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EVALUATION OF MARKET AND PRODUCTION POTENTIAL IN THE WOOD PROCESSING SECTOR IN B&H

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ABSTRACT

This report outlines results of evaluation market and production potential of wood processing and furniture sectors in Bosnia and Herzegovina (BiH), carried out between June and July 2008 [1].
In June 2008, the Consultant conducted a special survey of 27 companies in the wood processing and furniture in Bosnia and Herzegovina which expressed their interest for export external assistance.In order to evaluate Market potential of wood processing companies, the Consultant used a questionnaire in the interviews to survey 27 wood processing companies, and analyzed the resulting data. That questionnaire was developed by the consultant and focused on the following seven areas of interest: Basic information; Raw materials used; Production; Branches of production; Sales; Participation within sponsored European sales promotion programs and Participation in trade fairs.
All selected 27 companies are interested in increasing their export business.
Key words: Wood processing, market, production potential, Bosnia and Herzegovina

1. INTRODUCTION

Wood processing companies in BiH require external assistance to develop profitable export. The Bosnia and Herzegovina wood processing industry has recorded highly positive trend over the last three years, especially in the area of export. According to official statistics, BiH wood processing and furniture industry exports for 2007 amounted KM 775 million, 17,1% more than in 2006. Likewise, the construction industry of BiH has also seen a considerable increase in the last two years. The share in exports of value added products, was 39%, almost two-fifth greater than in the previous year [2].
This report outlines results of evaluation Market potential of Wood processing and furniture sectors in Bosnia and Herzegovina (BiH), carried out between June and July 2008. A database of companies from the wood processing sector developed by the Consultant was used in constructing the sample. The Consultant used stratified random sampling to select more than 180 companies from throughout Bosnia and Herzegovina from this database. This survey was also utilized to identify 27 BiH wood processing companies who have expressed interest for participation in export promotion programme. These companies, identified as participant in activities, are targeted for technical assistance to increase their export growth and business success. In order to evaluate Market potential of wood processing companies, the Consultant used a questionnaire in the interviews to survey wood processing companies, and analyzed the resulting data. That questionnaire was developed by the Consultant and focused on the following seven areas of interest: Basic information; Raw materials used; Production; Branches of production; Sales; Participation within sponsored European sales promotion programs and Participation in trade fairs.

2. RESEARCH FINDINGS

A database of companies from wood processing and furniture industry developed by the Consultant was used in constructing the sample. The Consultant was used above mentioned database to select 27 companies from throughout Bosnia and Herzegovina. These companies had been identified for their export potential and were expressed interest to any join trade promotion programme for the next 3 years. The selection of this sample of 27 companies was neither stratified nor random. For the purpose of this study, a total 25 companies (92,6%) from Federation BiH and 2 companies from Republic Srpska (7,4%) were surveyed. Related to the age of the surveyed companies noted was the range of 121 years (the oldest company-Konjuh was established in 1885, while the youngest company-Citadela in 2006). what speaks of disequilibrium of age and tradition in wood processing sector. Average age of the surveyed companies in the sample is 19,08 years. In the sample, mostly we found companies (17 companies or 63%) that are established in the last 15 years. Regarding the ownership structure, all 27 companies from the sample are privately owned. Of the 27 companies surveyed, only two are considered as joint-ventures with foreign investors. In terms of organizational structure, a large majority of business (92,6%) are registered as limited liability companies Ltd (d.o.o.). Only a small percentage (7,4%) are registered as joint-stock companies-d.d.

The primary raw materials companies use in their work includes lumber (63%), MDF/Particleboard (59,3%), logs (48,1%), plywood (44,4%), veneer (44,4%), blockboard (33,3%) and others (29,6%) The most of primary raw materials (74,1%) which company use in their work are purchased locally in BiH. However, some businesses (33,3%) import MDF and particleboard more frequently than other materials. In BiH forestry has been burdened with many problems, and not in a position to earn the profits needed for investment in development of sustainable management of forest areas. Meanwhile, while the extent of illegal logging in BiH has not been quantified precisely yet, only a small percentage of raw materials in sample are coming from sustainable managed Forest areas (7,41%) or Certified Forest Areas (14,81%). These forest areas were certified by SGS-FM and OBF-Consulting. All of this forest certification was based on the international FSC system using generic standards.
BiH producers from sample are focused on niches where beech (Bosnian beech) is superior to other kind of utilized species. Beside beech, they use following species: fir, spruce, oak, maple, cherry, ash, walnut, acacia and etc. The majority of surveyed companies are small or mid-sized companies with between 11-50 employees (40,7%) or between 51-250 employees (33,3%).

