The Mattress Industry

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Agenda

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Introduction • Industry Structure • Pricing Strategies • Recommendations
Typically, mattresses are marked up 6-12 times by the time they're sold. That means you're mostly paying for gimmicks, unfair retail markups, sales commissions, and wholesaler's profits.
Porter’s Five Forces Analysis

- **Power of buyers** is low due to information asymmetry.
- **Power of suppliers** is high because there are 3 firms that supply all the inputs.
- **Threat of new entrants** is medium because there are niche markets to tap into.
- **Market competition** is medium because it was controlled by a few firms, but is now growing.
- **Threat of Substitutes** is low because it’s an essential product.
Industry Overview: Mattress Manufacturing in the US

- The industry produces mattresses for retailers, wholesalers, hospitals, hotels, and the export market.
- 3 general types of mattresses:
  - Innerspring
  - Box spring
  - Non-innerspring*
- Mature industry with medium concentration
  - Medium level of technological change
- Key external price drivers
  - Demand, world price of steel and crude oil, value of residential construction
Organization

- Manufacturers buy the following from supply manufacturers:
  - Cardboard boxes and containers
  - Hardware, wires and springs
  - Plastic film, sheet, and bags
  - Textiles and rubber
  - Urethane foam

- Manufacturers sell to:
  - Department stores, Warehouse clubs and supercenters, Hospitals, and Hotels

- Demand is determined by:
  - The effects of wealth, housing market growth, and mattress prices
Competitive Landscape

- 323 firms
- CR4: 53.9%
- Revenue: $9.2B
- Profit: $378.6M
- Exports: $154.2M
- Annual Growth: 4.3%
Main Competitors

- Serta International: 17.6%
- Select Comfort Corporation: 15.8%
- Simmons Bedding Company: 10.8%
- Tempur Sealy International: 9.7%
- Other → includes “boutique” or “millennial” mattresses: 46.1%
Serta International

- #1 in US Mattress sales (since 2011)
- Non-innerspring and memory foam mattresses
- Purchased Simmons in 2010, but they remain distinct to comply with antitrust laws
- Able to survive 2008 financial crisis due to relationships with growing hospitality companies
- Started creating open-flame resistant products in 2005
- Values environmental responsibility
Select Comfort Corporation

- Best known for Sleep Number beds
- Total company revenue in 2014 was $1.2B
- Vertically integrated
- 4 distribution channels:
  - Company stores
  - Retail
  - Direct marketing
  - E-commerce
- Have steadily gained popularity after recovering from the Recession
Simmons Bedding Company

- 3rd largest US mattress retailer
- Emerged from bankruptcy in 2010, after being bought out
- Brands:
  - Beautyrest, BeautySleep, Nuflex Foundation, ComforPedic
- Priced between $199 and $5000
- 87% of revenue is generating domestically
Tempur Sealy International

- Signature: patented memory foam
- Brands:
  - Tempur and Tempur-Pedic
  - Sealy
  - Posturepedic
  - Optimum
  - Stearns & Foster
- Tempur-Pedic acquired Sealy in 2013
- Leading position in the high-end foam mattress segment (fastest growing market)
Millennial Mattress Companies

- Also called “Disruptors”, “Bed in a Box”, “Universal Comfort”
- Founded with the hopes of making shopping for mattresses a more affordable and direct process
Characteristics of Millennial Companies

- Much more affordable
- Are not sold in brick and mortar stores, only online
- Extremely focused on good customer service
- Targeted towards consumers comfortable ordering online
- Usually shipped compressed in a box for free
- 100 night trial period with a refund or return policy
- Most are foam mattresses
Saatva

- Combination of coils and memory foam
  - Chiropractic Seal of Approval
- Mattresses come in 14 ½” and 11 ½”
- Offers 3 comfort levels:
  - Plush soft
  - Luxury Firm
  - Firm
- Sell foundations and frames separately
- Sustainable inputs:
  - Cotton organic cover
  - Recycled steel coils
  - Bio-based memory foam layer
Tuft & Needle

- Showrooms in Phoenix and San Francisco
- Thinner than a traditional mattress
- Highest-rated mattress on Amazon
- 3 main selling points:
  - Supportive base layer
  - Innovative T&N Adaptive Foam
  - Mattress disperses heat well
Casper

- Showrooms in Los Angeles and New York City
- Combination of cooling latex foam over supportive memory foam
- Sell pillows and sheets separately
  - Set of sheets range from $180 to $320
  - Pillows range from $75 to $85
Leesa

- Offer discounts with codes on their site
  - Promotion
  - Military discount
- Advertise their philanthropic involvement
- Mattress comprised of 3 layers of foam
  - Cooling Foam
  - Contouring Memory Foam
  - Dense Support Foam
- Sell blankets separately for $125
Helix Sleep

- Showroom in New York City
- 2-3 minute questionnaire
- Combination of microcoils and high-grade foam
- Accommodate shoppers sharing a mattress who have different sleeping preferences:
  - Blended
  - Dual Comfort
Loom & Leaf

- Subsidiary of Saatva
- Offers 2 comfort levels:
  - Loom & Leaf Relaxed Firm
  - Loom & Leaf Firm
- Mattress comprised of memory foam and medical-grade cooling spinal gel
- Sustainable inputs
Pricing per Company

