

How One
Family-Owned Midwest Furniture Store
DOUBLED
their Percentage of Sales in
MATTRESSES



FURNITURE 1ST[®]

NATIONAL BUYING GROUP



New Furniture Store To Open In Woodcrest Development

Kloss Furniture Interiors will be opening its doors to the public for the first time Friday at 10 a.m. The new 10,000 sq. ft. furniture store is located on St. Anthony between the St. 100 and St. 101 intersections in the Woodcrest development near north of Highway 101 and Hwy. 100.

"Kloss and family will operate the new location," said Steve Kloss, general manager of the Kloss Interiors. "Steve had an amount of planning with some of the other owners in the area to build a new store that would be located in the new building on St. 101. The building measures 10,000 sq. ft. of display area and 1,000 sq. ft. of warehouse area."

Kloss, who has no previous business experience other than a short stint refurbishing school furniture, then, have several professional business on the staff. Steve Kloss, general manager, and Laurie Kloss, sales manager, will be in charge of the store.

The Kloss children, Steve, Jr., Doris, Jr., and Pam, Jr., will also help their parents in the operation of the business.

Bill Kloss will handle much of the delivery work for the store. Kloss Furniture Interiors will handle a wide variety of home furnishings including bedroom and kitchen living, dining, bedroom and bathroom items, home office, and home decor.

Steve and Mrs. Kloss "Smokie" Kloss plan to open their new furniture store Friday, Dec. 10. The new store is located on St. Anthony between the intersections of St. 100 and St. 101 north of Highway 101 in the Woodcrest development.

Kloss Furniture Interiors will handle a wide variety of home furnishings items. Steve and Pam are scheduled to open today's news.

Several other nearby pictures of the store are also in today's paper.

Steve and Mrs. Kloss, general manager of Kloss Interiors in Grandfork, will open their store at 10 a.m. Friday and will be open every day through Christmas.

The store plans to hold a grand opening celebration next month.



Kloss Furniture Interiors To Open Friday

The Retailer

A Family-Owned Store with a Long History

Kloss Furniture has served the O'Fallon area since 1976. The Kloss family began their retail home furnishings business after years of running Kloss Meat Market in Grandfork, IL. The combination of hard work, appealing prices and customer service learned by husband and wife Delmar (a.k.a. "Smokie") and Doris Kloss in that business laid the foundation for a new venture: Kloss Furniture Interiors. Today, Kloss Furniture is still owned by the family and is operated by Steve Kloss, Smokie and Doris' son who joined the business early on. Steve and his mother helped the business grow steadily until late 1998 when it was devastated by a fire. Rising from the ashes, the Kloss family turned their warehouse into a no frills showroom called The Tin Shed. The low overhead warehouse model proved to be a smart strategy for a retracting economy. It allowed the business to keep prices low and maintain market share while more competition moved into town.

When the time was right early in the 21st century, Kloss Furniture reentered the more traditional retail furniture market with a series of branded, single-source stores across the St. Louis area under the Lane, Broyhill and Thomasville marques. As the wholesale model for those national brands changed, Kloss Furniture exited the single source format and focused on the Tin Shed and survived by adapting to new market conditions. As the economy began to recover from the great recession, the Kloss Furniture retail store was revived.

A New Beginning

When Kloss Furniture reopened, they did so in a retail property that they already owned, allowing them to keep facilities costs at a minimum. The property selected for renewal previously housed conjoined stores for Thomasville and Lane. In relaunching a multi-source full line furniture store, Kloss decided to display mattresses around the second entrance.



O'FALLON PROGRESS BUSINESS MAY 26, 2005

Ground is broken on two new furniture stores in Central Park

More are rumored to be coming to O'Fallon site

By Scott Wiers FOR THE PROGRESS

Ground was broken Thursday for two new furniture stores to be built along Central Park Drive.

Meanwhile, as many as three more home-furnishing shops may be in the works for the rapidly developing commercial strip.

