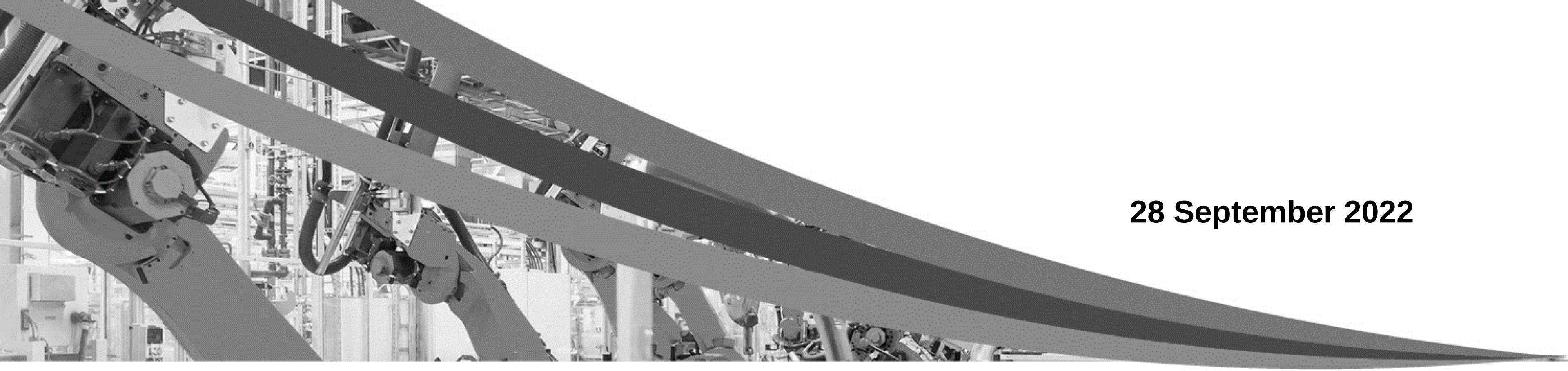
Masterplan for the South African Furniture Industry - Presentation to Portfolio Committee

Presentation to the
Portfolio Committee on Trade, Industry and Competition

28 September 2022



Overview

- In his State of the Nation Address (SONA) in 2019, President Cyril Ramaphosa set out the vision for a “reimagined industrial strategy” for South Africa. The South African Furniture Industry Masterplan is part of the implementation of the strategy.
- Following extensive engagements including during the core pandemic period, Government, industry and labour adopted the overall framework of the Furniture Industry Master Plan in March 2022.
- In September 2022 the Executive Oversight Committee aligned actions of stakeholders to the framework of the Furniture Industry Masterplan.
- Next step is to strengthen the timeframes and specific deliverables, whilst implementing the commitments.
- The Master Plan was developed to address a number of serious challenges faced by the industry and to ensure its long-term sustainability.
- It sets out a vision, key implementation pillars and a forum for regular engagement to focus on implementation.

Industry partnerships

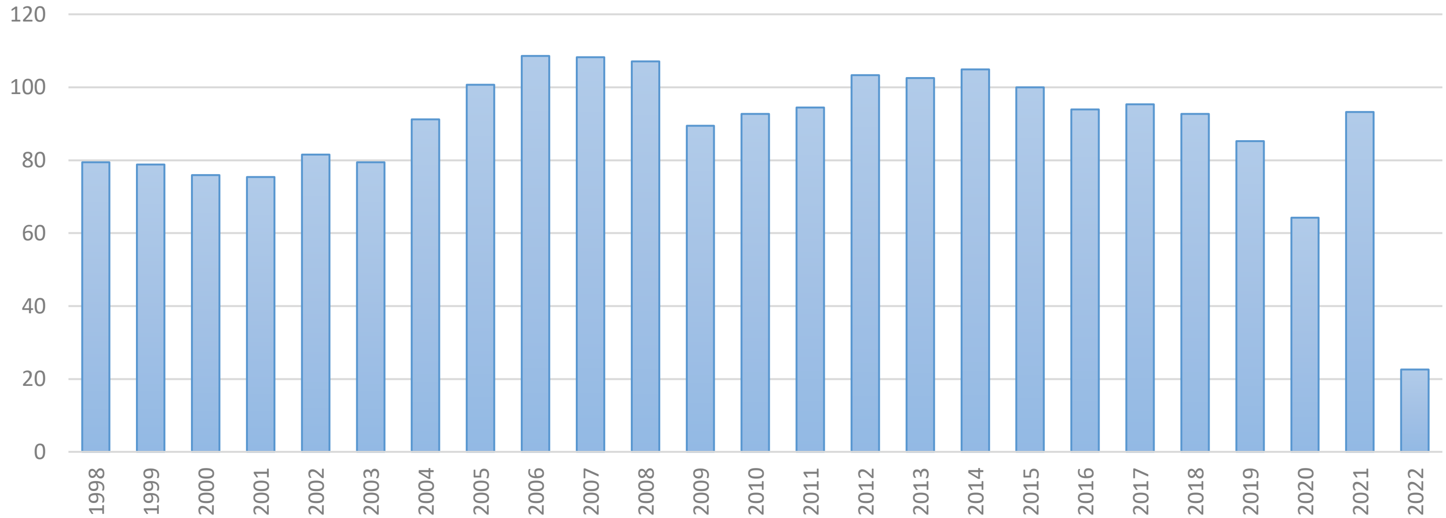
The dtic currently works on a number of industry partnerships:

