INTERNATIONAL TRENDS IN THE TIMBER FURNITURE INDUSTRY AND THE IMPLICATIONS FOR SOUTH AFRICAN FURNITURE EXPORTERS

Nikki Dunne

CSDS Working Paper No. 25

INTERNATIONAL TRENDS IN THE TIMBER FURNITURE INDUSTRY AND THE IMPLICATIONS FOR SOUTH AFRICAN FURNITURE EXPORTERS

Nikki Dunne

School of Development Studies
University of Natal, Durban

February 2000

CSDS Working Paper No. 25

ISBN No. 1-86840-371-8

FOREWORD

The Industrial Restructuring Project (IRP) was initiated at the beginning of 1996 as the KwaZulu-Natal Industrial Restructuring Project (KZN IRP). The project initially focused exclusively on KwaZulu-Natal, but is now aimed at supporting industrial policy in South Africa at the national, provincial and local levels. It is facilitated by international experts and is based at the School of Development Studies, University of Natal Durban. The project has two important features. Firstly, it focuses on critical issues that are impacting on the competitiveness of manufacturing sectors that are under threat from increased international competition and the liberalisation of the South African trade regime. Secondly, it is action-oriented in design. The findings that have been generated have, for example, been presented to numerous industry stakeholders, including government, business associations and trade unions. The project consequently has the support of various regional and national stakeholders.

This particular report/working paper has arisen out of both new research and the cumulative knowledge that has been generated from previous studies. These cover a number of IRP reports, working papers, journal articles and conference papers. Some of the themes covered include South Africa's manufacturing competitiveness, the automotive industry, the clothing and textiles sectors, footwear, middle-management capacity, human resource development, institutional support for industrial restructuring, and business services for manufacturing competitiveness.

Enquiries regarding IRP material should be addressed to:
The Librarian, School of Development Studies, University of Natal, Durban, 4041.
Tel: 031 260-1031; Fax: 031 260-2359;
email: smithm@mtb.und.ac.za.

Prof. Mike Morris
Head: IRP

ACKNOWLEDGEMENTS

This School of Development Studies working paper was written for an international conference organised by the International Labour Organisation in Bologna, Italy. The conference was titled "Responding to the challenges of globalisation: Local and regional initiatives to promote quality employment through social cohesion". The ILO therefore partly funded the writing of the paper and their support is hereby acknowledged.

Academically, support was received from Raphael Kaplinsky, who provided useful comments on an earlier draft. As always, the views expressed in this paper are, however, solely those of the authors. All responsibility for its content therefore lies with the authors alone.

INTRODUCTION[1]

There are two overriding (and intertwined) features of the international manufacturing sector today. One is clearly the force of *globalisation*: more goods are being traded internationally, and more countries are significant participants in this trade. In particular, low wage developing countries in Asia and other parts of the world are making their presence felt as exporters, in competition with the traditional exporters amongst industrialised nations. These developments are accompanied by international trade agreements, embodied in the World Trade Organisation (WTO), that limit the extent to which any nation can protect its economy from international competition though tariff barriers, or encourage the development of its export economy through subsidies. The second aspect of the current manufacturing sector is the *changing nature of competition*. Increasingly discerning consumers and increased competition are forcing a shift in the basis of competition from price to a range of issues, including quality, delivery reliability and flexibility, as well as price (Best 1990; Kaplinsky 1994).

These forces are clearly apparent in the timber-based furniture industry. The furniture industry is very vulnerable to fluctuations in demand, and consequently the forces outlined above are having a considerable impact on furniture manufacturers. Demand in the furniture industry is given to strong cyclical fluctuations linked to general economic conditions that affect consumer confidence and household spending in the form of personal disposable income - low growth and rising unemployment have a negative effect on furniture demand (IDC 1998; Manning 1996; Scott 1996). In addition, the state of the construction industry is closely related to the demand for furniture (Best 1987; Manning 1996; Scott 1996). In South Africa the RDP-driven provision of low cost housing is expected to have a significant impact on domestic demand for furniture in the medium- to long-term, although this has been noticeably slow (IDC 1998). Access to credit, the level of interest rates, and, in South Africa, hire purchase regulations also contribute to the level of demand for furniture (IDC 1998; Manning 1996). Finally, of course, fluctuations in demand are strongly linked to changing fashions (Scott 1996). All these factors mean that the furniture industry is a highly unstable one, in which manufacturers must be very aware of trends in demand.

As internationalisation of the furniture industry increases, manufacturers are being buffeted by economic developments in foreign as well as domestic markets. At the same time, entry barriers to the furniture industry are low, and competition is thus high (Maskell 1998). These circumstances make market-focused production essential for furniture manufacturers, and recent organisational developments in the manufacturing sector, such as Just-In-Time production (JIT), Total Quality Management (TQM) are thus of great relevance.

This paper is the first in a series of papers that will explore the nature of the South African timber furniture industry, with an emphasis on the opportunities and constraints facing South African manufacturers as they strive for international competitiveness. The paper does not make the assumption that *all* furniture manufacturers will have to enter the export market to survive. However, global trends certainly impact on all South Africa's furniture manufacturers in some way, and an understanding of global trends is hence vital for a resilient timber furniture sector. From the perspective of both domestic- and export-market focused furniture firms there is a need for manufacturers to 'know the enemy' if they are to survive in a global context. It is only by benchmarking themselves against their foreign competitors that South African furniture manufacturers can develop some idea of where their sector's comparative and competitive advantage lies.

At the same time, developments in the furniture industry in Western Europe lead global fashion trends, and South African furniture manufacturers need to be in touch with these trends if they are to achieve international competitiveness in terms of design capacity. Finally, international developments in intra- and inter-firm organisation provide important lessons both for manufacturers and for policy-makers. This is true both of the broader industrial environment and at the level of the furniture sector in particular. While such developments have aspects that are context specific, they also offer broad lessons that can be emulated to create a dynamic and competitive furniture sector in South Africa.

