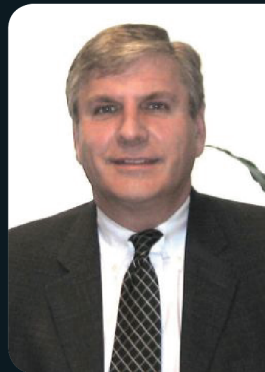


FCW

FLOOR COVERING WEEKLY

The Industry's Business News & Information Resource



Key findings
Upturn in construction equals upturn in flooring

14

STATISTICAL REPORT '13

Gains made: Strongest since '04

The U.S. floor coverings market surged in 2013 as the housing market finally began to experience a significant recovery. Dollar floor coverings manufacturer sales (shipments minus exports plus imports) are estimated to have increased by 7.1 percent in 2013 to approximately \$20.1 billion. Quantity sales could have climbed by 5.5 percent to 18.7 billion square feet. This is the strongest industry growth since 2004, reported Catalina Research.

The acceleration in industry growth over the past year was primarily due to the sharp increase in new and existing home sales as consumers took advantage of historically low interest rates. Builder flooring spending led the way with an estimated 19 percent increase as new residential square footage construction rose by some 20 percent. At the same time, a 9.4 percent increase in existing home sales contributed to an estimated 7 percent gain in residential replacement spending. Even non-movers began to increase flooring spending along with rising home prices, increasing personal income gains and a rising stock market.

U.S. floor coverings sales growth would have been even sharper if not for the sluggishness in commercial market sales. Commercial market floor covering spending is estimated to have increased by only 4.6

percent in 2013. The increase in commercial sales benefited from the 5.2 percent increase in private nonresidential building construction spending, which was partially offset by the 9.4 percent drop in public building construction spending.

Hard surface flooring continued to make additional inroads in 2013, reported Catalina. Hard surface flooring is estimated to account for 49.3 percent of total dollar sales and 43.4 percent of total square foot sales in 2013. This is up from 47.9 percent and 42.5 percent, respectively, in 2012. Hard surface flooring could have captured more than 50 percent of total industry dollar sales in the fourth quarter of 2013. In 2013, hard surface flooring sales are estimated to have increased by 10.2 percent in dollars and 7.5 percent in square feet. For soft surface flooring, the figures were up 4.2 percent and 3.9 percent, respectively.

Hard surface sales growth received a boost from its higher dependence on the builder market. This is especially true in the growing ceramic tile, wood flooring and resilient flooring sectors. Homeowners are also increasingly turning to hard surface flooring when undertaking flooring replacement jobs. Consumer tastes are changing as hard surface flooring manufacturers

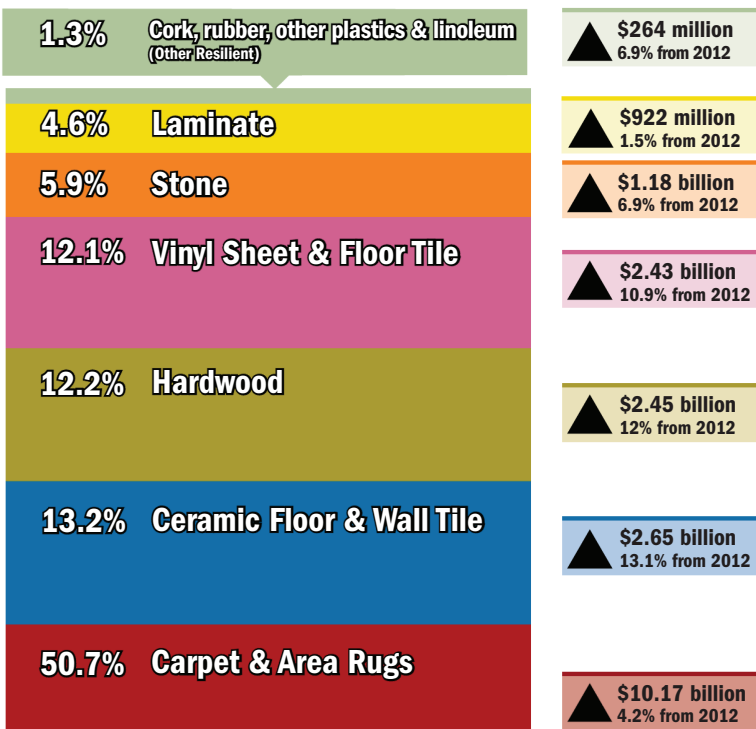
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Chart 1

2013 U.S. Floor Covering Sales: \$20.08 billion

(in wholesale dollars)



UP 7.1%
from 2012

Periodical

For breaking news updated each business day, visit us online at www.fcw.com

Source: Catalina Research

Table 1

U.S. floor covering market sales value

(in millions of dollars)

Product sector	2009	2010	2011	2012	2013	% change
Carpet & area rugs	\$9,287	\$9,393	\$9,505	\$9,764	\$10,174	4.2%
Hardwood flooring	1,506	1,784	2,051	2,184	2,446	12.0%
Ceramic floor & wall tile	1,909	2,084	2,210	2,347	2,654	13.1%
Laminate flooring	901	893	894	908	922	1.5%
Vinyl sheet & floor tile	1,818	2,000	1,938	2,195	2,434	10.9%
Other resilient flooring ¹	264	256	229	247	264	6.9%
Stone flooring ²	1,079	1,062	1,064	1,110	1,186	6.9%

Source: Catalina Research

¹ Other resilient includes cork, rubber, other plastics and linoleum.
² Natural stone. Excludes manufactured and engineered stone.

Table 2

U.S. floor covering market sales volume

(in millions of square feet)

Product sector	2009	2010	2011	2012	2013	% change
Carpet & area rugs	10,601	10,686	10,221	10,197	10,598	3.9%
Hardwood flooring	803	901	1,031	1,097	1,149	4.7%
Ceramic floor & wall tile	1,848	1,992	2,078	2,212	2,406	8.8%
Laminate flooring	912	958	950	964	996	3.3%
Vinyl sheet & floor tile	2,784	2,860	2,579	2,801	3,066	9.5%
Other resilient flooring ¹	280	250	205	201	209	4.0%
Stone flooring ²	271	260	262	277	294	6.1%

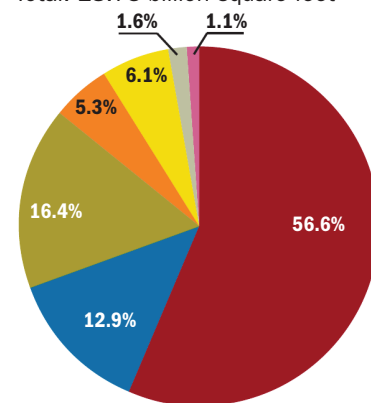
Source: Catalina Research

¹ Other resilient includes cork, rubber, other plastics and linoleum.
² Natural stone. Excludes manufactured and engineered stone.

