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PERSPECTIVES FOR THE ROMANIAN FURNITURE INDUSTRY

Case Study

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Abstract

Romania is a European Union member state that has an important history in the furniture industry. After the communist regime fall in Romania in 1989, the country registered chaotic development for many years. In general, the transition from communism to capitalism was very hard in Romania, and without any doubt, it was poorly implemented. In a difficult economic climate, the structural changes in all industries considerably affected the furniture industry as well. The sector has a strategic value for the Romanian industry. It is unanimously accepted in the literature that the best value added in wood processing sector is obtained in the furniture industry. In this regard, this paper will describe and analyse the sustainability of the furniture industry in the changing economic climate of the last years. Also it will underline the weaknesses and threats of the furniture sector in the European Union context, and in this regard will propose some directions in order to improve the sustainability of the furniture industry sector.

INTRODUCTION

The furniture industry in Romania has some important issues at the start of the year 2020. Some problems have been left without any appropriate solution from the Romanian authorities, so the effects in time are negative for the sector. There are some major challenges for this sector, and in the middle of the topics exists the need to increase the adaptability and the sustainability in a difficult and changing economic climate.

There are many advantages and issues for the Romanian furniture industry at the European Union or national level. It is important to study the data available for the sector in order to gain the capacity to solve the existing issues, to maintain best practices and to exploit the existing opportunities.

For the large enterprises of Romanian furniture industry, it is very difficult to adapt the production system according to customer's changing preferences in terms of design and materials. Most of the entities in the sector are SMEs. Among the economic problems specific to the SMEs, the entities encounter problems specific to the furniture industry. Probably, the biggest of them is the lack of wood and its fluctuating price, because it is the most important raw material for the furniture production.

This paper underlines some aspects regarding the sustainability of the Romanian furniture industry in the last years at macroeconomic level, analysing important macroeconomic indicators from the public statistical databases.

LITERATURE REVIEW

The furniture industry is an important sector of the industry at the European Union level. This idea can be explained by analysing two directions. First of all, it can be considered the strong relationship between humanity and the furniture, having a great importance for the human life (Mărginean, 2015).

As it can be observed in other studies, furniture production is always present in the economic activity because "it is an inseparable part of the microenvironment in which people spend most of their time working and resting. It's 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" (Burja & Mărginean, 2013). China's development in the furniture industry was fulminant in the last years, becoming the biggest furniture supplier for the EU.

The furniture industry in China has some important guidelines in order to achieve the well-known performance. In their study, Xiong et al. (2017) show some important characteristics of the Chinese furniture industry. The sector promotes the development of the wood industry in China "by means of the international industrial transfer, integration, world trade improving people's living standards by a stable national macro policy" (Xiong et al., 2017). It can be expected that China's industry, also its furniture industry will be affected by the coronavirus (COVID-19) epidemic that started in January 2020. However, in time the sector will be able to overcome the difficult moment.

The European Commission gives particular importance to the furniture industry among other branches of the European Union economy. The industry dominated by SMEs, has a special reputation due to the continuous struggle for innovation. With increased specialization, two of the three high-end products in the furniture industry, of high quality are produced in the European Union (European Commission, n.d.). Important opportunities are identified in the sector to increase competitiveness, such as: increasing investment in new technologies, design and research, attracting new markets or collaborating with other sectors such as the construction industry or tourism. In addition to the benefits, the European Commission notes a number of pressing issues. Among the particular challenges facing the EU furniture industry, it can be mentioned (European Commission, n.d.): Competition - resulting from countries that have a low-cost production. This is particularly noteworthy for China's penetration of the EU market, being the largest exporter to the European Union. At present, half of EU furniture imports come from China; Innovation - is the basis for the development of this sector and represents a big problem at the moment, due to the poor protection of intellectual property rights; Structural problems - the sector registers significant problems due to the aging of the workforce and the existing difficulty in attracting new, skilled workforce; Trade - difficulties found in the circulation of raw materials between international markets, which creates distortions in the market and leads to the decrease of competitiveness. In addition, furniture production in the EU incurs higher operating costs than outside the EU due to higher environmental or technical standards.

