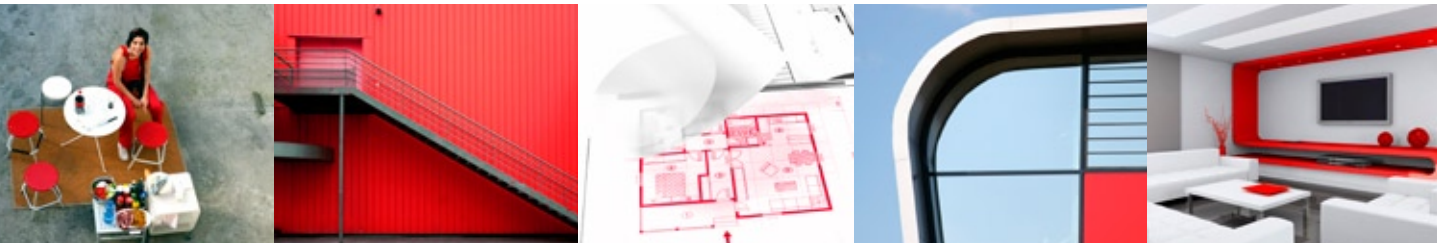




FURNITURE INDUSTRY IN RESTRUCTURING : SYSTEMS & TOOLS

FURNITURE INDUSTRY IN RESTRUCTURING : SYSTEMS & TOOLS



# Guidelines

Strategic Cooperation  
in the furniture sector



Co-funded by the EUROPEAN UNION  
European Social Fund  
Article 6 Innovative measures

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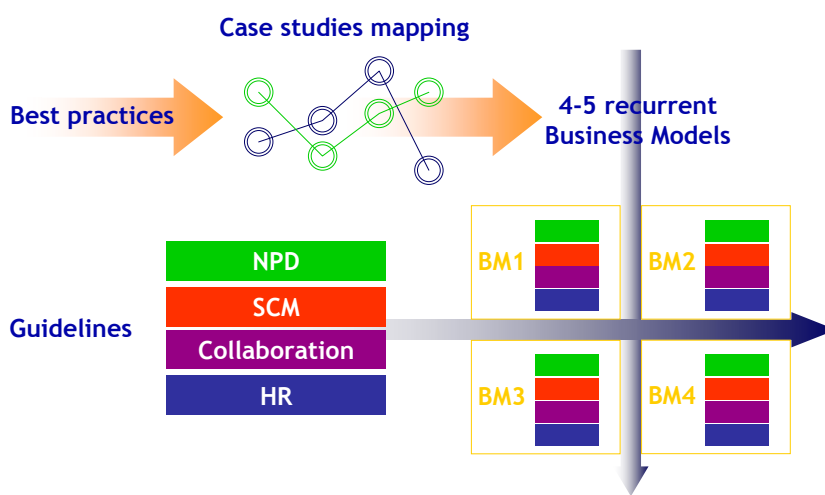
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The globalization is changing the structure of labor intensive industries such as the furniture industry. Increased imports at lower prices force the European manufacturers to look for competitive edges and if necessary to restructure their operations. Some looked at their business model, other at the product, the production, productivity or the relation with the final consumer or a combination of some or all of these different aspects. The solutions, some more successful than others they come up with are multiple.

The FIRST project has the ambition to look into this subject with the aim to formulate recommendations to serve as inspiration to manufacturers.

The methodology used was to analyze 30 companies that either went to a restructuring or that had particular characteristics in one or more aspects of their business that allows them to (better) cope with the problems arising from the globalization. This analysis should lead to business models from which guidelines on specific strategies could be distilled.



During the work it rapidly became clear that there are almost as many business models as there are companies, and on suggestion of the advisory board of the project, it was decided to concentrate on guidelines for practical strategies in specific fields rather than develop entire business models. The advisory board also suggested to formulate these guidelines in short separate formats easily usable by interested manufacturers.

This way the work resulted in the formulation of six guidelines around specific activities: product development and innovation, supply chain management, industrial co-operation, outsourcing, human resource management and electronic communications. In parallel the partners developed a sub contracting database for manufactures interested in co-operation as an instrument of increasing such co-operation between manufacturers in the EU and especially with manufacturers in the most recent EU Member States. Information on the project and on the database can be found on the UEA web site [www.ueanet.com](http://www.ueanet.com).

The analytical work has been done by the partners under the leadership and guidance of the MIP, the Polytechnic University of Milan and of AIDIMA, the Spanish technical furniture center. BFM, MEDIFA and the UEA and some of its other members contributed in the best practices and the redaction of the guidelines. Ifabrick, the information department of MEDIFA was responsible for the Web site and database.

