

U.S. Domestic Manufacturing RESURGENCE?

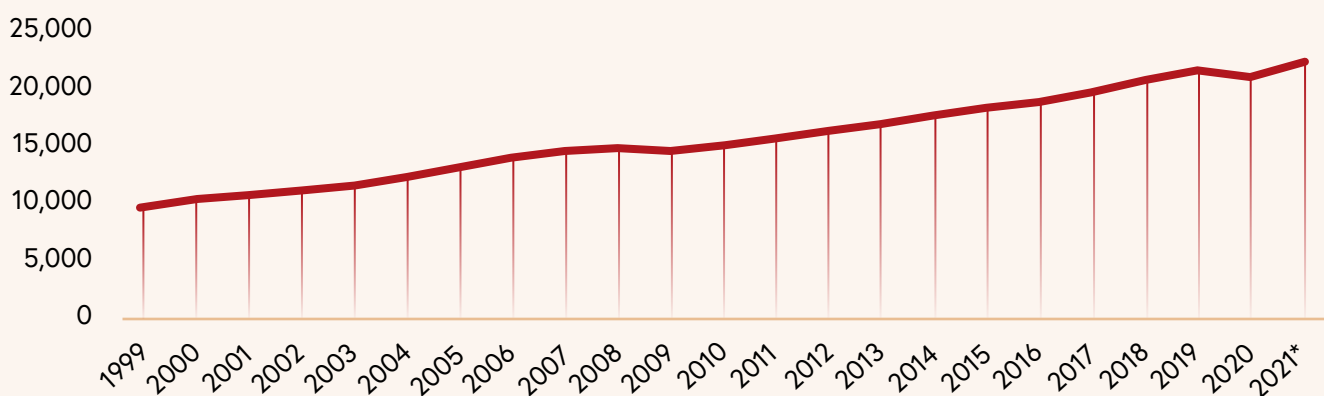


The furniture industry is one of the fastest-growing industries in the world and the market is expected to exceed 616.7 billion USD by 2026.

The U.S. currently accounts for a 22.07% share in the global market. China, the world's second largest economy, is forecast to reach an estimated market size of US\$101.7 Billion in the year 2026 trailing a compound annual growth rate of 6.3% through the analysis period. In an industry driven by consumer demand, market conditions, labor, supply chain, and international competition, Trendler, the experts in manufacturing high-quality swivel chairs and barstools, has survived and prospered since 1932.

This white paper will review the dramatic shift in manufacturing from North America to Asia and the massive loss of domestic revenue over a seven-year timeframe. This paper will also explore Trendler's long-term growth strategy and how the current market conditions—from disruptions in supply chain and labor shortages to the COVID-19 pandemic and the United States tariff strategy—have accelerated a U.S. domestic manufacturing resurgence.

US GDP (IN BILLIONS) 1999-2021

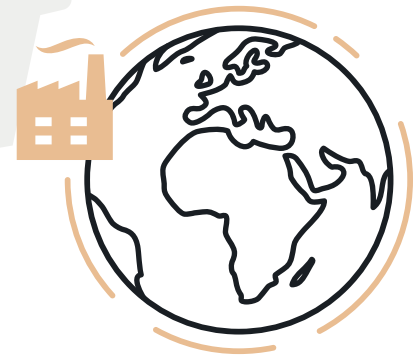


A RISE IN OVERSEAS MANUFACTURING

Since 1962, over 100,000,000 Trendler swivels have been sold with 95% used on chairs and barstools. In 2005, the U.S. furniture manufacturing industry experienced a shift from manufacturing dominance to an international manufacturing takeover with many U.S. companies moving manufacturing overseas, taking advantage of low wages, cheaper materials, and inflationary U.S. government regulations. This shift in manufacturing overseas directly correlates with the overall decline of U.S. based manufacturing production. Not only was there was a loss of domestic revenue, but many issues arose with the quality of Asian swivel products. Issues including the global labor exploitation of producing low-cost copies which contained a severe lack of ergonomic motion competencies.

