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## EXECUTIVE SUMMARY

### Objectives of report

The objectives of this report can be summarised as follows:

- To understand the current state of the furniture manufacturing sector on the island of Ireland and identify the main issues that are affecting its growth and development;
- To evaluate the competitiveness of the sector and understand its positioning in the domestic and export market context;
- To highlight the opportunities for development available to the sector on the island;
- To make recommendations in respect of the sector's development, informed by feedback from the market; and
- To prepare the foundations for higher levels of cooperation across the industry within and between Northern Ireland and Ireland.

The findings of this report are aimed at the industry, policy makers and development agencies, to ensure that each of their current strategies are well aligned with the changing market and competitive environment by providing an accurate picture of market trends, dynamics and sources of supply.

This report identifies opportunities for actions to be taken which will enhance the potential for a sustainable furniture manufacturing industry in Ireland and Northern Ireland in the face of intense international competition.

### The furniture industry 2002: a snapshot

Table 1 presents a snapshot of the all-island furniture manufacturing industry in 2002, highlighting market value, industry output, international trade and industry dynamics.

TABLE 1: THE FURNITURE INDUSTRY 2002								
	NORTHERN IRELAND		IRELAND		ALL-ISLAND		PERCENTAGE CHANGE 1999-2002	
	€M	£M	€M	£M	€M	£M	NORTHERN IRELAND	IRELAND
							%	%
<b>MARKET VALUE</b>								
Domestic	281	177	802	504	1,083	681	22	40
Contract	231	145	585	368	816	513	49	54
Total	512	322	1,387	872	1,899	1,194	33	46
<b>INDUSTRY OUTPUT</b>								
Domestic	181	114	353	222	534	336	18	29
Contract	148	93	216	136	364	229	14	19
Total	329	207	569	358	898	565	16	25
<b>INTERNATIONAL TRADE</b>								
Imports <sup>1</sup>	92	58	362	227	439	276	50	36
Exports <sup>2</sup>	92	58	123	77	216	136	57	15
<b>INDUSTRY DYNAMICS</b>								
Employment	3,813		6,615		10,428		9	10

Source: Regional Trade Statistics, HM Customs and Excise, July 2003  
Northern Ireland Annual Business Enquiry, Department of Enterprise, Trade and Investment, 2001  
2001 Census of Industrial Production, Central Statistics Office, July 2003  
ONS Annual Business Inquiry and Business Monitor MQ10 Trade by Industry

### Key points

- Retail furniture sales were valued at 1,899 million (£1,194 million) on an all-island basis in 2002. The market has grown by over 42 per cent since 1999 when it was valued at 1,324 million (£832 million);
- All-island furniture output reached 898 million (£565 million) in 2002 at manufacturers' prices, growing by 22 per cent since 1999;
- Furniture imports into Ireland have increased by 36 per cent since 1999;
- In Ireland, furniture exports have grown by 15 per cent in the same period since 1999. Information on exports from Northern Ireland is limited due to problems with the collection of inter-regional trade information within the UK. However, export data has been made available for 66 Invest Northern Ireland furniture client companies and collectively these companies have demonstrated a 57 per cent increase in export sales from 1999-2002; and
- Employment in the sector has increased by 10 per cent from approximately 9,500 people in 1999 to approximately 10,500 in 2002.

<sup>1</sup> Northern Ireland imports do not include the substantial level of goods coming either directly from or via Great Britain  
<sup>2</sup> Figure is based on a survey of 51 domestic and 15 contract furniture manufacturers from Invest Northern Ireland's client base

## Market drivers and consumers

Demand for furniture is influenced by a number of factors, including the economic climate (particularly, the construction sector), demographic changes, international trends, consumer lifestyles, and the media.

- Economic performance has slowed since 2001, but consumer confidence has remained high as a result of low interest rates and high levels of employment;
- Demographic changes, in line with the wider EU, include declining birth rates and growth in the middle age and older population bands. This affects types of housing and furniture required;
- Smaller families, later marriages and single person households, combined with working from home trends and more frequent eating out, are presenting particular challenges and opportunities for furniture manufacturers; and
- Consumer awareness of furniture design and interest in home decoration and improvement has been cultivated by a surfeit of national and local TV programmes and magazines covering DIY, design and home improvement.

Furniture manufacturers based on the island of Ireland need to gain a better understanding of potential customers' life cycles in order to target their products accurately, to their needs.

## Supply structure

Imports of domestic furniture into Ireland and Northern Ireland have continued to grow in recent years and now account for more than 70 per cent of domestic furniture sales in Ireland and 85 per cent in Northern Ireland.<sup>3</sup>

The expansion of UK multiples on the island (who tend to source products in large volumes internationally) and the decline of independent retailers are thought to be major contributors to the growth in imports' share of the market.

Leading sources of imported furniture include Great Britain (via multiples but not necessarily originating in Great Britain), Italy, Germany, Malaysia, Spain and Eastern Europe.

The contract sector has lost less ground to imports; Ireland- and Northern Ireland-based manufacturers retain 40 per cent and 55 per cent respectively of their local markets.

Exports by manufacturers in Ireland have shown modest growth since 1999, increasing by 15 per cent to 123 million (£77 million) in 2002. This Data recorded for Northern Ireland shows that export sales increased by 57 per cent to £58.2 million (£92.76 million) between 1999 to 2002<sup>4</sup>.

Cross-border trade between Ireland and Northern Ireland is considered small in comparison to other sectors - in 2002, this stood at approximately 11 million (£6.9 million) from Ireland to Northern Ireland, and £6.1 million (£9.7 million) from Northern Ireland to Ireland.

## Industry structure

The furniture industry on the island of Ireland is a significant contributor to the economy in terms of employment. In 2002, employment in the industry stood at:

- Northern Ireland: 3,813 jobs (4 per cent of total manufacturing employment); and
- Ireland: 6,615 jobs (2 per cent of total manufacturing employment).

The sector accounted for 1 per cent of GDP in Northern Ireland and 0.4 per cent in Ireland in 2002, and the value of manufacturing output in 2002 (at factory prices) was:

- Northern Ireland: £207 million (£329 million); and
- Ireland: 569 million (£358 million).

Between 1999 and 2002, 939 new jobs were created in the sector: 318 in Northern Ireland and 621 in Ireland.

The industry is geographically concentrated around the Border and Midlands regions: in particular in Monaghan, Armagh, Tyrone, Cavan, Meath and Fermanagh, making it an important engine of the economy in these regions.

There is a dominance of cabinet, upholstery, bedding and contract furniture manufacturing on the island. Northern Ireland is stronger in contract manufacturing, while Ireland has a larger representation of domestic furniture manufacturers, however the lines identified between the contract and domestic sub-sectors are becoming increasingly blurred.

## Markets

The key markets for manufacturers on the island are within the island and Great Britain. There has been limited market development beyond Great Britain and the island of Ireland.

In 2002, retail sales of domestic furniture at Retail Selling Price (RSP) were £177 million (£281 million) in Northern Ireland and 802 million (£504 million) in Ireland. The markets have grown by 22 per cent and 40 per cent respectively since 1999. In the UK as a whole, retail sales of domestic furniture were at £4,892 million (£8,069 million) in 2002, an increase of 1.5 per cent since 1999.

In 2002, the contract markets at end user prices were worth £145 million (£231 million) in Northern Ireland and 585 million (£368 million) in Ireland, an increase of 49 per cent and 54 per cent respectively since 1999. The UK's contract market was valued at £3,406 million (£5,419 million) in 2002, an increase of only 1.76 per cent since 1999.

Clearly the home markets have been more dynamic in the last 3 years, a factor that may explain heightened importer interest in Ireland.

Distribution channels for domestic furniture are similar between Ireland, Northern Ireland and Great Britain, with multiples now enjoying the dominant share of each market. Specialists are emerging, department stores are reviving, however, the independent sector continues to decline. Internet retailers and mail order have had limited impact on the island market.

<sup>3</sup> In Northern Ireland, this does not include sales of accessories, furniture products that are sold direct to end consumers through the many small bespoke furniture manufacturers, or products such as fitted kitchens and bedrooms that are installed in homes through building contractors/specifiers or direct to end users through manufacturers' own showrooms

<sup>4</sup> Export data for Northern Ireland is based on an analysis of 66 Invest Northern Ireland furniture client companies

## Issues affecting the industry

Island-based manufacturers have a solid reputation for quality, modern production processes and a diversity of products in both contract and domestic sectors. Weaknesses tend to be *softer* issues and in most cases are surmountable.

These include weak design culture and product development, the absence of strategic thinking, poor cooperation within the sector, and (most fundamentally) a lack of shared vision/positioning within the industry. The key issues facing furniture suppliers are:

### OVER DEPENDENCE ON INDEPENDENT RETAIL

Domestic furniture manufacturers on the island of Ireland rely heavily on the independent sector, which has been declining in recent years faced with increased competition from multiple retailers.

### SLOW PACE OF NEW PRODUCT DEVELOPMENT

Shorter product life cycles in domestic furniture require ongoing product design and steady introduction of new products into the market.

Some manufacturers are at the fore of product development, but the majority tend to be market followers rather than leaders and lack the necessary innovation to differentiate their product.

### INVESTMENT IN CONTRACT DESIGN

In the hospitality and leisure sector, refurbishments can now occur as often as every 5-8 years. This is particularly true of pubs and clubs requiring innovative designs from the contract sector. Investment in design is required to compete with the increasing influx of European imports on the contract market. Many manufacturers in Ireland and Northern Ireland do not consider design as a priority and are often unwilling to employ experienced designers and/or invest in design graduates with less experience.

### INVESTMENT IN DOMESTIC DESIGN

Recent years have seen consumers moving house on a more regular basis (approximately every 2-3 years). Manufacturers don't react quickly with innovative designs to anticipate this. They tend to use ideas from other markets to influence design trends.

### MANAGEMENT SKILLS

Among the challenges to the industry is the development of strategic management skills within companies. Many companies are family based and can also be predominantly manufacturing/production orientated rather than market focussed. There may sometimes be a reluctance to recruit the necessary management expertise across the business.

### PERCEPTION AMONG BUYERS

Among buyers, there is a perception that manufacturers in Ireland and Northern Ireland produce good quality products but dated designs. Manufacturers often fail to adopt the latest trends - by comparison with counterparts in Great Britain and Europe. Service and lead times could also be improved. It is necessary for the industry to position itself better in export markets.

### COMPETITIVENESS

High operating costs resulting from rising wages, utilities costs, insurance and employer contributions are making many indigenous companies uncompetitive and reduce the capital companies have to invest in areas such as R&D, design, marketing and training.

### EDUCATION AND TRAINING PLACES

Educational courses specifically geared towards the furniture industry are vital for the development and maintenance of a vibrant furniture industry on the island. Prospective students often choose other courses or travel to Great Britain to take up furniture-related courses. There is limited co-ordination between education providers in creating opportunities for complementary courses.

If we consider international best practice models in the relative furniture industries of Italy, Denmark and Germany, there is one common ingredient; a common sense of purpose and identity despite intense firm rivalry and a diverse production base. This means informal agreement among companies to adopt a common market position in terms of price and quality. For example, Italian furniture has a high reputation for design quality and commands higher prices for that reason. Similarly, German manufacturers have a reputation for quality and technical performance and can also command a premium. Denmark has an image for wood craftsmanship and Danish design also commands a premium.

The dominant force in the European market tends to be Italy<sup>5</sup>. The Udine province specifically opted for a proactive policy of conquering the market instead of being dependant on it. This province produces 50 per cent of Europe's chair production, 80 per cent of Italy's chair production, produces 40 million seats annually and supports 1,200 firms with 14,000 employees. The success of this province is based on the concept of networking and cluster development of the 1,200 firms. Within the province 37 per cent of the firms produce finished goods, 27 per cent semi-finished and components, while 26 per cent of all firms produce for third parties<sup>6</sup>. The province understands the significance of strategic competitive factors such as design and collaboration creating a synergy between producers and designers.

The province's transformation was caused by enhanced networking and network development, labour market change and innovation in design. The competitiveness of the province is characterised by flexible organisations and the capacity to improve technology and service capacity.

In comparison with the successful furniture producing areas such as Denmark, there is a lack of cohesion and cooperation for mutual competitive advantage in the industry on the island.

The industry on the island must develop a shared vision. This vision must match the existing reputation for quality on the island with a reputation in innovation, design and flexibility in production and service.

## VISION FOR THE ISLAND

A competitive, dynamic and highly networked all-island industry, driven by the current strengths of quality, smaller scale, and flexible production through the repositioning of suppliers at the innovation and design led end of the industry, with effective marketing and differentiation in both the domestic and export markets.

## RECOMMENDATIONS

### INDUSTRY COHESION - NETWORKS FOR COMPETITIVE ADVANTAGE

#### RECOMMENDATIONS

##### INVESTIGATE THE FEASIBILITY OF CREATING A HIGHLY NETWORKED INDUSTRY ON AN ALL-ISLAND BASIS

Such a strategic approach would be driven by the industry and would seek to integrate education and training, design and new product development, inward investment, enterprise development, marketing and export promotion. Such a strategy has been successfully developed in Denmark and Italy. A useful starting point may be a cross-border best practice visit to the Italian or Danish furniture districts under the auspices of the Irish Benchmarking Forum.

##### CONSIDER ESTABLISHING AN INDUSTRY ASSOCIATION

The industry lacks a representative voice on common non-competitive issues. An all-island industry association would provide a forum for industry representatives to meet and share common concerns, to formulate joint responses to legislative and policy changes, and to respond to changes in market conditions. Such an association could be based on the Construction Industry Federation's National Furniture Manufacturers' Association.

### MARKET POSITIONING

Manufacturers in Ireland and Northern Ireland have built good reputations for the quality of their products. Effective marketing should be used to exploit this more thoroughly.

#### RECOMMENDATIONS

##### RESEARCH THE MARKET THOROUGHLY

Irish and Northern Irish companies need to differentiate their products in order to compete effectively. To achieve this, they need a thorough understanding of the domestic and international markets, and of how they can position themselves better in those markets. Where possible, companies should expand and utilise their own market research resources, while capitalising on those being offered by government agencies.

##### INVITE RETAILERS TO VISIT

Furniture retailers and their staff appreciate being invited to visit manufacturing sites where they can see the products being designed and built. Retailers subsequently have a much better understanding of the industry and detailed product knowledge, which they can bring back to potential end-user customers.

### DESIGN AND INNOVATION

The slow pace of new product development, the lack of product innovation, and the lack of investment in design were all identified as serious challenges facing the industry.

