



AUSTRALIAN FURNITURE ASSOCIATION

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IN SPITE OF INCREASING IMPORT INFILTRATION, INDUSTRY REVENUE MAINTAINED TO GROW – A SUMMARY OF RECENT IBIS WORLD REPORTS

4 MATTRESS MANUFACTURING IN AUSTRALIA

4.1 OVERVIEW

Mattress manufacturers produce a range of sleeping products like mattresses, pillows or cushions (except those made of rubber), largely for households, hospitals and hotel and motel accommodation.

The major products and services in this industry are bed bases, gel mattresses, inner spring and pocket coil mattresses, latex and memory foam mattresses and water mattresses.

4.2 KEY STATISTICS

- Revenue **\$658.0m**
- Profit **\$62.5m**
- Exports **\$9.25m**
- Businesses **65**
- Annual Growth 2017-22 **1.5%**
- Annual Growth 2012-17 **4.3%**

4.3 INDUSTRY PERFORMANCE AND OUTLOOK

In the past five years, highly volatile performances have been displayed by operators in the Mattress Manufacturing industry. Points like low-cost imports, the steady upward trend in Australia's population, general economic growth and the demand for beds for hotel guests and hospital patients has somehow contained industry revenue growth.

Over the five years, Industry revenue is projected to surge by 4.3% to total \$658.0 million. While, the past five-year period, numerous manufacturers have sought to gain greater value from the mattress supply chain by selling direct to the public, either through ownership of retail outlets or via online. During 2016-17, industry revenue is projected to downturn by 0.3%, reflecting the deterioration of demand conditions in the residential building market. However, this has been partly offset by strong trends in public hospital funding, hotel construction and household expenditure on furniture products.

Local manufacturers have pursued to advance the value added to their mattresses by extolling the chiropractic attributes, the back-support systems involving, latex, pocket springs and gel as the comfort layer. The aim of lifting the quality of the products on offer, has supported the industry stem the loss of market share to low cost imports, especially from China. The imported products are in the lower dimension for quality and significantly lower in price than local products. The local industry has also looked to capture a greater share of the final retail market for mattresses, by operating downstream retail outlets in conjunction with the manufacturing business or by supplying customers directly through online sales.

The emergence of 'Bed-in-a-Box' business model has supported industry quite recently which has seen start-up businesses supplying latex and memory foam mattresses to online customers in a compactly packaged form. Though the number of businesses declined from 93 businesses in 2006-07 to 72 enterprises in 2011-12 and about 65 enterprises in recent years. Industry rationalisation also included unification and acquisitions among existing manufacturers along with firms exiting the industry. The size of the industry's workforce is predicted to climb over the ten years through 2021-22, climbing from 2,146 people in 2011-12 to about 2,415 people in 2021-22 to meet the growing volume of mattresses produced.

4.4 INTERNATIONAL TRADE

The industry is exposed to a substantial degree of import penetration, which puts downward pressure on local pricing and profit margins. Imports account for almost one-quarter share of domestic demand while export earnings make a negligible contribution to industry revenue.

Imports

Import penetration represents an estimated \$193.9 million in 2016-17 or 23.0% of domestic demand. Over the five years through 2016-17, the value of imports has surged by an annualised 13.0% and the import share of domestic demand has risen from 16.6% in 2011-12. The domestic demand for mattress products has climbed by an annualised 5.8% over the past five years. Import penetration is projected to increase over the next five years, climbing to 25.0% share of domestic demand by 2021-22, as consumers look for more price- competitive alternative.

There has been a switch to sourcing low priced imported mattresses, predominantly from China (79.8% of imports), which indicates very strong import growth in volume terms. Denmark remains the second largest source of imports (8.1%) and includes high profile brands such as Dunlopillo and Serta. Imports from the United States have fallen in recent years as distance and lack of manufacturing

competitiveness have taken their toll despite the free-trade agreement. New Zealand has also lost comparative ground, with Sleepyhead's investment in Australian manufacturing plants curtailing their export volume.

Exports

Industry export earnings have recovered from the deep cyclical low at \$2.2 million in 2010-11, to reach an estimated \$9.5 million in 2016-17 but despite climbing by an annualised 29.2% over the past five years remain very low as a contribution to industry revenue (1.4%). The upward trend in exports over the past five years has been enhanced by the depreciation of the Australian dollar exchange rate, which is likely to have improved the price competitiveness of locally produced mattresses in other markets.

Export earnings are projected to gradually strengthen over the next five years and rise to account for 2.0% of industry revenue by 2021-22. New Zealand, China and Hong Kong are the dominant markets for Australian mattress exports, partly reflecting the foreign ownership of local Sleepyhead production and the many major retailers operating stores across Australia and New Zealand.

4.5 PRODUCTS AND MARKETS

The industry produces spectrum of mattresses including water mattresses and mattress supports. Supports include items such as mattress bases, covers or underlays which helps to improve the performance of the mattress.

