

Saimaa University of Applied Sciences  
Faculty of Business Administration, Lappeenranta  
Degree Programme in International Business

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**The development and future scenarios of wooden  
furniture exportation to the EU market  
Case: Vietnam**

Thesis 2016

## **Abstract**

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The development and future scenarios of wooden furniture exportation to the EU market. Case: Vietnam, 81 pages, 1 appendix

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The objective of this thesis was to analyze the wooden furniture exportation to the EU market taking the case of Vietnam into consideration.

The theoretical framework was built up by collecting data from academic books, online articles and newspapers as well as precedent research. The theory of exportation and analysis tools were the focus. Empirical data was collected by qualitative research, mostly through a personal interview with the Vice Chairman of Vietnam Timber and Forest Product Association (Vietforest). The thesis also used quantitative data provided by the Vietnam Administration of Forestry (VNFOREST) and secondary data was gathered from reliable Internet sources.

The results of the study show that the Vietnamese wooden furniture industry has had huge potential in exporting to the EU market. However, due to certain factors, Vietnam has not been able to take all possible opportunities. Therefore, it is very important to have both short-term and long-term strategies to support Vietnam's better performance in the future.

Keywords: export, wooden furniture, global trade

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# 1 Introduction

As a result of globalization, forest products industry has been opened up for global trade. Nowadays, forest products trade already plays a vital role in the world's economy. However, the trade brings not only benefits for economy but also for society.

The high demand for forest product trade has brought both challenges and opportunities to the emerging and developing countries that possess the most valuable and potential forest resources. Among those developing countries, Vietnam has secured a high position as an outsourcing and exporting country. Recently, Vietnam's biggest trade partner in exporting forest products has been the EU. According to FLEGT (Forest Law Enforcement, Governance and Trade) Asia Regional Office, Vietnamese forest product exportation to the EU has experienced a steady growth over the past nine years (FLEGT 2011). In fact, wooden furniture accounted for 78% to 88% of Vietnam's total forest products exported to the EU from 2000 to 2008 (FLEGT 2011). In a Final report submitted to the European Commission about 'The future market situation and a possible furniture product initiative', the authors put Vietnam in the top 10 exporting countries with export value increased from €761 million in 2003 to €3494 million in 2012 (Centre for European Policy Studies 2011). The furniture exported from Vietnam is mainly wooden furniture. In 2005, 88.5% of wooden products exported from Vietnam was wooden furniture (FSIV 2009).

Although the Vietnamese wooden furniture exportation situation seems to be very potential and promising, there are still many drawbacks concerning local legal issues, international regulations and laws and sustainable issues for example. As a result, it deserves more attention and concentration.

This thesis aims at analyzing the current status of wooden furniture exportation from Vietnam to the EU market. Analyses are conducted from different approaches such as the wooden furniture industry, forest management and production, internal and external legal issues. Different analysis tools are used effectively and flexibly. At the end of the thesis, the author's subjective opinions and suggestions are given as well.

## **1.1 Purpose and objective**

The main purpose of the thesis is to give an overview of the wooden furniture exportation situation between Vietnam and major EU countries. In order to do that, the author analyzes the main trends based on real statistics and reports provided and supported by the Vietnam Administration of Forestry as well as a mini research conducted through an interview. Additionally, some of the author's opinions on the reasons for the situation are analyzed as well. Those reasons are the very first premise of giving useful recommendations for future changes.

The results from this study are helpful for those who want to make an investment in the wooden furniture industry and wooden furniture export between Vietnam and the EU. Also, the thesis is a constructive reference for economists, researchers, and for further market or economic analyses and researches.

## **1.2 Research question**

The analyses included in this thesis base on one main research question, which is: What are the development and future scenarios for wooden furniture exportation from Vietnam to the EU?

In order to answer the main research question, there are four sub-questions as follows:

**What is the situation in Vietnam's target exporting market, the EU wooden furniture market?**

This question is aimed to carefully study the demand in the EU market, level of competition, and other relative aspects which are considered to have a vital impact on the importation into the market. In order to answer the question, PESTEL and Porter 5 Forces analysis were used.

**What is the basic context of the Vietnamese wooden furniture industry?**

The question defines the origin of wooden furniture in Vietnam and provides a deeper look into management activities by the Vietnamese government concerning plantation of forests and wooden furniture production.

## **What is the competitive advantage of a Vietnamese wooden furniture industry in the EU market?**

The question analyzes the competitive advantages of the Vietnamese wooden furniture industry compared to other potential markets using 5P's analysis as an analysis tool.

## **What is the situation for wooden furniture exportation from Vietnam to the EU?**

This question is aimed to study trends in the Vietnamese wooden furniture exportation to the EU and analyze the main reasons for those trends. SWOT analysis was applied for professional measurement.

### **1.3 Research method**

Qualitative methods and quantitative data are used in the study. Quantitative data is accessed by using existing research, data and statistics provided by the Vietnam Administration of Forestry. Although the Vietnam Administration of Forestry does not use any statistics systems, they do have a data storage department which allows controlled access for researchers.

The main method used in this research is the qualitative method, using grounded theory and based on empirical data. Data is coded using open coding in order to form many different categories. The thesis uses observation and interview to access qualitative data. First observations were already made by the author during professional training with the Vietnam Administration of Forestry. All information and statistics which are supposed to support the thesis are collected and accepted to be used for this thesis. Second, a semi-structured interview is conducted by the author with Mr. Nguyen Ton Quyen - Vice Chairman of the Vietnam Timber and Forest Product Association (Vietforest) via email. In addition, the Vietnam Administration of Forestry is able to support the thesis as long as the author accepts the required conditions for information security.

This thesis does not include any specific case company. However, Vietnam is considered as the case. The main purpose is to understand and interpret the case

deeply by investigating a contemporary phenomenon within a real-life context using multiple sources of evidence.

#### **1.4 Delimitation**

Firstly, the study includes real statistics, documents (mostly past and present ones) and the author's entire analysis which bases on those references. It also bases on some business export and purchasing theories as well as analysis theories such as PESTEL, SWOT, Porter's 5 Forces and 5P's.

Secondly, in both the theory and empirical part, the scope is limited to exporting only. However, in order to specify the topic, only special terms of exportation between Vietnam and the EU are studied, general and basic features of exportation such as normal steps in the process or regular documents are eliminated. The subjects studied in this thesis consisted of wooden furniture products (HS9403) (excluding parts or spares), especially wooden office furniture (HS940330), wooden kitchen furniture (HS940340), and wooden bedroom furniture (HS940350).

Lastly, the study does not include official national future strategies or some secured documents for competitive purposes.

## **2 Exportation**

According to Pamela J. Smith (2014, p.3-5), foreign trade (or international trade) can be defined as 'a flow of good, service and factor of production'. Trading is a result of redundancy. The simplest case of it is when surplus in products is exchanged for benefits. However, nowadays, international trade has become vital term in the world economy and it is not as simple as surplus exchange but it becomes a result of comparative advantages. On the other hand, when it comes to the term 'absolute advantages', it is still better for a country to trade as it can avoid troubles from resources constraint. When two or multiple countries take part in trade, they are able to gain benefits. The most obvious gain is lower prices and costs, higher outputs and consumption which will improve economic welfare. (Smith 2014, p.3-5.)



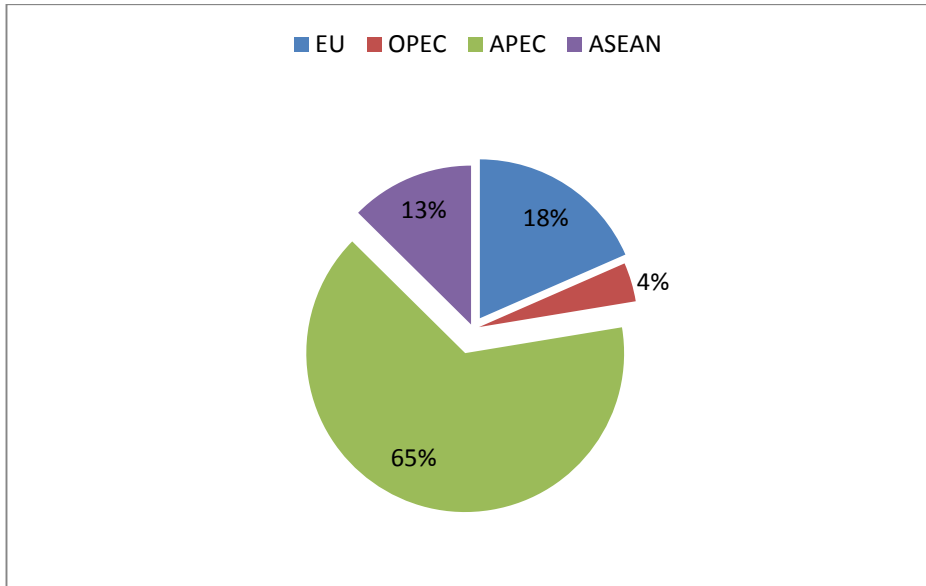
Along with the growth of modern life followed by huge improvements and accomplishments in technology, international trade has become even more popular. Asia and the EU are always the most active and potential regions concerning international trade. In 2011, over 40% of the EU's imports came from Asian countries (Eurostat 2013), which made Asia a very important partner of the EU.

International trade involves two concepts, import and export. In the context of the Vietnamese wooden furniture, the thesis focuses on export.

## **2.1 General features of exportation**

When the amount of goods or service supply in the domestic market has surplus in comparison with demand, a country can think about export (Ghauri & Cateora 2004). Generally, export refers to the exchange of goods and services from the domestic market to an international market. Export is a common approach in a mature developed economy. However, export regulations are usually imposed to control the use of scarce goods in home consumption or to protect domestic strategic goods from potential competitors (Ghauri & Cateora 2004).

In Vietnam, the export industry has expanded dramatically recently. One of the biggest importers from Vietnam are EU countries. According to The General Statistic Office of Vietnam, EU countries accounted for 18.6% of the total Vietnamese export turnover and became the second biggest importing region (General Statistic Office of Vietnam 2014) as shown in Graph 1.



Graph 1. Vietnam's Export Turnover by country group in 2014 (General Statistic Office of Vietnam 2014)

There are many reasons to prove that the exportation from Vietnam to the EU is very important for both the Vietnamese and EU economy. In fact, recent actions raised from each party (Free Trade Agreement as an example) have showed a common interest in future collaboration. Vietnam is interested in less risky trade when trading with a sustainable and strong economy such as the EU economy. Additionally, the independence of the EU economy can reduce the dependence of Vietnam on bigger economies in the same region. The EU, conversely, sees Vietnam as a very potential partner with low labor cost, high domestic growth and youthful demographic. As a result, exportation from Vietnam to the EU is very potential trade.

Commonly, the exportation from Vietnam to the EU market follows all basic patterns of a regular export process such as the steps taken or documents used. Nonetheless, there are still special features concerning this specific case.

## **2.2 Wooden furniture exportation from Vietnam to the EU – some special aspects**

According to the delimitation of this thesis, this part concentrates on clarifying some special aspects concerning the export from Vietnam and import into the EU such as rules, regulations and policies and documents required. However, those

aspects which are more relative to the wooden furniture industry will be given more attention in the analyzing part later in this thesis.

A decree named 33/CP was promulgated on 19<sup>th</sup> April 1994 in Hanoi, Vietnam. The Decree was signed by Mr. Pham Van Khai-Vietnam's Prime Minister from 1997 to 2006. The purpose was to clarify the role of state management in export and import. The decree includes six Articles in total, which offer very detailed and comprehensive regulations for importing and exporting. First, every export activity needs to follow all export management rules and product flow rules provided by the government as well as to follow international agreements and respect the autonomy of business. Second, all export activities are regulated by tariffs in accordance with the Law on Export Tariffs. The export process in Vietnam requires a license from the Ministry of Trade following very strict and detailed regulations. The two businesses which will be legally accepted for a license include businesses specializing in export and businesses conducting manufacturing. Those businesses which obtain a license will be responsible for tariffs.

Additionally, Vietnam government has some promotion policies to encourage export activities. For example, a product or service that is not eligible for an export license provided by the government will still be taken into consideration in case the export activities ensure undeniable benefits. Promotion policies for export activities focus on improving equipment and technology in manufacturing and developing new export products. All export activities flow under the control of the Ministry of Trade in collaboration with other relevant agencies, departments and unions. The Decree is applied for non-government companies and organizations and not applied for government companies or organizations under Export Processing Zone. (Vietnam Ministry of Justice 1994.)

The EU is a very potential yet discerning market which has very high requirements for imported products. Therefore, there are many requirements and rules regarding import, which need to be considered before entering the market. In fact, the EU sets up a strict system of regulations for importing; however, in the limitation of this thesis, just some of them will be discussed. The first remarkable regulation is the tariff system which applied mostly for non-government

companies, private companies or organizations. The EU also has regulations concerning the non-tariff zone in Vietnam. According to Law No. 45/2005/QH11 ratified by the Vietnam National Assembly in 2005, the non-tariff zone in Vietnam is set up under the decision of Prime Minister and refers to a defined area specializing on manufacturing and export, import activities. Commonly, products from a non-tariff zone will not be charged export tariff (Vietnam National Assembly 2005).

Basically, the EU requirements involve standards on quality; social, environmental, health and safety issues; as well as standards on packaging and labeling. Firstly, the most common quality standards used are based on CEN/TC2007, ISO system and Directive 92/59/CE. Those concepts will be discussed further concerning wooden furniture products later in this thesis. In terms of social, environmental, health and safety issues, the EU controls the origin of the products strictly by the FSC (Forest Stewardship Council) label. The products with a FSC label will have a competitive advantage. In addition, the EU considers sustainability, for labor and health issues, as a very important part of the final products. Child labor and the working environment are two of the most considerable issues. Lastly, the EU also sets their high expectation on product labelling and packaging. The 94/62/EC on Packaging and Packaging Waste is applied. The main expectations are for reusable and non-toxic packaging materials; effectiveness in logistics; and clear label, code, specification. (ECVN). Although the EU has a very comprehensive system of control, each EU country still has some other documents and procedures needed to be fulfilled. However, this thesis will not include those specific aspects.

The EU-Vietnam FTA (Free Trade Agreement) ratified in 2015 now eliminates almost all tariff barriers between Vietnam and the EU. Wooden furniture is one of those products which now go under the scope of this agreement. As a result, the export tariff between Vietnam and the EU regarding wooden furniture is supposed to be zero. (European Commission 2015.)

### **3 Analysis and analysis tools**

Some main tools of analysis, which are market analysis, SWOT analysis, PESTEL analysis, Porter's Five Forces analysis and 5 P's analysis, are used in order to support and answer the main research question. Therefore, the reasons of choice, definitions, and how to approach those tools need to be clarified for a better understanding.

The main purpose of this thesis is not only reporting the current statistics and data about wooden furniture exportation from Vietnam to EU countries, but also about giving particular reference for a future exporter and investigator. As a result, analysis tools are needed in evaluating market performance and customer value as well as identifying possible trends, future shifts, market concentration or market risks (Kuada 2008, p.83-84).

#### **3.1 Market analysis**

From the perspective of an exporter, market analysis is vital. According to John Kuada (2008, p.83-84), market analysis aims at supporting to customer-orientation. Simply, the need for market analysis starts from the need for the most customer-oriented strategies. After market analysis, a better understanding of customers' behavior, demand, expectations and values will be revealed. Market analysis will be useful especially when there is a requirement for a deeper look into a specific and defined market. Additionally, a good market analysis will play a role in good decision making and vision setting for successful investment. The information for market analysis usually includes secondary or primary data. The secondary data from official and public sources are easy to access but are not very valuable. Another way to access good information is collecting qualitative or quantitative data through qualitative and quantitative research. Information gained during the research is very valuable. However, conducting a research takes time and effort. (Kuada 2008, p.83-84.)

The EU market is a complicated and very challenging market to analyze and predict as the market size is huge with variable demands and plenty of competitors as well as a high level of value. However, the market is quite stable

and sustainable. In order to analyze the EU market, PESTEL analysis and Porter's Five Forces analysis might bring a deeper and wider look.

### **3.2 PESTEL analysis**

PESTEL analysis will be used as an effective support for Porter's Five Forces analysis and its results will be used in combination with Porter's Five Forces analysis.

As the target market in this thesis is the EU, PESTEL analysis will be done in the context of the EU market. PESTEL analysis which stands for Politic-Economy-Society-Technology-Environment-Legal could contain both positive and negative effects on a business. Hence, analyzing them will be helpful for those who want to enter a new market.

Political behavior is activity which influences the political power and changes the social order. The activity can be activated by government, social activists, interest groups or terrorist groups for example (McKellar 2012). Every business activity is operated under the control of political authority especially in developing countries where the political authority is not stable compared to developed countries. Additionally, the political aspect is considerably important for customers (McKellar 2012). Indeed, political issues become very challenging for international trade. In the field of exportation, considerable political issues are those which affect the exporter's engagement and control resulting from government-led initiatives to control domestic unrest or conflict. They might include international tension, domestic unrest, terrorism, bureaucratic morass or ethical criticism (McKellar 2012), domestic authority shift, foreign trade policy or laws. Exportation from a developing country such as Vietnam to the EU region should consider political aspects either in the common area or relating to a specific importing partner or country.

Business and economy have a strong connection as business is a part of the economy. Hence, analyzing an economy before doing business is vital. Economy is normally divided into macro economy and micro economy. Both elements have special impacts on exportation. Important elements involve economic growth, Gross Regional Product index, interest rate, exchange rate, inflation, business

and customers' income. By analyzing those elements, the strength and stability of the economy as well as level of demand in the region will be exposed. Consequently, exporter could consider the best time and strategies before entering market.

Society drives the behaviors and attitude of people. In developed countries and regions, social value and social responsibility become very important. There are some vital social aspects which an exporter needs to take into consideration. Among them, culture and culture differences are the most challenging barriers. Culture which refers to values, assumptions, beliefs, behavior, norms, routines, for example, has a direct effect on customers and their purchasing decision (Adekola & Sergi 2007, p.164-166). By understanding the culture, the differences can be reduced through learning, adapting and sharing value. Moreover, a better understanding of population growth, age and health, for example, is useful for identifying customer behavior, attitudes or market demand.

