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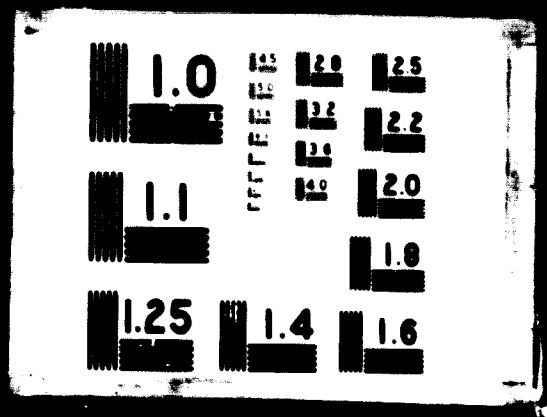
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THE PHILIPPINE WOODEN FURNITURE INDUSTRY^{1/}
AND THE OPPORTUNITIES OFFERED BY MASS
PRODUCTION

Country Paper

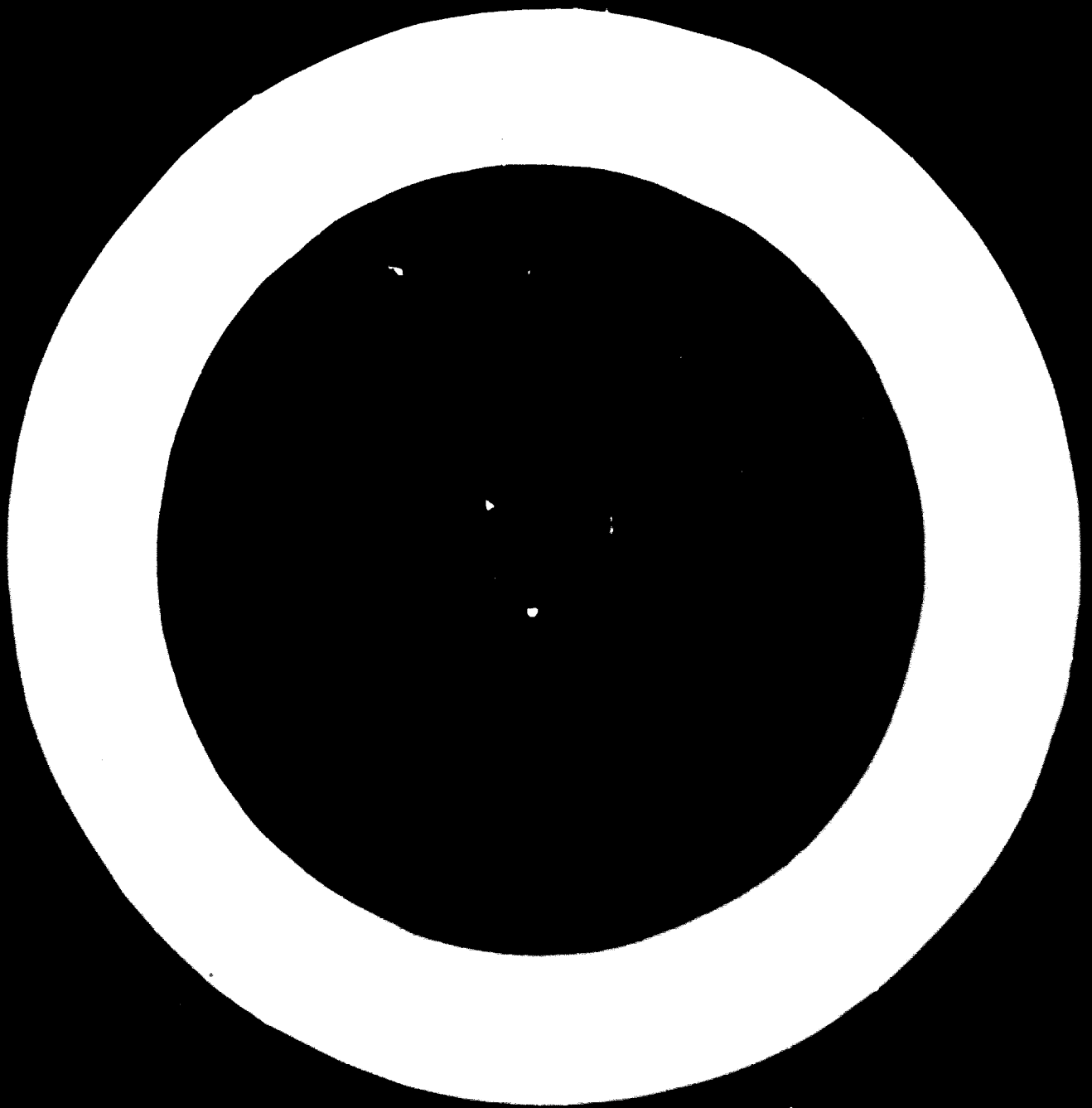
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A. A BRIEF HISTORY

