# Mississippi Furniture

# Export Study


By

R. D. Seale
A. W. Garrard
W. Motsenbocker

# Introduction

This study was developed and conducted by researchers at the Forest Products Laboratory at Mississippi State University in conjunction with the Mississippi State University Extension Service, the U.S. Department of Commerce, and the Mississippi Department of Economic and Community Development. Designed to evaluate the international competitiveness of Mississippi's furniture industry, the goals were to measure current furniture and component parts export activity, to identify opportunities for improving export of these products, and to develop appropriate export strategies that will benefit Mississippi manufacturers, and to identify any informational and/or infrastructure requirements that governmental agencies could address.

Specifically, the study was designed to determine which Mississippi furniture and component manufacturers are currently exporting products and to identify what specific products they are exporting. Another goal was to identify individual countries to which these products are being exported and determine how long they have been purchasing these export products from Mississippi furniture manufacturers. The intent of the study was to identify problems encountered by Mississippi exporters and to identify the specific concerns of management about the export markets. For companies not currently exporting, the goal was to determine if they expect to export in the near future, and to identify some of their perceived barriers to exporting furniture and component parts. These are some of the questions that are being answered from information received from a survey of Mississippi furniture and component manufacturers in December, 1999.

A list of current furniture and component manufacturers in Mississippi was obtained and a brief, easy-to-answer survey was sent to a contact person, usually a vice president or other high level executive at each plant, in early December, 1999. The survey contained a cover letter that explained the purpose of the survey and a self-addressed postage paid envelope for returning the questionnaire. Each questionnaire was numbered using an export code number so the responding company could be identified for response purposes. As a result, in January, 2000 a second survey was mailed to non-respondents. Manufacturers of upholstered furniture in Mississippi may be single plant or multi-plant operations. An objective was to obtain a completed questionnaire from each plant of multi-plant companies.

Each question on the survey was grouped into one of several broad categories. The categories were products manufactured, distribution method, geographic product distribution, vertical integration, sales channels, and export activities. All responses were entered into a database and summarized.

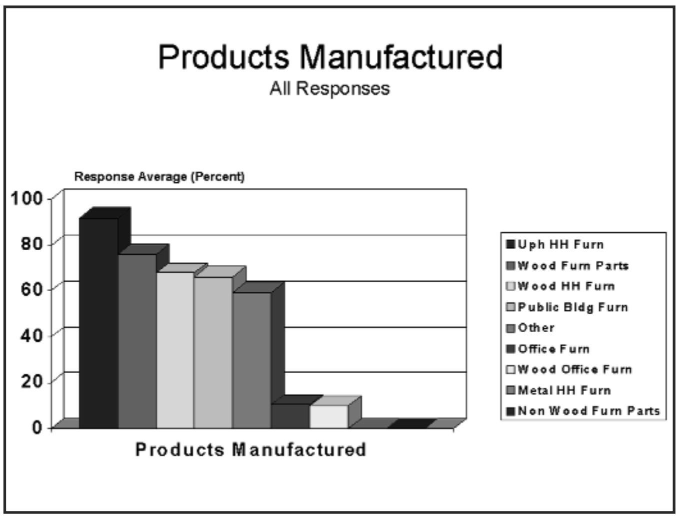
There are two primary statistics reported in this study, response average and product value. Response average is a simple average response for companies that responded to individual questions. Product value is an estimate of the industry product value impact by category. Product values were obtained in the following manner. Total industry sales (1.2 billion dollars) were divided by the total number of furniture and fixtures production employees (24,900) as defined by the Mississippi Employment Security Commission, to derive a sales/production employee ratio. The sales/employee ratio was multiplied by the number of production employees for each individual plant and weighted by a percent of sales as responded in the survey to determine a company sales value. The sum of the company sales values was equal to the survey product value. By dividing total industry sales by the survey product value, an adjustment to market factor was derived. Survey product values were then adjusted to market and the resulting estimates are reported as Mississippi industry product values.

