Michael Knell's

HGO merchandiser

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WINTER 2018-19
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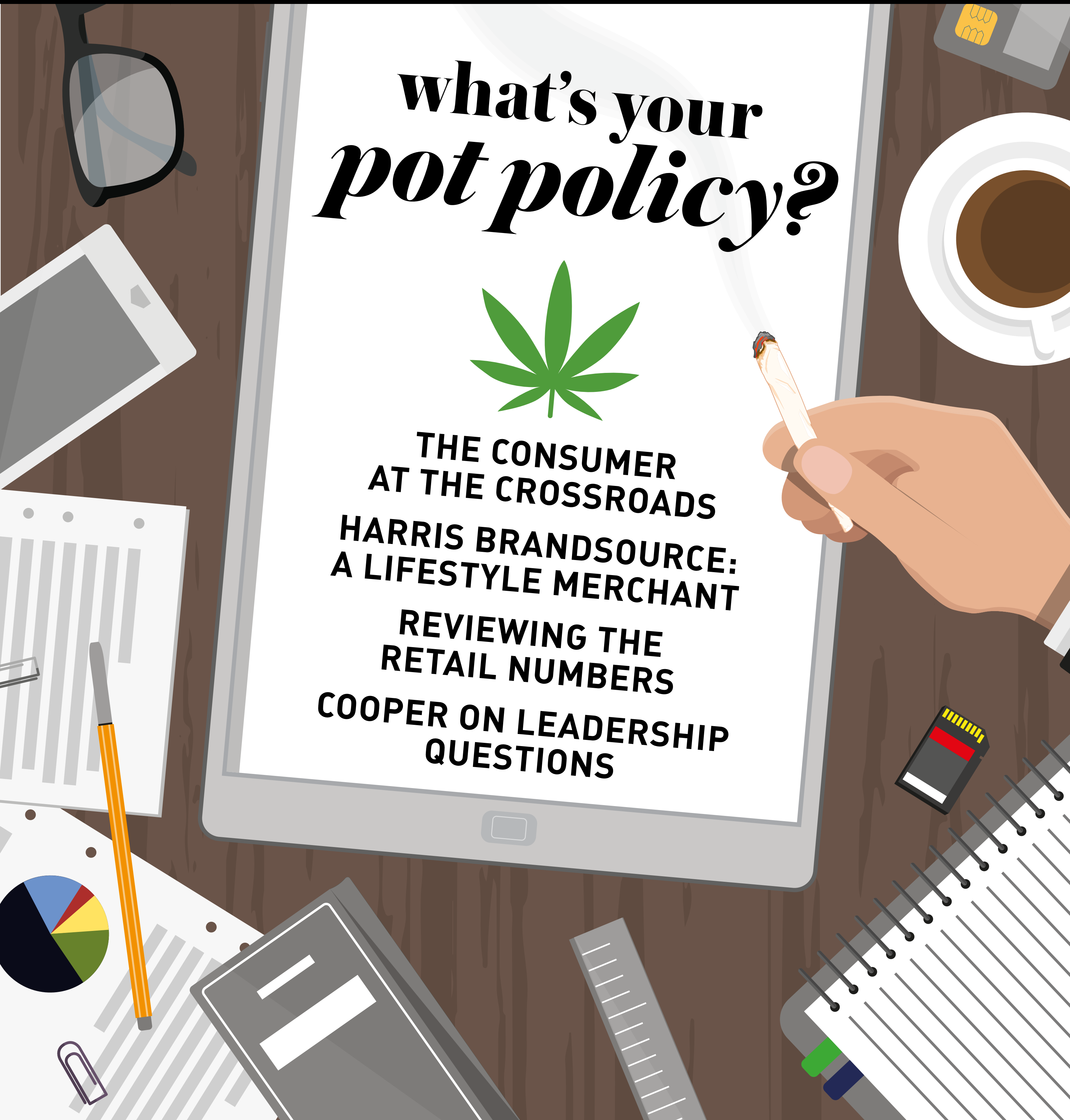

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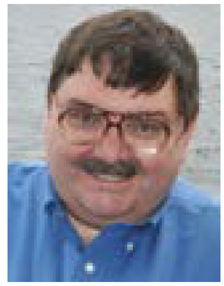

MICHAEL J. KNELL

LOOKING AHEAD

This year's Canadian Furniture Show gave us an opportunity to do something new – a video blog, the first of which bears good news from several leading lights of our industry: the future is good.

Forecasting is tough and shouldn't be attempted by the faint hearted. Disappointment is virtually guaranteed. It's even tougher in this industry, and it doesn't matter where you sit in the supply chain from manufacturing and distribution to retail. In this smaller than normal edition of the *Merchandiser*, we – that is, I – make a few predictions, some of which may come back to haunt me. With some, I'm on solid ground.

There are also a couple that seem trivial when, in fact, they're critically important. One was made by John C. Williams who firmly believes consumers will soon stop shopping for commonplace items, even furniture, in brick and mortar stores.

This is going to change the 'good, better and best' thinking behind our industry's traditional approach to merchandising. If 'good' suddenly belongs to the e-commerce purveyors, mainstream furniture and home stores are going to have to focus on 'better' and 'best' and up their game accordingly.

Before we get to that point, there's going to be a transition period. All indications suggest the economy is going to slow. How long for is the unknown at this point. Many observers believe the current U.S. economic expansion will ease as instability creeps into the market thanks to its current government's policies regarding trade, tariffs, immigration and international relations.

Here at home, high debt levels and rising interest rates are going to damper the consumer's ability to spend, even though most other economic factors – wages, immigration, household formation – continue to favour the industry. And, we haven't yet mentioned the value of the Canadian dollar, tied as it is to the price of oil mined in Alberta, Saskatchewan and Newfoundland.

Here's my personal prediction: the single unit, independent furniture store that opens over the next decade will look nothing like the store with which I became familiar in the mid-1980s. It will be owned by a woman. It will be a lot smaller. It won't sell appliances (that's another story) and may not sell mattresses. Growth for this merchant will be the result of knowing what the customer wants and providing it in a unique environment that appeals to her sensibilities. It will be interesting to see how accurate this forecast is.

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CANADIAN FURNITURE SHOW

WHAT'S YOUR POT POLICY?

BY MICHAEL J. KNELL

Legalising pot will change how furniture retailers and manufacturers manage their relationship with the people on their payrolls, something that was rarely discussed during the debate leading up to what will turn out to be the most drastic changes in social policy and practise in decades. Several companies share their approach the challenge.

