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Singapore Furniture Outlook 2015

Building a knowledge-based industry.
Towards the future with foresights.

October 2015

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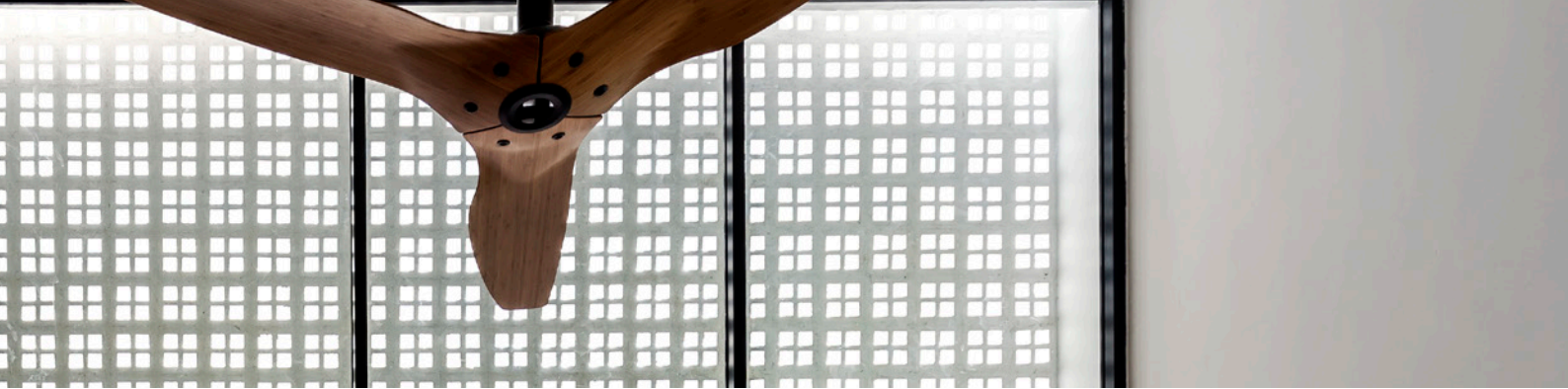


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CONTENTS

Overview	4
Current Global Footprint	6
Future Expansion Trends	10
Productivity	12
Challenges and Opportunities	14
Upcoming Market Disruptors	16
About SFIC	18
About BDO	19



FOREWORD

Five decades since Singapore's independence and SG50 has been an eventful, perhaps momentous year. Mr. Lee Kuan Yew's passing was a sobering occasion which brings us to reflect on the great changes and progress Singapore's furniture industry has made. From its humble beginnings, the industry has blossomed into a notable contributor to the economy. With many companies diversifying into numerous furniture-related business activities, products and services and others reaching for further shores such as Europe, ASEAN and China, we have grown into a resourceful, robust sector forecasting a market size of S\$6.25 billion for 2015. However, the nation's founding father was not one to rest on his laurels and, to take a leaf out of his much-admired book, we must look into the future with foresight. Exciting

and revolutionary innovations combined with renewed perspectives have, if properly harnessed, the potential to overhaul the industry significantly. SFIC will continue to build upon its existing efforts to introduce fresh initiatives and drive the furniture industry forward and to see it thrive for the next fifty years and beyond.

ERNIE KOH

President

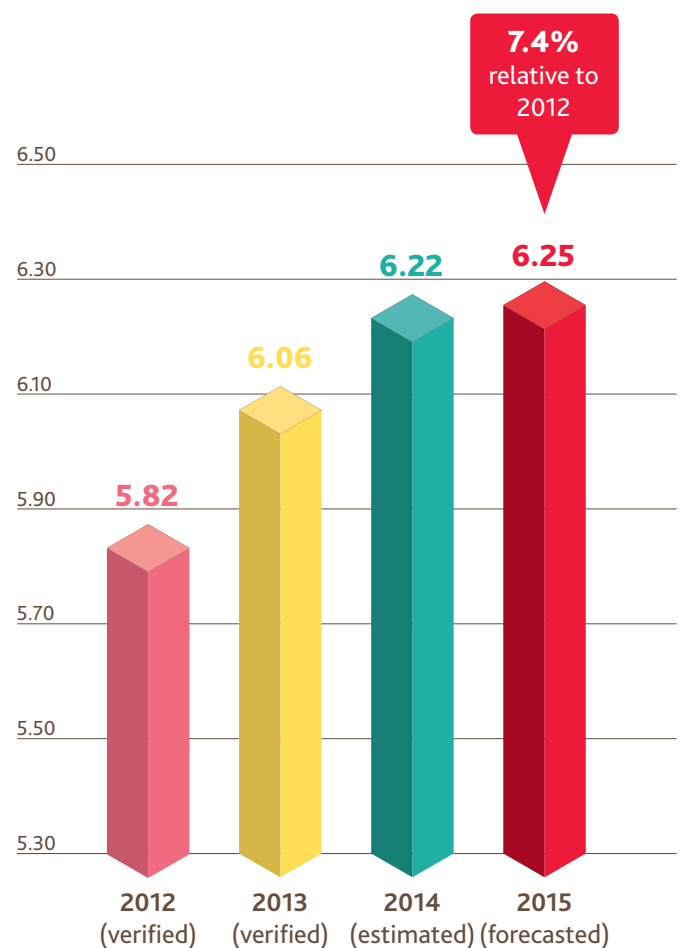


OVERVIEW

For the second year running, the Annual Furniture Industry Survey 2014-2015 has been jointly organised by the Singapore Furniture Industries Council and SPRING Singapore in partnership with BDO Consultants. The insights that have been revealed span across topics such as the furniture industry's size and growth, export activities, international expansion plans and strengths and opportunities. This provides readers with a thorough picture of the industry's landscape from all angles, with key metrics derived from data given by Singapore's furniture players of all sizes and sectors. We hope that you will continue to find these insights as useful and as informative as the previous year's, and hopefully these results will be useful in making some business decisions.

