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Executive Forecast



INDUSTRY LEADERS LOOK TO FUTURE WITH OPTIMISM

The U.S. economy appears to have finally removed the shackles from the slow-growth mode that hindered its progress following the great recession and is now poised to reach its full potential for the first time in a decade, according to economists. Flooring executives are certainly more bullish on the industry than they have been in a while, citing an improving economy, stable housing market and a trove of innovative products to excite retailers and their customers heading into 2018.

FCNews' annual executive forecast is divided into individual flooring categories. Coverage begins on page 12.

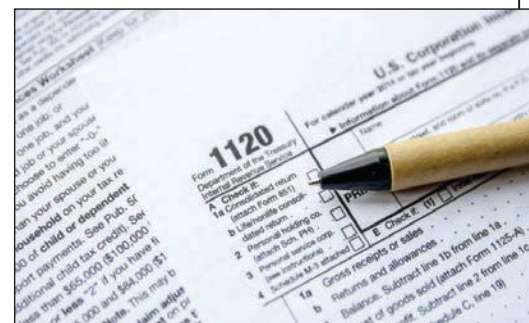
Flooring dealers weigh pros, cons of pending tax reform

By Ken Ryan

Flooring retailers are cautiously optimistic that a tax reform bill currently working its way through Congress will ultimately benefit their businesses by providing much-welcomed tax relief. Of course, the devil is in the details, and there are many issues still unresolved as House and Senate members hammer out a final measure that could be signed into law by year's end. (See Editorial on page 4 of this issue for more analysis.)

Some flooring dealers appear well versed on the potential tax implications. Among them is Nick Freadreacea, owner of The Flooring Gallery in Louisville, Ky. "While this is a moving target and certainly has a lot to be resolved before it passes, anything that can help small-to-medium-size busi-

nesses is a big help for the flooring industry. If this actually puts money back into consumers' pockets—and stimulates the economy—then we will all benefit from that. From a business owners' standpoint, if this can



While details are still being hashed out, many dealers are hoping that proposed tax reforms will provide the necessary tax relief to spur business activity in their markets.

reduce taxes and add to a businesses' cash flow, then that will help strengthen the business itself and allow business to grow again."

Reaction to the bill among small business advocates has

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2018 Award of Excellence contest kicks off

The FCNews Award of Excellence contest, now in its 22nd year, has become the premier manufacturer recognition program in the floor covering industry. Why? Because they are voted on by customers whose only motiva-

tion is to recognize those who perform flawlessly in every aspect of their business.

Co-sponsored by Informa, the owners of The International Surface Event, the Award of Excellence is a way for manufacturers' customers to honor the companies they feel consistently provide the best design, service, value, performance, quality, professionalism of salesforce, management responsiveness, customer service, handling of claims, B2B and ease of doing business. In other words, which manufacturers they believe best help them in running successful, profitable business operations.

As the years have evolved, so, too, has the Award of Excellence. The Commercial Carpet category—which was added last year—



returns to the ballot this year. This allows those manufacturers that focus on the contract side of the business or provide flooring retailers with solid Main Street

solutions the opportunity to shine.

"The manufacturers covet these awards," said Steven Feldman, FCNews publisher and editorial director. "We encourage all dealers to vote because the more ballots cast, the more significant the awards become. And that makes all manufacturers strive to improve the value they provide."

Voting officially opens later this month and runs through March 31. Look for instructions on how to vote on our website (fcnews.net), Facebook page (Floor Covering News), Twitter (@fcnewsnet) and Instagram (fcnews-magazine) in the coming weeks.

category growth in the coming year



Chris O'Connor
President and COO
Congoleum



Michael Raskin
CEO
Raskin Industries



Russ Rogg
President and CEO
Metroflor



John Wu
President and CEO
Novalis Innovative Flooring

The resilient category will continue to be the growth driver for hard surface. Strong single-digit performance is likely, though as the market has evolved the category has seen significant shifts in the types of products driving this growth.

We are projecting a 15% growth for 2018.

There will be more of a shift in market share toward multi-layer LVT and a decline in market share for traditional LVT. The LVT category is likely poised for growth anywhere between 8% and 15% overall.

We project 10%–15% worldwide.

There is little doubt the many iterations of rigid construction will continue to deliver growth. The ease of floating installations has resonated specifically with residential consumers.

Rigid core and WPC-type flooring will continue to capture the most market share. Also, acoustic-backed flooring will play a major role in the growth of these categories.

We expect the multi-layer product platforms will continue to experience accelerated growth in 2018. Multi-family and new single-family home construction will contribute to this growth residentially, while retail and hospitality will fuel growth on the commercial front.

