

Internationalisation of Polish and German Furniture Manufacturers – Comparison of Different Internationalisation Paths

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SUMMARY

The papers aims to analyse the key drivers for internationalisation in furniture industry by taking into consideration the cross-border activities of selected furniture manufacturers in Poland and Germany in comparison. The results show some similarities in internationalisation strategy design of selected furniture manufacturers in both countries. Export tends to be the predominant foreign market entry mode, and major motives to internationalise tend to have a reactive nature. There are some differences with regard to manufacturing location decisions, whereby the general assumption is confirmed that certain manufacturers are in a more advantageous position by concentrating their production at home.

Keywords: internationalisation, firm performance, furniture industry, firm behavior, cross-country comparison

Journal of Economic Literature (JEL) codes: F23, D22, L22, L25, L68

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INTRODUCTION

Diminishing barriers to international trade, cross-country variations in production costs and the widening scope of production fragmentation at national, regional, and global level have unequivocally reshaped global value chains (Grossman & Rossi-Hansberg 2006). In various sectors production activities have increasingly been extended and/or re-located abroad, prompted by emerging or diminishing opportunities related to changing comparative advantages of various economies or changing needs and capacity of those involved in the production chains.

In some production sectors though a predominance of export or, in general cross-border market transactions, in internationalisation strategy design is to observe. Indeed, foreign production locations are subject to a great variety of risk factors, meaning that manufacturing location decisions have become inherently complex. In fact,

relocating production abroad has repeatedly been subject to reconsideration, as many companies had, at best, mixed results (Tate et al. 2014). In addition, a considerable part of companies, that once offshored production, failed to attain the financial benefits they expected to. Needless to say, companies, while expanding internationally, must understand and prepare for dynamic changes at different locations that strategically necessitate a change of scenery with regard to their cross-border transactions.

Despite intense competition, increasing consolidation and toughening regulations, the furniture manufacturing has continuously been subject to changing consumer interests as demand for furniture has increasingly been driven by fashion trends. This necessitated the ability to react to short-term order placements and to manage seasonality. The geographical location of production therefore largely determines to what extent a company is able to do just that, in addition, to sustaining enormous price and cost pressures.

This paper aims to analyse the key drivers for internationalisation in furniture industry by taking into consideration the cross-border activities of selected furniture manufacturers in Poland and Germany in comparison. Thus, the study strives to answer two research questions (RQ):

RQ1) What are specific features of internationalisation in furniture manufacturing sector?

RQ2) Are there any differences and/or similarities in design of internationalisation strategies of selected furniture exporters in Germany and Poland in comparison?

The first part of the paper contains a literature review. Firstly, a classification of major foreign market entry modes is provided. Secondly, advantages of non-equity entry modes, specifically export, are discussed in the light of main theories of internationalisation strategies.

The second part of the paper contains an empirical study focussed on selected furniture manufacturers in Poland and Germany. The study contains an industry overview for manufacturing sector in both countries. A direct comparison, enabled while implementing the same performance indicators for each country (e.g. number of companies, number of employees, total sales) is provided. For an in-depth comparative analysis of selected furniture manufacturers in Poland and Germany a case study method, supported by a qualitative survey – conducted in form of a standardised questionnaire and subsequent expert interviews with manufacturers' representatives - is employed. The empirical results identify some similarities in internationalisation strategies pursued by selected furniture manufacturers in Poland and Germany. The results, furthermore, confirm the assumption, that export is a predominant foreign market entry mode in furniture manufacturing sector in both countries, whereby establishment of wholly owned subsidiaries in attractive foreign markets is envisioned by some furniture manufacturers in a long-term perspective.

The third part of the paper contains the discussion of the research results as well as authors' final remarks. The results of empirical study are consistent with major arguments for selected market entry modes discussed in literature.

The novelty of the paper is comparative cross-country analysis of furniture industry and some representative manufacturers in light of their internationalisation strategies in two selected countries, enabled through implementing identical case study research method supported by a qualitative survey. The research results and final remarks may trigger a further discussion with regard to internationalisation strategy design, choice of appropriate market entry mode and further considerations in the context of cross-country and/or cross-industrial comparison. Furthermore, the results confirm the assumption that more detailed in-depth research on the aforementioned matters is needed.

LITERATURE REVIEW

By the early 1990s of the last century throughout the first decade of the twenty-first century manufacturing activities in various sectors were redesigned in being no longer geographically concentrated at just one location, but, instead, being split up into production stages located, where the advantage to be gained was greatest (Martinez-Mora & Merino 2014).