- Light-industry masterplans
  - Clothing, textiles footwear and leather
  - Furniture
- Medium/heavy industry masterplans
  - Steel and engineering
  - Automobiles and components
- Food-industry masterplans
  - Poultry
  - Sugar
- Services masterplans
  - Global Business Services
- Active industry partnerships
  - Medical and pharmaceuticals
  - Film industry incentive
  - Renewable components

Snapshot of the furniture industry

RSA Furniture Manufacturing output

Furniture Index of Physical Volume Production, (base 2015=100): SIC MPI39100 Actual indices



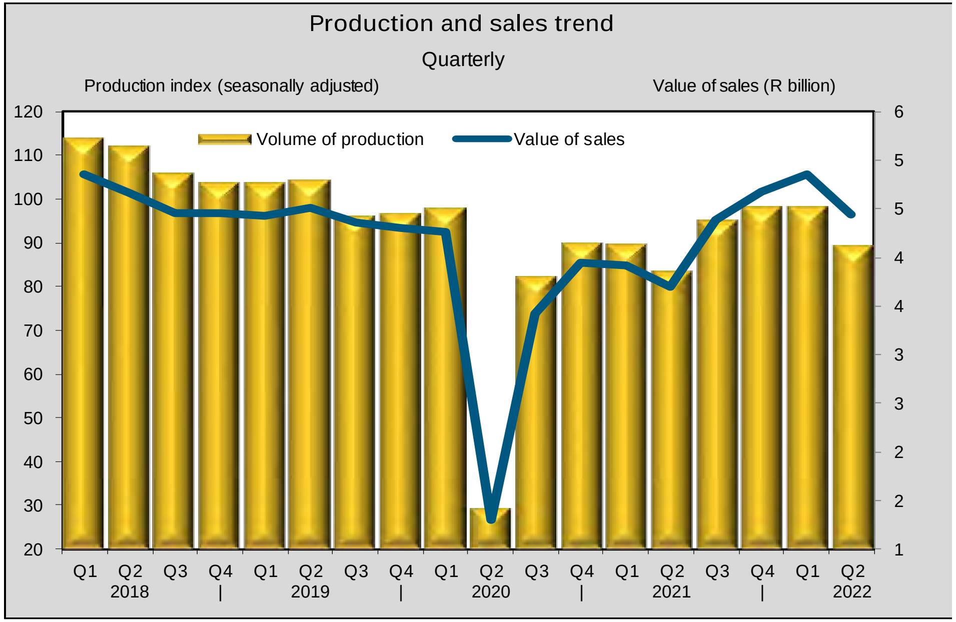
Source: Adapted from StatsSA (2000-2022)

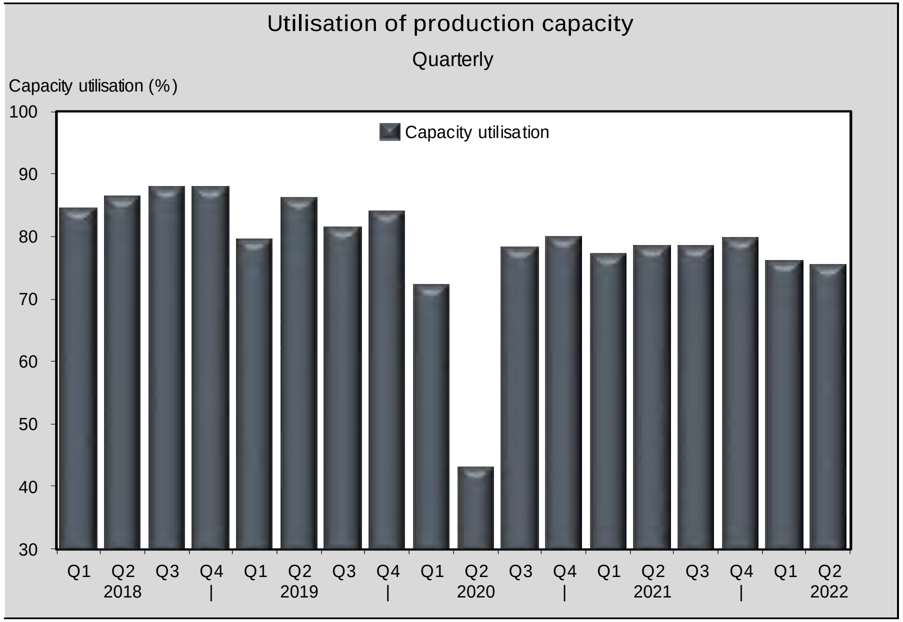
The industry has been experiencing a significant slowdown over the past decade despite its long and rich history. Factors that affected the industry negatively include stagnating demand, increased imports, and the shutdown of large manufacturing plants.

