



**REVIEW OF THE UK DOMESTIC**  
**FURNITURE INDUSTRY**

**BUSINESS AND RESEARCH ASSOCIATES LTD**

**JANUARY 2006**

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## **REVIEW OF THE UK DOMESTIC FURNITURE INDUSTRY**

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### **1. INTRODUCTION**

#### **1.1 Background to the research**

Since the early 1970s the consultants of BUSINESS AND RESEARCH ASSOCIATES LTD have carried out a series of comprehensive investigations into the UK furniture industry. The ensuing multi-client reports have been well received by UK manufacturers and suppliers and by overseas firms interested in assessing the potential of this market as an outlet for their products.

The difficult trading circumstances prevailing at the present time in the UK furniture market and the changing structure of the furniture industry make it hazardous for firms engaged in the manufacture and supply of furniture to the home market to plan future marketing strategy, to determine their production requirements or to assess their long term capital investment programmes with any degree of certainty. In addition, although the amount of available market research data has grown in recent years, there is still a noticeable lack of quantitative and qualitative information on many aspects of the domestic furniture market.

In recent months several enquiries have been received relating to the provision of up to date information on the domestic furniture market. Accordingly BUSINESS AND RESEARCH ASSOCIATES LTD carried out a full scale review of this important market. The project took place during the period from October to December 2005 and this report presents the findings from that investigation.

#### **1.2 Terms of reference**

Following discussions with manufacturers, suppliers, retailers and so on, BUSINESS AND RESEARCH ASSOCIATES LTD was able to establish realistic terms of reference for the project.

The terms of reference may be stated formally as follows:-

- i To identify and define the main product sectors within domestic furniture for the purpose of the present investigation.
- ii To classify and assess the range of furniture currently available.

- iii To determine the size of the market and to analyse the structure in terms of product trends, distribution and geographical patterns, advertising and promotional expenditure and so on.
- iv To estimate the relative market shares of leading manufacturers and suppliers.
- v To assess the degree of foreign competition in the market.
- vi To highlight the main conclusions from the survey and to indicate possible future developments within the market, including estimates of future market size.

Many of the conclusions from the study are expected to be of use to companies either within the furniture industry or contemplating entering it, whether based in the UK or overseas.

As always in reports of this nature, comment has been restricted to statements of fact and reasoned estimates. We have avoided making recommendations relating to entry into the market, to advertising and sales promotional policies or to other similar matters. Each individual company's resources and assets, skill and policies are different from those of other companies and specific recommendations on courses of action should only be made after careful analysis of a firm's individual circumstances.

### **1.3 Methodology**

The project was carried out using the following research methods:

- ◆ Desk and bibliographic research
- ◆ Telephone interviews
- ◆ Personal interviews
- ◆ Analysis and evaluation of information

The initial stages of the survey consisted of desk research, which was used to extract and collate published information on the market under review and to obtain details of manufacturers and suppliers and the products currently available. Desk research was also used to evolve a suitable sampling frame for personal and telephone interviews.

Telephone interviews are the most economic means of obtaining basic information and are most useful when the data being collected is of a standardised nature. Accordingly this method was used to obtain the bulk of information in this research project. In addition, a number of personal interviews were carried out in those circumstances where the information required was of a more complex nature.

A summary of the interviews carried out during the course of this investigation is shown in Appendix II.

The assignment was carried out wholly by the qualified staff of BUSINESS AND RESEARCH ASSOCIATES LTD, all of whom are experienced enough to obtain an adequate response at a senior level. Overall responsibility for the supervision of the assignment was accepted by an Executive Director of the Company.

#### **1.4 Research parameters**

This report covers the domestic sector of the furniture market and embraces self-assembly products supplied for houses or flats whether public or privately owned or rented. We have excluded, therefore, such furniture installed in hotels, offices, government buildings and so on.

In Appendix III we show the definitions of product groups within the domestic furniture industry that have been used in this report.

The main product groups are as follows:

- Upholstered furniture
- Kitchen furniture
- Bedroom furniture
- Dining room and living room furniture
- Beds and bedding
- Miscellaneous – includes home office, conservatory and bathroom furniture

The market under review is the UK market comprising the following geographical areas:

- England
- Wales
- Scotland
- Northern Ireland

## **2. SUMMARY OF FINDINGS**

In this section of the report we draw together and summarize the main findings from the survey, including a general assessment of recent years from the viewpoint of the furniture industry.

After the poor performance of the industry in 1999, both manufacturers and retailers were hoping for more positive results in the following years. In fact, quarterly sales were ahead throughout 2002 on a year on year basis, although the quarterly data showed a gradual slowing in growth throughout the year. The research findings suggest that total sales increased by almost 5% (or £210m) in 2002, with producer prices being fairly static or even declining within certain sectors, whilst sales in 2003 are estimated to have grown by 4.1% (or £185m in value terms). Growth continued in 2004, with sales increasing by 3.1% (or £145m in value terms). However, sales declined by around 4% in 2005.

Few manufacturers improved sales in 2005 and margins were again under pressure, although the major retailers such as Ikea, DFS, Argos and John Lewis improved their positions in the market. To some extent they had been helped by the previous demise of competitors such as Uno, World of Leather, Kingsway, Landmark and more recently Courts, Alders, Furnitureland and so on.

Imports have continued to increase their share of the total market, with imports from outside the EEC now accounting for well over 50% of total imports.

The main findings from the survey are as follows:

- 2.1 Total gross disposable income in the UK reached £784.3bn in 2004, compared to £755.3bn in 2003 and £722.4bn in 2002; these figures are expressed in terms of current prices. In quarterly terms disposable income reached a peak of £197.4bn in the final quarter of 2004.
- 2.2 Total sales of domestic furniture reached an estimated £4690m in 2005, compared to £4890m in 2004 and £4745m in 2003. Total industry sales declined by 4.0% in 2005, with producer prices increasing by around 2-3% during the year.
- 2.3 Sales of upholstered furniture totalled £1570m in 2005, compared to £1650m in 2004 and £1595m in 2003 and currently account for 33% of the total market, whilst sales of kitchen furniture reached £925m in 2005, compared to £965m in 2004 and £930m in 2003 and accounted for 20% of the total market.

- 2.4 Sales of all product groups have grown in absolute terms in the period from 1995, with dining room and living room furniture showing most real growth and bedroom furniture showing least growth. Sales of home office furniture have grown significantly in recent years, albeit from a small base.
- 2.5 In absolute terms the South East region of the country accounts for the bulk of sales in the domestic furniture sector with 31% of the total market in value terms. Within that region Greater London accounts for 12% of the market, compared with the North West also with 12%, and the West Midlands with 10% of the market.
- 2.6 As far as kitchen furniture is concerned, specialist kitchen furniture outlets are the main distributors with 34% of the market in value terms; within that sector independents account for 27% of the market, whilst multiples account for 7% of the market. Multiple cash / carry warehouses account for around 19% of the market in value terms, but a much larger share in volume terms.
- 2.7 The research findings indicate that multiple furnishing stores remain the major outlets for upholstered furniture with 39% of total sales, compared with independent outlets with 26% of the total market. Within the multiple furnishing stores category specialist upholstery outlets account for around 20% of total sales, a decline on the level reached previously.
- 2.8 As far as domestic furniture other than kitchen and upholstered furniture is concerned, multiple furnishing outlets currently account for around 32% of total sales in value terms, whilst independent outlets account for around 31% of the total market.
- 2.9 It is estimated that imports of domestic furniture reached £1379.2m in 2005, compared to £1372.5m in 2004 and £1253.4m in 2003. Imports currently account for 29% of the total market. The penetration rate for imports varies considerably between different product groups, reaching 54% for dining and living room furniture, but only 7% for kitchen furniture.
- 2.10 The major trade exhibition for the industry is the annual Furniture Show held at the NEC in Birmingham in January and now organised by CPM Information, part of United Business Media. The 2005 event attracted 27,145 visitors, although a total attendance of 39,730 was reached, if one includes visitors who crossed over from complementary shows nearby.

- 2.11 The main furniture manufacturing groups at the present time are MFI Furniture Group plc (Hygena and Schreiber Furniture), Soundersleep Ltd (Silentnight, Sealy, Rest Assured and so on) and the Nobia Group (including Magnet Ltd and Gower Furniture).
- 2.12 Total sales of domestic furniture are expected to reach £4740m in 2006 and £4890m in 2007, compared with the level of £4690m reached in 2005; producer price increases for domestic furniture are expected to be at the lower end of the 1-2% range for each year.
- 2.13 As far as sales of individual products are concerned sales of upholstered furniture are expected to reach £1600m in 2006 and £1660m in 2007, representing 34% of total market sales for each year. Sales of kitchen furniture are forecast to reach £930m in 2006 and £995m in 2007, accounting for 20% of the market for that period.

### **3. THE UK ECONOMY**

#### **3.1 General economic appraisal**

Before examining the domestic furniture industry, it is important to quantify certain aspects of the UK economy as a whole. In this section of the report we analyse certain sectors of the economy, which are felt to exert a significant influence on the industry concerned.

The following Table shows the level of gross disposable income in recent years:

**Table 1 - Total gross disposable income in the UK and the personal savings ratio**  
**Basis - Value (£bn at current prices, seasonally adjusted) and proportion (%)**

	<b>£bn</b>	<b>%</b>
1995	499.1	10.0
1996	529.7	9.4
1997	565.0	9.4
1998	581.3	6.1
1999	610.4	4.9
2000	654.6	5.0
2001	701.6	6.5
2002	722.4	5.3
2003	755.3	5.8
2004	784.3	5.6
2004 1 <sup>st</sup> Quarter	193.5	5.5
2 <sup>nd</sup> Quarter	195.6	5.3
3 <sup>rd</sup> Quarter	197.6	5.9
4 <sup>th</sup> Quarter	197.4	5.8

Source: Office for National Statistics.

Whilst both the annual and quarterly information in Table 1 indicate that gross disposable income has increased steadily in recent years, it is clear that in real terms the situation is less buoyant. The figures show that disposable income increased by 3.0% in 2002, by 4.6% in 2003 and by 3.8% in 2004, whilst the quarterly data indicates that the peak level of £197.4bn was reached in the final quarter of 2004. The research findings also indicate a serious decline in the personal savings ratio, from 10% in 1995 to 5.6% in 2004, although the ratio has moved in a volatile pattern in recent years.

In the following Table we show total household expenditure in recent years:-

**Table 2 - Total household final expenditure in the UK**  
**Basis - Value (£bn at current prices, seasonally adjusted)**

	<b>£bn (current prices)</b>
1995	443.4
1996	474.3
1997	503.8
1998	536.9
1999	570.4
2000	603.3
2001	635.6
2002	665.9
2003	694.0
2004	726.0
2004 1 <sup>st</sup> Quarter	178.9
2 <sup>nd</sup> Quarter	180.7
3 <sup>rd</sup> Quarter	182.7
4 <sup>th</sup> Quarter	183.6

Source: Office for National Statistics

Total household final expenditure reached £726.0bn in 2004, compared to £694.0bn in 2003 and £665.9bn in 2002; these figures are expressed in terms of current prices. The quarterly information shows that the peak level of £183.6bn was reached in the final quarter of 2004. In real terms expenditure grew by 4.8% in 2002, by 4.2% in 2003 and by 4.6% in 2004. The findings show that the growth in expenditure has been slowing in recent years, although in absolute terms it is still at a significant level.

### **3.2 Consumers' expenditure on household goods**

It is now relevant to turn the attention to the retail aspect of the economy, including an analysis of total retail sales. The following Table shows the volume and value of retail sales in recent years:-

**Table 3 - Total sales through retail outlets in Great Britain**  
**Basis - Indices of volume and value, seasonally adjusted (2000=100)**

	<u>All retailers</u>		<u>Household goods</u>	
	<u>Volume</u>	<u>Value</u>	<u>Volume</u>	<u>Value</u>
<b>Sales in 2000 (£m)</b>	<b>207149</b>		<b>27699</b>	
2000	100.0	100.0	100.0	100.0
2001	106.1	105.9	110.9	108.6
2002	112.7	111.1	121.0	116.1
2003	116.2	113.6	126.7	117.0
2004	123.2	118.9	135.3	121.3
2003 3 <sup>rd</sup> Quarter	117.3	114.7	127.7	117.4
4 <sup>th</sup> Quarter	119.3	116.2	130.8	118.4
2004 1 <sup>st</sup> Quarter	121.6	118.1	132.2	120.1
2 <sup>nd</sup> Quarter	123.9	119.7	136.9	123.0
3 <sup>rd</sup> Quarter	125.0	120.4	140.0	124.6
4 <sup>th</sup> Quarter	125.1	120.2	139.3	121.8
2005 1 <sup>st</sup> Quarter	125.5	120.5	137.6	120.3

Source: Office for National Statistics

In total, sales through retail outlets account for around 40% of total consumers' expenditure. The information in Table 3 shows that the volume of sales through retail outlets has risen steadily in recent years, having been relatively depressed in the early 1990's. Volume sales of household goods were also depressed during the 1990 – 92 period, although the information shows that they have continued to increase at above the rate achieved by retailers generally. However, in value terms sales of household goods have grown at a slower rate than volume sales, indicating lower retail price inflation. More recent information indicates that retail sales were declining in the latter half of 2005 with several major furnishing groups giving profit warnings and rumours regarding companies going into liquidation or administration.

