

## CBI MARKET SURVEY

# THE DOMESTIC FURNITURE MARKET IN THE EU

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## REPORT SUMMARY

This survey profiles the EU market for domestic or household furniture both in finished and semi-finished form. The furniture items covered are made of wood, metal, iron, plastic/synthetic material, glass, cane, osier, bamboo, other materials or a combination of different materials.

### Product groups

The survey deals with the following product groups:

- Upholstered seating, Non-upholstered seating, Dining and living room furniture, Kitchen furniture, Bedroom furniture, Home office furniture, Other furniture and Furniture parts.

### Consumption

- Total EU25 furniture consumption was estimated at € 76,367 million in 2005. The average EU15 consumption per capita was € 165, with people in Austria, Finland, Italy, and Germany spending most on furniture.
- After growth in the late 1990s, the economic recession, a falling housing market and low consumer confidence had a negative effect on furniture consumption. Between 2001 and 2003, consumption fell by over 1%, from € 74,155 to 73,285 million. This disguised larger decreases in many of the EU15 countries but significant increases in the new EU countries.
- The overall market improved by 4% between 2003 and 2005; 2% in the EU15 countries. Furniture supply remains fragmented. Future EU furniture market drivers will be:
  - Smaller homes with changes in internal layout and decline of formal dining occasions, with occasional tables finding a new role i.e. for casual eating in the living room.
  - Demand for smaller furniture items by single households and the 45+ generation.
  - Demand for *combination units*, which are multi-purpose and space saving.
  - Demand for *storage units* for to integrate technology-based home entertainment and for reclining chairs.
  - More variety in designs, material and colours for people to create their own atmosphere.
- In the EU15 countries, the furniture market is polarising into lower quality/price and higher quality/price sectors, whereas in the new EU countries a mid-range quality/price sector is currently prevalent.

### Production

- In 2005, the turnover of the 100,000 EU25 furniture manufacturers valued an estimated € 71,519 million, of which an estimated 77% was wooden furniture. Between 2001 and 2005, EU furniture production decreased by 1.5% with decreases in most EU15 countries, but increases in the 10 new EU countries.
- In the past few years, EU15 production has fallen because of declining exports and more production and outsourcing by EU manufacturers in Eastern Europe and Asia.
- In 2005, there were 50 groups of furniture suppliers with a turnover of more than € 100 million. The majority of these companies specialise in the production of one or two types of furniture, except the few large multi-product enterprises.
- Italy, United Kingdom, Denmark and Belgium have large manufacturing centres of *upholstered furniture*, while Germany produces mainly *kitchen furniture*.

### Imports

- The EU is the leading importer of furniture in the world and, in 2005, accounted for over 50 percent of total world imports, or 10,703 thousand tonnes valued at € 29,768 million. Germany was the largest EU importing country and represented one fifth of all EU imports (by value).
- Between 2001 and 2005, most EU countries continued to increase their imports of furniture, apart from Germany, The Netherlands and Austria. Overall, total EU furniture imports rose in this period by 35% in volume and by 24% in value.
- *Dining and living room, upholstered and non-upholstered furniture* together formed 37 percent of the value of EU imports. *Furniture parts*, valued at € 9,204 million, and represented 31% of EU imports in 2005. *Other furniture* is a sizeable product group, which grew from € 4,117 to 5,685 million between 2001 and 2005.

- In 2005, around 68% of EU imports came from other EU countries. The leading supplier to the EU was Italy (13%), closely followed by Germany.
- Extra-EU countries reduced their exports to the EU by 63% over the period and accounted in 2005 for less than 8% of furniture supplies to the EU.
- In 2005, EU furniture imports from developing countries were 3,011 thousand tonnes, worth € 7,117 million. Between 2001 and 2005, the share from developing countries in total EU furniture imports rose from 16 to 28% in volume terms.
- Over the period, supplies from China have more than trebled in value and increased by even more in volume terms. Now 61% of all Asian imports come from China (65% by volume). South Africa accounts for 97% of all imports from Saharan and sub-Saharan Africa (95% in 2001). Brazil accounts for 81% of imports from Latin America (70% in 2001) by value and 92% by volume.

### Exports

- The EU exports increased, between 2001 and 2005, by 13% in value from € 27,884 to 31,591 million and 20% in volume from 7,707 to 9,728 thousand tonnes.
- Much of this was due to significant increases particularly by Poland and the Czech Republic.
- Italy remains the largest exporter, accounting for one quarter of all EU exports.
- *Furniture parts* was clearly the largest product group, representing € 9,782 million, or 31% of all exports by value in 2005. Around 84% of these were intra-EU exports. Germany received over a quarter of these exports. The USA, Switzerland and Russia were the largest recipients outside of the EU.

### Trade channels

- Most furniture is supplied from manufacturers through importers/wholesalers or directly purchased by the large retailers.
- In 2005, there were approximately 125,000 furniture retail outlets in the EU, with around 450,000 employees. Furniture retailing has become more diversified with many types of outlets, varying from those stocking a special style of furniture to those carrying a wide range of products with related accessories.
- Specialist furniture retailers averaged 80% of total EU furniture retail sales. Small furniture shops are still strongly represented in Italy, Spain and the new EU countries, whereas franchised, chain stores and buying groups are dominant in France, the UK, Germany and The Netherlands with many furniture shops housed in out-of-town centres.
- Recently the oversupply of furniture items has resulted in intensified price competition, which has turned out to be more advantageous for (furniture) discounters and non-specialists such as DIY stores, mail order operators and direct sales (factory outlets).

### Opportunities for exporters from developing countries

- *Ethnic furniture* with popular items e.g. fitting in the revived new rustic style include: non-upholstered seating, table sets, cupboards, stools, free-standing items and occasional furniture.
- *Colonial furniture* with luxury items in darker wood (wengé, mahogany or cherry).
- *Rattan furniture* with (plaid) wickerwork chairs, combined with metal being popular.
- *Small living room furniture* such as sideboards, foot sets (of solid wood), tables or storage units for *home entertainment* equipment (TV/DVD).
- *Home office furniture*, where items should be practical, multi-functional and up-to-date.
- *Solid woods* similar to light oak, cherry or darker woods became popular instead of veneers.
- *Special natural materials* could be: bamboo, rose oak, eucalyptus, palm fibre, bark, midribs, rice husk, seagrass, nutshells, banana trees, water hyacinth, canvas, cork or abaca leaf.
- *Specific target groups* such as furniture for seniors, single households and new EU immigrants. The new EU countries all represent good opportunities.
- *Accessories*, which could range from fruit bowls, candle holders, vases, flower pots, lampshades, storage boxes etc. Wicker or bamboo baskets or cane mats are popular in bedrooms or bathrooms.
- *Sub-contracting*, as EU manufacturers look for new low-cost countries to outsource production.

## 1 INTRODUCTION TO CBI'S MARKET INFORMATION

CBI provides a wide range of documents containing EU market information. All CBI market information is targeted at developing countries. For the definition of developing countries used in CBI market surveys see appendix B Lists of developing countries.

### Sector specific market information

CBI publishes market information for about 36 market sectors.

For each market sector, the following kind of information is available:

- CBI market surveys on **the EU market in general**, focusing on developments and trends in the field of market size (consumption, production and trade), distribution and prices in the EU as well as on marketing. E.g. The fresh fruit and vegetables market in the EU.
- CBI market surveys on **specific EU markets**, focusing on developments and trends in the field of market size, distribution and prices in the EU market concerned. E.g. The fresh fruit and vegetables market in Spain. On average, about 20 documents per market sector are available. Those EU markets responsible for the highest share of total EU imports from CBI target countries are discussed in documents of about 10 pages. Less relevant EU markets are discussed in fact sheets of about 2 to 3 pages.
- CBI market surveys on **a specific product (group)** within the market sector concerned, focusing on developments and trends in the field of market size, distribution and prices in the EU and a number of specific EU markets as well as on business practices. E.g. The EU market for papaya.
- Information on **market access requirements**, focusing on legislative and non-legislative requirements based on environmental, consumer health and safety and social concerns in the EU and in specific EU markets.

### General trade related information

Besides information on specific market sectors, CBI also publishes more general trade related information, the so-called Export manuals. At the moment, the following Export manuals are available:

- Exporting to the European Union – trade-related information on the EU
- Export planner - how to plan your export process
- Your guide to market research - practical and low cost research methods
- Your image builder - how to present yourself on the EU market
- Your show master - selection, preparation and participation in trade fairs
- Digging for gold on the Internet - internet as a source for market information
- Website promotion - how to promote your website in the EU

These Export manuals can be downloaded from the CBI website at [www.cbi.nl/marketinfo](http://www.cbi.nl/marketinfo)  
Go to 'Search CBI publications'.

### How to use the different CBI market information tools

If you are new on the EU market, it is advised to start by consulting the more general Export manuals, like '*Exporting to the European Union*' and '*Export Planner*', before consulting sector specific information. If you are a more experienced exporter, you can use these manuals as reference material while focusing on the specific information for your market sector.

Concerning the sector specific information, you are advised to start with the information on the EU market in general. After consulting this information, you should have gained a better idea on which surveys on specific EU markets are most interesting to consult. It is advised also to check if a survey on your specific product (group) is available. And it is strongly advised always to check the documents on market access for your product.

Finally it is stressed that CBI market information serves as a basis for further research, meaning that you should - after consulting the CBI information - further research your EU target markets for more detailed and specific information related to your specific situation.

**The domestic furniture market in the EU**

This CBI market survey covers the EU market for domestic furniture. It consists of two parts: EU Market Information (Part A), and Export Marketing Guidelines (Part B).

**Part A EU Market Information**

Part A surveys the EU market. The emphasis of this survey lies on those products, which are of importance to developing country suppliers. Statistical market information on consumption, production and trade, and information on trade structure, prices and market access is provided. Opportunities and threats for developing country suppliers are highlighted and sources for more information are provided.

**Part B Export Marketing Guidelines**

How to get involved in the EU marketplace? Should exporting be part of a business plan? These are common concerns of manufacturers who realise the importance of international trade, but are not sure if exporting to the EU is right for them. That is what Part B is all about: to help you to evaluate whether or not to get involved in international business, and learn how to go about exporting to the EU.

The first Chapters 11, 12 and 13 deal with three out of four strategic steps in export marketing: the external analysis and internal analysis (Chapter 11 and 12), a SWOT and the decision-making process whether or not to export to the EU (Chapter 13).

Subsequently, Chapter 14 provides information and sources to enable you to further investigate what would be suitable to export, to which EU markets, through which channels, and at what prices. In other words, which marketing tools can be used for building a successful business relation in the EU? The combination of Chapters 11-13 and the elements of Chapter 14 provide tools that should enable you to draw up a Market Entry Strategy and Export Marketing Plan (fourth strategic step).

Keep in mind that the export marketing process is integrated; each individual part is inter-linked.

Part B is especially interesting for more experienced exporters. If you are a starting exporter, it is advised to read this survey together with CBI's *'Export Planner'* and to use the interactive tool *'EMP Document Builder'* on the CBI website.

CBI market surveys covering specific EU markets, specific product (group)s or documents on market access requirements can be downloaded from the CBI website. Go to 'Search CBI database' on <http://www.cbi.nl/marketinfo> and select the market sector concerned and an EU country.



## 2 INTRODUCTION TO THE EU MARKET

The European Union (EU) is the current name for the former European Community. Since January 1995 the EU has consisted of 15 member states. Ten new countries joined the EU in May 2004. Negotiations are in progress with a number of other candidate member states. In this survey, the EU will be referred to as the EU25, unless otherwise stated.

For general information on EU member states, reference is made to CBI's Export manual '*Exporting to the European Union*'. Information can also be found at the official EU website [http://europa.eu/abc/governments/index\\_en.htm](http://europa.eu/abc/governments/index_en.htm) or the free encyclopaedia Wikipedia <http://en.wikipedia.org/wiki/Portal:Europe>.

### Monetary unit: Euro

On 1 January 1999, the Euro became the legal currency within eleven EU member states: Austria, Belgium, Finland, France, Germany, Italy, Ireland, Luxembourg, The Netherlands, Spain and Portugal. Greece became the 12th member state to adopt the Euro on January 1, 2001. In 2002 circulation of Euro coins and banknotes replaced national currency in these countries. Denmark, United Kingdom and Sweden have decided not to participate in the Euro. In CBI market surveys, the Euro (€) is the basic currency unit used to indicate value.

**Table 2.1 Exchange rates of EU currencies in €**

Country	Currency	June 2004	May 2006
Cyprus	CYP	0.586	0.575
Czech Republic	CZK	31.93	28.28
Denmark	DKK	7.43	7.46
Estonia	EEK	15.65	15.65
Hungary	HUF	253.49	260.42
Latvia	LVL	0.655	0.697
Lithuania	LTL	3.45	3.45
Malta	MTL	0.426	0.431
Poland	PLN	4.53	3.83
Slovakia	SKK	40.03	37.39
Slovenia	SIT	242.47	239.97
Sweden	SEK	9.12	9.31
United Kingdom	GBP	0.669	0.684

Source: Oanda <http://www.oanda.com/> (May 2006)

### Statistics

Trade figures quoted in CBI market surveys must be interpreted and used with extreme caution. In the case of intra-EU trade, statistical surveying is only compulsory for exporting and importing firms whose trade exceeds a certain annual value. The threshold varies considerably from country to country, but it is typically about € 100,000. As a consequence, although figures for trade between the EU and the rest of the world are accurately represented, trade within the EU is generally underestimated.

Furthermore, the information used in CBI market surveys is obtained from a variety of sources. Therefore, extreme care must be taken in the qualitative use and interpretation of quantitative data; it puts limitations to in-depth interpretation of relations between consumption, production and trade figures within one country and between different countries.

### 3 PRODUCT CHARACTERISTICS

#### Product groups

The products covered in this survey are domestic or household furniture items, both in finished and semi-finished form. It specifically excludes the contract sector, which includes furniture for civil aviation, offices, hospitals, schools, hotels and other similar purposes. Antique and other second-hand furniture has been excluded, as well as garden furniture. Other furniture-related products can be found in the CBI market survey "Timber and timber products". Furniture is usually divided by function into the following major groups:

Product groups	Most common items
<b>Upholstered seating</b>	- Armchairs, reclining chairs, couches, sofas, divans, footstools, seating elements upholstered with leather, wool, synthetic material, cotton etc;
<b>Non-upholstered seating</b>	- Seats, armchairs, rocking chairs, seats convertible into beds, stools;
<b>Dining and living room furniture</b>	- Dining sets (tables and chairs), dressers, coffee tables, sideboards, shelf systems, room dividers, television/ video/ music system storage units;
<b>Kitchen furniture</b>	- Fitted cabinets and kitchen units, kitchen tables and chairs, free-standing pieces such as moveable trolleys and butcher blocks;
<b>Bedroom furniture</b>	- Beds, headboards, bedside tables, dressing tables, chests of drawers, wardrobes (fitted or free-standing);
<b>Home office furniture</b>	- Desks, chairs, drawer unit, filing cabinets, integrated workstations, also known as <i>SOHO</i> (Small Office Home Office);
<b>Other furniture</b>	- <i>Cupboards, bookcases and wall units,</i> - <i>Occasional furniture</i> like small tables, desks, mirrors, hall-stands, - <i>Bathroom furniture</i> such as storage cabinets, baskets etc.;
<b>Furniture parts</b>	- Parts of furniture or seats, also including semi-finished furniture.

Although upholstered seating and kitchen furniture are sizeable segments in the EU furniture market, they are covered only briefly in this survey. The supply is dominated by Italy and Germany, who offer short lead times, good after sales service and are able to keep up with fast changes in designs. Although *upholstered furniture* is increasingly made in some developing countries (especially in China), it remains a difficult segment for most exporters.

*Kitchen furniture* is often made in Eastern European countries and the competition is on price and on short lead times, especially in the low to medium end of the market. Most furniture items are made of capital-intensive material such as chipboard, plywood, multiplex and MDF (Medium Density Fibreboard), being produced in large volumes and at low cost. In most EU countries, fitted kitchens have become more common and nowadays newly built homes come complete with fitted kitchen and appliances.

In addition to its function, furniture can be also defined by material content or by style:

#### *Furniture by raw material*

- **Wood**
- **Cane, osier, bamboo or similar material**
- **Metal**
- **Plastic / synthetic**
- **Stone**
- **Glass**
- **Combination of materials**

#### *Furniture by style*

- **Classic**
- **Colonial**
- **Rustic / country**
- **Contemporary**
- **Modern / avant garde**

### **RTA Furniture**

The majority of furniture sold in the EU market is in ready-assembled form. On the other hand, from 1970 onwards the expansion of IKEA and other furniture chain stores (MFI, But) stimulated sales of furniture bought for self-assembly by the consumer. This category is also referred to as *ready-to-assemble (RTA) furniture*, *flat-pack* or *take-away* furniture and is often contemporary style furniture. The single term "RTA furniture" will be used throughout this survey to describe this category.

### **Statistical product classification**

On January 1, 1988, a unified coding system was introduced to harmonise the trading classification systems used worldwide. This system is called the Harmonised Commodity Description System (HS) and was developed by the World Customs Organisation (WCO). The system covers about 5,000 commodity groups; each identified by a six-digit code, arranged in a legal and logical structure and is supported by well-defined rules to achieve uniform classification. More than 179 countries and economies use the system as a basis for their customs tariffs and for the collection of international trade statistics. After the six-digit code, countries are free to use further subheadings. The trade data of Eurostat uses an eight-digit system. Most codes, however, end with two zeros, i.e. effectively only using 6 digits. In some countries even 10 digits are sometimes used.

The EU also has its own system of codes, referred to as Product of the European Community (PRODCOM). These broadly mirror the HS codes. Where this is not the case, the differences are highlighted.

Please refer to Appendix 1 for a list of the selected products and their HS and PRODCOM codes.

The HS classification given differs from the product groups and products mentioned in the paragraphs above, this puts limitations to in-depth interpretation and of the possible relations between import and export figures on the one hand and consumption and production figures on the other hand.



## PART A: EU MARKET INFORMATION

### 4 CONSUMPTION

#### 4.1 Market size

Total furniture consumption in the EU25 was estimated at € 76,367 million in 2005, an increase of 3% since 2001. This figure hides significant differences between the performances of some countries. Generally speaking, the 10 new EU countries showed the greatest increases, along with some smaller countries such as Ireland, Greece and Finland. Note that although included in these figures, the 10 new EU countries were not members in 2001. In the bigger markets such as Germany and Italy, a small but positive performance was noted after previous reversals. Most of the major markets have started to recover after the recession between 2002 and 2004.

**Table 4.1 Estimated consumption of domestic furniture in EU25, 2001-2005, € million**

	2001 €m	2003 €m	2005 €m	Population (million)	Consumption per capita €	Households (000's)	Occupants per h/h
<b>Total EU25</b>	<b>74,155</b>	<b>73,285</b>	<b>76,367</b>	<b>461.6</b>	<b>165</b>	<b>195,598</b>	<b>2.4</b>
<b>Germany</b>	18,512	16,619	17,036	82.5	206	39,122	2.1
<b>Italy</b>	12,251	11,915	12,424	58.5	212	25,400	2.3
<b>United Kingdom</b>	9,348	9,833	10,280	60.0	171	26,700	2.2
<b>France</b>	8,673	8,412	8,881	62.8	141	27,045	2.3
<b>Spain</b>	6,103	6,186	6,573	43.0	153	15,500	2.8
<b>Netherlands</b>	3,628	3,390	3,339	16.3	205	7,091	2.3
<b>Belgium</b>	2,265	2,223	2,231	10.4	214	4,402	2.4
<b>Poland</b>	2,069	2,389	2,679	38.2	70	14,155	2.7
<b>Austria</b>	2,195	2,120	2,175	8.2	265	3,342	2.4
<b>Sweden</b>	1,760	1,796	1,871	9.0	208	4,379	2.1
<b>Greece</b>	1,320	1,465	1,515	11.1	135	3,800	2.9
<b>Portugal</b>	1,240	1,410	1,441	10.5	137	3,800	2.8
<b>Finland</b>	1,070	1,160	1,225	5.2	235	2,402	2.2
<b>Denmark</b>	1,085	1,075	1,096	5.4	203	2,498	2.2
<b>Czech Republic</b>	685	750	830	10.2	81	3,974	2.6
<b>Ireland</b>	650	750	796	4.1	194	1,400	2.9
<b>Hungary</b>	630	658	744	10.1	74	4,250	2.4
<b>Slovakia</b>	270	305	344	5.4	64	2,245	2.4
<b>Slovenia</b>	185	204	218	2.0	109	700	2.8
<b>Lithuania</b>	190	215	234	3.4	69	1,350	2.5
<b>Latvia</b>	110	127	138	2.3	60	900	2.5
<b>Luxembourg</b>	115	110	109	0.5	218	210	2.2
<b>Estonia</b>	75	82	89	1.3	66	565	2.4
<b>Cyprus</b>	60	66	70	0.8	93	240	3.1
<b>Malta</b>	26	25	29	0.4	72	128	3.1

Source: National Trade Associations, Euromonitor, Eurostat, Csil, Trade Estimates (2006)

Germany accounts for 22% of all sales and is the largest market by some distance. However, a number of smaller EU countries, particularly Austria and Finland, have a higher per capita consumption. Generally speaking, countries with smaller households have greater demand for furniture as this results in a greater number of homes.

The European recession has still not fully lifted but the countries in which it is felt have changed somewhat. Furniture remains a discretionary purchase and it is still an easily deferred purchase when spending is tight. Many retailers are struggling, particularly traditional retail formats that are being overtaken by more innovative formats – see chapter 8.

Nevertheless, many commentators in the trade are optimistic about future prospects. This feeling of optimism is inspired in part by the innovation and new products that are

addressing the needs of contemporary lifestyle.

