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OF THE UK FURNITURE MANUFACTURING INDUSTRY

2010

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FIRA would like to acknowledge the support of the individuals and organisations that provided invaluable information at interview, via the questionnaires and during the regional seminars.

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Foreword

I am delighted to provide the foreword for this report on the competitiveness of the UK furniture manufacturing industry.

The study combines an analysis of the industry's economic status, with anecdotal evidence from leading industry figures, in order to formulate a comprehensive assessment of UK furniture manufacturing and its relationships both up and down the supply chain. It assesses progress since the start of the decade and proposes actions that will ensure the industry's long term success.

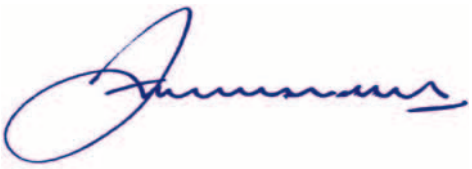
The recent recession clearly heralds challenging times and the forthcoming years will be difficult. As a past Chairman of FIRA and someone who has spent his whole career in furniture manufacturing, this industry is very close to my heart and it is one of my greatest wishes to see it continue to not just survive, but also prosper. I believe that the clarity of thinking within this document should help companies across the supply chain to formulate strategies for the future.

It is clear from the study that the UK furniture manufacturing industry has responded to the challenge of imports, and many companies have become leaner and more efficient.

This report illustrates that the UK industry has many strengths. Nevertheless it also makes clear that manufacturers will need to continue improving, especially in terms of quality and service, if they are to compete in what will be an increasingly competitive market for everyone.

The report is the culmination of considerable collaborative effort and, on behalf of FIRA, I would like to thank all those organisations and individuals who have given freely of their time in support of this important industry initiative.

I would encourage everyone in the furniture supply chain to read and digest the contents; and I look forward to seeing UK furniture manufacturers thriving long into the future.



Ken Fullalove
FIRA Chairman 1992 - 2009

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Executive summary

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1.0 Executive summary

UK furniture manufacturing makes a significant contribution to the UK economy. Factory gate sales of over £8.3 billion per annum are generated by almost one hundred thousand employees.

Despite these impressive statistics, furniture, like many other manufacturing sectors, faces challenging market conditions and ever increasing global competition. However, furniture is also relatively labour intensive in comparison with many other manufacturing industries and, as a consequence, faces additional pressures from low wage economies such as China and Poland. Nevertheless, UK furniture manufacturers have some inherent advantages compared to their overseas counterparts, and have proven to be resilient and capable of embracing change; qualities that will underpin their future competitiveness.

This analysis uses statistics, key performance indicators and industry opinion to establish the current competitiveness of the furniture industry. Quantitative and qualitative information, combined with an assessment of the future economic climate, are tentatively used to predict likely changes in the competitive environment. This will enable informed strategic decision making at a macro, industry-wide level, and by individual companies, resulting in actions that will ensure long term success.

The challenge of imports has become an established phenomenon. However, a comparison of the current status of the industry with that of nine years ago reveals that many manufacturers have responded by developing an increasing degree of specialisation, making significant improvements in quality and service whilst, at the same time, benefiting from some of the advantages of operating leaner, more efficient businesses.

In addition, the customer base, especially retailers, has started to appreciate the hidden costs involved in purchasing and transporting furniture from remote locations. Palpable evidence has emerged to indicate that UK manufacturers are in a favourable position when it comes to choice of location - a position that also translates into a price premium.

There is little doubt that the climate for furniture manufacturing will become even tougher. The longer term effects of the recent global downturn, such as reduced spend by both consumers and government, will continue to impact on UK furniture sales. Rising imports are a certainty and, with its significant labour element, UK furniture manufacturing will face a continued squeeze on profitability.

Nonetheless, this analysis has revealed specific opportunities for UK furniture companies to consider.

- There is a growing recognition of the problems involved in transporting and importing from remote locations. Recent, well publicised, quality and safety problems have only supported the view that importing carries many challenges to offset the low price.
- Retailers and specifiers indicate a preference for using UK suppliers which translates into a tangible price premium.
- The proximity of UK manufacturers to the market, both in terms of location and understanding customer needs, is an excellent foundation for success.
- Exporters to the UK will find it difficult to compete with companies that focus on core skills and deliver niche, custom made products, backed by excellent service.
- To maximise such opportunities manufacturers need to focus on lean processes, both within the factory and along the supply chain, excelling at what they do best and, where necessary, buying in what cannot be produced competitively.
- Successful manufacturers have used a foundation of excellence in one area to widen the customer base, breaking down the traditional barriers between domestic, office and contract sectors.
- Furniture exporting from the UK has traditionally been weak and attracted little interest. The German export performance shows there is scope, even for high wage economies, to perform well, providing a long term approach is adopted. Recent currency movements only serve to make the export market more attractive.

- Although environmental pressure from customers is still at a relatively low level, many UK manufacturers are aware of the growing demands for sustainability and are embracing initiatives such as FISP (Furniture Industry Sustainability Programme). It is apparent that sustainability and environmental performance will become increasingly important, both from customer pressure and legislative requirements. The opportunity exists to develop a reputation for environmental credentials which should act as a differentiator against foreign competition.
- UK designers and innovators are amongst the best in the world. This should be a major competitive advantage yet anecdotal evidence suggests that companies find it difficult to exploit and retain this resource.

These opportunities are not, in themselves, guaranteed recipes for success in a very challenging environment. However, the last ten years has demonstrated that manufacturers that adapt and change are in a strong position to survive and, indeed, prosper.

The analysis concludes by proposing a series of actions, for individual companies, for the industry as a whole, and for government that will address key competitiveness issues, including:

- Concentrate on excelling at core competences, outsourcing what cannot be produced competitively, but target a wider audience, selling across the traditional furniture sectors.
- Provide a world class offer by continually seeking opportunities to improve efficiency with lean thinking.
- Compete where imports are weak by focusing on customer needs and delivering unrivalled quality and service.
- Broaden the traditional manufacturing offering to incorporate additional deliverables and services.
- Establish a reputation for innovative designs and products that meet relevant performance standards.
- Drive the environmental agenda. Educate consumers and become fully prepared for inevitable government legislation targeted at environment performance and sustainability.
- Fully engage with all training and skill providers encouraging a focus on the skills sets required for manufacturing in the future.
- Understand exporting and exploit the opportunities that it presents.
- Work with customers to determine what delights end users of furniture (both commercial and domestic).
- Ensure the industry gets the government recognition it deserves by actively engaging with the British Furniture Confederation (BFC) and helping it to understand the key issues for UK furniture manufacturing.

Introduction

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2.1 Background

Despite popular belief, manufacturing remains an important part of the UK economy. The UK is the sixth largest manufacturer in the world (Technology Strategy Board, 2008), with manufacturing being a significant contributor to Gross Domestic Product (GDP) and a major source of employment.

FIRA's 2002 competitiveness analysis of the furniture industry made it clear that "manufacturing matters"; a sentiment echoed by the government department for Business Enterprise and Regulatory Reform (2008) which observed that UK manufacturers had made significant improvements in the first half of the decade and stated that:

"Manufacturing is a real, but not always recognised, success story. It accounts for 13% of UK GDP and has increased its productivity by 50% since 1997, outstripping the rest of the economy. This has narrowed the overall economy's historic productivity gap with major competitors: between 1997 and 2004, average labour productivity in the UK grew by 4% more than the USA, 5% more than France, and 15% more than in Germany."

By 2008, manufacturing accounted for 14% of the UK's GDP, produced over 50% of exports and directly employed around 2.8 million people; whilst underpinning many more jobs in supporting industries.

On the global stage, the UK furniture manufacturing industry remains a significant player, being in equal sixth position with France and Canada (CSIL, 2008). It turns over £8.3 billion and accounts for 1.7% of total UK manufacturing output (ONS, 2009).

At the turn of the decade, the relatively low level of imports was making little impact on UK manufacturers, especially as home demand continued to grow. Nevertheless, while still small, the growth in imports was increasing significantly, and the previous competitiveness study (FIRA, 2002) predicted the looming impact that such growth would have, especially in a slowing, or declining market.

In the intervening period, furniture imports have more than doubled and now form a significant component of the furniture market. Despite a growing market, the output from UK manufacturers has, in real terms, suffered a decline, a situation that has been exacerbated by the recent economic crisis.

Competing with imports has become a way of life for UK manufacturers, and many now embrace the concept of importing materials and components. Nevertheless, it is clear that over the last ten years UK manufacturers have suffered a considerable loss in market share.

Whilst imports have had, and will clearly continue to have, a major impact on UK manufacturers there are many other challenges ahead, not least the knock-on effects of the recent financial crisis.

The 2002 competitiveness analysis identified a number of gaps that needed to be addressed to ensure that UK furniture manufacturing had a future. Some of these were fulfilled through industry wide initiatives and others were implemented by individual organisations.

In particular, the following manufacturing issues were addressed through the formation of a government and FIRA backed initiative, uk**fi**rst.

- Lean manufacturing and process improvements.
- Supply chain management.
- Improved deliveries.

In response to demands from the industry's leaders, the trade associations and representative bodies formed a single voice, the British Furniture Confederation (BFC), with which to communicate with government (the BFC can be contacted through FIRA which administers the secretariat).

Government backed an initiative to generate export improvements for the sector but, unfortunately, this was not fully progressed due to lack of ongoing support.

Some of the competitiveness issues identified in 2002 remain relevant today but it is almost 8 years since a review of the whole industry was undertaken. This new analysis reflects on how industry has changed and presents an opportunity to develop strategies for the next five years.

2.2 Competitiveness analysis

The aim of this analysis is to provide a systematic basis on which to understand the challenges facing the sector in order that efforts to improve competitiveness can be targeted in the most appropriate direction.

For consistency and comparability, this analysis has been developed using the same generic framework as that used in the 2002 study. It represents a broad assessment of all of the issues that affect, or may impact on, the competitiveness of the furniture industry. It looks at the industry on a macro level, but where appropriate disaggregates the findings across sub sectors.

Publicly available evidence has been collated to identify the current position and the key areas where action is likely to have the greatest impact. However, in order to develop a full picture such quantitative evidence has been supplemented by anecdotal evidence taken from across the industry's supply chain.

There are three main stages to a competitiveness analysis:

- Performance measurement.
- SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis.
- Foresight.

Performance measurement provides an indication of the current state of UK furniture manufacturing. Using available financial statistics, it seeks to identify changes and trends over time. By way of comparison, data is assessed against other manufacturing industries and with furniture manufacturing overseas.

Strengths and weaknesses provide an indication of the current status of the industry and its likely future development in the medium term. Opportunities and threats are external issues that will impact on the sector in a wider context.

Using the data generated, and derived opinions, **Foresight** aims to develop visions for the future, both for the manufacturing industry and for the market that it serves, resulting in the identification of potential "competitiveness gaps."

The development of SWOT and foresight are not separate exercises, but are interdependent and iterative. These elements of the study are founded on both quantitative data and anecdotal evidence from the industry itself, backed by expert knowledge and judgement. They are determined and verified through personal interviews, questionnaires and open forums involving a broad cross section of industry including materials and component suppliers, furniture manufacturers, retailers and specifiers.

This analysis is a useful resource to support the strategic decision making of industry (both individually and collectively) and government. It plugs many of the knowledge gaps and is an invaluable guide to the efforts required to improve competitiveness.

2.3 Limitations of the analysis

This competitiveness analysis is a study of the UK furniture manufacturing industry at the macro level. In order to understand the challenges facing the industry as a whole it has drawn on statistics and information from a wide range of sources.

Whilst statistics are an essential tool, it is important to recognise that, by their very nature, they can be misleading. The following factors should be taken into account when reading the study and its conclusions:

- Furniture is difficult to describe in absolute terms; as a consequence some data sources may include products which other sources exclude (eg transport seating).
- The basis of compilation of key furniture statistics by the Office for National Statistics (ONS) Annual Business Inquiry was changed in 2008. As a result, certain assumptions have had to be made for the sake of comparability (see Chapter 4.0).
- Some sources (such as ONS) include business outputs other than manufactured product (eg services) while others such as the Centre for Industrial Studies (CSIL) use a tighter definition of furniture manufacturing.
- Exchange rate fluctuations should be taken into account when undertaking global comparisons.
- Financial statistics are based upon actual values at the time; no adjustment has been made for inflation.

Wherever possible a consistent approach has been adopted. However, where there is a lack of data, figures from other data sets have been substituted, and this is identified in the relevant sections of the report.

This analysis aims to identify the key factors that drive the industry and will influence its future. It is about trends and provided that the fallibility of each set of data is recognised, and that comparisons are generally made within, rather than across, data sets, then legitimate conclusions can be drawn.

The aim of the analysis is to provide a systematic basis on which to understand the challenges facing a sector in order that efforts to improve competitiveness can be targeted in the most appropriate direction

World furniture markets

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3.1 Production

Furniture manufacturing is now a global business and, in order to assess the performance of the UK, it is necessary to understand the global trends in furniture manufacturing, trade and consumption. This assessment is based on 2008 figures that have been largely derived from data supplied by CSIL (2009) and on historic data extracted from FIRA's 2002 competitiveness analysis.

World furniture production (2008) is valued at £205 billion, with just 12 countries accounting for over 75% of output.

The seven major industrial economies of USA, Italy, Japan, Germany, Canada, France and the UK, together produce £86 billion of furniture (46% of the world total).

China is the largest producer of furniture by some distance and, at £50 billion, accounts for nearly a quarter of world furniture production. However, with a rapidly growing home demand, only a third of this production is exported. Despite the market size, imports to China are negligible (£0.5 billion).

In 2000, there were three main emerging countries (China, Mexico and Poland). China has clearly continued to grow with its production recording an astounding six-fold increase, much of it driven by a rapidly industrialising economy. Poland produces almost four times as much as in 2000, yet Mexico produces almost £600 million less than in 2000.

Malaysia and Indonesia were also considered to be potential rising stars in 2000, but surprisingly output has only increased by 60% and 13% respectively.

The new emerging nations are now India and South Korea. It is also interesting to note that Spain now appears in the top 12 world furniture producers.

The former Eastern Bloc countries of the Czech Republic, Slovenia and Romania are all beginning to make their presence felt on the world furniture market.

Table 3.1 Overview of the world furniture industry (2008)

Country	Production	Exports	Imports	Consumption	Population	Consumption per capita
	£ millions	£ millions	£ millions	£ millions	millions	£
G7						
United States	31,401	2,242	13,288	42,447	305	139
Italy	15,929	7,210	1,400	10,119	60	169
Germany	14,073	6,086	6,107	14,094	82	172
Japan	6,606	490	2,439	8,556	128	67
France	6,278	1,822	4,526	8,982	62	145
Canada	6,101	2,013	2,646	6,734	33	204
United Kingdom	6,091	800	4,424	9,715	61	159
Subtotal G7	**86,479**	**20,662**	**34,830**	**100,647**	**731**	**138**
Other countries						
China	50,241	14,593	548	36,195	1,325	27
Poland	6,056	4,334	843	2,564	38	67
India	5,988	280	259	5,966	1,149	5
Spain	5,428	1,130	1,813	6,111	47	130
South Korea	3,314	311	705	3,708	49	76
Vietnam	2,878	1,850	71	1,099	86	13
Malaysia	1,924	1,418	216	723	28	26
Czech Republic	1,827	1,348	790	1,268	10	127
Mexico	1,619	669	519	1,468	108	14
Indonesia	1,441	1,032	96	505	240	2
Romania	1,185	867	372	690	22	31
Slovenia	687	814	395	268	5	54
Sub total other	**82,588**	**28,646**	**6,627**	**60,566**	**3,107**	**19**
Non-specified	**35,707**	**14,025**	**20,480**	**41,990**	**2,867**	**15**
World	**204,774**	**63,333**	**61,937**	**203,203**	**6,705**	**30**

Note: It is important to recognise the differences between these data and that supplied by ONS. The above figures exclude aircraft and car seats and, for non-European countries, sometimes exclude mattresses, mattress supports and other similar furnishings. As such, the production, import and export values for the UK will not match those given in Chapter 4.0 of this report. However the above figures facilitate comparability between the performances of different countries.

International trade in furniture has doubled since 2000 and it has now become a truly global business

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3.2 Exports and imports

International trade in furniture (2008) is valued at approximately £63 billion; a significant increase on the 2000 figure of £33 billion. The underlying message is clear; furniture manufacturing is becoming a global business.

However, there has been a significant shift in the trading position, as illustrated in Table 3.2.

The G7 countries used to account for 64% of all furniture production and had a significant share of the export market (46%). By 2008 there had been a major reversal of fortunes, with each G7 country experiencing a loss in market share both in terms of production and exports. G7 countries are still amongst the leading furniture producers in the world, although their position is not nearly as dominant as in 2000.

In terms of exports China is now the dominant player, with a 23% share of the export market (compared to 7% in 2000).

In second and third positions respectively, Italy and Germany remain powerful exporters (although with a declining relative share). Poland's strong growth in performance has now made it the fourth largest exporter.

Table 3.2 Furniture market share of the major manufacturing countries

	Production (2000)	Production (2008)	Exports (2000)	Exports (2008)
	%	%	%	%
G7				
United States	26.7	15.3	5.6	3.5
Italy	9.2	7.8	16.5	11.4
Germany	8.3	6.9	8.4	9.6
Japan	8.5	3.2	0.8	0.8
France	3.7	3.1	4.1	2.9
United Kingdom	3.5	3.0	2.3	1.3
Canada	4.0	3.0	8.8	3.2
Subtotal G7	**63.9**	**42.2**	**46.4**	**32.6**
Other countries				
China	6.5	24.5	7.0	23.0
Mexico	1.8	0.8	2.5	1.1
Poland	1.3	3.0	4.1	6.8
Indonesia	1.0	0.7	3.0	1.6
Malaysia	0.9	0.9	3.1	2.2
India	n/a	2.9	n/a	0.4
Spain	n/a	2.7	n/a	1.8
South Korea	n/a	1.6	n/a	0.5
Vietnam	n/a	1.4	n/a	2.9
Czech Republic	n/a	0.9	n/a	2.1
Romania	n/a	0.6	n/a	1.4
Slovenia	n/a	0.3	n/a	1.3
Subtotal others	**n/a**	**40.3**	**n/a**	**45.2**
Non-specified	**n/a**	**17.4**	**n/a**	**22.1**
World	**100.0**	**100.0**	**100.0**	**100.0**

3.3 Consumption per capita

Due to the influence of a range of parameters, it can be difficult to draw meaningful conclusions about the changes in per capita consumption of furniture. Inflation will, undoubtedly, have contributed to an increase in value from 2000 to 2008, and a comparison between different countries poses problems due to currency valuations and different inflation rates. Furthermore, improvements in manufacturing and changes in the supply chain will undoubtedly have had an effect on comparative pricing, with furniture probably becoming cheaper in real terms.

Despite these issues, there are some significant conclusions to be drawn from the per capita consumption figures.

In 2000, the average furniture consumption per capita for the G7 countries was £128. Eight years later this average had only risen to £138 (Table 3.1). Notably, the USA's consumption per capita decreased to £139 (from £152 in 2000) and Japan's was down by a third to £67. Other G7 countries showed significant increases in consumption per capita (ranging from 20% to 60%) with Canada having almost doubled its consumption to just over £200 per person.

Many emerging countries spent more on furniture per capita as a reflection of increased wealth. In 2000, China spent just under £5 per capita, but rapid industrial growth has seen this figure swell almost six fold to £27. Similarly, Poland has increased its consumption per capita by a factor of five, whereas those countries predicted to be larger players in furniture which have not fulfilled their early promise, (Malaysia, Indonesia and Mexico) have only doubled their consumption per capita.

World furniture consumption per capita has remained static from 2000 to 2008 (£30 per person) which suggests that, whilst people in developed countries (small increase) and the emerging countries (approximate 3 fold increase) are spending more, there are other countries whose populations are spending less. Some of these will undoubtedly be the poorer nations. However, a reduction in spend from the largest consumer in the form of the USA (currently accounting for a fifth of world consumption in furniture) has undoubtedly had a significant impact on the overall world consumption per capita figure.

3.4 Trade balances

It is interesting to note that in the majority of cases the increased openness of markets has not led to a balanced change in trade. In general, when exports have increased there has not been a matching change in imports and vice versa.

There were some notable exceptions to this pattern. The G7 countries have experienced an overall increase in furniture imports of 60% since 2000. For the majority of these countries there was almost, or just over, a doubling of imports during the period.

In contrast, Germany and the USA only increased imports by about 56% and 34% respectively, with Japan at 20%. However, the USA is still the largest importer, accounting for 38% of all imports attributable to G7 nations and 21% of world imports.

Italy, traditionally a strong producer and exporter, has experienced a 133% increase in imports since 2000, albeit from a low starting point. However, it still remains the lowest G7 importer and one of the strongest furniture manufacturing nations in the world. Italy is not, however, totally immune from the impact of developing countries and saw a drop in its share of the world market, in terms of production and exports, compared to 2000.

In 2000, of the G7 countries, only Canada and Italy had a positive trade balance in furniture.

