

How do retailers rate the United States and Canada as furniture sources compared to China?

Introduction:

During the past decade, the U.S. wood household furniture industry has lost a significant share of its domestic market to imported furniture. This market share loss has been widely discussed and analyzed, largely from a manufacturing perspective. Globalization has exposed weaknesses in the competitive position of the North American furniture industry as well as other sectors of the forest products industry, and indeed, much of the overall manufacturing sector. Competitive pressures such as lower offshore labor and production costs, unfavorable exchange rates, trade liberalization, and universal access to capital and technology are just some of the forces that create challenges for the domestic industry. Lowering production costs are often necessary, but they are not sufficient alone to keep North American furniture manufacturers competitive in an environment where offshore labor costs are a small fraction of those of domestic workers.

A relatively unexplored dimension of household furniture importing is the perspective of the retailer. Retailers play a critical role in the supply chain and interact directly with consumers. In today's marketplace, they often have experience with the relative strengths and weaknesses of suppliers from several countries. The present study sought to determine, from the U.S. retail perspective, those areas in which North American (U.S. and Canada) furniture manufacturers are perceived to do well compared to their counterparts in China, and conversely, in what areas they could improve. We investigated 16 attributes deemed to be relevant to furniture retailers by surveying the membership of a national trade association. Possible elements of competitive strategies for manufacturers in each source country are developed based on the findings.

The Study:

A questionnaire was sent to more than 2,500 retailers associated with the Home Furnishing International Association (HFIA) in the spring of 2005. A total of 655 usable responses were received. Nearly 47 percent of respondents indicated that they were the president or CEO of the company and 33 percent indicated that they were store owners. Respondents came from 47 different states, the majority from Texas (19 percent), Pennsylvania (6 percent), New York (6 percent), Ohio (5 percent), Florida (4 percent), California (4 percent) and Illinois (4 percent). More than 90 percent of respondents reported selling wood bedroom, wood dining room and upholstered furniture, and a large majority reported selling wood living room furniture (80 percent).

Respondents indicated that they sourced products from a variety of countries with approximately 52 percent being imported (on a value basis). China was identified as the leading import source (30 percent of all purchases), followed by other Asian countries (10 percent) and Canada and Europe (both approximately 5 percent). The respondents apparently were familiar with issues surrounding global sourcing, as 81 percent indicated that they had increased the proportion of imported products in their product lines over the past five years. More than 54 percent of responding retailers indicated that their

customers inquired about the country of origin either "sometimes" or "often." Furthermore, 63 percent indicated there was a segment of their customers who took country of origin into account when making furniture purchasing decisions, although most of these respondents estimated this segment comprised fewer than 20 percent of their customers.

Assessing competitive positions:

Retailers were asked about the relative importance of 16 product and service attributes ranging from flexibility in order quantities to knowledgeable sales force. Then the retailers were asked to indicate to what extent the three different source countries of origin, China, Canada and the U.S., possessed each attribute. Overall, the United States was viewed most favorably as a furniture source (score of 242.1) based on scores calculated as the sum of attribute importance ratings times attribute possession ratings. The U.S. was followed by Canada (score of 207.9) and then China (score of 156.3). Table 1 shows attribute possession scores for each country of origin, as well as the overall importance scores for the attributes.

The United States was rated as possessing every attribute to a relatively large degree, as indicated by the highest average for possession of every attribute except low price. The gap between the U.S. and the other sources was especially large for flexibility in order quantities, easy to return damaged or defective goods, broad range of style options, strength of brand names, and replacement parts readily available. While this seems initially encouraging for U.S. producers, it is not uncommon for the "home" country to receive high ratings in country of origin studies. Furthermore, these results seem inconsistent with what is happening in the marketplace, i.e., a loss of U.S. and Canadian market share to Chinese products. Thus, a closer look at the data is warranted.

The "home country bias" was removed using rank scores for each attribute within each source, as shown in Table 2. For example, for China, low wholesale delivered price of product was rated highest, thus this attribute received a rank of "1"; broad range of style options received a rank of "2," etc. This process was repeated for each source country. In some cases, there were ties among the ranks, in which case the midpoint was assigned to each tied attribute. The attribute importance ratings were ranked in similar fashion. By observing Table 2 it is possible to see the areas where the different sources perform well and, conversely, where they fall short relative to the most important attributes. If it is assumed that a ranking of "8" or higher constitutes an important attribute (since there were 16 attributes), then competitive positions for manufacturers in the source countries can be assessed as follows.

