

# RESTORATION HARDWARE STRATEGY REPORT



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## EXECUTIVE SUMMARY

Restoration Hardware is a high-end home-furnishings retailer that sells products that include furniture, lighting, textiles, bathware, decor, outdoor, garden, and baby and child products, targeting consumers with annual incomes above \$200,000. They currently operate 87 retail stores and 10 outlets throughout North America and employ approximately 1900 full-time employees.

Competitors include Pottery Barn, and Pier 1 Imports, Crate & Barrel, and market leader Williams-Sonoma, among others.

The company was founded in 1979 in Eureka, California and experienced steady growth that resulted in its going public in 1998 with 47 nationwide stores. After the public offering, the company attempted a rapid expansion that, combined with the housing downturn, resulted in large losses. So in 2008 it was taken private by former Chairman and co-Executive Officer Gary Friedman and the private-equity firms Catterton Partners, Tower Three Partners LLC, and the hedge fund Glenhill Capital Management LLC.

On Nov 1, 2012, went public again with an IPO of 5.9 million shares at \$24 per share. As of last Friday, the price per share was \$36.08. Third quarter revenue for 2012 was \$284.2 million, up 22 percent from the previous quarter. Earnings were at \$1.7 million for the quarter, compared to a \$4.8 million loss the previous year.

The company has said that they plan to move away from mall-based stores to focus on larger outlets, with which they hope to double their store square-footage in the next seven to ten years.



## HISTORY

Restoration Hardware began in 1979 when 26 year-old, fresh out of graduate school psychiatrist Stephen Gordon quit his job as a counselor in Eureka, California to buy and refurbish an old, run-down Victorian house. After encountering difficulty finding appropriate furnishings and accessories to turn the old house into a bed and breakfast, Gordon realized that there was an unfilled niche market for those types of novelty items and opened the first Restoration Hardware store in 1980.

The first store initially stocked the kind of hard-to-find (and usually expensive) materials needed to restore old houses, and many of its sales were custom ordered. It proved successful and by 1990, Gordon had opened five additional stores in the Bay Area. In 1994, Restoration Hardware's sales were \$4.2 million, and the same year, Gordon began delegating part of the firm's management by hiring Thomas Christopher, a former executive for Pier 1 Imports and Barnes and Noble, as executive vice-president, chief operating officer, and director. Thomas Low, a former executive at Home Express, was hired the following year and by 1995 revenues had reached \$13.2 million.

By 1997 the company had 41 stores in operation and raked in \$97 million in revenues by the end of the year. In June of 1998, Restoration Hardware went public, selling its common stock for \$19 a share on NASDAQ and raising almost \$75 million in its initial public offering. In 2001, the company experienced a leadership change with Gary Friedman, a former president of Pottery Barn, taking over as Chairman and co-Executive Officer.

In the early 2000s, the company attempted a rapid expansion that, combined with the housing downturn, resulted in large losses. As a result, in 2008 it was taken private by former Chairman and co-Executive Officer Gary Friedman, the private-equity firms Catterton Partners, Tower Three Partners LLC, and the hedge fund Glenhill Capital Management LLC.

In September 2010, company representatives declared a change in focus for the company. They eliminated several previous merchandise categories (toys and books, for instance) and reduced their offerings of hardware-based items. In an attempt to go further "up-market", the company decided to focus itself on furniture gallery offerings at higher price points to distinguish itself from competitors like Pottery Barn.



On Nov 1, 2012, went public again with an IPO of 5.9 million shares at \$24 per share. As of January 18, 2013, the price per share was \$36.08. Third quarter revenue for 2012 was \$284.2 million, up 22 percent from the previous quarter. Earnings were at \$1.7 million for the quarter, compared to a \$4.8 million loss the previous year.



