



Daltile's Emerson Wood.

Following the inevitable dip ceramic weathered in 2020 as Covid-19 shuttered the economy for six weeks around April, the category rebounded in 2021. The 17.3% jump in floor + wall tile revenue more than made up for the roughly 2% slide in 2020, according to Market Insights data, but last year, sales prices also rose as supply chain and labor challenges forced multiple price increases across the ceramic industry. In terms of marketshare, ceramic maintained its roughly 14% benchmark of the past few years, falling just slightly from 14.4% in 2020 to 14.0% in 2021. Though not a DIY product, ceramic was buoyed by homeowners' rush to renovate, along with the growing builder market.

DOMESTICS VERSUS IMPORTS

Last year, ceramic tile imports grew by over 25%, while domestic mill shipments were up 5.4%, driving imports' share of the U.S. ceramic market from 60.8% to 65.0%. With ongoing supply chain challenges, elevated shipping costs and, now, raw material shortages and skyrocketing production costs in Europe as a result of Russia's invasion of Ukraine, many believe domestic producers are set to take marketshare, at least in the short term. However, domestic manufacturers can only supply 30% to 35% of the current demand, and according to the latest figures by the Tile Council of North America (TCNA), those factories supplied 28.3% of the market last year in terms of volume.

In an effort to meet domestic demand, U.S. producers are working to increase their capacity, while those that import are diversifying their international networks of partner factories.

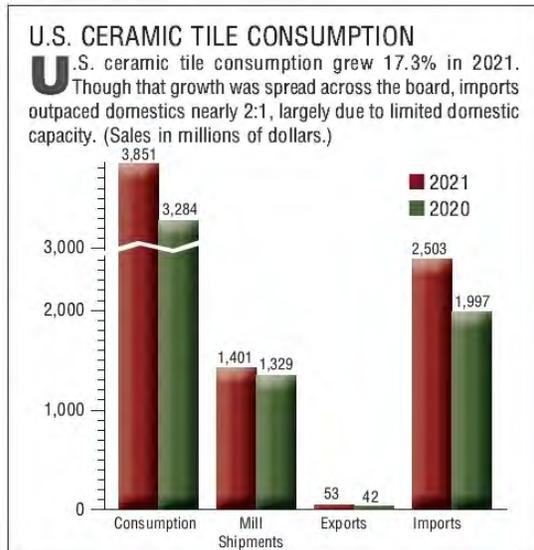
Though importers are in the same boat, so to speak, with foreign brands in terms of the many headaches faced with oceanic freight, they are typically at an overall advantage due to their wider supply networks and the lower production costs in many partner countries. However, the current surge in global demand is creating a unique challenge for suppliers. "With the rebounding economies of some of the countries, there's a tendency where they're looking more inward than globally to say, 'My product could be used in my own country rather than going through this whole export business,'" says Carl Delia, president of Emser Tile, which works with partner factories around the world to supply the U.S. market.

At 2.23 billion square feet, imports to the U.S. grew to their highest volume in 15 years last year, according to TCNA. But Italy and Spain, the two largest importers in terms of volume



Crossville's Owen Stone.

and value, are now facing such exorbitant cost increases that some ceramic manufacturers are going offline. Speaking at Coverings, Ceramics of Italy officials said gas prices in Europe were up more than 400% as of early March, compared to roughly 180% in Asia and 10% in the U.S. And that's on top of ocean shipping costs that remain more than three times higher than their pre-pandemic average. Also, many European manufacturers are having to seek alternatives to Ukraine's supply of high-quality clay. Comprising 25% of the raw materials used by the Italian ceramic industry, according to a memorandum by Ceramics of Italy, those materials have been irrevocably taken off the table amid the destruction of Ukrainian infrastructure. And while there are developments in the works, it will take time to recalibrate product chemistries in order to maintain quality and performance standards.



Meanwhile, domestic manufacturers—many of them divisions of Italian companies—are adding production equipment, much of it geared toward larger formats (read more in our Coverings Report, starting on page 83), though there is still a shortage of experienced installers for some of those products. The U.S. has plentiful supplies of the primary materials used in ceramic production, but some glaze additives, including cobalt oxide and zircon, are imported from a variety of sources.

TAILWINDS

The ceramic market for residential remodel and new-home builds—which soared to record levels over the past year—has not slowed down. Meanwhile, the commercial sector, which also makes up a significant portion of tile's overall market, is recovering after faltering during the pandemic, being led by demand within the education and healthcare sectors.

Tile's growing uses both indoors and out, the result of new sizes, formats and surface finishes, should help bolster its place in the market, especially with the increasing focus on outdoor living. Adding to ceramic's appeal is its ease of cleanability, of particular note in the current climate, which is being enhanced through the growing incorporation of specialized antimicrobial treatments; as well as its lack of harmful chemical components. Made of natural materials, ceramic has one of the lowest carbon footprints of any flooring materials, another potential selling point as consumers become more and more conscious of the environment.