In 2020, U.S. manufacturing companies began to experience how lower prices were challenged by an increase in U.S. tariffs and container price hyperinflation due to the pandemic. This is summarized by Marc Barnes of Furniture Today, "The pandemic's back in full force and, with it, continued challenges in importing inventory, especially from Asia."¹

By analyzing the production and shipments of Trendler swivels from 1999 through 2005 compared to 2009 through 2015, Trendler saw a 268% decrease in domestic demand. This decrease was attributed to inflation and resulted in an increase price from \$2.25 to \$4.02. Through its analysis, Trendler found over the 7-year period the number of units lost to overseas manufacturers were 15,162,950, accounting for nearly 1 billion dollars of lost domestic revenue.



The industries directly affected by inflation and the rise of overseas manufacturing included:

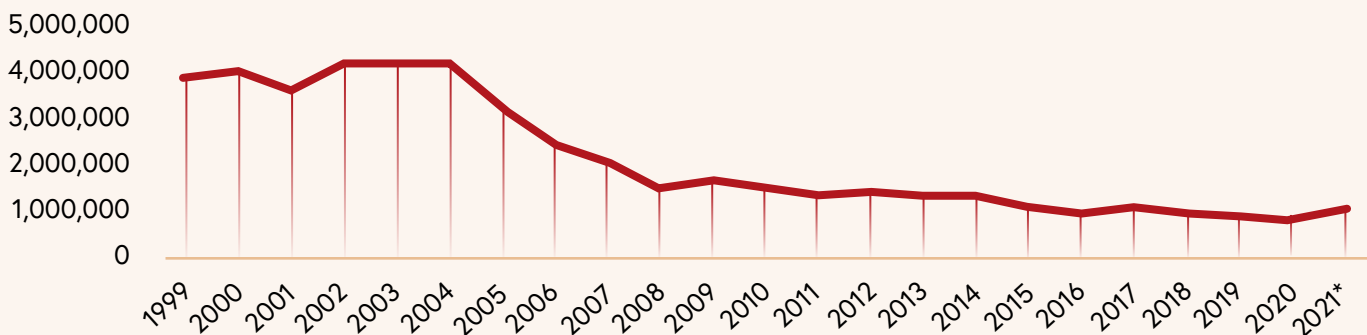
Wood Household Furniture, Except Upholstery
- SIC Industry 2511

Metal Household Furniture
- SIC Industry 2514

Furniture and fixtures
- SIC Industry 2599

Wholesale Furniture distribution
- SIC Industry 5021

UNIT EFFECTS FROM OVERSEAS MANUFACTURING



A DOMESTIC SOLUTION FOR A FURNITURE RENAISSANCE

Simply put, companies need to expand the production of swivels, metal and wood chairs and barstools in North America. An industry goal should be to take back the 50% of the units (7.5 MM) lost before the decade's end in 2030. The key geographic areas of North America to begin this furniture Renaissance is **1) Quebec, Canada – 2) Holmes County, Ohio – 3) Chicago, Illinois and 4) Nuevo Leon, Mexico**. These key geographic regions have companies with the entrepreneurial spirit proven to survive and prosper in the past 20 years regardless of market conditions.

In recent years, manufacturers have brought their facilities and supply chains back from overseas to North America, aiming to simplify their operations and obtain better predictability to attract customers with pledges to support domestic jobs. We saw this more during the COVID 19 pandemic, as travel restrictions and export embargoes snarled global trade. Swivel chairs and barstools are resurging to being produced in more significant numbers in North America. The benefits of bringing manufacturing back from overseas using Trendler's domestic strategy is explained in the next section.

When a manufacturer produces large quantities of products, it is vulnerable to demand. In addition, the cost to build, ship, and warehouse finished goods that do not sell is very inefficient and expensive regardless of the selling price. When purchasing large quantities of imported goods to save on initial cost for sale and distribution in North America, wholesalers are just as vulnerable as manufacturers. They are vulnerable because of the inefficiency of committing to "forecasting" specific finished goods that the market may not want or need. Chicago Booth University confirms this dilemma comparing "A cross between two alternate production strategies."²



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"The combination of government stimulus and short supply has created a unique opportunity to re-establish domestic growth in the furniture industry."