The EU is a technological region. Analyzing technology used in the EU furniture industry provides an exporter with a better understanding and preparation before entering the market. The huge gap in technology between the EU and Vietnam is a problem for a Vietnamese exporter. At this point, if Vietnamese exporters are aware of the weakness, they could choose to minimize the gap or focus on other advantages for a better performance. The technologies used in production, distribution and communication are three typical and major types. A market with high technology and technology innovation requires a partner with flexible adaption and change management. Technology transferring is also considerable.

The EU is a leading region concerning environmental protection. In fact, the EU is not only concerned about the internal environment but also the environmental activities of the partner. According to Belcham (2015, p. 4), there are two categories of environment which might set an impact on the business: resource and pollution. Resource refers to natural or non-natural resources or raw material used in manufacturing or production processes. From the perspective of an exporter, potential demand might lie under the scarcity in resources in the target market. On the other hand, pollution or the pollution targets of a target market decides the level of its concerns towards environmental prevention. The EU

market requires an ethical and sustainable exporter as the government sets up a strong system of laws and regulations concerning environmental issues. An example for the EU's attempts on controlling and supporting the partner in environmental issues is EUFLEGT (EU- Forest Law Enforcement, Governance and Trade) Action Plan (European Forest Institute 2014). The Action Plan shows the EU's effort in proscribing illegal timber products and supporting timber from legal and responsibly managed forests.

The last element, which concerns legal issues, is also a most considerable element in exporting. In order to protect the transparency and sustainability of the market, the EU sets a system of laws and regulations on the product and product holder (exporter). Legal issues and legal responsibility ensure equity in transactions. In fact, besides tariffs, the EU has regulations on health and safety, advertising standards, consumer rights, product labeling and safety. Also anti-dumping and other safe guards are applicable as well. (European Commission 2016.) Every business activity needs to be conducted legally. As a result, analyzing the EU legal system and remarking the notable features of the EU legal system will support the operation of a Vietnamese exporter.

Indeed, each element of PESTEL analysis plays a different role in providing a profound look into the target market (EU market). Hence, it becomes supportive tools for SWOT analysis, Porter's Five Forces analysis and further relative researches.

### **3.3 Porter's Five Forces analysis**

Porter's 5 Forces analysis (see Figure 1) is a fundamental tool for analyzing the level of competitiveness in the market. The purpose of 5 Forces does not only support the broad and comprehensive market analysis but also market orientation and a company's adjustment. Three basic elements in the market which are price, cost and investment, are affected deeply by those five forces. Five Competitive Forces include the threat of entry, the buyer power, the supplier power, the threat of substitution and the rivalry. (Porter 1985, p.4-9.)



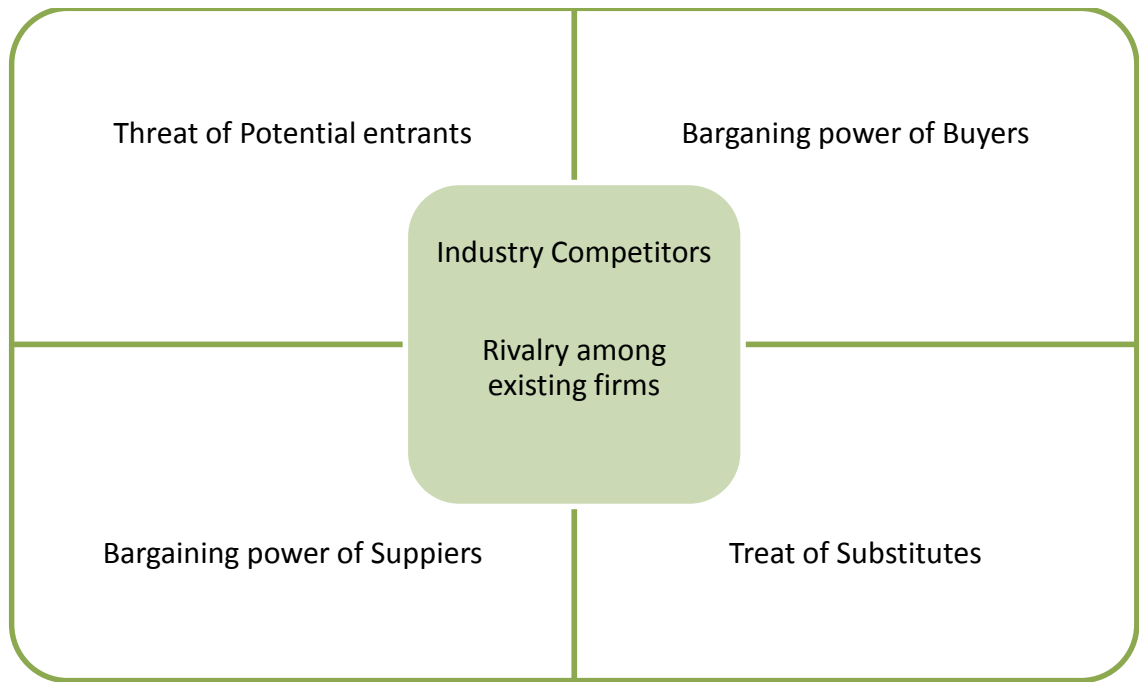


Figure 1. The Five Competitive Forces (Porter 1985)

The five forces drive the level of competition in the market. As a result, analyzing them enables outsiders to see through the extent of competition inside the market.

First of all, the threat of new entrants refers to potential competitors outside the market who intend to enter the market. The extent in which the market is easy or difficult to enter is defined by the barrier to entry (Johnson & Scholes & Whittington 2009, p.30-35). High barriers ensure the safety for existing partners in the market. Conversely, low barriers offer opportunities for new entrants. If an exporter enters a country which has a large scale economy or production, it is vital to prepare huge investments in the product or to have good exporting experiences because the competitors in the market are those who already have very good sales and experiences resulting in cost advantage. In order to analyze the scale of economy, economical element (in PESTEL analysis) might be supportive. Another barrier is the ability to find a supply and distribution channel. If it is too difficult to find a distribution channel when exporters are in charge of distribution, this might cause a serious problem. Additionally, the extent of aggressiveness inside the market is also a critical element as it could lead to a price war. Legislations and government actions set for protecting internal parties

should be taken into consideration as well. In a market which has strict legislations and rules, new entrants will face difficulties when entering. (Johnson & Scholes & Whittington 2009, p. 30-35.) The analysis of Legal and Political (two elements in PESTEL analysis) will be useful when studying this area. Moreover, the differentiation of the product also decides whether the new entrant could easily or difficultly enter. Unless the new entrants offer notable differentiation compared to existing presenters, they might not be able to enter easily. The threat of entrants affects the decision on pricing and investment needed (Porter 1985, p.4-9).

Secondly, the force of substitution plays an undeniable role in driving a market. Substitutes are products which offer the same profits and present the same purposes but contain differentiation (Johnson & Scholes & Whittington 2009, p.30-35). The most remarkable substitutes are those that have competitive advantage in price or performance. However, low price does not ensure competitive advantage as quality does matter. Customers, especially intelligent customers, could always value the quality over the price. Another type of possible substitutes are those outside of the new entrants' industry. Indeed, more threat of substitution means less attractiveness of the market. Mostly, the level of substitution has an effect on the price of product. (Porter 1985, p.4-9.)

Thirdly, the power of the buyer represents the extent in which the buyer could or could not decide and affect the business activities and profits. Reasons for the increase in the buyer's power are the large group of buyers, the ease in switching from one exporter into another and the ability of self-supply. If the buyers are a powerful group and they create a community which is strongly connected, they will probably have a voice in 'squeezing' the providers. Another case is when buyers have too many choices and they could easily change their mind of where to buy. Additionally, ability for self-supply is also a threat. If buyers have facilities to produce the product themselves, they will have an ability to 'squeeze' the price. (Johnson & Scholes & Whittington 2009, p.30-35.) However, the power of the buyer is not only presented by the mentioned elements, but it is also presented by the way how buyers evaluate themselves. Most of the time, customer intelligence makes buyers more aware of their position in the value chain even if

the extent of the awareness could differ through countries or regions. As a result, an analysis of Social aspect (in PESTEL analysis) could be made in order to find out how many EU customers know about their value and use their power in the purchasing process. According to Porter (1985, p.4-9), the power of the buyer affects all of three important features which are price, cost and investment as high powerful customers require not only a good price but also costly extra service.

Along with the power of the buyer, the power of the supplier is also an important element. The supplier is the party who supplies firms with products or services (Johnson & Scholes & Whittington 2009, p.30-35) including manufactures, human resource suppliers and logistic suppliers for example. The nature of exportation does not allow exporters to have suppliers in the target market as these suppliers could directly access raw materials and produce the product in their countries at a cheaper cost. However, Vietnamese exporters still import typical European types of material from the EU for production and use agencies or logistic companies for trading activities. The power will be raised due to a small number of suppliers or high cost, or difficulties in switching among them. Obviously, the power of the supplier has a strong effect on the cost (Porter 1985, p.4-9).

Finally, competitive rivalry is also a crucial element. If new entrants refer to competitors outside the market, then competitive rivals refer to existing competitors inside the market who provide the same product for the same customer group. The size of competitors and their shares in the market are very important as if the competitors make extensive business, they tend to dominate all the market and create a high level of competitiveness. The strength of the market or the economy is also important. A company can be up or down in the market and so can be the exporters. If there is a downfall in the market or the economy, this could lead to a high level of price competition when all businesses want to lower the price to survive without caring about the profit at all. An economic element in PESTEL analysis needs to be done in order to provide an overview of the EU economy. The wooden furniture industry, which implies a high fixed cost industry, might easily face a rise of a price war. As a high fixed cost industry requires huge investments, internal competitors will try to reduce the cost

and lower the price. The continuousness of those actions could be a reason for a price war. Another aspect of a high level of competitive rivalry are the difficulties when exiting the market. Those difficulties usually rise from huge investments into the market or regulations for exiting. Furthermore, differentiation is also very challenging. One exporter that is able to provide better quality or innovative products could be very competitive. (Johnson & Scholes & Whittington 2009, p.30-35.) The main differentiation in technology (Technology as one element of PESTEL analysis) is the key. Hence, technology should be analyzed for defining the competitiveness. Competitive rivalry affects both the price and the cost of competing such as advertising costs and production development costs, etc. (Porter 1985, p.4-9.)

### **3.4 Competitive advantage analysis**

One of the most vital elements when it comes to evaluating a company or an industry is competitive advantage analysis. Competitive advantages need to be perceived by the parties which involve in trading. The benefit of competitive advantage analysis is the ability to conceive and measure a company's or an industry's position in the market in order to create future plans or decisions.

As the objective of this thesis is to analyze the current scenery of wood furniture exportation from Vietnam to the EU, it would be useful to analyze the competitive advantages of the Vietnamese wooden furniture industry. Obviously, along with PESTEL analysis and Porter's Five Forces analysis, competitive advantage analysis will play an essential role in supporting SWOT analysis later in this thesis.

Ruskin Brown (2006, p.58) assumed that there are two main ways to create competitive advantages which are cost leadership and distinctive competence. Cost leadership refers to effective money-spending on materials, production and service for example. The result of effective money-spending reflects on the final price of a product, whether the price is or is not reasonable compared to competitors' price. On the other hand, distinctive competence refers to innovation, promptly responsiveness and improvement.

A marketing mix 5P's (see Figure 2) is created to analyze the competitive advantage. The 5 P's mix involves five elements, which are position, product, place, promotion, and price. Those elements sufficiently cover all the aspects of practical competitive advantage. (Brown 2006.)

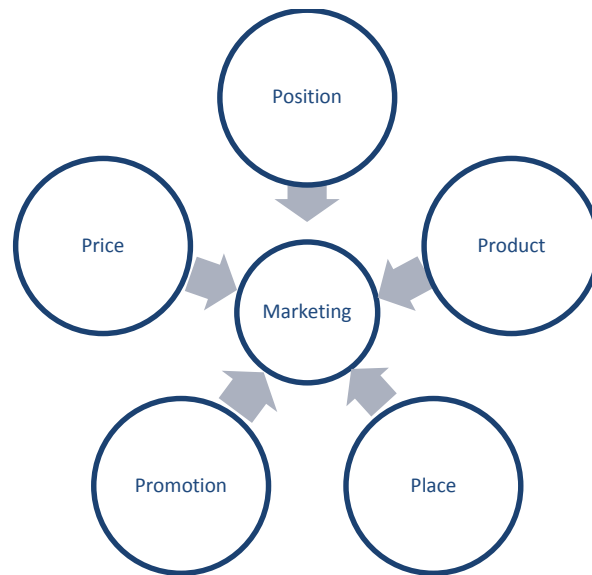


Figure 2. Marketing Mix 5P's

First of all, positioning is in charge of clarifying and identifying customers (Brown 2006, p.70). In case an exporting country wants to export to a region, it would be important to focus on more potential and specific countries. Preferentially, the exporting country designs special types of products for relevant countries to gain effectiveness and a good reputation. The two steps in positioning are segmentation and targeting. Segmentation is about defining the target group and positioning means to 'align product benefits with customer needs'. Normally, in order to segment the market, customers are divided into homogeneous groups based on their purchasing power, purpose of usage and cognitive ability for example. (Brown 2006, p.70-76.) From the exporter's perspective, it is very important to define which markets are most interested in which types of products and why. This process could be done by finding out the import value of respective product types. Along with defining the market demand, considering the competitors to define market leaders and a gap in the market is vital as well. Information regarding the best exporters in the market, their interests, potential, and weaknesses is very useful. Obviously, understanding one's own strengths

and potentials are, at the same time, very valuable. Figure 3 below shows those steps.

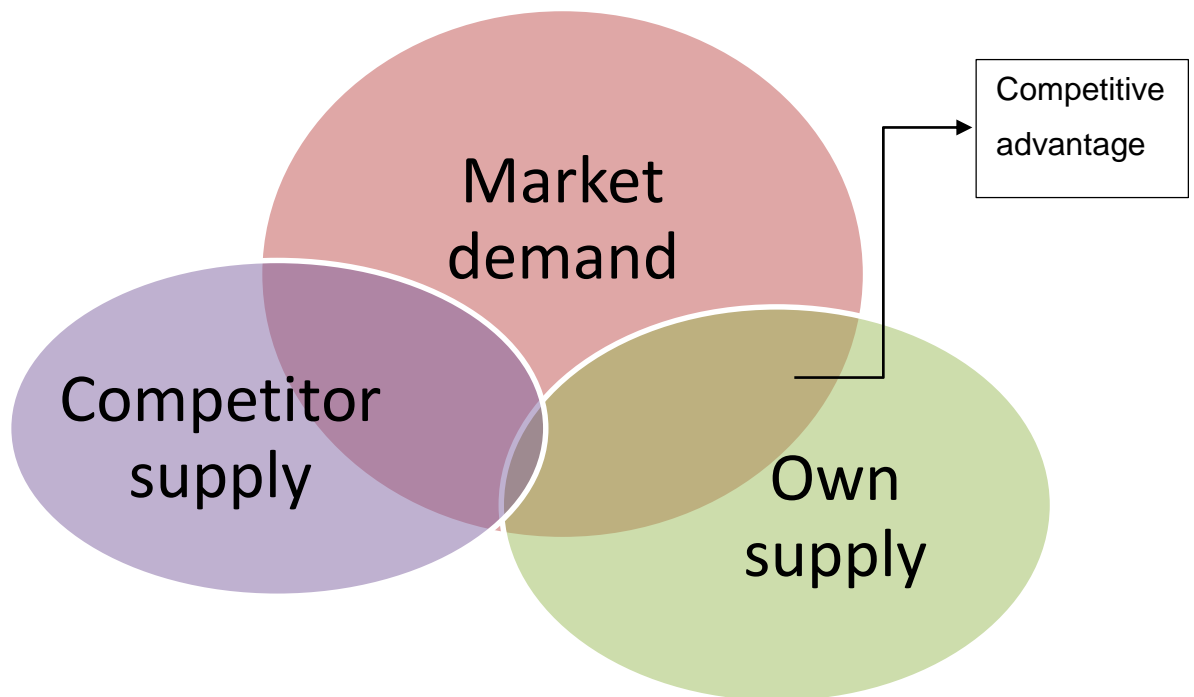


Figure 3. Market segmentation (Brown 2006)

The common area where market demand, company's supply and competitive advantage excluding competitor supply overlap is the target market. After segmentation, targeting on the market helps to concentrate on product offering and further operational plans.

The second 'P' element is product. Nowadays, product is no longer just a simple good which is offered by a supplier to fulfill the need of a customer. It can be the service going with the product that might matter. According to Levitt, the concept of product could be divided into smaller slices as shown in Figure 4 below.

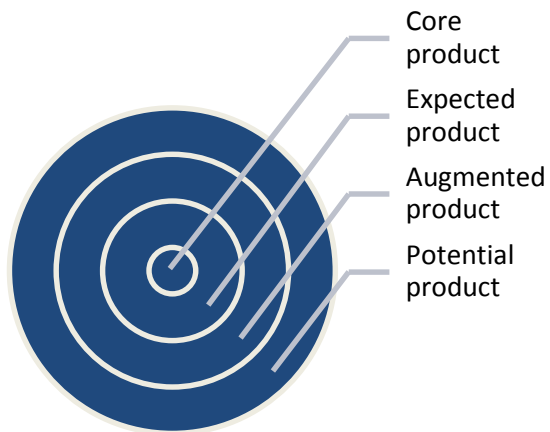


Figure 4. The Levitt construct (Levitt 1980)

According to Levitt (1980), the product presents a different level of features, which are considered as competitive advantages. The core or 'generic', which occupies 70% of what the company does to bring out the final product, is usually invisible for the customer as this term mostly refers to the production or operational process. In other words, 'generic' is what customers suppose to always be there without consideration. Conventionally, customers will not pay attention to it until the quality is troublesome. Therefore, the basic benefits of the core product are usually taken for granted. On the other hand, 'expected product' refers to the part where customers start to judge the product. The customers care about the quality of material, the design, flexibility or convenience of the product. The product at least needs to be at an acceptable level. 'Augmented product' is the part which is considered to assign competitive advantages. While 'expected product' is the expectation of customers placed on the product at an acceptable level, 'augmented product', however, presents innovation or better unique benefits of the product. For example, customers can be attracted by special features customized for special markets. The only difference between 'augmented product' and 'expected product' is experience and time. 'Augmented product' could easily turn into 'expected product' in a short period of time when the customers become used to new innovative features. Hence, 'potential product' appears with the aim to secure a continuous competitive advantage of the product. Easier payments or customizing for example could be a strategy for 'potential product'. (Brown 2006, p.106-111.) From the exporter's perspective, analyzing their own product is to examine whether those four levels of product

are combined completely into one product or not; and if not, which levels are included and which levels are still missing.