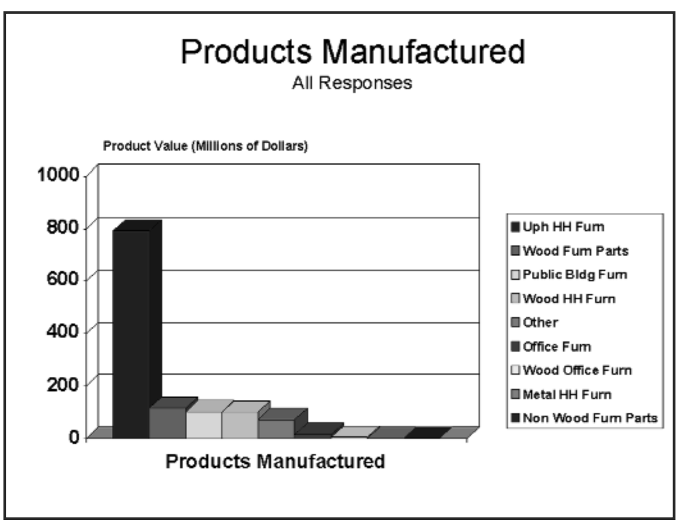
# Characteristics of Respondent Companies

The respondent companies in this survey vary greatly in terms of size, including number of facilities, sales, and number of employees. Because of this variance, the companies were divided into groups for summary purposes. Respondents to the export survey were grouped into three categories based on the number of production employees in each company. Group 1 consisted of companies with 1-50 production employees, Group 2 consisted of companies with 51-199 production employees, and Group 3 consisted of companies with more than 199 production employees. Almost 45 percent of respondent companies were in Group 1. Approximately 26 percent of respondent companies were in Group 2 and almost 29 percent were in Group 3.

On the first page of the survey questionnaire respondents were asked to categorize their plant according to products manufactured, primary distribution method, geographic product distribution area, degree of vertical integration employed, and types of sales channels utilized. Respondents were asked to provide this information as a percent of sales for each category. For example, respondents were asked to state the percent of the company's sales for wood household furniture, upholstered household furniture, etc.

