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**TIMBER PRODUCTS EXPORTING IN SOUTH
AFRICA: AN EXPLORATORY STUDY
FINAL REPORT**

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1. INTRODUCTION

The post-Apartheid era has brought with it great changes for South Africa in the political, social and economic arenas. For industry this has been particularly obvious with regards to the impact of the end of sanctions and South Africa's return to the global economic fold as marked by its membership of the World Trade Organisation. After decades of relative isolation ensured by sanctions and high protective trade barriers, South African industry has had to rapidly adjust to the threat of increased competition from imports. At the same time increased imports have brought with them greater consumer awareness of and demands for increased product variety, improved quality and lower prices. While these changes (that is, increased levels of trade and increasingly discerning customers) have been felt for some time in the global economy, they have represented a sudden and sharp shock for most South African manufacturers.

Growing imports, coupled with tough domestic economic conditions are increasingly forcing South African manufacturers to look towards foreign markets to maintain and improve their position. At the same time, manufacturers that have a history of exporting that pre-dates the end of sanctions are continuously having to adjust as new competitors from both South Africa and other low wage countries enter the global marketplace. While there is no doubt that exporting brings with it new pressures and risks, in the long term it is through a focus on the marketplace as a *global* rather than a *local* entity that enterprises will flourish. Exporting offers the potential for economies of scale impossible to realise in the domestic market, while at the same time allowing enterprises to specialise in niche markets. At the same time, much has been written about the potential for *learning through exporting*: the assumption is that the pressures of competitive global markets force previously domestic-market focused firms to adapt and upgrade if they are to compete successfully (Joffe *et al* 1995, Valodia 1999).

Six years after South Africa's reintegration into the global economy it has become apparent that exporting remains fraught with problems, and that the belief that firms will automatically learn through exporting is far from certain (Valodia 1999). South Africa's exporting experiences have made a number of complexities clear. In the first instance, the issues of *value chains* are critical in understanding firm level competitiveness in either local or global markets. No matter how efficient a firm might become in its internal operations, inefficient and uncompetitive suppliers have the power to scuttle all efforts to be internationally competitive. Firms cannot be "islands of competitiveness in a sea of inefficiency" (Barnes 1998) In South Africa, where the upstream supply of raw materials has traditionally been dominated by monopolies or oligopolies that practice import parity pricing, this is a very real problem.

Secondly, issues of *connectivity* are critical to export success (Barnes 1999). How firms link with the export market, and the power dynamics inherent in these relationships have significant implications for exporting. In the South African automotive sector which domestic assemblers component suppliers are linked to, the level of foreign investment in these assemblers can be crucial for component suppliers trying to establish export networks.

Equally, international experience teaches that co-operation between competing suppliers can be extremely effective, if not crucial, in allowing smaller manufacturers to break into global markets. Yet this is an area where South African manufacturers are extremely weak (Dunne and Morris 1999). A long history of suspicion between government and industry and between manufacturers forced to compete in a small internal market has left a strong legacy of resistance

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to co-operation that is only slowly being eroded though government initiated programmes and intra-industry efforts.

This brings us to a fourth factor complicating the successful entry of firms into export markets: government support. Traditionally the South African government has approached support for exports with a policy of demand-side measures that seek through financial rebates to make export products more competitive (and conversely, though a system of tariffs to make imports to South Africa *less* competitive). In the past this policy was practical (at least in the short term) for two reasons. Firstly, South Africa was not a signatory of GATT and was thus not subject to immediate pressure to reduce or do away with tariffs. Secondly, in the era of mass production, where *price* was the key to competitiveness, lowering export prices in the end market were to some extent effective in making South African products more competitive. This is very clearly no longer the case, however. South Africa is now a member of the World Trade Organisation (which replaced the GATT agreement), and consequently is required to adhere to a programme of lowering trade barriers and ending other demand-side support for its industry. At the same time, as a range of other criteria such as quality, variety and service join price as the determinants of competitiveness, previous export support policies become less relevant to enhancing manufacturing competitiveness. The South African government has responded by introducing a range of *supply-side* measures aimed at enhancing the competitiveness of its industry, both local and export-focused. Once again, however, South Africa's previous isolation means that it has lagged behind in introducing these measures, and it is perhaps too early to expect results. Various programmes such as the Competitiveness Fund, the Innovation Fund and the Sector Partnership Fund have great potential to encourage and assist firms in upgrading efforts. The Sector Partnership Fund has the added advantage of requiring firms to work together, thereby encouraging intra-industry co-operation.

Finally, adversarial management-labour relationships, and a lack of understanding of the demands of the New Competition (Best 1990) at all levels of the firm continue to hamper progress towards international competitiveness. The Nedlac-initiated Workplace Challenges is seeking to promote an understanding of the issues central to international competitiveness, within a context of inter-firm learning as well as management-labour co-operation.

This report will focus on the exporting experiences of South African timber products manufacturers. The report will begin by outlining the methodology of the study, as well as the key questions that the study aims to answer. Thereafter Section One will look at why the exporting of timber products is relevant to the South African manufacturing experience. The section will include a background to timber products exporting in South Africa, as well as an overview of the nature of trade in the international timber products industry. Section Two will examine some of the manufacturing and organisational factors that impact on exporting potential. Key issues will include the impact of choice of market segment (product type and value added), manufacturing capacity, foreign ownership, joint ventures and clustering on export arrangements. Section Three will consider the impact of marketing factors on exporting success, looking at how the way that firms connect with customers impacts on export success. The role of agents, trade fairs and the Export Council in facilitating exporting will be examined, as will the impact of linking up with certain types of customers. Finally, the Conclusion of the report will summarise what we have learnt about furniture exporting in South Africa, and try to identify gaps in knowledge that need to be filled. Some policy implications of the research will then be outlined.

2. METHODOLOGY

The Industrial Restructuring Project has been conducting research into the South African timber products sector¹ for the past two years. Over this period it has become apparent that exporting will be critical to the future of the South African timber products industry. At the same time, however, it has become clear that exporters are under enormous pressure, with many export manufacturers closing in recent years. In the process of conducting other research into this sector some of the problems facing exporters have become clear. Yet export success is a function of a complex set of factors, and a need exists for specific research focused on exporting in the South African timber products sector.

This report is based on a pilot study of exporting timber products firms in South Africa. The aim was *not* to obtain a representative sample of exporters, but rather to interview export manufacturers that represent particular types of relationships with the export market, or which have particular characteristics that might be assumed to impact on exporting. The key questions under investigation are as follows:

1. How does capacity impact on exporting activities? Are smaller exporters limited to certain types of customers, and what is the implication for long-term growth?
2. How advantageous is foreign ownership to export success?
3. What role does inter-firm co-operation play in export success?
 - ❖ What possibilities do joint ventures offer for South African exporters?
 - ❖ How useful is subcontracting as a strategy for entering export markets?
 - ❖ Is clustering an effective export strategy?
4. What impact does operating in a particular market segments have on export success?
5. Which types of customers are preferable from the exporter's perspective? Do different types of customers put different pressures on the firm, or offer different opportunities?
6. How do exporters establish links with customers?
 - ❖ What role do agents and other intermediaries play?
 - ❖ How helpful are trade fairs?
 - ❖ What role does the Export Council play in facilitating exports?

