Furniture

The furniture industry was large and profitable populated by many family-owned retailers which faced succession challenges as each generation of the family retired. In general, older family members were poorly suited to reinventing their companies to adapt to changing customer needs, upstart rivals, and new technologies. Moreover, often younger family members in the company lacked the interest or aptitude to lead the company into the future. If a nonfamily member had been groomed to take over, the succession might go smoothly – depending on whether the family members were comfortable with the succession plan. In the absence of such next-generation leadership, furniture industry CEOs faced three options: sell the company to another retailer, sell to a private equity firm, or recruit an outside CEO with the talent needed to reinvent the company.

Whomever next manages the firm, traditional furniture retailers would need to tackle three challenges:

- **A decline in furniture demand resulting from job losses spurring a drop in real estate demand**: By May 2020, 30 million workers had lost their jobs due to social distancing measures aimed at limiting the spread of Covid-19. Few of these newly unemployed would be able to purchase a house – thus capping demand for furniture. While the quarantine created a surge in demand for new furniture from employed people working at home, that demand was unlikely to remain strong in future years. Hence, furniture executives needed to cut back on supply and floor space to meet lowered demand.
• **The threat of market share loss to rivals offering more compelling value to customers:** Online furniture vendors such as Amazon and Wayfair were able to display a much wider selection of furniture through their apps and websites and price and deliver those items more cheaply and quickly than traditional furniture retailers. Traditional furniture retailers could offset some of this advantage by offering an online ordering and store pickup option.

• **The challenge of blocking consumers from showrooming:** Showrooming – a practice we saw in Chapter 2 – was prominent in the furniture retailing industry as well. A consumer could try out different mattresses, for example, at a retailer’s showroom and pick the best option. Sadly, for that retailer, the consumer could go online and find another vendor who would sell and deliver that mattress at a much lower all-in cost to the consumer. While matching the lowest online price could be an effective countermeasure, such a strategy could sap profitability.

Furniture retailing is highly fragmented, slowly growing, and reasonably profitable. Like the grocery industry, a few entrepreneurs have developed and executed new business strategies that have resulted in considerable market share gains. As with the grocery industry, entrepreneurs with a Create the Future mindset face the considerable challenge of picking a successor with the same entrepreneurial energy. Unlike the grocery industry, furniture retailing is more sensitive to economic fluctuations – if consumers lose their jobs, they defer furniture to finance groceries and are highly unlikely to purchase a house which would need furnishing. The deep economic downturn resulting from Covid-19 social distancing was likely to result in a considerable drop in demand – although virtual retailers could gain market share if retail stores remained closed.

Prior to Covid-19, the store-based furniture industry was doing well with bright prospects. 2019 industry revenue was $64.6 billion with 2.2% average annual growth in the preceding five years. During this period, declining unemployment, increased household disposable income, rising consumer confidence, increased access to credit, and a rising home ownership rate all contributed to increasing furniture demand. Nevertheless, furniture industry earnings before interest and taxes fell slightly – due to increasing wages and price-based competition – from 4.6% of revenue in 2014 to 4.4% in 2019. Due to low mobility barriers, mass merchandisers and warehouse clubs, such as Walmart and Costco, negotiated lower prices by leveraging their higher purchasing volumes – passing those savings on to consumers. Online retailers
generated lower sales than traditional ones – $12 billion in 2018 revenues in 2017 online furniture sales represented 14% of furniture sold – but was growing much faster at an average rate of 9.4% between 2013 and 2018, while enjoying rising profitability of 5% of revenue in 2018 (up from 4.1% in 2013).1 Online furniture retailers – such as Wayfair and Overstock – enabled users to browse a wider selection of furniture which they displayed online without incurring the costs of operating retail stores. Demand for furniture – 95% of which was purchased by consumers – varied by age range, with the lowest demand at the lower price points from consumers under age 25 who tended to rent prefurnished apartments. The most attractive segment was consumers between ages 35 and 44 who were purchasing homes and had enough disposable income to furnish them.2

By 2019, the economic outlook for the furniture industry was dimming – even before the economic effect of Covid-19 was beginning to be felt in the United States. IBISWorld expected revenue for furniture stores to increase at a more modest 1.1% annual rate to $68.3 billion by 2024. Although the research firm envisioned rising per capita disposable incomes at a 1.9% annual rate during the period, countervailing forces – such as falling consumer confidence and increased competition – were expected to constrain revenue growth and compress profit margins. With the consumer confidence index forecast to drop an annualized 0.3% by 2024, IBISWorld anticipated that homeowners would become less likely to make large-scale furniture purchases, such as sofas. Due to high levels of competition, price increases were not anticipated – thus capping industry profitability.3 By April 2020, with 30 million workers having lost their jobs and unemployment reaching Great Depression levels, the furniture industry slowdown appeared likely to accelerate – pushing many store-based furniture retailers into bankruptcy. This industry shakeout was expected to benefit industry leaders who could prevail in online furniture retailing to boost their market share. However, such growth would only flow to participants who had mastered the key success factors – such as competitive pricing, product quality and selection, shopping convenience, website organization and load speed, order processing and fulfillment, order delivery time, customer service, and brand recognition.4

