# The Dynamism of Malaysian Furniture Industry

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## History

Malaysia is the home to the world's third largest tropical rain forest behind Amazon and African wild jungle. The furniture industry in Malaysia has become one of the country's most vibrant sources of growth (Focus On Malaysian Furniture – Part 1, 2005).

Malaysia is the $10^{th}$ largest world's exporter accounting to 160 countries. Total export in 2008 was RM 8.717 billion (MFPC, 2008). Government through Malaysian Furniture Industry Council (MFIC) and Malaysian Furniture Promotion Council (MFPC) has maintained its support for the growth of the industry

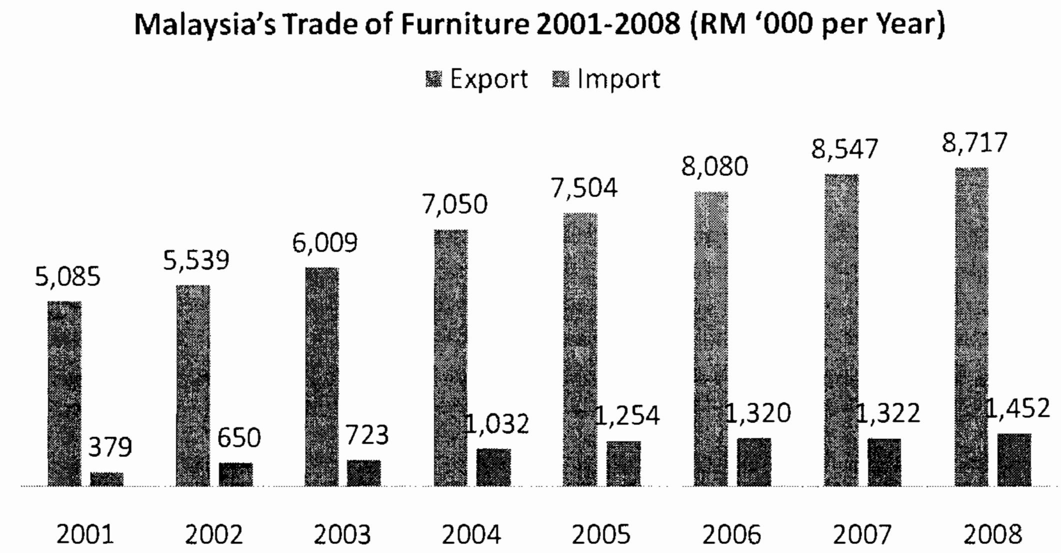
The goal is now to increase the volume of manufacturing and exports. The dependence on timber resources has lessened as the industry has adopted advanced design. Today, additional species and materials such as metal, plastic, aluminium, and rattan are used to make sure wider range of products be offered to make it more competitive (Focus On Malaysia Furniture - Part 1, 2005).

## Industry Background

The Malaysian furniture industry is a labour intensive industry as it's requires expertise, talents and skills manpower. Design is a crucial issue in today's competitiveness landscape, giving technology based processes is widely been introduced into the industry (Kham, 2009). However, investing in technology still insignificant to drive the industry forward. Malaysia is facing Vietnam & China as they offered a cheaper and abundant labour thus it would be a bigger challenge for the industry.

## Industry Background – Export Base

Malaysian furniture industry contributes 90% of its total production for export market. The furniture sector has seen a significant growth in trade whereby total exports of Malaysia increased 2% from RM8.5b to RM8.7b. USA is the biggest importer with trade amounted to USD 2.2b for year 2008 itself (MIDA: Wood Based Industry, 2009).




Source: Malaysian Furniture Promotion Council Bulletin 2008.

**PEST ANALYSIS: POLITICAL**

Malaysia has always been perceived as a growing nation, gearing its commercial activities and capitalist ventures. It has always demonstrated as the friendly nations and regarded as the most stable political scene among ASEAN countries. Government has consistently supporting the industry with its favourable policies and incentives to local manufacturers such as industrial building allowance, tax allowance, incentives for training, remittance abroad (MIDA: Wood Based Industry, 2009). Malaysia also has strong political ties with developed and emerging nation throughout the world (Publication MFPC, 2008).

