

The Evolution of Rug Retailing in America

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Preface

Unpacking the subject: From the beginning of civilization rugs have been a trade item. In fact, the reasons why people buy a rug has changed very little since the trading of goods began in prehistoric times. Over my 45 years in this business I have observed an almost primal way that consumers look at their rugs. It's as if the camp isn't set up until the rugs have been laid down and the furniture set around the center of the room. Comfortable, cozy even sumptuous are words that we use to describe the feeling that carpets can engender. From when first created, the softness and warmth of woolen weavings have helped create an environment that makes people happy.

After learning to domesticate sheep and goats and then to shear the hair from the animal, humans began to simulate the furry hides that they had been using to protect themselves from the elements. Items that replaced animal hides, whether for clothing or furnishings, would have immediately become important trade goods. In primitive non-monetized exchanges between our ancestors the basis for trade was the acquisition of things that you could not yet make yourself, but needed or wanted. The relative luxury of a pile surface commanded princely sums in trade. We know this because fragments of the earliest known pile rugs have been found in tombs of tribal rulers dating to 1,500 BCE. No doubt, even then, there were tribes that specialized in textiles and rugs so we can date the first appearance rug sellers to the 2nd Millennium BCE.

Although rugs and carpets, as a utility, have been a trade items for about 3,500 years they are at their core a decorative art. As races and tribes became more established the need for warmth and comfort was replaced with a taste for ornament and color. By the time of Homer, in the 8th century BCE, we know that the Greeks prized their rugs as this verse from *The Odyssey* suggests. "On gracious thrones, layer upon layer were piled rugs of all kinds, the wonderful work of the busy mothers of the warriors." A century later, according to Arthur Upham Pope, (*A Survey of Persian Art*, 1938), Plato was recognized as the owner of one of the most fabulous collections of rugs in all of Greece. And, throughout their history, the Romans depicted rugs on funerary urns as an indication of the deceased's wealth.

After the classical period, for more than a thousand years, rugs were bought and sold across central Asia in centers considered for a long time to have been places of origin, but these were in fact markets where the trading caravans assembled their wares for sale to others. Nothing really changed until 1204 and the beginning of 4th Crusade. This was the fourth pursuit of Europeans trying to supplant Muslims from the Holy Land. Misdirected, it became little more than a mission of plunder for the, then powerful, merchants of Venice. However, it was a seminal event in rug history. Up to this point the rugs traded could only be bought from what was made along trade routes stretching from China to Constantinople. Afterwards, rugs would be made based on what the customers wanted. So, I date the birth of rug retailing, as we know it, to 1204.

The changes in the rug trade that unfolded after the 4th Crusade were dramatic and, for the time, no less challenging to the business of rug selling than the arrival of the Internet. Then, like now, there was collapsing of production in some places and a boom in others. There was a rush of contemporary styling and the development of new methods of rug making. Fortunes were lost and fortunes made. All over

the task of sustaining the human instinct to satisfy the complex mix of yearning for softer surroundings and a desire to project elevated status through the possession of decorative arts.

I am attempting to chart the evolution of rug selling. No doubt, if even necessary, a daunting task. But, I feel that there are a few who would be interested in the result of this investigation. When one is planning to study the evolution of a thing, it is fundamental to properly describe it and its setting. This is the biggest challenge I am undertaking and the understanding of today's market for rugs in America will consume the largest part of my task. To get a reliable picture I have interviewed dozens of past and present industry luminaries. I thank them for their participation; I have been humbled by their willingness to help me and am honored by their candor.

Part One

Now, back to the movie: While the Crusaders had initially intended to liberate Jerusalem by way of a naval invasion in Egypt the Doge of Venice, who was financing the 4th Crusade, succumbed to a golden opportunity to sack Constantinople. To this day we wonder why he attacked a Christian city but, I suppose, that's where the money was. The Crusaders uprooted and took Constantinople's physical riches back to adorn churches, monasteries and castles all over western Europe. It was an entirely botched crusade leading the excommunication of its leaders, but it did position the Venetian merchant class to continue the flow of exotic products into Europe. At the dawn of the Renaissance, they became intrepid travelers finding and duplicating art objects for sale to increasingly wealthy Europeans. Before and even after the Ottoman Empire took Constantinople, in 1453, most rugs sold to Europeans were marketed by Venetians and made in the villages of eastern Anatolia and west of the Caspian Sea.

To the clergy, artists and aristocracy of Europe the possession of a rug from the Levant, (which meant, at that time, the lands east of Venice), was a symbol of taste and refinement. Easy to transport and care for they were widely sold as table coverings and wall hangings as well as rugs. Paintings of the period from all across the continent bear witness to this. There are surviving sales receipts from a 1380's rug shop owned by an Armenian family in Bruges, Belgium which listed its location as 'in the Burg across from the Church of Saint Donatien', (Photo 1). In the 14th and 15th centuries Bruges was northern Europe's principal entrepot for goods shipped by sea from Venice.

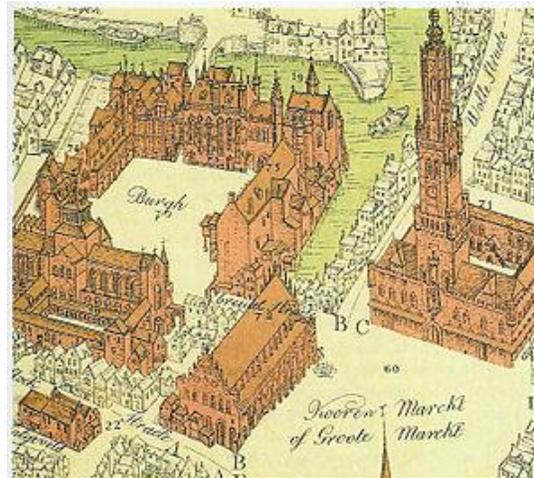


Photo 1. Bruges was a coastal town in Belgium that received goods from Venetian supply sources such as Constantinople. Note the canals, similar to Venice.

The business of selling rugs followed the Venetian model for about 250 years as the artistic awakening we know as the Renaissance swept across Europe.

The country we know today as Turkey provided most of the rugs that merchants in Constantinople sold across their European network.

The next major events in rug history occurred in Persia under the reign of the Safavid ruler Shah Abbas I, (1586-1629). During the rule of Shah Abbas sea trade became more efficient and safer. Increasingly wealthy Europeans were becoming more sophisticated and started favoring the more refined carpets from Persia. A patron of the arts, Shah Abbas created court workshops and raised the village craft of rug weaving to perhaps its highest artistic level in history. For the first time rugs were made in elaborate

curvilinear patterns with detailed floral and animal motifs. One can only imagine how excited the earliest European customers were to see the first Safavid rugs at the end of the 16th century.

Outside of the Mediterranean the Venetian influence over the trade in carpets ended and was taken over by Europe's new naval powers. By 1600 the Portuguese were buying and selling Persian carpets, then, briefly the Spanish took over the trade. Finally, after 1622, all shipments of Persia's rugs were made through the British East India Company.

However, after the passing of Shah Abbas, in 1629, Persia fell into disarray and the state interest in carpet making receded. However, with the selling power of English merchants, rugs continued to be important trade goods for the next two hundred and fifty years. Nearly co-incident with the Safavids in Persia, the Mughul kings of India began to make court carpets. Persian weavers were brought to Lahore and later wool and dyes through the East India Company. No doubt that the British had great influence in the beginnings of rug making in India. However, the tradition of village weaving was not in place in India, as it had been in Turkey and Persia, so carpets were not yet in sufficient quantity to become an export product.

Rug production and sales waxed and waned for the next hundred or so years from both demand and supply fluctuations. In 1722 Afghans invaded and overtook Persia destroying the court factory system of rug making. The production of carpets nearly stopped and rug making reverted to a village craft system. Likewise, in Anatolia the Ottoman Empire was in slow decline and the rugs that made it to the bazaars of the main trading city, now known as Istanbul, were often tribal and no longer demanded in Europe. During the 18th century the European powers were warring with each other and plunder supplanted trade as the way merchants supported themselves.

