REPORT CONTENTS

Kitchen & Bath Market Index (KBMI)
Summary ........................................................................................................ 5
Current KBMI .................................................................................................. 9
Current Business Conditions ........................................................................ 11
Future Business Conditions .......................................................................... 12
Health of the Kitchen and Bath Industry ..................................................... 13
Sales Environment
2019 Full-Year Revenue Growth .................................................................... 15
2020 Full-Year Sales Growth Expectations ................................................... 16
Current State of the U.S. Economy ............................................................... 17
Manufacturer 2020 Capital Expenditure Plans ............................................. 18
Kitchen & Bath Product Insights
Consumer Insights: Kitchen Products ............................................................ 20
Consumer Insights: Bathroom Products ......................................................... 21
Industry Challenges and Concerns
Top Industry Challenges and Concerns ......................................................... 23
Top Challenges and Concerns by Segment .................................................... 24
Industry Commentary on 2020 Goals ........................................................... 25
Methodology / Limiting Conditions / Contact Us
Methodology .................................................................................................. 36
KBMI Responses Overview ........................................................................... 37
Limiting Conditions ....................................................................................... 38
Contact Us ..................................................................................................... 39
Conducted jointly by the National Kitchen & Bath Association and John Burns Real Estate Consulting, the Kitchen & Bath Market Index (KBMI) examines current kitchen and bath industry demand, future expectations, and issues and challenges that industry professionals are facing in their businesses. The Q4 report is based on findings from 602 NKBA members across four primary industry segments:

- Design
- Building and Construction
- Retail sales
- Manufacturing

**Methodology note:** We have incorporated historical revisions to the KBMI in this release due to changes in the weighting methodology that occurred in Q4-2019. The revised index weights three inputs: 55% for current sales conditions, 15% for next quarter sales conditions, and 30% for current industry conditions.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)

© 2020 NKBA
## Executive Summary

### Kitchen & Bath Market Index

<table>
<thead>
<tr>
<th></th>
<th>Contracting</th>
<th>Expanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q4</td>
<td></td>
<td>69.8</td>
</tr>
<tr>
<td>2019 Q3</td>
<td></td>
<td>64.3</td>
</tr>
<tr>
<td>2019 Q2</td>
<td></td>
<td>65.4</td>
</tr>
<tr>
<td>2019 Q1</td>
<td></td>
<td>68.5</td>
</tr>
<tr>
<td>2018 Q4</td>
<td></td>
<td>70.1</td>
</tr>
</tbody>
</table>

### Current Business Conditions

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>Stayed the same</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q4</td>
<td></td>
<td>66.9</td>
<td></td>
</tr>
<tr>
<td>2019 Q3</td>
<td></td>
<td>61.7</td>
<td></td>
</tr>
<tr>
<td>2019 Q2</td>
<td></td>
<td>63.7</td>
<td></td>
</tr>
<tr>
<td>2019 Q1</td>
<td></td>
<td>67.3</td>
<td></td>
</tr>
<tr>
<td>2018 Q4</td>
<td></td>
<td>71.0</td>
<td></td>
</tr>
</tbody>
</table>

### Future Business Conditions

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>Stayed the same</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q4</td>
<td></td>
<td>68.4</td>
<td>76.6</td>
</tr>
<tr>
<td>2019 Q3</td>
<td></td>
<td>70.6</td>
<td></td>
</tr>
<tr>
<td>2019 Q2</td>
<td></td>
<td>70.2</td>
<td></td>
</tr>
<tr>
<td>2019 Q1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018 Q4</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Health of the Industry

<table>
<thead>
<tr>
<th></th>
<th>Extremely weak</th>
<th>Normal</th>
<th>Extremely strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q4</td>
<td></td>
<td>7.2</td>
<td></td>
</tr>
<tr>
<td>2019 Q3</td>
<td></td>
<td>6.7</td>
<td></td>
</tr>
<tr>
<td>2019 Q2</td>
<td></td>
<td>6.7</td>
<td></td>
</tr>
<tr>
<td>2019 Q1</td>
<td></td>
<td>6.7</td>
<td></td>
</tr>
<tr>
<td>2018 Q4</td>
<td></td>
<td>6.8</td>
<td></td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20) *Values are KBMI totals.

