

Manufacturers-Retailers: The New Actor in the U.S. Furniture Industry. Characteristics and Implications for the Chinese Furniture Industry

Lidia Martínez Murillo

Abstract—Since the 1990s the American furniture industry faces a transition period. Manufacturers, one of its most important actors made its entrance into the retail industry. This shift has had deep consequences not only for the American furniture industry as a whole, but also for other international furniture industries, especially the Chinese. The present work aims to analyze this actor based on the distinction provided by the Global Commodity Chain Theory. It stresses its characteristics, structure, operational way and importance for both the U.S. and the Chinese furniture industries.

Keywords—M&RC, *blended strategy*, U.S. furniture industry, Chinese furniture industry.

I. INTRODUCTION

THE new actor Manufacturers-Retailers Companies (hereinafter M&RC) confront the traditional distinction of manufacturers and retailers existing in the Global Commodity Chains Theory (GCC). According to this theory, based on its type of governance, industries can be distinguished into Producer-Driven Commodity Chains and Buyer-Driven Commodity Chains [1]. Producer-Driven commodity chains operate in high technology industries like automobiles or aircraft, whereas Buyer-Driven Commodity chains apply on labor intensive industries such as garments and toys. Furniture industry is allocated by most authors into the Buyer-Driven Commodity Chains classification [2],[3],[4]. This implies that large retailers, brand named merchandises, and trading companies play the central role in shaping decentralized production networks in a variety of exporting countries, frequently located in the periphery [1]. In addition, these actors control the highest value-added activities within the chain, i.e. design, marketing, and distribution. Indeed, producers do not access easily to these areas [3], [4]. M&RC challenges the GCC theoretical approach with the fact that there are big companies controlling both the production and distribution process. Not only do they invest in research and development, implement economies of scale and invest abroad, all of them characteristics of Producer-Driven Commodity Chains, but also control the complete value chain since the design of the product until its distribution to end consumers.

Lidia Martínez Murillo is with the Zentrum für Höhere Studien (Centre for Advanced Study), University of Leipzig, Germany (e-mail: martinez@uni-leipzig.de). The author thanks the sponsor and financial support provided by the DAAD.

M&RC appeared during the 1990s when the U.S. furniture industry enjoyed a boom, and at the same time a restructuration process. Since this decade, American industries increased considerably their level of imports to supply its domestic market. U.S. imports grew from \$6.4 billion in 1990 to \$20.3 billion in 1999. The participation of imports in furniture apparent consumption rose from 13 percent in 1992 to 26 percent in 2000. In addition, China became the largest furniture supplier for the American market. From accounting for 2.6 percent of U.S. furniture imports in 1990, China increased its participation to almost one-third of U.S. imports by the end of the decade. Similarly, in order to cut production costs big manufactures either established *blended strategy*, a mix of sourcing and domestic production, or implemented some internal measures. Plants consolidation, closure of facilities, reduction of domestic production, establishment of lean manufacturing process, and particularly the expansion of the retail segment were some of the measures adopted by M&RC during the 1990s. These measures enabled them to face the economic downturn suffered by the U.S. furniture industry in 2001 and 2003. Furthermore, these difficult years intensified particularly *blended strategy* and the retail segment into M&RC's global strategy. As it will be demonstrated in the following sections, both aspects enabled M&RC not only to remain competitive, but also to increase their importance within the U.S. furniture market.

II. WHO IS THE M&RC ACTOR?

Few manufacturers have the capacity to manage production and retail activities at the same time. Therefore, only the largest producers in the American furniture industry, i.e. Furniture Brands International (FBI), La-Z-Boy, Ethan Allen, Bassett, Herman Miller, and IKEA are considered as M&RC. A description of these companies is shown in Table I.

M&RC play a strategic role into the U.S. furniture industry. Not only they are some of the largest producers of household and office furniture, but also they play four different roles within the American furniture commodity chain: they are manufacturers, importers, marketers and distributors.

TABLE I
 MANUFACTURERS-RETAILERS (M&RC)

Name	Sector	Sales 2006 \$Billion	Foreign Manufacturing/ Retail Operations	Retail Sales \$Million
Furniture Brand International (Broyhill, Lane, Thomasville, Drexel Heritage, Henredon, Maitland-Smith)	Household	2,41	The Philippines, Indonesia, China	N/A
La-Z-Boy (Bauhaus, England, La-Z-Boy, Clayton Marcus, La-Z-Boy U.K., Sam Moore, American Drew, American of Martinsville, Hammery, Kincaid, Lea and Pennsylvania House)	Household	1,09	Canada	213
Ethan Allen	Household	1,06	Retail: Canada, China, Middle East	691
Bassett Furniture International (Bassett Furniture Industries, BFD, Zenith Freight Lines)	Household	0,32	Puerto Rico, Canada	84
Ashley Furniture	Household	N/A	N/A	N/A
Herman Miller (Geiger, Lake Mills, Herman Miller for Healthcare, Sonare Technologies)	Office	1,74	Manufacturing: Italy, United Kingdom, China Retail: Europe, Asia/Pacific, Middle East, Latin America	N/A
IKEA	All furniture	14,8	China	N/A

