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THE FURNITURE INDUSTRY IN THE PHILIPPINES[1]

Country Paper
by

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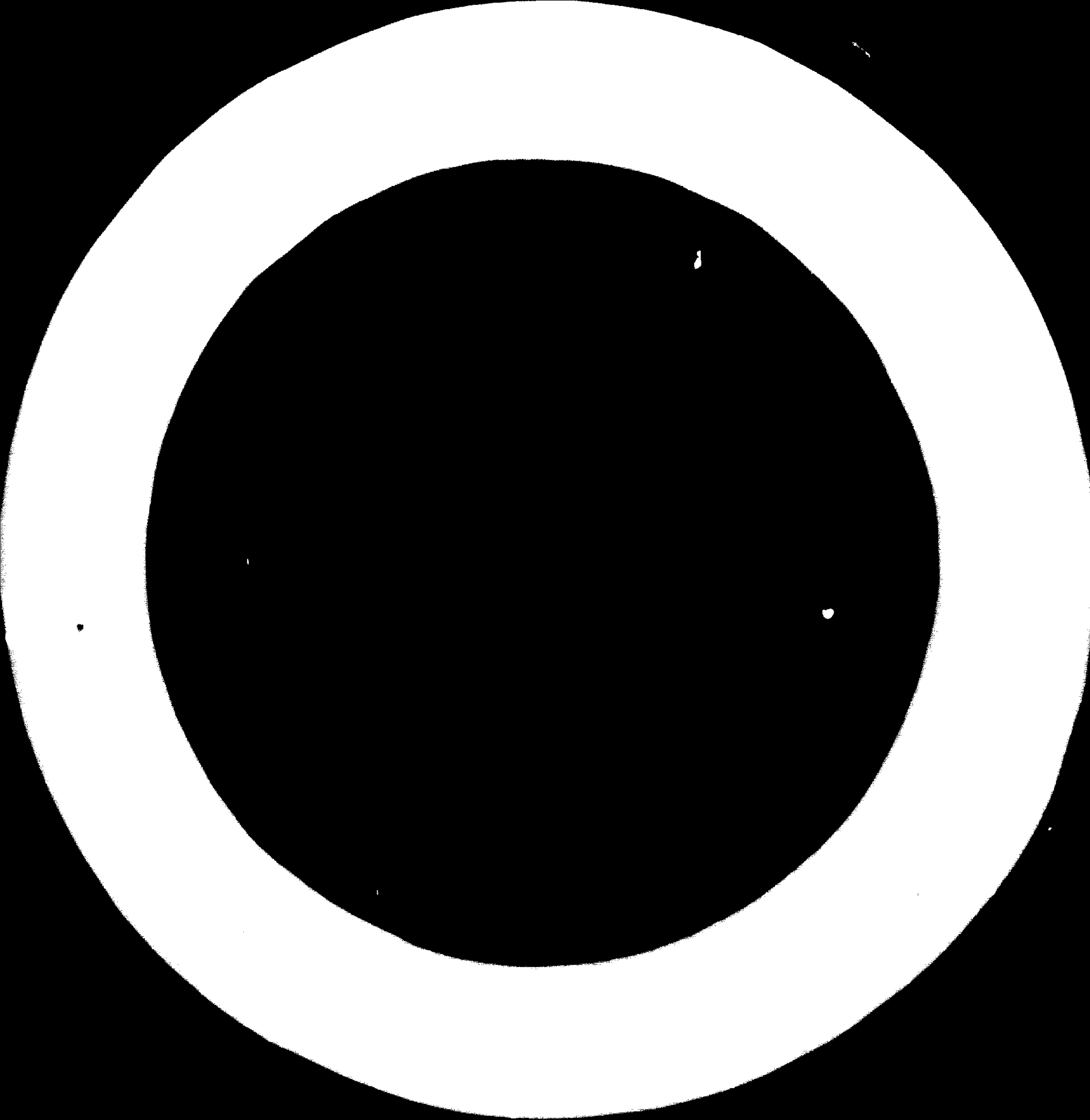

The furniture industry is one of the oldest in the country and yet one can truly say that it is still in the infancy stage. Unlike some of its industry brothers which mainly depend on imported technology and materials, the furniture industry is blessed with an abundance of local raw materials and skills. It is therefore rather ironical that up to this time, the industry is still struggling and continually in a stage of stagnancy. It may well be that its own strengths have contributed to its stagnancy and immaturity.

Some Statistical Data on the Industry

The industry is among the most labour-intensive in the Philippines. While its gross output of ₱65,646,600 (approximately US.$10,000,000) represented only 2% of the total gross output of the light industry sector, its total employment of nearly 7,713 workers represented almost 4% of the total employment in the light industry sector.[1/]

The industry is characterized by a conglomeration of many cottage and small-scale manufacturers and a sprinkling of medium-sized ones. This may partly explain its lack of solidarity. Based on records from the Bureau of Census and Statistics, only 74 out of 414 firms - or roughly 20% - employ 20 or more workers. The other 330 firms employ 5 to 19 workers only, which places them in the cottage or small-scale category.