IN MID-OCTOBER, THE GOVERNMENT of Canada set social policy and the criminal justice system on their collective ears when it made cannabis – often referred to as marijuana or just plain 'pot' – legal for the first time since before World War Two. Whatever the rationale for doing so, most observers agree this has been perhaps the most drastic change in social policy and practise since the legalisation of abortion almost 40 years ago. In the new legal 'pot' environment there certainly has been a fair amount of economic disruption, but the move will also have consequences and implications across the rest of society.

One of the burning questions has been the impact this new development will have on the work place – whether its factory floor or the retail showroom.

Paula Allen, vice-president of research and integrative solutions at Morneau Shepell, urged employers of every size to develop policies on the use of cannabis in their workplace.

"Given the introduction of new legislation and emerging issues that arise from those changes, it's important that employers don't remain static and continually look for ways to adapt to changing environments. The legalization of recreational cannabis is just one of these steps," she wrote, adding that during a recent research project, her firm found that 12% of employees and 14% of manager reported using cannabis.

"The largest group of current users, employees (23%) and managers (32%) aged 18-34, use cannabis at least occasionally," Allan said.

"Upon legalisation, cannabis usage is expected to increase," she continued. "Among current users, 68% indicated they will use more often, while 16% of past users said they would resume using to some extent. Of those who have never tried or used cannabis, 4% reported that they would be more likely to use cannabis.

"This increased usage will affect the workplace, resulting in a need for employers to develop policies that define what constitutes impairment, how to monitor for impairment and respond to employees who are using cannabis," she added.

The different uses of cannabis

Allen points out employers need to remember cannabis is used in two ways: medically for the treatment of certain ailments and conditions, mostly revolving around the management of stress and pain; and, recreationally, which places different onuses on the employer. Therefore, the employer needs to have policies to cover both scenarios.

"If the health condition impacts an individual's work, it's up to the employer to work with the employee to determine the best mechanisms of support and the necessary accommodation," she said. "For recreational use, where an individual is not under the care of physicians, it's the responsibility of the employer to ensure that there is no impairment in the workplace."

The employer's obligations

In a recently published white paper, the Canadian Centre for Occupational Health & Safety (CCOHS) noted employers have a legal duty to provide a safe work environment while respecting their employees' human rights. Becoming fully educated on the issues and having clear policies should help small and medium sized business owners – which describes almost every member of Canada's furniture and mattress industry from manufacturers and distributors to retailers – navigate the potential minefields.

"Employers have a duty to provide a safe work environment and take all reasonable precautions to protect the health and safety of employees and others in the workplace. This duty is known as due diligence," the paper's authors note.

"To establish due diligence," it continues, "the employer would have in place written occupational health and safety policies and programs. These policies and programs would demonstrate and document that the employer carried out a gap analysis to identify hazardous practices and conditions and made necessary changes to correct these conditions and provided employees with information to enable them to work safely.

"The employer should provide the appropriate education and training to employees so that they understand and carry out their work according to the established policies, practices, and procedures."

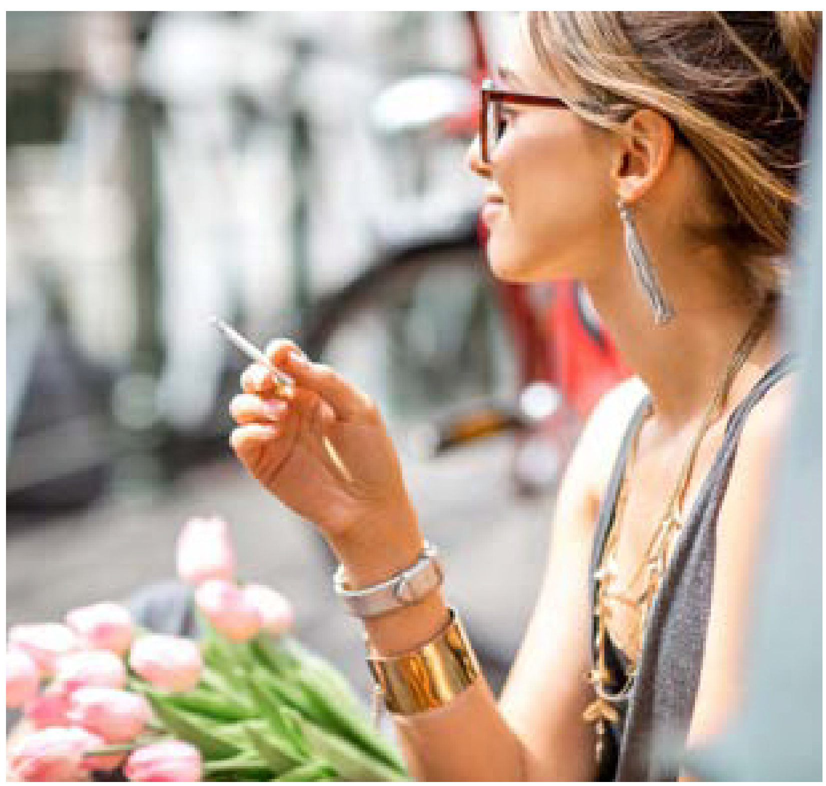
The industry's efforts to date

Companies throughout Canada's furniture and mattress industry – from manufacturers and distributors to retailers – have been grappling with how to incorporate the legal use of marijuana into their policies regulating the behaviour of their work force and their interaction with customers, suppliers and others.

The common thread among those *Home Goods Online* surveyed has been to treat the recreational use of 'pot' in the same manner as alcohol – inebriation will be frowned upon. Most firms also stressed a desire to treat their use as an issue of health and safety.

"On a high level we're treating the recreational use similarly to the alcohol policy which is prohibiting the use during work and on company property," said Andrew Tepperman, president of the five-unit Tepperman's of Windsor, Ontario.

"This issue crosses a number of areas such as privacy rights, human rights, health and safety and more," said Jim Fee, president of Stoney Creek Furniture, the destination store located in Stoney Creek, Ontario.



Along with making cannabis legal, the regulations surrounding the use of hemp as a fabric has also been loosened. At this year's Canadian Furniture Show, Dream Time Bedding introduced the Canna Bed (seen here), whose ticking is cut and sewn using hemp fibre which covers a gel and open cell foam that is compressed for shipping as a bed-in-a-box.

"We have really treated it similar to alcohol in the workplace. It's not tolerated. Really any intoxication that would affect your performance and potentially endanger co-workers is unacceptable," he said, adding, "We realise a need to accommodate for prescribed medical marijuana and like other prescriptions that may affect behavior and abilities, it needs to be brought to the attention of their manager with appropriate documentations of the prescription and potential limitations and side effects.