Figure 1. Restoration Hardware then and now



## FINANCIAL ANALYSIS

In November 2012, Restoration Hardware held its initial public offering (IPO), selling over 4.7 million shares of common stock at a price of \$24.00 per share, raising approximately \$106.7 million in net proceeds. Since its IPO, Restoration Hardware's (RH) share price has increased 12%, roughly in line with its closest peers Ethan Allen and Pier 1 Imports, and the company has a current market capitalization of \$1.33 billion as of April 12, 2013. Restoration Hardware's share price is somewhat elevated compared to its peers, with a price-earnings ratio of 28.28, compared to 17.41 for Ethan Allen and 19.24 for Pier 1 Imports.

In the third quarter 2012, the only results the company has released since going public, Restoration Hardware reported adjusted earnings per share (EPS) of \$0.07, beating analysts' estimates of \$0.04 EPS by 75%, with net income growing to \$1.7 million, a year over year increase of \$6.5 million. During the same period, revenue increased by 22% to \$284 million. For the fourth quarter 2012, consensus analyst expectations are for Restoration Hardware to report approximately \$22.75 million in adjusted net income, bringing their total adjusted net income for fiscal 2012 to approximately \$39 million on revenue of \$1.19 billion. Restoration Hardware will report fourth quarter and full year 2012 results in late-April 2013. For fiscal 2013, analysts expect earnings to grow approximately 27% with annual revenue growth of 16%. The consensus analyst recommendation is a weak buy.





## **Revenues, Profitability, & Growth**

Restoration Hardware operates in two main lines of business, furniture and non-furniture sales. Furniture sales, including both indoor and outdoor furniture, accounted for 55% of total revenue and grew 31% to \$156.2 million from third quarter 2011 to third quarter 2012. During the same period, non-furniture sales, such as lighting, textiles, and home décor accessories, made up 45% of total sales and grew at a slower pace of 13% to \$128 million. This period represented a material shift in the sales make-up of the company. During the third quarter of 2011, furniture sales were only 6% more than non-furniture sales, however, by the third quarter of 2012, furniture sales were 22% greater. Ethan Allen, on the other hand, makes 85% of its revenue through furniture sales, so even with furniture now representing a larger share of sales, Restoration Hardware's revenue mixture is relatively diverse.

Restoration Hardware also separates its distribution channels into two lines: retail and direct to consumer, which includes both online and catalog sales. The company generates 56% of their sales, \$159.2 million, through their retail operations, consisting of 73 retail and 12 outlet stores as of October 27, 2012. It is interesting to note that the company's total revenue from their retail channel grew 21% from the third quarter 2011 to third quarter 2012, keeping the share of total revenue from retail steady, even though 14 fewer stores were operating at the beginning of third quarter 2012. They were able to achieve this by increasing comparable store sales by 29%. This increase in comparable store sales is incredibly impressive compared to their peers; Ethan Allan's comparable store sales increased by 8.2% and Pier 1 Import's increased by 7.9% during the same period. Additionally, Restoration Hardware's sales per retail square foot reached \$282, well above the \$194 in sales per square foot achieved by Pier 1 Imports. The disparity in these numbers, however, suggests that it may be difficult for Restoration Hardware to sustain this growth on already high achieving retail sales over the long term.

Direct to consumer sales grew even faster than retail sales, increasing 24% from the third quarter 2011 to \$125 million and making up 44% of total company revenue in the third quarter 2012. This sales channel is a strength of Restoration Hardware that separates it from its peers, with direct to consumer sales making up less than 3% of Pier 1 Imports revenue. Restoration Hardware has achieved this success due to their user friendly website that allows customers to quickly and easily



browse and order their full product line and increased catalog circulation to highlight their products to both new and repeat customers. Of note, while Ethan Allen does not separately report direct to consumer sales, they do operate a separate wholesale division that sells and distributes their products to a network of independently operated retail design centers. This division earns over 20% of Ethan Allen's revenue and 80% of their operating income and represents a possible future area of expansion for Restoration Hardware.