The Philippines rank among the world's richest in forest resources having an annual production of 11 to 12,000,000 cubic metres of logs. At the same time, she is the world's second largest exporter of broad-leaved logs.[2/] Lumber exports to Japan, for example, has increased in volume from 0.98 billion board feet in 1958-59 to 2.3 billion board feet in 1966-67. Exports to the United States

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1/ Source: Preliminary Report on the BCS Annual Survey of Manufacturers, 1969

2/ Source: FAO Yearbook of Forest Products, 1968 increased in volume from 23.7 million board feet in 1958-59 to 63.? million board feet in 1967-68.[1]

The increasing volume of raw logs exported is, in general, unfavourable to local furniture production. Lumber absorbed by the world market tend to limit the supply of quality lumber for use by local furniture manufacturers.

The Philippines' total amount of exported goods increased from ₱237.3 million (approximately US.$36.5million) in 1949 to ₱1.41 billion (US.$216.6 million) in 197?. Compared to these figures, exports of wood and wood products ranged from ₱3.8 million (approximately US.$585 thousand) (1.6% of total exports) in 1949 to ₱295.5 million (approximately US.$45.4 million) which is 25% of total exports in 1970. On the other hand, exports of furniture ranged from ₱534,000 (approximately US.$82,150) (0.22% of total exports) in 1949 to ₱1.265 million (approximately US.$195 thousand) (0.11% of total exports) in 1970.[2] (Please see Appendix 1 and 2)

This shows that while the country's total exports, including that of wood and wood products, have substantially accelerated, exports of furniture have, in fact, declined. This likewise implies that the trend is to export more unprocessed wood, especially logs, rather than furniture and other finished wood products.

Statistics show that the Philippines' meagre exports of furniture products mostly went to Mainland United States, Hawaii and Guam. All in all, it can be said that Philippine-made furniture has not been actively promoted in the world market either by the government or the private sector and that export markets have not been fully exploited.

1/ Source: Annual Report, Philippine Lumber Producers Association, February 15, 1969

2/ Source of 1949 figures: Statistical Bulletin, Central Bank of the Phils.

Source of 1970 figures: Foreign Trade Division, Bureau of the Census and Statistics

In the words of Mr. Bozidar Racesic, furniture industries expert and member of a two-man UNIDO team which conducted a study of the Philippine furniture industry in 1971: "For a country ranking as highly in the production and export of timber such a low production of furniture and other final wood products and consequent minimal participation in the world trade inevitably calls for a serious consideration by all agencies responsible for the further development of the Philippine timber industry."

Range of Products

The average furniture firm produces a variety of types and models of furniture - from very simple products up to the most complicated of designs. These various types could be classified into three general classes, namely:

1. Residential (including living room suites, dining suites, cabinets, bedroom furniture)

2. Office furniture (including desks, chairs, cabinets, tables, conference suites, etc.)

3. Institutional furniture (including school desks, hospital furniture, restaurant furniture, etc.)

The above classification is further broken down into different quality levels for the low, middle and high-income groups.

Fixtures are also included in the product offering of furniture manufacturers, like wall shelvings. Because of the depth of the product mix, the situation tends itself to contract or made-to-order type of manufacturing. There is really very little "mass production" in the furniture industry.

Demand and Competitive Outlook

The demand for furniture has not really substantially grown in the last fifteen years - outside of the 1962-68 period which coincides with the country's construction boom. In 1956, the gross output was ₱65,516,000 (approximately US.$10 million) whereas in 1968, gross output was ₱68,164,000 (approximately US.$10.5 million). Its peak was reached in 1964 when gross output was ₱93,316,000 (approximately US.$14.5 million). Preliminary reports show that the early 1970's do not promise to be any better.[1] (Please see Appendix 3)

At the same time, the number of factories shows an increasing trend, thereby constricting the marketing share of the different manufacturers. These increases in the number of factories can easily be explained by the fact that investment requirements in the furniture factory are relatively very small, established at about ₱200 to ₱800 (US.$30 to 120) per worker. Complicating the picture further are the number of unregistered backyard operations established at roughly 1,500. Although no reliable record is available, it is said that the market of these fly-by-night operators is quite substantial.

Thus far, the industry has been traditionally catering to made-to-order type of furniture. This can be explained by the fact that standard line furniture does not really offer any price advantage. Neither are designs broad enough to cater for the various tastes of the market.

