



# Furniture futures

**T**wenty years ago, rent-to-own furniture was almost a fluke—a peripheral product offered at some of those “out there” stores. Today it makes up approximately 40 percent of the RTO business. With mumbings of increased imports, company consolidations, factories moving overseas and the growing consumer interest in electronics, what will the future hold for furniture in rent-to-own? What are some of today’s trends and predictions for tomorrow? ☞ In the last few years, home improvement shows, design magazines and design gurus like Martha Stewart and Christopher Lowell have driven the high-end scale of the furniture market and created an interest in environmentally friendly products that combine the “green” factor with style and functionality. Think green and think organization. Consider thinking beyond the traditional in functionality. Most of us appreciate products that help us stay organized or that can do double duty. If you can offer an ottoman with a storage unit or a bed that has shelves built into the headboard, chances are, your customers will appreciate that. ☞ Joe Carroll, publisher of *Furniture/Today*, the weekly business newspaper of the furniture industry, says, “There is a consumer move toward green products. For example, they are now making mattresses out of natural latex. Young people are flocking toward environmentally-friendly products and I think we’ll see more interesting green items in 2007.”

Carroll also sees an increased interest in design pieces focusing on style and fashion. “Specialty niches—of which rent-to-own is one—are growing,” he says.



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YELVERTON**

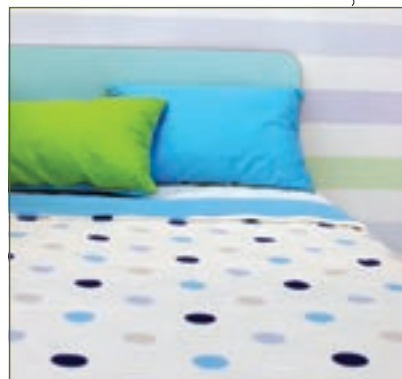
**J**oe Rutter, president, chief executive officer and, as he puts it, the “chief bottle washer” of what he describes as a “small mom and pop” five-store California-based chain called Family Rental Center, gives his customers a wide selection. “I’m a big believer that if you try to offer the gamut of family-oriented furniture, like sofas, love seats, recliners, tables, lamps, things like that, then you’re going to have a successful year,” he says. “We have big sectionals, for instance, and everybody likes leather. But I’m hesitant to buy anything that seems too trendy. It’s been the basic meat and potatoes for us for years.” Furniture rentals, as Rutter notes, are often a matter of impulse as much as they are a necessity, and you may make a rental easier if you can quickly tap into that psychology, in effect saying to your customer: This solves two issues—how to sit and recline comfortably, and where to put some of your unwanted clutter.

Tastes and styles will vary by region and may change more slowly in some areas than others, but it is never a bad idea to know what trends are on the horizon. In that spirit, you can allow your store to be as trendy as any outlet when it makes sense.

Jan Arnett, vice president of operations at Z-Best Rentals in Florida, says he keeps up with style trends in a variety of ways. “We’ll look at high-end magazines and the big leaders to see what’s hot with them,” he says. “But also some of it is instinct or what I like. Ultimately, our customers dictate what we carry. They’ll tell us what they want.” When they first started carrying furniture in 1982, Arnett says the furniture was either urban or contemporary. “Now, we carry everything from a \$499 bedroom set to a \$4,000 bedroom. Sometimes you take a chance on something trendy and it works,” Arnett says. “I recently ordered several red leather living room sets that I liked but my staff told me we’d never rent them. They were the hottest thing in the store. You just have to keep your fingers on the pulse of your industry and be out in the mix,” he says.

In addition to green, “think brown,” says Kerry Lebensburger, president of the upholstery division of Ashley Furniture. “We’ve sold so much light colored fabric, so much mocha and tan colors, that I think everybody got tired of that,” he says. “And the last time I remember brown selling in volume was the mid-1970s, and so it was a thirty year cycle, that finally came back.” Has it returned because Generation X-ers remember seeing it as

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a kid, or Baby Boomers are yearning for the simpler days of their youth? “No, it’s probably nothing that deep or complex,” says Lebensburger. “I think it’s a whole bunch of people buying brown, because they’ve never seen the color on furniture, except in leather. It’s just finally time. For quite a while, brown was only for the high-end furniture consumer, but now it’s doing very well with the masses.”

Rutter agrees that browns are in now, as well as “mainly earth tones” but adds, “Not to be facetious, but whatever color you don’t have—that’s usually the color our customers want.”

William McCrae, an audiologist who also owns Buzz’s Rental Purchase, a chain of six rent-to-own stores in Texas and Louisiana, says his customers like the traditional. “We don’t get too cutesy. People are conditioned to know what a living room looks like. You walk into a living room; you see the sofa, chair, end tables, lamps, possibly rugs and that’s the basic staple. If you can present that to them in a way that they can visualize in their own home, they’ll probably have a high interest in renting.”