# *Products Manufactured*

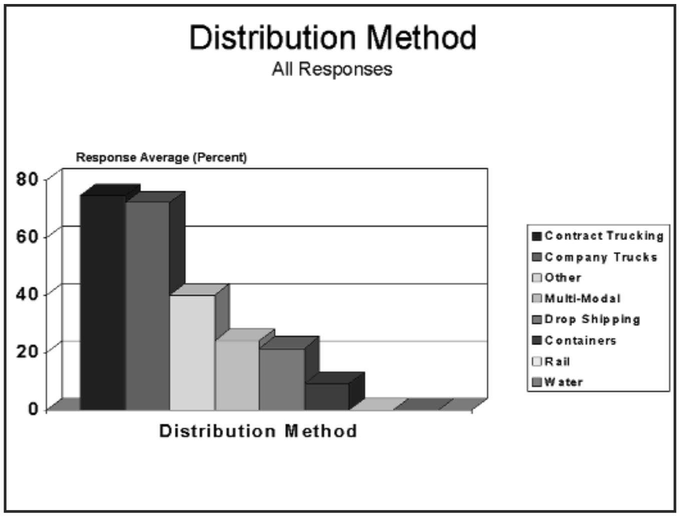


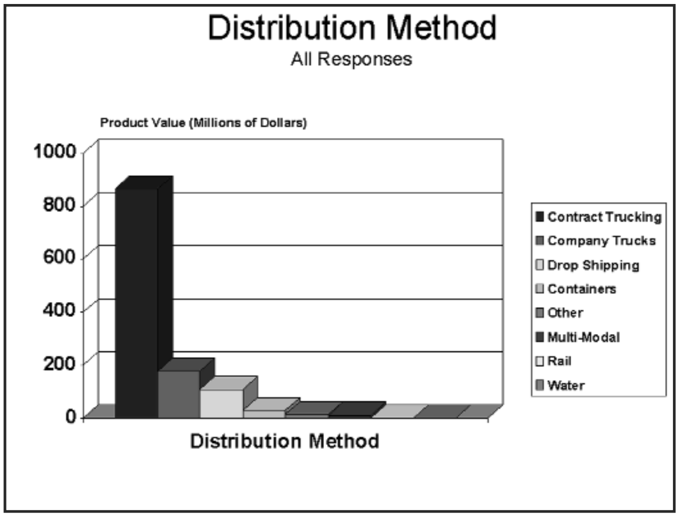




Categories for products manufactured included wood household furniture, upholstered household furniture, metal household furniture, wood office furniture, office furniture except wood, public building related furniture, wood furniture parts, and non-wood furniture parts. The upholstered household furniture category had a response average of 92.08 percent. The product value for upholstered household furniture correlates with this high percentage and totals 790.5 million dollars. The survey response average for wood furniture parts was 76.25 percent, followed by wood household furniture with a 68.00 percent response average, and public building related furniture with a 66.33 percent response average. The next highest response average was the "other" category with a 59.5 percent response average. This category included such products as hardwood veneer, science lab casework, and pool tables, and moldings. Of the smaller companies responding to the survey (Group 1) most produced wood furniture parts with a product value of $38,795,563 and of the larger companies responding to the survey (Group 3) most produced upholstered household furniture and public building related furniture. The product value for upholstered household furniture for Group 3 was $684,838,537 or a large part of the product value for all respondents.

# Distribution Method

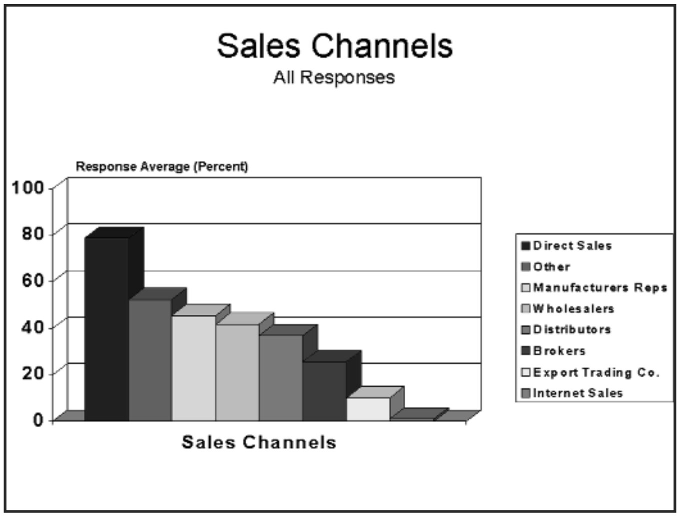
Contract trucking was the most utilized distribution method for the respondents of this survey with a 74.69 percent response average. Product value for contract trucking is also very high at $867,014,552 dollars. Company trucks had a response average almost as high as contract trucking with a 72.24 percent response average but the product value for company trucks is considerably less at $175,564,276. This means that the respondent companies utilizing contract trucking had many more production employees than the respondent companies using company trucks for their primary distribution method. The "other" category for distribution followed with 40.00 percent response average - specifically, owner picked up product at site. Multi-modal was the next most often cited distribution method, followed closely by drop shipping. Finally, containers had a response average of 9.25 percent. This would correlate with the low percentage of companies actually exporting currently. Contract trucking and company trucks are used as the most common distribution methods across all three groups.