The survey accounts for cca. 31,5% (6304 workers) of the total number of employees in wood industry in BiH (total number cca. 20000 workers). Average number of employees in the companies covered in this survey is 233,5 workers. The smallest number of employees is found in administration (47 workers at average). The specialized workers, there are 67,9 workers employed at average, and general labor-158,4 workers at average.

Many of the surveyed companies lack the required know-how, which necessarily limits growth. The staff of the surveyed companies in usually technically well-trained, their skills in business administrative is still at low level. However, considerable deficits in product development, marketing, design and distribution remain. Production of construction joinery has most low standard of skills and quality in this business. Noticeable is disproportion of operating capacities in different categories of wood processing. Average number of operating capacity in the companies covered in this survey is 69,7 % of installed value. The biggest utilization of machines is in the production of solid wood furniture and panel furniture where the biggest number of installed capacities is utilized cca. 80 %. The smallest utilization of machines is in the production of flooring, accesories and upholstered furniture where the situation is just the opposite in relation to production of solid wood and panel furniture. Most machines are used 0-20% of installed capacities.The biggest possibility to increase utilization of machines is in production of solid wood panels and construction joinery. In these areas, the imbalance is most obvious in utilization of capacities where significant number of machines is utilized less than 40% but approximately the same number of machines is utilized 80% or more of installed capacities. This data indicates the problem which this sector faces and for whose solution considerable financial investments are needed.

Some BiH companies (6 companies from the sample) have been certified by recognized agencies according requirements of ISO 9001:2000 standard. Only 22,2 % (6 companies) are preparing or have completed preparation for QMS certification, and 55,6% (15 companies) are not pursuing QMS

certification. Quality control is a never-ending process, which must always be improved on. There is no official EU quality standard for domestic furniture. However, the CEN, the European Committee for Standardization, published through its technical committee the CEN/TC 207. This includes some voluntary quality standards and test methods still apply in many cases. Therefore, a large majority of surveyed companies were interested in satisfying QMS according requirement of following standards: ISO 9001:2000, ISO 14001:2004, CE mark (for Construction Joinery and Wooden Toys) and Test certificates for specific products. The pecentage of companies with quality certification is higher among companies with over 100 employees than among companies with a small number of employees. In order to become internationally competitive, most of the surveyed companies need to be completely retooled and organised on an order-by order basis.
Asked to specify mainly used machines and origin of machines, more than 30% of surveyed companies answered as non-aplicable information. The technology is generally 10 up to 20 years out of date. Their most obvious disadvantages in comparation with their competitors are related to the materials used and the insufficient surface of quality of the finished products. Italian manufacturers are dominant with more one third of manufactured machines present in the sample of surveyed wood processing companies. Germany follows with one third of manufactured machines. Apart from the mentioned ones , as countries of origin of the machines found are the following: Austria, Croatia, Switzerland, Turkey, and etc. Noticeable is a great difference of machine manufacturers noted in this research. Total of more than 120 different manufacturers of machines according to data of the Consultant were recorded. SCM Group of manufacturers from Italy dominatets among manufactured machines present in wood processing industry in BiH. Besides SCM Group, also evident are Biesse Group, Weinig Group, Homag Group and machines of their own production [3].

Average working space in the companies covered in this survey is 18287,3 sqm. Average working space divided by different items is as follows:

-average production area	4493,7 sqm	-average warehousing	2083,0 sqm
-average open lumber storage	1789,2 sqm	-average raw material storage	940,0 sqm
-average other space	903,6 sqm		

Several of the surveyed compaies will have to extent their working space in order to enlarge their capacities. There are still numerous quality problems, especially in the drying of wood. Two third of the surveyed companies are have already installed kiln drying capacities. Average installed kiln drying capacity in the companies covered in this survey is cca. 320 cbm. In some cases, used a small inefficient dry kilns and boilers (no kiln drying capacity - 37%) and it has not allowed these companies to develop a new value-added products. In the sample, mostly we found companies which used conventional (automatic, semi-automatic) and vacuum system of kiln drying.
Of those surveyed, most companies identified their principal activity as final production (59,3%) or primary production integrated with their final production (37,4%). In terms of their primary business, companies are commonly involved in more than one activity. The greatest numbers of business registrations are firms doing business as home furniture producers (59,3%), construction joinery producers (29,6%), office furniture producers (22,2%), garden furniture producers (22,2%) and upholstered furniture producers (18,5%). The companies' most common products include panel furniture (40,7%), solid wood furniture (29,6%), doors (29,6%), windows (25,9%), chairs (22,2%), veneer or board products (7,4%), and etc.
Only 12 companies (44,4%) from the sample reported their sales in 2007. An average wood processing company form the sample achieved sales of EURO 3.963.777,10 in 2007. In the sample of 27 companies, 25 of them or 92,6% are presently exporting. The majority of final products are exported to Croatia (14,8%), Germany (10,2%), France (8,0%), Slovenia (8,0%), Italia (5,7%), Serbia (5,7%), Belgium (4,5%), Netherland (4,5%) with a small amount going to North Africa (Egypt and Libia). Exporting is presently confined to Western Balkan countries and EU destinations.
We asked surveyed companies to report when they start to export their products. As many as 55,6% of surveyed companies answer to start their business after 2002. In the sample 5 companies or 18,5% answer to have sales and or production facilities outside Bosnia and Herzegovina. The five surveyed companies identified the destination where they have sales or production facilities outside BiH, were as follows: Croatia, Serbia and Austria. Of the two companies surveyed have their production facilities