In Romania, furniture production takes place taking into account the system of integrated activities, while in the Western European countries and other developed countries, production is based on extensive cooperation with prefabricated and semi-finished products, which leads to increased productivity through specialization (Burja &

Mărginean, 2013). The Romanian Development Strategy 2014-2020 identifies several critical success factors, such as: quality, price, design, functionality, innovation area, the included materials and the compliance with European standards and regulations in force (Romanian Ministry of National Economy, 2013).

The Furniture Production Association represents the furniture manufacturers in Romania and works in order to keep the government economic calendar connected to the realities in the sector. The association proposed to the Romanian Government important suggestions for future public policies (The Furniture Review, 2019): the wood must be sold as wrought wood with a pre-emption right for the furniture industry, elimination of wages taxation on the minimum wage level, reconsidering of public sector wages policies, better collaboration with the educational sector and a bigger attention for infrastructure in Romania.

Romania is an attractive country for investors in the furniture industry. Constantin, Giusti and Tattara (2010) wrote about the strategies of Italian firms which invested in Romania. They described the internationalisation process in Romania from Italy. They concluded that the implementation had some advantages in the beginning, but they found, in time, multiple problems, especially with the suppliers.

Between 2011 and 2018, the increase of the wood price was more than 300%. The wood industry in Romania was the most expensive wood in the Europe: the price for beech wood was 55 euros/cubic meter in Serbia, 60-65 euros/cubic meter in Slovakia and Poland, 65 euros/cubic meter in France, 80 euros/cubic meter in Germany and 95-100 euros/cubic meter in Romania (The Foresters Association of Romania, n.d.).

In their study, Puiu, Budica, Ochetean and Budica (2012) conclude that the Romanian potential is high in the sector, but some measures are necessary in order to increase furniture exports. They suggest measures as design adjustments to consumption standards in the developed countries.

Aytaç, Gökay and Gökhan (2019) demonstrate that furniture customers choose low quality of raw materials. In this regard, it can be concluded that that the furniture customer has preferences that stimulate low-cost and low quality furniture production. Romania has an issue here, because it has many large entities of furniture production specialised in high-quality and art furniture. Even if there are some issues for the sustainability of the sector, the furniture industry remains very interesting for investors especially due to its great value added.

FINDINGS

According to the Centre for Industrial Studies, the global furniture production had increased by 20% between 2008 and 2017, to nearly $450 billion. In terms of world furniture production, in 2008 Europe accounted for 42% of world furniture production, North America 19% and Asia 33%. In 2017, Europe had only 26% of the world furniture production, North America 15% and Asia 54%. The same trend is maintained in terms of global furniture consumption. It increases in Asia from 26% of world furniture consumption to 44%, decreases in North America from 25% to 23% and drastically decreases in Europe, from 42% of world furniture consumption in 2008 to 26% in 2017. The CSIL forecast for the period 2020-2022 is increasing in terms of production, trade and consumption of furniture (Weichenberger, 2018).

The furniture industry in the EU-28 is showing a positive trend in furniture production. According to Eurostat database (n.d.), the largest furniture producing countries in the European Union are Italy, Germany, Poland, and Romania ranks 10. Table 1 shows an increase of the value added at the European Union level, so the industry manages to position itself on a positive trend, both in terms of production and turnover. This explains the fact that between 2018-2010 there was a 17.9% increase in turnover and in production by 11.11%, in the conditions of a decrease in the number of people employed in the sector by 8.65%. It can be concluded that during the analysed period of time, the industry has undergone a specialization process considering the growth capacity of the sector under the conditions of a significant reduction in the number of employees.

In the context of increasing production volume and turnover, the author emphasizes the importance of Romania's participation in international trade fairs, as a European Union member state. At the insistence of the Romanian Furniture Manufacturers Association (APMR), the Government of Romania invested in 2018 approximately 2.5 million euros in participating in 8 exhibition fairs with 109 Romanian furniture companies (The Furniture's Production Association, 2019). The most important growth factor in the furniture industry remains the marketing, because participation in international fairs brings export orders, given that over 60% of the turnover of the sector is destined for export.

The consumer's behaviour in Europe registers some changes, mainly due to the mutations of the way that the furniture is sold. Everyone can see the expansion of the online shops and almost any citizen use today applications in order to purchase various goods. This is not an exception for furniture and, in this regard, the European Union should allocate some important amount of money in order to support the SMEs in the sector. Online publicity is a must in furniture marketing and the entities in the sector should consider investing in ERP Software. The ability to manage all the important processes in a furniture entity may represent the key to the European SMEs development.

