



**USAID** | **MOLDOVA**  
FROM THE AMERICAN PEOPLE

# THE HOME FURNISHINGS (PRIMARILY FURNITURE) SECTOR IN MOLDOVA

**August 19, 2011**

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc.



# THE HOME FURNISHINGS (PRIMARILY FURNITURE) SECTOR IN MOLDOVA

**Contract No. 121-C-00-11-00702-00**

**Implemented by:**  
Chemonics International Inc.

**In collaboration with:**  
Dexis Consulting Group

**Submitted to:**  
Sergiu Botezatu, Contracting Officer's Representative

**August 19, 2011**

## DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States government.



# CONTENTS

Acronyms .....	ii
Project Overview .....	1
Purpose and Objective .....	1
General Responsibilities .....	1
Specific Responsibilities .....	2
The Moldovan Furniture Industry Today .....	4
Best in Class, a Comparison .....	7
Moldovan Furniture Industry - SWOT (Strengths, Weaknesses, Opportunities, and Threats) .....	8
Conclusions .....	17
Proposed Actions and timing of results .....	19
Short Term (<12 months) .....	19
Medium Term (12-24 months) .....	25
Long Term (>24 months) .....	29
Annex 1. Made in Moldova .....	31
The various product types manufactured in Moldova .....	31
The various primary materials used in Moldovan furniture and cabinetry .....	31
Resources Available .....	31
Specific Actions by Company .....	32
Performance Benchmarks .....	32
Annex 2. Recommended actions .....	34

# ACRONYMS

AMCHAM	American Chamber of Commerce
CEED II	Competitiveness Enhancement and Enterprise Development project II
CIS	Commonwealth of Independent States
Moldexpo	Moldova's trade show organizer
SOW	Scope of Work
VAT	value-added tax

## SECTION 1

# PROJECT OVERVIEW

Between July 25 and August 12, 2011, an in-country study was made of the current state of the Moldovan Furnishings/Furniture Industry.

The findings in this report are based on meetings and interviews with manufacturers, retailers, strategic suppliers of raw materials, government agencies (Moldova and US), educators, trade associations, one technical expert in furniture standards and testing, Moldova's trade show organizer (Moldexpo), one bank and the American Chamber of Commerce (AMCHAM).

Visits were made to and tours conducted of factories, warehouses, retail furniture stores, shopping centers, a local furniture "market" (bazaar), one testing laboratory, one vocational school, the Moldovan trade show venue, one free economic zone (duty-free), one brown-field manufacturing venue and the Moldovan Ministry of Industry.

This report was written by and the opinions herein are those of Jeff Baron, supported and assisted by Adrian Covalciuc. Jeff has nearly 40-years experience in the international furniture industry and has been an independent consultant in the sector since 2002.

Adrian is the CEED II Furniture Industry Manager supervising the project. The Chief of Party and staff of CEED II also offered invaluable support and insight into the sector, the culture as well as their experience gained in other Moldovan industries. Information on the experience and activities of the author is available at <http://www.BaronConsult.com>. The research was conducted and this report written according to the "Scope of Work (SOW)" created in July 2011. The relevant details of the assignment are copied herewith:

## **PURPOSE AND OBJECTIVE**

The purpose of this assignment is to assist the CEED II project to develop its strategic plan and exit strategy for assistance to the furniture industry. The consultant will conduct a rapid assessment of the industry to identify the key problems, constraints, and challenges facing the industry, and then highlight the most critical strategic initiatives needed to strengthen industry competitiveness in the short-, medium-, and long-term, i.e. develop a strategic industry plan.

The consultant will then recommend which activities and initiatives CEED II can best support during the life of the project and any immediate opportunities that exist for CEED II assistance; because demonstrating our commitment to targeted industries quickly and scoring some "quick wins" will help us build credibility and attract a base of beneficiary companies.

## **GENERAL RESPONSIBILITIES**

- Carry out the assignment as defined in the SOW
- Complete the final deliverable in a timely manner as defined below
- Conduct all business in a manner that respects local culture
- Maintain high ethical standards, avoiding any actual or perceived conflicts of interest and abiding by all local laws and/or all USAID or U.S. Embassy directives in the country of service

## **SPECIFIC RESPONSIBILITIES**

The consultant shall undertake the following actions during the assignment:

- Visit Moldovan furniture companies to assess their competitiveness examining factors that include but are not limited to input supply and costs, production processes and technology, product offer and prices, marketing/sales practices, logistics, labor use and wages, gender issues, environmental and energy efficiency issues.
- Categorize the companies according to their business model (i.e. contract producers or brand owners), market-orientation (i.e. export vs. domestic market), and level of competitiveness. Recommend which categories of companies the project should target for assistance in order to achieve maximum impact with available project funds.
- Visit industry support organizations, including but not limited to associations, universities, vocational schools, input suppliers, equipment and technology vendors, etc. to gauge their capacity to support and be active stakeholders in actions that will increase industry competitiveness. As appropriate for increasing industry competitiveness, the consultant should recommend how the project can assist key stakeholders as essential parts of the value-chain.
- Visit relevant government agencies and bodies that impact the competitiveness of the industry to gauge their capacity to support and be active in actions to increase industry competitiveness.
- Discuss with CEED II management and the project team ideas for how interventions within the industry should be structured, what they should be, and what resources are available.
- Recommend specific programs/activities/initiatives for each category of companies to be assisted or for essential industry stakeholders. Interventions must relate to the three CEED II project objectives of (a) increased productivity, (b) increase trade and investment, and (c) increase public-private dialogue leading to a better business environment. Emphasis should be given to actions that will drive rapid enterprise and industry growth; so specific actions to develop or strengthen market linkages are needed. Identify achievable benchmarks and milestones that can be used to assess and measure progress. The consultant should also ensure that recommended actions fit within the project's results framework and monitoring and evaluation indicators and targets, as defined in the client-approved

Final Performance Monitoring Plan, dated March 7, 2011. Likewise, the consultant should consider the conceptual model of the project, attached at the end of this SOW, when making recommendations.

## SECTION 2

# THE MOLDOVAN FURNITURE INDUSTRY TODAY

Many challenges were encountered in attempting to compile credible statistics on the current state of the sector. There is very limited official data available, a significant element of clandestine and other “off the books” business conducted (both domestic production and reportedly smuggled imports), claims among industry experts that true exports may be five or ten times “official” numbers because of customs documents with inaccurate or fraudulent commodity codes and so forth. The author believes it is virtually impossible to accurately quantify the industry in terms of sales, imports, exports, employees and the like.

An example of this difficulty is a 2010 estimate of industry manpower at “more than 4,400” while some furniture company owners expressed belief that the actual number is around 1,200 (which is highly unlikely given the number of workers observed during factory visits conducted in preparing this report). Considering estimates of total employment in Moldova and the contribution of furniture to the Republic’s GDP, it is likely that the true number of employees in the sector is actually greater than 4,400. Due to the difficulty compiling accurate numbers, certain of the statistical data quoted herein is taken from the report entitled “MOLDOVA ECONOMIC SECTOR ANALYSIS: FINAL REPORT, dated March 29, 2010”, in as much as these data have likely been used as the basis for selection of this sector to be included in the CEED II program.

The Moldovan furniture industry is small and highly fragmented with few large manufacturers. The bulk of production is carried out by very small companies (20 employees or less) and even the largest manufacturers have only a few hundred employees (one claims to have 700 but comparing that headcount with claimed annual sales, it is difficult to accept). There is an indication that the average among the total population of approximately 400 enterprises has around 10 employees.

It has been estimated that the annual domestic furniture production is perhaps around US\$ 65 to 70 million and that total furniture consumption in the Republic is on the order of twice that. The largest manufacturers claim to have annual sales in the range of US\$ 5 to 10 million (although when local manufacturers talk about their sales, we suppose those include sales made in their owned stores at prices presumably higher than “wholesale”), while the average manufacturer would have sales in the area of US\$ 175,000 per year. Given the portion of the market in the hands of the top few suppliers, it is likely that the majority of Moldovan manufacturers have annual sales of well under the average and far fewer than 10 employees. It is reported that only around 20 companies in the sector employ more than 20.

The industry (which also includes what is commonly known in the United States as “architectural millwork”) produces a broad range of products such as bedrooms (mostly cabinets and beds), dining rooms (tables and chairs), kitchens and baths (cabinets and countertops), upholstery (sofas most of which contain beds, chairs), mattresses, office furniture (desks, cabinets, seating for both commercial and home-office use), institutional furniture (for government offices, hospitals, etc.), hospitality furniture (for guestrooms, public areas and restaurants/bars), retail store fixtures (cabinets, display kiosks, etc.) and architectural millwork (doors, moldings, etc.). Many of the enterprises offer many if not most of these product categories.