Chart 2

2013 floor coverings square foot sales

Total: 18.73 billion square feet



- Carpet & area rugs
10.60 billion
- Hardwood flooring
1.15 billion
- Ceramic floor & wall tile
2.41 billion
- Stone flooring
0.29 billion
- Vinyl sheet & floor tile
3.07 billion
- Other resilient*
0.21 billion
- Laminate flooring
1.00 billion

Source: Catalina Research

*Cork, other plastics, rubber, and linoleum.

Gaines made

Continued from page 1

introduced innovative products such as click-installed luxury vinyl tile, wood plank visuals in porcelain tile and easy to install engineered wood flooring.

Consumers are increasingly turning to the value retailers — home centers and value hard surface flooring chains — as they take on an increasing number of do-it-yourself flooring replacement projects. To meet consumers' pricing expectations, these retailers

are increasing their sourcing of competitively-priced foreign-made flooring. In 2013, the dollar value of U.S. floor coverings imports increased by 13.1 percent. As a result, imports' share of total dollar sales rose to 33.4 percent, up from 31.6 percent in 2012. On a square foot basis, imports' share is 37.5 percent and 35.4 percent, respectively. Import penetration rates are above these rates in the relatively strong growing ceramic tile, resilient flooring and wood flooring product lines. The leading sources of foreign-made flooring were located in China, India, Canada, Mexico and Turkey. **FCW**

Methodology

Floor Covering Weekly collaborated with Catalina Research for this 22nd annual statistical analysis of the U.S. floor covering market. Catalina compiled and analyzed data from the U.S. Department of Commerce, the Bureau of Labor Statistics and proprietary sources to provide the flooring market trends in this issue.

In this year's statistical report, sales of hardwood and resilient flooring were revised for years 2010 to 2012 based on revisions of U.S. Department of Commerce domestic plant

shipments. All 2013 numbers, however, are preliminary (except exports and imports) and are subject to revision.

U.S. market sales are in manufacturers' dollars and exclude installation costs.

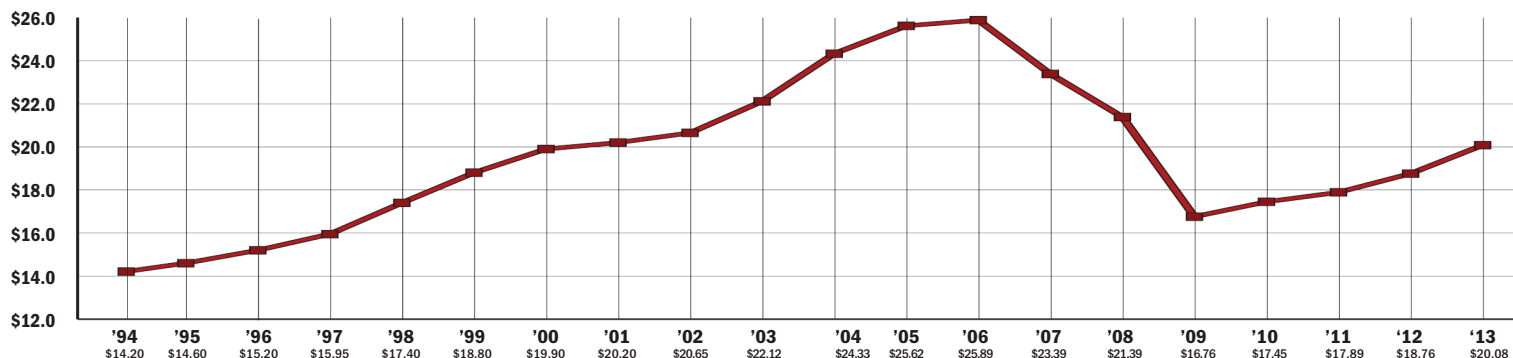
Note also that numbers in Tables 1 and 2 have been rounded. More detailed calculations appear in each product section.

All retail information is courtesy of Jonathan Trivers' exclusive marketWise report. Product sales are derived from Catalina's numbers. Numbers for "Who sells it: Who the customer pays" come from the Economic Census of Retail report.

Graph 1

20 years of floor covering sales value

(in billions)



Source: Catalina Research

Note: Stone flooring was added as its own category and is reflected in sales figures starting in 1997. Rubber flooring was removed as its own category and is reflected in "other resilient flooring" sales figures starting in 2011.

Seven is a good and lucky number

By Jonathan Trivers

Seven, the fourth prime number, is not only a Mersenne prime (since $2^3 - 1 = 7$) but also a double Mersenne prime. (Thank you Google.) When rolling two standard six-sided dice, seven has a six in 36 probability of being rolled (1-6, 6-1, 2-5, 5-2, 3-4, or 4-3), the greatest of any number. Seven is a lucky number. For 2013 in the floor covering industry, 7 percent (actually plus 7.1 percent) was the amount of dollar increase the entire industry experienced. And that was not due to luck but perseverance, a great housing market and a strong commercial sector.

For retailers this year, plus 7.1 percent in sales (See Table 4) is the benchmark. It should be the beginning of very good sales for some years to come. There were six factors that drove this sales increase: new home sales, existing home sales, increase in home values, low interest rates, growth in stock portfolios and new innovative products.

New home sales were 428,000 units which represented a plus 16.8 percent increase over 2012. The average price (median) increased by plus 9.1 percent to \$265,800. Fully 40 percent of all new homes sold were valued at more than \$300,000; and 16,000 new homes sold were valued at more than \$750,000. The high end market for new homes is outpacing new home sales in general. Double good news — average

Table 3

2013 floor covering industry sales (in billions) \$54.4 billion

	Product		Labor		Total	
	\$ Sell	GP %	\$ Sell	GP %	\$ Sales	GP %
Carpet	\$13.4	32.0%	\$3.3	21.1%	\$16.7	29.9%
Vinyl	\$5.0	35.0%	\$2.2	25.0%	\$7.2	31.9%
Ceramic tile	\$5.5	35.0%	\$7.4	30.0%	\$12.9	32.0%
Stone/marble	\$1.2	35.0%	\$1.8	35.0%	\$3.0	35.0%
Wood	\$4.2	33.3%	\$2.3	26.0%	\$6.5	30.8%
Laminate	\$1.8	28.0%	\$.9	20.0%	\$2.7	25.9%
Carpet cushion	\$.9	28.7%	N/A	N/A	\$.9	28.7%
Installation materials	\$1.4	35.7%	N/A	N/A	\$1.4	35.7%
Total installed products	33.4	32.9%	\$17.9	27.4%	\$51.3	31.0%
Area rugs	\$3.1	35.5%	N/A	N/A	\$3.1	35.5%
Total floor covering	\$36.5	33.0%	\$17.9	27.4%	\$54.4	31.1%

Source: marketWise

size of new homes increased also.

