

Through what channels can you get timber and timber products onto the European market?

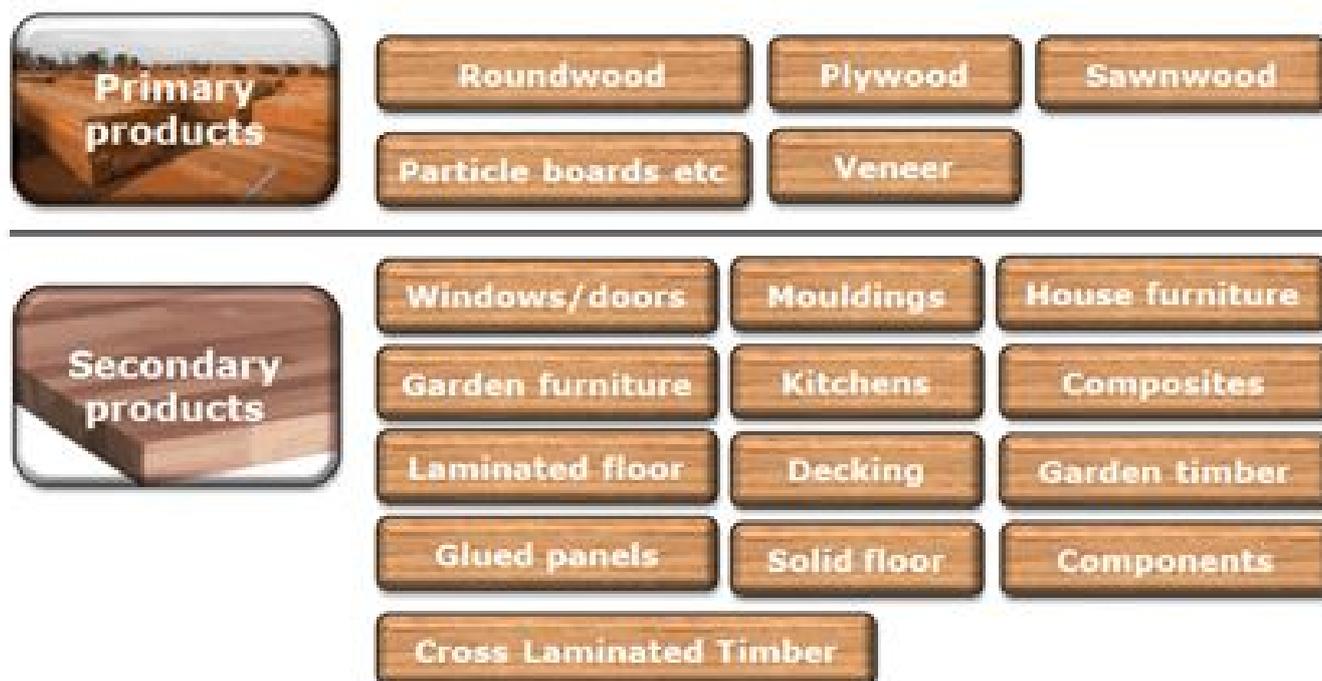
Added-value tropical timber products from the mid- and upper-range price/quality segments are the best targets for exporters from developing countries. Demands for legal harvesting, transparency and sustainability are causing many companies to shorten their supply chain and undertake horizontal integration of their business. Exporters from developing countries would be well advised to monitor the changes in their supply chain and sell directly to importers.

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1. Which market segments should you target?

Traditionally, the tropical timber sector can be divided into 18 segments that are connected to the different products traded around the world. Alternatively, they can be grouped into "primary" and "secondary" (or added value) processed products. The following diagram shows the different segments:



In addition to the segmentation given above, each of these products can be sold in a different price-quality subsegment. In the timber sector, we separate these subsegments into upper end, middle range and lower end.

There are many different segments and subsegments to be identified in the timber sector. This means that there are a lot of options, but also many opportunities! On our website, you can find many interesting [product studies](#) that will help you to select your most profitable segment. While you will be making the final decision yourself, there are additional facts that you have to take into account. We have selected the most important topics for you:

New business strategies create opportunities for small-scale exporters

The recent demand for traceability and legality in the European market for tropical timber are increasingly giving rise to the shortening of supply chains through "total chain management". Large exporters, for example, may establish an office within Europe, taking the role of a distributor or a sales representative. Large importers are also establishing concessions, warehouses and exporting companies in developing countries.

