



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

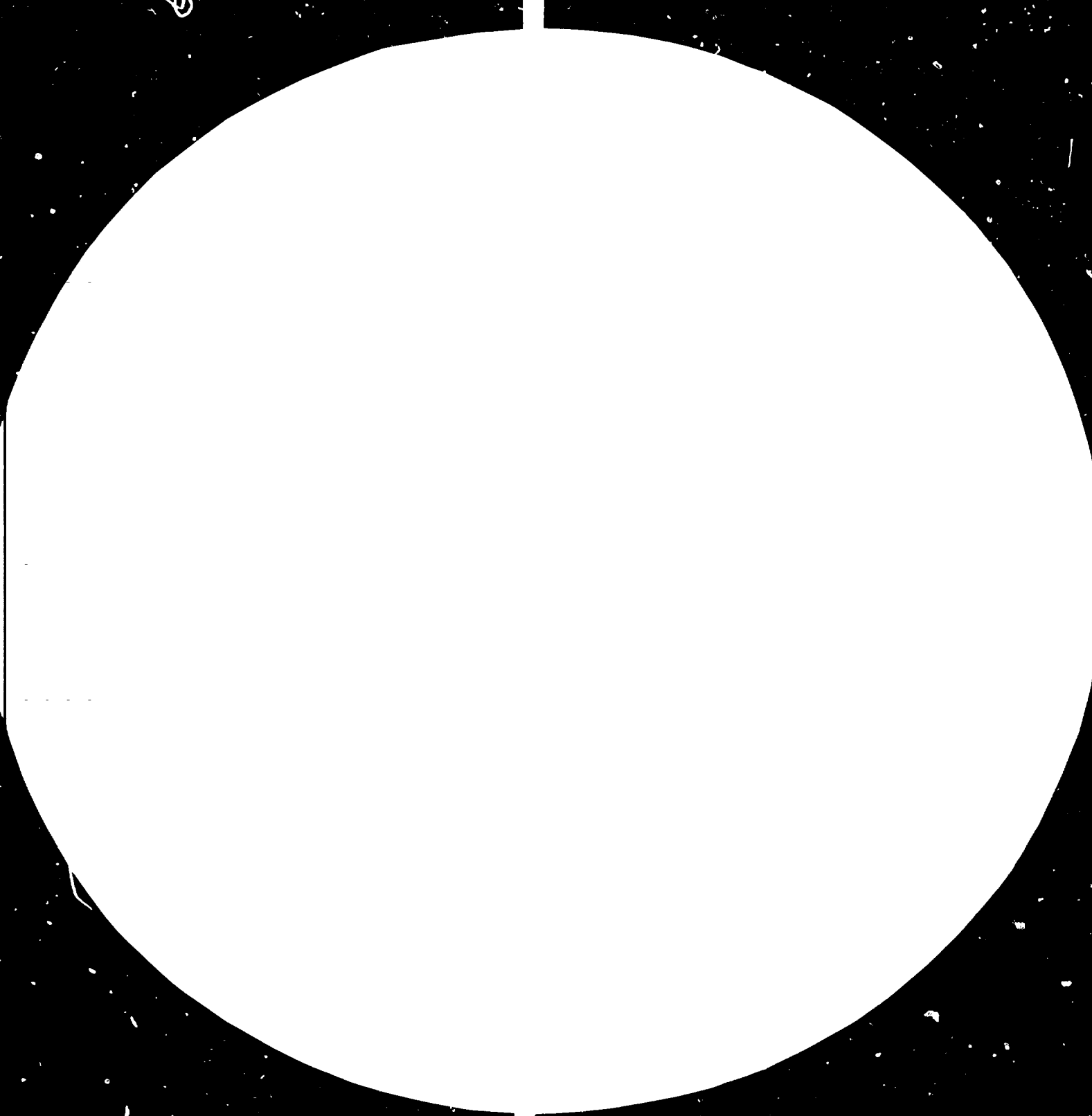
FAIR USE POLICY

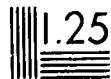
Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org





3.2

3.6

4.0



M. R. H. & P. S. LTD., 11, THE SQUARE,

NEWTON, LEICESTERSHIRE, ENGLAND



10318



United Nations Industrial Development Organization

Distr.
LIMITED

ID/WG.323/20
7 January 1981

ENGLISH

Seminar on Furniture and Joinery Industries
Lahti, Finland, 3 - 24 August 1980

THE PHILIPPINE FURNITURE INDUSTRY 1979 - 1980*

by

A.N. De Lange **

Toni C. Lo ***

and

R.N. Navarro****

000.70

* The views expressed in this paper are those of the authors and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.