By 2008, Canada was also in a negative trade position (from +£1.5 billion to -£0.6 billion) while Italy's balance had improved to over +£5 billion. Canada's demise is mirrored by its reduced export performance and Italy's positive trade gap is a reflection of its strong export performance (same % of exports to production from 2000 to 2008), continued growth in home production and the relatively small impact of increased imports.

The only other G7 country to show an improved trade gap is Germany. In 2000, Germany had started to close its trade gap over the previous 5 years. This trend has continued and the trade gap is now only £0.2 billion, compared to £1.1 billion in 2000. This position has developed despite an increase in imports and is the result of a considerable increase in furniture exports. 11% of these exports are to the UK.

The UK has the second largest trade deficit in furniture behind the USA, totalling over £3.6 billion, with imports equating to 46% of home production.

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Table 3.3 World furniture trade balances

Country	Trade balance (£millions)		Imports/consumption (%)		Exports/production (%)	
	2000	2008	2000	2008	2000	2008
G7						
United States	-8,016	-11,046	32.1	31.3	5.4	7.1
Japan	-1,754	-1,949	15.8	28.5	2.4	7.4
United Kingdom	-1,311	-3,624	35.5	45.5	16.8	13.1
Germany	-1,074	-21	32.7	43.3	26.0	43.2
France	-792	-2704	38.8	50.4	28.6	29.0
Canada	1587	-634	38.4	39.3	57.4	33.0
Italy	4,936	5,810	7.9	13.8	45.9	45.3
Subtotal G7	**-6,425**	**-14,168**	**24.5**	**34.6**	**18.7**	**23.9**
Other countries						
South Korea	n/a	-394	n/a	19.0	n/a	9.4
Vietnam	n/a	1,779	n/a	6.5	n/a	64.3
India	n/a	21	n/a	4.3	n/a	4.7
Czech Republic	n/a	558	n/a	62.3	n/a	73.8
Slovenia	n/a	419	n/a	147.4	n/a	118.5
Spain	n/a	-683	n/a	29.7	n/a	20.8
Romania	n/a	495	n/a	53.9	n/a	73.1
Mexico	501	150	17.8	35.4	35.9	41.3
Malaysia	962	1,202	26.0	29.9	85.0	73.7
Indonesia	984	936	4.0	19.0	78.0	71.6
Poland	1,156	3,491	46.3	32.9	84.3	71.6
China	2,250	14,045	1.6	1.5	27.9	29.0
Sub total other	**n/a**	**22,019**	**n/a**	**10.9**	**n/a**	**34.7**
Non-specified countries	**n/a**	**-6,455**	**n/a**	**48.8**	**n/a**	**39.3**
World	**n/a**	**1,396**	**n/a**	**30.5**	**n/a**	**30.9**

The improvements in manufacturing output amongst the rest of the world are also reflected in trade gaps, with China reporting a positive balance of £14 billion followed by Poland and Vietnam (£3.5 billion and £1.8 billion respectively).

There are major differences between how many of the exporting countries operate. Despite its excellent overseas performance in 2008, China still only exported 30% of its production (a smaller percentage than in 2000) because of the rapid growth in its home market. Similarly, India has a high and growing home demand, but is a relatively poor exporter (exports account for only 5% of production).

Other nations with a strong export performance, such as Poland, Malaysia, Indonesia, Vietnam, Romania and the Czech Republic, send the majority of production abroad. Interestingly, the former Eastern Bloc countries also import a significant amount compared to home production (between 33% and 62%), a pattern that is replicated, although to a lesser degree, by Malaysia, Indonesia, South Korea and Mexico (all places that suggested considerable export potential in 2000).

China, India and Vietnam all import relatively little.

4.1 Background

UK furniture manufacturing is a substantial industry. Turnover in 2008 was £8.3 billion, with 96000 people employed by 6395 companies[1].

UK furniture and furnishings encompass a diverse range of products and markets, traditionally segmented into 3 sub sectors based upon the purchaser's characteristics:

- **Domestic:** serving the public, mainly through retail outlets and for household use.
- **Contract:** furniture for public areas such as hotels, schools, cruise liners, hospitals, restaurants, residential accommodation, stadia and airports.
- **Office:** desks, work stations, seating, tables, cabinets and other items for the office environment.

Ten years ago the distinction between companies belonging to each group was very clear, with few companies crossing the boundaries. However, evidence now suggests that companies are serving more than one market. In particular the distinctions between the office and contract sectors are becoming blurred, while some manufacturers are supplying both domestic and contract end users.

It is estimated that, in 2008, 30% of the UK's furniture manufacturing turnover was attributable to the office and contract sub sectors.

4.2 Industry structure

UK furniture manufacturing has a very high proportion of micro and small to medium size businesses. Only 315 companies report turnovers in excess of £5 million (Table 4.1). 82% of companies turn over less than £500k per year.

This pattern is reflected in the employment figures (Table 4.2), with 86% of companies employing less than ten people, while only 60 companies employ more than 250 people.

Table 4.1 Number of furniture manufacturers by turnover band (2008)

	Turnover size band (£ thousands)							
	0 - 49	50 - 99	100 - 249	250 - 499	500 - 999	1,000 - 4,999	5,000 +	TOTAL
Chairs and seats	75	210	245	85	85	130	80	**910**
Other office and shop	100	125	185	160	130	195	75	**970**
Kitchen	60	195	350	215	170	180	40	**1,210**
Other furniture	525	900	1,145	565	420	370	95	**4,020**
Mattresses	5	10	10	20	10	35	25	**115**
Total number of companies	**765**	**1,440**	**1,935**	**1,045**	**815**	**910**	**315**	**7,225**

Note: ONS.2008. UK Business: Activity, Size and Location – 2008. Figures collated using SIC (03) categories.

Table 4.2 Number of furniture manufacturers by employment size band (2008)

	Turnover size band (£ thousands)							
	0 - 4	5 - 9	10 - 19	20 - 49	50 - 99	100 - 249	250 +	TOTAL
Chairs and seats	510	120	95	85	40	40	20	**910**
Other office and shop	525	160	105	105	35	30	10	**970**
Kitchen	720	225	140	80	20	15	10	**1,210**
Other furniture	2,635	700	360	215	70	30	10	**4,020**
Mattresses	25	20	15	25	10	10	10	**115**
Total number of companies	**4,415**	**1,225**	**715**	**510**	**175**	**125**	**60**	**7,225**

Note: ONS.2008. UK Business: Activity, Size and Location – 2008. Figures collated using SIC (03) categories.

[1] VAT and / or PAYE based companies.

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Despite its contribution to the UK economy (1.7% of manufacturing output), furniture manufacturing suffers from lack of recognition at a political level. The industry has no traditional regional hub, with manufacturing spread across the country. As a consequence, and with much industry support now targeted on a regional basis, it is considered that the industry does not secure the support and influence from government that is appropriate for its size and contribution to the economy.

4.3 The UK furniture market

The home furniture market rose by 20% between 2001 and 2008 (to almost £13.3 billion), although, taking inflation into account (Bank of England, 2009), the market remained static in real terms (Table 4.4 and Figure 4.1).

Over the same period, imports almost doubled and exports only increased by 22% (again an increase attributable to inflation).

Despite a blip in 2007, where manufacturing output unaccountably leapt to £10.9 billion, the overall growth was just 4% which, in real terms, reflects a gradual decline in manufacturing output.

As a consequence, the furniture trade gap more than doubled with imports continuing to gain market share.

Figure 4.1 UK home market for furniture (manufacturer sales)

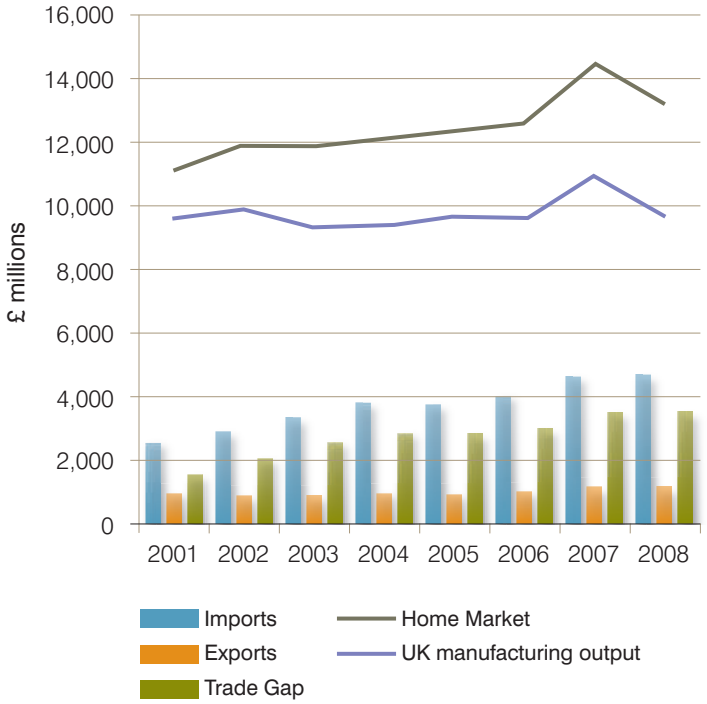


Table 4.3 Regional distribution of furniture manufacturers (2008)

	Number of companies					
Government office region	Chairs and seats	Other office and shop	Kitchen	Other furniture	Mattresses	Total
North East	30	25	50	100	0	**205**
North West	125	95	145	415	15	**795**
Yorkshire and The Humber	80	115	100	370	40	**705**
East Midlands	100	100	85	355	5	**645**
West Midlands	110	100	100	365	15	**690**
East	80	145	125	520	5	**875**
London	75	85	85	400	5	**650**
South East	130	130	130	620	10	**1,020**
South West	60	75	115	400	10	**660**
Wales	45	35	40	145	0	**265**
Scotland	50	35	45	165	5	**300**
Northern Ireland	25	30	190	165	5	**415**
Total number of companies	**910**	**970**	**1,210**	**4,020**	**115**	**7,225**

Note: ONS.2008. UK Business: Activity, Size and Location – 2008. Figures collated using SIC (03) categories.

Table 4.4 The UK home market for furniture (manufacturer sales)

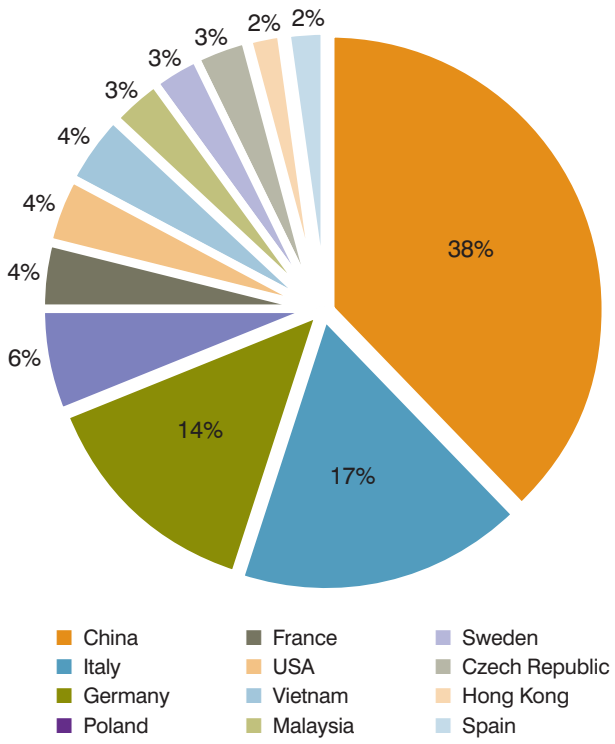
£ millions

	2001	2002	2003	2004	2005	2006	2007	2008
UK manufacturing output	9,598	9,836	9,352	9,381	9,648	9,621	10,925	9,709*
Less total exports	942	849	847	923	946	1,038	1,153	1,158
Plus total imports	2,500	2,912	3,340	3,773	3,757	4,008	4,645	4,684
Total home market	11,156	11,899	11,845	12,231	12,459	12,591	14,417	13,235*
Trade gap	1,558	2,063	2,493	2,850	2,811	2,970	3,492	3,526
Imports as a % of home market	22%	25%	28%	31%	30%	32%	32%	35%

Import growth was primarily driven by China (38%), followed by Italy and Germany (17% and 14% respectively). The improvement in Germany's furniture manufacturing performance is highlighted in subsequent sections, but it is clear that some of its export success has been at the expense of the UK (Figure 4.2).

The largest destinations for exports from the UK were the Republic of Ireland and the USA (31% and 22% respectively), followed by Germany and France (10% each). Although exports to Germany were relatively strong, the net trade gap still remained negative, in excess of half a billion pounds.

Figure 4.2 Main import origins for furniture into the UK in 2008



Data sourced from uktradeinfo, 2009

* **Important note:** Data for Figure 4.1 and Table 4.4 originate from the ONS Annual Business Inquiry, PRODCOM estimates for 2008 and Business Monitor MQ10.

The Annual Business Inquiry covers the industry in its broadest sense and collates data based on Standard Industry Classification (SIC) codes. In the years prior to 2008 the SIC (03) system was used to collate data but in 2008 a new classification system was adopted (SIC (07)). The main effect of the change in classification has been to remove "seats for transport" from the furniture statistics, which has resulted in an apparent reduction in annual manufacturing output compared with previous years.

This change makes it difficult to compare 2008 statistics with previous years. However, time series trends are important and to facilitate this, the 2008 manufacturing output and home market data in Figure 4.1 and Table 4.4 are estimates based on an upward adjustment to incorporate aircraft and car seats.

The true turnover / manufacturing output figure for the industry remains that reported in section 4.1.

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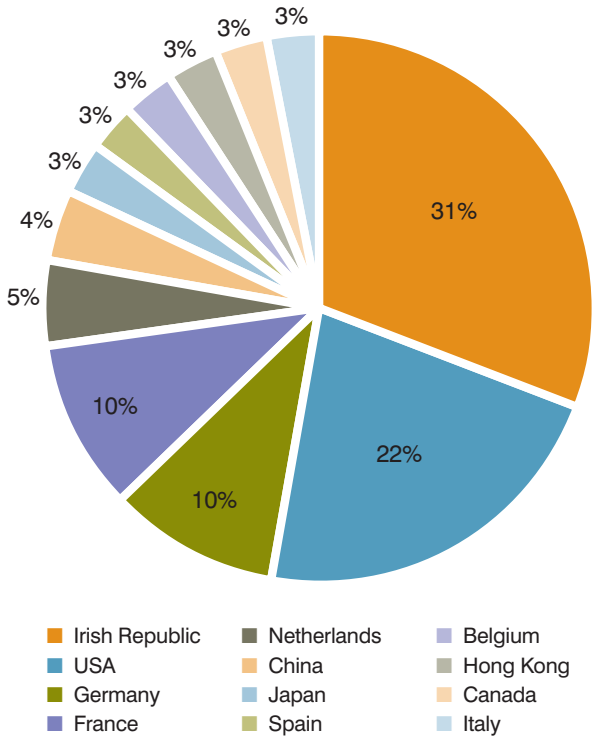
Figure 4.3 Main export destinations for UK furniture in 2008



Data sourced from uktradeinfo, 2009

Production and trade figures can be broken down into sub groups and, in some cases, further segmented by product type. The product type data is extensive and its interpretation can be complex. Detail at this level is beyond the scope of this study. However, it is possible to segment the data into sub groups and to map trends from 2006 to 2008 (Table 4.5).

Table 4.5 Home market and trade figures for furniture sub groups

Sub Group	2006	2007	2008*
Chairs and seats			
UK manufacturing output	2,856	2,891	n/a
Exports	431	505	539
Imports	1,676	1,834	1,882
Home market	4,101	4,220	n/a
Imports as a % of home market	41	43	n/a
Other office and shop furniture			
UK manufacturing output	1,977	2,267	2,335
Exports	121	124	125
Imports	216	206	205
Home market	2,072	2,349	2,415
Imports as a % of home market	10	9	8
Other kitchen furniture			
UK manufacturing output	1,524	1,831	1,780
Exports	53	53	37
Imports	113	160	190
Home market	1,584	1,938	1,933
Imports as a % of home market	7	8	10
Other furniture			
UK manufacturing output	2,641	3,334	3,669*
Exports	414	449	432*
Imports	1,940	2,189	2,327*
Home market	4,167	5,074	5,564*
Imports as a % of home market	47	43	42*
Mattresses			
UK manufacturing output	622	602	513
Exports	19	22	25
Imports	63	74	87
Home market	666	654	575
Imports as a % of home market	9	11	15

n/a Data not available due to changes in SIC Codes

* Some of the 2008 data needs to be treated with caution when making comparisons over time as chairs and seats have been absorbed into other sub groups due to changes in SIC codes

Data sourced from ONS Annual Inquiry, PRODCOM series 2008 and Business Monitor MQ10

- UK manufacturing output increased slightly in all sub groups (with the inflation provisos discussed earlier) apart from mattresses which has witnessed a decline.
- Chairs, seats and other furniture accounted for the majority of imports, both in value and as a percent of the home market.
- The home market for mattresses fell and imports, as a percentage of this market, increased significantly.
- Although increasing by 40%, imports of mattresses still represented a comparatively small proportion of the total market (15% in 2008). Nevertheless, as has been illustrated in other areas of furniture production, manufacturers ignore such trends at their peril.
- Office and shop, plus kitchen furniture, had low levels of imports compared to the size of the home markets.

4.4 Economic downturn

Official 2009 manufacturer sales figures for the furniture sector will not be available until the latter half of 2010. However, it is clear that weaker demand across the world economies will inevitably impact on a sector that had, in 2007, enjoyed strong market conditions.

Despite the fact that the first hints of financial problems in the UK were emerging in August 2007, furniture manufacturing remained relatively resilient until the end of the second quarter of 2008. As with other manufacturing industries a dramatic drop in output only started to occur towards the end of the year.

One estimate suggested that total UK manufacturing output in 2009 would fall by 5% (EEF, 2009). However, the true effect of the economic downturn is reflected by the 15% reduction in production since early 2008 (ONS, 2009).

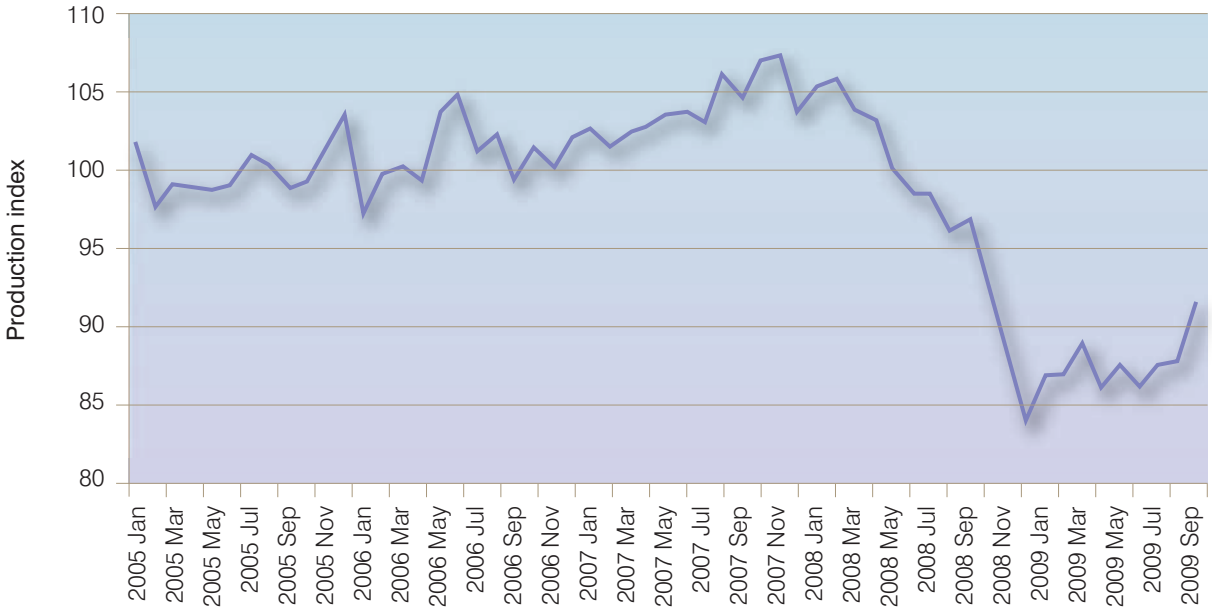
Figure 4.4 illustrates the change in manufacturing index of production for industries denoted as the "DN series" or as "Manufacturing not elsewhere classified". Furniture manufacture comprises 75% of this group by turnover and, as such, the data are good indicators of the current market.

2008 heralded a 22% drop in furniture production. There was a partial recovery during 2009, but output is still, on average, 13% lower than in January 2008. These figures accord with anecdotal evidence gathered from the furniture industry's trade associations (Personal Communication, 2009).

In addition, furniture imports at the end of the second quarter of 2009 were 21% lower than in the first quarter of 2008 and exports were 24% lower over the same period (ONS, MQ10. 2009).

With pressures on public spending and underlying consumer caution, market conditions are not predicted to improve dramatically and growth in the UK's GDP for 2010 is likely to be little more than 1%.