"Usually we build four stores together in the same place," said Steve Kloss, whose company, Kloss Furniture, broke ground on the two new stores. When asked whether the company planned to add two more showrooms in O'Fallon, he said, "That's what we're working on right now."

Kloss said he has also heard rumors that La-Z-Boy plans to open a store nearby.



Furniture store owner Steve Kloss breaks ground on two new O'Fallon showrooms with help of officers of the Broyhill and Lane lines, city officials and builders.

open in November or December. No timetable has been set for the other two stores, which would be Thomasville and Kincaid brand furniture showrooms.

O'Fallon City Administrator Walter Denton said he, too, has heard the La-Z-Boy rumor. "We haven't cover that but

Kloss Furniture originated in Highland 30 years ago. Kloss

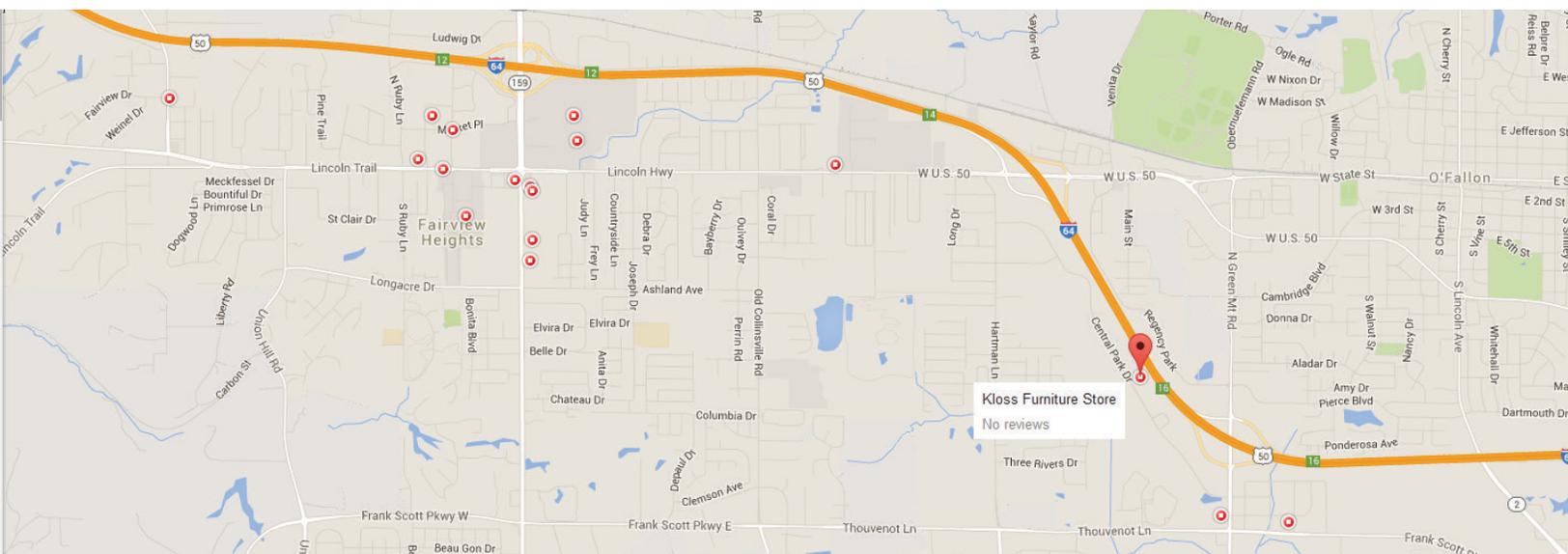


The Challenge

A Competitive Environment

Shoppers have a lot of choice off I-64 in the Illinois suburbs of St. Louis. The area around Kloss Furniture draws a lot of traffic with a mix of restaurants, car dealers, strip malls and shopping centers populated by phone stores, nail salons and the like. A number of retailers have locations very near the highway, with no less than five specialty sleep shops, six full-line furniture stores and three department store / discount chains. La-Z-Boy Gallery sits next door to Kloss Furniture. Down the block shoppers can choose from Target, World Market and an Ashley Home Store. Two Mattress Firm storefronts operate within a seven mile stretch along the highway. The greater St. Louis area encompasses even more competition with a total of six department stores and discounters, eight furniture retailers and ten mattress specialty shops.

