GOVERNMENT OF KOSOVO
MINISTRY OF TRADE
AND INDUSTRY

VALUE CHAIN ANALYSIS OF THE WOOD FURNITURE SUB SECTOR

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icep
Increase of competitiveness and export promotion

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LIST OF ABBREVIATIONS

ARBK	Kosovo Business Registration Agency
BMO	Business Membership Organisation
BDS	Business Development Services
B2B	Business-to-Business
B2C	Business-to-Consumer
CBI	Centre for the Promotion of Imports
CE	Product Certification Mark on Conformity to Health, Safety and environm. Protection
CEFTA	Central European Free Trade Agreement
CIF	Cost-Insurance-Freight
CITES	Convention of international Trade in endangered Species of wild Fauna and Flora
CNC	Computer numeric Control
CSR	Corporate Social Responsibility
DoI	Department of Industry
EU	European Union
EUOK	European Union Office in Kosovo
EUTR	European Union Timber Regulation
EQMS	Export Quality Management Systems
FSC	Forest Stewardship Council
FOB	Free on Board
GIZ	Gesellschaft für Internationale Zusammenarbeit
HR	Human Resources
KSA	Kosovo Agency of Statistics
KBRA	Kosovo Business Registry Agency
KCGF	Kosovo Credit Guarantee Fund
KIESA	Kosovo Investment and Enterprise Support Agency
LLC	Limited Liability Company
LSS	Lean Six Sigma
IDI	International Development Ireland
ISO	International Standards Organization
ICEP	Project: Increased Competition and Export Promotion
MRA	Mutual Recognition Agreement
MTI	Ministry of Trade and Industry
M4P	Market for the Poor
PE	Polyester
PEFC	Program for Endorsement of Forest Certification
PEST	Framework of Macro Economic Factors
PP	Polypropylene
PVC	Polyvenylchloride
REACH	EU Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals
SAA	Stabilisation and Association Agreement
SME	Small and Medium Enterprise
TAK	Tax Administration of Kosovo
TMW	Thermally Modified Wood
VAT	Value Added Tax
VC	Value Chain
VET	Vocational Education and Training
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WPC	Wood Plastic Composites

DISCLAIMER

This document has been produced with the financial assistance of the European Union. Its content is the sole responsibility of the authors and may not necessarily reflect the views of the European Union.

The consultants cannot be held responsible for any consequence arising from using the provided information. The provided information does not cover the subject matters in all possible aspects. The authors opinion is based on data assembled along the furniture value chain. There is no claim to correctness and completeness of the data.

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Field work conducted by NOVUS Consulting, a market research company.

EXECUTIVE SUMMARY

(Activities, Findings and Recommendations)

Activities:

- This report is commissioned for the Department of Industry (DOI) at the Ministry of Trade and Industry (MTI), with the support of Increased Competition and Export Promotion (ICEP) project, which is implemented by International Development Ireland (IDI) and financed by the EU EuropeAid.
- The primary two goals of this Value Chain selection and analysis assignment include the holistic analysis and upgrading recommendations of the overall wood furniture sub-sector. Furthermore, it was a training exercise for DoI staff in VC methodology for replication to other key sectors in the future.
- The study follows a VC framework approach, to a large extend based on GIZ ValueLinks methodology, but including elements of UNIDO and Springfield M4P methodology as well as own authors elements.
- The sample framework included 49 interviews with producers, in addition to 27 interviews with VC upstream and downstream operators (suppliers and transporters).
- Interview implementation and base-line data collection at VC micro level was executed by a specialized Pristina-based market research company. Meso and macro level analysis was conducted with semi-structured interviews.
- This VC analysis report includes economic, manpower/social and environmental analysis components that lead toward main constraints, opportunities and a set of proposed interventions.

General Findings:

- In 2016, exports amounted to 4.13 million EUR with an increase of 367% since 2011. The steepest rise was in 2016 by 63%.
- In terms of main exported product groups, wooden kitchen takes first place (35%), wooden bedroom furniture (10%), and wooden dining/living room furniture (7%).
- The majority of firms (83%) export to only three export countries (Switzerland, Germany, Luxembourg), and only 12% sell to more than four export countries.
- Switzerland is the leading importer with 2.3 million EUR. 88% (n=37) of all surveyed exporters (37) also export to Switzerland, accompanied by Germany with 0.895 million EUR and Luxembourg with sales of 0.339 million EUR. Around 84% of all wooden furniture exports go to these three EU countries.
  The second largest group of 74% companies (n=31) are also exporting to Germany. These numbers indicate the overwhelming involvement of the diaspora in both countries.
- 12% of the companies ship beyond Europe and 65% are considering additional export markets. Amongst the countries/regions identified as potential export markets are the USA, Asia, England, and Australia. 24% indicated that they are not considering expanding their export to other regions.
- According to Kosovan furniture industry stakeholder, chief export enters in the upper medium price level or lower high-priced segments at EU and Swiss export markets.
- At regional level, Kosovo furniture production is leading among Albania, Western Macedonia and Montenegro. Croatia and Bosnia have a well-developed furniture production with multiple output compared to the Kosovan furniture sector with a ratio of approximately 1:10.
- Regarding appreciation of production companies in regard to standards and certificates, 50% (n=24) of the interviewed companies consider ISO standards useful, 20% (n=10) the EUR1, and only 7% (n=3) focus to CE product certificate.

- The wood furniture VC appears only moderately integrated, in both, up- and downstream from the producers´ perspective. Better and more horizontal and vertical linkages and optimized supply chain integration have potential for further development.
- Added Value along the VC could not be correctly determined due to missing data. Rough estimations indicate between 400 to 700%, depending on B2B or B2C export sales.
- Environmental considerations call for more installed air-filters and ventilation in production companies and wood production waste has potential to be recycled.
- At supply level, companies complain about time required for customs declarations, sometimes "several days". In terms of supply and export customs procedures, the current standard in Kosovo is not competitive compared to neighbouring countries, which has negative effect on just-in-time supply and export delivery time.
- Suppliers consider unfair competition as one of their main constraints. Certain companies practicing unfair competition with tax evasion and other informal practices. Authorities are insufficiently tracing these practices to prevent damage to legally operating companies.
- From producer´s perspective, main constraints related to suppliers are quality complaints, unavailability of specified products, insufficient stock and deliver delays. 45% consider not having problems with suppliers.
- The most frequent means of financing investments are bank credits/loans (55%), owners´ savings (53%) and by retired earnings (53%).
- Allocation of investments is mainly toward technology (34%) and product development (20%). Marketing investments are rather low with 12% only.
- Horizontal linkages at producers´ level exist, like co-manufacturing or subcontracting. Further linkage promotion and cooperation between (competing) companies has potential for improvement.
- At export level, the number of export countries and clients is unbalanced and partly too concentrated to few customers only, representing risks of losing considerable business.
- At producers´ level, main competitive benchmarks are considered to be related to product quality, innovative design, delivery time and punctuality, and price.
- 67% of the nominations by production companies have in-house design development, whereby most these designs are to some extend copied from external sources. Only 14% of the nominations consider export customer´s own design.
- When assessing prioritized barriers to export, four areas need more attention: personnel development and better skilled labour, management skills; better export marketing, including freedom to travel to the EU, client acquisition, segmenting and branding; certification and product quality; investment, innovation and access to finance.
- Companies consider the main barriers to more competitiveness are improved upstream vertical integration, stronger business association, a more conducive regulatory environment and provision of development grants. Many companies are not fully aware of the need to internal process upgrading, including export development processes.
- Among national BMO´s, the Association of Wood Processors of Kosovo has a positive approach and connection to companies. Sustainability is a problem as most of the interventions are donor financed and to-date no paid services are available.
- The sub-sector has proven potential to further develop and strengthen exports.
- Donors offer a multitude of projects and interventions, also to the wood sector in general. Donor activities are considered to be more supply than demand-oriented, and donor coordination is weak. Government ownership in this regard is little developed.

Principal Recommendations

- As a consequence of this VC analysis, the embracing recommendation is to rather avoid or limit implementing individual and focussed interventions, but to consider the benefit of overall, systemic and holistic sub-sector upgrading as the best-practice solution for outcome and impact along the wood furniture VC, with the positive side effect of potentially improved collective donor efforts with reduced overlapping interventions and strategies for upgrading of the furniture sub-sector (paragraph 4.7.2.5 indicates current and planned intervention overlapping regarding company competiveness and export development, also related to the wood furniture sector).

- As part of this VC analysis, more than 90 interventions are defined within seven intervention areas (market access and marketing; manpower and VET; business operations; certification and quality; linkages, upscaling and environment; VC support services and service providers; VC governance and regulatory framework).
- Recommended interventions cover the three intervention levels of the impact chain, in particular: at project activity level, output level for capacity development of partners, and output level concerning structural change at VC micro, meso and macro level.
- The recommended VC development strategy for improvement of exports and sub-sector competitiveness includes the four focus areas: economic growth, internationalization and competitiveness; EU membership and EU market positioning; market segmentation with focus to medium and higher price segment; national branding and considerations of national beech wood.
- Improving overall competitiveness, according to the competitive advantage model of the wood furniture sub-sector VC, requires: interventions toward company internal upgrading for better cost advantages and cost leadership; definition and realization of differentiation advantages and leadership; creation and improvement of a pro-business environment geared toward supporting internationalization and export.
- Depending on the implementation strategy of a holistic VC upgrading and facilitation project (to be defined), implementation contains interventions with short-term (1 year), medium-term (2-3 years), and long-term (4-5 years) perspective.
- The industry needs to prepare for the digitization and new marketing trends by introducing e-commerce, digital media and social media marketing.
- It is recommended to consider starting a VC promotion and facilitation project, based on international donor initiative and conceptual guidance, in cooperation with a national public-sector implementation partner (e.g. KIESA).
- A VC promotion and facilitation project can cover the two wood sub-sectors furniture and furniture, as a large part of constraints, opportunities and recommendations are the same or similar. Supply, transport and production operators are partly the same.

1. INTRODUCTION

1.1 OBJECTIVE AND SCOPE OF THE VALUE CHAIN ANALYSIS

This report is commissioned for the Department of Industry (DOI) at the Ministry of Trade and Industry (MTI), with the support of Increased Competition and Export Promotion (ICEP) project, which is implemented by International Development Ireland (IDI) and financed by the EU EuropeAid, which is represented by the European Union Office in Kosovo (EUOK).

During a pre-selection stage which preceded this report, wooden furniture and wooden building material have been identified to be among the most promising sub-sectors. The selection occurred based on a holistic approach, which integrated economic, environmental, social and institutional aspects.

The primary goal of the Value Chain selection and analysis assignment was two-fold. First, it intends to closely examines the existing situation of the wooden furniture sub-sector with the relevant aspects, and to formulate short and medium-term interventions to tackle the main constraints and opportunities on each value chain function and level. Second, it was meant to be training exercise for DoI staff in regard to application of VC methodology for replication to other key sectors in the future.

The Government of Kosovo and various donors published numerous reports and assessments in the past years, including an overall wood sector Value Chain (VC) analysis. In the Kosovo Wood Sector Assessment (2015), Empower/USAID describes that all publications confirmed the general wood sector a high degree of development potential, besides the importance of being one of Kosovo´s strategic sectors for development.

By targeting export development, increased company and overall sector competitiveness helps to substitute import, hence also contributing to improving Kosovo´s unfavourable balance of trade. According to the theory of comparative advantage, export and trade readiness will be a primary driver for increased competitiveness.

Depending on the sector and specific sub-sector products, the economy of scale in the manufacturing of consumer or B2B products often represents an obstacle for local Kosovar companies. This obstacle prevails as long as comparable benchmarks on cost efficiency, productivity and creation of competitive advantage cannot be matched by local companies for wooden furniture products. In this case, it can be more useful to concentrate on production of goods and services with comparative cost advantages for export, instead of allocating their limited resources in substitution of imports.

The current Kosovan economic growth model still relies heavily on remittances to fuel domestic consumption. Therefore, further improvement of export competitiveness will require a grand effort of filling performance gaps along the involved functions of the value chain. This VC analysis will primarily focus on upgrading potential aiming toward export.

As opposed to natural-resource based products (agro-based products), furniture is composed of different input material and accessories. The definition "wooden furniture" does not specify a specific percentage of specifically used wood or non-wood raw material. Depending on the type and specification of wooden furniture, the supply pattern, overall cost structure and the added value along the VC these aspects and supply specifications will differ.

Typical wood furniture categories regarding wood and furniture specification are the wood veneer, solid wood, solid hardwood, particle board or medium density fibre board, laminate, upholstered furniture.

This VC analysis, including findings and upgrading recommendations, describe the status quo, according to data available and information that was given by the interviewed VC operators at its present state. The scope of this wooden furniture value chain analysis starts with describing the input supply but does not include availability, technical data or issues, design, quality or cost considerations of alternative input sources. Those considerations are taken by furniture producers and depend on multiple factors that relate to product features and groups, availability of material, market trends, client specification and overall cost considerations.

1.2 METHODOLOGY

The study follows a value chain framework approach, which to a large extend is based on GIZ ValueLinks methodology, but also contains other donor´s elements (e.g. Springfield) and own authors inputs .

The holistic analysis of the wood furniture value chain, starting with supply of raw material focusses on core VC operators, VC service providers and institutional policy framework with impact to export competitiveness of the wooden furniture sub sector. Analysis and recommendations are based on feedback from interviewed VC operators, from the Kosovo Wood Association, and representatives of various institutions, donor agencies and other macro stakeholders.

Substantial quantitative and qualitative base line data covering the overall core wood furniture VC was executed by a local research and consulting company. Further information was gathered from sector reports originating from donors and other entities in Kosovo.

It cannot be ruled out that interview results reflect subjective data provided by the interviewees. The interpretation of the quantitative and qualitative inputs was done by the consultants, reflecting the experts view. In addition, sector stakeholders were asked to assess part of the analysis and recommendations made. Within the framework of a VC analysis, focus of this study is strictly not to analysing the furniture industry at technical level. The VC analysis aims to analysing processes along the wooden furniture VC, with a focus on export capability. Further analysis, if required, as part of any potential future VC development implementation and upgrading will require to involve specialists in wood and furniture technology, and furniture marketing specialists.

Market studies are important for analysis of VCs and the definition of specific market driven upgrading potential. Therefore, market orientation and competitor research are core of any VC upgrading. Market trends have to be taken into consideration and current company performance must be matched with market requirements of the defined and suitable target markets. Subsequently, an upgrading plan must be defined, which includes interventions for improving competitiveness of manufacturers in their defined target markets. Market studies are not just part of the economic analysis of the VC, but an ongoing concern, and should ideally be conducted before hand already.

As it stands, there is lack of available, up-to-date, accessible and institutionalized in-depth international market analysis on wooden furniture.

Any future VC development and upgrading project on basis of this VC analysis of the wood furniture subsector needs to be aware of the need for current in-depths market and competitor analysis as a baseline for final definition of any upgrading strategy.

1.3 SAMPLE FRAMEWORK

(1) Sample Plan

In order to obtain relevant data on the functioning of the value chains for wooden furniture and wooden building material, 90 interviews have been planned with production firms and other upstream and downstream actors of both sub-sectors. Following is a description of the approach used to determine the sample plan.

Provided that production firms constitute the major actors in the VC and given that they also possess information about the overall landscape, it was decided to conduct the largest number of interviews (n=63) with this category. The rest of the interviews were planned to be carried out with input suppliers (n=18); and transporters and exporters (n=9).

The next step in the sample planning was to split up interviews based on sub-sectors and other criteria that ensure a wider coverage of the VC actors. Because downstream and upstream actors predominantly work with both sub-sectors, there was no criterion foreseen on this level. However, there was a need to make a distinction among actors within each category. Of the input supplier category, half of the interviews (n=9) were planned to be held with wood input suppliers and the other half (n=9) with companies that supply accessories and/or other similar components. Of the exporters and transporters category, 40% of the interviews (n=4) were envisaged to take place with export traders, 30% (n=3) with transporters, and 20% (n=2) with customs brokers. One general condition for both categories was to capture all the relevant stakeholders that in one way or another are integrated (or could possibly be integrated) in the VC. The overall logic was to end up having an even distribution of interviews among the actors of both upstream and downstream categories.

On the other hand, a clear sectorial distinction among the wooden production firms was needed. To make that distinction, the initial step was to figure out the contribution of production firms from each sub-sector towards the total exports of the industry. The obtained ratio, with little adjustments that were required to have a reasonable number of interviews from the building material sub-sector, has been used as the main criterion (proxy) to distribute interviews into both sub-sectors. Using this logic, the plan was that of all interviews with the production firms (n=63), 70% to be carried out with the wooden furniture enterprises and 30% (n=19) with wooden building material firms.

To be able to capture production firms with various characteristics, other within-sector stratification criteria were foreseen. From all interviews with production firms in each sub-sector, 80 % of interviews were planned to take place with exporting firms, while 20 % with near to export firms. Exporters were planned to be further divided by their export size. For a detailed sample plan, see Figure 01.

Figure 01: *Sample plan*

Stratification 1	Stratification 2	Stratification 3	Stratification 4	# of companies to be interviewed
Input suppliers (20%) n = 18	Wood (50%) n=9			9
	Components (50%) n=9			9
Producers (70%) n=63	Furniture (70%) n=44	Exporters (80%) n=35	Large (30%)	10
			Medium (50%)	18
			Small (20%)	7
		Potential exporters - No export/ large or medium companies (20%) n=9		9
	Building material (30%) n=19	Exporters (80%) n=15	Large (30%)	4
			Medium (50%)	8
			Small (20%)	3
		Potential exporters - No export/ large or medium companies (20%) n=4		4
Transporters & Exporters (10%) n = 9	Customs brokers (20%)			2
	Transporters (30%)			3
	Export traders (40%)			4

Source: Own compilation

(2) Actual sample for the furniture sub-sector and its demographic data

The distribution of interviews took place as envisaged by the sample plan, with some small deviations as a result of some company-specific characteristics that could not be foreseen beforehand. A total of 49 interviews were executed with production companies. Out of all these interviews, 81 (n=40) with companies producing wooden furniture products only, 14% (n=7) with companies that manufacture predominantly (more than 60% in total shares) wood furniture products, and 4% (n=2) with companies that produce both furniture and wooden building material participating equally on the overall company sales. More than 84% (n=42) of the companies are engaged in export. All of the currently non-exporting companies declared that they are either presently attempting or considering exporting in the following period.

Following are some further demographic data about the interviewed companies.

Of all the interviewed companies in the wooden furniture sub-sector, the majority or 59% (n=30) turn out to be small (19-49 employees), 24% (n=12) micro (0-9), and the rest medium (50 - 250 employees). As far as turnover is concerned, 23% (n=11) declared to have had a turnover less than 0.1 million EUR in 2017; 41% from 0.1 EUR to 0.5 million EUR, and 35 percent more than 0.5 million EUR. The majority of them, 62% (n=31), were established before 2000, 20% (n=10) from 2011 to 2010, and the rest (18%, n=9) after 2011. They are located in various towns across Kosovo. In this sample, those that are established in Prishtina dominate with 20% (n=10). Regarding legal status, almost half of them, 49% (n=24) are registered as limited liability companies and 35% (n=17) as individual businesses; the rest (16%, n=8) are other legal entities.

Furthermore, 23 interviews have been conducted with VC upstream and downstream actors. Around 61% (n=14) of the interviews were undertaken with input supply actors (wood and components) and about 39% (n=9) with exporters and transporters. Demographic data for upstream and downstream actors are provided in Section 3.4 and Section 3.5.

Figure 02: *Demographic data of the sampled and interviewed furniture production companies*

Production Companies						
Size	**Micro (0-9 employees)**		**Small (10-49 employees)**		**Medium (50-250 employees)**	
	24%		59%		16%	
Turnover	**< 50,000 €**	**50,000 - 100,000 €**	**100,000 - 250,000 €**	**250,000 - 500,000 €**	**500,000 - 1,000,000 €**	**> 1,000,000 €**
	10%	13%	6%	35%	22%	13%
Year of Establishment	**Before 1990**		**1990-2000**	**2001-2010**	**After 2011**	
	37%		25%	20%	18%	
Location	**Prishtina**	**Ferizaj**	**Prizren**	**Podujeva**	**Peja**	**Other**
	20%	16%	8%	8%	8%	39%
Legal Status	**Individual business**	**Limited liability company**	**Joint Stock Company**	**General Partnership**	**Other Legal Form**	**-**
	35%	49%	2%	4%	10%	-

Source: Own compilation based on company data collection

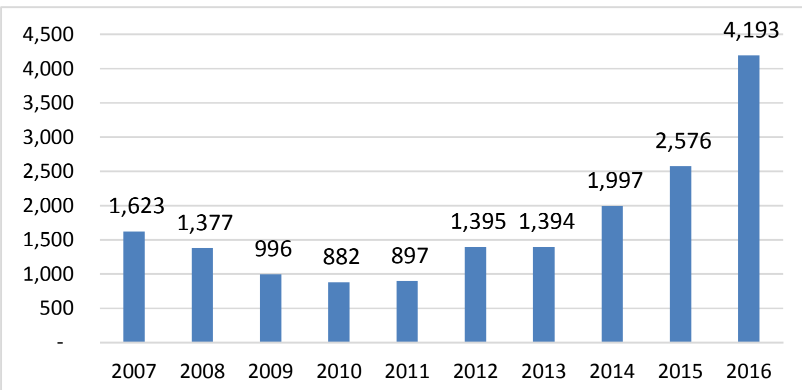
2. MARKETS AND EXPORT

2.1 EXPORT OF WOODEN FURNITURE FROM KOSOVO

(3) Export figures and number of exporters

In 2016, exports of the wooden furniture sub-sector amounted to 4.13 million EUR. Since 2011, this sub-sector has marked an increase of 367%, from 0. 897 EUR to 4.13 million EUR. The steepest rise occurred in the last year, where the volume of exports rose by 63% – indicating that the wooden furniture constitutes a promising export sector. For more information about export changes of this sub-sector across years, See Figure 03.

Figure 03: *Furniture exports, by years (million EUR)*



Source: Own compilation based on Kosovo customs

Kosovo Customs indicate that there are around 205 enterprises in Kosovo that export wooden furniture products. The majority of these enterprises (approximately 71%) export less than 10,000 EUR annually. Indeed, a tiny share makes up most of the exported wooden furniture. Concretely, around 13% of all the exporting enterprises (28 out of 205), account for about 80% of all exports in this sub-sector. This highly uneven distribution of exports indicates that the majority of smaller exporters are still facing struggles to expand into export markets.

Figure 04: *Wooden furniture exports, by firm size (2016)*

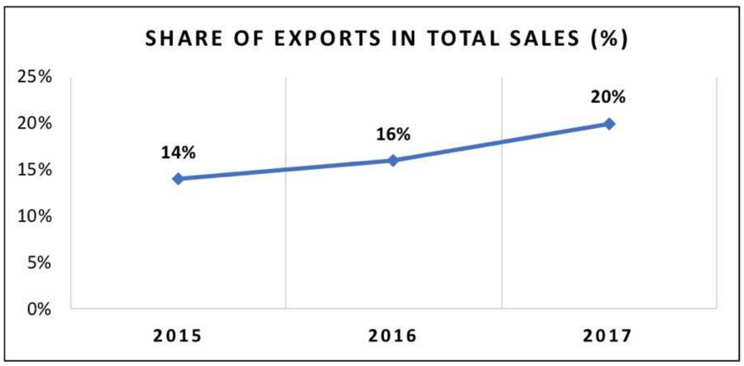
	Range of turnover (EUR) of companies						
	<10,000	10,000-25,000	25,000-50,000	50,000-100,000	100,000-250,000	250,000<	Total
Wood Furniture Exports (EUR)	381,477	506,302	397,363	443,300	769,979	1,694,607	4,193,029
Enterprises (#)	146	31	12	6	5	5	205
Total Furniture Exports (%)	9%	12%	9%	11%	18%	40%	100%

Source: own compilation based on Kosovo customs information

It is noteworthy to mention that a contradiction arose in the definition of the real export figures. The Association of Wood Processors of Kosovo (AWPK) claim that the actual amount of Kosovan wood furniture exports should be up to four times compared to the officially published figures of Kosovo Customs. It is likely that this has to do with the improper registering of trade flows by the latter. On the other hand, representatives from Kosovo Customs are confident that the official numbers are correct. Whatever the case, the official data published by Kosovo Customs will be used in this report.

