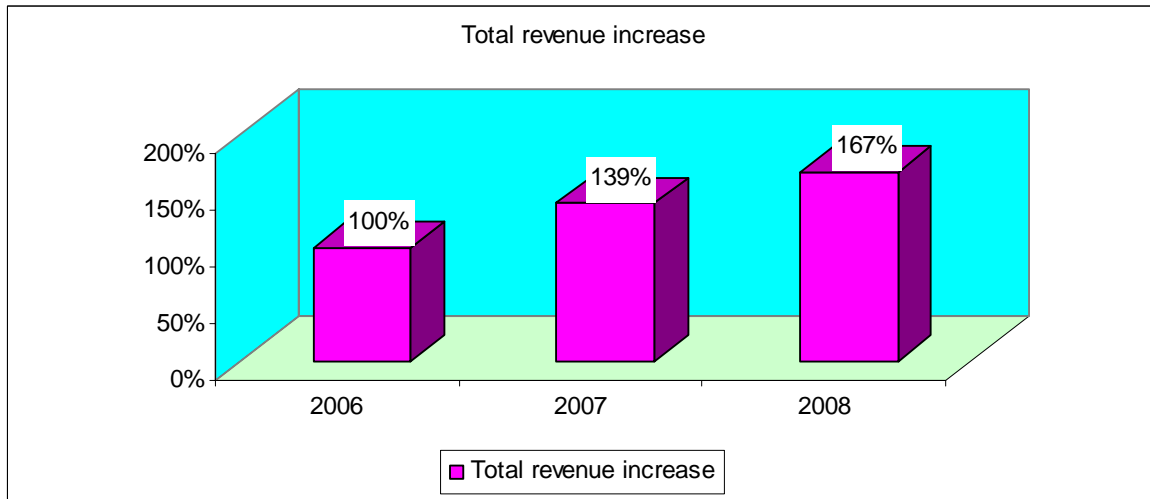


SURVEY OF 60 WOOD PROCESSING ENTERPRISES – FINDINGS AND RECOMMENDATIONS

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The component 2 of the Vietnam – German Forestry Cooperation Programme together with VFTN of WWF with support from the Agro-Forestry Products Processing Department of MARD and Binh Dinh DARD conducted a survey of 60 wood processing companies. Below are the main findings and recommendations.

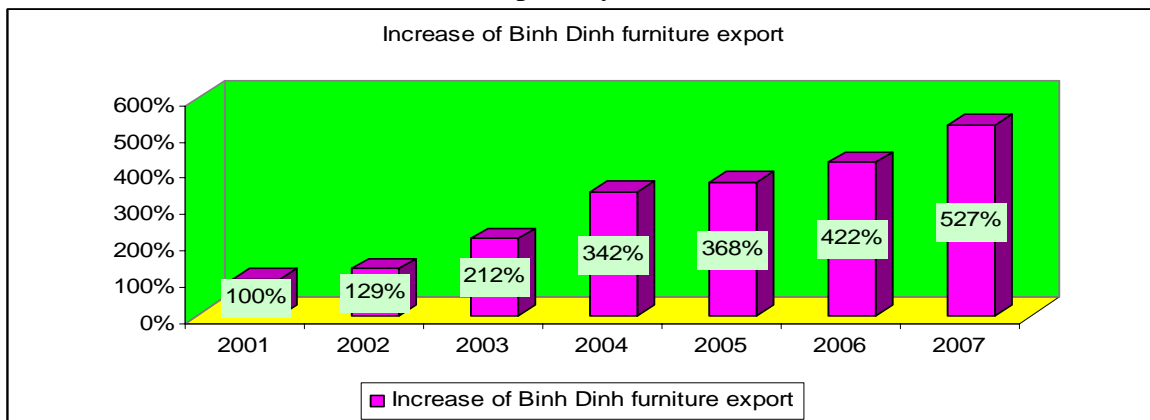
1. MARVELOUS INCREASE OF REVENUE IN 2007 AND 2008



The revenue of the 60 surveyed enterprises marvelously increased in recent years. The revenue of 2007 increased 39% vs that of 2006. The increase of 2008 revenue vs 2006 is 67%.

