

Restoration Hardware Case Analysis

SaDesia Giles

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Abstract

RH (previously Restoration Hardware) is a high-end American home goods retailer based in Corte Madera, California. The firm sells its products in retail locations, through catalogs, and online. Restoration Hardware wants to reclaim its market niche of high-end, high-quality, quirky commodities that appeal to individuals who do their own decorating when the economy rebounds and the housing market expands. Restoration Hardware sells high-quality American goods ranging from mini replica canoes to sleek faucets to hanging curtains, all with the goal of adding an upscale historic and nostalgic touch to people's homes. Restoration Hardware appears to be on track to return to profitability as the housing market continues to improve. Small changes in marketing strategies and infrastructure upgrades can help to secure the company's future. Restoration Hardware has a solid foundation that can be fine-tuned to help it flourish in the future and establish a reputation for financial strength and stability. This paper will thoroughly analysis the company's macro environment and current marketing strategies

## **Introduction**

Restoration Hardware (RH) is a home décor, furniture, linens, hardware, textiles, bath ware, and outdoor/garden goods retailer (Global Brands Matter, 2021). Furthermore, Restoration Hardware provides period-inspired décor, classic furniture, and eccentric objects to provide clients with a vintage feel in their house. Stephen Gordon was decorating his home in Eureka, California, shortly after completing a renovation. Gordon preferred more upmarket period-oriented décor and furniture than cheaper brand-name décor, but he did not want to overpay a professional designer who did not necessarily share his vision (Furniture.com, 2019). At the time, there was no such thing as a niche in the home décor industry. As a result, Gordon recognized a market demand for luxury period-oriented décor and launched Restoration Hardware in 1979 (Global Brands Matter, 2021). Gordon created the first Restoration Hardware store in Eureka, stocking it with unusual, eclectic, and hard-to-find products geared at decorating and refurbishing historic homes. The strategy worked, and by 1990, four more locations had opened around California, with the majority of them located in Northern California. As of August 2018, the firm ran 70 galleries, including 18 full-line design galleries and 6 infant & kid galleries. In addition, the firm has 36 outlet locations in the United States and Canada (Reference of Business, 2021).

## **Macro-environmental Scan**

### **Competitive Analysis:**

Restoration Hardware competes with a number of prominent brands. The first are stores that sell solely home goods to a particular audience of high to middle class clients (Financial Times, 2019). Williams-Sonoma and Ethan Allen are the main rivals at the top end of the pricing range, while retailers like Pier 1 Imports and Crate & Barrel compete at the cheaper end (Reference of Business, 2021).<sup>18</sup> In order to attract clients to their businesses, these stores typically operate through showrooms and participate in specialized advertising efforts, increasingly over the Internet but also more traditionally through catalogues (Reference of Business, 2021). Restoration Hardware also competes with the home-furnishings divisions of premium department stores such as Macy's and Nordstrom (AE Marketing Group, 2019). However, these department shops operate on a somewhat different business strategy in that they prioritize selling a large range of different designs, colors, and materials, whereas firms such as RH focus on delivering more distinctive and distinct goods that frequently come in fewer varieties (Reference of Business, 2021). Furthermore, the sector has experienced the emergence of several direct-to-consumer online merchants in recent years, which do not frequently maintain showrooms but nevertheless present significant competition for traditional furniture stores considering how much online shopping has evolved as a whole (Global Brands Matter, 2021).

### **Demographic Trend Analysis:**

Restoration Hardware is a part of the home furnishing retail business, which is marked by fierce rivalry (Reference of Business, 2021). This sector is highly fragmented, with the top 50 businesses accounting for only 35% of total sales. Based on the desired consumer and demographic, the market may be divided into many categories/tiers (Global Brands Matter, 2021). The top tier is made up of a number of designer furniture stores and premium independent businesses that serve certain niches and sell largely to interior designers shopping for their clients (DangerZone Consulting, 2013). These designers are searching for high-quality, one-of-a-kind objects for their clients' homes. The middle tier caters to upper to middle-class clients who are searching for higher-priced, high-quality furniture (DangerZone Consulting, 2013). The bottom tier, which includes IKEA and a number of furniture sections in shops such as Target and Wal-Mart, offers mass-produced, less costly

furniture and furnishings to lower-income clients who cannot afford the more expensive furniture supplied by the top and middle levels (DangerZone Consulting, 2013). Restoration Hardware is positioned between the higher and medium tiers since it caters to upper-middle-class consumers who are unlikely to employ an interior designer but still want that experience and are searching for distinctive, high-quality, and fascinating things for their houses (Reference of Business, 2021). The declared target market for Restoration Hardware is households earning more than \$200,000. Their purchasing power, if not their taste, can be trusted.

