

OCTOBER 30, 2018 | ROB SMITH

Bed Companies Dream of Filling Mattress Firm's Empty Stores

Tempur Sealy, Casper Open Locations Nationwide, See Opportunity After Bankruptcy Filing by Industry Giant



Online mattress company Casper is among a growing number of bed makers opening brick-and-mortar shops nationwide as many look at former Mattress Firm stores for their updated sites. Credit: Casper

Mattress companies want shoppers to take bed-maker Mattress Firm's shrinking national footprint laying down, preferably in the showrooms these businesses want to open in former Mattress Firm locations.

Following Mattress Firm's announcement that it was filing for Chapter 11 bankruptcy protection this month, mattress companies that had already been in expansion mode have begun turning their attention toward hundreds of stores the industry giant said it would close, brokers and analysts say. The company's locations are particularly attractive because they are largely in highly trafficked areas and are already built for use by mattress retailers, even though many stores face fierce competition from numerous similar mattress shops nearby.

Tempur Sealy International Inc. is among the most aggressively expanding mattress companies, opening 25 stores this year and plans to have 40 locations by the end of the year with an additional 20 to 40 scheduled for next year. The company issued a statement that it is evaluating potential sites in several markets across the United States and is in "active negotiations" to take space in some former Mattress Firm stores.

"Our retail stores are continuing to perform above our expectations," Tempur Sealy Chief Executive Scott Thompson told investors in an earnings call in the summer.

Houston-based [Mattress Firm filed for Chapter 11 bankruptcy protection](#) on Oct. 5, saying it had \$3.2 billion in debt. The company said it planned to close as many as 700 under-performing stores leading up to the holiday season. Mattress Firm has already received permission from U.S. Bankruptcy Court in Delaware to shut 209 stores. Landlords are now faced with what to do with that prematurely vacated space.

Several mattress manufacturers that began online have also [announced plans to open stores](#).

Casper, which began online in 2014, generated headlines in the summer after it said it would open 200 physical stores. Amerisleep, which launched online 10 years ago, opened its first brick-and-mortar location last year and now operates nine stores. Tuft & Needle now operates four physical stores, with plans to open a fifth this year in Raleigh, North Carolina, according to its website. Last summer, the company said it would sell its products in 22 Crate & Barrel stores across the country as part of its expansion from online to brick-and-mortar.

The mattress industry is a \$15 billion market, said TJI Research, which also noted that Amazon just launched its second private label brand in the expanding mattress-by-mail market. TJI provides information and analysis about the business of Amazon.

Barry Wolfe, senior managing director for investments at brokerage Marcus & Millichap in Fort Lauderdale, Florida, said it's "difficult if not impossible for any retailer to be online only and be successful." He said Amazon probably won't open stores devoted only to mattress and bedding products but could use its growing number of retail locations to sell many items it now offers online only.

"That's why I'm being bullish on brick-and-mortar," said Wolfe, who added that most consumers want to sprawl on a mattress before buying.

According to Consumer Reports magazine, mattress companies often mark up mattresses by 40 percent to 50 percent. The organization urges consumers to never pay full price and to negotiate at mattress stores.

Wolfe said many former Mattress Firm store are in high-profile freestanding locations and highly trafficked shopping centers.

"When we talk to retailers, they are looking at a lot of smaller Mattress Firm locations especially," he said.

Mattress Firm's bankruptcy put many of its landlords in a bind, said Stephen Dombrovski, senior associate with Suntime Commercial Realty in St. Paul, Minnesota.

Since Mattress Firm received approval to outright reject many leases, "do landlords accept this revised lease deal and cut rent significantly, or do they just terminate the lease?" he said. "At that point, the landlord has to go back and find a tenant."

Of course, mattress companies that decide to open in former Mattress Firm locations may find themselves facing the same challenges that forced the stores closing originally: Too much competition from numerous mattress stores nearby.

When it filed for Chapter 11 bankruptcy protection, Mattress Firm said it had \$3.2 billion in debt and faced challenges from operating too many of its stores in close proximity to one another. In some cities, Mattress Firm had five or more stores within blocks of each other. In Houston, the company operated [two stores directly next door](#) to each other.

The Houston-based retailer said the store closings would save the company \$1.6 million in rent and other costs. Mattress Firm said it planned to close as many as 700 under-performing stores leading up to the holiday season.

At the time of the bankruptcy filing, Mattress Firm operated about 3,230 stores in 49 states. It said it expected to complete the bankruptcy process within 45 to 60 days.

None of the mattress companies returned requests for comment.