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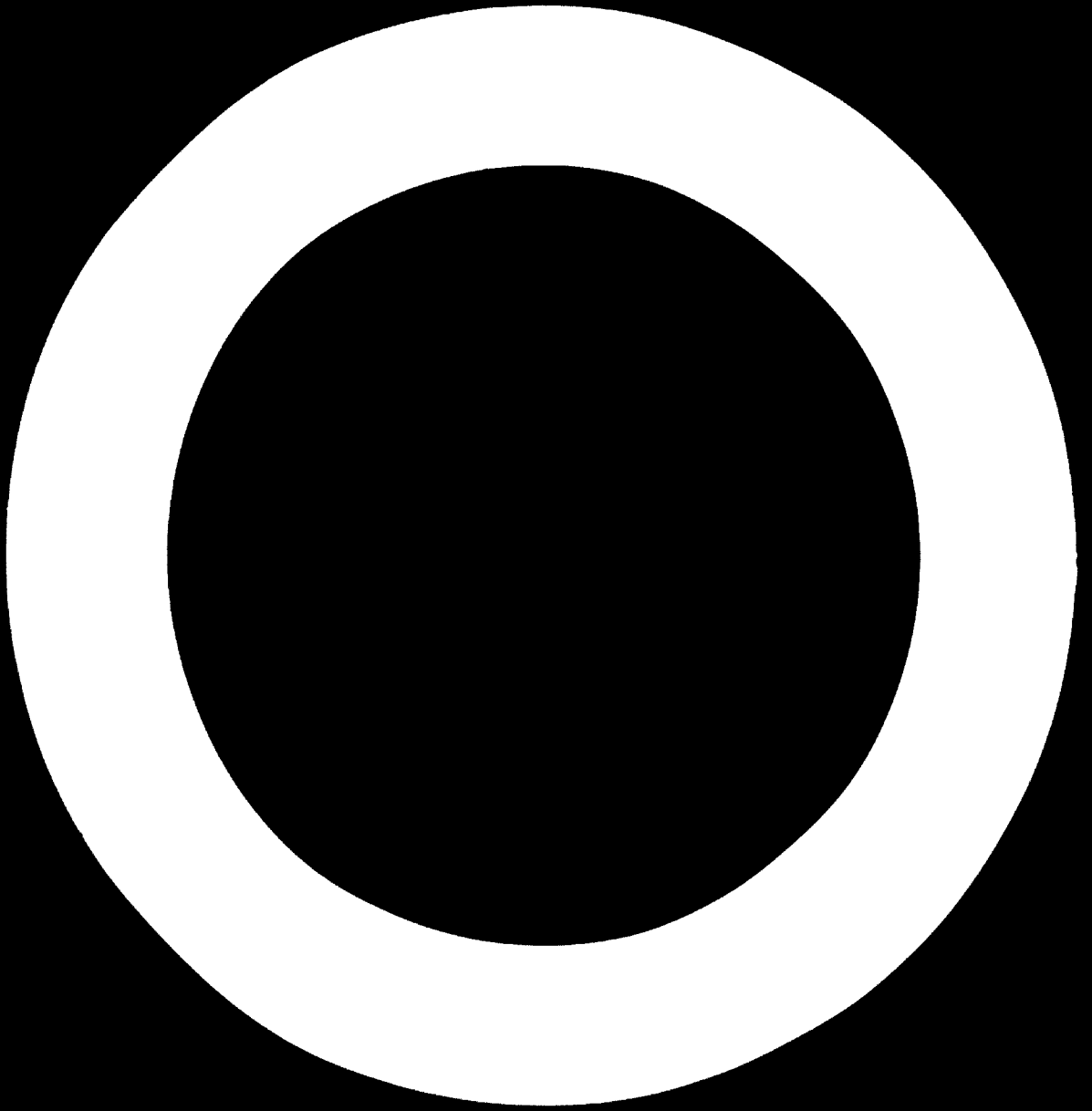
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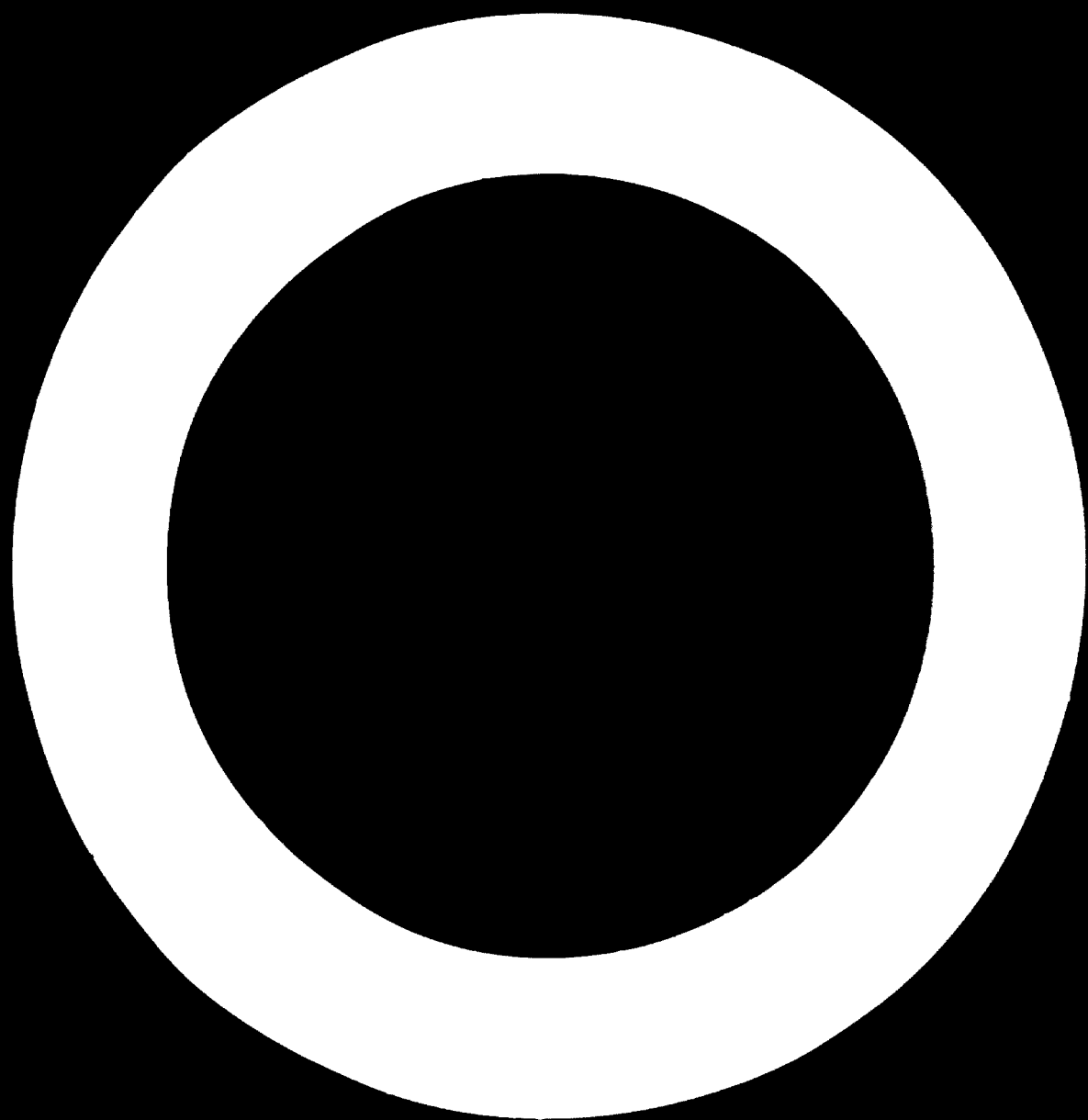
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United Nations Development Programme

CENTRE OF FURNITURE AND  
JOINERY INDUSTRY DEVELOPMENT,  
SARAJEVO  
DP/YUG/13/006  
YUGOSLAVIA

Technical report: Assistance in the elaboration  
of a marketing concept for the  
furniture and joinery industries

Prepared for the Government of Yugoslavia  
by the United Nations Industrial Development Organization,  
executing agency for the United Nations Development Programme

Based on the work of Reino Routamo, market  
research expert

United Nations Industrial Development Organization  
Vienna, 1975

### Explanatory notes

References to "dollars" indicate United States dollars, unless otherwise stated.

The monetary unit in Yugoslavia is the dinar (Din). In December 1975 its value in relation to the United States dollar was \$1 = Din 17.00.

The following abbreviations are used in this report:

- |      |   |
|------|---|
| BiH  | Republic of Bosnia and Herzegovina  |
| OOUR | Osnovna Organizacija Udruzenog Rada (A self-management unit of an enterprise) |
| RO   | Radno Organizacija  |

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## SUMMARY

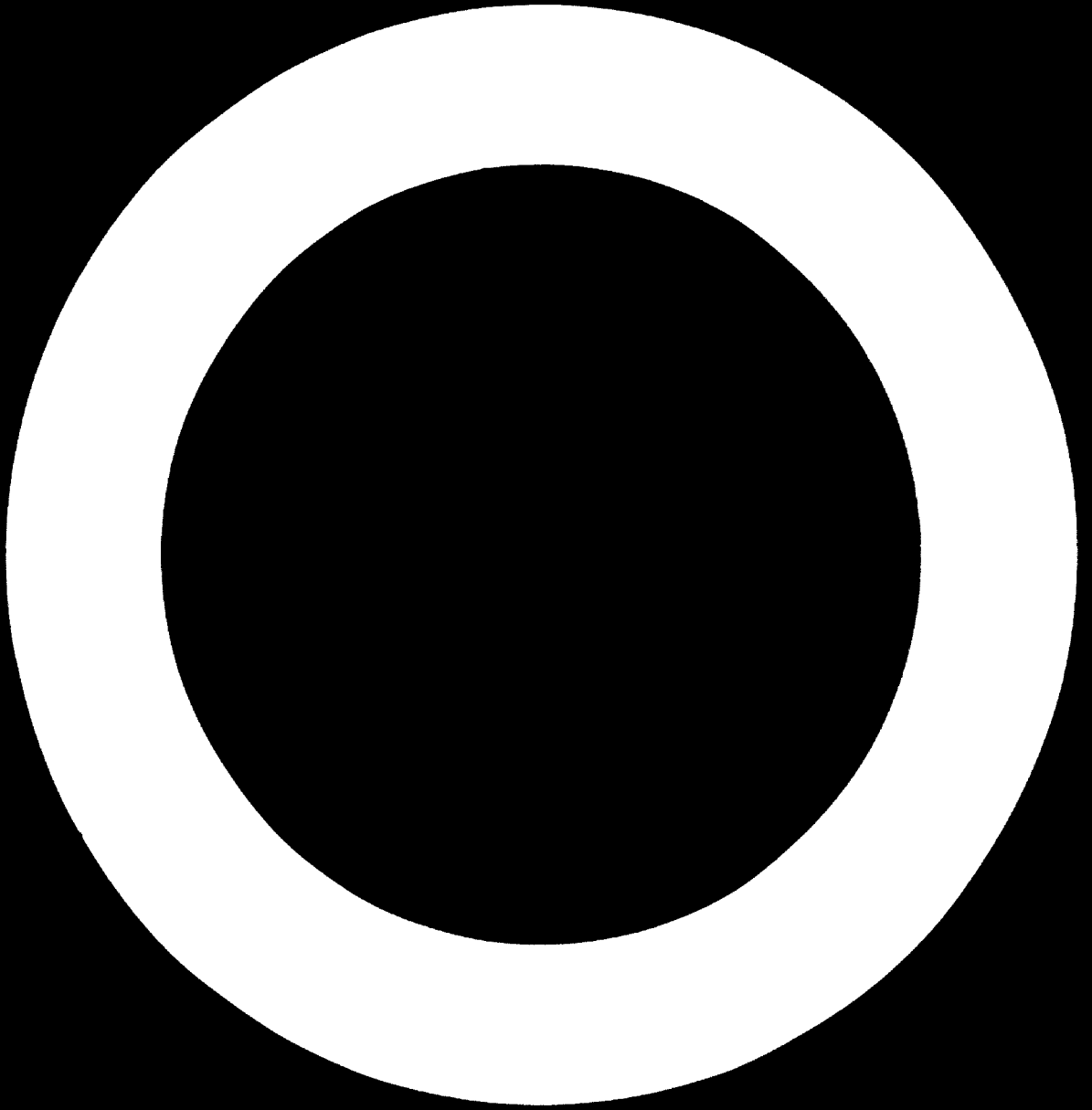
This is the second report by the market research expert assigned to the United Nations Development Programme (UNDP) project for "Assistance to the Furniture and Joinery Industries and Establishment of a Centre in Sarajevo" (DP/YUG/73/006). Basic information is contained in the first report (UNIDO/ITD/330).