For those few families who could afford home furnishings in 18th century Europe, the fashion moved away from the oriental look and towards the arts of the Rococo movement. In France rugs were hand knotted in the Savonnerie manufactory which remained under the strict control of the French court until 1768 and these rugs were among the greatest of diplomatic gifts. After 1768 there are records of private companies making the popular French rugs and tapestries of that period. Some early carpets imitated Persian rugs, but very soon the Savonnerie rugs became purely French designs, originally with a dark blue or brown field framing a medallion and densely massed flowers in bouquets of soft pastel colors. Beyond the royals and few wealthy families, however, demand was thin and died with the French Revolution in 1789. There were also court inspired productions in Spain and in England, the latter of which became the foundation for the Arts and Crafts movement of the late 19th century. Also, in the English town of Kidderminster, the first steam-powered loom rugs were made just after 1790 and proliferated throughout the next century.

So, after the fraudulent 4th Crusade in 1204, merchants were able to buy quantities of a particular style and set of colors. No doubt they bought and sold all that they could find the market for. Floor fashion had become available to all who could afford it and rug sellers prospered to the extent that they could help keep the fashion going by improving the supply, both in terms of quality and quantity. It would have been beneficial then, as it is today, for the dealers to keep the current trend going, but competition among sellers and the sources they developed created change. These changes shifted the demand from Turkey to Persia onto France and, as we will see, back to Persia. Indeed, there were external events that effected the social, religious and economic environment in all of these source countries, but it was a fashion change that ultimately enabled the next sourcing location to evolve its rug trade. After the destructive effect of World War I on Persia's rug sellers, China became the fashion and sourcing world's next leader. The Chinese style, particularly the Nichols designs, dominated the business between the

two World Wars of the 20th century. Upon the Communist takeover in China the rug trade moved to India, where it remains today.

I am getting ahead of myself, for the two periods of most dramatic change and rapid production growth are yet to be described. The first of these is in the late 19th century up to World War I, when two British companies initiated a vertical production approach. Then, in the mid 20th century, one Indian company began marketing rugs in programmed designs, colors and sizes, I think, creating the industry we enjoy today. And, the common thread between these two events was the demand from American consumers. The scope of this paper is the 'selling of rugs' and for efficiency sake I will be limiting discussion of the type, knot or weave and price points of the rugs sold to that which is germane to the broader concept of product marketing. Every reader may find gaps in the thought process of a particular period and I welcome any and all comments, for I view this as a work in progress. Every market is indeed an unfinished project as individuals and companies act and others react and the resulting evolution can be very interesting to study.

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Meanwhile, in America. In the colonial period and after independence American homes were sparsely decorated and conditioned for utility. Up until the end of the 19th century decorative arts, such as Oriental carpets, would have been purchased on 'The Grand Tour'. For a range of reasons, wealthier American families would take trips to European capitals as often as they could afford. It may have been to study, for medical treatment or just to visit families that had stayed in the Old World. But, when they came home they carried with them a treasure trove of household goods that, even today, forms the supply base for antique furniture in America.

About 15 years ago I searched estate records of famous 18th century Charleston residents. I looked for inventory lists that would have been included with their Last Will and Testaments. In the inventories I found repeated entries for two types of rugs; there were 'Turkey Carpets' of various sizes and 'Brussels Carpets'. There would have been very few people, if any, in America to describe them further. With most of the customers for carpets trekking off to Europe to buy their home furnishings there wouldn't have been enough local demand to support rug dealers. Turkey carpets, I suppose, was a catch all for Oriental rugs. Brussels carpets are the uncut version of Wilton carpets which were made on 27" hand looms using up to 5 colors in repetitive designs. The narrow widths were hand stitched together to make rugs of required sizes. Originally made in Belgium and later in England, by the late 18th century they would be made on powered looms which allowed for the wide width Wiltons we see today.

As it happened, events in Europe made Americans begin to appreciate rugs as more than utilitarian floor coverings. According to Kurt Erdman the concept of antique rugs began with two events, one was the Vienna exhibition of Oriental carpets in 1891 and the other, which he called more important, was the 1892 display and sale of the Ardebil Carpet in London, (*700 years of Oriental Carpets*, 1966). The world's first ever exhibition of carpets, collected by Hapsburg Royalty, was a stunning display of centuries of craft and decorative art. But, these rugs went immediately back into private collections. The 1891 Vienna Exhibition was impressive, however, what separated the London event from the Vienna exhibition was that the spectacular Ardebil Carpet went on display to the public a year later at the Victoria and Albert Museum (V & A). The art world was taken by the breathtaking beauty of the 'The Holy Carpet of the Mosque of Ardebil'. It was there for any well-heeled traveler to London to see firsthand and it was indeed a major attraction for Americans. A little known second rug, which had been partially sacrificed to repair the V & A's Ardebil carpet, was sought out and purchased by J. Paul Getty in 1931. It was later gifted to the Los Angeles Museum of Art.

Prior to its sale to the V & A, the Ardebil carpet was shown at the carpet firm of Vincent J. Robinson of Wigmore Street, London, who had received it for repairs in 1888. It was brought there by Ph. Zeigler & Company who had negotiated with the mosque authorities in Ardebil when they needed to raise money for repairs. The Manchester based Anglo-Swiss firm had been active trading goods in Persia since 1883. From dealing only occasionally in carpets prior to the sensational impact of the Ardebil carpet, by 1900, they were financing and shipping carpets employing 2,500 looms from Sultanabad to Tabriz. Initially, the carpets were sold through London retailers such as Liberty & Company and Harvey Nichols, but soon a worldwide network was set up supplying department stores across the globe. Throughout the early 20th century Zeigler's continued to create rugs designed to not only satisfy demand, but to create it, (Photo 2). This period would be the birth of modern day rug retailing, for now the fashion component of having a rug in your home had eclipsed the utility.



Photo 2. Ferahan, 4'3 x 6'5, 1880-1890. Of a type that was made for the English market, it was called the 'Gentlemen's carpet'. The field and border were likely combined from other rugs; this border more often seen in Senneh rugs.

The rug juggernaut. In December of 1907 Zeiglers got a major competitor as seven smaller companies joined to become the Oriental Carpets Manufacturing LTD, (OCM). These companies had been active in Istanbul and set up headquarters in the port city of Smyrna, (now Izmir). From the start, the OCM was a marketing oriented company headed by James Baker of G.P & J. Baker & Co in London. Baker's firm was one of the seven founding companies and he brought an extensive selling network throughout Europe and America. The OCM became the first vertically integrated rug producer and was buying massive quantities of wool, spinning, dyeing and sending complete packages of designs and yarn all over Anatolia. They washed and finished their own rugs and shipped directly to customers from the port of Smyrna. The efficiencies they achieved allowed them absolute pricing control and the seven shareholders operated much like a cartel. The early OCM rug designs were exact copies of the rugs shown in the famous 1891 Vienna exhibit of Hapsburg carpets. The collection of the OCM design masters is now owned by the Peykar family of Nourison, Inc.

By 1910 the OCM had spread its operations across Anatolia and needed more production; they turned their attention to Persia. James Baker and his nephew A. Cecil Edwards ventured there, arriving first in Hamadan where they bought as many rugs as they could find. They went on to Kerman and found that one of their main competitors for the American market, New York's Fritz and La Rue & Co, was already well entrenched there. Baker and Edwards went on to Mashad and there found many rugs for sale. Returning from their first trip the pair convinced the stockholders of the OCM to move boldly in Persia with what they termed 'systemized' weaving on a Turkish scale. In 1911 Cecil Edwards was back in Persia overseeing one of the most incredible expansions in business history. He organized buying branches in Hamadan and Mashad also opening in Malayer, Isphahan, Joshegan and Kashan by the end of that year. Meanwhile, James Baker was in New York where he bought the Fritz and La Rue company, bringing both the Kerman production and its American customers under the expanding OCM network.

Over 1912 Cecil Edwards continued to buy up all the production he could find shipping rugs directly to London and New York. But, he also set up spinning and dyeing facilities and began sending out full production packages realizing the objective of duplicating the OCM's Turkish system of production. These rugs, though, needed to be shipped to Istanbul for a quicklime, (calcium carbonate), wash that gave the new rugs an aged appearance. Using an organized approach and a growing reputation for dependability Edwards was able to coax the deeply entrenched Tabrizi rug traders over to the OCM and also to buy the staff and operations of nearly all of their former competitors.