Distribution and Marketing Factors

The major portion of the sales made by a furniture manufacturer would normally be within a confined geographical area accessible by land transport. The nature of the product, being bulky and relatively easy to manufacture on a local level, coupled with high transport costs, makes distribution localized. There is no competition from imported furniture. Most sales are made direct through the manufacturers' own salesmen or through interior decorators who are considered the more effective marketing outlets. For the same reason, advertising in the industry is very minimal. Personal selling, product design and quality, company

1/ Source: Statistics from the Bureau of Census and Statistics and Central Bank of the Philippines reputation, service and price are considered important ingredients for marketing success.

Production Aspects

The extent of mechanization in the industry varies widely from a backyard shop with simple hand tools to the bigger firms with complete machinery. The need for skilled labor of smaller outfits is more acute than in the more mechanized bigger firms. Even then, machines cannot completely replace the human skills required in good quality furniture manufacturing. Because of this difference in manufacturing methods, the bigger firms generally pay workers on a daily-wage basis. On the other hand, piece-rate or contract workers are more predominant in the smaller shops.

The quality of raw materials for furniture manufacturing is not much of a problem: the problem really lies in the quality raw materials available. As mentioned earlier in this paper, suppliers of wood and plywood normally allocate their better quality products for the more lucrative export market, leaving for local manufacturers only lower-grade products. The problem is so pronounced that a group of furniture manufacturers is seriously considering going into a co-operative venture of backward integration in order to assure th industry of a reliable supply of quality lumber.

Organization and Management

Family enterprises characterize the industry. Generally, the enterprising entrepreneur starts his venture primarily on the basis of technical orientation. As the firm grows, the need for trained management at the different levels becomes more acute. Primarily because of their family orientation and the relative size of the companies, they do not attract competent professional managers. It would be natural, therefore, for managers to be trained by coming all the way "from the ranks". The problem here is that this "trained' manager eventually gets unhappy at the compensation that the company can afford and gets out - most probably to become an eventual competitor.

Governmental Factors

The furniture industry has not been able to successfully project its plight to the governmental agencies concerned, resulting in very minimal government assistance. Among the areas in which government could assist are:

1. A revision of the tax code wherein contract furniture is taxed 3% whereas manufactured furniture is taxed 7% for wooden and 30% for upholstered iron furniture (less tax deductible materials). This provision encourages contract furniture.

2. Regulating the outflow of raw materials to assure the industry of a good supply.

3. Setting a higher credit priority rating for the industry.

4. Accelerating the export of Philippine furniture through assistance on technical, promotional and marketing aspects.

To assist the Government in accelerating the promotion and development of the furniture industry, the establishment of a Furniture Centre within the University of the Philippines Institute for Small-Scale Industries has been proposed by the UNIDO team which visited the Philippines in 1971. The Centre is envisaged to promote productivity, quality consciousness, and export-orientation among local furniture manufacturers. The Centre will initially be staffed by international furniture and wood-working experts and Filipino counterpart specialists. Unfortunately, the project has not yet been included in the Country Programme for UNDP assistance.