Strategic Mindsets of Furniture Industry Winners and Losers

The furniture industry is large and profitable – yet not all participants are likely to survive. In the long term, furniture retailers that fail to find a strong CEO to succeed an entrepreneurial founder may be acquired – possibly with capital from private equity firms – they could file for bankruptcy, or in some cases, they could continue to operate without distinction. The furniture retailing winners will be led by strong CEOs – either founders or successors
whose founders planned carefully for the next generation of leadership. Such CEOs will excel at gaining insights into how the needs of their future customers will differ from their current ones. These CEOs will also be skilled at changing their product mix, reinventing their store-based and virtual ordering and fulfillment processes, and improving their approach to hiring, training, and motivating their people so they can increase their market share.

Furniture Industry Startup and Incumbent Success and Failure Case Studies

In the following case studies explored, we will examine how these winning furniture industry practices manifest themselves through three strategic mindsets:

- **Executives with a Create the Future mindset were winners**: Executives who were determined to create the future of the furniture industry – specifically, IKEA’s CEO Ingvar Kamprad – implemented a strategy based on understanding the specific needs of different groups of customers and adapting its basic operating model, directing consumers’ shopping process in its stores to purchase low-priced, ready-to-assemble furniture that they delivered and assembled themselves, to meet those needs more effectively than competitors did. Thanks to its strong culture and effective CEO succession, IKEA continued to follow these principles following Kamprad’s departure.

- **Companies with a Follow the Leader mindset had the potential to strengthen their market position by tightening operations to become sustainable**: As we will see in the following, the founders of Wayfair were able to build a leading online furniture retailer by acquiring a collection of online furniture purveyors, creating a unifying furniture brand, tracking and analyzing data about consumer behavior, and expanding its product line based on the results of that analysis. Despite Wayfair’s success, it continued to suffer due to its inability to generate positive cash flow. Its costs for furniture purchasing, delivery, marketing, and servicing customers were too high as it faced competitive pressure from Amazon. Wayfair’s ability to sustain its growth while boosting its operational effectiveness would determine its long-term survival.
Head in the Sand leaders ultimately presided over the bankruptcy of their companies: Many furniture retailers are family-owned businesses. When the entrepreneurial founder can no longer run the company, their survival depends on whether an entrepreneurial successor is ready to become the next CEO. Below we examine the story of Art Van Elslander who founded a successful chain of furniture retailers, was unable to find a successor who could sustain its success in the face of competitive threats and changing customer needs, and ultimately sold the company to a private equity firm that bled the company dry. Its bankruptcy was a warning to store-based retailers that selling out to financial buyers may help enrich heirs but is likely to endanger their company’s long-term survival.

Success: IKEA Creates a World-Spanning Furniture Shopping Revolution

Introduction

In 1947, Ingvar Kamprad, son of a farmer in a poor rural area of Sweden, started a furniture company called IKEA – an abbreviation for Ingvar Kamprad from Elmtaryd, Agunnaryd, his boyhood home. By the time of his death in January 2018, Kamprad was one of the world’s wealthiest people – with a peak net worth of $58.7 billion. By 2019, IKEA was generating about $6.4 billion in revenue, with 430 stores in 30 countries and 9.9% market share – making it a dominant player in the furniture retailing industry. Kamprad created the future of furniture retailing with a mindset shaped by a mixture of rural poverty, dyslexia, alcoholism, a hidden fascist past, and a life of near-monastic frugality. Growing up in a poor family on a farm in Southern Sweden, he struggled to concentrate in school and earned money selling matches and pencils in local villages. At 17, he registered IKEA – a mail-order business selling household goods. His thrift and diligence were a mix of truth and fiction – intended to inspire the same in IKEA’s employees. To avoid Sweden’s high taxes, he lived in Switzerland, drove an old Volvo (as well as a Porsche), only flew economy class, stayed in low-priced hotels, ate inexpensive meals, said his home was modest (though it was a villa overlooking Lake Geneva and he owned a Swedish estate and Provence vineyards), and insisted he had no fortune because the company was held in a charitable trust. He also wrote down his principles for employee conduct in a 1976 book, The Testament of a Furniture Dealer, which praised simplicity as a virtue and waste as a sin. Employees were expected to be humble, clean-cut, and courteous, know the company’s products, and be enthusiastic about its ideology. Kamprad’s name
was reported to be in the archives of Per Engdahl, a Swedish fascist, soon after his 1994 death. Kamprad had joined Engdahl's fascist movement in 1942, attended meetings, raised funds, and recruited members. In 1950, he wrote Engdahl a letter which expressed his pride in helping the movement. Once revealed to the public, Kamprad told IKEA employees that he “bitterly regretted” this “most stupid mistake of my life” – blaming his German grandmother's influence. He lived away from other people but traveled around the world to IKEA stores where he anonymously questioned employees as if he were a customer, and customers as if he were a helpful employee. He made no effort to hide his alcoholism – which he claimed to control by quitting booze three times a year. The oft-repeated lore behind IKEA's success sprang from frugality: locating stores on less costly land outside cities, purchasing materials at a discount, minimizing sales staff and enabling customers to shop without pressure, and packaging items in flat boxes with instructions that customers could use to assemble at home. In a 2000 *Forbes* interview, he said, “I see my task as serving most people. The question is, how do you find out what they want, how best to serve them? My answer is to stay close to ordinary people, because at heart I am one of them.”

