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Singapore Furniture Outlook 2016

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

October 2016

Research prepared by:



Commissioned by:



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FOREWORD

With fresh insights from industry players sharing forthcoming changes in the market landscape, the past year highlights the importance Singapore's domestic market will continue to play in the sustainability of the industry. With furniture and furnishing companies delving into new markets and product lines, our future as an industry is streaming into more robust developments in the upcoming future. The industry boasts a significant growth in market size in 2015, reaching S\$6.27 billion from 2012's S\$5.82 billion, representing a year on year growth rate of 7.7%.

In upcoming years SFIC will continue to support the success achieved so far and create appropriate platforms to equip our members with the proper resources needed to meet the challenges in the development of the industry within the country and outside its borders.

ERNIE KOH
President



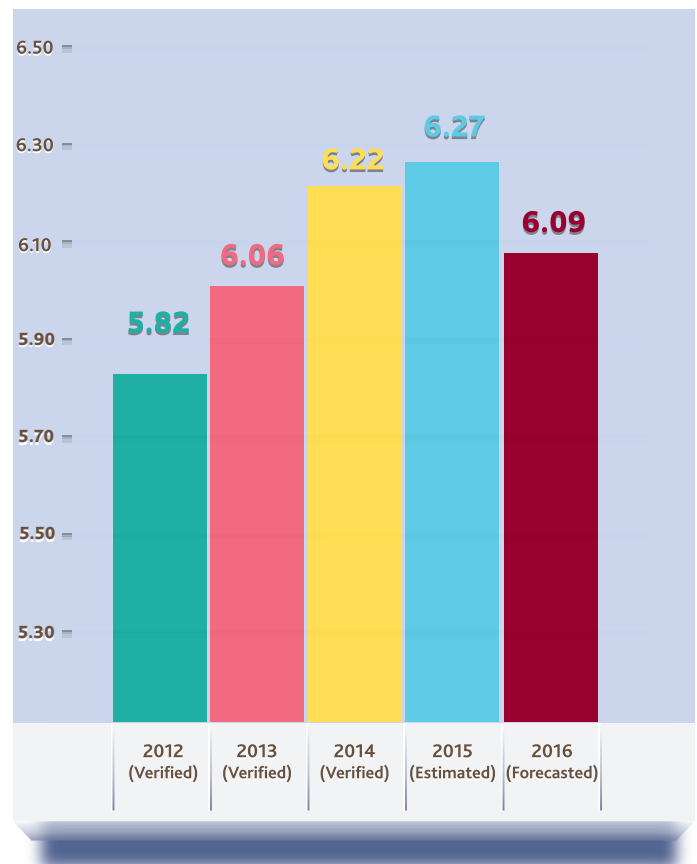
OVERVIEW - SINGAPORE FURNITURE INDUSTRY

For the third year running, the Annual Furniture Industry Survey 2014-15 is being held in conjunction with both the Singapore Furniture Industries Council and SPRING Singapore. BDO Consultants Pte. Ltd. has once again been selected with great honour to help conduct this year's round of surveys. By tracking market size, export figures and internationalisation trends for the past three years, a better understanding of the furniture industry is gained to help players target opportunities for growth and pinpoint trends and resources to tap onto.

Positive industry growth continues to unfold into 2014, hitting an annual figure of S\$6.22 billion. In line with last year's prediction, the industry experienced a growth rate of 2.6 percent from 2013's market size of S\$6.06 billion. Moving forward into 2015, estimations reveal that the Singapore furniture industry grew by 1.0% in 2014-2015, surpassing last year's more modest estimate of 0.5%. This equates to a booming market size of S\$6.27 billion.

Although industry players have remained prudent when expressing future growth expectations due to global market conditions, the industry is expected to remain strong with a forecasted value of S\$6.09 billion in 2016. Foreseeing the pace of growth slow provides players the opportunity to take the time to rethink their strategic development plans for upcoming years.