Furniture Trends Statistical Updates up to Q2, 2022

Furniture sector – Production

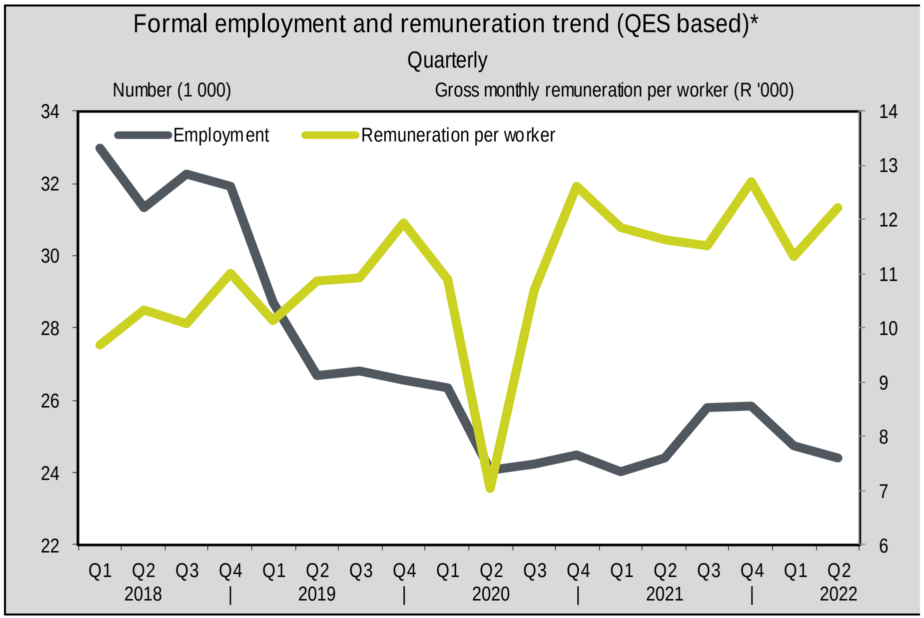
Trend analysis: first half of 2022 y-o-y (except: capacity utilisation, employment and remuneration - Q2 2022 y-o-y)					
8.2%	-3 (percentage points)	-0.1%	5.3%	-3.3%	-1.4%
Production (seas. adj.)	Capacity utilisation	Employment*	Gross monthly remuneration per worker	Exports (ZAR)	Imports (ZAR)

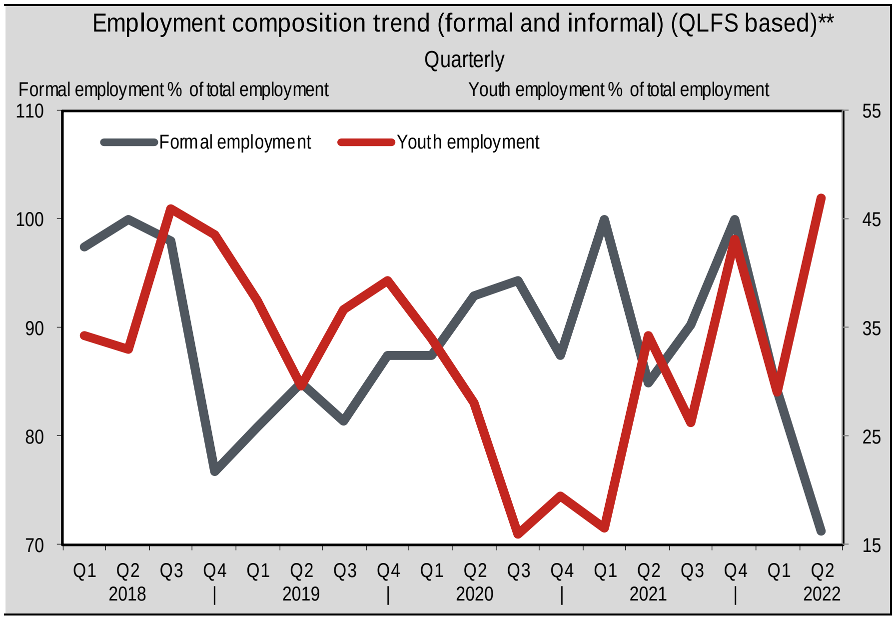




Source: *Industrial Development Corporation (IDC) – Research and Information – (released in August 2022)*