The current booklet formulates guidelines for co-operation in the furniture industry. It is not meant to suggest that European furniture manufacturers should follow the strategies described, but the booklet wants to contribute to the reflection on this subject by those manufacturers who feel that it might fit into their business model. We hope it serves them well.

Bart De Turck  
UEA secretary general  
FIRST project manager

# I. What is strategic cooperation?

## I.1. Definition :

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Strategic cooperation/alliance is an agreement between two or more independent companies which joint individual capabilities or/and resources to pursue joint activities with purpose to increase and maintain competitive advantages of cooperators across time.

## I.2. Characteristic of strategic cooperation :

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- Cooperation occurs between the independent companies which maintain their legal independence, own culture and management ability.
- Cooperation is a formal agreement between two or more parties with purpose of attaining common goals, defining future obligations of cooperators.
- Normally the duration of cooperation is stipulated, although there is cooperation agreement which may be initiated with the intention to last across indefinite period of time.
- Cooperative agreements cover only some part of activities of participated companies.
- Cooperation agreements imply equal relations between cooperators and the process of decision making should be based on negotiations and consensus.

## I.3. Strategic alliances should fulfill some minimal criteria, such as :

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- Existence of synergy in strategic goals.
- Mutual benefits, although not necessarily the same for all the cooperators.
- Benefits that could be obtained through alliance are superior than benefits that could be achieved by means of other strategic alternatives such as merger, acquisition or individual action.



## 2. How did cooperation evolve in the furniture sector?

### 2.1 Phases of the development process of cooperation in the furniture sector.

Cooperation has intensified during the last years and became one of the options of company strategies. Cooperation agreements are an effective form to develop new technologies or/and products, to obtain critical resources or to enter into new markets, among many others.

In international context, nowadays, a significant expansion of cooperation models can be observed, that go beyond the traditional forms. Appliance fields of alliances are multiple and cover all types of company relations concerning each area of business.

Aspects like the increase of technological interdependence, the globalization of markets, the increasing production flexibility, the intensification of international competitiveness and the more and more exigent demand, are creating major doses of complexity for maintaining and improving competitive positioning through the individual actions of the company. In the environment of small and medium companies, the purely individual company strategies are less and less suitable to face effectively the context as dynamic and exigent as currently is.

According to the analysis of the development process in the furniture sector, cooperation has appeared through the modernization process which gradually took place in the sector. This way, in the first part of 70s cooperation was influenced by the management approach orientated on production - key factor of competitiveness at that time - and basically was limited to more traditional forms based on the complementarity of resources (the capacity outsourcing in conjunction with the spin-off processes).

In the mid 80s took place a change of orientation in evolution process, motivated by the fact that the key factor of competitiveness on global market became the relation between quality and price of a product. Being in possession of a technology was an essential condition but not sufficient to be enough competitive. As a consequence, commercial aspects became the object of interest of cooperation, which in turn gave an access to new markets.

Only in the mid 90s cooperation agreements have become an alternative strategy for companies, although the spreading degree of cooperative behavior was still incipient and confine itself to a few percents of the companies in each subsector.

PERIOD	Before 1976	1977 - 1985	1986 - 1993	Since 1994
KEY FACTOR OF COMPETITIVENESS	Production	Price	Quality-Price relation	Image-Quality relation
PRODUCT	Semi-handmade	Massive	Differentiated	Sophisticated
MANAGEMENT APPROACH	Orientation on Production	Orientation on Production	Orientation on Sales	Orientation on Client
COOPERATION SCOPES	Production Cooperation	Production Cooperation	Commercial Cooperation	Strategic Cooperation
PRINCIPAL METHODS OF COOPERATION	Spin-off Capacity Outsourcing	Specialization Outsourcing Technology Transfer Agreements	Export Consortiums Joint Ventures	Cooperation on various levels simultaneously

**Table I. Phases of the development process of cooperation in wood-furniture sector.**

## 2.2. Cooperation between competitors.

Nowadays, the above described development process is seems to be more limited due to restrictions which cooperating companies impose themselves than due to possibilities provided by existing forms.

Actually, there are no limits in the cooperation. Changes which have taken place in economic environment led to situation, where alliances between companies go beyond the strict relation of complementarity of activity. In the companies that have implemented a co-operation into their global strategy a trend can be observed towards intensification of agreements with companies of similar size - basically small and medium companies, being a quick and low cost way to obtain technology and to enter into new markets.

