



## The Competitiveness of the Indonesian Furniture Industry in Global Trade: A Comparative Study with Vietnam

*Daya Saing Industri Furnitur Indonesia dalam Perdagangan Global: Studi Komparasi dengan Vietnam*

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### ABSTRACT

Furniture products with significant added value are strategic commodities for the Indonesian economy. Therefore, this research aimed to determine the competitiveness of the Indonesian furniture industry in terms of marketing by making a comparison with Vietnam due to being one of Indonesia's main competitors in the furniture trade for decades. This research employed a literature study to collect data and an integrated comparative analysis using the 5P mixed market framework of position, product, place, promotion, and price. The results showed that both countries had similar market segments with sensitivity to illegal timber, for example, the US and EU. Vietnam was exceptional in offering lower prices since the Vietnamese furniture industry gained substantial support from the availability of abundant cheap labor and investment. Meanwhile, Indonesia was eminent in supplying raw materials from production forests, and its furniture industry had reached an augmented products level greater than Vietnam. Both countries have easy access to global shipping. Concerning promotion, Indonesia ought to emulate Vietnam by facilitating the furniture industry to participate in international exhibition activities to expand the furniture market network.

### INTISARI

Produk furnitur dengan nilai tambah yang signifikan semakin dipandang sebagai komoditas strategis bagi perekonomian Indonesia. Penelitian ini bertujuan untuk mengkomparasikan daya saing industri furnitur Indonesia dengan Vietnam dari segi pemasaran. Vietnam dijadikan sebagai objek komparasi karena Vietnam merupakan kompetitor utama Indonesia dalam perdagangan furnitur dalam dua dekade terakhir. Pengumpulan data dilakukan dengan metode studi literatur. Penelitian ini menggunakan analisis komparatif terintegrasi terhadap kerangka pemasaran bauran 5P yang terdiri dari posisi, produk, tempat, promosi, dan harga. Indonesia dan Vietnam memiliki segmentasi pasar yang sama-sama sensitif terhadap kayu ilegal seperti Amerika Serikat dan Uni Eropa. Sistem Verifikasi Legalitas Kayu (SVLK) Indonesia saja tidak cukup mendorong ekspor ke pasar sensitif kayu ilegal. Vietnam unggul dalam menawarkan harga yang lebih murah karena didukung oleh ketersediaan tenaga kerja murah yang melimpah dan dukungan investasi asing. Meskipun demikian, Indonesia mempunyai keunggulan ketersediaan bahan baku yang besar dari hutan produksi. Produk furnitur Indonesia telah mencapai tingkat augmented product, lebih unggul dari Vietnam yang sebagian besar masih berupa core product. Kedua negara diuntungkan dengan akses mudah ke pelayaran global. Dari segi promosi, Indonesia perlu mencontoh Vietnam dengan memfasilitasi industri furnitur untuk mengikuti kegiatan pameran internasional, sehingga dapat memperluas jaringan pasar furnitur.

## **Introduction**

Wood is the leading forest product with many benefits for human survival and one of the commodities considered in global trade. In the early 2000s, it was ranked as the third-largest commodity of international trade and included in the substantial sources of many countries' income (Oldfield 2003). In 2016, FAO estimated that the total global exports of wood products reached USD 227 billion (Traffic 2020). Rapidly developing technology promotes wood manufacturing companies to design, manufacture, and ship products in large quantities for export markets (Luo et al. 2015).

Raw materials' abundance, significant or high added value, and a broad export market make furniture products become strategic commodities for the national economy (Sathre & Gustavsson 2009; Suhardi et al. 2019). The Indonesian furniture industry has considerable potential in domestic and international trade (Kusumawardhani & McCarthy 2013), but its development has been quite alarming in the last two decades. In 2000, Indonesia was the world's fifth-largest exporter of wood furniture products, while in 2015 the country only ranked 25th, losing badly to Vietnam which was in 8th position (Mundai 2017).

Raw materials, production processes, design, and marketing determine the furniture exports' competitiveness (Pujiarti 2017). Meanwhile, Drayse (2008) explained that market networks connecting producers and retailers contribute to the rapid globalization of the industry manufacturing this item. In general, studies on furniture analyzed the increasing its added value through innovation and technology. For example, Van Geenhuizen et al. (2010) and Kusumawardhani and McCharty (2013) investigated innovations in the small-medium scale furniture industry, while Fernando et al. (2016) examined green furniture innovation in Indonesia.

