Editorial

We present you the second edition of the Furniture Value Chain newsletter; part of a new project funded by the Australian Centre for International Agricultural Research (ACIAR). The project, running from 2008 to 2013 and entitled ‘Mahogany and teak furniture: Action research to improve value chain efficiency and enhance livelihoods’, aims to improve small-scale furniture enterprises in Jepara, Central Java, Indonesia through enhancing the structure and function of its furniture industry.

This issue presents a number of project updates, including the results of the livelihoods survey, the study on efficiency and constraints to growth for small-scale furniture producers in Jepara, the market survey, the wood resources survey, the internal workshop on value chain analysis theory and methods, and the furniture value chain study, as well as progress from the Jepara Small-scale Furniture Producers Association (APKJ). Please enjoy!

Project Update

1. Livelihoods survey

Furniture provides 27 percent of Jepara’s domestic income. The industry and its related sectors have become important sources of income. There are at least two major furniture-related sources of household income. First is the business sector, which incorporates log traders, log processing units and furniture producers including handicraft workshops and showrooms. Second is the blue-collar sector, covering workers involved in the furniture industry: finishers (mostly female), workshop and packaging labourers and the artists who design furniture and sculptures.

Tahunan, Jepara, Mlonggo and Kedung subdistricts all have high levels of furniture-related activities. In addition to furniture processing, Tahunan is also known for its furniture showrooms. Furniture producers commonly earn higher than average incomes, especially in Sinanggul, Karanggondang, Kawak and Jondang where other income sources are considered less attractive. Urban and semi-urban areas such as Tahunan, Tegal Sambi and Kecapi all have various sources of income (See Figure 1).
2. Efficiency and constraints to growth for small-scale furniture producers in Jepara

Average wood consumption fell in volume (m³) and value from 2005 to 2008. This was a natural consequence of increasing wood prices, particularly with workshops not receiving better prices for their products. It indicates that workshops are becoming more wood efficient and making more money out of less wood. This is a promising trend for Java's depleted teak plantations. The workshop owners taking part in focus group discussions were very concerned about plantation mismanagement and corruption in the forestry sector.

Workshops producing for the Western market in 2005 were more inclined to exit by 2008. The competition for this market may have intensified, which might explain why some workshops have pulled out. Being large, it seems, is not an advantage as workshop size appears inversely proportional to growth. However, since growth is gauged as change in revenue, this may be somewhat misleading as a workshop's revenue may increase, but not its profit. Workshops looking for orders may be forced to accept a price for their end product that does not cover the cost of production. That most workshops are price-takers is certainly not improving the situation. Some buyers may take advantage of the situation and practically push workshops into bankruptcy.

When an industry is under pressure, the less efficient enterprises may be forced to exit and leave the market to more skilled producers. In the short run, a lot of jobs may disappear and people's incomes decrease. However, in the long run, the industry becomes more efficient and competitive. A more wood efficient furniture industry would certainly benefit the environment, but the roots of forestry sector problems are found elsewhere. Whether the furniture industry in Jepara is in the process of becoming more efficient or not remains unclear. Understanding which workshops pull out, and which ones manage to grow is the first step to finding solutions that may help the industry.

3. Market Survey

Wooden furniture is the most important export commodity for Jepara. Based on Industry, Trade and Cooperatives Office data (2007), there are 510 wooden furniture export companies in Jepara exporting to 99 destination countries. The survey took place from February to April 2009 and targeted export companies registered with the Jepara Industry, Trade and Cooperatives Office in 2007. Seven major destination countries were identified: France, the United Kingdom, Australia, the Philippines, the United States of America, Hong Kong and Spain. These seven countries account for 91% of wooden furniture exports from Jepara, with Spain being the largest importing country (22%), followed by Hong Kong (18%) and the US (16%).

Five categories of constraints were identified by exporting companies: certification/eco-labelling, bureaucratic/legal requirements, raw material supply, working capital and marketing issues. Approximately 25% of exporters cited marketing and raw material supply as production and export problems. Meanwhile, certification seems less of an issue at present with only 7% of respondents exporting to European markets believing their buyers are concerned with certification. Certification was also identified as a non-constraint for the US export market. Nevertheless, one respondent said certification had been very difficult with high costs and staff required to manage the certification once achieved.

