Mannington: A specialty dealer's best friend

By Ken Ryan

(First of two parts)

Sandy Mishkin, president of CCA Global Partners, likes to say Mannington Mills is a company that answers "Yes" to initial queries whereas other suppliers respond in the negative.

That 'can-do' attitude endears Mannington to retailers like Sam O'Krent, president of O'Krent's Abbey Flooring Center, San Antonio. Despite the 1,724 miles that separate their respective businesses, O'Krent and Mannington share a kinship. O'Krent's store was founded by his dad the same year Salem, N.J.-based Mannington opened—1915. But the two companies share more than just a birth date; they share a way of doing business the right way, O'Krent said.

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> —KIM HOLM, PRESIDENT, RESIDENTIAL BUSINESS, MANNINGTON.

Posed with the question, "How does a quality retailer make money with Mannington?" O'Krent replied, "How does a quality retailer 'not' make money with Mannington? If a retailer truly wants to distinguish himself from the world of 'also-rans,' they need look no further than Mannington."

Ed Duncan, senior vice president, residential marketing, put it in perspective. "We never want a retailer to feel he has to do business with Mannington. We want retailers who want to do business with us."

Mannington's mission statement—to be a company of integrity that others would want to do business with—has held true for decades. "They are like dealing with a family business; they are very interested in the relationship," said Alan Braunstein, president, Worldwide Wholesale Carpet, Edison, N.J. Worldwide has been in business for 20 years and a Mannington customer since the beginning.

John Parrish, vice president of Midwest Floor Coverings, a Salt Lake City distributor, said one reason Mannington "is the best in the industry" to do business with "is the fact it views our relationship as a partnership. Mannington approaches all transactions between us with a win-win or win-neutral perspective. It also has a genuine interest and concern about our profitability. With this approach, all the attributes like integrity, pricing, Internet policy and claims support fall in line."

Declaration of independents

Mannington made a decision long ago to not sell products to the home centers and instead support the specialty floor covering dealer. "We protect the independent retailer. We continue to enforce that," said Kim Holm, president, residential business, Mannington. "For the specialty independent dealer to compete directly with the home centers is too big a challenge to overcome. That is where we will win or lose. The retailers appreciate that."

Indeed, they do.

"Its big box attitude is a significant attribute to its selling policy in maintaining its commitment to the specialty store," Braunstein said. "It's not an easy thing to do in today's economy to maintain your 'no big-box' policy. That is a feather in Mannington's cap."

Sean O'Rourke, vice president of hard surfaces, Avalon Carpet Tile and Flooring with 14 stores in three Mid-Atlantic states, noted that the big box margins run about 26% to 30%, which "would be a tough margin for an independent. We really appreciate what Mannington does for us."

O'Krent said Mannington has proven itself time and again that it believes in "partnering" with its customers by offering quality products at a fair price and standing behind its name with integrity. "If it sounds like I'm on the payroll, in a way I am. Our customers supply our income and Mannington is a manufacturer that allows us to offer products that represent the quality and integrity our company believes in."

Internet policy

Most flooring companies have Internet policies but few, if any, enforce it like Mannington. For the specialty retailer, the biggest concern is not losing a sale. The value conscious consumer today, in many cases, once she has made a choice will opt to look for the same product at a lesser price, whether at a home center or the Internet. "We have provided insurance to that retailer that he will not be embarrassed," Holm said. "Our minimum advertised price is a price any retailer can work with."

Claims

When customers encounter a defective product or shoddy installation job, they most likely call the retailer. The ensuing discussion puts the dealer in an awkward spot. Mannington's "Claims Express" lets consumers bypass that step. The program debuted in 1995 following a nightmarish claims period for Mannington, which introduced a product, Mannington Gold, that turned out to be defective. It cost the company more than $100 million in claims. Mannington owned up to it and put in motion a new program that would put the burden on itself, not the dealer. "We try to take the pain away from the retailer," Holm said. Retailers provide the consumer with Mannington's 800 number and the company takes care of it.

Out of a bad situation came something great, O'Krent said. "The unfortunate circumstances surrounding Mannington Gold and subsequently how Mannington took care of the problem has endeared it as a supplier to our company."

Braunstein added, "Claims are not an issue with Mannington Mills."

Style, design and products

Mannington is deservedly proud of its legacy:

- being a good company to do business with
- its refusal to sell to the big boxes
- claims support
- policing its Internet policy regarding minimum pricing.

That said, none of that matters if a company doesn't have great product. "If we don't have great products, we are not meaningful to anyone," Holm said. Great products are the ultimate winning ticket in retail."

Braunstein agreed. "Mannington is a very forward-thinking company with its new styles. It is a very progressive supplier in the pre-finished wood flooring category and a leader in the area of new product development."