Outsourcing and offshoring production constituted one of the most significant changes made by most globally operating companies. In fact, the nature of manufacturing shifted rapidly from producing goods from start-to-finish to outsourcing tasks that were formerly internalised, thereby adding value at various production stages across many different locations. In addition, transportation and communication posed no longer any barriers to the separation of tasks, given the revolutionary advancements in technology facilitating a historic break-up of the production process (Grossman & Rossi-Hansberg 2006). Generally speaking, offshoring production gave companies the possibility to exploit location and cost advantages stemming from significantly lower wages elsewhere, thereby cutting their labour costs in half. According to a survey by the Fraunhofer Institute in 2009, saving labour costs was found to be a major reason for offshoring production in the first place (Kinkel & Maloka 2009).

Greater flexibility to respond to changing market conditions had likewise been brought up, allowing German producers, for instance, to take advantage of foreign labour by laying off workers and creating new jobs smoothly and thus being able to adjust their labour usage (Farrell 2005). This offshoring trend went on for decades, sending both blue-and white-collar jobs to countries, where labour, engineering, and managerial costs were significantly lower. Recently, however, the tendency to offshore production had topped out and a reversal of the trend started to unroll in the U.S. and Europe (Heim, Matiz & Ehrat 2014). Reasons for this reverse trend vary, often the fact that the wage differentials between high- and low-wage countries are decreasing and disadvantages of offshoring, such as high transportation costs and the loss of an agile supply chain thus cannot be out-weighed (Heim et al. 2014). According to the Fraunhofer Institute (2013), however, the key drivers for keeping manufacturing process at home, which were deemed critical by more than 50% of the companies surveyed, comprised missing flexibility and problems in running reliable production processes at a foreign location that frequently result in below-average performance in quality factors (Fraunhofer Institute 2013). Further motives relate to unsatisfying capacity utilisation rates, high transportation and coordination costs, whose significance is rated at 28% and 21%, respectively.

It could be assumed, that in some manufacturing sectors a pre-existing production infrastructure combined

with a high level of know-how render a home country as an advantageous manufacturing location, without compromising the process of internationalisation (Peters, Reinhardt, & Seidel 2006). Specialist knowledge can hardly be fully regained at an off-shored production site, most of which are typically relocated to lower wage countries. Mostly, the consequent costs of a relocation abroad are often recognised at a much later point in time, usually when first fluctuations in quality levels occur, given the initial lack of expertise. It is assumed that knowledge-based factors are typically subordinated to cost-related considerations. The highly integrated infrastructures and a strong presence of specialised knowledge, accumulated and groomed over many decades, allows for manufacturing at similar competitive levels in spite of higher labour costs, in particular, if production is highly automated.

Based on the assumption that certain manufacturers are in a more advantageous regime, while concentrating their production at home, a question regarding their internationalisation strategy design arises. After a favourable country has been identified, companies can choose between particular modes of entry, which are mainly distinguished by their degree of commitment, investments, and risks involved. Correspondingly, choosing the right entry mode is a challenging task. Hence, many companies regularly decide “to start small” at first. Thus, the authors Johnson, Scholes and Whittington refer to the so called “staged international expansion model”. It “proposes a sequential process whereby companies gradually increase their commitment to newly entered markets, as they build market knowledge and capabilities” (Johnson et al. 2012). The model includes various entry modes: exporting, licensing and franchising, strategic alliances and joint ventures, and wholly owned subsidiaries (Dess et al. 2007) In general, it can be stated that the risk of a market entry is in correlation with the amount of investment set in place; meaning that the higher the investment is, the higher is the risk involved (Lasserre 2012).

Exporting is the first determined mode of entry in the staged international expansion model which requires least investments and bears the lowest risk. Accordingly, it is often used by companies as a first step in the internationalisation process. By exporting, a company produces goods and services at the home base and then sells these to customers in a foreign (host) country. Investment volume required to start exporting is moderate, which is beneficial for the exporter. Another argument in favour of exporting are cost advantages through economies of scale while centralising production at home. However, exporting is often associated with the consideration, that host countries could prefer other entry modes that bring along investments into the country by which, for instance local employment is created (Dess et al. 2007). Thus, trade protectionism, restrictive trade policy instruments, and access to local distribution channels could be classified as major crucial factors of

exporting. Distribution in host markets is often dominated by local intermediaries, industrial associations or local partnerships essential to export and sell sufficiently in a foreign country (Lymbersky 2008). As already stated, many companies start stepwise with exporting in order to gain sufficient international experience before they increase their commitment (Dess et al. 2007).