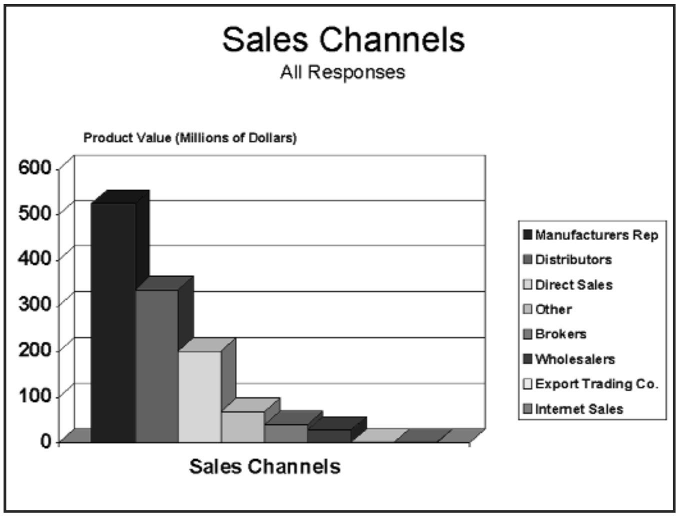



# Sales Channels

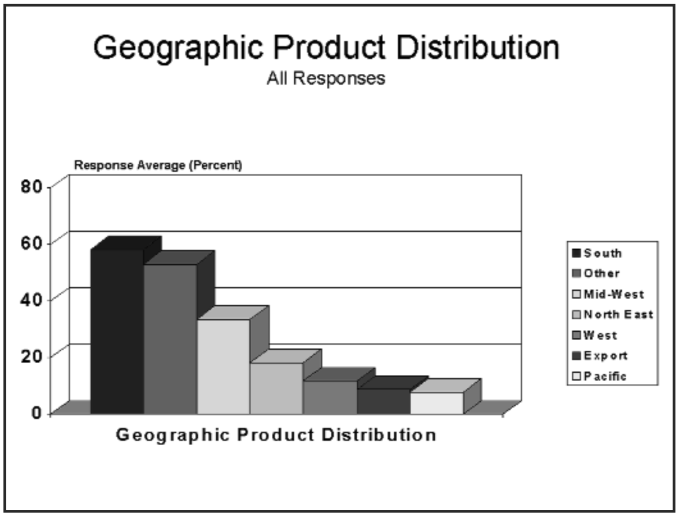
Direct sales seems to be the channel used most often by respondent companies followed by the use of manufacturers representatives with a 45.52 percent response rate. The product value calculation however is much higher for manufacturers representatives ($524,482,338) than for direct sales ($201,814,028). Wholesalers were cited as the next most common sales channel followed by distributors, brokers, and export trading companies. The use of the internet as a sales channel was negligible in this study with a response average of 1.00 percent. For smaller companies (Group 1) direct sales is the most often utilized with a response average of 85.17 percent followed by wholesalers, manufacturers representatives, and distributors. For medium sized companies (Group 2) direct sales was most often cited followed by manufacturer's representatives, distributors, and wholesalers. For larger companies (Group 3) direct sales were reported most often followed by manufacturer's representatives, brokers, and distributors.

