ISSN 1822–8402 EUROPEAN INTEGRATION STUDIES. 2013. No. 7

ASSESSMENT OF THE FURNITURE INDUSTRY IN LATVIA

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crossref http://dx.doi.org/10.5755/j01.eis.0.7.4121

The furniture industry plays a very important role in the national economy of Latvia. To make a complete development assessment, it is required to identify the most significant specifics of this industry as well as to analyse key characteristics indicating the development of this industry. Based on the present research, it was concluded that the most significant specifics of the industry were: elasticity of production, production process, and output, low production cost etc. The number of enterprises that were engaged in the furniture industry in Latvia decreased, therefore, the number of employees proportionally declined in this industry. The majority of these enterprises were micro-enterprises that employed less than 9 people. Although the number of small and medium enterprises was 25 in 2009, the number of employees in these enterprises accounted for 45.1% of the total number of employees in the furniture industry: in medium – 33.0 and in small ones – 12.1%-points. At enterprises employing from 50 to 249 employees, on average, 98 specialists, while in large enterprises – 264 people – were employed.

It is essential to assess the changes that occurred in the furniture industry, so that companies of this industry would further maintain their competitiveness and expansion, avoid possible losses and business interruption or decreases in output, as well as provide a greater contribution to the growth of Latvia's national economy.

The research aim is to make an assessment of the furniture industry to obtain a proof for the research hypothesis: Latvia's furniture industry has potential for higher production indices. To achieve the aim, the following research tasks are set: 1) to provide characteristics of the furniture industry, identifying the specifics of it; 2) to analyse indicators of the furniture industry of Latvia in the period 2006-2010.

Various research methods were employed in the present research: general research methods – the monographic method, analysis, synthesis, the abstract and logical methods; data acquisition and processing methods – statistical analysis, the graphic method, and time series analysis. Databases of the Central Statistical Bureau (CSB) of Latvia, and Eurostat, reports and reviews of national government institutions on the forest, timber, and furniture industries, research papers of foreign and Latvian scientists, research findings, methodological literature, periodicals on business and furniture production and the Internet etc. were used in the present research.

Owing to the economic recession, sharp decrease in the main indicators of furniture industry occurred in Latvia. In furniture industry operated for 21% fewer enterprises in 2010, compared with 2008, and enterprises employed for 50% less professionals than in 2006. Consequently, turnover of the furniture manufacturing and value added fell by 41-43% and decrease of the productivity of enterprises reached 23%, compared with 2007. On the whole, one can conclude that furniture industry in Latvia has potential for higher production indices, reaching level of 2006-2007 indicators.

Along with the domestic demand growth and demand changes in the partner countries of foreign trade, including EU countries, the export has significant role in the furniture industry stabilization and further development.

Keywords: *furniture production, timber industry, turnover of furniture industry, furniture industry enterprises, value added.*

Introduction

In the Forest Policy of Latvia (1998), just like in Europe as a whole, increasing the exploitation of timber resources by extending the use of timber in the national economy of Latvia, which includes developing the timber industry, including the furniture industry, is one of the main objectives. According to the list of Latvia's priority industries created by the Ministry of Economics, the furniture industry is one of the priority segments, as it is an industry significantly contributing to increasing value added and exports as well as having high potentials for growth and exports (Latvijas meža politika, 1998; Meža un saistīto, 2006). The furniture industry's share in the timber industry's turnover was, on average, 17% in the period 2006-2009, while in 2010 it was only 11%.

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General information about furniture industry

Historically, forest resources and the timber industry have been always essential for socio-economic development in Latvia, as they are the key source of employment and income in the whole country and its rural regions. Therefore, furniture production has ancient and stable traditions in Latvia. The furniture industry is one of the **sub-industries of timber industry** that produces high value added products – furniture – which are durable goods having various uses in households, at schools, offices etc. It is an assembling industry in which products are manufactured from various inputs – wood, wooden panels, metal, plastic, textiles, leather, glass etc. (The furniture industry…, 2012).

The furniture industry comprises enterprises, the specific field of activity of which is the production of furniture of various types and kinds, and woodworking specialists, furniture carpenters, and upholsterers are employed in it. This industry is directly linked with other timber sub-industries as well as the markets of real estate and construction.

