MINISTRY OF FOREIGN AFFAIRS OF DENMARK
THE TRADE COUNCIL

FURNITURE AND DESIGN SECTOR
BULGARIA

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Sector: Furniture and Design

Prepared by the Danish embassy in Sofia

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Abstract:

The market for furniture and design in Bulgaria is growing. Furniture and design retailers show dynamic growth in current value sales within non-grocery retailers - a growth that is driven by rising disposable incomes, greater variety in terms of product assortments and the availability of leasing schemes, which made products more affordable to many consumers. In addition, home improvement and renovation activities have become increasingly popular among Bulgarian consumers. These factors contributed to the dynamic performance of quality furniture and design retailers overall.

The fact that Danish producers are known and respected for their long design traditions and for using quality materials support the favorable opportunities for Danish brands in the Bulgarian market.

Introduction

The production of furniture and timber articles has long traditions in Bulgaria. The total forestry area of Bulgaria accounts to approximately 3 million ha, or 30% of the state's territory. While a sizeable share of the woodland is qualified as a forest reserve, Bulgaria still enjoys significant and sustainable timber resources and a potential for a growing timber processing sector. The country's present resources are estimated to be worth 67 billion leva.

Currently, there are 193 Bulgarian companies which are officially authorized to operate to distribute timber. They are not price competitive on an international level, partly because of large share of the grey sector. As for furnishing, the sector occupies approximately 2,300 Bulgarian companies, most of which are very small businesses. Those companies, along with the ones from the wood industry, have access to significant financial aid from European funds under the Competitiveness and Rural Development programs.

As a member of the EU, Bulgaria has free access to the European market and exports products worth 397 million leva or more than 60% of Bulgarian furniture output. Imports almost balance these levels and are assessed to reach 322 million leva.

Disregarding the current economic recession, the sector shows clear signs of an anticipated growth in internal demand, as well. Demand is diversifying and as a result boutique furniture has seen increased interest. School and public institutions infrastructure in the country is old and requires renovation. Additionally, a vast number of construction projects (hotels, residential and business buildings, trading centres) are yet to be completed and to create additional demand. An important event for the development of the sector is IKEA's entering of the market in 2011. The prospects for growth of the Wood & Furniture sector are assessed as very attractive.

Market overview

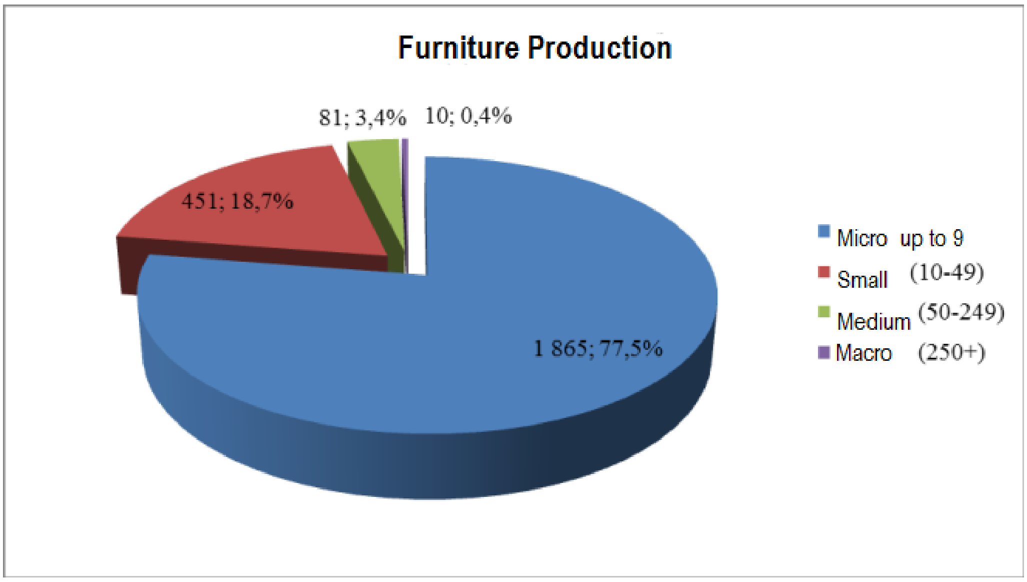
There is a good resource base in Bulgaria- the total volume of resources is around 600 million m^3 timber, annually 5 million m^3 timber is extracted though the capacity may be 12-14 million m^3. The ownership of forests in Bulgaria is divided between the state (79.3%), physical persons (9.5%), municipalities (9.3%), religious organizations (0.6%), juridical persons (0.2%), and others (1.1%). 95% of the companies in the wood processing and furnishing sector are micro and small companies. The sector represents 3,8% of the GDP value added which is 10% of the volume of the manufacturing sector.

