



TABLE Project: Research Study

Competitiveness of BG-SER furniture cluster cooperation project in EU-CEFTA-Russian Federation Markets

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Introduction

This report is part of an EU Cross-Border Collaboration Project between Bulgaria and Serbia. The aim of this report is to give information and recommendations to the two Furniture Clusters in the two Countries – one a Bulgaria-wide, Export-led Cluster and the other a recently formed group of Furniture producers in South Serbia.

World Production of Furniture is worth approximately US \$ 437 bn (in current dollars). The leading importers are the United States, Germany, France, the United Kingdom and Canada. The major exporters are China, Germany, Italy, Poland and the United States.

All major furniture importing countries have seen decreases in their import flow during the recession of the last 5 years. Whilst recovery is slow in Europe, the USA and Canada market has recovered and now exceeds the pre-recession level.

The Furniture Industry is essentially an assembly industry which employs raw materials to manufacture its products. Ranging from wood and wood-based panels to metals, plastics, leather and glass.

With the different types of furniture e.g. chairs, sofas, tables, wardrobes, kitchens, mattresses there are also many different end users – homes, schools, offices, Hotels and Showrooms, retail outlets.

Study Focus

The European Union Furniture Industry has a high level of production quality in technical, aesthetic, design and fashion-related terms and has a strong image world-wide.

The European furniture sector comprises around 150,000 Companies. It generates a turnover of almost € 126 billion and an added value of € 38 billion. It employs around 1.4 million people (EU 27, 2010). The main producers (in terms of production value) are Italy and Germany, followed by UK, France and Spain (and to a lesser extent, Poland).

The production sector is dominated by micro enterprises (86% of EU furniture enterprises have less than 10 employees) but each country has larger manufacturers. Small companies often act as sub-contractors for larger firms producing, for instance, components and semi-finished for the final furnishing and assembling of furniture.

38% of production value is of wooden furniture used in bedrooms, dining rooms, living rooms, and other spaces. Other important production sub-sectors are seats and office furniture (29% and 17% respectively) as well as kitchen furniture (12%).

Major factor of competitiveness for the Sector consist of Research and innovation, skills and quality, design and added value, knowledge and know-how, together with better access to 3rd Country markets.

Bulgaria

With a population of just over 7 million Bulgaria is one of the small Countries of Europe. The Furniture Industry has always been one of the leading industrial sectors in Bulgaria. Rich Timber resources and long traditions the sector has had a high social impact in the regions of Bulgaria. There exist geographical concentrations of nearly 3,000 furniture and wood processing Companies – in Sofia, Varna, Pazardzhik, Troyan-Lovech, Rhodope

Population	6,924,716
25-54 years	52,50%
0-14	14,2%
65 years and over	18,9%
Urban population	73,1% (2011)
Major urban areas	Sofia (Capital) 1,174 million (2011)
GDP (purchasing power parity)	\$104,6 billion (2013 est.)
GDP (official exchange rate)	\$53,7 billion (2013 est.)
GDP per capita	\$14,400 (2013 est.)
Unemployment rate	11,6% (2013 est.)
	28,1% youth ages 15-24
Industries	Electricity, Gas, Water, Beverages Food, Tobacco, Machinery and Equipment, Chemical Products Base metals, Coke, Refined Petroleum, Nuclear Fuel
Exports	\$27,9 billions Clothing, Footwear, Iron and Steel, Machinery and Equipment, Fuels
Imports	\$32,88 billions Machinery and Equipment, Metals and Ores, Chemicals and Plastics, Fuels, Minerals, Raw materials
Source	CIA, (2013 est.)

Mountains and Rouse. It is estimated that approximately Some 30% of the Country's area is still covered with Forests.

The most important markets with the highest growth in the export expositions of the Bulgarian SMEs in sector "Manufacture of furniture" are:

- Within the EU: Greece, Italy, France, Germany, The Czech Republic and Poland;
- Markets outside the EU: Russia, Serbia; USA; Ukraine; Turkey and Macedonia.

Actual data and characteristics for big part of the developed markets may be found on the National export portal, supported by BSMEPA.

The export of furniture production registers constant growth up to the pre-crisis 2007. As a result of the effects of the global financial and economic crisis and the shortening in demand on the international market the export of furniture has contracted in 2009 up to 145,5 million EUR. In 2010 a recovery has started with reported export for 177,8 million EUR, but its levels still stay under the pre-crisis levels. The share of the export of sector “Manufacture of furniture” in the total export of the country varies from 1,1% in 2000 to 1,7% in 2003-2004.

Table 1 Indicators for the state of export of the SMEs in the frame of sector “Manufacture of furniture”

CEA	Groups of companies	Export	Export	Export	Structure of the export %		Export per one employed	Export per one employed
		(thousand BGN)	(thousand BGN)	2010/2009	2009	2010	2009	2010
31	Manufacture of furniture	111034	127390	114,73	100,00		5187	6764
31.0	Manufacture of furniture	111034	127390	114,73	100,00	100,00	5187	6764
31.01	Manufacture of office and shop furniture	..	..	..	..	..	..	..
31.02	Manufacture of kitchen furniture	9242	8879	96,07	8,32	6,97	3548	4491
31.03	Manufacture of mattresses	..	..	..	..	..	..	..
31.09	Manufacture of other furniture	92886	95234	102,53	83,66	74,76	6221	7090

Source: NSI

Serbia

Economy

Serbia has a transitional economy largely dominated by market forces, but the state sector remains significant in certain areas and many institutional reforms are needed. The economy relies on manufacturing and exports, driven largely by foreign investment. Milosevic-era mismanagement of the economy, an extended period of international economic sanctions, civil war and the damage to Yugoslavia's infrastructure and industry during the NATO airstrikes in 1999 left the economy only half

Serbia:	
Population:	7,209,764
25-54 years	41,6%
1-14 years	14,8%
65 years and over	16,9%
Urban population	56,4% (2011)
Major urban areas	Belgrade, 1.135 million (2011)
GDP (purchasing power parity)	\$ 80.47 billion
GDP (official exchange rate)	\$43,68 billion
GDP per capita	\$ 11,100
Unemployment rate	20,1%
Industries	automobiles, base metals, furniture, food processing
Exports	\$ 14,61 billion Chemicals, sugar
Imports	\$ 20,54 billion Pharmaceuticals
Source:	CIA, (2013 est.)

the size it was in 1990. Serbia has made progress in trade liberalization and enterprise restructuring and privatization, but many large enterprises – including the power utilities, telecommunications company, natural gas company, and others – remain in state hands. Factors favorable to Serbia's economic growth include its strategic location, a relatively inexpensive and skilled labor force, and free trade agreements with the EU, Russia, Turkey and countries that are members of the Central European Free Trade Agreement (CEFTA).

Serbia is a major wood processor. 2.25 million hectares (or 29% of the territory of Serbia) is under forest. 90% of the Forests are managed by a State Company "PE Srbija Sume" – 45% for private owners and 55% for the State. Importantly 30% of the forests are certified to FSC standards and this is being rapidly increased.

Serbia has an annual production of 3 million cubic metres worth € 163 mn in 2011. Export of Furniture was €124 East Europe.

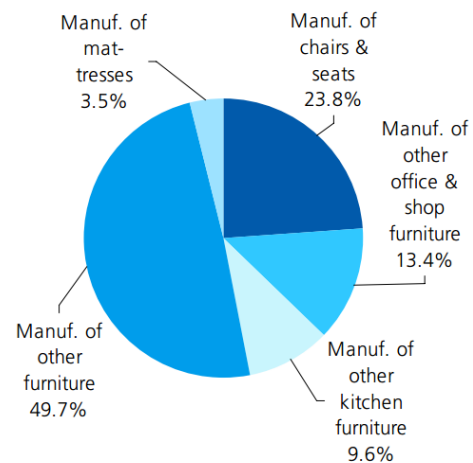
1. Macro overview of the 3 Markets

a) EU

The furniture industry of the 27 EU countries (EU27) is the largest region for production and consumption of furniture in the world. Despite the decrease in production as well as in trade over a ten-year-period from 1996 to 2006, EU27 still has the leading position in furniture production amounted to 99.3 billion Euro worth of in 2006 or +6,3% compared to the previous year. EU27 accounted for about 36,5% of the world furniture output (272,3 billion Euro) in 2006, but it's part is decreasing (from 50% in 1998). Nevertheless the total value of production is growing. 2006 was the third year in a row, where the production value increased again – coming from a low point of 79,5 billion Euro in 2002. The largest part of this growth is originated in the new EU member states. These have increased their production output in 2003-2006 by 4.1 billion Euro, which equals more than a third of the former value.

In the following years, the global world furniture production is going to grow further. It was estimated to be 307 billion Euro in 2008. To which amount the EU27 can profit from this development is still in the open. EU27 manufacturers are facing harsh competition from Asian countries on global and internal markets. In so far, the European furniture is undergoing a deep-seating structural change with long-term consequences for the sector location in Europe.

**Manufacture of furniture
(NACE Group 36.1)
Breakdown of sectoral employment,
EU-25, 2003 (%)**



Source: Eurostat (SBS)

Although traditionally associated with wooden products, the EU's furniture industry draws on a variety of materials to manufacture its products, including metal, leather, glass and synthetic materials. Increasingly the EU furniture industry has to rely on its design skills and high added value products in the face of competition from countries that are characterized by low labor costs.

STRUCTURAL PROFILE

In 2003, furniture manufacturing (NACE Group 36.1) generated EUR 33.9 billion of value added in the EU-25, equivalent to 2.0 % of the industrial (NACE Sections C to E) total and 69.2 % of the total for furniture and other manufacturing activities (NACE Division 36). There were 1.25 million persons employed in the EU-25's furniture manufacturing sector, which was a considerably higher share of the industrial workforce at 3.6%. Half (49.7%) of the employment was in other furniture manufacturing (NACE Class 36.14), and nearly one quarter (23.8 %) in the manufacture of chairs and seats (NACE Class 36.11), see Figure 11.4.

Germany made the largest contribution to EU-25 value added in the furniture manufacturing sector in 2003 with a 19.9 % share, followed by Italy (18.6%), the United Kingdom (14.2%), France (11.0 and Spain (10.1 %). An analysis of employment shows a different structure, as Italy had the largest share

(16.9 % of the EU-25 total) among the Member States, while Poland also accounted for more than one tenth of the EU-25's workforce (11.7 %).

EU Market	
• Home Furniture	21%
• Kitchen Furniture	18%
• Office Furniture	15%
• Upholstery	13%
• Contract Furniture	11%
• Ready to assemble	7%
• Bedding products	7%
• Bathroom Fittings	6%
• Outdoor Furniture	3%

The relative importance of the furniture manufacturing sector within the national industrial economies of the Member States was highest in Estonia in 2003, as furniture accounted for 5.5 % of industrial value added. Lithuania, Malta (2002), Cyprus, Denmark, Latvia and Slovenia were also relatively specialised within this activity, as furniture accounted for more than 3.0 % of industrial value added in each of these Member States.

Annual short-term statistics show that the EU-25 production index for furniture manufacturing grew on average by 2.4 % per year between 1995 and 2000, and then this activity's output contracted in each of the following three years, most strongly in 2002 by 4.3 %. Output recovered slightly in 2004 (0.8 %), but was unchanged in 2005. EU-25 domestic

output prices for furniture manufacturing rose on an uninterrupted basis from 1995 to 2005, unlike the industrial average which recorded falls in 1998, 1999 and 2002. Prices rose on average by 1.6% per annum over the period considered, the same as for industry as a whole. In the last two years for which data are available, output price increases were relatively modest, 1,3 % in 2004 and 1.7% in 2005 for furniture manufacturing compared with an industrial average of 2.8 % and 5.2 % respectively.

Bulgaria

Bulgaria has a long tradition of export of chairs and sofas to the rest of Europe and Russian Market. In the period up to 2011 almost 23% of the turnover was realized on the international market against 20% in 2009. Sector "Manufacture of furniture" has registered 30% growth relative to 2009 in terms of "volume of export per 1 employed" in 2010. The group with the most significant share is the "Manufacture of other furniture", including the manufacture of sofas, sofa beds and sofa sets, garden chairs and seats, furniture for bedrooms, living rooms, gardens etc., cabinets for sewing machines, televisions etc., upholstery and finishing of furniture (84% of the export in the sector in 2009 and 75% in 2010). The highest growth rates are registered in the export of products by the companies, manufacturing mattresses. The SMEs in the sector create over 50% of the export-intended production.

Graph 8 Dynamics of the export of furniture from Bulgaria for the period 2000 – 2010 (million EUR)



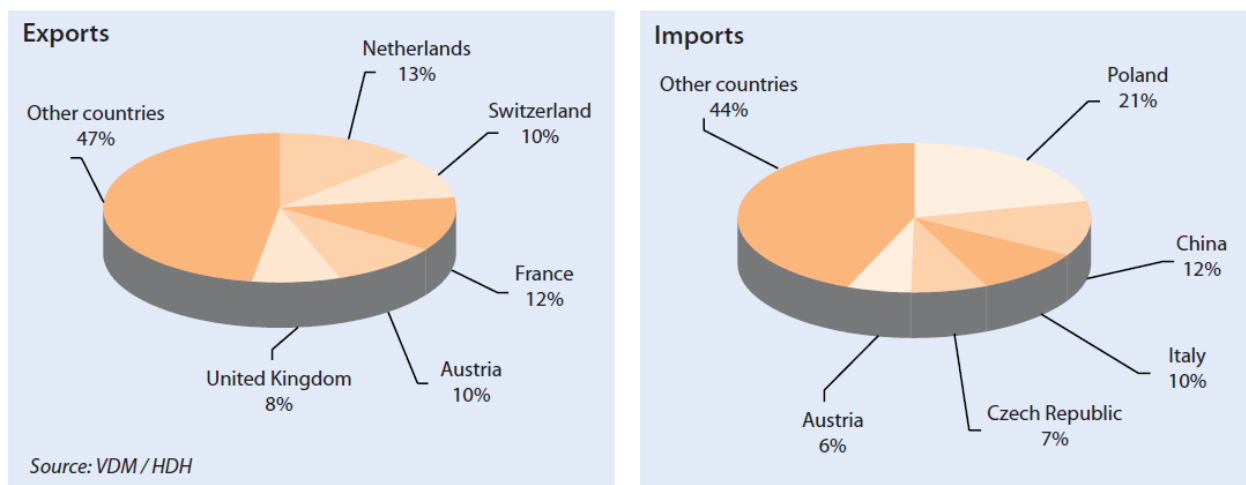
Source:
ITC

Germany

Export and import of furniture

In 2007, Germany exported furniture valued at 7,47 billion Euro. This represented an increase in value of 53% since 2001. Germany was the second largest exporter by value, after Italy, but the third largest by volume, also after Poland, which was the leading volume exporter. Nearly 80% of German exports were intra-EU (thereof 63% to EU 15). The main destinations for exports in 2007 were: The Netherlands (969 million Euro), France (854), Austria (745), Switzerland (725) and United Kingdom (601).

Fig. 11: Export/Import of furniture - TOP-5 countries 2007



In terms of product groups, other furniture and furniture parts accounted for 39,3.% by value (2,94 billion Euro). The next largest group of exports was seating furniture, which accounted for 31,4% of all exports (2,35 billion Euro) Kitchen furniture represented 18,4% and office furniture 8,3% of all exports (1,38 billion and 620 million Euro).

In 2007, Germany imported furniture valued at 7,56 billion Euro. This accounted for nearly 22% of all EU imports in this year. The import value represented an increase of 13% since 2001 from 6,68 billion Euro. Germany was the largest importer of furniture in Europe. Based on a high level imports grow more less then exports. There is a chance, that the German trade balance with furniture will be adjusted in 2008.

Italy

The wood-furniture/home furnishings system is very important in Italy. The percentage of wood industry (wood processing and furniture) in the frame of the manufacturing sector at the end of 2007 is 13,83% from the companies and 8,14% from total employment. In total, 2007 more than 74,000 enterprises worked in the Italian wood and furniture industry, which employed around 383,000 staff members. In 2005, goods with a value of 37 Billion Euros were produced – this is equally to 5.1% of the total production of the Italian industrial sector. The wood and furniture sector has an important position within the Italian industrial structure: In relation to the number of companies, the sector is only second place in the numbers of employment after the metalwork’s sector; measured on the total employment, it is the sixth largest industrial branch. The furniture industry is the most important and well known sub sector. In 2007 again Italy is the leading furniture country in Europe – according to production volume as well as in export. In the world, Italy is on third place at furniture production and on second place on furniture export.

