Terms of Reference

Suggested Study Title: SA Furniture Industry Value Chain Study

Abbreviations

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AfCFTA	African Continental Free Trade Area
B-BBEE	Broad Based Black Economic Empowerment
CIPC	Companies and Intellectual Property Commission
dtic	Department of Trade, Industry and Competition
FIMP	Furniture Industry Master Plan
IDC	Industrial Development Corporation of South Africa Limited
LSM	Living Standards Measure
POC	Project Oversight Committee
PS	Project Sponsor(s)
PSC	Project Steering Committee
PSP	Project Service Provider
SADC	Southern African Development Community
SAFI	South African Furniture Initiative
SARS	South African Revenue Service
SLA	Service Level Agreement
SMME	Micro, Small and Medium Enterprise
ToR	Terms of Reference

Purpose

The purpose of this study is to undertake a value chain analysis on the Furniture industry. The study should cover challenges and opportunities and should create a data bank, inter alia, of SMME's in the industry. The study needs to provide a landscape overview of existing incumbents and a supply chain analysis (retail to raw material). The information gathered should be used to develop a dashboard to update trade statistics, trade agreements and opportunities as well as regulatory issues and be used as a baseline for setting FIMP targets. The value chain analysis should be used to develop an industry value chain proposition for the various local market segments and export markets identified.

Background (From draft Furniture Industry Master Plan and IDC Industry Action Plan and SAFI ToR)

The furniture industry is an integral part of the daily lives of many South Africans. It's a labour-intensive industry that draws on other sectors for intermediary and primary inputs such as wood (timber and board), metal (steel, aluminium, fasteners), chemicals (plastics, polyurethane (PU), paints and coatings), glass and textiles (upholstery, leather) (Figure 1). This positions the furniture industry at the heart of the manufacturing sector, albeit at a smaller scale. The industry has undergone significant changes since the '90s, with direct employment and the number of manufacturing entities declining from ca. 50,000 and 3500 to ca. 20,000 and 1000, respectively.

Figure 1: Furniture Industry Value Chain
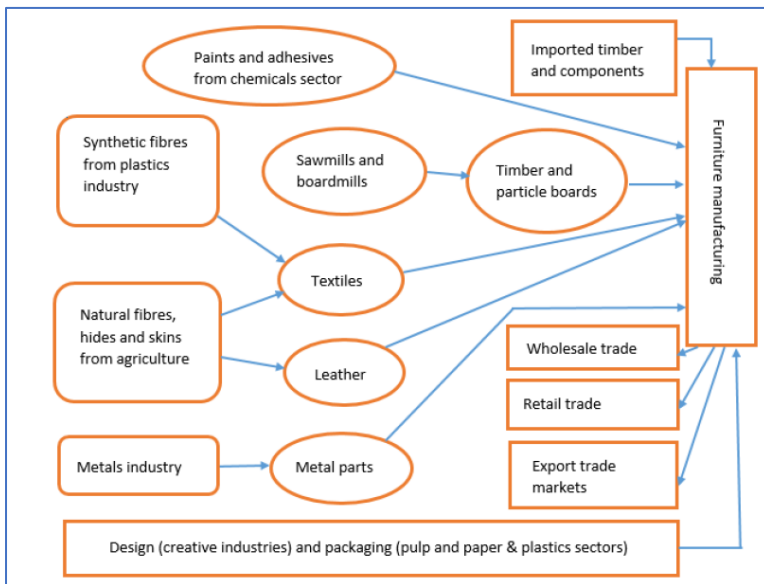
Source: Who Owns Who: Manufacture of Furniture, March 2021

During the formulation of the South African Furniture Industry Master Plan (FIMP), one of the key points noted was the validity of the data used in the Situational Analysis. The researcher advised that while the data sets were comprehensive, there were limitations to accuracy. In the FIMP, it indicates that the Furniture Industry and Government will have to develop a brief for annual measurement of key metrics that includes, but not limited to, employment, transformation, skills development initiatives, exports, imports, local production, local sales by main segment (State, retail, corporates, hospitality and developers) and by type of furniture and type of enterprise (township, SMME, large) and operational zone[1] within the formal and informal sectors etc. This data is seen to assist the industry in improving competitiveness, supporting investment proposals, policy formulation and market access decision-making.

