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Singapore Furniture Outlook 2014

September 2014

Research prepared by:



Commissioned by:



Supported by:



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Established in
1972 **23** Partners
360 Staff

ABOUT BDO INTERNATIONAL

No. 1 for exceptional
client service ¹

US\$6 ^{bn²} 2013
revenue

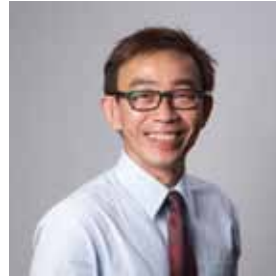
144 ^{countries} **1,264** Offices
56,400 Staff

1. Independent research carried out by Lighthouse Global (Mid Market Monitor 2012)

2. \$6.45bn (€4.63bn) total combined fee income 2013



Foreword



For over 30 years, the Singapore furniture industry has adapted and evolved rapidly to the changes brought about by broader macroeconomic changes. In response, the industry sought further internationalisation and automation as their solutions, and have endured with amazing resilience throughout these years.

However, we are now witnessing the onslaught of a new era of doing business. To ensure the continued growth and dynamism of the Singapore furniture industry, it is integral for the Council to push forward with its newly formulated 3i strategic framework - Improve, Innovate and Integrate to actualize design-centric growth.

In view of this, the next 3 years will see further attempts to adopt more innovation and design centric measures within the furniture & furnishings industry. For that, I hope to see a much stronger Singapore brand emerge as we advance closer to our aim of establishing ourselves as a premier regional hub, providing total solutions to the global market.

Ernie Koh

**President
Singapore Furniture Industries Council**

Overview

It has been a long way since the 2008 economic crisis that threatened to cripple the financial stability of the world. 5 years have passed and it seems that we are fast coming to the first sight of global recovery in the coming years.

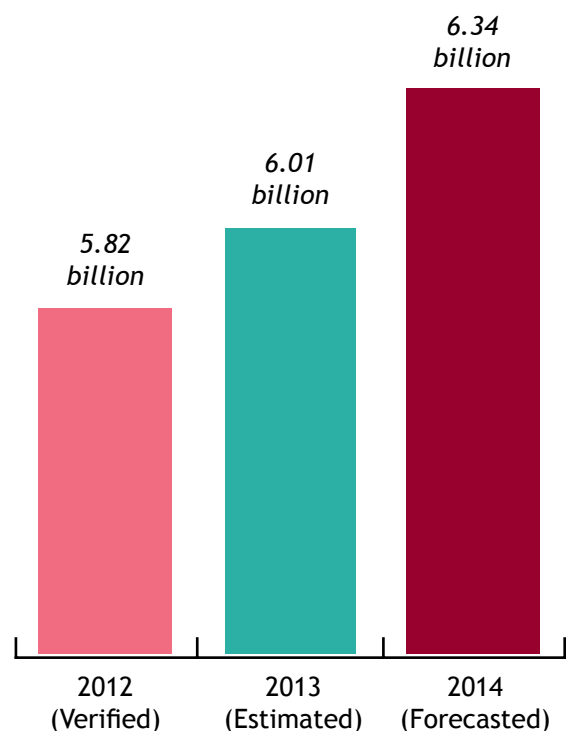
For one, Singapore has kept up well despite the global turmoil and we have seen these translate into modest growth in 2013. As reported by the Singapore Ministry of Trade and Industry (MTI), “For the whole of 2013, the Singapore economy expanded by 4.1 per cent, higher than the 1.9 per cent growth in 2012.” Going forward, the Singapore economic outlook is expected to continue on its recovery, and is expected to have significant spill-over effects into the furniture industry.

The **Annual Furniture Industry Survey 2013-14** is spearheaded by both Singapore Furniture Industries Council and SPRING Singapore and it is with great honor that BDO Consultants Pte Ltd. has been selected to help execute this round of surveys in 2013-14.

Contingent with the market conditions of 2013-14, it is heartening to see that the furniture industry has regained its growth momentum, with total furniture trade amounting to an estimated S\$6.01 billion for 2013, and clocking a positive growth of 3.3% from 2012.

Going forward, industry players do expect this growth to persist to reach a total trade value of S\$6.34 billion by 2014, resulting in a cumulative growth of around 9% for the period of 2012 to 2014.

