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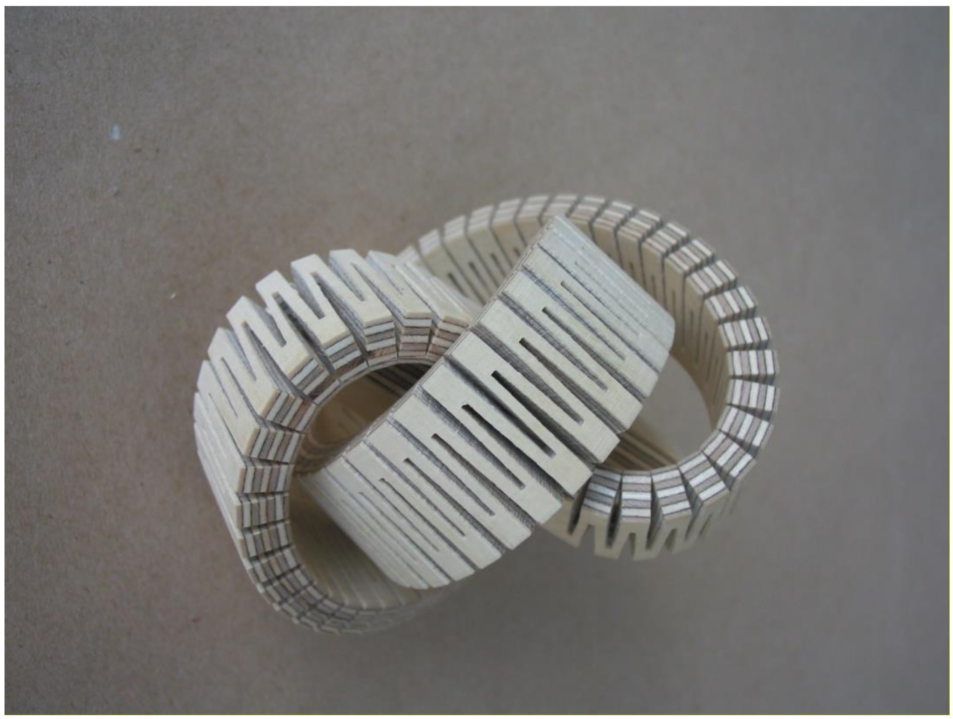
Innovation and export of wood and furniture in Võru County (Vöry region) and Vidzeme Planning Region (Wood & Furniture)



8/18/2017

MARKET REPORT

VIDZEME
THE ONLY WAY IS UP!
MEKA

CONTENTS

Innovation and export of wood and furniture in Võru County (Vöry region) and Vidzeme Planning Region (Wood & Furniture)

MARKET REPORT

The main business sectors in Latvia and Estonia have been wood processing for years, however, about 40% of the timber exported abroad is unprocessed. In order to strengthen and promote the export capacity of the Baltic States in the wood processing and furniture sector, the Vidzeme Planning Region, in co-operation with the Võru County Vocational Training Centre, Estonia, has launched the project "Innovation and export of wood and furniture in Võru County and Vidzeme Planning Region". The project involves public authorities, entrepreneurs and education representatives to jointly find ways for a successful and innovative product marketing and export.

Lead partner:	Võru County Vocational Training Centre, Estonia
Project number:	Est-Lat 35
Programme:	Interreg Estonia – Latvia 2014-2020
Partners:	Vidzeme Planning Region (Latvia);
	Võru County Vocational Training Centre (Estonia)

AIM:

To enhance cross-border cooperation in Võru County and Vidzeme Planning Region between wood and furniture sector companies to innovate industry and add value to wood and furniture products, introduce design-thinking and increase export capacity.

Object and subject of the research:

	The object of the research is small and medium-sized enterprises (SMEs), but the subject is the promotion of export capacity in the Vidzeme Planning Region (Latvia) and in the Võru region (Estonia).
Results:	Research to summarize and analyze main tendencies and opportunities of the target industry, focus on specific product export opportunities

1 METHODOLOGY

In order to fully develop the market research " Innovation and export of wood and furniture in Võru County and Vidzeme Planning Region (Wood & Furniture) ", the following conditions will be fulfilled:

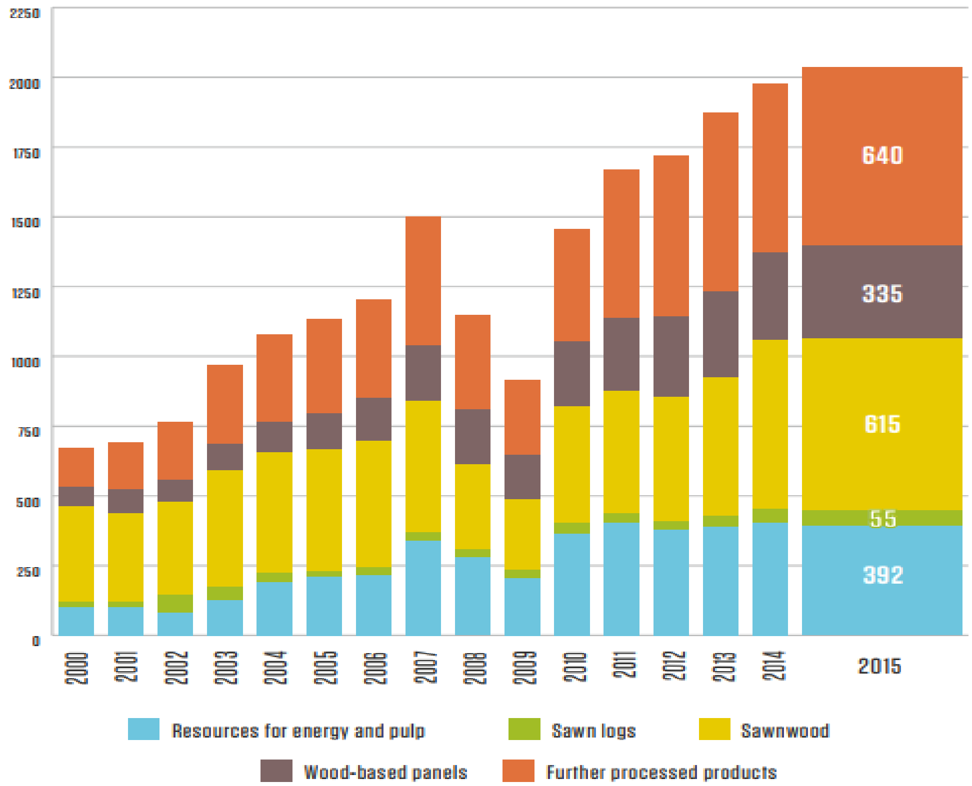
1. To prepare up-to-date, aggregated information, to develop a SWOT analysis of the following elements of the wood industry sector in the Vöry and Vidzeme Planning regions:
   1.1. Enterprises operating in the timber industry (large, medium, small) with different experience levels (experienced, small experience, beginners), based on the classification of the general economic activity of the timber industry in NACE 2.red.
   1.2. Product groups:
      1.2.1. Furniture;
      1.2.2. Wooden houses;
      1.2.3. Component (wooden windows, wooden doors, furniture components and others);
      1.2.4. Wooden design products (decorative design elements, bicycles, lamps, toys, etc.);
   1.3. The most popular trading and export channels, both digital and physical (e-store, various Internet marketing and marketing platforms, chain stores, sales agents, distributors);;
   1.4. The most common export markets (Scandinavian countries, European countries, etc.).
2. Prepare a transcript with a summary of information about the Võru and Vidzeme regions in Latvian and English.
3. The following research methods have been used for implementation:
   3.1. Data collection, compilation, grouping, analysis of primary and secondary data to gather information about the timber industry sector and group it according to the activity boundaries of the field of research.
   3.2. Methods of statistical analysis, incl. comparison, grouping, calculation of relative sizes, trend mapping.
   3.3. Questionnaires and / or surveys to obtain quantitative and easy-to-understand information on the industry. Estimated number of questionnaires, as a minimum, of five (for NACE Groups 16 and NACE Rev. 31) each products groups and both regions.
   3.4. Focus group discussion is a structured discussion in an expert group for gathering different opinions and discussing related issues in each region.

2 FOREST SECTOR STATISTICS

LATVIA (2015)	ESTONIA (2015)
Forest area: **3.4 Million ha** Total growing stock volume: **670 Million m^3** Timber production: **~11 Million m^3** Exports: **2.04 billion EUR** Proportion of forest sector exports in total Latvian exports: **20%** Proportion of forest sector exports in total Latvian manufacturing: **26%** Import-Export balance (Million EUR): **+1,4** • Import – 0.7 Million EUR • Export – 2.0 Million EUR Employment: ~40 thousand. or 5% of Latvia's population **VPR:** In the context of Latvia, it is to be regarded as a region with sufficient wood resources (forests 52%). The woodworking and furniture sector in the region's development has been highlighted at that particular moment, but also in the future as a priority, especially in the area of employment and related problems.	Forest area: **2.2 Million ha** Total growing stock volume: **478 Million m^3** Timber production: **~10 Million. m^3** Exports: **2.04 billion. EUR** Proportion of forest sector exports in total Estonian exports: **16%** Proportion of forest sector exports in total Estonian manufacturing: **22%** Import-Export balance (Million EUR): **+1,3** • Import – 0.75 Million EUR • Export – 2.04 Million EUR Employment: ~36 thousand. or 5% of Estonia`s population Võru region: In the context of Estonia, this region is significant from the availability of labor, less from the availability of wood resources, since in Võru region the volume of resources (50%) is below the average national level (53%).

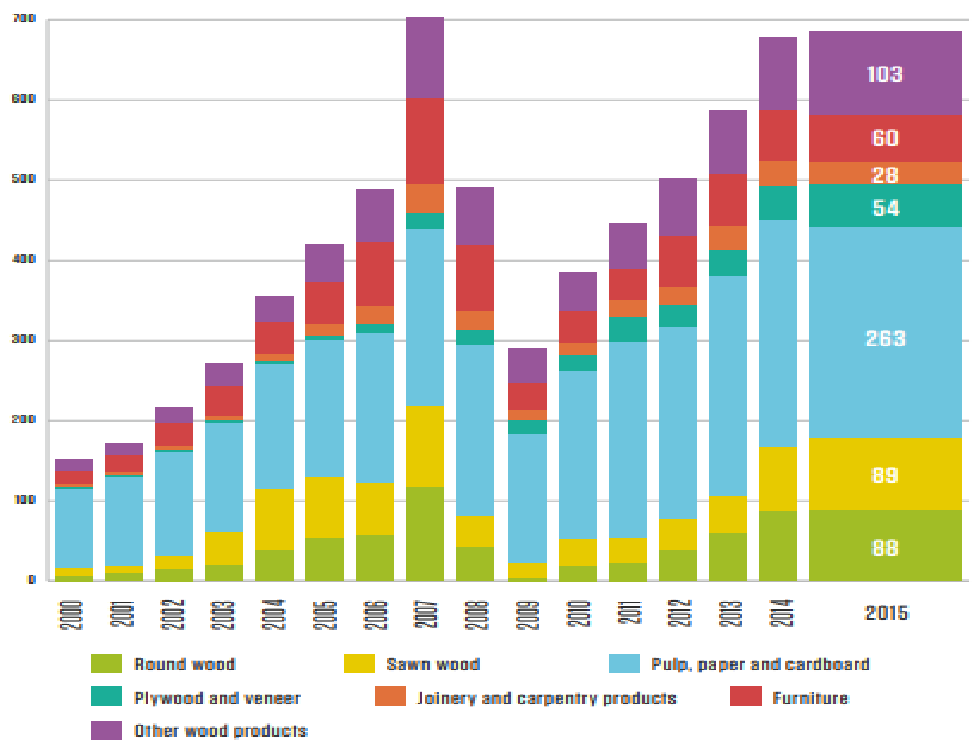
The export value of the forest sector in Latvia has increased 3 times over the last 15 years, with a constant amount of logging (10-12 million m3 of roundwood). Significant export products have always been sawnwood. Latvia, in the EU, ranks among the first 10 countries which exports sawnwood most, including produced. Another important export group is resources for energy and pulp, which are mainly exported to the Scandinavian countries. However, for the last 5 years, more emphasis has been placed at the national and sectoral levels on the production of further processed products, as well as the business environment for the production of these products (see Figure 1).

In Latvia, the forest sector among all the manufacturing industries is the only one capable of producing a positive trade balance, which means that imports are less than exports. Moreover, in the case of Latvia, the value of imports is about one third of the value of exports. The main import products are pulp, paper and cardboard, because there are practically no companies in Latvia that produce these products. More imported products include round wood and sawnwood, in order to add value to these products in Latvia in the course of their processing and then export to other countries as products with higher added value (see Figure 2).



Soure: Latvia fores industry federation

FIGURE 1 LATVIA: FOREST SECTOR EXPORT DEVELOPMENT, FROM 2000 TILL 2015, MILLION EUR



Source: CSB

FIGURE 2 LATVIA: FOREST SECTOR IMPORT DEVELOPMENT, FROM 2000 TILL 2015, MILLION EUR

The export value of Estonian forest sector also amounts to 2 billion. EUR, with a significant increase in 2008 from 6 million m3 to 10-12 million m3. The largest share in exports is made up of wood and articles of wood, but since 2009, the largest increase in exports has been observed in the sector of wooden furniture and prefabricated wooden building structures (see Figure 3).

In the import dynamics, Estonia also shows a similar trend as Latvia, where its value makes up about 1/3 of the export value. Products with lower added value, such as lumber and round timber, or products that are not sufficiently developed at national level, such as pulp, paper and paperboard, are most often imported.