HEADWINDS

Our sources report very strong starts to the year, but double-digit cost increases, coupled with rising inflation and ongoing labor and supply chain challenges, could hamper growth. The widespread issues are limiting availability and driving up prices on everything from raw materials to packaging for every category (and industry). Ceramic is also directly impacted by the price of oil as its kiln firing process is energy-intensive, and it is one of the heaviest materials to transport.

To offset rising costs, ceramic manufacturers implemented multiple price increases over the past year, and there is no end in sight yet to the raw material cost inflation. When combined with installation costs, ceramic is one of the most expensive flooring materials.

All kinds of flooring producers have been challenged to find consistent and skilled labor, leading to increases in wages across the industry, but ceramic is also challenged by an inadequate supply of installers as experienced ones age out, and new tile formats require new skills, which are not yet widespread.

THE TOP FIVE

Perennially the country's top ceramic supplier, supplying just under half of the U.S. ceramic market, **Dal-Tile's** 2021 flooring sales are estimated at \$1.47 billion, a 7% increase from the previous year. The parent company of Daltile, Marazzi and American Olean, the Mohawk-owned corporation is celebrating its 75th anniversary this year.

With consumers growing increasingly health-conscious, Dal-Tile's portfolio grew last year with the addition of its Defend program, featuring Microban technology. The collection of floor, wall and mosaic tile products is enhanced with silver ion- or zinc-based additives during the glazing process, creating a product that inherently eliminates up to 99% of bacteria on the tile surface for the life of the product.

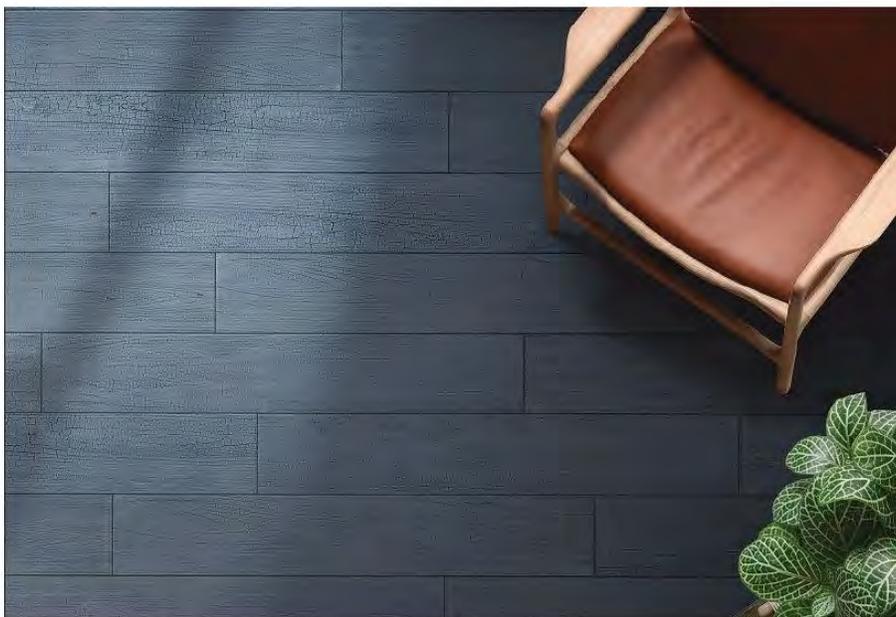
This year, Dal-Tile will be increasing its quartz countertop production at its Dickson, Tennessee facility, as well as expanding its production of polished glazed porcelain at its Florence, Alabama plant to accommodate sizes larger than 24"x24". The company recently enhanced its lineup of mosaics with new shapes, including 3D cube and kaleidoscope designs, produced in its Monterrey, Mexico plant.

Supplying home centers and a select group of distributors—in addition to end users through its own network of service centers, slab yards and design studios—Dal-Tile launched a mobile app last year for its existing B2B ProExchange service. The ProExchange app provides 24/7 access to product availability, pricing, sample requests, order status alerts, invoices, account credit details, payments and scheduling of pickup or delivery.

Daltile, Marazzi and American Olean products are branded, with residential making up the largest part of the business.

With approximately \$650 million in domestic ceramic sales for 2021, **Emser Tile** ranks second. The company did roughly \$591 million in sales in 2020. A hybrid supplier, Emser sells direct to installers and general contractors to serve homebuilders and A&D, as well as to dealers, offering products

Emser Tile's BB Yakedo in Navy.



that are typically branded. It also has a separate Privado line that targets high-volume distributors with unique looks and multi-pallet quantities for large-scale trade accounts.

To serve its various markets—residential remodel, new-home builders, commercial and, to a more limited degree, mass merchants—Emser designs its own products, working with select factories in 20 countries to produce them. Following the housing crash of 2008, the company began to focus on diversifying its residential/commercial mix and is getting close to its goal of 50/50, says Delia.

Earlier this year, the company consolidated its management model to one vice president for each of its three divisions, along with one for omnichannel, a new position. "We want to get much more aggressive with going out in the marketplace and becoming more important to our key partners," Delia says, noting that the company launched a new website in February featuring enhanced visualization and estimation tools. Emser is also investing in warehouse management systems to help its reps access inventory in real time, along with an automated forecasting and order processing system.