See the methodology note on page 4 for more information about our weighting methodology.
KBMI YEAR-OVER-YEAR COMPARISON

Kitchen & Bath Market Index

<table>
<thead>
<tr>
<th>Year</th>
<th>Contracting</th>
<th>Expanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q4</td>
<td>69.8</td>
<td></td>
</tr>
<tr>
<td>2018 Q4</td>
<td>70.1</td>
<td></td>
</tr>
</tbody>
</table>

Current Business Conditions

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower</th>
<th>Stayed the same</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q4</td>
<td></td>
<td>66.9</td>
<td></td>
</tr>
<tr>
<td>2018 Q4</td>
<td></td>
<td>71.0</td>
<td></td>
</tr>
</tbody>
</table>

Future Business Conditions

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower</th>
<th>Stayed the same</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q4</td>
<td></td>
<td>76.6</td>
<td></td>
</tr>
<tr>
<td>2018 Q4</td>
<td></td>
<td>70.2</td>
<td></td>
</tr>
</tbody>
</table>

Health of the Industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Extremely weak</th>
<th>Normal</th>
<th>Extremely strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q4</td>
<td></td>
<td>7.2</td>
<td></td>
</tr>
<tr>
<td>2018 Q4</td>
<td></td>
<td>6.8</td>
<td></td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20) *Values are KBMI totals.

See the methodology note on page 4 for more information about our weighting methodology.

© 2020 NKBA
EXECUTIVE SUMMARY

We are pleased to release the Q4 2019 NKBA / John Burns Kitchen & Bath Market Index (KBMI), the industry’s definitive gauge of kitchen and bath industry conditions. This quarterly index is the result of a partnership between the National Kitchen & Bath Association and John Burns Real Estate Consulting.

The final quarterly KBMI of 2019 revealed a surprising reversal of industry health and sales conditions, after showing signs of slowing throughout 2019. Current business conditions rate higher than the first three quarters of 2019, while industry health and optimism about future business conditions are both at the highest levels since we launched this index in 2018. Our Q4 2019 survey shows:

• **Strong Q4 industry growth.** The kitchen and bath industry expanded again in Q4 2019, as the KBMI rated a 69.8 on a scale of 0–100 (with 50 being flat sales growth). Q4’s KBMI is now well above the prior three quarters but remains slightly below the prior year’s rating of 70.1.

• **Despite a strong Q4, weaker business performance in Q1, Q2 and Q3 dragged total 2019 year-end revenues down slightly compared to 2018.** Across all segments, the industry reported total revenues were down -0.4% YOY in 2019, compared to growth in 2018 (up +5.8% from 2017).

• **Future industry outlook, however, is very positive.** The industry is now much more positive on future conditions (77 index reading) than on current conditions (67 index reading), on the back of strong new home sales and rising home prices that are driving an uptick in new construction activity and larger-scale kitchen and bathroom remodels.

  o **The industry expects robust +10.8% full-year sales growth in 2020,** up significantly from the modest mid-single-digit growth expectations reported by NKBA members throughout 2019.
EXECUTIVE SUMMARY

