ENABLING TRIPOLI'S CARPENTRY CLUSTER

Strategic directions for Tripoli's carpentry cluster based on a supply-demand gap analysis

December 7, 2017

This project is funded by the European Union

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EXECUTIVE SUMMARY

Once at the heart of the woodcraft sector in Lebanon, the previously prosperous furniture production industry in Tripoli is facing the threat of the recent accumulation of economic, social and political challenges.

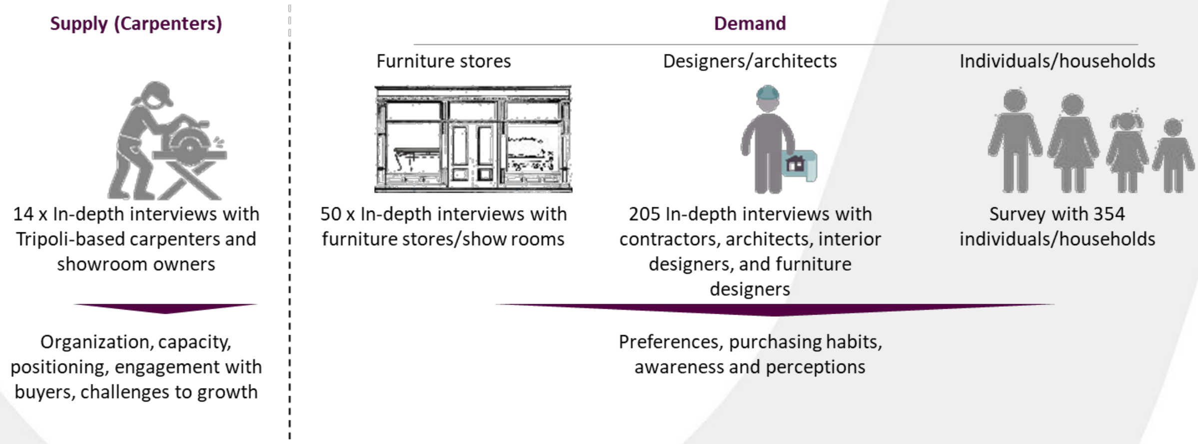
After the diagnostic managed during the inception phase, the Private Sector Development (PSD) Program, funded by the European Union and implemented by Expertise France, has identified an opportunity for a potential revival of the industry, raising the necessity to facilitate the communication and access to market for Tripoli wood furniture suppliers, tightening as such the existing gap between them and the market demand. To achieve this aim, Expertise France has entrusted Markits Consulting to undertake two market research initiatives in 2016 and 2017 to:

- analyze Tripoli's woodcraft industry
- explore its challenges in securing a sustainable position on the Lebanese market
- identify potential market opportunities
- propose strategic directions to pursue these opportunities.

The studies covered the whole carpentry value chain, from the production to the markets focusing mainly on:

- Carpenters
- Distributors
- End-Consumers

Hence, the analyses were structured as a consumer segmentation, along with a distributors' needs and perception research, combined with a supply-demand gap analysis, leading to the formulation of recommendations.



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I-From the end consumer perspective, the study led to identifying three consumer segments that the industry could pursue on the ***short term*.** These segments are:

1- "The tradionalists": The middle-class households with traditional esthetic preferences. They are white-collar, middle to upper-middle class, with an estimated average spending on furniture of $1,750 per year.

19% of survey respondents preferred traditional styles over all other furniture styles"

2- The middle-class "bourgeois-bohème", which are educated, worldly, and socially conscious. They range from middle to upper socioeconomic classes. They are trendy, value originality, and go at length to seek furniture that reflects their values.

3- "The small businesses in Tripoli and its vicinity": These are small businesses including retail that have basic carpentry needs, and are willing to work with independent carpenters.

Little gaps have been identified between the demand of these segments and Tripoli carpenters. As such, gaining market shares with these segments would require limited interventions, focused on making the dynamics of engagement with potential clients more effective.