Setting up production in the Arak district of Persia was Cecil Edward's most audacious move for Sultanabad, as it was known then, had been Zeigler's carpet stronghold since 1892. Edwards considered buying Zeigler's operations, but he shrewdly decided to wait them out. He realized that their weakness was that they were traders, not producers. Their primary business was selling of cotton print cloth to the Persians for which they needed to get payment back to England. Zeigler & Co. had employed a number of labyrinthine methods to get sales receipts back to England, trading payment for printed fabric into various commodities, eventually settling on carpets. Edwards realized the flaw of this still complex plan and leveraged the OCM's ability to give immediate payment for the carpets they bought or produced. Prior to the OCM coming to Persia, Zeiglers had 2,500 looms working for them. Within only a

year the OCM had taken over 1,000 of these looms and by 1913, on the eve of World War I, Zeigler wound up its operations. Cecil Edwards hired most of their good people.

The book *'Three Camels to Smyrna'*, by Antony Wynn (2008) chronicles the life and times of A. Cecil Edwards and the Oriental Carpet Manufactures, LTD. It is the source for much of the foregoing information about the OCM. Another resource, which many consider the best book ever written on Persian carpets, is Cecil Edwards book *'The Persian Carpet'* (1953). In both books, though, the authors give credit to the OCM that I feel should go to Zeiglers.

Homes in Persia were a substantially different layout and size than most European homes and even more so than American homes. As company buyers picked over the available rugs on the market they found a surplus of approximately 3'6 x 18' runners, 6'6 x 18' and 5'6 x 13' rugs that fit the typical Persian home, (Photo 3). This layout allowed families to move the rugs easily and to go around pillars that supported the ceiling or roof. Also, if the family moved they could lay the ends on top of each other to fit the new room. But, these sizes were not marketable in Europe and America. It was major marketing innovation to arrange for the weaving of conventional western room sizes beginning with 8'x10', 9'x12' and larger to suit the mansion sizes of New York and Philadelphia. We see these

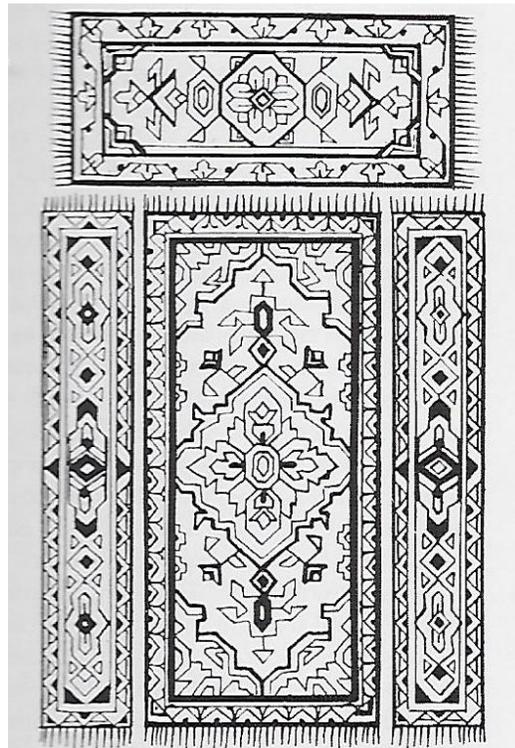


Photo 3. Typical layout in the living space of a Persian home. The largest rug, a Mian Farsh, in the center was (approx.) 7x18, the side rugs called Kenarachs were 3 ½ x 18 and a head rugs, the Kellegi, was 5 ½ x 12.

sizes in Zeigler or Zeigler inspired rugs beginning in the late 19th century which was before the OCM was formed.

Nevertheless, it amazes me what the OCM was able to accomplish in Persia and across the globe over 1910 – 1912. How did they do this in an age without airplanes and telephones, let alone the internet? The Telex machine, which many older readers may remember, wasn't developed until 1930. Cecil Edwards with a support from the amazing selling company created by James Baker in London and assisted by Fritz and La Rue in New York were able to boost output to astonishing levels and drive almost all of the competition in line under the OCM or out of business, (Photo 4). It seems only two companies survived the OCM takeover in Persia, Gulbekian in London and K. S. Tanshandijian of New York. The latter firm was the developer of the American Sarouk and a success story in its own right. The hearty rug with a uniquely American design of detached floral bouquets might hold the sales record for units sold and still in use. Most rugs of the time were washed heavily before sale, but many of the American Sarouks were washed, then bleached out and repainted a different color and many were stripped again. Harsh treatment of wool hand knotted rugs to improve marketability is far from a new concept and will be discussed fully in a later section.

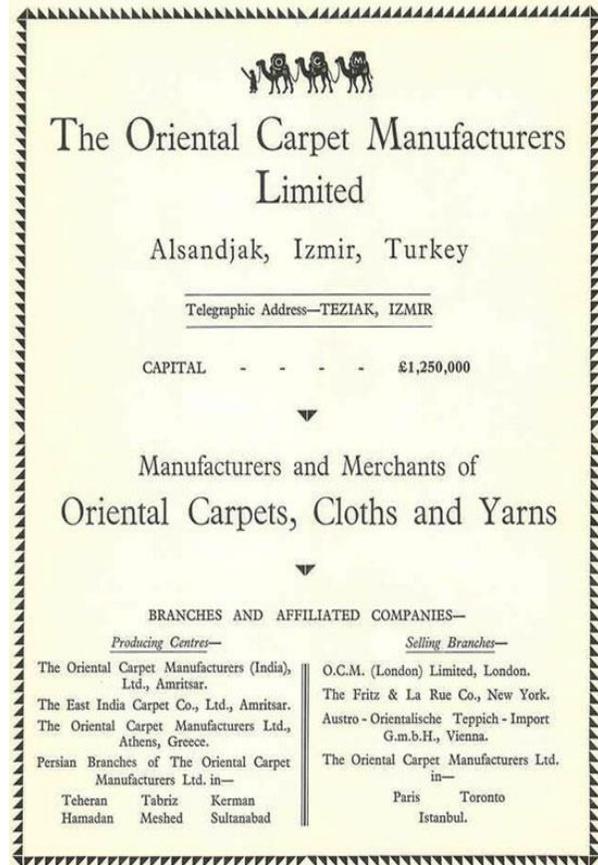


Photo 4. 1913 advertisement for the OCM showing all of its affiliates and branches to that year. E. Hill & Company, of India, was not fully assimilated into the OCM until 1944.

The long run for the American Sarouk was during the 1920's, 30's, 40's and the 50's. Then, came the Kerman years. Kerman rugs were the trade's bread and butter from the end of the 1950's, the 60's and into the 1970's. A former OCM manager George Timoyanakis is credited for having developed the pastel Kerman designs that were imported principally through George B. Zaloom & Co of New York. The Kerman rugs looked absolutely vibrant after the chemical wash. The colors were very light; ivory, light blue, light red, salmon etc. Like the American Sarouk, before it, the look and feel of the Kerman rug did not appeal to Europeans and because of this the American importers virtually had the Persian market for these weaves to themselves. This meant that there was little or no competition from, at the time, the larger and more developed European market. In both the Sarouk and the Kerman, in spite of the heavy chemical washing, they proved to be very enduring rugs. Attesting to this is that there are gigantic stocks of these rugs among New York's antique rug dealers, bought back cheaply as they fell from favor.

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Rise of the Department Store. The seeds of American rug retailing seem to have been planted in early 19th century Boston as an offshoot of the so-called dry good business. Dry goods are products such as textiles and related products and distinguished from groceries and hardware, etc. America's

industrialization began with textiles in New England and Boston was the main port for export as well as the import of Europe's dry goods. The sales outlets for Boston's products were entrepreneurial store owners around the country who grew to become some of the nation's major 20th century department stores. The earliest were Arnold Constable & Co. (1825-1975), Jordan Marsh (1841-1996), Marshall Field (1852-2006), R.H. Macy (1858-), Strawbridge & Clothier (1868-2006), Woodward & Lothrop (1887-1995) and Famous Barr, (1911-2006). There were other famous names such as Bloomingdales (1861-) and John Wanamaker (1896-1997) which grew into important department stores after having begun as clothing retailers. As they grew, department stores added categories and, by early in the 20th century, each was the preferred rug seller in their city.