Therefore, it is imperative that valid, reliable, and consistent data be available to the Furniture Industry, Government and Private Stakeholders to:

1. Access the data for decision making such as investment proposals, government policy formulation and amendment, and future planning.
2. Review data and highlight proven inaccuracies so that these can be addressed and updated.
3. Give input to datasets to ensure these are the most accurate and up to date and provide a realistic situational analysis to stakeholders reviewing or having an interest in the South African Furniture Industry.
4. Allow for forecasting of the furniture value chain using macro, trade, and investment inputs.
5. Allow for the identification of importers and what furniture is being imported.

An industry value-chain is a physical representation of the various processes involved in producing goods, starting with raw materials and ending with the delivered product (also known as the supply chain). [2]

Objectives of the study

The furniture industry at a product market level has strong linkages to many other sectors such as forestry (wood), chemicals (plastics, paints, polyurethane (PU)), metals and mining (steel), glass manufacturing and textiles (upholstery

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[1] Operation zone, e.g. Township, Industrial, Rural, Central Business Districts, Special Economic Zones, etc. this would assist to determine what infrastructural development (public transport, water, electricity, etc.) is in place and required for long-term competitiveness.
[2] https://en.wikipedia.org/wiki/Value_chain#:~:text=An%20industry%20value%2Dchain%20is,%3A%20stage%20of%20production)%20level.

and fabrics, leather). This allows for value chain integration opportunities and supporting linkages to the furniture industry. Although many value chain industries exist in South Africa, upstream firms may not supply the retail sector due to its comparative size. Within the FIMP supply chain initiatives, some of these opportunities may be identified. Table 1 shows the linkages between the furniture industry at a product category level and intermediary and primary input sectors.

Identifying these opportunities will require access to information regarding supply chain structures and the broader value chain, understanding the landscape and stakeholders and the subsequent challenges faced. This will allow the IDC, SAFI and the dtic to identify competitive pockets for short and long-term investment opportunities within the value chain and for a determination of the current industry base line for inclusive industrialisation.

It will also be important to identify local opportunities for micro and small enterprises and regional opportunities.

Table 1: Cross-Cutting Sectors and industries

Furniture Goods Categories	Intermediary Industry/sector	Input Industry/sector
Bed and mattress	Machinery, Metals, Timber, Ticking, Foam, Plastics, Fabrics	Forestry, Chemicals, Agriculture, Mining, Transport
Lounge	Machinery, Metals, Wood Products, Fabrics, Hardware, Foam Plastics, Leather	Forestry, Chemicals, Agriculture, Mining, Transport
Homeware (Accessories such as lighting, Mirrors, Ornaments)	Heavy Industry (Glass), Plastics, Electronics, Wood Products	Forestry, Chemicals
Case Goods (example: tables and chairs)	Machinery, Metals, Heavy Industry (Glass), Wood Products, Hardware, Plastics, Foam, Fabrics, leather	Forestry, Chemicals, Mining, Agriculture, Transport
Kitchen and Built-in Cupboards	Machinery, Metals, Machinery, Heavy Industry (Glass), Wood Products, Hardware	Forestry, Chemicals, Mining, Transport
Office and School	Machinery, Metals, Heavy Industry (Glass), Wood Products, Hardware, Plastics	Forestry, Chemicals, Mining, Transport

The expected output of the research is a comprehensive and inclusive furniture value chain database, comprising:

1. Baseline information by industry sector for:
   a. Employment and skills (incl. industry wage & salary bench marking)
   b. Transformation (incl. B-BBEE level)
   c. Markets:
      i. Local market demand (incl. DIY & traditional furniture):
         1. Consumers & Households
         2. Contracts / hospitality
         3. Corporate Office Furniture
         4. Retail
         5. Government including SOE's
      ii. Current & potential export markets
   d. Production capability:
      i. Source of raw materials:
         1. Local (including the capacity of local suppliers)
         2. Import (across all raw material inputs incl. material sub-classifications)
      ii. Production capacity
      iii. Technical:
         1. Average age of industry plant and machinery

2. Competitiveness of local manufacturing industry when compared to international standards
    e. Industry Competitiveness relative to other markets:
        i. Benchmarking by Table 1 categories and firm size
        ii. Analysis of other countries industry support and incentives
        iii. Analysis of trade policies, direct and in-direct barriers
        iv. Upstream/Raw Material and mid – stream competitiveness
        v. Conformity Standards (Local and International)
        vi. Sustainability and innovation (incl. design capabilities)
    f. Analysis of the firm structure for the furniture sector:
        i. Qualification of the firms in terms of product market segmentation, capabilities (technical and managerial), employment, formal/informal/start-up/supply chain ready, typical funding requirements and needs, stakeholder networks and developmental areas.
2. Baseline information, by industry sector, needs to be analysed into the following sub-sectors:
    a. Formal
    b. Informal and informal sector needs for inclusion into the formal sector.
3. In addition to the above, the value chain analysis should also focus on the following:
    a. Undertaking a landscape analysis of the industry to establish a base line for FIMP to set realistic targets that industry can commit to for future monitoring and evaluation;
    b. Undertaking a value chain analysis of the industry from retail and exports to raw material by product market;
    c. Analysis of the challenges and opportunities experienced by the South African furniture manufacturing industry;
    d. Identification of the required interventions to resuscitate and grow the furniture manufacturing industry of South Africa;
    e. Consumer affordability analysis for households by income brackets, LSM and/or dwelling type;
    f. Reviewing and identifying best practice regarding training, manufacturing, marketing, sales and exports for the furniture industry in South Africa;
    g. Making proposals regarding the interventions required from Government versus manufacturers, training, marketing and sales institutions;
    h. The provision of guidelines to enable South African manufacturers to achieve import replacement and expand exports;
    i. The rendering of proposals to achieve the best export results regarding the Developed Markets, as well as within the SADC, AfCFTA as well as globally;
    j. Providing concrete proposals and guidelines for the creation of a databank and dashboard reflecting updated employment, B-BBEE, firm size, trade statistics, trade agreements, trade opportunities as well as regulatory issues, to facilitate firms with exports and local sales;
    k. Assessing the public procurement process for furniture and what can be done to increase public procurement of locally manufactured furniture;
    l. Assessing the white spaces in the furniture sector and how can we capitalise on these spaces; and
    m. Strategic proposals that align and/or enhance the Furniture Industry Master Plan (FIMP).

The above objectives should therefore provide a sufficient baseline analysis for the furniture sector to allow stakeholders to analyse the sector and make strategic decisions to support job growth, transformation and exports.

Study Scope (Guideline)

Stages	Tasks	Deliverables	Timeline (weeks)	Cumulative Timeline (weeks)
1	Inception Report: • Kick-off meeting with Steercom • Draft an inception report • Present inception report • Review of the inception report • Present Training Plan (if required) • Project Monitoring Dashboard • Steercom sign off Inception Report and Training Plan (if required)	Inception Report	2 weeks	2 weeks
2	Situational Analysis: • Literature Review • Draft Literate review report and circulate to Steercom • Present Situational Analysis report to Steercom • Review of Situational Analysis and Steercom sign-off Develop the information gathering tool: • Literature Review • Develop and agree on the methodology and desired data to be collected • Develop a tool / questionnaire to gather information • Present the methodology, data collection tool report to Steercom • Present the proposed software/tools for dashboard Review and Steercom sign-off	Literature review and Situational Analysis report	4 weeks	6 weeks
3	Industry and stakeholder alignment: - Survey - Interviews - Site Visits - Study Tours (if required) • Draft industry alignment report and circulate to Steercom • Present industry analysis to Steercom • Review report and sign off	Industry Alignment and Stakeholder report	10 weeks	16 weeks
4	Baseline Data Bank and Value Chain Dash Board: • Training users on dash board and data bank	User training	3 weeks	19 weeks