Little has been written about the marketing elements of the furniture industry in Indonesia to understand the trends, consumer needs, and competitiveness in global trade (Pujiarti 2017). This research aimed to determine the competitiveness of the Indonesian furniture industry in terms of marketing, and the comparison with Vietnam becomes the differentiator from previous research. Vietnam has become the major exporter of furniture products from the Southeast Asian region in the last five years (ITTO 2019a). The information produced from this research could contribute to the Government evaluation to improve the competitiveness of the furniture industry in the global market.

The 5P mixed market framework consisted of position, product, place, promotion, and price. The determination of the marketing strategy of various products has adopted this 5P framework, and therefore this research adopted the framework. Although other approaches to measuring industry competitiveness are available such as Revealed Comparative Advantages and Export Products Dynamics Analysis, both do not cover comprehensive marketing elements, such as promotion and price. This research analyzed the five elements of 5P descriptively and compared those between Indonesian and Vietnamese furniture products. The data were collected by reviewing scientific literature and trade report documents. This research employed a literature study approach due to its effectiveness in terms of time (He & Han 2017) and cost (Rahayu et al. 2019).

## **Methods**

### **Data Collection**

This research employed a literature study. However, a literature study has a common weakness of data incompleteness (Faniel et al. 2016). This research used multiple data sources to minimize

incompleteness. These include 26 scientific literature and four trade reports (FAO, ITTO, HIS Markit, and Ministry of Industry). Trade data reported by a single agency were cross-validated with other documents.

### **Data Analysis**

This research employed an integrated comparative analysis of the five elements, namely position, product, place, promotion, and price, in the 5P mixed market framework developed by Ruskin-Brown (2006). Data from previous research and verified reports were grouped according to the interrelated elements of the 5P framework to explain Indonesia's superiority over Vietnam in furniture products exportation. These elements covered all aspects of the industry's practical competitive advantage (Ruskin-Brown 2006), as described below.

- (i) **Position.** The position analysis aimed to determine both countries' furniture market position in the global trade, specifically to show market segmentation and target.
- (ii) **Product.** Levitt (1980) classified products into four types: core, expected, augmented, and potential. Semi-finished products that still require further processing are core. Meanwhile, expected products already have material and design quality expected by consumers. The augmented products have a competitive advantage and disposed innovation. Meanwhile, the potential product aimed to ensure the sustainability of its competitive advantage.
- (iii) **Place.** The place analysis examined the distribution chain of furniture products from both countries.
- (iv) **Promotion.** The promotion element was an effort to provide information about new products.
- (v) **Price.** The costs for raw materials, labor, production, and logistics determined the price. In

addition, research and development (R&D) and investment also influenced the price.

