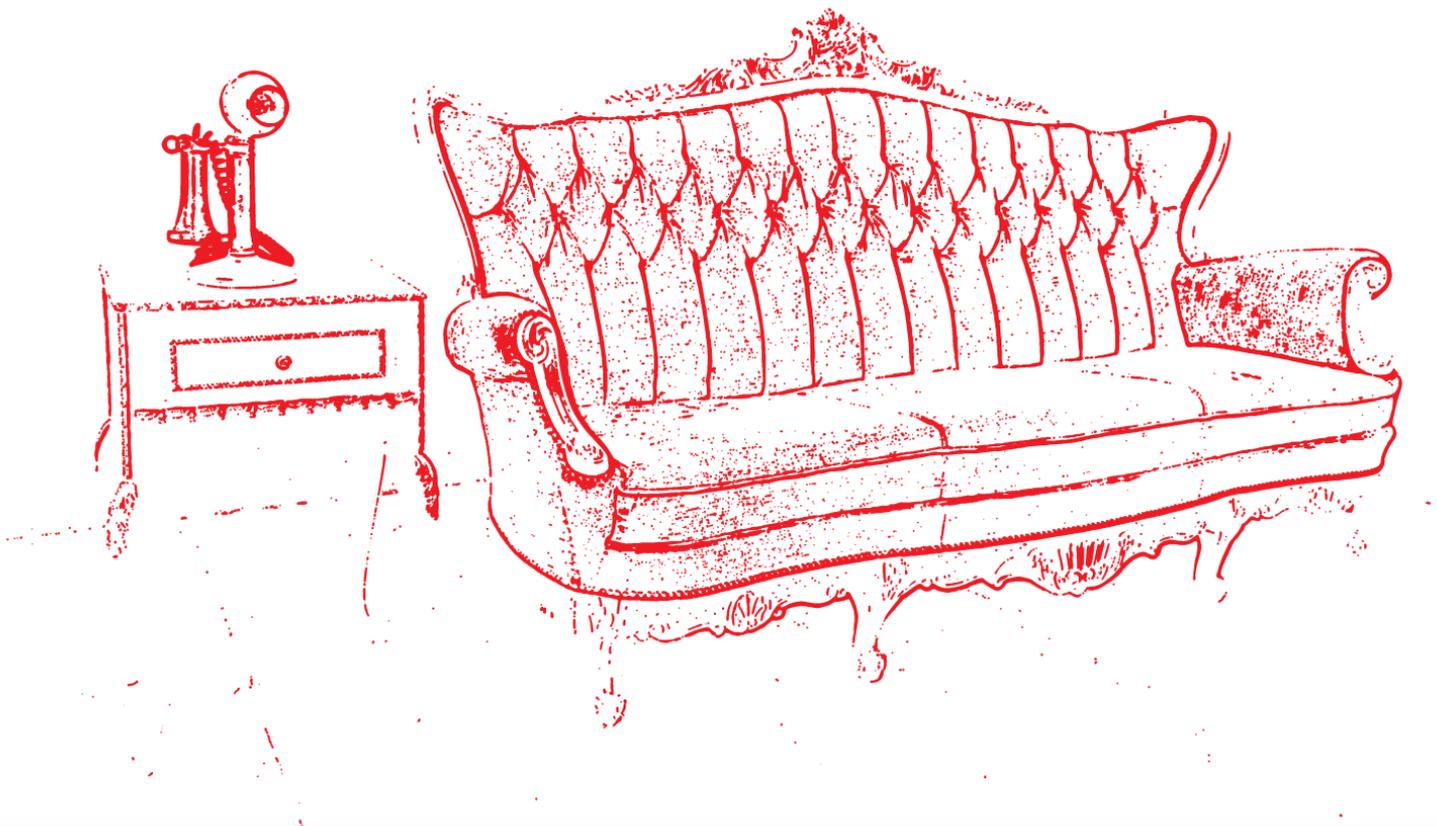


Furniture Sector

A profile of the furniture sub-sector

December 2014



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1. Executive Summary

This sector profile provides a brief overview of the furniture manufacturing industry. It covers the key trends and challenges, the drivers of change and the key role players in the sector. A profile of FP&M SETA learners in the furniture manufacturing sector is provided.

