



HPBA Retailer Survey Results – Inventory and Retail Sell-Through Trends

Prepared for the Hearth, Patio & Barbecue Association

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I. Introduction

The Hearth, Patio & Barbecue Association (“HPBA”) believes that the U.S. Environmental Protection Agency’s (“EPA’s”) proposal to revise its regulation of new Residential Home Heating appliances under Section 111 of the Clean Air Act, 79 Fed. Reg. 6,330 (Feb. 3, 2014), does not provide for enough time to allow for the channels of trade to clear for units that were previously certified, grandfathered or otherwise approved or were previously unregulated. The proposed rule would provide only a short 6-month sell-through period for some product categories regulated under Subpart AAA (what EPA calls a “sold at retail” provision) and does not provide for any sell-through period for other product categories regulated under proposed Subpart QQQQ for Step 1 or subsequent regulatory steps. *See* 79 Fed. Reg. at 6,365.

In order to determine the retail sell-through period that would reduce or eliminate financial hardship that would otherwise be imposed on hearth product manufacturers, distributors and retailers under the proposed rule, HPBA commissioned a retailer survey in the spring of 2014 that was conducted by Charles Page of Homewarmth, Inc. d/b/a Jumpstart Marketing, Inc. Mr. Page has 37 years of experience that spans the full range of product development, marketing and sales functions across the hearth industry. He is well recognized as a modern hearth industry pioneer and expert. His curriculum vitae (CV) is provided at the end of this report.

This survey involved retailers across the continental United States. Retailers were selected from each of the major selling regions across the country. This includes the Northeast, Mid-Atlantic, Midwest, South Central, Rocky Mountain, and Northwest regions as well as California. A total of 26 retailers took part in the survey. Some have multiple store locations. There were 7 retailers from the Northeast, 3 from the Mid-Atlantic, 4 from the Midwest, 5 from the Rocky Mountain region, 3 from the Pacific North West, 3 from California and 1 from the South Central region. Retailers were selected based on recommendations of experienced factory representatives in each market area. The retailers had to be actively selling wood burning stoves, fireplace inserts and pellet stoves. The precise locations of those retailers are shown on the map below. Some retailers in the survey had multiple store locations and these are not shown on the map.





In addition, information about the number of employees for each retailer is provided in Table 1 as a way of further illuminating the business size range of the surveyed group.

Table 1: Employees per Surveyed Retailer

Retailer	
Code	Number of Employees
NE2	8
NE3	20
NE4	10-15
NE5	12
NE6	4
NE7	7
NE8	8
MA1	20
MA2	6-8
MA3	10-14
MW1	14
MW2	10
MW3	11
MW11	11
RM1	3-6
RM3	29
RM4	77
RM5	8
RM6	4 F/T, 2 P/T
NW1	14
NW3	4
NW5	8
C1	7
C2	6
C7	5 F/T, 3 P/T
SC1	20

Participating retailers are referred to by codes in this report that refer to the region in which they are located: NE – Northeast, MA – Mid-Atlantic, MW – Mid-West, RM – Rocky Mountain, NW – Northwest, C – California, SC – South Central. Each dealer was assigned a number and, since the survey contains sensitive and confidential information, the names of the retailers are not being made public.

While the survey only included retailers, it is important to note that stoves are purchased by retailers from two sources – direct from the factory and through specialized hearth related distributors. Hearth distributors serve a very important function for certain manufacturers because they eliminate the need for employees and other overhead that would be required to sell and service individual small dealer accounts. While the survey was only given to Hearth retailers, all of the issues relating to



inventory purchases and control as they relate to the impacts of the NSPS are the same for both retailers and distributors.

HPBA commissioned this survey to inform EPA and other stakeholders of the factors that affect buying patterns, inventory levels and inventory clearance periods (sell-through) in the hearth industry and the devastating impacts on manufacturers, distributors, and retailers (most of which are small businesses) if adequate retail sell-through provisions are not provided as part of the final rule. Dealers and retailers already face substantial uncertainty in determining which and how many models to stock, and the proposed NSPS revisions only increase that uncertainty. And their buying patterns, in turn, affect manufacturers.

As a result, HPBA urges EPA to adopt an unlimited sell-through provision for all affected appliances that previously were either certified or grandfathered (based on previous certification or other approval statuses) under the provisions of the revised regulation. All such models will have been previously approved as clean-burning in one way or another; any sell-through deadline will inevitably “strand” some inventory, and therefore do economic harm to some retailers, while having de minimus environmental impacts. Sell-through periods are also needed in some appliance categories for previously unapproved models, and were provided by EPA as transition relief when the current NSPS was promulgated. In those cases, however, time limits can more appropriately be imposed that balance potential economic harm against potential environmental impacts.

After this Introduction (Part I), this report is organized into six parts that present and discuss survey results, followed by a conclusions and recommendation section. Those parts are summarized below.

- Part II provides an overview of retail sales practices and an introduction to the hearth appliance marketplace, including how retailers stimulate sales in the off-season or when overstocks have occurred.
- Part III discusses the difficulties for manufacturers, distributors and retailers in accurately forecasting sales in any given future sales year and then matching inventory at all levels to those historically unpredictable sales outcomes.
- Part IV discusses impacts that inventory imbalances can have on sales and the financial consequences of “being wrong.”
- Part V focuses on the other factors that influence distributor and retailer buying decisions including credit limits, early-buy programs, warehouse space limitations and the seasonality of the hearth business, all of which limit the amount of inventory that retailers can stock and make it highly unlikely that retailers will attempt to stockpile previously certified or otherwise previously approved and previously unregulated appliances prior to the effective date of the applicable provisions in the final rule that would prohibit manufacturers from introducing further units in a model line into commerce.
- Part VI addresses potential outcomes to manufacturers, distributors and retailers caused by the various uncertainties imposed by the proposed NSPS requirements and what that means to retailers including challenges associated with knowing what to buy, how much to buy and what will happen to leftover inventory of “obsoleted” models. Dealers already are hesitant to



purchase models that may become stranded inventory, which in turn negatively impacts manufacturers. Moreover, retailers need time to sell their existing inventories after the new NSPS goes into effect.

- Part VII contains conclusions and recommendations.

II. Overview Of Retailer Sales Practices

Retailer sales practices are governed in large part by the unique attributes of the hearth appliance market and retailers' relationships with manufacturers. Retailers typically operate within a certain territory for each manufacturer that they promote. All manufacturers like to have some overlap in territories between dealers so that there are no gaps in representation. Manufacturers decide how many dealerships there will be in a given market area, but usually there are no formal boundary lines. In theory, retailers can sell anywhere, although they are constrained by the need to service the appliances they sell, as discussed in greater detail below. Dealerships are technically not franchises, although some states treat them as such.

Retailers use a variety of tactics to stimulate floor traffic in the off-season and to sell overstocked or slow moving inventory, including special manufacturer sponsored sales and retailer sponsored sales. Manufacturers typically do joint promotions with retailers where the costs are shared. For instance, there might be a free blower promotion where the retailer splits the price of the blower with the manufacturer. The manufacturer offers a discount coupon on-line and in addition creates advertising materials that the retailer can use to promote the offer. The cost of the advertising will also be split with the manufacturer. Offering a "premium" like a free blower rather than discounting the stove is a lower cost method of stimulating sales of that stove model.

Retailers also will advertise appliance discounts to increase floor traffic and sales like money off the list price of the stove, money off on the installation or even free installation. Sales are typically done prior to the start of the prime selling season in an attempt to pull the season forward a bit and get work for the retailer's installers when things are typically slow. Inventory clearance sales are typically offered after the season ends. Having a sale is no guarantee that potential customers will show up, however. If the market is not there, no one shows up! There also is no guarantee that what the retailer has on sale will be what the homeowner wants. Retailer sales are necessary, but every stove that is sold at a discount is money lost. But sales can help by freeing up cash for making payroll or buying faster moving stoves as well as helping to keep installation crews busy. This is a balancing act that each retailer must face based on its own situation.

