The US Furniture Industry: Trends in Production and Emerging Certified Demand

by
Catherine M. Mater
V.P.—Mater Engineering
Board of Directors – Forest Trends
Corvallis, Oregon 97333
Tel: 541-753-7335 Fx: 541-752-2952
Email: catherine@mater.com
Today we will examine . . .

✓ **Overview** of US furniture industry.

✓ Trends in production – especially **outsourcing** activities.

✓ Indicators of growing **demand** for certified furniture.

✓ **Strategic drivers** likely to accelerate demand for certified furniture in the near future.
The U.S. Furniture Industry At-A-Glance:

- Total furniture shipments sold domestically equal between $25-30 billion US annually.
- Domestic production of wood furniture in 2000 = $12.4 billion US
- Exports play a role in the US industry, but …
- … Imports are a significant and growing factor (almost 50% of total domestic production).
Overview of US furniture industry . . .

dramatic changes in a short period of time.

Let’s take a look . . .
The good news . . . Furniture exports from the US:

- Dropped by 2% in 1999, but . . .
- Surged 13% in 2000.
- 70% of top 10 export countries surged by double-digit percentages.
The good news . . . Furniture exports from the US:

- Total export $ volume in 1999: $1.7 billion US.
- Total export $ volume in 2000: $1.9 billion US.
- US furniture exports to China have been growing by 43% *annually* since 1992.
### US Furniture Industry Trends

#### US furniture exports by major destination countries:

<table>
<thead>
<tr>
<th>Country</th>
<th>% change from 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>13%</td>
</tr>
<tr>
<td>Mexico</td>
<td>49%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>22%</td>
</tr>
<tr>
<td>Japan</td>
<td>5%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0%</td>
</tr>
<tr>
<td>Germany</td>
<td>42%</td>
</tr>
<tr>
<td>Bahamas</td>
<td>35%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>28%</td>
</tr>
<tr>
<td>Kuwait</td>
<td>9%</td>
</tr>
<tr>
<td>Korea</td>
<td>82%</td>
</tr>
<tr>
<td><strong>WORLD TOTAL</strong></td>
<td><strong>13%</strong></td>
</tr>
</tbody>
</table>
The good news . . . Furniture exports from the US:

1998 U.S. Furniture Exports to China

Wood Digest, Jan. 2000
But . . . the export picture is dwarfed by the import picture. Consider:

✓ US companies import more than 6 times the dollar amount of furniture they export to other countries.

✓ China leads furniture imports to the US, realizing a 42% increase in 2000 over 1999 values.

✓ The dramatic increase is largely due to US companies outsourcing piece production to Chinese companies, with final assembly occurring back in the US.
## US Furniture Industry Trends

### Household Wood and Upholstered Furniture: U.S. Imports

*(US Total = $5.7 billion US)*

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent Change from 1998-1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>42.3%</td>
</tr>
<tr>
<td>Italy</td>
<td>26.8%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>8.2%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>18.1%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>31.7%</td>
</tr>
<tr>
<td>Thailand</td>
<td>32.8%</td>
</tr>
<tr>
<td>Philippines</td>
<td>28.6%</td>
</tr>
<tr>
<td>Brazil</td>
<td>44.4%</td>
</tr>
<tr>
<td>France</td>
<td>34.2%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>32.05</td>
</tr>
<tr>
<td>TOTAL</td>
<td>28.8%</td>
</tr>
</tbody>
</table>
Outsourcing: What Is It?

✔ Manufacturer Provides service to customer through:

• Component production
• Full product production
• Assembly
Outsourcing: How Big Is It?

✓ In US, a burgeoning business:
  • 1996 - $100 billion
  • 2000 - $325 billion

✓ Between 1992 – 1995, outsourcing of wood furniture increased from 14% to 16%

✓ According to US Outsource Institute: US companies w/over $80mm in revenue will increase outsourcing expenditures by 26% (to = $85 billion).
Outsource to us and discover the difference

from the hard to find one-of-a-kind, to the every day run-of-the-mill.

The difference is QUALITY!

Elias Woodwork

the quality of wood is affordable

1-800-665-0623

http://www.eliaswoodwork.com
Outsourcing practices to offshore companies are growing due to:

✓ **Labor costs** in furniture manufacturing:

  - US = $14.24/hr.
  - Mexico = $2.20/hr.
  - China = $0.69/hr.
  - Indonesia = $0.32/hr.