FIGURE 1: Furniture Industry Market Size (SGD Billions)

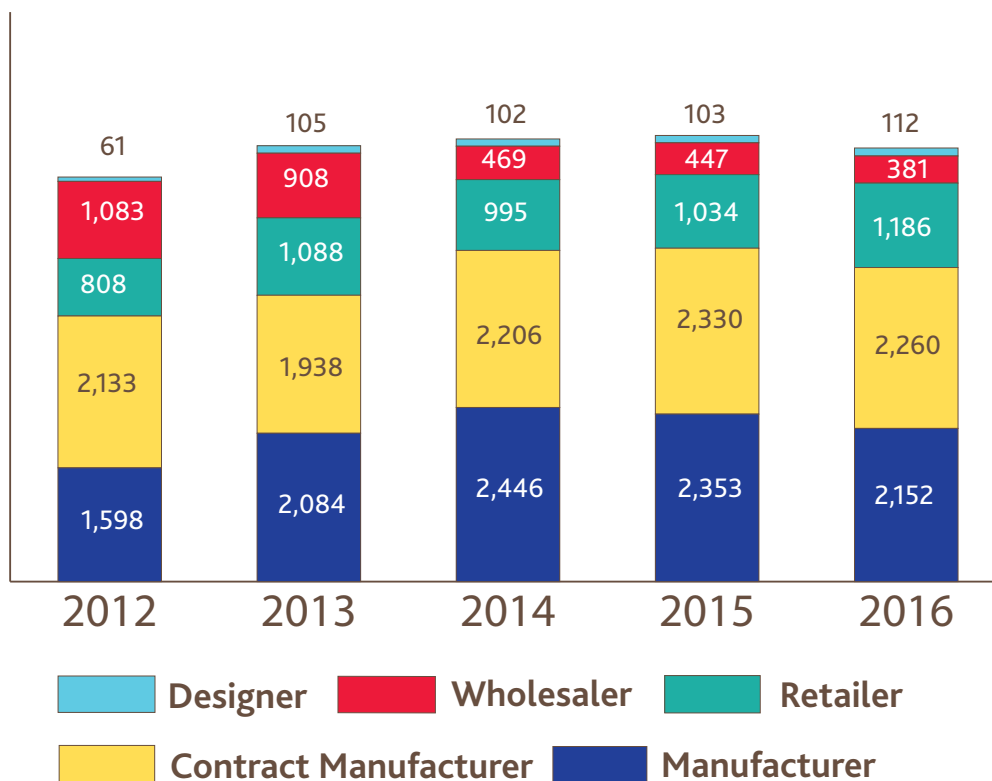


CATEGORY BREAKDOWN & EXPORT

Amongst the various sector classifications used to represent the industry, Manufacturers and Contract Manufacturers thrived throughout 2013 -14 reaching a sector size of S\$2,446 billion and S\$2,206 billion respectively. Retailers and designers experienced a slight downsize in 2013-14 before bouncing back to growth, even throughout 2016's tough market conditions. Similar to previous years, wholesalers will continue to foresee a challenging time ahead as revenue in this sector dips slightly.

Export sales as a contribution to revenue for are proving to be increasingly important in upcoming years, notably retailers and designers. The two categories are expected to see an increase of exports from 2014 – 2016 of 24.8 percent and 13.2 percent respectively. Wholesalers and manufacturers on the other hand will be experiencing a slight dip, mainly due to the decrease anticipated in overall industry market size.

FIGURE 2: Market Size Breakdown by Activity 2012-2016 (SGD Millions)