There is likely to be more growth from the newer EU countries where their domestic markets are not so developed. There is a lot of outsourcing to Eastern European countries from mature markets such as Germany and Italy. This can also result in deeper relationships with those countries in respect of furniture purchasing habits. Relationships between Scandinavia and the Baltic Countries are also strong.

Another key market driver to note is the major migration of people to the EU from outside, mainly for economic reasons. The styles they bring from their countries of origin create a market in the countries to which they move.

**Table 4.2 EU25 Domestic furniture consumption by product group, 2001-2005, € million**

	2001	2003	2005
<b>Upholstered</b>	17,055	17,222	18,427
<b>Dining &amp; living room</b>	16,950	16,390	16,411
<b>Kitchen</b>	11,845	12,192	14,005
<b>Bedroom</b>	8,950	9,087	9,105
<b>Other</b>	19,355	18,394	18,419
<b>Total</b>	<b>74,155</b>	<b>73,285</b>	<b>76,367</b>

Source: Csil, Trade Estimates

Upholstered furniture remains the largest single product group, accounting for 24% of total sales. Differences in consumption for the respective product groups exist between countries. This can be seen in the CBI market surveys covering the market in individual EU countries.

## 4.2 Patterns and trends in consumption

People spend an average of 335 days a year in their homes. Home is important. This is true in all EU countries and underpins a continuing forecast increase in demand for domestic furniture, albeit a slow increase. The home is seen as more important now and into the immediate future as it is associated with feelings of familiarity and security in uncertain and rapidly changing times.

Researchers use the term "homing" to describe this. This trend has not peaked yet. Successful products are presented in a way that shows good taste and a certain lifestyle. The customer organises it in his own home to suit his own taste, but he likes to be given a basic idea.

### • *Luxury and simplicity*

One trend that is just becoming apparent is the idea of luxury furniture set in a very minimally designed room (*see photo no. 11*). Life is becoming more complicated for many people; products are improved, interior styles are being combined and the number of 'designers' continues to grow. Many homes have reached saturation point when they have no more space to fit more items. The consequent process of reduction (or "less is more") can be seen in the furniture trade in the EU. Furniture items that reflect this trend have a high degree of craftsmanship but are hyper-modern. They have a value all of their own.

### • *Demanding target groups*

Demographic changes apparent for some time now in many EU countries have produced two key target groups for furniture producers and retailers – *singletons* and *the over 50s*. In many European cities, half of all households are singletons. The over-50 age group is increasing the fastest and this group has a higher proportion of disposable income than other groups. These groups require versatility (multi-purpose) and flexibility, together with convenience and attractive design (*see photo's no. 2, 3, 9 and 10*). This design should also be personal to their own specific needs.

### • *Functionality and sensuousness*

Multi-function furniture was the main theme at the major trade fairs in 2006. This practical

requirement for flexibility is now also coupled with an emotional need, that the furniture should also radiate sensuousness. For example LED lighting technology can transform an ordinary glass cabinet into an object of beauty, in various colours depending on the mood. This combination can also be seen in massive TV armchairs (*see photo no. 12*) with integrated massage systems; also in easy-action snap hinges on upholstered furniture; in loudspeakers of flat design – invisible from the outside – in cupboard doors; in new covers materials, which are extremely soft and pleasant to touch yet robust and easy to care for.

This area also includes furniture for multimedia use. A flat screen TV needs a place of its own and many consumers only want to see it when it is switched on. The same applies to sitting in a comfortably upholstered chair while listening to optimum performance from a sound system.

#### • **World design and globalisation**

It is difficult to speak of a unified trend or trends in an increasingly diverse market. There is no assumption of standard needs and tastes. Furniture now is so extensive longer and so individual that there is something for every taste. Eastern style and Western tastes (*see photo no. 5*) are coming together to create new designed interiors. Living styles from parts of Asia are being adopted in some EU markets. Styles and designs of furniture will develop on a global scale. However to ensure cultural and regional identity, a traditional form remain important.

#### **Material trends**

- **Woods:** The most popular light-coloured woods used in living area furniture are beech, oak, cherry, alder and birch. The range of dark woods available will increase, particularly dark walnut. Other woods will be stained dark to look like mahogany. More tropical woods will be seen (*see photo no. 4*), such as zebrano, macassar, palisander, teak or wengé.
- **Veneered and solid-wood furniture:** Solid-wood furniture has been strengthening its position in part due to its ecological qualities. However, solid-wood fronts with a veneered frame represent the most common combination.
- **Finishing:** In addition to oiling, natural wax treated, staining and glazing, lacquers are extremely popular as surface finishes. All shades are in demand. The proportion of high-gloss finishes is increasing. There are no limits to the variety of finishes.
- **Textiles:** There will be an enormous variety of textiles for furniture in future. This will include sophisticated weaves, and floral, abstract and graphic patterns appearing together more frequently. Stripes and checks will be on display beside each other.
- **Colours** of upholstery materials will come from nature. Besides these, bright, clear, solid colours such as turquoise, green, orange, pink (*see photo no. 12*), or light blue will continue to be popular. The colonial theme will continue to be in demand. The themes "Orient" and "India" will become more popular.
- **"Smart" materials** are entering the market – for example, materials that have UV protection, or materials to which dust, dirt or cigarette smoke cannot adhere. Wool felt continues to be an important trend material. Leather will maintain its position.
- **The metallic look** e.g. aluminium and stainless steel, as well as chrome, will be increasingly in demand. Glass, frosted and matt glass will continue to be used in tables and cupboards. High quality plastic material will be increasingly seen.

#### **Photographs**

The photographs on the following pages show the different kinds of interiors typical to each furniture style, as described in Chapter 3. They are ranged from classic to modern and some of them show combinations of styles.





**1. Classic style**  
(Living room with well-designed items)



**2. Colonial style**  
(Bedroom with free-standing cabinet)



**3. Classic/Baroque style**  
(Items painted in various colours)



**4. Colonial/ethnic style**  
(Well-designed cupboard of exotic dark wood)



**5. Ethnic style**  
(Eastern style living with Western taste)



**6. Country/Baroque style**  
(Natural fabrics and untreated surfaces)



**7. Contemporary style**  
(Children's room with removable items)



**8. Contemporary style**  
(Rectangular dining table of solid oak)



**9. Contemporary style**  
(Colourful dining in modern city-life environment)



**10. Contemporary – Modern style**  
(Relaxing couch in luxury bedroom)



**11. Modern style**  
(Home cinema with low items in minimal environment)



**12. Modern style**  
(Multi-purpose chair and pouf)

*Photo courtesy: CMC/Searce*



### • *Relationship between trends and market opportunities*

There is much innovation in the furniture market, yet the market has remained fairly static from a volume point of view. This is due to economic recession and downward pressure on prices. Without innovation the market will become completely static in volume terms. It may appear to be difficult for a developing country exporter to stay abreast of new trends, but this, combined with competitive pricing is essential for survival.

The leading trends tend to come from Germany and Italy. The market in Eastern Europe is not so sophisticated, and opportunities still exist here for more traditional, basic furniture styles. However, the pace of change and globalisation will mean that these parts of the EU will catch up with Western and Northern Europe quite soon.

Although the 10 new EU countries represent about 8% of the total EU25 market, there is a disproportionate degree of opportunity for developing country exporters in this part of the EU. This part of the EU is strong from a manufacturing point of view but much of it is for export, and domestic consumers are open to new products from overseas. Many Eastern European producers are finding it easier to trade with countries in Western Europe since trade barriers were removed when they joined the EU. This is something of a threat to developing country exporters who already export to some parts of the EU.

### *Opportunities and threats for exporters in developing countries*

Although the EU market may appear extremely diverse and complicated, it is important for developing country exporters to appreciate the broad trends. The market in many EU countries is now polarising into *lower quality/price* and *higher quality/price* sectors, whereas in the new EU countries a mid-range quality/price sector currently exists, offering good opportunities for exporters from developing countries. For an EU retailer or distributor, they will expect some form of comparative price advantage when buying from a developing country. While price is very important, it is equally important that you should not be perceived purely as a source of low cost product.

There is a sustained long-term *shift from traditional to contemporary* style furniture. Contemporary furniture has been developed further using intelligent space saving ideas for multi-functional furniture in attractive designs that are associated with different moods. This has made the furniture market increasingly fragmented.

In a mature market with growing supplies from Eastern Europe and China, exporters should seek opportunities in *market niches* and in the *new EU Member States*. Here there is less competition and they can offer added value by offering furniture that is unique to their country. Sub-contracting is also an opportunity. Other approaches can be considered:

### **By product**

- ***Ethnic furniture*** refers to all kinds of exotic furniture from developing countries. Travel to exotic countries and a growing immigrant population in all countries drives this. Popular items include: non-upholstered seating, table sets, cupboards, hassocks, stools and occasional furniture.
- ***Colonial furniture*** mainly concerns furniture made of teak or other darker types of wood such as wengé, mahogany or cherry. Luxury items have become more popular e.g. seating made of polished cherry wood and upholstered with leather or abundantly decorated small tables.
- ***Rattan furniture*** now has its own established position in rustic and contemporary home interiors especially in dining sets. Recently (plaid) wickerwork rattan chairs are often combined with metal.
- ***Small living room furniture*** such as sideboards, foot sets (of solid wood), tables or storage units for *home entertainment* equipment (TV/DVD).
- ***Home office furniture*** is mostly manufactured from laminated particle board, being low priced and often RTA. Items should be practical, multi-functional and up-to-date (e.g. design, colour, material) and should comply with the quality and ergonomic regulations of the country. Whilst sales have flattened in most EU countries, opportunities can be found in the new EU countries.
- ***RTA***: The quality and diversity in design of RTA furniture is increasing. These products are easy and cheaper to transport to the EU.

- **Accessories:** Combine a series of furniture items with matching accessories, which may fit an interior concept. These accessories could range from baskets, mats, fruit bowls, candleholders, vases, flowerpots, lampshades, storage boxes for e.g. linen etc.

#### **By material**

- **Solid woods:** In low to medium priced contemporary furniture, solid woods are becoming more popular instead of veneers and laminates. Importers are looking for new types of solid wood, similar to light oak, cherry or darker woods. One example could be *rubberwood*. This can be stained and finished to meet EU market requirements - including environmental legislation.
- **Special natural materials** could be rose oak, eucalyptus, palm fibre, bark, midribs, rice husk (for particle board), nut shells, parts of banana trees (trunk's peel), seagrass, water hyacinth, canvas, cork or abaca leaf. Also *bamboo* has become a popular material in contemporary style furniture, because of its light colour. Other special materials include wrought iron or aluminium. Combinations of these can be made with stone, hemp, zinc, jute, latticework or plaid leather.

#### **By target group**

- **Specific target groups:** e.g. comfortable furniture, stools or poufs for the growing number of *the over 50s* in the selected EU markets. Or special sized furniture which is multi-purpose and space-saving for the growing number of *singletons*.
- **Children's furniture**, especially multi-functional and modular items, which can be added to over time as the child grows. Here safety standards are important and exporters must pay extra attention to rounded corners, non-cascading drawers, steel bolts in bunk beds and bolted bed rails.

#### **Threats and difficulties for exporters:**

- ➔ In order to approach the low and medium end of the market, competitive prices are necessary.
- ➔ Fast delivery (according to sample), good packaging, and after-sales service are required.
- ➔ It is important to get the correct fittings for the right RTA or knock-down system.
- ➔ Innovations are constantly required to keep the interest of more demanding consumers.
- ➔ As trends in home interiors change more quickly, it is difficult to start a long-term investment.
- ➔ Avoid using wood from (too) young trees which results in warped furniture that cannot be sold.

Some of these opportunities and threats differ in each EU market and should be further specified during market research. Once they are clarified, the next step is to identify similar niches in a few target countries and assess if and how they should be approached.

### **4.3 Useful sources**

See CBI market surveys covering the market in individual EU countries for contact details on each furniture market.

- At an EU level, the European Furniture Manufacturers Federation occasionally publishes market information (<http://www.ueanet.com>), as does the European Federation of Furniture Retailers (<http://www.fena-furniture.com>). The European Union website also has a section on the furniture industry ([http://europa.eu.int/comm/enterprise/furniture/index\\_en.htm](http://europa.eu.int/comm/enterprise/furniture/index_en.htm)). Further information on furniture specific to forest-based industries appears on the same website ([http://europa.eu.int/comm/enterprise/forest\\_based/furniture\\_en.html](http://europa.eu.int/comm/enterprise/forest_based/furniture_en.html)).
- Information is available from commercial research companies, sometimes at a cost. The main sources are the Furniture Industry Research Institute in Milan (<http://www.csilmilano.com> or <http://www.worldfurnitureonline.com>); Euromonitor (<http://www.euromonitor.com>) and Mintel (<http://www.mintel.com>).
- Although Eurostat does not provide information on consumption, figures for apparent consumption can be calculated by adding import and production figures and subtracting exports (<http://epp.eurostat.cec.eu.int/>).

## 5 PRODUCTION

### 5.1 Size of production

Domestic furniture production in the EU was worth an estimated € 71,519 million in 2005. This represents over 40% of global production, but this share has been reducing and continues to reduce as production shifts to developing country and lower-priced economies. The EU is still the major producers block and is still much larger than Asia and the USA/Canada, each with approximately a 25% share.

In global terms, the USA represents 20% of all production, followed by Italy and Germany each with 9%. A further nine EU countries are also included in the top 20 producers.

**Table 5.1 Production of domestic furniture by EU Member States, 2001-2005, € million**

	2001 value	2003 value	2005 value*	Average % change in value '01 – '05	Number of companies 2004	Number of employees 2004
<b>Total EU</b>	<b>72,619</b>	<b>69,393</b>	<b>71,519</b>	<b>-1.5</b>	<b>104,904</b>	<b>845,695</b>
Germany	17,397	15,444	15,943	-8.3	5,000	105,420
Italy	16,140	15,132	15,285	-5.3	29,780	178,320
France	7,875	7,095	7,223	-8.3	7,500	64,750
United Kingdom	6,600	6,611	6,798	+3.0	6,300	90,000
Spain	6,857	6,673	6,790	-1.0	12,750	102,960
Poland	2,180	2,722	3,040	+39.4	8,300	73,500
The Netherlands	2,224	2,013	2,035	-8.5	3,100	19,500
Denmark	2,022	1,982	2,025	0.0	1,000	16,470
Belgium	1,925	1,855	1,892	-1.7	1,250	11,690
Sweden	1,668	1,648	1,700	+1.9	2,770	16,380
Austria	1,765	1,720	1,760	0.0	750	6,780
Czech Republic	950	1,175	1,295	+36.3	4,044	38,650
Portugal	1,005	985	1,014	+1.0	4,500	25,000
Finland	905	886	913	+1.0	1,500	8,750
Greece	660	646	671	+1.7	7,000	18,295
Slovakia	425	503	640	+50.6	1,470	8,500
Slovenia	508	610	625	+23.0	1,000	9,050
Hungary	420	498	550	+31.0	1,740	15,500
Ireland	350	340	348	-0.5	800	5,275
Lithuania	225	272	316	+40.4	1,560	11,580
Estonia	195	226	278	+42.6	1,280	9,375
Latvia	105	122	141	+34.3	1,000	6,250
Luxembourg	105	100	100	-4.8	60	400
Cyprus	68	80	82	+20.6	250	1,800
Malta	45	55	55	+22.2	200	1,500

Source: UAE

\*estimated

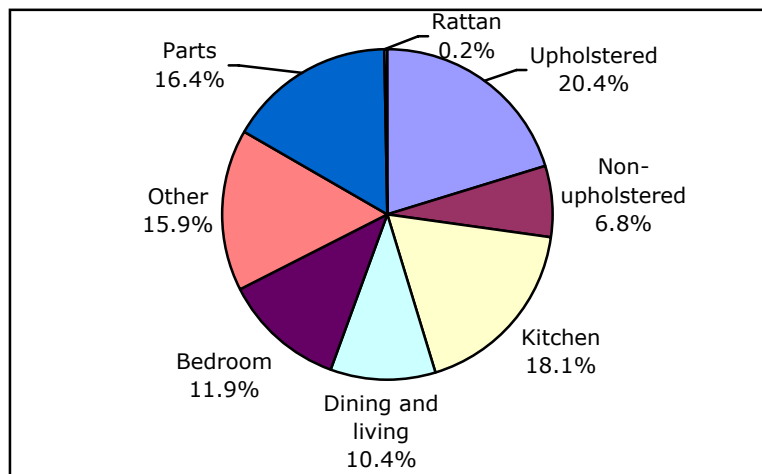
Germany and Italy are the largest producers, each representing 22% of the EU25 market in 2005. Most German companies are large, hence the industry there employs less people per unit of output than in Italy. These countries have nevertheless registered the greatest falls in production over the review period.

Although large companies dominate, in numerical terms, the European furniture industry is characterised by the presence of small to medium-sized companies, and shows a low degree of concentration. The top ten countries provide less than 11% of total European furniture supply, a large proportion of their output being destined for export. However, European producers play an important part on the international stage, particularly German, Italian, French and Danish producers.

- **EU production by product group**

As shown in figure 5.1, upholstered furniture is the largest product group in the EU, followed by kitchen furniture and furniture parts. Production of kitchen furniture and furniture parts are increasing, while production of bedroom furniture is in decline.

**Figure 5.1 Production of furniture in the EU 2005, as% of total value**



Source: Eurostat 2006

See CBI market surveys covering the market in individual EU countries for the relative situation on product groups.

- **EU production has been decreasing**

By 2005, EU production had slowly started to increase in value, although this may not be the case as far as volume is concerned. Production has been falling since a peak in 2000. The low point was 2003. The levels of decrease would have appeared greater were it not for the fact that production in the new EU countries increased by around 20% between 2001 and 2003. Falls in production by the EU15 were over 8% over the same period.

- **More competition from other continents**

Since 2003, the increases by the new EU countries have continued but at a lower level, while EU15 countries have broadly made very small gains. These are negligible when inflation is taken into account.

Looking ahead, it is forecast that the EU furniture production industry will continue to suffer from significant competitive pressure, not just from the Far East, but also from Latin America and parts of Africa. Furniture production will show only slight increases in years to come. However, through international ownership, the control of the big European players will increasingly exert a growing influence.

- **Relationships with nearby countries**

Close relationships are being forged between Scandinavian countries and the Baltic States and Russia. As well as the well-established close links between some of the new Member States and other EU states, new relationships are also being formed with Russia and other states from the former Soviet Union such as Ukraine and Belarus.

The new candidate countries of Romania and Bulgaria, as well as other countries in the Balkan region will also expand their production to serve the EU. Much of this will be financed by investments by the existing big players in the EU.

## 5.2 Trends in production

Europe's furniture industry is consolidating into larger units. This dominance of large suppliers as a result of mergers and acquisitions impacts differently in the various EU countries. For example, in The Netherlands the top 10 suppliers accounted for 70% of production. This figure is 40% in France, 30% in Germany and the UK, and 10% in Italy and Spain.

### • *Investments in automation and computerisation*

Some of the bigger players have resorted to raising additional finance on the stock market in order to finance their growth. Leading enterprises are investing heavily in automation and computerisation, resulting in greater standardisation of products, particularly for kitchens.

### • *Continued outsourcing*

The largest companies in Northern and Western Europe have invested in mills in Poland and other Eastern European countries due to significantly lower labour costs. Over 25% of the Polish furniture industry is financed by large German manufacturers, Schieder, Steinhoff, Alno and Klose amongst them. Other companies have moved to parts of North Africa where labour costs are also substantially lower.

### • *Intensified cooperation with specialists in other countries*

In Southern Europe, where the tradition has been of large numbers of small production units, co-operation in areas of design, marketing and production has helped them to survive. Some also act as subcontractors for larger firms by producing components, semi-finished products, or by finishing and assembling furniture. This gives the industry greater flexibility, enabling it to respond quicker to market changes.

As developing countries, particularly China, have increased their exports to the EU, EU suppliers are looking to these countries for all sorts of parts in finished and semi-finished form.

The majority of the major EU producers have one or more production units in several European countries and overseas. There are over 50 groups with a turnover exceeding € 100 million.

### • *Ways of protection against low cost competition*

The EU furniture industry is moving towards greater specialisation, posing a challenge to developing country exporters who need to develop new collections at shorter intervals to meet fragmented demand. The most successful EU furniture manufacturers realized some time ago that their competitive advantage lay in flexible but efficient production, the highest technological quality specifications, superior design, innovative market promotion and swift distribution with minimal stock holding. This has provided protection to an extent against low cost competition.

### *Opportunities and threats for exporters in developing countries*

- From a developing country perspective, developing *various forms of partnership* with existing producers and distributors in the EU will facilitate market access and enable a stake in part of the production process.
- For those exporters with significant resources and expertise at their disposal, they may be able to operate independently.
- For the smaller exporters, finding the right form of partnership or co-operation is essential. You may be fortunate in finding a niche that fits your own arrangements, but it will be more likely that you will have to adapt to the demands of your partner.
- It is essential for developing country exporters to invest in new technologies. An EU partner in production will expect this as a minimum.
- Flexibility in production, together with reliability of supply, a short order system and confidence in quality are now as important as a competitive price.
- The majority of the new EU countries, with the possible exceptions of Cyprus and Malta, represent a competitive threat to exporters from developing countries.



