Weak Branding and the Rise of Furniture-Direct Stores

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In August Broyhill opened its first company-owned retail store in Blowing Rock, N.C. The store is the third Broyhill Home Collections outlet, following two independently owned stores in Arizona. The company expects to have 10 dedicated stores in place by the end of this year, and 40 by mid-2007.

Broyhill's strategy is part of a relatively recent development in the furniture industry: the pairing of manufacturing and retailing, two activities that used to be kept as separate as church and state. Unlike the automobile industry, in which dealerships are mostly dedicated, the furniture industry has traditionally featured retailers whose assortments include lines from many different manufacturers.

In large part, this is due to weak branding in the furniture industry. Automobile brands have always mattered to consumers, while furniture brands have historically mattered much less. Car buyers undoubtedly have preferences regarding car dealerships, but their sharpest preferences are about the make of car they buy. For years, my father wouldn't buy anything but Pontiacs and Oldsmobiles, and his brand preference for cars even influenced his choice of credit card. He chose one whose reward program generated points toward the purchase of a General Motors vehicle.

In comparison, it has always been difficult for furniture brands to gain traction. Obviously a Broyhill line differs from a line made by Bernhardt. But all that matters in branding is whether that difference penetrates the purchasing psyches of the people who walk into furniture showrooms. In branding, perception truly is everything.

Furniture retailers believe they have a pretty good bead on what that perception is. In a 2002 survey conducted by my office at The University of North Carolina at Greensboro, only 5% of furniture retailers considered the manufacturer's name to be more important than the retailer's name. For the most part in furniture, the retailer is the brand.

To an economist, branding is a marker for profitability. Of course there are examples of companies that do quite well without a significant brand identity, but these are usually due to accidents of history such as the control of an essential resource (think oil producer Saudi Arabia) or the result of lobbying or political influence (think ethanol producer Archer Daniels Midland). In the absence of special circumstances like these, whoever is able to do the branding in an industry tends to be in the best position in terms of profits.

And where there are profits, there is also market power. In the automobile industry, where the car is the brand, dealers often have terms dictated to them by the big car makers. But in the furniture industry, where the retailer is the brand, dealers are a feisty and influential bunch. For example, furniture retailers mounted an energetic campaign against the anti-dumping petition that targeted imports of wood bedroom furniture from China. Given that politics is never completely below the surface in Washington D.C., even when it comes to sober policy

assessments, it's possible that the retailers' relative strength was a factor in the surprisingly low anti-dumping duties levied by the U.S. government.

So with dollars and influence at stake, it's no mystery why furniture manufacturers want to claim some of that for themselves. For a number of years now, splashy new introductions at the twice-yearly market in High Point have had celebrity endorsers, including both living people like Kathy Ireland and dead people like Elvis Presley. Some of these lines have been successful; most have not.

And this is where the movement toward furniture-direct, or manufacturer-branded, stores fits in. If the retailer is the brand, then manufacturers that become successful retailers will have a competitive edge.

In 2003, six furniture-direct stores were listed in Furniture/Today's annual ranking of the top 100 retailers: No. 3 Ethan Allen, No. 7 La-Z-Boy Furniture Galleries, No. 10 Ashley Furniture HomeStores, No. 15 Thomasville Home Furnishings Stores, No. 20 Bassett Furniture Direct, and No. 45 Drexel Heritage. The sales of these six retailers accounted for 14.5 percent of the total sales of the top 100, up from 12.6 percent in 2000.

Since 2000, the sales of furniture-direct retailers in the top 100 have increased 33.9 percent, as compared to only 13.6 percent among the rest of the top 100. Of course, one big reason for this is the impressive rise of Ashley, which didn't make it into the top 100 until 2001, but whose aggressive expansion since then has more than quadrupled sales. But it isn't only Ashley. Sales at Bassett have risen nearly 80 percent since 2000. La-Z-Boy and Drexel Heritage (since its purchase by Furniture Brands International) have seen rising sales as well.

What can we expect in the future? Traditional marketing and promotional approaches to creating brand identity haven't worked well for furniture manufacturers, and there's little reason to think that they'll suddenly start working now. The increasingly global supply chain in furniture may well worsen the problem of weak branding, as more retailers bypass domestic manufacturers altogether to contract directly with foreign companies.

And finally, current trends in consumer products in general are reinforcing the furniture retailer's advantage.

More and more, branding in consumer products is about the buying experience, about ambience and hipness and convenience. Nike has tremendous brand appeal, but it loves its NikeTowns. Starbucks has great coffee, but the company focuses a great deal of attention on the feel and comfort of its stores. The implications of this trend aren't lost on Broyhill, whose retail program offers prospective dealers an array of specialty lifestyle formats, as well as showroom plans that emphasize natural light and shopper friendliness.

As long as the furniture retailer is the brand, look for more furniture manufacturers to try to become retailers.