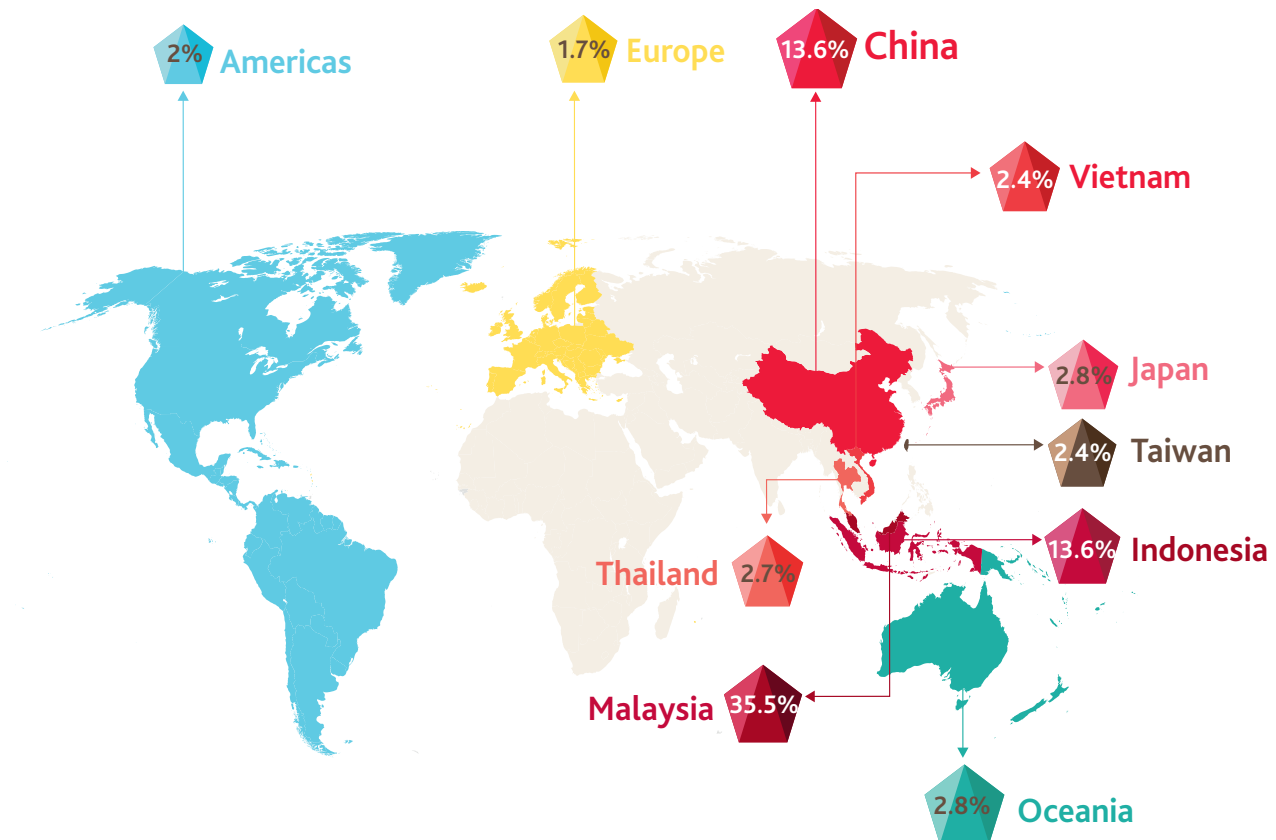


INTERNATIONALISATION TRENDS

Internationalisation has long been a crucial component in strategic development plans across Singaporean businesses. As the government acknowledges limited market opportunities within Singapore's borders, local businesses are being urged to explore lucrative possibilities abroad in seek of new market growth overseas. To complement the importance of internationalisation, SFIC and respective 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 Furniture Fair Singapore.

Malaysia surged in popularity as the number one choice for expansion. Indonesia and China tied for second place with respondents expressing equal interest in tapping onto these markets. Overall these three countries remain the top locations for setting up permanent operations outside of Singapore, with South East Asia continuing to remain highly attractive.

FIGURE 3: Singapore Furniture Industries Council & SPRING Singapore Annual Furniture Survey 2015/2016



MANUFACTURING FACILITIES & RETAIL OUTLETS

Analyzing the current distribution of business operation locations, it is unsurprising that Malaysia, Indonesia and China continue to hold the top places for permanent operations outside of Singapore, with South East Asia continuing to remain highly attractive. In regards to manufacturing facilities, these three countries together account for roughly 50% of all manufacturing sites based overseas. Not to undermine the significance of Singapore as a manufacturing base, as the country consistently ranks the highest in terms of the number of operations worldwide.

Alongside manufacturing facilities, the domestic scene remains a vital market as roughly a third of all furniture retail chains are situated in Singapore. As most players within the industry have expressed interest in expanding predominately within Asia, it is worthy to note that neighbouring countries including Malaysia and Indonesia tail closely behind in the number of retail operations, accounting for a combined total of 46%. Mainland China and Taiwan follow behind as some of the primary choices for retail location possibilities.

