Romanian Furniture Market Report
November 2006

by FRD Center Romania

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Some of our services are:

- market overviews and sector studies
- market opportunities assessment
- identification and selection of local partners and suppliers
- identification and selection of JV and franchising opportunities
- investment assessment
- management of business itineraries
- advice and support with investment opportunities (e.g. property, alternative energy)

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For further details, please contact:
Jackie Bojor, Director of Business Development
FRD Center, Bucharest, Romania –
www.frdcenter.ro
tel: +4021 411 1460; fax: +4021 411 1461
e-mail: europa @ frdcenter.ro

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1. Introduction

1.1. Overview of the Romanian furniture market

In 1915, on the Romanian market there were 12 furniture plants and 70 joinery shops, while in 1944 their number increased to 73 furniture factories and 86 joinery shops, which produced doors and windows as well as furniture pieces. The building up of new furniture factories began in the 50's. In 1990 the furniture was produced by 497 units, which were mainly integrated in the structural organisation of large woodworking complexes. All these units have been re-organised later in the form of commercial companies. In 2003, more than 3,876 companies, whose main activity was the furniture manufacturing, operated on the Romanian market, of which 80 were large companies, 295 were medium-sized companies and the rest SMEs. Also, the furniture shops with less than 10 employees and furniture production units representing parts of companies with different activities operated on the market.

In terms of the technology, all the furniture factories have been designated as fully integrated systems having no co-operation with other factories or departments specialised in production of wood prefabricates and components. Many companies have modernised their technical endowments, however in some cases without reaching state of the art, which had a negative impact upon the productivity and quality of the products.

According to Piata Financiara magazine, in spite of difficulties, the furniture industry is among the few economic sectors that allowed Romania to stand out internationally. The Romanian furniture has gradually won the recognition of Western markets. Also, the Russian market and the markets of the Commonwealth of Independent States recognize the reputation of the furniture made in Romania. At European level Romania is recognized as a medium-size furniture manufacturer. The tradition, relatively good quality and the rich range of products have maintained the trust of foreign consumers. Most domestic products are ecological and in terms of quality they can be compared to those made in the Western countries. In 2005, 71% of the domestic market demand was covered by local production.

According to the Romanian Association of Furniture Manufacturers (APMR), the Romanian products preferred on the foreign markets are hard wood furniture, style-art furniture, modern furniture with rectangular shapes, with special finishing, irrespective whether they are designed for bedrooms, living-rooms, small furniture or upholstered chairs.

APMR is a professional, autonomous, non-governmental organisation, which was set up in 1992. At present, APMR has 450 members, of which 245 are furniture producers. The other members are manufacturers of accessories and other materials used in the furniture manufacture process, furniture traders, R&D institutes etc. The furniture producers associated with APMR carry out more than 70% of the whole Romanian furniture production and more than 75% of the Romanian furniture export.

The number of enterprises and the average number of employees of the Romanian wood and furniture market in 2004 are presented in the table below.