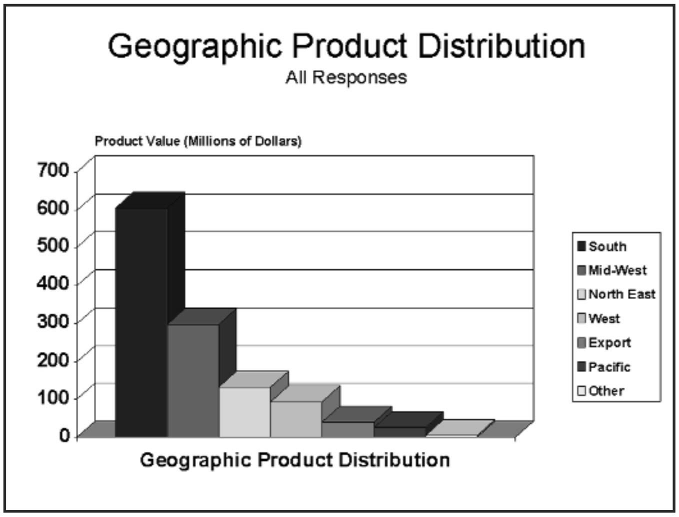


# Geographic Product Distribution

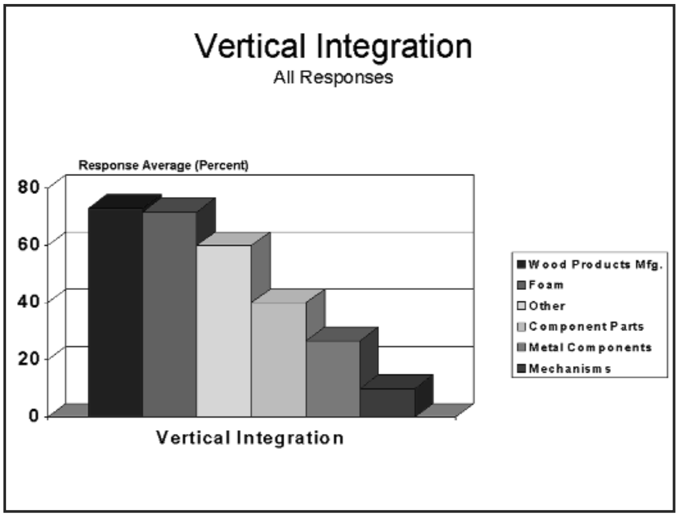
As might be expected, the South was the leading area for geographic distribution with a 58.24 percent response average. Overall, the Mid-West was the next most often cited region with a product value of $296,298,442 and a response average of 33.50 percent. The Northeast region had a product value of $132,019,660 and a response average of 18.06 percent. As might be expected, these regions were followed by the West, Export or other countries, and the Pacific region. The product value for the South was $605,483,322. As might be expected for smaller companies (Group 1) the South was by far the leading geographic area distribution with a response average of 70.92 percent. For Group 2, the South as a distribution area had a 53.80 percent response average. Group 3 or larger companies had a response rate of 47.27 percent for the South.

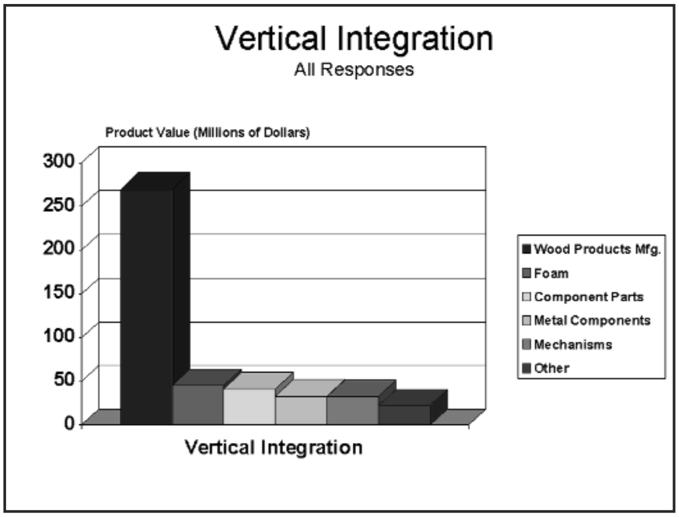



# Vertical Integration

For the purposes of this study, vertical integration was defined as the percent of raw materials purchased at the respondent facility from plants owned by the respondent company. As might be expected, the two main types of vertical integration reported were for components used in upholstered furniture manufacture, i.e. wood products manufacturing, and foam. Wood products manufacturing vertical integration had a response average of 73.00 percent and foam had a response average of 71.67 percent. The product value calculation however, was much higher for wood products manufacturing at $270,089,922 than foam at $45,088,193. This could mean that the respondent companies, which control their own foam supplies, are fairly small companies. "Component parts" has a 40 percent response average followed by metal components and mechanisms.