The purpose of the study is to explore exporting within the context of each of these questions, in order to understand the modes of exporting that are applicable within the context of the South African timber products sector. The hope is that by doing so the study will be able to draw lessons from the successes and failures of the exporters interviewed. Once such a baseline understanding of exporting within this sector has been established the way is clear for more detailed investigations of the sector aimed at developing a representative picture of the nature of exporting in the South African timber products sector.

The research took the form of a questionnaire designed to explore each of the issues outlined above, as well as to get both a qualitative and a quantitative picture of each firm's history and exporting activities. Face to face interviews were conducted with thirteen timber product manufacturers, providing information on fourteen manufacturing units², while a further interview was conducted

¹ Initially the IRP study was conceived as a study of the "furniture" sector. However it quickly became clear that such a narrow definition excluded a number of exporting manufacturers producing DIY and houseware products from solid timber (both pine and Eucalyptus). The common problems they shared with solid timber furniture manufacturers and exporters in South Africa made it sensible to include this subsector in the study – hence our preference for the term "timber products", or "value-added timber products" sector.

² One interview was conducted with an export manager who represented a number of firms. Questions focused specifically on the experiences of two of these export manufacturing units.

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telephonically. Given that the purpose of the study was to explore issues already identified as important to exporting in previous studies, respondents were for the most part from firms that had been interviewed in the past. The fact that some past relationship existed helped to build trust, and lends credibility to the information gathered. At the same time, given that the IRP has established its closest ties with manufacturers based in KwaZulu-Natal, the majority of respondents are based in the province. Only two respondents were located outside KwaZulu-Natal, both in the Eastern Cape. Respondents were carefully selected for their ability to shed light on as many of the research questions as possible. Clearly, however, a single respondent was unlikely to have had experience in all of the areas under investigation. Table One, below, sets out the key areas or firm characteristics under investigation, and the number of firms that contributed information in each case.

Table One:

Research question No.	Issue or firm characteristic under investigation	No of firms contributing information	
1.	Capacity ³	Small (<50)	
		Medium (50-199)	9
		Large (200+)	5
2.	Foreign Ownership	5	
3.	Joint Ventures	4	
4.	Subcontracting	3	
5.	Clustering	1	
6.	Market Segment	Pine	12
		Eucalyptus / Saligna	3
		Household Furniture	9
		Garden Furniture	3
		DIY Products	3
7.	Types of Customers	Wholesalers	5
		Independent Stores	6
		Mass Retailers	7
8.	Links with Customers	Agents	7
		Trade Fairs	5
		Export Council	4

Finally, it is important to note that this study focuses specifically on solid timber exports. There are two other sub-sectors that might be considered in future studies. There are a number of manufacturers exporting upholstered furniture from South Africa. These firms were excluded from this piece of work because they represent a different value chain, with important links to the textile sector that are not relevant to most timber products manufacturers. In the past there has been a negligible level of veneered particle board exports from South Africa. However, during the course of this study it was suggested that foreign ownership of a growing number of such manufacturers by the German Steinhoff group might be changing this. However, this information came to light too late to be followed up as part of this study.

³ Information here refers to the eleven manufacturing units interviewed. In addition one interview was carried out with a *cluster driver* (organiser) which works with several manufacturers, two of which are small enterprises.

3. TIMBER PRODUCTS EXPORTING IN SOUTH AFRICA

In this section we consider the structure of the timber products manufacturing sector in South Africa, and the position of exporting manufacturers within the sector. Equally importantly, we examine the role of exporting in the *global* timber products industry, and the implications that this has for South Africa's potential to expand its exports in this sector. Finally, we consider the relevance of a study of exporting in what is a relatively small sector in the South African economy.

3.1. The Timber Products Sector in South Africa

South Africa has a long history of commercial timber growing, predominantly for the mining, and later the paper and pulp industries. The South African forest products supply chain consists of local softwood and hardwood plantations, sawmills and manufacturers. South Africa's main timber resource is commercially cultivated pine, although there are also significant plantations of Eucalyptus hardwood species such as Saligna. In 1996 approximately 12% of South Africa's timber went to the furniture sector, making this sector a relatively small user group (IDC 1998). The industry is strongly dominated by primary producers and processors, with several large concerns operating in the timber growing, sawmilling and board producing sectors. The manufacturing sector, on the other hand, is dominated by small concerns. The relatively low priority of furniture manufacturers as a user group, coupled with power imbalances in the sector have perhaps contributed to traditional tensions between South African furniture manufacturers and sawn timber and board manufacturers respectively. Areas of tension in different subsectors of the industry (e.g. pine, Eucalyptus and board) include price, availability of supply, quality and availability of specific dimensions (Dunne 2000a, Dunne & Morris 1999).

South Africa's timber furniture manufacturing industry employs about 11 500 people (Finance Week, 9 July 1999), with the industry experiencing a significant loss of employment over the past several years, with about 5 000 jobs lost in the past three years. The sector is reported as contributing 0.4% to GDP and 0.7% to national employment (which suggests a labour-intensive sector). In addition, the sector accounts for 0.4% of national exports, and 0.1% of imports, so that the industry is a net exporter. Finally, the sector represents 0.36% of national value-added.

Table Two:

Share of the Furniture Industry – Percentage...

	GDP	Value-added	Exports	Imports	Employment
...of Total Economy¹	0.4%	0.36	0.40	0.12	0.72
... of Manufacturing²	-	1.1	-	-	2.6

Notes: ¹ 1996 data

² 1990 data

Source: IDC (1998)

According to the latest available South African Manufacturing Census (regrettably that of 1993)

most furniture firms (68%) fall into the small enterprise category, with between 5 and 50 employees. In 1993 there were less than 50 large establishments, with over 200 employees.

Table Three:

The Number of Furniture Firms in SA by Size of Firm

Size Category	No. of Employees	No. of Plants	% of Plants
Micro	1 to 4	261	17.9%
Small	5 to 49	998	68.4%
Medium	50-199	158	10.8%
Large	200+	43	2.9%

Source: CSS (1993)

The value-added timber products sector on which this report focuses is divided into two main groups – firms focused on the domestic market, and producing mainly from veneered particle board, and export-oriented firms manufacturing almost exclusively from solid timber, mainly pine, and to a lesser extent, *Saligna* and other *Eucalyptus* species⁴. The domestic market is by far the most important market for local producers, accounting for 87% of production in 1996 (IDC 1998). However, the South African market is a relatively small one, and there is little or no exporting of particle board products from South Africa. The potential for growth in the value-added timber products sector would seem to lie predominantly in the area of pine and *Eucalyptus* based product exports.

