

Furniture Manufacturers Report:

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Executive Summary

Situation: Economic recovery presents unique challenges to furniture manufacturers

As the economy continues its slow and steady recovery, company executives in the furniture manufacturing industry are realizing that the light at the end of the tunnel represents a very different recovery from what transpired after previous recessions.

Significant structural changes to the market have occurred during the past few years, driven by intense competition and downward pressure on prices, but coupled with increased demand for product range and flexibility. While this resulted in some healthy consolidation of what had become an overpopulated industry, it also gave rise to a laser-like focus on maintaining profitability, which in turn caused some hesitation to invest in technology for long-term strategic advantages.

Problem: Caught in a trap between old and new

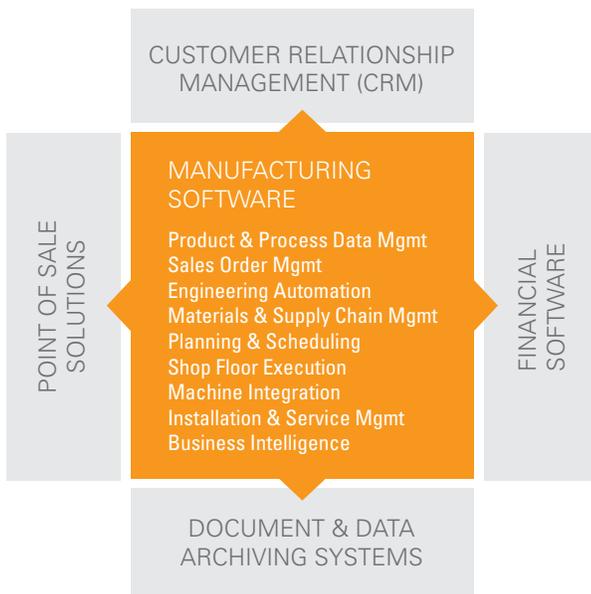
The furniture manufacturing industry is, in many ways, caught in a trap between optimizing operations according to a traditional approach, which has served it well, and taking the perceived risk of investing in innovative tools and processes that will enable it to thrive in the long term.

Solution: Investing for survival and growth

Some companies, especially those located in geographies where labor costs are high, have made the hard decision to invest for survival and growth, particularly in manufacturing hardware and software systems. These investments have created an even more competitive market environment by stimulating customer demand for faster time to market, shorter lead times, more rapid innovation in product features and functionality, and increasingly complex catalogs and product data.

Result: Better products, reduced lead time, improved margins

Best-in-class manufacturing companies run extremely lean with regularly scheduled hardware investments and deployment of software systems that can bring significant improvements throughout the enterprise. Only through such investments can companies meet the multiple challenges of expanded market addressability, better products, reduced lead time, improved margins and lower costs.



Gaining Competitive Advantage Through Technology

During the past several years, intense competition and downward pressure on prices coupled with increased demand for product range and flexibility have resulted in significant structural changes to the market. While this resulted in some healthy consolidation of what had become an overpopulated industry, it also gave rise to a laser-like focus on maintaining profitability, which in turn caused some hesitation to invest in technology for long-term strategic advantages.

Some companies, especially those located in geographies where labor costs are high, have made the hard decision to invest for survival and growth, particularly in manufacturing hardware and software systems. The benefits of these investments created an even more competitive market environment by stimulating customer demand for faster time to market, shorter lead times, more rapid innovation in product features and functionality, and increasingly complex catalogs and product data.

In addition to the competitive nature of local markets, the globalization of the world economy has become a major concern for businesses that previously were able to focus on local markets, even while retaining the practice of serving markets and customers without exploiting the flexibility of multiple production locations.

The furniture manufacturing industry is in many cases caught in a trap between optimizing operations according to a traditional approach, which has served it well, and taking the perceived risk in moving forward with innovative tools and processes that will enable it to thrive in the long term.