Source: Companies 2006 Annual Report
 N/A = data not available

M&RC actually operate like big holding companies, which establish the production rules and manage the operations of a big number of subsidiaries. In some cases like FBI, La-Z-Boy, Bassett, and Herman Miller M&RC are constituted for at least five companies. M&RC's products target specially middle-price and upper-price consumers. There is a clear customer segmentation inside them. Within FBI for example, Broyhill and Lane focus its production in the middle-price category, whereas Thomasville, Drexel Heritage, Henredon, and Maitland-Smith target upper-and premium-price categories [5]. M&RC also supply furniture products to others big American retailers like Ralph Lauren, Eddi Bauer and Home Depot.

On the other hand, companies like La-Z-Boy and Ethan Allen have become more and more importers and marketers of furniture items. La-Z-Boy for example import cut and sewn fabric kits to complement its production of leather kits. Indeed, about 72 percent of La-Z-Boy's residential casegoods are imported (22 percent of La-Z-Boy sales). Similarly, approximately 44 percent of Bassett's wholesale sales in 2006 were imported products.

M&RC have considerably declined its domestic production during the last five years. La-Z-Boy, for example, has cut its domestic case-goods production by 45 percent during the last two years [6]. Similarly, M&RC have closed many manufacturing facilities in the U.S. market. FBI, for example, has closed 34 of its 57 plants during the last five years, whereas Ethan Allen has closed 9 facilities, and Herman Miller has shut down 4 plants. Bassett closed 2 stores just in 2006. In contrast, the retail segment has become one of the fastest areas of growth for M&RC and a major responsible for the increase in their sales. For instance, own stores account for over 42 percent of La-Z-Boy total sales and more than half of Ethan Allen revenues. The retail revenue segment of Ethan Allen grew 85 percent from 2000 to 2006 (more than three times the growth of Ethan Allen's net sales).

The shift from manufacturers to retailers, however, is not easy; only big manufacturers have successfully faced this transition. According to [7], small manufacturers who had tried to enter in the retail industry had faced troubles in maintaining relationships with their suppliers, distributing their products to the consumers and matching the demand with the appropriate amount of supply. Therefore, only companies like M&RC are able to manage production and retail at the same time.

III. CHARACTERISTICS OF M&RC

M&RC follow a vertical structure in their production, i.e. they control all the production process, from the design of the product to its distribution to consumers. Production is based either on a *blended strategy* or in overseas alliances. In addition, M&RC account for subsidiaries, each of them working independently. Indeed, in some cases subsidiaries not only produce, but also distribute their products. However, the holding company controls the distribution process either through its own stores or a well defined network of retailers (see Fig. 1).

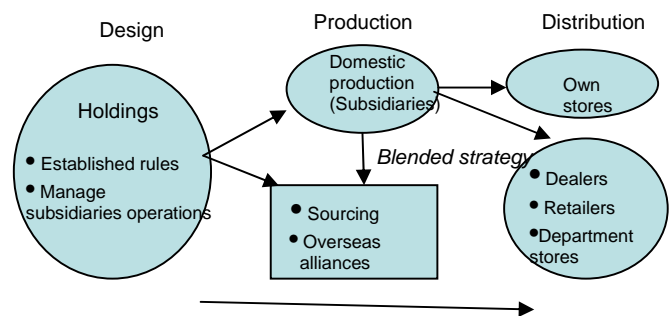


Fig. 1 M&RC Value chain

This vertical structure enables M&RC not only to offer high competitive prices and a more diverse array of products, but also to cover more customer segments, and to have a larger coverage than traditional retailers. Owned and independently owned stores, dealers, regional chain stores, showrooms, sales representatives, television programs, print media, direct mail catalogue and internet have been the main channels used by M&RC to promote their products.

In addition, M&RC usually operate under international standards like ISO 9000 and devotes more resources to R&D issues than other domestic producers. M&RC also offer *customized furniture* (furniture made on customers preferences) and brand recognition, two main competition elements over small American and foreign manufacturers.

Undoubtedly, the *blended strategy* has contributed to increase M&RC competitiveness into the U.S. furniture market. Sourcing part of their production, whereas producing in the U.S. reduces not only production costs, but it also saves transit time, especially in customer-orders. Furthermore, although foreign competitors such as China have considerably

improved their finishing capabilities, to date American producers still account for better expertise in this regard.

M&RC strategies have also affected other big actors like Wal-Mart, the Home Depot and Rooms to Go. In this case, these retailers have established direct supply-contracts with foreign producers, especially from China.