**Case Scenario**

IKEA's growth was mostly due to geographic expansion and broadening of its product line – however, by 2018 the company had adapted to ecommerce by enabling customers to order online and take delivery at pickup points. In the five years ending August 2019, IKEA's revenues grew at a 6.4% average annual rate to $6.4 billion while its operating income declined a 15.2% annual rate to $352 million. The company was founded in 1943, entered the US market in 1985, and by 2019 operated more than 430 stores in about 30 countries.³ IKEA blundered when it first entered the US market by assuming that Americans needed the same furniture as its European customers did. They rejected beds and bedding made to metric measure, shallow sofas, short curtains, and kitchen cabinets which were not designed to fit US appliances, tableware, plates, and glasses. IKEA did not stock tables or plates large enough for a Thanksgiving dinner, its particle board was perceived as low quality, and its picture-only assembly instructions frustrated people trying to assemble IKEA's furniture. IKEA eventually addressed many of these issues. Although its $10 table for a college dorm room would not last for decades, IKEA’s price/value ratio was competitive. In addition, IKEA began to deliver and assemble furniture, for a price; and it offered planning and design services for customers seeking to outfit a kitchen or home office. Kamprad’s principle of staying close to its customers was ultimately not lost on the managers of its US operations. Fearing that it did not understand California's largest demographic group, Hispanics, IKEA designers visited the homes of its Hispanic staff members and added more large-scale furniture, bold colors, and elaborate picture frames to adapt to the needs they observed during the visits.⁹
These principles of adapting to the unique needs of each market helped spur the company’s geographic expansion. IKEA opened its first store in India in fiscal 2018 (year-end August) and ended the year with 20 pickup and order points in 11 countries, 31 store distribution centers in 18 countries, and 37 customer distribution centers in 16 countries. By 2019, it employed about 211,000 workers — with 18% of revenue coming from North America (mostly the United States) where it operated more 50 locations. IKEA sold over 9,500 varieties of ready-to-assemble furniture — such as beds, chairs and desks, appliances, small motor vehicles, and home accessories. IKEA used flat packing, which enabled it to reduce transportation costs and sell at competitively low prices. IKEA generated 5% of revenues from food service at its company’s in-store cafeterias where it served up Swedish meatballs and free Wi-Fi. By 2018, IKEA had boosted online customer engagement with 2.5 billion customer visits online, more than twice its 957 million physical store visits. While most sales were still done in store, its electronic presence boosted revenue growth.10

By 2019, IKEA was continuing to innovate under the leadership of a 20-year executive who became CEO in 2017, Jesper Brodin. Its CFO, Juvencio Maeztu, then emphasized that the company was using the period from 2018 to 2022 to reinvent itself for the next 75 years. To that end, IKEA was trying to adapt to the evolving preferences of young, eco-conscious consumers and rapidly growing digital rivals such as Amazon, Wayfair, and Overstock which were ramping up expectations for service, quality, variety, and price. To that end, IKEA invested in three areas aimed at shortening the distance between the company and its customers: upgrading its digital presence to enable consumers to shop at home in the evening, improving services such as home delivery, and bringing showrooms to city centers. Maeztu explained that IKEA’s lower profit was an investment in digital transformation that it intended to continue through 2022. IKEA also aimed to improve its sustainability by reducing the company’s greenhouse gas emissions by 2030 and by launching a furniture rental program.11

The Covid-19 pandemic accelerated the rollout of IKEA’s digital strategy. With consumers quarantined at home, IKEA moved faster to help people redesign and furnish their homes. The pandemic-boosted sales of desks, home organization tools, and children’s products. As the pandemic was gaining steam, Brodin was creating IKEA’s future with investments in affordable housing, robotic furniture, and a futuristic food cookbook. Moreover, he emphasized that IKEA had achieved 10% market share by dictating what customers should buy and he saw an opportunity to increase that market share by listening and adapting to the specific needs of different groups of customers. To that end, IKEA was building digital channels to reach customers, providing home delivery and assembly, and engaging more directly to learn the specific needs of people in city centers.12 In March 2020, IKEA added to those consumer-focused digital services by acquiring 3D and visual AI provider Geomagical Labs to enable consumers to design their own homes. The resulting service — which was anticipated to be available by the end of 2020 — would require consumers to photograph a room and upload it to IKEA’s platform which would
render the photo in 3D. From there, consumers would be able to swap new items in for the old ones and buy what they liked all within the app. Ultimately, IKEA envisioned that the app would digitally place new items into a realistic looking 3D representation of their home, experiment with different styles, estimate a budget, and take suggestions from an AI advisor before purchasing.13

Case Analysis

More than any other company in the industry, IKEA created the future of furniture retailing. Kamprad started life with some considerable disadvantages—including growing up in a poor family and suffering from dyslexia and, later, alcoholism and hidden support of fascism. Rather than wallow in his misery, he fought his way out—opening numerous businesses. After he started IKEA, he continued to reinvent its business—adapting effectively to the challenges of introducing his idea into new geographies with differing tastes and buying behaviors. Rather than assume that all customers would view the company as he did, Kamprad emphasized the importance of observing how different groups of customers live and adapting IKEA to their needs. If this mindset continues at IKEA, it may be able to sustain its lead in the industry.