The moves seem to be paying off—Emser had its highest ever daily average sales volume in March and recently secured renewals of exclusive contracts with its major accounts, including "one of the top national homebuilders," Delia says. The firm services such clients utilizing a hub-and-spoke model, with a new distribution center in Florida to help stock its more than 80 branches.

Anatolia, the number three in terms of U.S. ceramic flooring sales, is set to grow with the establishment of its first private production facility. To be located in Turkey, it is expected to come online in September or October with a capacity of up to 21,500 square meters per day, depending on the product, thanks to its three Continua+ lines. The production will be fully automated, with room for more equipment at the 2.1-million-square-foot facility. This first phase, a roughly \$250 million investment, represents about one third of the possible capacity.

The new manufacturing capabilities, which will focus on gauged

THE CERAMIC LEADERS
Marketshares shifted last year, and suppliers are a force to be reckoned with.

| | 2021 | | 2020 | |
|------------|---------------|-------------|---------------|-------------|
| | \$\$ millions | Marketshare | \$\$ millions | Marketshare |
| DAL-TILE | \$1,465 | 38.0% | \$1,369 | 41.7% |
| EMSER | \$650 | 16.9% | \$591 | 18.0% |
| ANATOLIA | \$460 | 11.9% | \$414 | 12.6% |
| MSI | \$413 | 10.7% | \$344 | 10.7% |
| CROSSVILLE | \$218 | 5.7% | \$205 * | 6.2% |

*revised

panels and other "more technical" porcelain products in a variety of sizes, says CEO Cengiz Elmaagacli, will not change the supplier's business model. Anatolia creates all of its designs at its headquarters in Ontario, Canada, but outsources product production to "the most suitable manufacturer in the world." Turkey, already one of those six international partner locations, offers strategic benefits, including established infrastructure, domestic access to raw materials and a long history of ceramic production.

The firm is investing in a private fleet of four ocean vessels, the first of which was just purchased. In addition to cost advantages on freight and more predictable capacity, Elmaagacli notes the opportunity to source and transport raw materials along the routes. Again, the company will maintain its relationships with partner shipping companies, he stresses.

Anatolia is also working to automate its private warehouses, including its two U.S. facilities, located in Savannah, Georgia. The U.S. accounts for most of the sales in the supplier's growing global network. Anatolia sells branded, sub-branded and private label products to distributors and retailers, including home centers and independent dealers, and did an estimated \$460 million in sales in the U.S. last year, up from \$414 million in 2020.

While ceramic makes up the bulk of **MSI's** offerings, accounting for \$413 million in flooring revenues in the U.S. last year, the dealer continues to diversify. In 2021, MSI bought the RokPlank LVT factory in Cartersville, Georgia and built dedicated production facilities in India and Turkey, and recently

added waterproof hybrid rigid core, waterproof wood and artificial turf products to its portfolio, with engineered wood coming next.

The "record year in the form of investments," says CEO Raj Shah, also included ten new distribution centers and the expansion of the company's delivery capabilities, termed "MSI Express." Formerly used only for deliveries of MSI's countertop selection, the growing fleet began taking on the company's flooring products roughly three years ago, transitioning MSI from a third-party-logistics model.

Traditionally focused on residential remodel, MSI is seeing "significant growth" in the commercial sector, he says. The company sources its overall product assortment from 36 countries, including the U.S., and is heavily involved in the design process. MSI sells mainly branded product to a mix of independent retailers and home centers, aiming for a market-representative mix.

The company is investing in its front-end operations with new A.I.-guided inventory management and ordering systems based on customers' history and is experimenting using drones to help keep track of the inventory in its 40 warehouses. "MSI likes to think of itself as a leader in the use of technology to make transacting business simpler," Shah says.

The company's 2021 sales are a 20% jump from the \$344 million it did in 2020.

With a historical concentration in the commercial market, **Crossville** has been focused on growing its residential business, and did \$218 million in domestic ceramic flooring sales last year, a 6.3% jump from its \$205 million in 2020. President Greg Mather estimates the company's current market segment as 60% commercial and 40% residential, "and I think that's about where we want to stay," he says, forecasting commercial to "start growing equally if not more than residential over the next couple of years."

Still, he says, the producer will stay more focused on residential than it has been, with a growing number of products that target that side or that offer cross-market opportunities—primarily indoor/outdoor. The manufacturer recently developed a "leathered" finish that makes it softer underfoot while still offering traction, and Mather points to the forthcoming Stone Friction collection as one geared for residential use due to its visuals.

Crossville has spent the past year or so developing product portfolios that are attractive to builders and remodelers, including new marketing and an updated website with more of a focus on residential. Additionally, the firm created a new segment leader position last summer to develop segment-based go-to-market plans for residential, with healthcare, hospitality, education and multifamily as other target categories.

Crossville goes to market through its 30 company-owned showrooms as well as specialty tile distributors, and manufactures 75% of its product assortment, importing what it does not have the capability to produce itself, like countertops. The company is making small investments in equipment to enhance its efficiency between its two plants and working to add employees and production shifts to increase its capacity. ■



MSI's Kaya porcelain in Ondra Gray.