THE FURNITURE INDUSTRY IN ROMANIA AND THE EUROPEAN UNION- A COMPARATIVE APPROACH

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Abstract

The furniture industry is the most complex activity of the wood industry and the most performing, because it capitalizes raw materials in a superior way. Romania has resources and important wood-working traditions that can constitute an argument for developing this industrial sector and a basis for economic recovery. This study analyses the evolution and perspectives of the furniture industry in Romania within the European context, highlighting the existing problems and opportunities for the future. The analysis results indicate the ascendant trend of the furniture industry after 2000, interrupted by the economic crisis and resumed at the end of it, which demonstrates real possibilities of sustainable growth in this sector.

Key words: furniture industry, macroeconomic analysis, export, import, SWOT analysis

JEL classification: E23, L21, L69

1. Introduction

Furniture production constitutes one of the forms through human civilisation is defined, due to its importance in satisfying needs which are in a continuous evolution from rest and comfort to prestige and satisfaction. Seeking originality, cultural aspiration, intimacy with the object, as well as the usefulness of furniture are important reasons that contribute to the purchase of furniture and the development of this industry.

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According to the European Furniture Industries Confederation, EU-27 has 27 % world furniture production, 28 % world furniture consumption, 45 % world furniture exports and 46 % world furniture imports. Romania has a diversified forestry fond, important production capacities and long-standing traditions in furniture manufacturing, which constitutes a competitive advantage in the development of this economic sector.

The development of the furniture industry in Romania constitutes a priority due to the social needs satisfied by this product, the revenue generated by sector, the contribution to employment and higher capitalization of wood in accordance with the principles of sustainable development. Furniture consumption in Romania is more than four times lower than the EU average due to low purchasing power, therefore over 60% of production is exported.

This paper presents an analysis of the furniture industry in Romania, according its status as an EU member state, taking into account the sector's economic growth in the last years. The analysis of relevant aspects offers a diagnosis regarding furniture production and trade, social and economic issues in sector, the impact of the economic crisis on the furniture industry and perspectives of development for this sector.

The analysis follows a comparative approach based on the situation of the main furniture producing countries in the EU. This approach offers a perspective of the furniture sector realities and on development opportunities in Romania, according to world furniture market requests.

The results of the research show that the EU is one of the world leaders on the furniture market due to furniture production in Italy, Germany and other developed countries. Romania is well positioned on the furniture market and capitalizing the opportunities in this sector opens further development perspectives, so that it could become one of the main competitors in domain.

This paper does not intend to be exhaustive, but opens the way for wider research regarding the furniture industry in Romania, as EU member state and owner of important resources of raw materials, adequate capacities of production and qualified workforce that can be used with great efficiency conditions in furniture industry.

2. Research methodology

For achieving the aim of the paper we utilised a descriptive analysis based on the comparative method, in order to establish Romania's position as an important furniture producing country in the EU-27. The analysis has been realized in space and in dynamics through comparison with the main countries in furniture production: Italy, Germany, France, Spain and Poland. Some simple statistical elements complete the descriptive analysis and allowed us to describe in a simple and accessible manner describing the realities in the sector and to identify new developing opportunities.

National and international statistics are deficient with data on production and trade, and often the available data is incomplete or contradictory. FAO doesn't offer information about furniture and other international organisms provide sporadic and partial information.

The data utilised in analysis is extracted mainly from the Eurostat database, from Romanian National Institute of Statistics, from Romanian Government, from reports of the Free Syndicate of Wood Industry in Romania, from Romania Trade and Invest Centre and from specialised books and articles. This data was organised in tables and has been presented as graphs in order to provide clear and convincing arguments for the ideas presented in the paper.

3. Literature review

The academic and professional environment has devoted great attention the furniture industry, due to its relevance in the economy and social life. In general these concerns materialised in numerous studies addressing different aspects of existing issues in the sector at a microeconomic or macroeconomic level.

Ratnasingam (2002) notes that on international level are two tendencies which lead to the growth competitiveness in the furniture industry: the migration of investors’ orientation to areas with very cheap raw materials, such as China, Malaysia and Vietnam, associated with the harnessing of a cheap workforce from countries of Asia's East and South-East.

