



# Competing in a **global marketplace**

## How to avoid losing U.S. furniture manufacturing completely

By Jeff Crissey

**G**lobal competition for the U.S. furniture industry has continued at an unprecedented pace during 2003. According to the United States Department of Commerce, wood household furniture imports from the top 25 import sources is projected to exceed \$8.5 billion (with China accounting for \$3.8 billion), a 13.1-percent increase from 2002. Meanwhile, U.S. furniture manufacturers are reeling, suffering plant shutdowns and worker layoffs as domestic operations are moved offshore.

While the numbers are bleak, experts say that even though it is unlikely we'll see the return of the industry to its former glory, there will continue to be a market for those manufacturers willing to innovate.

### Looking for answers

If U.S. furniture manufacturers are going to rebound and reclaim some of the furniture market lost to cheap imports, experts say although there is no one solution or business model that will work for every manufacturer, automation, education and new production methods are essential for future success.

"We have unprecedented competition on a global basis, which keeps us from being able to raise our prices whatsoever," says Andy Counts, CEO of the American Furniture Manufacturers Association. "At the same time, the cost of doing business continues to increase. As a manufacturer, you have to look internally and ask, 'What changes do I need to make structurally to become more efficient and effective and get my

costs down so I can compete in a global environment?' Automation is a big part of that."

Urs Buehlmann, assistant professor in the Department of Wood and Paper Sciences at North Carolina State University, agrees, and says waiting around for China's labor wages to increase is a mistake. "Technology, combined with new business models and innovation, are the only things that can save our industry," he says. "Even if the labor rate triples in China, wages would still be a third or less of what we pay here."

Industry analysts say education goes hand-in-hand with automation to get the most out of advanced processing machinery.

"Part of the process is you have to have a higher-educated workforce and constant training," says Al Schuler, research economist for the U.S. Forestry Service, a division of the U.S. Department of Agriculture. "If you look at the training and education level in the furniture industry, for the most part they don't invest in their workers to the same degree as the cabinet industry does. You don't need a highly-educated person to work in today's furniture plant if it uses outdated technology."

Experts contend U.S. furniture producers also need to look to other U.S. woodworking industries, namely cabinetry and millwork, for solutions. The cabinet industry invested heavily in automation and has effectively staved off foreign competition.

"Kitchen cabinet manufacturers have done a good job of keeping foreign competitors out, but that won't last forever," says Art Raymond, man-

ufacturing consultant and president of A.G. Raymond & Co. “There are going to be low-end products that will come in from overseas, but as long as U.S. manufacturers can remain fast to the consumer and offer a lot of choices, there will be a lot of kitchen cabinets made here. They lend themselves to efficient processing. We need to see more of a ‘cabinetization’ of the furniture production process. There are a lot of furniture products that can be built more like kitchen cabinetry. If you engineer it well and get away from ‘one-of-a-kind’ mentality, it can work. Canadel has proven that in the casual dining furniture market.”

Wood bedroom furniture has been hit the hardest by imports, but there are many market segments that have sustainable advantages here in the United States.

“Some products will always benefit from being close to the marketplace,” says Raymond. “Upholstered furniture manufacturing, for example, has gotten to a point where production is streamlined. You can make a sofa in hours rather than days, and you can get it out to your customers quickly. When you’re able to do that, you can stave off some foreign competition. For wood furniture, it’s more difficult because the production process can’t be as streamlined. However, there are a lot of products that won’t be built overseas for applications like retail stores, hotels, banks, offices and architectural millwork.”

“There will be some manufacturers that realize that they have a large market segment they can compete in right here in the U. S.,” says Buehlmann, “but it requires an investment in their facilities. I’m not sure that the existing manufacturers unwilling to change will be doing business in 10 or 15 years.”

Other possible solutions for the success of U.S. furniture manufacturing are being waged in Washington. A group of U.S. furniture manufacturers have started an anti-dumping initiative against Chinese wood bedroom furniture manufactures, seeking to level the playing field with Chinese imports.

“Up until now, we have given everything up without a fight,” says Buehlmann. “Now it’s time to make a stand and do what we can. For us, the question is, ‘What can we do today to avoid losing furniture manufacturing completely?’”

Experts warn, however, that unless U.S. furniture manufacturers are willing to invest in their plants, they are simply delaying the inevitable.