The Philippine Wooden Furniture Industry presents an interesting study since it chronicles Filipino craftsmanship through the various stages of its historical development. Archaeological expeditions have unearthed crude tools for wood-working and furniture-making. The country's abundant supply of hardwood and softwood (including minor wood products like rattan and bamboo) have always lent themselves easily to Filipino ingenuity.

Our Spanish conquerors exploited the Filipino's wood craftsmanship as evidenced by elaborately hand-carved furniture which presently decorates the stores of antique dealers. After the Americans came to our shores towards the beginning of the twentieth century, furniture demand increased tremendously. Buildings, theaters, offices, schools and homes mushroomed with economic development. The destruction of Manila during the Japanese occupation presaged another construction boom from 1946 to 1951. At that time, however, the Filipino pocketbook could only absorb the cheap kind of furniture offered by small Chinese shops. Price and functionality determined the production of furniture.

The construction boom of the mid-sixties, especially in the suburbs of Manila, lured many entrepreneurs into the furniture industry. For the middle and high income classes, individuality dominated all considerations, such that custom-built furniture became imperative. Only the low income class could afford the ignominy of ready-made furniture.

During the sixties, several Philippine companies tried to shift away from custom-built furniture into standardized, mass-produced furniture. However, these attempts have not been too successful. The Filipino consumer still did not accept standardized furniture although some small offices did indicate some susceptibility to mass-produced furniture. This preference stems from the fact that the ready-made furniture which was on the market then did not offer any substantial price advantage nor did it show creativity and originality in design.

B. THE FUTURE OF PHILIPPINE INDUSTRY

Many believe, however, that the Philippine furniture industry is bound to change and follow world trends. Some say the change will occur in five years. Others predict ten. In any case, a metamorphosis is bound to happen. What will largely determine this change is the success of companies presently venturing into export. Industrialized nations have accepted standardized furniture due to pressures exerted by population and the increased profits generated by economies of scale. High labour rates have forced them to mechanize furniture production.

If the Philippines crack the export market, then we can surmise that excess production will find its way into the domestic market. As more standard lines are offered on the floor the chances of satisfying a customer's individualistic taste increase. The variety of standardized and mass-produced lines may thus slowly replace the appeal of custom-built furniture leaving only the very rich to indulge in made-to-order pieces.

The question to ask perhaps is how fast can the Philippines tap the export market. This consideration, of course, will be largely determined by the investment climate created for the furniture industry. The ability of domestic producers to meet the quality and high-volume requirements of importers and the growth of the world furniture market.

C. A PROFILE OF THE PHILIPPINE FURNITURE INDUSTRY

In perspective, the Philippine furniture industry is a disorganized amalgam of individualistic, small-time, job-shop type companies. Close to 60 per cent of the registered and unregistered firms in the industry employ less than 5 workers. Only 9 per cent employ more than twenty workers. Sales average US\$ 4,500 per annum, the relative profitability of which ride on the crest or slump with the fall of the construction industry.

Due to the low capital required, the furniture industry provides easy entry to newcomers with paid-in capital averaging approximately US 3,000. On the other hand, the cyclical nature of the industry forces many of the smaller furniture companies to close down.