FIGURE 5: Location of Manufacturing Facilities 2014-2015

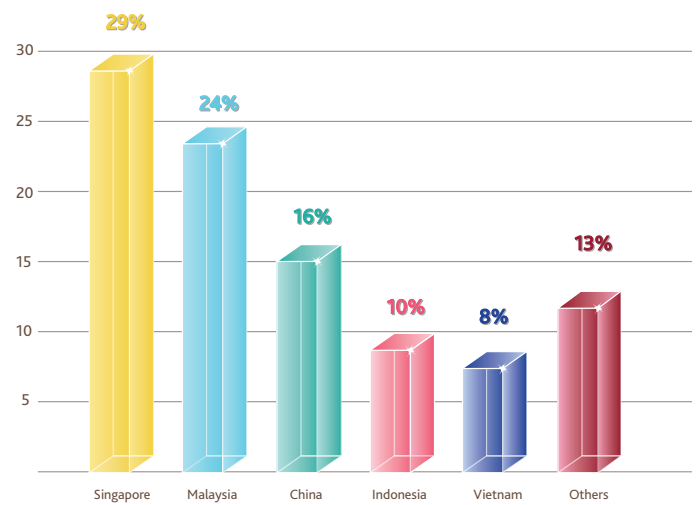
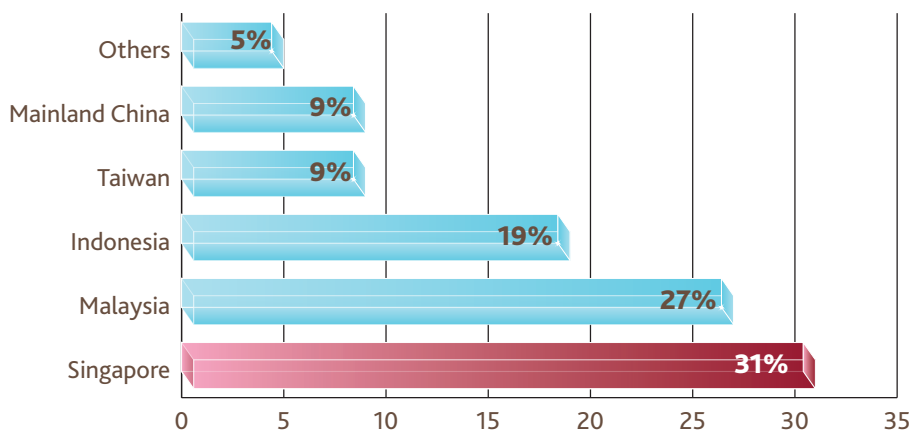


FIGURE 4: Location of Retail Outlets 2015





FUTURE EXPANSION PLANS

Alongside examining the current status of permanent operations abroad, the survey seeks to understand where Singaporean furniture businesses are planning to establish themselves within the next three years. With 47% of respondents expressing interest in setting up operations abroad, understanding targeted destinations allows for specialized assistance to support more fluid integration of the establishment overseas operations within the ASEAN region.

Consistent with previous years, Malaysia, Indonesia and China remain centre stage as prime locations to establish permanent operations in the next three years. However, Malaysia sees a large jump from last year, increasing by nearly 10%, showing a surge in popularity with many opening retail stores in the country.

FIGURE 7: Plans for Setting Up Permanent Operations Overseas in the Next 3 Years

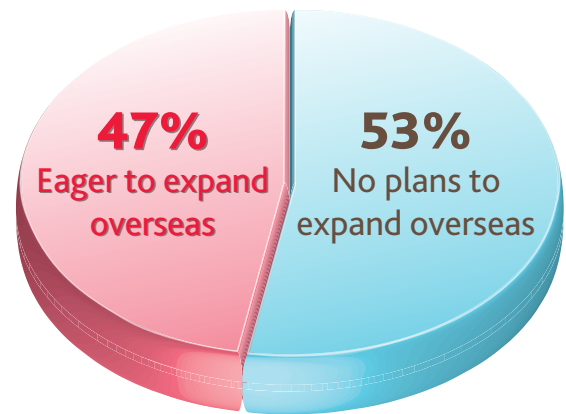
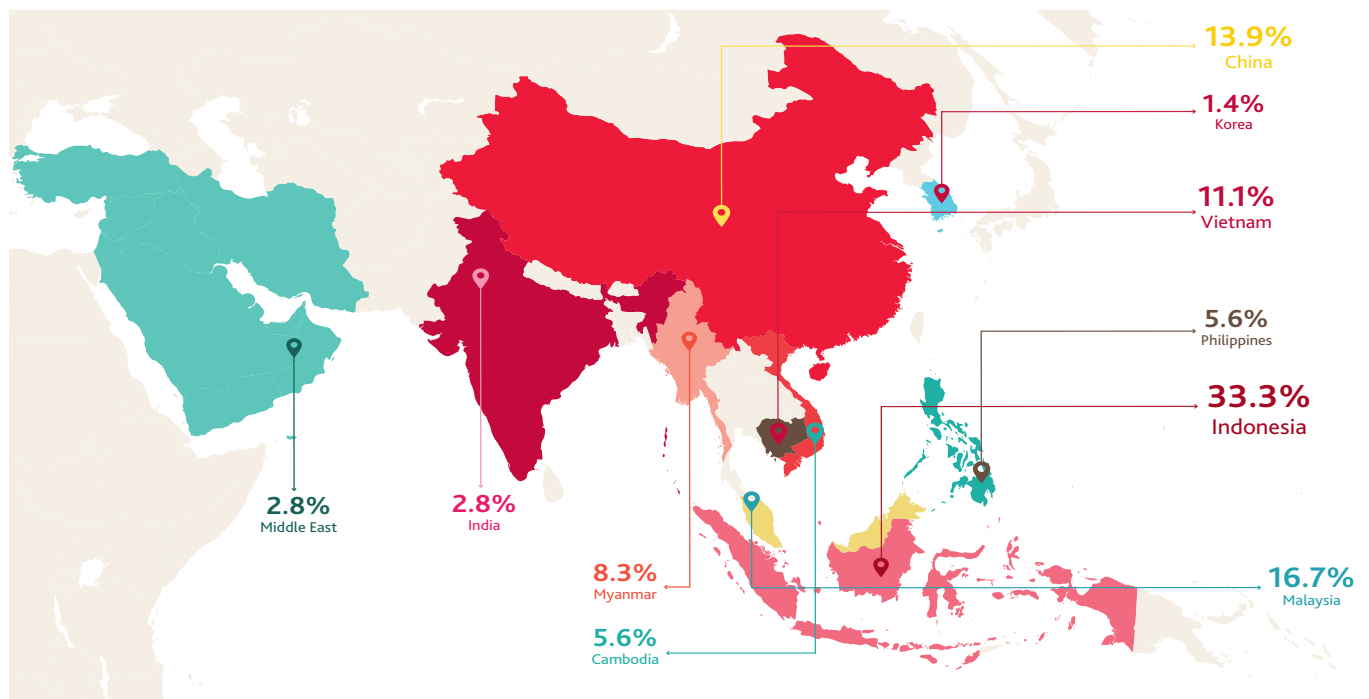