The conclusion drawn from examination of the Yugoslav self-management units system in principle and in practice is that in the case of ŠIPAD the integrated wood-working industries corporation in the Republic of Bosnia and Herzegovina, the planning and decision-making processes, although enjoying marked progress, could still be improved. It is therefore only possible to present isolated though mutually compatible proposals for the attainment of an over-all marketing strategy.

The first report outlined the type and structure of a marketing organization which, it was recommended, should be started early in 1976. The current recommendations take into account ŠIPAD's organization; they comprise detailed proposals for product planning, the introduction of new products and product lines, more profitable export and domestic retail furniture sales, as well as methods for decision-making and planning on a realistic foundation fundamental to all other activities.

Two working groups were formed in accordance with the local counterpart's wishes, one for export promotion, the other for participation in commercial fairs. The expert acted as consultant to both. In addition a special programme to develop a Yugoslav retail sales network was established. The papers prepared by the expert for these working groups, with recommendations for future activities in these fields, are included among the annexes to this report. They adhere to the principles of a marketing concept consistent with the Yugoslav self-management units system.

The recommendations deal furthermore with the scope for future assistance in the fields of marketing, market research, commercial services, and furniture products planning, as well as the appropriate approach by experts to the situation where experienced counterpart personnel may not be numerous enough to implement in the necessary depth the economic, particularly trading, recommendations made.



## INTRODUCTION

### Project background

A project to create a centre at Sarajevo, capital of the Republic of Bosnia and Herzegovina (BiH), for development of the furniture and joinery industries was submitted by the Government of Yugoslavia and approved by the United Nations Development Programme (UNDP), with the United Nations Industrial Development Organization (UNIDO) acting as the executing agency. The predominant part of the wood-working industries is however integrated in OIAB, a commercial corporation with service units largely corresponding to those which would be appropriate to such a centre. The plan for a separate centre was therefore abandoned, the Project Document was re-drafted, and the experts assigned to the project now work directly with Šipad personnel.

The expert was in Sarajevo from 11 December 1974 to 10 March 1975. The ensuing report has been published under UNIDO/IED 33. Ideas or proposals put forward there have not been repeated. The present report, which follows on his second visit from 2 October to 16 December 1975, should be considered a direct continuation of the first.

### Work programme

In addition to the duties listed in the Job Description (annex I), assistance was given, at the request of ŠIPAD's Deputy Director-General, in working out a promotion plan to double furniture exports during 1976, expand domestic retail sales, and establish a better preparatory system for participation in trade fairs.

### Visits

The expert visited the Office Equipment Fair at Zagreb as well as the School Equipment and the Furniture Fairs at Belgrade. ŠIPAD takes part in all three. He was accompanied by the organizations's market assistant. At the Furniture Fair an all-round survey was carried out to test consumers' purchasing intentions and awareness of domestic furniture suppliers. The survey was based on a questionnaire drawn up by the expert. The results are not included in this report.

Visits were also paid in connexion with projects for new furniture design to the Varda, Una, and 4 Novembar factories at respectively Visegrad, Bosanska Krupa, and Bihać, to the Janj factory for prefabricated housing at Donji Vakuf, and to the Konjic factory at Konjic which will be concerned with introduction of the national motif furniture. Discussions with representatives of these factories covered all aspects of marketing inclusive of information policy, trade intelligence, and sales systems for domestic and export markets.

#### Collaboration

The expert, after study of the reports by the furniture design and documentation experts, followed up their conclusions as well as circumstances permitted. He also worked closely with the expert in the design of prefabricated wooden houses. He does not think that his findings and recommendations in any way modify those of the other experts.

#### Working groups, seminars, discussions

Working groups on export promotion and fairs participation were formed within ŠIPAD. The expert acted as consultant. Two seminars were held on the collection and use of market information in foreign trade and design and one on bigger retail furniture turnover (annexes IV-VI). The seminars were directed to the rank-and-file of the marketing department. A number of discussions took place with ŠIPAD staff members and observation for one day each of two export sections at work. The expert tried to establish direct contact with every individual relevant to the fulfilment of his tasks, although in this he was only partly successful.

#### Marketing acceptability

Marketing, as a practical notion, is not as yet understood in Yugoslavia because of the country's deeply rooted system of production-based selling. This finds additional encouragement in the manufacturing-oriented outlook. The expert tried to attain full knowledge of the unique economic system, and he has refrained from including recommendations which could not be implemented under the terms of ŠIPAD'S internal organization.

Terminology

The terms "profit" and "profitability" are to be understood in the sense of the Yugoslav self-management system's expression for income, lphodak. The latter represents net income out of which salaries, wages, social benefits (like flats for workers), and capital depreciation are paid and other funds are created. In the Yugoslav system no expression for "profit" in the capitalist sense exists.

## I. FINDINGS

The marketing concept, in any and all geographicality, is very difficult to introduce into an organization like ŠIPAD where the whole staff concentrates on the immediate task at hand and decision-making, operational activity, as well as commercial responsibility are kept apart and lack sufficiently sophisticated information systems. Thus, the expert may have based some findings on too restricted, and perhaps inadequately checked, knowledge. General principles were verified, however, and discussed with directors of the sections concerned.

The previous report noted that lack of proper objectives for the marketing department of the Centre for Development of the Furniture and Joinery Industries, set up at Sarajevo in September 1974 with UNDP/UNIDO assistance, made it difficult to form any real programme on its behalf. The situation deteriorated further after the new Project Document had been drafted because the tasks appropriate to market research services were assigned to Osnovna Organizacija Udruženog Rada (OOUR) Prometa, ŠIPAD's trading organization. (OOUR is the acronym for a self-management unit of an enterprise.) Under the new ŠIPAD constitution the OOUR will be divided into a number of units with different responsibilities and marketing areas, though still all serving the same factories. No organizational or staff decisions had been taken, however, by the date of the expert's departure. The main counterpart was too senior and had too many other duties to discuss day-to-day problems. The single market research officer assigned to him was moreover not always available and in any case mainly interested in his new position in ŠIPAD which would have nothing to do with market research.

The expert worked directly and fully with ŠIPAD. The project's national director was opposed to his working more directly with the factories, or production OOURs, which are ŠIPAD's most important constituents, even when this was requested by them and evidence of their satisfaction at such direct contact was forthcoming. The expert's primary recommendation in his first report had been that the project and its details should be made clear to the factories which would, in accordance with the law on self-management units, provide the lead for initiatives to be introduced by the project. This was nevertheless not done nor were the report's other recommendations implemented. Even market research schemes agreed upon were not performed, rendering further planning on the basis of their results impossible.

The following analysis of local conditions combined with the application of marketing principles forms the postulate for this report's recommendations.

### Organization

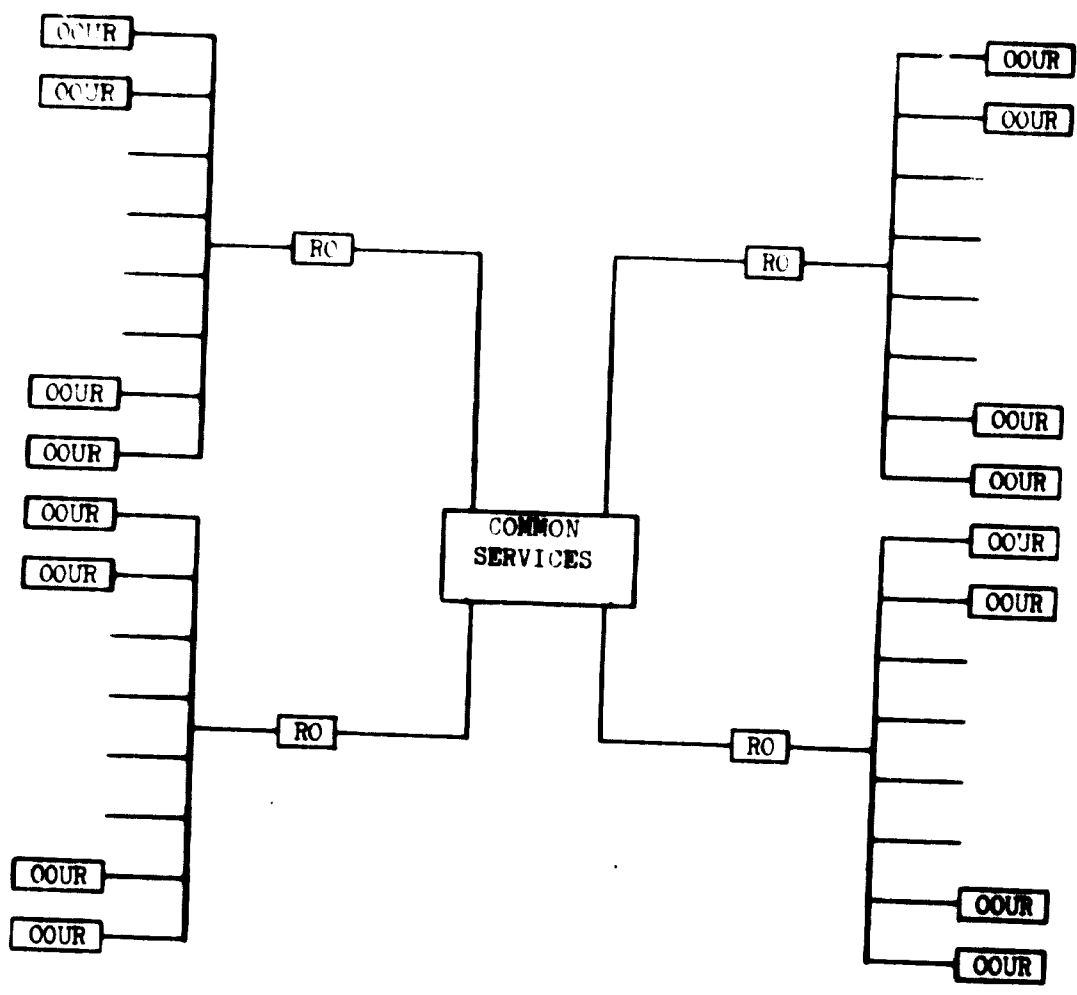
The Yugoslav self-management system is relatively young and has been changed only recently (1974), so that the practical effects on a commercial enterprise like ŠIPAD are not yet fully clear. A new organization for ŠIPAD was accepted in principle in October 1975, but the definitive functional results were at the time only vaguely known. Even when the final form of organization was more or less known, the allocation of personnel and other concrete decisions were still unknown.