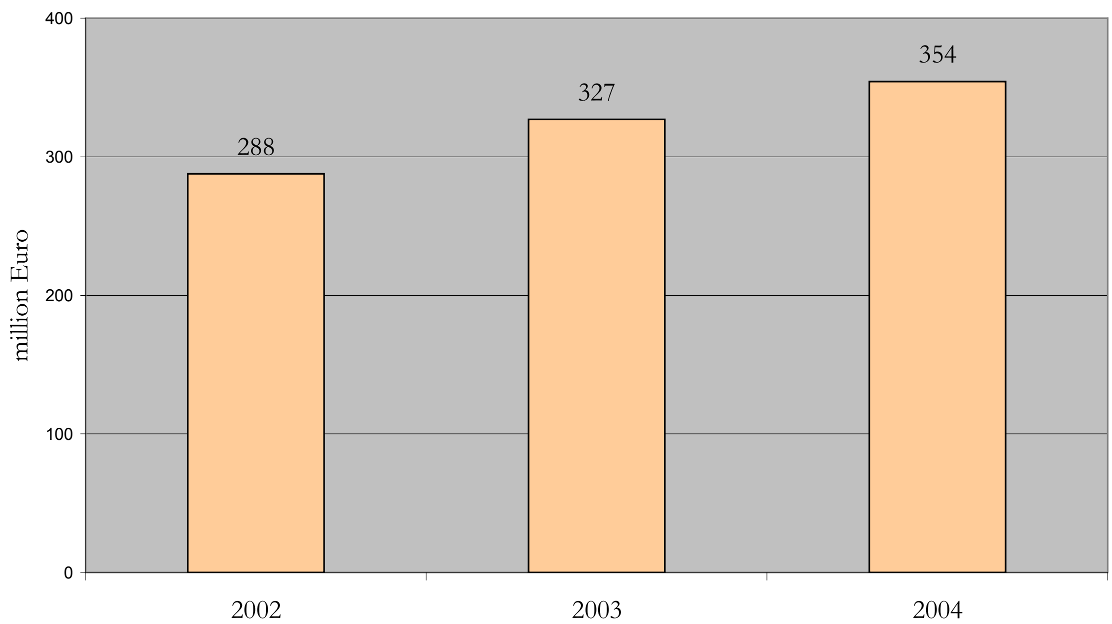
Activity	**No of enterprises**	**Average number of employees**
Wood and wooden products manufacturing (except furniture)	7,280	89,444
Furniture and other non-classified activities	4,500	114,302

Source: National Institute of Statistics

According to APMR, at the present, the labour-force employed in the furniture industry includes about 89,400 persons, this figure representing 6.3% from the total labour-force in the Romanian industry. This year the number of employees in the industry will continue to decrease, continuing the trend recorded in 2005, when approximately 10,000 persons lost their jobs. According to market sources, this trend will become more visible due to the effects of the efforts to increase the competitiveness of companies and the massive migration of workers in the Romanian industry. The National Institute of Statistics reported a 19.4 % increase in the labour productivity in the wood processing and furniture-manufacturing sector in the first five months of 2006, compared to the similar period of the last year. In the Romanian furniture industry, all the manufacturing companies are private, including the formerly state-owned companies, now privatised.

The evolution of the turnover for the companies having as main activity the retail of furniture, lighting articles and other housing appliances, during the period 2002 – 2004 is presented in the below chart.

The evolution of the turnover within the retail of furniture, lighting articles and other housing appliances



Source: National Institute of Statistics

1.2. Structure of the Romanian furniture market

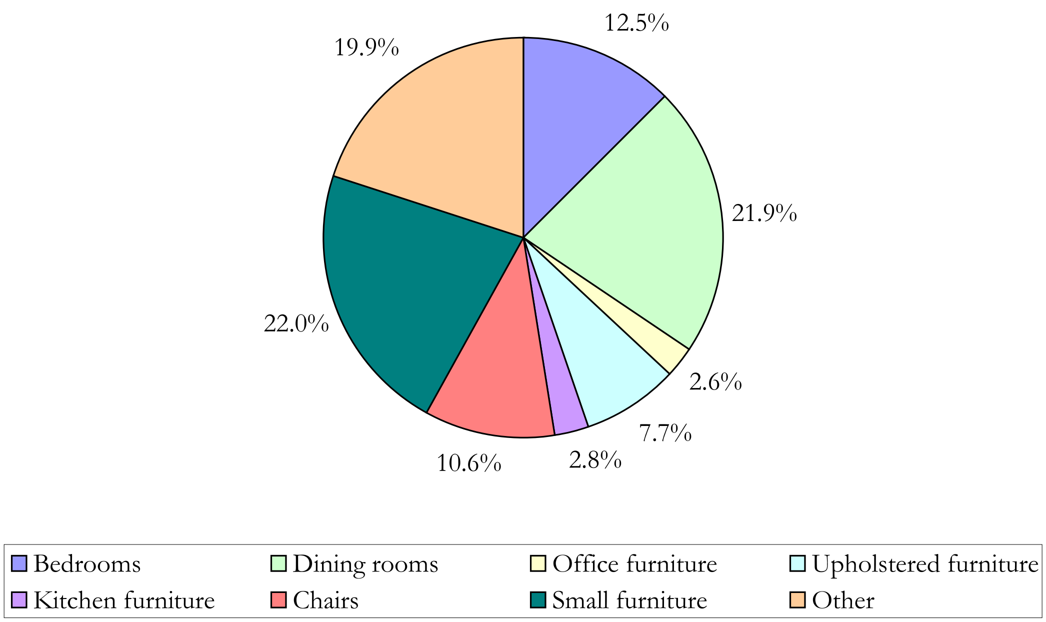
According to APMR, the furniture types cover the full range of household furniture, office furniture, school furniture, shop furniture, hotel furniture, according to the domestic and international demands.