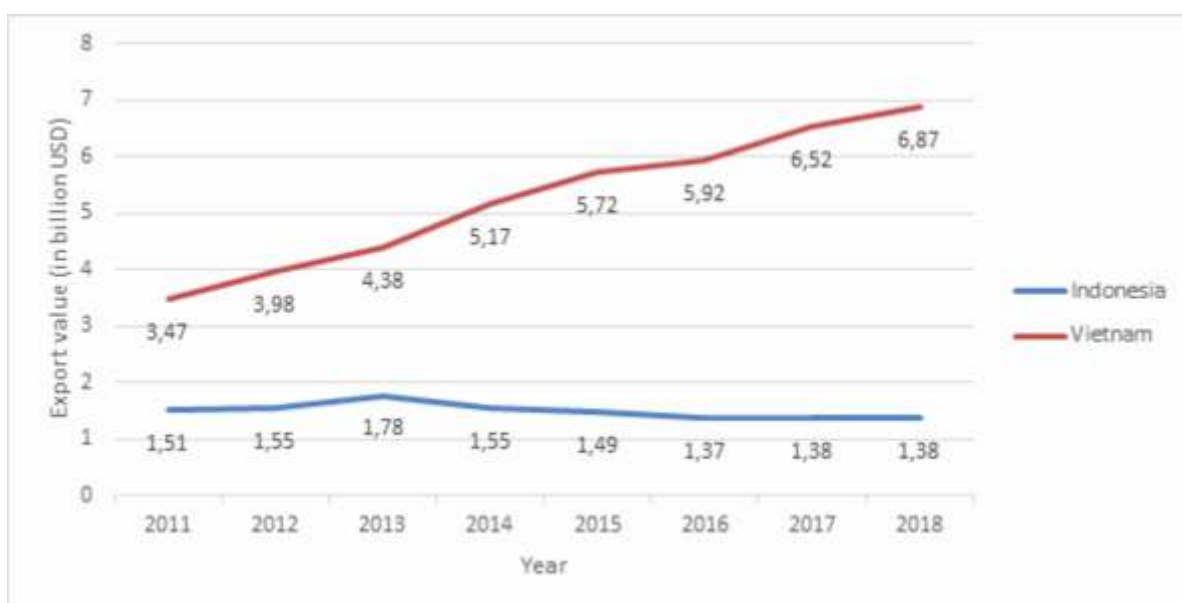
## **Results and Discussion**

### **Position**

According to Figure 1, the export value of Indonesian furniture products had been below those of Vietnam for eight consecutive years. In 2008, Vietnam's export value was five times greater. The export value of Vietnam's wooden furniture products continued to increase annually, while the counterpart had been relatively stagnant and tended to decline over the last four years. However, they both had the same market segmentation, namely countries sensitive to illegal timber, such as the United States of Amerika (USA) and the European Union (EU).

The USA has been the main target for furniture exports from both countries. The Ministry of Industry reported that in 2016 the export of Indonesian wooden furniture to the USA reached USD 529 million, consisting of various indoor furniture. Their dominant products were bed, office, and kitchen furniture, which contributed around USD 104, 9.4, and 5.6 million, respectively. In 2017, it contributed around 65% of Vietnam's total export value (ITTO 2019b). This significant contribution was related to the anti-dumping policy on Chinese products that stimulated the relocation of China's furniture industry to Vietnam (Luo et al. 2015). In terms of its contribution to total export value, Vietnam's indoor furniture was superior to those of Indonesia. Between January and February 2020, Vietnam's indoor furniture contributed around USD 727 million in export value (ITTO 2020a).

The EU also contributed significantly to the two discussed countries' export values. In 2019, Vietnam was the largest supplier of European Union furniture with 47% of the market share, followed by Indonesia with 23% in the second place (ITTO 2020b). Even



**Figure 1.** Indonesia and Vietnam's furniture export values in 2011-2018  
(Source: ITTO 2019a)

though Indonesia already had a FLEGT license and every wood product entering the EU needed no due diligence, the country could not catch up with Vietnam. This situation showed that the timber legality assurance scheme was insufficient to dominate the timber-legality sensitive market. Although Vietnam lacked a timber legality assurance scheme, it offered lower prices, investment support, and design innovation.

### Products

Kusumawardhani & McCarthy (2013) revealed that the wooden furniture produced by small and medium industries in Central Java had reached an augmented product level and had specific characteristics to serve certain markets. Industry players realized the importance of innovation in increasing the added value. Indarti (2012) stated furniture companies absorbed knowledge from various sources, including buyers, the internet, and suppliers, for innovation. Meanwhile, Van Geenhuizen & Indarti (2006) explained that innovation sources in the wood furniture industry

came from buyers, suppliers, competitors, the internet, television, exhibitions, consultants, and universities' research.

Core products dominated Vietnam's furniture (Nguyen 2016). The core products were 70% ready and required further processing. The consumers of core products unconsidered product quality and took them for granted. In the 2000s era, the design of Vietnamese furniture products was under-developed and still relied on buyer countries (ForestTrends 2012). However, it developed rapidly in the past two decades. Recently, Vietnamese furniture products gained support from research on market satisfaction to produce more innovative designs of furniture (Hien 2017).

### Place

Small and medium-sized industries dominated the furniture industry in Indonesian and Vietnamese (Purnomo et al. 2014; Do Hai 2018). Vietnam hosted around 4,300 companies engaged in the wood processing industry, of which 95% were private while 5% were government-owned (Do Hai 2018).

The distribution flow of Indonesian and Vietnamese furniture products was similar. They had relatively easy access to global shipping, but the Indonesian furniture industries had to complete V-Legal documents before exporting to any destination country. The V-Legal documents were a mandatory requirement for exporting timber products, regardless of destination countries. The cost of V-Legal documents was around IDR250,000-300,000 per sheet, and it often took a long time to manage these documents. In contrast, the V-Legal documents eased Indonesian furniture products' entry to countries requiring timber legality, such as the EU. In 2016, Indonesia was the first to obtain a FLEGT license providing a green route for its furniture products to the EU market without due diligence (Maryudi et al. 2017; Maryudi & Myers 2018).