3.2. Timber Product Exporting from South Africa

South Africa (or more correctly the Southern African Customs Union⁵) features twenty fourth on the list of exporters for Furniture and Parts Thereof (SITC 821) in 1995, up from thirty sixth place in 1989. Up until 1987 furniture exports did not exceed 3% of domestic production (Manning 1996). Although exports have been growing since the late 1980s, exports still account for only 13% of production (IDC 1998). Furniture exports from South Africa grew 120% between 1994 and 1997. Exports are focused on pine knock-down household furniture (beds, wardrobes, desks and tables, for example), small houseware items (such as wooden kitchen utensils and ironing boards), DIY products (including shelves and doors), and increasingly, *Saligna* garden furniture. Key export destinations are the UK and Germany, although exports also go to other parts of Europe, the USA, Australia, the Middle East and the French Islands (including Mauritius, Reunion and the French West Indies).

A key feature of South African furniture exports is their low unit value (Dunne 2000b; Manning 1996). Some evidence of this is provided in Table Four, below:

⁴ As already noted, the study has excluded upholstered furniture, which although timber-based, has a high level of non-timber inputs, and therefore a noticeably different value chain with different problems and possibilities facing these manufacturers and exporters.

⁵ The Southern African Customs Union, or SACU, comprises South Africa, Namibia, Botswana and Lesotho and Swaziland. South Africa is by far the most significant economy in SACU.

Table Four:

British Timber Furniture Imports from Selected Countries (1997)

Imports to the UK from:	% of Trade	Unit Value (Euros/ton)
France	3.7	5.2
Italy	15.0	4.6
Germany	7.9	4.6
USA	3.6	4.3
Croatia	0.4	4.0
Denmark	6.9	3.7
Indonesia	5.6	3.4
Chile	0.1	2.5
Malaysia	3.9	2.3
China	3.9	2.3
Poland	1.8	2.3
Canada	0.4	2.3
Brazil	3.7	1.9
South Africa	4.1	1.7

Source: Biggar, Morel & Sharma (1999)

It is of some concern that the unit value of furniture imported from South Africa is lower than that of any other country shown. Manning (1996:108) attributes the weak export performance of South African manufacturers to two factors: “the internal weaknesses of South African furniture producers, and ... inter-sectoral weaknesses (in the quality and availability of timber inputs)”⁶. This is confirmed in other studies of the South African timber furniture industry (Dunne 2000a; NPI 1995).

The implication of this low unit value is that South African timber products manufacturers are currently competing in low value-added sectors, where the basis for competition remains strongly focused on price. There will obviously always be a place in global markets for low cost, low value-added products. However, this is a market niche that will always be insecure, as it presents low barriers to entry, and provides an opportunity for new players to enter the market and hone their skills at the lowest possible cost. The advantage in this niche lies not with the most skilled or experienced manufacturer, but with the manufacturer able to incur the lowest wages and raw material input costs. This ensures that competitive advantage will continue to shift from one low-wage developing country to another in search of the lowest costs, and hence prices. South African timber products manufacturers are very much aware of this as traditional

⁶ Due to climatic conditions South African timber is fast growing and less dense than European timber resulting in a softer, lower quality timber. At the same time inadequate pruning can result in a knotty timber, while problems at the sawmill can further contribute to the poor overall timber quality.

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competition with Brazil has been extended to encompass countries that were previously part of the Eastern Bloc, such as Poland, Latvia and Estonia as well as low wage Asian producers such as Malaysia, China and Vietnam.

The Global Timber Products Industry

The furniture industry plays a significant role in global trade statistics. In 1998 furniture was the nineteenth largest sector in global trade out of 261 sectors, with exports of \$44.9 billion (www.intracen.org). This exceeded both the clothing (\$40.6 billion) and the footwear (\$33.8 billion) sectors, often held up as dominant “low-tech” sectors in global terms. Equally important, the global furniture industry is on a well-established growth trajectory. Maskell (1998) notes that in the three decades preceding 1990 the furniture sector recorded a rate of growth in global demand exceeded by only two other sectors. More recently, trade grew 26% between 1994 and 1998, exceeding both the clothing and footwear sectors, as well as the overall rate of growth in global trade (16%) (www.intracen.org).

Global trade in furniture is strongly dominated by industrialised countries, with high-income countries representing 77.1% of furniture exports to the European Union in 1996 (Kaplinsky & Readman 2000). However, as South Africa’s experience has shown, their pre-eminence is gradually being challenged by the growing ranks of low wage developing country competitors. As Table Five shows, between 1989 and 1995 two developing countries – China and Poland – have moved into the top ten global furniture exporters. Between 1992 and 1996 the number of developing countries amongst the top fifteen furniture exporters doubled from two to four - China, Poland, Malaysia and Indonesia (www.intracen.org). Moreover, evidence suggests that imports from developing countries are growing at a significantly faster rate than imports from industrialised countries (Navas-Aleman & Orozco-Escorza 1999).

Table Five:

Top 10 Exporting Nations - 1989 and 1995

	1989	1995
1	Italy	Italy
2	Germany	Germany
3	France	USA
4	USA	Canada
5	Belgium	Denmark
6	Denmark	France
7	Canada	1.1.1 CHINA
8	UK	Belgium
9	Sweden	Sweden
10	Netherlands	1.1.2 POLAND

Source: UN (1995)

Finally, it is worth noting that global furniture *imports* are, unsurprisingly, dominated by upper income industrialised countries (UN 1995). As leading furniture consumers it is these countries that will continue to set the standards for the global furniture industry. Given our understanding of growing consumer expectations, *particularly* in industrialised nations, this means that manufacturers increasingly have to focus on issues of quality and service in order to maintain their market position. This is well reflected in the growing importance environmental considerations in certain subsectors of the timber products industry in the United Kingdom (Dunne 2000c)

3.4. The Relevance of a Study of South African Timber Products Exporting

The question may well be asked as to the wider relevance of a study of exporting in the timber products sector, which remains a relatively small sector in terms of contribution to South Africa's GDP, employment and total exports. In the first instance, timber products, as well as being a sector in its own rights is an example of what has been termed a "low-tech" or traditional manufacturing sector. Other low-tech sectors include the clothing and footwear sectors. Low tech sectors have similar characteristics in terms of a predisposition to labour-intensity and low barriers to entry: it is anticipated that some of the lessons from a study of the timber products sector might be of relevance to other exporting low-tech sectors in South Africa. The furniture sector is also representative of a range of other sectors in that it is dominated by SMEs. Lessons regarding the export potential of small and medium firms, as well as the barriers facing such firms might hold lessons for other SME dominated manufacturing sectors in South Africa. The above issues are particularly relevant given South Africa's status as a developing country with stated priorities of job creation and redistribution. Given these priorities, sectors that have low technical requirements, are labour intensive and have generally low barriers for entry will be a crucial focus for economic development strategies. At the same time SMEs have an important role to play in job creation and redistribution, and any policy for supporting and extending the range of SMEs in South Africa is to be welcomed.

The timber products sector is also relevant to South Africa's stated development objectives in that it is a sector that adds value to raw material assets in the form of commercial timber plantations. As we have seen, South African timber products manufacturers are currently operating at the low end of the value-adding spectrum, and research that encourages value-adding has much to offer the sector.