This paper provides a context for further study of the South African timber furniture industry by examining international trends in the furniture industry, both in terms of trade and production, and in terms of the nature of global market demand. The paper relies both on secondary sources and on visits by the writer to the 1999 furniture trade fairs at Cologne and Birmingham. These fairs provided a forum for observation, as well as discussion with a number of individuals about South African furniture manufacturing and its position in the global furniture market. Informants included South African manufacturers, a South African embassy representative, foreign manufacturers, furniture buyers, a timber trader and representatives of a number of furniture industry associations.

SECTION ONE: MARKET TRENDS IN THE INTERNATIONAL FURNITURE INDUSTRY

The furniture industry has experienced an exceptionally high rate of growth in global demand between 1961 and 1990, exceeded only by computers and peripherals (Maskell 1998). As well as being a rapidly growing sector, furniture is also a sector in which global trade is increasing. According to the French furniture association: 'In 10 years, the share of furniture in world exchanges has gone from 0.6 percent to 1 percent. The flows in this sector have been multiplied by 3.3.' (http://www.ameublement.com/). The growth in trade in this sector, coupled with ease of entry and the propensity for adding value to natural resources warrants further comment on key players and trends in the sector.

KEY PLAYERS IN THE GLOBAL FURNITURE INDUSTRY

If one looks at the top 25 importers and exporters of Furniture and Parts Thereof [2] then it becomes apparent that a select group of mainly industrialised countries dominates much of the world's furniture trade. Best (1987) suggests that one of the most significant developments in the international trade of timber products since the 1970s is the emergence of Italy as a leading exporter. Italian exports increased fivefold between 1973 and 1981, going from less than half to more than double that of Germany, the other major furniture-exporting nation.

This development is part of the wider flexible specialisation[3] story that is often seen as being of particular relevance to developing countries for the example it offers of small firms successfully accessing export markets through a combination of state support and inter-firm co-operation through the business association model. As we can see, Italy and Germany have maintained their positions as primary exporters to the present day.

Predictably, the largest importers of furniture are the industrialised countries of Western Europe, North America and to a lesser extent the oil countries and Australia. It is interesting that many of the same high wage industrialised countries are the dominant furniture exporting nations. In fact, Western Europe alone accounts for 60 percent of world furniture imports and exports (http://www.ameublement.com/).

Table One: Top 25 Importing and Exporting Nations - 1995

Exports		Imports	
Country	**1000 US $**	**Country**	**1000 US $**
Italy	8365513	USA	9128199
Germany	4881648	Germany	6583860
USA	3806367	France	3205729
Canada	2619539	Japan	3155427
Denmark	2160220	Canada	1985291
France	2080240	UK	1915029
China	1764656	Switzerland	1857270
Belgium	1621706	Belgium	1775784
Sweden	1390678	Netherlands	1738146
Poland	1337528	Austria	1454757
UK	1337524	Russia	1156653
Spain	1035659	Hong Kong	996677
Netherlands	958537	Sweden	850126
Malaysia	915980	Italy	698845
Mexico	897095	Norway	610628
Indonesia	865840	Spain	555110
Austria	816869	Mexico	448971
Switzerland	777806	Singapore	446923
Hong Kong	770254	Denmark	442749
Thailand	756627	Australia	369654
Japan	559616	Saudi Arabia	322458
Romania	538791	UAE	216087
Slovenia	454018	Hungary	212256
Finland	366868	Portugal	200172
Singapore	221567	Kuwait	132733

Source: UN (1995)

THE EMERGENCE OF DEVELOPING COUNTRY COMPETITORS

As can be seen from the above table, a number of developing countries do however feature on the list of top exporters, including China, Poland, Malaysia, Indonesia, Thailand, Romania and Slovenia. More significantly, in the 6 years between 1989 and 1995, two developing countries – China and Poland – have moved into the top ten furniture exporters (see Table Two below).

Table Two: Top 10 Exporting Nations - 1989 and 1995

	1989	1995
1	Italy	Italy
2	Germany	Germany
3	France	USA
4	USA	Canada
5	Belgium	Denmark
6	Denmark	France
7	Canada	**China**
8	UK	Belgium
9	Sweden	Sweden
10	Netherlands	**Poland**

Source: UN (1995)

In fact, a 1996 report on the furniture industry comments on industrialised country concerns about developing country competitors, noting that 'complaints about cheap imports from Eastern Europe runs like a thread through papers on the furniture industry' (IFBWW 1996: 30). Poland in particular is seen as a strong developing country exporter, with 80 percent of its exports going to the European Union markets. The recent growth in Polish furniture exports is attributed in part to the inflow of foreign capital, particularly from Germany (http://www.paiz.gov.pl/wood.htm). The same 1996 report observes that due to 'the lower wage levels, in conjunction with modern technology, Asian producers in Taiwan and Singapore have turned out to be genuine competitors of EU companies' (IFBWW 1996: 30).

In the 1983 UN Industrial Development Organisation (UNIDO) Consultation on the Wood and Wood Products Industry, the importance of developing the secondary wood-processing industry in developing countries was recognised. This industry is seen as important for developing countries because of the value it adds to existing primary wood-processing activities, as well as for its employment-generating capacity, given its labour-intensive nature (UNIDO 1991). The conference went on to recognise some of the constraints facing the wood-processing industries in developing countries such as raw material availability, technology management, human resource development, financing and environmental considerations. Other problems facing developing country value-added wood industries are arrangements for marketing, ocean transport and services for distribution (UNCTAD 1996). The IDC (1998) suggests that skills development, innovative workplace organisation, technological upgrading and overall productivity improvements are necessary for developing countries to enhance their competitive status in global markets.