Failure to Optimize Nearly Crippled the U.S. Automotive Companies

An excellent example of the negative impact that this approach can have on an industry involves the big three automotive companies that once dominated the United States market. In 1980, Ford, GM and Chrysler accounted for more than 70% of all light vehicle sales in North America, but today it is around 40%. For too long, these companies embraced the belief that their hold on local markets combined with the high labor and transport costs of competitors in Europe and Asia would allow them to retain market share without investing in technology and innovation.

Unfortunately, the same can be said today of some parts of the furniture industry. A good case in point is the enormous gap between furniture manufacturing facilities that continue to run using outdated machinery and software systems and what can be considered state-of-the-art facilities. As the economy does recover and the housing market once again enters a growth phase, these leading companies will be well positioned to expand their market coverage through local manufacturing or optimized sales, marketing and delivery processes.

The Real Cost of Procrastination

Surprisingly, there is widespread continuation of outdated practices, such as manual and disjointed order acceptance and management, which represents significant labor costs for data entry, error checking and correction, as well as the costs associated with order duplication. In addition, last minute changes to orders are difficult to handle and cause all kinds of complications for the manufacturer, particularly in the scheduling department and on the shop floor.

“We had 14 systems, mostly manual processes around them, and we couldn’t launch a new product line because our systems and processes were so bogged down.”

Scott Hodson
CEO, Superior Cabinets

Even when companies have previously developed or purchased early incarnations of enterprise software systems to manage production, these implementations are now creaking under the strain of their age and inability to deal with things like product customization, LEAN production or one-piece-flow, all prerequisites in today’s market. These legacy systems cannot provide business and manufacturing intelligence such as production status, factory performance, order history and real-time cost analysis. The cost of maintaining such legacy systems will become prohibitive and eventually impossible.

Things Can and Do Turn Around

If we return to the automotive industry example, we can see that things can and do turn around. Over the past few years, Ford in particular has invested heavily in technology and processes that replaced traditional approaches to serving the market, while optimizing standardized manufacturing processes and managing flexibility. Ford automobiles now lead the way in product quality, desirability and configurability.

In the furniture manufacturing industry, it should be clear that the days of limited catalogs with few options are long gone, and that future growth and success come from a technology-focused approach to developing and managing an extensive catalog with a constantly developing range of options and accessories. Similarly, a make-to-inventory production philosophy may not be sustainable, other than for low-margin commodity manufacturers. The demands for large scale customized product manufacturing require a systematic software controlled process for one-piece-flow and LEAN manufacturing to provide a profitable competitive advantage.

In addition, companies that have moved or intend to move to a sustainable approach to continuously improving machine technology must embrace the opportunities for increased efficiency and capability that this brings. By integrating software and hardware to manage things like nesting and flexible management of integrated machine lines, companies can realize substantial benefits over and above the pure performance improvement of new machines.

Where to Go From Here

The downturned economy of the past several years has resulted in significant structural changes in the furniture manufacturing industry, with positive and negative results. The industry is now leaner, but the focus on maintaining profitability has caused some manufacturers to resist investing in technology for long-term strategic advantages. This hesitation may cause them to lose market share in the long run.

The days of limited catalogs, manual order acceptance and management, and extensive customer lead times are over. To maintain a profitable advantage, today's manufacturers must optimize standardized manufacturing processes while efficiently managing and tracking production status, order history, real-time costs, and factory performance.

Best-in-class manufacturing companies run extremely lean with regularly scheduled hardware investments and deployment of software systems that can bring significant improvements throughout the enterprise. Only through such investments can manufacturers meet the multiple challenges of expanded market addressability, better products, reduced lead time, improved margin and lower costs.

As the economy continues to recover, the companies who have carefully invested in manufacturing hardware and software systems will be strategically situated to meet the increased demands of an even more competitive market environment. The light at the end of their tunnel will be bright indeed.