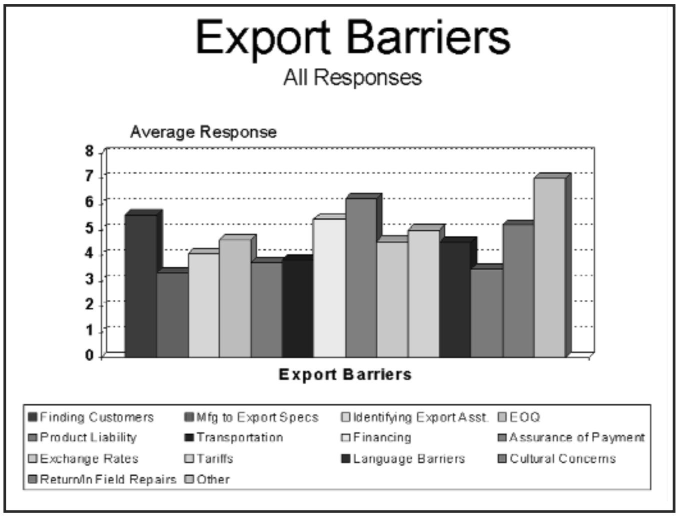



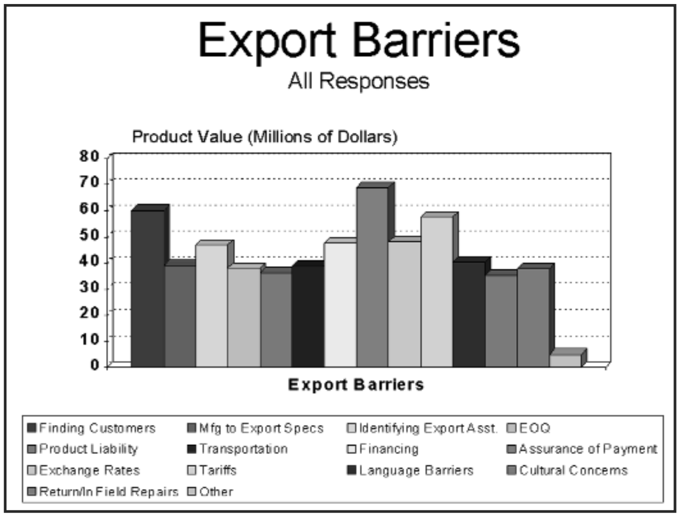
The second page of the survey questionnaire asked for information on current and future export activities of respondent companies and the problems associated with exporting furniture and component products.

Overall, 34.21 percent of respondents indicated that they currently export their products and 63.16 percent stated that they do not currently export. The average number of years that these companies have been exporting product is 11.08 years. The respondents were asked to which continents that their products have been exported. Responses were fairly evenly split between Europe, South America, Asia, and North America with only two responses for Africa and one for Australia. Of smaller companies, 17.65 percent currently export and among medium sized companies, 40 percent currently export. Of larger companies, 54.55 percent currently export some product. Overall, only 5.26 percent of respondent companies expect to be exporting in the next five years. Respondents were also asked if their company franchises designs to overseas companies for production. Only 13.16 percent of respondents answered yes to this question and all yes responses were from Group 3 or larger companies. Respondents were also asked if they had sought export information or solutions to export problems in the past and if so, what sources had they consulted. Only 8 respondents answered that they had sought export-related information. Some of the sources mentioned included trade associations and trade journals, libraries, other companies specializing in exports, other companies within their industry, the internet, and freight forwarders.

One of the primary goals of this survey was to determine the extent to which Mississippi furniture and component parts are moving toward export markets. From the survey results, it appears that only about one third of the Mississippi companies surveyed are currently exporting and only about 5 percent expect to export in the near future. The next logical questions after "How much are we exporting?" are "Do we want to export more?" and "What are the barriers or problems associated with exporting?" Respondents were asked to rate a series of potential export barriers by degree of difficulty based on the experiences of the survey recipient. The rating scale was from 1 to 10 with 1 being the least difficult barrier and 10 being the most difficult barrier.

Overall, assurance of payment had a response average of 6.21 followed by finding customers with 5.58 response average. Financing was the next highest rated concern with a 5.41 response average. Return/in field repairs and tariffs each had a 5 or more response average. Other barriers with a response average of 4 or above included economic order quantities, exchange rates, and identifying reputable export assistance. These barriers were followed by transportation, product liability, cultural concerns, and manufacturing to export specifications.