### 2.2.1. Conditions which could provide a mutual profit in the cooperation of competitors :

- Strategic goals of the cooperators converge, while their competitive goals diverge.
- Size and commercial potential of the cooperators is modest in comparison with biggest companies of the sector.
- Each cooperator thinks that can learn from the other cooperators and at the same time limit an access to its reserved technologies.

### 2.2.2. Risks of cooperation with Competitors.

RISKS OF COOPERATION WITH COMPETITORS	PRECAUTIONS TO TAKE
<ul style="list-style-type: none"> <li>○ Access to the confidential and/or reserved information by means of technicians and intermediate management.</li> </ul>	<ul style="list-style-type: none"> <li>• To inform all the employees about techniques, knowledge and technologies which they can not give information about to associated competitor.</li> <li>• To control channels of access to information.</li> <li>• To limit an agreement realm in formal way.</li> </ul>
<ul style="list-style-type: none"> <li>○ Conversion of cooperation into a weapon against cooperators.</li> </ul>	<ul style="list-style-type: none"> <li>• To understand what the goals of the cooperators are in comparison with the goals of the company.</li> </ul>
<ul style="list-style-type: none"> <li>○ Possibility that company might give more than it will be given in exchange.</li> </ul>	<ul style="list-style-type: none"> <li>• Not to cooperate without a clear knowledge of what will be obtained and what cost will be born by the company.</li> <li>• To establish specific requirements of an agreement performance.</li> </ul>
<ul style="list-style-type: none"> <li>○ Headhunting of managers between cooperators</li> </ul>	<ul style="list-style-type: none"> <li>• To learn the weak points of associated competitors and to analyze which of company's knowledge can strengthen its competitive position.</li> </ul>





### 3. What is the strategic approach to cooperation?

#### 3.1. Definition:

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The strategic approach to cooperation, a part of company global strategy, is a result of reflection process of actions that small and medium companies of furniture sector should undertake to maintain their positions in competitive environment where they operate.

#### 3.2. Three factors are leading to cooperation as a solution of these problems.

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##### 3.2.1. The limitation of economical and human resources.

For example in the EU, only about 8 % of the companies in the furniture sector reach the size minimum efficient (companies with more than 100 employees) to tackle the individual actions, necessary to maintain the adequate level of competitiveness.

##### 3.2.2. Inability to control value generation entirely.

Product innovation in the furniture sector has its place before the production itself, and it is related to development of new materials (composites, etc.), finishes (coatings, varnishes, etc.), etc. On the other hand, the possibility to maintain the policy of communication of coherent product with a view to final consumer is influencing on the sales points.

##### 3.2.3. Inability to defend against threats and to take advantage of opportunities.

Profitability in the furniture sector does not solely depend from company itself but from many forces which affect on it (the negotiation power of suppliers, the negotiation power of clients, threats from the actual and potential competitors, and the threat in the form of substitutive products.)

### **3.3. In small and medium companies in the furniture sector the strategic cooperation is an alternative for the traditional individual management and contributes to :**

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- Strengthen the management style orientated on market - promote active attitude in view of changes in company competitive environment.
- Maintain the competitive advantage across time
- Take part in value generation and differentiation process with regard to competitors.
- Optimize the available limited resources in size, which allows company to focus on its specialization.
- Promote actions within process improvement simultaneously on different levels of operation: productive, commercial, technological and financial.

### **3.4. Advantages of strategic alliances:**

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- Access to new markets.
- Access to new resources: technological, human, intangible assets.
- Reduction of production costs.
- Higher value added to product.
- More extend range of products to distribute, especially when cooperators have complementary products and comparable marketing skills.
- Increase the attraction and enhance the image of a product in case of cooperation with prestigious companies.



Example of competitive environment in the furniture sector.

- Consumer ignorance of manufacturer's brands - ease of change of supplier.
- Increasing penetration of products coming from South America and Asia.
- Increasing relocation of productive processes to zones with resources
- Raw materials import prohibitions, causing appearance of new industries in countries of origin.