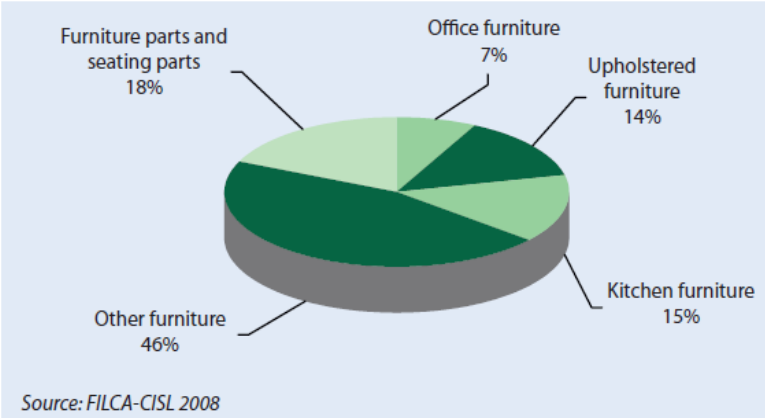


Fig. 1 Furniture production by product group 2007 (share from turnover)

The furniture production of Italy is bigger than the need of national consumption. Since 1995 the consumption from national production decreased from 95% to 86% while the share of imports increased 9%. Nowadays nearly 45% from total production are for Export. Italy produces every type of furniture and home furnishings in a range of incomparable solutions and products. The production specialization in which Italy excels are principally 4: upholstered and unupholstered furniture (sofas, armchairs, chairs etc.); office furniture; kitchens; house furniture (bedrooms, living rooms). The production specialization is almost always connected to a district: kitchens in Pesaro and Treviso, upholstered furniture in Bari-Matera, house and office furniture in Brianza and Treviso-Pordenone.

Romania

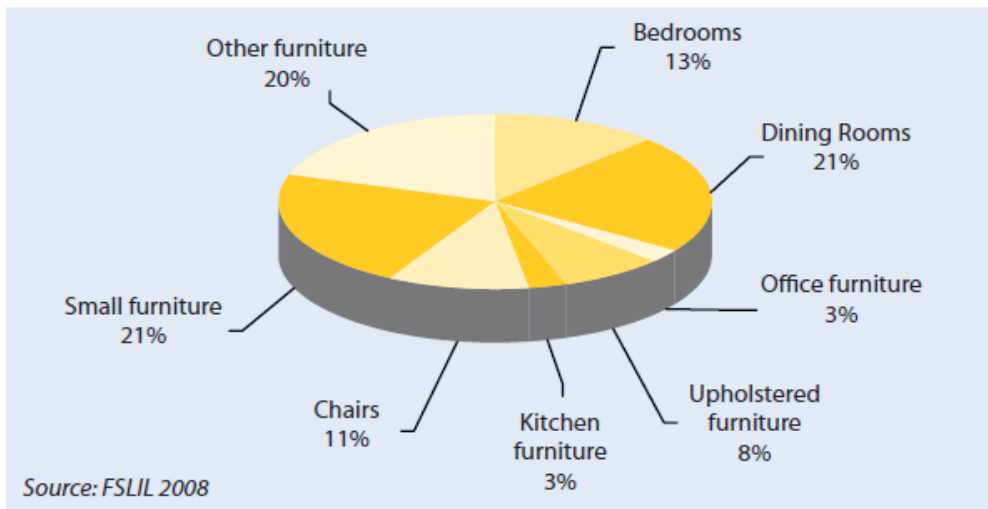
There were round about 3.800 furniture manufacturing companies in 2007 in Romania (small and medium companies had an important share). Some 90.000 persons were active in the furniture industry in 2007, accounting for 7.2% of the total staff employed in industry, of which 40% worked with SMEs.

Position of wood/furniture sector in the Romanian economy. The percentage of wood industry (wood processing and furniture) in the frame of Romanian processing industry, at the end of 2007 is: 10,3% from the industrial production volume, 11% from the volume of industrial products export and 5% from the total of import volume 11% from the number of hired people in industry. The furniture industry represents 3,5% from our country's industrial production, 4% from the exports volume, 0,7% from imports volume and 7% from hired people number. The total volume of wood industry production in 2000 was 1,523 billion euro and in 2007 was 4,620 billion euro, increasing with 3,0 times. In the world, Romania is on 27th place at furniture production, place 22 on furniture export and 36th place on furniture import. Unlike a number of other EU countries, the furniture industry in Romania is relatively strong with future-oriented opportunities in a growing domestic market.

Sub sectors and products

According to the production worth in 2006 (1.650 mln. Euro) furniture production segmentation was as follows: small furniture 21% or 363 million Euro; other furniture 20% or 328 million Euro; dining room furniture 21% or 361 million Euro; and bedroom furniture 13% or 206 million Euro. 76% of total furniture production in 2006 fall upon these four segments.

Fig. 1 Structure of the Romanian furniture industry 2006 (share of production by product groups)



The furniture production of Romania is bigger than the need of national consumption. Some 75% of the Romanian furniture is exported, while its volume doubled over 2000 to 2007. Furniture production accounted for 3.5% of the value of industrial production and 4.5% of the volume of industrial exports in 2004. Production volume grew over 2000-2007 by 154%. According to forecast of development, until 2010, the furniture production should grow 1.8 times on the domestic market, 1.15 times on the western markets and 6.3 times on the Russian Federation market. However, because of a weak euro and strong local currency, the furniture sector, one of the industries that previously lived on exports, is starting to look more favourably on the domestic market.

Companies' size

From 12 633 commercial companies, 253 are classified as big companies, 1011 medium, 2399 small and 8970 as micro-enterprises. To a very important role in economical straightening of companies are the foreign investors. Many of them are old clients and buyers of wooden and furniture products. Becoming owners or majority shareholders they became also producers and vendor of products in their origin countries. Due to this change, the production in both sectors began to develop. Between 2000 and 2007, the branch suffered essentially structural changes, the most important being, the new relationship with key Companies now in foreign hands.

The manufacturers of high added value wooden products and especially the furniture manufacturers, face further problems generated by the increasing prices of raw materials and energy. The enhancement of national currency RON in comparison with the Dollar (\$) and Euro (€), led to important difficulties in the export activity. So, if the export value expressed in Euro, increased in 2007 by 17,4%, in the same period, the export value expressed in national currency, in comparable prices, represents only 98.7 %, from the value realized in 2006.

The whole furniture exports from Romania were valued at 1.133 million Euro in 2006. France, Germany, Italy, Great Britain and the Netherlands represented the destination of almost 60% of all exports. Romanian producers are particularly export-focussed since joining the EU. Between 2002 and 2006, the average annual increase in exports was 11.3% by value.

Summary

For all countries described, Export markets are concentrated on EU and/or neighbouring countries.

It is useful in any analysis of European Producers and Exporters to assess the increasing power of the Turkish Furniture producers. Working to the East, as well as to Western Markets they have steadily increased their penetration of World Markets over 20 years. Neighboring Countries to Turkey, as well as the German Market have seen tremendous gains.

Major Export Markets in Turkish Furniture Industry (Value: US\$ 1,000)

Countries	2009	2010	2011	Share of Countries (%) 2011
Iraq	136.623	207.794	284.183	17,7
Germany	114.889	128.564	160.818	10,0
Azerbaijan	69.240	81.033	106.619	6,6
Iran	70.618	84.502	103.463	6,4
France	63.871	70.697	87.684	5,5
Turkmenistan	38.172	46.590	75.714	4,7
Netherlands	48.509	45.757	55.570	3,5
Russian Fed.	17.118	34.961	47.667	3,0
Saudi Arabia	22.736	28.891	41.521	2,6
UK	41.715	39.111	39.003	2,4
Italy	25.169	29.959	32.814	2,0
Greece	46.611	41.372	31.984	2,0
Georgia	14.293	16.413	27.991	1,7
USA	18.740	22.233	26.141	1,6
Austria	20.508	19.422	24.353	1,5
Israel	16.394	19.173	23.069	1,4
Belgium	17.570	18.336	22.263	1,4

Source: TurkStat

Europe, with US and China, is the powerhouse of World Furniture production. It is also the largest World Market for furniture. The industry has survived the financial crisis. No official statistics are yet available on how much production capacity has been removed from the Sector. Non-verifiable reports say between 10% and 25% according to the technological and marketing sophistication of individual EU Countries and Companies.

To aid the analysis a detailed SWOT has been developed.

Situation and perspectives of the European wood / furniture industry (SWOT – Analysis)

Strengths

- Europe is the strongest furniture region in the world (production & usage)
- High standards for design, quality, functionality and service (worldwide requested brands and quality products)
- Highly productive sector environment (regional wood-furniture clusters, networks with suppliers, FuE-environment)
- Own raw material base and vicinity to the neighbouring (European) resource markets
- International competitiveness – growth in export
- Potential for research and development
- Technological know-how - high standards in manufacturing technique and flexibility in production
- Employee potential and qualification
- Legal standards (for environment, health, technology)
- European production networks and chains of distribution

Weaknesses

- Lack of long term strategies – orientation on competition advantages through cost reduction strategies in salary and working standards
- Inadequate activities in education, qualification, further training activities (new employees/attractiveness)
- Innovative weaknesses (expenditures for FuE, product development, new materials & substances, manufacturing technologies, energy efficient production)
- Lack of own channels for distribution and market influence of the trade (low price enforcement potential)
- Lack of equity base – competitive weak company structures (small and micro companies – investment weaknesses (SME's))
- International markets esp. of SME's are only little developed (export weakness / lack of distribution structures /marketing)
- Little specialised research, cooperations and knowledge transfer - inner-european cooperation is developable
- Neglect of labour innovations as quality or competition advantages
- Lack of concepts and activities for an industrial policy to protect location and employment

Opportunities

- Strategic targeting of the companies (towards quality leadership, specialisation, niche market)
- New positioning in the global economy – access to non-European foreign markets – development of additional marketing and distribution structures
- Systematic personnel development (transfer of knowledge, need of job training and qualification, new requirements, prior and postal services)
- Long termed investments for basic and further education (skilled personnel, engineers, specialist for IT/ service/ marketing)
- Stronger bonding of production and services
- Continuous improvements of products, functionality, techniques, materials and design

- Sector cooperation and networks (regional, vertical and horizontal) – specialised research - cooperation and transfer of know-how with academies, vocational schools and research facilities
- Decent wages, equal standards and good conditions for work

Threats

- Further growing import pressure from Asia/China
- Lack of brand protection, product piracy and imitations
- Satiation of the European furniture market
- Further losses of employment through concentration (fusions, takeovers –national and transnational) and automation
- Structural changes as cutthroat competition endanger medium, small and micro enterprises
- Weakening of the sector through displacement of competence and production
- Loss of quality and competence through deficits of labour standards, inadequate qualifications and aging staffs
- Ongoing weakness of the inner market / lack of purchasing power
- Innovation advantages (technologic & qualitative) are declining
- Threat to a material base – availability of wood, prices, concurrence industries
- Neglecting of skills issues which affects progress through innovations

A mixture of the analysis of Global Trends, the specific position of the all-EU Market Place, and the analysis in-country for Serbia and Bulgaria will feed into the Conclusions and recommendations of this Report.

b) Russia and two other former USSR states

For the benefit of complete analysis post-break up of USSR the Report includes those Countries which lie geographically between the EU Nations and the Russian Federation. Positioned west of the Ural Mountains are Ukraine, Belorussia and the major production and Market of the Russian Federation.

- **Demography**

Russia's population is 143,700,000¹ and it is the 9-th most populous country on earth, despite being one the largest by territory. Almost half of all Russians live in just two areas: the Central and Volga federal districts. The further east you go -- to Siberia and beyond -- the less dense the population is. Russia is one of the most sparsely populated countries in the world, in part due to its harsh climate. The country has a population density of just 8.4 people per square kilometer (22 per square mile), but the population is most dense in the European area of the country around Saint Petersburg and Moscow.

¹ Russian Federal State Statistics Service March 2014 est.

The age structure of the country is stable, as economically active population (25-54 years) represents almost half of the total population (about 46%). Population below 24 years is 27% and 65 years and over is only 13%.²

Moscow is the largest city in Russia with a population of 11.5 million people, which also makes it the sixth largest city in the world. Saint Petersburg is the second largest Russian city, with 4.8 million people, making it the 40th largest city in the world. Interestingly, Russia is mostly an urban country; according to the census results, 74% of Russians live in urban areas -- either towns or cities. *(See Table1 Russian's Population by Cities over 1million in Appendix)*

- **Economy**

Russia has undergone significant changes since the collapse of the Soviet Union, moving from a globally-isolated, centrally-planned economy towards a more market-based and globally-integrated economy, but stalling as a partially reformed, statist economy with a high concentration of wealth in officials' hands. Economic reforms in the 1990s privatized most industry, with notable exceptions in the energy and defense-related sectors. The protection of property rights is still weak and the private sector remains subject to heavy state interference. Russia's manufacturing sector is generally uncompetitive on world markets and is geared toward domestic consumption.

In late 2008 and early 2009, [Russia experienced the first recession](#) after ten years of experiencing a rising economy, until stable growth resumed in late 2009 and 2012.

Quick facts:

- Russia's GDP is \$2.556 trillion (2013) (PPP)³, 6th (PPP) Rank⁴
- GDP per capita \$17,884 (2013) (PPP)⁵
- Labour force is about 50% of total population and it is 75.5 (2013) million⁶
- Unemployment is in the normal range - 5.4% (June 2013)⁷
- The export/import ratio is positive - \$184.4 billion. Russia exports \$542.5 billion (2012 est.)⁸
- Apart from oil, one of the main export goods are wood and wood products (Wood: \$7,324,251,000 (1.4%) 2013)
- Russia imports is \$358.1 billion (2012 est.)⁹
- Trade organizations – WTO (2012), CIS, APEC, EURASEC, G-20, G8
- Ease-of-doing-business rank 92nd¹⁰

² 2014 est.

³ IMF April 2014 est.

⁴ "Report for Selected Countries and Subjects (PPP valuation of country GDP)". IMF. April 2014.

⁵ IMF April 2014 est.

⁶ "Labor Force at the End of the Month in Russia". Federal State Statistics Service. Retrieved 26 July 2013

⁷ "Labor Force at the End of the Month in Russia". Federal State Statistics Service. Retrieved 26 July 2013

⁸ "Central Intelligence Agency". Cia.gov. Retrieved 12 2012.

⁹ "Central Intelligence Agency". Cia.gov. Retrieved 12 2012.

¹⁰ "Doing Business". World Bank. Retrieved June 2013.

- **Rule of law and Regulatory efficiency**

Corruption in government and business is pervasive, and a growing lack of accountability enables bureaucrats to act with impunity. The leadership frequently announces anticorruption campaigns, but they are typically superficial in nature. The rule of law is not maintained uniformly across the country, and the judiciary is vulnerable to political pressure and inconsistent in applying the law. Protection of private property rights is weak. [Indicator Freedom from corruption 22.1 which is far under the limit of category repression \(below 50 are repression\)](#).

Bureaucratic obstacles and inconsistent enforcement of regulations continue to inject considerable uncertainty into entrepreneurial decision-making. The outmoded labor code continues to limit employment growth. The government uses extensive subsidies, numerous state-owned companies, export taxes on petroleum products, and other means to influence domestic prices. [Indicator Business freedom is 70 which is in category \(moderately free\)](#)

- **Russia furniture market overview**

Russia furniture market is one of the world's fastest growing and most competitive markets. But its share of the world's furniture market is still rather small (under 3%).

According to CSIL¹¹ ranking Russia is also 11th largest furniture market in the world (only in 2002 it was 16th), 9th for furniture imports (in 2002 it ranked 15-th) and 15th for furniture producer.

During the last 10 years Russia's furniture industry has been developing successfully as from USD 653 million in 2000, **Russia's furniture manufacturing increased more than six times by 2008, reaching USD 4 billion**. Such a rapid market growth happened as a result of an overall improvement of the Russian economy and positive development of the real-estate construction industry. **The financial crisis caused a slight shrinking of the market volumes from USD 4 to 3.9 billion in 2009.**

The official value of the market currently amounts to USD 4-4.5 billion, as reported by Russian Business-Journal. However, experts of the magazine admit that real figures are far above the official and suggest that a more realistic picture is if the official numbers are multiplied by two, in order to allow for output by a large number of smaller companies and entrepreneurs, which is not accurately counted by official figures.

Russian production is mainly domestic market oriented: just a small share of it goes to foreign markets (less than 5%). In terms of future prospects the Russian furniture market is even more attractive when benchmarked with the other main European markets where, according to CSIL estimates, the sales will be almost stable or slowly increasing in the near future.

The potential market volume exceeds current furniture sales many times over. Compared to the furniture markets of Western Europe and North America, Russian furniture market is characterized as high demanding and import driven.