The structure of the Romanian furniture capacities is as follows:

- bedrooms 12.5%
- dining rooms 21.9%
- office furniture 2.6%
- upholstered furniture 7.7%
- kitchen furniture 2.8%
- chairs 10.6%
- small furniture 22%
- other 19.9%

More than 50% of the furniture is made of beech, 20% of oak, 15% of coniferous species, and the rest of other wood species.

The structure of the Romanian furniture capacities



Source: APMR

1.3. Romanian office furniture market

The relocation of major companies within and into Romania, as more and more office buildings are delivered on the market, could determine an almost 20% increase in the office furniture market in 2006.

Having reached 50 million Euro in 2005, office furniture is one of the most dynamic niches of its respective market. The demand for office furniture has been rising continually for a few years now, with the market growing by about 20% in the first six months of this year, compared to the similar period of the last year, according to data provided by Corporate Office Solutions company.

According to Mobexpert Group sources, the office furniture market became more balanced, more settled, without major surprises. The maturity of tastes is also characteristic for the demands coming from the Romanian companies' clients. The most attractive clients for furniture traders are multinational companies that have already an office design culture and also a clear image on how the final assembly should look like.

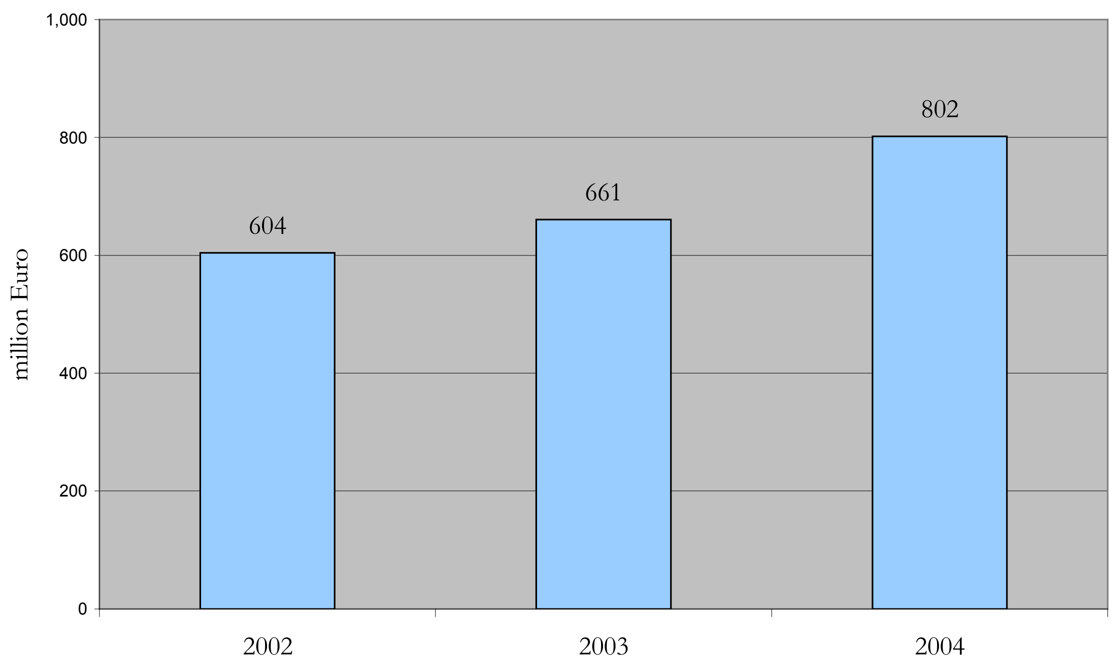
According to Samas sources, the multinational companies generally prefer the imported furniture for the Bucharest-based headquarters, while for the production facilities and for the spaces dedicated to customer relations and with lower representation, they prefer furniture made in Romania. The Romanian companies are more conservative regarding the furniture design, whereas multinationals go for an up-to-date design, according to the company's international standard. Moreover, the open space arrangements are much more frequent in multinationals.