• NKBA members rate the current state of the U.S. economy as a 7, on a scale of 1–10, with 1 being extremely weak and 10 being extremely strong. Only 7% of the industry rates the economy below a 5, signaling that most of the industry is confident in underlying demand conditions.
  • 86% of manufacturers are maintaining or increasing current levels of capital investment, which suggests the industry is confident revenue growth will continue in the near term.
  • Consumers are most frequently “splurging” on countertops in their kitchens and baths, according to NKBA members across industry segments.
  • Among kitchen products, NKBA members say consumers are most commonly trading up to higher-end countertops, stoves/ranges, and cabinets, while fewer members report that consumers are “splurging” on cabinet hardware and smart lighting or plumbing products like faucets.
  • In the bathroom, NKBA members say consumers are also most frequently trading-up to higher-end countertops as well as vanities, medicine cabinets and tiled showers. Fewer members report consumers are “splurging” on bath accessories or smart plumbing products like toilets or faucets.
• The two biggest challenges and concerns of the industry continue to be the availability/cost of skilled labor and cost of materials. Many NKBA members say lingering trade issues are a significant business challenge, particularly those in building and construction and retail sales companies.
• 2020 should be another exciting year for the kitchen and bath industry, as most NKBA members report they are most excited about growing their businesses in a variety of forms. Half of the industry reports being most excited about either adding new customers or clients, selling new products, increasing their sales to the luxury segment, or improving their marketing reach.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
© 2020 NKBA
At 69.8, the Kitchen & Bath Market Index indicates growth in current quarter, a generally optimistic view of future kitchen and bath sales, and a positive view of industry health. Manufacturing was the strongest index at 74.1, while design, retail sales, and building and construction companies all indexed lower, between 67.4 and 72.1. Scores above 50 indicate industry growth, while scores below 50 indicate slowing activity.
At **69.8**, the Q4 2019 KBMI rates **higher than last quarter** and about as strong as one year ago. NKBA members are optimistic about business conditions and the industry has high expectations for the upcoming year. Collectively, the industry increased their full-year 2020 sales growth outlook to **+10.8%**, which is almost double what was expected for 2019 during this time last year.

<table>
<thead>
<tr>
<th>KBMI</th>
<th>Q4 2018</th>
<th>Q1 2019</th>
<th>Q2 2019</th>
<th>Q3 2019</th>
<th>Q4 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>-2%</td>
<td>-5%</td>
<td>-2%</td>
<td>8%</td>
</tr>
<tr>
<td>Current Business Conditions</td>
<td>71.0</td>
<td>67.3</td>
<td>63.7</td>
<td>61.7</td>
<td>66.9</td>
</tr>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>-5%</td>
<td>-5%</td>
<td>-3%</td>
<td>8%</td>
</tr>
<tr>
<td>Future Business Conditions</td>
<td>70.2</td>
<td>76.4</td>
<td>70.6</td>
<td>68.4</td>
<td>76.6</td>
</tr>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>9%</td>
<td>-8%</td>
<td>-3%</td>
<td>12%</td>
</tr>
<tr>
<td>Health of the Industry</td>
<td>6.8</td>
<td>6.7</td>
<td>6.7</td>
<td>6.7</td>
<td>7.2</td>
</tr>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>-2%</td>
<td>0%</td>
<td>0%</td>
<td>7%</td>
</tr>
</tbody>
</table>

**2019 FULL YEAR SALES GROWTH OUTLOOK 2020**

<table>
<thead>
<tr>
<th>Full-Year Sales Growth Outlook*</th>
<th>+6.6%</th>
<th>+5.4%</th>
<th>+4.7%</th>
<th>+3.5%</th>
<th>+10.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in guidance vs prior quarter</td>
<td>N/A</td>
<td>-1.2%</td>
<td>-0.7%</td>
<td>-1.2%</td>
<td>+7.3%</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
Overall, the current business conditions index is **66.9**. Manufacturers index well above the total weighted average at a 74.3, while retail sales and design firms under-index at 65.6 and 63.5, respectively.

**Current Business Conditions**
Sales last quarter vs. same period prior year

- **KBMI**: 66.9
- **Design**: 63.5
- **Retail Sales**: 65.6
- **Building & Construction**: 70.8
- **Manufacturing**: 74.3

See the methodology note on page 4 for more information about our weighting methodology.
At **76.6**, the industry expects Q1 2020 sales to be higher than Q4 2019 sales. Manufacturing companies are the most optimistic, while building and construction firms are slightly less optimistic than other segments.