The market is expected to continue growing at an average rate of 9% until 2014

¹¹ CSIL- Centre for Industrial Studies

c) Serbia

Furniture production in Serbia has long and rich history. Prior to the Second World War the industry was developed mainly to a level to satisfy the needs of the local market. After the war, due to the fact that the country is quite rich in raw materials – 27% of the territory is covered by forest (from which 80% beech, 11, 5% coniferous and 8, 5% oak) - and the intensive industrialization process, furniture industry start taking a quite significant place in Serbian economy. From the early '50s till the end of the '80s furniture industry has been presented mainly by big consortiums which practically covered all production phases except woodworking. During that period the big consortiums like Simpo, Jasen, Sipad, etc. have been established. Economy crisis in 90s and the privatization process in 2000 resulted in gradual disintegration of the state owned sector. Most of the companies went in bankrupt but in the same time they became a basis for development of huge SME sector. The former big furniture industry centers like Vranje, Kraljevo and Kragujevac became a place where hundreds of small handcraft workshops start working and soon they form a SMEs predominated sector. Moving of qualified labor from large manufactures to much more flexible SMEs had a particular positive effect in the beginning of the process. Nevertheless, on the other hand, low capacity, enormous competition at local markets, lack of marketing skills, quite old technologies and impossibility to export to attractive markets like the EU and Russia limited companies' activity only to domestic market .

Majority of private companies can be categorized as small enterprises (91.7%). Medium-sized companies represent only 7.1% and large enterprises account for 1.3% of the total number of companies. Privately owned furniture companies produce mainly interior and customized furniture (small furniture units, bedrooms, kitchens). Some private companies, which belong to the medium-size group, are well known for producing higher-quality furniture and successfully export to the EU market. The share of foreign and mixed capital investments in Serbian furniture industry is relatively small. Most of the income from furniture production is gained by large companies, with share of total turnover of 47.05%, followed by small companies with 28.5% and medium companies with 24.5% (2001). The greatest concentration of small and medium companies producing furniture is in the economic centres. This is understandable because of the proximity to consumers. Large companies, to a great extent, are oriented mainly for export. Domestic sales of these companies are oriented towards big towns and regions of Serbia. Almost all categories of furniture are produced in Serbia: household furnishings, as well as furniture for shops, hotels, restaurants, and nurseries and schools, etc. There are a large number of different furniture types in each of these categories. The most common is bedroom furniture. The leading position of bedroom furniture compared to the other categories is a result of intensive demand from hotels in Serbia and also Russia. Chairs and sofas, dinning room/kitchen sets and anteroom furnishings are also produced.

Serbia has the potential for becoming a preferred target destination for foreign investments in the wood and furniture sector. There are over two million employees in Serbia and one third of them work in production sectors. **The wood processing and furniture industries include 2,365 companies, 96% of which are privately owned and mainly located in the central areas of Serbia.** The majority of these companies deal with timber (1,491) and furniture (402). This sector forms a 1.24% share of the Serbian Gross Domestic Product (GDP) and represents 3.95% of total industrial production with an ongoing positive growth trend over the last few years.

Specifically in South and Central Serbia several key members of the X-Border organisation have already worked with Companies in Central and South Serbia. The Researchers for this Report have updated their 2011 analysis.

The conclusions of further 1 to 1 meetings with Furniture Companies in Central and South Serbia:

- The companies can be divided into two simple categories which later can be divided to subcategories and intersection of it in particular way can be useful for development of the strategy of the cluster. So basically the companies can be divide to:

- **Export oriented companies**

Examples : GIR, Kolarevic

- **Internal market oriented companies**

Examples: NETWOOD group – Blazex, Jelovica, Paviljon T, Cukovic – all from Kragujevac, Hanibal – from Vranje

- **Companies which operate in both markets**

Examples: Ginko, Domis, Pegasus, DN Company.

- Depending on market orientation companies developed their own systems of commerce which are extremely different and first overview indicates that companies cannot produce joint activities. Their systems of commerce and selling are as follows:
 - ***Exporting companies*** are quite simple in their market approach. Their main activities in the market are to find a good buyer which operates on particular national or regional market and to become their producer. Main characteristics of this companies in the field of commerce are these:
 - Quite small margin – 10 -12%
 - Low prices (retail price is usually 4 times higher than wholesale price)
 - Complete depending of the big buyer
 - Precise deadlines of production, delivery and payments
 - Permanent depending on credits because of lack of own investment portfolio – because of small margins.
 - Small range of products
 - Lack of creativity and own design development
 - Lack of sustainability in technology and control systems
 - Excellent experience and high responsibility in exporting businesses
 - Low stress
 - The flexibility of these companies is not so high because of stable positioning on profitable markets.
 - ***Internal market oriented companies*** have completely different experience and logic of business development. Their most profitable markets are big public systems like hospitals, administration institutions, schools and other public entities which are able to make serious orders. Single buyers, small companies, private entities are practically in the “second zone” of interest because of quite small spending power.

Regarding all these facts the companies which are oriented towards local market develop quite different commerce system, based on the following characteristics:

- Operating with public tenders (which means facing with corruption in almost all cases)
 - Depending of the economical sustainability of the buyer
 - Investments in its own image in the local community and buyers which frequently implies equipment of particular points of interest with under quite damping conditions or for free (like investment in the possible buyers)
 - Constant delay of charging from the main buyers which frequently push them to define the way of charging through the installments
 - Playing with a gray market instruments – especially with single buyers
 - Lack of quality investment funds
 - Impartibility of regular marketing instruments – fairs, show rooms etc (this instruments are just in the purpose of reaching of internal prestige among the local competitors which can positively position the company in the market but effects of this instruments are quite immeasurable)
 - Low level of responsibility in realization of the contracts – deadlines are critical points
 - Fear of losing positions on the existing markets – fear of risk (this is a problem of absence of own funds for risk management or some possible guaranty funds which can save them of total liquidation). In this characteristic is based the reason for previous – low level of responsibility.
 - Constant playing on the line of profit and gap because of presented situation on their market.
 - Bigger and more creative assortment of the products including the design.
 - Level of flexibility of these companies is quite high because of constant intensions for positioning on less stressful markets.
- **Companies which operate in both markets** have experience on local and on international markets and this position allows them quite relaxed situation because they are able to refuse particular business offer if it seems quite risky. But companies have quite good financial portfolio which allows them this kind of “dancing”. Main characteristics of their commerce are:
- Existing of few selling channels:
 - Their own representative offices in foreign markets
 - Efficient fair targeting
 - Developed network of partners in the foreign markets which are not covered by previous two
 - Respect of deadlines
 - Different production standards for different markets
 - Higher orientation on export than on local but in the same time they trying to not to lose the internal market positions – this market provide some

possibilities to operate in gray zone – cash, direct stipulation, attractive public tenders.

- Due to the fact that these companies are quite sustainable in the field of commerce their negotiation capacities are quite higher than for previous two groups.
- This companies are usually more prepared for risks because of their financial and know how portfolio.
- The range of products of these companies is quite big but level of flexibility is between first and second group because of quite strong position on the markets.

3. Market Trends Analysis

The global trends and developments in the furniture sector in summary:

- From 2003 to 2006, the worldwide furniture production grew by roughly one quarter.
- The worldwide growth is going to continue – in 2008 up to a production value of approx. 307 billion Euro. By 2014 even EU and US production was returning to 2008 levels or up to 2% above.
- Europe is the world’s leading furniture producer (+9.3 billion Euro), not at least because of the growth of the EU
- The production in Europe grows, but it grows significantly slower (EU +10%, but in Asia +47%)
- In regard to the production value, Europe has lost shares to other global regions, from 41.6% of the world furniture production in 2003 to 36.5% in 2006
- The fastest growing furniture region in the world is Asia
- The global growth of production between 2003 (216.6 billion Euro) and 2006 (273.3 billion Euro) occurred mostly in Asia at 42%. The growth in the EU27 is significantly slower with only 16.7%.
- Production and growth shift away from the industrial countries to the so-called new growth areas (the share of the developing countries increases);In 2007 the relation was already 64 to 36. This means: only 64% of the global furniture production takes place in the leading industrial nations. 2003, this share was still 77%.
- Europe stands in direct competition to Asia /China and therefore the pressure on the European locations – in both old and new member states – is constantly growing.

Top 10 of worldwide Hotel Groups as of January 2013

1. ICHG
2. Hilton Hotels
3. Marriott International
4. Wyndham Hotel Group
5. Choice
6. Accor
7. Starwood Hotels and Resorts
8. Best Western
9. Home Inns
10. Carlson Rezidor Hotel Group

Source:

<http://www.hospitalitynet.org/news/4060119.html>

- Especially in Western Europe, this has led to a partial decrease of production, closure of plants and the relocation of production abroad and therefore the loss of employment.

The EU is dominated by Major Hotel Groups (see Panel below). All but Starwood Hotels and Home Inns are major players at the European level and extremely important developers of their portfolio of Hotels.

The development of global Hotel supply is sustained

by the growth dynamic of the International Hotel Groups. The European Hotel Industry has shifted into a higher gear since the start of 2014.

In terms of room supply, the ranking of leaders in 2014 is as follows: ICHG is ahead of Hilton Worldwide, Marriott International, Wyndham Hotels Group, Choice Hotels, Accor and Starwood Hotels. However, the economic models of these seven leading groups are very different.

The fast development of the “asset light” model in recent years caused all the groups to become major franchisers. In this field, Wyndham Hotels Group, 4th in the global ranking, rightly claims to be the number 1 franchiser worldwide. Its strength in this area is still mostly in North America, but the group is currently diversifying geographically through important developments in Asia and in Europe. Behind Wyndham, the pure franchiser Choice Hotels and IHG also both surpass the threshold of 500,000 branded rooms through franchisees.

Inversely, the French group Accor stands out for its strong share of

owned and leased hotels: its weight in this area (more than 190,000 rooms) far exceeds that of other groups, that all have fewer than 30,000 owned or leased rooms. This explains why Accor integrated these owned or leased properties into a specific division, HotelInvest, while its other division HotelServices brings together franchised and managed properties whose model is more comparable to that of other listed hotel groups.

Inter Continental Hotel Group		Inter Continental Hotel Group (I.C.H.G) is an English based company, started in 2003. I.C.H.G's Headquarter is located in Denham, Buckinghamshire. I.C.H.G has 4.700 properties in 100 counties across the world. 635 hotels with a capacity of 102.433 rooms are located in Europe. I.C.H.G employs more than 350.000 people in 2013. I.C.H.G owns 11 brands worldwide, among those brands are: <i>Intercontinental Hotels and Resorts, Crowne Plaza Hotel and Resorts, Huaxlux Hotel and Resorts and Holliday Inn.</i>
Country	Number of Hotels	
Belgium	13	
United Kingdom	298	
France	55	
Spain	37	
Nederland	19	
Germany	61	
Ukraine	2	
Italy	34	
Finland	8	
Denmark	1	
Lituania	2	
Russia	15	
Turkey	19	
Austria	6	
Greece	4	
Others	61	
All	635	

Marriott International takes the lead with the most rooms operated under management contracts (more than 280,000), ahead of Starwood Hotels, Hilton Worldwide and IHG, each of which has between 180,000 and 190,000 rooms under management contracts. The strength of these actors in this field is also due to their brand portfolios, and more particularly to the importance of upscale and upper upscale brands within these groups. Indeed, management contracts are used extensively on this segment.

This is also leads to the predominance of management contracts at Starwood Hotels & Resorts (more than 55% managed rooms): unlike its competitors, the group has no brands positioned on the economy segments where the other detention modes, particularly franchise, are more widespread.

Marriott International		<p>Marriott International is an American based company.</p> <p>Marriott International's headquarter is located in Bethesda, Maryland.</p> <p>Marriott International was founded in Washington 1927, by Willard and Alice Marriot. Today the company has 3.900 properties in the world.</p> <p>298 hotels with a capacity of 20.806 rooms spread across 12 brands are in Europe.</p> <p>Together these hotels employ 199.929 people in 2013.</p> <p>Marriott International owns 15 brands worldwide, among those brands are: <i>Marriot, BVLGARI Hotels and Resorts, AC Hotels, Courtyard, Springhill Suites, Fairfield Inn and Suites.</i></p>
Country	Number of Hotels	
Belgium	5	
United Kingdom	63	
France	25	
Spain	75	
Nederland	3	
Germany	29	
Denmark	1	
Sweden	2	
Russia	16	
Italy	23	
Austria	8	
Other	48	
All	298	

The different detention modes directly impact the turnover generated by these groups. Operators working primarily through franchise such as Choice Hotels, Wyndham Hotels Group or IHG generate significantly lower turnover per room compared to groups with a higher proportion of owned, leased or managed hotels.

In fact, franchised hotels generate mostly fees for services provided by the group, "net" of operating costs (salaries, purchases...) borne by the franchisees. Inversely, a group like Accor, which operates hotels directly, takes home all the revenues generated in its

turnover and assumes the associated operating costs. In the same way, the particularly high overall sales turnover of Marriott International may be explained by the integration of the turnover and costs of its more than 280,000 managed rooms. This accounting particularity of Marriott International justifies its position as number one worldwide in terms of turnover ahead of Hilton Worldwide, Accor and Starwood Hotels.

Other Trends at an EU level

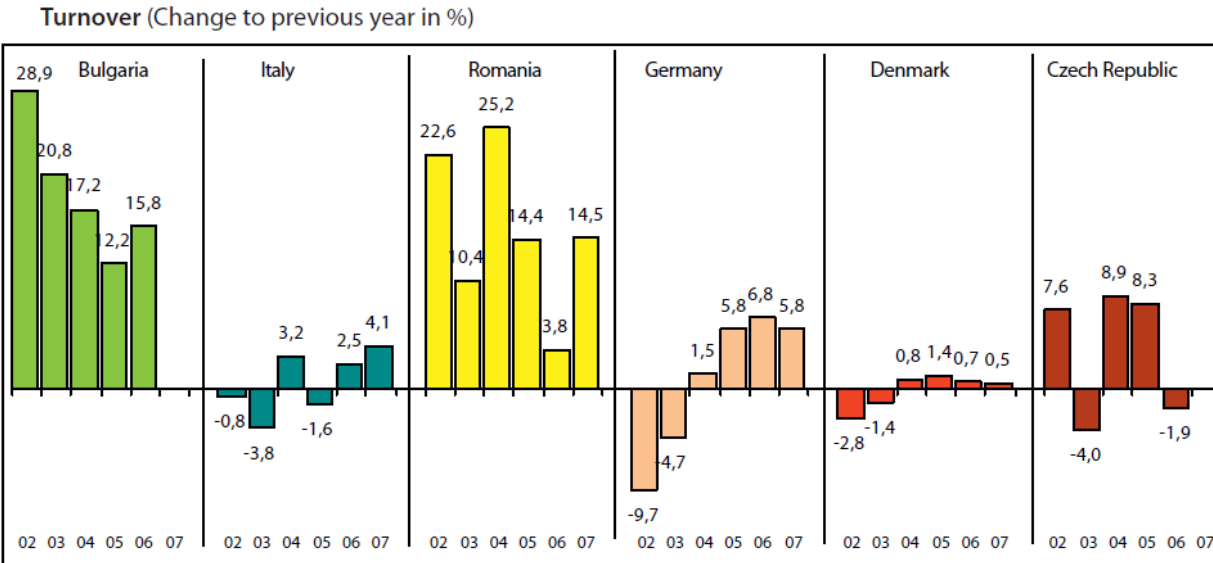
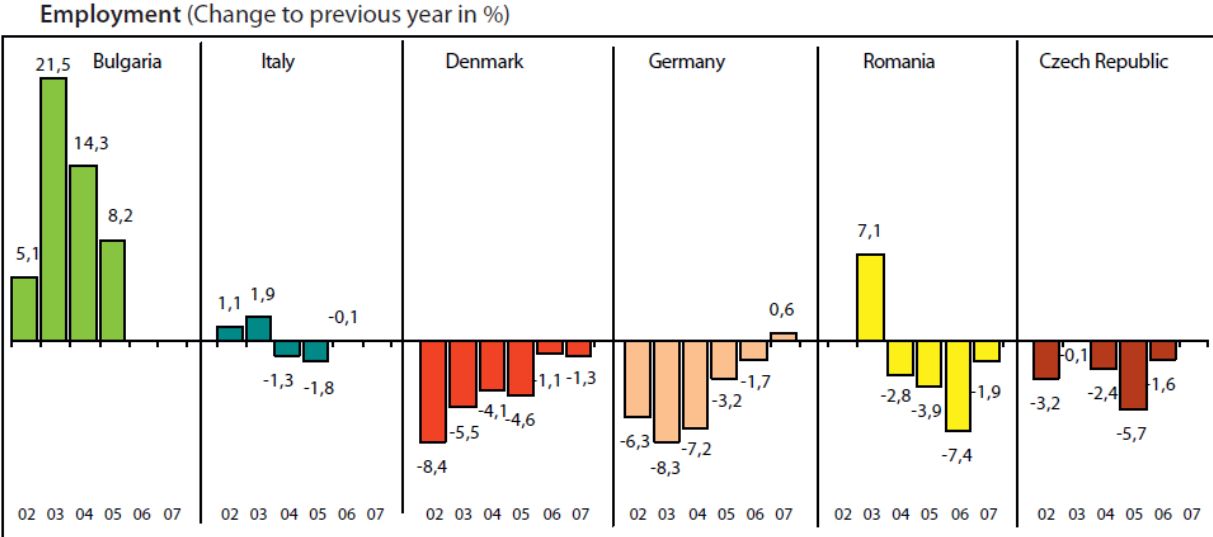
European Commission Vice President Tajani, during his visit to I Saloni del Mobile in Milan, announced the adoption of a new **European strategy for the Wood processing and Furniture industries**, to be published by the end of June. Together with measures aiming at improving the competitiveness sector, Commissioner Tajani presented the upcoming study on the adoption of an "ID Card" for furniture.