The study also led to identifying three other consumer segments that the industry could pursue on the ***longer term*.** These segments are:

1- "The classic modernists" composed of middle-class household which are educated and have white-collar jobs. Their spending on furniture averages $1,750 per year and is guided by a balance of convenience, economy, and adherence to the classical modern style. **67%** of survey respondents preferred the classic-modern style over traditional or industrial/eco-designs

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2-“The elite” that belong to the A+ socioeconomic. They commonly spend $60-100K on home furnishing projects, hire interior designers, and shop in luxury showrooms that feature designer furniture. Brand reputation, esthetics and quality are the pillars of their demand.

2- “The independent contractors” undertaking small/medium real estate projects that require basic carpentry needs such as doors and storage units. They are willing to work with independent carpenters, with an average spending of about $750-1000 per year.

To the contrary to the first 3 segments, gaining market shares with the “classic modernists”, “ the Elite” and “the independent contractors” segments would require in-depth (and lengthy) interventions to overcome the identified gaps in quality, trust and proximity, and be able to build the infrastructure, capacity, and skill base of the industry.

II- From the distribution perspective the covered channels were: Architects/ Interior Designers, Furniture Designers, Contractors, and Showrooms.

The analysis led to the identification of the main needs and perceptions of the distribution channels. Most notably, Classic Modern (36%) and Contemporary styles (25%) are the mostly preferred styles by distributors, in contradiction with the Traditional style (15%) that is not in demand and which Tripoli carpenters are characterized by.

In addition, the research showed the existing demand for innovative styles and designs that require a lot of different wood types, with a rising demand in:

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- Natural elements and natural wood colors (Light and walnut mainly)
- MDF colored wood
- The usage of mixed materials such as metals and marbles
- Customization levels in carpentry productions

Furthermore, the study identified that individuals/residential segment represent the main end-user profile served. When assessing carpentry works, they mostly seek innovative designs, a high-quality finish, a select type/color of wood, in addition to a strict respect of deadlines. In that regards, Tripoli carpenters are viewed rather positively when it comes to their craftmanship; however, a strong perception lingers that their designs tend to be more traditional and that the distance of the city poses logistics and cultural challenges.

The assessment of the demand-supply divide for the different types of Distributors vs. Tripoli Carpenters highlighted a favorable perception mostly in the criteria of Quality, Skills, and Price. However, the potential business linkages are heavily hampered by unfavorable views of Tripoli carpenters in the areas of Design, Deadlines and Trust.

Based on the studies, strategic prioritization of remedial actions were recommended to build on the abovementioned strengths and cater to the weaknesses with the aim to build positive and sustainable business partnerships between the different distributors types and the Tripoli carpenters industry, while bridging the gaps with the end consumers.

The strategic guidelines follow two separate axes, Quick wins & Mid to Long-term actions, and address the carpentry value chain criteria:

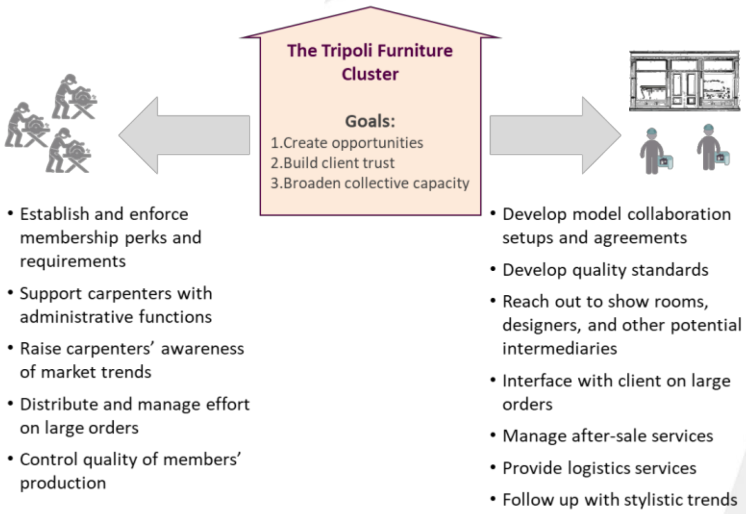
1. **Proximity:**
    - *Quick wins:* set direct business linkage sessions between distributors and carpenters, participate in exhibitions locally and internationally, facilitate initial meetings and establish a basic online presence
    - *Mid to Long term plan:* Provide a facility for prototyping and pre-production, establish a shared showroom in Beirut, develop an online marketplace
2. **Design/Style:**
    - *Quick wins:* Raise awareness on current market trends and demands and develop a materials library. Broaden stylistic styles
    - *Mid to Long term plan:* Develop a “Tripoli Brand” and “Tripoli specific” style
3. **Trust:**
    - *Quick wins:* Raise awareness on the importance of intellectual properties, and building long-term partnerships. Additionally, provide technical trainings for reading furniture plans
    - *Mid to Long term plan:* Manage the learning curve: start with simple projects and designs, and with a select number of carpenters and distributors. Gradually expand the complexity of items and expand the clusters

4. **Deadlines:**
    - *Quick wins:* Focus raising awareness on the importance of deadlines respect and legal matters. Develop and maintain a registry with a trustworthy 3rd party (BIAT)
    - *Mid to Long term plan:* Establish customer protection mechanisms and carpenter rewards programs
5. **Price:**
    - *Quick wins:* Focus on creating value and optimizing costs rather than reducing prices. Streamline carpenters' production processes, and develop common logistics mechanisms
    - *Mid to Long term plan:* Try to establish blanket deals from suppliers to Tripoli carpenters, and develop centralized purchasing centers to achieve economies of scale
6. **Quality/Skills:**
7. *Quick wins:* Provide relevant technical trainings for improving quality and developing existing skills and new capabilities and techniques; improve on customization capabilities
    - *Mid to Long term plan:* Identify needs for machineries required to enable high quality products. Establish knowledge management mechanisms between Tripoli carpenters (online educational tools and sharing platforms)

Finally, three potential interventions were proposed to effectively address the above-mentioned strategic priorities and enable growth in Tripoli's woodcraft industry:

1. *Creating a Tripoli furniture cluster*. This intervention would aim at professionalizing the industry's engagement with potential clients, building consumer trust, and incentivizing carpenters to improve the quality and grow the breadth of their products.

    The diagram below illustrates how the Tripoli furniture Cluster would operate.



2. *Building capacity. The gap analysis uncovered critical technical gaps that impeded Tripoli woodcraft's growth. Addressing these gaps demands the implementation of capacity building interventions, which can be grouped under two categories:*

– *Infrastructure development*. Such interventions would consist of financing and/or supporting the acquisition by Tripoli carpenters of new equipment and machinery, aiming at:

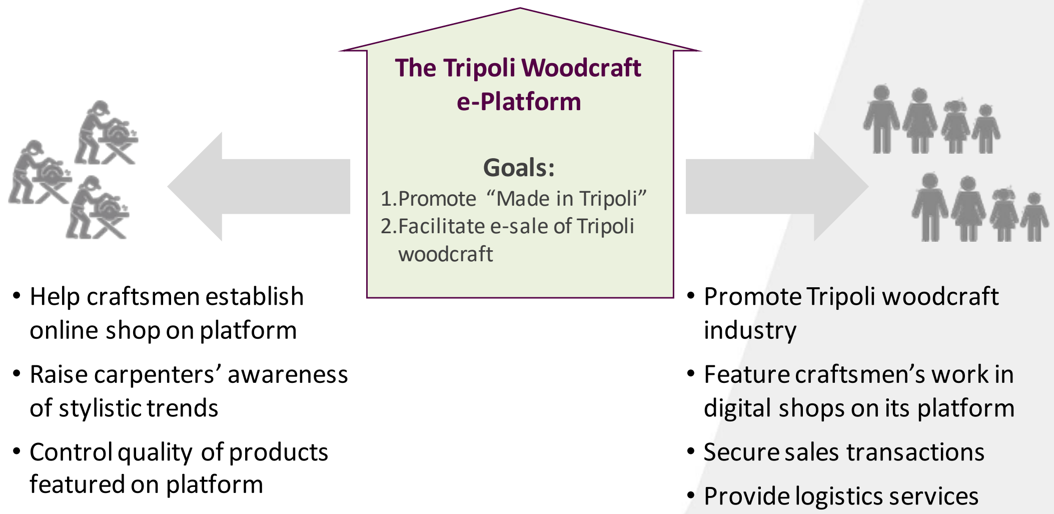
- Scaling and industrializing production outputs
- Broadening the range of furniture styles that can be produced
- Improving the quality of finished furniture
- Improving operational efficiency