According to information available at a CSB database, seat furniture (upholstered and unupholstered seats, sleeping chairs, sofas, parts of seats etc.), office furniture (worktables, writing-tables, wardrobes, shelves, buffets, cabinets etc.), shop furniture, kitchen furniture, mattresses and sleeping room, living room, and bathroom furniture, garden furniture, and other kinds of furniture are produced in Latvia in the period analysed by the authors.

The furniture industry as an industry has its own **specifics**. These specifics were researched by S.K.Vickery, C.Droge, and R.E.Marklan (1997) who pointed to the following main advantages of this industry: elasticity of production, elasticity of production process, elasticity of output, low production cost, production of new products, delivery time, delivery accuracy, quality, durability of products, and quality of design. These specifics may be attributed to the interaction of production process and products. Yet, according to a study of the American Furniture Manufacturers Association, the world's furniture industry features specifics such as diversity in furniture production in all countries of the world, production in regional clusters, diversity in the extent of organisation of the sector, exploitation of professional and low-skill personnel as well as hand work and technologies in manufacturing products and developing furniture designs, labour mobility within the industry and related industries, cultural differences in consumer demand and consumer orders among regions (World Furniture Industry, 2010).

According to a study on the home furniture sector of the European Union (EU) conducted by the Foreign Affairs Ministry of the Netherlands (CBI) in 2010, the following main trends and specifics in the industry were stressed: use of e-commerce in selling furniture, extension of sales outside the EU countries, development of ecological brands, vertical integration in furniture delivery, close cooperation among furniture manufacturers (including exchange of skills and experiences), an increasing role of designs, and consumption of foreign products (The Domestic Furniture…, 2010).

Assessment of the furniture industry

Presently, the timber industry is one of the most important industries in Latvia, as it took the second place behind the food industry and the total contribution of its sub-industries (wood-processing, paper, and furniture industries) to Latvia's GDP was approximately LVL 1 billion or 8% of GDP in 2010 (Rūpniecība, 2012). The timber industry's total value added amounted to LVL 366 million in 2010, which accounted for 2.87% of GDP and two thirds or 65.7% of the forest industry's total value added (Ziņojums par Latvijas…, 2010; Klauss, K., 2011).

After analysing the role of furniture production in the timber industry, one has to note that furniture manufacturers are ones of the main consumers of sawn timber in the domestic market. In 2010 in Latvia, 1/3 of sawn timber consumed domestically was used in producing furniture, 2/5 – in manufacturing construction (window, door, flooring, wall etc.) materials, while 1/5 – in producing joinery and household products, including packaging materials.

A trend is still observed in Latvia that the exports of sawn and round timber account for a large part or 38.4% in the timber industry's structure, but these are low value added products. The second largest group in the timber industry's exports consists of various wooden materials: plywood and hardboard, which accounted for 18.1% in 2009. Furniture and carpentry and joinery products, which in their turn create the highest value added per cubic metre of timber, accounted for 16.6% (furniture only 9%) of the timber industry's total exports, which is a low indicator (Rūpniecība, 2012).

In the timber industry of the EU member states, the greatest output was provided by furniture manufacturers (51%), and sawn timber as sold products accounted for only 13% in 2007 (Annual detailed enterprise…, 2012); it means that the greatest share of products of the timber industry in the EU member states consists of high value added goods. Given the fact that the share of furniture in the timber industry's output in Latvia is five times lower than in all the EU member states, it points to unused potential in the production of high value added products – furniture – in Latvia. Production of high value added products is included in the Guidelines of Latvia's Forest Policy as one of the key priorities.

In Latvia, 605 enterprises operated in the furniture industry in 2006 (Pārskats projektam „Meža..., 2007). Their number rose by 13% in 2008 compared with 2006, totalling as many as 689 enterprises. In 2010 in Latvia, 543 enterprises operated; it was 10.3% less than in 2006 and 21.2% less than in 2008. If analysing the furniture industry, the percentage distribution of Latvian furniture manufacturers by size has to be taken into consideration: micro- and small enterprises accounted for 96.2% of their total number in 2009, while medium – 3.3%, and large enterprises – less than 0.5%. In the EU, small furniture producers, too, dominate in the furniture industry; they account for 86% of their total number and, on average, employ less than 10 people. Small enterprises mostly operate as subcontractors of larger manufacturers and produce parts and half-finished products that are used in assembling and producing final products manufacturers (The Domestic Furniture…, 2010; Forestry in the EU…, 2011).