That's not to say that it's an easy market. A local chain of specialty sleep shops filed for bankruptcy in 2014.



ST. LOUIS
317,419
29,069
O'FALLON

Key Statistics⁶

- 84.9% of the population has lived in the same house for one year or more.
- Homeownership rate (2009-2013): 70.3%
- Per capita income was calculated to be \$35,769
- Median household income (2009-2013): \$75,021
- Median value of owner-occupied housing units (2009-2013): \$197,900
- In 2013 the median age in the community was 35.3

Community Demographics

Big City Suburb

O'Fallon, Illinois is a suburb of St. Louis, Missouri. It covers a land area of 14.35 square miles. The estimated population of St. Louis, MO is about 317,419. Across the river in O'Fallon the population is estimated at 29,069. St. Clair County, which encompasses O'Fallon, has seen growth in recent years, with the population increasing from 256,208 in 2000 to 263,617 in 2009, slightly stronger (in terms of percentage of growth) than the rate of population growth experienced the city of St. Louis. Near to Scott Air Force Base, employment in O'Fallon is centered on service sector jobs, including health care and security. Home prices in the area spiked with the housing bubble then declined with the bust and are now recovering.

Generational Breakdown in O'Fallon

Data from U.S. Census Bureau, 2009-2013 5-Year American Community Survey



- Young Adults (ages 20 - 34)
- Established Adults (ages 35-54)
- Aging Adults (ages 55+)

(Endnotes)

- 1 2014 population estimate by the US Census bureau <http://quickfacts.census.gov/qfd/states/29/29510.html>
- 2 2014 population estimate by the US Census bureau <http://quickfacts.census.gov/qfd/states/17/175249.html>
- 3 Shrinking City, Flourishing Region: St. Louis Region, by Wendell Cox 01/27/2011 <http://www.newgeography.com/content/002013-shrinking-city-flourishing-region-st-louis-region>
- 4 <http://www.livability.com/il/ofallon/business/major-industries>
- 5 <http://www.city-data.com/city/O-Fallon-Illinois.html>
- 6 Source: U.S. Census Bureau, 2009-2013 5-Year American Community Survey <http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=CF>



What Kloss Furniture Did

New Opportunity to Grow Mattress Sales

The old rule of thumb in full line furniture stores was that a store would be lucky if mattress sales made up 10% of overall sales. For Kloss Furniture, mattress sales made up 8% of overall sales. The mattress lineup consisted of Mattress 1st (the private label mattress line from Furniture First National Buying Group) and Serta, a manufacturer the store carried since opening its doors in 1976.





The Mattress 1st Retail Model

Kloss Furniture was one of the first retailers to implement the Mattress 1st retail store concept in the summer of 2013. Several key elements for the retail store were defined in collaboration between Furniture First, the buying group with ownership of the Mattress 1st private label, Martin Roberts Design and Knorr Marketing.

KLOSS mattress^{1st}

The Name

The Mattress 1st program is designed to leverage the local brand equity of an established full line furniture store by combining it with the name of Mattress 1st. In the case of Kloss Furniture, the marquee features the name "Kloss Mattress 1st".





The Entrance

One of the key components of the store concept is to let the customer know that a full line furniture store sells mattresses by setting up a separate exterior entrance directly into the mattress department. This separate exterior entrance is expected to be located below exterior signage for Mattress 1st.

Kloss Furniture's location naturally fit the requirements of the Mattress 1st retail store model. The storefront featured two distinct entrances that could be branded separately.





The Space

The previous store format separated the two brands in the location with walls and columns. To fit the Mattress 1st model the walls were removed to create sight lines from the full line furniture gallery.