Developing countries have until very recently been a marginal contributor to the global secondary wood-processing industry, contributing just 9 percent of production in 1985 (UNIDO 1991). In 1990-91 exports from developing countries represented only 13.2 percent of world trade in furniture, a low share that offers scope for expansion of these higher value added products (UNCTAD 1996). As a study of the Philippines furniture industry showed, exporting is not necessarily more profitable, with wooden furniture manufacturers operating in the domestic market showing higher profit margins than those firms operating solely in the export market (Board of Investments 1990). However, in the long run exporting would seem to be essential for the growth and development of any national furniture industry. While exporting represents a learning curve, with short-term costs, it offers long term benefits including access to larger and more profitable markets, economies of scale in niche markets and incentives to improve quality standards.

Clearly, international trade in furniture is being facilitated by the reduction of import tariffs in terms of WTO agreements. Importantly however, UNCTAD (1996) points out that there are a range of non-tariff restrictions on the trade of wood and wood-product that are likely to have a particular effect on developing countries. Such restrictions include health and technical standards, customs and administrative entry procedures, ocean freight and trade-related environmental measures, sometimes referred to as 'green protectionism' (UNCTAD 1996:32). Eco-labelling is one example of the latter.

SNAPSHOT OF A SUCCESSFUL FURNITURE INDUSTRY

It is difficult to generalise about the nature of a 'typical' successful timber furniture industry. The furniture value-chain is complex, and will not be explored in any depth in this paper[4]. For the sake of brevity, timber and labour are considered the sector's sole inputs, which are converted within the manufacturing unit into furniture, which is distributed via wholesalers and retailers to the end consumer. In the case of the export market import-export agents may play an important intermediary role. The nature and attributes of these key stages or links in the value chain need to be explored before we consider the position of South Africa's furniture manufacturing sector in the global competitive context.

Firstly, wood and wood products (veneer, plywood and particle board) are the major inputs in furniture production (Maskell 1998). The inbound distribution system of wood raw materials is thus a key factor in the efficient functioning of the furniture industry (http://www.paiz.gov.pl/wood.htm). Interestingly, Maskell (1998) notes that dominant European producers and exporters of wood, such as Sweden and Finland, are not as successful in the furniture sector. This suggests that access to local wood suppliers does not necessarily confer any competitive advantage on furniture producers.

A second important input into the furniture production process is labour. Poland considers its easy availability of labour and relatively low remunerations as an important advantage in attracting investment in the furniture industry (http://www.paiz.gov.pl/wood.htm). Similarly, the huge international furniture retailer Ikea is known for sourcing from low wage developing countries (Financial Times 18/8/98). However, it is important to note that despite the labour–intensive nature of the furniture production process, the furniture industry in Europe still tends to be concentrated in high wage countries (Maskell 1998). In fact, as we have seen *most* of the world's top furniture exporting nations are high-wage industrialised countries, although the outsourcing of production from, for instance, Germany to Poland, may account for some of this.

The next issue that may impact on the success of efforts to develop a dynamic furniture industry is proximity to final markets. Despite the internationalisation of production, proximity *does* matter in the furniture value chain. The development and popularisation of flat-pack or knockdown furniture makes furniture easier to transport over long distances. Nonetheless, furniture is bulky, and imported furniture is made more expensive by transport costs, while at the same time tying up capital and limiting flexibility (Schneider 1998; Scott 1996; UNIDO 1991).

Finally, the evidence on the optimal size of a successful furniture firm is inconclusive. There appears to be two predominant structural configurations of furniture sectors throughout the world. The first configuration, reflected in a range of countries, including Denmark, Italy, France and Cyprus is dominated by micro-, small- and medium-sized enterprises (Best 1987; http://furniture.fdmi.dk/portrait.htm; Maskell 1998; Scott 1996). In the second, and less common, configuration large firms dominate the furniture industry. A 1996 report recorded average furniture firm size as being 78 workers in Germany, 21 in the UK, and only 6 in Italy and France (IFBWW 1996). The successful Danish furniture industry consists of a 'considerable number' of one-man businesses and an average firm size of 35 full-time employees (http://furniture.fdmi.dk/portrait.htm; Maskell 1998). Taken as a whole, only 9 percent of European furniture producers have more than 20 employees.

Table Three: International Comparison of Industry Structure - Firm Size[5]

Country	Year	Percentage of Establishments by Size		
		<20	20-99	100+
Sweden	1992	92.5%	6.2%	1.1%
Mexico[1]	1987	86.9%	11.2%	1.9%
Lorraine (France)[2]	199?	81.0%	17.1%	1.9%
Korea	1988	77.0%	20.5%	2.4%
Italy[3]	1986	75.1%	18.0%	6.8%
Brazil	1985	71.6%	23.4%	1.1%
USA	1990	70.7%	23.9%	9.7%
South Africa	**1993**	**67.6%**	**26.0%**	**6.3%**

Notes: [1] Mexican data uses 16 workers as the cut-off point for small firms.
[2] The Lorraine data uses 10 workers as the cut-off point.
[3] The Italian data distinguishes enterprise size categories as follows: 1-49; 50-99; >100.

Source: CSS (1993a); Manning (1996); Scott (1996)

What *is* clear is that where the furniture industry is dominated by small firms, institutions that co-ordinate the co-operation of these small entities play a very important role in the success of the industry, particularly in its export activities. This model is reflected in the Danish, French and Italian furniture industries, amongst others (Maskell 1998; http://www.plab.org/). Best (1987: i) identifies two slightly different models of success in the furniture industry: 'flexible specialisation as exemplified by the decentralised Italian furniture industry, ... and, second, the integration of mass production and mass distribution co-ordinated by the retailing giants'.

International retailers such as Ikea effectively act as contractors, subcontracting production to furniture manufacturers around the world, while recently expanding through vertical integration by moving into production itself (Best 1987; IFBWW 1996). A number of individuals and organisations involved in research in the furniture industry have noted that there is a tendency towards concentration in the world furniture industry, both in the manufacturing and retailing sector (IFBWW 1996; Manning 1996).