2. Baseline data

2.1. Production on the Romanian furniture market

The evolution of the furniture production during the period 2002 – 2004 is presented in the below chart.

The evolution of the furniture production



Source: National Institute of Statistics

According to APMR, in 2005 the furniture production recorded the amount of 1,195 million Euro, of which about 75% was exported. The furniture production in the first quarter of this year advanced slightly to 317 million Euro, increasing from the amount of 301.2 million Euro registered in the similar period of the last year. The first quarter figures indicate an increase in the value of the furniture production and exports compared to the last year, but the respective growth is insignificant. These increases are not satisfactory, considering the trend over the last few years, especially during the period 2000 - 2004.

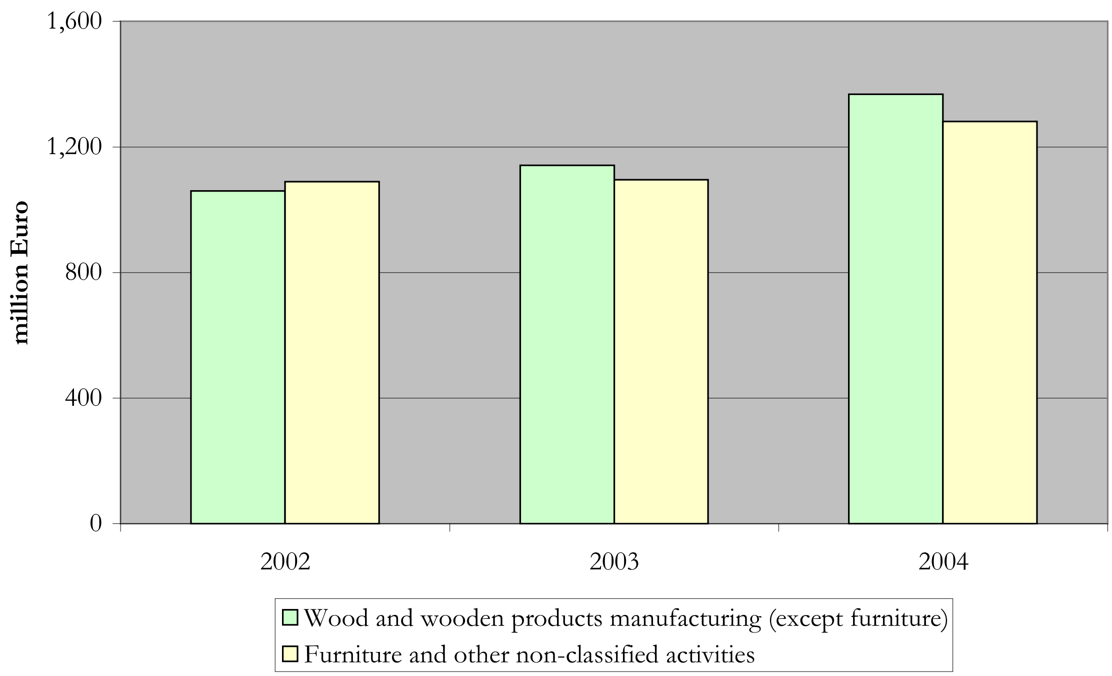
The market players have divergent opinions regarding the trend of the furniture industry during the next period of time. Some companies consider that the market will follow the same slightly upward trend, while other companies consider that the market will decline.

The furniture output recorded 657.03 million Euro in the first half of 2006, this representing a 5% increase. The producers have lately turned to the local and Eastern markets to offset the effects of the RON's appreciation against the main foreign currencies, Euro and USD. The first six months of the year also recorded the first bankruptcies on the local furniture market: Exmob Oradea, Pancotanas Arad and Samobil Satu Mare.