“Anti-dumping legislation protects the industry, but the whole idea of doing this is to get some breathing room

in order to invest in our plants and make ourselves more globally competitive,” says Buehlmann. “Unless we take advantage of it and reinvest, educate our workforce and make ourselves more competitive, it won’t work.”

Others suggest that imports will simply be shifted from China to other neighboring countries.

“It’s going to force more people to go to Vietnam and other places,” says Raymond. “Few of the U.S. manufacturers are of the mentality that they are going to take advantage of the anti-dumping initiative and reinvest in their own manufacturing. Everybody needs to be looking out there and asking, ‘Why is this happening, where is it going from here, and how can I take advantage of it?’”

#### Reinventing the wheel

In the future, experts say success for the U.S. furniture industry will depend on manufacturers’ willingness to try new and innovative ideas.

“I have a saying that ‘experience is only worth something if you think tomorrow is going to be like yesterday,’” says Raymond. “In reality, tomorrow is not going to be like yesterday for the furniture industry. For a furniture manufacturer to succeed will take starting with a clean sheet of paper

and blowing off all the institutional memory. Very few people in this industry are willing to change. They need to think about how other industries like cabinetry have changed the way business is done. Anybody who goes out now and tries to break into the furniture industry as a domestic producer needs to consider a model where he is good at product design and product engineering.”

Partnerships with other areas of the woodworking industry are also critical to the future success of the furniture industry.

“The hardwood lumber and components industries are going to have to work more closely with their furniture customers to help them work out a solution that would work,” says Schuler. “What furniture companies do best is make furniture, market and sell it. They don’t want or need to be in the lumber business. They want to get the components sold to them so they can just assemble.”

Buehlmann also suggests forming strategic supplier alliances with other domestic manufacturers to lower costs on outsourced goods.

“Furniture or wood products could be designed with some standardized parts inside the furniture,” says Buehlmann. “That would create a big volume of standard parts for many designs. Such parts should be made where

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**–Urs Buehlmann**

it's cheapest. Smaller manufacturers don't have the clout to get good prices if they only buy 10,000 pieces a year. A strategic supplier alliance would include smaller manufacturers pooling up and buying at higher volume. They can compete with one another on other issues."

**A progression, of sorts...**

The ascension of China as the leading source of imported wood household furniture to the United States goes hand-in-hand with the decline of Taiwan's furniture industry. Up until the early 1990s, Taiwan served as the main source of U.S. wood household furniture imports.

"If you look at Great Britain during the Industrial Revolution, it was the workshop of the world for a century or more," says Raymond. "Then the United States came along in the late 1800s and kept manufacturing leadership for 75 years or so. Then the Japanese came and had it for 20 years. Now the rest of the Asian countries are coming on and may have it for a shorter time. If you look at that trend, the time any region is going to be the workshop of the world is shrinking. On that side of the equation, you see that China isn't going to be there forever as its quality of living goes up and its middle class develops."

The quality of life for the Chinese middle class is showing signs of steady improvement, especially in the coastal provinces. Shanghai is now one of the top markets in the world for automobile sales.

"From what I've read, by the end of the decade the GDP of China will be pretty close to what we have in the United States," says Schuler. "Right now, our GDP is roughly \$10 trillion, while China's is around \$3.5 trillion at the current exchange rate."

Other industry experts contend that China's dominance in the U.S. furniture market won't be as short-lived as that of Taiwan or other Asian countries.

"I don't think China will be on the road to Taiwan in five years," says Buehlmann. "I think it's a question of 25 or 50 years. They have 1.4 billion people, and they have 17 million new entrants into the workforce each year."

One thing they do agree on is that China will not be the furniture industry's final destination. As manufacturers look to import cheaper products to remain competitive, they will continue to follow cheaper labor all over the globe.

"As the middle class burgeons in China and begins to demand more products that have more value for a manufacturer, China will take those employees now used to

make furniture – which will ultimately become a low-margin product for it as well – and shift them somewhere else," says Raymond. "Then its labor force will become more expensive and the furniture industry will be chased out."

Raymond says another factor that may limit the longevity of furniture manufacturing in China is increasing complexity and demands placed on Chinese importers by their U.S. customers.