IV. M&RC AND ITS IMPLICATIONS FOR THE CHINESE FURNITURE INDUSTRY

Since the establishment of the Socialist Market Economy in 1992 Chinese furniture industry has experimented a fast upgrading process. In this regard, foreign companies, especially American ones have played a strategic role. Through transfer of technology and the improvement of finishing capabilities American firms have deeply contributed to upgrade the Chinese furniture industry.

At the beginning technical support was concentrated in varnishing and resin activities [8]. Now American companies share much intangible capabilities such as quality control, training, and design with their Chinese counterparts. According to [9], American training helped to move Chinese producers up the learning curve from sticks, barstools and carved furniture to dining rooms and bedrooms in modern styles. In addition, the establishment of production facilities by top furnishing American firms such as Valspar and Akzo nobel, enabled Chinese firms to develop more sophisticated product lines [10].

Chinese firms have also acquired expertise from American furniture managers. According to [6] "import agents, most of whom are former U.S. manufacturers now based overseas, are also helping Chinese manufacturers to implement more stringent quality controls."

Since the end of the 1990s M&RC have established close relationships with Chinese companies. Foreign direct investment, joint ventures and direct contracts have been the main ways they have followed to do business with Chinese firms.

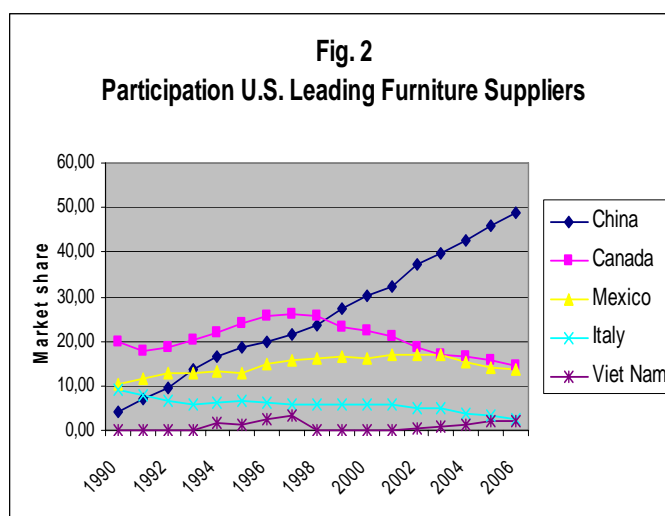
Bassett was one of the first M&RC to establish contacts with Chinese companies. At the end of the 1990s Vaughan-Bassett invited Lacquer Craft, a leading Chinese producer, to its factory in North Carolina to videotape the production of bedroom furniture so that this company could exclusively produce bedroom furniture for Vaughan-Bassett and then export it to the United States [11]. The agreement was not signed, but this experience considerably helped Lacquer Craft to enter further in the U.S. furniture market. Similarly, FBI decided to source Lane's complete wood manufacturing operations in China in 2001. Two years later (in 2003) FBI also signed a deal with Hong Kong Teakwood Work to outsource \$120 million of its production to Teakwood 500,000 square foot plant in China [6].

China plays three main roles in the M&RC's global strategy: production center, supplier and strategic partner. As Table I illustrates, most M&RC account for manufacturing facilities in China. Indeed, some M&RC like Herman Miller and IKEA also own distribution facilities in this country.

IKEA, for example accounts for 5 stores in China, and it expects to increase this number to 12 by the year 2010.

Producing in China enables American companies to output not only a greater variety of designs that are cost-prohibited, but also to respond to high levels of defects by its companies, their by, switching to alternatives [11].

China is also a very important supplier for M&RC. It accounts for 18 percent of IKEA's purchases, and it is also one of the major suppliers for FBI and Herman Miller. Besides, since 1999 China became as the largest supplier for the American furniture market. Chinese participation in the U.S. furniture imports increased elevenfold from 1990 to 2006. In one decade China displaced first Mexico and later on Canada as the largest suppliers for the American furniture market (see Fig. 2).



Source: U.S. Census Bureau
Fig. 2. Participation U.S. Leading Furniture Suppliers

As strategic partner Ethan Allen has established a planned alliance with Markor International, one of the largest Chinese manufacturers. Markor International produces wood, resin furniture, dining table and chairs, cupboard, tea table and other household furniture products for Ethan Allen, and other leading American retailers like Wal-Mart and Rooms to Go. Ethan Allen actually plans to strengthen this alliance with Markor to take further advantage of the Chinese domestic market [12].

