Survey of Mexican Furniture Retailers: Prospects for Certified Wood Products

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This report provides the results of a survey of 30 furniture retailers in Mexico. The survey was given to managers of retail sales locations either in person or by telephone. The surveys were conducted and raw data compiled by Ms. Alejandra Elizondo, a private consultant in Mexico City. The sample consisted of large and small retailers, and included several furniture sales areas in department stores, such as Palacio de Hierro and Sears. An effort was made to include responses from outside Mexico City, and of the 30 responses, 13 came from other cities. The questionnaire appears in the Appendix. This instrument was kept short to maximize prospects for participation by managers, but was detailed enough to yield significant insights into the industry and prospects for certified wood products.

Here are some simple summary statistics for the sample:

Average Size of Area Devoted to Furniture Sales	410.2 sq. meters
Average Size of Area Devoted to Wooden Furniture	292.5 sq. meters
Average Employees	9

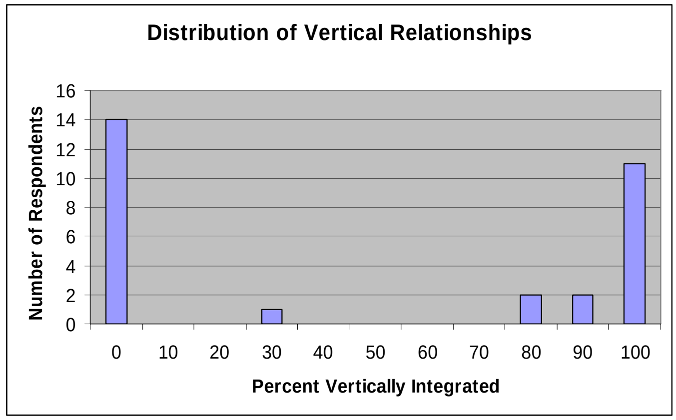
Thus, the average retail space is not large, reflecting the generally fragmented character of the Mexican furniture market.

Trends

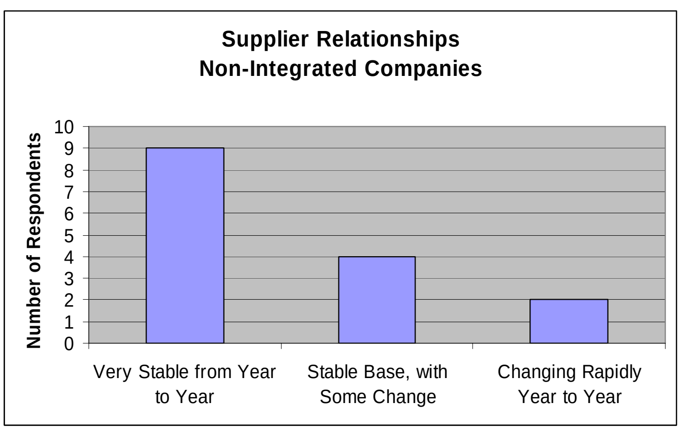
With an open-ended question, we asked retailers to name the most important trend in the industry. The very clear trend—repeatedly mentioned by respondents—was for furniture with cleaner, less ornamental lines, called variously “modern,” “contemporary,” or even “minimalist.” This trend is important for possible entrants to keep in mind. First, it may lead preferences away from wood to metal and other surfaces that have a modern appearance. Secondly, it could influence the type of wood that is favored. For example, pine may be less appropriate for such furniture because of its relative softness, and this may make market entry more difficult. Some other trends noted were the growing importance of “European” or Italian designs. Surprisingly, only one retailer mentioned the influx of Chinese imports, and one mentioned Malaysian imports.

Supplier Relationships

In keeping with the overall focus of this study on the supply chain for certified wood, we asked retailers about the sources of their furniture. The first finding was that there is a very strong element of vertical integration in the industry. Of the 30 retailers, half had very high or complete levels of vertical integration. The chart at the right shows that this distribution is roughly bi-modal.



It is probably safe to assume that vertical integration does not extend upward to the forests themselves (although Forestal Alfa would represent an example of that practice). Instead it is likely that the affiliated manufacturers of retailers purchase inputs from unaffiliated companies. This situation is a mixed blessing for certified lumber. On the one hand, vertical integration makes maintaining a chain of custody simpler and can facilitate entry of certified wood in a way that makes creating a certified final product easier. On the other hand, this represents a severe entry barrier should certified lumber producers want to manufacture and sell furniture to retailers who are vertically integrated.