While retailers say Mannington is a good company to do business with, they agree it all begins with its product portfolio.

Avalon's O'Rourke loves that Mannington's product portfolio spreads across all categories. He is also enamored with Mannington's display system, which can be retrofitted to suit the needs of retailers who may want to showcase the top selling product in each category, or mix and match.

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O'Krent added, "In a sea of manufacturers that continue to shoot themselves in the foot by seeing how inexpensively a product can be made, Mannington stands above the crowd by manufacturing domestically and continually innovating. It is the leader that everyone else attempts to copy, produce for less money and run away when the product fails to live up to its hype."

That also resonates at distribution. "Its successful efforts to be the industry leader in style, design and quality gives distribution a huge competitive advantage because we can build a profitable business model around something besides having the lowest price."

(Editor's note: The second part of this series, which will appear in the next issue, will look at how recent Mannington introductions have been performing in the field.)

Underlayments

Continued from page 10

textile and carpet industries each month."

Specifically, its QuietWalk has been certified to 94% recycled content, while some of its other products are certified at 100%. "According to what we've been told by SCS, our underlayments are the only ones on the market certified for Indoor Advantage Gold," he added.

Certain manufacturing processes can also attribute to environmental stewardship. For example, products made from the same material lend more efficient manufacturing processes as well as the option to recycle, said Pregis' Heil. "When you laminate two polyethylene substrates together, commonly known as low density polyethylene (LDTE), this construction can utilize waste materials during production and is recyclable at the end of its useful life," he said.

However, it is a different story for products that fuse different substrates, like polystyrene and polyethylene, due to the fact they are different materials. Polystyrene is a plastic used to make hairdryers, TVs and kitchen appliances, while polyethylene is the most simple and most common of all commercial polymers. "At end of life you can't recycle two different substrates [so closely manufactured together]," Heil said.

In addition to manufacturing recyclable underlayment, Pregis focuses on the bigger picture of its carbon footprint in the production of its goods. "We dedicate ourselves to new technology and solutions that minimize impact on the environment while maximizing benefits to our customers," said Daché Davidson, marketing manager. "By staying at the forefront of important trends such as source reduction, waste minimization, recycling and resource conservation, Pregis creates a winning proposition for our customers."

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Industry says double-digit loss is no surprise

Like all U.S. flooring categories, hardwood took a hit last year, posting a 13.7-percent decline in sales from 2008, according to Catalina Research. With preliminary wood sales at $1.85 billion, 2009 marks the fourth consecutive year of losses and the most devastating of them all.

"The numbers are disappointing," said Ed Korczak, executive director and CEO of the National Wood Flooring Association (NWFA). "But, with the housing market down and the commercial market falling, the decrease was expected."

"Those numbers are not surprising," said Scott Rozmus, president of Florstar. "New home construction plummeted in 2009, dragging down hardwood sales volumes. Certainly, the general economic slowdown also had an impact as remodeling suffered due to consumers delaying such work."

Sales in the U.S. hardwood market began to slip in 2006 with a 4-percent dip. Revised 2008 numbers from Catalina Research show a 2.3-percent decline compared to 2009's 13.7 percent loss. As dramatic as the number is, some industry insiders said that when the dust settles, the drop will likely be closer to 20 percent.

Dan Natkin, director of hardwood for Mannington Mills, said, "I think that's light. The downturn really started at the end of '06 toward '07. We felt it some in '07 and '08 but '09 was a particularly difficult year for the industry."

Still, by making adjustments, some retailers were able to meet new customer demands. Jeff Hosking, president and CEO of Hosking Hardwood Flooring, said, "Any gains in sales have been with finding and providing consumers with lower cost, affordable hardwood flooring. Historically, we have had an approximate 10-to-15-percent gain every year with wood flooring. Due to the poorer economy, the hardwood looks that took the greatest hit were the higher end styles."

Mapping the loss
Industry leaders contend that while every area of hardwood flooring posted a loss in 2009, engineered wood and higher-end goods took the brunt of it.

"When you look at downturns in housing, they were primarily in engineered markets. The Northeast, a solid market, was more stable. Secondly, the lumber prices were low, causing solid prices to go lower, so there wasn't a significant difference between solid and engineered pricing," Natkin said.

Florstar's Rozmus added, "Volume losses occurred across all categories in hardwood. In terms of unit volume, builder-grade qualities certainly suffered significantly. However, what also occurred in some of the middle tier and upper end hardwood offerings is that those consumers who did buy often traded down or went with a different category altogether. Commercial end users similarly value-engineered their projects. As a result, some of the premium brands suffered losses."
"Exotics took a greater hit than 13.7 percent; probably more than 20 percent," said George Celtrick, director of Cikel.