in Serbia. Most wood processing companies distribute their products through a company salesperson-own people (85,2%). Additionaly, some of these companies (29,6%) distribute their products through independent agents or some of them do sales through showrooms (22,2%). The most of companies from the sample (74,5%) are familiar with the export procedures, including packaging, marks, shipments, documentation's, presentations and etc.
As customer abroad found are the following: Moderna, AT4, Manuest, Holzforum Naturmőbelvertieb-Germany, Gonzaga-Slovenia, HVM Fryslan, Gabriela Bellon, Yachte, Planet Drvo, Klendo Infinisi, Kan Kom, BHB Windows, IKEA, Impaktaless, Noos, Astier de Villatte – France, Standard Furniture-Serbia, David Casuto-Netherland, Plivit Trade–Sweden, Seniorenteam -Germany, Hohmann-Jensen Germany , NEUDECK Germany, Piarottolegno Italy, Scan Produkcion - Denmark, Bosnia Beech – Sweden, many main retailers and wholesalers in neighbouring countries, trade houses and manufacturers abroad.
Only seven of the surveyed companies (25,9%) has given detailed of products which they want to export including export delivery terms (FOB loading port prices in EURO, terms and conditions, minimum volume per order, etc.). The most popular payment basis among the companies surveyed is EXW (ex works), where the buyer arranges for and pays the freight, insurance, and customs/handling charges directly. All the surveyed companies has indicated prices in EURO. 19 exporting companies specified only their proposed products. Total 26 companies specified their proposed products for export are as follows: panel-lamineted furniture (17,5%), solid wood furniture (15%), construction joinery (12,5%), upholstered furniture (10%), garden furniture (5%), wood acessories (5%), etc.
Only 3 of surveyed companies have already participated in any other sponsored European sales promotion programs. These companies were participated in the following programs: EU-EXPO 2007, GTZ-fairs and fair Interzum 2007, Cologne. Almost two third of surveyed companies (63%) have participated in trade fairs during the last 3 years. The most popular fairs among surveyed companies were as follows: Ambienta in Zagreb (44,4%), GAST in Split (25,9%), Interio in Sarajevo (25,9%) and fair in Belgrad (14,8%). Some of surveyed companies taken attendance at fairs in Cologne, Paris, Moskow and etc. These international fairs are the most popular choice. Note that there is interest for attendance at fairs in Pordanone, Milano, Skopje, Priština and Tirana. The most popular BiH fairs are Interio-Sarajevo, Mostar fair, ZEPS-Zenica and Eko-Bis in Bihać.

3. CONCLUSION

In the sample of 27 companies, 25 of them or 92,6% are currently exporting their products. There is not local cooperation or supply structures between the surveyed companies. Some of furniture producers (e.g.Konjuh) have a deep production profile: from sawmill products through to final items of furniture. In furniture industry of BiH, the market is dominated by out-of-fashion models, which can be sold cheaply. The "Bosnian Beech" product can be promoted through booth the solid wood and the veneer sectors. Beech wood is one of more relatively valuable wood species.
The findings indicate that 27 companies or 100% are interested in assistance with their export development activities. Out of the 25 exporting companies, only 10 or 40,0 % are utilizing multiple channels. Most (24 companies or 96% of exporters) are relying on their company sales staff for export development. Eight companies (32% of exporters) are using agents located abroad. To improve export success the companies in the sample must increase their use of other alternative distribution channels.
Market research indicated overwhelmingly that all wood industry companies are expected to increase export. Therefore, they will all need export assistance services of various kind. Wood processing companies in BiH need to target selected and specific market sectors. They need well designed new niche products for EU-markets using different distribution channels.

4. REFERENCES

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