At the same time, a short supply chain guarantees quality, compliance with buyer specifications and traceability. This development can in turn become an opportunity for small-scale exporters due to their smaller volumes, when they can find smaller, flexible importers that match their capacity. Intermediates such as agents are no longer required.

Tips:

Small and medium-sized exporters should seek contact with other local companies that export large cargoes, in order to benefit from synergies in terms of logistics, warehousing and portfolio compatibility.

Invest in the relationship with your buyer. Be realistic about your supplies (in terms of quality, volumes and prompt delivery to buyers) and continuously aim to improve these aspects. This strategy will reduce risks for both you and your client, and will create trust in the long term.

Find a buyer that matches your capacity.

Focus on high-quality and value-added products

For most small and medium-scale exporters from developing countries, it is neither feasible nor profitable to produce low-price, low-quality products. Some countries (mostly in Asia) dominate the low-end market, as they have perfected the successful recipe of large-scale production with low costs. Asian companies are important suppliers of mass-produced, cheap, multi-layer flooring products, for example.

The most important supplier is China, although this country has recently lost market share to countries with even lower labour costs such as Indonesia, Vietnam, Bangladesh and Cambodia. If exporters in other countries (in Latin America and Africa) focus on the export of high-quality products, there is a better chance of successful competition.

Tip:

Focus on added value niche markets (middle and upper-end segment) and buyers that appreciate superior design, durable wood species, sustainability certifications and handmade quality. Do not try to compete with low-quality and low-cost products.

Buyer sustainability and legality policies - higher profile and more stringent

The implementation of the European Union Timber Regulation (EUTR) has introduced more stringent requirements for the import of tropical timber into the European market. To ensure sustainability and traceability in the supply chain, importers seek ways to shorten the chain or ask for guarantees in the form of certification. For much more information about the EUTR and certification, we refer to our [Buyer Requirements](#) study.

'Ready-to-install' building materials become increasingly common

The use of (semi-)finished timber building elements, such as Do-It-Yourself (DIY) furniture items, mouldings, furniture and stair components, is becoming increasingly common. This method is widely used for the construction of new residential or commercial buildings. These products are also sold to consumers in DIY chains, offering opportunities for adding value and resulting in higher margins. Bear in mind that "ready-to-install" building materials have to be manufactured under strict specifications.

Tip:

Retailers are increasingly selling ready-made products, which offers an opportunity for you as an exporter. Such products that incorporate added value involve higher margins but also increased risks. The move to fully factory finished windows, for example, increases the demand for compliance with specific size specifications relevant for different countries. See our [specific product](#) studies for different countries and products for details.

Focus on innovation and Ecodesign

Processing companies mainly located in western Europe are undergoing a lengthy process of restructuring and modernisation, as production volumes have reduced. Major factors of competitiveness for the European processing sector now consist of research and innovation, combined with design and added value. Exporters that target the processing sector should ask themselves whether they can deliver plain, processed products directly to the consumer market.

Tips:

Tropical timber has various applications, so that its successful promotion requires creativity and innovation. Try to add value to your product before exporting it. This will benefit both you and your country's image in the timber sector.

Note that there are regional differences, as different European countries specialise in certain timber products. For example, Belgium and Italy are focused on furniture manufacturing, while in Italy and Germany there are many producers of wooden kitchen doors. Look for the most relevant market, where your products do not face severe competition.

Consumers increasingly choose Do It Yourself (DIY)

European consumers are gradually choosing to renovate and build themselves, without using a contractor. As a result, a wide variety of tropical timber building materials are now available in retail channels (for instance, wood-based panels, doors, floors, furniture, mouldings and garden assortment). With regard to prefabricated building materials intended for consumers, specific dimensions and sizes are important. For example, in some instances flooring is offered pre-cut and in standard sizes to fit rooms. DIY chains are currently increasing their product range of "ready-to-install" building materials.

Tip:

Explore the possibility of producing standard-sized, ready-to-install products, which incorporate more added value.

2. Through what channels can you get timber products on the European market?

Trade channels for the timber sector are the same for each of the segments identified above. Many importers are buying a wide variety of timber products. Others might be more specialised in certain products, but they are still following the overall trade channels.

