

Product Strategies

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from the factory to their store," he said. "When you look at diesel fuel, it's gone up a \$1.50 in the last four or five months. The sofa that used to cost \$20 to go from Craftmaster (in North Carolina) to Washington might be \$25 or \$28 now, so that's going to affect the retail price as well."

Calcagne, whose company produces its upper-end Estate collection in China, said that cost pressures have intensified at every link in the supply chain. In addition to the rising cost of raw materials, recent adjustments in the value of China's currency have raised the cost of exported goods



California upholstery manufacturer Nathan Anthony expects to attract buyer interest in Las Vegas with its new curved Lauren sofa.

by 12% to 15%. And China has tightened subsidies on fuel, causing transportation costs to jump as well.

Craftmaster took a modest price increase at the April High Point Market but that "just

barely covers the increases that we've been hit with," Calcagne said, adding the company won't be making further increases here.

The impact on pricing that Hurricane Katrina had in 2005 taught everyone that the industry doesn't have to have self-imposed price points, said Ted Jamagin, vice president of retail sales for upholstery maker Loft.

"We all think that we have

to have a \$399 sofa. But if nobody had a \$399 sofa, our business wouldn't suffer; it would just increase our gross dollars. When we had the mandatory foam increase a couple of years ago, it forced everybody to go up and nobody lost any business because everybody had to go up at the same time.

"The consumer doesn't know the difference. They never have and they never will."

Jamagin said that, while unwanted, rising costs give retailers an opportunity to readjust their prices and increase margins.

"They've got to come to the conclusion that maybe these price points don't exist anymore and they've either got to suffer a margin hit or move on."

He added, "We all agree as an industry that furniture is one of the best values a consumer can buy today. In fact, it's too good a value and everybody's living on a shoestring. And if we get hit like this (with increases), we begin dropping like flies. We can somehow learn from this."

Since retailer W.S. Badcock acts like a catalog company for its franchised dealers, the company is locked into its current price list. But the chain may have to make adjustments to its pricing in the future, said Mike Estridge, vice president of merchandising and upholstery and leather buyer.

"We know (our suppliers) are getting hit with increases," he said. "We're trying to work with (them) as much as we can to merchandise around them and retain our price points as much as possible."

But hearing that some vendors have been hit two or three times with increases since April, Estridge noted that retaining some pricing "is going to be tough."

Consumers might not know if a sofa goes from \$499 to \$599, but they do "know value" and are aware if another merchant is selling the same sofa for \$499, said Estridge. But, he added, "if times dictate, you've got to do what you have to do. We've got to make money — the suppliers have to make money. We don't want to (raise prices) and we do everything we can to fight it."

Despite the triple whammy of a weak economy, flat sales and price increases, upholstery makers said they plan to be aggressive this market with plenty of new products and aggressive promotions.



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