Vice President Tajani also announced the imminent launch of the study for the adoption of **the ID Card for Furniture** a tool aiming at improving consumer information, improving market transparency and promoting quality products that respond to the highest standards. In his words, this measure would complement the package on product safety and market surveillance recently adopted by the commission.

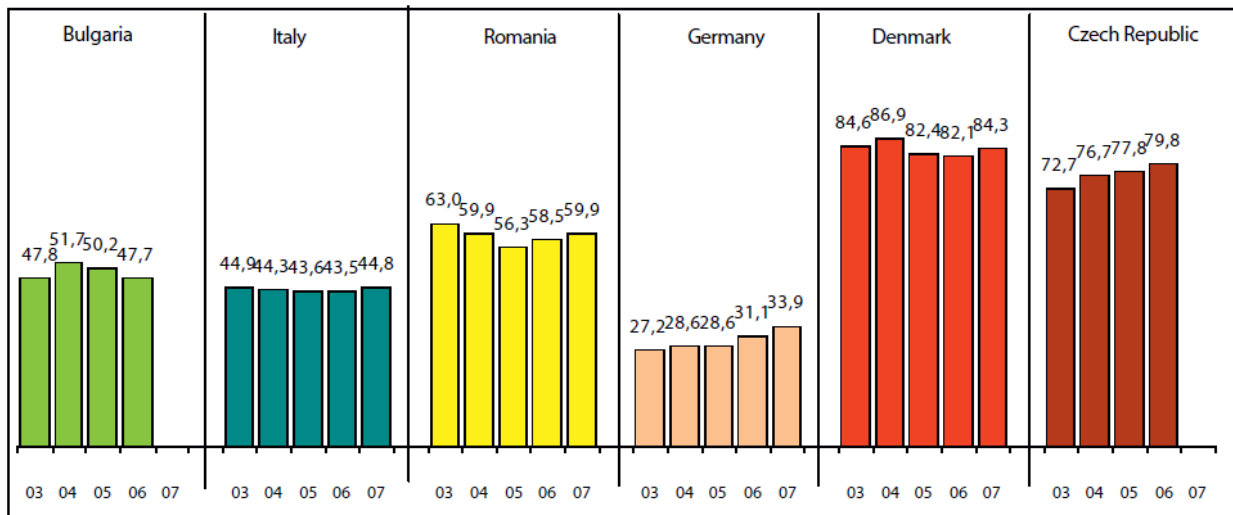
"The ID Card for furniture will be an instrument with incredible potential for both consumer and market. We highly appreciate the Commission intention of making such an important sector like ours to be objective of a systemic policy, as it is already the case in many others" said Markus Wiesner, president of EFIC.

Trends Prior to Recession

Indicators for furniture industry in six-country-comparison



Export quota (as share from annual turnover in %)



Source: Gisbert Brenneke: European Sector monitor wood/furniture (January 2009)

Current Recovery from the Recession

a) Europe

As the largest Furniture Market in the world – for both production, Design and Consumption the European Market is a complex market-place.

The Retail market can be split into 3 types of sales:

- Hyper-market – of which IKEA and their supply chain is the biggest;
- Local & regional Chains, normally confined to a specific Country or Region of a Country, with up to 50 branches (usually less than 4). In Serbia this includes SIMPO. And
- Designer Retailers, led by Italian owned or styled Companies. Includes Habitat (UK), Marinelli (BG), Natuzzi (It) and Hoffner (Ger).

Designer Furniture is still a minority taste and although buyer sentiment across Europe is positive, the trend of sales across all segments is still sluggish.

In modern homes the Kitchen is now the place for socialising! The main motivators for buying new furniture are to replace existing furniture to accommodate changing tastes, or the increased dominance of multi-media. Nevertheless, unlike hotels, the lifespan of all kinds of furniture is extremely long:

- Living room furniture – up to 12 years
- Beds and bedrooms – 15+ years
- Kitchen – up to 20 years

When consumers buy new furniture this is often accompanied by a new concept of interior design – sometimes copying Hotel design. The emphasis is now focussed on function, mobility, flexibility and comfort – barrier-free rather than heavy furniture. Aesthetic and quality standards are rising.

8 Hotel Groups of the 10 Largest in the World. Only Home Inns and Choice are outside Europe in spread of Hotels.

Clearly as these chains cover 3* to 5* they are a primary target of both Clusters and as we will see from the current analysis of the Bulgarian Furniture Cluster later, already a major success story.

Conclusion:

Although recovery from the financial crisis has arrived it is very gradual and driving downward back to pre-crisis levels. Since the period 2003-8 saw such explosive growth this argues that the market is still buoyant.

- IKEA sales are still growing;
- The rate of Company bankruptcies has slowed down dramatically;
- The Online trade has risen to 3% of total sales, increasing by 25% each year.
- The concept of quality living is becoming essential of the Anglo-French-German lifestyle (coping Scandinavian trends);
- Hotel trends in design, which are changed much faster than Home furniture are leading the way in tastes, styles and quality.

All these factors leave significant "head-room" for South-East Europe products to expand current business and to develop new markets. But the Market appears to be one of organic growth not the experimental growth of previous periods.

b) Russia

• **Growth rates and trends**

During the last 10 years Russia's furniture industry has been developing successfully as from USD 653 million in 2000, Russia's furniture manufacturing increased more than six times by 2008, reaching USD 4 billion. The official value of the market currently amounts to USD 4-4.5 billion as reported by Russian Business-Journal, but experts of the magazine admit that real figures are far above the official and suggest that a more realistic picture is if the official numbers are multiplied by two, considering into account the shadow economy and large number of smaller companies and entrepreneurs, which is not accurately counted by official figures.

One of the growth factors is the sustainable development and growth of the economy during the period after year 2000. Real estate improvement /growing building activity is the second factor, that brought significant development in 2012 the number of new residential buildings reached 219 000, which is 9% increase from 2010.

Russia's furniture industry has been developing successfully during the last 10 years. From USD 653 million in 200, Russia's furniture manufacturing increased more than six times by 2008, reaching USD 4 billion. Such rapid market growth happened as a result of an overall improvement of the Russian economy and positive development of the real-estate construction industry. The financial crisis caused a slight shrinking of the market volumes from USD 4 to 3.9 billion in 2009.

The current Projection is that the furniture market is expected to continue growing at average rate of 9% until 2014. **The volume of import** is constantly growing after the gap in 2009. Its growth (+35%year to year) is much faster than in domestic production

In spite of considerable import duties, the volume of import of low priced furniture is growing even at a faster pace (+58% for the furniture priced less than 1.8 euro/kg) (2011year). Furniture import has increased almost 4 times from 2005 to 2011(from USD783 million to USD 2963 million). After joining the WTO, the custom duties have dropped down.

Low priced furniture products (basically from China that covers more than 20% of the whole furniture import in Russia) compete directly with the furniture of majority of domestic producers

- High custom duties to protect the domestic market from import –to be reduced after the WTO transition period from 41.7% to 12,8% on average for protected positions and from 15% to 10% for unprotected positions
- Imported furniture comes mainly from Italy, China, Belarus, Germany and Poland.
- Italy is the main supplier to Russia with app. 23% market share, but its position is declining (38% in 2007) as the share of Chinese imports is growing rapidly: from 2007 to 2012, the import of Chinese furniture grew +24% per annum, to leave grey market volumes out of account.

• **Consumer trends:**

- Minimalism in office furniture which is more compact and portable: With the development of computer technologies, piles of documents are 'disappearing' from office desks, eliminating the need for bulky furniture. As Russian office designers adopt

Western fashion in open space offices, **office furniture becomes more compact and portable.**

- Unique designs forms an image of a company or a person: Office furniture has become not just a necessity anymore, but a part an integral part of overall company image. **Customers tend to pay more attention to the construction and design to express a corporate style and originality.**
 - Edutainment (education + entertainment) is dividing the office space into different zones with comfortable furniture for breaks, lunches, meetings etc.
 - Combining luxury, elegancy and functionality.
 - **Classics for managers:** When it comes to furniture for offices of senior staff and directors, some Russian companies started to switch to 'light' high-tech furniture. However, **many still remain loyal to classic wooden cabinets. Still, Russians consider imported goods superior to domestic.**
 - High price should be visible
 - Russian still prefer dark colors, but also natural colors (light wood, sand, beige etc.) become more and more popular
 - Eco-design is starting to hold more and more favor, but most of the clients understand it mostly like using natural materials and plants in home and office space design
 - Scandinavian style has gained certain popularity, especially in Saint Petersburg due to a plenty of reasons (Ikea's popularity, increasing living space). However, for Russians the Scandinavian style means primarily laconic brevity and fine lines, but not being plain or too simple.
- **Additional facts**
 - IKEA, the Swedish furniture producer, is the most recognized brand on the Russian market
 - Most Russians still believe that imported goods are better than domestically produced; this attitude is dates back to when production volume was given more importance than quality and product diversity during the communist era of the Soviet Union
 - When purchasing locally manufactured furniture, Russian buyers tend to give their preference to tailor-made furniture

Ukraine and Belarus

As both markets are young and considerably smaller than the Russian one, we have defined the following major Growth rates and trends:

a) For Ukraine

- The furniture market amounted for 650 mln USD in 2011
- 25-30% annual furniture market growth rate in the period 2007-2013
- 40% of the furniture in Ukraine is produced by local companies
- Trends towards reducing the amount of cheap furniture and raising the furniture from middle price category
- The import was equal to 446 mln USD in 2011
- The import of furniture is increasing annually – with 31.2% in 2011
- The export of furniture was equal to 445 mln USD
- The export growth was 43% in 2011

b) For Belarus

- Over 2013 the capacity of the Belarusian furniture market grew by 3.5%
- The share of Belarusian produced furniture is 70-80%
- A growing trend is that more consumers prefer Belarusian furniture
- The market has a trend of growth in recent years. According to official figures, furniture consumption dynamics has grown from 319 (m, USD) in 2007 to 519 (m, USD) in 2012
- The informal sector is relatively steady (from 106 (m, USD) in 2007 it goes to 130 (m, USD) in 2012)
- The total furniture consumption including the informal sector in 2012 is counted to 649 (m, USD)
- About 95% of domestic market is household furniture, 78% of which are cabinet and upholstered furniture
- Each year about 45-60% of furniture produced in Belarus is exported to 31 countries worldwide. Exports to Russia represents 101.5 million USD, or 71.8%, in Kazakhstan - 27.3 million USD (19,3%).

c) Serbia

The common joke is that Serbia is always in crisis, so the recent financial crisis is no different! Since the break-up of Yugoslavia the state of Serbia has suffered a 20 year decline in GDP. A constant haemorrhaging of population, state size and manufacturing capacity has reduced economy by over a third.

During the past 2008 period the economy has in many ways recovered:

- Inward investment results have been very promising;
- State sell-offs have resulted in new players and opportunities;
- Government policies has started to track EU approaches.

SIEPA – the Inward Investment Agency for Serbia has had major successes.

Recent Inward Investment to Serbia – Wood and Furniture Industry



These were largely outside the main zone of the Serbian Furniture Cluster in South Serbia – Nis, Leskovac and Vranje.

As a result of the Research Study some 15 of the Furniture Companies in South Serbia were interviewed over a 3 month period in 2014.

Furniture is more important in Serbia and more attractive to Foreign investments. Currently there are 2,578 Companies engaged in wood processing industry, the majority of them SMEs. They employ a total of 31,550 workers, 53% of which are employed in furniture industry, 30% in primary wood production and 17% in forestry. Typical for the Domestic Market is that the manufacturers have their own retail shops and wholesale network, but the majority of small trade shops (capacity of 700 m²) sell different furniture brands. Direct purchasing between the producer and the final customer can happen through retail shops.

4. Current Status and market-led activities for BFC and SFC

The aim of the Cross-Border Project is to transfer knowledge and experience from the Bulgarian expertise across to its Serbian equivalent. In terms of Cluster Development this is very important.

Bulgarian Furniture Cluster

In existence for 6 years and with 33 members BFC is starting to achieve remarkable Export results. It has created a supply chain with ability to produce high quality Contract Furniture for International Markets.

Members of the cluster are 25 SMEs, furniture producers, 5 Design Studios, 2 NGOs and 2 Educational Institutions.

Results:	
2006-12	5,685 Hotel Rooms Preferred Supplier to 2 German Hotel Groups
2012-13	2,600 Citroen Showrooms, France Expansion to UK/Scandinavia and Caspian Sea
2013	Move to new Cluster office and X-Border project
2011-13	Cluster Turnover: €1.5 mn, €3.5 mn, €5 mn,

By 2014 export turnover – mainly in France, Germany, South East Europe and UK was reaching € 6 mn. Aggregate turnover of the 25 SMEs was reaching € 65 mn (€ 50 mn in 2010). 6 of the SMEs received above 50% turnover from Cluster Export Marketing. An aggregate employment of 3,000+ people. Economic growth of 14% pa even in the years of financial crisis – more than 18% growth in 2013.

Success factors:

- Use of Project Management Company, Ligna Group to lead on Marketing and order fulfilment
- Starting as an Export Consortia with a simple Action Plan; then developing other agendas with member companies
- No distraction from EU funding!
- Early success in Germany in 2006 followed by 2010 success with Citroen showrooms in France.

Serbian Furniture Cluster

SFC has only made halting progress and continues to suffer because of the lack of a Co-ordination body.

Preliminary research in the field (via the SECEP Project) during 201/2011 identified 17 future companies, 3 Regional Development Agencies and 2 Vocational Schools as starting points for SFC development.

There are 2 general groups:

- Cabinet furniture manufacturers, mainly in Central Serbia
- Upholstery furniture manufacturers – mainly located in Southern Serbia

So far over 50% of these Companies and all the support institutions have been involved with the Cross-border Project. The furniture industry is the last of the traditional industries still to survive. Its leader, SIMPO Group, is faltering as the role of the state reduces pre-EU entry but the Company has many examples of how its workers have set up new SMEs.

To assess the scale comparison and the complexity in South and Central Serbia, apart from 2 large Companies – SIMPO and Kronospan (board manufacturer) – the rest of the largely micro-enterprises, some 1,300, have an annual turnover of \$ 64 million USD (around € 50 mn) and export outside Serbia some 60% of the turnover but largely to former Yugoslavia Countries, especially Montenegro. Kronospan turnover is \$ 80 mn USD in comparison.

It seems highly possible that even with a 10% participation rate will create a viable Cluster. The need is to find the enabling vehicle and the right swite of products to market outside the former Yugoslavia.