The wood segment of the industry (intended to mean other than upholstered and metal furniture. etc.) is characterized by a huge component of “custom made” furniture. This can mean anything from consumers ordering exactly the product on display in a shop but requesting a different color to totally bespoke furniture which is generally designed by the manufacturer or retailer according to the consumer’s requirements and taste. Some producers estimate the incidence of this customer furniture to be as high as 90%. Meanwhile, it appears that the vast majority of upholstered furniture sold in the market (coincidentally estimated at 90%) is either purchased exactly as displayed in shops or identical but covered in a different fabric selected from those on offer. Even most of those manufacturers offering a comprehensive assortment of wood products find the majority of their wood sales are custom. This phenomenon causes great inefficiency in manufacturing which surely impacts the costs of whatever “serial” products those factories offer.

This is a vicious circle that impacts the value of products on the domestic market as well as manufacturers’ ability to compete in distant export markets where the custom capability has no validity and their serial furniture is too expensive because of their manufacturing inefficiencies.

A number of Moldova’s furniture manufacturers were born when the Republic was part of the USSR and Moldova served as “the furniture factory” to most the Soviet Union. Thanks to a stable and talented workforce and extremely low rail transport costs, huge factories were built and it was possible to import raw materials, manufacture products and transport them throughout the Soviet Union at attractive landed costs. With huge, steady demand and sufficient financial resources, the factories specialized in narrow ranges of products, produced very high volumes and (considering the technology available at the time) were likely reasonably efficient.

When that era suddenly ended, factories found themselves with severely diminished demand and managements were forced to make dramatic changes to operations. The author could not find one such manufacturer that had not added furniture retailing to their activities (surely trying to create demand for their products). Once they began to operate retail stores, manufacturers apparently determined they needed a broader assortment of products to attract consumers.

Instead of outsourcing these products to more efficient local specialists (whom the managers likely considered to be “competitors”), the manufacturer/retailers began to produce all categories of furniture necessary to assort their retail operations; regardless of whether they had the necessary expertise and/or equipment. This added inefficiency on top of inefficiency because there is not much synergy to be gained by producing mattresses in the same factory that makes kitchen cabinets. Both use wood or wood products (although different types) but the other materials used, the skills required are and even most of the equipment is very different. Further, it seems there is little outsourcing of specialized work in Moldova. For example, instead of subcontracting woodturning to a shop that could invest in state of the art machinery (the cost of which being justified by supplying many customers), each manufacturer has his own equipment (much of it obsolete, meaning inaccurate and inefficient).

Managers of these small factories are surely close to the limits of their managerial and professional capabilities in carrying forward manufacturing. At the same time, they must contend with operating retail outlets which requires an entirely different skill set. Owning stores may help create a market for factories’ goods but it is not likely the most efficient or productive method of doing so.

One of Moldova’s advantages is very competitive labor costs. It is reported that in some parts of the Republic, labor costs are amongst the lowest on the continent and even lower than in the main furniture manufacturing venues in China. There is even a Moldovan Ministry of Industry document claiming that in one Free Economic Zone workers are being paid an average of US\$ 0.88 per hour; although there is some doubt about the possibility to find and retain qualified workers in such areas. This labor cost advantage is counterbalanced by the almost total lack of any useable raw materials.

The available numbers and research results suggest some very unusual conditions in the market. Local production is around 50% of domestic consumption. However, a significant part of the locally produced product is exported. It appears there is at least as much furniture imported into Moldova as the total production. This means that the majority of the furniture consumed in Moldova is made elsewhere. It is highly unusual that an industry is not able to satisfy the local market but does make a product that adjacent markets will accept. This suggests a great imbalance between the local suppliers’ product offers and the domestic market’s requirements. Local players explain this in terms of imports at prices cheaper than they can achieve (although their exports go back to those same countries) and higher-end more sophisticated products that they are unable to supply.

While the previous study discussed the possibilities of increasing exports and “import substitution” as ways to expand the local industry, this strange phenomenon concerns the author; making him believe there is significant work to be done in terms of understanding and responding to consumer tastes at home and abroad. The fact that imports are growing faster than exports, and apparently at a rate that is faster than local consumption increases; is alarming.

It should also be considered that the portion of the market share held by the few large players and the overall small size of the market allow for big movements in the sector's results that could be attributed to accomplishments of just one or two companies. The same can be said for the local industry's exports. In other words, rather than see big growth in production or exports as positive indicators of the total sector's performance, it is possible that just one or two companies were behind the results. Growth in exports could be attributed to something as simple as one or two of the bigger players opening up their own shops in a foreign market.

## **BEST IN CLASS, A COMPARISON**

Outside Moldova, the majority of the world's important furniture manufacturing venues are also highly fragmented but led by numerous very large manufacturers. For example, the largest United States residential furniture manufacturer has annual sales perhaps on the order of 40 to 50 times greater than the entire Moldovan furniture production. Most of the world's leading furniture companies specialize in a narrow range of products and are therefore very efficient, accumulate proprietary knowhow and able to focus significant resources on targeted product development as the result of profound research. The latest financial statement of Italy's largest furniture manufacturer indicated its 2010 product development costs were about equal to the total sales of Moldova's largest manufacturer.

Of those manufacturers that do offer a broader range of products (and almost none offer as wide a range as Moldovan companies), most manufacturer in facilities dedicated to each type of product (if they don't completely outsource the non-core products) and sometimes market them under separate brands. It is virtually unheard of that a large manufacturer would offer both "serial" and "custom" production.

This specialization and focus on developing a narrow range of furniture allows manufacturers to invest the resources in truly understanding consumer tastes and even anticipate changes. It is not at all unusual for manufacturers to develop individual products which live in their collections for many years and reach sales of millions of dollars annually.

It must be said that many of the world's largest furniture makers also operate retail outlets (owned and franchised). However, in every case these outlets are operated as totally separate profit centers and usually managed by dedicated and experienced retailers and marketers. When the stores have product requirements that are outside the factory's core competency, the product will be sourced competitively on the open market rather than introducing a new product category that the factory could not produce efficiently. In this way, the factory remains efficient and productive while the stores receive competitively priced products made by expert suppliers. Such product will likely be cheaper, better quality and more saleable than if the inexperienced factory had tried to produce it.

Many of the world's leading furniture producers are successful both in domestic sales and in exports. It is common for the companies to invest significant resources to study

targeted export markets, to develop specific goods based on local tastes and to bring their collections to the local trade shows in those target markets. They also participate in their local trade shows which actively market themselves internationally to attract foreign buyers.

In the past decade or two, some of these leading manufacturers have also “de-localized” manufacturing by opening factories in other regions. The objectives were always to reduce manufacturing and/or transportation costs and also sometimes serving the local and surrounding markets close to the new facility (China, for example). Further, some majors began to outsource “OEM” products from lower cost venues even at the cost of reducing or eliminating capacity in their primary factories. The leaders do everything possible in order to be more competitive and market themselves.

In consideration of the above, there follows a SWOT analysis of the Moldovan furniture industry.

## **MOLDOVAN FURNITURE INDUSTRY - SWOT (STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND THREATS)**

### **STRENGTHS**

*Costs and labor.* The Moldovan furniture manufacturing industry (at least that part operating near the major cities) enjoys a readily available worker base at a competitive cost compared with other underdeveloped and low-cost furniture manufacturing venues in Europe and Asia. Cost of labor has been reported to be in a very broad range (depending on area of the Republic) from less than US\$ 200 to 500 per month. Some suppliers claim there is a heritage of furniture-making skills available in the region although the simplicity of the majority of the product currently produced in the Republic does NOT require advanced skills. To some extent, the simplicity of the product is also a weakness in that the competitive labor cost is not being fully exploited.

*Productivity.* Most Moldovan furniture executives credit their workers as being more productive than those in surrounding countries. If so, this characteristic combined with the low labor rates should help the industry defend against imports and compete in exports. However, the age of most Moldovan factories’ equipment and the inefficient physical layouts may eat away at some or all of this advantage.

*Location* - Moldova’s location so close to the much larger markets of Romania, Ukraine and Russia should present opportunities for increased exports at competitive costs although furniture’s characteristic bulky and low-cost nature causes transportation costs to be significant over great distances (Moscow, for example).

*Economics.* The Republic has established several tax-free zones (“Free Economic Zones”) which offer numerous significant advantages to companies importing materials/components and exporting finished goods. One manufacturer is currently importing components from the EU and exporting finished goods to the CIS and is satisfied with the results. Promotional materials from the Ministry of Economy suggest there may already be one other furniture producer operating in a Free Economic Zone.

**Management** - Most of Moldova's furniture companies are managed by entrepreneurs that have faced dramatic changes in the political and economic landscape. By and large, they are survivors who have demonstrated flexibility and ability to adapt quickly.

*Consumer research.* Most (if not all) of Moldova's significant furniture manufacturers operate their own retail outlet(s). If these outlets are used as a means to remain in close contact with consumers, test new product and marketing ideas, monitor requests for products not displayed and so forth; these outlets represent an important strength for the manufacturers.