** President, Designs Ligna Inc.

*** President, Luzon Rattan Industries, Inc.

**** President, Polymart Inc.

V.81-20089

Introduction:

Capital-intensive, labour-intensive, export-oriented and relatively with low level technology describes the Philippine furniture industry at present.

The industry dates back to the sixteenth century with the crude production of wooden and bamboo furniture. Commercial scale production came in the early 1950's and exports followed soon. It was only in the 1960's however, that plant mechanization of large furniture shops started. It was only during this decade that the Government placed emphasis on the industry and started to support it.

Dominated generally by small-sized family-owned shops the industry showed a successful trend, increasing its export performance by 60 percent every year.

About 10 percent of the industry's total establishments belong to the category of large ^{1/} firms but these groups generate 80 percent of the industry's export value.

The Philippine furniture industry is an aggregation of seven sub-sectors which have been classified according to materials used, thus:

- Wood furniture
- Rattan furniture
- Bamboo furniture
- Metal furniture
- Buri furniture
- Makers of furniture parts
- Furnishings

In the industry, two types of furniture-making predominates: wood furniture and rattan furniture. Firms producing wood furniture

^{1/} A small industry has 10-50 workers with total asset range of 100,000 to ₱ 1 million, a medium industry has 50-100 workers with total asset of ₱ 1 to 4 million, while a large industry has more than 100 workers and has an asset range of more than ₱ 4 million.

essentially cater to the domestic market; the bulk of rattan furniture made in the other category of factories is shipped abroad. Smaller shops producing buri furniture have been emerging in the last three years especially as export prospects have progressively become attractive. Of course, the wooden furniture sector dominates in the industry in number, while rattan furniture shows the most promising performance, exportwise.

The industry is widely dispersed throughout the entire country but the larger and export oriented firms are located mainly in the Metro Manila area because of their proximity to requisite shipping and trading facilities.

While the industry faces at present the problem of low productivity, lack of standard materials, lack of skilled designers and workers, as compared to its Asean counterparts, the industry still hopes to carve a reputable share in the world market.

Management and labour:

To date there are about 15,000 firms in the industry employing 50,000 persons. It is dominated by small-scale manufacturers which account for about 90 percent of the total establishments. There are only a few medium-sized and large-scale firms and, generally, these cater to the export markets.

In 1969, total employment in the industry was reckoned to be 7,713 workers. This increased to 11,533 in 1974. The production work force consists of 5 to 100 workers, although the great majority have less than 20 workers. Compared with the entire manufacturing sector, the growth in employment in the furniture industry is also notable.

More firms operate on a job-order basis, requiring craftsmen and artisans especially when the furniture is adorned with hand-carved designs.

A latest survey of the University of the Philippines Institute for Small Scale Industries ^{2/} (UP-ISSI), manufacturers adopt any of the common types of business organization such as:

single proprietorship

partnership

corporation

but most are family owned or managed.

While the industry takes stride in developing its labour and management skills, it is presently plagued by migration of skilled labour into more lucrative jobs in other countries, thus there is very little storage of technology.

The Chamber of Furniture Industries in the Philippines, (CFIP) the only organization of the industry which represents its interests, was established in 1966, and is doing its best to curb the trend. Entrepreneurial and productivity improvement programmes, which require training of labour is one of the current activities of the Chamber, apart from marketing promotion of the industry abroad.

Source and use of investment:

Most furniture firms are initially capitalized from the personal savings of the owner-proprietor or in case of a partnership or corporation, from the pooled savings of the founders.

A major portion of the investments are in fixed assets: land, building, machines and equipment, fixtures and the transport vehicle for deliveries.

Because of limited capitalization, any backyard space available in the manufacturers' residence is utilized. Accordingly, plant size for a

^{2/} One of the Government's support agencies for the development of small and medium industries in the country.

backyard firm may range from 200 to 500 square meters. A highly capitalized factory which can afford to shoulder rental costs of leased premises may be located on a 500 to 1,000 square meter area. The building housing the plant is usually made of concrete and wood with galvanized iron for roofing.