Analysing table 2 regarding the main indicators for the period 2009-2018, in absolute values, significant increases can be observed. The value of production increased by 60% and the turnover increased by approximately the same percentage. Gross investment in tangible goods sector increased by 37%, showing that the positive trend of the sector was supported by investments in fixed assets, which implicitly brought an increase of the specialization. It is important to mention the importance of investments in the furniture industry from European funds, many companies benefiting from this type of investment.

Regarding the number of employees in the sector, it stabilized in recent years (2009-2018). In 2004, there were 101000 employees in the sector (Mărginean, 2015), a number that decreased dramatically to a minimum of 61197 employees in 2013. Both in terms of the number of employees and of the number of entities in the field, one can notice the effect of the economic crisis in the sector and the growing trend of the sector in the recent years.

The dynamic analysis provides us with important information for the sector which shows a positive trend between 2009 and 2017. Value added at factor cost increases by 33% in the analysed period of time. By reporting value added at factor cost to persons employed the labour productivity indicator is obtained, which increased by 34% during the analysed period. This indicator, although it registers an increasing trend, is well below the value registered in the developed economies, Romania occupying the penultimate place at EU-28 level, before Bulgaria.

An element of concern for the sector is the fact that between 2009 and 2018, the personnel expenses increased by 77.5% to approximately the same number of employees while the turnover increased by only 55%. The successive increases of minimum wage in Romania lead to an increase of 30% of the expenses with employees between 2015 and 2017, while the increase of the turnover was only 9.5%. In this regard the author presents Figure 1.

As it can be seen in Figure 1, the effect of the significant increase of the expenses with the wages and the prices for the raw materials led to the decrease of the gross operating surplus between 2009 and 2017 with 65.75%. If in the future the index of growth of the turnover is not correlated with the index of the growth of expenses, the interest for the sector will decrease among the investors.

Regarding the **furniture trade**, Romania is very well placed in the first five exporting countries at European Union level. In table 3 the author detailed the situation of the trade for the period 2014-2017:

It can be seen in Table 3 that Romania registered trade exchanges amounting to 1.78 billion euros in 2017, recording a surplus of 824.75 million euros. Also, it can be noted from table 2 that in 2017 Romania recorded a production of 2.03 billion euros and a turnover of 2.15 billion euros. With an export value of 1.3 billion euros, it can be deduced that about 60% of furniture sales are for export and only 40% for domestic consumption.

According to the Romanian Furniture Manufacturers Association, due to the problems related to the raw material, the furniture production decreased in the first months of 2019 compared to 2018 by about 11%, the export increased by 6% and the import increased by 23% (The Furniture's Production Association, 2019).

Knowing the problems that arise in the situation of increasing the trade deficit at the country level, the surplus with which the furniture industry contributes positively to the recovery of the trade balance is yet another reason to support this sector among the Romanian authorities.

CONCLUSIONS

The economic climate of the European furniture industry shows some threats to the sector, especially caused by the decreased percent in word furniture production. The threat that is considered is caused by the new trend in furniture consumption, the consumers buying especially low-quality and cheap furniture. In the economic crisis caused by Covid-19 disease, if the consumer's behaviour maintains, the Asian furniture market will develop significantly comparing to European furniture markets.

After analysing the presented economic indicators for the Romanian furniture industry, the author considers that the sector has a strategic importance for Romania from multiple points of view. Due to its high value added the author considers that the Government of Romania should give by law a pre-emption right to the sector on the volume of wood that the sector is demanding. Also, Romanian economy benefits from the furniture industry due to its positive effect on the international trade balance.

Regarding the furniture's industry sustainability in Romania, the author considers the industrial sector having a good increasing capacity. Romania's furniture industry develops in accordance with the European Union. The analysed economic indicators show that the furniture industry in Romania has a positive trend, a fact that is revealed by the main indicators' values.

The investments in tangible assets and the workforce specialization bring better production capacities even if the number of persons employed has been decreasing in the last years. The expenses with the raw materials and with the personnel costs have a negative influence on the profit indicators and they must be strictly controlled. Otherwise, the stakeholders will decrease the investments or they will find other sectors to invest in.

