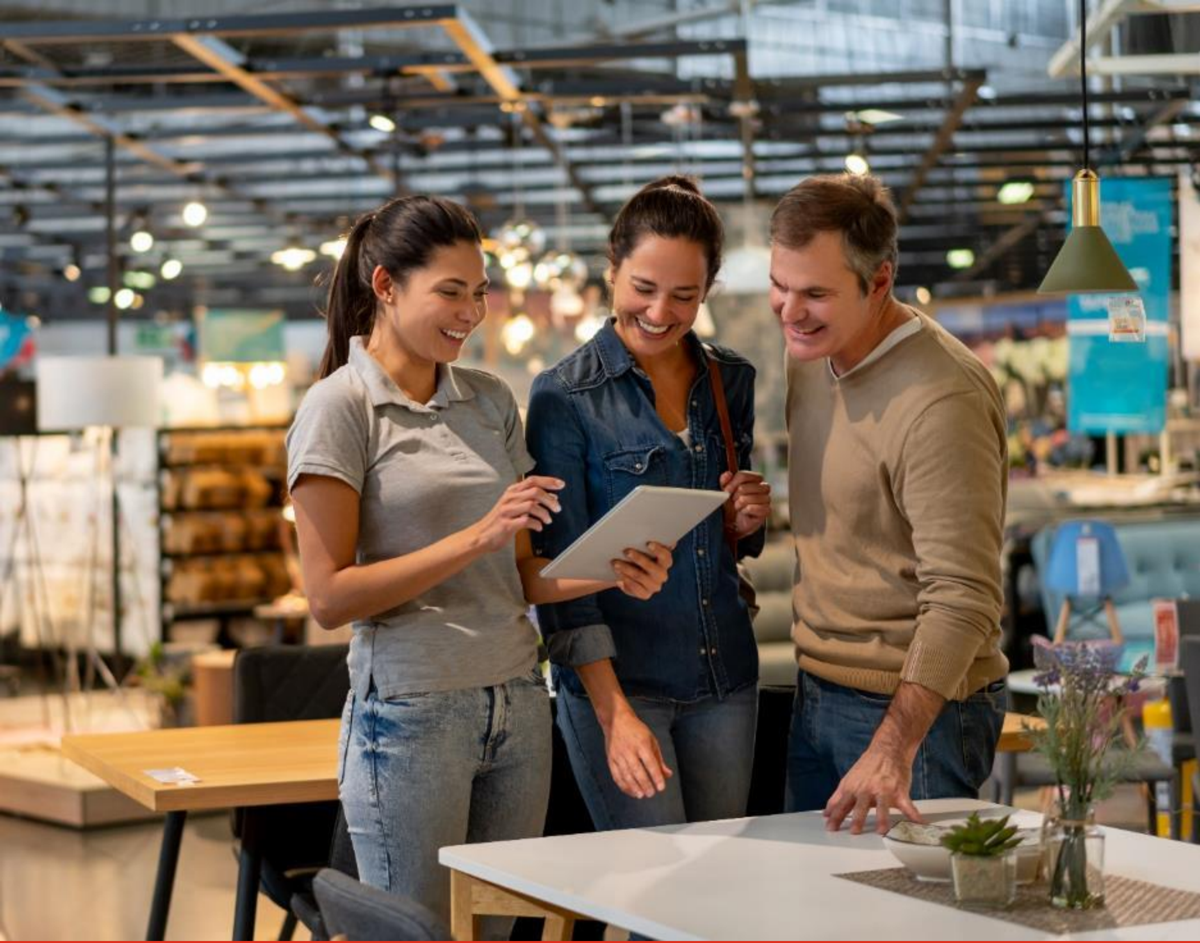
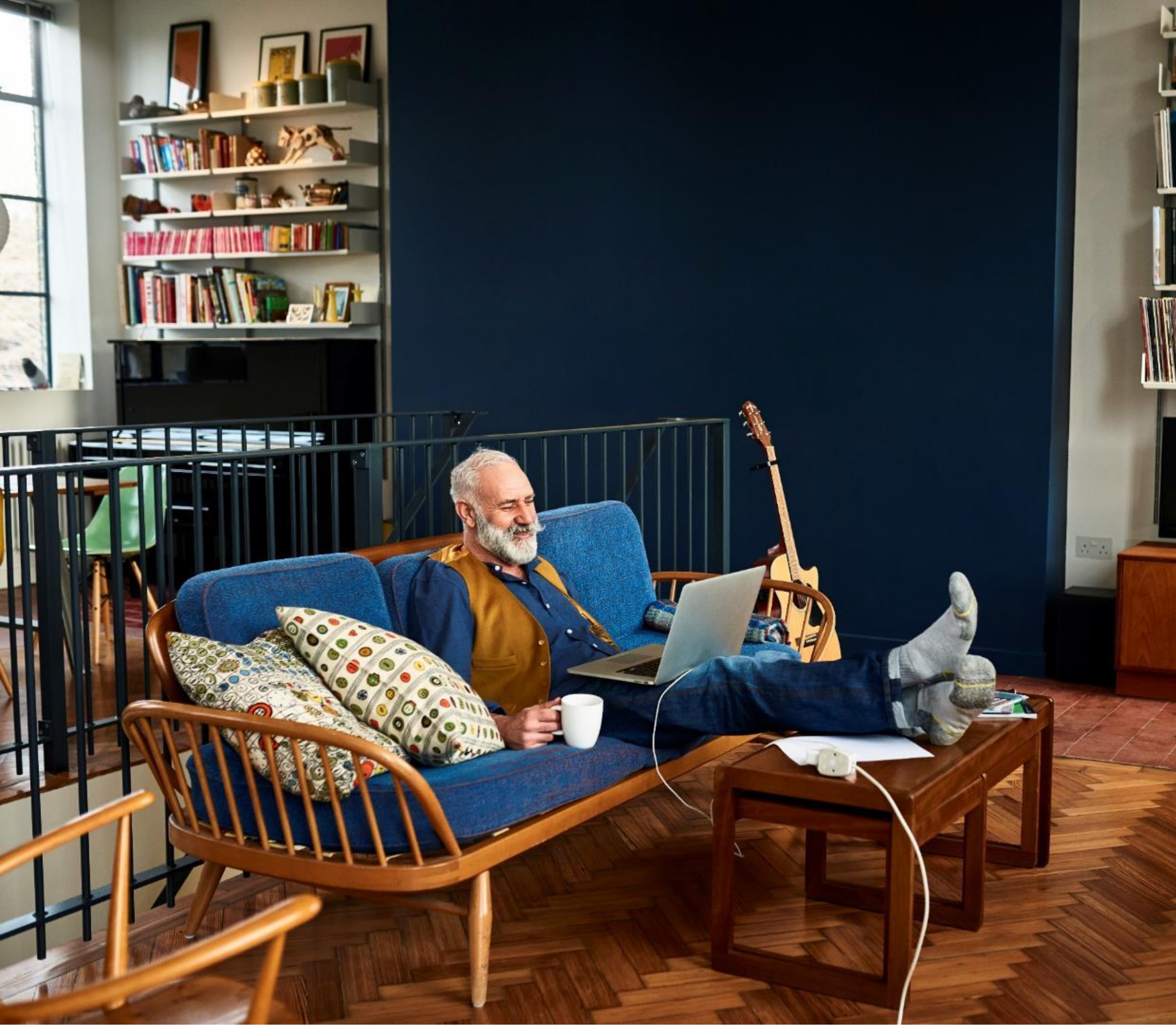