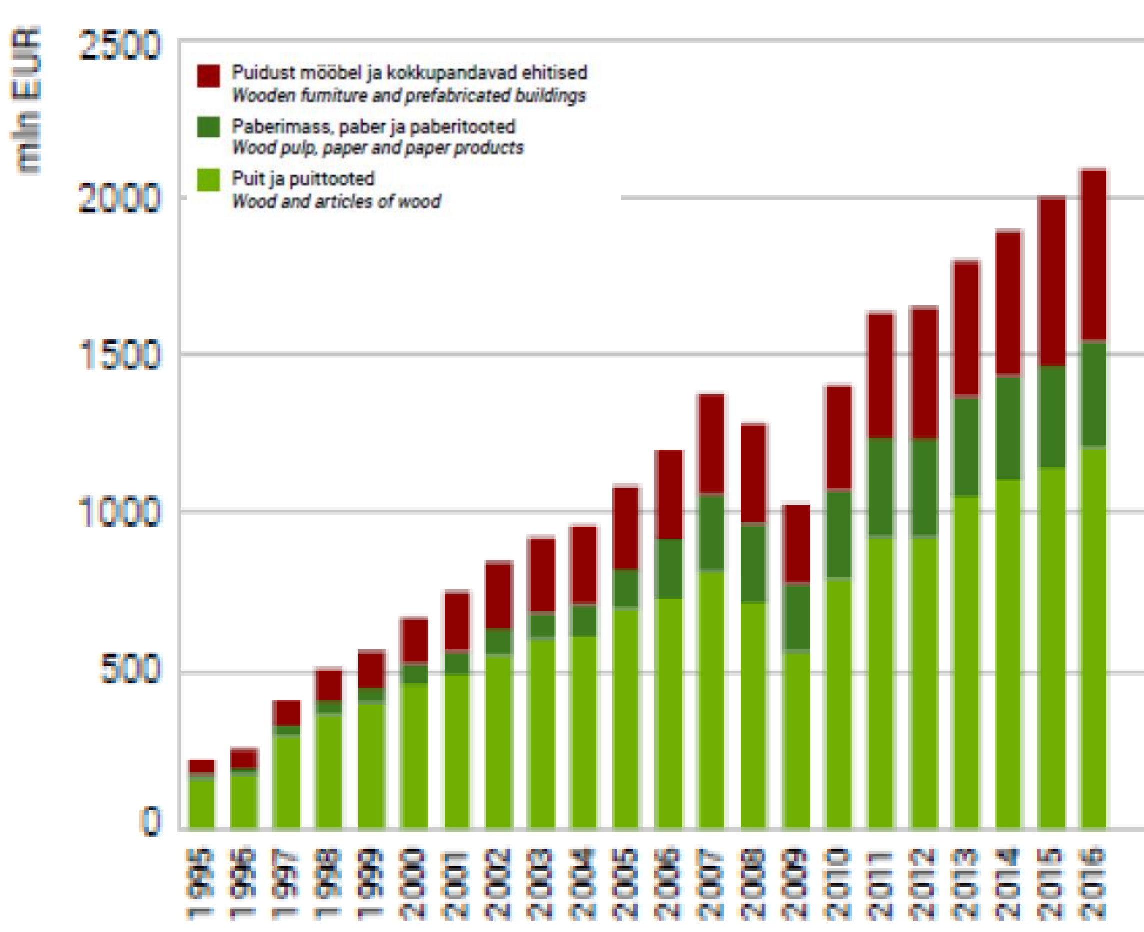


FIGURE 3 ESTONIA: FOREST SECTOR EXPORT DEVELOPMENT, FROM 1995 TILL 2015, MILLION EUR

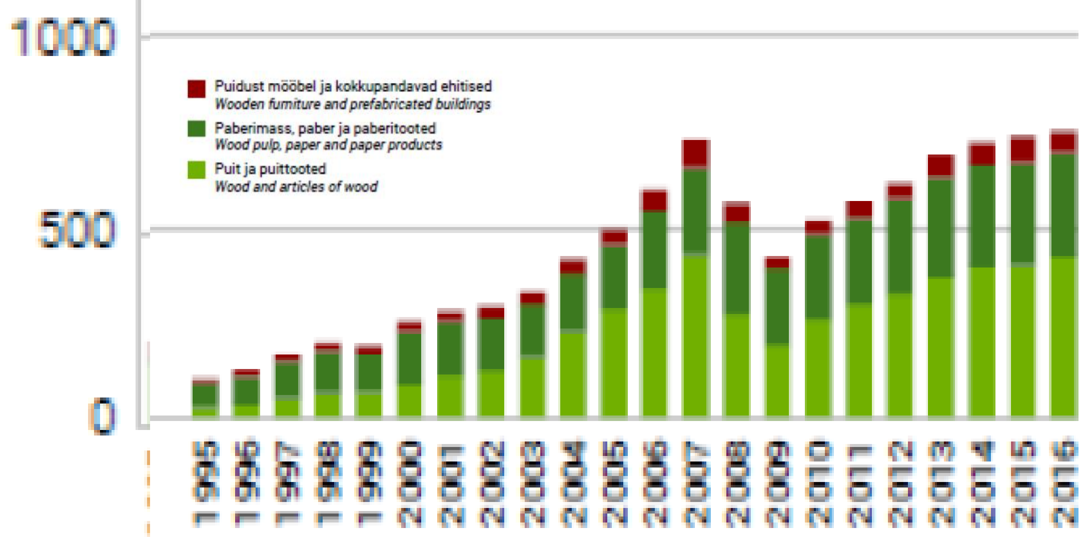


FIGURE 4 ESTONIA: FOREST SECTOR IMPORT DEVELOPMENT, FROM 1995 TILL 2015, MILLION EUR

Existing and potential growth in the woodworking and furniture industry sector is significant both in the development of VPR and the Võru region. This is evidenced by the position of the state institutions in both regions and attempts to find solutions to further promote the growth of this sector by conducting many research projects, identifying problems, solving over time or, on the contrary, offering solutions.

3 CURRENT SITUATION

One of sub-objectives of the project is to prepare proposals or recommendations for new SMEs that want to develop their export capacity and find solutions for product sales in foreign markets. Situation analysis include a question about the company's year of establishment and possible impact on improving the export capacity potential. When examining randomly selected respondents (companies from VPR and Võru county) within the framework of the study, in the first approximation, in experts' opinion, one can identify regularities of business diversity in regions. When the study was started the main emphasis was not put on the respondent selection and to make sure if the sample populations were possibly homogeneous (comparable by conventional selection methods). Within the framework of the study the sample populations provide the necessary information to reflect trends as well as point at possible regularities between the regions.

The experts' method used to assess the compliance of respondents allows analysing further information and processing data to reflect trends or conclusions. The average business experience of the respondents in both regions (VPR and Võru county) is 12 and 11 years (average index). The most lasting business operation in VPR is 25 years while in Võru it – 20 years (maximum threshold), while the youngest respondents have been operating for less time or equaling 1 year (minimum threshold). Sample population, both in terms of average index as well as upper and lower threshold, shows similar results, and after an in-depth study of the respondents one can establish common trends or to the contrary — different trends in the regions. Start-ups that lack long-term business experience find it more difficult to boost their export capacity and competitiveness of the products in foreign (export) markets. Even though from the perspective of export capacity potential such companies can demonstrate possibilities of fast development encouraged by innovative technologies, high export capacity level or high added value (usually such companies qualify as start-ups).

The study authors emphasize that the lack of export capacity does not necessarily mean non-existant export capacity potential. When studying the literature on business practice, export area experts in Latvia as well as venture capital implementers stress that the main development possibilities of a company lie in export. A company cannot grow into a large enterprise in the local market, the investments to increase export capacity are generally made in the existing companies with several years' business experience and they are industrial companies, IT and energy sector players. Timber industry selected in the study is evaluated among the processing industries as having significant investment in boosting the added value and export as well as high development and export capacity in future. The study did not allow confirming a causality that more productive companies deal more with export, yet one must remember that export means also "learning" and therefore they increase company's productivity.

The major part of respondents selected in Vidzeme Planning Region have been established between 2004 and 2006 and they produce different wood articles (see Figure 5).

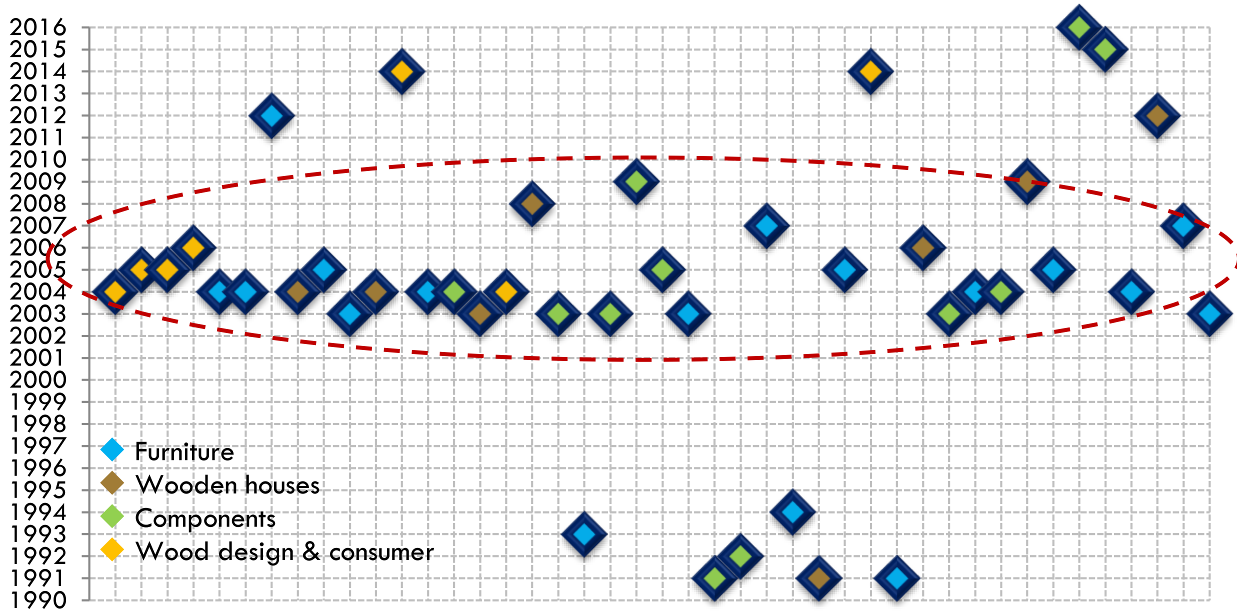


FIGURE 5. VPR: DURATION OF BUSINESS BY PRODUCTS (RESPONDENTS)

Time of the respondent (VPR) establishment overlaps with Latvia's accession to the European Union, when new market outlets opened outside the borders of their country. As it is shown in the previous figure, and what was also stated within the framework of the project-study by the involved focus group participants, recently it has been difficult to establish a new company due to several reasons: general state politics and business environment that does not promote development of SME, changes in the regulatory framework that does not create stability or "airbag" to launch business, lack of knowledge and experience about business environment, especially export environment of new SMEs. The opinion of start-ups is similar, except for one difference — ability of the management/manager of these new companies to assume a risk to enter new markets or a decision in favour of the export is more motivated and efforts to implement that strategy is more active than in the existing companies (with several years of experience), which were forced to enter export markets during the first years of the entrepreneurship due to competition in order to increase their income (profit) and to improve their efficiency in the foreign markets.

Authors of the study emphasize and respondents point out that current regulatory environment and general state policy claim to focus on promotion of SMEs, yet at the same time human resources, funds and time that must be spent to comply with various normative pre-requisites or to attract additional funds in terms of projects (statistical reports or report flows (birocracy procedures), provision of company's operation in legal tax area (support for launching a business), preparation of project applications, involvement in research and innovation projects (support for use of economic and financial tools), upgrade of staff knowledge and qualification etc. is disproportionately time-consuming against the size of the company or often there are no additional resources. For example, the large enterprises employ persons who work at previously mentioned taks on a daily basis, and the companies have additional spare funds to invest in future development of the company.

The situation in Võru region, Estonia, slightly differs as the duration of companies' operation or dispersion is considerably larger and there is no certain time period when new companies started forming actively. The results show that new companies in Võru region are launcehd across all product groups analysed (see Figure 6). In an opinion of study's authors and experts and within the framework of previous studies one can conclude that promotion of timber industry and furniture industry development in Estonia shows a strategic approach to improvement of business environment and choosing of suitable policy, as well as constant work at implementation of the chosen strategy.

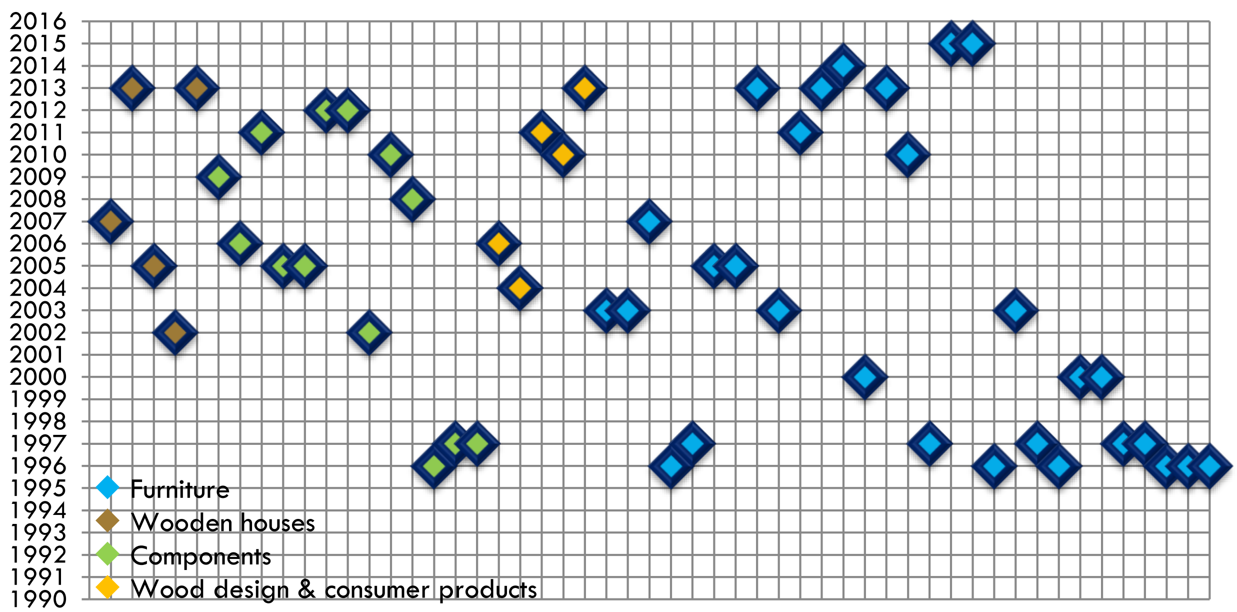


FIGURE 6. VÕRU REGION: DURATION OF BUSINESS BY PRODUCTS (RESPONDENTS)

When analysing population distribution across the product groups, one can see that VPR has proportional distribution across the wood article groups, while in Võru region the majority represents furniture sector.

Results show that during the recent years timber reprocessing sectors, wooden house building, wood design and consumer product manufacturing have developed and feature speedy growth. This trend is reflected also in different export indices. The authors of the study and industry experts show that development of the timber industry of both countries in next years to come is linked to development of the reprocessing sector, possible export capacity and creation of high added value.

Table No 1 DURATION OF RESPONDENTS BY PRODUCT AND COMPANY GROUPS IN THE VPR AND VÖRY REGIONS

Region	Product groups	Company groups
VPR: • ***Average duration – 12** years,* • *Longest – **25** years* • ***Youngest - <1** years*	Furniture: 13 years (4;25)*	Micro: 11 years (2;25)*
	Wooden houses: 11 years (4; 25)*	Small: 11 years (<1;25)*
	Components: 12 years (<1; 25)*	Medium: 15 years (11;25)*
	Wood design & consumer products: 8 years (2;12)*	Large: 12 years (12;13)*
Võru regions: • ***Average duration – 11** years* • *Longest – **20** years* • ***Youngest – 1** years*	Furniture: 13 years (1;20)*	Micro: 9 years (1;19)*
	Wooden houses: 8 years (3; 14)*	Small: 16 years (3;20)*
	Components: 11 years (4; 20)*	Medium: 18 years (13;20)*
	Wood design & consumer products: 7 years (3;12)*	Large: -

** Maximum and minimum values are broken down by product and company groups*

Within the framework of the study-project the sample population of VPR represents all company groups, i.e. starting from micro enterprises to large enterprises, while in Võru region the situation is different as micro enterprises predominate there and there are almost no large enterprises. Data difference owes to the difference of regions measuring in 6 times (VPR is 6 times larger in terms of area than Võru region in Estonia). The authors of study in their further analysis exclude the large enterprises and focus on micro, small and medium enterprises.

Data of employees' analysis show that in VPR majority of employees work in micro and small enterprises, 33% and 37% respectively (see the Figure below). The larger proportion, namely 69%, in Võru region works in micro enterprises. From the point of view of business development potential Võru region presents better development opportunities in strengthening wood processing and furniture sector in a larger time span due to development of micro and small enterprises, there are more opportunities seeing that, by gradually increasing the production volumes and export capacity, they will evolve into next enterprise group and contribute to the economic development of that particular region. Meanwhile in VPR region a huge emphasis in the regional development is put on the existing wood processing and furniture companies. The authors of study point out that micro enterprises should comprise significantly larger share ensuring a long-term development of this sector in VPR. All aforesaid within the framework of the regulatory environment and common state policy already puts heavier load on micro enterprises when pursuing that particular business, as well as does not encourage the new entrepreneurs. VPR, of course, is an example of best practice, showing that new companies can implement innovative business ideas in product sales, technology or business approach, yet it requires much larger "critical mass" of rivals to promote sustainability of business ideas, formation of innovations, technology and knowledge transfer in the region. Current trend — VPR business development in wood processing and furniture sector focuses on small enterprises' ability to keep their market positions and select a proper strategy. For example, from 2008 to 2010 the economic crisis hit the furniture production most badly and it has not fully recovered ever since. The study conducted in company "Forest and Wood Products Research and Development Institute" showed that 10-15% (depending on region) of the classified furniture companies have switched to the industry that is not related to forest and wood industry or have gone bankrupt. Typically under crisis conditions and fierce competition pressure one can test whether the chosen strategy was right or vice versa. The most frequently named cause — inability to align production costs with the expected income, as well as lack of free funds or poor capacity to attract funds to maintain business operation during a crisis or competition circumstances. VPR needs to increasingly promote establishment of new micro enterprises in the wood industry and furniture sector and the most prospective sectors are wood design and consumer products as well as production of furniture that, in the opinion of the author of study "Guidelines for Latvian forest and related industry development 2015-2020", qualifies as the industry production with high added value and meets customer needs. The first activities that the authors of study recommend to implement in VPR are as follows:

- To tackle an issues of qualified workforce availability and solve it at regional level;
- To promote arrangement of the infrastructure necessary for production;
- To promote a policy that favours investments in production of reprocessed products;
- To engage at regional level to improve entrepreneurs' knowledge about the latest trends in business environment and inherent risks;
- To ensure cooperation among regional companies both in area of products and services and other areas with wood processing and furniture sector;
- To inform about business launching possibilities and development opportunities for SMEs with local capital in wood product area.

