Business Strategy Assessment of a Home Décor Importer & Wholesaler:
Clarifying Channel Strategy, Inventory Rightsizing, and eCommerce Upside

The Challenge: Our client, a middle-market PE firm, was looking to exit one of its portfolio companies, a leading full-service importer and wholesaler of home décor products serving both brick-and-mortar and online channels. However, as the market dynamics shifted with covid-driven demand surge and supply chain shocks followed by post-covid softness in the home furnishing market, the portfolio company was performing below plan, carrying a high fixed cost structure tied to multiple warehouses and showrooms. As such, our client asked Gotham to: 1) investigate the possibility of exiting some of the brick-and-mortar channels and increasing the portfolio company's focus on eCommerce; 2) assess whether there is an opportunity to scale back the inventory that was built up during covid; and 3) establish the company's competitive positioning in the home décor import/wholesale market.

Channel Profitability, Inventory, And Fixed Cost Analysis: Gotham undertook a robust, multi-pronged approach that involved:

- Performing channel profitability analysis by allocating shared fixed costs (e.g., warehouse, showroom, salesforce, sourcing) across channels and individual component costs (e.g., rebates, freight, duty, and transport costs) to invoice line items
- Classifying inventory into velocity and age cohorts at the SKU-level to identify slow-moving and obsolete inventory, and developing a plan for optimizing inventory levels, as well as quantifying warehouse savings associated with ensuing consolidation and rebalancing of warehouses
- Interviewing 24 customers across channels to establish company reputation, competitive positioning, key purchasing criteria, and buying behavior
- Visiting showrooms and websites to create in-depth profiles of 13 key competitors in order to assess relative pricing, product mix, channels, and go-to-market strategy
- Leveraging government data and industry reports to establish demand drivers for home décor spending and to provide a view on how well the company's product and channel mix aligned with industry trends
- Modeling the impact of eliminating the brick-and-mortar channels on company EBITDA and estimating the number of SKUs and the fixed costs (e.g., warehouse space, showrooms, salesforce) that could be eliminated in each scenario.

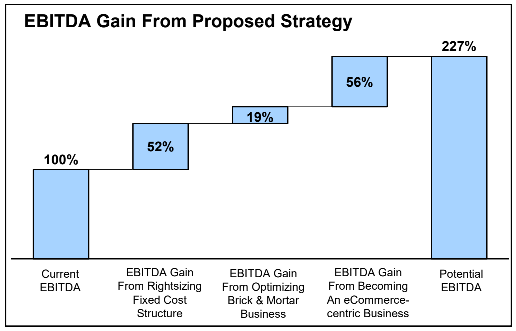
Although Consumer Spending On Home Décor Is Stable, The Retail Landscape Remains Challenged

Consumer spending on home décor has remained stable post-covid, growing 0.6% in 2024 despite a broader 1.9% decline in furniture sales, with this spending driven by life events such as moving and renovations as well as increased discretionary income and commercial use cases like Airbnb furnishing. This growth is not evenly distributed across channels, however, with traditional brick-and-mortar channels, including home décor, furniture, and gift stores, losing share to eCommerce and off-price retailers. Despite both home décor and furniture stores experiencing demand surges during the pandemic, they are now declining due to online competition and share loss to off-price retailers. Furniture stores are facing additional challenges from pulled-forward demand, economic headwinds, and a slowdown in home sales. Gift stores are stable but face similar eCommerce pressure as well as seasonal volatility, making long-term performance uneven. On the contrary, the off-price channel has seen tremendous growth, with revenues nearly tripling from 2014 to 2023, fueled by deep value pricing, the appeal of a "treasure hunt" shopping experience, and strong traction on social media. The number of interior design firms in the U.S. also received a significant boost during the pandemic, with interior design services expected to continue to pick up as the economy recovers and consumers invest more in home improvement and these services.

While Totally Eliminating Brick-and-mortar Channels Is Not Feasible, There Is A Significant Opportunity To Optimize Operations By Reducing Inventory And Rightsizing The Legacy Fixed Cost Structure

Gotham identified a significant opportunity to reduce total inventory by over 33% from removing discontinued SKUs and optimizing slow-moving inventory by setting statistical inventory coverage targets based on SKU demand patterns. Through this inventory optimization along with a rebalancing of East and West coast operations, warehouse capacity could be downsized by ~20% to minimize redundancy and reduce shipping complexity. To further rightsize the fixed cost structure, Gotham identified an opportunity to: close 2 of the company's 5 showrooms; downsize the remaining showrooms; and sublease the extra space.

EBITDA Gain From Proposed Strategy



There Is An Opportunity To Become An eCommerce-centric Business In Order To Create An Attractive Exit Positioning

The company has built a drop-ship capability to fulfill consumer orders directly from its warehouse for its online retail partners and can leverage this direct-to-consumer fulfillment capability along with its ability to load SKUs on eCommerce sites in order to enable home décor eCommerce offerings for brick-and-mortar furniture retailers. Simultaneously, with a growing base of small retailers and interior designers, the company is implementing an eCommerce platform that allows small accounts to place small-batch or single-SKU orders online. To reach consumers directly and build a new high-margin eCommerce channel, Gotham identified an opportunity for the company to launch a DTC platform leveraging existing eCommerce capabilities and fulfillment infrastructure.

The Outcome: Gotham analyzed channel profitability and inventory to establish opportunities to rightsize the fixed cost structure, reduce inventory levels, and drive sales growth, unlocking a clear path to profitability growth. The resulting strategy outlined a plan to more than double EBITDA through a combination of footprint rationalization (~45% of total gains), brick-and-mortar channel performance improvements (~15%), and accelerated growth in the eCommerce and independent retail channels (~40%). The company launched an effort to capture these opportunities to position itself for a successful exit.