Strategic Roadmap for Furniture Sector of India

Executive Summary

October 2021



Executive Summary

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The Furniture industry of India is vital for social and economic development

With India poised to become the third largest global economy by 2030, the Government of India has identified the furniture industry as a key enabler to expand the reach of 'Make in India' goods across the globe. The furniture industry in India is a part of the home furnishing industry and occupies the largest share (~50% in 2019) in the home furnishing market. In FY2019, the Indian furniture market was valued at $12.6 billion and grew at a compound annual growth rate (CAGR) of 9.4% during 5 years before that.[1] The last decade has led to an inordinate success for the furniture industry in India. The impetus to this industry was mainly provided by increasing urbanization rates, a large share of the younger population, rising levels of disposable income of middle-class society and a strong tourism and hospitality industry. This growth is expected to continue in future also, but due to COVID 19 pandemic the pattern of growth will be different in the short term and medium-long term. In the short term, design, functionality and affordability will drive the growth of furniture products. In the medium- and long-term, growth in furniture products will be driven by changing preference of consumers towards sustainable products along with revival of economic activity of tourism and real-estate industry.

However, in order to fulfil the growing demand, the furniture industry in India would have to play to its strengths and needs to address major impediments to its growth

Indian furniture industry has been marked by four key macro issues, which has prevented the industry from realizing its intended impact on India's economy. Firstly, the Indian furniture market is highly fragmented and has been predominantly driven by the unorganized segment- with 80% share of sales.[2] Secondly, the furniture industry in India constitutes a small share (less than 1%) in global furniture manufacturing output and about 60% of produce constituted low-value-add primary products such as plywood, plaiting sheets, saw milled products, etc.[3] Thirdly, furniture exports are primarily low-value-added products with low competitiveness in the global market. About 3/4th of the furniture exports from India in 2019 consisted of low value add products such as wooden frames & articles, prefabricated furniture goods, articles of bedding, etc.[4] Lastly, the demand for finished and intermediate products in India is majorly met through imports. This is largely due to lack of cost-effective availability of quality furniture products. Finished and intermediate products have formed a significant proportion (54%) of imports of furniture products in India. Major imported products include beds and sofas.[5]