"Beyond that, if we suspect someone is under the influence of a substance, we look for a two-manager verification that are in agreement that we may have an issue," Fee continued.

In its substance abuse policy, the Saskatoon-headquartered Mega Group stresses the health and safety aspect of the issue. "Employees under the influence of drugs or alcohol on the job can pose serious health and safety risks to both themselves and their fellow employees," their policy states. "To help ensure a safe and healthy workplace, Mega reserves the right to prohibit certain items and substances from being brought on to or present on company premises."

While the moderate consumption of alcohol in approved social gatherings is permitted, the use of recreational drugs (e.g. marijuana) is prohibited while working or on company property. Employees are also responsible to report if they are required to take prescription drugs that could potentially impair performance or safety.

West Bros Furniture, the case goods specialist based in Hanover, Ontario has developed a comprehensive policy governing potential hazards in the work place, noting that employees are not only forbidden to bring drugs and alcohol on to the factory floor, but cameras and firearms as well.

"We have reviewed and revised our policy, now that cannabis has been legalised," Adam Hofmann, the company's management consultant told HGO. "We are not seeing this as a major change in how we approached legal and illegal drugs being used on our property or prior to work that may cause increased risk of injury to themselves or other co-workers, including the possibility of impairment that reduces overall performance."

These themes were also stressed by Jeannine Ghaleb, president and chief operating officer of Cantrex Nationwide, in a note to employees and suppliers.

"To protect the health and safety of our employees and member and vendor partners, as well as to ensure all staff are fit to work at all times throughout the workday, we have adopted a policy in the workplace on alcohol, drugs, medication and all psychotropic substances, including cannabis," she said, adding, "...in all business-related interactions or organised events with members and vendor partners, Cantrex employees will, under no circumstances consume or promote cannabis consumption or allow any visitor to consume cannabis on our work premises."

The message

Both the Canadian Centre on Occupational Health & Safety and Morneau Shepell say its important for every company with employees to have policies governing the use of recreational marijuana (and alcohol). Those policies also have to be clearly communicated to everyone on staff.

Training, particularly for managers and supervisors is also recommended.

It seems the legalisation of marijuana is going to have far-reaching implications, many of them different from what its proponents might have believed at the beginning of this process. HGO

> **CLICK HERE** ***to find a copy of the CCOHS white paper on employer responsibilities.***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Lifestyle MERCHANT

Learning everything there is to know about the local market was vital to the planning of Harris BrandSource. The resulting store was designed for an affluent customer who loves to cook, has a taste for finer furniture and wants a digitally augmented experience.

FORT McMURRAY HAS KNOWN tragedy. The devastating fires that ravaged Northern Alberta over a 15-month period beginning in May 2016 destroyed some 3,200 buildings, forced the evacuation of over 88,000 thousand people and caused some $10 billion in damage knocked this community on its arse – to use the vernacular – but definitely not out. Its people picked themselves up, dusted themselves off and have started the long, difficult process of rebuilding.

For Gary Harris, a second blow came with the unceremonious shuttering of Sears Canada. That process resulted in the loss of the Sears dealer store he had operated for over 20 years. He wasn't ready to get out of the business and so looked for retail concept that could be successfully adapted to a community in the midst of rebuilding.

"With my experience in the market, I recognised the opportunity to open a new format store here in Fort McMurray that would cater to the consumer as a 'lifestyle merchant'," he told *Home Goods Online*, defining such a storeowner "as a retailer who understands the consumer, listens to what they want to achieve in their homes and helps them fulfill their dreams.

The process he and co-owner and general manager Matt Creighton (he's co-owner and managing director) went through resulted in the opening this past summer of Harris BrandSource, an 18,000 square foot showroom and warehouse located in the heart of Fort McMurray's main shopping district. ▸

The outside of Harris BrandSource, the newest member of the national network located in the centre of Fort McMurray's shopping district.

The store's approach is to give the customer options when it comes to buying furniture. In fact, the store claims to offer at 25,000 different choices. Here is the casual dining gallery program from Canadel.

BRANDSOURCE
Harris
HOME FURNISHINGS

This welcome centre is found when the customer first enters Harris BrandSource.

"We set about to make sure we fully understood the market and the vendor and product opportunities, Harris explained, adding he reached out to Don Burnett, banner director of BrandSource Home Furnishing – the primary go-to-market tool for Mega Group. They had known each other as Burnett at one time worked as part of the Sears Canada dealer store network's management team. "I've known Don Burnett for a long time and learned to trust his knowledge," he added.

The store's development began with the commission of a PRIZM market study, which was conducted by L'express Marketing, a Montreal-based consulting firm. The study's purpose is to help retail store owners understand more about the market in which it operates as well as the customer it wants to attract. "The objective is to identify opportunities and guide marketing and communication strategies that will help retain and grow customers," Burnett said.

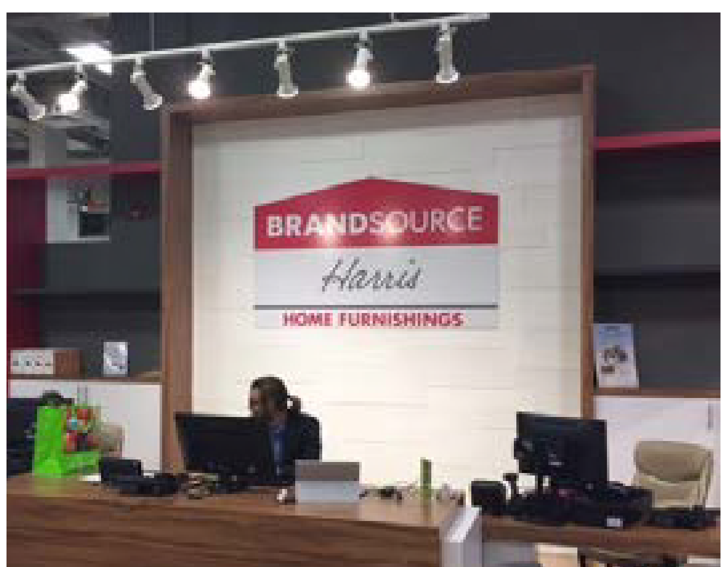
One of the first things discovered was Fort McMurray has one of the highest annual household incomes in the country – averaging about $95,000. Furthermore, household spending on furnishings and equipment was also amongst the highest in the country at $4,300 a year.