Continued sentiments of overall optimism see the industry forecast a pleasing growth of 7.4% from 2012 to 2015, and it is anticipated that the total market size will reach S\$6.25 billion in 2015. Just as reassuring is the 2013 market size figure. In 2014, this was estimated to sit at S\$6.01 billion; following verification in the 2015 survey, the 2013 market size was in fact slightly larger at S\$6.06 billion. However, despite general optimism over the 4 years, the furniture industry saw slower than expected growth in 2014. Cautious that initial estimates may have been overly ambitious, these have been tempered to lower the market size to S\$6.22 billion from previous forecasts of S\$6.34 billion.

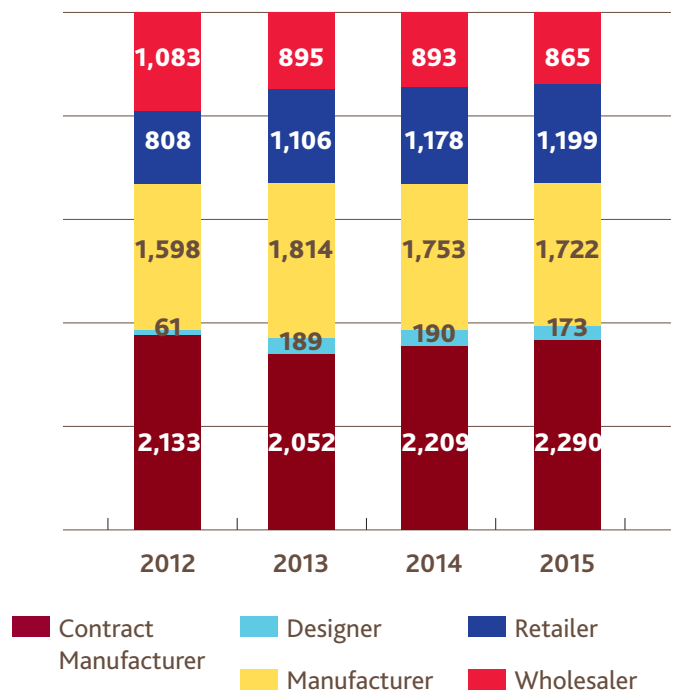
FIGURE 1: Furniture Industry Market Size (SGD Billions)



In an assessment of the market size broken down into the industry's various sectors, retailers steal the show as the only sector to post continuous year-on-year growth. Retailers forecast that in 2015, the sector will achieve a size of S\$1.20 billion and account for 19.2% of the total market. Another bright light is the contract manufacturing sector which, despite shrinking slightly from 2012 to 2013, expects to rebound strongly into the positives for growths of 7.7% from 2013 to 2014 and 3.7% from 2014 to 2015, hitting a high of S\$2.29 billion in 2015.

Notably, the Singapore furniture industry's 2012-2013 year-on-year growth has risen from a previous estimate of 3.2% to a verified growth of 4.1% but 2013-2014 forecasts dropped by almost half to 2.6%. This reflects the conservative figures that were provided for 2014 revenues. Charting Singapore's year-on-year growth against the global year-on-year rates, it is possible to see that national growth has in general fared better or similarly. While national growth rates have seen a general downward trend since 2011, they are expected to maintain positive percentages, which are aligned with the global growth rates.

FIGURE 2: Furniture Market Size Breakdown 2012-2015 (SGD Millions)