### **Economic Trend Analysis:**

Restoration Hardware's excellent achievements were insufficient to compensate for a supply that is unable to keep up with demand (Sciaudone, 2020). Shares are down 4% after the firm reported that sales growth trailed demand by roughly 8 percentage points in the third quarter (Reference of Business, 2021). In 2020, the stock reached a new high, with RH (NYSE:RH) profiting from their nesting instincts, since individuals were all confined at home. According to statistics gathered by Investing.com, earnings per share of \$6.20 were higher than the projected \$5.23 on revenues of \$844 million, which compared to the expected \$830 million (Sciaudone, 2020). The difference between demand and revenue growth should close within a few percentage points in the fourth quarter, but the recent surge in viral illnesses and shelter in place orders continued to harm the company's manufacturing partners (Ho, 2020). They now anticipate that product supply will catch up to demand in the second half of 2021 (Sciaudone, 2020). However, the cancel rate as a proportion of sales has been lower for the previous three quarters than it was last year, indicating that the firm should convert a high percentage of demand to income (Reference of Business, 2021). They anticipate that unfulfilled orders would boost revenue growth by \$80 to \$100 million in fiscal 2021. Demand remains high, with core demand increasing by 39% in November (Global Brands Matter, 2021). In August, total business demand increased by 38%, 37% in September, 24% in October, and 35% in November. December-to-date demand is up 23% (Lucas, 2019).

### **Natural Environmental Analysis:**

The Source Books from Restoration Hardware are produced on Forest Stewardship Council (or FSC) Certified Catalog Paper (RH Investor Relations, 2021). FSC is a third-party certification body that assesses people in charge of forest management. The use of FSC certified paper in the production of our Source Books ensures that the paper is not contributing to destructive forestry practices such as illegal logging, conversion of natural forests to other land uses, liquidation of high conservation value forests, civil rights violations, and genetic modification of forest species (RH Investor Relations, 2021). To reduce packaging and other kinds of trash from landfills, the firm works closely with its delivery network, distribution centers, home office facilities staff, Galleries, and outlets. In place of conventional waste methods, they have implemented recycling and composting programs, as well as a variety of other initiatives to reuse and repurpose resources (Reference of Business, 2021). The firm has implemented proactive product diversion strategies, resulting in over 660,000 pounds (330 tons) of trash removed from landfills in 2019 and 639,000 pounds (320 tons) diverted in 2020 (Global Brands Matter, 2021). They have policies and processes in place with their in-house home delivery teams and third-party home delivery partners to collect and recycle packing materials from consumers during the product delivery and installation process (RH Investor Relations, 2021). As part of its philanthropic activities, RH created a relationship with Habitat for Humanity in 2015 to contribute items in support of this charity (RH Investor Relations, 2021). They give items that does not satisfy the "first quality" criteria to Habitat for Humanity, and these "second quality" and "third quality" products are diverted from landfills and repurposed by Habitat for Humanity (RH Investor Relations, 2021). RH received a Community Donor Award as a Silver Level Donor from Habitat for Humanity Greater Vancouver in 2019.

