

Wooden furniture industry in malaysia



Being one of the world's top tropical timber producers, Malaysia has been the choice of the world demand on wood products. Seals with different types of wooden products, the consumer market has been eyeing this country for its establishment in such field. From office furniture to home furniture, this sector plays a vital role in building up the country's economy. The value of the product produced and the number of employment held within this industry is significant that the government of Malaysia has come out with various incentives to assist this industry where it is part of the small-medium industries (SMIs).

Although this industry deals with low technology involvement and high intensive labour skills, it's yet to be recognized as the leading raw wood producers which driven by the demand all over the world. Taking advantage of the Malaysia Industrial Master Plan (1986-1995), foreign investors investing in furniture industry have shown a good performance where these investors spurred the money flow into the industry as the rise in demand was accelerating despite having to transfer the technologies to local entrepreneurs.

Malaysia is not only the main tropical timber production especially for wooden products like furniture. The country is even competing with 5 world's leading exporters like China, Vietnam, Thailand and Indonesia. Year 1990s was a glory for Malaysia as the country managed to cater demands from Singapore, Japan and USA which then contributed to the total export value of RM3, 776. 8 million by the year 2000. This significant achievement was due to the fact that Malaysia is rich with the resources and unskilled labour which led to lower cost of production and production can be increased to meet the

demand. Malaysia furniture industry however, facing numerous internal and external factors that eventually affect its development including such threats from competitors, technologies, quality, branding and more. Thus there's a need for a better improvement in strategy adopted by all the furniture producers despite to implement better and improved marketing strategy to capture more clientele. The high value of their comparative advantage also is needed to bring Malaysia one step ahead as the world leading furniture exporter.

Background of Study

As the saying “once a new technology rolls over you, if you're not part of the steamroller, you're part of the road” by Steward Brand, this show how improvement in technology is essential in recognizing the prospect of being efficient in production. Efficient production lead to better quality product thus can cater more demand either current or new demand. Thus, this paper will prove why substantial technology improvement is needed in order to bring the furniture industry in Malaysia to a higher level and then beat the other world's leading exporters.

Apart from technological advancement, comprehensive marketing strategy also considers as the crucial part in determining the level of acceptance of Malaysia's furniture products locally and abroad. This marketing strategy will cover all aspect from the internal and external factor on the basis of marketing principles which are price, product, place and promotion.

Moreover, the comprehensive marketing strategy develop should also be taken into consideration the Malaysia Industrial Master Plan introduced by

the government since 1986. The continuous improvement made the government have given the industry a huge opportunity for growth in the mentioned industry.

Moreover, the success rate of the Malaysia furniture industry was also driven by rigorous moves introduced by the government of Malaysia. The implementation of Industry Master Plan started from year 1986 was a total success. In the Industry Master Plan has outlined several ideas on how to improve the whole Malaysia industries especially furniture industry. This master plan is also being implemented until now to safeguard and path for continuation if the furniture industry. Apart from the Industrial Master Plan, the new economic policy or DEB is also was created to channel the growth flow of the furniture industry to a higher level above the major competitors like Indonesia. However, the discussion on furniture industry is much more comprehensive in Industry Master Plan Malaysia thus this paper will discuss how this Industry Master Plan can assist the sustainability of the industry.

1. 3 Problem Statement

The furniture industry in Malaysia plays a vital role in stabilizing the economy. The growth rate of this industry was significant that Malaysia has recorded a high growth ever since the industry was introduced commercially in Malaysia. Malaysia even became one of the major competitors after Indonesia and Thailand and furniture products produced by Malaysia were exported around the world. Thus from this situation, we would like to analyzed the growth probability involving furniture industry in Malaysia for the past edges.

This will include the process of examining the technology involved in the industry that caused the acceleration of the industry growth. In technology, the flow of capital is crucial in determining the technology know-how used to develop the furniture industry in Malaysia from traditional production onto advanced tech machines.

