

Egyptian Furniture Sector Development Strategy



Detailed report

December 2010



This report has been developed in coordination with all relevant stakeholders in the furniture industry; namely manufacturers, retailers and all relevant governmental authorities.

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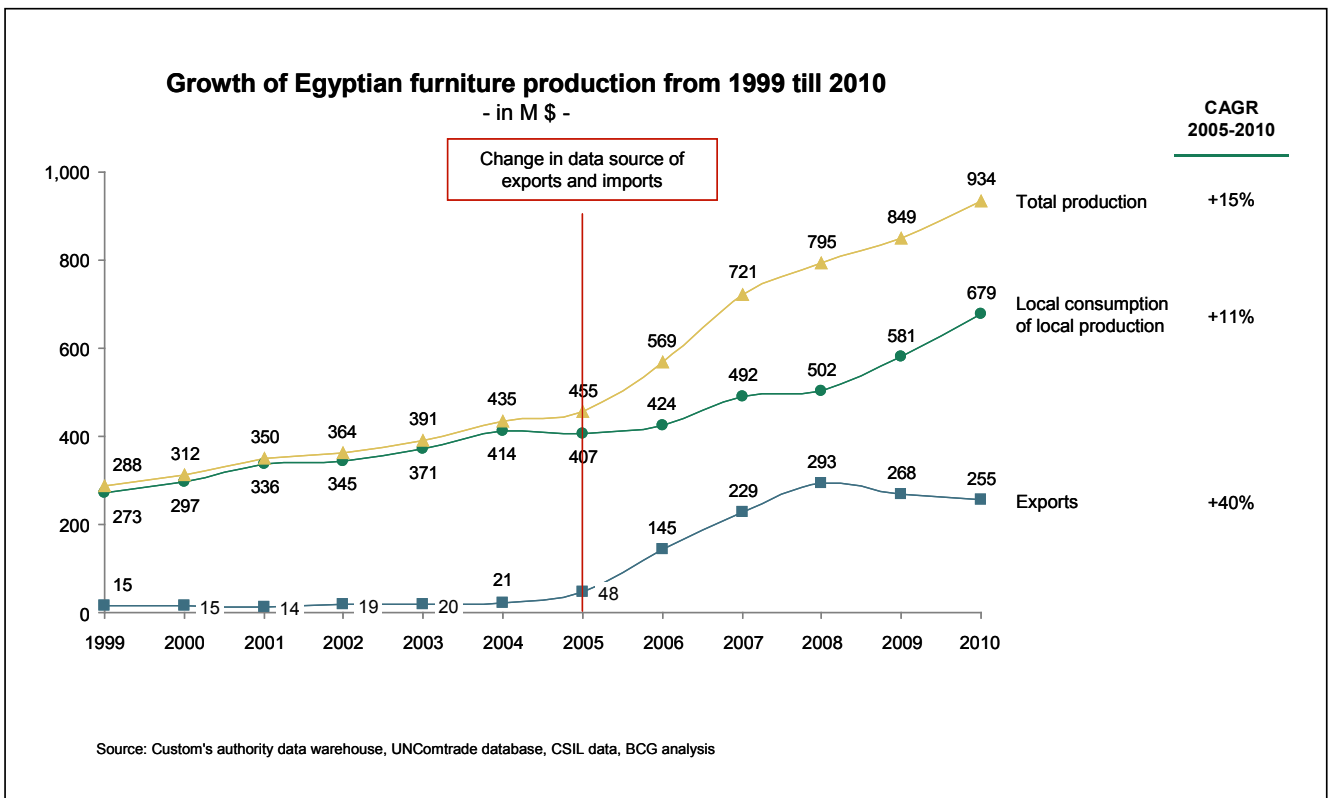
1.Introduction: Current State of the Industry

Furniture production in Egypt has a long history built on the strength of Egyptian craftsmanship. Production styles continue to reflect the influence of the French and British colonial periods, when Europeans encouraged the industry’s development in the port city of Damietta. Over time, furniture manufacturing attracted former shipbuilders with strong woodworking skills, and the number of workshops and furniture workers grew steadily.

However, it was not until the last decade that the Egyptian furniture industry experienced truly dynamic growth, driven largely by a surge in exports. While demand from primarily Middle East and North African (MENA) countries has fueled this growth, the potential for considerable increase in exports to European markets remains largely unrealized. Egyptian manufacturers benefit from low labor costs and a geographically advantaged location, reducing the cost of importing inputs from Europe and exporting finished products to markets around the world. Additionally, Egyptian manufacturers provide clients and partners with greater flexibility than European manufacturers, in terms of order quantity, customizable specifications, and turn-around time.

With Damietta, the furniture industry’s center of production, located on the Mediterranean coast and home to an abundance of highly skilled and relatively low cost labor, the Egyptian furniture industry has the capacity to expand dramatically in coming years. Still, this potential can only be realized with the support of government, the guidance of overseeing bodies and broad collaboration among public and private participants to address a set of issues presently restraining growth.

The challenges hindering powerful sector expansion include industry fragmentation, limited external capital and financing options, low labor productivity and limited quality control. To capture its growth opportunities, the industry must make comprehensive and coordinated efforts to increase its scale of production and devote significant resources to marketing the “Made in Egypt” brand in global, particularly European, markets. Lastly, government authorities must further increase copyright protection and simplify bureaucracy, in an effort to reduce the perceived risk of investing in Egypt.