In the third quarter 2012, Restoration Hardware gross profits grew almost 21% from the third quarter of 2011 to \$101.9 million. During this period, the company's gross margin was 35.85%, down from their gross margin of 36.3% during the same period in 2011. The drop in gross margin was due to the increase in furniture sales, which have a lower initial margin and higher shipping costs than non-furniture items, and a higher proportion of sales taking place during promotional events. These items resulted in a drop in gross margin of 240 basis points, although they were largely offset by a 200 basis point reduction in occupancy costs. The lower margins Restoration Hardware is able to command for its growing furniture line, despite being a high end retailer, is an item of concern, as the company's gross margin is already substantially lower than both Ethan Allen and Pier 1 Imports, who have gross margins of 55.6% and 41.1%, respectively.

These low gross margins influence Restoration Hardware's ability to maintain EBITDA and net income margins comparable to its peers. While the company did increase EBITDA from a loss of \$4.1 million to a profit of \$2 million from third quarter 2011 to the same period in 2012, its EBITDA margin of 0.7% was much lower than Ethan Allen at 9.6% and Pier 1 Imports at 11.1%. Similarly, net income improved to \$1.7 million with a net income margin of 0.6% in the third quarter 2012 from a loss of \$4.8 million the prior year. A decline in selling, general and administrative (SG&A) expenses as a percentage of revenue from 38.1% in the third quarter 2011 to 35.15% in the third quarter 2012 is responsible for the increase in EBITDA and net income, despite the drop in gross margin. This suggests that even with a very low gross margin, Restoration Hardware may be able to continue to grow EBITDA and net income by keeping SG&A expenses relatively low.

### **Liquidity, Solvency, & Key Ratios**

As of October 27, 2012, Restoration Hardware had \$15.6 million in cash and cash equivalents, an increase of \$7.1 million from the previous year. This increase was due entirely to net cash of \$53





million provided by financing activities, primarily through an increase in borrowing of \$65.2 million from the company's line of credit. Restoration Hardware had an operating cash flow loss of \$20 million during this period, largely due to an increase in working capital of over \$55 million.

Of note, merchandise inventories increased by \$88 million and prepaid expenses totaled \$35.2 million, due to the need to build up inventory and distribute the catalog for the holiday quarter, which is the largest revenue period of their year. While still large, the operating cash flow deficit for the nine-months ending October 27, 2012 was \$28 million less than the shortfall the year before. This is primarily due to net income swinging from a \$3.5 million dollar to a \$15.6 million profit and a \$19.5 million decrease in the amount working capital expanded from the 2011 to 2012 nine-month period ending in late-October.

During the nine-month period ending October 27, 2012, Restoration Hardware used net cash of \$25.9 million in investing activities, primarily as a result of investments in new stores and in supply chain and systems infrastructure. This represents an increase of \$6.1 million from the same period the year before. This increase in capital expenditures, coupled with the lack of cash dividends, indicate that Restoration Hardware is a growth company.

As of October 27, 2012, Restoration Hardware had \$15 million outstanding on a term loan and \$172.7 million outstanding under a revolving line of credit from Bank of America, with remaining borrowing availability of \$122.7 million from the line of credit. Although not yet fully detailed in public filings, Restoration Hardware's financial position became much stronger after their initial public offering in early-November 2012 in which they raised approximately \$106.7 million in net cash. Following the IPO, the company repaid the entire outstanding term loan of \$15 million, made payments of \$75.1 million on its revolving line of credit, and increased the borrowing limit on the line of credit by \$100 million. Despite the company's negative net cash flow, the large amount available under the line of credit should allow Restoration Hardware to maintain liquidity in the future.