Success: Wayfair Creates an Online Shopping Powerhouse and Struggles to Cash In

Introduction

In 2002, a pair of high school friends who both attended Cornell started an online store that sold bird feeders and other home furnishings. By 2019, that collection of online furniture stores, renamed Wayfair, grew from $450,000 in revenue to $9.1 billion—at a 79% compound annual rate—controlling about 20% of the online furniture market.14 The company’s most notable financial flaw—Wayfair never generated positive cash flow from operations—was burning through $600 million worth of free cash flow in 2019 alone. By April 2020, Wayfair’s stock market capitalization was $11.6 billion—impressive, but 28% below its March 2019 high. Driving Wayfair’s success were its CEO, Niraj Shah, and his cofounder, Steve Conine. A Pittsfield, Mass. native, Shah’s parents both immigrated to the United States from India, which he said, “takes a certain type of entrepreneurial spirit.” Moreover, Shah’s grandfather was an entrepreneur which inspired him to start a lawn mowing company and paper delivery service. Shah and Conine attended a summer course at Cornell in high school and roomed together as Cornell engineering majors. In their senior year, they took an entrepreneurship class which required them to develop a business plan—for a website development company, Spinners, which did not take off.15 Shah graduated from Cornell in 1995 and moved to Boston; cofounded an Internet consulting business with Conine, which they...
sold in 1998; worked as an Entrepreneur in residence at Greylock Ventures; and started and sold a software company. In 2001, he began building a network of hundreds of small ecommerce ventures — such as an online vendor of birdhouses built in the owner’s garage which she delivered to the post office.\(^\text{16}\)

In the minds of consumers, this collection of companies did not offer a compelling reason to keep buying. In September 2011, they began to solve this problem by taking their first outside capital and changing the name from CSN to Wayfair — which they hoped would become a clear brand that would increase the number of repeat customers. Due to changes in Google’s search algorithm, customers were no longer directed to Wayfair’s sites out of brand loyalty — for example, purchasers of stereos were unlikely to be frequent repeat buyers. At that point, the company decided to rebrand. While it sent its 700 employees in the streets with Wayfair T-shirts, it was not until 2014 in the wake of airing its first TV commercials — with a catchy jingle — that consumers began to search for Wayfair. By bidding for relevant keywords on Google and savvy use of Facebook, Instagram, and customer emails, Wayfair was able to drive more consumers to visit its site and make purchases.\(^\text{17}\)

Shah advised aspiring entrepreneurs to target a huge market, focus on a problem which they passionately want to solve, and help customers quickly when something goes wrong. Wayfair people were bright, ambitious, hardworking, team oriented, and good at analyzing data. Shah believed that if Wayfair hire people who fit with its culture, it could teach them the skills the company needed. Wayfair’s culture valued fun and delighting customers. Employees were energized by learning, enjoying their work, and meeting new people. Each team developed its own measurement systems — Shah relied on team leaders to achieve results by trying out creative solutions, getting feedback, and improving. On Friday afternoons, teams shared cocktails, and each month they engaged in group outings to bond with team members such as laser tag and escape rooms.\(^\text{18}\) Shah disliked firing people but saw its benefits — saying that the fired employee and the company culture were both better off when it parted ways with Wayfair misfits.\(^\text{19}\)

**Case Scenario**

Wayfair sought growth by providing consumers with a wide selection, competitive prices, rapid delivery, and excellent customer service — however, with 17,000 employees its costs were so high that its operations consistently burned through cash. By 2019, Wayfair envisioned an opportunity to gain market share in the $41 billion online furniture market — as 14% of the $296 billion US home furnishing market had migrated online. Wayfair was targeting a specific group of consumers — the 69 million households earning annual incomes between $50,000 and $250,000. Moreover, as 80 million millennials aged 20 to 37 began moving into houses, Wayfair expected them to purchase home furnishings online. Wayfair offered a wide variety...
of merchandise – 18 million products from over 12,000 suppliers. The items varied to suit the taste, style, purchasing goal, and budget when its target shoppers – primarily women in the 35 to 65 age range – were looking to purchase furniture, décor, decorative accents, housewares, and seasonal décor. Wayfair used its “technological and operational expertise” to compete for these customers by providing them with “vast selection, visually inspiring browsing, compelling merchandising, ease of product discovery, price, convenience, reliability, speed of fulfillment and customer service.” Wayfair’s marketed its products by providing “beautiful imagery and highly-tailored editorial content” and by enabling consumers to decorate their rooms using “Idea Boards” and an augmented reality tool, “View in Room 3D.” To fulfill online orders, Wayfair operated with minimal inventory – contracting with suppliers who shipped directly to consumers – while an increasing proportion flowed through Wayfair’s CastleGate, Wayfair-owned warehouses closer to consumers from which goods were delivered within two days, and the Wayfair Delivery Network, a method of managing large parcel delivery through consolidation centers, cross docks, and last-mile delivery facilities. To respond to questions from its customers, Wayfair employed 3,600 US-based sales and service people. Wayfair’s operations were so costly, however, that it warned investors that it might not be able to generate enough cash flow from operations or borrow enough money to continue operating.