Average capitalization of a furniture industry in the Philippines is ₱ 1.07 million with an average working capital buffer of ₱ 100,000.

Markets and performance:

Marketing as it is practised by the furniture industry in most developed countries is still relatively unknown in the Philippines. Most local manufacturers sell directly to the public on the basis of job-orders. The exceptions are when they are supplying to institutional buyers or as in the case of the few enterprises that have a partnership arrangement with overseas organizations.

There is very little retail-selling, the larger manufacturers have their own showrooms and often carry other complementary lines. Some manufacturers offer a design series which could include the complete furnishing of a dwelling.

Sales have increased despite discontinuous operation of furniture firms. In 1971, the industry registered an aggregate sales of ₱ 104 million and in 1974, ₱ 171 million. The demand for furniture products, by itself has increased, but when compared with sales of other commodities in the light industries sector, the figures are small. ^{3/}

a) Domestic market:

The domestic market for furniture generally increases in relation to the number of households. Furniture demand usually peaks during heavy construction activity or when there is an increasing tempo of business activity in an area. Furniture is sold via the owner's personal contacts,,

3/ Desmond P. Cody, Technical Report on Technical Assistance to Small and Medium Wood and Rattan Furniture Industries, October 1979.

in the firm's display store or in the factory site and through company salesmen; advertising is rarely resorted to.

In the domestic market, furniture buyers are generally private individuals and corporations establishing their office. More than half of the domestic demand for furniture emanated from the Metro Manila market.

Interior decorators are performing an expanding role in the industry both in terms of improving design, upgrading workmanship and widening the market for the furniture industry. Most large corporations and high middle-income families depend on interior decorating firms for design, lay-out and procurement.

b) Export market:

41 percent of the total industry output is exported. This means that the bulk is still consumed locally.

Exports of furniture and fixtures increased about eight fold in the five years since 1973. From modest earnings of \$ 3.3 million in 1973, exports increased to \$ 21.7 million in 1977. (See table 1). In 1979, exports amounted to \$ 54.9 million. This is 3.7 percent of total Philippine exports in 1979., which amounted to \$ 4,601.2 million

Table 1: Furniture exports of the Philippines by type of material
FOB value in 000 US\$ (1973-1979)

Year	Wood Furniture	Rattan Furniture	Bamboo Furniture	Metal Furniture	Buri	Compo-nents	Furni-shings	Total
1973	625	1,788		9	401	425	59	3,307
1974	1,225	2,839	5	21	506	1,415	142	6,153
1975	684	2,833	7	18	986	636	17	5,181
1976	997	5,242	21	14	2,669	802	12	9,757
1977	1,593	11,426	50	3	6,974	1,654	48	21,748
1978	1,429	14,763	126	58	8,849	1,301	118	26,644
1979	2,426	30,332	195	54	16,905	4,837	140	54,889
Total	8,974	69,223	404	177	37,290	11,070	536	127,679
% total	7.02	54.22	.32	.14	29.20	8.70	.40	100.00
Average Annual growth Rate %	36	66	117	295	95	93	154	68

Between 1973 and 1979, the export growth rate of the furniture industry was computed to be 68 percent annually, on a compounded basis. (see table 1 above)

While furniture exports earnings have been on the increase, the industry's participation in the country's total exports has remained minimal compared to, say, Taiwan. In 1973, it represented 0.18 percent of total exports. In 1975, percentage share was 0.23 percent and in 1977, it was 0.95 percent. There is an improvement in 1979 with a share of 3.7 percent.

Based on export figures from 1973 to 1979, rattan furniture presented about 54 percent of Philippine's furniture exports, while 29 percent consisted of buri products. The two types of furniture then make up the bulk of furniture exports. Very little wood furniture is exported when compared to the two former.

Most of the rattan and buri furniture are shipped from Cebu, making this city the industry's export center.

In the case of rattan, this is mainly through importers who take responsibility for design, promotion, and distribution, and manufacturers themselves being little more than production units. In general, exporters do not participate in international furniture fairs, but rely on personal contacts, foreign trade missions or sales letters.

The export market for the Philippine furniture industry is represented by the traditional markets like the USA and Europe, and the non-traditional markets of Australia and the Middle East as well as Scandinavian countries.