"It was determined early on the store's key competitors were not in Fort McMurray," Burnett said. "The competition is the highway to Edmonton. That's where the high wage earners go to purchase their home goods. So, the store is addressing that through the in-store experience. One of its features is an interactive selling station as well as *iPads* for the sales team so the customer can be greeted, informed and the sale closed without leaving the floor."

The local store competition includes an Ashley Home Store, a Brick franchise as well as an independent store called Furniture Pluss. The local Rona hardware store is also active in major appliances. "All of these retailers trade in the lower quadrant of the price continuum," Burnett said. "For mid-price points and higher customers would need to travel to Edmonton."

The study also showed Fort McMurray was a digitally active market, "We noted a particularly high level of participation in social media," Burnett said.

For example, 34% of area residents are active on Instagram; another 34% can be found on Twitter and almost 47% have a LinkedIn account. Furthermore, 95% are active on the internet and, at any one time, as many of 16% of them were accessing home furnishings or home décor-related content (that's higher than the national standard which is 11%). ▶



This interactive selling station is equipped with iPads the sales team can use to guide the customer through the process and even complete the sale.

The 2,000 square foot sleep shop was designed to make the customer go 'wow' and then put them to sleep.

This Thermador lifestyle display is part of the Gourmet Kitchen Experience that's central to the Harris BrandSource approach to its local customer, who are the among most affluent in the country.

"It was important to us to develop a digital solution for the customer," Harris said. "Our BrandSource association gives us advantage as we could not develop one on our own. Understanding the digital reality plays a big part in the marketing programs they build into their annual calendar."

The study also showed area residents weren't big newspaper or magazine readers, although they remained regular radio listeners and television viewers.

This learning was then turned inwards to fashion the store's interior layout. Harris BrandSource has a 'boutique' feel and is organised around three 'customer experience centres' – each with a different function.

Covering some 4,000 square feet, the 'Gourmet Kitchen Experience' features high-end, professional grade appliances from brands such as Wolf, Sub-Zero, Thermador, Miele, Jenn-Air, Electrolux and Whirlpool. The surfaces are easy to clean with storage for specialty items, space for a spice collection as well as high quality cookware. The kitchens in the sore are set up by station for preparing, cooking, cleaning and serving delicious meals.

"These are very much like a chef's kitchen," Harris said. "The design and products on display would satisfy the needs of a professional chef. That's just perfect for people who want to learn how to cook at that level."

In the 4,000 square foot 'Lifestyle and Décor' area – which features studio settings from manufacturers such as Palliser, Décor-Rest and Canadel – customers can pull a room together with over 25,000 options. "Our team will help narrow the selection, so the customer will find exactly what she needs," Harris said.

This is rounded out with a 2,000 square foot 'Sleep Shop' "that will round out the customer's day with a great night's sleep," he noted.

It's early days for Harris BrandSource but owners Gary Harris and Matt Creighton are confident the preparation gone into creating the store, its product profile and digital marketing plan will the source of its long-term success.

Over the past year, Mega – the Saskatoon-based co-operatively owned buying group – has added ten stores to its BrandSource network, which now numbers about 143 from coast-to-coast. It plans to have some 150 in operation by the end of 2019. HGO

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KEEPING PACE WITH GROWTH

Its obvious retail sales are cooling. The numbers clearly show it. At the same time, the retail environment is changing but there's still lots of opportunities for this country's furniture and home furnishings retailers. Here's our overview, with a short forecast. **BY MICHAEL J. KNELL**

IKEA Canada opened its 14th full-size store in Quebec City this past August as it took another step in its expansion efforts. However, the new store build-out seems to be on hold as the company has announced it's postponing the construction of its next location, which was to be in London, Ontario for a fall 2019 opening.

ON THE FACE OF IT, RETAIL SALES of furniture, mattresses, home furnishings and major appliances have been on something of a post-recession tear over the past few years. Even though it outran the rate of inflation, the pace of growth wasn't at the levels seen in the years running up to 2008, the year everything went sideways. As 2018 ends and the 2019 campaign begins, the evidence suggests the modest growth seen recently is about to fall, perhaps significantly.

Statistics Canada tracks sales in two ways: by store and by commodity. Furniture store sales first hit the $10 billion mark in 2009, a benefit of the statistical 'lag' the industry seems to suffer thanks to a couple of its key drivers. They didn't return to that level until 2014 and it wasn't until 2016 they reached $11 billion for the first time. (See chart.)

Remember, furniture stores are defined as any retail establishment that generates 51% of its revenue from the sales of furniture and appliances. In this context, furniture store sales represent everything those stores sell. This applies to home furnishings and electronics/appliance stores as well.

What's interesting to note is furniture store sales grew 4.8% in 2015, by 4.9% in 2016 and by 4.3% in 2017 – this is all real growth, as it exceeded the rate of inflation each year. But in the first half of 2018, the advance was a modest 1.6%.

For reasons not immediately discernable, home furnishings stores – which sell everything from floor covering to lamps and lighting, decorative accessories and wall art as well as accent and occasional furniture – showed a very different growth pattern. Sales were up 3.5% in 2014, by 5.0% in 2015 then by an astonishing 13.0% in 2016 before slowing to a snail-like advance of 0.7% in 2017. For the first half of 2018, the growth rate perked up to 2.0%

The rock stars of big-ticket home are electronic and appliance stores. Admitted they can be new gadget dependent (for example, sales usually jump when Apple introduces a new iPhone) but those with a strong builder business for their major appliance offerings have really benefited from Canada's strong hous- ▶

ing market of recent years. By comparison, their sales grew 1.8% in 2014 but fell slightly (by 0.8%) in 2015; before growing 4.5% in 2016 and leaping ahead 12.8% in 2017. In the first of half 2018, sales grew 10.9% and set a new high for the period at $7.3 billion.

COMMODITY SALES

While overall furniture store sales have been advancing modestly in recent years, a review of the most popular product categories they carry provide a different perspective. Statistics Canada's Retail Commodity Survey provides this data. The caveat here is this survey disregards where the commodity is sold.

HGO's review of the data concentrates on six categories: mattresses, indoor furniture (upholstery and case goods as the agency doesn't track each by itself), outdoor furniture; home furnishings; major appliances; and, televisions and audio-visual equipment. This report doesn't include product sold via e-commerce.

As a category, mattresses have been a consistent performer, growing at mostly modest rates over the five years from 2013 to 2017, when they finally broke the $2 billion mark for the first time before flattening out over the first half of 2018. What's important to remember is furniture and home furnishings store account for 90% of these sales every year. (For the record, Sleep Country Canada and other mattress specialists are classified as furniture stores by Statistics Canada.)

