

THE FURNITURE WARS

THE
FURNITURE
WARS



HOW AMERICA LOST
A FIFTY BILLION DOLLAR
INDUSTRY

MICHAEL K. DUGAN



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IN WAR, EVERYTHING IS VERY SIMPLE, but the simplest thing is difficult. Someone who has no personal experience of war does not understand where the difficulties that are constantly discussed actually lie, nor the reasons for the brilliance and exceptional mental ability the commander must possess. Everything seems so simple: all the necessary knowledge seems so obvious, and all the deductive reasoning so insignificant that, by comparison, the simplest task of higher mathematics impresses us with a certain degree of scientific dignity.

If one has experienced war, however, all these things become understandable, yet it remains extremely difficult to describe the invisible yet ubiquitous factor that causes this change.

Carl von Clausewitz, *On War*



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AUTHOR'S NOTE



THE FURNITURE WARS is intended to provide an inside look at the American furniture manufacturing industry over the past fifty years. During this period, I was fortunate enough to have had a front-row seat, close to the action, and at times, I was on the stage. This gave me a closer look at the subject than a typical historian would get, but it deprived me of a certain measure of objectivity. The narrative is seen through my point of view, but the book is not about me. Therefore, I like to call it a *histoire* rather than a history or a memoir.

I arrived in 1969, a self-assured Outsider who viewed the old-fashioned, factory-oriented industry with mild disdain. I was particularly struck with the lack of marketing practices and couldn't wait to show the misinformed natives how to do it the right way. At first, my youthful attitude was reinforced by a band of MBA types, mostly from Harvard, who felt the same way. For some reason, I sensed that maybe, just maybe, the insiders were not as dumb as we thought. And by listening carefully to some veterans, I began to see that what looked like antiquated practices were, in fact, clever accommodations to the brutally competitive industry.

In furniture, every square foot of floor space, every dollar of sales, and every nickel of profit has to be fought for against countless rivals. And it has to be done with Sisyphean strength and

regularity. There is no time to savor the fruits of victory, and the losses are painful. It is like war.

I kept listening and observing, and somewhere along the line I lost the Outsider's false omniscience and became an Insider. Now, all I had to do was help the Outsiders do it the right way. During this time I began as a marketing and product development manager at the H. T. Cushman Co. and moved on and up to become the vice president of sales and marketing at Pennsylvania House. In ten years I dealt with three owners and five presidents, each one unique.

By 1979, I had grown restless and I succumbed to a recruiter's call to move to the industry's mainstream and become senior vice president of sales and marketing for the S&H furniture group. The High Point group headquarters were filled with insiders, many of them highly capable, who were held in mild contempt by the outsiders in the New York corporate headquarters. Green Stamps and furniture did not mix well, and it was not a fun time in my career. I missed the maverick atmosphere at Pennsylvania House and rarely agreed with my S&H boss. Still, I was near the top of a major furniture producer and learned a lot more about the business.

Thanks to a referral from a friend, I met with a Wall Street investment banker and agreed to partner with him in the acquisition of the Union Furniture Co. in Batesville, Indiana. Around the same time, S&H was raided by Baldwin United, and a management leveraged buyout was crafted. LADD was born, and later the key managers became millionaires on paper when the company went public. Perhaps I should have stayed, but I just did not feel right there, and the people who stayed were not happy.

The Union venture led to the acquisition of Jamestown Sterling

in 1982, and the fun returned. Turner moved on to bigger things, leaving me as president of my own company. His fearless pursuit of acquisitions caused a few anxious moments and eventually led to multiple bankruptcies, but Jamestown Sterling prospered through it all. It represented the furniture business at its best, a money-making niche company with a good management team. Who could ask for more?

Then one day in the summer of 1987, I took a call from a headhunter who wanted to know if I would be interested in becoming president of a "large manufacturing company in the Southeast."

"No way," said I. "I am perfectly happy where I am."

"Are you sure?"

"Yes, I am absolutely sure."

"What if I told you the name?" he proffered.

"It wouldn't matter," I insisted. "But I am curious, of course."

"The name is confidential."

"It doesn't matter. I really am not interested."

"It's Henredon."

"Oh."