**Future Business Conditions**

Sales next quarter vs. this quarter

<table>
<thead>
<tr>
<th>Segment</th>
<th>Higher</th>
<th>Stayed the same</th>
<th>Lower</th>
</tr>
</thead>
<tbody>
<tr>
<td>KBMI</td>
<td>76.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>74.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>75.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Sales</td>
<td>78.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>79.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

See the methodology note on page 4 for more information about our weighting methodology.
The overall kitchen and bath industry currently rates industry health at a **7.2 out of 10**. Manufacturing companies and design firms are slightly less optimistic than retail sales and construction businesses.

**Health of the Industry**
Segment rating from Extremely Strong to Extremely Weak

<table>
<thead>
<tr>
<th>Segment</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>KBMI</td>
<td>7.2</td>
</tr>
<tr>
<td>Design</td>
<td>7.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.1</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>7.3</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>7.3</td>
</tr>
</tbody>
</table>

See the methodology note on page 4 for more information about our weighting methodology.
SALES ENVIRONMENT
In 2019 the industry reported total sales were down -0.4% YOY compared to 2018. Q1, Q2, and Q3 sales were impacted by a slowing housing market and weaker consumer confidence associated with higher material and product costs as a result of trade negotiations.

**2019 Weighted Sales Revenue**

How much did your company’s revenue grow (or decline) in 2019 compared to 2018?

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>KBMI</td>
<td>-0.4%</td>
<td>+5.6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>+4.2%</td>
<td>+5.9%</td>
</tr>
<tr>
<td>Retail &amp; Sales</td>
<td>+0.6%</td>
<td>+6.0%</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>-0.6%</td>
<td>+5.4%</td>
</tr>
<tr>
<td>Design</td>
<td>-0.7%</td>
<td></td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
The industry expects robust +10.8% full-year sales growth in the upcoming year, up significantly from the growth expectations reported by NKBA members this same time last year. A rebound in new home sales and existing home prices is driving strong new construction activity and demand for kitchen and bath remodels, which should drive sales and revenue higher across all segments of the industry.

**2020 Sales Revenue**

What percentage of sales growth are you expecting in 2020?

- **KBMI**: +10.8%
- **Manufacturing**: +12.3%
- **Retail & Sales**: +10.9%
- **Design**: +10.7%
- **Building & Construction**: +10.7%

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20) © 2020 NKBA
NKBA members rate the current state of the U.S. economy as a 7, on a scale of 1–10, with 1 being extremely weak and 10 being extremely strong. 78% of people in the industry rate the US economy better than normal (5) while only 7% of the industry rates the economy below a 5, signaling most of the industry is confident in underlying demand conditions.
51% of manufacturers report they are increasing capital expenditures in 2020 relative to 2019 levels, which indicates most of the industry is planning for continued growth. Only 4% report they are decreasing investments in capital equipment and no large manufacturers (with sales over $100M) said they were decreasing capex levels.

2020 Capital Expenditure Plans (Manufacturers Only)

- **Increase**: 51%
- **Hold Constant**: 35%
- **Decrease**: 4%
- **Don't Know**: 11%
**CONSUMER INSIGHTS: KITCHEN PRODUCTS**

NKBA members across segments report consumers are most frequently opting for higher-end countertops, stoves/ranges or cabinets, with 16% of the industry saying countertops are the number one product consumers most commonly “splurge” on in the kitchen. Only 3% of the industry says consumers are “splurging” on cabinet hardware, flooring or smart lighting and only 2% say smart plumbing products like faucets.

**KITCHEN PRODUCTS CONSUMERS ARE MOST COMMONLY “SPLURGING” ON**

% of industry citing product as being most commonly “splurged on”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)

© 2020 NKBA
CONSUMER INSIGHTS: BATHROOM PRODUCTS

In the bathroom, NKBA members also report countertops as the number one product category consumers are mostly frequently “splurging” on, followed by vanities, medicine cabinets and tiled showers. Only 3% of the industry reports consumers are “splurging” on hardware/bath accessories or smart lighting and only 2% say smart plumbing like faucets, toilets or other smart bath fixtures.

