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ANALYSIS OF RETROSPECTIVE TRENDS IN THE COMPETITIVENESS OF CHINESE FURNITURE INDUSTRY ENTERPRISES

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Highlights

- A retrospective analysis of the development of the Chinese furniture industry has shown that state control and the policy of centralized allocation of resources have become key factors that determined the trajectory of its formation.
- Chinese companies have successfully entered global markets, maintaining significant production volumes, but are facing problems related to the slowdown in growth after the pandemic.
- To increase competitiveness, enterprises need to switch to technology-intensive production, strengthen marketing and integrate environmental sustainability into their strategies.

Abstract

Introduction: The article provides a retrospective analysis of the competitiveness of Chinese furniture industry enterprises since the founding of the People's Republic of China in 1949. The key stages of the industry's development are highlighted, starting from the period of almost complete state control until the present time, when the Chinese furniture industry has become the world's largest manufacturer and exporter. However, in the context of slowing market growth after the pandemic, unresolved problems remain, including low innovation activity, limited marketing opportunities and environmental challenges.

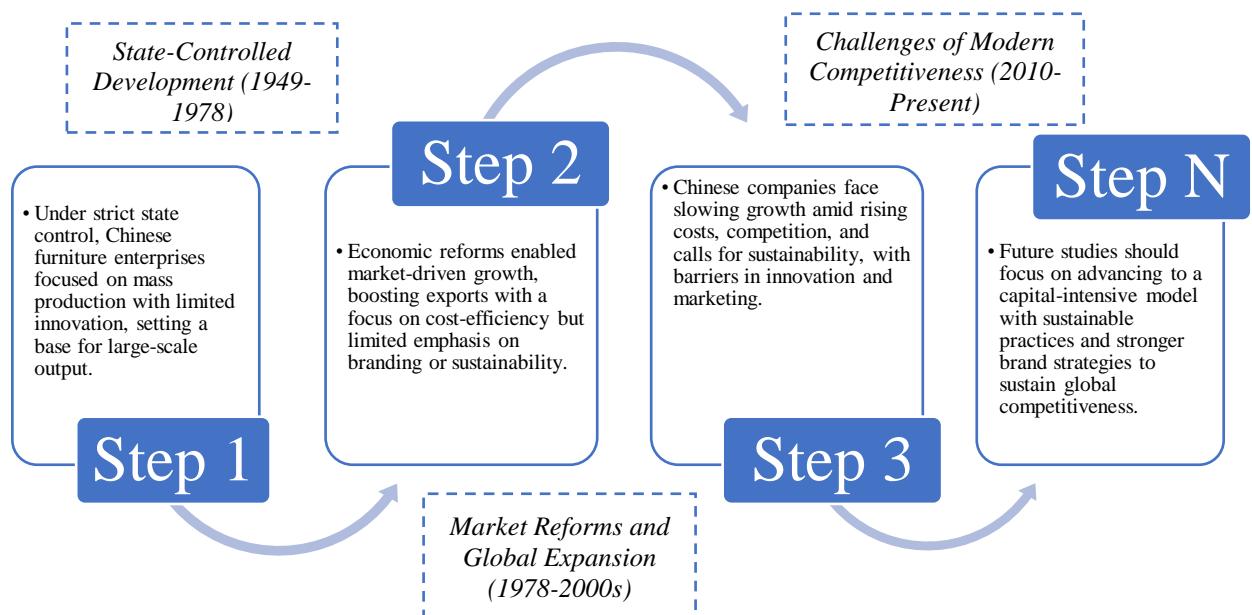
Methods: To analyze the competitive advantages of the industry, the "competitiveness polygon" method was used, which covers key aspects such as product quality, innovation, environmental sustainability and global reach. The research is based on reports from expert agencies and statistical data describing the dynamics of the Chinese furniture market and its role in the global economy.

Results: The analysis showed that Chinese furniture companies are focused on mass production due to affordable labor and scalable production facilities. Government support and investment have played a crucial role in the industry's success on the international stage, but manufacturers need to overcome historical barriers to innovation and environmentally friendly technologies. The market also faced a slowdown in growth due to the pandemic, which reinforced the need for further improvements to maintain competitiveness.

Available data: No available data.