As America prospered there was an increasing desire for finer furnishings and the department stores supplied them. To source products each store sent its buyers not only to Boston and New York, but also to Europe where they traveled the continent for months at a time, (I know, because in the 1920's my grandfather was the dry goods buyer for Strawbridge & Clothier. Much later, I was a rug buyer for Woodward & Lothrop).

In carpets, leading up the formation of the cartel-like OCM, James Baker's firm in London was the American store's primary source in the late 19th century. There were a few ascendant rug sellers in the U.S. but Charles Fritz, owner of Fritz and La Rue, dominated New York and Philadelphia. As mentioned earlier, the OCM took over Charles' company, Fritz and La Rue, in 1912.



Photo 5. This Sloane's ad appeared in the September 1902 issue of Scribner's, the 1st magazine with color illustration.

As the number of rug sellers in America expanded, there was one prominent rug retailer that set the standard for all others. W & J Sloane was formed in 1843 when Scottish brothers William and John Sloane opened a company in New York that is said to be the first to import Oriental rugs into the U. S. in 1852. The brothers expanded into furniture and other furnishings and soon became the home decorating choice of America's elite. Wealthy families taking 'The Grand Tour' could now buy art, and many did, because now they could get their home furnishings from Sloane's of New York. The Oriental rug department was legendary and supplied carpets for many of America's grandest homes including the White House, (Photo 5). The company opened branches in San Francisco and Washington, DC. In 1891 W & J Sloane built and occupied a new building in New York City at the southeast corner of 19th and Broadway. It was directly across the street from the Arnold Constable & Co 'Palace of Trade' which was built in 1869. Today, these two buildings house ABC Carpet and Home.

There were very few dedicated rug stores in the U.S. at the end of the 19th century. The oldest known to me are Kebabian's, started 1882 in New Haven, CT and Minasian's 1897 in Chicago, IL. Many followed as new immigrants connected with extended family in Turkey, Armenia and Iran and began to bring rugs from their homelands. Company formations were most numerous as changes swept across the American economy. Three major waves of new rug retailers opened, the first just before World War I, another during the Depression and later after World War II. Reading the histories of numerous family rug businesses extant today, they seemed to be rug stores first, evolving into rug cleaning as later generations entered the business. Coincident with the expansion of the largely Christian retailer community was a complement of Muslim and Jewish

families who supported the trade as wholesalers. This delineation seems to have occurred because the American consumer of the time preferred to do their shopping on Fridays and Saturdays.

As the U.S. population moved west and became more sophisticated the appetite for rugs and carpets grew. Machine made carpets came within reach for most Americans and by the 1950's broadloom 'wall to wall' installed carpet became a fashion statement. In 1928 the revolutionary Karastan spool Axminster rug was developed. Even though the still popular rugs were invented by a Marshall Field & Co. textile subsidiary, they were first shown for sale to the public at John Wanamaker in Philadelphia. This indicates just how competitive the department stores were in the mid 20th century. And, throughout the postwar period up until the late 1960's the department stores sold most of the country's carpets and rugs.

Even though rugs were becoming a less exclusive home furnishings item, the demand for finer handmade rugs continued to grow. However, during and after World War I there were virtually no Turkish rugs on the market and little continuity of rugs from Persia. The market's appetite had to be satisfied with handmade rugs from other sources. To solve this shortage of rugs, the department store merchants asked rug importers to develop new sources. The interior designers of the time, particular the rug savvy staff at W. & J. Sloane, helped create new 'must have' rug designs. First to break through were the Art Deco Chinese rug styles of Walter Nichols. Nichols had gone to China as a wool buyer in 1920 and by 1924 had started production of rugs in Tientsin, China, (now known as Tianjin). Demand for his Chinese rugs exploded so others followed, including Frank Michaelian who opened his own production. But, as soon as 1927, stores in America wanted simpler designs and Walter Nichol's agent in New York, Col. Gunnar Pande, designed simpler rugs for Nichols, "rugs with no borders, no animals to step on and no mysterious Chinese symbols that could provoke arguments between the salesmen and the customers." (*In Search of Walter Nichols*, Elizabeth Bogen, 1996). These rugs, the original Pande, Cameron rugs, sold extremely well up until the Japanese invaded China in 1937, when production stopped. Further, with the start of World War II sales and production of rugs nearly ceased all over the world.

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Finishing touches. There has been an internal argument in the rug business concerning washing since chemists were first asked to make a rug look silkier, softer, in other words, older. The densely woven Nichols Chinese rugs were chemically washed and it was the first time that rug sellers actually advertised severe washing as a benefit. In their promotional materials the process claimed to put a silky shine on the surface of the rug and made it soft and pliable. Walter Nichols openly promoted one of the rug trade's best kept secrets; wool rugs were chemically washed to fulfill the expectations of the consumer. From 1911, when Cecil Edwards ran out of older Persian rugs to buy anything destined for the American consumer was heavily washed and sheared to look older. And, it remained a well-kept secret. Initially, the OCM washing was done in Istanbul, but eventually they moved the processing to London. Their rugs were washed in the company's Old Kent Road facility, where no employees other than the washers were allowed into the building. The finished look of the rug was determined in the wash, but the OCM's chemists learned to control the wash color with the dyes used in the carpets. In the 1970's the OCM shipped a specially formulated red dye to Afghanistan to be used in the making of Fil Pa Afghan rugs. When brought to London and washed the red dye would consistently turn gold making that decade's popular 'Golden Afghan' rugs.

Meanwhile, in New York, Rug Renovating had been chemical washing rugs for U.S. rug importers since opening in 1896. Rug Renovating perfected many wash processes and their claim to fame was that they could wash a rug with harsh chemicals, prevent the colors from running, and keep the ivory shades

bright. While the ideal way for a rug to gain a warm antique patina may always be for it to age and oxidize naturally, there is always greater demand than supply of a fickle market's rug 'du jour'. We may call it 'fashion', but it is really good marketing creating its own demand. Hence, rug sellers have fine-tuned the 5 customer preference variables of color, pattern and size, condition and price. The first three of these can be easily addressed by the rug weaver, but the last two are tied up in whether the finish the customer sees is attractive and seems to have the expected value.

The founder of one of the most innovative American retail rug companies, Charles W. (Jake) Jacobson, railed against chemical treating of Oriental rugs. In fact, he devoted an entire chapter in his book *Oriental Rugs, A Complete Guide*, (1962) to the topic. "Since my first entry into the Oriental rug business in 1924, I have been the most ardent opponent of the chemical treatment..." However, Jacobson later said, writing in 1977, that a lime wash really adds something to the look of a new rug and does not harm the quality. Being one who had staked his reputation on disparaging the chemical wash, this was major turnabout. But, by then, he must have begun to realize that the fiber and construction used in hand knotted rugs was engineered by nature to take more abuse than it is dealt in the normal lifecycle of a decorative item. Jacobson had also begun to sell Nichol's Chinese rugs and, in his book, raved about the luster washed 'Chindia' rugs, 'Chinese rugs from India', that Pande, Cameron had begun selling in extremely large numbers. More on Chindia rugs later.

Charles Jacobson, Walter Nichols and Cecil Edwards would shudder to see the treatments and finishes that we find in the markets today. Likoo wash (sodium hypochlorite), zero pile and brightly colored overdyed rugs have given new Afghan Chobi rugs and old Turkish Ispartas unimaginable effects. As this is written, the most stylish rugs in the market are carpets of silk and wool treated with caustic soda, (sodium hydrate), that eats away the wool pile, but not the silk leaving very defined etched rugs. In spite of some garish looks, the strong chemicals, when properly neutralized, don't do as much damage to the wool as many would have you believe. According to a number of large rug washing companies that were surveyed for this paper, it is the quality of the wool and the weaving that is more fundamental to the long term wear characteristics of a rug. To them, this seems true even with the aggressively washed rugs of today.

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Smile, you are on Pande Cameron! When World War II finally ended in 1945 it concluded an almost 30-year period of weak demand for rugs. The business tried to get back on its feet. China had become a Communist country, Persia was in political disarray and beginning to focus on oil and Turkey had levied a disastrous export tariff on carpets. Large quantities of rugs had backed up in London and New York, but post war demand cut through them in only a few years. Yet another new source was needed. Thus began India's rise to prominence as the world's largest supplier of rugs.