### Key Ratios

	Restoration Hardware	Ethan Allen	Pier 1 Imports
Current Ratio	0.15	0.69	0.62
Quick Ratio	2.01	1.96	2.37
Debt to Equity Ratio	0.70	0.47	0.02

\*Time period is Restoration Hardware's third quarter 2012 and comparable reporting periods for Ethan Allen and Pier 1 Imports

Looking at Restoration Hardware's current ratio of 2.01, we see that they are in a healthy financial position to meet their current liabilities and are maintaining a comparable ratio of current assets to current liabilities as their peers. The quick ratio for all three companies is very low, primarily due to the large amount of inventory home furnishing companies have on their balance sheets. This is exacerbated by the time period we are looking at, as these companies have built up their inventory beyond even their normal high levels in preparation for the holiday shopping season. Restoration Hardware's quick ratio is substantially lower than its peers due to their relatively small amount of cash. Where Ethan Allen and Pier 1 Imports have 13.1% and 15% of assets in cash, Restoration Hardware has only 2.1% of assets in cash. Improving their cash position should be a long-term goal of Restoration Hardware, but they are unlikely to achieve it in a sustainable manner prior to improving their margins and achieving positive operating cash flows. While none of the companies in this group carry a heavy debt load, Restoration Hardware does have the highest debt to equity ratio. This may have changed, however, following their initial public offering and subsequent pay down of \$90 million of debt.

### DuPont Analysis

#### DuPont Analysis

	Restoration Hardware	Ethan Allen	Pier 1 Imports
Net Income Margin	0.6%	5.4%	5.6%
Asset Turnover	0.48	0.29	0.52
Leverage Ratio	2.20	1.96	1.68
Return on Equity	0.6%	3.1%	4.9%

\*Time period is Restoration Hardware's third quarter 2012 and comparable reporting periods for Ethan Allen and Pier 1 Imports

Restoration Hardware has the lowest return on equity (ROE) amongst its peers, at 0.6% during the third quarter 2012. This is substantially lower than both Ethan Allen and Pier 1 Imports, with ROE



of 3.1% and 4.9% respectively. Restoration Hardware's lower ROE is entirely due to having by far the lowest net income margin. As we examined before, this is largely a function of Restoration Hardware commanding a much lower gross profit margin than either Ethan Allen or Pier 1 Imports. Restoration Hardware's asset turnover ratio is in line with its peers, however, given their lower margins, we would expect the company to have higher turnover. If they attempt to increase their margins, we should closely watch their ability to maintain the same level of turnover. As indicated by their relatively high debt to equity ratio, Restoration Hardware operated with the most leverage during the third quarter of 2012 (as previously noted, this may have changed following their IPO). Despite having the highest leverage in their peer group, this was not enough to compensate for their low net income margin. In order for Restoration Hardware to offer the same return on equity to their shareholders, they need to work to raise their net margin by increasing their gross margin. If they are unable to achieve this goal, they will need to greatly increase their asset turnover to compensate for low profit margins.



## COMPETITIVE ANALYSIS

### Internal Rivalry

The home furnishings market is divided into several categories according primarily to consumer demographics. Restoration Hardware markets to an upper-middle class demographic and has, in recent years, been attempting to extend its reach to an even higher end of that spectrum, vying with designer furniture retailers and independent niche shops that cater to interior designers looking for one-of-a-kind pieces. In recent years, Restoration Hardware has been attempting to create its own niche of upper-middle class customers who cannot afford to hire a designer, but still desire the “interior designer experience.”

Restoration Hardware thus competes with three categories of retailers. The first is the category of chain retailers that sell exclusively home-furnishings and targets an upper-middle class consumer base. These competitors typically operate physical stores (typically called “showrooms” or “design centers”) in addition to Internet and catalogue retail channels. Examples include Williams Sonoma and Ethan Allen on the higher end and Crate & Barrel, Pier 1 Imports, and Design Within Reach on the lower end of the price point spectrum. There are also retailers in this category that offer exclusively Internet or catalogue services—a prominent example being Horchow.

The second category is the home-furnishing divisions of department stores, such as Nordstrom, Bloomingdale, and Neiman Marcus. A major difference between these and the first type is that the latter tends to rely on having a large selection of brands, varieties, colors, options, fabrics, etc. Thus with these retailers there tends to be less effort put into branding and perhaps more put into customer loyalty and attracting customers who are looking for specific home furnishing items. A good example of this contrast is the results of a simple search for bed linens; the Nordstrom home website yielded 539 results in stark contrast to Restoration Hardware’s 24 options.