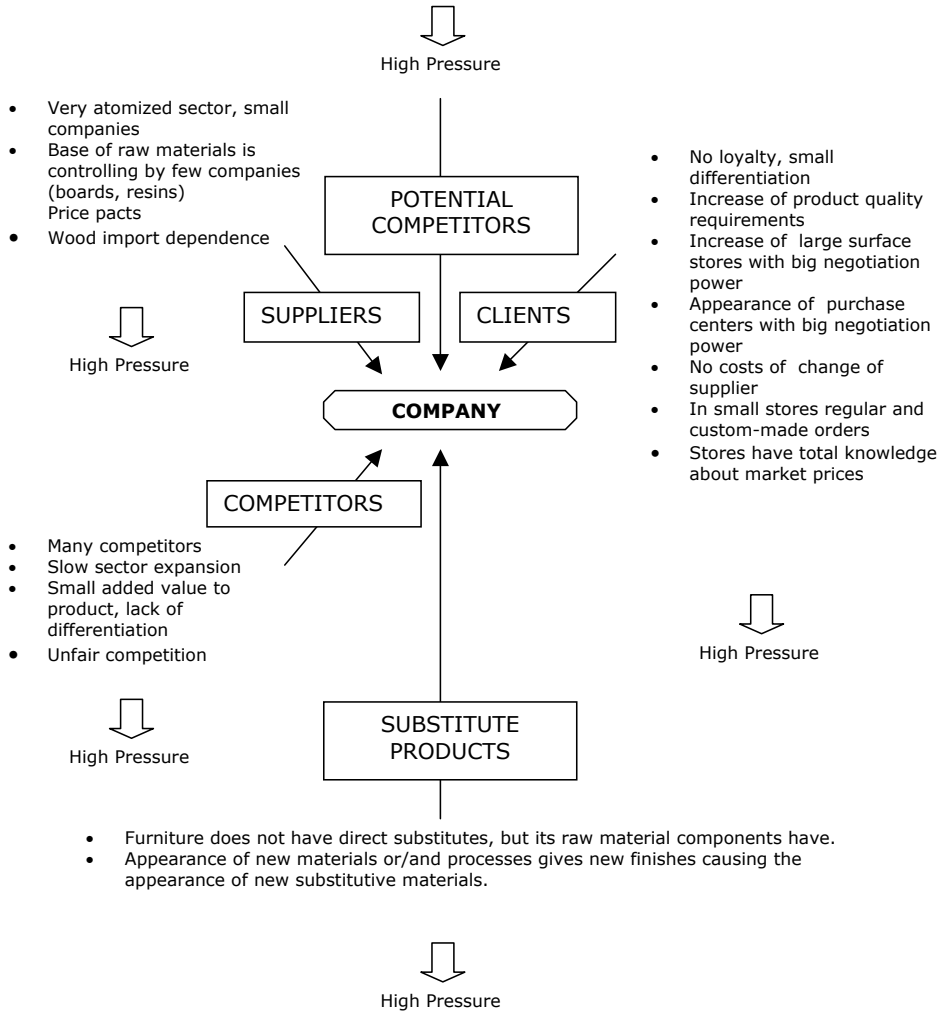


Figure I. Example of competitive environment based on the furniture sector.

### 3.5. List of main goals that can be achieved through strategic cooperation.

GOAL TO ACHIEVE	COOPERATION
Enhancement of synchronization	To eliminate delays To create more alternatives
New benefits	To unite capabilities
Reduction of costs and risk	To share development processes To decrease risk of investment
Increase of value added to product	To improve service To promote agreements
Extension of product line	To develop new products To distribute products of other manufacturers To offer integral service
Promotion of compatibility	To create interrelated rules
Enhancement of product image	To join promotion
Increase of market share	To unite sales resources To join product offers
Improvement of marketing efficiency	To reassign marketing tasks
Improvement of promotion efficiency	To encourage to commitment and creativity
Opening of new distribution channels	To share distribution channels
Improvement of product control	To share product control with wholesalers; To increase the exclusiveness
Regular supply of resources	To tighten connections with suppliers
Enlargement of production capacity.	To share underutilized resources
Implementation of new processes	To apply technologies of cooperators; To share risk of technological development
Improvement of production efficiency	To outsource To share all kind of resources
New production methods/practices	To develop common rules
Incorporation of technology into company	To transfer and acquire technology
Promotion of creativity in R&D	To try new approaches
Facilitation of technology transfer	To get access to projects and results developed by cooperators
Overcoming market entry barriers	To obtain necessary advantages to penetrate new markets.
Sounding of new opportunities	To experiment jointly
Learning of other companies	To elaborate informal studies To learn practices of cooperators
Generation of more income	To add-up competitive advantages To get better underutilized resources

**Table 2.** List of main goals that can be achieved through strategic cooperation.



## 4. What are the most frequent forms of cooperation?

### 4.1. Introduction

There are a lot of forms of cooperation that the company which wants to obtain new advantages can use. All depends on:

- Which field the company wants to cooperate in.
- What objectives the company wants to achieve.
- In what period of time the company wants to do it.

Every form of cooperation has its weak and strong points. None of them is perfect and can not maintain all goals that the company wants to obtain, but by being used in a proper way can strengthen significantly weak points and this way can increase the competitiveness.