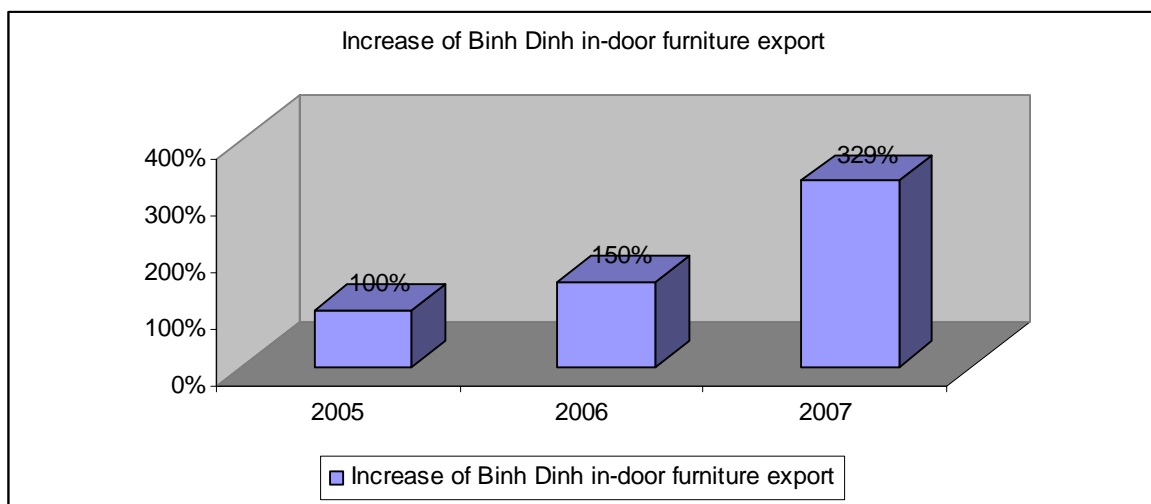
2. EXPORT VALUE INCREASED 5.3 TIMES WITHIN 6 YEARS

Binh Dinh wood processing sector has reached outstanding achievements, the export value has increased 5.3 times within the past 6 years.



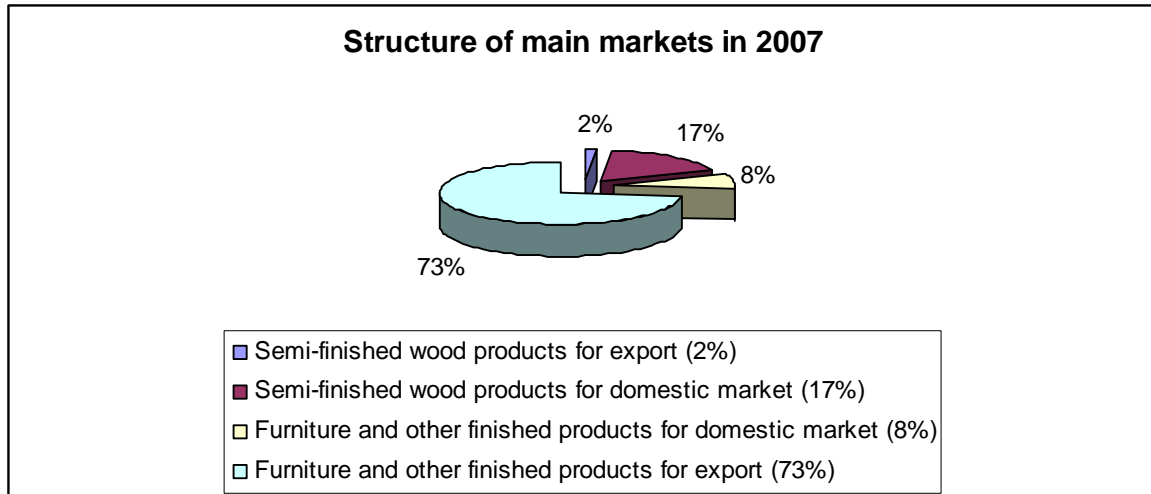
3. FIRST STEP TO IN-DOOR FURNITURE FOR EXPORT

Since 2005, in-door furniture appeared in the list of exported products. And the export value in 2007 increased more than 3 times vs 2005. Discussion with the enterprises owners shows that they are interested in this kind of export due to its clear benefits including selling price, profit rate from one m³ of processed timber, less number but high qualified employees who tend to be more loyalty to company, in addition company is in better position to pay its employees therefore human resources management is less tense in comparison with the current situation. These incentives together with proven image of Binh Dinh furniture will create more opportunities for Binh Dinh in-door furniture to access global market.