Seventeen exciting years later, I retired as president of Henredon to become a college professor and to work on this book. I hope it will help insiders and outsiders reach a better understanding of the special nature of the business. I remain convinced you must love and respect the furniture business to survive in it, and that means you cannot treat it in a cavalier manner. You either love it or you don't. There is no middle ground.

The original idea that led to this book was a decision to send a memo up the line to point out some of the mistakes I had seen repeated often during the Furniture Wars. It seemed so obvious.

I naively felt I would be able to help by pointing out some of the traps that had caught others. The memo was not received with much favor; it was not what people wanted to hear. Now, it has grown to become a 400 page book.

I have tried to be factual and objective in my narrative with malice toward none. However, it is impossible to set aside deeply felt personal impressions based on first hand observations.

Seven years in the making, this book would not have been possible without the generous help of many people. Since many interviews were conducted off the record, I cannot list them all, but several are due special thanks. Barbara Dugan for her infinite patience with me and "the book." Professor Chris Roberts of Alabama University for his tireless editing. Sheila Long O'Mara and Amy Kyle of *Home Furnishings Business* for their unflagging support. Nathan Moehlmann of Goosepen Studio & Press for his wonderful graphic design. Jerry Epperson of Mann, Armstrong, and Epperson for his insights and statistics. Budd Bugatch of Raymond James for his brilliant analysis. *Furniture Today* for its superb coverage of the industry. Earle Levenstein, Will Somers, Jack Curry, Jack Glasheen, and all those who urged me to stay the course and not give up.

M. K. D.

Hickory, North Carolina

INTRODUCTION



AVACANT FACTORY SITS FORLORNLY astride Springmaid Mountain just off the Blue Ridge Parkway in western North Carolina. Outside, weeds grow defiantly through the cracks in the empty parking lots, and cobwebs surround the locked doors. Inside, it is quiet and dark. The power has been cut off. All that remains are faint memories of the products made there and the people who made them.

The facility once produced world-class Henredon furniture – prized by movie stars, professional athletes, country and western singers, and other discerning customers the world over. Henredon products even graced the homes of Presidents from Truman to Clinton. Now the factory produces nothing. Opened in 1967, this particular complex was named after the nearby Mitchell County community of Spruce Pine, 40 miles northeast of Asheville. With nearly a million square feet of floor space, it provided thousands of steady jobs for some of the state’s poorest counties. It was a good place to work. Today, no one works there.

Spruce Pine is one of several hundred such facilities spread across the Carolinas, Virginia, and Tennessee – abandoned, deserted, and deprived of hope. Not long ago, these plants hummed with workers, managers, engineers, and machines making furniture and textiles, but no longer.

A few miles down the road from Henredon, Ethan Allen

opened a new plant in the 1990s that managed to stay busy. What looked like a sign of hope for American manufacturing dissipated quickly; it too closed in 2005. Alas, even this American furniture retailing powerhouse, its name artfully connected with an American Revolutionary War hero, could not avoid the move to “off-shore” production.

Twenty minutes south of Spruce Pine sits Marion, home of another Henredon plant and two Drexel Heritage plants. All are shut down. Drive in any direction and you will see more empty buildings that noiselessly clutter the landscape. They once made brands such as Thomasville, Broyhill, Lane, Bernhardt, and Bassett. Not any more. Why? Because few companies still make furniture in America.

American workers who once earned decent livings producing furniture are scrambling for employment in lower-paying service jobs. The ones who view those jobs as inferior to making furniture go back to school to prepare for high-tech jobs that as yet do not exist in these counties. The community colleges are filled, thanks to government grants, but the unemployment numbers remain frighteningly high. Caldwell County, North Carolina, home of Broyhill and Bernhardt, two of the industry’s biggest and best known brands, has hit unemployment levels as high as 12 percent.

Eight thousand miles from Henredon’s shuttered factory in the Blue Ridge Mountains, a company in China is hiring workers and expanding its gigantic factory to make Henredon’s newest collections. Henredon, which had carefully differentiated its prestigious brand by making products other companies could not copy, has now committed to a strategy of becoming an import sourcer with no domestic production. Instead of rigidly controlling its own

production in-house, Henredon will outsource it to companies in Asia. These third-party vendors also make furniture for other companies.

THE BIG WAR, 1999–2006

A coalition of Asian countries – most notably China, Vietnam, Indonesia, and the Philippines – has captured the American furniture industry, and a tenuous truce has been reached. The Asians make the goods; Americans design and sell them – for now. A few holdouts have escaped the Asians, but essentially the Big War is over. American forces have surrendered. How did it happen so quickly?