Consumers' expenditure has been increasing steadily in recent years and it is clear that a marginally increasing proportion of the total was being allocated to furniture until 1998 and to floorcoverings until 1997. However, the performance in 1999 was particularly depressing, since the industry had been expecting more buoyant conditions to continue. The declining fortunes of the industry in the second half of 1998 continued in 1999 and adversely affected even the major retailing groups in the industry. To some extent the main impact had been on profitability with retail margins still being under pressure.

Whilst sales are estimated to have improved by around 4-5% in absolute terms each year since 1999, conditions have remained very competitive at the retail level, with multiples gaining generally at the expense of independents, although both sectors have suffered casualties. As will be seen later in the report, UK manufacturers have suffered more severe competition, mainly because of the growth in imports.

The current Government has sought to maintain an economic environment of steady growth within the overall economy, allied to a low inflation rate and this is being achieved to a significant degree. Both the Government and independent forecasters are consistent in thinking that the UK economy is currently sufficiently robust to withstand any pressures from a slowing down in world trade brought about by rising oil prices. Nevertheless, the growing level of imports, particularly from sources outside the EEC, is a major problem for UK furniture manufacturers. In addition, the Chancellor has finally admitted that GDP growth in 2005 will be significantly lower than his previous forecasts and is likely to be around 1.75% rather than 3.50%. Since we are already in 2006 this is more likely to influence forecasts for 2006-2007 and we can expect adjustments to these estimates shortly ( see Section 8 ).

## **4. MARKET SIZE AND STRUCTURE**

### **4.1 Introduction**

Basic information on the UK furniture market can be obtained from a number of sources. The Office for National Statistics collects information on the value and quantity of sales of particular product groups as part of the regular Census of Production. In addition, this data was supplemented by the statistics collated by the Department of Trade and Industry and previously published quarterly in the Business Monitor series. This series is no longer published by the Office for National Statistics, but some of the information is available from private sources. Statistics relating to indices of output and producer prices for the furniture industry are still available from official sources.

The fact that the published data covers both home and export sales means that it is necessary to obtain further information relating to imported and exported furniture in order to derive an accurate estimate of the UK market itself. These figures may be obtained from Customs and Excise, although the format used by the latter is significantly different from that used by the Department of Trade and Industry. In addition, imports have now been divided into intra-EEC trade and trade with the rest of the world, with the data being derived from different sources.

Other sources of information include estimates from manufacturers, retail groups and other informed sources, published data from independent research organisations, estimates derived from surveys of consumer expenditure and so on.

As far as domestic furniture is concerned the research findings have examined total sales from two viewpoints; sales to consumers via retail outlets and sales to retail outlets from manufacturers, importers and so on. The figures are, therefore, derived from different sources, making it difficult to reconcile any differences between them. For the purpose of this research project the data is shown in the following Table :-

**Table 4 - Comparison of furniture sales in terms of Retail and Manufacturers' Selling Prices**

**Basis - Value (£bn at RSP and MSP)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Retail sales of furniture, lighting and accessories			
Index (1995=100)	152	157	150
Value (1995=£6.40bn)	£9.73bn	£10.05bn	£9.58bn
Including mail order, direct sales and so on, but excluding non-furniture products			
	£8.85bn	£9.14bn	£8.70bn
Manufacturers' sales of domestic furniture in the UK and imports	£4.75bn	£4.90bn	£4.69bn

Source: Business and Research estimates  
Office for National Statistics  
Customs and Excise

The figures in the Table indicate that domestic furniture retail sales are valued at almost double the level of manufacturers' deliveries. Given the research complexities involved in deriving the sets of figures and, after conducting trade assessments of the data, Business and Research Associates Ltd is satisfied that the information provides a reliable guide to industry performance.

## **4.2 Past and present market size**

In the following Table we show total industry sales in recent years:-

**Table 5 - Total sales of domestic furniture by product group**  
**Basis - Value (£m at Manufacturers' Selling Prices)**

<b><u>Sector</u></b>	<b><u>2003</u></b> £m	<b><u>2004</u></b> £m	<b><u>2005 (Est)</u></b> £m
Upholstered	1595	1650	1570
Kitchen	930	965	925
Dining room and living room	705	725	695
Bedroom	595	600	580
Beds and Bedding	600	620	600
Miscellaneous*	320	330	320
	4745	4890	4690

\* Includes: home office, conservatory, bathroom and other furniture.

Source: Business and Research estimates

The research findings show that total domestic furniture sales reached an estimated £4690m in 2005, compared to £4890m in 2004 and £4745m in 2003. There have been some adjustments to the product analyses for the current year, when compared with previous years; sales of kitchen furniture now include sales of panels, pelmets, plinths and so on, whilst sales of occasional and dining room furniture have now been combined under dining room and living room furniture and also include kitchen tables and chairs. Further analysis is shown in Section 4.3. In addition, sales of home office products and conservatory furniture have been included in a miscellaneous category.

An analysis of the research data shows that sales in 2000 are estimated to have increased by over 4% with producer prices increasing by less than 1% during the year, whilst the results for 2001 indicate that total market growth of over 6% was achieved, with producer prices being fairly static.

The research findings suggest that total sales increased by almost 5% in 2002, with prices again being fairly static or even declining within certain sectors, whilst total sales increased by 4.1% in 2003 with producer prices increasing by around 1%. Estimates for 2004 suggest that sales have increased by 3.1% with producer prices again increasing by around 1% during the year. Producer prices for kitchen furniture actually fell during 1999 and have remained virtually static since that time, still well below the level reached in 1995. Producer prices for beds and bedding have showed above average increases during the period under review, although it must be said that even these increases are relatively modest. The research findings show that consumer prices for domestic furniture have also shown only modest increases during 2004. It is estimated that sales fell by around 4% in 2005, being the first decline for several years.

The industry performance may be summarised as follows:

- ◆ A slow but positive start to the year by both manufacturers and retailers
- ◆ Quarterly retail sales were ahead for the first half of 2005 on a year on year basis.
- ◆ However, quarterly data showed slow growth in the first quarter, slowing growth in the second quarter and a decline in the second half of the year
- ◆ Many UK manufacturers were adversely affected by the decline in the market, with imports still accounting for a significant proportion of the total market, although several UK firms are now sourcing their production from overseas companies
- ◆ Retail groups were also affected by the downturn and the competitive conditions within the market, with both independents and multiples being under severe pressure
- ◆ A slow growth in imports of dining and living room furniture from non-EEC sources, with a continuing high level of imports of upholstered furniture from the EEC and growing imports of such products from non-EEC sources
- ◆ Severe price competition continued with consumers expecting discounts, interest-free credit and so on, perhaps delaying purchases to take advantage of sales periods

- ◆ Profit margins have been eroded in both manufacturing and retail sectors, leaving companies facing a difficult trading situation with weakened balance sheets

The following Table shows the proportion of the total market held by each product group in 1990 and 2005 :-

**Table 6 - Share of total sales of domestic furniture held by product group**

**Basis - Proportion of total sales value (%)**

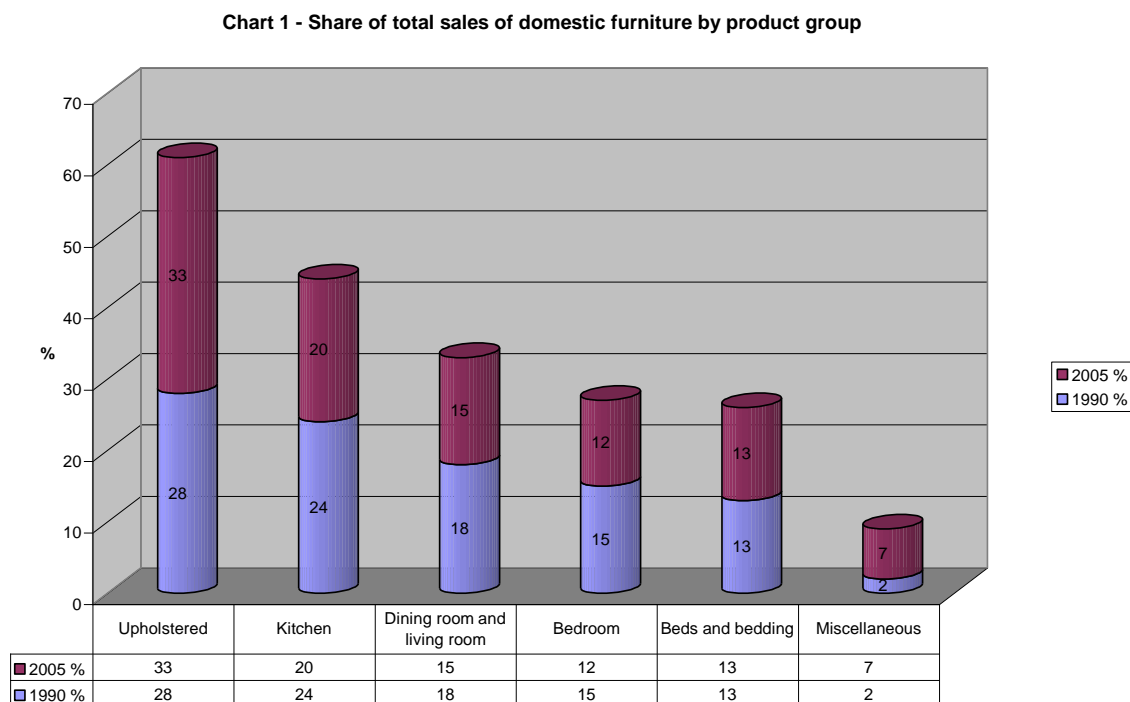
<b>Product Group</b>	<b><u>1990</u></b> %	<b><u>2005</u></b> %
Upholstered	28	33
Kitchen	24	20
Dining room and living room	18	15
Bedroom	15	12
Beds and Bedding	13	13
Miscellaneous *	2	7
	100	100

\* Includes: home office, conservatory, bathroom and other furniture

Source: Business and Research estimates

The research information shows that upholstered furniture continues to account for the bulk of the domestic furniture market with an estimated 33% of the total market at the present time, compared with kitchen furniture with 20% and dining room and living room with 15% of the market. The latest research findings indicate that the pattern of sales has remained fairly static in recent years, although upholstered furniture increased its share of the market steadily during the 1990's, partly because of the increasing number of specialised retail groups in that sector. In the past the demise of firms amongst these specialist retailers, such as Uno, Kingsway, World of Leather and so on, have been more than offset by increased sales by general furnishers. However, Courts, Allders and Furnitureland have been major casualties in recent years. Most other product groups have lost market share to upholstered furniture in the last decade, although the miscellaneous sector has also increased its share during that period, mainly because of the growth of sales of home office furniture and to a lesser extent conservatory furniture.

This information is illustrated in Chart 1 as follows :-



Independent research has suggested that over the short term period it is realistic to assume that increases in prices are basically caused by cost increases in raw materials, wages and so on. Changes in the level of producer price indices, therefore, can be taken to represent the rate of inflation for that particular group and can be used to eliminate this effect and to calculate volume trends within the market..

The rate of growth in producer prices for cabinet and upholstered furniture had been increasing at an annual rate of 1-2% in the period from 1995, however, the current research findings indicate that producer prices are still showing only marginal increases on the levels reached in 2000. Consumers are exerting such pressure on retailers, that the latter are either forcing manufacturers to hold or cut prices, or alternatively to source products from cheaper overseas suppliers. Manufacturers have also been faced with rising raw material and energy prices, but they too have been unable to pass these increased costs on, resulting in lower profits and even losses.

