CBI MARKET SURVEY

THE DOMESTIC FURNITURE MARKET IN THE CZECH REPUBLIC

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Introduction
This CBI market survey gives information on some main developments in the domestic furniture market in the Czech Republic. The information is complementary to the information provided in the CBI market survey 'The domestic furniture market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.eu/marketinfo.

1 Market description: consumption and production

Consumption
The Czech market for domestic furniture was valued at € 668 million in terms of retail sales in 2008. In the same year, Czechs spent € 65 per capita, which was much lower than the EU average of € 161. The Czech Republic was a medium-sized furniture market in the EU and had a similar market value to a cluster of other countries, including Ireland and Hungary.

Table 1.1 Consumption of domestic furniture in Czech Republic, 2004-2008, € million

2004	2005	2006	2007	2008	Average ann. % change	Population (million)	per capita in €	Occupants per household	Households (thousand)
562	581	622	662	668	4.4	10.3	65	2.3	4,574

Source: Euromonitor, Trade Estimates (2009)

Between 2004 and 2008 the market increased by an annual average of 4.4%. Much of the recent growth has been underpinned by a growth in house building. Czech living standards have been increasing and are soon expected to reach the EU average. However the market stalled in 2008 as Czech consumers cut back on non-essential expenditure in the wake of the global economic slowdown.

Trends in consumption
The key trend has been the shift to higher quality and more stylish and contemporary furniture products, and a desire to change home decoration more frequently. The demand for premium quality furniture items is now well established on the market. Consumers are no longer satisfied with anonymous unbranded items of furniture. Young people are increasingly interested in design. This includes furniture and items in the home as well as clothing and fashion.

A recent poll by market research specialist Gfk indicated significant differences between consumers groups in attitudes to money and spending. Men, younger people and people with primary education tend to associate wealth with money and property, whereas women, elderly people and those with a university education associate wealth also with more intangible things such as health, a functioning family, friends and a sense of satisfaction. This translates into differences in attitudes towards purchasing consumer goods products such as furniture and other household items.

Other broader consumer trends on the Czech market include increasing brand loyalty, a desire to limit the amount of time spent on shopping, setting a price they are prepared to pay for certain items, and an emphasis of well-being over spending power (quality of life starting to become more important than material possessions).

Consumption by product group
In terms of the respective product groups, it is estimated that dining and living room furniture was the largest group, accounting for 25% of sales; upholstered furniture 23%; kitchen furniture 18%; bedroom furniture 18% and other furniture 16%.

Market outlook
The slowdown experienced in 2008 has continued into 2009. It is likely that 2009 will be a more difficult year than 2008 and the market may contract for the first time in many years. It is expected that slow growth will return to the market in 2010, although this will be dependent on how the Czech Republic emerges from the global economic slowdown.

Production
The Czech furniture industry grew steadily up to 2007 but has suffered in 2008 as part of the wider global downturn in demand for furniture. Production was valued at € 1.1 billion in 2008. An average decrease of 0.7% since 2004 does not reflect the significance of this industry within the Czech Republic and to the wider furniture trade in general.

The Czech Republic is a medium-sized EU furniture producer with 4,047 small to medium-sized companies, employing 31,143 people. However, approximately 500 companies employ 10 or more people, indicating the importance of small businesses in the sector. The industry is the thirteenth largest manufacturer in the EU and similar in value to the Romanian and Finnish furniture industries.

Table 1.2 Production of domestic furniture in the Czech Republic, 2004-2008, € million

2004	2005	2006	2007	2008	Average ann. % change	Number of companies 2006	Number of employees 2006
1,181	1,215	1,268	1,305	1,148	-0.7	4,047	31,143

Source: Czech National Statistics, Eurostat (2009)

The Czech Republic is blessed with an abundant supply of raw materials. The Czech industry in particular has a good reputation for the production of bentwood furniture, and more recently of kitchen furniture. Production is characterised by a high material intensity, which accounts for up to 80% of total costs.

Of great importance to the industry has been the creation of furniture clusters. This has established working groups for important world territories and has helped the industry in its drive to increase exports.

According to Eurostat, the value of the Czech production was sub-divided in 2008 into furniture parts (32%); other furniture 26%; bedroom furniture 13%; kitchen furniture 13%; dining/living room furniture 6%; rattan furniture 5% and non-upholstered seating 4%. There is also some upholstered seating manufactured, although this information is not provided by Eurostat.

