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Herman Miller Inc. showcased its Teneo filing and storage line at the recent NeoCon World Trade's Fair, held at the Merchandise Mart in Chicago.

Furniture Life Circle Rounding Into Form?

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GRAND RAPIDS — The furniture industry is in a slump, true, but according to Brian Bascom, principal of Velocity Partners, it's the cycle of the industry.

Velocity Partners is a product marketing and innovation firm that provides a variety of advice and services to companies, including entering new markets, developing new products, and evaluating and realizing new business opportunities through strategy, research, marketing and product insight.

"The office furniture industry goes through cycles," said Bascom. "It's not a fast, high-growth industry in terms of, say, technology. It's a solid, traditional products industry with certainly its shares of ups and downs."

Bascom said that many of those who invest in the furniture industry are people who are active in it and have a deep understanding of the industry.

Two of the major players, Herman Miller and Steelcase, are publicly traded companies — but with very different philosophies, according to Bascom.

"With Steelcase, you've got some significant blocks of shares that are owned and managed by private equity and private individual investment accounts, including some of the founding families," said Bascom, adding that, on many fronts, Steelcase behaves like a private company. "The benefit of that is, Steelcase can make some investments and not worry too much about having those investments make a solid return in a 90-day period of time."

For Steelcase, the percentage of shares owned by all insider and 5 percent owners is 17 percent, as opposed to Herman Miller's 2 percent, according to Yahoo! Finance.

"If you take a look at some of (Herman Miller's) preemptive strikes in terms of work-force downsizing and budget cutting and those kinds of things, they very much appear to be running that business on a 90-day cycle much like any other Fortune 500," said Bascom. "The challenges for them on that are, there's a lot more pressure to bring products to market quicker, to invest less money in product development."

Besides the "800-pound gorillas" of Herman Miller, Steelcase and privately owned Haworth, the industry also includes Tier 2 companies, which Bascom classified as those with revenues that typically range from $50 million to half a billion dollars in the office furniture category. He named Trendway as an example.

"These are privately owned companies willing to make investments and see it through over the long term," said Bascom.

"Then we've got a third group of companies which we call Tier 3's. These are small niche players, manufacturers."

Some characteristics of Tier 3 companies, Bascom said, are that they are often "family owned, often very profitable, very prudent, that make investments in designers and new product development on a regular basis, savvy sophisticated, the ability to move and serve customers very quickly and also the ability to dominate — either by product application or by market sector."

Bascom talked about the Sheboygan-based Nemschoff, which "dominates" the health care sector in patient room furniture and furnishings for lobbies and lounges of various types of health care facilities.

Of Tier 3 companies, Bascom said, "They can be very innovative, they can move quickly, and they can really focus on their customer base, because they're small, they're lean and they're focused.

"You take a look at a lot of the big companies, with the big company infrastructure and big company programs and bureaucracy, and potentially internal politics that you toss into the mix — it's very hard for the big boys to stay focused and to compete other than based on price."

In the marketplace, Bascom said, lower and mid-market products are becoming soft.

"However, with all of that being said," Bascom continued, "our clients and others we talk to on a regular basis that operate on the higher end of the market are doing quite well."

The companies supporting the high-end office furniture industry — the technology, health care and professional service companies — are still doing well in the overall economy, Bascom said.

"You take a look at health care and higher education: There's a lot of money that has been raised by public and private universities, a lot of money that has been raised by health care systems, and they are spending it and they're spending it on high-class furniture," he said. "They want their hospital or university to be the brand, and they're competing for patients and students."

Bascom believes one key to a company's success would be to differentiate its products and not compete solely on price — a trend that came out of the industry's downturn in the early 2000s.

"Many companies weren't spending a lot of money in new product development. Once that downturn hit, the products all looked alike and operated alike with the same sort of features and benefits," said Bascom. "But when the downturn hit, the smart ones really took a serious, hard look at their business and said, 'We've got to differentiate ourselves from our competition; we can no longer compete based on price and if we do, we are in serious, serious trouble.'"

Those companies began to do research and invest in new areas, including such things as looking at the differences in generational work styles.

"It's an interesting time to be in the business," said Bascom. "It's a good time to be in the business if you've been focused on running your business." BJX

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