

Q: Where is appendix where overview firm???

Executive Summary

Furniture Brands International is a retailer, designer and manufacturer of home furnishings. The target markets for these products encompass the entire gamut of furniture buyers; from individual consumers to large-scale retail chains. Interco, a multi-faceted retailer, changed its name to Furniture Brands International in 1996 and since then has focused solely on furniture. Over the past 7 years, Furniture Brands International has suffered as the retail industry as a whole has as well. This economic downturn came as a result of the housing crisis in late 2007 and early 2008. Lack of individual home-buyers as well as overall economic uncertainty caused individuals to forego expensive purchases such as home furniture which caused sales to drop and inevitably led to the stock price of Furniture Brands International dropping as well.

Many competitors in the furniture industry suffered alongside Furniture Brands International during this time; however, many of these companies have made a recent resurgence in the market. These companies have created sales by slimming down, staying flexible and catering to customers well. All the while, Furniture Brands International has been unable to recover at all and has suffered a continually diminishing stock price. In order to combat the continuing downward trend of sales, we propose two recommendations.

Furniture Brands International should divest manufacturing plants overseas located in the Philippines and Indonesia that produce case-goods. The small margins of sales made overseas do not support the costs associated with reaching this market. Additionally, these plants take focus away from domestic production and sales, where margins are better. Capital gains from this divestiture will allow Furniture Brands International to remove debt and become more flexible in an ever-changing marketplace.

Secondly, as a result of divesting the overseas plants, Furniture Brands International will be better able to concentrate domestically. The market that should be targeted by Furniture Brands International is the high-end sector. Within this sector, margins and sales have performed better historically.

Why would there be a gain?

Group round-table grades

Questions: 135

Defense: 135

Total: 270

I'm not counting this as part of your 10 pages of recommendations.

Introduction

Before the economic downturn of 2008, the furniture industry saw profits and growth unrivaled by other industries. At the height of consumer spending, the housing market attracted millions of citizens to revamp their homes with the latest trend in furniture and appliances, giving companies like Furniture Brands International an all time high record stock price. However, after the collapse of the market in 2008, many companies were left wondering what the direction of their company would be. Some of Furniture Brands International's largest competitors, like La-Z-Boy, Ethan Allen, and Ashley Furniture, rebounded from this collapse and have since restructured their company to meet growing domestic and international demand. Unfortunately, Furniture Brands International has not experienced the same growth. In order to rebound from ten years of decline and reposition itself as the market leader it once was, Furniture Brands International must implement drastic financial changes.

On May 3rd, 2002, Furniture Brands International experienced one of its highest stock prices in history at \$43.20, after accounting for different stock splits. Since then, its stock has tumbled to a low of .56, even after multiple stock splits, including a seven-for-one reverse stock split. The company must find a way to operate more efficiently, and in

order for this change to occur, the company must also undergo a couple of different structural changes. By divesting international manufacturing and scaling down case goods internationally, Furniture Brands International can shift focus from a struggling overseas market to a growing, profitable domestic market. Second, Furniture Brands International can grow itself further into the established domestic market by focusing on

Goes in background section

Goes in executive summary

high-end, premium products, changing the company's product design structure and hiring an in-house design manager.

Recommendation 1: Divest International Manufacturing, Focus Domestic sales

We are recommending the divestiture of the company's international case good plants; comprised of two locations, one in Indonesia and one in the Philippines. We believe the company should scale down their case goods because "sales of upholstery products generally outperformed sales of case goods in 2012 compared to 2011" (Furniture Brands International 10-K, Business Trends and Strategy, p. 17). In conjunction to this divestiture, we believe the company should focus less on gaining international sales and focus more on domestic sales.

Furniture Brands International is a market leader in manufacturing, design, sourcing, and retailing of home furnishings. The company markets its products through a number of retail outlets including the company owned Thomasville Stores. Although the company has been able to retain the high-end market through premium products, the company needs to restructure its market approach due to its constant deline in recent years (Furniture Brands International 10-K, Business Trends and Strategy, p. 17).

Furniture Brands International has also established a presence in international sales and manufacturing. Growing international sales to increase overall sales might not be the best option for Furniture Brands International because going international has and will prevent the company from concentrating on the domestic market. The time and capital allocated internationally could be focused domestically where the company has established channels of distribution and market knowledge.

what is this?