### 5.3 Useful sources

- The European Furniture Manufacturers Association (<http://www.ueanet.com>) provides some information on furniture production within the EU. This is often presented in the context of global developments in production, as well as in the context of the relationship between production, imports and exports. Links to the main national furniture associations and selected trade press are also provided.
- Production data can be found at the various National Statistical Offices within the European Union. The detail provided on furniture production varies. The United Nations Statistics Division provides links to all National Statistics worldwide ([http://unstats.un.org/unsd/methods/inter-natlinks/sd\\_natstat.htm](http://unstats.un.org/unsd/methods/inter-natlinks/sd_natstat.htm)). Note the various PRODCOM codes do not always exactly match the HS codes used to measure imports and exports.
- Production data can also be found on the website of the European Union. They take figures from the various National Statistical Offices but they do not always provide the same information. See <http://epp.eurostat.ec.eu.int> and follow the same links indicated in Chapter 6. PRODCOM is one of the data options to select.
- The International Trade Centre (ITC) and the International Tropical Timber Organisation (ITTO) have jointly produced a review of international furniture markets. This provides some information on trends in production ([http://www.intracen.org/eshop/f\\_e\\_IP\\_Title.Asp?ID=31822&LN=EN](http://www.intracen.org/eshop/f_e_IP_Title.Asp?ID=31822&LN=EN)).
- Information on production and trends can be found in various reports produced by the Furniture Industry Research Institute. There is a fee to purchase these. See <http://www.csilmilano.com>.

## 6 IMPORTS

Trade statistics given in this Chapter are from Eurostat. They are based on information from the Customs and EU companies that is given on a voluntary basis. Not all transactions are registered, particularly intra-EU trade such as those by smaller companies and transactions from non-EU sources (see remarks on trade statistics in Chapter 2). On the other hand, figures for trade between the EU and the rest of the world (Extra-EU) are accurately registered and, therefore, more precisely represented in these statistics. Nevertheless, they must be treated with caution and are only intended to indicate the major trends in the international furniture trade.

The statistics specify total imports, divided into volumes/values sourced from other EU countries (Intra-EU), and non-EU countries (extra-EU) with the values/volumes coming from developing countries. The developing countries are defined by the OECD (Organisation for Economic Co-operation and Development) and are listed in Appendix B. Statistics up to 2005 are available, but trends in values of EU furniture imports may be over-optimistic in comparison with consumption and production figures in the previous Chapters.

### 6.1 Total imports

The EU accounts for over half of world domestic furniture imports. In 2005 this represented 10,703 thousand tonnes valued at € 29,768 million. This represented an increase in value of 23.8%, and an increase in volume of 34.8% between 2001 and 2005. This indicates that downward pressure on prices is continuing.

**Table 6.1 Imports of domestic furniture by EU Member States, 2001-2005,**  
€ million / 1,000 tonnes

	2001		2003		2005		Average % change in value '01 – '05
	value	volume	value	volume	value	volume	
<b>Total EU</b>	<b>24,036</b>	<b>7,940</b>	<b>26,568</b>	<b>9,120</b>	<b>29,768</b>	<b>10,703</b>	<b>+23.8</b>
<b>Intra-EU</b>	<b>13,762</b>	<b>4,292</b>	<b>14,310</b>	<b>4,387</b>	<b>20,284</b>	<b>6,807</b>	<b>+47.6</b>
<b>Extra-EU</b>	<b>10,274</b>	<b>3,648</b>	<b>12,258</b>	<b>4,733</b>	<b>9,484</b>	<b>3,896</b>	<b>- 7.7</b>
<b>Developing countries</b>	<b>3,783</b>	<b>1,268</b>	<b>4,973</b>	<b>2,035</b>	<b>7,117</b>	<b>3,011</b>	<b>+88.1</b>
Germany	6,494	2,068	6,670	2,233	6,375	2,251	-1.8
United Kingdom	3,401	1,500	4,408	1,751	4,977	1,937	+46.3
France	3,387	1,122	3,682	1,244	4,411	1,599	+30.2
Belgium	1,766	482	1,663	502	2,001	639	+13.3
The Netherlands	1,688	547	1,595	538	1,535	553	-9.1
Italy	877	345	957	411	1,282	585	+46.2
Spain	896	265	1,199	398	1,725	626	+92.5
Sweden	860	273	1,024	379	1,082	477	+25.8
Austria	1,526	339	1,483	362	1,408	344	-7.7
Poland	340	130	480	185	628	252	+84.7
Portugal	305	78	357	102	407	132	+33.4
Denmark	616	238	746	288	823	279	+33.6
Finland	243	67	257	87	289	108	+18.9
Czech Republic	310	123	418	174	627	244	+102.3
Ireland	233	58	279	80	384	111	+64.8
Greece	218	61	291	97	388	166	+80.0
Hungary	262	88	317	108	370	111	+41.2
Slovakia	208	50	242	61	272	69	+30.8
Slovenia	120	39	154	48	335	79	+179.2
Lithuania	31	18	45	24	72	36	+132.3
Luxembourg	127	18	123	17	133	18	+4.7
Latvia	34	16	50	22	62	28	+82.4
Estonia	30	13	40	16	51	22	+70.0
Malta	16	0	25	0	38	11	+137.5
Cyprus	48	2	63	3	89	28	+85.4

Source: Eurostat (2006)

Most of this increase has been as a result of more intra-EU trade, especially with the 10 New Member States. The value of extra-EU trade has decreased by 7.7%, although volume increased by 6.8%. Within this, the share of imports attributed to developing countries increased significantly – by 88% in value and 137% in volume.

Table 6.1 indicates that all Member States, with the exception of The Netherlands, Germany and Austria, increased the value of their imports in the period under review. In fact from a volume point of view, every single Member State increased its imports. The greatest increases were seen in some of the new Member States such as Slovenia, Lithuania, the Czech Republic and Poland. Increases in imports were also significant in Spain, Greece and Ireland.

These increases should be seen in the context of other aspects of trade. For example, the new Member States mentioned above also registered highly significant increases in exports. However, for Spain and Ireland exports were down. This indicates imports at the expense of domestic production.

Of the major EU economies, only Italy significantly exported more furniture than it imported, but that position is narrowing. Denmark, Portugal and Austria are net exporters by value, although Portugal imports more in volume terms. Sweden's imports are broadly the same as their exports in value and volume. All of the 10 new Member States, with the exception of Malta and Cyprus are net exporters of domestic furniture. All other states are significant net importers of furniture. Imports exceeded exports by the most in the UK, followed by France.

## 6.2 Total imports per product group

The main product groups for domestic furniture are shown in table 6.2. Furniture parts represent the largest product group, accounting for 31% of all imports in 2005 (22% by volume), and valued at € 9,204 million, up from € 7,667 million in 2001. The size of this product group is indicative of the importance of partial production and semi-finished products in the furniture trade. Other furniture, upholstered seating and dining and living room furniture were the next largest groups of imports.

68% of all furniture was imported from other EU countries in 2005. This is up from 50% in 2003 but this figure excludes the sizeable contribution from the 10 new Member States. In 2005, imports by value from developing countries were 24% of all imports. This positive trend has been seen for a number of years and is expected to continue.

The leading supplier to the EU was Italy (13%), closely followed by Germany. This was because they were the leading producers. China was the third largest supplying country, followed by Poland. Other important supplying countries are outside of the EU are Indonesia, Vietnam, Romania, South Africa, Malaysia and Brazil.

Supplies from Eastern Europe have traditionally been very important in the furniture trade. As more countries from this part of the world become EU members, the significance of this will change. These countries are likely to become more important. Their proximity to the EU and their cost advantages will be a threat to existing EU suppliers from within the EU and from developing countries.

### ***Furniture parts***

As mentioned above, the significance of outsourcing is highlighted by the size of this product group. Within this group, *parts of seats (not wood)* were 66% of the value (€ 5,928 million) but just 36% of the volume (859,000 tonnes). *Parts of furniture made of wood* were 17% of the value of this group (€ 1,576 million), but 37% of volume (887,000 tonnes). Products made from wood invariably were of lower value than products made from other materials, where additional processing would be required for them to attain their value and selling price.

**Table 6.2 EU imports and leading suppliers to the EU, 2001-2005, share in % value**

Product	2001	2005	Leading suppliers in 2005 (share in %)	Share
Total domestic furniture	24,036 (€ mln)	29,768 (€ mln)	Intra-EU : Italy (13%), Germany (13%), Poland (10%), France (4%), UK (3%). Ext EU excl DC*: Romania (2.7%), Switzerland (1.2%), USA (0.8%), Taiwan (0.8%), Bulgaria (0.4%). DC* : China (11%), Indonesia (3%), Vietnam (2%), Malaysia (1%), South Africa (1%), Turkey (1%), Brazil (1%), Thailand (1%), Croatia, India.	68%  8%  24%
Upholstered seating	3,493	4,698	Intra-EU : Italy (24%), Poland (17%), Germany (6%), Belgium (3%), France (2%). Ext EU excl DC*: Romania (3.3%), Norway (3%), Switzerland (0.8%), USA (0.6%), Bulgaria (0.4%). DC* : China (17%), Malaysia (2%), Thailand (1%), Turkey (1%), Vietnam, Indonesia, Croatia, Brazil.	68%  9%  23%
Dining/living room	3,299	3,560	Intra-EU : Poland (13%), Italy (11%), Germany (7%), Denmark (6%), France (4%). Ext EU excl DC*: Romania (5.9%), Switzerland (1.1%), Bulgaria (0.6%), Belarus (0.5%), Russia (0.5%). DC* : China (10%), Indonesia (5%), Malaysia (2%), Brazil (2%), Vietnam (2%), India (2%), Thailand (1%), Turkey (1%), Bosnia-Herzegovina, Mexico	62%  10%  28%
Non-upholstered seating	2,101	2,698	Intra-EU : Italy (10%), Poland (9%), Germany (5%), France (4%), Netherlands (4%). Ext EU excl DC*: Romania (2.3%), Bulgaria (1.4%), Taiwan (0.7%), Russia (0.7%), Ukraine (0.4%). DC* : China (25%), Indonesia (6%), Vietnam (6%), Malaysia (2%), Thailand (2%), India (2%), Turkey, Croatia, Brazil.	47%  7%  46%
Bedroom	1,885	2,106	Intra-EU : Germany (14%), Denmark (11%), Poland (9%), Italy (8%), France (5%). Ext EU excl DC*: Romania (2.4%), Switzerland (2.3%), Russia (0.4%), Taiwan (0.4%), USA (0.2%). DC* : China (12%), Brazil (5%), Malaysia (3%), Vietnam (1%), Indonesia (1%), Turkey, India, Thailand, Tunisia, Croatia.	69%  6%  25%
Kitchen	956	1,260	Intra-EU : Germany (47%), Italy (18%), Denmark (6%), Spain (4%), France (3%). Ext EU excl DC*: Switzerland, USA, Norway, Romania, Bulgaria. DC* : China (1%), Thailand, Malaysia, Vietnam, Brazil, Turkey, Croatia, India, South Africa, Libya.	96%  1%  3%
Rattan	518	559	Intra-EU : Italy (9%), Spain (5%), Germany (4%), Netherlands (4%), Poland (3%). Ext EU excl DC*: Taiwan (2.1%), Switzerland (0.9%), USA (0.7%), Romania (0.6%), Canada. DC* : Indonesia (30%), China (16%), Vietnam (7%), Philippines (3%), Malaysia (1%), Thailand, Turkey, India, Morocco, Tunisia.	34%  6%  60%
Other	4,117	5,685	Intra-EU : Germany (12%), Italy (10%), Poland (6%), Netherlands (4%), France (4%). Ext EU excl DC*: Romania (2.7%), Taiwan (2%), Switzerland (1.9%), USA (1.2%), Norway (0.4%). DC* : China (17%), Indonesia (4%), Vietnam (3%), Brazil (1%), India (1%), Malaysia (1%), Thailand (1%), Turkey, South Africa, Croatia.	58%  11%  31%
Parts	7,667	9,204	Intra-EU : Germany (17%), Italy (12%), Poland (9%), Austria (7%), France (4%). Ext EU excl DC*: Romania (1.7%), Switzerland (1.3%), USA (1%), Japan (0.7%), Taiwan (0.6%). DC* : South Africa (3%), China (3%), Turkey (1%), Croatia (1%), Serbia-Montenegro (1%), Thailand, Tunisia, Uruguay, Indonesia, Morocco.	81%  7%  12%

Source: Eurostat (2006), \*Developing Countries

With the exception of kitchen furniture (96%), furniture parts were more reliant on intra-EU supplies (81%) than all other product groups. Germany, Italy and Poland were the leading suppliers. Many of these parts would be ultimately finished or assembled in these countries prior to re-export. Consequently just 12% of furniture parts originated in developing countries. Suppliers were spread throughout the developing world. One country did not dominate the supply.

Germany was the largest importer of parts (27% or € 2,552 million), followed by France (13%), the UK (12%), Belgium, Spain, Poland and Italy. South Africa was the leading developing country supplier but their exports to the EU were down over the period. China's supplies were up significantly.

### ***Other furniture***

Imports of other furniture were the second largest product group by value, up by 38% since 2001 to € 5,685 million (19% of total), or at 2,744,000 tonnes (26% of total), the largest product group by volume. Unlike furniture parts, just 58% of supplies were intra-EU – one of the lowest apart from rattan furniture and non-upholstered seating.

China is the largest supplier, supplying € 952 million. This has virtually doubled since 2003. Other principal developing country suppliers have also increased their supplies, with the exception of Brazil and South Africa.

#### • *Other furniture → sub groups*

*Other furniture made of wood* is the largest sub-group, valued at € 3,109 million (55% of total) with volumes of 1,616,000 tonnes (59% of total). *Other furniture of metal* was valued at € 2,037 million (36% of total) with volumes of 935,000 tonnes (34% of total). Each sub-group has registered strong gains over the period. Gains have been least in the smallest group, *other furniture of plastic*.

France is the largest importer of other furniture of wood (€ 554 million), followed by the UK (€ 547 million) and Germany (€ 463 million). Other furniture of metal was imported principally by Germany (€ 391 million), the UK (€ 353 million) and France (€ 282 million).

The scale of the increase of this product group is indicative of the popularity of small occasional furniture, particularly in contemporary households and homes of younger people who make greater use of storage units.

### ***Upholstered seating***

This is the third largest product group, valued at € 4,698 million in 2005 (16% of the total), up by 34% since 2001. Volume was 1,076,000 tonnes (10% of the total). This group is dominated by supplies from Italy, Poland and China, who together account for 58% of all supplies. Interestingly, supplies from Italy and Poland are declining while supplies from China are significantly up.

Historically this product group has been of less interest to developing country exporters, due to the added value input required for the upholstery (compared to non-upholstered furniture). However, the share of supplies from developing countries is increasing as exporters become more proficient at producing these more sophisticated products to the standards demanded by EU customers.

#### • *Upholstered seating → sub groups*

86% of these imports by value (and volume) were *upholstered seats with wooden frames*. Although it is the smaller of the two sub-groups, *upholstered seats with metal frames* showed the strongest gains over the period, indicating a move away from wood towards other materials for non-visible parts and components. New suppliers in this area are Ukraine and Vietnam (at the expense of Romania and Thailand). This trend is visible in other product groups as well.



### ***Dining and living room furniture***

EU imports of dining and living room furniture were valued at € 3,560 million, up 8% since 2001. This represented 12% of all imports by value and 16% by volume (1,698,000 tonnes). Poland, Italy and China were the dominant suppliers, followed by Germany, Denmark, Romania and Indonesia. Supplies from Italy, Germany and Denmark are declining, while supplies from the other major producers are increasing.

This is an important product group for exporters from developing countries. Their proportion of imports (particularly in volume terms) has also increased over the period. It includes products such as wooden living room sets, dining tables and chairs, coffee and occasional tables and other furniture for living and dining areas. The nature of products is changing in this category as formal dining rooms are declining and greater flexibility in types of furniture are brought into living rooms as the use of the living room changes.

Of the smaller developing country exporters, supplies from Egypt, Tunisia and Morocco were up while supplies from South Africa, Ghana and Pakistan were down.

### ***Non-upholstered seating***

Imports of non-upholstered seating are a very important category for developing country exporters. They represent 46% of imports of these products to the EU. In 2005, these imports were valued at € 2,698 million, up 28% since 2001. This represents 9% of all imports by value and by volume (982,000 tonnes).

This category is dominated by China, which supplied 25% of all imports, as much as the next top three suppliers combined (Italy, Poland and Indonesia). Intra-EU suppliers accounted for 47% of imports, the lowest proportion of all product groups other than rattan. Romania and Bulgaria, soon to become members of the EU were other significant extra-EU suppliers.

Most developing country suppliers were up over the period with the exception of Turkey, Tunisia and Myanmar. Supplies from South Africa and Brazil were virtually unchanged.

#### ***• Non-upholstered seating → sub groups***

Within this product group, 35% of imports (€ 943 million) were *non-upholstered seats made of wood* (322,000 tonnes or 33% by volume). Vietnam, Indonesia, China and Italy were the dominant suppliers.

Nearly 30% of imports (€ 812 million) were *non-upholstered seats made of metal* (343,000 tonnes or 35% by volume). Virtually half of this is supplied by China. Lesser suppliers are Italy, France, Germany, Spain, Poland and Vietnam. This group also registered the largest increase over the period compared to the others. In fact by volume imports of non-upholstered seats of wood were down.

*Other non-upholstered seats* accounted for 22% of imports (€ 602 million) or 17% by volume (169,000 tonnes). China was the dominant supplier, followed by Italy, France and Germany. The remaining supplies were *seats convertible into beds*. Although this is the smallest sub-group, volume imports were significantly up. The dominant supplier (47%) is Poland. Developing country imports of seats convertible into beds are small but increasing.

### ***Bedroom furniture***

Imports of bedroom furniture were valued at € 2,106 million in 2005 (7% of the total by value and 11% by volume or 1,139,000 tonnes), up by 12% since 2001. The dominant suppliers are Germany, China, Denmark, Poland and Italy. Of these countries, supplies from China have significantly increased whereas the others are unchanged or down (Poland).

25% of all imports of bedroom furniture are from developing countries. Most countries increased their supplies with the exception of Zimbabwe, India, Thailand and the Philippines. Supplies from Malaysia were unchanged.

- *Bedroom furniture* → *sub groups*

*Bedroom furniture made of wood* is the dominant sub-group, accounting for 87% of all imports by value (€ 1,829 million) and 86% by volume (984,000 tonnes). However, imports of *metal beds* were increasing at a faster rate. Imports of wooden bedroom furniture are declining in volume terms. Germany, Denmark, Poland and Italy are the main suppliers of wooden bedroom furniture. 19% of these products (€ 345 million) were from developing countries, whereas 65% of metal beds (€ 180 million) were from developing countries. Around 79% of this is imported from China. Malaysia is also an important supplier.

#### ***Kitchen furniture***

Kitchen furniture is valued at € 1,260 million, up from € 956 million in 2001. However, just 3% of this comes from developing countries. Germany dominates this product group. Although imports are increasing at a faster rate (mainly from China), this group is of limited interest to exporters from developing countries.

#### ***Rattan furniture***

Rattan furniture is the smallest product group, valued at € 559 million, or less than 2% of the total, up from € 518 million in 2001. However developing countries still dominate the supplies to the EU (60% of value and 67% of volume), although they are receiving much competition now from countries of Southern Europe, particularly Italy and Spain.

- *Rattan furniture* → *sub groups*

*Rattan furniture (other than seats)* accounts for 67% of all rattan imports (€ 373 million) by value and 74% (159,000 tonnes by volume). Imports of *rattan seats* are now in decline. China has now overtaken Indonesia as the largest supplier of rattan furniture, although Indonesia completely dominates the supply of rattan seats. Supplies from Vietnam are increasing while supplies from the Philippines are declining.

### **6.3 The role of the developing countries in imports per product group**

The role of developing countries in the supply of furniture to the EU has become increasingly important. As indicated in table 6.3, in 2001 16% of all imports by value and volume came from developing countries. By 2005, that had become 24% by value and 28% by volume. However these increases have not been spread evenly throughout the developing world. Asia is the dominant source, now accounting for 78% of all developing country supplies by value (74% in 2001) and 84% by volume (80% in 2001).

Supplies from Saharan and sub-Saharan Africa have actually declined over the period. Supplies from Latin America have increased, albeit at a lower rate than Asia. Greater increases have occurred in the Balkan areas, North Africa, Turkey and the Middle East. This can be explained by their closer proximity to the EU markets.

Over the period, supplies from China have more than trebled in value and increased by even more in volume terms. Now 61% of all Asian imports come from China (65% by volume). Indonesia and Vietnam are the next largest suppliers, accounting for 15% and 9% of supplies respectively. Malaysia is the next largest, followed by Thailand and India, each of which has shown modest gains over the period. Supplies from the Philippines are static, accounting for just 1% of Asian imports.

South Africa accounts for 97% of all imports from Saharan and sub-Saharan Africa (95% in 2001). Other suppliers, all of which are declining, include Ghana, Zimbabwe, Madagascar and Kenya. An increase has been registered by Senegal.

Brazil accounts for 81% of imports from Latin America (70% in 2001) by value, and 92% by volume. Supplies from Mexico and Argentina are the next largest suppliers, but are in decline. Chile has overtaken Bolivia to be the fourth largest Latin American supplier.

Turkey is the principal supplier from the Mediterranean and Middle East region, accounting for 76% of all imports (73% in 2001). The value of imports from Tunisia has almost trebled while volumes have remained unchanged. Morocco and Egypt are the next largest suppliers from this region, each with increasing supplies.

Supplies from the Balkan region have increased considerably over the period, particularly from Croatia and Bosnia-Herzegovina. Supplies from Serbia-Montenegro and Albania have declined.

**Table 6.3 Domestic furniture supplied to the EU by DCs\*, 2001-2005, € 1,000/tonnes**

	2001		2003		2005	
	value	volume	value	volume	value	volume
<b>Total EU25</b>	<b>24,036</b>	<b>7,940</b>	<b>26,568</b>	<b>9,120</b>	<b>29,768</b>	<b>10,703</b>
Supplied by DCs	3,783	1,268	4,973	2,035	7,117	3,011
Supplied by Asia	2,798	1,015	3,546	1,584	5,583	2,539
Supplied by Africa	393	56	390	56	334	27
Supplied by Latin America	288	114	304	166	356	181
Mediterranean/Middle East	230	61	350	93	395	112
Balkan countries	70	20	275	82	331	92
Upholstered seating	212	49	458	141	1,073	332
Dining/living room	643	253	771	365	1,000	492
Non-upholstered seating	690	251	900	380	1,232	527
Bedroom	298	144	375	224	525	297
Kitchen	26	8	31	14	40	23
Rattan	327	97	315	114	337	144
Other	861	364	1,180	627	1,769	944
Parts	726	96	943	170	1,140	253

Source: Eurostat (2006)

\*Developing Countries

#### **DC supplies by product group**

Table 6.2 indicates which developing countries are the most important suppliers of each product group. *Other furniture* is the largest group for developing country exporters in terms of value (25% of total) and volume (31% of total), followed by *non-upholstered seating* (17% by value and volume).