Trade channels for the timber sector had been fairly traditional until five years ago. Exporters from developing countries had generally been selling their products to agents, importers, wholesalers or distributors. The final products were mainly distributed by the retailers to small processors, small contractors and consumers, either in a finished form (for example as doors, garden furniture or panels) or in a semi-finished form as veneer or plywood.

However, since the recent economic turbulence and the more stringent requirements for sustainability, legality and corporate social responsibility, the traditional channels are shifting to a more modern version. In this modern version the following developments are taking place:

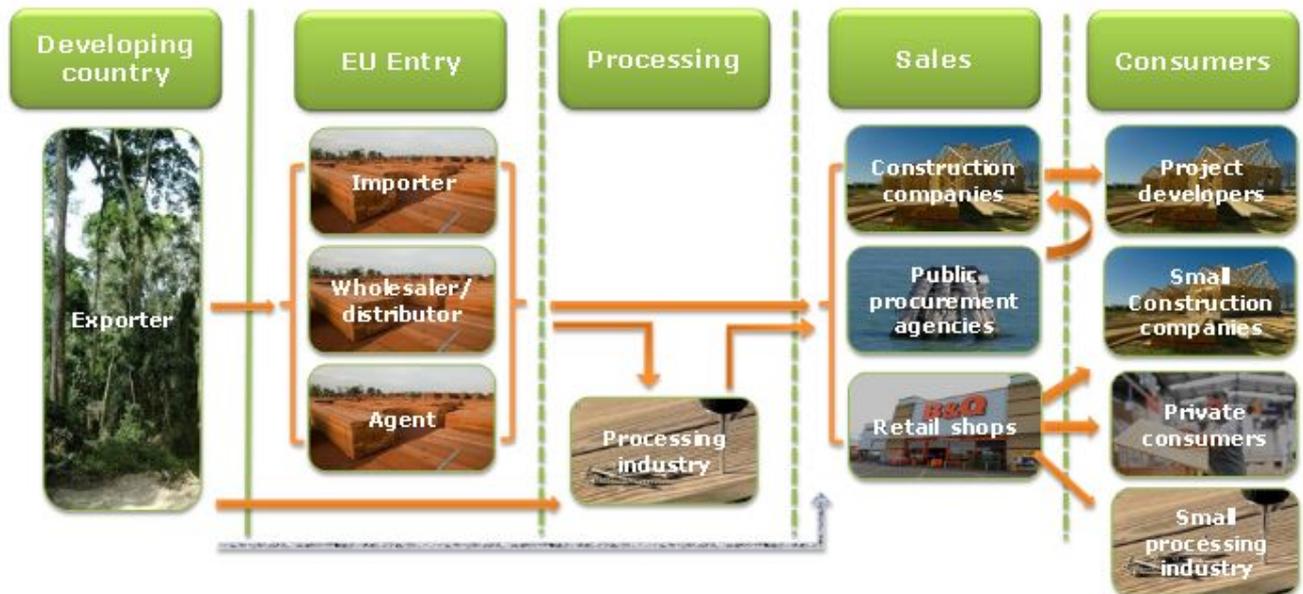
The role of the agent as an intermediary is becoming much less important, as importers and exporters are able to find each other directly through many ways of modern communication. Most wholesalers and distributors have also become direct importers in recent years. Exporters are also starting to sell directly to processing factories, because these are looking for outsourcing opportunities.

Exporters are also starting to sell directly to construction companies, public procurement agents and retailers. These exporters are often European companies with an office in the exporting countries.

Retail shops (especially Do-It-Yourself, DIY) are selling more and more to small construction and processing companies. European companies are targeting "total chain management", since they own forest concessions, sawmills and processing factories in the exporting countries.

Some existing exporters from developing countries are taking the opposite approach by opening a sales office in Europe. Importers are also starting to sell directly to consumers, although this is a fairly new development (and not yet included in the diagram below).

Altogether, the current market channel for almost all timber products looks as displayed below:



Source: Forestry Service Group ([FSG](#))

Next to the aforementioned developments, there are other important facts related to changes in the market channels, as listed below:

Why agents are becoming less important trade partners

Traditionally, agents played the role of directly targeting European wholesalers, retailers and importers. However, as importers increasingly adopt the role of buyers in developing countries, the role of the agent is gradually diminishing. For this reason, importers increasingly become supply chain managers, enjoying a more important role.

