



**the dti**

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Department:  
Trade and Industry  
**REPUBLIC OF SOUTH AFRICA**

# **DRAFT STRATEGY FOR THE DEVELOPMENT OF THE FURNITURE INDUSTRY**

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## Abbreviations and Acronyms

|                 |  |
|-----------------|--|
| <b>AsgiSA</b>   | Accelerated and Shared Growth Initiative of South Africa         |
| <b>BEE</b>      | Black Economic Empowerment                                       |
| <b>CSIR</b>     | Centre for Science and Industrial Research                       |
| <b>EU</b>       | European Union   |
| <b>FAO</b>      | Food and Agricultural Organisation                               |
| <b>FIETA</b>    | Forestry Industry Education and Training Authority               |
| <b>GDP</b>      | Gross Domestic Product   |
| <b>HIV/AIDS</b> | Human Immunodeficiency Virus /Acquired Immunodeficiency Syndrome |
| <b>HS</b>       | Harmonised System  |
| <b>IDC</b>      | Industrial Development Corporation                               |
| <b>IPAP</b>     | Industrial Policy Action Plan                                    |
| <b>KZN</b>      | KwaZulu-Natal  |
| <b>MIDP</b>     | Motor Industry Development Programme                             |
| <b>NIPF</b>     | National Industrial Policy Framework                             |
| <b>R</b>        | (South African) Rand   |
| <b>SADC</b>     | Southern African Development Community                           |
| <b>the dti</b>  | The Department of Trade and Industry                             |
| <b>TIPS</b>     | Trade and Industrial Policy Strategies                           |
| <b>UK</b>       | United Kingdom   |
| <b>USA</b>      | United States of America   |
| <b>US\$</b>     | United States Dollar   |

## **Executive Summary**

The Furniture Industry is an important sector in the South African economy, as it one of the most labour-intensive industries with a potential to contribute to the reduction of unemployment, increase exports and develop the Small, Medium and Micro Enterprises (SMME). The sector has potential to contribute to the geographic spread of economic activity since products can be produced in rural areas with minimal capital requirements.

The furniture industry is located within the manufacturing sector of the economy. Whilst its contribution to GDP is small (0.3% to the national GDP and 1.6% to manufacturing GDP in 2007) compared to other manufacturing industries, the relatively low capital investment required per job, the established resource and manufacturing base makes it an attractive sector. The sector can capitalise on the available opportunities and grow prospects, thus contributing to both employment and economic growth, as prescribed by the National Industry Policy Framework (NIPF).

The global furniture industry has grown by an average of 13% over the years from 2002 to 2006, with exports from the top 10 producing countries accounting for over 66% of global exports. The global players have positioned themselves between manufacturing low cost/low quality and high cost/high quality products. China has eclipsed the traditional world's largest export countries (Germany, Italy and USA), and by 2006 had become the largest furniture exporter (with 20% share of global exports) in the world from being the 9<sup>th</sup> largest in 2000.

The local furniture industry has not kept pace with the growth in worldwide furniture trade and has steadily been losing its share of the global furniture manufacturing, having moved from the 34<sup>th</sup> largest exporter in 2005 to 43<sup>rd</sup> in 2006. The escalation of cheap Asian imports, the declining investment in skills development and technological innovation, insignificant research and development funding over the past five years or so has resulted in the declining

levels of competitiveness in the industry. This has also contributed to job losses and the reversal from being a net exporter to being a net importer of furniture products. Whilst the largest furniture manufacturers have to some extent managed to hold fort in the face of increasing imports, the biggest casualties have been the small and medium-sized enterprises.

It remains doubtful if the local industry will ever effectively compete with the Asian imports. However, it is possible to position the local industry as the producer of high value niche furniture products that are globally competitive based on quality and/or differentiated designs. This requires a concerted effort on the part of the public and private sector to develop programmes that address the challenges that constrain the industry from achieving potential growth levels and significantly raise the levels of competitiveness.

This document presents a strategy for the development of the furniture industry. Its objective is to develop key action plans that capitalise on the opportunities for growth that exist in the industry as well as addressing the challenges that constrain the industry from achieving the desired growth levels. These key action plans address the challenges of skills development, SMME development and industry competitiveness.

It is envisaged that successful implementation of this strategy will reposition the industry to take advantage of its inherent advantages and start creating jobs and growing exports.

## **1. Introduction and Definition**

### **1.1 Background**

In August 2007, **the dti** released the National Industrial Policy Framework (NIPF), which sets out government's approach to industrial development of the South African economy. The framework seeks to contribute to the Accelerated and Shared Growth Initiative of South Africa's (AsgiSA) targets of raising Growth Domestic Product (GDP) growth to 6 percent per annum in 2010 and to half unemployment and poverty by 2014.

The NIPF is accompanied by the Industrial Policy Action Plan (IPAP), which outlines key action programmes that will be implemented to achieve the objectives of the NIPF and also the AsgiSA goals. Given the potential of the furniture industry to advance government's key economic objectives, IPAP has emphasised the need to explore opportunities and develop a strategy to grow the industry across different provinces where furniture is produced.

The document briefly describes both the domestic and the global industry, outlines challenges and opportunities in the local industry and based on this, propose measures to address them.

### **1.2 Definition**

As a guide to the definition of 'furniture', **the dti** looks at Chapter 94 of the Harmonised System (HS) code that defines furniture industry. However, not all sections of the chapter fall within the traditional definition of furniture industry. The following broad sections form part of the furniture chapter:

**Table 1: HS Codes for furniture**

| HS code | Description  |
|---------|--|
| 9401    | Seats (excluding those of heading 9402)  |
| 9402    | Medical, Surgical, Dental or Veterinary Furniture  |
| 9403    | Other Furniture and parts thereof(wooden, plastic, metal furniture used for office, bedroom, and kitchen; and parts) |
| 9404    | Mattress Support, Articles of bedding and Similar Furnishings  |
| 9405    | Lamps and Lighting Fittings  |
| 9406    | Prefabricated Buildings  |

This strategy document excludes the following sections from the definition of furniture: Seats meant for motor vehicles lamps and lighting fittings and prefabricated buildings. Seats are produced and exported under the Motor Industry Development Programme (MIDP). The main thrust of the MIDP is the development of an internationally competitive and growing automotive industry in South Africa. Most sectors that are part of the programme have increased both production and exports tremendously since its inception in the 1995. Consequently an analysis of furniture data with seats meant for motor vehicles will distort the picture of the industry's performance.