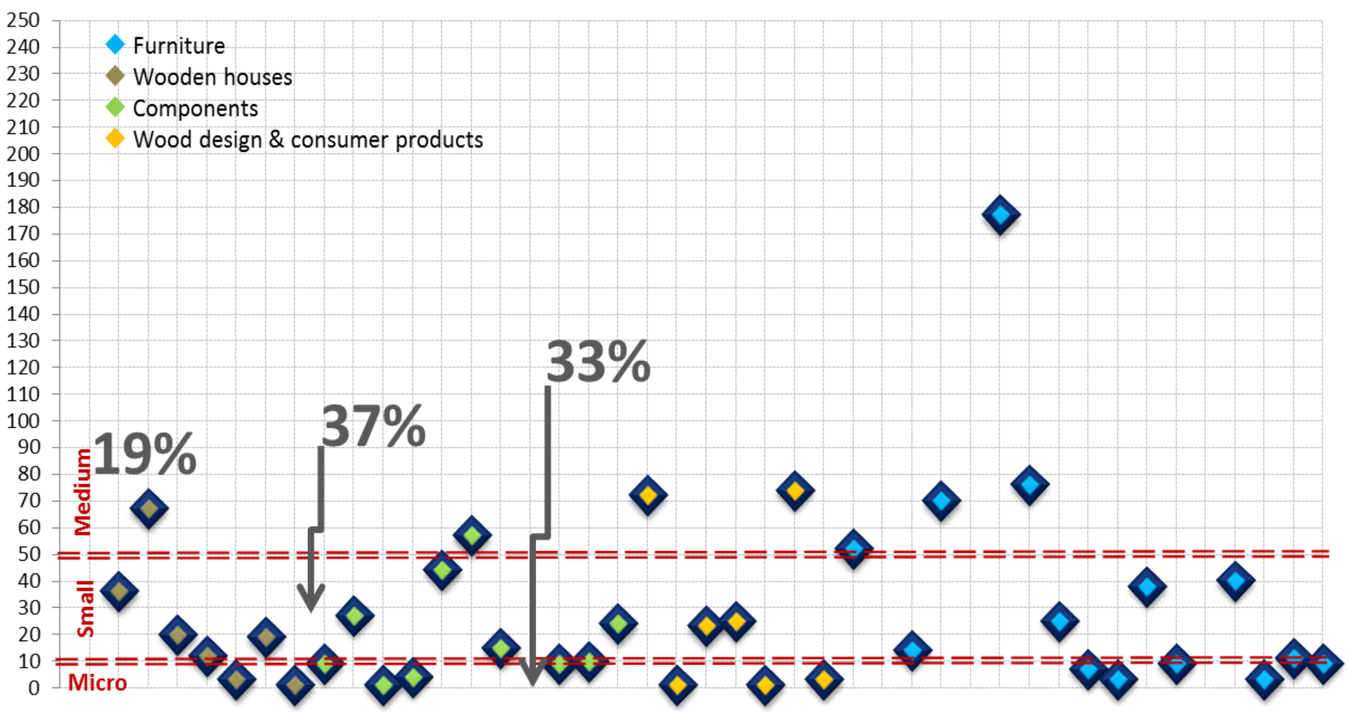


FIGURE 7. VPR: BREAKDOWN OF EMPLOYED NUMBER BY GROUP COMPANIES (RESPONDENTS DATA)

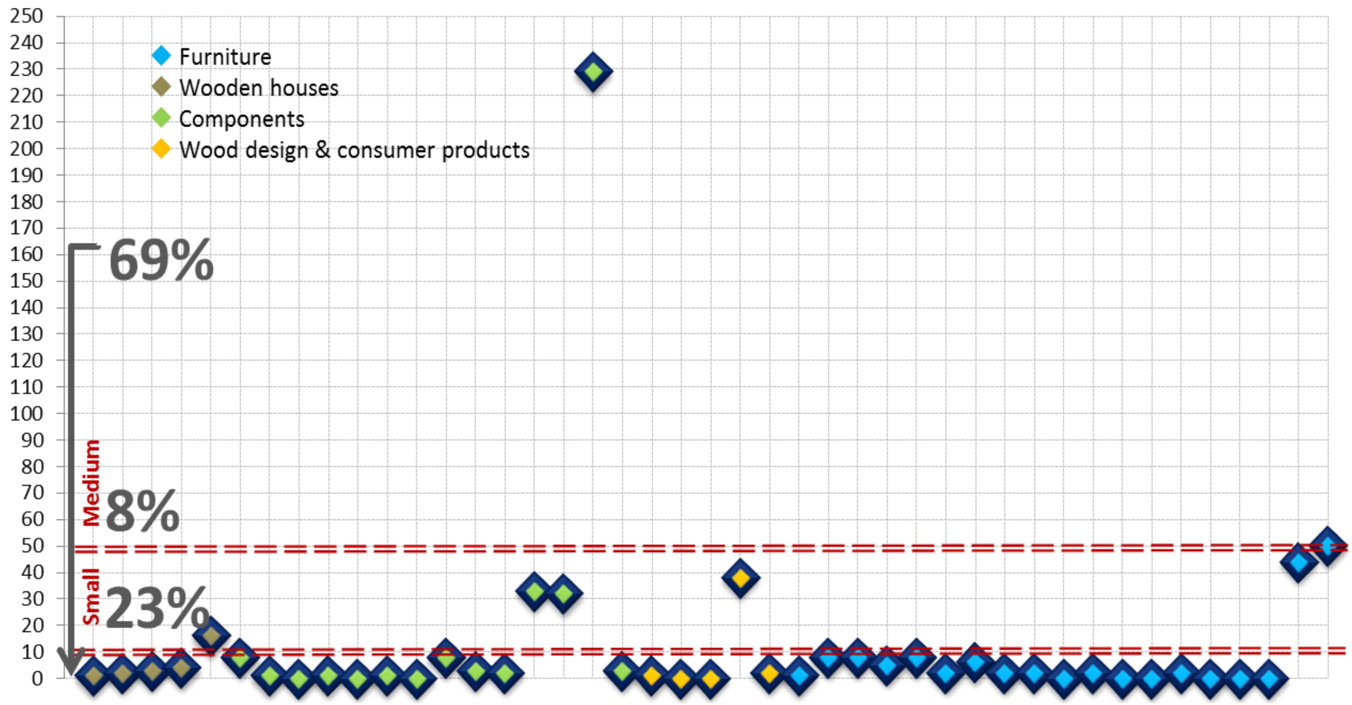
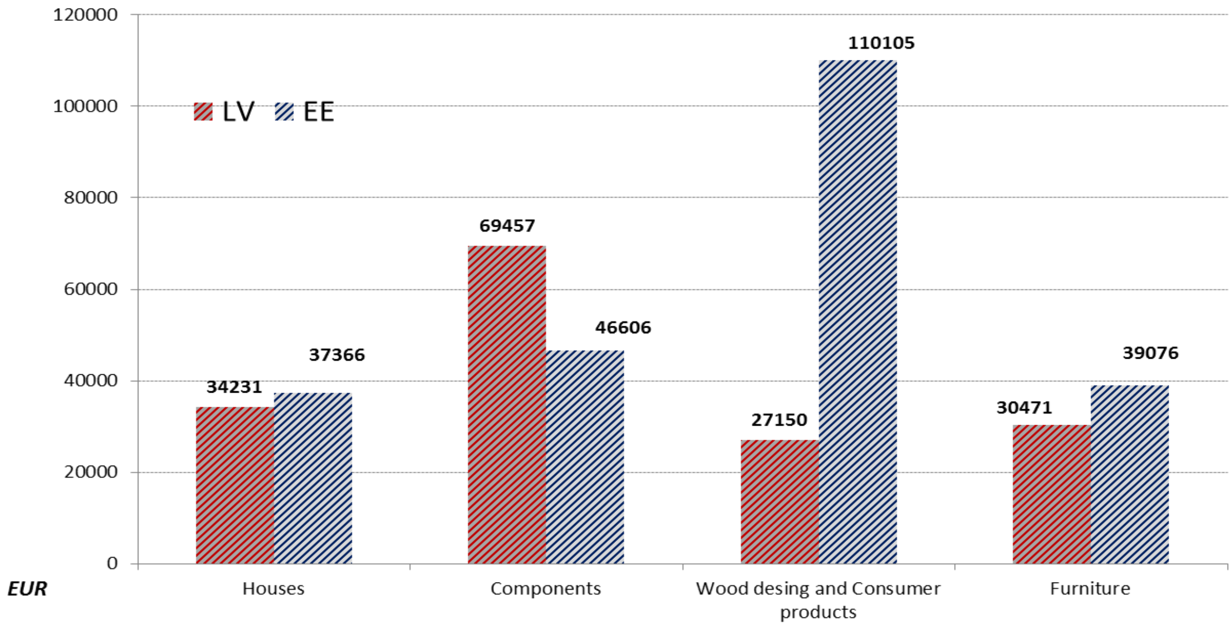


FIGURE 8 VÕRU REGIONS: BREAKDOWN OF EMPLOYED NUMBER BY GROUP COMPANIES (RESPONDENTS DATA)

When analysing the index “Turnover per 1 employee across product groups” one must conclude that respondents in Võru region feature higher indices almost in all product groups, except for wood components (doors, windows, stairs etc.) sector due to the fact that VPR have several medium enterprises with stable production volumes and market outlets (see Figure 9). The authors of the study believe that those areas where VPR should implement more in terms of different activities, i.e. training or projects, is the improvement of entrepreneurs' competency in determining correct product and service prime cost, creation of added value, incl. role of design in the product value, identification and meeting of market and customer needs and wishes (including market trends in direct and indirect sectors).

One must conclude that companies operating in Võru region have been capable of producing, offering and also selling these end-products to market consumers with higher added value than the sample population operating in VPR region. The most significant difference between VPR and Võru region is found exactly in manufacturing of wood design and consumer products. Therefore the study authors evaluate that Estonia in general and also the Võru region have made more significant investments both in financial and know-how wood design areas during recent years thus producing wood design that meets the needs and wishes of today's consumers. The study authors believe, and it was also stressed by the focus group participants, that a significant contributing factor is adaptation of best practice and know-how from similar companies in Scandinavia, especially Finland.



Legend: LV – VPR and EE – Võru regions

FIGURE 9 TURNOVER PER EMPLOYEE BY PRODUCTS GROUPS, AVERAGE (EUR)

When analysing the average turnover indices per one employee across the wood product groups in both regions, as divided into enterprise groups, one must conclude that VPR shows similar results in wooden house manufacturing in all respondent groups. It can be explained with a fact that micro enterprises have larger proportion of manual work, while in small and medium enterprises the same situation relates to technologies; therefore the final price for a customer is likewise (see Figures 10 and 11). Similar situation is observed also in Võru region (see Figure below). Average indices of respondents from both regions are similar, being slightly higher in Võru region, and study authors explain that Estonia, incl. Võru region, made larger investments in improvement of technological processes in wooden house manufacturing, with more emphasis on production of serial houses in larger volumes rather than individual orders in small batches that is currently characteristic of Latvia, incl. VPR.

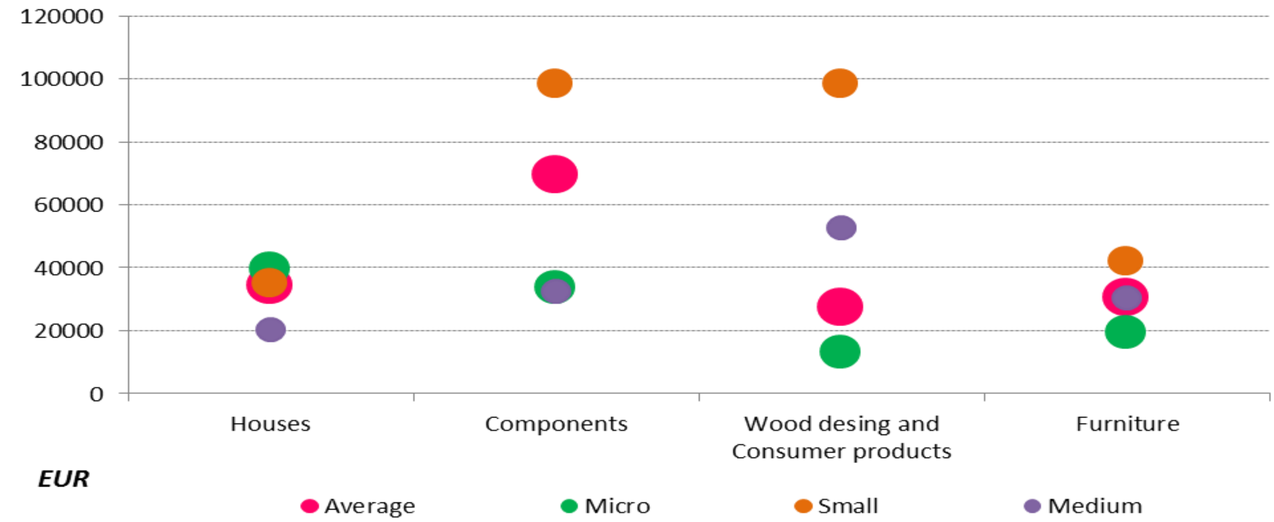


FIGURE 10 VPR: TURNOVER PER EMPLOYEE BY PRODUCTS GROUPS

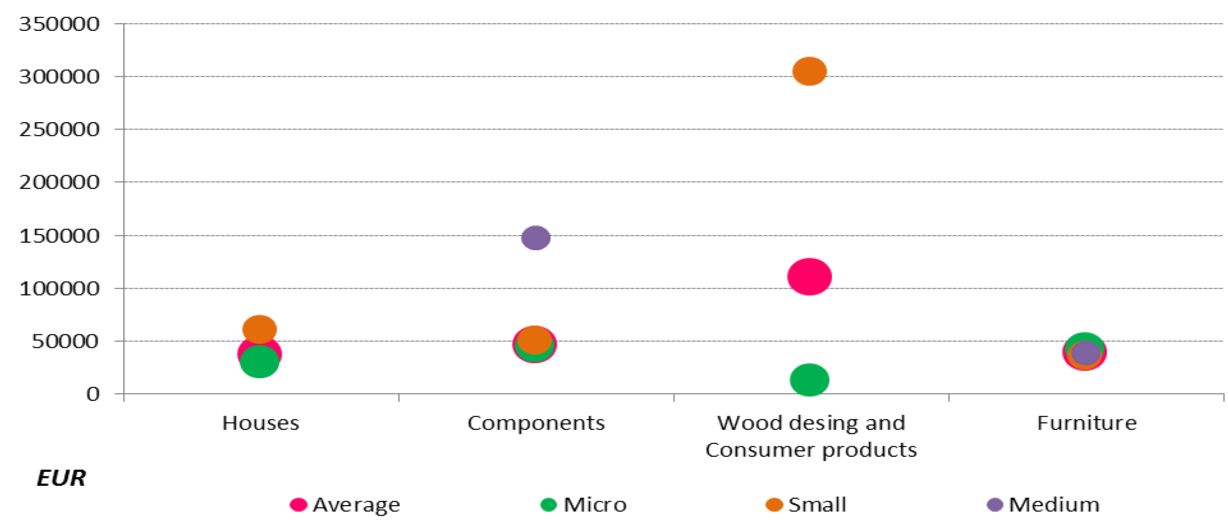


FIGURE 11 VÕRU REGION: TURNOVER PER EMPLOYEE BY PRODUCTS GROUPS

Production of wood elements (components) differ between the regions, where VPR has almost 20% higher average turnover per one employee than in Võru region and one can observe dispersion of average indices along the enterprise groups. Small enterprises show the best results while micro and medium enterprises have the poorest results. The study authors explain that better indicators in the small enterprise group are brought about the ability to be more flexible in reacting to customer needs in case of a non-standard product that the given customer is ready to pay for. Flexibility is one of the competitive advantages in the changing market conditions. This company group focuses more on manual work and individual projects and they do not have such investment load to their profitability than in case of the medium enterprises that have invested in optimisation and modernisation of technological process where depreciation and technological equipment wear must be evaluated against the product's prime cost. Small enterprises in VPR focus more on local consumption rather than the export market. Meanwhile in Võru region the average indices in all company groups are similar, except for the large companies where they are higher (see previous Figures). Respondents from the medium enterprise group in Võru region point out that a higher price can be achieved through product diversification strategy with appropriate investments. For example, a customer wants to have different products within the framework of one project (wooden windows, sliding balcony doors or external doors). He can realize this goal in one company, but in such case the company must provide technological possibilities to manufacture such products at a price the customer, especially from abroad, is ready to pay.