#### RECOMMENDATIONS

##### INVESTIGATE THE FEASIBILITY OF SETTING UP A PRODUCT DEVELOPMENT LAB

- Consider conducting a feasibility study on the need for a product development lab to provide a pre-competitive environment in which to promote creativity and generate new ideas.

##### AVAIL OF CURRENT SUPPORT STRUCTURES

- Support and participate in the organised best practice visits through the government agencies.
- Invest in R&D and associated skills.
- Consider the comprehensive range of R&D funding programmes that are currently in place via the development agencies, such as Research, Technology and Innovation (RTI) and Compete.
- Participate in international trade events - to encourage the exchange of ideas, innovation, people skills and manufacturing techniques.

### MANAGEMENT SKILLS

Among the challenges to the industry is the development of strategic management skills within companies. Many companies are predominantly manufacturing/production orientated rather than market focussed. Companies should:

#### RECOMMENDATIONS

##### UTILISE AVAILABLE MENTORING PROGRAMMES

- Tap into available mentoring programmes that provide individual companies with access to levels of management expertise and knowledge that they do not have in-house.
- Priority areas of mentor expertise to include: design, customer relationship management and strategic planning.
- Consider recruiting industry mentors, ideally from the furniture industry outside of Ireland, to help bring new ideas and best practice to companies on the island, North and South.

##### REVIEW MANAGEMENT REQUIREMENTS

- Open up to the idea of recruiting new staff in design, production, marketing, human resources and other management specialisms.
- New professional talent will be the life blood of the industry and companies need to work on initiatives such as graduate recruitment and creating more opportunities for secondments and linkages between education and industry.

##### RAISE THE INDUSTRY'S PROFILE AMONG POTENTIAL STUDENTS

Industry-sponsored awards and bursaries in technology and design, specific to the sector, will raise the profile of the sector, attract graduates and generate effective PR.

## COMPETITIVENESS

Furniture manufacturers, like companies in other sectors, need to continually assess their own competitiveness, and seek ways of reducing costs.

### RECOMMENDATIONS

#### OUTSOURCING /JOINT VENTURE OPPORTUNITIES

Outsourcing is increasingly becoming a feature of many manufacturing operations in an effort to improve competitiveness and develop ranges. Co-production, for example, allows firms to manufacture components more cost effectively whilst retaining control over the essential areas of design and assembly.

Companies could further exploit this process through wider participation in existing programmes from government agencies, while learning to identify potential partners for collaboration.

## EDUCATION AND TRAINING

The furniture industry needs to pay greater attention to education and training issues.

### RECOMMENDATIONS

#### ENSURE APPROPRIATE SKILL BASE IS AVAILABLE

The industry needs to work closely with relevant training and educationalists to ensure the required skill base for the industry is available both for new entrants to the industry and also for existing staff.

#### TAKE UP TRAINING OPPORTUNITIES IN MARKETING

The government agencies offer training and workshops in the area of marketing such as Enterprise Ireland's Marketing for Export Growth and First Flight Initiatives or Invest Northern Ireland's Passport to Export programme. Companies should keep themselves informed about such opportunities and take up training opportunities that arise.

## Future market opportunities

The internationalisation of contemporary design will allow island-based manufacturers to participate in the wider European market where hitherto their reproduction style furniture was unsuitable. For example, the Eastern European market is becoming an opportunity as well as a threat for the furniture sector.

There are a number of other opportunities facing furniture producers, such as;

- continuing high demand for housing;
- favourable demographic trends;
- a growing UK market, for both domestic and contract furniture;
- an optimistic forecast for the tourism trade;
- leather products remaining popular; and
- the demand for cord, tweeds and felt products is re-emerging.

Given the tightening grip of Asian producers around the high volume end of the market, achievement of these opportunities will depend on sustaining competitive advantage through quality, innovation, design, market positioning and responsiveness. In the short term, realising these opportunities may require additional investment in capacity that is likely to squeeze margins. However, they may also be exploited through collaborative initiatives among suppliers for example, in offering whole room solutions.

If these adjustments can be made to the marketing strategy of the furniture industry, the potential exists to increase the value of the sector from its 2002 levels of 898 million (£565 million) to over 1,050 million (£670 million) by 2005, an increase of 18 per cent in 2-3 years<sup>7</sup>.

Export volumes in particular have the potential to grow from current levels which are equivalent to 24 per cent of output, to 30 per cent within the same timeframe, provided companies take seriously the challenge to modernise their sales and marketing strategies and get closer to their customer.

## 1: INTRODUCTION

In March 2003, InterTradelreland, in conjunction with Enterprise Ireland and Invest Northern Ireland, commissioned research to develop a report on the all-island domestic and contract furniture industries.

The primary purpose of this report is to provide detailed sector and market information for policy makers, development agencies, indigenous firms and exporters operating in the furniture industry in Ireland and Northern Ireland.

In 1999, InterTradelreland published 4 reports on the all-island furniture sector examining the domestic, contract, hotels and fitted furniture sub-sectors on an individual basis. As part of this research, it was considered helpful to look at these sub-sectors together, given the overlap identified previously and the increasingly blurred lines between them. Moreover, many of the issues facing manufacturers are common to each sub-sector.

### Definitions and scope of the report

This report examines the all-island furniture industry in the context of its core markets in Ireland, Northern Ireland and Great Britain. It also considers the wider global competitive context and market trends that firms based on the island of Ireland are increasingly facing.

A distinction is made between *domestic* furniture that is produced for the home and sold through retail outlets, and *contract* furniture that is produced for the commercial and corporate markets. Essentially the difference between domestic and contract furniture markets is in the distribution channels utilised to bring the products to market, and this distinction is becoming increasingly blurred.

The furniture industry remains a highly important industry within the island of Ireland, both in terms of employment and contribution to the economy. It is also one of the few purely indigenous sectors on the island and is currently facing increasing global competition for its markets.

### Research methodology

The review involved four main phases of work:

- Market overview: analysis of up-to-date market intelligence of the furniture industry, North and South - see Appendix A for a bibliography of sources;
- Consultation with key industry sources and government bodies representing the sector, North and South, with a view to assessing anticipated market dynamics, industry capability, and the current level of North/South trade and cooperation;
- In-depth interviews carried out with 25 furniture buyers and suppliers in the UK and Ireland, to understand current trends within domestic and contract furniture, and to gauge perceptions of furniture suppliers and their competitors. A semi-structured approach was taken to facilitate comparison and cross-tabulation of responses; and
- Case studies with leading manufacturers from Northern Ireland and Ireland also contributed to the study. Manufacturers shared their views and insights into the issues facing the sector.

## Key issues

A number of key issues are facing the industry, which, if they are not addressed, will affect the long-term success and even survival of the industry/sector. These issues were identified during the detailed consultations with industry and government agencies, with buyers, suppliers and stakeholders on both sides of the border, and from research into key export markets.

The recommendations arising from this report are intended to address these key issues.

### MARKET POSITIONING

Based on buyer consultations in the UK and Ireland, the perception of the industry in Ireland, North and South, is generally one of good quality products. However, designs are perceived as dated and service and lead times could be improved. Moreover, there seems to be a failure to adopt trends as quickly as British and European counterparts.

### COMPETITIVENESS

High operating costs resulting from rising wages, utilities, insurance and employer contributions are making many companies uncompetitive and are reducing the capital available for investment in areas such as R&D, design, marketing and training.

### DESIGN AND INNOVATION

Shorter product life cycles in domestic and contract furniture require ongoing product design and steady introduction of new products and/or product lines into the market. Some manufacturers on the island of Ireland are at the fore of product development, but the majority tend to be market followers as opposed to leaders and therefore lack the necessary innovation to differentiate their product within both domestic and international markets.

### MANAGEMENT SKILLS

Among the challenges to the industry is the development of strategic management skills within companies. Many companies are family based and can also be predominantly manufacturing/production orientated rather than market focused. There may sometimes be a reluctance to recruit the necessary management expertise across the business.

### INDUSTRY COHESION

The industry is fragmented and lacks cohesion and there is little mutual support or cooperation between companies - for example, the industry does not have an island representative body that could offer an integrated and cohesive strategy for the benefit of the entire industry.

### EDUCATION AND TRAINING PLACES

Educational courses specifically geared towards the furniture industry are vital for the development and maintenance of a vibrant furniture industry on the island. There is limited co-ordination between education providers. A number of companies (particularly in Northern Ireland) are members of the North Lancashire Training Group, and often participate in training programmes arranged by that organisation.

### EXCHANGE RATES

The rise and fall of exchange rates causes considerable problems to manufacturers on both sides of the border.

## 2: MARKET DRIVERS

The fortunes of the furniture industry remain largely determined by the overall health of the wider economy - for example, people tend to spend money on furniture when they move house or redecorate their homes. This is also true for the contract furniture market, where economic confidence is reflected in refurbishment and new building projects in hotels, pubs, retail shops and commercial property. If the economy is performing well, this is usually reflected in the housing and construction sectors, which has a knock-on effect in the furniture sector.

The strong general interest in DIY, property speculation and home improvement, stimulated by the media, has produced a more informed and discerning furniture consumer who often purchases furniture at regular intervals.

In the sections that follow, economic performance and the construction sector are examined in more detail and the wider international market context is considered.

### ECONOMIC PERFORMANCE

The impact of domestic economic performance on the furniture market, North and South.

### CONSTRUCTION SECTOR

The contribution of the construction sector to the performance of the furniture industry - including private housing, commercial and hospitality.

### INTERNATIONAL CONTEXT

The furniture industry in the wider international context.

### Economic performance

As a wholly indigenous industry that is reliant on domestic and export market conditions, the furniture industry does not exist in isolation from wider economic events. In 2002 and the first half of 2003, global trading conditions became increasingly difficult, this was characterised by depressed exports and weakened local demand. Middle East tensions and international uncertainty have led to lower business confidence levels, deferred investments in new property projects and more cautious consumer spending in Ireland and Northern Ireland as elsewhere.

Table 2 presents a brief economic summary of economic performance in Ireland and Northern Ireland from 2001 to 2003, providing a context within which, we can review the performance of the furniture industry.

**TABLE 2: ECONOMIC SUMMARY, IRELAND AND NORTHERN IRELAND, 2001-2003**

	2001	2002	2003
<b>IRELAND</b>			
GDP growth (per cent)	5.7	6.1	3.5
Consumer spending growth (per cent)	5.1	2.6	3.0
Employment (000's)	1,710	1,746	1,772
Unemployment rate (per cent)	3.7	4.4	4.6
<b>NORTHERN IRELAND</b>			
GDP growth (per cent)	1.5	2.0	2.5
Consumer spending growth (per cent)	3.0	3.0	2.5
Employment (000's)	708	718	745
Unemployment rate (per cent)	6.2	5.4	5.3

Sources: Information collated from: DETI / Office of National Statistics, Regional Trends 37, 2002 (Northern Ireland), CSO (Ireland) and First Trust Bank, Economic Outlook & Business Review, June 2003 (Northern Ireland and Ireland).

Table 3 shows the relative importance of the furniture industry in terms of its contribution to employment and GDP.

**TABLE 3: IMPORTANCE OF FURNITURE INDUSTRY, IRELAND AND NORTHERN IRELAND, 2003**

	IRELAND	NORTHERN IRELAND
Furniture sector employment as percentage of total employment	0.4	0.5
Furniture sector employment as percentage of total manufacturing employment	2.2	4.1
Furniture sector output as percentage of GDP	0.4	1.0

Sources: Information collated from: DETI / Office of National Statistics, Regional Trends 37, 2002 (Northern Ireland), CSO (Ireland) and First Trust Bank, Economic Outlook & Business Review, June 2003 (Northern Ireland and Ireland).

### The construction sector

The construction industry in Ireland, North and South, enjoyed a boom period towards the end of the last decade. This has been particularly evident in the growing demand for private housing, which has been fuelled by decreasing interest rates.

### PRIVATE HOUSING

The demand for housing on the island remains high, with almost 52,000 dwellings completed in Ireland and over 13,000 completed in Northern Ireland in 2002. This represents an increase of 4,205 and 1,106 respectively on the previous year. The total dwelling stock in Northern Ireland now stands at 670,000, while that in Ireland stands at 1.32 million, in both cases an increase of 21 per cent from 1998 to 2002. Table 4 summarises private house completions between 1998 and 2002.

**TABLE 4: PRIVATE HOUSING COMPLETIONS, IRELAND AND NORTHERN IRELAND, 1998-2002**

	IRELAND		NORTHERN IRELAND	
	HOUSING UNITS	YEAR ON YEAR CHANGE	HOUSING UNITS	YEAR ON YEAR CHANGE
1998	39,093	-	8,120	-
1999	43,024	10.05%	9,067	11.66%
2000	46,657	8.44%	10,512	15.93%
2001	47,727	2.29%	12,072	12.92%
2002	51,932	8.81%	13,178	9.16%

Sources: Ireland: Department of Environment, Heritage and Local Government, Housing Statistics Bulletin; Northern Ireland: Department for Social Development, Housing Statistics Bulletin, University of Ulster, Northern Ireland Quarterly House Price Indexes



### COMMERCIAL CONSTRUCTION

In Ireland, new construction in the office market has fallen in 2002-2003 but commentators now expect that it will recover as speculative supply slows, therefore opening channels for investors to buy new and existing stock<sup>8</sup>.

The retail commercial market remains relatively buoyant, with continued interest from both national and international retailers developing new sites or refurbishing existing sites for retail outlets, for example Moore Street Mall in Dublin and the Fairgreen Centre in Carlow.

In Northern Ireland, the office market is suffering from a lack of demand at present, with several new office developments lying vacant. In 2002, the Valuation & Lands Registry estimated that there was 703,000m<sup>2</sup> total office stock in Belfast, a rise of 13 per cent on 1999 (611,000 m<sup>2</sup>). Some specialist projects, such as the new Northern Ireland Science Park and the development of the Titanic Quarter on Queen's Island in Belfast, may present opportunities for office space and have a knock-on effect for contract furniture providers.

The Northern Ireland retail environment remains strong, with some major new developments under construction or planned, such as the Sprucefield Centre outside Lisburn or the recent announcement of the new development of Northern Ireland's largest single retail, industrial and commercial park on a site of 100 acres near Banbridge, Co. Down. The redevelopment of Victoria Square in Belfast is also likely to offer some significant contract opportunities for the furniture industry.

### HOSPITALITY CONSTRUCTION: PUBS AND CLUBS

Pubs and clubs construction developments were estimated to be worth 3.14 billion (£1.95 billion) in 2001, having grown by 29 per cent since 1996<sup>9</sup>. This sector continues to offer considerable opportunities for the furniture industry.