Q: why would you make a long-term capital decision based on a 1-yr trend?

???

Q: why can't intl sales help cover its variable (marginal) costs?

Q: why can't this division have a separate manager that focuses on this area?

Q: Is this the case at Int'l Furniture?

Q: Have they failed to do this? What evidence do you have?

The main reason why Furniture Brands International should divest international

sales and manufacturing is the need to establish a strong brand. International ventures are costly and may divert a company's goals and interest. By concentrating on the local market, the company will be exposed to furniture competitors of the right caliber.

Q: what do you mean?

Q: what does this mean?

Consequently, the company will develop an urge to raise its standards thereby establishing a strong brand. This is of concern for the company in the long term. Due to market pressure and increased competition, the company has concentrated more on quantity production, and less on quality. For many companies, quality concerns have been cited as reasons to consider reducing or eliminating offshore manufacturing. Firms that work to achieve sustainability while retaining a high threshold for quality are poised to take the best advantage of the interest in U.S. production resources (Hagenau). For

Q: How is this related to int'l sales?

Q: Are these issues for Furniture Intl?

environmental advocates, the re-shoring of manufacturing brings additional benefits. One benefit is better environmental control—the U.S. has tighter environmental regulations than top offshoring destinations. A second benefit is reduced energy consumption for transport fuel—when products made domestically are also consumed here, the energy savings can be considerable. Add to these factors the sustainability benefits U.S.

manufacturers are achieving through lean manufacturing, and the net result is a big boon for the environment (Hagenau). If case goods were to experience increased sales, even with the scale-down, there would be an increase in cost of production. However, we believe that customers would be willing and able to pay the higher price for the quality of the now premium brand.

Q: why wouldn't ↑ sales more than offset the

Over the years Furniture Brands International has established its position through investments and asset acquisition. Unfortunately, these developments have not

increased variable (VA)?

Think you mean sell.

Q: why not sell instead of simply shutting down?

contributed to the company's positive future. If this recommendation is accepted, then it will involve decommissioning some of the company's overseas assets. In fact, most of these assets and investments have remained redundant and therefore a financial burden to the company. By decommissioning these investments, Furniture Brands International will be able to raise its market prices, which is much needed (Craver, 2013). This will boost the company's reputation, thereby resulting in a stronger customer base. Moreover, decommissioning overseas assets will enable the company to raise the much-needed capital to finance other ventures and market activities.

Q: why?

If the company focuses more on the domestic market, it will be able to scale down some expenses. In particular, the company will cut shipping and tax related expenses.

Q: so why wouldn't this logic suggest they shut down all operations?

This cost saving can be utilized in other ventures such as quality control and market promotion. Shipping costs drastically reduce the margins on items and can even prevent

Q: Do you have evidence of this or are you guessing?

an organization from shifting into an international market because of lower profits. The biggest distress for Furniture Brands International, Inc. is the continued presence in a low

margin international market with a "diminishing" brand. Since Furniture Brands International, Inc. ships and transports large furniture between factories throughout several countries, their freight, shipping, labor, and storage costs are very high and extremely detrimental to the company's bottom line. With the divestiture of international

Q: what evidence do you have that this is the case?

manufacturing, Furniture Brands International, Inc. will be able to focus on growing markets domestically and drastically reduce shipping costs, which have marred their brand's profitability for the past couple of years. Radelet and Sachs noted in their article about high shipping costs "the most important consequence of high shipping costs for developing countries is the detrimental impact on firms' competitiveness

Q: what evidence do you have that this is a problem for Furniture Brands?

Q: How do labor + material costs compare?

in international markets" (Radelet). The time it takes to ship the goods from the international plants to the United States reduces the companies Inventory Turnover which is currently 3.39 which is lower than the 6.6 of its competitor Lay-Z-Boy (Appendix 1), with all of the production done in North America it will be increased helping the company's ratios and be more appealing to investors. The company will also be able to shorten the shipping time to customers and distributors by manufacturing all of its case goods domestically.