Production of wood design and wood consumer products are more dispersed in both regions due to importance of design and creation of added value in terms of design thus increasing the final market price of the product. The results show that the average indices in Võru region are twice as high as in VPR and, and the reason why Estonian companies actually are capable of creating good, qualitative design products (see previous Figures), meeting consumer needs and wishes and demand in the market, was mentioned earlier in the text. The study authors emphasize that information obtained in previous studies and projects show that different projects, research activities have been implemented between Estonia and Finland both to facilitate cooperation, adaptation of best practice, know-how transfer to Estonia and processing industries focusing on manufacturing of wooden products with high added value. One of the research lines was to create design products with a view to aesthetic properties and functionality and creating branded product that the customer is ready to pay for. It is a field where separate research could explore the role of design in the context of both regions.

Both average indices and index dispersion across the enterprise groups in furniture manufacturing in both regions are similar, which shows that the furniture manufacturing traditions in both countries are fairly stable and production capacity is good (see previous Figures). Perhaps the average indices of the respondents from Võru region are slightly higher due to the fact that during recent years several foreign investors from such countries as Denmark, Finland etc., having a long lasting business experience in meeting market demands and today's customer needs for furniture and their accessories, have entered the Estonian furniture manufacturing sector. Such competition also promotes the ability of local market companies to develop through focusing even more on creation of added value in the existing and/or new range of products. Even though it must be noted that in Latvia the furniture sector almost equals wooden furniture manufacturing, in Estonia the proportion of soft furniture and their volume predominate in the furniture sector. In this case it is much easier to design or create products with added value by using different materials, building furniture of different shapes and constructions than in case if there is only one raw material – timber.

When analysing changes in turnover in 2015 and 2016 by product groups in both regions, the companies operating in VPR were able to increase the production volumes, incl. export volumes in two year's span both in area of furniture and wooden components; stable production and export is observed in house production and only wooden design and consumer product production and realization saw decrease. (see Figure 12). The study authors explain that large proportion of the small and medium enterprises in VPR is a factor allowing current companies to maintain the existing production volumes with a slight tendency towards the increase, yet it is mainly achieved at the expense of export. The large proportion of micro enterprises and lack of export in Võru region currently has led to a situation where companies cannot show positive indices in output growth, because the local consumption in Estonia has not focused so favourably on buying the local products and consumers and are not ready to pay more than offered by the importers.

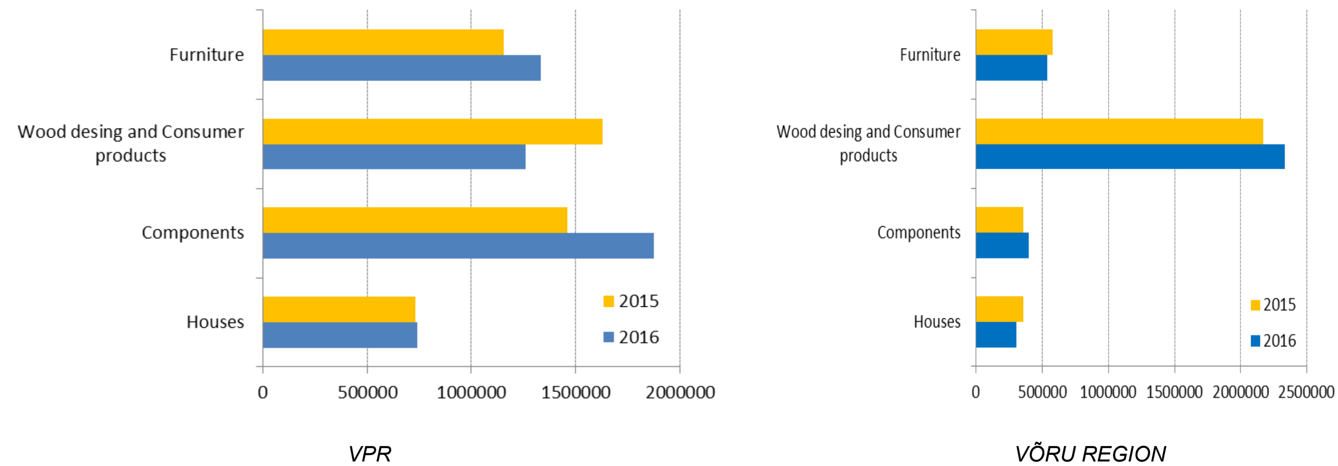


FIGURE 12 TURNOVER DYNAMICS IN 2015 AND 2016, EUR

Meanwhile in Võru region one can see a positive growth in wood design and consumer product manufacturing, as well as slight increase in production of wooden components. A decrease is observed in furniture and house production due to production capacity in micro enterprises that constitute the dominant proportion among all companies.

In VPR it is observed that small and medium enterprises in wooden house segment can increase their production capacity keeping close or above the average sector performance (according to the respondent data). An in-depth analysis reveal the increase in production capacity at the expense of export. The large proportion of micro enterprises in Võru region, Estonia, in wooden house segment and focus on local market (absence of export) leads to a situation where the total turnover performance has weakened in course of two years. The purchasing power of residents of both Estonia and Latvia in connection to bulding and buying of wooden houses is not expected to be restored in closest years to a level that was before the economic crisis. (see Figure 13).

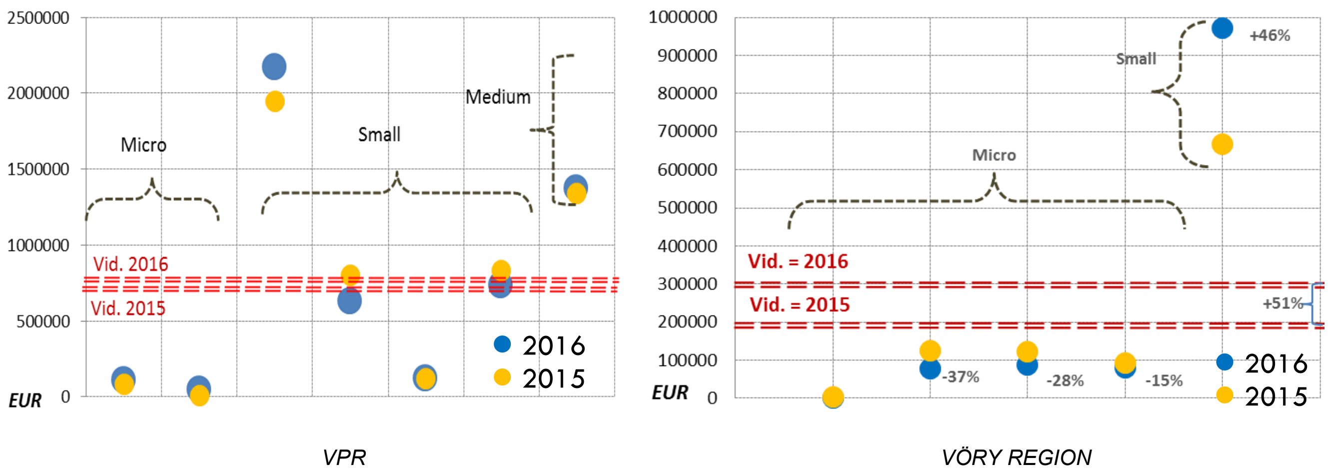


FIGURE 13 WOODEN HOUSES: TURNOVER DYNAMICS IN 2015 AND 2016, EUR

Companies producing wood components are able to increase turnover in all enterprise groups thus increasing the average turnover level in the sector. Manufacturers of this product group achieve said increase at the expense of export or by meeting foreign demand. The average turnover level, judging from the respondent data, is higher in VPR than in Vöry region companies, because the small enterprises in VPR were able to boost their turnover indices in 2016, that constitutes the major proportion from all respondents. The largest proportion of these products in Vöry region is formed by micro enterprises that are not in a capacity to significantly increase production volumes and the sales in export markets are low. The study authors believe that the production volumes are too small to help meeting the existing market demand in larger volumes (see Figure 14). Both literature on economy and business practice show that micro enterprises find it more difficult to enter export markets with conventional products than the small and medium enterprises, which already have a basis in the export markets. Lack of export for micro enterprises prevent them from ability to "learn" from that market and to timely arrange / develop their operation by selling products in the foreign markets. One of possible solutions is to develop cooperation among 3-5 companies with similar or vice versa – different products in order to meet sales demands in large batches or offer more diverse product range for customer needs.

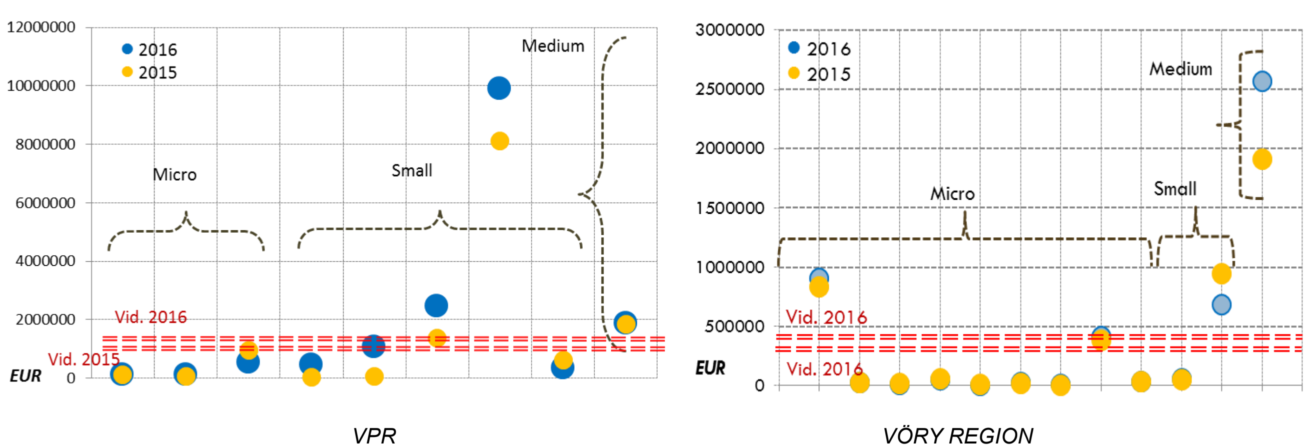
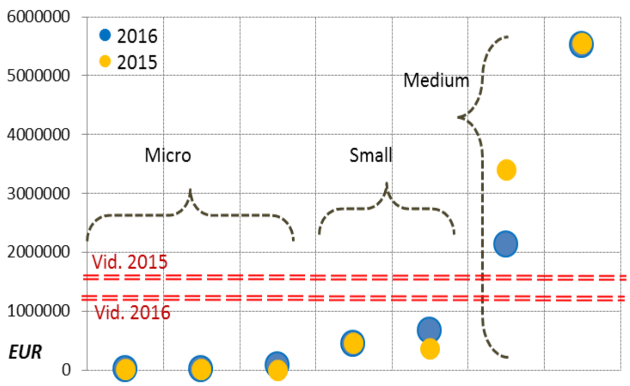
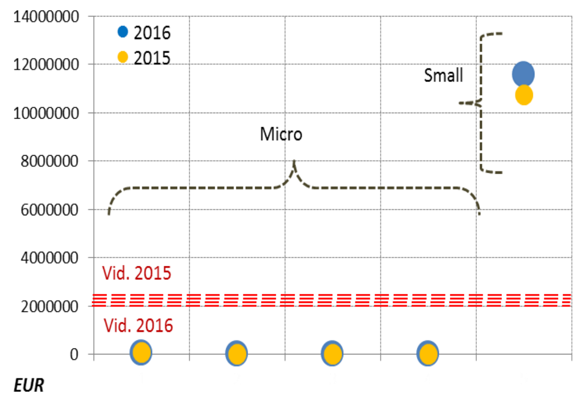


FIGURE 14 COMPONENTS (WINDOWS, DOORS, STAIRS): TURNOVER DYNAMICS IN 2015 AND 2016, EUR

VPR wood design and final consumer product manufacturing companies have maintained the turnover performance of previous year, and it has partially shrinked thus reducing the average level of the sector. The authors believe that key customers of wood design and final consumer products are found in export markets, because currently the local consumption is insufficient and demand is rather low, mainly due to the consumer behaviour and purchasing power. Even though a positive trend has emerged during recent years and new companies are being established that focus exactly on that product group, results will be seen later. In general respondent's turnover indices in Vöry region concerning wood design and consumer products have remained the same for last two years (see Figure 15). Due to large proportion of micro enterprises and their achievements (evenly stable with +/-), the capacity of small enterprises to improve their performance has not been sufficient and changes during those two years have not been essential.



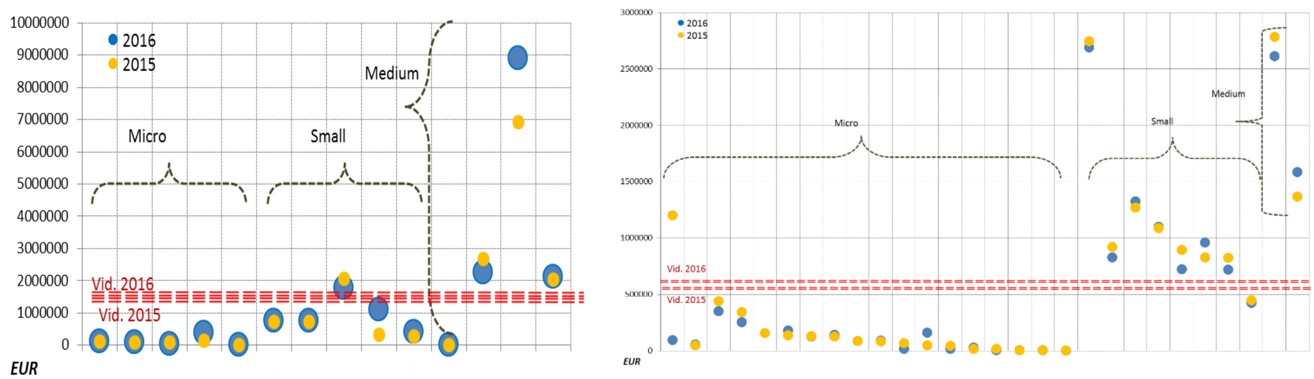
VPR



VÖRY REGION

FIGURE 15 WOOD DESIGN AND CONSUMER PRODUCTS: TURNOVER DYNAMICS IN 2015 AND 2016, EUR

During the last two years the volumes of micro and small furniture companies in VPR region have remained commonly stable, with a decrease, yet sales volume increase is observed in medium enterprise group. The Latvian furniture sector has seen the slowest development pace since the economic crisis, in comparison to timber pre-processing sector, because consumer behaviour or decision in the export market is not always in favour of wooden furniture, as well as their application is more restricted than for soft furniture, and competition in Central and Northern Europe region is relatively fierce. Main market outlets, just like before and definitely in future, is Germany, Denmark and the United Kingdom, because light-coloured natural wooden furniture, as mainly produced in Latvia, are popular in central and northern regions of Europe. Another style predominates in more distant regions southwards where dark shades and glass, stone or marble furniture are the most popular, perhaps with some exceptions, therefore they are not interesting for Latvian manufacturers. In Vöry region where micro enterprises predominate and production volumes have decreased or remained at previous year's level, the average turnover level is almost twice as low as in VPR. A positive trend is observed in small and medium enterprise group which generally was capable of increasing furniture production volumes (see Figure 16). Already during the project research a trend emerged and authors emphasize that in Estonian Vöry region the growth and potential is linked to an ability to promote micro enterprises' operation and export capacity, because the existing business reveal problems for this particular enterprise group to operate in market outlets and to increase their capacity. Current regional support provided for solving this problem through education, training and competence upgrade activities will be able to promote long-term operation of micro enterprises in general, incl. also export capacity by creating products with high added value and meeting the market demand and customer wishes. It must be concluded that general development potential of the furniture sector in Vöry region, due to the large proportion of micro enterprises as well as strategic approach, with strong emphasis on this enterprise group, will allow increasing the competitiveness of this region in the furniture manufacturing. Lot of tasks have been completed in Vöry region, because these micro enterprises were identified, their economic operation was researched and support was diversified in centres such as T-senter, where these companies are assisted in solving topical problems as well as support is provided in terms of knowledge and technical issues.