The woodworking industry in Romania has faced an important development in the recent years, but that involved increasing wood consumption. Unfortunately, the percent of illegally exploited wood is very high in Romania, a fact that was claimed by the European Commission, which began in February 2020 an infringement procedure for Romania. The procedure regards the inconsistence of law procedures in wood exploitation. In this regard, the author points out the importance of exploiting raw wood materials in a reasonable way in order to obtain high value added with lower wood consumption.

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LIST OF TABLES AND FIGURES

Table 1
Main indicators of the European Union furniture industry

Indicators	Year	Year
	2010	2018/2017*
Number of enterprises	130000	120000
Number of persons employed	1040000	950000
Turnover (EUR million)	95000	112000
Purchases of goods and services (EUR million)	66000	71000
Personnel costs (EUR million)	22000	23511*
Value added (EUR million)	30000	33938*
Gross operating surplus (EUR million)	7500	10427*
Production value (EUR million)	90000	100000

**Values available only for the year 2017*
Source: Eurostat database (n.d.).

Table 2
The main macroeconomic indicators for the Romanian furniture industry

INDICATOR/YEAR	U.M.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Production value	€ million	1.345	1.439	1.481	1.515	1.630	1.784	1.899	2.033	2.088	2.153
Turnover	€ million	1.407	1.475	1.535	1.558	1.655	1.821	1.992	2.153	2.182	2.236
Enterprises	number	4.396	3.717	3.303	3.317	3.285	3.347	3.448	3.527	3.699	4.085
Persons employed	number	65.796	60.482	60.499	61.304	61.197	61.504	63.693	65.990	64.997	63.634
Enterprises - number	number	4.396	3.717	3.303	3.317	3.285	3.347	3.448	3.527	3.699	4.085
Value added at factor cost	€ million	419,7	388,3	404,2	402,9	453,8	510,0	479,2	568,2	559,1	*
Gross operating surplus	€ million	161,2	144,7	138,3	137,0	169,1	193,1	130,7	155,9	106,0	*
Personnel costs	€ million	258,4	243,6	265,8	265,9	284,7	316,9	348,5	412,3	453,1	*
Gross investment in tangible goods	€ million	112,3	106,2	111,8	113,4	106,0	126,8	146,6	139,1	136,0	154,0
Turnover per person employed	€ thousand	21,4	24,4	25,4	25,4	27,1	29,6	31,3	32,6	33,6	*
Labour productivity	€ thousand	6,4	6,4	6,7	6,6	7,4	8,3	7,5	8,6	8,6	*

**no data for 2018*
Source: Eurostat database (n.d.).

Table 3
Balance of furniture trade in Romania - millions of euros-

Indicator/TIME	2014	2015	2016	2017
Export	1136.05	1221.00	1311.09	1303.57
Import	409.18	472.52	480.60	478.83
Surplus	726.87	748.48	830.49	824.74

Source: Eurostat database (n.d.).

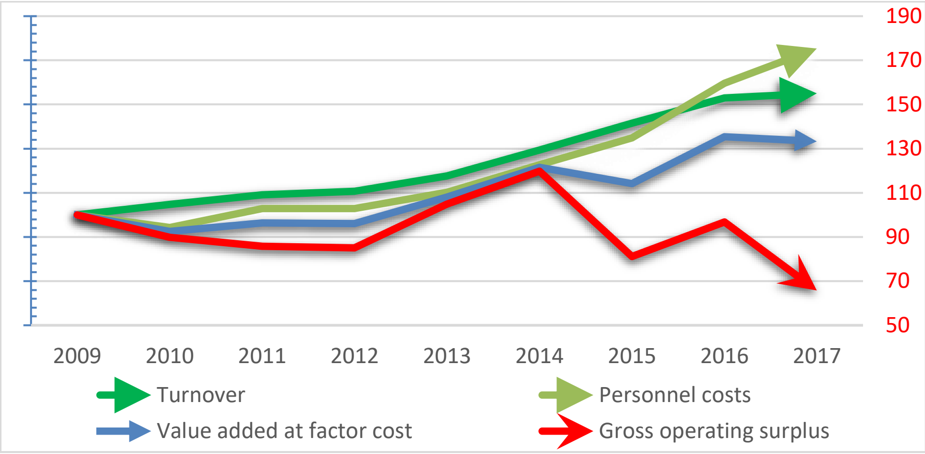

Figure 1
The evolution of the main indicators - 2009=100%
Source: Own projection of author