The small-sized furniture producers have started to focus to the domestic market after the big local players announced last year they would redirect part of their exports to the local market, having been affected by the appreciation of the RON and the recession on Western markets.

The industrial production, by activity, during the period 2002 – 2004 is presented in the below chart.

The industrial production, by activity



Source: National Institute of Statistics

According to the National Institute of Statistics, in 2004 the wood and wooden products manufacturing (except furniture) had a percentage of 3% in the total industrial production in Romania and the furniture and other non-classified activities had a percentage of 2.8%.

The evolution of the production of the main industrial products within the activity of wood processing, during the period 2002 – 2004 is presented below.

Industrial products	**M.U.**	**2002**	**2003**	**2004**
Timber	thou m^3	2,706	2,568	2,987
Aesthetic veneer sheets	million m^2	32	30	31
Plywood	thou m^3	90	98	117
Chips of wood plates	thou m^2	6,646	10,575	14,397
Fibre boards	thou tonnes	238	216	280
Wood doors and windows	thou m^2	1,673	1,632	1,632

Source: National Institute of Statistics

2.2. Sales on the Romanian furniture market

According to APMR, the furniture sales in the first quarter of this year on the domestic market reached 124.88 million Euro, this representing and increase by 8.2% compared to the corresponding period of 2005.

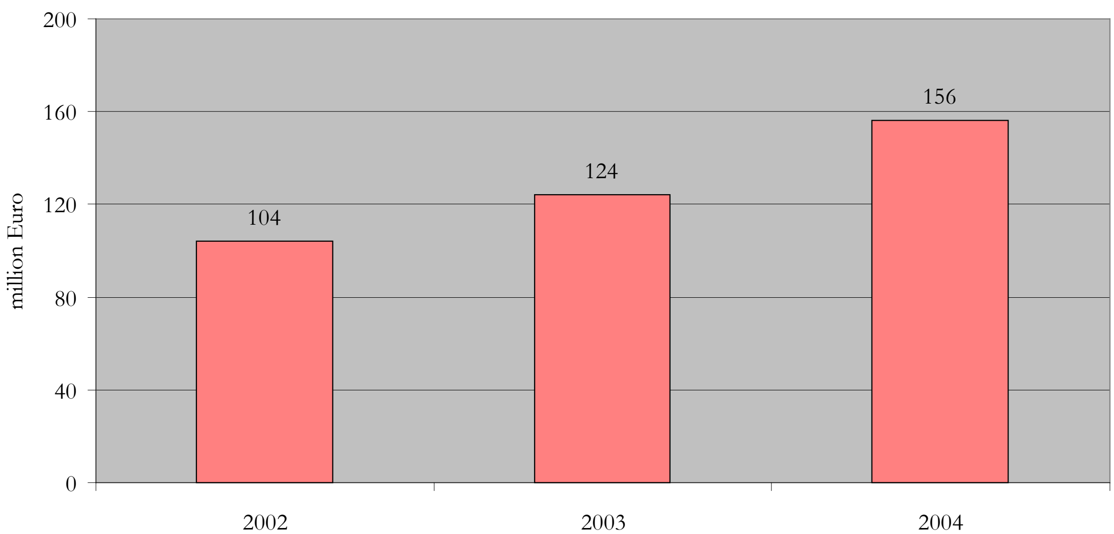
According to the same source, the furniture sales on the domestic market reached 283.561 million Euro in the first six months of 2006, this representing an increase by 7.3% compared to 2005. Taking into account the growth of these indicators in the last few years, the results recorded during this period are unsatisfactory. In the period 2000 - 2004, the average growth was of about 20%.

The sales of office furniture recorded in 2005 approximately 50 million Euro and according to the estimates by the market players this figure could reach 100 million Euro in the next five years.

2.3. Imports on the Romanian furniture market

The evolution of the imports (CIF) of the furniture and parts thereof, during the period 2002 – 2004 is presented below.