Figure 4.4 DN Series - Manufacturing production index



Source. ONS. 2009. Index of production

Key performance indicators (KPIs)

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5.1 Introduction

In 2002, the importance of KPIs was highlighted by the following statement from the Small Business Service:

> **"British companies are no longer simply competing against each other... There is more competition and often it is of a world-class standard. This pressure means that businesses need to be more streamlined and innovative than ever before to compete both in terms of price and dynamism. The imperative to improve competitiveness of small and medium sized enterprises (SMEs) is intense."**

Whilst this statement originated from a small business paper it is considered to be true for the whole furniture sector and emphasises the need to be able to measure and improve performance.

Financial key performance indicators are readily available tools that enable manufacturers to better understand competitive pressure. This study uses financial KPIs aggregated across a broad cross section of companies to make macro level comparisons between the following:

- Domestic, office and contract furniture manufacturing.
- Trends comparing 2000 with 2007 for UK furniture manufacturing and for the above sub sectors.
- UK furniture manufacturing and other UK manufacturing sectors.

The analysis provides an indication of both the development and status of the UK furniture manufacturing industry. It also enables individual furniture manufacturers to benchmark performance against other, similar companies and against other manufacturing sectors.

Non-financial performance indicators relating to aspects such as customer satisfaction, the environment, skills and supply chains will also have a significant bearing on competitiveness. Some of these issues are addressed in Chapter 6.0 of this report.

5.2 Scope

Financial KPIs for UK furniture manufacturers have been derived from 2007 data supplied by Plimsoll Publishing Ltd (2009). These data reflect the actual financial results of 1000 companies. However, many of the companies provided insufficient information to calculate a full set of KPIs. As a result, the data was sifted and the analyses carried out using aggregated financial information from 139 companies, all of whom had submitted full financial results.

There are still difficulties with this approach as the KPIs for each company can be significantly different and standard deviations within data sets large, especially where individual companies report abnormal financial results (eg through acquisitions or disposals). In addition, it should be recognised that larger companies are more likely to submit full financial results and, as such, the KPIs will reflect the combined performances of small, medium and large companies, with very small enterprises being excluded.

Results have been obtained by aggregating financial data from companies within the three sub sectors (domestic, office and contract) and calculating overall KPIs for each sub sector. Whilst this approach introduces some discrepancies it has the effect of lessening the impact of anomalies due to extreme results.

A similar approach was applied in the analysis of the 2000 data reported for this study (sourced from the 2002 competitiveness analysis), although, in the 2002 study, sample sizes for each KPI within a sub sector data set varied due to the inclusion of some companies with only partial financial results.

5.3 The performance of UK furniture manufacturers

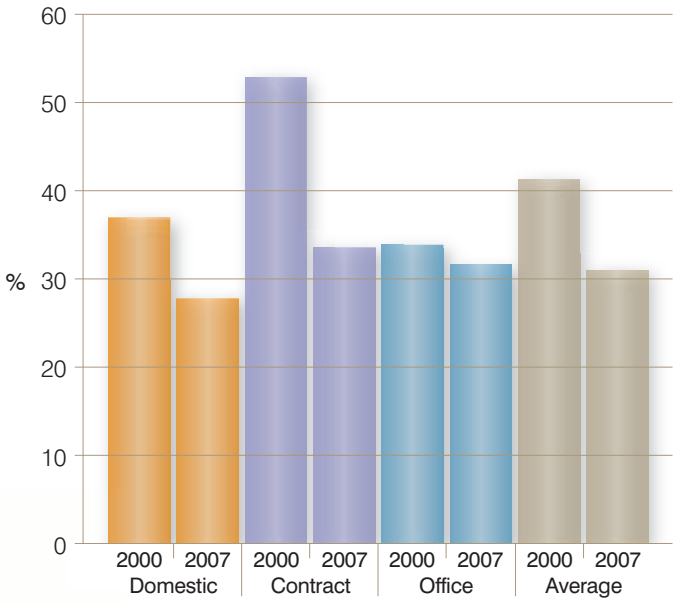
Key financial indicators are derived from data for 2000 and 2007, with changes over the period assessed. Figures for each of the three sub sectors; domestic, office, and contract furniture, are presented and any significant differences highlighted.

For ease of understanding, each performance ratio is presented as a chart, and the figures for each sub sector, both in 2000 and 2007, are contained within each chart. The results are also summarised in tabulated form at the end of this section.

Value added / turnover (%)

Value added is defined as the difference between sales turnover and total materials spend. It provides a measure of how much value an organisation creates in total.

Figure 5.1 Value added / turnover



The ratio of value added / turnover has fallen in all three sub sectors since 2000, with an average drop from just over 40% to just over 30%. The largest drop has been experienced by the contract sector.

It is considered that there are three possible explanations:

- Increasing cost of raw materials.
- A greater use of bought in components and finished products with less value added in the factory.
- Price pressure, with consequent improvements in productivity.

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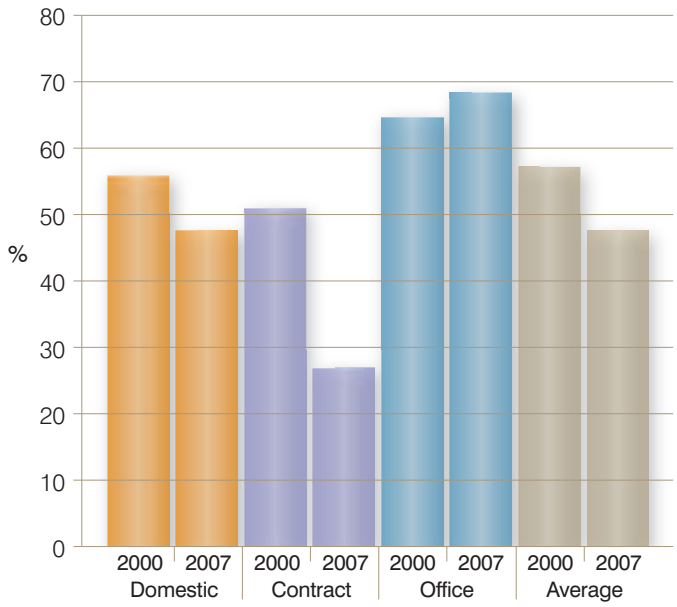
Fixed assets / value added (%)

This KPI provides an indication of relative levels of capital investment and the effective use of capital.

Figure 5.2 Fixed assets / value added



The ratio for the whole industry has fallen by 10%, with the greatest decrease being in the contract sector. Interestingly, the office sector has shown a slight increase.

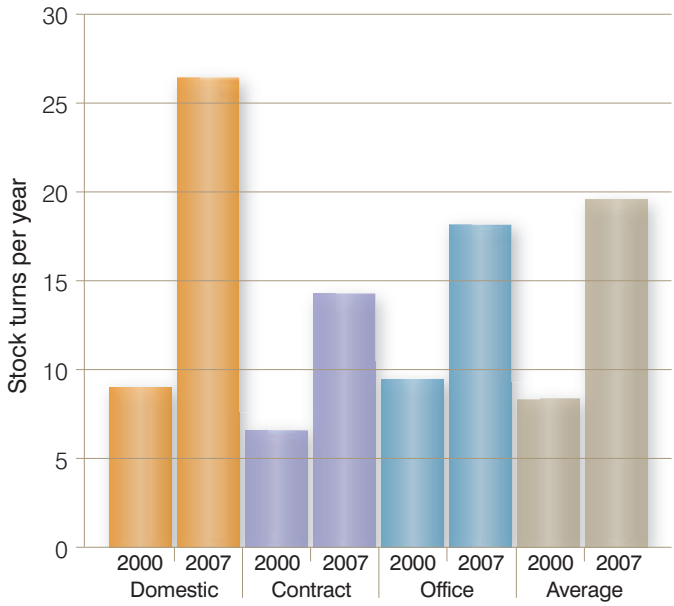
Given that value added has decreased over the 2000 to 2007 period, then fixed assets must also have fallen in absolute terms. The indication is that UK manufacturers are driving greater productivity from existing assets rather than investing in new equipment and machinery.

The position for office furniture has probably changed very little due to the fact that this sector has traditionally invested more in machinery and equipment (hence its higher fixed assets to value added ratio) and has continued to do so. Value added for office manufacturers remained relatively static, thus it can be concluded that there has also been little change in the levels of fixed asset investment.

Stock turnover

An easily recognisable benchmark that is calculated as total sales / stocks and showing the number of times per year that stocks are turned.

Figure 5.3 Stock turnover



These massive improvements in stock turnover are indicators that the whole industry has become much more efficient. This is particularly apparent in the domestic sector.

Stock levels are higher in the contract sector, probably due to the more customised nature of the business. Times from manufacture to final fitting are also longer than for the other sectors. Whilst office manufacturing is customised to some degree, it is still turning over stock at an impressive rate.

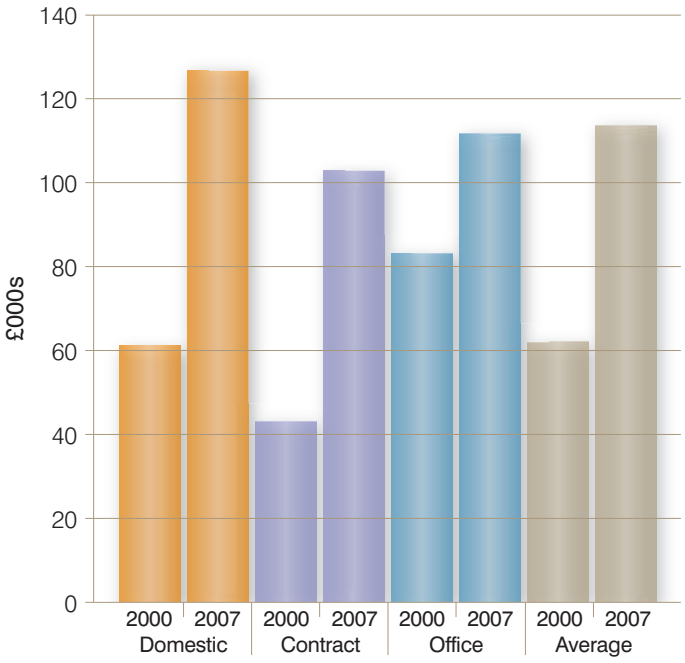
It is difficult to account for the huge change in the domestic sector. However, as part of its adoption of lean principles, the industry has clearly moved from a position of stock holding. Likely explanations include:

- Over 95% of products are made to order (see Chapter 6.0).
- Times from first date of manufacture to delivery appear to have fallen slightly.
- Suppliers are better at delivering on a just-in-time basis.
- More finished and semi finished products are imported and distributed with little (or no) storage time at the factory.

Turnover per employee (£k)

This is a fairly crude but, nevertheless, straightforward measure of productivity.

Figure 5.4 Turnover per employee

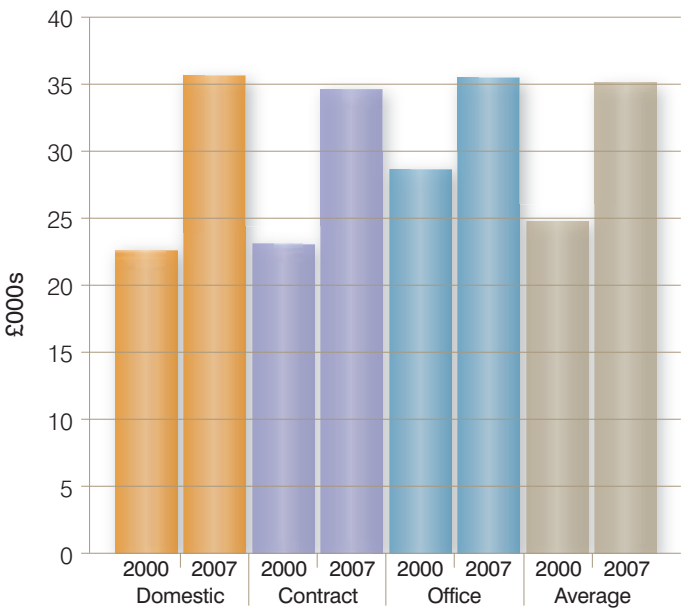


Turnover per employee has improved in all sectors. An element of this improvement is attributable to inflation over the period from 2000 to 2007 (estimated as 21% by the Bank of England) but, with average turnover per head doubling over the period, there is a significant underlying growth in real terms. While an increase in turnover per employee also supports the previous theory that more finished and semi-finished products are being incorporated into UK furniture manufacturing, the proceeding KPI (value added per employee) indicates that employees are also becoming more productive and adding greater value.

Value added per employee (£k)

A measure of how many employees are needed to create value.

Figure 5.5 Value added per employee



Value added per employee is similar for all sectors and has increased by between 50% and 60% in the contract and domestic sectors. Such increases are significantly greater than the estimated 21% increase attributable to inflation.

Improvement in performance in the office sector is much less significant (29%) and is probably mainly due to inflationary effects.

Turnover and value added per employee have improved in all sectors

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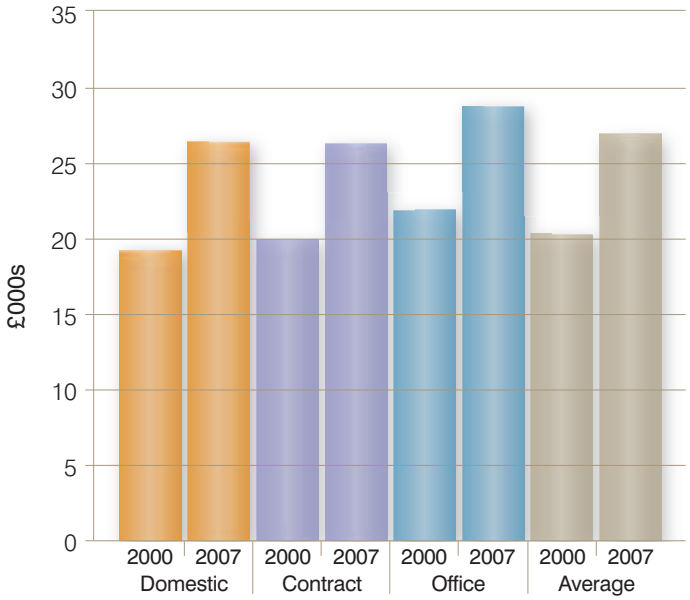
Unit labour costs (£k)

This is calculated as total remuneration divided by total number of employees. The ratio gives an indication of average wage levels.

Figure 5.6 Unit labour costs

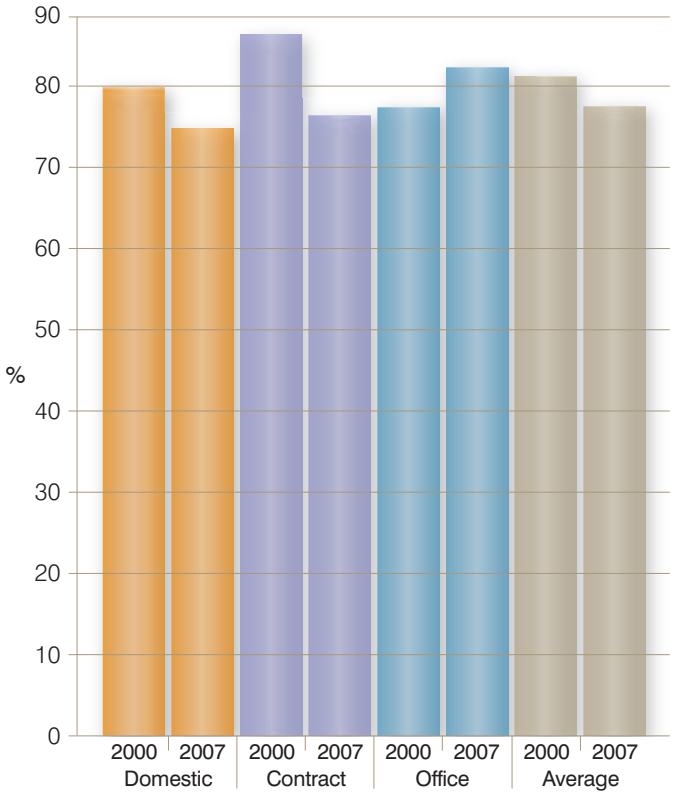


Wage levels per person have increased in all sectors by between 32% and 38%, while the office sector continues to have the highest unit labour costs. This increase has outstripped inflation for the same period. The result accords with anecdotal evidence drawn from the industry survey and with ONS data. The industry survey indicated that furniture manufacturers were employing less unskilled staff and more office / sales based employees than in 2000, which would account for this upward shift in unit labour costs.

Labour costs / value added (%)

The cost of labour required for each unit of value generated, and also an indicator as to whether a sector is labour intensive or mostly mechanised.

Figure 5.7 Labour costs / value added



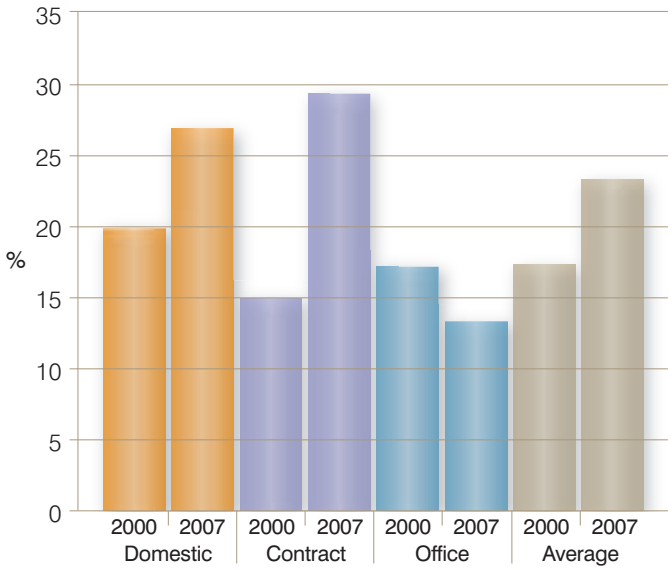
The figures present a mixed picture, with very slight decreases in the domestic and contract sectors and a small increase in the office sector. However, the changes are so small that they are not considered to be significant.

Unit labour costs have increased by between 32% and 38%

Return on capital employed (%)

One of the most commonly used financial ratios, calculated as trading profit / capital employed. It indicates whether value is being created or destroyed and is a measure of the effectiveness of asset management.

Figure 5.8 Return on capital employed (ROCE)



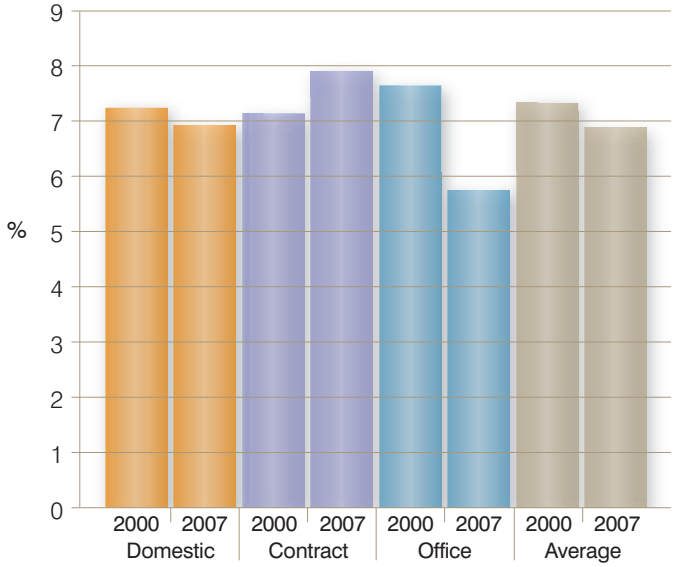
The domestic and contract sectors have both seen a marked increase in ROCE since 2000, but the ratio for the office sector has dropped to just under 14%.

This supports the hypothesis that in the contract and domestic sectors there has been a reduction in fixed assets and stock, with a greater return generated for less deployment of capital. For the office sector the reverse is true. However, office manufacturers have traditionally invested more in equipment, machinery etc and the implication is that, whilst levels of investment have remained comparatively static, competitive pressure has caused a drop in profits.

Return on sales (%)

A straightforward analysis of overall profit margins, calculated as trading profit / turnover.

Figure 5.9 Return on sales



The return on sales figures substantiate many of the KPI conclusions that have already been drawn.

Profit margins have remained relatively static in the domestic and contract sectors since 2000, but there has been a noticeable fall from 7.7% to 5.7% in the office sector. The average for the industry as a whole has fallen from 7.4% in 2000 to 6.7% in 2007.

Profit margins for contract and domestic manufacturers have remained relatively static but have dropped from 7.7% to 5.5% in the office sector

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5.4 Summary

The figures indicate that the industry as a whole is making great strides in terms of competitiveness. Employee productivity has risen rapidly, assets are working harder and producing better returns, and stock is being used much more efficiently. Nevertheless, in the face of such improvements, falling profit margins indicate the difficult trading conditions that UK manufacturers are facing.

According to the ONS, the furniture industry's turnover in 2007 was 13% greater than in 2000 (although in 2008 turnover was only 4% greater than in 2000). It can be argued that this reflects a net reduction when taking inflation into consideration and is symbolic of the current pressures on UK furniture manufacturing.

