



The Palestinian Furniture Sector

Sector Brief 2006

Prepared by
Palestine Trade Center - PalTrade

In collaboration with
Wood Industries Union



Table of Contents

	Contents	Page
1.	Domestic Market Size & Demand	2
2.	Products and services	3
3.	Sector Output & Capacity	4
4.	Sector Structure	6
5.	Employment / Human Resources	7
6.	Sector Map	7
7.	SWOT analysis	10
8.	Conclusion and Recommendations	11

1. Domestic Market Size & Demand

The local market size of furniture was estimated at US\$ 80 million in the year 2005, WIU references have pointed out that the local furniture industry's share of the local market has dropped in the year 2005 to 44% (US\$35 million). While this represents a major market share, there seems to be a negative trend since September 2000 with new competition entering the local market. This new competition is represented in imported furniture from China and Turkey.

The local market can be segmented into three major customer categories: private businesses, government, and households.

1. Private Businesses

The private business sector is comprised mainly of small to medium companies, large companies, private institutions, and international organization offices located in Palestine. This sector mainly demands contract furniture and office furniture.

2. Government

The government is a major market especially for construction related furniture in addition to school furniture, hospital furniture, and office furniture. However, this market is unpredictable since it is highly dependent on the political and economic situation. This market segment is nonetheless expected to grow with trends deduced from current or planned construction projects that will ultimately be in need of furniture. The purchasing process in this segment is mainly by tender, which opens an opportunity for local lobbying to restrict government tenders to local manufacturers where they have the capabilities to meet the tender requirements.

3. Households

Consumers in Palestine prefer custom-made home furniture because they perceive the quality to be far superior to anything being offered in local showrooms. When given choices of wood, they prefer oak, birch or mahogany and are willing to pay extra for furniture made of these woods because they tend to last longer and are perceived as a good investment.

When looking to make a furniture purchase, individual customers make their decision based on the following:

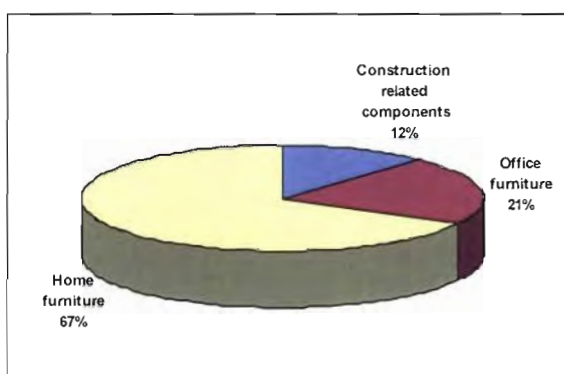
- 1- Price
- 2- Quality
- 3- Availability and lead time to delivery
- 4- Ease of financing (cash, credit, installments)
- 5- Advertising and promotion
- 6- Dealer's reputation
- 7- Location or point of sale
- 8- Style or model produced

Based on the survey held at the National Furniture Show 2005 in Gaza, the results indicated that the main reasons behind purchasing new furniture is either for change or moving/setting into a new home. The results also showed that most local consumers prefer modern designs. With respect to country of origin, 65% of all those surveyed favored local over imported products. As for the remaining 34.5% who chose imported furniture, nearly half of them citing almost variety of design as their motivation. Over half of those preferring imported furniture chose Italy as the country of origin with Turkey as the second choice with only 18.9%.

The sector's competitors in the local markets are China (63%), Turkey (16%), Egypt (9%), and Israel (8%), hence the purchase decision is still taken based on the aforementioned parameters.

2. Products and services

The Palestinian furniture can be classified into three major categories, home furniture, office furniture, and construction related components, which are typified in door and window frames and scaffolding structures. More than 67% of local manufacturers are specialized in home furniture production, 21% are specialized in producing office furniture, and almost 12% are producing construction related components.



The major sub sectors in the Palestinian furniture industry can be classified as illustrated in the following table:

Palestinian Furniture	Household Furniture	Kitchen furniture, living room furniture, bedroom furniture, baby furniture and dining room furniture.
	Construction wood works	Frames, shutters, doors, windows and scaffoldings.
	Office Furniture	Office desks, office chairs, computer desks, filing cabinets, and partitions.
	Contract Furniture	Furniture used in hotels, restaurants, hospitals, schools, libraries and the like.
	Accessories	Knobs, escutcheons, handles and plates.
	Support industries	Foam, fabrics, cushions, mattresses, paints, and metal work.

