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A Brief Profile of the Furniture Industry
in the Philippines^{1/}

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Introduction:

The furniture industry in the Philippines is one of the oldest industries which started out way before the Spanish era. It underwent a vigorous growth as a result of the demand from a widening consumer base, and to date, there are about 4,000 to 5,000 enterprises engaged in the activity. The impetus to such a growth was the construction boom that emerged immediately after the Second World War. Encouraged by the low capital requirements to set up a fairly good size factory and the need to cater to the big demand for domestic furniture, the proliferation of furniture factories came into being.

The lure to enter export market began as early as the 1960's, and in recent years, rattan and wooden furniture exports have accelerated with the rapidly increasing levels of consumption abroad. But in spite of this growth, the industry has been unable to fully develop its export potential. Very few enterprises are actually engaged in the export of furniture, and even these manufacturers have limited capitalization to meet the big volume and high standard requirements of major importers. Other than that, stiff competition from both European and Asian suppliers limit the local industry's share in the world market. Also, difficulties in the areas of financing manpower and raw material procurement are some of the factors which hampered the operation of furniture makers. This brief profile of the furniture industry in the Philippines hopes to reveal the problems which are limiting its growth into a substantial dollar earner for the country and the corrective measures the private and government sectors are undertaking.

The market aspect: domestic and overseas:

Of the 4,000 to 5,000 furniture enterprises which proliferated during the growth period of the industry about 90% are better described as backyard type and they cater principally to the domestic market. They are widely dispersed all over the country but quite a number is concentrated in Metro Manila and Cebu. These places, too, are centers of activity for exports of furniture due to the availability of shipping and trading facilities in these areas. Worth

noting is the fact that more wooden furniture is produced in Metro-Manila because lumber the major raw material of firms in this sector, is principally traded in Manila and fine quality narra comes from the nearby Northern provinces. The same holds true for rattan but the center of activity is Cebu because of its proximity to the supply of rattan poles which come largely from the forests of nearby Mindanao island.

The domestic furniture market is peculiar in the sense that generally, it does not want to buy ready-made furniture. The consumers still prefer custom built furniture. Numerous interior designers cater to the whims and tastes of the affluent consumers. Custom built furniture commands a price while ready-made furnitures are considered of lower standard and its pricing makes it available for the less affluent.

The industry suffers from poor distribution network. Unlike Japan where furniture retail outlets are well distributed and is by itself a separate activity, the Filipino furniture manufacturer is also the retailing outlet, limiting sales to the surrounding areas. In almost all cases, the manufacturer sells directly to the end-users. The industry, as a whole, has not developed a systematized or sophisticated marketing network for distribution. This drawback, however, could be attributed to consumer behaviour and preferences as was mentioned the high regard for custom built furniture. Differentiation from others in terms of furniture types and designs is another peculiar Filipino consumer behaviour which poses the difficulty of adapting standard designs for home furniture.

Since selling is done on a person-to-person basis, it is an uncommon practice in the local industry for middlemen to put up a display room and carry a number of lines from different manufacturers. Large manufacturers which have grown from a personal selling practice put up their display rooms and market only their own lines.

For the overseas market, most of the industry's export-oriented furniture manufacturers do not participate in international exhibits. Instead, they rely heavily on trade missions sent both by the private and government sectors to explore trade opportunities abroad. Also,

furniture exporters depend largely on personal contacts in finding export outlets for their products. Even the exporting furniture manufacturers do not usually engage in mass production but wait for buying agents to see their designs and give their specifications before actual production begins.

The production aspects: wooden and rattan furniture:

The industry has the basic knowledge to produce furniture to serve the domestic market. Most of the raw materials required by the industry are available locally. However, some items like hardware fittings and special accessories have to be imported. The basic components utilized for processing may be classified into:

1. Forest based materials: lumber, plywood, veneer, and rattan poles.
2. Metal based materials: finishing hardware (i.e., tubular pipes, handles, keylocks), fasteners, process fittings, ball casters and bed mechanisms.
3. Chemical based materials: glue and other adhesives, finishing coats, plastics, acrylic and fiberglass, laminates and synthetic foams.
4. Fabric based materials: upholstery, cushions, fillers and abrasives.
5. Packaging materials: kraft containers and corrugated boards.