Good

Not a good topic sentence

Currently, Furniture Brands International produces furniture both in the United States and internationally. When producing furniture internationally, multiple factors can affect the quality of the final product when it arrives to the United States. First, there is the affect of poor production practices. According to Furniture Brands International, many of their products are engineered and manufactured by "independent offshore manufactures" (Furniture Brands International 10-K, Manufacturing and Sourcing, p.4). The amount of product imported by Furniture Brands International is in excess of 43.3% (Furniture Brands International 10-K, Manufacturing and Sourcing, p.4), leaving a lot of room for product to be damaged in transit from the United States. Damages resulting from poor loading and unloading of product, transfer of product to the showroom, and damages from the elements pose a problem for the customers of these products, and in turn, a problem for Furniture Brands International. By divesting production to the United States, Furniture Brands also gains complete oversight of its production, with the ability to make efficient managerial decisions on a domestic basis, rather than an international basis.

Q: why wouldn't they have this in a facility they own in Indonesia?

Q: Is this speculation or do you have evidence that this is a problem for Furniture Brands?

Q: Is this also a problem when shipping across the U.S.?

An important consideration for Furniture Brands International is why International case goods markets are not generating enough profit. Essentially, Furniture Brands is losing money attempting to keep this international division afloat. International markets are different than domestic markets because of diverse manufacturing requirements. For example, the Philippines has a very complicated set of manufacturing guidelines which contain “vague descriptions of requirements” and “high registration costs” (OECD 50). On top of that, there are political, social, and cultural aspects to consider when penetrating an international market. The Philippines and Indonesia pose considerable restrictions for manufacturing firms because of the extremely dictatorial governments present in those countries. Ultimately, international markets are difficult for most companies, but specifically to Furniture Brands International, case goods, compared to the requirements of these countries, are not worth it. High marketing costs, low margins, and strict manufacturing requirements contribute to the continued downfall of this division of Furniture Brands International. International marketing and market analysis also contribute to the riskiness of international case goods. Aside from high marketing costs, international marketing can “dilute brand name power” when a branch of manufacturing is proven unbeneficial and weak (Hill 2013). By reducing emphasis on foreign case goods sales, Furniture Brands will be able to shift intelligence, insight, and vision towards a more profitable division of Furniture Brands International in upscale, premium products.

Recommendation 2: Focus on the domestic, high-end market.

Throughout the company, premium products have consistently outperformed the middle to lower-end market. Also, upholstery has proven to be a much more profitable

Q: Evidence?

Q: what do you mean?

Q: Is not the Philippines a democracy?

Q: Evidence? Q: why would mfg incur mkt costs?

Isn't Indonesia also a republic?

Q: why?

Comment: You have not convinced me they should shift all int'l production to the U.S.

Q: For how long?

Q: Do the middle- + low-end lines cover their marginal costs?

product line within each of our brands. As stated by the 2012 Furniture Brands International 10-K, "Sales for our brands that specialize in premium-priced offerings generally outperformed sales for our brands that focus more on mid-priced offerings and sales of upholstery products generally outperformed sales of case goods in 2012 compared to 2011" (Furniture Brands International 10-K, Business Trends and Strategy, p. 17). An article in Furniture Today reiterates these findings. In this article, Heath Combs, long-time staff writer for Furniture Today, writes that, "It appears that the high-end division of bankrupt Furniture Brands International was making the most gross margin dollars for the company these past few years" (Furniture Today). Based on the aforementioned findings, we suggest Furniture Brands International start focusing their

efforts on premium products and upholstery. This will be done through selling off or divesting of the brands creating lower quality products. This mindset follows in line with

an article in the Wall Street Journal which states, "corporate divestitures are increasingly being driven by companies' strategies to focus on growth and shed non-core, low-growth assets, and less by financing needs, according to *Deloitte's 2013 Divestiture Survey Report.*" Although the financing side of divesting of the lower end assets is to be kept in mind, the truth of the matter is that these same brand names have not been performing.

Furniture Brands International has suffered a diminishing reputation over recent years. To combat this unfavorable image, we suggest revamping their method of design.

Rather than designing from within the company, Furniture Brands International should hire well known and established outside designers. This new technique should do three

things for the company. First, the outsourcing of design will solidify Furniture Brands International solely as a high-end manufacturer. This market has proven to be more

Q: who would buy the brands? why worth more to them than Furniture Brands?

GOOD

Q: with who?

Q: Are there such people for furniture?

Q: why is this a benefit?