Unlightened management techniques are seldom used. Most furniture companies have little collateral to offer and therefore fail to tap substantial loans. Labourers are mainly artisans not geared for mass production or industrial work but for custom-made furniture. While labour can be considered skilled, top calibre craftsmen are hard to find due to inadequate training programmes. This failing can be attributed to the cyclical and seasonal characteristics of the furniture industry which prohibits huge investments in apprenticeship plans and training programmes.

The above factors have shown that Philippine manufacturers are small and inefficient. Perhaps, the only answer to solve the industry's problems is to gradually shift to mass production to avail of economies of scale. But this will require the industry to tap the export market because the domestic market is not yet big enough to support mass production. Besides, it will take time for consumers to appreciate standardized furniture. At this point, it may be good to depict the unique situation of the Philippine domestic market for furniture.

D. THE PHILIPPINE DOMESTIC MARKET

The Philippine domestic furniture market depicted a mere 5 per cent growth rate per annum during the last decade. It showed unusual strength in the first half of the sixties only to collapse in the latter half. Furniture sales peaked at P130 million or US 19 million at the present exchange rate of P6.80 for US 1) but slid below P95 million or US 14 million in 1969 ^{1/}. This collapse has been attributed to credit unavailability for construction. Meanwhile, population growth, marriages,

^{1/} Please see Table 1

rising disposable income and migration have created a pent-up demand. Propitiously, the Philippine Government has incorporated a housing programme into its 1971-1974 development plan. Private companies are following suit with an investment approximating eight times the Government's P 25 million per annum. This should spearhead growth in the construction industry redounding to the benefit of furniture companies.

Projections on furniture sales indicate that demand may rise to P180 million by 1975 and reach P207 million by 1980. This should provide a sound domestic base for a prospective furniture exporter. ^{2/}

E. MARKETING PROBLEMS WITH EMPHASIS ON THE MASS-PRODUCER

In the domestic market, the Filipino furniture maker has to contend with varied marketing problems. Firstly, consumer preference for custom-made furniture hinders mass production of standard lines. The consumer has to be oriented towards purchasing ready-made furniture off the display floor if the producer wants to remove the manufacturing problems posed by too many designs. Second, the industry suffers from a very poor distribution network (if there is even any to speak of). Oftentimes, the manufacturer's shop is also the retailing outlet, limiting sales to surrounding areas. Company name and personal contacts appear to be the only means of effecting furniture sales. Thirdly, the disorganized situation of the industry inhibits co-operation, product specialization, pooling of resources and trading of information. Fourthly, there is no originality in designs. Local interior decorators seem content with mere copies of European models. This stunts the development of the industry insofar as product promotion is concerned.

F. INVESTMENT CLIMATE FOR FURNITURE MASS PRODUCERS AND EXPORTERS

Due perhaps to the problems encountered in the domestic market, the

^{2/} Please see Table II

Philippine furniture industry has not progressed much. The industry needs a re-evaluation. The primary task at hand is a scrutiny of the investment climate of furniture with emphasis on prospects for mass production and exports.

The Government, realizing the tremendous export potential of the industry and the role it is to play in the massive low-cost housing programme of the country, is starting to change policies found repressive and detrimental to the industry.

For one, the official directive to curb log exports is being resurrected. Secondly, Philippines' Board of Investments mandatorily includes furniture in its list of preferred industries with all the concomitant incentives. Third, there is a move to remove the onerous taxes especially on mass-produced furniture. Fourth, financing is gradually becoming available both from private and public institutions. Scanning the world market, industrialized nations like Japan, Australia, Canada and the Common Market are granting preferential tariff rates for manufactured items like furniture to developing countries. These create a favourable investment climate in the export market.

G. MASS PRODUCTION AND THE EXPORT MARKET

If the Philippines wants to hasten its progress towards mass production, it must tap the world furniture market. To do this in a significant way the Philippines must remove itself from a job-shops mentality to enter the economies of scale offered by mechanization.