The principal raw materials of the industry are lumber and rattan poles, with their share to total raw material cost ranging from 41% to 50% and 61% to 70% respectively. The balance of the costs is divided among other raw materials like upholstery, hardware and finishing materials.

Various types of Dipterocarp species of wood are used for the local market. These would include the red and white lauan, tanguile, almon and yakal. In the export market, however, only furniture made of narra has found substantial acceptance and demand due to its grain and texture.

Because of the short production runs and numerous special designs dictated by the local market, the factories in the industry were not

set-up to produce line or mass-produced furniture demanded by the export market. Consequently, the industry was caught unprepared and its limited capacity as well as its production system could not meet export requirements.

Industry problems:

a. Technical:

There is inadequate knowledge among workers regarding furniture technology specifically in such areas as wood seasoning, kiln drying, finishing or particular species which can be utilized as raw materials for furniture.

With respect to manpower development in the areas of carpentry, woodworking, varnishing or upholstery, the industry again is beset with the lack of technical expertise. Corollary to this is the shortage of good furniture designers in the industry which has resulted in inadequate knockdown furniture design. While there have been schools that offer knockdown furniture design and application courses, they have been regarded insufficient. This problem is a crucial one since a high degree of sophistication is required in the design and manufacture of knockdown furniture for exports, and the same furniture types help in reducing freight costs.

There is also the problem of depleting skilled labour source. The exodus of skilled manpower due to the overseas construction boom is beginning to deplete the local skilled labour pool for the furniture industry.

b. Raw materials:

Even while we are in the midst of abundant forest resources, there is inadequate supply of export grade plywood and lumber. The problem is aggravated by current government restriction on the cutting and transporting narra lumber, a wood specie that has been accepted in the world market.

For the furniture rattan sector, rattan poles were being exported to other countries. But this has been partly solved with the ban prohibiting their export. However, another problem is the lack of an organized supply arm to assure manufacturers of their raw material requirements.

c. Marketing:

The industry's export production capacity has been primarily geared towards the United States, Australia, and Japan. On the average, about 70% of the wood and rattan exports go to these countries. Although earnings have been quite encouraging with regards to this matter, overdependence on these recession-sensitive markets could also prove damaging to the country's revenue as was the case in 1975.

The industry's overdependence on three major markets is further aggravated by its limited involvement in international promotional and selling activities. As furniture firms can only afford a limited cash outlay for promotional involvement most furniture manufacturers participating in international exhibits complain about the lack of government subsidy schemes for representatives' travelling and accommodation expenses and for furniture freight costs.

d. Financial:

The industry is hampered by its present capital inadequacy. The volume and quality exacted by the international market carry repercussions in finance. The exporter must secure more working capital to cope up with the high inventory levels demanded by the mass market. While there are numerous manufacturers in the industry, only a minimal percentage of these are able to take advantage of the large export market. And even though financial resources both government and private, are available, they are however, difficult to obtain because of stiff collateral requirements.

Corrective measures:

Under the leadership of the Chamber of Furniture Industries of the Philippines (CFIP), the above-mentioned problems are being tackled and solutions are being made to overcome them.

With the assistance of government agencies involved in promoting exports, experts are being brought to the country to advise the industry. The CFIP conducts regular technical seminars on furniture production.

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and for the last five years, it has taken advantage of the furniture seminars offered by the United Nations particularly the UNIDO seminar in Finland.

The formation of the Association of Furniture Industries in Asia (AFIA) which includes among others Japan, Korea, Philippines and Singapore and of the Ascean Federation of Furniture Manufacturers (AFFMA) with Malaysia, Thailand, Singapore, Indonesia and the Philippines as members will facilitate the exchange of technical and market information among the countries.

With respect to raw materials, the government is continuously holding dialogues with the industry to establish a channel to supply the industry with the vital raw materials.

The financing problem is being eased up by making credit facilities more accessible to the industry by liberalizing collateral requirements. Accomodations are given to export oriented firms.

Although the traditional markets for exports are still the United States, Japan and Australia, there is now the shift towards opening new trades with the EEC countries and the Middle East.



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