The sections: lamps and lighting fittings, and prefabricated buildings are not generally included in the traditional definition of furniture, and are consequently left out.

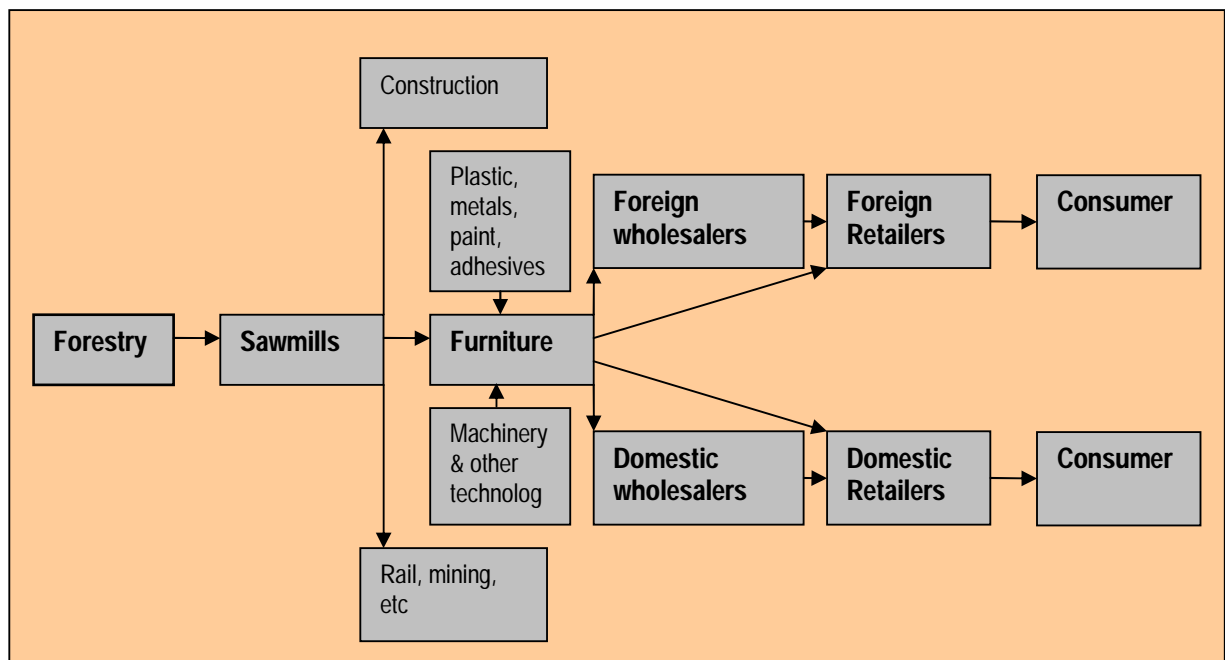
## **2. The Wood Furniture Value Chain**

In order to grow timber, inputs such as seeds, chemicals, equipment and water are needed. When the timber has reached a mature age (from 12 to 25 years depending on the type of timber) it sent to sawmills, where machinery and other inputs are used for production. The sawn timber is then delivered to the furniture



manufacturers. The manufacturers in turn obtain inputs from other industries such as plastic, metal, textiles machinery and paint. In addition to this the furniture manufacturers also source inputs such as machinery as well as inputs from the service sector in the form of design and branding expertise. The finished product leaves the manufacturers, generally through a buyer, into either the domestic or foreign wholesale or retail sector, before it reaches the consumer.

**Figure 1: Furniture value chain**



**Source: Source: Adapted from Kaplinsky and Morris, 2006**

The changing nature of the industry, often represented by large-scale retailers has led to an increasingly common practice of retailers buying straight from manufacturers in a cost saving-initiative. The last step of the value chain is then the consumer who will, in time, either recycle or dispose of the furniture.

### 3. Global Overview of Furniture Industry

Worldwide, high-volume furniture manufacturing strategy has been pursued by most developed and developing countries. The breakthrough in ready-to-assemble designed furniture has encouraged innovation and new designs for exporting manufacturers. Between 1995 and 2000 worldwide trade in furniture grew by 36% and it was by 2000 the largest low-tech sector (Kaplinsky *et al.* 2001). Developed countries, led by Italy, Germany and Canada have traditionally been the main producers, and exporters of furniture, only in the last ten years have they faced fierce competition from developing countries especially China (and to a lesser degree Malaysia, Vietnam and Indonesia).

In 2006 the value of global furniture exports in the sector amounted to over US\$135 billion. The trend seems set to continue at current growth rate, China is the leading exporter of almost 20% of global furniture exports, worth US\$28 billion. The Chinese furniture industry has gone through a period of tremendous growth. In 1990 it did not feature in the top ten exporters, while in 2000 was the world's 9<sup>th</sup> largest exporter and 1<sup>st</sup> in 2006. The table below shows other leading furniture exporters.

**Table 2: Top 10 furniture exporters**

| Rank in 2006 | Exporters        | Value exported in 2006, in US\$ thousand | Annual growth in value between 2002-2006, % | Annual growth in value between 2005-2006, % | Share in world exports, % |
|--------------|------------------|--|---|---|---------------------------|
|              | World estimation | 135,403,909                              | 13  | 9   | 100                       |
| 1            | China            | 27,955,148                               | 30  | 25  | 20.6                      |
| 2            | Italy            | 13,489,272                               | 7   | 4   | 10                        |
| 3            | Germany          | 11,545,506                               | 14  | 8   | 8.5                       |
| 4            | USA              | 7,559,253                                | 8   | 10  | 5.6                       |
| 5            | Canada           | 6,674,881                                | 6   | 1   | 4.9                       |
| 6            | Poland           | 6,656,989                                | 21  | 9   | 4.9                       |
| 7            | Mexico           | 5,894,846                                | 8   | 3   | 4.4                       |
| 8            | France           | 4,222,692                                | 8   | 7   | 3.1                       |
| 9            | Denmark          | 3,181,087                                | 8   | 5   | 2.3                       |
| 10           | Belgium          | 3,169,910                                | 7   | 2   | 2.3                       |
| 43           | South Africa     | 546,660                                  | 3   | -8  | 0.4                       |

The European Union (EU) is the leading importer of furniture, importing more than 50% of total global furniture exports. The majority of the imports are however intra-EU, but statistics are suggesting that imports from developing countries are increasing and likely to continue to do so. In 2001, imports from developing countries constituted 16% of total EU imports, which grew to 28% in 2005. China is by far the biggest exporter of furniture to the EU followed by Indonesia, Malaysia and more recently Thailand. At number 43, South Africa is down from being ranked 34 in 2005. Evidently South Africa has not kept up with global growth trends and is consequently losing market share.

