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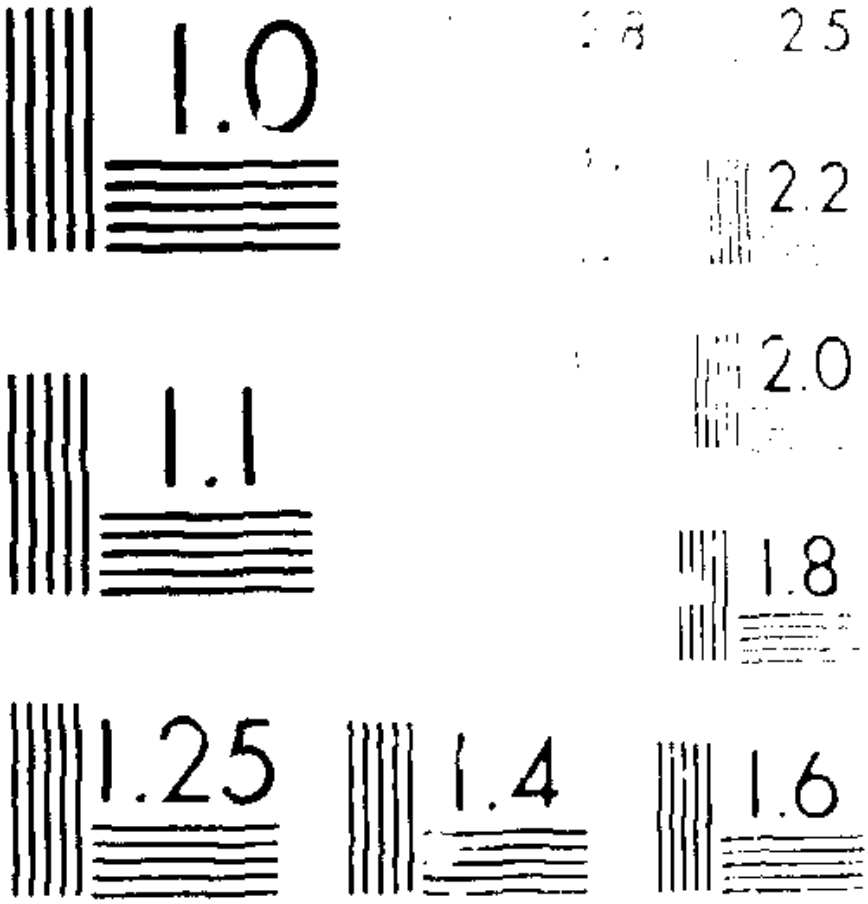
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ILAGAN WOOD FURNITURE INDUSTRY DEVELOPMENT PROJECT, A PILOT PROJECT FOR THE DEVELOPMENT OF THE WOOD FURNITURE INDUSTRY IN REGION 02 (PHILIPPINES) *

by

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I. BACKGROUND/RATIONALE:

The region's most dominant industry is the wood manufacturing industry. Out of eighty-eight (88) manufacturing firms classified as large in 1975, sixty-six or 75% consisted of veneer, plywood & sawmill plants.[1] Wood products in the same year, contributed 31% of total regional GVA (gross value added), second only to food products which accounted for 50%.[2] As for the cottage and small firms in the industry, 314 firms or 27% of total NACIDA registrants are wood furniture shops, second to none in terms of number of establishments.[3]

This proliferation of firms in the industry, is one of the reasons why the Small Business Advisory Center of Ministry of Industry, Region 02, chose the wood furniture as its initial area of operation in the promotion & delivery of firm level consultancy services to small manufacturing firms in the region. The three other reasons, which are of equal importance, are:

1. Abundance of raw material supply

Of the region's total land area of 3.640 million hectares, 72% or 2.625 million hectares is classified as public forest land.[4] The cost of hardwood (₱3.50 per

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[1] Region 02 Socio-Economic Profile, RDC Technical staff, 1976.

[2] Ibid

[3] NACIDA Information Handbook, NACIDA Region 02, 1980.

board foot) is also relatively cheaper than in other regions such as Regions I, III, & IV which are known to buy hard wood for as much as ₱18.00 per board ft.[5]

2. Level of Technology

The technology required in the industry is not complicated and lends itself to easy transfer through seminars & trainings.

3. Employment

The industry employs about 29% of the region's total manufacturing labor force (about 17,700 workers), accounting for the highest percentage of workers employed in manufacturing.[6]

The Center, in September 1978, therefore undertook an initial survey of thirty-seven furniture shops in Barangay Alinguigan, Ilagan, Isabela. The major findings of the survey are as follows:

1. Size of Operations

The shops were virtually very small firms, Three (3) firms employed more than ten (10) workers; nine (9) had an average of seven (7) workers per shop; while twenty-five (25) shops had between one to four workers per shop. Average gross sales per month was estimate at ₱50,000.00 per shop. Average annual net income per shop was computed at ₱30,000.00 (or a net profit margin of only 5%.

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[4] Cagayan Valley Five-Year Development Plan (1978-1982)

[5] Jucak, A.G. Project Feasibility Study on Proposed Kiln Drying Plant, MI-SBAC, September, 1980.