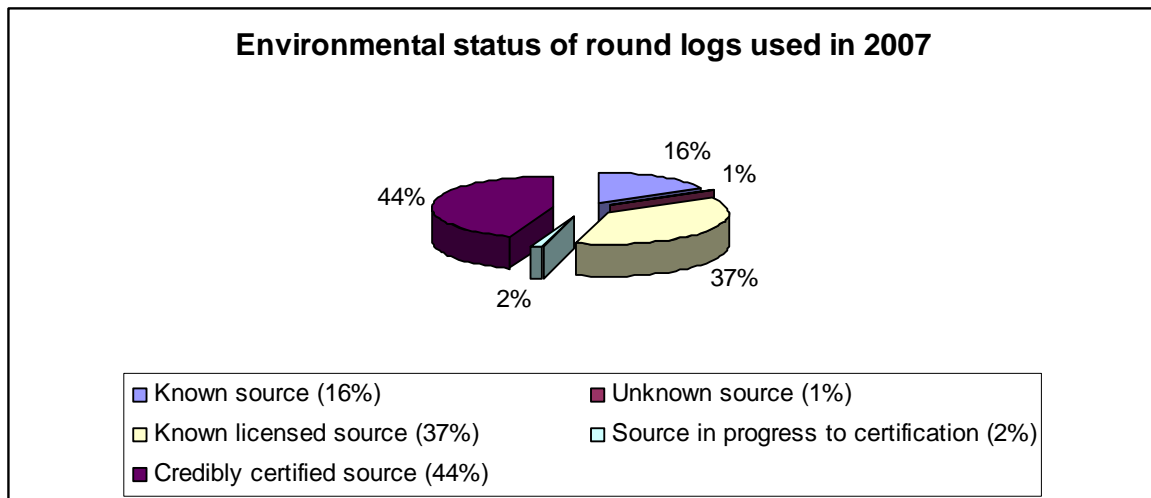
4. A LITTLE ATTENTION ON FURNITURE FOR DOMESTIC MARKET

Another fact found during the survey is the furniture made for the local (Vietnam) market accounts for 8% only. Therefore Vietnam furniture market of 86 million population should be surveyed more deeply in terms of the market demand, purchasing power, characteristics, etc. However imported furniture being sold in Vietnam is a good food for thought of Binh Dinh wood processing enterprises about potential local market occupied by furniture manufacturers from oversea.



5. ENVIRONMENTAL STATUS OF ROUND LOGS USED IN 2007

Up to 44% of total volume of round logs are from credibly certified source, 37% from known licensed source, 16% from known source, 2% from source in progress to certification, and only 1% from unknown source.



6. CONCLUSION AND RECOMMENDATION

6.1. Wood processing is a key sector of Binh Dinh providing marvelous contribution to employment opportunities, economic development, an important part of the provincial GDP, and foreign currency (USD 180 million in 2007). Therefore the state management of this sector should be consolidated into a focal point with equal capacity creating the most favorable condition, especially institutional policies, technical infrastructure, technical supports in commercial relationship, and labor, etc for development of this sector.

6.2. Binh Dinh is one of the four for-export furniture making centers of Vietnam, having broad and deep market links, including timber supply as well as timber products selling, with the global market. The garden furniture made by Binh Dinh people with good quality presents in chains of shops over the world, but under other names and other brands. Therefore building its own brand and names for own furniture in the global market must belong to one of the most important strategies of Binh Dinh.

6.3. The surveyed enterprises pay much attention on product marketing because actually it has not been implemented systematically and professionally. Therefore in one hand the enterprises should actively proceed by themselves with SMART business plan, marketing strategy, and organizations and people experienced in this field should support them in this area in other hand. In addition, participation in the Global Forest and Trade Network is a good solution for the enterprises to boost their brand and products.

6.4. Almost of the surveyed enterprises worry about un-fair competition between them in buying material and selling finished products which together with not taking care and building cooperation among themselves result in buying with unreasonably high price and selling with unreasonably lower price and losses in doing business. Therefore the concerned governmental authorities and the enterprises must be more aware of the importance and benefits of close cooperation between enterprises within a well organized association and pro-actively take practical and realistic actions to build and strengthen wood processing association of Binh Dinh.