An important feature of EU furniture consumption and production is evidence of polarisation between low quality/price and high quality/price, particularly in the old EU (the EU15<sup>1</sup>). Traditional solid wood, highly specialised, furniture products have retained important niche market segments particularly for high-end, expensive, design-led products. Ready-to-assemble products that can be manufactured and shipped in large quantities occupy the other end of the spectrum. These mass produced products have dominated the global markets and have become a major source of exports for developing countries, where one sees that once again, China is leading other Asian countries.

The US demand for furniture is increasing; in particular, imports from China have been on the increase. In 2006, 47% of all US furniture imports were from China. The impact of this has been devastating for the US furniture industry, where a large number of especially small manufacturers were forced to close down.

Sub-Saharan Africa's share of global exports of furniture is less than 1%, South Africa being accountable for as much as 97 % of this. As mentioned above,

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<sup>1</sup> **EU-15** refers to the 15 countries in the European Union before the expansion on 1 May 2004, when eight central and eastern European countries as well as Cyprus and Malta joined the organization. They are: **Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.**

forestland cover in the region is about 183 million hectares, constituting 4.6% of global forest cover (over 3 billion hectares). The abundant forest in the region is an opportunity for South Africa to source both raw-materials and develop forestry industries in the region in cooperation with regional organisations.

#### **4. Domestic Furniture Industry**

The furniture industry in South Africa sits firmly within the manufacturing sector of the national economy. The industry consists of manufacturers that make a large range of furniture, using low technology and high skilled craftsmen at one end of the spectrum and highly mechanised, high volume manufacturing at the other hand. Despite its low contribution to GDP (contributed 0.3% to the national GDP and 1.6 to manufacturing GDP in 2007 - IDC, 2008), the furniture industry is an important sector in South African economy. It currently employs about 46,000 people, but with proper support the industry has potential to grow and create more employment.

Furniture manufacturing is mainly concentrated in three provinces: Gauteng (37%), KwaZulu-Natal (KZN) (23%) and Western Cape (19%) (**the dti**, 2005). The remaining 21% is produced in other provinces. There are approximately 833 levy paying furniture manufacturers in the country (KZN Furniture Cluster, 2008). It is understood that there are many other manufacturers operating in informal setting not included in the official size of the industry. **the dti** view these as an indication of latent potential to be tapped into in order to increase manufacturing and increase employment by facilitating cooperation and support.

The bulk of the furniture produced in South Africa is home furniture, accounting for 85% of total production. Of the home furniture, 60% is bedding and dining room furniture. Kitchen furniture is sizeable and this is satisfied by local production. The gaps in the industry present an important opportunity for small manufacturers who can use them as a stepping-stone for bigger or perhaps export markets.

The most exported furniture is Other Furniture (metal, wooden, plastic and other materials used in the office, kitchen and bedroom – this forms the bulk of the definition of furniture). This is mainly exported to (in the order of the value of exports) UK, Mozambique, Angola and the US. On the other hand imports of this furniture come from (in the order of value) China, Malaysia, Indonesia and Italy.

The furniture industry plans to recapture a larger share of the local market as well as exploit the growth potential in the international market. Analysis of the global market has shown that Asian countries have over the years increase their share of the market in the furniture industry, by competing in the low-end of the market. This strategy takes into account the magnitude of Asian imports in the local market, and draws up interventions identified that seek to grow and focus the furniture industry on higher value end of the sector. The proposed interventions will also take into account the current state of the industry characterised by declining employment, investment, and exports, as outlined below.

#### **4.1 Challenges facing the South African furniture industry**

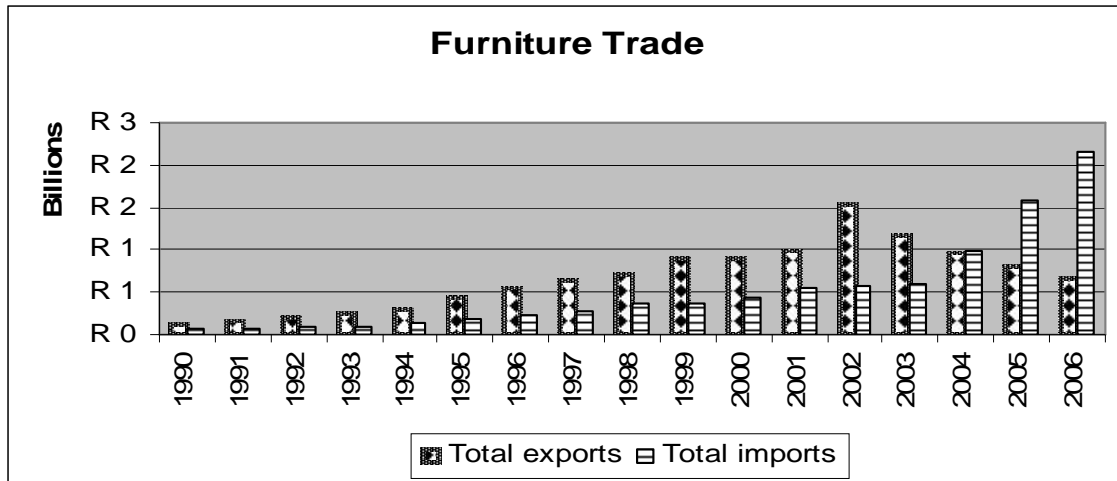
Despite the opportunities in the furniture industry, the industry faces a number of challenges that have led to reduced profit margins and in extreme cases, closure of some companies. These include: declining competitiveness which is expressed by worsening trade balance (this is caused by a number of factors), and access to retail market. These are discussed briefly below.