Type of furniture produced in the Gaza Strip (HS classification)

1	Seats with wooden frames, upholstered,	940161
2	Seats with wooden frames,	940169
3	Furniture, wooden,	940360
4	Bedroom furniture, wooden,	940350
5	Kitchen furniture, wooden,	940340
6	Office furniture, wooden,	940330

The trends in the sector show that construction wood works (traditional furniture – doors & windows) are the oldest in the industry and started almost 55 years ago, while the contract furniture is the most recent sub-sector that grew in the last 10 years in parallel with the new construction of public buildings and commercial and housing projects. The accessories sub-sector is also a recent addition in the furniture industry that has added value to the manufactured products. Locally produced accessories are available in both standard and custom designs constructed steel, aluminum, copper, chrome and nickel. A leading furniture firm has also begun offering CNC & PVC coating services to other furniture manufacturers for a reasonable fee. There are various services offered



by the furniture sector to its customers. Such services play an important role in promoting the sector and expanding its market share locally and regionally.

As for the resources of raw materials (wood), the range of utilized natural wood includes mahogany, maple, beech, pine and cherry. Natural woods are directly imported, mainly from east Europe (Yugoslavia), while the manufactured wood such as MDF, particle boards, and others are obtained from local distributors and wholesalers (Local and Israeli). Direct import of raw materials is considered a comparative advantage for local industry, where prices and range of materials are controlled by local importers, avoiding dependence on Israeli importers. However, importers are constrained by borders and mobility restrictions.

3- Sector Output & Capacity

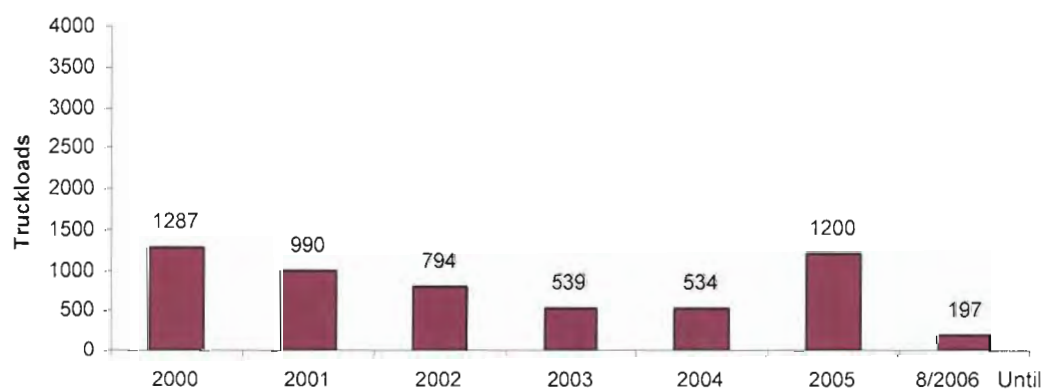
The total output of the furniture sector in the local market is estimated at US\$ 55 million in the year 2005, however the output is changing based on the local market purchase power and the accessibility to export markets through AIMontar/Karni Terminal, the output of the sector through the last five years is illustrated in the following table:

Year	2000	2001	2002	2003	2004	2005
Output (US\$ Million)	60	50	45	45	44	55

Exports of the Palestinian furniture target the Israeli market, and the main exports are dining tables, chairs and coffee tables. The export trend line over the past few years is typified in the following points:

- Total Palestinian furniture exports to Israel have reached USD 13 million in 2000 (peak volume) - (truckload value = US\$ 10 thousands)
- Palestinian furniture exports counted 4% of Israel's furniture imports in 2002 (USD10 million) - (truckload value = US\$ 12 thousands)
- Total Palestinian furniture exports to Israel deteriorated to USD 6.5 million in 2004 - (truckload value = US\$ 12 thousands)
- Total Palestinian furniture exports to Israel increased to USD 18 million in 2005 (peak value) - (truckload value = US\$ 15 thousands)

The fluctuation in export values is attributed to frequent closures of AIMontar terminal, the export volumes are demonstrated in the following chart,