Sales are successful when consumers are looking for bargains. It is common for homeowners to shop around with multiple retailers to find the best price. They also may visit a retailer 2 or 3 times before making the decision to purchase. This cautiousness has been fueled by a lackluster economy and a trend to spend wisely and less often. Retailers, having been burned numerous times with overbuying, are now very cautious. Most do not like early buy programs. Retailers want to reduce risk, but they also need to make a profit, so they take a gamble every year so that they get adequate margins to survive.

Government sponsored change-out programs are also very effective in moving inventory. As part of those programs, consumers are given rebates for replacing older dirty burning stoves with EPA certified stoves. In Massachusetts, for instance, homeowners are being offered \$750 standard vouchers (\$2000 for low-income homeowners) toward the replacement of older non-EPA-certified woodstoves



with new, low emission, high efficiency wood or pellet fired stoves. These homeowners would not normally choose to replace their older stoves, but this rebate incentive gets them to take action. Another program which results in significant stove purchases is state-sponsored sales tax free holidays. Typical savings are around \$300 – the same incentive that these homeowners would get if the stoves were on sale, but nevertheless this incentive works year after year and thousands of stoves are sold as a result of this program in Massachusetts.

These kinds of sales tactics, however, have inherent limitations, such as how much stoves can be discounted. In addition, dealer territories and the location of adjoining retailers have the effect of restricting market areas. Retailers also face financial constraints due to the costs relating to servicing stoves in outlying areas that reduce profitability and discourage dealers from selling outside of their core market areas. Retailers also face substantial market uncertainty, as discussed below.

III. Forecasting And Inventory Control Are Difficult, If Not Impossible Tasks, For The Hearth Industry

It has always been difficult for manufacturers to predict how much inventory to build and for distributors and retailers to know how much inventory to buy. That uncertainty is not because of lack of experience or knowledge but is attributable to the fact is no one knows exactly how large the market is going to be in a given year or which models will sell well and which ones won't. The manufacturers make educated guesses based on forecasts from previous years and general market conditions. Retailers rely on past experience, incentive programs offered by their manufacturers and in good part on their gut feelings. If their forecasts are wrong and their stove purchases are out of balance with demand, the excess inventory sits unsold. This ties up resources, hinders cash flow and can ultimately lower profits. It is not uncommon for distributors and retailers to be stuck with slow moving inventory going into the next season and often for 2 years or more.

As EPA has recognized, the hearth industry is dominated by small companies that don't have the resources available to do sophisticated forecasting. And even if they did, there are so many factors that have to be taken into consideration that few would get it right every year. Most hearth-related companies have suffered in the past by either over-building (manufacturers) or over-buying (distributors/retailers) inventory. The industry is now more mature and careful about inventory control, but even so the nature of the business almost guarantees that there will be excess inventory at all levels – manufacturer, distributor and retailer.

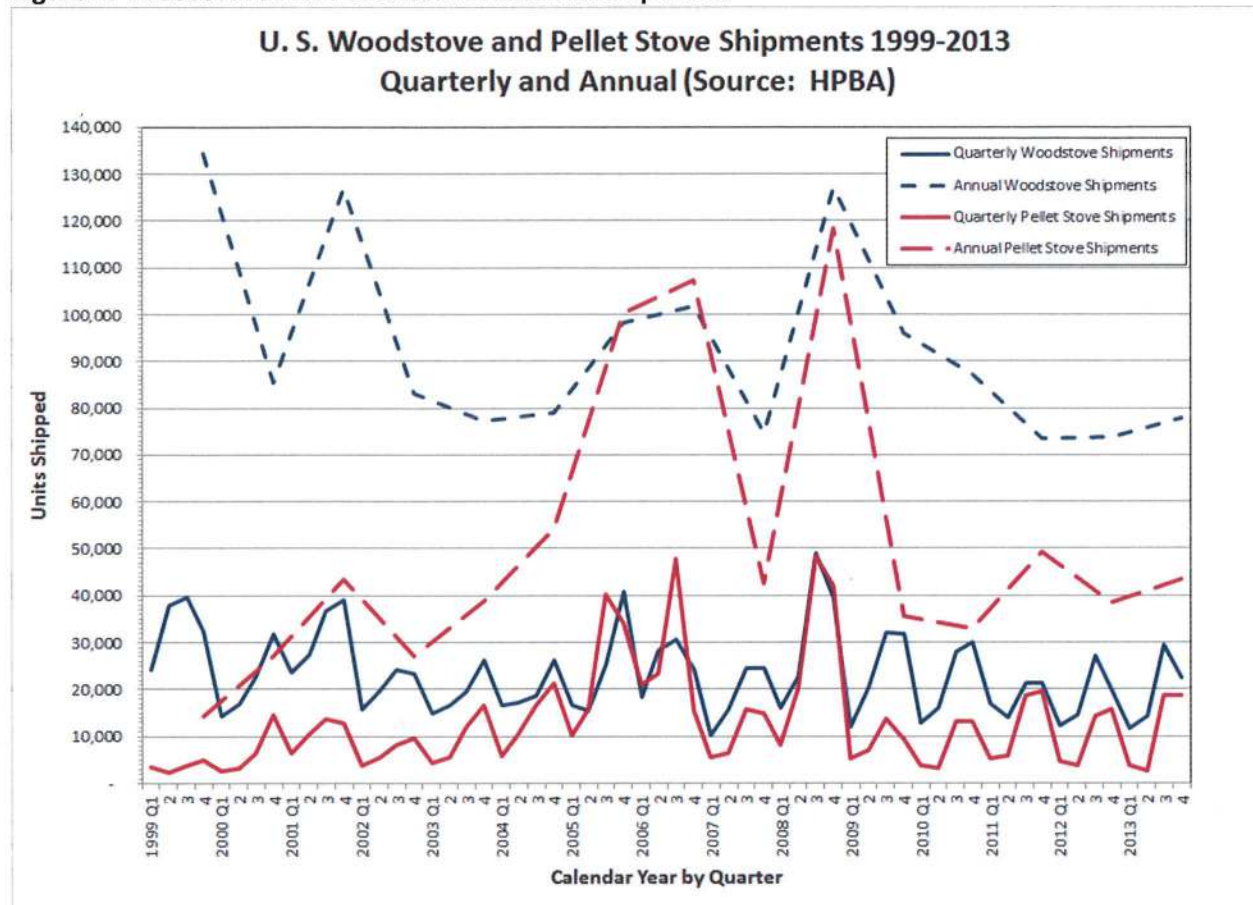
Some of the unknowns that the industry faces can make forecasting and inventory control very difficult include: the demonstrated volatility of the woodstove and pellet stove marketplace, the wide variety of models, finishes, and colors that retailers must stock to anticipate consumer preference, the fact that the percentage of sales by fuel type may vary widely over time, the inventory pressures caused by operating in a competitive marketplace, the fluctuating prices of home heating fuels, changes in weather patterns, and other changes in the marketplace, including natural disasters.

A. Volatility In The Market

The woodstove and pellet stove marketplace is notably volatile. The following chart tracks HPBA Reported Free-standing Woodstove and Pellet Stove Shipment Data from 1999 – 2013. It clearly shows that future market size has no correlation with previous year's sales. For retailers this is a particularly vexing problem because they not only have to guess how many stoves to buy, but how many

sales people, installers and service techs they will need to support their sales. Their profitability depends on keeping careful watch over both inventory and overhead.