**Singapore Furniture Industry
Market Size (SGD)**

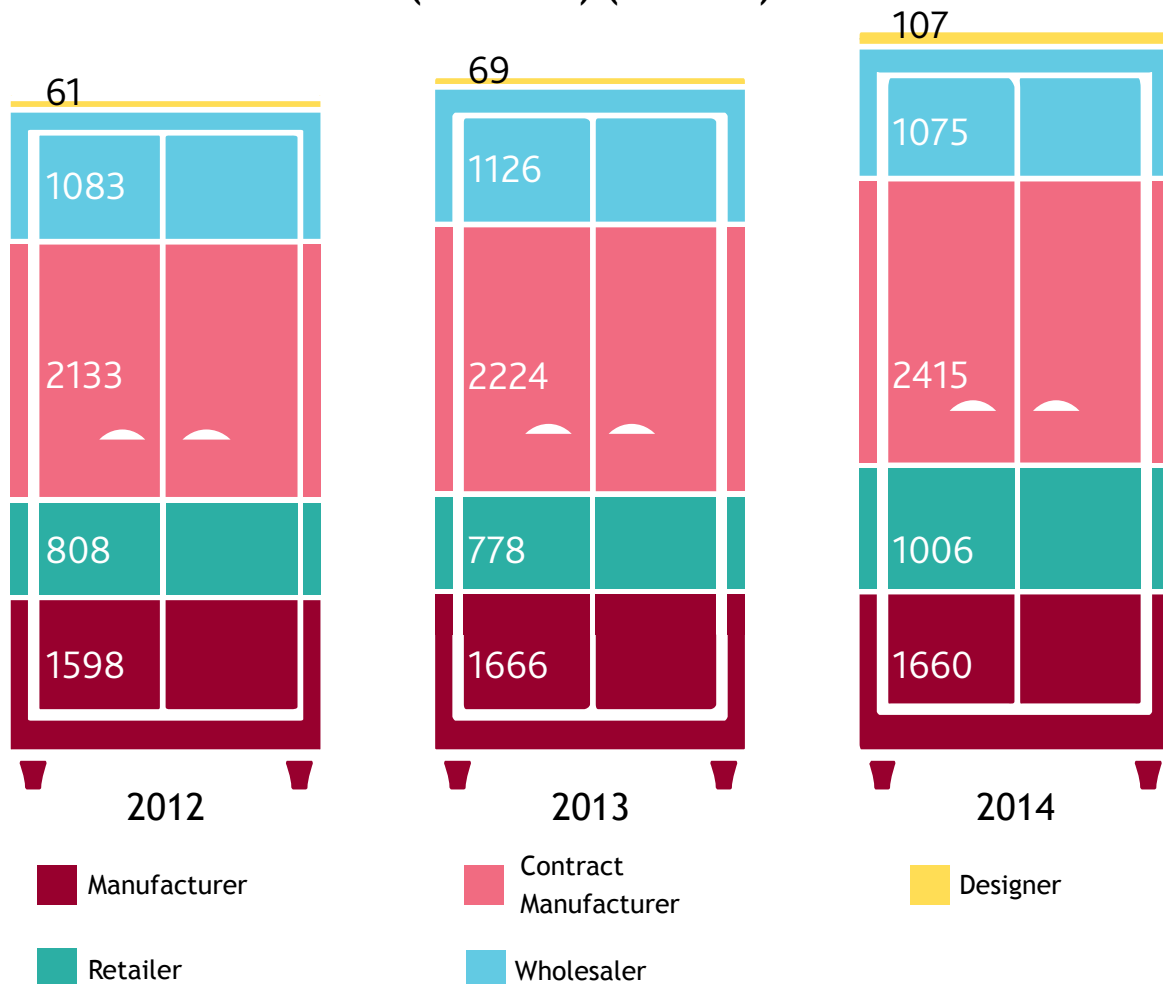


“cumulative growth of around 9% for the period of 2012 to 2014”



Where do we expect most growth to come from?

Furniture Industry Market Size Breakdown
(2012-14) (SGD Mil)



Interestingly, amongst the various classifications that were chosen to represent the furniture industry in Singapore, designers are expected to possess the greatest growth potential going forward (+75% by 2014).

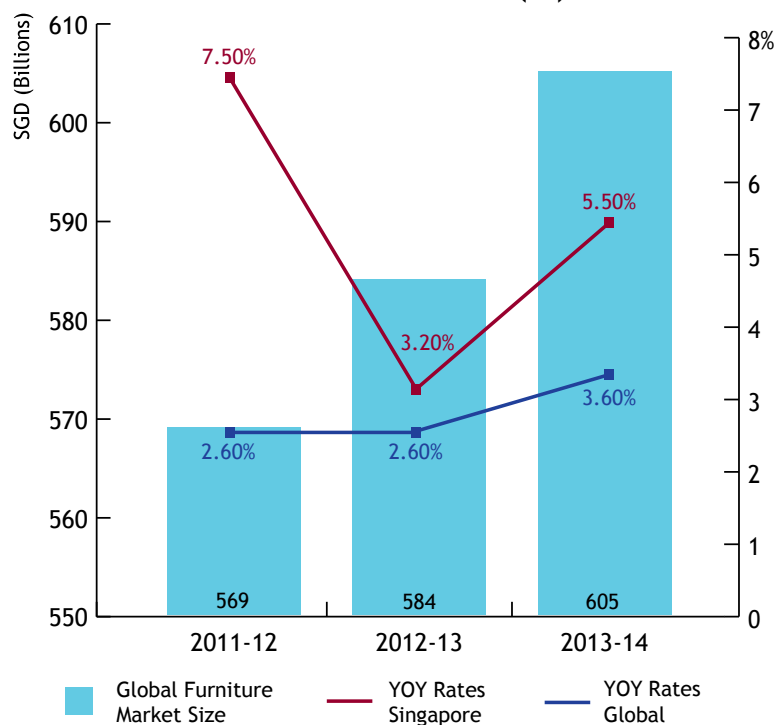
Contract manufacturers and retailers are expected to contribute positive growth, whilst manufacturing and wholesale sectors are expected to flat-line in the coming period of 2014.

Singapore industry set to outpace global counterparts

Despite the general positive outlook, it is cautioned that the older years of dramatic growth are over. It is interesting to note that the industry has performed considerably well in the earlier years, with a year on year growth rate of about 16% for the period 2010 - 11 and about 7.50% for the period 2011-12.

Industry players expect much more modest growth within the Singapore furniture industry going forward. Nevertheless, current expectations do still better global averages projected, and it is affirmative to say that there is considerable potential in the industry in the next few years.