Q: what do w/ capacity that was used to mfg mid- + low-end furniture?

Q: what do u current employees?

profitable, as stated earlier, so this move is furthering efforts to capture market share within a more profitable segment. Secondly, by focusing on a single consumer segment, this ensures the highest quality of product for their customers. Originally, there may have been a conflict of interest within the designing and production of their own furniture. In house design may have led to a lower quality product by using cheaper materials for a more cost efficient "premium" good. By hiring an outside designer, this conflict of interest will be removed based on the designer's call for the highest quality of materials for the highest quality product. Though cost of goods may increase, we believe customers are willing to pay for this high quality product designed by the best designers in the industry. Lastly, this single-customer focus will further allow the company to market based on a brand new image to further revamp their overall company reputation. We believe using a well-known and respected designer will change public perception to a more luxury brand. This will allow Furniture Brands International to charge a higher price for the highest quality of products. Based on the company's current situation, we believe the aforementioned results are desirable and if an outside designer is hired, we also believe the results are very feasible.

Q: Why?

Q: Do you have evidence this is the case or are you guessing?

are you guessing?

Q: How do you know sales won't fall faster than inventory?

As a byproduct of solely catering to the high-end market, more premium, customized offerings will become available to customers. Yet, overall product offerings will diminish because lower quality products will be reduced. As a result, inventory turnover will increase because less inventory will be kept on the books. La-Z-Boy is the standard for the industry and for their April 2013 10-K had inventories remaining on their balance sheet as 20% of total assets. Inventories over net sales was 11%. In contrast to these numbers that show efficiency, Furniture Brands International had inventories on

their December 2012 10-K as 40% of total assets. Also, Furniture Brands had inventories remaining on their balance sheet as 23% of previous year's sales. The large disparity between these two numbers goes to show how Furniture Brands International is overweight inventory and needs to slim down in order to operate more efficiently. This would reduce the cash that Furniture Brands International would have tied up in inventory and allow for more flexibility. Another indicator of this issue shows itself when the current and quick ratios are compared between the two companies for the same year.

Good. What is source? where are your calculations?

Q: How does this show an inventory problem?

For La-Z-Boy the ratios are 3.34 and 2.36 respectively. The fact that the quick ratio is better than 70% of the current ratio shows that inventory is not a completely dominating portion of the balance sheet. At the other end of the spectrum, Furniture Brands International has a current ratio of 2.28 and a quick ratio of .86. Here, the fact that the quick ratio is less than 40% of the current ratio shows the complete dominance that inventory has on the balance sheet. Were inventory turnover higher for Furniture Brands International than for La-Z-Boy, or perhaps even, Furniture Brands would be operating well with the increased inventory on their books. However, Furniture Brands International has an inventory turnover of 3.39, which may not seem so bad, but dwarfs in comparison to La-Z-Boy's 6.20 inventory turnover.

Not #s in appendix

Good. What is source for these #s?

This promoted mentality of trimming down the inventory held on the books contradicts a portion of Furniture Brands International's pricing scheme. In the 2012 10-K, the company stated its desire to "leverage scale with suppliers." By definition, this is done through increased bulk inventory purchases; a contradiction of the "lean model" that Furniture Brands International alleges itself to follow later in the same 10-K.

Q: How is this a conflict?

This is your real suggestion!

Since we want Furniture Brands International to focus on the premium market, we suggest selling the name brands Broyhill and Lane. These two brands focus on the lower

Q: why worth more to someone else than to Furniture Brands?

end market for case goods. As we mentioned earlier, this market is no longer attractive to our company. These brands are relevant in the case goods market and we believe will secure a reasonable sum when sold. Therefore, we will be turning these assets into cash.

Q: how much makes selling worthwhile?

Also, we will include our case-goods manufacturing plants in Indonesia and the Philippines in the sale of Broyhill and Lane. Therefore, we should receive a very

but give up any future CF.

substantial cash flow from the divestiture of Broyhill and Lane as well as the overseas manufacturing plants. This cash will be used to pay off some of the debt currently on the books of Furniture Brands International. By paying off debt, we are further streamlining

Q: why would this debt be relevant post-bankruptcy?

the company. This will give Furniture Brands International the ability to begin focusing all of its attention on the higher end market while increasing investor sentiment through reductions in debt as well. Though debt for Furniture Brands has been lowered as of late, the debt ratio as of the most recent 10-K remained very high at a monstrous 17%, while the debt ratio of La-Z-Boy was shown on their most recent 10-K as 1.1%. This spread must be tightened if Furniture Brands is to operate efficiently.

