

STARK®

Evolving a luxury floor coverings brand
from trade-only business to include retail

Luxury Daily™
THE NEWS LEADER IN LUXURY MARKETING

Chad Stark [VP, Operations and Technology]

Luxury Retail Summit: Holiday Focus 2013

Company Overview



STARK®



- Founded in 1938 by Arthur Stark
- Sell high-end carpets, rugs, fabrics, wall coverings, and furniture
- “Trade-only” – Decorative Supply House → Expanding to include retail
- NYC based with ~550 Employees and 30+ showrooms
- Ownership in largest producer of woven carpet globally
- Operate the largest custom fabrication warehouse in industry
- Manufacturing partnerships with firms in 15+ countries
- Wholesale division that distributes products to ~1000 retail stores in USA
- Primarily residential business but also service contract + hospitality markets
- **Only company with exclusive carpet designs stocked in inventory**

STARK HOME

CARPET

RUGS

FABRIC



“Stark is dedicated to supplying beautiful and unique carpets, rugs, fabrics, and furnishings of unparalleled quality to the interior design community with exceptional custom services and account management. We are committed to continuing our tradition of excellence in product development by exploring world markets to ensure we will always offer the best new products and innovative ideas.”

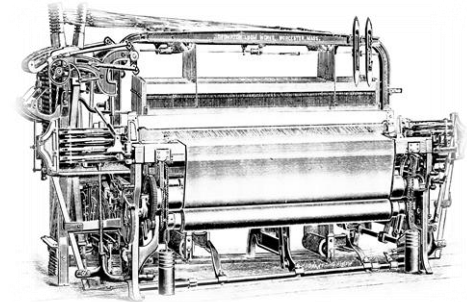
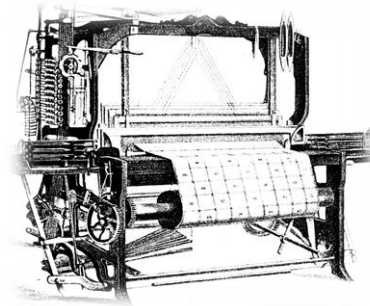
Brand Heritage



➤ Arthur Stark: Wall Street → Delivering Best Quality Carpet to clients

➤ Stark has a history of innovation

➤ Transition from Narrow Looms to Broad Looms



➤ 2nd generation brings “décor to the Floor”

➤ Furnished Whitehouse

➤ 2 showrooms → 30+

➤ Expanded products



➤ 3rd generation Taking over now

➤ Evolving company in-line with evolving industry

Interior Designers Role in Luxury Flooring Industry

- Interior Designers responsible for growth + success of luxury flooring
 - I. Efficiently organize interiors beautifully, functionally, and uniquely
 - II. Understand value of luxury carpets and rugs
 - III. Can translate this value to uneducated retail consumers

Trade-only Showrooms and Design Centers

- 1940s = Trade-only showrooms (Stark) and design centers (DDB)
 - Purpose: satisfy needs of Interior Designers
- To purchase, retail clients needs to be accompanied by professionals
- Interior Design Centers: “malls” for interior designers of high-end showrooms
 - 20+ design centers in US
 - Stark has been anchor tenant in most
- Industry Changes → business model changing
 - Impacts how showrooms work with designers

How Trade Showrooms work with Interior Designers

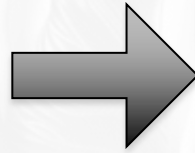
- Showrooms considered “wholesale”
 - Sell products to designers → sell to retail consumers
- Difficulties in Selling direct-to-retail
 - Would upset trade partners by “stealing their customers”
- Value of Interior Designer > Value of Retail Customer
 - Repeat vs 1 time purchases
- Professional Designer Benefits
 - Receive Discounts on Products vs Retail Clients
 - Retail Clients *need* Trade professionals to access exclusive products and special pricing