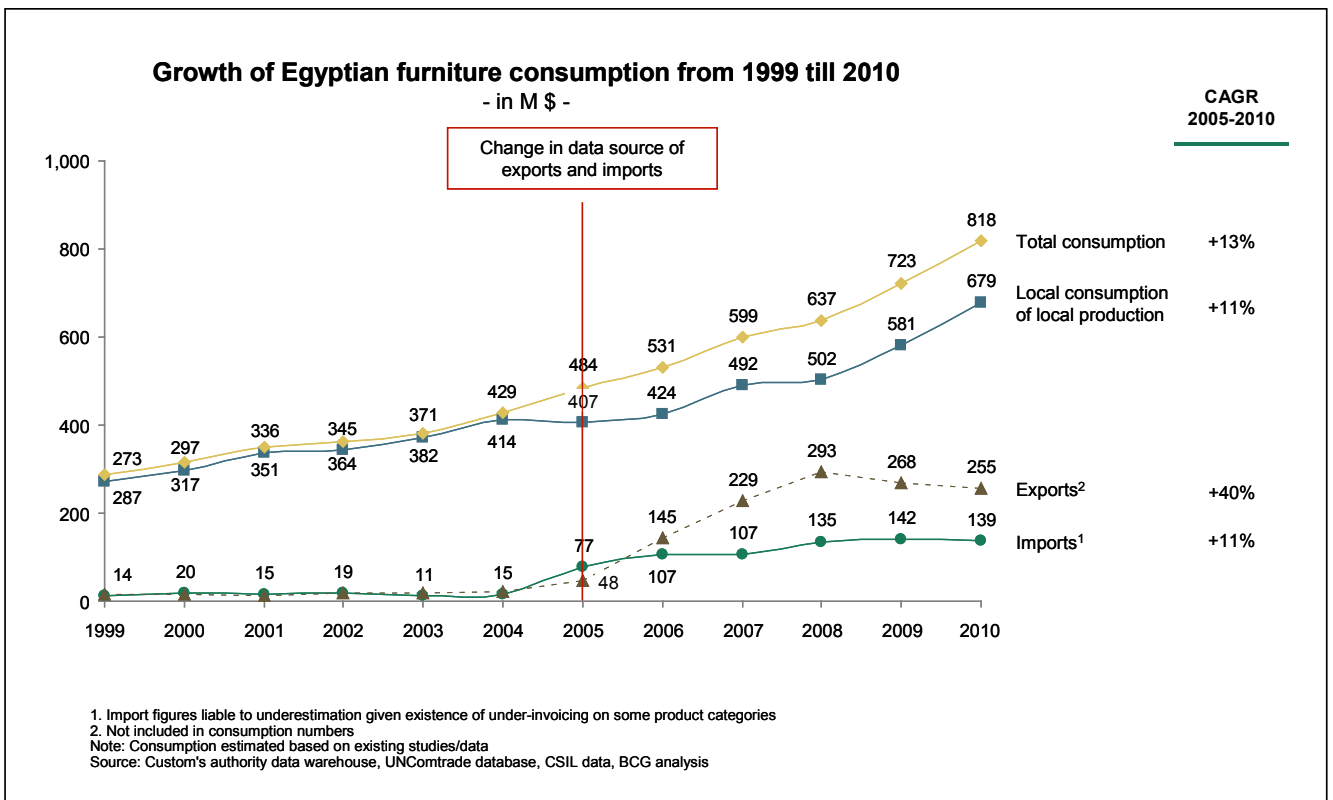


1.1 Strong Growth of Exports and Local Market

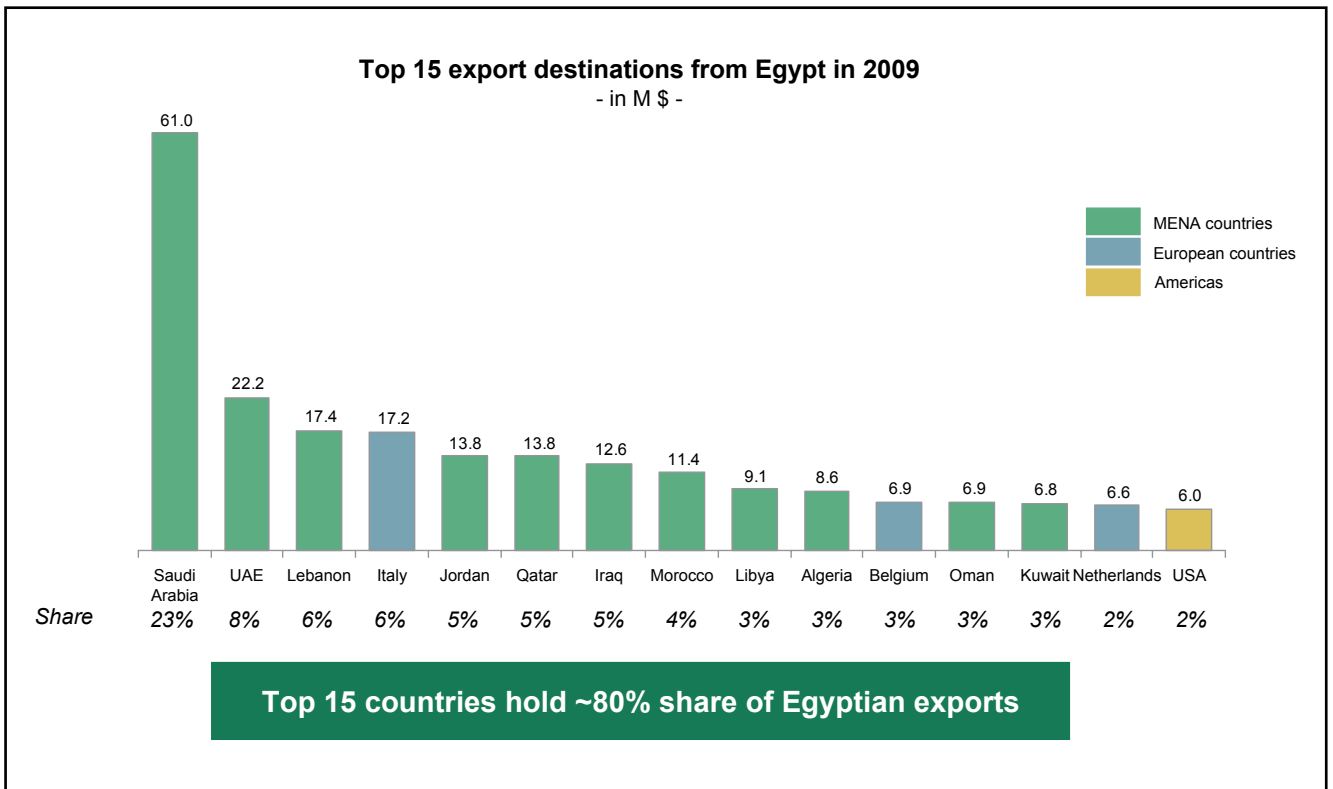
The Egyptian furniture sector's significant expansion to date has been driven in large part by growing local consumption, but also due to rising exports. The compound annual growth rate (CAGR) for total production measured 17 percent between 2005 and 2010, while exports soared 43 percent annually.

As world, notably European, GDP figures normalize and return to growth in the coming years, furniture consump-

tion levels are projected to follow broadly in step. Wider Egyptian export growth in the recent past has closely followed MENA European GDP data trends. As European GDP shows signs of recovery, reaching growth in the fourth quarter of 2009 and into the first quarter of 2010, total Egyptian exports, and furniture exports in particular, are expected to resume pre-2008 trends.



1.2 Furniture Exports



MENA economies – exhibiting in many ways similar historical, cultural and aesthetic tastes – are the largest destinations for Egyptian furniture exports. Of Egypt’s top 15 furniture export markets, which comprise approximately 80 percent of total furniture exports, 11 destinations are MENA countries.

Saudi Arabia tops the list of export destinations, importing US\$ 61 million of Egyptian furniture products in 2009 and claiming a 23 percent share of the country’s total furniture exports. The UAE, the country’s second largest furniture destination, imports some US\$ 22.2 million of Egyptian furniture, or 8 percent of the total export bill, while Lebanon represents a US\$ 17.4 million (6 percent) annual destination and Italy imports US\$ 17.2 of Egyptian furniture.