##### **(i) Declining Competitiveness**

Trade balance is an important measure of the industry (or country)'s competitiveness. Exports grew steadily since 1994 and peaked in 2002 when the Rand was at its weakest level to the US dollar. This was followed by a steady decline in exports and a sharp increase in imports of furniture. South Africa mainly exports to the EU, other African countries and to some extent to the US.

A possible explanation for the tendency of close trade connections with the EU is found in the fact that South Africa has historical ties with the region.

**Figure 2: Trade in Furniture**



**Source: Quantec.**

The last few years have seen a decline in the competitiveness of the industry. South Africa is not alone on this; other countries like Taiwan, Canada and USA have also experienced declines in competitiveness.

Low competitiveness of the domestic industry is mainly due to the following factors:

- Technological innovation in the domestic industry has lagged behind competing countries and the industry consequently struggles to be competitive against countries that have made sufficient investments in their technology. This is shown by declining rate of investment in the sector and the age of machinery.
- Shortage of skills (technical capabilities) is an important constraint in competitiveness – a problem that cuts across most of South Africa’s sectors. This is in terms of manufacturing as well as design capabilities. Apart from generic training on design, South Africa lacks sufficient design tuition specifically geared towards the furniture design. The industry

accordingly lags behind most major furniture manufacturers in design education. Urgent steps need to be taken to address this matter since South African furniture needs to compete on quality with top global furniture manufacturers.

- Research and development that is needed to support a growing industry is almost non-existent. Competing countries have constantly improved their research capacity.
- Increased imports from Asian countries are making it almost impossible for the local furniture industry to compete. As a result, the industry is experiencing difficulties and continuous job losses. There is a need for measures to be implemented, that will be aimed at assisting the local industry to relieve the pressure from imports and to have a fair chance when facing the fierce competition from these countries. However, any possible increase in the customs duty will depend on what the current level of duty is. If the current level of duty is already on the bound rate level, then it would not be possible to investigate an increase as SA cannot in terms of its WTO commitments exceed the bound rates as agreed to in the General Agreement on Tariffs and Trade.

Whilst it is important to constantly improve the industry's competitiveness, it is understood that South Africa should not seek to compete at low price/quality level, but should rather focus on quality, reliability and differentiated designs.

## **(ii) Access to furniture retail market**

One of the challenges for manufacturers is the high concentration of the furniture retail sector. Four big companies (Ellerines Group, Lewis, JD Group, and Shoprite) with a market share of 80% dominate the market. The rest is shared

among independent furniture retailers. This affords the retail sector huge bargaining power against manufacturers, leading to suppressed producer prices.

Access to this market is often difficult for small manufacturers. The problem is the scale at which small manufacturers operate. Due to the size of these retailers and the transaction cost of sourcing from many small manufacturers, retailers often ignore small manufacturers in sourcing their furniture. Organising small manufacturers into clusters may alleviate these problems. Retailers are, not in principle, against sourcing from small manufacturers. If conditions are improved, the transaction costs of sourcing are reduced and quality standards are guaranteed, more retailers would increase the proportion of furniture sourced from SMME's given the limited prevalence of vertical integration between manufacturers and retailers.

## **4.2 Rationale for producing furniture in South Africa**

The points below highlight possibilities and opportunities associated with furniture production in South Africa:

- The wood furniture value chain has the potential to play an important role in promoting growth and alleviating poverty in South Africa. Many emerging economies have used the furniture industry as one of the primary stepping-stones to promote growth and diversify economic structures.
- Furniture has traditionally been a labour-intensive industry that includes both local craft-based firms and large volume producers. South Africa has a pool of labour that has the potential of becoming skilled craftsmen.
- The furniture industry is perfectly suited for small-scale production, where the rural manufacturer can produce furniture from home and sell it on the local market- consequently creating economic growth in rural areas.



- The furniture industry has the second lowest cost per employee, where the amount of capital needed in order to create one job is R20, 000. (The lowest is the textile industry which does not require more than R12, 000). In addition to low start-up costs, the furniture sector also allows producers that have been in the industry for longer, and thus more established, to easily mechanise production in order to focus on value-added production and thus create a higher premium on furniture produced.
- In terms of design, the global consumer is often searching for ‘an exotic look.’ If South African producers could ensure the production of furniture differentiated from that of other producers the demand and price for regional furniture is likely to remain high.

### **4.3 SWOT Analysis**

#### **Strengths**

- There are well-established firms with proven skills, experience and capacity.
- There is also a spread from small to large firms capable of both large and small quantities.
- Output quality is generally good with a number in the excellent range.
- The range of furniture made is large.
- Prices range from the low end through to the high end.
- Small risk of investing in a stable economy with a stable Government.
- A well-established infrastructure, financial system and communication system.
- Labour resources are in large supply.
- Furniture manufacturing is concentrated in and around the supporting infrastructure three larger metropolises in Gauteng, Western Cape and KZN. The latter two also have major ports.

- Growing consumer demand.
- Well-established linkages with EU and US markets
- Comply with international social and labour standards

### **Weaknesses**

- Local component manufacturers cannot compete with imports
- Low capital expenditure by the industry over a number of years
- Ageing equipment is no longer world class
- Perceived as sunset industry that does not attract graduates to enter
- Wage differentiation between skilled and unskilled leads to decreased training of employees
- Limited research and development is commissioned
- Limited knowledge of new and unfamiliar export markets
- Local designs are lagging behind those of competitors
- Availability and high cost of local raw materials inhibit competitiveness
- Expensive shipping costs further impede international competitiveness
- The concentration and resultant size of retailers allow them unacceptable power over manufacturers.
- Branding of SA products is weak in international markets
- The impact of HIV/AIDS have further eroded scarce skills and many years of experience that would not be easy to replace and consequently resulted in further erosion of the capacity and competitiveness of the industry.