Per the layout designed by Martin Roberts the mattress gallery stands out with a red ring suspended from the ceiling proclaiming “mattresses.” The ring does not carry the Mattress 1st branding since the product selections are not restricted to Mattress 1st beds.





The beds are arranged against mid-height walls. This arrangement has the psychological benefit of inviting the customer in to explore the department. Lighting is kept indirect with tall textured floor lamps between the beds so as not to blind the customer when lying down to try out the mattresses. The finished mattress space now occupies less than 9% of the 40,000 square foot sales floor.



Sales Training

The Mattress 1st model is supported by a series of mattress sales training DVDs. Sales associates who complete the training and pass a test receive certificates identifying them as "Certified Sleep Specialists."

The physical space is just part of the Mattress 1st model implemented by Kloss Furniture. Part of their success is due to the system of selling used by the stores, first matching the customer with the appropriate pillow for their style of sleep (back, stomach or side). Pillows and protectors from Bedgear have been important to their success.



Mattress 1st retail stores are not a single-source retail model. Licensees must allot a percentage of their floor to Mattress 1st products, depending on square footage. 80% of the mattresses must come from manufacturers who have programs with Furniture First Buying Group.

Mattress 1st licensees may opt out of the promotions after the first three months.

Branding is available in the form of murals featuring sleepers and people waking up feeling refreshed. The graphics and positioning communicate the benefits of a good night's sleep: are happier, more active mornings.

Merchandise Assortment

The product assortment at Kloss Mattress 1st focuses on three lines: Mattress 1st, Serta Perfect Sleeper, Serta iSeries and Serta iComfort. About 45% of the floored beds are from the Mattress 1st line, which spans from promotional innerspring beds to higher-end foam and foam / innerspring hybrid models. 15% of the beds are from Serta's Perfect Sleeper and 20% each from Serta's iSeries and iComfort beds. Less than 5% of the mattresses at Kloss Mattress 1st are on power bases. 70% percent of their sales are in the middle of their retail price range.

Advertising

Kloss Furniture participates in an advisory board for Mattress 1st. The 25 retailers (all Members of Furniture First Buying Group) that have implemented Mattress 1st stores within their full line furniture stores provide guidance for the promotions created for the group each month by Knorr Marketing. The store saves money on creative expenses by working with the group.

Kloss Furniture has started advertising Mattress 1st separately from their full line furniture store. This is a strategy that has long been endorsed by furniture industry icon Britt Beamer of America's Research Group. Media used by Kloss Mattress 1st include newspaper ads, direct mail and pay-per-click ads online.