BATHROOM PRODUCTS CONSUMERS ARE MOST COMMONLY “SPLURGING ON”
% of industry citing product as being most commonly “splurged on”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
The availability of skilled labor, cost of materials, and cost of labor top the list of the industry’s most significant challenges and concerns in Q4 2019. Concerns about the economy, trade policy, and consumer confidence remain near the top of the list but rank lower than in recent quarters as trade tensions ease and the U.S. housing market rebounds after a predominately slow start to 2019.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of skilled laborers</td>
<td>7.7</td>
</tr>
<tr>
<td>Cost of materials</td>
<td>7.2</td>
</tr>
<tr>
<td>Labor costs</td>
<td>6.9</td>
</tr>
<tr>
<td>Trade issues</td>
<td>6.4</td>
</tr>
<tr>
<td>Consumer confidence</td>
<td>6.1</td>
</tr>
<tr>
<td>Economic uncertainty</td>
<td>6.0</td>
</tr>
<tr>
<td>Competitive pressures</td>
<td>5.9</td>
</tr>
<tr>
<td>Availability of professional employees</td>
<td>5.8</td>
</tr>
<tr>
<td>Fear of recession</td>
<td>5.8</td>
</tr>
<tr>
<td>Home prices</td>
<td>5.7</td>
</tr>
<tr>
<td>Repair / Remodel demand</td>
<td>5.7</td>
</tr>
<tr>
<td>Stock market volatility</td>
<td>5.7</td>
</tr>
<tr>
<td>New construction (starts)</td>
<td>5.0</td>
</tr>
<tr>
<td>Private label products</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
TOP CHALLENGES AND CONCERNS BY SEGMENT

BUILDING & CONSTRUCTION
1. Availability of Skilled Labor
2. Trade Issues
3. Labor Costs

MANUFACTURING
1. Availability of Skilled Labor
2. Labor Costs
3. Cost of Materials

RETAIL SALES
1. Trade Issues
2. Cost of Materials
3. Competitive Pressures

DESIGN
1. Availability of Skilled Labor
2. Cost of Materials
3. Labor Costs

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
INDUSTRY COMMENTARY ON 2020 GOALS
Among all industry segments, adding new customers (e.g. dealers, builders, contractors, designers, wholesalers, consumers), developing and/or selling new products and finishes, and improving marketing efforts (social media, updated showroom) accounted for over 40% regarding “things” the industry is most excited about in 2020. Many also cited looking forward to a “rebound in luxury demand” following a slower 2019.

**THINGS THE INDUSTRY IS MOST EXCITED ABOUT ACCOMPLISHING IN 2020**

% of industry citing initiative as most exciting

*Adding New Customers*: 16%
*Selling New Products*: 14%
*Improving Marketing*: 12%
*Increased Luxury Demand*: 7%
*Company Efficiency*: 6%
*Increased Share of Wallet*: 5%
*Maintaining Business*: 5%
*Selling Smart Home*: 5%
*More Modern Design*: 4%
*Growing Organization*: 4%
*E-Commerce*: 4%
*Increasing Margins*: 3%
*Sustainability Efforts*: 3%
*Evolving Business Model*: 3%
*Geographic Expansion*: 2%
*Economic Growth*: 2%
*Aging in Place Design*: 2%
*Awards & Certifications*: 2%
*Selling More Services*: 1%
*Other*: 1%
Building and Construction Companies Are Excited to Grow Their Staff and Evolve Their Business Models

What is your business most excited about accomplishing in 2020?

“We’re focusing on growing the business which means hiring more staff! We want to do bigger projects with higher quality products and more exciting design.”

“We’re evolving our business model to take market share and are adding a lot of people to the team.”

“We are excited about training new designers and project managers to replace retiring designers and PMs.”

“Growing each of the segments of our business by adding new talent and helping our existing people grow, develop and perform at a higher level.”

“Finally hiring a full-time designer for kitchen and bath to support our growing kitchen and bath remodeling business that started 1.5 years ago.”

“Hiring more designers and installers to support all the segments of our new business model.”