The Philippine Furniture industry has experienced a fast growth in its export sales for the last 5 years jumping from US\$ 351,000 to US\$ 1,265,000 in 1970. Average rate of growth for this period stood at 24 per cent, certainly well above the growth of the domestic market. A big portion of these exports, however, were in rattan because of the technical difficulties posed by wooden furniture. Lately, some wooden furniture

manufacturers have hurdled quality problems and are now experiencing tremendous sales increases.

The Philippines' export pattern is duplicated in the world import-export market. Since 1962, total world furniture imports climbed from US\$250 million to almost US\$1,000 million ^{3/}. Competitiveness in the world market depends on several crucial factors. These are: price, design, raw material availability and technical expertise. In this regard, the Philippines shows a few distinct advantages.

First, there is actually an abundant supply of lumber in the country with worldwide acceptability. With government moves to restrict log exports, lumber supply will be made more available to local furniture manufacturers.

Second, the Philippines has an inexpensive and plentiful labour force. To be sure, craftsmen in the industry have to be trained for mass production if the Philippines is to achieve labour efficiency.

Third, advantageous tariff rates offered by industrialized countries, Philippine export incentives and moves to repeal taxes on mass produced furniture all contribute to the furniture maker's profitability.

The factors cited above should enable the Philippines to be very competitive, price-wise. The Philippines must, however, seek its own identity in designs. To reap the full benefits of the country's capabilities, technology must be improved since this is the main stumbling block of Philippine exports.

Technical Aspects. The metamorphosis from a custom furniture maker to a large-scale exporter is hindered mainly by technological inadequacy running through the whole gamut of technical considerations. The industry is faced with several technical difficulties.

^{3/} Please see Table III

The first is the availability of better grade raw materials in sufficient quantity. The distribution of lumber is presently alien-controlled, placing Filipinos at a competitive disadvantage. Although the Philippines harbours a very rich forest, many other logs are exported, resulting in the paradox of a log-rich yet lumberless country.

The second problem is improper treating and control of moisture content which may cause warping, checking and splitting in furniture. This is a big problem in exported furniture due to climatic changes from the country of origin to the country of destination. This problem can be solved only through proper kiln-drying and treating.

The third difficulty involves inefficient processes, materials flow and work methods.

Fourth, is the use of antiquated equipment not suitable for mass production.

Fifth, is improper material usage.

The sixth difficulty is lack of inspection in crucial stages of the operations.

Seventh, furniture companies lack technical, industrial manpower.

Eighth, the industry does not possess standards in lumber sizes and furniture specifications.

Lastly, designs are too varied, generating labor inefficiency and machine downtimes because of frequent shifts from one design to another. Specialization can solve this problem.

The present manufacturing techniques of Filipino manufacturers are simply not geared for mass production. Thus, the industry must re-orient itself in terms of production methodology and outlook.

Financial and Organizations Problems. There are two other aspects which must be considered by the mass producer and the exporter. The first is financial. The volume and quality exacted by the international market carry repercussions in finance. The exporter must secure more working capital due to high inventory levels demanded by the mass market. Philippine firms in the furniture industry are inadequately capitalized.

The second aspect is one of organization. Due to the proliferation of single proprietorships, furniture shops are intimately linked with family livelihood. There are no pretensions about large-scale manufacturing. The proprietor often is a former carpenter with no knowledge of management techniques and the concept of corporate strategy. While there may be exceptions to the rule, education limits the growth of these furniture companies. Wanting in expertise, furniture shops need organization for better coordination and pooling of resources.

Opportunities offered by mass production: In spite of the problems cited above, it is inevitable that the Philippines will proceed towards mass production for the following reasons:

1. The domestic market will grow faster in the seventies than in the sixties because of pent-up demand. Both the Government and the private sectors are concentrating on housing programmes especially low-cost housing. This certainly creates opportunities for the mass producer of low-cost furniture.
2. Costs of production have been skyrocketing since the Philippine peso devaluated in 1970. To keep costs down and to achieve efficiency, producers will tend towards mechanization and mass production. Moreover, mass production promises to bring down the cost per unit of furniture because of economies of scale.
3. The export market is fast growing. In order to tap this market effectively, the exporter must mass produce to meet volume requirements.