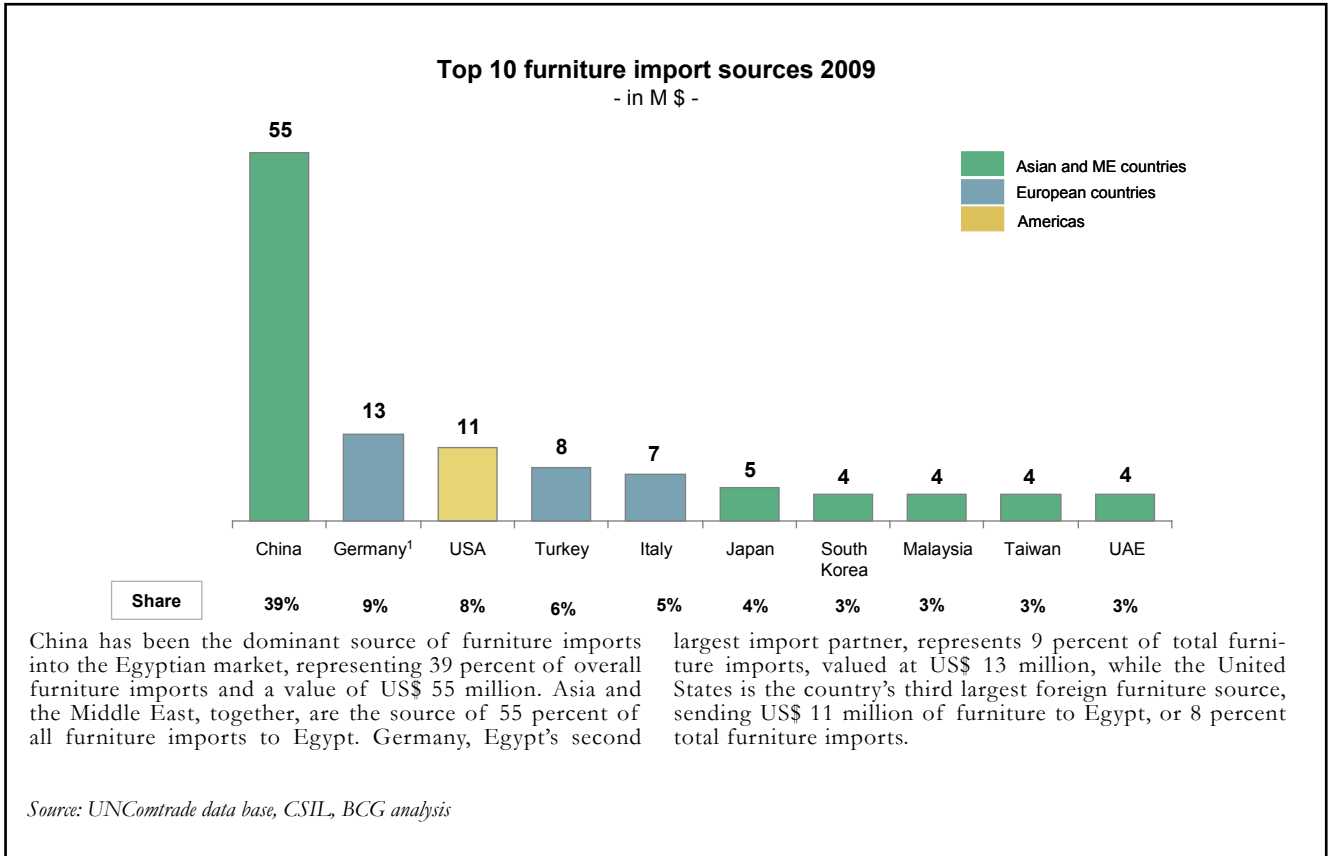
Egyptian furniture exports to all regions increased substantially from 2005 to 2009, with the largest gains appearing in the Middle East and Europe.

Exports to countries in the Middle East increased 8 fold, from US\$ 25 million to US\$ 199 million. Exports to Europe, meanwhile, increased 4 times, from US\$ 14 million to US\$ 56 million.

Furniture exports to MENA countries are constituted mainly of finished products that serve consumption directly. However, while exports to European markets are comprised of finished products for contract markets, they also mostly consist of unfinished goods, sourced by European manufacturers.

The Egyptian furniture sector’s dramatic exports growth to Middle Eastern countries is particularly demonstrated in the share of furniture exports directed toward the region – in 2009, the Middle East received 75 percent of total Egyptian furniture exports, up from 51 percent in 2005. Europe’s share decreased 8 percent points, representing 21 percent of overall Egyptian furniture exports in 2009.

1.3 Furniture Imports



As Egyptian domestic furniture consumption grows steadily and local production expands to match it, imports have grown to fill the gaps between local production and consumption. This has resulted in almost doubling of furniture imports to the country

between 2005 and 2008, from US\$ 77 million to US\$ 142 million. In 2010, furniture imports are forecasted to decrease slightly to US\$ 139 million as world markets remain in early recovery and continue to regain footing as growth returns.

1.4 Egyptian Players' Target Markets

The Egyptian furniture sector is broadly characterized by two primary manufacturer categorizations and strategies: large exporting firms sending goods to international markets and local producers focusing on supplying finished goods for domestic consumption. In both cases, producers import a vast majority of necessary raw materials such as wood, textiles, glue and machinery.

Large Egyptian export manufacturers are largely concentrated within the bigger scale manufacturers available in the market and have grown their markets in Europe and elsewhere by targeting several primary distribution channels: contract buyers, retailers and wholesalers, and sub-contracting clients.

Contract buyers include real estate developers and design consultants for hotels, restaurants, public

areas, and private homes. When distributing products through contract buyers, manufacturers produce goods on a made-to-order basis, creating specific designs requested by developers or consultants.

Foreign retailers and wholesalers, meanwhile, generally order a representative sample of products to be displayed in showrooms and shops. Products are then manufactured based on order demand from end-users, usually retail shoppers.

Sub-contracting clients include foreign furniture manufacturers, typically in higher cost countries, who buy handmade frames and finish them locally.

2. Egypt's Competitive Strengths

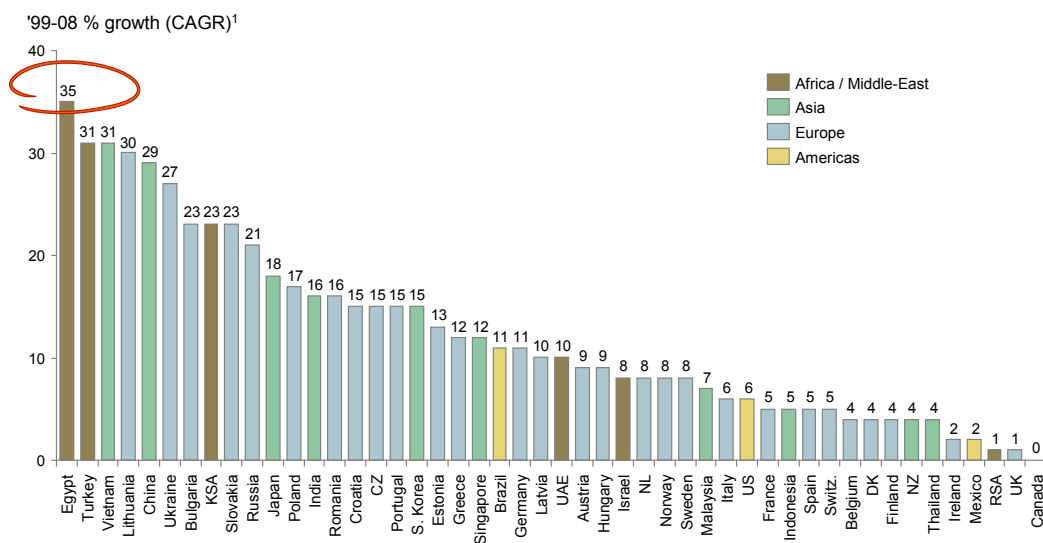
The Egyptian furniture industry's strong recent growth in exports and persistent underlying potential in the global market is based on five key strengths:

- Strong and recognized woodworking know-how
- Geographical and cultural proximity to

primary export markets (MENA, Western Europe)

- Flexibility and short turn-around time
- Attractive cost structure, based on low labor and shipping costs
- Strong governmental support and willingness to develop the industry

Egypt: A Global Leader in Furniture Export Growth



Egypt was the world's fastest growing furniture exporter between 1999 and 2008, in terms of CAGR figures, outpacing even China. However, the volume of exports remains small relative to other countries, indicating huge potential to be leveraged.