The survey data reveal that the average share of exports rose by 42%, from 14% in 2015 to 20% in 2017. Even though the principal reason for the increased export share could not be determined, nonetheless the numbers give an indication that there has been a considerable increase in exports.

Figure 05: *Share of exports in total sales from 2015-2017 (%)*



Source: own compilation based on company data collection

(4) Scenarios estimating overall furniture sub-sector sales and local vs. export shares

According to the official data from Kosovo Customs, total exports of wood furniture stood at 4.1 million EUR in 2016. Relying on this export figure and on the various shares of exports in total sales provided by the surveyed companies, three different scenarios have been developed to estimate the overall amount of sales. In Scenario II (Baseline), the calculation of local sales and overall sales is based on the assumption that exports participate with 15% in total sales, on average. This assumption takes into consideration the large number of small companies that were not part of the sampled interviews. In Scenario I and III, the assumption was that the share of exports is 10% and 20%, respectively. Based on these assumptions, the overall sales of the wooden furniture sector in 2017 stand somewhere between 21 million EUR and 42 million EUR, or according to the more likely baseline Scenario II at 28 million EUR.
If Scenario 2 holds true, then the overall sales generated by the wooden furniture sub-sector are three times higher compared to the wooden building material sub-sector.

Figure 06: *Scenarios of export vs. local market sales and total sub-sector sales (basis 2016)*

Scenarios	Exports (€)	% of Exports in Total Sales	Local Sales (€)	Overall Sales (€)
Scenario I	4,193,029	10%	37,737,261	**41,930,290**
Scenario II (Baseline)	4,193,029	15%	23,760,498	**27,953,527**
Scenario III	4,193,029	20%	16,772,116	**20,965,145**

Source: own compilation based on Kosovo customs information and input from companies

(5) Exported wooden furniture product groups

Disaggregating official export data by product groups reveals that wooden kitchen furniture is exported the most, accounting for approximately 1.45 million EUR in 2016 (about 35%) of total exports or; followed by the wooden bedroom furniture with a share of around 0.413 million EUR (about 10%), and wooden dining/living room furniture at 0.298 million EUR (about 7%). The rest make up a smaller share: wooden office furniture 0.147 million EUR (about 3%) and wood furniture used in shops 46 thousand EUR (less than 1%).

What is interesting is that the most significant amount is declared as *'other wood furniture'*, where specific product sub-groups cannot be identified.

Figure 07: *Wooden furniture exports, by product groups (in thousand €), (2016)*

Source: own compilation based on Kosovo customs information

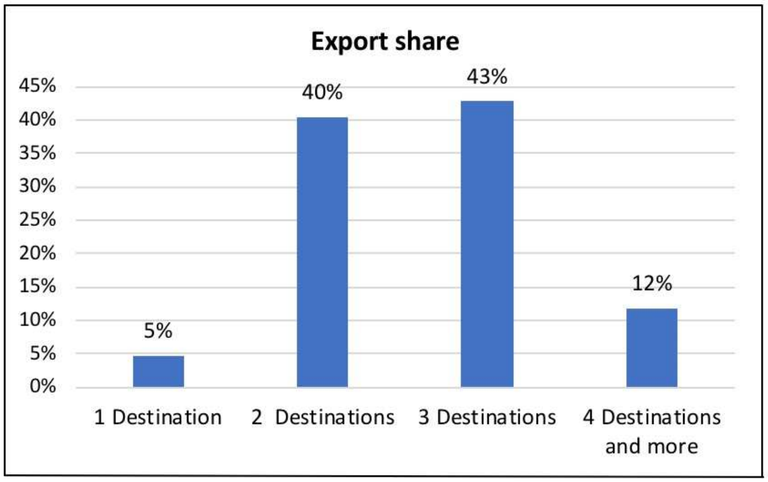
2.2 CURRENT MAIN EXPORT MARKETS

Figure 06 shows the proportion of exporting firms based on the number of countries they export to. The majority of these firms (43%, n=17) export to only three countries, and only 12% (n=5) firms target more than four export countries. In general, 83% (n=34) of the exporters are selling to maximum three countries.

This picture suggests that there is room for exporting companies to further expand their activity into more markets, always under the condition of the limited output of Kosovan exporters. Based on the current production and maximum achievable capacity, more demands result in smaller lots per country and client.

Further analysis is required to identify and describe alternative growth scenarios for the Kosovan wood furniture sector.

Figure 08: *Export by number of destinations*



Source: Own compilation based on company data collection

Figure 09 depicts the main export destinations for wooden furniture based on Kosovo Customs and survey data. According to Kosovo Customs, Switzerland is the leading importer with 2.3 million EUR, accompanied by Germany with 0.895 million EUR and Luxembourg with 0.339 million EUR. Around 84% of all wooden furniture exports go to these three EU countries. The survey data also indicates a somewhat similar picture. 88% (n=37) of the interviewed exporting companies export to Switzerland, 74% (n=31) to Germany and 19% (n=8) to Austria. Note that although the ranking is to some extent similar, the customs data and the survey data are not completely comparable. The customs data lists countries based on export values, while the research data (though not in order) lists countries based on the number of surveyed exporting companies (see Figure 07).

From the neighbouring countries, Macedonia occupies the top position with 0.117 million EUR (3 % of total exports), followed by Serbia with a slightly lower amount, 0.111 million EUR (2 %). In general, all other countries stay for 2% or less of total exports.

A reason for this export pattern is the active Kosovan diaspora, mainly concentrated in Germany and Switzerland, through playing a crucial part in facilitating exports and helping producers to create contacts in the EU. To what extent the other serviced EU markets have to do with the presence of the diaspora is not known at present. At regional level, limiting factors are the competitive pressure from CEFTA producers and the current existing political and economic uncertainties related to cross-border trade and transport with Serbia, Albania, and Macedonia.

> *Key Facts* – **Export Markets**
> - More than 50% of the surveyed companies that export wood furniture products generate more than 70% of their overall exports from one export country only.
>
> *Conclusion*
> *Acquiring more markets in EU27 + UK, increases potential for more export. It also supports exporters to expand their exportable product ranges according to wider client demand pattern.*

Although CEFTA agreement foresees free movement of goods across member countries, adverse conditions (non-tariff) still exist.

Figure 09: *Export countries of Kosovo furniture products*

Country Name	Wooden Furniture Exports (EUR)	Share in Total Wooden Furniture Exports (%)	Surveyed Exporters (#)	Share in Total Surveyed Exporters (%)
Top Export Destination				
Switzerland	2343	55%	37	88%
EU Countries				
Germany	895	21%	31	74%
Luxembourg	339	8%	1	2%
France	104	2%	6	14%
Austria	65	2%	8	19%
Netherland	47	1%	1	2%
Belgium	25	1%	6	14%
CEFTA Countries				
Macedonia	117	3%	5	12%
Serbia	101	2%	-	-
Montenegro	56	1%	-	-
Albania	44	1%	6	14%

Source: Compilation based on customs data and own research

Companies were further asked whether they consider exporting beyond EU markets. Only 8% (n=4) declared that they ship beyond Europe, while 55% (n=27) reported that they are considering these markets. Amongst the countries/regions identified as potential export markets are the USA, Asia, England, and Australia. On the other hand, 35% (n=18) indicated that they are not considering expanding their export to other regions.

When asked about the challenges of exporting beyond the EU market, the arguments provided in Figure 8 were mentioned.

Challenges – exporting beyond Europe	
Distance	10
Production capacity	9
High costs	6
Product standards	3
Network/ Connections	3
Others	6

Figure 10: *Exporting beyond the EU market;* Source: own compilation based on company data collection

Market opportunities in Asian niche markets cannot be ruled out, if Kosovan manufacturers are able to offer at competitive prices, including costs of freight and insurance (either FOB or CIF). An example on freight costs, comparing cost of shipment.

2.3 MARKET TRENDS

(6) The EU furniture market

About furniture production, in 2010 about 17% of the world´s furniture was manufactured in the EU[1], employing about 940.000 workers in 130.000 furniture production companies. There is a likelihood that import from cheap labour countries has considerably increased in the last years, which is also in favour of export potential from Kosovo, even though on a small scale. In 2010, about 60% of the total EU based production was realised in Germany, Italy, Poland and France. With the improved certification procedures on illegal logging, countries with much own wood raw material base, such as Indonesia, besides others have considerably increased their imports to the EU.

[1] CEPS, 2014; report on EU furniture market situation and a possible furniture products initiative

(7) Global production and consumer trends

Furniture production worldwide increased steadily over the last decade except 2008 and 2009, likely due to the economic and financial crisis in most of the key production and furniture consumer countries. In 2012, high-income countries[2] manufactured 41% of the global furniture production. With likely considerable growth since 2010, middle and low-income countries' share of the worldwide output was at 53%. The most substantial increase occurred in China, Poland and Vietnam, with India and Brazil having stable growth rates in domestic consumption[3].

(8) Consumer price segments (example German market)

Germany is the most significant consumer market for furniture in the EU with increasing imports of low-price level furniture. Exemplary to other markets, the German furniture production consists of three main price segments (Figure 11).

The development from 1981 to 2020 reflect changing consumer preferences. The most dramatic changes occurred in the medium level price segment. From a share of about 50% of total turnover in the year 1981 to only estimated 15% in 2020. In contrast to this, the turnover in the entry-level price segment is expected to rise to 50% in 2020. Most of the low price entry-level products are imported. The herein described market pattern is likely similar in most other EU countries.

In Germany, 91% of the overall furniture import is realised from China, Poland, Czech Republic and Italy. In the year 2014, the global import quota of furniture to Germany was about 58%. The polarisation of market segments can improve chances for Kosovan furniture exporters.

The medium level price segment is more and more coming under pressure and polarisation between high and low-price layers will also affect future marketing, design and pricing strategies of Kosovan furniture manufacturers, with a clear focus on market and customer segmentation, and thus alignment in the proper price segment.

According to Kosovan furniture industry stakeholder, chief export enters in the upper medium price level or lower high-priced segments (indicated by a red mark in the Figure 09).

Further in-depth market analysis on segment level in selected target countries is necessary before taking decisions on future assortments or product lines[4]. It is key to understand the product and market segmentation criteria better. Considering the positive furniture sector growth on a global level, the export potential from small exporting countries, such as Kosovo, has potential when tackling specific matching market segments and niche markets, either on B2B or B2C level (e.g. e-commerce).

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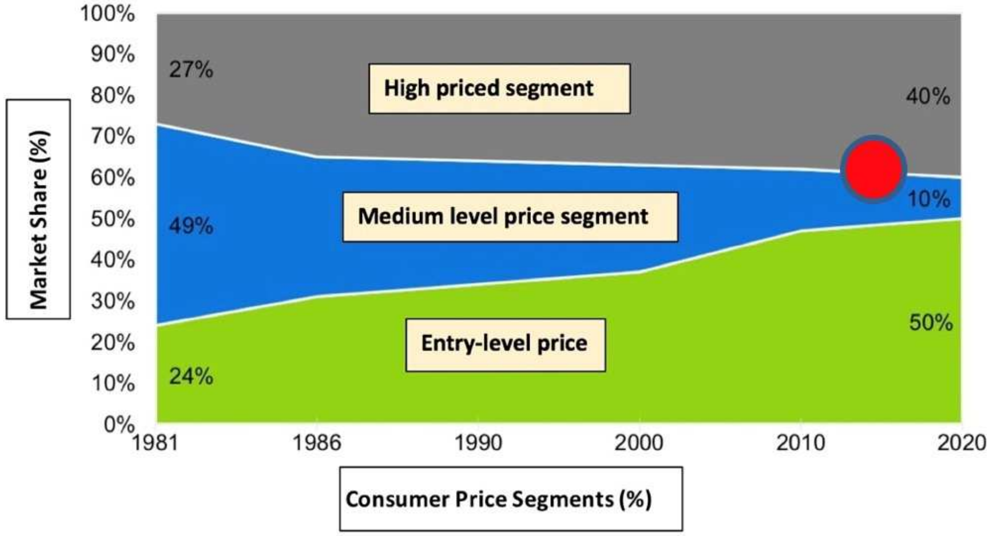
[2] According to CEPS, 2014: Classification of countries by income (high income/middle and low income) is based on the following World Bank definition: Economies are divided among income groups according to 2007 per capita income, calculated using the World Bank Atlas method.
[3] CEPS, 2014
[4] Deloitte and Touche GmbH, Germany, 2016

Figure 11: *Customer level price segments of German furniture market*



Source: Deloitte, 2016; point of view restructuring services; the German furniture sector

From 2003 to 2012, the consumer spending pattern on furniture has changed. Consumers from lower income countries and emerging economies have increased typical consumer spending, such as in furniture.

Figure 12: *Consumer spending habits on furniture*

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
High income countries	82%	80%	78%	75%	72%	68%	61%	59%	56%	53%
Middle/low income countries	18%	20%	22%	25%	28%	32%	39%	41%	44%	47%

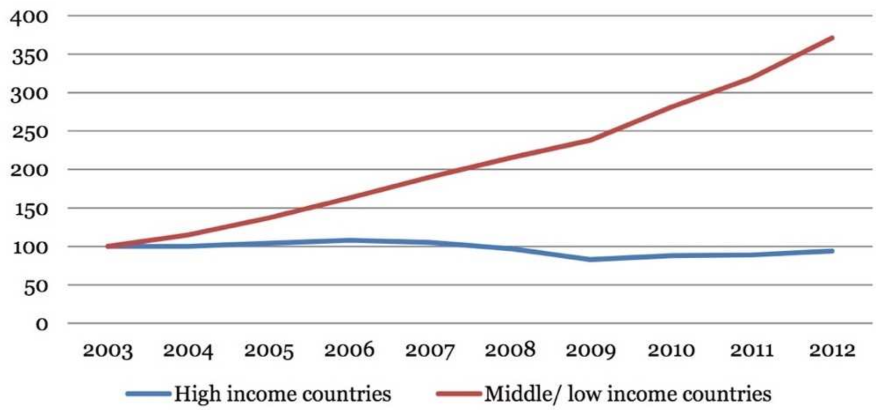
Source: CEPS, 2014; report on EU furniture market situation and a possible furniture products initiative

According to Figure 13, furniture consumption per capita in high-income countries has been stagnant, whereby consumption in middle and low income countries indicates a steady increase since 2003.

Kosovo´s furniture exporting companies target mostly the markets of higher income countries. For the Kosovan furniture industry stagnant demand in high income countries means increased competitive pressure, at least in the medium price-level segment (Figure 09). This asks for investment into more market analysis for very targeted market segmentation and competitiveness optimization on company level through implementation of ISO certification, stringent cost control, improved productivity, design development, competitive lead time and commercial standards, innovative raw material selection, implementation of TQM systems.

Better integration of actors in the wood furniture value chain, such as co-production and sub-contracting, optimization of the supply and VC upstream processes will further improve the overall export competitiveness of the sub-sector.

Figure 13: *Per capita furniture consumption in high income countries and middle and low income countries (index, 2003=100)*



Source: CEPS, 2014; report on EU furniture market situation and a possible furniture products initiative

(9) Market and design trends

Market and trend information for furniture segments and product groups, focussing on different countries, are available from several trend, design and market publications. Some of this information was published for the IMM furniture fair. Other publications are available at different EU furniture fairs. Kosovan manufacturers should consider to regularly obtain a variation of trendsetting magazines from their target markets.

The journal MÖBELMARKT (www.ritthammer-verlag.de) publishes several furniture magazines with focus EU market and its global value chain. MÖBELMARKT, the German sector magazine is a partner of the Federation of European furniture Trading and provides a monthly mirror of the international furniture market development.

(10) Raw material

A market trend is leading from tropical timber products toward substitute products. Even though, alternative raw materials are not much considered contributing to overall competitiveness (see Figure 39, main competitive benchmarks), this apparently offers alternative and additional market and purchasing opportunities to Kosovan producers.

European buyers have increasing problems of finding suppliers for traditional tropical timber. Some of the reasons for its scarcity are increasing conversions of forests into agricultural land, the fast demand development on the tropical wood of emerging economies, and the growing Brazilian, Russian, Indian and Chinese markets. Other considerations with effects to wood processing companies are consumer awareness of deforestation, climate change and carbon-neutral operations. Sustainability is high on the agenda. Awareness of final consumers (e.g. garden furniture besides others) is growing, and most importers appreciate the Forest Stewardship Council (FSC) certificate as a reasonable response to consumers questions.
Some tropical substitute products are the Thermally Modified Wood (TMW), Wood Plastic Composites (WPC) with composite materials, consisting mainly of wood fibre and flower various thermoplastics (PE, PP, PVC), and Glued Laminated Timber (Glulam).
Depending on specifications, applications are seen either in the furniture but also the construction sector.

2.4 COMPETITIVE LANDSCAPE

Even though furniture export from Kosovo takes place on a rather small scale, exporters are still required to reach at least comparable competitiveness levels to other typical competing export manufacturers from other countries.

Kosovan exporters may be able to take advantage of current challenges of EU based producers. According to information from the EU Commission GROWTH website[5], the main challenges for EU based furniture producers are as follows.

- Competition: countries with low production costs have advantages. China accounts for over half of the exports to the EU.
- Innovation: the requirement on design and innovation creativity with often weak intellectual property protection increases the vulnerability of EU producers as they invest resources and face copying designs from low-cost non-EU producers.
- Structural problems: increasing problem with the ageing workforce and difficulty to attract young people, with widening gaps in required professional levels.
- Trade: EU producers face headwind in protectionist measures on several international markets. They face extra costs on import duties of raw material and higher operational costs related to requirements from environmental and technical standards.

However, any effort to increase export from Kosovo to EU countries has to consider the highly competitive landscape of the furniture market in the EU with member countries having entirely different design tastes and possibly consumer pattern. Implementation of market analysis in the EU markets will be an essential requirement for further expansion of Kosovan wooden furniture manufacturers.

For smaller Kosovan SMEs in the furniture sub-sector that are not being engaged in trade yet, integration to the furniture value chain can be the regional trade, being an entry point for better internationalisation. Regional value chain integration for smaller furniture producers can also lead to better future integration and linkage with larger furniture producers.

Some information on regional furniture markets and producers:

- Kosovo furniture production is leading among Albania, Western Macedonia and Montenegro (owner driven companies, design, export, installed capacities, strong donor-based funding).
- Serbia: mainly socially owned companies have increased competitiveness problems, and many are declaring bankruptcy. The Serbian wood sector is not improving and gets weaker. Wood and furniture production labour migrate to Kosovo from Serbia because they lose jobs in their country. Privatization of companies is politically sensitive. Serbia´s industry relates more to heavy industries.
- Croatia and Bosnia: There is a very lively furniture production (solid wood content mostly). Bosnia suffers from illegal harvesting. Wood related exports are 80% raw material with the result of an increasingly devastated environment and low added value. Export of wood mainly to China and furniture export to EU markets.

Bosnia and Herzegovina, as one of the leading wood production countries in the Western-Balkans, exports around 400 million EUR wooden furniture and other non-specified wooden products, whereby Kosovo around 4 million EUR according to official data. Whereas Bosnia exports mainly sawn timber (> 50%), Kosovo´s exports in this industry are almost 100% final products, such as kitchens, beds, upholstery, besides others. Considering export markets, Bosnian mostly exports to Germany (50%), other EU countries (45%), and others (5%).

[5] EU website GROWTH: https://ec.europa.eu/growth/sectors/raw-materials/industries/forest-based/furniture_en

2.5 EU AND SWISS IMPORT REQUIREMENTS

The most important trade agreement between Kosovo and the EU is the Stabilization and Association Agreement (SAA) signed in 2015. The SAA is a trade liberalising instrument that, amongst other things, allows free access to one of the World's largest markets, namely the EU market – which consists of around 500 million customers. Through this agreement, Kosovo and the EU create the foundations for a bilateral free trade area in support of the free movement of goods, services, and capital. It is very relevant for industrial products (wood furniture) as well. It specifies that all industrial products of Kosovo (including wooden products) can have access to the EU market at zero tariffs and without quantitative restriction. Customs duties are going to be progressively relaxed within 5, 7 or 10 years[6].
Given that the EU and Switzerland constitute the top two destinations for Kosovo producers, compulsory and voluntary import requirements have been provided for both as they differ slightly.

(11) Legal and non-legal (voluntary) requirements for importing wood furniture products to the EU[7]

Any import of timber products to the EU, including timber furniture, has to comply with some compulsory regulation, such as product safety requirements and the European Union Timber Regulation (EUTR).

Besides, European B2B buyers of wood furniture products may request additional voluntary certification. These are related to the wood raw material and linked to the Forest Stewardship Council (FSC). Other certificates, when provided by exporters are potentially adding value to their competitiveness at target markets. These include ISO certifications and EU ECO labels. The ECO label enables the final consumer to identify officially approved "green products", which has an increasing impact on customers decision-making pattern.

A summary of compulsory and voluntary certifications is further explained below in Figure 14 .

Figure 14: *Compulsory and voluntary requirements of wood furniture import to the EU*

Compulsory	Voluntary at certification level	Voluntary at company level
• **EUTR** (European Union Timber Regulation). EUTR controls legal origin. • **REACH** (EU Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals). REACH controls use of chemicals. • **CE** (Product Certification Mark on Conformity to Health, Safety and Environmental Protection). CE assures adherence to product standards. • **CITES** (Convention on international Trade in Endangered Species of Wild Fauna and Flora).	• **EU ECO label** for furniture (flower logo/community ECO label). It is awarded when complying with criteria according to Commission Decision 2016/1332/EU. Regulation (EC) No 66/2010. • **FSC** (Forest Stewardship Council). Setting standards on forest products, certifying and	• **ISO 9001:2015** (Quality Management Systems) • **ISO 26000** (SR-Social Responsibility) • **ISO 14004** (Environmental Management Systems) • **CSR** (Corporate Social Responsibility). Individual CSR standards of exporters/importers that certify adherence to standards related to

[6] EU Neighbourhood Policy, 2018; https://ec.europa.eu/neighbourhood-enlargement/news_corner/news/2016/04/20160401_en
[7] CBI, Centre for the Promotion of Imports from developing countries; https://www.cbi.eu/market-information/timber-products/buyer-requirements/

• **Packaging** (Council Directive 2000/29/EC, OJ L-169 10/07/2000). Reduction of: waste, noxious and hazardous substance, material recycling. • **Product Safety** (is ruled by the general product safety directive 2001-95-EC). If there is no regulation or EU safety standards (e.g CE mark) of the specific product group, national standards apply.	labelling them as Eco friendly. • **PEFC** (Program for Endorsement of Forest Certification). It promotes sustainable forest management through certification.	society and environment, also linked to ISO 26000)

Source: Compilation based on CBI, 2017 and own concept

(12) SWISS import requirements

Some differences of import regulations to Switzerland compared to the EU regulation require the attention by Kosovan furniture exports. The Mutual Recognition Agreement (MRA) between the EU and Switzerland deals with bilateral agreements on the standards and conformity assessment. The MRA is an instrument for abolishing barriers in the trade between both economic zones and came into effect on the 1st June 2001. The agreement covers more than 25% of all Swiss exports to the EU and about 35% exports from the EU to Switzerland.