Finally, the timber products sector is one that has been widely explored in the international literature from a number of perspectives (Best 1987, IFBWW 1996, Heanue, 1999, Kaplinsky & Readman 2000, Lorenzen, 1998, Maskell 1998, Scott 1996). In particular issues such as the impact of globalisation, access to international markets, proximity and co-operation are explored, and this research provides an opportunity to study the relevance of international research in the context of the South African timber products sector. Of course the relevance of these issues extends far beyond the timber products sector, and findings may have bearing on other sectors of South African industry.

4. MANUFACTURING AND ORGANISATIONAL ARRANGEMENTS

This part of the report examines the way in which South African timber products manufacturers are approaching exporting from the perspective of manufacturing and organisational arrangements. We consider the impact of manufacturing capacity (i.e. the size of the enterprise) as well as the market segment that the firm focuses on, on export potential. One of the most significant developments in the local timber products industry in recent years has been a series of mergers and acquisitions, culminating in the positioning of Steinhoff, a German timber products concern as the largest furniture manufacturing group in South Africa. We examine the impact of foreign ownership in the form of membership of Steinhoff on South African timber products exporters. Finally we consider the role of co-operative ventures such as clustering and joint ventures in facilitating South African timber products exports.

4.1. Background

As discussed in the Methodology, the study covered fifteen timber products exporters in the Pine and Saligna subsectors, producing DIY, houseware and household furniture products. Firms were on average exporting 85% of production, with an average export turnover of R13.7 million per annum⁷. The average number of employees amongst surveyed firms was one hundred and fifty (once again excluding the largest firm), with the smallest firm employing sixty people. Many of the companies had graduated from supplying the domestic market to focusing predominantly on the export market. Reasons for shifting focus to the export market revolved around a number of issues. In the first place, manufacturers producing very simple products found that they could no longer competitively supply the local market as cheap imports from Asia began to enter the market. Secondly, the small size of the local market means that production runs tend to be much smaller, and orders tend to be, as one manufacturer put it, of the “Liquorice Allsorts” variety, that is fragmented orders comprising small volumes of a range of products. Most South African timber product manufacturing operations are geared towards economies of scale, rather than scope, and the higher volumes offered by the export market are seen as a major advantage. In some cases the local market was seen as simply too small to sustain the necessary turnover. Thirdly, the financial aspects of supplying the domestic market are problematic from two perspectives. Higher prices can be commanded on the export market, in part because of the stronger economies of industrialised countries, and partly because solid timber such as pine is regarded much more positively in the export market than is the case in the local market. Equally important, payment terms are very poor in the local market, a complaint frequently raised by manufacturers of particle board products supplying the domestic retail chains. A fourth complaint is that local buyers are generally unprofessional, and that the logistics of supplying small stores all over South Africa is considered “a nightmare”. It was pointed out that distribution costs as a percentage of sales are in fact higher for local distribution (delivered fully assembled) than for delivery to the UK (in knockdown or flatpack form). Finally, the local market is very prone to fluctuations, and some manufacturers initially entered the export market at times when they had excess capacity.

It was noted that diversifying into the export market had a positive impact on performance, forcing manufacturers to acknowledge that South African production arrangements are

⁷ Only 10 firms provided export turnover figures. This average excludes the largest firm, which would have substantially skewed the results.

relatively “backwards”. Learning from the demands of the export market allowed manufacturers to upgrade quality and productivity.

4.2. The Impact of Manufacturing Capacity and Market Segment on Exporting

The question of manufacturing capacity is critical for firms focusing on the export market. South African timber products manufacturers are relatively small, and tend to be labour intensive. This has implications for the type of customer that the firm can supply, as well as for the range of products that can be supplied. Smaller manufacturers need to consider these issues carefully before committing to a large retail chain, for instance, and such manufacturers have found that certain markets, such as the high volume USA market are almost impossible to access. The relationship between capacity and export success underlies many of the issues discussed in this paper. It impacts on customer choice, and has particular relevance for the issue of inter-firm co-operation such as joint ventures, subcontracting and clustering.

The market segment that a firm chooses to operate in has implications for value-adding, levels of competition and ultimately profit margins. Manufacturers producing low value-added items such as houseware and DIY products are more vulnerable to increased levels of competition from Asia. These manufacturers are also particularly vulnerable to labour cost increases. Even manufacturers in higher value-adding segments of the market such as household furniture tend to operate in the lower-value segments of the market, making them similarly vulnerable to issues of labour costs and competition from new low-cost market entrants. Another issue to consider in terms of market segment is the seasonal nature of the product in question. Garden furniture manufacturers operate on a six to nine month year, aligning with the Northern Hemisphere’s summer season. This obviously has implications for labour arrangements, with these manufacturers operating on a core staff complemented by contract staff.

While South African manufacturers’ choice of market segment is to some extent limited by the relatively poor quality of timber inputs, many manufacturers choose to focus on “commodity” type products with little or no emphasis on value adding. This attitude is slowly changing however, as South African manufacturers are becoming increasingly aware of their tenuous position in traditional export markets. The interviews suggested that a number of manufacturers are trying to upgrade their products (through for instance better finishing or more innovative designs), and to introduce new, and where possible, innovative products. The realisation appears to be dawning that the only way for South African timber products manufacturers to continue to survive in the export market is to add value to their exports. One manufacturer gave an example of the benefits to be derived from targeting a more upmarket, design-oriented product at a new market. Replacing a simple bed with the more design-oriented model led to an increase in turnover (for that product line) by 33% while profits more than doubled. When entering the market with an existing product, manufacturers face a set price, and high levels of competition. However, innovation allows the manufacturer to “set the price”, and establish new markets. For manufacturers to keep buyers interest they need either to maintain the lowest price (which as we have seen is becoming increasingly difficult for South African manufacturers), or to offer new products on an ongoing basis.

The type of timber with which a manufacturer chooses to produce is also important. Traditionally exports from South Africa have been mainly pine-based products. This is rapidly changing however, as South African manufacturers are beginning to find a market for Saligna (Eucalyptus) products. As a commercially cultivated hardwood timber, Saligna is being positioned in the global markets as an alternative to hardwoods from natural tropical forests. As well as offering greater value-adding potential, some manufacturers see Saligna as a way of expanding their range of products. However, there are presently severe constraints in the supply of Saligna, and unless these are resolved the long-term viability of this market segment remains uncertain. One manufacturer indicated that he currently has excess capacity of up to 40%, with timber availability being the sole factor limiting expansion.

One factor that has recently impacted on South African manufacturers' ability to maintain their competitive advantage is the growing importance of environmental issues in industrialised country markets. As we have seen, this has led to the development of a niche for Saligna products. Another development has been the demand for Forest Stewardship Council (FSC) certification, which certifies that timber has come from a source managed in an environmentally, economically and socially sustainable manner. FSC certification is currently very important in the DIY market in the UK, and increasingly in other industrialised countries. South African manufacturers have a strong presence in the DIY sector, and this has facilitated the rapid spread of FSC certification amongst South African timber products manufacturers. As FSC certification becomes compulsory amongst some leading DIY retailers, South African manufacturers hope to reap the benefits of early certification. One manufacturer of a very simple product range noted that FSC was the *only* reason he was still able to operate in the UK market against low wage competition from Asia⁸.