Existing home sales grew by plus 9.2 percent to 5,090,000; and the median price of existing home sales increased by plus 9.2 percent to \$197,100.

Even though interest rates increased during the year, they remained at historically low

levels. Getting mortgages still remained difficult — at the end of the year 40 percent of all existing home sales were cash. The number of foreclosures dropped dramatically; these were cash sales for all homes on the market not just the low hanging fruit.

As housing values increase, so does

investment in the home. Those that are staying put are now spending on those projects they have delayed for the last five years. All home improvement, including flooring, experienced an almost double digit increase in 2013. And as household's stock portfolio improved so did the psychology to buy now.

Last but not least is the factor of product innovation on industry sales. This affects residential replacement and to a lesser extent commercial flooring. It is obvious with earth shattering ideas like the iPad. Its sales and the sales of all those imitators that came in second were phenomenal. Luxury vinyl tile (LVT) might not have the same awesome impact on our industry but a new product type like LVT has surely helped. And all the improvements in installation materials take away the "fear" of customers making a mistake or of slipshod installation. And thin tiles are a new story for ceramic tile. Clearly the research and development that continued for so many manufacturers during the worst of times is paying off now. She sees the creativity and improvements and is impressed.

The counterpoint to this good news was the slow growth of commercial which is estimated to be up only around plus 3 percent. That's pretty good when you consider the 10 percent drop in public building construction spending.

Key chapters of 2013 marketWise are:

- ▶ Home Depot and Lowe's — the real story
- ▶ Incredible growth of niche retailers
- ▶ Hard surface market share growth is unabated
- ▶ Improved gross profit

What we sell

Remember the good old days? Fourteen fiber suppliers with briefcases full of money for promotions; 300 carpet mills complaining about fiber supplier dominance; Armstrong with Mannington and Congoleum quibbling about who was second to Armstrong; all flooring came through flooring distributors. Typical balance of sale of a flooring retailer — 75 percent carpet, 20 percent vinyl, 5 percent for everything else. (Wood was sold only in new homes usually by contractors; ceramic tile was sold in new homes and commercial — both controlled by contractors.)

Why did the product balance of sale change? For their first home, Baby Boomers loved to put a really cheesy avocado green cut and loop carpet over their beautiful oak wood floor. No siree, they didn't have to wax and polish their carpet. Sure they got a shock when they hugged their children but mom just vacuumed once a week and the cheesy avocado carpet stayed cheesy for a very long time.

It was the same Baby Boomers who changed their purchase behavior later in life. Maybe it was the selling of 17 trillion zillion square yards of beige plush carpet that tired them out or that vinyl was priced where it was more expensive than ceramic tile, but what-

ever the reason, the shift for different flooring was on for all three end-user markets.

Floor covering retailers added wood and this new category called laminate. Then they added ceramic tile to their assortment followed by porcelain, then stone/marble/granite and finally the totally revitalized vinyl with fiberglass backing and luxury vinyl tile (LVT). The amount of creative designs and product innovation matched by installation material improvements continued to feed the customers interest and enjoyment of hard surface flooring.

2013 was no different than the last 15 years or so; except for two years in that period hard surface as a total category has outsold carpet and thereby gained market share over carpet.

Twenty years ago, carpet commanded a 62 percent market share (product, labor and installation material needed to complete the job); wood was 8 percent but almost all of it was being sold and installed in new homes; ceramic tile as 18 percent but almost all of it was being sold and installed in new homes and commercial contract job. Vinyl was at 12 percent and was sold to all three end user markets.

For 2013, carpet had a good increase but it was a little over half the increase of all other hard surface products except laminate. (See Table 4.) Carpet now has a 34.3 percent market share. (See Table 5.) This is not units or just product sales but what the customer pays for a

Table 4

2013 product sales growth

(Sales in billions; product + labor)

	2008	2009	2010	2011	2012	2013	% increase over last year
Carpet	\$18.3	\$15.0	\$15.3	\$15.6	\$16.0	\$16.7	+4.4%
Vinyl	\$5.5	\$5.0	\$5.4	\$5.7	\$6.5	\$7.2	+10.8%
Ceramic tile	\$11.4	\$9.5	\$10.3	\$10.9	\$11.6	\$12.9	+11.2%
Stone/marble	\$3.4	\$2.7	\$2.7	\$2.7	\$2.8	\$3.0	+7.1%
Wood	\$5.8	\$5.0	\$5.4	\$5.6	\$6.0	\$6.5	+8.3%
Laminate	\$3.4	\$2.8	\$2.7	\$2.7	\$2.7	\$2.7	Even
Installation supplies	\$2.4	\$2.0	\$1.9	\$1.9	\$2.2	\$2.3	+4.6%*
Rugs	\$4.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.1	+3.3%
Total	\$54.2	\$45.0	\$46.7	\$48.1	\$50.8	\$54.4	+7.1%

*Actual increase; we adjusted installation supply sales as they were under-reported.
**Actual percent increase 2012 over 2011
Source: marketWise

complete installed carpet job.

The change in customer taste is clear as it was for key carpet manufacturers. They have embraced the change and both Shaw and Mohawk are key suppliers of all hard surface products.

There is a natural ripple effect — customer buys a new flooring product for the home; she tells her friends but because she/

he works outside the home there is interest in the product for their work environment. Crossover interest is created and sales start coming from areas not considered initially by manufacturer.