"There are a lot of people here saying to the Chinese, 'We want you to start helping us with our distribution,'" says Raymond. "That forces the Chinese to start thinking about putting warehouses up. When they do that, they are going to have to manage inventories. American buyers want the ability to order a mixed container of goods shipped on their schedule rather than that of the Chinese. As American manufacturers begin to put more demands on Chinese suppliers, the Chinese will be faced

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**–Al Schuler**

with the same problems that our domestic furniture industry has been facing for years – it's going to add cost, it's going to add complexity and it's not going to be as profitable. When that

happens, many Chinese businesses may shift to another industry that is more productive and profitable."

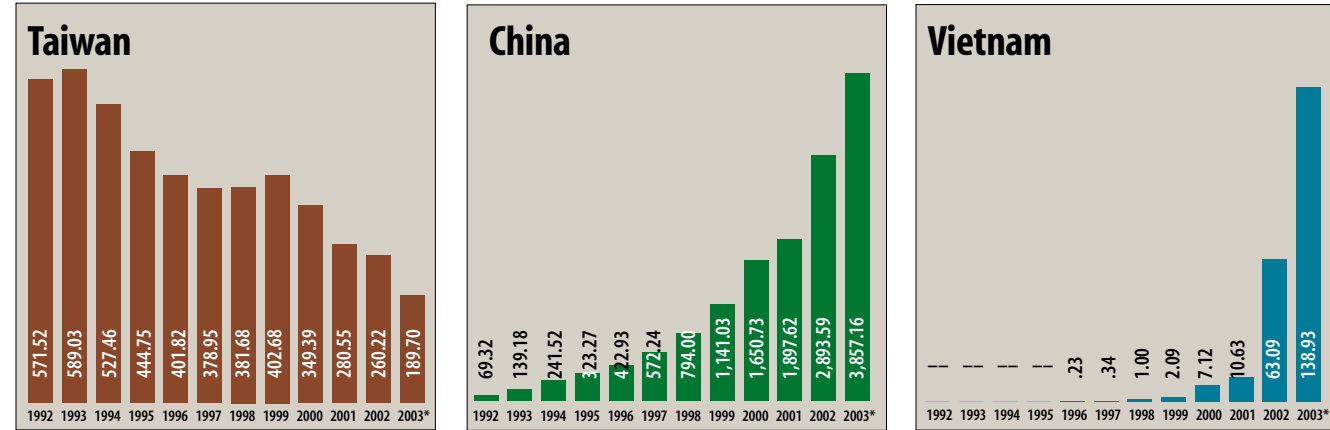
**Who's next?**

If furniture manufacturing isn't to take up permanent residence in China, the question begs to be asked: Who's next in succession to reign as leading exporter of wood furniture to the United States? It's a good bet the answer is another Asian country. The Asian workforce – with its high productivity per employee – is well suited to labor-intensive manufacturing industries.

"Vietnam is on everyone's radar screen," says Counts. "There's a lot of development taking place there, and a lot of companies are looking at Vietnam's infrastructure. Laws are being changed as far as our trading partnership with Vietnam, which would make it more beneficial to go there. I would imagine that Vietnam would be the next emerging player in the furniture industry."

A glance at the Department of Commerce's "Top 25 Import Sources for Wood Household Furniture" supports Vietnam as the next threat to the U.S. furniture market. Vietnam's wood household furniture exports to the United States in 2002 totaled \$63.09 million [see Figure 1], putting it roughly where China stood ten years ago (\$69.33 million in 1992). In 2003, Vietnam's exports are

Figure 1:  
Taiwanese, Chinese and Vietnamese wood furniture exports to the United States, 1992 through 2003 (in \$U.S. millions)



(\* projected)

Source: U.S. Department of Commerce

experiencing an enormous 220.2-percent increase from last year, putting them on pace to export \$138.93 million of wood household furniture to the United States this year. The country with the next highest percent change from 2002 to 2003 is India, with a 59.1-percent increase.

One advantage Vietnam has is proximity to ports. Another advantage it holds over China is even cheaper labor rates.

“The Vietnamese don’t have near the labor base of China,” says Buehlmann. “Also, the Chinese have capital to invest in technology to replace labor to remain competitive. Currently, Vietnam is big in textiles and shoes, two industries that are profiting even more from low labor costs than furniture because those products are so hard to automate.” **MW**



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