With Restoration Hardware’s recent rebranding efforts comes a third category of competitors; design centers. One indication that, at the very least RH is attempting to compete with *them*, is this quote by the CEO; “What if Resto...went into the heart of the design center in San Francisco and earned everyone's respect? Wouldn't that change everyone's perception of the brand?” The design center in particular that he is referring to is the San Francisco Design Center, with the following



description from their website; “Sitting at the heart of the San Francisco's Design District, the SFDC is comprised of three buildings; the Showplace, Galleria and Garden Court. Together, they house over 100 showrooms. Combined, these showrooms carry 2,000 manufacturers featuring products for every room in the home and in every style imaginable. This is the place to discover the very best name brands in furnishings, accessories, flooring, wall-coverings, fabric, lighting, kitchens, baths, closets, fine art and antiques.”

In addition to the multitude of competitors, there is consensus among analysts that the home-furnishings sub-industry itself is fiercely competitive. According to the S&P 500 Sub-Industry review, “macroeconomic trends such as a relatively weak housing market, soft underlying employment trends, tight consumer credit and an increasing national savings rate will lead to only modest improvement” in the market in 2013. It also predicts that, “consumers will be hesitant to buy big-ticket furniture items....the home furnishing retail industry [is] intensely competitive, with retailers looking for ways to broaden product offerings as they add square footage to their stores.”

However, it is widely acknowledged that the home furnishings industry is largely fueled by the housing market, which is showing signs of recovery. If the recovery continues and housing prices and sales rebound, it is likely that the entire industry will experience significant growth.

### **Entry & Exit**

A major barrier to entry lies in the outlays necessary to build up inventories in order to account for fluctuations in demand and in order to avoid backordering. As noted in the financial analysis section, home furnishings stores tend to maintain massive amounts of inventory—Restoration Hardware held over a years worth of sales in inventory as of the end of the third quarter of 2012.

In the home furnishing business, it has become increasingly necessary to offer speedy and on-time delivery. With the rise in Internet shopping, consumers have come to expect instant delivery of goods purchased online. While furniture retailers used to be afforded the luxury of multi-week delivery periods (often performing deliveries one to two months after purchase dates), now customers who purchase large furniture items expect deliveries within a week. As such, it is necessary for a new entrant into the home furnishings industry to establish delivery infrastructure



that does typically tend to be more costly than the average retailer delivery service, due to the size and complications involved with transporting delicate furniture.

A further barrier to becoming a large-scale home-furnishings retailer is, with the intense competition mentioned above, the importance of developing a brand. To do so in a successful way appears to require massive marketing efforts; Restoration Hardware circulated 11.7 million 992-page catalogues for their Fall 2012 line alone, at an estimated cost of \$32.9 million in prepaid expenses.

At the same time, an online home furnishings retailer could potentially enter the industry without the start-up costs of having physical stores and floor-salespeople. Furthermore, a competitor in the form of a small specialty furniture dealer could potentially enter the market and compete with RH with very little barriers to entry, provided that their product was differentiated enough to garner consumer interest, by participating in something akin to the San Francisco Design Center.

### **Substitutes & Complements**

As mentioned before, a major complement to home furnishings is homes themselves and the performance of the housing market is an incredibly effective indicator of the performance of the home furnishings market. In the housing market, following a boom in the housing market in the early to mid 2000s, starts fell precipitously to a trough level of 554,000 in 2009. While starts improved slightly in 2010 and 2011, 2012 brought about a much stronger recovery. In fact, starts rose 27.6% in 2012, to 780,000 units.

While still low from a historical perspective, there is increasing confidence that the housing recovery will continue over the near to medium term. S&P Economics projects a 33.8% increase in starts in 2013, to 1,050,000. Starts at this pace should fuel increasing sales of home furnishings, and as sales of furnishings typically lag the housing market by several quarters, the pace of sales should accelerate over the next 12 months. For the year to date through March 28, 2013 the S&P Home Furnishing Retail Index rose 11.6%, slightly outpacing the 10.3% advance in the S&P 1500. In 2012, the S&P Home Furnishing Retail Index increased just 2.2%, significantly underperforming the 13.7% advance in the S&P 1500.