VPR VÖRY REGIONS

FIGURE 16 FURNITURE: TURNOVER DYNAMICS IN 2015 AND 2016, EUR

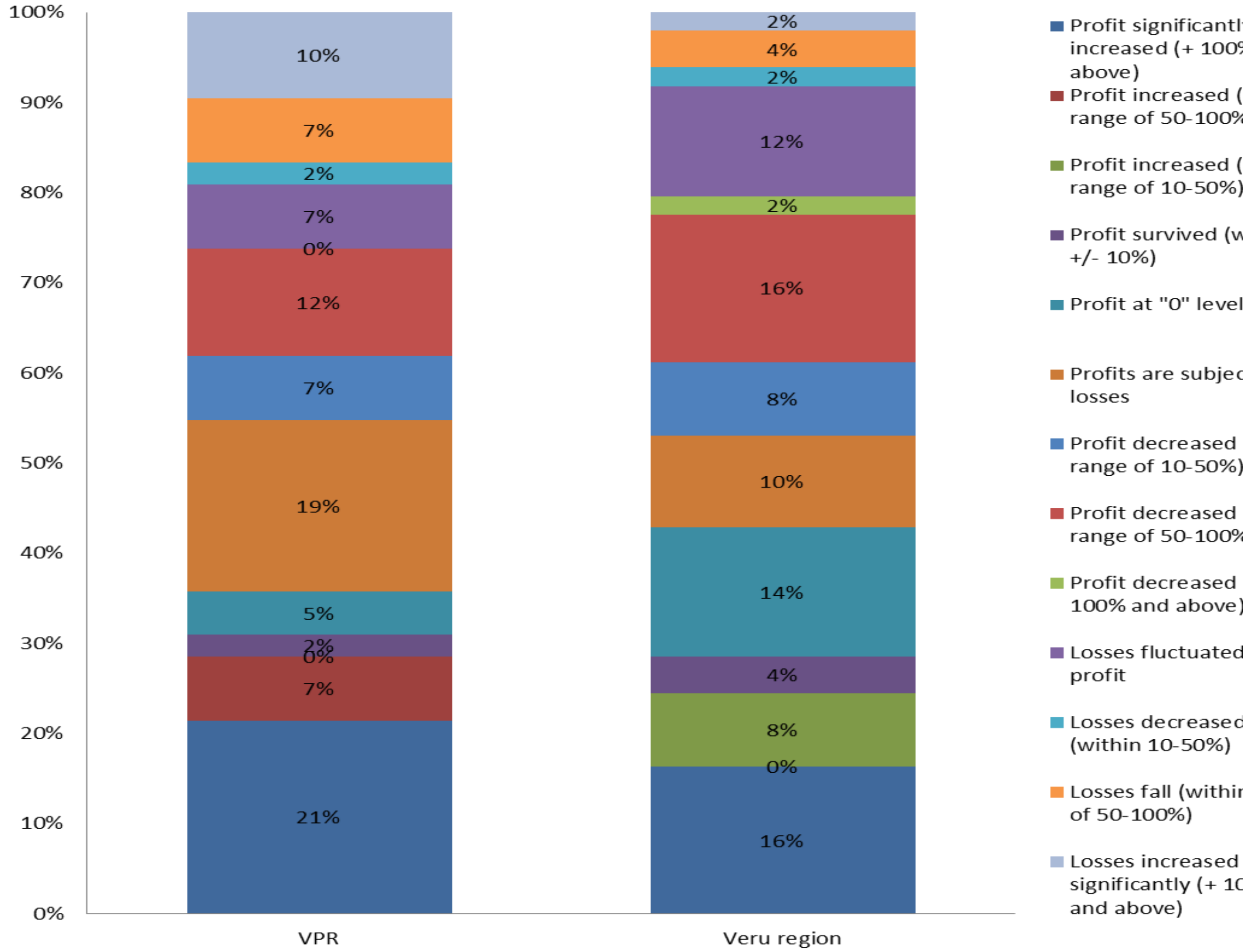


FIGURE 17 THE ROLE OF PROFIT AND LOSSES, THEIR CHARACTERISTICS AND STRUCTURE (RESPONDENTS DATA)

Results of successful entrepreneurship in terms of profit show that almost one half of respondents in VPR were able ensure positive profit to their business, almost 1/8 of them had a considerably increased profit, if compared to previous year, and almost 1/5 of them reported losses in comparison to previous year's profit. One must remember that losses in annual report do not necessarily mean that respondents have production related problems; an in-depth analysis usually reveals additional investments or contributions to modernisation of production or product development and improvement of export capacity (Fig 18). Business of more than half of respondents in Vöry region (~54%) can be evaluated as successful, i.e. with a positive, growing or declining profit.

In 2016 67% of VPR respondents exported their production, from which the largest proportion (in per cent) is represented by the furniture manufacturers (41%) and wood component manufacturers (28%). Meanwhile in Vöry region only 44% of respondents reported that the production is being exported, out of which the dominant percentage is comprised of furniture manufacturers (55%). During two year's period the largest export growth in VPR is effected by the wood component manufacturers, while decrease is characteristic to the wood design and consumer product manufacturers, while absence of export market is observed among the wooden house producers, i.e. 63% (see Figure 18).

	Percentage share distribution (respondents)	Export growth	Export decrease	No exports
VPR (67% all respondents)				
Houses	10%	13%	25%	63%
Components	28%	45%	27%	27%
Wood desing and consumer products	21%	14%	71%	14%
Furniture	41%	35%	29%	35%
Veru region (44% of all respondents)				
Houses	9%	0%	40%	60%
Components	10%	15%	8%	77%
Wood desing and consumer products	7%	20%	20%	60%
Furniture	55%	28%	28%	45%

FIGURE 18 EXPORTS GROWTH AND DECREASE IN REGIONS AND PRODUCT GROUPS

The largest export growth in Vöry region was observed also in furniture manufacturing (28%), while export contraction — in wooden house production sector (40%). The least export activities for products is observed among the wood components manufacturers (60%) and the wood design and end-product manufacturers (60%) (see Figure 18).

4 MAIN EXPORT MARKETS

Analysis of the main export markets according to provided VPR respondent data leads to a conclusion that there is not only one region or a group of countries, yet one can observe differentation of the export market. Main market outlets — Sweden, Germany, the United Kingdom, Denmark and Lithuania. There is a positive trend that a small portion of the production is exported also outside the EU (see Figure 19). The study authors believe, and it is also supported by the analysis of main market outlets in SME group, that the main market outlet for this enterprise group is the EU member states, while more distant market outlets are attractive for medium and large enterprises which are able to offer larger production volumes and reduce logistics costs and their impact on final price of the product, thus also having higher export capacity and being more competitive.

FIGURE 19 VPR: MAIN EXPORT MARKETS

Analysis of data obtained in the study shows that they do not contradict the distribution by countries of the Latvian forest industry main export product and market outlet with the largest market outlet being Germany and the United Kingdom. Estonia, Sweden, Lithuania, Norway, USA, France and Poland can be indicated as the most crucial market outlets. While components and wooden house production sectors, which in Latvia's case is classified as timber reprocessing sector, qualifys as woodwork and carpenter products manufacturers. Main market outlets are Sweden, Germany and Norway, and the most important export countries — Denmark, Estonia, Lithuania, the United Kingdom, Italy, Hungary and Poland. Wood construction production is relatively new sector for Latvia and information is not systematised there and thus cannot be used for in-depth analysis. Taking into account that the largest part of the production coming from wood processing industry is more or less directly linked to the construction sector, it is essential to follow-up the global development forecasts of this sector. As the European construction market starts to revive, export of different woodwork and carpentry produces — wooden windows, doors and construction finishing materials — has increased during the recent years. Nevertheless the trends show that in countries where the construction process is very expensive the builders increasingly more use prefabricated components in order to reduce the on-site time to an extent possible. Also many companies in Latvia manufacture prefabricated wooden panel or log houses. Many examples prove that our producers are already capable of creating multi-storey wooden house projects that we currently cannot sell in Latvia.

Meanwhile the analysis of Vöry region's respondent data indicates at different situation in export markets, the major part of manufactured production being sold to Finland and Sweden. The Baltic States are also important market outlet (see Figure 20). Previous studies of the authors of this study regarding, for example, Estonian furniture industry main market outlets, show that this information does not contradict the results obtained in this study. The results of previous study show that main market outlets are Finland, Sweden, Norway. Latvia and Lithuania are also rated as significant.

Very similar situation is observed in the analysis of micro and small enterprises and their main market outlets. Information from respondents in Vöry region show that there are no essential differences from general results on export markets.

Similarities and differences in distribution of Latvian and Estonian export market can be explained with changes in local market and development drivers in production regions. The large proportion of European countries present in the export markets is natural, because Europe is both a major furniture producer and one of largest consumers, therefore production cost increase in old European countries created more advantageous pre-requisites for development of production in the new EU member states, incl. in Latvia and Estonia. This trend remains also today therefore original design manufacturers now develop. Such production entered the Estonian market earlier and, no doubt, such experience also promoted development of local design manufacturers. Development of small furniture production companies in Latvia for quite a while depended on Denmark's cheap pine furniture marketing chains, because they also helped with purchase of production materials and fixed assets. The strongest companies declined this "dependency" in favour of other European marketing chains (incl. catalogues). Currently one of the most active and most aggressive sellers in Europe is "Otto vesand".

FIGURE 20 VÖRY REGION: MAIN EXPORT MARKETS

Furniture and wood design production market outside Europe is more fragmented and more based on direct contacts with small vendors or personal contacts. Furniture is a household item therefore a designer and manufacturer must really understand the target market, customer taste, application habits and traditions. Great advantage of Latvian and Estonian manufacturers is that they are familiar with Nordic and Danish product range and by following them, in a good way, we can enter many markets relatively fast.

5 TRADE AND EXPORT CHANNELS

Wood processing and furniture companies must understand that their business undergoes transformation due to ever-changing consumer taste and economic pressure. They must find a new way to address consumers in light of recent economic crisis. The situation is affected also by such crisis-related adverse circumstances as limited credit facilities, economic insecurity, increased inflation threat, low euro value, steep growth of innovations that increase prices yet adhere to the principle to do things better, faster and cheaper. It is positively though that a business is being reorganised allowing each entrepreneur to find his approach to customers[1]..

12 key trends:

1. *Short-term mindset:* financial crisis has made people more suspicious towards the large organisations and therefore their purchases are driven by the short-term demand as well as understanding that innovations require expensive technologies. In addition to that they have learned to wait.
2. *Brand power:* companies have the power to make people be loyal to brands thus helping consumers to be guided through today's complicated range of services and products.
3. *Awareness of consumption:* less and less money is spent on product with more durability and capacity to last therefore the business must also create products to meed various demands.
4. *Simplicity:* product multifunctionality will play a significant role, because consumers will buy a product that can serve for various purposes and thus reduce costs.
5. *Mobile shopping:* smart phones become terminals of virtual credit cards and mobile data processing, encouraging customers to refuse from privileges offered by the loyalty cards issued by different companies.
6. *Role of emotional brands:* brands carrying strong emotional content will promote product sales at higher price.
7. *Reputation:* the companies must think of good on-line reputation, because they want to stay loyal in customer's eyes.
8. *Behaviour segmentation:* customer segmentation by demography is an outdated practice; now one needs to create profiles following your customers' activities in web pages, thus boosting sales volumes.
9. *Green thinking:* impact of the ecological footprint on entrepreneurship will become more significant in future, because the ongoing carbon audit will provide a life-cycle analysis of certain product thus showing the environmental impact of that product and highlighting its advantages in comparison to competitors' products.
10. *Collective intelligence:* companies can receive quick, profitable and comfortable solutions from wide range of users in order to solve different business efficiency and optimisation issues in exchange of a benefit for the user.
11. *Development of traditional marketing patterns*: current marketing patterns are influenced by different powerful websites, social media and on-line reports that encourage improvements.
12. *Constant business pressure:* related to "better, faster and cheaper" principles that make their roots in the entrepreneurship[2].

[1] Trends that define business in 2012, Furniture and Bedding mazagine, ISSUE – JANV/FEB 2012
[2] Trends that define business in 2012, Furniture and Bedding mazagine, ISSUE – JANV/FEB 2012

MARKET CHANNELS FOR TROPICAL TIMBER AND TIMBER PRODUCTS

The timber generally sell their products to importers and wholesalers or distributors; the role of the agent as an intermediary in the timber trade is becoming much less important. Most wholesalers and distributors have also become direct importers in recent years. Another less common option is direct trade with buyers further along the chain, such as construction companies, public procurement agents and retailers targeting the consumer market. The final products are mainly distributed by the retailers to small processors, small contractors and consumers (see Figure 21).

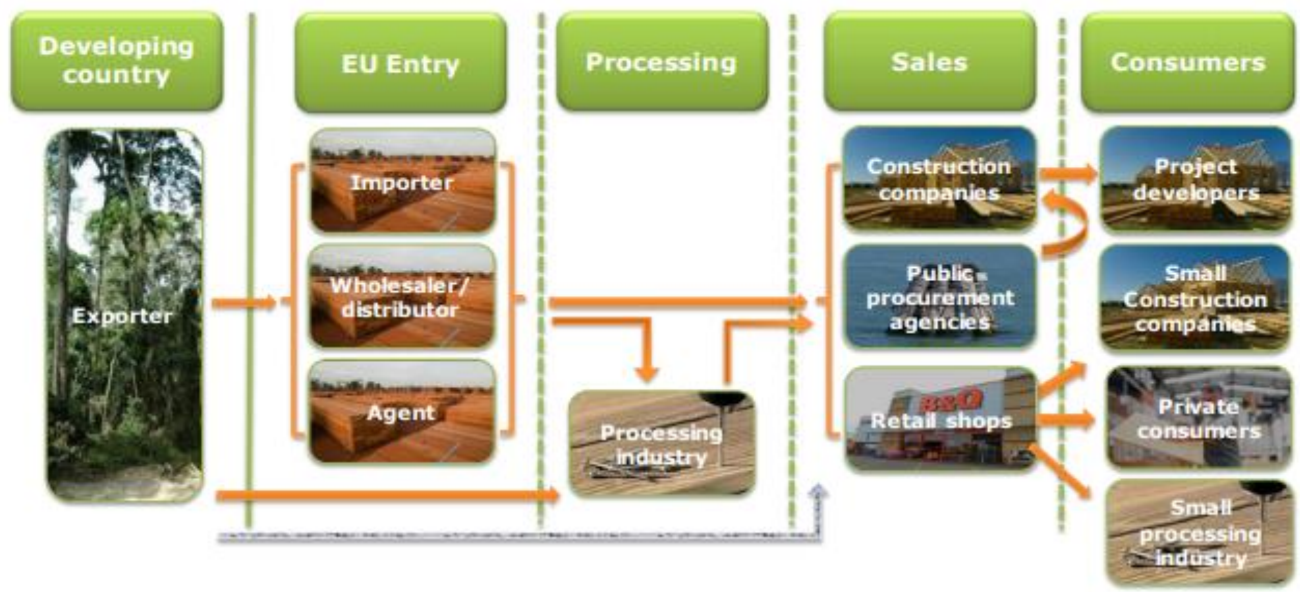


FIGURE 21 TRADITIONAL TRADE STRUCTURE FOR TIMBER

The recent demands for traceability and legality in the EU market for timber are increasingly giving rise to the shortening of supply chains through 'total chain management'. Large exporters, for example, may establish an office within the EU, taking the role of a distributor or a sales representative. Large importers are also establishing concessions, warehouses and exporting companies in developing countries. Such a strategy minimises the risks of illegal timber entering the EU market. At the same time, a short supply chain guarantees quality, buyer specifications and traceability.

Traditionally, agents play the role of directly targeting European wholesalers, retailers and importers. But as importers increasingly adopt the role of buyers in developing countries, the role of the agent is gradually diminishing. Thus, importers increasingly become supply chain managers, enjoying a more important role. This affects the exporter's role in the supply chain: exporters can make contact directly with importers in Europe and will therefore need to be more knowledgeable about European market developments and product trends.

For most small and medium scale exporters from developing countries, it is not feasible or profitable to produce low-price, low-quality products. Some countries in particular (mostly in Asia) dominate the low-end market as they have achieved the successful recipe of large-scale production with low costs.If exporters in other countries focus on the export of high-quality products, there is a better chance of successful competition.