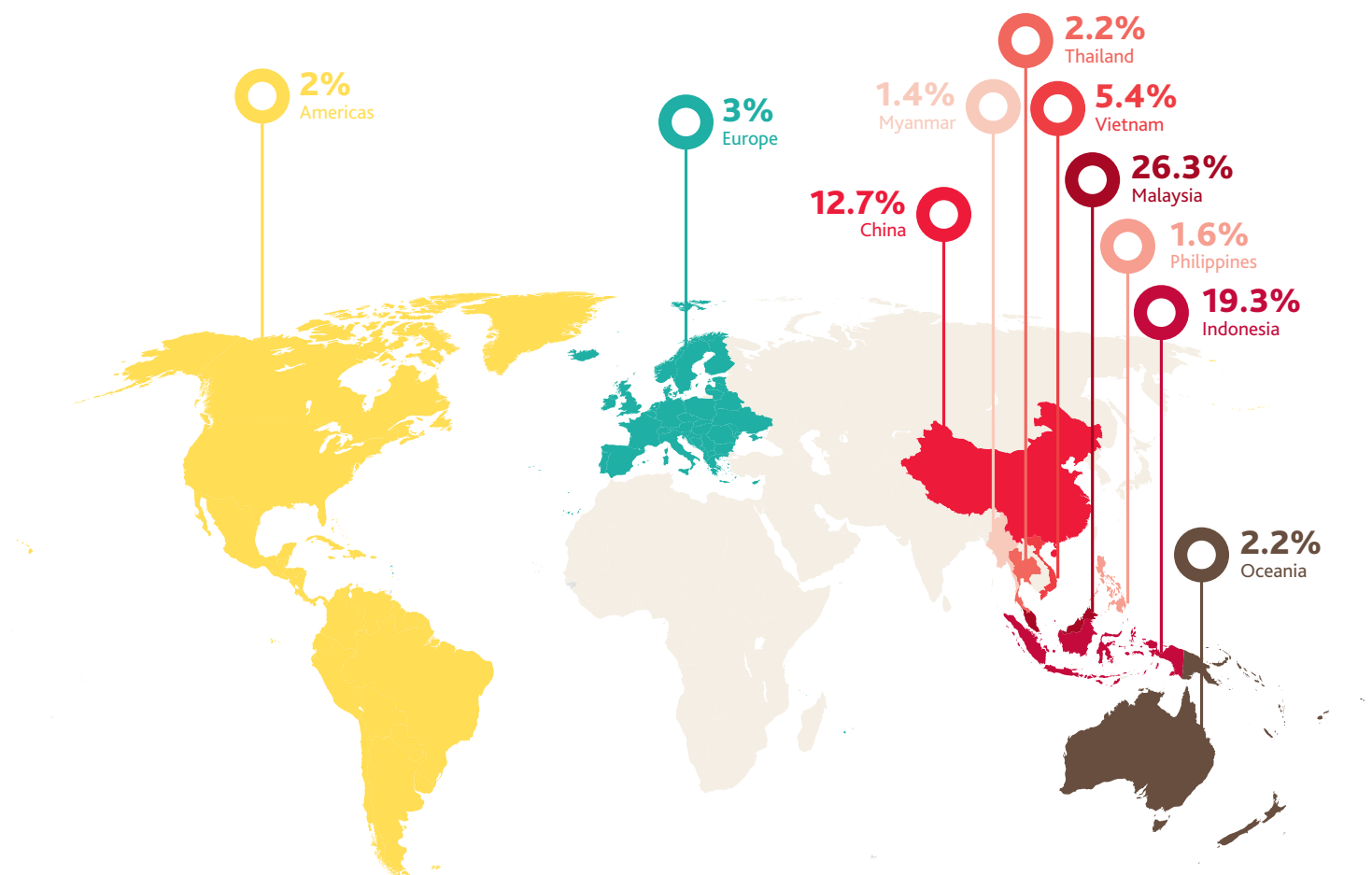
► CURRENT GLOBAL FOOTPRINT

Expanding operations overseas is a critical component of the strategies of Singapore businesses and furniture businesses are no exception. There are numerous push and pull factors involved in the decision to operate in another country which can also affect a company's choice of country and type of investment. To complement the importance of internationalisation, SFIC and respective Singapore government agencies have actively sought to promote and facilitate the process of opening up overseas, offering assistance in a range of ways from

financial aid to Singapore presence in overseas trade shows as well as our own home grown International Furniture Fair Singapore.

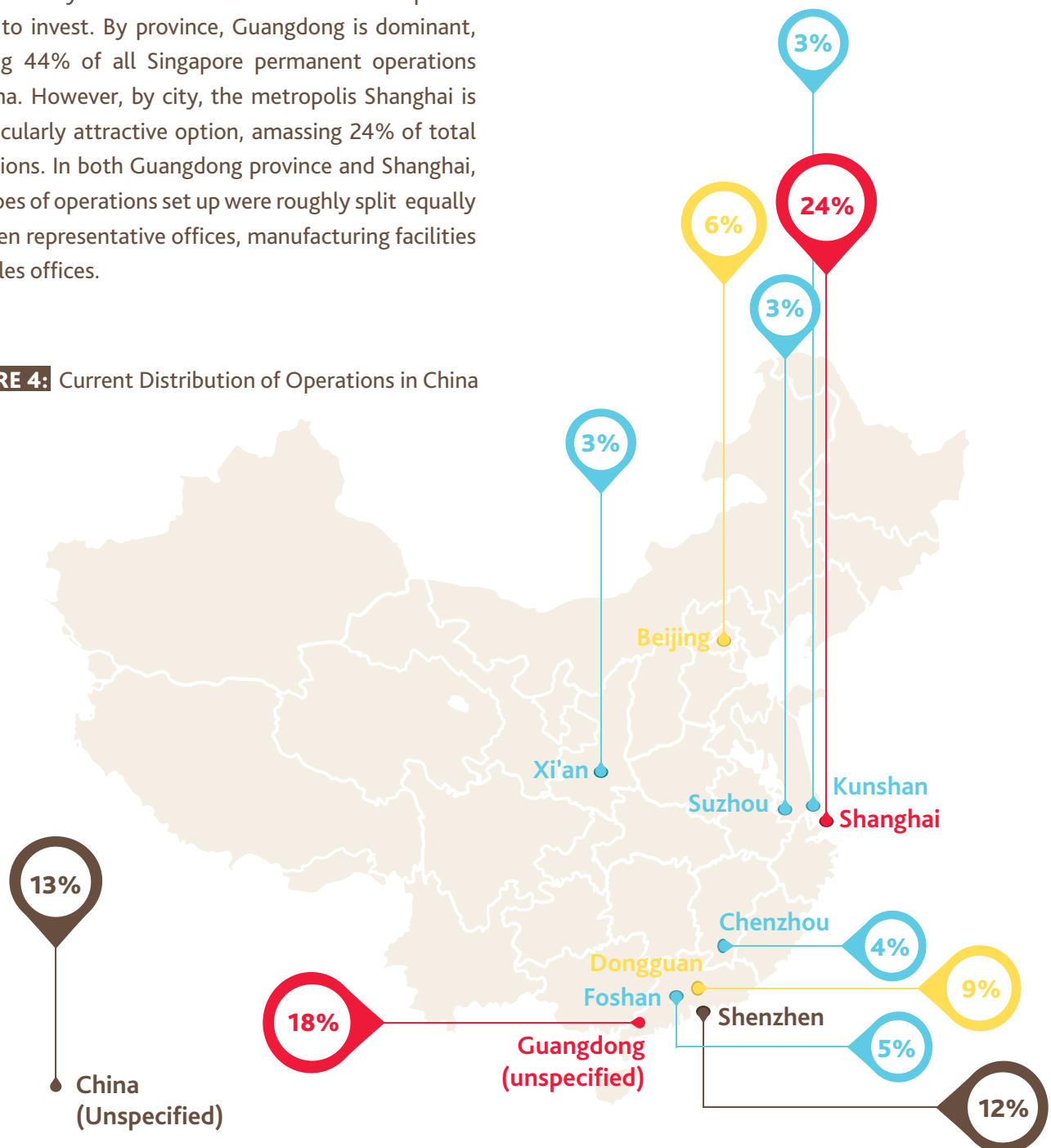
As expected, Malaysia, Indonesia and China remain the most favoured locations for furniture companies to set up their permanent operations outside of Singapore's borders. Their enduring popularity is due to a combination of considerations such as close geographical proximity, cultural similarities, increasing populations and lower operational costs as compared to Singapore.