United States:

U.S. manufacturers were perceived to do some things particularly well. Unfortunately, two of those things, broad range of style options and strength of brand names, were not perceived to be important attributes. The strongest aspects of the U.S. position included flexibility in order quantities and replacement parts readily available, as the U.S. was perceived to perform well on these important attributes and the advantages over Chinese and Canadian sources were relatively large. Two obvious problems with the U.S. position involved on-time delivery of orders and easy to return damaged or defective

goods, though none of the sources performed well on these important attributes. Accuracy of delivery is an important attribute according to respondents, but one where U.S. producers seemingly are vulnerable (with both Chinese and Canadian sources given higher relative performance ranks).

Canada:

Canada was aligned very closely with the important attributes of consistency of product quality, quality of finishing, and accuracy of delivery. Other than the problems with on-time delivery of orders and easy to return damaged or defective goods (which all sources shared), it appears Canada could improve on replacement parts readily available to be more consistent with the important attributes. Canadian manufacturers also were perceived to perform well in the areas of broad range of style options and broad range of finishing options. However, these were not perceived to be important attributes by the retailers surveyed in this study.

China:

It is no secret that a main advantage for Chinese manufacturers is low price. This was confirmed in the study. Not only was low price China's highest ranked attribute, but it also was the only attribute where China was rated highest among the sources in an absolute sense. However, low delivered wholesale price of product was not perceived to be an important attribute. This finding was interesting and might suggest that the respondents underreported the true importance of price as an attribute, or that China's competitive advantages stem from more than low price alone. China's second- and third-highest ranked attributes, broad range of style options and design acumen, also were considered unimportant attributes. China's best positioning with important attributes came with quality of finishing, consistency of product quality, and accuracy of delivery.

Do U.S. retailers that actually source from China perceive of this manufacturing source differently than do retailers without such experience? To answer this question, respondents were placed into two groups: those who did not source from China (less than 20 percent of the total value of their purchases, n=183) and those who did source from China (20 percent or more of their total purchasing value, n=413). These groups were compared statistically on the importance and possession attributes. Low price was the single variable distinguishing between the groups in terms of attribute importance. Stated differently, retailers who source from China view low price as more important than those retailers who do not source from China. Those retailers sourcing from China have better perceptions of Chinese goods than do their counterparts in terms of quality of finishing, consistency of product quality, design acumen, broad range of style options, and accuracy of delivery. These could be areas where Chinese furniture manufacturers have made significant inroads from the perspective of those actually sourcing product there, versus the generally more negative perception of Chinese goods held by those with less experience.

What can U.S. and Canadian manufacturers learn from these findings?

A framework for identifying strategic priorities for North American firms, called Simultaneous Importance-Performance Analysis¹, is shown in Table 3. To play to their competitive advantages over Chinese sources, U.S. and Canadian manufacturers should increase their focus on replacement part availability and flexibility in order quantities. Chinese importers seemingly face inherent disadvantages in fulfilling smaller orders and in providing after-sale service. For example, U.S. retailers might be more comfortable dealing with North American sources when a customer requests a replacement drawer, say for one damaged in a move, five years after initially purchasing a dresser. However, these services must provide value to offset the relatively high delivered wholesale price of products.

Although U.S. and Canadian sources were perceived to perform well in terms of consistent product quality and quality of finishing, Chinese sources were perceived to perform relatively well on these quality attributes as well, creating head-to-head competition. Thus, opportunities for differentiation based on product quality might become increasingly limited for North American firms. However, this head-to-head competition still requires continued capital and management focus on quality to maintain competitive position. A potentially troubling finding for U.S. firms in particular was that Chinese sources performed relatively better on accuracy of delivery, thus creating a competitive disadvantage for U.S. sources. Perhaps this indicates that those U.S. manufacturers who remain are moving toward more customized products (the highest rated U.S. attribute was broad range of style options), which creates challenges in accurately filling orders. Canadian sources, however, were not perceived to face this competitive disadvantage relative to China.