Nowadays, apart from new ideas of cooperation, exist forms of cooperation that have been used for many years and whose rules are very clear and understandable for the companies which have been presented in the market for quite a long time.

What is interesting, sometimes companies actually do not note that they are cooperating, because of the fact that cooperation has become something very common in company thinking.

### 4.2. Criteria for classification of the cooperation types.

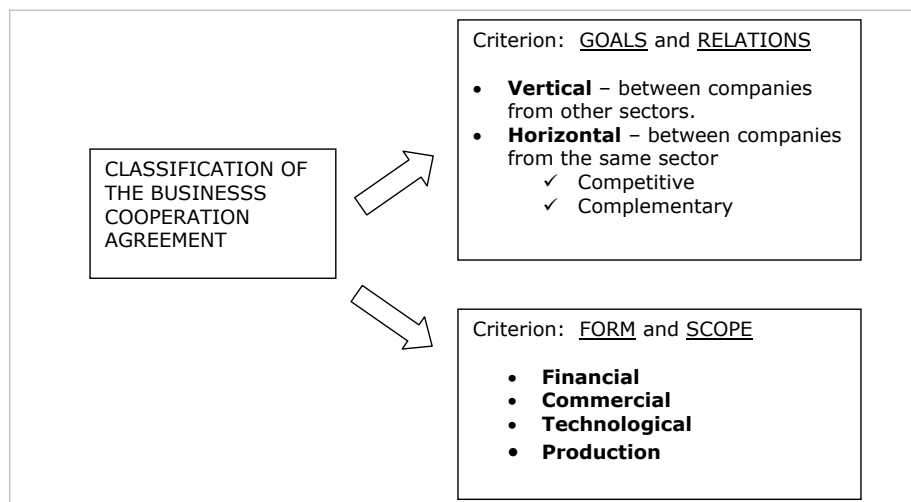


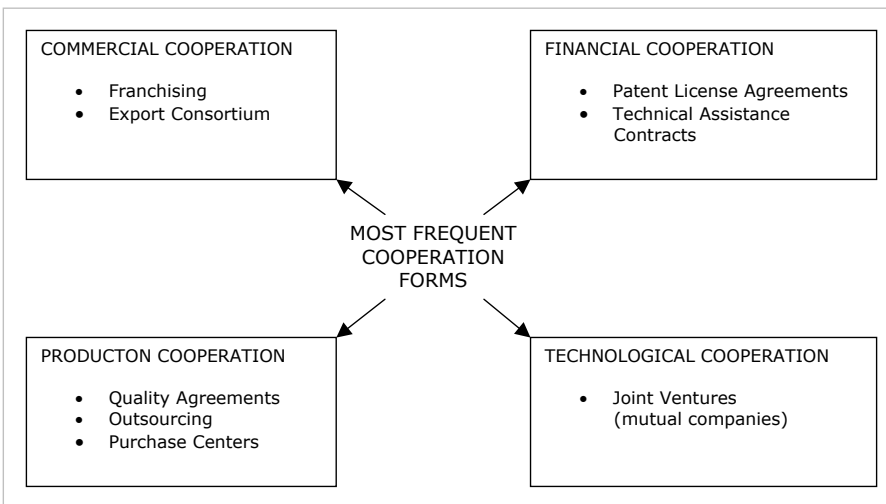
Figure 2. Criteria for classification of the cooperation types.

### 4.3. Classification of possible cooperation agreements in the furniture sector.

CATEGORIES AREAS	CATEGORIES				
	MARKETING	PRODUCTION	R&D TECHNOLOGY	FINANCES	LOGISTICS
VERTICAL	Franchising Agreements with clients	Relations supplier-client Quality agreements Outsourcing	Development of new products Licenses Technical assistance contracts	Joint Venture	
COMPETITIVE (horizontal)	Export consortium Joint marketing	Sharing of resources Purchase head office	Technical assistance contracts Development of new products and processes	Reciprocal insurance companies Venture capital companies Joint Venture	Transport Purchase Center Purchase of raw materials
COMPLEMENTARY (horizontal)	Advertisement Export consortium	Joint Manufacture	Technology exchange Licenses	Reciprocal insurance companies Venture capital companies Joint Venture	Transport Distribution Purchase Centers Service Centers

**Table 3. Classification of possible cooperation agreements in the furniture sector.**

### 4.4. Most frequent forms of cooperation.



**Figure 3. Most frequent forms of cooperation.**





### 4.4.1. Commercial cooperation

#### 4.4.1.1. Franchising

Cooperation agreement between two companies wherein one company (franchisor) give other company (franchisee) the right to use its trademark, products and technology in exchange for direct or indirect payment (usually a percentage piece of gross sales or gross profits).