The third 'P' element which refers to Place represents distribution. Basically, the questions raised are what the distribution channel is and how to manage it. According to Brown (2006, p.116-132), there are three dimensions needed to be considered when it comes to distribution. Those are environmental dimension, structural dimension and behavioral dimension. Environmental dimension refers to the tools, techniques and frameworks which are used in the distribution channel. The environment of the distribution channel includes geographic, political, legal, economic, environmental and social issues. In order to define the competitive position of a product, analyzing those issues can be done. If the environment of the distribution channel is simple and convenient, it could be very important competitive advantage. Another very important dimension is structure. Structural dimension refers to whether a distribution channel needs or does not need intermediaries and how many intermediaries are needed. As the nature of exportation is operating outside the country, a complicated structure with a long distribution channel and the involvement of both national and regional distributors are required. The competitive advantage of a product might lay on the simple and cost-saving structure. Furthermore, distribution channel management (or behavioral dimension) is what creates competitive advantage for a product as well. The best way to be more effective is to eliminate the intermediaries from the distribution channel. In this case, skills of leadership in controlling and harmonizing the atmosphere among those parties is decisive.

The fourth 'P' which stands for promotion is all about marketing communication. The term of marketing communication aims at drawing attention and supporting post-purchase (Brown 2006, p.136). In fact, promotion helps to provide information needed in educating, persuading and informing about new product. The role of promotion in reinforcing purchase decisions by ensuring post-purchase support is crucial in business. A company may choose to outsource the advertising part by using advertising agencies. However, there are still drawbacks that might mislead or over-interfere with the customer's purchasing decision. Two of most common mistakes in advertising are over-promising and high expectation



on changing a customer's prejudice on the product. Indeed, promotion is more about reinforcing than creating image (Brown 2006, p.136-143). Good image is created by time and experience. In international business, the challenges in language, culture, comprehension and so on can make a huge barrier. Moreover, the cost in hiring advertising agencies is also considerable.

The last 'P' in the marketing mix is price, which can give huge competitive advantage if the exporter understands the basics features of the pricing process. Price has ability to drive customer behaviors. At a certain level, it is also the indicator of product value. There are four main features when it comes to product price, which are the cost, the competition, the standard markup of profit margin and the value for customer. First, pricing is about cost plus. In other words, the easiest way to do pricing is to add all the costs. It is very understandable and reasonable. The true cost of a product comprises material cost, labor cost, and other direct and indirect costs such as head office, training courses, human resources, legal terms and R&D. Understanding cost plus as a way to do pricing is understanding those main elements which create the cost. In order to define or create competitive advantages, eliminating cost is a possible solution. However, pricing is not as simple as cost plus. A product could end up unprofitable if the price is not flexible enough to adapt to variable market changes. Moreover, a cost plus price has no influence on customer behavior. (Brown 2006.) As a result, the pricing process should consider the product life cycle. The product life cycle normally includes five stages which are Introduction, Growth, Maturity, Saturation and Decline, as illustrated in Figure 5 below. (Brown 2006, p.168-194.)

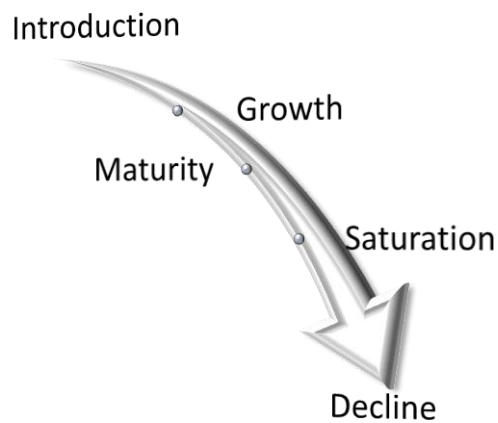


Figure 5. Stages of product life cycle (Brown 2006)

Pricing in each stages of product life is different as it needs to consider investment and competition. 'Skimming' is a common way to do pricing. In order to keep competitive advantage, the exporter sets a high price at the beginning of the product life cycle and lowers the price during the time. Another way to pricing is to set a medium price and keep it through all stages of the product life cycle. Hence, the beginning price should be as unattractive for competitors as possible. Pricing based on product life cycle requires regular attention to competitors' responds to market shares. Nowadays, pricing based on product value is more and more popular. Value based pricing is leaned on the customer's perception of product value (Brown 2006, p.168-194.) How much the customer is willing to pay for the product and how they see the value of the product are two critical questions. Some customers even see the price as an indicator of quality. In that case, price will not become competitive advantage unless the price setter understands the customers' value.

### **3.5 SWOT analysis**

SWOT, which stands for Strength-Weakness-Opportunity-Threat, is a very popular and useful analysis tool. SWOT becomes a very effective analysis tool as it can cover both internal and external elements in a present and for the future. The purpose of SWOT is to analyze the situation and also to offer a solution.

Hence, it is suitable in the case of Vietnamese wooden furniture exportation. The Figure 6 provides a better view of SWOT.

Internal aspects	STRENGTH	WEAKNESS	History, Present elements
External aspects	OPPORTUNITY	THREAT	Future elements
	Positive	Negative	

Figure 6. SWOT analysis (Blake & Wijetilaka 2015)

Strength refers to key advantages. In order to define the strength, the true values and the differences need to be defined first. True value of a business or an industry is usually measured by customers. In order to measure the true value, customer takes the experience; asset; product quality and price; and rules of thumbs of the industry into consideration. (Blake & Wijetilaka 2015.) Recently, the value of sustainability as well as innovation has become remarkable as well. In fact, the true value of an industry can be created and combined from many different elements. However, the key is that those values should be suitable and should satisfy the target customers. Another element which creates strength are the differences. The difference is a competitive element which is helpful especially in customer orientation. A customer may choose a company among many others because the company presents positive differences. Considering that, the strength of an exporting country could be defined as their notable value and competitive differences compared to other exporting countries. The elements which should be reviewed are pricing, costs, quality, people, services, reputation, processes and infrastructure (Blake & Wijetilaka 2015).

Weakness, conversely, results from disadvantages. Value which a country does not have compared to other countries or negative differences, are factors that determine the weakness of a country in terms of exporting. For a developing country, weakness usually results from low-quality products and non-effective technologies and transportation, labor force with low-level qualifications and bureaucracy for example. (Blake & Wijetilaka 2015.)

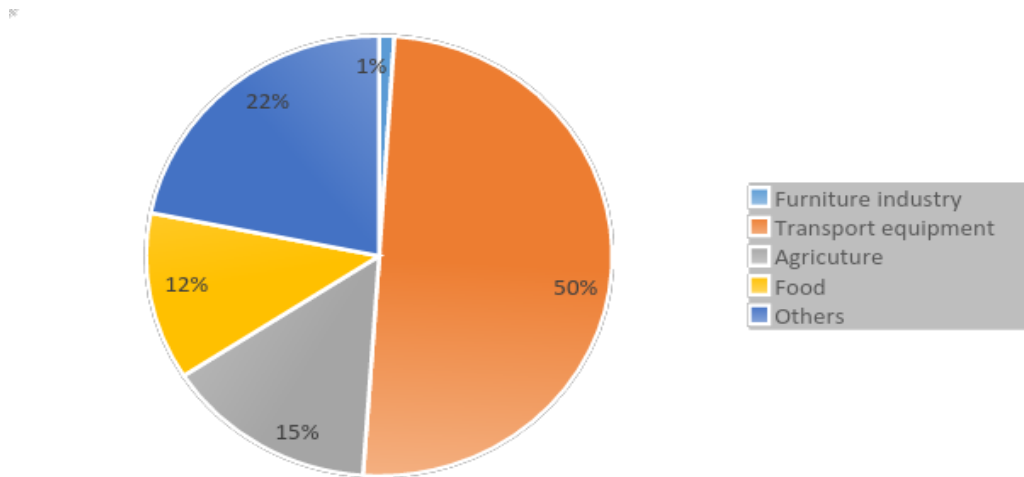
In terms of exportation, while strength concerns the key advantages of the exporter or exporting country, opportunity mostly refers to the potential and relevant features of the target importing market. In order to define the opportunity, it is vital to consider notable features of the importing market and its suitability for an exporter. According to Kuada (2008, p.83-84), the opportunity from a market is based on market size, market demand, market segmentation, competition in the market and industry in the market. A large scale market ensures better profit margin and huge demand. Demand analysis divides demand into three types, which are incipient demand, latent demand and current demand (Toyne & Walter 1989). Incipient demand represents a possible future demand, while latent demand refers to demand which is not yet discovered and finally, current demand, as it is named, refers to obvious and present demand. By dividing and researching the three types of demand, an insight into the nature of the market is gained. Along with the demand, market segmentation also decides the opportunity as it provides information on the most potential target market to serve. The opportunity should be analyzed based on the trend in growth and level of domination (Kuada, 2008, p.83-84). Finally, the level of competition within the industry in the target market determines the opportunity as well. It is not only about competitors in the exactly same field of business, but it also refers to generic competition, product level and brand level (Kuada 2008, p.83-84).

Threat is defined in the context of the target market. Threats in a market may come from high level of competitiveness, political issues or management activities outside the domestic market (Kuada 2008, p.83-84). The level of competitiveness can probably be analyzed in the same way as mentioned in the opportunity part. However, political threat, which refers to rules, regulations and other political initiatives on reducing import, needs to be studied carefully.

#### **4 World's wooden furniture industry and global trade**

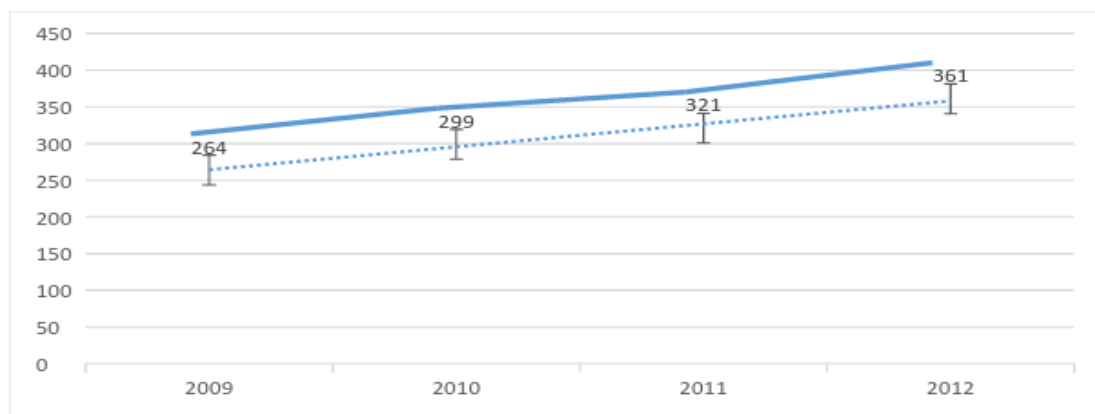
The role of wooden furniture is undeniably potential in the world economy. According to CSIL (2013), the global furniture trade in 2013 reached about EUR 111 billion compared to EUR 84 billion in 2009 which was a dramatic increase of 32%. The global furniture trade occupied 0.67% of the total merchandise and

1.04% of manufactured goods in 2013. In order to provide a better comparison concerning the position of the furniture trade, the following pie chart (Graph 2) is presented. (WTO 2014, p.2-5)



Graph 2. Comparison of manufactures trade industry in 2013 (WTO 2014)

In fact, the world downturn in economy in 2008 had a strong effect on the furniture industry. The value of furniture production dropped by 5.3% from 2007 to 2009 (CSIL 2012). However, from 2009 to 2012, the value grew steadily. The following Graph 3 presents the development of furniture production value after the world's economic downturn in 2008.



Graph 3. Furniture production value trend (€ billion) (CSIL 2012)

Another set of data from CSIL (2012) on the furniture production in high income countries and low/middle income countries shows a surprising shift in

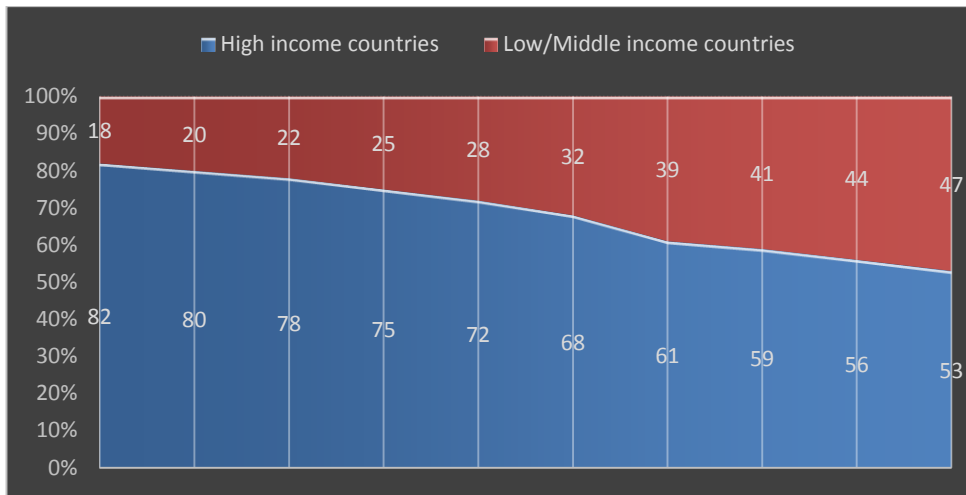
participation share especially after 2008. The Table 1 below illustrates the detailed percentages concerning the shift.

	2005	2006	2007	2008	2009	2010	2011	2012
High income countries, %	69%	66%	62%	57%	51%	47%	45%	41%
Low/Middle income countries, %	31%	34%	39%	43%	49%	53%	55%	59%

Table 1. World furniture production share between high income and low/middle income countries (CSIL 2012)

The downfall in the total value of world furniture production in 2008 seemed not to affect the global shift in furniture production. In 2010, wooden furniture production in low/middle income countries passed high income countries, accounting for 53% of the total value. The shift showed a new trend in the furniture industry, which focused on production in low/middle income countries. In other words, there was a change in the role of suppliers in the world furniture industry. Low/middle income countries became very active participants in the market and biggest suppliers for the industry.

However, it was not only the main suppliers which changed, but the customers changed as well. A new balance in demand for furniture products was created. Recently, low/middle income countries' consumption became equal to high income countries' consumption in terms of furniture products. Graph 4 illustrates the new balance set.



Graph 4. Furniture consumption in 2012 (CSIL 2012)

The consumption increase resulting from demand increase in low/middle income countries was the first main reason for the increase in the production of furniture products in this area. The second reason for those changes can be explained as the result of technology exchange and new productive investment in developing countries. Indeed, the industry saw the potential in terms of materials, demands and labor forces in low/middle income countries.

Generally, the furniture industry has developed positively in the world economy. As the trends are now shifting to low/middle income countries or developing countries, it can be a reasoned decision to focus on this very potential and promising region.

In the context of the global furniture industry, wooden furniture has a special position. The latest data collected by FAO (2004, p.5-6) shows that approximately 85% of the world trade value in household furniture was held by wooden furniture in 2001 which probably demonstrates the importance of it.

Wooden furniture is a mass production industry as it contains many steps starting from raw material harvesting to production and trading. Therefore, the value chain in the wooden furniture industry is quite complicated, as shown in Figure 7 below.