Note well

SECEP EU Project in 2011 came up with another set of figures:

- Starting point of Cluster: 14 Companies
- Number of employees: 1087
- Turnover in 2009: € 17 mn
- Working space: 40,500 m²

5. Furniture Market in Russia and associate Countries of ex-USSR

a) National market overview

Russian furniture industry successfully got the better of recession: in 2011, the production volume exceeded the pre-crisis level of 2008 at current prices. According to the national furniture association AMEDORO, the year-to-year increase amounted to about 13%, and the production volume was 6% higher than before crisis. It is significant to note that two ways of calculation are used for the Russian macro economy. The first one is based on official data. But since the so-called shadow production share is always large on the Russian market (in many sectors, including furniture), it is important to take into account also this shadow part. AMEDORO makes its assessment by some indirect activities, like the performance of chipboard industry, for example, and publishes the results together with the officially processed data. Comparing these figures, one can conclude that the shadow economy sector on the Russian furniture market is growing much faster than the “official” one. Thus, the furniture production volume reached 107.22 billion rubles in 2011 at current prices according to the official data, while the estimated shadow sector adds some 80 billion rubles to this. The volume of imports is constantly growing, after a 30% gap in 2009, and reached 2.963 billion USD in 2011 as presented by official statistics. Its growth rate (+35% year-to-year) is much faster than in domestic production. Last year, imports covered more than a half (54.9%) of the Russian furniture market, or 40.2% when taking into account the shadow production. In spite of considerable import duties, the volume of import of low priced furniture is growing even at a faster pace (+58.5% for the furniture priced less than 1.8 euro/kg) *(See Fig. 1 Furniture import and export 2005-2011. Million/USD)*

Such products (basically from China which now covers more than 20% of the whole furniture imports in Russia) compete directly with the furniture of the majority of domestic producers. As the dynamics show, the game's success is on the side of imports. When it comes to furniture and not to oil, Russian Federation is not an export oriented country. Currently, most of the local players are not ready to enter foreign markets, especially far abroad. That's why the export volume is low (214.5 million USD as for 2011), and trade balance is more than negative. This is one of the key problems for Russian furniture manufacturers right now, and development of the export potential remains a burning issue for them.

b) Regional markets overview

(Fig. : Russia. Furniture production in 2011 - regional breakdown)

The Central Federal District had the largest share (38.6%) of domestic furniture production last year, followed by Volga Federal District (27.0%) and Northwestern Federal District (11.3%). This is the usual balance of power of the geographic strata for the Russian furniture industry. In general, the regional production ranking also reflects the furniture consumption trends. Comparing these figures with the population charts, one can discover a yet undeveloped potential of the specific areas. For example, Siberian Federal District is ranking third by population, but only fifth when it comes to furniture production. In 2011, the highest production dynamics has been detected in the North Caucasian area (+30.9%). Its growth rate is attributed to the subsidized character of regional economy (these areas are mostly supported by the country's federal budget), and to the common process of Caucasian industrialization. The Volga area is showing its usual positive trend with 22.2%. The other districts are more or less matching the average national growth. In the meantime, performance of the Southern District regions that were supposed to be serving the upcoming Winter Olympics 2014 in Sochi is not that eminent yet: +3.3% in 2011. Aiming to reach more local

consumers, furniture producers increase their wholesale network attending new dealers from the specific cities. After Moscow, they usually proceed with the largest cities of more than 1 million populations: Saint Petersburg, Novosibirsk, Yekaterinburg, Nizhny Novgorod, Samara, Kazan, Omsk, Chelyabinsk, Rostov-on-Don, Ufa, Volgograd, Perm, and Krasnoyarsk. See *Table 2 Russia. Furniture Production in 2011. Regional breakdown in Appendix*

At the same time, the regional oriented manufacturers do their best to offer a more convenient logistical service by opening some regional warehouses in the most reachable places. The focus on distribution through dealers of different size (independent retailers with one or two sales points; local trade networks having several stores in the region; large-scale federal networks operating all over the country) is a usual way of marketing for the Russian producers. Some manufacturers are keeping up their own retail stores near the industrial base, using them as a test platform for new products or to find a better balance of ups and downs during the seasons. As to the other regions, the factory may concentrate on development of its own retail network there, but only when the product is too complicated, or the target group too narrow for the average multibrand furniture seller. Anyway, those regions of interest wouldn't be far away from manufacturer's home.

c) WTO

During the next 6 years, the custom duties are expected to drop down: according to estimates by AMEDORO, today's 41.7% of duty for low priced imported furniture will gradually be reduced to 12.8% in 2018. The new rules game would be a challenge both for Russian companies discovering themselves on the open market for the first time in their life, and for foreign players entering this developing and high potential area.

d) Consumption

The demand for consumer products has grown significantly during the last few years.

See Fig. 2 Furniture Sales volumes in Russia 2001-2012 USD/million in Appendix

Consumption is the main growth driver in Russian furniture market, and there is demand for furniture in every sector and price category. Growing building activity is also a significant development factor. In 2012 the number of new residential buildings reached 219,000, a +9% increase from 2010. The domestic production is not able to satisfy the need of local consumers which leads to higher imports. Share of European manufacturers is rather small in comparison to their competitors from Belarus and China.

Furniture consumption per capita is still low in Russia when compared to the average registered by high-income countries - in 2012 Russians consumed on furniture less than 30% of what the consumers of high-income countries did. The consumption is expected to grow in the medium-term, supported by improvement of living standards and a high proportion of young consumers.

See Fig. 3 Market segmentation in Appendix

e) Production

The role of domestic manufacturing has been growing steadily after the 2009 crisis. At the beginning of 2013 the share of domestically produced furniture in Russia was 42%, although almost one third of all components used in domestic production are imported. Production volume is 3,9 billion euros. Russian production is mainly domestic market oriented.

There are three different categories of furniture manufacturers in the market: **huge enterprises** that control a major part of the market (150-200) and supply goods to the whole Russia, **medium-sized firms** that operate on regional level and **small entrepreneurs** that cover the local demand and/or specific market niches.

Around 93% of Russia's furniture manufacturers are located in the European part. Furniture and Furnishing Export International reports that around 93% of Russia's furniture manufacturing enterprises are located in the European part of the country (including Urals region). About 2% are in the Far East and 5% in Siberia.

Among an estimated 2,500-6,000 domestic furniture manufacturers in Russia, only 150-200 are large firms, while others are smaller/private entrepreneurs.

See Table 3 Furniture production in Russia (in units, thousand) in Appendix

Russian market leaders supply the market through well-established distribution networks, control a major part of market, and make significant investments into further development. One level down, medium-sized enterprises take the role of regional producers whose production aims to meet local demand. Finally, the most numerous and still quickly growing group are small companies which cover local needs and/or specific market niches.

Largest Russian furniture producers

The largest manufacturers of furniture in Russia include the following 4 companies, who illustrate well what the country has to offer:

- **Elektrogorsk Furniture Production Company** - For 45 years the company has been producing and supplying furniture all around Russia and the CIS; including furniture for office, kitchen, bedroom, living room, and children room.
- **Shatura Furniture Company OJSC** - production of furniture since 1961; produces furniture for living room, bedroom, kitchen, and office furniture for small and medium businesses.
- It is estimated that Shatura and Elektrogorsk Furniture Production Company together control about 10% of the Russian furniture market.
- **Furniture of Chernozemye OJSC** - Founded in 1966, this company has a very broad product portfolio for all segments of the market.
- **Miassmebel CJSC** – Est. in 1941, the company produces furniture in Italian style for hallway, living room, dining room, bedroom, study room, and other Miassmebel CJSC production factory, Miass, Chelyabinsk Region, Russia

f) Import of furniture

Russian furniture market is highly depended on imports. Share of imports in retail sales volume app. 60%. Major highlights:

- Increase from USD 1,9 million in 2006 to USD 3,3 million in 2012.
- High customs duties to protect the domestic market from import > to be reduces after the WTO transition period from 41.7% to 12.8% on average for protected positions and from 15% to 10% for unprotected positions.
- Furniture imported from Europe > mainly the premium-class market segment; local companies produces mostly middle-class and cheap furniture. The situation is now changing as the quality and competitiveness of local furniture is improving.
- Imported furniture comes mainly from Italy, China, Belarus, Germany and Poland.
- Italy is the main supplier to Russia with app. 23% market share, but its position is declining (38% in 2007) as the share of Chinese imports is growing rapidly: from 2007 to 2012, the import of Chinese furniture grew +24% per annum, to leave grey market volumes out of account.
- Finnish furniture is imported to Russia, but the volumes are low and decreasing. From 2010 to 2011 furniture exports from Finland to Russia decreased by 2% (from 22 900 EUR to 22 400 EUR), and in the first three months of 2012 there was a 5% decrease.

Russian imports of office furniture are 10 times higher than exports. Russia has a negative balance in international trade in furniture, i.e. **imports higher than exports**. As is seen from the tables below, in particular for office furniture, **Russia imports almost 10 times more office furniture than it exports**.

Main importers of furniture to Russia are Germany, China, Belarus, Italy and Poland. Belarus is a major supplier of cheap furniture, which is in a high demand in Russia regardless of relatively low quality. Recently there has been a significant growth of both legal and illegal import from China, especially in the Far East of Russia. *See Fig. 4 Main import partners in Appendix*

However, the market structure has changed in the last 10 years, with a bigger role of domestic production on the domestic market. While in 1998-1999 the largest market share was held imported furniture, today 50-60% of furniture in Russia is of the domestic production. Nevertheless, 30% of components used by Russian producers are imported.

See Table 4 Import of furniture to Russia in 2006-2010 (USD, million) in Appendix

g) Export of furniture

In comparison to 2008, import of office furniture, both wooden and metal, dropped by almost 40% in 2009 due to the crisis. Already in 2010 it increased by 10%, however, the numbers are still lower than in the pre-crisis period.

Exports of Russian furniture have dropped significantly from 2008 to 2010. Within the segment of office furniture, the decrease was particularly massive - by 52% for metal office furniture and by 68% for wooden office furniture.

See Fig. 5 Russia Main Export Partners in Appendix

See Table 5 Export of furniture from Russia in 2006-2010 (USD, million) in Appendix

h) Office furniture

Below are the largest producers and distributors of office furniture in Russia:

- **Wood Processing Factory #17** - Established in 1928, the company manufactures a wide range of furniture, including office and study room furniture
- **Felix CJSC** - Largest Russian producer and supplier of office furniture (2 factories producing office & hotel furniture; 30,000 m² warehouse; network of 13 stores in Moscow, 3 in St. Petersburg, 40 in other parts of Russia, and 3 in Kazakhstan); accounts for 50% of office furniture market in Moscow
- **Frona Ltd.** - Distributor of office furniture from Germany, Italy, France, Belgium, Sweden, Finland, Poland, Belarus, Ukraine, China, Malaysia, etc.; distribution network of 50 stores in Russia
- **Kambio CJSC** - Produces office furniture since 1993; dealer network includes more than 400 partners/distributors in Russia and abroad
- **KRAFT Trade and Industry Company** - Distributor of office furniture from Italy, Spain and Germany; own production since 2001 (EFES factory)
- **Solo Ltd.** - Distributor of office furniture in 10 major cities in Russia; established in 1993
- **UNITEX Center of Office Furniture** - Producer of office and hotel furniture; distribution in 100+ locations in Russia; about 12% of office furniture market in Moscow

i) Retail

Furniture retail market is very fragmented: only 7-10% of the companies are big, while the rest are small businesses.

- The main sales channels are multi-brand shopping centers, mono-brand stores and small independent retailers. 36,5% of all furniture is sold in the Central Federal District, where the largest furniture stores are located. Moscow is certainly the biggest furniture market for all furniture categories.
- The largest furniture stores in Russia are:
 - Grand Furniture Trade-Center, Moscow
 - Great Furniture Center, St. Petersburg
 - Trade-Center “Tri Kita”, Moscow
 - Mega-Mebel, a network of furniture supermarkets, which are located in several Russian cities.
- In addition to these, the Swedish furniture company IKEA is very popular in Russia, and their brand is one of the most recognized brands on the Russian market. The company has several stores around Russia, including Moscow, Saint Petersburg, Rostov on Don, Yekaterinburg, Novosibirsk, Omsk, Samara and many others.
- Online shopping has found its way to Russian furniture market, mostly in Moscow and St. Petersburg.

Small players account for about 90% of Russia’s furniture retail market. The retail market is very fragmented as only 7-10% of all market players are big companies. The Central Federal District (center of the European part of Russia), which includes the Moscow region, accounts for 36.5% of all furniture sales, according to RosBusinessConsulting Media Group (RBC). This region also leads in the number of large furniture stores. According to recent studies, **about 47% of all furniture shops in 2011 were located in this district (39% in 2008), 31% of them are in Moscow.**

The Volga Federal District (cities: Ufa, Nizhniy Novgorod, Samara, Kazan, Cheboksary) ranks second in furniture retail with 19% in 2008 and 22% in 2011 of total furniture sales in Russia. The lowest level of furniture retail is in the Far Eastern Federal District (Khabarovsk, Vladivostok, Yuzhno-Sakhalinsk) and North Caucasus FD (Grozny, Vladikavkaz, Stavropol, Nalchik), with 3.4% and 2.0% respectively.

There are **3 main furniture sales channels** in Russia: **multi-brand networks of shopping malls, mono-brand stores, and small independent retailers.** According to RBC, multi-brand networks account for 30-40% of all furniture outlets in Russia. An important share of the market belongs to mono-brand stores owned by producers.

Largest furniture stores in Moscow

- **Grand Furniture Trade-Center** - One of largest furniture trade-centers in Europe; 140,000 sq.m. total area; 800 domestic and foreign brands and producers
- **Gromada Furniture Center** - 3 floors of stores with furniture and accessories
- **Three Pillars Furniture Center** - 5 floors of stores with furniture, lighting products, home accessories, etc.
- **Furniture Continent** - 63,000 sq.m. total area; 4 floors of shops with furniture and interior accessories

Largest furniture stores in Russian regions

- **Great Furniture Center** (St. Petersburg) - Total area 12,000 sq.m., more than 60 furniture producers
- **Mebel-City** (St. Petersburg) - Two furniture shopping centers with total area of 30,000 sq.m.
- **MebelGrad** - Network of 57 Furniture Shopping-Centers
- **MegaMebel** (multiple cities) - Network of furniture supermarkets in several cities around Russia with total area 15,000-60,000 sq.m.
- **MebelWood** (St. Petersburg) - 21,000 sq.m. total area, 5 floors

- **Mebel Ville** (Tyumen, Ishim, Surgut) - Network of three shopping malls
- **SBSMegamall** (Krasnodar) - 180,400 sq.m. total area

Summary of international hotels operators' data - Russia¹²

Operator	Existing (October 2013)		Future (by 2017)		Total amount by 2017 (existing + future)	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
The Rezidor Hotel Group	22	6 871	22	4 659	44	11 530
Accor	16	3 311	51	9 337	67	12 648
InterContinental Hotels Group	14	3 900	9	2 537	23	6 437
Marriott International	14	3 494	11	2 517	25	6 011
Hilton Worldwide	5	868	21	4 127	26	4 995
Kempinski Hotels	4	1 017	3	665	7	1 682
Starwood Hotels & Resorts	4	897	8	1 715	12	2 612
Wyndham Hotel Group	3	447	5	797	8	1 244
Sokos Hotels	3	927	-	-	3	927
Golden Tulip Hotels, Suites & Resorts	2	310	4	805	6	1 115
Hyatt Hotels Corporation	2	502	6	1 324	8	1 826
Rocco Forte Hotels	2	361	-	-	2	361
Vienna International Hotels & Resorts	2	348	1	184	3	523
Orient Express	1	275	-	-	1	275
Corinthia Hotels	1	388	-	-	1	388
Domina Hotels	1	109	5	879	6	988
Fairmont Raffles Hotels International	1	233	5	952	6	1 185
Four Seasons Hotels and Resorts	1	177	1	180	2	357
Lotte Hotels & Resorts	1	304	-	-	1	304
MaMaison Hotels & Apartments	1	84	-	-	1	84
Mandarin Oriental Hotel Group	-	-	1	262	1	262
Capella Hotel Group	-	-	3	902	3	902
Morgans Hotel Group	-	-	1	160	1	160
Total:	100	24 823	157	32 002	257	56 825

¹² Source: hotel operators data, EY analysis 2013

There are a few **national hotel chains** in Russia – Anabel Hotels, Confi Hotels and Resorts, Eurasia Hotel Group, Nevski Hotel Group and Turriss Hotel Group all of them located mainly in St. Petersburg.

The Moscow based national hotel chains are – Hotel Complex, Maxima Hotels, Katerina Hotels, Eridan Hotel Complex.

The hotel chains having presence outside the two major cities are few – Amaks Hotels and Resorts, and a few minor ones, based in smaller cities and resorts.

The overall findings of our extensive research show that the market is seriously fragmented and consists of small, family owned hotels rather than large hotel chains, present in multiple locations.

More than 2.3 million m² of quality retail space has been announced for completion in Russia in 2014. However, bearing in mind construction delays and time required to lease schemes, total retail completion will amount to 1.6-2 million m² of GLA.

The majority of retail projects are being constructed in Moscow, cities with populations from 500,000 to 1 million and also in smaller cities with 200,000 to 350,000 people. In 2014, among cities with a population of over 1 million people, the largest volume of completion is expected in Yekaterinburg, Nizhniy Novgorod and Novosibirsk, with more than 100,000 m² of GLA in each city.

Significant growth in completions is expected in both Perm and Ufa, in cities with populations from 200,000 to 350,000 people and in resource and industrial-based cities over the next two to three years.

UKRAINE

a) Furniture market

Ukrainian furniture market is a whole new market that has gone through several stages of development. In the period before 1987 the furniture market was represented by only one segment, mainly household furniture and supplies for the various organizations and institutions of special furniture worn campaign distributive character.