It started innocently enough for Henredon in 1983, when a British antique merchant struck a deal with Henredon to import hand-carved parts from the Philippines. The impresario was Paul Maitland-Smith, who arranged to have hand-carved dining chairs made in Korea to sell in the United Kingdom and America. He found the Korean producers to be unreliable, and access to the American market was difficult. He then moved his operation to the Philippines and convinced Henredon to carry his eponymous line. He was extremely knowledgeable about antiques, had a wonderful eye for scale, proportion, finishes, and decorative trim, and could design – or, more accurately, adapt – products that consumers loved. Full of energy and charisma, he skillfully dealt with developing countries in the tradition of the British Raj. He had the hot designs but lacked access to the lucrative American market. At the time, Henredon had access to the top retailers, but its own line needed some excitement.

prominent players stay close to breakeven year after year. Because the assets needed to produce these modest results are high, the returns on working capital are even worse.

Still, Insiders love the business and cannot imagine working elsewhere. Outsiders sometimes learn to love it, but they typically become frustrated and self-destruct. Rarely do Outsiders have the patience to make the needed changes, and rarely do Insiders accept the need for these changes. Recently, they both find themselves ill-equipped to defend their turf in a battle with powerful foreign forces. Rather than invade the industry, the Asians plan to shut it down.

American factories stand idle in this post-apocalyptic wasteland. A \$50 billion, uniquely American industry is in disarray, and 80,000 factory jobs have been eliminated since 2000.⁴ This means one in four workers has been sent home. One study said 38 percent of them could not find work, and a quarter of the ones who found jobs took pay cuts of at least 30 percent.⁵ The people who held these jobs may have found work in other fields, but they are gone from the furniture industry. Does it matter? To me it does and, if you care about the traditional American way of life, it should also matter to you.

I witnessed the Furniture Wars as well as fought in them. I am partly responsible for what happened to the American furniture business, and I hope that by sharing the story of the Furniture Wars, at least part of the industry and some other industries might be saved. If not, the future of the United States seems uncertain to me, and two questions beg to be answered: Can the American economy survive without producing anything? And if Asia produces everything America needs, who will pay for it?

THE INNER WORKINGS OF AN AMERICAN INDUSTRY



THE EARLY HISTORY OF THE AMERICAN FURNITURE INDUSTRY

THE FIRST PILGRIMS CARRIED few possessions when they set sail from England for the promise of the new land. There was no room on board for furniture. After arriving in Plymouth, they grew impatient with sleeping and eating on the ground and crafted a few dining tables, benches, and beds. With no furniture imports available, the domestic “shade tree” industry of cabinet making became one of America’s first industries. The earliest designs were hand-hewn, primitive, and built to last. Decorative elements were added as settlers became more affluent.

The industry expanded dramatically during the eighteenth century. Cabinet makers in Boston, Newport, New York, Philadelphia, and Virginia turned out more expensive, more decorative products for well-to-do colonists. The designs were typically

pared-down adaptations of more elaborate originals from England. Although Colonial woodworkers imported mahogany, they preferred native wood species such as cherry, maple, and pine. This gave the designs a uniquely American flavor.

In the nineteenth century, advances in machinery brought about by the industrial revolution helped the industry to move beyond its cottage roots. Machine-made products gradually replaced bench-made items, and railroads made it possible to branch out of the industry's New England base. Propelled by the arrival of European immigrants with woodworking skills, furniture manufacturing centers were formed in central Pennsylvania, western New York, southwestern Michigan, and southern Indiana.

Despite this growth, the business retained its entrepreneurial spirit and competitive structure. It was relatively easy to start a furniture company, not as easy to run one, and quite difficult to sell one. The industry remained too small to attract the attention of the big-time Robber Barons, so none bothered to monopolize furniture the way they did with trains, steel, oil, and coal. The furniture industry remained fragmented, with production spread among many players and polarized with a gap between the upper end and the mass market.

