

Manufactured TIMBER PRODUCTS

Forestry Sub-Sector Studies - Briefing 2 - January 2005



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This series of briefing notes provides summary information on the various parts of the forestry sector. The studies, commissioned by DWAF, focus on the role that each sub-sector can play in promoting poverty eradication. DWAF recognises the importance forests and forestry play in people's livelihoods and aims to create an environment that will increase forestry's impact on local-level development.

Introduction

The sawmilling industry is the second largest processor of softwoods and hardwoods in South Africa. It is also an important supplier of raw materials such as lumber and sawn boards to the manufacturers of value-added timber products. In broad terms, about 50% of lumber is used in the manufacture of timber products. The significance of the timber products manufacturing sector arises from its diversity of applications, its high labour intensity, its advantages of small volume production which are, in some cases, linked to lower investment requirements and opportunities in clustering manufacturing operations. Cluster manufacturing could be of particular interest for small enterprise development in selected regional locations.

Main Markets for Manufactured Products

Manufactured timber products refer to different building products, timber furniture and packaging. Approximately one million m³ of sawn timber is consumed by sawmills and manufacturing plants to produce high value and low-cost commodity products that are sold in the local and export markets:

- **Furniture:** The furniture industry consumes about 250 000 – 300 000 m³ of industrial timber for the manufacture of lounge, dining room, bedroom, kitchen and office/study room furniture. There are approximately 900 furniture manufacturers that operate in South Africa. 20% of furniture is manufactured by medium-sized companies with a 1 or 2% market share each. There are hundreds of smaller furniture manufacturers accounting for an estimated 40% of the furniture production. These companies

typically employ 5 to 30 people and individually achieve a turnover of up to R15 million per year.

- **Packaging:** Packaging materials refer to wooden containers such as pallets, cable drums, coffins and crates, bulkbins and boxes. Approximately 80% of the timber that is used in the packaging market is sourced directly from sawmilling companies. The reason is that there are tight profit margins for packaging materials. The manufacturing of packaging containers is characterised by low entry barriers and the level of activity depends upon adequate raw material supply. Bushmills are important sources of supply and should continue to strengthen their position.
- **Ceilings, Flooring and Shelving:** The total demand for softwood lumber in the market for ceilings, flooring and shelving is estimated at 75 000 m³ per annum. Pine ceilings account for 10% of the total ceiling cladding market, the balance consists of gypsum board and asbestos. Ceiling board manufacturers generally require select grade, whilst mills producing ceiling boards will select lumber from stock available in their mills. In the flooring market, wood competes with a number of other flooring materials such as carpeting, vinyl, tiles and cement. It is estimated that the market share of wooden flooring is less than 1% of the total flooring market. This is because the alternative flooring materials are cheaper and easier to install than wooden flooring.
- **Doors, Joinery and Mouldings:** The total estimated consumption of lumber in the production of timber flush panels and solid timber doors is equal to 60 000 m³ per annum. Joinery applications include door and window frames, general joinery work and special joinery, e.g. staircases. The market for joinery is linked to the market for doors and glazing products. Timber frames represent 20% of all frames used in South Africa. Mouldings include half rounds, quarter rounds and skirtings used in building finishes. Hardwood has traditionally held an 80% market share in mouldings. Mouldings require high grade material and select grade or even clears are used, depending on availability.
- **DIY Products:** DIY products include shelving,



folding doors, mirrors, dowels, furniture, edging, picket fences, trellises and garden accessories such as benches, birdfeeders and bridges as well as kitchen and bathroom accessories. These products are sold in various retail outlets ranging from large national chains to small independent stores. The trend in world-wide DIY activities is growing as a result of cocooning, increased leisure time and an aging housing stock requiring improvement and refurbishment.

Business Opportunities for Manufactured Timber Products

A number of product categories in the manufactured timber sector offer potential opportunities for Small and Medium Enterprises in rural areas. Production runs for such products are not volume sensitive. The manufacturing processes are less capital intensive and more labour intensive. These are:

- **Furniture Components:** Opportunities that can be explored exist in the supply of components (e.g. turnings), laminated boards and pre-specified board sizes to existing furniture manufacturers. Such products can often be manufactured from industrial timber that is available from formal sawmills as waste. Secondly, smaller items such as bedside and coffee tables, chairs, drawers, book racks and wall units could be supplied to larger specialised retailers.

Another area in which considerable success has been achieved is with the export of pine knockdown furniture and doors to Europe. This initiative would need some support by existing export agents in order to access already established marketing channels. Forestry Stewardship Council certification of timber remains the largest stumbling block for smaller manufacturers in this market.

- **DIY Products:** There is the potential to supply products to wholesalers, retail outlets and nurseries such as edging rolls, picket fences, birdfeeders, benches, bridges and bark. This would mean that value must be added to waste material from sawmills, and harnessing opportunities in larger regional centres, e.g. Polokwane, Witbank, Port Shepstone, etc.

There is an emerging formal DIY market in South Africa and this market provides opportunities for Small and Medium Sized Enterprises to supply shrink-wrapped products such as mirrors, folding doors, bathroom accessories and shelving to the retail sector. The main constraints in achieving success in this regard include the reluctance of

resellers to trade with smaller suppliers due to their inability to sustain regular supply volumes.

- **Packaging Products:** Opportunities exist in all forestry regions to supply agricultural boxes, crates and pallets to tomato, citrus and vegetable producers. Buyers include individual farmers, packaging companies and agricultural co-operatives. Experience with a smaller pallet manufacturer in Limpopo has shown that a considerable latent market demand exists specifically for low-cost, disposable pallets and crates.
- **Timber Grading:** Most of the industrial grade timber that is available from smaller and medium sized sawmills is sold as one industrial parcel. There is scope that allows for the selection and grading of all higher grades of lumber (clear, semi-clear and select grades) from such parcels, thereby achieving considerably higher prices. This can be made possible through the formation of joint ventures. In addition, products can be supplied in pre-cut sizes to furniture and DIY product manufacturers.

A Model for SME Start-ups

Industrial land or sites owned by all spheres of government (e.g. the Department of Water Affairs and Forestry's pole treatment plants), development agencies such as the Eastern Cape Development Corporation (ECDC), Limdev, and private sawmilling companies offer the potential for SMEs to enter the industry by means of manufacturing incubators. This concept implies some form of joint venture by SMEs with 1) suppliers of waste material (e.g. sawmill), 2) owners of land (e.g. provincial government) and 3) users such as municipal fresh produce markets and agricultural co-operatives and farmers.

The concept of incubation means the sharing of infrastructure, equipment and marketing/administration resources, i.e. a DIY incubator would only require the purchase of one sander or sprayer, one agreement for raw material supply and a single administrative function. Timber manufacturing centres, incubators or clusters (various names exist for the same concept) are considered the most likely and realistic enterprise development opportunity for SMEs. However, implementation requires a shared vision by developmental role players in the forestry regions of South Africa.

The Small Medium Enterprise Development Programme (SMEDP) of the DTI offers establishment incentive grants to manufacturing enterprises. Contact 0861843384 or email thetdi.gov.za