- *Other furniture and non-upholstered seating*

China is the dominant supplier in both groups. Supplies of *other furniture* from South Africa and Brazil are declining. Supplies from the other major exporter countries indicated in table 6.2 are increasing. Apart from China supplies of *non-upholstered seating* are increasing at the fastest rate from Vietnam, which is now the second largest supplier. Supplies from other Asian countries are also increasing while supplies from Brazil and Turkey are unchanged. Supplies from Croatia are declining.

- *Upholstered seating*

The largest increase has been registered by the product group *upholstered seating* (15% of total value and 11% of volume). Traditionally dominated by German and Italian suppliers, developing countries are now making significant inroads into this group. An increase of 406% by value and 577% by volume was registered in the period under review (compared with the average of +96% value and +137% volume).

The dominant supplier is China, but Vietnam and Malaysia in particular registered strong increases. In fact Asia now accounts for 88% of developing country exports of *upholstered seating* to the EU. Supplies from Africa and Turkey are down.

- *Furniture parts and dining and living room*

*Furniture parts and dining and living room furniture* are the next most important product groups. They have each registered substantial value gains, but volume gains have been particularly notable, having at least doubled over the period.

Developing countries are not particularly strong in *furniture parts* in terms of share – see table 6.2. However the value of EU imports remained high, valued at € 1.140 thousand in 2005. China is the leading supplier in volume terms and is close to overtaking South Africa in value. Supplies from South Africa are declining, as are supplies from Thailand and Indonesia. Supplies from Croatia, Bosnia-Herzegovina and Uruguay are particularly up.

China has increased its supplies of *dining and living room furniture*, as has India and Vietnam. Other Asian suppliers are static or in volume decline. Supplies from Brazil are up while supplies from Mexico, the next largest Latin American supplier, are down. Supplies from South Africa are markedly lower over the period. Supplies from other major suppliers are up.

- *Bedroom furniture*

Bedroom furniture has doubled in value over the period. Supplies from Malaysia, the Philippines, Thailand and India are down. Other Asian suppliers have registered increases. Supplies from Brazil are well up but more so in volume terms indicating strong pressure on prices. Supplies from Turkey have increased whereas Tunisia is losing volume while it tries to maintain the value of its supplies.

- *Rattan furniture*

The value of rattan supplies is unchanged while volumes are up. Although developing countries, particularly Asia, dominate this group, *rattan furniture* is becoming increasingly marginalized in the modern EU furniture market. Indonesia still dominates but it is losing share to China and Vietnam. Supplies from the Philippines, also a traditionally large supplier, are in decline.

### ***Opportunities and threats for exporters in developing countries***

- Asia has become the dominant producer of domestic furniture in recent years. This trend is set to continue, and the relative importance of China looks as though it will continue to grow. This puts pressure on other developing countries, but success has been achieved elsewhere, notably in Vietnam, Brazil and parts of North Africa.
- The main growth opportunities for developing country exporters appear to be in capturing a greater share of production of added-value products such as upholstered furniture.
- Other furniture and furniture parts are groups with the greatest opportunities for developing country exporters, although there is growing pressure on EU buyers to source products nearer to home due to the environmental costs of long distance transportation.
- New markets can be found in most of the new EU countries due to the fact that their own domestic markets are generally developing at a faster pace than in other EU countries.

## **6.4 Useful sources**

- EU Expanding Exports Helpdesk - <http://export-help.cec.eu.int/>  
Go to: trade statistics.
- Eurostat – official statistical office of the EU - <http://epp.eurostat.cec.eu.int>  
Go to: 'themes' on the left side of the home page - 'external trade' - 'data – full view' - 'external trade - detailed data'.

## 7 EXPORTS

The EU accounts for over 40% of world exports of domestic furniture with Italy, Germany and Poland amongst the top ten global exporters. In 2005, almost 75% of exports went to other EU countries, up from 68% in 2001. Much of this increase is attributed to the increases generated by the 10 new Member States since joining the EU, particularly Poland. There are also high volumes of re-exports from Italy, Germany, Belgium and The Netherlands, although it is difficult to estimate the precise amount that this represents.

Between 2001 and 2005, exports increased by 13% in value and 20% in volume. Much of this was due to significant increases particularly by Poland and the Czech Republic. Italy remains the largest exporter, accounting for one quarter of all EU exports. However, the value of their exports fell by 10% over the period, as can be seen by table 7.1.

**Table 7.1 Exports of domestic furniture by EU Member States, 2001-2005,**  
€ million/1,000 tonnes

	2001		2003		2005		Average % change in value '01-'05
	value	volume	value	volume	value	volume	
<b>Total EU</b>	<b>27,884</b>	<b>7,707</b>	<b>29,921</b>	<b>8,233</b>	<b>31,591</b>	<b>9,728</b>	<b>+13.3</b>
<b>Intra-EU</b>	<b>18,980</b>	<b>4,292</b>	<b>18,295</b>	<b>5,897</b>	<b>23,641</b>	<b>7,538</b>	<b>+24.6</b>
<b>Extra-EU</b>	<b>8,904</b>	<b>3,648</b>	<b>9,187</b>	<b>2,336</b>	<b>7,950</b>	<b>2,190</b>	<b>- 10.7</b>
<b>Developing countries</b>	<b>1,418</b>	<b>367</b>	<b>1,563</b>	<b>395</b>	<b>1,674</b>	<b>497</b>	<b>+18.1</b>
Italy	8,517	1,875	7,877	1,777	7,634	1,690	-10.4
Germany	4,413	1,125	4,533	1,182	4,753	1,228	+7.7
Poland	1,849	886	2,974	1,114	4,122	2,002	+122.9
Denmark	1,642	529	1,778	622	1,772	697	+7.9
France	1,884	467	1,760	421	1,742	480	-7.5
Czech Republic	585	187	1,026	242	1,415	316	+141.9
Austria	1,295	217	1,511	280	1,302	345	+0.5
Belgium	1,459	376	1,338	359	1,268	366	-13.1
Spain	1,363	365	1,228	338	1,146	335	-15.9
Sweden	974	458	986	453	1,076	550	+10.5
Slovenia	331	117	747	161	959	185	+189.7
United Kingdom	976	192	793	182	825	189	-15.5
The Netherlands	659	183	754	201	779	211	+18.2
Hungary	453	80	678	103	679	114	+50.0
Portugal	396	68	625	93	634	85	+60.1
Slovakia	255	156	402	220	511	391	+100.4
Lithuania	231	185	273	211	386	308	+67.1
Finland	211	59	227	75	195	58	-7.6
Estonia	162	72	182	82	171	71	+5.6
Latvia	105	81	117	92	122	83	+16.2
Ireland	82	20	69	16	59	13	-28.0
Greece	22	7	25	8	25	9	+13.6
Cyprus	6	1	8	1	10	2	+85.4
Luxembourg	14	3	5	1	4	1	-71.4
Malta	2	0	3	0	4	0.5	+100.0

Source: Eurostat (2006)

Perhaps the most striking feature is the increase in the amount of intra-EU exports, up 25% over the period. Germany was the main recipient of EU exports, followed by France and the UK. Extra-EU exports were consequently down over the period. This is partly explained by falls in exports to the USA, the largest export destination outside of the EU. Other leading export destinations are Switzerland, Russia, Norway and Japan.



Exports to developing countries represented just 5% of EU exports in 2005. Valued at € 1,674 million, this represented an increase of 18% since 2001. Leading recipients were Croatia, China and Ukraine. Malaysia was a large volume, but low value recipient.

#### • Exports by product group

As far as product groups are concerned, *furniture parts* was clearly the largest category, representing € 9,782 million, or 31% of all exports by value and 25% by volume in 2005. This was an increase of 41% compared with 2001. Around 84% of these were intra-EU exports. Germany received over a quarter of these exports. The USA, Switzerland and Russia were the largest recipients outside of the EU. Exports of parts to developing countries were € 455 million, less than 5% of the total value.

*Other furniture* and *upholstered seating* were the next largest product groups and both continued to register increases over the period. Exports of *dining/living room furniture* held their value but volumes were up, indicating a downward pressure on prices. The other product groups broadly held the same position over the period. The only category to register consistent declines was rattan furniture. This was also the smallest category of exports.

**Table 7.2 Domestic furniture exported by the EU25 2001-2005, € million/1,000 tonnes**

	2001		2003		2005	
	value	volume	value	volume	value	volume
<b>Total EU25</b>	<b>27,884</b>	<b>7,707</b>	<b>29,921</b>	<b>8,233</b>	<b>31,591</b>	<b>9,728</b>
Upholstered seating	4,831	619	4,814	635	5,334	893
Dining/living room	3,541	1,098	3,448	1,129	3,222	1,426
Non-upholstered seating	2,052	497	2,070	510	2,131	575
Bedroom	2,358	1,023	2,319	1,066	2,266	1,125
Kitchen	2,018	626	2,046	680	2,291	725
Rattan	704	152	550	104	595	120
Other	5,452	1,618	5,324	1,973	5,970	2,373
Parts	6,928	2,035	9,351	2,328	9,782	2,492

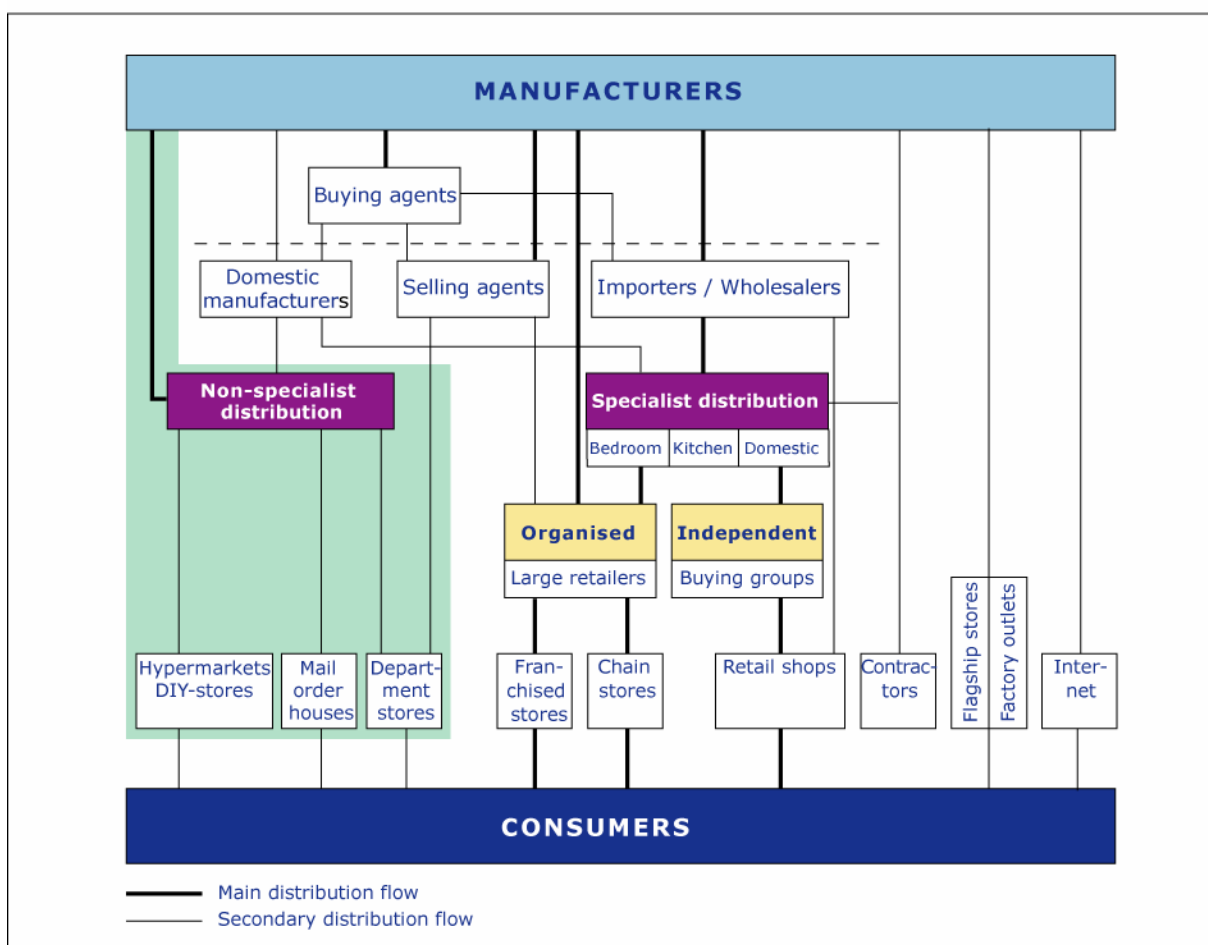
Source: Eurostat (2006)

## 8 TRADE STRUCTURE

### 8.1 Distribution channels

The route to market in the EU furniture trade is varied. See Chapter 11.3 for more information on the selection of the best channel to best suit your own circumstances. Although domestic furniture is increasingly supplied in formats designed to improve the efficiency of handling and distribution, it still is the case that it is not suited to multiple handling. Consequently the main distribution flow in the EU tends to be from manufacturer to importer to retailer to consumer. There are variations on this, particularly where large retailers such as IKEA ship direct from manufacturers, eliminating part of the distribution chain.

**Figure 8.1 Typical distribution structure for furniture in EU markets**



As indicated in the above figure, there is a clear distinction between specialist distribution where the product is handled by intermediaries and retailers who primarily deal in different types of furniture, and non-specialist distribution where furniture is just one of a wide range of products handled by the companies in question.

*Specialists* represent approximately 80% of the distribution of furniture in the EU markets, and they are either *organised* in the form of large chain stores or buying groups (this tends to be most common in Northern Europe), or *independent* (usually predominant in Southern European countries such as Italy, Spain and Portugal).

*Non-specialists* include department stores, mail order, Do-it-yourself (DIY) stores or hypermarkets. This channel represents about 20% of furniture retail sales in the EU.

### **Trade channels**

For exporters in developing countries, the physical distribution of furniture can be a problem. It may be advisable to have a warehouse in an EU country. When exporting furniture for the first time, importers are the best channels. They have a good knowledge of the market and provide the safest and most effective method of distribution for exporters from developing countries.

### **Importers**

By buying on his own account the importer takes title to the goods and is responsible for their further sale and distribution in his country and/or in other EU markets. He is familiar with local markets and can supply considerable information and guidance to the overseas manufacturer in addition to the primary business of buying and selling, such as the administration of import and export procedures and holding of stock. The development of a successful working relationship between manufacturer and importer can lead to a high level of co-operation with regard to appropriate designs for the market, new trends, use of materials and quality requirements. Some importers also act as wholesalers.

### **Wholesalers**

Wholesalers often supply independent or specialist furniture shops and play a major role in the supply of furniture. They usually specialise but often carry a wide variety of products. The trend of bigger retailers and buying groups going outside the traditional distribution system has caused wholesalers to reconsider their position in the distribution structure. This has encouraged wholesalers, who were losing part of their business, to operate on a regional basis.

*The following other channels are good alternative distribution channels for exporters:*

### **Domestic manufacturers**

Confronted with rapidly rising production costs, which have rendered manufacturers uncompetitive (especially in labour-intensive production lines), manufacturers are increasingly assuming the role of importers. Like importers they look for low-cost sources that produce furniture on a made-to-order basis, instead of purchasing ready-made articles. The main advantage is that these items can be made according to their own design, quality and colour specification.

### **Buying agents**

These are independent companies which negotiate and settle business on the instructions of their principals and which act as intermediaries between buyer and seller. They do not buy or sell on their own account and work on a commission basis. Most agents represent more than one manufacturer, although competition is avoided. Often the buying agent has his office in the supplying country.

### **Selling agents**

These are also independent companies, but they work on a contract basis for one or more manufacturers. They often sell from stock in order to meet their clients' short-term demand. They also work on a commission basis. Stock is often formed on a consignment basis. If the selling agent builds up his own stock, he is in fact functioning as an importer/wholesaler.

*Some recent distribution chain issues of relevance to exporters are:*

- **Vertical integration by manufacturers**

Here manufacturers sell direct to consumers via their own stores, removing the need for retailers. One example is the *single brand or flagship store* (e.g. Leolux 'design centres', Ligne Roset, Sofa Workshop Direct, Classic Choice), which sells the complete furniture range of one brand and is meant to create/improve the brand image. Most stores have a design

corner for tailor made furniture. Another example of vertical integration is the *factory outlet*, where manufacturers sell out of date furniture to consumers at low prices. A factory outlet mainly sells clothing and other fast moving consumer durables.

- Store attractiveness and regular change by retailers

With the growing influence of fashion in furniture, furniture stores change their range more often (than 2-3 times/year), giving the store an ongoing innovative image. New furniture ranges can be combined with all sorts of accessories, creating a total interior concept. For an exporter it is important to be aware of this concept. He should try to make a link here when introducing his products, even at importer level.

Nowadays, shop interiors appeal more to consumer target groups and can range from classic, colonial, contemporary to ultra-modern. In shop interiors, products are clearly laid out with some stores offering a relaxation/lounge area and some inter-activity (e.g. computer-aided design corners).

Names and contact details for the major players in each of these distribution channels can be found in the CBI market surveys covering the market in individual EU countries.

### **Retail trade**

Retailing varies by product (e.g. upholstered, bedroom, home office or RTA furniture) and by country. Chain stores with large showrooms are prevalent in middle and northern EU countries, while independent shops with small showrooms are typical in Italy, Spain and the new EU countries. The broad trend has been independent outlets suffering at the expense of larger chain stores. This concentration in outlets is parallel with an increase in the size of outlets.

In 2005, there were approximately 125,000 furniture retail outlets in the EU, with around 450,000 employees. Furniture retailing has become more diversified with many types of outlets, varying from those stocking a special style of furniture to those carrying a wide range of products with related accessories.

- **International expansion**

Most furniture retail organisations are concentrated at national level. However other large-scale retailers e.g. Conforama and MFI are following the success of IKEA, increasing their presence in Italy, Spain, and the new EU countries. Another trend in furniture retailing is the international expansion of franchised stores operated by manufacturers, e.g. the Divani & Divani store operation by Natuzzi with most stores in Italy, France and Germany.

- **Shopping malls suffered from weak demand**

In Germany, France, the UK, Scandinavia and the Benelux countries, furniture sales networks are modern, well-structured and very efficient. Large *interior shopping malls* of 10,000 m<sup>2</sup> or more are located in out-of-town shopping centres. A shopping mall houses a mix of smaller and medium sized stores, which specialise in furniture (dining and living, bedroom, kitchen etc.) lighting or household goods. Most of these stores are linked to a buying group or to a chain store operation. Large furniture boulevards exist in the Netherlands. The first furnishings boulevard in France, Domus Paris, opened in March 2006. With a total sales area of 62,000 m<sup>2</sup> on three floors, 130 brands from the international furnishings trade are represented.

Recently interior shopping malls, buying groups, independent and department stores in most countries have suffered from weak consumer demand. This has meant low sales turnover per m<sup>2</sup>, while the floor space for display has remained expensive. In addition, the oversupply of furniture items has resulted in intensified price competition, which has turned out to be more advantageous for (furniture) discounters and non-specialists such as DIY stores, mail order operators and direct sales (factory outlets).

- **Chain stores still grow**

Furniture sold through chain stores continues to grow and represents around one quarter

of furniture retail sales in the EU. However, smaller shops, whether or not linked to a buying group, remain important, accounting for around half of sales. Consumers remain loyal to smaller shops, particularly those for whom price is less important, as these shops offer the old-fashioned service that inspires confidence.

- ***Department stores and chain stores buy direct***

Department stores, large furniture chains and discount outlets also buy furniture directly from foreign suppliers. This may involve intermediary activity by a selling agent on behalf of the manufacturer or a buying agent on behalf of the (multiple) retailer. This method of doing business has become more popular since it cuts out several intermediaries, thus reducing costs and enabling the retailer to offer the product at a lower end price. It is particularly significant when a fashion trend takes hold and there is fierce competition between retailers to offer lower and lower prices. Unfortunately, this method often results in the supply of huge volumes of poorer quality, cheaper merchandise, after which the demand peaks and then falls off.

Large chains such as IKEA have their own purchasing staff, buying from all over the world. In the country of origin, most buyers prefer the lines between manufacturer and the source of raw material (e.g. rattan farmers) to be as short as possible. In this case there is better control over production and communication lines are short, reducing the risk of discrepancies between buyers' requirements and final product.

- ***Buying groups / Co-operatives***

Central buying groups or co-operatives prefer to minimise the cost of middlemen by purchasing directly from a supplier whenever possible. This channel is used for large-scale requirements, where direct dealing with well-known suppliers is essential. These groups act as purchasing agents for their individual members (smaller furniture retailers) and financial intermediaries between producers and retailers. Sometimes they offer warehouse facilities to their members. Other advantages include credit card rates, provision of marketing intelligence, staff training and advice on legal and business issues.

The objective of the buying group is to make it possible for their members to compete with chain stores, which have the buying power necessary to get larger discounts from suppliers. Buying groups are tending to purchase from fewer suppliers, with whom they aim to intensify their relationship and together promote increased sales in the market.

