The American Furniture Industry: 2014 Industry Watch Update

AN ABTV INDUSTRY WATCH REPORT

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Introduction

The American furniture industry is at a turning point. Never known for its ability to respond quickly to change, the industry finds itself emerging from the Great Recession to face some significant challenges: slower-than-expected economic recovery, shifting consumer buying preferences, skilled worker shortages, rising labor costs, technology integration, new distribution channels and global competition.

How the furniture industry responds to the multiple economic forces at work will set the industry's course for the foreseeable future.

Economists and furniture insiders are expressing cautious optimism for a slow industry turnaround as the housing market starts to rebound and much-desired innovation is seen slowly seeping into design and manufacturing strategies.

Nevertheless, the sands are still shifting under the furniture sector as companies continue to succumb to economic pressures. Heritage Home Group, which rose from the ashes of now-defunct Furniture Brands International, closed a Drexel Heritage plant in Morganton, NC and announced plans to close plants in Thomasville and High Point. Sport-Haley, Inc., which bought Chromcraft Revington last fall, announced earlier this year it was winding down the manufacturer's and importer's operations to address debt issues. Stanley Furniture closed its Robbinsville plant, ending domestic production of its Young America line. Pearson Co. home furnishings in High Point said it will be closing. And, most recently, La-Z-Boy announced it was closing Lea Industries, its High Point-based youth furniture line, because it couldn't find a buyer.

On the upside, Heritage Home Group relocated its headquarters to High Point from St. Louis with plans to increase its workforce. Vanguard Furniture announced plans to open a plant in southwest Virginia, establishing the first household furniture upholstery production operation in that state. Norwegian furniture manufacturer, Ekornes ASA, opened a new plant in Morganton, the first production facility this company has established outside of Europe. Another European manufacturer, Belgian BuzziSpace, announced plans to open a sound-dampening office furniture operation in High Point. And, United Furniture is expanding operations in Winston-Salem, adding 200 new jobs over three years.

This year's report features results of a survey ABTV conducted with middle market retailers to examine how closely their sales projections and business challenges parallel the players in the Top 100. It also explores some of the large issues the industry is grappling with today and provides a perspective of where the industry is headed as we look down the road.

Significant Findings:

Significant findings in the report include the following:

- Emerging trends in the U.S. housing market will continue to impact furniture manufacturing in the short term—both positively and negatively. It's a sticky wicket: Baby Boomers are downsizing to smaller spaces, new home sales are increasing gradually, but mortgage reforms have made it difficult for younger homeowners to qualify, given the debt loads many are carrying from student loans.

- With labor costs on the rise, manufacturing in Asia may not be the most cost-effective option for U.S. furniture manufacturers. On-shoring is a trend that offers an option for growth and should drive a number of merger & acquisition transactions over the next couple of years.

Significant Findings: continued

- Consumer preferences are changing dramatically as the Baby Boomers exit and a younger generation enters the market. Technology is leveling the playing field—in order to groom new customers, retailers will need to find a way to meet the younger generation where they are: on the Internet and social media. This highlights the need for the industry to develop and implement marketing initiatives that incorporate new media strategies.

- The furniture industry needs an image makeover. Long-held perceptions of the industry that no longer apply are contributing to a labor shortage in the industry.

- The furniture industry should jump on the e-commerce bandwagon in order to build brand awareness among tech-savvy consumers and remain competitive.

American Furniture Manufacturing: Tide Is Starting to Turn

- In looking back over the last five years, it's clear that 2013 marks the year when the furniture industry was finally starting to recover from the economic meltdown that caught up with the industry in 2009. In 2013, orders exceeded those placed in 2008, a peak year for the industry up to that point.

In 2013, U.S. furniture imports rose 8%, fueled by shipments from China and Vietnam as well as emerging markets in India and Indonesia. This is a trend that is expected to continue as Russia and Eastern Europe become bigger players in the import market.