FIGURE 6: Expansion Plans in the Next 3 Years



FUTURE EXPANSION PLANS

Devoted to drive sales in overseas markets, plans to expand retail outlets has hit an all-time high at 41%. With sights close to home, it is unsurprising that Indonesia and Malaysia are becoming top destinations for Singapore furniture companies. Mainland China and Taiwan follow behind as some of the primary choices for retail location possibilities. Aside from retail, respondents have shown interest in expanding into various permanent operations in upcoming years including manufacturing plants and sales offices.

Undeviating from previous years, Singapore is to remain a crucial market in driving furniture sales. As local customers are expected to generate a fifth of all revenue for furniture companies, the domestic market should not be neglected or overlooked. Emerging markets this year include Japan, Myanmar and Cambodia as respondents have expressed interest in opening sales offices and retail stores.

FIGURE 9: Distribution of Permanent Operations in the Next 3 Years

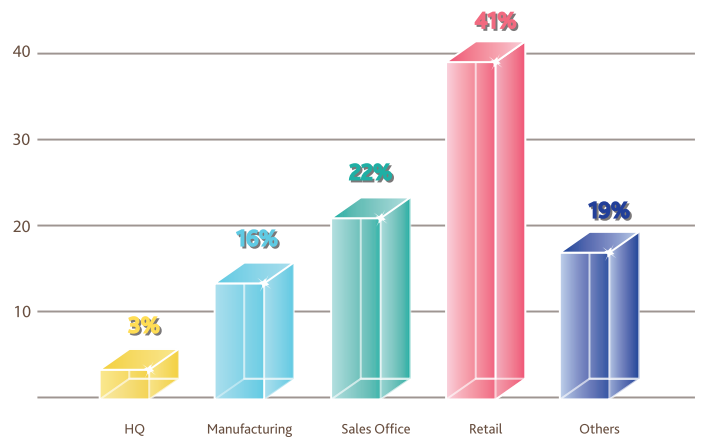
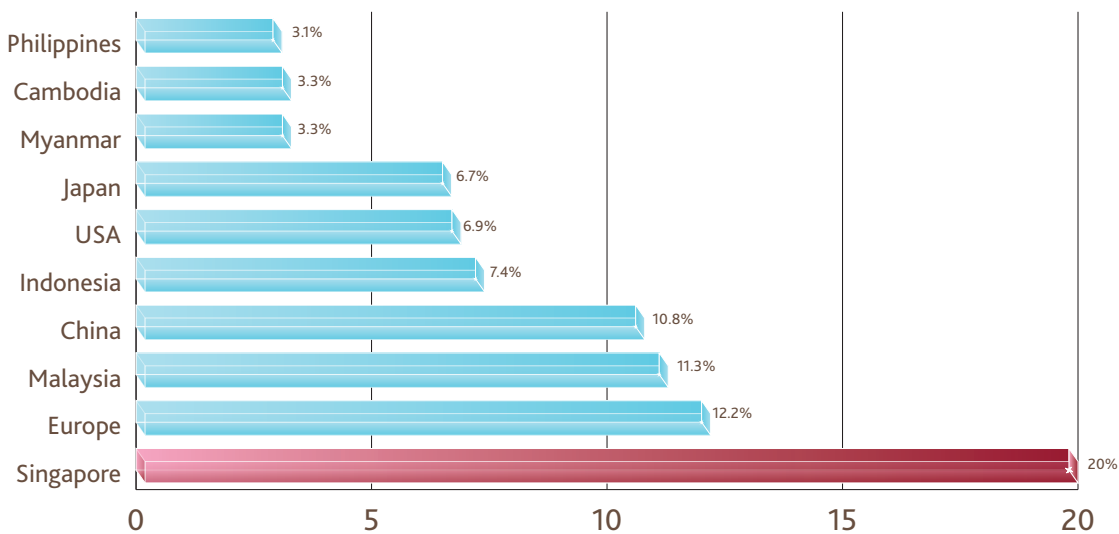