2. Overview

For the last 10 years the global trade of furniture has grown significantly faster than the production of furniture. It has only amounted to 1% of the world trade of manufacturers. The Current trends in the South African furniture sector include major retailers providing e-commerce services such as online buying as well as increased consumer confidence and increased value sales. (WESGRO, 2014).

The furniture manufacturing industry currently employs approximately 29 000 people, with 2 200 registered establishments involved in the manufacturing of furniture, bedding and upholstery. The furniture industry is labour-intensive and contributes 0.95% to manufacturing gross domestic product (GDP) and 1.6% to manufacturing employment, giving it the potential to play an important role in economic development and job creation (DTI, 2013). Furniture is one of the most labour-intensive industries and can therefore also serve as a mechanism for the development of small, medium and micro enterprises (SMMEs), particularly as products can be manufactured in rural areas with minimum capital requirements (DTI, 2008). This is supported by the actual sales value of the furniture manufacturing sector, which amounted to R5 328 576 million in June 2014 alone. (StatsSA, 2014)

In a draft strategy for the development of the furniture industry the Department of Trade and Industry (DTI) reported that the global furniture industry has grown by an average of 13% between 2002 and 2006, with exports from the top 10 producing countries accounting for over 66% of global exports. South Africa's exports of furniture was worth ZAR4.26bn in 2013 and grew by 50.3% from 2012. The global players have positioned themselves between manufacturing low cost/low quality and high cost/high quality products, which is a model to which the South African market is adapting in order to expand the sector.

The Industrial Development Corporation (IDC) reported that in 2013 the furniture manufacturing sector recorded the highest production utilisation capacity (91.9%) and the largest increase on an annual basis (10.8 percentage points) across all manufacturing sub-sectors (IDC, 2014).

In order to present accurate information in relation to the furniture manufacturing industry it is important to understand what elements make up the composition of the industry. To this end, South Africa makes use of the international Harmonised System Code (HSC) that defines the furniture manufacturing industry (DTI, 2008). Although the HSC includes additional elements in its definition of the furniture manufacturing industry, the codes used by South Africa have excluded some of these elements (Table 1).

Table 1: Harmonised System Codes for furniture, South Africa

HSC	Description
9402	Medical, surgical, dental or veterinary furniture
9403	Office furniture and parts thereof (wooden, plastic, metal furniture used for office, bedroom and kitchen)
9404	Mattress support, articles of bedding and similar furnishings

Furniture manufacturing operations are largely located in the Gauteng, KwaZulu-Natal and Western Cape provinces (Figure 1) (DTI, 2005).