4.3. Foreign Ownership: The Case of Steinhoff

Steinhoff, a large German-based furniture concern is "in Southern Africa the largest, and in Europe one of the largest, manufacturers and distributors of household goods and related timber products" (Steinhoff 1999). The company has seventy-four factories, of which forty-eight are located in South Africa. Steinhoff has for some time had a presence in South Africa with ownership of a number of lounge suite manufacturers. However, its presence in South Africa was dramatically increased in 1998 and 1999 through its purchase of a controlling interest in the Megacor group of timber products manufacturers, as well as in Pat Cornick, previously Afcot, the largest group of furniture manufacturers in South Africa. Although still relatively new, examining the experiences of firms that have become part of Steinhoff may offer insight into the impact of issues of *global connectivity* for South African furniture firms.

The interviews indicated clearly that the benefits of foreign ownership are not uniform across all timber products firms within Steinhoff. All five of the Steinhoff manufacturing units represented in the study were positive about the benefits of having access to Steinhoff's financial backing. This has allowed firms with existing capacity to take on larger and more numerous orders. Many local manufacturers reportedly cannot take full advantage of the high volumes that international trade offers due to financial constraints. At the same time, financial

⁸ For more on the impact of FSC certification on the South African timber products sector see Dunne (2000c).

backing has allowed other manufacturers to expand capacity through new capital investments. Steinhoff are also able to offer technical expertise to deal with a range of problems. At the same time, Steinhoff represents higher overheads, which are to some extent borne by member firms.

However, in terms of access to international distribution networks, the benefits from membership of Steinhoff are more mixed. Steinhoff focuses predominantly on household furniture, and for manufacturers in this sector (both pine manufacturers and manufacturers of bedding and upholstered furniture who were not included in this study) access to well established international distribution networks and new customers has offered advantages. Even within this segment, different firms seem to be reaping different benefits. Steinhoff's strength does not appear to lie in the distribution of low-end pine household products, and the fact that Steinhoff "doesn't understand what we do" has to some extent limited the use that some firms have made of Steinhoff's distribution network. On the other hand, another pine household furniture manufacturer interviewed felt that Steinhoff's distribution network had been very useful, accounting for an increase of up to 20% in turnover. Fifty percent of this firm's sales were now through the parent company's distribution network. What is clear is that Steinhoff's distribution network does not focus on DIY and houseware customers, and that these manufacturers continue to export through their own links with the export market. Membership of Steinhoff has allowed some rationalisation of marketing efforts however, and has allowed smaller companies to access the expertise of larger DIY and houseware exporters within Steinhoff. Membership of the group has introduced South African manufacturers to new markets, particularly in the USA. Steinhoff also provides a useful communication function so that South African manufacturers within the group do not compete directly with one another.

A final advantage of Steinhoff's international position is that it allows South African companies to benchmark themselves internationally in terms of, for instance, price. The extent to which this is institutionalised in the way Steinhoff companies operate is not clear, however.

4.4. Intra-Firm Co-operation in the South African Timber Products Industry

The interviews showed no evidence of true joint ventures in the form of co-operative tendering for orders. However, there was evidence of lesser forms of co-operation such as subcontracting of component manufacture, and the "siphoning off" of parts of orders that proved too large for the capacity of the primary supplier. This is useful when a company gets an order that does not match with its available capacity and machine capabilities.

In general, co-operative ventures seem to have been problematic for a number of reasons. Probably the most pressing problem is one of pricing. Margins are very slim in the South African timber products sector, and depending on the arrangements, sharing orders can add costs, for instance in transporting products from one manufacturer to another for central shipping of the order. A more deep-seated concern that is shared by manufacturers across a range of South African industrial sectors, is one of trust. Co-operation will remain limited unless trust is an integral part of the way co-operating manufacturers interact; however, trust is generally sorely lacking in this sector. One manufacturer usefully differentiated between superficial and real co-operation. When manufacturers are sharing an order superficial co-operation occurs readily around such practical issues as co-ordinating finishes and sharing

information on the best equipment to overcome specific problems. However, there is limited real co-operation around “rands and cents” issue, such as joint purchasing of supplies or negotiating for services.

A number of manufacturers have had bad experiences with co-operation in the past, and prefer to avoid such arrangements. Complaints include Firm A getting a large order and outsourcing the majority of it to Firm B, which then tried to wrest control of the order (and access to the customer) from Firm A. Similarly, co-operating proved problematic for Firm C, which informally shared information about a source of raw materials with Firm D with which it was co-operating. Firm D immediately visited this supplier, and purchased the available stock of raw material so that Firm C was forced to buy elsewhere at a premium. Manufacturers complained that causal “round table” discussions of customers and prices in such forums as the Timber Products Exporters Association (TPEA)⁹ would result in competitors offering the customer a lower price. This is probably why co-operation in such forums as the Federation of Furniture Manufacturers, the Bargaining Council and the TPEA seems to have remained at a superficial level, and to be viewed by the industry as of little practical benefit to the industry.

Despite strong concerns about the viability of co-operating with other timber products manufacturers, co-operation was still seen to offer potential benefits for accessing new customers and entering new, high volume markets. Generally such ventures would be approached with extreme caution and reservation, however. A firm contract with punitive clauses to control behaviour and central control of finishing and quality were identified as two conditions which would facilitate future efforts at order-sharing. Firms stated that they would be wary about sharing information with manufacturers with whom they were co-operating, and might even spread misinformation to protect their interests. At the same time, for small firms just entering the export market sharing an order with a more established company helps to increase turnover, fill capacity and teaches the company about the quality demands of the export market. Smaller enterprises also benefit from the volumes offered by the export market through component subcontracting.

While this aspect has not been explored in any depth, it should be noted that subcontracting also takes place internationally, with an example given of one South African manufacturer outsourcing part of an order to a foreign country.

Finally, clustering provides another example of joint action amongst South African furniture manufacturers. While there is only one example of clustering in the South African furniture manufacturing sector (*see case study below*), the experiences of the cluster provide useful insight into another way in which smaller manufacturers can co-operate to access huge global markets that would otherwise be out of their reach.

The cluster concept offers advantages to smaller manufacturers in terms of increased volumes, turnover and employment. There are also potential benefits to be gained from learning from the

⁹ The TPEA is an organisation that was intended to represent the interests of timber products exporters in South Africa. However, its support base has waned considerably, and it does not play an active role in export promotion.

more demanding export market. Equally importantly, the cluster represents an institutionalised form of the trust that, as we have seen, is so difficult to come by in the South African timber products industry. Institutionalising co-operation appears to have allowed the cluster to move beyond *superficial* co-operation to *real* co-operation. However, it is worth noting that the co-operation in the cluster is mediated through the cluster partners' vertical relationship with the cluster driver, and there is limited horizontal co-operation between cluster partners. Nonetheless, given the legacy of mistrust that plagues South African industry, such vertically mediated cluster relationships, organised around a fixed contractual relationship, might indeed be a useful model for introducing at least some of the benefits of co-operation to South African firms. The benefits of co-operation are so overwhelming as to be difficult to ignore. A 1996 publication reports the average Italian furniture firm as having just *six* employees – yet in 1995 Italy was the world's largest furniture exporter, with a value of exports nearly double to Germany, its nearest competitor (IFBWW 1996, UN 1995). The success of Italy's furniture export drive is largely attributed to high levels of co-operation and subcontracting within the industry (Best 1987).