4. The Philippine Government is slowly realizing that in order to industrialize, she must veer away from her present position as a raw material exporter to a producer of manufactured, finished products. This means that mass producers and manufacturers of furniture will be favoured over log exporters and custom furniture makers.

With these opportunities, the Philippines cannot help but transform her furniture industry towards mass production.

TABLE I

PHILIPPINE FURNITURE SALES*

<u>Year</u>	<u>Actual Sales</u>	<u>Price Index of Home Mfd. Goods (1955=100)</u>	<u>Deflated Sales</u>	<u>Index of Rev. Vol. (1955=100)</u>
1960	₱ 57,461	123.3	₱ 46,603	85.3
1961	80,216	126.9	63,212	115.2
1962	86,165	131.1	65,725	120.3
1963	97,570	135.6	71,954	131.7
1964	130,829	140.2	93,316	170.8
1965	120,829	143.6	84,192	154.1
1966	91,323	146.5	62,338	114.1
1967	116,936	147.0	79,548	145.6
1968	100,640	147.6	68,184	124.3
1969	94,570	150.5	62,837	100.8
1970	99,299	162.0	61,296	98.4
1971	104,264	168.6	61,467	98.7

* Sources: Central Bank and Bureau of the Census and Statistics records.

TABLE II
PROJECTION OF FURNITURE DEMAND WITH CONSTRUCTION
VALUES (IN THOUSAND OF PESOS)

PROJECTION:	THEORETICAL REGRESSION LINE OF DEFLATED CONSTRUCTION VALUES	PROJECTION OF DEFLATED CYCLICAL CONSTRUCTION VALUES	FURNITURE DEMAND		PROJECTED FURNITURE PRICE INDEX	PROJECTED DEMAND OF G.M. AND 32 OTHER CITIES (CURRENT PRICES)	TOTAL PHILIPPINES DEMAND
			IN GREATER MANILA AND 32 OTHER CITIES (1955 PRICES)	IN OTHER CITIES (1955 PRICES)			
1971	401,361	433,391	65,024	158.6	103,129	137,160	
1972	424,265	390,323	58,548	161.6	94,614	129,926	
1973	457,237	423,016	72,452	164.5	119,184	158,374	
1974	470,165	432,552	64,883	167.5	108,679	144,543	
1975	491,641	530,372	79,646	170.4	135,717	150,503	
1976	576,021	473,739	71,211	173.4	123,480	164,228	
1977	538,949	582,065	87,510	176.3	153,925	201,719	
1978	538,949	582,065	87,310	170.3	153,925	201,719	
1979	584,905	631,589	94,738	182.2	172,612	229,373	
1980	607,735	557,114	89,867	185.2	155,321	206,377	

*ELECTION YEARS = REGRESSION LINE X 1.08

** NON ELECTION YEARS = REGRESSION LINE X .92

*** 15% OF CONSTRUCTION VALUES BASED ON INTERVIEWS WITH FURNITURE MANUFACTURERS.

**** EQUATION USED: $Y = 124.6 \cdot X^{2.94}$

***** DEFLATED SALES TIMES PROJECTED PRICE INDEX.

***** 133% URBAN DEMAND BASED ON FURNITURE MANUFACTURERS' ESTIMATES.

TABLE III

World Imports of Furniture, 1963-69 (F.O.B.)

(OECD Countries)