However, this right is very often limited by many clauses (e.g. confined territory where the franchisee can operate). Usually the franchisor has many franchisees.

#### Advantages :

1. Access to the knowledge ("know-how"), result of many years of experience of the company (franchisor)
2. Opportunity to be the company which on start has lower costs and in a result bigger chance to achieve success, than in normal case.
3. Possibility of financial assistance from franchisor to franchisee.
4. Franchisee does not loose the ownership of its company.
5. Despite of certain loss of independence, franchisee has big autonomy in decisions concerning the negotiations.
6. Franchisee can establish prices of the products by its own within the frames indicated by franchisor.
7. Franchisee has access to many support services provided by the franchisor (e.g. book keeping assistance).

#### 4.4.1.2. Export Consortium

Export consortium is a cooperation agreement between two or more companies made in order to combine individual export potentialities. (Consortium has to be an autonomous economic entity, which shares are divided among associated companies according to prior arrangements made by these companies.)

It is advisable that products of the associated companies rather complement each other instead of compete with each other. It increases significantly the chance of success.

#### Advantages :

1. Costs and risk of every commercial initiative are divided (e.g. Promotion)
2. Stronger position in negotiations with wholesalers and retailers.
3. Bigger range of offered products.
4. Possibility to enter into new markets.
5. Associated companies can focus on other aspects than export.

## 4.4.2. Production cooperation

### 4.4.2.1. Quality Agreement

This form of cooperation is quite similar to outsourcing. In certain way, the implementation of the quality agreement is parallel to the use of the management and production methods that more and more oblige to more intensive relations between different companies.

#### Advantages:

1. Access to suppliers of big companies.
2. Stimulation of improvement of quality of processes and products.
3. Promotion of technological innovations.
4. Improvement of production planning.

### 4.4.2.2. Outsourcing

Cooperation agreement between two companies wherein one company (outsourcer) contracts out part of production or service process to other company (outsourcee) according to quality rules established during former negotiation process. Simultaneously, outsourcer maintains final economic liabilities.

#### Advantages:

For outsourcee	For outsourcer
1. Certainty of regular orders, which enable better production planning and reduce risk of small profitable investments.	1. Costs reduction of basic activity. 2. Improvement of technology and product quality. 3. Enhancement of flexibility.
2. Possibility of focusing, across relatively long period of time, on technical aspects of production and reduction of promotion and marketing costs.	4. Reduction of direct investments in production process. 5. Possibility of focusing more on commercial aspects.

### 4.4.2.3. Purchase Center

When a company does not have enough individual negotiation power to get better conditions of purchase of raw materials and/or finished products can sign with other companies an agreement by means of which the companies could purchase together mentioned products and/or resources on better conditions.

#### Advantages:

1. Costs reduction through lower prices of raw materials.
2. Improvement of payment conditions within suppliers.
3. Possibility of order planning.
4. Stocks reduction of raw materials.
5. Improvement of service of suppliers.
6. Simplification of introduction of new products and technologies by suppliers.
7. More competitive attitude towards secondary suppliers.





### 4.4.3. Technological cooperation

#### 4.4.3.1. Patent License

Agreement consists in purchase of rights to exploit product, service, or process by companies (licensees) from other company (licenser) in exchange for money (royalty).

##### Advantages :

1. Replacement of insufficiencies in the technology
2. Possibility of disposing of competitive products, processes or services by extending the company offer and the market in which company operates.
3. Having secured technological part, company has possibility of intensification of commercial actions.

#### 4.4.3.2. Technical assistance contract

Arise when there is a need to cover a technological development gap of company. Therefore this type of cooperation concerns product as well as productive process.

##### Advantages :

1. Enhancement of competitiveness of companies.
2. Improvement of production processes.
3. Stimulation of training of company technical staff.

### 4.4.4. Financial cooperation

#### 4.4.4.1. Joint venture

Cooperation agreement between two or more independent companies with the aim of foundation of new legal entity body, whose share capital will be still in possession of the cooperators, and providing it with resources necessary to operating, receiving in exchange the results (benefits, know-how, etc.) generated by its activity.

In case of certain types of the emergent products or markets, it is the best option for internationalizing the company.

##### Advantages:

1. Opportunity to penetrate or settle into new markets.
2. Possibility of bankrolling of determined projects (innovation, investigation, creation of commercial net, etc.).
3. Possibility of sharing risks and getting experience.
4. Opportunity of exploiting own competitive advantages that may require an external assistance.
5. Reinforcing of the acquired strategic positions in view of appearance of determined circumstances (new competitors, etc.).
6. Possibility of reaching of new strategic positions (creation of new product or business, etc).