The tentative conclusions drawn are that furniture manufacturers are responding to the challenge of imports, with better productivity and an increasing degree of specialisation; focussing on core competences and buying in what cannot be made competitively.

Table 5.1 Key performance indicators for furniture manufacturers in 2000

KPI	Sub-sector			
	Domestic	Contract	Office	Average
Value added / turnover (%)	36.91	53.04	33.90	41.28
Fixed assets / value added (%)	56.44	51.33	65.11	57.63
Stock turnover	9.03	6.57	9.44	8.34
Turnover per employee (£000s)	61.30	43.36	83.86	62.84
Value added / employee (£000s)	22.57	23.00	28.63	24.73
Unit labour costs (£000s)	19.40	19.90	22.22	20.51
Labour costs / value added (%)	80.37	86.54	77.59	81.50
Return on capital employed (ROCE) (%)	19.85	15.31	17.31	17.49
Return on sales (%)	7.25	7.14	7.65	7.35

Table 5.2 Key performance indicators for furniture manufacturers in 2007

KPI	Sub-sector			
	Domestic	Contract	Office	Average
Value added / turnover (%)	27.84	33.55	31.65	31.01
Fixed assets / value added (%)	47.90	27.57	68.80	48.09
Stock turnover	26.55	14.28	18.22	19.68
Turnover per employee (£000s)	127.55	103.34	111.79	114.22
Value added / employee (£000s)	35.51	34.67	35.38	35.18
Unit labour costs (£000s)	26.65	26.55	28.96	27.39
Labour costs / value added (%)	75.07	76.59	81.87	77.84
Return on capital employed (ROCE) (%)	27.05	29.46	13.64	23.38
Return on sales (%)	6.94	7.85	5.74	6.84

5.5 Benchmarking against other sectors

Using data from the same statistical source (in this case the ONS Annual Business Inquiry) allows some KPI comparisons between different manufacturing sectors and the whole of UK manufacturing (Table 5.3). The figures for furniture differ from those reported earlier in this chapter as they are derived from a wider group of companies. It is expected that these KPIs will be generally slightly lower as they incorporate financial results from a greater proportion of smaller companies.

Despite a previously reported drop in this ratio, furniture manufacturers still add more value as a percent of turnover than many other sectors. Possible explanations include lower value raw materials and components compared to other sectors, lower levels of capital investments and a more labour intensive process.

Stock turnover figures are similar for all industries, although food (probably due to the degradable nature of the product and retailer pressure) and motor vehicles (an industry that has focussed on lean processes for some time) are slightly higher. This stock turnover performance (better than the average for UK manufacturing) suggests that the furniture industry has consciously implemented tactics to reduce stock holding.

Furniture manufacturing's turnover per employee figure is lower than for all of the other sectors, which supports the previous argument that the industry is comparatively labour intensive. Further evidence of this is illustrated by the fact that value added as a proportion of turnover is relatively high yet value added per employee is comparatively low.

Whilst the furniture industry employs a considerable number of people, its unit labour costs are much lower than all of the other sectors. Nevertheless, furniture still records the third highest labour costs as a proportion of value added and is higher than the UK manufacturing average. Such statistics shed light on the tough trading conditions many manufacturers are facing and serve to illustrate why imports from low wage economies have gained such a foothold in the market.

KPIs indicate that the furniture industry has consciously implemented tactics to reduce stock holding

Table 5.3 KPIs for UK manufacturing sectors in 2008

KPIs	Value added / turnover %	Stock turnover no.	Turnover per employee £k	Value added per employee £k	Unit labour costs £k	Labour costs / value added %
Manufacturing	28.84	9.85	177.61	51.22	28.87	56.36
Food	28.10	15.20	176.09	49.47	25.54	51.62
Fabricated metal products	41.27	10.61	100.27	41.38	25.00	60.42
Machinery	34.72	7.76	148.54	51.57	30.54	59.21
Electrical	32.16	10.11	138.57	44.56	29.33	65.83
Motor vehicles	20.99	14.81	285.60	59.94	32.60	54.40
Chemicals	11.95	10.70	368.90	44.07	36.14	82.01
Furniture	39.07	11.96	86.43	33.77	21.68	64.19

Industry's status against recognised competitiveness factors

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6.1 Introduction

The performance levels and trends highlighted in previous chapters use quantitative data to summarise industry's current status. However, such data has its limitations and this section supplements the findings with qualitative opinion drawn from a cross section of industry leaders. This information assists in the determination of the strengths, weaknesses and future competitiveness of the UK furniture industry.

FIRA's previous analysis (2002) incorporated the following established set of competitiveness factors that were familiar to both government and industry. By using these factors for the current study it is possible to retain consistency and comparability.

- **Management:** strategic thinking, use of best practice techniques, quality and training, incentives and marketing.
- **Labour market:** human resources, mobility, determining the level of earnings and skills differentials.
- **Education and training:** the availability and price of skills and sector specific training provision.
- **Physical infrastructure:** transport links, telecommunications and energy prices.
- **Purchasing decisions:** purchasing / supplier relationships, materials management and logistics.
- **Innovation:** turning new ideas into commercially successfully products; new or upgraded processes and the application of new technology.
- **Competition:** barriers to entry / exit, price / cost margins, the industry's structure, the effects of competition policy and the relationship between competition in the UK and international competitiveness.
- **International trade:** export earning / potential and import penetration, access to overseas markets and government support, level playing field issues.
- **Inward and outward investment:** the impact of inward investment throughout the supply chain and the extent of investment overseas.
- **The commercial framework:** the environment in which business is done, such as company and insolvency law, regulations and standards, both at home and overseas.
- **Finance for business:** sources of finance such as retained profits, equity and borrowing, including small firms' problems with banks.
- **The macro economy:** the influence of interest and exchange rates, inflation, taxation and public expenditure.

Industry was also consulted on issues appertaining to marketing, sustainability and the environment.

The information presented in this section has been largely collated from responses to a series of questionnaires that were sent out in the summer of 2009[1]. The majority of these data resulted from a lengthy questionnaire (over 100 detailed questions) to key opinion formers within UK furniture manufacturers. However, the influence of other supply chain members was fully recognised and opinion was also sought from raw materials suppliers, specifiers and retailers.

The responses to the questionnaires have been supplemented with face-to-face discussions and workshops together with information from other recent industry surveys.

6.2 Results

The detailed nature of the questionnaires, combined with other industry surveys, generated a large volume of information. This section focuses on key issues arising out of the responses to the questionnaires. For the sake of brevity, it is not a comprehensive review of every question. The full list of questions and responses is available by contacting the authors.

6.2.1 Management

Strategic planning

- 76% of respondents had a strategic plan.
- Half of these had a plan for 1 to 2 years and half for 3 to 5 years.
- No respondent planned more than 5 years into the future.

These results differed slightly from the 2000 survey (FIRA, 2002) in that a greater proportion of companies instituted longer term planning (3 to 5 years). In 2000, 23% of companies were planning 5 to 10 years ahead. However, an increasing focus on short term planning may be a legitimate response to the uncertainty of the current economic climate.

[1] Appendix details the sources and response rates of the returned questionnaires.

Primary focus of strategic plan

Interestingly, despite the fact that only 76% of respondents had a strategic plan, over 90% actually responded to this question. This suggests that, whilst not everyone had a formal plan, most organisations had a defined strategic approach.

- In 2000 the focus was on niche markets, whereas in 2009 this had shifted to product differentiation.
- Only 7% of companies planned to compete on cost, compared with 18% in the previous survey.

Prioritisation of business approach

The top two results of quality and service mirrored the responses in 2000. However, other priorities have changed slightly, with delivery on time and customisation being considered more important than before.

Retailers and specifiers were equally clear about what was expected of manufacturers, with quality and service being top of the agenda. In addition, good product knowledge, attractive price, established relationships, fast deliveries and innovative design were all key requirements. It is clear that demands on manufacturers are high.

Unfortunately, retailers and specifiers perceived the main problems experienced with manufacturers were late deliveries and long lead times. Retailers reported that, on average, 12% of orders arrived late, suggesting that, whilst manufacturers have strategies in place, the execution may be falling short of customer expectations.

Figure 6.1 Primary focus of strategies

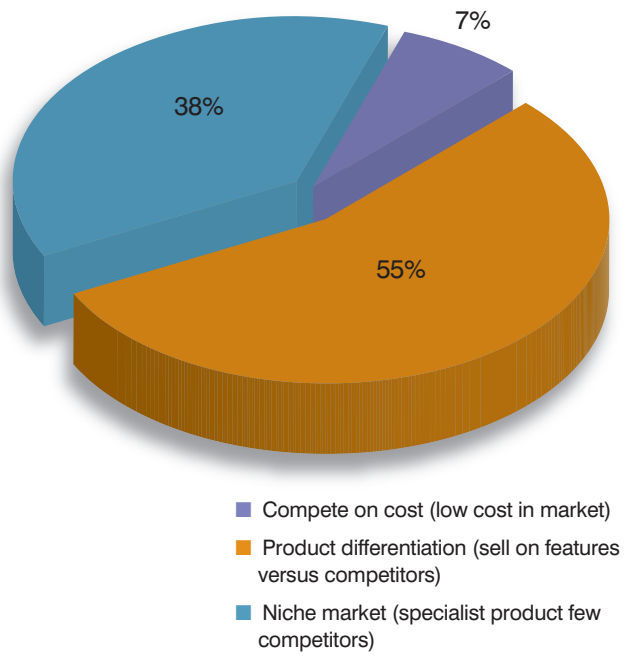
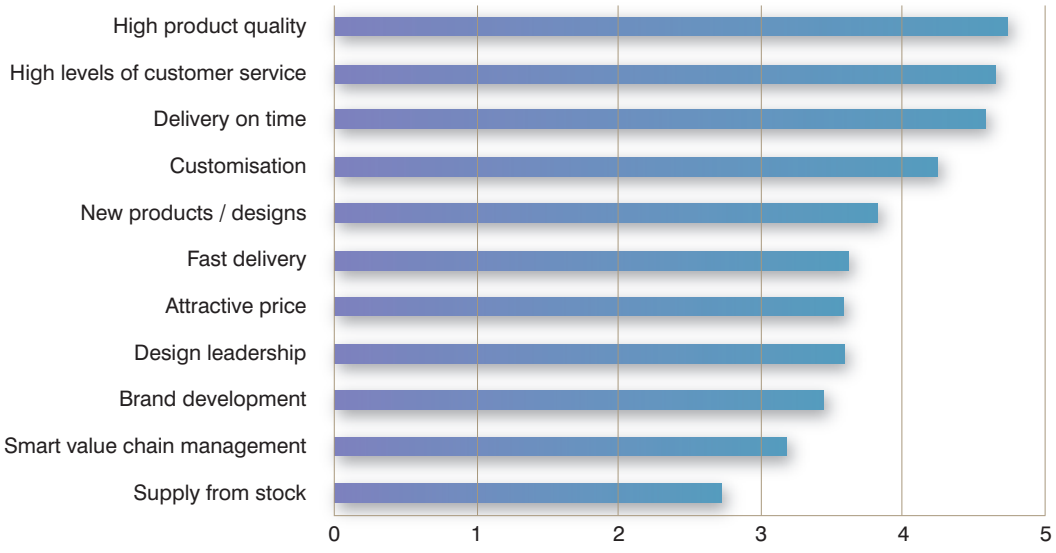


Figure 6.2 Prioritisation of manufacturers' approaches to business
(average score where 5 is high and 1 is a low priority)



Sources of finance

80% of companies use retained earnings as a source of finance. 30% reported that they relied on borrowing to support their businesses.

Those companies experiencing problems with raising the necessary finance all cited recent difficulties with banks and either the unwillingness to lend or unrealistic changes in credit terms.

6.2.2 Labour markets

Employment and salaries

Table 6.1 Typical average salary scales and proportions of furniture industry employees

Employee	Salary range (£000s)	% of staff
Directors	61 to 80	7
Senior managers	31 to 40	4
Sales and marketing	31 to 40	6
Managers	21 to 30	3
Designers	21 to 30	4
Foremen	21 to 30	7
Office admin.	16 to 20	10
Skilled labour	16 to 20	43
Unskilled labour	11 to 15	21

Note: The staff ratio figures add up to 105% due to variations from responses and rounding.

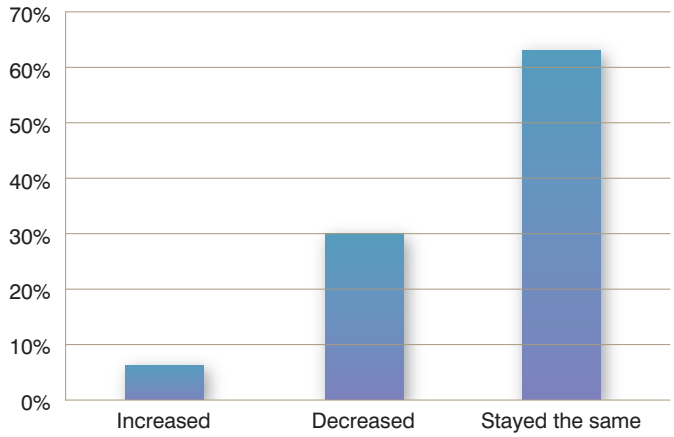
- Average salaries were higher than in 2000. Some of this is attributable to inflation, but with average increases reported to be of the order of 50%, and those for directors being 80 to 100% higher, there is also a significant underlying change.
- An average increase for furniture manufacturing of just less than 50% is also reflected in the government's national statistics (Annual Business Inquiry, 2009).
- 64% of the workforce comprises skilled and unskilled labour, with 36% taking administrative, design, sales and management positions.
- There is a smaller percentage of shop floor workers than in 2000.
- There are twice as many skilled workers than unskilled workers, whereas in 2000 the respective proportions were comparable.

Effect of recession on employment

The current recession has had a significant effect on companies within the furniture industry. Proskills (2009) reported that 37% of companies had experienced a contraction of business from 2008 to 2009 and that 30% of companies reported decreases in their workforces over the same 12 month period.

One of the positive notes from this survey was that 23% of companies reported business growth, although the attendant workforce increase for such organisations was only 6%.

Figure 6.3 Change in work force for the furniture industry over a 12 month period from 2008 to 2009



Similar changes were highlighted by the department for Business Innovation and Skills (BIS) in its business barometer for SMEs (BIS, 2009).

Age profile of the furniture industry

In 2001, it was estimated that more than 12% of the workforce were over the age of 59 and that 32% were between the ages of 45 and 59.

A more recent study of the furniture industry by Proskills (2007) showed that, by late 2006, the position had changed little, with 40% of employees being older than 45 (15% in the 55 to 64 age bracket).

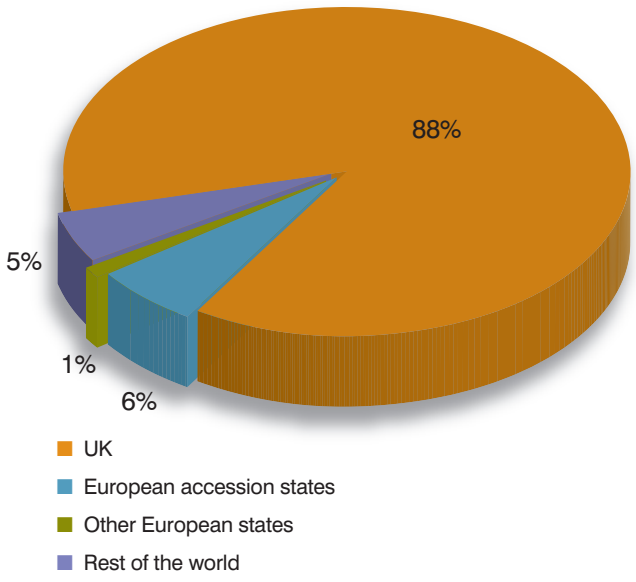
In 2006, only 12% of the workforce were younger than 25 years old (compared to 14% in 2001).

Nationalities in the workforce

There is no historical data from the previous competitiveness study with which to make comparisons. However, it is apparent that the industry's potential skill shortage, highlighted in the 2002 competitiveness analysis, has at least been partially addressed by the use of migrant labour.

Anecdotal evidence suggests that this workforce is sometimes considered to be more reliable than its UK counterpart. The perception of one Chief Executive was that some young UK employees are relatively unreliable, have limited aptitude for learning new skills and are less hard working compared to his "accession state" labour force.

Figure 6.4 Nationalities within the furniture manufacturing workforce



6.2.3 Education and training

Skills shortages

The 2002 competitiveness analysis raised concerns about impending skill shortages, with an ageing workforce and little training provision for new recruits. In addition, over 60% of companies found it difficult to source craftsmen (specifically upholsterers and sewing machinists) and 36% reported machine operator shortages.

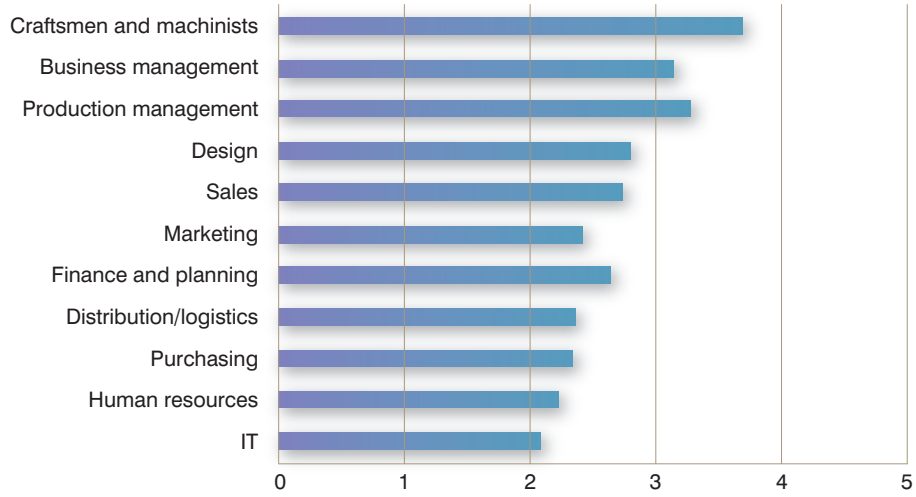
The position in 2009 has changed substantially with skill shortages being comparatively low on industry's agenda.

Most categories of employee were not considered difficult to source (based on a low to medium score of 2 to 3). Only craftsmen and machinists, plus business and production managers, scored more than 3, and even these were not considered to be significant recruitment problems.

This trend is confirmed by Proskills (2009). Only 3% of companies had hard to fill vacancies and 1% had skill shortage vacancies. The same report indicated that larger companies had greater skills gaps than smaller companies. It also confirmed that skill shortages in the office and shop furniture sectors were greatest, whilst those in the chairs, seats and kitchens sectors were least problematic.

When questioned on future skill shortages, respondents were comparatively ambivalent, with only craftsmen and machinists anticipated to be in short supply. There was no real differentiation between which specific craftsman and machinist skills would be hard to source and none scored more than 3.8 on the scale of 1 to 5 (where 5 represents hard to find).

Figure 6.5 Ease of sourcing staff at the present time
(scale of 1 to 5 where is 5 is hard and 1 is easy)



To further support this conclusion, in 2000 lack of skilled labour was considered to be one of the greatest inhibitors to business expansion. In 2009, it was only fourth in importance and scored an average of 2.5 on a scale where a score of 5 was most significant.

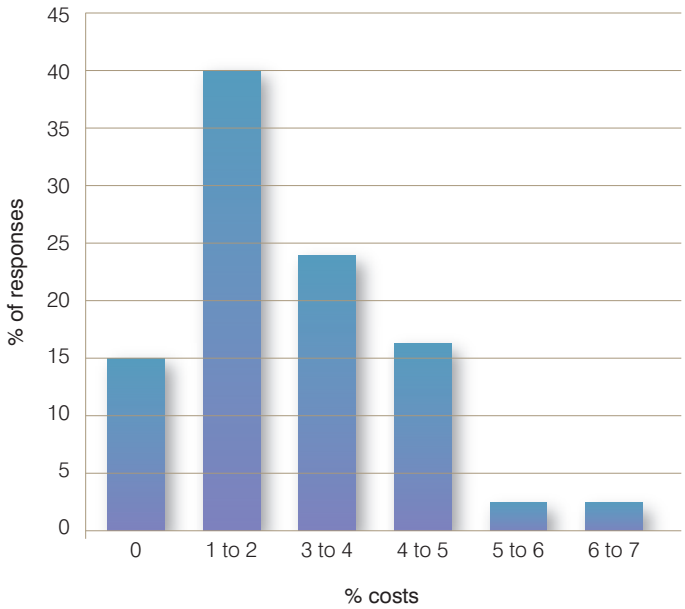
Training

40% of respondents indicated training costs of between 1 and 2%. Proskills (2009) asked a similar question and estimated the overall annual training spend in the furniture industry to be £14 million. This survey claimed just 45% of companies provided training, although Figure 6.6 suggests a significantly higher number. This discrepancy may be due to differing definitions of what constitutes training.

Overall the findings reflect a general ambivalence towards training. In value terms, an annual budget of £14 million would appear low for an industry that turns over around £8 billion per year. The danger inherent in such an industry wide attitude to training and development is that it encourages a gradual erosion of the skill base, thus further strengthening the competitive position of exporters to the UK.