5	Value Chain and Investment Report Finalise Macroeconomic and investment model	Value Chain Base Line and Investment report	4 weeks	23 weeks
	Present to Steercom and undertake the review process. Steercom to sign off on the final draft.	Value Chain Base Line Dashboard		
6	Closeout Steercom to sign off on final reports, presentations and models. Reports/Presentations/Recommendations	Final reports as listed under study deliverables	2 weeks	25 weeks
7	+/- 1 week buffer		1 weeks	26 weeks

The following specific outputs (deliverables) are expected on the completion of the project:

1. Inception report (Word & Pdf)
2. Monthly progress reports/presentations (PowerPoint)
3. Literature review and situational analysis report (Word & Pdf)
4. Stakeholder interview schedule and questionnaires
5. Stakeholder consultative meeting records and dialogues reports
6. Comprehensive and inclusive furniture value chain database comprising of (Excel):
   a. Baseline information for companies, employment, transformation, skills, markets (local and exports), imports, local production capacity, government procurement, industry competitiveness, firm structure etc.
   b. Baseline information for informal manufacturing and retail sector needs for inclusion in the Furniture Industry Master Plan, etc.
   c. Supply-demand and analysis of raw materials used per segment
7. Value Chain Dash Board (Excel/Power BI) and presentation template (Power Point)
8. Comprehensive furniture Value Chain Analysis report (Word & Pdf)
9. Stakeholder Feedback workshop report (Word & Pdf)
10. Investment Value Proposition report (Word & Pdf) and presentation (PowerPoint)
11. Final Report - Stakeholder Presentation (PowerPoint)
12. Final report with notes of the methodology used:
    a. Soft copies of the final report
    b. Executive summary in Word
    c. PowerPoint presentation of the report
    d. Four (4) hard copies of the final report, and
    e. Three (3) copies of a CD/USB version of the Executive Summary and final report

Detailed scope

Phase 1: Project Inception stage

1. Upon appointment, the service provider is required to commence by drafting an inception report that will detail the overall approach, methodology and expected timeframe in which each phase of the project activities will be completed, and the related estimated costs and resources required.
2. The inception report will be a discussion document and the basis for the detailed approach which will be agreed upon and subject to amendment by the PSC and PSP during the project.
3. The inception report is an interim deliverable and is expected to be completed within the first 2 weeks from the time of the PSP appointment (signing of SLA).

Phase 2: Situation Analysis

1. Undertake literature review of any existing Value Chain Analysis of the furniture industry and labour reports in South Africa and other relevant project documents.
2. Review international standards and countries to be used as benchmarks.
3. Establish a baseline database of stakeholders per segment to engage with during the consultation phase.
4. Map the existing potential value chains, market structures, stakeholders/ companies and pathways for furniture from retail to raw material.
5. Clarify the rules and regulations (e.g. standards, laws, informal rules and norms) related to the value chain.
6. Analyse the procurement process for private and public sector and identify.
7. Unpack the industrial and fiscal policies and incentives of benchmark countries that export to SA to understand why they have a successful furniture sector.
8. Analyse trade flows between SA and trade partners in the context of trade agreements, incentives and tariff/taxes and non–tariff barriers, standards and certifications, trade volumes and values.
9. Analyse the supporting functions that are required to make the value chain work, including both existing and missing support functions (e.g. infrastructure, information, related services).
10. Analysis of technical capabilities for the furniture sector in terms of skills, plant capacity, design etc.
11. Identify industry challenges and high-level opportunities.

