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Smaller retailers aren't boxed in by Ikea

East Bay Business Times - by [David Goll](#)

Conventional wisdom dictates that smaller retailers cower in the face of a big-box invasion, hoping, at best, to sidestep an onslaught of the Wal-Mart, Targets, Costcos and Ikeas of the world.

Survive, maybe. Thrive? Forget it.

Not so fast.

Some local office furniture retailers say the sluggish economy has affected their business far more than the splashy openings of stores operated by worldwide home and workplace furnishings giant Ikea in Emeryville three years ago and in East Palo Alto on Aug. 27. Ikea plans to open a third Bay Area store at Hacienda Drive and Interstate 580 in Dublin by late 2004.

Thousands of Ikea shoppers may risk traffic jams for good buys on inexpensive desks, chairs or file cabinets, but most are not typical customers of, for example, Sam Clar, the Concord-based office furniture retailer with stores in Concord, Dublin and San Jose.

Sam Clar recorded 2001 sales of \$13.5 million, compared with Ikea's \$8 billion in worldwide sales last year.

"It has had zero effect on our business," said John Schwartz, president since 1996 of the company founded by his great grandfather in 1939, referring to Ikea's East Bay store. "We're in a different market. (Ikea) caters to people in home offices or small offices with its ready-to-assemble furniture. We got out of that market in the mid-1980s, when Ikea first started entering the U.S."

At the time, Schwartz said, that market segment accounted for about 15 percent of his company's sales.

"We simply can't compete in that market with major chains," he said. "It's all about price and we can't beat them at that game."

Small, local furniture store owners say providing exceptional customer service can more than make up for the price difference with big-box discounters. So while there may be a small overlap in customers, the big chains and small regional stores each have major sources of revenue to tap, said Barry Galvin, owner of Galvins Workspace Furniture.

"I consider us to be in the service business rather than the item business," said Galvin, who has stores in Oakland's Rockridge district and Redwood City, both in close proximity to Ikea's Bay Area locations. "We focus on small offices, especially professional offices, and home offices where people want more than a desk and file cabinet. Ikea is fine, but we consider the closet (organizer) stores more direct competition. We just know a lot more about ergonomics."

Galvin said the vast majority of his home office customers have an average yearly income of \$100,000 or higher and don't fit Ikea's demographic target.

Hit by the double whammy of high commercial vacancy rates and large inventories of surplus office furniture in many of those empty offices during the past couple of years, Galvin and Schwartz said they've discerned the stirrings of better days ahead.

"We still have some entrepreneurial energy in Northern California," said Galvin, noting his company suffered a sharp downturn in business since the crash of its dot-com startup customers. "I feel it starting up again."

The fact that smaller retailers have been able to carve out a market niche doesn't even surprise Ikea itself, according to Clive Cashman, a spokesman at the company's North American headquarters outside Philadelphia. Research conducted by the Swedish retailer, which has 185 stores worldwide, has shown that retailers, especially noncompeting ones, benefit from nearby Ikea stores, thanks to the high volume of customers attracted by Ikea.

"We have found that we and retailers like The Home Depot definitely benefit from having close proximity to one another, but it also applies to smaller retailers," Cashman said. "I can understand that the initial reaction to us entering a market would be a lot of concern, but we seem to energize the local retail market overall. That's not to say some competing stores might end up suffering some losses in business."

But that's only if the competing small retailer suffers a massive loss of nerve or imagination, according to Eddy Kay, an author and public speaker on issues affecting small business.

"I would tell a smaller office furniture chain to move into Ikea's parking lot," said Kay, who was based in Southern California for 25 years before relocating his sales training and development company to Asheville, N.C., six months ago.

That's because, according to retail research, only 20 percent to 35 percent of potential customers who enter a big-box store end up making

a purchase, Kay said. Most either can't find the products they want in the sprawling structures or can't locate anyone to help them, he added.

"I ask anyone to walk through one of these stores and count how many people say 'Good morning' to them," he said. "For the most part, customer service is terrible and a lot of people leave these stores unhappy. So, where do they go? They go to smaller stores where the prices may be higher, but they, hopefully, get great customer service."

Kay said the biggest problem small retailers have when going up against the giants is they throw in the towel too early.

"If they've been the only game in town, they forget how to compete," he said. "They have all kinds of advantages when they focus on competing. One of those is realizing big-box stores have the most of everything and the best of nothing."

Galvin said his customers appreciate that distinction and can afford to pay the difference. His average home office customer spends about \$2,500, while his commercial patrons tend to give him orders of between \$5,000 and \$10,000.

"Big-box stores do a great job of mass buying and they attract many price-conscious buyers, but this isn't furniture that will be passed down through the generations," he said. "We can give our customers detailed computer-generated drawings of how their office can look, which is a great qualitative difference."

Not all small office furniture retailers have fared as well as his store, Galvin said.

"Clearly, the competition is less today than when Ikea opened (in Emeryville)," he said. "Many were already marginal and others just didn't adjust. These have been challenging times for all of us because of competition and the economy, but, in the long term, I'm optimistic. I think that in a year or two, we will see the crowds return."

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