While Nebraska Furniture Mart (NFM) posted a 25-percent sales gain in hardwood for 2009, there was a shift in products sold Gary Cissell, director of flooring, said, "Our solid wood business experienced good growth. We did see the upper price points decline in sales, which leads me to believe that the customers were trading down."

"This recession was nasty and was/is a reality check for a lot of people," Hosking added. "This recession has taught the consumer to be extremely wary and price conscious. Consumers are still really worried about their jobs and financial prospects. They got slapped in the face hard this time and retailers and manufacturers are paying the price throughout the country."

Cost analysis
Hardwood posted an average value per square foot of $2.30 for 2009, up $0.03 over 2008. The minimal increase reflects lumber prices and shortages.

"I am not seeing the price of engineered go up," said Don Finkell, CEO of Shaw Hardwood. "A lot of inventory in the lumber pipeline has been exhausted by the bad economy and supplier plant closings over the past two years. It will take a while to build that inventory back up."

"There is not enough wood available to meet demand," Florstar's Rozmus said. "As the economy slowed down, mills and loggers shut down, disappeared, or both. Banks are reluctant to lend to some of the smaller mills given the risk. Add to these factors the wet weather that existed for an extended period in various parts of the country early this year, conditions that prevented or restricted the ability of loggers to harvest trees, and we have even further constraint on supply. As a result, the price of unfinished oak hardwood flooring has skyrocketed. Several suppliers have announced significant increases, first in the spring and another set for July."

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Brenda Cashion, vice president of operations for Pinnacle, added, "While we strictly manufacture overseas, we face many of the same challenges in cost control that domestic manufacturers are facing — availability and rising costs associated with raw materials, increased labor costs, and rising energy/transportation costs. The duration of the economic downturn has forced us all to evaluate where we can cut costs to introduce lower priced and lower margin products, and reduce overall expenditures. There seems to be no bottom to the lower price options in hardwood that continue to come to market. We have been forced to implement a minimal price increase on some products to offset our increased expenses."

"Housing starts have clearly started to recover in 2010; however, the expiration of federal housing subsidies may suppress demand once again," said Daniel Call, vice president, product management, wood for Armstrong. "In addition, 2010 raw material inflation rates — the highest seen since the early 1970s — will push some consumers from hardwood to other products that offer similar visuals, such as laminate."

Market dynamics

There are many moving pieces in the hardwood landscape. Specialty flooring retailers, which own about 50 percent of the floor covering market, continue to battle it out with the growing Lumber Liquidators and home centers. And while the distribution landscape changes, shifts continue to occur in the markets purchasing wood flooring.

"No one has grown more during the recession than Lumber Liquidators," Mannington's Natkin said. "In 2004, it accounted for roughly 8 percent of the total wood business; in 2009 — close to 15 percent — nearly doubling its share in five years. During that same period, home centers gained share from 22 percent to 23.7 percent."

"I think residential replacement and distributor/retailer business were hurt the most because these are usually higher end, higher service goods," Shaw's Finkell said. "DIY and lower end goods, like those sold by Lumber Liquidators and home centers, gained market share and were a bright spot if you participate in that business."

"I think you need to recognize that Lowe's, Home Depot and Lumber Liquidators have true consumer brand recognition and their growth reflects how consumers are making buying decisions," Celtrick said.

Mannington's Natkin added, "I think we will see some shifts going on in this channel mix. Imported products, which represent a large percentage of the goods offered by Lumber Liquidators and the home centers, will be getting more expensive with the revaluation of the yuan, a hot domestic market in China, and the global hardwood prices increasing. This may affect their share somewhat, shifting back toward the specialty flooring retailer."

Manufacturers are watching the changing dynamic closely, while developing and maintaining clear growth strategies. "We continue to maintain our promise to keep the Mannington brand out of the home centers," Natkin said.

Retailers, too, are taking a close look at their business model. NFM's Cissell said, "We continue to aggressively advertise and offer outstanding values at all price points and categories."

Losses were posted across the board from the builder market to residential replacement and contract markets. "Any products that relied primarily on the builder business were the hardest hit," said John Himes of Wood Flooring International (WFI). "Base-grade oaks are the standby and all upgrades were under price pressure to come down."

Wood flooring increased market share in the residential replacement sector from 8.1 percent in 2008 to 10.7 percent in 2009. Approximately 54 percent of wood purchased was for residential replacement. The expectation is that the replacement business will gain ground with wood flooring being one of the beneficiaries.

Dewevai Buchanan, vice president of hardwood for Unilin, said, "Industry reports and most of the data objectively generated regarding the flooring industry state that hardwood will increase in market share." Buchanan continued, "One of the biggest drivers is based on the widespread prediction that between 2011 and 2013, the new home construction market is forecasted to make a moderate comeback. Hardwood flooring has always played a significant role in new home construction, so the anticipated rise in housing activity will result in increased sales for hardwood."

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