Furniture sector – Employment





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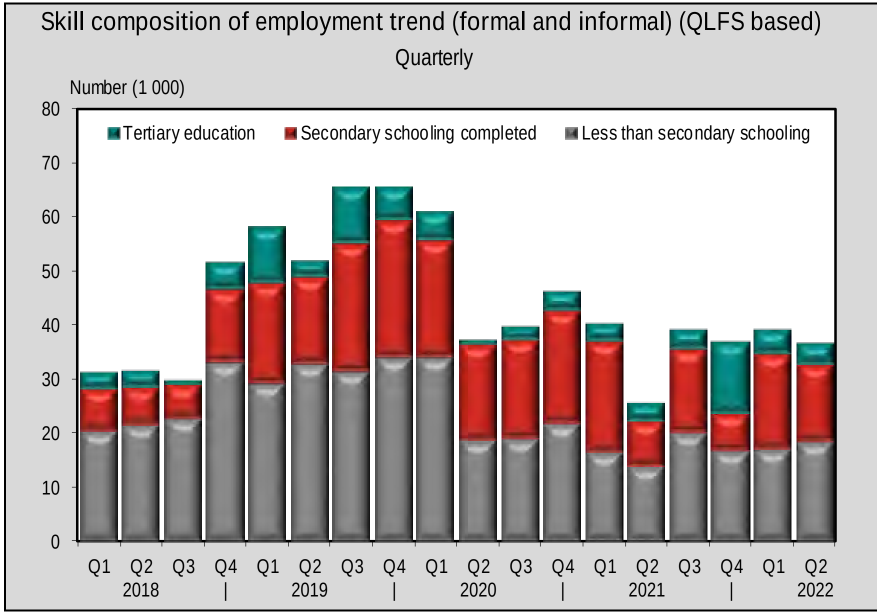
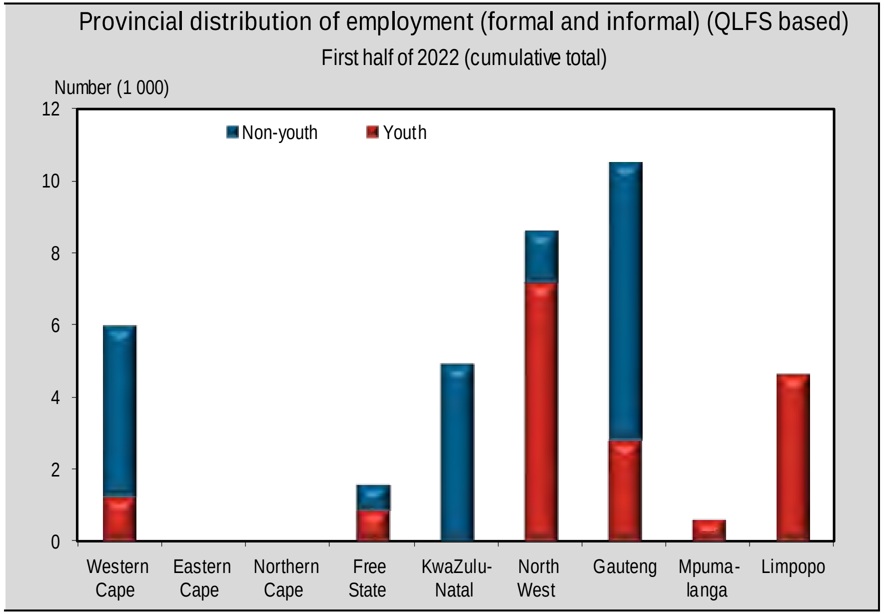
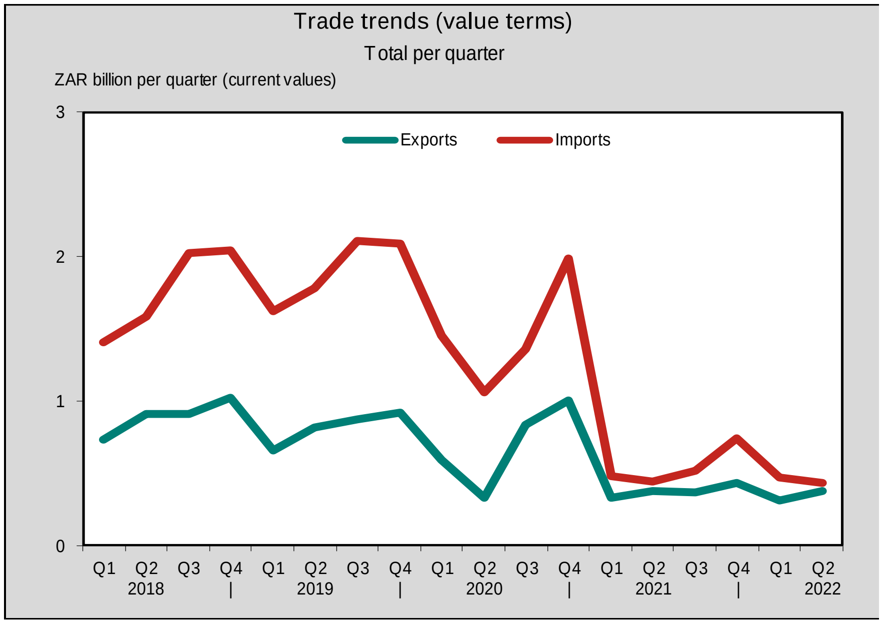
Furniture sector – Employment (cont.)

