



ITALIAN TRADE AGENCY

ICE - Italian Trade Commission - Shanghai Office

意大利对外贸易委员会 - 上海代表处

China's High-End Furniture Market

EXECUTIVE SUMMARY

November, 2018

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Industry Overview

- China remains the largest furniture manufacturer and exporter, generating over half of the (mid to low-end) furniture globally; domestic furniture industry revenue saw a slowing growth (an estimated CAGR¹ of 7-8%) from 2012 to 2017.
- The overall slowing economy in China, coupled with the central government's structural reforms and restrictive policies on real estate projects have led to a slowing demand for furniture; the market size of furniture was estimated to have reached US \$188 billion in 2017.
- China's furniture market is highly fragmented, with over 60,000 furniture enterprises in China; the top ten furniture companies including *Easy Home* accounted for about 10% of the total industry revenue.
- Market competition has intensified in the domestic market; domestic companies seek new growth drivers (e.g. customized furniture) and improve design capabilities and productivity through automation while increasing numbers of foreign brands enter and expand in the market and retailer penetrate into lower tier markets to acquire more market share.
- The overall furniture market growth is anticipated to slow down further, considering the Chinese central government's resumed and more restrictive policies on real estate speculations since early 2018, slowing overall economy and depreciating renminbi, as well as the mid-term structural reform.

High-End Furniture

- China's high-end furniture market share accounted for 8% of the total furniture market, consisting of foreign/ imported furniture and premium rosewood furniture domestically manufactured.
- The market value of high-end furniture market was estimated to have reached US \$15 billion in 2017, and imported/ foreign furniture accounted for nearly half of the total high-end furniture market.
- The high-end furniture market will likely continue growing at a faster pace than the expected growth rate for mid and low-end furniture; tier 1 and 2 cities remain the largest markets for high-end furniture.
- Increasing numbers of high-end furniture brands including *Baxter*, *Provasi*, *FENDI Casa*, etc. have adopted multi-channel strategies by establishing standalone showrooms, specialty stores in high-end furniture retailers, working with multiple regional distributors covering key markets, developing online or online-to-offline channels through reputable retailers or online platforms.
- On the other hand, many leading Chinese furniture manufacturers including *Qumei* and *Nature Home* are seeking to move upmarket through acquiring international counterparts recently, while some large international furniture brands including *Chateau d'AX* and *Natuzzi* have established joint venture companies with strong local partners to speed up market expansion and new store openings.

¹ CAGR = Compound Annual Growth Rate

- In the past two years, *Italian* made furniture was widely acknowledged as the most popular among their counterparts from *Germany* and the *United States*; high-end customers generally have a strong sense of identification in the design and quality of *Italian* furniture.
- The high-end rosewood furniture went through over-investment and market decline from 2013 to 2016; the year 2017 saw a slight recovery; high-end rosewood furniture makers are seeking to diversify their distribution channels by covering various exhibitions and online channels including *Tmall*.
- *Vietnam* and *Thailand* remain key countries for exporting high-end rosewood furniture to China, as a large number of Southern Chinese rosewood furniture makers have established mature production bases in these two countries due to the proximity to raw materials, relatively low labor costs, and the trade protectionism policies against Chinese furniture manufacturers.

eCommerce Sales of High-End Furniture

- The rapid development of eCommerce in China has extended the sales channels for furniture in the past few years; furniture ranked as *Tmall's* second fastest-growing category on the last *Double 11²* shopping festival (November 11, 2018).
- Compared to the large number of high-end international furniture brands in China, these (e.g. *Tempur*, *Lattoflex*, etc.) that have established directly operated or authorized flagship stores on key online platforms including *Tmall* and *JD* (the two occupying over 80% market share of the eCommerce sales) still accounted for a very small percentage.
- One key reason that majority of the high-end international brands are reluctant to sell their products on dominating eCommerce platforms such as *Tmall* (B2C³) was the prevailing IP⁴ infringement in China and the notoriety of *Taobao* (C2C⁵ online platform, owned by the same company *Alibaba*) for its sales of counterfeit products.
- Nevertheless, as increasing numbers of high-end furniture retailers such as *Shanghai Home Expo* have established their standalone online sales platforms, the number of high-end furniture that can be purchased online has also multiplied in the past few years.
- Online sales of high-end Chinese rosewood furniture have seen increases, especially rosewood seat/couch sets priced between US \$ 4,700-11,000 and rosewood beds ranged between US \$5,200-6,400.