In 1944 the OCM purchased E. Hill & Company, its longtime agent in Mirzapur, India. This gave Fritz and La Rue in New York a new source. E. Hill had continued to produce Persian designs throughout the war on credit. It was a risky gambit that paid off because the company was able to supply department stores with fresh merchandise. However, it kept Fritz and La Rue committed to older designs and colors as the rug world was about to shift under its feet.

After the loss of Chinese production in 1937 and during the second World War Col. Pande had become an established wholesaler of Persian rugs. As the supply of prewar rugs was depleted Pande, Cameron & Co. needed more rugs. In mid-1946 Pande was in India and while there he met with the owners of Obeetee, Pvt. LTD. It was a cordial meeting as he unveiled a plan that, he said, could revolutionize the rug trade worldwide. Afterwards, one of the owners, Wilfred Oakley, advised Pande that they had a

While Pande, Cameron was continuously oversold, other importers began to imitate their designs. Seeing the benefits of programming other importers began to aggressively sell the department stores as well as a wider range of outlets. A few of the new entrants were: Amiran, Avakian Brothers, Bashian Brothers, Couristan, Hayim & Co. M.E.R. Noonoo, Shalom and Trans Ocean. The 1970's and 80's saw a rapid proliferation of new rug constructions and sourcing countries. Flat weaves, Wiltons, Axminsters and machine or hand tufted rugs became available, allowing even more outlets to sell rugs to Americans. It became standard practice for the importer to carry inventory to support their growing dealer network.

The success of the Pande, Cameron and Obeetee linkage caught the OCM in a period of decline. The E. Hill & Co connection with Fritz and la Rue was never able to compete and by 1986 the OCM effectively closed. It continued under the name EKOCM until 1999. During a 1986 reorganization of the OCM, Pande bought Fritz and La Rue, later folding it into Pande Cameron in 1990.

Then in 1995, Col. Pande's grandson, Norm Sweeters Jr, sold the company to Obeetee, who operated it as Pande Cameron until 1998. Then until 2010, operating as Obeetee, they designed and sold rugs under their own brand and to this day remain a major private label supplier to (Photo 8) wholesalers and retailers.



Photo 8. Obeetee made this spectacular rug for ABC Carpet and the New York Yacht Club. Delivered in 1999, it is 24' x 80' and includes the club's crest, a triton and seahorses in the design.

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New rug sellers enter the market. By the end of the 1960's many department stores began to depend heavily upon the New York importers. Other forms of rug retailing began to overtake the stores. Only stores in the largest markets of New York, DC, Chicago and San Francisco continued to send buyers overseas to source their own rugs. Most stores let their selections deteriorate and their merchandising lost its freshness and excitement.

In hand knotted realm, the 1970's brought a new way to sell rugs. There had been a few leased rug departments in the stores; in fact, Jacobsen's Oriental Rugs was originally a leased department at Dey Brothers in Syracuse, NY. Credit for being the innovator in this selling strategy, however, goes to Ken Mink. Ken was the rug buyer at W & J Sloane in the mid-1950's and was one of those few department store rug buyers of the day who still traveled overseas. In his wanderings he found, brought back and sold many types of rugs that other stores soon began to carry, building businesses for the source countries and importers. Among these were bold Axminster Rya rugs from Denmark, woolly Flokati rugs of Greece and traditional flat woven Alpujarra from Spain.

In 1973, when Ken Mink was the buyer of Woodward and Lothrop, in Washington, DC he arranged to buy the store's handmade rug department and founded Kenneth L. Mink & Sons. A year later at John Wanamaker in Philadelphia Ken leased the entire department, including machine made rugs and broadloom, and perfected the formula. After adding the other segments at Woodward and Lothrop,

Ken and his three sons went on to roll up stores across the country. As the age of the department store came to a close, in the late 1980s and early 1990's, the Mink family came through the disaster with leased departments in 170 Macy's stores. To my knowledge Macy's and Bloomingdale's, are the only remaining old line department stores that still sell rugs, (Bloomingdale's is a separate division of R.H. Macy and the rug department is leased to Marjan International Corp.)

As the department stores lost their step, a couple of trailblazers in the New York market set an example for carpet and rug specialty store retailing across the country. Einstein Moomjy was founded in 1955 in Bloomfield, NJ by four brothers, Ted and Ernst Einstein and Walter and Albert Moomjy. From the early 1970's, Einstein-Moomjy set the standard for taste and elegance in floor covering retailing. Through its history, the company utilized catchy newspaper and radio ads that provided a wry commentary on retail advertising in general. One of the best known headlines was "Moomsday is Coming," which announced the company's semi-annual sale events. Einstein-Moomjy's product mix covered a broad price range of handmade rugs, broadloom and hard surface floors. In the late 1990's the company moved its flagship business to a two-store campus in Paramus, NJ, where furniture and home accessories were added to the merchandise mix. Einstein Moomjy at one time operated six stores in New Jersey and Manhattan. The company closed its Manhattan store in 2010 and filed for bankruptcy in September, 2011.

Another pioneering rug company, New York's, ABC Carpet and Home was actually established in 1897. Today the company's main location, in two buildings at 19th and Broadway, is the largest carpet and rug store in the world. Jerry Weinrib, who recently passed away, was the grandson of the founder. Jerry found himself in the right place at the right time in the 1980's when he began to expand the company's selection and selling space. As the department stores declined, specialty retail came into vogue for both apparel and home stores. Up to 1979 ABC had been a discount carpet outlet when Jerry Weinrib leapt into rugs, buying out Schumacher's 500,000 square foot inventory. From there, the company added more space and expanded into furniture and furnishings. The ensuing transformation of ABC Carpet into a chic home furnishings emporium is credited to Weinrib's daughter Paulette and her husband, Evan Cole. Paulette won a reputation as a trend spotter and anticipated the growing importance of home life to the aging post World War II baby boomers. Cole joined the company in 1982 as Chief Executive and, according to his Wikipedia page, oversaw growth of the company from a \$3 million business to \$170 million in 2004, when he left the company.

Over the past 20 years, there is no doubt that ABC Home has been the style leader in the American rug business. The company's buyers, under the visionary leadership of former OCM manager Graham Head, have traveled widely and found new items that fit the company's merchandising direction. Among them were the Isparta patchwork rugs from Turkey, the Color Reform overdyed rugs from Pakistan as well as from old Persian stock stuck in importer inventories and the beautiful AquaSilk recycled sari silk rugs from Jaipur. Like influential buyers before them they developed product, created demand for it and built businesses for their own company, their suppliers as well as the many competitors who followed their lead. I recently spent some time with Mr. Head and must say that his passion for product development hasn't diminished. He listed two or three new ideas that he has to keep the freshness and excitement alive at ABC Carpet and Home.

Not surprisingly, companies across the U.S. emulated these two company's bestselling products and their merchandising strategies. During the 70's and 80's new rug specialty stores opened; a couple of good examples of stores that have stood the test of time are, The Rug Gallery in Cincinnati, (1972), and Rugs as Art in Sarasota, (1986). The Armenian, Turkish and Persian rug sellers, particularly those who had evolved into rug cleaning, prospered over that period too. Increasingly the American rug stores,

including the few remaining department stores, came to depend almost completely on existing and new rug importers. The best of these picked up the mantle of product development and the traditional dealer network yielded control of the fashion direction to them. They charted new courses and helped facilitate the rapid growth of online sales. Among the new importer entrants in the 80's and 90's were Art Resources, Bokara, Feizy, Kalaty, Harounian, Momeni, Nourison, Safavieh and Samad.

At the end of the 20th and into the 21st century there was thinning out of the dealer network as a combination of factors converged. First, there were fewer children entering the successful family businesses and a consequent rash of old line companies going out of business. Next, a plentiful supply of rugs in the producing countries gave inertia to take the 'Going out of Business' pricing model and use across the country. Exaggerated retails and deep discounts became the standard pricing model for rug dealers. Retailers seemed to lose sight of the actual rugs that they were selling and, with support of the importers who consigned rugs, began to run events against each other offering discounts up to 90% off. These sales did not enhance the reputation of the rug selling community and may have helped set the stage for the internet sellers of today.