For export to Switzerland from non-EU countries, the following applies.
Comparison between compulsory and non-compulsory requirements for wood furniture import to the EU and Switzerland:

- Switzerland has introduced a similar regulation controlling legal origin, as compared to the EU EUTR regulation.
- REACH is not accepted in Switzerland. The Swiss Chemicals Ordinance (ChemO) regulates requirements for import of products with chemical substances (includes chemicals on furniture).
- The CITES convention is applied in Switzerland. CITES Secretariat is located in Geneva/Switzerland.
- EU Packaging and labelling rules do not apply in Switzerland.

Voluntary requirements for certification require verification by the specific importers, whereby company ISO certification credits will be an added value for Swiss importers.

(13) Voluntary certification and standards of Kosovan companies supporting competitiveness

For the better competitive advantage of Kosovan furniture producers, ISO 9001:2015 certification plays an increasingly important role for non-diaspora importers. The additional benefit of ISO 9001 certification for wood furniture exporters are improved processes and quality management with lower overall production costs and a higher focus on client satisfaction.

(14) Perspective of furniture production companies related to importance of standards and certificates

Of all responses from companies in regard to required quality standards and certifications, the most frequent response was ISO standards. The second most frequent response related to the EUR 1 certificate. Only few answers concerned the wood origin certificate. None of the respondents mentioned the EU Product Safety Directive as a potential compulsory requirement. As wooden furniture products are not listed in the EU marking directives, and if there is no specific legislation, the General Product Safety Directive (2001/95/CE) may apply. In general, companies did not make a sufficiently clear differentiation between mandatory and volutary standards/certificates. Furthermore, the company´s responses reveal a rather limited knowledge on the three standard levels as shown in Figure 14. In terms of compulsory standards, at least EUTR, REACH and to some extend EU Product Safety Directive, are important issues to be tackled.

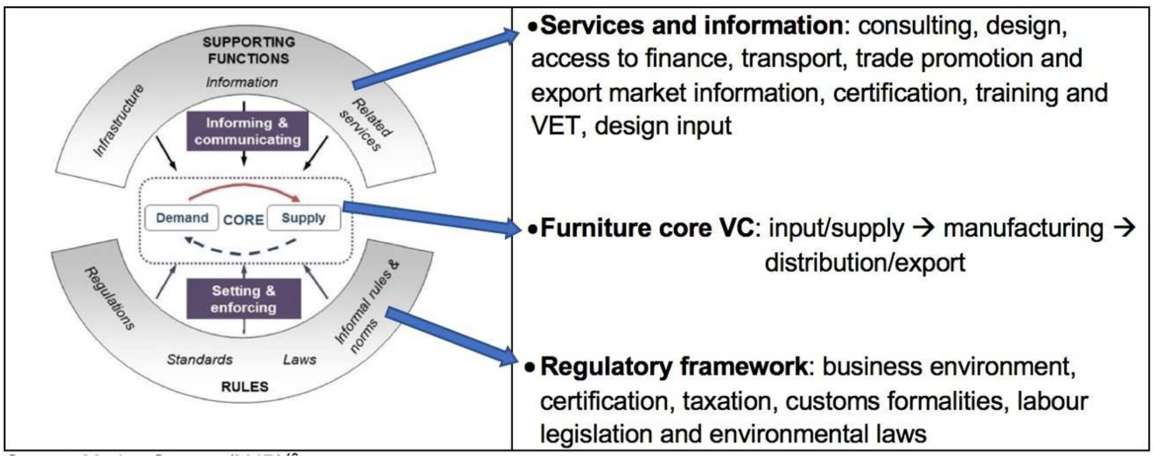
3. FURNITURE VALUE CHAIN ANALYSIS

3.1 Wood Furniture Value Chain Map

(15) Components of the VC map

The value chain map is the basis of the analysis. It demonstrates the basic structure of the core chain and is a visual description of the current functions and connected chain operators and their linkages. It indicates the relationship between the VC players from supply to market. The VC analysis starts with the current VC map, displaying the furniture core VC, services and information at the meso level, and legislative level.

Figure 15: *Integrated Value Chain Market System, displaying the core VC, meso/service and macro level inputs*

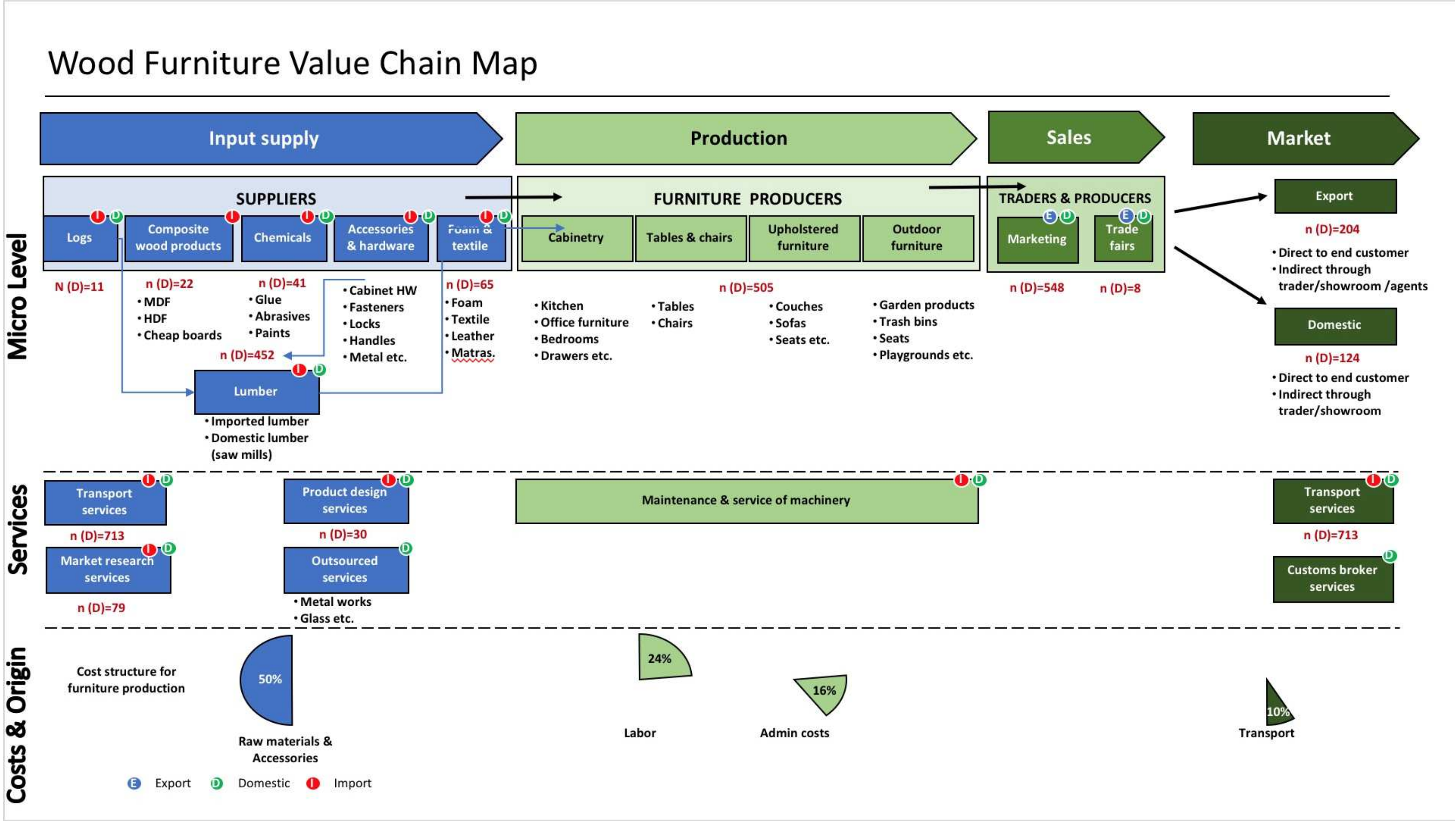


Source: Compilation based on Springfield Market System (M4P), 2017

(16) Furniture VC map in Kosovo

- The indicated numbers (n) of operators, representing the VC functions, are based on the Kosovo Business Registration Agency (KBRA) and Tax Administration of Kosovo (TAK table) data. Some of the indications the on number of operators (e.g. transport or marketing) are high because they do not only serve the wood industry. Marketing companies are active in the market, producing ads, brochures, banners, besides offering other marketing services. They are not necessarily specializing in furniture market research.
- According to information gathered at manufacturers´ level, no local nor national export agents are involved in the VC as intermediaries between producers and international importers (B2B) or final clients (B2C). Producers are mostly exporting their products directly to their target markets.
- In addition to the value chain structure, a spatial dimension indicates imported and domestic pre-products, raw material and accessory supply. At one stage, almost 100% of the input for the furniture industry is imported. Only sawmills create significant added national value in refining supply input, before selling their intermediate products to manufactures.
- At the bottom of the VC map, an approximate allocation of costs along the VC is provided.
- The zoomed-in meso and macro level map shows all primary VC enablers and supporters (see figure 42).

Figure 16: *Wood furniture VC map*



Source: Compilation based on VC data research

3.2 Economic Analysis of the Wood Furniture Value Chain

(17) Total value added, and value captured along the VC

The quantitative information with a huge number of variables does not allow for a serious and realistic analysis of total value generated or captured value along the furniture VC. Other reasons are the limited information of commercial, cost-related and margin information from VC operators that contribute to value adding along the VC (supplier, pre-processing by sawmills, manufacturing, transport, distribution).

Two practical examples made available by a local furniture specialist provide some information on a potential scope of value added from manufacturer to the market.

Examples of real added value from purchasing of raw material to final EU based client:
Chairs:

- Produced nationally.
  - Production costs including raw material: 100 EUR.
  - Sold ex-works to German importer: 120 EUR.
  - (1) Sales price of chairs at EU trade fair to consumer: 760 EUR (high-level market and price segment).
    Added value: value captured on national level 20%, overall 660%, low share of added value by the producer.
  - (2) Same product sold directly to show-room in Germany at the retail level: 250 EUR.
    Added value: national value captured 250%, high share of added value by producer due to direct selling at retail level.

Example bunk-beds:

- Production costs including wood raw material: 75 EUR. Sales price ex-factory 90 EUR. Selling price in Germany 220 EUR to the final consumer. Added value: overall 219 %. The local value added is only 21 EUR.

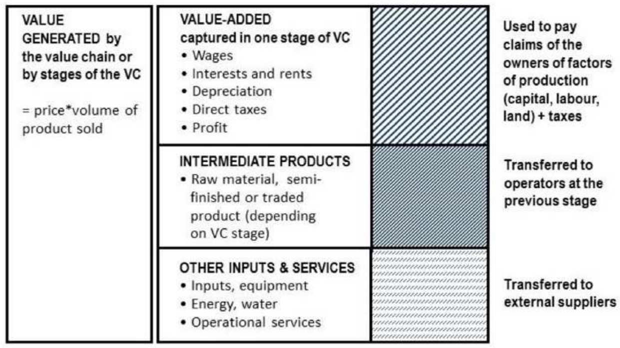
Wooden beech wood chair:

- Cost and required amount of wood raw material for the production of up to 35 chairs: 1 m^2. wood, cost of wood raw material 230 Euro.
- Approximate production costs for one chair:
  - Net raw material wood € 4, painting € 4, textile upholstery € 3 = Total material: € 12
  - Production costs: unknown; Salary €2 per working hour. No indication by the company on salary per manufactured chair.

In most of the cases, companies do not calculate cost distribution/added value along the VC. The concept of direct costing is hardly implemented. As salaries are low, companies don´t always consider performing a direct cost analysis. Companies estimate their costs based on experiences. Some of the larger companies have a software calculation system in place. The consultants cannot assess the current systems in place, and the degree of realistic costing procedures.

On average, sales prices at local markets are up to 3 times higher than export prices to the EU.

Figure 17: *Value added along the wood furniture value chain*



In order to calculate the actual value that is created by each of the wood furniture VC operators, a number of components are required. Overall, value generated is composed of raw material (imported wood, wood composites and non-wood components), intermediate products (output from saw-mills) or accessories (pieces of metal, hinges, glass, textile covers, foam, etc.) and factors of production (depreciation, wages, etc.).

According to indication by several sector specialists and companies, the average profit margin by individual operators across the wood sector is in the region of 20-25%.

Source: ValueLinks 2.0

Figure 18 provides a general distribution of the added value along the three typical stages of the wood furniture VC, starting with base value 1 of purchased debarked tree trunks. This example refers to solid/massive wood products and not to furniture products, such as kitchens with a very high share of import value on accessories, hinges and composite material boards.

Figure 18: Value added in furniture production process

1st stage: Tree trunk, debarked	→ Factor 1	**Value added at national level**	**Total added value including consumer level**
2ndstage: Output saw mill (boards)	→ Factor 10		
3rdstage: Ready-made furniture ex-factory	→ Factor 100		
4thstage: Value/price of purchased ready product at consumer level	→ 200-800%		

Source: Own compilation based on furniture expert input

Due to unavailable and verifiable input-output data from VC operators along the VC, safe indications on value captured by the individual VC operators cannot be made. In addition to the value added by the supply of raw material and accessories, the value captured by companies differs between furniture manufacturers depending on market value of sold products, furniture product lines within their specific market and price segments.

3.3 Environmental Considerations along the VC

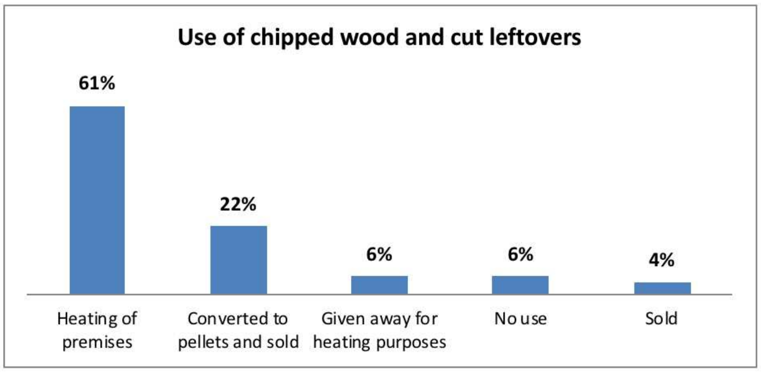
For a sustainable growth of the sub-sector, key environmental considerations should be scrutinised, particularly the positive and negative effects of the value chain on the environment and vice versa. The environment seems to have no significant impact (neither positive nor negative) on the targeted furniture sub-sector. On the other hand, the latter can have a three-folded impact – though not very significant in all cases – on the former.

While upgrading the VC of the wooden furniture and supporting the overall growth of the sub-sector, new opportunities can be created for the pellet industry, predominantly relying on the wood leftovers. This, in turn, increases the demand for pellet as a heating source, and as such reduces the demand for less environmentally sensitive sources, namely electricity produced from coal and traditional timber, which currently constitute the two primary heating sources in the country. However, it should be noted that the pellet ovens used by households should be of high efficiency and in accordance with environmental standards, thus releasing fewer particle emissions.

The survey data reveal that in 61% of the cases the wood leftovers are used for heating the premises, while in 22% of the cases they are converted into pellet and sold. (see Figure 19 for more detailed responses). In general, the Figure suggests that there is huge potential for the leftovers to be converted into pellet as a more efficient source of heating or for any other industrial use. This feedback from companies shows the pattern on how chipped wood and leftovers are being used. It does not consider any multi-usage.

Rough estimates of the potential use of leftovers in furniture production are: MDF/fibre boards between 15-20%, massive wood between 40-60%. Information on tonnage are not available.

Figure 19: *Use of chipped wood and leftovers*



Source: Own compilation based on company data collection

Improving the micro-environment of the work setting and applying eco-friendly measures is a precondition for minimising adverse health effect as well as help in preventing potential environmental damages. Air filters and ventilation and ecological packaging are among the most cited measures. Interestingly, none of the companies claimed to use the wood leftovers for recycling purposes (i.e. fibreboard production, even though collection and transport to fibreboard producers will be difficult, requiring an economic viability assessment). Some furniture companies have already started producing and selling pallets.
Other determinants that would decrease wood dust exposure at the work place are adequate exhaust ventilation, sanding with adequate exhaust ventilation and special cleaning staff. In general, fully automatic machinery is linked to higher exposure given that this kind of machinery works with higher speed, which in turn generates more dust[8]
Leftovers are 15-20% from MDF/fibre boards and 40-60% from massive wood production.

3.4 Value Chain Function: Sourcing and Supplies

(18) Overview

14 input supplier companies of the wood furniture VC have been interviewed. Primary demographic data of suppliers is as follows:

- *Year of establishment*: around 43% (n=6) of the companies were established between 1990 and 2000, while 21% (n=3) have been established between 2001 and 2010.
- *Legal status*: 43% (n=6) of the companies were registered as ‘Individual Businesses’ and 36% (n=5) as ‘Limited liability company’.
- *Number of employees*: 43% (n=6) of the interviewed companies were ‘micro’ firms with 0-9 employees, and 50% (n=7) ‘small’ firms with 10-50 employees.

[8] Gitte Jacobsen, 2007

- *Turn*over: Additionally, 36% (n=5) of the interviewed companies had a turnover of between 1 million to 2.5 million EUR in 2017, 22% (n=3) had a turnover of more than 2.5 million EUR in 2017, while the rest had a turnover of below 1 million EUR.

3.4.1 Operations

(19) Turnover development

It seems that the interviewed suppliers benefited from the turnover increase that occurred among manufacturing companies. From 2016 to 2017, 85% (n=12) of the interviewed suppliers registered a turnover increase. Out of these, 29% (n=3) experienced a turnover increase ranging from 6% to 10%, and another 29% (n=3) of the companies had a turnover increase between 11% and 20%. The remaining 21% (n=2) of the companies experienced a slightly higher increase of up to 30%, while only 7% (n=1) of the companies experienced an increase of 91-100%. Additionally, 15% (n=2) of the companies suffered a decrease of turnover between 7%-10% for unknown reasons.

(20) Product and Service Portfolio

None of the interviewed companies sells round wood materials, but most of them sell sawn timber, lumber for construction, veneer, solid wood components and products, composite wood products, and other components. Almost all of the companies who sell the above-mentioned products are importers. Only a very small number of companies purchase composite wood products locally. In 2015, 79% (n=11) of the surveyed companies were engaged in direct import with 91% to 100% of their sold accessories and wood products, while in 2016 only 71% (n=10) of them imported 91% to 100% of their products. (also see par. 3.6.4.1).

Most of the companies import their products from EU zone countries. Many companies declared that they import from Germany, Turkey, Austria, Italy and China. Some other companies import also from the region closer to Kosovo, including countries like Serbia, Slovenia, Bosnia and Herzegovina, and Romania. Annex 01 shows details on import countries.

(21) Customs Import Procedures

50% (n=7) of the interviewed suppliers declared that they are able to clear custom procedures for incoming shipments within the day, but for 43% (n=6) of the company´s customs clearance takes “several days”. Respondents explained that clearance procedures often depend on company´s record of compliance and potential issues occurring in cooperation with customs before. In general, clearing procedures would be completed within a day for companies with positive reputation, not engaged in any illegal or import tax evasion action before. Customs is playing a positive role in educating companies toward legal performance.

(22) Membership at association and institutions

Overall only 36% (n=5) of the companies are members of an association or institution. 60% (n=3) of the members are connected to the Kosovo Chamber of Commerce, and 20% (n=1) is a member of Association of Wood Processors of Kosovo.

Most of the supply companies declared that there were none or only minor benefits or advantages that the membership provided. The only benefit mentioned was the advantage of getting better information on business opportunities locally and internationally. A relatively small number of companies declared that there is discrimination or non-equivalent treatment between members of the associations, usually in favour of larger companies.

3.4.2 Main constraints and interventions - input suppliers perspective

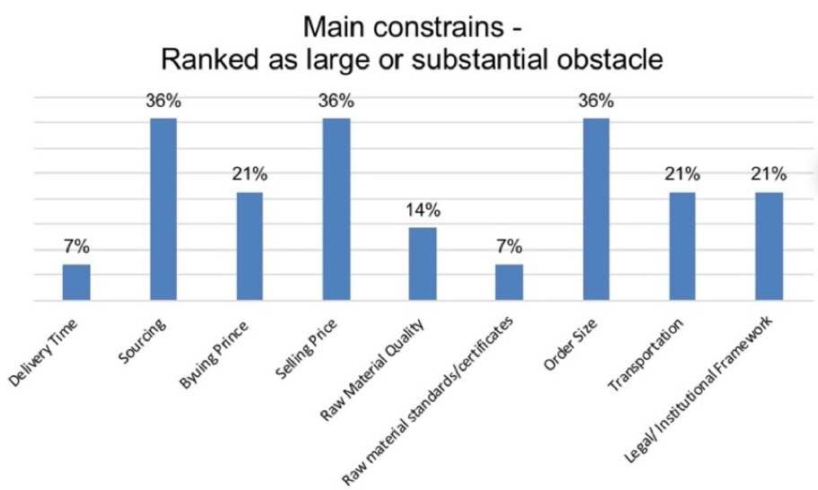
(23) Constraints

Across the sample, 36% (n=4) of the surveyed companies ranked sourcing, selling price to producers, and order size as substantial obstacles, while 21% (n=3) consider buying price, transportation, and legal/institutional framework (see Annex 02 for more details on ranked constraints).

Constraints with *sourcing* are mostly related to payment conditions. Suppliers don´t receive due payments from manufacturers, which limits the supplier´s ability to invest in new purchases. Collection of debts is considered a pressing issue in the overall economy.

One of the most pressing issues highlighted by input suppliers is associated with unfair competition. This is caused by tax evasion and other informal practices, which create conditions for informal businesses to end up having more competitive prices vis-à-vis legal and 'honest' businesses. Politicians play a role in this unfair competition, as some have vested interests in some companies which they unofficially own. Operating in an unfair business climate prevents new, legal, and innovative firms from growing and making investments that lead to value addition. This constraint is not limited to suppliers only, but it involves the entire value chain and the overall business climate.

Figure 20: *Main constraints-supplier level*



Source: Own compilation based on company data collection

(24) Interventions – input suppliers perspective

Supply companies have been asked about their preferred intervention for improvement of business activities along the overall wood furniture VC. Most of the companies realise that overall business development would also help improve their business activity in general. Some of the priority intervention areas are:

- Availability of professional staff and professional education systems
- New and modernized technology
- Better access to finance
- Combating informal economy and unfair competition
- Lower VAT
- Better collection of due payment

3.5 VC Function: Upstream and Downstream Transport

Demographic data of the nine interviewed transport businesses are:

- *Legal status:* 89% (n=9) are Limited Liability Companies (LLC).
- *Number of employees:* 67% (n=6) are `small` companies with 10-50 employees, and around 33% (n=3) `micro` companies with 0-9 employees.
- *Turn*-over: In 2017, 25% (n=2) of the interviewed companies had a turnover of more than 2.5 million EUR, 38% (n=3) had a turnover of 1.0 million to 2.5 million EUR, 13% (n=1) from 500 thousand to 1.0 million EUR, while the rest had a turnover of below 500 thousand EUR.

Transport services cannot be specified to specific product groups in the wood VC. Truck transport is usually not administered according to specific products, but other criteria such as optimization of truck loading, just-in-time requirements, common destinations, truck availability, economic utilization parameters, among others.

According to information given by a furniture manufacturer, costs of truck transport for furniture from Kosovo to EU countries can be almost as high as sea container transport from China:

- Transport cost from Kosovo to Cologne/Germany: 34 tons; delivered to client, 2,000 EUR.
- Sea freight (CIF) from China to Greece: 24 tons; delivery to client, 1,654 EUR.

3.5.1 Operations

(25) Turnover development

Of all, 44% (n=4) experienced a turnover increase between 1% to 20%. The remaining 11% (n=1) experienced a slightly higher increase, from 20%-30%. 11% (n=1) marked a turnover downturn of somewhere between 10% to 20%. The rest of the companies declared to have had no change compared to 2016.