Supply Side Analysis

- Total industry revenue (all furniture including high-end) was estimated to have reached US \$244 billion in 2017; around 5,800 medium and large-sized furniture enterprises in China generate around 55% of the total industry production.
- High-end furniture accounted for 8% of the total furniture market in China, reaching approximately US \$15 billion; foreign furniture players have about 4% market share, leading the high-end market.

² The *Double 11* (Single's Day) has become China's largest online shopping day, initiated by *Alibaba* on November 11, 2009.

³ B2C = Business-to-consumer

⁴ IP = Intellectual property

⁵ C2C = Consumer-to-consumer

- The lack of high-end domestic furniture brands in China have generated abundant opportunities for hundreds of international furniture players to approach and expand in the market in the past decades.
- Hundreds of *Italian* luxury and high-end furniture groups and brands have established strong presence in China through setting up a legal entity (e.g. WFOE⁶, Rep office, JV⁷, etc.) and/or cooperating with multiple dealers/distributors, e.g. *Luxury Living Group*, *Italian Creation Group*, *Poltrona Frau*, *Molteni&C*, *Natuzzi*, *Chateau d'AX*, etc.
- China's immense potentials in the high-end furniture market are likely to continue attracting plenty of international brands to enter the market; moreover, it has motivated large domestic furniture players such as *Jason Furniture* to move upmarket through acquiring high-end international furniture brands and working with prominent international and domestic designers to create their own brands.
- In the next few years, competition will intensify with the continuously increasing international and domestic high-end furniture brands in China and O2O⁸ eCommerce companies bringing overseas high-end furniture from brand owners/ agents/ brokers directly to end customers.
- China's high-end rosewood furniture manufacturers are mainly concentrated around the *Pearl River Delta*, *Yangtze River Delta*, *Bohai Bay Area*, and Fujian province.
- Generally, high-end rosewood furniture brands have established fairly extensive sales network in tier 1, 2, 3, and 4 markets mainly through working with franchisees and regional dealers/ distributors; however, most high-end international brands are still scattered in tier 1 and 2 cities.
- High-end brick-and-mortar furniture retailers such as *Easy Home*, *Red Star Macalline*, and *Shanghai Home Expo* still get the highest foot traffic; on the other hand, the rapid development of eCommerce retail in China has driven online sales of high-end furniture including rosewood furniture on *Tmall* and imported furniture on eCommerce platform of *Shanghai Home Expo*.

Demand Side Analysis

- China's rising upper-middle class⁹ as well as the affluent consumers including HNW¹⁰ and UHNW¹¹ households are the key target customer groups for high-end furniture; besides financial strength, plenty of them have exposure to international culture, knowledge of furniture design and brands, and their own tastes and styles.
- Drivers for high-end furniture include growing high-income individuals, increasing emphasis on living standard, and the likelihood of high-end real estate outperforming other real estate due to the latest government restrictive housing policies.

⁶ WFOE = Wholly Foreign Owned Enterprise

⁷ JV = Joint Venture

⁸ O2O = Online to offline

⁹ Household incomes of upper-middle class above US \$74,074 (RMB 500K) per year; individual income of upper-middle class above US \$44,444 (RMB 300K) per year.

¹⁰ HNW = High net worth, HNW households can be defined as having household assets of over US \$0.9 million (RMB 6 million).

¹¹ UHNW = Ultra high net worth, UHNW households possess US ~\$15 million (RMB 100 million) of household assets.

- Among the various customer groups, wealthy individuals are still the major purchasers of high-end furniture, followed by high-end real estate developers, luxury hotels and resorts, etc.
- Household assets of the affluent Chinese in coastal areas including Shanghai, Beijing, Hainan, Guangdong, Jiangsu, Zhejiang, Tianjin, etc. still grew faster than that of other areas; top cities with the highest growth in affluent household assets included Ningbo, Shanghai, Beijing, Guangzhou, Tianjin, Hangzhou, etc.
- East (coastal) China with the highest consumer purchasing power is expected to continue driving the demand for high-end furniture despite the declining real estate investment, while the faster-growing real estate investment in Central and West China is likely to pick up the demand for high-end furniture in these areas.
- Overall, China's demand for high-end furniture is anticipated to continue growing, though the growth might slow down significantly due to the tightening housing policies to restrain purchase.
- *Italian* furniture especially *Italian* design is still perceived to be the most popular among high-end customers, outfit designers and dealers/ distributors.