## 8.2 Useful sources

It is useful to contact specific operators in each of the distribution channels. It is not common to find associations of furniture importers or furniture agents or wholesalers in the EU. To get a good idea as to how they operate, or to find advice, it is recommended you talk to other people you know who have looked to export furniture to the EU.

- There is an umbrella organisation, called the European Federation of Furniture Retailers (FENA) that represents the interests of furniture retailers in Europe. FENA is the European organisation for national trade associations whose members sell furniture and home furnishings to domestic consumers. The main objectives of FENA are to determine and defend the common interests of its members and to provide these members with general information of the market and laws of the sector. You can contact them by email at <mailto:info@fena-furniture.com> or visit their website <http://www.fena-furniture.com>
- [http://europa.eu.int/comm/enterprise/furniture/index\\_en.htm](http://europa.eu.int/comm/enterprise/furniture/index_en.htm) provides an overview of furniture in the European Union.
- You may find names of importers from the International Directory of Importers, where 6,000 furniture and home furnishings importers are listed. See <http://www.importersnet.com>. An



Indian company called Exim Infotek publishes a directory of European importers of all types (<http://www.eximinfo.com>).

- The Furniture Industry Research Institute has published a report called Furniture Distribution in Europe. This report compares the distribution structures in different European countries as well as providing a list of furniture distributors. This report is not free of charge. Further information can be found at <http://www.csilmilano.com>

## 9 PRICES

### 9.1 Prices

Consumer prices of furniture in EU countries are relatively low. However average prices have increased in recent years due to inflation in some countries and the introduction of the Euro. Retailers have set new psychological price points by rounding up Euro prices to an attractive figure. This together with the economic recession in parts of the EU has made consumers more critical on price. Now they shop around and use the Internet to find out about latest models, brands, and (foreign) prices.

Oversupplies of low to medium range furniture items have resulted in prices being under increasing pressure at all levels in the supply chain. Price cutting and early clearance sales have become regular features of the trade, especially at retail level, fuelling intensified competition. This has led to some furniture chain bankruptcies with the leading international chains still being able to keep their position.

***Furniture prices are also under pressure because of:***

- More non-specialist outlets selling furniture (e.g. DIY stores, discounters, hypermarkets).
- Direct sales by manufacturers using Flagship stores, E-commerce etc.
- Consumers are more demanding and often expect a discount. For consumers in parts of Southern Europe, a "special price" was already common practice. This is also the case in most new EU countries. But now elsewhere, price-based promotions by retailers have made consumers try to barter in the shop in order to get prices reduced.
- Faster changes in interior fashion have shortened the lifespan of a furniture item. Hence consumers are less prepared to pay high prices, as they use the items for a shorter time.

***Transparency by Euro prices***

The Euro is highlighting discrepancies in pricing between various EU countries and the new EU countries. This development will result in more competition in all furniture price categories, with southern and new Member States lower in price. The Euro will create more transparency and make it easier for retailers to source products from EU countries at the lowest possible price and without conversion costs.

Differences in VAT remain, ranging from 15% in Cyprus to 25% in Denmark and Sweden. According to the European Consumers' Centre (VBZ) in 2005, there were wide differences in consumer prices of furniture among the EU countries and the new EU countries.

As shown in table 9.1, based on indexing the same products from the same international furniture chain against each other, using Germany as the comparison point (100), a number of key points can be drawn:

- Generally speaking prices outside the Eurozone are higher than those within it.
- Prices in the Eastern European countries were higher than Germany, particularly Poland and the Czech Republic.
- Prices were highest in Cyprus, UK, Greece and Ireland.
- Prices were lowest in Germany, Spain, the Netherlands and Portugal.
- Wide price ranges exist between countries for the same products in the same retail chain.
- Habitat is most expensive in the UK and least expensive in Portugal.
- Bo Concept is most expensive in Cyprus, and least expensive in Denmark and the Netherlands.
- Ligne Roset is most expensive in Sweden and least expensive in Spain.
- Roche Bobois is most expensive in the UK and least expensive in Portugal.
- IKEA is most expensive in the UK and least expensive in Germany and the Netherlands.

**Table 9.1 Index of comparable furniture prices in the EU**

	<b>Habitat</b> (ave. of 4 items)	<b>Bo Concept</b> (ave. of 5 items)	<b>Ligne Roset</b> (ave. of 4 items)	<b>Roche Bobois</b> (ave. of 6 items)	<b>IKEA</b> (ave. of 4 items)
<b>Germany</b>	100	100	100	100	100
<b>France</b>	123	108	105	94	118
<b>UK</b>	138	144	129	136	135
<b>Italy</b>	-	-	103	91	120
<b>Spain</b>	119	95	89	92	109
<b>Netherlands</b>	-	98	109	95	100
<b>Belgium</b>	124	-	-	99	118
<b>Denmark</b>	-	98	-	-	124
<b>Austria</b>	-	99	107	-	101
<b>Sweden</b>	-	110	135	-	129
<b>Finland</b>	-	-	-	-	118
<b>Portugal</b>	93	106	104	89	105
<b>Ireland</b>	137	123	120	-	-
<b>Greece</b>	129	130	-	108	na
<b>Poland</b>	-	120	112	-	110
<b>Czech Republic</b>	-	129	122	-	114
<b>Hungary</b>	-	129	116	-	105
<b>Slovakia</b>	-	112	-	-	110
<b>Slovenia</b>	-	-	110	-	-
<b>Estonia</b>	-	na	-	-	-
<b>Malta</b>	-	125	-	-	-
<b>Cyprus</b>	-	152	-	135	-

Source: VBZ (2005), IKEA prices via Internet (2006)

## 9.2 Useful sources

The increasing use of the Internet makes it much easier to compare retail prices, particularly when in many instances photos are included. Care needs to be taken when comparing prices, as price promotions are a very regular occurrence. Take care not to compare the same product when one is on promotion and one is not. It is an increasing feature of trade fairs that trade or wholesale prices are on open display. Previously prices were for individual negotiation depending on the size of the buyer. This trend is more apparent at the lower end of the market.

The prices above were from the European Consumer Centre that does regular comparative price checks in Europe on a wide range of products, not just furniture. You can find them at [www.verbraucherzentrale.it](http://www.verbraucherzentrale.it). Other sources of price information are as follows:

- UEA - European Furniture Manufacturers Federation → Web site giving information on trade and prices in the EU furniture industry: <http://www.ueanet.com>
- FENA – European Federation of Furniture Retailers → Business to business portal to access prices and a wide range of other trading issues, called Fenanet: <http://www.fenanet.com>
- IKEA store on-line → Web site giving information on retail prices of IKEA furniture items: <http://www.ikea.com>
- EUROSTAT – Statistics in Focus → This bulletin covers from time to time comparative price levels of consumer goods, including furniture in EU countries: <http://europa.eu.int/comm/eurostat>

## 10 MARKET ACCESS REQUIREMENTS

As a manufacturer in a developing country preparing to access EU markets, you should be aware of the market access requirements of your trading partners and the EU governments. Requirements are demanded through legislation and through labels, codes and management systems. These requirements are based on environmental, consumer health and safety and social concerns. You need to comply with EU legislation and have to be aware of the additional non-legislative requirements that your trading partners in the EU might request.

### 10.1 Legislative requirements

European legislation is compulsory for all products traded within the EU. Therefore, as an exporter in a developing country you have to comply with the legislative requirements that are applicable to your products. For information on legislation for domestic furniture, go to 'Search CBI database' at <http://www.cbi.nl/marketinfo>, select your market sector and the EU in the category search, click on the search button and click on legislative requirements for an overview of all documents on legislation.

### 10.2 Non-legislative requirements

#### *Quality standards*

There are National quality standards for furniture, which should not be neglected. For example, durability standards have been established relating to the resistance of products – surface resistance to dry heat, cold liquids and contracting movements. More information and addresses of standard organisations can be found in the CBI market surveys covering the market in individual EU countries.

Even if there is no official EU quality standard, you can find in the CBI market information database a document on the international requirements in the furniture industry, which reviews some important voluntary quality standards for furniture.

Within the furniture industry, buyers in most EU countries expect woods of an excellent quality e.g. kiln dried, free from pest, cracking, splitting and from full grown trees from well-managed forests. This will also depend on the furniture item and style.

Quality, as well as social and environmental related market requirements are of growing importance in international trade and are often requested by European buyers through labels, codes of conduct and management systems. For information on non-legislative requirements applicable to domestic furniture go to 'Search CBI database' at <http://www.cbi.nl/marketinfo>, select your market sector and the EU in the category search, click on the search button and click on your subject of interest under non-legislative requirements for an overview of all documents on the subject concerned.

#### *Furniture sizes*

The dimensions for domestic furniture vary considerably from country to country within the EU. In general, furniture sizes are smaller than those typically sold in the USA, where homes and individual rooms tend to be bigger than their European equivalents. Northern Europeans tend to be taller than Southern Europeans and so require larger furniture.

Always check the exact requirements for the prospective market with their importers. They are able to specify the best dimensions for their customer target group.

As an example, the following list indicates available sizes in the Dutch market:

**Table 10.1 Typical furniture dimensions in The Netherlands**

Item	Feature	Dimensions / cms
<i>Couches/lounge chairs</i>	Seat height from ground	32-45
	Seat depth	40-55
	Total depth: chair	80-100
	Width: one seater	80-110
	Width: two seater	160-210
	Width: three seater	200-230
	Seat height from ground	43-47
<i>Dining room chairs</i>	Height	72-76
	Round table diameter	105-130
	Square table diameter	80-120
	Rectangular/oval table, width	80-95
	Rectangular/oval table, length	140-230
	Width insert leaves	40-50
	Height	35-60
<b>Dining tables</b>	Round table diameter	40-100
	Square table diameter	60-100
	Rectangular table diameter	60-75 x 115-145
	Total height	180-215
	Depth	35-50
	Width per unit	60-90
	Height per unit	40-120
<b>Occasional tables</b>	Single bed diameter	80-90 x 200-220
	Double bed diameter	140-200 x 200-220
	Couch bed (convertible) diameter	120-140 x 200
	Couch bed seat height	40-47
	Height	180-235
	Width of units	40-60-80-100-120
	Depth	55-60
<b>Bookcase, wall unit</b>		
<b>Beds</b>		
<b>Wardrobes</b>		

### 10.3 Packaging, marking and labelling

#### Packaging

Deliveries from developing countries generally have a long distance to go before reaching their destinations; therefore it is very important that close attention is paid to seaworthy and solid packaging. Furniture items can easily be damaged in transit by dampness or mishandling and must therefore be packed carefully and securely.

- In the case of RTA furniture, the packaging is extremely important because large quantities are usually involved and buyers want to be able to transfer goods from the port of destination straight into the retail outlet. In most cases, there should be no need for buyers to repair or to change the factory packing.
- On the other hand, rattan furniture only needs to be wrapped in corrugated paper at the corners or in damp-proof wrapping. It is very important to be aware that requirements vary from country to country and to obtain information on the exact packaging needs directly from the prospective importer or buyer.

You can download information on requirements on packaging, marking and labelling in specific EU markets from the CBI website. Go to 'Search CBI database' at <http://www.cbi.nl/marketinfo>, select your market sector and the EU country of your interest, click on the search button and click on the packaging related documents under non-legislative requirements or on the CBI market surveys on specific EU countries under sector surveys. You can also find here a packaging checklist for export.



Apart from the safety aspects and protection against damage, the focus of packaging is definitely on environmentally friendly transport - as well as sales-promotion packaging. This means, among other things, that it should be considered whether returnable systems could be used on a much greater scale than before.

### Labelling

With regards to labels there are forest certification schemes of which the Forest Stewardship Council (FSC) is recognised most. Although especially in Southern EU countries, the Pan-European Forest Certification Scheme (PEFC) increasingly gains support from the furniture industry. The PEFC was in 1999 specifically developed for the small forest owners in EU countries. Similar to the FSC, this scheme promotes forest to be managed sustainably by providing an assurance mechanism to buyers of wood and furniture. PEFC has 32 independent national forest certification systems in its membership. You can find further information in the CBI market surveys covering the market in individual EU countries or at the PEFC website <http://www.pefc.org>

## 10.4 Tariffs and quota

### Tariffs

You can download information on requirements on tariffs and quota in specific EU markets from the website of the European Commission on [http://www.europa.eu.int/comm/taxation\\_customs/index\\_en.htm](http://www.europa.eu.int/comm/taxation_customs/index_en.htm) or at the EU export helpdesk at <http://export-help.cec.eu.int/>.

Import duties for furniture products range from 0 to 5.6%. The global furniture trade is rather liberal and therefore most items are free from duties. Import duties are only payable on parts, seats/furniture of cane, osier, bamboo and kitchen furniture import duties are required, shown in table 10.2.

**Table 10.2 EU import duties for selected furniture items (in % of the CIF value)**

HS Code	Product description	General tariff	GSP tariff
<b>9401</b>	<b><u>Chairs and other seats</u></b>		
<b>5000</b>	<b>Seats</b> of cane, osier, bamboo etc.	5.6	0
<b>9030</b>	<b>Parts of other seats</b> , wood	2.7	0
<b>9080</b>	<b>Parts of other seats</b> , other material	2.7	0
<b>9403</b>	<b><u>Other furniture</u></b>		
<b>4010</b>	<b>Kitchen furniture</b> , built-in, wood	2.7	0
<b>4090</b>	<b>Kitchen furniture</b> , other, wood	2.7	0
<b>8000</b>	<b>Furniture</b> of cane, osier, bamboo etc.	5.6	0
<b>9010</b>	<b>Parts of furniture</b> , metal, excluding seats	2.7	0
<b>9030</b>	<b>Parts of furniture</b> , wood, excluding seats	2.7	0
<b>9090</b>	<b>Other parts of furniture</b> , excluding seats	2.7	0
<i>Note: Value Added Tax (VAT) for all furniture between 15% and 25% (to be checked by EU country)</i> <a href="http://europa.eu.int/comm/taxation_customs/common/about/welcome/indexen.htm">http://europa.eu.int/comm/taxation_customs/common/about/welcome/indexen.htm</a> .			

Source: TARIC 2006

If there is no special trade agreement in force between countries, the general import tariffs apply. For developing countries, some kind of preferential trade agreement is established where import tariffs for furniture are reduced under the Generalised System of Preferences (GSP) or the Cotonou Arrangement for the ACP countries (Africa, Caribbean and Pacific). The GSP does not apply to countries that produce furniture in large quantities such as China and Indonesia.

At present showing the Customs Authority Certificate of Origin ('form A') can reduce the

import duty payable as furniture items and a permanent reduction is being considered. In addition, a Movement Certificate EUR 1 is required to show where the products have been produced (the country of origin). Most imported goods are subject to an 'ad valorem' duty, which means that the duties are levied as a percentage of their value.

After the tsunami in South East Asia, the European Commission is working to allow countries to take fuller advantages of the benefits of the GSP. GSP tariffs do not affect the furniture trade, and fortunately most of the furniture industry in Malaysia and Indonesia were not badly affected by the tsunami.

Up-to-date information on import tariffs and an updated list of least developed countries can be obtained from the Customs authorities in Rotterdam, The Netherlands, through their on-line system, known as the Integrated Tariff of the European Communities (TARIC) at (<http://www.douane.nl>). Click on 'Business' and on 'Imports' where you will have to mention the HS code of the furniture item concerned; a detailed list of HS codes can be found in Appendix A. Other sources of information are the European Commission, trade associations and importers.

### ***Quota***

There are no quantitative restrictions for imports of furniture. However, as a result of the EU Council regulation No 194/1999 of January 25, 1999, anti-dumping duties have been imposed on hardboard coming from some Eastern European countries such as Russia and Bulgaria.

Specific information with regards to each EU country you can find in the CBI market surveys covering the market in individual EU countries.

## PART B: EXPORT MARKETING GUIDELINES: ANALYSIS AND STRATEGY

The purpose of Part B is twofold:

- The Chapters 11, 12 and 13 aim to assist you in the decision-making process to export. They review the main topics to consider when exporting furniture to the EU markets and identify the business areas of attention to get ready for export. Especially in the saturated EU furniture market, it is extremely important to carefully decide whether to export or not.

You can look into each topic by gathering information on some of the key questions that arise. When sufficient information is obtained by market research, you can identify and select target markets. Some relevant information has already been provided in Part A and some sources for further research are given in the next chapters.

As a furniture manufacturer, you can review the export situation now and recognise the market opportunities, your own strengths and clarify beforehand where your business needs to change or develop. In this way, many problems arising later on can be avoided. In order to become successful, your export business should be built on firm foundations. International expansion can bring tremendous benefits, but it will also bring new pressures and ask much of your resources and skills.

- Chapter 14 give you the main export marketing actions you will have to do for a successful penetration the EU furniture market.

More information on general issues related export marketing can be found in CBI's *'Export Planner'*. On the CBI web site you can find the *'EMP Document Builder'*, which is an interactive tool guiding you step-by-step in preparing an export marketing plan. Information and methodologies on conducting market research, can be found in CBI's manual *'Your guide to Market Research'*.

## 11 EXTERNAL ANALYSIS: MARKET AUDIT

An external analysis or market audit will help you to identify the furniture markets or niches that have the highest chances of success. Begin with a broad perspective by becoming familiar with each EU country and gather information on the following topics:

- **General data** (population trends, marriages, divorces, households, migration/moving trends).
- **Housing data** (housing stock, rooms/dwelling space, floor area, new builds, housing market).
- **Economic data** (disposable income, unemployment, consumer confidence, socio-economic trends).
- **Household expenditure** (expenditure or retail sales on furniture related to other durables).
- **Market size** of the product group and/or specific item in value and volume in the past few years.
- **Trade flows** – identifying upcoming EU markets and competitive supplying countries.
- **Market developments** (market stage, market trends e.g. shift towards contemporary style).
- **Production developments** (trends in shifting production to Eastern Europe, China etc.).
- **Consumer trends and motives** (should furniture be functional, removable and/or a statement of their particular lifestyle? Who are the trendsetters/opinion leaders?).
- **Interior trends** (new styles, designs, materials, colours, finishes and influence of fashion etc.).
- **Consumer buying behaviour** (buying sets of furniture versus buying individual items? differences between consumer groups? What does each group regard as most important?).
- **Market niches and opportunities.**
- **Main competitors**

As an exporter, you should then set priorities and choose target markets for your specific furniture item. Here you could assess the sales channels, i.e. how to get his furniture to end-users in each of these markets. For example, you could export direct to a primary market using an importer, or you could export indirectly by contract manufacturing to a customer in a secondary market.

Once the priorities are set, you should focus on primary markets and segment them further by region, by product group or by consumer type (income, age, life stage, style etc.). Try to investigate the local interior design trends, prices and margins and collect as much as possible on your direct competitors who operate in the same segment.

### 11.1 Market developments

#### **Desk research**

Much information on these topics can be collected by desk research, especially via the Internet. General, housing and economic data can be found at National Statistics offices in each country. For furniture, there are useful trade portals (*see information sources*), trade associations and magazines, most of which are connected to the Internet and offer an online database, but many require payment of a subscription.

**Trade statistics** are usually available for most EU countries and give a broad indication of market sizes. However, re-exports of furniture are high, especially by the Netherlands, Belgium and United Kingdom. Another issue is that in these statistics products are often subdivided into very broad categories e.g. according to raw material (wood, metal, plastic). Your specific item may be within a larger product group, which will still leave some questions to be resolved.

**Market data** is often available for the larger EU furniture markets which have good and up-to-date information sources. As these countries often provide their information according to similar definitions, they can be compared more easily.



**Information sources****Market development**

Information on market size and developments is included in this market survey, at portal sites (<http://www.ueanet.com> or <http://www.furnitureweb.com>) and can be found at websites of trade associations, trade press and on some country or product specific furniture websites.

Trade press in particular e.g. the German magazine Möbelmarkt, UK Cabinet Maker and the French Courrier du Meuble, as well as trade fair organisers IMM (Köln) and Cosmit (Milan), provide information on the latest market sizes, developments and interior trends.

You can also find furniture market reports on <http://www.usatrade.gov> or <http://www.hardwoodmarkets.com> or buy reports at <http://www.marketsearch-dir.com>, which are not too expensive. You can find other information with articles free and most reports at a charge at ITC (<http://www.intracen.org>).

Reports on trends, motives and buying behaviour can be found in Cabinet Maker (only UK market) and in furniture market reports available from commercial business information providers. Some of these reports are useful and can be bought in part or by chapter. However check whether they really cover your specific item, as they are expensive. The most important providers are:

<http://www.worldfurnitureonline.com>

<http://www.aktrin.com>

<http://www.snapdata.com>

<http://www.euromonitor.com>

<http://www.mintel.com>

<http://www.marketresearch.com>

**How to collect market data**

**Retail sales:** Total sales by retail outlets in value (€) are often measured at current or constant end-user prices. In the European Retail Handbook (published by Mintel), furniture as a product group is combined with furnishings and carpets. Even if product categories are too broad, this is still a good form of comparison. When collecting data, try to *check at least three years*. Some sources report retail sales with sales tax, while other sources don't.

**Consumption:** Finding up-to-date statistics on consumer expenditure on furniture varies between countries. Euromonitor gives consumption per capita figures for EU countries, but they still need to be checked with other sources.

**Industry sales:** Furniture trade associations often provide trade and retail sales statistics. Sales statistics include sales to export markets, which you need to deduct in order to calculate the national sales. Sometimes prices given are wholesale or factory level.

**Field research**

There is often a need to validate the findings from desk research and get other information. Talk to other exporters, especially those who export furniture items or parts to EU markets, or to exporters of similar products e.g. household furnishing, floor coverings or tableware or accessories. There might be a way to join forces in research and enter EU markets together.

Interviews at trade shows with importers, wholesalers, editors of trade magazines or managers of furniture trade associations can be very enlightening. You may discover attitudes people have towards your company, country or product. Field research can be crucial to take the final export decision, particularly if your desk research is inconclusive. Store checks at large furniture shopping malls or at IKEA or Conforama stores give a good idea of popular items, colours, material, prices and how they are presented.