Singapore Growth vs. Global Growth (%)



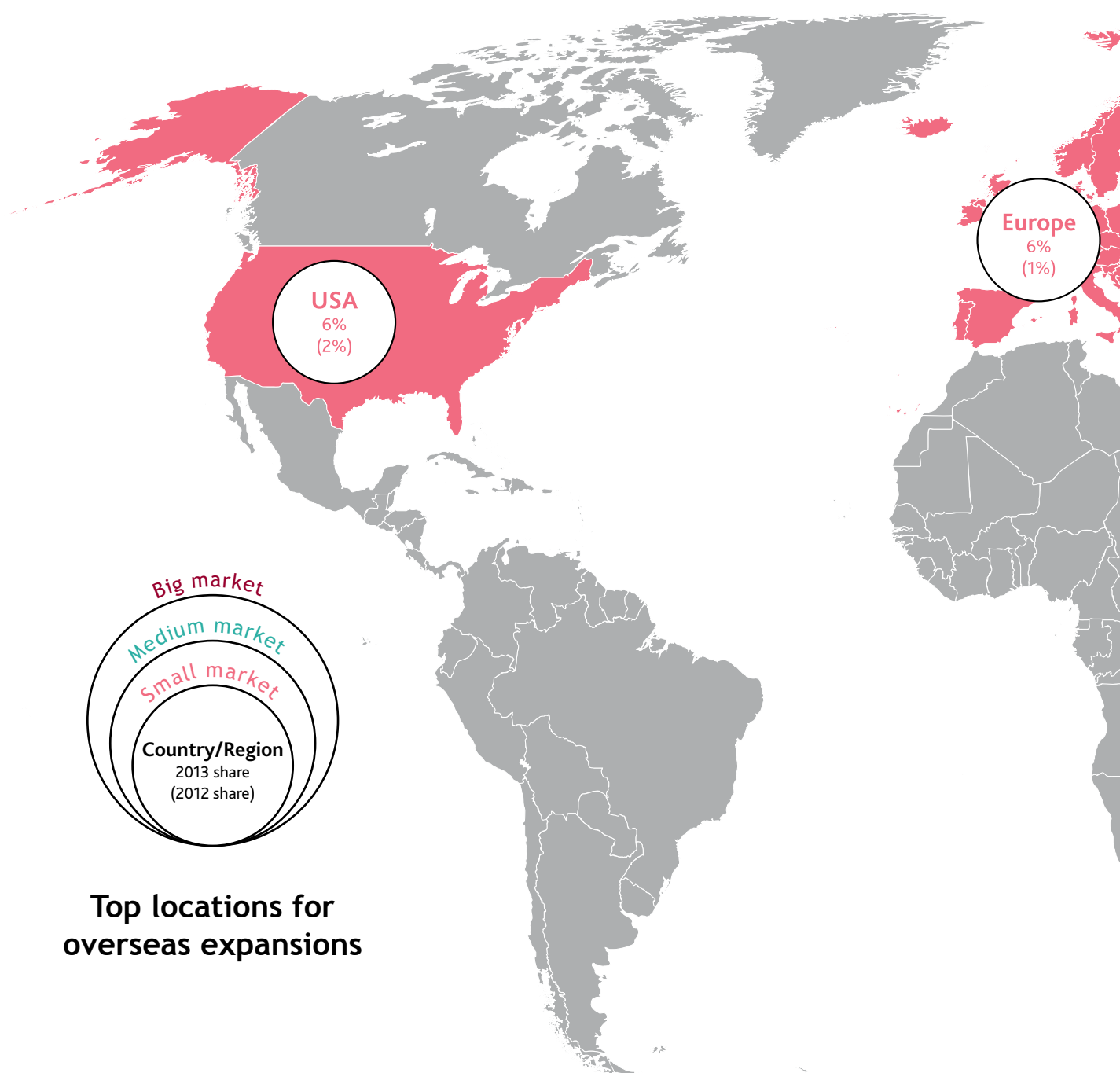
Source: Market Line April 2013: Report on the Global Furniture and Floor Coverings

“The Singapore Furniture Industry accounts for 1.08% of the Global Furniture Markets”

