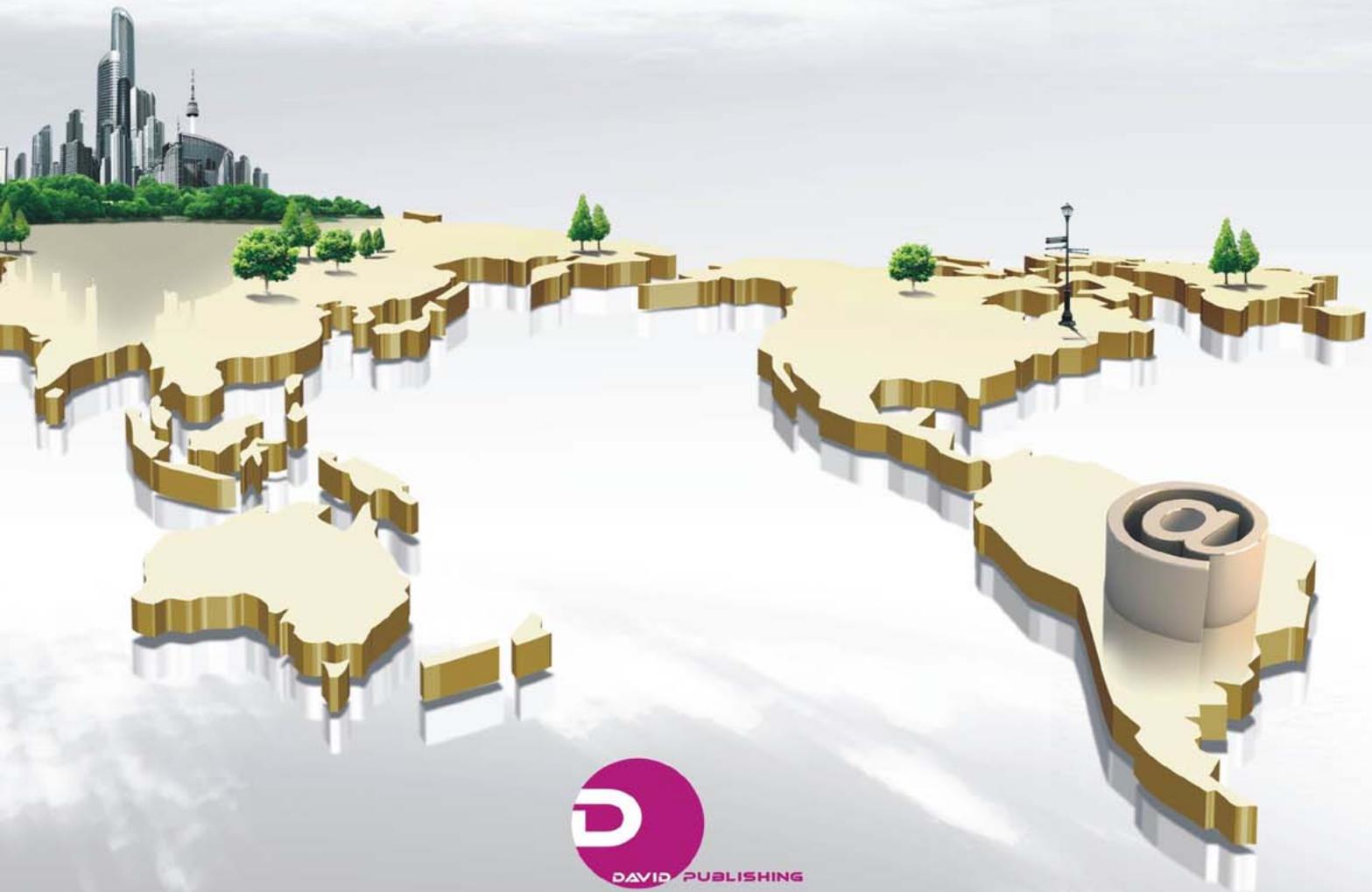


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Olusegun Sansi

Import and Export of Furniture Between Italy and China: A Few Problems of Italian Business Companies*