A new Forestry act was adopted in March 2011 which brought some changes to the sector. These changes lead to decentralization of the system. The control and management of the forests are divided for the first time. Investments in Forests Fund is established which will solve the problem with the infrastructure in the forests. Equality is established between all the owners of forests. Incentives are introduced for certification of forests which will help the application of the international standard for best management.

Production

The furniture sector comprises around 3,2% of industrial production and creates around 3.7% of the value added in the industry. The sector employs around 32.6 thousand people (5% of the employed in the processing industry). It represents 0.18% of the total export of Bulgaria which accounts for 1,7 billion euro and 0.24% of the total import for 2011.

The production of solid wood furniture, mainly chairs and tables, upholstery furniture, furniture for schools and kindergartens, mattresses and bed frames are very well-developed branch in the sector. These are also the types of furniture that are mainly exported. The production of kitchen furniture is also very well developed. The main production for the local market is furniture made of wooden panels, mostly laminated due to easier production process.



In Bulgaria mostly softwood is produced, while the demand worldwide is mainly for products of broad leaved trees – beech and oak, in particular. Woodworking in Bulgaria is related mostly to production of chipboard products, being to the least extent affected by the crisis. The situation in the industry is further complicated by the decrease in construction, because approximately 70 per cent of lumber is intended for this industry. The productivity per worker in the furniture industry in Bulgaria is approximately EUR 18000 per annum, while according to Eurostat, in Germany it approximates EUR 160000 per worker.

The minimal price of lumber, determined by the Council of Ministers after a proposal of the Executive Forest Agency, does not correspond to the market situation: 1 cubic meter of softwood costs BGN 100, provided that 1 cubic meter of planks, produced by the material, costs BGN 70-75. According to the Furniture Chamber, fire-wood price is high, as an export fee of BGN 40 is paid per cubic meter, and after adding another BGN 15-20 for lumbering, the result is an average price of BGN 60. For comparison – the same quantities cost approximately EUR 20 in the neighbouring countries.

Sales

The downturn in construction industry and the increased sales of mortgaged residential real estate affected the domestic demand of furniture. However, the sector has started recovering.

Clients have become exigent to furniture vision, materials and design. The average price class dominates, but there is a trend of increasing the number of luxury segment products. Furniture up to BGN 100 is considered of low price class, while the average is up to BGN 700-800, high class exceeds this price, while luxury class encompasses furniture at price BGN 5-6000. The demand for metal furniture has doubled. Currently clients demand more solid and wear-resistant garden furniture. Some even prefer not to make thorough refurbishing, but to buy what is most necessary.