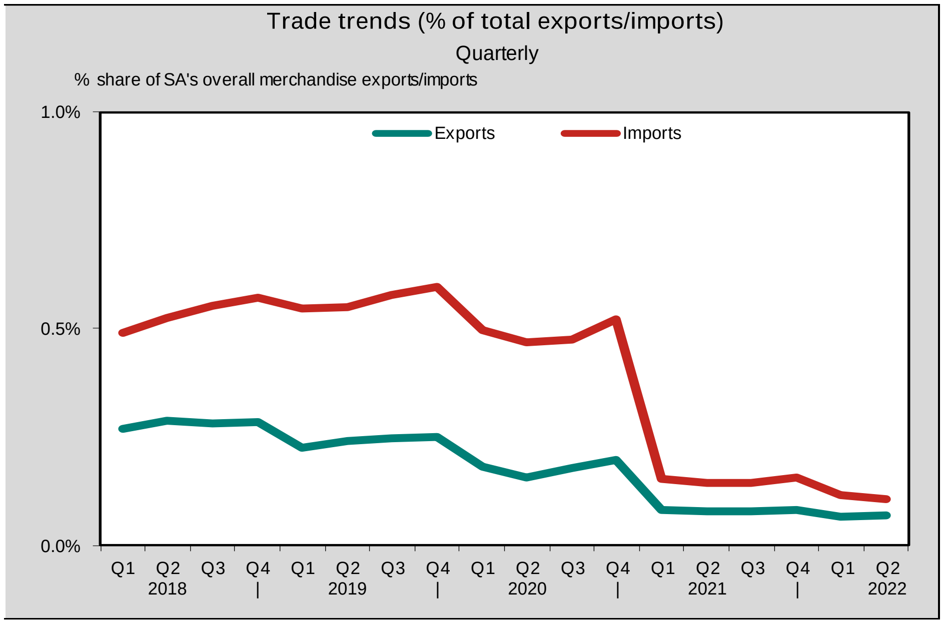




Source: *Industrial Development Corporation (IDC) – Research and Information – (released in August 2022)*

Furniture sector – External trade





Source: *Industrial Development Corporation (IDC) – Research and Information – (released in August 2022)*

Furniture sector – External trade (cont.)

Major traded export products
First half of 2022 (cumulative total)

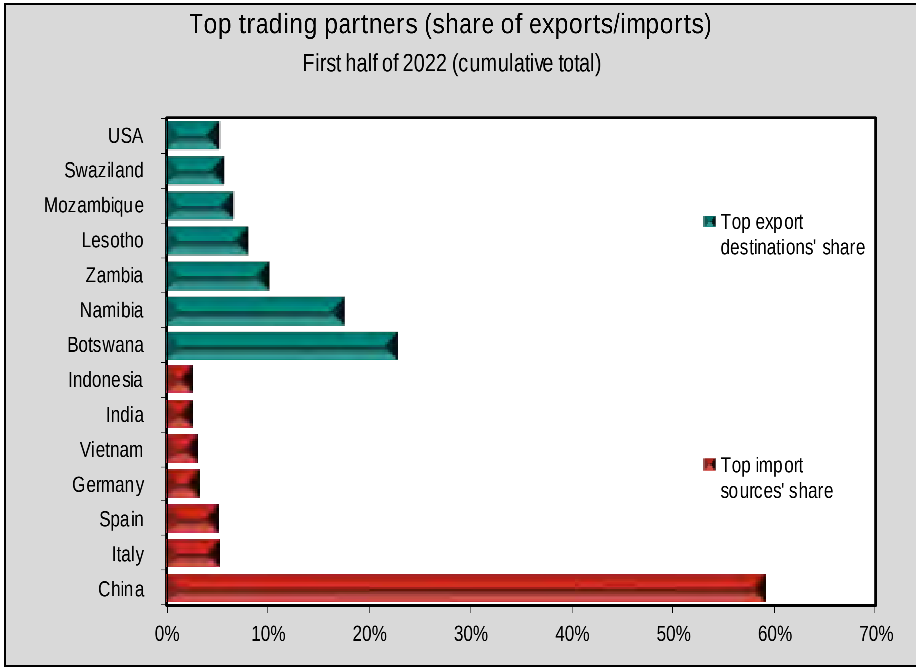
	HS4 code: sector description	ZAR m
Top exports	H9403: Other furniture and parts thereof	330.50
	H9404: Mattress supports, mattresses, bedding	193.56
	H9401: Seats (except dentist, barber, etc chairs)	158.64
	Exports Total (including others)	682.70
Top gainers	H9403: Other furniture and parts thereof	6.00
Top losers	H9401: Seats (except dentist, barber, etc chairs)	- 27.21
	H9404: Mattress supports, mattresses, bedding	- 2.35

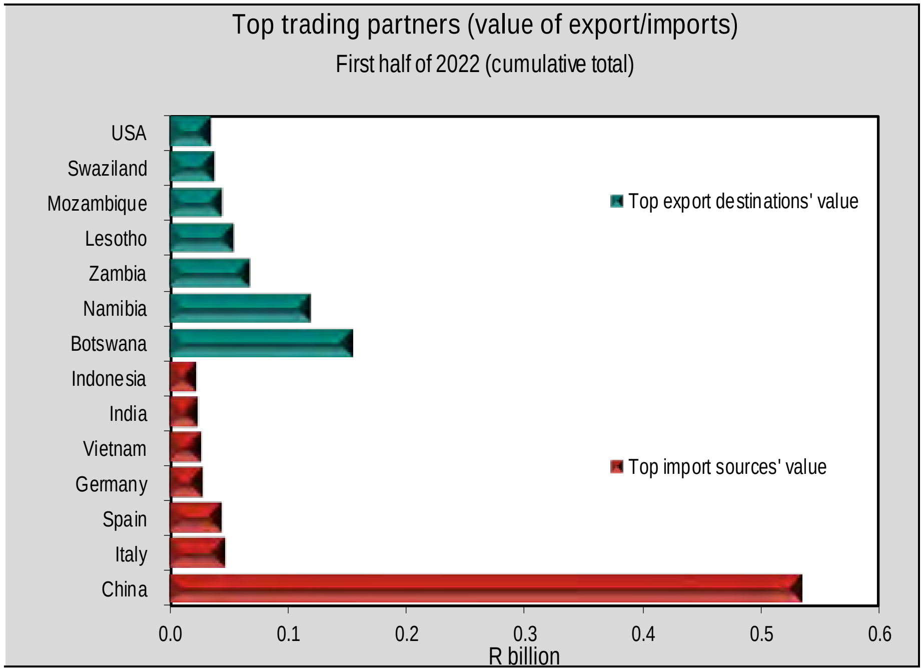
Major traded import products
First half of 2022 (cumulative total)