ŠIPAD consists of a large number of self-managed factories grouped together geographically into 14 units called Radna Organizacija (RO). Some common services for the factories and for the ROs are incorporated in two ROs, one for research and development (IRC), another for trade (ŠIPAD-Komerc). The new Project Document foresees that members of these two service ROs shall form the nucleus of the Association of Interests, later to be established as a Centre for Development of the Furniture and Joinery Industries, and that any interested factories may join. If however no factory outside ŠIPAD does join, the Association may become just another part of ŠIPAD and duplicate the existing system. (See figure I.)

As far as marketing is concerned, the factories should be linked to the five self-management trading units inside RO ŠIPAD Komerc: the foreign trade, domestic trade, contract business (OOUR Engineering), timber trading (OOUR Lukadrvo), and product planning and promotion (OOUR Design Centre) units. (See figure II.)

### Control and information

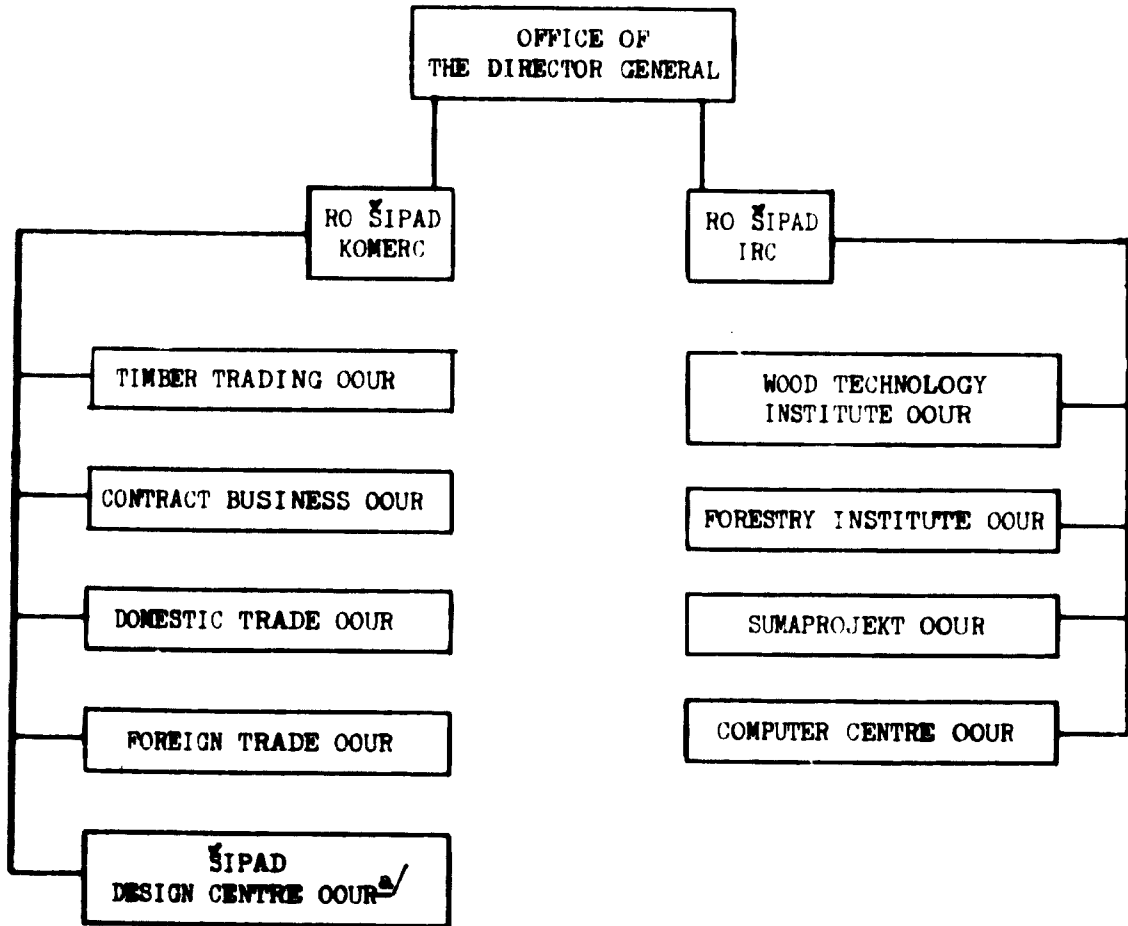
Control over situation and results is based on information, i.e., information is a subsidiary function of control. In the Yugoslav self-management system ultimate control lies with the workers, members of the manufacturing OOURs. The question is what kind of information they should receive, in what form, and by what means. If reporting is based only on retrospective data, as to how a plan was fulfilled, they will not be able to decide on future activities.



Notes The OOURs are grouped into 14 ROs.

Figure I. Schematic description of the SIPAD organisation





<sup>a/</sup> The ŠIPAD Design Centre is presently operating as a branch of the foreign trade OOUR. It is planned to upgrade its status to that of an independent OOUR within RO ŠIPAD Komerc.

Figure II. ŠIPAD<sup>a</sup> common services

If highly detailed commercial and financial forecasts are furnished, decision-making will be hampered because of the risk that secrets will be leaked.

Despite competition in the home market, it may be an market-orientated business, but it certainly exists.

At operational and managerial levels information must help decision-making. First, often information can be irrelevant to needs or contains too much factual data and too little meaningful content. Internal information should not be simply a spate of announcements, but a reliable method of communication whereby data can be exchanged internally and the consequent decisions should try to maximize the over-all results, not just to satisfy the stated targets, of an organization like ŠIPAD. Control of losses due to business not concluded could be improved and less waste could be made of material.

#### Information and decision-making

There is an immense need for marketing information not only for ŠIPAD's furniture and joinery business, but also for its over-all activities in order that the various sectors shall develop harmoniously. As ŠIPAD should be able more and more to offer its own solutions to the market, the information system should be so arranged that market information can have an impact on decision-making. It is however absolutely impossible to define the scope of information without having cleared up the decision-making process first.

Decision-making is based on information, intuition, theory and analysis. Information also demarcates the limits of decision-making, internally and externally. Analysis of a situation is based on experience and theory. It appeared to the expert during his stay that in some instances decision-making was passed "up" and dictated "down" without either the information or the means to implement the decision being available. For instance, the export divisions of ŠIPAD are "responsible" for exports to certain areas, although they cannot make the decisions necessary to fulfil this responsibility. The retail outlets have no influence over ŠIPAD advertising, and investment and production plans are based on forecasts that are not systematic enough.

The decision-making process is the most crucial question ŠIPAD has to face. In business there are no "tomorrow" problems; and today's problems are yesterday's unused chances. It is typical that although in his first preliminary report of

30 December 1974 the expert pointed out the need of additional capital for furniture sales in the domestic market, solving this problem only stirred the interest of the Šipad management 10 months later. This was the reason for his recommendation (UNIDO/ITD/330, pp. 17-18) of other ways to improve retail turnover. None of these suggestions have yet been implemented.

#### Management theories and decision-making

Making decisions is based on information, intuition, and theory; these are the fundamentals for analysis. Inside ŠIPAD, which should be able with its huge production capacity to compete on domestic and foreign markets, management theories are not used for solving problems. Symptomatically that the plan for opening new domestic retail outlets is based on the assumption that such outlets should be opened where competitors already have shops and that increase of the total sales area will arithmetically increase sales too. There is no mathematical basis for this assumption. The whole problem should be primarily solved by operation research. With 28 factories and a certain area to be served, the main problems are those of transport and intermediate stockpiling. This leads to a basic mathematical formula which OR specialists at Sarajevo University could solve.

The expert's particular speciality, market research, is badly neglected inside ŠIPAD, apparently because there are no ways or individuals who could make any use of it. However, as pointed out in the previous report (UNIDO/ITD/330, pp. 42-43), an enterprise of ŠIPAD's size cannot operate on an ad hoc basis, but must depend on long-range planning and forecasting. There is a specific planning department inside ŠIPAD, but, as far as this expert understood its work, it is based on rough economic growth-by-percentage ideals and the Utopian desire for working to full capacity, even though this does not correlate with education and training, office-space needed, or other non-production factors. There should be a totally different attitude towards forecasting. The existent one is not due to lack of facilities or personnel. It appears to be simply part of ŠIPAD's tradition as a purely timber-selling organization. Inside ŠIPAD there exist two research institutes for forestry and wood technology. Yet their services, internationally recognized and used by outsiders, are not employed by ŠIPAD or its integrated factories.

Another area of unused or misapplied capabilities is that of production planning. The result is that the new ŠIPAD factories are huge production units

which are supposed to turn out vast successions of possibly only a few items.  
And, however they should be making furniture, the idea of their producing a million  
chairs or a hundred thousand specimens of a single chair does not sound realistic.  
Such investment research is not based on any commercial idea or research.

## II. RECOMMENDATIONS

### Co-operation with factories

The appointment of a new national director for the project presents the opportunity for a change of attitude towards the factories. These should be kept clearly and continuously informed about what the project can do to help them. The documentation services should be started immediately with the staff and facilities already on hand, the ŠIPAD house journal being used for this purpose. The factories too should be encouraged to present their views and wishes in regard to the project. It is the factories who pay the national contribution towards it and they should be in a position to control and guide its work.

The Project Document envisages an assembly and an executive committee for the Association of Interests. These should be formed and convened as soon as possible so that they can assume their responsibilities.

### Achievement of the project's marketing objectives

The objective stated in the Project Document is to develop a planned marketing approach for the industry, to form a market research service inside the trading OOUR (now to be divided into five separate OOURs) of ŠIPAD, as well as to carry out research and tests for forecasting and situation analyses (in the first place on distribution) and to inform the factories accordingly. It cannot be performed by a ŠIPAD-based unit if the project's general objectives are to serve all BiH and Yugoslav industry because decisions taken by ŠIPAD staff will not be accepted by outsiders. The only way to do this within the project framework is to use outside consultants, e.g., UNDP/UNIDO experts, to help the industry and ŠIPAD trading OOURs to solve their specific problems. Such experts should be enabled to co-operate with the design and production experts in the field, so that team-work by UNDP/UNIDO experts, together with counterpart experts inside or outside ŠIPAD, can achieve lasting results.

### Market research

The needs for market research for general and internal ŠIPAD use must be discussed with the respective trading units of ŠIPAD and the project experts. General research studies may well be justified by the need to learn more about

... and European furniture capacity which, it is thought, will be noticeably in demand even after the end of the present recession. What do not exist are either Yugoslav forecasts for future domestic demand or to what extent this demand can and will be satisfied by domestic production. There are also unidentified market sectors, as in the case of furniture and army and hospital equipment, which could be supplied by ŠIPAD's existing resources. ŠIPAD sells interiors for hotels and restaurants, but it lacks the corresponding specialized production. Proper numerical data should be produced and presented to the factories so that they can adjust their capacity to a long-term basis. Other areas for research were proposed in the expert's earlier report (UNIDO/ITD/300 p. 10).

#### Design Centre

Proper product planning inside the OOUR Design Centre, i.e., introducing original ideas for commercial production, is one of the basic things needed to promote better commercial results for furniture production. This cannot be achieved by increasing staff. The more professionals employed by the Centre, the more difficult, even impossible, would its creative task become. Among a big group of professional designers any original, i.e., individual, idea is killed or forced to be born outside the collective. The Design Centre should therefore have two functions. First, the routine delivery of blueprints with instructions and of product development. Secondly, a small but extremely skilled team of designers should work with the designers in the factories and co-ordinate the factory-based designs with other plans and existing products so as to achieve a market-orientated ŠIPAD product mix and create an over-all ŠIPAD product image based on the individual factory product images. In this respect the services of the expert for graphic design foreseen by the Project Document should be used.

A steady flow of relevant market information should pass from the trading units and factories to the Design Centre. The latter should organize the proper sifting and distribution inside Sipad of such information.