The United States absorb more than half of the Philippine shipments of furniture abroad. (See table 2). Using market data for rattan and buri furniture, the other leading buyers are Australia (11 percent of rattan and buri furniture exports), West Germany (6 percent), Belgium (4 percent), Japan (3 percent) and the Netherlands (2 percent).

Table 2: Rattan and Buri furniture exports of the Philippines
By country of destination (1973-1978) 1/ (FOB value in U.S.Dollars)

	1973	1974	1975	1976	1977		1978	
					Amount	Percentage Share	Amount	Percentage Share
1. Rattan furniture								
United States	1,031,626	1,162,839	1,740,540	2,558,825	5,891,736	51.56	3,856,708	58.42
Europe	175,045	237,769	331,836	1,005,319	2,502,445	21.90	1,103,541	16.71
A. E E C	167,730	144,121	182,422	763,922	2,150,798		909,580	
1. Belgium	15,817	47,750	54,529	160,113	614,332		229,777	
2. Denmark	741	19,232	1,662	4,472	47,601		10,878	
3. France	4,664	4,488	28,403	22,687	57,668		27,541	
4. Fed. Rep. of Germany	96,844	35,385	55,043	175,748	931,464		421,085	
5. Italy	6,166	1,946	8,605	320,101	348,720		59,111	
6. Netherlands	22,667	17,424	34,026	52,744	120,192		151,655	
7. United Kingdom	20,829	17,896	154	24,032	30,821		9,533	
8. Other E E C	—	—	—	2,025	—		—	
B. Other Europe	7,315	93,648	149,414	241,397	351,647		193,961	
1. Spain	2,948	11,892	602	17,062	83,920		16,404	
2. Sweden	4,087	38,420	141,234	194,765	194,270		168,895	
3. Other	280	21,336	7,578	29,570	73,457		8,662	
Australia	148,220	529,371	449,525	1,013,011	1,425,137	12.47	931,661	14.11
Canada	11,293	14,201	20,919	137,021	234,455	2.05	250,520	3.79
Japan	165,328	217,257	186,614	259,308	508,848	4.46	286,934	4.35
Others	256,046	677,778	109,350	268,286	863,498	7.56	172,713	2.62
Sub-total	1,787,558	2,839,215	2,832,793	5,241,770	11,426,119	100.00	6,602,577	100.00
B. Buri furniture:								
United States	101,615	287,586	661,701	1,598,901	4,818,335	69.32	3,436,762	70.09
Europe	7,284	68,758	86,427	479,279	1,113,725	16.02	673,079	13.72
A. E E C	6,537	63,398	79,189	433,987	877,793		550,572	
1. Belgium	1,353	25,861	18,041	26,132	95,794		72,497	
2. Denmark	—	4,997	950	18,957	43,011		44,014	
3. France	250	—	415	44,004	69,876		29,052	
4. Fed. Rep. of Germany	2,075	9,291	17,845	63,320	120,715		119,839	
5. Italy	799	16,526	9,922	81,364	189,436		47,502	
6. Netherlands	1,971	6,513	32,016	189,938	310,397		124,297	
7. United Kingdom	89	210	—	10,272	48,564		113,371	
8. Other E E C	—	—	—	—	—		—	
B. Other Europe	747	5,360	7,238	45,292	235,932		122,507	
1. Spain	652	1,625	278	24,954	130,836		28,001	
2. Sweden	—	104	96	12,017	71,945		82,745	
3. Other	95	3,631	6,864	8,321	33,151		11,761	
Australia	64,236	49,204	156,391	462,660	640,437	9.21	399,082	8.14
Canada	11,940	8,576	5,021	56,192	56,192	2.85	192,885	3.93
Japan	56,849	39,412	14,722	7,259	82,796	1.19	99,923	2.04
Others	159,471	51,961	67,357	64,539	97,654	1.41	101,807	2.08
Sub-total	401,295	505,524	985,819	2,668,830	6,950,671	100.00	4,903,539	100.00
GRAND TOTAL	2,188,853	3,344,739	3,818,612	7,910,600	18,376,790		11,506,116	

1/ First semester only.