FIGURE 3: Current Distribution of Overseas Operations



Given the size and importance of China to Singapore's furniture industry, this year's survey examined in further depth exactly where in China furniture companies prefer to invest. By province, Guangdong is dominant, housing 44% of all Singapore permanent operations in China. However, by city, the metropolis Shanghai is a particularly attractive option, amassing 24% of total operations. In both Guangdong province and Shanghai, the types of operations set up were roughly split equally between representative offices, manufacturing facilities and sales offices.

FIGURE 4: Current Distribution of Operations in China

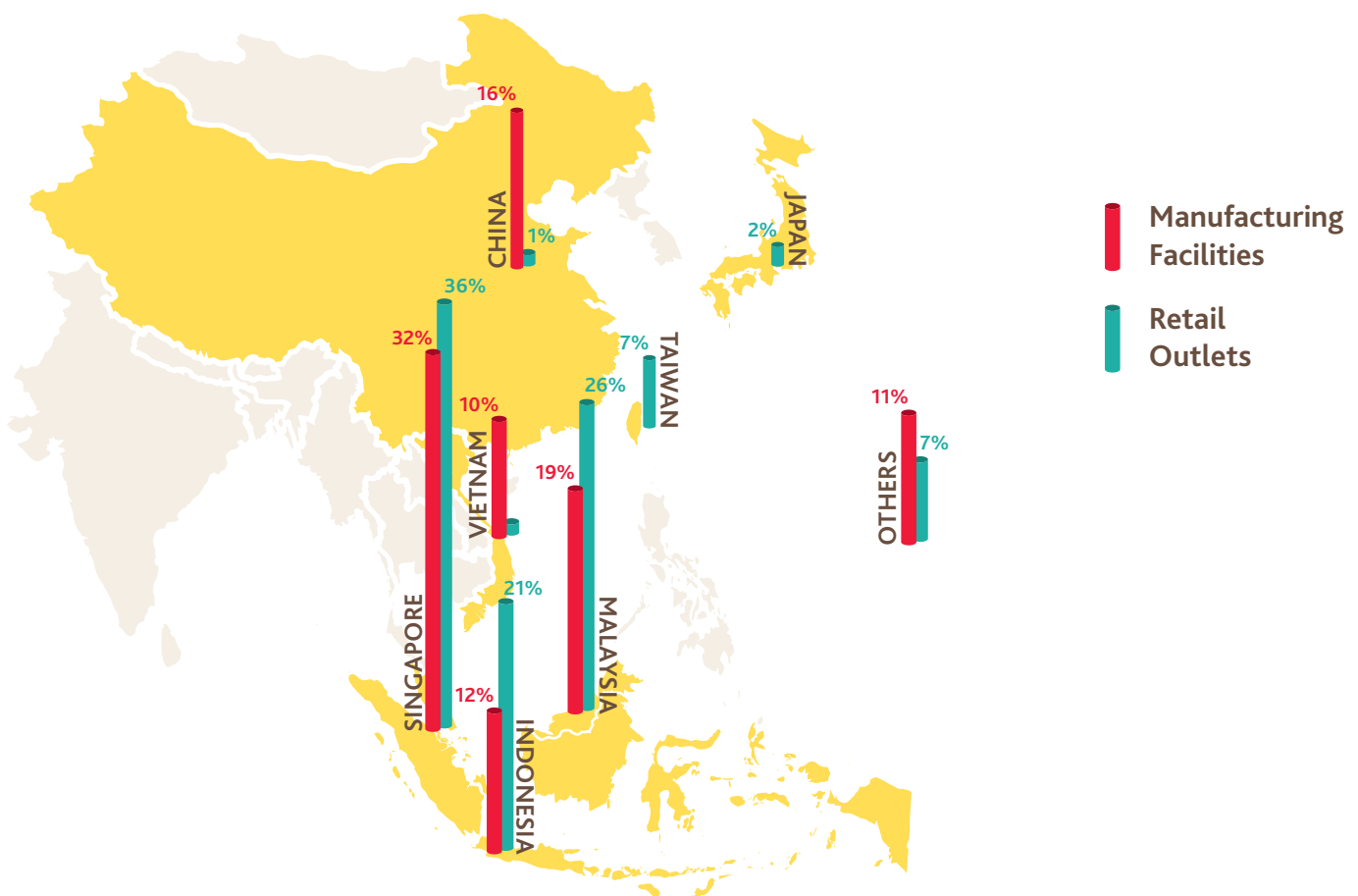


Of the overseas manufacturing facilities owned by Singapore furniture businesses, the big three of Malaysia, Indonesia and China remain the top destinations: altogether, these three countries account for almost half of all manufacturing facilities. Vietnam has enjoyed increased prominence, although facilities in other countries are highly dispersed, being spread out across nine different countries. Nevertheless, the significance of Singapore as the home of manufacturing plants cannot be overlooked. Domestic manufacturing operations consistently rank the highest in terms of number of operations, totalling an average of a third of all facilities in the last two years, signalling that Singapore continues

to be an important base for businesses engaged in the manufacture of furniture.