Some interesting manufacturers include:
- Postl - http://www.postl.cz - located in Budejovice, designs and produces contemporary furniture for the kitchen and living room. It was established in 1932.
- Ledvina - http://www.ledvina-nabytek.cz - has been producing interior wooden furniture since 1928 and specialises in tables, especially for home office furniture.
- Antik Jelinek - http://www.antikjelinek.com - is a producer of rustic furniture. It manufactures replicas of antique furniture made of hard wood.

- Ton - http://www.ton.cz - is a privately owned manufacturer of chairs and tables and now exports widely to the EU, as well as Japan and USA.
- A catalogue of producers can be found at http://www.interier.com. Information on Czech furniture exporters can also be found at http://exporters.czechtrade.cz/en/company-catalogue/furniture-industry/.

Trends in production

Modernisation of the industry has continued with investment in new technology. This has enabled production levels to be maintained while the number of people employed in the industry has continued to decline. This has resulted in improved international competitiveness. Labour productivity is now at approximately 70-75% of leading EU producers such as Austria and Germany.

The use of new equipment and technology means that products contain virtually no dangerous or harmful substances hazardous to people or the environment.

Opportunities and threats

\+ Czech consumers are increasingly looking for products that contain greater intrinsic value in the way that they are made, or in terms of how flexible they are in meeting new styles of living at home. Exporters that can provide evidence of these attributes in their designs will find opportunities in this market.

\+ Czech consumers are now looking outwards to experience new designs and fashions, so opportunities primarily exist for higher quality, added value product, rather than low cost product, which already is supplied by some local producers.

\+ Domestic manufacturers are interested in talking to producers from other countries. They are keen to add new designs to their ranges to maintain their presence in the domestic market.

\- The close relationship between the Czech Republic and its western neighbours is a threat to exporters from developing countries. As much production is of components, exporters need to look for opportunities in finished products.

Many exporters will also be viewing the opportunities available on the Czech market. Any of these trends can equally be an opportunity for one exporter but a threat to another. Buyers are not always loyal to specific suppliers, so you could lose out to a supplier from your own country or another developing country.

More information on opportunities and threats can be found in Chapter 7 of the CBI market survey ‘The domestic furniture market in the EU’.

2 Trade channels for market entry

The independent sector, including many small specialist retailers and market traders, continues to dominate, but this is changing as large international retailers have established a strong position in the Czech market.

Some manufacturers also act as wholesalers, and some importers have their own retail outlets. Nevertheless, for exporters from developing countries, the use of specialist wholesalers or importers to reach this independent sector is still the best way to access this market.

Interesting wholesalers and importers include:

- Alnyk Ladislav Zatrok - http://www.alnyk.cz - located in Novy Bydzov, started in 1992. The main activity of this company is repairs to wooden furniture, especially rustic furniture in soft and hard wood.
- Idea Nabytek - http://www.idea-nabytek.cz - located in Prague, is an importer of furniture from Brazil, China, Romania and the Baltic States. It supplies rustic and classic furniture.
- Kracmar - http://www.kanabytek.cz - located in Celakovice, supplies furniture for the kitchen, home office and others types including sofas.

Retail trade
Over 2,000 retail outlets sell furniture and accessories. Large specialist retailers account for one third of the market, although this proportion is expected to increase. Buying groups are important in the Czech Republic. The leading buying group is Europa Möbel - http://www.europamobel.cz.

IKEA - http://www.ikea.com/cz - is the most popular furniture chain, from just 4 outlets. Other leading retailers include the DIY chains OBI - http://www.obi.cz - with 22 outlets, and bauMax http://www.baumax.cz - with 23 outlets, as well as the specialist Asko - http://www.asko-nabytek.cz - with 9 outlets. Recent new arrivals to the Czech market include Jysk - http://www.jysk.cz – with 14 outlets and Kika - http://www.kika.cz - with 4 outlets. The Slovenian chain Lesnina and the Polish Almi Decor are also planning to enter the market.

Other important players are Jitona - http://jitona-tusculum.cz - the leading manufacturer with its own retail outlets, and Sconto Nabytek - http://www.sconto.cz - with 4 outlets, owned by the German company Möbel Walther.