However, the KPIs in Chapter 5.0 indicate that furniture manufacturing employs proportionally more labour than many other sectors and that labour costs per employee are relatively low (possibly due to slightly lower skills levels being required). It might be considered that, in such circumstances, these factors militate against a strategy of high investment in skills development.

Figure 6.6 Percentage of costs allocated to training



Does the furniture industry represent an attractive career for young managers?

63% responded in the negative (compared to 58% in the previous survey).

Reasons given for this negative attitude included:

- Manufacturing is seen as a disappearing trade in the UK due to pressure from imports.
- There are too many small companies not able to offer a career progression.
- Low salary levels.
- Furniture manufacturing is PERCEIVED as less exciting than other manufacturing industries.
- Lack of promotion of the industry.

There were few positive comments about the industry but these included:

- An expanding market as more homes are built.
- Changing and new markets add variety and interest.
- A friendly trade.
- There is scope for entrepreneurs to start and succeed, unlike many other more capital intensive sectors where large barriers to entry discourage an entrepreneurial spirit.

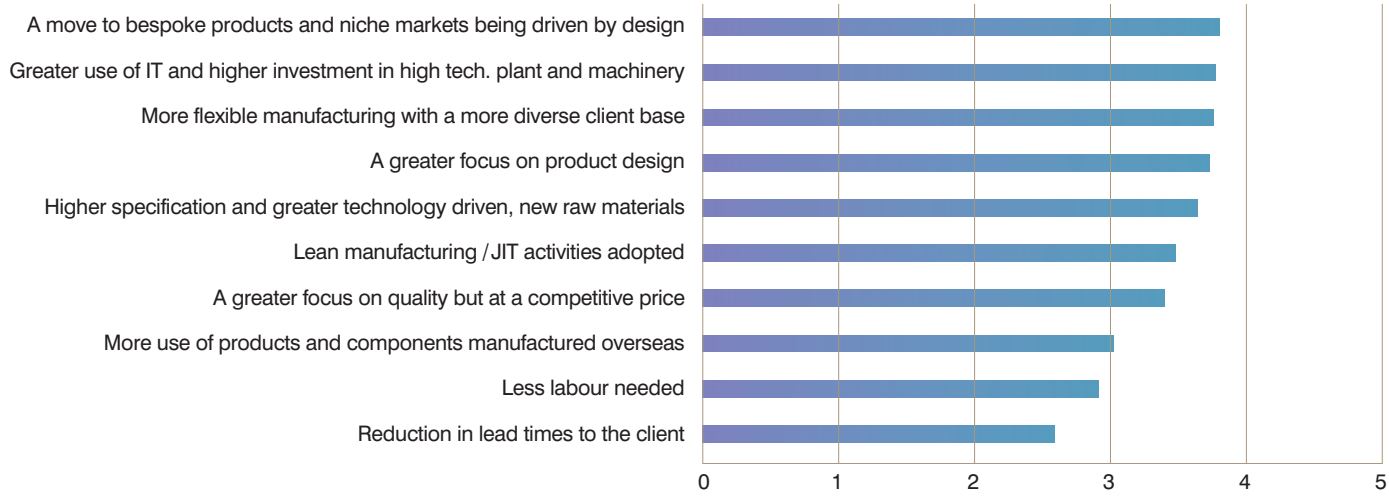
6.2.4 Infrastructure

Industry trends

Figure 6.7 summarises the respective relevance of key factors that have resulted in changes to furniture manufacturers over the last five years.

Figure 6.7 Factors influencing furniture manufacturing over the last five years

(Scored on a scale of 5 to 1, with 5 being the most significant).



In 2000, it was felt that imports would have a major influence on changes within the industry, whereas in 2009 this issue fell to 8th in importance. Greater use of IT and investment in machinery was top of the list in 2000 and has remained an issue over the last eight years.

A move to bespoke products and niche markets did not register as significant in 2000 but had clearly risen to the top of the agenda in 2009; a trend that was also noted by materials suppliers. This mirrors the industry's strategic priorities discussed earlier in this section.

Suppliers also recognised an increasing demand for efficiency in terms of supply and stock holding in order to support manufacturers' moves to the production of niche / bespoke furniture.

Looking to the future, manufacturers were asked, unprompted, to identify the factors that would affect businesses over the next five years. 17% of the responses were unable to identify any significant emerging issue while 17% felt that IT, equipment and machinery would continue to grow in importance. There was little consensus on the remaining answers and only 1 respondent mentioned the impact of imports.

Environmental issues were extremely low on furniture manufacturers' agendas. However, materials suppliers identified the issue as the most significant factor, along with improved design and innovation.

It is clear that imports have continued to rise, but the responses appear to suggest that industry has now accepted this challenge as part of the business environment.

When asked, again unprompted, what three factors have shaped the way that manufacturers currently operate, responses were as follows:

Table 6.2 Main factors that influence manufacturers' current operations

Factors	% of responses
Recession	23
Lack of skilled labour	13
Design	13
Profit	11
Demand	11
Customer service	9
Lead times	9
Imports	4
Quality	4
Environmental issues	2
Delivery	2

The recession remains the most significant issue and appears to outweigh other considerations.

Recession was followed by a number of issues, each of similar importance. Lack of skilled labour was highlighted by 13% of respondents, which appears to contradict the responses reported earlier in this section.

Once again, imports were low on the agenda.

Looking at likely changes in the next five years, respondents, by and large, believed the challenges would be similar to today. It is possible that this lack of imagination is a reflection of the current challenges thrown up by the recession, with longer term strategic thinking taking a back seat.

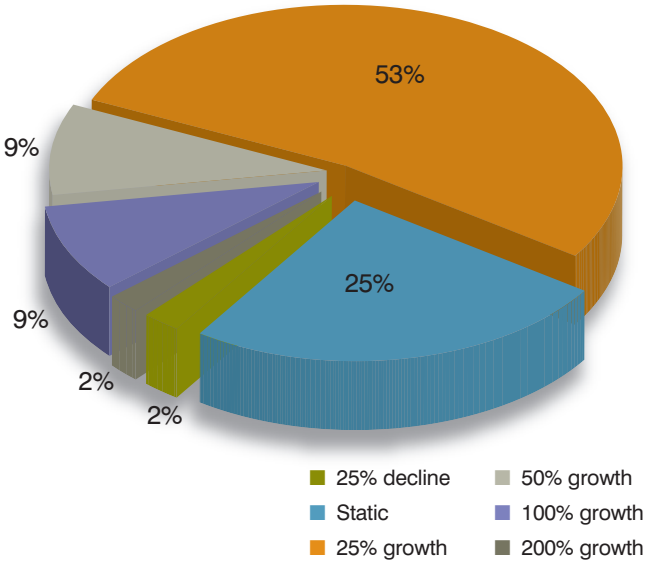
This series of responses paints a cloudy picture and, combined with a lack of foresight, implies that the furniture industry is confused about its competitive drivers.

Operational capacities

The average reported operational output was 84% of capacity. 91% of companies only operated 1 shift (7% operated 2 shifts and 2% operated 3 shifts). Given the above, there remains considerable scope within the industry to increase output. However, it could be argued that with furniture manufacture being a labour intensive process, requiring relatively low capital investment, the financial benefits of operating additional shift patterns are offset by the challenges and increased labour costs.

Predicted growth of furniture manufacturers

Figure 6.8 Manufacturers' predictions of their own growth in the next five years



- Over half of companies anticipated 25% growth in the next five years.
- 18% anticipated 50% to 100% growth.
- 2% of companies predicted 200% growth.
- A quarter felt they would remain static.
- Only 2% predicted a reduction in operations and then only by up to 25%.

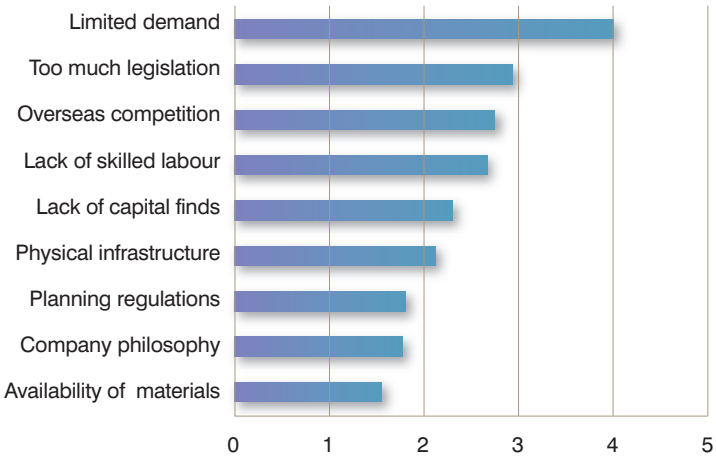
These responses might be considered to convey a positive message, especially in a time of recession. They also reflect opinion from the previous competitiveness study. However, 25% growth over 5 years is comparatively small and few companies appear to have real growth at the core of their business strategies.

BIS's business barometer for SMEs (2009) reported that 18% of manufacturers anticipated an increase in turnover whereas 37% anticipated a decline in operations over the next 12 months. Longer term growth expectations were more positive, with 63% of manufacturers expecting to grow in the next two to three years.

The furniture manufacturers which responded to FIRA's questionnaire were slightly more positive, with 73% expecting growth, albeit over 5 years rather than the two to three year timescale in the BIS study.

Companies characterised a number of issues as significant inhibitors of expansion.

Figure 6.9 Limitations on expansion
(scale of 1 to 5, where 5 reflects a significant inhibitor)



The influence of the recession, reflected by limited demand, again outweighed other responses, with an over burden of legislation also cited as an inhibitor.

Overseas competition and lack of skilled labour were next on the list of inhibitors, but these still scored an average of just over 2.5, where a score of between 4.0 and 5.0 would be considered to be truly significant.

6.2.5 Purchasing and sales

Suppliers

75% of raw materials and components were sourced by furniture manufacturers from within the UK, with 59% being sourced locally (within 100 miles). 13% and 12% originated from Europe and the rest of the world respectively.

Table 6.3 compares average lead times for materials with those for 2000.

Table 6.3 Typical average lead times for materials reported by furniture manufacturers

Lead times in days	2009	2000
Manufactured components	15	n/a
Fabric	12	13
Timber	12	17
Metals	11	13
Plastics	11	14
Chipboard	8	6
Hardware	8	11
Machinery parts	7	11
Foams	7	6
MDF	6	6
Services	6	n/a
Finishes	5	7
Glass	5	11

It is clear that lead time improvements have been secured in most areas of supply, with only foams and board materials (MDF and chipboard) bucking the trend.

Supplier performance also improved across the board since 2000, with manufacturers reporting improvements in supplier stock holding. Problems with suppliers mainly centred round deliveries being slow and / or late (64%).

Suppliers also recognised a tendency to deliver late (although not to the same extent). This was despite the fact that "delivery on time" was considered to reflect their primary approach to business, scoring higher than quality and service.

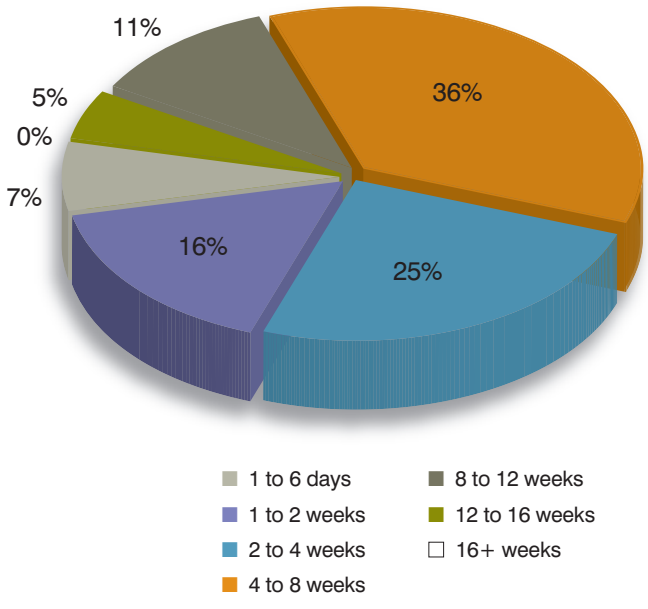
It is interesting to note that while suppliers were applauded by furniture manufacturers for the ability to hold stock until required, suppliers, conversely, felt manufacturers were poor at forecasting materials demand. The other main bone of contention was that manufacturers had low price, yet high quality, expectations.

Customers

Most furniture manufacturers claimed that their typical lead times were between two and four weeks (25%) and four and eight weeks (36%). A quarter reported delivery times of less than two weeks, with only 16% taking between eight and twelve weeks.

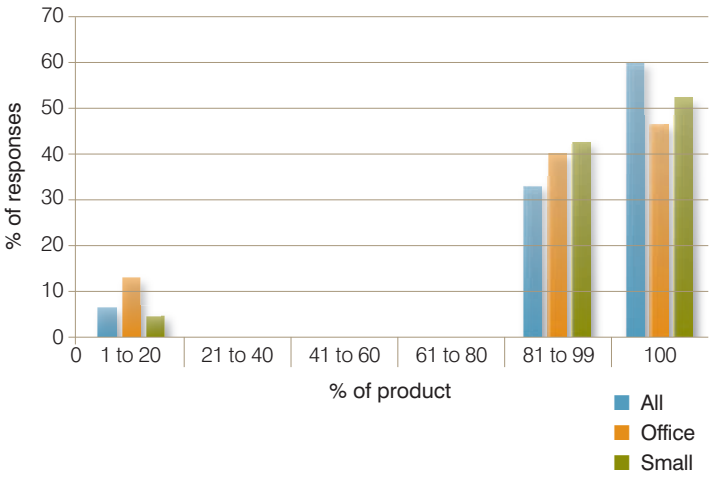
Lead times were a critical issue in 2000 and the expectation was for a significant fall by 2009. However, in 2000 almost exactly the same percentage of companies reported being able to supply in less than 8 weeks (86%), with the split between time window categories also being similar.

Figure 6.10 Typical lead times for furniture from order to delivery



In 2000, 64% of companies made over 90% of output to order yet in 2009, 60% of companies were making 100% to order, with over 90% of companies making more than 80% of production to order.

Figure 6.11 Percentage of product made to order



The increase in making to order will have a positive effect on stock holding and will also call for considerably leaner and more responsive operations. However, a make to order policy can increase lead times, and it would appear that the widely adopted approach has been to trade off improved lead times against lower levels of stock holding.

Nevertheless, as reported earlier, long lead times still remain an issue for retailers.

The absence of any significant improvement in lead times was surprising, especially given that shorter lead times could be one of the unique selling points of UK produced goods compared to imports.

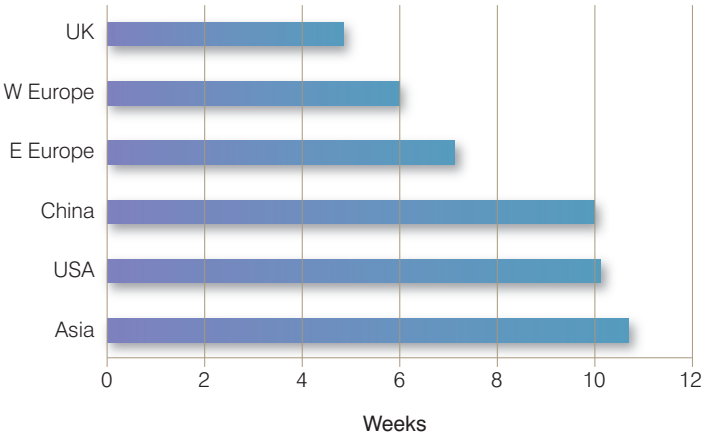
Other measures (Chapter 5.0) suggest that furniture manufacturing has become leaner and it may be that the primary focus of UK manufacturers has been to tackle the challenge of imports head on as opposed to offering a differentiated service.

Product sourcing by retailers and specifiers

Average lead time performance compared with the rest of the world (as reported by retailers and specifiers) is illustrated in Figure 6.12.

The clear message is that UK manufacturers are competing with all other countries in this respect, and can deliver products in half the time that it takes China, Asia and the USA.

Figure 6.12 Average lead times reported by retailers and specifiers



Of particular note were retailers' views of the origin of products that caused most problems. In 2000, the UK scored little better than China, Asia and the rest of the world and much worse than Europe and the USA. In 2009, the picture was entirely different with UK manufacturers causing fewer problems than those located in all other countries.

Further encouragement for UK manufacturers comes from retailers and specifiers, with 93% stating a preference to purchase from UK manufacturers if products were of identical quality and price (slightly higher percentage than nine years ago).

In 2009, an additional question was asked in relation to the premium a reliable, top performing UK furniture manufacturer might command over its overseas competitors. The responses ranged between 5% and 20%, with an average of just under 9%. This statistic has since been further verified with anecdotal evidence from major retailers.

The change in responses since 2000 suggests that not only have UK manufacturers raised their game, but there has also been a shift in perception and expectation from buyers. UK manufacturers now have a much stronger foundation from which to compete with imports.

Retailer perceptions of their own businesses

A question about the significant changes in furniture retailing over the last five years elicited a huge response. The numbers of responses were categorised as follows:

Table 6.4 Summary of changes in retailing in the last five years

Consumers and buyers are price focussed, more discerning and seek value for money	17
Internet and e-retailing (makes price and design comparisons easy)	17
More imports with the majority being cheaper	15
Large retail chains are getting larger and influencing the market with discount sales strategies	12
UK manufacturer closures	8
Quality has reduced	7
Greater choice, better designs	5
A more fashion-led industry	5
'Buy cheap and dispose' mentality amongst consumers	4
Reduced margins	3
Quality has improved	3
UK manufacturers improved performance	3
Reduced demand	3
UK manufacturers poor service	1
Suites and beds too large for small houses	1
Environment important to consumers	1

The discerning consumer was top of the list and, not entirely unrelated, was joined by the observation that the internet allows consumers access to previously unheard of amounts of product knowledge and choice. While the internet was widely used, many consumers were simply using it to compare designs and prices, rather than placing purchases. The combined effects of these two factors was summarised by one respondent.

"With the arrival of the internet people have immediate access to instant product knowledge, so loyalty is less important. Price comparison is very easy across borders. On this point, you win some business you might never have got, and you lose some you might have expected to get. Everything can move very quickly!"

Internet shopping for furniture has, however, increased. At the time of the 2000 survey it was considered to be an unlikely channel, given its one dimensional approach. Traditional retailers now recognise the impact, with easy comparisons putting margins under pressure. Equally, the growth in "never ending sales" and apparent discounting practiced by large chains has increased consumer demand and expectations.

The number of responses on the environment is again illustrative of its comparative unimportance compared with other issues.

Responses on how things might change in the future largely mirrored the answers given above. As with the manufacturer survey, the suggestion is that there is an understandable preoccupation with current challenges with a lack of certainty surrounding the future giving rise to little vision or foresight.

Returns

The average product return rate reported by retailers and specifiers was 4%. Answers ranged from 0.5% to 25%, but 96% of answers indicated 8% or less. This is a significantly better picture than in 2000 when all returns rates were reported as being between 5% and 15%.

6.2.6 Innovation

Research, development and design

On average, manufacturers invested 4.3% of turnover in research and development compared to 3.3% in 2000. Companies also reported the cost of design development accounted for 5% of turnover.

Most companies felt that design was an important element of their offer, but it also posed challenges such as:

- Difficulties with keeping up with changes in fashion.
- The cost of design.
- Keeping a design team together.

When questioned specifically about research and development, manufacturers still felt that rapid changes in fashion would influence the industry and that there would be a greater need for integration of machinery and software within the design, manufacturing and process functions.

Materials suppliers, on the other hand, invested an average of 7% of turnover on design and innovation. They anticipated that they would be under pressure to produce more environmentally friendly materials over the next five years.

Supply chain partnerships

61% of manufacturers claimed to partner with suppliers in design and innovation (similar to 2000). This concurred with evidence from suppliers, with 71% reporting collaborative relationships. Manufacturers were clear in the view that suppliers were materials experts and could provide invaluable product knowledge and updates.

76% of manufacturers met with customers to discuss quality, lead times and designs (up from 64% in 2000). Almost all of the responses centred on design advice and consumer feedback with little evidence of materials or process innovation.

Retailers and specifiers were in broad agreement with just over half regularly meeting with manufacturers to discuss design and customer issues. A further 27% had meetings, but only at the time of placing an order.

A smaller percentage of retailers and specifiers entered into partnerships with manufacturers on issues of design and innovation (43%). The main reasons for this low response rate were cited as:

- Not large enough to have an influence.
- We rely on manufacturers to provide what we can sell.

However, companies that did partner with manufacturers evidenced distinct benefits. These are summarised as follows:

- We design what we want to be manufactured.
- We have regular dialogue with our suppliers. This helps to ensure that designs, materials and innovative solutions are available to us.

6.2.7 Marketing

Consumers and end users

In general, manufacturers felt that consumers were relatively knowledgeable, with over 60% of end users well, or very well, informed about furniture (compared to only 40% in 2000). This is perhaps a reflection of increased awareness through the internet plus consumer and makeover programmes and initiatives.