Depending on which of type of internationalisation advantages were identified, an appropriate mode of entry is to be chosen, by which a company is more likely to be successful abroad. These mainly range from selling goods and services in a foreign market, over non-equity agreements with other firms, to equity investments in either an already existing facility or in a new venture (Dunning 2000).

Some of these considerations are put in focus of analysis of internationalisation strategies pursued by selected furniture manufacturers in cross-country comparison.

METHODOLOGY AND DATA

The objective of the conducted research is to analyse opportunities arising from development in foreign markets as well as to present the involvement of German and Polish furniture manufacturers in internationalisation strategies in comparison. The study consists of two parts. The first one deals with the analysis of the furniture industry, while the second one concerns the analysis of selected companies.

In the first stage of the research the available industry reports and source data of the Central Statistical Office – CSO (GUS) and the Federal Statistical Office – were used. Furniture industry in Europe, and then in Poland and Germany, was analysed with the use of the desk research method.

The second part of the study contains the analysis of selected furniture manufacturers. In order to achieve its aims, unobtrusive research was conducted. The method adopted in the investigation includes qualitative expert interviews with selected furniture manufactures, content analysis involving the examination of the information recorded in sources such as: books, magazines or websites (Babbie 2005). The study also involves an analysis of *Lista 2000. Polskie przedsiębiorstwa. (List 2000. Polish Enterprises)* as well as *Ranking eksporterów (Ranking of Exporters)* prepared by the newspaper *Rzeczpospolita* for Polish furniture manufacturing, and analysis of industry reports and data provided by the Federal Statistical Office – *Statistisches Bundesamt* – for German furniture manufacturers. The study places particular attention to furniture manufacturers and their operations in foreign markets. Preliminary observations concern their involvement in international operations.

Furthermore, the paper presents an in-depth analysis of selected Polish and German furniture manufacturers conducted on the basis of the qualitative research results obtained by the authors. The analysis of the enterprises is

designed in a form of case studies allowing to draw conclusions concerning the advancement of furniture manufacturers with regard to international activities in cross-country comparison respectively. The collation of the representative Polish and German furniture exporters exemplifies the processes connected with internationalisation of enterprises. Moreover, this type of description of the research results allowed for formulating general conclusions.

MAIN FINDINGS

Furniture Industry Worldwide

When analysing the size of the world market it should be noted that 40% of the world production of furniture takes place in Europe. The biggest European furniture manufacturers are Germany, Italy, Poland and France. What is particularly important here is that the total share of the four European countries in the world production of furniture is 13% (The EU Furniture Market 2014).

As for the size of production (in billions USD), in 2011 the largest world manufacturers of furniture were China (73.8), the USA (69.3), Italy (30.1), Germany (22.8), Japan (19.2), Brazil (13.9), the UK (10.9) and Poland (10.2). When one looks into export activities of furniture manufacturers, it can be noticed that Poland's share in the world market amounts to 4.5%. The respective share of Germany is equal 5.9%. It should be also emphasised that

among all the branches of industrial processing furniture manufacturing in both countries – Germany and Poland - achieved high level of specialisation in a global sense (Wiktorski & Adamowicz 2014).

The above data shows that Germany holds the fourth and Poland the eighth position in the world with regard to their production size of furniture. Thus, both countries are recognised as locations specialising in furniture manufacturing.

The importance of German and Polish furniture industry in the worldwide context is stressed by the fact that in the world ranking of exporting countries the countries were located at the second and the fourth position respectively since 2004. Moreover, in 2012 German furniture export was worth €3,483m and Polish worth €6,513m, respectively. These numbers in the ranking signify that both Germany and Poland play an important role in the global furniture market qualifying them as a representative selection for empirical cross-country comparison. The main segments of the furniture market in Poland are: furniture and interior furnishings, flat pack furniture, institutional furniture, upholstery, dining room and living room furniture, bedroom furniture, kitchen furniture, office furniture, armchairs and chairs. The furniture manufacturing range in Germany is more consolidated – as compared to Poland – and represented mainly by the following three positions: kitchen furniture, office furniture and mattresses. The world ranking of countries exporting furniture in the years 2003–2012 is presented in Table 1.