The current situation on the market of furniture can be called **consistently progressive**. As experts say in the period between 2007 and 2012 the market has grown three times and its annual growth rate is 25-30%. Every year, more and more increased sales volumes of furniture. According to market operators segment modular furniture in 2007 significantly outpaced the industry as a whole. Sales team of furniture increased by 40% at average industry growth of 25-30%, which is more than just a demand on the market inexpensive furniture quick assembly.

b) Import and Export

The **main importing** country of Ukrainian furniture remains Russia - about half of all exports. However, the domestic furniture is being in CIS countries and Western Europe. **Exports** of furniture production makes about a quarter of the Ukrainian manufacturers, basically, they are large furniture enterprises. Talking about the import side, there should be noted that the volume of imported furniture, presented at the Ukrainian market, declining annually.

c) Production

Domestic **producers** displace foreign furniture lower and middle price segments. However there is a concern about the amount of Asian furniture, which annually imports almost doubled. The most effective furniture stores are those which work with a maximum range of modern furniture and a good marketing, while small businesses and shops without a clear concept gradually disappear from the market. According to the president of the Ukrainian Association of Furniture Alexander Belyaev, the Ukrainian furniture market currently employs 8,000 furniture stores and specialized companies. Furniture produce more than 4,500 enterprises, with almost 300 of them are from 50% to 60% of the volume produced in Ukraine furniture products. According to the Ukrainian Association of Furniture, among the major players in the furniture market can be distinguished TM "New Style" (CJSC "New Style" and "Mebli Trade"), LLC "Gerbor Holding" (the company Brovarskyi furniture factory), "League Nova" "Furniture Progress", LLC "ENO Mebli Ltd".

Currently, the companies specialized in furniture production can be divided into three groups:

- Large with a monthly output of 220 thousand dollars and above (their share is 3-5%);
- Medium, producing furniture for 25 - 35 thousand dollars a month, which accounts for 60-65% of the total number of producers;
- Small with output of less than 25 thousand dollars a month (30%).

Segments of the furniture market are classified depending on the type of product (for houses, offices and specialized), as well as the price range (low, medium and high). The greatest demand among the population of Ukraine enjoys Furniture average cost.

d) Hospitality

In the course of 2013, Kiev hotel market did not witness any new openings. At the year-end, Kiev hotel market comprised about one hundred hotels of different categories with around 10,000 rooms. In 2013, the level of demand and occupancy remained mostly unchanged. The

annual average ADR index for hotels in the top-range segment has dropped by 10-15% and ranged from US\$180 to US\$260, for mid-range segment this index has not changed significantly and stayed in the range of US\$70-130.

The Kiev hotel market at end-2013 comprised about 100 hotels of different categories with 10,000 rooms, receiving at the average 1 million visitors. According to our research, as of the year-end there were 25 hotels of 4-5-star category, 50 hotels of 2-3-star category, and about 30 hotels of 1-star/no-star category in Kiev. 3-star hotels are the most numerous among others, amounting to about 47% out of the total room stock. Nevertheless, **hardly a half of 50 Kiev hotels of mid-range segment meet European standards**. For example, only 30% of mid-range segment rooms are under operation by local and international professional companies in Kiev. Currently, 8 hotels in Kiev in the top-range and mid-range segments are managed by international hotel operators.

2013 was marked by a change in the developers' plans on the completion of hotels. Opening of the following top-range hotels was postponed for the later periods: Hilton

Kiev is expected to be open in 2014, Renaissance Kiev Hotel – in 2015, while Sheraton Kiev Olympiysky opening is delayed till distant 2016.

The top-range hotel segment is quite saturated in Kiev and there is no full confidence that all hotel projects scheduled for completion for the next 3 years will open.

The highest activity at the moment is observed among developers who intend to build up hospitality projects of mid-range segment. Park Inn by Radisson Kiev Troyitska is scheduled to be open in 2014. Also, a new mid-range segment hotel is expected to be completed under ALOFT brand by Starwood Hotels and Resorts Worldwide Management Company on Esplanadna Street in 2015.

International and national hotel chains

International chain	Name of the hotel	Future development	City	Category	№ rooms	Total № hotels	Total room capacity
Accor Hotels	Ibis Kiev City Center		Kiev	Middle - 3 * and below	212	1	212
The Rezidor Hotel Group	Radisson Resort & Spa Alushta		Alushta	4-5 *	209	5	1051
	Radisson Blu Resort		Bukovel	4-5 *	252		
	Park Inn by Radisson Donetsk		Donetsk	4-5 *	171		
	Radisson Blu Hotel Kiev Podil		Kiev	4-5 *	164		
	Radisson Blu Hotel		Kiev	4-5 *	255		
	Park Inn by Radisson Troyitska	Opening soon	Kiev	4-5 *	199		
Fairmont Hotels & Resorts	Grand Hotel Kiev		Kiev	4-5 *	258	1	258
Hilton Worldwide	Hilton Kiev		Kiev	4-5 *	262	1	262
Hyatt Corporation	Hyatt Regency Kiev		Kiev	4-5 *	234	1	234
Inrecontinental Hotel Group	InterContinental		Kiev	4-5 *	272	2	480
	Holiday Inn		Kiev	4-5 *	208		
Starwood Hotels & Resorts	Bristol Hotel		Odessa	4-5 *	113	2	277

	Four Points by Sheraton Zaporozhye		Zaporozhye	4-5 *	164		
	Aloft	2015	Kiev	4-5 *	310		
	Sheraton Kiev Olympiysky Hotel	Opening January 1, 2016	Kiev	4-5 *	196		
The Leading Hotels of the World	Donbass Palace Hotel		Donetsk	4-5 *	124	3	309
	Superior Golf&Spa Resort		Kharkov	4-5 *	45		
	Opera Hotel		Kiev	4-5 *	140		
Warwick International Hotels	Cosmopolite Hotel		Kiev	4-5 *	160	1	160
Wyndham Worldwide	Ramada Donetsk		Donetsk	4-5 *	165	3	532
	Ramada Encore Kiev		Kiev	4-5 *	264		
	Ramada Lviv		Lviv	4-5 *	103		
Total						20	3775

Source: Stoykov Consult, August 2014

International hotel operators in Ukraine form a relative small market. There are 10 international operators managing 20 hotels with amount of 3775 room capacity. The hotels are located mainly in Kiev, which is the most developed city in Ukraine and the brands present high class hotels (except ibis Kiev), which is a common hotel practice to have presence at a new market and/or undeveloped/small market.

The Rezidor Hotel Group, one of the fastest growing companies worldwide is the market leader with 5 hotels and 1051 rooms in Kiev (almost 30 % of international hotel market share in Ukraine). The hotel operator opened the first internationally branded hotel in Kiev and Ukraine in 2005. At that time the hospitality company plans even to strengthen its position in the growing market of Kiev, by opening one more hotel in 2014. And it won't be last one for a long time - according to a press release in 2012 by opening a serial hotel in Kiev, Mr. Wolfgang Neumann, President and CEO of Rezidor mentioned about 2 more hotels under development.

Following the market leader is Wyndham Worldwide with 3 hotels and room capacity of 532, Intercontinental Hotel Group with 2 hotels, but with 480 keys. The hospitality chain Starwood Hotels & Resorts have 2 operating hotels in Ukraine and 2 – under development. After the final completion in 2016 the hotel operator will have 783 room capacity and their presence would appear on a second position after The Rezidor Hotel Group in Ukraine.

There are few national hotel operators in Ukraine:

- *Reikartz Hotel Management Group* is currently the largest hotel operator in Ukraine,. There are three brands with 26 two-, three- and four-star hotels being managed by this company and being located in major cities and resorts around Ukraine.
- *Black Sea Hotels Group* consolidates 10 hotels in Kiev, Odessa and Odessa region and Eupatoria (Crimea)
- *Premier International Hotel Group* - three hotel brands: Premier Hotels, Accord Hotels, Compass Hotels, representing 12 cities nationwide
- *The Group of Companies Royal Hospitality S.A.* is one of the leading hotel chains in Ukraine. The Group's main geographical focal points are the Western Ukraine and the city of Kiev.

e) Office

The total competitive office stock in Kiev increased by 8% in 2013, as compared to 2012, exceeding 1.5 million m². Despite tough economic conditions, gross office space take-up reached 145,000 m² in 2013, making 7% increase in comparison with the last year. In 2013, the total competitive office stock in Kiev increased by 8%, reaching approximately 1,540,000 m². New development completions in Kiev amounted to 128,000 m². Among major office buildings delivered to the market were: Gulliver (GLA – 64,000 m²), Silver Breeze (GLA – 26,000 m²), SP Hall (GLA – 23,000 m²), and MERX-2 (phase 2) (GLA – 15,400 m²). Half of the new supply comprised Grade A office space, resulting in the increase of Grade A office share in the overall stock from 19% in 2012 to 20% in 2013.

In 2014, a significant volume of new supply is expected to be delivered to the Kiev office market. Provided all office buildings announced for this period are completed on schedule, approximately 242,000 m² of new office space will be added to the market. Among major office buildings scheduled for delivery are: Sky Towers (GLA – 80,000 m²), Senator (GLA – 48,000 m²), and IQ (GLA – 38,000 m²). Whereby, the market is expected to maintain its trend of expanding the share of Grade A office space in the overall stock, increasing from 20% in 2013 to 29% in 2014 and 2015.

Given conservative macroeconomic forecasts, significant growth of demand for offices is not anticipated in 2015.

As in 2013, taking into account current and expected supply for 2014-2015, Kiev office market may retain its status of a “Tenant market”.

f) Retail

Ukraine’s retail real estate market is developing at a steady rate. Approximately 126,000 m² of modern retail space was delivered to the market during 2013, thereby increasing the total shopping centre stock in Kiev by 15% to 916,000 m², as compared to 2012. There are about 520,000 m² of modern retail space under construction representing around 57% of the current stock. If the short term development pipeline is completed on schedule, Kiev will find itself among largest retail markets in Eastern Europe.

Demand for retail space remained moderate, coupled with the temporary increase in vacancy rate to 3.9% and a slight decrease in prime headline rents. As of December 2013, prime high street rents reached US\$240 m²/month, and prime traditional shopping centres rents – US\$105-\$110 m²/month.

With economic fundamental remaining subdued, organized retail turnover in Kiev was still growing at a moderate pace due to the extremely low inflation for the second consecutive year and moderately growing real wages over 2013. However, the retail turnover growth pace displayed a declining trend, slowing down from + 12,9% y-o-y in 2012 to + 6,4% y-o-y in 2013.

According to Colliers research, 8 new shopping centres are expected to be delivered to the market during 2014-2015, adding the estimated 522,000 m² to existing retail stock levels in Kiev. Most of the projects scheduled for delivery in Kiev within the next two-three years are of large or very large schemes: the average leasable area of these shopping centres amounts to 60,000 m² against 20,000 m² of existing ones. Some of the major completions announced for delivery in 2014 include Respublika (GLA ~ 135,000 m²), Prospect (GLA ~ 40,500 m²), and Atmosfera (GLA ~ 30,000 m²), and in 2015 – TSUM (GLA ~ 22,500 m²), Lavina Mall (GLA ~ 115,000 m²), Blockbuster Mall (GLA ~ 66,400 m²), and Retroville (GLA ~ 83,000 m²).

Kiev is also characterized by more than 200,000 m² in the active pipeline. Construction of the several large shopping centres is going to start in 2014. These schemes include shopping centres on Zdolbunivska St. (GLA ~ 58,000 m²), on Dehtiarivska St. (GLA ~ 45,400 m²), HARTZ on Zlatoustivska St. (GLA ~ 58,000 m²), and shopping centre on Palladina St. (GLA ~ 55,300 m²).

BELARUS

a) Furniture market

The Belarusian furniture market, excluding the informal sector in 2013 amounted to more than \$ 500 million. The market structure is: 20-25% informal sector and 75-80% official market.

Over the last year the capacity of the Belarusian furniture market grew by 3.5%. About 80% of the Belarusian market is upholstered and household furniture. The greatest demand among Belarusians in 2013 is furniture collections for children's rooms and bedrooms, there is a little interest in changing the interior rooms.

Typical problems for furniture manufacturers in Belarus are lack of their own, fresh design ideas, the insufficient staff expertise, old facilities and poor advertising. From the moment of transition to a market economy, a problem for manufacturers of furniture is an intense competition as a result of ever-larger manufacturers. The private share is substantially uncontrollable segment. The furniture sector is characterized by a high percentage of gray economy, which often occurs in the face of small businesses.

b) Import and export

The share of Belarusian furniture, according to experts, is 70-80% (closer to 80%), and **the import** is about 20-30%. A growing trend is that more consumers prefer Belarusian furniture. Although there are well represented imported goods, the demand for Belarusian furniture is 2-2.5 times higher. The possible explanation is that quality furniture manufactured in Belarus has increased markedly, and the prices are much lower than those of their foreign counterparts," - said the representative of "Involux."

Furniture industry in Belarus has an **export** tradition. Each year about 45-60% of furniture produced in Belarus is exported. The lion's share of export which is at average 74% (from 2007 to 2012) goes to Russia.

One of the largest furniture manufactures is Bellesbumprom Concern (unites about 60 entities). The volume of furniture for 2011 is 1175 billion BYR. For 2011, exports of "Bellesbumprom" was \$ 141.3 million. The furniture is exported to 31 countries worldwide. Exports to Russia represents 101.5 million USD, or 71.8%, in Kazakhstan - 27.3 million USD (19,3%).

c) Production and consumption

The market has a trend of growth in recent years. According to official figures, furniture consumption dynamics has grown from 319 (m, USD) in 2007 to 519 (m, USD) in 2012.

The informal sector is relatively steady (from 106 (m, USD) in 2007 it goes to 130 (m, USD) in 2012 .The total furniture consumption including the informal sector in 2012 is counted to 649 (m, USD)

About 95% of domestic market is household furniture, 78% of which are cabinet and upholstered furniture.

d) Hospitality

In a result in the last years we saw the beginning of an active development similar to the world tendency of hotel development by holding sport events with world significance, the hotel real estate market/hotel market in Minsk (since 2009) has been related to the preparation of the city for the 2014 Ice Hockey World Championship.

In 2012 two of the international leading hotel operators Marriot and Accor chains officially confirmed their intentions to operate on the Belarusian market. Marriot showed interest not only in the Minsk market, but also in the markets of regional cities like Brest.

Sites earmarked by the Minsk City Executive Committee for the construction of hotels remain reserved and investors are still interested in them. Therefore, the development of new projects

to be completed in 2015-2016 may be expected in the future. By 2012 the total number of ongoing and potential projects in Minsk is estimated at 46.

Tendencies and forecasts in 2012:

- Developers will keep attracting major international operators to the projects;
- International operators are expected to show interest in projects developed in regional cities of the Republic of Belarus;
- The integration of Belarusian hotels into international booking systems will continue

Today there are over 350 hotels and about 120 other accommodation facilities in Belarus. One in ten hotels in Belarus has a star category. These are mostly 3* hotels. However there are 4* and 5* hotels available in Minsk. The largest number of hotels can be found in Minsk- 43 hotels which can accommodate over 9,000 guests. Most of hotels in Belarus (especially in district capitals) are unrated.

Belarus is now busy upgrading existing hotels and building new ones. Some of the hotels are constructed by the world' famous hotel operators Kempinski, Marriott and Hilton.

The presence of international hotel operators in the country is strongly limited to 5 companies - InterContinental Hotels Group, Warwick International Hotels, Marriot and the upcoming Kempinski (2014) and Hyatt International (2015). All of them are located in Minsk and all of them (except Marriot with 2 hotels-one in Minsk and one in Brest) present themselves by 1 hotel in upscale category 4 and 5 stars.

Operator	Hotel	City	Year of completion	Category	Number of rooms
InterContinental Hotels Group	Crowne Plaza Minsk	Minsk		4	151
Warwick International Hotels	Europe	Minsk		5	67
Marriot	Marriott Renaissance	Minsk		5	237
Marriot	Marriott Courtyard	Brest	2014	4	150
Kempinski	Kempinski	Minsk	2014	5	250
Hyatt International	Hyatt Regency	Minsk	2015	5	243
Hilton	Hilton	?	the first hotel brand c	3	120

Source: Stoykov Consult, August 2014

e) Office

During 2012, the structure of the office market in Minsk did not change significantly, since only a small volume of new office space was commissioned, and they did not have a serious impact on the market. With the exception of one office building, all commissioned business centers belonged to B2 class. As a result, the share of A class offices, which is the least developed segment in Minsk, decreased slightly, while that of the B2 class, the most developed segment in the market, went up. Only a quarter of all business centers scheduled that year were actually launched: only 7 out of 23 objects entered the market. The main reason for the lower rating quality of such office objects is the construction method: developers usually use a shared-equity construction scheme. As a result, objects have dozens or even hundreds of owners and low levels of management and services.

The market of built-to-suit objects was more dynamic and interesting in 2012. New large office buildings were developed as a result of activity of banks. Two such objects accommodated

the headquarters of banks. Those objects represent high-quality office buildings and, just like commercial business centers, correspond to B1 class.

According to the number of requests, the share of companies that require spaces up to 100 sqm decreased in 2012, even though the demand for small spaces in Minsk was the highest in the previous year. Demand for medium-sized offices of 100-250 and 500- 1,000 sqm was nearly equal. Demand for large spaces increased as well. Such changes occurred despite the fact that the participation of companies in shared-equity construction projects is typical for the Belarusian market. Companies that require offices of several hundred or thousand sqm dominate in shared-equity construction projects. The prognosis is that new business centers will be filled as a result of deferred demand.

f) Retail

Nine new retail real estate objects important to the market were commissioned in 2012. Among them was Zamok, a large shopping and entertainment centre. Another launched object was the shopping and entertainment centre Galileo. The retail real estate market was developing very actively in some regional cities during the last few years. Such areas mostly included cities and towns with more than 100 thousand inhabitants. The rate of development of the modern retail real estate market in regional cities is comparatively uniform. Retail spaces are slightly bigger in Vitebsk as a result of the commissioning of large objects like the Korona shopping centre and the Marko-City multi-purpose complex.