To maintain profitability, today's manufacturers must:

- **Track** production status and order history
- **Conduct** real-time cost analysis
- **Assess** factory performance
- **Provide** product customization
- **Manage** expansive catalogs and options

"You can either sit and wait for the recovery to happen, or you can figure out how and where you can invest, so that when it does come, you're ahead of everyone else,"

Scott Hodson
CEO, Superior Cabinets

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Furniture Manufactures Report: Investing for Growth

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Understanding the Competitive Landscape

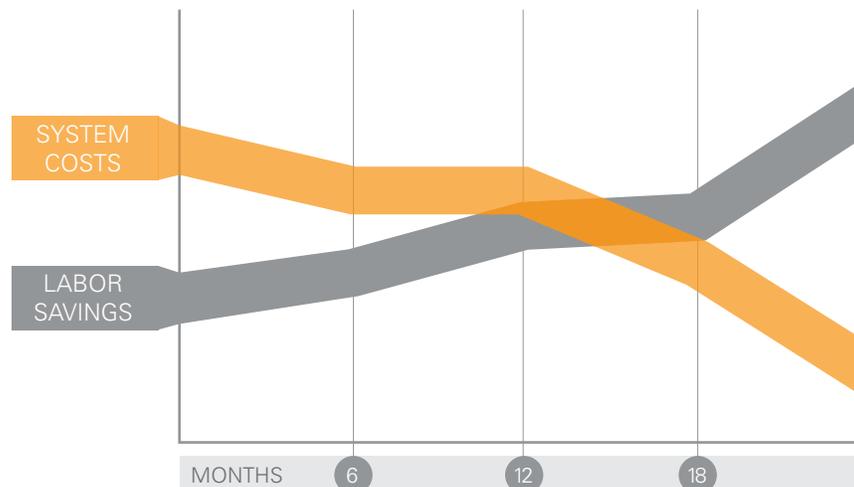
When considering the factors that have allowed companies to make the leap to “best-in-class,” some consistent commonalities come to light. For these companies, two primary factors are present.

First, when developing a strategic approach for future success, they consider their competitors not only as they are, but as they are likely to become over the next three to five years. Integrating a strategy to gain competitive advantage is central to the overall long-term planning process of their company.

Second, they select partners that understand the unique challenges of the furniture manufacturing industry. In order to fully develop solutions that deliver quantifiable and significant benefits, the particular complexities of end-to-end value and supply chain require an in-depth understanding of the underlying market requirements and business practices.

The industry is littered with examples of companies deploying generic business systems that ultimately require implementations that cost multiples of the initial outlay on software licenses and many times the original estimate. This usually occurs because generic solutions do not (and cannot) cater to the specific needs of furniture producers and ultimately require on-site customization and integration that should, in a perfect world, be part and parcel of the core capabilities of the system.

In particular, companies considering such an evolution should factor in the following benefits, which can be derived from a well implemented designed-for-purpose enterprise business system for order-to-delivery manufacturing, planning and scheduling.



Direct Cost Savings: Companies can expect to do more business with the same workforce, primarily resulting from the use of electronic order entry and engineering automation. Well-designed implementations can eliminate or substantially reduce the need for workers who previously spent most of their time entering, checking and rechecking orders. These workers can be reassigned to cope with increased production and focus on customer service. In addition, companies should expect the automation of product engineering to be a core capability of any manufacturing solution that purports to deliver solutions dedicated to furniture industry challenges.

Time Savings: The time taken to correct data entry errors, reschedule production or replace incorrect products or components is a significant cost, with knock on effects that reverberate far beyond the bounds of simple error correction. A reduction or near elimination of bad data early in the manufacturing process will deliver real improvements in efficiency and cost reduction. In the same way, automated order entry, management and verification will reduce the overall time necessary for order processing, which provides additional savings.

Increased Competitiveness: Automating the management and scheduling of production allows for improved scalability in the expansion of product options. Companies can considerably increase their product range and option catalog without additional investment in workforce or machinery. As a prerequisite to this increased efficiency, the solution should provide a built-in product configurator that allows for automation of both standard and custom products—there are documented cases where companies have doubled and tripled their manufacture of custom products, or halved time to market for new designs with no additional cost.