## 5. How to achieve strategic cooperation?

### 5.1. If a company sees opportunities in strategic cooperation, it is essential to answer to 4 questions.

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1. In which area(s) to cooperate?
2. How does it affect company competitiveness?
3. With whom to cooperate?
4. How should a company implement it?

### 5.2. To answer these questions, here is a short 5-phase guide to implement strategic cooperation:

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#### 5.2.1. Phase 1: Preparation of cooperation strategy.

In this phase company should determine which cooperation agreement fits in global strategy of company, what impact it will have on competitive advantage of the company, which are strong points, on which company could be based the negotiations (type of cooperation, which company want to implement, depends on what are the weak points of the company), what characteristics company is looking for in cooperator/s, and what the assignments of resources should be.

#### 5.2.2. Phase 2: Searching for potential cooperators

Complementarity of companies which subsequently will be part of alliances is one of the factors which favor stability of agreement: this is an advice not a requirement. Cooperation between competitors is also possible, but it is advisable to resort to it only when situation strongly needs it and cooperators have experience from other previous agreements. Public and private organizations (such as industrial associations) can facilitate finding of potential cooperator.

#### 5.2.3. Phase 3: Negotiations.

This phase is essential for the success of a cooperation agreement. On one hand the company can evaluate the potential cooperators, and be convinced if its choice was proper, on the other hand, it can make an evaluation of its position within other associated companies and determine type and features of the cooperation agreement that is negotiating.

This phase has an important influence on future stability of an alliance and determines a type of formalization (legal or not) of agreement.



#### 5.2.4. Phase 4: Formalization of the cooperation agreement.

Cooperation agreements do not require the same degree of formalization. The degree of formalization depends on the type of agreement and on the level of relationship and confidence existing between the cooperators. Besides the traditional legal forms of founding a new legal entity body (LLC, PLC) there is the legal form - European Economic Interest Grouping (EEIG) - which was created by the European Union specially to support the idea of international cooperation. In national law of many countries there is similar legal form - Economic Interest Grouping (EIG) - which targets companies founded in the country of origin.

#### 5.2.5. Phase 5: Implementation and monitoring of an agreement.

In this phase, the company initiates the process of implementation according to the terms settled during the negotiation process. With independence of transcendence of reached agreement, initiation of these actions entails the appearance of internal (changes in strategy and organization of the company) and external (necessity of creation of efficient coordination between cooperators) effects.

Monitoring cooperation permits to evaluate if the cooperation proceeds according to the rules defined previously, and at the same time, to measure its effects on the company.