After turning in solid performances in 2014 and 2015, wins got calm for the indoor furniture in 2016 where the pace growth dipped to 1.4% even though a new sales record of $7.32 billion was set. They slid back 1.0% in 2017 and another 0.7% during the first six months of 2018. Once again, the lion's share of these commodity sales belongs to furniture and home furnishings stores.

Furniture stores and home furnishings account for the greatest share of sales, followed by general merchandise stores – which included Sears Canada until its demise at the beginning of the year.

Outdoor furniture has been a strong performer over the past half decade, outpacing both other furniture categories. Sales were up 8.5% in 2014 over 2013; 9.7% in 2015; 7.6% in 2016 and by 14.8% on 2017 – the year they set a record at $1.09 billion. However, this category sagged 4.5% during the first half. While furniture stores appear to be capturing a larger share of this category's sales each year, its dominated by general merchandise stores – such as Walmart – as well as home improvement stores and building centres – such as Lowe's/Rona or Home Depot.

Commodity sales of home furnishing outpaced both mattresses and indoor furniture over the five years ending in 2017, when it also set a new high of $6.61 billion. While not as deep as the three above categories, home furnishing sales slid 2.6% during the January to June period of 2018.

A variety of merchants offer this category, but furniture stores and home furnishings account for the greatest share of sales, followed by general merchandise stores – which included Sears Canada until its demise at the beginning of the year.

Perhaps they were spurred on by the hot housing market, but major appliances really ▸

CATEGORY SALES AT RETAIL *In Millions of Current Canadian Dollars*

CATEGORY	2013	2014	2015	2016	2017	1H-2017	1H-2018
Mattresses	$1,665.6	$1,705.6	$1,892.3	$1,966.9	$2,009.60	$955.0	$954.5
Percent change	2.4	10.9	3.9	2.2		0	
Indoor Furniture	$6,605.3	$6,927.9	$7,211.7	$7,316.2	$7,240.9	$3,411.0	$3,385.3
Percent change	4.9	4.1	1.4	-1.0		-0.7	
Outdoor Furniture	$738.0	$800.9	$879.0	$945.8	$1,086.5	$650.9	$621.6
Percent change	8.5	9.7	7.6	14.8		-4.5	
Home Furnishings	$4,920.4	$5,285.0	$5,597.4	$6,243.6	$6,610.2	$2,714.2	$2,786.4
Percent change	7.4	5.9	11.5	5.9		2.6	
Major Appliances	$4,225.8	$4,447.3	$4,623.9	$5,164.0	$6,311.5	$2,958.4	$3,199.5
Percent change	5.2	4.0	11.7	22.2		8.1	
Televisions & A/V Equipment	$3,849.4	$3,759.5	$3,441.8	$3,552.8	$4,457.1	$1,737.9	$1,921.6
Percent change	-2.3	-2.3	-8.4	3.2	25.4		10.6

Sources: Statistics Canada; Industry Canada; Windsor Bay Communications © Windsor Bay Communications 2018
1H-2017 and 1H-2018 are the periods from January to June each year.

The biggest retail story of 2018 was the long-awaited exit of Sears Canada, which finally closed in January. Once one of the biggest furniture and appliance retailers in the country, its demise is one of the driving factors in the slide in commodity sales through 2017 and the first half of 2018 Seen here is the former Sears Home store in Whitby, Ontario.

have shined in recent years. While growth was a solid 52% in 2014 ad 4.0% in 2015, it climbed 11.7% in 2016 before advancing 22.2% in 2017 to $6.31 billion. Growth in the first half slowed to 8.1%.

Historically, major appliance sales have been divided equitably between furniture stores, electronics and appliance stores and general merchandise. Electronics stores have generally accounted for almost 40% of the market, while furniture stores captured roughly 30%. However, other retail segments are becoming increasingly active in the category, mainly home improvement stress and building centres.

While commodity sales of televisions and audio-visual equipment (home theatre systems) fell in year of 2013, 2014 and 2015, they staged a minor resurgence in 2016 before leaping ahead 25.4% the following year to reach $4.46 billion. The pace fell to 10.6% to start 2018.

This is not a particularly significant category for most furniture stores in this country as it's dominated by electronics stores and general merchandise stores.

THE HOUSING MARKET

Sales of furniture, mattress and major appliances have always been driven to a great degree by what's happening in the housing market. A few years ago, the Canadian Real Estate Association (CREA) published an economic impact study that said the sale of house resulted in $6,500 worth of furniture and appliance sales over the following three years.

The suggests the 515,863 units CREA members sold via its Multiple Listing Service (MLS) in 2017 will generate furniture and appliance sales valued at just over $3.35 billion – roughly 10% of furniture store sales in each of 2018, 2019 and 2020. Assuming this also applies to the 219,763 housing units started that year, that's another $1.43 billion.

However, the most recent forecast published by Canada Mortgage & Housing Corporation (CMHC) suggests after a decade of being one of the primary drivers of the overall economy, the housing market is going to cool over the next two years.

Starts hit a record high 219,763 units in 2017 – 76,843 being single family homes. This year, CMHC says starts could fall as low as 204,000 units, with single family starts falling as much as 13% to 66,800 units.

Beginning in 2019, it's the multi-unit segment of the housing market that's expected to slow from its record of 142,920 units in 2017 to as few as 135,500 units this year and 124,800 units in 2019 and 120,700 units in 2020.

The resale market hit its peak in 2016 when CREA sold 535,219 units. They slid 3.6% to 515,853 units in 2017 and could fall to 451,000 units at the end of this year. Unit sales are expected to climb in 2019 to at least 478,000 units.

The housing market itself is being negatively impacted by two factors. In the regions surrounding Toronto and Vancouver, affordability is becoming an issue as average prices have skyrocketed over the past couple of years. Adding to this burden is an uptick in interest rates. In fact, most experts believe the average mortgage rate will be two percentage points higher in 2020 than it was in 2016.

THE MOVEABLE STAGE

John C. Williams, founder and senior partner of the J.C. Williams Group – a well-respected retail consultancy based in Toronto with close ties to Canada's furniture sector – acknowledges the competitive is changing, and challenging, but he also sees opportunity. ▶

The 2018 ended with another big retail story as Sleep Country Canada Holdings, the parent of this country's largest speciality mattress retailer, acquired Endy, the country's largest e-commerce mattress merchant. Seen here is a type Sleep Country store, which apparently will not be carrying the Endy product line at least in the near future.

"We've had a good run – not as good as in the U.S. but good and Canadian retail has grown in the past few years," he said in an interview with Home Goods Online. "But, there are storm clouds on the horizon."