Photo credit: Commune Lifestyle

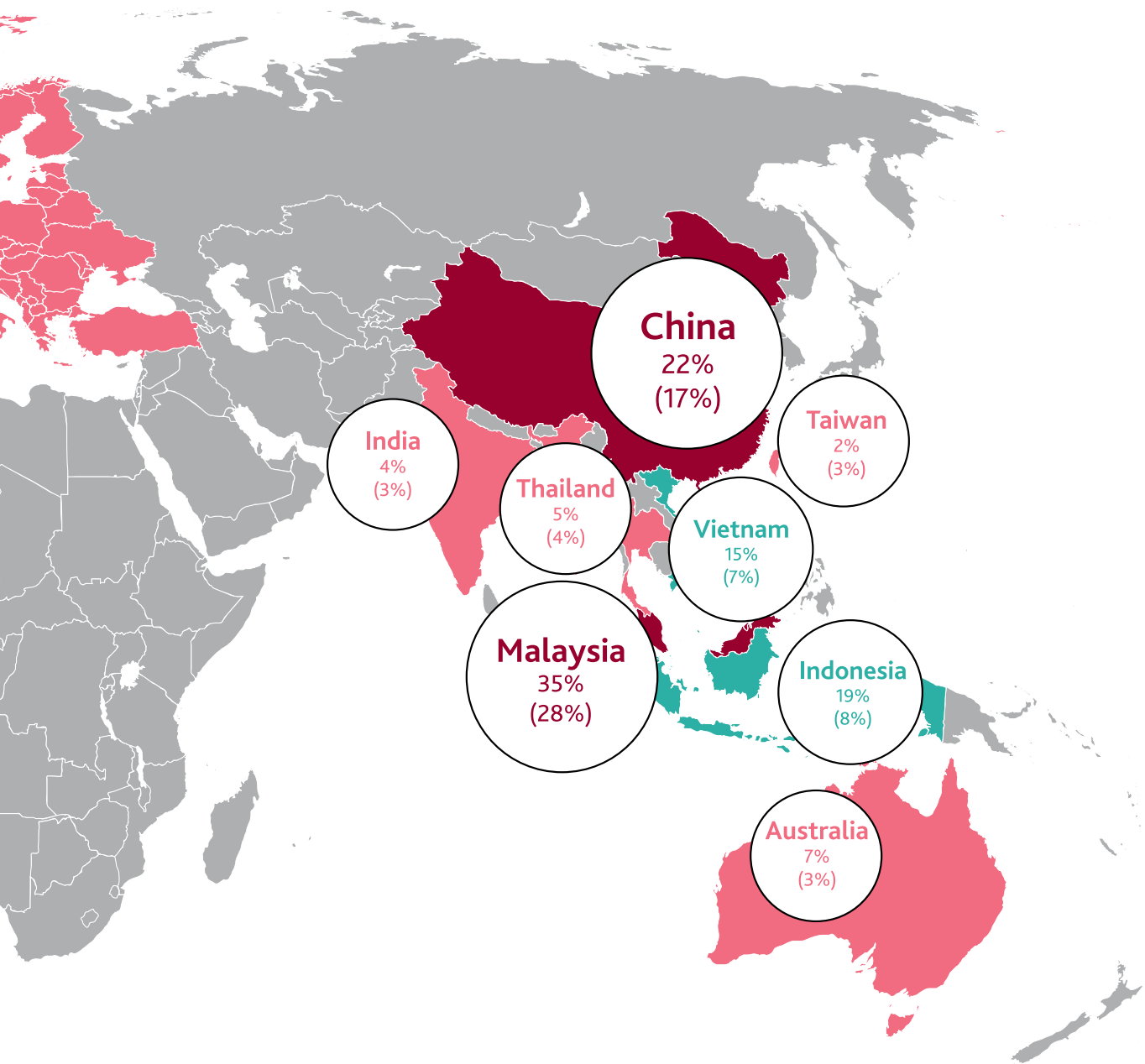


Internationalisation Trends



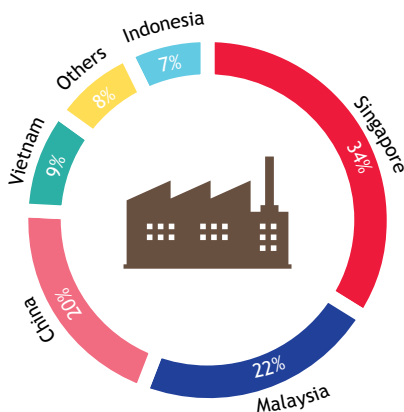
Internationalisation has long been a focal feature of Singaporean businesses; with a country measuring one full marathon across and a half marathon from top to bottom, the country offers limited expansion possibilities domestically. In view of this, many furniture companies have since sought their fortunes overseas.

Consistent with previous year findings, Malaysia and China remain the top overseas locations for operations. Industry players have long lamented the lack of access to necessary resources, especially in seeking land and necessary labor for production facilities in Singapore, and have thereby relocated the majority of their productions overseas.



In fact, many Singaporean businesses' appetites for internationalisation extends beyond merely leveraging their production capabilities into cheaper regions of the world. Amongst those surveyed in this round of surveys, 49% of the firms have expressed their intentions to further their expansion overseas with much more focus on establishing permanent operations such as sales offices or physical outlets.

In terms of reaching out to new markets through sales, Myanmar and Indonesia remain popular choices this year. Europe is clearly the most attractive region for Singapore furniture businesses, and of those who cited Europe, 28% expressed particular interest in Germany. This was followed by interest in the UK, which sat at 22%.