To underscore just how crucial the domestic market is, and not just for manufacturing, over a third of retail outlets are situated in Singapore. The tendency of locating permanent operations in Singapore's closest neighbours is reproduced in retail outlets, with Malaysia and Indonesia accommodating 47% of all outlets. It is notable that China bucks the trend, hosting only 1% of all retail outlets amongst this year's respondents.

FIGURE 5: Locations of Manufacturing Facilities and Retail Outlets 2014



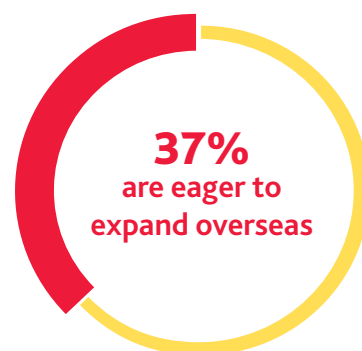


► FUTURE EXPANSION PLANS

Aside from investigating where permanent operations are currently established, the survey also studies respondents' ambitions for foreign shores in the near future. Over a third of respondents are actively planning to set up permanent operations overseas in the next three years, whilst two thirds have not yet formed such a decision. To allow for improved targeted assistance for the many companies expressing their appetite to explore overseas territories, understanding where the internationalisation hotspots are will help to concentrate planning efforts.

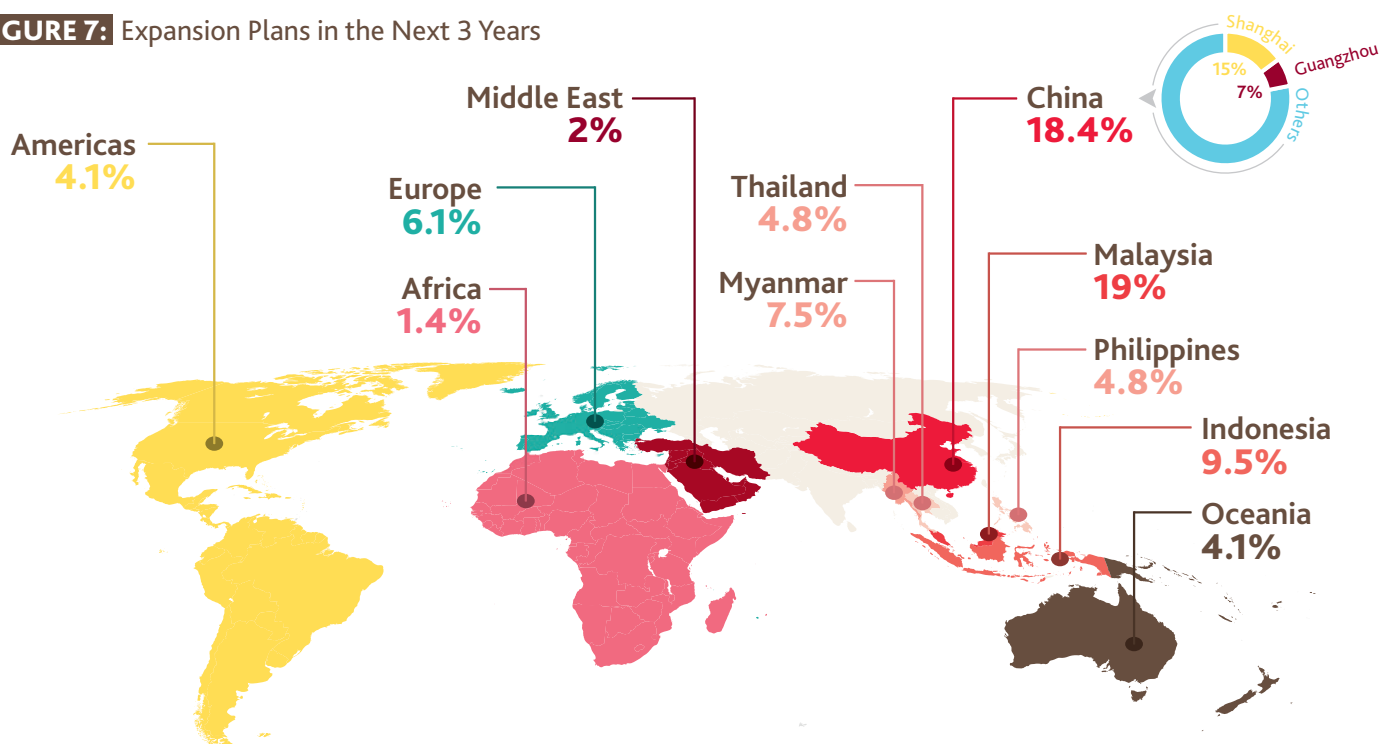
As a region, ASEAN is set to dominate as the most enticing destination in which to invest in the coming three years, with respondents citing countries such as the gradually-liberalising Myanmar and the designer-friendly Philippines. Even so, the spotlight is again fixed