**TABLE 5: NUMBER OF HOTELS, PUBS AND CLUBS, 2002**

	IRELAND	NORTHERN IRELAND	TOTAL
Hotels	857	128	985
Pubs / Clubs	10,099	2,329	12,428

Source: Tourism Ireland; Drinks Industry Group of Ireland, 2002

### HOSPITALITY CONSTRUCTION: HOTELS

The hotel industry in Ireland has maintained its market share over the past 2 years despite the difficulties in global tourism - this has been due to the substantial growth in the domestic tourist market. A further boost to the industry in Ireland came with changes to the hotel capital allowance scheme, which now allows hotel investment to be spread over 25 years from December 2003 - the old scheme required the capital allowance to be spread over 7 years. As a result, several investors submitted planning applications for significant hotel developments before the capital allowance investment deadline in May 2003. These included; a 450-bedroom hotel near Dublin airport, a 234-bedroom hotel at Croke Park, a 120-bedroom hotel in Tallaght, a 184-bedroom hotel in Newtownmountkennedy; and a 156-bedroom replacement for Dublin's Ormond Hotel.

In 2002, tourism revenue in Northern Ireland was at £391million ( 435 million). The tourism industry remains optimistic about its future - tangible examples of major investment in new hotels in Northern Ireland include buildings in Armagh city, Belfast and the city of Derry.

### International context

The all-island furniture industry is significantly affected by trends on a wider scale within the international furniture industry. The European furniture industry, like the industry in Ireland and Northern Ireland, is characterised by small and medium sized enterprises (SMEs) that are often family based, however there are an increasing number of larger players operating within Europe. Internationalisation continues at an increasing pace as many European companies seek additional outlets or export opportunities in other markets, thereby creating greater competition for products manufactured on the island in both their home and export markets.

Italy, Germany, Denmark and Spain are key international supply markets while Eastern Europe is becoming increasingly dominant, both as a producer and as a market. Asian producers have strengthened their grip on the volume end of global markets.

Design plays a key role in the international furniture industry, and international design trends (often from outside the furniture sector) can play a pivotal part in the creation of styles and product ranges. Furthermore, advanced technology is being utilised in design to achieve high yield productivity.

Although small and often fragmented, successful international players have cohesive regional strategies in place and adopt close networking practices. Companies from regions that are strong in furniture are often clustered around a university or technical centre of excellence, for example, Jutland in Denmark and Gothenburg in Sweden. In northern Italy, there is close collaboration between producer and SMEs where a modular approach to components and assembly has been successfully deployed.

The Great Britain market has continued to show slow growth over the last few years and this market remains the key export focus for many companies in Ireland and Northern Ireland. Ireland is one of the key export destinations for office furniture from Great Britain and Northern Ireland (GB market dynamics is dealt with comprehensively in Chapter 4).

### 3: FURNITURE CONSUMERS

Manufacturers and retailers need to distinguish the different types of consumer for their products and understand their differing requirements. They also need to understand how consumer profiles and lifestyles are changing, in line with the general demographic changes in society.

In this chapter we look at furniture consumers, who they are, what they want, and how they are changing. In particular, we look at:

- The different categories of consumers in the market;
- How general demographic changes, including changes in household size and lifestyle, are making their impact felt in the furniture market;
- Changes in the levels of furniture ownership, and its impact on the market; and
- How media messages affect demand and as a consequence further development of the export market.

#### Consumer segmentation

Furniture is an essential part of our living environment, and most of us choose furniture that matches our lifestyle choices and the stage in life we have reached. Manufacturers and retailers need to distinguish the different types of consumer and to understand their different requirements.

Consultations with retailers indicate that consumers can be broken down into the following categories, each with their own sets of requirements:

#### BUYING FOR THE FIRST TIME

This group includes young professionals, typically in the 25-35 age group. They are consumers who tend to be price-sensitive and heavily influenced by media and fashion/style advertising. They are the core customers of Ikea and its imitators and are looking for contemporary low cost furniture which has good functionality and storage. Lifespan and durability are not high priorities. They are often living in apartments or conversions and require versatility in their furniture.

#### SETTLING DOWN

This group includes newly-weds and more established career singles who are looking for style and quality. They are still price-sensitive but less short-term in their needs. They typically have 2-3 bedroom homes and focus their expenditure on the living, dining and bathroom areas. They are the core target customer of the UK multiples such as Next, Habitat and Debenhams.

#### REARING THE CHILDREN

Married with children, this group spends the most money on furniture, as they are more likely to have larger houses and additional functional requirements - children's bedrooms, playrooms, gardens and conservatories, and larger living and dining rooms. They shop everywhere, particularly at the independents, department stores and furniture specialists, and seek value for money and durability rather than fashion, although style is still important for them.

#### MOVING ON

This segment includes couples with grown-up children, retired people and separated/divorced people. It is probably the most lucrative market for expensive furniture and is currently expanding. This group expects style and durability in their furniture and are not so price-sensitive. They are loyal to independents and furniture specialists, and value quality and service above other factors.

### Demographic changes

In line with the rest of Western Europe, the demographic make-up of Northern Ireland and Ireland is shifting towards an ageing population.

In Northern Ireland, there is a decline in the birth rate with an overall decrease of 13 per cent expected between 1996 and 2006. There is a slight growth in the number of 15-24 year olds and in those aged 35 and over, with those in the 25-34 year old band declining.

**TABLE 6: POPULATION TRENDS IN NORTHERN IRELAND, 1996-2006 (000s)**

	TOTAL			TOTAL PERCENTAGE
	1996	2002	2006	CHANGE 1996-2006
0-4 years	124	113	107	-13.0
5-14 years	266	258	243	-8.3
15-24 years	249	245	253	+1.6
25-34 years	260	249	235	-9.6
35-44 years	218	252	262	+20.2
45-59 years	266	294	312	+17.3
60-64 years	69	75	86	+24.6
65+ years	217	225	235	+8.3
Total	1,669	1,711	1,733	+3.8

Source: Government Actuary Department, 2003

Unlike Northern Ireland, the birth rate in Ireland is continuing to increase. A high proportion of the population are of working age, with just under 62 per cent of the population 25 years old and over. Highest growth is projected in the number of 55-64 year olds.

**TABLE 7: POPULATION TRENDS IN IRELAND, 1996-2006 (000s)**

	TOTAL			TOTAL PERCENTAGE
	1996	2002	2006	CHANGE 1996-2006
0-4 years	250	278	288	+15.2
5-14 years	609	544	556	-7.7
15-24 years	632	665	599	-5.2
25-34 years	519	615	661	+27.3
35-44 years	496	537	561	+13.1
45-59 years	412	476	508	+23.3
60-64 years	291	347	405	+39.1
65+ years	414	435	452	+9.2
Total	3,623	3,897	4,030	+11.1

Source: CSO 2003

As the demography changes, so too do the markets that manufacturers and retailers operate in. However, manufacturers and retailers don't always take account of different life-stages and consumer requirements. As a consequence, market share is lost to imports that are better targeted at key segments, such as the 25-35 year old group. By 2006, 45-59 year olds will be the largest population segment, and their taste in furniture may be rather different from that of 25-34 year olds. Manufacturers need to target both of these segments and to reflect different tastes in their wider portfolios of products.

#### HOUSEHOLD SIZE AND LIFESTYLE ISSUES

An additional market consideration is the shift towards smaller families. Average household sizes are much smaller than historically, with a nucleus of 1-2 children for the majority of families. Many people are also making different lifestyle choices, such as choosing to live alone and delaying having a family. In the 10 years to 2001, the number of households in Northern Ireland has increased by 13 per cent, and in Ireland by 25 per cent.<sup>10</sup> The effect of these lifestyle changes is an increasing number of smaller households with different requirements for furniture and furnishings, and often preferring more functional and understated styles.

The current low interest rate environment has enabled a greater number of people to borrow money, making mortgages much more accessible to a wider number of consumers, particularly first-time buyers. This means that while the actual size of households is decreasing, the number of housing starts is increasing. In addition to mortgages, the favourable borrowing conditions mean that many 'big-ticket' items, including many furniture items, are more accessible to a larger number of consumers.

On the whole, given that those categorised as rearing children and moving on are high spenders on furniture, demographic trends on the island would suggest a buoyant demand for furniture in the medium term.

#### Ownership of furniture

Within the past 12 months, lounge/living rooms and beds have been key growth areas (largely due to the growth in 'lounge living'), smaller growth rates have been recorded in fitted bedroom furniture. This ownership trend reflects the increased popularity of modular furniture and room solutions that can be mixed and matched, as opposed to fixed style fitted furniture.

The past two years have seen considerable growth in furniture ownership in Northern Ireland:<sup>11</sup>

- Lounge and living room furniture up 7.6 per cent;
- Dining room tables and chairs up 6.9 per cent; and
- Beds up 6.7 per cent

In Ireland, by contrast, levels of furniture ownership have been fairly static over the past 2 years, with an overall decline in ownership of fitted bedroom and kitchen furniture. Market increases in recent years are largely accounted for by consumers changing furniture or trading up.

#### Consumer trends and the media

The media has had a huge effect on the furniture market on the island. There is currently a wide range of specialist magazines and TV programmes that encourage consumer participation in home improvement and decoration. Although much of the media hype is centred around DIY, there is an emphasis on colour schemes and the complementary furniture to each individual style. Consumers have been influenced to such an extent that home decoration and furnishing now have a much shorter life cycle than previously, and can take place as often as every 2-3 years in many households.

## 4: MARKET DYNAMICS

How big is the furniture market in Ireland, Northern Ireland and Great Britain? How much of the market do local manufacturers hold? What are the distribution channels through which furniture is sold? In this chapter we attempt to answer these and other questions about the size, segmentation and dynamics of the furniture market on the island of Ireland by addressing the following issues:

- Industry output the value of the furniture sector output at retail and factory prices;
- Domestic and contract segments on the island, the contribution of each to the total market;
- The share of the indigenous market held by indigenous manufacturers;
- Trading opportunities detailing: furniture export data; export opportunities in Great Britain - a significant export market for domestic and contract furniture; and
- Competition from imports and cross-border trade and opportunities.

#### Industry output

##### MARKET AT FACTORY PRICES

Table 8 shows that the value of the all-island furniture sector<sup>12</sup> outputs at factory prices was 896 million (£563 million) in 2002. This represents a growth of 23.8 per cent since 1999 in EUR values or 18.2 per cent in GBP values. Of this total, the domestic furniture market is worth 532.1 million (£334.4 million), equivalent to 59 per cent, with contract furniture valued at 364.2 million (£228.9 million) equivalent to 41 per cent of the total. The overall market by output breaks down to 63.6 per cent (569.5 million/£357.9 million) in Ireland, and 36.4 per cent (326.8 million / £205.4 million) in Northern Ireland.

**TABLE 8: ALL-ISLAND FURNITURE MANUFACTURING OUTPUT, 1999-2002**

	1999				2002				PERCENTAGE CHANGE 1999-2002	
	Northern Ireland		Ireland		Northern Ireland		Ireland		Northern Ireland	Ireland
	€M	£M	€M	£M	€M	£M	€M	£M		
<b>Total Output</b>	<b>268.4</b>	<b>176.7</b>	<b>455.7</b>	<b>299.9</b>	<b>326.8</b>	<b>205.4</b>	<b>569.5</b>	<b>357.9</b>	<b>16.2</b>	<b>25.0</b>
- Domestic	144.9	95.4	273.4	180.0	179.0	112.5	353.1	221.9	17.9	29.2
- Contract	123.5	81.3	182.3	120.0	147.8	92.9	216.4	136.0	14.3	18.7
<b>All-island total</b>	<b>€724.1 / £476.5</b>				<b>€896.3 / £563.3</b>				<b>23.8 (EUR)<sup>13</sup></b>	
									<b>18.2 (GBP)<sup>13</sup></b>	

Source: Department of Enterprise, Trade and Investment/Central Statistics Office/OCO Consulting, 2002

12 There are slight differences in how the domestic and contract sectors are defined in Northern Ireland and in Ireland. Kitchen furniture is classified as domestic furniture within the Northern Ireland context, while in Ireland it comes under the contract fitted segment. The lines between contract and domestic furniture are becoming increasingly blurred as some domestic furniture manufacturers are actively targeting the hotel and developer markets, while the contract specialists have been standardising certain ranges for the domestic market. This also reflects the style of contemporary furniture that fits in to corporate, domestic and hotel/restaurant environments

13 The differences in the all-island percentage change figures are due to fluctuations in the exchange rates

## Retail domestic market sales and segmentation

In the retail domestic market, sales grew by 22 per cent in Northern Ireland and 40 per cent in Ireland in the period 1999-2002. This contrasts with growth of only 2 per cent in the United Kingdom as a whole. To illustrate these increases in the size of the market further, the report reviews the value of retail domestic and contract sales in Ireland and Northern Ireland in 1999 and 2002.

**TABLE 9: RETAIL DOMESTIC AND CONTRACT MARKET SALES AT RSP**

	RETAIL DOMESTIC SALES				CONTRACT SALES			
	Northern Ireland		Ireland		Northern Ireland		Ireland	
	€M	£M	€M	£M	€M	£M	€M	£M
1999	220	145	571	375	147	97	381	251
2002	282	177	802	504	231	145	585	368

Source: Mintel/OCO Consulting, 2003  
The Retail Domestic Sales values are based on retail sales price (RSP);  
Contract sales price are based on end - user prices.

Consultations with retailers indicate that the growth in Ireland and Northern Ireland was driven by some common factors, including:

- The 'colonisation' of the high streets and shopping centres by large multiple chains with lower prices;
- Heightened consumer interest in home improvement and interior design;
- Changes in demography and household formats; and
- New house building and refurbishment.

There are 5 key segments in the retail domestic furniture market in Ireland and Northern Ireland; upholstery, living/dining room, bedroom/beds, fitted kitchens and other (occasional, garden). Table 10 shows the value of each of these market segments in 2002.

**TABLE 10: SEGMENTATION OF RETAIL SALES OF HOME FURNITURE IN NORTHERN IRELAND, IRELAND AND ALL-ISLAND, 2002**

	NORTHERN IRELAND		IRELAND		ALL-ISLAND	
	€M	£M	€M	£M	€M	£M
Upholstery	87	55	236	148	323	203
Kitchen	64	40	175	110	239	150
Living/dining	54	34	163	102	217	136
Bedroom/beds	52	33	151	95	203	128
Occasional/other	22	14	77	48	99	62
<b>Total</b>	<b>279</b>	<b>176</b>	<b>802</b>	<b>503</b>	<b>1,081</b>	<b>679</b>

Figures rounded; Mintel, 2003

Each of these segments is now dealt with in more detail<sup>14</sup>.