The industry as a whole has seen great improvements over the past few years. After a 13% drop in sales in 2009, new orders have increased a minimum of 4% every year. As of 2013, orders were up 23% from 2009 and up 7% from 2008. This slow but steady increase has carried over into 2014 and is expected to continue for the foreseeable future.

Timeframe	Dollar Amount of Orders (in $ millions)	Increase/Decrease (in $ millions)
February 2010	2008 Orders: $21,619 2009 Orders: $18,816	* $2,803 decrease
February 2011	2009 Orders: $18,816 2010 Orders: $19,582	* $766 increase
February 2012	2010 Orders: $19,582 2011 Orders: $21,145	* $1,563 increase
February 2013	2011 Orders: $21,145 2012 Orders: $21,918	* $773 increase
February 2014	2012 Orders: $21,918 2013 Orders: $23,209	* $1,291 increase
2013 V 2009	2009 Orders: $18,816 2013 Orders: $23,209	* $4,393 increase (23% increase)
2013 V 2008 (peak)	2008 Orders: $21,619 2013 Orders: $23,209	* $1,590 increase (7% increase)

Source: Smith Leonard

American Furniture Manufacturing: Tide Is Starting to Turn continued

Re-Thinking Off-Shoring

Many U.S. manufacturers are continuing to review their overseas manufacturing operations as the cost advantages of sourcing products globally starts to diminish. While some foreign manufacturers remain cost competitive, cost advantages are eroding due to wage increases, lagging productivity growth, unfavorable currency values and rising energy costs, according to a survey conducted by The Boston Consulting Group in the first half of 2014. The study was not limited to the furniture industry but has implications for furniture manufacturers.

The report claims that the share of the more than 200 executives interviewed who are planning to re-shore rose to 54 percent, compared with 37 percent of executives who responded to a similar survey in 2012. Their top reasons for bringing operations back to the U.S. include labor costs, proximity to customers and quality of product. Other factors include access to skilled labor, transportation costs, supply-chain lead time and ease of the business environment.

Mexico continues to emerge as a potential major source for the manufacture of less-expensive home furnishings. Mexico's manufacturing costs—including labor and transportation—are now lower than China's, where the manufacturing cost advantage over the U.S. has shrunk to less than five percent.

Furniture manufacturers with current overseas operations should carefully analyze the total costs associated with those operations. It is estimated that manufacturers could be overestimating savings from off-shoring by up to 30 percent. They may not be considering such factors as total costs of operation, including items like intellectual property; realities of the local labor market; government, state and local tax incentives and advantages; product demand; transportation cost differentials; and availability of utility services and associated rates. The fact remains that on-shoring is not necessarily a panacea. Many foreign manufacturers are still producing at a lower cost, and their quality is picking up.

The decisions furniture manufacturers make now about keeping manufacturing operations overseas or bringing them back to the U.S. could have a significant impact on local and regional economies over the next five to 10 years.

In 2013, key sources for the U.S. furniture market grew four percent, the fourth straight years of gains since the Great Recession. Here is a look at the top 20 sources and how their shipments compared between 2013 and 2012.

Top 20 Sources for U.S. Furniture Market

Rank	Rank Last Year		Estimated U.S Furniture Shipments in $ millions		
2013	2012	Company	2013	2012	Percent Change
1	1	Ashley Furniture Inds.	$3,658.3	$3,515.8	4.1%
2	2	La-Z-Boy	$1,061.7	$1,030.0	3.1%
3	3	Furniture Brands International[e]	$650.0	NA	NA
4	4	Klaussner Furniture Inds.[e]	$524.3	$524.3	0.0%
5	5	Dorel Inds.	$476.4	$479.6[R]	-0.7%
6	6	Sauder Woodworking	$475.0	$458.9	3.5%

American Furniture Manufacturing: Tide Is Starting to Turn continued

Top 20 Sources for U.S. Furniture Market (continued)