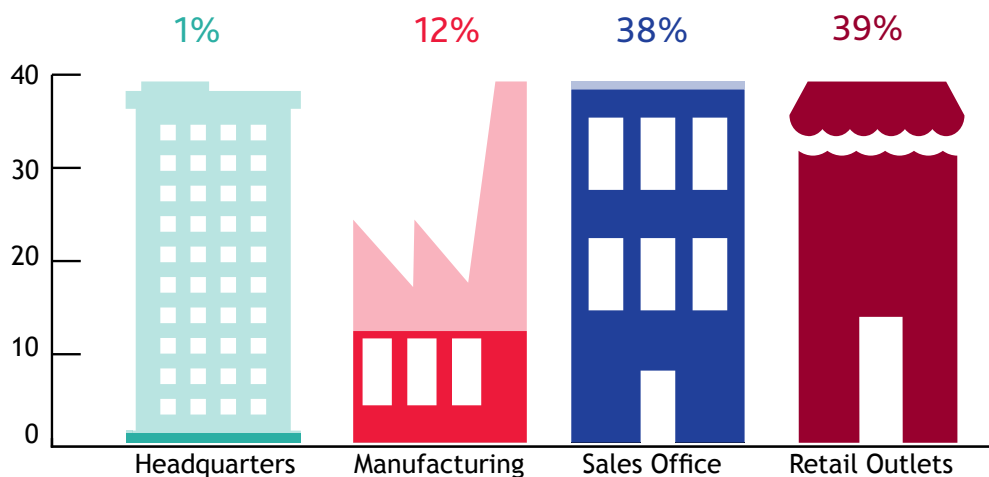


Percentage of Manufacturing Facilities in Respective Countries



49%
have expansion plans in
the next 3 years

Intended Overseas Permanent Operations to be Established in the Next 3 Years



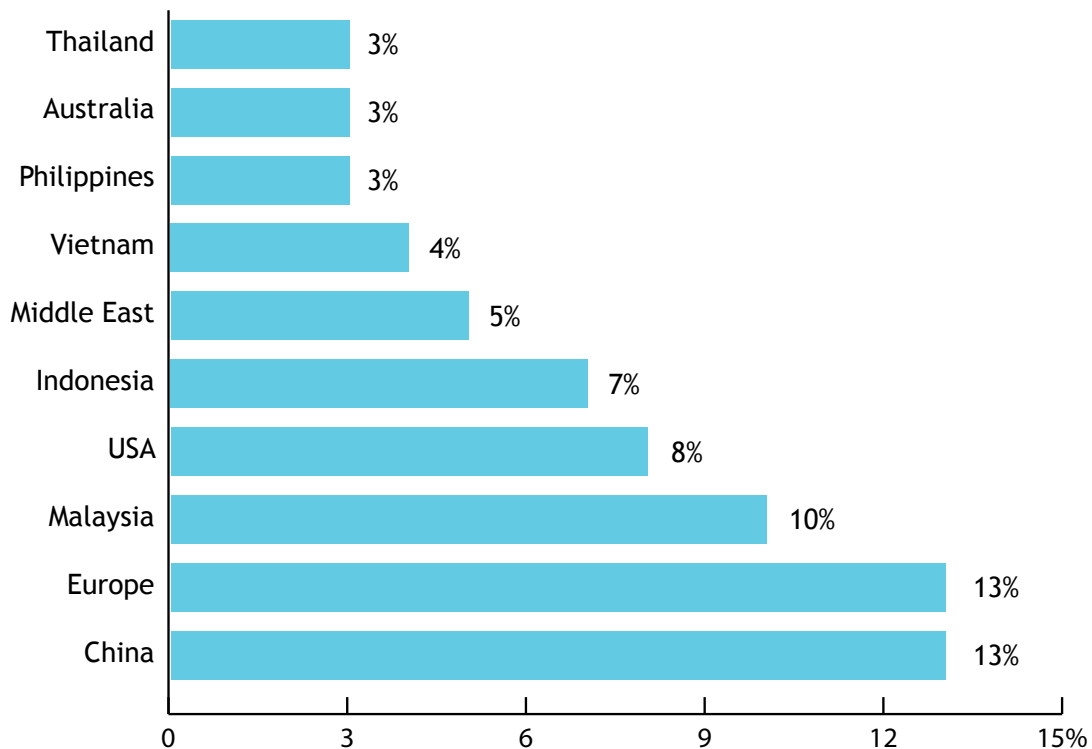


Where are the markets for future growth?

As expected, the larger the business, the higher the probability of having existent overseas operations. Of the various existent overseas operations recorded, 85% belonged to Singapore furniture businesses with a revenue of SGD 5 million and above. In fact, 44% of

these establishments belong specifically to firms with revenues of SGD 20 to 79.9 million. It is apparent that internationalisation is highly related to the business's size, and it scales up rapidly when firms reach the mark of SGD 5 million and beyond.

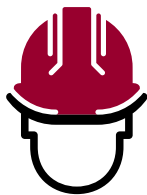
Expected Overseas Top Markets for Sales (Next 3 Years)



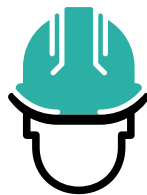
Productivity Measures

Productivity has long been central to the government's push for a higher value economy with sustained innovation. In line with the drive towards greater productivity, the intention to formally measure productivity within the furniture industry in Singapore was initiated in this round of surveys.

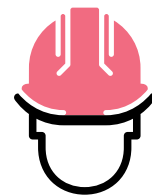
Industry players have frequently commented that productivity is difficult to measure and track within an industry that is so diverse. However, the methodology employed seeks to eliminate such variations by benchmarking the subsectors (retailers, manufacturers, contract manufacturers) separately. It strikes as a milestone and vantage point to track the industry progress objectively going forward.