I believe everyone is aware of the excitement around the WPC/rigid core/multi-layer flooring subcategory of LVT.

Our plan is to outpace category growth by leveraging the products we manufacture. We are poised to have a significant impact on the category as we leverage our domestic tile and plank plant to introduce a new construction that is unlike anything else available today.

We expect to be at a 30% growth rate.

We are planning/projecting for 10% growth in 2018. We believe this projected rate is similar to what can be anticipated for LVT next year as well, while the overall floor covering market will likely see growth somewhere between 3% and 5%.

At Novalis we expect to continue our growth trajectory with at least 15%–20% increases in volume in both residential and commercial sales, thanks in large part to the addition of key distribution and representation giving us more blanket coverage across the U.S.

Nearly two years ago, Congoleum set out to create a next generation of domestically produced plank and tile product. We have invested several million dollars into our plank and tile operations to produce an entirely new category of flooring.

We are adding new, quality distribution. In addition, our current customers are expanding into other markets by acquiring other companies. The overall theme from our distributors is they want to support us. Their focus and support will impact our business.

It will be interesting to see how the variations of multi-layer flooring products seek or find their respective place in the market based on price, aesthetics, performance, etc.

New product and innovation. We are moving out of R&D and into production and delivery. Plus, we have committed to doubling our manufacturing capacity, starting in 2018, which will impact our ability to service the U.S. market and all our markets globally.

Specific to our industry, the most interesting issue lies in the excess manufacturing capacity that exists for sheet goods. In a declining segment, it can make for an even more competitive environment but could also lead to some unique opportunities.

The opportunities are definitely with acoustic-backed type flooring as well as showcasing design expertise. One challenge is keeping up with the rapid growth and managing our inventory.

Education is an opportunity within our category. Communicating the facts about product types, constructions, manufacturing processes and product attributes as well as product limitations is a big opportunity.

We are still a growing company and brand. Thanks to our ability to provide our customers with good value and service, we are always seizing opportunities in every channel. Our challenges are no different than any brand in a dynamic category—staying ahead of the curve.

Our biggest impact will come with the introduction of our new domestic tile and plank platform that will be unveiled at the 2018 Surfaces event in Las Vegas.

To showcase all of our abilities with the brands we currently have and to get more unified support.

We are launching more than 40 new items in our Engage Genesis offering. We also will begin the migration toward an SPC platform that will, over time, replace much of our original Engage Clic LVT product portfolio.

We have some exciting new products entering the market in 2018. Stay tuned.

Tax reform

Continued from page 1

been mixed. Some groups praised the measure, arguing that it's the first meaningful tax reform in more than 30 years. Others feel the bill doesn't go far enough to help small businesses, with the more meaningful reform efforts focused on large corporations.

For their part, most flooring dealers put a positive spin on the tax plan. "My thought is if the Senate version passes, then the small business S corporations and LLCs will get to deduct 23% of the income before tax," noted Bill Zeigler, co-owner of Charles F. Zeigler & Sons, Hanover, Pa. "Since this income typically went straight to their personal income and taxed as much as 39.6% I see a large benefit for owners. The results of these tax cuts are hard to predict, but I hope in the end the working middle class benefits."

A lower corporate rate was also top of mind for Bobby Merideth, owner of Flooring America OKC, Oklahoma City. "A reduction in the corporate rate could add as much as 15% of taxable income to the bottom line. The additional money can be used to remodel stores, add employees or simply be placed in an interest-bearing account [if the interest rates increase]."

As presently crafted, people in high-tax, high-income states would pay more. That concerns retailers like Adam Joss, co-owner of the Vertical Connection Carpet One, Columbia, Md. "Based on headlines, I have mixed emotions and some of that stems from living in a high state tax state. Obviously, it's tough to say because nothing has been finalized yet."

Nonetheless, Joss said he is excited about the potential for a lower S-Corp rate. "That would put meaningful dollars back in our hands to invest in our staff/business or take home. My concerns center on two things: 1) the elimination of the state deduction; and 2) the elimination of the mortgage deduction. Both could negatively impact our customers, and that could impact our business. Only time will tell."

Most dealers hesitated to give a full-throated endorsement of the plan because they don't have all the details yet. As Flooring America OKC's Meredith noted: "I would love to see simplification in the tax code. Unfortunately, it may never happen because ignorance of the tax code adds revenue to the treasury."

Freadreacea of The Flooring Gallery sees the upside. "We have seen very little growth since the last [downturn] and this could really help the industry."