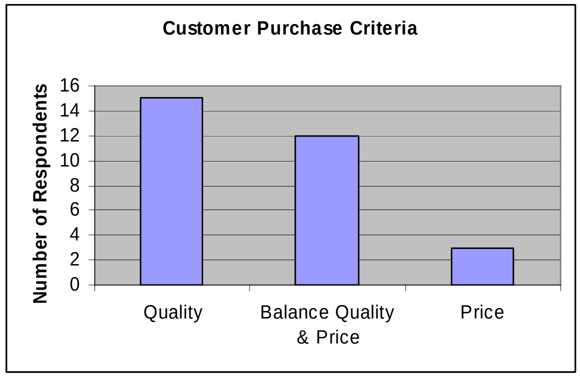


Relationships with suppliers appear to be relatively long-lived for retailers that purchase furniture from other companies. This chart describes the frequency with which retailers who purchase less than 20% of their furniture from affiliated companies characterize their relationships with suppliers.

The reason for relatively stable relationships may be the importance of credit to purchasers. Out of 14 responses to the question, “how important is the provision of credit to you by suppliers,” 8 replied that it was “very important,” 3 that it was “somewhat important.” This indicates that relationships may not be very fluid, and that entrance by a newcomer might be difficult. Provision of credit may well serve as glue that binds manufacturers and retailers. Certainly, it would appear that the ability to provide terms of credit to retailers would be a necessary condition to sell to many of them. For 15 non-integrated retailers, the average number of suppliers from which they purchase is 10, but the median is 4 because several companies (notably department stores) purchase from a very high number of suppliers.

Customers

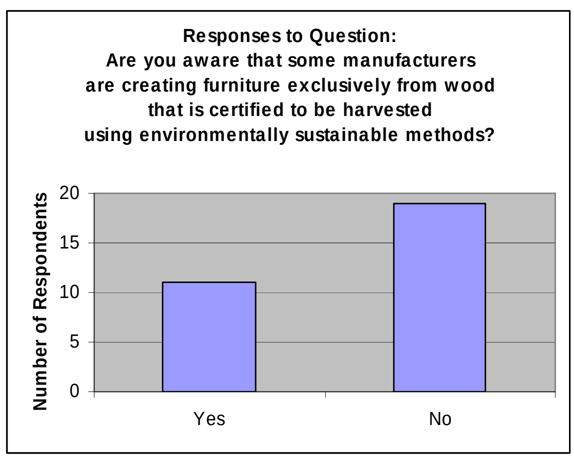
The sample had variation with regard to the type of customers that the retailers served. To ascertain the types of customers served, we asked retailers about the primary purchase criteria of their customers. The distribution on the right was obtained. It shows that quality was generally more important that price to these customers.



This distribution may be skewed somewhat to the upper income segment of the population, given the characteristics of the Mexican population. However, because entry by certified wood furniture is likely to employ a differentiation strategy, this sample might correspond to potential retail outlets for these products more closely. As we note below, the theme of quality was reiterated throughout the survey. A certain way for producers of any type of furniture to fail is to attempt to sell poor quality goods in this market.

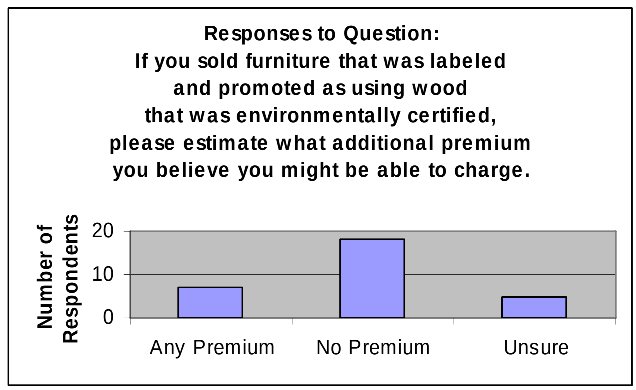
Perspectives on Certification

Awareness of certification is low. Despite the fact that there are manufacturers creating furniture from certified wood, only 11 (37%) of retailers knew about this practice. Even this number may be overstated: Ms. Elizondo reports that several respondents stated clearly that they were aware of these products, when later statements showed just as clearly that they were not.