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China grows annually significantly, generating market opportunities for Western companies. The Chinese middle class demands qualitatively better products, typical of Italian productions. The furniture market is involved in this positive evolution. The trend of Italian exports is on the rise in the world and in China, facing still significant imports of poor quality and low-cost products. Italian exports are characterized by high quality, innovative design, and high prices, also taking advantage of the positive reputation of the “Made in Italy” brand. On the other hand, imports from China must use appropriate control systems to monitor the risks of delivery times, uncertainty from exchange rates, possible product defects got worse by the lack of assistance from the Chinese manufacturer, etc. This asymmetry in the export/import relations between Italy and China characterizes a rapidly evolving market that requires adequate specialist management skills in Italian industrial and commercial companies.

Keywords: furniture, furniture market, trade relations Italy-China

Introduction

China has the second GDP in the world and grows effectively yearly (about 7%), even though at a slower pace than in previous years (Da Rold, 2017; Ambasciata d’Italia-Cina, Direzione Generale per la Promozione del Sistema Paese, 2016).

The opportunities of the Chinese market are therefore still remarkable, even if the vastness and the heterogeneity of the Nation imposes a careful evaluation of the demand, also monitoring the regulatory evolution and the administrative policies. The massive urbanization and growth of the purchasing power of the

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* This paper is the result of a collaborative work. However, it is possible to attribute it to Luigi Umberto Rossetti: Discussion: first data; Aspects of Italian Export: Furnishing in detail; Aspects of Italian Import: Furnishing in Detail; Italian Furniture Business Company: Typical Management in the Sale of Products Imported to China. The other paragraphs are attributed to Guido Migliaccio.

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middle class facilitate the increase in domestic consumption, especially in cities and many urban areas. Almost everywhere there are new trends in culture and therefore in choices inspired by western status symbols and a new focus on the quality/price ratio, especially in durable consumer goods, including furniture. This promotes the export to China of Western companies, even the Italian ones, which can produce very high profits.

Consequently, the furniture trade production sector is fully involved in this evolution of the Chinese economic situation. Besides, we have to take into consideration that Italy is, as everyone knows, one of the leading furniture manufacturers characterized by high quality and innovative design, so it is obvious that supply and demand of these products necessarily have to interface with the economic relations of the two countries.

Numerous statistical data are available, but there is a lack of appropriate scientific production that is necessary, indeed, since the quantitative importance and future prospects of the phenomenon.

This paper answers some research questions:

RQ1: What are the main current trends in Italy-China trade relations in the furniture market?

RQ2: What are the typical management problems of Italian commercial furniture companies trading in Chinese markets?

The answer to these two research questions is also outlined by illustrating the main market trends that show the first signs of upturn after the crisis of the last decade.

Aims, Research Approach, and Paper Structure

Objectives of the paper will be achieved with some considerations based on a quantitative and qualitative approach with an updated conceptualization of international literature review and an analysis of some statistical data available. It is also based on the direct experience of one of the co-authors (Luigi Umberto Rossetti) who has been working in the sector for years. It has an interdisciplinary value because it originates from the combination of general economic, managerial, ethical aspects.

The paper begins by presenting an international literature review that illustrates the main publications related to the furniture market. A significant gap emerges from that, regarding particularly Italy-China relations, and this article is intended to make up for it.

The characteristics of the import of products are often described according to their mediocre and low cost quality; it is faced by the export of Italian furniture, sought after quality, and innovative design. Obviously, the different peculiarities of the products purchased and sold involve management problems, which are then out-lined, in the commercial companies of the sector. The following paragraph is a brief but comprehensive analysis of Italy-China import-export; this analysis anticipates a more detailed study of the commercial relations relating to furnishings. Therefore, we are going to focus on the typical managerial aspects of the commercial companies involved in these international relations.