(26) Active transport business in Kosovo

Nine of the interviewed companies did not have a somewhat common understanding of their competitors in the country and provided irrelevant answers to the question about active transport businesses in Kosovo. To the best knowledge of the surveyed transport companies, there is a higher number of active foreign companies as compared to local companies).

3.6 Value Chain Function: Furniture Production

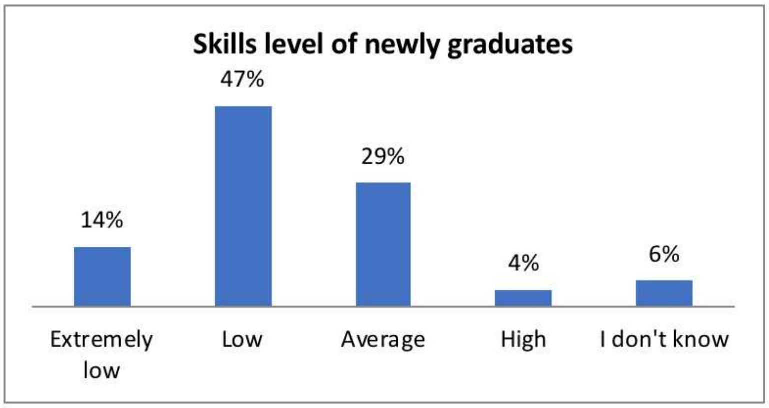
3.6.1 Manpower

(27) Skills

The interviewed businesses are struggling to find candidates that are properly prepared for carpentry work as well as for machinery operation and high technologies, such as CNC machines. The poor VET system and the general education system constitute the main reasons why the internal labour market is not able to fulfil the company needs. Around 61% (n=30) of the production companies indicate that the skill level of recent graduates both from vocational schools/universities is ‘extremely low or low. Due to this, companies have no other option but to look out for workers in the international market, from Albania mostly. Approximately 30% (n=15) of companies declared that they employ workers from abroad.

Low skills/qualifications, lack of necessary experience, and lack of willingness to work are the most cited challenges as far as labour is concerned.

Figure 21: *Skills level of graduates*

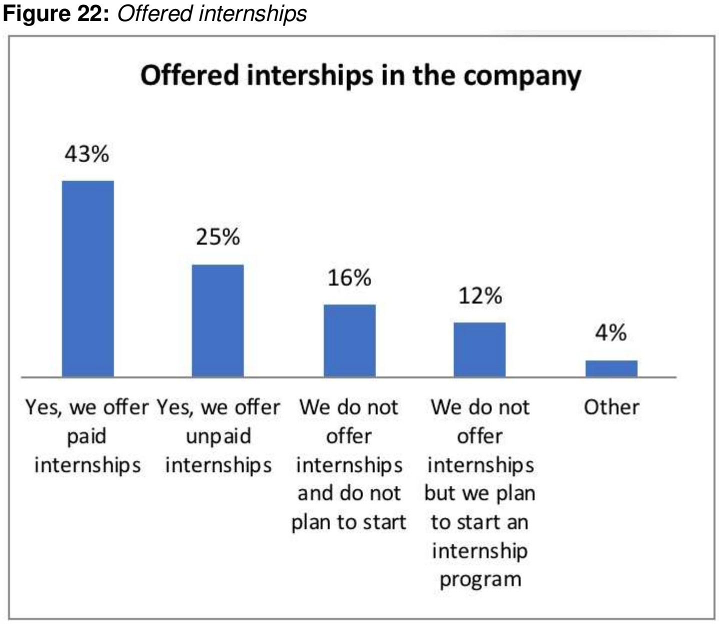


Source: Own compilation based on company data collection

(28) Internship

Generally, the companies offer internships for those who enter the labour market. 68% (n=33) of companies offer internships and the majority of them pay the internees. The issue, however, is that these internships rarely or never lead to employment in the hosting company. On the other hand, 28% (n=14) don't offer internships; a little more than half of this group are not planning to start a program anytime soon. Institutionalized programs in cooperation with the VET institutions support initiatives to improving students` skills, supports students, increases productivity in companies, can find new employees and test-drive talents. However, paid internship will be beneficial and should be a special concern when implemented on larger scale. Institutionalizing of the internship program can be directed by either VET institutions or supported by the AWPK.

Figure 22: *Offered internships*



Source: Own compilation based on company data collection

(29) Training needs

Table 23 depicts the needs of businesses with regards to enhancing management and workers skills at suppliers and producers level.

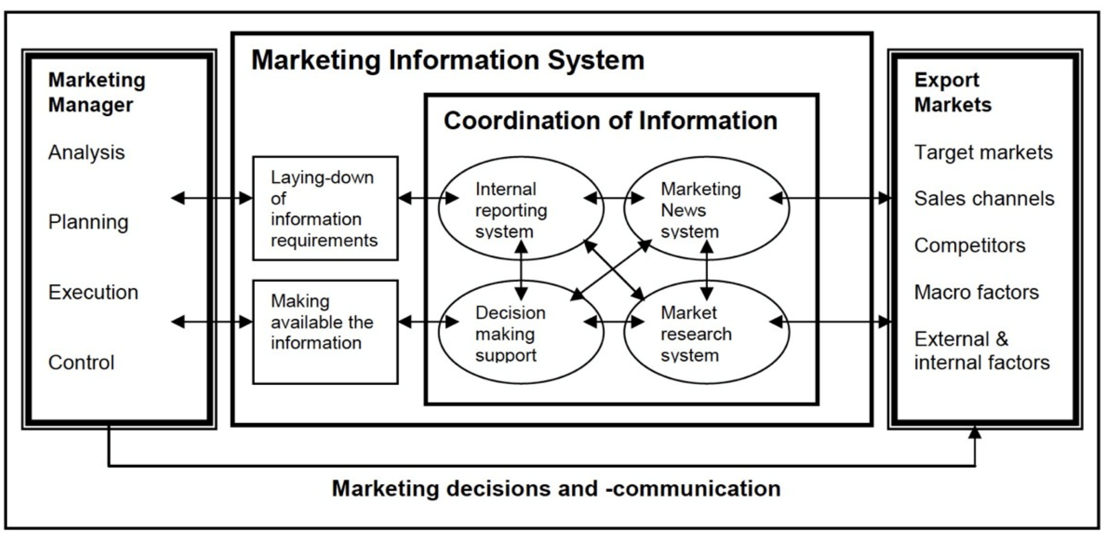
Figure 23: *Training needs for workers and managers*

	Workers	Management (Business and Export Development)	
Production Companies	• CNC programming • Semi-automated machinery operation • Carpentry • Product design • Quality assurance • Work organization • Communication skills	• Business and Strategic Development • Export Promotion and Development • Sales/Marketing Management • Market research methodologies • Implementation of EQMS • Social media marketing	• Technology Advancement • Production Processes • Quality Management • Accounting and Costing • Supply Chain Optimization • IT management, applications • Communication skills
Suppliers	• Machinery operation (saw mills) • IT skills • Communication skills	• Sales Management • Quality Management • Marketing	• Accounting and Costing • Supply Chain Optimization • Communication skills

Source: Own compilation based on company data collection and feedback from stakeholders

Some companies realise the need to employ export managers in their company. International trade is a somewhat new concept in the country, also for the furniture industry and internationalization requirements ask for knowledgeable and internationally experienced sales and marketing professionals. Figure 24 indicates the combined benefit of having an export manager in place who can do both: coordinate export sales and processes, and integrate market research into an export marketing information system in the furniture production company[9]. Integration of a continuous export market research in a marketing information system asks for an experienced manager who can organize this rolling continuous process. The Marketing Manager is the key resource person for analysing markets and competitors and for implementing the export marketing and sales strategy (if existing in the companies).

Figure 24: *Integration of market research into a marketing information system*



Source: Kotler, Bliemel

[9] Kotler, Bliemel; market information system

3.6.2 Production capacity utilization

In principle, low capacity utilization increases overall operational costs due to largely invariant fixed costs (depreciation of machinery, salaries, etc.), with the effect of not being able to enter in lower margin markets or lower price products without generating losses. Ideally, sales efforts need to aim for high capacity utilization at one full shift, with the option to increase sales, either seasonally or around the year into using a second shift production output.

Only 8% (n=4) of the surveyed companies declared that they are using 100% of their production capacity, while 10% (n=5) are using below 50% of their production capacity. The main reasons given are:

- *Low market demand (20%).* Possible reasons for low demand can be: products/price/design not according to market demand, non-proactive market approach and lack of marketing strategy. One of the main reasons given relates to *low market demand*. Whether low market demand is cause or the effect of an insufficient export market knowledge analysis requires further analysis. Another interpretation is that low market demand also refers to the small local market.
- *Other reasons (20%).* Larger companies indicate the high cost of running automated systems (CNC, etc.). CNC machines, dryers, and other state-of-art production machinery is designed to produce large quantities in shortest possible production time. Machine productivity is a key factor in industrial country´s production layouts. Low demand implicates even lower utilization of production machinery, with ongoing depreciation costs.
- *Seasonal markets (8%).* Companies selling at export markets and local markets are able to better balance between high and low seasonal demand (EU export markets slightly higher during winter season and local market higher in summer month).
- *Problems with infrastructure (12%).* Depending on company´s location, power supply, access to roads, etc. can be counterproductive.

3.6.3 Quality and certification

At a national level, there are no working laboratories for wood quality assurance and product certification. There is a great need to support the establishment of quality and testing labs/facilities. The Italian CATAS Institute for Quality Testing[10] could serve as a model for implementing these services. Provided that neighbouring countries face the same issue, the newly developed labs in Kosovo can provide services to firms operating in these countries as well. CATAS Institute implemented a research on how a workshop and testing space can be implemented. Such laboratory would be able to provide tests on three levels: physical-mechanical examination on primary materials, checks on the finished products and tests on furniture surfaces finishes.

3.6.4 Business operations

3.6.4.1 Purchasing practices

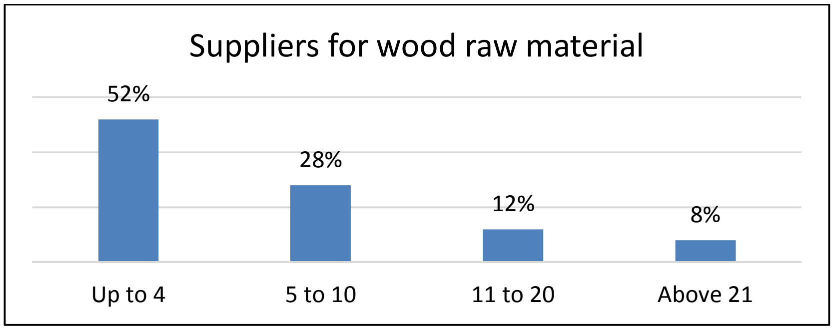
A rule in business states that "gains are in the right purchase". Based on data available, it cannot be analysed to which extend supply could be more streamlined or optimized in terms of cost-value ratio, quality optimization and delivery and payment terms. Much depends on suppliers´ preferences in the case of a buyer's market situation with large amount of options.
Some of the purchasing and pricing options of raw material and accessories are limited due to either mandatory specifications, or a market that is controlled by only a few suppliers, such as for chipboards. Supply chain optimization is a consideration for improved VC integration.

[10] CATAS; www.catas.com

(30) Number of suppliers

On average, manufacturers cooperate with eight suppliers/importers of wooden raw material. Most of them (52%n=25) collaborate with up to 4 suppliers/importers (See Figure 25). 84% (n=41) of the companies´ purchase imported raw material mainly from domestic traders, 6% (n=3) use mostly foreign traders, and 24% (n=12) of the companies are importing raw-material on their own account. Only one company does not import raw material at all.

Figure 25*: Number of suppliers per company for wood raw material*



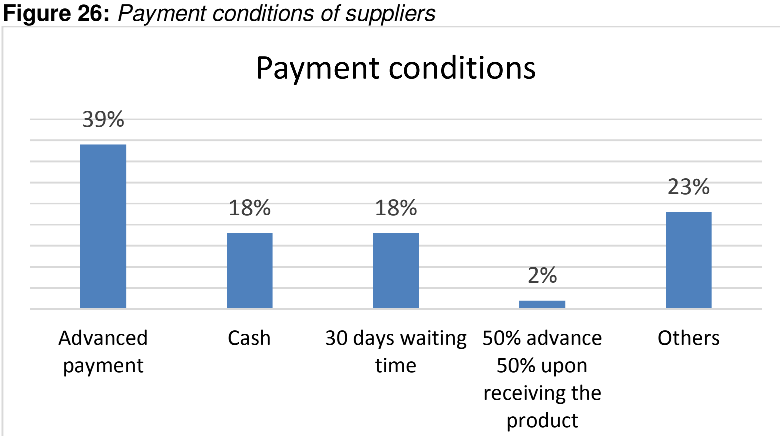
Source: Own compilation based on company data collection

When it comes to accessories (mostly non-wood products), 60% (n=30) manufacturers regularly purchase from less than five suppliers/importers and 34% (=17) cooperate with 5-10 suppliers. The purchasing pattern is similar to the import of raw material.

(31) Payment conditions

A large number of dealings between manufacturers and suppliers are arranged with Advanced Payment and Cash. There are indications that unfavourable payment condition for manufacturers is a result of history of late payments to suppliers. It is rather unusual to deal with such high percentage of advanced payments. This creates cash-flow problems for the manufacturers. 18% complain about 30 days payment after delivery, which, in some cases goes up to three months. In general, companies hardly operate according to standardized commercial rules, such as INCOTERMS.

Figure 26: *Payment conditions of suppliers*



Source: Own compilation based on company data collection

3.6.4.2 Raw materials and origin

Almost all wood and non-wood raw material and accessories are sourced from outside of Kosovo. The largest share is imported by local retailers and wholesalers, and later sold on to manufacturers. Part of the imported raw material is further refined before it reaches the manufacturers. It is unknown to the consultants to what extent the refining takes place and how much value is added to the products. A smaller portion of raw material is imported directly by manufacturers.

Figure 27: *Raw material and its origin*

Raw material	Local Purchase	Direct Import	Country of origin
Sawn timber; solid wood boards (4407)	63%	12%	Austria, Turkey, Croatia
Veneer – Sliced or rotary cut (4408)	61%	8%	Austria, Turkey, Croatia
Plywood and Oriented Strand Board (OSB) (4410)	41%	6%	N/A
Particle board, MDF and HDF	71%	20%	Turkey, Germany, Italy, Greece

Source: Own compilation based on company data collection

The same pattern holds for intermediate and non-wood raw material and products.

Figure 28: *Intermediate products origin*

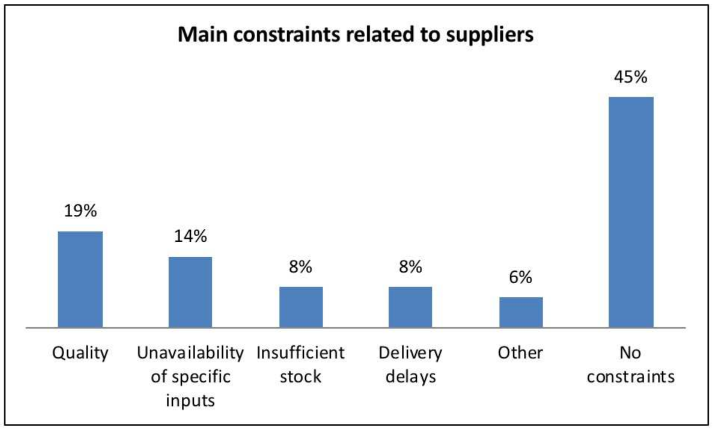
Intermediate Wood Products	Local Purchase	Direct Import	Country of Origin
Fibre-joined and glued elements (4418)	49%	4%	Austria
Bent wood, curved wood	45%	2%	N/A
Woodturnings and table legs	49%	4%	N/A
Furniture components (kitchen, chair elements and table tops) (4419)	71%	6%	Austria, Turkey, Italy, Germany
Drawers and components for drawers (4419)	61%	12%	Austria
Other (specify)	6%	0%	N/A
Intermediate non-wood Products	**Local Purchase**	**Direct Import**	**Country of Origin**
Cabinet and furniture hardware	65%	12%	Turkey, Italy
Stains, paints, finishes and glue	76%	12%	Italy, Turkey, Germany
Sanding and abrasives	76%	0%	Turkey, Germany, Sweden
Lighting systems	69%	4%	N/A
Other (specify):	14%	2%	N/A

Source: Own compilation based on company data collection

Companies were asked to identify the main constraints related to their business relationship with suppliers. It is notable that 45% (n=22) did not have any complaint. On the other hand, 19% (n=9) complaints about quality of supplied products. It is not known how companies and suppliers define common quality deficiencies. Presumably, part of the supplies´ features are specified by their clients in the export markets according to contractual arrangements.

To determine objective quality standard criteria that can be contractually enforced, it is useful to have a wood quality testing laboratory in place, neutral and available to all contractual partners along the VC (also see paragraph 3.7.2.2).

Figure 29: *Constraints related to suppliers, from manufacturers perspective*



Source: Own compilation based on company data collection

Finally, manufacturers were asked to determine the main criteria when selecting their suppliers (1=least important; 5=most important). The quality level of the product supplied is the main criteria, whereby delivery time is the least decision-making criterion. The cost criterion is also weighed high.

Prices (cost) at purchasing level are considered a critical criteria of supplier preferences. Besides suppliers´ sources for import, also mark-up are conceivable variables. It was indicated, that 20-25% is a typical mark-up, applied by both, suppliers and producers.

Figure 30: *Criteria by manufacturers for selection of suppliers*

	Quality	Cost	Capability	Delivery time
Average rates of selection criteria	4.76	3.71	3.08	3.04

Source: Own compilation based on company data collection

3.6.4.3 Cost structure

Company cost structure information is considered indicative and should be interpreted with caution. Presumably, very few of the wood furniture companies are operating with a state-of-art costing system in place. Only with more detailed knowledge of the different types of costs, the continuous optimization of the cost structure with fixed and variable costs and the associated cost differentiation can entrepreneurs increase their competitiveness (also see par. 4.2.3). It is a crucial requirement to differentiate between fixed and variable costs to establish suitable export price levels. Costing systems can be hybrid systems, variable costing or absorption costing[11]. Variable costing allocates only variable manufacturing overheads to inventories, while absorption costing allocates both variable and fixed manufacturing overheads to products. Variable costing calculates contribution margin and can include break-even analysis for pricing decisions, while absorption costing is based on relevant gross profit.

Figure 31: *Cost structure at manufacturers level*

Raw material: 50%	Raw material costs represent the highest proportion of total costs. Some reasons are: 100% import of wood and non-wood supply, accessories. Intermediaries (suppliers) create additional transaction costs and mark-up, low discounts on purchase due to small purchasing quantity.

[11] Accounting Explained, 2018; https://accountingexplained.com/managerial/cost-systems/

Operational costs including labour: 40%	Operational cost includes administrational costs, labour, utilities, fixed costs and others. The share of labour costs is indicated with in average 18% from medium sized companies with more CNC machinery in place, and above 22% by the small and micro size manufactures.
Cost of transport for supply and ready goods: 10%	Evaluation of transport costs is difficult, as it is not known to what extend exporters´ sales contracts are based on INCOTERM standards, which clearly rule cost distribution regarding transport, risk transfer, and transport insurances, taxes and duties[12]

Source: Own compilation based on data collected at companies

On the basis of the above-mentioned rough cost indications, no recommendations for optimization measures can be made. Indicative, however, raw material costs are a bit higher compared to international level, but much depend on the furniture product group, style, non-wood components implemented, type wood raw-material applied, quality of material used and ability of workers to reduce production waste.

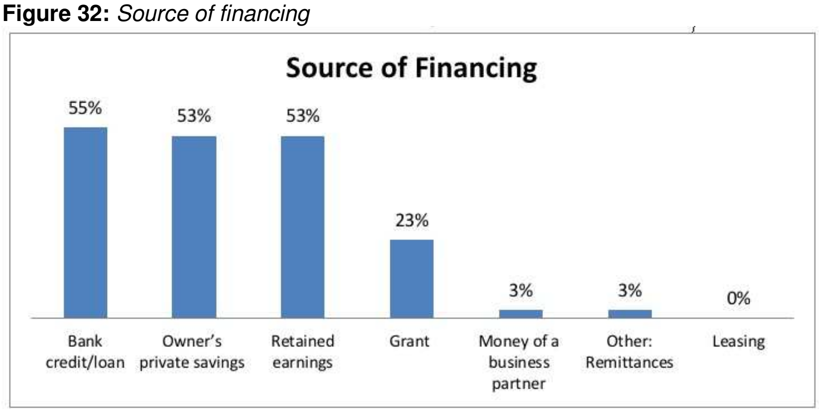
Labour costs (24%) seem to be high, considering the indicated average monthly salary payments of EUR 346 in the wood furniture manufacturing companies (ranging from as low as EUR 244 to a maximum of EUR 578). One reason for high labour costs relates to the low labour productivity as consequence of untrained or insufficiently trained operators and lacking production process management with often high amount of idle times in production.

3.6.4.4 Investments and financing

High equity coverage is an essential factor in the corporate finance strategy and bank loans are an important building block for investment. According to company feedback, around 55% of the financial requirements for corporate investments are covered by bank loans; followed by owner’s private savings and retained earnings with 53% each. Note that the total is more than 100% because the interviewed companies could select more than one option.

Some companies reported strong seasonal fluctuation of export business and limited chances to cushion those by on short-term increasing their local business. It is essential to have enough equity to assure short-term financing of fluctuating running costs and to keep high flexibility for the financing of investments and projects should the bank's credit line be exhausted.

Figure 32: *Source of financing*



Source: Own compilation based on company data collection

(32) Allocation of investments

Hardly any of the interviewed companies has a written strategic or business plans in place that sets out priorities of the business, defines the implementation of strategies on operational level

[12] ICC, 2018; https://iccwbo.org/resources-for-business/incoterms-rules/incoterms-rules-2010/

and concludes where to focus investments and resources by envisioning a longer-term business direction. The business plan is necessary as it integrates operational issues such as purchasing and supply chain, production planning and technology application, demand driven marketing and client communication, HR development, IT development, and financial management.

Regardless of the needs, businesses have the tendency to always invest in tangible assets such as technology instead of considering investing more into market development.

Investment planning is on the one hand a result of a demand-driven strategic business planning, but also has implications in all of the above-mentioned operational business fields. It is a key consequence of strategic and operational business planning and control, which needs to be stringently aligned with market requirements, business forecasts, and corporate development strategy. Business planning is not limited to large firms only.

The need for production upgrading investments need to be assessed after reviewing options for better machine utilization (currently, 50% i=on average) through improved production planning or additional sales.

Technology investments in new machinery make Kosovan companies technically comparable with global producers.
The other aspect besides level output and quality potential is the additional effort of the sector to increase export competitiveness (see par. 4.2.3) and to establish defined competitive advantages.

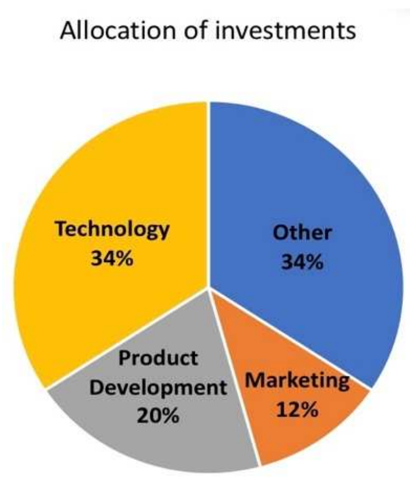


Figure 33: *Allocation of investments*
Source: Own compilation based on company data collection

3.6.4.5 Business linkages

Value chain operators relate to each other both, horizontally with similar companies at the same stage of the VC, and vertically with suppliers and buyers at different stages and membership at the wood association or other potential cooperatives and entities, such as for central purchasing.