Rank	Rank Last Year		Estimated U.S Furniture Shipments in $ millions		
2013	2012	Company	2013	2012	Percent Change
7	9	Flexsteel Inds.	$382.0	$340.9	12.0%
8	7	Lacquer Craft	$369.7	$380.0	2.7%
9	10	Man Wah Holdings	$365.7	$329.1	11.1%
10	8	Ethan Allen Interiors[e]	$342.0	$338.4[R]	1.1%
11	11	Bernhardt Furniture[e]	$313.5	$280.0	12.0%
12	12	Home Meridian International[e]	$275.8	$267.3	3.2%
13	13	L & P Consumer Products Unit	$266.4	$261.7	1.8%
14	20	Standard Furniture Manufacturing	$220.3	$180.3	22.2%
15	14	Hooker Furniture	$219.2	$209.6	4.5%
16	15	Best Home Furnishings	$218.6	$203.0	7.7%
17	19	Bassett Furniture Inds.[e]	$210.9	$180.2[R]	17.1%
18	18	Sherrill Furniture[e]	$208.6	$181.4	15.0%
19	16	Natuzzi	$201.5	$206.8[R]	-2.5%
20	17	Franklin[e]	$171.3	$184.3	-7.1%
		Top 20 total	$10,611.2	$10,201.6	4.0%

e = Furniture/Today estimate
NR = not ranked
R = revised
Rankings are by total furniture shipments to the U.S., including bedding, contract and accessories for some companies.
Non-furniture revenues (such as textile products, components, investment income) have been excluded and are described in the notes, with specific amounts given when possible.
All figures for 12 months ended Dec. 31, 2013 and 2012 unless otherwise indicated. All figures are Furniture/Today market research estimates.
Source: Furniture/Today market research

Making the Case for a Manufacturing Makeover

According to a 2011 Manufacturing Institute and Deloitte study on the skills gap in manufacturing, there are 600,000 unfilled manufacturing positions in the U.S., primarily for skilled production workers, including craft workers.

As with all sectors of manufacturing, furniture manufacturers are facing skilled labor shortages, too. An aging workforce has depleted the pool of skilled workers in the furniture industry—particularly upholsters and sewers. And fewer younger people are looking for those jobs.

The problem is that the industry is changing, but its image isn't. Many subscribe to long-held beliefs that associate furniture manufacturing with layoffs, untrained manual labor, and dark and dusty work conditions. The reality is that the furniture industry, as in other manufacturing sectors, is introducing advanced technology into its processes, replacing

American Furniture Manufacturing: Tide Is Starting to Turn continued

traditional manual processes with sophisticated machines that operate in clean environments. While technology can reduce the size of a workforce, it creates an even greater need for skilled workers who understand and know how to operate the technology.

Community colleges and other types of technical schools are perfectly poised to offer training in the manufacturing fields to help close the skills gap. The pressure parents often place on their children to attend four-year colleges instead of two-year colleges that offer more lucrative, in-demand job opportunities is a limiting factor that must be overcome. A recent report produced by the National Association of Manufacturers indicates that only 30 percent of parents are encouraging their children to enter manufacturing and only 17 percent of people see manufacturing as a top career choice.

Clearly, the furniture industry is in need of an image makeover in order to begin attracting a skilled workforce. The recent recession has created opportunities for the furniture industry to reach out to a large pool of prospective employees that include career changers, those who were once employed in the furniture industry but left, immigrants, the un- or underemployed, with the promise of offering appropriate training, good working environments and job security.

In the meantime, manufacturers should align themselves with the resources of their local communities to offer comprehensive and high-quality technical training to bridge the skills gap divide or create on-the-job apprenticeship programs that pay workers to learn a skill while in a work or training environment.

Manufacturers should also pay attention to the needs and desires of younger workers, particularly Millennials, who have vastly different work and career aspirations than older workers, in order to begin attracting and building a younger workforce.

A View from the Middle Market Retailers

According to *Furniture Today*, the top 100 furniture stores posted a 7.8 percent increase in sales in 2013. In addition, more than half of these companies indicate they have expanded or plan to expand in 2014, the first such positive news since the recession.