	HS4 code: sector description	ZAR m
Top imports	H9403: Other furniture and parts thereof	660.39
	H9401: Seats (except dentist, barber, etc chairs)	202.19
	H9404: Mattress supports, mattresses, bedding	38.65
	Imports Total (including others)	901.23
Top gainers	H9403: Other furniture and parts thereof	27.34
	H9404: Mattress supports, mattresses, bedding	2.14
Top losers	H9401: Seats (except dentist, barber, etc chairs)	- 42.44

Source: *Industrial Development Corporation (IDC) – Research and Information – (released in August 2022)*

Furniture sector – External trade (cont.)





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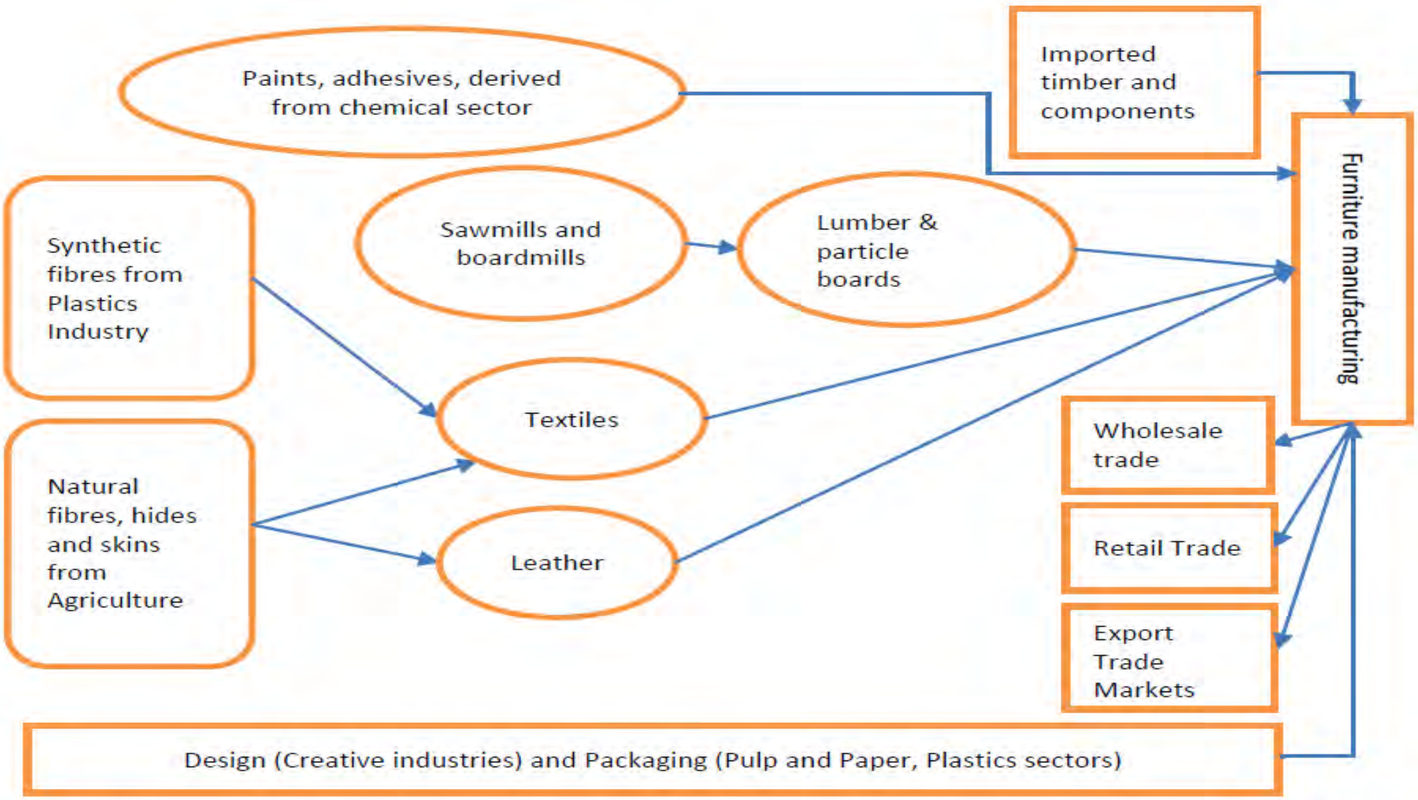
Furniture industry value chain