This rapid development of Egypt's export volume is based on its competitive advantages in labor costs and proximity to European markets.

1. Strong and recognized woodworking know-how

For historical reasons, furniture manufacturing has long been one of Egypt's most globally competitive industrial sectors. Today's production styles were passed on from the colonial era, reflecting traditional French and English influences. During this period, expatriates developed the craft in Damietta, a coastal town with an established ship-building industry. The combination of built up wood-import infrastructure and a technically-skilled labor force provided an ideal climate for the furniture industry's expansion in the city.

Today, Damietta remains the center of the furniture industry in Egypt, home to 36 percent of all Egyptian furniture establishments including many large facto-

ries in the city and its industrial zone. This agglomeration has shaped an industry cluster that has continued to advantage the city and its furniture manufacturers with an integrated supply chain network that feeds inventory to numerous wholesalers and retailers both locally and abroad.

Despite the expansion and gradual modernization of the industry, hand-carved wooden furniture continues to be the sector's primary product - 72 percent of the materials used in Egyptian furniture production in 2007 were wood-based. At the same time modern international trends are showing signs of gaining traction. From 2006 to 2007, metal-based furniture gained 6 percentage points over the product mix, accounting for 24 percent of all furniture products in 2007, from 18 percent in 2006.

2. Geographical and cultural proximity to Europe and MENA countries

Egyptian and European cultures share long-stranding historical ties – including language and lifestyle – which have historically facilitated trade and commerce between Egypt and continental partners. English and French are widely used in the country, and European trends have demonstrated a strong influence on Egyptian lifestyles, particularly among the upper classes. Additionally, many Egyptian businesses have adopted the European work environment and business structure, further easing and opening the doors for trade and inviting a number of European multinational companies into Egypt.

Egypt’s central location also facilitates business operations and international trade. The country’s proximity to Europe, MENA and Asian countries supports new business development and reduces transportation costs – The average flight between Egypt and Europe is between 3 and 4 hours, while the greatest time difference is two hours (London).

3. Flexibility and short turn-around time

Egyptian furniture manufacturers’ cost advantages allow flexible production quantities and a unique ability to customize production. Producers’ ability and willingness to manufacture small quantities of furniture to fill market gaps serves several needs: Individual customers looking to buy limited amounts of items through factory visits and agreements with producers; small contract buyers producing short series as small as 5 to 20 items; wholesalers and retailers producing requesting un-stocked items to fill special situations and fluctuating demand.

Additionally, many manufacturers are willing to accommodate custom-made and special-to-order products, allowing particular flexibility with designs, applications, and materials for high-end customers seeking to create specified designs.

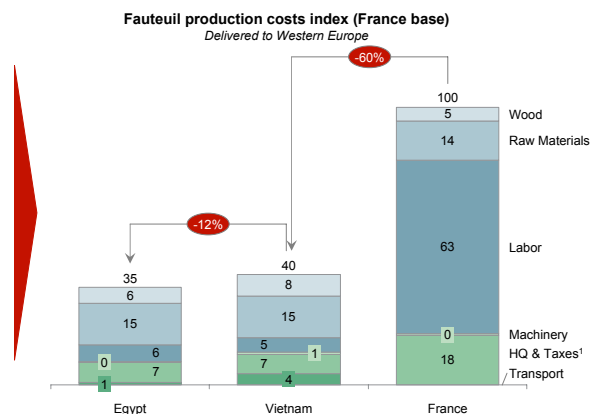
This degree of flexibility is rare in mature economies where scarcity and cost of labor have created rigid production procedures, giving Egypt a decided advantage over European manufacturers.

Upholstered Fauteuil: Comparative Production Costs in Egypt, Vietnam, France

A comparison of the cost of manufacturing an upholstered fauteuil in Egypt versus France, a mature economy, demonstrates Egypt’s attractive cost structure. In France, labor cost constitutes a majority of overall production at 63 percent. In Egypt, production cost for a fauteuil of similar specifications is 64 percent lower, while much of the cost advantage derives from lower labor expenses, which constitute just 17 percent of the cost production in Egypt.



In a cost comparison with Vietnam, Egypt presents only slight advantage – producing and exporting a fauteuil at 9 percent below Vietnam’s costs. In such a comparison, Vietnam demonstrates competitively advantaged labor costs, though Egypt’s geographical position allows significant transport costs advantages to many worldwide markets, particularly Europe. This central position allows both lower costs to import intermediary products and reduces export expenses, providing durable competitive advantage over many emerging markets competitors.



Note: Labor cost hypothesis based on wage rates reported in each country without accounting for productivity differences
Source: Company interviews, The conference board total economy database, BCG analysis

4. Attractive cost structure: low labor costs and transportation costs to primary markets

While Egypt's manufacturers traditionally specialize in classical furniture styles, the country's significant base of highly skilled, low-cost furniture workers allows stylistic flexibility. These laborers' craft and skills are readily transferable and have often been employed to produce a number of modern and contemporary styles.

Additionally, Egypt's handwork culture and tradition is widespread throughout a number of sectors. These transferable skill sets have provided a broad based and nearly unlimited labor pool for furniture producers as efficient job training allows craftsmen from many industries to move into furniture production as required. This large labor pool of craftsmen is particularly an advantage in the industrial center of Damietta.

This large pool of available furniture producers also brings cost advantages. The average labor cost per hour for upholstery in 2009 was US\$ 2 in Egypt, compared to US\$ 14.9 in the United States and US\$ 18.8 in France. As the sector expands its international visibility and develops its quality, Egypt is positioned to further leverage this cost advantage in the coming years.

Egypt also enjoys a strong advantage in shipping costs and transit times based on the country's proximity to European and MENA markets. Compared to a host of world markets, Egypt presents a durable, 55 to 70 percent advantage on shipping costs, while transit times are, on average, approximately 3 weeks shorter to and from Egypt.

Shipping a container from Vietnam to southern France, for example, costs on average US\$ 2,890 with a transit time of 27-30 days. From Egypt to France, the cost is just US\$ 920, while transit time is between 3-6 days. Shipping the same container from Shanghai to France costs traders US\$ 2,650 and requires just under one month.

5. Strong governmental support and willingness to develop industry

Egypt's furniture industry has expanded in recent years with the assistance of favorable government regulations and strong support from the Ministry of Trade and Industry. These business friendly policies have proved a strong support for Egyptian furniture producers and play a critical role in the sector's continued development as a global leader.

Two entities are of particular importance to the Egyptian furniture sector's emergence: the Industrial Modernization Centre and the Egyptian Furniture Export Council.

The Industrial Modernization Centre, funded by the Egyptian government, the private sector, and the EU, provides technical assistance to producers, in the form of improving productivity, training manufacturers, and enhancing sector output and exports. IMC is focused on strategic sector development through communication with manufacturers and involved entities.

The Egyptian Furniture Export Council, created by the Egyptian government, supports the furniture industry specifically, focusing on growing and developing producers' export capability. Among its initiatives, EFEC works to increase the visibility of Egyptian producers worldwide, notably through Furnex, an international trade exhibition, and efforts to consolidate the export of producers and improving quality and design of products by holding several workshops every year.