The demand for small areas in retail galleries (up to 50 sqm and 50 to 100 sqm) still remains high. The prognosis for the retail market in Belarus is that new foreign chain operators will enter the Belarusian market. The geography of presence of some retail chains will be expanded. Retail operators will be active in the markets of regional cities and the volume of investments in the retail sector and retail real estate will increase

6. Analysis

Key trends exhibiting themselves during 2013/14:

- With labor costs on the rise, manufacturing in China may not be the most cost-effective option for US and EU furniture manufacturers and suppliers.
- Momentum in the US housing market will continue to impact furniture manufacturing – both positively and negatively. EU recovery is slow.
- Consumer preferences are changing dramatically as the Baby Boomers exit and a younger generation enters the market.
- Consumers control retail distribution channels, even as manufacturers try to dictate how furniture buying is done.
- While quality is critical, it is no longer the most important variable in the manufacturing process. Technology, logistical efficiencies and agility are growing in importance.
- For those willing to invest the time and effort, export markets may be opening up.
- Inadequate marketing and branding continues to plague the industry, especially in the areas of new media.

a) Russia:

The future of the Russian furniture market was looking positively bright. The Russian government is planning big investments to modernize and expand the country's infrastructure, thus the furniture market is expected to continue growing up to 2020.

- The Centre for Industrial Studies CSIL forecasts a +4% furniture consumption growth in real terms for 2013 and for 2014.
- Overall, Russia has a very large and rapidly developing furniture market, which has great potential for foreign companies. The market is even more attractive when compared with the other main European markets, which are slowly stagnating.
- Moscow is the largest regional furniture market. Besides Moscow, also Saint Petersburg, Samara, Kazan and Nizhny Novgorod are attracting foreign players with their growing economy.
- The best way to import furniture to Russia is to do it through a local distributor, and most of the foreign manufacturers operate this way. Another way is to enter the market is to set up a Russian subsidiary or a representative office.
- Russia is known to have very bureaucratic customs procedures, which is why the customs formalities should be carefully studied in advance. Customs procedures also include customs payment (15 - 45% for furniture) and VAT (18%). It is expected that customs will gradually decrease as a result of Russia's WTO membership, which will help penetrating into the Russian market.

Market entry and customs procedures - Route to Market

Import of furniture to Russia is done mainly through local distributors (registered Russian companies) who need to have experience in dealing with local government officials as well as major retail chains to develop a distribution network.

The most attractive place for doing business is Moscow, as the largest and most developed city in Russia. It is also bigger in terms of investment, population and economy than any other Russian region. Other economically strong and fast developing regions are St. Petersburg, Samara, Kazan, Nizhny Novgorod, Krasnodar (Sochi), Sakhalin, and Rostov-on-Don.

Main market entry opportunities for foreign companies

- Setting up cooperation with a **local importer/wholesaler** who supplies to retail stores and retail chains across the country; this is often the most effective way of entering the Russian market.
- Supplying **directly to retail chains**
- Setting up a **wholly-owned Russian subsidiary**:
 - Joint Stock Company – the most commonly used legal entity in Russia, which may be either “open” (“OAO”), meaning publicly held, or “closed”, i.e. privately held (“ZAO”)
 - Limited Liability Company – often used by foreign companies to conduct business in Russia
- Establishing a **representative office or branch** – not regarded as a Russian legal entity

Russia has 15 special economic zones with favorable business regulations

Special customs regimes and procedures

Russia has **15 special economic zones (SEZs), areas with special business regulations created with the aim of attracting investment into the regions.** SEZs are regulated by Federal Law “On Special Economic Zones of the Russian Federation” #116-F3 dated 22nd July 2005.

b) EU Market

Recovering from the Crisis has been halting and still only predicted at 2% to 3%, returning the sector to 2008 levels during the next 2 years. Furniture spending is discretionary – the EU market has been contracting and competition within the market is increasing.

Employment has been reduced by 2% across the EU28 but some countries are lagging behind, whilst comparative advantage has switched to Eastern Europe – Poland, Romania and Bulgaria have all gained from cost advantages. Costs per employee are as much as 5 times lower in Central Eastern Europe. Whilst this is partly counter-balanced by the higher added value generated in the leading western European Countries such as Germany, Scandinavia and (to a lesser extent) in Italy can reach 10 times higher productivity.

Operating in **niches** is a valuable strategy. Companies growing fastest were in **Contract Furniture** and supply of mattresses – relevant to both BFC and SFC.

Each Company's ability to put innovation, design, quality and efficiency in the production process was very important. As also was financial control, choosing the right clients and investors to make themselves more profitable. Specifically in Germany during 2013 the situation was not good, recording a decrease in the German furniture turnover of 3.7%. Number of producers decreased by 0.5%.

Germany still remains the leading furniture producer (over 16 bn Euros) but exports are forecasted to decrease. Imports and general demand will increase – a large opportunity for Eastern Europe. Competition within the EU and from outside the EU (esp. China) are key issues. Performance varies according to segment (see earlier) with a positive trend particularly in the kitchen sector.

In **Sweden** the popularity of the Country's furniture products is due to the success of IKEA (turnover 2013 at 27.9 bn Euros); the design standards; and the productivity of many SMEs – with a strong concentration in Southern Sweden. The Swedish furniture industry has grown by 24% in the last 10 years.

Sweden is one of only three Western European countries that has increased Manufacturing output in the last decade and its share of overall production in the EU. It has recovered faster in Sweden than any other EU member in Western Europe.

Turkey has shown to be a dynamic exporter. In 2014 they expect over 2 bn Euros exports, directed mainly at Iraq, Libya, Germany, Azerbaijan and France. Brand production and clustering activity are sector priorities in fostering the development of Furniture Sector.

Italy has undergone a severe progress of acquisitions and closures of companies in the past years. In Chair production the Italian Chair district, based in Friuli, Venezia Giulia (on the border with Slovenia and Austria) is starting to rebound.

It is doing this through Internationalisation and Innovations. The advent of new software and the age of "3D Printing" is being taken up enthusiastically, e.g. the 3D configuration in order to personalise a chair to the user, as well as show different finishings and fabric options.

Distribution Channels

Retail:

- Via Large Retailers
- IKEA Supply Chain

Contract:

- Via FF&E
- Via office Property Dev.
- Via "Core" Groups

By introducing it to Cluster Companies they now have access to advanced technology usually reserved for larger companies.

Growth will remain modest for Italian furniture consumption (less than 15 for the next 2 years). The situation of the Italian Companies remains critical. The different performances of Italian districts mainly depends on differentiation of products and targeted export markets. The Italian Companies do show more capacity and interest to attack both BRIC and "Next 11" Growth Markets.

As another angle on differentiation, consumer demand is more City-based than Country based.

www.worldfurnitureonline.com predicts that certain cities will see future demand rise by up to 20% in the next 5 years.

Currently seen as "middleweight" cities – Oslo, Amsterdam, Tallin and Riga are expected to outperform the mega Cities of London and Paris. Future demand is anticipated in the 4 "middleweights" to be up to € 30 bn in 2020 and per capita growth of GDP higher than 100% in the same period. This must trigger a surge in consumption. Other Cities – Bonn, Frankfurt, Warsaw and

Italian Chair District

- 650 Companies
- Turnover € 450 mn in 2013
- Team of Companies work together in emerging markets:
 - Saudi Arabia
 - South Africa
- Strong exhibition presence in Cologne, Brussels, Jeddah and Cape Town.

Vilnius will also face above average growth rates. Conversely, cities like Paris, Dublin, Madrid and Stockholm show a more conservative growth of GDP.

An ageing population for Europe by 2020 is contrasted by a young, dynamic and cosmopolitan profile in others.

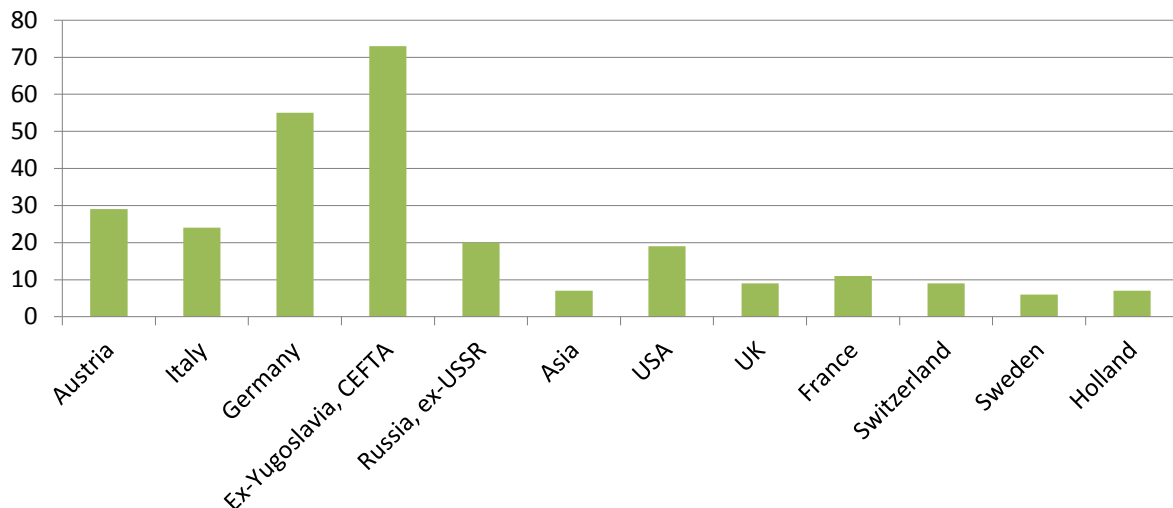
London, Barcelona, Berlin, Amsterdam and Athens have an increasingly mobile, working age population. This will also attract higher demand for Hotel development and modern office design.

The young and multi-ethnic profile of these Cities will bring about different tastes, preferences, needs and disposable income to the furniture market.

c) Serbia Market

Any analysis of trading prospects for Serbia must include the territory and Countries of Former Yugoslavia. Each of the newly created Countries of Former Yugoslavia have retained important trading linkages with each other.

Current Export Markets



In Southern Serbia furniture/wood processing is the largest sector of the economy, first ahead of milk and meat production. So in terms of Regional Development the competitiveness of Wood Processing and Furniture production is vital to the economy and lifting living standards.

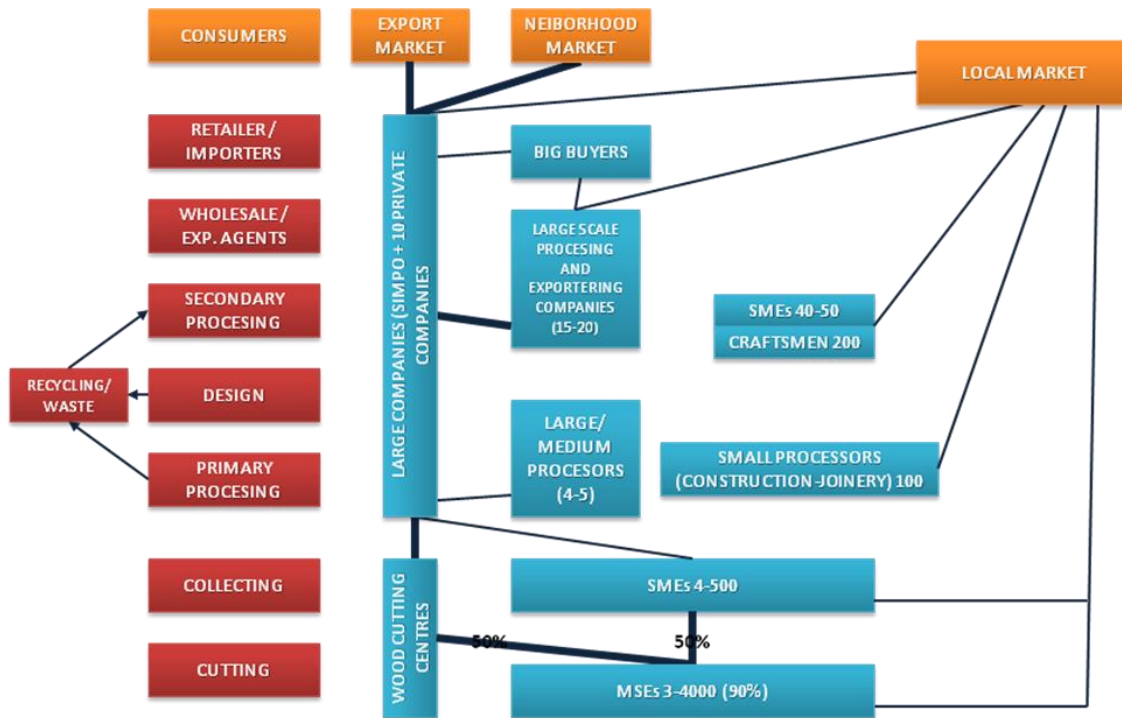
In Competitiveness terms:

- Geographical position is good – to Macedonia, Greece and Bulgaria
- Any decline or sale of SIMPO is likely to lead to another surge in the start-up of Furniture Companies via ex-employees with technical skills
- A core of 500+ companies in Pcinja District and 281 in Jablanica District, logically may lead to 25 to 50 active Companies – export ready with energetic entrepreneurs. State measures are currently progressive for new start-ups.
- The existence of FDI success by SIEPA needs to be built upon by local Companies and Agencies
- The Sector is potential “reservoir” for the absorption of re-qualified workers from other Sectors

- Companies from Southern Serbia produce almost all categories of furniture, catering, hospital and schools – as well as for Hotels in Serbia, Montenegro and Russia
- Chairs, sofas, dining-room and kitchen furniture are produced by a significant number of Companies. Technology and process engineering is not up to EU Standards.

Highest export products are furniture (39%) and sawn timber. There is significant value chain to make a fully integrated production system, including furniture making supplies (staples, pins, locks, etc.)

Main Market channels:



The biggest potential seems to be in the channel of neighbouring markets (SMEs, large Companies and Construction). This includes Foreign Markets such as Western Bulgaria and Southern Romania. There is a high potential “pull” factor – better quality products, new technology and higher value/profit items.

TARGET MARKETS – as with most South East European Countries will tend to be adjacent neighbours plus Greece, Russia and Italy.

Cluster development needs to tackle key weaknesses:

- New Design
- Technical, Management and Process Management Skills
- Introducing Research, joint action and a collaborative approach
- Injections of entrepreneurship via the Cluster to develop more ambition in the sector.

OPPORTUNITIES are apparent in the Russian Market and within the Supply Chain of Italian Companies as well as IKEA.

The Cluster needs to define its core products, key target markets and where it can collaborate. The Sector needs to be elevated to “vital” status in the Region before SIMPO reduces more from its 5000 work-force. Measures now save emergencies later.

7. Conclusions

7.1. Recommendations

Although overseas manufacturing has provided significant cost benefits, manufacturers are rethinking whether to stay. There are several emerging problems with manufacturing in China and other far east countries. First, labor costs are rising, with wages increasing 15-20% a year. Second, trans-Atlantic shipping rates are going up. Furniture has always been expensive to ship due to its size and weight, but rising oil prices and a slowdown in shipbuilding have pushed shipping costs up by 71% in the past four years. Third, currency challenges exist when dealing with the Thai Bhat, Vietnamese Dong, Chinese Yuan, and others. The appreciation of the Yuan continues to cut into profits, further decreasing the benefits realized in the past. Lastly, a supply chain that reaches half way around the world is fraught with challenges, including quality control, supply disruptions, language barriers and many others.

Growth of furniture demand for the main 70 Production Countries combined is forecasted at more than 3% for 2015.

The outlook is for:

- Extremely limited growth in Western Europe;
- Slow growth in North America;
- Fast growth in many emerging market economies, particularly in Asia;
- Focussed growth in fast-growing cities e.g. Singapore, Tallinn, Dubai, Abu Dhabi, etc.;
- Continued growth in World Cities where there is continued housing and Hotel pressures e.g. London, Hong Kong, Berlin.

Sectorally there are significant differences:

- Housing market still hesitant, affecting retail;
- Household incomes not significantly growing in G7 economies, affecting retail;
- Residential Care and Care Sector generally needs to react to an ageing population;
- Hotels and Hospitality markets continuing to expand as Tourist flows grow by more than Economic Growth.

