

Competitive Market Analysis

Sector: Office Furniture Wholesale
Nashville, TN Metro Area
Financial Peer Group: \$2.5m - \$4.99m
Market Peer Group: Small Business (<25 employees)
June 2016

COMPETITIVE MARKET ANALYSIS

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Peer Group: \$2.5m - \$4.99m

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Market Area: Nashville, TN Metro Area

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The Competitive Market Analysis generally progresses from big picture background to a specific market area industry analysis and benchmarks.

COMPETITIVE MARKET ANALYSIS, continued

- I. General Business and Consumer Demand Environment
 - a. Regional Trends
 - b. Area Income
 - c. Economic Background

NASHVILLE MARKET AREA

Between October 2014 and October 2015, total state employment grew by 0.7%, while unemployment decreased by 1.5 points to 3.9%. During the same period, state employment in Wholesale Trade, the parent sector of Office Furniture Wholesale in the Bureau of Labor Statistics taxonomy, increased by 2.5%. The sector represents 20.7% of total state employment, including the public sector. On a national scale, the Office Furniture Wholesale industry holds a \$46,958,910,600 market.

The specific market area is contiguous with the Nashville, TN Metro Area metropolitan area.

As of 2015, the area supported a business base of 83,304 locally operated firms and 13,833 business branch operations.

The market area includes 819,060 personal income reporting units with total gross income of \$51,853,712,050 (average income: \$63,309), 10.6% above the US average of \$57,227. (Each personal income reporting unit represents a single IRS tax return and is used to approximate a consumer decision-making unit.) The percentage of earning units within each income reporting bracket is noted in the table:

Personal Income Breakdown (IRS reporting units)	
Income Bracket	Market Area
\$1-\$25,000	21.8%
\$25,000-\$50,000	25.4%
\$50,000-\$75,000	19.0%
\$75,000-\$100,000	12.5%
\$100,000-\$200,000	16.6%
Over \$200,000	4.6%

Population in the market area is 1,730,515 including 100 households with a median age of 36. Per capita income in the market area is \$28,521. Average (median) household income is \$52,805, while mean household income is \$72,921. (Population and income data from the US Census American Community Survey.)

COMPETITIVE MARKET ANALYSIS, continued

II. Competitive Market Concentrations

- a. Market Penetration
- b. Industry Vitality

NASHVILLE MARKET AREA

The Office Furniture Wholesale industry captures \$561 in sales per personal income earning unit within the market area, representing local demand above US national levels of \$341. Local industry sales are about 0.9% of gross personal income, above the US national level of 0.6%. The industry location quotient of 1.46 indicates market area employment concentrations above the industry employment concentration nationally (where the US concentration equals 1.00).

The market area Office Furniture Wholesale industry transacts \$4,731 in sales per private sector business establishment, representing local demand above US national levels (\$2,983). Locally generated industry sales represent 0.46% of the total volume of sales generated in the market area by businesses of all types, a 0.48 multiple of the national average share.

Over the 24-month period year-end 2011-2013, 10.4% of US business establishments in the industry, and 11.4% in its small business segment, ceased independent operation. By contrast, the cessation rate (2014-2015) in the market area was 15.63% industrywide and 14.81% for small businesses.

On the new business vitality side of the equation, 1 independent industry startup and new branch operation was identified in the market area, creating a new operation rate of 3.70% in the most recent analysis year, less than the national rate of 6.10%. Unusually low new operation rates can indicate market saturation or lack of perceived opportunity, while high rates suggest both opportunity and the recognition of it. Due to the limited number of new operations at any given time, this indicator is often less useful in small local market areas.

COMPETITIVE MARKET ANALYSIS, continued

III. Industry Market Size and Market Share

- a. Market Volume
- b. Small Business Share
- c. Growth Projections

NASHVILLE MARKET AREA

In this market area, the Office Furniture Wholesale industry includes 27 business operations; 26 independent firms and 1 branch establishments. Among the independent firms, 23 fall within small business parameters defined as single site firms with fewer than 25 employees. Industry firms based in the market area represent locally generated industry sales of \$459,589,926, which excludes operations of branches owned by local firms but situated outside the market area; and conversely, includes branch operations inside the market area, even if owned by firms based elsewhere.