Manufacturers' opinions of end user requirements for furniture are summarised in Table 6.5.

Table 6.5 Main attributes for furniture sought by end users
(scale of 1 to 5 with 5 being the most important)

End user requirements	2009	2000
High product quality	4.8	4.7
Robust service	4.1	3.5
Attractive or unique design	4.0	3.3
Fast delivery	3.8	3.2
Customisation	3.7	2.6
Warranties and guarantees	3.4	n/a
Cheapest price	3.0	3.1
Branding	2.9	n/a

The order of responses was similar to that in 2000, with product quality being the main driver. Perhaps of greater significance were the actual scores for each of the categories, which were, in general, significantly higher than in 2000, and suggested that manufacturers felt that end users were becoming more demanding. This trend was predicted in the previous competitiveness study, and has been verified through other questions and anecdotal evidence.

There is every reason to believe that this pattern of increased consumer expectation will continue over the next five years. Manufacturers believed that end users will:

- Become even more price aware.
- Demand better quality.
- Seek customised, design led products.

Market research

In 2000, it was apparent that a major disconnect existed between manufacturers and retailers when it came to understanding end users.

In 2009, the position appeared to have changed with 70% of manufacturers using information from end users to influence products and product design. However, a more in depth analysis of responses suggested that only a small percentage of manufacturers had a formal, documented system of engagement with consumers and end users.

35% of retailers and specifiers engaged with consumer and user groups, double the percentage in the 2000 survey.

One of the recommendations in the previous study was that retailers and manufacturers needed to gain a better understanding of consumer needs. This has happened to some extent but there is still room for improvement.

Marketing spend

On average, manufacturers direct 63% of marketing spend towards end users. A more detailed breakdown of total marketing spend is summarised in Table 6.6.

Table 6.6 Relative average marketing spend of furniture manufacturers

	% of marketing spend
Sales force	33
Advertising	23
Brochures / catalogues	19
Direct mail / telephone	12
Exhibitions	12
Internet	8
Yellow pages	5
PR / newsletters	3
Showroom	2

Note: Total percentages exceed 100 so need to treat results with some caution

6.2.8 Competition

UK manufacturers perceived that the current main source of competition was from within the UK, with imports coming a close second.

48% of companies felt that the main competition over the next five years would continue to be UK manufacturers and 36% felt that imports would dominate. However, trend analysis of imports against home production indicates that imports will continue to grow and there is every indication that the value of imported goods will exceed home production within the next five years.

Figure 6.13 Source of competition in the next five years

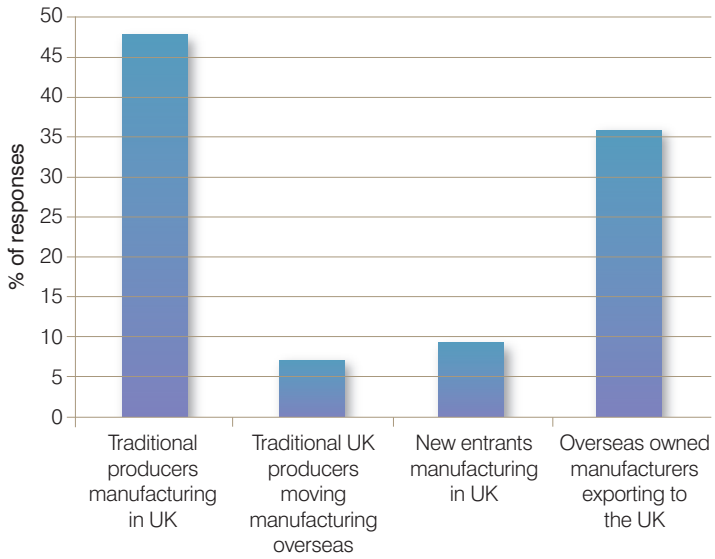


Figure 6.14 illustrates the nature of competition as perceived by manufacturers.

Figure 6.14 Manufacturing of competition of furniture manufacturers

(scale of 1 to 5 with 5 being the most significant)

Although there was a belief that price was the dominant factor for competitors, interestingly price was low on the list of priorities for manufacturers' own strategies.

Many manufacturers clearly defined quality and service as the main strategic priorities. Nevertheless, whilst quality is perceived to be of importance in terms of competition, service is extremely low on the list of priorities.

The above responses create an interesting disconnect. The majority of manufacturers were convinced that their competition was price driven, whilst the competition (the very same manufacturers) believed that quality and service were the most important competitive drivers.

This price argument extended to the next question where manufacturers concluded that not only is the competition price driven, but also price is the dominating factor when losing out to rival manufacturers.

There is a widely held perception that price is a dominating factor. However, with the enormous array of offers on the market this will rarely be the case. The probability is that price only comes into contention once all other factors have been taken into account. In reality, companies are actually competing on other factors, with price only coming into play once a short list of suppliers has been created.

The price misnomer was further exemplified by the responses when asked what prevented customers moving to other suppliers. Service, quality and loyalty were all cited as barriers to change, but "cheaper product" was at the bottom of the list.

6.2.9 International trade

Exports

Manufacturers' perceptions of the export market were slightly at odds with trade figures. Whilst just over half correctly felt that exports had remained almost the same over the last five years, 20% still considered that the UK had been exporting more.

In 2000, 25% of companies anticipated a growth in export trade. The subsequent trade figures suggest this aim has, for most, not been achieved.

The current survey shows an even greater confidence, with almost 40% anticipating an increase in exports over the next five years (the remaining 60% predicted no change). Yet there is little evidence to indicate that UK furniture manufacturers are currently putting down the necessary roots to exploit the export market.

Imports

Previous sections of this report have highlighted that imports of finished items of furniture for sale to the end user have continued to rise; but it is also important to establish the role that furniture manufacturers play in the direct importation of finished goods, components and materials.

44% of manufacturers' turnover was spent on the import of materials (23%), components (19%) and half / fully finished items of furniture (2%). Whilst materials and semi / fully finished furniture imports were similar to five years ago, the majority of manufacturers reported an increase in the importation of components. This supports the hypothesis given in Chapter 5.0 that manufacturers are adding less value in the factory as a result of more bought in product.

Respondents predicted that over the next five years imports of components and finished items of furniture would continue to rise, although the consensus was that there would be little change in quantities of materials and half finished items.

This predicted trend was also highlighted by materials and component suppliers, 72% of which felt that overseas manufacturers would form the main competition over the next five years.

Competitive advantages of imports and UK products

The overwhelming majority of UK manufacturers (85%) perceived the sole advantage of imports to be a cheaper price. There was little acceptance that imports offered any other attributes or features (for example, Italian design, German engineering etc).

When asked to identify the competitive advantages of UK manufactured products, the responses were more diverse with quality, bespoke manufacture and shorter lead times being considered to be the top three attributes.

6.2.10 Inward and outward investment

Inward and outward investment levels within the furniture sector are comparatively low.

- Only 4% of companies surveyed are owned by overseas organisations.
- 17% of manufacturers reported strategic alliances with organisations in other countries (5 partnerships in the USA, 3 in China and 1 in each of Australia, Taiwan, Canada, South Africa, Italy and Germany).

6.2.11 Commercial framework

Legislation

- 61% of respondents observed that health and safety legislation created demands far in excess of the benefits and a fifth of respondents claimed that environment and employment legislation created an unreasonable burden.
- In general, the cost of legislation was considered to provide a significant competitive disadvantage compared to overseas counterparts.
- Six organisations felt that legislation was not a serious issue and one considered it to be to its advantage.
- Materials suppliers had a significantly different viewpoint with 75% feeling that legislation was not a major impediment to competitiveness.

An interesting quotation was that "Legislation drives development and innovation. We encourage it. It restricts lower quality competition."

Performance standards

- Surprisingly, only 59% of manufacturers claimed to make products to recognised test standards (56% did so in 2000).
- The large majority of those who claimed product compliance also carried out testing to verify performance.
- Only 45% of customers demanded compliance to recognised product standards.
- Materials and component suppliers relied more heavily on meeting performance standards (88%) and carried out more testing. However, only 50% of these companies stated that furniture manufacturers demanded compliance with such standards.

Management and quality standards

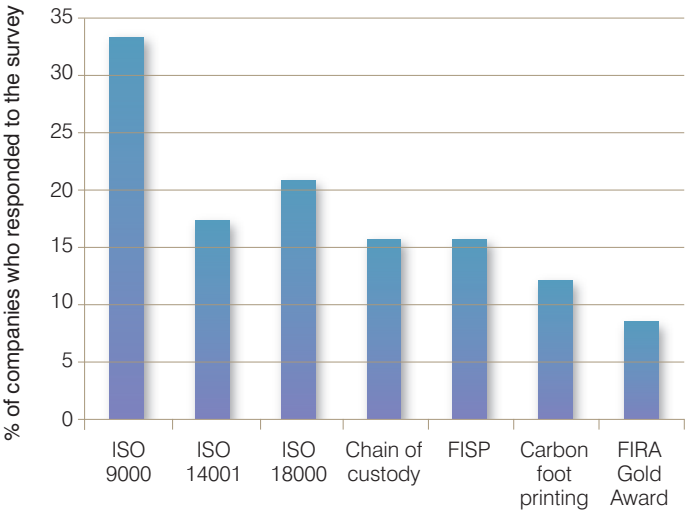
The following table summarises furniture manufacturers' activities. As in 2000, about 50% of companies did not respond to the question about management and quality standards. This correlates with the fact that only 45% of companies use management and quality standards as marketing tools.

Table 6.7 Furniture manufacturers' adoption of management and quality standards

Standard	% already achieved	% planning to achieve within 5 years
ISO 9000 (quality management)	37	13
Chain of custody	20	17
ISO 14001 (environmental management)	15	15
FISP (Furniture Industry Sustainability Programme)	13	11
Carbon footprinting	13	13
ISO 18001 (health and safety)	7	11

- ISO 9000 continued to be the primary management system adopted, with companies still planning to implement quality systems over the next five years.
- Chain of custody certification is becoming more prominent as are other environmental initiatives (FISP, ISO 14001, carbon footprinting).
- 20% of companies had, or were working towards, ISO 18001 in 2000. The current, level of activity was reported as low, although more companies stated that they were planning to implement health and safety management systems over the next five years.
- In contrast, 63% of materials and component suppliers had adopted a formal ISO 9000 system, with another 19% planning to gain certification in the next five years.
- Environmental management systems were next on the agenda for suppliers with 25% already having, and 19% planning to gain, certification.
- Retailers and specifiers were clear about the management standards required from suppliers (see subsequent figure), with ISO 9000 top of the list and other third party certifications of equal secondary importance.
- Disappointingly, only 33% of retailers and specifiers responded to this question.

Figure 6.15 Retailers' certification requirements of their suppliers



6.2.12 Environment

When asked about the significance of environmental considerations (on a scale of 1 to 5 with 5 being very significant), 64% of manufacturers rated the importance either four or five, with 32% scoring 3. This positive response was despite the fact that only 34% of manufacturers' customers asked for evidence of environmental activity.

Materials suppliers believed that, of all factors, environmental concerns would have the most impact on the furniture industry in the next five years.

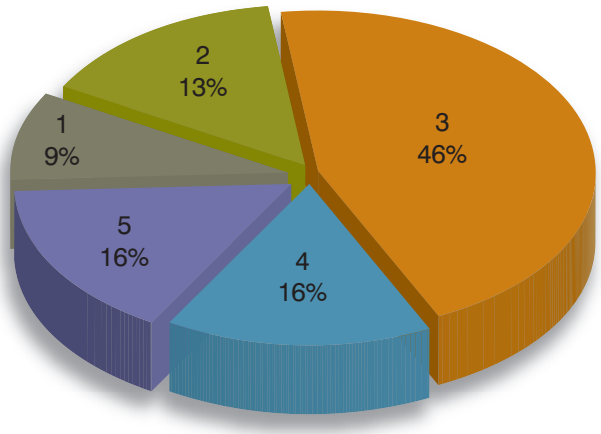
A different picture was painted by retailers and specifiers (Figure 6.16). When asked to rate the significance of environmental issues on a scale of 1 to 5 (5 being most significant), the results indicated a general ambivalence with 68% rating it 3 or less, and only 16% allocating the top mark of five.

This apparent lack of interest in the environment was exemplified in a subsequent question when almost half of the responses on how retailers partnered with manufacturers on issues relating to environment and Corporate Social Responsibility (CSR) elicited the response "We don't".

It would appear that, at present, there is low customer demand relating to environmental and sustainability issues, with the primary driver being a push from materials suppliers down the supply chain.

Figure 6.16 Significance of the environment on retailers' and specifiers' business operations

Scale of 1 to 5 (5 being the most significant)



The following table and figure summarise furniture manufacturers' attitudes to specific areas of environmental activity:

Figure 6.17 Environmental activities undertaken due to legislation

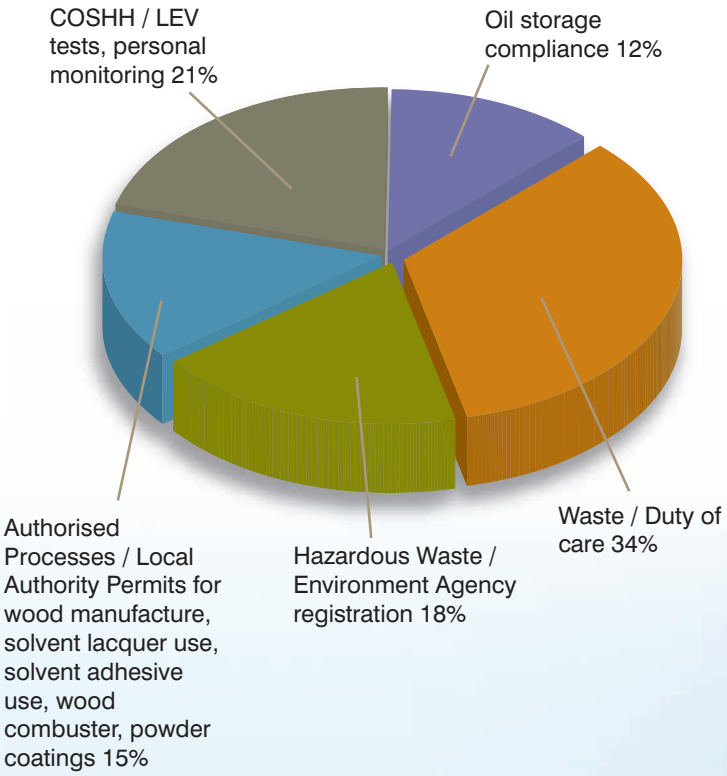


Table 6.8 Environmental activities undertaken voluntarily and due to customer pressure

	% of companies who responded to survey	
Activity	Voluntarily/ internal influence	Customer pressure
Recycling	63	24
Chain of custody	17	20
Material optimisation	52	15
Energy efficiency	52	13
Fuel and transport efficiency	37	13
Community work	28	7
Returnable packaging	24	11
Ethical procurement	22	9
Carbon footprinting	20	13
ISO 14001	17	2
End of life returns	15	7
FISP	7	2
Club Green	9	2
Corporate social responsibility	7	4

- It was apparent that most environmental activity was undertaken on a voluntary basis and that, whilst there is some customer pressure for issues such as recycling and chain of custody, this is comparatively low.
- At present, retailers and specifiers do not focus on environmental issues and manufacturers do not use sustainability as a differentiator between suppliers and products.

6.2.13 Finance and the macro economy

Financial and economic factors are dominated by the recession and the vast majority of responses concerning these issues had negative connotations.

Short term finance issues were to the fore with little consideration of the future. The following issues were highlighted by suppliers, retailers and manufacturers:

- Difficult to gain credit insurance.
- Lending from banks has become almost impossible.
- Other forms of credit are hard to obtain.
- More customers are going out of business which not only increases debt but also generates less demand.
- Lower consumer demand has a knock on effect up the entire supply chain.
- Reduction in house building impacts on a large proportion of the industry.
- A reduction in public spending will hit the office and contract manufacturers, and the associated supply chain.
- Raw materials costs have grown faster than inflation.
- Demand for wood in biofuels has had an impact on the availability of timber and board materials with consequent price rises.

On a positive note, UK manufacturers observed that the current exchange rate, with a comparatively weak pound, has made imports less cost effective (particularly, though not exclusively, in the Euro zone).

Recent reductions in oil prices (compared with 2008) have helped with energy and transport costs.

SWOT analysis

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This assessment of strengths, weaknesses, opportunities and threats (SWOT) was derived from regional seminars with key decision makers representing companies across the furniture supply chain. The opinions are supplemented by factual evidence from questionnaires (Chapter 6.0) together with anecdotal evidence cited by manufacturers and retailers.

7.1 Strengths of UK furniture manufacturers

Manufacturing and the supply chain

- UK manufactured product is generally perceived as higher quality. This argument holds true for furniture.
- UK based manufacturers are close to market, both in terms of location and understanding customer needs.
- Lead times for UK manufactured products are substantially shorter than for most imports.
- Retailers have fewer problems when dealing with UK manufacturers.
- There is clear evidence that UK manufacturers, in general, are becoming more efficient, with leaner operations and a clear focus on core strengths.
- Supplying within the UK reduces transport costs.
- After sales service and problem solving is easier to facilitate.
- UK products tend to be compliant with the requirements of both legislative and voluntary performance standards.
- Many UK manufacturers are able to offer niche, custom made products, providing a wider choice to a more fashion-led market.
- The industry has made significant strides towards reducing returns rates since 2000, which suggests better quality products and a reduction in damage caused in transit.

Positive outlook

- The industry as a whole demonstrates a strong sense of self belief, with a positive attitude to the potential future success of UK furniture manufacturing in the next ten years. The majority of companies predict an element of growth despite the short term impact of the recession.

Environment

- Materials suppliers and furniture manufacturers are gradually embracing the principles of sustainability.
- Some manufacturers acknowledge the short term costs of sustainability but accept it is a worthwhile trade off for a stronger competitive position in the future.

One leading manufacturer stated that "I felt that we were being forced into adopting environmental principles. In retrospect I only wish that we had done this earlier as we could have saved a lot more money much sooner."

Design and innovation

- It is widely recognised that the UK produces some of the best designers in the world.
- Similar opinions exist with regard to inventors and innovators.

Labour

- UK manufacturers have become more specialised, recognising what are core skills and outsourcing what can be obtained better, or more cheaply, elsewhere.
- There are less skilled labour shortages than ten years ago. The opening up of labour markets and the entry of Eastern European states to the EU has helped manufacturers to avoid skill shortages.
- Short term, unskilled roles are often filled through the use of contract staff.

"I felt that we were being forced into adopting environmental principles. In retrospect I only wish that we had done this earlier as we could have saved a lot more money much sooner"

Marketing

- There are strong relationships between UK manufacturers, retailers and suppliers.
- UK manufacturers are better placed to understand the home market than exporters to the UK.
- UK manufacturers are able to develop long term, mutually beneficial relationships with customers by working together to solve problems and producing offers that appeal to end users.
- There is a strong correlation between UK manufacturers' stated approaches to business and the attributes most sought after by customers. Quality and service are the cornerstones of the UK furniture industry.

7.2 Weaknesses of UK furniture manufacturers

Manufacturing and the supply chain

- Furniture manufacturing is relatively labour intensive and low wage economies represent a significant threat.
- At present there is little time spent planning for the future. Some of this apparent lack of vision and confidence may be attributed to the current economic climate, where the need for short term survival has become a priority.
- Whilst the vast majority of manufacturers predict some long term growth, the level of growth is expected to be small which suggests a lack of ambition.
- Despite the opening up of world trade in furniture and the strength of Sterling, UK furniture manufacturers do not seem to be embracing the opportunities presented by exporting. Many SMEs do not have the time or resource to investigate international opportunities.
- There is an increasing reliance on imported materials and components, with associated trading challenges and currency fluctuations.
- Suppliers report that UK manufacturers are poor at forecasting material demand, impacting upon efficiencies that could be achieved within the supply chain.
- The majority of manufacturers believe that quality and service are the main competitive drivers, yet the same companies consider that competitors are price driven. This remains a major contradiction within the industry.
- A significant proportion of companies consider themselves to be technologically inferior to other manufacturing sectors. Anecdotal and performance indicator evidence suggest that investment in equipment and machinery has been relatively low over the last few years.
- Supply chain partnerships have improved since 2000 but performance is still well short of the best.
- Retailers report that many manufacturers have made great strides in their adoption of MRP / ERP (manufacturing and enterprise resource planning) systems but there remains significant scope for improvement, especially interacting and collaborating with suppliers and customers.

Negative attitude

- Whilst the industry is, in general, optimistic about its prospects for the next ten years it has a negative view of itself in relation to other manufacturing industries.

Environment

- The pull from many retailers, and most consumers, on environmental issues is much lower than furniture manufacturers have anticipated.

Design and innovation

- Careers in furniture design are not considered to be attractive compared to other sectors.
- Although the UK produces some of the best designers and innovators in the world, the furniture industry is poor at retaining design teams.
- Good designers often go to other industries and other countries thus the opportunity to exploit their skills is lost.
- Furniture manufacturers do not have a reputation for manufacturing and process innovation.