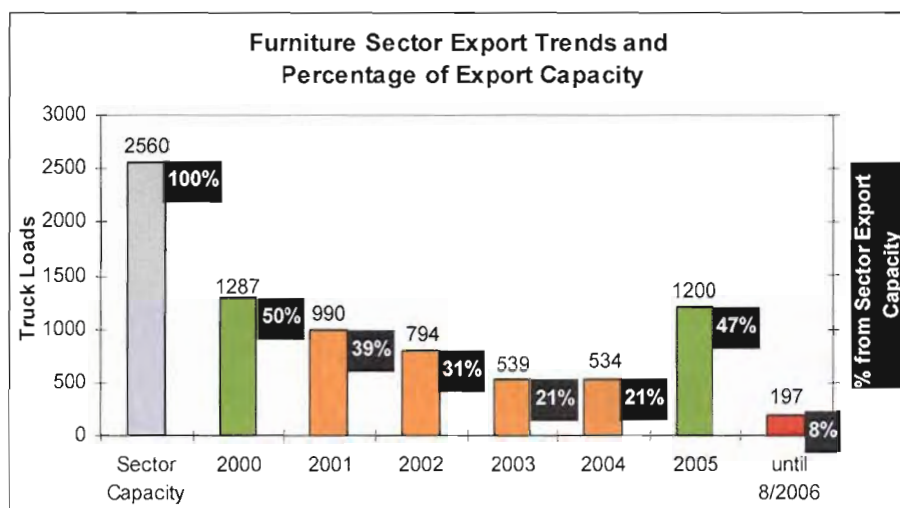


The Palestinian furniture exports to Israel are likely to increase if accessibility to crossing terminals are higher, and that is due to the increasing demand within the Israeli market, geographic proximity to the market, reasonable prices of local products, willingness of manufacturers to operate small orders, adherence of manufacturers to Israeli quality requirements, the Palestinian – Israeli custom envelope, payment facilities provided to Israeli buyers, and the common cultural background of trading counterparts.

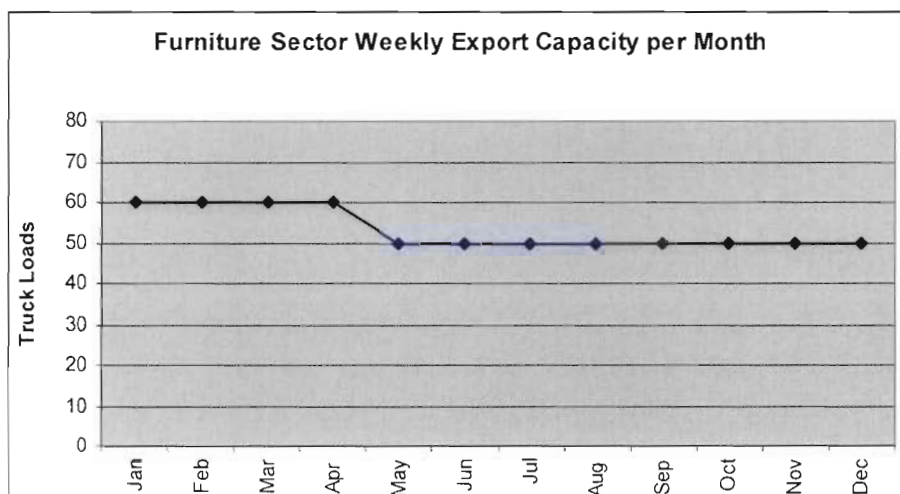
It is worth mentioning in terms of capacity that approximately 50% of producers utilize manual machinery, around 34% use semi-automated machinery, and only 16% use fully automated machinery. Statistics also show that 65% of the sector's production efficiency is currently utilized.

Export Trends & Recent Developments (2006 Crisis)

The total annual sector export capacity is 2560 truckloads, the highest level of exports was around 50% of the total sector export capacity, and that was in the years 2000 and 2005, from the years 2001 until 2004 the total exports dropped from 40% to 20% of the total sector export capacity. The year 2006 witnessed unprecedented level of exports which reached only 8% of the total sector export capacity, and that is attributed to the continuous closure imposed on AlMontar/ Karni Terminal.



The export season of furniture is from January to April, where the sector's weekly export capacity is 60 truckloads, and for the rest of the year; the sector weekly export capacity is 50 truckloads.



