

ROOTNOTES

News, Commentary, Insight from

Mike & Jay Root

FSMA Celebrates 60 Years As the Foremost Authority On Innovative Marketing For The Home Furnishings Industry

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**Award Winning Salesmen,
Marketer & Entrepreneur**

Mike's Moment: Consumer Travel & Optimistic Expectations

I have been traveling a lot this summer for work. I'm old school - If there is an opportunity to present product in person, I'll be there. That's why I have taken two trips in August to the Progressive factory in Rosarito, Mexico to work on some great projects for retailers. With overseas freight bouncing all over the place, smart retailers are diversifying their entertainment and bedroom supplier base with the Progressive Mexico factory offerings. Not only does buying from Mexico take the complexity of flowing containers out of the mix but it also cuts lead times down to 30 days or less.

In all my travels, there are a couple of observations I have made to consider. First, most of my retailer customers report that business has been tough. They also think it won't pick up until the certainty of election results are known. Even then, concerns over a domestic recession, Chinese economic turmoil, high interest rates and housing challenges are some of the factors that are keeping business owners cautious.

Second, airports have been packed with travelers. I am shocked at the number of families that are traveling with young kids on vacation. It is such a process with navigating through airports and rental cars for strollers, car seats not to mention the costs of airlines tickets, hotel rooms, rental cars and airport food. The cost of one trip for a family of four could be better utilized to furnish a brand new living room set that will last longer than the Mickey Mouse ears that expire upon returning home. Kiplinger Letter reports airline "ticket prices are set to rise 5-10% as consumer demand stays high and airline capacity shortages persist in 2025." Hotel and car rental prices also expected to rise another 2-3%. It's not cheap to travel. For many it is a discretionary expense that comes out of the same budget they may want to use to fix up the house with new furniture. Sometimes I just want to turn around in the airline seat and ask the parents of the kid that has been screaming in my ear for an hour and half, if they might be more comfortable spending the same money on a new sofa where Johnnie can wail to his heart's content and not bother 140 strangers. Instead I put on my noise canceling ear phones and listen to calming Jazz music! It's been a tough summer in comparison to the last few

years. I am optimistic based on the direction of our top factories and the attitudes from our top retailers. They are not throwing in the towel, but rather they are promoting aggressively to attract attention of the customers that do need furniture. We have had great success with new product offerings such as the \$11,000 retail Quantum massage chair from Cozzia. It gives the store something to get excited about. We have added H2 galleries because of the value proposition of the merchandising and the ease of doing business with H2 whether in direct container or domestic warehouse. Hi Rock opening an American owned and operated Vietnamese factory will further the control over the quality product offerings they provide. Progressive Mexico sharpening up price points and shipping in 30 days or less continues to gain. Hughes Furniture continues to introduce good looking promotional upholstery to help fill a void as consumer trade down in price points. And our outdoor supplier Sopoly has introduced special pre-buy pricing for fall commitments to ship next year.

The Kiplinger Letter is a good source of Forecasts that can help us make decisions going forward. Here are some of their optimistic thoughts for 2025 budgets.

The Federal Reserve will cut short term interest rates by 1.5% by the end of 2025. The 30 year mortgage should fall to around 6%. Inflation is likely to fall to 2.4% by the end of 2025 from 3% end of 2024.

Not so optimistic, trucking spot rates will rise 10% excluding fuel surcharges. Contract rates up 6% as well as rail shipping costs also up 6%. Budgets for insurance, legal costs and accounting all could see a 5-10% increase in billings in 2025. They also report "with record low vacancies, warehouse rents are in for a 5-10% increase. Demand continues to be strong for stockpiling inventory and e-commerce space." Also "Retail space ...up1-2%, on average... A pullback in retail space construction makes it harder to find locations in desirable locations."

We have the product to help you grow sales through 2025 and would be happy to review best sellers with you anytime. Give us a call & see why we think things are turning around. Thank you for your business.

Bits & Pieces From Around the Industry

Over 10% of credit card outstanding debt is over 90 days delinquent. The Consumer Financial Protection Bureau reports “credit card delinquencies are higher than 2019 because lenders took on more risk”. Delinquencies are rising in all age groups but more so in age groups 39 and younger according to MishTalk. The Kiplinger Letter reports “consumer borrowing hit \$11.4 billion in May, the biggest increase in three months.”