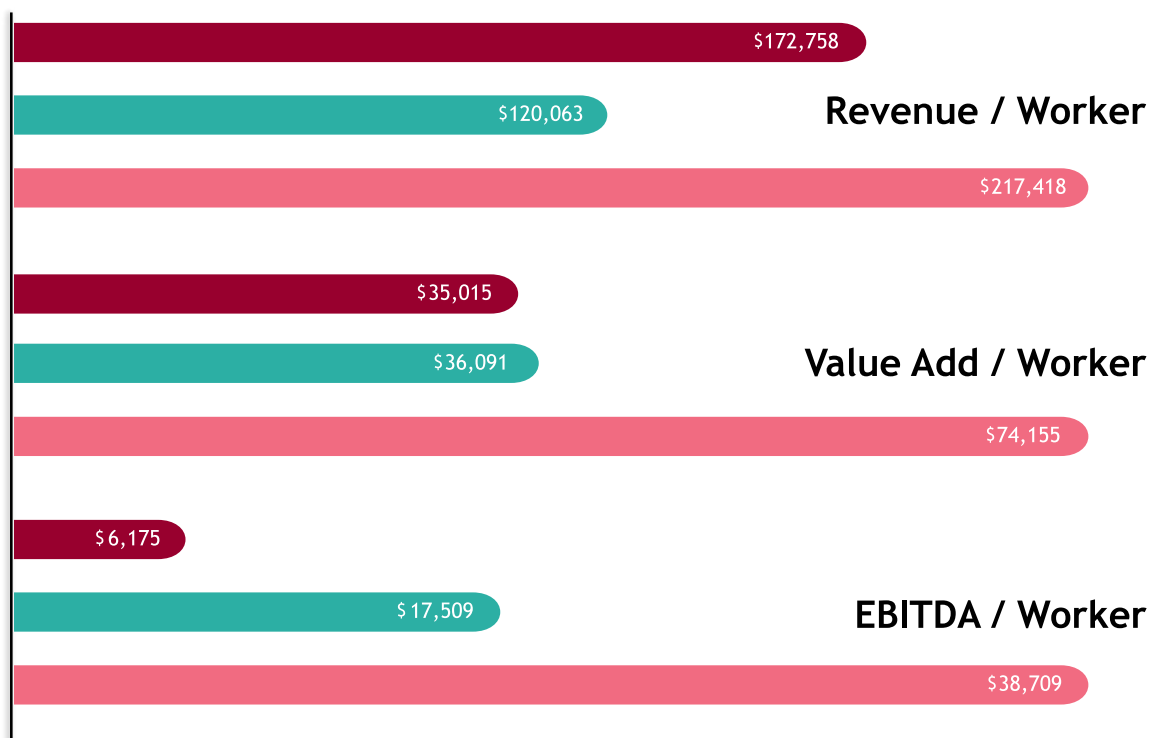
Manufacturers



**Contract
Manufacturers**



Retailers

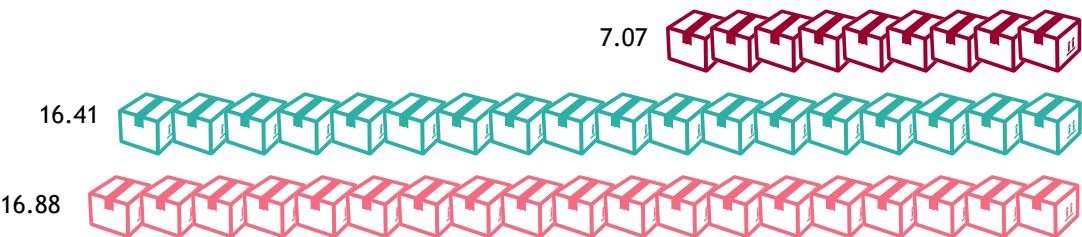


All values are in Singapore dollars (SGD)

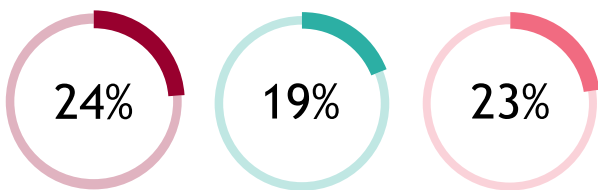
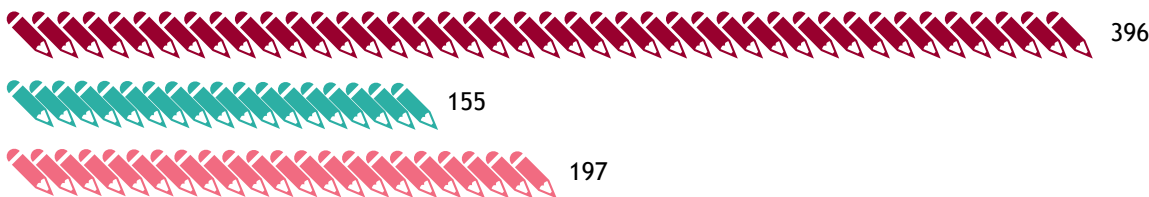
Mean Salary



Revenue / Fixed Assets



Training Costs / Worker



Labour Cost / Revenue



Green Certifications

Best Practices

To enable us to understand the drivers for business excellence within the furniture industry, several leading local and international furniture players were approached for further focus discussions.



"Companies should focus on managing the entire supply chain."

SIMON ONG | Group Managing Director, KINGSMEN

"Have belief and faith in your own work. Do not be driven by short-term gains and focus on long-term horizons."

CHARLES TAN | Associate Director, Sunray Woodcraft Construction

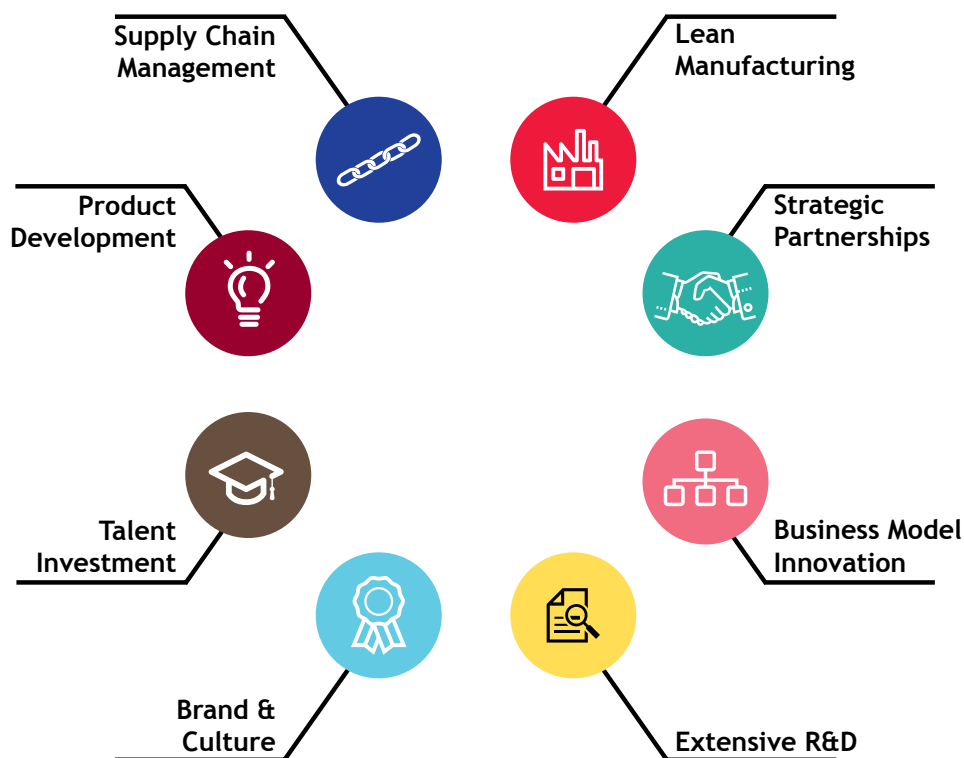
"Know your value-add; know what value you provide to the consumer."