### **Opportunities**

- The public sector has a policy to target procurement from Black Economic Empowerment (BEE) and SMME operations
- There are ample opportunities to minimise the weaknesses in the industry e.g. addressing the skills disadvantage, cost of raw material, etc.
- Opportunities exist to procure the services of international designers of repute on a contract basis

- There would be ample opportunity to improve the productivity within the industry. Improved productivity and raw material prices are the major areas in which the local firm can bolster competitiveness to levels that are comparable with those exhibited by major exporters.
- Greater appreciation and opportunities exist in clusters for World Class Manufacturing
- Cooperation between firms in clusters can reduce costs and improve efficiencies
- Individual manufacturers need to explore opportunities in niche markets
- Opportunities exist to source raw materials at cheaper international prices
- Opportunities to improve relationships with retailers
- Cooperation and trust within the industry may decrease duplication, thus improve specialisation and throughput and lower costs
- Improving the competitiveness of the firm in terms of quality, delivery reliability, efficiency and lead times

### **Threats**

- Increased imports will continue if South African economy continues to be targeted by Asian countries
- If the safeguards of the US and EU against China is expanded, dumping of furniture may develop. That will cause more firms to import at the expense of local production and finally to the total collapse of the industry.
- Under-investment in people, processes and equipment will lead to progressive inability to meet more onerous international buyer requirements.

Evidently, the biggest challenges facing the South African furniture industry are constraints within the domestic industry. These include the domestic industry's capacity to design unique and appealing products, maintain the latest technologies in the manufacturing of furniture. Competitive countries have

consistently invested in their human and technical capacity to remain competitive in the global markets. The good part is that much of these challenges are within the industry's control. The next section looks at interventions that are aimed at improving the current situation with the objective of growing the industry and improving its competitiveness in the global furniture industry.

## **5. Vision**

A furniture industry dominated by a globally competitive SMME sector based on superior design and innovative technology by 2020.

## **6. Key Action Programmes**

In response to the vision stated above, five interdependent interventions have been identified. In order for the sector to be competitive manufacturing processes need to be upgraded significantly to global best practice. This will be done through the adoption of Manufacturing Excellence Programme which aims to improve the industry's competitiveness. At the same time, the current skills level needs to be improved. In the short term, skills development programmes in response to current skills shortages will be implemented. In the long run, however, South Africa needs to develop capacity in the areas of design, artisanship and targeted research meant to improve all areas of domestic furniture manufacturing. This will be done through the Centre of Excellence. Design capacity forms an important part of this strategy given the global trends towards superior designs and the fact given the country's cost structures, South Africa is unable to compete at low value products.

Against this background the following projects have been identified to grow the sector:

- SMME development programme,
- Raw materials for SMME's,
- Centre of excellence,
- Skills development, and
- Manufacturing Excellence Programme.

## **6.1 SMME Development Programme**

The role of SMME's in promoting equitable economic development cannot be overemphasised. Whilst there are different views on their economic contribution, there seems to be a widespread agreement that SMME's are an important part of a growing economy, a fact that emphasises the need for focus on this in order for the South African economy to grow.

Because SMME's have unique characteristics and accordingly unique constraints, special attention needs to be paid to promote their growth.

Size is one of the major constraints to SMME development. Because of the high transaction costs associated with sourcing from many manufacturers, retailers prefer to source exclusively from large enterprises that have the capacity to supply required quantities of their products cost effectively. This often completely excludes SMME's from participating in reliable markets. Moreover size also affects their ability to source inputs.

Cooperation among producers is an important measure to address the size constraints of the small enterprises. There is widespread agreement in the literature on the benefits of clusters and cooperation among producers. SMME clusters can be defined as groups of small and medium size enterprises located in a relatively limited geographic area engaged in the production of the same sort of products. Advantages of clusters can be seen in promoting competitiveness through specialisation, cooperation and flexibility.

Whilst in many performing clusters, inter-firm cooperation emerged spontaneously, evidence shows that this is not necessarily a condition for success and they may be successfully facilitated using an external agent. Spontaneous emergence of clusters often does not happen due to the high transaction costs associated with identifying and forging partnerships as well as

the high risk of free riding. Intervention of an external agent has been seen to reduce the significance of these constraints.

Despite sufficient training provided by the incubation programme, many beneficiaries of this programme struggle to run viable enterprises after the incubation programme. Constraints include lack of capital, size of their enterprises, and managerial and other skills. Efforts to promote SMME will need to comprehensively address all these challenges

Concentrations of furniture manufacturers and in some cases clusters exist in many parts of the country: Mpumalanga, KwaZulu-Natal, Eastern Cape, Western Cape and Gauteng.

In the initial phase of the strategy implementation, the project will seek to revitalise existing clusters across the provinces. Lessons from these will be used to establish new ones in the subsequent phase of the project. An expert in cluster development will be appointed to work with existing clusters to improve their efficiency and overall performance.

The second phase of the project will entail the establishment of additional clusters (4 SMME clusters by 2014). These clusters will be established around furniture incubators and in other areas where there is a potential for the establishment of clusters (where there is concentration of manufacturers and supporting infrastructure exists). This will include improvement of existing clusters particularly in Gauteng, Western Cape and KwaZulu-Natal.

The establishment of new clusters will entail the following interventions:

- Identify areas that have either potential for cluster development or have high concentration of furniture manufacturers. These will include areas around incubators to take advantage of people who have gone through the incubation process. There are also other areas where there are

concentrations of manufacturers. A systematic process to identify these areas will be done taking into account the suitability and viability of clusters;

- Develop a comprehensive package of support services for these manufacturers including proper advisory services and financing. This generally involves bringing together and coordinating existing support available from government departments (**the dti**), Departments of Economic Development and investment promotions agencies in the respective provinces) and other organisations (Local associations where these exists). The main aim here is to package these services and ensure that these are communicated to the beneficiaries.
- Facilitate gradual cooperation among manufacturers. It is understood that producers are generally not interested in cooperating with other producers due to the fact that they are afraid of competition. They often see each other as competitors. The cooperation will therefore have to be introduced gradually and prudently. Cooperation will include sharing orders, sourcing raw materials as a group, sharing the administration burden<sup>2</sup>, sharing designs, sharing the cost of market intelligence, implementation of global best practice etc.
- Facilitate the establishment of allied industries that compliment specific furniture produced by the cluster,

For both new and existing clusters, manufacturers will be linked with retailers for their markets and/or assist them to participate in both local and international exhibitions. Given the BEE codes of good practice rewards for sourcing from SMME and black companies, it is expected that some retailers

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<sup>2</sup> Small manufacturers do not claim from their skills fund because of the time required to process such applications.



will use this opportunity. Moreover the limited vertical integration between manufacturing and retailing provides opportunities for SMME's.