In the following Table the data relating to producer price indices is used in order to analyse trends in sales of domestic furniture :-

**Table 7 - Indices of domestic furniture sales and producer prices for selected product groups**

**Basis - Index (1995=100)**

	<u>Upholstered</u>		<u>Kitchen</u>		<u>Bedroom</u>	
	<u>Price Index</u>	<u>Index of sales</u>	<u>Price Index</u>	<u>Index of sales</u>	<u>Price Index</u>	<u>Index of sales</u>
Base:		£1080m		£745m		£455m
1995	100.0	100.0	100.0	100.0	100.0	100.0
2005	115.4	145.4	98.0	124.2	111.7	127.5

**Source: Office for National Statistics  
Business and Research estimates**

In the following Table we show similar information for the remaining product groups :-

**Table 8 - Indices of domestic furniture sales and producer prices for selected product groups**

**Basis - Index (1995=100)**

	<u>Dining room and living room</u>		<u>Beds and Bedding</u>	
	<u>Price Index</u>	<u>Index of sales</u>	<u>Price Index</u>	<u>Index of sales</u>
Base:		£480m		£425m
1995	100.0	100.0	100.0	100.0
2005	112.7	144.8	118.5	141.2

**Source: Office for National Statistics  
Business and Research estimates**

The information in Tables 7 and 8 has been used to calculate indices of volume sales for the various sectors of the domestic furniture industry. These are shown in the following Table :-

**Table 9 - Indices of domestic furniture sales volume by product group****Basis - Index (1995=100)**

<b>Sector</b>	<b>1995</b>	<b>2005</b>
Upholstered	100.0	126.0
Kitchen	100.0	126.7
Dining room and living room	100.0	128.5
Bedroom	100.0	114.1
Beds and Bedding	100.0	119.2

**Source: Business and Research estimates**

The research findings show that sales of all product groups have grown in absolute terms during the period under review, with dining room and living room furniture showing most real growth and bedroom furniture showing least growth.

It has not been possible to calculate similar indices for the miscellaneous category, but the research findings indicate that this sector has shown most growth in the period, mainly through sales of home office furniture. The latter has grown significantly in recent years, albeit from a small base.

#### **4.3 The market by product type**

Having analysed the domestic furniture market in total, we can now turn our attention to the details of individual product groups. In the following Table we show an analysis of the sales of upholstered, kitchen and bedroom furniture for 2005 :-

**Table 10 - Total sales of domestic furniture by selected product type****Basis - Value (£m at MSP)**

	<b>£m</b>
Suites, individual settees, chairs and so on	1385
Convertibles	85
Unit seating	100
<b>Total upholstered furniture</b>	<b>1570</b>
Storage furniture, mainly wall units	405
Built-in units, mainly base and sink units	440
Panels, pelmets, breakfast bars and so on	80
<b>Total kitchen furniture</b>	<b>925</b>
Free-standing furniture	230
Unit furniture	200
Built-in furniture	150
<b>Total bedroom furniture</b>	<b>580</b>

**Source: Business and Research estimates**

The Table indicates that sales declined in most product sectors in absolute terms in 2005. In the past some of the growth in the upholstered furniture sector has been the result of increased regional distribution by DFS and other upholstery specialists and a continuing high level of promotion by these retail outlets. Advertising expenditure by retailers has continued at a high level, however, these multiples have had to open new outlets or refurbish existing stores in order to increase sales and this has curtailed the optimism of recent years. Several upholstery specialist retail groups went into receivership in the late 1990's, although the loss of sales has been more than offset by growth in turnover by multiple furnishers and to a lesser extent by the larger independent outlets. However, as has been mentioned previously several multiple furnishers have been forced into liquidation or restructuring in the last two years. Leather upholstery, which has always been more popular in European markets, continues to increase its penetration in the UK and is being displayed to a much greater extent in retail outlets. These products currently account for around 55% of the total upholstery market in value terms.

Sales of bedroom furniture have grown slowly in recent years until 2005, with freestanding storage units still being the most popular type of unit. Built-in furniture maintained its market share during the year, although analysis of this sector is becoming difficult, with semi-fitted furniture, wardrobe front systems and so on being part of this product mix. Pine furniture forms a significant part of the bedroom furniture market.

Conditions in the kitchen furniture sector remained difficult, with intense competition at the retail level keeping prices very subdued. This situation is likely to continue for some time, although this part of the furniture industry is being increasingly innovative in the development of different styles and finishes and in the materials used for ancillary products such as worktops, sink units and so on. Unlike previous years there were no major casualties amongst manufacturers, although most major companies suffered from static turnover and declining profit margins.

In the following Table we analyse sales of dining room and living room furniture, together with beds and bedding for 2005:-

**Table 11 - Total sales of domestic furniture by selected product type**

**Basis - Value (£m at MSP)**

	<b>£m</b>
Wall storage, sideboards, dressers and display cabinets	185
Seating	165
Tables	120
Coffee and other occasional tables	65
Television, radio and entertainment cabinets	55
Bookcases	35
Miscellaneous *	70
<b>Total dining room and living room furniture</b>	<b>695</b>

Divan sets	240
Bedsteads with mattress	130
Bedsteads only	40
Mattresses only	90
Other **	100
<b>Total beds and bedding</b>	<b>600</b>

\* Includes: telephone seats, built-in furniture, dinner wagons, writing bureaux and so on.

\*\* Includes: headboards, bunk beds, bedheads and so on

**Source: Business and Research estimates**

Beds and bedding sales declined in absolute terms in 2005, although sales of individual bedsteads and mattresses were broadly static. Divan sets still form the major share of the market in value terms. Pine bedsteads are an important sector in this market, although metal bedsteads are becoming more popular. In value terms it is estimated that divan sets now account for around 40% of the market, with bedsteads with or without mattresses accounting for 28-29% of the market and the remaining share being made up of children's beds, bunk beds, individual mattresses and so on.

Sales of dining room and living room furniture also fell in 2005, with wall storage, dressers, display cabinets and so on (£185m), seating (£165m) and tables (£120m) being the main product sectors. Traditional dining room sets have declined in importance, but have been replaced by more informal seats and tables, used particularly in the kitchen area. This reflects the more informal approach to dining arrangements at home, which is becoming increasingly popular. However, there is anecdotal evidence to suggest that dining room tables and chairs may be about to become more popular.

#### **4.4 Geographical distribution of the market**

The following Table shows the geographical location of existing dwellings in the UK and the regional distribution of domestic furniture sales:-

**Table 12 - Geographical location of dwellings in the UK and the location of sales of domestic furniture**

**Basis - Proportion of total sales value (%)**

<b><u>Standard Region</u></b>	<b><u>Existing dwellings</u></b> %	<b><u>Sales of domestic furniture</u></b> %
<b>England</b>		
North	5	5
Yorkshire & Humberside	9	9
North West	11	12
East Midlands	7	8
West Midlands	9	10
East Anglia	4	4
South East	31	31
- Greater London	-13	-12
- Rest of Region	-18	-19
South West	8	7
<b>Scotland</b>	9	8
<b>Wales</b>	5	4
<b>Northern Ireland</b>	2	2
	<b>100</b>	<b>100</b>

**Source: Department of the Environment  
Business and Research estimates**



and so on. Specialist kitchen furniture outlets also derive significant turnover from the supply of these items and from the installation contract usually involved. The discount and DIY groups are also offering an increasing number of such services to supplement the sale of self-assembly kitchen furniture.

The research findings show that specialist kitchen furniture outlets are currently the major outlets for kitchen furniture, accounting for 34% of the total market in value terms. Within that sector independents account for 27% of the market, whilst multiples account for 7% of the market. The latter sector incorporates the activities of Magnet and more recently Moben, where sales are increasingly being routed through company outlets or concessions in other outlets.

Multiple cash and carry warehouses account for around 19% of the market in value terms, with the MFI group being the main element within that category and accounting for the largest individual share of the market in both value and volume terms.

Sales through DIY outlets account for 14% of the market. B & Q is the main supplier in the DIY sector and has increased its share of the market in recent years, although the total share held by the DIY sector has fallen slightly during that period. Wickes is also an important retailer of kitchen furniture. Homebase significantly reduced the number of outlets retailing kitchen furniture then stopped selling these products, but under its new ownership is now marketing such furniture again.

The figures used in the Table relate to market share in **value** terms, but it must be stated that in **volume** terms the situation is rather different. For example, multiple cash and carry warehouses are the major outlets in volume terms with around 28% of the market, whilst kitchen specialists account for around 17% of the market. Similarly, the share of the market in volume terms held by the direct contract sector and the DIY outlets increases to around 19% and 18% respectively.

In the following Table we show the retail structure of the upholstered furniture market:

**Table 14 - Total sales of upholstered furniture by distribution outlet**  
**Basis - Proportion of total sales value (%)**

<u>Type of outlet</u>	<u>%</u>
Multiple furnishing outlets, including upholstery specialists	39
Independent furnishing outlets	26
Department stores and variety chains	15
Mail order and catalogue outlets	11
Others *	9
	<b>100</b>

\* Includes: direct sales, miscellaneous outlets and so on.

**Source: Business and Research estimates**

For the purpose of the current project multiple furnishing outlets are defined as retail groups with five or more individual outlets. Research indicates that multiple furnishing stores remain the major outlets for upholstered furniture with 39% of total sales, compared with independent outlets with 26% of total sales. Specialist upholstery outlets, mainly multiple groups, increased their share of the market in the 1990's, but have faced increasing competition in recent years and currently account for around 20% of total sales. These include groups such as DFS, ScS, Kingdom of Leather, Land of Leather, Sofa Workshop and so on. Some of the groups in this sector are also involved in the manufacture of upholstery, particularly DFS, Reid Furniture, Sofa Workshop and Multiyork. Sofa Workshop is now part of the MFI Group.

DFS has over 60 outlets but plans more in the future. The findings indicate that the company is the leading retailer of upholstered furniture in the UK with around 15-16% of the market and has showed consistent growth, reaching turnover of almost £500m in 2003. However, this specialist sector suffered badly in the late 1990's with casualties such as Uno, World of Leather, Kingsway, Landmark and so on.

It should also be remembered that most general multiple furniture groups are also significant outlets for upholstered furniture, with Furniture Village and Harveys, including Kingsbury, being amongst the leading retailers in this category at the present time. Harveys is now part of the Homestyle Group.

Department stores and variety chains account for 15% of the total market, with John Lewis, House of Fraser, Laura Ashley, Harrods and Marks and Spencer being important retailers of upholstered furniture. Mail order and catalogue outlets account for 11% of the market, with Argos being the major company in this sector. Argos and Homebase are part of the GUS group and Argos has increased its sales of furniture significantly in recent years to the extent that it is amongst the leading retailers in this sector. Although Homebase is primarily a DIY retailer, the research findings indicate that it is now offering a wider range of furniture in its outlets.

In the following Table we show our estimate of the market shares held by the various types of distribution outlet for all domestic furniture other than kitchen and upholstered furniture:-

**Table 15 - Total sales of domestic furniture by distribution outlet**

**Basis - Proportion of total sales value (%)**

<u>Type of outlet</u>	<u>%</u>
Multiple furnishing outlets	32
Independent furnishing outlets	31
Mail order and catalogue outlets	12
Department stores and variety chains	11
DIY outlets	5
Others *	9
	<b>100</b>

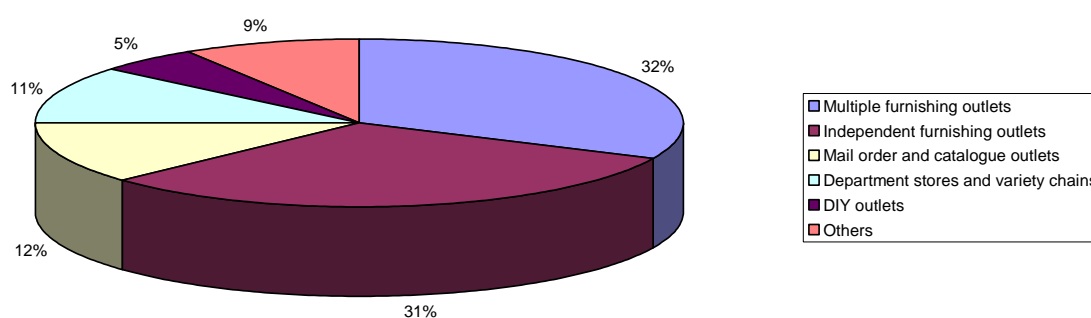
\* Includes: direct sales, market stalls, specialist outlets, Cooperative societies and so on.

**Source: Business and Research estimates**

Research indicates that multiple furnishing outlets are currently the major outlets for domestic furniture with an estimated 32% of total sales in value terms, compared with independent furnishing outlets with an estimated 31% of the total market.