The survey also revealed the domestic market to be a potential opportunity for Jepara's furniture industry free from the problems caused by fluctuating exchange rates.
4. Wood resources survey

The survey on timber constraints in Jepara District was conducted during April 2009. As many as 40 respondents were chosen by purposive sampling for both respondent groups. Furniture industry data was collected from 8 of 14 subdistricts in Jepara District, i.e. Tahunan, Kedung, Pakis Aji, Manggo, Batealit, Jepara, Pecangaan and Bangsri, with interviews by native enumerators in the industries’ main distribution chain. Data on log suppliers located in Jepara was based on timber chain distributions identified from previous surveys conducted on small-scale furniture industries.

To minimise transportation costs, small-scale industries tend to buy wood from log traders located near their workshops. As purchasing raw materials can be a problem, small-scale furniture industries are more inclined to choose small diameter teak and mahogany logs as their main commodities.

In contrast to 10 years ago, producers and log traders are now having trouble obtaining larger diameter logs. This finding indicates an alarming situation in terms of timber availability. Another finding was the increasing price of logs, due not only to scarcity, but also to higher fuel prices. Significant pressure on the industries also stems from buyers, most of whom are not end consumers, only paying low prices for products.

5. Internal workshop on value chain analysis theory and methods

The Furniture Value Chain project held a two-day workshop on 10-11 March 2009 to discuss Value Chain Analysis (VCA) theories and methods. The proposed methods resulting from the workshop were used in the project’s value chain survey.

6. Value chain survey and findings

The type of value chain governance is an essential determinant in the success of intervention strategies. Indicators for each type of value chain governance are as follows: (a) Market-based - indicated by many customers/many suppliers, repeat transactions possible but information flows limited, and no technical assistance; (b) Balanced network - indicated by suppliers having various customers, intense information flow in both directions, and both sides having the capability and commitment to solve problems through negotiation; (c) Directed network - indicated by main customers taking at least 50% of output, customer defining the product and providing technical assistance, and an information imbalance; and (d) Hierarchy - indicated by vertical integration, customer owning the supplying establishment, and very limited autonomy for making decisions at the local level.

Through interviews with respondents at each chain stage we established the preliminary value chain map shown in Figure 1. The governance type involving finishing companies, which also act as exporters, is hierarchical. Finishing companies receive instructions on product specification and design from global buyers, who are subsidiaries of overseas retailers. Very few finishing companies develop their own designs; most are highly protective and careful to ensure their designs are not imitated for mass production. Some finishing companies own showrooms in Jepara and other cities. However, exporters are driven by importers and global brokers, which are in directed network relationships with international retailers. Small-scale producers are in directed network relationships with domestic brokers. Brokers are the main customers for small-scale producers, consume more than 50% of their products, and can easily shift from one producer to another. This condition leads to a directed network governance type between exporters and small-scale producers. In some situations, relationships become hierarchical when exporters have greater control over small-scale producers. Few small-scale producers have their own showrooms to promote their products. Mechanised furniture producers have a better position in the value chain, being located in balanced network relationships with those further up the chain: global brokers and importers.

7. Association of Jepara Small-scale Furniture Producers (APKJ) progress

Four meetings were held at APKJ members’ homes to discuss and complete important agendas. With the completion of APKJ’s office space in the Jepara Trade and Tourism Center (JTTTC), a fifth meeting was held in the office. Ongoing APKJ activities include:
Completion of proposal to request funding for APKJ’s next meeting and official declaration of formation. APKJ will submit funding proposals to CIFOR, the Jepara District Government, large furniture enterprises, and furniture materials trading companies.

- Completion of APKJ’s Articles of Association.
- Completion of APKJ’s ‘nine committee members’ curriculum vitae as references for future nominations within the organisational committee.

8. Paper submission to IIIX World Forestry Congress 2009, Buenos Aires, Argentina

A paper entitled ‘Value chain analysis of furniture: Action research to improve power balance and enhance livelihoods of small-scale producers’ has been submitted to the congress. The paper describes the value chain governance and suggests scenarios for improving the livelihoods of small-scale producers. The paper is authored by Herry Purnomo, Ramadhani Achdiawan, Nunung Parlinah, Rika Harini Irawati and Melati.

Events

1. Declaration of formation of the Association of Jepara Small-scale Furniture Producer (APKJ) on 9 June in Jepara.
3. Gender Study planned for July 2009. The CIFOR team will lead the study.

FVC Project Organisation

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