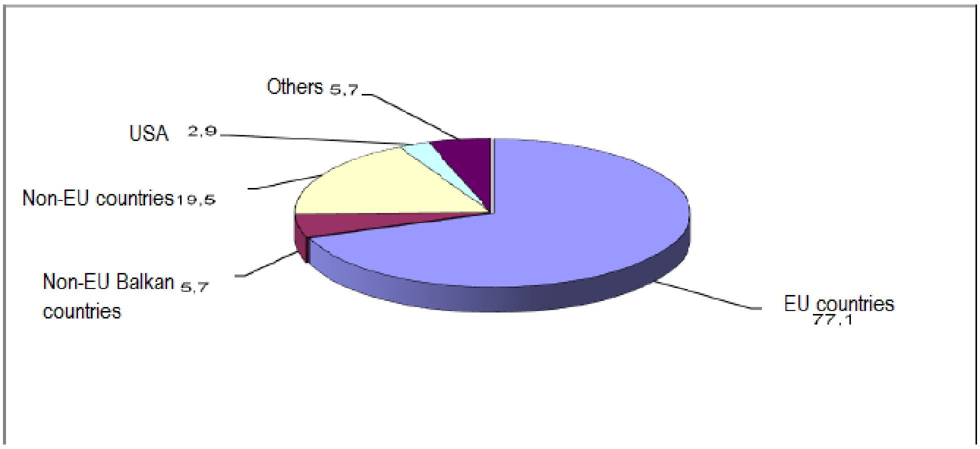
Export

Dynamics of Furniture Export for 2001-2011 for the World (%, 2001=100)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World Total	**100**	**102,5**	**102,6**	**109,4**	**115,6**	**125,7**	**135,9**	**134,4**	**114,6**	**143,7**	**155,2**
China	100	124,3	145,8	196,1	264,2	344,0	440,6	523,5	488,3	656,3	712,7
Italy	100	98,4	92,9	92,2	84,9	82,4	81,3	74,1	60,2	60,6	62,6
Germany	100	101,8	104,1	107,0	109,9	123,2	133,4	135,6	108,6	123,0	145,6
Mexico	100	98,5	92,6	97,4	105,9	106,5	95,8	76,5	59,7	91,1	97,9
Poland	100	112,5	133,5	155,8	172,6	193,5	208,6	206,5	187,5	215,2	240,3
Bulgaria	**100**	**122,6**	**136,5**	**180,9**	**201,2**	**216,7**	**258,2**	**267,3**	**246,4**	**326,2**	**394,8**
World Furniture Export Ranking: Bulgaria's Position											
	43	**41**	**42**	**41**	**41**	**41**	**41**	**40**	**38**	**38**	**38**

Approximately 40% of Bulgarian production is export-oriented. Recently the export to Turkey has increased and from there the furniture is resent to the Middle East- Iran, Iraq, Syria, Qatar, the United Arab Emirates, etc. Most of the Bulgarian exporters produce furniture for hotels and offices in Germany, Finland, Great Britain and others. The growth of export of furniture for 2012 is 7% (year-to-year basis) and is mainly due to the increase of demand of EU countries as well as the growth in orders made by the large wood retailers that offer goods to the international markets.

Export Markets (%)



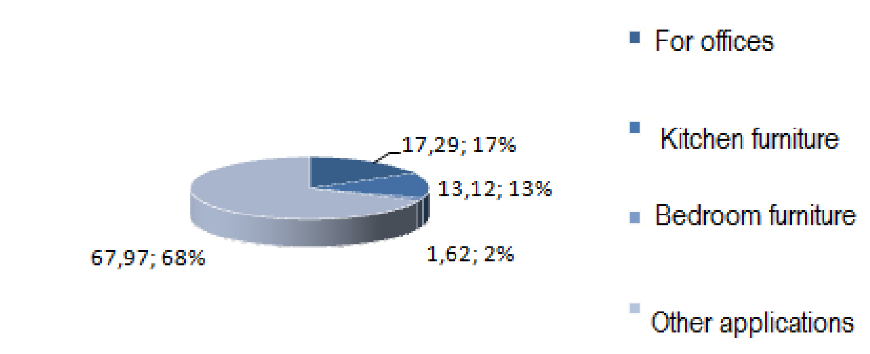
In the wood processing sector the export consists mainly of elements for pallets, boards and to a smaller extent – dimensional lumber.

The main importers in Bulgaria are Poland and China. Recently furniture is imported also from Vietnam. The imported tables, chairs, modular cabinets and bedrooms are gaining momentum in customer's taste. The main reason for this is that the Polish and Chinese furniture is offered on a cheaper price than the Bulgarian one. In Poland furniture production processes are mechanized, within minimal participation of human labour. Apart from that Poland produces its own furniture chipboards, while Bulgarian factories import those from Germany and Austria. In China labour is cheap and more importantly qualified, because there is very good secondary education for furniture production specialists. The industry has yet possibilities to develop its sales in Serbia, where the revival of furniture factories is delayed, and in Russia, where 50% of furniture is imported.

Bulgarian Demand for Design and Furniture

The total sector sales in Bulgaria are relatively low compared to Denmark and the rest of Western Europe.

Production of Furniture (types of application)



The main category for individual consumption in Bulgaria is still food and non-alcoholic beverages. With a 3.4 % share of the total individual consumption, furnishings and equipment is below the EU average, but the share has been rising over the years. That being said it is important to take into account the current developments in the market. Total sales are decreasing and currently sales per year in Bulgaria amount to roughly EUR 671 million.

