



| In Manufacturers |

Inflation, High Material Prices Hitting Office Furniture Makers

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by **Rob Kirkbride**

Attention U.S. businesses: Get ready to pay a little more for office furniture.

Major players in the industry are raising prices as they try to cope with skyrocketing raw material costs.

Steel, plastics, aluminum and fuel all are on the rise and prices are going up in response.

Herman Miller said Wednesday it would increase list prices by about 3 percent, effective Aug. 4. Sources say Haworth announced a price increase last week. The privately held company would not confirm whether it raised prices or not.

HNI Corp. said it is considering more price increases due to cost pressures. The company has already raised some prices but might make more increases due to the increasing expense for steel and fuel, among other costs, Treasurer Marshall Bridges told Reuters.

And although Steelcase hasn't announced a price increase yet, it hinted during a recent conference call with investors and analysts that a price hike was coming.

Trendway Corp. raised prices in January, but President Bill Bundy suggested that it might not be enough to cover additional costs for the company.

Blame the price hikes on the soaring cost of commodities. Steel is up by about 40 percent since the beginning of the year. And Herman Miller executives recently warned that the rising price of commodities will cost the company between \$25 million and \$30 million more during its next fiscal year.

Small and mid-sized manufacturers are being hit even harder because their volume prevents them from tying up long term prices for steel.

This is one price increase that customers likely will understand, even if they don't like it, said industry analyst Brian Bascom of Velocity Partners.

"Many companies are already paying fuel surcharges for other raw materials. Customers are well aware of costs rising," he said.

Core commodities are on the rise across the board. And they are hitting the office furniture industry hard.

Larger manufacturers generally have structured contracts in place for raw materials. But for Herman Miller and others, the contracts and locked in prices are ready to expire.

"Some companies are in better position than others when it comes to those contracts with prices for raw materials locked in," Bascom said. "Others are seeing a reduction in profitability because they aren't locked in. Those costs directly hit the bottom line."

Commodities aren't the only cause for concern.

Companies that buy furniture or parts from Europe also are taking a hit on the exchange rate. Still, that blow is softened because U.S. manufacturers have an advantage if they are selling products into Europe for the same reason.

The financial sector also continues to be worrisome. For most large manufacturers, about 3 percent to 6 percent of their business is with large banks and mortgage companies. Job cuts and consolidation in that industry hurts, but so far, the damage has been limited. Steelcase told investors and analysts that its financial and insurance sector business was down during the last quarter.

Some smaller furniture makers that focus almost entirely on the financial sector are suffering as well after years of strong and steady sales.

"Those companies are having to shift gears and focus on other parts of the professional furnishings industry," Bascom said. "Some industries like professional services and tech are in good shape. Healthcare and higher education are a given and continue to drive significant growth in the industry."

The result of all the glum financial news is more pressure on the companies that were already struggling. Some like Rosemount have already gone out of business. Others are looking for a buyer.

"We see a vast increase in consolidation," Bascom said. "Higher commodity prices are going to continue to take their toll on the smaller, less capitalized firms. We're going to see more companies sold or ready to close their doors."

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Steelcase	N/A +0.00	N/A	N/A	N/A	4/11/2008 4:02pm

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