– *Skills development*. Such interventions would consist of Providing training and skills development, in particular focusing on:

- Market demand trends
- Product Development and Quality Control
- Intellectual properties
- Accounting, contract management, and other basic administrative functions

3. *Creating an online presence*. The creation of an online catalog at a first stage and of an e-platform at a second stage for Tripoli woodcraft product, would help connect the industry to a broader pool of clients, build its brand equity, and promote its unique selling propositions.

The diagram below illustrates the way the online presence/ e-platform would engage with carpenters on the one hand, and consumers on the other.



“SUPPORTING THE PRIVATE SECTOR DEVELOPMENT IN LEBANON – REINFORCEMENT OF THE WOOD PROCESSING SECTOR IN TRIPOLI”

DEVELOPMENT AND IMPLEMENTATION OF A MARKETING, COMMUNICATION AND SALES PLATFORM

Executive Summary of the Consumer Quantitative Study

Presented to Expertise France

November 24, 2019

This report presents the findings and insights of the consumer quantitative market study requested by Expertise France, with the goal to uncover the end consumers' habits, tastes and attitude towards Tripoli Carpenters. The study focused primarily on identifying at a first stage: the end consumers habits when it comes to furniture; their most preferred styles; their decision making process as well as their attitude towards Tripoli carpenters, and then coupling at a second stage these insights with the supply characteristics of Tripoli carpenters, in order to identify the gaps in the carpentry value chain. The demand-supply gap analysis provides the guide to the formulation of strategic options.

The study adopted a 4-stage approach: It starts with data collection generated by conducting face to face interviews with 379 respondents* having furnished their house in the last three years; which enables the second stage that analyses the demand and develops insights on end consumers' needs. It is then followed by the assessment of the unmet needs that is performed through a structured comparison of most important criteria versus perception of Tripoli Carpenters. The study is finalized by building on the initial three stages to determine strategic priorities to develop efficient marketing mix strategies.

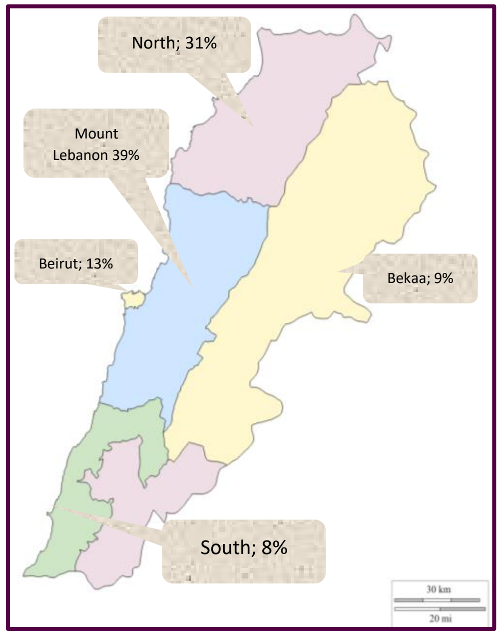
*Quota imposed on sample size:

Gender: 51% female and 49% male

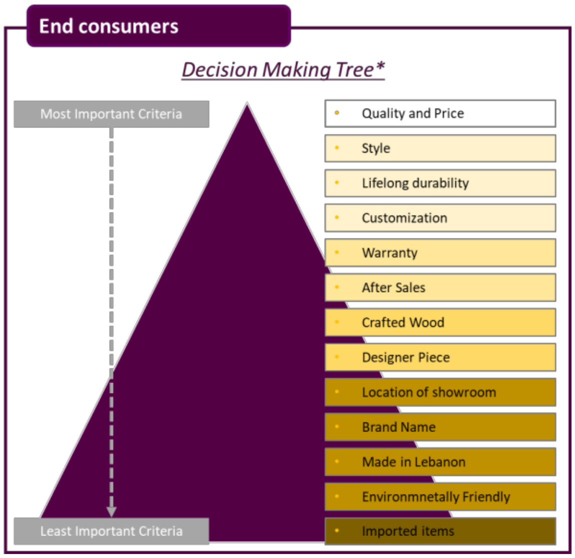
Decision Makers: 100% decision makers when it comes to purchasing their furniture and have bought a furniture piece in the last three years.

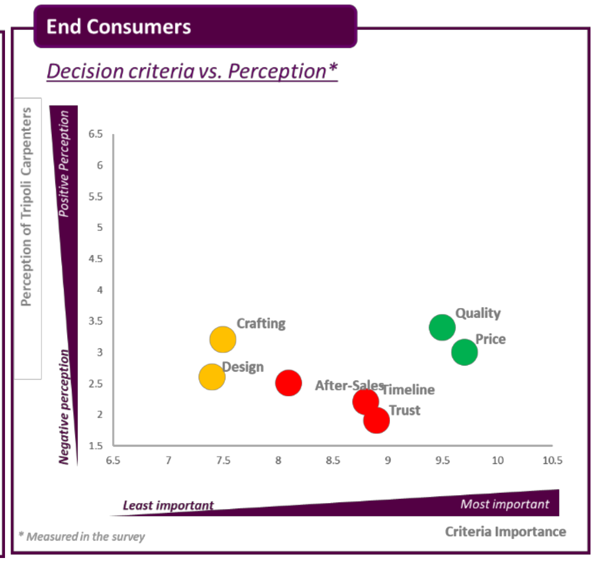
Age	%	N
Between 20-40	49%	186
Above 40	51%	193
Social Class Monthly HOH income	%	N
Class A+ (> $5000)	34%	128
Class A ($3001 - $5000)	19.5%	74
Class B ($2000 - $3000)	47%	177
Total	100%	379

Marital Status	%	N
Married with children	67%	253
Single	14%	54
Married without children	11%	41
Engaged	4%	15
Divorced / Widowed with children	2%	9
Divorced / Widowed without children	2%	7



The analysis led to the identification of the main expectations and perceptions of end consumers; When they buy their furniture items, end consumers mostly seek a high-quality finish, value for money, appealing styles, in addition to durability and flexibility of customization. In that regards, Tripoli carpenters are viewed rather positively especially when it comes to quality, price and crafting. However, the potential deals with Tripoli carpenters are heavily hampered by unfavorable views of Tripoli carpenters in the areas of Design, Deadlines and Trust.





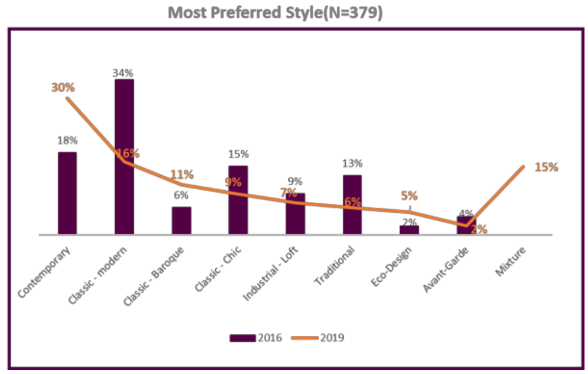
The report sets strategic prioritization of remedial actions to build on the abovementioned strengths and cater to the weaknesses to build positive and sustainable partnerships between end-consumers and Tripoli carpenters.