Service provision and subcontracting are also business linkages by definition but differ from vertical business linkages as they do not become owners of the wooden products that define this specific VC. One of the aspects of an optimized wood furniture VC integration is the degree of functioning and value creating linkages within the VC. Companies were asked in a multiple answer question to what extent they work together with other companies and service providers at the service, market and production level.
As expected, most of the answers provided by the production companies refer to linkages related to trade and marketing (55%) and transport (35%). Note that the total is more than 100% because companies could select more than one option. It is well noted that companies, albeit still to a lesser extent, cooperate with each other to handle larger orders and consider as well subcontracting. As part of a VC upgrading project, linkage promotion will be an important aspect that helps to create additional growth potential.

Type of cooperation	(%)
Trade intermediary services	55%
Transport / Logistics	35%
Co-production for larger sales lots	22%
Franchise	20%
Subcontracting	20%
Outsourcing activities	6%

Figure 34: *Linkages and company cooperation;*
Source: Own compilation based on company data collection

3.6.4.6 Membership in associations

80% (n=39) of all interviewed companies are members of at least one business association. Most of them are part of either AWPK (51%, n=25) or Kosovo Chamber of Commerce (16%, n=8). In many cases, companies are members of both, and some are involved in other local or regional business associations. The majority of companies (56%, n=27) are satisfied with services (support to participate in trade fairs, general industry information and workshops/ trainings). 44% (n=22) stated, they have not observed much benefit from being a member of these business associations. In most of the cases it is the smaller companies not seeing benefits of their membership.

3.6.4.7 Export Marketing

Regarding company´s export marketing, manufacturers were surveyed mainly about their customers and export markets.

Further analysis revealed interesting details concerning client A/B/C analysis[13] on risk caused by depending on a few clients only in relation to total export sales and turn-over (example Switzerland). For establishing key accounts and definition of key account marketing communication, data on profit margins according to A, B, or C client groups has not been made available by interviewees.

(33) Client distribution

Figure 35 reveals that 31% (n=15) of interviewed wooden furniture exporters sell to 1-5 clients only; whereby only 12% (n=6) of the exporting firms deliver their products to more than 20 clients. Even though the sales and marketing costs are higher with more clients, company's dependence on such few customers is very risky.

Key accounts are definitely important if they result in closer ties between the exporter and the customer with better customer retention and the potential to generate larger and more continuing orders. Balanced customer segmentation is crucial to limit risk and to better balance utilization at production level.

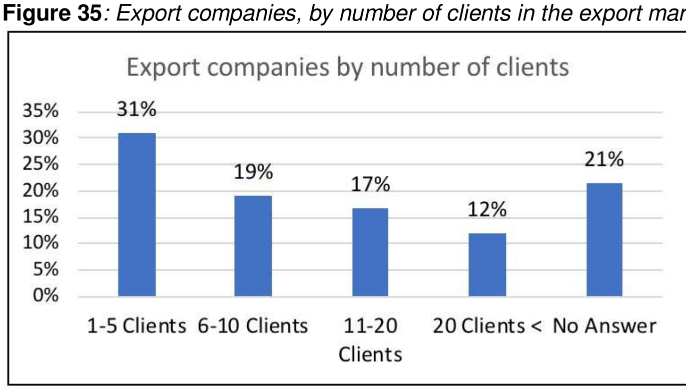
<ins>*Key Facts*</ins> – **Clients**

- 31% of all companies sell to only 1-5 clients
- 12% of all companies have more than 20 clients.
- 9 companies export between 60-100% to only 5 clients.

<ins>*Conclusion*</ins>

Some furniture manufacturers highly depend on a few key accounts only, in particular in the primary market Switzerland.

Figure 35: *Export companies, by number of clients in the export market*



Source: Own compilation based on company data collection

[13] Clerverism.com, 2018; https://www.cleverism.com/complete-guide-abc-analysis-customer-segmentation-inventory/

Figure 36 shows the example of customer segmentation in the Swiss market, confirming the above-described tendency to an imbalance in the segmentation of the largest export marketof the furniture industry in Kosovo. The upper left square of the matrix reveals that 9 companies sell 60% to 100% of their total export to only 5 clients.

Figure 36: *Companies exporting to Switzerland, by number of clients and share in total company export*

Source: Own compilation based on company data collection

(34) Client research and acquisition

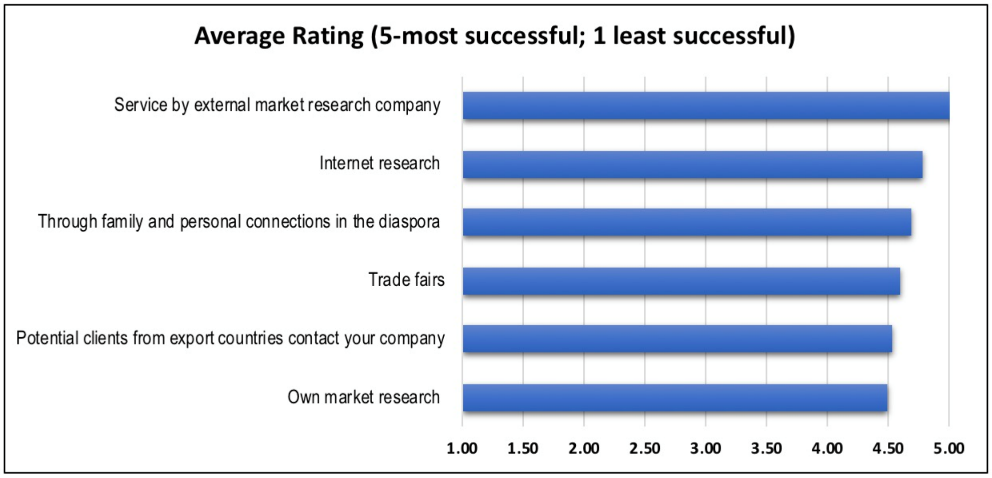
When analysing the responses by companies of how they find customers, the answer "by own market analysis" has to be put into perspective. Also, information gathered at trade fairs and also Internet research are part of an in-house analysis.

However, what is important, is a stronger primary market analysis, which in addition to more general customer search, also includes well-aimed customer segmentation according to existing or achievable competitive advantages and matching market segmentation. Ultimately, it's not just about finding customers, but also about targeted segmentation of export clients in specific and defined target markets. At this point, it is unknown which kind of external market research companies have been involved in specialized furniture target market scanning and analysis. It can be assumed that some of the larger companies only retain such paid services from international specialized marketing research service providers and national general consulting and research companies. About 10 companies voted for marketing research by external companies as the most useful. It is not entirely clear whether companies regularly use the indicated research methods (Figure 37) or if they only consider the provided alternatives most successful.

Considering that 76% of all furniture export is realised in Switzerland and Germany, which are the two countries with the largest single Kosovan diaspora in the EU (Germany approx. 100.000 persons; Switzerland approx. 150.000 persons)[14]. It is well accepted that family and other personal connections in these countries play a significant role in new client search and networking. The fact that the Kosovans in the diaspora have success in connecting clients with furniture exporters, also confirms existing marketing and client communication trends (see par. 2.3, market trends). 16% (n=8) of the interviewed companies mentioned their efforts in promoting products through alternative sales channels, such as social networks, interactive websites, besides others.

[14] Website Kosovo 2.0, 2017; http://kosovotwopointzero.com/en/kosovo-diaspora-dreams-political-change/

Figure 37: Rating of the most and least successful methods to identify new clients and export market



Source: own compilation from data collection at company level

(35) Export turnover by companies

In 2017, 20% of the total sales was export of wooden furniture. Compared to 2015, an increase of 43% was recorded (from 14% to 20 %). Only three companies´ export sales exceeded 60% of total sales.

49 companies were asked about their increase of overall turnover from 2016 to 2017.
Even though turnover is one of the metrics to define growth, information on profit margins linked to increased turnover as a reflection of the realised market prices is not available.

The company answers are differentiated according to the size of the company (Micro, 0-9 employees; Small, 10-50 employees; Medium, 50-250 employees).

It is particularly notable that only micro and small companies (n=3) noticed a turnover growth by more than 40%, whereby the largest sales growth reported by 22 companies is 11-20%, with main emphasis on small companies. Another indication is that some micro companies are also successful in small scale export.

Figure 38: *Increase of turnover by exporters (2016-2017) in %*

		Increase of turnover by exporters (2016-2017)				Total
		0%	1%-10%	11%-20%	More than 40%	
Company size	Micro (0-9 employees)	4	1	6	1	**12**
	Small (10-50 employees)	6	9	12	2	**29**
	Medium (50-250 employees)	0	4	4	0	**8**
	Total	**10**	**14**	**22**	**3**	**49**

Source: Own compilation based on company data collection

3.6.5 Competitive benchmarks

Companies were provided with a list of potential competitive benchmarks they consider most essential for the success of their furniture export. The company´s evaluation reflects a healthy degree of realism regarding the requirements they have to fulfil.

Although the competitive benchmarks shown in Figure 39 likely correspond to the actual reality of demand in export markets, it has to be further analysed to what extent companies are able to fulfil the real market requirements. This particular aspect is not within the scope of this VC analysis study.

It is advisable that the donor-funded company upgrading and training programs in Kosovo not only define curricula and programs of their training and expert advice interventions based on needs assessment at a company level, but in addition compare them with existing and proven customer and market requirements in the specific export market segments.

Figure 39: *Competitive benchmarks for successful export*

Main Competitive Benchmarks	Average Rating: 5 - most important; 1 - least important)
Quality	4.6
Innovative design	4.2
Delivery time	4.2
Punctuality	3.9
Price	3.8
Transport costs	3.6
Flexible larger orders	3.5
Small lots with quick delivery	3.4
Specific raw material	3.3
Easiness to export from Kosovo	3.1
Packaging	2.9

Source: Own compilation based on company data collection

When comparing required competitive benchmarks versus the company´s capability to comply, a suitable baseline is the company´s productivity, cost efficiency and overall performance, followed by the export company´s ability to quickly to adjust to complex and specific export client requirements quickly. These can be new raw materials, small lots with short delivery time, quick transaction of new product designs, competent and quick response to client requests, besides others.

With consideration of market-driven competitive benchmarks, companies will have to build their specific value propositions or a competitive edge for defined target markets and client segments. This process is often complex and requires external moderation and mentoring. A useful tool to be applied is the Business Model and Value Proposition Canvas[15] (value mapping versus customer profile and definition of value proposition for key customers and/or market segments). Elements considered are client retention, transactional or recurring revenues, earnings vs. spending, company´s cost structure compared to known competitors, value creation by own business or external parties, business growth and scalability, competitive strength. Considering Kosovan company´s competitive advantages for future or current successful export of wooden furniture into EU countries, the following are examples of basic advantages in exporting country, laying the groundwork for the definition of specific company

[15] Strategyzer.com, https://strategyzer.com/canvas/business-model-canvas

or country owned value propositions. Companies benefit from specific advantages in the below stated three furniture export countries.
Examples:

- **Indonesia** → Licenses, certifying avoidance of illegal logging (EU-approved Foreign Law Enforcement Governance and Trade (FLEGT) licenses)[16]. Others: quality, shipment, price[17].
- **Romania** → Over 90% of the wood raw material and about 55% of auxiliary materials are available in Romania[18], supporting cost-effective production with value created on national level.
- **Vietnam** → Overall benefits from the free trade agreement with the EU (Precondition: compliance with compulsory non-tariff requirements)[19].

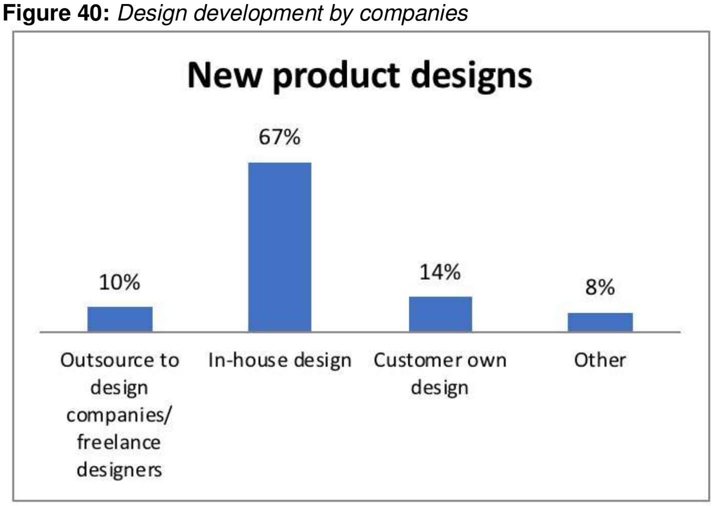
3.6.6 Design

In addition to price and quality, the design is one of the most important elements for success in the export market. Although design competitions on a small scale among students of the University of Ferizaj develop individually designed products, the furniture export sector of Kosovo does not have its own design image.

67% (n=33) of the companies develop their designs in-house. This does not specify from which sources design ideas originate. It is likely that a large part of the in-house-designs are copies from different sources with minor modifications. It can be assumed that most of the in-house designs are copied to different extent from accessible internet sources. Most larger export companies have in-house-designers, who are also needed to translate designs into production orders and to define specifications for purchasing.

Only 14% (n=7) of the nominations apply prescribed clients´ designs, where export clients bring their own design projects with exclusivity arrangements (e.g. hotel furnishing, kitchens, etc.).

Figure 40: *Design development by companies*



Source: Own compilation based on company data collection

[16] The Jakarta Post, 2013
[17] FLEGT.org, 2016
[18] Romania, Revista Economica 65:4, 2017
[19] World Trade Institute, working paper 05/2015

3.6.7 Main barriers hindering export

Companies provided input about which internal and external barriers are hindering their export development. The ten principal barriers are shown in Annex 04.

The five most critical external barriers that have been determined by the interviewed furniture production companies are (1 = no barrier; 5 = large barrier):

- Difficulties of personnel to travel to EU countries (4.35)
- Shortage of labour with sector specific skills (3.80)
- Perception of “Made in Kosovo” products (3.29)
- Certification/quality standard requirements (3.20)
- Difficulties in obtaining export financing (3.04)

The five most critical internal barriers are:

- Lack of personnel with export knowledge and experience (3.80)
- Difficulties in finding clients and distributors abroad (3.80)
- Lack of modern technology (3.39)
- Skills of the employed labour force (3.27)
- Lack of finances for innovation (3.14)

In the report “Sector Profile of Wood Processing Industry (2014)”, published by the Ministry of Trade and Industry, exporting wood furniture companies were asked, which barriers they considered having significant influence on export.
In Figure 41, company´s indications dated from 2014, and company´s opinion from 2018 are compared and interpreted. The comparison indicates a specific trend and discloses both, advancement but also stagnancy. However, the nature of reported barriers and concerns in 2017 indicates typical aspects of a growing sub-sector.

When assessing the different indicated barriers since 2014, four focus areas need attention:

- Personnel and shortage of skilled labour, management skills
- Marketing (freedom to travel, client acquisition, “made in Kosovo”)
- Certification and product quality
- Access to finance and innovation

Figure 41*: Internal export development barriers*

	First five main barriers to export (1 = highest priority)		
No.	Export barriers 2014	Export barriers 2017 (internal barrier)	Export barriers 2017 (external barrier)
1	Do not know	Lack of experienced personnel with export knowledge	Difficulties of personnel to travel to the EU/visa
2	Others: visa, customs duty, relations with Serbia	Difficulties of finding clients and distributers in export markets	Shortage of labour with sector specific skills
3	Transportation costs	Lack of modern technology	Perception of “Made in Kosovo”
4	Customs procedures	Skilled labour	Certification, quality standard requirements
5	Difficulties to establish links to buyers	Lack of finance for innovation	Difficulties in obtaining export financing

Source: own compilation from data research

Comparison 2018, compared to 2014:
New concerns: ; Continues to be the same: ; No more priority:

3.6.8 Innovation

Out of 49 respondents, 47 considered being engaged in innovation practice. The most cited was the *development of* new products (24%) and *innovative products* (8%), *employing alternative and additional marketing* (16%) and *developing new features for existing products* (12%). Others were related to *pricing, quality, advanced technology and distribution channels.*

Regarding the concept of innovation management, there are three types of innovation in companies:

- product innovation
- process innovation
- business model

It is noted that all interviewed companies only mentioned product or marketing process innovation. In reality, process innovations are among the lowest-risk and often drivers of revenue increase.

Process innovation at Kosovan furniture companies should be supported by process management SME specialists. Typical fields of concern are supply and delivery change processes, methods used for accounting and introduction of cost management and cost calculation processes, change of equipment, tools or software. Business model innovation aims for improvements of competitive advantages, better linkages along the VC and cost-conscious decision making.

3.7 Description of Meso and Macro Level VC Actors

Figure 42 depicts the overall setup of meso- and macro-level policy framework actors that are directly or indirectly involved in providing support services and establishing an enabling environment, respectively.

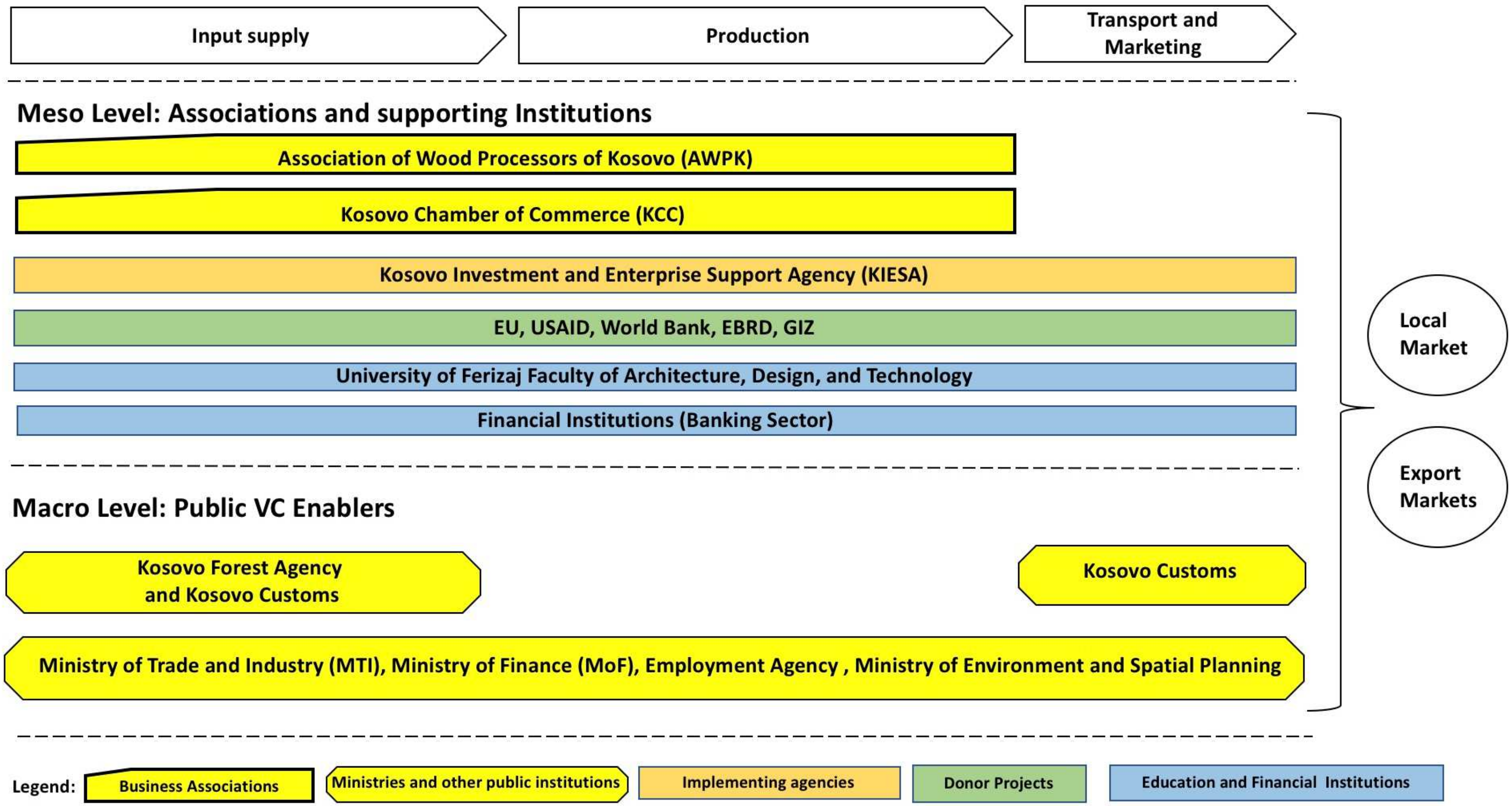
The overall map looks well integrated with the representation of VC enablers (macro) and VC supporters (meso and services). However, challenges remain regarding service provision, economically viable BDS service providers, overall conducive business environment, legislative framework and inspection at various spheres of influence that has an impact to business and export performance.

Some of the challenges are:

- Due to limited funding, the wood association is unable to provide more support to their members. Moreover, the interests of smaller companies are quite often underrepresented.
- Budget constraints limit the KIESA capacity to effectively and comprehensively implement sector specific support programs that are specifically design for the furniture sector (e.g. certification information, market intelligence).
- Donor interventions for the wood furniture industry are not much considering upgrading of the overall VC under holistic aspects but rather aim for specific interventions to individual actors. Donor coordination is still an issue.
- By providing grants to larger companies mostly, the donor community somehow distorts the market and minimize the chances for smaller companies to catch up.
- Although relevant education institutions seem to exist, they largely fail to provide programs that equip students with the skills that correspond to market needs.
- Besides issuing loans, financial institutions do not provide investment funds or venture capital.

- The Kosovo Forest Agency has no responsibility over national forests that can potentially be sources of industrial logs for the wooden furniture sector. Kosovo forests are generally characterized by under management, illegal harvesting, and other informal practices. Moreover, the agency still does not issue FSC forest management certification.
- As a result of weak control mechanisms, there are indications that Kosovo Customs fails to register all the exports and imports taking place in the wooden furniture sub-sector – thus creating an incomplete view about the trade flows.
- While all other important governmental bodies exit along with a quite advanced legal framework, there are no effective mechanisms in place that ensure a systematic implementation.
- Due to the small amount of companies (overall industry and wood sector) that are ready-to-pay for BDS, the Business Development Service market is underdeveloped.
- Enforcement of environmental compliance legislation at supply and production level, such as illegal logging in Kosovo, installation and maintenance of fine dust air filters in furniture production, etc.

Figure 42: *VC sub map of meso and macro actors*



Source: own compilation based on data research

3.7.1 Business environment for the wood sector

According to the latest Doing Business Report, which is also applicable to the wood furniture sub-sector, Kosovo is among the top 10 countries worldwide with the most significant improvement in doing business reforms. Currently, Kosovo ranks 40th out of 190 economies in ease of doing business, 20 places higher compared to the previous year.[20] Among various regulatory aspects, it performs best on starting a business and getting credit, while it struggles about trading across borders and protecting minority investors. It is noteworthy to mention that if these regulatory reforms are not adequately and consistently implemented, only limited impact on productivity gains at company level and through investments can be achieved.

Recently, a new fiscal package (2.0) was introduced. It contains 22 measures that intend to promote investment in Kosovo by granting incentives (e.g. no import tax for raw material) for producers and sectors that show growth potential[21]. The doing-business report measures mostly the regulatory framework and institutional setup, which does not necessarily translate into favourable doing-business conditions.

Independent of regulatory improvements, describing the business environment, Kosovo is characterized by political instability, limited regional and global economic integration, endemic corruption, unreliable energy supply, informal economy and tax evasion, a weak rule of law with lack of contract enforcement.