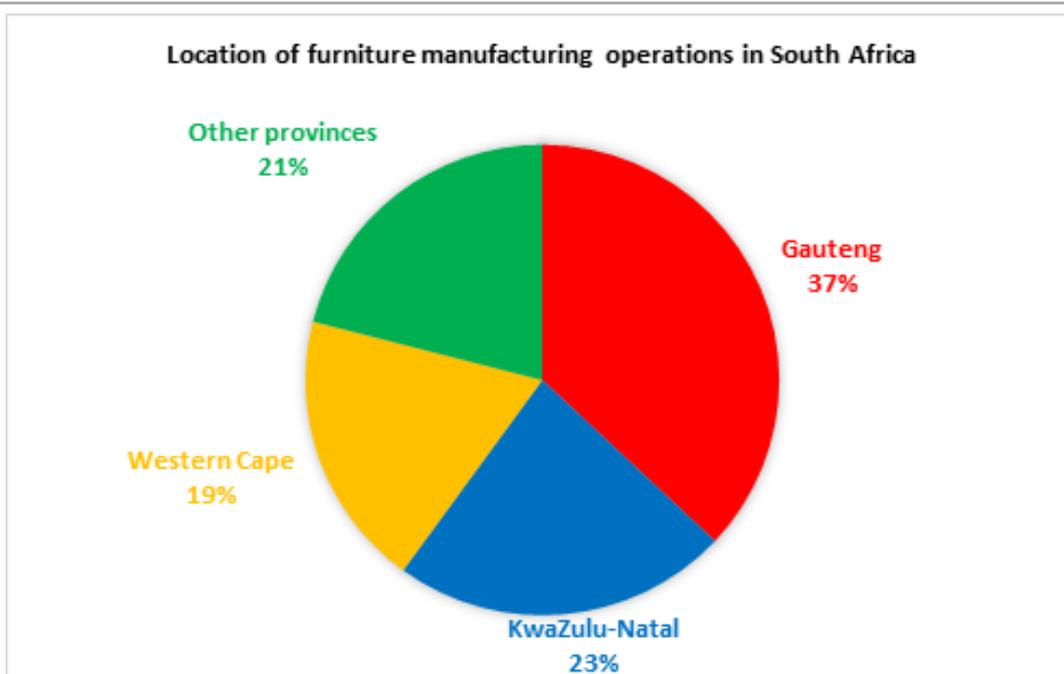


Figure 1: location of furniture manufacturing operations in South Africa

3. Key features

3.1 Trends

Growth in the local demand for household products has diminished as disposable income is under pressure from higher electricity, transport and food prices (Maswanganyi, 2014). These economic circumstances have resulted in heavy reliance on demand for manufacturing products from outside the country, and the furniture manufacturing industry is no exception. However, should South Africa's furniture manufacturing sector not be able to provide quality products at the right pricing levels it is likely that sales from this sector could decrease significantly. The increasing costs of commercial transport and electricity make it difficult for manufacturers to retain a competitive advantage, in both local and international markets.

The largest company in the furniture retail sector has initiated the implementation of a new business model from manufacturing with no pricing power, to being a vertically integrated furniture business offering manufacturing, sourcing, logistics and retail across Europe, the United Kingdom, South Africa and Asia Pacific, with pricing power (Shevel, 2014). This new model will enable the maximisation of profit margins in a similar fashion to Ikea, while at the same time improving return on equity. In addition, this combination of manufacturing and retail services may very well change the manner in which the furniture manufacturing industry is shaped in years to come.

The IDC has increased its funding levels in all four of its targeted high-growth manufacturing sectors, including the furniture manufacturing industry. In an attempt to revitalise this manufacturing sub-sector, the IDC provided an independent manufacturer with expansion capital, while approving funding for a "proof of concept" to manufacture bamboo laminated boards - a project with high potential for import replacement by means of localisation (IDC, 2014). This trend demonstrates government's commitment to strengthening the development of the furniture manufacturing industry, and promotes awareness of the benefits of investing in this sector.

The use of technology as a means of improving the efficiency of the manufacturing sector is gaining increasing acknowledgement as a critical success factor for industry operations. This is particularly relevant to South Africa's developing economy which is faced by a myriad of limitations, including labour unrest and lack of investment in capital machinery and equipment. Research has demonstrated that the implementation

of various levels of technology improves speed, variety, flexibility, productivity, quality and innovation. These improvements are able to empower SMMEs in the furniture manufacturing industry in particular to serve mass markets, and blend batch and custom orders to allow for concurrent low cost and differentiation strategies (South African Journal of Industrial Engineering, 2013).

3.2 Challenges

The DTI reported that the local furniture industry has not kept up with the growth in the global furniture trade and has steadily lost its share of the international furniture manufacturing market, moving from being the 34th largest exporter in 2005, to 43rd in 2006. This has been attributed to the escalation of low cost Asian imports, waning investment in skills development and technological innovation, and insufficient research and development funding - all resulting in the decline of levels of competitiveness in the industry (DTI, 2008). The materials used in the furniture manufacturing process affect the prices and profit margins in the furniture sector. The global commodity prices that can be analysed include cotton, iron, steel and aluminium. The change in the price of these commodities has a big impact in the performance of the furniture industry.

The IDC has concluded that contractions in productions in 2013 are due to disruptive industrial action, insufficient demand in external and/or domestic markets, and serious competitiveness challenges at local factory level due to rising input costs, skills shortages and inadequate power supply (IDC, 2014). Government is attempting to address these challenges through the implementation of the Industrial Policy Action Plan (IPAP), which includes the furniture manufacturing industry as a sectoral priority area.

3.3 Drivers for Change

In September 2013 the DTI identified and prioritised South Africa's top 10 investment projects. The manufacturing sector was amongst these, and the furniture manufacturing industry was one of the selected sub-sectors in the industry.

One of the mechanisms which government has employed to revitalise the furniture manufacturing sector includes the use of public procurement as a strategic instrument to enhance and smooth out certainty of demand over the years; promote competitive industrial capabilities with high employment and growth multipliers; diversify the economy towards more employment-intensive and value-adding activities and ensure value for money for the fiscus and society.