According to an August 12, 2024 Wall Street Journal article overall inflation is slowing. As measured by the Labor Department’s consumer price index it was down to 3% from the 9.1% two years ago. For many it does not feel like it though with electricity bills up 10% or more and car insurance up nearly 40% from two years ago. According to the article, people are trading down from steak to hamburger. Consumers are trimming their spending on non-essential items (Furniture?). McDonalds is starting to emphasize a \$5 meal bundle “noting that inflation weary customers were buying fewer items per visit.” Shameless plug: Consider Promotional Sofa deals from Hughes.

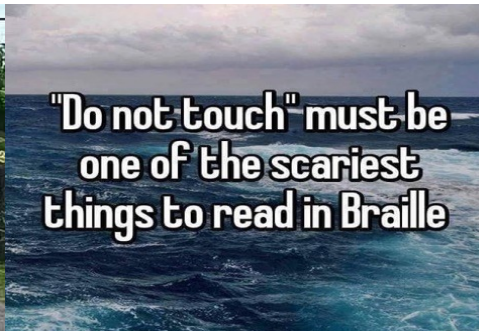
Housing is the biggest monthly outlay for households. The CPI indicates shelter costs including household insurance risen more than 13% in two years. Another big outlay for many furniture buying households is childcare expenses which has increased 6.4% if you can even find reasonable solutions.

A recent discussion with a large retailer and a very knowledgeable factory owner talked about a loophole in the import tariff enforcement. Primarily Chinese e-tailers are growing by avoiding tariffs on goods by shipping n amounts less than \$800. This has fueled sites like TEMU who will ship any purchase direct to the consumer from the Chinese factory. The tariffs are avoided and without a US domicile, it is unlikely they are paying city or state sales taxes either. These savings more than enough pay for the extra shipping costs. Legislators are starting to hear about it, but for them to come to an agreement on how to solve anytime soon is suspect.

Funnies off the Internet . . .



This is the only way to pick out your furniture....



If you feel useless today, remember somebody is working as a lifeguard at the Olympics.



Funny Quote: Why do they call it “rush hour” when nothing moves?. —Robin Williams

Reflections As A Grandparent: Enjoy the Chaos

This past week many parents are dealing with the joys and challenges of sending their kids back to school. One buyer I was with had a grade schooler, one had a teenager and yet another was becoming an empty nester when he took his daughter away to college. These conversations brought back many great memories of raising our two at the various stages of the education cycle. I am not certain when I was going through the schedule changes, monetary commitment, or the time investment I necessarily thought it was memorable.

As I reflect on the joy I've had raising a family through all the various stages, my wife and I found a way to make it work with both of us fully employed. Stress was constant whether it being overbooked extracurriculars, getting to daycare dropoff and pickup on time, or worry over kid's driving, staying out late or any other challenge a parent undergoes. And yet, as I hear from friends with school age kids, or I watch Jay and Kara with my grandkids, I have one message: Enjoy the chaos.

Some of the happiest memories and experiences involved family activities that may not have been something I planned on doing but sharing the time and energy, made it a cherished memory to this day.

And now that I have grandkids, I can enjoy the chaos all over by watching Jay, Kara and Vince deal with it. Just look at these smiles! Who wouldn't want to share this excitement on the first day of school? My oldest grand daughter, Tatum, is going to take the First Grade by storm, while Jay's son Jack, is going to make so many new friends in Kindergarten. Oh to be young again.

There's a country song by Jordan Davis called the "Next Thing You Know". The lyrics take you through life's changes from getting married to having kids. For my friends with kids at various ages here's where the song should resonate:

"Next thing you know, It's first steps, first dates, first car. It's 11:01 wondering where they are. You're saying that USC's too far, It's amazing how fast 17 years go."

Then the song speaks to life after kids:

"Next thing you know, you get to know your wife again. And you're more in love than you've ever been with lots of years of remember whens and still some down the road. Cause next thing you know you got a yard full of your kid's kids."

Enjoy the chaos.