Literature Review

The bibliography on the commercial relations between Italy and China compared to the furnishing market is not very wide. In order to have a concise but complete picture of the possible bibliographic sources, it is possible to distinguish the publications in three groups: studies relating exclusively to the Italian situation, Chinese production and, finally, the fewest sources that highlight the Italy-China relations.

The Italian literature review is not very rich, and especially not up to date with recent years characterized by the severe economic crisis that has involved the full field.

Some writings focus on the characteristics of the entire production chain, starting from the raw materials to the use of the furniture in the Italian families (Aprile, 1999; Traù, 2003; Gargiulo, 2005; Gargiulo & Zoboli, 2007; Dal Bosco & De Martin, 2011). Others focus on the production processes in the network or in the context of some industrial districts (Bednarz, Garofoli, & Losa, 2011, p. 97, ss.; Cariani, 2010, p. 260, ss.; Brunetti, Marelli, & Visconti, 2007, p. 73, ss.). The writings of the most consistent and numerous ones, however, are relative to the interior and the furniture marketing, and try to focus on the typical commercial tools in order to promote sales (Marelli, 1999; Grandinetti & Chiarvesio, 2002; Lojacono & Carcano, 2001).

Many studies published in the Italian international furniture marketing trade are significant which consider the good placement of national exports that take definitely advantage of a style popular in the world (Politi, 2000; Lojacono, Catalani, & Bruno, 2012; Lojacono, 2007). Some publications are related to marketing and penetration in certain countries: US (Lojacono, 2004), France, Russia, and the United Kingdom (Aiello, Donvito, Grazzini, Halliburton, Wagner, Wilson, Godey, Pederzoli, & Shokola, 2015), India (Chiarvesio, Tabacco, & Bortoluzzi, 2014), in particular.

The bibliography that focuses on the supply chain of furnishings in China is more extensive. Published researches focus mainly on production or commercial processes.

We can point out, among the former, the studies by Xiao and Hansen (2006) related to innovation in China's furniture industry, of Cao, Hansen, Xu, and Xu (2004), and Sun, Hammett, and West (1999), these studies, although not recent, still provide useful refer-ences to the Chinese production structure. Drivers and barriers for implementing advanced manufacturing technology in China's furniture industry are focused on the publication of Yu, Shen, and Lewark (2011).

Obviously in China, as in other countries, the development of the sector is strongly conditioned by dynamic relationship between the research and development capacity, net exports, and profits, as highlighted in the work by Cheng, Tian, Hao, and Wan (2012), and the spread of advanced accounting control tools such as the balance scorecard (Liu, 2005).

In China, as in Italy, there are industrial districts specialized in furniture production whose technical and commercial problems are described in Yang, Fu, and Li (2017) and in Hong, Chun, Ying, and Yin (2012). If we consider the decrease in foreign demand, the Chinese furniture industry also tries to satisfy the internal needs of particular segments of consumers such as farmers in rural China (Wang & Laughton, 2017).

However, Chinese production remains firmly focused on international trade. This is demonstrated by the most numerous marketing studies, among which the study by L. H. Wang, H. W. Wang, Liu, and Hu (2008) about forecasting models on quantity and structure of wood furniture export in China. The authors used the theory and methodology of compositional data analysis to study the product structure of wood furniture export. The results showed that the export amount of wood furniture used by bedroom and office will continue to increase and the increasing speed becomes slow. The success of Chinese exports, anyway, depends mainly on the results of appropriate technological research and relates to market trends, as evidenced by the articulated study by Gang and Cheng (2013) which, starting from the consideration that China's furniture industry has grown rapidly over the past 10 years, making China be an important furniture exporter in the world, focuses on the evolution path of R&D (Research and Development) capacity and trade of China's furniture industry and their relationship, analyzes the impact of changes in external factors on R&D capacity, trade, and profits, and makes predictions for R&D capacity, trade, and profits. The relations between technology and international

furniture trade are also highlighted by Cheng and Chen (2011). Obviously international trade can depend on the policies of the various nations more or less favorable to dumping (Wan, Sun, & Grebner, 2010).