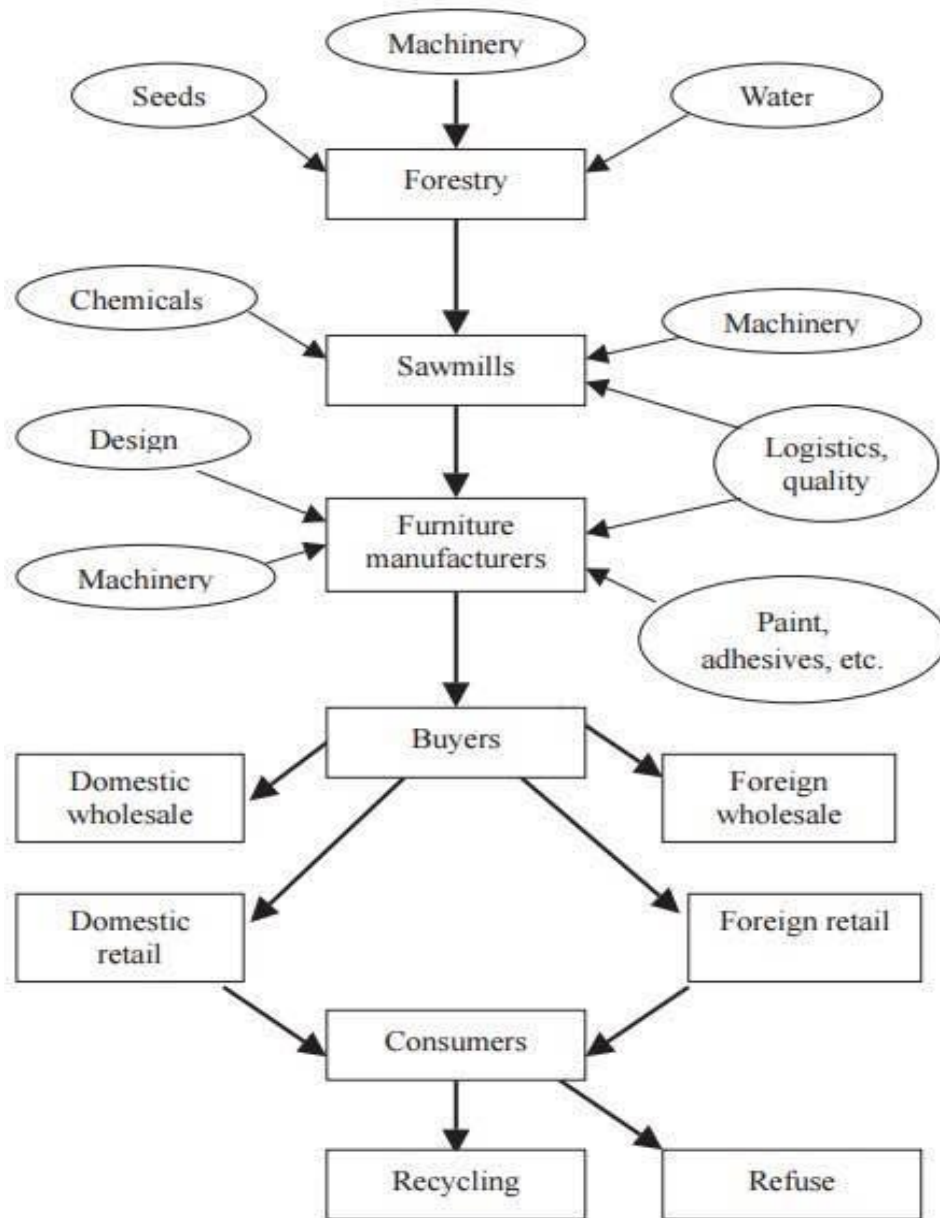


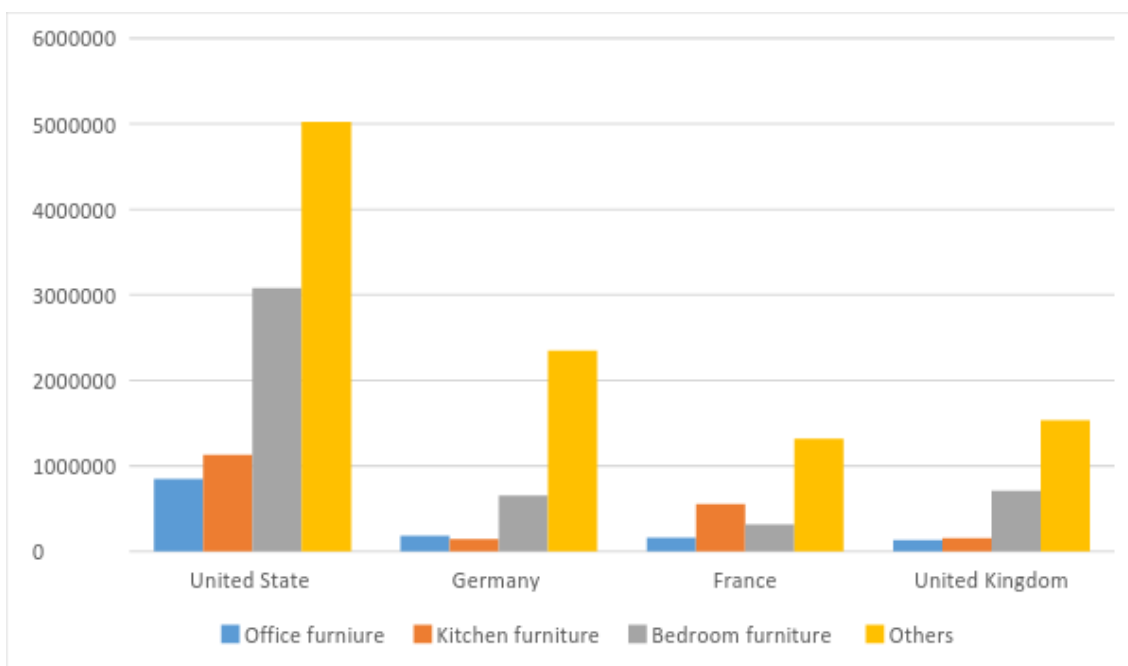
Figure 7. Value Chain in wood furniture industry (UNIDO 2003, p.5)

The chain starts from forestry growing activities to harvesting raw materials and to preliminary treatment in sawmills. Sawmills are a vital part of wood furniture manufacturing. The manufacturing process contains designing, painting and joinery for example. The final product is, then sold to buyers (wholesaler and retailer) and finally to consumers, who will be in charge of the last step: recycling or refusing. Among those stages are the support from logistic operations, machinery and other related materials.



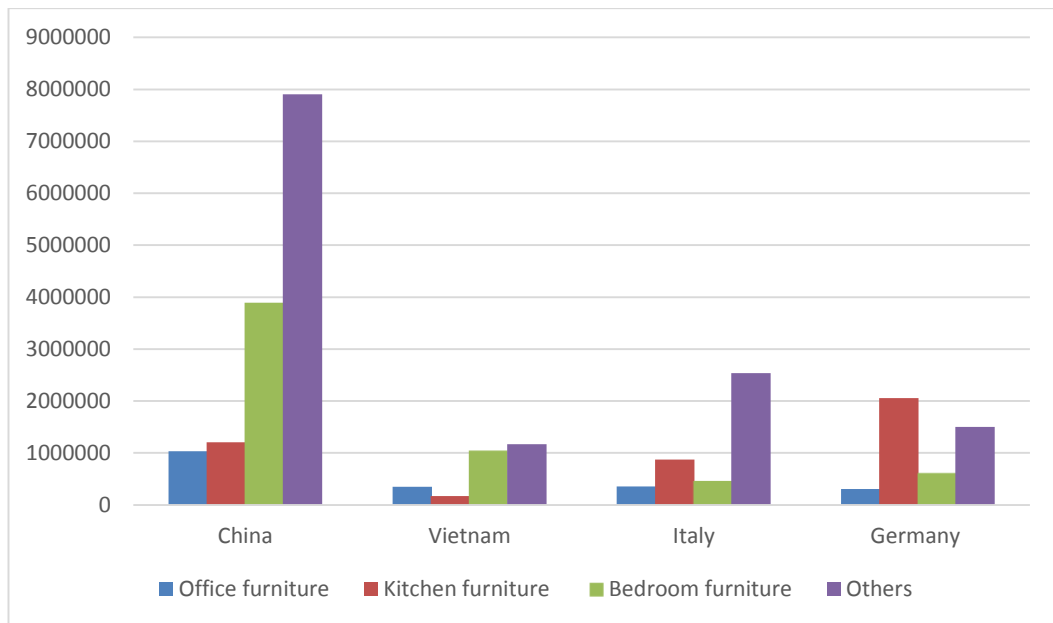
As the value chain in wood furniture is very broad, outsourcing becomes popular. Outsourcing at any stage requires the presence of more than one party or even country. Hence, the nature of the wood furniture industry is implementation across borders and countries. As there has been a global shift in production and consumption in the furniture industry, there has also been a shift in the production and consumption of wooden furniture.

According to ITC Trade Map (2014), there are four groups of wooden furniture products on which data has been gathered. Those groups are office wooden furniture, kitchen wooden furniture, bedroom wooden furniture and other wooden furniture. Even though the countries' performance in each group is different, the most notable wood furniture importers in 2014 were considered to be the United States, Germany, France and the United Kingdom (Graph 5). Developed and high income countries still held the top places concerning import value.



Graph 5. Wooden furniture (HS9403) leading importers in 2014 (ITC 2014)

As exporters, developing countries or low/middle income countries were presented more frequently in the list. Major exporting countries included China, Vietnam, Italy and Germany (Graph 6)



Graph 6. Wooden furniture (HS9403) leading exporters in 2014 (ITC 2014)

China and Vietnam entering the list of leading exporters provided strong proof of the global shift in wooden furniture production into middle/low income countries. Additionally, all the significant statistics from ITC confirms the undeniable roles of EU countries in the world wooden furniture industry. EU countries are potential in not only presenting high demand but also high supply.

## 5 The EU as a target market for the wooden furniture industry

In the global context wooden furniture, the EU market stands out as a very potential and high-value market. The nature of the market shows that it is now eager for more qualified investment and supply. However, the unstable world economy requires the EU market to have protective solutions to deal with every unexpected situation and to maintain the stability of the market. This chapter describes some typical features as well as provides some basic information about the wooden furniture market in the EU.

### 5.1 Position of the EU wooden furniture market

The EU follows the United States as the two biggest markets of wooden furniture (Centre for European Studies 2014). According to data collected in 2011 by CSIL, the EU had 84 furniture companies in the list of 200 biggest furniture companies

in the world Those 84 EU furniture companies owned 366 furniture plants in total and all of them were supposed to produce wooden furniture (CSIL 2011.) Table 2 below illustrates the distribution of the top 200 leading manufacturers by region.

Region	Number of company	Number of plants
USA	45	366
EU	84	86
Other EU+ Russia	18	350
Developing Asia	30	206
Other Asia	19	83
Other countries	4	17

Table 2. The distribution of top 200 leading furniture manufacturers by region (CSIL 2011)

The top 200 leading manufacturers accounted for 19% of the world furniture production and trade (CSIL 2011). The EU, as a result, became the region which had the largest number of wooden furniture manufacturers. In fact, in 2011, 87% of the total of EU manufacturers were furniture manufacturers (CSIL 2011). Therefore, the furniture production in the EU accounted for quarter of the world furniture production. In 2012, the number reached EUR 84 147 million. Although the wooden furniture production still has performed very well in comparison with other regions and continued to stay in a good position, it has actually decreased during the recent years. From 2007, the production dropped slightly each year from EUR 99 828 million to EUR 84 147 million in 2012 (Centre for European Studies 2014). It seemed that the world financial downturn in 2008 strongly affected the wooden furniture industry as indicators showed a decrease in not only the EU but also the United States and other key countries. Nonetheless, the recovery of the United States was still quicker than of the EU.

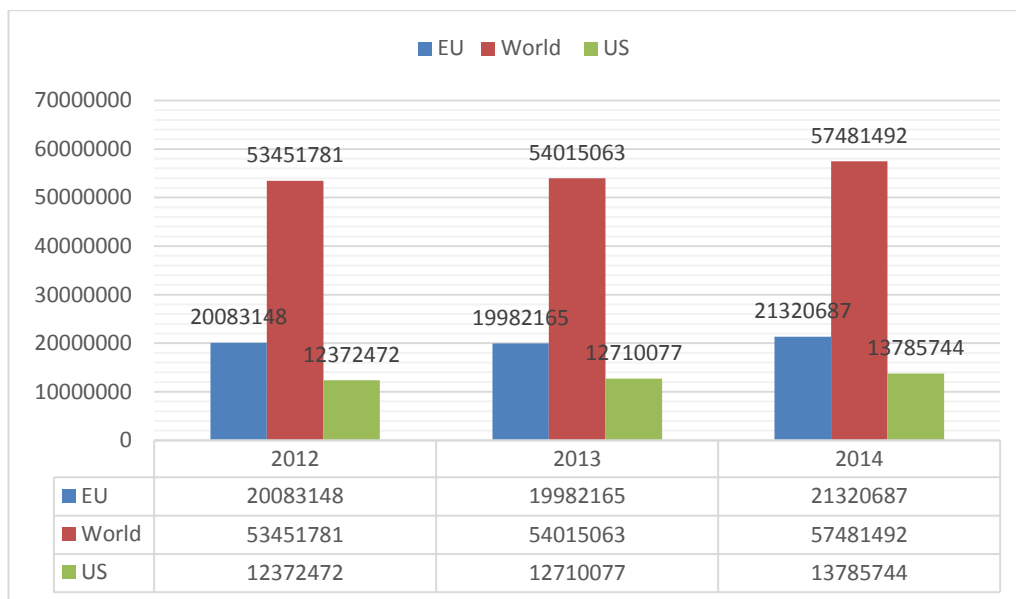
Although the recovery of the EU was slow, the consumption and global trade still provided proof of the EU's effort in opening up the market for better performance.

The huge demand in the EU wooden furniture market was satisfied by great production and finally resulted in a huge amount of consumption. The latest statistics collected in 2014 showed that even though the EU production was huge, 76% of it was still to serve internal consumption (CSIL 2014). In other words, the EU furniture manufacturers completely dominated the market. However, due to the impact of the world economic downfall in 2008, the EU consumption declined. Table 3 shows the reduction in the EU furniture consumption. (Centre for European Studies 2014.)

Year	Consumption (EUR million)	% share compared to the world consumption
2007	97 695	35%
2008	95 401	34%
2009	81 171	31%
2010	83 082	28%
2011	82 789	26%
2012	80 337	23%

Table 3. EU furniture consumption (EUR million) and percentage share (Centre for European Studies 2014)

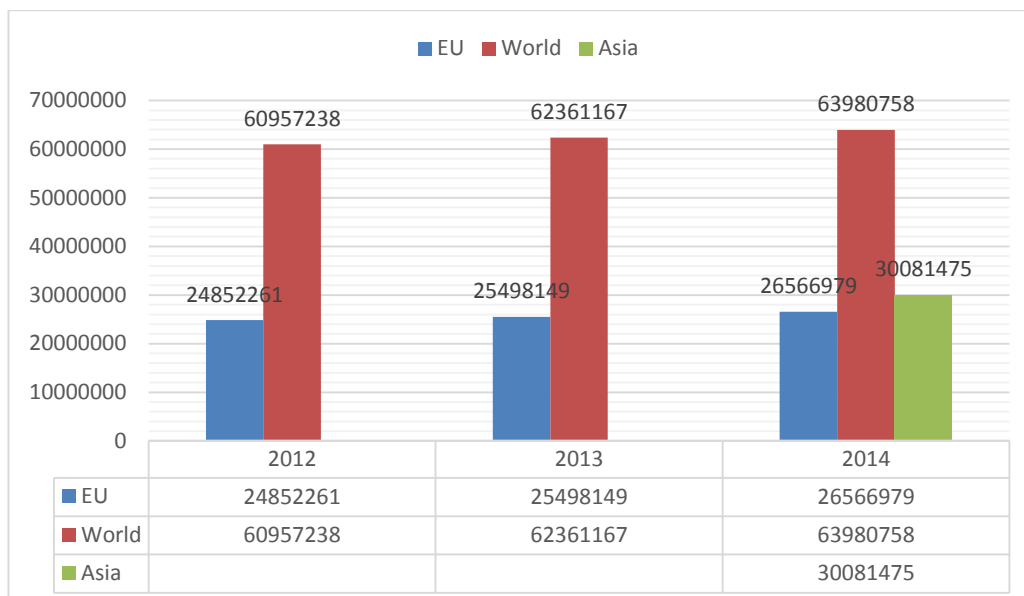
Wooden furniture importation into the EU has actually fluctuated in the past three years. Figure 7 below illustrates the development (ITC 2014).



Graph 7. EU28 wooden furniture (HS9403) import value (EUR thousand) (ITC 2014)

The EU was the biggest market importing furniture products, followed by the United States. The slight downfall in 2013 was supposed to result from the downfall in import value of key wooden furniture countries such as France (-8% to EUR 3 billion), the Netherlands (-3% to EUR 1.31 billion) or Italy (-2% to EUR 0.8 billion) (ITC 2014). One reason for the decrease in imports was the implementation of the EU Timber Regulation in March 2013. The regulation required a complicated supply chain with evidence for legal wood harvesting. However, rather than the EU Timber Regulation, the actual reasons were the slow improvement in competition in the EU wooden furniture industry plus the risen costs in production and competitive labor force in Asian exporters. Nonetheless, the slight increase in importation in 2014 offered promising potential in the demand in the EU market for exporters around the world. (International Timber Organization 2013.)

As the EU's wooden furniture production rate was higher than consumption, the surplus was supposed to be exported. In fact, from 2012 to 2014, the export value was steadily increasing as shown in Graph 8.



Graph 8. EU28 wooden furniture (HS9403) export value (EUR thousand) (ITC 2014)

The EU almost dominated the world exporting market in the past. However, in 2014, Asia, step by step, became the biggest competitor of the EU.

In addition, it is undeniable that the EU wooden furniture market has tended to switch its trading partners in the past few years. Table 4 below shows the new trend in the EU's exporting partners from 2012 to 2014.

	2012	2014	Annual percentage growth rate
America	286 689	300 657	2.4%
Asia and Pacific	5 618 846	5 781 896	1.45%
Middle East	324 725	381 574	8.75%
Africa	32 107	23 343	-13%

Table 4. EU's wooden furniture (HS9403) exporting partners by region from 2012 to 2014 (EUR thousand) (ITC 2014)

According to Table 4, the EU tended to quickly switch to Middle East exporters. In the past ten years, the EU and Asia became very good trade partners with

some notable exporters such as China, Vietnam and Philippines (Centre for European Studies 2014). However, Asian exporters have seemed to be slowed down recently with an annual growth rate of only 1.45%. America stayed stable with a growth rate of 2.4% each year while the Middle East quickly reached 8.75% more every year. Africa declined quickly during two years, which presented a major challenge for future trading and performance.

On the other hand, the EU with huge capacity in wooden furniture production showed its special interest in two new importing regions which were the Middle East and Africa, as shown in Table 5.

	2012	2014	Annual percentage growth rate
America	1 712 275	2 054 225	9.9%
Asia	2 081 358	2 403 021	7.7%
Middle East	992 060	1 192 614	10%
Africa	550 347	660 924	10%

Table 5. EU's wooden furniture (HS9403) importing partners by region from 2012 to 2014 (EUR thousand) (ITC 2014)

Generally, the EU wooden furniture market showed its strong position in the global market by high value in production, consumption, and trade. Even though the market was stable and has been growing strong lately, there were some notable features regarding the trends, the shifts and the focuses which drives the development of the future market. The EU wooden furniture market is not only strong globally but also internally. The market is considered to be one of the key markets in the EU market.

## **5.2 Demand in the EU wooden furniture market**

The demand in the EU wooden furniture market is considered to be the toughest and hardest to meet. As the preferences in product types and product quality of EU customers is different in different countries and regions, exporters should be

aware of national or regional interests in order to define their target market and specialize exact and suitable product ranges.

### 5.2.1 EU demand by product types

According to FAO (2004), the best wooden furniture product opportunities in the EU consist of designed furniture for bedroom and living room, home office furniture, specialized furniture for children or, the elderly, and place-saving and multifunctional furniture. Home office could be considered as a new comer in the race because of the increase in the number of personal computer users. Wooden furniture has replaced low-cost metal or plastic furniture and has become a new preference as it has good quality and is well-designed. (FAO 2004.) Nowadays, the trend in using wooden furniture remains unchanged. However, the performance of kitchen furniture makes it one of the most interesting types of wooden furniture in the EU market.

The demand in the EU wooden furniture market is driven by manufacturing activities and consumption within the region. Production in the EU furniture industry is illustrated in Table 6 below.