Clustering as an Example of Inter-Firm Co-operation:

The Case of Gloserv

Gloserv (Pty) Ltd started operating nearly two years ago. Initially they planned to simply market for furniture firms. However, over time they have come to represent the only example of an exporting cluster in the South African timber products sector. The cluster, currently comprising four timber product manufacturing partners and a manufacturer of metal frames, sells Saligna garden furniture to the overseas and domestic market.

Initially Gloserv operated as a marketing agent, working on a commission basis. This soon evolved into a much closer working relationship with a small (although steadily growing) number of South African manufacturers. Initially manufacturers co-operated with Gloserv around design issues, but were fully responsible for manufacturing, shipping and debtors, with Gloserv handling marketing. However, it soon became clear that there was a need for a central finishing plant to ensure uniformity and quality of finish, as well as to handle packaging and offer central warehousing facilities. With the establishment of the finishing plant Gloserv began to take on new responsibilities which established it as a cluster *driver* rather than simply a marketing agent. A design studio was established at the finishing plant, with manufacturers focusing solely on production. Over time Gloserv has taken over the cluster's debtors, moving to a system of purchasing stock from cluster manufacturers for resale. At the same time they have realised the benefits of central buying, and begun to purchase fittings on behalf of the cluster. Increased buying power allowed them to look to more competitive overseas suppliers, with the savings utilised to upgrade the product by moving to brass fittings. Most recently Gloserv has begun to purchase timber on behalf of the cluster as a way of overcoming supply problems and counteracting price increases. Gloserv has also established a relationship with the IDC that will allow cluster partners to access funding for capital investment. Gloserv handles all marketing and sales through its local operation and their subsidiary Gloserv USA, which operates a warehouse and distribution centre in the USA.

Three of the cluster's manufacturers share production of its main lines, while each manufacturer also specialises in a number of the smaller lines. Three of the timber products partners are small enterprises, with less than fifty employees. These three manufacturers derive between 50-100% of their turnover from Gloserv, which is a level of concentration perhaps higher than the ideal. The fourth partner contributes only excess capacity to the cluster, deriving an estimated 10-20% of turnover from Gloserv.

Section Three examines the impact of marketing factors on exporting success. We have already commented on this issue in passing in the previous section when looking at the impact of manufacturing capacity and foreign ownership on customer choice and access to international distribution networks. At the same time, joint ventures, clustering and other forms of co-operation have implications for the type of export customer that can be accessed and the size order that can be managed. This section focuses on the way in which South African timber

products exporters are connecting with their customers. Understanding this facet of exporting has implications for new exporters, as well as for the ways in which government might support exporting. Specific areas under investigation are the nature of export competition and the competitive edge of South African manufacturers, the types of customers and their implication for export strategy, and the ways in which South African exporters are linking with their customers. In this latter section we consider the role of agents, trade fairs and the Export Council in facilitating exporting.

5.1. Competition in the Export Market

As we have mentioned, competition in the timber products sector is extremely fierce, particularly in the low value-added segment of the market in which South African manufacturers tend to operate. South African manufacturers find themselves in competition with a range of low wage countries in their chosen export markets (mainly Europe, but also the USA). Competition comes mainly from South America (Brazil and Chile), Asia (China, Taiwan, Malaysia, Thailand, Korea and Vietnam) and the former Eastern Bloc countries (Poland, Latvia, Estonia and Romania). Finland and Australia were also mentioned as competitors in certain market segments as were some of the Western European countries, which compete on the basis of highly automated factories and proximity to final markets. Manufacturers were asked where they thought the advantage of these key competitors lay. Answers included:

- proximity in the case of Eastern European competitors – transport costs and lead times
- German investment, also in the case of Eastern European competitors
- the value of the currency in Brazil
- sawmilling capabilities in South America
- better timber quality
- cheap labour
- cheaper timber
- better finishing
- better reaction time with new product development
- An additional factor in competition from some of the Asian countries is the growing use of rubberwood, and in the case of beds, steel. It is estimated that rubberwood is 20% cheaper than pine, while steel beds are 40% cheaper than their pine equivalent.

While price advantages in terms of labour and timber were raised most often by local manufacturers, it is clear that competitors have extended their advantage beyond simply price-based competition, with certain competitors reaping the rewards of an emphasis on quality, finishing and new product development. These are all indicative of a realisation that value-adding is becoming critical for competitiveness in a globalising economy. As we have seen, the basis for competition is moving beyond price to include such issues as quality, delivery reliability, finishing, new product development and general service criteria. If South African manufacturers are to maintain their position against such competitors they need to focus on issues within their control such as quality, product development and service, rather than bemoaning the price issue, which falls largely outside of manufacturers control.

It is critical that South African manufacturers become aware of their competitive advantages, and seek to hone these advantages. South African manufacturers listed the following amongst their competitive advantages:

DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT

- delivery reliability
- quality
- FSC (in certain markets)
- weak currency
- language
- reliability and service
- marketing strategy

It is in the area of supply and reliability that Asian and South American competitors were felt to be weakest, and it is perhaps in these areas that South African manufacturers have the most to gain. Marketing structures in some of these competing countries are also felt to be poorer than is the case in South Africa, and language is a barrier. South African manufacturers need to emphasise a service ethic of customer orientation and reliability. This extends beyond simply delivery reliability to include responsiveness to changing customer needs for new and innovative products, better finishes and better quality.

At the same time, it is clear from discussions with manufacturers that the South African export sector is under great pressure at the moment, with many firms struggling for orders, and yet others closing down completely. Key factors that manufacturers felt were limiting their export success included:

- price (wages and raw materials – packaging, timber and imported fittings)
- low labour productivity
- SA sawmilling in disarray – quality problems
- transport costs (both of timber and of finished goods)
- lead times
- capital constraints – investment and cash flow
- technology
- order availability (due to high levels of competition)
- inadequate marketing
- lack of drive amongst export agents
- under-pricing by new market entrants

The latter problem is worth commenting on more fully, as it is one that is of great concern to many South African timber products manufacturers. It is frequently alleged that new entrants to the export market will, in an attempt to get into the market offer extremely low, and unsustainable prices. While these manufacturers soon fold, their strategy has serious repercussions for other manufacturers, who are then asked to compete against this lower price. As one manufacturer pointed out, it is short-sighted to focus too much attention on undercutting your competitor, as this starts a downward price spiral that has negative consequences for the industry as a whole, and in the long run is not a sustainable policy. This essentially ties in with our contention that South African exporters need to shift their focus away from price to include a range of other factors such as quality, service and new product development.