Just-in-time business practices imply that importers only keep small stocks. Maintaining only small inventories is an increasing trend in Western Europe as a means to compete globally, but it is also fuelled by increased risk management. The impact for exporters is that shipment sizes are reducing in size but increasing in frequency. As a result, exporters have to trade in a more flexible way. This effectively means improved logistics as well as reliable and effective delivery services.

The use of (semi) finished timber building elements, such as DIY furniture items, mouldings, furniture and stair components, is becoming increasingly common. This method is widely used for the construction of new residential or commercial buildings. These products are also sold to consumers in DIY chains. It offers opportunities for adding value, resulting in higher margins. Bear in mind that 'ready-to-install' building materials have to be manufactured, and packaged, under strict specifications.

TRADE STRUCTURE AND CHANNELS FOR FURNITURE

As a producer of furniture, trying to get into the EU member states' markets, you should be familiar with the trade structure and channels of this specific market. The main players on this market are usually classified either as specialists or non-specialists. In the figure below you can see the typical distribution chain.

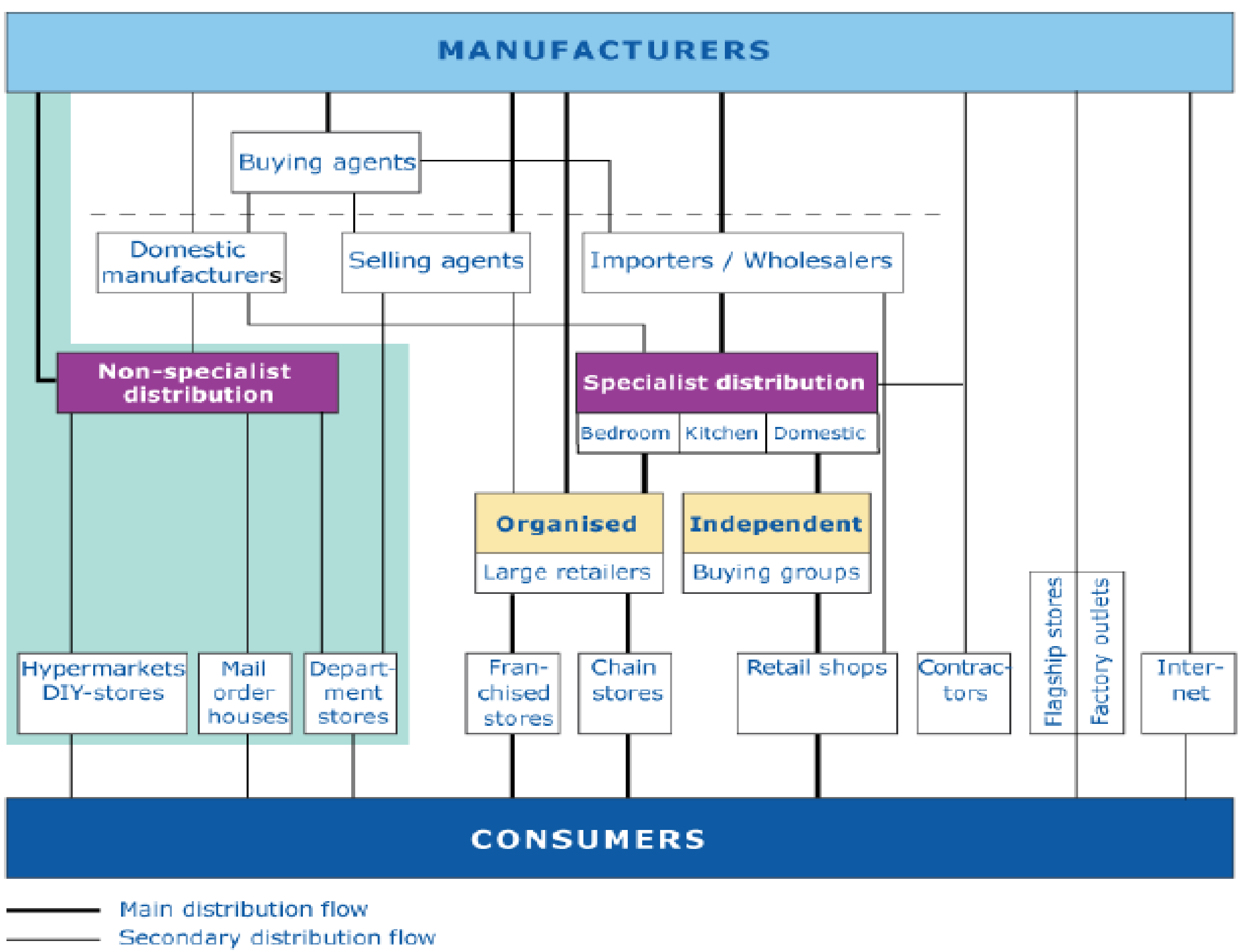


FIGURE 22 TYPICAL DISTRIBUTION CHAIN IN THE EU MARKETS

There is a clear distinction between specialist distribution where the product is handled by intermediaries and furniture retailers, and non-specialist distribution where furniture is just one of a wide range of products handled by the companies in question[3]:

- *Specialists* represent approximately 80% of the distribution of furniture in the EU markets, and they are either organised in the form of large chain stores or buying groups (this tends to be most common in northern Europe), or independent (predominantly in southern European countries such as Italy,Spain and Portugal).
- *Non-specialists* include department stores, mail order companies, Do-It-Yourself (DIY) stores or hypermarkets. They buy from specialised intermediaries, through their own intermediaries or direct from manufacturers.This channel represents about 20% of furniture retail sales in the EU.

For exporters in developing countries, the physical distribution of furniture can be a constraint. When exporting furniture for the first time, importers are the best channel. They have a good knowledge of the market and provide the safest and most effective method of distribution for exporters from developing countries. Once sales of your product(s) have developed, you could either expand your business with your importer or consider supplying direct from your own warehouse, which can be set up for you by a specialised logistics company in the EU[4].

- *Importers* - By buying on his own account the importer takes title to the goods and is responsible for their onward sale and distribution in his country and/or in other EU markets. Those importers who are not exclusively tied to a brand manufacturer usually buy and sell the goods, take care of import/export procedures and hold items in stock. Many importers sell directly to specialist retailers and department stores through permanent exhibition centres, while others have their own sales staff who visit retailers on a regular basis and take orders.
- *Buying Groups* - Buying groups prefer to minimise the cost of middlemen by purchasing directly from a supplier whenever possible. This channel is used for large-scale requirements, where direct dealing with well-known suppliers is essential. These groups act as purchasing agents for their individual members (smaller furniture retailers) and financial intermediaries between producers and retailers. The objective of the buying group is to make it possible for its members to deal with the growing power of large furniture chain stores and discounters[5].
- *Agents* - In your own country, there will probably be buying agents. These independent companies negotiate and settle business on the instructions of their principals and act as intermediaries between buyer and seller. They do not buy or sell on their own account. They work on a commission basis and represent one or more larger manufacturers/suppliers/retailers, although competition is generally avoided. Often the buying agent has his office in the supplying country. In the target country, there are selling agents, which also are (specialised) independent companies. They work on a contract and ommission basis for one or more manufacturers. Some of them sell from stock in order to meet their clients' short-term demand, which is on a consignment basis. If an agent builds up his own stock, he is in fact functioning as a wholesaler or distributor[6].
- *Wholesalers* - They often supply independent or specialist furniture shops and play a major role in the supply of furniture. They usually specialise but often carry a wide variety of products. The trend of bigger retailers and buying groups going outside the traditional distribution system has caused wholesalers to reconsider their position in the distribution

[3] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs
[4] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs
[5] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs
[6] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs

structure. This has encouraged wholesalers, who were losing part of their business, to operate on a regional basis or in a more product-specific manner[7].

- *Local suppliers* - Faced with rapidly rising production costs, making some manufacturers uncompetitive (especially in labour-intensive production lines), manufacturers are increasingly assuming the role of importers. Like importers, they look for low-cost sources that can produce furniture on a made-to-order basis, instead of purchasing ready-made articles. The main advantage is that these items can be made according to their own design, quality and colour specification. These are added to the local manufacturers' own portfolio and help their own market profile[8].
- *Other terms used* - You will hear many other terms used for various actors in the supply and distribution chain for furniture. For example, distributor is a term used to describe a person, organisation or outlet that has been appointed by a particular brand manufacturer to sell or resell that brand. A licensee describes someone who has bought the rights to sell a particular brand in a particular sales area. Factory outlets are an example of vertical integration established by manufacturers/suppliers to sell 'out of date articles' from unsold stock direct to consumers, and are growing in importance in the EU. They are a threat to retailers, especially in Italy, Portugal and Belgium. Here, FOC (Factory Outlet Centre) schemes are being built closer to major cities and there is no clear definition of the goods that can be sold in these centres[9].

In the retail sector distribution can be divided into two main groups – Specialist distribution, where all retailers specialise in furniture, or in sub-sectors such as kitchen, bedroom or bathroom, and Non-specialist distribution that refers to retail formats that sell mainly other items but also include furniture[10]:

- *Specialist retailers* - Despite the dominance of IKEA, furniture retailing in the EU is still quite regionalised. Retailing varies by product and by country. Chain stores with large showrooms are prevalent in middle and northern EU countries, while independent shops with small showrooms are typical in Italy, Spain and the new Member States. There are three keys types of specialist retailer:
  - Chain stores,
  - Independent specialists,
  - Furniture boulevards,
- *Non-specialist retailers* - Furniture sales by non-specialist outlets are increasing, driven by consumers wanting more choice in the places where they can buy furniture, but also due to the buying power of some large operators that are able to offer good value furniture at attractive prices. The main types of non-specialist retailers are:
  - Department stores
  - DIY stores, hypermarkets and discounters
  - Mail order and the Internet retailers

In each trade channel different margins and prices apply depending on which channel the furniture is sold through. Generally speaking, higher margins are applied in specialist independent retailers and lower margins will be found in large multiple retailers, particularly non-specialist retailers. You may find that some retailers that deal exclusively via the Internet may operate with lower margins, as they do not carry the same overheads as traditional retailers[11].

[7] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs
[8] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs
[9] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs
[10] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs
[11] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs

PRICE STRUCTURE

When entering the target markets, successful pricing is a key issue in the market entry strategy. In fact, pricing is the only area of the strategy that generates revenues for exporters. All other activities generate costs. Price is the first point of comparison in evaluating your product against the competition. Furniture is usually considered to be a non-essential purchase, so it is vulnerable to economic downturns, which is another reason why margins can also come under pressure. Large retailers exert further pressure on prices and margins in the trade channels by purchasing in substantial quantities. In the furniture market, margin maintenance is vital along with cost control. Nevertheless, margins have been under pressure and have fallen. For retailers it is important not to erode their margin too much when making price promotions. In several EU countries, this has led to some stores being declared bankrupt. Successful retailers have the right balance between cost control, good retail margins and good buying. Below you can find an example of a theoretical mark-up calculation, covering overhead costs (e.g. housing, personnel, selling and general expenses, own profit), which is estimated at 35%[12]. Please note that the breakdown of the cost price by material, direct labour and other cost is purely for the purposes of Table No 2.

Table No 2 2 Calculation of final consumer price for a wooden wardrobe[13]

	Low	High
Material cost (incl. wood certification and 15% for unsold stock)	25	25
Direct labour cost (incl. design costs)	25	25
Other cost (e.g. packaging, promotion, sample shipments)	9	9
Cost price	**59**	**59**
Mark-up (overhead costs incl. own profit e.g. 35%)	21	21
Export price (FOB)	**80**	**80**
Agent's mark up (e.g. low – not through agent, high 10%)		10
Agent's selling price		**90**
Import duties* (furniture parts 2.7%)	3	3
Other costs (e.g. transport, insurance, handling, banking)	17	17
Landed cost or CIF price	**100**	**110**
Importer's/wholesalers mark up (e.g. low: 20%, high 35%)	20	38
Importer's/wholesaler's selling price	**120**	**148**
Retailer's mark up (e.g. low 80%, high 100%)	96	148
Net selling price	216	296
VAT (e.g. 19% in the Netherlands)	41	56
Final consumer or retail price	**257**	**352**

**If the GSP tariff is applicable for your country, the import duty can be reduced to zero.*

THE ROLE OF E-COMMERCE

Use of e-commerce in home furnishing items has increased rapidly during the recent years, and it is often a multi-channel approach combining online and offline retail. Consumers are

[12] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs
[13] Trade structure and channels for dining and living room furniture, CBI Ministry of Foreign Affairs

increasingly more exploring and purchasing products online. They view and compare prices of home furnishing items. Consumers use e-commerce as a source of information and a tool for comparison of offers. Between 2012 and 2017 the consumer market in e-commerce grew by 123% (CBI, Trend Special E-commerce). Western Europe which includes the markets of this study, as well, is the third e-commerce market and it is rapidly growing. However, majority of sale will continue in physical stores. For example, in the United Kingdom approximately 90% of shopping takes place in physical stores (BBC, 2013).

In assessing the opportunities of using e-commerce for our target group entrepreneurs, we must to point out that the concepts are often confused, and trading via the internet is not the same as e-commerce. It would rather be s-commerce which is a new concept seeking to describe marketing activities that take place via social networks and similar internet tools. This is a very good opportunity for micro-enterprises or business beginners with a new idea. This allows to research the potential demand for the new product and even raise pre-financing. In classic e-commerce an undertaking shall maintain a sufficiently large warehouse with finished products and it has to find a way to be as close to the consumer as possible. The Latvian Chamber of Commerce and Industry is currently trying to set it up in Germany. The first results are already showing, namely, woodworking manufacturers are trying to sell their products there, as well, but for the time being there is no information on very successful examples. S-commerce where the trust of the relevant social networks between the parties involved fulfils the known "warehouse" function, which serves as a guarantee of delivery and quality (swap), has been more efficient.

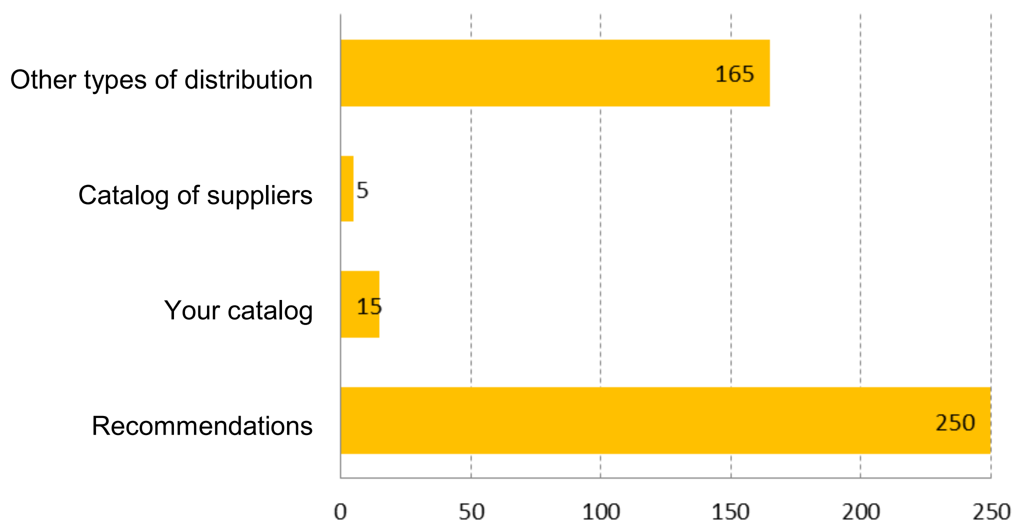
The role of IKEA in the development of furniture manufacturing

The Swedish concern IKEA offers home furniture having good design and features at relatively low prices affordable to most people. At the moment, there are over 373 IKEA stores in 47 countries. The total sales volume of IKEA Group grows every year, and constituted ~ EUR 35 billion in 2016. Profit indicators increase year after year driven by the increased sales and cost structure improvements. The undertaking was able to offer its clients cheaper products despite the increase in price of raw materials at that time. In the future, the undertaking intends to make the daily life at home better by offering beautifully designed furniture and functionality at affordable prices. To continue raising the product turnover in both existing and new markets. The undertaking invests the profit revenue in development by opening new stores; currently, 7 new stores are planned, including one in the Baltic states - Lithuania and Latvia. IKEA will increasingly focus on producing environmentally-friendly products and renewable natural resources will be used more and more in their production in the future. There is only one company in Latvia having a solid cooperation with IKEA and although the concern has not yet dropped the idea of finding another serious manufacturer in Latvia or Estonia, unfortunately, there are no objective conditions for that. Manufacturing requirements are so high that starting from a scratch is not feasible. Meanwhile, the strongest existing manufactures have already secured their position in other market segments.