The biggest is one over which Canadians will have no control and that's the lack of stability in the U.S. economy which Williams believes is coming in the next couple of years.

But, unlike our southern neighbours, Canada still embraces new immigrants and he maintains they will a source of strength and growth.

"There are a lot of positive things going on," he says. "Our population is growing rapidly, particularly in the large cities. Then there's wage growth. It's not over the top but it's holding its own." The recent increases in the minimum wage in several provinces will be good for retailers in the long term.

Even though the housing market is starting to cool, the lag should produce sales for furniture and home furnishings retailers over the next two or three years.

"All of those condos have to be filled with people and home goods," Williams notes, adding, "Home valuations are also going up. This leads to a lot of home renovations. All of this is happening because of immigration."

But Williams is also quick to point out the biggest challenges revolve around how the customer shops and, on that front, there are drastic changes in the making.

The J.C. Williams Group will soon publish a study with two key findings: 87% of Canadians research information online regularly; and, of those researchers, 94% have bought something online."

"While not everybody buys online, everybody shops online," Williams says. "The web has become the number one driver of traffic into brick and mortar stores."

"This means retailers have to be online, particularly as a source of information," he adds. "Retail has to be omni-channel."

He also firmly believes retailers also need to understand that commonplace items – particularly at the entry level price points – are soon going to be the domain of the online, non-store retailer. This will be true for basic furniture items such as dining chairs, tables, bookcases and mattresses, among others. If the key factor is price, it's going to be bought online.

"But we are not seeing the end of the independent retailer," Williams said. "Their key to success will be to define themselves as specialists and take a brand position that is unique to themselves – they have to take on a personality, especially if they are in one of the larger cities. They have to find their own niche."

And that retailer must be on the World Wide Web. "If the consumer can't find the store using the web, it doesn't exist," he says.

"If it's a basic item, the sale will go to the non-store retailer or the independent will have to fight it out on a price basis," he adds.

The key for the independent is to earn a reputation for being solid and trustworthy. "You have to be a source of inspiration, you have to be a source of information," Williams says. "When the customer walks in, she has to go 'wow', after all retail is a moveable stage."

THE HGO FORECAST

By the end of 2020, Canada's population is expected to grow to just over 38 million – that's about 1.1 million more that at the end of 2017. Additionally, CMHC believes millennials will form about 1.35 million new households over the next five years (about 270,000 annually). Add on another 150,000 a year from immigration and the potential customer pool for furniture, mattresses, major appliances and electronics will keep growing.

Another factor in the industry's favour is wage growth. Average weekly earnings are expected to reach $1,000 for the first time in 2019. Furthermore, half of all Canadian homeowners are mortgage free although upticks in interest rates are going to restrain spending somewhat as consumers will make the effort to pay down debt.

While we don't expect furniture and home furnishings stores to see the growth levels seen in 2014, 2015 and 2016 it should continue to outpace inflation in 2019 and 2020, coming in at about 2% or so. ▶

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Consumer AT THE CROSSROADS

Higher debt levels and increasing interest rates are going to prompt Canadian consumers to rethink how they spend their money. The experts at the Conference Board are expecting confidence to take a hit in 2019.

BY MICHAEL J. KNELL

Here's an apparent contradiction. Furniture and home furnishings retailers have enjoyed solid growth over the five years between 2013 and 2017. Indeed, both store categories set new highs in 2017 although things slowed drastically during the first six months of 2018. But, here's the thing: during that period only 29% of consumers, on average each month, believed now is a good time to purchase a big-ticket item, such as furniture, appliances, a house or a car.

This suggests 71% held the opposing view – now is *not* a good time to buy. That is the author's conclusion after reviewing the data behind the *Consumer Confidence Index*, which is published monthly by the Conference Board of Canada, a private think-tank based in Ottawa. Indeed, after housing, consumer confidence has emerged as a key driver of furniture, mattress and major appliance sales.

In 2014, the board set the index to 100. Its determined by the answers Canadians give each month to the survey's questions which revolve around the current and future (in six months' time) state of household finances; employment and job prospects; and, major purchases. Between January 2014 and October 2018, the overall index averaged 105 each month, reaching its peak – 128.3 – in December 2017. What's more, it has stayed about 110 since May 2017.

The peak for the major purchases question came in August 2017, when 33.1% of Canadians responding to the survey said now was a good time to buy. Except in February 2018, the index has been above 30 on this question since mid-2017.

But things are changing, according to Cory Renner, the Conference Board economist in charge of preparing the index who believes the Canadian consumer is facing new challenges as 2019 approaches.

"The Canadian consumer is at a crossroads," he told *Home Goods Online* in an interview. "When interest rates were very low, consumers expanded their debt loads significantly which supported their overall spending. Interest rates have started to rise, which reduces people's desire to take on debt while also increasing the amount they're spending on their existing debt (mortgages, credit cards, loans, etc.). As a result, the Canadian consumer is on weaker footing than a year ago but remains in a good state overall thanks to the strong job market."

Strong employment growth over the past two years has produced corresponding improvements in wages. The average weekly wage is expected to be $1,029 in 2020 – up from $922 in 2015. "As a result, household finances remain in a strong position," Renner said.

Despite these positives Renner expects to see the Consumer Confidence Index because of the drag being created by rising debt levels and increasing rates.

"I expect to see the index decline to around 105 (it is 114.2 in November)," he told HGO. "Economic growth remains solid; job prospects are good and wage growth should improve from its recent deceleration – all supporting the index. However, debt loads remain a concern and are expected to dampen enthusiasm about household finances while rising interest rates will reduce demand for major purchases." ▶