Top 10 Retail Stores
Ashley Furniture
IKEA
Williams-Sonoma (Pottery Barn and West Elm)
Rooms To Go
Mattress Firm
Berkshire Hathaway
Pier 1 Imports
Restoration Hardware
Raymour & Flanigan
La-Z-Boy

Source: Furniture Today

To determine if these positive growth trends were extending to middle market retailers, ABTV surveyed a small group of middle market decision-makers in the summer of 2014 about their current and anticipated sales outlooks over the next two years. The survey also explored the issues that kept these retailers awake at night.

Fifty-seven percent of respondents indicated that their 2014 retail sales were increasing; 29 percent indicated sales were declining; and 14 percent indicated sales were holding steady.

When looking out over the next two years, 86 percent of those surveyed said they projected a growth in sales while only 14 percent expected a decline.

A View from the Middle Market Retailers continued

This group saw a number of challenges and industry threats to the middle market. The three greatest were:

- Slower-than-expected economic growth
- Shifting demographics of buyers
- Need to adapt marketing strategies to reach new audiences

Other challenges included the change in buyer preferences; competition from larger, big-box retailers; consumer fear and uncertainty related to the effects of the recession, including stagnant wages, retention of disposable income, and loss of wealth; competition from internet retailers; and federal government policies particularly in the area of environmental regulations.

When asked what the biggest challenges and threats to the furniture industry as a whole were at this time, the middle market retailers indicated:

- Slow economic recovery
- Shift in furniture preferences among younger buyers
- Pressures to incorporate technology into traditional manufacturing practices
- Shortage of drivers in the trucking industry that could contribute to an increase in freight charges
- The need for more "Made in the USA" product

While the middle market often goes unheard amid the white noise generated by top retail sellers, the responses of these middle market retailers echo the sentiments of the large sellers. Most are bullish on market growth for the foreseeable future.

U.S. Housing Market's Symbiotic Relationship with Furniture

As of the third quarter of 2014, the economic picture for the U.S. was positive. The Consumer Confidence was on the rise thanks to job growth and more personal income expectations. Inflation remained steady, and interest and mortgage rates were low. This good news spilled over to the housing industry, too, where housing starts were up, existing home sales increased, and the sale of distressed homes leveled off.

As the housing market goes, so goes the furniture industry. New orders have increased and are running ahead of last year's orders and shipments are higher compared to a year ago. Many industry experts are predicting that the furniture industry's slow but steady growth will continue in 2014, provided consumer confidence levels remain high.

According to ABTV's economic forecaster, Jim Smith, attention needs to be paid to the housing sector, which must pick up the pace in order to ensure the ultimate turnaround that the U.S. economy needs. Smith says the pattern of decline into recessions and rebounds before the end of recessions has been obvious for all 11 post-World War II recessions, except for the most recent one. He points out that, in 2014, the housing market still isn't contributing much to real Gross Domestic Product. However, he predicts this will change over the next three to five years, which will be good news for the furniture industry. (For a copy of Jim Smith's report, click here: http://bit.ly/1pdd1zu.)

Other economic factors related to housing are affecting the furniture industry, too. Higher mortgage rates and tighter lending restrictions are making it difficult for Millennials, the

U.S. Housing Market's Symbiotic Relationship with Furniture continued

largest generation in history after the Baby Boomers, to purchase homes. Many in this generation carry high debt loans, particularly from student loans. This is contributing to a rise in apartment development where the square footage is considerably smaller and more affordable than that of a home and very appealing to this younger group. In fact, according to *Multifamily Executive*, in the past decade, homeownership among those 35 years and younger has fallen from 43.6% to 35.9%.

The Millennials' preferences for smaller rental options and consumer wariness about buying homes given a slower-than-expected economic recovery, is being translated into a rise in apartment and other multifamily complex starts, particularly in metropolitan areas. This trend is expected to continue for another five years and will impact the furniture industry as consumers purchase less and smaller furniture. A rich example of this is the demise of entertainment centers thanks to wall-mounted flat-screen televisions and smaller television stands that require far less floor space.