Bonus: Grandparent Jokes

I was delivering the grandkids back to their parents on day when a firetruck zoomed past. Sitting in the front seat of the fire truck was a Dalmatian dog. The children started discussing what the dog was doing there. One said they use him to keep the crowds back. Another said He was just for good luck. But the youngest child brought the argument to a close when she said "They use the dog to find the fire hydrants."

My grandson called to wish me a happy birthday. He asked how old I was and I told him 65. He was quiet for a moment and then asked: "Did you start at 1?"

My grand daughter loves my laptop and was pounding away on the keys. She told me she was writing a story. I asked her what it was about and she said "I don't know, I can't read."

In the first grade the teacher asked "Give me a sentence about a public servant". One of the young boys wrote: "The fireman came down the ladder pregnant." The teacher took the lad aside to correct him "Don't you know what pregnant means?" The young boy confidently said "It means carrying child."

My grand daughter was visiting one day and asked "Grandpa, do you know how you and God are alike? I mentally polished my halo and said "No, how are we alike?" He replied "You're both old!"

Live goes by fast. Enjoy the Ride.

Jay's Jots: Time is a Thief

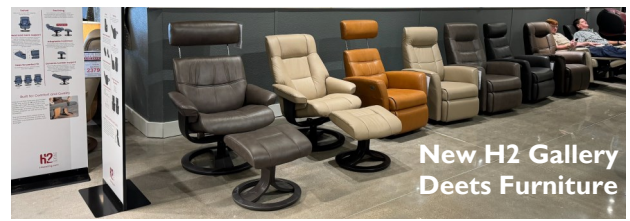
Last week my son began Kindergarten; incidentally at the same school I attended. My daughter is beginning pre-school at the same school her brother is attending.

It seems like yesterday they were reliant on me for helping their mobility, feeding them and all the daily activities required to be a functional human. Now I'm chasing them around sports venues and dancing with my daughter at ballet recitals to Taylor Swift (no video evidence exists for Taylor Swift dances!)

Many of you have experienced this same transformation with your own children and/or grandchildren. As I reflect on the past 6 years it really is remarkable to see the growth and evolution of my littles. As I'm writing about the growth of the children, I must also take a minute to appreciate the growth of our vendors.

We began with Cozzia 13 years ago. Cozzia is now a teenager; distributed in over 40 of the top 100 retailers across the country, adding more and more features (benefits) with the best selling models retailing at \$5999 to \$8,499. Cozzia is very mature for a teenager.

H2: This started as a LinkedIn connection. We did not know Nils and his team prior; now we know his pedigree is unsurpassed in the category and industry. Fast forward 1.5 years—a combination of our input as well as their ability to believe in us and execute allowed us to establish several galleries with several majors as well as strong independent retailers across our territory. While H2 is still in its infancy stage, the team we are



working with have raised successful, mature children (companies) before; we will do that again with H2.

Hi-Rock: As many of you know this, my kids absolutely love the Hi-Rock sectional in our house. Several times they fall asleep after adjusting the P2 feature to full recline and the headrest every so subtly for optimal sleeping conditions. Aside from my personal experience with the product, Ernie is another gentleman who is absolutely world class at his profession; namely marrying superior leathers with power motion. In the time we have been with Ernie The company has grown with some of the best retailers that we work with and in 2023 Hi-Rock won awards for best recliner supplier and leather motion supplier. Additionally, this summer Hi-Rock launched a domestic warehouse program. More importantly, the growth has reached a point with their current factory that of critical mass. **They are opening a new factory in Vietnam which is American owned and American operated.** Hi-Rock has passed the terrible 3's and is in the 4th year (same age as my daughter). Lots of opportunities to differentiate from all other Vietnamese factories.

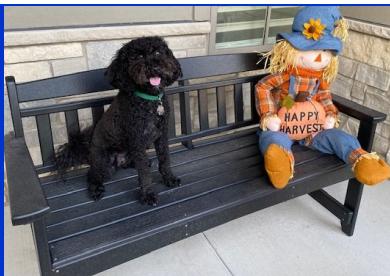
Time is a thief. You cannot prevent children from growing; you can grow with them, as an adult and parent. Same can be said for factories. Join us for the growth!

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