## **WEAKNESSES**

*Competitiveness.* The majority of furniture currently produced in Moldova has a relatively low component of labor (mostly in the 10 to 15% range of Cost of Goods, assuming managements make accurate cost calculations) which gives "Made in Moldova" an advantage but only on the small labor component. However, Moldova apparently has virtually none of the required raw materials; meaning the Republic must import those materials, often from the "destination" export markets such as Ukraine and Romania. In theory, some part of the labor cost advantage is lost due to the apparent disadvantage of needing to import raw materials. Even if most manufacturers claim that imported materials often cost less than those available locally, it should be assumed that foreign competitors (Ukraine particularly) pay even less.

Given that the majority of the domestic furniture consumption is characterized by extremely or relatively inexpensive furniture, this seems to be the specialty of the Moldovan industry. When producers think about exports, their first inclination is to try to export the same kind of product consumed domestically. Unfortunately, because the product is extremely simple and has little apparent "added value" from handcraftsmanship, most of the advantage that could be derived from Moldova's low labor cost is negated. Interestingly, one of Moldova's largest furniture exporters is in the higher price segment, offering products specifically designed with the export markets in mind. Their products are significantly more detailed and "rich" than the majority of that produced by others in Moldova.

While there is a heritage of furniture manufacturing in Moldova (it appears Moldova was one of the few major furniture production centers serving the entire Soviet Union), still most of that expertise is in making relatively simple and mostly "machine-made" products (products that could/should be made almost totally by machine). Therefore, there appears to be limited truly high-level furniture handcraftsmanship expertise in the Republic today.

*Politics.* There is some information indicating there may not be a totally "level playing field" with regard to raw material imports and finished furniture taxes/duties within the interesting nearby markets. There is word that Ukraine (which had previously been an interesting export market for Moldovan furniture) recently applied an excise tax per kilogram on finished furniture from Moldova which would make it virtually impossible to compete on that market. This is particularly perplexing given the amount of raw material the Moldovan furniture industry imports from that country. This information

was acquired from one of Moldova's largest furniture manufacturers who claims this new tax destroyed the business he was doing in Ukraine overnight. However, some inside the Moldova Ministry of Economy claim to have never heard of such a tax or to have ever received a formal complaint from any Moldovan enterprise. Managers complain there is no Ministry in the Republic charged with helping Moldovan industry (much less the furniture industry).

There is also a large component of the furniture industry made up of clandestine Moldovan manufacturers and importers (actually smugglers it appears) of extremely inexpensive furniture from neighboring Ukraine. The advantages these businesses have over Moldova's "legitimate" enterprises are significant in terms of costs, duties and taxes, reporting and bureaucracy, regulation and compliance, etc. This phenomenon seriously hampers growth and investment in the sector. Any idea that the amount of imported furniture sold in Moldova represents an opportunity to substitute domestic product for the imports (take market share back from imports) should be considered in light of this Ukrainian phenomenon. Rather than "taking back market share", there is every chance that imports continue to erode local producers' shares unless the playing field is leveled.

*Inefficiency.* For reasons that defy the imagination and experience of this document's author, it appears that a significant portion of all the "wooden cabinet" furniture sold within Moldova is to some extent "custom made" (meaning anywhere from "as shown" in the shop but in a different color or size to completely "bespoke"). The explanation of those active in this sector is that Moldovan consumers insist to own wood furniture that is absolutely unique and not to be found in the homes of their friends and neighbors (or even in shops). Common sense says that this demand from the market is more the result of "a product offer that doesn't satisfy and stimulate consumers" than it is "each consumer insists on having something totally unique in their home" (as explained by most of the involved players).

If this were really the case, how could we explain that 90% of the wood furniture is said to be "custom" while only 10% of the upholstery is made to order. Could it be logical that consumers will buy a "standard" sofa but insist that the table they place in front of it be "totally unique"? The same common sense tells us that this peculiarity of the market brings inefficiencies that impact suppliers' attempts to export "serial" products or even to sell them on the local market.

It should be noted that Moldova's largest and most competitive cabinet supplier does NOT accept custom orders. Several smaller competitors (who all offer custom orders) complain they are unable to compete locally and in exportation. If a manufacturer is unable to understand the needs of his local market and create a product offering that stimulates consumers to purchase, it is impossible to imagine he would be able to anticipate the needs of a distant export market (that he may never have even researched).

While many of the players involved in this custom business claim they are profitable and that the incremental cost of doing this kind of business (compared with what they call "serial production"; their term for mass production) is as low as 10%, the author has a

hard time to believe it. The inefficiency of this approach to the business must have an impact on manufacturers' ability to compete both inside and outside Moldova and consequently limits their total sales. The author does not argue about whether or not the custom business exists, he simply believes the justification for it is nothing more than rationalization on the part of manufacturers who don't offer what consumers want to buy. The author sees this as a vicious circle where the custom business makes the serial offer less competitive which pushes the consumer more towards custom orders.

Many of Moldova's furniture factories were constructed and equipped during the "Soviet Union" period at least several decades ago. This means that much of the machinery is almost ancient, applies very old technology (which limits the sophistication of the product design and materials that can be used) and sometimes the quality of the product itself suffers as a result of the age of the machinery used. Productivity (measured in manufacturing efficiency and/or factory throughput) also suffers. This manifests itself in the cost of the product as well as the amount of manufacturing space necessary to produce each US\$ of goods. Some factories have upgraded their equipment (although mostly still not to the state-of-the-art) but this technological obsolescence is still an issue to the Moldovan industry at-large. As would be expected, there are few factories physically laid out to allow for truly efficient flow (even those that do have more efficient machinery surely suffer significantly from their physical layouts).

Most if not all Moldova's furniture manufacturers proudly announce that they make every kind of furniture used in homes and offices (meaning cabinets, tables, chairs, kitchens, bathrooms, beds, mattresses, desks, upholstery and sometimes more). In most of the world it is understood there is little true synergy between most of these product types. The few major international players who are active in multiple segments generally produce them in factories dedicated to each type and sometimes market them under different brands. Moldova's "generalist" approach to production does allow manufacturers to fully assort their owned shops without involving competitors but also surely has an impact on their ability to compete. In fact, were the manufacturers more specialized (more competitive and with a better-targeted product offering), they might not need to operate their own stores.

*Weak retailing.* It appears an important part of the locally produced furniture sold to consumers in Moldova is done so through shops owned by local manufacturers. As with their factories, many of these manufacturer-owned stores are very inefficient and very far from international retail levels. How could any honest introspective factory manager with reason to doubt his company on the manufacturing level avoid wondering whether his company is a competent retailer? There is clearly little true retail expertise in the local sector and it appears none of the normally used performance indicators are followed to judge stores' productivity. Instead of measuring performance on a micro level, the benchmark seems to be, "Did we sell anything today and if so, did we make any money?"

The level at which some Moldovan stores operate is indicated by the following example. One Saturday, the author spent the entire day visiting furniture stores in Moldova's capital, Chisinau. Early in the afternoon (considered to be prime selling time in most of

the world's furniture stores), the author visited a store where the only member of the staff in evidence was wearing only a short bathing suit and no shirt (obviously male) and using a staple gun to attach fabric to a piece of wood. While this was happening, there were consumers shopping in the store. It did not appear that the staff member provided any service to the shoppers and it did not appear that any sales were concluded. This store is owned by one of the Republic's major manufacturers.

*Apathy.* While most Moldovan furniture manufacturers admit there is margin to improve their businesses (most complain that sales are too low), few seem to have clear strategies or even rough ideas about how to do so. Moreover, there seems little sense of urgency if not an apathetic approach to this issue. It almost seems as if most are waiting for someone else to change something (reduce taxes, block the flood of imports, find them hungry customers in foreign markets, etc.) rather than being proactive themselves. Several of our meetings concluded with the other sides' participants having committed to some specific action ("I will call you with the information Monday" or "I will email those documents to you in the morning") but no such thing was EVER done. This is particularly troubling given that in most of the cases the information we were to receive was intended by "us" (and understood by "them") to assist in solving problems or improving conditions mentioned by "them". The real question is, "What exactly are the local producers willing to do to improve?"

*Management systems.* The level of sophistication and experience of management in the sector is modest compared with that of large international players. There has been no "cross pollination" of foreign experts working in management of Moldovan producers and there are no Moldovan managers who have foreign experience. There is reason to question whether the producers accurately calculate and allocate their costs and utilize reporting systems which permit them to monitor the dynamics of their product assortments, their small production runs, their integrated structures (manufacturing and retailing) and the like. Competing on the world market means challenging companies that may have more mature management and systems.

## **OPPORTUNITIES**

*Market "Made in Moldova".* It seems to the author that one of the major opportunities for the Moldovan furniture sector is "getting on the radar screen of the international furniture industry". The industry knows China means low prices, high volume and viable "export" product offerings (often inspired by if not copied exactly from successful products produced elsewhere), Italy and Germany mean sophisticated design and very high quality (with high prices), Vietnam means low prices and intricate handwork...but what does Moldova "mean"? Key to a major expansion of Moldovan furniture exports would be defining the Republic's "competitive advantage" and then marketing it aggressively, to manufacturers and wholesale buyers on an international level.

