

Interview with Thomas G. Tilley, Jr.
CEO of Thomasville Furniture Industries, Inc.
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Q: Furniture Brands International acquired Thomasville in 1993. What niche does Thomasville occupy within the furniture industry?

A: Thomasville is one of the largest manufacturers in the industry. Of course it's a fullline manufacturer, meaning we make both case goods, which is wood furniture, bedroom, dining room, and occasional furniture (occasional meaning, cocktail tables, end tables, accent pieces, entertainment centers, etc.), as well as a full line of upholstery. We also have a contract division, which supplies furniture for the government, for the State Department, and for assisted-living facilities for hotels and motels. We have a division we call our Virginia operations, which produces our lower end, more promotional-priced products, with our largest customer there being Target. We do a significant amount of business with Wal-Mart and Sam's out of that division as well.

Q: What is Thomasville's place in the furniture industry overall?

A: Thomasville's position is generally in the upper-middle price points of furniture products and we have a significant presence in terms of our brand. Thomasville is one of the four best-known brands in the industry. In fact, when we analyzed the industry and we analyzed unaided consumer brand recognition, there are only four that are significant. Two of those are higher end, Thomasville and Ethan Allen, and two are more promotionally priced, and those are La-Z-Boy and Broyhill; they are a little more bluecollar, and Thomasville and Ethan Allen are perceived to be a little higher quality.

Q: Would you agree that the acquisition of Thomasville by Furniture Brands International (FBI) helped Thomasville to create a niche within the furniture industry?

A: Thomasville is 100 years old, so the brand awareness was earned from about 50 years of advertising in shelter magazines and TV. This has helped position the brand in the consumers' mind as being a premium brand, although we're not what you call a high-end line. The consumer perceives Thomasville to be "the good stuff." So with FBI's strategy of building around brand names, Thomasville was a logical fit in 1993, when Armstrong decided to exit the furniture industry. There were several people that negotiated in an attempt to buy Thomasville and FBI won.

Q: Thomasville has recently established relationships with Wal-Mart and Target. Is the low-end furniture market a new segment of the industry that Thomasville is venturing into? How has the shift into this segment affected your strategy?

A: That particular low-end category has been hard hit by imports. As a result, several promotional furniture retailers have consolidated or gone out of business. A lot of the

product has moved offshore, and is made in solid wood and veneers as opposed to prints or laminates.

The Virginia operations devised a strategy of getting into the Ready-To-Assemble (RTA) business, which is a different niche from the regular retail side. They also identified the major players and Target is certainly one of the largest. They have developed a very good working relationship with Target, and Target in turn has been one of the primary selling tools of the Virginia operations division. — The RTA product that is marketed through Target is called *Renovations*, a division of Thomasville furniture and that's very important--the 'a division of' is very critical. You will never see *Renovations* appear without "a division of Thomasville," so that's been one of their major tools as they have developed this relationship. Target has bought in, as has Home Depot, into the value of the Thomasville brand name.

That's another business we are in, licensing of our brand name. We have a major affiliation with Home Depot through our kitchen cabinets line. Target carries RTA furniture that we manufacture, and a line of picture frames and mirrors manufactured by Unique, which is a company that specializes in that category and they license our name for sale through Target. Target's investments in the Thomasville brand have been part of the leverage and reason for our ability to grow the RTA category of business, which is very different from our core business strengths. It does allow us as a major player in the furniture industry to be able to have our fingers in a lot of different pies.

If more people are going to Target, Costco and Wal-Mart today than to other places to buy, we have a presence in those places. We also have a presence in retail with our branded store strategy and a presence in the government contract market through our contract division.

Thomasville is also engaged in the remodeling and replacement market through our affiliation with Home Depot and kitchen cabinets, and also with Progress Lighting, a lighting manufacturer that sells products through Home Depot and Expo, direct to 9 of the 10 largest builders in America. From the consumers' perspective, you are exposed to the Thomasville brand whether you are remodeling, redecorating, or just shopping for your home.

Q: You've mentioned a lot of different things that Thomasville has done, but as far as the North Carolina locations, could you summarize what is going on here?

A: We have our upholstery operations here, in Troutman, Hickory, and Conover, which is in the western part of the state. Three primary producing factories, plus three support factories for upholstery are located in this region. In Lenoir, which would also be considered the western part of the state, there is a major case goods factory, then we have the two factories here in Thomasville, NC, a bedroom factory and a dining room factory that produce case goods. We have a chair facility that assembles dining room furniture and it does some manufacturing of tables, primarily for the State Department and our

contract divisions. They also make domestic dining room tables today in that factory, but most of those products have moved offshore.

Q: Which sections of Thomasville's activity are being moved offshore?

A: Dining room chairs and tables are virtually all being made offshore today. We make some of our higher-end dining room tables here, but not all.

Q: So are the majority of the chairs being manufactured offshore?

A: All are made in China, except for the ones that are made for government contracts.

Q: As you just said, business has been growing, you have been reaching out in different directions, but since 1995 Thomasville has shrunk in employment by 50%. You have gone from 8,600 to 4,300 employees . Lexington is another good example; it has gone from 9 plants to 1 plant . Is this decline in employment due to outsourcing?