More information can be found in Chapter 3.1 and 3.2 of CBI's *Export Planner*, Chapter 3 of CBI's *EMP document builder* and Chapter 3.1.7 of CBI's *Your guide to market research*.

## 11.2 Competitor analysis

When target countries have been established, find out how many competitors operate in these markets, how they sell their products, through which channels and at what prices. In each furniture product group you will find different competitors, varying from well-known branded furniture to other exporters from developing countries.

The large exporters from China, South-East Asia and Eastern European countries are already established in most EU markets (see Chapters 5 and 6). As these suppliers are technologically advanced and can benefit of economies of scale and well-organised delivery, competition for exporters from (smaller) developing countries will be difficult. These exporters are also very proficient at accessing the EU (see Chapter 10).

Hence, the main focus should be on niche markets and on the direct competitors operating in this segment. Here, try to find out relevant points on the following issues:

- **Are there many competitors?**

Make a list of all your direct competitors and try to assess if it is still worth trying to enter your target market or market niche. For example, you will find many competitors for bedroom cabinets, but by focussing on bedroom cabinets made of bamboo as your specialty, there may be fewer competitors.

### **Who are your competitors?**

Once the main competitors are clarified, try to collect as much information as you can in terms of competitors' furniture items, function, style, material etc. and get the opinion of your business contacts on these competitors in your target markets.

### **Will new competitors enter your market?**

Try to be aware of the forthcoming trends in interior styles. When a particularly style is predicted to become fashionable, many competitors will enter the market early. Use your contacts to see if any new companies have emerged in your target markets, which could be serious future competitors.

### **How do competitors sell and where?**

Find out which trade channels your competitors use, in which countries or regions and why this is the case. If possible, visit competitors' companies to learn how products are priced and distributed.

### **Your competitors' strengths and weaknesses?**

Try to find out how long competitors have operated in the EU markets and most importantly, what their strengths and weaknesses are, if possible sub-divided by country.

### **Monitor activities in the furniture industry**

Visit trade fairs (international or local), congresses, seminars etc. to contact potential buyers to learn about the developments in their market and find out more about competitors. Take the time to attend trade fairs to see what your competitors are doing and how they promote their products.

For more general information on analysing competitors, check Chapter 2.5.4 and 3.3 of CBI's *Export Planner*, Chapter 3 of CBI's *EMP document builder* and Chapter 3.1.7 of CBI's *Your guide to market research*. When investigating competitors more in detail, you could use a *checklist*, trying to collect as much information as possible by desk (internet) and field research:

- ✓ **Company details** (Headquarters and organisation, Production locations, Total number of employees (administration, production and sales and marketing), Ownership and financial performance).
- ✓ **Export activity** (Export sales, Importance of exports in total revenues, Export methods (through overseas subsidiaries, agents, distributors), Countries in which export sales are made and local resources in each country, Target market segments and main target groups, Market shares in key segments or niches).

- ✓ **Products** (Product range by function and style, Specifications of items in terms of material, design and finish, Claimed technical/specification advantages, Design ability and flexibility, Positioning, themes, concepts and brands).
- ✓ **Distribution** (Distribution channels used (nationwide or particular regions), Key distributors, Distribution methods (own transport resources, subcontracted logistics services), Size and structure of transport fleet).
- ✓ **Prices and discounts** (*if possible*) (Price of ranges per product line, Discount structure).
- ✓ **Promotion** (Presentation of products at exhibitions or in store, Brochures and catalogues, Advertising (expenditure, media used) and publicity, Other information you can find at exhibitions, store checks, Competitors themes/concepts in promotion, Website – coverage and contents).
- ✓ **Relationships/partnerships** (*if possible*) (Licenses, Joint ventures, Distribution agreements).

**Information sources****Competitors**

**Desk research:** Information about manufacturers and main players can be found in Chapter 5 of this market survey. Check business directories (or platforms), found on furniture portals <http://www.furnitureweb.com> and <http://www.furnitureonline.com>

You may also find information through trade magazines, trade fair catalogues (often available on-line at the website of the trade fair organizer), competitors' websites, annual reports or brochures with their product offering. Also look in parts of reports from on-line business information providers who also offer company profiles at a charge.

There are also generic business directories. The most important of these are Europages and Kompass. Business directories offer multiple search filters, like product group, market, company type, company size etc. Use of the business directories is free of charge. Dunn & Bradstreet provide financial information on any (registered) company in the EU, alongside some market reports.

<http://www.europages.com> <http://www.kompass.com> <http://www.dnb.com>

**Field research:** at exhibitions, store checks, through (potential) customers/buyers or a contact in your target market, who can check e.g. prices or promotional material.

### 11.3 Distribution channel assessment

Once a better understanding of the market developments, opportunities and direct competitors in the target market has been obtained, the next step is to find the right way to enter these markets. This choice will vary according to the opportunity or stage (growing or saturated) of the target market as well as with the type of furniture and the investment required to make the entry a success.

For example, if you consider exporting rattan cabinets and find opportunities in colonial style living rooms and contemporary style bedrooms, you could target the largest markets such as Germany and the United Kingdom. In Germany most contemporary, as well as colonial, furniture is sold by large chain stores where price competition is currently enormous. This is also the case with bedroom specialists. However, there may be more specialist shops for colonial furniture. This may imply a direct export through an importer or agent. In the United Kingdom, colonial style furniture is already established and being sold by a variety of small specialists. Currently, colonial furniture is also being sold by specialised colonial chains stores such as *Lombok* (see Chapter 8) so licensed production could be an option here.

#### **Possibilities for market entry**

Depending on the investment and the degree of risk, there is a range of possibilities in dealing with different levels of strategic involvement in target markets. Some of the possibilities are:

<b>PRODUCING</b>	<b><u>Indirect approach</u></b>	
	<b>with investment</b>	<b>minimal investment</b>
	<ul style="list-style-type: none"> <li>▪ Licensing</li> <li>▪ Franchising</li> <li>▪ Contract manufacture</li> <li>▪ Strategic alliance</li> <li>▪ E-commerce</li> </ul>	<ul style="list-style-type: none"> <li>▪ Assembly</li> <li>▪ Joint Ventures</li> <li>▪ Acquisition</li> <li>▪ Strategic alliance</li> </ul>
<b>EXPORTING</b>	<b><u>Direct approach</u></b>	
	<ul style="list-style-type: none"> <li>▪ Agents</li> <li>▪ Importers</li> <li>▪ Retailers (specialized / non-specialized)</li> <li>▪ Domestic manufacturers and Contractors</li> </ul>	

The indirect approach is a low-risk option, being an extension of domestic production e.g. manufacturing furniture parts for an EU supplier. However a direct approach requires a long-term strategic view, based on a good understanding the target markets. In this respect, EU markets also differ from the US market in terms of consumers, products (sizes!) and with a long history in furniture, EU countries have a highly diverse distribution network.

Nevertheless, there are good opportunities for exporters from developing countries by taking the direct approach. A lower risk option in highly competitive markets could be to firstly get a foothold in some markets by taking the indirect approach. Once more knowledge on these markets is obtained, exporters could approach them directly later on.

### ***The direct approach***

When exporting direct, the best distributor must be chosen by gathering information on the potential sales channels. Try to find out if your furniture item fits well into their specialism, if they have any. Find details of importers or agents (e.g. through their websites), their product range, to whom they supply and their distribution coverage in your target country.

#### **▪ Key questions on distribution channels**

- Details on the supply chain – manufacturers; importers; agents; wholesalers; retailers; contractors; end-users?
- What are the latest trends in distribution? Can this influence my business?
- Who in this chain would be the best trade partners in my primary markets?
- What are their advantages/disadvantages? How can I get in touch with them?
- Do these partners serve retail outlets frequently visited by my target group?
- What are suitable in-store themes in which my product concept will fit?
- What level of after sales or customer service is required in these markets?

#### **▪ Key questions on Buyers / Customers:**

- What do buyers think of their existing suppliers and products/services?
- What would encourage them to switch to your product?
- What is most important for them:
  - Competitive price?
  - The sort of item, its special material?
  - Design capability?
  - Distribution cost?
  - JIS delivery?
  - Service and quick response?
- What is the buying policy of large retailers? Branches in other target markets?



<b>Information sources</b>	<b>→</b>	<b>Distribution channels</b>
<p>Information can be found at trade associations and Chambers of Commerce. Check local trade magazines that regularly interview store managers and other key people in the supply chain. During visits, do some store checks, get an idea of in-store themes and ask opinions of store managers. It is useful to know beforehand if your item fits into the store concept when approaching buyers. If you cannot do it yourself, ask local people to check some stores. You could find buyers through exhibition catalogues (e.g. on the Internet), trade portals and at sites of business platforms (by sector – by country/region).</p>		

Most furniture items are handled by importers supplying specialised furniture retailers or buying groups. Sometimes buying groups act as an importer by purchasing direct from manufacturers. Importers have a good knowledge of the market and provide the safest and most effective method of distribution for exporters from developing countries. Generally, importers who operate a sales network that covers an entire country expect exclusive representation agreements. They tend to be quite specialized in their own field.

<b>Distribution by an importer:</b>	
<b>Advantages</b>	<p>Volume orders against guaranteed payment (only if he opens an L/C)</p> <ul style="list-style-type: none"> <li>→ No risk of unsold stock.</li> <li>→ Travel costs can be divided when visiting more than one importer.</li> <li>→ If working relationship is successful, more business will follow.</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>→ Exporters receive a relatively small proportion of the final consumer price.</li> <li>→ Importers may require exclusivity in the sale of the item.</li> </ul>

As mentioned in Chapter 8, furniture retail stores and hypermarkets have grown very quickly in most countries, with IKEA still expanding. Chain stores and even supermarkets (e.g. Tesco) have items produced according to their own design and specifications under their own or a designer label. Their advanced stock control systems using barcodes enables them to integrate production, buying, distribution and selling. Most organizations buy directly and some of them do not raise problems of financial/credit reliability.

<b>Distribution through retailers: Chain stores, DIY and department stores</b>	
<b>Advantages</b>	<ul style="list-style-type: none"> <li>→ Items can be sold at a higher price than to importers.</li> <li>→ Production of the item starts only after receipt of the order.</li> <li>→ Payments are more secure, because L/Cs or similar methods are used.</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>→ It is hard to establish a relationship with buyers, because they often change.</li> <li>→ It is difficult to get in touch with buyers, who are always very busy.</li> <li>→ Special conditions are required in labelling, packaging or pre-packing assortments for individual chain store members.</li> <li>→ In the case of bad performance, late delivery or wrong follow up of instructions by the exporter, buyers will make claims or cancel the order.</li> </ul>

See Chapter 8 for other possible sales channels (e.g. direct sales, e-commerce). It is important to note that by selecting one trade channel, other channels are often automatically excluded. One cannot have a relationship with a department or chain store and simultaneously enter the market with the same line of products through an importer/wholesaler. This is often unacceptable to trade partners and will definitely have an adverse effect on export operations. For the serious developing country exporter, the recommended approach is to aim at building up a long-term business relationship.

## 11.4 Logistics

When the choice of how to enter the EU target markets has been made, the next topic is to look for the most efficient and safest way to deliver the items on time. Here the exporter has to compete with EU countries that benefit from simplified transport procedures as many custom formalities have been eliminated. In addition, Eastern European countries are nearby and can deliver quickly. Investigate possible sharing of transportation with other exporters to save costs.

### *Order control*

Most chain stores and retail buying groups work with centralized warehouses and distribution centres. Many of these are located in The Netherlands and in Belgium. They use the latest order control systems that minimize stock levels and are increasingly based on just-in-time (JIT) production, combined with electronic ordering. The JIT system requires extremely quick delivery, meaning exporters who are not close to their customers must hold more stock.

Some importers and agents still organise transport and stock keeping in the conventional way. It depends on volume, whether it is mass produced or a specialty item, but considering the rapid changes in trends, short lead times are increasingly required.

### *Reducing stock*

The current oversupply of furniture items and intensified price competition have resulted in the retailer's need for lower inventories and, at the same time, less out of stocks. There is a growing trend towards continuous replenishment. In general, purchasing policies are aimed at:

- Less pre-seasonal orders.
- More variety in furniture items per season (according to the latest trends).
- Investment in seasonal planning and control.
- More co-operation with suppliers (quick response and EDI (Electronic Data Interchange)).
- Fewer suppliers.

### *Transportation*

Furniture items from developing countries involve long distances mainly by ocean cargo that can easily take 1-2 months from e.g. Asia. To reach the destination country, there are still many formalities and documents (e.g. insurance) required related to tariffs and terms of delivery. There is a risk of items being damaged e.g. in transit by dampness or mishandling, so packaging of items is extremely important, as explained in Chapter 10. The shipping costs are based on the volume (length x width x height) and weight of the shipment.

Most furniture items are sold in unassembled or knock-down (KD) form. This is due to the high freight costs involved in transporting assembled furniture, e.g. rattan or colonial furniture, and because the major retail outlets can maximise retail space and turnover, thus ensuring high volume sales. KD furniture being transported in this way is either re-assembled by the importer for sale in retail outlets as an assembled product or sold as RTA for assembly by the consumer.

Furniture is increasingly transported in semi-finished form (referred to as 'parts' in trade statistics in Chapter 6). The finishing is done in the consuming country, which ensures that it is finished to the required specification and quality level.

Information sources	→	Logistic requirements
<p>Freight forwarders and carriers usually provide information on rates, frequencies, possible combined containers. A cargo and logistics database can be found at <a href="http://www.shipguide.com">http://www.shipguide.com</a> or a list of all freight forwarders can be found at the directory <a href="http://www.forwarders.com">http://www.forwarders.com</a> or <a href="http://www.fiata.com">http://www.fiata.com</a>, or for airfreight <a href="http://www.iata.org">http://www.iata.org</a></p> <p>Look out for common delivery terms and formalities. Details on tariffs and quotas can be found in Chapter 10.4 and the terms of delivery are explained in Chapter 14.4 of this survey.</p>		

## 11.5 Price structure

When entering the target markets, successful pricing is a key topic in the market entry strategy. In fact, pricing is the only area of the strategy that generates revenues for exporters. All other activities are costs.

Price is the first point of comparison in evaluating your product against the competition. As described in Chapter 9.1, prices for mainstream furniture items are under more pressure, coupled with an oversupply of cheap imported (RTA) furniture. Large retailers exert even more pressure on prices and margins in the furniture trade channels by purchasing in substantial quantities.

An exporter from a developing country would best concentrate on the exclusiveness of his product e.g. introducing original furniture which meets the function, design, size and comfort needs of a specific target group. In this case, the price is less important.

**Key issues on price structure** (see example of calculation in table 11.1 below)

- **Retail prices:** List the prices of competitors' products in primary markets.
- **The trade channels** with typical mark-ups of each channel and retail category.
- **Discount structure** and credit terms offered by local competitors
- **The production costs, incoterms, import duties, VAT level** and other costs.
- **Additional costs** for product adaptation, packaging, marketing and promotion etc.
- **The most 'reasonable' or 'tactical' price level** according to some of your local contacts in the field (agents, other exporters from your country, store managers).

Other sources for collecting price information can be found in Chapter 9.2, as well as Chapter 4 of the individual country reports.

In the case of trial orders, which are delivered for the first time, sometimes a discount is given to buyers and freight is prepaid. Once the prices are negotiated and the target markets are set, it is important to keep control and avoid too large a difference between prices in the each target market, as they are now easier to compare (€).

### Margins

In the price-competitive furniture market, margin maintenance is vital along with cost control. For retailers it is important not to erode the margin too much when making price promotions. In several EU countries, this has led to some stores being declared bankrupt. Successful retailers have the right balance between cost control, good retail margins and good buying.

#### *Margins at retail level*

The typical mark-up for retailers averages between 80 and 100% - see the price calculation example in table 11.1. This includes value-added tax (VAT), ranging between 15 and 25% depending on the EU country. Actual margins can vary widely around these averages depending on the exclusivity of the product, the level of demand and the type of store selling furniture.

For example, high street chain stores are often in expensive locations, carry a wide assortment and have many sales staff, which is also reflected in a higher margin. On the other hand, margins of large retailers such as IKEA or Conforama are lower, as they often buy direct from manufacturers and are usually located at out-of-town locations. Another example is the retail mark-up on RTA furniture, which is lower (around 70 to 80%), while mark-ups on luxury and fashionable furniture items tend to be higher.

#### *Margins at importer/wholesale level*

In a similar way importer/wholesaler mark-ups, which used to average 30 to 35% are now more typically less than 30%. Depending on the circumstances, there is also a wide variation around these averages. In principle, importers maintain a fairly close control over recommended retail prices, but oversupply and the growing success of furniture discounters has seriously disturbed the situation. Mark-ups as low as 15% and as high as 60% have

been recorded. The typical average commission rate for an agent is 10 to 15% of sales.

The following table 11.1 indicates the effect of low and high margins on the final consumer price, based on an FOB price of 100 for a furniture item. The final consumer prices can be compared with the price level of similar items of competitors.

In this example an imaginary mark-up is set, covering overhead costs (e.g. housing, personnel, selling and general expenses, own profit), which is estimated at 35%. Also, the breakdown of the cost price by material, direct labour and other cost is just made up here:

<b>Table 11.1 Calculation of final consumer price</b>	<i>Low</i>	<i>High</i>	<i>Competitor</i>
Material cost (incl. wood certification and 15% for unsold stock)	25	25	
Direct labour cost (incl. design costs)	25	25	
Other cost (e.g. packaging, promotion, sample shipments)	15	15	
<b>Cost price</b>	<b>65</b>	<b>65</b>	
Mark-up (overhead costs incl. own profit e.g. 35%)	35	35	
<b>Export price (FOB)</b>	<b>100</b>	<b>100</b>	<b>?</b>
Agent's mark up (e.g. low – not through agent, high 10%)		10	
<b>Agent's selling price</b>	<b>100</b>	<b>110</b>	
Import duties* (furniture parts 2.7%)	3	3	
Other costs (e.g. transport, insurance, handling, banking)	17	17	
<b>Landed cost</b>	<b>120</b>	<b>130</b>	
Importer's/wholesalers mark up (e.g. low: 20%, high 35%)	24	46	
<b>Importer's/wholesaler's selling price</b>	<b>144</b>	<b>176</b>	
Retailer's mark up including VAT (e.g. 19%)			
(e.g. low 80%, high 100%)	115	176	
<b>Final consumer or retail price</b>	<b>259</b>	<b>352</b>	<b>?</b>
<b>Ratio Cost price - Consumer price</b>	<b>2.6</b>	<b>3.5</b>	

\* If the GSP tariff is applicable for your country, the import duty can be reduced to zero.

See also Section 14.3 for more information on price setting. See Chapter 3.1.4 of CBI's *Your guide to market research* for more general information.

## 11.6 Product profiles

This section gives profiles of two key furniture items: dining and living room furniture and cupboards. They offer good prospects to most exporters from developing countries. Each profile gives an overview of the market requirements, market structure and main suppliers with much of the information already given in Part A. These profiles serve as a sample and are meant to encourage exporters to also make profiles for their specific products.

PRODUCT PROFILE - DINING AND LIVING ROOM FURNITURE			
<b>1. Product name:</b> Dining and living room furniture		Main items: <b>Dining chairs &amp; tables. Low- coffee- end tables</b> Other items: <b>Sideboards, buffets and dressers</b>	
<b>2. Market requirements:</b>  <u>European quality standards:</u> Voluntary EU quality standards for <i>chairs</i> are laid down in CEN/TC publications EN 1022, EN 1187 and EN 1728.  <u>Average sizes:</u> Chairs → 43-47 cm (seat height from the ground) Tables → height 72-76 cm; round table diameter 105-130 cm square table diameter 80-120 cm rectangular oval table width 80-95 cm, length 140-230 cm width of insert leaves 40-50 cm  Low tables → height 35-60 cm; round table diameter 40-100 cm square table 60-100 cm rectangular table 60-75 x 115-145  <u>Minimum labelling:</u> <ul style="list-style-type: none"> <li>• product description/name;</li> <li>• model/type;</li> <li>• construction/materials used;</li> <li>• guarantee.</li> </ul> <u>Packaging:</u> Chairs: Stacked in pairs, seat to seat and packed with a spacer pad with a protection at the back. The chair seats need protection by a piece of corrugated fibreboard, placed over the seat. Tables: Prevent damage to the legs by use of a base frame (of waste timber or plywood). Cover the legs by cushioning material (crêpe-paper, polyethylene foam or bubble film). Table surface should be completely overwrapped with protective material along the edges.  <u>Import regulation</u> Tables and chairs are free from duties Relevant import documents: <ul style="list-style-type: none"> <li>• AWB or Bill of Loading</li> <li>• Proforma invoice</li> <li>• EUR 1 form for ACP countries</li> <li>• FORM A for other countries</li> </ul>		<b>3. Market structure:</b>  <u>Average prices:</u> Chairs - simple € 80 - 140 (retail) special € 250 - 400 Tables - simple € 400 - 800 - luxury € 700 - 1,400 Low table - € 90 - 250  <u>Main markets:</u> The main EU markets are Germany, France, Italy and the United Kingdom. <u>Market trends:</u> There will be more interest in contemporary models. In Germany and UK, people tend to merge their living areas (living room and kitchen).  The styling of dining tables is erect and straightforward. Asymmetric shapes and combinations of materials are popular.  Gate-leg, folding and drop leaf tables are popular for small dining areas, as they use space efficiently. Different wood sorts can be used in one table, or combinations are made of wood with aluminium, chromium frames, with glass, with marble etc.  Sometimes dining tables are surrounded with comfortable chairs offering upholstered levels of comfort with changeable back coverings.  In contemporary style chairs, chromium frames and legs are popular with a plastic or wooden seating. Chairs are often easy to stack. Besides wood and metal, new materials e.g. resin.  The latest living furniture items are lighter, well designed, removable and multifunctional e.g. a contour rolling shaped coffee table or a table with an aluminium frame on wheels which also can function as a TV table.	<b>4. Main suppliers:</b>  The largest producing countries of dining and living room furniture are Poland, Italy and Germany.  The leading non-EU suppliers are: China, Romania and Indonesia  Other suppliers from developing countries include: Malaysia, Brazil, India, Thailand, Vietnam, Mexico, South Africa, Bosnia-Herzegovina, Turkey and Egypt.
<b>5. How to improve the quality:</b> <u>Raw material:</u> Only sound kinds of wood, which are well dried, should be used. Visible woods must be free from cracks, spiral growth, blue stain, worm and large black knots (unless knots are used as a design feature). Glutting and bonding must be sufficiently sound to remain stable in normal atmospheric humidity and temperature variations. In the case of self-assembly the material of the fittings should be good quality and be correctly made so that all components match and fit well. <u>Design:</u> Exporters need to pay more attention to European designs (not USA designs) and to ergonomic conditions. Designers should stay in tune with the changing EU market trends and look for new opportunities in combinations of materials. <u>Processing:</u> A constant colour stain is a basic requirement for export. A good finish to each furniture item is extremely important to buyers and consumers, but this does depend on the style.			