LVT is right there in that sweet spot where all sorts of buyers are going to discover this cool new product. As of the end of 2013, there

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Table 5

2013 market share installed products

	2008	2009	2010	2011	2012	2013
Carpet	38.8%	38.2%	37.1%	36.6%	35.4%	34.3%
Vinyl	11.2%	12.1%	12.6%	12.9%	14.0%	14.4%
Ceramic tile	24.3%	24.0%	24.9%	25.5%	25.7%	26.7%
Stone/marble	7.0%	6.7%	6.4%	6.2%	6.0%	6.0%
Wood	11.7%	12.1%	12.6%	12.6%	13.0%	13.1%
Laminate	7.0%	6.9%	6.4%	6.2%	5.9%	5.5%

Note: These market share numbers were computed from the sales of product, labor and the installation materials used for that product category.
Source: marketWise

Who sells it

marketWise uses the Economic Census report (Product Sales by Kind of Business) as the base for all our calculations. This report comes out every five years; in the intervening years we rely on Catalina Research. For information for the specific larger retailers (Home Depot and Lowe's) we listen to many hours of presentations by executives of the company (earnings conference calls and presentations to investor conferences) and 10-K filings to SEC. Even with all that checking and re-checking it has not been pretty.

Home Depot and Lowe's: The real story

Until this year, Home Depot did not break out its sales by sales category. Lowe's did but only used a full percentage (6.6 percent became 7 percent) to describe their sales by category. We listened to Lowe's say they gained market share in flooring and that they sold more wood and laminate than Home Depot. And we subscribed to the notion that Lowe's was more female friendly and therefore would sell more flooring, especially carpet, as she is the primary buyer of same.

Yep, we were naïve — we didn't think retailers ever stretched the truth! In so doing for the last two years we overstated Lowe's sales and understated Home Depot's. Now we have their specific dollar sales by flooring for this year and the previous two years. (See Table 7) We have backed out flooring sales from stores located in foreign countries. Pure U.S. product sales and labor are included in their numbers. (The total for all home improvement was not changed as the net difference was minimal.)

What have we learned with these numbers? Lowe's has been struggling in their flooring division. Its 2013 flooring sales (\$3 billion) is below their 2008 flooring sales (\$3.2 billion). In that time span, the company has grown by 10.4 percent and

the flooring industry has just reached the sales level of 2008. What all this means is that Lowe's has lost share of sales in the store (today flooring is less important to Lowe's as a percent to total Lowe's sales) and Lowe's has lost market share in the flooring industry.

Lowe's sales increase (2013 over 2012) is the same as the flooring industry. This was the first year Lowe's had the exclusive for Stainmaster (Home Depot has Martha Stewart) and they continued to use throughout the year the really awful "labor free or almost free" promotion for carpet.

On the other hand, Home Depot has maintained higher percent sales to store and higher market share in the flooring industry. Home Depot sells more flooring per store than Lowe's and has more stores. Its market share in the flooring industry for 2013 is 9.2 percent versus 5.5 percent for Lowe's. (See Table 7.) However, Home Depot's sales increase for 2013 over 2012 was only 4 percent and that is with a full year of the "free labor or almost free" whole house carpet installation promotion.

Home Depot and Lowe's are the largest sellers of flooring in the U.S. Certainly they should not be underestimated but neither should they be given credit for a 25 percent share of the market or even larger as some flooring executives want to claim. Lowe's has room for more stores but Home Depot is pretty much saturated. Now Home Depot must rely on organic growth with good gross margin. We shall see.

Incredible growth of niche retailers

The four largest flooring retailers are all niche marketers: Lumber Liquidators, Empire Today, Floor and Décor and The Tile Shop. The sales of these four retailers are more than the total sales of the top 35 full line floor covering stores. And all four started with single entrepreneurs and have blossomed after serious dollar investments were made by private equity firms. Cold

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What we sell

Continued from page 5

is probably more manufacturing capacity planned than there is available square feet of flooring needs for years to come. But that is not stopping manufacturers. Multi-family projects love this, new single homes are seeing the value of this in their model homes, existing home customers see this as a great alternative to wood or laminate and Main Street commercial is finding more uses for LVT.

Carpet has modular carpet for commercial, soft carpet and "this is not your dad's" polyester. And what will Millennials want when they enter the flooring market? Could be carpet.

It is our view that carpet will stay where it is and then begin to improve in market share. That is our guess. But it will only come if there are creative solutions and designs.

Improved gross profit

Neither the Census nor Catalina has any quantitative data for gross profit. The WFCA's annual analysis offers gross profit information, however the sample is not totally representative of our industry. Our data comes from a small number of retailers — it is anecdotal.

The sense is that all product categories felt less gross profit pressure than in the past five years. And retailers felt they could get more for their products. They needed it to continue with their advertising and marketing; the opportunities to do so were found in every product category due to the ever increasing product improvements and innovation.

Constant product innovation is the key component for retailers to increase their margins. From improved setting materials to polyester carpet to large format ceramic tile, flooring retailers made a margin move. Hopefully they won't begin to give it back. **FCW**

Table 6

Who sells to the three end-user markets

(in billions)

	Residential Replacement	Builder	Commercial	Total
Floor covering stores	\$16.5	\$2.2	\$6.3	\$25.0
Home improvement	\$8.1	\$0.5	\$0.4	\$9.0
Hard surface stores	\$5.0	\$0.5	\$0.4	\$5.9
Internet, non-store	\$1.1	N/A	\$0.1	\$1.2
Other, furniture, department, discounters, home furnishing stores	\$1.8	N/A	N/A	\$1.8
Contractors	N/A	\$4.7	\$6.8	\$11.7
Total (\$)	\$32.5	\$7.9	\$14.0	\$54.4
% to total	59.8%	14.5%	25.7%	100.0%

Source: marketWise

Table 7

Who sells it: Who the customer pays

(in billions)

	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2013 (\$)
Floor covering stores	54.2	53.6	49.7	46.4	46.3	46.0	\$25.0
Home improvement	14.4	16.0	16.7	17.3	17.3	16.5	\$9.0
- Home Depot	7.5	8.8	9.9	9.4*	9.4*	9.2	\$5.0
- Lowe's	5.5	7.2	7.5	6.0*	5.7*	5.5	\$3.0
Hard surface stores	6.5	6.9	10.1	10.6	11.0	10.9	\$5.9
- Lumber Liquidators						1.8	\$1.0
Internet, non-store	N/A	N/A	2.1	1.9	2.2	2.2	\$1.2
Other, furniture, department, discounters, home furnishing stores	5.0	4.4	4.3	3.9	3.5	3.3	\$1.8
Contractors	19.9	19.1	17.1	19.9	19.7	21.1	\$11.5
Total (\$)						100	\$54.4