In another complex analysis regarding the global competitiveness of the Chinese wooden furniture industry, the author notes a spectacular evolution of this sector, based on the China’s competitive advantage, but admits the strong position on the market of traditional producers like Germany and Italy, adding the challenge coming from emergent countries like Poland and Vietnam (Xiao Han et al, 2009). *The proposed solution for increasing competitiveness on the furniture market is promotion of competitive technologies, of original designs and original brand.*

The global economy has created challenges and opportunities for the woodworking and furniture industries in the European Union. The EU furniture industry realise almost 20% of world furniture exports, and is considered a major player on the global market. Globalisation has a strong impact on this industry, therefore in order to maintain its position on market, the European furniture sector must use its competitive advantages: „flexible production that allows products to be customized; high quality specifications and advanced technology; superior design; development of values other than price-based value (e.g. branding, buying experience); integration of pre- and after-sales services; quick distribution with minimal stock keeping" (EESC, 2011).

A comprehensive analysis of the Western European furniture industry is realized by Tragona(2012). Countries from West Europe cover 22% of world furniture production and 20% of world furniture consumption. The analysis provides an overview of this area and includes updated statistics on production, the domestic market, import and export, major manufacturers and distributors as well as other information on these countries.

Germany and Italy produced about 45% of EU furniture. These countries are characterized by very similar outputs and technologies but are different in terms of market organization (Massimo et al, 1998).

Poland is the country with the largest furniture manufacturing industry in Eastern Europe and at the same time the furniture industry is one of the most important branches for the Polish economy. Furniture is one of the most important export products of Poland and many foreign companies cooperate with Polish factories for cost optimization (Wiktorski, 2012).

In Romania, the furniture industry benefits from of tradition and at the moment comprises about 4000 firms, of which 100 are big companies, whilst majority of them are small and medium-sized enterprises. The main advantages of the sector are: availability of resources, low labour costs and high level of technical qualifications. The weak points are: outdated production technologies, low energy efficiency and poor environmental performance (FRD, 2011).

Romania exported before 1989 approximately 70% of its furniture production and it ranked 20th in the world with 500 thousand dollars. At the moment the main part of Romanian furniture production is exported, mainly to the EU countries. Romania's furniture production adapted the market economy and this allowed its survival, *promoting steady accelerated growth in the* *recent past and moving toward a high quality furniture market (Puiu et al, 2012).*

4. **Results and discussions**

Furniture produced in the EU is appreciated in over the world due to the high level of product quality and its outstanding aesthetics (Sara Gonzalez Garcia et al., 2012). The furniture industry is an important sector of the European economy according to Table 1.

Table 1. The furniture industry in E.U., 2010

Indicators	Value
Main indicators, 2010	
Number of enterprises (1 000)	130
Number of persons employed (1 000)	9300
Turnover (EUR million)	95000
Purchases of goods and services (EUR million)	66000
Personnel costs (EUR million)	22000
Value added (EUR million)	30000
Gross operating surplus (EUR million)	7500
Share in non-financial business economy total (%)	
Number of enterprises (1)	0,6
Number of persons employed (1)	0,8
Value added (1)	0,5
Derived indicators, 2010	
Apparent labour productivity (EUR 1 000 per head)	28.3
Average personnel costs (EUR 1 000 per head)	23.7
Wage adjusted labour productivity (%)	120
Gross operating rate, GOR (%)	7.9

(1) Estimate made for the purpose of this publication.

Source: Eurostat (sbs_na_ind_r2)

The analysis of indicators describing the importance of the furniture industry in the EU-27 shows that in this sector there were about 130 000 companies in 2010, with a total of 9.3 mill. employers. The importance of the sector is highlighted by its share in the non-financial business economy: 0.6 % of companies, 0.8 % of number of persons employed and 0,5 % of value added. In the furniture industry apparent labour productivity (28.3 thousand euro/ person employed) is lower that the non-financial business economy average (41.6 thousand euro / person employed). Also, average personnel costs (23.7 mii euro per employee) are lower than the average for the non-financial business economy (30 thousand euro/employee). According to Eurostat the profitability in the sector (GOR= 7.9%) is higher than the manufacturing average (GOR=7.0 %) but just below the non-financial business economy average (GOR=9.7 %).

Table 2 provides the necessary indicators for an economic analysis of the furniture sector in the main producing countries in EU-27. Italy is the main furniture producer in Europe (23.6% of production value), followed closely by Germany (21.2%). The United Kingdom (8.9 % of the EU-27 total), Spain (7.6 %), France (7.7 %) and Poland (7.1 %) are also important furniture producers. Romania has 1.6 % of EU-27 furniture production, but the existent production capacities and the demonstrated investment trends and investment rate (27.4%- the highest investment rate in the analysed countries), point to the attractiveness of the sector and its importance. Germany, in value added terms ranks first (22.5% of the EU-27 total), followed by Italy (16.7 %), United Kingdom (10.8 %), Spain and France (circa 8 %), Poland (6.7 %), Romania (1.3%).