FIGURE 6: Plans for Setting Up Permanent Operations Overseas in the Next 3 Years



on Malaysia and China, which are expecting to receive 19% and 18.4% of permanent operations respectively. Not only do they currently hold the largest proportion of overseas operations, but their appeal is predicted to last for the next three years.

FIGURE 7: Expansion Plans in the Next 3 Years



In a clear demonstration of preference, it was shown that the prospective operations to be opened are expected to be sales offices. Respondents are earnestly seeking to drive overseas sales by bringing their presence closer to their target markets. This interest in sales offices marks a departure from last year's trend whereby retail outlets garnered the most interest.

Much the same as last year's results, Singapore remains considerably in the lead when it comes to the forecast of top sales country. Local customers are still seen as the main drivers of furniture sales and must not be neglected or underestimated. Furthermore, there has been growth in attention paid to Taiwan, Australia and the Philippines as companies look to open their sales offices overseas.

FIGURE 8: Distribution of Permanent Operations in the Next 3 Years

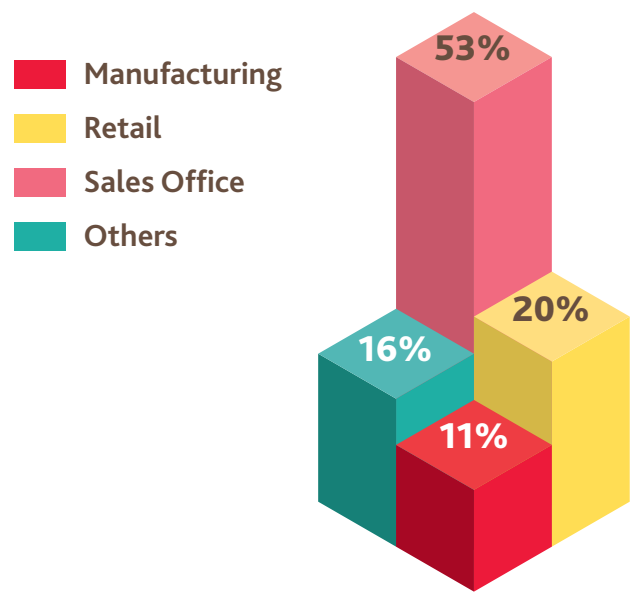
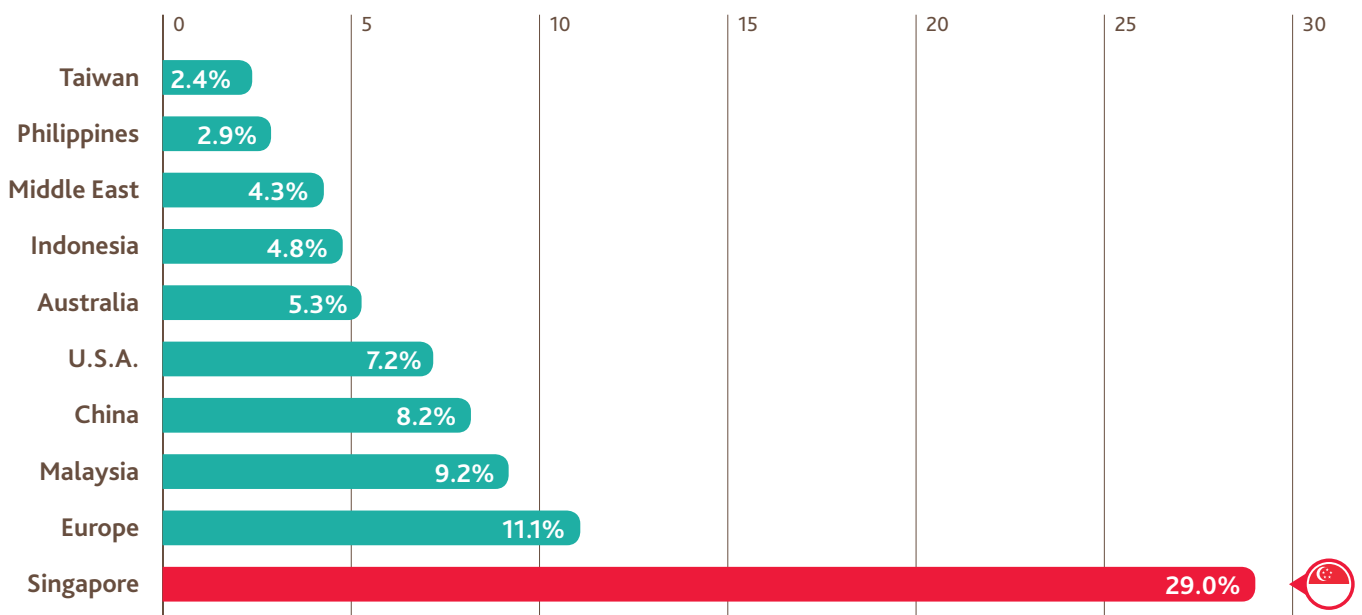


