

Operating Strategies For U.S. Furniture Manufacturers

This is the second installment in a two-part series titled: "The U.S. Furniture Industry: Yesterday and Today... Will There Be a Tomorrow? "

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In Part One of the series (*Wood Digest*, June 2007), Schuler and Lawser addressed the shift in trends affecting U.S. furniture manufacturers and related industry segments, including globalization and the effect of imports. In this installment, the pair suggests strategies for furniture manufacturers operating in a high-wage economy.

If you missed it, Part One can be found at: www.wooddigest.com/WCMA.

There are a number of operating strategies that U.S. furniture manufacturers are using. Some of these are overlapping and many companies are using more than one of these strategies.

The No. 1 emerging strategy among the larger U.S. furniture manufacturers is to import more furniture and become more of a retailer by operating their own retail outlets. In short, these companies are closing their manufacturing operations and becoming wholesalers and retailers.

They are using their strong brand names to draw consumers to their retail outlets. They are having their furniture produced in low-wage countries such as China. The benefit is that profits are higher in retailing compared to manufacturing. The downside of this is that their Chinese furniture suppliers are likely to become their competitors as they develop their own direct distribution lines or retail outlets.

Another strategy is to close their furniture factories and become importers and sell to their existing retail accounts. This strategy is being used by U.S. furniture manufacturers who do not want to get into the retail business. Becoming a retailer requires a great deal of capital, knowledge and is a much different business model compared to manufacturing. This limits the number of companies who can be successful retailers and is why most U.S. furniture manufacturers will continue to import greater amounts of furniture and sell to their existing customers. They are also trying to build stronger brand names and provide more custom and innovative product lines.

Some U.S. furniture manufacturers are consolidating their manufacturing

operations and integrating imported products into their current product lines. In addition, they are upgrading their factories using lean manufacturing techniques and adopting the latest manufacturing technology. Some of these companies are providing additional services that are difficult for an importer to duplicate. For example, quick ship programs are offered for selected high-volume items. Popular furniture products are produced for inventory which makes it possible to ship an order within a few days.

A strategy adopted by the smaller, regional U.S. furniture manufacturers is to focus on customized, niche markets that are of little interest to offshore competitors. Consumers are willing to pay for special customized products that are well-made with quality materials and have unique designs or features. These products are not easily copied and the market is too small to be of interest to large importers.

There is also a growing number of sales representative organizations who are outsourcing furniture from low-cost suppliers and sell directly to retailers. These sales organizations will have a negative impact on furniture manufacturers by cutting them out of the supply chain as they import and sell direct to retailers.

DO WHAT IMPORTS CAN'T

Many U.S. furniture and woodworking companies are trying to do what importers can't or don't want to do. Producing unique products and offering special services is the most common strategy. They focus on mass customization rather than mass production. Component and material suppliers are targeting sales efforts towards companies that produce custom, brand-name or niche products.

Since products from low-wage countries compete mostly on price, high-wage countries need to focus on their nonprice advantages. The No. 1 nonprice advantage is faster response and quicker deliveries. U.S. manufacturers are emphasizing guaranteed delivery times compared to the long lead and delivery times required to import products from China and Asia. Wood component and other suppliers to furniture and cabinet makers are helping out by shortening their lead times and providing JIT deliveries.

The ability to ship smaller orders and make last-minute changes is a big advantage for domestic suppliers. This is a special service to retailers that importers are not able to match. Consistent quality of products is of utmost importance when competing in our global economy. There are many

stories of damaged or poor quality imported goods which do not meet specifications that arrive from low-wage countries.

Settling claims is very difficult in these cases because the imported shipment has already been paid for in advance and there is often a lengthy processing period. Domestic suppliers offer flexible payment terms and do not require payment in advance as foreign manufacturers often do before the goods are even shipped.

Domestic manufacturers have a big advantage in given their close proximity to their suppliers and customers. U.S. furniture and cabinet producers are often located near major consumer markets and have easy access to their raw materials. Since lumber and materials represent a large percentage of the cost of producing wood products, access to quality and value-priced timber resources is one of the key advantages to U.S. furniture manufacturers located near their material suppliers.

SOME SUCCESS STORIES

We want to conclude with some success stories on how companies are adapting to tough competition from low-wage countries.

Several companies who are members of the Wood Component Manufacturers Association (WCMA) are changing their product mix to meet growing needs for specific custom products. For example, producers of hardwood squares are now using their squares to produce wooden baseball bats. Since baseball is a very popular sport, there is a growing need for highly customized baseball bats used by professional and recreational players around the world. Component manufacturers are also shifting their focus away from furniture to growth areas such as cabinets, closets, specialty games and a variety of interior building products including staircases, flooring, mouldings, and millwork.

U.S. manufacturers are succeeding by doing the difficult projects, those that require tight tolerances and more complex products that need to be delivered on time where there can be no blips in the supply chain. These are considered China-proof. Many are adopting a business model that relies on short-run, quick-turnaround, custom products. Since they know they cannot compete on price with China, they offer a product or service that cannot be provided by China so price doesn't matter.

U.S. furniture manufacturers will continue to face offshore competition and higher structural overhead costs, including healthcare, workers comp, compliance with government and envi-

ronmental regulations, taxes and legal costs. Producers in low-wage, developing countries, like China and Vietnam, are not subject to these high overhead costs. The U.S. woodworking industry needs to work more effectively with various levels of government to lower these stifling overhead costs that keep us from being more competitive.

Because U.S. manufacturers have higher labor and overhead costs, they must look for ways to overcome this by adding more value to their product mix.

To do this profitably will require a "new business model" that includes at least three survival strategies:

1) Find new markets and uses for their products. The wood component industry is a good case in point as they shifted shipments and products to the construction and cabinet industry in response to the furniture downturn.

2) Transition from commodity production to customized production; and in order to do this profitably

3) Redevelop the furniture clusters or centers of excellence idea, as defined by Michael Porter in his book, "The Competitive Advantage of Nations" where the entire supply chain works closer together to deliver more value to their target customers.

U.S. companies have to realize that they are competing with "clusters" from other countries and not with a single company in China, Vietnam, Italy, or elsewhere. The key to any successful strategy is giving the customer what they want. Too often, the wood products industry, has made products that suited their mills, and not necessarily making products to meet changing customer tastes. That has to change, and that will require strong industry leadership; an investment in new technology, product innovation, research and development, lean manufacturing, a well-trained workforce; JIT deliveries, transparent supply chain; and effective

marketing and competitive intelligence.

The key to tomorrow will be to lower costs by developing strategic partnerships throughout your supply chain; get closer to your customers; and create ways to add more value to your products and services as a way to counter the price appeal of imports. **W**

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