Another factor on the horizon that could affect the furniture industry in the near term is how severe winter 2015 will be. The unusually severe weather of winter 2014 stymied home as well as furniture sales in the first quarter of 2014.

Trends Driving Trends

Over the past decade, many factors have emerged that directly or indirectly affect the furniture industry, including technological changes, the rise of social media, and changing demographics.

While furniture preferences differ somewhat by generation, there is common ground. Furniture is not a frequent purchase and is viewed by most consumers as a reflection of one's self—it's an emotional purchase that's frequently triggered by a life change. Despite the preference among younger consumers toward "disposable" furniture from lifestyle stores like Pier 1 Imports, IKEA or Restoration Hardware, the fact remains that quality is an overarching criteria among all consumers.

Baby Boomers downsizing from five bedroom family homes to three bedroom town homes or condos are stunned by new realities. Not only is their old furniture not scaled to fit the sleekly designed contemporary environments created by new construction that features kitchen islands, built-in shelves and the lack of formal dining rooms, but their furniture also looks and feels dated in the new spaces.

To add insult to injury, the used-furniture market is now glutted with Boomers' upholstered sofas, armoires, formal dining room sets, and antique collectibles that are being shed in order to downsize. With the market full of the Boomers' cast-aways, consignment shops and traditional non-profit donation centers such as Goodwill and the Salvation Army have become pickier about what items they will accept for resale and don't hesitate to turn away anything they can't use or aren't willing to pay more for. While storage space is an issue for consignment shops, another reason for this trend is that consumers who at one point in time scoured second-hand stores for the best home furnishing deals are now shopping for similar items at mass retail stores like Target and WalMart that sell new and cheaper imports.

Trends Driving Trends continued

The Millennials or Gen Y are driving their own trends, too, and have their own sets of criteria. Environmentally friendly furniture trumps furniture made in the U.S.A., smaller is better because it's more affordable, and social media is a critical element in this generation's bag of research tools used when considering a furniture purchase.

Gen Y doesn't like the divided space living of their parents. Rather, they prefer to soften the lines of their living areas between common and private, work and play, indoor and out. Developers of new apartment complexes are responding with smaller, more open floor plans that feature reclaimed and recycled, sustainable and environmentally safe materials as well as shared spaces. Here's where the generation that grew up on social media can access wireless Internet, talk with neighbors and enjoy the outdoors through walls of floor-to-ceiling windows. The new open living plans require less and more functional styles of furniture.

The furniture industry faces a consumer audience today that has multiple needs and preferences, some of which are in conflict. For example, the growing demand for construction materials that are sustainable and environmentally safe increase the price at retail due to the costs associated with sourcing the materials. Yet, consumers are willing to pay only so much more for the ease that comes with knowing they are purchasing and using eco-friendly materials. The furniture industry would be wise to conduct market research regularly on consumer preferences and shopping patterns to be in a position to strategically market products to targeted consumer groups looking for a specific type of product.

What seems clear is that furniture manufacturers must design to meet the need for multi-purpose furniture for a new generation of consumers who prefer flexible and fluid living environments. The incorporation of technology into traditional home furnishing designs, such as the addition of built-in speakers into recliners, is the type of innovation the industry needs to maintain future growth and appeal to Gen Y-ers. This next wave of influential consumers will be well poised to help expand industry sales as their affluence increases and they move through lifestyle changes that will require them to purchase more and different types of furniture.

More on the Millennial Factor

By the year 2020, it is estimated that Millennials or Gen Y will comprise nearly 50 percent of the workforce, a reality the furniture industry must recognize as it markets to this consumer group and hires them. This generation thinks, acts and consumes in vastly different ways compared to previous generations and is already shaping a new world order.

