

Amazon Makes Major Push Into Furniture

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Amazon.com Inc. AMZN +1.51% wants to furnish your home.

The online retail giant is making a major push into furniture and appliances, including building at least four massive warehouses focused on fulfilling and delivering bulky items, according to people familiar with Amazon's plans.

With that move, the Seattle-based retailer is taking on the two companies that dominate online furniture sales— Wayfair Inc. W -5.87% and Pottery Barn owner Williams-Sonoma Inc. Furniture is one of the fastest-growing segments of U.S. online retail, growing 18% in 2015, second only to groceries, according to Barclays. About 15% of the \$70 billion U.S. furniture market has moved online, researcher IBISWorld says.

But even the biggest players in online furniture are struggling to get the market right. Unlike established categories such as books and music or even apparel, retailers are still hammering out basic concepts like how much variety to offer on their sites and the most efficient ways to deliver couches and dining sets to customers' homes.

While Amazon has been selling furniture for years, it has lately decided to tackle the sector more forcefully.

“Furniture is one of the fastest-growing retail categories here at Amazon,” said Veenu Taneja, furniture general manager at Amazon, in a statement. He said the company is expanding its selection of products, with offerings including Ashley Furniture sofas and Jonathan Adler home décor, and it is adding custom-furniture design services. Amazon is also speeding up delivery to one or two days in some cities, he added.

The retailer already has an approximately 17% market share in the broader home furnishings category, according to Morgan Stanley, and it is continuing to gain. That includes smaller items, too, such as cookware and towels.

While Amazon has disrupted industries from publishing to fashion with free, fast shipping and easy, app-based one-click buying, furniture can be a tough sector to crack. For one, it is expensive to deliver a couch and other big items, and consumers typically want what are known as “white glove” services, extras like bringing it into the home, setting it up and removing trash. And while packing more small packages onto a delivery van brings the costs down because it can make more stops, you can only fit so many pieces of furniture onto a truck.

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Shoppers are still generally willing to pay for furniture delivery, but some retailers and logistics companies say they are facing growing pressure to ship online orders faster. Wayfair offers free shipping on orders over \$49, but delivery times can range from one or two days to just over two weeks. Pottery Barn charges on a sliding scale based on price, with delivery costs running above \$100 for more expensive items. Furniture sold and shipped directly by Amazon is free for Prime members and on orders over \$25, while items sold by third-party sellers may cost extra.

To guarantee two-day shipping to 99% of consumers, a retailer or logistics company needs up to a dozen large warehouses spread around the country, plus around 110 smaller facilities to stage deliveries to customers’ homes, said Troy Cooper, chief operating officer at XPO Logistics Inc., which manages distribution centers and fulfills online orders for large retailers like IKEA.

By comparison, a retailer can deliver furniture within a week to most customers simply by planting a large distribution center on each coast, similar to how they would manage inventory for brick-and-mortar stores, Mr. Cooper said.

Amazon is expected to rely on XPO and other third-party logistics providers to manage distribution centers and handle delivery of furniture and appliances for the near future, even as it takes more of its logistics in house in other parts of its business, people familiar with the company's plans say. Amazon declined to comment on its delivery plans. XPO declined to comment on its relationship with Amazon.

Rising sales may be helping reduce delivery costs by creating better density. Costs go up for transportation companies as deliveries get more spread out and infrequent.

"Just in the last year, furniture has taken off," said Richard Phillips, Jr. , chief executive at Pilot Freight Services, a Lima, Pa.-based trucking company that makes larger e-commerce deliveries. The company's No. 1 business-to-consumer shipment has shifted to furniture, from TVs.

Pilot is one of many logistics companies building out nationwide networks to handle bulky items as retailers look for cheaper ways to ship furniture and appliances ordered online. XPO made 12 million home deliveries last year, up from 9 million in 2015. Estes Express Lines, one of the largest U.S. trucking companies which is based in Richmond, Va., started a "final mile" service in December after noticing retailers were mixing in more home deliveries.

A worker loads his forklift with furniture for delivery at a Wayfair facility in Perris, Calif.

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These companies are filling in part a void left by United Parcel Service Inc. and FedEx Corp. , whose executives have complained about bulky items gumming up distribution centers designed to process millions of small packages at lightning speed.

"You go for what is the largest segment of the market," said Carl Asmus, senior vice president for e-commerce at FedEx. "The sweet spot is not necessarily refrigerators."

Boston-based Wayfair started building out its own delivery network about a year and a half ago, said Chief Executive Niraj Shah. The company got into doing its own deliveries because it is so important in retaining customers. "We built it primarily to drive quality, but secondarily it certainly gets you cost benefits at scale," he said.

He said he is not worried about Amazon. The rival is hardly a new entrant to the space, and it is hard to get the customer service side of the equation right, he added.

Wayfair on Tuesday reported a nearly 30% increase in first-quarter revenue from a year earlier, beating most analysts' forecasts. The company's shares rallied 21% to an all-time high.

Home deliveries are "exponentially" more expensive but surging demand makes them worth it, said John Paiva, chief operating officer at Estes Final Mile. Estes Express Lines plans to expand its new service to a majority of its more than 200 U.S. terminals by the end of 2017.

Before launching, Estes spent a year training drivers used to dealing with warehouse dock workers to interact with ordinary people, and built a database of instruction manuals for employees to use when assembling furniture in homes.

"If the driver is having a bad day or doesn't understand the importance of greeting customers professionally, it can...tarnish the reputation of the [retailer]," Mr. Paiva said.

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