A furniture manufacturer stated that "One of the greatest inhibitors to my business is the difficulty that I experience trying to keep my design team together."

Labour

- UK labour costs are significantly higher than those of many competing economies.
- Manufacturers appear ambivalent towards training and skills.
- Proskills estimate that, for the industry as a whole, only 0.15% of turnover is allocated to training.
- Less than 25% of companies surveyed had heard of Proskills (the industry's skills body). Many of those that had were confused as to its role and remit.
- A number of companies were concerned that apprenticeships no longer existed. This is one demonstration of the lack of understanding of the skills and training support that is actually available through Proskills.
- Furniture manufacturing output has decreased by about 20% since January 2008. This has also led to a reduction in the work force. Such a significant skill loss could impede any recovery.
- There is a shortage of good middle management and production managers.
- In 2000, skill shortages were of primary concern. This appears to be less of an issue in 2009.
- The industry has an increasingly ageing workforce with only 12% being under the age of 25.

Marketing

- Manufacturers are poor at conveying the merits of UK manufacture. The claimed higher levels of quality, and the ability to solve problems on the ground, should be leading selling points. In many cases, retailers and specifiers have only learnt the advantages of UK sourced products from costly overseas experiences.
- Manufacturers and retailers have improved the interaction with end users but could still do more to understand customer needs. This level of consumer market research is too expensive for small and medium sized enterprises.
- Consumers are generally confused about quality and value. Their opinion is often distorted by the proliferation of half price sales and discounts.
- This "cheapening" of furniture makes it difficult for UK manufacturers to get the message across when good quality and high levels of service are the main competitive drivers.

7.3 Opportunities

Manufacturing and the supply chain

- There is clear evidence that successful manufacturers have identified their own inherent strengths and are choosing to specialise, outsourcing what cannot be made competitively.
- Increasing specialisation creates opportunities to expand outside of traditional markets, with many manufacturers starting to cross the divides between contract, office and domestic furniture.
- Retailers and specifiers prefer to buy UK manufactured products.
- UK manufacturers have made significant performance improvements over the last few years in relation to key issues such as quality, delivery, and service. This improvement appears to have been triggered by the desire to compete with rising imports and demonstrates an inherent capability to adapt.
- Retailers and specifiers have indicated a willingness to pay a price premium for UK manufactured products of better quality and for high service levels. This opportunity represents the next challenge for UK manufacturers and is an added incentive to become world class.
- An improved understanding of the needs of suppliers, retailers, specifiers and consumers will complement the aforementioned challenge.
- Not only can manufacturers compete by improvements in performance, but also there are opportunities to offer niche, custom made products in very short time scales.
- Although there remains some debate about the merits of very short lead times, improvements in timescales would introduce opportunities to further tune an offer and provide greater flexibility. To maximise this opportunity for all parties will require excellent supply chain relationships, which UK manufacturers are better placed to facilitate.
- It has already been stated that many manufacturers have made great strides in the adoption of MRP / ERP systems but there remains considerable scope for further improvement, greater efficiency and shorter lead times.
- The recession has taken capacity out of the market.
- Germany has demonstrated that a European, high wage economy can substantially reduce its trade gap through what appears to be a concerted export effort.
- The 2012 Olympic Games contractors will soon be purchasing furniture. Manufacturers need to identify the steps needed to ensure that they become preferred suppliers.

Environment

- Environment and sustainability issues will continue to grow in importance. The previous competitiveness analysis recommended that manufacturers adopt environmentally friendly activities in preparation for an increased demand from public and private sector specifiers. It also hinted at an anticipated increase in awareness from retailers and consumers. Whilst environmental activity in the office and contract sectors has substantiated this prediction, consumers and retailers have been much slower in their recognition of its importance. By altering these perceptions, manufacturers, who have already assimilated a number of environmental activities into their operations, will be in a position to take market share.
- A better understanding of the true environmental cost of a product through issues such as carbon footprinting, life cycle analyses, sustainability, recyclability, social responsibility and product miles will further enhance the UK manufacturer's competitive position.

Design and innovation

- The quality of local grown design and innovation talent is often cited as one of the main advantages that the UK has over other countries. Industry often fails to capitalise on this talent yet the opportunity to do so, by developing close working relationships with universities and colleges, must be grasped.

Marketing

- An opportunity exists to promote the UK brand both at home and overseas. Retailers appear to be disenchanted with China and the Far East. In addition, UK consumers now have a poor perception of many products made in low wage economies, especially in the light of recent safety issues with toys and furniture.
- As population and dwellings increase there will always be a long term demand for furniture. Manufacturers and retailers need to work hard at making furniture a preferred purchase for the consumer, that is to say an attractive purchase rather than a functional one. The real competition is not other furniture manufacturers and retailers but other products and services.
- Understanding end user desires will enhance the reputation and competitiveness of UK manufacturers.

Economics

- Fluctuating exchange rates provide both opportunities and threats. The current exchange rate provides opportunities for manufacturers to explore export markets. Relying on favourable currency rates is potentially risky and this should be considered to be a short term potential windfall rather than a long term strategy.

7.4 Threats

Many of the following perceived threats are attributable to the world's current financial crisis. Whilst these are important, it is imperative that longer term issues are also addressed.

Manufacturing and the supply chain

- Eastern Europe and the accession states are rapidly improving manufacturing capability. They offer small batches, with fast lead times and are able to take advantage of low labour rates.
- Retailers have built relationships with China and other countries over the last ten years. The costs of developing such relationships, and of overcoming teething problems, have now been written off. It will be hard to persuade retailers to review their supplier base in favour of UK manufacturers.
- Quality and efficiency are constantly improving in China and other major developing exporting nations.
- Much of European legislation is perceived as anti-competitive, especially health and safety.
- Imports are continuing to rise at a constant rate but appear to be perceived as less of a threat than nine years ago. Their impact has not lessened but imports now appear to be accepted as part of the everyday business environment rather than being a preoccupation.
- Salaries in furniture manufacturing have increased significantly over the last nine years. This cannot continue at the same rate.
- Furniture manufacturing margins have been squeezed over the last few years and are some 10% lower than in 2000.

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Environment

- The huge emphasis on biofuels is increasing the cost, and reducing the availability, of raw materials such as timber. This is impacting particularly on the producers of board materials and will have a knock on effect for furniture manufacturers.

Design and innovation

- Reliance on raw materials and components from overseas tends to reduce innovation as many of these suppliers are volume producers, copying existing products and investing little in research and development. There is a danger that this lack of innovation in materials and components will be transmitted into an absence of future design and innovation in furniture.

Labour and skills

- There are presently few short term skill supply issues and the industry appears relatively uninspired by training. However, with an ageing workforce, manufacturers need to anticipate the longer term demands and work in partnership with skills providers, educational establishments and trade bodies to ensure the maintenance of the necessary skill base within the UK.
- School leavers are poorly equipped to meet the needs of the workplace. The perception of employers is a lack of focus and drive and an inability to undertake many of the basic tasks required in furniture manufacturing.

Marketing

- End users may prefer to buy other products ahead of furniture. This premise applies equally to the office and contract sectors.

Economy

- High levels of public spending have bolstered UK furniture manufacturing over the last few years. Spending levels will inevitably reduce as the government tries to reduce the substantial national debt. Other opportunities need to be identified to replace this income.
- Consumer borrowing has financed much of the demand in recent years. This level of borrowing will not continue and the market is likely to undergo a long term downward adjustment.

- A slowdown in the housing market, job losses and consumer caution will reduce short term spending.
- As the recession bites, and in particular unemployment takes hold, business failures are likely to increase. Bad debts will become an increasing problem especially with difficulties in obtaining credit insurance. Bank lending has reduced despite government actions to stimulate support for industry.

8.1 Long term

Predicting short to medium term global and UK economic trends has proven difficult since the full scale eruption of the financial crisis in September 2008. However, long term forecasts are unlikely to have changed significantly and it is considered that the 2006 forecast of a doubling of the annual global economy to a value of 72 trillion US dollars in 2030 remains a credible projection (IFM, 2007).

The annual world trade in all products and services currently accounts for a quarter of the global economy. A predicted tripling of this figure would see annual world trade valued at 27 trillion US dollars by 2030 (a third of the global economy). Developing countries are expected to command a greater share of this growth in line with recent trends. In the 1980s, 14% of exports were attributable to developing nations. This rose to 40% during the first decade of the 2000s, and is expected to exceed 65% by 2030 (IFM, 2007).

In addition to the continued shift of world production towards developing economies, other significant changes are also predicted. Current emerging nations (for example, China) are likely to encounter an increasingly cost competitive environment as industrialisation takes hold and economic growth becomes consolidated. As a consequence, there are likely to be opportunities for currently undeveloped economies. Growth in world trade is likely to be accompanied by an easing of trade barriers such as those that were reported to exist in South America, India, Pakistan, USA and Japan (IFM, 2007).

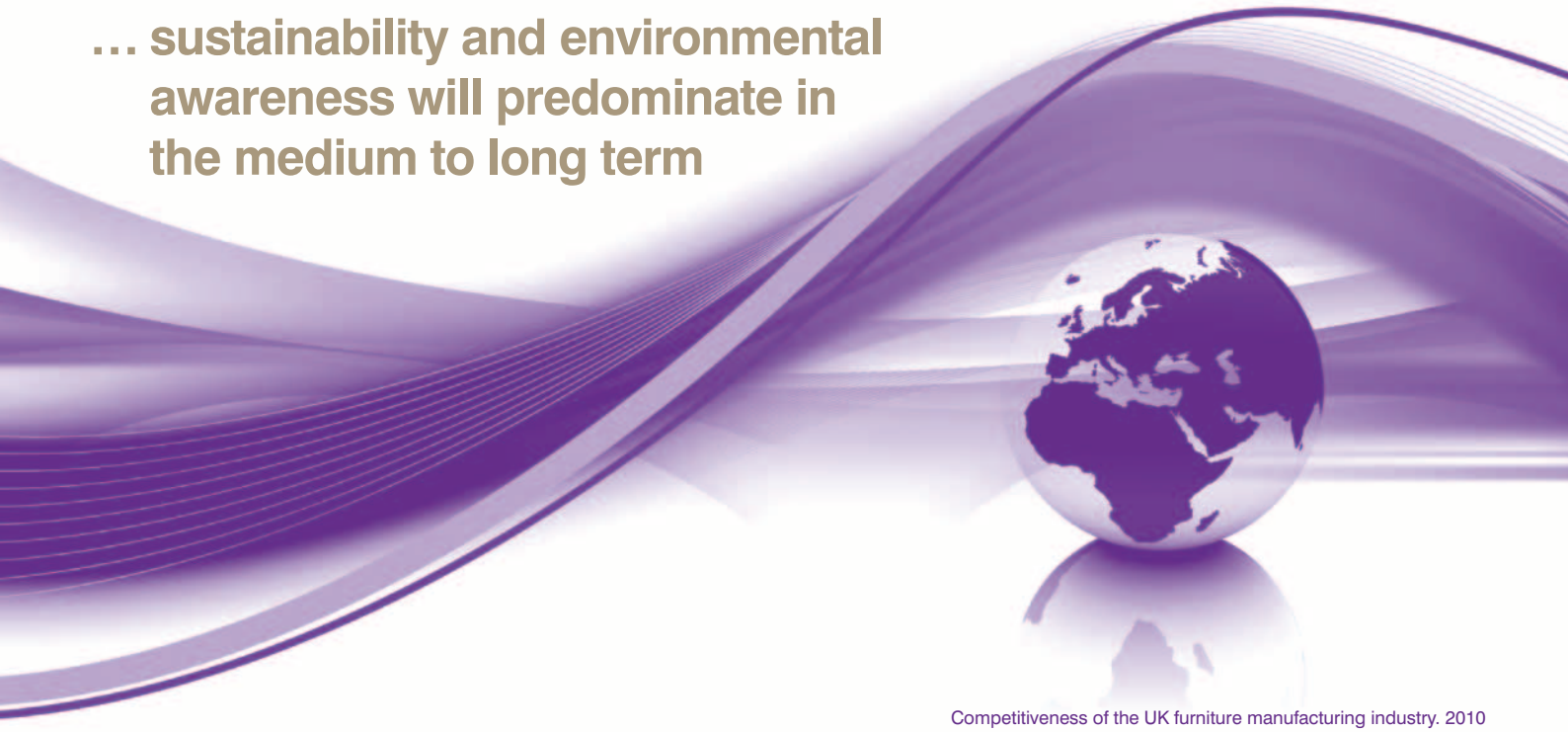
The present global population is skewed towards younger people and, as a consequence, substantial population increases are a certainty, creating an increased labour resource but also greater demands and further pressure on resources.

However, growth inevitably comes at a cost, and the current concerns about global warming will only intensify as economic development and industrialisation increase. In addition, demand for basic, non renewable resources will drive up costs. As a consequence, sustainability and environmental awareness are likely to become the dominating factors over the medium to long term.

Environmental responsibility is likely to become a necessity, and will be driven by the economics of scarce materials and consumer pressure. However, economics will not necessarily deal with the consequences of production, such as pollution and deforestation, while consumer pressure has proven to be weak when confronted by hard choices. As a result, collaborative action is likely to be driven at a governmental level and backed by increasingly stringent legislation and controls.

Information Technology will continue to impact on society and industry. On-line access will naturally grow, as will improvements in performance, enabling faster, more reliable communications. Such changes will not just affect the home and the retail market, but will continue to change the way business is conducted, especially logistics and supply chains. Once again, one impact is likely to be an enabler of increased global trade; a common theme of this analysis.

… sustainability and environmental awareness will predominate in the medium to long term



It is predicted that the internet will account for 10% of the UK retail market by 2013 with total sales worth £31.2 billion. Verdict Research (Furnishing Report, 2009) predicts continued online growth despite other sectors suffering a market contraction. This resilience to recession is attributed to the fact that the more affluent AB demographics are the largest spenders on-line and are the group less likely to suffer hardship due to an economic downturn.

In advanced western societies, the ageing population will be an increasing focus of attention. The demographic skew affecting most western countries will be exacerbated by the triple challenge of growing life expectancy, the funding of adequate pension provision and the need for greater healthcare.

8.2 Short term

The World Bank (2009) provides excellent detailed forecasting. It is an essential reference, especially when trying to unravel the short to medium term impact of the current economic crisis. Some of the key issues identified are as follows:

- Economic activity in high-income and developing countries fell in late 2008 and in the first half of 2009.
- Unemployment in the UK (and worldwide) has increased in 2009. This trend is expected to continue into 2010.
- Consumers are being extra cautious, resulting in decreased spending and less demand for products.
- Manufacturers are reluctant to invest, with uncertainty driving tight controls on costs and short term demand falling.
- With the second largest consumer consumption in Europe, reduced activity will be felt particularly by the UK. In 2004, Germany, UK and Italy accounted for almost 60% of the EU's consumption (IFM, 2007).
- UK furniture production has fallen by approximately 18% since January 2008.
- A weak financial environment also impacts on commodity prices with the costs of oil, food and large purchase items (durable consumables such as furniture) all falling.
- Oil and food prices recovered slightly towards the end of 2009 and oil prices are predicted to continue to rise in 2010 through a combination of increased demand and controlled production volumes. However, the rapid oil price rises of 2007 / 2008 are not expected to happen due to low global GDP recovery and current spare capacity.

- There is a knock on effect for the developing countries with poverty predicted to increase. Lower economic activity, combined with weak capital flows to developing countries, cause problems especially the availability of foreign currency (through exports or borrowing) to meet import demand.
- GDP has fallen throughout the world and is only expected to show significant recovery by 2011 (see table 8.1).

Table 8.1 Real GDP patterns for developed and developing economies

	% change on previous year		
	2009	2010	2011
High Income / developed	-4.2	1.3	2.4
Developing	1.2	4.4	5.7
• E Asia and Pacific	5.0	6.6	7.8
• South Asia	4.6	7.0	7.8

Source. Bank of England (2009).

Predicting a recovery is difficult. A number of factors have suggested that the turning point may have been encountered in late 2009. In the UK, stock markets have stabilised (even shown slight recovery), international trade has increased slightly and production figures are on the increase (suggesting growth in consumer demand). There are also indicators that the USA and China are on the upward track.

However, the more cautious forecasters point to the continued rise in unemployment, consumer caution and the impact of government strategies to reduce extensive borrowing as factors that will prevent, or weaken, any immediate recovery.

Competitiveness gaps and plans for action

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9.1 Introduction

In the UK, furniture manufacturing has become even more challenging than it was at the start of the decade. Profit margins have decreased, imports have continued to rise and customers are more demanding than ever.

Demand for furniture has, however, shown strong growth and it is clear that many UK manufacturers have responded to the challenge of imports with greater efficiencies, leaner operations and a changing focus on what constitutes core business. In general, UK furniture manufacturing is in a stronger state than it was ten years ago. The industry is further helped by the current weakness of the pound, making imports effectively more expensive, and promoting a growing awareness by customers of the value and support provided by a local manufacturing base.

To a large extent, much of the growth in UK demand has been driven by the three factors of a growing economy, increased government spending and a significant level of consumer borrowing.

However, the rapid emergence of a deep recession has had a significant effect on furniture purchasing, with delays, deferments and cancellations to commercial projects, a loss of confidence in consumers and a continued growth in unemployment all impacting upon demand. Furthermore, it is now clear that government spending will be reined-back on a scale not witnessed in recent times.

Unfortunately, the end of the recession is unlikely to mark a return to the high growth levels of previous years and the prognosis for UK furniture manufacturers must be seen as challenging.

While the economy may have stabilised, all the indicators suggest a continued rise in unemployment; and with it a reduction in demand for non essential consumer goods, including furniture.

However, the previous levels of spending were not just driven by economic growth but also by significant amounts of consumer borrowing and levels of government spend that, with hindsight, many feel to be unaffordable.

Consumer borrowing is unlikely to continue to grow at the rate previously witnessed and that in itself will have a considerable impact upon demand. Furthermore, current indications are that borrowing is reducing as, faced with uncertainty, consumers pay off debts and retreat to the safety of savings. It remains a matter of conjecture as to how long this attitude will continue to prevail, but all the indications suggest it will have a direct effect on furniture purchasing.

There is no doubting the conclusion that the future for UK furniture manufacturers will be challenging. Nevertheless, as previously noted, they only supply a proportion of the whole home market and it could be argued, therefore, that the UK manufacturing base actually has a capacity shortfall in order to fully supply this market. One of the challenges will be to produce product that replaces items from overseas, thus halting, or even reducing, the forecasted growth in imports.

UK manufacturers need to plan for the next five years and to adopt strategies that will improve the competitive position of both the industry as a whole, and of individual companies.

9.2 Manufacturing

Retailers and specifiers are still disposed to buying from UK manufacturers. Indeed, having experienced at first hand some of the problems presented in buying imports, especially from developing economies, many are now willing to pay a price premium for better quality and better service. The potential opportunities are clear, but it is also apparent that such opportunities also come with new demands.

While there have been clear and sustainable improvements in UK furniture manufacturing across the board since 2000, it is apparent that this trend needs to continue if manufacturers are to continue to survive.

- Niche, bespoke, products present the best opportunity to compete against imports but these cannot be delivered at the expense of quality, service and lead times. The industry can build on its recent improvements in flexible, design-led manufacturing.
- Companies will benefit from focussing on core competencies and products, with less market specialisation and more concentration on a world class offer that is competitive across a wider market place.
- Lean manufacturing and process improvements need to become the foundation of a process of continuous and repeated improvement to become “world class”.
- There still remain clear improvement opportunities for many companies, with statistics indicating that lean manufacturing and process improvement has still only been addressed by 60% of UK manufacturers.

- There remains scope for better communication along the supply chain, and in particular between manufacturer and retailer or specifier, in order to define customer needs and fully understand the changing nature of demand.
- Enterprise resource planning along the whole supply chain, but focussed on meeting the customers' needs, is still not as effective as it could be.
- The UK has the highest proportion of large multi-product retail organisations in Europe. These companies' expectations are driven by the behaviours of suppliers of products other than furniture. UK furniture manufacturers are especially well placed to learn about such behaviours and to set performance targets to match the best that other product suppliers can offer.
- Greater improvements in lead times and delivery performance are still possible. Rapid, on-time deliveries remain a key challenge from retailers to manufacturers.
- By reacting to currency changes quickly, companies should consider the benefits of bringing the manufacture of components and semi finished items back into the UK.

9.3 Services

Modern manufacturing is not all about product. Many successful manufacturing organisations have identified "non-manufactured" deliverables that add value and often make a major contribution to profit streams. Examples include:

- Custom design.
- Maintenance contracts.
- Spare parts.
- Disposal, recycling and re-use.
- Accessories.
- Guarantees and warranties.
- Product repairs, upgrades and refurbishment.
- Customer training.

Manufacturers typically focus on achieving high performance levels in core competences. The incorporation of a suite of additional products and services offers significant potential. These activities may not always be undertaken in-house. They may often be more effectively facilitated through sub-contracting, although always ensuring that brand values and reputation are not compromised.

9.4 Design, innovation and standards

Imports are largely regarded as cheap imitations, with little reputation for novel design and innovation.