Phase 3: Industry and stakeholder alignment - Consultation Meetings & Scoping Workshop with the Stakeholders for the Policy Framework and Strategy Development

1. To conduct wider consultation with all key stakeholders in the country, including private sector, government departments, municipalities, organised labour and tertiary/training institutions;
2. Collate, document and assess key initiatives implemented in the formal sector with a specific focus on skills development, exports, imports and transformation.
3. Collate, document and assess key initiatives implemented in the informal sector with a specific focus on the impact (positive and negative) of operating informally, i.e. not compliant with industry regulations like registering with a regional bargaining council, registering with CIPC, SARS, etc.

Phase 4: Baseline Data Bank and Value Chain Dash Board

1. Develop a Value chain dash board using industry data base from previous phases.
   - Users should be able to seamlessly update dashboard on a regular basis
   - Should be linked to data base
   - Tool should be based on Microsoft platform/software (such as Excel or Power BI)

Phase 5: Project Packaging - Value Chain and Investment Report

1. To compile Value Chain Analysis report including baseline information to be used in setting targets for the Furniture Industry Master Plan
2. The Value Chain Analysis report should include at least:
   o Executive summary
   o Background
   o Methodology and documentation of the process
   o Limitations and challenges
   o Findings (SWOT analysis, potential for growth, profitability and employment of each sector)
   o Current Industry Initiatives
      ▪ Transformation initiatives (Black-, Youth-, and Women-Owned, No. People employed with disabilities, BBBEE level, other options available for transformation)
      ▪ Skills Development initiatives
      ▪ Export initiatives
      ▪ Import replacement Initiatives
   o Investment Opportunities
   o Conclusion
   o Findings chapter for each selected product market segment/classification (market players, rules, policies and regulations, supporting functions in addition to sourcing, production and marketing mechanisms) Recommendations (intervention matrix aligned to Furniture Industry Master Plan)
   o Annexures
3. To compile a comprehensive entire furniture value chain database per segment the Value Chain Analysis report should include at least:

   o Company details
   o Contact details with dedicated contact person
   o Sub-segment
   o Current baseline information to include (but not limited to):
      ▪ Product range
      ▪ Geographic Location
      ▪ Employment stats
      ▪ Raw Materials and/or suppliers used
      ▪ Trade Statistics
      ▪ Capacity utilisation

Phase 6: Project Close Out

The reports have to be presented in appropriate electronic as well as printed format, and must be easily accessible and user-friendly. Minutes and other documents emanating from all meetings are general deliverables throughout the duration of the project. Presentations to be provided in Power Point format.

Methodology

The service provider is required to conduct and submit a study that is fully responsive to the terms of reference. It should follow a detailed, thorough and articulated methodological approach to complete this assignment.

The service provider will have to conduct interviews with critical role-players, from the formal and informal sectors, to be identified in consultation with the PSC. This would ideally include the following:

- o Provincial and national member focus groups for qualitative research;
- o National focus groups for providers concentrating on manufacturing, exports, training, professional recognition and design;
- o Representatives of government departments and agencies;
- o Representatives from private sector such as retailers;
- o Representatives from raw material suppliers;
- o Representatives from labour;
- o Importers and exporters of furniture;
- o Questionnaires should be issued and processed for quantitative research.

The service provider can utilise additional quantitative and qualitative methods as required to achieve the necessary results.

List of previous work done

Rowe – Setz *et al.* (2020) Situational Analysis South African Furniture Industry Master Plan, TIPS & Blue Print

Time Frame

Proposals shall include a comprehensive project plan with clearly identified milestones and a firm delivery date for the completion of the total project. The duration of this project is expected to last no more than **six months** from signing of SLA.