Because of the crazed price competition in the retail community in the early 2000's, the importers initiated another remarkable proliferation of fibers used and construction methods. Along with this new wave of rug wholesaler activity the interior design community fell in love with Sisal, Seagrass and Jute rugs. These immensely popular natural fiber floorcoverings, in both rug and wall to wall formats, were inexpensive and performed poorly. Their only real benefit was that they allowed customers and interior designers who put rug purchases at the end of the project and to preserve their budget. At the outset of the trend the principal source was a Boston importer named Merida, but Design Materials, Fibreworks and host of other mass market suppliers soon took over the business.

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The beginnings of the future. In the late 1980's and continuing into the early 21st century the market for the Tibetan weave carpets from Nepal exploded. Coincident with a marked fall off for the so-called 'Tibetan rug' in Europe, particularly in Germany, a couple of companies seized the available production and built a new business for American retailers in modern design rugs. There had always been a cyclical resurgence of contemporary design in the rug markets. From the Nichols bold art deco rugs of the 1920's to the dramatic Rya rugs of the 1970's, it always come back traditional designs. With the high quality and, often times, tasteful design of the current Tibetan rugs, I feel that cycle has been broken and we will see continued strength in contemporary rugs. The importers and/or retailers most responsible for this major shift in decorative taste are Tufenkian, Tamarian, The Rug Company, Warp and Weft, Lapchi and, most recently, Wool and Silk.

The sourcing base of countries producing handmade rugs began to condense in the late 1990's as Iran was put back under a trade embargo. Turkey became an industrialized country, the country's workers no longer willing to participate in a hand weaving business and the government of China utilized its ability to central-plan itself out of hand made production and into machine made goods. India and Nepal were the greatest beneficiaries.

However, over the past 20 years, the tandem of Pakistan and Afghanistan have provided importers with an ever evolving supply of stylish and dependable rugs. The relationship between the often adversarial countries is based upon a history of mass migrations with Afghans fleeing oppression in their own country. Millions of them went to Pakistan in 1979 after Russia invaded and again in the late 1990's, fleeing the Taliban. While living in refugee camps, enterprising Pakistani businessmen organized the

Afghans and taught them to weave. They provided the yarn, the finishing and the packing and shipping. Through a succession of innovative washes, these businesses have kept the Afghan products relevant. First, there were the still popular Afghan Kazak rugs, then the wood colored Chobrang rugs which we called Peshawar rugs in America. The Afghan weavers, now mostly back in Afghanistan, have continued to weave rugs as contractors for Pakistani exporters. Both have proven very flexible and seem to have adapted to new designs and the use of new fibers in their rug production.

The hallmark of Af-Pak rugs, though, is the development and use of creative new chemical washes. In part because of the unique finishing techniques it is not easy to control production between two countries, this union has never been able to successfully produce programmed rugs. Yet, as one of a kind rugs, over the past 20 years, most of the new trends and style directions in rugs have come from Pakistan's finishing houses and the Afghan weavers. Even with most of Afghanistan's rug weaving working its way through Pakistan to the markets, three important rug makers have successfully developed all-Afghan productions. They are Amadi Carpets, Ariana and Pacific Collection.

In the context of sourcing unique products from difficult parts of the globe, I really need to mention Zollanvari. The fourth generation Persian company is based in Shiraz, Iran and Zurich. The company is an innovative and dedicated supplier to retailers. In the late 1980's the real breakthrough for the company was to make the then popular full pile Gabbeh in room sizes. Later, through use of contemporary design and colors, the company's rugs became a worldwide success story. But, in 1995 sanctions were imposed on Iran resulting in a 2006 embargo that halted Zollanvari shipments to the U.S. Ever resourceful, the company re-focused and developed a new product, from India, making the recycled Sari-Silk rugs available to stores across America. With the lifting of the embargo on Iran's rugs in 2016 Zollanvari is again producing very saleable Gabbeh-inspired rugs from Iran.

We have seen rugs change from a utility item to a fashion statement and many exotic and expensive rugs have begun to sell in great numbers. Rug retailers are being asked to justify the price that they are asking for the ultra-contemporary Tibetan rugs, the recycled Sari silk rugs and the vintage looking rugs from Pakistan that we are selling. When considering the value of rugs made today we need to put them in context with the price of antique rugs. This is appropriate because the antique rugs we prize today are really co-incidences of decorative taste. In this exercise we must realize any rug created 100 years ago was designed to satisfy an individual customer's contemporary taste of that day. Who is to say new rugs, using age old methods and materials and designed for today's customers, will not be valuable 100 years in the future? Likewise, a century ago rug makers had no idea that the designs and colors, meant for their current customers, would become the antique rugs we value so dearly now.

At the other end of the price spectrum, in the 1980's many importers, Amiran and Trans Ocean in particular, adopted hand tufted rugs from sources in China. In the mid 1990's after the Nourison 2000, also made in China, was introduced other importers jumped into tufted rugs from India. Tufted rugs are a remarkable value and allowed consumers to get more fashion for their 'rug dollar'. After 2000, flat woven durries and hand loomed rugs also became popular. These three constructions created an opportunity for a customer to be able to afford to change their home design more often than ever before. Rugs became disposable. While a threatening marketing development, it is not uncommon trend as in the 21st century many products became less expensive to replace than repair. Take televisions, for instance, when was the last time anyone used a TV repair shop? We will see fewer consumers cleaning rugs in coming years and the rug cleaners will have to adjust.

There was also the development of a whole range of products with silk look-alike viscose fibers. Many names for the cellulosic fiber have been used resulting in market confusion that continues today. Sales forces at retailers were initially not well informed, but the rug cleaners seem to be helping the customer

understand the relative merits of these fibers. In our showroom, we are seeing customers with a better understanding of the benefits and limitations of all or part viscose rugs.

Another fiber and construction development that is still sweeping through the markets is advanced poly fibers using face-to-face Wilton weaving machinery. These developments are taking place mainly in Egypt and Turkey. Polypropylene fiber has always been solution dyed and Polyester is disperse dyed. This means that the color is in the fiber, not surface dyed as with wool and other fibers used in the rug business. This typically means that the two fibers are much more easily cleaned. The innovation that allowed the resurgence of the Wilton construction in recent years is that these fibers are now produced with better loft and resistance to becoming matted and crushed in traffic lanes. Also, they can now be made in finer yarn sizes that have a very wool-like feel. A few companies with very adept designers have harnessed the synthetic fiber innovations and created spectacular new rugs.

New sources entering the importer community as the 21st century began, all who have offer programmed lines, include Amer, Chandra, Jaipur Living, Kaleen, KAS, Loloi, LR Resources, Rizzy and Surya. A common thread among these companies is that all are feature Indian production. Most of these new companies were onetime suppliers to the last wave of new rug importers or sold rugs directly to retailers. Each has added vitality to the rug trade and, through their promotion, has helped expand the business into new distribution channels. Many of these companies are major participants in the burgeoning online business. They approached the business differently. Of particular note is Surya where management realized in 2004 that they would not be successful following the same marketing plan as their competitors. The company famously spent millions of dollars on their showroom at High Point targeting furniture retailers. After ten years of dedication to the plan, Surya is dominant in the segment. Furthermore, they have been able to expand into a selection of coordinated products, becoming a more important source to furniture stores. Their momentum in furniture has allowed them to become a nearly dominant supplier to serious interior designers who have begun to buy directly from rug wholesalers. The most important aspect Surya's marketing plan, for them as well as the market in general, is that they created excitement and real growth in the furniture and interior design market for rugs.

Part Two

Enter the Internet. Earlier, I identified Jacobson's Oriental Rugs, of Syracuse, NY as having been one of the most innovative rug sellers in America. Jacobson was a controversial figure in the business, but for his day he employed some very cutting edge marketing tactics. In the 1950's, as many rug businesses were trying recover from WW II, Jacobson's advertised in New York magazines that they would send Oriental rugs anywhere in America and that customers could send back whatever they didn't like. You would also receive a complimentary copy of the owner's popular book, *Oriental Rugs, A Complete Guide*. Re-reading the book for this paper, I now see that it was actually a 479 page advertising brochure for the store's rugs, or as we call it today, "content". For local dealers across America it was an amazingly disruptive strategy and powered the company for decades. 'Jake' Jacobson used Internet logic a half century before the tactic became an operational platform for online sellers. We know now that it must have been very successful because internet sales companies generally report very low merchandise returns.