JEFERY KURNIADIDJAJA | Director, Grafunkt

"If you have the idea, put your effort in to try!"

KENNY KOH | Group Managing Director, STAR Furniture

The eight critical success practices advocated by leading furniture players:



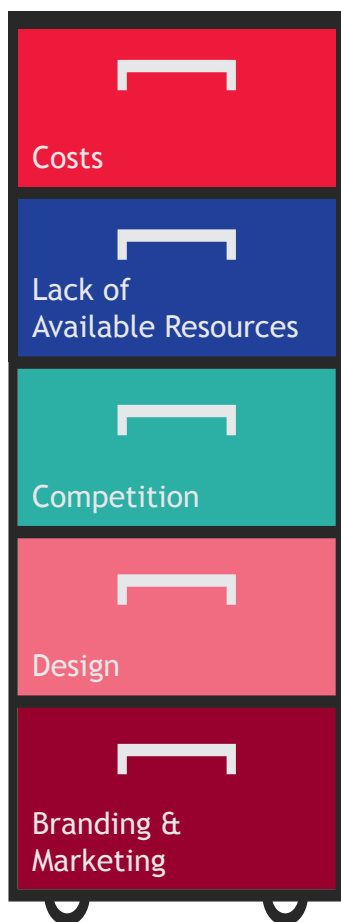
These eight success factors operate to complement each other, and it is difficult to find a leading furniture business which excels in only one, and falls short in the rest, of these factors. For example, LA-Z-BOY, the international manufacturer famous for the recliner sofas, has proven successful in adopting lean manufacturing techniques, which they term “cellular manufacturing”. The manufacturing process is governed by the **5S Principle: sort, straighten, scrub, stabilise and sustain**, which has resulted in significant savings through less wastage, and higher efficiency and productivity. However, over its 87-year history, LA-Z-BOY has not rested on its laurels and taken its accomplishments for granted: it has also been successful in pursuing incessant product development

policies. Its recliner may have been a hit invention, but LA-Z-BOY continued to experiment, develop and innovate until it reclined, rocked and vibrated.

Critical to the understanding of the readers, it is necessary to understand that all these factors contribute to a holistic successful furniture business. Firms that we have approached have exhibited excellence in more than one of these areas and have retrospectively attributed them to their success. As such, we hope that these could serve as a guiding direction for businesses to follow in view of unlocking the further potential of their businesses.

Local Challenges

Despite the progressive developments of the Singapore furniture industry, the sector is not without its challenges, and many have been raised repeatedly in our various conversations with industry players.



- Rising rentals
- Rising labor costs
- Rising material costs
- Lack of land for development
- Foreign worker levy has reduced pool of readily available workers
- There has been significant increase in overseas competitors entering domestic markets
- Local firms are finding it difficult to compete given the price-cost edge these countries have
- More Singapore companies need to embrace design to compete from higher ground
- More local design skill-set needs to be nurtured
- More companies to leverage on design-related grants
- Local firms lack brand recognition among local customers

It has been no surprise that the above emerged as the contending issues. Many are a result of larger macroeconomic powers and uniformly plague all players across the Singapore industry. It has to be emphasised that the industry has long faced the problems of attaining adequate resources in terms of labour, materials, and land for their operations. In return, larger players have responded in the fashion of internationalising their production units. This has left many smaller players in a perilous position, unable to garner a competitive advantage especially in terms of costs.

To add to the issue, the Singapore markets have seen a flood of cheaper products from overseas competitors in recent years. The lack of branding and marketing efforts amongst Singapore furniture brands have resulted in undiscerning customers who often value price much more than quality in their purchasing decisions.

Solutions to these issues seem fleeting at most in the immediate future, and it is foreseen that the industry has settled on the fringe of radical evolution now as we await the next revolution to strike it.



Photo credit: JotterGoods by Star Furniture Group

3i - The Way Forward

The furniture industry in Singapore has shown remarkable resilience and adaptability throughout the years. As a small country, it is an impressive feat to continue to find such significant levels of furniture-related economic activities present.

Amidst strong headwinds to further development, most industry players have adapted and sought solutions through internationalisation or mechanisation. However, the future poses stronger challenges and calls for greater innovation and adaptation to happen as we progress towards a new frontier.

