

## **VIEW OF WOOD INDUSTRY SECTOR IN THE NORTEASTERN BOSNIA AND HERZEGOVINA**

### **Number of company**

There are about 300 registered company concerned with the primary and final wood processing in northeastern Bosnia and Herzegovina (NE of B&H). It is estimated that about 30% of the companies have been engaged in the furniture production, 15% of them have been engaged in wood construction, 25% of them have been engaged in semi-finished products and 40% of them engaged in pure primary wood processing.

### **Revenue**

It is estimated that the total production value of this year amounted to approximately 260,000,000 which is about 10% decrease compared to previous years 2007 and 2008. Wood industry sector participation in the industrial production structure is about 10% and about 17% in total exports.

### **Assessment of employees**

It is estimated that about 6,000 workers have been employed in the wood industry sector in NE of B&H (in wood processing plants).

### **Production value in the final price of the product:**

Industrial value of finished wood products industry placed on the European market makes about 35% of the value of the final sales price of the product.

### **Product design**

It is estimated that installed sawmills capacity are twice as large as the annual allowable harvest at the least. On the basis of statistical data production and consumption of forest assortments for the production of sawn timber, it can be concluded that the volume production has not reached earlier values and it is less for about 20%. The recession has caused this decline in sawn timber value and its exports.

Raw materials availability and possibility for their export has led to further processing of semi-products. Above all it is related to the production (parquet, furniture components, and glued massive slabs). Investment in production capacity of this production program segment, especially glued panels Solid wood, has recently been topical since the trend of their application has been in the production of massive furniture, and certain companies have undertaken technical preconditions for implementation.

Production of veneer and plywood production program is based on the production of peeled veneer (beech) and the production of cut veneer (beech and to a lesser amount of other types of sawmills). Only two manufacturers have integrated production facilities for completing the veneer panels, or producing products for the furniture industry and

construction.

In the previous period, home market recorded great demand for products, such as doors and windows. It results in the establishment of some new production plants as the revitalization of some existing production facilities but to a lesser degree. Firstly, range of manufacturing and product quality was primarily caused by the condition of the home market (humanitarian programs and the low purchasing power of consumers). In some existing modern plants, the production programs have been developed according to the European standards. Product quality is generally good, although it has not fully been met by Western standards yet.

There is a significant production plant in the area of prefabricated houses manufacturing. Manufacturer offers to market a flexible production program that consists of assembly and functional wooden houses simply adaptable to customers' wishes giving a chance to select material and the level of treatment according to agreement with the investor to a "turnkey" project. In recent years, export growth to the countries of the region and Western Europe countries -

The furniture industry, after revitalization, has been developed on the basis of domestic raw material being dominant dependent on import of supporting materials (fittings, glue, varnishes, etc.). As currently there is no wooden panel manufacturer in the country, all the companies are entirely dependent on imported plywood and MDF-in. considering the very technology of production, there is a common classification according to the massive, paneled and upholstered furniture.

Generally, the production covers the entire range of furniture. Due to outdated range, insufficient quality and flexibility, evaluation of range by market standards referring to quality and design, classifies the furniture industry products according to low or middle cost classes.

Solid wood industry furniture requires a uniform tributary of raw materials from local sawmills. Many manufacturers have integrated the production of furniture and sawmill in order to ensure well-balanced flow of high-quality raw materials. There is a great potential for growth for the furniture industry.

Estimate sales of finished products are as it follows:

- 40% of the domestic market;
- 14% of foreign market outside the EU and
- 46% of the EU market.

### **Equipment**

Talking about the technical equipment in the timber industry of the region, we can say that it is not at a satisfactory level.

The semi-product equipment is usually a combination of outdated and modernized technology. Exceptions are glued solid panels whose equipment is a rather modernized and provided by new technologies.

There is pretty the most modernized equipment in doors and windows sector, and the new technology mostly means small capacity machines.

The most intensive investments have been done in the area of board furniture. Upholstered

furniture is usually reduced to a majority manual labor and there is small investment in machinery, while insignificant investments in the massive furniture production have been done...

Utilization of production capacity is approximately 66%. Two shifts work has been organized in a small number of companies about 10%. It is clearly noticed, from these data, an insignificant degree of utilization in the whole industry.

### **Labor Force**

Education has a strong impact on economic growth, there are less than 2% of highly educated people in the timber industry, and thus it is significantly lagging behind the developed countries. Also, qualification structure is unfavorable. It is estimated that 45% of all the production workers do not have the appropriate qualification. The lack of everyday education and retraining is notable.

### **Marketing**

Development role of the wood industry in the economy is a permanent increase in exports of wood products with a greater degree of special treatment. The key to success in the future is in exports, and to be successful we need to know the foreign market, improve the production process in order to meet the demands of foreign markets by choosing good design, surface treatment, flexible production, mutual cooperation to strengthen competitiveness and the creation of an adequate marketing mix.

Marketing mix is not possible if the extensive way of doing business (there is a product, a buyer is searched and selling is done at low prices) does not change to intensive production wishing to maximally satisfy the desire out customers. It is known that the furniture consumption depends on gross domestic product, housing, demographic growth, favorable conditions loan for buying furniture, etc. These are mostly general factors. The special important internal factors are: design surface treatment and product quality which makes significantly higher product prices and increased sales volume.

### **Approach to finances:**

There is no major institutional to make the financial support for the development of this sector. In recent years, the investment banks in the Federation of Bosnia and Herzegovina and Republic of Srpska (RS) as well, have not significantly supported larger projects. In the last two years, the Government of the RS had activities in the planning and rehabilitation of 2-3 companies through donations. Price of capital in commercial banks is extremely unfavorable. Recently, there has been increasing interest and they are in range of 8-10%, with a short grace period. Funding of working capital is quite difficult and expensive. There has not been any significant investment by a foreign capital into the sector; there is just some interest in investing in biomass. There have been found particular credit and grant funds for development through NERD.

These adverse financial conditions in the wood processing sector suggest that some necessary changes and restructuring of enterprises should be done.

### **Room for improvement:**

Chances of companies in the wood processing sector in the Federation of Bosnia and Herzegovina and in the whole Bosnia are in unexploited opportunities such as:

- increase in the production volume of basic / leading products;
- expansion of production;
- higher degree of finalization;
- better utilization of capacity;
- higher quality products;
- openness to foreign investors / partners.

### **Recommendations**

In order to increase the wood products competitiveness it is necessary to access the market research, marketing and development of product quality, design and manufacturing processes. The productivity of enterprises should be increased to develop the competitiveness, with special emphasis on quality improving and unique abilities, rather than competition based on low price (no price competition to Middle East countries). To become competitive, we must be, technologically, equated with competition in very fast. Particular attention should be given to expertise and knowledge and practical application of knowledge and skills that can acquire during their education.

In the timber industry, the partnership and cooperation should be stimulated which will increase the competitiveness of enterprises, reduce investments, increase the use of capacity, reduce costs of production and sales. This implies the formation of individual clusters, whose task is to create a real interest of cooperation and mutual support in foreign markets rather than creating competition.

In the wood industry sector, there is a lack of quality and professional craftsmen, wood processing engineers, managers with knowledge and skills for successful marketing and promotion of products and particularly in the foreign market. Successful development of this sector without a larger number of these personnel will not be possible.