3.7.2 Meso level actors and institutions

3.7.2.1 Education:

(36) University and other professional training institutions

In general, Kosovo has six public universities and several private colleges, which predominantly provide programs on social sciences (economic and legal programs mostly) in addition to about 89 vocational schools of different technical fields, currently hosting approximately 45,000 students.

(37) Faculty of Architecture, Design, and Technology

The Faculty of Architecture, Design, and Wood Technology at the University of Applied Sciences in Ferizaj is the only institution of higher education that provides programs focusing on wood processing. In addition to this institution, there are three Regional Vocational Centres (high school level) – which offer courses on wood processing on carpentry, forestry and design.

In the wood furniture sub-sector, there is limited cooperation between education institutions and existing firms. This, in turn, leads to sizable skills mismatches that negatively affect the employability of job seekers, on the one hand, and limit the access of firms to the skilled labour force, on the other hand. According to the Ministry of Education, companies are often hesitant toward more connection between schools (mostly public sector) and industry (only private sector). Regional councils in the country are designed to improve the interests of the private industrial sector interests and the VET content of the public education sector. Companies complain about the quality of specific technical knowledge by graduate students. Besides required specialized technical skills, companies commented on student´s lack of communication and soft skills. Another comment referred to the lack of internationally recognized certification of VET courses, also in the wood and furniture sector.

[20] World Bank 2018. Doing Business Report
[21] Ministry of Finance 2018. Fiscal Package 2.0

3.7.2.2 Business membership organizations

(38) The Association of Wood Processors of Kosovo (AWPK)

The role of AWPK is to connect all businesses in the wood industry, advocate for their interest, provide access to information concerning markets and sector expertise, and help them expand in local and international markets. Currently, all activities of the AWPK are entirely donor driven and mostly depend on external funding. One of the AWPKs principal objectives is to serve as hub between the donor community and wood companies.

The current principal membership services are:

- Advocacy: Representing interest of the wood sector (incl. furniture and building material towards national government and donor community. Advocacy also supports smaller furniture producers that are not members. AWPK is also linked to the European Furniture Manufacturers Federation (UEA) in Brussels, but not as formal member, as UEA membership fees are high compared to the AWPK´s annual budget of about € 20,000 (on average € 200 annual fee per paying member). The linkage with UEA is important to improve the countries´ reputation as furniture producer on national and international level, to be part of the business network and to receive first-hand information on certification. The EU commission contributes to payment of membership fees for association members in EU member countries only.
- Consulting and training: AWPK organizes consulting and training input to member companies. These interventions are mostly financed by the donor community due to high costs of international technology experts. More general training and information sessions are often financed and held by AWPK. Training needs analysis is implemented by donors before providing services through the AWPK as implementing intermediary. Companies often do not know their real needs.
- Export and national market promotion: A few years ago, Kosovo´s furniture sector was not very well known at markets. Through promotional campaigns such as the annual national wood trade fair, AWPK assembles 65 companies presenting their products. By promoting exports (participation at trade fairs and information sharing), Switzerland, Luxembourg and Germany became the largest markets for the sector.
- Sector information: members receive information on sector novelties. The wood convention, taking place once per year in Pristina, covers both, the furniture and the building material sector.

(39) Kosovo Chamber of Commerce

KCC is the largest business association in Kosovo. The main goal of this body is to promote entrepreneurship, enhance the competitiveness of its members, and improve the overall market economy.

The KCC is engaged in the following services:

- Advocate for the harmonized interests of the entire membership with new initiatives.
- Cooperate with governmental institutions in formulating strategic documents for economic development.
- Participates in the economic and social dialogue jointly with the other business associations, interests' associations, and trade unions.
- Promotes foreign trade by organizing business contacts between domestic and international partners.
- Participate in the permanent innovation process and improvement of the quality of products and services.
- Provides advice for development, particularly with regards to gaining of the financial validity.
- Provides professional assistance and consultations about business-related issues.
- Other similar services.

3.7.2.3 Implementing agencies

(40) KIESA

The Kosovo Investment and Enterprise Support Agency (KIESA) is a governmental agency under the Ministry of Trade and Industry (MTI). It is primarily responsible for promoting investments, protecting investors, supporting exports and economic zones, as well as developing policies/programs in support of SMEs.

KIESA provides the following two incentive schemes:

- *Product Certification Vouchers* – Helping Kosovo SMEs with product certification by covering a portion of the total cost.
- *Counselling Vouchers* – Covering the cost for counselling services in areas, including management and planning, finance, marketing and promotion, human resources, public relation, electronic engineering and IT, quality standards, legal issues, and business plan.

3.7.2.4 Business service providers and BDS

(41) General business consultants

Over the past few year, with new market dynamics, demand for Kosovo business consultants has increased. However, compared to the more significant economies in the region, there is still ample room to improve and grow. Parallel to consulting companies, plenty of independent consultants are competing in the market. The client confidence in the consultant industry is rather high, and only 1% of businesses do not trust consultants as an external source of support.[22]

(42) Specialized furniture consultants

Most of specialist furniture consultants are coming from EU countries. They cover specialty consultancy in the furniture industry, such as overall furniture business, technical processes, costing, design and marketing. Due to the rather high cost for international consultancy only few larger Kosovan companies are in the position of hiring international consultants by their own. Most of the specialized consultancy is sponsored by donor initiatives.

(43) Product design services

There are no companies that focus on product design besides some interior design studios or individual architects. As indicated previously, most of the furniture production companies develop new products in-house.

(44) Market information services

Kosovo Agency of Statistics (KAS) is the primary public body responsible for producing general statistics in the country. Due to limited capacities, it does not much generate data on specific sectors or markets. On the other hand, there are around 79 companies/research institutions that provide market research services for the Kosovan market. This includes industry analysis, identification of key market players, market assessment, forecasting market size, and similar services. Provided that the market for research industry is rather small, none of the companies is specialized in wood processing.

Specialized furniture export market scanning and analysis services, competitor analysis, benchmarking, is not available in Kosovo.

[22] Business Consultants Council (2017). Kosovo Consulting Market.

3.7.2.5 Donor projects

The donor community is very much present in Kosovo, providing financial and technical assistance. Many donor programs offer overlapping interventions and support programs to the furniture sector. Although donor coordination has always been an issue, recently they have developed a system where they meet regularly and share their plans. According to feedback from the Ministry of Trade and Industry, coordination between donors and government, but also within donors is not yet up to the desired standard.

Following are some institutions/projects that in one way or another can or currently support the development of wood processing industry. Some of the benefiting companies reported an "overload" of offers for training and other similar upgrading activities.

For the furniture industry and general industrial development, donor´s support in institutional support and development helps to make for national institutions and BMO sustainable. In addition, the strengthening of private sector service providers and associations are crucial for sustainable wood (furniture) sector development.

Avoiding advances in companies by providing cheap or no-cost subsidies by donors to VC operators is critical and needs to be well considered to evade "cost-traps" in companies after termination of donor activities.

(45) European Commission, EuropeAid

The European Union provides financial assistance to Kosovo through IPA funds. The new phase, IPA II, started in 2014 and will be in place until 2020. The overall budget allocated for Kosovo for this 7-year timeframe amounts to around 646 million EUR. IPA II is different from the previous phase. It is more focused on socio-economic projects and objectives (e.g. economic competition, employment, social policies innovation, education and similar). Following are three relevant IPA projects that are envisaged to play a positive role in improving Kosovo's capacities for export. The benefits spill over to all sectors with export potential, including wooden furniture.

- *Free Movement of Goods*. The objective of this project is to further align the Kosovo legislation in the area of quality infrastructure, market surveillance and consumer protection with the EU 'acquis' and to provide capacity building to the relevant institutions. This should enable local staff to implement legislation in the internal market in Kosovo in line with the SAA requirements.
- *Further support to Development of Trade*. The goal of this project is to support the MTI in developing, negotiating and implementing trade policy per international trade requirements and EU best practices.
- *Increasing Competitiveness and Export Promotion*. The purpose of this project is to support Kosovo companies in improving their performance and overall competitiveness and to increase export of products and services generated in Kosovo, as a means of reducing the trade deficit. The project is approaching its end. An Exporters Development Programme (EDP) will be launched with the primary goal of linking companies to export markets.

(46) European Bank for Reconstruction and Development (EBRD)

The bank provides the following assistance with relevance to the furniture sector:
Support to Kosovan business consultants for broadening national consultancy expertise. Implementation of training courses on essential skills, resources and techniques for effective and impactful consulting, facilitation of connection between companies and consultants for the service provision on quality management systems, marketing strategies and new governance structures.

(47) Empower Private Sector (USAID)

One of the two main sectors supported by this project is Wood Processing. The project implements activities that aim to identify and evaluate job-creating opportunities. It enhances product design and quality, improves workforce skills in conformity with business opportunities, and facilitates access to finance and trade fair participation.

Empower currently supports eight wood companies in achieving their ISO 9001 certification. Empower, and EBRD closely cooperates in programming training input and supporting ISO certificated companies for re-certification.

(48) Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ)

From 2018 onwards, GIZ implements an export promotion program that focusses to the IT sector, wood processing, agro-processing and other productive sectors. In the framework of this project, three international consulting companies will assess mostly EU markets and competitors in the target sectors. The cooperation with KIESA includes support to trade fair participation, B2B matchmaking, also focusing on the wood sector.

(49) World Bank (WB)

Competitiveness and Export Readiness Project. The goal of this project is to enhance the business environment and build capacity in public and private sectors for increased competitiveness through supporting the national quality infrastructure, reforming the business inspection system, and strengthening export readiness of SMEs.
Kosovo Investment Climate II. The two components of this project are to (a) improve the business environment through better regulations, and (a) support foreign investments and exports.

3.7.3 Policy framework and macro actors

Over the past few years, the legal framework for private sector development and environmental protection improved. In general, it is mostly in line with best practices and standards of the EU. Despite having a relatively advanced legal framework, Kosovo institutions struggle with developing the necessary mechanisms that ensure implementation of the legal framework indiscriminately and to enforce compliance.

(50) Ministries and other public institutions and relevant rules and regulations

Figure 43: *Rules and regulations*

Body	Relevant Primary Legislation		Description
Ministry of Trade and Industry The chief role of the ministry is to create conducive conditions for private sector development, with particularly focus to SME.	**Laws on**: • Business Organizations • Accreditation • Standardization • Industrial Design	• Design • Trademarks • Patents • Strategic Investments • Foreign Investments • Economic Zones	All the laws create conditions for private sector development and promote foreign investments, exports and SME development.
Tax Administration (Ministry of Finance) is responsible for the fiscal tax policies. Kosovo's fiscal system is based on best-practice and policies of the EU. This applies to both tax and customs policies including direct and indirect taxes.	**Laws on:** • Value Added Tax • Corporate Income Tax • Personal Income Tax	• Tax Administration and Procedures	All these pieces of legislation set the main rules and procedures for the tax regime in the country.
Kosovo Customs (Ministry of Finance) Kosovo Customs is the main body to ensure the application of fair and uniform customs regulations and other provisions applicable	• Law on External Trade • Customs and Excise Code		The laws set the general rules for the exercise of external trade

to goods, subject to customs supervision. Apart from customs duties, Kosovo Customs also collects VAT and excise tax. Kosovo Customs operates in accordance with EU standards.		
Employment Agency This agency is a public service provider in the labour market, aiming at managing the labour market, supporting employment creation and vocational training policies.	• Law on Labour Force	This Law regulates the rights and obligations deriving from employment relationship.
Kosovo Environmental Protection Agency (Ministry of Environment and Spatial Planning is the main institutional body responsible for environmental-related matters.	• Law on Environmental Protection	This law promotes the establishment of healthy environment Kosovo by gradually implementing EU environmental standards.
Kosovo Forest Agency This Agency operates under the Ministry of Agriculture, Forestry and Rural Development (MAFRD) and is responsible for forestry-related matters in Kosovo. In spite of the fact that a considerable part of the national territory is covered with forests, their use in the furniture industry is limited. The best yielding and higher quality forest units are official national park areas. Kosovo forests suffer from under management and illegal harvesting.	• Law on Forests	The main purpose of this law is to protect and promote the forests of Kosovo whilst allowing for coordinated and regulated sustainable development of the resources within those forests.

Source: own compilation based on data collection

3.7.4 Financial Institutions and access to finance

(51) Financial Institutions

The banking and financial system consists of commercial banks, branches of foreign banks, microfinance institutions, non-banking financial institutions, foreign exchange offices and money transfer agencies. The average interest rate on loans stands at 6.83%. For the manufacturing sector it is slightly lower with 6.23%. Double bookkeeping, lack of business plans, collateral related problems have a negative impact on the access to finance.

(52) Access to finance

In 2018, the EBRD plans to implement a credit facility for improved access to finance. The facility includes a grand scheme for the wood processing sector, development and provision of Business Development Services (BDS), support program to Free Movement of Goods and support activities toward Single Market Opportunities.

Access to finance improved considerably over the past years. It does not appear to be a rather serious barrier, in particular for medium- and large-size firms. The introduction of the private bailiff[23] system and the Kosovo Credit Guarantee Fund (KCGF) cover up to 50% of the potential risk for loans issued to SMEs. Both played a significant role in lowering interest rates. The financial sector is now liquid, and investment loans have grown considerably as a result of low-interest rates. The share of commercial loans (63%) is higher vis-à-vis comparator countries.
Smaller firms have limited access to formal loans. One reason is their difficulty to fulfil collateral requirements and to keep formal financial statements. Finding collateral is even more difficult for women-owned firms. Because of cultural norms, inherited property is often registered in men's name.
Firms often complain that there is lack of access to investment funds or venture capital.

[23] Kosovo Chamber of Bailiffs, systems for enforcing agreements and decisions

4 VC DEVELOPMENT STRATEGY AND ANALYSIS OF EXPORT DEVELOPMENT POTENTIAL

4.1 Strategic VC Upgrading Options and Rational for Interventions

4.1.1 Pillars of export driven wood furniture VC development

Interviewed companies consider that increased quality, new markets and new products/designs are the most successful strategies for increasing export. These aspects are connected with company export competitiveness and improved marketing efforts.

Strategy formulation for developing the wood furniture VC has to start from economic opportunities´ and export market opportunities and have to address competitiveness issues.

Sector vision and strategy formulation has to reflect the perspective and expectation of the VC operators involved along the overall wood furniture VC. Finally, VC operators are supposed to invest in VC development after having established a broad acceptance of the concept of systemic VC upgrading, reflecting interests of all operators involved in the creation of added value along the Kosovan furniture VC. It is important to note that due to different responsibilities and tasks public and private actors often have different priorities.

The three pillars, economic growth as result of company´s increased export competitiveness, better and more employment, and protection to environment ideally complement each other. Economic growth of the sub-sector has to be environmentally sustainable and socially inclusive.

The (1) first pillar of the wood furniture VC development focusses to strengthening economic growth and export competitiveness. Under the premise that local demand has limited growth potential, export development to the EU and to other international markets is critical for growth.

The (2) second pillar is a consequence of economic growth, which calls for more and better-prepared availability of labour and quality of work, not only on operators, but also on management level.

The (3) third pillar considers environmental aspects, such as wood certifications, control against illegal logging, and control of pollution in processing.

4.1.2 VC development strategy as baseline for VC promotion and upgrading

Based on input from stakeholders, conclusions from the furniture VC analysis, above-mentioned pillars, a provisional VC development strategy includes the following essential elements:

Economic growth:
Focus on economic growth, with VC actors aiming for internationalization, competitiveness, innovation and better integration of the furniture VC. Economic growth triggers improvement on employment level.

EU membership and EU market positioning:

The longer-term strategic focus is the expected EU membership and further regional integration, which will further help the sector to maintain competitive advantages within the EU and regional market. Successful positioning in EU markets will set favourable conditions for export to other international markets such as in Asia, Africa and Arab countries.

Market and price segments:
The furniture sector aims to export to medium-price and the lower level of the high-price segments (see Figure 09). National production capacities do not facilitate export of large amounts in the low-price furniture segment. Healthy margins cannot be based on small markup and high quantity to low-price entry level segments. Higher margins can only be realized in upper price segments in niche markets and smaller sales quantity. "Price-wars" are not suitable. There are always "others" who sell cheaper. Design and service, and not the price has to be main differentiators.

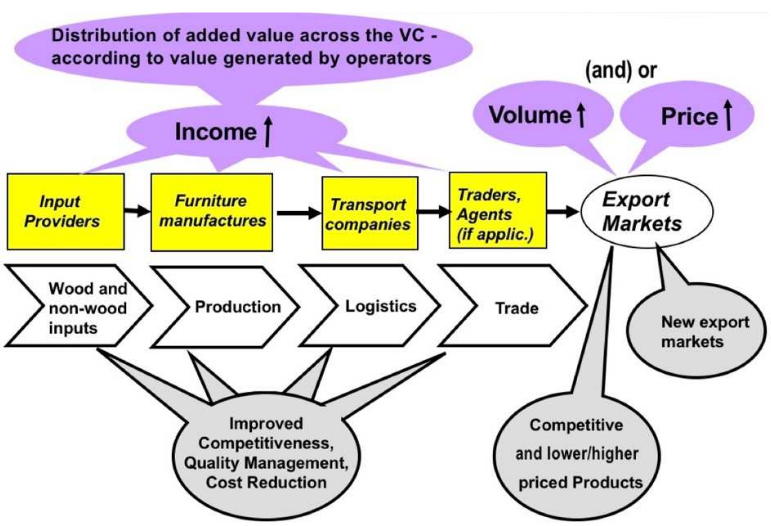
National beech wood:
It is not a primary strategic objective to promote Kosovo beech wood. Currently, only 12 companies are producing solid wood furniture. At medium to long term and under the condition that all national wood certification requirements are in place, Kosovo beech wood might offer an option for a "Made in Kosovo" campaign (e.g. solid Balkan-Beech Wood furniture).

Key Facts – VC development strategy

- ***Economic growth*** will be based on ***social and manpower improvements*** with more and better work. Effects of the industry toward a ***healthy environment*** will be regarded.
- The furniture export aims toward medium and high price segments.
- Economic growth and improved export imply better overall VC competitiveness and integration, more company internationalization and an improved strategic innovation culture.
- Steps toward future EU membership will further improve the sector´s strength but also increase competitive pressure.

Figure 44 demonstrates the bottom-up VC upgrading strategy, where specific interventions improve the overall chain competitiveness, in this case with the strategic focus to export development. As an expected result of a potential furniture VC upgrading project, the furniture VC will export to higher-price segments at higher volume to more export markets, improving overall chain income, and endorsing distribution of value added according to each VC operator performance and contribution.

Figure 41: *Economic and innovation related VC development strategy*



Source: Compilation based on ValueLinks 2.0

4.2 Development Potential of the Furniture VC, Focus to Export

4.2.1 Key observations

During the last years, the wood furniture value chain had increased exports and demonstrated positive performance. Due to the lack of available internal company data and other economic statistics, a more in-depth assessment of growth and economic stability of companies could not be elaborated (e.g. value creation and distribution along the national VC, development of profit margins, among others).

On the other hand, the positive export turnover figures of the last years and positive feedback from entrepreneurs and operators along the VC show steady growth and confidence of the industry toward growth.
The following observations help to evaluate the sectors´ future export development potential:

- Furniture companies need to be economically sound and able to invest in export development before aiming for export.
- The VC analysis has identified several constraints along the VC with a focus to core VC companies (see paragraph 5.3). Instead of only implementing individual upgrading measures, a holistic VC development approach with the setting of upgrading priorities and intervention is more effective and efficient, also aiming for a better overall VC integration.
- The quickly adapting regional and international competition among furniture exporting companies and rapidly evolving and changing export market environment calls for action in making Kosovan producers more efficient, productive, and competitive.
- Many company owners need to consider changing entrepreneurial mindset with more openness to share responsibilities with external (non-family) specialized managers and to pay competitive salaries. Adjustment to international business practices is key.
- Company´s Investment and innovation strategies need to be based on measures for improved internationalization and better performance, with the focus to export competitiveness.
- An improved sustainable service landscape and conducive business environment will help companies supports optimizing the sub-sectors (export) performance.
- Better value chain integration includes more and better horizontal and vertical linkages with the chance to reduce transaction costs.

All these factors will be crucial for either failed development, survival, or positive growth of the Kosovan furniture export focussed industry.

Another notable aspect relates to the speed of doing business and exporting goods, from order intake until delivery of ready-made furniture. In fact, this not always depends on manufacturers performance only, but also on external factors like customs procedures or a functioning just-in-time supply chain. For a typical furniture producer in Kosovo, customs export procedures take up to 43 hours for border compliance and another 38 hours for documentary compliance. The average in other five WB countries is 7 hours and 3.8 hours. Apart from that, a Kosovo enterprise has to pay 264 USD to export, compared to an average of 72 USD in the other five WB countries.

4.2.2 Competitiveness of the wood furniture sub sector value chain

Companies` were asked what they recommend for the upgrading of the overall wood VC and thus improve sector competitiveness:

Approximately 20% of the respondents indicated various *upstream vertical integration* actions that would improve value chain, and the overall industry performance. 13% indicated that *stronger business associations* could support them in coordinating their efforts.

17% of the respondents indicated towards better *regulatory environment* in relation to payment collection and guarantee in terms of payment between buyer and seller. *Development grants* were also identified as having a positive impact on improving the overall value chain (11%).

In conclusion, these potential interventions reflect improvements on the legislative side, adjustments to the business model between suppliers and producers, and better services at institutional level.

Key Facts – Development Potential of Wood Furniture Export industry

- Positive indicators prevail, such as growth of export turnover, positive feedback at EU trade fairs.
- Future growths and export potential depends in a nutshell on two factors only, which include most internal (company) and external (VC integration and business environment) upgrading requirements:

COST ADVANTAGES
&
DIFFERENTIATION ADVANTAGES

4.2.3 Pre-requisites for a more competitive value chain

The degree of export competitiveness and its development potential depends on the sub-sectors ability to create competitive advantages. Competitive advantage is key to avoid a "me-too" image at clients. Low-price strategies have the negative implication to reduce the ability to invest in R&D, design, the purchase of high-quality raw material and components, to hire specialist workers, and to pay for operationalization of export marketing strategies.

According to the competitive advantage model for the wood furniture sub-sector (see Figure 45), efforts of the VC operators need to be toward gaining and maintaining cost and differentiation leadership. This implies internal inputs and upgrading in companies and external improvements related to services and business environment.

1 *EXTERNAL conducive business environment:* Conducive business environment needs to provide advantages to the overall furniture value chain. Functioning linkages will further support competitive pro-business environment.

2 *PEST: Optimization of factors supporting "better business" at 4 levels (political, economic, social and technological factors*:

Political: grants, legislation, regulation and de-regulation, taxation, fiscal incentives
Economic: interest rates, labour costs, better connection to impact of internationalization, motivating wealth distribution in community
*Social factor*s: population education, VET, toward social cultural changes, mobility, social concerns such as environmental issues
*Technological factors***:** supportive R&D and innovation culture in-country, expanding communication technologies

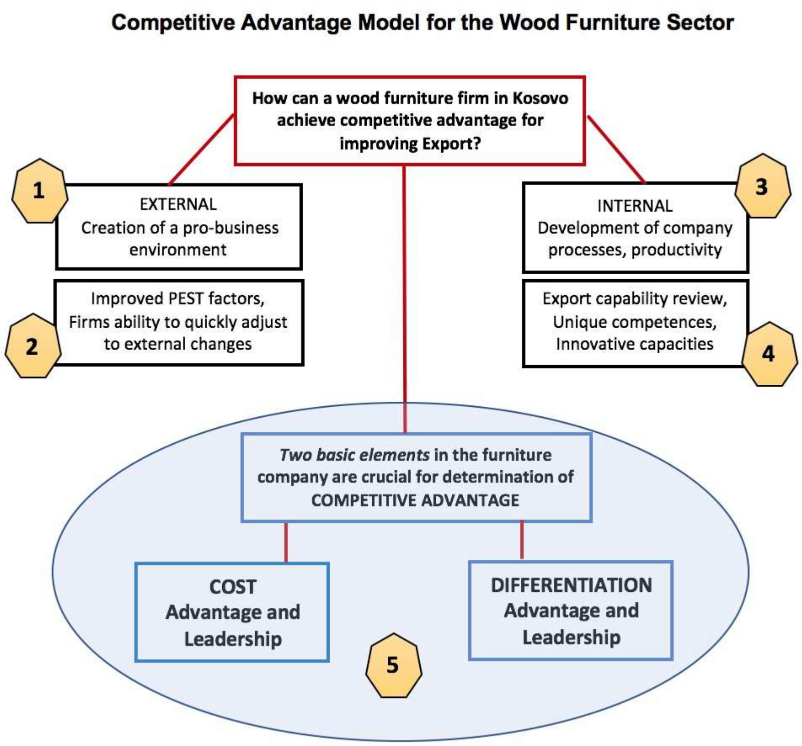
3 *INTERNAL company business review and upgrading*: Implementation of Export quality management systems (EQMS)[24], improvement of productivity and implementation of marginal costing system for definition of contribution margins and break-even points for export pricing purposes and job-order costing.