Recommending a strategic roadmap for the growth of furniture industry in India is the objective of this study

Considering the potential for an expected multi-fold growth, however marred by core limitations of the domestic industry this report aims to derive a strategic roadmap for the growth of the sector. Specific interventions have been suggested by assessing various supply chain and infrastructural challenges across manufacturing, trade, EoDB and policy and regulatory areas which are adding to cost disabilities of India. This has been supported by analysing how such issues were addressed in some other countries.

The study analyses four core issues around availability of raw materials, production processes, high transport and logistics cost and Ease of Doing Business which have hampered the competitiveness of furniture industry

Based on the cost build up analysis of a reference product (a typical 3 shelf particle board-based wardrobe), it emerged that furniture manufacturing in India is about 27% more expensive than importing it from China. Detailed cost comparisons between India and China highlight that on an average, India's inputs - particularly (1) raw material, (2) transport and logistics, and (3) other miscellaneous overheads such as licensing, general administrative expenses, rental lease, etc. are on the higher end of the cost paradigm. Raw materials (primarily particle board) is about 25% more expensive in India. Transport and logistics costs in India are also high, reflecting infrastructural inefficiencies across roads and ICDs/ports. Other miscellaneous overheads are threefold times larger in India than in China, reflecting higher tax implications, tedious licensing control measures leading to administrative delays, longer duration for seeking custom clearances, etc.

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[1] Allied Market Research. May 2020. *Home Décor Market: Global Opportunity Analysis and Industry Forecast, 2020-2027.* IHS Markit.
[2] Government of India, Indian Brand Equity Foundation (IBEF). *Stylish Homes, Elegant Offices.* New Delhi.
[3] Annual Survey of Industries 2017-18.
[4] ITC Trademap.
[5] Refer footnote 6.

Some of the reasons underlying these cost disabilities have been summarized below.

1 Issues around availability of suitable raw material at competitive price

Inadequate scale of commercial forestation practices	• Issues in National Forest Policy 1988 and Draft National Forest Policy 2018 • Inadequate focus on agro-forestry, TOFs and PPPs • Challenges in utilizing Bamboo for commercial production
Inadequate domestic availability of certified wood	• Inadequate scale of certification infrastructure
High cost of imported raw materials including wood, fabric etc.	• High import duty rates on raw material leads to incremental costs and low export competitiveness. • Challenges with duty drawback adding to cost burden.

2 Issues around production processes

Lack of regulations to enforce emission std. in furniture mfg.	• Inadequate enforcement and awareness regarding carcinogenic nature of formaldehyde emission. • Lack of awareness and need of standards among the industry and consumer (E0 standards
Small scale supply of intermediate products (e.g. FSC certified board)	• Uncertainty in assured demand of such products. • Inadequate policy framework and incentives to attract investors and facilitate large scale manufacturing of such products.
Inadequate skill development ecosystem	• Inadequate infrastructure for up-skilling in new market trends and international practices • Inadequate academic-industry participation to develop skill development eco .

3 Issues around high transport and logistics cost

Overdependence on costly alternative of roadways	• Inadequate integrated planning of multi modal transport network and industrial infrastructure • Inadequate fiscal support incentives such as free or subsidized freight charges, etc.
Location of furniture clusters away from ports	• Location of clusters away from urban and semi-urban areas

4 Issues around Ease of Doing Business

Lack of dedicated policy and nodal Ministry for the industry	• Lack of a National furniture policy that covers aspects ranging from textile, metal to forestry • Multiple registration and compliance requirements as industry is governed by a gamut of policies and regulations
Operational challenges (labour laws and import related requirements)	• Manual processes, annual renewals leading to cumbersome business environment • Delays in procedures for assessment of duty and import clearance

5 Other issues impacting cost competitiveness

Other regulatory hurdles	• High taxation in terms of GST • Archaic Plant Quarantine laws mandate Phytosanitary Certification for processed final product • Delays in CAROTAR Procedures and undue burden on importers

The study also draws learnings from some of the market leaders (countries) which have successfully solved similar challenges to enable the growth of furniture industry

This study analyses best practices/ development strategies adopted by China, Poland, Romania and Vietnam to overcome similar operational and regulatory hurdles faced by the furniture industry. As a result of these strategies, the furniture industry in these countries has grown manifold (from the perspective of exports, employment generation, output and value addition) between 2008 and 2018. Some of these strategies have been enumerated below.