Appendix 1

PARTICIPATION OF THE EXPORT OF WOODEN PRODUCTS IN THE TOTAL EXPORT OF THE PHILIPPINES*

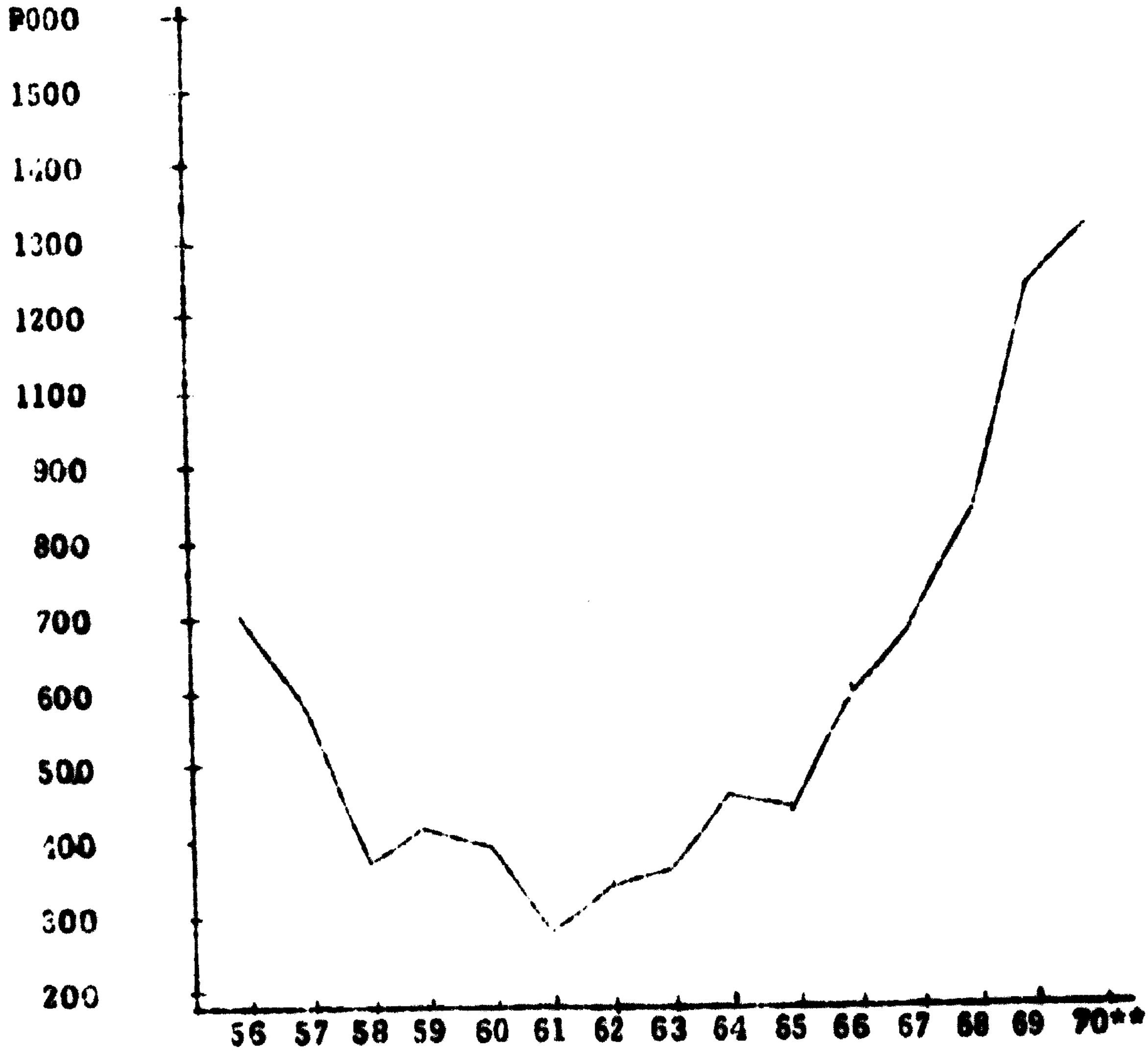
In 000 US $ FOB

YEAR	Philippines Total Domestic Exports	Export of Wood and Wooden Products: Total 3-7	Logs and Lumber	Plywood	Veneer	Furniture	% 3:2
1949	237,335	3,832	3,260	17	21	534	1.[illegible]
1950	325,504	11,532	10,691	59	20	762	3.5
1951	425,582	18,030	17,267	58	-	705	4.2
1952	345,264	19,806	18,946	46	90	824	5.7
1953	398,120	32,126	28,937	14	2,597	578	8.1
1954	391,946	36,671	35,590	236	380	465	9.3
1955	397,653	43,735	41,542	923	921	549	11.0
1956	452,228	52,249	48,828	1,516	1,199	706	11.5
1957	429,292	49,297	45,059	2,231	1,402	555	11.5
1958	491,186	78,563	69,661	6,484	2,077	341	16.0
1959	528,897	97,700	80,444	13,635	3,186	435	18.5
1960	556,897	102,955	91,600	6,482	4,522	351	18.4
1961	497.905	104,985	92,423	7,950	4,378	234	21.1
1962	553,201	130,244	112,791	11,171	5,979	303	23.5
1963	724,183	176,460	152,882	15,964	9,309	305	24.6
1964	739,955	177,852	143,114	22,801	11,496	441	24.0
1965	766,686	190,454	162,001	17,579	10,471	403	24.8
1966	826,913	233,219	204,7[illegible]6	17,705	10,237	551	28.2
1967	800,124	239,696	212,187	18,207	8,667	635	30.0
1968	846,797	250,382	216,630	21,478	11,466	808	29.6
1969	851,501	257,357	225,988	19,481	10,876	1,012	30.2
1970**	1,141,651	295,511	255,637	38,609		1,265	25.0

* Source: Statistical Bulletin, Central Bank of the Philippines

**Source: Foreign Trade Division, Bureau of Census and Statistics

Appendix 2



FURNITURE EXPORTS - 1956-1970**

* Source of Figures: Statistical Bulletin, Central Bank of the Philippines

** Source : Foreign Trade Division, Bureau of the Census and Statistics

Appendix 3

ACTUAL AND DEFLATED LOCAL SALES OF FURNITURE

Year	Actual Sales*	Price Index of Home Mfd. Goods (1955= 100)	Deflated Sales*	Index of Phy. Vol. (1955=100)
1960	₱ 57,461	123.3	₱ 46,603	85.3
1961	80,216	126.9	63,212	115.2
1962	86,165	131.1	65,726	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	61,457	98.7

* In thousands

** Preliminary figures

Average Rate of Growth: 5%

Sources: Central Bank and Bureau of the Census and Statistics records (extrapolated)

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