Discussion: A retrospective analysis showed that the features of the historical development of the Chinese furniture industry played both a positive and a limiting role in its development. Further growth requires a transition to technology-capital intensive production, expansion of marketing strategies and improvement of environmental sustainability, which requires significant changes in management and approaches to production.

Graphical abstract



Keywords

Chinese furniture industry, competitiveness, state control, market reforms, global expansion, sustainable production, innovation, capital-intensive production, marketing strategies, retrospective analysis.

JEL classification: O25, P23, L16.

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Introduction

As the world's largest furniture manufacturer and exporter, China holds a key position in the global furniture industry. The country has a long history of furniture production, and many furniture organizations have been operating for decades and have accumulated production potential. So, as of 2023, more than 7,200 furniture manufacturing enterprises operate in China, the volume of the furniture market amounted to 89 billion dollars, and China's share in the global market is estimated at 25% [1]. However, the industry is currently facing challenges related to geopolitical instability, changes in supply chains and rising costs, which makes it necessary to consider improving the competitiveness of the Chinese furniture industry. Thus, the purpose of the article is to analyze the competitiveness of Chinese furniture industry enterprises.

Urbanization and the active development of the Chinese construction industry have created favorable conditions for the development of furniture production: rapid urban growth, as well as an increase in the number of new residential and commercial buildings, increased the demand for furniture and interior solutions, which stimulated the development of local production and led to increased investment in technology and equipment. The development of logistics infrastructure and global trade relations have significantly simplified the entry of Chinese furniture products into international markets, making them competitive in price and quality. As a result, Chinese furniture companies have become the largest exporters [2]. China's accession to the World Trade Organization (WTO) has served as an additional driver for the furniture industry. Traditionally, furniture production is a labor-intensive process, and the Chinese furniture industry, due to the availability of labor resources, low technological requirements and high level of lumber production, has become quite competitive in foreign markets [1].

However, despite the high potential, the development of the furniture industry faces a number of risks that act as barriers to improving competitiveness. Thus, M. Lin considers aspects of the competitiveness of Chinese furniture industry enterprises only through the prism of the theory of industrial organization. The author notes that the Chinese furniture industry, despite its significant production and export volumes, continues to be a largely labor-intensive industry. The main driver of industry growth is the expansion of the labor force, which leads to a conflict between technological progress and the expansion of production. In the article M. Lin justifies the need to move from a labor-intensive to a technical and capital-intensive type of production, which requires significant changes both in production processes and in enterprise management [3].

V. M. Pukhova and N. A. Ibragimova conclude that the level of competition in the furniture industry is quite high, which does not allow new small players to enter the market, who cannot gain advantages over large companies. Factors such as reputation and the availability of a production base are important elements of the competitiveness of furniture companies [4]. Scientific article by X. Li, Y. Lin and T. Zhu is devoted to the application of the theory of sustainable development in the furniture industry on the example of IKEA. According to the authors, economic sustainability is a key aspect of competitiveness and includes the ability to maintain a certain level of economic production. Using the example of IKEA, the authors conclude that eco-friendly business models, cost management, accurate operation and maintenance strategies, and continuous improvement are key elements of business models that allow generating stable cash flow and creating conditions for realizing growth potential [5]. Summarizing the material presented in the article, we can conclude that it is important for Chinese furniture industry enterprises to adhere to the concept of economic sustainability, combining *низкоценовые* low-price strategies with high-quality and functional products.

Analysis of scientific sources has shown that Chinese furniture industry enterprises are competitive in the domestic and foreign markets. Competitive advantages are based on cheap labor and the possibility of economies of scale. The availability of free production facilities, as well as labor resources, allows Chinese furniture companies to fulfill orders placed by foreign firms and produce furniture of different styles and different price categories.

Methods

The methodological basis of the study is the study of scientific literature on the problems of ensuring the competitiveness of Chinese furniture industry enterprises. Competitive advantage analysis is performed using the competitiveness polygon method. The research materials are reports of expert and analytical agencies that publish statistical information on the dynamics of the furniture industry in China.

Results

Considering the modern historical period, we can distinguish five stages of development of the Chinese furniture industry (Table 1). After the founding of the People's Republic of China in 1949, the Chinese Government nationalized the furniture industry, its development was aimed at mass production of affordable furniture for the population, which corresponded to the goals of social equality and meeting the basic needs of people. Furniture production in this period was simple and functional, with minimal decor and ornaments. Furniture industry enterprises operated under strict state control, and resources were distributed centrally [6].