The Design Centre should, together with the ŠIPAD trading units, have a standing exhibition of new products so as to receive direct market reactions and to influence customers in the direction of better interior design (annex V).

To achieve good results, particularly when the Design Centre is reorganized as an OOUR and most especially if (contrary to the expert's view as expressed in UNIDO/ITD/330, p. 18) responsibility for commercial information and fairs participation continues as part of the working programme, the Centre should be in charge of an administrator or businessman. The principal designer's talents should be put into proper focus by his appointment as the Centre's art director.

#### New products and product lines

Other experts have recommended the inclusion of national motif furniture in current production, the Project Document agrees, and the Expert also believes that the idea is basically sound. A proposal for a particular factory to be devoted to this purpose is examined in annex VII. It should however be carefully noted that such an entry into the market involves a serious risk and success depends on specially qualified workers and giving time to the project. Production should therefore be started cautiously and on a small scale.

No market research has been done on new designs, as proposed in the report by the expert in furniture design (Assistance in Furniture Design, DP/ID/SER.A/3, p. 18) except in the case of the office furniture display by OOUR 4 November at the Belgrade Furniture Fair. It would be advisable to study the market for restaurant furniture, taking a complete collection of OOUR Una products. OOUR Inzenjering (contract business) should be able to give its views on complementing the Una series with other articles needed for a deal. Products by OOUR Varda should not be difficult to sell in Yugoslavia and abroad. What is needed in its new (and too big) factory is a more realistic approach for the production of a smaller series of any single product.

It is currently not possible to work out any realistic, systematic plan for introducing new products into ŠIPAD's furniture range. The production OOURs are all working on their own lines and do not collaborate enough with other ŠIPAD factories. They are very suspicious of the central trading unit which at present is in the process of dividing into four separate trading units plus one product planning unit. Consequently the conditions for establishment of an informational network for over-all co-operation do not exist just now. The expert has worked out two marketing plans, one for national motif furniture (annex VII), the other for glue-laminated timber (annex VIII), a new factory proposed by the expert in design of wooden houses. The characteristic common to both these plans is the slow start entailed because the products will be largely unfamiliar to their potential consumers.

There has been no thought to work out any plan for introducing an item on a big scale and simultaneously on different markets. In prevailing circumstances the attitude of ŠIPAD is to produce only products for ready-customer purposes. Independent product-planning is non-existent, and before developing any such plan the expert would need to be assured of the distribution channels' absorption capacities and to have more confidence in the co-operation of Šipad's own retail stores.

In addition to glue-laminated timber production there has been discussion about outer doors, another prefabricated house series, stairs, steps, and toy manufactures to be started inside ŠIPAD in the near future. All these plans should be checked against market potentiality. The expert fears that such studies cannot be made by anybody on ŠIPAD's existing staff and that even the new, projected marketing service unit will not be able to do them. It will mainly fall as an additional duty on UNIDO experts in the field to take marketing considerations into their assessment of these proposals.

#### Furniture exports

The expert had as counterparts a group of export specialists, each responsible for a particular geographic area, who should have made a promotion plan for 1976 furniture exports with the aim of doubling turnover. The expert introduced them to a simple form of grid-planning which covered the countries in question and which listed some basic factors like population, imports, furniture imports, furniture imports from Yugoslavia, ŠIPAD furniture exports, ŠIPAD distribution and promotion systems etc. The plans were not however finalized during the expert's stay. It would seem that, instead of extending its very limited financial means and endeavours to all markets, ŠIPAD should select just a few, potentially interesting areas and evolve short- and long-term plans for them. Export sections should be better staffed in order to allow individuals to concentrate more on specific aspects of their work. They should, along with their responsibilities, be given proper opportunity to achieve results. Currently they have only responsibility, but no decision-making or other authority.

The Western European furniture exports section should, because of style demands, be divided into two markets: (a) Austria, Benelux, Federal Republic of Germany, Scandinavia, and Switzerland; (b) France, Italy, Portugal, Spain, United Kingdom and others. Each section should have a head responsible for contacts abroad



and a deputy for contacts with factories. They should be responsible for the planning and organization of sales in their territory and, for example, be free to travel whenever their duties require. The sections should moreover encourage, even at the cost of free travel, their foreign customers to visit Sarajevo. This is done by other Yugoslav companies. Any bureaucratic hindrance to such promotional activities must therefore be within ŠIPAD and should be eliminated. A show-room with new products must be available for such visits because travel to factories in BiH is too difficult and time-consuming (see recommendation for Design Centre).

A market study should be carried out in the most important European export countries, the Federal Republic of Germany, Holland, Sweden, and the United Kingdom, as well as in the United States to find ways and opportunities to introduce ŠIPAD models and to ensure continuing business relations. With its present methods ŠIPAD has to change production and customers at least every second year.

On all export markets, but especially in the United States, serious consideration should be given to the possibilities for making ŠIPAD's name known among consumers. At the present stage ŠIPAD furniture is sold anonymously and no promotional activity can be directed towards increase of sales.

The assembly plant planned for erection on the German-Austrian border should be started.

The sales organization planned for Italy should undertake a study on the feasibility of furniture transport via Ploče/Dubrovnik to an Italian harbour and outlets in the southern third of the country. The Italian organization should also serve as an outpost for detecting trends as regards the use of wood for furniture and other household goods. A close liaison between the Design Centre at Sarajevo and the sales organization in Italy would be desirable.

The commitments in African markets should be carefully reconsidered in the light of their own growing furniture production. No medium or long-term production should be planned for these markets.

In the Near and Middle East better product planning, adapted to local conditions, is required. Before investing money in an office there, a feasibility study, based on ŠIPAD's own production possibilities and priorities should be carried out.

A comprehensive calculation should be performed immediately to find out whether and to what extent exports of furniture, especially to distant markets like the United States, are over-all profitable to ŠIPAD. There should also be available reliable statistics, showing how far ŠIPAD's own distribution channels abroad are better than free distributors and agencies. Another necessary and clear calculation, in which each foreign industrial fair participation can be based, is to show whether and to what extent such participations are economically justified.

#### Domestic retail sales

A physical obstacle to selling more furniture on the home market is that ŠIPAD-owned retail outlets seem to be filled with unsaleable (unfashionable, defective etc.) pieces of furniture. These items should be immediately cleared out. A large-scale sale with striking discounts should be arranged. As this needs authorization from the workers' council, it should be sought at once.

The workers' council should authorize the domestic trading unit to reduce the sales price of any item which has been in a shop for more than 12 months. The discount should come out of the trading unit's profits. Any item unsold for more than 24 months should either be sold at an additional discount to come out of the respective factory's profits or the factory must accept the return of such an item at the original invoice value. Decisions on the time and size of discount sales should be reached between shop managers and area managers. For this reason each shop should have to report to area managers every half-year about all stocks on hand that are 6, 12, 18, or 24 months old. The workers' council should be informed annually how much trade was done under these fresh conditions, what were the average losses, and what factories were affected. These should undergo closer scrutiny as to their product planning, quality control, and packaging/transport.

Existing outlets should be carefully evaluated in respect of their profit, sales per area, and sales per head of staff. Uneconomic outlets with no growth prospects should be closed, although only after careful study of other possibilities such as changing them into speciality shops (i.e., not selling a complete ŠIPAD assortment).

There are many other ways of improving a shop's sales and profitability. The proposals here were discussed with some 25 retail outlet managers on the

basis of the expert's memorandum on bigger turnovers (annex 11). The participants suggested other ways, too, and a memorandum will be prepared by the chairman of the meeting. The discussion strengthened the expert's opinion that ŠIPAD could increase its retail turnover and profitability without great financial investments by just making full use of the existing potentialities.

During the planning of new outlets the following factors should be taken into consideration:

(a) The towns in which the five central warehouses will be located have already been selected. It may be assumed that these warehouses could at the start be supplied with a complete selection from all ŠIPAD factories. The outlets are however much too small for such a variety of merchandise. The aim should be to find out which ŠIPAD line sells in what part of Yugoslavia. If factory representatives do not agree, the argument could be backed with numerical data of market research and statistics. Therefore from the very beginning, factory statistics will have to be compiled at each central warehouse;

(b) Besides each outlet's focusing on a selection of goods that turn over most quickly every outlet should try to push new products;

(c) These are decisions to be made at a higher, co-ordinating level. "Pushing" new items will call for considerably more training of retail staffs, something for which they are themselves already asking. The decision to open a new outlet should be followed by one to train staff so that such shall be available when, not after, a shop is opened;

(d) The size of a large retail outlet must not fall below 4,000 m<sup>2</sup> net sales area if all ŠIPAD furniture is to be on view. If such an outlet is also to carry its own stocks, the over-all area should be at least 8,000 m<sup>2</sup>. During the planning of such large shops it should also be borne in mind that Yugoslavia has a relatively high passenger-car density which is still rapidly increasing. It will not take many years before consumers will be willing to buy furniture in large, out-of-city stores where prices will be lower and customers could take possession of the merchandise themselves, thus saving still more costs. ŠIPAD should therefore keep an eye on such sites now.

The expert during his previous assignment presented a plan for opening new shops. Such plans should be taken seriously because they aim at shortening the initial stage in a new shop when sales are too low to meet overheads. The more rapidly sales grow, the sooner profits can be anticipated.

#### Fairs participation

A "check-list" for fairs participation has been presented to the Design Centre. The expert has also tried to familiarize responsible people with ideas of time planning and net planning which are essential tools for work where a number of tasks must be completed by a fixed, non-negotiable date. There have also been discussions about team-work. This is essential for any major fairs participation.

For such participation, the commercial, design, construction, and promotional team should be formed well in advance. The one attempt made at such a team during the expert's stay was a failure, inasmuch as its members were not able to produce any ideas in advance for discussion by other members. The main reason for failure was however the lack of co-operation by the factories. Because they neither understood the importance of early information as to what they would like to present nor were able to collaborate among themselves, meaningful ŠIPAD participation could not be arranged. The result was simultaneous participation by the various factories, not a single, coherent presentation. The factories should be made aware of the better commercial results that they would achieve through such a joint manifestation and that would make it easier for the buyer to familiarize himself with the various offers. The factories must learn to work together.

#### Decision-making and planning

Decision-making is ŠIPAD's real Achilles heel. The level for decisions is much too high, i.e., all really meaningful decisions become jammed at the top level, the workers' council and the office of the Director General. The information system should be improved along with the decision-making process. Until it is, the expert cannot suggest any meaningful marketing information system.

The Planning Department of ŠIPAD should carry out, and make use of, realistic forecasting methods, supplying the factories with the relevant information before they make their plans. Production plans too should be based on production units. Units like groups of furniture or the square metre measurements of houses are commercial units, but they are now used for factories as well. Factory units are like man-hour, machine-hour, or value-of-output units. In planning furniture factories it should be noted that furniture production should be capable of being divided into several smaller production groups. They should not suggest saw-mills, as the case is today: input through one door, homogeneous output through another. The marketing of such production capacity is much too complicated and requires far more sophisticated market knowledge as well as a considerably higher level of product planning.

When production capacity is large and rigid, its marketing needs products which can be sold in great quantities and over a long period. In furniture this would mean that no new, unproven models could be introduced. Therefore ŠIPAD factories should allocate a part of their capacity to smaller series ("O - series") to be tested in actual market conditions before accepting a firm order from a buyer.

Future UNIDO assistance

In the field of marketing management in general the expert feels that further assistance should not be extended in the near future. The recently appointed directors should and must be able to solve ŠIPAD's organizational problems by themselves. Readiness to accept a more active marketing concept exists and enough competent people are available (also at Sarajevo University) to solve all the detailed problems which will arise.

In the field of market research some proposals have been made and it is only for these purposes that outside expertise may be needed, provided that there is first a definite decision to do such research.