But China is also a country that imports furniture from abroad, since the productions of other Nations have a quality and a definitely better design. If we consider the best standard of living of some Chinese social classes, the demand for foreign (also Italian) furniture has become substantial. All that results are in studies such as Yang and Fu (2017) and Buehlmann, Bumgardner, Lihra, and Frye (2007). Obviously, foreign companies wishing to sell in China need to adapt their distribution network to a very particular outlet market, as highlighted by Bortoluzzi, Chiarvesio, and Tabacco (2015).

In this context of globalized trade, we have to reflect on relations between China and Italy, considering the importance of production and trade of furniture in the European nation.

The studies are really few. The most important one is certainly the article by Zhang, Cheng, Yang, and Guo (2016) developing a comparative study on China-Italy design driven innovation strategy furniture firms. The scientific contribution of Han, Wen, and Kant (2009) is less specialized, but still useful for analyzing the emerging problems of the sector in China that has to face the best Italian quality offer and also the poorest but less expensive one coming from Poland and Vietnam.

The general framework of the bibliography clearly explains the need for a further in-depth analysis of the relations between China and Italy in the furniture sector to which this article wants to contribute.

Discussion: First Data

For some years, the slowdown in the growth of the Chinese economy, despite an increase in GDP of over 6% for 2017 (Carrer, 2018), has not reduced the interest in the Italian furniture-design industry. A transformation towards a model of advanced economy is underway, based on consumption, services, and innovation in particular: Quality replaces more and more quantity.

Ongoing informal relationships maintained by the authors with the production sites of some Italian furniture-design companies confirm the demand for quality, technology, beauty and sustainability, elements to which the rich and affluent Chinese consumers are increasingly sensitive and attentive.

In the past, the Chinese real estate market was mainly engaged in the building and creation of prestigious housing in a short time. The projects had to be appreciated by customers, durable and very high-tech (Mancini, 2017). Nowadays, however, the market has changed and calls for eco-sustainable homes and smart solutions for the control of objects and spaces, generating a growing demand for high-end furniture and design (ICE-ITA, 2014).

We have to add the Italian know-how in furnishing and service solutions to the quality of production. The price is not a critical point because the new rich customers in China are many and willing to buy the “Made in Italy” (Pietroni, Oppedisano, & Perini, 2008; Montecchia, 2017). In addition, there are several Italian brands with an excellent quality-price ratio that can satisfy the segment of the wealthy but not first-class segment.

Aspects of Italian Export: Furnishing in Detail

The trend of furniture exports in China is clearly growing (Makeitaly, 2017; ICE-ITA, 2014).

After the 21.9% increase in furniture exports registered in 2016, Italian design reached a 32% increase in sales in the first half of 2017 compared to the same period of the previous year (Mancini, 2017). If we compare the last nine years of “Made in Italy” furniture exports, China recorded the highest average annual growth,

(+22%) among the main end markets. The purchases of furniture and design furniture by the Chinese are showing a real boom with sales of over 300 million euros (Figure 1).