Perhaps Moldova could be marketed to manufacturers as, "Moldova, your gateway to the rich CIS furnishings markets" and to buyers as, "Moldova, where affordable handcraftsmanship still flourishes in Europe". The Republic's competitive advantage could be marketed in international furniture trade publications (through free public relations articles if funds were not available for actual advertising) and through small

booths in the industry's principal trade fairs (High Point, Milan, Cologne, Singapore, Shanghai, Guangzhou, Kiev, Moscow, etc.) as a way of soliciting joint ventures with manufacturers and contacts with potential retailer buyers. Once defined, it would be important that all sector's stakeholders promote the benefits of "Made in Moldova" in the same way.

*Improve domestic sales.* Domestic furniture sales in Moldova are predominately made through relatively or extremely unsophisticated shops where the product may be very poorly displayed, the sales staff virtually untrained in professional selling techniques (overcoming objections, closing sales, upselling, stimulating "add-on sales", etc.) and communicating product features/benefits. In fact, some significant sales are made in an outdoor "market" in the Chisinau capital and other such markets elsewhere...something of a "bazaar". Even some of the most sophisticated of Moldovan furniture outlets demonstrate significant opportunity for improvement and increased productivity (sales per square meter, for example). With proper training, improved marketing, product assortment (merchandising) and presentation (display, accessorization, lighting, etc.) it should be possible to improve the sales in each store (and since many of the shops are factory-owned, consequently improving factory sales).

One example of this opportunity came when the author visited the flagship store of what is perhaps the Republic's number one or two manufacturer. Two of the first products on display in the shop were presented in a way that the low quality internal materials (raw particleboard for example) and the crude workmanship were openly on display for shoppers to view. Strangely, a similar product elsewhere in the store was presented in a way that these "embarrassing" details were hidden; indicating management recognizes "the right way to display the product" but isn't always able to accomplish this even in the flagship. It should be imagined that at least some sales were lost because of this poor product presentation. In addition, if this oversight can occur in the largest producer's flagship store, we can only imagine the opportunity for improvement in other outlets of other producers.

*Prepare for exporting.* There is reason to assume the manufacturer/retailers do not have sophisticated cost accounting systems and indeed may not truly understand where their profits are made (factory versus store) because the units may not be operated as totally separate profit centers. This may continue to function acceptably for most enterprises but when it comes time for the factories to export, burdening the exports with retail store costs will surely lead to the product not being competitive. Similarly, those enterprises that import goods for sale in their shops need to be capable of assigning only the retail costs to the markup of imports. If they burden imports with factory costs, their imports will not be competitive in the marketplace.

More accurate cost accounting systems and separation of the operations would help factory managers understand whether they should continue to be retailers or try to outsource retail sales to specialists. Managers reported, "Markups in our store are very low, something on the order of 20% of Cost of Goods". This reveals the makers combine the retail operation into the total balance sheet. It should be impossible to operate a

viable furniture retail store (rent, advertising/marketing, utilities, staffing and sales commissions, deliveries, product markdowns, etc.) on such a margin.

*Improve efficiency through specialization.* Focusing on narrower product ranges, outsourcing certain specialized manufacturing processes and perhaps even spinning off retail should allow factories to improve efficiency which would pay dividends on both the domestic and export markets.

*Product marketing.* It is not uncommon for retailers to claim; “My product respects European standards and is of a much higher quality than other products you will see in the market” even though they are completely unable to explain this in tangible terms and/or demonstrate it (even if it might be true). Consumers appear to have little ability to measure or judge the furniture’s quality and therefore have difficulty understanding the difference between various makers’ offerings (both domestic and imports), although there seems to be some belief that “imported” furniture is superior to domestic. As a result, it has been said that a US\$ 4.50 saving (a completely insignificant percentage of the total purchase price) could/would be reason enough motivate some or many consumers to select a cheaper product.

Therefore, assuming it is true that some Moldovan products DO have features, benefits and quality that are superior to some cheaper imports; educating sellers and impacting the marketing should help increase sales and take market share from imports. This could also help to increase exports to markets that produce inferior products. There is presently a huge market share occupied by furniture imported into Moldova. It appears imports may represent as much as 2/3 of all furniture sold in the Republic.

In smaller enterprises, there is often a mentality that says, “Look at the profit I make, I must be a good operator”, ignoring the benchmarks and parameters normally used to judge operational excellence on a micro rather than macro basis. It is likely that some (or many) Moldovan furniture managers may proudly be unwilling to accept advice and that these efforts/resources could be either wasted or that results could be slow to arrive. It appears there are very few truly experienced and well-educated managers in the sector. We have not met one industry member who claimed to have any furniture experience outside Moldova. Much can be done to improve the sophistication of managers through training; thereby helping them understand how to become more efficient and competitive.

*Product offerings.* In some ways, home furnishings (and consequently furniture) is to be considered a fashion business. Trends in interior decoration, home sizes and styles, peoples’ lifestyles, family configuration and sizes and many other factors influence consumer tastes and desires. There are movements whether we recognize them or not. Suppliers that do not consider the business in this way or who do not work sufficiently towards keeping their product-offering current with those trends will suffer. Perhaps this explains the component of custom furniture demanded by Moldovan consumers (from suppliers who simply don’t offer what consumers want). It seems much easier for manufacturers to say to consumers, “I’ll make whatever you want/need” than for them to

stay on top of trends and work to convince consumers that their product offering IS what the consumers want/need.

In many other consumer products industries, innovation and planned product obsolescence are fundamental sales drivers. Moldovan furniture manufacturers may not consider it so but a family’s discretionary funds available for purchasing furniture normally comes from the same budget as other big-ticket discretionary purchases such as electronics, computers and software, automobiles, mobile phones and such.

Let’s consider what some other industries do to drive sales (in most cases these sales are “replacements” just as with furniture) with the marketing messages and then the truths behind them:

**EXHIBIT 1. MARKETING MESSAGES**

MARKETING MESSAGES	THE TRUTHS
<b>TELEVISIONS</b>	
“You need a new 3D TV!”	“Even though we convinced you just two years ago to buy a new HD television, it is already obsolete and your family won’t forgive you until you replace it with a 3D model...even though there is little programming available to take advantage of the new 3D feature so you won’t even use that feature much.”
<b>COMPUTER SOFTWARE</b>	
“Windows 7 is made for you and designed for the way you want to work”	“Even though you paid us good money for Windows Vista (and we told you the same thing about that product), that was an unstable and inefficient invention and the new replacement will finally provide you the computer experience and performance you require (and that we promised you with Vista). You should pay us serious money for this upgrade if you want to protect your business and memories. Perhaps you will also need to upgrade your computer itself because computers designed to run our previous version were also underpowered”.
<b>AUTOMOBILES</b>	
“Our latest vehicles feature Bluetooth connectivity and this is important to you”	“We make better quality cars now than ever before and for this reason, they may be driven years longer. Nevertheless, you should dispose of your relatively new car and lose thousands of dollars because this inexpensive new feature will let you listen to your \$300 iPod while you drive (even though you can buy this feature in the aftermarket for little money)”
<b>CLOTHING</b>	
“This week’s Paris runway presentations reveal men’s ties are becoming narrower”	“The narrow ties you still have in your closet from the last change in widths are still perfectly useable as will be the wide ones you bought last year if you just keep them until we change our minds again. In the meantime, we dearly hope you’ll replace all your ties with new wide ones that cost us \$5 each to produce and which we sell for \$75.”

## THREATS

*Controls.* It is extremely difficult (perhaps impossible) to have credible data with which to measure the industry. In the absence of such data, we are forced to make suggestions about initiatives based on our best belief of current conditions. While there is no alternative, certainly this is not the preferred approach and there is a risk that some of the efforts might be misdirected.

*Materials.* Moldova has virtually no raw materials used in furniture production (although there is one unverified report that Moldova DOES have forests of hardwood species that could lend themselves to furniture production with the proper curing techniques). There is no assurance that Moldovan producers will be able to continue sourcing imported raw materials at prices that allows them to compete with manufacturers located in the source countries.

*Market share.* The domestic market is small with a high incidence of inexpensive products and does not appear to be growing quickly either in terms of volume or sophistication (price points). There no indication that domestic manufacturers' share of the local market is increasing. In fact, it may be decreasing.

The incidence of imported furniture sold in Moldova is extremely high (some estimate as high as 67% or more). There is the threat that foreign producers are able to further increase their share of the local market at the expense of domestic manufacturers.

Many of the local manufacturers do not appear to have a good “handle” on what consumers want/need (otherwise, how can we explain that they need to offer “custom” furniture instead of offering exactly what consumers are searching for). This could possibly explain the large amount of imported furniture sold in the market. Unless local manufacturers better calibrate their offer to the needs of the market, there is the threat that imports could increase (at the expense of domestic producers).

*Labor.* The local workforce does not seem to be particularly skillful in making “value added” handcrafted furniture. It is true that the cost of labor is low in Moldova and while it is lower than Romania it appears to be no lower (or not significantly lower) than in some other surrounding venues (many of which DO have locally available raw materials). At the end of the day, using low-cost labor to make products that can most efficiently be made totally by machine negates any potential competitive advantage.