Latvia

In the beginning of 2011, LLC Forest and Wood Products Research and Development Institute (SIA „Meža un koksnes produktu pētniecības un attīstības institūts” or MeKA) conducted a research Assessment of Furniture Industry surveying 778 furniture manufacturers who had submitted their Acitvity Report for 2009 in Lursoft, the database of the Register of Enterprises. The aim of the survey was to research and obtain the most up-to-date information on the activity of companies in the furniture industry in Latvia, their production and potential in the future. To achieve the goal, it was necessary to obtain information about the types of products, their quality and distribution channels, outlets, dispersion of businesses, technologies applied, and customer structure.In total, 41% (318 respondents) of the undertakings contacted have confirmed their participation.

The results of the research show that the main consumer group of the products of the Latvian furniture industry is private individuals, as indicated by 226 of the surveyed companies. The second most significant group is legal entities, as indicated by 186 of the surveyed companies. The third most significant group is various local and state government institutions (35 undertakings). The main form of distribution of the production of Latvian furniture industry companies is the dissemination of information by existing and former customers or "mouth-to-mouth" recommendations, namely, it was indicated by 250 of the companies surveyed. Only 15 of the surveyed companies distribute the products via their own product catalogues and 5 companies do it via a catalogue of suppliers or brokers (see Figure 23)[14].



23**23** THE MOST POPULAR FORMS OF DISTRIBUTION IN THE FURNITURE INDUSTRY IN LATVIA, 2010/2011

Through a more detailed analysis of other forms of distribution, the internet environment and making a website is a very popular form of dissemination of information on company products. Additionally, companies recognize their own or intermediary salons and stores, cooperation with designers, architects, builders to be significant distribution channels, as well as advertising and various informative brochures[15]. Of course, there are individual companies distributing their products already via European level trading networks, but their number in Latvia is rather small.

Information available in the media indicates that the volume of orders for existing furniture manufacturers exceeds the planned volume, however, unfortunately, the total number of furniture manufacturers continues to decline. Due to the existing capacity load, increase in

[14] MeKA, study „Assessment of Furniture Industry", 2011
[15] MeKA, study „Assessment of Furniture Industry", 2011

production volumes is no longer possible at the moment; this is the case for several product manufacturers. Furniture dealers such as IKEA, Otto catalogues and many others are looking to place orders in Eastern Europe, but the problem is that there are no manufacturers to execute them, as for many the order portfolios already outnumber their physical capabilities. Local businesses are not ready to invest in the establishment of a new furniture manufacturing plant even if that would mean orders from prospective foreign buyers. Investment in furniture production for both domestic entrepreneurs and potential investors is hindered by the uncertainty as to what will happen in Latvia. Moreover, energy costs continue to increase this year[16].

Both European and Latvian furniture manufacturers have some advantages over furniture imported from non-EU countries. As the demand for furniture diminishes and, hence, the sales prices go down, the costs of transportation of furniture and the speed of delivery play an increasingly more important role. In particular, the shipping costs are important for manufacturers in Asia and South America selling their products in the EU market. Therefore, the key to the success for Latvian furniture manufacturers lies with the advantageous geographical location and the small distance to the major furniture outlet markets allowing for fast production and delivery of the furniture demanded by the buyer in small lots.

Local furniture manufacturers have found their niche in the Latvian market and are successfully developing export of furniture. However, at present, the economic crisis in Greece and elsewhere in Southern Europe causing buyers in many European countries to be prudent spenders is raising serious concern for businessmen. Moreover, as the furniture manufacturers themselves admit, a closet, table or chairs are not the first necessity goods; in times of uncertainty, people leave the purchase of furniture to financially calmer times. In the Latvian market, the biggest competitors to domestic producers are Lithuanian and Polish companies offering cheaper products. The reason why Polish and Lithuanian furniture can be bought at lower price is the choice of materials and the fact production costs can be lower in these countries, mainly due to lower taxes, as well as the high capacity of the companies, is pointed by our national furniture manufacturers. Therefore, the buyer has to make the choice between cheaper chipboard furniture or more expensive solid wood furniture which is traditionally regarded as a more durable investment[17].

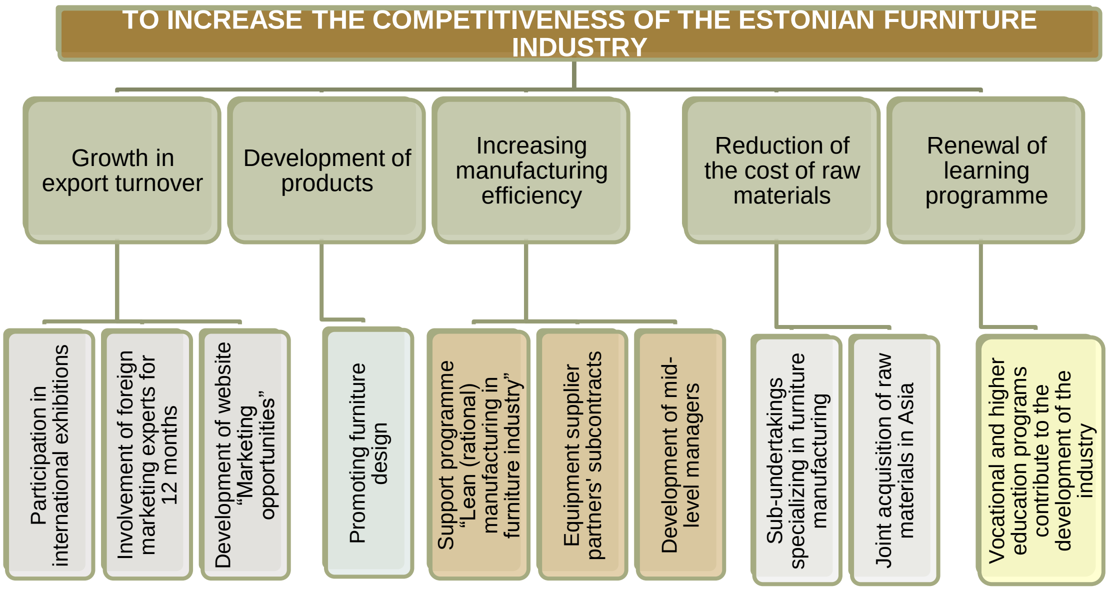
ESTONIA

The relation of the largest companies with their sales channels is typical in Estonia. The largest manufacturer of upholstered furniture, Bellus Bed, is continuously expanding its sales network and it has more than 20 stores, for example, in Ukraine. Meanwhile, the Danish company Flexa Group has 100 stores in more than 30 countries, while all the production has been moved from Denmark to Estonia. Also JSC "Standard", the largest manufacturer of office furniture, is working extensively in the direction of the Russian market. For this reason, the largest Estonian furniture manufacturers are interested in acquiring new markets and are actively cooperating in joint marketing activities (for example, exhibition in Cologne).

In order to promote a sustainable and income-oriented growth of the industry, the Estonian furniture manufacturers have developed a cluster development strategy and implemented an EU project with the main focus on export opportunities and the strengthening of competitive

[16] Newspaper „Dienas Bizness"
[17] http://www.latforin.info/index.php?id=70&tx_ttnews[tt_news]=4429&tx_ttnews[backPid]=111&cHash=3bb46723e2

products. In accordance with this, the industry has developed a specific action plan for increasing export earnings, development of products and reduction of production costs (see Figure 24).



24**24** ACTIVITIES PROMOTING THE COMPETITIVENESS OF THE ESTONIAN FURNITURE INDUSTRY[18]

Estonia, looking at a long-term perspective, has developed a sustainable vocational education system that provides growth opportunities for young skilled workers. As opposed to Latvia, Estonia has managed to maintain and continue to develop growth in the furniture sector, as has the Lithuanian furniture industry been able to. The development of the Estonian furniture industry is noted as the most successful among the EU member states, largely due to the positive influence and experience of the Scandinavian countries, in particular the use of outsourcing in production and supply. Regardless of the product brand, it has been able to preserve a special place in the domestic market through outsourcing by offering to builders and other companies kitchens, built-in furniture, office and hotel furniture. In this way, the volume of exported furniture constitutes less than 10% of the total export volume. However, in recent years, there has been a trend of strong foreign brand manufacturers moving to Estonia, such as the Danish children's furniture manufacturer Flexa, Puustelli, the Nordic producer Kaluste and other representatives of the region. The arrival of these producers is driven by a liberal economic environment and geographical proximity, as well as relatively low costs of labour and raw material[19].

New competitive advantages are being sought, where performance and labour productivity growth would be the major factor of competitiveness for the growth of the Estonian furniture industry. No less important is the establishment of a business specialization acquisition system for entrepreneurs to create systematic cost savings in a number of areas of activity. For the Estonian furniture industry it is generally hard to compete with the major furniture industry countries such as Poland, Russia and Lithuania, without close cooperation between undertakings and state aid[20].

[18] Mööblitööstuse klastri strateegia 2011-2015, Tallin, 2012
[19] Mööblitööstuse klastri strateegia 2011-2015, Tallin, 2011
[20] Mööblitööstuse klastri strateegia 2011-2015, Tallin, 2011

The international competitiveness of the Estonian furniture industry has improved, despite the increase in raw materials and energy prices, which is compensated for by increased efficiency in business, marketing, reduction of prices of materials to diminish the risks to exporters of products. Due to the fact that the companies operating in the furniture industry are small, it is very important to promote cooperation between them. In order to achieve this, one quick and effective solution would be to set up a business-to-business (b2b) network. Estonian furniture manufacturers are trying to increase their competitiveness through cooperation each year[21].

In order to conquer and retain the final product on market, the competition in the internal market will increase in the coming years, and companies will be able to earn more at the expense of product margins by exporting and engaging in the largest chain of logistics chain, which will only benefit them in a shorter period, not in the long run. The main factors affecting the future development of the Estonian furniture industry are the ability to obtain production resources at lower costs (both labour and energy), as well as liberal business rules and development of a training system, paired with high technology solutions.

Innovation in the furniture industry, especially product development (design, new materials, etc.), fosters the transfer of international knowledge to local markets allowing to handle the production quickly and efficiently. Therefore, qualified labour force is a crucial element of development. The development of vocational education and policy, as well as support for exporting companies, is important for the growth of the country which, in turn, can increase the competitiveness of the industry. Research and higher education institutions must be supplemented quickly and to a significant amount with competences in terms of new opportunities and materials for furniture manufacturing. Therefore, working in this direction in the future, a close cooperation between entrepreneurs, designers, research institutions and educational institutions is planned in the future and is intended to be incorporated into national development programs[22].

[21] Mööblitööstuse klastri strateegia 2011-2015, Tallin, 2011
[22] Mööblitööstuse klastri strateegia 2011-2015, Tallin, 2011

6 STRENGTHS AND WEAKNESSES IN THE WOODWORKING AND FURNITURE INDUSTRY

Within the framework of the study, 2 focus group meetings, one VPR and Võru region were organized, based on the discussion of the key points, in order to further identify the strengths and weaknesses of the sectors, thus improving the quality of the research work carried out:

1. BUSINESS STRATEGY IN CHANGING MARKET CONDITIONS:
   - 1.1 Preconditions for success
   - 1.2. Strategic choices and rationale
   - 1.3. Competitive advantages created by the strategy
   - 1.4. Advantages enhancing each other
   - 1.5. Selecting target customer (B2B; B2C)
2. POSSIBILITIES TO INCREASE THE EXPORT VOLUME
   - 2.2. Positive and negative impact (factors)
   - 2.3. Main preconditions when selecting a target market
   - 2.4. Trade and export channels
   - 2.5. At what volume does export become financially rewarding (profitable)?
   - 2.6. Ways of increasing export volumes
3. INNOVATION IN PRODUCT MARKETING
   - 3.1. Sales implementation tools and approaches
   - 3.2. Planned activities for marketing innovations and implementation thereof
   - 3.3. Solving logistics functions
   - 3.4. Solving marketing functions
   - 3.5. Possibilities of new tools/means in the current business environment
4. FUTURE BUSINESS CHALLENGES
   - 4.1. Resources and access to them
   - 4.2. Future opportunities

Table No. 3 Strengths and weaknesses in VPR and Vöry region in the assessment of experts and focus group participants

<table>
<tr><th colspan="2">STRENGTHS</th></tr>
<tr><th>Latvia: VPR</th><th>Estonia: Vöry region</th></tr>
<tr><td colspan="2">Strong traditions of furniture manufacturing, rich wood resources, cheaper available wood resources and human resources, and favourable geographic location create the same strengths in both regions</td></tr>
<tr><td>• The ability of individual companies or groups of companies to improve their performance effectively in both domestic and foreign product sales markets.
• Strategic approach at the level of sectorial management to introduce cooperation principles in boosting the sector's turnover and improving efficiency. The manufacturing of furniture has been strongly developed in relation to the total public turnover generated by the production of furniture</td><td>• State aid to boost local producers' manufacturing capacity in export markets
• Positive impact from Scandinavian experience fostering greater contribution to the improvement of vocational education and competencies, as well as the transfer of the cooperation model
• High level strategic competence of the key sector leaders in improving the overall competitiveness of the industry
• A liberal economic environment for attracting foreign investors, as well as openness of the state institutions and ability to cooperate
• Growing industry productivity indicators through functionally-oriented marketing opportunities and experience in export markets</td></tr>
</table>

<table>
<tr><th colspan="2">WEAKNESSES</th></tr>
<tr><th>Latvia: VPR</th><th>Estonia: Vöry region</th></tr>
<tr><td colspan="2">When entering new outlets, the Estonian producers are small, unable to execute/implement furniture orders of larger volumes
No professional experts are involved in creation of local product brands</td></tr>
<tr><td>The growth of domestic manufacturing is influenced by the activity of foreign companies in Latvia
The transfer of limited intermediate level competencies (knowledge and skills) to the process and trends of modern furniture production
Inadequate cooperation between companies, research and education institutions in increasing the volume of sales in the markets, as well as the transfer of practical and theoretical competences</td><td>• Poorly developed products and brands of local undertakings influenced by the strong dependence on products manufactured by large foreign companies
• Current lack of cooperation between companies creates a low overall efficiency of the industry without creating a single marketing approach, generates sufficient production capacity
• The transfer of limited intermediate level competencies (knowledge and skills) to the process and trends of modern production</td></tr>
</table>

7 OPPORTUNITIES AND THREATS IN THE WOODWORKING AND FURNITURE INDUSTRY

Table No. 4 Opportunities and threats in VPR and Võru region in the assessment of experts and focus group participants

OPPORTUNITIES	
Latvia: VPR	**Estonia: Vöry region**
Ability to offer lower shipping costs and faster delivery deadlines	
• Collaboration between companies and research institutions, creating a strong cluster of furniture industry, boosting the export market • Providing strategic support at a national level for attracting foreign capital, also by promoting the transfer of good practices and relevant competences • Promoting the transfer of professional competences by developing their products and brands • Avoiding competition in traditional product outlets requires changing strategic availability in favour of investment in technology, product development and the deployment of innovative business models through effective use of EU support instruments • The orientation of consumers towards the use of environmentally friendly materials and energy saving creates favourable preconditions for more extensive use of wood	• Enhanced cooperation between companies and the government in strengthening competitiveness by exchanging good practice approaches through implementation of projects of common interest • Enhanced cooperation between companies in the field of high technology integration, education and innovation, developing their own furniture products, as well • Raising the productivity of undertakings and business specialization • Financial support for entering new markets, as well as long-term investment in raising productivity • The orientation of consumers towards the use of environmentally friendly materials and energy saving creates favourable preconditions for more extensive use of wood

THREATS	
Latvia: VPR	**Estonia: Vöry region**
Increasing raw material prices and labour costs, resulting in shortage thereof	
• Low manufacturing productivity and a small share of innovative technologies and new products in industry, attracting EU co-financing, as well • Weak and insufficiently coordinated forest industry development cooperation with related industries in the context of the overall national sustainable development. Stagnation in the	• Increasing competition from producers in Poland, Lithuania, and Russia, i.e. the pressure from the "cheap" furniture supply from the East • Stagnation in the banking and financial sector, increase in tax burden, all contribute to a slow market recovery

banking and financial sector, increase in tax burden, all contribute to a slow market recovery