Figure 1: Woodstove and Pellet Stove Historical Shipments



B. Model Mixes Change Each Year

Retailers face challenges in managing inventory to account for model variations and style changes and shifting consumer preferences. Retailers must stock a large inventory to account for those factors. It is not uncommon for one model to sell well one year but not the next. Models may be available in different enamel finishes or painted colors or have different styling options that change from year to year. While mid-sized stoves are generally the best sellers, in some years a retailer will sell more large stoves than normal while in other years they will sell more small stoves. One thing is certain; it is very difficult to sell a stove to a customer who doesn't want it. These homeowners are spending what they consider to be a large amount of money and they are unwilling to buy an appliance that they don't like – even if it is sold at a deep discount or even at the retailer's actual cost.

Nearly half of the retailers surveyed said that it was necessary to carry a wide variety of inventory of the appliances that they sold in various colors and finishes and almost an equal number indicated that the popularity of specific colors or finishes changed or changed somewhat every year.

The complexity of the problem of managing inventory increases in light of all of the various stove models that a retailer typically carries. For example, in the Northeast, the 7 dealers surveyed offered a minimum of 8 brands of wood and pellet burning appliances and one of the largest dealers even offered 18 different brands. Each of these brands usually has 3 or more models of stoves. And to further complicate matters each model may be available in different colors or enamel finishes, all of which retailers must stock to provide a sufficient choice to consumers and to account for consumer preference.

Table 2 shows the number of brands that each of the retailers offer for sale. In addition, the Table shows how many brands of pellet and wood stoves are purchased direct from the manufacturer or through a hearth distributor.

Table 2: Number of Brands and Method of Purchasing

Retailer Code	No. Brands Wood	No. Brands Pellet	No. Wood & Pellet Purchased Direct	No. Wood & Pellet Purchased through Distribution
NE2	10	5	5	10
NE3	7	4	11	0
NE4	4	4	4	4
NE5	10	8	17	1
NE6	4	4	2	2
NE7	5	3	6	2
NE8	4	2	5	1
MA1	10	3	7	3
MA2	7	6	3	10
MA3	7	4	7	0
MW1	7	2	3	4
MW2	2	2	0	4
MW3	10	2	5	5
MW11	8	2	0	8
RM1	8	2	6	2
RM3	4	3	2	3
RM4	6	3	9	0
RM5	4	2	2	2
RM6	5	2	3	5
NW1	9	5	7	2
NW3	4	1	1	3
NW5	3	2	1	2
C1	4	3	3	1
C2	5	3	3	5
C7	8	5	5	4
SC1	5	3	8	0



C. Percent Sales By Fuel Category Can Change Over Time

Retailers also face challenges caused by the change in percent sales by fuel category from year to year. In the Northeast, for example, you find a mix of retailers; each may offer only specific fuel categories. In urban areas like greater Boston, many retailers will focus their efforts selling gas stoves, fireplace inserts and fireplaces. In other areas of the state, retailers will sell gas and wood appliances or a combination of gas, wood or pellet appliances. Other retailers just promote pellet stoves and central heating systems. The problem for these retailers is that there is no way of accurately forecasting which fuel category is going to dominate in a given year. In August 2013, 30 experienced retailers were interviewed to get their opinions as to which categories were going to sell in the subsequent months and very few had any idea. Six weeks later it became apparent that, for those retailers selling both wood and pellet burning appliances, the pellet models were going to take the lion share of stove sales.

Another example of the difficulty of forecasting can be seen on the graph of U.S. Woodstove and Pellet Stove Shipments 1999-2013 Quarterly and Annual (Source: HPBA), Figure 1, *supra*. Looking at shipments of pellet stoves in the 2nd and 3rd quarter of 2006, pellet stoves spiked higher than the previous year, but then in the 4th quarter sales dropped precipitously. Manufacturers, distributors and dealers had bought inventory and yet the market dropped so fast and so far that it was difficult to sell stoves even far below suggested retail.

D. Competitive Environment

Retailers naturally face certain challenges as a result of competition. In any given year there will be “hot” sellers that will dominate business in a given market. Consumer preferences may be driven by a number of factors including price points, appliance styling and performance advantages, weakness of other competitors in the market and special programs either offered by the retailer or in combination with incentives from the manufacturer. For retailers, the best-selling appliances can be difficult to keep in stock while the slow movers just take up space, tie up cash and decrease profits. There are also fickle consumers who buy stoves, then change their minds about making the purchase and want their money back. They may have found a stove they liked more from another retailer or found the same model available at better price. Most retailers will refund the customer or refund the consumer minus a charge for restocking, but they then have to keep these models until they can find another buyer.

E. Price Of Home Heating Fuels

Retailers are at the mercy of the fluctuating prices of home heating fuels. Heating costs, and in particular spikes in fossil fuel costs, do stimulate sales of alternative fuel products like wood and pellet stoves. Conversely, steady or decreasing fossil fuel costs can depress the market. In 2008, when oil prices were high in the Northeast, the demand for pellet stoves outstripped manufacturer’s capacity and there was an acute shortage of stoves. The following year, after oil prices dropped, pellet stoves were no longer selling and everyone in the distribution chain was stuck holding inventory. The drop in demand happened very quickly and no one predicted it.

F. Weather Related Factors

Weather also plays a significant role in creating consumer demand for wood and pellet appliances. Typically when there is a severe winter, the following selling season is good. But cold weather can also drive up the demand for wood and pellet fuel and also the price consumers pay for the



fuel. For this latest selling season (2013-2014), for example, there is an acute pellet fuel shortage in the Northeast at the end of the season due to below normal temperatures. Will this dampen next year's sales of pellet appliances or will it stimulate sales of wood or gas appliances? No one knows at this point and yet manufacturer's early buy programs are being launched and retailers are making decisions that may ultimately load them with inventory that they may or may not need.

G. Global Uncertainty

Finally, the general economic outlook, stock market swings, political unrest, and natural disasters influence our nation's stove buying habits. It may not be one factor that stimulates or depresses sales, but a combination of global factors that are hard to predict. For example, after the Hurricane Katrina disaster there was a fear that there were going to be oil shortages and spikes in home-heating oil prices in the Northeast. This caused a dramatic spike in pellet stoves sales. Stove shops were filled with customers and manufacturers could not keep up with demand. A year later, pellet stove demand had vanished. This is another case where many retailers and distributors were stuck with inventory that took multiple seasons to sell.

As these factors demonstrate, the markets for wood and pellet burning appliances are unpredictable. It is almost impossible for the industry to know exactly what to build or buy. The size of the market varies each year and what sells is determined by a number of factors including the competition, styling trends, the price of home heating fuels, the weather and world events. Hearth retailers try very hard to order carefully and to judge market trends, but getting it right every year is very difficult to do, consequently dealers often carry unsold inventory from one year into the next. Because of the market uncertainty and fluctuations in the market, hearth retailers need more than one season to sell previously certified or otherwise approved and previously unregulated models under the proposed rule. If the market is down or a given product category is not selling, hearth retailers will face devastating financial impacts if the stoves they have on hand cannot be sold. They need adequate time to bring their inventories down to zero.

IV. There Is Pressure On Manufacturers, Distributors And Retailers To Make, Purchase And Hold Inventory And This Can Create Overstock Situations At All Sales Levels

For both distributors and retailers, having stoves on hand or being able to get stoves quickly is very important. The market is competitive with multiple dealers offering different brands in a given market area. If a particular stove model is unavailable for immediate sale or has a long lead time, there is a good chance that the customer will go elsewhere for their purchase. A one-to-two week lead time may be acceptable but a three-or-four week lead time is probably not. This is certainly true during the peak selling season, October, November, and December. The need for having inventory is compounded by the fact that most retailers are showing numerous models of appliances in their showrooms. Manufacturers face a similar challenge trying to supply what the retailer wants in the shortest possible time.