2.1 Hurdles to Industry Expansion

Despite the industry's particular promise and emerging strength, growth in Egypt's furniture sector remains stunted by several factors:

- Fragmented industry with very limited number of large players, means limited financing options to ensure appropriate development
- Lack of scale and visibility for furniture industry and related activities, prevents international buyers from putting Egypt on their list of supplying countries
- Limited quality appreciation and perceived variance in goods produced
- Low perceived copyright protection and a challenging business environment hinders global manufacturers from settling in Egypt due to lack of design protection
- Low labor productivity, greatly reducing Egypt's overall cost advantage on labor

Industry Fragmentation

Egypt's furniture sector is characterized by high fragmentation, with a disproportionately low number of large manufacturers. Around 90 percent of establishments are categorized as small workshops, and more than 99 percent of all manufacturers employ fewer than 20 workers. In aggregate, the Egyptian furniture sector employs approximately 350,000 workers across 120,000 furniture establishments, an average of less than 3 workers per firm.

Going forward, the sector's advantageous clusterization in Damietta – which housed 36 percent of furniture establishments and 38 percent of workers in 2006 – can act in some ways to counter inefficiencies resulting from high industry fragmentation.

Across the fragmented industry, the Egyptian furniture sector employs a significant share of the country's manufacturing workers and composes an unusually high percentage of Egypt's industrial operations. Still, while the industry employs approximately 13 percent of the Egyptian workforce and comprises 24 percent of all manufacturing industry establishments, its contribution remains a mere 5 percent of total manufacturing GDP, showcasing the high fragmentation of the furniture industry.

Family owned business models dominate the Egyptian furniture industry, a key contributing factor to

the sector's underperformance. Even today's largest furniture manufacturers, often started approximately 30 years ago as small family shops, remain overwhelmingly controlled and operated by second and third generation management. At the same time, all small workshops, the decided majority of furniture operations in Egypt, are family businesses, while the sector includes, virtually, no foreign manufactures.

The impact of this heavy orientation toward family ownership and operation has further impact on the Egyptian furniture industry's capacity to realize its potential. A study from the Solway Brussels School of Economics and Management highlights that family ownership often correlates to slower sales and investment growth. The study finds that family held firms are more reluctant than their non-family owned peers to explore external capital options as family owners avoid diluting ownership stakes with outside equity capital.

Furthermore, family owned businesses have generally failed to fully exploit growth potential from internal financing capacity as cautious financial management means companies are slow to increase firm resources directed toward growth. Finally, the study found that capital budgeting policies at family owned and operated enterprise primarily target financial stabilization, preferring to direct internal resources to reduce debt leverage or increase cash resources.

Quality Control

A widespread absence of quality control is another critical problem hampering the Egyptian furniture industry's development and quickly leads to client dissatisfaction and an international reputation for low-quality products.

Fundamental to this challenge in Egypt is a lack of quality local inputs that results from limited production and downstream industries and no local standards for raw material specifications. In addition to this lack of high quality domestic inputs, many local manufacturers settle for low quality raw materials imports in an effort to minimize production costs and as a result of lacking specifications for imported materials.

Furthermore, local producers have recourse to a system for testing the quality of imported inputs, leaving many exposed to unethical suppliers. While

high-quality products can be found in the sector, access is limited to a few large producers.

The result of widespread use of deficient inputs by medium and small manufacturers is broadly low-quality end products and un-standardized production. The country's industrial potential, in turn, remains untapped as quality concerns inhibits exports and the Egyptian sector's international reputation is diminished globally by complaints by global clients.

The absence of quality control continues to diminish the global reputation of Egyptian furniture producers. Many international clients interviewed provided anecdotal evidence of quality issues experienced with Egyptian furniture manufacturing — among these, requested specifications were not met, products deteriorated quickly, clients believed that manufacturers had intentionally sold them defective products or clients reported difficulty resolving disputes after purchase.

Copyright Protection and General Business Environment

While legislation for copyright protection does exist in Egypt (law no. 354), the reality persists that enforcement of the law is rare and penalties are low. The impact of copyright infringement extends beyond the company whose intellectual property was violated and exerts a negative impact on the industry as a whole through reduced potential financial rewards for investment in innovation.

Meanwhile, foreign investment is particularly turned off by Egypt's weak enforcement of copyright law. Hesitance to enter the market on fears of copyright infringement is a primary factor in the absence of global furniture manufacturers in Egypt and interviews with prominent international manufacturers reflected the significant perceived risk of investing in the Egyptian furniture sector on these grounds.

Additionally, Egypt's heavy bureaucracy also discourages international investment. Although the Ministry of Investment continues notable strides towards simplifying common business procedures — the World Bank's Doing Business Report ranked Egypt the ninth leading global reformer in 2010 — major obstacles remain. Such difficulties include challenges obtaining construction permits for factories, employing workers, and enforcing contracts. In addition, although seed and growth funding is available from the Industrial Modernization Centre, the procedures for accessing this funding are complex and discouraging.

Low Labor Productivity

Egypt's low cost labor alone is not enough to push its competitiveness ahead of its global peers — the country's low productivity undermines labor cost advantages compared to other markets.

On top of automation issues the cause of this productivity shortage is that Egypt's furniture labor force, while educated informally from generation to generation, has few avenues for practical industry training to ensure skills are fully preserved over time. Employees often rely on on-the-job training.

During company interviews, large company owners and managers widely recommended the establishment of formal training centers to ensure the preservation of the skills of Egyptian furniture workers and to increase the quality of workers new to the industry. These training centers would place special emphasis on productivity and quality control.

Despite this adjustment, Egypt maintains a competitive advantage in comparison to French and American labor. But the advantage can be further strengthened by introducing measures to improve worker productivity, a necessary factor if the industry is to reach its growth targets.

2.2 Egypt's Competitive Advantages

Based on analysis of primary competitiveness factors (know-how, proximity, flexibility, labor), the Egyptian furniture sector shows specific competitive advantages versus both Southeast Asia and Western Europe on several product categories.

Those categories where Egypt has an advantage are mainly: elaborated woodwork (classic furniture), contract furniture (including educational and hospital furniture), assembled case goods (including children's furniture), high end sofas and metal furniture. The advantage in this case is derived primarily from low labor cost, technical know-how and flexibility of manufacturers in production.