The industry's westward migration turned south by the twentieth century, and Virginia and North Carolina emerged as primary furniture-producing states. By offering cheaper labor costs in a union-free environment and abundant capital, the South enticed hundreds of textile mills to move. Furniture factory owners did not physically relocate, but new investments shifted from north to south. Gradually the South became the world's most important furniture producing area – especially when an offshoot group,

seeking lower-cost labor, began making promotional upholstery in Mississippi.

POST-WAR PROSPERITY

Shipments continued to grow, especially after World War I, but they were hammered during the Great Depression when demand for home furnishings disappeared. Likewise, furniture companies during World War II either closed or made wood products for the military. Bernhardt made airplane parts, for example, and the Kittinger Co. built PT boats.

The companies that survived saw unprecedented prosperity during the post-war period. For two decades sales had been depressed and capacity had been reduced. Then, in the late '40s, the Greatest Generation went to college on the G.I. Bill, married, bought houses, and filled them with furniture. Then they had children, moved to bigger houses, and filled those bigger houses with furniture, and on and on. When they finally stopped buying furniture, their children, the Baby Boomers, were ready to buy more furniture.

These Glory Days were good times for the owners of furniture businesses. If you could make it, you could find a buyer for it. Pent-up demand exceeded supply, and the industry had no offshore competitors. The economy was free of major downturns, and the industry prospered during the 1960s and parts of the 1970s. The weakest competitors made money; the strongest made a lot of money.

Sophisticated it was not, unless you consider survival in a fiercely competitive industry sophisticated. You needed little marketing,

The only technology was the adding machine in the front office. You didn't even need a brand name. All you needed were a few savvy commission sales representatives to peddle what your factory could make, or tell you what to make. A select few companies invested in a primitive form of branding, using home decorating magazines to get their names more widely recognized. Bassett, Broyhill, Drexel, Thomasville, and Lane soon became well known, and their sales growth reflected the power of brand building. Consumers equated familiarity with quality, so these mid-market brands found themselves positioned as top of the line.

The rest of the industry generally ignored the end consumer, scorned marketing, and concentrated on production. Some companies introduced mass production techniques, but it mainly meant more machines and bigger lot sizes. Most upholstery was still bench-made, as were many casegoods. In some ways, management had not moved far from its Pilgrim origins. Merchandisers continued to feature eighteenth century styles, most of which they blatantly copied from each other. Operations executives were slow to keep pace with computer-controlled machinery developments, and information technology was viewed with suspicion.

GLORY DAYS

Yes, the industry had problems during this time, but there also was something special about the business that attracted and held onto the participants. Companies placed greater value on people than on fixed assets. The talented "two-legged" assets – people who knew how to design, make, and sell furniture – could contribute more to the company's success than any machine. There

was a certain collegiality, a sharing of the experience that resulted in camaraderie. This spirit encompassed the producers and sellers as well as the related participants who supplied materials and services to the industry – fabric mills, lumber mills, chemical finishing firms, hardware and machinery producers, designers, landlords, magazines, ad agencies, accountants, and consultants.

The product also was fun to work with. It was real; it was understandable. It had no moving parts and no on/off switch. It just sat there and, at best, looked good. It made rooms and homes look better. It made people feel good.¹

The players had the opportunity to make an impact. The industry's fragmentation meant there was no establishment, which meant your career could move quickly. Nothing would hold you back if you had talent and ambition. The companies were family owned, and the mode was entrepreneurial. In the 1950s, it was reported that 75 percent of the firms were family controlled. Mavericks were tolerated, along with a few mildly crazed people.

The industry was relationship driven, and friendships meant a lot. Making money was important, but having fun was important too, because no owner was ever accused of paying anyone too much. The industry had its curmudgeons and inflated egos, but it was enjoyable to be in the furniture business. Few willingly left it. You had to love it to be successful, and it was easy to love.

AT MID-CENTURY

At mid-century, the American furniture industry still carried the baggage that reflected its origins. The manufacturing process resisted automation and included a heavy labor component. Quality

it can go. After all, some domestic manufacturers are increasing their production levels. The top five “lifestyle” retailers had sales of \$3 billion last year. The Chinese have their eye on more sophisticated things to make and they have some serious environmental concerns. There are easier ways to make a living than by making furniture, even in China. Several Chinese factories have closed down in recent months and the new Democratic Congress may well introduce legislation containing some import tariffs. Maybe some day Americans will be able to reclaim a bigger share of the furniture business, and this time, maybe we will get it right.