The information is illustrated in the following Chart :-

**Chart 2 - Total sales of domestic furniture by distribution outlet**



The category 'multiple furnishing outlets' covers a wide variety of retail operations. Apart from the major furnishing groups, such as Ikea, MFI, Harveys and so on, who account for the largest share of this sector, there are multiple groups such as DFS, Sofa Workshop and Reid, who both manufacture and retail products through their own outlets; groups such as Sharps, Hammonds and so on manufacturing, retailing and installing fitted furniture; specialist retailing groups covering products such as leather upholstery, beds and bedding, pine furniture and so on. The structure of the furniture retailing sector has changed significantly in the last decade and is likely to continue to do so in the future.

The entry of Marks & Spencer and other variety chain store groups into the home furnishings market has presented difficulties with regard to the analysis of statistical data. Such outlets have been classified previously under the heading 'multiple furnishing outlets', but in the present project they have been reclassified under the heading 'department stores and variety chains'. As well as Marks & Spencer, major groups in this category include John Lewis, House of Fraser, Laura Ashley, Next and so on. However, some of these companies are making increasing use of company catalogues to offer a mail order service to customers unable to visit their stores. It is possible that in future such sales will be allocated to the 'mail order' category if accuracy of definition is to be maintained. The Argos group is also responsible for significant sales of domestic furniture and has been classified in

the 'mail order and catalogue outlets' category. However, customers visit the group's outlets and order products through the catalogue; few furniture displays are available in these outlets.

Although independent shops remain major outlets for domestic furniture other than upholstered furniture, this sector has remained under threat from the multiple groups. The latter have taken advantage of more buoyant conditions in the industry to extend their regional coverage, with the established groups being joined by relative newcomers. They have also been able to use their financial resources to continue advertising, although as has been mentioned previously even the larger groups have not been immune to these competitive conditions.

Ikea and MFI were previously regarded as discount and cash/carry furniture outlets, but have now been designated as 'multiple furnishing outlets'. Both supply a wide range of self-assembly furniture as well as other household products. MFI is the major retailer of kitchen and bedroom furniture in the UK and whilst at one stage it appeared that the group intended to concentrate on these product sectors, the acquisition of Sofa Workshop is likely to lead to greater emphasis on upholstered furniture. The group is already a major retailer of beds and bedding. Ikea has expanded significantly in the UK in the last decade and is the largest retailer of furniture in the UK. The group currently has just 12 outlets in the UK, but there are plans for further expansion, although the company has had great difficulty in obtaining planning permission for new outlets. During the course of the research investigations it was announced that due to the lack of success in obtaining such permission the group had decided to proceed with plans to open a number of smaller units in the centre of towns.

There have been major structural changes within the retail sector in recent years, with Alders, Courts, Furnitureland and so on going into receivership and other groups being acquired by new owners. Nevertheless, the furniture retail sector remains extremely fragmented and the continuing competitive conditions are likely to lead to further changes in the structure in the next few years.

## **5. THE THREAT FROM IMPORTED FURNITURE**

In this section of the report we assess the role played by overseas competitors in the domestic furniture market. Statistics relating to the import and export of furniture are collated and analysed by Customs and Excise. However, the methods for collating information regarding intra-EEC trade changed during 1993, making it very difficult to provide reliable information that can be used for historical comparisons. Nevertheless, in order to analyse the size of the UK furniture market, it is necessary to make an assessment of import levels.

### **5.1 Analysis of import penetration**

Until the late 1970's the UK furniture manufacturing industry exported goods to a higher total value than the value of imported products. There was, therefore, a positive balance of trade within this particular sector of British industry, although there were individual sectors of the furniture market with negative trade balances. Since 1980, however, due to a number of adverse factors, the overall situation has changed to one of a negative balance of trade. The current research findings confirm that this situation has continued to persist, however, the adverse balance has deteriorated sharply since 1997.

In the following Table we show the level of imported and exported furniture for the period to 2005 :-

**Table 16 - Total imports and exports of domestic furniture****Basis - Value (£m)**

	<u>Exports</u> £m	<u>Imports</u> £m	<u>Balance of trade</u> £m
1995	245.6	428.1	-182.5
1996	273.6	447.9	-174.3
1997	252.3	472.1	-219.8
1998	248.8	639.0	-390.2
1999	227.9	672.6	-444.7
2000	201.7	762.5	-560.8
2001	214.7	948.0	-733.3
2002	221.4	1095.2	-873.8
2003	218.6	1253.4	-1034.8
2004	213.2	1372.5	-1159.3
2005 (Est)	207.4	1379.2	-1171.8

**Source: Customs and Excise  
Business and Research estimates**

The research findings indicate that the balance of trade in the domestic furniture sector deteriorated steadily in the 1980's, reaching a deficit of £368.2m in 1989. However, the deficit was reduced to £312.8m in 1990 and to £276.6m in 1991, before increasing slightly to £281.6m in 1992. The deficit then continued to decline steadily, reaching £174.3m in 1996, before increasing sharply again in the 1997 – 2004 period, to reach an estimated £1171.8m by the end of the period.

The Table shows that exports increased steadily in the period to 1996, reaching £273.6m by that year, compared to £245.6m in 1995 and £215.7m in 1994. However, estimates indicate that exports declined to £248.8m in 1998, £227.9m in 1999 and £201.7m in 2000, but have moved in a volatile pattern since then, reaching an estimated £207.4m in 2005. Imports declined from £477.6m in 1989 to £364.2m in 1993, but have increased markedly since that time, reaching £1095.2m in 2002, £1253.4m in 2003 and an estimated £1379.2m in 2005. The rapid increase in imports since 1997 is particularly worrying for UK manufacturers, since overseas suppliers are taking a larger share of the UK market, whilst at the same time exports from the UK have been declining since 1996, apart from the modest increases in 2001 and 2002.

Having analysed the data relating to domestic furniture generally, we can now turn our attention to individual product sectors. In the following Table we show an analysis of imports and exports of domestic furniture by product group in 2005:

**Table 17 - Total imports and exports of domestic furniture by product group**

**Basis - Value (£m)**

	<u>Exports</u> £m	<u>Imports</u> £m	<u>Balance of trade</u> £m
Dining room and living room furniture *	79.3	549.4	-470.1
Upholstered furniture	47.1	485.4	-438.3
Bedroom furniture	24.6	195.1	-170.5
Kitchen furniture	38.3	67.9	-29.6
Beds and Bedding	18.1	81.4	-63.3
	<b>207.4</b>	<b>1379.2</b>	<b>-1171.8</b>

\* Includes: conservatory furniture, home office furniture and so on

**Source: Customs and Excise  
Business and Research estimates**

The findings show that imports have increased in all product categories, but there has been above average growth in imports of upholstered furniture and dining room and living room furniture.

The findings highlight the following factors:

- a large increase in imports of upholstered furniture in the period from 1998, mainly from EEC sources, although imports from non-EEC sources are increasing strongly from a low base figure, with China and Poland being major sources
- large increases in imports of dining room and living room furniture in the 1998-2004 period, mainly from low cost non-EEC sources, particularly Asia
- a large increase in imports of bedroom furniture in 2000, also mainly from low cost producers in Eastern Europe and the Far East, as well as Brazil

- increases in imports of beds and bedding, mainly metal beds from the Far East

In the following Table we show the estimated level of import penetration in each furniture sector for 2005, compared with the level for 1990 :-

**Table 18 - Rate of import penetration by furniture sector**

**Basis - Proportion (%)**

	<u>1990 Imports</u>	<u>2005 Imports</u>
	%	%
Dining room and living room	41	54
Bedroom furniture	19	34
Upholstered furniture	12	31
Kitchen furniture	16	7
Beds and Bedding	6	14
Miscellaneous*	40	53
<b>Total domestic furniture</b>	<b>18</b>	<b>29</b>

\* Includes: conservatory furniture, home office furniture and so on

**Source: Customs and Excise  
Business and Research estimates**

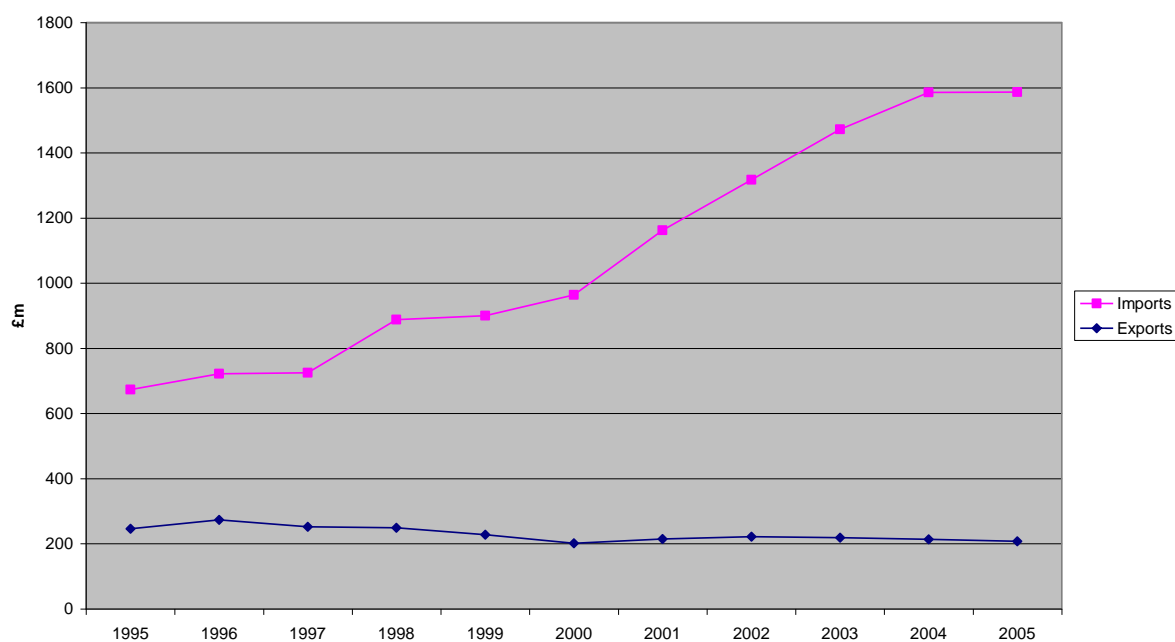
The research findings indicate that imports currently account for around 29% of the total domestic furniture market, compared to 18% of the market in 1990. However, it should be stated that the penetration level had fallen to around 14-15% during the mid 1990's. The Table shows that the level of import penetration for individual furniture sectors varies considerably, with dining room and living room furniture showing a level of penetration of over 50%, compared with bedroom furniture with 34%. Imports of kitchen furniture have declined from 16% of that sector in 1990 to an estimated 7% in 2005, whilst imports of upholstered furniture, having remained fairly low throughout much of the period, have been increasing their rate of penetration by over 3% annually in recent years, to reach an estimated 31% in 2005. The increase in the import level for beds and bedding in recent years has been caused mainly by a large surge in imports of metal beds from non-EEC sources, particularly from Malaysia.

The research findings show that, although our trade with other members of the EEC is still a significant aspect of international trade within the UK domestic furniture industry, imports from non-EEC sources

currently account for well over 50% of total imports, compared with 42% in 1998. It is clear from the research investigations that our competitive position vis a vis other countries in the EEC improved steadily for several years from 1989 onwards, but has deteriorated markedly in recent years. It is estimated that the EEC accounts for less than 50% of domestic furniture imports at the present time, having fallen from over 65% in the mid 1990's. The major sources for imports are Italy and Germany, with France, Denmark and Belgium also being significant suppliers. In particular, Italy dominates the upholstered furniture sector, mainly with leather products, but also has an important position in other sectors of the market. The recent enlargement of the EEC has also meant that several countries with significant furniture exports have now been designated as EEC exporters. South Africa and Brazil have also become major suppliers amongst countries outside the EEC, with the USA being important in certain sectors. The major change highlighted by the current research findings has been the growing level of imports from Asia, particularly countries such as China, Malaysia, Taiwan, Indonesia and Thailand. The findings indicate that the latter group of countries, particularly China and Malaysia, are likely to increase their penetration of the UK furniture market in the next few years. China is currently the second largest source of furniture imported into the UK.

The following Chart shows total imports and exports of domestic furniture in recent years :-

**Chart 3 - Total imports and exports of domestic furniture**



## **6. ADVERTISING AND SALES PROMOTION**

In this section of the report the methods used by the manufacturers and suppliers of domestic furniture to promote their products in the UK are examined in detail.