## 6.2 Sourcing of Raw Materials

Whilst South Africa is endowed with large forest plantations all over the country, demand for timber is however huge and far outstrips supply for these resources. Other raw material shortages or constraints include those of leather and foam. The current strategy however focuses on timber. Subsequent strategies will address the remaining raw materials challenges.

The South African commercial plantation resource (1,370,000 ha) has the capacity to supply 22.0 million cubic meters of round wood per annum, which cannot supply the current demand estimated at 22,3 million cubic meters.

In a report conducted by LHA Management Consultants (2004) a shortfall of just over 14 million cubic meters is forecast for 2030. Even if no forest products are exported, the demand will outstrip supply by more than 10 million cubic meters per annum.

The construction boom that has characterised South African economy in the last few years and a number of veld/wild fires has added to the current shortage of timber in the country. The vertically integrated nature of the timber industry means that the small manufacturers are worst affected by the shortage. The effect (of the shortages) has been a sharp increase in the price of timber. Competitiveness of the furniture industry has accordingly been compromised.

Consequently **the dti**, in the NIPF, has proposed to increase forest plantations in KZN and Eastern Cape. But even if this is done, in the short term the demand for furniture timber will still outstrip supply. Furniture manufacturing requires a long cycle timber, which will take a long time to mature to the required age.

On the other hand many SADC countries have more forest plantations than South Africa. Sourcing from these countries will make better economic sense than sourcing from further away due to the cost of transportation. Due to expansion of agriculture, fires and other pressures, forest cover is however in a decline in many of these countries as shown on Table 3. According to TIPS (forthcoming), the amount of forest cover in Southern Africa declined from 199.4 million ha in 1990 to 183.1 million in 2000.

**Table 3: SADC forest cover and annual change of forest cover**

| Country          | Forest area 2005 |               |                    | Annual change |       |             |       |
|------------------|------------------|---------------|--------------------|---------------|-------|-------------|-------|
|                  | Total forest     | %of land area | Forest plantations | 1990-2004     |       | 2000 - 2005 |       |
|                  | '000ha           | %             | '000ha             | '000ha        | %     | '000 ha     | %     |
| Angola           | 59,104           | 47.4          | 131                | -125          | -0.2  | -125        | -0.2  |
| Botswana         | 11,943           | 21.1          | -                  | -118          | -0.9  | -118        | -1    |
| Lesotho          | 8                | 0.3           | 7                  | n.s.          | 3.4   | n.s.        | 2.7   |
| Malawi           | 3,402            | 36.2          | 204                | -33           | -0.9  | -33         | -0.9  |
| Mozambique       | 19,262           | 24.6          | 38                 | -50           | -0.3  | -50         | -0.3  |
| Namibia          | 7,661            | 9.3           | -                  | -73           | -0.9  | -74         | -0.9  |
| South Africa     | 9,203            | 7.6           | 1,426              | 0             | 0     | 0           | 0     |
| Swaziland        | 541              | 31.5          | 114                | 5             | 0.9   | 5           | 0.9   |
| Zambia           | 42,452           | 57.1          | 75                 | -445          | -0.9  | -445        | -1    |
| Zimbabwe         | 17,540           | 45.3          | 154                | -313          | -0.5  | -313        | -1.7  |
| Southern African | 171,116          | 29            |                    | -1,152        | -0.63 | -1,154      | -0.66 |

Source: FAO (2007).

There is a need to engage regional countries and initiate sustainable forest management as well as facilitate investments. Many of these countries' forests are in a decline (Table 3). If nothing is done there will be no forest left in the next few decades. This is the case while South African manufacturers struggle to obtain raw material for their operations.

Despite the high forest cover in Southern Africa, its share in global exports is less than one per cent. South Africa is by far the biggest producer of furniture in the region.

It is understood that for South Africa to merely source timber from other Southern African countries will not be sustainable in the long run. These countries are likely to stop the export of raw materials without local beneficiation. The initiative to source timber from neighbouring countries therefore proposes developing forestry beneficiation in identified regional countries as part of the sourcing strategy. This will be extended to include development of timber plantations in these countries given more suitable and better water resources in these countries. The idea is to create a win-win situation where the partner countries benefit from increased investment and the resultant job creation whilst South Africa has access to timber for further beneficiation.

Discussions with Mozambique are already at an advanced stage. It is envisaged that the timber imports will commence soon. This relationship will be extended to other countries in the region and beyond should the need arise.

### **6.3 Furniture Centre of Excellence**

Furniture has now been identified as a prioritised sector in the NIPF recently released by **the dti** with potential to create jobs. Furniture industry is one of the largest traditional and labour intensive sectors. Growth in this sector will contribute significantly in addressing the persistently high unemployment rate in the country.

The industry has been doing quite well up to just after 2002 when exports started to decline. With the decline in exports, the industry subsequently started losing jobs. Employment has since continued to fall. Investment in the sector per annum is also in the decline. The decline of exports was accompanied by

increased import of furniture, especially cheap furniture mainly from China. Part of the explanation for the poor performance of this industry is due to lack of research and industrial development support for the industry. Accordingly, the industry lost its competitiveness to other countries with better support, allowing other countries not only to increase their global market shares, but to more importantly increase their market share in South Africa

The Furniture Centre of Excellence will provide the much-needed support for the industry to increase its competitiveness in the face of global competition. The Industrial Centre of Excellence is defined in the Policy and Implementation Framework as “physical or virtual centre providing or coordinating the provision of a wide range of specialist services necessary to develop specific sectors”.

The Centre will contribute to the development of industrial sectors by among others:

- Providing a range of specialist services such as:
  - Productivity improvement support,
  - Improving market access,
  - Facilitate technology development, exploitation and access,
  - Research and development
  - Skills and human resource development,
  - Supply chain development and redesign, and
  - Identifying and sharing operational best practice.
  
- Promoting sector competitiveness to meet current and future market requirements by identifying and developing new capability,
- Promote co-operation between industry and government, industry and education system, inter-departmental and other relevant relationships

The establishment of a Centre of Excellence requires certain skills to be available at universities. These skills include people with advanced degrees in areas that can benefit furniture. The aim is to establish cutting-edge research and development programmes that will be readily available to the industry.