Areas of neglected opportunities for North American furniture sources seem to be on-time delivery of orders and ease of return of damaged or defective goods. Given their relative closeness to U.S. markets, these results are somewhat surprising and seem like good candidates for additional planning and capital expenditure for the "home field" sources. Perhaps this requires North American manufacturers to rethink their supply chains and delivery of customer service. It was interesting that on-time delivery of orders was considered to be an important attribute, whereas short lead times after order was less important. This indicates that lead times themselves are not as important as uncertainty about lead times - retailers do not want to make the call to their customers informing them that their scheduled deliveries will be delayed. While consumers sometimes are unhappy about the wait for their furniture after order placement, it seems manufacturers are closely aligned with retailers' expectations for lead times. However, performance across the board was relatively poor for on-time deliveries. Given proximity to the U.S. market, it seems that both U.S. and Canadian manufacturers could do a better job of delivering on-time and thus gain some degree of competitive advantage.

It was interesting that all sources were perceived to do relatively well on *broad range of style options*, and with the exception of Canada, relatively poorly on *broad range of finishing options*. However, both of these attributes were absent in the list of "important" attributes. With the emphasis on customization as a possible source of

¹ Burns, A.C. 1986. Generating marketing strategy priorities based on relative competitive position. *Journal of Consumer Marketing*. 3(4):49-56.

competitive advantage for manufacturers competing with low-cost sources, these would seem like good areas for North American manufacturers to focus resources. But without retail support for customized products, and with a lack of perceived differentiation relative to Chinese sources, customization might be more difficult for North American furniture manufacturers to implement in the existing marketplace.

Table 1: Results of the attribute analysis of U.S. retailers' attitudes toward manufacturing sources for residential furniture.

Attribute	Importance score ¹ :	Possession Score ² :		
		China	Canada	U.S.
Consistency of product quality	4.6	2.8	3.9	4.0
Accuracy of delivery	4.4	2.8	3.6	3.9
Quality of finishing	4.4	2.9	3.8	4.0
On-time delivery of orders	4.3	2.4	3.3	3.8
Easy to return damaged or defective goods	4.2	1.8	2.9	3.8
Replacement parts readily available	4.2	2.0	3.4	4.1
Flexibility in order quantities	4.0	2.1	3.4	4.1
Knowledgeable sales force	3.9	2.6	3.4	3.9
Short lead times after order	3.9	2.1	3.3	3.9
Design acumen	3.8	3.0	3.4	3.9
Low delivered wholesale price of product	3.8	3.9	2.9	3.1
Broad range of style options	3.7	3.1	3.4	4.2
Favorable payment terms and conditions	3.5	2.6	3.3	3.8
Broad range of finishing options	3.4	2.2	3.5	3.9
Provision of promotional material	3.2	1.9	2.9	3.5
Strength of brand names	3.1	1.6	2.5	4.1
Total Score (sum of [Importance x Possession])		156.3	207.9	242.1

¹ scale ranged from 1="not important" to 5="critically important"

² scale ranged from 1="possess to a small extent" to 5="possess to a great extent"

Table 2: Ranks applied to the attribute analysis. Attributes with a rank of "8" or higher were considered "Important."

Attribute	Importance means (rank):	Possession means (within source ranks):		
		China	Canada	U.S.
<i>"Important" attributes</i>				
Consistency of product quality	1	5.5	1	5.5
Quality of finishing	2.5	4	2	5.5
Accuracy of delivery	2.5	5.5	3	9
On-time delivery of orders	4	9	11	13
Replacement parts readily available	5.5	13	7	3
Easy to return damaged or defective goods	5.5	15	14	13
Flexibility in order quantities	7	11.5	7	3
<i>"Less Important" attributes</i>				
Short lead times after order	8.5	11.5	11	9
Knowledgeable sales force	8.5	7.5	7	9
Design acumen	10.5	3	7	9
Low delivered wholesale price of product	10.5	1	14	16
Broad range of style options	12	2	7	1
Favorable payment terms and conditions	13	7.5	11	13
Broad range of finishing options	14	10	4	9
Provision of promotional material	15	14	14	15
Strength of brand names	16	16	16	3

Table 3: Simultaneous Importance-Performance grid of the U.S. and Canada versus China rank positions for the "Important" attributes.

N. America Performance	China Performance	Simultaneous Result	Classification of "Important" Study Attributes
Good	Poor	Competitive Advantage	<ul style="list-style-type: none"> replacement parts readily available flexibility in order quantities
	Good	Head-to-Head Competition	<ul style="list-style-type: none"> consistency of product quality quality of finishing accuracy of delivery (Canada only)
Poor	Poor	Neglected opportunity	<ul style="list-style-type: none"> on-time delivery of orders easy to return damaged goods
	Good	Competitive Disadvantage	<ul style="list-style-type: none"> accuracy of delivery (U.S. only)

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