Table 1
World furniture trade in the years 2003-2012 (€million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
China	6,503	8,270	10,967	13,800	16,357	18,481	18,337	25,165	27,524	38,387
Germany	5,279	5,776	6,109	6,897	7,855	8,131	7,015	7,605	8,505	8,483
Italy	8,553	8,698	8,442	8,944	9,591	9,320	7,285	7,761	8,064	8,131
Poland	3,313	3,867	4,394	4,898	5,485	5,767	4,921	5,701	6,404	6,513
United States	2,131	2,198	2,400	2,620	2,689	2,869	2,380	2,919	3,064	3,816
Vietnam	761	1,070	1,447	1,776	2,158	2,320	2,239	2,820	2,791	3,494
Canada	3,639	3,469	3,591	3,586	3,073	2,530	1,734	2,064	2,057	2,255
Malaysia	1,416	1,512	1,613	1,783	1,839	1,809	1,586	1,904	1,840	2,060
Sweden	1,239	1,324	1,411	1,589	1,704	1,705	1,433	1,590	1,751	1,783
France	2,014	2,041	2,030	2,176	2,369	2,384	1,948	1,746	1,733	1,704

Source: CSIL processing of United Nations, Eurostat and national data Specifically other national sources include: US Census Bureau, Ministry of International Trade and Industry (Malaysia) in: *The EU Furniture Market Situation and a Possible Furniture Products Initiative – Final Report*, by Centre for European Policy Studies, Brussels, November 2014, p.30).

Furniture Manufacturing in Poland

The analyses conducted so far reveal that Polish furniture manufacturing belongs to the narrow group of the largest furniture manufacturers and exporters in the world. According to the source data published by the CSO, at the end of 2008 1,249 firms were classified under the code

31.0 – furniture manufacturing in the Polish Classification of Activities (PKD is an equivalent of EKD - The European Classification of Activities) used for statistical purposes in the Polish Classification of Activities), while 1,251 business entities were recorded there in 2013. Furniture manufacturers classified according to the number of employees in the years 2008–2013 are shown in Table 2.

Table 2
Furniture manufacturing in Poland – number of companies, number of employees in the years 2008-2013

Furniture manufacturers	10-49 employees	50-249 employees	250 and more employees	Total number of companies in furniture manufacturing (PKD 31.0)
Years				
2008	804	333	112	1,249
2013	845	310	96	1,251

Source: Authors' own research on the basis of data published by the Central Statistical Office.

The data quoted above concerns enterprises employing 10 people or more. Three groups of enterprises can be distinguished with regard to the number of employees working in the furniture industry. In 2013 the largest group (845 companies) consisted of firms employing between 10 and 49 people. Employment of 50 to 249 people was recorded in 310 companies, while the least numerous group was the one including companies employing 250 people or more (96 firms) – see Table 2. It is worth noting here that despite the economic crisis the total number of enterprises in the analysed period remained stable. Changes in particular employment groups require deeper analyses.

In the context of internationalisation of furniture manufacturers one ought to pay attention to the number of

exporters. The changes in the number of exporters in the years 2008–2013 and belonging to the three aforementioned groups are presented in Table 3.

The analysis of the data in Table 3 shows that in 2008 the number of exporters was 457, while 496 firms operated in foreign markets in 2013. The quoted data confirms the growing interest in conducting business activities in foreign markets. The changes observed in particular employment groups are caused by the emergence of new enterprises (in groups of businesses employing 10–49 and 50–249 people). It can be assumed that the changes in the number of exporters in particular groups are a consequence of downsizing which classifies a given company in a different group with regard to employment size.

Table 3
Furniture manufacturing in Poland – number of exporters, number of employees in the years 2008-2013

Furniture manufacturers	10-49 employees	50-249 employees	250 and more employees	Total exporters in furniture manufacturing (PKD 31.0)
Years				
2008	117	237	103	457
2013	142	259	95	496

Source: Authors' own research on the basis of data published by the Central Statistical Office.

In the course of analysis of furniture manufacturing in Poland it is worth mentioning the data concerning sales revenues as well. The values of total sales revenues and the values of export revenues are expressed in Euro €¹ The

table below presents the changes in total sales revenues generated in the years 2008–2013 by furniture manufacturers of different sizes.

¹ The National bank of Poland (NBP) exchange rate was applied to convert the values of sales revenues from PLN to EUR. For the 2008 data: 1 EUR = 4.1724 PLN, rate of 31.12.2008. For the 2013 data: 1 EUR = 4.1472 PLN, rate of 31.12.2013.

Table 4
Furniture manufacturing – sales revenues (€million) in the years 2008-2013, number of employees

Furniture manufacturers	10-49 employees	50-249 employees	250 and more employees	Total sales revenues in furniture manufacturing (PKD 31.0)
Years				
2008	501.0	1,279.7	4,171.9	5,952.6
2013	670.1	1,528.9	4,611.8	6,810.8

Source: Authors' own research on the basis of data published by the Central Statistical Office.