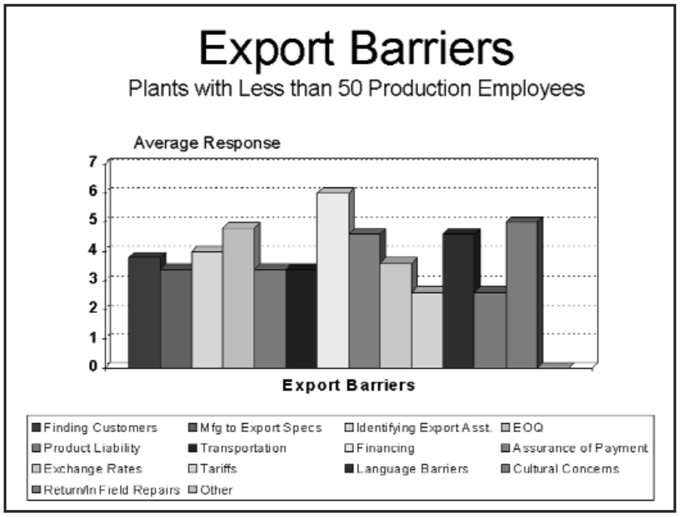


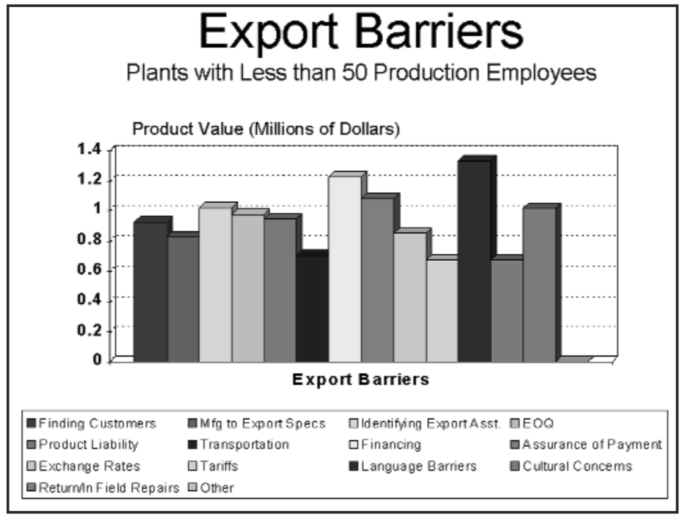



# Export Barriers

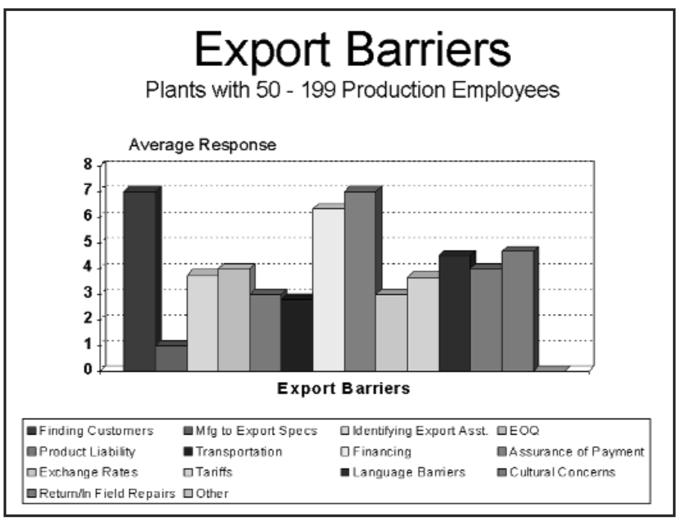
The small companies (Group 1) top four concerns (listed in order of importance according to response averages) were financing, return/in-field repairs, economic order quantities, and assurance of payment. The concerns of medium sized companies (Group 2) included: finding customers, assurance of payment, financing, and return/in-field repairs. The top four concerns of large companies (Group 3) were tariffs, assurance of payment, finding customers, and exchange rates. Assurance of payment is a key issue of manufacturers of all sizes. Additionally, all of the manufacturers realize that complications dealing with returns/in-field repairs are magnified for exported products. Judging by the low percentage of firms that have exported from the small company group, finding customers has not been a problem because only a few small companies are exporting. Conversely, larger companies that routinely export have realized that tariffs are a real problem for Mississippi companies competing in export markets.