The locally generated industry market volume figure is projected from sales per employee data and local employment totals. The generated market volume of the industry's small business segment in the market area is \$241,430,151, or 52.5% of the total local market. Nationally, small businesses capture 46.2% of industry market share. For the market-specific focus of this competitive analysis, generated sales is applied as the most useful barometer of industry-wide market area revenue unless otherwise specified.

Average annual (locally generated) site sales are \$17,021,849, including branch operations controlled from outside the market area. Nationally, industry site sales are \$11,786,875 or 69.2% of local levels. Market area small business sales average \$10,496,963, or 58.8% above the national average for small businesses in the industry.

Employment in the Wholesale Trade industry group is projected to grow by 0.8% per year through 2022. Output is projected to increase by 3.7% per year over the same period. Actual market area growth will be impacted by local conditions including income levels and business-to-business demand. The utility of short-term projections may be adversely affected by unforeseen economic turbulence and volatility.

COMPETITIVE MARKET ANALYSIS, continued

IV. Market Analysis and Business Valuation Benchmarks

- a. Average Sales
- b. Sales per Employee
- c. Officer Compensation-Discretionary Earnings-Profit and Efficiency

Industry sales per employee are \$858,795 at the national level and \$969,599 in the market area.

Nationally, industry officer compensation for \$2.5m-\$4.99m in the Office Furniture Wholesale industry is 3.35%. Discretionary owner earnings increase to 4.65% when net profit of 1.05% and non-cash expenses (Amortization-Depletion-Depreciation) of 0.41% are added back into actual available dollars. Actual market area owner compensation is further affected by local and regional factors such as wage costs state tax levels and by local rental rates.

V. Competitive Summary

- a. Summary Comparison: Market Area to National Industry
- b. Summary Comparison: to Peers

The competitive analysis identifies industry strengths and weaknesses in this market area relative to the national performance of firms within the industry classification:

Competitive Indicators: Local Industry Market to National Industry	
Industry Sales as a Per Cent of Total Market Sales	Lower
Industry Cessation Rate	Higher
Market Peer Group Cessation Rate	Higher
Industry New Operation Rate	Lower
Average Site Sales	Higher
Average Market Peer Group Sales	Higher
Sales per Personal Income Reporting Unit	Higher
Sales per Gross Dollar of Personal Income	Higher
Industry Sites per Household	Lower
Industry Employment Concentration	Higher

COMPETITIVE MARKET ANALYSIS, continued

	Nashville Market Area
Market Area Industry Establishments	27
Market Area Independent Industry Firms	26
Market Area Industry Small Businesses	23
Market Area Industry Branch Establishments	1
2015 Market Area: Industry Volume (\$)	459,589,926
2015 Market Area: Small Business Volume (\$)	241,430,151

2015 US Industry: Average Annual Industry Firm Sales (\$)	12,623,363
2015 US Industry: Average Annual Industry Site Sales (\$)	11,786,875
2015 Market Area: Average Annual Industry Firm Sales (\$)	17,676,536
2015 Market Area: Average Annual Industry Site Sales (\$)	17,021,849
2015 US Industry: Average Annual Industry Small Business Sales (\$)	6,611,674
2015 Market Area: Average Annual Industry Small Business Sales (\$)	10,496,963
2015 US Industry: Sales per Employee (\$)	858,798
2015qMarket Area: Industry Sales per Employee (\$)	969,599