By February 2020, the flaws in Wayfair’s strategy were becoming more apparent. In June 2019, Wayfair employees walked out of its Back Bay Boston headquarters protesting its decision to sell $200,000 worth of bedroom supplies to a government contractor that operates migrant-detention facilities along the US-Mexico border. The enraged employees carried handmade signs that declared, “A prison with a bed is still a prison” and “A cage is not a home.” A securities analyst, Berenberg’s Graham Renwick, wrote that Wayfair had fallen behind its rivals on price, selection, and convenience where it previously had prevailed. Renwick argued that Wayfair’s best products (out of 14 million items) were frequently available on Amazon at lower prices. He forecast bigger losses for Wayfair as cheaper prices eroded its brand loyalty while it made big capital outlays for fulfillment and to acquire customers. Despite mounting losses, the company had continued hiring, and it received complaints about its high shipping costs for sofas and coffee tables – which included paying for the customer to ship back returns. Critics said that Wayfair’s marketing and advertising costs were too high and its customer service needed improvement. One Wayfair customer ordered drapes and received a pair that was too long. When he called Wayfair to complain, the customer service rep told him they would send new drapes right away. The agent told the customer to keep the too-long pair of drapes. With rising pressure on unprofitable technology companies to make money – or at least detail a clear path to profitability – Wayfair stock was tumbling. Indeed, this was such a well-known problem for Wayfair that two professors published a 2017 paper which found that Wayfair’s cost to acquire a typical new customer – $69 – exceeded the $59 that they spent during their entire time as Wayfair customers. In February 2020, Wayfair announced it would cut 550
employees – or 3% of its staff. Shah sent a memo to employees noting, “This last period of investment went on too long. Through two years of aggressive expansion, we have no doubt built some excess, inefficiency, and even waste at times, in almost every area.”

Covid-19 had a surprisingly beneficial effect on Wayfair. Between its March 2019 high and February 2020, Wayfair’s stock had plunged 53% – and it continued to tumble to $22, a whopping 87% below its March 2020 peak. Then, the stock reversed direction. In early April, Wayfair shares soared as much as 51% after announcing that it had enjoyed a sharp increase in sales during the previous month which continued into April. The doubling of its forecast growth rate more than offset investor concerns about Covid-19’s interruption of Wayfair’s China-based supply chain. Jefferies analyst Jonathan Matuszewski explained that with 80% of store-based furniture retailers closed due to social distancing and Amazon focused on other product categories, Wayfair was enjoying the benefits of consumers spending more on their homes while quarantined. A few days later, Wayfair announced mixed financing-related news. It had raised $535 million in a convertible note from two private equity firms. The financing gave Wayfair much-needed cash – but as part of the bargain, the company had to add two board seats for the investors – thus weakening of Shah’s and Conine’s hold on the company.

This left Wayfair with good news in the short term and nagging unresolved longer-term questions. In April 2020, Matuszewski saw a significant longer-term growth potential for Wayfair – envisioning a 15% annual growth from 2024 to 2029 while offline furniture retailing shrank at a 1% annual rate. He also described how Wayfair hoped to control its costs to become profitable. Wayfair’s growth was driven by customers who were stuck at home with their children buying more stuff. “People are spending more on their homes. They are working on do-it-yourself (DIY) projects. They’re buying patio and office furniture, plants, trampolines, swing sets, air hockey games, and storage for small electronic appliances,” he said. He also claimed that Wayfair had become more effective at marketing. The combination of three-dimensional imaging of furniture in its in-room mobile app and positive customer reviews resulted in a higher conversion rate. Matuszewski expected Wayfair’s operating cash flow to remain “negative in 2020 and 2021.” However, he said that Wayfair had set specific cost reduction targets – albeit with slower growth. Wayfair hoped to reduce the ratio of SG&A expense to sales from 13.6% in 2019 to a range from 5% to 7% while reducing its growth rate “from 30% to the high teens, low twenties.” This goal would be achieved through more careful hiring; investing with more discipline in projects with high expected returns; and “reduction of the ratio of advertising to sales from 10% in 2019 to a long-term goal of 6% to 8%,” he said. By April 2020, questions about Wayfair’s future remained: would the initial burst of online furniture purchasing be sustained? Would the abrupt loss of some 30 million jobs by the end of April 2020 drastically reduce home sales – thereby crimping longer-term demand for furniture? Could Wayfair fix its operational problems and lower its costs enough to become cash flow positive?
Case Analysis