### Upholstery

Upholstery includes sofas, armchairs and occasional upholstered pieces. In terms of value, it is the largest retail domestic furniture segment in both Ireland and Northern Ireland, accounting for 29 per cent and 31 per cent respectively.

There has been a move towards individual furniture pieces and away from the traditional 3-piece suite - this is perhaps due to the smaller living rooms in modern houses and apartments.

In recent years, leather has been the biggest theme in upholstery, accounting for up to 50 per cent of sales among some retailers. Internationally, however, there are indications that leather may be losing some of its popularity, and there may be a revival in other fabrics such as cord, felt and tweed.

### Living/dining room

Living/dining room market sales accounted for 20 per cent of all retail domestic sales in Ireland and 19 per cent in Northern Ireland in 2002.

The segment has continued to move towards furniture that is better geared towards in-home entertaining and relaxation.

Smaller living spaces require good storage solutions, and functional versatile furniture that can be used for home-working, living and entertaining is increasingly popular.

### Bedroom

Bedroom furniture accounts for 19 per cent of retail domestic furniture sales in both Ireland and Northern Ireland.

Since 1999, however, the bedroom segment has continued to trade downwards towards cheaper, often self-assembly furniture. Some customers, are moving towards integrated bedroom designs, and manufacturers must be able to meet this increasing demand. In this context, in-store merchandising is a key marketing tool and but needs to be closely controlled and managed by the manufacturer.

### Kitchen

Kitchen furniture sales represent 22 per cent of all retail domestic furniture sales in Ireland and 23 per cent in Northern Ireland.

Despite the strong inroads that multiples such as MFI and B&Q have made at the lower end of the all-island market, more expensive new or replacement kitchens and most of the contract kitchen work is still being won by independent specialists.

Kitchen furniture styles reflect the trends towards clean minimalist lines and lighter woods, with the design themes in kitchens mirroring (and in some cases anticipating) trends in living/dining room furniture.

### Occasional

Occasional furniture, such as coffee tables, coat stands and mirrors has been an important growth area in recent years, with most products imported from Italy and the Far East. The value of the segment grew by over 50 per cent between 1999 and 2002.

## Contract market sales and segmentation

The market analysis of contract furniture sales presented in Table 11 is based on the end user or RSP - that is, incorporating the trade mark-up on the ex-factory cost.

	NORTHERN IRELAND		IRELAND	
	€M	£M	€M	£M
1999	147	97	381	251
2002	220	145	585	368

Source: Mintel/OCO Consulting, 2003

Significantly, the percentage increases in market value in the period covered are 49 per cent in Northern Ireland and 54 per cent in Ireland. By comparison, growth in this sector in the United Kingdom as a whole over this period was a very modest 2 per cent.<sup>15</sup>

Local contract companies' share of the pubs and restaurant market has remained high due to the influence of local developers and architects. The continuous cycle of innovation, design and redevelopment in this area has presented good opportunities for contract suppliers. However, many elements of the furniture they supply are imported (seating, upholstery and tables) and suppliers on the island therefore make their margin on the distribution and installation side.

Many major contract furniture supply opportunities to commercial developments, such as offices and national/international hotel chains, have not been accessible to local companies due to centralised procurement policies and global supply contracts of the larger chains.

On the other hand, the supply and fit of contract fitted kitchens and bedrooms is almost exclusively dominated by local island-based manufacturers such as ORM and Soft Line Panels. In addition, some large contracts in residential developments (IFSC area in Dublin and Lagaside in Belfast) have been won by local manufacturers.

Opportunities in the public sector, including hospitals, schools, colleges and new public buildings have also been an important source of work for the contract furniture sector in recent years.

There are 4 key segments in the retail contract market on the island of Ireland: hotels/pubs/clubs, office/commercial, fitted bedrooms and fitted kitchens. Table 12 shows the value of each of these market segments in 2002.

	NORTHERN IRELAND		IRELAND		TOTAL	
	€M	£M	€M	£M	€M	£M
Hotels, pubs and clubs	103	65	200	126	303	191
Office/commercial	79	50	210	132	289	182
Fitted kitchens	32	20	140	88	172	108
Fitted bedrooms	16	10	35	22	51	32
<b>Total</b>	<b>230</b>	<b>145</b>	<b>585</b>	<b>368</b>	<b>815</b>	<b>513</b>

Source: OCO Consulting, 2003

Each of these segments is now dealt with in more detail<sup>16</sup>.

### Hotels, pubs and clubs

Mintel recorded almost 11,000 licensed premises (pubs and hotels) in Ireland and almost 2,600 licensed premises (pubs, clubs and hotels) in Northern Ireland in 2002.

The average expenditure on furniture for a pub fit-out is in the range 20,000- 30,000 (£13,000-£21,000) for a medium sized unit (less than 5,000 square feet). New hotel projects and refurbishments vary enormously in size and value, but developers estimate that the fit out costs per bedroom are in the range of 3,000- 5,000 (£2,000-£3,500) depending on the rating of the hotel. In 2002, 16 new hotels were built on the island<sup>17</sup>.

Design themes evolve quickly in the hotels, pubs and clubs business and the current mood is retro, 1950-1960s styling. Manufacturers wishing to target this sector must be prepared to adapt quickly to new concepts and keep in touch with the trends through specialist magazines such as Theme and AM:PM. Leaders in this sector, such as G&J Derry, Abbey Joinery and McGuigan Furniture, all depend on outsourcing key elements of their product offering.

### Commercial and office property

For commercial developments, the average fit-out cost is 200 (£130) per square metre and 400 (£260) for retail developments<sup>18</sup>.

The stock of commercial space grows and renews/refurbishes, on an 8-10 year cycle. The annual market for office and retail commercial development in Ireland, North and South, will increase significantly and it is currently valued at 280 million/ £176 million (2002).

### Fitted kitchens

Just over 52,000 new houses were completed in Ireland in 2002, and with an average spend in the region of 2,000 (£1,257) on a fitted kitchen, this gives a market size of 104 million (£63.4 million) for 2002. Replacement kitchens are estimated to be worth in the region of 40 million (£25.1 million), giving a total market value in the region of 144 million (£90.5 million) in 2002.

In Northern Ireland, the fitted kitchen market is worth £19.5 million ( 31 million), divided between new kitchens at £13 million ( 20.6 million) and replacement kitchens at £6.5 million ( 10.3 million).

### Fitted bedrooms

In 2002, the fitted bedroom market on the island was estimated to be worth approximately 50 million (£31 million), of which 35 million (£22 million) is in Ireland and 15 million (£9.4 million) in Northern Ireland. Fitted wardrobes have been out of fashion, but have recently been making a comeback in the apartment sector. There were 2,000 new apartments built in Northern Ireland and 11,500 built in Ireland in 2002. Developers suggest that the average expenditure on fitted bedrooms is in the range of £1,000/ 1,600 for a 2-bedroom apartment.

Tables 13 and 14 show changes within the contract and domestic furniture segments on the island<sup>19</sup>.

Table 13 highlights the changes between the sectors for the period 1999 to 2002 in Ireland.

<b>TABLE 13: PERCENTAGE SHARE OF KEY SEGMENTS IN IRELAND, 1999 AND 2002<sup>20</sup></b>		
SEGMENT	1999	2002
<b>Domestic</b>	<b>Percentage</b>	<b>Percentage</b>
Domestic cabinet	26	31
Beds/bedding	18	17
Upholstery	10	9
Chairs	1	1
Other	5	4
<b>TOTAL DOMESTIC</b>	<b>60</b>	<b>62</b>
<b>Contract</b>		
Contract (office/commercial)	20	18
Fitted furniture (kitchen & bedroom)	10	10
Shopfitting	7	7
Furniture components	3	3
<b>TOTAL CONTRACT</b>	<b>40</b>	<b>38</b>

Source: Enterprise Ireland, 2003

Cabinetry has grown in importance (by 5 per cent) relative to other sectors, probably as a result of the increased emphasis on storage solutions and prioritisation of spending on living room areas, particularly in the apartment market.

<b>TABLE 14: PERCENTAGE SHARE OF KEY SEGMENTS IN NORTHERN IRELAND, 1999 AND 2002<sup>21</sup></b>		
SEGMENT	1999	2002
<b>Domestic</b>	<b>Percentage</b>	<b>Percentage</b>
Domestic cabinet	26	25
Fitted (kitchen & bedroom)	10	11
Upholstery/bedding	7	6
Furniture Components/Accessories	11	13
<b>TOTAL DOMESTIC</b>	<b>54</b>	<b>55</b>
<b>Contract</b>		
General Contract	22	24
Shopfitting	12	11
Specialised joinery	12	10
<b>TOTAL CONTRACT</b>	<b>46</b>	<b>45</b>

Source: Invest Northern Ireland/OCO Consulting estimates, 2003

Table 14 shows the changes in the percentage share of the key segments in Northern Ireland. As in Ireland, cabinetry is the strongest sector in the industry in Northern Ireland, contributing 25 per cent of the total output value. Unlike Ireland, where there is a strong bedding (mattress) manufacturing presence, bedding and upholstery combined account for only 6 per cent of total indigenous output in Northern Ireland.

The main difference between Northern Ireland and Ireland is the greater significance of contract manufacturing in the North at 45 per cent compared to 38 per cent in the South. The true disparity here is even greater as kitchen furniture comes under the contract category in the South.

## Domestic market opportunities

### LOCAL MANUFACTURERS' SHARE OF THE LOCAL MARKET

It is estimated that locally based manufacturers' share of the domestic retail market in Northern Ireland is about 15 per cent, compared to 55 per cent in the contract market. This does not include sales of accessories, furniture products that are sold direct to the end consumers through the many small bespoke furniture manufacturers, or products, particularly fitted kitchens and bedrooms that are installed in homes by building contractors/ suppliers or direct to end users through manufacturers own showrooms. Interviews with industry suggest that this relatively low share is due to intense competition posed from the presence of an increasing number of UK multiple retailers - retailers such as Reid's, MFI and DFS accounting for a large share of the market. These multiples sell goods that are largely sourced outside Northern Ireland.

In Ireland, local domestic manufacturers have a higher share of the domestic retail market (30 per cent) than do their counterparts in Northern Ireland, this is also coming under increased pressure from UK multiples and imported products. In the contract market, manufacturers in Ireland have 40 per cent of the local market and Northern Ireland manufacturers have 55 per cent of their local market - this is due at least in part to the high volume of imported office furniture, estimated to be worth 53 million in 2002.

<b>TABLE 15: LOCAL MANUFACTURERS MARKET SHARE ESTIMATES BY SECTOR</b>		
	NORTHERN IRELAND PERCENTAGE	IRELAND PERCENTAGE
Market share domestic	15	30
Market share contract	55	40

Source: OCO Consulting, 2003.

## Trading opportunities: Export trends

Approximately, 22 per cent and 28 per cent respectively of output from the Ireland and Northern Ireland furniture industries is exported. Tables 16 and 17 show the main furniture exports from Ireland and Northern Ireland by country of destination in 2002.

<b>TABLE 16: MAIN FURNITURE EXPORTS FROM IRELAND BY COUNTRY OF DESTINATION, 2002</b>			
	€m	£m	percentage share of all furniture exports
Great Britain	73.3	46.1	59.5
United States of America	13.0	8.2	10.6
Northern Ireland	9.8	6.2	7.9
Other	27.0	17.0	22.0
<b>Total</b>	<b>123.1</b>	<b>77.5</b>	<b>100.0</b>

Source: CSO, Trade Statistics, 2002.

<b>TABLE 17: MAIN FURNITURE EXPORTS FROM NORTHERN IRELAND BY COUNTRY OF DESTINATION, 2002<sup>22</sup></b>			
	£m	€m	percentage share of all furniture exports
Ireland	30.9	49.2	53.1
Great Britain	25.2	40.1	43.4
Other	2.0	3.2	3.4
<b>Total</b>	<b>58.1</b>	<b>92.5</b>	<b>100.0</b>

Source: Invest Northern Ireland, 2003.

20 Data in this table relates to Enterprise Ireland clients only, and for that reason may not be representative of the entire industry - particularly the kitchens sector which is underrepresented in Enterprise Ireland

21 Data in this table relates to Invest Northern Ireland clients only, and for that reason may not be representative of the entire industry

22 Invest Northern Ireland figures are based on a broad definition of the furniture sector, which includes furniture accessories, cabinet doors, etc

Table 18 below shows the value of exports by sector from Ireland for the period 1999-2002.

TABLE 18: FURNITURE EXPORTS, IRELAND, 1999-2002					
	1999		2002		PERCENTAGE CHANGE
	€M	£M	€M	£M	
	Bedding and mattresses	12.6	8.3	32.9	
Upholstery/seating	16.4	10.8	10.6	6.7	-35
Office	6.55	4.3	7.7	4.8	18
Kitchen	2.6	1.7	2.3	1.4	-12
Bedroom	5.7	3.8	7.8	4.9	37
Other cabinet	34.9	23.0	40.2	25.3	15
Other*	28.1	18.5	21.6	13.6	-23
<b>Total</b>	<b>106.8</b>	<b>70.4</b>	<b>123.1</b>	<b>77.4</b>	<b>15</b>

Source: CSO, Trade Statistics, 2002  
 \* The Other category includes items such as metal furniture for medical, dental, surgical and veterinary offices; seats for aircraft or motor vehicles; upholstered seats and garden seats, etc.

Total export sales by furniture manufacturers in Ireland are up 15 per cent over 3 years. The increase is largely due to an increase in exports of bedding and mattresses (up 161 per cent) offsetting decreases in the Upholstery/Seating, Kitchen and Other sectors.

Statistics for furniture export sales by product type do not exist for Northern Ireland. However, Table 19 shows export sales of domestic and contract furniture, which is based on the analysis of 66 furniture manufacturers provided by Invest Northern Ireland. Total export sales by furniture manufacturers in Northern Ireland are up an encouraging 57 per cent over 3 years.

TABLE 19: FURNITURE EXPORTS, NORTHERN IRELAND, 1999-2002					
	1999		2002		PERCENTAGE CHANGE
	€M	£M	€M	£M	
	Domestic	13.3	20.21	20.3	
Contract	23.8	36.16	38	60.46	60
<b>Total</b>	<b>37.1</b>	<b>56.37</b>	<b>58.3</b>	<b>92.76</b>	<b>57</b>

Source: Invest Northern Ireland, 2003

### Export opportunities: Great Britain

Great Britain is the single largest export market for furniture manufacturers on the island of Ireland, accounting for 60 per cent of furniture exports from Ireland and 43 per cent of furniture exports from Northern Ireland in 2002.