*Revised to reflect 10-K reported sales
Source: marketWise

2013 Imports/Exports

Table 8

U.S. floor covering imports value

(in millions of dollars)

Industry Sector	2009	2010	2011	2012	2013
Carpet & area rugs ¹	\$1,580.8	\$1,859.3	\$2,032.7	\$2,171.6	\$2,300.4
Hardwood flooring	489.9	632.6	702.3	834.3	989.1
Ceramic floor & wall tile	1,203.4	1,275.8	1,325.2	1,441.2	1,724.7
Resilient					
Vinyl sheet & floor tile	613.8	728.8	764.4	877.3	1,055.3
Other resilient ²	95.4	109.6	117.2	100.5	105.4
Laminates ³	461.9	476.2	419.2	495.8	522.6
Total imports	\$4,445.2	\$5,082.3	\$5,361.0	\$5,920.7	\$6,697.5
Year-to-year change	-20.4%	14.3%	5.5%	10.4%	13.1%

Table 9

U.S. floor covering imports volume

(in millions of square feet)

Industry Sector	2009	2010	2011	2012	2013
Carpet & area rugs ¹	1,654.7	1,960.7	1,956.5	2,075.0	2,153.3
Hardwood flooring	282.4	330.9	371.4	423.3	538.9
Ceramic floor & wall tile	1,331.8	1,393.2	1,408.7	1,490.3	1,721.7
Resilient					
Vinyl sheet & floor tile	1,247.4	1,335.2	1,251.8	1,581.5	1,826.7
Other resilient ²	227.7	213.5	161.9	153.4	167.2
Laminates ³	486.0	522.7	454.8	557.5	612.8
Total imports	5,230.0	5,756.2	5,605.1	6,281.0	7,020.6
Year-to-year change	-12.0%	10.1%	-2.6%	12.1%	11.8%

Import Key

1 Includes imports of roll goods, bath mats, area rugs, auto and aircraft carpeting and artificial grass.

2 Includes imports of flooring made of other plastics, cork, linoleum, rubber and other materials.

3 Estimated by Catalina Research, Inc.

Source: U.S. Department of Commerce

Catalina Research

Table 10

U.S. floor covering exports value

(in millions of dollars)

Industry Sector	2009	2010	2011	2012	2013
Carpet & area rugs ¹	\$850.5	\$999.2	\$1,066.6	\$1,095.4	\$1,112.1
Hardwood flooring	\$102.7	\$130.7	\$136.9	\$144.7	\$128.1
Ceramic floor & wall tile	\$50.3	\$50.3	\$52.5	\$55.7	\$52.3
Resilient					
Vinyl sheet & floor tile	\$141.6	\$163.8	\$176.8	\$153.7	\$148.3
Other resilient ²	\$34.3	\$40.9	\$40.4	\$37.5	\$37.8
Total exports	\$1,179.4	\$1,384.9	\$1,473.2	\$1,487.0	\$1,478.6
Year-to-year change	-21.7%	17.4%	6.4%	0.9%	-0.6%

Table 11

U.S. floor covering exports volume

(in millions of square feet)

Industry Sector	2009	2010	2011	2012	2013
Carpet & area rugs ¹	785.3	947.3	1,009.4	980.3	1,064.4
Hardwood flooring	48.3	56.8	59.1	61.0	54.4
Ceramic floor & wall tile	55.6	50.8	53.7	57.3	50.8
Resilient					
Vinyl sheet & floor tile	310.5	377.6	363.3	335.0	263.5
Other resilient ²	70.9	76.7	74.7	73.4	70.2
Total exports	1,270.6	1,509.2	1,560.2	1,507.0	1,503.3
Year-to-year change	-22.5%	18.8%	3.4%	-3.4%	-0.3%

Export Key

1 Includes imports of roll goods, bath mats, area rugs, auto and aircraft carpeting and artificial grass.

2 Includes imports of flooring made of other plastics, rubber and other materials.

Source: U.S. Department of Commerce

Catalina Research

Who sells it

Continued from page 6

eyed, analytical and very protective of their cash stash, these private equity companies each saw something about the operations of these niche flooring retailers that made it worthwhile to invest in. In their mind, they saw the future of flooring or at least the future that would make them money.

Empire Today is 50 plus years old; Lumber Liquidators is 20 years old; The Tile Shop is 18 years old and Floor and Décor is 13 years old. But they are all really just 10 years old or so. That's about when the folks outside of the industry decided to invest in the industry by investing in these companies. Ten years ago, the sales of these four retailers were about \$250 million; today, these four rang up \$2.3 billion in total sales. Yes, they have grown tenfold and part of that time was spent ducking as

our economic world fell apart.

The common wisdom has been that flooring specialty stores beat out Sears, department stores and home furnishing stores because these specialty stores only carried and sold flooring. Nothing else. They were the specialist and they had the superior assortment, superior product knowledge and superior installation. And all those competitors have pretty much vanished.

Lumber Liquidators, Floor and Décor and The Tile Shop are the new specialist. Their claim is the same as the general flooring store was to Sears: Lumber Liquidators only sells wood and therefore its assortment is superior as is their knowledge. The same for Floor and Décor (for ceramic) and The Tile Shop (for ceramic). And she believes that for them as she did for the flooring store versus Sears, etc.

Of course the hard surface products came of age a little more than 10 years ago and took market share from carpet for all that

time. The investors saw the power of the retailer's "narrowcasting" story and new trend in hard surface. The rest is history.

Empire Today is a direct seller. No stores, but incredible convenience for the customer. "We'll come to you with our store and if you choose carpet we can install it the next day." That's what Empire Today has been marketing for the last 10 years. It's not low end dreck. Good products with the ultimate in convenience. With both parents working and time their most valuable commodity (because it is so scarce), Empire Today's promise was compelling. They went through a very tough patch during the terrible downturn; they have weathered the storm and are expanding into new markets. It appears that they are servicing about 70 metropolitan areas. (At the worst they were down to 35 metropolitan areas.) And they have narrowed their product assortment and now just carry flooring and window treatments.

The three bricks and mortar chains all

carry inventory. Although they offer many lines as a custom order, more than 90 percent of their sales come from inventory. How important is it to have inventory especially of hard surface products? If Home Depot and Lowe's are any example of a full line of flooring assortment but with heavy emphasis on hard surface inventory, it is very important. The Census of Retail tracks increase by product type and home centers experienced. From 2002 to 2007, floor covering stores had a 65 percent increase in wood floor sales while home centers had a 666.6 percent increase!