Table 2. Furniture industry indicators per country on 2010

Country	**Production Value Mill. EUR**	**Value added Mill EUR**	**Turnover per employed Thou EUR**	**Average personnel costs Thou EUR**	**Gross operating rate %**	**Investment rate %**
EU-27	90000.0	30000.0	91.1	23.7	7.9	: *(r)*
Germany	19110.2	6745.2	134.4	36.5	8.6	7.2
Spain	6818.4	2422.0	77.8	26.3	5.0	6.7
France	6924.1	2414.9	126.8	38.9	4.2	:
Italy	21255.4	5025.0	131.7	30.4	4.2	15.4
Poland	6382.5	1996.7	42.0	8.0	12.8	15.1
Romania	1439.3	388.3	24.4	4.1	9.8	27.4
United Kingdom	7982.5	3254.0	121.7	30.5	16.2	5.0

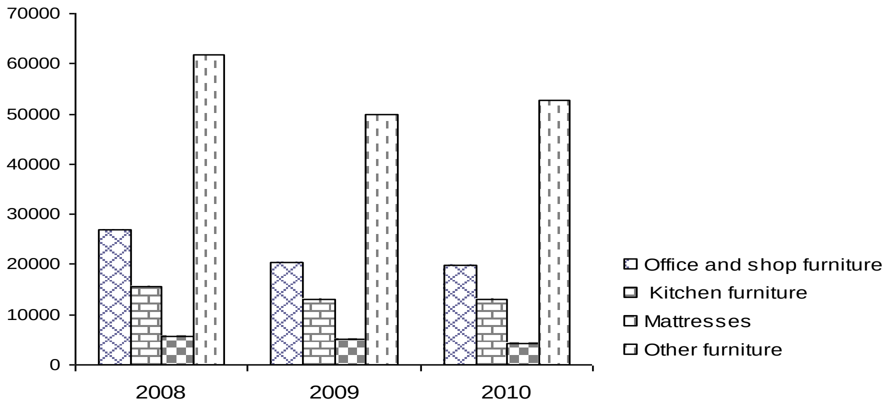
Source: Eurostat (online data code: sbs_na_ind_r2)

Labour productivity in the furniture industry expressed by turnover per employed in Germany, France and Italy is more then 40% higher then the European average, and more then five times higher in comparison to Romania, due to the technologies utilised and the organization production. In Romania furniture production is based on the integrated activity system, and in western countries production is based on the extensive cooperation with semi-products and pre-fabricated, that lead to increasing productivity through specialization.

Wage levels in Romania are about 9 times lower than in France and Germany. This partially explains the higher profitability in Romania, expressed in Gross operating rate (Gross operating surplus/turnover, 9.8%), being surpassed only by the UK and Poland (12,8%).

The furniture manufacturing sector is composed of four NACE classes, three of which concern a particular type of furniture manufacturing (office and shop furniture, kitchen furniture, mattresses), while the fourth covers all remaining furniture manufacturing (other furniture).

Figure 1. The structure of furniture production



Source: Eurostat (online data code: sbs_na_ind_r2)

Sector analysis according to figure 1 shows that manufacture of other furniture holds the largest share of the four sectors(58% of production value in 2010) followed by the manufacture of office and shop furniture (22%), the manufacture of kitchen furniture (14%) and mattresses manufacturing (6%). The total value of furniture production in the EU-27 experienced a decrease in

2009 compared to 2008 as a result of the economic crisis, followed by an increase in 2010.

Furniture production adapts to market requirements which in turn are influenced by national particularities and specific local factors. Thus in Italy and Belgium furniture dimension is larger than in other countries, since houses in these countries are typically more spacious. In France there is higher request for rustic furniture and in Sweden the replacement period for furniture is two times lower than in Belgium due to the higher purchasing power (Burja, 1997).

The European Union is one of the major furniture import-export markets at a global level. The European Union is a major import-export player on globally furniture market. Furniture trade balance had a downward trend, from a surplus of 3 billion in 2002 to a deficit of around 2.9 billion Euro in 2010. This significant decrease is due to the increasing demand for furniture products from importing countries, especially from China.