PRODUCT PROFILE - CUPBOARDS			
<b>1. Product name:</b> Cupboards		Main items: <b>Cupboards, storage cabinets, wardrobes</b>	
<b>2. Market requirements:</b>  <u>European quality standards:</u> Voluntary EU quality standards for storage furniture are laid down in the CEN/TC publication EN 1727.  <u>Average sizes:</u> Cupboards → enormous variety in sizes Wardrobes → height 180-235 cm; width of units 40-60-80-100-120 cm depth 55-60 cm  <u>Minimum labelling:</u> <ul style="list-style-type: none"> <li>• product description/name;</li> <li>• model/type;</li> <li>• construction/materials used;</li> <li>• availability of different models;</li> <li>• care and cleaning advice;</li> <li>• treatment/tests carried out;</li> <li>• guarantee.</li> </ul> <u>Packaging:</u> Cupboards: handles and knobs should be reversed. Glass panels to be placed near the centre of the pack. Cornices to be protected with fibreboard, channel sections and corner pieces. RTA: components should not move within the pack. Shrink-wrap together and the use of a 2-piece tray-and lid pack as an outer case is recommended.  <u>Import regulation</u> Cupboards are free from duties Relevant import documents: <ul style="list-style-type: none"> <li>• AWB or Bill of Loading</li> <li>• Proforma invoice</li> <li>• EUR 1 form for ACP countries</li> <li>• FORM A for other countries</li> </ul>		<b>3. Market structure:</b>  <u>Average prices:</u> Cupboards – large (oak) : - € 1,500 - 2,000 – medium (oak): - € 1,000 - 1,500 – medium (beech) - € 500 - 750 – small (beech): - € 90 - 250 Cabinet – medium (oak): - € 450 - 600 – small (plastic): - € 250 - 400  <u>Main markets:</u> The main EU markets are Germany, Italy, France and United Kingdom  <u>Market trends:</u> Cupboard and cabinets have grown strongly in the last few years out of necessity. For example to put clothing, books, albums, files or electronic equipment.  Nowadays cupboards are better designed. Most people look for good-looking, practical, multi-functional items to be used in the hobby- or study room, bathroom, corridor, hallway, kitchen but also in living rooms.  As with other furniture, there is a general trend to open shelves and lighter (transparent) materials, to prevent them from dominating rooms and to accentuate space and openness  Modern items are popular with wheels, so they can be moved easily. Lighter woods, like beech, maple and birch, and warm colours such as cherry and oak are preferred.  There is much use of glass (preferably opaque or frosted, rather than clear and cold) in door fronts and sliding panels.  Combinations of metal, wood and glass are popular in contemporary style. In country or colonial styles interest remains high in typical wooden cupboards e.g. from developing countries.	
		<b>4. Main suppliers:</b>  Germany, Italy and Poland are the main EU countries producing cupboards.  The leading non-EU suppliers of cupboards are: China, Vietnam Indonesia, Malaysia, Brazil and India  Other suppliers from developing countries include: South Africa, Thailand, Turkey, Croatia, and Tunisia.	
<b>5. How to improve the quality:</b> <u>Raw material:</u> Only sound kinds of wood, which are well dried, should be used. Visible wood must be free from cracks, spiral growth, blue stain, worm and large tornor black knots (unless knots are used as a design feature). Gluing and bonding must be sufficiently sound to remain stable in normal atmospheric humidity and temperature variations. In the case of self-assembly the material of the fittings should be good quality and be correctly made so that all components fit well.  <u>Design:</u> Exporters need to pay more attention to European designs (not USA designs). Designers should stay in tune with the changing EU market trends and look for opportunities in combinations of materials or in special carvings or hand paintings from own country.  <u>Processing:</u> A constant colour stain is a basic requirement for export. A good finish to each furniture item is extremely important to buyers and consumers, depending on the style.			

## 12 INTERNAL ANALYSIS: COMPANY AUDIT

After the external analysis, where market opportunities are clarified and priorities are set for potential EU export markets, an internal analysis should tell the exporter if he is fit to take up the challenge. It must clarify which of his resources and additional investments are required to enter his target markets successfully, without threatening sales in his domestic market.

Based on the internal analysis, the exporter can get an insight into his strengths and weaknesses by reviewing the following topics, covered in the next sections: product standards, USP, production capacity, logistics, marketing and sales, financial strength and capabilities.

### 12.1 Product standards, USP and production capacity

Although buyers are always looking for new and better lines of merchandise, they tend to stay with their established suppliers. Exporters must prove that their company and products are absolutely reliable before buyers will consider them as new suppliers.

The strong local manufacturing industry in the EU produces furniture of excellent quality and the standards demanded by trade buyers are similarly high. Buyers check whether the product adheres to international standards or to the standards in their own country.

#### ▪ Key questions on product standards:

- What standards are there in my target markets? (Quality, Safety, Environmental)
- How crucial are they for my type of furniture? How can I meet them? What are the costs?
- Any opportunities in terms of environmental issues? What are the benefits?
- Can I easily source certified wood in my direct neighbourhood?
- Can I supply kiln-dried wood? Where to source? What are the additional costs?
- What are the packaging requirements in my target markets? What are the costs?

Information on quality standards can be found in Chapter 10. As well as the legislative importance of quality standards, product standards are of particular importance from a competitive perspective.

#### *After sales service*

Furniture items from developing countries are mainly destined for the low-medium range of the market. A difficulty when dealing in the higher quality product ranges is the guarantee conditions laid down by producers and retailers. If something is wrong with a high value piece of furniture, it is generally too costly for the retailer to provide a replacement item. So, your furniture agent or importer must be physically able to handle this situation quickly and efficiently with your support.

#### *USP*

In a fragmented EU furniture market with consumers increasingly becoming critical on design, material and price, it is crucial for an exporter to create a product range that is different, innovative and appealing to the target consumers. Does it look right? Is it something new? What are the special features? How to translate all these features into benefits for consumers? For example, does an elegantly designed cupboard offer enough space for storage or do the target consumers regard this as less important.

The USP (Unique Selling Proposition) is an important thing to define. It is an exporter's method of defining and distinguishing his product from those of his competitors. This term usually refers to a positive selling point from a customer's point of view, but it could also refer to a particular advantage for the trade buyer. Consumer advantages may be defined in a number of ways – by country of origin, by uniqueness of design or material, the way in which the product can be used, are there any environmental advantages. Trade advantages may relate to efficiencies in production, or how it is packaged which may

provide cost or handling efficiencies.

If there are any genuine points of uniqueness, particularly in design, it may be worth registering this to prevent competitors from copying it.

### ***Production capacity***

The furniture sector in industrialised countries is generally characterised by the availability of good quality raw materials, low production costs, a flexible labour force, and good designers working with computer aided systems (CAD/CAM). In developing countries, the furniture industry is labour intensive and, despite having a long tradition in woodworking and furniture manufacturing, it is still rather backward technologically, with little innovation taking place.

This lower technological level often means that manufacturers have difficulty drying the wood adequately and are unable to supply furniture of a constant quality, size and finish. The finish of furniture items is extremely important, as it is the first impression given to importers and consumers. For RTA furniture, it is important to supply the correct fittings.

It is very important to assess whether your production capacity is large enough, or of a sufficient standard to meet the EU market requirements. These factors also impinge heavily on your competitive position.

#### **▪ Key questions on production capacity:**

- Is there enough spare capacity for extra orders? Is there any flexibility in production?
- Can I make the new items with the current machinery? Is extra skilled workforce required?
- What will be the cost of setting up additional production capacity?
- Will export order hinder orders for the domestic market?
- Can I get enough (certified) timber to meet the extra capacity?
- Are there fluctuations in the annual workload for staff and capacity of (wood) suppliers?
- Can I guarantee a consistent supply and get all raw materials in time?
- Is the factory clean and tidy enough (pneumatic air system) for the workers and are factory and machinery representative enough for foreign inspectors/buyers?
- Do I have enough storage facilities for extra production for foreign markets?

For more general information on product standards and production capacity, see Chapter 2.1 to 2.4, Chapter 2.5.2 and Chapter 4.2 and 4.3 of CBI's *Export Planner* and Chapter 4.1 and Chapter 7.5 of CBI's *EMP document builder*.

## **12.2 Logistics**

The downward pressure on prices requires the production of smaller lots, products with shorter life cycles and more product innovations. Therefore, exporters will need to be flexible enough to produce furniture according to specification and supply these items 'Just In Time' (JIT).

Most furniture is shipped by ocean freight per container, with different items and designs being combined. There is an increasing worldwide trend for consignments to be container packed at the factory. This can be done only in countries equipped to handle container ships at the port of embarkation. There are still very few deep-water ports with such facilities which currently exist in developing countries, especially in African countries.

Considering an average delivery time between 8 – 10 weeks from e.g. an Asian to an EU country, transportation requires careful planning. So freight services must be high quality, and at the same time, affordable at reasonable charges.

When starting an export business, you must not only estimate costs accurately before entering into a contract, but also ensure that the shipping facilities in your country can guarantee delivery within the contractual period. Are the shipping facilities reliable? – especially if it is difficult to control if you are not near to a port. Other problems may occur when the furniture

has to travel a long distance overland before reaching the harbour, or has to be stocked for a while due to a delayed shipping schedule. In these cases, a reliable shipping agent is essential.

It is recommended to use a shipping agent or freight forwarder to arrange transportation services on your behalf. As they are familiar with import and export regulations, they can simplify the shipping process. It is important to use a forwarder that is experienced in handling furniture to minimise the risk of damage and who can provide good advice on safe export packaging.

They also must have experience and preferably speak the language of the destination country, as well as providing assistance in handling all documentation, including export licensing. Freight forwarders are cost effective to use, because they can negotiate the best rates. They usually operate on a fee basis paid by the exporter.

▪ **Key questions on logistics:**

- How often are you able to deliver furniture to your target markets?
- What lot sizes do you generally produce or are you able to produce?
- What combinations of items can be made to different customers?
- How to shorten the physical distance (if any) between factory and harbour?
- Can you access ports with well-established shipping channels to the EU?
- What are the typical costs of transportation, insurance, document handling?

### 12.3 Marketing and sales

When exporting furniture, a combination of marketing tools (product, price, place and promotion) is required to keep control over your export venture. If it is your first time, expanding into exports demands an investment in time, budget and skills. You may consider recruiting new, experienced staff to co-ordinate your marketing strategy. There will be a need for someone to spend periods away in the target markets.

▪ **Key questions on marketing and sales:**

- Who will be (full-time) responsible for managing the export sales and marketing function?
- How well can he/she do the job?
- What additional training is needed (strategic/sales skills/language/technical/trends)?
- Who do you know in the target markets?
- What procedures will be needed to carry on your usual business when visiting the target markets?
- How do you feel about having to travel a great deal and spend considerable time away from home?
- Are you open to other cultures with business practices quite different to yours?
- What additional management information systems will be needed to monitor the new markets?
- What sort of promotional material is available for overseas markets?

Maybe you have existing contacts in your target markets, for example: relatives, friends, suppliers etc. They may gather information, monitor progress and follow up leads.

All marketing planning, sales and promotional activities involved in exporting, take place in the sales or marketing department. This department is responsible for the marketing and sales of products in the domestic and foreign markets, as well as for all operational and quality control issues. A simple sales organisation usually consists of office personnel and a field force.

Office personnel would provide sales support functions such as drawing up contracts, keeping customer records, invoicing, organising samples, despatch. The sales personnel, whether they are office based or field based, would be responsible for the actual selling, maintaining the day-to-day communication with customers, finding new customers, introducing new products, discussing prices, maintaining an up-to-date customer database.

Marketing and planning is usually controlled by company management, but there may be a

separate marketing department. Their key responsibility would be to develop the marketing strategy and provide the promotional materials necessary to implement the strategy.

See Chapter 11.3 and for more general information see Chapter 2.1 to 2.4 and 2.5.2 of CBI's *Export Planner* and Chapter 4.1 of CBI's *EMP document builder*.

## 12.4 Financing

Like any other approach to business expansion, direct exporting will involve a considerable investment, of not only time and effort, but also money. Before you get close to obtaining that first export order, you will incur costs for market research, R&D and travelling expenses. Further down the road you will need to have sufficient working capital to span the gap between the time you pay out for day-to-day running costs, raw materials, freight charges and insurance, and the time you receive payment from your customers. Here your bank could be a useful source of information. They can provide you with more information than just the financial issues.

### ▪ Key questions on financing:

- What do you need to invest in order to get a clear idea of your export opportunities?
- What would be the cost for additional resources (machinery/staff etc.)? How can you fund these extra costs?
- In the case of capital-intensive furniture items, can you invest regularly in new equipment which is required to ensure competitiveness?
- Is capital from other sources necessary for financing the operation? Any funds available?
- How much would be the export sales and marketing costs and how will this be funded?

With subcontracting, less investment is required for exporters. Here, the financing is limited to the production process, the purchase of raw materials and the possible finishing.

You need to ensure that you are familiar with all the payment methods your customers may use, and that your customers agree to the actual terms of payment (see Chapter 11.4). More general information on financing can be found in Chapter 2.1 to 2.4 and 2.5.2 of CBI's *Export Planner* and Chapter 4.1 of CBI's *EMP document builder*.

## 12.5 Capabilities

### ***Commitment to export***

In addition to an in-house staff with international experience, your company should be able to generate the physical and administrative infrastructure to deal with increased activities from exporting - not only in dealing with orders but also with processing Customs and shipping documentation. If this type of infrastructure is limited, then it is a weakness in developing sustained export activities.

### ***Export experiences***

It is important to learn from experience. If the company has tried but failed to penetrate an export market previously, analyse this to determine where things went wrong.

### ***Language and communication***

Being able to properly communicate with your potential customers is essential. Next to knowledge of export procedures and regulations, it is important for you and other staff in your company to know the language of your target market. English is often accepted in Scandinavian countries, the Netherlands, most of the new EU countries and in Germany. Nevertheless, a good knowledge of local languages is a competitive advantage and you will get to know hidden feelings quicker. Be aware that in France, Italy and Spain you must speak the local language.

For general information see Chapter 2.1 to 2.4 and 2.5.2 of CBI's *Export Planner*, Chapter 4.1 of CBI's *EMP document builder* and Chapter 3 of CBI's *Exporting to the European Union*.



## 13 DECISION MAKING

### 13.1 SWOT and situation analysis

After the External (Market Audit) and Internal analyses (Company Audit) are done, the exporter can define his position in the EU furniture market and assess which areas in his company need improvement in order to deal with competitors in his target markets. A technique to plan order from chaos, is to summarise the findings from Chapters 11 and 12 into a SWOT matrix, taking the following two points of view:

- Opportunities and threats in the marketplace**  
 From your external analysis, you have an idea which EU countries to approach. It is now time to start summarising all the opportunities and threats you have found on topics such as: market development, market niches, trends in interior design, production trends, furniture trade flows, price developments, non-tariff barriers (e.g. environmental issues) or any other relevant topic. These summary conclusions should provide you with enough insight into the opportunities and threats in the EU market.
- Your own strengths and weaknesses**  
 The internal analysis you have done should provide you with insight into your own strengths and weaknesses. Topics to be assessed include: product standards, production capacity, flexibility, logistics, sales force, financial strengths and the capabilities, experience and commitment your company to approach overseas markets

An example of a SWOT matrix is given below. This only serves as an example, as circumstances vary by sort and size of company, the target countries, the furniture range and styles etc. As an exporter, you will need to do your own SWOT analysis tailored to your own specific situation.

<b><u>Opportunities</u></b> <ul style="list-style-type: none"> <li>- A new interest in 'ethnic furniture' in the UK</li> <li>- Sustained interest in SOHO and children's furniture</li> <li>- Importers look for new sorts of solid wood</li> <li>- EU manufacturers need parts to produce baroque style chairs which need intensive labour and skills.</li> <li>- .....</li> <li>- .....</li> </ul>	<b><u>Threats</u></b> <ul style="list-style-type: none"> <li>- Lower price level of items from developing countries, especially for teak and, rattan.</li> <li>- Consumers postpone purchase of furniture because of the economic recession.</li> <li>- Trends in interior design change quickly.</li> <li>- .....</li> <li>- .....</li> </ul>
<b><u>Strengths</u></b> <ul style="list-style-type: none"> <li>- Own designers and R&amp;D Department</li> <li>- Enough spare capacity, flexible production system and export experience to the Dutch market.</li> <li>- Use of rose oak and mahogany with certificates.</li> <li>- Other special materials in designs e.g. plait leather.</li> <li>- .....</li> <li>- .....</li> </ul>	<b><u>Weaknesses</u></b> <ul style="list-style-type: none"> <li>- Storage space small and untidy and low own inventory level of raw material.</li> <li>- Simple assembly jigs and much manual sanding.</li> <li>- Long physical distance to harbour.</li> <li>- Low own financial resources.</li> <li>- .....</li> <li>- .....</li> </ul>

Try to optimise your strengths. See how you could overcome weaknesses in the future and how you would deal with threats in the market place. The result of your SWOT analysis, the ability to overcome your weaknesses and the degree of risk when entering target markets are crucial for your decision whether or not to start exporting to the EU.

### 13.2 Strategic options & objectives

Your SWOT Analysis should provide you with confidence to know if you are able to export to the EU furniture target markets with more opportunities (than threats) and if your company is strong enough to start this venture. In order to export to the EU market:

You know which furniture items (function, style) or parts could be exported and how these products should be adapted or restyled in order to appeal in target markets.

You may decide to concentrate on a few growing target markets, especially if your company is new to exporting. You can divide markets into:

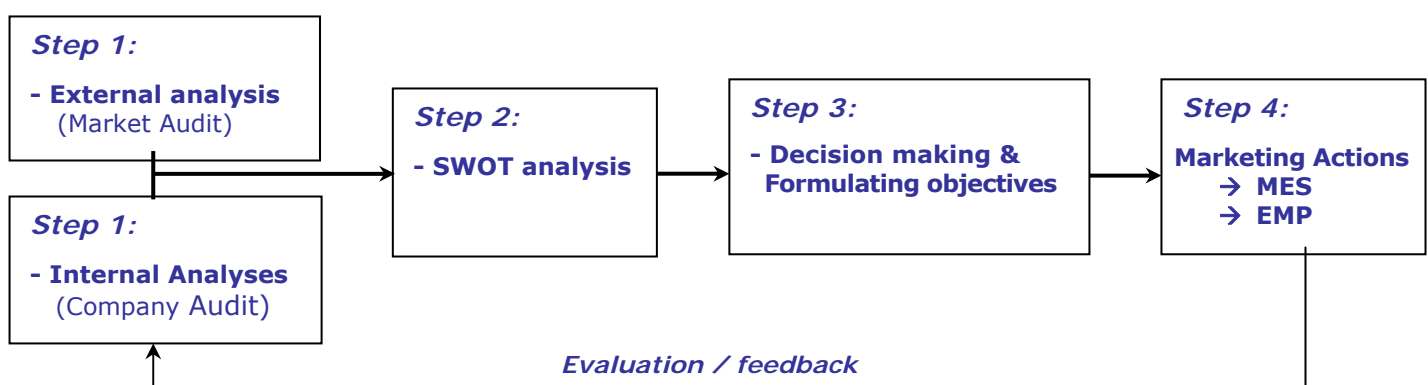
- **Primary markets**, where you can expect a relatively quick pay back against your investment at a relatively low risk. These markets are also referred to as *pilot* or *target markets*.
- **Secondary markets** expose your company to a greater risk. But if you have enough resources and approach them with care, they will still be able to generate profit. You could target these markets after gaining more experience in the EU.
- **Tertiary markets** may be interesting to approach actively in the future. But for the time being, you prefer an indirect approach e.g. to produce for EU manufacturers.

You know the best sales channels when entering the chosen markets. You know the risks, threats and difficulties and what strategy and tactics are required to tackle them and take this up as a challenge.

Once you are confident which furniture items would be suitable for export markets, establishing or expanding your export business should not harm your current business. In other words, does an export marketing venture fit into your company's objectives? In order to answer this question, you will have to ask yourself:

- What does your company want to gain from exporting?
- Is the export goal consistent with other company goals?
- Will the export business give you a satisfactory return on investment? Maybe your investment would be better used by expanding business in your domestic market.

Companies can waste a lot of time and money trying to enter markets that do not have enough potential or are not suitable for their product. So try first to become familiar with the EU market, set your priorities to just a few markets or market segments, focus on a few specific products and prepare yourself well in order to succeed in export marketing.



Once you have made a positive decision, you are ready to formulate your objectives in a *Market Entry Strategy* (MES) for your target markets and plan your activities in an *Export Marketing Plan* (EMP).