Geo-politically this is also a period of great uncertainty:

- Middle-East turbulence continuing to affect some countries that focussed on this Market, e.g. Turkey. They may increase efforts in Europe and UAE;
- Russian "sanctions" and turbulence between West and Russia on Ukraine independence will severely jeopardise any EU Export initiatives but may create opportunity for Serbian Manufacturers (and also Turkish exporters);

For Serbia Furniture Cluster and other Manufacturers this is a time to exploit Serbia's Free Trade Agreements, especially with Russia, Kazakhstan and Belorussia.

Market Entry Strategy

EU:

- ✓ FF&E Companies
- ✓ International Hotel Groups
- ✓ B2B Events
- ✓ Smaller Country Hotel Groups

Russia:

- ✓ Large Retail Groups
- ✓ International Hotel Groups
- ✓ IKEA Supply Chain
- ✓ Wholesalers

For Bulgarian Furniture Cluster, which already has 8 years of export experience, the Russian market may well be closed, but Scandinavia, UK and UAE Cities still offer a much opportunity – especially based on a City by City approach.

The issue of expansion to other Market zones may be more focussed on key Supply Chain issues:

- Logistics, especially transport
- Import tariffs vs an EU strategy
- Quality, consistent production within the Supply Chain
- Marketing sophistication, compared to continuing with the "Known"

It is an aspiration that this Report is used to influence the future strategy of BFC and to increase efforts to build a sustainable SFC.

In summary "Key Success Factors" can be stated as:

- Group Approach;
- Project Management, e.g. Logistics, Quality;
- B2B;
- Ability to Tender efficiently.

Risk Factors	
EU	<ul style="list-style-type: none"> ✓ Sophisticated Market ✓ Not just Price – Logistics, Quality, etc. ✓ Meeting Quality and Time periods
Russia	<ul style="list-style-type: none"> ✓ "Ethics" at different layers ✓ Getting paid ✓ Logistics

7.2. Action Plan

Over the next 12 months we have included 3 specific segments of Actions to take Cluster Development forward.

For BFC	By when?
AA1: Cluster Meeting on entry to Russian Market	December 2014
AA2: Collaborative approach to IKEA to energise more Companies	December 2014
AA3: Include Serbian Companies in “gap” areas of BFC	February 2015
AA4: BFC to apply for more Danube Projects to include	March 2015

For SFC	By when?
AB1: Need to create Core Group of Companies	October 2014
AB2: Agree Niche segment and 3 target Markets	November 2014
AB3: Research Contract Market and approach Companies via B2B	January 2015
AB4: Select Retail Group to approach as Cluster in Greater Moscow Region	March 2015



For Both Clusters (In Collaboration)	By when?
AC1: Tender for Contracts as BFC/SFC	January 2015
AC2: Joint Export Manager Training	March 2015
AC3: Serbian Companies join with BFC as part of Eastern Europe Tender	March 2015
AC4: Institute B2B activity or Trade Fair in Nis, Serbia	June 2015

Feedback	By when?
AD1: Stoykov Consulting to request feedback from Report (20 Cos)	October 2015
AD2: Report to go to BSMEPA and Serbian SME Agency	October 2015
AD3: BFC/SFC to evaluate progress in one year	September 2015

Table 1 Russian's Population by Cities over 1million

- Fig. 1 Furniture import and export 2005-2011. Million/USD
- Table 2 Russia. Furniture Production in 2011. Regional breakdown
- Fig. 2 Furniture Sales volumes in Russia 2001-2012 USD/million
- Fig. 3 Market segmentation
- Table 3 Furniture production in Russia (in units, thousand)
- Fig. 4 Main import partners
- Table 4 Import of furniture to Russia in 2006-2010 (USD, million)
- Fig. 5 Russia Main Export Partners
- Table 5 Export of furniture from Russia in 2006-2010 (USD, million)

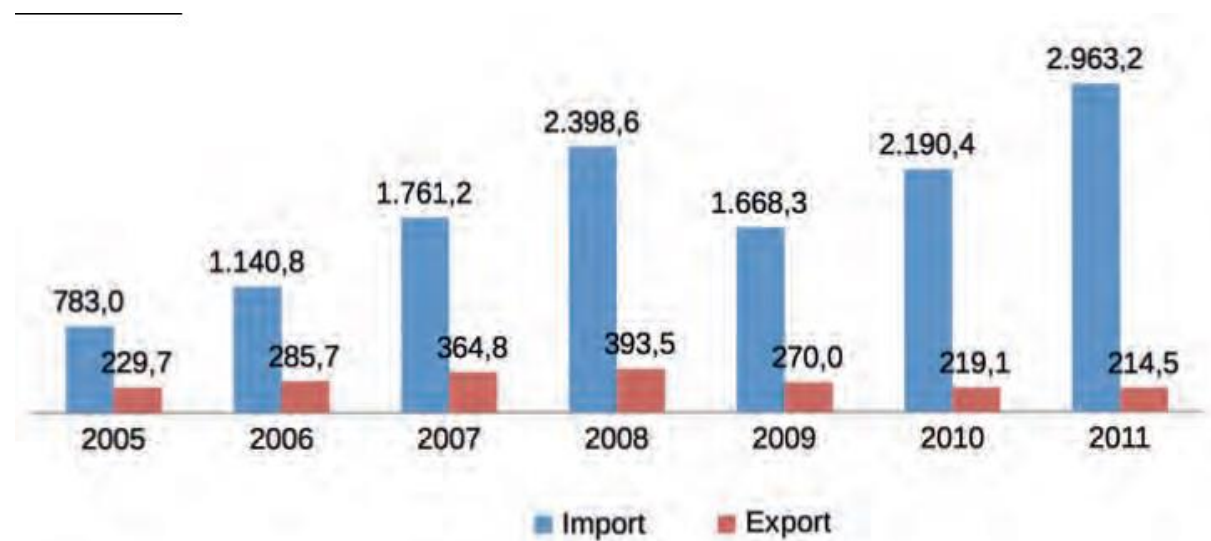
TABLE Project: Research Study Appendix

Table 1 Russian's Population by Cities over 1million

Rank	City Name	Population
1	Moscow	11,514,330
2	St.Petersburg	4,848,742
3	Novosibirsk	1,473,737
4	Yekaterinburg	1,350,136
5	Nizhny Novgorod	1,250,615
6	Samara	1,164,896
7	Omsk	1,153,971
8	Kazan	1,143,546
9	Chelyabinsk	1,130,273
10	Rostov-on-Don	1,089,851
11	Ufa	1,062,300
12	Volgograd	1,021,244

Source: Worldpopulationreview.com

Fig. 1 Furniture import and export 2005-2011. Million/USD



Source: AMEDORO

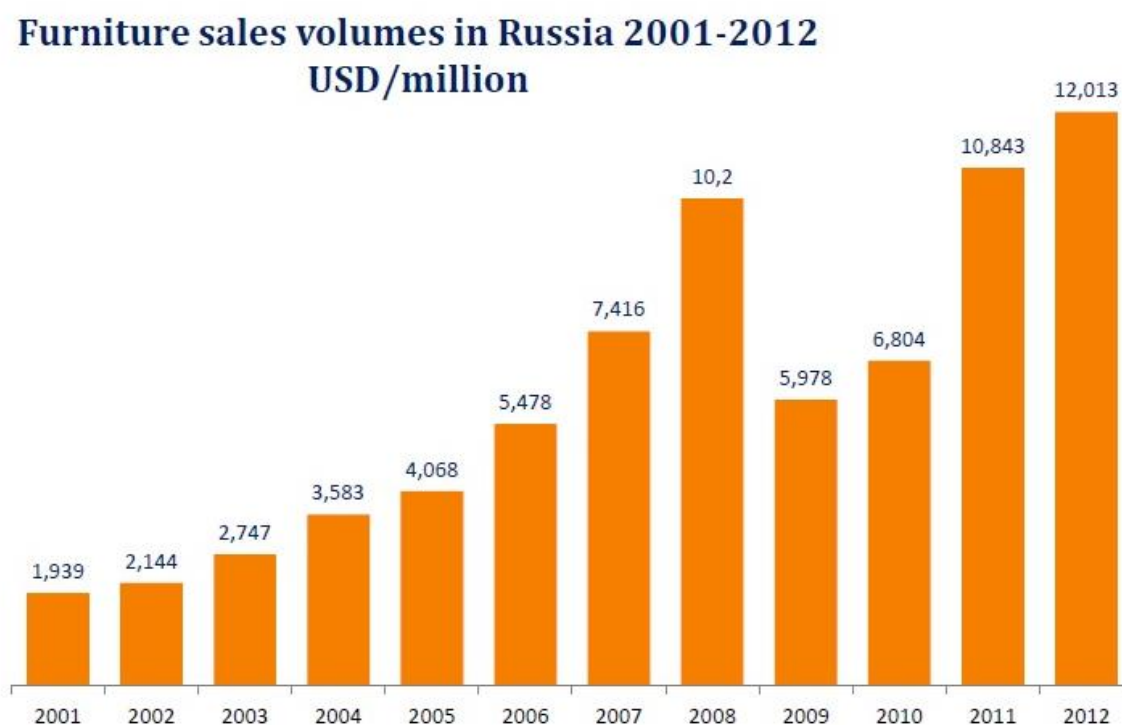
Table 2 Russia. Furniture Production in 2011. Regional breakdown

	Production volume, billion rubles (VAT is not included)	Growth rate 2011/2010, %	Market share, %
Russian Federation, totally	107.22	13.3	100
Central Federal District	41.43	9.5	38.6
including: Moscow	5.77	1.0	5.4
Northwestern Federal District	12.10	11.9	11.3
including: Saint Petersburg	1.83	10.5	1.7
Southern Federal District	8.34	3.3	7.8
North Caucasian Federal District	2.40	30.9	2.2
Volga Federal District	28.88	22.2	27.0
Urals Federal District	4.51	14.2	4.2
Siberian Federal District	7.33	11.7	6.8
Far Eastern Federal District	2.20	13.5	2.1

Source: AMEDORO

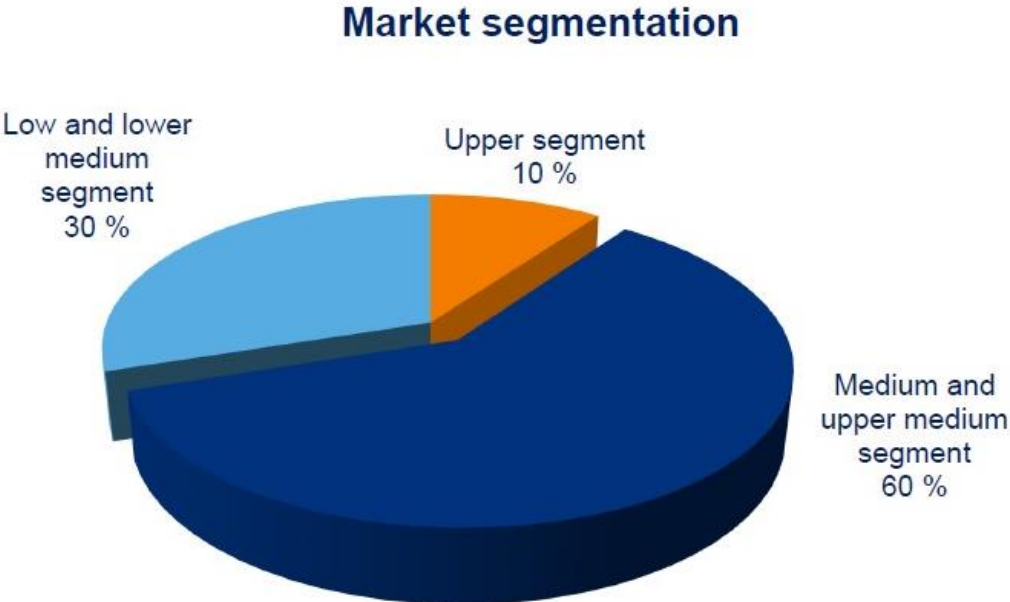
Consumption

Fig. 2 Furniture Sales volumes in Russia 2001-2012 USD/million



Consumption

Fig. 3 Market segmentation



Production

Table 3 Furniture production in Russia (in units, thousand)

Furniture		1990	2000	2005	2006	2007	2008	2009
Chairs and armchairs		20,400	3,900	4,800	5,000	5,300	6,800	5,000
Cabinets and wardrobes		9,457	2,709	4,244	4,662	5,156	6,004	5,308
Tables		12,100	3,600	3,900	4,200	4,800	5,600	3,700
Beds, wooden		3,420	653	993	1,065	1,209	1,379	1,142
Sofas, couches		245	73	322	43	592	701	560
Sofa-beds		3,007	180	303	373	423	470	360

Source: Federal Statistical Service

Import

Fig. 4 Main import partners

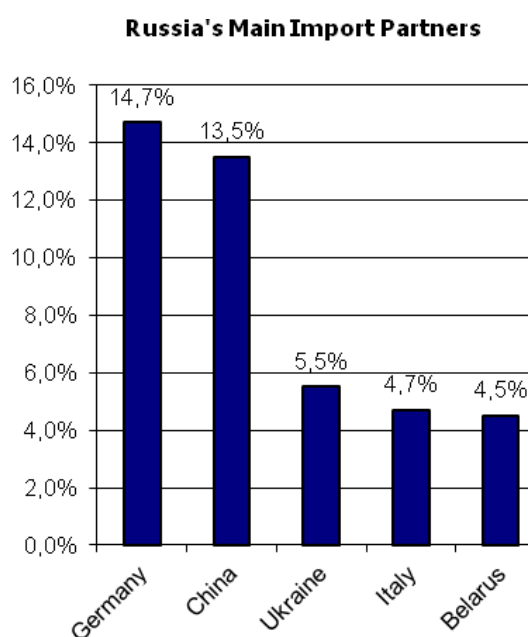


Table 4 Import of furniture to Russia in 2006-2010 (USD, million)

Import of furniture to Russia in 2006-2010 (USD, million) 2006	2007	2008	2009	2010	
Furniture, lighting, signs, prefabricated buildings, etc.	1,301.4	2,167.5	3,009.7	1,998.1	2,826.9
Out of which:					
Seats whether or not convertible into beds, & parts thereof	285.4	523.8	729.5	497.3	822.0
Medical or veterinary furniture, barbers' and similar chairs	36.8	61.9	97.3	48.5	80.1
Lamps and lighting fittings, illuminated signs, etc.	231.4	329.4	436.7	294.5	584.0
Other furniture and parts thereof	606.4	899.1	1,219.6	936.5	1,128.8
Including:					
Office furniture - metal	21.7	25.9	38.5	23.8	26.2
Other furniture - metal	76.6	112.4	133.5	94.8	125.6
Office furniture - wooden	57.5	73.1	99.3	62.8	69.9
Kitchen furniture - wooden	33.5	68.7	86.2	73.5	74.0
Bedroom furniture - wooden	80.8	104.4	133.4	112.0	113.3
Other furniture - wooden	218.3	316.7	437.6	354.2	419.4
Other furniture - plastic	13.3	26.5	29.8	26.8	27.7
Furniture parts	91.0	144.4	218.0	158.6	233.5

Export

Fig. 5 Russia Main Export Partners
Russia's Main Export Partners

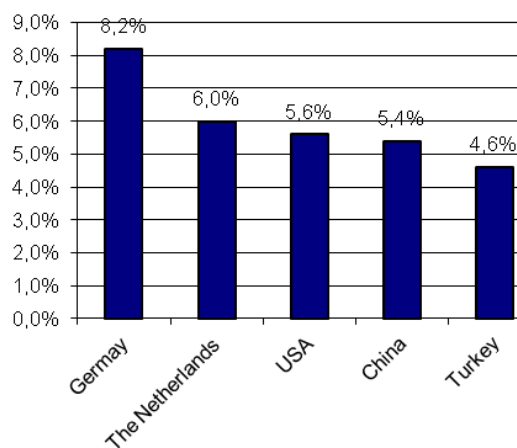


Table 5 Export of furniture from Russia in 2006-2010 (USD, million)

Export of furniture from Russia in 2006-2010 (USD, million) 2006	2007	2008	2009	2010	
Furniture, lighting, signs, prefabricated buildings, etc.	378.9	475.0	471.3	351.4	346.2
Out of which:					
Medical, or veterinary furniture, barbers' and similar chairs	3.0	3.2	5.0	2.6	1.3
Other furniture and parts thereof	216.3	280.6	278.7	201.9	165.9
Including:					
Office furniture - metal	4.9	7.5	10.4	6.2	5.0
Other furniture - metal	8.9	10.9	12.3	9.6	8.6
Office furniture - wooden	12.0	14.5	16.4	8.7	5.3
Kitchen furniture - wooden	19.5	25.0	19.8	12.9	5.7
Bedroom furniture - wooden	25.2	32.2	31.2	21.8	12.0
Other furniture - wooden	80.6	103.7	99.7	77.7	71.2
Other furniture - plastic	0.7	0.5	1.3	0.7	0.9
Furniture parts	63.7	85.5	87.0	63.0	56.6

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