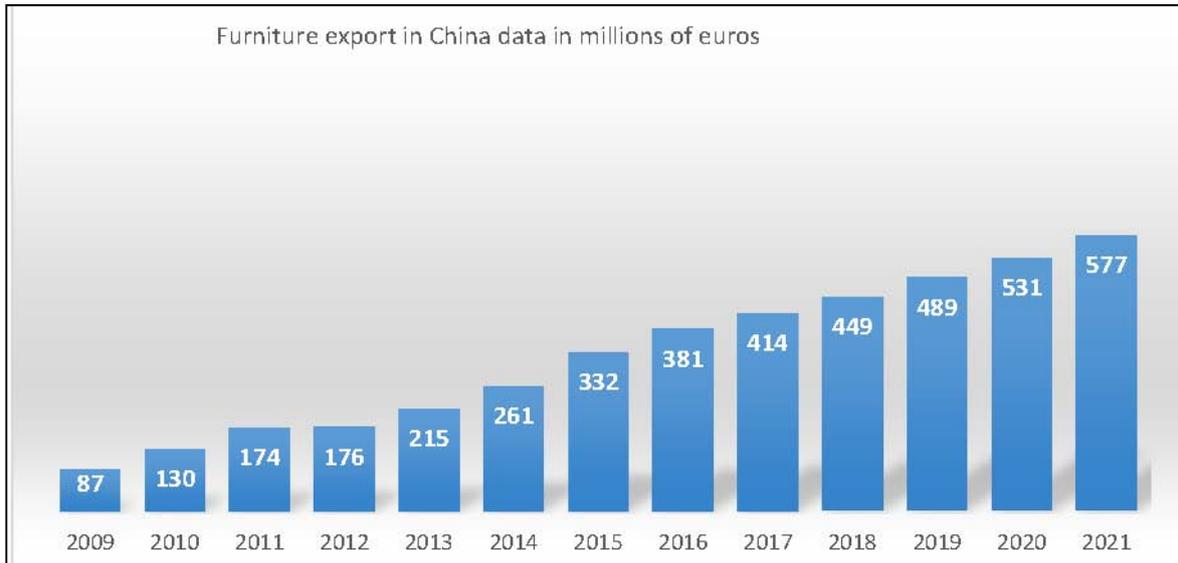


Figure 1. Export to China (Time series 2009-2016 and forecast for 2021; Figures in millions of euros). Source: Our processing by Federmobili (2017).

In 2016, Italy was the first supplier for the sector, with a market share of 18%, surpassing also a time supplier such as Germany (13%) (Figure 2).

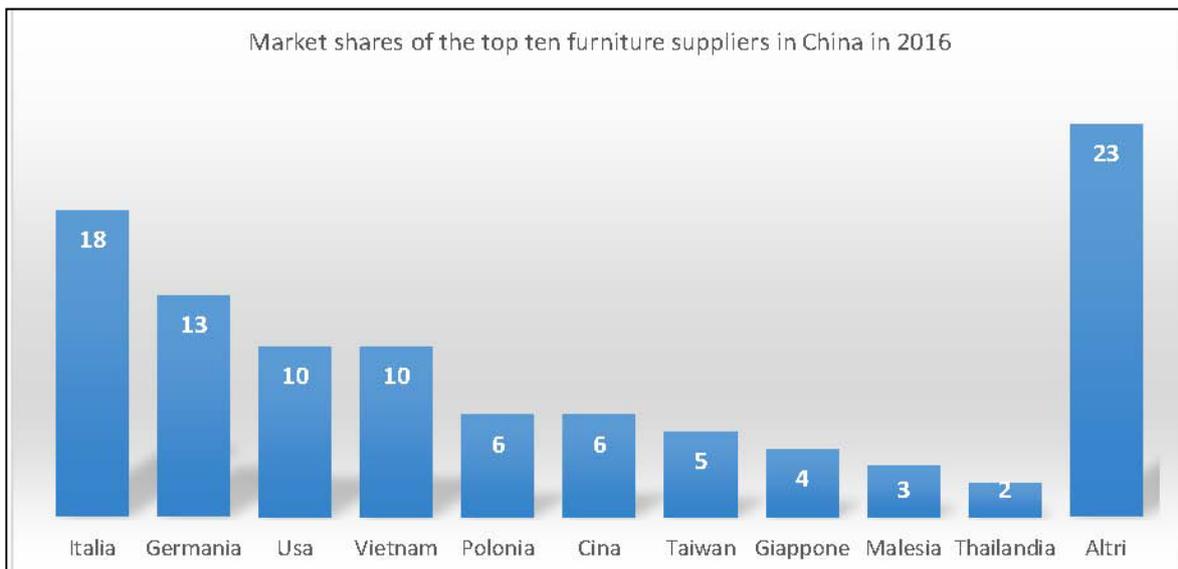


Figure 2. Market shares of the top 10 furniture suppliers in China in 2016 (percentage data). Source: Our elaboration by Mancini (2017).