Source of basic data: Foreign Trade Statistics of the Philippines,
National Census and Statistics Office

According to the Philippine Export Council (PEC), the Government agency charged of promoting and monitoring, of the country's export activities, the Philippine furniture industry's export market has the following market shares in respective importing countries:

	<u>Philippine market share*</u>	
	<u>1973</u>	<u>1977</u>
U. S. A.	0.5	1.8
Australia	1.5	4.4
Federal Republic of Germany	0.1	0.3
Japan	1.1	1.4
Sweden	0.0	0.4
France	0.0	0.1
Italy	0.1	1.2
The Netherlands	0.0	0.1
Belgium	0.0	0.1
Denmark	0.0	0.5
Canada	0.1	0.3
Switzerland	0.0	0.1
United Kingdom	0.0	0.1
Austria	0.0	0.1
Norway	0.0	0.1
New Zealand	0.1	3.8
Finland	0.0	0.1

*The Philippine market share represents the Philippine's percentage of the total imports of the country importing.

Technology:

In the case of wooden and rattan furniture, production of furniture involves a set or sequence of operations which is invariably followed from factory to factory and altered only in detail in accordance with specific design considerations. The technology is well-known and relates specifically to the nature and quality of the material used, the methods of construction, finishing and where appropriate, upholstery.

Much of the mechanization is no more than a mechanical extension of otherwise manual processes. Most plants keep the basic machineries and most operations are carried out manually. Only 10 percent of industry are large enough to have acquired complete range of machines for its processes from materials handling to finishing of products. Only one firm in the country has this type of operation. Even if the large firms have a good complementation of machines, these may even be classified as semi-mechanized firms, and not really advanced as the their competitors in developed countries.

The average firm produces a variety of types and models ranging from simple products, (i.e. knocked-down) to the most complicated designs, (i.e. assembled). There is very little mass production in this industry for it has been catering to a clientele calling for made-to-order furniture, since the standard line furniture do not offer any price advantages and the designs are so alike in style and narrow in variety to satisfy the varying tastes of the market. This is one reason why the industry is labour-intensive and mechanization is not yet widespread.

The extent of mechanization in the industry varies widely from a backyard shop with simple hand tools to a bigger firm complete with sophisticated machines. There is a more acute need for skilled labour in the smaller shops than in the more mechanized bigger firms. Although machines cannot completely replace the human skills required in good quality furniture manufacturing:

In general, furniture firms, upon receipt of job orders, mobilize any of the three production processes:

- (a) by set-assigning a piece of furniture to a worker from start to finish,
- (b) by the assembly line-through specialization and division of labour, and
- (c) by a combination of set and assembly line process.

The main factor affecting variation in production processes is the impact of the design requirements in the final product.

Problems of the industry

From a number of dialogues with the industry association and consultations with missions sent abroad as well as individual manufacturers, the following appear to pose obstacles to the faster growth of the industry:

(a) Wood furniture:

1. Customer preferences:

The major buyers of wood furniture prefer custom-made pieces. The firms making wood furniture are geared towards the job-order type of operations. This set-up makes them less competitive in the export markets which are usually served by plants that are adapted to mass production of standard units.

2. Technical problems:

Given humid Philippine conditions, proper kiln-drying of the wood continues to be a problem for those exporting furniture made of wood. Recently a Japanese buyer complained about the products shipped by a large modern factory set up two years ago.

3. Raw materials.

Operators decry the partial ban on Narra hardwood. Foreign buyers particularly specify Narra on orders. Producers are encountering difficulties making buyers accept Lauan hardwood pieces which are more readily available. Because of small lot purchases, raw material costs are high, much higher in fact than a Taiwanese furniture maker pays for his materials (Taiwan imports practically all of its log requirements).

(b) Rattan furniture:

1. Raw material supply:

Rattan furniture exports are growing so fast that, inevitably, constraints on raw material supply may impede growth in the future. Export prices are already rising. Export producers complain that the ban on exportation of rattan poles is repeatedly being violated.

2. Tariff and customs problems:

High duties are levied on raw materials which are imported. While import taxes are deductible from sales of exporting firms, it takes a while for tax credits to be processed on the taxes and duties exporters pay on imported raw materials.

Prospects of the industry:

The furniture industry could very well contribute significantly to the country's foreign exchange requirements. While furniture and fixtures continue to be exported to the traditional markets like the United States, Japan, Australia and Europe, new markets have recently been developed including Indonesia, British Pacific Islands, Malaysia, the French Pacific islands, U. S. Trust Territories, New Zealand, Denmark and Puerto Rico.

Needless to say, there are better prospects for the furniture industry in the export markets than in the domestic market.