6.5. 80% of material processed in Binh Dinh wood processing companies is imported. The total volume of timber, equivalent to round logs, traded and processed in Binh Dinh is about 584,000 m³ in 2007. The survey shows that there are 49 companies trading timber, but 36 from them have one client from the surveyed cluster only. This fact is not only evidence of a free competition in timber trading in Binh Dinh, but also evidence of a scattered-into-piece timber trading that has many potential disadvantages, especially buying price and quality of timber bought. Therefore companies trading timber should pro-actively cooperate to get bigger order having advantages in pricing, quality and payment terms as well.

6.6. We discussed with relevant parties concerning pre-conditions related to the volume of timber traded and processed in Binh Dinh, to land facilities, to supports of related Binh Dinh authorities, etc and based on all that establishment of a timber market floor in Binh Dinh. We realized that the pre-conditions should be actively analyzed more deeply and carefully to get outputs for next steps.

6.7. The global market, after Vietnam joined WTO, opened a lot of opportunities for Binh Dinh wood processing sector. However the opportunities very often go together with certain challenges, especially the environmental status of timber used for making export furniture. Therefore the enterprises must pro-actively learn and clearly know all legal requirements for timber products imported to EU, North America countries and Japan so that to get material sources suitable for the requirements.

6.8. All surveyed enterprises are facing a reality that the price of material is increasing due to the sources are far away located and transportation cost goes up because of oil price, labor cost increase and more difficult to get enough workers, power cost is becoming higher, while the selling price change is not relevant. Therefore enterprises must focus on finding solutions to save cost and increase productivity by improvements in material use, management of production, technology, human resources and their own assets and capital. Building quality management system in accordance with ISO 9001, applying 5S and continuous improvements (kaizen), strict following CoC requirement will be effective contributions to reduction of the cost.

6.9. Winning competition in the global market cannot be separate with investment in new technology with higher productivity, lower cost, better quality of products. However any investment in new technology requires a large amount of capital therefore enterprises must have a suitable financial strategy aiming to get reliable and effective investment sources to re-new their technology.

6.10. The structure of labor force of Binh Dinh wood processing enterprises is worth of deeper attention. The employees with university degree count for about 3% only, with vocational education count for about 30%, while untrained and unskilled workers count for nearly 70%. The production therefore mainly relies on untrained and unskilled workers. This fact creates a lot of barriers for companies in technical improvements, improvement of productivity, in reduction of cost and does not provide opportunity for further development. Thus management and technical training for labor force should be under much more attention.

6.11. According the survey data, production capacity utilization of the enterprises is lower than 50%. The main reason is the seasonality of the garden furniture production. The seasonality also badly impacts sustainability of the labor force. Thus the enterprises should develop in-door furniture export as well as products for domestic market to get better utilization of the production capacity and sustainably maintain their labor force.

6.12. Equity of the enterprises is too low, only counts for about 20% while the liability is up to more than 70%. The major part of assets, in working capital, is material waiting for production, finished products in warehouse waiting for delivery to customers and also delivered but-not-paid products. High stock, in one hand, is due to characteristics of material and production and also due to management and capability in negotiating and signing contracts with customers. Therefore the enterprises should deeply analyze their working capital as well as payment terms of contracts to get opportunities of reducing working capital and save cost.

6.13. Business management in big-scale companies is becoming more complex, while the market always requires the companies managers quickly and correctly to react. The requirement is very difficult to be met without proper information technology. Thus the enterprises should quickly to be equipped with information technology relevant to the scale of the enterprise.

6.14. Nowadays, according to the survey, the information of wood processing companies is very poor creating many difficulties for companies themselves and organization willing to support them. The fact is due to miss-understanding of importance of a right enterprise information and therefore today does not exist a real information of wood processing enterprises. Many enterprises miss-understand the information confidentiality therefore scared to share information with the survey team. In reality, with right awareness and right sharing the enterprise information can bring a lot of benefits, first of all for companies because they can know exactly where are they in comparison with others, where they should and can go, and which priorities they should focus their resources on to win in competition. Therefore the survey should become a routine work every year and an effective support for companies to understand themselves better to get right solutions for their own business.

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