## **Supplier Power**

Restoration Hardware relies on a large number of suppliers, thus dissipating the supplier power over many firms. In fact, it is likely that Restoration Hardware exercises a significant amount of power over its suppliers—especially with specialty items such as the Italian linens that make up the company’s bed linens collection. Because the suppliers need a company that can reach the massive American market, Restoration Hardware can negotiate lower prices. This is exemplified by a quote from a Wall Street Journal article highlighting the company: “But Friedman says he's just trying to bring the things he enjoys to more people. ‘My house is filled with Libeco-Lagae linens,’ he says. ‘They cost \$85 a yard.’ With Restoration, however, he flew to Belgium to meet with Libeco CEO Raymond Libeert. ‘We were able to buy linen for \$14 a yard, bring a value to an American customer they hadn't seen,’ he says. ‘We're now their biggest customer in the world.’ As Cole describes it, ‘He's breaking open the mysteries of the business.’ Who could object to that—save the person who paid \$85 a yard?”

Restoration Hardware also expended a sizeable amount in the past year on improving and managing their supply chain—investing \$11.7 million in supply chain and systems infrastructure in the nine months ended October 27, 2012 compared to the \$7.2 million spent in the nine months ended October 29, 2012. Furthermore, they transitioned all manufacturing to China in the last five years, in the expectation that it would lower costs.

## **Buyer Power**

Restoration Hardware exists in an industry with high buyer power because it is so easy for consumers to switch between the many retail options. This is the main reason why marketing in the home furnishing industry is so vital and why participating companies pour such large quantities of resources into efforts to establish their brands.

It appears that Restoration Hardware has been relatively successful as establishing itself as a high-end brand in order to command higher price points. Marketing efforts such as sleek, well designed, and enormous catalogues, exclusive store opening parties, and gallery stores in prime retail areas have been the primary contributors.



# SWOT

## Strengths

- Increasing brand recognition
  - With the increase in catalog circulation, particularly with catalogs so large that consumers keep them as coffee table ornaments in their homes, Restoration Hardware is on its way to becoming a well-known name within and outside of the home furnishings industry.
  - The company is also establishing itself as a forward-looking and sophisticatedly quirky retailer, drawing customers into its stores with attractions such as 25-foot Eiffel Tower replicas and extravagant chandeliers.
- Diverse revenue mix
  - Furniture sales, including both indoor and outdoor furniture, accounted for 55% of total revenue in third quarter 2012 while non-furniture sales, such as lighting, textiles, and home décor accessories, made up 45% of total sales.
  - By having a balanced mix of home furnishings items, Restoration Hardware effectively creates a buffer between itself if consumer demand for larger, more expensive items (i.e. couches, beds) falls.
- High direct-to-customer sales
  - Sales made directly through the Restoration Hardware website and catalog account for a much larger percentage of its sales than those of its competitors. As these are the least expensive types of sales, this gives Restoration Hardware an edge over its competitors.
- Recognized high quality goods
  - Has gained a reputation for selling high quality products, including items that would not normally be accessible to the average American consumer, such as fine Italian linens.





## Weaknesses

- Small gross margins relative to competitors
  - In the third quarter 2012, Restoration Hardware's gross margin was 35.85%, substantially lower than both Ethan Allen and Pier 1 Imports, who have gross margins of 55.6% and 41.1%, respectively.
- Industry dependent on the housing market
  - Though the housing market is showing signs of improvement, its growth is still tending towards sluggish. Furthermore, even if the housing market speeds up, consumer demand for home furnishings will still lag behind by several periods.
- Legal problems with the former CEO
  - Restoration Hardware's Gary Friedman, former CEO and the mastermind of its transformation from quirky, kitsch item retailer to high-end luxury furnishings retailer, was involved in a scandal involving a younger female employee of the company. The scandal resulted in Friedman stepping down as CEO.
  - It is unclear as to the effect this will have. While Friedman is no longer the official leader of the company, he still appears to have a large sway in the design aspect, continuing to appear in Restoration Hardware's massive (and potentially iconic) look-books.