FIGURE 9: Expected Top Selling Markets in the Next 3 Years



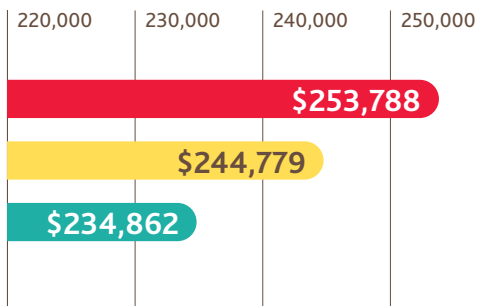
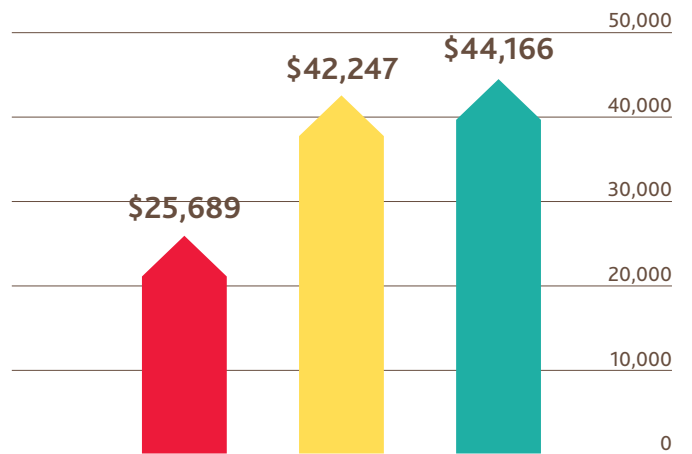
► PRODUCTIVITY

In a continuation of last year's efforts to measure productivity in the Singapore furniture industry, the same methodology was utilised. Three furniture sectors were examined and contract manufacturers have sat in the middle for almost all indicators, although labour cost as a percentage of revenue was significantly lower than manufacturers or retailers. Thanks to high salaries and EBITDA – value add is calculated by adding labour costs and EBITDA – retailers top the list for value add per worker. And while manufacturers see the opposite, it is heartening to see strong numbers for revenue per worker.

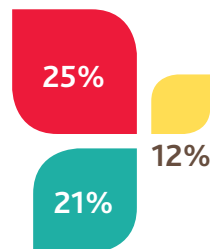
All values are in Singapore dollars (SGD)