### **6.1 Direct advertising**

Although direct advertising in the form of insertions in the national and local press and television advertising remains an important aspect of the marketing strategies of many major manufacturing companies in the domestic furniture industry, research findings indicate that in real terms the overall level of expenditure has been declining for the last decade. However the level of expenditure by the major retailing groups has continued to grow and now far exceeds the promotional expenditure of the manufacturing sector.

The overall level of direct advertising expenditure within the **manufacturing** sector of the domestic furniture industry in recent years can be seen in the following Table :-

**Table 19 - Total direct advertising expenditure by manufacturers in the domestic furniture industry**

**Basis - Value (£m)**

	<b>£m</b>
1996	26.5
1997	27.2
1998	28.3
1999	30.4
2000	32.7
2001	34.3
2002	33.6
2003	30.5
2004	30.2
2005 (Est)	27.9

**Source: A C Nielsen MMS**

The research information shows that direct advertising expenditure on domestic furniture increased slowly in the 1985-89 period, from £30.5m in 1985 to £33.2m in 1989. However, the level of expenditure declined steadily to reach £26.5 in 1996, before showing a return to steady growth, reaching £30.4m in 1999. The findings indicate an estimated 7.6% increase in expenditure to £32.7m in 2000 and a further 4.9% increase to £34.3m in 2001, before a decline of 2% to £33.6m in 2002. The latest research suggests that expenditure totalled £27.9m in 2005, a 7.6% decline on the level of £30.2m reached in 2004. If one takes into account the inflation in advertising rates during the period, there has been a significant decline in real expenditure in the period under review.

The following Table shows the level of direct advertising expenditure compared with total sales of domestic furniture :-

**Table 20 - Direct advertising expenditure by manufacturers compared with total sales of domestic furniture**

**Basis - Value (£m & £m MSP)**

	<u>Total direct advertising</u> £m	<u>Total sales of furniture</u> £m (MSP)	<u>Direct advertising as a % of total sales</u> %
1998	28.3	3895	0.73
1999	30.4	3870	0.79
2000	32.7	4040	0.81
2001	34.3	4350	0.79
2002	33.6	4560	0.74
2003	30.5	4745	0.64
2004	30.2	4890	0.62
2005 (Est)	27.9	4690	0.59

**Source: A C Nielsen MMS  
Business and Research estimates**

The research findings show that in relative terms the proportion of direct advertising expenditure to total sales fell steadily throughout the 1990's, reaching 0.73% in 1998, before increasing to 0.79% in 1999 and 0.81% in 2000. However, the ratio has continued to fall steadily since that time, reaching an estimated 0.59% in 2005. These figures relate to promotional expenditure by manufacturers and

exclude trade advertising. However, despite increases in the 1990's, they indicate that the industry generally still puts a low priority on consumer advertising as a means of increasing sales. There are exceptions to this general condemnation and there are good reasons why it is ineffective for firms operating in specific sectors to advertise, nevertheless it is an issue that needs addressing and a situation which contrasts starkly with the approach adopted by major retailers in the industry. However, it should be stressed that the growing level of imports, mainly unbranded, has also reduced the number of companies wishing to advertise their products.

From an examination of this direct advertising expenditure it is clear that a significant proportion of the expenditure is allocated to kitchen furniture. However, a small number of firms incorporate a wide range of products within a single advertisement, making it difficult in those circumstances to allocate direct advertising expenditure to individual market sectors. Nevertheless, in order to provide an indication of the relative levels of expenditure, the estimates are given in the following Table :-

**Table 21 - Proportion of total direct advertising expenditure allocated to individual product groups**

**Basis - Proportion of total value (%)**

	<b>1990</b> %	<b>2005 (Est)</b> %
Kitchen	62	48
Bedroom	14	20
Beds and Bedding	12	20
Upholstered	8	9
Dining room and living room	4	3
	<b>100</b>	<b>100</b>

**Source: A C Nielsen MMS  
Business and Research estimates**

Whilst the information in the Table indicates that the proportion of expenditure allocated to kitchen furniture has declined from 62% in 1990 to 48% in 2005, it should be remembered that total expenditure in 1990 was £31.4m, compared to £27.9m in 2005. In absolute terms, therefore, total expenditure allocated to kitchen furniture in 1990 was estimated at £19.5m, compared with an

estimated £13.4m in 2005, a decline of around 31% in current value terms, but a much greater decline in real terms.

Direct advertising expenditure figures have been obtained from an independent source, but it is increasingly clear that the analysis needs to be qualified. For example, the findings indicate that the major advertisers within the domestic furniture industry continue to be Sharps, Moben, Multiyork (now part of the Wade Group), Kitchens Direct and so on. Most of these companies are either dealing directly with the general public or marketing products through their own retail outlets.

As far as furniture manufacturers distributing their products through established furnishing trade networks are concerned Silentnight, Sealy, G Plan, Ercol, Vi-Spring, Dunlopillo, Slumberland and so on are the main advertisers. Whilst the figures indicate a significant decrease in promotional expenditure, anecdotal evidence suggests that some companies are increasing their level of promotion despite or because of the competitive conditions in the trade; Vale Upholstery, Tetrad and others are examples of this trend.

In addition to the expenditure allocated to domestic furniture, there is also an analysis of direct advertising expenditure allocated to retail groups within the home furnishings sector. This includes retail furnishing groups such as MFI, Furniture Village, Harveys, Land of Leather, Kingdom of Leather, Ikea and so on and DIY groups such as B & Q, Wickes and Homebase, but also includes groups such as Magnet, DFS, Reid and so on, companies also involved in the manufacture of furniture for their own outlets. The latter operate commercially in the same way as Sharps and Multiyork being mainly classified as retail groups. Direct advertising expenditure by retail groups on domestic furniture is far in excess of the expenditure incurred by manufacturers, although some of this expenditure is allocated to furnishing products other than furniture.

The research findings indicate that total direct advertising expenditure on furniture by the leading retail furnishers reached around £140 in 2004, a slight decrease on the previous year. The leading advertisers are DFS, MFI, Harveys and Furniture Village. DFS is the leading specialist retailer of upholstered furniture, whilst MFI specialises mainly in kitchen and bedroom furniture, including pine furniture ranges, whilst Harveys and Furniture Village are general household furnishings groups. Other major advertisers include Magnet, ScS, Ikea, Multiyork, Reid, Kingdom of Leather, Bensons Beds and so on.

In addition, the major DIY groups, such as B & Q, Focus DIY, Wickes, Homebase and so on, allocate significant expenditure to promoting sales of domestic furniture, particularly kitchen furniture and to a lesser extent bedroom furniture. However, these groups also incorporate a wide range of products

other than furniture in their advertisements, with the result that it is difficult to evaluate the level of expenditure specifically focussed on domestic furniture.

As far as manufacturers are concerned press advertising accounts for the bulk of direct advertising at the present time and consists mainly of insertions in the weekend colour supplements, home and general interest magazines, women's magazines and the local and national press. Potential customers are often asked to write for a brochure or to return the coupon incorporated into the advertisement. The majority of advertisements now incorporate a simplified mailing procedure using reply-paid cards, Freepost facilities, coupons and so on.

In addition to product leaflets, catalogues and brochures, interested consumers are usually sent details of local stockists. Manufacturers often inform stockists about enquiries from their particular region; the latter may send further promotional material and an invitation to visit the outlet to see displays of the products concerned. Although firms such as Sharps, Moben, Kitchens Direct and so on often direct potential customers to their nearest outlet, these companies supply products directly to the public and rely on direct advertising for the bulk of their sales introductions and respondents are likely to receive a visit from a company representative.

In the past many leading furniture manufacturers had as a major objective the aim of promoting brand recognition amongst the general public. G Plan, Hygena, Schreiber, Slumberland and so on were firms in that category. However, whilst it is possible to measure individual brand awareness amongst a representative sample of the general public and to measure changes in this awareness over a period of time, it is very difficult to isolate and measure the individual factors affecting the situation. The research suggests that the Silentnight, Ercol, Parker Knoll and Ducal brand names are now as well known amongst their particular target customers as the companies mentioned earlier were amongst their potential customers. Slumberland has managed to regain brand awareness in recent years and there are signs that G Plan is now seeking to re-establish its brand image. In the last decade, however, the changing structure of the market has meant that the direct selling organisations and retail / manufacturing firms have become the major influence on the levels of direct advertising expenditure within the manufacturing sector.

Although expenditure on television advertising forms a small proportion of total direct advertising expenditure, for a firm such as Silentnight that medium has been a major aspect of its promotional budget in the past. It is clear that only large manufacturers with an effective distribution structure can both afford and justify using television advertising to any great extent. However, several medium sized companies have launched regional television advertising campaigns in recent years.

Within the domestic furniture industry there has been a significant trend towards the marketing of own brand or unbranded furniture by retail groups, including mail order companies. As far as kitchen furniture is concerned MFI, B & Q and Wickes and others have marketed their own product ranges. Similarly, within the upholstered furniture sector manufacturers do supply the multiple furnishing groups, mail order companies and outlets such as Ikea, Marks & Spencer and so on with unbranded products and companies have been established specifically for this purpose. Manufacturers supplying products to such outlets have also shown considerable expansion and a small number of them now rank amongst the leading manufacturers within the industry. However, very few of these manufacturers need to be involved in direct advertising or sales promotion themselves.

The current research project confirmed earlier findings that for many firms, particularly small and medium sized companies, trade advertising forms the major part of their promotional expenditure. Insertions in publications such as 'Cabinet Maker', 'The Bathrooms & Kitchens Magazine' (formerly 'Kitchens'), 'KBB Review' and so on are aimed specifically at the retail trade with the objective of encouraging outlets to stock that particular company's products. This promotional activity may occur regularly throughout the year or may coincide with the launch of new products or with a particular exhibition.

The National Bed Federation was set up to represent the bedding industry and its members account for a significant proportion of the sector. In addition to other activities, the NBF was involved in generic advertising on behalf of members and expenditure increased steadily over several years. The organisation also gained considerable impact from editorial coverage, TV and radio broadcasts and so on. In March 2005 the industry promoted its National Bed Month. This promotion was operated by The Sleep Council, which has itself been operating for many years, originally using funds levied on member firms.. The campaigns use national press and magazines, supported by national radio and are balanced geographically to achieve around 70% coverage by the end of the period. One of the main aims of these campaigns is to convince the public to change their beds every ten years. In addition to the National Bed Month, the NBF also organises other advertising initiatives, including television campaigns and other promotions aimed at the print media.

Whilst mention has been made of the advertising expenditure incurred by the major retail furnishing groups, it should be remembered that this expenditure is considerably larger than expenditure by major manufacturers. However, this promotional effort tends to cover wide product ranges, often including floorcoverings, furnishings and lighting. Advertisements by MFI, B & Q, Wickes and so on tend to promote sales offers on selected ranges of kitchen and bedroom furniture and to direct potential customers to their nearest outlet.

## **6.2 Exhibitions and display**

Exhibitions and other display facilities have played a major role for many years in the promotional policies of furniture manufacturers. In recent years, however, the subject of exhibitions has become quite complex with changes in dates and venues making it difficult for firms to make a realistic assessment of the situation.

The major furniture exhibition is now the annual show held at the NEC in Birmingham. The 1995 show organised by Blenheim Events took place in January at the NEC and incorporated the Lighting and Furnishing Accessories Show. Total attendance was stated to be 24,608, an 8% increase on the level achieved in 1994. For the first time another exhibition, KBB 95, was held in conjunction with the main exhibition. The Kitchen, Bedroom and Bathroom Showcase (KBB) was intended to provide the manufacturers of fitted furniture with a specialist display opportunity, allied to the attractions of the major trade exhibition for furniture. The 1996 exhibition was attended by over 25,000 visitors, whilst the 1997 show attracted 27,500 visitors, a 9% increase on the level reached in 1996. Overseas visitors totalled 2,187 in 1997, which represented an increase of around 8% on the previous year.

The 1998 show consisted of over 600 exhibitions and attracted over 27,000 visitors, a small decline on the attendance at the previous show. The exhibition was organised by Miller Freeman Exhibitions (formerly Blenheim Events). The 1999 show at the NEC attracted an attendance of around 30,600, an increase of over 13% on the previous year. If one includes visitors to complementary shows, who also attended the main Furniture Show, the attendance figure was in excess of 38,000. The show is now organised by CMP Information (part of United Business Media) and the 2000 event took place in January at the NEC. Attendance was stated to be 26,236, including 2,912 visitors from overseas and 41,144, if one includes visitors who crossed over from the complementary shows nearby. The 2001 show attracted a slightly lower attendance of 24,388 or 37,350, if one includes visitors from other shows. Over 750 exhibitors were present at the show, making it the largest furniture show for many years. The 2002 show featured a similar number of exhibitors and attracted an attendance of 27,785 or 43,626, including visitors from other shows, whilst the 2003 exhibition attracted 28,392 visitors or 38,943, including visitors from other shows. It has been confirmed that 27,218 visitors attended the 2004 show, with a further 12,512 visitors from other shows, whilst the findings show that 27,145 visitors attended the 2005 show, excluding visitors from other shows. The next exhibition will take place in January 2006 at the NEC.