The growth of Made in Italy design is also confirmed worldwide where it represents a share of world furniture trade of 8% confirming its third place with a total value of about 395 billion dollars, on a par with Germany and before Poland. China always maintains the top position in furniture exports with 36% of the shares despite a 6% contraction from 2016.

The Italian home furnishing industry has been at the top in Europe for years and the second in the world after China in global exports of the whole sector (Vianelli, De Luca, & Pegan, 2012). A decline in exports was foreseeable due to the depreciation of the euro against the dollar and the uncertainties linked to international markets (“Brexit effect” and “Trump effect” in particular), with negative repercussions on international trade (Allocca, 2017).

While global furniture consumption grew by 2.4%, trade increased by just 0.4%, mainly to the detriment of international trade. In this context, the large markets (China and the US) have continued to grow while Europe is improving its own results above all thanks to the exports of Italian companies.

Aspects of Italian Import: Furnishing in Detail

Italy is the 15th commercial partner of China in the world and the 4th in Europe (Consorzio Camerale for Internationalization, 2014). Trade between Italy and China has developed since 2005, then they underwent to a decline in the same period of 2012 recession, with a sharp decrease in both exports (-10%) and imports (-17.7%) (Info Data-Il sole 24 ore, 2016).

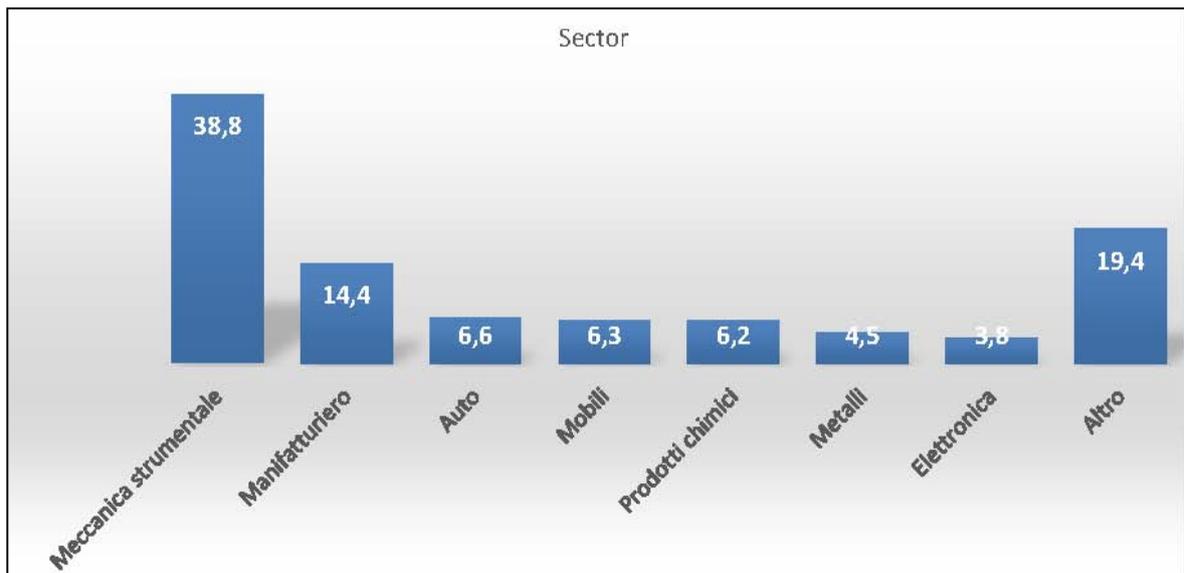


Figure 3. Italian products exported to China. Source: Our elaboration by Consorzio Camerale for internationalization (2014).