As often as not, a "narrowcasting" retailer gets pressure for sales growth from existing stores and so they look for new products. Floor and Décor added wood and now kitchen cabinets. Lumber Liquidators has added installation, laminate, luxury vinyl tile and it is testing ceramic tile in Spring 2014. All it takes is carpet and they will be a full line flooring store.

That's the cycle of retail. **FCW**

Tile leads sales growth, grabs more market share

By Megan Salzano

With a manufacturer dollar sales increase of 13.1 percent and a square foot sales increase of 8.8 percent, the ceramic tile category posted the floor covering industry's strongest growth for 2013.

According to Catalina Research, ceramic sales for 2013 posted at \$2.7 billion in sales and 2.4 billion square foot sales.

"Our company, and our industry as a whole, is on track and moving in the right direction in terms of growth in sales and tile consumption," said Lindsey Waldrep, vice

president of marketing, Crossville. "Following the economic downturn of recent years, we have welcomed reasonably paced progression — the kind of growth that's lasting and not impacted by market whims."

According to Jason Roshel, senior director of product strategy, Daltile and Mohawk, the company predicted the resurgence in the ceramic and stone industries and has been very aggressive in launching

new, cutting edge series over the last several years in order to take advantage of the anticipated growth. "In 2013, new product sales, as measured by the percent of overall sales, were one of the highest in the history of our company, and that played a key factory in driving our overall growth."

Roshel added that ceramic tile continues to reign as one of the most favored design staples in the floor covering industry

because of its performance, design versatility and ease of maintenance. "Buyers are becoming savvier and are not just looking for beauty, but also quality — a true advantage that has spurred ceramic tile's continued growth," he said.

Waldrep agreed, adding that the increasing popularity and consumer preference for tile is good news long term.

Continued on page 16

Chart 8

Ceramic tile average value per square foot

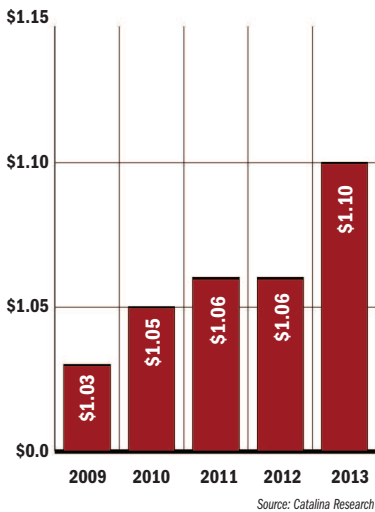
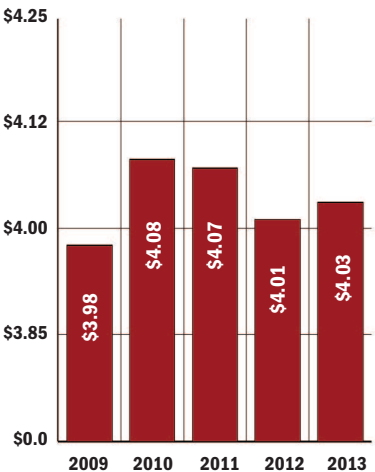
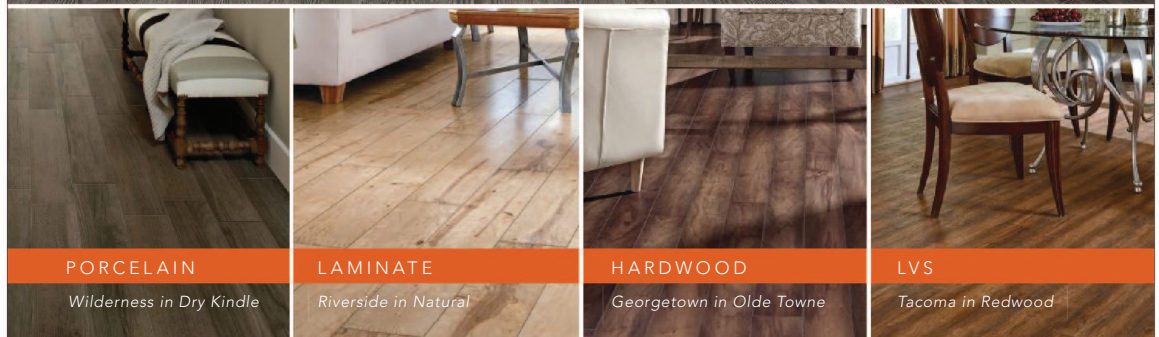


Chart 9

Stone average value per square foot*



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Tile leads

Continued from page 15

Ceramic tile is estimated to have accounted for 13.2 percent of total floor coverings dollar sales and 12.9 percent of total industry square foot sales in 2013. This is up from 12.5 percent each for dollar and square foot share in 2012.

In addition, ceramic tile benefited from its ties to the surging builder market, which saw an 18.5 percent increase in starts in 2013.

Raj Shah, president of MS International (MSI), said, "The housing sector has significantly rebounded. There is a large backlog of home improvement projects that are now being executed as they are more and more considered an investment rather than an expense." Shah added that new home builds are at a five year high, and it is no longer the opening price point option that is being purchased by builders but differentiation is what is sought after. Shah also attributes the increase to historically low interest rates, which allow for more affordable home improvement project.

Changes in design trends, said Shah, are happening extremely quickly and spurring significant inspiration for consumers. "The additional inspiration is translating into industry growth," he explained. He added that the significant investments being made in the category by retailers also shows confidence in the long term growth.

However, manufacturers agreed that perhaps the most influential factor is technology. "It has been exciting to observe the changes in the tile industry, especially in terms of product innovation and technology. It has been an amazing evolution — one that is rapidly changing every day," said Roshel.

These advancing technologies, such as high definition printing, allow manufacturers to offer enhanced visuals and textures including new stone and wood looks that are popular with residential and commercial users.

"Technology is quickly changing with ink jet and HD printing enabling faster changes in look, feel and overall design. Technology is also enabling products and applications that were not available in the past including larger format tiles and even slabs," said Shah.

Waldrep said that with advanced capabilities, Crossville is creating more unique products than ever before that appeal broadly across residential and commercial markets. "The possibilities are opening the eyes of product specifiers, designers and consumers to the versatility of tile unlike ever before," she said.

Roshel added that Daltile continues to invest in manufacturing capabilities with newer, faster and more technologically advanced equipment as well as expanding its porcelain capacity in the U.S. to ensure that it's providing customers with the products and service they require to grow their sales with the end-use customer.

