PERSPECTIVE ON FURNITURE MARKETS

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The debate about markets has generated more heat than light. These comments reflect my own views but will attempt to consider the issues from a more analytical perspective. Hopefully others will join the discussion.

The markets are driven by three sets of participants. These are the manufacturers/exhibitors, the retailers, and the owners/operators of the market real estate. My comments reflect my role as both an exhibitor as well as an owner of real estate. All three groups play inter-related roles and different participants can be drivers at different points in time.

The discussion about Las Vegas is often centered around the idea that 'this is where retailers like to go'. That is not a fully tested idea since we have not really asked the CEO or owners of major retailers if the Las Vegas environment is a better place for their staff to make buying decisions than say Tupelo or High Point. On the other hand, we have not really asked the major exhibitors in the markets what a shift would mean to them. This article is an attempt to provide some of that perspective.

The preference of retailers would center around several key issues. These would be the ability to see the most complete display of their vendors, the clustering of vendors for efficiency, the location and travel issues expressed in time, hassle and cost factors.

The exhibitor, on the other hand, looks at the ability of a market to deliver key customers, the ability to find satisfactory exhibit space, the cost of the market and again the location, time and hassle factors.

The real estate participants are interested either in the purely financial aspect of owning and operating buildings or are providing buildings as a service to the industry or as an adjunct to being an exhibitor (Palliser is an example of the mixture of motives.)

The debate to date has not articulated the underlying financial issues that in the end will significantly affect the outcome of this debate. I will propose that the financial implications for the exhibitor within the available venue choices will be a very important if not critical determinant. This data has never been discussed and I will try to make it more visible.

High Point is reputed to have 11-12 million feet of display space related to our industry. The average annual cost per gross square foot of rent and utilities is in the area of $15.00. This is composed of about $12.00 space cost and $3.00 utilities/taxes. An additional amount is spent by the exhibitor to decorate the space, move merchandise for each market and operate the market including food and other services. A conservative estimate would be another $5.00 per foot per year for a total annual cost of $20.00 per square foot per year. This means that the ‘industry’ spends $220-240 million per year in High Point just to ‘go to market.’

The parallel financial numbers of other markets are based in part on my estimates but in the main on real data.

	Space	Utilities	Total	Annual Escalation
High Point	12.00	3.00	15.00	2% (my estimate)
San Francisco			21.00	not known
Las Vegas	24.00	6.00	30.00	4-5% (their numbers)
Tupelo	??	??	??	

The dilemma for the exhibitor is that they cannot really afford to show in two major markets. For example, the total industry expenditure in San Francisco based on the $21.00 plus $5.00 for setup or $26.00 per year is $26 million based on the available display space of 1,000,000 square feet. In other words, San Francisco is a major market for a few West Coast exhibitors and a sideshow for a number of larger industry players. The investment represents possibly 12% of the combined cost of High Point and San Francisco and represents a reasonably balanced investment from the perspective of the roles of those two markets.

If another market emerged as an alternate to either San Francisco or High Point, the exhibitor would be forced to make a choice. A choice between regional markets is not all that difficult provided that it remains a choice between ‘regionals’. The cost would presumably be higher in Las Vegas since the developers have already announced that they need to average $30.00 per gross foot and will build in escalators of initially 4% and later 5%. The same 1,000,000 square feet would therefore cost $35,000,000 in Las Vegas, a manageable but not insignificant difference. The difference in future escalation of costs would enlarge that difference over time.

If Las Vegas or any other market would emerge as an alternate to High Point that would cause a real dilemma for exhibitors. You cannot abandon High Point until the majority of retailers have voted with their feet to go somewhere else. You cannot fully invest in a new location until the majority of your customers have decided that they will only visit that location. Very few exhibitors would want to be put into the position of duplicating their largest showrooms and making a major market four times per year plus additional markets such as Tupelo or Toronto.

What would happen if Las Vegas developed as an alternative to High Point? If the industry simply relocated the totality of its space, the potential cost of going to market would be $385-420 million (11-12 million feet at $30.00 plus 5.00). This would represent an additional direct cost of $165-180 million to the exhibitors. During a transition there could be a messy or indefinite period of time when both markets would be operated at a substantial cost and with split attendance. There is an additional factor.

The majority of exhibitors including many importers are based on the East Coast where the majority of customers are located. They would find it more difficult to staff and manage a more remote showroom location.

If we look critically at the list of announced participants in Las Vegas this may explain in part why there are so few 'A' level exhibitors on that list. Presumably they have all done the calculation I have done and asked themselves why they would want to jeopardize their investments and complicate their lives.

There is another factor. Although High Point has always been dominated by the IHFC, recent developments and the nature of the city have encouraged a great deal of competition and diversity in structures, costs and venues. This results in confusion by some definitions but also creates the interest that comes from diversity. In a location such as Las Vegas (also true for San Francisco), the industry would be the captive of a single real estate owner/developer whose objectives are not necessarily aligned with the industry. Over time we may find that our costs escalate and there are no secondary location alternatives. The larger exhibitors will also have considered this before making a commitment to Las Vegas.

What about the retailer? Although the market promoters like to talk about huge numbers of visitors – the reality is that there are not more that 10,000 persons (not companies) who come to market in a meaningful buying capacity. That number may be generous! My own estimate is that each buyer on average can visit market for not more than $1000 considering the fact that many live on the East Coast, most share rental cars, many use free parking at locations like the Palliser parking lot and it takes very little effort or creativity to get free meals. Assuming that 80% of that total attend each semiannual market that means there are 16,000 buyer visits per year for an annual investment on the part of buyers of $16,000,000. While this is a serious amount it represents less than 10% of what the exhibitors invest.

Given that imbalance in cost – what will determine market location? I have often suggested to my fellow exhibitors and the Market Authority that we should spend another 5-10% and subsidize every important buyer so we can bring them to the markets that are important to us. Considering our tremendous investment – we would be smart to bring more rather than less buyers to High Point.

High Point is the largest single market on earth in terms of physical space devoted to an industry. It is strange that the industry has such a love-hate relationship with an outcome that makes many other industries envious. The reality is that we could never find or afford a location in any one city that would offer 10 million plus feet of space devoted to us and remotely close to the current cost. If the current High Point market fractured, we would devolve to a cluster of competing markets that forced all of us to spend more money and more travel time to accomplish our purposes.

An alternative to the current situation is that the industry – broadly defined in terms of all its participants – took real ownership of the pattern of markets. We should make them serve us better, since they do need improvements. However, we should also appreciate that the current ‘gathering of the clans’ in a sense that is almost medieval is something unique in the world and would be impossible to re-establish if ever destroyed.

I welcome other perspectives.