The concern of the inefficiency of producing finished goods for stock from a marketing forecast can professionally be addressed by a made-to-order strategy, as referenced by Asprova.³ With plenty of Work In Process inventory to deliver the product in time for expected market demand. Producing products in a made-to-order environment must be completed in a time acceptable to the consumer of furniture, and requires an inventory of raw materials to be converted to finished goods promptly. This places a great deal of emphasis on vendor management to effectively supply raw material inventory. Strategic and reliable vendors of raw materials must have mutually beneficial contracts and agreements that address forecasted demand. Market-driven pricing agreements and Vendor managed inventory agreements are also paramount to success. A great manufacturing team who is able to convert materials into finished products on time to meet customer demand makes this strategy the most profitable and sustainable way to distribute swivel chairs and barstools.

As briefly mentioned in the executive summary, supply chain, logistics issues, and the Covid-19 pandemic continue to be a concern for businesses across the marketplace as referenced by "The Covid Effect".⁴ The increased threat by vendors jumping distribution channels and competing with their customers has been hurried along by current market conditions. Initially, demand for products increased because customers were staying home and had the extra time and Government Subsidies to spruce spaces they had been putting off. However, logistical challenges causing container prices to skyrocket have slowed the sale and distribution of furniture.

Where possible, this demand has been replaced by domestic furniture production. Even though the domestic cost of materials, labor, and logistics has risen exponentially in the past six months, demand for products delivered in 4-6 weeks has grown. This trend is elaborated by Scott Davis⁵. The combination of government stimulus and short supply has created a unique opportunity to re-establish domestic growth in the furniture industry.

TRENDLER'S STRATEGIC GROWTH STRATEGY

During this time of unprecedented disruption, Trendler has been able to keep its workforce team intact, operating at optimal levels to manufacture high-quality, made-to-order swivel chairs and barstools at our facility in Chicago. Despite all of the challenges that the current market conditions have created, Trendler continues to provide customers and contacts with timely quotes and accurate production schedules to better to serve the marketplace. Leveraging our over 30-year relationships with domestic and international supply vendors for materials including chrome plating, wood, and steel, the Trendler team strategy has/is proven to help their customers. With vendor managed inventory, along with market-driven pricing agreements with crucial vendors and key customers, Trendler's made-to-

order furniture process has kept our customers operating at optimal levels in an ever-challenging market. This is in alignment with manufacturing statistics summarized by Lloyd Ambrust.⁶

Trendler's President Martin Gfesser has committed to its distribution channels by refusing to sell products directly to the hospitality market. "We are staying loyal to OEM's and Wholesalers even in these difficult times." Distribution channels are being squeezed because of high material and labor costs. Manufacturers are under pressure to jump distribution channels to remain competitive. Trendler sees this as a loyalty violation. Companies who switched to other suppliers for tactical price concessions are now at a disadvantage when getting products in this tight market. Short-term thinking, tactical price-driven companies are scrambling to meet customers' demand for the product, while eroding goodwill. Companies that are focused on maintaining and expanding margins with long-term strategic relationships to support distribution channels have a high probability to prosper during and beyond these turbulent times.

Another long-term success strategy Trendler has relied upon is knowing accurate costs and lead times required to make sound business decisions. Trendler has been communicating price increases as often as needed to keep customers informed of rapid, unprecedented inflation in costs. This has not been an easy task, but using the marketing infrastructure of their state-of-the-art Customer Relationship Management software, Salesforce, has allowed Trendler to communicate regularly with all key decision-makers before purchasing to cover all costs and accomplish margin objectives. Plus, Trendler's state-of-the-art inventory control and costing software, Sage 100, has allowed them to communicate accurate inventory levels and outages. In addition, it has allowed for an up-to-date pricing strategy to get the product to market at the most competitive pricing and delivery time accuracy. This allows Trendler's manufacturing team

to convert to finished goods consistently and reliably. Trendler believes a formula for success is to communicate accurate costs and lead time to ship finished made-to-order products when needed!