HIGH ROAD / LOW ROAD SCENARIOS

A final trend in the world trade in furniture is worth noting before we attempt to place South Africa on the map of global furniture production and trade, and this is a trend identifiable in the unit value of furniture exports. Table Four below shows percentage changes over time in the unit value of furniture imports to Britain from a number of countries.

Table Four: Growth in Unit Value of British Furniture Imports: (1989-1997)

Country	% Growth in Unit Value
Japan	34
Germany	33
Italy	22
France	19
USA	6
Denmark	4
Poland	158
Malaysia	- 6
Chile	- 38
Brazil	- 50
Indonesia	- 52

Source: Biggar, Morel & Sharma (1999)

The trend is immediately obvious – while industrialised countries are *increasing* the unit value of their furniture exports, the unit value of exports from most developing countries, with the noticeable exception of Poland, have *decreased* over the same time period. Put another way, industrialised countries continue to add value to their exports, moving into higher market segments and charging higher prices for their products. The value-added of developing countries, on the other hand, is declining. This phenomenon has been referred to as the high road and low road scenarios (Nadvi & Schmitz 1994). The 'low road' to international trade follows the route of low wage, low cost manufacturing based on price competition and supplying the mass market. In contrast, the 'high road' of competition is based on meeting the needs of specific market niches, often at the upper end of the market, and with a focus on a range of competitive issues besides price. These two alternative paths to competitiveness are epitomised by low wage countries such as Taiwan or Mexico whose target market is the low or middle-income market segments in industrialised countries, and high wage countries with a tradition in quality, design intensive goods target at upper market niches (Best 1987; Scott 1996).

Although price remains a critical aspect of competitiveness, at the top end of the market quality, product reliability and other criteria are seen as equally essential. Successful firms in this new competitive environment pursue strategies of permanent innovation, and create flexible organisations capable of learning (Best 1987). More specifically, Danish home furniture producers attribute their success to highly skilled employees and advanced technology that contribute to a high quality product; firms' reputation for rapid adaptation to changing market conditions and rapid product development; environmentally friendly production, and reliability in terms of delivery (http://furniture.fdmi.dk/portrait.htm). Importantly, the same issues do not determine competitiveness either between manufacturing sectors or even sub-sectors of the furniture industry itself. For instance, in the contract furniture industry (hotel furniture, office furniture) items are usually ordered well in advance, and speed of delivery or flexibility of volume is far less critical than meeting agreed upon delivery schedules (Schneider 1998). On the American market, office furniture manufacturers find that price and service (reduced shipment lead times, quick response to customer complaints and/or requests etc.) are the major concerns of their customers, although cost containment must be achieved through increased operating efficiency, rather than through a compromise on quality (http://www.bifma.com/). Our own interviews similarly suggest that the environmental concerns of the UK market far outweigh those of the USA market.

Price-based competition obviously does have a place within the consumer markets, however, this niche will always be occupied by low wage developing countries, and competition will always be cut-throat and fierce. Scott (1996) reports that furniture imports to the United States from developing countries are growing at a rate of 10 percent per annum. A short-term focus on profit margins encourages manufacturers in more developed countries who are faced with competition from low cost producers to fall easily into the 'pursuit of a self-defeating and unidimensional strategy of cost-cutting', as opposed for instance, to a strategy of training and quality development, with long term payback (Scott 1996: 76; see also Best 1987; UNIDO 1991). Cost cutting is achieved through a variety of means, including the shift of production to low-wage countries, a move towards non-unionised labour, increased use of female labour and the subcontracting of work to informal (and unregulated) enterprises (Scott 1996).

Best (1987: 4) notes that although firms that continue to produce standardised products and compete on the basis of price may survive by introducing flowline principles and developing JIT supplier relations, they remain dependent on mass retailers for sales and design. 'The purely market mode of coordination means that the mass retailer is constantly sourcing the world seeking the lowest cost producer of homogenous products. It is usually only a matter of time before a low wage country ... threatens to drive sales levels below the break-even point for the pre-existing firms'. The alternative, as Scott (1996) points out, is to reconfigure industry in such a way as to encourage more skills-intensive and quality-conscious manufacturing. In this more competitive and demanding market '(d)ifferentiation, from other manufacturers, based on service is often the only way to distinguish oneself from competitors' (http://www.bifma.com/).

SECTION TWO: SITUATING SOUTH AFRICA ON THE INTERNATIONAL FURNITURE INDUSTRY MAP

The previous section sought to develop a picture of the timber furniture sector at the global level. The focus was on understanding the nature and spatial location of production and trade in the sector, and considered the impact of shifts in the nature of market demand on global furniture industry stakeholders. In this section we examine South Africa's position in the furniture export market, looking particularly at performance in a number of areas that are important determinants of export success.

THE STATE OF PLAY IN THE SA FURNITURE INDUSTRY

The timber furniture sector is important to the South African economy for two primary reasons: firstly, furniture production adds value to existing timber resources, and secondly, firms in the sector remain predominantly labour-intensive. Both of these features are in line with the stated goals of industrial development in South Africa (Joffe *et al* 1995). The South African furniture industry has, over the past several years, experienced a significant loss of employment[6], and future prospects in this sector are unclear. The close relationship between general economic conditions and demand levels in the furniture sector does not bode well for domestic demand for furniture. On a more positive note, domestic market exposure to imports has so far been limited; however, it is by no means clear that domestic furniture manufacturers are in a strong position to face any such threat in the future. The area that this paper will focus on, however, is the prospect for South African manufacturers to expand their presence in the export market. As this paper has shown, the position of the *global* furniture market looks more promising: the market itself is growing; trade in this sector is growing; and developing countries are capturing an increasing share of the market.