The relationship between sawmills and manufacturers is another issue that traditionally plagues South African timber products manufacturers. Manufacturers frequently complain of a mismatch between the dimensions of timber that sawmills produce and those preferred by manufacturers. This contributes to an unacceptably high level of waste in the industry. At the

same time, certain subsectors of the industry (such as Saligna) are experiencing chronic timber shortages that are holding back export expansion.

The Impact of Customer Selection
The Case of Ikea

Ikea is a large Swedish retail chain that has a very negative reputation as a customer in South Africa. Ikea has a global distribution network, and sources in a number of countries in both the industrialised and developing world. A number of firm closures over the past few years are attributed within the South African industry to the firm in question having run into problems supplying Ikea. Ikea offers high volumes, which is particularly attractive to a firm that is trying to get into the export market, or is going through a period of low orders. However, Ikea has very high quality standards, and offers very low prices.

Ikea follows a strategy of being fully informed of production costs, often asking for access to the firm's financial records. While Ikea are reportedly reliable when it comes to payment arrangements, a firm that becomes too dependent on Ikea will reportedly often find itself under pressure to lower prices to an unsustainable level. Ikea's quality requirements also pose a problem for many South African manufacturers whose internal quality standards fall well below the customer's requirements. If this is the case, quality requirements can only be met with a high reject and rework rate, which adds considerably to costs. This can prove highly problematic when operating on what are already very low margins.

A different picture emerged when speaking to a firm that had supplied Ikea for several years. While Ikea is still judged to be an extremely demanding customer offering very low margins, Ikea has brought in technical experts to assist the manufacturer in improving quality and efficiency and minimising waste. Ikea has also facilitated visits to their Swedish factories to explore ways of improving the performance of the South African firm. This assistance has been invaluable in upgrading the performance of the South African manufacturer, and is expected to stand them in good stead as they reduce their dependence on Ikea as a customer. Ikea's sourcing philosophy is also felt to be evolving, with growing emphasis on developing a competent, reliable and efficient supply chain.

Despite the dominantly negative picture it is clear was that Ikea *does* offer certain potential advantages for South African manufacturers. However, several firms suggested that building an export strategy around Ikea (or indeed any single customer) would be foolhardy, and that Ikea should not exceed 20% of turnover if the firm was to use Ikea to its best advantage. There appears to be a tendency in the South African industry to regard Ikea's quality demands as excessive, and to some extent unreachable. Clearly this is not the case, and using Ikea's standards as a benchmark for international demands might be a useful vehicle for improving local quality and other performance standards.

How individual manufacturers and the industry as a whole tackle the problems outlined above remains a critical issue in determining South Africa's ongoing presence in the global timber products market place. Many of these issues can, and indeed would benefit from a collaborative, industry-wide approach. A group of manufacturers standing together stands a much better chance of negotiating favourable rates on transport, packaging, timber and other inputs. Likewise, a cohesive manufacturing sector stands a better chance of making their needs known to the South African sawmilling giants. The Saligna Value Chain, a group of Eucalyptus manufacturers and sawmills has recently been formed to address this issue in their sector. The group has made noticeable strides in working towards resolving various technical issues that can increase the supply of timber available to manufacturers (for instance better timber grading systems and the use of younger, less dense timber for some applications). Various government programmes (such as the Competitiveness Fund, the Sector Partnership Fund and the Workplace Challenge) offer financial support, whether on an individual or co-operative basis, for manufacturers interested in upgrading their performance.

As we have discussed, co-operative ventures have been far from successful in South Africa in the past. However, the problems facing South African timber products exporters require innovative thinking. South African manufacturers need to look to international experience and adapt successful strategies to South African realities. It is crucial that South African timber products exporters learn to identify which disadvantages facing the industry are within their power to address, and to take the steps necessary to do so.

5.2. Customer Types

South African timber products exporters supply a range of customer types, including independent retailers, mass retailers, mail order catalogues and distributors (wholesalers). Different manufacturers tend to prefer different customers, and indeed different markets. What is clear is that each type of customer offers different advantages and presents different pitfalls, and that the manufacturer needs to be aware of these in order to best match the customer to firm capacity and capabilities.

Bulk volume customers (generally distributors and mass retailers, although this ultimately depends on the size of the market) are preferred by some manufacturers due to the advantage of increased throughput to factory costs, as well as because of the high cost of transport. Larger customers might take 5-6 containers a month. In addition such customers offer the best mix to a container, with the ideal being a full container of a single product. Some manufacturers prefer distributors to retailers, as the former adds a service element to the product in terms of providing replacement parts and handling distribution. On the down side, large customers have greater buying power and are usually more demanding on price, offering lower margins. However, payment is more reliable, and financial risk lower. Larger customers are sometimes more demanding, and may send quality control personnel to the factory to check on quality standards. One manufacturer pointed out that it is very important to avoid competing against one's own product, by for instance supplying a distributor that is supplying a mass retailer one could supply directly. Manufacturers are in agreement that focusing too intensely on a single customer is a dangerous strategy. Dependence on one customer makes the manufacturers extremely vulnerable to pressure from the customer, as well as to the threat of loss of business from that customer.

Independent customers might take one container every month or two. For large factories that focus on volume throughput small customers are often considered a nuisance that causes delays in production. However, for smaller manufacturers and new entrants to the export market independents offer manageable volumes. As one manufacturer pointed out, a “small” export customer is still large by South African standards, and is a good place for manufacturers to hone their export skills. On the down side, small customers often demand more variety in a single container, which requires a higher level of manufacturing flexibility. The financial risk is also felt to be greater with independent retailers.

Apart from customer type, exporting to different countries also has implications for supply. Many manufacturers prefer dealing with the UK and other English speaking markets, as communication is greatly facilitated by the absence of language barrier. Some markets offer lower prices, with France being offered as an example of a market with high levels of competition and low prices. One manufacturer offered that the same product could command between R250 and R400 in the marketplace, depending on where it is sold. The USA market is known to offer huge volumes, which for smaller manufacturers is a negative factor, but can be very positive for larger manufacturers. Mark ups also vary dramatically between markets. For instance, mark ups are much lower amongst mass retailers in the USA than is the case in the UK, as the former are accustomed to dealing in volumes, and don’t wish to carry stock. Because of the lower mark up in the USA customers offer better margins to the manufacturer.

Ultimately manufacturers need to gear their customer base to the capabilities of the factory, and to find a balance that suites the firm’s goals, risk profile and performance strengths.

5.3. Linking with the Export Market

Establishing initial connections with customers is perhaps the hardest aspect of exporting, and there appears to be no blueprint that can be easily emulated. Marketing is both an expensive and a highly skilled aspect of exporting. Once a firm is established in the export market buyers often approach the firm directly. Many of those interviewed had long-standing relationships with customers. Direct marketing or *cold calling* appears to have little to offer exporters – manufacturers find it is very difficult to get a buyer to meet with them if they approach the buyer directly. For many manufacturers, particularly those starting out, agents are the most feasible way of approaching the export market.