Figure 3 shows that most of the Italian products exported to China come from the mechanical engineering sector (38.8%), the manufacturing sector (14.4%), and above all the “Made in Italy” luxury goods.

A strong increase was also recently marked by the auto sector (6.6%). A significant share regards the furniture and other manufactured goods sectors (6.3%), chemicals (6.2%), metallurgy and metal products (4.5%), and electronics (3.8%).

The interchange relations between Italy and China require logistical support (area and maritime lines, logistics), financial support (banks for the grant of credit to Italian companies), lawyers (studies with experience in Chinese jurisprudence) and linguistic/cultural support (marketing and staff capable of interpreting needs and necessities of Chinese values). Over time, operators specialized in the intermediation between the Chinese and the Italian market have also developed with the aim of supporting entrepreneurs on some aspects

such as the selection of suppliers, quality control, marketing, and control of commercial risks (Perrini & Piccinali, 2010).

Over the years, furniture imports from China have increased due to the wide range of choices at affordable prices (Savelli, 2018). The latter, despite recent increases, still remain very low, making them still competitive compared to the Italian ones. The Chinese price depends above all on the local purchases of Chinese companies of low-cost local raw materials, which avoids costly imports. Transportation costs are not such as to reduce the economic benefits of importing furniture from China, because almost all Chinese furniture distributors have direct access to large commercial ports that manage goods traffic to the US and Europe, obtaining particularly advantageous conditions. However, every importer must consider the Chinese commercial habits that are different from the Western ones, above all for the importance attributed to personal relationships. Italians pay a lot of attention to the quality and price of the product, while for the Chinese safeguarding good “business relations” is fundamental.

The Chinese production structure is fragmented. Each furniture company operates in a specific sector (kitchens, bathroom furniture, sofas and armchairs for interiors or garden furniture, office furniture, etc.) and it is located in the low and medium market sector (Assolombarda, 2013).

Italian Furniture Business Company: Typical Management in the Sale of Products Imported to China

Public interventions in the furniture sector in support of a market clearly in difficulty started in 2010 and they are still present even if in different ways. Italy must seize the opportunities offered by the markets thanks to the excellence of its products in order to overcome the stagnation of domestic demand, to which competition is added in the medium/low segment of Chinese products. Only in this way can it become a protagonist in the new national and international economic context: focusing on “Made in Italy” as the main growth incentive.

For several years, market research in the furniture sector has showed that although the product is crucial, only it does not guarantee success in sales. In fact, consumers attach increasing importance to the ancillary service (transportation, installation, assembly, etc.) in determining their overall satisfaction. Service is a critical factor of success, also because it is difficult to imitate. It features pre-sales, sales, and after-sales service. The most important critical issues concern all the previous phases, with particular attention to the post-sales phase in which they often detect important issues that can only be highlighted by an analytical accounting.

The new competitive scenario is characterized by a more complex market and context dimension. The individual is at the center of a very high-digital context, but technology is not the goal but the means of a conscious design that generates new players that do not point to the product but to the customer.

The analysis of the contribution margins is used to check the profitability of customer orders and for the general assessment of the business inside companies. Their determination is strategic in assessing the company’s positioning and for commercial management, especially for the formulation of product pricing. The companies that insert Chinese import products in their offer have a strongly variable contribution margin due to uncertainties related to the terms of purchase, delivery, completing orders, reorders, etc.