[24] ISO 9001certification and implementation of export typical company internal processes

4 *Unique competencies and innovative capacities*: Implementation of export capability review (ECR)[25], avoidance of “me-too” image at export markets, investment in R&D and quality management, ISO 9001.

5 *COST advantage and DIFFERENTIATION advantage*: These two aspects endorse upgrading of the overall value chain, aiming for best-practice services, best suitable cost-value purchasing and supply, productive and cost-optimized production processes, tackling cost drivers for better company and VC efficiency, investment into strategic and operative international marketing, R&D, pattern of capacity utilization, functioning management teams, training and formation of specialist workers, and a political and economic system that supports conducive business environment.

Figure 45: *Upgrading model for improved export competitiveness*



Source: own compilation from Michael Porter competitiveness model

[25] Export Capability Review, own concept W. Wiegel

5 FROM CONSTRAINTS TO INTERVENTIONS

5.1 Intervention Areas along the VC

The Intervention areas are covering the main elements of the provisional VC development strategy (Paragraph 4.1.2) and support the three pillars (economic growth, more and better work, healthy and protected environment) of the export-driven wood furniture VC development.

The intervention areas are:

- Market access, marketing and distribution
- Manpower, vocational training, capacity development
- Business operations
- Certification and quality
- Linkages, upscaling and environment
- VC support services (service providers, financial services, BMO, BDS)
- VC governance and regulatory framework

5.2 Constraints and Opportunities

Prioritized constraints and opportunities are collocated across the corresponding intervention areas and covering the various VC actors across the VC.
When implementing the VC promotion and facilitation project, project implementation strategies will likely be reconsidered and adjusted to changing prioritization and sub-sector realities regarding to constraints and opportunities. Prioritization of constraints, opportunities and connected interventions will also depend on the proposed implementation time horizon and the required time for implementation of interventions, outputs and outcomes (either short-term (1year), medium-term (2 to 3 years) and long-term outcomes (5 years or more).
Also see figure 47, logic model of VC upgrading.

Constraints, opportunities and recommended activities are not ordered based on priority or importance as this will have to be agreed with VC lead actors and stakeholders during the setup and project planning phase of the VC facilitation and upgrading project. Some of the constraints and activities are overlapping as constraints in different intervention areas look at the VC system from different perspectives.

5.3 VC Upgrading Activities

Proposed activities are presented in the following table. All proposed interventions are based on specific constraints and opportunities which were revealed in this wood furniture VC analysis.

It needs to be pointed out that the activities recommended in this section cannot cover all possible and potential enhancements or upgrading requirements.
When the VC promotion and facilitation project is initiated, both the VC upgrading strategy and priorities will need to be reviewed and finalized. For this purpose, key stakeholders will meet in planning round tables in order to identify and agree on common VC upgrading activities and objectives on input, outcome and impact level.

Figure 46: *Constraints, Opportunities and recommended Activities*

Intervention Area 01 **Market Access, Marketing, Distribution**			
Involved Functions	**Constraints**	**Opportunities**	**Recommended Activities**
• Production • Sales	**Insufficient and unreliable market data.** Market and client's segments are not sufficiently known in different target EU countries, resulting in vague marketing, product and client communication strategies	**Taking advantage of market opportunities based on current competitive advantage.** Access to more markets avoids dependence from limited number of clients and helps balancing seasonal fluctuations, beyond other strategic advantages.	• Support export companies (training) to enhance their own market research capacities and transfer it into marketing strategies and improvement of segmented competitive edges. • Strengthen capacity of existing service providers and AWPK in undertaking systematic market analysis (BDS training). • Implement market newsletter (4 times/year) that covers different target markets/product groups (e.g. by AWPK).
• Production • Sales • Transport • Supply	**Application of international commercial standards between business partners, such as Incoterms not frequently used.** Unclear communication of tasks, costs, basis of pricing between business partners. Clarification of mutual risks associated with pricing, transportation and delivery of goods. Companies also complain about problems with collection of due payments.	**Become a serious and "internationalized" business partner at export markets.** International business requires application of state-of-art business rules and standards. Incoterms reduce risks, improve business practices and payment processes, also on national level in dealings between VC actors.	• Provide training of best-practice commercial standards, focus to implementation of Incoterms as standard of trade. • Start implementing international commercial standards in-country between the VC operators before initiating at import and export level. • Support a business-like culture along the VC actors, such as default charges, improved ruling regarding quality standards, compensations, complaint management, etc.
• Production • Sales • Transport • Supply	**Segmentation and positioning at different markets is most not pro-active but reactive and opportunity driven.** Kosovo furniture companies are required to gain and maintain	**Strengthened product & market positioning in parallel with cost and competitive advantage leadership wins market shares and enables access to new markets.**	• Apply the tools *Business Model canvas* in combination with *Value Proposition canvas* by individual exporting companies (Annex 03) – Competitive advantage. • Implement hybrid system, or variable, absorption costing – Cost advantage.

	competitive advantage in their different market/client/product segments.	The increasing competitive pressure within the upper medium and higher price segments requires strong focus on marketing, product and pricing strategies. If applied, profitability of export will potentially, increase which also includes company internal upgrade and best suitable external business environment.	• Implement regular furniture sector round table talks with representatives of all involved VC actors with the objective to improving linkages, to streamline costs and to economize supply chain/logistics integration, which are strictly based on client demand determinants.
• Sales and Market	**Kosovo unfocussed image at wood furniture export markets.** In general, Kosovo furniture products are in danger of being considered “me-too” products by clients if image and perceived competitive edge isn´t further developed. Regular up-to-date market studies are at large not available to the furniture manufacturing community.	**Create the image-enhancing measure “Made in Kosovo Trademark”.** A trademark improves business opportunities and adds uniqueness to Kosovo-made furniture products. Furthermore, it strengthens export target in corresponding price and market segments. Creating a national trademark and brand is a long-term project. Making the trademark work for better market opportunities depends on whether “Kosovo-furniture” can establish a competitive benchmark or national branding. A trademark is only useful when backed-up by a real customer benefit.	• AWPK to initiate a consultant moderated “trademark and branding project” with reviewing and building basics for Kosovo Trademark, integrating all main exporters (market analysis and competitor´s profiles). This could also be considered as *overall wood sector trademark.* • Sharpen image and competitive edge in each of the export markets and market/client segments through better market and competitor research, and professional marketing communication. • Capitalize national brand value by aiming for additional private brands of key manufacturers.
• Sales and Market	**Most Kosovo furniture companies have not sufficiently approached new communication and sales channels that might be useful and emerging in the furniture export business.** Business (B2B) or private clients´ (B2C) expectations regarding quick availability, novelties and combined product + service concepts are quickly changing. Many Kosovo furniture companies often do not know why the loose business or do not get award of contract.	**Application of innovative concepts, such as: export agents, e-commerce and introduction of alternative marketing strategies as innovative new marketing communication and sales acquisition tools.** Quick adjustment to new trends for part of the exporters market/client segments reflect whether a manufacturer from Kosovo is perceived as modern, customer-oriented and solution-oriented for both client groups, B2B and B2C clients. All of these are building blocks for a modern image "Made in Kosovo". Creative, innovative adaptions in addition to	New marketing approach (requires expert input): • Calculate expected cost/benefit of new marketing approaches before doing investments. • Engage export agents, paid by groups of companies, to connect with customers and better integrate supply. • Consider e-commerce for B2B only with suitable partners in target countries. • Increase personal market presence (key account plans, one face to the customer, active selling) for B2B and B2C. • Plan for installation of a company representative in the most important export countries and plan for intermediate storage facility and showrooms.

	Kosovo furniture companies do not have the required specialist personnel for either in-house preparation and servicing of web services, new media marketing, export and communications specialist, representative in target export countries. This requires introduction of an HR plan and a medium- term introduction of new VET training content.	conservative market approaches are advantageous for helping both income streams, B2B and B2C. Young people in Kosovo are growing into the digitization age and are assets for companies. Selling and servicing (installation) of products are in the trend. *Service marketing* training as additional curricula in the VET system can add value to producers´ product + service portfolio. In case of visa problems for own personnel, subcontracting can be the solution.	• Improve web presentation with interactive web sites. • Start new communication and social media. • Introduction of new media and communication training courses in VET structure for industrial application. • Help companies to identify specialist marketers in export countries that can help to penetrate markets and to acquire subcontracting service and installation personnel (e.g. installation of windows).
	The large part of all export sales of the Kosovan furniture industry is going to two countries only (Germany and Switzerland). Potential of expanding export and exploring market opportunities in the EU are neither adequately analysed nor rigorously developed. Both methodologies, market scanning and market analysis are largely not implemented by companies. Huge market potentials are not discovered.	**Expand to other EU markets.** Although still small-scale compared to international standards, furniture producers have a huge potential in other EU markets. Only doubling exports, helps companies to improve one-shift utilization of installed capacities to a healthy and economically viable level, which should be above 85%.	• Introduce a combined market scanning and analysis methodology in the furniture industry that reduces or eliminates risk investments in new markets that do not fulfil minimum requirements regarding general framework and export marketing conditions. The concept on scanning before analysing markets is attached at annex 05). • Implement a systematic export market development, starting with market segmentation, followed by market targeting/differentiation, and market positioning for a tailor-made marketing mix for each determined market segment. The concept is attached at annex 06).

Intervention Area 02 **Man Power, Vocational Training, Capacity Development**			
Involved Functions	**Constraints**	**Opportunities**	**Recommended Activities**
• Production • Sales	***Salaries and Payment:*** **No performance-based salary structures.**	 **Motivated employees help to improve product quality, reduce production**	 • Establish a pilot case on blending basic salary with a performance-based element. AWPK as moderator and a pilot lead company should analyse potential

	workers are paid on basis of fixed salary only. Workers´ efforts are minimal to improve own productivity or to aim for better quality consciousness.	**cost, improving overall company competitiveness.** Performance-based salary is one trigger for improving worker´s initiative and motivation to learn, improve and become more quality conscious.	benefits and risks involved in new salary scheme (baseline of variable component according to actual vs. desired productivity, performance measurement, cost/benefit, quality statistics).
• Production	***Vocational Training:***		
	Labour skills and qualifications often not in-line with manufacturer´s requirements. Most manufacturers complain about unprepared and unskilled workers. Curricula are more supply than demand-oriented, even though regional employment centres attempt to improve cooperation for better public/private education efforts.	**Companies are able to find and employ workers that provide required skill sets. The result is increased work productivity, quality output and potentially salary payment.** Implementation of institutionalized internship programs as conceptual part of the vocational training in the sub-sector. This way, the industry provides practical skills training and insights/input to actual skill requirements for definition of curricula.	• Implementation of regular company-based training-needs assessment and strengthened public/private dialogue between training schools + companies. • Updating of all relevant curricula in close cooperation between companies and VET institutions. • Initiate a furniture industry internship program, to be organized between companies and VET institutions. • Initiate a pilot project for best-practice internship application model.
• Production	**The national VET system (here wood furniture) does mostly not comply to international standards**. Certification of VET courses and curricula is not the standard. Modern dual theory and practical teaching systems are only marginal functional and not institutionalized.	**The VET system for the wood manufacturing sector is based on best-practice and standards that combine theoretical and practical training elements.** Curricula are demand oriented and industry employ professionals who have received training that is relevant for the labour market. Market driven technical education improves conditions for better productivity, reduced costs, improved employment opportunities and less “imported labour” from neighbouring countries.	• Support public VET providers (piloting on wood processing, furniture) on dual system approach options that best fit the national situation. • Support national public and private VET providers in introducing and upscaling new and reformed training courses. • Research international VET standards and curricula and certifications in order to adapt those to national system (focus wood processing).
• Production • Supply	***Management Upgrade:***		
	Lack of experienced management and administrative personnel.	**Professional management helps larger**	• Provide in-house and external training courses for management personnel. In-house training includes

	Companies are lacking managers in export marketing, financial and quality management. Owner-driven companies´ preference for employment of family members instead of business need-based employment.	**companies to become more competitive when employing key management personnel.** Reduced owner involvement in key areas in the company whilst employing specialists in marketing, financial, quality management will enhance overall company performance and export competitiveness. International export clients will be better served, and client communication will improve.	consulting input on process implementation (e.g. strategic and operational (export) marketing, business planning, costing systems, quality systems). • Combine on-the-job training input with consultancy. • Implement attractive payment schemes for key management personnel in export focused companies. • Provide additional motivational packages for future and existing management personnel (opportunities to participate in trainings, clear terms of contract, performance-based payment).

Intervention Area 03 **Business Operations**			
VC Function	**Constraints**	**Opportunities**	**Recommended Activities**
• Production, Marketing • Supply	**Lack of adequate costing systems**. Companies have limited decision making capacity when break-even calculation for new products is not known and sales price differentiation is difficult to determine as long as costing is not properly implemented. It was reported that companies are losing export business as they are unable to determine precise and immediate tactical and short term low-price offers to clients.	**Furniture companies are able to determine price floors and to fine tune export pricing strategies.** Precise knowledge of fixed and variable costs enables companies to apply strategic or tactical pricing (defensive or offensive pricing strategies), break-even points, price ceilings and boundaries (fix-cost coverages, determining economy of scale), better price-quality positioning, and pricing decisions that are based on market competition and not on “want to have” profit margins.	• Implement suitable costing systems in the furniture industry. Determine a pilot case with a suitable company to sell the idea to other producers. • Provide on-the-job training on export pricing concepts and pricing decision making (competitive pricing, optimum pricing, defensive and offensive pricing, medium and premium price-quality positioning, break-even analysis, etc.).
• Production, Marketing	**Unbalanced investment allocation.** Investment in Marketing, R&D and product development is often insufficient, especially when aiming for	**Investments are balanced and consider “Market is Key” for business success.** Furniture production companies are convinced that investment in production	• Provide in-company training for investment planning and investment strategies, that are integrated to business planning. • Provide in-company training and external training course curricula that deal with export financing.

	export expansion and better client focus.	expansion or technology has to consider whether investments effectuate more and better market opportunities or export. Additionally, companies are enabled to improve productivity.	
• Production • Supply	**Inability of companies to fulfil larger export orders.** Due to the small size of most Kosovan companies and production limits in fulfilling furniture orders, larger market demand cannot be satisfied.	**Companies gain additional market shares.** Larger orders and shorter delivery times can be realised by companies through more and better horizontal linkages and co-working between producers.	• Enhance the capacities of the AWPK to provide services that help companies to integrate and be able to satisfy larger market demands. • Support the idea of creating more trust between companies for more and better horizontal linkages and subcontracting.
• Production • Supply	**Lack of strategic business planning.** Most of the companies operate without business plans including marketing and export plan. Companies do not have clear vision and objectives and often operate on ad-hoc basis.	**Strategic planning creates focussed business goals.** Strategic planning helps the companies to become proactive while allowing them to define business and export road maps, pursue opportunities and run daily operations in a more economically viable way. The business strategy and operational business plan defines objectives, vision, resources, and business processes.	• Provide training to companies on how to develop strategy documents. • Train them on SMART techniques, SWOT analysis and on other tools that help them develop strategic business planning. • Train them on specific software packages that are dedicated to developing business strategies. • Provide in-house on-the-job implementation of business planning.
• Production, Marketing • Supply	**Limitations of movement of management and service personnel to the EU.** Difficulty of getting visa creates problems for managers and service personnel to visit clients or provide fitting and servicing orders for furniture.	**Companies have better access to export markets and stop outsourcing after-sales services.** Granting visa-free traveling creates opportunities for Kosovo managers to find international clients and develop business partnerships. It also reduces the cost of companies as they can send their technicians to do the fitting and after-sales servicing.	• This has to be addressed on high-level political instances. Nothing can be done on a technical level.
• Production • Supply	**Innovation management and prioritization of innovation measures toward sector and company internationalization is not**	**Innovation management is a driver to better revenue and competitiveness.** Besides product innovation, process and business model innovation measures are	• Provide consultancy input for a small number of potential lead companies that are ready and willing to consider innovation management.

	sufficiently developed across the sector. Companies do often not differentiate between the potential of product and process innovation.	useful for improvements in production companies and suppliers toward internationalization. It pays to take advantage of the "innovative spirit" of some of the larger exporting companies.	• Start a furniture sector "innovation round table" for sector coordination of innovative networks, think-tanks and cooperation. Moderation by the wood association and a selected consulting company who understands innovation management and internationalization issues.
• Production	**Lack of adherence to proper corporate governance structures.** Most of the companies are family-owned where family members keep multiple roles and responsibilities.	**Setting corporate governance structures right improves company performance.** Good corporate governance framework establishes role and responsibilities of owner(s) and executive management. It assures that company's finances and other operational activities are professionally conducted.	• Conduct a thorough diagnosis to assess how companies stand in terms of corporate governance. • Organize training programs with companies on corporate governance structures.

Intervention Area 04 **Certification and Quality**			
VC Function	**Constraints**	**Opportunities**	**Recommended Activities**
• Production • Supply (national & international)	**Fulfilment to certification and quality standard requirements.** This is considered to be one of the main constraints by production companies. Causes are multiple, reaching from lack of input supply quality control, ineffective or non-existing quality management systems, non-existing VC integrated quality infrastructure (QI), untrained labour in regard to quality assurance methods.	**Quality consciousness has multiple positive business effects, adding to sector´s competitiveness.** This supports lower overall costs, better quality of imported raw material, positive customer retention, less second grade and material losses, better trained personnel, improved image at export markets, potential to sell at higher priced segments, besides others.	• Implementation of quality management systems in stages: quality control system, quality management process toward overarching quality management process, and ISO 9001. • Introduction of QI as overall furniture product quality system that includes specification, purchasing and supply. • Initiate and promote installation of product quality testing laboratory at AWPK premises that helps to create a wood sector quality infrastructure. • Support a national wood and furniture database of preferred suppliers, based on defined standards (national products and international imported products and suppliers).

• Production • Supply (national & international)	**Lack of adherence to ISO 9001:2015 standards:** Companies, particularly the smaller ones, have not adopted ISO 9001. They fail to recognize the importance of a quality management system and the confidence it brings to potential business partners.	**Better internal operation and greater potential for partnerships, more acceptance at export markets.** Complying with ISO 9001 standards improves internal processes and quality management systems, it creates trust in the eye of potential business partners.	• Provide further awareness raising campaigns about the importance of ISO 9001:2015 standards. • Develop incentives for companies to adopt these standards. • Start an initiative with implementation of Export Quality Management Systems (EQMS) and ISO 9001:2015 certification preparation. • Implement ToT for local consultants for ISO preparation at company level, aiming for certification.
• Supply (national)	**No provision of FSC forest management certificates.** Although national standards for FSC Forest Management certification have been developed, the Kosovo Forest Agency still does not issue FSC Management Certificates.	**Exports of furniture produced out of Kosovo-harvested logs.** By being able to obtain FSC forest management certificates, furniture producers can manufacture and selected product lines that are (partly) produced with domestic-origin logs.	• Amend the Law on National Parks that prevents harvesting for industry. • Assist the KFA to complete the system for issuing the certificates.
• Production	**Limited knowledge about integrated and advanced quality systems**. Poor quality management systems, lack of formalities and procedures, none or insufficient use of quality records are typical challenges when considering advanced quality systems.	**Positive effects through long-term implementation of Lean Six Sigma (LSS)**. LSS will reduce defects by likely more than 25%, reduce waste by at least 15% and increases productivity considerably. It improves the quality consciousness in companies.	• Create a pilot case with implementation of LSS in a larger producer/exporter that already applies or is open to implement best-practice processes. • Prepare baselines in the participating companies before and after implementing a LSS “light” program in order to prove verifiable improvements in regard to productivity, number and kind of defects, waste percentage, etc. • Train key personnel and local consultants in LSS processes and implementation (green or blue belt Six Sigma specialists).

Intervention Area 05 **Linkages, Upscaling, Environment**			
VC Function	**Constraints**	**Opportunities**	**Recommended Activities**
• Supply • Production • Transport	**Supply chains are not optimized.** Some of the constraints related to supply chain optimization are: commercial standards, quality systems, cost optimization, preferred suppliers, group purchasing. It is likely that cost- and quality sensitive optimization potential has not been exhausted yet.	**Supply chain optimization of sub-contracting leads to more cost efficient and just-in-time delivery standards.** Competitive lead-times with just-in-time focus will gain more clients. The producers´ ability to apply shorter lead time between contract and delivery determines client´s choice of suppliers. Some clients business model requires “just-in-time” delivery and quick response from furniture producer.	• Support a leading “pilot” in best-practice supply chain optimization, optimized order-to-delivery process and implementation of functioning sub-contracting linkages. • Help AWPK to become a useful hub between suppliers and producers with the capabilities to mentor supply chain optimization for a win-win benefit of all involved VC operators. • Arrange round-tables between producers, transport companies and suppliers to create better cooperation and common solutions for improved VC integration.
• Production • Supply • Transport	**Lack of horizontal linkages between companies.** In most of the cases local companies perceive each other as main competitors and not as potential partners to improve the odds for export.	**Horizontal linkages improve the capacities of companies to export.** By joining forces and streamlining the production lines, companies will be able to produce at a larger scale and meet the demand of importing companies from the EU and elsewhere as a result. Linkage promotion helps to better integrate the furniture VC.	• Provide grants that condition companies to seek for partnerships. • Help AWPK to develop mechanisms that lead to the creation of partnerships among similar companies. • Implement regular sector round tables between companies with specialist contributions on VC and supply chain subjects.
• Production	**Insufficient use of wood leftovers for recycling purposes, like conversion into fibre boards, pellet.** The number of leftovers (chips, sawdust, shavings) in wood manufacturing is huge and recycling is not organized at larger scale.	**Recycling of wood leftovers creates new opportunities for employment and considers environmental aspects.** Leftovers are collected by recycling companies or collectors on national level and sold to fibre board producers, if practicable, or others.	• Implement a basic feasibility study on wood recycling options, economic viability and income/job creation potential, considering the overall wood VC leftovers in production. • Identify national recycling companies or collectors as potential partners. • Identify suitable and environmentally sensitive recycling options.