South Africa (or more correctly the Southern African Customs Union) features 24th on the list of exporters in 1995, up from 36th place in 1989. Furniture exports have been growing since the late-1980s, although admittedly from a very low base (IDC 1998). Based on the key themes in the global furniture industry that were developed in the previous section it is possible to highlight two issues that impact on the global presence, both potential and realised, of South African furniture manufacturers. Firstly, we see that the market for furniture is highly competitive. On the one hand it is a relatively easy sector to enter, and one that, for a number of reasons, developing countries are eager to compete in. On the other hand it is a sector in which many industrialised nations have a traditional strength and a reputation for excellence. Secondly, the major markets for furniture are also the more developed markets with better informed and hence more demanding consumers. In these markets the shifting nature of demand is particularly apparent. Price is no longer the sole basis for market control. Rather competitive criteria such as price and quality become the basis for market entry, while a range of other issues such as delivery, service and flexibility determine market performance. If South Africa is to compete successfully in this market context it is vital that manufacturers identify their target market niches very carefully, and develop their strengths accordingly. This is not always easy to do however. The South African furniture industry shares a number of weaknesses with its developing country counterparts[7], and in many respects is in a weaker position than some of its closest competitors. Poland, for example, may share South Africa's developing country status, but it benefits in terms of a productive and relatively skilled labour force and its proximity to major markets in Europe. For the latter reason investments too are more likely to flow to Polish furniture manufacturers than their South African counterparts.

The issue of accurate targeting of market niches lies at the interface of the nature of competitors and the nature of markets, and is embodied in the choice that furniture manufacturers have to make between the high road or the low road to international competitiveness. If we refer back to Table Four, we see that Poland is rapidly adding value to its furniture exports, and moving away from other developing country counterparts, suggesting that Poland's furniture manufacturers are beginning their journey on the high road. While there is no comparative data over time for South African furniture manufacturers, Table Five below shows the unit values of imports to Britain for a number of countries. It is extremely worrying that the unit value of South African furniture imports is lower than that of any other country shown. As we have noted, price-based competition does have a place within the consumer markets; however, in this market segment producers will be under continual pressure to lower costs. The 'low road' route appears neither possible (nor desirable) in the South African context. As a relatively advanced country with sophisticated laws protecting the rights and interests of labour, South African manufacturers embarking on the low road will be continually faced with lower wage countries able to produce the same products at lower cost. Given the fact that South Africa is unlikely to be able to compete on the base of wages with developing countries in Asia and other parts of Africa, this is an extremely precarious route for South African furniture manufacturers to follow.

Table Five: British Timber Furniture Imports from Selected Countries (1997)

Imports to the UK from:	% of Trade	Unit Value (Euros/ton)
France	3.7	5.2
Italy	15.0	4.6
Germany	7.9	4.6
USA	3.6	4.3
Croatia	0.4	4.0
Denmark	6.9	3.7
Indonesia	5.6	3.4
Chile	0.1	2.5
Malaysia	3.9	2.3
China	3.9	2.3
Poland	1.8	2.3
Canada	0.4	2.3
Brazil	3.7	1.9
South Africa	**4.1**	**1.7**

Source: Biggar, Morel & Sharma (1999)

SOUTH AFRICA ON THE HIGH ROAD

If producers elect the high road, they will have to understand and meet a range of new competitive demands. Formal interviews and informal discussions undertaken by the author at the sector-renown trade fairs in Cologne and Birmingham made it clear far that South African furniture manufacturers face a number of constraints that limit how effectively they are able to operate in the export market. While some of these issues (such as distance from main markets) are intrinsic to furniture manufacture in South Africa, this paper proposes that others may be solved through a combination of innovative thinking and inter-firm co-operation. In this section consideration is given to some of the key weaknesses that constrain export success.

Quality & Design

The most obvious weaknesses of South African manufacturers lie in the area of product design and quality. South African manufacturers are clearly aware of these problems, but appear to be struggling to devise effective responses.

Internationally, the trend in furniture design seems to be towards furniture with a softer, more rounded look, as well as to a combination of wood with other materials such as aluminium or glass, and the combination of natural and stained wood. Another obvious trend is towards multi-purpose furniture, most notable, (as several South African manufacturers export these) in the manufacturing of children's bunk beds. Bunk beds on show by a number of exhibitors show-cased the concept of value-adding by including a desk, shelving, wardrobes or even a futon seat in their design. South African manufacturers seem to be lagging behind in this area, producing largely functional furniture of very traditional design. Similarly, in terms of quality, the finish achieved by South African manufacturers seems to be much rougher than that achieved by their competitors. Furthermore, the growing international demand for eco-friendly finishes such as wax or oil rather than varnishes has yet to be successfully met by domestic manufacturers.

As indicated, South African manufacturers are aware of their shortcomings. Manufacturers attribute quality problems to older-style equipment, and a heavy dependence on labour for the final finishing processes. The relatively small size of most South African firms make hiring a furniture designer or installing a finishing plant too expensive to offer any viable solution. Some firms are taking action, by for example, experimenting with wax finishes, but the poor quality of South African pine has reportedly limited success rates, with the timber subsequently cracking.

Interestingly, none of the South African manufacturers explicitly raised the issue of the poor quality of their timber inputs, except in the context of problems located at the level of relationships between furniture manufacturers and South African sawmills. Discussions with foreign manufacturers and a timber trader highlighted the perception (later confirmed by South African manufacturers) that South African pine is intrinsically of a much poorer quality than for instance Nordic pine. Foreign industry observers conceded that these intrinsic weaknesses were magnified at the level of the sawmilling operations. The highly labour intensive nature of South African sawmilling operations was raised as a factor contributing to poor quality timber. Low levels of automation, a lack of labour skills development and a failure by South African manufacturers to develop a commitment to quality in their labour force are all seen to impact negatively on quality.