An important regional exhibition was the annual exhibition held for many years in Manchester. The latest show to take place at that venue was held in August 1996 and consisted of over 180 exhibitors, including companies showing at nearby hotels. However, the attendance was stated to be well below

the number of visitors at the 1994 show. This exhibition had been organised by a division of the furniture industry's trade association, BFM Exhibitions. However, in 1997, the exhibition was organised jointly by BFM Exhibitions and Miller Freeman Exhibitions and moved to the NEC under the title of the BFM Summer Furniture Show. The 1997 show attracted 6,606 visitors, an 11% increase on the attendance at the 1996 Manchester exhibition. The organisers stated that over 70% of visitors were independent retailers. The 1998 exhibition in August consisted of 205 exhibitors and attracted 6,830 visitors, a further increase on previous figures, although the attendance at the 1999 show declined significantly to around 5,300 visitors. Results from the 2000 show indicated that around 160 exhibitors attracted an attendance of around 5,240, broadly similar to the previous year, whilst a similar number of exhibitors attracted an attendance of around 5,000 in 2001. The exhibition was organised by CMP Information, still in conjunction with the BFM and it was decided to switch the 2002 shows to Earls Court, London. The show took place in August with 135 exhibitors and was known as the BFM London Furniture Show. Total attendance was stated to be 4,314, a decline on the level reached at the NEC, however, the attendance figure at the 2003 show was around 4,500, indicating a 4% increase on the previous year. This show was not held in 2004. BFM have since withdrawn from the venture but CMP launched a similar exhibition in July 2005 at Earls Court under the name 'London Interiors'; this show covered a wider range of products, including home furnishings, coverings and accessories, although attendance was estimated at around 4,500. The next show will take place in July 2006 at the same venue.

Other important furniture trade exhibitions include the West and Wales Furniture Show (WRE-FEX), the Scottish Furniture Fair in Edinburgh and the Long Point exhibition held each year in Autumn. The latter show is currently held at Elvaston Castle and a series of venues, including company showrooms and the exhibition caters for the higher priced sector of the market. Members of the Long Eaton Guild form the core of the exhibitor list and the venues are concentrated in the East Midlands area. This show attracts around 500-600 invited visitors and features around 50-60 exhibitors.

A new exhibition took place in Manchester at G-Mex in July 1999, with around 130 exhibitors and 4,500 visitors. This show took place again in 2000 with 140 exhibitors and attracted around 5,000 visitors, whilst the 2001 exhibition had around 150 exhibitors and again attracted an attendance of around 5,000 visitors. The 2002 exhibition consisted of 124 exhibitors and was attended by 4,569 visitors, 6% higher than the attendance at the BFM London Furniture Show held a few months later. Results for 2003 show that 130 exhibitors attracted an audience of 4,532 visitors, broadly similar to the results from the previous year, whilst the 2004 exhibition featured 142 exhibitors and 5,305 visitors. The attendance in 2004 was significantly higher than in 2003 and reflected an increase in exhibition space of around 30%, whilst the attendance in 2005 was estimated to be around 5,100

visitors. The decline in attendance was thought to be partly because of competition from 'London Interiors' exhibition, also in July. The next show is due to take place in July 2006 at the same venue.

In the past exhibitions and other display facilities have played a major role in the marketing strategies of the leading kitchen furniture manufacturers. The major exhibition for the industry was the International Building and Construction Exhibition (Interbuild), previously held biennially at the NEC, Birmingham. This show took place in November 1997 with around 90,700 visitors, although the research findings indicated that attendances had been falling steadily in the previous decade. There had also been increasing disappointment with the standard of the Kitchens section at recent exhibitions and it is clear that Interbuild is no longer a significant event for the major manufacturers of kitchen furniture. The increasing importance of retailers within this market has reduced the need for trade exhibition facilities. The organisers of Interbuild then decided to move the next show to a different date, with the result that the following exhibition took place over five days in May 2000. The original November date was felt to be too close to another major European building exhibition and too near to the quiet Christmas trading period. The exhibition is now organised by Emap MEL and just over 70,000 attended the 2000 show, with 64,360 of these representing single visits. Total exhibitors numbered 1,679, representing over 2,000 companies. 19.5% of visitors stated that kitchen appliances and furniture were their main product interest, although there were few appliance or furniture manufacturers exhibiting at the show. Interbuild 2002 took place in June with 15 separate shows based on the main product groupings. In total there were 1,250 exhibitors, compared to around 1,650 in 2000 and the organisers recorded a total attendance of just over 50,000, a significant decline of around 20,000 visitors compared with the previous show. The next exhibition took place in April 2004 and attracted 44,624 visitors, an 11% decline on the attendance in 2002. Few kitchen furniture manufacturers were present at the show.

The KBB Tradex Exhibition sponsored by the KBB Review was aimed at providing the manufacturers and suppliers of kitchen, bedroom and bathroom products with a suitable trade exhibition venue. The show was held on an annual basis at the Alexandra Palace, London and the 9<sup>th</sup> exhibition took place in May 1993 at that venue. Analyses of the exhibitor lists at these shows indicate that many of the companies present were distributors rather than manufacturers. However, the exhibition has ceased to exist in its original form and as has been mentioned earlier in this section was revived in 1995 in conjunction with the Furniture Show at the NEC.

The 1997 exhibition attracted 8,427 visitors, although the exhibitor list for the 1998 show held in January indicated that the event was still more highly regarded by appliance and component suppliers, than by the major furniture manufacturers. This 1998 exhibition proved much more successful, with over 160 companies attracting 13,629 trade visitors and an additional 10,486 visitors from the

adjoining Furniture Show. However, it was again disappointing from the kitchen furniture aspect, with few manufacturers or worktop suppliers present, although major appliance manufacturers supported the event. The organisers, United Business Media ( CMP Information ), then decided to make the event a biennial exhibition and the next KBB show took place at the NEC in January 2000. This show and the following one in 2002 were better supported by the trade, although many exhibitors in the Kitchens sector are either appliance or worktop suppliers or distributors. Nevertheless, the number of exhibitors has increased significantly at recent shows.

Attendance at the 2002 exhibition reached 16,646 visitors, together with a further 9,823 visitors, who crossed over from complementary shows at the NEC. This total attendance of 26,469 was almost 6,000 more than the figure reached in 2000, although almost all the increase was from visitors who had attended other shows previously. The 2004 exhibition had over 220 exhibitors and attracted around 28,000 visitors including 12,000 visitors who also attended other parts of the Furniture Show. The next exhibition will take place in 2006 in conjunction with the Furniture Show.

Whilst the kitchen furniture industry has achieved only modest increases in sales values in recent years and this has been reflected in the poor performance of the specialist exhibitions catering for the industry, a major adverse influence has been the increasing importance of retailers within this market. This factor seems to have reduced the need for major trade exhibition facilities and it seems unlikely that Interbuild will regain its eminent position unless the market structure changes significantly. Nevertheless, the independent sector has performed well in recent years, accounting for over 25% of the market in value terms and providing a potential core of visitors to exhibitions.

In view of the competition between Interbuild and the KBB Exhibition as far as kitchen and bedroom furniture are concerned, it is surprising that a new exhibition for the industry took place in May 2001. The show was titled Bathroom & Kitchen Expo 2001 and took place at the new venue, ExCel, situated in the centre of London's Docklands. The new exhibition was organised by Quantum Business Media, who stated that around 6,500 visitors attended the show, which featured about 120 exhibitors. However, only Bernstein of the major kitchen manufacturers took space at the show. The next exhibition took place in May 2003 and with around 150 exhibitors attracted an attendance of 8,940, almost 40% higher than the attendance at the 2001 show. The following exhibition took place in May 2005 at the same venue, with around 160 exhibitors attracting an attendance of 8,627 visitors. The next exhibition will take place at the same venue in May 2007 and is now organised by DMG World Media.

In addition to the national and regional exhibitions organised specifically for the furniture industry, there are a number of consumer exhibitions where furniture manufacturers have an opportunity of

displaying their products. The Daily Mail Ideal Home Exhibition is held annually at Earls Court, London in March/April. There has been a decline in the number of furniture manufacturers exhibiting at this particular show, although furniture and other domestic furnishings are displayed on the stands of the major retail furnishers. In addition, furniture products are displayed in the show houses erected as part of the main exhibitions. Such consumer exhibitions are more likely to appeal to firms marketing furniture directly to the general public or through their own retail outlets. However, firms such as Symphony, Mobalpa, Thomas Chippendale and so on have had displays in recent years. The show attracts over 400,000 visitors and in the past Rational, Nolte, Symphony (Charles York), Mobalpa, Alno, Hatt Kitchens and Cuisine Pyram have been amongst kitchen furniture suppliers present at the show. Some of these products were on display in the show houses.

Some of the major companies in the industry hold trade shows at their own premises; Silentnight and Christie-Tyler were the main firms using this method of promotion, whilst Ercol and others have held individual shows at outside locations. However, Christie-Tyler has now gone into administration, with several subsidiaries having been acquired by other groups. These 'at homes' often result in a considerable level of orders for the company concerned. However, most firms in the industry rely on their main stockists to maintain displays of their ranges and the findings indicate that this situation will pertain in the future, particularly in view of the escalating cost of providing individual display facilities.

The point must be made that there is a trend towards companies operating through their own retail outlets and these firms are in an ideal position to display their products to the general public. However, the majority of firms within the industry are mainly concerned with displaying their products to the retail trade in order to obtain maximum distribution.

### **6.3 Sales promotion**

Whilst sales promotion is now playing a more significant marketing role in the domestic furniture market, it is still extremely difficult to derive accurate statistics for total expenditure. Independent companies monitor direct advertising expenditure for the majority of consumer markets, but so far no firm has yet established a similar method for analysing sales promotional expenditure.

Sales promotional methods include point of sale material such as display cards and window stickers, mailing leaflets, product literature, catalogues and so on. The current research confirms earlier findings that expenditure allocated to sales promotion forms a minor but still significant proportion of the total advertising expenditure by the furniture industry.

The larger manufacturers use sales promotional methods to achieve point of sale impact, particularly in large retail and merchant outlets. Many retail furnishings groups and builders' merchants groups are now much larger in terms of turnover than individual manufacturers and this has led to many groups marketing their own ranges of furniture. MFI, B & Q, Wickes and so on are groups currently marketing ranges of kitchen and other furniture under their own brand names. In addition, groups such as Magnet, Moben and Sharps manufacture their own ranges and market them through their own retail outlets; within the upholstered sector DFS, Multiyork and Reid operate in a similar manner. MFI retails a wide range of kitchen and bedroom furniture produced by its manufacturing subsidiary, Hygena.

However, it is clear from the research findings that there is often very little effort made by furnishing stores to promote branded products within their outlets. Of course retail groups stress that few manufacturers make a significant attempt to promote their brand names to the general public and therefore there is little point in them highlighting such brand names. The point is often made that it is difficult to mark furniture with the brand name, in the way that other consumer products often have the brand attached permanently to the equipment or appliance.

It is clear from the research investigations that furniture suppliers distributing through trade channels will have to become more flexible in their approach to sales promotion, if they are to counter the growing threat from retailer led competition.

For some companies glossy sales brochures are an important marketing tool. Ducal, G Plan, Ercol and so on are examples of firms producing good quality catalogues supported by press advertising. However, since its acquisition by Silentnight Ducal has undergone significant changes. Many other companies produce impressive leaflets and catalogues, but rely on their main stockists to distribute them to potential customers.

Earlier in this section of the report mention was made of the 'Bed Month' campaign promoted in the past by The Sleep Council. The latest such promotion took place in March 2005 and the organisation produced a special point of sale package, including posters, window banners and so on. The Council has also in the past published a 'Bed Buyer's Guide' which was sent to around 3,000 consumers. This promotion was just one aspect of an ongoing PR campaign. In addition to the Council's publicity many manufacturers also use the Bed Month as an opportunity to incorporate their own sales promotional methods, by sponsoring competitions for participating retailers and so on. The Sleep Council is now mainly responsible for PR campaigns within the industry.