Value Chain coverage by the Furniture Masterplan

Key links in the chain

1. Raw material suppliers
2. Manufacturers
3. Procurers (retail, corporate users, public sector, exporters)

Key sectors of focus

1. Mattresses and Bedding
2. Lounge and upholstered goods
3. Case Goods (eg cupboards, tables, pedestals, display and storage units)
4. Kitchens and built-in units
5. School and Office furniture

Key constituencies for commitments and implementation

1. Investors & managers
2. Labour
3. Government
4. Support institutions

Opportunities

1. Grow the domestic supply
2. Export to EU/UK/US and RoA
3. Beneficiation (incl forestry; steel; fabric; glass)
4. Growth of SMMEs and district development

Composition of the sector

The sector has a significant SMME and informal sector footprint, with many black industrialists active in manufacturing and limited presence in raw materials and retail.

These manufacturers include:

- Established Firms that are transforming
- Black-owned firms that operate in the market
- Small and micro enterprises providing significant aggregate output in the sector

Changes in the sector

- Growth of informal manufacturing
- Entry of foreign-owned informal retailing
- On-line growth
- Work-from-home opportunities
- Flat-pack production, assemble at home

Funders of credit sales (banks, credit card, credit facilities) play a key role in supporting the demand side of the market

SMME development and opportunities

- Over 90% of the industry are SMMEs employing less than 10 people. The Masterplan seeks to improve the competitiveness of firms through focused measures. Areas to follow up are:
  - Improved access to raw materials to become competitive.
  - Upgrading of skills and equipment
  - Access to markets through localisation and export promotion
- Particular focus would be to grow and identify black industrialists in the major value chains and address links to markets. These include opportunities in the built-in cabinet and kitchen sector through the increase residential constructional projects in the provinces.
- Further beneficiation of wood is possible, enabling more small-scale plantations
- Urbanisation and the growth of the middle class across Africa opens up potential for furniture exports.

Suppliers and customers - examples

		GAUTENG	MPUMALANGA	E CAPE
Board Products	PG Bison	X	X	X
	Sonae Arauco		X	
	FX Group	X	X	
Leather	Hannitan	X		
Fabric manufacture	Cedarbrook	X		
Foam	Unifoam	X		
	Strand foam	X		
	Vita Foarm	X		
Springs	Option Springs	X		
Plywood	York Timbers		X	
Retailers	JD Group	All Provinces		
	Lewis Group	All Provinces		
	Fairprice	Gauteng KZN and Limpopo		
	Tapestry Group/Coricraft	All Provinces		
	Shoprite OK	All Provinces		
	The Foschini Group - @Home	All Provinces		

Some key opportunities

- Industry has experienced disruption and decline but has sufficient skills, and experience, to bounce back
- July 2019 unrest - disruption to the furniture value chain created a short-term imbalance in supply and demand
- Opportunity to compete with imports especially lounge and case goods – current global supply chain disruptions and changes create opportunity.
- Strong demand locally and good potential for export especially through the AfCFTA framework (especially flatpacks).
- Retailers supportive of the growth of local procurement and to work directly with local manufacturers. The key is to expand and nurture existing medium-sized companies to help them grow and supply retailers more successfully.
- All the above mentioned key opportunities will require an innovative partnership between Government, Retailers, Manufacturers, Trade Unions and development finance institutions.

African trade

African trade: the AfCFTA provisions on furniture rules of origin have been agreed.

The trade agreement with the EU has preferential access for goods made in SA.

Access to the US market is possible for certain products under the African Growth and Opportunities Act

Africa's trade with the world

Top 5 African furniture exporters:

1. Morocco US$ 504m
2. Tunisia US$ 207m
3. South Africa US$ 163m
4. Egypt US$ 88m
5. Kenya US$. 7m

In 2021, **African countries** exported approximately **US$ 947m** (**or R14bn**) of furniture from **Non-African countries**

Top 5 African furniture importers:

1. South Africa US$1.5bn
2. Egypt US$ 943m
3. Nigeria US$ 765m
4. Morocco US$ 665m
5. Ghana US$ 404m

In 2021, **African countries** imported approximately **US$ 8.3bn** **(or R122.5bn)** of furniture from **Non-African** countries

Source: data of trading partners

World trade

Countries SA exports furniture to:

1.	United Kingdom	US$25m
2.	Zambia	US$24m
3.	Eswatini	US$21m
4.	Mozambique	US$21m
5.	Zimbabwe	US$16m

Countries SA imports furniture from:

1.	China	US$1,2bn
2.	Italy	US$ 29m
3.	Germany	US$ 29m
4.	Poland	US$. 28m
5.	Thailand	US$. 27m

Trade data 2021

Total value of furniture trade: US$1,7bn (R 24.9bn) in 2021 (South Africa)

Imports of furniture: US$1,5bn (R22.5bn) in 2021 imported values (South Africa)

Exports of furniture: US$163m (R2.4bn) in 2021 exported values (South Africa)

Source: data of trading partners

Furniture Masterplan Vision & Mission

Vision

- **A fast growing, profitable, inclusive, and sustainable South African Furniture industry by 2030**

Strategic Objectives

- Improve the competitiveness of the industry and the retention of existing capacity in the immediate term; and
- The sustainable growth of the industry with increased local supply.