Wayfair’s success in dominating the online furniture industry was impressive – though its absence of profitability and its lack of product innovation suggest that it was operating with more of a Follow the Leader than a Create the Future mindset. Two aspects of Wayfair’s approach to the industry stood out – its ability to hire and delegate key roles to smart, analytical people and its use of data analysis to make decision about how to set prices and how to decide which merchandise to add, cut, or market more aggressively. Shah was able to persuade investors to share his optimistic view of Wayfair’s opportunities and set aside concerns about its inability to generate positive cash flow. Would Wayfair be able to create a new future for online furniture retailing that would extend its lead over IKEA and Amazon? Could Wayfair afford the cost of its liberal return policy – especially when customers did not have an opportunity to try the product in-person before making a purchase?

Failure: After 61 Years, Art Van Furniture Goes Belly Up

Introduction

It is a classic story line: a hungry founder builds a successful business but cannot find the right successor, so he sells out to a private equity firm which runs it into the ground. That is roughly what happened in the 61 years between the 1959 founding of Art Van Furniture, a 169-store, 3,100-employee Warren, Mich.-based furniture retailer, and its March 2020 bankruptcy filing. While there were many causes – including shrinking sales due to loss of market share to upstarts like Wayfair, failed acquisitions, and a burdensome debt load – the fundamental reason for Art Van’s failure was its founder’s inability to develop or hire an able successor. Art Van Elslander was Art Van’s founder. He grew up in Detroit, worked in his father’s bar, and sold newspapers as a young boy – taking a job at a men’s clothing store when he was 14. After graduating from high school, he joined the US Army, married, started a family, and joined Gruenwald Furniture. In 1959, he opened his own furniture store – dubbed Art Van – a 4,000-square-foot shop in east Detroit. In March 2017, he sold the company – which had since grown to more than 100 stores in five states and about 3,700 employees – to Boston private equity firm, Thomas H. Lee, for some $613 million. At the time of the sale, he said “The time for an ownership transition is right and the opportunity presented itself. There is still much I want to do, and I feel confident knowing the company and its people will be in the best of hands for continued growth and success.” At the time of his death at 87, he had a wife, a life partner, 10 children, 32 grandchildren, 4 great-grandchildren, and 1 great-great-grandchild.
Van Elslander understood how vital it was to adapt his company to changing times. At 75, he was struggling to transform Art Van’s culture through *Changing the Game*; he was rethinking store design and assessing whether to open smaller mattress-focused stores in small towns. He also admitted to himself that he was an alcoholic and sought treatment – decisions he revealed in a radio interview after checking that his family would not be embarrassed by the public disclosure. In the 1970s, he learned from Peter Drucker that an entrepreneur who kept doing business the way that made him initially successful would ultimately fail. He applied that lesson in October 2005, when he parted ways with Art Van’s president for a decade, Bill Barto, who had been with the company for 35 years. Van Elslander and Barto had different views of how to run the company. As Van Elslander said, “One of the most difficult decisions I ever had to make in my entire life was when I parted company with Bill Barto, who was a wonderful, wonderful guy and an excellent, outstanding furniture man. I think it would probably be, oh, easiest said if I said we differed philosophically in what should be done during these very difficult times, and if you aren’t marching to the same drummer, you can’t run the business.” The company’s revenues had been declining for years – for instance in 2004, revenues were $545 million – down 1.8% from the year before due to struggles in the automotive industry, a slowing Michigan economy, and increased competition. Van Elslander replaced Barto with his middle-aged sons Gary and Ken. While deciding how to split up the work between them, he said, “I think the boys both have different strengths, they recognize them, and I think they have a great amount of respect for each other. I think they are still going to use Dad as a coach, a little bit.” One of Van Elslander’s biggest corporate reinventions was his decision to compete with department stores for the bedding and mattress business which by 2005 accounted for over $100 million in revenue – at which time Art Van planned to expand by 40% the size of its mattress department. Van Elslander was also conducting a review of how much store space to dedicate to each product category, opening smaller mattress and bed frame stores in small towns, and leading a *Changing the Game* program aimed at surfacing employee ideas to cut costs and boost sales. An example was providing customers with free in-home design services – intended to boost their furniture and accessory orders. He observed how Drucker’s maxim – a failure to innovate and a stagnant corporate culture – spurred the bankruptcies of Montgomery Ward, Kmart, and New York Carpet World. “I see what took place, and what happened, and if you don’t change, it’s the end of the game,” Van Elslander said.32
Case Scenario