The imports of furniture and parts thereof



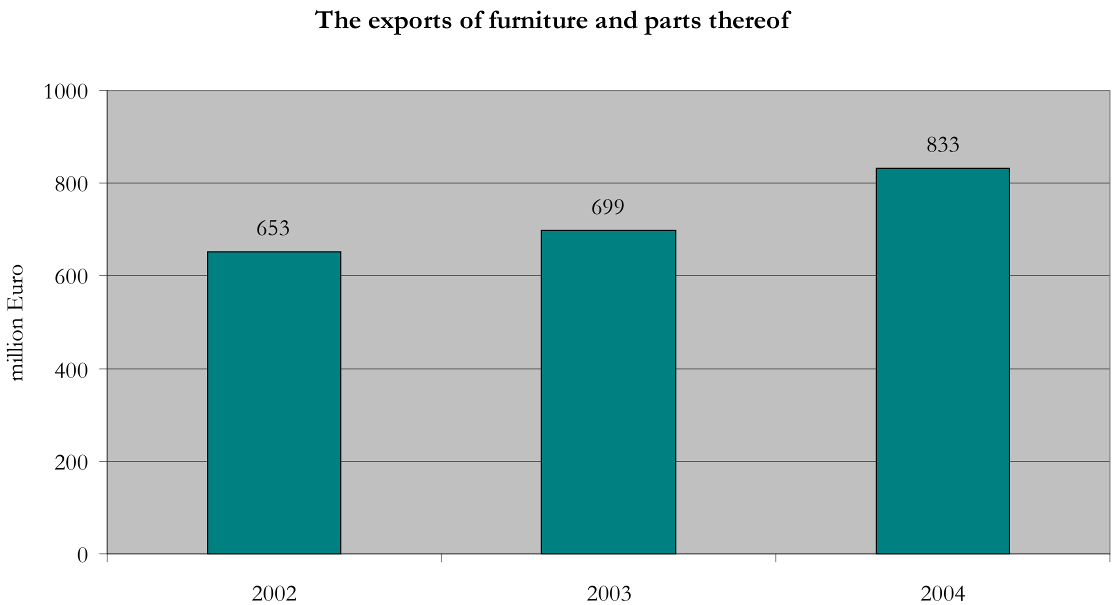
Source: National Institute of Statistics

The growth of the sales in the first six months of 2006 was based, as last year, on imports, which grew by an average of 24%, to 116 million Euro.

According to Corporate Office Solutions, more furniture importers will focus on providing also interior design consulting services in the short – medium term. In 1997, the year when this company was set up, there was little demand for consulting services in the domain of interior design. At the present, the companies are seeking not only office furniture, but also consulting services in this field. The segment this company operates on is set to become a highly competitive one in the future as an increasing number of players intend to enter the Romanian market.

2.4. Exports of Romanian furniture

The evolution of the exports (FOB) of furniture and parts thereof, during the period 2002 – 2004 is presented below.



Source: National Institute of Statistics

In 2005 the Romanian furniture export amounted 896 million Euro, of which 77% in the EU countries, mainly to France (18.25%), Germany (17%), Italy (12.5%) and Netherlands (8.1%). Also, the furniture exports represented 4% of the whole Romanian exports.

In the first half of 2006, the furniture exports followed an upward trend, reaching 489.524 million Euro, this representing an increase by 7.9% compared to the same period of the last year.

In the first half of 2006, Romania had a trade surplus for furniture of 353.5 million Euro and of 295.9 million Euro for wood and wooden articles. In the above mentioned period, high export figures were reported for aluminium and aluminium items, plastics, rubber and rubber items and furniture.

3. Players on the Romanian furniture market

3.1. Main furniture producers

3.1.1. Mobexpert Group

The Mobexpert Group, the largest player on the local furniture market, recorded a turnover of 61 million Euro in the first six months of this year, with revenues generated by sales in the same period of time during the last year of 60 million Euro. The amount of 61 million Euro accounts for 40% of the total turnover estimated for 2006. As for Mobexpert's retail business on the regional home furniture market, the sales in the first half of 2006 maintained at comparable levels to the similar period of the last year. The office furniture retail market, despite being more mature than the home furniture, recorded a 10% growth in the same period of time compared to the first six months of 2005.