The advent of Ecommerce, the rise of the informed customer, big data analytics and 3D printing are the forces that furniture businesses will have to contend with as we march further into the new millennium. Moreover, although the furniture business has traditionally been a conservative one, the free capital markets are looking for a radical shift in the business's paradigm. To ensure the continued growth and dynamism of the Singapore furniture industry, it is integral that the industry stays true to the three important pillars to sustainable growth: **"Improve, integrate and innovate."**

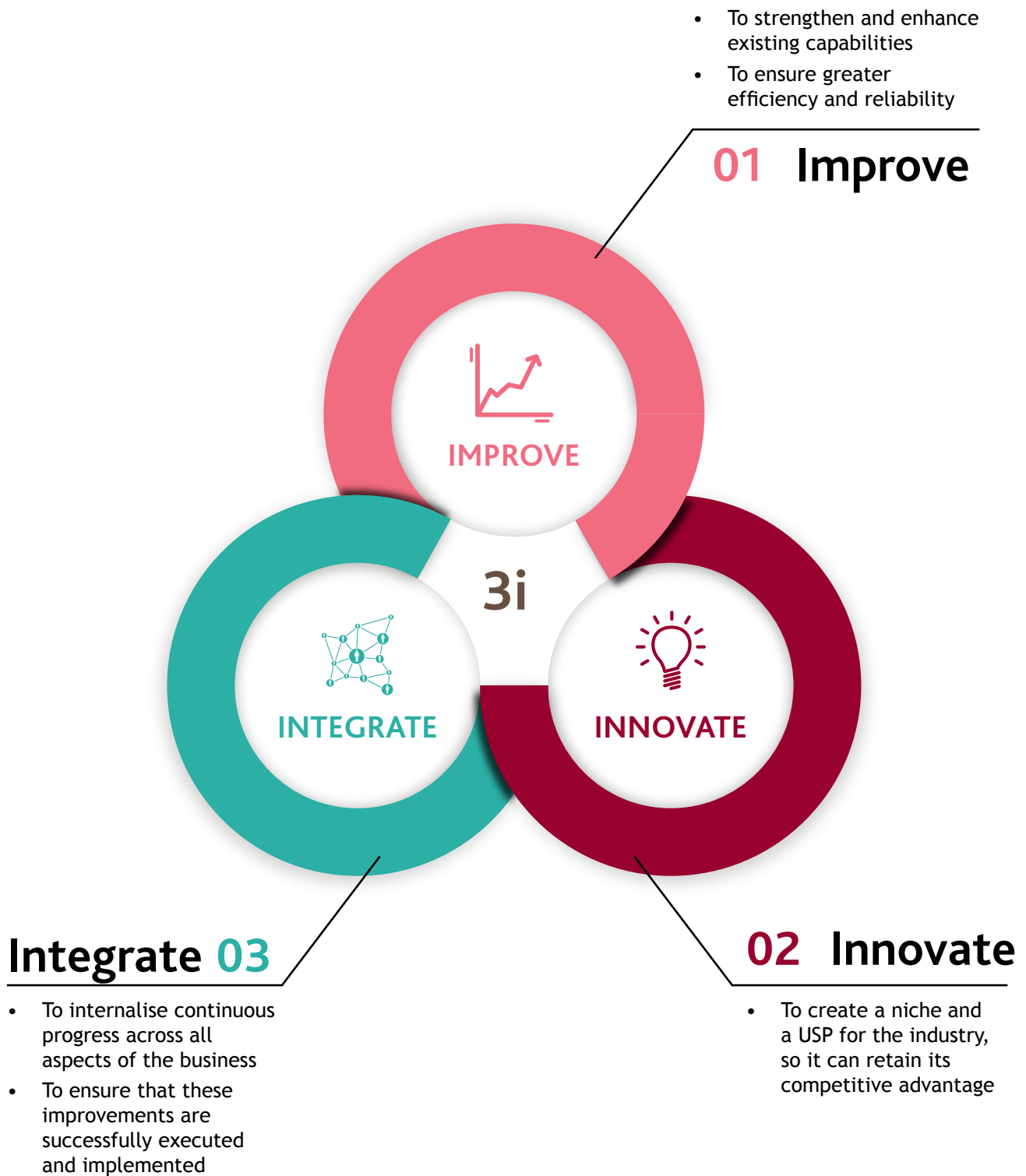
In this closing comment, we urge various industry businesses to think deeper upon these key pillars.

1. Improve - Productivity measures have revealed that the industry still trails international champions in these measures. Singapore firms do still have room to further strengthen and enhance their existing capabilities. Particularly among the smaller furniture businesses, wider and greater accessibility to grants that allows further automation in their operations would be greatly beneficial. That said, companies must not become dependent upon grants, and should independently and aggressively seek ways to improve their current capabilities.

2. Integrate - Complexity is a silent killer of growth. It is notable that Singapore furniture businesses are increasingly diverse and complex, cutting across segments from design to manufacturing instead of confining themselves to a single segment. There is therefore a continuous need for businesses to review all aspects of their operations internally to discover where improvements could be made and where simplicity may in fact enhance efficiency.

3. Innovate - As iterated earlier on, the industry is becoming ever more cost competitive. Forecasted potential of the industry domestically is increasingly limited. There is a pressing need for industry players to evaluate more innovative strategies in their approach to the markets. We are already witnessing some encouraging sparks of creativity amongst the local players, and other businesses in the sector will have to look to do the same. For example, KODA and Commune Lifestyle have leapt across industry boundaries by merging furniture retailing with Singapore's prominent café culture. Another recent example is HTL Manufacturing, which has creatively turned leather offcuts into fashionable handbags.

As long as industry players can hold steadfast to these three pillars, we foresee a better furniture industry in the next few years. Companies engaging further into business design thinking, branding and marketing and business process improvement and holding strong to the principles of the 3i Strategic Framework will be able to navigate the headwinds of change and challenge.



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