*Weak retail operations.* The amount of Moldova's furniture production that is sold domestically and through factory-owned stores could actually represent a weakness and threat to the industry. Were any truly competent furniture retailer to attack the market (for example, IKEA for whom Moldova might not currently be interesting but who could enter the market with a franchised operation or by attracting Moldovan consumers to their Bucharest, Romania location); the results might be devastating to the existing local retailers (and consequentially their owners who are mostly the manufacturers). It is **STRONGLY** recommended that the local manufacturer-retailers begin to operate their stores as separate profit centers with their performance being monitored using generally accepted retail benchmarks in order to assure they are able to defend against such a risk.

Even if this threat were never to materialize, the results of operating the stores in the suggested way can only produce positive results.

There is another concerning phenomenon. Many of the manufacturers mentioned their desire/intention to expand the size of their store(s). Since there seems to be little way for them to verify the productivity of the current selling space (and of each single product displayed therein), what assurance could they have that expanding the additional space will pay for itself and contribute profits? Micro control of operations might demonstrate that the current selling space would be sufficient if only “best sellers” were displayed. There may currently be items on display that have never actually contributed to sales.

The sum of these threats is a significant risk that the domestic market could be further eroded by neighboring competitors who also enjoy low labor costs, have the benefit of locally available raw materials and also may not be subject to (or complying with) taxes, duties and regulations (not to mention that they might eventually become able to “out market” Moldovan suppliers). Competition could also increase from more sophisticated suppliers (Italian, for example) who are better able to offer products that stimulate consumers.

## **CONCLUSIONS**

Moldova has local demand that is currently supplied by imports. Moldova can begin to win back part of that market. Moldova has labor costs that are competitive with other venues on the continent and may even be on par with or below those in China. Moldova is the gateway to the rich CIS markets and has interesting tax-free zones that could become of strategic importance to foreign manufacturers wishing to enter or increase sales in those markets.

Working together as an industry, it WILL be possible to grow domestic and export sales, attract foreign investment and increase employment. However, there will be significant changes required in terms of product development, enterprise specialization, efficiency improvement, management capabilities and spirit (intending that while all the local players are competitors, their failure to work together for the common good of the local sector has cost them the local market). Positive change will also require the active involvement of Moldova’s government that must react to conditions that have penalized legitimate local businesses in favor of clandestine operations and smuggled imports.

It should be noted that most of Moldova’s larger and/or more successful furniture manufacturers share something in common. Each of them is doing at least one thing that is significantly different from the majority of the others. In other words:

One says “I will be buying better materials and improving my quality in order to compete with all the others.”

Another says, “I don’t care about competition because I have my own product and marketing strategy that keeps me very distant from them.”

Another says “I mostly specialize in one product category.”

Another says “I don’t make custom furniture.”

This FACT gives the CEED II program more ammunition to use when it is time to try to convince other Moldovan manufacturers to make some tough decisions about their businesses and gives the author confidence that positive change can be brought about.

Since all Moldovan manufacturers desire to sell more, all would like to export (or export more), all recognize some of their shortcomings, it should be possible to assist them in becoming more efficient, more focused and more commercially successful. The industry’s best practices are “known’s” that can be taught.

Following are the recommended actions and initiatives to be applied. They are grouped by timing (the period in which some results should become measurable, not when the actions should be initiated). Within each group, they are listed in declining order of priority. At the end of this document is a listing showing just the type and title of the initiatives without the detail.

## SECTION 3

# PROPOSED ACTIONS AND TIMING OF RESULTS

### SHORT TERM (<12 MONTHS)

- Trip to Moscow Furniture Expo (MEBEL, November 21-25, 2011) to study the market's needs (products) and prepare for a possible 2012 "Made in Moldova" pavilion (how to display, staff, market, etc.).
  - In the 2011 expo, there will be pavilions dedicated to imports from Belarus, China, Egypt, Finland, France, Germany, Iran, Italy, Malaysia, Romania and Spain. Ironically, among the 759 exhibitors listed on the fair's website as being "preliminary" participants and notwithstanding the fact that Moldova's largest furniture export market is Russia, there is not a single Moldovan company listed as planning to exhibit. This could be because those that will participate are listed as being from elsewhere (perhaps they register through a Russian domiciled company) or because there will actually not be any Moldovan exhibitors in 2011.
  - To contrast with the lack of Moldovan companies, the 2010 show had 135 exhibitors from Italy alone, occupying a 5,000 square meter pavilion.
  - <http://www.meb-expo.ru/en>
- Retail and wholesale sales training and other sales/marketing assistance
  - Given that all manufacturers operate their own stores and most claim that anywhere from a significant portion to the majority of total sales are done through owned stores, improving productivity in manufacturer-owned stores should help grow sales (while also assisting management in understanding the needs of their third-party dealers).
- Management training and systems improvements
- Study transport costs and methods to export markets (manufacture closer to a port for example?)
  - Given the amount of furniture exported and the high incidence of logistics on furniture's total landed cost (in other words, furniture is a low value and voluminous product so transport plays a significant role in the total cost).
  - Considerable thought should be given to finding the most efficient methods of manufacturing (as close as possible to the customers), loading (how to fit the most products possible into the truck or container) and the transport cost (truck versus rail versus container).
- Stimulate bilateral trade visits so Moldovans can learn "industry best practices" and foreign (US and non) industry leading companies can learn of opportunities in

Moldova (for example, joint-venture manufacturing in Moldova's Free Economic Zones)

- The US State of North Carolina, while having lost many furniture factories in recent years, is still considered the center of the United States' furniture industry.
- There is an existing partnership agreement between Moldova and the state of North Carolina that has among its objectives, "...private sector cooperation..."
  - <http://www.secretary.state.nc.us/partnership/>
- North Carolina Secretary of State Elaine Marshall conducted a visit to Moldova during June 2011 during which development of commercial cooperation between Moldova and NC furniture enterprises was discussed.
- AMCHAM Moldova (American Chamber of Commerce) is already working with the North Carolina Secretary of State and US Embassy of Moldova towards such a furniture industry visit to NC to study industry best practices and contemplates trying to invite US furniture industry leaders to make reciprocal visits to Moldova to explore potential commercial opportunities. CEED II should help them.
- Attract IKEA buyers to Moldova (particularly to serve their 12 Russian stores' requirements given the duty-free agreement between Moldova and CIS as well as the potential of using Moldova's free trade zones for other economic advantages).
  - It is interesting to note that in FY2010, 79% of IKEA's global sales were made in Europe but only 62% of purchases were made there. Given the increasing cost of transportation (particularly for furniture which is often bulky); it would seem IKEA must be searching for additional suppliers in Europe.
  - Using the few publically available figures (global purchases, global and Russia store counts) and making some conservative assumptions (that Russian stores perform no better than the average of all IKEA stores, even though Russia was one of the top three growth markets for IKEA in 2010, and that only 60% of all goods bought for their stores are furniture); we can estimate that the 2010 furniture purchases (landed cost) were in the area of US\$ 450 million for the company's 12 Russian stores. It is likely the true purchases were even greater. From this estimate, it becomes evident what an opportunity IKEA Russia could represent for nearby Moldovan suppliers.
  - To help understand the amount of business IKEA can give any single vendor, there is publically available information that demonstrates one strategic supplier of upholstered furniture (an Italian company supplying IKEA from a factory in Romania) made sales in the area of US\$ 100 million to IKEA in calendar 2010.
  - IKEA has already purchased land for a first location in nearby Odessa, Ukraine as part of what was rumored to be an initial six-store chain in the country. Unfortunately, the plans have been put on hold and there has been no further progress towards an opening.
  - IKEA is known to be a very demanding buyer and the initial reaction of many manufacturers to the question, "Why don't we try to attract IKEA" will be, "I'd love to but I know there is no way to make money selling to them". Moldovan

- furniture suppliers would need to be educated on the many very positive aspects of simply courting IKEA, not to mention those that could possibly come should the courtship mature into actual trading. Yes, IKEA is demanding but they do NOT require suppliers to work without profit and DO provide almost limitless opportunities for volume and consequential efficiency.
- Create a Furniture (and home furnishings) Shopping Center to increase shopping traffic to the benefit of all participating retailers (see examples of the “Outdoor Furniture Market” and basement of the Jumbo shopping center both in Chisinau). The prime issues would be:
    - Scale (i.e., enough available space for there to be a critical mass of home furnishings retailers in order to attract the majority of shoppers). Consumers must understand that they can solve their home furnishings challenges by shopping in this center because the offering is vast and comprehensive.
    - Manageable occupancy costs (considering that furniture retailing traditionally suffers from very poor sales per square meter, occupancy costs have a much higher impact on total costs than in some other retail sectors).
    - Advertising funds and promotional activities aimed at telling consumers, “Whatever you need to furnish your home, it is ALL available at this one place”. As finding a venue that meets the two requirements of items a and b (above) likely means it will be some distance from the center of Chisinau, it will be vital to make this a “destination” in order to assure consumers will make the trip and that the merchants will benefit from the synergies. Consider that most of the world’s “mega stores” in furniture are located a distance from “downtown” and become “destinations”. IKEA is a perfect example and consumers have no problem making the “trek” because they know they will find what they need “at the end of the rainbow”.
  - Work to calibrate the product offer to the market requirement (otherwise, how to explain 90% “custom” wood furniture and only 10% “custom” upholstery?) in order to improve sales and reduce production inefficiency.
    - Conduct consumer research (focus groups?) in order to verify that demand for custom furniture is the result of a product offering on the market that doesn’t respond to consumers’ needs. Also verify consumers’ satisfaction with the shopping experience and the “hit parade” of critical factors in the buying decision (i.e., quality, price, brand, design, comfort, materials, colors, salesperson’s advice/knowledge, shelter magazines, etc.)
  - Stimulate movement towards MORE labor-intensive products (with obvious “added value”) to leverage the low labor cost.
    - It appears that a significant part of the furniture produced in Moldova is extremely “simple” and lacking in complicated value-added features and details. In fact, much of what is produced in Moldova could be more efficiently manufactured by almost total automation and with an extremely low component of labor. There is such technology available and this is one way that higher labor cost venues compete.