Having product available is the only way that a given stove model can remain viable. Distributors and retailers will not tolerate products that have long lead times and will drop stove models if they are hard to get. For most manufacturers, this means that they must have some buffer of stove inventory on hand and ready to ship or the needed parts in stock so that they can make stoves quickly when the need arises. This is a careful balancing act and it is common to keep more stoves in the warehouse than are needed, just so the sale will not be lost to a competitor due to backorders.



However, there are also disincentives to building any significant level of extra inventory of stoves unless there is a known and reliable demand in that year.

A. Inventory Levels

Hearth retailers have different ways of doing business and philosophies when it comes to determining acceptable inventory levels of wood and pellet burning appliances, but all are familiar with the impact of having inventory. For some retailers, having inventory on hand can give them a competitive edge by allowing them to make immediate sales, including sales to cash and carry customers as well as customers who will be having their stoves installed by the dealer. The retailer is able to schedule the customer's installation and take them out of the market, capturing the sale. If the retailer had to order a stove, the lead time might allow the customers to change course and buy from another retailer.

Many well established retailers feel that they can afford to invest in inventory. They take advantage of freight discounts for multiple stove purchases and manufacturers incentive programs. For them, carrying inventory is just another cost of doing business. They maintain higher inventories just before and during the selling season and reduce inventories during the off-season.

The Inventory on Hand Analysis Table 3 shows typical on-hand inventories for the retailers surveyed. Inventory size varies among retailers; some retailers hold a significant amount of inventory while others keep minimum amounts on hand. There are a number of factors that shape a retailer's approach to inventory like past experiences with excess inventory and the resulting financial difficulties, the percentage of business they do cash and carry, their cash flow, their confidence level that their manufacturer (or distributor) can supply product in a timely manner, the strength and outlook of the stove market and the advice they receive from their accountants.

Distributors face many of the same inventory control issues that retailers do, only the numbers of stoves on hand are often larger. Distributors serve an important function for retailers in this regard. They hold a buffer of stoves so that in peak selling periods they can provide quick delivery of product to retailers. Some retailers buy from distributors specifically for this reason – they can order small quantities of stoves – often 1 or 2 and buy their stove accessories from them as well, so they save on freight costs.

Table 3: Inventory on Hand

Retailer Code	Stoves Sold Per year			Stoves on Hand		
	Woodstoves	Pellet Stoves	Wood & Pellet Total	No. Stoves	% of yearly Sales	
					Low	High
Less than 10 stoves on hand						
NE6	52	46	98	4-6	4%	6%
MW2	10	3	13	4-6	31%	46%
MW11	50	4	54	0	0%	
NW3	40	0	40	0	0%	
NW5	40	6	46	0	0%	
20 or less stoves on hand						
NE5	197	225	422	10	2%	2%
MA2	50	30	80	15-20	19%	25%
RM5	55	55	110	8-12	7%	11%
RM6	200	150	350	10-20	3%	6%
Greater than 20 and up to 50 stoves on hand						
NE8	35	31	66	30-40	45%	61%
MA1	125	100	225	30-50	13%	22%
MW3	110	2	112	30 or less		27%
RM1	120	8	128	30-50	23%	39%
RM4	90	15	105	20-40	19%	38%
NW1	120	50	170	10-25	6%	15%
C7	350	22	372	30	8%	
SC1	75	100	175	50	29%	
50+ stoves on hand						
NE2	200	400	600	100	17%	
NE3	1000	80	1080	300	28%	
NE4	90	100	190	10-70	5%	37%
MA3	134	134	268	300	112%	
MW1	100	5	105	65	62%	
NE7	120	10	130	100-150	83%	115%
				20 P	200%	
C1	100	30	130	50+	38%	
C2	75	5	80	50-70	63%	88%
RM3	600	360	960	400+	42%	

Out of 26 retailers surveyed, 5 had less than 10 stoves on hand, 4 had 20 or less, 8 between 21 and 50 stoves and 9 retailers had over 50 stoves on hand. These are important numbers because they show the kind of financial commitment that dealers are making in order to have inventory. The majority of retailers – 65% – had greater than 20 stoves on hand and 34% had over 50 on hand.

In addition to stoves on hand, retailers have showroom stoves and burning displays. Table 4 Showroom Stoves and Burn Models below shows the number for each of the dealers surveyed. Showroom models have not been burned, so in theory they can be sold as new stoves, but in reality



some get damaged and scratched and stained in the course of being demonstrated, so they cannot be sold at full retail.

Table 4: Showroom Models and Burn Models

Retailer Code	Showroom Woodstoves	Burn Model Woodstoves	Showroom Pellet Stoves	Burn Model Pellet Stoves	Total Pellet & Wood On Display	Total Burn Models	Total Display & Burn
NE2	25	0	30	2	55	2	57
NE3	80	5	10	1	90	6	96
NE4	15	3	10	1	25	4	29
NE5	100	10	40	15	140	25	165
NE6	21	3	10	4	31	7	38
NE7	40	5	9	2	49	7	56
NE8	21	2	6	4	27	6	33
MA1	36	8	17	10	53	18	71
MA2	14	4	11	7	25	11	36
MA3	60	1	30	4	90	5	95
MW1	25	5	4	1	29	6	35
MW2	3	1	3	1	6	2	8
MW3	48	9	2	0	50	9	59
MW11	25	7	2	2	27	9	36
RM1	35	3	2	2	37	5	42
RM3	27	5	44	15	71	20	91
RM4	2	0	0	0	2	0	2
RM5	14	2	10	5	24	7	31
RM6	19	10	8	7	27	17	44
NW1	20	2	10	7	30	9	39
NW3	0	15	1	3	1	18	19
NW5	10	1	3	0	13	1	14
C1	65	48	16	12	81	60	141
C2	25	4	3	1	28	5	33
C7	34	1	9	4	43	5	48
SC1	60	8	25	10	85	18	103

B. Discounts And Other Incentives Trigger Hearth Retailers' Purchasing Decisions.

There are a number of marketing programs offered by manufacturers and distributors to entice retailers to purchase stoves early and/or to buy a greater number of stoves. Those programs include:

- **Column pricing** – Most manufacturers offer discounts based on the number of stoves that are purchased. This is referred to as column pricing and it can be based on the number of units purchased on each order or in some cases over the year. While the bench mark margin is 40%, retailers can get a greater margin (up to 45%) and therefore make more money if they make a greater commitment to purchase and hold inventory. Manufacturers may also require that the retailer display a certain number of stoves, or devote a certain percentage of their floor space to their models. Additional benefits to retailers for buying more stoves may include an increased co-op advertising allowance. Manufacturers generally offer a 2% co-op allowance (based on monthly or yearly sales) but this percentage can be greater when the retailer makes a larger commitment. Most co-op programs will reimburse the retailer 50% of the cost for specific types of advertising and marketing efforts, but again the manufacturer can offer to pay a larger percentage to reward retailers who are making bigger purchases.