The above table shows that sales revenues in furniture manufacturing amounted to €5,952.6m in 2008, while in 2013 it increased to €6,810.8m.

In the analysis of internationalisation of furniture manufacturers it is also worth turning attention to export

revenues. Table 5 below presents the changes in export revenues generated in the years 2008–2013 by furniture manufacturers of different sizes.

Table 5
Furniture manufacturing in Poland – export revenues (€million) in the years 2008-2013, number of employees

Furniture manufacturers	10-49 employees	50-249 employees	250 and more employees	Total export revenues in furniture manufacturing (PKD 31.0)
Years				
2008	69.0	491.2	2,353.2	2,913.4
2013	104.2	720.8	3,370.6	4,195.6

Source: Authors' own research on the basis of data published by the Central Statistical Office.

The data shown in Table 5 depicts the furniture enterprises' involvement in export. It should be noticed that the largest export revenues are generated by big companies (employing 250 or more people). Their export revenues totalled 2,353.2 and 3,370.6 in 2008 and 2013 respectively. The second largest revenues were generated by medium-sized companies (50–250 employees). The firms employing between 10 and 49 people are least involved in export.

The analysis of data included in Tables 4 and 5 draws one's attention to the share of export in total furniture sales revenues. The presentation of the export share makes it possible to attempt to estimate furniture companies' involvement in foreign markets. In 2008 furniture export

made up 48.9% of total sales. In 2013, however, the share rose up to 61.6%, which is an average annual increase of over 2.5%. The observed rise points to the growing role of export in the activities of furniture manufacturers.

Furniture Manufacturing in Germany

According to data published by the Federal Statistical Office, there were 1,056 in year 2008 and 1,039 companies in year 2013 registered as German furniture manufacturers respectively. German furniture manufacturers classified by the number of employees are indicated in Table 6.

Table 6
Furniture manufacturing in Germany – number of companies, number of employees in the years 2008 and 2013

Furniture manufacturers	Below 50 employees	50-249 employees	250 and more employees	Total number of companies in furniture manufacturing
Years				
2008	499	470	87	1,056
2013	519	449	71	1,039

Source: Authors' own research on the basis of data published by the Federal Statistical Office.

The manufactures are divided in three classes regarding the number of employees. Below 50, 50 to 249 and 250 and more employees. In 2013 the largest group with a count of 519 was the class below 50, 449 manufacturers were recorded in the class of 50 to 249 employees and the smallest group with 71 manufacturers are within the class of 250 and more employees. It is worth mentioning that while the first two classes have deviations of about 4 percent positive and negative, the class of the bigger sized companies (250 and more employees) has a reduction of 18,4 percent (from 87 in 2008 to 71 in 2013).

The biggest share are the manufacturers of other furniture with 53.06%, the second are the manufacturers of office furniture with 33.5% and with 7.61% and 5.83% the kitchen and the mattress manufacturers have the two smaller shares of all manufacturers, all measured in 2015 (Federal Statistical Office 2015).

The data in Table 7 shows the total sales of German furniture manufacturers in 2008 and 2013 classified by the number of employees.

Table 7

Furniture manufacturing in Germany – Total sales (in €million) in the years 2008 and 2013, number of employees

Furniture manufacturers	Below 50 employees	50-249 employees	250 and more employees	Total sales revenues in furniture manufacturing
Years				
2008	1,769.5	8,201.3	9,203.3	19,174.5
2013	1,842.1	7,689.5	8,236.7	17,768.2

Source: Authors' own research on the basis of data published by the Federal Statistical Office.

It shows that the total sales decreased from 19,174.5 to 17,768.2 million euros, which is a total decrease of 7.2 % over the years of 2008 to 2013. Although there is not much data given, there is a certain relation between the changes of the amount of companies in each group to the change of the total sales in each group measured in 2008 and 2013. In the first class, where the number of companies increased about 4 percent, there is also an increase in total sales of about 4 %. The other two classes had a decrease in the number of companies and the changes in total sales are

also negative (6.2% in class two and 10.5% in class three) whereas the decrease in the third class is also the biggest like in table 6.

Noticeable is that the number of employees in the kitchen furniture manufacturers is comparatively high with respect to the number of kitchen manufacturers.

The data shown in Table 8 shows the total sales of German furniture manufacturers in the years 2008 and 2013 divided in national and international sales and as a result of these two numbers, the export rate.