Price

In the competitive global furniture market issues of price cannot be separated from issues of quality. South African manufacturers continually raise the fact that their prices are not competitive on the international market. Some foreign informants agreed with this assessment, commenting particularly (as do South African manufacturers) on the fact that South African labour is unproductive relative to its cost, and that South African sawmills charge prices that are not internationally competitive. However, a scan of several exhibitors at Birmingham suggested that much of the pine furniture sold on the British market is manufactured in Britain, where labour costs are undeniably higher than in South Africa. This perception is backed up by the statistical trends examined in Section Two. One British manufacturer estimated that South African products in fact enter the UK market a third below the cost of his company's products. The *real* issue of price competitiveness, then, is clearly the quality of the product which South African manufacturers can produce at a given price.

Foreign Marketing

South African manufacturers attempting to operate in the export market face a number of logistical difficulties. Some of these are clearly beyond the control of manufacturers, such as the physical distance from main markets and the need to depend on often unreliable shipping for transportation. Focusing our attention on issues within the control of manufacturers, the most obvious export hurdle is the complex problem of understanding the varying demands of a number of foreign markets. A firm may gear its manufacturing processes to meet the demands of a particular export destination only to face quite different demands in another country. Some examples of this problem include the need to adapt the size of furniture to smaller European homes, the unwillingness of German buyers to accept natural variance in wood colours, and differences in the environmental demands of the European and American markets. South African manufacturers also seem to suffer from a lack of 'name recognition' – there is nothing 'special' about South African furniture that makes it unique or easily recognisable.

An issue of crucial importance to European buyers is the ecological soundness of timber furniture products. While many South African manufacturers and suppliers have taken cognisance of ecological issues, in terms of for example FSC certification, they still lag behind their foreign counterparts in terms of ecologically friendly finishing processes such as a move from varnishes to furniture waxes and oils. South African manufacturers reportedly, however, have something of an advantage in terms of the international drive towards FSC certification. While the South African timber supply industry (forests and mills) is dominated by a small number of large companies, the Scandinavian industry is dominated by a large number of small concerns. This makes co-ordinating FSC certification throughout the industry very difficult, although the generally high level of environmental awareness amongst European manufacturers and consumers would suggest that the timber supply in Scandinavia is probably more soundly managed from a purely ecological perspective. Informants reported, for instance, that Scandinavian timber growers planted significantly more trees than they harvest.

Many South African manufacturers find that the only solution to the logistical problems posed by exporting is to be represented by an agent based in the foreign market. This certainly does solve a range of problems, but, it would seem, brings with it others. Most obviously, having an agent solves the practical problem of a lack of knowledge of what the export market in question wants and how the market operates, as well as importing procedures. Furthermore an agent improves the service dimension of the product by being on site to respond to quality complaints and delivery problems. One buyer for a large UK-based furniture chain saw an agent as essential in dealing with a foreign manufacturer – distance made the necessary and ongoing communications with the managing-director, sales, production and quality control personnel at the manufacturing firm impossibly complicated. The buyer in question prefers to have a relationship with an agent, who in turn deals with the foreign manufacturer, travelling to the foreign firm a number of times a year if necessary. Some agents take on the role of designer, overcoming skills constraints in the manufacturing unit. On the other hand, several problems arise with the use of an agent. First amongst these is the increased cost of the end product, as well as the loss of control over the end price experienced by the manufacturer. In a highly competitive market the agent's mark-up may be the difference between competitiveness and uncompetitiveness. Secondly, using an agent creates an artificial barrier between manufacturer and market, and in the final count may limit the ability of the manufacturer to rapidly meet changing market demands.

Breaking into the export market without the support of an export agent remains very difficult, however. While some support is offered by the Department of Trade and Industry (DTI) and South African embassies overseas, the quality of the support seems to vary, and many manufacturers are apparently not even aware of the existence of such services. One manufacturer complained about being unable to get clear advice from the DTI on how to go about exhibiting at a show, while another commented on the lack of assistance given by the DTI in organising a group of South African manufacturers to jointly exhibit at the Cologne Furniture show. Notably, however, the South African embassy in Germany played a substantial role in organising the South African National Pavilion at which the country's manufacturers exhibited in Cologne. This organising role included three or four embassy staff members in attendance at the Pavilion, who were able to provide a translation service if necessary. The embassy also keeps an updated list of German retailers that it provides to SA manufacturers on request.

Should manufacturers choose international furniture fairs as a means of gaining international exposure, they should be aware of the substantial costs involved. The cost of floor space at the Cologne Furniture Fair was reported as DM 200/m^2 (R675/m^2), while the cost of a built-up stand was estimated at DM 400/ m^2 (R1350/m^2). An appropriate minimum area for a stand was suggested to be 12m^2. On top of this one needs to consider transport (of people and product) to the fair, as well as accommodation requirements. Manufacturers also need to have a clear understanding of the nature of the fair they are to attend. Several sources commented that not all fairs are 'buying fairs' at which transactions generally occur. Many fairs are more about making contacts and establishing what is available, rather than actually notching up immediate sales. Similarly, different fairs seem to target different market niches, and this issue would need to be thoroughly investigated by any prospective fair exhibitor. The DTI though does provide financial assistance to manufacturers wishing to exhibit at trade fairs overseas, refunding a portion of certain cost.

Capacity

A final problem of operating in the export market is that of matching manufacturing capacity with retailer capacity. On the one hand, South African manufacturers are often too small to be a significant supplier to a large foreign furniture chain. One buyer interviewed gave capacity as the primary reason for discontinuing his relationship with a South African furniture manufacturer. Although design was also a problem, the manufacturer was deemed capable of dealing with this issue. However the buyer prefers close relationships with a small number of suppliers, and the South African manufacturer simply had insufficient capacity to fulfil this role. On the other hand, distance from European markets means that furniture from South Africa is transported in container loads. Small retailers are unable to take a full container, and this means that the load may be sold, via an agent to a wholesaler. Once again this adds to the end cost of the product.