*Table 1***Key stages of China's furniture industry development**

Period	Characteristic
from 1949 to 1978	Nationalization of the furniture industry. Focus on mass production of affordable furniture for the population, emphasis on simplicity and functionality. Industry is developing under conditions of state regulation and centralized resource allocation.
1978-1990s	Reforms are being implemented and the policy of openness is being implemented. Foreign investment is being attracted, the export potential of the industry is developing, and large furniture factories are emerging.
1990s-2000s	There is a rapid increase in production and exports.
2000s-2010s	The number of private companies in the furniture industry is increasing, the range of products is expanding and the quality of products is improving. Furniture companies take an active part in international exhibitions and fairs.
2010s-present	At this stage, China is becoming a leading global manufacturer and exporter of furniture industry products.

Source: compiled by the author from [1; 6]

The late 1970s marked the beginning of Deng Xiaoping's reform and opening-up policies. These reforms have led to gradual liberalization of the economy, attraction of foreign investment and introduction of modern management practices in management systems. Many large furniture factories began to focus on exports. In the 1990s and 2000s, China became the world's leading furniture manufacturer, and the country's main competitive advantage was the low cost of labor, which allowed it to produce furniture at lower prices compared to other countries. The following characteristics are typical for this period: rapid growth of production and export volumes, active introduction of modern production technologies and automation of production processes. As a result, the quality of China's furniture industry products grew, and Chinese furniture companies were able to compete successfully in international markets, offering a wide range of products [6].

Since the early 2000s, the Chinese furniture industry has continued its rapid development: the number of private companies has gradually increased, and manufacturers have begun to pay more attention to product quality and product range expansion. In the current period, China has strengthened its competitive position as the world's leading furniture manufacturer and exporter [1]. Thus, according to statistics, China is the world's largest producer and exporter of furniture, and the growth of the Chinese furniture market is based on constantly increasing consumer demand.

Thus, a retrospective analysis allows us to conclude that the enterprises of the Chinese furniture industry are focused on mass production and have significant production capacities that can meet the needs of the growing Chinese economy.

Thanks to active state support and implemented measures of the state investment policy, furniture industry enterprises have successfully realized their own competitiveness potential and entered world markets, providing up to 25% of the world's furniture production. But despite the above factors, Chinese manufacturers are not well-known in the world, because they produce products for foreign companies using OEM (Original Equipment Manufacturer) and ODM (Original Design Manufacturer) models, which are subsequently sold under the trademarks of customer companies. In many respects, it was the peculiarities of the development of the economy of the People's Republic of China that determined the weakness of the marketing component and the relatively low innovative activity of large enterprises, which were formed during the period of total state control and centralized distribution of resources.

Also, as shown in Figure 1, the pandemic was a factor in reducing the growth rate of the industry. Despite the market recovery trend, the growth rate of the furniture market has slowed down due to rising prices for raw materials and production costs. If in the period from 2018 to 2019, the market showed an increase of 30%, then in the period from 2020 to 2023, the market is growing by an average of 9% annually. The observed slowdown in growth rates makes it expedient to analyze the competitive advantages of Chinese furniture industry enterprises in order to realize their growth potential.