Inner spring and pocket coil mattresses: They are expected to account for 64.0% of industry revenue in 2016-17. Inner spring and pocket coil mattresses use steel springs arranged in certain patterns within the mattress to provide the desired level of support and firmness.

Latex and memory foam mattresses: They are expected to account for 14.0% of industry revenue in 2016-17, having increased steadily over the past five years. This increase has been driven by technological advancements and the entry of new start-up businesses that market 'Bed-in-a-Box' home-delivery mattresses. Foam mattresses are generally made of petrochemical materials, which may vary in density and weight.

Bed bases: They are expected to account for 14.5% of industry revenue in 2016-17, having declined marginally over the past five years. This decline partly reflects the lower technological input into base production and its exposure to import competition. Bed bases are often sold together with mattresses.

Gel mattresses: They have emerged on the market in the mid-2000s and therefore account for only a small portion of total industry revenue. Gel mattresses conform to body contours and are touted to be temperature-neutral. Gel mattresses are generally expensive because the technology is not yet widely adopted and production is therefore expensive.

Water mattresses: They tend to adapt to body contours. These types of mattresses can also be adjusted to suit different temperature conditions. These products have waned in popularity over the past five years, despite the introduction of wave minimisation technology. This segment has declined as a share of revenue over the past five years. Imports have captured the largest portion of the waterbed mattress market.

4.6 MAJOR COMPANIES

Industry concentration is moderate, with the top four players accounting for more than half of the market. The top four players – Dyer (Sealy), Australian Comfort Group (Sleepyhead), A H Beard and Fantastic Holdings Limited – together account for an estimated 60% of industry revenue in 2015-16. The industry also includes several smaller manufacturers that each contribute 2.0% to 5.0% of revenue.

Estimated Market Share of Major Companies

Company Name	Estimated Market Share (%)
Dyer Holdings Pty Ltd (trading as Sealy Pty Ltd)	24.7
A H Beard Holdings Pty Ltd	13.8
Australian Comfort Group Holdings Pty Ltd	13.8
Fantastic Holdings Limited	7.6
Makin Mattresses Pty Ltd	<5.0
Sleepeeze Bedding Australia	<4.0
Regal Sleep Solutions	<4.0
Vanrest Beds Direct	<2.5
Slumberest Pty Ltd	<2.5

SOURCE: IBISWORLD

The Victoria-based mattress and bedding manufacturer, Sleepmaster, is a notable exit from the industry. The company invested heavily in new technology and expanded its export markets to China, the United States, Europe, Korea and New Zealand. In addition, Sleepmaster instigated a best practice program to reduce lead times in the manufacturing process from 14 days to two days. In addition to mattresses, Sleepmaster owned the Jason (pillows), Onkaparinga (blankets) and Trailmaster (camping equipment) brands. In August 2013, the company was placed into receivership and an administrator was appointed. The Jason, Onkaparinga and Trailmaster brands were sold to WAM Home Decor in late 2013 and the local manufacturing operations have ceased.

4.7 OPERATING CONDITIONS

The level of **Capital Intensity** in this industry is Low. A significant degree of process automation is evident among the larger players, but product finishing is highly labour intensive, particularly for products at the top end of the market.

The level of **Technology Change** in this industry is Low. Most technological developments lie in the area of machinery and new mattress designs. This includes the machinery and technology relating to the quilting of mattress material, spring and coil technology and the use of new materials such as gel and memory foams. Electronically controlled beds that can adjust for sleeping positions are the beginning of non-traditional mattress designs.

The level of **Revenue Volatility** in this industry is High, with year-on-year changes in revenue averaging 18% over the five years through 2016-17. The industry has struggled to maintain solid growth in the face of import competition and consumer resistance, however, the industry has been stabilised by demand in the healthcare and tourism markets. The industry's level of volatility is expected to remain moderate over the next five years due to steady trends in input prices and external competition.

The level of **Regulation** is Light and the trend is Steady. There are no industry-specific regulations for this industry although manufacturers are required to comply with state and local government regulations pertaining to zoning, land use and environmental protection issues. Manufacturers are also

required to comply with workplace health and safety regulations. There are no Australian Standards available for manufacturing general mattresses for adult use, although there is an Australian Standard for the Methods of testing infant products – Sleep surfaces – Test for firmness (AS/NZS 8811.1:2013).

The level of **Industry Assistance** is None and the trend is Steady. There is no import tariff imposed on any mattress or bedding articles in Australia.

*Source IBIS World October 2017

The ACCC enforces the *Competition and Consumer Act 2010 (CCA)*, which incorporates the Australian Consumer Law (**ACL**). The ACL prohibits suppliers from engaging in misleading and deceptive conduct or making false and misleading representations, including representations about the safety of goods. The ACL also imposes obligations relating to consumer products, including a requirement for suppliers to report incidents of serious illness or injury associated with consumer goods they supplied.

For more information about your obligations relating to the ACL or relating to the supply of unsafe products to Australian consumers contact the AFA at membership@australianfurniture.org.au or visit australianfurniture.org.au