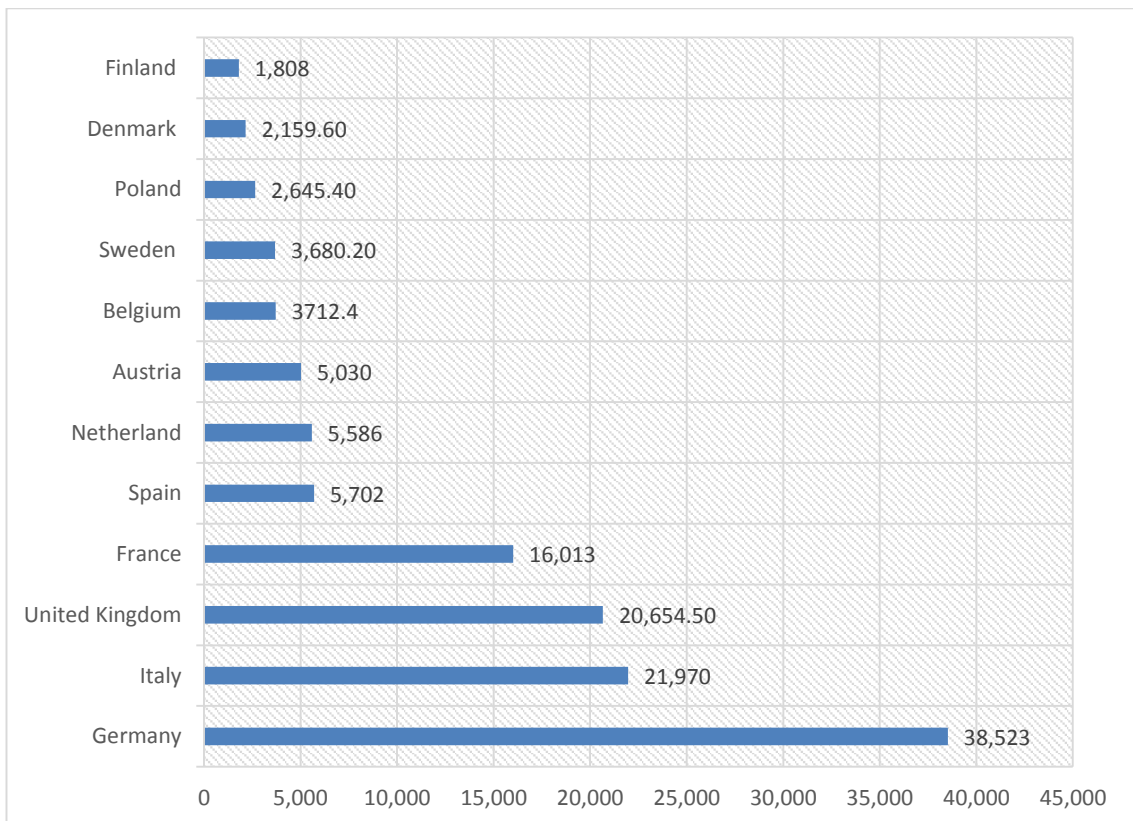
Year	Production (EUR million)	% share in global market	Consumption (EUR million)	% share in global market
2007	99,828	36%	97 695	35%
2008	97,594	35%	95 402	34%
2009	82,478	31%	81 171	31%
2010	83,470	28%	83 082	28%
2011	85,419	27%	82 789	26%
2012	84,147	23%	80 337	23%

Table 6. EU furniture consumption and production (EUR million) and percentage share (Centre for European Studies 2014)



As Table 3, also Table 6 shows a reduction in both furniture production and consumption in the EU. The decrease in production could be explained as a result of the decrease in demand. However, the EU production was still able to satisfy the demand in the market as the consumption value was still slightly smaller than the production value. It was obvious that most of the products produced inside the region were for internal uses, which led to a very tough market with higher quality demand. In other words, the year of 2012 remarked an actual decrease in demand quantity but more expectation on product quality.

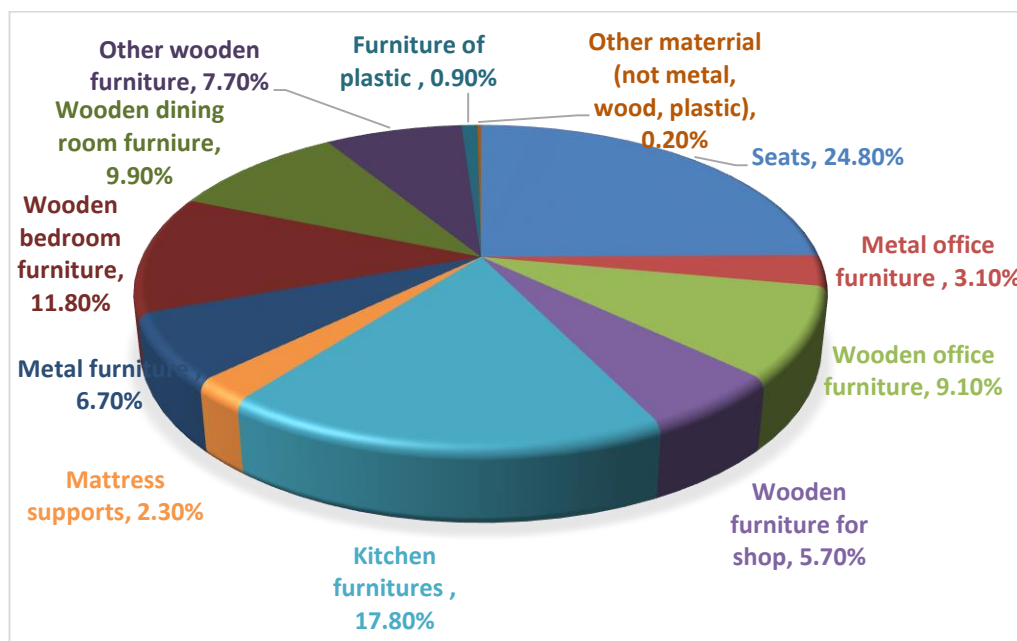
From another perspective, the indicators of household consumption expenditure on furniture in some EU countries could define the key countries in terms of demand for furniture demand, especially wooden furniture. In fact, the figures of 2013 marked Germany as the biggest market with furniture consumption of approximately EUR 38 billion. Graph 9 presents the top 12 leading consuming countries within the EU region.



Graph 9. Household consumption expenditure on furniture, home furnishings, carpets and other floor coverings in the EU in 2013, top 12 countries (EUR million) (Statista 2016)

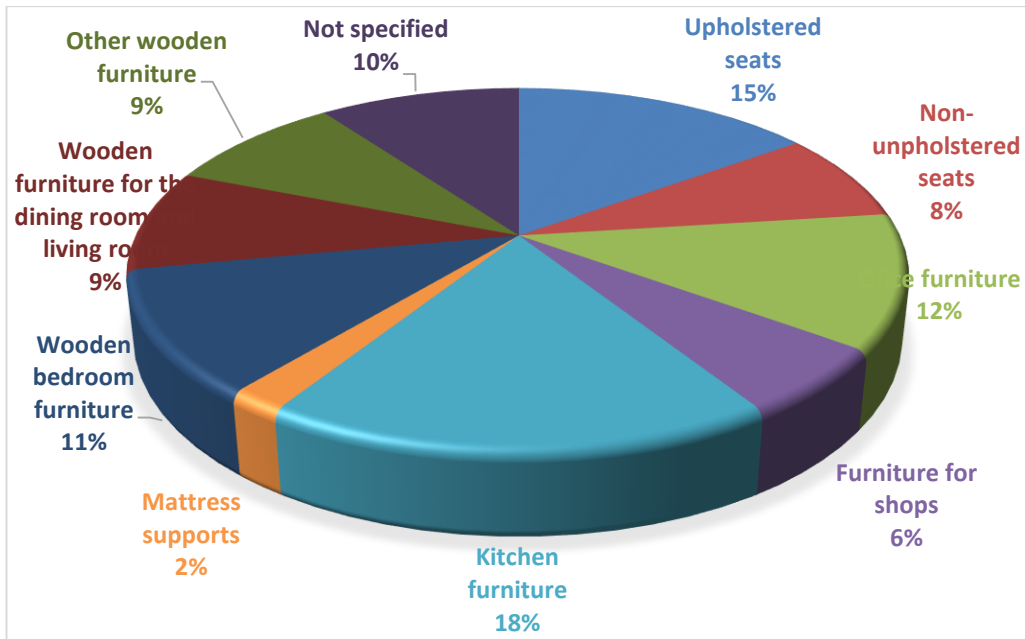
Germany clearly ranked first, followed by Italy, the United Kingdom, France and Spain. The top five countries still stayed strong in their positions as the key markets in the furniture industry. Notably, the appearance of three Nordic countries led by Sweden and followed by Denmark and Finland in the list gave strong evidence of the rise in demand in Nordic countries.

EUROSTAT figures on EU27 furniture consumption by product type show the demand in the EU market by specific type of furniture products (Graph 10).



Graph 10. EU27 furniture consumption by type of furniture in 2011 (EUROSTAT 2011) (JRC 2013)

The figure shows the considerable consumption of kitchen furniture, seats, wooden bedroom and dining room furniture as well as wooden office furniture. Along with consumption, the market value of the products was significant as well. Graph 11 below supports this statement.



Graph 11. EU 27's market value by type of furniture (EUROSTAT 2011) (JRC 2013)

In the consumption and market value share in the EU market, kitchen furniture appeared as a very potential product type. In addition, upholstered seats and office furniture were two of the most consumed product groups, followed by household furniture, which consists of bedroom, dining room and living room furniture.

Another study concluded by Joint Research Center (JRC) in 2013 depicts the position of wooden furniture in the EU furniture industry. The percentage share of wooden furniture in different furniture types describes the opportunities for wooden furniture in the market. In fact, wooden furniture accounted for almost half of the EU furniture market especially in indoor furniture and office furniture.

Type of furniture	Percentage of wooden furniture
Domestic indoor furniture	72%
Domestic outdoor furniture	47%
Professional office furniture	53%
School furniture	44%
Restaurant and hotel furniture	46%

Table 7. Percentage share of wooden furniture in different types of furniture, the EU market (JRC 2013)

To sum up, nowadays the demand for wooden furniture in the EU market is not as high as in the past; however, it still is high compared to global demand. Nonetheless, the demand for quality is extremely high. The most demanded wooden furniture products are indoor furniture, especially kitchen furniture, upholstered furniture such as upholstered seats, as well as bedroom and living room furniture. Office furniture is a major group as well. The markets which have the biggest demand are Germany, the United Kingdom, France, Italy and Spain. Last but not least, the demand rising in Nordic countries is distinguished.

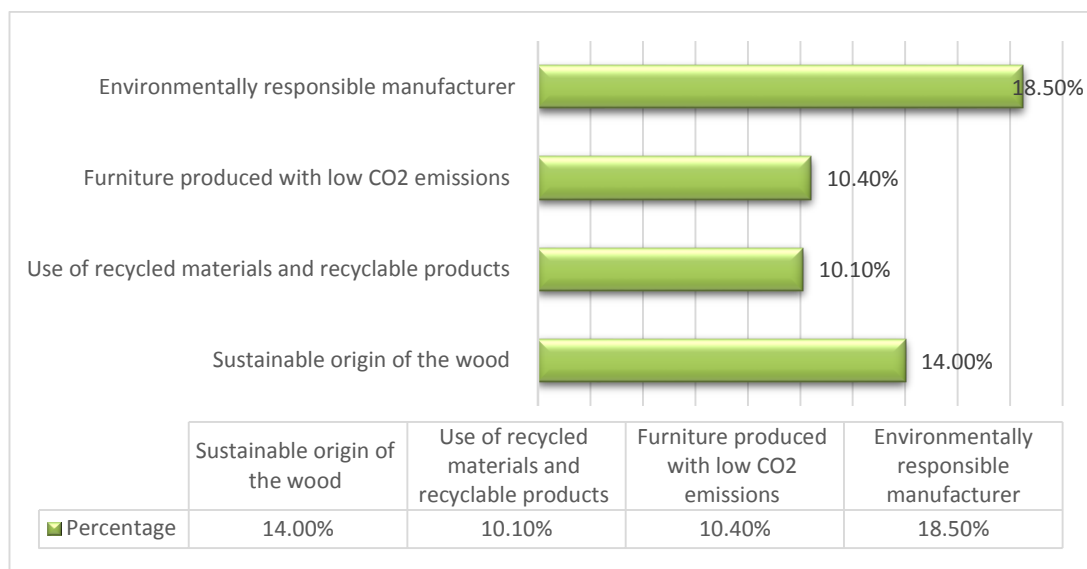
### **5.2.2 EU demand on product quality**

However, the demand is never only about what customers want to buy the most, but it is also about how they want their own value being recognized and fulfilled. To put it in another way, demand also refers to the level of quality which customers expect in the product.

In order to define EU customers' high requirements and expectations on wooden furniture products, it is very important to identify EU customer behaviors and value. As regular customers, EU customers expect quality, price and appearance at first. A wooden furniture piece should be of a good level of quality, functional, convenient, comfortable, suitable for users and applicable for their purposes. At the same time, the product is required to be economical. Additional points considering appearance vary in different consumer markets. However, aesthetic

and symbolic appearances are also favored. Other aspects such as delivery, information access, and promotion or in-store service are taken into consideration as well.

A notable EU customers' value is the expectation for sustainability. In fact, EU customers are willing to pay more money for warranty or certification. Innovation and technology are considered to be comparative advantages as well. According to one research conducted by Federlegno Arredo, EU customers do pay attention to the origin of the wood, the use of recycled materials and recyclability of the product itself, low CO2 emissions production, and environmentally responsible manufacturer. The research examined the willingness of customers to pay 10% more for those sustainability issues. The result of the research is depicted in Graph 12 below. (JRC 2013.)



Graph 12. Characteristics for which consumers are willing to pay 10% more in furniture products (Federlegno Arredo)

Of the total of respondents 18.5% paid attention to the social and environmental responsibility of manufacturers. At the same time, 14% of them also paid attention to the origin of the wood used. It probably can be seen as a new trend in EU demand. Nowadays, exporters need to not only focus on the product itself, but also the process of manufacturing and managing it. The demand is quite difficult to fulfill as it requires time, effort and the involvement of many parties, especially in developing countries.

The same research also showed the high demand of EU customers for replacement parts (31.9% of all respondents), use of natural materials (30.8% of all respondents), safety and company certification (Federlegno Arredo).

### **5.3 Level of competition in the EU wooden furniture market**

In order to have comprehensive overview of the EU wooden furniture market, the level of competition inside the market needs to be studied. The extent in which competitiveness is able to affect internal and external trade is measured using the Porter's Five Forces and the PESTEL analysis.

#### **5.3.1 The threat for new entrants in the EU market**

The threat of new entrants in a market is considered to be high when there is a low level of barrier to entry and vice versa. In fact, the barrier to entry mostly refers to the economic, political, and legal issues of the market; the availability of distribution channel; the retaliation; and differences. In order to analyze the threat of new entrants effectively, the three elements in PESTEL which are Economic, Political and Legal issues will be combined to analyze.

Firstly, the EU market is one of the largest economies in the world with a GDP of EUR 13 920 541 million in 2014. As a very potential industry, the furniture, specifically the wooden furniture market has a very big scale. In terms of production, the EU's furniture production accounted for a quarter of the global furniture production with EUR 84 147 million in 2012. (EUROSTAT 2014.) The strong and rich economy makes the EU one of the most difficult markets to enter as the market requires strong entrants with a large scale of business and full experience. In order to survive in the market, existing companies already are very powerful, and as a result, they can be the dominants in the market, owning many competitive advantages such as reasonable price, good service and stable production. Therefore, new entrants need to be able to have considerable investment resources to prepare for entry.

However, recent statistics show a lackluster in economy growth. In fact, the EU or euro zone economy has suffered from low inflation, low investment and high level of debt. Therefore, the EU economy has been predicted to stay in downturn

(European Commission 2015.) As the EU has fundamental interconnectedness, in economic, financial, geopolitical, and social terms, the threat in one member's economy might affect the total outcome of the EU zone. The financial and economic crisis in Greece with huge unpayable debt is now the biggest trouble (Mohamed 2015). Additionally, production in the EU has fallen. Specifically, wooden furniture production dropped significantly from 2007. From 2009, production has recovered slowly. However, the value of production still dropped from EUR 85,419 million in 2011 to EUR 84,147 million in 2012. Other figures on the import and export value of the EU have also showed a decrease. In 2014, the total value of external trading was EUR 3 383 billion, both imports and exports decreased in comparison with 2013, especially export value which could be explained by the decrease in production. (EUROSTAT 2014.) The instability of the EU economy is a threat but, at the same time, an opportunity for new entrants. The barriers to entry, as a result, are not unreachable at the moment.

Secondly, the EU is a region where retaliation is banded thoroughly. Conventionally, an investigation would be conducted to examine whether dumping is or is not involved. If there is evidence of dumping, a product could be imposed (European Commission). Anti-dumping actions ensure the prevention of a price war and the transparency and equality in the EU economy. As a result, retaliation is not a serious barrier in the EU market.

Thirdly, the instability of the EU politics has put the region into trouble and has directly affected trading, especially trading activities inside the region. The risen power of populist political parties (in Greece, France and Denmark) has made it difficult for foreigners to access the EU zone. The populist political parties in the EU have showed their concern on 'handful of issues, opposing, immigrants and austerity'. They usually have extremist tendencies by closing and limiting the economy in order to protect the zone from outsiders. At the same time, the flexibility of governments is limited. (Mohamed 2015.) Furthermore, the instability of immigrants and refugees is also a serious threat for the economy. The waves of refugees to Germany, which is the biggest wooden furniture importer, as well as the serious terror in Paris, France, have made the EU an unsafe market. Consequently, unstable politics has become an insurmountable barrier at the

moment as it poses huge challenges for exporters to conserve their assets, people, and performance.