Innovative institutional arrangements will need to be designed to ensure the dissemination of the information from the centre to manufacturers, many of whom are in rural areas. The role of provincial Departments of Economic Development will be important in this regard. These will need to strengthen their relations with industry to cater for smooth transfer of information to the manufacturers in provinces. Additionally, the role of clusters will be important in facilitating a smooth transfer of information to manufacturers. There already exist some clusters in some areas whose level of coherence will need to be strengthened.

The biggest challenge will be obtaining the skills necessary to establish and run the Centre of Excellence. At least three academic/research institutions have programmes on forestry and forestry products (including pulp and paper). These are Universities of KwaZulu-Natal and Stellenbosch, and Centre for Science and Industrial Research (CSIR). Acquiring additional skills could be facilitated through these institutions that already have linkages with other institutions outside South Africa.

#### **6.4 Skills Development**

One major legacy of South Africa's history is lack of skills across sectors of the economy. The situation is more deplorable when considered against the high level of unemployment in the country. In the furniture industry both large and small manufacturers see shortage of skills, especially furniture designing, as a major constraint. This has led to firms poaching skilled workers in the industry.

In line with the industry's commitment to focus on manufacturing high quality furniture instead of low price, low value furniture, an initiative to upgrade skills in furniture design is urgently needed and is an important pillar of this strategy.

The focus is on all skills identified as scarce and critical in addition to the general upgrade of all skills required in the furniture industry.

FIETA (Forest Industries Education and Training Authority) has identified a number of scarce skills for the furniture industry Table 4.

**Table 4: Scarce skills for the furniture industry**

| Scarce skills for the furniture industry        |
|---|
| CNC machining (Computerised Numerical Computer) |
| CNC technical management                        |
| CNC machine centre management                   |
| Furniture designing                             |
| Production management                           |
| Store keeping                                   |
| Tape edging                                     |
| Upholstery                                      |

Source: FIETA.

**the dti** understands that there are a number of skills development programmes being undertaken in the industry, through FIETA and FURNTECH. This is mainly for areas with existing capacity to provide training. For those areas where there is no sufficient capacity like furniture design, the challenge is big and concerted efforts must be put in place to address these in partnership with FIETA. FURNTECH provides entrepreneurial development for emerging furniture manufacturers.

This strategy proposes a programme for skills development which is line with the overall furniture strategy aimed at significantly improving the competitiveness of the domestic industry. The project will include the following interventions:

- Short courses with international experts will be facilitated to provide training to local practitioners. KwaZulu-Natal and Western Cape have already started with short courses. This will however need to be extended to cover other areas;
- Exchange programmes will be arranged with top furniture manufacturing countries;
- An upgrade of the whole training system from design to manufacturing adopting the best training systems; and
- Scholarships for senior degrees will be facilitated for those involved in the furniture industry to ensure the emergence and development of a unique South African style, particularly in the field of design. Many of the skills developed at this level will be utilised in the Furniture Centre of Excellence. This is however not part of **the dti** mandate, as such implementing this project will require collaboration with institutions involved in education and skills development such as FIETA, Department of Labour and Department of Education

## **6.5 Manufacturing Excellence Program (MEP)**

A look at the furniture export data shows that South Africa's un-competitiveness problem is a recent phenomenon. Evidently the industry gradually lost its competitiveness over time until it reached its current state. Other countries have fundamentally changed the way they do business over the last few years adopting progressively more competitive processes.

To correct this and also improve the performance of the domestic industry, a Manufacturing Excellence Program (MEP) is proposed that is aimed at providing support for a variety of firm-level upgrading efforts as proposed in the NIPF. This is done by benchmarking the furniture industry with some of the best companies in the world to identify shortcomings in the domestic industry. Participating companies will be expected to pay a fee towards the cost of the project. This is to ensure commitment and full utilisation of the results of the benchmarking process.

MEP can be defined as a holistic approach to productivity and quality improvement which is focused on the elimination of all forms of waste and non value adding activities in the organisation. This is achieved through the creation of a culture of continuous improvement based on the involvement\_of the total work force.

From this definition certain clear themes which characterise MEP emerge:

- The key thrust of MEP is continuous improvement
- The focus of the approach is operational improvement, specifically cost reduction and quality improvement
- MEP is a people centred approach. The underlying thought is that the mobilisation of the people is the starting point.

MEP is clearly an aspirational state which a company may strive for but never achieve due to the requirement for continuous improvement – no matter how efficient operations have become.

The main challenge in successfully implementing this is that this is a firm level programme and therefore requires full cooperation of the firms. The best results will be achieved by obtaining a broad buy-in and adoption of the principles of MEP. The implementation plan for the proposed programmes, the envisaged outcomes and target dates are outlined in the logical framework table below:



## 7. Logical Framework

| Projects/<br>KAPs  | Outcome                                    | Output                                    | Process to<br>achieve<br>outputs   | Targets  | Stakeholders  |
|--|--|---|--|--|---|
| <b><i>Vision A furniture industry dominated by globally competitive SMME sector catering for both domestic and exports markets</i></b> |  |   |  |  |   |
| Improved competitiveness of the industry   | Increased exports<br>Increased investments | Increased level of exports and investment | Obtain buy-in and support of key stakeholders                                | At least 10 % increase in exports and investment by 2013 | <b>the dti</b><br>Department of Economic Development (DED)<br>KZN Furniture Industry Cluster<br>Cape Furniture Initiative |
| <b><i>Goal 1: SMME Development Programme</i></b>   |  |   |  |  |   |
| Establish furniture industry clusters  | Furniture industry clusters established    | Number of clusters                        | Interaction with key stakeholders<br><br>Identification of possible clusters | 4 industry hubs established by Dec 2011                  | <b>the dti</b><br><br><b>DED</b>  |
| Revitalisation of existing clusters  | Improved performance of firms involved     | Increased Sales                           | Consultation and engagement  | 2 pilots projects running by Dec 2011                    |   |