“Hiring new installers and finding more qualified carpenters who have an eye for craftsmanship. Starting a new business offering so we can get paid for ‘consulting and critiquing’ during the planning phases.”

“Expanding the team to accommodate more clients and cut down project wait time.”

“Working on our business model, expanding our crew size to complete more jobs faster.”
Building and Construction Companies Are Focusing on Efficiency and Margins in Tight Labor Environment

What is your business most excited about accomplishing in 2020?

“We are focusing our business model around kitchen remodels this year, as opposed to whole home remodels and additions. This will create a tighter, more streamlined package.”

“Our goal is to just be on schedule and on budget; we want to be less frantic with solid margins.”

“In 2020 we’ll be streamlining and consolidating the sales process and digging deeper into our new operating software platform to better manage our projects.”

“Becoming more profitable through efficiency. Becoming more streamlined in our processes.”

“We’re improving production processes and streamlining the selection stages to grow our margins.”

“We’re streamlining procedures to increase the number of projects we can complete in one year.”

“We are looking to do a larger scope of work within a fewer number of projects this year.”

“Becoming more focused on specific types of projects and letting the others go.”

“Picking / choosing clients; no longer taking on projects that aren’t tailored to our strengths.”

“We’re revamping our design approach to make projects run smoother and become more profitable.”

“We’re excited about becoming more profitable on projects by simplifying things on the front end.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
Retail Businesses Are Investing Heavily in Their Brands and Showrooms to Attract New Trade Clients and Consumers

What is your business most excited about accomplishing in 2020?

“We’ve recently **remodeled our showroom** to attract more builders, contractors and interior designers.”

“We just **opened a new showroom** location and have partnered with a local supplier. We feel it’s important to support local manufacturers and vendors.”

“Expanding our showroom and building our brand as a premier, **one-of-a-kind** design center in our area.”

“We just spent a lot of money **updating the exterior of our building** to help bring more attention to us.”

“We need to get our showroom updated, increase the marketing budget and **build our brand**.”

“We have to build a brand to compete with Amazon so **we’re spending a lot of money** trying to do so.”

“Our showroom has been a mess for years. **We’re re-designing it to be more of a retail environment**.”

“You didn’t have to heavily sell to consumers before but now you do. We’re focused on building consumer awareness of our products, services, quality and reputation.”

“We are narrowing our remodeling services, upgrading our logo, and **rebranding the company** including a new website and adding more designers to help sell to the consumer.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
Retail Businesses Are Updating Their Systems, Opening E-Commerce Stores to Compete with Large K&B E-Tailers

What is your business most excited about accomplishing in 2020?

“We’re investing in an online store and leveraging our strong brand in the area to compete with e-tailers.”

“We have our process down. This year we are focusing on the details and perfecting them. We are also excited to see how our digital marketing efforts will impact the quality of our leads.”

“Investing in a system that will help design, check, order and manage projects to be used by multiple team members on each job to help with accuracy and to leverage our people’s strengths.”

“Developing a quick-quote system and using VR technology to help insulate us from Amazon.”

“New computer systems and CAD software, revised website, and revised social media strategy.”

“We’re streamlining our software systems and improving our online exposure through social media.”

“Most exited about launching our online retail sales store platform.”

“We’re finally getting away from paperwork and moving everything online.”

“We’re going to see if a new website will generate more cabinet sales. We’re giving it a go.”

“Opening an online store, spending money on social, spending less money going to trade shows.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
Manufacturers Are Eager to Introduce New Products, Specifically Smart Home and Aging-in-Place Products

What is your business most excited about accomplishing in 2020?

“We’re focused on our smart kitchen and bath platform and launching contemporary designs.”

“New product introductions and a few things that aren’t public yet!”

“Offering custom cabinets fabricated from new materials, such as metal and fresh laminates and new design ideas like tile waterfalls on islands and leather inlays for accents.”

“We are starting to paint our cabinets. We have a spray booth and have stained/finished our wood cabinets for years but have historically outsourced the painted finishes. We just finalized our new finish options and are excited to introduce them to the market along with smart under-cabinet lighting.”

