617:468-3581

DALLAS MARKET CENTER
2100 Stemmons Fwy.
Dallas, TX 75207

DESIGN CENTER NORTHWEST
5701 6th Ave., South
Seattle, WA 98108
206:762-1200

HICKORY HOME FURNISHINGS MART
P.O. Box 1483
Hickory, NC 28601
704:322-1820

LOS ANGELES HOME FURNISHINGS MART
1933 South Broadway
Los Angeles, CA 90007
213:749-7911

THE MERCHANDISE MART
Suite 830
Chicago, IL 60654
312:527-4141

MINNEAPOLIS HOME FURNISHINGS MARKET
International Market Square
718 Glenwood Avenue
Minneapolis, MN 55405
612:338-8380

NEW YORK FURNITURE EXCHANGE, INC.
200 Lexington Avenue
New York, NY 10016

NORTHWEST HOME FURNISHINGS MART
121 Boren Ave., North
Seattle, WA 98109
206:623-1510

SOUTHERN FURNITURE EXPOSITION BLDG.
P.O. Box 828
High Point, NC 27261
919:889-6144

WESTERN MERCHANDISE MART
1355 Market St.
San Francisco, CA 94103
415:552-2311

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