### **Political/Legal Environment Analysis:**

RH is dedicated to operating its operations in compliance with all applicable laws, rules, and regulations of the countries in which it operates (RH Investor Relations, 2021). Their Code of Business Conduct applies to all employees of RH, including associates, executives, and directors, as well as some independent contractors, consultants, and advisers that operate at the premises or on behalf of the Company (RH Investor Relations, 2021). RH also has an Ethics Code for the Chief Executive Officer and Senior Financial Officers, which emphasizes honest and ethical behavior and compliance. RH's anti-corruption policy supplements the Code of Conduct by requiring compliance with the United States Foreign Corrupt Practices Act and the growing body of international anti-corruption laws, and it prohibits the Company and its affiliates, directors, officers, associates, agents, and representatives from unduly influencing officials or foreign governments and political officials (Reference of Business, 2021). This policy is overseen by RH's Chief Compliance Officer. RH expects its suppliers to comply with its anti-corruption requirements, which include updating certifications to the Company of the vendor's compliance with the US Foreign Corrupt Practices Act, the UK Bribery Act, and other applicable anti-corruption laws and regulations on a regular basis (RH Investor Relations, 2021). RH has implemented protocols and procedures as part of their larger anti-corruption efforts with the goal of avoiding dealings with nations sanctioned by the US government (Reference of Business, 2021). They monitor business activity and third parties, among other compliance measures, to reduce the risk of conducting transactions with sanctioned parties, specifically persons and entities identified on the Specially Designated Nationals and Blocked Persons list maintained by the U.S. Department of the Treasury Office of Foreign Assets Control ("OFAC") (RH Investor Relations, 2021).

### **Social/Cultural Environment Analysis:**

RH's CSR activities are intended to support the ethical treatment of people, including their colleagues, customers, vendors, and other stakeholders (RH Investor Relations, 2021). It strives to improve workplace health and good working circumstances for their employees. Their objective is to have the best qualified individual in each job. They have a policy that prevents the company from discriminating against any candidate or associate (Global Brands Matter, 2021). This policy controls all elements of employment, including recruiting, hiring, training, promotion, remuneration, punishment, work assignments, benefits, transfer, and dismissal. RH is committed to creating a productive work environment free of unlawful harassment (RH Investor Relations, 2021). Their business policies prohibit any type of harassment that has the intention or effect of unnecessarily interfering with an individual's work performance, or that produces an intimidating, hostile, abusive, or offensive work environment (RH Investor Relations, 2021). RH has an open-door policy, and their associates are welcome to pop by to discuss any recommendations or issues they may have. RH thinks that open and honest communication is the best way to overcome most workplace issues (Mueller, 2020). The company also maintains an anonymous hotline where submitted complaints, concerns, and grievances are reviewed and addressed with the goal of ensuring that no associate who submits such complaints is disciplined, penalized, or otherwise retaliated against for raising a legitimate concern, either through the hotline or through our open-door policy (RH Investor Relations, 2021).

### **Technological Environment Analysis:**

In the galleries, RH employees utilize iPads and other devices to display their product range to consumers. Customers can use this service to shop the complete item variety in their retail galleries (Global Brands Matter, 2021). Customers will not communicate with RH on social media, however. RH has no online presence at all, despite the fact that retail companies at all levels of the market are investing heavily in improving their online presence (Petersen, 2019). "Our focus is on creating outstanding work and letting the world know about us,"

Friedman adds (Petersen, 2019). He believes that if no one is talking about the brand online, the work is not good enough; all the more incentive to spend in the items rather than "posting online about ourselves." (Petersen, 2019). Friedman uses the word authenticity to describe his decision to avoid social media. He is laser-focused on expressing the brand's essence through the environments his team creates: on showing rather than explaining (Mueller, 2020). A quick browse through #restorationhardware seemed to confirm his point. People are discussing (and posting) about RH. "We don't have Instagram, yet we're the most Instagrammed brand in our industry." (Petersen, 2019). Despite the fact that we don't have Twitter, 'Rain Room' was the most-tweeted art display ever. [RH commissioned the immersive installation from the British art collective Random International; it premiered at London's Barbican Centre in 2012 and was then lent to New York's Museum of Modern Art before being donated to the Los Angeles County Museum of Art.] "We don't have Pinterest, yet we're the most-pinned home brand," he claims (Petersen, 2019). "We think that what we do, not what we say, defines us." (Petersen, 2019)