- **Pre-buys or early buys** – Most manufacturers offer incentives to purchase stoves before the selling season starts. The incentives may be in the form of a discount on the appliance, an early pay discount, a lock in of a current price before a price increase, a discount on freight, dating terms or a combination of these incentives. Almost all of the retailers surveyed participated in early buy programs. As a rule of thumb, most manufacturers try to get their retailer networks to buy about a third of what they will need for the year in their early buy purchase. The survey indicated that there was a range of participation from a low of 5% to a high of 75%. In the Northeast, the average percent of stoves purchased by the 7 survey participants was 50% of yearly sales. Survey participants indicated that the pre-buys or early buys programs started in the first quarter of the year and the money was due between August and November. Since each manufacturer offers a different program, a retailer carrying multiple brands will have various program start dates and dates for when the invoices are due under that program. In the Northeast for instance, of the 7 retailers, three carried 8 brands of wood and pellet stoves, one carried 11, one 15 and the largest one 18.
- **Lead Time Discount Program** – One of the largest manufacturers in the industry offers a program which increases the discount the retailer receives as the lead time before manufacturing and ship date increases. For instance, the retailer might receive a 6% discount if the stove is ordered 6 months in advance and a 2% discount if the retailer orders 2 months in advance. This has proven to be a popular way of buying because the retailer has some flexibility to add or cancel product orders to coincide with ups and downs in the market.
- **Special Sales** - Manufacturers sometimes offer special sales to get rid of slow moving or soon to be obsolete appliances or just to stimulate sales in the offseason. Incentives are most often special freight discounts or free freight, dating terms or cash discounts for early payment. Sometimes a manufacturer will throw in an extra stove at no charge when the retailer buys a specific number of stoves.

Over half of the hearth retailers surveyed took advantage of incentive programs in addition to early buy programs to purchase stoves in the hopes of increasing their profits. The reason manufacturers do this is simple; most cannot afford the expense of building and holding inventory for 6 months in anticipation of selling it during the busy season nor can they afford the attendant financial risk that this scenario creates. Building pre-committed stoves in a measured way prior to the start of the season levels production requirements and reduces the chance of backorders during the season. Supply chain issues come into play as well. Stoves include many vendor-supplied parts. Vendor backorders or shortages can halt production. Leveling production helps mitigate the risks of vendor part supply problems. Some manufacturers have space constraints as well. Manufacturers are willing to pay a premium to get hearth retailers to purchase early so that production delivery problems are minimized and the financial burden and risks are shared.

In addition, the marketing programs offered by manufacturers provide a way to reward retailers who buy larger volumes so that they can make more money (in other words, get higher margins), and in turn will buy even more stoves.¹ Floor planning from finance companies, where the manufacturer is required to take back unsold inventory, is no longer available in the hearth industry. When a retailer

¹ See Cost-Effectiveness Analysis of Alternative Woodstove New Source Performance Standards, NERA Economic Consulting, May 2014, Appendix B.

takes advantage of an early buy program to purchase inventory, they “own” the stoves from the moment they leave the factory or warehouse.

C. Unsold Inventory

In theory it is possible to balance inventory through inventory turns, where the distributor or retailer only buys what they need when they need it, but this is an imperfect system. Distributors and retailers are expected to buy (or commit to buy) and to have inventory. There is a high probability that a retailer will have unsold inventory of at least some models at the end of the selling season. They can’t afford to run out of their best sellers and they are forced to carry some inventory of their medium to slower moving models so they don’t lose these incremental sales. Unsold inventory can be a significant problem, as illustrated by Table 5 below.

Table 5: Unsold Inventory Analysis

Retailer Code	Woodstoves Sold/Year	Unsold Woodstoves Inventory	% of Total Wood Stoves Sold/Year	Pellet Stoves Sold/Year	Unsold Pellet Stoves Inventory	% of Total Pellet Sold Each Year	Total Stoves Pellet & Wood Sold/Year	Total Unsold Pellet & Wood Stoves	% Unsold Pellet & Wood per Year	Stoves in Stock Over 2 Years
Retailers with less than 10% of wood stoves unsold and carried into following year										
NE4	90	2	2%	100	2	2%	190	4	2%	0
NE5	197	5	3%	225	5	2%	422	10	2%	3
NE6	52	4	8%	46	1	2%	98	5	5%	2
RM1	120	10	8%	8	0	0%	128	10	8%	6
NW3	40	0	0%	0	0	0%	40	0	0%	0
RM5	55	5	9%	55	5	9%	110	10	9%	4
RM6	200	17	9%	150	17	11%	350	34	10%	0
NW1	120	10	8%	50	5	10%	170	15	9%	5
NW5	40	0	0%	6	0	0%	46	0	0%	0
C7	350	10	3%	22	0	0%	372	10	3%	4
Retailers with 10% to 20% of wood stoves unsold and carried into following year										
NE2	200	20	10%	400	40	10%	600	60	10%	8
NE3	1000	200	20%	80	20	25%	1080	220	20%	0
MA2	50	6	12%	30	5	17%	80	11	14%	6
MW1	100	20	20%	5	4	80%	105	24	23%	12
MW2	10	2	20%	3	2	67%	13	4	31%	0
MW3	110	11	10%	2	3	150%	112	14	13%	14
MW11	50	6	12%	4	0	0%	54	6	11%	5
MA1	125	12	10%	100	7	7%	225	19	8%	3
C1	100	18	18%	30	8	27%	130	26	20%	3
Retailers with over 20% of wood stoves unsold and carried into following year										
SC1	75	50	67%	100	25	25%	175	75	43%	15
MA3	134	100	75%	134	80	60%	268	180	67%	14
RM3	600	150	25%	360	210	58%	960	360	38%	15
RM4	90	20	22%	15	3	20%	105	23	22%	75
NE7	120	60	50%	10	10	100%	130	70	54%	22
NE8	35	15	43%	31	2	6%	66	17	26%	6
C2	75	40	53%	5	1	20%	80	41	51%	5

The survey indicated that many retailers had unsold inventory at the end of the selling season. Thirty-eight percent of hearth retailers had less than 10% of their yearly sales of woodstoves unsold and carried over into the next year, while 34.6% had between 10 and 20% of their yearly sales of woodstoves unsold and carried into the next year. Approximately 27% had over 20% unsold – and many of these had a significantly greater amount. Four of these retailers had over 50% of their woodstove inventory carried into the next year. Approximately 61% of the retailers had over 10% of their woodstove inventory unsold.

When retailers reported the numbers of unsold woodstoves at the end of the year, it is evident that the financial impact of being unable to sell these stoves if there was not sufficient retail sell-through



time would be significant. For example, the total number of woodstoves for the 16 retailers that had 10% or more of their inventory unsold at the end of the year was 730 stoves.

From a nationwide perspective, the significance of unsold inventory if not allowed to flow through the distributor and retail channels could have dire consequences for the hearth industry. According to Richard Wright, the publisher/editor of the largest industry trade journal *Hearth & Home Magazine*, there are approximately 3760 hearth retailers in the United States. This number includes categories such as specialty retailers, hardware stores, propane dealers and others who may sell stoves as part of their businesses. Although the retailer survey sample size is very limited, it does represent a diverse sample. By looking at the average inventory held over at the end of the year and the average number of units sold by the surveyed retailers in Table 5, it is possible to estimate that, on average, 17% of units purchased by retailers are still in inventory at year's end. By looking at total free-standing wood and pellet stove shipments per Fig. 1, and recognizing that the HPBA figures undercount total shipments by at least 10%, the total shipments of free-standing wood and pellet stoves in 2013 was about 140,000 units. If, on average, 17% remain unsold, about 24,000 are held over units. If approximately 65% of these units are wood burning with an average retail price of \$2120,² the inventory of wood burning appliances would be worth at retail over \$33 million. Using a similar estimate with pellet stoves which are approximately 35% of sales and have a higher estimated average retail of \$2500, the inventory retail value would be over \$21 million for a combined estimated value of over \$50 million for both wood and pellet burning appliances. For the retailers in the survey, the average held over inventory has a retail value of nearly \$110,000. The bottom line is this: No matter how the numbers are sliced, there are millions of dollars in unsold inventory within the retail network of hearth retailers at the end of each year. Not all of this, of course, would be potentially stranded inventory, but a substantial part of it could be, depending on how the various parts of the value chain react to the upcoming revisions to the NSPS. In short, there is real potential for devastating economic injury to the hearth industry here, which must be addressed with appropriate sell-through relief provisions.