Vietnam had no timber legality policy, although the Trade Law in 1998 regulated the timber flow exports to ensure legally sourced timber. Every company intending to carry out export activities should have an import and export permit issued by the Provincial Planning and Investment Department (WRI 2014). For wood products, valid documents should attach a packing list and a chain of custody record indicating the origin of woods meant for the production. However, in its implementation, many timber processing industries still used raw materials from illegal sources. Around half of Vietnam's national log supply was assumed to be sourced from illegal logging (Sikor & To 2011). This country had been preparing a timber legality policy instrument. On 19 October 2018, Vietnam ratified its Voluntary Partnership Agreement (VPA) with the EU (EFI 2020). On 7 January 2020, the Vietnamese Government launched a National Forest Management Standard to promote legal sources of forest products which became effective on 1 May 2020 (ITTO 2020a).

## **Promotion**

Word of mouth, participation in international exhibitions, and internet networks were means to promote wooden furniture. Indonesia's small and medium furniture industry relied heavily on word-of-mouth promotion (Kusumawardhani & McCarthy 2013). They employed their networks, such as friends and relatives, for product promotion, but this was certainly less effective. Promotion through international exhibitions was more effective because it could bring sellers and buyers from various countries and provided opportunities to build networks. Unfortunately, Indonesia's furniture industry gained limited support from the government in procuring the exhibition (Reily 2018).

## **Price**

Indonesia had an advantage in supplying raw materials from a large production forest with a relatively low log price ranging from USD 28.46-153.82/m<sup>3</sup>, compared to other countries (Ministry of Environment Regulation no P.64/2017). In terms of labor, Indonesia made efforts to improve knowledge and skills through training from the government and in collaboration with donor agencies such as the Japan International Cooperation Agency (JICA), the German Agency for technical cooperation (GTZ), Asian Development Bank (ADB), International Labor Organization (ILO), and United Nations Industrial Development Organization (UNIDO) (Loebis & Schmitz 2005). However, the domestic and foreign investment stimulations were still weak (ITTO 2019b).

In contrast, Vietnam fulfilled the need for raw materials from imports with prices ranging from USD 153.84 - 339.48/m<sup>3</sup> in 2020 (processed from FAO 2020), which were more than twice Indonesia's log price. Its plantation forests only provided small logs that were not suitable as raw materials for the furniture industry (Meyfroidt & Lambin 2009). The production costs

were relatively low because of the modern technologies, the abundance of productive age workers, and cheap labor wages (ITTO 2019c). According to Vietnam 2020 statistics, the average labor wage in the wood processing industry was USD 132 - 193.6/month. This labor wage was cheaper than their competitors, such as China, the Philippines (Quyên 2016), and Indonesia, ranging from USD 119.32 - 299.34 /month (BPS 2020). Foreign investment became a driving factor in the furniture industry's progress. Around 600 of the 2,392 wood processing companies were foreign investment-based (ITTO 2020a). All these factors allowed the furniture industry to offer low prices. Nguyen (2016) illustrated that the average for a table, chair, and bed produced in Vietnam was EUR 1100-1400/m<sup>3</sup>, EUR 999-1300/m<sup>3</sup>, and EUR 1300-1659/m<sup>3</sup>, respectively.

### Conclusion

Over the last two decades, Indonesia's furniture exports have decreased drastically while this same industry experienced rapid development in Vietnam, although both countries shared have a similar export destination market. In Vietnam, the foreign investors substantially supported the progress and contributed almost 50% to the export values. The foreign investors also facilitated furniture product promotion. Vietnam became a target for foreign investors because it had investment-friendly policies and abundant cheap labor. It also benefitted from the geopolitical situation. The anti-dumping policy on Chinese products stimulated the relocation of Chinese furniture companies to Vietnam and significantly increased Vietnam's export values to the USA. Besides, innovative designs supported by research and lower prices were advantages for the Vietnamese industry in the global arena. To increase the furniture industry's competitiveness, the Indonesian government needs to stimulate small and medium-sized companies to

innovate in product design and participate in international exhibitions. The government could conduct training on innovation for product designs, research the global market for furniture products, and create investment-friendly policy while maintaining environmental standards.

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