“Introduction of new products, new categories and new finishes.”

“Integrating smart tech into our offerings, particularly in our cabinetry business.”

“Introducing new engineered finishes, new minimalist products to expand our market reach.”

“Introduction of new products with a focus on smart technologies and space saving designs.”

What is your business most excited about accomplishing in 2020?

“Need to increase our sales to fix and flippers who are increasingly controlling the product specifications on projects in many hot housing markets.”

“Focusing on identifying and meeting new contractors to work with outside of our core market area.”

“Penetrating markets we have not served in the past like custom builders. We want to pick up some lost business that has gone to imported cabinets.”

“We’re focusing on landing some big builder accounts; we have a few multifamily projects right now.”

“We want to diversify our customer base by adding a few more builder and developer customers.”

“Completing more residential new construction projects and growing our sales to contractors.”

“We need the construction industry to continue to grow for us to continue to grow; all our growth plans are focused on supplying developers and multifamily projects.”

“Too many flippers have turned into “remodelers” in our market; we are trying to grow our sales to these companies to help regain some market share. We also need the economy to stay healthy.”

“We’re looking forward to a rebounding new construction market and overall economic growth.”
What is your business most excited about accomplishing in 2020?

“We’re excited to help customers accomplish truly modern, out-of-the-box designs.”

“Spending more time up front curating unique looks so the client doesn’t get overwhelmed and go safe.”

“We’re looking forward to doing more contemporary kitchens and baths and less traditional/boring.”

“We want to do projects that permit us to show our design capabilities. We’re sick of white.”

“We’re excited to do more contemporary looks in the U.S. cabinetry market. Continuing to push lighting innovation that creates a 3D design involving all walls and ceilings. Incorporating wall systems that can hide the open concept fully or partially with disappearing panels.”

“We’re ready to design more unique kitchens instead of white cabinets, marble or quartz counters and subway tile backsplashes. We’re ready for some creativity.”

“There are so many artistic products available now that designing kitchens and baths has become so much fun. I am excited about showing my customers the range of cool stuff in the marketplace.”

“We’re starting to turn down clients that want white shaker, we can offer timeless design that isn’t white.”

“We’re excited to use new products and color finishes, other than white and gray.”
Designers Are Increasingly Focusing on Profitable Design and Doing More Luxury Remodels and Projects This Year

What is your business most excited about accomplishing in 2020?

“Launching a more curated and profitable selling experience to our clients by specifically curating the selection more closely to the job-type. This provides better profitability for us and value separation.”

“Increasing gross margin by charging higher prices and reducing the number of jobs we do. Providing better service and overall experience than anyone else in our area. Improving customer service.”

“Pushing more high-end product and luxury designs. Transitioning away from white kitchens and doing more color. We’re helping clients become less afraid of getting rid of tubs and opting for larger showers.”

“Reaching a higher quality customer with more disposable income so we can do more high-end work.”

“Expansion into more very high-end projects—quality over quantity.”

“We’re really focused on getting our staff to sell profitable design. We want to optimize more.”

“We want to start selling more custom cabinetry vs standard cabinetry lines again.”

“When we started, we were doing mid- to high-end remodels, but our reputation has grown and now we’re doing luxury work. Our jobs have grown in size and the labor involved is much more specialized, which allows us to charge a much higher price and improve our profitability.”
The NKBA / John Burns Real Estate Consulting *Kitchen & Bath Market Index (KBMI)* gauges the pulse of kitchen and bath industry in the U.S. The KBMI is based on a quarterly survey of the NKBA membership conducted jointly by NKBA and John Burns Real Estate Consulting.

The NKBA membership base consists of thousands of industry professionals, including remodelers, installers, fabricators, trades, kitchen designers, bath designers, interior designers, architects, planners, product manufacturers, cabinet makers, kitchen and bath product suppliers, wholesale distributors, manufacturer’s representatives, dealers, retailers, showrooms and kitchen/bath e-tailers.