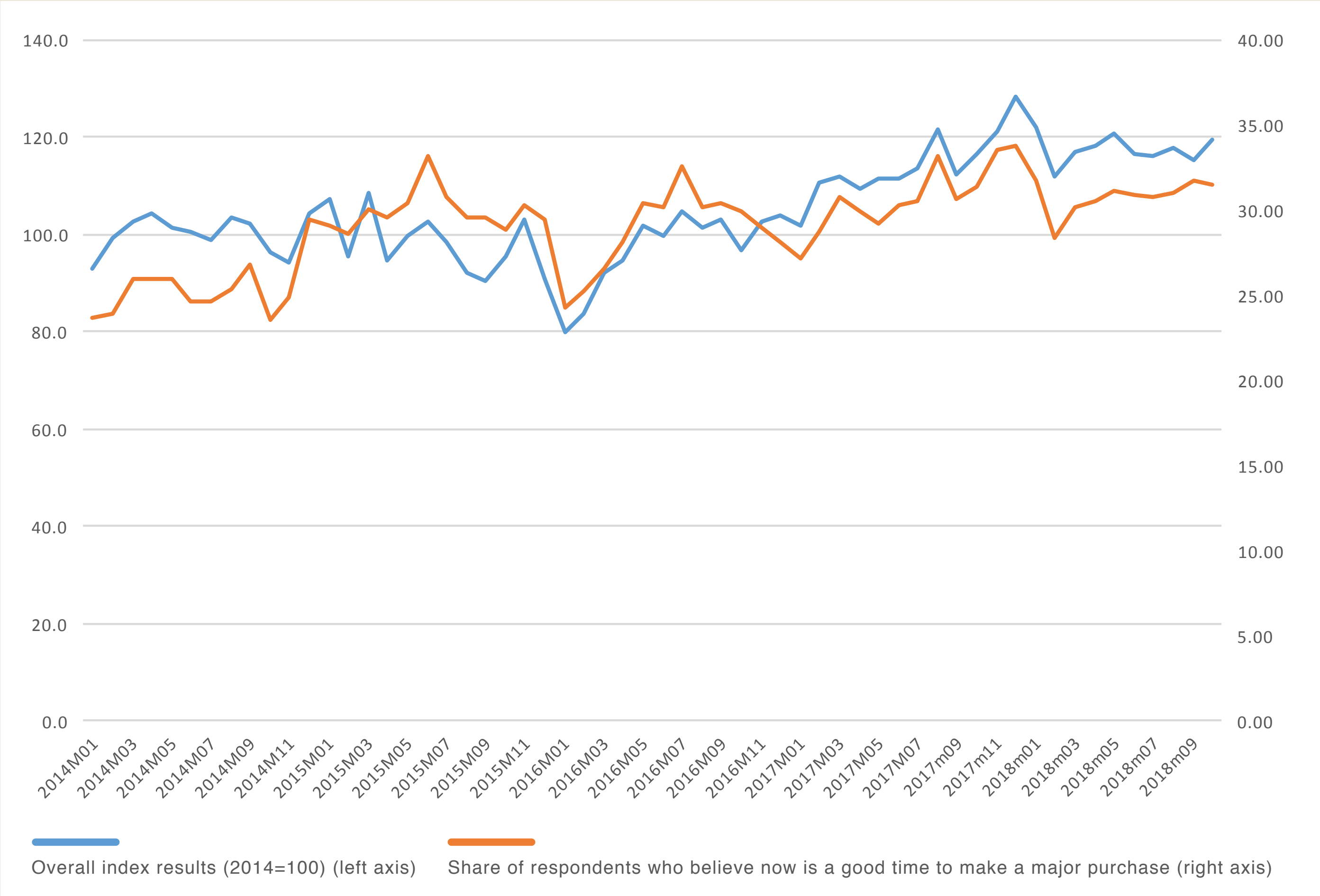


CHART COURTESY OF THE CONFERENCE BOARD OF CANADA.

This will cause the consumer's view of her current finances to weaken. "It has already declined over the last six months," Renner said. "Views on future finances will likely fall some as Canadians will need to direct more of their paycheques towards interest payments on their debt. However, the biggest decline should come from views about major purchases, which will hit a two-year low in November as rising interest rates reduce demand."

In his review of the index for October 2018, Renner pointed out there's a direct correlation between rising interest rates and the consumer's willingness to make a major purchase. "Among respondents, 31.5% said that now is a good time to make a major purchase. That is better than we have seen in most of the survey results going back to 2009. However, given that Canadians continue to be saddled by high debt loads, rising interest rates may yet take the steam out of household spending," he noted. "The last time interest rates went up (from 2004 to 2007), the share of respondents who said it was a good time to make major purchases plummeted from 40% to under 30%."

"This is a result of both high debt loads and higher interest rates," he continued. "The former means people have less of an appetite to borrow (and that banks have less of an appetite to lend). The latter means they have less money available to spend, as more of it is going towards paying interest charges and that the cost of making a major purchase – which is usually debt financed – is increasing alongside rising rates."

It's a trend he expects will continue. "We're leaving a period of low interest rates, thus making it more expensive to make a major purchase and that higher cost will reduce demand," Renner said.

He encourages furniture and major appliance retailers to use the index in their business planning. "Retailers should use the index as an indication about how Canadians feel about making larger purchases (which are largely discretionary)," he said. "Given many sales are credit related, retailers need to understand periods where Canadians are willing to expand their debt, or are looking to shrink it, and act accordingly by being creative about their promotion and sales strategies." HGO

Cory Renner is the Conference Board of Canada economist in charge of preparing its monthly Consumer Confidence Index.

leadership questions

Owning a business often requires leadership, which is a job all by itself with clearly defined responsibilities. Our resident retail guru outlines the five jobs every leader needs to do, while outlining the four questions he or she must ask of everyone on the team.

Much of my work over the past 20 years has involved helping business owners and managers become more effective leaders. Most of these folks spend 90% of their time working 'in' their business and 10% or less of their time working 'on' the business. They are not proactively managing their business, leading their people, creating compelling customer value, managing their bottom line and creating an extraordinary future. And, it will cost them big time down the road!

Working 'in' their business is easy. They've done it for years...so they retreat to the familiar and comfortable. It's just human nature. If you fall into this category, here's the short version of what leadership is and how you can make it work for you.

OUR FIRST JOB AS LEADERS

is to create clarity about the compelling customer value we commit to deliver, what we commit to become, how we'll get there and how we will behave along the way. By creating clear commitments, we "get everyone singing from the same hymn sheet," to quote my grandmother. Specifically, leaders must be clear about:

a) The compelling value and experiences we commit to deliver to every customer, every day – and what that value and experience must look like in three to five years to be both competitive and profitable. What value and experiences will 'grab' your target customers, clearly differentiate you from your competitors, make you 'famous' and grow your bottom line?

b) Then, we must be clear about what our business commits to become in three to five years, including:

c) how big we commit to become to be a dominant factor in our market;

- the healthy bottom line that we commit to generate;
- where we will do business, including where we will buy, produce or sell;
- what our business model will be and how it will be different from today;
- how the organisation will be structured and how that structure will differ from today;
- the values we will live by, remembering our 'values' are our fundamental commitments to ethics, excellence, life's priorities and the treatment of others;
- what the organisation will need to learn and the talent we will need to attract to be a profitable market leader in three to five years;
- how we will communicate with customers and prospects as a group – and as individuals;
- understanding the technology, systems, processes, equipment, facilities and training required to make all of this happen effectively and profitability;
- who our competitors are likely to be, what their compelling value will likely be and how we'll compete with them;
- what percentage of our growth will come from the organic growth of what we're doing what percentage must come from new products or services, new locations, new markets or acquisitions;
- if our market is consolidating, will we be a buyer, will we be a seller, will we find a small niche market the big guys can't or won't serve or will we do nothing and become irrelevant; and
- what will our working capital requirements be? How much of that will come from operations, how much from outside sources and what might those outside sources be?