In the field of exports UNIDO expertise should be used by engaging the services of two market research experts to study the German, Dutch, British and United States markets in respect of the proposal that ŠIPAD should increasingly try to sell its own models. The two experts should work with a ŠIPAD staff member detached under the project's fellowship programme. Their duty stations would be the major consuming centres in these markets. They would spend only two weeks in Sarajevo for discussions and exchanges of views.

A retail sales expert should during 2-3 months arrange training courses on selling methodology, advertising, and display, for ŠIPAD retail staffs.

In 1977, after completion of the organizational changes, an expert in marketing information could be employed for 2 months. There should be an expert to work out proper commercial feasibility studies and implementation plans for the new production lines like joinery, wooden houses, house components (outer doors, steps), and other items.

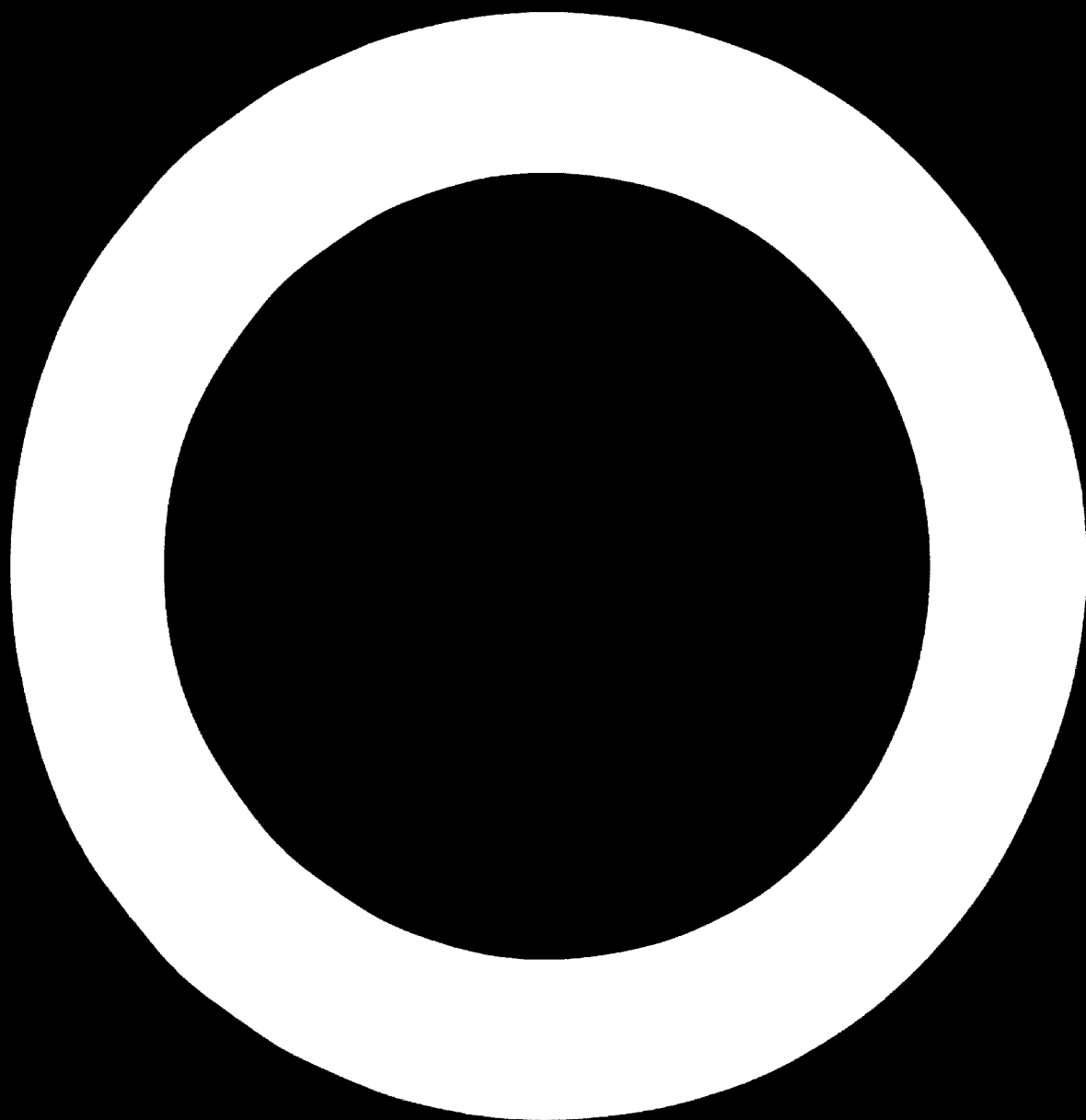
To complete the work done by the project in this field, a marketing expert should be employed for 3 months to co-ordinate all experts' proposals and to establish what is still required from the moment when the Centre for Development of Furniture and Joinery Industries will be actually operating. This expert should be an economist and have previous knowledge of the Yugoslav social-economic system or be given time to acquire this knowledge. (A 2 or 3 months' assignment would be sufficient.)

The experts for project planning should:

- (a) Give immediate help to the Design Centre to enable it to prepare a production plan for the Kengok factory (capacity = 1 million tables annually) and assist the staff with other projects which have already been started;
- (b) Meet the urgent need for specialists in the design of school and production furniture and in the design of upholstered furniture;
- (c) Include the proposed graphic designer who should also immediately co-ordinate work between the production and sales. He should work out in detail a corporate identity programme on the basis of work already done by the Design Centre. For this job the director of the Design Centre could be the only possible counterpart even if the expert should work directly with the commercial units and factories.

A proposed time-schedule for the suggested assistance to be provided by UNID is given in the following table.







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Annex I

JOB DESCRIPTION

Centre of Furniture and Joinery Industry Development, Sarajevo  
(DP YUG/73/006/11-03/3)

POST TITLE	Market Research Expert (Furniture and Joinery)
DURATION	Three months, with possibility of extension to one year
DATE REQUIRED	November 1974
DUTY STATION	Sarajevo
PURPOSE OF PROJECT	To create a centre for the development of the furniture and joinery industries at Sarajevo. This centre will cater for these industrial sectors of the Republic of Bosnia and Herzegovina in particular.
DUTIES	<p>The expert will be attached to the centre, which is being created with UNDP/UNIDO assistance. He will be responsible to the centre's Director, and will, in collaboration with the centre's Yugoslav staff, plan and start the activities of the centre's marketing department, and also act as project co-ordinator for the other UNDP/UNIDO experts assigned to the project during his assignment in the field. Specifically, the expert will be expected:</p> <ol style="list-style-type: none"><li>(a) To review the market research work and marketing studies already prepared by ŠIPAB, and their long-range development plans;</li><li>(b) To propose a long-term work plan for the centre's marketing department;</li><li>(c) To establish procedures and carry out market research studies for both the domestic and foreign markets;</li><li>(d) To organize and conduct seminars on marketing for personnel from the factories and retail outlets in Yugoslavia;</li><li>(e) To recommend all future technical assistance to be provided to the centre in the field of marketing;</li><li>(f) To co-ordinate and supervise the work of the other UNDP/UNIDO experts in the field; and correspond with UNIDO headquarters on all matters related to the project.</li></ol>
QUALIFICATIONS	Economist or marketing specialist with considerable experience in market research for consumer products in market economies. Experience in the marketing of furniture desirable.
LANGUAGE	English preferred, French acceptable; German an asset.



Annex II

PROJECT PERSONNEL

INIDO Consultant

Entry on duty

Raimo Routan, market research expert

11 December 1967

Counterpart Personnel

Vuk Stijica, national project director

September 1967

Atif Rivkavich, market research assistant

February 1967

Mladen Pjaca, Deputy Director-General, ŠIPAD  
(marketing)

June 1967

Kasim Sarajlija, Director, ŠIPAD (furniture trade)

Danilo Ekimovic, ŠIPAD (retail and domestic wholesale  
furniture)

Zdenko Praskac, Director, ŠIPAD (design and promotion)

Meetings were also held with persons dealing with planning, retail and institutional sales of furniture, and the construction industry as well as designers and representatives of factories.

Annex III

SEMINARS HELD BETWEEN 2 OCTOBER AND 16 DECEMBER 1975

14 November 1975: Collection and use of market information in external trade. The paper read by the expert is reproduced in annex IV. The heads of four geographic export divisions and their assistants attended.

27 November 1975: Collection and use of market information for design. The paper read by the expert is reproduced in annex V. Six furniture designers attended.

2 December 1975: Opportunities for a bigger turnover in a ŠIPAD furniture store. The paper read by the expert is reproduced in annex VI. About 25 managers of furniture retail outlets attended. Minutes of the discussions were prepared by Mr. Ećimovic.

Three- to four-hour meetings on export promotion were held with the heads of area export sections. The planning grid-system was discussed.

Annex IV

COLLECTION AND USE OF MARKET INFORMATION IN EXTERNAL TRADE

(This paper was drafted as a basis for the preparation of a detailed proposal for a market information system inside SUDAD. A discussion on this topic was held on 14 November 1975.)

Introduction

In many ways trading with foreign countries is more difficult than doing business at home. Long distances, different languages, tastes and habits - all such things are but a part of the difficulty. Another concerns ourselves. Is our cost analysis exact enough to give us the data necessary to fix an export price? Can we manufacture articles to appeal to the foreign end-user? Do we possess the capacity to compete successfully abroad? One facet of our capacity is the way we try to learn more about the foreign market and to put the knowledge to our own use.

The technical word for this process is to make the market "transparent", enabling us to see what is happening there and why and to forecast its future shape, whether with or without our participation. Speaking of such a normal consumer article as furniture, we must never forget that practically no one would miss our entry in the market, that every consumer want can be met even without us; on the contrary there are numerous people who would very much like us to stay away. Transparency of the market affords us the opportunity to predict with scientific accuracy what our chances will be and help us to decide whether to enter at all and, if yes, how we must proceed.

Types of information

We can divide foreign market information into three categories, basic, temporary, and surprise. Basic information is used for our day-to-day work, and we hardly even notice that it is information. Temporary information comes every once in a while, as when a purchaser wants us to offer him something. Surprise information is different because it comprises new or swiftly passing opportunities for quick decision-makers. I make this division into three categories on the basis of availability. Basic information is generally known and used by most of our competitors; the second category is available only to a limited number of producers (and we should know to whom); in the

There are some well-known information which we have not used to were not by our own (e.g. finding new market potentialities), but which can also be found and used by others. It is information which will suddenly appear and which we cannot manufacture we can react to it quickly (e.g. news about the formation of a new department store, i.e. a potential customer to whom we can sell interiors, leading to our abandoning an old customer, although before this is done it is necessary to know the financial position of the new client).

### Basic information

In basic information we have general knowledge of the market obtained through our personal contacts (like visits and representatives' reports), statistics, the published reports of our competitors, and customers. In this category we also have the majority of misinformation in the shape of misunderstandings and unverified assumptions which can lead us astray. We should therefore constantly check and re-check this basic knowledge. A typical case is contact with a representative. Having once accepted him, we are tempted to believe that all will remain well and to forget to make routine annual checks on his financial and competitive position. We should also doubt the hundred per cent accuracy of representatives' market reports because they most probably pre-screen the information, even if only for the fully acceptable reason of not bothering us with too many details and also so that their own course will look justified.

### Market surveys

Every now and again, especially when opening new markets, we should make use of a market survey in which all the basic details are presented, especially those which differ from our previous experience. Different distribution channels, pricing systems, promotion methods, as well as the state of competition should be noted, even if we propose to operate on a small scale, and certainly when we aim at larger and continuing business deals. A complete market survey should include:

- (a) Definition of the market (area, personalities etc.);
- (b) Government regulations on imports from our country;
- (c) Other institutional factors;
- (d) Competition, including import statistics;

- (e) Competition methods;
- (f) Demand, including forecasts and possible trends;
- (g) Distribution methods;
- (h) Promotion methods;
- (i) Pricing, with clear definition of mark-up; and
- (j) Possible recommendations.