Intervention Area 06 **VC Support Services (Service Providers, Financial Services, BMO´s, BDS Provider)**			
VC Function	**Constraints**	**Opportunities**	**Recommended Activities**
• Supply • Production	***Financial Services:*** **Lack of finance for innovation and investments.** Companies have come to appreciate the role of innovation in business expansion, but they lack the funds for engaging in innovation practices. Most investment is linked to technology, but image promotion, market development and client communication are often more important than investment in technology.	**Implementation of client focussed investment planning**. Investment plans, part of business planning help companies to improve businesses where it is needed and avoid investments in fields that are not critical for better competitiveness and positive export development.	• Implement a regular round table between private sector companies and financial service providers to develop mutual concepts that can improve access to finance. • Start a "business plan initiative" for the furniture industry that is based on an overall strategic plan and includes marketing and export plans with strict focus to EU target markets, followed by investment planning that is based on market requirements and competitiveness aspects. • Introduce "business plan contest" with private sector panel representing specialists from financial institutions, AWPK, donors.
• Supply • Production	**Limited access to finance for women-owned enterprises.** Due to cultural norms, in most of the cases family property and other assets belong to men. Because of this, women face difficulties to find collateral to apply for bank loans.	**Inclusion of women in the wooden furniture industry.** Property registered in the names of women enables better access to funds and creates greater opportunities for business expansion.	• Develop awareness raising campaigns to educate citizens about the role of women in business. • Develop incentive packages that encourage women to claim ownership on the property that essentially belongs to them.
• Supply • Production • Transport	***Business Membership Organizations, Wood association (AWPK):*** **Lack of self-funded internal training centre at AWPK.** Provision of training is always determined and funded by donor projects and not necessarily by need	**Opportunities for better trainer, offering a greater range of topics, more independence from donor funding.** An internal training centre allows the AWPK to prepare training development plans based on the real needs of its member and	• Provide institutional support to AWPK: improving the membership model; adding, improving and upscaling of business services for members; creating sources of income, like over-the-border services with quality laboratory services or furniture market study services. Final objective is a

	and demand. Overlapping training input cannot be excluded.	avoids the likelihood of offering the same training to the members more than once. Increase number of trainings paid by companies.	better sustainability and independence from donor input.
• Supply • Production	**Limited availability of product quality laboratory testing and certification services**. Larger companies have their own laboratories or seek services outside the country. Smaller companies have limited access to quality assurance and certification services.	**Helping to improve quality and product reliability.** By establishing a test laboratory and production certificate resources at the AWPK, there will be a higher number of companies with tested and certified products, which can have higher changes to penetrate to export markets.	• Cooperate with CATAS to facilitate the establishment of the lab that can provide: chemical analysis, physical and mechanical tests on raw materials, components and finished products of the wood.
• Production	**Limited support for exports.** The AWPK provides limited support to members toward better integration into regional and global markets.	**Advancing export is critical for sound sector development**. External conditions are favourable to expand to more markets. Production capacity is currently available, with at least 30-40% potential improvement of utilization installed capacity, not considering seasonal considerations.	• Implement a web-based Kosovo Export Portal for wood products. Strengthen the AWPK to develop skills to initiate this additional service to member companies. • Identify the entity that will be enabled to start, run and maintain the Kosovo Export Portal. • Implement an export council that only deals with solving export related constraints.
• Supply • Production	**Underrepresentation of smaller members.** The AWPK mostly focuses on helping larger companies and has the tendency to neglect smaller companies.	**Fair treatment of members creates opportunities for inclusive growth.** Non-discriminatory treatment of business members creates conditions for fair competition in the wood industry and promotes inclusive growth.	• To form nuclei within the AWPK. A "Nucleus" is a circle of companies which are sufficiently homogeneous, but also sufficiently heterogeneous enough to create space for companies to exchange their different ideas, challenges and solutions. This structural change enhances the bargaining power of the underrepresented groups within the association.

Intervention Area 07

VC Governance and regulatory Framework supporting Export Development			
VC Function	**Constraints**	**Opportunities**	**Activities**
Along all VC actors	**Some businesses are able to offer more competitive prices through engaging in unfair practices.** This is caused by tax evasion and informal economy.	**Equal treatment of businesses creates opportunities for growth. By creating a level playing game, businesses would be more willing to invest.** Fostering an environment conducive for doing business increases the willingness of business to invest, become more innovative and improve their overall performance as a result.	• Adopt and enforce serious anti-corruption policies. • Improve the efficiency and modernize significantly public administration. • Implement audit rates that capture firms with different characteristics. • Optimize audit rates as to treat competitors equally. • Increase the number of inspectors.
Along all VC actors	**Challenges in implementing a rapidly evolving policy and legal framework.** Kosovo has managed to develop a relatively advanced legal framework on paper, but the capacities of respective governmental bodies to implement this framework are weak.	**Effective implementation of the legal framework improves business environment.** A proper implementation of the legal framework creates a level playing field and trigger further domestic and international investments in the industry.	• Develop capacity enhancement programs to train public officials on the new legislation. • Improve monitoring and control mechanisms to ensure a better implementation of legal framework.
Along all VC actors	**Weak judiciary system.** Delays occurring on the judiciary are long and harmful in cases related to tax administration, customs duties, or regulatory disagreement.	**Strong judiciary system has a positive impact on doing business.** A strong and efficient judiciary system create conditions for more investments, trade, and partnership agreements.	• Increase the number of judges and develop anti-corruption mechanisms.
Along all VC actors	**Weak control mechanisms at Kosovo customs**. It seems that Kosovo customs fail to register or wrongly register exports and imports taking place in the wooden furniture sub-sector.	**Regular evidence of trade flows for better sector analysis.** Keeping evidence of all trades in line with the standards in place improves the planning and decision making both at business and governmental level.	• Intensify control procedures at Kosovo Customs. • Increase penalties for those who try to under-declare the traded goods.

5.4 Risk Assessment

Although the export growth potential of Kosovan furniture manufacturers is considered positive, there are risks and threats, both external and industry internal that can affect export development.
Potential threats are:
- Political and economic stability is not guaranteed.
- Wood furniture sector is not able to adapt to fast-changing market requirements and increasing competitor´s pressure.
- National VET system unable to adapt to companies´ human resource requirements.
- VC actors are not buying-in to an integrative and holistic VC development project.
- Donors do not consider financing the implementation of a VC promotion and facilitation project.

5.5 Digital Readiness within the Global VC

Digitization moves more in focus for those furniture companies who export from B2C with own show-rooms or e-commerce. International clients who go online for searching furniture purchasing opportunities look for more than simple product information, but design ideas, background information on brands they trust and in-line with lifestyle and easiness of purchase. Besides sales related digital solutions, companies also need to prepare for more IT-based data exchange regarding order processing and purchasing. For larger exporters, internal IT upgrades and readiness to integrate in IT-based processes with clients and suppliers will be necessary for future business.

5.5.1 e-Commerce

Usage of e-commerce is still below average compared to the overall turnover of consumer products in general. Indications regarding EU consumer spending habits indicate that in the year 2014 only 4% of all furniture was purchased via e-commerce, compared to 12% overall (Example German market pattern). It can be concluded that e-commerce is a growing trading trend, with client buying behaviour changing, at least in some particular client segments.

When starting an e-commerce business, it needs to be properly implemented and legally run. It needs to be in-line with prevailing rules and requirements in specific export markets, suitable payment and lawfully binding product return and product warranty conditions. All this implies a considerable investment and should not be implemented without having run a proper analysis first. Products should be made available to local storages in the specific export country to enable quick delivery. International business partners or representatives who organize shipment and organize the commercial process are important.

Empower supported the implementation of the Kosovan brand “Schwarzwald-Massivholz”, supported by three of the large furniture producers. They sell in Germany via e-commerce and showrooms on a B2C level. Schwarzwald-Massivholz started delivering through Amazon Prime with a “24 hours marketplace”. According to the company, about 24 tons of furniture per year are already sold through these alternative channels.

5.5.2 Digital media and social media marketing

When producers intend to export B2C, digital media and social marketing media can add opportunities and positive Return on Invest (RoI). Information provided has to avoid the “smack of spam” or unnecessary information. Content and product offers should give the clients an immediate positive impression. Offers should be limited to the promotion of a few products. Offers should feature a specific lifestyle or design idea.

The connected e-commerce stores with order and payment procedures need to be simple to follow (see par. 5.5.1). When selling to EU markets, legal aspects need to be followed regarding running open-to-public websites. Consumer trends connected to “how young consumers use web-based information” need to be considered.

The website of “EU Eurostat statistics explained” provides statistical articles on digital economy in EU countries[26].

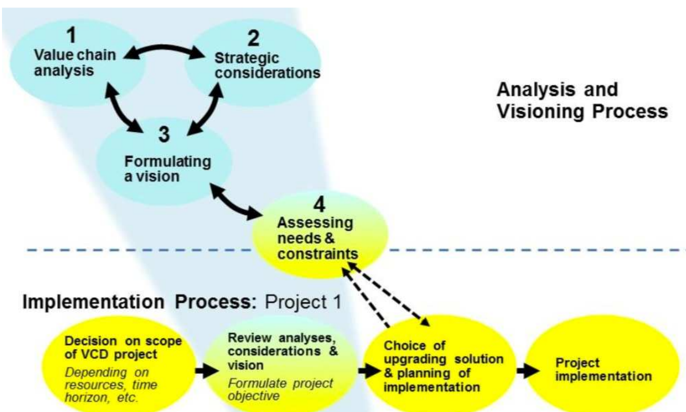
[26] Eurostat, 2018; statistics explained; http://ec.europa.eu/eurostat/statistics-explained/index.php/Information_society

6 VALUE CHAIN PROMOTION AND FACILITATION

In a typical donor funded VC development program, the funding donor takes up responsibility of the VC development program management, together with a national public or private sector entity that has close relationship and connections to the core wood furniture VC. The selected or proposed national implementation partner needs to have a holistic focus to VC upgrading.

The VC implementation process is a logical consequence of the VC analysis and visioning and strategic design phase (Figure 47). In most VC projects, the analysis phase is intergral part and starting point or baseline of the already in-place VC promotion project.

Figure 47: *From analysis, visioning and strategy – to VC upgrading*



Source: ValueLinks 2.0

VC promotion and facilitation (project programming and implementation) has to be undertaken with a national lead actor who provides sufficient experience (or is ready to learn) in managing and steering a VC upgrading cycle. The lead actor has to assume responsibility to drive the VC development. Lead actors in the VC development of the wood furniture VC can be:

- Private companies (VC operators along the core VC, pilot companies, lead firms).
- Business associations (Kosovo wood association, AWPK, others).
- Government and public administration (Ministry of Trade and Industry, DoI, KIESA, others).
- Development agencies, donors (financing and facilitating the VC promotion).

Principal actors involved in VC promotion are part of the value chain system and play a regular role in its functioning (e.g. lead companies, association). They are included in value chain maps (see figure 14+42).

Development agencies or donors are only present temporarily and are external to the system[27].

[27] GIZ, ValueLinks 2.0, 2018

Figure 48: *Classifying VC actors*

	VC- internal actors		VC-external actors
	private actors	public actors	
Operators	Private enterprises Lead companies	State-owned enterprises	n/a
Supporters	Industry/subsector associations BMO, chambers	Public support service agencies	Development agencies
Enablers & regulators	n/a	Government agencies	n/a

Source: GIZ, ValueLinks 2.0, 2017

VC development projects, such as for the wood furniture VC, can take 3 years.
In addition, it can be a beneficial option to integrate to the project other wood related sub value chains, such as the wood furniture VC. This is a realistic option as there are many overlaps and similarities across the VC, including the same stakeholders. Various constraints and opportunities relate to both VCs at the same time. Many interventions would benefit both sub-VCs.

Another useful outcome of a VC development project relates to improved public-private dialogue. It supports Kosovan governments´ subsector policy development and endorses creation of a national competitiveness agreement. A competitiveness agreement is a national policy to promote the integration of private companies in the national and world markets and to further improve the competitiveness rating, but also consequent implementation of required measures, of the country competitiveness index in the World Bank reviews.

This concept has been successfully implemented in eight Latin American countries. Institutionally, the policy follows the levels of administrative hierarchy: The minister of economic development or industry presides over a national competitiveness committee or council integrating the representatives of private sector organizations.

At a lower level, stakeholders of a particular industry, sub-sector or in a particular region constitute roundtables initiating a multi-stakeholder policy process under the competitiveness agreement. Roundtables coordinate the implementation of the action plans. This can be executed within the overall VC development program implementation[28].

VC development underlies a large array of variables, besides the constantly changing dynamics of markets and economic systems. VC upgrading triggers opportunities and change. However, it cannot be easily anticipated which, and to what extent external or company internal interventions will or have triggered which kind of change. The attribution gap always exists. To reduce this gap, transformation and measurable improvements across the VC and attribution of change through VC upgrading interventions require implementing a well-defined and connected learning and monitoring cycle starting with programming and planning, monitoring interventions and evaluations (ex-ante and ex-post).

Some typical tasks for the implementation of a VC promotion project are:

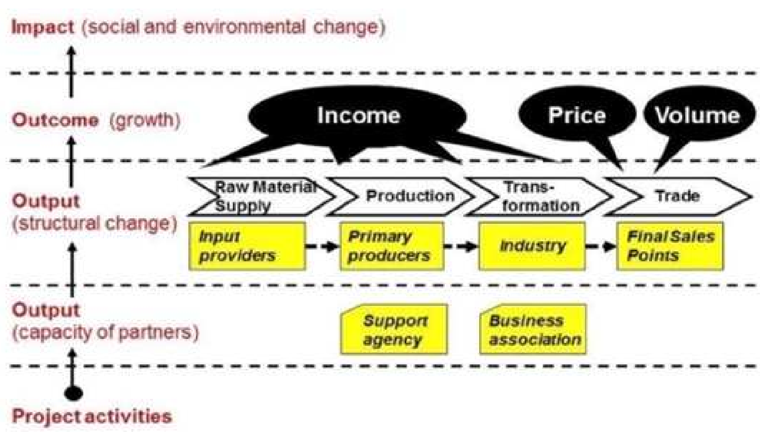
- Methodological guidance and strategic orientation.
- Implementation of VC upgrading strategies.
- Validation workshops and public/private stakeholder development.

[28] ValueLinks 2.0

- Formulation of individual upgrading projects and its implementation.
- Recruitment and monitoring process of multiple short-term experts.
- Capacity building for staff and local partners on VC methodology.
- Development of materials for training and ToT.
- Implementation of VC internal and external visibility and information material.
- Creating and enhancing linkages and partnerships.
- Identifying pilot cases and lead companies
- and more aspects.

According to the logic VC upgrading model (Figure 47), interventions can occur at different levels. Measurable output, outcome and finally impact require a well-coordinated VC upgrading and implementation strategy that aims at achievement of sustainable results at outcome and impact level.

Figure 49: *The logic model related to VC upgrading input and results*



Source: ValueLinks 2.0

7 ANNEXES

ANNEX	
01	Import countries for input material
02	Ranked constraints at supply level
03	Tools: business model canvas, value proposition canvas
04	Main external and internal barriers to export
05	Market scanning and analysis tools
06	From market segmentation to market positioning

Annex 01: Import Countries of Supply Material

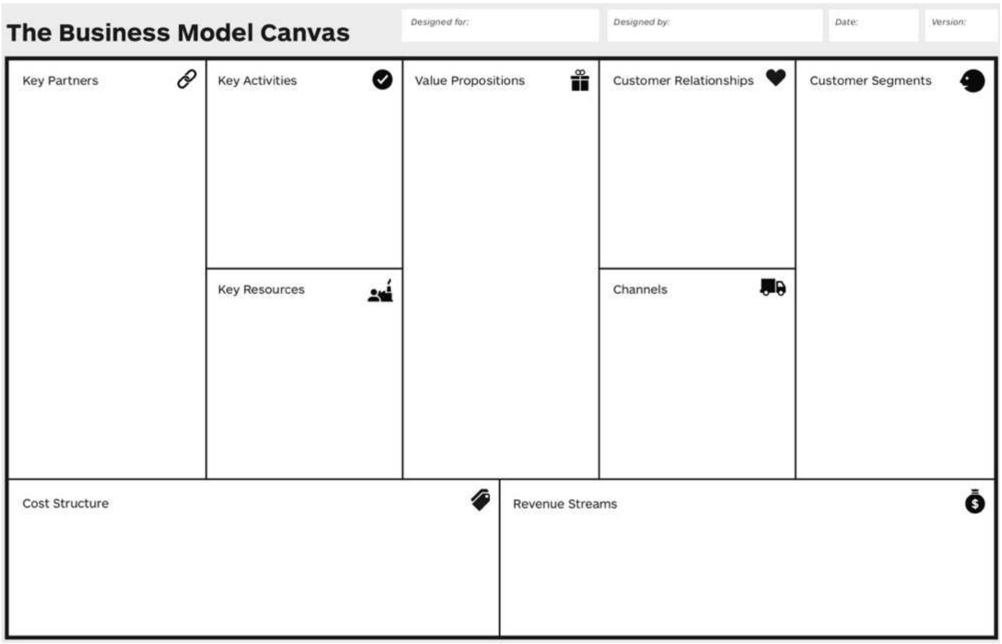
Country	Frequency
Germany	9
Turkey	9
Austria	6
Italy	6
China	6
Romania	5
Serbia	5
Slovenia	5
Poland	3
Bosnia and Herzegovina	2
Bulgaria	2
Finland	2
Greece	2
Hungary	2
Sweden	2
Others	10

Annex 02: Ranked constraints at supply level

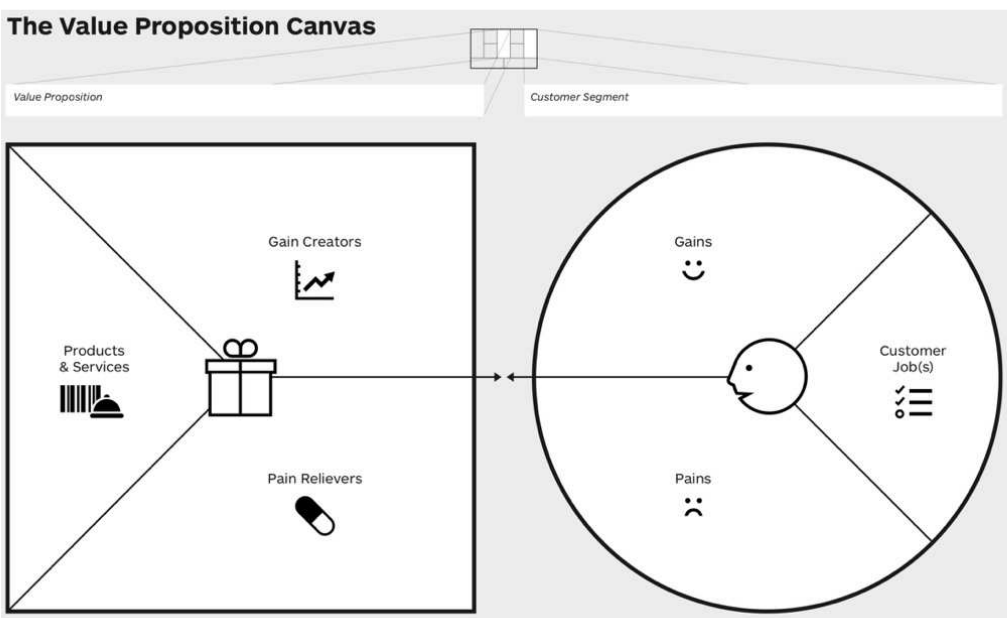
Main constraints	Is a large obstacle	It's a substantial obstacle	It's somewhat of an obstacle	It's a small obstacle	Is not an obstacle
1. Delivery time	1	0	1	4	8
2. Sourcing	0	5	3	1	5
3. Buying prices	2	1	7	2	2
4. Selling prices	2	3	5	1	3
5. Raw material quality	1	0	1	2	10
6. Raw material standards/certificates	0	1	1	2	9
7. Order size	2	3	1	6	2
8. Transportation	1	2	3	1	7

9. Legal / Institutional framework	1	2	5	2	3

Annex 03: Business model and value proposition canvas

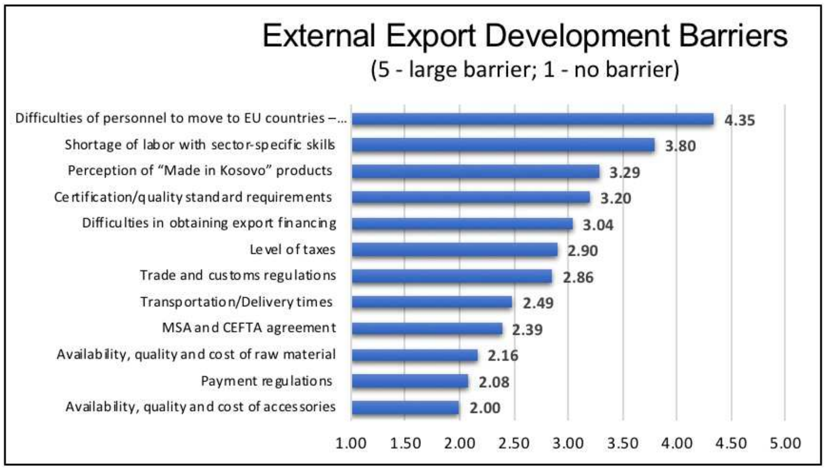


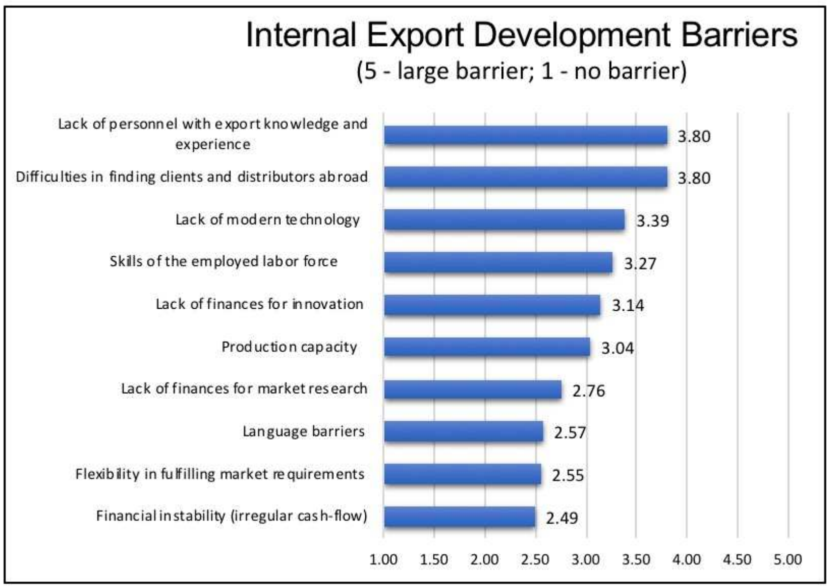
Source: Strategyzer.com, https://strategyzer.com/canvas/business-model-canvas



Strategyzer.com, https://strategyzer.com/canvas/business-model-canvas

Annex 04: Main external and internal barriers to export

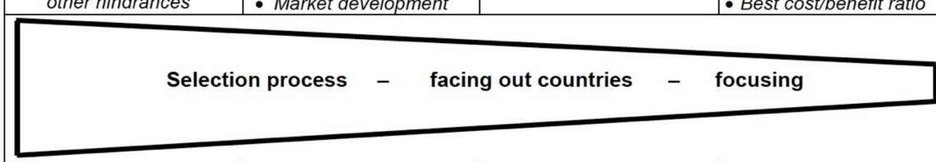




Source: own compilation from data collection at company level

Annex 05: Market scanning and analysis methodology tool

General framework conditions	***Export marketing conditions***	***Product requirements***	***Cost – Benefit optimization***
• *Political conditions* • *Legal restrictions (Import restrictions)* • *Credit worthiness of the country/country rating* • *Monetary risks or other hindrances*	• *Price and quality level of national industry* • *Competitive situation of international competition* • *Sales options* • *Market potential* • *Market development*	• *Legal requirements* • *Safety / Health* • *Warranties* • *Packaging* • *Labeling*	• *Best fit for export product* • *Easy access (language, culture, transport)* • *Best prices* • *Best distribution channel* • *Best cost/benefit ratio*



Annex 06: From market segmentation to market positioning