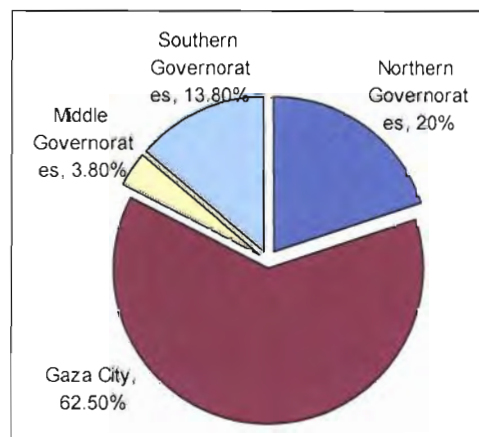
Impact of Current Crisis (2006):

- Temporary closure of manufacturers' establishments reached 80% - (of total 600 establishments in the sector)
- Capacity utilization is 20% of the working establishments.
- Unemployment reached 80% - (of total 6000 employees in the sector)
- Export losses reached US\$ 9 million (in comparison with the year 2005)
- Investment transfer: total investment in new external locations reached US\$ 3 million which included establishing six new factories in Egypt employing 300 Egyptian laborers which target the Israeli market.

4. Sector Structure

Furniture producers are primarily small-medium scale family businesses and workshops, yet the industry expanded extensively through the last decade. Since the majority of operating firms in the sector are small and privately owned business, around 95% are self-financed, while 5% firms get loans from banks (1.6%) or Palestinians credit institutions (0.5%) or international credit institutions (2.5%).

The majority of the Gaza Strip furniture manufacturers are located within the Gaza City governorate (62.5%), due to its geographic proximity from AlMontar/ Karni Terminal, the availability of infrastructure and facilities in the governorate; the following chart illustrates the distribution of manufacturers geographically.



Size distribution of establishments (by capital investment) varies from US\$ 15 thousands to US\$ 750 thousands according to the following table:

Investment Capital	Percentage
5,000 – 15,000	%14
16,000 – 45,000	%38
46,000 – 150,000	%30
151,000 – 750,000	%18

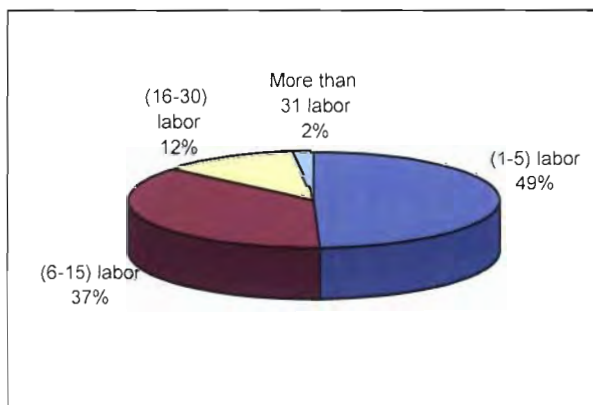
Trends of the sector:

The furniture industry evolved in Palestine almost 55 years ago and has grown to become one of the major promising Palestinian productive sectors. Prior to the political crisis and economic recession beginning in 2000, the sector witnessed the establishment of many firms as a result of the growth of the Palestinian economy and the development of this industry to include new categories like interior design, hospitality and commercial furnishings. In addition, advancements took place in design and manufacturing. Until 1991 there was 374 firms in the Gaza Strip, with a small (2-3) % annual growth rate. In 1994 the growth rate was around 10%, and immediately after the Oslo interim peace agreement the rate was raised to 33% with the total number of firms reaching 600. As is the case with other economic sectors in Palestine, the furniture sector has more or less focused on weathering out the crisis since 2000 with little growth or development taking place.

5. Employment / Human Resources

The industry has developed significantly in Gaza to employ over 5,500 workers; average number of workers per establishment is estimated at 6.9, while the number of workers exceeds 80 in some of the leading factories, most of which are skilled craftsmen.

Human resources in the furniture sector are concentrated in the manufacturing and operations which primarily follow the job order system. The skills of managerial human resources are very limited, mainly in positions of management, design, quality and marketing.



Human resources are concentrated in the manufacturing and operations which primarily follow the job order system. Local labor is technically strong and available but has in the past suffered from seasonal shortages when higher wage jobs are available in Israel. The skills of managerial human resources are very basic; today's managers are yesterday's skilled workers who have succeeded in establishing their own businesses. Professional accountants are utilized in larger firms but mostly on a part-time basis. Employment of middle managers in quality, operations, and marketing management is practically nonexistent.