Retailers provided a much different picture of the possibilities for furniture made from certified, sustainably-harvested wood (or, “certified furniture”) than did the consumers. Recall that prospective furniture purchasers reacted very positively to the idea of certified furniture, and that this effect came out of a sophisticated conjoint analysis, in which the certification was only one of five attributes. The results of that study must be taken with caution, as only actual buying behavior can answer the question of the relative value of certification in a competitive marketplace. But they are certainly encouraging.

The picture for retailers is less clear. On the one hand, they profess an overwhelming interest in carrying certified furniture, as the results for 29 (the 30th was unsure) responses indicate in the chart on the left. On the other hand, in sharp contrast to our study of consumers (which suggests the possibility of a price premium for certified wood), retailers are quite skeptical. Consider responses to a question about additional premiums that might be available for them. We received 25 responses, distributed as shown in the chart on the right.



We studied further the stores that foresaw the possibilities of premiums. They are very similar to the sample averages both in the size of the furniture sales area and in employees. This result contrasts with the idea that a “boutique” approach to marketing that might stress small shops might be a viable strategy. However, of the 8 retailers that foresaw price premiums, 6 served customers that were “very quality conscious and less price conscious,” according to a previous question. This indicates the pivotal importance of quality to the sales of certified furniture. And it may also indicate that a differentiation strategy may work with retailers who already are differentiated by quality.

The importance of *quality* was buttressed by an open-ended question in our survey, “In your opinion, what would make furniture from certified sustainably-harvested wood particularly popular among consumers?” Responses cited needs such as the following:

- “skilled labor”
- “more guarantees on quality”

- “a guaranteed ensuring that the material is not going to create problems in the future, and that it is long-lasting
- “high standards of quality and punctuality”

Reading through a number of such responses leaves the impression that it is possible that retailers associate certified wood with poor quality, though that is never explicitly stated. If this perception exists, marketing efforts must aim to reverse it.

Also important was the aspect of *authenticity*. Retailers repeatedly noted the importance of validating that the wood was certified, to the point of having documentation to provide to the customer.

- “national furniture with an explanation of the origins and a copy of the certification”
- “knowledge of the certification process by consumers”
- “specific standards for certified wood”
- “a certification document”

This is potentially an important marketing element for certified furniture. For example, an artistic certification symbol—perhaps burned into a drawer or on a small metal coin-sized plate in the drawer—could serve to bolster the authenticity and also connote quality of construction.

The final element that was suggested by a couple of respondents was the need for *education* of consumers about certified wood:

- “more publicity for furniture made from certified wood”
- “more advertisements”

This is consistent with the retailers’ own lack of knowledge of certified wood. And it dovetails with several of the findings from other portions of the study, which indicate that knowledge of certification is sharply limited. There can be no “demand-pull” for certified wood products if consumers are not aware of the existence of those products.

Prospects for Successful Entry in Retail Furniture

Taking a step back and looking at the results of our work on the Mexican furniture retailers, the following preliminary conclusions can be offered.

1. *This appears to be a time of change for retailers*. The very rapid influx of imports noted in the background review will likely signal a very competitive marketplace in parts of the furniture market, one that might well depress prices. Although the stability of the supplier base was surprisingly high for this sample of retailers, this might be due to the fact that the sample was drawn from relatively higher-end stores. Due to shipping costs, Asian furniture may not actually enter at the lowest end of the market, but rather at a point closer to the median price (this would replicate the experience in the United States). This must be kept in mind if furniture will be sold in such markets.

2. *Entry by producers of certified furniture who do not already enjoy relationships with furniture retailers will be difficult*, since these suppliers relationships are relatively stable.

3. *At least as this point, whether or not there will be a price premium for sales to traditional manufacturers or retailers is an open question*. As with other situations, the fact of certification will be viewed as a "tie-breaker."

4. *It may be that a more successful route to entry is to sell lumber and secondary materials to manufacturers*. This follows from the fact that roughly half of the retailers surveyed were downstream affiliates of manufacturers, and therefore unlikely to purchase finished furniture from outside companies,. There is a tradeoff embodied in this strategy: while selling lumber and secondary goods gives up the value-added of manufacturing, it essentially doubles the market for certified lumber.

5. *The potential for successful entry is made less predictable by the absence of information about certification in the marketplace*. For example, if knowledge about certified furniture was more widespread, retailers might have been questioned by consumers about whether or not they carried such furniture. In this way, they might have been more receptive to selling the furniture, as well as more optimistic about prospects for a price premium. But there is no certainty about this.