The first few rugs were sold online in the late 1990's by digital pioneers during the dot.com boom. eBay was the first major marketplace for rugs and an incubator for many online sellers. By 2005 more committed companies began operating in this new digital wonderland. Rugs Direct, Rugs USA and Rug Studio led the way with more user friendly sites and free shipping. Early on, established retailers considered internet sales a curious sideshow. Some dipped their toes in the water as Overstock.com

became the pioneer in multi-line offerings. Prices were low and rug importers and producers had trouble with their conventional distribution. They awkwardly put minimum advertised pricelists (MAP) into effect, but were never really able to enforce them. Both the sellers and the consumers were learning how to use the internet and confusion was rampant.

Over the years online rugs sales have boomed. Some rug companies, notably Safavieh, have strategically embraced the internet. Others have become factors in the business just based on the inertia created by the flow of business to the internet channels. While it is true that fashion affects all price points the internet tends to deliver carpets that satisfy a practical need. Brighter colors and less complicated rug designs, favoring traditional, have been most popular. It has to look good on a screen; often a handheld screen. The sales manager at a major importer told me that whenever they meet to choose new rugs to their line, they all look at the rugs on the floor through the camera on their phones. Low end to moderate priced goods have led the way online. Hand tufted initially and now Wilton rugs dominate the online offerings. This is not to say that hand knotted goods do not sell online. Bloomingdale's online department sells 75 rugs a day online, all hand knotted or woven.

Rug dealers originally saw a lot of 'showrooming' as customers came into the shops to see the brand, style and color of rug that they had seen online. However, improved websites and offers of free freight and even free returns have all but eliminated the practice. These days, the websites compete with each other and the rug importers have had to aggressively enforce their MAP programs between their online customers. In contrast to the early years, they have real clout now because very few online sellers stock goods in their own warehouses. The effective online participants depend heavily on supplier inventory, customer service and advertising programs.

Originally considered incremental sales to a company's main business, online costs were not allocated properly. Whereas a conventional retail store needs something over 50% gross margin to cover fixed and variable expenses, online retailers price their products at 25% gross margin. However, over the past few years online sellers have begun to realize that, while they have a very competitive fixed costs relative to in-store retailers, their variable expenses are much higher than 'bricks and mortar' locations.

When the expense of free freight to the customer and the occasional free return freight are added to the product's cost it can turn what looks like a profitable sale into a loser. Due to the profile of the typical online rug sale, freight on a 2x3, 3x5 and even a 4x6 can be nearly as much as the product's cost. Sellers have to sell many 6x9 and 8x10 rugs to balance out the margin loss of selling small sizes. The 9x12 size and larger rugs are now charged a dimensional weight fee by the delivery companies limiting what had been higher margin rates on big rugs. No doubt that the major online sellers have a preferential rate structure from the delivery companies, but the 'ship to' address on rugs is usually a residence and typically a higher cost event. The margin impact of the internet's free freight programs has to be extremely significant.

One thing that is incremental about internet sales is that they are usually 'eaches', allowing for limited economies of scale in purchasing, stocking or shipping. Successful online sellers negotiate minimum stock agreements with their vendors. These agreements actually increase the price of rugs relative to the price that a stocking dealer would be offered. Since each shipment is to an individual consumer there is a shipping fee that conventional retailers, who buy in bulk, do not bear. Furthermore, internet companies need dedicated customer service. These costs are now passed on to the online merchant. Granted, the online seller has little or no inventory, but they pay higher cost per unit sold than a conventional company. On the other hand, the typical rug retailer has a very slow inventory turnover rate and the carrying costs effect the bottom line. On balance, with better product cost allocation of

online sales, they retail playing field has become level. In either case now, online or in store, the fundamental success criteria is volume growth.

As online companies have grown, though, they have found that they have the same or higher general and administrative costs (G&A) than 'bricks and mortar' merchants. The cost of website development and maintenance has skyrocketed since that advent of the internet. New functionality and an enhanced relationship with the customer are fundamental to success online and the costs are incredible. One multi-line online seller is said to be developing a 3D experience where you can move furniture and rugs in and out of a photo of your room that you have taken with your phone. The bigger online companies have even begun using local market TV advertising to direct customers to their website. Considering this arms race in the digital community, local rugs shop using tried and true promotional methods can be competitive again.

To put this in perspective, the key competitive arena in marketing websites is to project a local presence. One major online seller has said, "We want to be as fast as a trip to the store". Getting as close as they can to this goal has been the strategy of the three major web sellers of rugs; Wayfair, Amazon and Overstock.com. Amazon is on record saying that it will do whatever is necessary to prevent the debacle of Christmas 2013 when UPS, their delivery partner, could not deliver a surge in orders. Recently they have purchased their own airplanes and set up a delivery hub at the closed Airborne Freight facility in Ohio. This has raised the stakes, and costs, of selling online.

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So, how big is the rug market? Those of us with many years in the rug trade have been amazed at how quickly the market has shifted to the internet from people buying rugs from their local 'rug guy'. As I was beginning this paper, the rug dealers I spoke with thought that online sales were 40% or more of the market in dollars and well over 50% in units. Then, I began speaking to owners and sales managers at rug importers who, as a group, had little sense of how much business was being done online versus in store. Everybody was in their own 'foxhole' firing out, not certain of what was really happening out on the battlefield. These early conversations became the genesis of this project. I have now spoken at length with over thirty industry leaders, asking the same questions and have gained a good feel for the size and shape of the US rug market. This is far from a scientific study, rather it is a summary of observations that are reported as indication of the current state in the US rug market. The data collected and presented in the charts is available to any reader of this paper and I welcome any comment and discussion.

After summarizing the interviews, I searched for information on the market to cross check my conclusions. The US import data is not helpful because, except for hand knotted rugs, the entry codes for carpets and rugs are so broad that the intended end use of the import is blurred. There must have been market analyses conducted and in the files of the big corporations that participate in this market like Shaw, Mohawk and Milliken. Discussions I had with managers in those companies indicate that they deduce much of their information from customer conversations and management opinion. In my search for a previous study many pointed me towards the trade media. Unfortunately, the market for rugs, in comparison to other floorcoverings, is not only small, but its definition varied widely between publications. But, none had any actual research on rugs. When annual state-of-the-market reports are published the rug component is usually factored up or down based on trends elsewhere in the report.

So, what is the size of the US market for area rugs? And, what percent is done online? There are answers to these questions, but first you must define the market. The reader may note that this is the first time that I have used the term 'area rug', but that description is now appropriate. For my purposes,

the market definition is the following: Area rugs are floorcoverings that are used for decorative purposes. Area rugs are used in home or in commercial settings. Bath rugs or collected rugs are not considered area rugs. Carpet remnants are not area rugs, but carpet purchased for area rugs and finished with serged or bound edges are included. My definition is based on the customer's intended for use for the purchase and can be distilled down to 'decoration versus utility'.

I have determined that the retail value of the 2016 US Area Rug market is \$2.71 billion. I have built this number by defining certain segments and estimating the volume in each. They are shown in Chart 1 and described below. During the interviews information was collected on each segment and the principal buyers in each. Both the interviews and further study afterwards yielded the information on the online percentages. As mentioned earlier, the data used in these calculations is available to anyone interested.

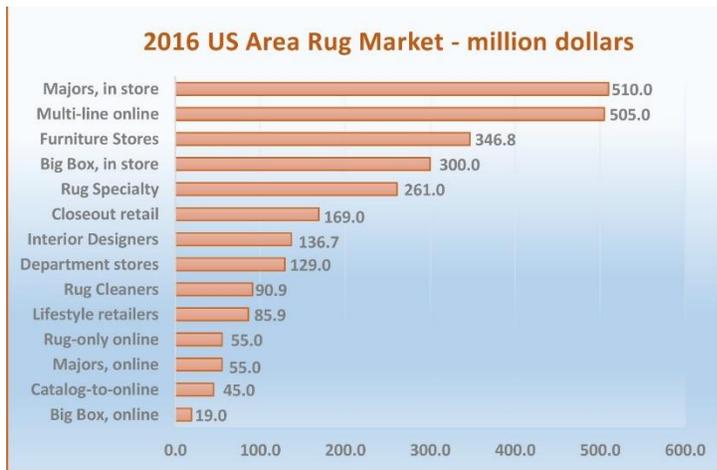


Chart 1. The estimated 2016 US Area Rug market, at retail, totals \$2.71 billion and can be broken down into these segments. See text for segment details.