Business and Production Intelligence: When companies deploy a best-in-class solution that focuses on the specific needs of the furniture industry, they can monitor and analyze information that was not previously available. This leads to intelligent decision making through real-time visibility of production status and monitoring of key performance indicators at the shop floor and for the overall order-to-delivery process. This extends as far as the showroom or dealer when electronic order processing is integrated directly with a visual point-of-sale design solution.

Case Studies: Achieving Lean Manufacturing

Störmer Kitchen in Enger, Germany, wanted to achieve both cost-effective, highly automated production and maximum flexibility. To reach this end, they developed an ambitious plan to replace the company's entire existing process chain—from the initial customer contact to the finished kitchen product—by the beginning of 2014. Störmer Kitchen is confident the move will deliver greater efficiency at a minimal error rate.

"We are currently working with five systems, where one should be enough to provide an end-to-end solution," says Christophe Fughe, managing director at Störmer Kitchen. "I believe there is still a widespread fear of new innovations in the industry. In particular, companies believe that they surrender part of their control. This will change in the future; the one that acted first will win. Look at a Formula 1 race. Whoever has the right set of tires first wins the competition."

For Superior Cabinets in Saskatoon, SK, the economic slowdown with all its challenges also provided an opportunity to excel. It gave them the time they needed to look long and hard at their current processes and systems so they could make their business better.

Superior Cabinets Snapshot

Business challenge: Predominantly manual processes were eating up resources and inhibiting growth.

Solution: An end-to-end software solution and best practice advice from manufacturing experts

Results: Superior Cabinets has reduced costs by 25%, opened 3 new locations and doubled product portfolio with no increase in order processing resources by implementing an end-to-end software solution.

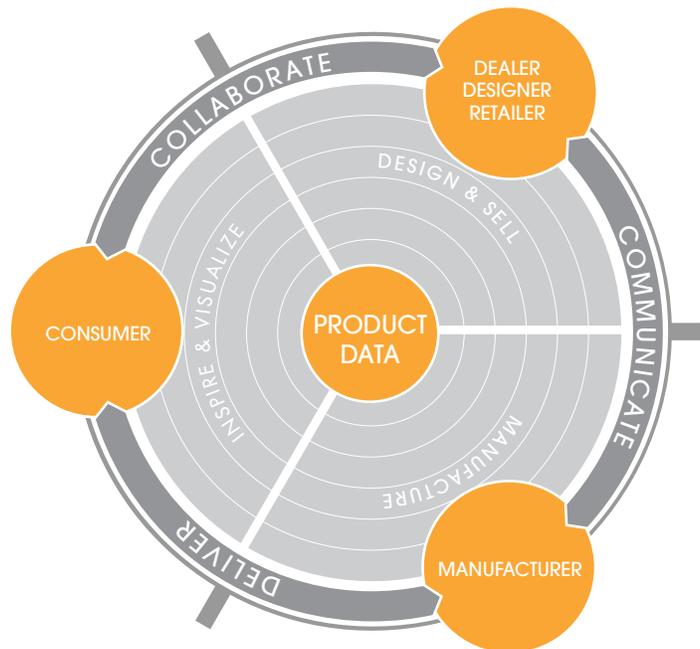
"This wasn't so much a software implementation as it was a business transformation. Our strategy is centered on three principles: expansion, scalability and the customer experience," said Scott Hodson, CEO of Superior Cabinets. "Ninety-five percent of our efforts were going into managing manufacturing processes. We wanted to turn that around: 95% effort into growth opportunities like new stores, increased same-store sales, new product development, the best design teams and a heightened customer experience."

Transforming the Industry

The ultimate goal for these companies is what is commonly referred to as an “end-to-end” solution that electronically integrates data and data flow from the initial furniture browsing and buying experience, to order definition at the point of sale, to order acceptance by manufacturing, to production optimization and delivery.

Some of the companies mentioned above are getting ever closer to this objective, driven by the desire to innovate and stay ahead of the competitive pressures resulting from changing market dynamics and global sourcing.

This paper is intended to assist companies and executives in assessing the preconditions necessary to embark on the transformative change required to meet the market challenges that lie ahead, or at least to spark a chain of thought or debate within the executive team, which may lead to new ideas and bold decisions.



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