## **Marketing Mix Analysis**

### **Product Strategies:**

The brand caters to customers looking for everything from dining tables to bedroom decor. Restoration Hardware sells collections both in-store and through its extensive website (Reference of Business, 2021). As a result, everyone can afford Restoration Hardware's high-quality furniture. A variety of look-specific options are available in the Restoration Hardware catalog. RH has catalogs dedicated to specific looks such as Modern, Teen, and even Outdoor, rather than cramming everything under one roof. Restoration Hardware, a well-known furniture manufacturer, provides stylish options in furniture and fixtures for those who appreciate rustic and vintage-style items (Global Brands Matter, 2021). To update classic designs, the brand employs classic upholstery, metal, wrought iron, and distressed wood (Mueller, 2020). Colors that are soft and neutral, such as white, taupe, and gray, predominate. The lookbook catalog has been the focal point of Restoration Hardware's advertising efforts (Global Brands Matter, 2021). The most recent edition had 992 pages and weighed a little more than 5 pounds. The catalog was then distributed to nearly twelve million homes, at a significant cost to Restoration Hardware (AE Marketing Group, 2019). The breakdown of the lookbook into style sections, and then within each section, taking time to note the importance of each item, is a key component (Mueller, 2020).

### **Price Strategies:**

Restoration Hardware's prices are typically on the high end. A sofa from this high-end furniture brand can cost around \$5,000, with decor starting at \$100 (Ho, 2020). Members of the store's membership program are eligible for discounts. RH also stated that it has increased prices selectively in order to mitigate the impact of tariffs on Chinese goods (Sciaudone, 2020). In addition, the company is shifting some production and development out of China. To attract customers, stores must constantly change their offerings, store appearances, and layouts, and in doing so, they cater to the consumer's whims (Financial Times, 2019). Buyers' low switching costs encourage suppliers to provide low, competitive prices. Consumer price sensitivity has become a major factor in recent years, as the economy and consumer spending have declined, prompting many customers to switch to home furnishing retailers that offer low-cost options (Sciaudone, 2020). Firms tend to spend a lot of money on providing quality service in showrooms while also offering low prices because of low switching costs and similar product offerings across stores (Lucas, 2019). Superior service may allow a company to differentiate itself from competitors and increase consumer loyalty and brand recognition (AE Marketing Group, 2019). Such expenses include the size and appearance of the physical store, as well as offering competitive pay to employees and salespeople to encourage quality service (DangerZone Consulting, 2013). As a result, high selling costs combined with the pressure to offer low prices drive down profits for many firms in the industry.

## **Distribution Strategies:**

Finally, Restoration Hardware has been attempting to differentiate itself from other high-end furniture stores in recent years by providing its customers with a more interior designer experience without actually hiring one (Mueller, 2020). RH has changed the design of their stores as part of this strategy, significantly increasing their size and amenities. The company intends to open and renovate stores to include wine bars, performance spaces, and rooftop gardens (Reference of Business, 2021). Because of their larger floor space, these stores will offer fully staged bedrooms, living rooms, dining rooms, and other rooms such as nurseries and billiard lounges. With this strategy, Restoration Hardware has put itself in direct competition with major design centers, which are typically large buildings with a large number of showrooms displaying products from hundreds of manufacturers (Global Brands Matter, 2021). Many of these design centers also include gardens, restaurants, and other opulent amenities. Restoration Hardware recently experimented with a new store model by opening a "flagship" location (Tierney, 2020). RH built a sleek and modern showroom-style store near Boston's Back Bay, and sales have already increased in the last year. In the coming years, the company hopes to employ more of these larger showroom stores in centralized locations (Petersen, 2019).