Hypermarkets (Carrefour, Hypernova) are also an important channel for furniture. One leading mail order operator is the German owned Quelle - http://www.quelle.cz. The use of the Internet is becoming more important in the sale of furniture, although it currently accounts for a small proportion of sales.

Price structure
Wholesalers' margins range between 20–35% of the CIF price, agents' margins are between 10–15%, while retailers' margins are between 80–100%. These margins will vary depending on which market segment is being targeted. The margin figures quoted in Table 2.1 are calculated as a percentage of the price purchased from whom they buy in the chain, not as a percentage of the CIF price. Because Czech consumers remain price conscious, there will be more pressure on margins. The VAT rate in the Czech Republic is 19%.

Table 2.1 Overview of margins in domestic furniture

	Low	**High**
Importers/wholesalers' margins	20%	35%
Agents' margins	10%	15%
Retailers' margins	80%	100%
Mark-up CIF price - Consumer price	**2.6**	**3.5**

More information can be found in Chapter 3.2 of the CBI market survey 'The domestic furniture market in the EU'.

Information on trade structure and business contacts can be found at http://www.czechfurniture.com. More information on doing business can be found at http://www.czechtrade.cz, http://www.businessinfo.cz - and the International Chamber of Commerce - http://www.icc-cr.cz.

3 Trade: imports and exports

Imports
In 2008, Czech imports of domestic furniture were valued at € 861 million, or 328 thousand tonnes. Out of the 27 EU countries, the Czech Republic was ranked twelfth largest in value and eleventh largest in volume, and as such was regarded as a medium-sized country for domestic furniture imports. This was similar in value to Poland and Denmark, and similar in volume to Poland, Denmark and Austria.

Between 2004 and 2008, Czech imports increased by an average of 13% per annum in value (from € 524 million) and 8.9% in volume (from 233 thousand tonnes). Poland, Germany, Italy, Slovakia and Austria were the major sources of imports.

Exports were 70% higher than imports in value, but exports volumes were similar to import volumes in 2008. Imports were increasing more quickly than exports. The same period has seen a small decrease in domestic furniture production and an above average annual increase in consumption. Although production was significant, imports were taking a larger share of the market. Exports were also high so there may be some re-exporting.

By source, around 8% of Czech imports, valued at € 65 million or 32 thousand tonnes, came from developing countries in 2008 (9.7% by volume). This proportion was 4.5% in 2004 (4.9% by volume). China accounted for 55% of all developing country supplies by value in 2008, followed by Malaysia (12%) and Indonesia (7%). Turkey, Vietnam, Ukraine and Brazil were also important suppliers. While China's supplies increased by an annual average of 42% over the period, supplies from Malaysia increased by 27%. Supplies from all other leading developing country suppliers increased over the period.

By product group, Czech imports by value were sub-divided as follows:

- The leading two groups were furniture parts with 54% of value and 38% of volume (€ 466 million or 123 thousand tonnes) and upholstered seating with 12% of value and 10% of volume (€ 106 million or 33 thousand tonnes).
- Dining/living room furniture represented 9% of value and 18% of volume (€ 74 million or 58 thousand tonnes) and other furniture accounted for 8% of value and 12% of volume (€ 65 million or 38 thousand tonnes).
- The remainder was taken up as follows: non-upholstered seating (€ 59 million), bedroom furniture (€ 45 million), kitchen furniture (€ 37 million) and rattan furniture (€ 9 million).

Exports

Domestic furniture exports from the Czech Republic were valued at € 1.5 billion in 2008, representing 324 thousand tonnes. Approximately 80% of this was furniture parts. Between 2004 and 2008, the average annual increase in exports was 5.9% by value but a 5.8% decrease by volume. There may be some re-exporting from the Czech market, as exports outweighed registered domestic production. The high proportion of furniture parts also suggests that the Czech market is largely used for partial assembly of furniture before onward shipping for completion elsewhere. The leading export destinations were Germany, the UK and France.

Opportunities and threats

\+ The main growth opportunities for developing country suppliers are in furniture parts, followed at some distance by bedroom furniture and non-upholstered seating.
\+ Other notable opportunities are in items for upholstered seating and kitchen furniture, of which the latter also has strong domestic production.
\- Rattan and dining/living room furniture have not grown along with the average growth of imports. Other furniture has not shown any growth, although detailed figures are not available for this group.
\- The Czech Republic takes a very low proportion of its imports from developing countries.

