

Keeping Up with the Changing World

By Jim Parrie, Ph.D., CPF

At times, American picture frame manufacturers feel as if they are under siege from the swelling number of new market entrants, overseas competition, shrinking margins, ever-tightening labor pools, and dwindling discretionary consumer dollars. There is much wailing and gnashing of teeth. We have labor issues and rising taxes. Imports are killing us. The sky is falling!

In truth, more frames are being sold today than ever before. Framing business in the U.S. is vibrant. Changes in technology, such as digital photography, are causing the sale of readymade frames to soar. Non-traditional venues for selling framing, such as the Internet, big box retailers, and QVC, are growing as well.

So why is there a disconnect between reality and perception? The industry is changing, and these changes are unsettling. The framing industry today finds itself competing for discretionary dollars with products in other market segments, such as plasma TVs, iPods, and Coach handbags. OEMs who are adapting to these changes are thriving; those who are not are hurting. Production framers are not alone in this. These changes are also taking place throughout the national economy.

Creative Destruction

The markets and channels of distribution today are shifting. Consumers are purchasing different types of framed items, and they are purchasing them from non-traditional



Markets are always shifting. Will you adapt or will you be left behind?

sources. Traditionally, consumers purchased art or an item and would then go to local frame shops to have them framed. Times have changed. Consumers can now purchase framed art from Bed Bath & Beyond, Linens 'n Things, and even from Costco. Or they can send a photograph to a website to have the photo printed, framed, and shipped to their homes in less than three days and at a fraction of the cost of a traditional custom framing. These non-traditional framing venues are growing by leaps and bounds.

The shifts are being felt throughout the framing industry. More moulding is being shipped to the U.S. than ever before (the U.S. still purchases more picture frames than the rest of the world combined.) Yet independent moulding distributors have lost business—and a number have been forced to sell out or close. Now, human nature is to blame such failures on some villain; few former distributors accept blame for their own demise. Some point the finger toward Chinese imports or on competitors they consider unfair.

This misdirected anger is based on the belief that cheap Chinese moulding ran them out of business. The truth is that their competition often delivers a high quali-

ty product, provides excellent service, has excellent operations and logistics, and prices an average framer is willing to pay for. This is capitalism, pure and simple. Some distributors ran themselves out of business. After all, other distributors have thrived by finding a way to get products to market and at a sizable profit. And the industry has more selection and service than ever. What happened is that the markets shifted, and some companies had the foresight to shift with them while others didn't.

This process is called "creative destruction," a term coined in 1942 by economist Joseph Schumpeter in *Capitalism, Socialism and Democracy*. He describes it as a "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one." He also said that creative destruction is "the essential fact about capitalism."

Because economic structures are always being destroyed and new ones are always being created, the key is being able to see where the emerging economy is going and having the fortitude to adapt to it.

The moulding markets are continuing to shift. Overseas manufacturers, for example, are slowly establishing warehouses in the U.S. and eliminating some of their distributors. Framing equipment manufacturers have also traditionally sold through distributors. But many equipment companies have found that moulding distributors may not be the best means of distributing their products. Moulding distributors make larger margins on moulding and selling equipment is more prone to hassles, so selling equipment is not high on their lists. Many times a distributor merely drop ships a product, which often means that customers have to call the factory for technical support. For these and other reasons, more and more equipment manufacturers are selling direct. They want to provide customers with value and to maximize their sales and profits.

Whether they're buying equipment, moulding, or penny hardware, purchasers want value. When an item like loop hangers becomes a commodity, why would a framer buy it from a vendor who charges 30 percent more than another vendor? The higher cost vendor must provide excellent service, a higher quality product, guaranteed stock, or something else of value to justify the higher price. Likewise, why should a framer pay an additional margin to a distributor when all the distributor does is to call the manufactur-

er and have the item drop shipped?

IBM has been able to fight off fierce competition from Dell and Gateway by providing consulting services. IBM recognized that their customers' needs were changing as technology changed. IBM changed to meet that need. IBM's 2005 fourth quarter sales of consulting services were \$12.5 billion. Not bad for a computer company that no longer makes PCs.

Old School

Many framing supply distributors continue to see their market share and profits shrink because the old school response of price-cutting is no longer viable. Overseas hardware and equipment manufacturers are also using the Internet as well as setting up domestic facilities. Customers don't just want lower distributor margins; they want to eliminate them. This puts pressure on both domestic manufacturers and distributors.

Outsourcing hardware, equipment, and other supplies to overseas manufacturers will help profitability in the short run. However, it is not a silver bullet that will protect companies from the shifting markets. That will require adding value, product or market diversification, or merger. They won't be saved by price-cutting and drop shipping. Price is the easiest marketing technique to copy. You need another idea if you're going to survive.

One example of a moulding distributor recognizing

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the shifting markets is Complete Framers Supply (CFS) of Ft. Lauderdale, FL. CFS provides a concierge service for large OEM customers. It provides select customers with an inventory management system, Nextel phones, and dedicated truck capacity. Operations Manager Adam Levy and his staff help monitor, purchase, and warehouse customers' inventories. Customers receive scheduled deliveries, sometimes multiple deliveries a day, or emergency deliveries via the Nextel phone. This allows an OEM to reduce its inventory and warehouse space, eliminate a truck and driver, and increase its inventory turn. CFS recognized that OEMs were importing more and more, but it found a way to add value by providing superior service and expertise. They are now the largest moulding distributor in south Florida.