[6] Cagayan Valley Five-Year Development Plan, Ibid.

2. Technology Used

There were no kiln drying facilities or technical know-how on proper production & finishing techniques. Product lines were more or less homogeneous with hardly any room for differentation in terms of design, finish, & material used (narra mainly). Products also tended to crack, shrink, and/or split. Other wood species were not utilized because the facilities, the technology needed for the use of species other than narra, as well as the market, were out of the small firm's reach.

3. Common Problems

Individual firms were operating in isolation facing the same problems arising from poor technology & the smallness of individual firms. These are:

3.1. Limited Market - individual firms were strongly competing with each other for a share in the local market. Cutthroat competition had set in. This was manifested by price cutting & rampant pirating of workers.

3.2. Raw material Restrictions - the ban on narra made it extremely difficult for firms to process orders for narra furniture which the local market demanded.

3.3. Financial Problems - price cutting, rising labor costs (due to pirating), & slow processing of orders all contributed to the difficulty of generating capital resources needed for the acquisition of facilities for improvement & for expansion to other markets outside of the region.

In the light of these findings, an entirely different approach had to be adapted by the Center because of the inadequacy of the firm level consultancy approach at the point in time. The approach adapted was more of a developmental scheme addressed to the industry's most pressing need at that time - the establishment of the necessary raw materials, market, technical, & financial linkages to allow the individual firm to operate in an atmosphere conducive to growth. It was also aimed at bringing about a cooperative effort among individual firms to enable them to relate themselves as a group to these linkages.

The approach had to be tested on a pilot project basis before it could be implemented on a regional scale. The Ilagan, Isabela group of wood furniture markets was selected for this purpose on the basis of the following considerations:

a. Relative to other groups in the region, their products were slighly better off in terms of finishing and design;

b. The bigger firms in the area were starting to look for change & were amenable to new concepts such as examption to outside markets.[7]

c. There was already, at that time, a federation of furniture shop owners in the province of Isabela, the president of which, was from Ilagan; and

d. Most of the shops in Ilagan were situated along the Maharlika Highway, in close proximity to one another. This factor by itself, could easily serve as a show window of the project.

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[7] At that time, other groups in the regions wanted first to work on raw material permits. To them, the concept could not work without first securing a lincense.

II. THE PROJECT:

A. Brief Description

In order to facilitate the development of linkages and other evolvement of a unified effort among individual firms, the basic strategy used in the project is the pooling of resource of individual firms to enable them to come up with the common service facilities, and common marketing & procurement systems.

The idea is for a central organized business entity owned by individual firms, to act as the industry's raw procurement and marketing arm, as well as to manage common facilities which the industry may require. This organized business entity is also envisioned to act as facilitative body & venue for the necessary technical, financial & marketing assistance member firms may need from government agencies & entities.

B. Operating Mechanism

The key elements of the project's operating mechanism are:

1. Common Service Facilities - These include a kiln-drying plant and specialized finishing equipment. The corporation saws & dries the wood requirements of the member shops for a minimal fee (just enough to cover costs plus a minimum profit for the corporation).[8]

2. Common Procurement System - The corporation shall also procure in bulk the wood requirements & and supplies needed by the member shops, and sell

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[8] A project feasibility study on the Ilagan Kiln drier (prepared by the Center) established a drying fee ₱1.00 per board foot for the first year of operation. This is sufficient to cover the cost of drying & overhead expenses as earn for the corporation a ₱0.03 net profit/bd.ft. ₱21,189.00 for year I.

3. Common Marketing System - It is through this system where job orders are solicited by the corporation & distributed to member shops for processing. If a member shop so wishes, he can sell directly to the corporation who, in turn, markets this outside the region in volume. This system will necessitate the establishment of quality control measures & standards.

C. Project Status

The Ilagan group has formed themselves into a corporation known as Ilagan Industries Incorporated (31). It was registered by the Securities & Exchange Commission in May, 1980, with an authorized capitalization of ₱4,000.000.00 (4,000 common shares of stock at ₱100 [illegible] value). At present it has fifty-seven stockholders (all of whom are furniture shop owners from Ilagan & Cauayan, Isabela) with a paid-up capital of about ₱30,000.00. Part of this amount was used to purchase a two-hectares lot at Barangay Marana, Ilagan, Isabela where the corporation's facilities shall be located. The lot and the remaining capital was put up as collateral for a ₱300,000.00 loan from from the Development Bank of the Philippines, to finance the construction of a kiln drying plant & one month's working capital.[9]

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[9] Filed in October 1980 and approved by the bank in March, 1981.

C.1. Common Service Facilities

Construction[10] of the 10,000 bd.ft. capacity furnace type lumber dry kiln started in March 1981. To date, ₱280,000.00 has been spent for the construction of the kiln-drier, water system & warehouse. The remaining ₱20,000.00 will be used for working captial. The finishing touches and the installation of some mechanical parts of the drier is still on-going. The first dry run is scheduled for the the first week of November, 1981. It is expected to be fully operational by December of this year.

