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EXCLUSIVE REPORTS

Furniture firm bucks trend and reinvests

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The Business Journal

ELKIN -- New computer-run wood-cutting machines purr in the Vaughan- Bassett Furniture Co. Inc. plant in Elkin, just part of the \$10 million investment the company has made in the last five years at the 500-employee plant.

While other wood furniture makers are laying off employees because of foreign competition, cutting production and shying away from reinvesting in their American factories, Vaughan-Bassett appears to be bucking that trend. The privately held company is investing in its plants to speed up production to retailers and investing in attorneys to speed up legal fights with foreign furniture importers.

"Most of the people in this industry have turned off the faucet of money for reinvesting in their plant and equipment. They don't think they can compete," said Art Raymond, a wood furniture manufacturing consultant in Raleigh.

But Vaughan-Bassett's focus is now on increased speed of production, increased speed to shipping and higher inventory levels. All of this is setting a new tone in the evolving wood furniture industry.

"All the smart guys in this business are doing this," Raymond said.

For the past five years, Vaughan-Bassett has been spending about 5 percent of its annual sales on its three manufacturing plants in Elkin, Galax, Va., and Sumter, S.C. In that time, sales have risen from \$135 million to \$160 million; so have capital investments, now at \$8 million a year.

"We don't shy away from the cost of capital equipment," said Wyatt Bassett, senior vice president.

Vaughan-Bassett was the first wood bedroom furniture maker to invest in computer-controlled saws 15 years ago.

All of that equipment has since been replaced with faster and more efficient equipment as the company has been increasing the amount of useable wood per board cut by about 40 percent since the 1990s.

As wood and other raw materials make up roughly half of all expenses, getting more useable materials out of every piece of wood has an immediate impact lowering costs.

"We don't hesitate to replace even upgraded equipment," Bassett said. "We invest aggressively."

More, not less, inventory

The company is also increasing production speed by making larger batches of the thousands of wood parts that go into the hundreds of different pieces of bedroom furniture that it makes.

"It's more efficient to make 1,000 units of a piece than it is to make 100," Bassett said. "That means larger inventory. We're a business school professor's worst nightmare."

For the past three years, Vaughan-Bassett has more than tripled its inventory of finished furniture. The company now has \$15 million in inventory.

While Vaughan-Bassett once turned over its inventory 10 times a year, it now turns over its inventory only six times annually. Bigger inventory means popular items tend to be in stock and ready to ship via its Vaughan-Bassett Express service.

The company is guaranteeing delivery to most American stores within two weeks while Asian furniture makers tend to take six months or more to deliver across the Pacific Ocean.

Having popular furniture available when customers want it is critical for retailers who are risk averse in this slow economy, said Ken Smith, furniture analyst with BDO Seidman in High Point.

Carrying the excess inventory may seem risky for Vaughan-Bassett, Smith said, but it's the best way the company can compete with cheap imports.

China fight

Such aggressive decisions are part of the company's motus operandi, and appear to be markedly different than what's happening at other domestic wood-making furniture companies.

In the past three years, industry executives and political leaders have been wringing their hands about what to do as Chinese furniture plants sprung up and quickly began production overseas, contributing to 35,000 American workers to losing their jobs since 2000.

Wyatt Bassett's father and boss, CEO John D. Bassett III, has organized 31 other American furniture companies and their employees in the last three weeks to file an "anti-dumping" legal case with the U.S. Department of Commerce.

The petition claims that China's factories are government supported and China's currency is illegally pegged lower than the U.S. dollar. With Chinese labor costs more than 90 percent cheaper than U.S. workers and currency rates giving another 40 percent discount, American furniture makers are seen at a distinct disadvantage.

"This is part of the globalization of our society," said Don Jud, economist at UNC-Greensboro.

He said the free enterprise system is an evolutionary process that forces the inefficient plants to close -- 40 furniture plants have closed in the past five years in North Carolina -- as consumers vote with their wallets for what they determine to be the best price and best quality of the items they purchase.

In response, American furniture plants still operating have cut their work hours. North Carolina plants making bedroom furniture are running at about 70 percent capacity, down from 100 percent in 1999, said Art Raymond, the furniture consultant.

Capacity and computers

One company running at full capacity is Vaughan-Bassett, a move that helps keep inventory levels high while encouraging improved efficiencies elsewhere. One way is by outsourcing its massive computer needs.

Vaughan-Bassett tries to keep IT spending to around .01 percent of sales. By comparison, Gartner Dataquest,

an industry analyst group, says that the average company spends around 5 percent of sales on IT. To keep those costs low, Vaughan-Bassett outsourced computer operations to Designed Data Systems of Greensboro.

"We're much more willing to gamble on equipment rather than IT," Bassett said. "We're not against IT systems, but we have a really high bar to justify those costs in our industry."

Managing data is a large task due to the nature of the furniture business.

The furniture makers and retailers have not organized a centralized electronic ordering system, despite attempts in the 1990s. As a result, Vaughan-Bassett has 5,000 retail clients who order furniture from the factories using about 4,000 different electronic data interchange systems.

It's a similar story with the company's roughly 500 suppliers.

This lack of an industry standard for electronic ordering is symptomatic of supply-chain problems that continue to plague the furniture business, which is still fragmented with thousands of small and midsize companies acting independently, said Steve Walker, an industrial engineering specialist with N.C. State University.

He admires Vaughan-Bassett for tackling that ordering nightmare, improving production and delivery efficiencies, taking on the political threat from foreign imports, and being one of the few case goods manufacturers to reinvest in its operations.

Walker compared Vaughan-Bassett to textile leader Milliken & Co. Inc. in South Carolina, which also reinvested in its plants and people to grow in an industry that was moving offshore. The key is private owners willing to take a chance.

"John Bassett and his family own the company so they can take the hits and take the chances that public companies can't because of quarterly investor demands," Walker said.

Vaughan-Bassett is continuing to invest in its operations. The company is spending \$1 million on a new distribution and warehouse center in Boonville that will have more than 200,000 square feet of space.

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