Price ($) vs Sizes

- Twin
- Twin XL
- Full
- Queen
- King
- CA King

Companies:
- Tuft & Needle
- Casper
- Leesa
- Helix Sleep
- Saatva
- Loom & Leaf

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Sizes
Average Price per Square Inch by Size
Average Price per Square Inch by Size

![Graph showing average price per square inch by size: CA King, King, Queen, Full, Twin XL, Twin.](image-url)
Types of Mattresses

Innerspring Mattress

Pocketed Coil Mattress

Memory Foam Mattress

Latex Foam Mattress
Mattress Sales by Distribution Channel: Percent of Sales

- Specialty Sleep Retailers: 43%
- Furniture Retailers: 38%
- Department Stores: 5%
- Warehouse Clubs: 5%
- Direct-to-Consumer: 5%
- Other: 4%
Ad Length By Company

Number of Ads

Company

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Google Trends Seasonality for “mattress” Search

relative search frequency

Pricing Strategies

- Friends and Family Discount
- Free Add-Ons (ie: shipping)
- Price Matching
- Bargaining Down Markups
- Goldilocks Principle
- Psychological Pricing
- Anchor Pricing
- Versioning
Friends and Family Discount

- Arbitrary amount
- “You guys are my friends, right?”
- Ranges from 10% to 50% on any given day as prices are always in flux
Free Add-Ons

- May include
  - Shipping
  - Returns (pick-up)
  - Bed frame
  - Pillows
  - Mattress topper
**Price Matching**

- Many stores engage in Price-matching guarantees
- This helps keep mattress prices artificially high, as price undercutting is disincentivized
Bargaining Down Markups

- Any of the non-brand names can be price cut to about ½
- Connor asked for a $2500 mattress for $1250, and the saleswoman said 50% off is the lowest she could go
- Markup can be anywhere from 6x to 12x cost
Goldilocks Principle

- Mattress companies generally have three different base-version mattresses: a low priced, a medium priced and high priced model.
- The low priced model is advertised as a mattress that can only be used sparingly.
- Not enough of a difference between medium and high priced models.
- Also contain specialty mattresses with additional features.
Goldilocks Principle

![Graph showing Serta Base Mattresses (King) prices]

![Graph showing Sealy Base Mattress (King) prices]
Psychological Pricing and Marketing

- Consumers feel like they’re getting a deal if they’re paying $XX99 or $XXX.99
  - 99 vs 00
- Font size
  - Big bold fonts are associated with bigger bolder prices
  - Instead they advertise a “SALE!!!” and list the prices simply inside
- Drop the Dollar $ign
  - Consumers associate it with spending so they became subconsciously more hesitant
- Get rid of price tags
  - Focus on the feeling of the product
  - Fall in love with the mattress, then ask how much it costs
- Focus on what it will add to the consumer’s quality of life—fancy names
Metro Mattress Ithaca: Mattress Names

- Calista
- Desiree
- Savant III Series
- Tempur-Cloud Luxe
- Tempur-Cloud Luxe Breeze
- Natasha Pillow Top
- Cooper Harbour
- Heavenly Euro
- The Grand Bed: Cloud Edition
- Celestial Plush
Anchor Pricing

- Mattress retailers often put MSRP next to the sales price, which can be up to 40% less expensive
- Very effective because most customers don’t know the cost of producing a mattress
Versioning

- A form of second degree price discrimination, versioning allows customers to self-select themselves in categories
- Mattress manufacturers do this by providing specialty features, such as different colors, high class materials, and extra support around the edges
- These features allow for higher markups that are unproportional to the actual cost to the manufacturer
Reasons for High Markup on Mattresses

- Mattresses return gross profit margins of 30-50%
- However, the mattress industry only reports 4.1% after tax profit
- High overhead costs, low turnover and sales commission contribute to the high operating costs in the industry
- Continue to use versioning, price matching and goldilocks pricing principles
Investment Recommendations

- Invest in the mattress industry:
  - Iron and crude oil are at the lowest prices of the decade, both crucial inputs into mattress production
  - The housing market has bounced back
  - People are more likely to buy new mattresses as the economy improves
  - Specialty and online mattress retailers are the future of the industry, and will be taking market share from traditional outlets
Tossing and Turning

The volatility of bedding stocks is enough to keep investors up at night.

May 18, 2007 = 0

Source: Thomson Reuters
Pricing Recommendations

- Traditional retailers should look to sell more online
- Anchoring, while effective in the past, is becoming less successful as price transparency is increasing and newer avenues of mattress retail is becoming more popular
- Price matching, goldilocks principle and versioning are all very effective in this industry, and should be continued
Recommendations for Buying a Mattress

- The sweet spot for mattress pricing is $600-$1500
  - Most people spend between $800-$1200
  - Anything above this is superfluous, below is lower quality
- Look for the firmest mattress that is still comfortable
  - Do not trust the firmness described, try it out for yourself
- It is recommended to lie on the mattress for at least 15 minutes
  - If you do not feel any pain or pressure after this amount of time, then the mattress is for you
- Bring your own pillow!!!
Questions?