Table 8

Furniture manufacturing in Germany – Total sales divided in national and international sales (in €million)

Sales	National	International	Export rate
Years			
2008	14,076.8	5,097.7	26.59%
2013	12,784.2	4,984.0	28.05%

Source: Authors' own research on the basis of data published by the Federal Statistical Office.

While, like mentioned above, the total sales decreased, the national and international sales decreased both but while the national sales decreased around 9.2% the international sales just decreased about 2.2% so that the export rate increased about 1.46 percent points from 26.59% to 28.05%.

The export rate of German furniture manufacturers and export rates for each segment within these furniture manufacturers. The German mattress manufacturers are the only ones with a continuous decrease in export rates and they have with an average of 14.5% measured from 2011 to 2015 the lowest export rate. Manufacturers of

other furniture are round about the same regarding the overall furniture manufacturers, the office furniture manufacturers are a little bit below that and the kitchen furniture manufacturers segment is with 5.5 percentage points in 2015 the segment with the highest export rate.

The Analysis of Furniture Manufacturers in Poland and Germany in Comparison

The results of the aforementioned research served as a basis for further analysis concerning internationalisation of furniture manufacturers. In case of Polish furniture

manufacturers the analysis was started with the *Lista 2000. Polskie Przedsiębiorstwa (List 2000. Polish Enterprises)*, which presents the largest 2000 companies in Poland. This list of firms contains 24 business entities operating in the furniture industry. Their annual sales in 2013 ranged from €29m to €64.5m. A preliminary observation of furniture companies conducting their activities in foreign markets was carried out on the basis of *Ranking Eksporterów (The Ranking of Exporters)*. The analyses revealed that out of the 300 companies listed in the ranking in 2013, 11 firms were furniture exporters (*Lista 2000 polskich przedsiębiorstw*, 2014).

The next step of the analysis was selecting enterprises whose export revenues exceeded €100m out of the 11 furniture exporters. The top four furniture manufacturers in terms of export revenues are: *Swedwood Poland sp. z o.o.*, *Grupa Nowy Styl sp. z o.o.*, *Black Red White SA GK*, *Fabryka Mebli Forte SA GK*.

Swedwood Poland sp. z o.o. is a Polish furniture manufacturer established in 1997 and operating within IKEA Industry group. The corporate group *Nowy Styl sp. z o.o.* started in 1990 as a chair and armchair manufacturer offering also office furniture. Then diversified into production of wooden floors. It offers now complex solutions for offices and public spaces. The corporate group *Black Red White SA* is the biggest Polish furniture corporate group that was started in 1991. It is engaged in the production and distribution of all types of furniture and home furnishings. The corporate group *Fabryka Mebli Forte SA GK* was established in 1992. It specialises in production of furniture for self-assembly.

The annual export of the above mentioned firms in 2013 ranged from €130.7m to €858.2m. Interestingly, further 7 enterprises generated revenues reaching the level of only €100m. The top furniture exporters in Poland and the share of export in their total sales revenues is shown in Table 9 below.

Table 9
Top exporters in Poland (furniture manufacturing)

Code	Company	Share capital	Export revenues in 2013 (€million)	Export in sales (percentage share)				Sales revenues in 2013 (€million)	No. of employees in 2013
				2013	2012	2011	2010		
C1	<i>Swedwood Poland</i>	foreign	858.2	88.00	90.00	91.00	90.60	975.2	9,030
C2	<i>Grupa Nowy Styl</i>	mixed	240.9	86.18	84.00	n.a.	n.a.	279.5	n.a.
C3	<i>Black Red White SA, GK</i>	domestic	160.1	42.10	41.60	41.80	31.80	380.2	7,851
C4	<i>Fabryka Mebli Forte SA, GK</i>	mixed	130.7	81.33	80.43	76.30	78.53	160.7	2,163

Source: Authors' own research on the basis of *Ranking eksporterów in Lista 2000 polskich przedsiębiorstw i eksporterów*. Special Supplement in *Rzeczpospolita*, 28 October 2014. p. 8.

Then the top four Polish furniture exporters were subjected to in-depth analysis.

In case of German furniture manufacturers the analysis was based on data provided by the Federal Statistical Office. A preliminary observation of furniture manufacturing companies was carried out with regards to their international operations. Firstly, the companies already active in foreign markets and having operations in more than 2 different foreign countries and an export rate greater than 30% were selected. Secondly, out of the remaining list, companies that were founded with domestic capital, and representing major fields of specialisation in German furniture manufacturing – namely, kitchen and office furniture – were selected. The short-listed companies were classified as representative for the

purpose of this research and contacted for expert interviews.