In 2002, total furniture output in the UK was estimated at £9.9 billion at manufacturers' prices - this is over 17 times' the value of combined output from Ireland and Northern Ireland (at £565 million/ 899 million). Total output by UK furniture manufacturers has increased by 7 per cent since 1999.

Domestic furniture manufacturing accounts for 58 per cent of all output, with the remaining 42 per cent accounted for by sales of contract furniture.

UK manufacturer' sales of domestic furniture increased by 6 per cent between 1999 and 2002. Contract furniture sales increased by 10 per cent during the same period.

Small manufacturers (employing fewer than 9 people, on average), account for two thirds of the UK<sup>23</sup> furniture industry, and only 4.7 per cent of companies in this industry have annual turnover in excess of £5 million.

### DOMESTIC SALES AND SEGMENTATION

TABLE 20: MARKET SALES (RSP), UK, 1999-2002					
	1999		2002		PERCENTAGE CHANGE
	£M	€M	£M	€M	
	<b>Market sales</b>	<b>8,163</b>	<b>12,988</b>	<b>8,298</b>	
Domestic	4,816	7,662	4,892	7,783	2
Contract	3,347	5,325	3,406	5,419	2

Source: Mintel/OCO Consulting, 2003

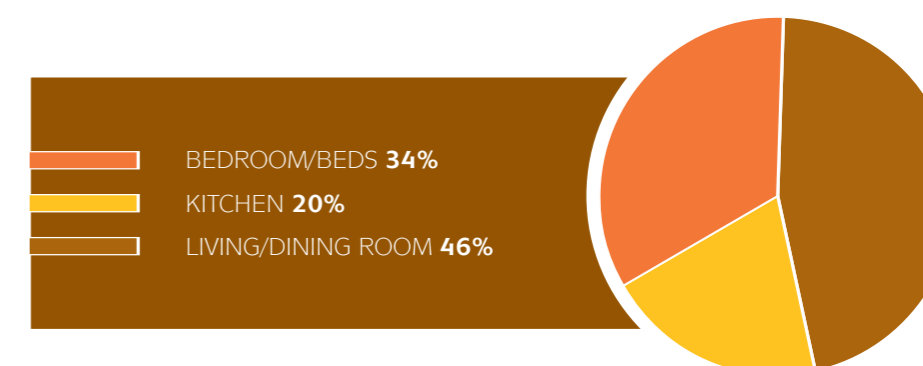
The total UK retail market for furniture was valued at £8.3 billion ( 13.2 billion) in 2002. The market is divided into domestic furniture, valued at £4.9 billion ( 7.8 billion) and contract furniture estimated at £3.4 billion ( 5.4 billion).

TABLE 21: UK DOMESTIC FURNITURE SALES, BY TYPE, 1999-2002				
	LIVING / DINING ROOM	KITCHEN	BEDROOM/BEDS	TOTAL
	£M	£M	£M	£M
1999	2,175	921	1,720	4,816
2000	2,215	971	1,675	4,861
2001	2,224	993	1,673	4,890
2002	2,225	997	1,670	4,892

Source: Mintel, 2003

The UK domestic furniture market grew by 1.5 per cent between 1999 and 2002.

FIGURE 1: SEGMENTATION OF RETAIL SALES OF HOME FURNITURE IN THE UK, 2002



Source: Mintel, 2003

The key segments in the home furniture market include living & dining room, kitchens and bedroom/beds. Each of these segments is now dealt with in more detail.

### Living /Dining room

The living room and dining room furniture segment accounted for 46 per cent of all sales in the UK in 2002. This has increased by just over 2 per cent between 1999 and 2002.

The large multiple retailers have been driving what would otherwise be a flat market with significant advertising budgets and low-cost finance offers. 'Free finance' is seldom free to the supplier - a point that should be considered by potential Irish suppliers to the UK multiples. The combination of attractive prices, innovation and one-stop shopping being offered by retailers like IKEA has drawn younger consumers and families in particular away from traditional retailers.

IKEA has been partly responsible for the growth of flat pack furniture in the UK market. Most of the cabinet furniture being sold through the larger multiples is sold in flat pack format. This could be an obstacle for Irish suppliers who cannot ship flat pack versions of their ranges.

As in Ireland and Northern Ireland, the living/dining room furniture is more geared towards in-home entertaining and relaxation. Despite the current trend towards modern/contemporary style, there is still a demand for 'traditional' styles. The important collection of Victorian, Edwardian and Georgian period homes in the UK means there will always be a market for better quality reproduction style furniture. Demand is also increasing for transitional products that incorporate modern materials and finishes within a more traditional style frame.

### Kitchens

The kitchen segment accounted for 20 per cent of all UK domestic furniture sales in 2002. The UK kitchen furniture market is in the mature stage of its product life cycle and is increasingly reliant on replacement purchases. In 2002, replacement purchases were estimated to account for 58 per cent of sales.

Flat-pack continues to dominate sales of kitchens in the UK market, accounting for around 72 per cent of sales in the sector. The segment has benefited to some extent from a demand for higher quality products. Some suppliers in the flat pack sector are providing improved quality and service levels aimed at targeting more affluent customers.

The trend towards minimalist, contemporary designs is very apparent. Doors are becoming increasingly plain, with square designs and lighter woods dominating, particularly in the flat pack sector. Darker woods such as cherry are growing in popularity, particularly in the mid to upper sectors of the market. There is also a movement towards the use of a wider range of materials combined with traditional wood, such as cream and metallic effect doors.

Function and ergonomics are playing a greater role in kitchen design. Cabinet sizes are now more varied to accommodate the wide range of kitchen sizes and styles and make maximum use of available space. Corner solutions for restricted access areas and a variety of storage accessories are increasingly being demanded by consumers.

### Bedrooms and Beds

The bedroom and beds segment accounted for 34 per cent of all UK domestic furniture sales in 2002. Beds have traditionally lagged behind dining and living room furniture in terms of spending, with many people keeping the same bed for an increasing number of years. However, the greater variety of bedroom designs on the market suggests that this may be changing.

The UK consumer has traditionally been more price-sensitive in this area and spends less on mattresses and beds in general, indicated by the large share of the market held by low cost retailers such as Argos in this segment. These products tend to have shorter lives and are replaced more frequently helping to create a volume market. Sales in this segment have also been increased by UK multiples active in the fitted bedroom market.

Self-assembly bedroom furniture has experienced considerable growth in recent years, partly as a result of the IKEA influence. Growth in the self-assembly sector can be attributed to:

- the convenience that self-assembly furniture affords;
- the immediacy and availability of self-assembly furniture;
- the improved quality of self-assembly products; and
- an increase in demand for modular/flexible furniture.

Bedroom furniture for children and teenagers has also grown, with an increasing number of furniture manufacturers developing bedroom ranges specifically for children and teenagers. There has also been an increase in specialist furniture makers within the market. The wide range of modular styles, which can be added to over time as the child grows, has meant that parents are now more willing to purchase more expensive, but better quality items for children's bedrooms.

There has also been a marked trend away from single to double beds with king-sized beds gaining a greater share of the market. Bed design has also increased interest levels in the sector with a move away from divans to separate bed frame and mattress options; divans now account for less than half of all beds sold.

### CONTRACT SALES AND SEGMENTATION

**TABLE 22: MARKET SALES (RSP), UK, 1999 AND 2002**

	1999		2002		PERCENTAGE CHANGE 1999-2002
	£M	€M	£M	€M	
<b>Market sales</b>	<b>8,163</b>	<b>12,402</b>	<b>8,298</b>	<b>12,766</b>	<b>2</b>
Domestic	4,816	7,317	4,892	7,526	2
Contract	3,347	5,085	3,406	5,240	2

Source: Mintel/OCO Consulting, 2003

The UK contract furniture market was worth an estimated £3.4 billion ( 5.4 billion) in 2002 and current forecasts indicate growth levels of 2-3 per cent per annum to 2005.

**TABLE 23: SEGMENTATION OF CONTRACT SALES, UK, 2002**

	£M	€M	Percentage
Office/commercial	1,360	2,164	40
Hotels, pubs & clubs	1,190	1,893	35
Fitted kitchens	647	1,029	19
Fitted bedrooms	209	332	6
<b>Total</b>	<b>3,406</b>	<b>5,418</b>	<b>100</b>

Source: Mintel/OCO Consulting, 2003



The largest contract segment is office/commercial, valued at £1.36 billion ( 2.16 billion) in 2002, followed by hotels/pubs and clubs at £1.19 billion ( 1.91 billion), fitted kitchens at £647 million ( 1029 million) and fitted bedrooms at £209 million ( 322 million).

The sector tends not to be as volatile as the domestic furniture sector, but is still susceptible to downturns in economic activity and overall levels of commercial and industrial growth.

It is anticipated that the period 2002-2005 will see the UK contract furniture market benefiting from a number of PFI (Private Finance Initiative) projects within the healthcare sector, higher government expenditure in the education sector, and greater investment by local/regional government councils.

#### Offices/commercial

The office/commercial sector is benefiting from improving business confidence. This sector is also experiencing a surge in demand from companies reactivating orders which had been postponed in 2001.

The impact of technology and new mobile working practices is continuing to have an effect on the market, generating new opportunities for furniture suppliers. Mobile working ('hot-desking', 'hotelling' and 'teleworking') is on the increase leading to relaxed constraints on desk size and shape.

A buoyant SOHO (Small Office Home Office) sector and the growth in call centres have created opportunities for niche marketing. The desk sector was worth an estimated £585 million ( 931 million) in 2002. This sector consists of 3 sub-sectors, which include executive, systems and economy stand-alone desks.

Seating is the second largest segment in the office furniture sector at £394 million ( 627 million). Adjustability and ergonomic features are an integral part of office seating and are key factors for continued growth in this segment. Adjustable office seating accounted for approximately two-thirds of the office seating sold in the UK in 2002.

The storage segment is valued at £272 million ( 433 million) with a trend over recent years towards more aesthetically pleasing wood finishes. For shared storage, metal products remain the most popular due to their durability and lower cost. One of the primary drivers in the storage segment is the increased requirement for personal storage, partly due to increased employee mobility. This often requires a greater amount of flexibility and functionality in comparison to previous ranges of personal storage.

The smallest segment of the office/commercial sector is screening, which achieved sales of £109 million ( 173 million) in 2002, reflecting the shift to more open plan offices.

The office and commercial furniture market remains fiercely competitive, particularly due to a poor 2001, a lacklustre start to 2002 and a large number of suppliers within the market.

#### Hotels, pubs and clubs

Contract dining furniture is a key segment that has been encouraged by substantial growth in the UK restaurant, pubs and clubs markets, where the emphasis has been on investment in image, new styles and designs.

The corporate involvement in the pubs and restaurants business in the UK means that the market is dominated by a small number of large chains such as Granada, Wetherspoons, All Bar One and Pizza Express - which require corporate-scale solutions to their furniture requirements.

Driven by changing lifestyles and consumers eating out more often, there has been increased demand within hotel/leisure and entertainment sectors for upholstered furniture.

Refurbishment projects in the hotel/leisure sector as well as improvements in student accommodation have boosted sales in the beds and bedroom furniture segment. As with the pubs and clubs sector, the UK hotel and leisure market is dominated by chain operators in the hotel and health club sectors.

#### Fitted furniture

In recent years the fitted bedroom segment has been constrained by price pressures, and future growth is dependent on the house-building sector.

The kitchen furniture segment is divided into flat-packed and rigid furniture with flat-packed dominating due to its relatively lower cost.

The level of house building and house moving plays an important role in the performance of the kitchen furniture market. Many UK developers have realised that an attractive fitted kitchen, bathroom or bedroom can add substantially to the market value of new developments - and this represents an important opportunity for contract suppliers.

The rise of UK house prices has meant that more consumers are willing to invest in home refurbishment and improvement projects. The wide range of home improvement television programmes has also stimulated this market by placing a greater emphasis on the overall design of the kitchen and encouraging consumers to update furniture with a more fashionable style.

The fitted kitchens sector is expected to experience modest growth up to 2005, subject to favourable economic growth and a positive housing market.

#### Competition from imports: Import trends - Northern Ireland

Table 24 shows the value of furniture imports into Northern Ireland in 2001 and 2002. The main sources of furniture imports into Northern Ireland are:

- Italy, Ireland, USA, Poland and Malaysia (for upholstery);
- Ireland, Malaysia, Brazil, Italy and Thailand (for cabinetry); and
- Ireland and China (for mattresses).

**TABLE 24: FURNITURE IMPORTS INTO NORTHERN IRELAND, 2001 - 2002<sup>24</sup>**

	2001		2002		PERCENTAGE CHANGE
	£M	€M	£M	€M	
Seats and upholstery	13.3	21.4	16.6	26.4	24
Cabinetry, kitchen, bedrooms	33.2	53.4	38.1	60.6	15
Mattresses	2.5	4	3.4	5.4	36
<b>Total</b>	<b>49.0</b>	<b>78.8</b>	<b>58.1</b>	<b>92.4</b>	<b>18.6</b>

Source: HM Customs and Excise, 2001, 2002.  
Note: Imports exclude the substantial levels of goods coming either directly from or via Great Britain.

## Competition from imports: Import trends - Ireland

Table 25 shows the origin of furniture imports into Ireland in 2002. (There are no comparable figures available for Northern Ireland.) Great Britain is the leading country by far, accounting for over 42 per cent of all imports into Ireland in 2002. This figure includes merchandise originating in other countries that is further processed in Great Britain and then shipped to Ireland.

It should be noted that the figure for imports from Northern Ireland at 10.9m is 30m lower than Invest Northern Ireland's estimate of exports to Ireland from the client companies (see Table 17). This difference is because Invest Northern Ireland figures are based on a broader definition of the furniture sector than those used by the CSO.

**TABLE 25: MAIN FURNITURE IMPORTS TO IRELAND BY COUNTY OF ORIGIN, 2002**

	€M	£M	PERCENTAGE OF ALL FURNITURE IMPORTS
Great Britain	153.5	96.5	42.4
Italy	33.8	21.2	9.4
Germany	18.8	11.8	5.2
Malaysia	17.3	10.9	4.8
Northern Ireland	10.9	6.9	3.0
Other	127.3	80.0	35.2
<b>Total</b>	<b>361.9</b>	<b>227.3</b>	<b>100.0</b>

Source: CSO, Trade Statistics, 2002.

Table 26 shows the value of furniture imports into Ireland in 1999 and 2002, broken down by sub-sector. In every sector, except Office furniture, there has been a significant increase in the value of imports in this period.