Either than that, this paper will also show why Malaysia furniture industry is well accepted around the world as for its quality or for its low cost. The market share will be also examined as to prove the industry is in a good shape.

Apart from these views, few suitable marketing strategies for the industry will also be outlined to improve the awareness of consumers around the world on Malaysia furniture. A good and comprehensive marketing strategies are crucial to drive the performance of the industry especially when it comes to capturing new market share or increasing the market share. Meanwhile, the current strategies are included as for discussion purposes and to outweigh the effectiveness of the strategies implemented currently.

1. 4 Objective of the Study

To study the advancement of technologies used that driven the industry performance in export and import

To investigate the current marketing strategies used and new comprehensive strategies that can be used to accelerate the performance to a better level as at the par with other competitors.

To review the importance of the Industry Master Plan (IMP) introduced by the government of Malaysia in playing a vital role to validate the current growth rate of the furniture industry.

2. 0 LITERATURE REVIEW

There are four major sectors in Malaysian wood-based industry which are sawn timber, veneer and panel products that include plywood and other reconstituted panel products such as fireboard, moldings and builders' joinery and carpentry (BJC). The wood-based industry is fully owned by Malaysian and it is calculated that 80 to 90 % of the businesses comprise small and medium size establishments. The manufacturers of Malaysian furniture produce an extensive range of furniture for households as well as for office use.

Before 1995, the activities of Malaysian industry are were mostly in logging, sawmilling and plywood manufacturing. During the period of the 2nd Industrial Master Plan (IMP) (1996 - 2005), the industry more emphasized value-added processing such as furniture, MDF, panel products and veneer. During this period, the wood based industry has achieved a 5% growth rate. The highest export value is furniture, followed by plywood, sawn timber, logs and fiberboard. The star performer was the burgeoning furniture sub-sector which brought in an impressive double digit return of 11% growth or in real earnings - RM 5. 8 billion. The 3rd IMP (2006 - 2020) has earmarked a growth rate of 6. 4 per annum for the wood-based industry to achieve RM 53 billion of export value by 2020. The main contributors of this planned growth

and export value is to come from furniture and panel products – mainly from MDF and plywood.

This chapter consists of literature review regard to the wooden furniture export from Malaysia to existing world market. It covers the various aspects of the wood based industry in Malaysia and export of wood based products including wooden furniture to the world countries. The method used in this study to analyze the data was also included to provide a better understanding about the process of analyzing data. According to (MTIB 1994) Malaysia is one of the largest exporters of tropical hardwoods tropical sawn timber, plywood and hardwood moulding. The rapid development as well as the establishment of other primary wood processing industry were supported by large amount of log supply coming from forestland. Once in a while, the wood based sector is dominated by primary processing activities such as sawmilling, veneer and plywood production. However, in recent years, downstream processing activities such as the manufacture of mouldings, furniture and joinery have increased significantly (Anon, 1 996).

According to Lew (1977), the timber industry in Malaysia is an export oriented industry. Malaysia's export of major wood based products has increased gradually over the last decade. Even though there is a considerable increase in wood based export, Malaysia is still a small producer in the global market for wood based downstream products. This means that there is a considerable room for expansion in the value added products category. To ensure the continued development of the industry in future, Malaysia is actively pursuing a program of promoting the wood based downstream industry. Many plans and activities have been organized to help <https://assignbuster.com/wooden-furniture-industry-in-malaysia/>

the industries in all kind of sectors. These activities including globalization strategy, the knowledge-driven strategy, strengthen cluster development and others.

Comparative advantage involves the concept of opportunity cost either in producing or

exporting a particular good (Mohd Arif, 2008). According to Mohd Arif (2008), the comparative advantage of one country against others may reflect from the difference of the domestic cost and the world price. The higher the cost differential, the higher is the advantage for the country in producing that good. Some other factors such as abundant resources, technology, telecommunication, subsidized fuel and road development (including low transportation cost) could play their role in the comparative advantage. Additionally, Hunt and Morgan (1995) believed that the efficient use of existing resources and innovation in the production may lead to the comparative advantage of the products. Reduction in trade cost and facilitation of goods and services between places can be done by improving the road infrastructure (Bhattacharyay, 2009).