The Kitchen & Bath Market Index (KBMI) is a diffusion index comparing weighted responses of NKBA members on three key aspects of their business: most recent quarterly sales (55%), next quarter sales conditions (15%), and an overall perception of the health of the kitchen and bath industry (30%).

The survey asks NKBA members to rate latest quarterly sales and next quarter sales expectations as “higher,” “the same,” or “lower” than the same period in the prior year. NKBA members also rate the health of the overall kitchen and bath industry on a scale from 1–10, with 1 being “extremely weak” and 10 being “extremely high.”

### Survey Responses

<table>
<thead>
<tr>
<th></th>
<th>Building and construction</th>
<th>Design</th>
<th>Manufacturing</th>
<th>Retail sales</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Index</strong></td>
<td>168</td>
<td>345</td>
<td>103</td>
<td>179</td>
<td>795</td>
</tr>
<tr>
<td><strong>Sales</strong></td>
<td>354</td>
<td>529</td>
<td>198</td>
<td>358</td>
<td>572</td>
</tr>
<tr>
<td><strong>U.S. economy</strong></td>
<td>325</td>
<td>488</td>
<td>183</td>
<td>329</td>
<td>555</td>
</tr>
</tbody>
</table>

Note: We weight the total KBMI proportionately to the number of responses in each of the above sectors. The higher total KBMI responses indicates that members selected more than one segment as their primary role. Total responses are lower for sales and US economy categories because these responses are only recorded once for the overall value.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
Conducted jointly by the National Kitchen & Bath Association and John Burns Real Estate Consulting, the Kitchen & Bath Market Index (KBMI) examines current kitchen and bath industry demand, future expectations, and issues and challenges that industry professionals are facing in their businesses.

Responses by segment

- Design: 43%
- Building and construction: 21%
- Retail sales: 23%
- Manufacturing: 13%

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 4Q19, Pub: Feb-20)
LIMITING CONDITIONS

The conclusions and recommendations presented in this report are based on our analysis of the information available to us from our research as of the date of this report. We assume that the information is correct and reliable and that we have been informed about any issues that would affect project marketability or success potential.

Our conclusions and recommendations are based on current and expected performance of the national, and/or local economy and real estate market. Given that economic conditions can change and real estate markets are cyclical, it is critical to monitor the economy and real estate market continuously, and to revisit key project assumptions periodically to ensure that they are still justified.

The future is difficult to predict, particularly given that the economy and housing markets can be cyclical, as well as subject to changing consumer and market psychology. There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and the differences may be material. We do not express any form of assurance on the achievability of any pricing or absorption estimates or reasonableness of the underlying assumptions.

In general, for projects out in the future, we are assuming “normal” real estate market conditions, and not a condition of either prolonged “boom” or “bust” market conditions. We do assume that economic, employment, and household growth will occur more or less in accordance with current expectations. We are not taking into account major shifts in the level of consumer confidence; in the ability of developers to secure needed project entitlements; in the cost of development or construction; in tax laws that favor or disfavor real estate markets; or in the availability and/or cost of capital and mortgage financing for real estate developers, owners and buyers. Should there be such major shifts affecting real estate markets, this analysis should be updated, with the conclusions and recommendations summarized herein reviewed and reevaluated under a potential range of build-out scenarios reflecting changed market conditions.

We have no responsibility to update our report analysis for events and circumstances occurring after the date of our report. This analysis represents just one resource that should be considered when assessing a market opportunity.
Please contact any of us with questions, feedback, or requests for more information.

**National Kitchen & Bath Association**

Tricia Zach  
*Market Research Analyst*

tzach@nkba.org  
(908) 813-3781

**Analysis and Index Questions**

Steve Basten  
*Senior Manager*

sbasten@realestateconsulting.com  
(920) 819-9938  
**John Burns Real Estate Consulting**

Todd Tomalak  
*Senior Vice President*

ttomalak@realestateconsulting.com  
(920) 373-6727  
**John Burns Real Estate Consulting**