FOCUS GROUPS

Latvia	Estonia
1. Business strategy in changing market conditions **1.1 Preconditions for success** • Creating your own image, creating a positive image • Ability to gain the trust of customers, honest and long-term cooperation • Perfect product quality • Perfect delivery deadlines • Organized environment in the company • The product cost and the ability to set its price **1.2. Strategic choices and rationale** • Choosing the right strategies and steps • The focus on what others do not do or ability to do better than competitors, uniqueness compared to others • Defined and clear strategy, getting rid of everything that is immaterial and focusing on key operating principles • Honest attitude towards suppliers • Positioning the undertaking in the environment where it is located • Taking over vertical business processes • Operating on your own capital, instead of loaned • Selection of niche products • The redistribution of the internal market in own favour, squeezing out competitors based on the quality rather than the price • Rapid development, achieving higher quality and product creation, with less wood having higher AV • More business alternatives, including sale of business **1.3. Competitive advantages created by the strategy** • Shorter delivery deadlines and control over business • The choice of a large production site strategy with a wide assortment in a short period of time • Gentleman's promise • Quality • Market demand determines what to produce and defines your next strategy **1.4. Advantages enhancing each other**	**1. Business strategy in changing market conditions** **1.1 Preconditions for success** • Ability to produce and deliver • Product novelty • Creating trust in the partner/end-customer • Visibility – market-based SEO, marketing • Understanding the Market – investigating the market • Believing in your own idea • Finding at least 2 more partners • Ability to see the opportunities **1.2. Strategic choices and rationale** • Niche product • Deeply personalized niche product • Gaining trust in the Scandinavian market - Denmark, Finland, Sweden, Norway • In addition to own design products, offering another design. Creating options for the client and creating added value • Focus on design goods • Choose an area you know well **1.3. Competitive advantages created by the strategy** • It is like a "gamble" – WildEst • Knowing the market, high-quality goods, convenient/personal management • Doubtful whether there are any advantages when starting today. The need to simply do better **1.4. Advantages enhancing each other** • The product has grown (been born) as a result of personal needs • The game creates a market for itself (sells itself) if it is located in all the schools, interest centres, pubs • Jointly visiting/participating in exhibitions (joint stands) **1.5. Selecting target customer (B2B; B2C)** • B2C • Main emphasis on B2B. At the same time, readiness and ability for B2C in Estonia • B2B – designers, interior architects. B2C – end-consumer. Focus on both • Finding customers belonging to the same "blood group" **2. Possibilities to increase the export volume** **2.2. Positive and negative impact (factors)** • Pluses – Location in the picture, exhibitions, public events • Minuses – sending (goods) by post • Pluses – small undertaking is able to/succeeds to do more, gains visibility faster

- Niche products are manufactured in the volume required by the customer
- Each strategy has its own risks
- Teaching the small businesses how to properly produce and improve the technology

1.5. Selecting target customer (B2B; B2C)

- B2C
- B2B

2. POSSIBILITIES TO INCREASE THE EXPORT VOLUME

2.2. Positive and negative impact (factors)

- Weak cooperation with governmental institutions
- Language barrier
- Lack of trust in participation in exhibitions and trade missions organized by LIAA

2.3. Main preconditions when selecting a target market

- Market research
- Motivate young people to gain experience abroad
- Minimum start-up kit - tangible product, website and booklets, also product positioning on social networks
- Involving Latvians who already operate in the particular country
- Visiting the potential clients

2.4. Trade and export channels

- Personal involvement in product sales
- Visiting the potential clients

2.5. At what volume does export become financially rewarding (profitable)?

- Volume is not as important as market diversification. The starting costs are high, especially when acquiring new export niches

2.6. Ways of increasing export volumes

- Work with existing customers, developing and diversifying the product together with the customer
- Engaging compatriots abroad in sales

3. INNOVATION IN PRODUCT MARKETING

3.1. Sales implementation tools and approaches

- Direct delivery to client, purchasers' agents

3.2. Planned activities for marketing innovations and implementation thereof

- Emphasis on focus groups, green-thinking customers, design lovers, etc.

- Minuses – getting to the international markets is expensive
- Negatives – unknown territory – you cannot sell a product that has not been touched

2.3. Main preconditions when selecting a target market

- The middle class volume, the countries wealthier than Estonia, large countries with purchasing power
- Existence of customers – is the product suitable for the market or is there a demand/purchasing power. Compatibility of traditions
- Easiness of sending goods
- Proximity – starting with Finland, then Sweden, now the United Kingdom
- Stay in the same cultural space in the beginning
- Start with your neighbours

2.4. Trade and export channels

- Ordering online
- Local resellers
- Social media
- e-store
- Exhibitions
- E-mail

2.5. At what volume does export become financially rewarding (profitable)?

- Exports are always profitable (in case of design products)
- There is no big difference where to order. Essentially, it is slightly easier to operate in EU
- Irrespectively of volume, if logistics have no significant impact on the price for customer
- Volume is irrelevant

2.6. Ways of increasing export volumes

- Creating a demand in the target country -> local marketing, internal marketing, media, locally famous person praising the product (promoting in the market)
- Making it profitable for re-sellers
- Continuous routine work by countries on Instagram
- Cooperation
- Learning to use outsourcing

3. INNOVATION IN PRODUCT MARKETING

3.1. Sales implementation tools and approaches

- Wholesale, re-sellers
- Social media – has its limitations, we focus on Instagram
- Virtual reality, augmented reality, touch-screens, visibility of objects

3.2. Planned activities for marketing innovations and implementation thereof

- Targeted market-focused SEO and internal marketing
- Emphasis on the social media
- Instagramile rohkem rõhku
- Advertisements for people of different nationalities on Tallink Group ferries

3.3. Solving logistics functions • More efficient use of the existing logistics network **3.4. Solving marketing functions** • Market and customer addresses are the most sensitive thing and therefore must be controlled internally **3.5. Possibilities of new tools/means in the current business environment** • Social networks, using Facebook concepts **4. FUTURE BUSINESS CHALLENGES** **4.1. Resources and access to them** • Human resources and wood = productivity and efficiency • Lack of educated staff • Level of competitiveness allowing to acquire resources from abroad **4.2. Future opportunities** • Using the young Generation Z in fostering competitiveness or finding advantages	• Network marketing **3.3. Solving logistics functions** • Assembled product (the size of the international shipment) • Own warehouses currently and transport provided by cooperation partner. In the future, interim warehouse might be located in Sweden • I use SmartPost and Omniva, I would like to have an agreement with an internationally recognized and well-known courier, such as UPS, DHL **3.4. Solving marketing functions** • With the help of O'Leary's Entertainment Group, in gaming rooms across Europe • So far, doing everything myself. In the future, each market should have its own marketing person • So far, doing everything ourselves I do not know what could be purchased in a way that does not compromise the quality. I would not want to ruin personal relationships **3.5. Possibilities of new tools/means in the current business environment** • Instagram, hashtag • Setting emotions – using in exhibitions • Auxiliary information and life stories for these possibilities • Virtual reality **4. FUTURE BUSINESS CHALLENGES** **4.1. Resources and access to them** • How to reach the critical number of a regular paying customers within a reasonable timeframe • Lack of work force is a real challenge • Know-how in outsourcing services • People **4.2. Future opportunities** • Greater emphasis on export • I am an optimist, I believe it will be possible to gain trust in external markets • Manufacturing opportunities are very obscure. A growing trend - tourism

8 CONCLUSIONS AND RECOMMENDATIONS

SUMMARY

1. **VPR and Vöry region:** Market situation research and discussions in focus groups revealed that the development of woodworking and furniture manufacturing companies in Võrumaa and Vidzeme Planning Region proceeded according to different scenarios. This, apparently, is influenced by the historical traditions and different tax policies during the privatization period. Latvia benefited far longer from the benefits of the export levy that kept many small businesses at primary processing. In Estonia, no such "greenhouse" conditions existed, hence, entrepreneurs were looking for opportunities to develop manufacturing with high added value. Consequently, Estonian companies also quickly accumulated capital and invested in the modernization of their production units where the main activity is further processing.

2. **VPR and Vöry region:** Undoubtedly, cooperation between companies in research regions is also influenced by networks operating at a national level. Estonia, unlike Latvia, has a much more decentralized activity of professional organizations and active business associations. They actively use EU funds to address mainly market promotion and research activities. In Latvia, there is a highly developed industry lobby conducted by the Latvian Wood Industry Federation. In Estonia, however, there are very well developed sectorial and regional associations actively developing various support instruments (clusters and competence centres), which promote the business experience and practice for companies to work together. These conditions are apparently the reason why there are far more micro-enterprises in Estonia and a more rapid development in medium and large enterprises (investment attraction).

   Activities to be performed by VPR:

   - to improve the competitiveness of SMEs and the export capacity of VPR by helping entrepreneurs to engage in support measures at both national and regional levels, such as fostering the international competitiveness and cluster programs (under the Ministry of Economics), public infrastructure business promotion program (competence of MEPRD) aimed at supporting the establishment and development of SMEs.
   - to encourage the companies to make sufficient use of cutting-edge, incl. foreign, technology, equipment and knowledge (improvement or replacement of technology or information system for increasing the added value, exchange of knowledge and cooperation with foreign R&D centres in the areas of wood processing and furniture manufacturing);
   - to promote access to research and testing infrastructure (inform the undertaking in the region and support its involvement in the Competence Centre's activities and projects, innovation vouchers and incentive programs, practical research activities);

- to promote the competence and experience of new specialists on the international market;
- to promote the competitiveness of the forestry sector and the development of new wood products and enterprises in the VPR, co-operating in the areas of creation of qualified labour force availability and infrastructure required for production, in order to promote investment and job creation in rural areas in manufacturing of high added value wood processing products;
- to encourage and co-operate in supporting the establishment of training programs in line with the needs of the forestry sector and infrastructure required for secondary vocational education systems, as well as assessing the potential of the Lifelong Learning Program at a regional level.

3. **VPR:** The analysis of the market situation confirmed the relevance of the objectives of the project implemented and the acute need to create conditions for the development and support of activities of the micro-enterprises in the Vidzeme Planning Region. Already, as pointed out by the participants of the Latvian focus group, there is a trend of the labour force from Vidzeme Planning Region flowing to Estonia and this trend is increasing:

    - to promote the insufficient motivation for entrepreneurship in the rural areas, including raising labour productivity and developing further processing of wood, consumption of wood products in the local market, for example, in construction (including state and local government procurements should prioritize the use of products made of local tree species) and energy, which at present undermine the business start-ups and growth opportunities for small, local capital companies, as well as the potential imbalance between boosting productivity and anticipated wage growth which can especially affect the SMEs.

4. **VPR:** Analysing the regional policy documents focusing on long-term development of the region and development programs until 2020[23], the authors of the research provide the following recommendations to the Vidzeme Regional Office:

- Regional Office for strengthening the areas of nature and infrastructure:
    - ensure a sustainable use of wood resources:
        - to raise the public knowledge and awareness on the sustainable use of resources and the use of wood products, on the benefits of using wood as a renewable resource, incl. as an energy resource;
        - to support the transfer of knowledge to companies operating in the business of forestry and non-wood values (consultations and seminars, social surveys, events organized for target groups),
        - to improve the competence and awareness of municipal and regional authorities on issues of communication between the forestry sector and municipal programs and informative events,

[23] Reports on the long-term development scenarios of Vidzeme, VPR Development Program 2015-2020, and VPR Sustainable Development Strategy 2030, as well as Development Programs 2015-2020.

        - to actively work in the field of sustainable management of wood resources, for example, to protect the environment and promote resource efficiency by engaging in the existing support measure "Preservation of Biodiversity and Protection of Ecosystems" (competence of MEPRD), aimed at ensuring the development of the environmental monitoring and control system, and timely environmental risk prevention, as well as public participation in environmental management.
        - to support industrial enterprises (especially private equity undertakings) that have introduced wood fuels or replaced fossil fuels with wood fuels;
        - to continuously improve competences and awareness at both local and regional level on scientifically based information on biodiversity, the use of sustainable resources, availability of wood resources for product manufacturing.
    - to promote the implementation of strategies in climate change processes,
    - as well as educating the operators in forestry, woodworking and furniture industry on the sustainable use of wood and manufacturing of products with a high added value, incl. products having design significance.
- The Regional Office should promote the transfer of innovation, knowledge and technology to woodworking and furniture manufacturing companies:
    - The synergy between different business models among micro-enterprises, SMEs and large manufacturing companies and service providers must be promoted;
    - Participation in processes where the vocational education institutions work to increase the quality of knowledge and skills of specialists by sharing their experience and, if necessary, by contacting representatives from outside the region, incl. from the Võru region, thereby improving transfer of knowledge;
    - Knowledge and skills in wood and furniture processing and the creation of high added value in companies in this industry, especially among micro-enterprises and SMEs, should be developed;
    - Strengthen or rather serve as a contact-point, ensuring closer cooperation between businesses and educational institutions, research institutions, for transfer of innovations, knowledge and technology.
- The regional administration should promote the implementation of various social functions:
    - Examples of positive development and cooperation in the wood processing and furniture industry should be promoted;
    - Career opportunities for pupils and young people should be promoted, revealing which companies are located in VPR, and what are the opportunities for development of their business by own means, while revealing potential development trends and regional support in them;
    - Collaboration with woodworking and furniture manufacturing companies, identifying problems in the social sphere, and finding opportunities to attract new competent people from other regions and cities of Latvia, evaluating and improving the existing infrastructure in the region.
- The Regional Office must find its competitive advantages and export-facilitating factors:

   - The export capacity of traditional wood and furniture products must be improved and integrated into the products bearing the region's name;
   - It is necessary to identify the priority processing industries and support these industries directly, as well as monitor these sectors, following different growth rates.

5. **VPR**: The identified challenges should be taken into account when planning activities at the following stages of the project:
   - It is also necessary to evaluate and use the business support instruments available through the *Tsenter* after the end of the project;
   - It is necessary to involve the Vidzeme higher education institutions and vocational schools in the region more actively in cooperation with the entrepreneurs;
   - VPR is hosting very interesting and popular events, it should be possible to include more activities revealing the smartness of furniture and wood products, such as the Festival of Conversations, the mutual flow of information between the existing and new VPR companies.
   - One of the key challenges is to help the target group companies navigate through the vast flow of information (often used by vendors of tools and materials offering a narrow view of their products only), it may be possible to find a form of collaboration that could be an agency for the storage and processing of information.

6. **Vöry region:** when identifying strengths, weaknesses, and opportunities, the following activities that should be implemented in the near future must be taken into account:
   - development of local product brands involving professional expertise and knowledge in branding, industrial design, etc .;
   - to continue collaboration with product designers improving creation of (high) added value and product alignment with other products, incl. with manufacturers from other companies and/or products and services on the market;
   - to promote closer cooperation between enterprises by improving the efficiency of the joint sectors through the use of existing production capacities and single marketing approaches in the distribution and marketing of products; creating a business environment for the development and specialization of business activities, especially in niche markets;
   - to promote investments in networking (network marketing), such as networking activities for acquisition and formation of contacts, i.e. not between enterprises, but between their employees;
   - to support synergies of local partners and choices to operate in the closest outlets with similar cultural characteristics and features, as well as to promote investment in establishment of network outside the company, including outsourcing in the field of day-to-day customer administration;
   - to continue to support SME initiatives going to the Scandinavian markets with the local (internal) marketing strategy, for example, to take part in their exhibitions and informal business experience activities in order to gain not only visibility, but also gain and maintain trust in clients, partners, designers or architects.

- to foster cooperation among enterprises, public administration and research centres of excellence in strengthening competitiveness, transfer of high technology to the field of education, as well as creation of innovation;
- to promote investment in today's technology and/or the creation of new technologies for product sales, such as 3D product solutions, incl. images, implementation of virtual business experience, attraction of customers and cooperation partners;
- it is necessary to keep track of the market trends in the field of wood processing and in particular the furniture industry, which is linked to the cluster program realization, under which the region, in cooperation with the *Tsenter*, could submit projects and studies that would promote the region's business and the export capacity of its enterprises, especially micro enterprises;
- to promote knowledge and awareness of qualified professional competencies of the qualified workforce for the needs of today's market and company; to support non-formal training programs and seminars on the necessary or missing areas of the company in improving professional skills of the labour force;
- to promote support programs for SMEs, incl. also for micro-enterprises, at a regional level for business models, their operating principles and latest trends with the goal of perfection and/or reorganization, adapting to the needs of modern business.