When he sold Art Van to TH Lee in 2017, Van Elslander thought it would be in good hands — especially since a longtime executive, Kim Yost, remained President and CEO after the sale. Yost had a passion for furniture merchandising and big growth ambitions. He expected the company’s new private equity owners to finance their realization. Yost prided himself on being fired early in his career — three times while working for Canadian retailer Woodwards. He was fired once because he decided on his own to rearrange the store’s furnishings the way Yost’s mother liked it. He hired some friends to move sofas, tables, and lamps on different floors into showroom displays with all three together on the same floor. Fortunately for Yost, an executive — who had seen rivals in High Point, North Carolina, organizing furniture this way — realized that Yost’s rearranging was good for business. So, the executive hired him back with a promotion and a raise. An Art Van executive since 2009, by October 2017, Yost was aiming to double revenues to $2 billion by 2021 and to open more stores and create new revenues. Yet he also needed to adapt the company to the changing shopping habits of millennials who spent less on home furnishings than previous generations — $1,500 far below $2,500 spent by Generation X and $3,000 by baby boomers — while buying online. Yost also wanted to introduce a program that would give buyers a discount on new furniture when they traded in the old — a business model started by the auto industry. Yost also tried to encourage innovation by asking employees whether anyone had tried to fire them: if not, he said, those employees might not be pushing enough innovation and change. Yost’s ambitious expansion plans included adding new furniture brands, such as Magnolia Home Collections; building 200 new stores by 2021; changing the name of clearance stores to “outlet stores” to attract budget-conscious consumers; boosting from 10% to more than 30% the number of franchise stores; acquiring furniture and mattress retailers; and reinventing its ecommerce operations to achieve $1 billion in online revenue.33

Six months after announcing his ambitious plan to double Art Van’s revenues in four years, Yost “retired” — only to be replaced by a furniture industry outsider with a track record of short-tenured executive positions. Yost was able to make his mark on Art Van with the November 2017 acquisition of two multigeneration furniture retailers — Pittsburgh-based Levin Furniture, which operated 35 stores across Pennsylvania and Ohio, and Altoona, Pa.-based 115-year-old Wolf Furniture’s 18 locations in Pennsylvania, Maryland, and Virginia. With the two acquisitions, Art Van drew a mere $700 million away from Yost’s goal of $2 billion in revenues. Yost was proud of the deals, noting, “Today’s acquisitions of these two well-established furniture retailers — both intricately woven into the fabric of their communities — underscores a transformative new era of thoughtful expansion at Art Van Furniture. From their commitment to their customers to their long-standing histories and corporate cultures, Levin and Wolf are a perfect fit for Art Van’s growing family of brands.”34 Sadly for Yost, he lost his CEO role at Art Van five months later. Yost’s departure followed quarterly declines in same store sales since June 2016 — beginning
with Art Van’s 2013 expansion into Chicago which saturated the market and cannibalized its sales. Following the TH Lee acquisition, eight of Art Van’s top nine executives, including Yost, left. TH Lee abruptly replaced Yost with Ronald Boire, who had previously served as CEO at the troubled book seller, Barnes & Noble for 11 months – ending in August 2016. Yahoo! Finance ranked Boire as the worst executive of 2016 after Barnes & Noble reported a $24.6 million loss that year. Jeff Swenson, managing director of Thomas H. Lee Partners, said he was “thrilled with Boire’s decision to join Art Van. His deep expertise in retail management and extensive experience leading transformational and omnichannel strategies focused on delivering best-in-class customer experiences – both online and in stores – will be incredibly valuable.” By August 2019, Boire was tossed out of Art Van, and a search was begun for a new CEO.

As a privately held company, it was difficult to know what financial trends were underlying the rapid executive turnover. However, by March 2020, Art Van was bankrupt and soon began completely liquidating its assets. Art Van’s core problem was a combination of shrinking revenues and its inability to pay the considerable debts and financial restrictions that accompanied its sale to TH Lee. Art Van’s Chapter 11 filing revealed that the company had been acquired for about $613 million – considerably more than the $550 million estimate published in previous reports – and had borrowed nearly $209 million to finance the deal. The filing also revealed that the sale was contingent on a series of sale-leaseback transactions in which stores owned by Art Van were sold to TH Lee – requiring Art Van to pay rent to its private equity overlords. Art Van’s Chief Financial Officer David Ladd said revenues declined a cumulative 27% on a same-store basis between 2016 and January 2020. Ladd cited a litany of reasons for the same store sales decline that led to Art Van’s bankruptcy. These included competition from online rivals such as Amazon and Wayfair and low-cost traditional furniture retailers such as Bob’s Discount Furniture; a revenue-sapping reorganization of showroom floors from product category to lifestyle; $8 million in new furniture tariffs; overexpansion in Chicago; high executive turnover; intense competition in the mattress industry; problems with a St. Louis–based franchisee; and disappointing results from the Levin and Wolf acquisitions. By the end of April 2020, Art Van stores were shuttered due to the Covid-19 lockdown, and on April 7, the company switched from liquidating under Chapter 11 to Chapter 7. Customers who had deposited a total of $35.2 million for furniture they had ordered faced a nasty outcome – they would lose their deposits without receiving the furniture. Nurse Rebecca Breckner had written a check for $21,000 as a deposit on replacement furniture after her Cleveland area house burned down. After ordering new furniture from another store and paying out of pocket, she said, “It’s a nightmare. You are telling me that $21,000 worth of stuff is just gone? You do not get anything? It’s not normal.”