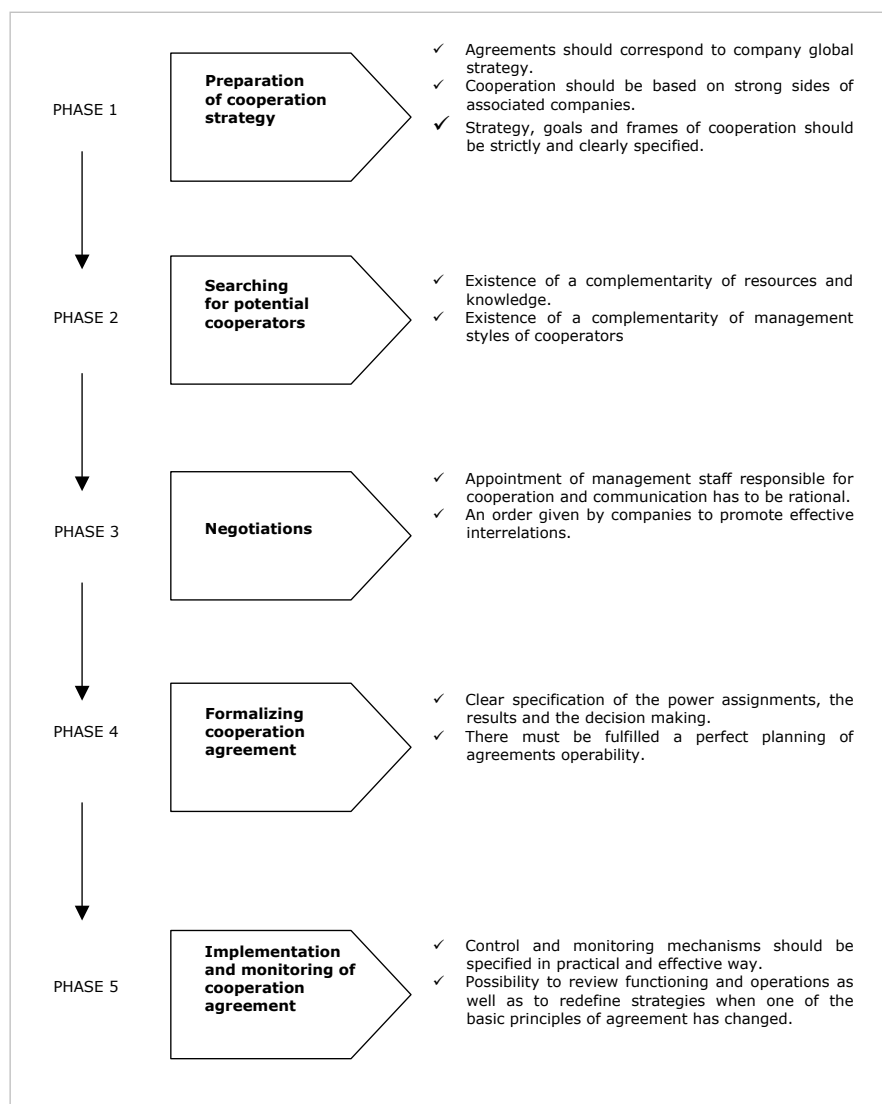


Figure 4. Phases of formation process of strategic cooperation.

## 6. How to plan a participation in cooperation business meetings?

### 6.1. Cooperation Business meetings

There are a lot of national and international organizations, which cooperation programs target to stimulate organization of cooperation business meetings to facilitate the emergence of cooperation agreements between companies.

Participation in cooperation business meetings can strengthen the competitive position of an enterprise by reducing cost and time. However, important is not only to participate but to do it properly, in a way to obtain the highest possible profitability in accordance with interest of every participating company, and to be aware that during scheduled short-time meetings, a company ought to optimally use time by bringing up only relevant matters.

It means that it is important to define very clearly what a company is interested in and what it can offer in exchange.

### 6.2. Necessary steps to be prepared for cooperation business meeting

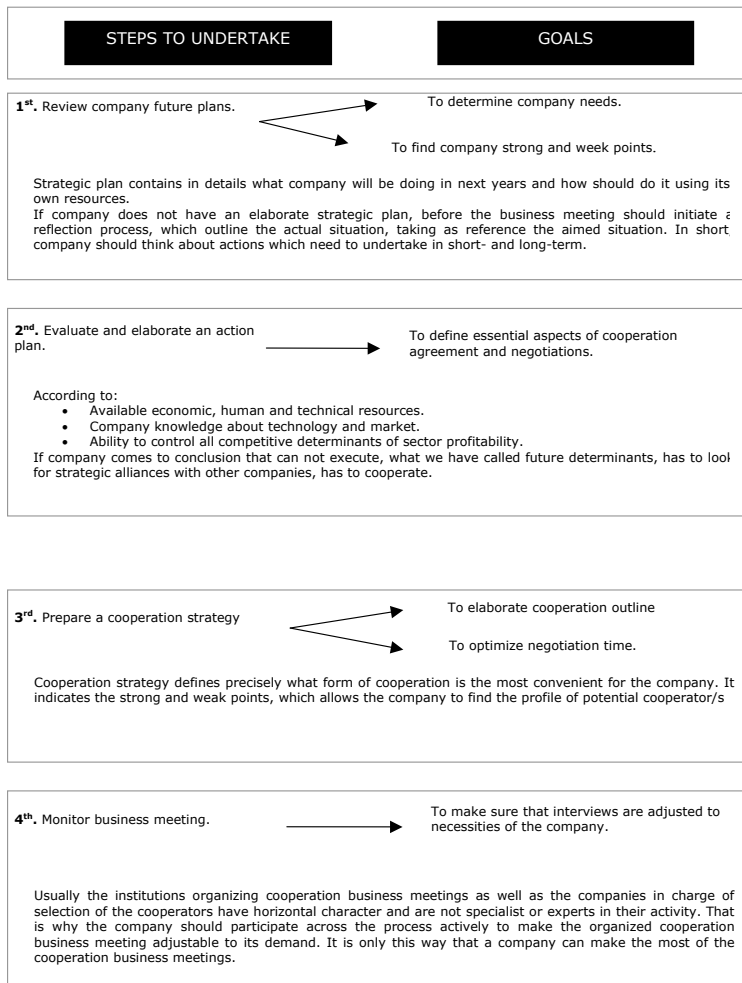


Figure 5. Necessary steps to prepare for cooperation business meetings.





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