For qualitative case-study-based analysis in Germany expert interviews with selected representative furniture manufacturers were conducted. The companies are respectively: *Nobilis*, *Himolla*, *Häcker Küchen*.

Nobilis is a German furniture manufacturer founded in 1945 specialised in kitchen furniture. *Nobilis* produces about 630.000 kitchens per year. Its estimated domestic market share is about 30%. *Himolla* is a German furniture manufacturer founded in 1948 specialised in upholstery furniture. *Himolla* produces over 1,600 items of furniture per day. The oldest firm, *Häcker Küchen* was founded in 1898 and like *Nobilis*, specialises in kitchen furniture.

Key data of the German furniture manufactures selected for case study analysis are shown in Table 10.

Table 10
Top exporters in Germany (furniture manufacturing)

Code	Company	Share capital (domestic, foreign, mixed)	Export revenues in (€million)	Export in sales 2015 (percentage share)	Sales revenues in 2015 (€million)	No. of employees in 2015
C5	Nobilia	domestic	427.7	42%	1.018,4	2800
C6	Himolla	domestic	n.a.	n.a.	200	1100
C7	Häcker Küchen	domestic	177.1	38%	466	1300

Source: Authors' own research on the basis of corporate data

The findings of empirical case-study-based analysis of (manufacturing, sales) and summarised in Table 11 and the top German and Polish exporters are classified with Table 12 respectively. regard to their operational activities locations

Table 11
Location of operational activities of the top Polish furniture exporters

Company	Production location		Sales location	
	domestic	foreign	domestic	foreign
POLAND				
<i>Swedwood Poland</i>	Wooden furniture or furniture elements Production department in Goleniów		Furniture distribution IKEA chainstore	IKEA network of worldwide distribution
<i>Grupa Nowy Styl</i>	Office and institutional furniture Manufacturing plant in Krosno	Office and institutional furniture Manufacturing plants in Germany, Ukraine and Russia	Network of sales and distribution around the country	Network of distribution in over 100 countries Markets: Europe, the USA, Australia, China, Russia, Middle East Branches in: the UK, France, Germany, United Arab Emirates and the USA
<i>Black Red White SA, GK</i>	Furniture and interior furnishings Manufacturing plant in Biłgoraj	Furniture and interior furnishings Branches in: Ukraine, Belarus, Slovakia, Hungary, Russia, Bosnia and Herzegovina	Logistics centre (Mielec) Regional wholesale outlets, furniture stores, retailers Wrocław, Cracow, Lublin, Zabrze, Będzin, Chorzów, Łódź, Bydgoszcz, Poznań, Warsaw, Gdańsk and about 800 trade partners	Products available in over 40 countries. Location of wholesale outlets and furniture stores: Ukraine, Belarus, Slovakia, Hungary, Russia, Bosnia and Herzegovina Other markets: The Czech Republic, Romania, Latvia, Lithuania, Estonia, Germany, Austria, Belgium, Bulgaria, Croatia, Serbia, Greece, Scandinavian countries, Kazakhstan, Kyrgyzstan, Mongolia, New Zealand, the UK, Canada.
<i>Fabryka Mebli Forte SA, GK</i>	Flat pack furniture Manufacturing plants Ostrów Mazowiecka, Suwałki, Białystok, Hajnówka		Furniture distribution retail chain, furniture stores around the country	Products available in over 30 countries. Sales departments, retail chains and furniture stores around Europe. Key markets: Germany, France, the UK

Source: Authors' own research.

Table 12
Location of operational activities of the top German furniture exporters

Company	Production location		Sales location	
	domestic	foreign	domestic	foreign
GERMANY				
<i>Nobilis</i>	Two manufacturing plants in Verl, Germany; One product catalogue worldwide, different market niches in different countries.	No production plants abroad at the moment; Foreign production is envisaged in order to reduce delivery times (e.g. in China and/or the USA).	Network of sales and distribution around the country.	Network of distribution in 85 countries; Direct sales to purchasing associations or franchise chains; Prices are negotiated centrally but fractured and delivery to specific traders; Processing of orders in 17 languages; Delivery by own trucks in Europe, container shipment worldwide; External companies engaged for exhibitions assembling for foreign customers.
<i>Himolla</i>	Manufacturing plant in Taufkirchen, Germany; Customised product offering abroad to meet quality standards and customer preferences.	No production plants abroad at the moment; Foreign production is not envisaged.	Network of sales and distribution around the country.	Network of distribution in 43 countries whereas the international core business is in Europe (Great Britain, France, Austria, Switzerland, Netherlands, Belgium); Direct sales via own export division to furniture stores, furniture retailers or commission agents.
<i>Häcker Küchen</i>	Four manufacturing plants in Rödinghausen, Germany; Customised product offering abroad to meet quality standards and customer preferences.	No production plants abroad at the moment; Foreign production is not envisaged.	Network of sales and distribution around the country	Network of distribution in over 60 countries; Direct sales to furniture stores, furniture retailers or commission agents; Delivery by own trucks (criteria for foreign market selection).