Together with the marketing actions and marketing tools covered in Chapter 14, you should be able to draw up the MES and EMP. General export marketing information can be found in Chapters 4 and 6 of CBI's *Export Planner*, CBI's *EMP document builder* and Chapter 3.3 of CBI's '*Your guide to Market Research*'.

## 14 EXPORT MARKETING

Once the decision to export furniture to the EU is taken, the next task is to find out how to build up this export business successfully. This Chapter provides a general view on using your marketing tools effectively in order to establish a long-term business relationship with prospective buyers or trade partners in EU markets.

### 14.1 Matching products and the product range

In order to differentiate from competitors, it is important that the furniture item conveys its authenticity to be special or 'unique' by special materials, designs, skills in craftsmanship or in finish.

#### *Developing your product designs*

Based on the information collected in your external and internal analysis, you may be aware of most furniture ranges by competitor suppliers e.g. in China and other Asian countries. Try to distinguish your product from the mass produced articles by adding something distinctive to the design or a *USP* (Unique Selling Proposition) to products. When looking into your product range, it is important to match your speciality with the chosen target group in your primary markets. Here an interview, or co-operation with a designer in your target market would be useful to give your item a 'local touch'.

#### *Creating a concept and product range*

When creating new products, you should try to present a 'product concept' and offer a range of products and/or related accessories, which fit the chosen concept. For example an Indian style-interior which consists not only of a table, chair, divan and cabinet – but also includes carpets, pillows, lamps, lanterns, curtains etc. Most buyers prefer to make a selection from different items, within an idea or concept matching their target group or fit into a specific theme for the coming season, e.g. in department stores. You could test this range of furniture items with some of your current buyers beforehand.

#### *Outsourcing*

When exporting furniture to secondary or tertiary markets, give buyers a clear idea on the raw material (certified or not), the available production facilities, production process, production capacity, flexibility, delivery, and the possibilities of buying different woods, fitting or other specific parts according to the requirements of your prospective partner.

#### *More furniture in semi-finished form*

Furniture is increasingly exported in semi-finished form. Finishing is done in the consuming country, ensuring that it is exactly to the required specification and quality.

#### *Presentation*

The way your range is presented to consumers in your target markets will be an important determinant of success. The environment in which a product is sold can be as important as the characteristics of the product itself. Any way to enhance or reinforce the qualities and distinctiveness of your products will be beneficial. Consumer packaging (as opposed to transport packaging) is one example.

#### *Packaging*

Special transport packaging is necessary to ensure that your furniture arrives in perfect condition at its destination. Unsuitable packaging often causes the product to be damaged – see Chapter 10.3.

For general information see Chapter 4.2 to 4.4 of CBI's *Export Planner*, Chapter 7.4 and 7.5 of CBI's *EMP document builder* and Chapter 3.3.1 of CBI's *Your guide to market research*.

## 14.2 Building up a relationship with a suitable trading partner

Among many potential customers/buyers, you must identify those who match your own company profile and product range and who are therefore most suited for building up a business relationship.

Each EU country has its own distinctive culture and way of doing business. See the specific country reports for more detail and the CBI *Export Manual Exporting to the EU*. If you do not acknowledge these important cultural issues, the quality of your product will be lost to them. More importantly, you will not be able to develop a relationship to make the most of the trading partnership. Try to get familiar with the local business customs. Much literature on this is available in bookstores. You can also find information at embassies or local Chambers of Commerce. Also check <http://www.doingbusiness.org>. If necessary, translators can be found through embassies or via commercial translation offices in your target country.

Check your potential customer's financial status and credibility, especially in the current economic recession with bankruptcies of some furniture retailers. At the end of the identification phase, you should have selected the names and addresses of suitable trading partners. Some sources to find information on potential trade partners are:

### *In your own country:*

- The foreign-trade Chamber of Commerce of your target country.
- The Economic Affairs departments or the official representative (Embassy or Consulate) of your target country.

### *In your target countries:*

- CBI's database (<http://www.cbi.nl>) or check CBI's company matching database or export development programmes for furniture.
- Business support organisations.
- Trade associations / trade press / national trade platforms or portals
- Your own country's public and private trade promotion bodies.
- Your own country's diplomatic and consular representatives.
- Chambers of Commerce.
- Trade fair organisers (catalogues).

Please be aware that sources of information only answer written inquiries. A detailed inquiry improves the chances of precise information and prevents future misunderstandings.

### *Evaluate the names and addresses you receive, using the following criteria:*

- Is the importer active in the target country you have selected? Which other countries?
- To which channels/retailers does he supply? Can you still approach large retailers yourself – even if you are in business with his company?
- Does the importer focus his activities on your item-related product groups?
- Do you have enough information about the reliability of this partner?
- Check your potential buyers' financial status by credit rating reports from Dunn and Bradstreet (<http://www.dnb.com>), otherwise try to negotiate a LC (letter of credit).
- Is the information on his company complete (contact person, address, tel. fax, e-mail).

Using these criteria, draw up a priority list of the contact addresses you have received.

See Chapter 5 of CBI's *Export Planner* for more general information.

### 14.3 Drawing up an offer

#### Pricing

Setting the right price for a furniture item is difficult, some retail prices have already been given in Chapter 9 and how the price is usually set in the furniture trade was provided in Chapter 11.5. Some of the following questions should be considered when setting a price:

#### *How much does it cost to manufacture your furniture item?*

- Production costs not only include costs for production, but also for raw material, wood certification, packaging, distribution and promotion.
- Also, the costs of unsold furniture items should be included.

#### *How will you sell your product?*

- Do you sell your products directly to customers in the EU?
- Are you producing on a contract basis for an EU manufacturer/supplier?

#### *What is the price of your competitors?*

- What do competitors charge and are their products e.g. in terms of material and volume supplied, and sales channel really the same to yours?
- The checklist in Chapter 11.2 and the price structure in Chapter 11.5, will give you an idea of the prices they charge.
- What could be the upper limit of your price range, comparing your products to competitors.

#### *What is the potential demand for my furniture item?*

- How unique is your product range or concept?
- To price according to demand you have to know more about the size and nature of your customer base and their feelings about pricing.
- Also, consider the market trends, niches and opportunities - see Chapter 4.

It is vital that new products from exporters of developing countries offer extra value. This could be of interest to a buyer either because it is a special product or novelty, or because it could appeal to his target group. In this case, the price is of secondary importance.

#### Drawing up an offer

There are two different kinds of offers:

- ➔ **General offer – or company introduction**
- ➔ **Specific offer.**

#### *Drawing up a general offer*

- The purpose of a general offer is to attract the interest of prospective buyers or trade partners who you do not know well.
- A general offer consists of sending a short profile of your own company and an overview of your product range with a price indication.
- In a personal letter, briefly introduce your company and inform him of the advantages of starting up a business relationship with your company, what are your USPs etc.

#### *Drawing up a specific offer*

A specific offer is legally binding for a certain period of time and is often based on a specific request from the prospective buyer/trade partner.

- You must therefore be able to fulfil its terms of contract.
- You should make a specific offer only when you know the business partner personally or after you have made the initial contact.



When sending a specific offer, it should consist of two parts:

**Written offer:**

- Name of the person responsible in your company;
- Exact description of the goods offered (preferably using an internationally valid quality standard specification);
- Quantity or quantities
- Price of the goods offered in accordance with the Incoterms 2000– see <http://www.iccwbo.org/incoterms/faq.asp>
- Possible delivery date and terms of delivery.
- Terms of payment.
- The validity period of the offer, the waiver and/or extension of the offer.

**Product samples:**

- Product samples must correspond to the goods available for delivery (if they do not, this can have a lasting negative effect on business relations);
- State the manufacturing methods used (if possible, provide quality certificates from an internationally recognised inspection organisation and send a reference list of existing customers).

**General remarks**

Recommended action for both kinds of offer:

- A copy of the airway bill number and an advanced notice (by e-mail) to the buyer, just after you have sent the sample to him.
- A telephone call to ask whether the offer (and the samples, if applicable) has/have arrived.
- An invitation to visit your company.
- Possibly propose a visit to the country of destination. In that case:
  - If necessary, hire an interpreter.
  - Ask your own consulate or other intermediaries for assistance.

For general information see Chapter 4.5 of CBI's *Export Planner*, Chapter 7.6 of CBI's *EMP document builder* and Chapter 3.3.2 of CBI's *Your guide to market research*.

## 14.4 Handling the contract

When handling the contract, you should consider the *terms* and the *fulfilment*:

**Contract terms:**

- Conclude delivery conditions according to international guidelines (e.g. Incoterms 2000)
- In the case of trial orders that are delivered for the first time, sometimes a discount is given and freight is paid (CIF or CFR basis).

Failure to deliver on time is likely to be subject to penalties. A failure in delivery usually results in cancellation of the order. Exporters should be absolutely sure they can meet delivery dates without delays, before they enter into a contract. Trading relations between exporters and importers are based on trust, and they can only be built up by meeting the high expectations of the importer.

**Contract fulfilment:**

- Procure the delivery documents in good time.
- Comply strictly with all parts of the supply agreement. A *standard contract* made by the International Chamber of Commerce (ICC) could be a good reference in order to know which subjects should be covered in a contract.
- If you cannot comply with any part of the agreement (e.g. delivery delays or quality problems), inform the customer clearly and in good time.

- Co-operate on a partnership basis and seek a common solution even if conflicts arise.
- Fulfilling the contract should have a high priority, particularly when delivering for the first time.
- Mention the total annual sales (in value) and the expected sales progress in the next coming years.
- Termination of the contract should be clarified (when, why and how).

## Payment methods and delivery terms

In the furniture trade, the payment method chosen will depend on negotiations between buyer and seller in which both will try to achieve the best terms for themselves. In general, this means exporters prefer to be paid before shipment while buyers prefer to pay as late as possible, after arrival, inspection or even sale of the goods.

### Common methods of payment

#### **Letter of credit (LC)**

The irrevocable LC is often used at the beginning of a business relationship when the importer and exporter do not yet know each other very well. The LC is irrevocable and will always be paid when the documents are in exact conformity with the stipulations in the L/C. The costs vary country by country (e.g. 5%) and depend on the bank. The cost of an L/C is higher than the D/P method. Payment by L/C is widely used in the EU when dealing with exporters from outside Europe.

#### **Red clause or down payment**

Here the importer or buyer orders the goods and pays 50% of the invoice in advance (instead of a LC). The remaining 50% is paid after the goods have been loaded for shipment.

#### **Clean payment**

This is the most common method within the EU. The basic condition here is that both parties know each other well. The process is fast and reliable, depending on the credit worthiness of the importer. The bank carries out the transactions through swift electronic data system and the transfer costs are not very high.

#### **Documents against payment (D/P)**

Also known as cash against documents (CAD). The buyer takes possession of the goods only after payment. This method is not so popular; the costs are about 1%, but vary by country and by bank.

#### **Bank guarantee**

The buyer's bank will present a bank guarantee for the amount of the invoice.

#### **Cheques**

Bank guaranteed cheques are generally no problem, though cashing them may take some time, up to six weeks. Not all personal cheques are accepted.

For definitions of payment methods and delivery terms see Appendix 1 and 2 of CBI's *Export Planner*. When dealing with every (new) supplier, consider very carefully which method of payment should be agreed upon. The same applies to the delivery terms.

### Most common delivery terms

- **FOB** (Free on Board): the buyer arranges for transportation and insurance. FOB must specify the port of departure.
- **CFR** (Cost & Freight): the exporter pays the freight, the buyer arranges for the insurance.
- **CIF** (Cost, Insurance & Freight): the exporter pays the freight and the insurance.

In all cases, once the items have crossed the ships' rails in the port of departure, the risk is transferred from the exporter to the importer or buyer. For furniture items, CIF is often used. Details can be found at the Incoterms 2000 of the ICC – see also <http://www.iccwbo.org>

## 14.5 Sales promotion

### Sales promotion

When exporting furniture for the first time, make use of trade fairs, websites, free publicity and, budget permitting, some advertising in trade magazines. Sales promotion can be done at a reasonable cost to develop new customers and keep in touch with your current customers. For example by a newsletter (by e-mail), you can show them that you are actively following e.g. the latest interior trends in the EU or are well-aware of the latest developments in new material, timber certification etc.

#### *When developing new customers:*

- Take good care of prospective customers. This includes expressions of thanks after you have met them and keep them regularly informed on the product range, etc.
- Brochures on your company and the product range are useful to promote sales.
- Ask existing customers for letters of reference. Such recommendations are particularly important for new contacts.

#### *Expanding supply quantities:*

- In some cases, you may be able to increase supply quantities to existing customers.
- Always answer a letter of inquiry. If you cannot supply this contact, say so, explaining that you will get in touch with him for the next campaign.

### The message

#### *Your product message*

Your product concept alone should convey a basic message in terms of style, form, colour, presentation and accessories to appeal to your target group.

#### *Presenting the message to others*

It is very important to present your product as confidently and clearly as possible to prospective customers or any other related parties in the supply chain through your own personal selling. In this presentation try to explain what you have found out from your external analysis e.g.:

- who your target group is.
- what your furniture item could do for them in terms of your USP
- why your product is better than competitive products.
- where they could go to get it.

Apart from buyers or customers, it is also important to communicate your product concept to all other people involved in the sale of your product. Once you are in business with the buyer, sales people in the supply chain e.g. retail sales staff need to clearly understand your concept or USPs. A written explanation would be best in order to prevent mis-understandings or may the wrong information being passed to consumers. In addition, the style of your product must be reflected in any promotional presentation. This means in store and by all people involved in the sale of your product.

### Advertising

Advertising is another tool aimed at increasing the sale of your products. This is relatively expensive. Always try to combine an advertisement in e.g. a furniture trade magazine with free publicity, which usually has much higher credibility than an advertisement. In order to get the best out of your investment, you will have to clarify:

- A clearly defined target group → Who could buy my products?
- A well-formulated message → What do I want to tell the customer?

- The main furniture trade press in the EU are:
- Möbelmarkt (Germany) <http://www.moebelmarkt.de>
- Le Courrier du Meuble et de L'Habitat (France) <http://www.fnps.fr>
- Cabinet Maker (UK) <http://www.cabinet-maker.co.uk>
- Infurma (Spain) <http://www.infurma.es>
- Federmobili (Italy) <http://www.federmobili.it>

See CBI market surveys covering the market in individual EU countries for details of other furniture trade publications.

### Participation in trade fairs

The *Salone Internazionale del Mobile* (<http://www.cosmit.it>) in Milan (Italy) and the *Imm - International Furniture Fair* (<http://www.imm-cologne.de>) in Cologne (Germany) are the most important furniture fairs in the EU. The Salone Internazionale (Milan) is the leading fair in terms of trends, with around 173,000 visitors and 2,500 exhibitors. The International Furniture Fair, with around 120,000 visitors and 1,500 exhibitors is the leading fair in terms of size. Other large fairs are the *Salon du Meuble* (<http://www.salondumeuble.fr>) in Paris (France), the *FIM - International Furniture Fair* (<http://www.tradefairsvalencia.com>) in Valencia (Spain) and the *Stockholm Furniture Fair* (<http://www.stockholmfurniturefair.com>) in Sweden.

**Participation in national and international furniture trade fairs** can be a useful tool. This requires comprehensive and detailed examination with regards to:

- selection of a suitable trade fair and preparations for participation;
- participation;
- follow-up.

Trade fairs, like promotional campaigns, need thorough preparation, viz.:

#### Before the trade fair:

- up-date your customer files.
- prepare all documentation (business cards, company brochures, product range, etc.).
- make a preparatory mailing, informing your current and potential customers of your
- stand number and inviting them to visit you at the stand and/or propose to visit them.

#### During the trade fair:

- register all contacts.

#### After the trade fair:

- enter all your contacts in a data base.
- write to contacts to thank them for their visit and send the information you promised.
- consider a second mailing several months after the first one, to remind your contact
- that you would be happy to answer any inquiry he may have.

Business support organisations and trade associations can help in providing information about trade fairs. More information can be found in Chapter 4.8 of CBI's *Export Planner*, Chapter 7.8 of CBI's *EMP document builder* and Chapter 3.3.4 of CBI's *Your guide to market research*.

## APPENDIX A DETAILED HS (AND PRODCOM) CODES

HS Code	Product group	PRODCOM code
<i>Upholstered</i>		
9401 610 00	<b>Upholstered seats</b> , with wooden frames	<b>3611 1259</b>
9401 710 00	<b>Upholstered seats</b> , with metal frames	<b>3611 1179</b>
<i>Non-upholstered</i>		
9401 400 00	<b>Seats</b> , convertible into beds	<b>3611 1210</b>
9401 690 00	<b>Non-upholstered seats</b> , with wooden frames	<b>3611 1290</b>
9401 790 00	<b>Non-upholstered seats</b> , with metal frames	<b>3611 1190</b>
9401 800 00	<b>Seats</b> , other	<b>3611 1309</b>
<i>Kitchen furniture</i>		
9403 401 00	<b>Kitchen furniture</b> , built-in, of wood	<b>3613 1050</b>
9403 409 00	<b>Kitchen furniture</b> , other, of wood	<b>3613 1090</b>
<i>Dining and living room furniture</i>		
9403 600 10	<b>Dining/living room furniture</b> , excluding seats, of wood	<b>3614 1250</b>
<i>Bedroom furniture</i>		
9403 500 00	<b>Bedroom furniture</b> , of wood	<b>3614 1230</b>
9403 209 10	<b>Metal beds</b> , excluding for civil aircraft and hospitals etc.	(see other furniture, metal)
<i>Other furniture</i>		
9403 609 00	<b>Other furniture</b> , of wood	<b>3614 1309</b>
9403 209 90	<b>Other furniture</b> , of metal	<b>3614 1100</b>
9403 709 00	<b>Other furniture</b> , of plastic, excluding seats	<b>3614 1439</b>
<i>Rattan furniture</i>		
9401 500 00	<b>Rattan seats</b> , of cane, osier, bamboo or similar materials	<b>3611 1230</b>
9403 800 00	<b>Rattan furniture</b> , of cane, osier, bamboo or similar materials	(inc. above)
<i>Parts</i>		
9401 903 00	<b>Parts of seats</b> , of wood	<b>3611 1410</b>
9401 908 00	<b>Parts of seats</b> , not wood	<b>3611 1430</b> (inc 94019010)
9403 903 00	<b>Parts of furniture</b> , of wood	<b>3614 1550</b>
9403 901 00	<b>Parts of furniture</b> , of metal	<b>3614 1530</b>
9403 909 00	<b>Other parts of furniture</b>	<b>3614 1590</b>



## APPENDIX B LISTS OF DEVELOPING COUNTRIES

**OECD DAC list - January 2006** - When referred to developing countries in the CBI market surveys, reference is made to the group of countries on this OECD DAC list of January 2006:

Afghanistan	Grenada	Palau
Albania	Guatemala	Palestinian Admin. Areas
Algeria	Guinea	Panama
Angola	Guinea-Bissau	Papua New Guinea
Anguilla	Guyana	Paraguay
Antigua and Barbuda	Haiti	Peru
Argentina	Honduras	Philippines
Armenia	India	Rwanda
Azerbaijan	Indonesia	Samoa
Bangladesh	Iran	São Tomé & Príncipe
Barbados	Iraq	Saudi Arabia
Belarus	Jamaica	Senegal
Belize	Jordan	Serbia
Benin	Kazakhstan	Seychelles
Bhutan	Kenya	Sierra Leone
Bolivia	Kiribati	Solomon Islands
Bosnia & Herzegovina	Korea, rep of	Somalia
Botswana	Kyrgyz Rep.	South Africa
Brazil	Laos	Sri Lanka
Burkina Faso	Lebanon	St. Helena
Burundi	Lesotho	St. Kitts-Nevis
Cambodia	Liberia	St. Lucia
Cameroon	Libya	St. Vincent and Grenadines
Cape Verde	Macedonia	Sudan
Central African rep.	Madagascar	Surinam
Chad	Malawi	Swaziland
Chile	Malaysia	Syria
China	Maldives	Tajikistan
Colombia	Mali	Tanzania
Comoros	Marshall Islands	Thailand
Congo Dem. Rep.	Mauritania	Timor-Leste
Congo Rep.	Mauritius	Togo
Cook Islands	Mayotte	Tokelau
Costa Rica	Mexico	Tonga
Côte d'Ivoire	Micronesia, Fed. States	Trinidad & Tobago
Croatia	Moldova	Tunisia
Cuba	Mongolia	Turkey
Djibouti	Montenegro	Turkmenistan
Dominica	Montserrat	Turks & Caicos Islands
Dominican republic	Morocco	Tuvalu
Ecuador	Mozambique	Uganda
Egypt	Myanmar	Ukraine
El Salvador	Namibia	Uruguay
Equatorial Guinea	Nauru	Uzbekistan
Eritrea	Nepal	Vanuatu
Ethiopia	Nicaragua	Venezuela
Fiji	Niger	Vietnam
Gabon	Nigeria	Wallis & Futuna
Gambia	Niue	Yemen
Georgia	Oman	Zambia
Ghana	Pakistan	Zimbabwe

**List of CBI countries – January 2006** - CBI supports exporters in the following Asian, African, Latin American and European (Balkan) countries:

Bangladesh  
Benin  
Bolivia  
Bosnia-Herzegovina  
Burkina Fasso  
Colombia  
Cuba  
Ecuador  
Egypt  
El Salvador  
Ethiopia  
Ghana  
Guatemala  
Honduras  
India  
Indonesia  
Jordan  
Kenya  
Macedonia  
Madagascar  
Mali  
Montenegro  
Mozambique  
Nepal  
Nicaragua  
Pakistan  
Peru  
Philippines  
Senegal  
Serbia  
South Africa  
Sri Lanka  
Suriname  
Tanzania  
Thailand  
Tunesia  
Uganda  
Vietnam  
Zambia