Such surveys are generally available for every country. The best sources of information there are our business associates and diplomatic or commercial representatives abroad. In Scandinavia furniture exporters have more or less pooled their resources so that such basic studies on numerous countries are available, reducing the price of each to about Din 300 to Din 1,500. In some developed countries certain business magazines, as well as banks and forwarding agents, publish such reports.

One word of warning. Market surveys tell us only what other people thought some time, usually two to three years ago, on the subject of competition and goods in the market. Furthermore the knowledge is general. If, for example, our report shows that all shops are full of a certain product, it does not mean that this demand excludes any other, but that last year shopkeepers thought that this was what they could sell today. Most probably the manufacturers and shopkeepers are now busy identifying, designing, and producing new products for tomorrow. If the survey shows that all shops are selling particular products, it also tells us that in the near future their prices will fall when new producers come forward and new production methods have been developed.

If we are to carry out our own market survey, we should begin by looking for the real reason for performing such a task. Is it only for general use, like a preliminary study leading to a more sophisticated one later? Do our planners have in mind the construction of a new factory, or enlarging the production capacity of an old one? Are they looking for new markets for an existing product or searching for quick and new opportunities to dispose of articles already produced and in stock? Having the answers to these questions, we may come to the conclusion that no market survey is needed in the broad sense described previously, but that the solution may be found by merely asking somebody the right question or questions. Such "somebodies" are more common than one would think: a business friend, a government agency, a United Nations' organization

Like UNIDO, or the UNCTAD/GATT International Trade Centre in Geneva, etc. The most expensive case is where we must ask the consumers, that is, we have to conduct a consumer survey.

A market survey consists of two stages, preliminary desk research, with possibly field research, and the work of putting the facts into presentable form. The latter is the more difficult and cannot be done by just anybody. Commercial research should be viewed and executed as a creative job, with that of an engineer or designer. It falls naturally into two parts, with some people collecting and preparing the data and others studying it. This entails very close collaboration between the two groups in planning the job. The researcher should superintend the course of the work for the time of its duration so that the data revealed can immediately result in either further investigation into certain phenomena or the abandonment of previous plans.

At any rate, whenever a market survey is started and the justification for it has been established, a sound plan should be made together with a list of the obstacles to our reaching a decision without the survey for which a solution is sought. After that the market should be defined. Never forget that the market is a group of people, not a geographical area. Then answer this question: Are we looking at the situation at the present time or do we need to have a picture of the market at a later stage? In this case, how much later? The future will be different, depending on our own plans. Our decisions can change its shape.

#### Producing new data

The most searching questions cannot be answered by possessing a collection of existing data because the statistics will be old and too general for our purposes. The rest of the information may be similarly unsuitable for precise decisions. Fresh data must be compiled. When the need is to find out where and what should be sold, and under what conditions, the simplest way is to ask the buyers to supply this information. If there are only a few buyers, like when we sell pulp, they can be questioned relatively easily. If however we want to know the future buying intentions of the general public, as when we wish to sell it certain types of furniture but without knowing its taste in upholstery, asking becomes more complicated. Not because there are so many



people we should talk to: that is something we can solve with time and money. The complications arise when we see that people do not know themselves what they would like to buy. Confronted with a new, unexpected question, people tend either to stick to the familiar or to try and give an answer which shows them as being cleverer and more up-to-date than in reality. That is why questions, when carrying out a larger-scale investigation among consumers, must be carefully prepared and thought out. They must be capable of being understood in only one way and they must always be asked in the same way, even when there is more than one interrogator. The selection of persons questioned - because we cannot ask everybody - can be principally made in two ways, by the "omnibus" method and by pre-selection of the respondents (the "sample"). In the omnibus method we ask people at random, questioning a certain number of persons in the street, and their views are supposed to represent those of the population as a whole. Of course we would not ask blind persons about colours or the furniture-buying intentions of children. We can also include check-questions, like age and income, so as to see how far our sample is representative of the population as a whole. In any case, the omnibus method can be carried out with relatively small preparations (i.e., less money and time needed), but on the other hand we do have to ask more people to obtain a general picture of the population's views.

The pre-selected sample, like the Gallup poll method, selects the respondents according to their status, age etc., and thus can indicate the over-all view of the entire population by means of a smaller sample. Such research can therefore only be carried out in countries where classified lists of the population are available, and they are done by specialized agencies.

In addition to the interviews - omnibus or Gallup type - the researcher should make good use of ordinary observation, walking up and down streets or at a fair. When drawing conclusions from data obtained by this method, he must however remember that they are based on his own subjective impressions. In general any research should include detailed explanation of methods used and include the basic data on which the conclusions are drawn.

### Forecasting

The second, and more important, class of data-compilation is forecasting how the market will develop. There are more scientific ways, including futurology, than fortune-telling with crystal-balls and taroc cards. The

most common is to extrapolate, i. e., to assume that certain data, like statistical figures, represent a trend which can be continued and thus give us numerical data for the future. Here again a word of warning. If we have a set of growing and successive figures, like import statistics, there is no theoretical reason to assume that this is an expansive trend. Such an assumption must be based on other data.

A quite useful device for forecasting commercial behaviour is to discover the "leader" for the area investigated, like Sweden is for Finland or the United States is for Sweden, and then to assume that the present situation in the "leader" country will be the future situation in the "follower". If the time-lapse is large enough, we may use this as our commercial guide.

There is a specific form of questionnaire to hand out for furniture, used frequently in many developed countries, and that is knowledge of how the public intends to spend its money. People are asked annually how they would use an extra month's income. Changes and trends in the replies can indicate certain future developments in the consumption pattern. At the Belgrade Fair, we propose to ask some 500 visitors such questions, especially as regards furniture purchases.

Finally I must touch on that most unscientific method of prediction, intuition. There has been scientific research on the capacity of good businessmen to forecast developments and it seems to have been proved that success in business is often accompanied by this kind of mystic power. This capacity does not however make someone a good businessman. If forecasting trends and opportunities were to be eliminated from market research, only big firms could survive. Really great commercial successes are often, though, achieved without such previous warning and only by using some inner intuition and having the courage to take the risk.

### Suggestions for ŠIPAD

Research and information are only useful if and when they are used. This platitude is very relevant to conditions in ŠIPAD. The remark frequently made to me is that you have no time for following "academic side tracks" away from the bread-and-butter work based on everyday needs. Information however gives you the tools for working and you cannot tell me that today's worker should do without the most modern equipment he can lay his hands on. The lack of time

seems to be a real fact. I am convinced that OORAD should not start an intensive research of foreign markets before some years have passed, and even then only after serious consideration. I am now trying to give practical advice and I shall outline here some of the steps that you should put into practice immediately.

#### Assumption

My main assumption is that selling furniture in accordance with the wish of foreign importers brings you less money than selling your own ideas, regardless of the higher costs needed for the planning and promotion of such sales. The facts wanted for your information system should therefore be oriented towards the goal of your obtaining a more advantageous position when confronting foreign markets.

#### Selection of targets

The first suggestion is that you should limit your efforts to fewer export markets than you are at present dealing with. Because of the lack of sufficient personnel both in the sales units and in service units like design and promotion, this suggestion is logical. Increases in staff are not likely and will anyhow require far too much time if you take into account the minimum training period of one to two years even for basic schooling in marketing.

#### Responsibility

After selection of your main foreign markets, which I think should include neighbouring countries, central and eastern Europe, the German Democratic Republic, Poland, the Soviet Union, the United Kingdom, the United States, and the Near and Middle East, suitable individuals should be made responsible for collecting information on these areas. This presupposes capacity to read the languages of these areas because one of the main sources of information is their magazines and newspapers. Such publications should be subscribed to and read - not just received. I am not advocating that one of you should sit the whole day reading only Die Welt or Pravda. There are other papers which give you enough information on current affairs in the field that interests you in these countries. I deliberately avoid the word "furniture" because you also have other spheres of interest - you are entering new areas like prefabricated houses and other lines belonging to the construction industry which should now receive the full attention of your export sections. In the new foreign trade OOUR this kind of market information pool should be easier to achieve perhaps than today.

### Research

After this basic organization (nominating staff), a comprehensive study of your company's position in each of the main markets should be carried out by objective outsiders, not by your representatives. A parallel study of future trends in these markets should also be performed. The results of these two sets of information should give you guidelines for your further work.

We have already prepared some suggestions for normal questionnaires. The uniform setting out of the questions will give you comparable information from all sources, as that which comes from representatives and from reports of your own staff upon completion of a business trip or a visit to a fair. Uniform questions are also useful in that people do not then forget to observe certain things. In addition to the person appointed in a country, such reports must also go to appropriate senior staff members. If later a market research section should be established (which to me seems a very urgent need), it should also be included in the distribution but I would not even then let the responsibility for compiling this type of information and setting up this kind of an organization slip out of the hands of the export sections.

### Information "club"

I would also add a new form of information distribution. As exports will most probably grow and staff will be increased, there should be a horizontal passing of information between the area sections and managers responsible for furniture and other products. An "export club" could be organized, e.g., compulsory attendance at a co-ordination event twice a year with a joint meal, at which friendly personal relationships can be established leading to continuous co-operation.

### Conclusion

All the foregoing can be achieved without changing your working habits too much. There are however two points where such changes are necessary. As I said earlier, information is only good if used. For quick results (to deal

with the third type of information - surprises) your decision-making must become streamlined by better delegation of authority and by increasing your staff with some export assistants. The second point is the poor co-ordination with and between the factories. They should receive more information about the present state of markets and future trends so that they can develop alertness and become more flexible in their production plans. Also the new SIPAD constitution provides good momentum for this and now is the appropriate time to do it.

The tools of information must be put into proper and capable hands. Information is the tool for decisions. Without decisions you will always suffer surprises because the problems of today are nothing but the unrealized opportunities of yesterday.

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Annex V

COLLECTION AND USE OF MARKET INFORMATION FOR DESIGN

(This paper was drafted as a summary of ideas for better collaboration between the Sipad Design Centre and the trading COOPS. A discussion on this topic was held on 27 November 1975.)

Design is divided into two parts: the invention of new design and the improvement of existing ones. Both are equally important to industry. We also talk about product planning and product development as well as product design and product styling.

Design involves several other skills like knowledge of materials, ergonometics (knowledge of human dimensions), knowledge of structure and stress, of standards, fashion, the arts, and market information. Commercial design always aims at saleable products, to work for large industrial producers like Sipad, and to achieve large sales in various markets.

Market is a group of people, not a specific area, but as most people living in an area usually have similar habits (especially because of laws, language, distribution systems etc.), market is sometimes used also with that meaning.

Market information consists of various types of knowledge, but can be divided into two main categories: knowledge of past as well as present factors and forecasting. The first tells us what producers thought some time ago and how the market has reacted to their conclusions; the second tries to predict what will happen without our decision and/or what will be the outcome of our decision. It is very important to note that knowing all the goods available to consumers (that is one of the most usual results of a market study) does not mean that we know that that is what everybody wants. It tells us only what manufacturers and retailers thought some time ago - the manufacturers between one and three years ago, the retailers some six to twelve months ago - what it was that the public wanted.