A: Most of the decline in employment is due to outsourcing.

Q: Is that certain divisions? Are there other areas (besides chairs) that have been hard hit?

A: Case goods, all case goods; bedroom and dining room and occasional tables. Bedroom furniture is not as hard hit as dining room and occasional furniture.

As a way to politicize their plight and rally enough support from a group of manufacturers in the industry, several companies were able to negotiate the imposition of tariffs. Nobody is against American jobs, but you also have to realize that there is a reality in the world today, that manufacturing jobs are moving offshore. Products that were manufactured in factories in China where high tariffs were imposed have all moved to Vietnam or Malaysia or somewhere else? I do not think Tariffs will save a single job in the United States in the long term.

The gradual shift of production offshore is the primary reason for the decline in employment numbers. In addition, improvements in technology have reduced the amount of manual labor required to build furniture where more and more product is automated and has increased productivity of factories. The byproduct of the offshore manufacturing phenomenon has been positive for American production in general because it has forced us to be more competitive in order to continue to maintain the production that we do have.

Q: Was there an extended plan for Thomasville regarding factories offshore? You said you slowly moved offshore.

A: Our size is a competitive advantage but it is also a problem given our niche in the industry. Our product specifications are more demanding than the vast majority of manufacturers out there. A lot of the product that has been made in China, in particular, is low-end product. As factories start out, they learn how to make the product the simplest way possible, with the simplest joinery and finishes. The Thomasville product is of a higher standard than that.

In order for us to be able to move production offshore, there are small niche boutique manufacturers that can make high end products but they can't service the Thomasville order volumes. Then you have the huge mega-factories, but they can't meet our quality standards. So we have had to develop manufacturing partnerships offshore.

Lacquer-Craft was developed from a pool cue manufacturer to a promotional house to a company that has a brand new factory in Dongguan, China. A part of their new Dongguan factory is dedicated to Thomasville; making *our* product to *our* specifications, designed and engineered specifically to meet our requirements by our people. We have a team of engineers that have been over there working with them and training them to meet the standards that we have. There are specific ways the plants have to be laid out in order to execute our product. You need a certain number of kilns to be able to dry the lumber properly, you have to have a certain amount of machining capability, certain length of finishing line, an ability to do off-line finishing work, and so forth. This factory is world class, brand new, state-of-the-art; and is not a cheap labor manufacturing facility. That's what's happening today in China that people don't really realize. They think they've got all these people over there, which is true, but the newer factories make a difference. So their competitive advantage has gone beyond strictly cheap labor to having world-class factories, and labor is now a small component of their advantage.

Q: Are the factories in China changing their processes for you, or are you helping direct them? What role have you played in the process of training and the organization of factories abroad?

A: We have senior, key manufacturing people that have gone to help with design of the layout of the Chinese factories, but we also have people that are experts in technical specifications in the manufacturing of the products. A lot of our product is a natural material, wood, which has to be dried properly and you have to machine it a particular way. Certain species require different drying times and so forth, so we have people that are experts in that; the technical side who help train the factory workers to produce furniture to our specifications in order for the company to remain competitive. We still have manufacturing capabilities in the United States, but a higher percentage of the production is moving to these world-class factories, and these are not dirt-floored factories with 3,000 guys sitting there whittling on wood furniture. These are great factories with brand new equipment; and not old, used, dilapidated equipment from closed factories. It is brand new Italian or German computerized equipment, and the equipment manufacturers send people over to train workers in the factories on how to run them.

Q: Do you have any insights as to why North Carolina is faring worse in comparison to other states?

A: A higher percentage of the jobs here were in the industries that are hardest hit by offshore manufacturing, textiles and furniture being two that are centered here in North Carolina. And of course the tobacco issues we're all familiar with, they have caused a lot of change as well. But I think that's really it. These industries, furniture and textiles in particular, have historically been heavily labor intensive and labor is very cheap in Asia. If we would have been technology driven or something else, such as building computers or some other type of product that wasn't totally labor intensive, we'd probably have a better chance of retaining the jobs here. But I think that's probably the biggest reasons for the extraordinary loss in jobs, at least I can say it's certainly true for the furniture industry. It's not just state taxation or other policies, you know, incentives...it's not that. It's the fundamental shift in the industry.

Q: Do you have any suggestions about what you think might happen? Or what NC government could do?

A: Well, I think that a lot of it, in my opinion, is going have to involve bringing new industry into the state, and not necessarily expecting growth in terms of employment from existing companies here. The companies can still grow, but in terms of the old manufacturing kind of jobs, it needs to be through intensifying new industries, whether it is here at the Triad or elsewhere in the state. FedEx, and now Dell, are the two big new firms. There is a flooring company opening up in Davidson country called Unilan, and it is from Holland. They're opening up a factory here that will highly automated. Maybe someday they'll add 500 jobs.

Q: Does Thomasville provide any help for unemployed workers to find new jobs?