Q: How does this streamline the company?

When compared to competitors in the furniture arena, Furniture Brands International does not stack up well, nor has it in the recent past. Basically, for Ethan Allen and La-Z-Boy, the current, quick and inventory turnover ratios are all increasing as one would want them to, while the debt ratio is decreasing, also as one would want it to. Inversely, for Furniture Brands International, the current, quick and inventory turnover ratios are declining while the debt ratio increases. These trends are not ideal and the

Q: How about further back?

market has been punishing Furniture Brands International's stock price as a result. The trends can be viewed in appendix 1.

Conclusion

Currently, Furniture Brands International is in the midst of bankruptcy proceedings as a KPS Capital Partners seeks to purchase all of the assets of Furniture Brands International. As a result, the shares of the company are currently deemed worthless as all the proceeds from sale will go directly to primary debtors, with no money

left to be distributed to shareholders (8-K, 6 Nov. 2013). This situation has come about because of the poor managing decisions made by those at the helm of Furniture Brands International. The real tipping points can be seen looking backwards. In mid-2009,

Furniture Brand's performance drops below Ethan Allen, quickly recovers then in January of 2011 plunges below Ethan Allen to remain (Comparison Charts - Google Finance). After our analysis of the situation and seeing what some competitors did

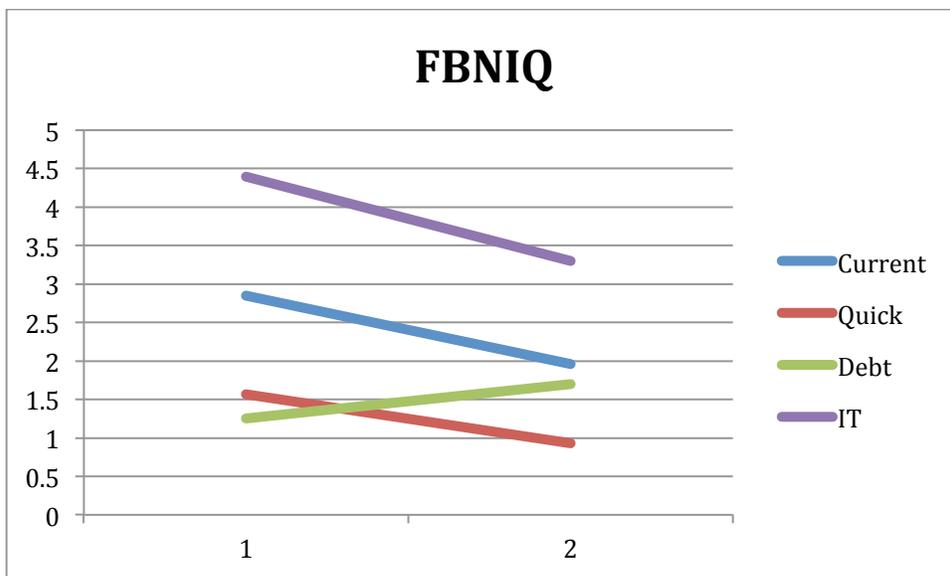
differently during these times, causing them to outperform Furniture Brands we have sighted two erroneous errors in the judgment of management with Furniture Brands International; first, the fact that the international market is a focus and that furniture is produced largely overseas, secondly, that the domestic high-end market is not a focus. If these two issues are remedied with the solutions laid out above, the performance of Furniture Brands will correct.

Q: does it have a price = 0 in the market?
Q: such as?
Q: why didn't you include this?
It seems like you are saying the problem is that Furniture Brands hasn't implemented your recommendations. You need to 1st identify their problems. If a focus on international mkt^{was} a "problem" then no firm would do it. If non-high end was a "problem" no one would focus anywhere else!