C.2 Common Procurement System

This is expected to be operationalized by the end of December, 1981 upon the hiring of the services of a professional manager to handle at least the critical take-off stage of the project. Meanwhile, the initial one month raw material & supply requirments for all member shops have been ascertained in order to determine additional funding requirements and review possible ways of raising the needed amount to activate the corporation's procurement

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[10] Designed and Implemented through the technical Consultancy engagement of Forest Product Research and Industries Development Conclusion. (FORPRIDECOM).

manual for the project.

C.3. Common Marketing System

The operationalization of this component of the project is also dependent on the hiring of a professional manager (one who is experienced & has contacts in the Manila market.) The corporation however, is now affiliated with the Chamber of Furniture Industries of the Philippines (CFIP), a major step in the establishment if its market linkage. The Center has also urged members of the boards to start getting information contacts in the CFIP regarding volume requirements & specifications. The Center is also assisting the group in coming up with a common product brochure which would be a great help in activating the group's marketing system. The only problem foreseen is in financing this undertaking.

III. DELIVERY OF TECHNICAL SERVICES:

The promotion of the Center's concept of development for the industry was centered on a core group consisting of entrepreneurs of relatively bigger firms in the area. The reason for this, as stated earlier, was that they were starting to look for other markets & were more amenable to new ideas.

Members of this core group were asked to participate in local study missions to expose them to technological developments in the industry and for them to share these experiences with their own fellow entrepreneurs in Ilagan.

It was also through this core group that the participation of other firms in the technical seminars & demonstrations arranged by the Center, was successfully coordinated.

Seminars/demonstrations on Design & Upholstery, Finishing & Hoints were arranged by the Ministry of Trade and Industry with the able support & expertise of FORPRIDECOM. These seminars/demonstrations were conducted for the purpose of introducing new & improved techniques in production & to pave way for the operationalization of the kiln drier as well as the strenghening of market linkages.

In the same vein, the Center urged individual firms to start streamlining their product lines & start thinking of product specialization.

The mechanism responsible for this interaction was the organization. Continuous dialogues & meetings with the core group & the members were held to discuss the plans for the organization and for the project. In effect, these dialogues and organizational meetings paved the way for a smooth delivery of the technical services offered by the Center and entitles instrumentalities of government.

IV. EVALUATION:

A. Impact/Results

It is difficult at this stage to assess the project since it is not yet fully operational. There are however, indications that the project is even at this early, getting some good results, such as:

1. A number of firms in the area have started improving their design & finishing techniques. The bigger firms have been started going into product specialization & sub-contracting orders to smaller firms.
2. The linakges with the CFIP & information regarding the pilot project have brought in new customers and bigger job orders. Price cutting & pirating problems have vanished into thin air.

3. Other furriture industry groups in the region, particular the Norther Cagayan, Cauayan & Santiago, Isabèla group have started clamoring for the same assistance extended by the Center to the Ilagan group In fact, the Northern Cagayan group has recently formed themselves into an association & are in the process of preparing their incorporation papers for registration by the SEC.[11] The Center is also preparing a project feasibility study for a kiln drying plant for this group under the Kilusang Kabuhayan at Kaunlaran (KKK) financing program.

B. Problems Encountered/Action Taken

1. At the initial stages of organizational development (due perhaps to be the effects of price cutting & pirating) personal relationship among most firms, were sour & it become difficult at times to meet them. Constant monitoring and follow-ups at individual shops, however time consuming & exhausting, paid off. Members gradually came to trust each other enough to attend meetings & finally incorporate themselves.

2. Another problem was the harrassment of regulatory agencies on individual firms. Plants were raided & raw material stocks confiscated. The Center encouraged the President of the association to dialogue with the concerned authorities.

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[11] With the assistance of the Center and NACIDA

This was done and the harrassment ceased.

3. A problem with regards to financing also cropped up. Asset valuation by the DBP was not enoogh to cover the collateral requirements of the loan applied for. The Center came up with a paper indorsed by the Regional Chairman of the Council on Small & Medium Industries (CSMI) to DBP proposing that the Ilagan kiln drying project be considered under a special financing scheme. This was acceptable to the bank & the the full amount of the loan was approved.

C. Future Plans

The over-all plan in the future for the wood furniture industry is to form a regional federation of all furniture organizations, the purpose of which is to negotiate for the steady supply of raw material to the industry with the government agencies concerned, and to handle plans for future training needs.

A preliminary activity undertaken by the Center in this light was to have the Regional Development Council indorse a proposal to the President of the Philippines requesting for the granting of special permits to gather raw materials.[12] The granting of permits is proposed on an association basis to allow for regulatory measures which may be deemed necessary.

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[12] Patterned after a proposal to grant permits to furniture makers submitted by Bicol Region and approved by the President.

D. RECOMMENDATIONS:

In view of the problems discussed and the future plans for the industry, the Center would like to recommend the following:

1. That the SBAC be provided with additional logistics (such as additional cars, personnel, and provincial offices) to cope with the demand for assistance by other groups in the region, and to undertake a a thorough study of the industry as data base for future consultancy services;
2. That foreign study missions be included in the program to give the entrepreneur deeper and broader insights into the international market for furniture.