Majors, In store: This group of sellers are high visibility stores in major markets that promote rugs as a primary or major product category. Includes Restoration Hardware, ABC Carpet and Home, Home Goods, Pottery Barn, (Williams Sonoma) and Stark Carpet. Some have very high online components; Williams Sonoma reports that 50% of sales are online, however we can be sure it is a lot more sauces and dishes than rugs. Restoration does not report online sales; in fact, they carefully guard this information. But, speculation in the rug business puts it at about 15% of sales.

Multi-line Online: Online sellers that carry a range of home products and that establish a relationship with the customer. The big three are Wayfair, Amazon and Overstock.com. These companies are increasingly focused on creating an experience that is as fast as a trip to the store. This sector also includes Macy's online, Bloomingdales online and Safavieh's online business.

Furniture Stores: The vendors feel that this is the fastest growing in store segment as furniture stores have finally adopted rugs as a viable retail category. Nebraska Furniture Mart and its sister companies, Ethan Allen, Gabberts, Arhaus, Mathis Brothers, Bon Ton. Importer stocks are successfully supporting this segment and have allowed stores like Rooms to Go and La-z-boy Stores to move into rugs.



Chart 2. The percent share of market, by channel from Chart 1, above.

Big Box: This segment includes Home Depot, Lowe’s, Costco, Sam’s, Target, Walmart and IKEA. Large national sellers with stores in every city and many in large cities. Most business is done in store, but all have active website strategies.

Rug Specialty: Independent one or two location stores with hundreds like them across the country. They carry higher end carpets, cater to the interior design trade and may also carry broadloom carpet. Most have very limited online components to their business. Included in this segment are carpet specialty stores, where there is some business done in area rugs, (as defined above) but, few carpet stores will support the inventory necessary to do much volume.

Closeout Retail: Deep discount stores that buy large quantities from importers as well as direct from overseas suppliers. The Dump, Greenfront, Beall’s Outlets, Big Lots, Ollie’s Bargain Stores.

Interior Designers: With many product categories catering to designers, particularly the fabric industry, designer have become more organized and now buy direct, dramatically enhancing their gross margin. Designers tend to buy custom rugs at the higher end, but not necessarily hand knotted.

Department Stores: Few are left that still sell area rugs. Macy’s/ Bloomingdales, Kohl’s, J.C. Penney. This segment can capture the family relationship that seems to be the winning online strategy. Consequently, the department stores are promoting aggressively via the internet.

Rug Cleaners: Across the country there are hundreds of rug laundries that also sell rugs. Usually selling better rugs that are more likely to be easier to clean. Except for some very specialized high end retailers, the rug cleaners tend to be sellers of antique rugs. This tends to increase their dollar sales on more limited units. They have little or no internet sales.

Lifestyle Retailers: Across the country stores like Pier 1, World Market, At Home, Bed Bath and Beyond have begun to sell rugs. There are also local Boutique merchants in every major city. They will sell area rugs that are less expensive than the average and usually in smaller sizes up to only an 8x10.

Rug-only Online: These are companies that sell only rugs. Online pioneers like Rugs Direct, Rugs USA, eSaleRugs, Rug Studio. This sector is increasingly disadvantaged compared to multi-line segment online.

Majors, Online: This segment is dominated by Restoration Hardware along with Williams Sonoma’s divisions Pottery Barn and West Elm.

Catalog-to-online: Sellers who actually mail catalogs to customers as their only distribution method. Companies like Home Decorators, (Home Depot), Ballard’s and Frontgate. This is less of a channel today and more of a selling tactic; almost all sales are completed over the internet.

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But, how much is sold online? This was actually the original question I set out to answer, but needed to quantify the whole market to determine the percent that was being sold online. Adding up all the segments estimates above, I calculated the entire retail market at \$2.71 billion. From the same estimates, internet sales in all segments was \$679 million making the online share of market 25.1%.

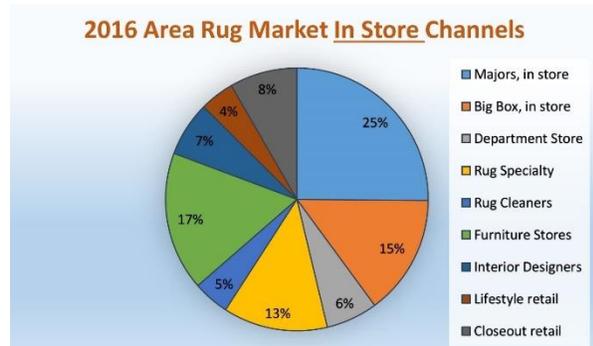


Chart 3. In store sales are 74.9% of the 2016 Area Rug market. The percents are in-store segments held by each participant.

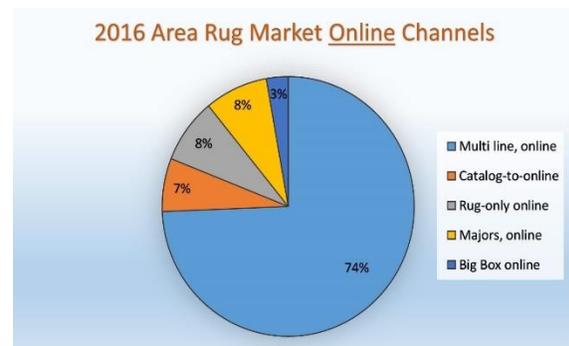


Chart 4. The online share of the Area Rug market is 25.1%. The percents are the share of market within online sellers.

This is a substantially smaller share than I had thought at the outset of this project, but it was actually the most common response from rug importer community. The importers were also in agreement that online sales were growing 20-25% annually and 3 or 4 times faster than the conventional channels.

Early in the internet age the online sellers had a substantial price advantage, but it has evaporated. And, the importer and producer MAP programs seem to be working. Researching this paper, I was able to find the same vendor rug on almost all the top websites at exactly the same price. The exception was Amazon, where the so-called 'marketplace' had some lower prices offered. The real news, though, is that on all products that I tested the online prices were acceptable to the margin requirements of a typical 'bricks and mortar' retailer. This is a result of the recognition of higher costs of doing business online. According to most of the importer interviews that got into a discussion of online selling, the most dynamic and professionally managed online retailer is Wayfair. This company is clearly setting the standard in multi-line online retailing, growing almost 400% since 2012 to \$2.2 billion in 2015.

Wayfair's innovation has been to establish a strong relationship with their customers. An easy to use website and well thought out communications keep their customers returning to the site as their first stop whenever they need something for their home. They have made an add-on pitch part of the sale; a customer buys a coffee table, no reason they shouldn't buy a rug under it. But, with all of Wayfair's success and momentum they are still losing money. The company lost 3.4% on sales in 2015 and 6.1% thru the first six months of 2016. The company is growing fast, but so are their G&A costs. At some point growth may outpace higher costs of doing business, but most likely Wayfair will have to also increase gross margin rates. There does appear to be room for margin expansion as Williams Sonoma, (50% of their sales are online), reported 37% gross margin in 2015; Wayfair's gross margin rate has been 25% in each of the last 4 years.

With Wayfair leading the way, online rug sales will continue to grow rapidly. But, for the conventional channels, particularly the rug specialty stores, rug cleaners and furniture stores, it is not as dire as it once may have appeared. Now that the internet has lost its price advantage and with online marketing costs likely to continue to increase, there is opportunity. Especially since the strategic direction online is to ship faster and appear local. It gives the sellers who are already local a chance to again be the local 'rug guy'.

The survivors in the higher-end, full service rug retail segment may be a unique lot, with a necessary role regardless of what online technology come over the horizon. Are they really different, though? Were the last video, music, book or camera retailers different? On the cusp of their extinction, I imagine that they thought that they were. Perhaps, rug retailers can be more like florists? Flower shops were also a mainstay of the local retail scene, but most have lost out to 1-800-FLOWERS.com. However, every town still has one remaining flower shop for the few remaining customers who have to see and smell the roses. What makes that one florist viable? Even more than service, dependability makes the difference.

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