6. *Authenticity backed by documentation is critical to the sales of certified furniture.* This has important ramifications for supply chain of certified wood, because it indicates that maintaining the "chain of custody" will be a necessary condition for selling. This could create problems for the strategy of selling lumber and secondary materials to manufacturers, since the manufacturing facilities would also require certification. On the other hand,

should a viable market for certified furniture materialize, the difficulty of acquiring and maintaining a chain of custody will be a strong barrier to competition and protect the market position of sellers all certified products.

7. *There may be a role for government policy in this marketplace*. In a perfect world, a simple government mandate that furniture be labeled with its sustainable content would drive retailers to seek out certified furniture. Because no manufacturer would want to have zero certified content, this could generate demand for certified wood and products. But because such a mandate may well be impractical in Mexico at this point, a government certificate which validates the environmental certification might be worth exploring. This depends on whether or not a Forest Stewardship Council certificate (or certificate by another certifier) is deemed sufficient to document certification. If competing certification bodies arise—and it is possible that the manufacturers themselves might try to introduce their own certification scheme—it may be that a governmental body will need to "certify the certifier." The protection of authenticity is paramount to the sale of certified furniture, and scandals about lax standards will greatly injure the market for this furniture.

8. *We recommend that government-led arrangements for the purchase of school desks from mills in Oaxaca be studied closely*. This is one market that is quite separate from the retailers that we surveyed, and may well be a template for growth in furniture sales. In our concluding report, we will try to identify some other markets that might be good targets for initial entry into the furniture area. Such markets can also play an important strategic goal by providing start-up experience for some community mills that are just beginning to manufacture. These mills are likely not ready for the greater furniture market in Mexico.

Appendix

Questionnaire for Furniture Retailers

Name of Company ____________________________
Location ____________________________
Contact Person ____________________________
Number of Contact Person ____________________________

Thank you for taking the time to speak with me today. I am doing market research on behalf of the National Ecological Institute of the Government of Mexico. I would like to ask you a few brief questions, and will require only about 10 minutes of your time. May I begin?

1. Please estimate how many square meters of your store are devoted to furniture (home, office, and other categories) ______

2. Of this space, what percentage is devoted to wooden furniture? _____

3. How many employees work in the furniture area at this store? _____

4. Which of the following categories customers who are purchasing furniture for their homes?

_____ Very quality conscious, less concerned about price
_____ Balancing price and quality
_____ Very price-sensitive, less concerned about quality

5. Please tell us what percent of your sales is attributable to each type of furniture.

_____ Household (bedroom, living room, kitchen, etc)
_____ Office (office desks, file cabinets, etc)
_____ Other (please specify) ________________________________

6. (Open-ended). Speaking about furniture retailing in general, what do you believe is the single most important trend?

____
____
____
____

7. Does your company own any furniture manufacturing facilities?

____ Yes
____ No

8. If you own such facilities, what percent of furniture sales at your store represent sales of furniture that you manufacture? ______%

9. From how many separate companies do you purchase furniture? ____ (provide estimate)

10. How important is the provision of credit to you by your suppliers?

____ Very important
____ Somewhat important
____ Somewhat important
____ Unimportant

11. How would you characterize your relationships with suppliers?

____ Very stable from year to year
____ A stable base of suppliers, but some changes over time
____ Changing rapidly from year to year

12. Please provide percentage estimates for the manufacturing source of your furniture.

____% Local)
____% National, but not local) three categories should add to 100%
____% International)

13. Are you aware that some Mexican manufacturers are creating furniture made exclusively with wood that is certified to be harvested using environmentally sustainable methods?

____ Yes
____ No

14. If you were able to sell furniture made from certified, sustainably-harvested wood, and if that furniture was of the same quality and price as the furniture that you now sell, would you be interested in carrying a line of that furniture?

____ Yes
____ No

15. If you sold furniture that was labeled and promoted using wood that was environmentally certified, please estimate what additional premium you believe you might be able to charge:

____ No premium
____ A premium of _______% (please specify)

16. Open-ended. In your opinion, what would make furniture from certified, sustainably- harvested wood particularly popular among consumers? Which types of furniture might be especially successful if manufactured with certified wood?

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Thank you very much for taking the time to speak with me! Your responses are very important and will help us to understand the furniture market more completely.