APPENDIX



FURNITURE WARS CHRONOLOGY

- 1964
General Interiors formed. Acquires Pennsylvania House.
- 1965
General Interiors acquires Cushman.
General Interiors IPO listed as GIT on April 12.
Stock closes year at 17.
- 1966
General Interiors acquires Kittinger.
Burlington acquires United and Globe.
GIT stock ranges from $9\frac{1}{8}$ to $2\frac{25}{8}$, closes year at 11.
- 1967
GIT stock ranges from $10\frac{5}{8}$ to $27\frac{1}{8}$, closes year at $25\frac{1}{4}$.
- 1968
Armstrong acquires Thomasville.
General Interiors acquires Shaw and Dunbar.
GIT stock hits $35\frac{1}{2}$.

Michael Dugan retires as president of Henredon.
 Steve McKee named as replacement.
 FBN stock ends year at 25.

2005

Harvey Dondero replaces Dennis Burgette as president of Broyhill.
 Randy Spaak let go at Lane Action.
 Nancy Webster replaces Tom Tilley as president of Thomasville.
 Tom Tilley replaces Steve McKee as president of Henredon.
 FBN at 22.

2006

Seamus Bateson resigns as president of Maitland Smith.
 Harvey Dondero resigns as president of Broyhill.
 Larry Milan named as president of Maitland Smith.
 Broyhill closes its last remaining domestic casegoods plant.
 FBN stock dips below 16.

2007

Jeff Cook named president of Broyhill.
 Mickey Holliman announces retirement.
 Ralph Scozzafava named as successor.
 Jeff Young steps down as president of HDM.
 FBN stock drops below 8.

2008

Tom Tilley departs Henredon.
 FBN stock dips below 2.

NOTES



INTRODUCTION

1. This figure accounts for the value of wood and upholstered furniture sold at retail. It does not include bedding.
2. The author is grateful to Jerry Epperson of Mann, Armistead, and Epperson, Richmond, Virginia., for providing these and other furniture industry statistics. See *Furnishings Digest*, Volume 9, Number 8, Aug. 2001.
3. According to a 1967 *Fortune* article, America had 5,350 companies in the furniture industry at that time and factory shipments of \$4 billion. In the 1997 census, after some 30 years of “consolidation,” there were 5,843 companies in the industry.
4. *The Hardwood Review*, Charlotte, North Carolina
5. “Imports Hammer Furniture Makers,” by Jon Hilsenruth and Peter Wonacott, *Wall Street Journal*, Sept. 20, 2002, page 2.

CHAPTER ONE

1. On Sept. 29, 1993, President Bill Clinton and his wife Hillary hosted a White House dinner for a small group of home furnishings executives who had contributed to redecorating the private quarters of the executive residence. After dinner, the president spoke about the powerful influence of furnishings in our lives, even referring

furniture companies who had the nerve to use Brazilian mahogany to make furniture. It mattered not that the few trees used for this time-honored practice were insignificant compared to the countless acres of rainforest trees cut down and burned by peasant farmers to clear for planting crops. The Chinese continue to import wood from all over the world without fear of protest. They had already defoliated much of their country by cutting down their native hardwoods to fuel their steelmaking industry during the Cultural Revolution.

12. "The China Price," *Business Week*, Dec. 6, 2004.
13. "China Furniture Makers Feel Global Slowdown Pain," July 26, 2008, Reuters.

ABOUT THE AUTHOR



MICHAEL K. DUGAN is currently the Chair of the Business School at Lenoir-Rhyne University. Previously he was the President and CEO of Henredon Furniture Industries, a position he held for 17 years. Widely recognized by Insiders as an industry pioneer and marketing guru, he played the lead role in building the Pennsylvania House brand and co-founded his own furniture company, Jamestown Sterling.

He is a contributing editor to *Home Furnishings Business* magazine and writes book reviews for the *Hickory Daily Record*.

A frequent guest lecturer at other colleges and universities, Dugan teaches a graduate course in Leadership and an undergraduate course in Marketing at Lenoir-Rhyne.

His business career involved working with many influential people, including Polo chief Ralph Lauren, longtime Bloomingdale's CEO Marvin Traub, and designer Barbara Barry. A graduate of the University of Toronto, where he majored in English Literature and Medieval Philosophy, he holds an MBA degree from Syracuse University.