Table 1: Best practises relevant to challenges faced by Indian furniture industry

Key challenges	Best practise/ Development strategy	China	Poland	Romania	Vietnam
Issues around availability of suitable raw material	Supporting commercial forestation and sustainable forest management	✓	✓	✓	✓
	Easing imports of raw materials and semi-finished goods	✓			✓
	Promoting certification of local varieties of wood suitable for furniture sector			✓	✓
Issues around production processes	Support for upgrading / renovation of existing technology	✓	✓		
	Development of infrastructure for up-skilling in market trends			✓	✓
	Reinforcing academic-industry participation to develop skill development ecosystem		✓	✓	✓
	Diversification and product development by promoting use of alternate sources	✓			✓
Issues around high transport and logistics cost	Development of furniture clusters to promote economics of scale	✓	✓	✓	✓
Issues around EoDB	Creation of a national policy framework	✓	✓	✓	✓

Ingredients of the strategic roadmap for India's furniture industry have been derived

With the above backdrop, the furniture industry in India is currently marred by various supply chain challenges like unavailability of suitable raw material at competitive price, inefficient production processes, high transport and logistic cost, etc. To address these challenges, we have identified specific recommendations premised on stakeholder consultations and learnings from international experiences across short, medium- and long-term horizons. These recommendations will impact three critical enablers of growth of this industry: 1) increasing consumption demand, 2) strengthening domestic manufacturing capability and 3) enhancing competitiveness of domestic industry (including focus on exports). PwC provided the inputs for developing this report.

In the following Figure 1, specific interventions with a time horizon of short (0-1 year), medium (1-3 years) and long term (more than 3 years) in terms of the implementation timelines have been summarized.

Expected implementation time horizon	Recommendations	Specific interventions	Impact footprint on growth enablers (1)	(2)	(3)
Short term (0-1 year)	Enabling ease of raw materials and finished goods imports in the short term	Reducing import duty rates on certain raw materials	✓	✓	✓
		Reducing import duty rates on finished goods	✓		
		Amending Plant Quarantine laws for easing imports of processed materials		✓	✓
		Simplification of Rule 7 of Customs duty drawback	✓	✓	✓
	Addressing internal trade barriers to reduce operational costs	Reduction of GST rates to reduce prices and stimulate consumer demand	✓		
	Enabling proper use of Free Trade Agreements	Amending legal provisions for proper use of FTAs	✓	✓	✓
	Implementing measures to enhance Ease of Doing Business (EoDB)	Simplification of registration under labour laws		✓	
		Ensuring smooth procedures for assessment of duty and import clearance		✓	
Medium term (1-3 years)	Supporting commercial forestation and sustainable forest management	Bringing in amendments in the Draft National Forest Policy to ensure availability of certified raw-material coupled with other enabling policies like proposed Timber policy		✓	✓
		Promotion of Farm/ Agro forestry for augmenting indigenous raw material availability		✓	✓
		Developing policies to capitalize on Trees outside Forests		✓	
		Developing Public Private Partnership models to enable productive plantations		✓	
		Developing and ensuring enforcement of regulations to reduce formaldehyde levels during manufacturing		✓	✓
	Promote certification of local varieties of wood suitable for furniture industry	Developing policy framework to support establishment of certification ecosystem		✓	✓
	Promote use of alternate sources of raw materials	Incentives and policy support to promote production of other raw materials		✓	✓
		Recycling wood waste: Creating a sustainable future		✓	
	Support capacity building to supply intermediate products like particle boards	Incentivize technological upgradation for manufacturing intermediate products		✓	✓
	Expanding manufacturing product profile to include high export potential products	Short duration fiscal benefits to promote capital investments for manufacturing such products	✓	✓	
	Incentivizing growth of inter-linkages across home furnishing categories	Conceptualizing a Furniture policy through integration of various interrelated aspects across other Government policies	✓	✓	✓
Long term (> 3 years)	Development of furniture clusters to promote economies of scale	Identify competitive locations closer to ports and urban areas		✓	✓
		Designing incentive package for migration of brownfield units		✓	✓
	Incentivizing growth of inter-linkages across home furnishing categories	Developing a mechanism to procure ancillary products from MSMEs		✓	
	Preparation of roadmap for re-skilling and future proofing jobs in collaboration with industry players	Designing course content and teaching pedagogy in alignment with the future trends to ensure global skill competitiveness		✓	
		Reinforcing industry-academia collaboration to develop skill development ecosystem		✓	

Figure 1: Recommendation and specific interventions

1	Increasing consumption demand
2	Strengthening domestic manufacturing capability
3	Enhancing competitiveness of domestic industry (including focus on exports)

The report has been compiled by Price Waterhouse & Co LLP in collaboration with IKEA with inputs from diverse stakeholders.