Ceramic tile has made these inroads while posting average selling price increases in 2013 above the average of other flooring products, increasing by 3.8 percent. This compares to a 0.9 percent gain for all floor coverings products. Some of the increase in average manufacturer selling prices

2013 key points Tile & Stone

► The ceramic tile sector is estimated to have experienced some of the strongest industry growth in 2013 with manufacturing dollar sales estimated to have increased by 13.1 percent and square foot sales by 8.8 percent.

► Tile increases were affected by the sector's relatively heavy dependence on the surging builder market, which saw an 18.5 percent increase in starts.

► Ceramic tile is estimated to have accounted for 13.2 percent of total floor coverings dollar sales and 12.9 percent of total industry square foot sales in 2013, up from 12.5 percent each in 2012.

► 2013 ceramic tile selling prices increased by 3.8 percent. Advancing technologies utilizing high definition printing technology capable of creating stone and wood looks gave a boost to tile and supported this increase in sales price. The average ceramic tile manufacturer selling price is estimated to have been \$1.10 per square foot in 2013 and \$4.03 per square foot for stone flooring.

► Average import prices were \$1.84 per square foot in 2013 (a 6.6 percent decline from the year before), compared to an estimated \$2.28 per square foot (12.9 percent increase over 2012) for domestically-produced products.

► Stone flooring sales, in manufacturer dollars, are estimated to have increased by 6.9 percent in 2013 while square foot sales could have increased by 6.2 percent.

could be due to the growing popularity of higher-priced porcelain tile with stone and wood looks. Ceramic tile prices also strengthened due to rising material costs.

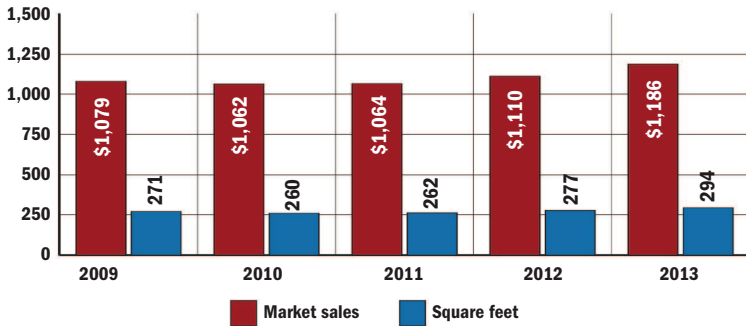
"Trends for growth stem from a double-pronged desire for technically advanced products and very authentic products with

Continued on page 18

Chart 10

Stone market value and volume

(in millions)

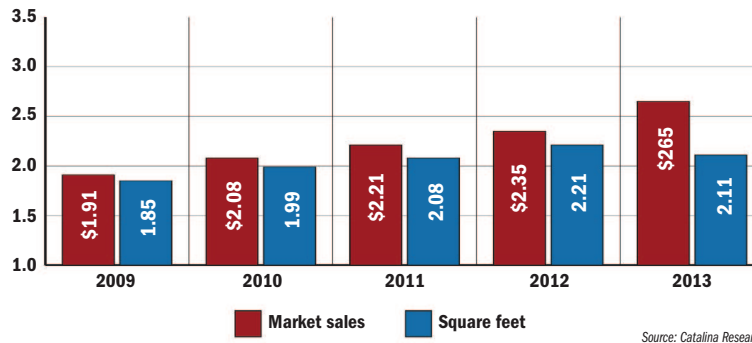


* Natural stone excludes stone flooring made from manufactured and engineered stone
Source: Catalina Research

Chart 11

Ceramic tile market value and volume

(in billions)

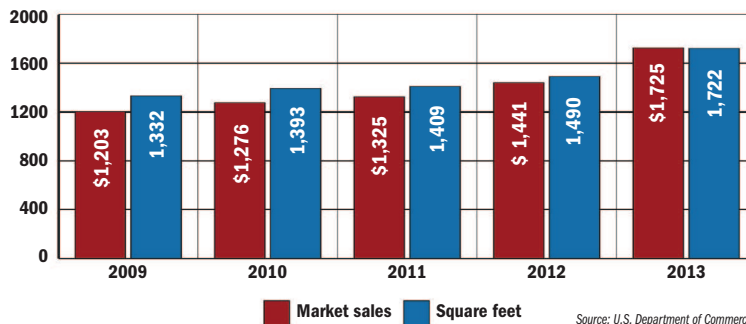


Source: Catalina Research

Chart 12

Ceramic tile imports value and volume

(in millions)

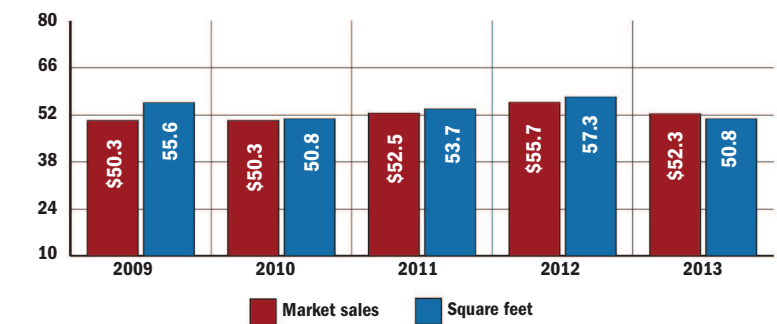


Source: U.S. Department of Commerce
Catalina Research

Chart 13

Ceramic tile exports value and volume

(in millions)



Source: Catalina Research

Tile leads

Continued from page 16

long life cycles. The tiles of today offer both of those characteristics, appealing to a wider audience with both commercial and residential designers,” Waldrep said. “Post-recession people are looking to make wise and grounded investments and the materials chosen reflect this. There is a balance with being current and stylistically classic and tile embraces that balance.”

Shah added that online technologies are

also changing and influencing sales. “On the marketing and merchandising front we are seeing numerous changes in the mediums that are being used by consumers. The web, social media, etc. are becoming the dominant marketing channels for products,” he said.

He also said that the entire supply chain from producer to consumer is becoming more integrated, with information being passed much quicker and in a more transparent fashion. “No longer is there a 90 to 120 day waiting period for tiles. Many retailers are switching to a cash and carry

format in order to reduce these wait times. The web is producing affordability and accessibility that we have not seen in the past,” he said.

However, with changing capabilities and updated technologies some challenges occur. “Innovations bring learning curves, not just for those of us who manufacture tile but for those who sell, design with, install and select tile, too,” Waldrep said.