**TABLE 26: FURNITURE IMPORTS, IRELAND, 1999 - 2002**

	1999		2002		PERCENTAGE CHANGE
	€M	£M	€M	£M	
Bedding and mattresses	12.8	8.4	19.5	12.2	52.46
Upholstery/seating	48.2	31.7	72.6	45.6	50.70
Office	65.9	43.4	53.6	33.7	-18.67
Kitchen	11.2	7.4	21.2	13.3	89.18
Bedroom	23.1	15.2	38.2	24.0	65.35
Other cabinet	67.5	44.4	98.6	61.9	46.08
Other*	37.5	24.7	58.2	36.6	55.21
<b>Total</b>	<b>266.2</b>	<b>175.2</b>	<b>361.9</b>	<b>227.3</b>	<b>35.96</b>

Source: CSO, 2002

\* The Other category includes items such as metal furniture for medical, dental, surgical and veterinary offices; seats for aircraft or motor vehicles; upholstered seats and garden seats, and so on.

## Cross-border trade opportunities

Cross-border furniture trade figures from the CSO for 2002 indicate that the pattern of trade is relatively balanced at 10 - 11 million (£6.3-£6.9 million) in either direction, North and South.

**TABLE 27: ALL-ISLAND CROSS-BORDER TRADE IN FURNITURE, 2002**

	IRELAND IMPORTS FROM NORTHERN IRELAND		NORTHERN IRELAND IMPORTS FROM IRELAND	
	€M	PERCENTAGE	€M	PERCENTAGE
Bedding and mattresses	330	3.00	388	3.97
Upholstery/seating	1,598	14.54	1,769	18.11
Office	1,171	10.66	220	2.25
Kitchen	816	7.43	1,325	13.56
Bedroom	1,142	10.39	1,154	11.81
Other cabinet	4,824	43.91	2,969	30.39
Other	1,106	10.07	1,945	19.91
<b>TOTAL</b>	<b>10,987</b>	<b>100.00</b>	<b>9,770</b>	<b>100.00</b>
	<b>(£6,905M)</b>		<b>(£6,140M)</b>	

Source: CSO, Trade Statistics, 2002.

## 5: INDUSTRY PROFILE

In both Ireland and Northern Ireland, the furniture industry has performed well over the past few years. Sustained economic growth, buoyancy in the construction industry and increased consumer spending have been determining factors. However, serious challenges to the industry have also emerged recently, including transparency of pricing in the euro-zone, increasing labour costs, increasing operating costs and the entry of lower-cost imports from Eastern Europe and the Far East. Responding to this challenge will require continuous improvement in the following key areas:

### Employment issues, including qualifications and training

What are the labour issues facing the industry, in terms of attracting and keeping the right people; and what levels of professionalism are required?

### Education and training resources

What are the training options available to the industry?

### Operating costs

What are the factors that have affected operating costs in recent years?

### Innovation, R&D and design

What makes innovation, R&D and Design so critical to the future of the furniture industry?

### Distribution

What are the distribution channels that exist?

### Market and promotion

Where do indigenous manufacturers position themselves compared with their international competitors?

### Government support

What are the strategic supports that government agencies can provide to the industry?

## Employment and labour issues

Between 1999 and 2002, employment in the furniture industry in Northern Ireland increased by 9 per cent to 3,813, while in Ireland over the same period it increased by 10 per cent to 6,615. In recent years, however, the industry, particularly in the South, has had difficulties finding and keeping skilled and qualified staff. The response by many manufacturers in Ireland to retention difficulties was to source labour from Eastern European countries, particularly the Baltic countries and Poland.

This labour strategy continues to work effectively for several key manufacturers. As of 1 May 2004, many of the countries where the employees come from, such as Poland, Latvia, Estonia, and Hungary joined the EU as full members and immigrants from these countries will no longer require a static visa to work in Ireland. This will have the following impacts on employment opportunities:

- Potential employees will find it easier to gain access to the island and employment opportunities that arise; and
- Potential employers could face increased competition for employees from other sectors with higher wage bands, for example, construction. This could pose increased difficulties in attracting and retaining workers.

Irish manufacturers, North and South, must be aware of both consequences and develop strategies to make the most of labour availability.

Case Study A describes how an Irish company was faced with a labour and skills shortage in the domestic market and how they successfully integrated Eastern European employees into their work environment.

## CASE STUDY A: COPING WITH LABOUR AND SKILLS SHORTAGES

The company profiled is one of Ireland's leading designers and manufacturers of living room, dining room and bedroom furniture, with both traditional and modern ranges of furniture. The company currently employs 120 staff and exports 93 per cent of its output to the UK market.

In 1998, the company reviewed international market trends and identified an opportunity to design and manufacture a new range of 'modular furniture'. It projected an increase of 50 per cent in turnover and an increase of 30 per cent in staff.

By early 2000 however, it became apparent that this strategy would not work. The Celtic Tiger was in full swing and the company was losing key staff on a weekly basis, despite paying above industry norms. Staff numbers dropped to 87 and skilled employees could not be replaced from the local area.

### COMPANY STRATEGY

The company reacted on 3 fronts:

- By investing 4m in the most modern automation and manufacturing technology to reduce manual input;
- By redesigning the product range for ease of manufacturing with the new plant and standardisation of components; and
- By introducing Eastern European workers to ease the labour and skills shortages.

Of these 3 issues, the introduction of non-national labour was the most radical and challenging. The company engaged a recruitment agency specialising in foreign staff, and detailed a profile of the skills and type of staff the company required. The recruitment agency then recruited an initial 10 staff in Poland, and they arrived in October 2000. The company provided accommodation and organised English classes for the staff to help them integrate into the workforce and the local community.

Three years later, the experience could not have worked out any better and the company now employs 32 Polish workers. The reality is that, without these staff, the company would not have progressed and achieved the growth levels it did. The work ethic, timekeeping and discipline of the Polish workers have been excellent and they have integrated totally into the local community - they now rent their own accommodation, and have joined sports clubs and socialise locally.

### CONCLUSION

The key learning points from this initiative area:

- Investment in modern automation and manufacturing technology to reduce manual input;
- Redesigning the product range for ease of manufacturing with the new plant;
- Pay the non-nationals the same rate of pay as other workers;
- Ensure that 1 in 5 speaks good English before they arrive, and encourage English classes for the rest;
- Develop clear and simple training programmes; and
- Integrate with the work force through team working.

## Getting the right people

Apart from difficulties in attracting and retaining employees, manufacturers have experienced difficulties in attracting people with appropriate skills in design, marketing and product development skills. Interviews with leading furniture buyers, undertaken as part of this study, suggest that there are particular weaknesses in these areas. This research has found that few manufacturers, have undertaken large scale graduate recruitment drives or implemented personal development on a regular basis. Essentially these have been overlooked as areas to invest heavily in, the prevailing attitude tends to be that improved furniture skills can only be obtained on the job.

This could impact significantly on competitiveness, as foreign competitors have for some time employed designers, marketing professionals and experienced production managers to enhance their market opportunities. Marketing discussions with retailers have suggested that the sales techniques and style of representation employed by Irish furniture manufacturers is 'charming, but old-fashioned'. Many manufacturers offered internal (on-the-job) training and some offer access to external training. The latter is typically in areas such as supervisory management, customer services, information technology and production, and is available to staff at all levels in the organisation. From consultations with industry, however, it is clear that there are ongoing weaknesses in the areas of marketing, product design, innovation and production management, and that ongoing training in these areas is essential as the industry faces new challenges.

## Education and training resources

For students wishing to follow a career in the furniture industry there are in the region of 200 training places available on the island each year, (OCO Consulting, 2003).

Many of the courses on offer are highly regarded by industry, but there are concerns about the shortage of available places and the absence of more formal linkages between industry and the colleges. Within the education sector, there is a view that colleges offering training need to coordinate their efforts more effectively to offer students training in complementary sets of skills, including business management, and sales and marketing.

There are also some practical difficulties in gaining access to training courses. For example, because of the geographical spread of the furniture industry, the location of the available training courses can be a problem for some companies, while other companies have difficulty finding the time to release staff from production.

Table 28 lists colleges on the island of Ireland that offer furniture-related courses. Letterfrack, with an intake of 160 a year, accounts for approximately 80 per cent of all the places on the island.

**TABLE 28: COLLEGES OFFERING FURNITURE-RELATED COURSES**

INSTITUTION / COLLEGE	COURSES/SERVICES OFFERED	PLACES PER YEAR
Belfast College of Art & Design (University of Ulster)	BA Hons Design	7-8 students specialising in furniture design
Upper Bann Institute Lurgan, Co. Armagh	National Diploma & Higher National Diploma	HND: 12 ND: 15 (across all years)
Letterfrack Furniture College,	Certificate in Furniture Design & Manufacture Bachelor of Science in Furniture Technology Certificate in Furniture Production National Diploma in Furniture, Conservation & Restoration	160
Dublin Institute of Technology	BA Interior Furniture Design	10
Furniture Technology Centre Letterfrack, Co. Galway	Provides consultancy services to clients within the furniture industry	N/A
FÁS	Practical training programmes for the furniture industry such as joinery & woodworking for manufacturing skills	N/A
University of Limerick	BTech Wood Science and Technology	12
North Lancashire Training Group	Practical training programmes for their Northern Ireland members	N/A

Source: OCO, 2003

## Operating costs

Furniture manufacturers have seen their operating costs rise substantially over the past 2-3 years as a result of wage inflation, insurance, business rates and environmental legislation. Case Study B outlines the increasing operating costs faced by furniture firms in Northern Ireland and Ireland. The Northern Ireland-based company has seen insurance costs increase by 91 per cent between 2001 and 2003, during which time wage costs have also risen significantly.

The Ireland based company for the same period, has seen labour costs rise by 25 per cent, insurance by 80 per cent and rates by 25 per cent.

In Northern Ireland, the rates issue is an extremely sensitive one for manufacturers at present. One major Northern Ireland furniture manufacturer and employer went as far as to say: 'If industrial de-rating<sup>25</sup> finishes, we will cease to be a manufacturer, becoming about a third of the size we are now, i.e. a big warehouse and a few offices'.

<sup>25</sup> Up to now, qualifying manufacturing 'industrial' activities have enjoyed a complete exemption from rates. This exemption is being phased out over a prolonged period, commencing in 2005 when the rate liability will be 15 per cent

## CASE STUDY B: INCREASING OPERATING COSTS COMPARISON

The competitiveness of the indigenous manufacturing sector, North and South, is under serious threat due to spiralling costs. This case study looks at one leading furniture manufacturer in each location and assesses where the impacts of the increased cost base are.

### NORTHERN IRELAND

The company selected is a leading furniture manufacturer in Northern Ireland. The company employs 130 staff and has sales in excess of 11m/£7m. Between 2001 and 2003 the cost base of the company increased dramatically. Significantly, the main areas of increase are indirect or overhead costs:

Insurance	Increase of 91 per cent over the period
Energy	Increasing at 4 per cent over the period
Direct Labour	Increasing at 3 per cent over the period
Employer's National Insurance Contribution	Increased by 10 per cent over the period
Waste disposal	Increased by 75 per cent over the period

### IRELAND

The company selected is one of the largest in the Irish furniture sector located in Dublin. The company has an annual turnover of over 35m/£24m and employs 270 staff. Located at the heart of the booming 'Celtic Tiger' the company has experienced a challenging few years in terms of availability of labour and an increasing cost base. Since 2001, the company has seen the erosion of its competitiveness through the following cost increases:

Labour	Increase of 25 per cent over the period
Insurance	Increase of 80 per cent over the period
Waste Disposal	Increase of 98 per cent over the period
Rates	Increase of 25 per cent over the period
Raw Materials	Increase of 35 per cent over the period
Carriage	Increase of 15 per cent over the period

### IMPACT OF ENVIRONMENTAL LEGISLATION

The cost of recent EU environmental legislation is also adding to the manufacturers' cost base. This arises because the more environmentally friendly solvents and varnishes are less effective and more expensive, and add to production time. The indigenous industry is being forced to compete with imported products that are not subject to the same controls.

Table 29 summarises some of the more important domestic and European legislation currently in force which designers and manufacturers of furniture must adhere to in product/development activities.

**TABLE 29: PRINCIPAL LEGISLATION COVERING THE FURNITURE INDUSTRY**

NORTHERN IRELAND	
LEGISLATION	PURPOSE
Environmental Protection Act, 1990.	<ul style="list-style-type: none"> <li>Air pollution - processes involving manufacture of wood based products and wood coating are covered by PG 6/2 (95) and PG 6/33 (97);</li> <li>Duty of care - the requirement of the furniture manufacturer to ensure that correct waste management is done; and</li> <li>'Statutory nuisance' preventing people enjoying the environment - this includes monitoring odours from coating processes or emissions from burning materials, etc.</li> </ul>
The Furniture and Furnishings (Fire Safety Regulations), 1988. (with subsequent amendments)	Relates to fire resistance of the coatings and fillings in furniture.
The Textile Products (Indications of Fibre Content Amendment) Regulations, 1986. (with subsequent amendments)	Relates to safety labelling for interior textiles.
IRELAND	
LEGISLATION	PURPOSE
Waste Management Packaging Regulations, (2003)	Requires businesses to segregate specified waste materials and to have it collected by authorised waste operators for recycling.
EUROPEAN UNION	
Council Directive 1999/13/EC	Directive covering emissions of harmful organic compounds
General Product Safety Directives (2001/95/CE, 3/12/ 2001, OJEC L11 -15/1/2002	Directives designed to improve the safety of consumer products. There are some conflicts with UK and Irish law over the use of flame retardants, which the EU judges damaging to the environment.
The EU Integrated Product Policy (IPP)	Seeks to minimise damage to the environment by looking at all phases of product life cycles. It covers areas such as waste reduction, environmental labelling, 'green' product design and public procurement. The policy is now at consultation stage.

## Innovation and R&D

*"Design can be incremental. Manufacturers must be committed to developing new design concepts and innovations as this maintains interest amongst buyers. Virtually every furniture supplier in Italy employs a designer to advance new product development. UK and Irish manufactures must try and adopt the same mindset"*

### BUYER, HEALS, GB

Italian, German and Spanish furniture manufacturers are spending between 8 and 10 per cent of turnover on R&D and new product development<sup>26</sup>. Discussions with manufacturers (North and South) during the consultation process for this report, illustrated that 8 out of 12 spend between 2 and 5 per cent of their turnover on R&D and product/market development. The higher commitment of European companies to design and R&D is reflected in the fact that, on average, they launch new ranges every 18 months.

In Ireland and Northern Ireland, the furniture industry tends to adapt designs originating from other manufacturers (generally from Europe or from competitors) and modify them to suit local tastes. Where manufacturers do make a commitment to design R&D, there can be considerable growth through innovation - Case Study C presents a brief overview of a company that has made a commitment to design R&D.