	1963		1964		1965		1966	
	<u>Weight*</u>	<u>Value**</u>	<u>Weight</u>	<u>Value</u>	<u>Weight</u>	<u>Value</u>	<u>Weight</u>	<u>Value</u>
Total World Imports		256,533		340,094		404,039		494,704
Countries Importing								
1) United States	n.a.	36,143	n.a.	46,530	n.a.	59,896	n.a.	80,763
2) Canada	n.a.	16,531	n.a.	19,534	n.a.	22,138	n.a.	23,655
3) Belgium-Luxembourg	20,487	20,435	26,136	26,740	28,411	30,262	35,640	40,811
4) France	47,940	43,269	65,483	55,717	61,191	62,404	72,913	73,363
5) Federal Republic of Germany	31,092	29,981	40,280	39,911	49,882	53,827	58,939	57,152
6) Italy	9,964	8,967	7,676	8,249	5,367	7,519	6,880	8,312
7) Netherlands	22,915	23,723	36,793	39,716	48,301	51,416	58,725	64,465
8) United Kingdom	n.a.	16,582	n.a.	23,316	n.a.	23,519	n.a.	22,738
9) Denmark	6,092	6,233	8,377	8,854	10,932	11,753	12,536	14,133
10) Norway	2,428	3,281	3,420	4,581	3,429	4,782	5,119	6,641
11) Sweden	8,916	10,353	11,787	13,540	15,599	18,597	18,098	19,715
12) Austria	6,855	7,292	8,944	8,608	11,355	12,650	15,032	17,058
13) Portugal	170	336	277	707	268	546	339	557
14) Switzerland	19,537	25,291	23,899	31,381	24,800	33,453	26,675	37,235
15) Iceland	81	89	103	133	178	362	553	935
16) Greece	209	421	341	727	483	1,144	621	1,418
17) Turkey	83	178	105	171	47	116	51	151
18) Spain	555	822	1,395	1,672	2,742	2,975	3,607	4,904
19) Ireland	n.a.	1,540	n.a.	1,789	n.a.	1,840	n.a.	1,912
20) Finland	970	1,635	1,703	2,643	2,183	3,610	2,260	3,882
21) Australia	n.a.	3,310	n.a.	3,100	n.a.	n.a.	n.a.	3,112
22) Japan	288	512	n.a.	1,473	408	1,530	n.a.	1,605

* In Metric Tons

** In Thousand US Dollars

Sources: 1)

World Trade Statistics 1963-68

2) World Commodity Trade 1969

..... Cont'd. on next sheet

Continuation of TABLE III

	1967		1968		1969	
	<u>Weight</u>	<u>Value</u>	<u>Weight</u>	<u>Value</u>	<u>Weight</u>	<u>Value</u>
Total World Imports		548,374		707,965		937,722
Countries Importing:						
1) United States	n.a.	90,794	n.a.	133,561	n.a.	191,945
2) Canada	n.a.	26,407	n.a.	29,295	n.a.	31,986
3) Belgium-Luxembourg	36,401	39,788	45,897	48,407	n.a.	71,733
4) France	97,301	85,871	133,794	128,418	n.a.	185,974
5) Federal Republic of Germany	54,773	61,412	62,883	72,564	n.a.	104,812
6) Italy	8,180	9,656	9,871	11,548	n.a.	14,039
7) Netherlands	67,279	59,592	94,521	92,964	n.a.	114,013
8) United Kingdom	n.a.	30,927	n.a.	33,680	n.a.	32,371
9) Denmark	15,665	18,544	16,516	19,597	n.a.	28,329
10) Norway	7,740	9,640	9,666	12,597	n.a.	19,203
11) Sweden	19,172	21,970	25,671	27,597	n.a.	36,258
12) Austria	19,207	20,592	25,602	25,452	n.a.	25,054
13) Portugal	442	851	660	1,263	n.a.	1,533
14) Switzerland	26,280	31,703	36,274	45,506	n.a.	59,039
15) Iceland	500	889	307	492	n.a.	198
16) Greece	743	1,279	1,120	1,954	n.a.	1,576
17) Turkey	56	144	46	72	n.a.	175
18) Spain	4,330	5,624	4,162	5,688	n.a.	6,325
19) Ireland	n.a.	2,311	n.a.	2,685	n.a.	4,129
20) Finland	2,923	4,592	2,332	3,747	n.a.	4,557
21) Australia	n.a.	3,578	n.a.	5,078	n.a.	n.a.
22) Japan	n.a.	2,013	n.a.	2,383	n.a.	3,516

* In Metric Tons ** In Thousand U.S. Dollars Sources: 1) World Trade Statistics 1963-68
 2) World Commodity Trade 1969



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