6. Sector Map

The value chain of furniture industry is relatively fragmented, where tasks are carried out by various stakeholders and support industries. Local manufacturers form the heart of the chain and have great influence on driving the market chain. Direct import of raw materials is considered a comparative advantage for local industry, where prices and range of materials are controlled by local importers, avoiding dependence on Israeli importers. However, importers are constrained by borders and mobility restrictions. Distribution channels are not yet well developed in both local and export markets, which is evident by the high percentage of sales in local Gaza markets. The weakness of distribution systems is in large part attributed to the difficult restrictions at the border terminals through which all goods from Gaza must pass. Distribution of furniture within the contract sector is dominated by direct supply to end-users. However, depending on the type of end-user, the distribution channel is likely to change accordingly. For example, the leisure industries are more likely to use architects, interior designers, contract furnishers and hotel buying groups. Conversely, the healthcare sector tend to use a central buying group as market is highly fragmented, and education sector, such as governmental schools, will use central buying groups or specialist catalogue suppliers.

Key Drivers

The key drivers of the sector are market related:

- 1- *Marriage Market*: More than 45% of the community is under the age 15 years old, which indicates an active and growing marriage market in WBGS area.
- 2- *Marriage season*: the local marriage season is in the summer time, where furniture purchases start increasing in the early summer months of March and April. This is particularly true in the local West Bank and Gaza markets, but is also somewhat true of the Israeli market as well.
- 3- *Religious Holidays*: Islamic, Christian and Jewish holidays constitute vital drivers for the sector, as purchases increase prior to holidays, and sometimes are linked to religious beliefs or traditions.

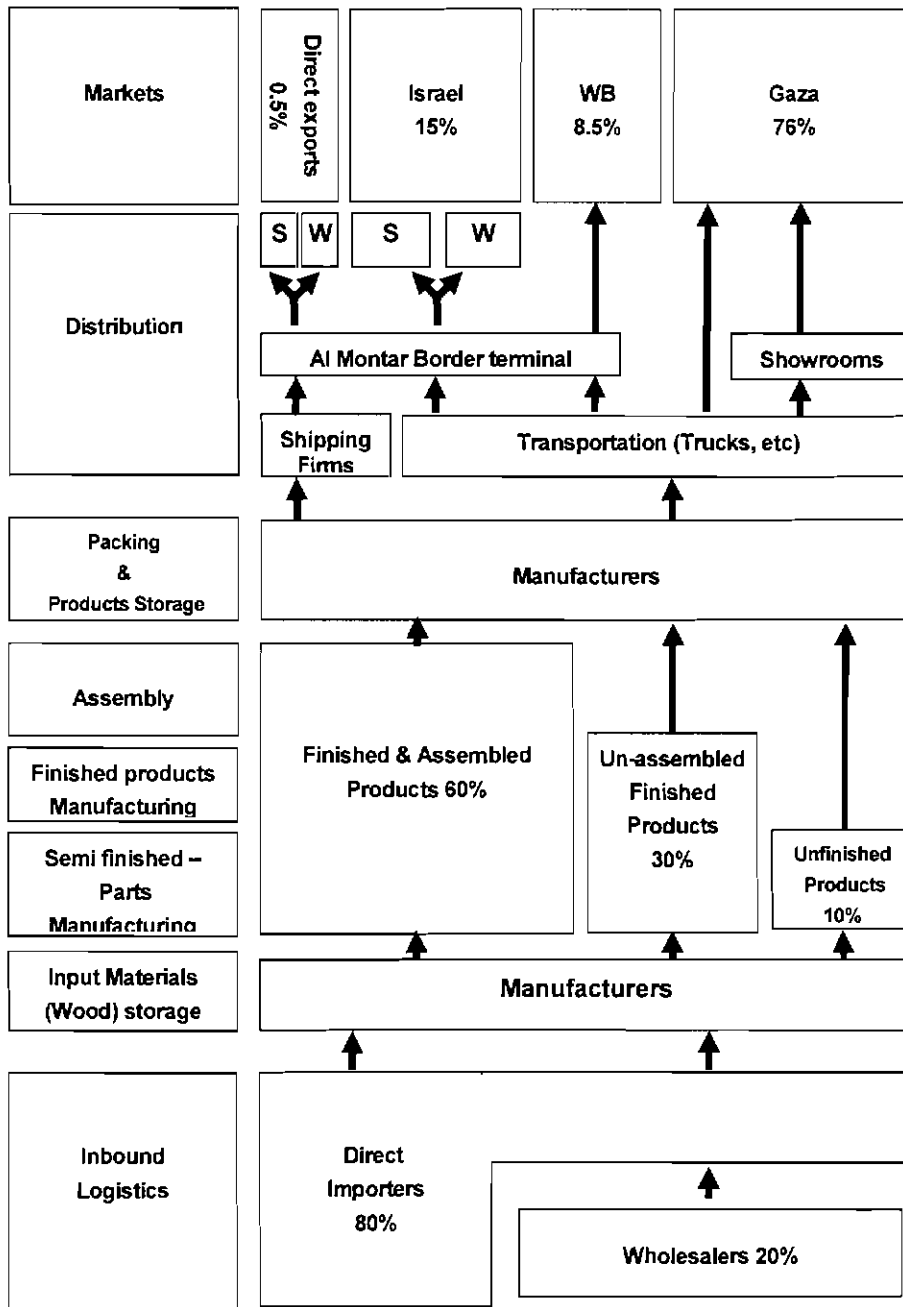
4- Economic Development: More than 40% of the local market of WBGS is deemed a contract market. Growth of contract furnishings is highly dependant on economic development and political stability. Many of these projects are funded by international donors, and political stability is expected to result in a flourishing of new projects and investments. Contract business is normally driven by local NGOs, the private sector and government, where sales are based on tenders, which are often open for bidding, and in other times based on short listed suppliers. Tenders are likely to be bid by both local manufacturers and showrooms who supply both local and imported products.