Source: Authors' own research.

The research showed that in the process of undertaking and conducting export activities the analysed companies in many respects behaved in a way similar to the one described in the literature. Although the motives for expansion into foreign markets were formulated in a slightly different way, they still do correspond to those presented in the literature. The chosen results of the case studies provided a basis for the following general conclusions:

a. Manufacturing location

Similarities:

- The representative German and Polish furniture manufacturers are companies existing in the market for many years.
- Manufacturing is mainly based domestically and tends to have a certain focus of specialisation (e.g. kitchen furniture manufacturing).

Differences:

- In the process of gradual growth, the Polish companies develop their production base, expand the range of their products and set up their plants abroad. Foreign branches are set up in countries ensuring access to materials and where production

costs can be kept at a low level. Such countries include: Ukraine, Belarus, Russia or Bosnia and Herzegovina. Other locations of the plants such as e.g. Germany, Slovakia or Hungary are chosen due to the proximity of markets.

- The German companies keep their production at home ensuring themselves high level of control, e.g. with regard to quality issues, and strategic planning out of headquarters location.
- b. Distribution network design

Similarities:

- The furniture and interior furnishings are sold under manufacturer brands. *Swedwood Poland* and *Häcker Küchen* are exceptions, as it sells its products under the IKEA brand (for *Swedwood Poland*) and local furniture retailer brands (for *Häcker Küchen*).
- Domestic sales are conducted through complex distribution networks, logistics centres, regional wholesale outlets, furniture stores and retail stores located home countrywide respectively.
- Foreign sales are realised in form of B2B exporting to furniture stores, furniture retailers and

commission agents. Both German and Polish furniture manufacturers have a wide business geography offering their products in at least 30 foreign markets respectively.

Differences:

- The German manufacturers tend to exercise higher level of control about their distribution process abroad. This is realised in delivery mode by own trucks to their major markets, esp. in Europe. Logistical reachability of foreign customers by own truck fleet serves as a criteria for foreign market selection while expanding internationally.

c. Internationalisation strategy motives and modes

Similarities:

- In both cases the predominant motives to internationalise are reactive and could be summarised as: domestic market saturation, growing demand from international customers, necessity to reduce market power of purchasing associations and similar.
- Exporting is a predominant foreign market entry mode. A strong export orientation of business is confirmed in all cases and reflected in high export rates.

Differences:

- Polish manufacturers show greater dynamics in establishing own production plants abroad. This strategy enables them a market insider status leading to elimination of risks of trade restrictions and protectionism.
- German manufacturers tend to customise their product offering for selected foreign markets in order to meet quality standards (e.g. requirement to use fireproof materials for the UK and US markets) or different customer needs. This strategy results in a different market positioning of same manufacturer in different markets – usually, mass market in Europe and luxury market segment in emerging and developing markets.

CONCLUSION

Both Germany and Poland hold globally top positions with regard to their production and exports of furniture. Although top German and Polish furniture exporters are large companies classified within the same range of revenues the German producers have higher productivity per employee than the Polish ones. The Polish furniture manufacturing sector seems still to be more labour-intensive. Besides that authors can hardly see any major differences between the two industries.

More can be said about the differences between the individual firms. The German manufacturers are much older companies than their Polish counterparts. They started their internationalisation processes a few decades ago and were building their international customer base incrementally. The Polish furniture producers are relatively young companies but they seem to be catching up with their German counterparts pretty quickly using external development modes that help them to secure access to cheaper raw materials and labour force in some countries as well as direct access to markets in other countries. Definitely German and Polish furniture manufacturers are using different business models and the Polish ones seem to be more innovative.

German manufacturers tend to produce at home controlling the whole process and thus obtaining high quality products that can be the basis for differentiation strategy. Polish manufacturers seem to be having a cost advantage and thus they can follow best-cost provider strategy.

One of course has to remember that this article is merely a first rough attempt to compare Polish and German top furniture manufacturers, thus this matter requires further study. The individual in-depth interviews have to be carried out in order to collect more actual data to make the proper comparisons as well as to verify the authors' assumptions concerning furniture manufacturers' drivers for internationalisation and their internationalisation strategies.

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