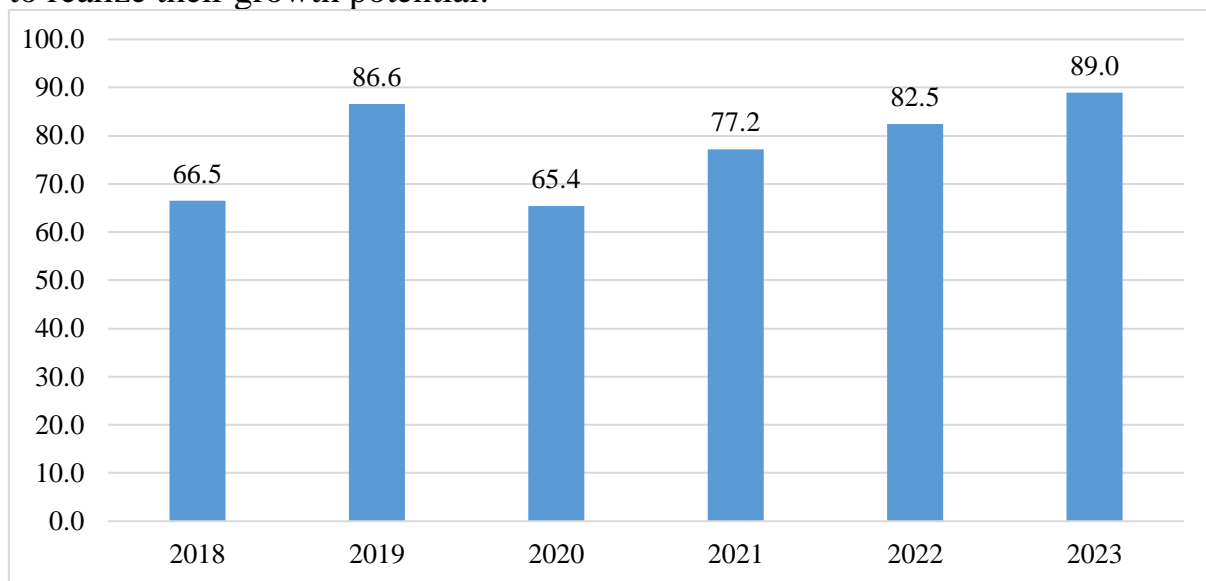


Fig.1. Revenue of Chinese furniture industry enterprises, billions of dollars.

Source: compiled by the author from [7]

Let's analyze the competitiveness of the Chinese furniture industry using the example of three major players: Red Apple, Landbond and Kuka. Red Apple was founded in 1981 and specializes in the production of high-quality cabinet furniture, sofas and mattresses. The company's manufacturing facilities are located in Shenzhen and employs more than 1,500 people. Landbond, founded in 1993, является a manufacturer of solid wood products, upholstered furniture and

mattresses. The company also offers custom cabinets and carpets. Kuka (founded in 1982) specializes in the production of home furniture.

The companies under consideration are characterized by a high level of product quality both in the middle price segment and in the high price category. Product quality can be rated at 8 points out of 10. The next factor is the innovation component. To justify the assessment, it is necessary to take into account the context of the historical development of furniture factories in China, which before the opening-up reforms were operating under total state control and guaranteed demand. The relatively recent transition to market relations is one of the reasons for the inertia of the largest players in relation to the introduction of innovative management systems and production and technological innovations. Since innovations are mainly implemented in the areas of online commerce and digital marketing, enterprises in the Chinese furniture industry receive a 7 out of 10 rating based on the criterion of innovation activity. According to the analysis of scientific sources, environmental sustainability is the main problem aspect, since enterprises not only use non-renewable resources, but also are characterized by low efficiency in solving environmental pollution problems. Therefore, environmental sustainability can be rated at 5 points, since the environmental agenda is not properly integrated into management systems (Figure 2).