Sports or leisure promotion and television sponsorship are other important facets of marketing that have assumed greater importance in recent years. Snooker sponsorship with its associated television coverage has been used within the furniture industry, but the high costs involved mean that it is bound to be limited to major companies with a significant promotional budget. Silentnight is believed to have allocated around £6m to sponsoring the television series, 'Where the Heart is', a peak time Sunday evening programme. Such sponsorship is really very similar to direct television advertising since the company name appears at intervals throughout the programme and in fact Silentnight has launched television advertising campaigns to supplement its sponsorship. Beds and bedding manufacturers tend to allocate more expenditure to direct and indirect advertising than their counterparts in the rest of the domestic furniture industry.

## **7. MAJOR MANUFACTURERS AND SUPPLIERS**

In this section of the report we analyse the leading companies in the industry, before commenting briefly on other major firms with a significant share of the market. As we have seen earlier in the report, the domestic furniture industry has experienced difficult conditions in recent years and as a result the industry has undergone many fundamental changes. The current structure is very different from the pattern existing a decade ago and recent acquisitions, closures and mergers in both manufacturing and retailing have served to highlight the continuing nature of these changes.

### **7.1 The market leaders**

#### **MFI Furniture Group plc**

This is a holding company for a number of subsidiaries engaged in the manufacture and retailing of domestic furniture, particularly kitchen and bedroom furniture. In addition, the group has been opening Howden Joinery trade depots in recent years, each offering a wide range of joinery products. MFI is the second largest retailer of domestic furniture in the UK after Ikea. With around 200 outlets in the UK the company had been converting them steadily to the Homeworks format, with increased emphasis on textiles and homewares. However, results in the late 1990's indicated that this change was not producing the upsurge in sales and profits that had been predicted initially, with a decline in profits for the group leading to a major examination of the company's performance. This resulted in further concentration on the main core kitchen and bedroom furniture activities, with beds also being strongly featured. The group also launched a new format of store based on a design developed for its Speke branch and the good results achieved convinced the company to implement a quicker conversion programme. Concessions have also been opened in Currys outlets, although results have not been as good as expected. The group is seeking to open further out of town stores, as well as developing town centre outlets and has an ongoing programme of refurbishing its existing stores, much of which has already been completed. The acquisition of Sofa Workshop has meant that the group is now involved in the upholstery sector in a significant way.

MFI's manufacturing operations are responsible for producing over 50% of group sales and are now included within the activities of MFI UK Ltd. The latter also incorporates the retail activities of the group.

MFI UK Ltd

This company was formerly known as Hygena Ltd and specialises in the manufacture, supply and retailing of kitchen, bedroom and other furniture. The latest annual results for the company are as follows:

<u>Year (to Dec)</u>	<u>Turnover</u> £m	<u>Pre-tax profits (losses)</u> £m
2003	949.9	(24.5)
2004	801.1	(103.2)

Although volume sales had moved erratically in the past, the research findings show that sales declined significantly in 2004. Sales in the UK account for around 95% of company turnover at the present time, with exports reaching £28.8m in 2004, compared to £22.9m in 2003.

The research findings indicate that the group remains the largest manufacturer of kitchen and bedroom furniture in the UK and supplies the major part of its output to MFI. The company is also involved in the pine furniture sector of the market. The firm has benefited, therefore, from being associated with the leading retailer of kitchen and bedroom furniture in the UK, however, the findings indicate that an increasing proportion of MFI's products are being sourced externally. Hygena and Schreiber are the main brand names used for kitchen and bedroom furniture in the MFI retail outlets, with both assembled and self-assembly products being available.

It is estimated that the group as a manufacturer accounts for around 8-9% of the total domestic furniture market in value terms.

Soundersleep Ltd

This company changed its name from Silentnight Group Ltd and operates as the parent company for a number of subsidiaries engaged in the manufacture and marketing of beds and bedding and other domestic furniture. The latest financial information for the group is as follows:

<u>Year (to Jan)</u>	<u>Turnover</u> £m	<u>Pre-tax profits (losses)</u> £m
2004	247.1	(9.2)
2005	226.1	(22.8)

Research indicates a significant decline in turnover in recent years, with pre-tax losses also being incurred. These latest figures show the difficulties faced by the group in integrating the companies acquired a few years ago, Cornwell Parker and Ducal, and the strong competition from imported products. As a result there has been major restructuring and the company has now become a private company owned by the original founding family. Factories have been closed and the manufacture of Ducal, Nathan and Parker Knoll products has now ceased. The bedroom furniture manufacturing operation has been sold to the management and is now trading as Stag Furniture (UK) Ltd. The group intends to focus future strategy on developing its beds and bedding activities.

The group is the major supplier of beds and bedding in the UK with a market share of around 25% of that sector in value terms. Brands marketed in the UK include Silentnight, Sealy, Perfecta, Layezee, Pocket Spring and Rest Assured.

It is estimated that the group as a whole currently has a 4-5% share of the total domestic furniture market in the UK.

#### Nobia AB

This company is a major kitchen furniture manufacturer based in Sweden and has acquired Magnet Ltd and Gower Furniture Ltd in recent years.

#### Magnet Ltd

This company was part of Enodis plc (formerly Berisford International plc), but has now been acquired by Nobia AB. The latter now claims to be Europe's largest kitchen supplier with brands such as Poggenpohl, Norema and Parma and with factories in Sweden, Norway, Germany and so on.

Magnet Ltd manufactures and markets a wide range of joinery products, as well as kitchen, bedroom and bathroom furniture, sold through over 200 of its own retail and trade outlets. The latest results are as follows:-

<u>Year (to Dec)</u>	<u>Turnover</u> £m	<u>Trading profits</u> £m
2003	263.7	13.7
2004	286.2	11.0

Turnover from kitchen and bedroom furniture is estimated to be over £150m, although this is related to both retail and trade sales and in the case of the former may include design and installation costs. Significant restructuring took place within the company during the 1990's, including the closure of showrooms and production capacity, but Magnet has progressed steadily in terms of both sales and profits, since the 1996 results were adversely affected by a strike at the company's major kitchen factory. The acquisition by Nobia has meant increased investment, including the ongoing refurbishment of retail outlets. Magnet has also opened concessions in Homebase and has an agreement to supply flat-pack kitchens to that company, although these are sourced from within the Nobia group. This has been a successful operation and the products are now available in over 200 outlets throughout the UK, with sales increasing by 30% in 2004.

It is difficult to assess Magnet's position in the furniture sector because of its structure as a manufacturer, distributor and retailer. It is clear, however, that the company retains a significant position in the kitchen furniture sector and to a lesser extent in the bedroom furniture sector. In terms of domestic furniture production, it is estimated that Magnet Ltd has around 3% of the total domestic furniture market in value terms.

#### Gower Furniture Ltd (now Nobia Holdings UK Ltd)

This company was a subsidiary of Gower Group Ltd, which was itself a subsidiary of Charco Ninety-Nine Ltd. However, the group has now been acquired by Nobia AB.

Gower Furniture Ltd is a major operating subsidiary, involved in the manufacture and marketing of self-assembly kitchen furniture through major retail groups and independent outlets. The latest results for the company are as follows:-

<u>Year (to Dec)</u>	<u>Turnover</u> £m	<u>Pre-tax profits</u> £m
2003 (Year to March)	68.0	7.1
2003 (9 months to Dec)	59.8	4.7

The research findings show that sales have grown significantly in recent years. The group had previously owned Coltran Ltd and Smallbone & Co (Devizes) Ltd, a major supplier in the high quality sector of the kitchen furniture market. However, both companies had been disposed of, prior to the acquisition by Nobia.

It is estimated that Gower has a 1-2% share of the total market in value terms, but a much larger share of the kitchen furniture market.

The research findings indicate that Nobia AB, through its ownership of both Magnet and Gower, has a 4-5% share of the total UK furniture market. The group is also the second largest supplier of kitchen furniture in the UK.

#### The Symphony Group plc

This company is a subsidiary of Symphony Holdings Ltd and specialises in the manufacture and marketing of kitchen, bedroom and bathroom furniture.

The latest financial information for this company is as follows:

<u>Year (to Dec)</u>	<u>Turnover</u> £m	<u>Pre-tax profits</u> £m
2003	105.3	6.0
2004	113.7	9.6

The latest financial information shows that volume sales have shown little growth in recent years, although pre-tax profits have increased in the period since 2001.

The group retains a significant position in the kitchen furniture sector, whilst bedroom furniture is also accounting for a larger proportion of sales at the present time. Exports totalled £2.5m in the latest financial period, compared to £2.2m for the previous twelve months.

It is estimated that the group has around 2-3% of the total domestic furniture market in value terms.

#### HomeForm Group plc

This group was originally an independent company under the Limelight name with a Stock Market quotation, but in August 2000 there was a management buyout by HomeForm Group Ltd. The company subsequently delisted from the London Stock Exchange in October.

The latest results for the group as a whole are as follows :-

<u>Year (to Dec)</u>	<u>Turnover</u> £m	<u>Pre-tax profits (losses)</u> £m
2002	210.1	(0.8)
2003	217.6	(31.1)

Moben and Kitchens Direct represent the group's kitchen interests and turnover reached £102.8m in 2003, compared to £95.6m in 2002, although losses were incurred in this division in 2003. However, it is clear that this turnover includes installation costs, the sale of appliances and so on, since Moben sells through its own showroom network and Kitchens Direct via direct advertising. The research findings indicate that Moben has been increasing its number of outlets in recent years and currently has over 200 sites, although the group is likely to increase distribution through concessions in the future.

Sharps is involved in manufacturing and installing fitted bedroom furniture and turnover increased from £65.2m in 2002 to £67.4m in 2003. Sharps is the leading brand of fitted bedroom furniture and has undertaken a major showroom refurbishment programme in recent years. Sales have also been helped by continuing growth in the Home Office brand and the development of the Bedrooms Direct operation.

It is estimated that the group accounts for around 2% of the total market in value terms, although the kitchen manufacturing requirements are now thought to be sourced externally.

#### Moore's Furniture Group Ltd

This company is a subsidiary of Moore Group Ltd and was formed after a management buyout from the founder, George Moore. However, the group has now been acquired by the Masco Corporation Ltd based in the USA. The latest financial information for the company is as follows:

<u>Year (to Dec)</u>	<u>Turnover</u> £m	<u>Pre-tax profits</u> £m
2003	88.0	11.2
2004	95.9	13.9

The research findings show that the group has increased sales and profits significantly since the early 1990's. However, results in the late 1990's indicated static volume sales, reflecting the highly

competitive conditions in the kitchen furniture sector, although turnover and pre-tax profits have grown significantly since 2001. The group specialises in the manufacture and marketing of kitchen furniture and has a particularly important position in the contract sector of the market. The two main activities for the company are the supply only of furniture and the supply and installation of furniture.

It is estimated that the group as a whole has a 2% share of the total domestic furniture market in value terms.

## **7.2 Other important manufacturers**

The research findings indicate that the leading groups analysed in Section 7.1 of this report account for around 25% of the total domestic furniture market in value terms a decline on the level reached in 2004.

Other leading furniture groups at the present time include :-

Steinhoff UK Holdings Ltd	<ul style="list-style-type: none"> <li>- Steinhoff UK Furniture Ltd</li> <li>- Relyon Ltd</li> <li>- Deptich Designs Ltd</li> <li>- Colonial Bedstead Co Ltd</li> <li>- Brendon Designs Ltd</li> <li>- Sprung Slumber</li> </ul>
Simmons Bedding Group plc	<ul style="list-style-type: none"> <li>- Sleeppezee Ltd</li> <li>- Nestledown Beds Ltd</li> <li>- Cumufilux Beds Ltd</li> </ul>
JDP Furniture Group Ltd	<ul style="list-style-type: none"> <li>- Wade Furniture Ltd</li> <li>- Welbeck House Ltd</li> <li>- Parker and Farr Furniture Ltd</li> <li>- YP Furniture Ltd</li> <li>- Cintique Ltd</li> <li>- Celebrity Motion Furniture Ltd</li> </ul>
Airsprung Furniture Group plc	<ul style="list-style-type: none"> <li>- Airsprung Beds Ltd</li> <li>- Gainsborough Ltd</li> </ul>

H Morris & Company Ltd	<ul style="list-style-type: none"><li>- Morris Furniture</li><li>- G Plan Cabinets</li><li>- Beautility</li></ul>
Horatio Myer & Co Ltd	<ul style="list-style-type: none"><li>- Myers Comfortable Beds</li><li>- Staples &amp; Co Ltd</li></ul>
Slumberland Ltd	<ul style="list-style-type: none"><li>- Dunlopillo Ltd</li></ul>
Collins and Hayes Ltd	
Leslie Alston (Holdings) Ltd	<ul style="list-style-type: none"><li>- Alstons (Cabinets) Ltd</li><li>- Alstons (Upholstery) Ltd</li></ul>
Bernstein Group Holdings Ltd	
Regency Group Ltd	<ul style="list-style-type: none"><li>- Regency Kitchens Ltd</li><li>- Richmond Furniture Ltd</li></ul>

The leading companies in this sector, Steinhoff, Simmons and JDP, have UK sales of around £50m - £60m and all manufacturers listed achieved UK turnover in excess of £20m. However, many furniture companies have experienced static or declining turnovers in the last two years and profit margins have been eroded or pre-tax losses incurred.