Leverage Points

Analysis of the sector's value chain indicates that the sector is moderately fragmented, so there isn't really a strong convergence of value through the chain in a few hands. However, the most influential stages in the value chain where interventions can be focused are *manufacturing* and *logistics*. Manufacturing controls the sector by representing the stage where most value added occurs and is the determinant of product quality, features, price, and ultimately competitiveness. Logistics, both inbound and outbound, are very critical as well in determining product pricing, timeliness and reliability of delivery and even quality.

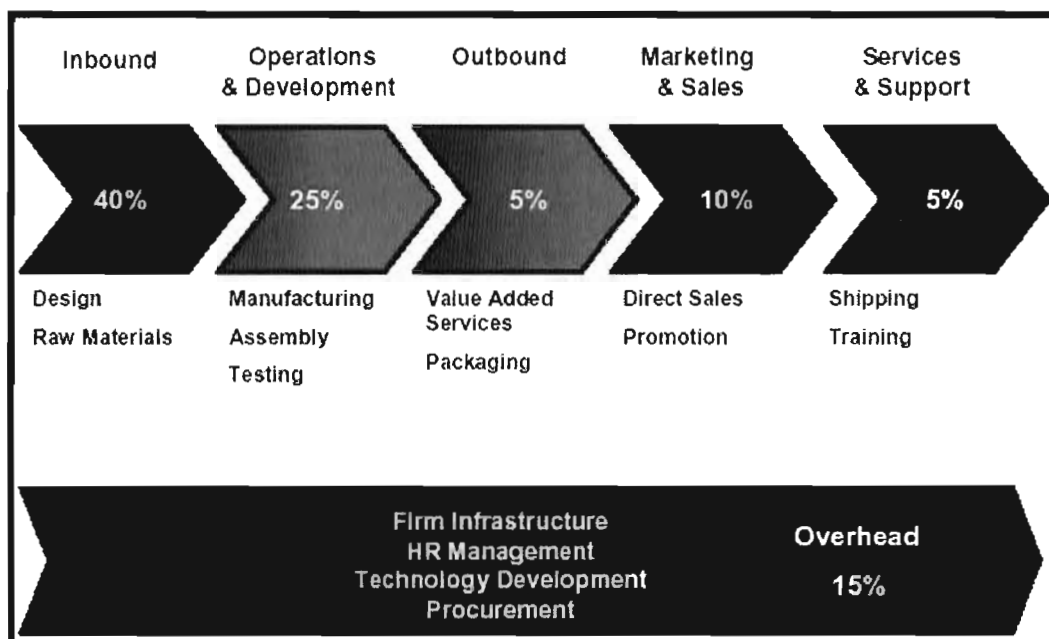
Influencers

1) Representative industrial association (WIU), 2) Trade development and promotion organizations, such as PalTrade, PFI and others, 3) Government institutions, 4) and International organizations and projects.