✓ **Labor training & retention.**

  - Must hire 5 to retain 1
  - Retraining cost equals 25% of total profit margin
Outsourcing practices to offshore companies are growing due to:

✓ Costs to meet *environmental regulations*:

- Safety conditions for workers
- Production requirements for dust control, air & water treatment, etc.

Can equal more than 25% of total operating costs.
“During the past year, thousands of industry jobs have been cut.”

“Furniture Brands International, the St. Louis-based company that owns North Carolina manufacturers such as Thomasville Furniture, Broyhill, and Hickory Chair, announced it won’t build any more furniture factories in the United States. What’s more, rather than build other factories in Asia, it will buy and rebrand from manufacturers already there.”
US Furniture Industry Trends

While furniture production practices are changing to outside the US... end customers (US consumers) are increasing their demand for certified products inside the US:

✓ August 2001 customer survey across US.
✓ Major lumber & fiberboard supplier to furniture – cabinetry producers.
✓ Results:  ➢ Many desire FSC products now.
             ➢ All desire FSC products in 2-3 years.
August 2001 Customer Survey Included:

✓ “Significant” customers – purchase $1 million US or more of product per year.

✓ “Other” customers – purchase less than $1 million US of product per year.
US Furniture Industry Trends

Legend:
- Total Surveyed = 105
- 25% of total customer base = 47
- Significant Customers (> $1mm purchased annually) = 58
- Other Customers (< $1mm purchased annually) = 48

Furniture & Cabinet Customers Surveyed
August, 2001

Mater Engineering, Ltd.
Catherine M. Mater
## US Furniture Industry Trends

### Certified Product Importance to Customers

*(n=105)*

<table>
<thead>
<tr>
<th></th>
<th>Significant</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>34%</td>
<td>29%</td>
</tr>
<tr>
<td>Future*</td>
<td>89%</td>
<td>67%</td>
</tr>
</tbody>
</table>

*Next 2-3 years*
Certified Product Importance

Q: Who Values Now?
A: * “Significant” customers in the West and Southeast.
* “Other “ customers - Central

Q: Who Values in the Near Future?
A: Customers across all regions of the US.
## Certified Product Importance

<table>
<thead>
<tr>
<th>Region</th>
<th>West</th>
<th>Southwest</th>
<th>Central</th>
<th>Northeast</th>
<th>Southeast</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Significant</td>
<td>Significant</td>
<td>Significant</td>
<td>Significant</td>
<td>Significant</td>
</tr>
<tr>
<td>Current</td>
<td>48%</td>
<td>25%</td>
<td>0%</td>
<td>17%</td>
<td>40%</td>
</tr>
<tr>
<td>Future</td>
<td>87%</td>
<td>75%</td>
<td>75%</td>
<td>58%</td>
<td>100%</td>
</tr>
</tbody>
</table>
International players also underscore the impact of credible sustainable forestry practices in value-added production:

- **July, 2001**

- **Survey analysis**

- **Subscribers to International Timber Trade organizations (ITTO) market information services.**
What are the main problems with using tropical timbers from the natural forest for added value production?
Which country has scored the greatest success with its added value exports?

- Ghana
- Taiwan
- Australia
- China
- Chile
- Brazil
- Indonesia
- Malaysia

Number of responses:

0 5 10 15 20 25 30 35 40 45
Why has success been realized?

- Good technology
- Good R&D
- Know market
- Good investment
- Skilled labor
- Cheap labor
- Plantation resources
- Natural tropical resources
- Government policies
US Furniture Industry Trends

Strategic drivers likely to accelerate demand for certified product in furniture production in the US:

✓ Policies from public forestland managers (state, federal, Indian nations) embracing certification as a credible system:

- In 1998 - 10,000 acres (municipal)
- In 1999 - + 2 million acres (state & county)
- In 2000 - + 2 million acres (state)
- In 2001 - To be announced shortly; over 6mm acres being assessed (state, federal, and Indian nations)
Certification projects on government lands:

Over 4 million acres of public forestland included in pilot projects.
Native American Forests–US

States with certified tribal forestlands
Tribal projects underway

Represents 16 mm acres of tribal forestlands
Strategic drivers likely to accelerate demand for certified product in furniture production in the US:

- Certification of *hybrid poplar plantations* to service the furniture industry:
  - Potlatch Corporation takes the lead with FSC certification of 22,000 acres in August, 2001
  - Will provide over 80 mmbf of certified hardwood lumber into the market *on an annual basis*.
  - Another 20,000 acres of hybrid poplar owned by other corporations now poised for certification assessment.