Waldrep added that, because of this, Crossville is committed to market education, and its work with installers is a prime example. Crossville has supported the

growth of the large format, thin porcelain panel category by offering workshops for installers nationwide, as well as online training guides and how-to videos on YouTube. “Crossville has always focused on education and the sharing of product knowledge, and as our industry grows and changes, we will continue to share insights, know-how and information,” she said.

Stone sales rise

Stone flooring, described by the Catalina report as modular tiles, excluding engineered and manufactured stone, manufacturers and marketers have also benefited from the recovery in the housing market and increased demand for higher-end flooring products.

In 2013 stone flooring sales, in manufacturer dollars, are estimated to have increased by 6.9 percent and square foot sales could have increased by 6.2 percent. However, ceramic tile sales increases have been almost double those for stone because ceramic tile prices are significantly lower. The average ceramic tile manufacturer selling price is estimated to have been \$1.10 per square foot in 2013 versus \$4.03 per square foot for stone flooring.

According to Roshel, stones’ timelessness continues to boost sales and is part of the reason it remains a staple in building. “For thousands of years natural stone has been admired for its ability to add unmatched elegance and character to any design due to its naturally varied appearance that cannot be perfectly replicated,” he said. **FCW**

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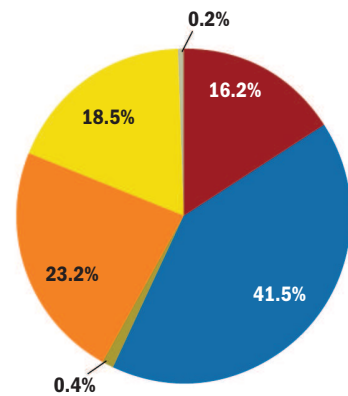
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Chart 14

Ceramic tile by end-use market

(Total: \$2,654.3 million)



- Residential builders: \$430.0 million
- Residential replacement: \$1,101.6 million
- Manufactured housing: \$10.6 million
- Commercial new construction: \$615.8 million
- Commercial replacement: \$491.0 million
- Transportation: \$5.3 million

Source: Catalina Research



Selling is black and white

I went outlet shopping with my wife this past weekend and I saw something that surprised me. Makes me wonder why more retailers aren't doing this.

At almost every store we went into we were greeted with the usual, "Find everything you're looking for?" which

to me is about the very least you can do without actually doing anything. It's like when you tell someone they can come over to the house anytime for a visit. They never do. Contrast that to "Why don't you come over this Friday night?" That's much more likely to get results. Same principle applies to sales help — the more specific, the better.

So, Leslie's shopping and most of the salespeople, who are really just cashiers waiting around for us to check out, were trying to look busy. We buy, we pay, we leave. Nothing special.

Not so at White House, Black Market, a specialty retailer with what I'd call a "better" assortment of women's clothing. Here they do things a little differently. For one thing, the salespeople actually sell. Here's how.

Upon seeing my wife with a bundle of clothes under her arm, the sales associate asks to take those items back to the dressing room to free her up to shop more comfortably. Makes sense. By the time my wife gets back to the dressing room with a few more items, she finds that most of the clothes she selected

have been paired with other garments that she had not picked out herself. Clearly, the salesperson looked at her sizes and went around the store coordinating colors and styles to create new outfits. Because she knew her inventory, she was able to put together ensembles from items that individually were easy to overlook but that together were striking.

The black pants Leslie liked suddenly looked fabulous with a tasteful top that was a perfect match; that patterned blouse she looked at worked perfectly with a light summer sweater in matching colors; and she found a great match for those patterned leggings Leslie wanted. All three outfits and more came home with us.

At check out, she looked up Leslie's account — oh, she was eligible for a few discounts too, saving us even more money.

I'm not sure how much more my wife bought as a result of all this, but I assure you she spent more than she would have otherwise.

But here's the real kicker: At the end of the day, Leslie was happier with her experience in that store than she was with any other. She spent more, she loved the experience, she's definitely going to go back and keep going back and she's a more loyal customer today than she was the day before. How's that for salesmanship?

Imagine applying those same selling skills to flooring. Don't just sell her what she asks for — sell her what she really wants. She'll reward you for it.

— Santiago Montero

The numbers: What they are, what they mean

I've noted before how painstaking our process for getting this Stat Issue right is — even though our numbers are from venerable Catalina Research and the renowned Jon Trivers. Perhaps that is why this annual report has been anticipated and chronicled for more than 20 years. I bet any number of high level industry execs could pull all of *FCW*'s Stat Issues from their own book shelves.

And what about the 2013 numbers? At a glance, the growth doesn't look all that impressive. But perspective is everything — overall sales gains were at 3.1 percent in 2010; 2.5 percent in 2011; 4.8 in 2012; and, now 5.5 in 2013. What I see is a slow creep, but a slow creep upwards and that's a good thing. Check out the 20 year look at floor covering sales on page 4. After a three year long plunge, I'll take the slow ride back up.

And the numbers surrounding flooring sales are a good thing as well. Catalina reports that builder spending for flooring is up 19 percent and residential square footage construction is up by 20 percent. From my perspective, everything points to continued growth in flooring.

No doubt that soft surface has had a struggle. While it posted increases for 2013, they were minimal as a result of the consumer's attraction to hard surface. Some say that will change as younger home buyers enter the market and look for lower priced options. In addition, high end and low end continue to do well while the middle remains squeezed. But we also see soft making a difference and that will likely help the

category going forward.

Hardwood had a tough year with continued pressure on supply and a barrage of price increases. That's evident when you look at a dollar increase of 12 percent but volume increased by just 4.7 percent. That scenario is expected to change as well when supply and demand are back in synch.

Still, hard surface was a bright spot and significant increases continue to be seen in vinyl and ceramic tile. And it will be no surprise that LVT will continue to show a strong growth curve moving forward. Just think about all of the investments announced and being made this year to support growth of the category.

Ceramics growth at 13.1 percent was floor coverings largest percent increase. Technology has driven this category forward and into more places for use. And design for the products just keeps getting better and better.

The numbers do look good. But we also have the benefit of "boots on the ground" here at *FCW* that assures we understand the true meaning of the numbers. Our July 7 Northwest Georgia/Dalton Revival issue attests, things are indeed turning around and it's not just seen in sales dollars generated but in those dollars being invested in future growth. That issue is likely to be the most powerful edition put to print this year.

— Amy Joyce Rush



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