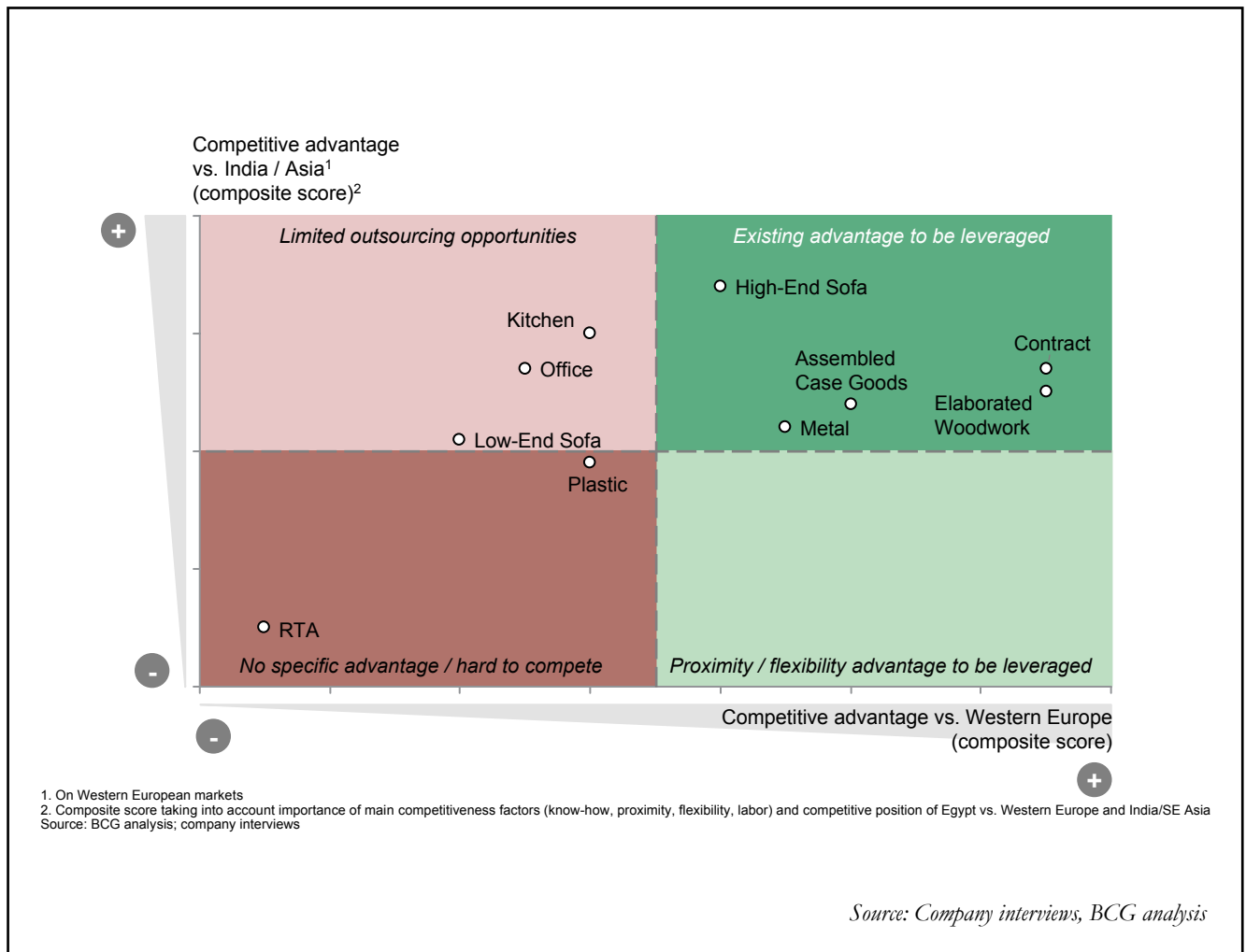
Simultaneously, due to the limited importance of low-labor costs in the production and a need to be located near consumption markets, Egypt's manufacturers have little competitive edge over European manufacturers in kitchen, office, and low-end sofa furniture.

On plastic (including outdoor furniture) and ready to assemble furniture, Egyptian producers have no real competitive advantage, neither against Western Europe nor against Asian countries.

The main cause for that is the limited importance of labor cost and the high importance of know-how and proximity to wood sources for RTA furniture, which -in this case- Egypt does not acquire.

In summary, it is observed that Egypt's strongest competitive advantages over Europe are in the labor-intensive categories, while it has little to no advantage over Southeast Asia in cost of labor, the industry's flexibility and proximity to target export markets provides a strong competitive advantage.

To leverage these advantages over the industry's global competitors, EFEC should continue to guide investment and production focus towards these four product lines.



3. Vision and Targets for Egyptian Furniture Industry

3.1 Vision

The Egyptian furniture industry:

The source of quality affordable furniture, the pride of Egyptian industries and the frontrunner of Egyptian products in a globally competitive market

This vision relies on five key components:

- Egyptian furniture sector to be a key contributor to the growing quality-based reputation of Egyptian industries
- The sector being emblematic of Egypt in the global market and a key source of export development
- The furniture sector an innovative component of the national economy with large renowned players, both nationally and internationally
- Egyptian furniture sector a highly attractive sector for investors in quality furniture products and in furniture related components
- The sector emerging as a well-known source of skilled employment, attracting workers eager to acquire specific know-how

3.2 Key Targets

By fully capturing the country’s potential as a global center for furniture production, Egypt can look to expand the sector’s export bill some 6 fold in the near term, from US\$ 268 million in 2009 to approximately US\$ 1.6 billion by 2015. Achieving this ambitious target would most probably move Egypt to among the world’s top 20 furniture exporters.

This export-led industry development will be coupled with strong expansion in domestic market furniture consumption; together, export-led growth and strong domestic demand can build Egypt’s furniture sector into almost a US\$ 4 billion industry.

Considering domestic furniture consumption across the real estate, tourism and office markets, Egypt’s domestic demand for furniture is expected to reach above US\$ 2.7 billion by 2015, more than tripling the country’s US\$ 723 million market in 2009.

According to Egypt’s Ministry of Housing, planned government-funded housing units are expected to rise at 2 percent annually over the period from 2009 to 2015, with 152,000 new publicly-funded units to be added during the final year of the period.

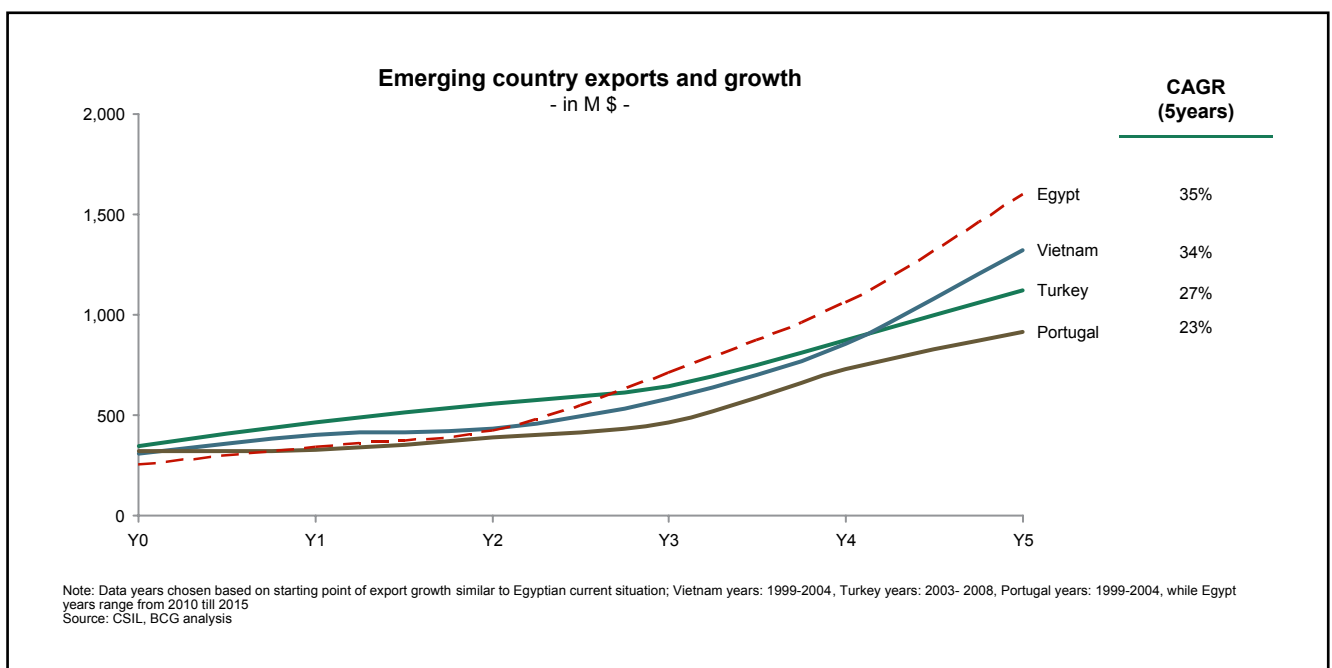
This sustained growth in public real estate will support significant new furniture spending. Furniture consumption in this market will likely achieve 13 percent annual growth between 2009 and 2015, reaching US\$ 92 million.