COMPETITIVE MARKET ANALYSIS, continued

	Nashville Market Area
US Industry: Sales per Personal Income Reporting Unit (\$)	341
Market Area Industry: Sales per Personal Income Reporting Unit (\$)	561
US Industry: Sales per US Business Establishment (\$)	2,983
Market Area Industry: Sales per Area Business Establishment (\$)	4,731
US Industry: Sales as a % of Gross Personal Income	0.6%
Market Area Industry: Sales as a % of Gross Personal Income	0.9%
Sales Concentration/Quotient (US=1.00)	2.12
Employment Concentration/ Quotient (US=1.00)	0.67
US Industry: Cessation Rate (2014-2015)	10.4%
Market Area Industry: Cessation Rate (2014-2015)	15.6%
US Industry: Small Business Cessation Rate (2014-2015)	11.4%
Market Area Industry: Small Business Cessation Rate (2014-2015)	14.8%
US Industry: New Business Vitality Rate	6.10%
Market Area Industry: New Business Vitality Rate	3.70%

COMPETITIVE MARKET ANALYSIS, continued

Citations

- Income content: Internal Revenue Service
- Employment/Unemployment: Bureau of Labor Statistics
- Employment/Unemployment: Bureau of Labor Statistics; US Census Bureau
- Employment-Productivity Projections: Bureau of Labor Statistics
- Industry Growth Projections: based on BLS
- Industry Trend content: based on data from BLS; Bureau of Economic Analysis; US Economic Census; US Census Bureau; various business credit reporting services

Glossary and Methodology

For ease of use, discussion of terms and methodology is partitioned by the successive segments of the Competitive Analysis.

1. General Business and Consumer Demand Environment
 - a. Time Series: Except where otherwise indicated, the report analyzes trends over three running years to year-end 2014. Content is adjusted to account for time lags in raw data. BLS data time series is cited separately in the report. Establishments: Firms plus Branch operations.
 - b. Firms: Independent companies.
 - c. Small Businesses: In order to focus the analysis on the small businesses of greatest interest to our users, the analysis defines small businesses as single site firms with fewer than 25 employees. All small businesses are also “firms”. Branches: Subsidiary facilities of firms; non-headquarters operations.
 - d. Household Income: Household income data is derived from IRS reporting measures. Income data derived from individual returns is analyzed is assumed as one return per household.
2. Competitive Market Concentration and Vitality
 - a. The Employment Concentration compares the percentage of local industry employees in the market area economy to the corresponding data at the national level.
 - b. The Sales Concentration is the industry percentage of total economy-wide sales, local and national. In each case, the trend indicates the increasing or decreasing importance of the industry in the economic area under review.
 - c. Cessation Rates: Cessation rates (“failure rates” in other reports) track the actual experience of industry establishments and small businesses doing business at the

COMPETITIVE MARKET ANALYSIS, continued

start of the time series, and still in operation at the end of the analysis period. "Mature firms" are business operations within a given category which have maintained operations throughout the time series. Mature Firm measures isolate and report on these ongoing firms. As a result, Mature Firm benchmarks display experience-rated measures, rather than snapshots of the industry at a particular point in time. Firms which have experienced a transfer in ownership but continue as independent firms are considered "survivors". Firms which relocate but maintain independent operations are considered survivors if they do not move out of the jurisdiction being analyzed. Firms which are purchased or merge and become subsidiary locations, or whose location is terminated, are grouped with the "failures". Any business entity which does not evidence ongoing operations (for example, by registering with government agencies or credit reporting services) is considered to have ceased viable operations and is classified with the "failures".

- d. The Cessation rate analysis is developed for discrete business segments by segregating the original pool of tracked firms by industry classification, location, and population segment (all establishments, small businesses, etc.) That beginning universe is segregated and tracked to develop the failure rate for that group. As a result, failure rates occasionally reflect performance above 100% or below 0% due to business migration among industries (changes in primary business line) or (in the case of location-specific failure rates) due to business relocations during the analysis period.
- e. New Business Vitality Rate: This metric includes percentage measurements for both entrepreneurial activity and new branch development.
- f. The Startup Rate measures the percentage of all industry firms which indicated one year or less of operation during the one –year period reflected by the time series and which maintained operation through its end point. These startup firms are compared to the number of firms in the industry for which ages can be identified. The New Branch Rate measures the number of new branches developed in the final year of the time series and which maintained operation through the end of the time series. These are compared to the total number of industry branches. The two measures are combined into a unified New Business Vitality Rate displayed at local and national industry levels.