Sectors targeted for localisation and designation are aimed at leveraging public expenditure for industrial development. Designation is used in instances where government has carried out an in-depth analysis of the sector and there is local production capacity and public procurement opportunities (DTI, 2013). The furniture sector has been selected as a designated sector to benefit from public procurement in the areas of office and school furniture, and base and mattress sets. This initiative should stimulate the growth of the sector and increase its contribution to GDP.

Credit regulations are a big driver of change. The stricter credit evaluation policies by retailers have unfortunately led to less credit being offered to customers. However on the up side is led to less customers defaulting on the payments, thus more value sales. (WESGRO, 2014)

Given the realities of the domestic manufacturing market, the furniture manufacturing industry should seek to compete at a level of quality, reliability, and differentiated designs, rather than at a low price/quality level. South Africa is well placed to provide furniture products that are unique to the region and tend to appeal to Western markets. This approach could see a substantial growth in the industry as the export market will provide higher prices and volumes as opposed to the domestic market. Key to this is the investment in technological manufacturing innovations to ensure greater margins of competitiveness (South African Journal of Industrial Engineering, 2013).

Socio-economic drivers for change include the following:

- The wood furniture value chain has the potential to play an important role in promoting growth and alleviating poverty. Many emerging economies have used the furniture industry as one of the primary tools 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 has the second lowest cost per employee, where the amount of capital needed in order to create one job is R20 000; and
- The industry is perfectly suited for small-scale production, where the rural manufacturer can produce furniture from home and sell it on the local market. In doing so also contributing to local economic development.

(DTI, 2008)

3.4 Standard industrial classification code

SIC code	Description	Category
39103	Manufacture of furniture made predominantly of materials other than metal, plastic or concrete	Manufacture of furniture
61391	Wholesale trade in household furniture, requisites and appliances	Wholesale trade in household goods: household furniture, requisites and appliances

3.5 Trade unions active in the sector

The South African Furniture and Allied Workers' Union (SAFAWU) was established in April 2010. The union gives service to members from the furniture industry for union-related matters, and also offers ill-health benefits to registered members (SAFAWU, 2014).

3.6 Professional associations

The Wood Foundation originated when various stakeholders in the forestry, wood processing and related industries identified the need to form an association to promote wood in a generic manner. The Foundation was constituted in June 2009. Its core objectives are to promote and encourage the growing of trees and the use of wood and wood products and to promote wood as a naturally renewable and environmentally friendly product (The Wood Foundation, 2014)

The Furniture Technology Centre Trust (Furntech) was established in 2000 through a bilateral agreement between the DTI (which was replaced from June 2006 by the Small Enterprise Development Agency) and the Swedish Industrial Development Agency (SIDA). Furntech's mission is to be a productivity driven, globally competitive, outcomes-based training provider that offers comprehensive and innovative business incubation services in order to assist in job and wealth creation in South Africa's furniture and wood products sector. Its primary objective is to create an enabling environment for SMMEs in the furniture and wood products industries to grow through business technology incubation (FURNTECH, 2014). The Trust is recognised by the FP&M SETA as an Institute of Sectoral and Occupational Excellence (ISOE).

The Woodworking Association of Pretoria was established in 1989 as a non-profit association with the purpose of bringing together woodworkers in all disciplines in the Pretoria area of South Africa (The Woodworking Association of Pretoria, 2014). Its objectives are, amongst others, the dissemination of information on wood and woodwork, to create co-operation between members, to exchange ideas and knowledge, to organise regular meetings, workshops and competitions of members in the various disciplines

of woodwork, to issue a regular newsletter to members and to liaise with other similar associations and clubs in South Africa. The Association currently has 138 members.

Established in 1990, the Witwatersrand Woodworkers Association (WWA) is a non-profit organisation that exists to promote and maintain interest, skill and excellence in the working of wood (Wits Woodworkers Association, 2014).

4. Learner Profile

IQ Business received MIS data from FP&M SETA regarding all learners the SETA has interacted with. The learner profile provides an overview of the FP&M SETA's learner who entered in financial years 2011/12, 2012/13 and 2013/14.