The third and best strategy Trendler has relied upon is flexibility built into the selling process to meet and exceed customer expectations. Their selling process consists of:



The three aspects of making a buying decision in the selling process are dependent on the three constraints mentioned above. If any of these three constraints are not met in the selling process, adjustments need to be made in a timely manner. The made-to-order business model is the best prepared and most efficient way to meet these triple constraints in the selling process. Supported by ISM Report.⁷ The made-to-stock business model is less efficient because the manufacturer's choice limits customer choice through a forecasting model that often has changed at the time of sale. The selling process is further complicated by having excess, obsolete inventory (cash) tied up and not satisfying current demand. Finished goods can be delivered

in the shortest lead time, but if the customer can wait for made-to-order products and meet product needs, they may even be willing to pay a slight premium to assure product availability.

Consuming products close to where it is being produced is a significant advantage for several reasons. Since December 2020, the cost

of containers from Asia has skyrocketed, costing as much as \$26,000–\$30,000 from \$4,300 per container. One of the big questions on everyone's mind is where and when will this current condition of escalating prices for raw materials, shortages of labor, logistical bottleneck, and freight inflation to be corrected or get back to pre-pandemic levels?



References:

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³Presented by Asprova, "Lean Manufacturing: MTO (Make To Order)" <https://www.asprova.jp/mrp/glossary/en/index/m/post-789.html>

⁴Jerry Murphy, "The Covid Effect: A U.S. Manufacturing Resurgence?" <https://industrytoday.com/the-covid-effect-a-u-s-manufacturing-resurgence/>, January 21, 2021.

⁵Scott Davis, "US Manufacturing: Why 2020 Was the Bottom of a Long Decline" <https://www.wsj.com/articles/u-s-manufacturing-why-2020-was-the-bottom-of-a-long-decline-11608037200>, December 15, 2020.

⁶Lloyd Armbrust, "Seven Reasons Why U.S. Manufacturing is on the Rise" <https://www.forbes.com/sites/forbesbusinesscouncil/2021/02/09/seven-reasons-why-us-manufacturing-is-on-the-rise/>, February 9, 2021.

⁷Presented by Institute for Supply Management, "Manufacturing PMI at 61.1%" <https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/september/>, September 1, 2021.

Conflict of Interest - The author declares that the research was conducted in absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

About Trendler Inc.

Trendler's story began in 1932; Trendler Metal Products opened its doors on 63rd and Hoyne on Chicago's South Side. Ten years after immigrating to the U.S. in 1951, Anton Gfesser Sr. began his entrepreneurial success story and acquired the company. In 1988, the company started global sourcing and marketing to meet world demand for U.S.-made furniture components. In 1995, our corporate name changed to Trendler Components to reflect the changes in product offerings beyond just metal. In 1997, the company moved to a larger facility near Midway Airport in Chicago and changed our name again to Trendler, Inc. In early 2000, Trendler expanded into finished goods, manufacturing, wood and metal chairs, and barstools.

Today, the company is run by Anton Gfesser Sr.'s four sons and Trendler manufacturers over 1,000 models of chairs, barstools, and swivels proudly maintaining our domestic manufacturing in Chicago, IL.



About the Author

Since 1985, Stefan has served as Trendler's Vice President of Sales & Marketing, managing Business Development, New Product Process, and Digital Marketing Strategy. His passion for building long-lasting relationships with suppliers, employees, and customers is at the heart of Trendler's history. He uses his expertise and industry knowledge to further establish Trendler's innovation tradition, quality craftsmanship, and outstanding customer service.

Active Board Member, Partner and C- Suite Manager of four USA companies spanning multiple markets including Service/Consulting, Real Estate, Manufacturing, Import/Export and Business Brokering.

Stefan is an avid pragmatist and devoted loving family man. He is a student of military history; Second Degree Black Belt Chung Moo Quan "Mind Body Balance" enjoys playing golf and staying up to date on politics.

773-255-2273