Import and Export Analysis

- The total import value of China's (high-end) furniture maintained a steady CAGR of 29% from US \$1.1 billion to US \$3 billion between 2013 and 2017; the first quarter of 2018 witnessed a continued growth of 22% year-over-year from US \$624 million to US \$760 million.
- Over the same period of time, China's exports of furniture had ascended to US \$61 billion in 2015, and then slipped to US \$57 billion and US \$59 billion between 2016 and 2017.
- The continuously increasing labor costs in China, gloomy overseas economy, and the US government's 25% additional import tariffs on furniture made in China will likely make China's furniture exporters suffer further decline in the near future.
- Imports of wooden furniture accounted for 40% of China's total imports, reaching US \$1.2 billion in 2017, with a CAGR of 10% from 2014 to 2017.
- Furniture for living room remained the largest segment of imports, while a trend has shown an increased growth in kitchen furniture in the past few years.
- *Italy* surpassed *Germany* since 2016 and came back as the largest high-end furniture exporter to China, accounting for 17% of China's total furniture imports in 2017; from 2013 to 2017, imports of furniture from *Italy* kept a CAGR of 26% and the year 2017 saw a robust year-over-year growth of 42%.
- *Italy* has strong competitiveness in upholstered seats, couches, sofas, other wooden furniture for bedroom, living room, etc. and other metal furniture; the first quarter of 2018 saw an accelerated growth in many of these products.
- *Germany*, *Vietnam*, *Poland*, the *United States*, and *Japan* are other key countries for exporting high-end furniture to China.

- The top three destinations for China's furniture exports were the *United States*, *Japan*, and the *United Kingdom*, which together accounted for nearly half of China's exported furniture in 2017; a tiny portion (1%) of furniture made in China was exported to *Italy*.

Trends and Market Dynamics

Modern and contemporary furniture is getting increasingly popular

- High-end furniture market still accounts for a small portion of the total furniture market in China; however, it is anticipated to continue growing despite at a slower pace, mainly driven by the steadily increasing purchasing power of Chinese consumers especially the rising upper-middle class.
- The market is becoming increasingly competitive, with more domestic and international high-end furniture companies entering the market and penetrating into lower-tier cities; intensifying competition will likely lead to more M&As¹² in the high-end furniture segment.
- With large numbers of international furniture brands opening showrooms and flagship stores in tier 1 and some top tier 2 cities, as well as the slower real estate investment in these markets, tier 2 and 3 cities especially in Central and West China where the real estate investment grow faster might have the highest growth potentials.
- Traditional channels such as flagship stores, showrooms, chained furniture stores, etc. are still the dominant distribution channels; however, eCommerce platforms selling high-end furniture are increasing and playing an increasingly important role in terms of both direct sales and online to offline (O2O) interactions.
- Customized furniture segment has experienced rapid growth in the past two to three years; there is an increasing demand for customized furniture with high-end imported materials.
- There is an evident trend that modern and contemporary furniture is getting increasingly popular among Chinese customers aged below 40 years old; in the near future, many younger wealthy customers (born in the 1990s) are predicted to purchase furniture with minimalist design.

Considerations for *Italian* Players

- Despite the Chinese (central and local) governments' further tightening housing policies between late 2016 and 2018 which have impacted real estate transactions and prices, growth potentials still exist for high-end furniture, driven by the increasing household spending on home decoration and wealthy Chinese consumers' pursuit of quality life and international comfort.
- The escalated Sino-US trade conflicts presumably will strike China's furniture trade with the *United States*, which potentially may bring opportunities for *Italian* furniture exporters.
- In general, *Italian* furniture in terms of design and quality is well regarded among wealthy Chinese consumers and industry insiders such as dealers and designers.

¹² M&A = Merge and acquisition



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- The domestic furniture market is evolving but is far from being mature; furthermore, due to a lack of strict enforcement of legislations, fraud, plagiarism, and copyright infringement are still prevalent.
- In terms of market entry options, small and medium sized *Italian* companies can consider working with multiple agents/ dealers to import and sell furniture into China; large sized companies may also consider setting up a Wholly Foreign Owned Enterprise (WFOE) to import and distribute furniture in the China market.
- *Italian* companies may also want to consider eCommerce channel as an option to approach the market; if so, working with experienced O2O eCommerce players (e.g. *Casa Italiana*, *Domus Tiandi*, etc.) who are responsible for importing and selling high-end foreign branded furniture to end customers can be viable.
- It is important to identify reliable and experienced partners, as the partners' market and management experience can significantly influence the development of a new brand in the China market.
- Before entering the market, it is also critical for *Italian* companies to protect the intellectual property (IP) of the brand or products, such as registering the company's trademark and patents in China, as the IP infringement is still prevalent in China.