PROPOSING SOLUTIONS

Briefly put, the impediments to the improved performance of South African manufacturers on the export market are as follows:

- Poor design
- Poor quality, especially in finishing
- High price / cost
- The difficulty of export marketing
- Capacity

The root cause of these problems lie in many of the same areas where international experience (as outlined in Section Two) suggests that developing countries traditionally face constraints – technology availability and management, skills availability and training, access to finance, arrangements for marketing, and services for distribution.

The key problems facing South African exporters suggest a number of possible solutions. Poor design could most obviously be dealt with by employing a full time furniture designer with ongoing exposure to international trends. In addition, both value-adding features and better finishing are a critical aspect of improved product design. Dealing with the problem of poor quality requires a multi-faceted approach. New and improved machinery and particularly automated finishing plants would seem to be of some importance here, while at the same time labour skills and motivation clearly impact on product quality. Research into new, ecologically-friendly finishing techniques is also essential. Finally, accessing better raw material inputs, either through promoting improvements in local mills, or through accessing a foreign source of timber appears to be crucial. Raw materials would also seem to be a major cause of uncompetitive product pricing, while the dependence on intermediaries such as agents and wholesalers clearly impact on the end price. Labour costs are often mentioned as a cause of uncompetitive prices, however, given that it seems highly unlikely that South Africa will ever (or should ever aspire to) become an unregulated 'survival wage' manufacturing location, the issue of improving labour productivity is perhaps more relevant. Improved performance on the export market will require an improvement in marketing skills – better market research, improved service to foreign buyers through in-country representatives, and better marketing tools such as advertising and brochures. Finally, if South African manufacturers are to meet the demands of large foreign furniture chains they will have to increase their capacity significantly. At the other end of the spectrum supplying small or medium retailers directly will require the capacity to flexibly and cost-effectively manufacture and ship a range of differentiated products in a single container.

Some of these issues are supply chain management rather than manufacturing issues, and remedial action requires a broad approach. Constant references to the poor quality, coupled with the high cost of domestic pine raises questions about the links between South African manufacturers and timber suppliers. The international perception of domestic pine as a poor quality product needs to be explored with a view to understanding the implications for competition in higher value-added market segments. At the same time the potential for importing or growing better quality pine should not be ignored. Similarly, the effect of intermediaries on the price and performance of South African furniture exports needs to be explored in the context of a broad supply chain study. Other issues such as DTI support for exporters are peripheral to the supply chain, yet have a significant impact on export success, and are a crucial component of any comprehensive timber furniture sector study.

The remaining solutions raised here – design, labour skills, productivity and motivation, machinery, experimentation with innovative finishing techniques, market knowledge, service, capacity and flexibility – have traditionally been located at the level of the individual firm. However, the ability to deal with these issues at the individual firm level is constrained within the context of the South African furniture sector. The cost of employing a designer, or doing substantial market research in foreign markets, for instance is simply too great for most small- or medium-sized furniture manufacturers to consider. Other issues, such as developing new finishing techniques or improving labour motivation and skills imply a dauntingly steep learning curve. If South African furniture firms are to tackle the problems that hinder their performance in the export market there needs to be a fundamental re-orientation in the traditional thinking which presupposes that competitors have no grounds for sustained and meaningful co-operation outside of formal joint ventures.

CONCLUSIONS

In summary, the problems experienced by South African manufacturers on the export market reflect the fact that manufacturing competitiveness is increasingly less about producing a particular product, and more about providing a total service. The manufacturer needs to understand and successfully meet an expanding range of customer demands. These include demands relating to the product itself – quality, price and design – but also cover broader issues such as after-sales service, efficient distribution networks and production capacity and flexibility, to name but a few. Although individual problems call for a variety of solutions, the evidence suggests that firms will have to learn to pool resources and jointly tackle their common problems if they are to become internationally competitive. While the reluctance of manufacturers to co-operate, and indeed the problems of co-operation itself are recognised, few of the proposed solutions seem feasible without some form of co-operation.

In the long term then, successful implementation of these solutions seems to rest firmly on the premise that South African manufacturers can, like their European counterparts, learn to co-operate to their mutual benefit. GIMO Export, an Italian export association exhibiting at both Cologne and Birmingham, offers just one example of such co-operation[8]. GIMO Export is a non-profit consortium acting as the sole export department of twenty independent furniture manufacturers producing a range of furniture including brass beds, upholstered goods and case goods for the upper end of the market. The association, which has been in operation for over twenty years, cost-effectively provides its members with an international presence worldwide (http://www.gimo.it). Of course, intra-firm co-operation (and successful examples thereof) is not limited to the field of exporting. Manufacturers can co-operate to meet their training needs, to share expensive equipment, or to share knowledge of common concerns such as environmental issues or labour and capital productivity enhancing measures. As we have seen, the Italian experience in particular offers a range of examples of successful intra-firm co-operation in the context of increasing export penetration. How well South African manufacturers can imitate their success, within the context of the specificities of the South African manufacturing environment, remains to be seen? Given current moves towards the establishment of an export-oriented furniture cluster in the Eastern Cape, there seems however to be some room for optimism. Certainly, the cluster's plan to establish shared design, finishing and distribution capacity appears to be a step in the right direction. In the end, however, the success or failure of this and other co-operative attempts will depend on each manufacturers' willingness to set aside traditional notions of competitiveness in the interest of improving not just their own, but also their domestic competitors' ability to compete in the global arena.