Legal issues are also very important when entering the EU market. The EU showed their remarkable effort in supporting free trade and eliminating tariff barriers. In terms of wooden furniture, EU has not a quota for limiting the amount of import products (European Commission). On the other hand, the tariffs vary considerably in different countries and regions. Nonetheless, the EU supports exporting activities by participating in some preferential tariff systems such as Generalized System of Preferences (GSP) or Free Trade Agreements (FTAs). For instance, GSP reduces tariffs to very small amounts or there are no tariff duties for developing countries for easier exporting their products to the EU market (European Commission); and FTAs encourages members to collaborate and eliminate both tariff and non-tariff barriers (European Commission). Therefore, if exporting countries are part of those agreements, they will gain benefits.

Even though tariff barriers are about to be eliminated, the EU still has non-tariff barriers to protect the EU market and EU consumers. In terms of wooden furniture products, those barriers are mostly related to sustainability, focusing on four main areas: quality standard; social and environmental issues, health and safety; and packaging. One of the most notable regulations is 85/343EC. This regulation is about compensation for damage caused by using unsafety products and about controlling dangerous substances in products, such as the limitation for cadmium, PCP (Penta-chlorophenol) and the restriction for Polychlorinated biphenyls) and PCT (Polychlorinated terphenyls). (Nguyen 2016.)

Standard labelling and packaging regulations are applicable to wooden furniture products. The Directive 94/62/EC on Packaging and Packaging Waste sets a standard on recovery and recycling of packaging waste and a limitation on consumption of lightweight plastic carrier bags. The Directive also defines the terms 'packing' and 'standard packaging'. (European Commission, 2015)

Regulations and requirements about protecting labor forces, including health and safety, working environment as well as co-friendly production, eco-labelling



programs, and sustainable development of forest areas are very important. Additionally, businesses are required to provide Forest Management and Chain of Custody certification provided by The Forest Stewardship Council (FSC). The FSC-CoC (FSC Chain of Custody) helps consumers to ensure good management of the origin of wood. The FSC-CoC pays attention to exploiting plantations without interfering with endangered forests, ensuring the biodiversity and sustainable development of protection forests. The Certification also concerns the ability to increase the income for forestry workers. (FSC 2015; Nguyen 2016.)

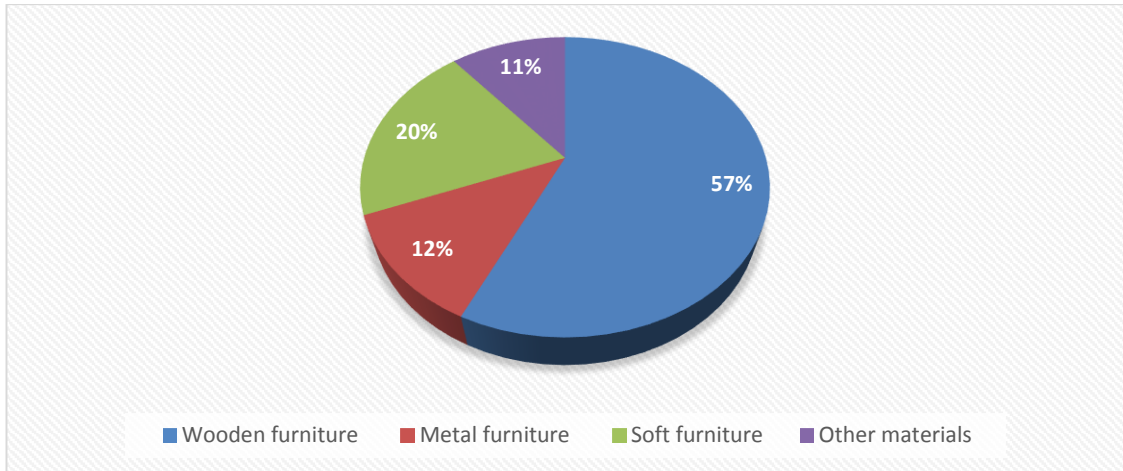
From March 2013, Regulation No.995/2010 was applied. The regulation on forest law enforcement, governance and trade (FLEGT) was also applicable since 3 March 2013. At this point, FSC- CoC no longer covers FLEGT, but it still offers competitive advantages for further EU examination. (Nguyen 2016.) The EU's legal issues with a strict and comprehensive system have always been a major barrier for new entrants, especially concerning non-tariff barriers.

The last aspect that should be considered as a barrier is differentiation. The EU market has considerable differentiation. The variable products and product value of existing internal businesses make it very difficult for new entrants to have differential advantages. (Nguyen 2016.)

To sum up, the threat of new entrants in the EU wooden furniture market is at medium level as there are serious barriers, but, the EU still is a very potential market. The barriers for new entrants are mostly from politics, legal issues and the very good performance of existing businesses. In order to pass over those barriers, new entrants need to think about pricing and mobilizing investments.

### **5.3.2 Level of substitution in the EU market**

The main substitutes for wooden furniture in the market are those furniture made from different types of materials. Data collected by CSIL (2010) shows that metal furniture and soft furniture are the two most popular substitutes for wood furniture.



Graph 13. Consumption percentage in the EU market by type of furniture (CSIL 2010; CEPS 2014)

Graph 13 above shows the dominance of wooden furniture in the EU market. In other words, wooden furniture gained the upper hand.

In production, EUROSTAT (2013) declared that 20% of the material used is non wooden materials. Although more than a half of the materials used in production was wood, there still were products made from 90% wood or less (JRC 2013). Table 8 below shows the percentage shares of wooden furniture materials compared to other materials.

Type of furniture	Material	Average
Domestic indoor furniture	Wood	72%
	Metal	12%
	Plastic	10%
	Other	6%
Domestic outdoor furniture	Wood	47%
	Metal	23%
	Plastic	24%

	Other	4%
Professional office furniture	Wood	53%
	Metal	28%
	Plastic	11%
	Other	7%
School furniture	Wood	44%
	Metal	37%
	Plastic	11%
	Other	4%
Restaurant and hotel furniture	Wood	46%
	Metal	23%
	Plastic	18%
	14%	

Table 8. Percentages of the weight of the component materials in different types of furniture (JRC 2013)

Wooden furniture in schools have the greatest chance to be replaced by other types of material, while office or indoor furniture is predominantly made from wood.

Besides metal and plastic, other possible substitutes include plastic-wood or artificial wood. Furniture which is not made from 100% wood can be possible substitutes if the price is lower, but still the quality and design are acceptable. In order to cut the operational cost, many companies have tried to focus on design instead of on the purity of wood. Modification techniques in wood or wood-base furniture production are popular nowadays. In fact, The Finnish ThermoWood Association is very active with thermally modified wood products. These products

are mostly used for hardwood flooring, siding and cladding, decking, sauna paneling and interior wall paneling or other outdoor furniture and specialties. (FPInnovations 2008.)

Plastic wood products usually contain 25% to 85% of pure wood. Plastic wood furniture is very popular as most of the furniture used nowadays is plastic wood furniture. 38% of plastic wood used in decking and 21% used for indoor applications shows its importance. (FPInnovations 2008.)

Generally, the substitutes of wooden furniture in the EU market cannot be considered as a serious threat, which makes the EU wooden furniture market a very attractive target market. The most notable solution to avoid substitution is wise pricing.

### **5.3.3 Power of the buyer in the EU market**

Power of the buyer in the EU wooden furniture market can be analyzed from three main viewpoints, which are ability to switch among sellers, ability to self-supply and social issues. As part of PESTEL analysis, social issues will be integrated in this part for comprehensive analysis.

The EU has about 130 000 furniture companies providing many different types of furniture in variable range of price (European Commission 2016). The huge number of companies creates a very competitive atmosphere in the market and, as a result, gives consumers opportunities to easily switch among suppliers

From B to B perspective or exporter perspective, EU furniture companies have high ability to self-supply. In fact, data shows that the EU accounted for a quarter of world furniture production (Centre for European Studies 2014) with a total of around one million workers (European Commission 2016). The ability to self-supply elevates the power of furniture companies who play the role of importers or buyers in international trade.

Social issues will always either directly or indirectly affect the power of the buyer in the market. In a direct way, social issues decide the value of the buyer lying on buyers' demand for quality, service, certification or assurance. The extent in which buyers demand more or less from sellers is their power. Social issues

which directly affect the power of the buyer are population growth and employment rate, as those aspects determine the stability in consumption. In an indirect way, social unrest might affect the whole economy, which will finally reflect on purchasing power as well.

As the demands of EU customers are very high, especially on quality and sustainability, they become most difficult customers. Their high demands are actually a result from their own awareness on personal value. High standard of living and well educated purchasing behavior elevate their power in the market. They are smart consumers and very good at making decisions.

Latest statistics shows that the EU succeeds in decreasing the unemployment rate. The rate was 11.4% in December 2014 and decreased to 10.5 % in 2015 (EUROSTAT 2015). The lower unemployment rate shows stability in labor force. However, the youth unemployment rate and the women unemployment rate still show some shortcomings in the society. Nonetheless, the decrease in unemployment rate shows optimism for improving economy and domestic trading as the population has an ability to demand and purchase more. The stability in employment actually ensures the stability in consumption, which secures the purchasing power of the buyer. On the other hand, the EU population growth, which has slowed gradually in recent decades (EUROSTAT 2014), seems not to affect EU consumption too much and cannot yet be a serious threat.

Social unrest, which is caused by the waves of refugees, has been a serious problem for the EU recently. According to BBC News (2016), in 2015 more than a million migrants and refugees mostly from Syria, Afghanistan, Kosovo and Iraq have legally or illegally come to the EU. Germany, Hungary and Sweden (main furniture markets) are three countries which have received the biggest numbers of refugees and migrants. The asylum and migration have been very challenging for the EU economy. Obviously, the EU citizens are put into a very confused situation. Concerns about safety, equality, culture and religion, for example are raised. The power of the buyer has been affected by those aspects as well.

To conclude, the great power of the buyer in the EU wooden furniture market challenges an exporter's decision on pricing, cost reducing, and investment capital raising.

#### **5.3.4 Power of the supplier in the EU market**

From the exporter perspective, there are three types of suppliers in the EU market, which are logistic companies, importing agencies, and material suppliers. As the nature of exportation is mostly operating outside the importing market, the suppliers related to production, materials and labor forces inside importing market are not involved.

The EU has a very strong system concerning logistics. As for delivery, both air freight and sea freight are very convenient, fast and accurate. Delivery companies such as DHL (Germany), TNT, Parceland and UPS are actively operating around the world. The recent problem in EU logistics is the shortage of prime space. New constructions for logistics such as warehouses are passively built based on short-term purposes (Knight Frank 2014). However, the variety in the number of logistic companies and services make it easy to switch and change from one to another. As a result, the power of the logistic supplier in the EU market cannot be considered as very high.

In order to cut the cost, EU importing agencies tend to be eliminated from the exportation process. For example, EU importers usually directly reach Vietnamese exporters by contacting them or participating in international trade fairs (Nguyen 2016). The negotiation process is conducted by both parties without an agency's participation.

Finally, the EU plays a role of a material supplier for exporters. In fact, in order to produce some special furniture types made from special materials which exporters are not able to self-supply, they need to import raw materials from the EU. Typical wood species exported from the EU includes oak, ash, walnuts and cherry. (Nguyen 2016.) The EU has abundant potential for timber with over 180 million hectares of forests and other wooded land (EUROSTAT 2015). The region also has many raw material suppliers to choose from. Generally, for exportation, the power of the supplier is not intensely high at all.

### **5.3.5 Competitive rivalry in the EU market**

Competitive rivalry refers to existing competitors who are already very active inside the EU market. As the EU wooden furniture market has great potential, existing rivals are many not only in the quantity but also the size of business. According to Fena Newsletter's list of the 10 biggest furniture retailers in the EU furniture market in 2014, a French company named Maisons du Monde topped the list with a growth of 25.7% in 2013, followed respectively by Steinhoff from South Africa, Amazon, eBay and Migros from Switzerland. The new trend in retailing wooden furniture, which is online retailing, has brought Amazon and eBay to the list. However, the most impressive fact was that those ten biggest wooden furniture retailers in the list actually held a 33.9% of market share and the top 30 leading retailers in the EU wooden furniture market accounted for nearly half of the market share. (Fena Newsletter 2014.) The EU biggest furniture retailers has dominated the market. As a consequence, the high level of competitiveness in the market is created.

As the wooden furniture industry involves high fixed costs especially in a highly competitive market like the EU, a huge amount of investment capital needs to be raised. However, one drawback of huge investment is a difficulty when getting out of the market. For instance, an exporter wants to enter the EU market and they already have invested a lot in production and promotion, for example. Unfortunately, the situation changes and they want to switch to other markets. At this point, the big investment makes quitting the market a very difficult decision as they will lose not only money but also huge effort. Furthermore, high fixed costs lead to a problem when rivals are too ambitious to cut the costs and lower the price. The possibility for a price war in the market is very considerable. The nature of the wooden furniture industry with high fixed costs needed and the EU market's requirement for major investments turn the region into a very competitive market.

Finally, the differentiation in the EU market, which mainly comes from significant competitive advantages in technology, makes rivalry in the market even higher. The EU is a technological region. The technology is applied in every step of the wooden furniture industry, from material accessing to production to delivery and

to customer service. Notably, technology and innovation used in wooden furniture production as well as research and development make the biggest different. Fortunately, companies operating in the EU market work closely with technology suppliers. As a result, component producers can help companies to achieve technology innovation. Two of the biggest achievements in technology used in the EU wooden production are nanotechnology, which allows effective production, and energy saving and eco-friendly technology, which allows reused materials to turn into useful energy. Advances in production machinery satisfy the high demands of EU consumers on ergonomics, customization, functionality and eco-friendly issues. (CEPS 2014.)

Environmental issues can considered as a part of differentiation between EU wooden furniture products and imported products. EU consumers not only care about environmental and environmental friendly issues but nowadays they even demand for environment-consciousness. By setting a system of regulations and laws and required certification to protect the environment, the EU, at the same time, wants to educate and encourage people to protect the habitat. In fact, the EU not only shows serious concerns but also shows their particular actions for the environment. The innovation of green technology in wooden furniture production once again shows undeniable care.

The differentiation in technology and environmental care in EU wooden furniture production make it stand-out from mass production. At the same time, it somehow contributes to the very high level of competitive rivalry in the EU wooden furniture market.

#### **5.4 PESTEL analysis**

In order to offer a clearer and more comprehensive look into the EU wooden furniture market, Table 9 is created as a summary of each element of PESTEL, which was analyzed separately in part 5.3 about level of competition in the EU wooden furniture market.



Element	Situation	Consequences
Political issues	- The risen power of populist political parties	- Closing and limiting the economy in order to protect the zone from outsiders
	- Instability in immigrants and refugees - Terror	- Unsafe market to enter
Economic issues	- Huge economy, big scale market, powerful existing rivals	- Threat for entrants
	- Slight downturn, slow recovery of economy - Economic crisis and debt	- Instability in economy is a threat but at the same time, an opportunity for new entrants
Social issues	- The awareness on personal on personal value resulted from high standard of living and well educated purchasing behavior	- High demand on quality and notable concerns about sustainability
	- The decreased unemployment rate and gender equality in labor force	- Stable consumption
	- Social unrest caused by the waves of refugees	- Serious concerns about safety, equality, culture, religion, etc. - Effects on the economy

Technological issues	<ul style="list-style-type: none"> <li>- A technological region with applications especially for production</li> <li>- NanoTechnology</li> <li>- Eco-friendly power used in production</li> </ul>	<ul style="list-style-type: none"> <li>- Huge competitive advantages especially in mass production industry such as wooden furniture</li> </ul>
Environmental issues	<ul style="list-style-type: none"> <li>- EU citizens' concerns on environments</li> <li>- Legal and regulation set for environment</li> <li>- Innovation in green technology</li> </ul>	<ul style="list-style-type: none"> <li>- Considerable competitive advantages</li> </ul>
Legal issues	<ul style="list-style-type: none"> <li>- Eliminating tariff barriers using preferential tariff systems such as Generalized System of Preferences (GSP) or Free Trade Agreements (FTAs)</li> </ul>	<ul style="list-style-type: none"> <li>- Extremely beneficial for developing countries</li> </ul>
	<ul style="list-style-type: none"> <li>- Non-tariff barriers for sustainability: quality standard (84/343EC); social and environmental issues, health and safety (FSC-CoC, FLEFT); and packaging (94/62/EC)</li> </ul>	<ul style="list-style-type: none"> <li>- Barrier to entry</li> </ul>

Table 9. Summary of PESTEL analysis

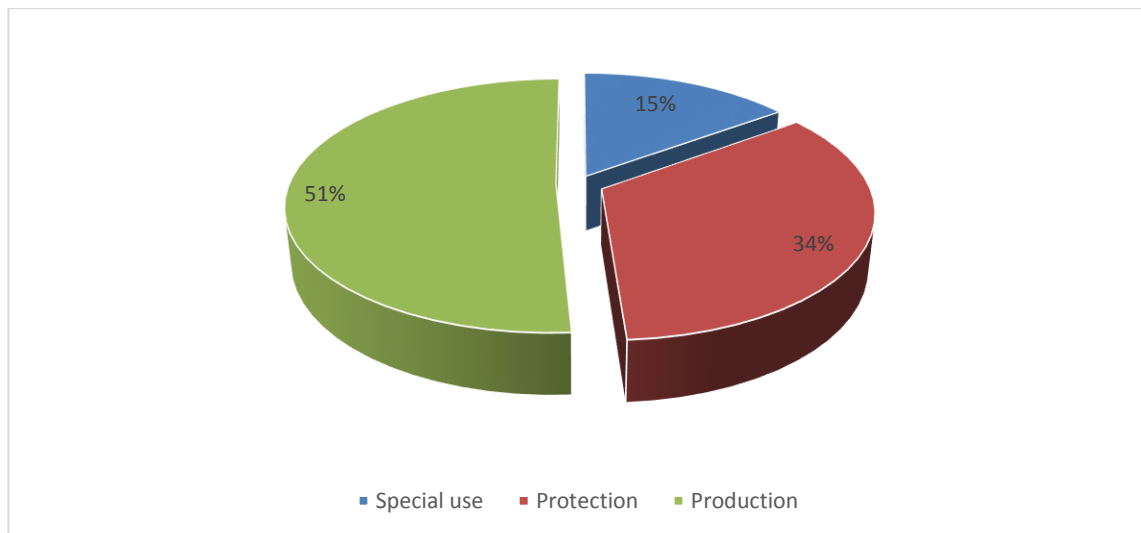
## 6 Wooden furniture industry in Vietnam

This chapter studies three main features of wooden furniture industry in Vietnam which are materials used in the production, the furniture production and management.