Private residential real estate in Egypt, meanwhile, is forecast to grow still more rapidly. By 2015, cumulative new private residential supply in Egypt is expected to reach 1.07 million units, with almost 195,100 new units being added in 2015.

This projected growth trend entails 25 percent growth in the private residential real estate stock annually. Such rapid build-up implies robust furniture demand and consumption that is most likely to grow 19 percent annually over the period to create a US\$ 1.6 billion domestic market by 2015.

Growing hotel capacity will also support Egypt’s domestic demand for furniture. New hotel space is expected to expand 5 percent annually from 2009 to 2015, to reach 280,000 total units by the end of the period. Furniture consumption by the hotel industry is expected to grow 36 percent annually, culminating with US\$ 61 billion spent by hotel operators in 2015.

A rapid rise in office space is expected to provide strong support to the sector as well. Office space across Egypt is forecast to rise from 649,000 square meters in 2009 to more than 7 million square meters by the close of 2015, marking 49 percent annual growth. Consequently, furniture consumption by the office sector, is expected to grow 79 percent annually to just under US\$ 1 billion by 2015, up from just US\$ 32 million in 2009.



After factoring in the Egyptian furniture sector's US\$ 1.6 billion of achievable exports and considering estimated imports of just over US\$ 400 billion in 2015, Egypt's furniture sector could likely emerge into almost a US\$ 5 billion industry over the next half decade, expanding from US\$ 848 million in 2009.

The furniture sector's rapid growth would see total employment in the sector rise to 390,000 up from 350,000 in 2009. Micro and small enterprises would remain decidedly the most prominent industry employers. Medium

sized businesses would increase employment by nearly eight fold to 36,800 according to projections, while large enterprises would employ 43,600 individuals.

Total establishments would increase from 120,904 in 2009 to 125,308 in 2015. The largest increases in the number of establishments would be in medium and large establishments, 669 and 123, respectively. Accumulated investments needed for the number of establishments to achieve these targets will reach US \$4.4 billion by 2015.

Egyptian furniture industry key targets for 2015

Exports	USD 1,600 million
Imports	USD 423 million
Production	USD 3,238 million
Employment	390,000 workers
New Investors	88 new companies
Investments	USD 3,368 million

KPI	2009	2015	Evolution	CAGR
Consumption (USD M)	723	2 061	x3	16%
Exports (USD M)	268	1 600	x6	35%
Imports (USD M)	142	423	x3	25%
Production (USD M)	848	3 238	x4	21%
Employment	350,000	390,000	+40	2%
Large establishments (100+ employees)	283	331	+48	-
Medium establishments (20-100 employees)	783	1229	+446	-
New investors	-	88		
Accumulated new investments (USD M)	-	3 368	-	-

4. Development Priorities

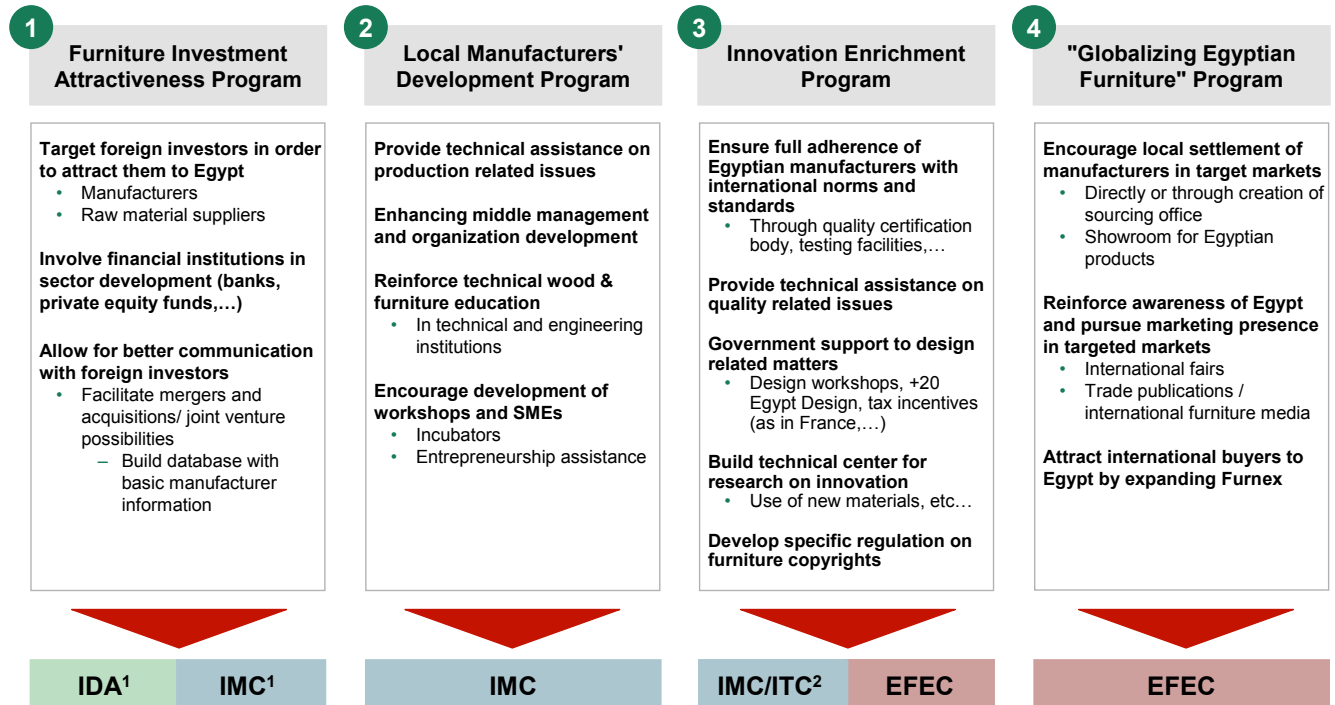
Moving towards the vision will require a certain number of priorities

- Foster development of large-scale local producers by leveraging financial tools and attracting investments from foreign producers, which can provide access to consumer markets and serve as flagships
- Increase industrial productivity to reinforce competitive advantage and draw investor attractiveness into Egypt
- Improve product quality significantly to match worldwide standards and allow penetration of new retail channels
- Build strong local visibility for Egyptian manufacturers in target markets through direct local presence or collaborative efforts with relevant trade partners

- Ensure existence of regulation protecting copyrights of local and international manufacturers, in effect improving attractiveness of Egypt to international investors and manufacturers

Achieving these broad targets will lay the groundwork to build on Egypt’s competitive strength as a global furniture producer and transform the country into the home of a leading global manufacturing sector over the next half decade.

Reaching the furniture sector’s potential and reaching key development targets requires collaboration across a number of organizations and bodies. In particular, EFEC, IMC and GAFI, with support from an array of national government ministries, must direct efforts toward four key development programs, namely: Furniture Investment Promotion, Local Manufacturers Development, Innovation Enrichment and “Globalizing Egyptian Furniture.”