## **Communication Strategies:**

The furnishing retailer attributed its success to its transformation into a luxury lifestyle brand. RH removed the word "Hardware" from its name (Tierney, 2020). As the appearance of RH products evolved, expansive cafes and restaurants were built around select stores, providing luxurious experiences to complement RH products and their brand identity (Tierney, 2020). RH, which has been a market disruptor since entering the furniture market, made this strategic decision. RH is reinventing the traditional brick and mortar concept with these cafes and restaurants (Tierney, 2020). The cafe certainly adds to the elegant feel of the store and all of the products, but unlike traditional stores, it allows customers to sit and eat on the furniture, just like they would at home. While creating a lovely and Instagram-worthy atmosphere, the cafe also makes the high-end furniture feel more tangible and livable (Tierney, 2020). It is an intriguing concept that certainly draws a lot of people to their locations. That "massive change" came in April 2016, after some internal soul-searching about the company's widespread use of promotional initiatives and truly listening to its customers (Mueller, 2020). RH Grey Card is a premium loyalty program launched by Restoration Hardware. Restoration Hardware listened to its customers and gave them what they wanted by discontinuing antiquated promotional initiatives (Tierney, 2020). Members receive 25% off all full-price purchases immediately after signing up for \$100 per year (Reference of Business, 2021). There are other discount-related benefits, but it also provides members with experiential benefits, such as free interior design services, similar to Prime (Petersen, 2019). Nobody else is doing it right now, but customers love it, so much so that its nearly 400,000 members now account for 95 percent of Restoration Hardware's business (Global Brands Matter, 2021).

## **Case Analysis Questions and Answers**

- 1. RH's CEO believes that the Internet is limited in its ability to facilitate differentiation among retailers. Do you agree? Which retailers do a particularly effective job at presenting their products through their websites?**

Yes, I agree with RH's CEO that the internet's ability to facilitate retailer differentiation is limited. I say this because furniture, decor, lighting, and bathroom fittings are examples of products whose quality consumers cannot fully appreciate due to a lack of user-generated reviews and an inability to interpret the intrinsic characteristics of the articles viewed. Consumer electronics, professional services, booking services, digital products, and the like are examples of retail businesses that present their products effectively through websites.

- 1. Does the RH strategy work only for high-end/prestige products or are there elements of its approach that would be appropriate for retailers at all price levels? Choose one of your favorite retailers and discuss how that company could best apply the approach that RH is using.**

RH's strategy is most likely to work for high-end and luxury goods such as those offered by RH because customers may do a significant amount of brainstorming and may express a desire to experience the product before forking over large sums of money in exchange for such products. However, because of lower margins on low-priced goods, retailers at lower price levels cannot afford the same strategy as RH, and all retailers may not have spaces as spacious and large as RH's. I believe that Nike Inc., as my favorite retailer, would best apply RH's approach. Nike can open large brick-and-mortar stores in prime locations, complete with spacious galleries and customer amenities that exude consumer orientation and persuade customers to complete successful sales transactions with Nike. Because Nike earns high margins on its premium range of sportswear and streetwear, it may choose to provide welcome drinks, snacks, and refreshments to incoming customers to demonstrate its sensitivity to the targeted consumer groups.

- 1. Is it environmentally responsible for RH to produce and distribute such large paper catalogs? Are there ways it could mitigate the environmental impact of this program? How could it best deal with the likely negative reaction from "green" customers?**

Yes, RH is considered environmentally responsible for producing large quantities of paper-made catalogs. In order to reduce the environmental impact of this program, RH may choose to implement the following measures. To begin, RH may choose to use only recycled paper to create its product catalog, which is distributed to customers each year. Second, RH may consider developing an e-catalog that can be accessed via smartphone-based applications, effectively eliminating the use of paper for circulating catalogs among customers. RH could address the concerns of "green" customers by emphasizing on catalogs that they are made entirely of recycled paper and cardboard. As previously stated, it can expose such customers to the company's paper-free methodology, such as paper-free transactions via wallets/debit card/credit card, paper-free catalogs via e-mail or mobile applications, and accepting old catalogs to be recycled to create new catalogs.

- 1. What are some other novel ways that retailers could define the role of their brick-and-mortar stores to optimize their effectiveness in contributing to increasing firm revenues and profits?**

Three observable and distinguishable novel ways in which retailers could define the role of their brick-and-mortar stores in order to maximize their effectiveness in contributing to increased firm revenues and profits are discussed below:

- Customers who are skeptical of online shopping would prefer to make their purchases at brick-and-mortar stores.
- A brick-and-mortar business can set up a showcase or review wall where it can use testimonials and reviews from existing customers to show prospective buyers how well the company runs its operations.
- Entities may also emphasize the importance and effectiveness of interpersonal communication between the brand and its customers and potential buyers in a brick-and-mortar location because personal interaction with customers enables the brand to provide perfect value and satisfaction to their customers.

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