In 1998, Malaysia ranked fifth and seventh in the world ranking of wooden furniture export leaders for office and other wooden furniture, respectively. The United States (US), Japan, Singapore and the United Kingdom (UK) were among the largest destination for Malaysian wooden furniture. Export value of wooden furniture in 1996 was RM 1.6 billion, which placed Malaysia as the second largest exporter in this region, after Taiwan, whilst the 15th in the world (Anon., 2000c). The export value has been increasing every year and it

reached RM 3. 8 billion in year 2000. However, since early 80's export of Malaysia wooden furniture was mainly to the US and Japan where it accounted more that 50% of the total exports (Anon., 2001)

As timber industry in Malaysia traditionally is an export oriented industry, hence the export market is vital in enabling the timber industry in Malaysia to reach its desired growth, despite the continuation from domestic market. During the 70's, major output of the industry which was logs, sawn timber and plywood were largely exported. The export of processed products such as molding has experienced a sudden increase during 80's due to growing demand from overseas market and also government's drive for export which charted out in the Industrial Master Plans (IMP), 1986-1995. The export of molding, furniture and joinery there on continued to increase.

The international marketing research, found that there was several dimensions used by the researcher indicate marketing strategy. Previous researchers acknowledged firm strategy (Aaby and Slater, 1989), export marketing strategy (Julian, 2003 ; Akyol and Akehurst, 2003; Zou and Stan, 1998; Cavusgil and Zou, 1994; Koh, 1991), export strategy (Aulakh et al., 2000; Chetty and Hamilton, 1993), business strategy (Baldauf et. Al, 2000) or strategy (Cicic et al., 2002; Thirkell and Dau, 1998). The International Tropical Timber Organization (2008), Have ranked Malaysia as the biggest exporter of tropical logs amounting to 35% market share. There is an overall of RM22. 5 billion worth of Malayasia Timber and related products being exported in 2008. Europe is one of the biggest markets of Malaysia wood products since many decades ago.

From (Boon-Kwee, Ng* and Thiruchelvam, K., 2001) in his statement, Malaysia's furniture industry is largely wooden and cane based. The industry is highly fragmented, and the large number of the small and medium-sized enterprises (SMEs) in the industry is very prevalent. As one of the manufacturing sectors, the industry has adopted the standard definitions of SME that have been approved by the Central Bank of Malaysia in year 2005, that is, firms with total number of fulltime employees less than 150 people, or total annual sales turnover less than MYR 25 million. According to the Department of Statistics (2009), the total establishments in the furniture industry were mostly constitute by SME. However, However, SME and large enterprise have equal share in terms of value of gross output, value added, employment salary and value of asset.

Ratnasingam (2004) views the value of furniture is based on perception, as it is sold based on a perceived value, rather than on an actual value. This shows that the creation of value-added furniture is not about producing it using high quality equipment neither state-of-the-art technologies, but rather it is about expressing a way of life creatively and innovatively. The uniqueness of thus furniture determines its value, while the scientific aspects ease the production method. Similar view of the value of furniture has been advanced by Ettema (1981), who argued that furniture is an important tool of self-presentation, and thus sensitive to the way it is displayed. He states that technology had caused degradation of style

furniture industry. In general, machines have allowed furniture production to increase, but they have also failed to crate variation in style, because

machines are incapable of producing inexpensive copies of an expensive-looking pattern

As stated by (Z. Noor Aini, 2009), Malaysia is one of the developing countries in Southeast Asia which experienced extraordinary economic growth especially in industrialization in the past few decades. Exports of the natural resources and related products as well as manufactured goods have contributed to the development of Malaysian economy. Besides that, with the fact that 60 percent of Malaysia is covered with natural forest, it is difficult to ignore that forest product industry plays an important role in further developing the economy. Malaysia is currently one of the world's top tropical timber producers. This work supports the idea of Uusivuori and Tervo (2002) that a country which has richer forest assets will have larger net exports of forest products. Furthermore, the country with a larger forest endowment exhibits the comparative advantages in their exports as in comparison to countries with lesser forest endowments.