- Other “low labor cost” venues (China, Vietnam, India for example) are known for adding much more “hand-made” details such as carving, inlays, marquetry and complicated multi-step wood finishing which increase the apparent value of the final product at a cost which is significantly inferior to the value added.
- Attract international product designers in order to better adapt the product offer to the markets’ needs (not only the domestic market but also the sector’s targeted export markets).
- Introduce Motion Upholstered Furniture (Leggett & Platt, the global leader in the required internal mechanisms, has a distributor in Ukraine).
  - Motion furniture (sometimes known as “recliners” and made famous by the American company La-Z-Boy) occupy a huge part of the US upholstered furniture market and a growing portion of the global market. This product is virtually unknown in Moldova.
  - The industry leader in supply of motion furniture mechanisms estimates that motion’s share of total European upholstery sales has grown from 15% in 2005 to 25% in 2010 and could reach 40% in 2015. Exposing this wonderful “new way to relax” to Moldovan consumers could represent a wonderful opportunity to increase sales and the value of the average piece (read higher margins).
  - Interestingly, the two or three motion upholstered products discovered in Moldovan shops during the research conducted for this report were presented in a way that the added value of being “motion” would likely never have been recognized by shoppers...if it even was recognized by the shops’ salespeople. There was absolutely no “point of purchase” information touting the features and benefits of the product (ironic considering that adding the motion mechanism has a significant impact on the product’s selling price). The item would cost much more than a similar product without motion so it is highly unlikely that consumers would be attracted by a more expensive product without understanding the features and benefits hidden inside. This is symptomatic of the virtual lack of sophisticated marketing in the Moldovan furniture sector.
- Introduce internal lighting (and other value-added features) into display cabinetry
  - It can be assumed that consumers purchase glass front cabinets in order to display objects. The incremental cost of adding illumination systems into such cabinets is minimal. Such features and benefits would attract consumers in shops; giving the salespeople additional sales arguments, help justify higher price points and begin to move the product offering towards being more responsive to consumers’ needs.
  - The lack of such value-added features is symptomatic of the Republic’s furniture offering which seems to NOT be based on “What exactly do consumers here want and need?”
- Participation in foreign furniture trade shows in Moldova’s target export markets (i.e., Romania, Ukraine, Russia, Germany) with a “Made in Moldova” pavilion.

- This does NOT mean just “showing up with the same stuff offered in Moldova” (which incidentally appears not to even be in huge demand within Moldova, as demonstrated by the importance of imported furniture in Moldova).
- Instead presenting a targeted assortment of products (and the sales/marketing support of true professionals) that the foreign markets require and will buy (meaning styles, dimensions, materials, functions/comfort, prices, quality, local market regulation compliance, etc.).
- Strengthening of the annual Chisinau furniture show (September) by attracting international wholesale buyers to visit and all major domestic manufacturers to exhibit.
  - Following inclusion of this potential initiative, a meeting was held with this show’s organizers. During that meeting, several issues arose:
    - The organizers themselves admit the show is “dying” in terms of both quantity (size and number of exhibitors) and quality (products and presentation).
    - The show is cosponsored by the Moldova Ministry of Economy but there is no information regarding what activities are undertaken by the Ministry to support this event.
    - The 2011 edition (September 21-25, 2011) will occur concurrently with an event dedicated to Security.
    - The Furniture event will occupy approximately 2,200 square meters (the venue’s central pavilion) and is expected to host in the area of 60 to 70 exhibitors (although there only around 30 confirmed as of 6 weeks before the event). That makes it a tiny show in comparison with others in the world. For perspective, just the Italian exhibitors in the 2010 Moscow furniture exposition numbered 130 companies (twice the total participants expected in the 2011 Chisinau expo), occupying 5,000 square meters (much more than double the total size of the Chisinau expo). What is commonly thought of as the world’s largest furniture trade event (twice annually in High Point, North Carolina) occupies more than 1,000,000 square meters.
    - It appears there has been virtually no international marketing (attempting to attract foreign wholesale buyers) of this show whatsoever and uncertainty about how to do so and lack of marketing resources on the part of the organizers standing in the way of doing so. It seems there is not even a database available of previous foreign visitors that could be used to invite them to return.
    - <http://en.furniture.moldexpo.md/>
- Create one or more “consumer buying guides to quality furniture” touting the features and benefits of quality products made in Moldova (and defending against lower cost, lower quality and potentially unsafe furniture imports from Ukraine, etc.).
- Create a “This furniture is safe for your family” sticker/hangtag and brochure discussing benefits of E1 composite wood products and certifying the material is from

Egger or other suppliers who can demonstrate their material conforms to E1 requirements.

- We have been repeatedly told that there are no specific compliance requirements in Moldova regarding materials that may or not be used. We have also been told twice that there ARE such requirements at least with regard to the composite wood products used (meaning what is commonly referred to as “E1”; having reduced levels of toxic material emissions as required within the EU).
- We MUST get to the bottom of this issue. Is it possible that Moldova has no legal requirements regulating potentially toxic substances inside furniture (for example formaldehyde in wood products, lead in finishing materials or use of tempered glass in tabletops and cabinet doors)? Are there regulations and if there are, are they being followed?
- What agency or agencies write these regulations, who tests and enforces the regulations (and how), what are the penalties for lack of compliance and what history is there of confirmed non-compliance and penalties levied?
- IF there are regulations and if they are being respected, the Moldovan industry is missing a HUGE opportunity to improve its position through marketing the benefits (which likely are not to be found in an important part of the low cost imported furniture that enjoys such a significant market share in the Republic).
- We have been told several times that a difference of 50 Lei (less than US\$ 4.50) is enough for many consumers to renounce higher quality Moldovan furniture in favor of inferior imported products (often from Ukraine). The author wonders whether consumers would still decide to save this inconsequential amount if they were made aware that doing so might subject themselves and their families to toxic emissions in the home during the long life of the furniture.
- Create a “Made in Moldova Furniture” website
  - There appears to be little (if anything) done by the local sector to tell the world that Moldova offers something of interest to the international furniture industry or even to local consumers. The industry needs to begin marketing itself in a serious and professional way. Once completed, someone (likely “The Association”) must be charged with keeping the site updated. There is nothing worse than a website with dead links and obsolete news.
- Promote product specialization and subcontracting of specialized operations
- Underwrite international buyers’ visits to Moldova
  - The initial idea was to invite buyers to the Chisinau furniture exposition. However, given the outlook for this fair, perhaps it would be better to organize buyer missions to visit factories directly or to organize a separate “wholesale/export only” fair.
- Educate manufacturers on how to prepare a serious business plan when trying to arrange financing with banks.

- Several of the interviewed enterprises complain about the availability and cost of funding.
- The one bank interviewed affirmed that there is no shortage of funds available to lend to enterprises but that few in the local sector are able to create a serious business plan. The precise words used were, “They always have a plan to produce but rarely a plan to sell.”
- Of course, this initiative presupposes that manufacturers are able develop reasonable planning and strategies.
- Motivate the bent plywood supplier in Transnistria to begin producing complete bed suspension units to supply bedroom manufacturers such as Ambianta.

### **MEDIUM TERM (12-24 MONTHS)**

- Strengthen (or replace) the existing furniture manufacturing trade association(s) with the objectives of:
  - Accumulation and dissemination of local and international industry statistics.
  - Sharing of performance data (benchmarking).
  - Developing “Furniture Made in Moldova” marketing activities for domestic and international markets.
  - Lobbying government on industry-wide issues such as hazardous materials, VAT recovery, financing, international trade issues, vocational training, etc. This may be difficult because it is said there currently is no Ministry within Moldova charged with caring for industry.
  - Mutual participation in local and foreign trade shows.
  - Organization of travel (buyers in, manufacturers out).
  - Synergistic raw material purchasing
  - Promoting the concept of specialization and outsourcing (subcontractors specialized in efficiently performing certain operations, etc.).
  - As there have been previous attempts but apparently no significant successes at organizing such a trade association, it is recommended to consider offering **USAID ONLY TO ACTIVE MEMBERS** of the association as a way to stimulate participation
- Exploit Free Economic Zones to supply CIS members without duties (importing materials from other countries, adding value as required by treaties and then exporting finished furniture to CIS). Italy, Germany, Poland, USA, China as potential foreign investors.
  - There is a free trade agreement in place between Moldova and the CIS permitting sale of furniture “Made in Moldova” without duties. Conversely, it has been said that furniture imported into CIS from some strategic furniture manufacturing countries can add huge duties to the product’s cost.