Manufacturer Contract Manufacturer Retailer

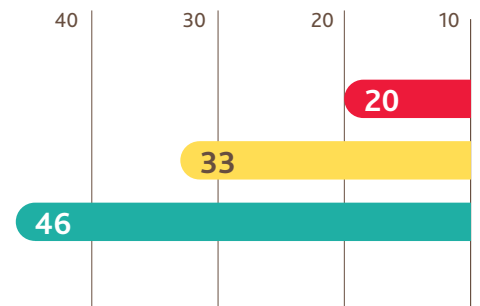
VALUE ADD / WORKER



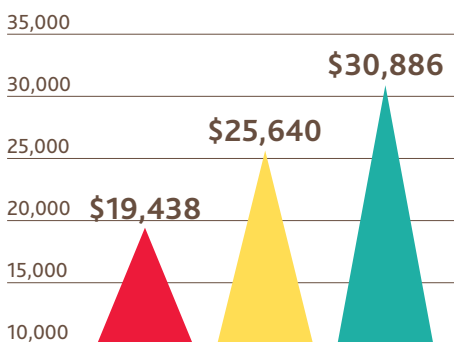
REVENUE / WORKER



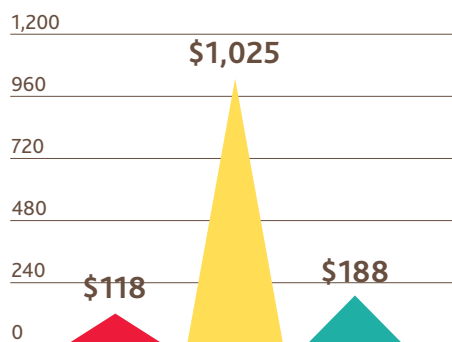
LABOUR COST / REVENUE



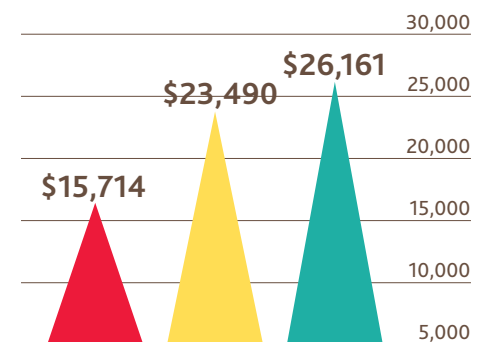
REVENUE / FIXED ASSETS



MEAN SALARY



TRAINING COSTS / WORKER



EBITDA / WORKER



► CHALLENGES & OPPORTUNITIES

Challenges have invariably remained similar to previous years and, although there are some overlaps, they can broadly be classified into four categories: design, controlling costs, international expansion and labour. Although furniture players are fully aware of the importance of excellent design, they must contend with issues such as sourcing for the right designer, copycats and rapidly-evolving consumer tastes. Cost control and labour problems trouble businesses across the economy, whilst international expansion can bring its own unique set

of challenges. However, companies have also flagged areas of opportunity; for example, tax agreements and multilateral treaties give businesses the chance to capitalise on overseas markets, in particular ASEAN markets. The credibility and recognition afforded by the Singapore brand has also provided room for further investment in and differentiation through Singapore designs. It may be a competitive market, but there are glimmering pockets of opportunity for the furniture industry.





▶ UPCOMING MARKET DISRUPTORS

While contending with challenges, the furniture industry should also be aware of opportunities and innovations that have the potential to become major market disruptors in the medium to long-term future. If

correctly positioned, companies may be able to leverage upon new developments to reach new heights. Here, three possible furniture market disruptors have been identified: the Digital Economy, On-demand Flexibility and the New Age of Manufacturing.

**1**

THE DIGITAL ECONOMY

Connectivity is increasingly redefining how industries compete. The continual evolution of the digital economy has massive implications as we march towards the world of IoT (Internet of Things)

**2**

ON-DEMAND FLEXIBILITY

Technology is deconstructing traditional business models by facilitating transactions in hyper fragmented markets. Markets are now able to tap both underserved markets and assets with much more on-demand flexibility than ever seen.

**3**

NEW AGE OF MANUFACTURING

3D printing is currently only used for prototyping. We foresee much bigger applications to be possible in the near future that transcend into product, supply chain and business model evolutions.

THE DIGITAL ECONOMY

The concept of a Digital Economy is not an entirely new one. Increasingly, Singapore furniture stores are shifting to online platforms, either to replace or to complement brick-and-mortar outlets, and two prominent examples of this movement are Star Living and FortyTwo. As one survey respondent succinctly remarked, "Everybody is moving into ecommerce. How can I not do it too?" Furthermore, the Digital Economy does not encompass only ecommerce: Ikea has forged ahead with the integration of technology and furniture by building wireless charging capabilities into its tables, desks and lamps.

ON-DEMAND FLEXIBILITY

On-demand flexibility and collaborative sharing enable users, which can include businesses, to make use of collective advantages and cross-functional collaboration. EasyVan, the transportation company founded in 2013, reached 800,000 users in 8 months

by bringing together the fragmented nature of the taxi and van market and serving immediate logistic needs. Stitchwood is an Indian furniture company providing customised furniture with total price transparency which is now hitting new markets.

NEW AGE OF MANUFACTURING

Manufacturing across all sectors and geographies is poised to be revolutionised by the advent of 3D printing, a theory which is backed by eminent economists and philosophers. As the technology improves, its possibilities are endless, and it will be able to modify how businesses operate throughout the horizontal and vertical supply chain. Furniture company Drawn has already successfully experimented with printing large objectives in short lead times, and there is no reason why the Singapore furniture industry cannot also leverage upon such technology.

▶ ABOUT THE INDUSTRY

1,921
COMPANIES
19,700
PERSONNEL



5
SECTORS

- Manufacturers
- Contract manufacturers
- Retailers
- Designers
- Supporting industries

GLOBAL FOOTPRINT

80
COUNTRIES



MARKET SHARE

\$6.22^B

1.05% OF GLOBAL
CONSUMPTION (2014)

About SFIC

Singapore Furniture Industries Council was established in 1981 as the official representative body of Singapore's furniture industry. Its membership comprises furniture manufacturers, contract manufacturers, retailers, designers, and furniture services and materials suppliers. Currently, the council represents 95% of established furniture manufacturers in Singapore, of whom 65% have subsidiary manufacturing plants in various countries across the region, including China, Indonesia, Malaysia, Myanmar, Thailand, and Vietnam.

SFIC's primary role is to promote the interests of its members and of the Singapore furniture industry. For over 30 years, SFIC has helped its members to adapt to changes in the business environment by introducing trade, talent, design development and business innovation activities, as well as upgrading business capabilities. Revolving around SFIC's 3i strategic framework – Improve, Innovate, and Integrate, all of the Council's programmes aim to grow the local furniture industry and ultimately, to strengthen the 'Singapore brand' globally.

▶ ABOUT BDO

OUR NETWORK



59,428
HIGHLY SKILLED PARTNERS AND
STAFF WORLDWIDE



1,328
OFFICES



152
COUNTRIES AND TERRITORIES



US \$ 7.02
BILLION GLOBAL REVENUES



REPRESENTATION IN EACH OF THE
10 ASEAN
NATIONS



**GLOBAL LEADERS
OF THE MID-TIER**

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