Fields of interest are the learners':

- **Equity distribution:** ethnic group of the learner.
- **Socio-economic status:** employed or unemployed.
- **Disability status:** being disabled, this includes sight, even with glasses.
- **Age at time of enrolment:** age was calculated off of the learner's ID number and worked back to reflect his/her age at the time they entered the course.
- **Home language.**
- **Gender.**
- **Geographical distribution.**
- **Intervention.**
- **Sub-sector.**

In this section a focus was placed on the sub-sector, namely furniture sector. Data¹ is reported in the infographic² below per sub-sector.

The FP&M SETA courses in this sector are learnerships and learners in these sectors are mainly black South Africans. It can be seen that 96% of learners in the furniture sector are under the age of 40 and 0.73% of learners are disabled.

The furniture sector has an almost equal distribution between male and female learners. The furniture sector is weighted toward enrolling unemployed persons in learnerships. Learnerships for furniture occur mostly in Gauteng and the Western Cape.

¹ The data excludes missing data within the variables.

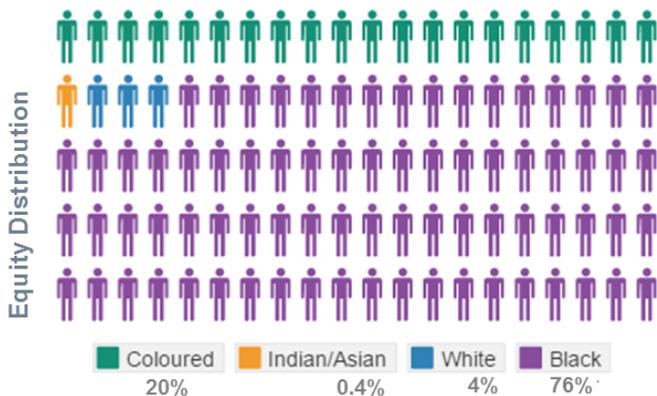
² A visual representation of information or data, e.g. as a chart or diagram.

4.1 Furniture Sector

Furniture Sector

Learner Profile

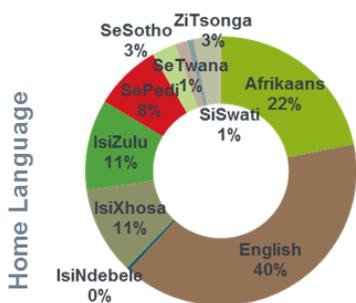
2011/12 – 2013/14



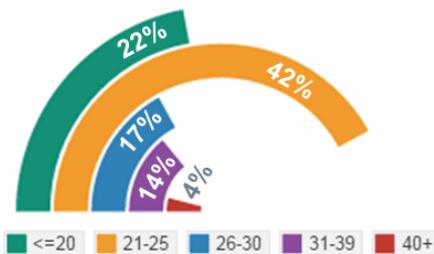
Learnerships

Disability Distribution

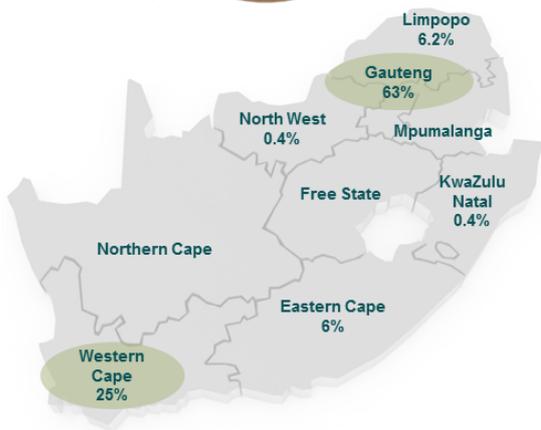
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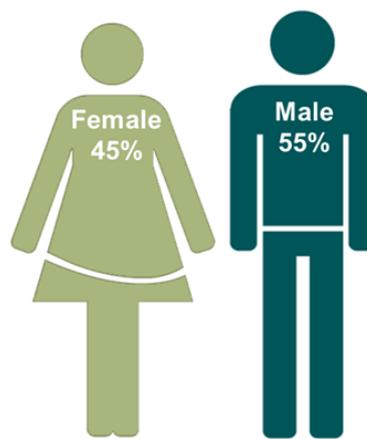
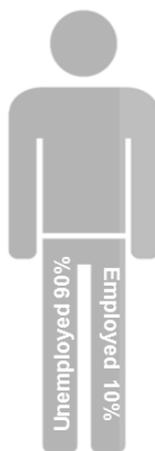
Age Distribution



Provincial Distribution



Socio status Distribution



Gender Distribution



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