Generation	Year of Birth
Digital Generation	2002-
Generation Y/Millennials	1983-2001
Generation X	1964-1982
Baby Boomers	1945-1963
The Silent Generation	1928-1944

More on the Millennial Factor continued

Gen Y, which generally refers to current 12 to 30 year olds, can be described as:

- Economically conservative
- Socially progressive
- Hyper-organized
- Self-confident
- Tech-savvy and digitally plugged in
- Transient
- Entrepreneurial
- Social networkers
- Socially conscious
- Preferring experiences over things

Many in this generation are unemployed and burdened by debt, largely from college loans, but they find the $300 needed to buy the latest release of the Apple iPhone and other technology "must-haves," which are their connections to the world.

Millennials are particular about how industries and brands market to them. They want to be heard. They want to be treated as individuals. They want to be appreciated. They want to interact with brands. They only want to receive highly relevant advertising appropriate to their interests—and electronic device(s). They don't have time for marketing that misses the mark.

The furniture industry could take a page from other industries that have successfully connected with Millennials. Costco, for example, is popular with Gen Y because of their emphasis on corporate social responsibility—Costco treats its employees well and offers a good selection of goods. While not necessarily loyal to brands, Millennials do care about the quality of products they use and ethics of the companies from whom they buy. Millennials want to work with and give money to companies that align with their values. And they don't want to be continually reminded of an organization's purpose and what they do.

Millennials also bring a different mindset to the workplace, something the furniture industry, like it or not, needs to pay attention to, since this group represents the workforce of the future. Millennials like flexible working conditions, because work/life balance issues are important to them. They want to be heard and appreciate employers who respond to their issues and concerns in creative ways. Millennials seek out personal growth opportunities with employers, valuing meaningful work and a sense of accomplishment.

With the workplace transitioning from Baby Boomers to Gen Y, workspaces will likely transition, too, to reflect the younger workers' desire for a workplace that feels engaging, values group work and learning, and integrates technology to add flexibility and meet unique user needs. The manufacturers and distributors of office furniture should take note of the inherent opportunities that exist with this emerging trend.

Demand Dictates Distribution

Traditionally, brick-and-mortar retail stores have been the primary method for manufacturers and retailers to market and sell directly to consumers, fueled by the long-held belief that shoppers desire to touch a piece of furniture before buying it.

Demand Dictates Distribution continued

But the Internet is slowly changing the furniture retail landscape, particularly among younger consumers, and opening up new channels of distribution. Consumers can shop, order and arrange for the delivery of furniture 24/7 online—they don't have to free-up a Saturday afternoon to travel around town, visiting furniture showrooms and comparing options.

Many retailers, particularly in the lifestyle category like Crate and Barrel and Williams-Sonoma, have entered the rapidly growing e-commerce market that offers customers the convenience of purchasing furniture directly from their websites. Increasingly, consumers are more willing to purchase furniture online and are embracing this new distribution channel.

Some retailers, however, are finding the move to an e-commerce environment a costly transition, forcing them to spend more on fulfillment, online marketing and personnel. In addition, they are being challenged to integrate technology into current processes in order to offer such services as online transaction processing, electronic funds transfers, and inventory management systems.

Another emerging trend for the furniture industry to bear in mind is that of moving distribution through the interior design network, where consumers work directly with interior designers for their furniture, wallpaper, drapery and other household furnishing needs. According to *Furniture Today*, this approach accounts for five – 10% of furniture sales and has started to increase as the economy continues to recover.

Growth opportunities exist abroad as the steady comeback of the U.S. furniture industry opens doors, particularly in the high-end market, for manufactures to expand into new markets. Several emerging markets are making the export business more appealing. The rising middle classes in China, India and Brazil have created a market for more high-end furniture that the U.S. can provide, offering new opportunities for growth to those willing to spend the time, money and energy to address the challenges of operating overseas. Canada, Mexico, Japan, the UK, Vietnam, Malaysia and Indonesia also represent growing export markets for the U.S. furniture industry.

Making Sure Marketing Hits the Mark

Traditionally, the furniture industry has not been known for marketing itself well. Industry leaders have been reluctant to research consumer preferences or improve the customer experiences. As a result, the industry is running the risk of producing product that is not responsive to the needs of consumers.