- 
- Post WWII: Major Developments in American Interior Design Industry
 - Spending on luxury home furnishings increased
 - “Trade-only” business model never took effect outside USA
 - Other markets: Retail Stores catering to Interior Designers
 - Pricing Discounts + Custom Services
 - 2008: American economic crisis / Housing Bubble
 - Began shrinking Trade only industry
 - Forced trade-only showrooms to explore new ways of growing sales
 - Other factors contributing to this change are **Technological**, **Generational**, and **Economic**

Additional Reasons for Changing Industry in America

➤ **Technological**

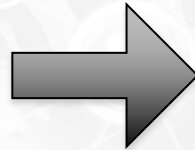
- Creates design enthusiasts
- Free Design Material online
- Blogs + Design Magazines



➤ **More Knowledgeable Shoppers**

➤ **Generational**

- Less “Touch and Feel”
- Less Inclined to Travel

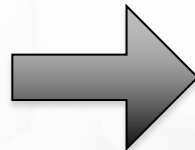


➤ **More willing to buy online**

➤ **Prefer Accessibility**

➤ **Economic**

- More Price Sensitive
- Use Internet to source/shop



➤ **Browse Showrooms w/o designer**

➤ **Want to buy products directly**

- Smarter stores realize buying power of interior designers
 - Consciously targeting trade members
 - “to-the-trade” programs + showrooms in/around design centers

Baker

(luxury furnishing)

- Showrooms in and out of design centers
- Trade-only *and* retail with designer discounts

RESTORATION
HARDWARE

(luxury furnishing)

- Opening in design districts → increased designer accessibility
- Ex. San Francisco

LILLIAN AUGUST
home furnishings & interior design

(luxury furnishing)

- “To-the-trade” division offers trade pricing, project mgmt, customer service
- Ex. CS for repairs + returns to streamline orders

Changing Design Centers

- Changing model bc other industries pay higher per sq. ft. rent
 - Examples of Design Centers with changing models
 - **Washing DC** → closed + looking for new building
 - **Dakota FL | Philadelphia PA | PDC LA CA** → ½ to ¾ empty + need tenants
 - **Houston TX** → 2/3 floors of 5 for design
 - **Chicago IL Merchandize Mart** → only 2 floors of many for design
 - Even most active centers changing
 - **Boston MA** → wants to rent bottom floors to retail
 - **San Francisco CA** → wants to rent top floors to tech
 - Many running marketing campaigns targeting retail consumers
 - Promoting on-site buying services

“With increasing competition from retail stores catering to the needs of interior designers, how do showrooms expand their customer base and sell directly to retail consumers without upsetting their interior designer partners? ”

How Stark Began Adapting to Changing Environment



STARK[®]

- Saw Industry changes before 2008
- Been Modifying strategy since
- Began paving future of industry

Stark Home

STARK HOME

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*The Evolution of our Retail Business: **Stark Home***

➤ **What we've done and what we learned**



Warehouse Sales



- 1998: Warehouse Clearance Sales - overstock and closeouts
 - 5 days in different markets every 2 years w/ up to 70% discounts
- Successful due to exclusive access to products
 - Began sourcing/manufacturing products for sales

Design Center and Outlet

STARK CARPET DESIGN CENTER & OUTLET

- 2004: Retail Outlets – 1st in Charlotte
 - 2 distinct areas: **trade showroom + retail outlet**
 - Retail component made showroom feasible
 - “Lunch and learn” to explain → received well