Goliath Strikes Back
Case Analysis

Art Van Furniture was an impressive entrepreneurial success story with an unhappy ending. Van Elslander was surrounded by sycophants who praised his every utterance. Yet he gave lip service to the idea of reinventing the company to survive without taking the actions needed to stop the company from losing market share. To be fair to Van Elslander, he may have felt insulated from the changes in the industry – such as IKEA’s innovative merchandising strategies and Wayfair’s 100% online approach to selling furniture. But as we saw in the IKEA and Wayfair case studies, both of them tried out new products and new ways of operating by launching a new idea quickly, gathering data on the level of success or failure of the experiment, investigating the reasons for the success or failure, and trying a new experiment reflecting the learning from the previous one. Art Van Furniture did not use this approach.

What is more, Van Elslander resisted letting go of control of the company – extending his tenure by playing his sons against each other in a family succession battle before hiring in an outsider, Yost, as CEO. If Yost were such a gifted CEO, Van Elslander would not have sold the company to TH Lee which gutted its senior executive ranks – including replacing Yost with a fatally incompetent outsider. Art Van’s failure was due to Van Elslander’s inability to leave the stage until long after his effectiveness had ended.

Furniture Industry Case Study Takeaways

The takeaways from these case studies have varying implications depending on where you sit.

Incumbent Executives

- **Do:** Based on the IKEA case, furniture retailing executives may create competitive advantage by
  - Creating a strong corporate culture that motivates employees to provide customers with products that meet their evolving needs while providing excellent delivery and post-sales services
  - Building processes that investigate with an unbiased and curious mindset the specific needs of different groups of customers to provide them with good-quality furniture at a low price with timely delivery or pickup and responsive service
Introducing new merchandise and purge unpopular products lines while offering consumers new ways to evaluate, order, and take delivery of merchandise.

Developing executives with the potential to become entrepreneurial CEOs who can sustain its Create the Future mindset after the founder departs.

**Do not:** Based on all the cases, furniture executives should avoid self-destructive tactics such as:
- Surrounding themselves with executives who compete to praise everything the founder says rather than challenge the status quo.
- Ignoring operational excellence and financial sustainability to pursue rapid growth.
- Failing to develop a next generation of leadership that can sustain the company’s competitive edge.

**Incumbent Employees**

**Do:** Incumbent employees should seek out the specific jobs that will enable them to contribute to the growth strategies of their current employers or at innovative retailers such as IKEA.

**Do not:** Based on the Art Van case, incumbent employees should seek employment elsewhere if they work at furniture retailers that are not creating the future or following fast.

**Startup CEOs**

**Do:** Startup CEOs should consider partnering with IKEA, Amazon, or Wayfair by developing innovative products these large companies can distribute or technologies that enable them to boost the effectiveness of their online or mobile ordering and supply chain management systems.

**Do not:** Seek out partnerships with furniture retailers that fail to adapt to changing customer needs and the strategies of the most innovative industry participants.
Business Students

- **Do:**
  - Business students interested in developing products that appeal to millennials and affluent baby boomers may consider starting companies that offer innovative products that could be distributed at IKEA, Amazon, or Wayfair.
  - Based on all the cases, business students should seek managerial opportunities at innovative furniture chains – such as IKEA, Amazon, or Wayfair.
  - **Do not** work in the furniture industry unless they are passionate about solving its biggest business challenges.

Do You Have the Strategic Mindset of a Furniture Industry Winner?

If you answer in the affirmative to these questions, you have a winning strategic mindset. If not, you must decide whether to change your mindset, strategy, and execution or find a job that better suits your strengths and interests:

- Do you have a deep understanding of the items that its local consumers want to purchase?
- Do you purchase efficiently and operate a supply chain that delivers the items to consumers’ homes and enables them to pick up at stores?
- Do you invent new store and merchandising approaches to satisfy evolving consumer needs more effectively than your rivals do?
- Do you have the management skills and technical talent needed to blend seamlessly your physical and virtual capabilities?
- Do you regularly delight consumers so they recommend your stores enthusiastically to others?

Conclusion

The furniture industry is large, growing slowly, and reasonably profitable. Yet 2020’s pandemic economy threw into question many of its basic assumptions – most notably that a strong housing market and a solid economy would
generate steady demand for furniture. Instead, the social distancing that was a staple of the world’s response to Covid-19 had three major implications for furniture retailers. Store-based retailers were shut down which endangered their survival; over 30 million people lost their jobs which put their families in a cash crisis and slashed furniture demand; and online furniture retailers captured much of the remaining furniture demand for those who were working at home while taking care of their children. *Create the Future* companies such as IKEA and Amazon benefited from these changes. Wayfair – which had a blend of *Follow the Leader* and *Create the Future* mindsets – was also benefiting from these changes, but was threatened by its inability to sustain itself financially. And companies with a *Head in the Sand* mindset like Art Van Furniture found themselves being forced to liquidate all their assets quite abruptly. The most important implication for leaders – particularly those in the furniture industry – is that if you lack a *Create the Future* or *Follow the Leader* mindset, hire a replacement who does. Chapter 7 will examine how these three mindsets play out for the logistics industry.