The most usual market information used in SIPAD is the request of a purchaser for an article which he would like to buy. He is in fact already buying this article somewhere else, but he would like to have it cheaper from SIPAD. If price and quality can be agreed upon, he is ready to buy a certain quantity. In preparing such an offer, nearly no design information is used, only construction and ma-

materials knowledge as well as production technology and price calculations. One of the usual methods of entries by ŠIPAD into a market is to offer more cheaply something which everyone seems to be buying. The result is that it does not earn enough money from furniture by exports; in some of its own shops it even loses money, and people who would like to buy something new do not consider ŠIPAD as the first place to go to ask for such things.

That is what worries me and why I have been asked to come here.

Talking about market information to be used for designing ŠIPAD-made furniture, I would suggest that you complete the following list where I have noted some information that I think would be useful:

- (a) Domestic habits of the market, size of houses/flats, number of rooms, ages of people living there, activities carried out at home, use of the various rooms, how often people move;
- (b) Interior styles, quality of furnishings, prices;
- (c) Financial resources for purchase of furniture;
- (d) Place, time and method of purchase;
- (e) Market and taste trends (does the market have a leader in taste, like the Swiss following the French, or does middle income class follow the upper class?);
- (f) Existing standards (official and unofficial) and other requirements, measurements like seating heights, number of people normally at a dining-table, standard bed-sizes, normal size and quantity of kitchen- and table-ware to be stored etc.

In addition the state of competition should be known - what is being offered, under what conditions and to whom.

Now take a look at the purchaser. Why does he buy things? First of all, he buys because he is in a position to do so. The article is there, he is there, the money or credit is there, and he thinks that this article will be of higher value to him than his money. He cannot eat money even if he is hungry. That is why he exchanges it for a loaf even if he then has no money left and must walk home instead of using the streetcar. Man's basic needs are to satisfy hunger and thirst, for shelter and clothing, to procreate, to enjoy security and status. With a rising standard of living all these needs will receive different emphasis. For furniture there is no other absolute basic need than to satisfy status. (You should also note that the market for furniture does not need ŠIPAD at all. The need for furniture, even in Yugoslavia, would be met without difficulties if ŠIPAD were to decide not to produce any more furniture.)

The second reason for buying is that of real or imagined need. The third is usually that of facilities; the buyer does not need to make a big effort to acquire his purchase. Putting all this down as a "mathematical" formula, it looks like this:

$$\text{Value V} = \frac{\text{function F}}{\text{price P}} + \text{additional values} + \text{resale value}$$

Function is the real value of an article and can be changed by technical means.

Price is partly based on real (production) facts, partly on the competitive situation. Some articles will always be bought, whether they are cheap or expensive. A consumer will also, for instance, fancy a discount to be bigger than it is in reality, meaning that to a consumer 100 Din less 10% seems cheaper than 90 Din. Furthermore the price sets practical limits below which the consumer will not be able to buy an article, even if he were satisfied by its function. Price too can be manipulated through credit, hire-purchase, or other arrangements.

Additional values consist of additional functions (like a caravan to replace a room, even if its real function is to transport), qualities (like design-appearance, goodwill, or prestige), subjective attitudes (like acceptance of the sales talk, fashion, difficulty in purchasing etc.), and objective values (like service and maintenance). All these are essential parts of the marketing mixture and can already be taken into consideration at the product planning stage. The sum of all additional values will be positive or negative.

Re-sale value is outstanding where cars and articles of artistic merit are concerned, but it can apply to many other items as well. The consumer can be lured into buying a new article if we accept an old one in partial payment or arrange to dispose of it for him. The consumer also bears in mind the facility with which he can get rid of an article after he has satisfied his need, i.e., made use of its function. Therefore this factor can also be positive or negative.

When we are "marketing" an article, we must take into consideration all these factors and try to equate our article's value against that of competing articles and against all other opportunities the consumer has for disposing of his purchasing power.

When we use this kind of formula in the case of design, we observe that there are several different aspects to which both technical design and styling may cater.



I always say that marketing is a creative and disciplinary job. I also know that practically the only professions with deliberate training in creative talent are those of the designer and the architect. That is why I am a strong advocate of close collaboration between the designer and the marketer, that is, for close team-work to achieve good results. If both these professionals could be combined in one and the same person, it would be ideal. We can get very near to it by teaching the fundamentals of team-work to both.

Team-work has two prerequisites, a common professional language and a commonly accepted goal. We can however solve our manufacturing and money-earning problems without such a team if either the marketer gives specific details of an article to the designer, who is to follow certain rules and should not try to add much, or the designer invents something and it becomes the duty of the marketer to find a market and a way whereby this design will yield commercial results. Neither of these solutions however corresponds to the essence of marketing because "marketing is the strategy of the offer, translating actual or potential demand into effective purchase of goods or services in accordance with the objectives and expectations of both the producer and the consumer (the user)".

A basic thing in team-work approach is mutual respect among team members arising from a common language and mutually proved professional capacity. When designers and salesmen work together, too much suspicion and too much self-emphasis are common. Both parties should, at the outset, realize this as a fact and during the job try to make friends with their opposite numbers. And both parties should never forget their duty to work on behalf of a company whose aim is to make money.

I shall now make one suggestion which I think could resolve many of the problems I have encountered at Sarajevo. ŠIPAD should establish a proper Design Centre, an exhibition of the newest designs in furniture, joinery and other products like prefabricated houses. This exhibition should serve both sales promotion and research needs. It should be jointly managed by the ŠIPAD trading COORs and the product planning COOR. It should be able to sell articles, but it should not keep in stock old items even though information for consumers on the whole of ŠIPAD's production must be available (and for sale in other ŠIPAD shops). The exhibition would meet the wishes of production COORs who are disappointed by the poor display of their new products in old-fashioned shops.

It would serve the foreign trade COOR by providing a suitable show- and meeting- place for foreign buyers. It could educate the man in the street, showing him something for SIPAP to be proud of. And it would give immediate feed-back and information to the designers and the factories about new articles and new ideas. There is room for such an exhibition. Money should not be a major obstacle.

Annex VI

OPPORTUNITIES FOR A BIGGER TURNOVER IN A ŠIPAD FURNITURE STORE

(This paper was drafted by the expert to serve as the basis for a discussion which took place on 2 December 1975.)

About half of today's sales of ŠIPAD furniture is made through its own retail stores in Yugoslavia. Because of the large and wide range of output by the factories, these shops are neither big nor numerous enough. A decision has been taken to increase the sales area by some 40,000 m<sup>2</sup> by 1980 (this represents a 200 per cent increase) and the storage area by some 20,000 m<sup>2</sup>. This expansion is however a very expensive investment and can prove profitable only if sales can grow considerably without a corresponding increase in costs.

The main thing in selling is the merchandise, like new, good quality furniture, but this aspect is not to be discussed on this occasion. There are other opportunities such as more rapid turnover, better organization, and particularly staff training. Today's discussion has for its theme bigger sales in the existing sales area, for ŠIPAD in general and for each store individually.

Why people buy - and what

If we knew why people buy in ŠIPAD stores, we could increase this side of our activity. And if we knew what they buy, we could increase our supply of these things. There has not yet been any real research why people buy at ŠIPAD stores though such a study should be made. We must therefore only assume, based on earlier knowledge, that people buy because:

- (a) The goods meet their demand;
- (b) The terms of delivery (time, price, credit etc.) are acceptable;
- (c) They like the store or it is near or the sales staff is nice;
- (d) The sales staff is hard-working;
- (e) The sales staff is technically qualified;
- (f) The buyer does not know anybody else;
- (g) Šipad's advertising, and so on.

This list has not been made in any logical order. We know however that people behave very irrationally and that their behaviour can be influenced by

us and by others. Were people only to act on a rational, economic basis, they would see all the furniture on the market and make their decision based on the facts collected and pondered by themselves, without the sales staff having much influence.

At the last Belgrade Furniture Fair we started a study on visitors' buying intentions. Already now we know that people buy furniture for many purposes. A good salesman should be able to sell the idea of a variety of purposes just as keenly as he knows everything about the furniture he is offering to meet those purposes.

### New customers

New customers are much more important to every furniture store than new premises or bigger display windows. They can be mainly found by paying attention to marginal customers, i.e., people who came to a ŠIPAD shop but did not buy or only bought after long hesitation and were perhaps lured by the credit facilities. Such customers may be defined as follows:

- (a) Those who never buy ŠIPAD because they think it is not good;
- (b) Those who think that they get better service elsewhere, including better credit facilities etc.;
- (c) Those who have had bad experiences with ŠIPAD and will not buy;
- (d) Those who were not served well enough;
- (e) Those who need no furniture;
- (f) Those who have no money.

It would be of benefit if we could establish an average picture of clients' age, sex, affluence, schooling, marital status, reasons for buying. It would give us more precise information on marginal customers and, knowing what they are like, we could then direct our efforts more precisely towards them.

### New selling methods

Display is one of the most effective - and cheapest - ways to attract affluent and better educated purchasers. In this respect the ŠIPAD stores at Sarajevo fall clearly behind those of Sloveniales and Treska.

Advertising is a more costly and indirect way to sell, but, for example, the ad-film of Treska is very effective and relatively cheap to produce. To reach a lower class ŠIPAD should consider newspapers (including editorial stories) and perhaps television. Magazines like Sud Don are also important for reaching affluent people.

The best medium is, and will always be, word of mouth; the suggestion by a neighbour, relative or even unknown person. This medium can be reached via public relations and consumer satisfaction, both taking relatively long to yield results.

Public relations in this connexion is understood as issuing information which leads the consumer to a better understanding of our activities. It increases his knowledge and his reliance on our products, our shops, our sales staff. Public relations must always be based on truth, not on exaggeration. It can and must be guided by our objectives.

Consumer satisfaction helps as a basis for the word-of-mouth method and for creating a faithful clientele. The satisfaction will be based on two factors, merchandise and service. Quality control seems to be a totally ignored factor within SIPAD. It will be dealt with separately elsewhere, but it must be noted here. Poor quality can partly be offset by discounts, but, as this affects profitability, it should be used very sparingly. Discounts have a habit of growing, remaining, and becoming a general rule.

Service is somewhat different. Direct service by the sales staff, information about goods (their quality and technical details), sales literature, cleaning and other maintenance information, enough background material (on SIPAD, where the wood comes from, who designs and who makes the chair etc.) are all essential and relatively cheap service factors. Transport to the home, installations, and interior planning services are more expensive. Nevertheless, the transport of wall-units to a buyer's home (inside, not to the door) and installation, for example, are very important and much neglected factors. Is it fair to, and good for, "consumer satisfaction" if a wall-unit is left in front of the house in rain or snow or the drivers ask extra for carrying it up? Any shop offering a real service, even if it charges the buyer, can count on more purchases from people who really cannot do it all by themselves and have no one else to do it for them. Better service leads to more purchases and growing faithfulness on the buyers' side.

Education is the key word in achieving most of the foregoing. It should be noted that the staff is our permanent investment, even more than the machinery which can be replaced, and that this investment needs constant attention. The

Higher the education our staff has, the more willing it will be to receive more and new ideas. This should also be considered from the opposite angle: we should train those who will learn and pass over those who will not even though their position suggests more education for them.

Training is a constant, very central function. It should have its own honourable place inside the central SIPAD organization with adequate resources in staff, material, equipment and finance.

#### New outlets

More statistics should be available concerning the volume of furniture retailing, possibly by cities, but certainly by republics. This information must be compared with SIPAD's own sales statistics. If the average market share is 10%, we should first take a look at the competitive situation in those republics where the share is lower, then consider the situation in places like Belgrade where SIPAD's share is higher than average.

Before opening new outlets in any area, we should carefully study the opportunities for increasing sales in existing outlets through new methods, changing the premises etc.

We should also have information on each existing outlet respecting its sales, costs, and profitability. A ratio between these figures can be a guide to more satisfactory solutions. The different ratios in each republic (or any reasonable sales pattern area) should guide us separately to those areas where SIPAD's selling has been most profitable.