Retail rug outlet

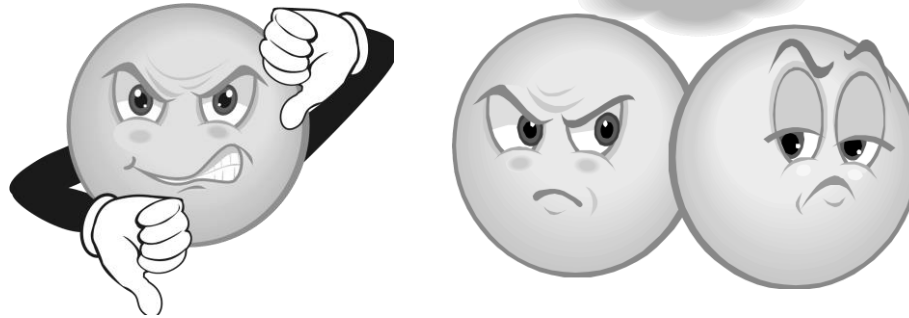


Trade-showroom entrance



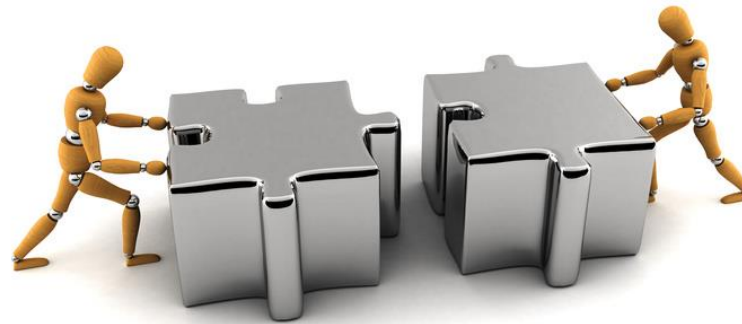
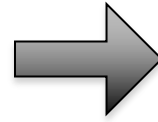
Problem with Design Center and Outlet Model

STARK CARPET
DESIGN CENTER & OUTLET



➤ **Problem:**

- Hurt our brand by putting our most high-end, exclusive products and services next to our discount products.



- Goal: Replicate exclusive nature of trade showrooms in retail space.
- Change the hybrid location name not enough
 - Did not change look and feel inside → confusing
 - Inside implied “discount” not “luxury”

The Next Stark Home Locations

- Opened locations near trade showrooms
 - More difficult than Charlotte
 - Not seen as new resource
- **Ex. Norwalk, CT**
 - 1 hour drive from NYC
 - Designers felt end users could easily circumvent them
 - Compensate designer with “deserved” commission
 - Most successful retail location while creating most issues
 - Continually evaluate how Norwalk SH impacts local trade business
- Take Away:
 - Retail sales harder than trade sales bc of consumer product knowledge level





GILT

Rue La La®

- 2010: Stark began working with online flash-sale websites
 - Successful → 2-3 sales per year
 - Began developing products specifically for Internet sales
- Learning experiences
 - One listed a few trade-exclusive products for sale
 - Ruined exclusive nature of products
 - Learned better to keep overstock trade goods than sell retail
- Significant exposure → created confusion in design community
 - *“Is Stark still trade only or are they fully retail ”*
 - Challenged with educating community on new Stark Home model

OKL Day of Stark Example



Stark
OVERDYED & IKAT RUGS

SHOP NOW
ENDS SAT. 2/11



Stark
CONTEMPORARY RUGS

SHOP NOW
ENDS SAT. 2/11

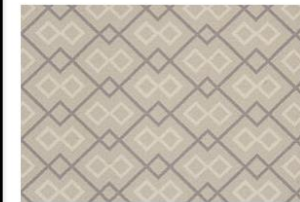


Stark
WOVEN RUGS

SHOP NOW
ENDS SAT. 2/11



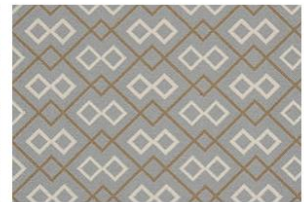
Woven Wonders | Ends in 4 Days 19 Hours



Raiko Rug, Greige
\$210 - \$2,000 Retail | \$147 - \$3,400



Raiko Rug, Brown
\$210 - \$2,000 Retail | \$147 - \$3,400



Raiko Rug, Sea
\$210 - \$2,000 Retail | \$147 - \$3,400

All Sales > Woven Wonders



Kenya Rug, White/Arizona
\$660 - \$5,840 Retail | \$315 - \$3,199

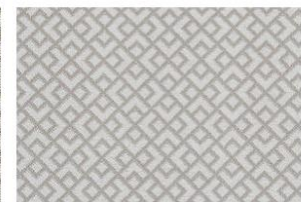
GOOD TO KNOW

Weaves

The rugs in this collection were woven using centuries-old techniques. Known as Axminster and Wilton weaves, these constructions make use of wide looms, which ensure added durability and longevity.