Two opposite processes were observed in the production of furniture and its parts in Latvia – some part of enterprises increased their turnover and production capacity, whereas a part of them went bankrupt. In the period 2007-2010 in Latvia, 48 furniture enterprises, which operated in the industry for more than 10 years and were regarded as the leading manufacturers, stopped their operation (Latvijas lielākie uzņēmumi, 2012). The number of furniture manufacturers sharply declined regardless of an increase in demand from potential furniture dealers abroad.

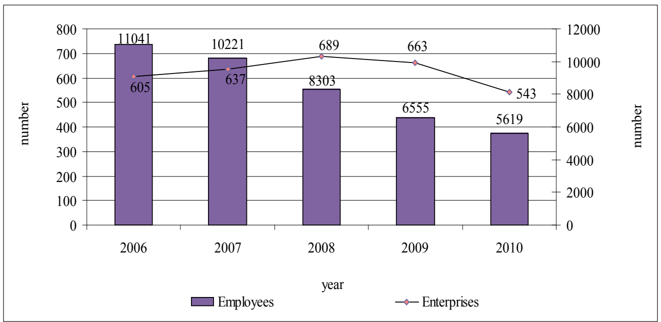

Figure 1. Number of furniture manufacturers and their employees in Latvia in 2006–2010 *(Rūpniecība, 2012)*

Along with the change in the number of furniture manufacturers, the number of employees in the industry significantly declined – by 50.9% or 5422 people – in the period of analysis. It means that the socio-economic function of this industry weakened. On average in 2006, every furniture manufacturer employed 18 people, while in 2007 it was 16, in 2008 – 12, but in 2009 and 2010 – only 10 individuals. Over the recent two years (2009 and 2010), the statistics on the number of employed individuals in this industry indicated slight stabilisation, as the average number of employees remained the same and the decrease in 2010 compared with 2009 became smaller.

On the whole, it has to be noted that in 2009, the majority of companies were micro-enterprises with up to 9 employees inclusive, while the average number of employees was 3 at these enterprises, thus totally employing 23.3% of professionals in the furniture industry. In some cases, the operation of these enterprises may be classified as crafts, as they fulfil individual orders instead of serial production of furniture, based on a single technology or standards. Enterprises with 10-49 employees employ 31.6% of the total number of professionals in the furniture industry; on average, every such an enterprise employs 21 people. Although the number of medium and large enterprises was 25 in 2009, the number of employees in these enterprises accounted for 45.1% of the total number of employees in the furniture industry: in medium – 33.0% and in small ones – 12.1%. At enterprises employing from 50 to 249 employees, on average, 98 specialists, while in large enterprises – 264 people – were employed (Rūpniecība, 2012).

In Latvia, the decrease in the output of the manufacturing started in 2008 and also the share of those manufacturers that produce furniture for domestic consumption declined. It may be explained not only by the fact that the majority of furniture consumers both in Latvia and abroad are private persons whose income decreased, which was observed in the whole Europe, but also by the high inflation of previous years and a significant increase in the cost of labour in Latvia. Owing to the world financial crisis and with a decrease in the inflow of financial capital, a sharp decrease in private consumption and investments occurred, which, in its turn, decreased the economic activity of furniture manufacturers (Market Statement 2009, 2010; Forestry in the EU…, 2011; Latvijas lielākie uzņēmumi, 2012; Meža gadagrāmata 2011 – 2012, 2012).

After analysing the total output of furniture produced by Latvian businessmen in the period 2006-2010, one can conclude that the highest level in furniture sales was achieved in 2007, and, beginning with 2008, it sharply declined. It has to be noted that the sales of furniture decreased 41% in 2009 compared with 2007. The turnover of furniture manufacturers amounted to only LVL 106 million in 2010.

Table 1. Percentage changes in the sales of furniture (mln LVL) in Latvia in 2006–2010

Year	Furniture sales, mln LVL	Annual increase in furniture sales, %	Increase in furniture sales from base year, %
2006	178.0	23%	...
2007	189.0	6%	6%
2008	146.4	-23%	-24%
2009	116.7	-20%	-17%
2010	106.0	-9%	-6%

Source: Authors'.