FIGURE 8: Expected Top Selling Markets in the Next 3 Years





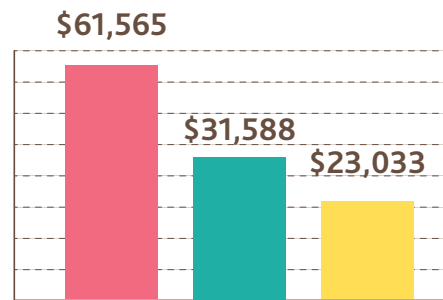
PRODUCTIVITY MEASURES

In continuation to the previous two years to measure productivity in the Singapore furniture industry, the same methodology was utilised. Three furniture sectors were examined, with contract manufacturers once again sitting in the middle for almost all indicators. Value add per worker is highest for retailers, calculated by adding labour costs and EBITA. Overall, all three sectors see healthy numbers across all categories.

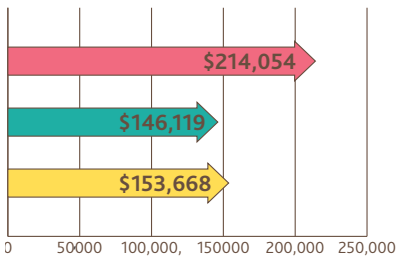
All values are in Singapore dollars (SGD)