According to (Shabboo, 2011), challenges of maintaining sustainability could be various depending on different factors such as the type of product, knowledge of established principles, consumers' expectations, manufacturers' policies and facilities, legislation, local resources, etc. In Malaysian furniture industry, a survey that is conducted in 2009 revealed that the adoption of green manufacturing practices is limited among wooden furniture producers. Another study in 2008 discovered that the readiness to adopt chain of custody certification among wooden furniture manufacturers was low. This certification has the objective to ensure the wood products really come from an environmentally certified source. Although the number

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of studies on the environmental aspect of furniture industry is still small in the country, all results demonstrate the poor implementation of sustainability. In addition, integrating sustainability into furniture industry has not been studied from design perspective yet.

Ratnasingam and Thomas (2008) argue that the level of technology employed by the Malaysian furniture industry is on same level with other countries which manufacture furniture, if not higher. The MTC (1998) has stated that most of the country's furniture manufacturers have invested very much in machinery and equipment. Ratnasingam (2000) states that the machine-operated process is the most important value-addition operation in furniture production,

as it convert the raw materials into the sophisticated finished product. The quality of the machine had contributed to smooth and effective production process. However, most of the machinery purchased is special function machinery which is aimed at reducing used of man labor in the manufacturing outfit, with the aim of reducing the manufacturing cost or unit cost. This is to be expected, as the industry is labor intensive in nature, and there is an increasing reliance on foreign-contract workers within the industry (Ratnasingam, 2005).

Procedures adopted are also in place in order to meet the increasingly high business standards in terms of price-cutting, quality and material properties. A periodic review of the existing polices is necessary to ensure that the industries will remain competitive. However, the critical problem faces by industries is mismanagement of land utilization, provided the insufficiency of

readily available land for the cultivation of plantation forests. Research and development (R&D) is hence important for introducing not only new products and new processes that will increase the industry's competitiveness, but also new technology that will reduce the land intensity of rubber tree growing, i. e. clones with shorter gestation and richer wood.(Professor Mohamed Ariff, 2011).

According to (Professor Mohamed Ariff, 2011), to counterbalance the decline in rubber wood supply and the lack of possible alternative wood sources, in order to support the ongoing development of the WBI, one solution can be taken include the importation of logs from abroad and increase of plantation forests at home. However, logs importation face problems like log bans from neighboring countries as well as its high transportation cost. Thus, forests plantation within the country are thought to be a better option. Several countries have successfully adopted this approach, which has encouraged the development of substantial downstream industries in forest products. This, in turn, has led to the growth of clusters of supplementary industries. While the Malaysian WBI is predominantly rubberwood-based now, other species including Acacia, Sesendok, Albizia, may well prove equally suitable in future.

A study by Bojei et al., (2002) on global marketing strategies in the Malaysian wooden furniture industry, the marketing strategies used by the wooden furniture companies, either original equipment manufacturing (OEM), own design manufacturing (ODM) or own brand name (OBM), the most important factors influencing the success of those strategies were

firm's primary characteristics, decision maker's expectation of exporting and global marketing strategy.

Lastly, since export marketing strategy has been considered as one of the key determinants on export performance (Cavusgil and Zou, 1994), though not all of the marketing strategy elements will affect the export performance simultaneously. Study by Koh (1991) found that the relationships among organizational characteristics, marketing strategy and export performance has found that only export pricing, direct buyer, and channel strategies of marketing strategy variations have effects on export performance. However, adapting marketing mix variables cater the specific needs of developed country markets would enhance export marketing performance (Aulakh et al., 2000). In contrast, a study by Julian (2003) to identify the key factors influencing export marketing performance found that export marketing strategy has no effect on the Thai firm's export marketing performance.