Value Chain Map for furniture sector in Gaza

The following schematic captures the sector's value chain. It is clear that the furniture cluster is both resource and labor intensive. While raw material and design inputs consume 40% of the cost, manufacturing, assembly and testing consume 25%, suggesting a fair amount of play in this value segment. Value-added services and packaging consume 5% of the value chain's aggregated cost.



7.SWOT Analysis

Strengths of the furniture cluster are mainly typified in high carpentry workmanship skills, good factory conditions, fine quality of produced furniture and the newly emerging, original Palestinian designs. In addition, Palestinian firms have established buyer networks in Israel and other markets and have started aggressively pursuing market opportunities through industry associations and partnerships.

Weaknesses of the cluster are characterized in limited use of technology in communication, management and marketing and lack of specialized skills. Costly export distribution channels and the limited utilization of proper marketing strategies and tactics to reach out to and expand the global market opportunities hinder the cluster's development.

Opportunities for furniture cluster are foreseen in development of new original and ethnic designs. Accessing target markets with appropriate marketing tactics and exploitation of favorable trade agreements with U.S., EU and Arab countries will expand opportunities. Upgrading technological infrastructure will likely increase competitiveness of Palestinian products.

Threats, Increasing competition with low-priced products from the Far East, particularly China, poses a threat to the Palestinian cluster. Unreliable and costly outbound logistics due to border control and current political instability are threats to the competitiveness of the cluster.

8- Conclusion and Recommendations

Based on the conducted SWOT analysis, and in response to revealed results and constraints, and after consultation with the sector stakeholders, the following development priorities for the furniture sector in Palestine were identified:

1- Sector / Institutional Development

- Develop and consolidate cooperation between PalTrade and WIU, and pool resources to develop, promote and implement sector development strategies and activities.
- Strengthening the relation between WIU and local furniture sector's stakeholders and donors' organizations.
- Establishment of WIU representation office/groups in the West Bank, seeking expansion of WIU mandate to include WBGS areas.
- Establishment of WIU training center, which will act as knowledge, information and awareness center for the WIU and the sector.

2- Business Practices Development

- Organization of specialized infrastructure trainings in the fields of; financial planning and control systems, quality control and information management.
- Organization of training programs and seminars, focused on:
 - a. Design concepts, management and control.
 - b. Production management and control.
 - c. Costing and price optimization.
 - d. Export procedures & requirements.
 - e. Business practices and communication.
 - f. Retailing (new sales opportunities).
 - g. Exhibiting practices and opportunities.

3- Marketing & Export Development

- Develop and conduct marketing studies and match-making initiatives within target markets, to include market / product testing, B2B meetings, market intelligence and information and contacts' initiation with specialized marketing firms.
- Establishment and promotion of appropriate selling and distribution channels in selling Markets.
- Organization and implementation of local and international furniture exhibitions and missions for the purpose of trade promotion, (i.e. Palestine National Furniture Show, INDEX - Dubai, Salone - Italy, etc).
- Establishment of competent local selling entity for promotion and distribution of local production in target markets.
- Encouraging the establishment of local retailing outlets "showrooms", on both individual and cooperative basis.
- Encourage and plan subcontracting and joint venturing initiatives between local manufacturers and international furniture firms.

4- Policy Management

- Enforcement of WIU members' Code of ethics.
- Assist in improvement of export logistics and movement of goods through crossing borders, mainly at "Al Montar" Crossing Terminal.
- Organization and implementation of national furniture awareness campaign on local and regional levels, aiming to promote Palestinian products amongst the public.

5- Firm Level Technical Assistance Recommendations

- Organization and implementation of various firm level technical assistance programs, which aims to upgrade capacity of local manufacturers, and prepare potential companies for export activities and requirement, the recommended assistance is focused on;
 - a. Image building programs (Marketing strategy, collateral and web development)
 - b. Export advisory assistance, to present required advisory assistance to leading furniture manufacturers - export oriented.
 - c. Establishment of factory-based design units, to assist in establishment of design units within local manufacturing firms.
 - d. Development of local sales and distribution networks and capacity.
 - e. Operations restructure programs, in the fields of quality, management, inventory, finance and production.