## CASE STUDY C: DESIGN AND R&D

This case study profiles a successful cabinetry company that has integrated design and R&D into its operations over the last 20 years. The Company has been manufacturing solid wood cabinet doors since 1981. Its main customers include some of the leading kitchen furniture manufacturers and distributors, North and South; and its main competitors are importers.

### COMPANY STRATEGY

From a very early stage, the Company recognised that product design and development would be critical in promoting growth and success. Design consultants were briefed as early as 1984 and their involvement continued until 2000, when the Company set up its own in-house design team, which now has an intimate knowledge of the Company's products, manufacturing processes and markets.

The Company pays particular attention to tracking and sometimes anticipating market trends, with company personnel attending trade fairs in Europe and elsewhere to keep up to date.

Internally, there is interaction between marketing, design and production personnel, and prototyping of new products is largely completed in-house. Suppliers of materials, machinery and tooling are also actively engaged in the process.

Graphic designers (again a long-term relationship) are involved in the preparation of promotional materials and the process of updating and improving these is now continuous.

### CONCLUSION

The success of the Company is largely attributable to the focus on product design and development by a dedicated and qualified staff. The Company operates in a highly competitive marketplace where the barriers to entry of imported product are very low; the only way the company could successfully grow is through innovation.

A critical element of the success of this process was the assistance from Enterprise Ireland and the EU, through focused programmes such as Measure 1 and RTI.

It is widely acknowledged within the industry that there is considerable room for improvement in R&D processes, and the government agencies on the island have a number of resources to aid companies in this area. These include:

- The Research, Technology and Innovation (RTI) programme available under the National Development Plan in Ireland, and administered by Enterprise Ireland;
- The InterTradeIreland FUSION and InnoVa initiatives; and
- The Compete Programme supported by Invest Northern Ireland.<sup>27</sup>

### Distribution channels: the retail domestic sector

There are approximately 1,700 retail outlets selling home and office furniture on the island, 450 in the North and 1,260 in the South. Most retail outlets are small operations. Trade sources report that the top 100 outlets represent approximately half the furniture trade, with sales accounting for 500/£315 million on the island. For manufacturers, this means that there is a relatively small number of key accounts at the volume end of the market.

Figure 2 shows the breakdown of distribution channels for Ireland and Northern Ireland for 2002, and each of these channels is described below.<sup>28</sup>

FIGURE 2: FURNITURE DISTRIBUTION CHANNELS IN IRELAND AND NORTHERN IRELAND (PERCENTAGE OF RETAIL SALES) 2002

#### IRELAND



#### NORTHERN IRELAND



Source: Mintel, 2003

#### Independent retailers/Department stores

Key independent retailers in Ireland include Arnotts, Clerys and Casey's department stores, Classic Furniture, Diamond, Wogan's, and In Store. In Northern Ireland, leading independent retailers include Ideas, Gillespie and Wilson, Creations, and Carpenter and McAllister.

Domestic furniture manufacturers rely heavily on the independent retail and department store sectors to sell and distribute their products. In Ireland, this sector accounts for over 60 per cent of sales, while in Northern Ireland this figure is over 50 per cent.

#### UK multiple retailers

The most significant UK multiple players operating in the all-island market include Argos (strong on beds and bedding), B&Q (kitchens and occasional), MFI, Reid's Furniture, Homebase, Harvey's and Courts. Harvey Norman is a leading Australian homeware and furniture multiple that has recently opened in Ireland (in Swords, Co. Dublin and Dundalk) and has plans for more outlets on the island.

The most significant recent entrant to the Northern Ireland market has been DFS, the upholstery specialist, which began trading in Belfast in December 2001. DFS has a turnover of £462 million and 63 stores located throughout the whole of the UK. Since its entry to Northern Ireland, DFS has adopted an intense advertising and promotional strategy in an effort to acquire market share.

As GB multiples have incorporated an ethos of merchandising and display, the most successful retailers have moved away from simply selling products and towards concepts, where the display is used to promote the whole room solution. In order to compete local manufacturers must develop this area of expertise. They cannot rely completely on their retail partners to do this for them and must actively consult and advise on how their ranges should be displayed and merchandised.

### Distribution channels: the contract sector

Overall, the distribution of furniture within the contract sector is dominated by direct supply to end-users. However, depending on the end-user, the distribution channel may change. For example, the tourism and leisure industry is more likely to use architects, interior designers, contract furnishers and hotel buying groups. In addition, the healthcare and education sectors both tend to use central buying groups such as the Office of Public Works in Ireland or the Central Procurement Directorate in Northern Ireland.

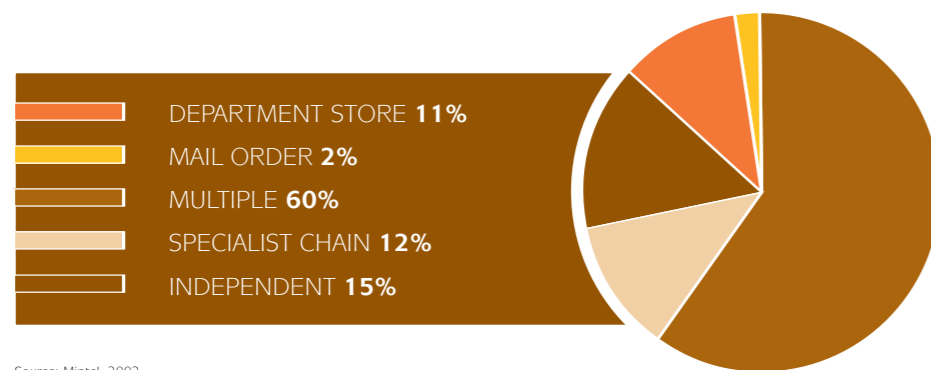
### Distribution channels: the Great Britain market - contract and domestic

The domestic furniture market has become divided into the lower priced multiple retailers such as MFI, Argos and IKEA, (selling mainly flat pack furniture), and the middle-better end independents, specialists and department stores. Irish suppliers have traditionally worked best in the latter segment, as the multiples tend to focus their sourcing exclusively on low-cost supply countries in the Far East. Even if Irish manufacturers could achieve the price levels to gain access to this sector, it is unlikely they could offer the volumes.

The growth of the retailing multiples sector has boosted the GB market with leading companies like IKEA, DFS and MFI expanding throughout the country.

The independents and department stores control around 25 per cent of the GB market. Some specialist chains that are focused on the middle market such as Furniture Village, Alders and Sofa Workshop offer potential opportunities to Irish suppliers.

FIGURE 3: FURNITURE DISTRIBUTION CHANNELS IN GB (PERCENTAGE OF RETAIL SALES), 2002



Source: Mintel, 2002

The market has become volume driven rather than value driven, with larger stores driving growth and putting pressure on independents and smaller chains. The larger retail brands such as IKEA, DFS and MFI dominate the UK furniture sector, whilst quality brands from the upper end of the market such as Tetrad, Natuzzi and Parker Knoll, have a strong presence in the independent/department store sector. Many department stores are now targeting the wealthier, more style conscious consumer.

Multiples dominate the GB furniture market and tend to import furniture directly from volume producers in the Far East and Eastern Europe. The priority channels for Irish manufacturers are therefore department stores and independents focusing on middle to upper end customers.

### New trends in distribution

The Internet has added another dimension in distribution, providing a further onus on manufacturers to maintain consistent pricing and control at retail level.

Retailers also expect manufacturers to provide more direct support in terms of service, display, discounts and even home delivery, without allowing them extra margin, driving manufacturers to take cost out of the distribution chain.

### Marketing and promotion

The overall market for furniture has grown by 42 per cent since 1999, while indigenous manufacturing has grown by only 22 per cent. This suggests that indigenous manufacturers are losing market share to imports.

Consultations have highlighted that marketing continues to be one of the biggest weaknesses of the Irish furniture industry. For many manufacturers, marketing of products and services tends to involve the development of a brochure and price list, but that is often where the marketing activity ends.

In the main, furniture manufacturers have been criticised by retail buyers for their lack of strategic thinking and commitment to marketing and promotion. Many furniture manufacturers rely totally on the Irish and UK markets where their market shares are being eroded due to increased competition from furniture imports from elsewhere.

Many retailers in Great Britain highlight that they receive good marketing support from other European manufacturers. For example, Italian manufacturers are renowned for developing effective trade stands at furniture shows, while Danish manufacturers spend a lot of time in the stores at the point of sale in an effort to understand the 'real' customer and German manufacturers focus on glossy brochures and product specifications. Retailers highlight that marketing and retail support appear to be less important among manufacturers from Ireland and Northern Ireland.

Manufacturers on the island still tend to depend on agents to represent them at the retail level, and often ignore the opportunity for direct buyer interface. This is a major weakness for some companies, as they remain remote from the customer and the point of sale. In some cases, manufacturers concede that they have rarely visited a store and, as a result, have no idea how well or how poorly their product is displayed. As a result many of the manufacturers are failing to keep track of their competitors.

Furniture retailers and their staff appreciate being invited to attend Irish manufacturing sites to see the products being designed and built - indeed this is seen by retailers as very useful staff training. Retail staff subsequently have a much better product knowledge to bring back to the shop floor.

Total furniture sales are expected to increase by 16 per cent in Northern Ireland and 25 per cent in Ireland by 2005. In the same period, production from indigenous manufacturers will rise by 14 and 21 per cent respectively, indicating a decline in the local market share held by indigenous manufacturers, North and South.

In order to compete, furniture manufacturers need to invest in marketing and brand awareness. For full effect, this should be done in partnership with the independent retailers and is not exclusive to media advertising. Other marketing methods include:

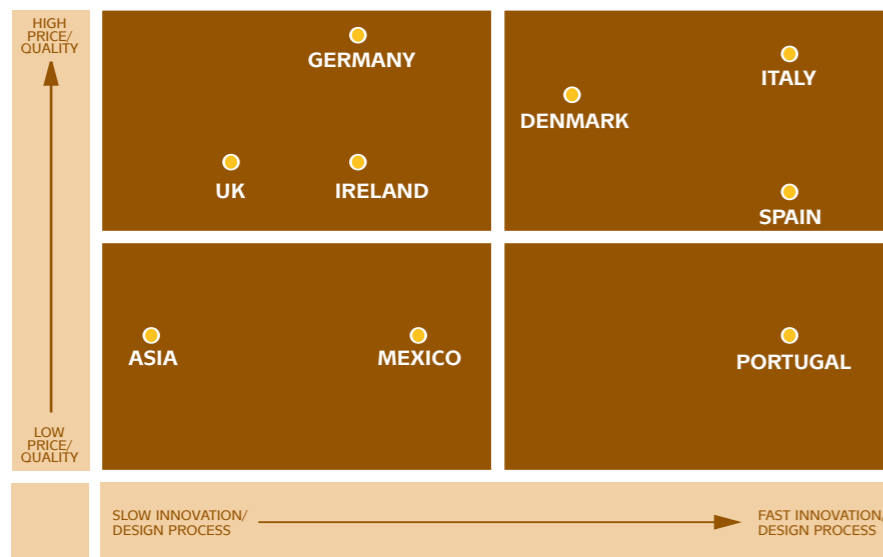
- Providing sample material at point of sale;
- Providing customer-oriented product information;
- Offering product training and factory visits;
- Displaying products more effectively; and
- Investing in merchandising.

## Market positioning

Figure 4 illustrates the market position of manufacturers in Ireland and the UK<sup>29</sup>, illustrating how vulnerable they are. Their development is threatened by competitors from lower-cost economies in Asia, and by more innovative and design-conscious competitors in Italy and Denmark.

Reducing prices is not currently a realistic option, so for the future, Ireland and Northern Ireland manufacturers need to reposition themselves through design, marketing, innovation and product development - in other words, they need to move closer to the Danish and Italian models: high price/quality and fast innovation/design.

FIGURE 4: MARKET POSITIONING MAP



Source: OCO Consulting, 2003

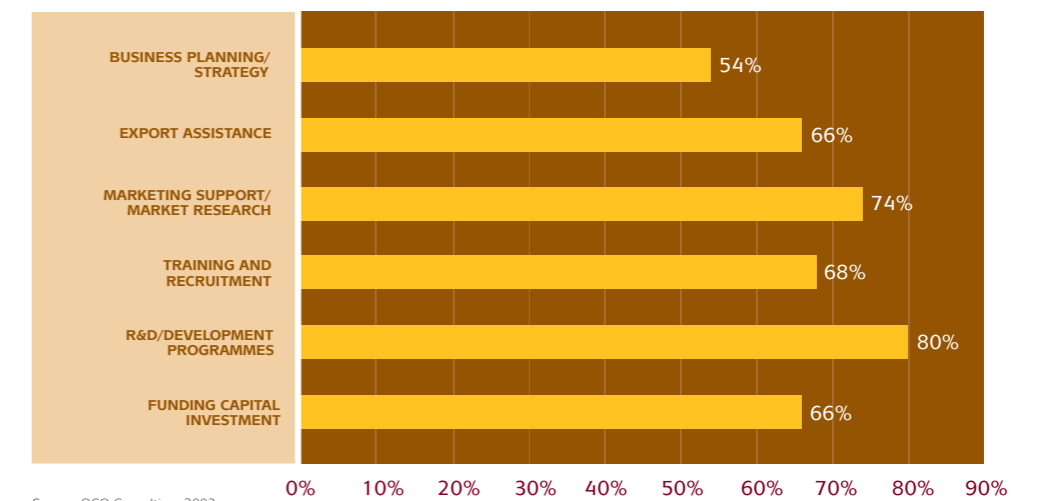
## Government support

In general, targeted support from the development agencies is increasingly moving towards capability development, in areas such as marketing, innovation and skills. Examples of government support include:

- R&D and development programmes: to help develop products and product ranges in order to compete with global players;
- Marketing support/market research: to complement product R&D work with market intelligence, customer knowledge, and information on competitor and market developments;
- Training and recruitment: to bring new skills into the industry, particularly in the areas of design and marketing;
- Funding and capital investment: these are seen as important in the short term - the industry realises that investment in product R&D and marketing will be more beneficial in the long run; and
- Export assistance and business planning/strategy: these are seen as logical follow-on activities to other areas of support.

The results of consultations with key players in the industry (see Figure 5) show a good alignment between industry needs and government support.