| Projects/<br>KAPs  | Outcome  | Output  | Process to<br>achieve<br>outputs  | Targets  | Stakeholders   |
|--|--|---|---|--|--|
|  |  |   | with relevant<br>stakeholders   |  |  |
| <b>Goal 2: Raw materials for SMMEs</b>                         |  |   |   |  |  |
| Improve access<br>to raw by SMME<br>furniture<br>manufacturers | Processes finalised for<br>industry to start sourcing<br>raw materials | Agreements<br>with<br>Mozambique<br>reached by<br>2008<br><br>Agreement<br>reached with<br>another SADC<br>country<br>(selection<br>depends on<br>need and<br>availability of<br>timber | Interaction and<br>obtaining buy-in<br>and support<br>from key<br>stakeholders.<br><br>Interactions<br>with<br>neighbouring<br>(SADC)<br>countries. | Dec 2009<br><br><br><br><br><br><br><br><br><br>Dec 2010 | <b>the dti</b><br><br><br><br><br><br><br><br><br><br><b>DED</b> |
| <b>Goal 3: Centre of excellence</b>                            |  |   |   |  |  |
| Establish a  |  | Consultation  | Consultation  | June 2010  | <b>the dti</b>   |

| Projects/<br>KAPs   | Outcome   | Output                                     | Process to<br>achieve<br>outputs                    | Targets       | Stakeholders  |
|---|---|--|---|---------------|---|
| furniture centre<br>of excellence   | Qualified and trained<br>furniture manufacturers.               | report                                     | with<br>stakeholders                                |               |   |
|   |   | Implementation<br>plan                     | Development of<br>implementation<br>plan            | December 2010 | Steering Committee<br>(made up of academic<br>institutions, industry<br>and government) |
|   |   | Centre of<br>excellence<br>developed       | Implementation<br>commence                          | Dec 2010      |   |
| <b>Goal 4: Skills development</b>   |   |  |   |               |   |
| To improve<br>competitiveness<br>of the industry<br>by creating a<br>pool of skilled<br>personnel for<br>furniture industry | Improved capacity of<br>personnel in the furniture<br>industry. | Consultation<br>report                     | Consultation<br>with<br>stakeholders                | June 2009     | <b>the dti</b><br>Consultant<br>FIETA<br>DED  |
|   |   | Evaluation<br>report                       | Evaluation of<br>existing training<br>for furniture | June 2010     |   |
|   |   | Training<br>programmes                     | Development of<br>training<br>programmes            | December 2010 |   |
|   |   | Scholarships<br>and exchange<br>programmes | Development of<br>scholarships<br>and exchange      | December 2010 |   |

| Projects/<br>KAPs   | Outcome  | Output                           | Process to<br>achieve<br>outputs     | Targets               | Stakeholders  |
|---|--|----------------------------------|--------------------------------------|-----------------------|---|
|   |  |                                  | programmes                           |                       |   |
|   |  | Implementation<br>plan available | Implementation                       | Commence January 2010 |   |
| <b>Goal 5: Manufacturing Excellence Programme (MEP)</b>             |  |                                  |                                      |                       |   |
| To establish a<br>Manufacturing<br>Excellence<br>Programme<br>(MEP) | Improved competitiveness<br>of South African furniture<br>industry | Consultation<br>report           | Consultation<br>with<br>stakeholders | June 2009             | <b>the dti</b><br><br><b>DED</b><br><br><b>Consultant and<br/>firms</b> |
|   |  | Contract<br>signed               | Consultant<br>appointed              | December 2009         |   |
|   |  | Benchmarking<br>report           | Benchmarking                         | December 2010         |   |
|   |  | Implementation<br>report         | Implementation<br>commence           | June 2011             |   |

## 8. Economic impact of the furniture strategy implementation.

The successful implementation of the above intervention programmes will undoubtedly increase the production capacity of the furniture industry substantially and as a result the sector's contribution to the GDP will also increase by approximately 0, 2 % net points over time (2009 to 2013). Thus, due to these higher production levels, it is then possible to derive the economy wide impact of the furniture sector in terms of GDP and employment in the entire economy as increased production activity by the furniture industry would require an increased demand for locally manufactured goods and services in order to achieve these higher output levels. All the supplying industries to the furniture industry would have to increase their production volumes in order to meet the rising demand for their product by the furniture manufactures. It is through these backward linkages between the various sub-sectors of the SA economy (referred to as the multiplier effect) that more economic activity is being generated throughout the entire economy. The following table summarises the impact of the implementation of the strategy to the economy.

Table 6: Impact of furniture strategy on the economy

| <b>Table 5: The economy-wide impact of a substantial increase in annual turnover (sales) of the furniture sector on the SA economy.</b> |                           |                        |                              |                                       |                           |                             |  |
|---|---------------------------|------------------------|------------------------------|---------------------------------------|---------------------------|-----------------------------|--|
|   | <b>Initial Impact (a)</b> | <b>First Round (b)</b> | <b>Direct Impact c=(a+b)</b> | <b>Indirect multiplier effect (d)</b> | <b>Induced effect (e)</b> | <b>Total impact (c+d+e)</b> | <b>Open excl. Mode (induced) (c+d)</b> |
| GDP (R mil)   | 344.65                    | 321.05                 | 665.7                        | 463.55                                | 683.95                    | 1786.2                      | 1102.25                                |
| Employment (number)   | 3039                      | 1598.5                 | 4637.5                       | 2017                                  | 3278                      | 9932.5                      | 6654.5                                 |

Source: Adapted from IDC's economy wide impact model

According to table 5 above the initial impact is the contribution of the sector to various economic aggregates such as GDP and employment. The first round impact is caused by suppliers who deliver input material such as furniture grade timber for the manufacturing of furniture whilst the indirect impact is caused by those industries who on their part deliver goods and services to the first round suppliers. The induced impact captures additional economic effects by means of household income generation through payments for labour services and the associated private consumption expenditure on goods and services. The economy-wide impact on economic activity translates into R1 786 million in additional GDP for the economy at large, whilst 9 932 new jobs are likely to be created due to this higher output in the furniture industry.

## **9. Conclusion and Way Forward**

In line with government's vision for the industry, successful implementation of the projects identified builds a much needed foundation for sustained competitiveness of the industry. In addition to creating new employment the strategy will ensure retention of jobs that would otherwise be lost if not implemented.

Central to this strategy is the development of the SMME sector within the furniture industry. The ability of this sector (SMME) to create jobs cannot be over emphasised. This is done without ignoring the problems of the bigger established manufacturers. The strategy seeks to sustain and increase current levels of investments, production, exports and job creation capacity.

The successful implementation of the strategy will require cooperation from all relevant stakeholders in the industry. The formation of furniture association is an important step towards creating a basis for cooperation and partnership between Government and the industry. The strong cooperation that exists between

different government departments at both national and provincial governments is an important step towards this.

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