- As there is virtually no furniture raw material made in Moldova, all such materials are imported and VAT paid on arrival. In theory, this is only an inconvenience because the VAT can be recovered when the finished goods are exported. However, in practice it appears this is much more than just inconvenient. Predictably, small enterprises (therefore, all Moldovan furniture producers) have limited management and clerical resources/systems for following this requirement and the impact on their cash flows of waiting for the VAT recovery is significant. Virtually all Moldovan furniture producers complain about problems in financing their operations (difficulty getting loans and the high costs if they are able). Materials, components and sub-assemblies imported into the tax free zones would be free of duty and VAT.
- It is difficult to get to “the truth” about the cost of furniture manufacturing labor in Moldova. Many manufacturers speak about gross costs in the area of US\$500 per month. This may be fact or it may just be the cost in Chisinau because the Moldovan Economic Ministry speaks about significantly lower labor costs within the tax free zones (there is talk of a tier-one automobile supplier there paying under \$200 per month). If the cost of labor is indeed at or anywhere near this level, this is below even China. Therefore, the cost of “adding value” in Moldova should be competitive with what it would have cost at the original “source” (with the exception of any additional logistical and general costs associated with this additional step in the supply chain between manufacturer and CIS customer.
- There are numerous additional benefits available in the zones including energy costs that do not reflect VAT and a favorable income tax on profits (actually 0% until the end of 2011 and then 6% beginning the following year).
- There is one ocean cargo access to Moldova; Giurgiulesti. The port and surrounding area comprise one of Moldova’s tax free zones. In October 2011, a cargo port will open there. This could facilitate import by container of materials for production of furniture in this or other Moldovan tax free zones (as opposed to the other option which is the port of Odessa, around 200km from Chisinau). Research is being conducted into the logistical costs of importing sub-assemblies from the world’s major furniture manufacturing areas and the costs of exporting finished furniture to various markets.
  - <http://www.miepo.md/pageview.php?l=en&idc=175>
- There is already at least one company producing furniture in such a zone and exporting it to the CIS. An interview with the company revealed it took at least two years to overcome all the obstacles but that the project is now fully operational and successful. Perhaps on a larger scale it could be possible to streamline the process, particularly considering that the Moldovan Economy Ministry seems enthusiastic and motivated to promote new investments and activities in the zones.
- Demand for furniture within several of the CIS members is enormous and these markets are of tremendous interest to foreign manufacturers. For example, during the 2010 Moscow furniture trade show, 135 Italian manufacturers exhibited. If the economics and formalities of such an operation are as they appear on the

surface, this initiative could potentially provide enormous opportunities to create furniture production or assembly operations within the tax free zones. This initiative could help foreign manufacturers compete in those CIS markets. It could also help CIS furniture retailers (IKEA for example) continue to buy from their preferred international suppliers if those suppliers were to participate in this “Made in Moldova” initiative. If this scheme is workable, countless jobs could be created and major growth of the sector could be realized. In addition, the required joint-ventures and subsequent transfer of know-how from more sophisticated furniture manufacturers outside the Republic could help Moldova’s furniture industry (both workers and management) to advance professionally and technically; quickly.

- The research into this initiative should continue until it is possible to “prove” or “disprove” its validity. If proven, important resources should be directed towards marketing this new possibility for foreign and domestic furniture manufacturers.
- Promote the Moldovan free economic zone opportunity with small booths in the world’s major furniture trade shows as a way to attract joint ventures and the interest of retail store buyers
  - i.e., “Moldova, your gate way to the rich Soviet furniture markets”
- As a side note and surely far outside the scope of this project, an interesting detail surfaced in a meeting with Moldovan Economy Ministry personnel expert in the workings of their tax free zones; making the author of this report dream a bit. One part of the dream follows and it is left to USAID to decide whether or how to exploit it.
  - Within one of the tax free zones (Marculesti) is a former USSR military airport with a 2.5km long runway capable of hosting all but the largest jumbo jets. According to the Ministry people, jet fuel imported into the zone may be sold without any tax if the fuel is then exported out of Moldova (i.e., a plane directly departing the Republic). If this is the case, the author wonders why it would not be interesting for courier companies (FedEx, UPS, DHL for example) to locate sorting hubs within this zone. In theory, such an operation could dramatically reduce the two most significant costs these companies have (fuel and labor); creating significant job opportunities in Moldova as well as foreign investment in the Republic. The Ministry people claimed that such fuel could be sold at up to 80% less than elsewhere while labor costs in Moldova are some of the lowest on the continent.
  - <http://airportmarculesti.com/pages/en/about-iam.php>
- Attract joint-ventures with foreign companies interested in increasing sales in EU and CIS (Italy, Germany, Poland, Hungary, USA, China, etc.)
- Initiate or improve vocational training and/or incentivize internal training (i.e., tax benefit or government salary subsidy during training)

- Our research suggests the limited vocational training that currently exists may fall far short of providing the level of qualification required by the sector’s enterprises.
  - Training is conducted in poor conditions and on obsolete equipment which may not represent that currently used in some sector factories, particularly the larger ones.
  - Training is conducted by educators who are apparently paid far less than the starting salaries available to their graduates. This brings into question their qualifications and motivation.
  - It was reported that the existing vocational school’s training staff has a minimum tenure of at least ten years which brings into question whether the educators are actually current with regard to the industry’s state-of-the-art, materials, techniques, quality, product range, required skills, etc.
  - The few student-made furniture items displayed in the vocational school visited by the author were of very low quality and complexity. This brings into question how valid the training is to prepare students to manufacture the kind of products currently required by sector enterprises, not to mention what might be required as the sector matures.
- There has been a flight of experienced Moldovan workers in furniture and all sectors to other countries where wages are higher.
- Many furniture sector companies complain about the difficulty experienced in recruiting qualified personnel for their factories. Some also complain about problems with staff retention.
- If true, increases in domestic furniture production and/or joint ventures with foreign enterprises may exacerbate this problem and could even represent an insurmountable obstacle if there is no intervention. Foreign investors will be highly concerned with the availability, stability, skill and cost of labor in Moldova.
- A 2008 study commissioned by AMCHAM concluded the number of job vacancies in Moldova may be at least five times higher than calculated by the Republic’s National Employment Agency. This indicates that government may not even be aware of the scale of this issue and that many enterprises do not register their vacancies.
  - [http://www.amcham.md/library\\_upld/d0.rar](http://www.amcham.md/library_upld/d0.rar)
- Any move towards increasing the “added-value” element of Moldovan furniture through additional handcraftsmanship would further exacerbate the problems of staff training, recruiting, retention and potentially cost.
- Some of Moldova’s most interesting potential furniture production venues (mostly within tax-free zones) are located in rural areas where there may not be sufficient qualified candidates available. Attracting candidates may require increasing wages and/or providing transportation facilities for workers living

elsewhere. Beyond that, it might even be necessary to consider subsidizing or providing staff housing in these rural locations. This approach is common in some parts of China.

- Improve raw material buying (for example buying cooperatively with or without a trade association) and grow the local supply chain by improving the quality and competitiveness of what currently exists and attracting new suppliers. It is impossible to compete in a sector where materials represent the majority of Cost of Goods if the purchasing isn't done properly.
- Assist in plant layout and production systems (consultants) with an aim to increase manufacturing efficiency
- Assist in financing of efficient production equipment

### **LONG TERM (>24 MONTHS)**

- Reduce demand for “custom made” furniture at low and medium price-points in order to improve manufacturing efficiency. Initiatives would include increasing the price premium and decreasing the sales commission for such custom products. In most of the world, “custom made” signifies a premium product, not the “norm”.
- Convince Moldovan furniture manufacturers that specialization and efficiency are the keys to their survival and future success. Promote outsourcing of specialized manufacturing operations
  - Most older Moldovan furniture executives admit that in the more glorious days of the industry (under the USSR and shortly after winning independence); manufacturers were much more specialized in a narrow range of furniture products (only upholstery for example) as happens today in most of the rest of the world. Today, most Moldovan manufacturers are trying to make “everything” (i.e., all product categories). In the rest of the world, the few significant manufacturers who make “everything” do so in separate, dedicated factories and sometimes under dedicated brands managed by dedicate experts.
  - This “make everything” approach contributes greatly to many of the Moldovan furniture industry’s problems. There is no critical mass in purchasing (too many different materials used and most purchased in insignificant quantities), no critical mass in production (too many different items being produced, too small production runs, too many different kinds of worker expertise required, too many different kinds of equipment required, etc.).
  - This also contributes to the mismatch between the product offer and the market’s demand. How could it be possible for a small manufacturer (even Moldova’s largest furniture manufacturer probably sells less than US\$ 10 million per year) to become expert and stay current in the consumer taste in bedrooms, kitchens, bathrooms, dining furniture, mattresses, sofas and chairs, etc.? It also likely hampers producers’ product development efforts because in order to keep “current with trends” in all the areas in which they operate, they would be forced to develop a huge amount of new product each season.