Hitch Rug, Silver
\$560 - \$5,760 Retail | \$309 - \$3,159



Dakota Rug, Sea Dove
\$700 - \$7,200 Retail | \$335 - \$3,399



Hitch Rug, Dove
\$560 - \$5,760 Retail | \$309 - \$3,159

Key Takeaway from Initial Stark Home Efforts



GILT

Rue La La[®]

- Difference between Warehouse + Online Sales
 - Warehouse = Local, **Online = Global**
- **Key Takeaway**
 - The world is **TRANSPARENT**. To succeed, must be true to self and customers.

What is Stark Home Now?



Trade Area

Retail Area



➤ Stark Home showrooms are now more of an experience than a store

What is Stark Home Now?

Retail Area

Trade Area



- Products: carpets, fabrics, many “cash-and-carry” area rugs for trade and retail clients
- Concept combines trade-only concept with retail component that offers non trade-exclusive products to retail clients
- Retail products displayed like in trade showroom → implies luxury, not discount
- Display relevant company/product info around store to engage consumers at POS
- Separate trade area for all to browse but only designer to buy
 - Not always locked behind a door anymore

How Stark Home Supports Trade Professionals?

- Philosophy: Designer are partners + value their support
- Taken measures to ensure integrity of Stark brand
 - One facility to buy most luxurious textiles + well-priced products
 - Retail component → showrooms in more locations → more convenient
 - “To-the-trade” program:
 1. Signature exclusive products remain exclusive to trade professionals
 2. Additional discounts for trade consumers (Incl. online)
 3. Special service like Custom Product Development and Home Consultation remain exclusively avail for designers
 - Standard services like installation, binding, etc available retail
- Still face variety of challenges selling retail



Continuing Challenges

- No “Cool / fashion forward” luxury retail stores
 - Lack sex appeal → marketing dilemma
 - Majority are local “mom and pop” shops
 - No brand equity so leverage other brands to draw customer traction
- Stark is the only national luxury broadloom carpet brand
 - Other national brands (Home Depot, etc) sell low-end products
- Uneducated retail shoppers decisions differently than trade professionals
 - Buy based on feel and experience
 - Stark has best products, prices, and story → need to communicate via showrooms and product displays
- ***How to protect designer if client tries to buy direct or with another designer**
 - Transparency of exclusive products and services is key to success
 - Compensate designer for lost commission when circumvented
 - Don't let other designers spec same products with same retail clients



Strategies to Attract Next Gen of Luxury-Minded Consumers



- Focused on making Stark a more visible and trusted brand
 1. Sourcing and development of the most unique products
 - Ashley Stark
 2. Investing in most convenient technologies
 - Tech re-launch 2014
 3. Private labeling and exclusivity
 - Stark = destination so don't leverage other brands
 - Maintain exclusive prod nature
 - Ex. Missoni
 4. Customer Service
 - Higher expectations from Stark
 - "Stark Cache"

Stark's Holiday Mindset

- Interior design industry has seasonality
 - Complete projects for Summer vacations + Winter holidays
 - Busiest: Fall (right when summer ends) and Spring (right before summer starts)
- Have begun running holiday promotions for retail
 - Before Thanksgiving
 - Less decorating in December





1. Be **TRANSPARENT**

- Follow clear + concise policies religiously

2. Be True to Yourself + Your Brand

- It's **OK** to say “NO” sometimes!

3. Focus on your Business's Strengths

- Don't invest in areas that you *don't* have expertise

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THANK YOU!

Q&A

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