The data in Table 3 reveals the trend in the evolution of EU trade with furniture. We note that between 2006-2010 the trade deficit increased more than three times.

Table 3. Furniture trade balance in the E.U.
-millions Euros-

Import/Export	2006	2007	2008	2009	2010
Total import	11.902	14.086	13.903	11.840	14.227
Total export	11.046	12.294	12.743	10.269	11.325
Balance	-856	-1.792	-1.160	-1.571	-2.902

Source: Eurostat, http://ec.europa.eu/enterprise/sectors/furniture/files/statistics/furniture_en.pdf.

Imports of furniture experienced significant growth during that time excepting 2009, while exports remained at the same level with small fluctuations. The main furniture supplier for the EU is China, with a value of more than 8 billion in 2010, provides about 57% of furniture imports made by EU-27.

The existence of forest resources constitutes an important consideration for developing the furniture industry. In Romania, the forestry fund occupies 26.4% of the country's total area and contains the following species: 32.6% of total beech wood, coniferous 30.6%, oak 16.7% and various species 20.0% (RSY, 2012).

The beginnings of the woodworking industry in Romania date since around 1900. After the communist regime, the pace of development of this industry has registered an accelerated development. By 1989, the wood industry in Romania was organized in firms and complex wood-manufacture factories, comprising two major industries: the forestry exploitation industry and the furniture industry. In the furniture industry there where 47 wood-manufacture factories with approximately 180000 workers (FSLIL, 2008).

After 1989, the structural changes that affected the Romanian economy also influenced the furniture sector. The loss of traditional markets, changing economic mechanisms, privatization delayed and poorly made, foreign exchange fluctuations, attitudes inconsistent with the principles of market economy have contributed to a negative evolution of the sector in the early years of transition.

The advantages offered by the sector (important production capacities with a highly skilled workforce, domestic material resources, increasing demand especially from foreign markets), foreign investments and domestic private capital formation were factors that led to a recovery through a deep restructuring. Existing production capacities were divided, restructured and retrofitted, but most firms in the furniture sector are newly appeared, flexible, dynamic, with a great desire to progress. According to Eurostat, in 2010, there were 3077 furniture enterprises in Romania with a number of 60.482 million persons employed.

Table 4. Furniture industry proportion in total industry of Romania, %

Industrial sectors	1996	2000	2005	2006	2007	2008	2009	2010	2011
1. Manufacturing, of which:	82	79,4	80,6	80,5	80,6	78,6	76,9	77,9	76.0
- Manufacture of furniture	2,7	2,3	1,7	1,6	1,7	1,9	1,8	1,7	1.9
2. Mining and quarrying	6,7	5,6	4,7	4,3	4,4	4,2	2,8	2,7	3.5
3. Electricity, heat, gases and water	11,3	15	14,7	15,2	15	14,5	17,3	15,8	20.5

Source: Romanian Statistical Yearbook 2002-2012

The importance of the furniture industry for the Romanian national economy is manifested by the share of this sector in total industrial production, according to Table 4. The share of the furniture production industry in economy declined in 2005 compared with 1996, but remains relatively constant after 2005, with a significant increase in 2011 compared to the previous year.

Table 5. Technical and economic indicators of the wood industry in Romania

Indicators	2004	2005	2006	2007	2008	2009	2010	2011
Production value, Mill. Euro (%), from previous year	1390,0 25,2	1530,0 10,1	1650,0 7,8	1890,0 14,5	1748,5 -7,5	1661,0 -5,0	1668.2 0.4	1711.6 2.6
Export, Mill. Euro (%), from previous year	833,0 19,2	895,0 7,4	964,6 7,8	1133,0 17,5	1117,5 -1,4	996,2 -10,9	1076 8.0	1306 21.3
% of exports in total production	60,0	58.5	58.5	59.9	63.9	60.0	64.5	76.3
Employees, Thou persons (%), from previous year	101,0 -5,4	98,1 -2,0	89,6 - 8,7	86,0 - 4,0	78,3 -9,0	65.8 -6.0	60.5 -8.0	60.5 0.0
Labour productivity Thousands EUR	13.76	15.60	16.90	22.00	22.33	25.2	27.5	28.3
Import, Mill. Euro (%), from previous year	156,7 26,7	229,4 46,4	304,2 32,6	436,2 43,5	508,9 16,7	304,3 - 40,2	306.0 0.5	337 10.1