4.1 Furniture Investment Attractiveness Program

The General Authority for Investment (GAFI), in cooperation with IMC, will target foreign manufacturers and raw material suppliers in an effort to attract greater investment from these companies to Egypt through a devoted Furniture Investment Promotion plan.

In addition to attracting greater levels of FDI, GAFI will look to involve financial institutions such as banks and private equity firms in the sector's development, focusing on improving communication with foreign investors to facilitate mergers and acquisitions and joint venture agreements.

Critical among these tasks is creating and maintaining a comprehensive, nationwide database with basic manufacturer information, a measure that will significantly improve investor's ability to better understand Egypt's furniture sector.

Operation of the Furniture Investment Attractiveness Program should be immediate, so as to lay the ground work for achieving objectives. One to two years would be required for such preparation, whereas the real impact of the program would probably take effect in the following years

4.2 Local Manufacturers' Development Program

Egypt's IMC will be responsible for broadly expanding the local industry's capacity with a number of Local Manufacturers Development Programs. Through these Programs, the Centre will implement a number of tailored initiatives, including efforts to provide technical assistance on production-related issues.

Moreover, highly relevant to such development efforts is to provide guidance to strengthen middle management and organizational development, as well as the reinforcement of technical wood and furniture education, particularly through technical and engineering institutions.

Also, efforts to encourage development of new workshops through incubators and entrepreneurship assistance would fall within the scope of this program.

The program would continue to be on-going, whereas the development of local manufacturers of all sizes is key to building capacities needed for increasing exports and, consequently, local furniture production.

4.3 Innovation Enrichment Program

The IMC and EFEC will jointly move to establish an Innovation Enrichment Program that will ensure Egyptian manufacturers' full adherence to international standards through a quality certification body.

Both institutions will also provide assistance on production-related issues and support design innovation, primarily through tax incentives on all design related cost items of manufacturers. Such methods

aim at encouraging resource allocation to design and innovation experimentation.

IMC and EFEC will also build a technical center for research on other forms of innovation, such as the use of new materials. Finally, they will develop and implement specific regulation to protect and guarantee furniture copyrights.

4.4 Globalizing Egyptian Furniture

Through a “Globalizing Egyptian Furniture” program, EFEC will actively encourage Egyptian manufacturers to establish a presence in target export markets; either directly by establishing showrooms and design centers in the several key markets or indirectly by creating sourcing offices to supply international production with Egyptian made furniture products.

The showrooms will serve to increase the visibility and reputation of Egyptian products.

EFEC will also promote further awareness of Egypt’s furniture capabilities through on-going and broader presence in international fairs as well as trade publications.

Finally, EFEC by attracting international buyers to Egypt by expanding Furnex and creating a strong international position for it..

A “furniture house” in Italy or France

Key measures to increase visibility for quality Egyptian products include creation of a furniture house in Italy or France comprised of a showroom, base office and designer incubators. A showroom would feature products from a limited number of manufacturers chosen annually on the basis of demonstrated commitment to designing and manufacturing high-quality furniture. Such a showroom would market Egypt’s premier products in target national markets and support broad branding of the Egyptian furniture sector. The showroom would also support direct sales by providing potential buyers with the opportunity to view existing prototypes, dispelling any

quality concerns first-hand and allowing sales representatives to draw up contracts on the spot.

The furniture house’s base office would be used by employees and agents representing Egyptian manufacturers and would generally support efforts to locate suitable clients and contract partners through improved manufacturer visibility. The base office would also benefit manufacturers, allowing unique proximity to clients and would position manufacturing representatives to grow sales directly, equipped with a better general awareness of local market trends and potential clients. In addition, international

market presence would lend credibility to Egyptian manufacturers, advancing their branding efforts and accruing trust among industry peers and potential partners.

In addition to the showroom and base office, the furniture house would include designer incubators where young talent from the target market would create products that appeal to local market tastes and preferences. Each designer would be dedicated to one manufacturer for a period of time, and focus on development of modern designs and innovations that would later spillover into Egyptian firms’ ability to develop world-class design concepts.

5. Appendix

Detailed Strategy Targets								
Base Scenario	2009	2010	2011	2012	2013	2014	2015	CAGR
Local Consumption (USD Mn)	723	818	1 174	1 367	1 464	1 746	2 061	19%
Real Estate	677	746	884	1 048	1 236	1 454	1 684	16%
Office	35	46	259	283	185	242	316	44%
Hospitalty	11	26	31	36	43	51	61	33%
Imports (USD Mn)	142	139	173	217	271	338	423	25%
Exports (USD Mn)	268	255	341	428	712	1 065	1 600	35%
Production (USD Mn)	848	934	1 341	1 578	1 905	2 473	3 238	25%
Employment ('000)	350	363	389	414	430	442	390	
Small	329	341	357	367	370	374	323	
Medium	6	7	12	19	26	32	31	
Large	15	15	20	28	33	36	36	
Establishments	81 918	84 812	86 328	86 338	86 351	86 374	72 130	
Small	80 852	83 734	85 098	84 886	84 665	85 591	70 569	
Medium	783	796	934	1 084	1 313	1 402	1 229	
Large	283	283	296	369	373	381	331	
Agressive Scenario	2009	2010	2011	2012	2013	2014	2015	CAGR
Local Consumption (USD Mn)	723	818	1 174	1 367	1 464	1 746	2 061	19%
Real Estate	677	746	884	1 048	1 236	1 454	1 684	16%
Office	35	46	259	283	185	242	316	44%
Hospitalty	11	26	31	36	43	51	61	33%
Imports (USD Mn)	142	139	173	217	271	338	423	25%
Exports (USD Mn)	268	255	371	615	1 142	2 039	3 000	50%
Production (UDN Mn)	848	934	1 371	1 765	2 335	3 447	4 638	33%
Employment ('000)	350	363	389	412	438	469	512	
Small	329	341	357	371	378	384	394	
Medium	6	7	12	15	24	35	51	
Large	15	15	20	26	36	49	52	
Establishments	81 918	84 812	86 328	86 342	86 360	86 385	75 926	
Small	80 852	83 734	85 098	85 062	84 752	84 313	73 397	
Medium	783	796	934	943	1 201	1 551	2 055	
Large	283	283	296	336	408	521	474	
Do Nothing Scenario	2009	2010	2011	2012	2013	2014	2015	CAGR
Local Consumption (USD Mn)	723	818	1 174	1 367	1 464	1 746	2 061	19%
Real Estate	677	746	884	1 048	1 236	1 454	1 684	16%
Office	35	46	259	283	185	242	316	44%
Hospitalty	11	26	31	36	43	51	61	33%
Imports (USD Mn)	142	139	208	312	468	702	1 053	40%
Exports (USD Mn)	268	255	280	302	326	352	380	8%
Production (USD Mn)	848	934	1 254	1 357	1 322	1 396	1 389	15%
Employment ('000)	350	363	366	353	341	332	306	
Small	329	341	341	328	316	306	277	
Medium	6	7	8	9	9	9	12	
Large	15	16	17	17	16	17	17	
Establishments	81 918	81 607	78 832	73 009	68 035	63 778	57 027	
Small	80 852	80 439	77 518	71 684	66 707	62 406	55 372	
Medium	783	877	1 000	1 019	1 028	1 066	1 343	
Large	283	292	313	306	300	305	312	

Notes

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