In 2005, the company recorded a turnover of 150 million Euro, which positioned Mobexpert in the classification of the first 12 European enterprises in the furniture industry. Last year, new products, Asian style, horn-beam wood furniture, leather upholstered furniture and the old furniture, re-designed, registered significant sales. The international trends as regards furniture are oriented towards the natural colours and materials, the warm hues and simple lines, which create aerated furniture ensembles.

Mobexpert is the most important Romanian furniture exporter, which directs approximately 30% of its production towards the EU countries, where the Romanian furniture has already conquered important markets. According to Mobexpert's sources, the company is already a well-known presence on the foreign markets, mainly on the West-European ones, where it is estimated that one house out of ten is furnished with Mobexpert products, in France, for example. Other important markets for Mobexpert are Germany, Netherlands and Belgium.

Mobexpert was founded in 1993, with 4 employees and in 2006 the company has 4,500 employees. The company started the business with an office furniture store and now has 11 plants and 20 stores. The company extended to Bulgaria, with office furniture, the next location on the list is Belgrade and short – medium term plans are to expand in the Eastern European region. The development strategy of Mobexpert entails the expansion and consolidation of the store chain. A large furniture store will be opened in the Baneasa shopping centre, following an investment of 15 million Euro.

3.1.2. Silvarom

The furniture producer Silvarom, one of the leading players on the local furniture market, recorded in the first quarter of this year a turnover of 4.4 million Euro, this representing a decrease by 6% compared to the value reported for the similar period of the last year. For this year, Silvarom budgeted a turnover standing at 15.4 million Euro, 3% higher than the last year's figure. In the first three months of this year, the company's export revenues recorded about 1.5 million Euro, compared to 1.7 million Euro during the last year. The main export markets for Silvarom are Germany, Austria, England, France and Russia. The company's strategy is to maintain its position on current markets by changing the existing models with novel ones and to enter new markets with the possibility of expanding the exports.

The best selling products in Silvarom portfolio are bedrooms, office and school furniture. Silvarom furniture products are grouped in about 28 programmes, each programme including around 15 - 20 items, which are sold in minimum 3 - 4 colours. At the present, Silvarom operates three furniture plants, mainly producing for the export, and a plant manufacturing office furniture. Silvarom operates on the Romanian market through a distribution network made up of 34 trading companies located in the main cities of the country.

3.1.3. Elvila Group

The Elvila Group, one of the top players on the Romanian furniture industry, owned by the businessman Viorel Catarama, reported revenues of 74 million Euro for the first seven months of this year, this representing an increase by 4.9% compared to the same period of the last year. The company's sales in instalments decrease during the first seven months of the year, by around 24% from the similar period of the last year, due to the lending restrictions.

Elvila will start the works at the commercial centre in Ploiesti during the next spring. The company has already bought land near Carrefour Ploiesti and the investments will amount about 2 million Euro. Elvila's outlet network is made up of the company's own stores and over 20 franchised stores. Elvila develops in three main directions: franchises, distribution and its own networks. Elvila sells furniture through Metro, Selgros and Carrefour networks. The group's strategy will continue to target the medium and small-income population segment.

3.1.4. Staer International

The furniture producer Staer International, located in Galati, estimates a turnover of about 40 million Euro this year, against the background of its store network expansion. The company was set up in 1992, under the name of Prodex AER, a limited liability company, with a single stockholder and 10 employees, having the furniture and upholstery production as its main activity. In 1998, the legal organisation was changed and the name of the company became Staer International SA. The company also diversified its range of products and its client portfolio.

Staer will open a store with a total surface of 2,500 sqm in Bucharest. Also, the company intends to open stores in the franchise system, as well as a mini-mall in Bulgaria. Staer International estimates that the number of its own stores will be 50 by the end of this year. At present, Staer network includes 39 shops located in 26 places all over the country, with a total exhibition area of 25,000 sqm.

3.2. Other furniture producers

Other furniture producers, with their turnover and number of employees recorded in 2005, are presented in the below table.