- Manufacturers
- Contract Manufacturers
- Retailers

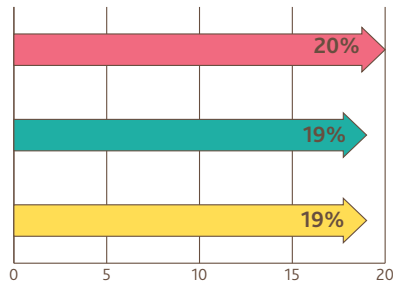
VALUE ADD/WORKER



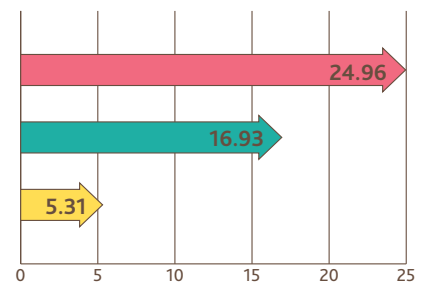
REVENUE/WORKER



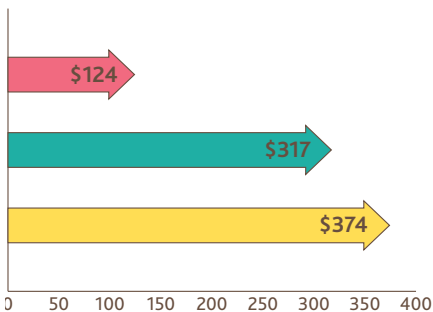
LABOUR COST/REVENUE



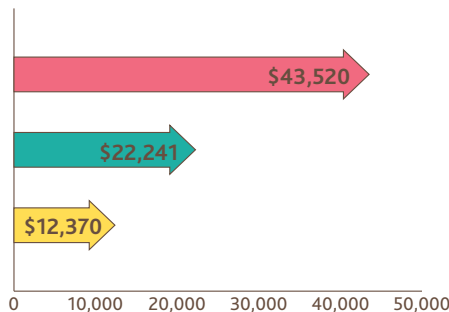
REVENUE/FIXED ASSETS



TRAINING COST/WORKER



EBITA/WORKER





OPPORTUNITY & RISKS

As the trend towards digitalization has crept through the lives of everyday consumers, furniture and furnishing businesses are forced to keep up with demands to provide faster, hassle free shopping experiences online. Many traditional business models cannot keep up with the changing digital landscape. This presents vast opportunities for organisations, such as the revamping of internal processes to become more efficient, and creating new branding and marketing strategies to better reach customers around the world. However, this

may also come with some risks businesses must be vigilant of.

Organisations must ensure proper training for employees to use new technologies and assess the readiness of the host country to embrace technological change if going overseas. Ultimately, each business is unique. It is imperative to find a way digitalisation can be integrated into the organisation to best fit its operational needs and stay relevant in today's ever changing digital marketplace.

1 Developing an **OMNI-CHANNEL STRATEGY** is key to delivering consistent customer as eCommerce.

2 **SUPPLY CHAIN PROCESSES** Must be monitored to support overseas exports and online purchases gains popularity alongside brick-&-mortar stores.

3 **CUSTOMER EXPECTATIONS** Faster delivery time, secure online payments and clear return policies.

4 **COST SAVINGS & EFFICIENCY** Real time inventory tracking, payment systems and E-banking in local markets leads to better supply chain management.

Over **50%** of companies are keeping their R&D and innovation planning functions in Singapore.

Although **core functions** are being kept at home, some departments are being outsourced.

Therefore, companies may look into shifting to a globally dispersed cloud-based business model to share information across borders in real time.

However, employees must be **properly trained** to use new technology systems.

Companies must also **assess the readiness** of the host country to embrace technological change.



MOVING FORWARD

Turning challenges into opportunities for innovation and diversification

External and internal challenges the furniture industry is faced with give rise to new opportunities to tap onto. A prominent shift towards digitalization forces players to acclimatize their business model to new customer purchasing behaviours. Designers, retailers and manufacturers are pressed to adjust their operations model and work mind-set towards innovation and new business concepts.

Creating a differentiation strategy remains key to achieving a competitive advantage in such a highly saturated market. However, it is in building unique products and designs, maintaining high quality and having a strong customer outreach that requires a thoughtful risk analysis and well measured investment engagements at its primary stages.

Attracting a new generation of buyers while preserving the loyalty of existing customers simultaneously requires a blended approach in business concepts. Therefore, industry players may need to consider growing their businesses locally and internationally by focusing on three main areas including:

1. Partnerships & Synergies

Branding is a key area that cannot be neglected, notably when partnering with different industries. Business leaders will need to explore the idea of rebranding their business within the industry to not only carve out a niche in the market, but also attracts a larger pool of buyers.

The synergy that comes from a partnership may also lead

to possibilities for expansion overseas, where furniture manufacturers, designers and retailers can be recognised worldwide for their quality and design. This creates opportunities for the sector to seize potential markets abroad, in particular, high-end segments and emerging economies.

2. Research & Development

Research and development is one of the fundamental areas for investment despite the global economic slowdown. Doing so leads to the discovery of new innovations in respect to products, processes and services.

For example, exploring advanced manufacturing technologies can lead to the creation of jobs requiring high technological knowledge and skillsets, which would thus allow the industry to gain the attractiveness it requires to appeal to employees from younger generations. This could help rejuvenate the sector while keeping it highly competitive in local and international markets.

Continuous investment in employee training, design, research, innovation and technologies can result in opportunities to tackle the change in consumer purchasing behaviour and lead to new business models.

3. Environment & Sustainability

Along with 190 other countries, Singapore has signed the "Paris Agreement", a commitment to significantly reduce the emission of greenhouse gases. Therefore, manufacturers within the industry are encouraged to take environmental and corporate social responsibility obligations seriously. Manufacturers are encouraged to explore sustainably sourced raw materials to be used in the production of furniture. Doing so could result in a positive impact on sales among environmentally concerned consumers.