**PEST ANALYSIS: ECONOMIC**

After global economy been hit by credit crunch, Malaysian GDP appears to be sluggish and uneven as recently recorded a steep decline (-6%) in Q1:2009 (MIER, 2009). Government has taken a big step by injecting RM60 billion, about 9% of GDP under the 2nd stimulus package (MIER: Economic Outlook, 2009). More industries have been liberalised to foreign investors thus making the country's equity market closer to regional benchmarks. The furniture sector has contributed RM 11 billion of trade local and internationally (MIDA: Wood Based Industry, 2009).

**PEST ANALYSIS: SOCIO-CULTURAL**

Consumer sentiments index settled at 105.4 points and current and expected income is shaping up. Consumer price inflation has declined as both local and imported materials continued to drag down producer prices (MIER: Consumer Index, 2009). Demand of furniture market is expected to bounce back after global economic anxiety (Publication MFPC, 2008)

## PEST ANALYSIS TECHNOLOGY

Malaysia is gearing towards high technology production capacity, emphasising on design. AutoCAD Software also been widely used in order to produce functional and artistic products. Some of the manufacturers and retailers have begun using the internet as a medium to markets their products (MIDA: Wood Based Industry, 2009).

## INDUSTRY SUCCESS FACTORS

- Producing high quality products at reasonably low prices.
  - Manufacturers have to be highly competence in low cost strategy, having cheap labour doesn't assure them to be highly competitive but to maximize the production volume while maintaining the quality will be a value added strategy.
- Having skills and competent human resources.
  - Training skills labour and developing creativity and innovations is expensive, but the returns by having this capability are invaluable.
- Design as the new competitive edge factor – design enhancement.
  - Having flexible manufacturing is important to foster assorted and unique design.
- Creating its own niche market – market enhancement
  - Furniture industry has become saturated thus manufacturers have to divert customers preferences as tapping niche market will enhance profitability.

## ANALYSIS: COMPETITIVE FACTORS

- Basically, furniture market can be divided into 2 major categories,
- ***Mid & low end furniture***
- ***High end furniture.***
- Low end furniture manufacturers targeted a lower and middle class consumers while high end furniture manufacturer targeted an upper middle class and high class consumers.
- Under these two categories, they have further other sub categories i.e. upholstered, beds and bedding, kitchen, office, dining room.
- Most of the manufacturers have ventured into a downstream strategy to ensure they remain competitive in the market.

## TABLE 1: MAJOR PLAYERS IN MALAYSIAN FURNITURE INDUSTRY

| High End Manufacturers | Medium & Low End Manufacturers |
|---|---|
| **Rozel** - For How You Live | **IKEA** - Even Lower Price |
| **Rubelli** – Passionately In Motion | **Cavenzi** – We Let Our Price Do The Talking |
| **Lorenzo** – Living Starts Here | **Courts** – Stylish, Bold and Contemporary |