### 6.1 Origin of materials used in Vietnamese furniture

The raw materials for wooden furniture production in Vietnam mainly come from Vietnamese plantation forests and importation (Nguyen 2016). In fact, Vietnam has an abundant forest resources. Statistics collected in 2013 show that 7 million

hectares of forest, both natural and plantations, were used for production, which actually accounted for 51% of total national forest. In comparison with other purposes, production seemed to be the main purpose of Vietnamese national forests. Graph 14 below shows the dominance of total forests used in production compared to special uses and protection. (Nguyen 2013.)



Graph 14. Purpose of Vietnamese forest used (Nguyen 2013)

Even though natural forests used in production accounted for 4.35 million hectares, the materials for the Vietnamese wooden furniture industry mostly come from plantations. Plantations used in production only accounted for 2.65 million hectares in 2013. In the future, Vietnam expects an increase of 18% in terms of forest used in production (Nguyen 2013).

Matured or non-matured plantation forests and small parts of perennial trees are the main sources for raw materials used in the Vietnamese wooden furniture production. More specifically, the main raw materials are acacia, eucalyptus, rubber and manni. (Nguyen 2016.)

In Vietnam, wood suppliers are usually forest owners. 34% of forest areas is owned the government, and 24% is owned by households. The rest of the forest areas is owned by commune (16%), state forest enterprises (14%) or the army (2%). Raw material negotiations and trading are normally done directly between wooden furniture manufacturers or companies and forest owners. (Nguyen 2013.) The stable growth in Vietnamese forests is a result of good management

system done responsibly by the government, non-profit organizations and social organizations.

Every year, the Vietnamese wood processing industry consumes a large amount of wood material. In 2011, the total wood material used in the wood processing industry accounted for about 16 billion m<sup>3</sup> round wood. Wooden product (such as furniture) manufacturers and exporters consumed 9 billion m<sup>3</sup> round wood, of which 3 million m<sup>3</sup> for serving the domestic market and 6 million m<sup>3</sup> for exporting (Huynh 2012; Forest Trends 2013). The amount of wood materials required for production tends to increase every year. However, even though the capacity of Vietnamese forests is huge, the ability to supply domestic raw wood (both from plantations and natural forests) for use in the wood processing industry is limited, reaching only 12.3 million m<sup>3</sup> log/ year (Forest Trends 2013). Consequently, importing raw wood for production is the only solution.

Wooden furniture production in Vietnam also uses imported raw wood. Vietnam imports plantation's wood from the United States and Europe. Oak, ash, walnut, and cherry are the most common imported types of wood used in wooden furniture production in Vietnam (Nguyen 2016). In 2014, Vietnam's total import value of raw wood was EUR 1.5 billion. Import value from Europe accounted for 10% with EUR 154 million. (To & Nguyen & Huynh & Tran & Cao 2015.) Regularly, when importers require for special types of furniture using special types of material, Vietnamese manufacturers or companies will base on the orders to decide if they need to buy raw materials from local or foreign suppliers. However, wherever the raw materials are from, the origin of wood is legally required to be clarified either by government or international certification.

## **6.2 Wooden furniture production in Vietnam**

Nowadays, there are 1000 wooden furniture manufacturers and exporters all around Vietnam, mainly located on the Central Coast and South East Vietnam (Nguyen 2016). The supply chain for wooden furniture production for exportation in Vietnam is quite complicated and uncomplete. The process from raw material to wooden products for exportation has five steps in total, as illustrated in Figure 8.

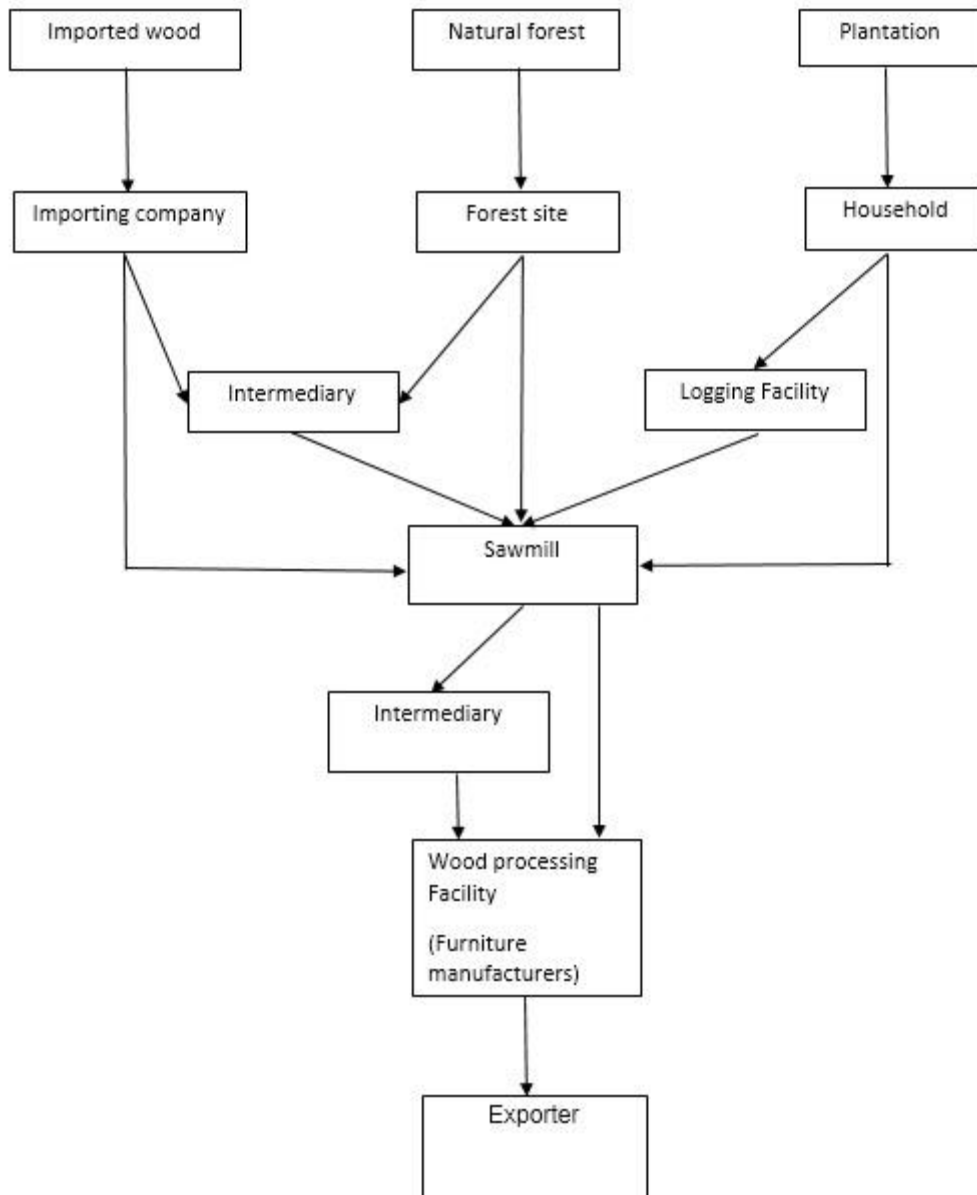


Figure 8. Wood product supply chain for exportation in Vietnam (Forest Trends 2013)

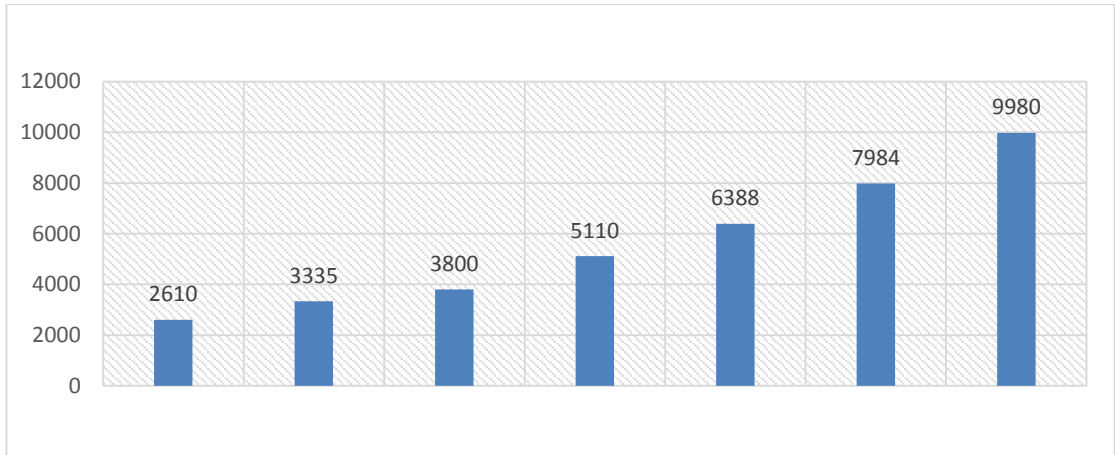
Until now, there is no research done on wooden furniture manufacturing in Vietnam. Most of the manufacturers are private companies and operate separately based on orders. However, the importance of sawmills in the supply chain has been investigated by Forest Trends since 2010. The project are still on going. Therefore, conclusions are not official.

Sawmill is a vital step between raw material and the final wooden product. In fact, sawmills, especially sawmills specializing in natural wood, provide most of the

wood which will later be used in furniture production. However, the operation of sawmills, usually at household level, is not controlled. Firstly, small scale sawmills are not able to ensure the safety of workers. As sawmills are usually at household level, the machinery used is usually man-made, inexpensive and unsafe. Moreover, employees do not have contracts and insurances. Therefore, strict timber legality standards are difficult to reach. Secondly, sawmills are not able to track the origin of wood used as the wood is mostly bought from intermediary enterprises. Hence, the certification of the origin of wood is disrupted at this stage, which later might become a serious disadvantage in exportation, especially in the context of FLECT and FSC-CoC. Thirdly, sawmills are not qualified enough to receive certification from the Vietnam Commune People's Committee, which confirms the commitment on environmental protection of sawmills. (Forest Trends 2013.) The small scale and spontaneous sawmills in Vietnam pose a serious challenge for wooden furniture production and exportation to big markets such as the EU market.

The research done by Forest Trends (2013) focused on household furniture (for example beds, cabinets, tables, chairs) manufacturers, which are normally located in traditional villages. Those manufacturers usually buy raw material themselves and then hire sawmills to saw the raw material. From sawn wood, manufacturers produce household furniture and sell by orders. When approaching directly the raw material suppliers, those manufacturers are able to control the origin of wood. Hence, exportation could be easier. Craft production is also a very popular type of wooden furniture production in Vietnam. However, it is not popularly used for exportation. (Forest Trends 2013.)

Nowadays, there are no exact figures calculated on the wooden furniture production value in Vietnam. However, after the research done by Forest Trends, a comprehensive look into wooden product production in Vietnam will hopefully be created. For reference, Graph 11 provides strong evidence on the significant growth of timber production.



Graph 15. Volume of timber processed (1000m<sup>3</sup>) (Phan)

### 6.3 Plantation management and wood production management in Vietnam

Management activities play vital roles in the development of an industry in developing countries. As a complicated industry which contains the involvement of many parties in different fields, the wooden furniture industry in Vietnam requires a serious concern and management from the government. The management of planting raw materials and producing products are the two biggest decisive factors.

#### 6.3.1 Plantation management in Vietnam

As the demand for raw material used in wooden furniture production has risen, Vietnamese forests are not able to supply enough raw materials. Therefore, plantation management is vital. Besides regular laws and regulations set on Forest and Land and Plantation, other actions have been taken by the government to support planting new forests. In fact, the most important factor when starting plantation is choosing suitable seeds for certain lands. The Vietnamese Ministry of Agriculture and Rural Development, which is in charge of the whole process, divides Vietnam into four main different lands: South East, Central Coast, Highlands and North Eastern. Each land has different types of soil and, as a result, is suitable for different types of plants. Under the control of the Vietnamese Administration of Forestry, households or parties involved are encouraged to grow only suitable plants in their forest land. The Vietnamese Administration of Forestry controlling the growing process from very beginning

ensures that the origin of wood is tracked according to FSC-CoC or FLEGT. (VAFS 2008.)

Furthermore, during the development of plants, the Vietnamese Administration of Forestry also offers technology support such as plant breeding, propagation and cultivation techniques. The last step in the process, which is exploitation, is controlled closely as well. (VAFS 2008.) The plantation management system which controls the planting process entirely from the beginning and to the end is a right and effective direction in the case of Vietnam.

### **6.3.2 Wood production management in Vietnam**

At the moment, the main purposes for wood processing and production management in Vietnam are decreasing the dependence on imported raw materials and increasing the level of law enforcement (Phan).

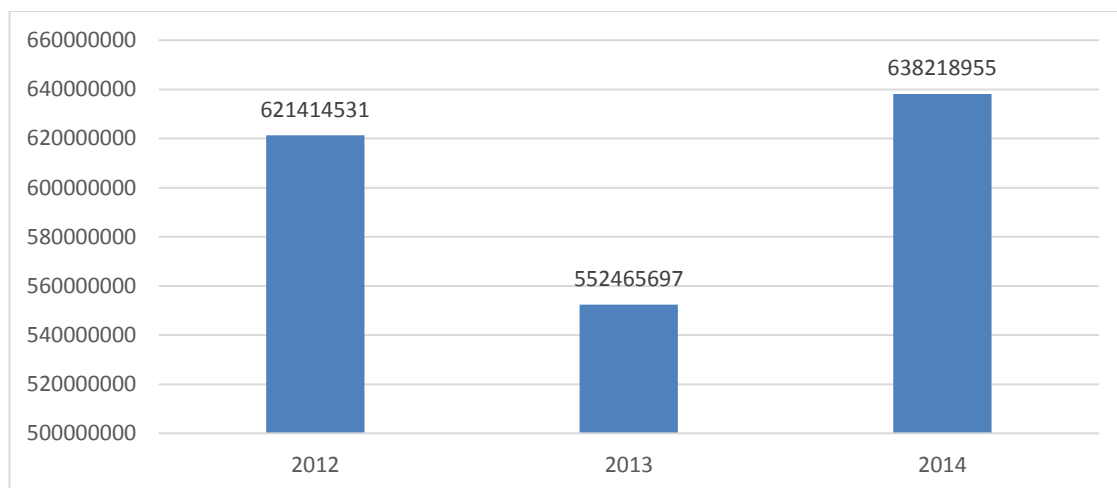
In order to decrease the dependence on imported raw materials, policies and regulations on plant growing, as mentioned in Part 6.3.1, still are a vital management key. On the other hand, the Vietnamese government also pays attention to increasing the level of law enforcement in wood processing. In fact, the wood processing in Vietnam is not yet well-managed. There are still small-scale wood processing manufacturers and sawmills which are spontaneous without any legal operating certificate. The bureaucracy in management and loose management result in ineffective and unprofessional wood production. Additionally, it makes the quality of output uncontrollable. Very few large scale wood manufacturers are operated legally with government's certification. The legality in wood processing might be a competitive advantage for Vietnamese exporters. (Forest Trends 2013.)

## **7 Vietnam as a potential exporting country**

This part will focus on exporting activities of wooden furniture (code HS94) from Vietnam to the EU. The statistics used in this part are not yet official statistics as the research project on the subject is still on going. However, the statistics used are considered to be the most exact and valuable as well as the newest statistics.



EU28 is the second biggest market for Vietnam wooden furniture exportation (after the United States). From 2012 to 2014, the total export value of wooden products and furniture from Vietnam to EU28 fluctuated but still increased as following (To & Nguyen & Huynh & Tran & Cao 2015).



Graph 16. Wooden product and furniture export value (Vietnam to EU) (EUR) (To & Nguyen & Huynh & Tran & Cao 2015)

From 2012 to 2014, the export value increased with an average increase of 2.2% a year. Export value in 2013 dropped by 11.1% compared to 2012. However, in 2014 the value increased by 15.5% compared to 2013 and reached a peak at EUR 638 billion. The reason for the decrease in 2013 was the application of the EU Regulation No 995/2010 on forest law enforcement, governance and trade (FLEGT), which was applicable in March 2013. After the law was valid, Vietnamese exporters struggled especially in clarifying the origin of wood. Additionally, the instability of the EU economy affected the purchasing decisions of EU wooden furniture importers as well as consumers. The crisis and huge debt of Greece was a big shadow on the EU economy as well. However, the quick recovery in 2014 remarked the return of Vietnam's position when the Vietnamese wooden industry successfully adapted to the new situation and laws. (To & Nguyen & Huynh & Tran & Cao 2015, Nguyen 2016.)

Apart from non-tariff barriers such as FLEGT, the Vietnamese wooden furniture exportation to the EU has faced tariff barriers. After the Free Trade Agreement signed in 2012, there is no export tax on wooden furniture exportation from

Vietnam to the EU. However, the EU charges their importers a tax called import tax. As Vietnam operates under the Generalized System of Preferences (GSP), which is basically to support the exportation from developing countries, import tax on goods from Vietnam is 3.92% (Nguyen 2016.)

Today, Vietnam still has not had any international furniture companies operating outside the Vietnamese market. The domestic furniture companies operate as furniture exporters as the companies receive orders directly from foreign companies (importers) and manufacture according to the orders. The orders from EU importers are very detailed. Usually, they give instructions and requirements for the design, the number of products needed, the type of wood used, the quality, time of delivery and price, for example. (Nguyen 2016.) Vietnamese exporters and furniture companies are still very passive when approaching EU importers and they are not capable to sell their own products (e.g. with their own design) without orders. EU companies/importers such as IKEA, Martwood and Metro, are regular partners of Vietnam wooden furniture companies/exporters. (Nguyen 2016.)

## **7.1 Competitive advantages of Vietnam as a wooden furniture exporting country**

The competitive advantage of Vietnamese wooden furniture is the key for better performance of Vietnamese wooden furniture exporters in the EU market. In this part, those advantages will be defined and analyzed using 5P's analysis.