Danish Export of Furniture and Design to Bulgaria

The demand for furniture and quality design in Bulgaria is high, and the Danish furniture export to Bulgaria experiences increasing percentages of the total Bulgarian furniture import.

According to the Danish Chamber of Commerce (October 2011) the increase in the private consumption will mostly increase the market potential in manufactured goods which have a large share of Danish exports to Bulgaria. This includes furniture, clothing and especially footwear. Data of the Trade council in the Foreign Ministry of Denmark shows that in 2011 Denmark exported furniture for 10.4 million kr. (EUR 78 million) to Bulgaria, in 2010 the figure was 8.2 million kr. (EUR 61.5 million) and in 2011- 8.1 million kr. (EUR 60.75 million).

Market trends

The overall trend for the sector is consolidation and specialization. In Troyan, Lovech and Teteven there are more than furniture 300 companies, Pazardjik and Velingrad account for approximately 200 companies, Rousse shelters around 150, and Bansko/Razlog around 100 companies.

A recent survey conducted by Alpha Research for the Bulgarian Chamber of Commerce concluded that price had been a decisive factor driving furniture consumer preferences in Bulgaria. Logically the competition on the Bulgarian market for furniture and design was mainly focusing on price rather than quality of the products. Nevertheless, the survey identified a new trend; the group of consumers buying new and expensive furniture is growing, the group predominantly consists of young professionals with a high social and economic status who are residents of Sofia or other larger cities.

Furthermore, it seems that the rising income levels are a progressing pattern changing the habits of consumption, which means that the Bulgarian consumers have begun to prioritize high-quality products. The economic growth and stability has made it possible for banks and stores to offer better leasing schemes, which naturally combined with the overall growing income levels makes business more profitable.

Some Danish companies have already established themselves in Bulgaria. BoConcept and Jysk are currently operating in the country. It is expected to be strong competition to local companies which sell predominately on the local market, especially for those situated in the surroundings of Sofia.

Approximately 6 540 839 foreign tourists visited Bulgaria in 2012 which is an increase by 3.4% in comparison to 2011, including 65 478 Danish tourists (a decrease of 13%). The booming tourist industry affects the demand for quality furniture and design, the building and furnishing of many new hotels means an increase in the demand for high quality products. Hence the well-known Danish high-quality producers have the opportunity to obtain profitable partnerships.

SWOT Analysis

Strengths	Weaknesses
• Solid traditions in production and export of furniture • Qualified workforce • Good quality and quantity of local timber • Competitive labour costs • Relatively low cost for raw material output • High standard of design, quality, functionality and service • Good technological base of the companies in the industry • Usage of new technologies and materials • Export-oriented production • Formation of cluster associations	• Lack of long-term strategies • Strong influence of small number of clients on the market (push on price levels) • Lack of own distribution channels • Small number of export specialists • Poor organizational culture • Not sufficient information about foreign markets' trends and needs
Opportunities	**Threats**
• Project financing by EU funds • Market stimuli for forming export cluster consortia • Image enhancement of Bulgaria • Increased interest of investors in Eastern European Regions • Increased credit rating of the country • Investments in livelong education	• Deepening of the economic crisis • Decrease of the investment activity • Impediments in credit takings • Too big rivalry with Asia • Decrease of purchase power on the domestic market • Decrease of Bulgarian trade offices on the foreign market

Conclusions and recommendations

Bulgarian quality furniture and design retailers showed dynamic growth in recent years, export has tripled in the last decade. Rising disposable incomes, better product assortments and not least more favourable leasing schemes propelled growth.

More and more foreign quality design and furniture brands are entering Bulgaria. The market is mainly concentrated around the major markets in Sofia and the regional capitals, the middle class is growing and demand predominantly stems from young people with a high social and economic status. The booming tourist industry affects demands for quality design and furniture and provides the well-known Danish producers with the opportunity to make profitable partnerships.

The competitiveness of the Bulgarian firms is the possibility to sell their production to the smaller retailers, which are looking for uniqueness and design instead of China's mass production of furniture. The Bulgarian companies can offer more flexibility which corresponds with the specific interest of the client.

The Bulgarian demand for furniture and design is growing, and the fact that Danish producers are known and respected for their long-term design traditions and the usage of quality material supports the favourable opportunities for Danish brands in the Bulgarian market.

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