Appendix 1

Company		2009	2012	Change
Furniture Brand				
Current	Current	2.85	1.96	-0.89
Quick	Quick	1.57	0.93	-0.64
Debt	Debt	12.5%	17.0%	4.5%
IT	IT	4.4	3.3	-1.1
Ethan Allen				
Current	Current	1.78	1.96	0.18
Quick	Quick	0.86	0.93	0.07
Debt	Debt	40.5%	30.0%	-9.70%
IT	IT	2.31	2.41	0.1
LaZ Boy				
Current	Current	2.91	3.34	0.43
Quick	Quick	2	2.36	0.36
Debt	Debt	7.9%	1.1%	-6.8%
IT	IT	5.98	6.6	0.62

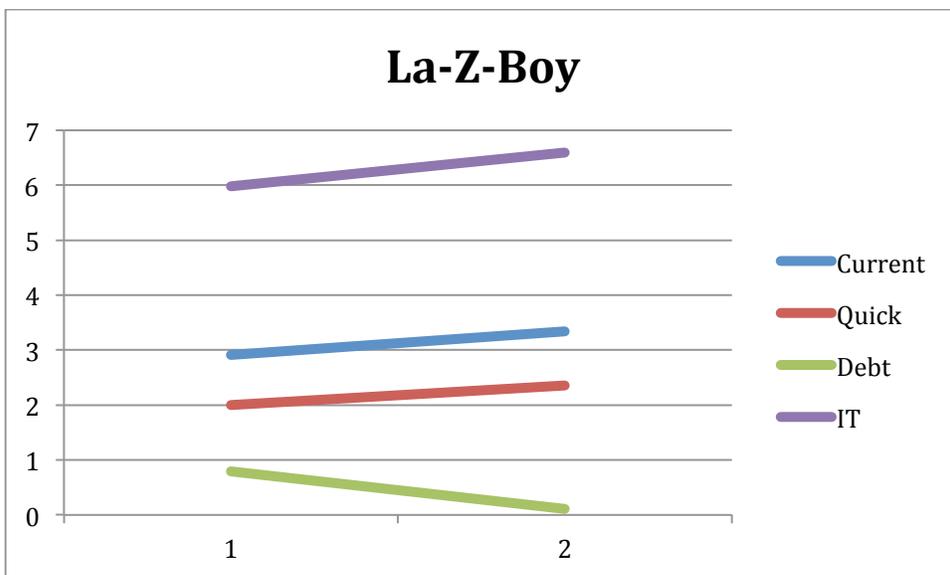
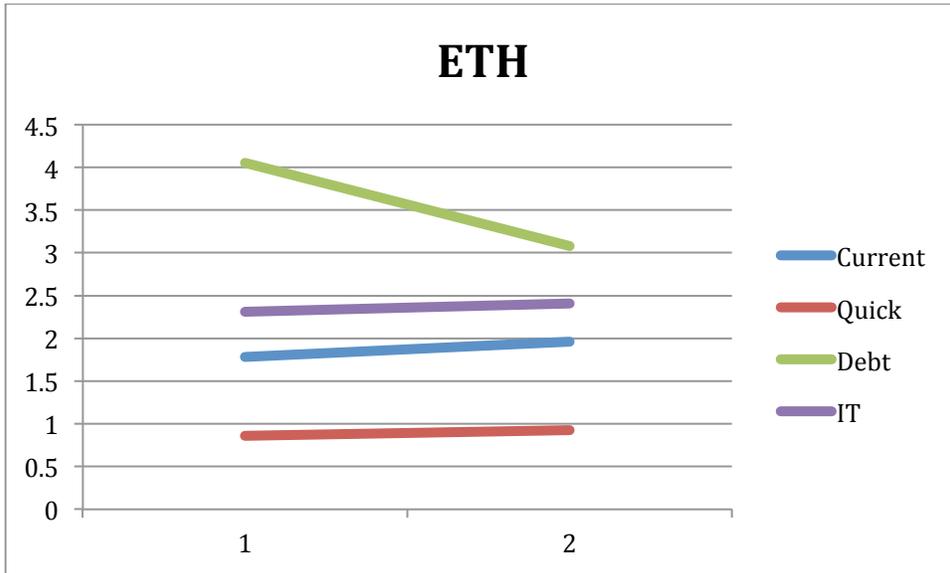
SOURCE OF #S?



Q: why only 2 yrs? This is not long enough to establish trends?

Q: why not show for a ratio at a time instead of a firm at a time? Easier to compare!

Appendix 1 cont'd



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