M&RC also reflect the division existing in the U.S. industry regarding Chinese competition. The antidumping case of wooden bedroom furniture imported from China illustrates clearly this point. In December 2003 the U.S. Department of Commerce (DOC) initiated an antidumping investigation against wooden bedroom furniture from China. The petition was filed by the Committee for Legal Trade, an interest group constituted by manufacturers and six labor unions. According to petitioners more than 65 U.S. case goods plants closed from January 2001 through June 2004; more than 34,000 jobs were lost. Besides, the differential wages of 20:1 favorable to Chinese producers (50 cents per hour in comparison to \$15 per hour in the United States) provided Chinese producers an

unfairly advantage over American manufacturers [13]. Some of the largest manufacturers such as Bassett and Kincaid Furniture, Inc., a subsidiary of La-Z-Boy's Case Goods Group, supported the claim, whereas other M&RC as FBI fiercely protested against it. Indeed, last December, when DOC announced its decision to apply antidumping tariffs rank from 2.32 percent to 15.78 percent to 121 Chinese wooden bedroom companies (with the exception of Markor International Furniture, the other Chinese companies are subjected to pay these duties), FBI announced its decision to continue to import products from China.

Under the terms of the *Byrd Amendment* law, many U.S manufacturers have already received disbursements of the collected duties of this investigation. DOC has distributed around \$32 million among petitioners. Bassett, for example, has received \$1.5 billion for this concept (in 2006 this company reported a negative income of \$466,000). FBI and Standard Furniture, two fiercely opponents to the petition have filed suits seeking to receive disbursements as well [14].

The antidumping case against Chinese products also exemplifies the decision of M&RC and other American manufacturers, to continue to source abroad instead of producing back in the U.S. Despite antidumping tariffs U.S. imports from China increased by 21 percent from \$1.2 billion in 2004 to \$1.5 billion in 2006. American manufacturers (including M&RC) are now establishing new contracts and relations with companies in Viet Nam or Indonesia, where labor costs are even cheaper than in China, rather than return to the U.S [11].

V. CONCLUSIONS

M&RC plays a strategic role in the U.S. furniture industry. Not only do they clearly exemplify the situation of the American furniture industry, but also some of the strategies they have followed such as *blended strategy*, closure of facilities, redefinition of stores, promotion of the retail segment, consolidation of brand recognition among customers, and establishment of lean manufacturing process are followed by other American and foreign manufacturers and retailers. In addition, M&RC also strongly project the importance of China in the American furniture market as supplier, manufacturing location and strategic partner. The transfer of technology provided by some M&RC and other American manufacturers has also contributed to upgrade the Chinese furniture industry. M&RC are challenging not only the traditional approach of Buyer-Driven Commodity Chains theory, but also the landscape of the American furniture industry.

REFERENCES

- [1] G. Gereff, J. Humphrey, and T. Sturgeon, "The Governance of Global Value Chains," in *Review of International Political Economy* vol. 12, Issue 1, pp. 78-104. February 2005.
- [2] J. Humphrey, and H. Schmitz, "Governance in Global Value Chains," *IDS Bulletin*, vol. 32. no. 3, pp. 1-17, 2001.
- [3] R. Kaplinsky, O. Memedovic, M. Morris and J. Readman, "*The Global Wood Furniture Value Chain: What Prospects for Upgrading by Developing Countries. The Case of South Africa*," United Nations Industrial Development Organization, Vienna, 2003.

- [4] S. Avdasheva. "Russian Furniture Industry: Enterprises' Upgrading from the Value-Chain Theory Perspectives," *Electronic Publications of Pan-European Institute*, August, 2006.
- [5] *2006 Annual Report*, Furniture Brand International. San Louis, Missouri, 2006.
- [6] Manufacturing & Technology News, "U.S. Furniture Industry is Rocked by Chinese Imports," vol. 10, n. 13, July 3th, 2003. Available: <http://www.manufacturingnews.com/news/03/0703/art1.html>
- [7] Bryson, G. Lanzillotti, J. Myerberg, E. Miller and F. Tian. *The Furniture Industry (case goods): The Future of the Industry United States versus China*. Industry Economics, UNC at Chapel Hill, Kenan Flagler Business School, 2003.
- [8] USITC, *Industry and Trade Summary: Furniture and Motor Vehicle Seats*. USITC. Publication No. 3382. Washington, D.C., 2001.
- [9] Meenu, Tewari, *Outsourcing in North Carolina's Furniture Industry*. UNC Chapel Hill, 2004.
- [10] Duke University, North Carolina in the Global Economy. Available online at www.soc.duke.edu/NCGlobalconomy/furniture/public.php#overview. 2003.
- [11] D. Ikenson, "Poster Child for Reform: the Antidumping Case on Bedroom Furniture from China," *Free Trade Bulletin* no. 12, Cato Institute, Washington, D.C. June 2004.
- [12] *2006 Annual Report*, Ethan Allen, Connecticut, 2006.
- [13] ITA. *Wooden Bedroom Furniture From China. Final Determination*. Washington, D.C., 2004.
- [14] Furniture Today News May 21th, 2007. Available: www.furnituretoday.com