Furniture purchasing is rarely driven solely by utilitarian values. Invariably, design plays a large part in the final decision making and, as in many other walks of life, good design carries with it a price premium. Not only do UK manufacturers have an opportunity to distance offerings from cheaper imports by the use of good design, but they also have the advantage of being close to market, both physically and mentally, which provides a head start when producing products which tap into the latest consumer desires.

The part innovation plays in competitiveness is well recognised, and many very successful businesses have been built upon well executed research and development. Innovation need not be restricted to materials and products. Novel approaches to service, organisation, process, marketing and distribution can all deliver enormous competitive advantage.

UK manufacturers, as a generalisation, are more aware of, and provide greater adherence to, established British, European and other standards. Such standards are developed for good reason, and are built upon a wealth of knowledge and experience, based upon both safety and performance criteria. It is, therefore, surprising that only 45% of customers demanded compliance with such voluntary standards. A strong competitive advantage could be levered by providing purchasers with a greater understanding of the benefits of buying product that complies with the appropriate standards, together with an explanation of the commercial risks inherent in supplying products that do not comply with such standards.

Industry and government need to actively support design and innovation. The current government tactic of channelling business support through Regional Development Agencies (RDAs) is ineffective when it comes to sectoral issues, especially for a national industry, such as UK furniture manufacturing, that lacks a regional hub.

9.5 Environment and sustainability

As the Foresight analysis (Chapter 8.0) clearly illustrates, issues around environment and sustainability will only grow in importance. Despite the fact that the pull from many retailers, and most consumers, on environmental issues is much lower than anticipated the environment still represents an opportunity for UK manufacturers. The findings of this report suggest that many manufacturers, and their suppliers, have adopted environmental principles and are much further along this path than their overseas counterparts.

The UK industry has an opportunity to promote its environmental credentials to end users and to use this as a differentiator against foreign competition.

It is becoming apparent that there are aspects of the environmental challenge that will not be addressed by the commercial pressure of scarce resources or the feel good factor that drives consumer demand. Legislative pressures are also bound to increase as environmental considerations form a greater part of the political agenda, and where the only truly effective action will be collective action.

Identifying the carbon impact of products and taking actions to improve their footprints will provide furniture manufacturers with cost savings, promotional advantages and a stronger position to react quickly to any enforced future legislation.

9.6 Training and skills

There appears to be a conflict between what is traditionally offered and what skills are needed for modern furniture manufacturing. While traditional skills retain an importance in certain areas, it is apparent that there are also gaps that have not hereto been considered to be core for furniture manufacturing. The industry needs to address skills in a wider context and to consider developing the following to improve its competitiveness:

- Excellent production managers able to embrace lean principles.
- Business strategists and forward thinkers.
- Supply chain expertise.

9.7 Exports

Despite the suggestion contained within the previous competitiveness study that furniture manufacturers were planning to adopt export strategies, there has been no improvement in overseas sales since the start of the decade. government support is supposed to enhance opportunities for furniture manufacturers but this has clearly been unsuccessful.

Annual global trade in all products and services is predicted to reach 27 trillion dollars by 2030 (IFM, 2007). Such growth in global trade provides opportunities for manufacturers, both in terms of exports and the sourcing of components, but also represents a considerable and continued threat.

Anecdotal evidence indicates that companies have a desire to export, but lack the confidence to develop a long term export strategy - and stick to it. Those that have developed a successful export market testify to the benefits but also highlight the long term commitment required to sustain a presence in a new market.

- Practical guidance and assistance through training and a sector support service will ensure that manufacturers are in a position to take advantage of the currency and economic climate conditions that are expected, certainly in the short term, to be supportive of exporting.
- Despite being founded upon a high wage economy, German manufacturers have implemented a successful furniture export strategy over the last fifteen years. It is essential that the UK industry understands and acts on the background to this success.

The new challenge is to plan for the next five years and to adopt strategies that will improve the competitive position of both the industry as a whole and of individual companies

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9.8 Marketing

The furniture industry comprises a significant proportion of SMEs. Generally, small companies do not have the resources, or expertise, to undertake meaningful market research, especially at the consumer / end user level. This problem was recognised in 2000 and has still to be resolved.

- A greater understanding is required of what the consumer is looking for throughout the whole furniture buying process.
- Manufacturers would benefit from more effective engagement with leading government and "Blue Chip" purchasers to clarify their needs.
- Manufacturers need to take actions to understand changing consumer demographics and then design offers that satisfy such changing needs.
- There is evidence that furniture is becoming much more design led. Some manufacturers are linking furniture to world renowned designers, but a more collaborative, industry-wide approach would have greater impact.

9.9 Government and legislation

The British Furniture Confederation (BFC) is to be congratulated on establishing a single point of contact with government and a mechanism through which industry's voice can now be heard in the corridors of power. If the BFC is to be successful, it is now imperative that the industry and its chief executives become actively engaged with their representative associations to use this channel to address political, governmental and legislative issues.

- Public procurement policies need to recognise value above price. Government should adopt a consistency of approach, with a furniture procurement strategy that provides long term certainty for UK manufacturers.
- Manufacturers are reticent to invest, especially in the light of the recession. Government needs to identify mechanisms that will encourage investment and enable companies to be in a position to thrive when the recession recedes.
- Furniture manufacturers need to collaborate and lobby on innovative support solutions that will encourage labour intensive industries.
- Whilst the government's intention is to implement an industrial strategy for a shift to a low carbon economy, its solutions appear complex and disconnected. Furniture manufacturers need to engage with key stakeholders to ensure that practical, simple mechanisms are put in place.
- There is still scope for the government to reduce the impact of some legislation. Simplified procedures, especially in relation to health and safety, would lessen the financial burdens of legislation and also avoid UK manufacturers being placed at a competitive disadvantage to overseas counterparts, while in many cases deriving little discernable benefit.
- Government needs to encourage industry to meet legislation, become more carbon friendly and produce competitive, safe products. It can achieve this by ensuring that these issues are recognised in public procurement policies, and by better policing at points of entry and on the retail floor.
- Government purchasing should require all suppliers, whether UK based or overseas, and whether direct or through intermediaries such as public / private partnerships, to comply with the appropriate legislation and factory regulations, including health, safety, quality and environment.
- Government should avoid placing an unnecessary tax burden upon companies which gives rise to a competitive disadvantage compared to overseas counterparts. Such policies, while often politically expedient, are ultimately self defeating, costing jobs and profits and thereby reducing the tax take.
- The use of renewable resources to produce biofuels has conflicting benefits. Government needs to consider the wider impacts of such strategies that encourage the use of wood, thereby increasing raw material costs, and reducing the availability, of products that underpin furniture manufacture.

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Note: BIS (Business Innovation and Skills) is the government department that was formerly known as BERR (Business Enterprise and Regulatory Reform) which was formerly known as DTI (Department of Trade and Industry).

Appendix

Breakdown of questionnaire sources and response rates

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A.1 Response rates

Questionnaires were sent out across all sectors of the furniture industry. In addition, the opportunity to complete the questionnaires via the internet was also made available and promoted through "FIRA e-news" and the media.

The approximate breakdown of distribution to named contacts was as follows:

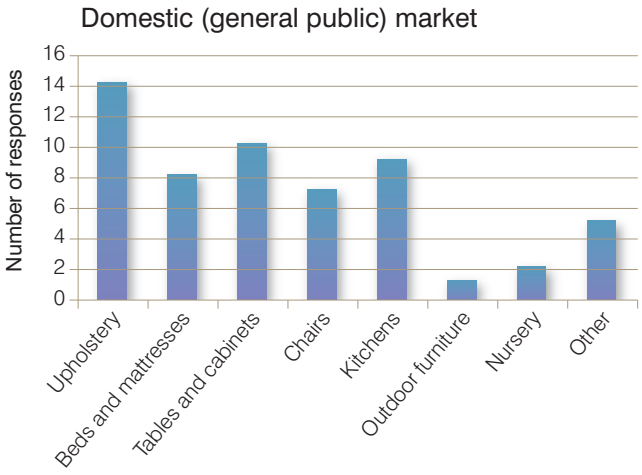
- Material and component suppliers 200
- Furniture manufacturers (domestic, office and contract) 1500
- Specifiers and retailers 1100

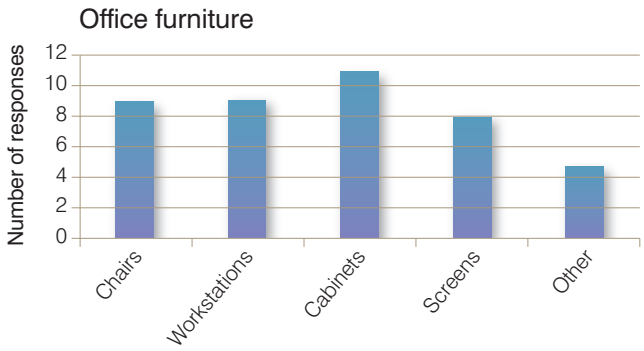
Response rates were 8.0%, 3.1% and 5.1% respectively

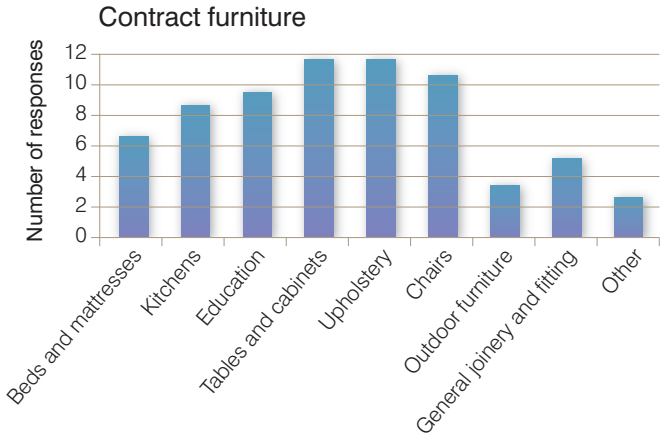
These comparatively low response rates were similar to those in the 2000 survey (although the specifier / retailer response rate was only 3% in 2000) and reflected the fact that the questionnaires were lengthy and detailed. However, there was a broad spread of opinion from across the different industry sub sectors, product types and organisation sizes as detailed below.

A.2 Manufacturers

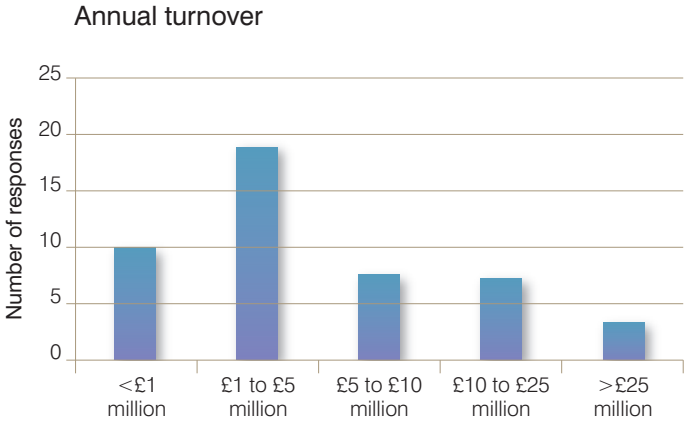
A.2.1 Breakdown of responses by product type







A.2.2 Breakdown of responses by turnover and employees



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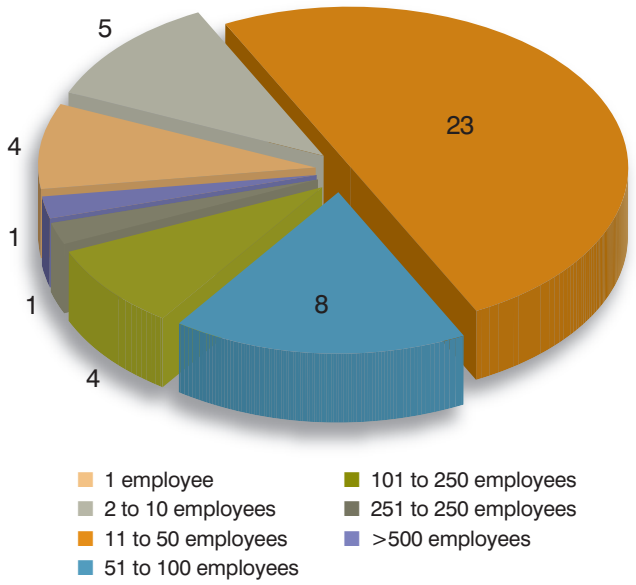
Most responses were received from companies within the £1 to 5 million turnover bracket (44%). This did not truly reflect the statistical breakdown of the whole industry by turnover. The large majority of companies turn over less than £1 million but only a few of these very small organisations responded (25%). This again reflected the response pattern of the 2000 survey.

Breakdown of number of responses by number of employees



The size of company responding to the survey was reflected by the number of people employed by the organisations concerned, with 50% of companies employing between 11 and 50 people. Only 2 organisations employed more than 250 people.

In broad terms, as defined earlier in the report, UK furniture manufacturing is dominated by SMEs (small and medium sized enterprises).[1]

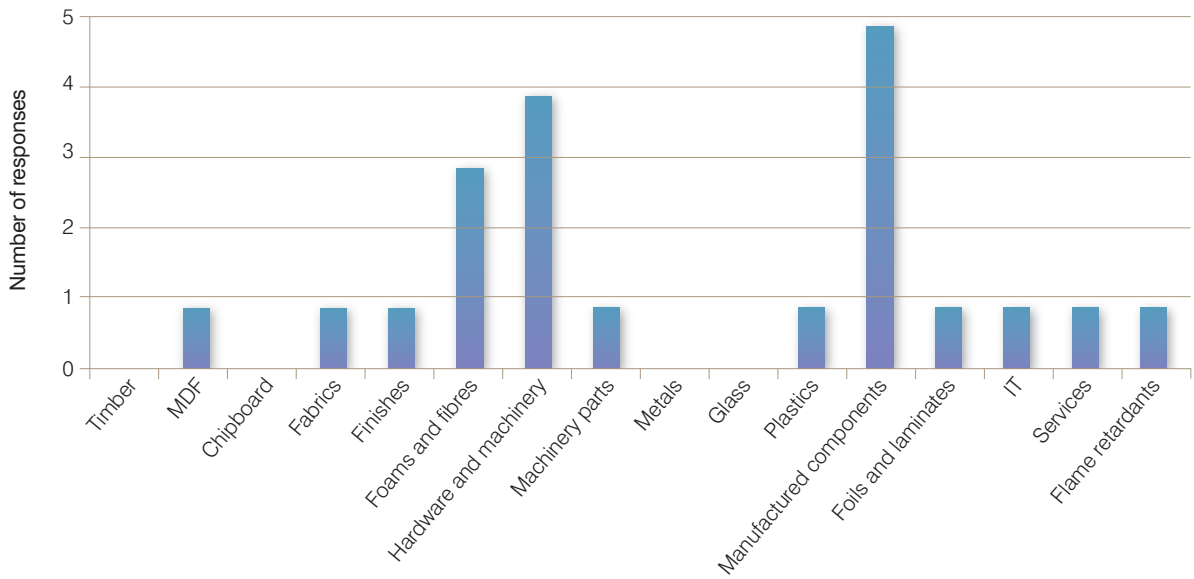
In the 2000 study the number of responses was large enough to differentiate between the opinions of very small (micro) organisations and the other, larger companies. In this study the number (and detail supplied) of responses was not large enough to be able to draw significant conclusions on this basis.

A.3 Materials and component suppliers

The number of UK suppliers to the industry appears to be less than in 2000. As a consequence, the sample size was small, although an 8% response rate went some way to addressing this problem.

The companies concerned supplied to all three sub sectors of furniture manufacturers and the nature of their supplies was as follows (see graph below):

Breakdown of suppliers by product type



[1] There is no single definition of an SME but BIS's web site defines businesses in the small to medium range as having between 0 and 249 employees.

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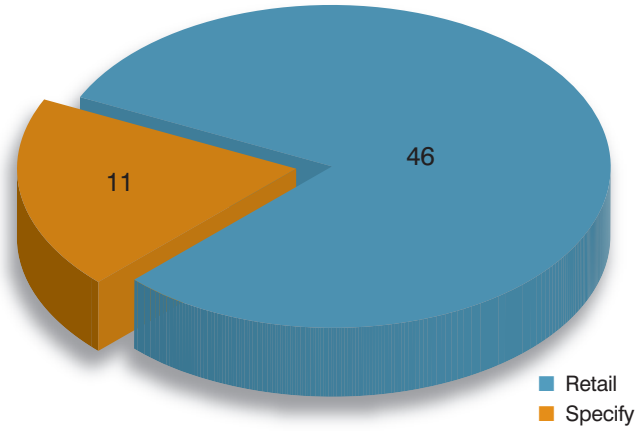
A.4 Specifiers and retailers

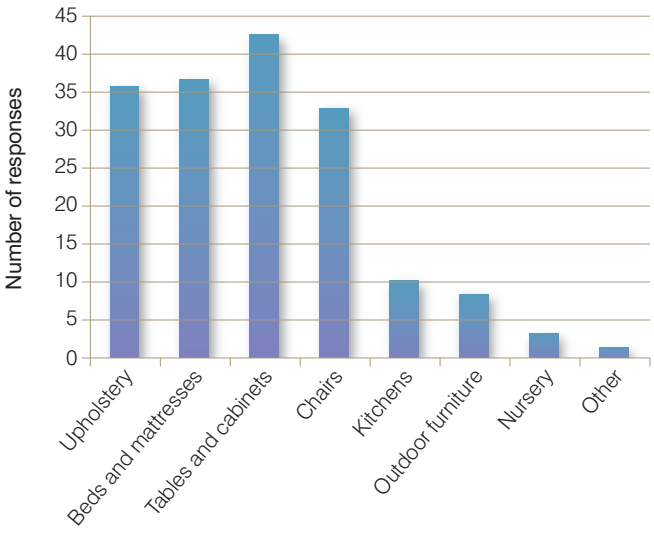
80% of the responses received were from retailers to the general public with the remainder being specifiers for commercial users.

Breakdown of responses by retailing to the general public and specifying for commercial users



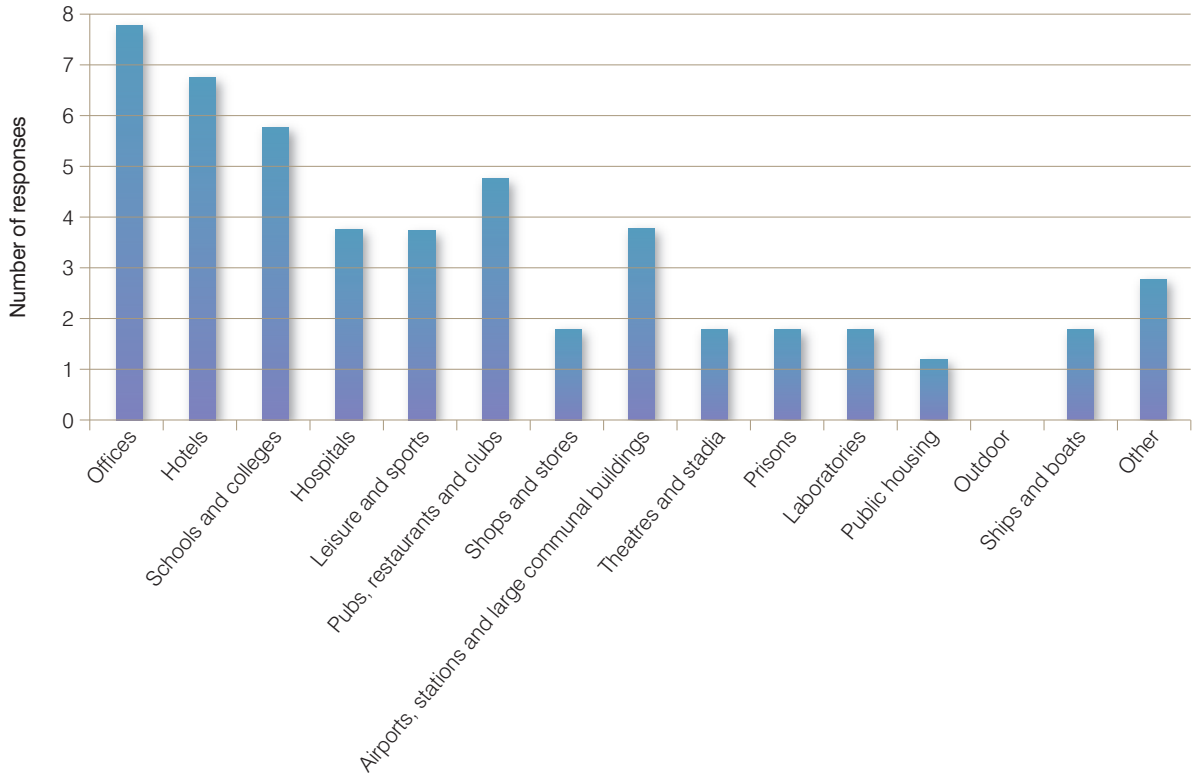
These retailers supplied the following range of products:

Domestic (general public) retailers



The specifiers covered a broad spectrum of commercial uses as defined below:

Environments covered by commercial specifiers



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