A: Yes, we do. We work very hard with both the federal and state governments as well as provide outplacement services. The federal and state governments have pretty active programs to help retrain displaced workers and we certainly endorse and support those. We conduct training for people in the factory zone; and English as a second language for our supervisors to help them be more culturally aware and sensitive of the changing nature of the workforce.

We have programs here in the office where we train people in computer skills and so forth. Technology is marching forward in the office, and there are so many people here who have been with the company for 35 or 40 years who are not technologically trained. So we put a lot of effort into training them. We encourage people to go back to school to get their high school equivalency, we have a program that encourages people to go on to college to get a master's degree if necessary, if it's in their career field, or we provide tuition support for those programs. We do a number of things like that to try to help our workforce grow and improve their skills and their capabilities. Beyond that, if we do have layoffs or factory closing, we try to work with state and federal governments to retrain workers.

Q: Do you see North Carolina as being a conducive environment for Thomasville? In what ways has Thomasville contributed to the local community?

A: So we're a major player in the community here and we understand that. We feel an obligation to support our communities, whether it is the local community where our people live, in the county, or in the Triad in general. We're always a major contributor to the United Way, for example. Yes, it's a big deal here. It's what the company believes in; the company matches employee contributions dollar for dollar, so it's a major commitment on our part. We feel that it's important that we know we're a big employer and we have a responsibility here to help build a better place to live and work and for the families. We accept that responsibility and we support it.

Q: Is there a risk you foresee way down the road that your Chinese suppliers may use the skills they have learned from you to build their own brands within their home market of China?

A: Yeah it is, but it's a good way of looking at it because nobody can predict exactly which way this will end. It's doubtful that this is the end of the furniture industry. It's just a shift in paradigm. I think we, speaking for Thomasville, we're in a wonderful position because we do have a great brand name that the consumer knows and respects. And we have a pretty good understanding of our customer -- our customers' styling, design and product preferences. If you were a manufacturer in China, you have no clue of these details. You have no clue whether this should be brown or red, shiny or not shiny. So that's a great strength that we have, the brand and an understanding of our customer. And that should transcend where the product is manufactured.

Long term, I think you're probably right in your assessment, that some of the manufacturing will come back here. I think it probably will. For instance, Toyota, Honda, and BMW build world-class state-of-the-art factories where labor is not the only real issue; it's more about raw materials and above anything else, cost. You can make it cheaper in the United States, the transportation time here is cheaper, and so is everything else, if you build world-class factories here. So I think there is a shift going on right now, but I don't know that it is necessarily the end of the game.

I think there will be manufacturing coming back to the United States at some point. I don't know exactly when. It's hard to say, but I think it will. Just for reasons of logistics and because of the transportation time required for products like furniture. It takes a long time to ship furniture from a port in China, to get it to the United States, and ultimately to the consumer versus what we could do if it was made domestically.

In upholstery, the high end of the business is primarily custom-driven, and as a result, every piece is almost made to order. So mass production, at the high end, is not as practical in upholstery as it is in wood. Rooms to Go and Levitz and some of the big, huge companies can buy commodity-type design -- wood furniture and upholstery for that matter that can be mass-produced and warehoused here. But in the higher end, it's

one at a time. Manufacturing offshore of custom upholstery is less likely to occur quickly than for case goods.

Q: Do you think there are any state policies, or federal policies, that can help influence companies to locate more of their time-sensitive production here in North Carolina or in the United States?

A: Yeah. I think there could be. Apparently one of the major draws for FedEx and for Dell is the transportation system that we have here in the Triad and the ability to move in all directions. That same thing can occur in furniture. We could invest in the ports at Wilmington, for example, and make it a world-class port and that would become part of the distribution strategy for the product here in the United States. I believe that the production capability here is one area that should be explored further.

Q: Do you see the furniture industry as becoming more disintegrated in a sense, where you go out and you sub-contract these things that you need?

A: A lot of it is. A lot of these companies have grown up in North Carolina. Because furniture manufacturing is located here, it's like Dell supporting companies that will be around them. Many of those people are being forced to compete with the world market as well. It's changing pretty dramatically.

There is a history of furniture manufacturing embedded in the state and we don't want to lose that, so anything we can do to keep the industry up in terms of its presence and visibility with state lawmakers is going to be helpful. Las Vegas is one of the markets that are being developed that could be a threat to North Carolina. *[n.b. A 7.5 million sq. ft. complex is being built in Las Vegas with facilities for hosting trade shows, furniture showrooms and a design center. It is over twice as big as North Carolina's IHFC building at Highpoint. Many domestic and international furniture buyers will likely be attracted to visit Las Vegas instead of Highpoint.]* There is a reason for why it can be a threat to North Carolina long term, not short term. We're not going to show our furniture in Las Vegas and a lot of the major companies will not show there either. As more manufacturing moves to Asia, it's closer to Las Vegas than it is to North Carolina, so longer term, North Carolina needs to be thinking how do we continue to encourage High Point to be the Mecca for furniture with its showrooms and furniture markets. And long term, how do we encourage manufacturers to come back here to the United States and build world-class factories here from the logistics side. How do we encourage the ports to be more responsive?