By merely opening new outlets and getting higher market shares, we would not fulfil the main task of obtaining profitability of production. That is why sales must be considered not against volume but results.

#### Old outlets

Perhaps some managers of old outlets already have suggested ways of improving their sales, such as engaging another salesman or moving to a better location, but, as this proposal was rejected, have not followed them through. Most managers however will not have made such suggestions, mainly because they think they are selling enough or they do not want to increase their responsibilities

and/or work-load or they are simply not capable of thinking of such things. A very careful, and thorough check of all outlets should be carried out immediately to determine whether the managers have suggestions, or if there is still an opportunity for increased sales.

### Questions

Why is there no regular published list of stores? It is not easy for a potential consumer to find the shop nearest to him.

If there is someone to arrange displays in stores, where is he and what other functions does he have?

### Essential decisions

It will have to be decided whether:

(a) To sell the furniture which is displayed and renew the display all the time or, by luring the consumer to take unused furniture from stock, keep the display intact, turning part of the shop into a storage area;

(b) To include domestic items like carpets, lamps, curtains;

(c) To include household articles like major kitchen appliances (refrigerators, ovens, washing-machines);

(d) To include consumer goods like glass, ceramics, utensils (like knives, forks, and spoons), and decorative items or even toys (as in a boutique);

(e) To include services such as interior planning, installation, and consumer information;

(f) To publish a brochure for wide distribution so as to help people to make their decisions at home;

(g) To develop shops of various character in a single city. For example, at Sarajevo the Marshal Tito shop is very near the Europa shop, and both of them are near the new Skenderia. The shop in Ilinzanska Cesta is near the new housing area, the place perhaps for a more service-like shop, or an outpost for the others. If this means a decision at a higher level, perhaps such a decision could be taken in principle and the details left to be worked out individually in each town under some guidance and co-ordination from the central ŠIPAD marketing body.

Annex VII

MARKETING OF NATIONAL MOTIF FURNITURE

(Report on a discussion when the expert, with the national project director Dr. Vaso Solaja, visited the furniture-producing OOUR Konjic on 13 November 1975 and met the company's director and architect.)

Situation

OOUR Konjic is a producer of sawn timber for furniture and packing-cases. It decided to convert part of its activities to the production of complete articles of furniture based on traditional designs. Locally there is a long tradition of wood-carving (household and decorative items, furniture). Konjic is known for this, at least in professional domestic circles. There would be enough skilled craftsmen available for production on a more industrial scale.

OOUR "Konjic" planned the expansion earlier, based on a calculated investment of Din 36 million. This capital amount has been secured as a loan. At current prices, however, twice this figure is needed. The OOUR representatives feel confident that it can be secured.

Problem

Even if it is decided in principle to go ahead, the OOUR representatives are not completely sure how they should proceed, especially with the marketing of this new idea. They also have in mind to produce only the decorated wooden panels and to subcontract production of the simpler structures (inside construction of wall-units etc.) to another producer.

Expert's opinion

It has been strongly urged by foreign design and commercial experts that more "traditional" style furniture should be produced and that it could be sold more profitably than is the case now. For that reason the plan seems to this expert to be realistic and advisable. At present however the OOUR would enter the market as a pioneer and not even receive full-hearted support from its central organisation, SIPAD. That is why the possibility of failure should be taken into account, particularly when the expansion would be heavily based on



loan capital. A marketing plan should be made, based on such a sum as the GO'TE could pay out of its own finances, with no large investment in factory halls or similar assets. Production can be started in existing premises. Tools and machinery should be based on pneumatic power, which is easy to convert to changing needs and for use by skilled craftsmen.

Without any market research the expert is still confident that the first market in Yugoslavia for this kind of furniture will be in the contract trade, like interiors for restaurants, coffee-houses, and others. Sales to private consumers and exports would take second place. For the public interiors the wall and ceiling panels, typically Bosnian, should be made fire-resistant, giving an extra sales argument. Such expertise would be locally available at the ŠIPAD Institute for Wood Technology in Sarajevo.

Entering the contract trade, the best promoter would be the factory architect assisted by a factory-employed salesman with a good understanding of architecture and dealings with other architects. Trade information would be available through government and community bodies and the press.

One individual or a small sales staff with personal faith in this type of furniture should be found inside ŠIPAD. Sales should proceed only at the pace set by these hand-picked individuals. The consumption by private persons of this kind of furniture would be very small (i.e. only a very few consumers, scattered geographically all over the country) and no big retail sales through ŠIPAD outlets could be expected. Part of the potential supporters of Bosnian traditional style would be rich enough to buy real antique pieces and would therefore reject the factory-made "copies". However "soft-selling" marketing methods could be planned and used to counter this tendency.

In the long term consumers should be made to accept traditional style in two ways: by making Konjic a better known place as the traditional cabinet-making centre and by thoroughly covering the consumer market. Sales drives should be started with selected opinion-building leaders like movie and television actors, sports and pop stars etc. No advertisements should be placed. Deliveries could be made directly from the factory or from a factory-owned showroom in Konjic. By making the community known as the original centre for this furniture, the otherwise insoluble problem of copyright could be permanently settled.

Within the framework of the establishment of a museum of wood-carving should be considered together with an exhibition (and probably sales-outlet) of new production, publication of a history, setting up a school for wood-carving and other non-commercial activities, with the museum - in the modern, actively participating way - as its nucleus.

For entry into the contract trade the sales literature, needed by architects, would include references to already completed interiors and, e.g., charts with calculations of the seatings for hexagonal or octagonal tables. A personal gift to architects would be a miniature carved panel, bearing on the reverse side the name, address, and telephone number of the factory.

To train the workers and to increase their job-satisfaction and the profitability, small articles like kitchen items, souvenirs etc. could be included in the production. For such small articles there would be an immediate market within Yugoslavia and partly as exports, but no long-range export plans can be made at present because of more "exotic" traditional wooden articles to be expected from African and Asian countries.

Very special care should be taken not to kill the existing - and possibly future - small workshops in the area. These should be equal partners in the community development plan outlined above.

#### Time-table

The project can be started immediately. In March 1976 senior executives should visit the Munich Handicrafts Fair for information on pneumatic tools and on traditional products from other countries, mainly Italy and Spain. Products - if a complete interior were to be available - could be exhibited at the SIPAD stand at the Cologne Furniture Fair, 20-25 January 1976, at Zagreb in April, and at Belgrade in November.

Annex VIII

PRELIMINARY MARKETING CONCEPT FOR GLUE-LAMINATED TIMBER

Objective

Production of glue-laminated timber is to be started in Yugoslavia in 1977. The production capacity will be marketed primarily in Yugoslavia because it will take some two years for an international quality control certificate necessary for exports to be obtained.

Product

The material is used in a variety of buildings (houses, large halls, railway stations, storage sheds etc.) instead of steel or concrete supports. It is lighter and renders them fireproof (steel tends to collapse in fire, concrete to break). Because it is lighter, it also permits wider spans without supporting pillars, leading to new solutions for architectural problems.

Positive factors

Negative factors

Demand:

Cheaper construction  
Lighter construction  
More elegant construction  
New solutions

Unknown factor - no Yugoslav know-how available

Competitions:

Nil

Steel, concrete and pneumatic construction are known and established competitors

Institutional factors

Law

Geography (leading to difficulties in transportation)

Price comparison (In comparison with competitive materials)

Ex works: more

Delivery time: less

Transport: more

Erection time: less

Initial promotion: more

Production measures needed

- Preparation tables and calculations
- Preparation of the booklets
- The results (when production has started)
- Synopsis
- Seminars
- Articles in journals, etc.

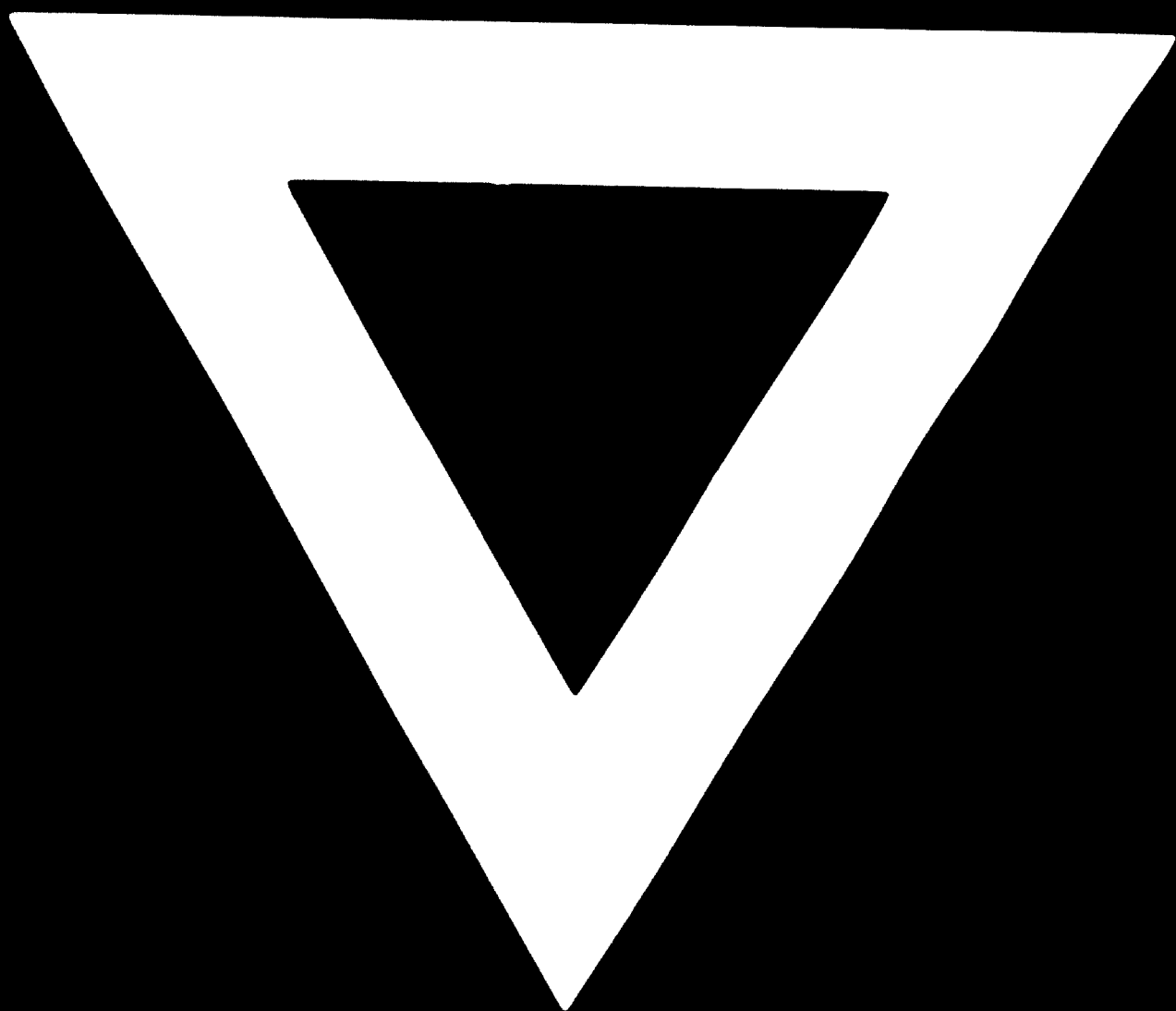
Distribution

- Delivery of orders
- For smaller items stock on demand
- Through a construction partner
- Through architects (as specifiers only)

Implementation stages

- (a) Market research among architects (can be started immediately);
- (b) A strategic plan (early 1976);
- (c) An operational plan to start immediately after the decision has been taken and money for investments ensured. A separate plan for raising the capital may be needed first.





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