## Opportunities

- Wholesale design division
  - Ethan Allen, a major competitor of Restoration Hardware, operates a separate wholesale division that sells and distributes their products to a network of independently operated retail design centers. This division earns over 20% of Ethan Allen's revenue and 80% of their operating income and represents a possible future area of expansion for Restoration Hardware.
- Supply chain infrastructure improvement and expansion
  - While Restoration Hardware has made significant investments in supply chain infrastructure, they should continue to streamline their operations in order to improve inventory turnover, reduce their current supply chain costs and maximize profits.



- International expansion
  - With manufacturing already outsourced overseas, and demand for high-end luxury goods increasing rapidly overseas in places such as Singapore, Hong Kong, China, and the Middle East, Restoration Hardware could potentially benefit from introducing a “quirky luxury” to those markets.
- Maximize retail space efficiency
  - Conduct an analysis of stores across the country to determine whether their sales levels are on par with the company’s stated goals, and whether they maximize revenues in their particular locations.
  - In urban areas with expensive land rents, focus on one large gallery store that will become a destination for shoppers in its own right (Restoration Hardware is moving in this direction with the opening of its Boston flagship store in the former location of the New England Museum of Natural History).
- Continued website promotion
  - With the high potential for cost savings and the superior quality of Restoration Hardware’s website, the company should attempt to move customers more towards online shopping.

## **Threats**

- Intense competition
  - A still-weak housing market and only just recovering consumer confidence, as well as a multitude of different types of competitors—from high-end furniture chains to small luxury designers, mean that the home furnishings industry is intensely competitive.
- High branding costs
  - In order to establish itself as a high-end brand competing with furniture designers, Restoration Hardware has had to expend considerable resources on catalogues and expensive real estate. In the early stages it appears to have paid off but it is questionable whether it is sustainable.



## STRATEGIC RECOMMENDATIONS

### **Make Branding Efforts More Sustainable**

The main focus of Restoration Hardware's marketing efforts in recent years has been their catalogue; the "lookbook," the most recent of which was 992 pages and weighed five pounds. The lookbook was sent out to over eleven million homes in the third quarter of 2012 and represented a significant cost increase over the previous quarter. A focus of Restoration Hardware's is to have a limited selection of "looks" from which customers can choose—so for each "theme" they provide paint colors, linens, furniture, etc. so that customers can buy an entire room that is guaranteed to look good and match as a whole. This allows people to be their own interior designer at a fraction of the cost. This seems to be a successful tactic, because it appeals to two things people love; feeling like they can do what a professional can do and being able to afford luxury goods.

One concern we have is that a five-pound lookbook circulated to over eleven million homes is simply unsustainable, and we believe that the achievements of the current physical catalogue could be done in a cheaper manner. Perhaps, because there are such limited looks, Restoration Hardware could create lookbooks that are more concise overviews of the general looks and then point customers to the website where they can purchase what they will, after having been influenced by the catalogue. This change would also have the benefit of helping Restoration Hardware avoid the negative attention its lookbook garners for, in the eyes of critics, being over-the-top, pretentious, bad for the environment, a waste of paper, etc.

### **Continue Maximizing Retail Space Efficiency**

Restoration Hardware has been closing stores and opening larger, "flagship" stores to maximize their retail space efficiency. We recommend that they should continue this trend. The fact that the majority of their revenue comes from catalogue and website sales indicates that consumers have been using the stores to examine furniture in person and then actually making their purchases online.

Restoration Hardware should focus on opening more stores in centralized, easy to access locations and closing smaller stores in close proximity. One major benefit of this is that it will reduce inventory costs, one current problem that Restoration Hardware has been having, because merchandise will be consolidated in distribution centers rather than spread across retail locations.