FOOTNOTES

1. An earlier draft of this paper formed part of the Industrial Restructuring Project's outputs for the Department of Trade and Industry Policy Support Programme. This programme is funded by the European Union and the support of both the EU and DTI is hereby acknowledged. Justin Barnes provided useful comments on the paper at various stages of its writing, while discussions with Mike Morris, Raphie Kaplinsky and Kabelo Reid also supplied useful insights. The views expressed in this paper are, however, solely those of the author.
2. SITC 821 – i.e. including non-wood furniture. This classification is characteristic of the difficulty of defining the timber furniture sector for the purposes of statistical review. See Appendix 1 for more details on the various trade classification systems.
3. The Italian experience has been widely reported and does not need to be expanded on here. See Piore & Sabel (1984) for the seminal work on this subject.
4. See Maskell (1998) for an exploration of the full furniture value chain.
5. Note that the size categories used here to define small, medium and large enterprises are different from that used by the South African Government. However, in order to compare international data more effectively, the classification used by Manning (1996) has been utilised in this paper.
6. Stats SA (formerly CSS) data shows an employment decline from 1991 to 1993, the last available Census of Manufacturing. Interviews with the Furniture Industry Training Board and manufacturers suggest that this trend has continued.
7. See Section Two for an overview of the constraints faced by developing country competitors. The specific constraints faced by South Africa are explored in the rest of the paper.
8. For others in the furniture industry see Maskell (1998), http://www.plab.org/ and Best (1987).

REFERENCES

Best M H (1987) *The Cyprus Furniture Industry: The Challenge of Europe and a Strategy for Competitiveness*, Cyprus Industrial Strategy, Report of the UNDP / UNIDO Mission, Prepared for UNIDO on behalf of the Government of Cyprus, Brighton: Institute of Development Studies, University of Sussex.

Best M H (1990) *The New Competition: Institutions of Industrial Restructuring*, Cambridge: Polity Press.

Biggar N, Morel M and Sharma V (1999) *Comfortable Changes? A Study of the Convergence of Developing and Industrially Advanced Country markets: The Case of the Furniture Sector,* Unpublished paper.

CSS (1993a) *Census of Manufacturing.*

CSS (1993b) *Standard Industrial Classification of all Economic Activities (5th Edition)*, South Africa.

IDC (1998) *Sectoral Prospects: Growth Guidelines for 80 South African Industries – 1997 to 2001*, CD ROM Version.

IFBWW (1996) *Construction and Wood Multinational Groups in the face of Globalization*, Geneva: IFBWW.

Joffe A, Kaplan D, Kaplinsky R and Lewis D (1995*) Improving Manufacturing Performance in South Africa: The Report of the Industrial Strategy Project,* Industrial Strategy Project, International Development Research Centre, Cape Town: UCT Press.

Kaplinsky R (1994) *Easternization: The Spread of Japanese Management Techniques to Developing Countries,* Ilford, Essex: Frank Cass.

Manning C (1996) *Market Access for Small and Medium Sized Producers in South Africa: The Case of the Furniture Industry,* PhD Thesis, University of Sussex.

Maskell P (1998) Low-tech Competitive Advantages and the Role of Proximity: The Danish Wooden Furniture Industry, *European Urban and Regional Studies*, 5(2).

Nadvi K and Schmitz H (1994) Industrial Clusters in Less Developed Countries: Review of Experiences and Research Agenda, *IDS Discussion Paper,* 339, Institute of Development Studies, Sussex.

Philippines Board of Investments (1990*) Furniture Sub-sector – Executive Summary*, Manila: The Board.

Piore M and Sabel C (1984) *The Second Industrial Divide,* New York: Basic Books.

Scott A J (1996) Economic Decline and Regeneration in a Regional Manufacturing Complex: Southern California's Household Furniture Industry, *Entrepreneurship and Regional Development*, 8.
Schneider D (1998) *The Role of Buyers in the Development of the Hotel Furniture Industry in Kenya,* Second Draft, unpublished, IDS.
UN (1995) *International Trade Statistics Yearbook*, 2, United Nations.
UNCTAD (1996) *Implications of the Uruguay Round for Trade in Wood and Wood Products,* Study by the UNCTAD Secretariat.
UNIDO (1991) *Second Consultation on the Wood and Wood Products Industry: Report,* Vienna, Austria, 21-25 January 1991.

NEWSPAPER ARTICLES

Financial Times (18/8/98) Ikea chief breaks silence to tell home truths.
F&T Weekly (8/8/97) Profurn and Afcol can shine.
Observer Life (18/10/98) Any More Bright Ideas?

WEBSITES

http://www.ameublement.com/ French Furniture Association. October 1998
http://www.bifma.com/ BIFMA International: 'The Industry Voice for Workplace Environments'. October 1998
http://furniture.fdmi.dk/portrait.htm The Danish Furniture Industry – A Description.
October 1998
http://www.gimo.it Gimo Export.
http://www.intracen.org/itc/infobase/sitc3.htm The Standard International Trade Classification Revision 3 (SITC Rev. 3). October 1998
http://www.paiz.gov.pl/wood.htm The Polish Wood and Furniture Industry. October 1998
http://www.plab.org/ The Furniture Industry in Lorraine. October 1998

APPENDIX ONE

Timber-based Furniture in Various Manufacturing & Trade Classification Systems

Classification System	Code	Items
Standard Industrial Classification (SIC)	39103 32299	manufacture of furniture other than metal, plastic or concrete, but excluding kitchen cabinets, book- cases, wardrobes classified under 3229 other articles of wood, which would include the items excluded under 3910
Harmonised Industrial Classification	94.01.6 94.03.30 94.03.40 94.03.50 94.03.6	other seats with wooden frames (incl. upholstered and other) wooden furniture of a kind used in offices wooden furniture of a kind used in the kitchen wooden furniture of a kind used in the bedroom other wooden furniture.
Standard International Trade Classification (SITC)	635 821 82151 82153 82155	wood manufactures, n.e.s. (incl. window frames, doors and other non-furniture items) furniture and parts thereof, incl. office furniture of wood kitchen furniture, wooden bedroom furniture, wooden

Source: CSS (1993b)
http://www.intracen.org/itc/infobase/sitc3.htm