Purchases and deliveries for sales are strictly connected and differ according to the supplier’s organization: If the latter only sells products previously purchased and stored in stock, by not using inventory management logic, no specific critical issues are generated. In this case, the problems can be attributed essentially to delays in deliveries due to the lack of products for reorders above the existing warehouse, or due to the lack of

products for replacements (so-called returned goods). These difficulties are typical of furniture importers who choose to resupply constant quantities without taking into account the flow of sales and market demands. In the case that, on the other hand, the trader orders only what he has already sold, he may not receive the goods from the foreign supplier.

The contribution margin is also modified by the charges for reorders and completions, as well as by the uncertainties related to the delivery of branded items with identical quality-quantity characteristics (colors, finishes, manufacturing etc.).

The outlined uncertainties often cause “hidden” variable costs, both pre and post sales, which are difficult to foresee and quantify. In fact, there may be additional problems or objections arising from the sale due to unforeseen causes.

The direct costs of the product must be added to the financial charges for delays in collections, costs for unsalable goods (residues of expositions or exhibitions) and costs for contract breach due to the supplier’s inability to deliver partially or totally the imported goods.

Moreover, we have to add the image damage of the retailer unable to guarantee replacements or completions of previously sold products to the measurable costs.

Since the reduction in sales implies an increase in the incidence of fixed costs on sales, we can try to reduce them by selecting foreign suppliers better, by choosing the most efficient ones, without reducing the quality of the products and/or services offered. Poor quality products and poor service only in the short term benefit the company which, however, in the medium to long term will cost a significant reduction of its role.

Summary and Conclusion

China grows annually significantly, generating significant market opportunities that assume advantageous connotations to Western companies, especially for the growth of the purchasing power of its middle class that choose qualitatively better products, typical of Western productions, including Italian ones.

The furniture industry is involved in this evolution and Italian industrial and commercial companies can make a lot of profits from this situation. The trend of Italian furniture exports is clearly increasing in the world and also in China, settling in the very first positions. Imports from China are also substantial, especially those relating to the demand for cheap and poor quality products, which take advantage of a favorable local situation.

In order to overcome the decline due to the recent crisis and support the production and commercial furniture sector, Italy has enacted some laws that favor domestic demand, guaranteeing tax credits. On the foreign markets and, above all on the Chinese one, the best commercial strength still remains the quality, the innovative design and the advantages resulting from the “Made in Italy” brand.

In the internal market, traders offering imported products from China must use appropriate management control systems that constantly monitor the margin of contribution that is particularly sensitive to these furnishings. In fact, many elements affect it with the risk of reducing considerably, until it is destroyed, the convenience to offer such products. The importation from China and the sales in Italy of the products are particularly risky with respect to delivery times and to the uncertainty resulting from foreign exchange rates. Besides, we have to add to this the risks due to the presence of defective products that can be returned with considerable difficulty owing to the distance and the consequent transportation costs. Because of that, the image of the Italian trader is damaged and he cannot avail himself of an adequate assistance from the foreign manufacturer.

As a consequence, the Italian furniture production and trade sector finds itself in a particular situation that is certainly benefiting from the flow of exports to China generated by the new local economic and social situation. At the same time, it maintains the importation of different products, by assuming, however, significant management risks that can be bearable only in relation to lower supply costs.

It should be noted, in conclusion, an asymmetry in the export/import relations characterized by substantially antithetical dynamics. The export is governed by quality products and high prices that guarantee a fast, effective, and efficient commercial relationship. On the contrary, the import is spoiled by low quality products with moderate prices that do not assume the timeliness of deliveries and above all they are not covered by an adequate guarantee, all that leads to evident difficulties in the management of companies wishing to operate both in exports and imports. Obviously Italian companies could prefer only the demand or vice versa, the Chinese offer, by specializing its staff in dealing with the antithetical management problems that characterize them.

The final wish is obviously the increase of Italian sales abroad, by reducing the intake of mediocre products on the Italian market that could also, in some cases, cause health problems of the consumer, as well as economic difficulties of the traders.

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