- The dramatic inefficiency caused by this lack of specialization is separate and in addition to that caused by the significant incidence of custom production in the wood segment.
- The manufacturers should also be made to understand that combining retail with manufacturing contributes additional inefficiencies that likely harm them in the long run.
- Promote separation of manufacturing and retailing in the sector
- Work to eliminate the recently applied “excise tax” on Moldovan-made furniture into Ukraine (a tariff applied per kilogram of product weight). It appears this “tax” may be in violation of the Free Trade Agreement between the CIS members and Moldova. See following excerpt:

*Article 8*

Domestic taxes and other fiscal levies

The Contracting Parties will not directly or indirectly impose taxes and fiscal levies on goods originating in customs territory of other Contracting Parties in the amount exceeding their level for national goods.

- Strengthen Intellectual Property protections in Moldova and the CIS members that impact Moldovan furniture trade.
- Work to improve the VAT recovery system
- Improve availability and cost of financing as well as develop export payments insurance mechanisms
- Work towards creation of a Ministry of Industry

## **ANNEX 1. MADE IN MOLDOVA**

### **A MARKETING CONCEPT**

#### **THE VARIOUS PRODUCT TYPES MANUFACTURED IN MOLDOVA**

Many of the significant manufacturers playing in many if not most of these categories.

- Bedroom furniture
- Dining Room furniture
- Living Room wood furniture
- Kitchen Cabinets and countertops
- Bathroom Cabinets and countertops
- Upholstered furniture
- Mattresses
- Office wood furniture (both home office and commercial)
- Office chairs (stationary and “executive”)
- Institutional furniture (schools, dormitories, government offices, hospitals, etc.)
- Hospitality furniture (guestrooms, public areas, restaurants/bars)
- Store fixtures (cabinetry, kiosks, displays, etc.)
- Millwork (completely bespoke interior doors, moldings, cabinetry, woodwork, carpentry, etc. for residential and commercial applications)

#### **THE VARIOUS PRIMARY MATERIALS USED IN MOLDOVAN FURNITURE AND CABINETS**

Many of the significant manufacturers using most if not all these materials.

- Genuine wood veneers, melamine and film laminates
- Solid hard and softwoods, medium density fiberboard, particleboard, veneer core plywood and hardboard
- Genuine leather, imitation leather and fabrics
- Solvent and water-based wood finishing materials in transparent, semi-transparent and opaque colorations
- Hardware and mechanisms imported mostly from Germany/Austria and Asia

#### **RESOURCES AVAILABLE**

- Trade Association Organization and Management
- Plant Layout and Manufacturing Systems Consulting
- Marketing and Advertising Consulting (Retail & Wholesale)
- Sales Training (Retail & Wholesale)
- Management Training and Systems Consulting
- Store Operation and Management Consulting
- Merchandise Managers, Prototype Makers, Product Designers
- Funding

## **SPECIFIC ACTIONS BY COMPANY**

Given the structure of the sector and the objective of delivering quick and measurable results, it will obviously be necessary to concentrate attention on the largest players. However, the highest priority should be given to forming a strong and functioning trade association through which it would be possible to also move smaller players in the proper direction and benefit the sector at large.

## **PERFORMANCE BENCHMARKS**

One of the most interesting opportunities for the Moldovan furniture industry is to begin to review performance according to a series of internationally accepted parameters. Some are “obvious” and some a bit obscure. However, each parameter will be useful in managements’ assessment of operational efficiency (macro as well as micro) and the results/benefits of changes they make. In addition, beginning to manage “in micro” should help management become more professional as well as eventually giving them the possibility to begin “benchmarking” if/when there is an association in place to begin distributing industry-wide data. Using these parameters will permit management to make important decisions based on facts rather than sensations and begin “Managing by Objectives”. Some of these benchmarks should be used by CEED II management to monitor the progress of participating companies. The following parameters ARE studied at “best in class” companies

## **MANUFACTURING**

- Total sales (value)
- Total margin (%)
- Total employees (#)
- Capacity utilization (%)
- True time versus standard (% of deviation)
- True material consumption (waste) versus standard (% of deviation)
- Productivity per production employee (measured in pieces and value per employee) (# and value)
- Percentage of total workforce direct versus indirect (%)
- Sales per square meter of factory (value)
- Sales per square meter of finished goods warehouse (value)
- Annual inventory turns (raw materials and finished goods) (#)
- Inventory as a percentage of sales (%)
- Sales per sku and by product typology (pieces and value)
- Cost of quality claims as a percentage of sales (by customer, by sku, by product typology) (%)
- Value of average unit per product typology (value)
- Margin by sku and by product typology (%)
- Delivery time (average days from order date to shipment and average days of deviation from target/promised) (#)
- Productivity per independent dealer (by sales, by margin, per each product typology)
- Only applicable where manufacturers sell through non-affiliated retailers.
- Accounts payable aging in days (#)

Accounts receivable aging in days (#)

## **RETAIL**

Total sales (and by outlet) (value)

Total margin (and by outlet) (%)

Sales and margin by product typology (value and %)

Same store sales increase/decrease (% and value)

Total sales per square meter and per store (value)

Sales and margin per sku (#, value and %)

Sales and margin per salesperson per day, week, month, quarter, year (value and %)

Traffic counts (per hour/per day) (#)

Sales closing ratio (percentage of sales per customer visit) by shop and by each salesperson (%)

Value of average sales ticket (value)

Incidence of additional sales made after the initial sale (value and %)

Incidence of “add-on sales” (fabric protection treatment, service “warranty”, in-store financing, paid delivery and any other kind of extra cost offering in addition to the product itself) (value and %)

Sales by product typology (# and value)

Inventory turns (#)

Percentage of sales (pieces and value) derived from product NOT on display in the outlet (i.e., catalogs) (%)

Margin by sku and by product typology (%)

Delivery (and installation) costs as a percentage of sales (%)

Average cost per consumer delivery (transportation and labor) (value and %)

## ANNEX 2. RECOMMENDED ACTIONS

EXHIBIT 2. RECOMMENDED ACTION BY TYPE

	ACTION	TYPE
<b>SHORT TERM (&lt;12 MONTHS)</b>		
1	Trip to Moscow Furniture Expo	Marketing
2	Retail and wholesale sales training and other sales/marketing assistance	Training
3	Management training and systems improvements	Management
4	Study transport costs and methods to export	Research
5	Stimulate bilateral trade visits	Marketing
6	Attract IKEA buyers to Moldova	Marketing
7	Create a Furniture (and home furnishings) Shopping Center	Marketing
8	Work to calibrate the product offer to the market requirement	Product
9	Stimulate movement towards MORE labor intensive products	Product
10	Attract international product designers	Product
11	Introduce Motion Upholstered Furniture	Product
12	Introduce internal lighting (and other value-added features) into display cabinetry	Product
13	Participation in foreign furniture trade shows	Marketing
14	Strengthening of the annual Chisinau furniture show	Marketing
15	Create one or more “consumer buying guides to quality furniture”	Marketing
16	Create a “This furniture is safe for your family” sticker/hangtag and brochure	Marketing
17	Create a “Made in Moldova Furniture” website	Marketing
18	Promote product specialization and subcontracting	Management
19	Underwrite international buyers’ visits to Moldova	Marketing
20	Educate manufacturers on how to prepare a serious business plan	Management
21	Motivate the bent plywood supplier in Transnistria	Product

	ACTION	TYPE
<b>MEDIUM TERM (12-24 MONTHS)</b>		
1	Strengthen (or replace) the existing furniture manufacturing trade association(s)	Management
2	Exploit Free Economic Zones	Marketing
3	Attract joint-ventures with foreign companies	Marketing
4	Initiate or improve vocational training and/or incentivize internal training	Political
5	Improve raw material buying	Management
6	Assist in plant layout and production	Management
7	Assist in financing of efficient production equipment	Management
<b>LONG TERM (&gt;24 MONTHS)</b>		
1	Reduce demand for “custom made” furniture	Product
2	Convince manufacturers that specialization and efficiency are the	Management
3	Promote separation of manufacturing and retailing	Management
4	Work to eliminate the “excise tax” on Moldovan furniture into	Political
5	Strengthen Intellectual Property protections	Political
6	Work to improve the VAT recovery system	Political
7	Improve availability and cost of financing	Political
8	Work towards creation of a Ministry of Industry	Political

**U.S. Agency for International Development**

1300 Pennsylvania Avenue, NW

Washington, D.C. 20523

Tel: (202) 712-0000

Fax: (202) 216-3524

[www.usaid.gov](http://www.usaid.gov)