Implementation pillars

1. Local supply capacity and demand
2. Competitiveness: Grow SMMEs into larger and more stable companies
3. Export Promotion
4. Improve raw materials
5. Improve the skill supply to the Furniture industry

Implementation approach

- **Phased planning and implementation:** The Plan will be expanded and refined based on implementation progress and new stakeholders commitments. A review will take place every two years.
- **Flexibility:** The intent is for the Master Plan to be flexible and enable agility and responsiveness.
- **Collaboration & joint responsibility:** The master plan is a social agreement” derived from dialogue among key stakeholders (mainly Government, Manufacturers, Labour, Raw Material Suppliers and Retailers), ensuring that the ownership of plan is shared and rooted in a wide base of support. All stakeholders must play their part for the Masterplan to be successful.
- **Action:** With specific and concrete commitments made by all the stakeholders, there is a strong bias for action, practicality, and pragmatism.
- **Executive Oversight:** leaders from the stakeholders will meet periodically to review progress
- **Taskteams:** work will be done at technical taskteam level
- **Coordination:** an integrated dtic-team, drawn from different Branches and entities will monitor and facilitate implementation

Strategic pillars

1 2 3 4 5

Pillar 1
Localisation

Support demand for locally manufactured furniture and for greater supply chain consistency

Task Team 1

Import Replacement
State Localisation
Localisation
Value Chain Data Management

Pillar 2
Competitiveness

Grow small and medium-sized manufacturers into larger and more stable companies through an innovative partnership between Retailers, Manufacturers and Government

Task Team 2

Furniture Challenge Fund
SAFI Trust Fund
Transformation across Value Chains

Pillar 3

Export Promotion

Task Team 3

Export Promotion

Pillar 4

Address raw material shortages and invest

Task Team 4

Raw Material Shortages

Pillar 5

Improve the skill supply to the Furniture industry

Task Team 5

Skills Development

Strategic pillars

1

1

1

1

Pillar 1

Task Team Import Replacement:

Working with Retailers and major importers to reduce the imports and also supporting the local suppliers to increase volumes and turn around times.

SAFI

Pillar 1

Task Team State Localisation

State procurement of furniture
Tender Monitoring
Procurement Workshops
Finalise Furniture Specification Guidelines

the dtic

Pillar 1

Task Team Localisation

Large Corporates and Institutional buyers to buy local furniture e.g. Hospitality Industry, Private Schools, Private hospitals.
Consumer Campaigns – Labelling & consumer awareness.
Online Stores and other market access platforms

Proudly SA

Pillar

Task Team Value Chain Data Management

Value Chain Analysis aimed at establishing baselines and setting measureable targets for the implementing and monitoring of initiatives as identified in the FIMP for each sub-sector within the furniture industry AND along the various chains.

IDC

Strategic pillars

2

Pillar 2
Task Team 2.1 Furniture Challenge Fund:

Design a funding plan for the SA Furniture Industry Challenge Fund which is estimated at R200m .. Non-financial assistance to manufactures – market access, competitiveness, cleaner production systems; sector specific campaigns.

IDC

2

Pillar 2
Task Team 2.2 Furniture Manufacturing Hubs/SEZ

A proposal for SMME's to be included in SEZ's and Industrial parks

SAFI

2

Pillar 2
Task Team 2.3 Transformation across the Value Chain:

All participants to consider and report on transformation efforts including improved Black ownership. Formalise a Furniture Sector Transformation Strategy

SAFI

Strategic pillars

3

4

5

Pillar 3
Task Team 3.2 Export Promotion:

Promoting Exports especially through AfCFTA.

Formalise an evidence based Furniture Export Strategy.

SAFI

Pillar 4
Task Team 4
Address Raw material shortage:

Develop Value add products to support the localization of medium to high end products.

SAFI

Pillar 5
Task Team 5
Skills Development:

Finalise a Furniture Skills Strategy and implementation plan.

FP&M SETA

Actions and achievements to date

Reducing input costs:

Following an industry application, Government approved a rebate on warp knit fabrics used for upholstered furniture

Improve raw material supply:

PG Bison Announced R2.5 billion investment to increase the Board Manufacturing Capacity and opened additional production to 1000m3 per day at its Emkondo Plant at Piet Retief in March 2022. This follows a partnership with government

FX Group announced its support for the expansion of board manufacturing

Promoting local demand and consumption:

Proudly SA Launched a furniture portal to assist with online platform and visibility for local manufacturers

Promoting transformation:

Bravo Group committed to 51% Black Ownership and set up a Furniture Design Academy

Curb Illegal Imports :

Following a request from industry, SARS introduced amended tariff headings for furniture HS94.

Funding for Master Plan:

- to promote competitiveness and structural transformation, the IDC and the dtic committed R400m towards the Furniture Challenge Fund. Private sector matching funds is being finalised
- resources for implementation: SAFI committed R435k to support the implementation plan
- Skills development: the FP&M Seta committed R1.4m skills development for 2022/23