The strategic guidelines are based on the marketing mix elements:

1- Product:

What did we learn?

- The Contemporary style being the most preferred furniture style by 30% of respondents (an increase of 12% since 2016) presents an important growth trend (cf. graph 1)
- 87% prefer buying “Made in Lebanon” furniture over imported furniture; the most preferred Lebanese styles being oriental calligraphy, rattan and crafts.
- Quality is the first criteria end consumers look at when selecting their products.
- End consumers value customization as 65% of respondents prefer customized furniture over ready made ones.
- Customization is the main reason for working with a carpenter.



Graph 1: Most preferred style by respondents

Way Forward:

- Carpenters should modernize and renovate their creations to match the current market's needs since people now look more for contemporary styles. This can be done by raising carpenters' awareness of stylistic trend and providing continuous trainings on current market demands and fashionable styles.
- Encourage more and more collaborations with Designers to re-invent the Tripoli Furniture Design by incorporating current carpenters' capabilities and the heritage of Tripoli, and more specifically oriental calligraphy, rattan and crafts into a modern and trendy outlook.
- Improve on product quality and customization capability through technical trainings.
- Minjara should capitalize on the growing demand for customizations by developing its customization services and integrating it in their communication and sales strategies.

2- Price:

What did we learn?

- Price along with quality is the most important factor looked at when selecting a furniture item to buy.
- An average household furnishing its house spends $3,146 on furniture per year.
- End consumers are willing to spend on average $2,548 on a master bedroom and $2,953 on an 8-seater dining table
- 65% are interested in buying a unique piece of furniture designed by a furniture designer and are ready to pay a premium for it.

Way forward:

- Before developing any furniture item, the designer and the carpenter should have in mind a selling price not to be exceeded.
- Train carpenters on furniture production costing.
- Increasing the value (rather than decreasing prices) by creating more signature products whereby the modernized design and brand would be able to justify the price.
- Price being the most important factor taken into consideration while selecting the items to buy, we should make sure to communicate the prices at the launch of the furniture pieces.

3- **Product:**

What did we learn?

- 50% of respondents get their inspiration online and mainly from google, Facebook and Instagram
- However, for their purchases 68% of respondents refer exclusively to showrooms while only 3% have ever bought a furniture item online.
- 50% mentioned that having a showroom nearby can encourage them to interact with a carpenter from Tripoli.

Way forward:

- For inspiration, keep Minjara website updated and Minjara social media platforms active.
- Bring customers closer to the carpenters through:
  - Continuous participation of carpenters in exhibitions outside Tripoli.
  - Presence in showrooms outside Tripoli through:
    - Popups, at ABC department store for instance
    - In designer's concept stores: Oddfish;
    - In Coffee shops: Antwork, Urbanista, Ginette…;
    - Online on Minjara platform and other Designers' online platform with a phygital showroom in Beirut.
  - Establishing a Minjara showroom in Beirut: Rental fees: 3000 USD/ month for a 100m2; Decoration + set up fees: $ 10,000; Salespersons: $ 2,000 (2 shifts).

4- Promotion

What did we learn?

- 17% of respondents are aware of Minjara.
- Trust and reputation are the looked at criteria when selecting a carpenter to work with.
- Tripoli Carpenters are well perceived compared to carpenters based outside Tripoli and showrooms, when it comes to price, crafting and quality.

Way forward:

- Keep on investing in raising awareness about Minjara through an active online presence and continuous participation in exhibitions.
- Build trust and good reputation by focusing in our communication on success stories, revolving around Tripoli carpenter's expertise and quality service delivery.
- Have an annual full fledge integrated campaign (online, magazine ads, TV and radio) that would focus on Minjara brand values. The first campaign should be run at the launch of Minjara showroom.