Since the publication of the previous report on this sector, Christie-Tyler plc, a subsidiary of HMTF Furniture Investments Ltd, has gone into receivership. The group was the largest manufacturer of upholstered furniture in the UK with a turnover of over £300m, although this had declined in recent years. Some of the group's subsidiaries have been acquired from the Receivers and are continuing to manufacture and sell upholstery and the turnovers derived may be significant. However, at the present time it is difficult to assess their position in the UK market.

## **8. THE FUTURE FOR DOMESTIC FURNITURE**

Before examining the prospects for the domestic furniture industry, it is important to analyse the current outlook for the UK economy in general.

### **8.1 The outlook for the UK economy**

From information shown earlier in the report it is clear that the UK economy has been making slow but steady progress since the recession of the late 1980's. This is further illustrated in the following Table:

**Table 22 - Gross Domestic Product in the UK\***  
**Basis - Index, seasonally adjusted (2001=100)**

	<b><u>Index</u></b>
1995	83.6
1996	85.9
1997	88.8
1998	91.5
1999	94.1
2000	97.8
2001	100.0
2002	101.8
2003	104.0
2004	107.3
2005 1 <sup>st</sup> Quarter	109.0
2 <sup>nd</sup> Quarter	109.6
3 <sup>rd</sup> Quarter	110.4

\* Based on volume indices at market prices

**Source: Office for National Statistics**

Research information shows that the level of economic activity has increased steadily since 1992, reaching 101.8 by 2002, 104.0 by 2003 and 107.3 by 2004 (based on 2001=100). The quarterly information confirms that output continued to increase steadily throughout 2003 and 2004 and had reached 110.4 by the third quarter of 2005.

Similarly our performance with regard to consumer prices has also been more successful in recent years. The research findings show that the Retail Price Index (RPI), which is generally regarded as the barometer of inflation, indicated an annual rate of inflation of 2.2% at the end of December 2005. The situation is slightly confused by the fact that originally the Government wanted to focus attention on the underlying rate of inflation (RPIX), which excludes mortgage payments. This rate is currently showing an annual rate of increase of 2.0% against the target of 2.5% set by the Government. However, the Government is now seeking to use the CPI index, which it believes will permit comparability with most major competitors. This index is currently at 1.5% against a target of 2%. Of course the overall rate of inflation disguises the fact that in some sectors price rises are significantly less; for example, household goods prices are at the same level as twelve months ago, whilst prices for electrical goods have actually fallen during that period.

As part of the group's work in the field of marketing research, Business and Research Associates Ltd has in the past undertaken the preparation of economic forecasts on a regular basis. In this section of the report we would normally extract our estimates of economic activity in the period up to 2007. However, the increasing cost of providing this data and the availability of forecasts from independent specialist organisations has led to a decision to make use of the latter as an input to our own forecasts for individual market sectors. The leading institutions used for this purpose include the Treasury, the OECD, the London Business School and various financial groups.

The following forecasts for the UK economy are the medium term forecasts made in the second half of 2005 and are the average for the major forecasting institutions :-

**Table 23 - Forecasts for the UK economy**  
**Basis - Increase on previous year (%)**

	<b><u>2006</u></b>
GDP growth (%)	2.4
Domestic demand (%)	2.5
Inflation rate (RPI)	2.5

**Source: Major forecasting institutions**

The information in the Table indicates that the major forecasting institutions expect growth in GDP and consumer demand to be more than in 2005, with GDP and domestic demand increasing by 2.4% and 2.5% respectively. Inflation is forecast to remain steady, although unemployment is like to rise.

For comparison purposes the following Table shows the Treasury forecasts for the year 2006 :-

**Table 24 - Forecasts by the Treasury**

**Basis - Increase on previous year (%)**

	<b><u>2006</u></b>
GDP growth (%)	2.50 – 3.00
Domestic demand (%)	2.50 – 3.00
Inflation rate ( CPI )	2.0

**Source: HM Treasury**

The findings show that the Treasury currently has a more optimistic viewpoint than other financial forecasting institutions and expects both GDP and domestic demand to grow by 2.50–3.00% in the year 2006.

Whilst growth is expected to be steady rather than spectacular in the next few years, the economy is felt to provide a realistic framework for industry generally to prosper without being marked by the extreme peaks and troughs experienced in the past. Anecdotal evidence suggests that within industry itself, growth is being fuelled by the service sector, whereas manufacturing industry is less buoyant, with exports suffering from the low growth rates in major European economies and a general slackening in world trade. It is clear, therefore, that general economic prospects for the next two years remain positive, although cautious optimism seems to be the general consensus.

It is always difficult to prepare forecasts with any degree of certainty, particularly since many official economic statistics used as the basis for forecasts are subject to revision at a later date. Nevertheless, having carried out a comprehensive review of the domestic furniture industry, we believe that it is important to give an indication of future prospects for the sector under investigation in the current project.

## **8.2 Market forecasts**

In this section of the report we give our forecasts of future market size in the period to 2007. One of the difficulties in forecasting the future size of any market in value terms lies in estimating accurately future rates of inflation. The current level is now regarded as acceptable by most economic commentators and estimates of future market size have been expressed, therefore, in value terms.

The following Table shows estimated future sales of domestic furniture in terms of current prices :-

**Table 25 - Estimated future size of the UK domestic furniture market**

**Basis - Value (£m MSP at current prices) and annual change (%)**

	<u>£m</u>	<u>% change</u>
2005	4690	
2006	4740	+ 1.1
2007	4890	+ 3.2

**Source: Business and Research estimates**

The research findings indicate that total sales of domestic furniture are expected to total £4740m in 2006 and £4890m in 2007; this compares with estimated sales of £4690m achieved in 2005. By 2007 sales will have regained the level they reached in 2004. The level of price increases for domestic furniture is estimated to remain below the level for inflation generally, indicating a decline in volume sales in 2006, with marginal growth in 2007. Increases in current value terms are estimated to be 1.1% in 2006 and 3.2% in 2007 and producer price increases for domestic furniture are assumed to be in the 1-3% range for each year. This is despite some raw material costs rising at a significant higher rate.

Consumers are still taking advantage of the competitive pressures in the retail sector, reflected in discount offers, interest free credit, promotional incentives and so on, although manufacturers and, to a lesser extent, retailers were anticipating being able to improve profit margins eroded during recent years. This scenario seemed less and less likely as the second half of 2005 progressed and the research findings indicate that competition in the retail sector will be just as fierce in the next two years as it was in 2005. The forecasts for inflation within the domestic furniture sector assume that the Government maintains its successful attempts to hold the level of inflation within the UK economy generally at an acceptable level.

In the following Table we show estimated future sales of domestic furniture by product group :-

**Table 26 - Estimated future size of the UK domestic furniture market by product group**  
**Basis - Value (£m MSP at current prices)**

	<u>2006</u> £m	<u>2007</u> £m
Upholstered	1600	1660
Kitchen	930	955
Dining room and living room	705	725
Bedroom	580	590
Beds and Bedding	605	630
Miscellaneous*	320	330
	<b>4740</b>	<b>4890</b>

\* Includes: home office, conservatory, bathroom and other furniture

**Source: Business and Research estimates**

As far as sales of individual products are concerned, the research findings indicate that sales of upholstered furniture will reach £1600m in 2006 and £1660m in 2007, representing around 34% of total market sales for each year. Sales of kitchen furniture are forecast to reach £930m in 2006 and £955m in 2007, accounting for around 20% of the total market in value terms for each year.

The findings from this research project indicate that volume sales will show growth for most product groups in 2007, after further declines in 2006. However, the domestic furniture industry has always been very competitive because of its fragmented structure and the lack of significant growth in the near future is likely to intensify that competition.

During the last decade consistent and steady growth in consumers' expenditure figures and optimistic Government statements were not always reflected in the trading results of furniture manufacturers or retailers. In the current trading climate consumer and retailer pressures to maintain prices are having a severe effect on manufacturers' profit margins, particularly as raw material prices are often increasing at an above average rate. Even when increased sales are being achieved, pre-tax profits are not increasing at the same rate, leaving manufacturers in a vulnerable position should further pressure be put on their capital reserves. Unfortunately, industry forecasts indicate that the domestic furniture

market will show only modest real growth over the next two years, allowing only the more efficient manufacturers and retailers to increase turnover, strengthen their market positions and balance sheets and perhaps be more confident about the future. Because of pressure by consumers for retailers to maintain prices, the latter are exerting further pressure on manufacturers or are increasingly looking abroad to source products from low cost producers. Although the large increases in imports in recent years are unlikely to be repeated in the near future, nevertheless, there are likely to be further modest increases from the Far East and Eastern Europe. However, as living standards improve in those areas, costs are likely to increase albeit at a slow rate. It should be remembered, however, that not all imports are of the low cost type, since Italy remains the major supplier of domestic furniture to the UK, with Italian leather upholstery being a significant product sector in the UK market.

**APPENDIX 1****BOUNDARIES OF THE NEW STANDARD REGIONS OF THE UK**

The regions used are the Standard Regions as designated by the Registrar General and the constituent areas of each region in England are listed below:-

**Northern**

Cleveland, Cumbria, Durham, Northumberland, Tyne and Wear

**Yorkshire and Humberside**

Humberside, North Yorkshire, South Yorkshire, West Yorkshire

**East Midlands**

Derbyshire, Leicestershire, Lincolnshire, Northamptonshire, Nottinghamshire

**East Anglia**

Cambridgeshire, Norfolk, Suffolk.

**South East**

Bedfordshire, Essex, Hertfordshire, Kent, Surrey, East Sussex, West Sussex, Berkshire, Buckinghamshire, Hampshire, Oxfordshire, Isle of Wight, Greater London

**South West**

Avon, Cornwall (with Isles of Scilly), Devon, Dorset, Gloucestershire, Somerset, Wiltshire

**West Midlands**

Hereford, Worcester, Salop, Staffordshire, Warwickshire, West Midlands

**North West**

Cheshire, Greater Manchester, Lancashire, Merseyside.

**APPENDIX II****SUMMARY OF INTERVIEWS CARRIED OUT**

	<b>Personal</b>	<b>Telephone</b>
Manufacturers	21	41
Distributors - Retailers	47	171
- Merchants	11	26
- Wholesalers / Importers	7	13
- Miscellaneous	7	21
Informed Sources	5	7
	<b>98</b>	<b>279</b>

## Notes

i) Distributors Interviews were carried out with a representative cross section of the distributive trade, including independent and multiple furnishers, department stores, cash and carry warehouses, mail order companies and so on.

ii) Informed sources Respondents in this category included representatives from the trade press, trade associations and independent consultants and so on.

**APPENDIX III****DEFINITION OF PRODUCT GROUPS WITHIN THE  
DOMESTIC FURNITURE INDUSTRY**

The following product definitions have been used throughout this report :-

**Type of furniture**

- |      |   |   |
|------|---|---|
| i)   | <b><u>Upholstered</u></b>                 | Convertibles, unit section seating, settees, fireside and easy chairs.  |
| ii)  | <b><u>Bedroom</u></b>                     | Storage (wardrobes, dressing tables, cabinets, chests of drawers), unit and built-in storage.   |
| iii) | <b><u>Kitchen</u></b>                     | Storage (wall units, cupboards) and built-in units (base and sink units); cornices, pelmets, plinths and so on.   |
| iv)  | <b><u>Dining room and living room</u></b> | Seating and tables, wall storage, sideboards, room dividers, dressers, bookcases, cocktail and china cabinets, coffee and occasional tables, television and entertainment cabinets. |
| v)   | <b><u>Beds and bedding</u></b>            | Upholstered bases for mattresses, divans, wooden or metal bed ends, bedsteads, divan headboards and bedheads, bunk beds, mattress supports and mattresses.                          |
| vi)  | <b><u>Miscellaneous</u></b>               | Home office, conservatory, bathroom and other furniture.  |