ABOUT THE INDUSTRY

1,977
COMPANIES



5
SECTORS

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

GLOBAL FOOTPRINT

80
COUNTRIES



MARKET SHARE

\$6.27^B
(2015)

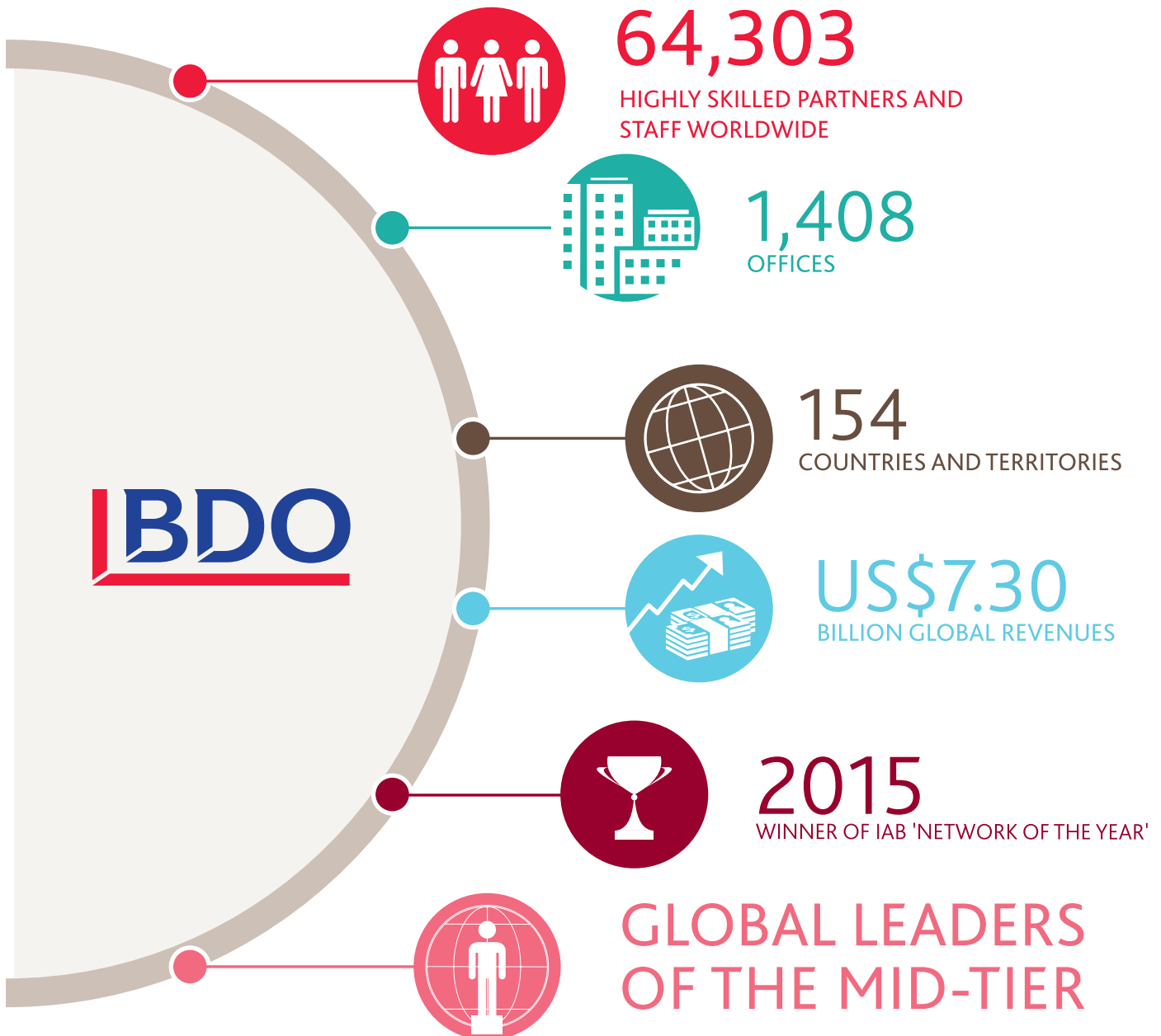
About SFIC

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



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For more information, please contact:

ROGER LOO

BDO Consultants Pte Ltd

+65 6829 9604

rogerloo@bdo.com.sg

www.bdo.com.sg

**SINGAPORE FURNITURE
INDUSTRIES COUNCIL**

+65 6569 6988

sfic@singaporefurniture.com

www.singaporefurniture.com

BDO CONSULTANTS PTE LTD

600 North Bridge Road #23-01 Parkview Square Singapore 188778

Tel: +65 6828 9118 | Fax: +65 6828 9111

www.bdo.com.sg | <http://themcsdialogue.wordpress.com>

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