Over the period of analysis, the key factors affecting furniture sales are as follows: a decrease of 42-58% in the timber prices in Latvia in 2008-2009, depending on the kind of timber and its assortment; a price decrease of 60-65% in the real estate market in 2008-2010 and a decrease of 56.5% in the construction industry's turnover in 2008-2010 compared with 2007; constraints on the availability of financial resources (a decrease in the availability of loans, an increase in interest rates); an inflation hike from 7.8% in 2007 to 15.4% at the end of 2008 and a deflation of 1.1% in 2010; long-term exploitation of furniture as goods (durable goods); a 9.7% decrease in the average net wage of employees in 2010 compared with 2008 and an increase in the average unemployment rate from 5.4% in 2007 to 18.7% in 2010, as a result of which, the domestic demand for furniture declined (Latvijas nekustamā īpašuma..., 2008; Sproģis., J., 2009; Šulcs, R., Auziņa, A., Muška, A.; 2010; Latvijas makroekonomikas apskats, 2011; Galvenie makroekonomiskie rādītāji..., 2012).

Along with the decrease in the sales of furniture in the period analysed by the authors, the value and value added of furniture also decreased. The value of furniture produced in 2010 fell by 43.6% compared with 2007 when it reached the highest level. The decrease of value added, in its turn, reached 57.7% in 2010 compared with 2007.

Table 2. Percentage changes in the value of furniture products and in the value added (mln LVL) in Latvia in 2006–2010

Year	Value of furniture, mln LVL	Value added, mln LVL	Annual change in the value of furniture, %	Annual change in the value added %
2006	179.6	62.2	...	...
2007	184.7	60.7	2.8%	-2.4%
2008	144.2	45.1	-21.9%	-25.8%
2009	108.4	33.2	-24.8%	-26.2%
2010	104.1	25.7	-4.0%	-22.8%

Source: Authors'.

In the furniture industry, a great role in creating value added is played by medium and large enterprises, as the value added generated by these enterprises accounted for 71.4% of the total value added of furniture or LVL 23.6 million in 2009. Every enterprise employing 50-249 people, on average, created a value added of LVL 836.9 thousand, while large enterprises – on average LVL 1.7 million. In 2009, the value added of small enterprises, in its turn, accounted for 28.8% of the total value added, that of enterprises with 10-49 employees – 26.0%, while that of micro-enterprises – 2.8%. On the whole, one can conclude that the large number of micro-enterprises makes a small contribution to value added in the furniture industry, however, medium and large enterprises are more productive, which is indicated by their average value added, and make a greater contribution to the furniture industry's total output.

It is essential to note that the value added of furniture produced per employee and per every lat of turnover of businessmen gradually changed over the period of analysis. The value added of furniture produced in 2007 per employee, on average, amounted to almost six thousand lats. Beginning with 2008, the value added started declining and fell by 8.7% compared with 2007; in 2010, there was a decrease of 23.2%. The value added of furniture manufacturers per every lat of turnover started decreasing already in 2007, which was based on increases in labour costs, inflation, transportation cost, rates of value added tax, excise tax, immovable property tax, and other taxes in 2009 and 2010. Along with the decrease in the turnover of enterprises, the utilised capacity of equipment of furniture manufacturers also declined; as a result, labour productivity in the furniture industry decreased.

Conclusions

- Owing to the economic recession, sharp decrease in the main indicators of furniture industry occurred in Latvia. In furniture industry operated for 21% fewer enterprises in 2010, compared with 2008, and enterprises employed for 50% less professionals than in 2006.
- Consequently, turnover of the furniture manufacturing and value added fell by 41-43% and decrease of the productivity of enterprises reached 23%, compared with 2007. On the whole, one can conclude that furniture industry in Latvia has potential for higher production indices, reaching level of 2006-2007 indicators.
- Along with the domestic demand growth and demand changes in the partner countries of foreign trade, including EU countries, the export has significant role in the furniture industry stabilization and further development.

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The article has been reviewed.
Received in April, 2013; accepted in September, 2013.