See Chapter 7 of the CBI market survey 'The domestic furniture market in the EU' for more information on opportunities and threats.

Useful sources

- EU Expanding Exports Helpdesk - http://exporthelp.europa.eu/
- Eurostat – official statistical office of the EU - http://epp.eurostat.ec.europa.eu;
- Understanding eurostat: Quick guide to easy comext ➔ http://www.eds-destatis.de/en/database/download/Handbook_Comext_Database.pdf

4 Price developments

Consumer prices

Consumer prices of domestic furniture in the Czech Republic were well below the European average. In terms of purchasing power, prices in the Czech Republic were similar to prices in Hungary, Estonia and Slovakia.

According to Eurostat, furniture retail prices decreased by 1% between 2004 and 2008, but increased by 1.7% in 2008, indicating rising prices after a period of falling prices. This compared to furniture retail price increases of 6.7% for the EU as a whole, but 2.6% for 2008. This also compares with the all-price index in the Czech Republic, which was 13.3% higher in 2008 than in 2004. Hence furniture price increases in the Czech Republic were well below the EU average and well below the all-price index in the Czech Republic.

The website of Czech National Statistics - http://www.czso.cz - publishes information on consumer prices, including furniture. For up-to-date furniture prices, see IKEA - http://www.ikea.com/cz, leading retailer Jitona - http://jitona-tusculum.cz - and the buying group Europa Möbel - http://www.europamobel.cz. In a price comparison of the same IKEA products in 18 EU countries, the Czech Republic was ranked eighth lowest. See Chapter 5 of the CBI survey 'The domestic furniture market in the EU' for more details.

Import prices

Although the industry does not make price agreements based on tonnage, it is useful to see how import prices compare. As Table 4.1 highlights, import prices were increasing. However, import prices to the Czech Republic were lower than many EU countries, and developing country import prices were low, although the differential with intra-EU import prices was relatively narrow. Please note these trends should be interpreted with care, as changes in imports do not always reflect changes in demand.

Table 4.1 Development in Czech average import values/prices, 2004 – 2008, €

	2004 ave price per '000 tonnes	2006 ave price per '000 tonnes	2008 ave price per '000 tonnes	ave. Annual % change
Total imports	2.25	2.63	2.62	3.9
Intra-EU	2.29	2.66	2.68	4.0
Developing countries	2.07	1.93	2.05	-0.2

Source: Eurostat (2009)

5 Market access requirements

As a manufacturer in a developing country preparing to access the Czech Republic, you should be aware of the market access requirements of your trading partners and the Czech government. For information on legislative and non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select domestic furniture and the Czech Republic in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found at the website of ITC on export packaging: http://www.intracen.org/ep/packit.htm. Information on tariffs and quota can be found at http://exporthelp.europa.eu/

6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from http://www.cbi.eu/marketinfo - go to search publications. For more information on doing business in the Czech Republic, visit the following websites:

- The Association of Czech Furniture Manufacturers - http://www.czechfurniture.com. The Cluster of Czech Furniture Manufacturers - http://www.furniturecluster.cz.
- Mobitex - http://www.bvv.cz - is the main trade fair, which takes place in Brno each March. In addition, PragoInterier - http://www.pragointerier.cz and http://www.incheba.cz - takes place twice a year, in February and September, organised by Incheba. Tendence - http://www.itendence.cz - takes place each September, also in Prague. For Habitat - http://www.forhabitat.cz - takes place each March. This is the fair for Housing, Furniture, Interior Equipment & Renovations.
- Stolarsky - http://www.stolmag.com - is the main trade publication for the furniture industry. This is also published in Slovakia. Consumer publications include Moderni Byt - http://www.dumabyt.cz – along with related titles from the same publisher, Marianne Bydleni - http://bydleni.marianne.cz/ - and Pekne Bydleni - http://www.peknebydleni.cz. Other titles include H.O.M.i.E – http://www.homie-direkt.cz - and HOME – http://www.casopishome.cz.
- Information on the Czech market can be found at http://www.incoma.cz and http://www.gfk.cz.

This survey was compiled for CBI by ***Searce***