**Figure 1: Competitive Value Map: High End Manufacturers**

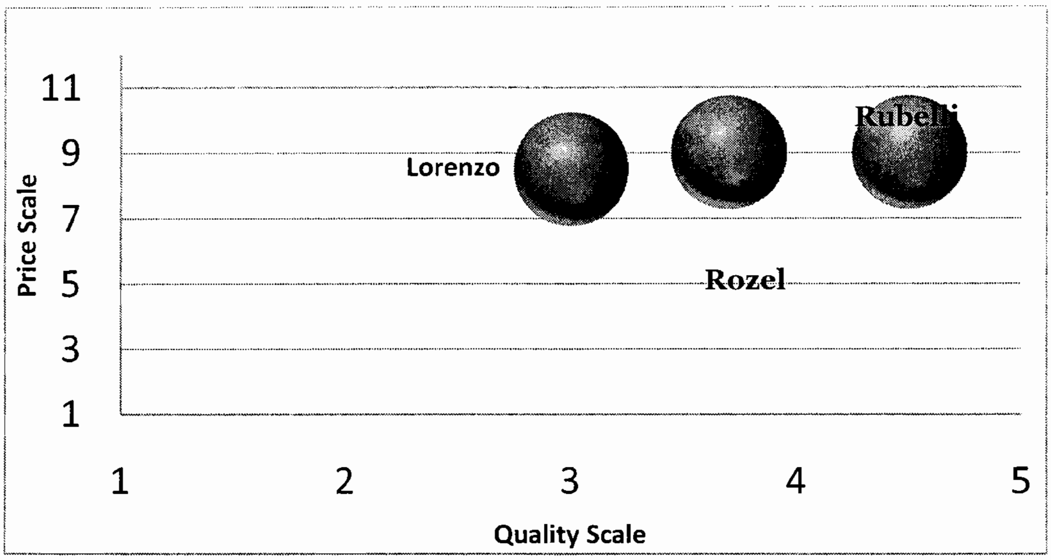



**Figure 2: Competitive Value Map: Low and Medium End Manufacturers**

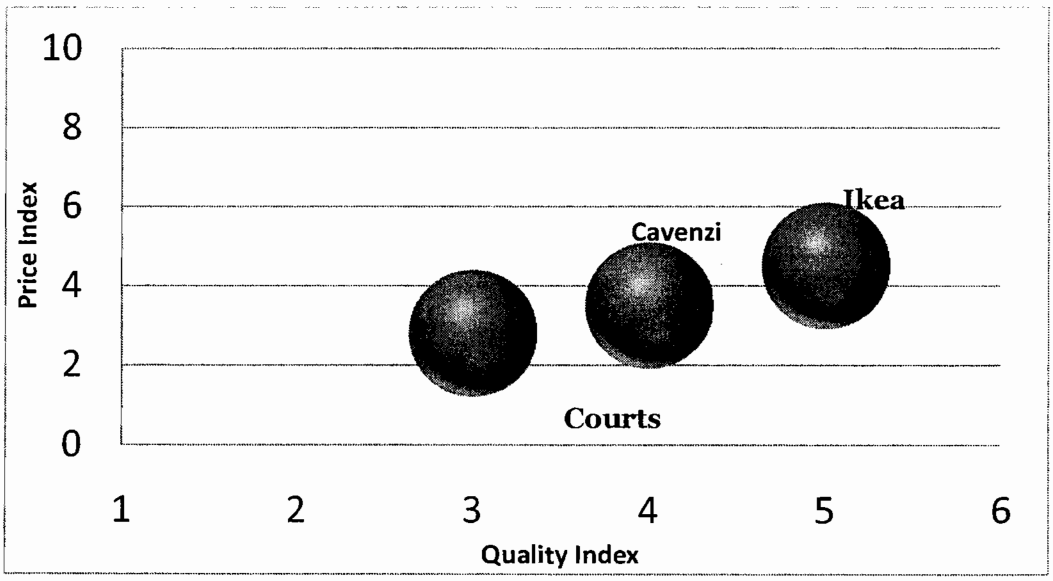


**Table 2: Competitive Advantage Analysis: High End Manufacturers**

| Rubelli | Rozel | Lorenzo |
|---|---|---|
| Low operating costs – JV with China. | Varies in product range from upholstery, kitchen and bed furniture. | Varies in product range from upholstery, kitchen and bed furniture. |
| 5 of its plants operating in full capacity having supported by strong export market. | Branding strategy, offered premium price in high end furniture. | Lower price in high end product. |
| Export base – strong in UK, Australia and New Zealand. | Setup own concept store across the country - reachable. | Low cost manufacturing. |
| Provides eclectic design – transforming conventional to modern trend furniture. | Massive investment in R&D. | Design – Italian design, target younger generation with upper middle |
| Joining with other retailers | Downstream strategy. | Downstream strategy. |

**Table 3: Competitive Advantage Analysis: Low and Medium Manufacturers**

| IKEA | Cavenzi | Courts |
|---|---|---|
| High quality but cheap price, wholesale concept. | Cheap, wholesale concept. | Credit facilities. |
| Provide range of products – attract key demographic customer groups. | Custom design to local market. | Biggest retails chain. |
| Low cost manufacturing – global ventures and focus on scale production. | Reachable – JV with independent wholesale operating throughout Malaysia. | Service oriented – setup a call centre to handle queries. |
| Little direct competition – unique branding and product offering. | Downstream strategy – mix with export market. | Joint venture with local manufacturer – from import base products to local base products. |