Impact on Frame Manufacturers

American frame manufacturers are seeing more of their customers buying from China. Typically, the business being lost involves commodity items, such as ready-mades and low-end pre-framed art. This is also the easiest to produce and least capital-intensive segment of the business, which forces domestic companies to invest more in labor and inventory to maintain sales. The positive side of this is that factory head counts are down—not so much because of lost sales but because of tremendous strides in factory efficiency that result from using computerized mat cutters, programmable joiners, digital measuring systems, production software, and the like. The necessity to compete against cheap labor has forced American frame manufacturers to become more efficient and innovative. When you compare factory head count to production numbers or sales, U.S. framing manufacturers are far more efficient today than in the 80s.

A common notion is that to compete today you have to become more high-tech, but many of today's consumers want low-tech. They seek goods made by crafts-

men, goods made by hand. Take for instance, canvas transfers. Because of changing technologies that have lowered prices, transfers have gradually given way to printing on canvas. Even though contemporary printing techniques have incredible quality compared to just three years ago, hand-touched images still have superior quality.

One firm that still uses hand re-touching processes is DeNunzio, Inc., of Somerville, CT. It uses proprietary processes of transferring an image to canvas and re-touching it in a way that cannot be duplicated by any printer. They have also developed techniques that allow them to produce these canvas transfers, often at the same price as machine-made products. Their customers get the quality they want at a price that is comparable or less than imported goods. DeNunzio cleverly blends low-tech with high-tech, using a website, CD-ROM catalogs, a High Point and Las Vegas presence, and an electronic ordering system to provide customers with a high level of service. So while other OEMs making canvas transfers see their business disappearing to China, DeNunzio continues to grow by providing consumers with what they seek—quality at an affordable price.

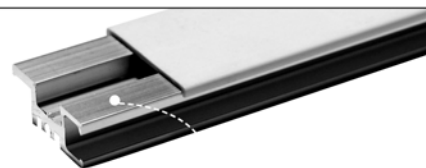
Out of necessity, many OEMs have also steadily changed their product mix to more value added items—in effect, higher ticket items. At one time, quality was a substantial selling point for U.S. manufacturers. Overseas manufacturers are quickly overcoming the quality issues that plagued them in the 90s, so quality is no longer the strategic American advantage it once was. One obstacle Asia is unable to overcome is distance. Goods from China still have to sit on the water for 60 to 90 days. This provides a tactical advantage for domestic manufacturers.

The glass industry is a perfect example of this. Bulk float glass sales to U.S. OEMs by domestic suppliers have declined for such commodity sizes as 8"x10", 11"x14", and 16"x20", primarily due to Chinese imports (although this trend has recently slowed). Orders for quick turn-



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around, custom sizes, and value-added glass, however, have improved. Glass manufacturers are taking advantage of short trucking distances to offset the higher production costs of domestic glass while also improving their customer service. Aetna Glass Supply of Richardson, TX, for example, has seen its share of the OEM business grow because it can fabricate glass to custom sizes with quick turnaround times. Custom-fabricated sizes allows an OEM to order a special pre-cut size, such as 17⁵/₈"x20³/₁₆". There is no waste, no cutting, and reduced inventories. Everyone wins!

OEMs who can provide quick turnaround and small custom runs are seeing a tremendous surge in orders from the big box retailers for both pre-framed art and ready-mades. Big boxes are seeking differentiating products that can be purchased in small quantities to keep their inventories low, while they separate themselves from their competitors by having different product mixes. They do not want to be stuck with a warehouse full of commodity items that can be purchased anywhere and take three months to arrive.

Another significant advantage for domestic OEMs is that they are close to the furniture markets, buyers, designers, and the end consumer. They can work closely with all those groups on designs and be more sensitive to design trends than their Asian competitors. This helps OEMs in adding value; innovative design, quick turnarounds, and consistent quality. These advantages are hard for overseas competitors to match.

Several domestic manufacturers are opting to purchase the commodity items they sell, say 16"x20" beveled mirrors from China, and act as trading companies for those items. This allows them to reallocate their resources to produce more custom items, strengthening their market position by providing items for customers' trend-driven purchases. This helps them to build market share, increase profits, lower their overhead, and provide consumers with the value and the products they seek.

What's the Answer?

Whether you are an OEM or distributor, the questions you should ask yourself are, "Where is the market shifting to?" and "What am I going to do about it?"

There are things to be learned from other industries. The Chairman of Sony, Sir Howard Stringer, said his company's biggest mistake in the past five years was missing the opportunity to develop the Apple® iPod®. Instead of noticing the desires of the public for music and video content, Sony was preoccupied with the ramifications of music and film piracy.


Expanding product mix has also been good for other industries. Starbucks revolutionized the coffee industry back when many people scoffed at the idea of \$4 for a cup of coffee. Starbucks also saw shifting markets when

they started selling CDs. As a result, today they are one of the largest retailers of CDs. This foresight is one reason why they're so successful.

The lesson is that you shouldn't fear alternative venues for framing. Does it really matter if consumers buy their frames at Linens 'n Things as opposed to anywhere else? To OEMs, it can actually mean more sales. All the while more units will continued to be sold. Housing sales and starts were up again in July, houses are getting bigger and more expensive. Home ownership is up and so are renovations; all of this bodes well for framing.

In the framing industry, it is up to each manufacturer to see where the framing markets are headed and then to assess their own strengths and weakness. After that it comes down to guts. Do you have the fortitude to go after the markets, or will you cash cow your business? Or will you just say, "I'm outta here!" Industry sales are growing, and the number of units is steadily increasing, demonstrating that the public has a desire for the product. It is up to OEM framers to go out there and get their piece of the pie. ■

Jim Parrie, Ph.D., CPF, a 30-year veteran of the framing industry, has owned and operated small frame shops, galleries, and wholesale operations to high volume OEM facilities. Currently, he owns Millennial Technologies & Consulting International, a consulting firm to high volume framers, retail chains, and manufacturers throughout the world.



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