In addition, if showroom models were factored in, the cost of stranded inventory would be even higher. Retailers use a combination of static displays and burning models to demonstrate the features and benefits of the products they sell. Display credits and burn credits are provided as a financial incentive to purchase and display these models. Display stoves have proven to be the most important sales tool a retailer has. The retailer needs a variety of stoves, including styling options, various sizes and heat outputs, price points and specific installation related options – like clearances and hearth pad requirements – to meet market demand in as many categories of stoves as possible. For every model on the showroom floor, there needs to be inventory somewhere in the system so that product can be made, sold and installed in a reasonable period of time after purchase. The number of wood and pellet burning stoves on display can be significant. In the Northeast, for instance, of the 7 retailers surveyed the lowest number of units on display was 12 while one of the largest dealers had 49 units on display. The average for the 7 retailers surveyed was just over 30 stoves per showroom. (Four of the dealers had more than 1 location and this was factored in to determine average number of stoves per showroom). Refer to Table 4 Showroom Stoves and Burn Models for the number of showroom and burn model stoves of the HPBA retailers surveyed.

² The weighted average retail price for free-standing woodstoves is \$2120 according to the Cost-Effectiveness Analysis of Alternative New Source Performance Standards for Woodstoves done by the Hearth, Patio and Barbecue Association on March 20, 2014. See Cost-Effectiveness Analysis of Alternative Woodstove New Source Performance Standards, NERA Economic Consulting, May 2014, Appendix B.



The goal for most retailers is to have something for everyone without using too much valuable showroom space for very slow movers. In any given showroom there will be the hot sellers, medium sellers and slow movers. What sells is determined by market conditions in a given year as well as the preferences and skill of the sales people. If the market is soft for a given product, no amount of salesmanship can turn a slow mover into a hot seller.

Retailers have to balance the benefits of buying inventory with the costs of keeping inventory. On the plus side, due to the programs offered by manufacturers and distributors, retailers make a greater margin the more they buy – this helps their bottom lines. Early buy programs usually start at the end of the selling season or at the beginning of the slow season however you look at it. Most are launched the first quarter of the year and have deadlines for purchasing by sometime in March, April or May. These programs allow the dealer to have stoves to sell during the weak sales months of April, May, June, and July. Having inventory also allows retailers and dealers to shorten their lead times and allows them to capture more cash and carry customers and lock in fixed and timely installation dates so that customers will not look elsewhere. Showing a variety of stoves in their showrooms is also a benefit – it allows retailers to have something for every segment of the market. On the negative side, inventory ties up money that could be used to support cash flow, make store improvements, hire more staff or buy more of the better selling models.

The HPBA survey confirmed that there are retailers who are keeping substantial inventories and there are retailers who only buy product when they need it. Despite that variance, many retailers have unsold inventory at the end of the season. And all dealers have showroom models and burn displays that they need to purchase and use to demonstrate features and benefits of the products they sell. Any mandate that would limit the time a retailer would have to sell previously certified or otherwise approved and previously unregulated inventory would have negative financial impacts. For retailers carrying larger inventories, the consequences would be extreme. For others who maintain smaller inventories the impact would be less, but even for these retailers there would be negative impacts when you factor in the need to sell showroom display stoves. In sum, it is clear that there is high risk to the retailer, and potential for great financial losses if these stoves had to be sold in a short period of time – such as in 6 months after the final rule becomes effective (or by the time the rule becomes effective if the appliance is regulated under proposed new Subpart QQQQ).

V. There Are A Variety of Other Factors That Influence Distributor And Retailer Buying Decisions

Due to the forecast and inventory difficulties faced by manufacturers, distributors and retailers, HPBA believes that EPA should adopt an unlimited sell-through period for previously approved appliances under the proposed rule and a minimum of a 2-year sell-through period for previously unregulated appliances to alleviate undue harm to retailers. That benefit comes with a correspondingly low cost to the environment for either type of appliance because retailers will not be able to stockpile previously approved (or previously unregulated) appliances in light of restrictive credit limits, invoice due dates, space constraints, seasonal considerations, the limited effect of discounts, and the fact that retailers must ensure that they are able to service the appliances they sell.

A. Retailers Must Balance Stove Purchases With Credit Limits

Credit limits are one of the important reasons that retailers and distributors are less likely to stock up in any great quantity in advance of the compliance deadline dates on models that do not meet



the new NSPS requirements. Although distributors and retailers take advantage of volume purchases, early buy discounts, lead time discounts and other incentive programs offered by manufacturers because they need inventory to sell in the off-season when cash flow is low, they need the extra margin dollars they get from making quantity purchases so that they can have a 40% or more average gross margin, and, by purchasing in volume, they are showing their commitment to the manufacturer so the manufacturer will not appoint another retailer in their area. ***The pressures to buy inventory, however, need to be balanced with the retailer or distributor's credit limits, which limit how much a retailer and distributor can increase their inventory.*** While normal in-season credit limits are often ignored for early buy programs because manufacturers need to fill up their distribution pipelines and are willing to take greater risks to do this, there are always limits placed on the amount of product that can be purchased.

Distributors have similar credit limit restraints. One distributor indicated that his bank would only finance 50% of the new inventory purchased. For another distributor the bank limited purchases to 50% of the saleable inventory on his books.

In addition to credit limits placed on retailers by manufacturers and distributors, the retailer also has limits on the line of credit they have with their local banks. Those limits restrict the amount of inventory of previously certified or otherwise approved and previously unregulated models that retailers could stockpile in advance of effective dates in the final rule.

B. Invoice Due Dates Also Limit Retailer Purchases

All early buy programs have specific dates when the money is due to the manufacturer. Sometimes it may be a specific date just prior to the start of the prime selling season and in other cases it might be payments spread out over a 3 or 4 month period during prime season. No retailer will buy stoves that they don't think they will be unable to pay for when the payment is due. This is a very important limiting factor that often prevents retailers from making larger purchases in order to gain greater margins. If payments are late, the retailer's credit limit will go down. If late payments are not made in a reasonable period of time, the retailer is put on credit hold and they will be unable to get stoves or parts and accessories that they need to continue selling stoves and remain viable as a business.

C. Retailers Face Space Limitations

Most distributors and retailers have a limited amount of storage space and as a result are careful how much inventory they buy at any one time. Space is needed for not just the appliances but is also necessary for the decorative and installation accessories that are required for these appliances. Typical accessories include decorative grills, heat shields, hearth pads, fire starters, fireplace gloves and paint, among many others. In addition, there is a need for storing the venting products that are required for both cash and carry customers and installation crews and these include Class A prefabricated chimneys, and chimney connectors and chimney caps.

D. Seasonality And Buying Patterns

The seasonality of the hearth business governs many of the retailers' buying decisions. Offseason buying is limited to showroom models (usually at discounted prices or special terms) and early buy purchases where the money is due starting in early fall. In theory, the number of stoves purchased in a traditional early program should be about equal to the number of stoves needed to carry



the retailer through the weak months of April, May, June and July to the start of the season which is usually in August, but this is not always the case. Warm late summer and early fall weather can delay the start of the selling season. Retailers will begin to take in more inventory as the season starts and they try to keep their inventories balanced so that they have more of their best-selling models in stock in anticipation of sales in October, November and December.