Keeping up with style trends and the next potentially hot product is important, but what about the bigger picture? Where are profit margins headed? What is the future for imports and what impact will they have on the furniture market? What will the economic landscape look like as some companies close, consolidate or expand? “Profit margins are lower today,” says Carroll. “But the real problem is that there is so much competition and we have trained the consumer to buy cheap—it’s sale, sale, sale,” he says. “We’ve trained the consumers that furniture doesn’t mean anything. Like any painting, it should be viewed as a work of art—something for the workmanship, design and quality.” As for competition, Carroll says he can now identify 77 channels including Kroger and the military Post Exchange, more commonly known as the PX, for selling furniture—and the list keeps growing. Rent-to-own stores are one of these 77 channels.

“When I was a kid, there were probably three places to buy furniture,” says Carroll. In 2004, total furniture sales were \$77 billion, according to Carroll. In 2005, furniture sales were \$79 billion and last year, they were \$83 billion. “A \$4 billion increase last year was reported as an OK year,” he says. “Traditional furniture stores grew 2.3 percent while other channels grew 5 percent. That means that non-traditional furniture outlets grew two and a half times faster than the traditional furniture stores.”

Why the change? Carroll attributes it to several factors. “People don’t entertain as much as they used to,” he says. “It’s a purchase that people can postpone, so it comes last on the list. Also, people see it as a momentous decision and rather than take the time—they put it off.”

Increased competition and imports have brought the prices down, so more outlets that are non-traditional are adding furniture to their product line. “Now you are seeing stores like Crate & Barrel, Pier 1, et cetera adding furniture,” says Carroll. “It’s been successful because they have the traffic. It’s a better value for the consumer and it’s very good quality furniture. The irony is that people think that furniture is so expensive, but it’s cheaper than it’s ever been,” he says.

Almost 47 percent of imports are from China but Vietnam is growing. “The U.S. put a lot of tariffs on imports of bedroom furniture from China,” says Carroll. “What that did was move the market to Vietnam. They are very meticulous in making furniture, so Vietnam is the hot country for imports now.” What does all of this mean, ultimately, for sales and rentals?

**E**xperts in the furniture industry look at four economic indicators to determine if sales will be good: interest rates, new home sales, unemployment and the consumer confidence index, commonly referred to as the CCI. “Anything over 100 on the CCI shows that people are confident,” Carroll says. At the time of this interview, the CCI was at 109. “Interest rates are low, home sales are still doing well; unemployment is the lowest it has been in 30 years and the CCI is at an all time high, so it looks like 2007 will be a good year,” says Carroll. But, will it be a good year for everyone? “I believe that the ones who will be successful in furniture are the ones to find a niche,” says Carroll. “Rent-to-own does that and they do it well.”

Carroll thinks that we will see more consolidation in 2007. “We saw several go out of business in 2006 because it is too tough to compete,” he says. “I think the big will continue to get bigger. We could see rent-to-own get so big that they hire their own people to go to China, have their own warehouses, or make a deal with big manufacturers to provide faster service.”

One secret to success is having an outstanding management team. The second is access to capital. “The money to grow and quick



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delivery is really important,” says Carroll. “I believe we’ll see a return to more furniture being made in the U.S. because consumers want instant gratification. Ashley Furniture, the number one furniture retailer in the U.S. right now, recognizes how important quick delivery is,” he says. “Ashley invested in technology and they recognized that people want fast delivery. This is a key point, so they have distribution centers around the country and they have their own trucking fleet. They can have a new sofa back in the store within a week. You can’t do that if you are waiting on a delivery from China. Their distribution is incredible.”

What role, if any, will the Internet play in the future of furniture? “I don’t see it becoming a tool for buying but it has been a tremendous tool for pre-shopping,” says Carroll. “I think that whoever has the cleverest or cutest site that is the easiest to navigate and then tell the consumers where to buy or rent, will be the most successful. Women pre-shop online more than men do. They will have already picked out what they want to see. The Internet can be a very effective tool in that respect,” he says.

Having a well-trained, front-line staff is critical to the success of any business. But good training goes beyond simply learning how to close for the night or place an order. “The number one need is for good sales training,” says Carroll. “When people come into the store, the associates should listen first. Ask the customer what styles he or she likes and then make suggestions,” he says. “The consumer has to know the associate understands his or her needs in price, style, construction and fabric.” Carroll suggests having the manufacturing representatives come by the stores regularly to be teachers. “If you can explain that ‘this print is based on an 1803 Thomas Jefferson portrait,’ or something similar, people will be more likely to rent the item. People remember stories.”

There are numerous challenges for today’s successful business owner, including keeping up with the competition and knowing what to do next. “The market is moving so fast; smart companies are the ones studying marketing,” says Carroll. “Don’t get complacent. Study your niche and give your customers what they want. Concentrate on doing what you do well,” he says. “You can’t have the entire market. RTO knows its niche and knows what it is good at.” ■

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