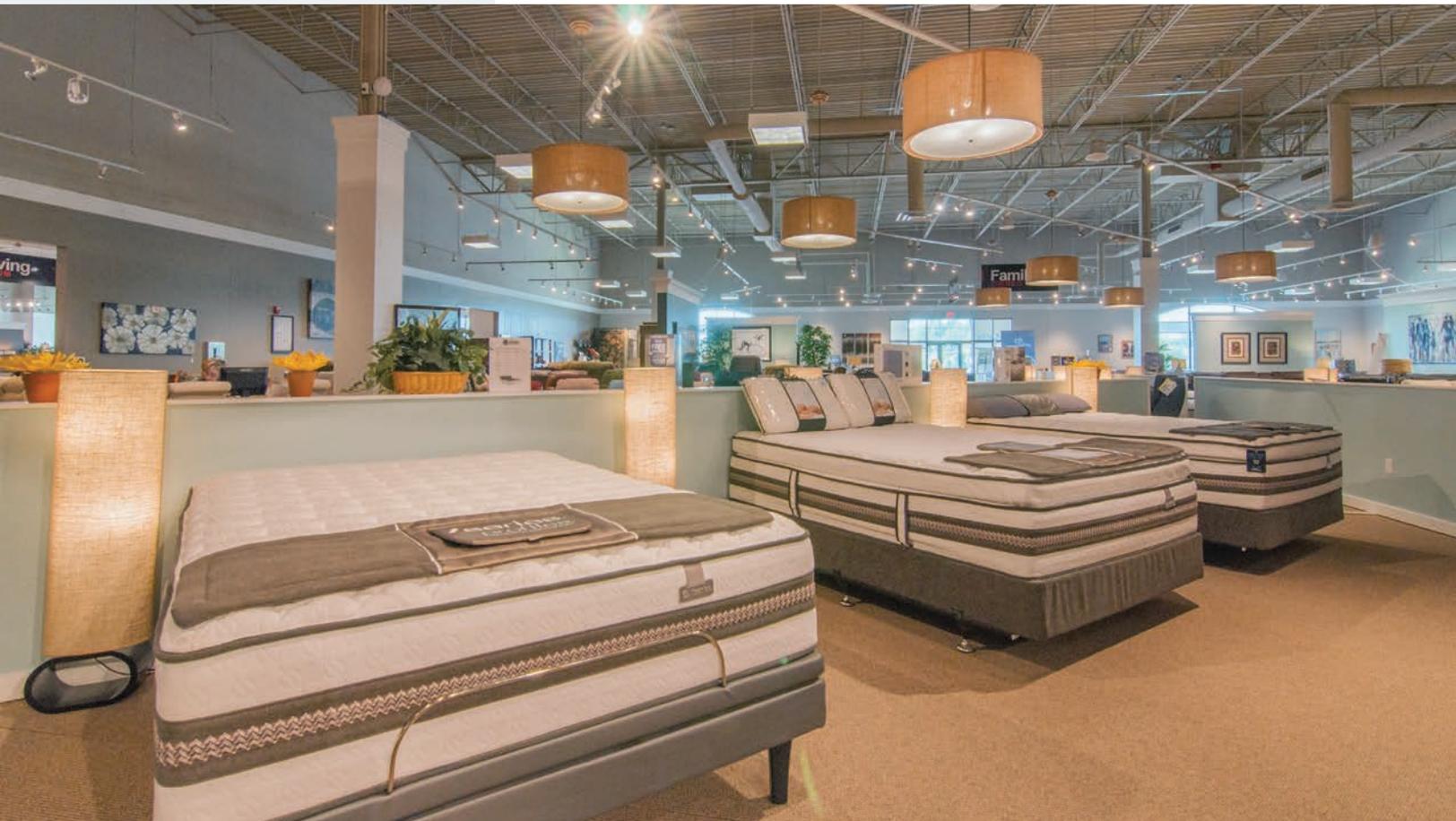
Mattresses Percentage of Sales

BEFORE 8% **AFTER** 18%

The Results

Kloss Furniture found the reinvention of their mattress department as Kloss Mattress 1st well worth their investment.

- Sales in their mattress department grew by 28% when they opened Kloss Mattress 1st.
- Before, their mattress sales made up about 8% of their overall business.
- Now, mattress sales make up 18% of the overall business, a significant amount for less than 9% of the sales floor.



FURNITURE 1ST

NATIONAL BUYING GROUP

About Furniture First

Furniture First is a Cooperative Buying Group for full-line furniture and mattress retailers. Founded in 1994, the group now includes 218 stockholder-members. Collectively members of the group operate 465 furniture stores in 47 states, reporting over \$1.7 billion in sales. Furniture First develops merchandising programs and negotiates best pricing and rebates with manufacturers.

Members benefit from the group's private label programs for upholstery, motion and mattresses, as well as a private label protection plan program. Marketing programs include traditional media like TV and direct mail; digital advertising programs include websites, email, SEM and social media. Business service programs offered by Furniture First include many warehouse and back office functions in addition to consumer financing and outstanding rates on Visa / MasterCard processing.

Members network and learn from one another at Market Meetings and Symposiums. Furniture First's members-only website allows retailers to share ideas and research solutions to common business challenges through the Members Online Bulletin Board.

More information is available at www.furniturefirst.coop/join.

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