**SWOT ANALYSIS FOR SELECTED COMPANIES**

**TABLE 4: STRENGTH**

| Rubelli | IKEA | Cavenzi |
|---|---|---|
| Downstream strategy – higher price with a low cost manufacturing. | Strong global brand with its unique demographic customer groups. | Provide value for mid & low market segment. |
| High production capacity as serving export market as well. | Offered value to innovative products. | Large retail and supply chain locally. |
| Modern design preferred by high-end customer group. | Little direct competition. | Strong export market (35% of its product being exported). |
| The best in quality. | Low cost – high production scale to cater global market. | JV with local wholesalers. |

**TABLE 5: WEAKNESSES**

| Rubelli | IKEA | Cavenzi |
|---|---|---|
| Have many direct competition i.e. Rozel, Fella Design and Lorenzo | Reliance on imported items. | Lower margin. |
| High investment in R&D. | Not reachable – situated in selected area with high population. | Have many direct competitors especially local wholesale outlets. |
| High downstream cost. | Higher expansion costs. | High inventory since having higher retail outlets. |

| TABLE 6: OPPORTUNITY | | |
|---|---|---|
| Rubelli | IKEA | Cavenzi |
| Expansion internationally. | Moving from international to global status. | Target higher end customer group to increase margin. |
| Venturing into office furnitures. | Adding new outlets as population increases. | Allow customer to customize their product. |
| Increase online marketing such as e-catalogue, online store, etcs. | Moving to high end demographic customer group. | Increase synergies with local wholesalers. |

| TABLE 7: THREAT | | |
|---|---|---|
| Rubelli | IKEA | Cavenzi |
| No barrier to entry. | Mainstream retailers mirror a low cost strategy. | Competing with Vietnam, Myanmar and Indonesia in terms of export market. |
| Higher living costs leaving upper middle class opting for middle end products. | Increases number of concept store. | Facing a high risk of labour shortage – as it is a labour intensive industry. |
| | | |

**Business Strategies: Cost Leadership**

Rubelli, IKEA and Cavenzi be in cost leadership by having higher production capacity.

Rubelli for instance has five factories across Malaysia and now has expanded its production plant in China to cater US market.

IKEA, a global company sourcing its production plant in China, produce in high scale and distributed over the world.

Cavenzi still the leader in low end furniture market as it has also a strong export market.

**Business Strategies: Focus**

IKEA focusing on business model that is unique in its construction and execution with little direct competition attracting key demographic customer groups (SWOT: IKEA, 2007).

Rubelli is focusing on producing quality, high end furniture specialising in home decoration attracting high income earners (Hee, 2008).

Cavenzi focusing on low prices furniture, serving low income customers (Hee, 2008)

**Business Strategies: Product Differentiation**

IKEA differentiate itself with unique concept store, huge capital deter new entrants and they rapidly change their product offering with tag "unboring" (SWOT: IKEA, 2007).

Rubelli invest a lot in R&D, innovating the finest traditions of craftsmanship with modern technologies, as this has gained recognition of the brand name (Kham, 2009).

Cavenzi offer value for money, affordable home furnitures and reachable by customers all over the nations (Focus On Malaysia Furniture - Part 1, 2005).

**Future and Challenges**

Shortages in labour market due to tightening Government regulations and competition for skills manpower. A drastic hike in complement raw material price such as steel and foam also pose a big challenge to furniture industry.

Customer has changed their product preferences and now is looking for a product with more eco-friendly. They have been demanding and expecting more in terms of higher sophistication, better quality, lower price and impeccable customer services.

More and more manufacturers are developing skills human capital to become more versatile, knowledgeable and productive to create higher value added product.

Great demand on high value niche market such as eco-friendly, ergonomic furniture, contract manufacturing, interior design. This product require short production runs and quick turnaround times.

## RECOMMENDATIONS

Furniture industry must train its manpower to produce more eclectic `design of furniture using high technology machineries and software. Furthermore, manpower should be trained to acquire higher design capabilities, ingenuity, adaptability, and responsiveness to the changes and demands economy.
As workforce has increasingly become competitive, setting up a joint venture effort with nations that have bigger and cheaper workforce such as Vietnam, Myanmar, and China. Implementing new IT strategies for processes, distribution and marketing.

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