The seasonal nature of the business is significant. If stove models become non-compliant as the market is waning in the spring, then there will be at least four months – April, May, Jun and July – before the prime selling season begins in August. There are also timing differences which have been observed from region to region. Generally the selling season in the Northeast season starts first, while California it starts last. The seasonality of the business enhances the risk to retailers should the NSPS mandate only a certain number of months to sell off non-compliant inventory. The offseason months of April, May, June and July are usually are slow selling months and sales events used to stimulate sales during these offseason periods often don't work. Retailers need multiple peak selling seasons (August through March) to be certain that all of their potentially stranded inventory will be sold.

E. Retailers Have A Limited Ability To Use Discounts To Move Products

Retailers also will not be likely to stockpile previously approved appliances prior to the effective dates of the final rule because they have only a limited ability to use discounts to move products. Manufacturers discourage heavy discounting because the discounting retailer will draw sales from the surrounding retailers. One company has stated in writing that a retailer can discount up to 10% but cannot combine this discount with other offers. This is another reason why it makes no sense for a retailer to buy quantities of stoves in excess of typical amounts; they may not be able to sell them cheaply enough to entice buyers, they lose money when they sell them at too deep a discount and they may get stuck with stoves that don't sell at the special sales.

In addition, discounts don't always work to reduce inventory. For example, after the pellet stove boom in 2008, sales died so quickly that distributors and retailers had a lot of excess inventory. Some retailers were offering two free tons of pellets (a \$500 value) with each stove purchase and even with this incentive, customers were not buying.

F. Retailers Must Be Able To Service The Appliances That They Sell

Finally, the service area size that retailers must cover limits retailer's market area and the size of retailer's inventory. Retailers are required to service what they sell. Service can be in the form of free site visits within a certain period after the sale to help customers with operational questions and performance issues such as smoking problems caused by improper chimney draft and low heat issues due to the size and moisture content of the fuel. Service work may also be warranty related; a stove part may break, or some part may be missing. Manufacturers rarely reimburse retailers enough to cover the cost of the repair. In addition, drive time and mileage expenses are rarely covered under the manufacturer's warranty reimbursement. A third type of service work is work that is performed outside of the warranty period. Here retailers can charge more, but not so much that their customers go elsewhere to get the work done at a lower cost. The reason why these 3 types of service have the effect of limiting market areas for retailers is that it is too expensive to service customers outside a given distance or drive time from their stores. This is another reason why it makes no sense for retailers to buy a large number of soon-to-be non-compliant stoves in hopes of flooding the market – the market is only so large for a retailer because they cannot make money servicing the outlying areas.



Credit limits, invoice due dates, space constraints, seasonality, the limited utility of discounts, and the fact that retailers may only sell what they can service all are limiting factors for distributors and retailers when it comes to inventory purchases. These financial constraints will be a factor in distributors and retailers decisions to buy non-compliant stoves in advance of looming deadlines for sell-through. As a result, while appropriate sell-through relief period would greatly benefit retailers to ensure that they are not left with stranded inventory after the effective dates in the final rule, providing unlimited time to sell previously certified inventory or a 2-year period for previously unregulated appliances will not cause retailers to stockpile an unusually high number of appliances.

VI. Distributors and Retailers Need Adequate Time To Avoid Standing Inventory.

A. How Much Time Is Needed To Sell Existing Inventories?

In the HPBA Hearth Retailers Survey, retailers were questioned as to how much time they needed to sell best-selling, moderate selling and slow moving appliances. The majority of retailers felt that they needed 12 to 24 months to sell moderate and slow selling inventory. It has to be assumed that for dealers specifying 12 months for a moderately or slow selling model that they mean 1 complete selling season plus time at the beginning or end of the season depending on when the stove could no longer be sold. A retailer specifying 24 months means they need 2 complete selling seasons. Four of the retailers felt that they needed much more time than 24 months

Table 6: Time Needed to Sell Models On Hand

				Moderate Selling Appliances		Slow Moving Appliances	
Retailer Code	Number Stoves/Year	Wood & Pellet Stoves on Hand	Best Selling Models	Time Needed	Extra Time Needed	Time Needed	Extra Time Needed
Retailers needing less than 12 months to sell moderately and slow moving models							
MA2	80	15-20	4	6	2	8	4
NW5	46	0	1	2	1	3	2
RM5	110	8-12	1-2	2-3	0	4-6	3-4
Retailers needing 12 months up to 24 months to sell moderately or slow moving models							
SC1	175	50	6	9	3	12	6
NE4	190	10-70	1-6	1-12	0 - 6	1-18	0-12
MA1	225	30-50	6	12	6	24	18
MW1	105	65	6	12	6	24	18
MW2	13	4-6	3	6	3	12	9
MW11	54	0	6	12	6	24	18
NE2	600	100	12-18	12-18	0	6	0
NE3	1080	300	12	18	6	24	6
NE7	130	100-150 Wood, 20 Pellet	fall selling season - 3 months	6	3	8-12	5-9
NE8	66	30-40	12	18	6	24	12
MW3	112	30 or less	12	12	0	24	12
RM1	128	30-50	1-2	2-4	1-2	12-24	11-22
RM4	105	20-40	4-8	6-12	2-4	12-18	8-10
RM6	350	10-20	3	5	2	12	9
NW1	170	10-25	6	18	12	18	12
NW3	40	very few - order as sold	3	5	2	12	9
C1	130	50+	12	18	6	24	12
C7	372	50	12	12	0	12	0
Retailers needing more than 24 months to sell moderately or slow moving models							
NE6	98	4-6	12	24	12	36	24
MA3	268	300	30	48	18	60	30
RM3	960	400+	18	36	18	48	30
Comments from other retailers							
NE5	422	10	extremely difficult to sell anything that has been discontinued - usually have to sell at cost	x	x	x	x
C2	80	50-75	unknown	unknown		unknown	

Although the retailers that participated in the survey attempted to predict how much time they would need for a retail sell-through, it is very difficult to predict what will happen in the unstable environment created by the NSPS implementation. Will dealers be dumping older stoves at a discount? If so how will this affect sales of new appliances? Will consumers be choosing new EPA Compliant models over older EPA certified models? Given this uncertainty, it is important to give distributors and retailers an unlimited time to sell the older models. This would cause the least amount of harm to the distribution system. Keep in mind that distributors and retailers have a strong motivation to sell the stoves they have. Every season that goes by adds more risk that for competitive reasons the stoves in question will be more difficult to sell.

Any attempt to pick a "sell buy" date is going to result in some stranded inventory. The harm that will be done by stranding any inventory can't be justified by the potential environmental impacts which will be minor – especially for currently EPA approved models. While the number of stoves in stock over 2 years old for the retailers surveyed is lower than their typical unsold inventory at the end of the year (refer to Table 5 Unsold Inventory Analysis *infra*, HPBA Hearth Retailer Survey), there is still an adverse financial impact for retailers. Twenty-seven percent of the survey participants had 12 or more old stoves in stock after 2 years.



Retailers' reluctance to buy models that are not given an unlimited sell-through period will have profound financial impacts on appliance manufacturers. Many retailers will stop buying appliances they are not absolutely sure that they can sell, and the manufacturers will lose the revenue from the sales of these stoves; revenue that is needed to fund the design, testing and the launch costs for new NSPS compliant models. It has been reported that this is already happening in the warm air furnace market and will be exacerbated unless EPA grants adequate sell-through relief.

B. Dealers Will Be Hesitant To Purchase Models That May Become Stranded Inventory Under An Inadequate Sell-Through Period

The uncertainty surrounding the proposed changes to the NSPS will affect retailer buying behavior unless EPA grants retailers a sufficient sell-through provision to allow them to clear inventory. Retailers are plainly concerned with being stuck with stranded inventory. In the survey, retailers were asked if they knew the date that a given appliance could no longer be manufactured, how would this affect their purchase of the appliance? As Table 7 demonstrates, 15 of the 26 retailers surveyed (over 57%) indicated that they would not buy, would not keep inventory on hand, would close out inventory or would hesitate in buying depending on how long they could sell the appliance.

