Failure of Furniture.com

Jijie Wang
Georgia State University, USA

Yi Ding
Georgia State University, USA

Detmar Straub
Georgia State University, USA

INTRODUCTION

The growing U.S. furniture and home furnishing market is highly segmented (Bransten, 2000). Although many large manufactures and retailers have 100 years or longer history in this industry, none of them dominate the market.

In the e-commerce boom starting from mid 1990s, many companies began to use the Internet as a new channel selling furniture to customers. Among those new online furniture businesses, some were traditional furniture retailers setting up a Web site as an additional channel reaching customers, and others were pure-play e-tailers, owning only online presences but no physical stores.

This article traces the history of furniture.com, a once-famous pure-play retailer in the furniture retail industry, and analyzes the reasons of its failure theoretically. We believe that the narrative and the analysis will provide valuable insights for pure-play e-tailer managers from many aspects, including product selection, online and offline services, and management of relationships with suppliers, etc.

THE HISTORY OF FURNITURE.COM

A Start-Up Backed by High-Profile Financial Institutions

In June 1998, Steve Rothschild launched furnituresite.com. In November 1998, Andrew Brooks replaced Steve Rothschild as CEO and changed the name of the company to furniture.com in January 1999. Furniture.com funded $13 million in the first round of financing in June 1998 (Sandoval, 2000). In the following year, the company successfully carried out its second and third round of financing, which brought the total capital raised to more than $50 million (Cox, 1999B).

Products and Services

Furniture.com was a pure-play furniture e-tailer, owning only online store but no physical stores. According to SEC filing, furniture.com offered furnishings for every room, as well as outdoor furniture, mattresses and accessories. It offered products from over 200 manufacturers. Furniture.com had no inventory or warehouses and its products were delivered to customers directly from manufacturers.

Furniture.com was one of the leaders of online service revolution. It attempted to use Internet-related technologies to improve customers' online experiences. It provided an excellent cyber magazine about decorating that is comparable with print offerings such as Home. Furniture.com Web site also offered customers with personalized newsletters and personalized Web pages. Another feature on furniture.com was instant messenger. When customers shopping online had any questions about furniture or decoration, they could reach an online expert design consultant and ask specific questions (Mullaney 1999, 2001). The Web site enabled customers to create a drawing of a room and then drop furniture into it to visualize how well the furniture will work. Offline, furniture.com provided free delivery and set-up through a Red-Carpet Program.

However, some of these online features were not implemented as promised. Customers complained that the consultants behind instant messenger often could not give feedback instantly, and sometimes gave answers that seemed like they did not read and understand the questions entirely, likely due to dealing with too many customers simultaneously (Mullaney, 1999). As far as offline operations went, furniture.com got many complaints about late delivery and missing merchandise. In April 2000, it canceled its free shipping and charged a flat $95 shipping fee for all purchases (Iovine, 2000).

National Brand Name Campaign

In spring 1999, furniture.com launched a $5 million-plus national brand name advertising campaign inviting customers "to love their rooms" with help from "the best way to shop for furniture" (Cox, 1999A). The campaign consisted of three ads airing on radio stations and in daily newspapers in over a dozen of the largest metro markets in the U.S. (Cox, 1999A). The ad launch was the first element in a major brand building program, which furniture.com planned to invest "tens of millions of dollars" in offline and online adverting, strategic partnership, and other marketing initiatives (Cox, 1999A).

In the national brand name building campaign, furniture.com signed marketing alliances with AOL, Yahoo!, GO Network, and affiliated marketer Be Free Inc (Cox, 1999D). In July 1999, it signed advertising agreements with Lycos and MSN, in which it secured presence on the MSN Shopping site and placed banner advertisements on MSN Home Advisor and Women Central. It gained presence in the Real Estate, Home, Business, and Arts and Entertainment areas on Lycos. Under the agreement, furniture.com also gained a significant presence on HotBot, as well as other Tripod communities (Cox, 1999E).

In August 1999, furniture.com appointed the New York office of British advertising agency Bartle Bogle Hegarty to handle its U.S. brand building advertising account. This time the spending "easily eclipsed" the $5 million radio and print campaign it ran that spring (Cox, 1999C). In October 1999, furniture.com introduced George the cat, "the world's toughest furniture critic" as the icon of a $20 million integrated national branding campaign (Cox, 1999F). Furniture.com's advertisements aired on NBC, CBS, and ABC as well as HGTV, E! Entertainment Television, and other cable stations. In print, the ads appeared in shelter, lifestyle, and weekly magazines; and in national and general market newspapers (Cox, 1999F).

The Failure of IPO and the Bankruptcy of Furniture.com

In January 2000, furniture.com filed with Securities and Exchange Commission for an initial public offering (IPO). The offering was initially led by Goldman, Sach & Co. Although furniture.com had a loss of $43.7 million on sales; $10.9 million in 1999, the company expected to raise a maximum of $50 million according to its SEC filing.

In March 2000, Goldman Sachs dropped out of the IPO. Due to the unfavorable market situation, furniture.com withdrew its planned IPO in June. Three days later after the withdrawal, furniture.com slashed its work force by 41%. A spokesman said 80 employees lost their jobs and the layoffs were "part of an overall program to reduce costs and accelerate furniture.com to profitability" (Enos, 2000).

After it canceled the original planned IPO, furniture.com turned to a new round of private financing and got $27 million from CMGI. In CNET news in July 2000 (Sandoval, 2000), a former employee in furniture.com described the situation at that time: "In a desperate attempt to impress potential investors, the e-tail company staged an elaborate show in May for two Idealab executives taking a tour of its headquarter in Framingham, Mass. Accountants, human resources workers, and engineers were ordered to sit in the company's call center and "look busy" helping imaginary customers while speaking into dead phone lines." Such theatrics paid off temporarily. A month later, furniture.com managed to stave off bankruptcy by the narrowest of margins after receiving $27 million from CMGI, Bessemer Venture Partners, and other investment companies (Sandoval, 2000).

Despite the success of private financing, the company ceased operations and entered Chapter 11 bankruptcy because of lack of funding and a harsh market only three months later in November 2000 (Enos, 2000).

The Businesses of Other Furniture E-Tailers

The collapse of furniture.com was not solitary. Its other two strongest competitors HomePortfolio.com and Living.com shut down before furniture.com did so.

In an article in Home Office Computing in March 2001 (Syarto, 2001), five online furniture Web sites were recommended as stable furniture sites. Three of them were running on the bricks-and-clicks model. Those surviving pure-play furniture e-tailers are mentioned as having a "well thought-out customer service model." While most pure-play furniture e-tailers dropped out, traditional furniture retailers began to take a phased approach to the Internet. They first provided product information and gathered customer data, and later began to sell products online. One of the successful cases has been Ethan Allen.

Failures of Furniture.com in the Press

The failure of furniture.com received a lot of attention in the press. Some articles were about complaints from furnitures.com customers. The customers complained that design consultants supporting the Web site could not answer messages as quickly as they promised. More importantly, customers experienced painful problems such as late delivery and missing parts when making purchases from furniture.com (Mullaney, 2001). From the industry perspective, some commentators felt that furniture and home furnishing e-tailer chose wrong items to sell online

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