Company	**Turnover 2005 (million Euro)**	**No of employees (2005)**
Nikmob	16.9	851
Mobex	10.2	1249
Montana	6.7	921
Ergolemn	2.9	329
Lemexim	2.3	177
Furnimob	2.0	570
Pipera	1.8	50
Mobila	0.6	71
Lemn Prod Ex Com	0.5	85
Mobicor	0.3	71

Source: Ministry of Public Finances

3.3. Other players

IKEA opened its Romanian office in 1992, although its purchases on the local furniture market started as early as the ’80s. According to the latest available information on the market, the value of the acquisitions in Romania in the 2005 fiscal year (September 2004 - August 2005) recorded about 200 million Euro. The main products that IKEA acquires from Romania are those made of solid wood, upholstery and ceramics. In Romania, the company buys furniture from about 40 local manufacturers.

IKEA will launch into the Romanian market the products that have earned the furniture maker a turnover of about 18 billion Euro this year, based on the low-cost concept. IKEA will open its first store in Bucharest's northern Baneasa area in the next April or May, to sell pieces of furniture, accessories and home solutions. The company has already begun the works on its future store that will to cover 26,000 sqm and will display about 7,000 pieces of furniture.

Besides the representative office, IKEA also owns the Swedwood plant in Suceava county. Swedwood plans to strengthen its presence by opening a new plant. IKEA and Swedwood are part of the same company, with Swedwood being the independent production part of the group. At present, IKEA Trading has more than 100 employees in the Balkans, of whom 70 are in Romania. According to representatives of IKEA Trading, in the first half of 2006 the company's acquisitions in Romania were 10% higher compared to the similar period of the last year. This percentage could have been higher, but the reasons are the lack of sufficient production capacities and some the quality problems.

The Romanian producers working with the Swedish giant are almost exclusively directing their products to IKEA. Some of these producers started the collaboration with IKEA more than 6 years ago. Such is the case of the furniture producer Nikmob.

4. Key event on the Romanian furniture market

The most important trade fair in Romania in the furniture field is BIFE TIMB. Organised by Romexpo, the event is held in Bucharest every September. The fair becomes a growing international forum for the wood and furniture sector for Romania and other neighbouring countries.

BIFE is the Romania's international fair for furniture, wooden products, interior decorations, machinery and equipment for forest exploitation and wood processing. First of all, BIFE is addressed to the professional visitors. More than 30,000 businessmen and professionals from this field are invited to this fair in order to maintain and to improve the connection between them. The main objective of BIFE fair is creating of new opportunities for the exhibiting companies in order to extend, consolidate and improve their business. The international furniture fair addresses in the same time to the public, the end-users being attracted by the large offer. Therefore, the fair is also a very good opportunity for launching a product, a brand or a business.

The edition in 2006 was visited by almost 36,000 people, out of which approximately 10,300 were specialised visitors, which represents a 19% increase in the number of specialised visitors compared to the 2005 edition. The exhibition joined together 510 exhibitors from 17 countries: Austria, Bulgaria, Denmark, Switzerland, Finland, Germany, Greece, Italy, Japan, Great Britain, Poland, the Czech Republic, Romania, Serbia Montenegro, Spain, Turkey, Hungary. The surface covered was of almost 50,000 sqm.

The survey results show the followings:

- Out of the 90% exhibitors who set the goal of "new business contacts", 83% reached this goal;
- Out of the 80% exhibitors who set the goal of obtaining "new sales orders", 72% reached this goal;
- Out of the 71% exhibitors who set the goal of "consolidating their relations with traditional partners", 78% reached this goal;
- Out of the 80% exhibitors who set the goal of obtaining "market information", 84% reached this goal.

Also, the exhibitors were satisfied with the event's organisation level and 80% expressed their intention to participate also in next year's edition.

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For further details regarding Romanian furniture manufacturers, please contact:
Jackie Bojor, Director of Business Development
FRD Center, Bucharest, Romania –
www.frdcenter.ro
tel: +4021 411 1460; fax: +4021 411 1461
e-mail: europa @ frdcenter.ro