Table 7: Buying Attitudes Related to Existing Models

Retailer Code	Question 32. If you knew the date that a given appliance could no longer be manufactured, how would this affect your purchase of these appliances?
Retailers who would not buy, buy only as sold, close out inventory or would hesitate depending on how long they had to sell them	
NE3	close out ASAP
NE7	I would stop buying it so I don't get stuck with it
NE5	would buy it only if I sold it
MA2	I would avoid having them in our inventory and order as needed
MW2	would not buy
MW3	we would avoid purchasing unless we had it pre-sold
MW11	I would not buy an early buy, I would wind my inventory down
RM1	would stop purchasing that model
RM3	would not buy
RM4	would hesitate to buy if we could not sell it
RM5	remove model from floor in anticipation & remove from inventory with selloff
RM6	would discontinue selling
C7	we would purchase as one-off's only, special order
NE8	I would be more concerned with when it could not longer be sold to the public
NW3	it wouldn't
Retailers who might buy or are likely buy more of the older stove models	
NE2	If it were a popular reliable model we would stuff our warehouse with them
NE4	depends on appliance
NE6	It wouldn't (interpreted as "it would not affect")
MA3	I would stock a year's inventory
SC1	If a popular model I would purchase all I could
NW1	yes
C2	depends on how it has sold in the past and whether parts will still be available
NW5	based on popularity I would load up if good seller, if not I would sell off display model and stop promoting said product
MA1	It would depend on what was replacing the current model & the price difference
MW1	depends on it's merits
C1	yes, of course

VII. Conclusion And Recommendation

As the retailer survey demonstrates, the revised NSPS should offer distributors and retailers certainty, not confusion, so that that distributors and retailers can best manage their buying choices and disposition of held-over inventory. Retailers already face substantial uncertainty in determining which and how many models to stock, and the proposed NSPS revisions only increase that uncertainty. The 6-



month sell-through provision for current EPA certified models (with no sell-through for appliances that EPA proposes to regulate under new Subpart QQQQ) will have a chilling impact across the entire industry. Retailers will stop buying products so they don't get stuck with unsellable inventory at a time when the manufacturers need the revenue to support the substantial product development effort needed to bring their product lines into compliance with the much more stringent standards EPA has proposed.

For these reasons, HPBA urges EPA to adopt an unlimited sell-through provision for all previously approved appliances. Dealers and distributors need adequate time to clear discontinued models without imposing extreme financial consequences to their businesses and manufacturers need the regulatory scheme to provide adequate assurances in this regard to retailers and distributors, who will not even purchase models involving significant risk that inventory will become stranded by regulatory restrictions on sell dates. For previously approved models, avoiding any stranded inventory will have de minimus environmental effects. The minor trade-off of the impact to the environment from products already meeting emission limits far outweigh the dire financial risks to manufacturers, small-business distributors and retailers and significant profit loss if these products reach a point where they can no longer be sold and so should be a simple policy choice for EPA.

Manufacturers, distributors and retailers will suffer these same economic consequences for discontinued products which were not previously approved. EPA recognized this in establishing a 2 year sell-through relief provision when the current NSPS was promulgated, 40 C.F.R. § 60.530(a), and needs to follow this precedent and establish similar sell-through provisions in the final NSPS under Subpart QQQQ. Failing to do so would cause unnecessary harm to these small businesses that could easily be alleviated with adequate sell-through provisions.



Curriculum Vitae – Charles Page, Homewarmth, Inc. d/b/a Jumpstart Marketing

Total Years in the Hearth Industry: 37 years

Companies and Dates of Affiliation:

- 1977 Jøtul Stoves: Technical Advisor
- 1978 Southport Stoves: Customer Service Manager
- 1979 - 1986 Vermont Castings: Technical Product Manager, R & D Coordinator, New Product Manager & Fireplace Product Manager
- 1987 - 1992 Thermal Energy Storage Systems (TESS Fireplaces): Director of Product Development and President
- 1992 Protech Systems (Ventinox): Vice President of Marketing
- 1993 JumpStart Marketing (Business Marketing Consulting): Owner & President
- 1995 - 2010 Harman Stove Company: Northeastern Manufacturers Representative
- 2011- present HomeWarmth Inc.: Northeastern Manufacturers Representative for Industrial Chimney Company

Positions Held and Description of Responsibilities:

- **Kristia Associates –Jøtul:** Wrote and produced the first comprehensive training and repair manual for Jøtul product line of wood burning stoves.
- **Southport Stoves -** As technical director and customer service manager was responsible for development of technical support materials and product training for three brands of European coal and wood stoves – Surdiac, Morsø and Efel.
- **Vermont Castings –** Held various positions in Research & Development, responsible for obtaining laboratory and code group listings, assisted in the development of many Vermont Castings appliances and related accessories. Provided technical support and product training to dealer network in North America and Europe including writing installation, operations and repair manuals. Marketing functions included forecasting and sales analysis, product planning, new product specs and feasibility analysis, and product launch coordination.
- **Thermal Energy Storage Systems -**Developed new models and a viable product line of modular masonry fireplaces, developed national advertising and marketing programs, established dealer network and consumer direct sales promotions for TESS Inc.
- **Protech Systems -** Developed and implemented new company wide strategic plan. Coordinated all aspects of marketing and sales, including development of dealer and distributor programs, marketing materials, advertising and inquiry tracking systems.
- **Jumpstart Marketing -** Provided wide range of marketing and advertising service to manufacturers and service companies. Services included market surveys, public relations and advertising, brochures, promotional materials and sales training.
- **Harman Stove Company -** As Northeastern Factory Representative developed strategy to build dealer network throughout New England and New York and took sales from \$30,000 to over 19 million per year. Wrote marketing materials used nationally. Worked closely with owner and R&D to develop new products for the retail market. Built training facility to educate dealers on installation, troubleshooting and repair of Harman stoves. Provided technical support and marketing assistance to network of 100 dealers.
- **HomeWarmth Inc. -** Northeast sales representative for ICC Chimney – Excel chimney, RSF and Renaissance Fireplaces. Responsible for recruiting dealers in New England, New York and



Eastern PA. As liaison between dealers and R&D, responsible for developing many new innovative venting components.

Significant Accomplishments:

- Developed first of its kind high school curriculum on wood heating and alternative energy that received national recognition.

At Vermont Castings:

- Designed and patented system for installing stoves into fireplaces.
- Wrote test standard for domestic hot water heaters in solid fuel burning appliances adopted by ULC.
- Specified and assisted in design of two fireplace inserts with a European manufacturer for the European market.

At TESS:

- Redesigned and patented a system for renovating heat circulating fireplaces.
- Supervised the design and building of state of the art testing laboratory for masonry fireplaces. Used lab to obtain independent lab listings for TESS fireplace models.
- Launched two new fireplace models.

At Harman:

- National Sales Rep for 15 consecutive years.
- Instrumental in making Harman the number one pellet stove line in the US market.
- Assisted in design of several VESTA award winning products.

Trade and Professional Group Affiliations and Positions Held

- Board of Directors – Wood Heating Alliance, 1987 and 1988
- WHA Government Relations Committee, 1987 and 1988
- Member – Fireplace Manufacturer's Caucus (WHA)
- Board of Directors and Treasurer – Hearth Education Foundation – Served on Board for approximately 8 years.
- Secretary for Task Group writing standards for the construction of masonry heaters – American Society for Testing and Materials (ASTM E1602)
- Member of NEHPBA for past 17 years