Source: METBE 2011, and Eurostat (online data code: sbs_na_ind_r2) for 2010 and 2011

As can be seen in Table 5 the furniture production increased with an average rhythm of 13% from 2003 to 2007 but it had registered a lower level in 2008 and 2009 due to the economic crisis effects. Increasing of production resumed in 2010. A similar evolution exists in furniture exports in 2011, registering a growth of 21.3% compared to the previous year, about 76.3% of furniture production being exported. The number of employers in the sector decreased continuously and, based on production growth doubles labour productivity in 2011 compared to 2004. Furniture imports increased three times from 2004 until 2008, then in 2009 it's registered a decrease of 40, 2% compared with the previous year. From 2010 the growth of furniture imports resumed but in a slower pace.

According to the Romanian's national export strategy for 2011-2015, the main destination of furniture exports are the EU developed countries: Germany (23.6%), France (19.9%), Italy (11%), United Kingdom (6.1%) and the Netherlands (5.1%). Additional destination countries are: Russia, Ukraine and Middle Eastern countries. Imports of furniture came from Italy, Poland, China, France and Hungary.

Figure 2. SWOT analysis of the furniture industry in Romania

STRENGHTS	WEAKNESSES
• Over 90% of wood raw material and about 55% of auxiliary materials exist in Romania • Tradition and experience in domain • The possibility to recover the wood waste • The diversity of products manufactured and production flexibility • Qualified personnel with specialised skills • Economic operators located throughout the whole country • Reduced costs and competitive prices	• The technological gap and low productivity • Poor marketing strategies • Poor distribution • Selling products through intermediaries; • Low level of informatization; • High Consumption • Inadequate access infrastructure • High bank interests • Low level of salaries
OPPORTUNITIES	**THREATS**
• Quality raw materials • A stable traditional market • Possibilities of modernization and refurbishment	• High costs and delays due to the infrastructure • Cheap furniture imported from outside the EU • Insufficient Brands

	• External market shares lower than main competitor's • Malfunctions registered in relations with suppliers Fluctuations of the exchange rate • Increasing prices for raw materials

Source: Adapted after the Romanian national export strategy for 2011-2015 (METBE, 2011)

Furniture manufacturers in Romania must identify the main consumption patterns and their trends on the internal and external market for better satisfying consumer expectations, which are becoming increasingly selective according to quality, functionality and special design. There are a number of challenges facing the furniture sector in the future and to configure realistic development scenarios is required a SWOT analysis for this sector, which in summary is presented in Figure 2.

The developing strategy of the furniture industry in Romania seeks to position the sector among the world leaders in the sector promoting some competitive products, in terms of quality, design, functionality and price. The future development objectives are focused on promoting green technologies, improving management and marketing, diversifying production structures, expansion of information technology, appropriate technology development, recovered market consolidation, recovering the Community of Independent States market, implementation of quality environmental management system etc.

Achieving these objectives will lead to an increase in the production and quality of furniture, superior capitalization of raw materials, an increase in the export potential of Romania and an increase in level of those involved in the sector.

5. Conclusions

Furniture production is a permanent presence in economic activity because it’s an inseparable part of the microenvironment in which people spend most of their time working and resting. It is therefore natural that the furniture industry should occupy an important place in the economy of EU countries, such as Italy, Germany, France, UK and Spain. Among the countries that joined the EU later, an important position in the furniture market is held by Poland. At the same time, China has distinguished itself as a major competitor on the international furniture market.

Romania has an longstanding tradition in furniture production, which was heavily developed during the communist years and maintained during the transition to a market economy. In recent years, the furniture production in Romania and the furniture export have increased considerably, mainly due to industry restructuring and to massive investments in new technologies. The ascending trend was interrupted by the economic crisis that was felt in all sectors of the economy, which led to lower production and staff layoffs.

Important discrepancies still remain in the furniture's industry productivity between Romania and western EU countries, which indicates that sector rehabilitation is not exceeded and it is necessary to continue investments in high-performance technologies. SWOT analysis performed in this paper allowed a realistic diagnosis of the sector and highlighted other the strategic directions of development. Implementing these directions will allow Romania to ascend to the top of the leading manufacturers in the furniture industry and allows this industry to contribute to the overall progress of the economy, satisfying in this way the interests of those involved in this sector.

The present work brings an important contribution to the analysis and diagnosis of a major sector of national economy and the research results are useful decision-making tools in the sector, business, and academic environment interested in specialized information.

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