Successful marketing strategies rely on a deep understanding of target audiences. In the case of the furniture industry, it is essential to understand how consumers shop for and purchase furniture.

The traditional use of newspaper advertising and direct mail strategies are no longer the only and most effective ways to reach consumers. For example, television advertising and network shows, such as HGTV, can be used to target women of all ages. Studies show that home magazines and magazine ads reach Gen Y and Gen X. While the industry has been timid to engage in social media, this is an obstacle that must be overcome in order to begin to build relationships with new generations of buyers.

Making Sure Marketing Hits the Mark
continued

There's a sense within the industry that once a website has been built, they will come. But, websites need to be maintained and updated routinely. Consumers, particularly younger ones, value experience over availability of information. In order to grab attention, websites must be engaging and interactive, making it convenient for consumers to find what they're looking for and allowing them to obtain a realistic picture of what the furniture will look like in their own home or office space. The increase in consumers interested and willing to purchase furniture online, sight unseen, should be a message to retailers to incorporate online buying options if they don't currently exist.

Those companies interested in building and growing their brand must begin to fully embrace nontraditional methods of promotion. Geo-targeted mobile advertising, highly targeted web advertising, and social media network integration to promote products are keys to increasing awareness and building brand loyalty, especially among tech-savvy audiences.

Despite the proliferation of technology, good, informed customer service, whether delivered online or in person, is one of the best ways companies can keep costumers coming back and the brand top of mind.

A furniture company that ignores branding is little more than a provider of contract or private-label furniture. However, those that understand branding and its importance to their long-term survival will benefit greatly. And those that develop a brand that stands for something in the consumer's mind will be the ultimate winners.

Conclusion

The furniture industry is undergoing transformation and key decisions made now will set the stage for the industry's growth for the foreseeable future. Numerous challenges nip at the industry's heels, including a slower-than-expected economic recovery, a worker shortage, a skills gap, shifting consumer preferences among the generations, and technology integration. Despite all this, the industry appears poised for a slow and gradual turnaround.

The skills gap that exists today in furniture manufacturing, as a result in part of Baby Boomers exiting the workforce in droves, is an issue that is greater than the furniture industry. Manufacturing in general is suffering from an image problem. Technology is changing the manufacturing environment, requiring new and updated skill sets, but the public doesn't understand this. The manufacturing industry needs to mount an awareness and education campaign aimed at attracting and retaining a younger, skilled and reinvigorated workforce in order to succeed.

The furniture industry can do its part by committing revenue to capital investments and acknowledging the changes that are taking place within society. In just five short years, 50 percent of the workforce will be comprised of Millennials or Gen Y-ers. This group will become the primary consumer of furniture and source of workforce talent, and their attitudes about consumption, work and play are vastly different from previous generations. The furniture

Conclusion continued

industry is well advised to focus on understanding what motivates and inspires this generation and identify new ways to reach out and market to them, which must include the use of technology. This is the generation that grew up with mobile devices and essentially invented social media, and they need to be met where they are: online.

But, the furniture industry must cast a net that's wider than the Millennials in order to reach target audiences. The current situation is complicated by a need to communicate simultaneously with multiple audiences that are now active in the workforce and consumer populations, from recent college graduates to career changers to retirees.

The industry needs to be open to bucking trends such as sending operations overseas and using traditionally sourced materials as a way to rejuvenate and update its image. The surprise popularity of Beth Macy's book *Factory Man* about John Bassett's successful battle against off-shoring and foreign competition and his commitment to reinvesting in his own company domestically provides the inspiration and hope the industry so desperately needs. This book—and the mini-series that will follow—could help reignite pride in the American furniture industry and serve as a catalyst for building a new generation of furniture workers.

How nimble and flexible the furniture industry is in responding to and embracing all the shifting forces at play will be the key to driving profitability, competitiveness and market share in the days ahead.

This report was produced by Anderson Bauman Tourtellot Vos (ABTV), a turnaround management firm headquartered in Greensboro, NC. For questions or more information about this report, contact:

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