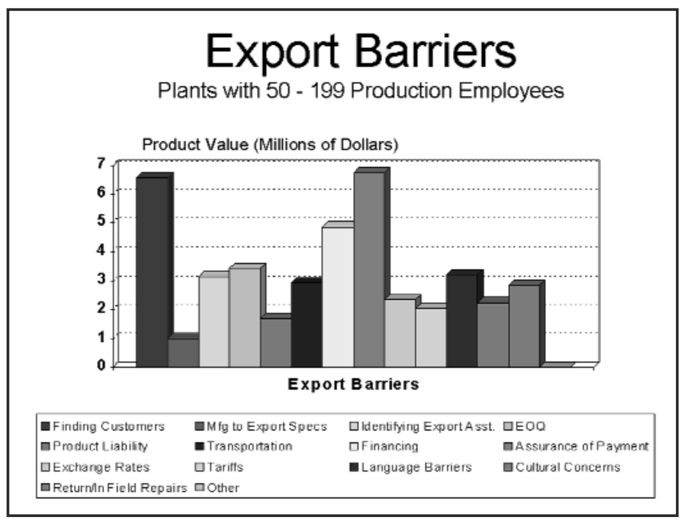
Group 1



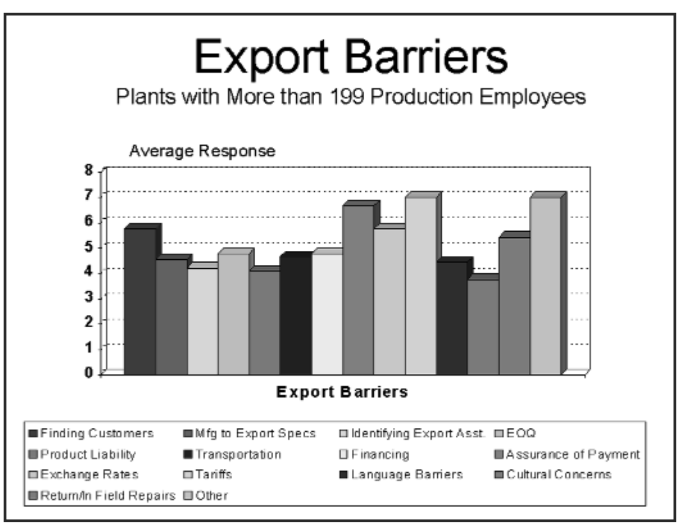



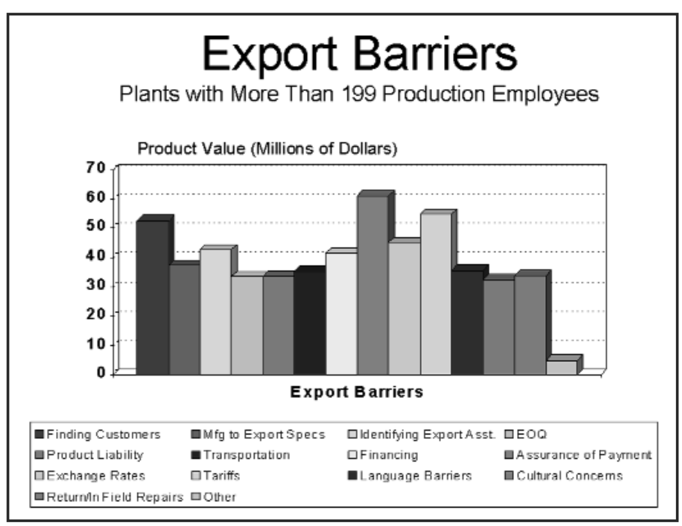

Group 2




Group 3



## Summary

Approximately thirty-four percent of furniture and component manufacturers in Mississippi are currently exporting their products. These exports go primarily to Europe, Asia, South America, and North America. Additionally, five percent of respondent companies expect to export in the near future. Some of the barriers that have been encountered by companies exporting furniture and component parts are: assurance of payment, finding customers, financing, returns and repairs, tariffs, economic order quantity's (eoq), exchange rates, identifying assistance, transportation, product liability, cultural concerns, and manufacturing to export specifications. Companies have sought specific technical assistance with exporting problems with mixed results. Companies that have successfully exported products have gained valuable experience that has changed the primary concerns from companies that have not exported products.

Small manufacturers (Group 1) indicate that language barriers, eoq's, returns/in-field repairs are important criteria. Medium manufacturers (Group 2) think that finding customers, and other concerns are important. Large manufacturers (Group 3) think that tariffs, cultural concerns, financing, and other factors are more important than finding customers.

Overall, this study indicates that there are differences in export activity levels by size of company. Individual companies often checked the other concern as an export barrier without explaining the concern in the provided space. Personal interviews subsequent to the survey have identified general business risk as the primary other concern faced by producers of upholstered furniture manufacturers.



**Sponsors**

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