If a buyer is interested in a firm’s products, samples are usually required to seal the order. The cost of sending samples overseas is prohibitively high, and certain manufacturers have found it more cost effective to bring the buyer out to South Africa. As well as being a goodwill gesture this allows for a collaborative approach to design, and shortens the lead time in finalising arrangements. Show rooms overseas were considered one way in which exporting could be greatly facilitated. There have apparently been various unsuccessful attempts at this in the past, however the reasons for failure were not clear. This section considers the role of agents in setting up links between manufacturer and customers, and looks at the role of trade fairs in marketing. Finally we consider the recently established Furniture Export Council and the role it has to play in the South African export sector.

5.3. Agents

An agent offers knowledge of and experience with exporting, and should have an established relationship with the export market in question. Smaller manufacturing operations often simply do not have sufficient management capacity to control both the production and marketing aspect of manufacturing. Those interviewed used a mix of agents based in South Africa and overseas, although overseas agents were generally viewed as having a more intimate knowledge of the export market. The exception was *buyers' agents*, based in South Africa, and operating as the sole representative of a particular overseas retailer in South Africa. Such agents often played a more active role in relationships between buyers and manufacturers, possibly taking some responsibility for quality checks before shipping.

While most of those interviewed thought that agents had an important role to play in exporting, the relationship is fraught with difficulties. Essentially, once a relationship is established through an agent the manufacturer takes over responsibility for the relationship, communicating directly with the customer on all matters. Yet the agent continues to collect commission on all orders. Agents that are responsible for keeping in contact with the customer and handling complaints and non-payment problems appear to be rare. The contractual relationship between agent and manufacturer seems to be somewhat murky. Most of those interviewed said that they did not have a contract with the agent, and were bound by ethical rather than legal considerations around the payment of commission. One manufacturer suggested that commission should be paid on a sliding scale, with the rate of commission decreasing over perhaps a three year period. Many South African manufacturers operate in low value market segments with very low margins, where agents' commission can simply prove uncompetitive. Agents' commission was reported as around 5%.

Apart from payment issues, another concern regarding agents was the issue of motives. Manufacturers were concerned that it was often not clear whose interests the agent was actually representing, and several felt that it was clear that the agents were in fact representing the buyer rather than the manufacturer. Agents were felt to lack an understanding of manufacturing constraints, and to be unsympathetic to the costs faced by manufacturers.

One large manufacturer pointed out that there are major pressures to reduce costs along the supply chain, partly by cutting out middlemen. In one instance this has resulted in local forwarding agents being excluded from the supply chain, with shipping arranged directly by the customer at a reduced rate. It remains to be seen whether such pressures will have major impact on the role that agents play in the supply chain. Cases were mentioned where customers were keen to bypass the agent that had facilitated the relationship in order to lower costs, but nothing had come of this as yet.

5.5. Trade Fairs

It is clear from discussions with manufacturers that trade fairs are not primarily regarded as a place to garner business. One manufacturer pointed out that one is unlikely to get orders unless

offering “something different”, which few South African manufacturers do. Fairs are nonetheless viewed in a very positive light by most firms. They function as a way of interacting with existing and prospective buyers and agents, gathering export contacts and facilitating learning about international trends and competitive pressures. The international exposure offered by trade fairs is very important to smaller exporters.

Manufacturers are extremely positive about the DTI’s input into the annual Cologne International Furniture Fair. In particular the financial support offered is extremely important in facilitating attendance at fairs by smaller manufacturers who would otherwise find this form of marketing prohibitively expensive. It was pointed out that the DTI did not seem to have any way of verifying exhibitors’ claims about their manufacturing operations. This was seen as opening the system of support up to abuse by potentially including firms that offered little in the way of export growth or employment creation.

5.6. The Export Council

Only two of the twelve firms interviewed were members of the Export Council. This is highly problematic when one remembers that most of the firms interviewed were focusing almost exclusively on the export market. Even more worrying is the fact that a number of firms indicated that they knew very little about the Export Council and its aims.

Those involved in the Council felt that it faced a number of problems. In the first instance, the Council has yet to reach a “critical mass” of exporters. The timber products export base in South Africa is small, and the industry’s largest firms, including the Steinhoff group are reportedly not involved. At the same time the Council is felt not to be geographically representative enough, with mainly KZN and Gauteng exporters, and no representation from the Eastern Cape. Both of these issues impact on the credibility of the Export Council.

On the positive side, the Export Council is working on some innovative ideas to support South African timber products exporting. The Council was instrumental in the organisation of this year’s Cologne International Furniture Fair, and is looking at a brochure or CD ROM on the South African export sector, as well as a video of member companies’ products, and a website for the industry. The political and financial support of the DTI is viewed as very positive. However, the Council has made little substantial progress to date.

If the Export Council is to succeed in its goals of supporting South African timber products exports a concerted effort will have to be made to draw in more exporting manufacturers. As we have seen, the lack of trust in the industry can make facilitating co-operation difficult. Manufacturers feel that it is too risky to share information on their operations, and are wary of any organisation that might require this. Manufacturers do not feel that the Export Council has any benefits to offer them. This appears to be partly a problem of information dissemination. At the same time, it might be necessary for a “gesture of goodwill” on the part of the government in the form of a fully funded project that will show tangible results and convince manufacturers as to the benefits that could be gained from Council membership.

6. CONCLUSION

The purpose of this report has been to gain a better understanding of the nature of exporting in the South African timber products sector. As a labour intensive sector that is built on adding value to South African raw material inputs, this is a sector where growth should ideally be encouraged. However, the domestic market in South Africa is small, and expansion will necessarily mean increased levels of exporting. If we are to support exporting then we need to understand the factors that impact on exporting success, and to simultaneously find ways of encouraging areas of strength, and mitigating areas of weakness.

The international timber products sector has much to teach us as regards exporting. Timber products is a highly traded sector, and despite the labour intensive nature of the products, one where industrialised countries still dominate. Understanding that competition in this sector is increasingly based on much more than simply low cost labour is one of the most important lessons we can draw from international experiences. If South African exporting is to prosper, then exporters have to recognise the need to develop skills and to focus on quality, design and improved service performance.

A second critical lesson from the experiences of the international timber products sector is the crucial role that co-operation can play in allowing even very small manufacturers to play an important role in exporting. However, it is equally important to recognise the realities of the South African operating environment and to adapt foreign models of exporting success to local conditions. This is a particularly important lesson for government. More and more South African government support programmes are premised on the need for manufacturers to co-operate. However, it is not clear whether adequate provision has been made in the design of these programmes for the traditional reticence of South African manufacturers to co-operate. In an environment of low levels of trust we need to explore alternative models for co-operation, such as that set out in the clustering case study examined in this report. The cluster driver, or co-ordinator, facilitates exporting through co-operation by institutionalising trust and mediating co-operation between cluster partners. There may be a need for South African government support programmes to abandon the "ideal" forms of co-operation seen internationally for a form of "mediated" co-operation, at least until South African manufacturers become familiar with the notion of co-operation and its benefits.

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