COMPETITIVE MARKET ANALYSIS, continued

3. Industry Market Size and Market Share
 - a. Reported Annual Market Volume includes industry sales figures from multi-site firms classified in the selected industry, generally including branch revenues. The Market Volume figures include sales of US firms and US-reporting subsidiaries of firms headquartered outside the US. The volume figures are for the industry (firms identifying this as their primary classification) not the product or service. As an example, a report for retail furniture stores analyzes sales of stores whose predominant revenue stream is furniture sales; that data would not include furniture sold at a general department store, for example. Consequently, more detailed industry segments may underreport volume due to the choice of companies to identify a higher level parent classification as their primary line of business.
 - b. Generated Market Volume projects sales volume based on the number of local industry employees and sales per employee data. This number includes headquarters operations inside the area, as well as branches of any industry firms located within the selected area. It excludes branch operations located outside the area. The Generated Market Volume figure is an indicator of the actual sales of an industry transacted within the selected area.
 - c. Industry Projections are developed for 1-3-5 year intervals, and are derived from various data elements from the US Bureau of Labor Statistics and US Economic Census. The utility of short-term projections may be adversely affected by unforeseen economic turbulence and volatility.
4. Competitive Analysis and Benchmarks
 - a. Average Annual Sales: The Average Annual Sales table displays "snapshot" average dollar sales for all industry sites (including branches), firms, and small businesses in each of the three years in the time series. The Change rows express the growth or decline of these snapshots in percentage terms. Although the relationship of local branches and firms is unknown, the average firm data is calculated based on the assumption of local branch ownership.

While there is significant overlap of firms in each category between years, results can be affected by business failures, mergers and the migration of companies between the three categories. Migration between business classifications has a much lesser impact in most cases.

COMPETITIVE MARKET ANALYSIS, continued

- b. Sales per Employee: A common indicator of productivity, sales per employee data is presented for the Industry (all establishments), and the Small Business sector within it.
- c. Sales Growth: Sales Growth measures compare the change in total sales over the time series displayed in the report.

SAMPLE

COMPETITIVE MARKET ANALYSIS, continued

About the Data

Raw data analyzed for these reports is sourced from an array of the nation's government and private statistical sources. None of these raw data sources creates the final measures reflected in the industry profiles. In total, the research accesses over a billion sourced data points from 15 million business operations for each of its twice annual updates covering a 3-5 year time series. Historical data and projection algorithms are used to inform and test projections for non-reporting firms. Data elements are sourced specifically from:

- IRS SOI Corporation Income Tax>Returns
- IRS SOI Corporation Tax Book
- IRS SOI 1040 Schedule C Income Tax Returns
- IRS SOI Statistics of Income
- Individual Tax Statistics
- US Economic Census of Manufactures
- US Census Economy Overview
- US Census Annual Survey of Manufactures
- US Census Annual Retail Trade Survey
- US Census Annual Wholesale Trade Survey
- US Census Quarterly Financial Reports
- US Census County Business Patterns
- Bureau of Labor Statistics Monthly Employment Reports
- Bureau of Labor Statistics Monthly Unemployment Reports
- US Census Wholesale Trade Report
- US Census Quarterly (New Housing) Sales by Price and Financing US Census Total Construction Spending
- US Census Retail Trade Report
- US Census Quarterly Services Survey
- Commercial Real Estate Survey
- Credit Reporting Agencies
- InfoGroup, Inc.
- Business Directories

While 100% firm coverage is desirable for analysis purposes, the greatest value of these reports rests in discerning patterns of activity, which are reflected in the large samples used to develop our reports. The overall current coverage of the databases surpasses 13 million active business operations at any point in time.