RESEARCH METHODOLOGY

3. 0 Research Methodology

The research methodology requires collecting data from the secondary sources, which is overview of Malaysian Furniture Industry: Malaysian furniture export, import and destination that are located in the Annual Report from 2007 to 2011 of the Malaysian Furniture Promotion Council (MFPC) that is being published at its website. There are 10 countries being selected based on the complete data and information of the chosen countries.

The data is being analyzed using the Shift Share Analysis. Table 3. 1 shows the values of Malaysian Furniture Export from the 2006 to 2011 in (RM million). The initial period consists of year 2006 to 2008, while the terminal period consists of year 2009 to 2011. The data is being analyzed using Microsoft Excel.

FINDING, ANALYSIS AND DISCUSSION

Actual Change

Let $V_{j,t}$ represents the values of Malaysia furniture export for country j at the terminal time period t , $V_{j,t-1}$ represents the values of Malaysia furniture export for country j at the initial time period $t-1$, and ΔV_j be the actual change in market j over the specified period of time. Therefore,

The formula of Actual change,

< 0 , the Malaysian Furniture Export to the particular country is decreasing

$= 0$, the Malaysian Furniture Export to the particular country remain unchanged

> 0 , the Malaysian Furniture Export to the particular country is increasing

According to table 4. 0, it shows that the value of Malaysia furniture export to 8 out of 10 countries are declining, excluding Singapore which has an increase of RM 442. 2 million, and Japan by RM 150. 72.

B. Total Growth Rate

K = Total Value of Malaysia furniture export for terminal period

Total Value of Malaysia furniture export for initial period

= RM16600. 9 million

RM17950. 45 million

= 0. 924818041 (92. 4818041%)

According to Table 4. 0 , the total value of Malaysia furniture export for terminal period was RM16600. 9 million, and total value of Malaysia furniture export for initial period RM17950. 45 million. Therefore, on average, the Malaysia furniture export is declining by 7. 5181959% (1-0. 924818041).

C. Expected Value

$$E(V_j, t) = K(V_j, t-1)$$

The expected export value of Malaysian furniture in each countries at the terminal period, $E(V_j, t)$, is the actual export value of initial period ($V_j, t-1$) multiply with the total growth rate (K).

D. Expected Change

Expected Change is the difference between the expected value at terminal period $E(V_j, t)$ and actual value for the market at the end of the initial time period, $V_j, t-1$. Let $E(\Delta, V_j)$ represents the expected change. Thus,

$$E(\Delta, V_j) = E(V_j, t) - V_j, t-1$$

$$= V_j, t-1 (K-1)$$

E. Net Shift

The difference between the actual change and the expected change of a given market is the net shift. This difference is denoted as N_j . Thus,

The sum of the net shift values for all markets should be zero:

Each country is experiencing 0 growth in Malaysia furniture export.

Therefore, there is no relative gain or loss in the value of Malaysia furniture export to these countries in the given time period.

CONCLUSION AND RECOMMENDATION

Based on the results, it showed that the sum of the percentage net shift of Malaysian furniture industry to these 10 countries is equal to 0. Therefore, there is no relative gain or loss in furniture export. Therefore, the producers of furniture in Malaysia, particularly wood based

furniture segment, have to be alert and adapt to changes in preferences of the importers on these aspects: price, product, place(distribution), and promotion, so that it will be favourable to them.

Despite the strong competition from lower priced Chinese and Vietnamese furniture, Malaysian furniture quality is far more superior. The initiative of the government to expand the export market of Malaysian furniture can be seen by penetrating into the Algeria and Greece in the near future. The government also has set an annual growth rate target of 6.5 % for wood based furniture, which estimates to reach up to RM53 billion by year 2020.