FIGURE 5: AREAS WHERE GOVERNMENT COULD POTENTIALLY PRIORITISE SUPPORT





## 6: CONCLUSIONS AND RECOMMENDATIONS

Many of the elements for a sustainable and successful furniture industry on the island of Ireland are already in place, including:

- Profitable established companies;
- A diverse product base;
- Quality products;
- Reputation locally and internationally for quality;
- Modern production processes;
- Loyal client base;
- Commitment by government to support the sector; and
- A willingness by educators to respond to the needs of the sector.

The weaknesses tend to be *softer* issues and in most cases are surmountable. These include weak design culture and product development, the absence of strategic thinking, poor cooperation within the sector, and (most fundamentally) a lack of shared vision/positioning within the industry.

If we consider international best practice models in the furniture industries of Italy, Denmark and Germany, there is one common ingredient; a common sense of purpose and identity despite intense firm rivalry and a diverse production base. This means informal agreement among companies to adopt a common market position in terms of price and quality. For example, Italian furniture has a high reputation for design quality and commands higher prices for that reason. Similarly, German manufacturers have a reputation for quality and technical performance and can also command a premium. Denmark has an image for wood craftsmanship and Danish design also commands a premium.

### VISION

A competitive, dynamic and highly networked all-island industry, driven by the current strengths of quality, smaller scale, and flexible production through the repositioning of suppliers at the innovation and design led end of the industry, with effective marketing and differentiation in both the domestic and export markets.

In chapter 1, we summarised the challenges facing the furniture industry, North and South. In this chapter we address how the industry can work to meet these challenges.

### Recommendations

#### INDUSTRY COHESION - NETWORKS FOR COMPETITIVE ADVANTAGE.

In comparison with the successful furniture producing areas such as Denmark, there is a lack of cohesion and cooperation for mutual competitive advantage in the industry on the island.

### RECOMMENDATIONS

#### INVESTIGATE THE FEASIBILITY OF CREATING A HIGHLY NETWORKED INDUSTRY ON AN ALL-ISLAND BASIS

Such a strategic approach would be driven by the industry and would seek to integrate education and training, design and new product development, inward investment, enterprise development, marketing and export promotion. Such a strategy has been successfully developed in Denmark and Italy. A useful starting point may be a cross-border best practice visit to the Italian or Danish furniture districts under the auspices of the Irish Benchmarking Forum.

#### CONSIDER ESTABLISHING AN INDUSTRY ASSOCIATION

The industry lacks a representative voice on common non-competitive issues. An all-island industry association would provide a forum for industry representatives to meet and share common concerns, to formulate joint responses to legislative and policy changes, and to respond to changes in market conditions. Such an association could be based on the Construction Industry Federation's National Furniture Manufacturers' Association.

### Market positioning

Manufacturers in Ireland and Northern Ireland have built good reputations for the quality of their products, they must exploit this more through marketing. It has been highlighted that manufacturers are slow to move toward modern designs and adopt the latest trends in production and marketing; sometimes failing to adequately differentiate their product offerings. These shortcomings need to be addressed by better market research, by a more focused approach to home and export markets, and by engaging more closely with independent retailers. Given that the multiple sector is increasing its market share this will put increasing competitive pressures on both independent retailers and their furniture suppliers to position themselves effectively.

### RECOMMENDATIONS

#### RESEARCH THE MARKET THOROUGHLY

Ireland and Northern Ireland companies need to differentiate their products in order to compete effectively. To achieve this, they need a thorough understanding of the domestic and international markets, and of how they can position themselves better in those markets. Where possible, companies should expand and utilise their own market research resources, using these effectively with those being offered by the government agencies.

#### INVITE RETAILERS TO VISIT

Furniture retailers and their staff appreciate being invited to visit manufacturing sites where they can see the products being designed and built. Retailers subsequently have a much better understanding of the industry and detailed product knowledge which they can bring back to potential end-user customers.

If these adjustments can be made to the marketing strategy of the Irish furniture sector, the potential exists to grow the value of the sector from current levels of almost 900 million (£620 million) to over 1,060 million (£733 million) by 2005, an increase of 18 per cent in 2-3 years<sup>30</sup>. Export volumes in particular, have the potential to grow from current levels which are equivalent to 24 per cent of output, to 30 per cent within the same timeframe, provided companies take seriously the challenge to modernise their sales and marketing strategies and get closer to their customer.<sup>31</sup>

## DESIGN AND INNOVATION

The slow pace of new product development, the lack of product innovation, and the lack of investment in design were all identified as serious challenges facing the industry. The requirement now is for the industry to address these weaknesses through boosting the level of design skills and new product developments.

Individual companies can also do a lot to help themselves - by taking advantage of the opportunities that are out there for informing themselves about international design trends, and by investing and seeking support through government R&D funding programmes.

### RECOMMENDATIONS

#### *INVESTIGATE THE FEASIBILITY OF SETTING UP A PRODUCT DEVELOPMENT LAB*

- Consider conducting a feasibility study on the need for a product development lab to provide a pre-competitive environment in which to promote creativity and generate new ideas.

#### *AVAIL OF CURRENT SUPPORT STRUCTURES*

- Support and participate in the organised best practice visits through the government agencies.
- Invest in R&D and associated skills.
- Consider the comprehensive range of R&D funding programmes that are currently in place via the development agencies, such as Research, Technology and Innovation (RTI) and Compete.
- Participate in international trade events - to encourage the exchange of ideas, innovation, people skills and manufacturing techniques.

## MANAGEMENT SKILLS

Among the challenges to the industry is the development of strategic management skills within companies but only those that are predominantly manufacturing/production orientated rather than market focused. There may sometimes be a reluctance to recruit the necessary management expertise across the business.

### RECOMMENDATIONS

#### *UTILISE AVAILABLE MENTORING PROGRAMMES*

- Tap into available mentoring programmes that provide individual companies with access to levels of management expertise and knowledge that they do not have in-house.
- Priority areas of mentor expertise to include: design, customer relationship management and strategic planning.
- Consider recruiting industry mentors, ideally from the furniture industry outside of Ireland, to help bring new ideas and best practice to companies on the island, North and South.

#### *REVIEW MANAGEMENT REQUIREMENTS*

- Open up to the idea of recruiting new staff in design, production, marketing, human resources and other management specialisms.
- New professional talent will be the life blood of the industry and companies need to work on initiatives such as graduate recruitment and creating more opportunities for secondments and linkages between education and industry.

#### *RAISE THE INDUSTRY'S PROFILE AMONG POTENTIAL STUDENTS*

Industry-sponsored awards and bursaries in technology and design, specific to the sector, will raise the profile of the sector, attract graduates and generate effective PR.

## COMPETITIVENESS

Recent years have seen headline increases in insurance utilities, employer contributions and higher wages. In addition, the economic climate has made it more difficult to retain staff.

### RECOMMENDATIONS

#### *OUTSOURCING/JOINT VENTURE OPPORTUNITIES*

Outsourcing is increasingly becoming a feature of many manufacturing operations in an effort to improve competitiveness and develop ranges.

Co-production, for example, allows firms to manufacture components more cost effectively whilst retaining control over the essential areas of design and assembly. Companies could further exploit this process through wider participation in existing programmes from government agencies, while learning to identify potential partners for collaboration.

## EDUCATION AND TRAINING

The furniture industry needs to pay greater attention to education and training issues. The research has indicated that there is a shortage of personnel with appropriate skills, within the industry, particularly in relation to areas such as marketing and sales.

### RECOMMENDATIONS

#### *ENSURE APPROPRIATE SKILL BASE IS AVAILABLE*

The industry needs to work closely with relevant training and educationalists to ensure the required skill base for the industry is available both for new entrants to the industry and also for existing staff.

#### *TAKE UP TRAINING OPPORTUNITIES IN MARKETING*

The government agencies offer training and workshops in the area of marketing such as Enterprise Ireland's Marketing for Export Growth and First Flight Initiatives or Invest Northern Ireland's Passport to Export programme. Companies should keep themselves informed about such opportunities and take up training opportunities that arise.

### Future market opportunities

The most significant growth opportunities for the furniture sector lie in export markets in Great Britain and Europe. In particular, the internationalisation of contemporary design will allow island based manufacturers to participate in the wider European market, but realising these opportunities will depend on sustaining competitive advantage through quality, design, innovation, market positioning and responsiveness. In the short term, these initiatives may require additional investment in capacity, and this is likely to impact on margins.

#### ISLAND FURNITURE MARKET 2010

It is tempting to make comparisons between the furniture sector and other manufacturing sectors that have struggled to survive in the face of competition from imports, the growth of multiple retailers and an escalating cost base. For example, the furniture industry is often compared to the textiles industry which has seen a huge decline in recent years, and exists now only in a few niche or specialist businesses.

However, there are a number of key differences between textiles and furniture that may help to ensure the future of indigenous industry:

- Unlike the clothing sector, middle market furniture is still dominated by independent retailers who prefer smaller scale local suppliers;
- The labour content in clothing accounts for a much higher proportion of the product cost than furniture, so it is more susceptible to offshore manufacturing;
- The size of the products and cost of shipping means that only volume production will be of interest to manufacturers based in the Far East;
- The furniture industry has made a large investment in production and modern manufacturing techniques and in some cases is already world class;
- In the domestic and export markets, furniture has a reputation for quality that can be developed further; and
- Unlike some of the international clothing and textile manufacturers that have shifted production out of Ireland, furniture manufacturers are almost exclusively indigenous.

There is, however, no room for complacency here, and the industry still needs to address urgently the weaknesses in product development, innovation, marketing and branding. If it does, the industry has the potential to grow in value to 1.5 billion by 2010, with exports accounting for over 50 per cent of sales. There is, however, also likely to be a contraction in the labour force of 25-30 per cent to around 7,000 and the number of firms may also reduce<sup>32</sup>. The real measure of success will be the coherent positioning and international profile of Irish furniture.

## Appendix A:

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Mintel	<i>Beds and Bedroom Furniture, August (1998)</i>
Valuation and Lands Registry	<i>Office Market Annual Report Belfast (2002)</i> <i>Useful websites and contacts</i>

#### USEFUL WEBSITES AND CONTACTS

Europa, The European Union On-Line, 'Forest-Based Industries - Furniture'	<a href="http://europa.eu.int">http://europa.eu.int</a>
British Furniture Manufacturers	<a href="http://www.bfm.org.uk">www.bfm.org.uk</a>
Furniture Industry Research Association	<a href="http://www.fira.co.uk">www.fira.co.uk</a>
British Contract Furnishing Association	<a href="http://www.bcfa.org.uk">www.bcfa.org.uk</a>
Enterprise Ireland	<a href="http://www.enterprise-ireland.com">www.enterprise-ireland.com</a>
Invest Northern Ireland	<a href="http://www.investni.com">www.investni.com</a>
Central Statistics Office	<a href="http://www.cso.ie">www.cso.ie</a>

## Appendix B:

### PEOPLE, COMPANIES AND ORGANISATIONS CONSULTED

## MANUFACTURERS

COMPANY	SECTOR	LOCATION	PRODUCTS
Alfred Briggs (Alwood) Ltd	Domestic	Armagh	Kitchen
Briody Holdings (+Bona Vista)	Domestic	Meath	Bedding
Tretzo	Domestic	Armagh	Bathroom
CNC Components	Domestic	Tyrone	Kitchen
Farrell Bros	Contract	Louth	Office furniture
Gilbert Logan & Sons Ltd	Domestic	Belfast	Cabinetry/retail
Gleneagle/Fine Irish	Domestic	Meath	Cabinetry
J.E. Coyle Ltd	Domestic	Monaghan	Cabinetry
Kilkenny Living	Domestic	Kilkenny	Mantelpieces
M & A Moran Ltd	Domestic	Meath	Upholstery
Moffett & Sons Ltd	Domestic	Down	Cabinetry/bedding
Sherry Bros. Ltd	Domestic	Monaghan	Cabinetry
Springhill Woodcrafts Ltd	Contract	Carlow	Cabinetry
Thomas W McDonagh Ltd	Domestic	Armagh	Cabinetry

## FURNITURE BUYERS

Allders	London, Great Britain	Rob Blockley, GROUP BUYER
Heals	London, Great Britain	John Jenkins, FURNITURE BUYER
Beacon Business Interiors	Leeds, Great Britain	Paul Westlake, MANAGING DIRECTOR
Coles of Bilston	Wolverhampton, Great Britain	Simon Foulkes, DIRECTOR
Harveys	Rainham, Great Britain	Carolyn Simons, MANAGING DIRECTOR
Jenners Ltd	Edinburgh, Great Britain	Ann Cosgun, ACTING BUYER
Furniture Solutions	Moira, Northern Ireland	Ciaran Duff, BUYER
Alex Donaldson & Son	Larne, Northern Ireland	Brian Donaldson, MANAGING DIRECTOR
Orbit House Furnishers	Ballymoney, Northern Ireland	David Shirlow, BUYER
Arnotts	Dublin, Ireland	Brian Gillivan, FURNITURE BUYER
Argus	Dublin, Ireland	COMPANY DIRECTOR
Conroy's Furniture	Castleisland, Ireland	Lorraine Conroy, BUYER
Casey's of Cork	Cork, Ireland	Peter Casey, MANAGING DIRECTOR
Instore - Galway	Galway, Ireland	Emmanuel, BUYER

## INTERIOR DESIGNERS AND ARCHITECTS

Intec Design	Belfast, Northern Ireland	Kieran Leeson
Box Architects	Belfast, Northern Ireland	Michael Hughes
Knox & Clayton	Lisburn, Northern Ireland	Ernie Knox
Pierce Healy Development	Dublin, Ireland	Richie McEvoy
NBK Designs	Dublin, Ireland	Clare McCreesh
T-Positive Interior Designs	London, Great Britain	Robert Forrester
PP Interiors	Beverley, Great Britain	Hayley Hodson
Young & Gault	Glasgow, Great Britain	Kate Mooney

## AGENCY SUPPORTS AND EDUCATIONAL INSTITUTIONS

Letterfrack Furniture College	Galway, Ireland	Paddy Tobin
School of Art and Design, University of Ulster	Belfast, Northern Ireland	Olga Makem
Upper Bann Institute of Further and Higher Education	Banbridge, Northern Ireland	Mr R. Goodwin
Furniture Technology Centre	Galway, Ireland	Janet O'Toole
Dublin Institute of Technology	Dublin, Ireland	Richard Whelan
Enterprise Ireland	Dublin, Ireland	Ruth Sexton, Senior Development Advisor, Consumer Products and Furniture
Enterprise Ireland	Dublin, Ireland	Declan Cahill, Senior Technology Advisor Consumer, Products and Furniture
Invest Northern Ireland	Belfast, Northern Ireland	Stephen Wightman, Creative and Design
Invest Northern Ireland	Belfast, Northern Ireland	Patricia Smyth, Transport, Construction and Tourism