OUR SECOND JOB AS LEADERS

is to attract, develop, empower, challenge and engage a team that will deliver our commitments to customers and to each other while creating our extraordinary and profitable future. The real battle in business today is the battle for talent.

There's no point in having a smart, talented team if you don't listen to them. The simplest way to become a more effective leader is to listen a lot more. Your people know stuff and they hate it when you don't listen. The best gets fed up and quit while the mediocre stay and take 'I don't give a damn pills'.

OUR THIRD JOB AS LEADERS

is to passionately communicate and reinforce each of our commitments in everything we do, say and decide, every day.

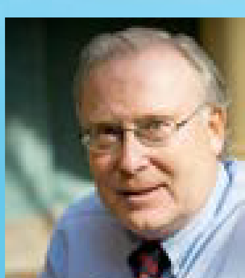
OUR FOURTH JOB AS LEADERS

is to measure performance, hold people accountable and constantly look for behavior to praise, celebrate and reward.

OUR FIFTH JOB AS LEADERS

is to look for behavior to correct. Lack of accountability and failure to deal with non-performance are two of the biggest challenges facing many businesses today.

As leaders, how do we create accountability and deal with non-performance? It's quite ▶



BY DONALD COOPER

simple. First, we must create clarity about what we commit to deliver, what we commit to become and how we commit to behave along the way. That's why creating 'clarity' is *our first job as leaders*.

Then, when we see behavior or results that are not living up to our commitments, we sit down with the individual or individuals responsible and ask them four straightforward questions.

QUESTION ONE: ***Regarding this specific performance shortfall, do you understand what we're committed to?*** The answer is either yes or no. If the answer is yes, move on to Question Two. If they say they did not understand the commitment, there are two possibilities.

The first they truly did not understand the commitment, in which case, you haven't done your job as a leader and it's up to you to fix that by creating and communicating commitments. Clarity is your first job.

The second is they understood perfectly what they were to do; how they were to do it and by when they were to do it, but they're trying to 'weasel out' of taking responsibility by saying they didn't understand. In my experience when someone says this, at least half the time, they're trying to put the blame back on you, the boss. Get rid of 'weasels' – they're killing you. Document their non-performance carefully, give them written warnings and then invite them to make an alternate career decision.

QUESTION TWO: ***Do your embrace and support that commitment?*** Once again, this is a yes or no question. If the answer is yes, move on to Question Three. If the answer is no, there are now three possibilities.

The first possibility is they honestly believe the commitment is unrealistic or unnecessary. In this case, their responsibility is to engage you in respectful debate to get you to change your mind. A business that encourages 'respectful debate' is a healthy environment.

The second possibility is they could change their mind and 'get with the program.' The third is they could leave. There is no room in a business for people who do not fully support the very things that business is committed to.

QUESTION THREE: ***A call to action. Can you make it happen? Because the reason we're having this conversation is it isn't happening right now.*** The other important question to ask at this point is: *Is anything preventing you from making it happen? Because I'm here to provide support and eliminate roadblocks. Given all that, can you make it happen?* Again, these are yes or no questions.

If the answer is yes, go to directly to Question Four. If the answer is no, it's time for them to take on a less demanding role in the business or move on.

QUESTION FOUR: The final question. *When will we see it happen?* Agree on a time by which the performance deficiency will be corrected and then follow up religiously. Without diligent follow-up, the entire process is useless. The world is run by those who follow up.

If the solution is a longer term one, the question becomes *When will I see a step-by-step plan to make it happen?* Then you must monitor each step to ensure the project is on track.

So, to briefly recap, the four questions that create accountability and deal with non-performance are:
- Do you understand our commitments?
- Do you embrace those commitments?
- Can you make it happen?
- When will I see it happen?

These four simple questions can transform your business. So, there you have it, some clear insights on how to become a more effective business leader in just five minutes. How will you use these insights to proactively and effectively lead and manage your business, your team, your extraordinary future and your bottom line? HGO

A regular contributor to Home Goods Online, DONALD COOPER *has been both a world-class manufacturer and an award-winning retailer. Now a Toronto-based business speaker and coach, he helps business owners and managers rethink, refocus and re-energise their business to create compelling customer value, clarity of purpose and long-term profitability. For more information, or to subscribe to his free, monthly management e-newsletter, go to www.donaldcooper.com*

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tupelofurnituremarket.com

January 8 to 11, 2019
CES
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ces.tech

January 8 to 15, 2019
ATLANTA INTERNATIONAL GIFT & HOME FURNISHINGS MARKET
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Atlanta, GA
americasmart.com

January 14 to 20, 2019
IMM COLOGNE
The International Interiors Show
Koelnmesse GmbH
Cologne, Germany
imm-cologne.com

January 17 to 20, 2019
INTERIOR DESIGN SHOW
Metro Toronto Convention Centre North
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interiordesignshow.com

January 17 to 20, 2019
IIDEX CANADA
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iidexcanada.com

January 22 to 25, 2019
THE INTERNATIONAL SURFACE EVENT (TISE)
Mandalay Bay Convention Center
Las Vegas
intlsurfaceevent.com

January 27 to 31, 2019
LAS VEGAS MARKET
World Market Center
Las Vegas, NV
lasvegasmarket.com

January 27 to 30, 2019
TORONTO WINTER FURNITURE SHOW
Various showrooms
Mississauga, ON
chfaweb.ca

January 27 to 31, 2019
TORONTO GIFT FAIR
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International Centre
Toronto Congress Centre
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cangift.org

March 8 to 11, 2019
MALAYSIAN INTERNATIONAL FURNITURE FAIR
Putra World Trade Centre
Kuala Lumpur, Malaysia
2019.miff.com.my

March 13 to 14, 2019
ISPA INDUSTRY CONFERENCE
International Sleep Products Assn.
Vinoy Renaissance Resort
St. Petersburg, FL
sleepproducts.org

April 6 to10, 2019
HIGH POINT MARKET
High Point, NC
highpointmarket.org

May 24 to 26, 2018
CANADIAN FURNITURE SHOW
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