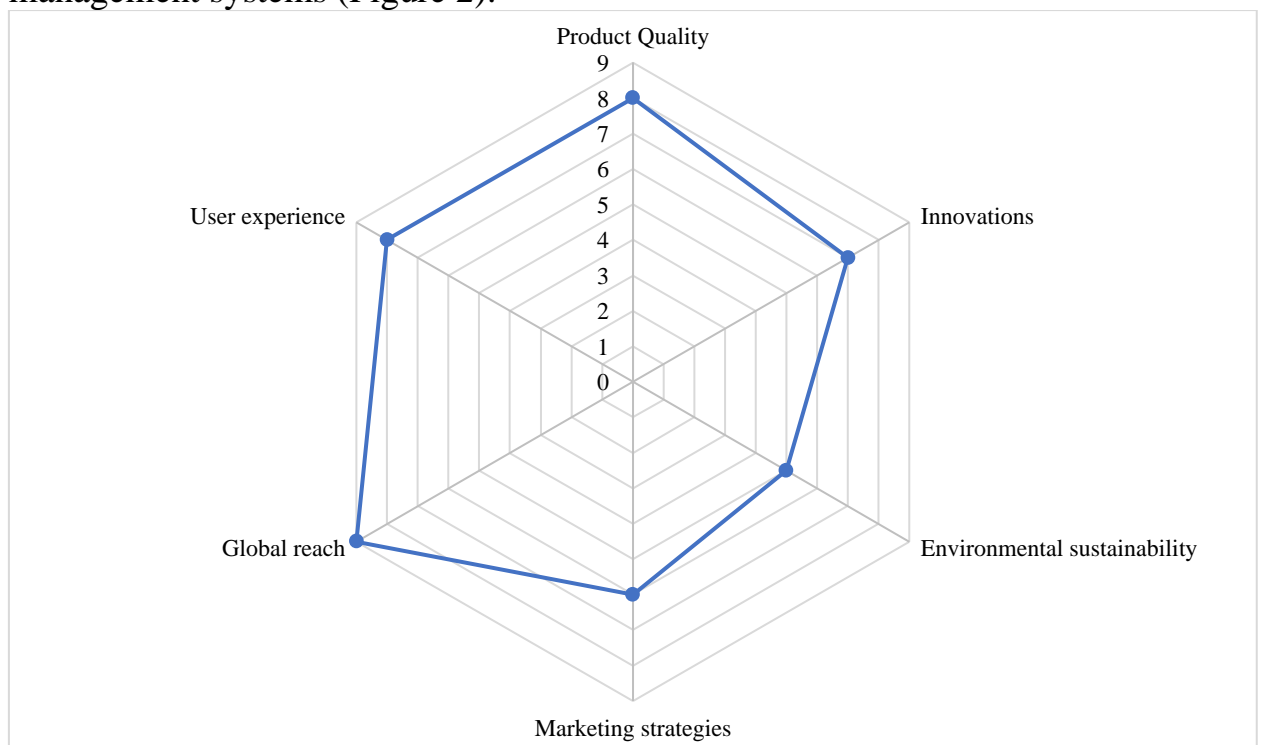


Fig. 2. Polygon of competitiveness of Chinese furniture industry enterprises
Source: compiled by the author from [8; 9]

The marketing component is an important aspect of the competitiveness of furniture industry enterprises. Manufacturers actively cooperate with large online platforms, launch personalized advertising campaigns, which allows them to maintain the necessary level of sales. However, most of the furniture factories operating in the Chinese market make a profit by offering production services to

foreign furniture companies that sell furniture under their own brands. Thus, the marketing component can be significantly improved, and current marketing strategies can be rated at 6 points out of 10. All three companies are global players. Red Apple actively exports its products to the United States, Canada, Europe, Japan, Australia, and New Zealand. Landbond and Kuka also have a significant international presence, delivering their products to the regions of North America, Europe and Asia [8]. Thus, the criteria for global presence is rated at 9 points out of 10. Since the organization is an exporter and serves the interests not only of the national market, but also of foreign countries, Chinese furniture companies are highly rated in terms of user experience, since the level of customer service and the ability to customize products are the strengths of the industry.

The analysis showed that the experience accumulated in the context of historical development (the companies under consideration have been operating for more than 30 years) allows us to ensure a high level of product quality and customer service. The relatively recent transition to a market economy acts as a deterrent to the introduction of production and marketing innovations, as well as ensuring the environmental sustainability of the industry.

Available data

No available data.

Discussion

In the course of the research, the author revealed that since the founding of the People's Republic of China in 1949, the Chinese furniture industry began to develop, focusing on the mass production of affordable furniture. Deng Xiaoping's reforms in 1978 led to the attraction of foreign investment and the development of the export potential of the Chinese economy in general and the furniture industry in particular. In the 1990s and 2000s, China became the world's leading furniture manufacturer due to its low labor costs and large production capacity. Since the early 2000s, the number of private companies has increased, and manufacturers have begun to pay more attention to product quality and product range expansion.

The main driver of growth remains the expansion of the labor force, which leads to a conflict between technological progress and the expansion of production. Free production facilities and labor resources allow us to fulfill orders from foreign firms, producing furniture of different styles and price categories, but to further increase competitiveness, Chinese enterprises need to move from a labor-intensive to a technical and capital-intensive type of production. Strengthening the marketing component and ensuring environmental sustainability are also important areas for the development of furniture industry enterprises. The practical significance of the study lies in the fact that the results obtained can be used in the development of state policy measures aimed at supporting the development of the furniture industry and ensuring its competitiveness in the domestic and foreign markets.

CRedit authorship contribution statement

Xiao Mingliang Coordination. Data interpretation, Writing – Original draft preparation.

Declaration of competing interest

The author declare that he has no conflicts of interest.

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