### **7.1.1 Position**

As the EU is a very difficult and demanding market with a high level of competitiveness, it is vital for Vietnam to always be aware of their position in the market. Target customers and their preferential types of furniture are important information for Vietnamese exporters. Vietnamese wooden furniture for exporting mainly consists of outdoor furniture, wooden chairs, kitchen furniture, office furniture and bedroom furniture (To & Nguyen & Huynh & Tran & Cao 2015). It can be seen that the Vietnamese wooden furniture industry is responding quickly to the trends in wooden furniture consumption in the EU. However, the demands and preferences of each EU country on the types of furniture are different.

Outdoor furniture is one of the key exporting products. From 2012 to 2014, the export value of outdoor furniture such as tables and chairs used in households, hotels, resorts, and other tables, cabinets, shelves and beds increased by 17% from EUR 203 million to EUR 238 million. The United Kingdom, Germany, France and Netherlands were the four biggest markets, which accounted for 70% of Vietnam's outdoor furniture export value. Even though the export value increased, the amount of exported products stayed the same with 5.7 million products in 2014 compared to 5.9 million products in 2012. 33 million tables exported in 2014 showed the huge interest of the EU market in this type of a product. (To & Nguyen & Huynh & Tran & Cao 2015.)

Bedroom furniture, especially cabinets, beds and tables, were the most demanded products in the United Kingdom, the Netherlands and Ireland. Export value of Vietnamese bedroom tables increased quickly by 18.75%, while bedroom cabinets was quite stable in quantity with an increase of only 7.8%. 0.43 million bedroom cabinets were exported to the EU market, especially to the United Kingdom. The bedroom furniture export value to the United Kingdom was EUR 63.7 million, which accounted for 74% of the total export value to the EU. (To & Nguyen & Huynh & Tran & Cao 2015.)

In comparison with competitors in the same region, Vietnam seemed not to have significant advantage in exporting office furniture with an average export value of nearly EUR 33.5 million/year from 2012 to 2014. Desks, office cabinets and office shelves accounted for almost 100% of the total exported Vietnamese office furniture. Notably office cabinets had the biggest export value of EUR 15 million in 2014, which accounted for 0.1 million products. After office cabinets, desks were another important product range with an export value of EUR 14 million. The United Kingdom, Germany and the Netherlands were the biggest markets for Vietnamese office furniture. (To & Nguyen & Huynh & Tran & Cao 2015.)

Although the market value of kitchen furniture in the EU was the biggest in 2011 (EUROSTAT 2011; JRC 2013), the EU was not the target market for Vietnamese kitchen furniture exportation. In fact, the export value of Vietnamese wooden kitchen furniture to the EU only was about EUR 15 million in 2014. Dinner tables and kitchen cabinets were the two most preferential product ranges. In 2014, the

export value of dinner tables was EUR 10 million, which actually accounted for 66% of the total kitchen furniture export value. The United Kingdom continued to hold the highest position in Vietnam wooden furniture exportation as the country accounted for 70% of the total EU market for Vietnamese kitchen furniture. (To & Nguyen & Huynh & Tran & Cao 2015.)

Generally, wooden furniture exportation from Vietnam has had a trend of centralization. The United Kingdom has been the biggest market for Vietnamese furniture exportation in general. Specifically, outdoor furniture and bedroom furniture were the two key groups of exported Vietnamese furniture. Both types were sold mostly in the United Kingdom. Outdoor furniture, especially outdoor tables, and chairs, were popular in Germany, the Netherlands and France, while bedroom furniture such as bedroom tables and cabinets were also popular in the Netherlands and Ireland. Even though Vietnamese kitchen furniture has not performed impressively in the EU market, it may actually be a very potential product groups in the future.

### **7.1.2 Product**

If a product is divided into four floors of value according to the Levitt construct (Levitt 1980), which are core product, expected product, augmented product and potential product, wooden furniture from Vietnam only represents the core product. Vietnam plays a role of an outsourcing country that produces by orders with very simple and elemental machines and techniques. In other words, Vietnam is only in charge of producing the core product. Vietnamese furniture exported to the EU is usually core furniture, not consumed furniture, as it may be featured, assembled and customized according to special demands in different markets.

Generally, the passiveness of Vietnam in terms of wooden furniture production poses a disadvantage, especially in comparison with high technology production activities inside the EU and in other regions such as the United States or developed Asian countries. Vietnam is not able to provide innovative products. The quality of Vietnamese furniture products also needs to be strictly examined by the EU importers to ensure that the standards are met.

### 7.1.3 Place

The term 'Place' refers to distribution. Vietnam actually has quite a simple distribution channel. In terms of the environmental dimension, which basically refers to legal issues (Brown 2006), Vietnam has quite good support from the EU, such as the GSP. The EU's GSP is not applied in those countries who have mass furniture production such as China and Indonesia – Vietnam's biggest direct competitors. As a result, GSP becomes a key competitive advantage for Vietnamese exportation to the EU. Vietnam has signed the World Trade Agreement which allows zero tax rate is another advantage. In Vietnam, there are also many policies and laws to support exportation. The Vietnamese government shows their concerns by simplifying customs procedures and customs processes.

Vietnam also has advantage concerning the structure of distribution. The distribution channel of Vietnamese wooden furniture exportation is presented as below

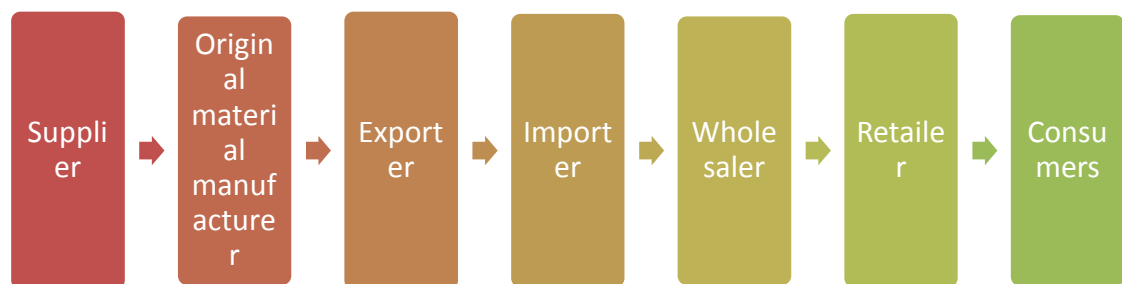


Figure 9. Distribution of Vietnamese wooden furniture exportation

There are not too many intermediaries between Vietnam and the EU. In fact, EU companies normally play the role of exporters by placing orders directly with Vietnamese furniture companies or manufacturers. Cutting out the intermediaries helps to lower the cost as well as to easily manage the whole supply chain. At the same time, less complicated distribution allows both parties to maintain a strong and long-term relationship.

#### **7.1.4 Promotion**

The passiveness of Vietnam in approaching EU importers becomes a huge challenge for Vietnamese wooden furniture exportation. Nowadays, the most common way to do marketing communication among Vietnamese exporters is through furniture fairs or international furniture fairs. Along with domestic furniture fairs such as VIFA Home, Vietnamese exporters also attend international furniture fairs which are mostly operated in Singapore, Thailand or China. The number of companies attending in those fairs reflects the strong effort of Vietnamese furniture companies to seek for potential consumers and partners. According to Vietnamnet, VIFA Home, which is one of the most creditable furniture fairs in Vietnam, attracted 600 stores and participants from 150 furniture companies in 2015 (HAWA Corporation 2015). The fair is a useful platform for Vietnamese furniture companies to look for good partners or vice versa.

However, as Vietnam does not have famous furniture brands or a reputation in the designed furniture industry, the country is still weak in marketing communication. Most of the exporting contracts are signed directly with specific EU furniture companies or brands. The sources of information for partners is through word-of-mouth or existing partnerships.

Therefore, the most common way of promotion in the Vietnamese furniture industry is relationship maintenance with long-term customers by discounts for bulk purchasing. Advertising agencies are sometimes used in some big furniture companies. Simple promotion, as a result, cannot be considered as an advantage.

#### **7.1.5 Price**

Price is one of the biggest advantages of Vietnamese wooden furniture. In Vietnam, cost plus is still the most common way of pricing. The cost which includes material cost, labor cost, production cost and logistic cost, for example is vital in calculating the price. Huge potential in materials sources results in lower material cost. Additionally, production in Vietnam has a major advantage in accessing raw materials. Logistic costs, as a result, are decreased accordingly. Production cost in Vietnam is small due to low investment in technology, modern

machinery or techniques. Last but not least, labor cost in Vietnam is considered to be the lowest compared to neighbors, Thailand or China. In 2010, Vietnam's labor cost was only two third of China's labor cost (BBC News 2010). All of those elements have led to the low price of Vietnamese wooden furniture. A mini research showed that the average price for a table from Vietnam is EUR 1100-1400/m<sup>3</sup>, while a chair is EUR 999-1300/m<sup>3</sup> and a bed is EUR 1300-1659/m<sup>3</sup> (Nguyen 2016), which are very reasonable prices.

Other ways of pricing such as pricing based on product life cycle and pricing based on product value, are not applicable in this case as furniture products exported from Vietnam are not yet final products and the export price is not the final price of the product.

## **8 Overview and recommendations on wooden furniture exportation from Vietnam to the EU**

In order to take a deeper and more comprehensive look into wooden furniture exportation from Vietnam to the EU, SWOT analysis will be used. The strengths, weaknesses, opportunities and threats in the exporting scenery will be analyzed to support the author's conclusions and recommendations.

### **8.1 SWOT analysis of Vietnam wooden furniture exportation from Vietnam to the EU**

#### **Strengths**

The development of exportation from Vietnam to the EU has proved that the Vietnamese wooden furniture industry has certain strengths and competitive advantages in exportation to the EU market. Firstly, price is the biggest and most important advantage of Vietnamese wooden furniture, especially in a competitive market such as the EU market. Mainly resulting from low labor cost, low production cost, and low material cost, the price of Vietnamese wooden furniture is very competitive. In comparison with Asian competitors such as China or Thailand, Vietnam still holds the cheapest price.

Secondly, the variety in material sources, huge quantity of forest resources and the diversity of timber are other strengths. Vietnamese forests are able to provide vast amounts of different types of high quality timber used in wooden furniture production. In order to maintain the diversity and quality of domestic timber and forest, Vietnam plantation management ensures a high level of control and extensive investments in the planting process. Good plantation management is helpful for tracking the origin of wood as well. Furthermore, the convenience in accessing large quantities of high quality foreign timber sources from neighbors, such as Laos, Cambodia, Thailand, and China with cheap prices, is what makes Vietnam a very potential wooden furniture manufacturer.

Thirdly, in terms of distribution, as the distance between Vietnam and the EU is not too great, delivery is considered to be effortless and quick. A simple logistic chain with lack of intermediaries is also one of the strengths to ensure the ease of collaboration. Finally, the concentration in Vietnam on bedroom furniture, which is now one of the most demanded product ranges in the EU, shows quick adaption and good vision.

### **Weaknesses**

On the other hand, Vietnamese wooden furniture still has weaknesses which are now constraining exportation to the EU market. Firstly, the lack of investment on production results in low competitive products. The outsourcing which strictly follows orders makes Vietnam very passive in production. As a result, Vietnam is marked as an outsourcing country instead of a producing country. In other words, Vietnam is unable to produce signature products. Moreover, lack of investment in research development and innovation challenges the capital of Vietnamese furniture to satisfy the EU's high demand on quality. Secondly, the weak management in the operation of sawmills breaks the supply chain and makes it very challenging to track the origin of the wood. On the other hand, the EU pays more and more attention to the origin of wood through policies and laws such as FSC-Coc or FLEGT. As a result, the lack of controlling the origin of wood in Vietnam limits the opportunities for wooden furniture exportation from Vietnam to the EU. Thirdly, the passiveness of Vietnam in approaching EU importers is one



of the disadvantages. At the same time, the weakness in branding and maintaining reputation is considerable.

### **Opportunities**

Even if the Vietnamese wooden furniture industry has weaknesses, exportation to the EU is still potential because of some major opportunities. The first and most obvious opportunity is considerable support from EU tariff systems. The Generalized System of Preferences (GSP) and Free Trade Agreements (FTAs) allow Vietnam to export into the EU market with the lowest export and import tax. As a result, the EU importers are encouraged to import from Vietnam. The second opportunity is the very high demand for wooden furniture in the EU market. The demand, which has recovered in the past five years, requires a quick adaptation in Vietnam. Specifically, the great demand for kitchen furniture is absolutely a significant chance. In fact, Vietnam has enough capacity for kitchen furniture production and the country has already done very well in this field. However, nowadays, the main market for Vietnamese kitchen furniture is Japan. If Vietnam takes the chance to target on the EU market, it could make a considerable positive difference. As the EU has quite a sustainable and strong economy, long-term cooperation is very good strategy for the Vietnamese wooden furniture industry.

### **Threats**

However, along with opportunities, Vietnam also faces some threats when exporting to the EU market. Firstly, replacement is a serious threat for Vietnam. The EU market has a high level of competitiveness and substitution as well as high purchasing power. The uncompetitive Vietnamese furniture products could hardly satisfy the EU demand. Additionally, Vietnam as an outsourcing country does not have any signature products. As a result, Vietnam could be easily replaced by major rivals and Vietnamese products could easily be replaced by substitutes. Secondly, Vietnam's lax management of the supply chain of materials, especially the operation of sawmills, is a serious threat. The lax management makes it impossible to control the origin of wood and other sustainable issues such as the health and safety of workers, and the working

environment. Unfortunately, since 2013, the EU laws on sustainable issues as well as FSC-CoC and FLEGT strictly require the exporters to clarify the origin of material used in the products, and to provide relevant certifications on sustainability. The weak management of furniture production in Vietnam leads to a difficulty to follow the EU laws. Finally, the instabilities in the EU society and politics, such as terror or coup, switching power of the parties are also considered to be threats.

## **8.2 Recommendations**

The purpose of this part is to offer some useful recommendations for both the Vietnamese wooden furniture industry and the EU wooden furniture importers for better performance and collaboration. It has been shown that Vietnam actually holds key advantages in the wooden furniture industry due to the material sources, human resources and cheap labor force. However, Vietnam, as a developing country, is still struggling especially with management and operation in order to take full advantage of those strengths.

Firstly, some adjustments in management should be made. The best solution for controlling the operation of small-scale sawmills or manufacturers is to combine them into groups or into large scale industrial zones. The combination will make the registration less complicated and reduce the administration burden. In order to combine the business, the government should help them to understand the difference between combination and acquisition as well as the major benefit of the combination. If it is possible for the combination, at least registration needs to be done.

Secondly, in a long-term strategy, education and training is a must. Educating and training the key workers in new technology and legal issues is very important. Highly skilled and high educated workers could change the whole working system in a very positive way.

Thirdly, improvements in production are necessary in the long run. Uncompetitive products are the biggest threat for the furniture industry. Along with performing well as an outsourcing country, Vietnam needs to produce independently as a producing country. At this moment, it is the most difficult task for Vietnam as it

requires extensive investment in a complete production system which contains high technology, innovation and design, for example. For exportation, also extensive networks of supply and sale are necessary. In a short run, Vietnam now has undeniable opportunities in producing kitchen furniture for the EU market. As a result, focusing more on kitchen furniture should be beneficial.

Finally, the global concerns in sustainability issues shows the urgency and importance of them. Therefore, Vietnam must pay more attention and come up with solutions for forest protection and maintenance, sustainable workforce and a better working environment. Accordingly, sustainability always needs to be included in long-term strategies.

From EU importers' perspective, there are also some notes which could bring many benefits. As the EU has a great demand for kitchen furniture and Vietnam has a vast capacity to supply it, it will be very clever if EU importers ordered more kitchen furniture from Vietnam. However, it is just a short term strategy. For better long-term collaboration, the EU should consider a long-term investment in Vietnam, especially in production. New technology, new technology transferring, innovation, education and training programs are what will help to improve furniture production in Vietnam. Better production is a promise of better products. The development of furniture production in Vietnam resulting from EU investments might open a new opportunity for EU importers to outsource high-end product ranges with cheaper cost.

## **9 Conclusion**

In general, this research gave a picture of the Vietnamese wooden furniture exportation to the EU market. It has been shown that nowadays the wooden furniture industry is one of the most important industries in the world. The development of the industry as well as the globalization in trading are what make the wooden furniture market become very competitive and promising.

The most active region in this field definitely is the EU market. Great demand and high level of competitiveness are two notable features of the EU wooden furniture market. Indeed, the high demand on not only quantity and quality but also on

sustainability makes the market very potential yet picky at the same time. Furthermore, the high level of competitiveness, which rises mainly from good production, major rivals and substitutes, is a strong barrier for foreign exporters.

In the EU wooden furniture market, Vietnam shows up playing a role of a very potential outsourcing country. The diversity and quality of raw materials and low cost make the Vietnamese wooden furniture very competitive. However, disadvantages from management and production are now constraining the performance of Vietnam. In terms of exportation, Vietnam has received many supports concerning legal issues and tariffs from the EU.

This study also analyzed the strengths, weaknesses, opportunities and threats of Vietnamese wooden furniture exportation to the EU. The results of the SWOT analysis provide a comprehensive look into the situation and become a foundation for the author's recommendations. Vietnam is suggested to improve management, production, education and sustainability in the wooden furniture industry to continue being a potential outsourcing country and to step forward to become a key manufacturing country in the market.

For future researches, studies on wooden furniture production, sustainability and investment will be very supportive and useful. A thorough look into the personal demand at the consumer level will be very valuable as well.

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## Appendix: INTERVIEW QUESTIONS

Date: 20 February 2016

Interviewee name: Mr. Nguyen Ton Quyen

Position: Vice Chairman

Organization: Vietnam Timber and Forest Product Association (Vietforest)

1. What kind of EU regulations or laws which you think have the biggest effect on Vietnam timber products exportation?
2. What exactly is the import and export tax set on Vietnam wooden furniture products? Do Vietnam feel to be tie up by any tariff barriers or non-tariff barriers?
3. Could you please clarify the origin of wood materials used in wood furniture production?
4. How is the operation of furniture manufacturers in Vietnam? Are they private or Government Company? Their scales?
5. How EU importers reach Vietnam furniture manufacturers?
6. At this point, is there any Vietnam furniture company which control entire business chain from supply to production and to sale in EU market?
7. How do you measure the centralization of wood furniture purchasing activities made by EU importers? Do they have any preference on special long-term Vietnamese partners?
8. How do you measure the position of Vietnam furniture manufacturers in Vietnam market?

Thank you for your answers!