This development also affects the exporter's role in the supply chain. Exporters can now make contact directly with importers in Europe and will therefore need to be more knowledgeable about European market developments and product trends.

Tip:

You are advised to make direct contact with importers in the European market. In order to engage in successful partnerships, make sure that you are up to date with the market developments and product trends. Read our related timber studies such as [Buyer Requirements](#) for further details.

Just-in-time (JIT) trading requires new logistic patterns

Just-in-time business practices entail that importers only keep small stocks. Maintaining only small inventories is an increasing trend in western Europe as a means to compete globally, but it is also fuelled by increased risk management. The impact for exporters is that shipment sizes are reducing in size but increasing in frequency. As a result, exporters have to trade in a more flexible way. This situation effectively means improved logistics as well as more reliable and effective delivery services.

Tips:

Geography and the quality of infrastructure are of great importance when it comes to timeliness.

Check your logistics route to your port of export and see if there are any risks that can be eliminated or improvements to cost efficiency that can be made. You could consider moving your stocks closer to the shipping point.

The same concerns apply to "red tape" at customs. Just-in-time trading means that goods cannot be kept waiting at the border because the right documents have not been provided. Make sure that the paper trail is in order.

Just-in-time business practices will add value to your products, since time efficiency is an aspect that your buyer will appreciate. This strategy may lead to an increase in your average margin, typically between 5% and 10%.

Small construction companies are still serving the consumer market

Small contractors are hired to construct, repair, alter, remodel, add to, demolish, remove from or improve buildings and structures, as well as making related improvements to real estate and gardens. They buy their tropical timber building materials from timber wholesalers or, in most cases, from the same retail shops as consumers.

The latest count of small contractors in Europe (the EU-28) is from 2014. In that year, 93% of the 3.2 million "on-site construction enterprises" registered in Europe had fewer than 50 employees. Only 2,020 companies had a workforce larger than 250 employees, while there were 18,000 companies with between 50 and 250 employees ([Eurostat, 2015](#)).

Small contractors usually buy semi-finished material for construction purposes. They are responsible for most of the market for mouldings, 20% of the market for solid tropical hardwood floors and 5% of the market for garden furniture. Usually, small contractors consist of small family companies that traditionally complete the construction of their timber products themselves. Nevertheless, in some cases it could be more efficient for them to buy finished products.

The increasing demand for legally sourced tropical timber has resulted in shorter supply chains. At the same time, the economic recession has increasingly led European consumers to renovate and build themselves. Consequently, the role of small contractors in the renovation/maintenance sector decreased during the past few years, although it is expected to grow again in 2017.

Tip:

Competitive pricing is key in this market. Compare your prices with competitors on websites such as [Fordaq](#), [Global Wood](#) and [Alibaba](#).

Small processing industry is up to speed again

Europe has a large and diverse wood processing and furniture industry, mostly concentrated in Eastern European countries. The sector comprised around 312,000 enterprises in 2014, most of which are small in size with an average of 10 employees. The European processing industry had been shrinking until 2013 (290,000 companies), but has increased since then ([Eurostat, 2015](#)).

Tip:

The above data indicate that the number of small processing companies is increasing again. These need components and raw material, which offers an opportunity to you!

Larger construction companies are doing better

Due to the economic recession, the tropical timber market in the European Union had been severely affected, mainly because of the drop in housing and public building construction. However, the recent economic recovery is slowly reversing these effects, with the European construction market expected to grow by 2.2% in 2017 ([Euroconstruct, 2016](#)).

Tip:

The demand for timber and timber products destined for housing and building construction, such as flooring, doors and mouldings, is likely to increase. This will lead to steady growth in imports in the coming years.

Retail market still offers good opportunities

The retail market for tropical timber still offers good opportunities for exporters. The slowly improving construction sector has caused the timber market to shift towards the renovation sector, which offered more stability during the recession.

The Do-It-Yourself (DIY) sector was also affected by the economic recession, since consumers were more reluctant to spend money. This trend is now reversing, however, as the economy recovers and consumer confidence grows again. DIY stores are drawing consumers back by offering more “ready-to-install” products such as complete doors and windows, which are currently very popular on the European market.

Germany remains the largest market as measured by consumer expenditure on timber products. The country is home to some of the largest DIY retailers in Europe such as [OBI](#) and [Bauhaus](#), which are all continuing to expand across the Central and Eastern European regions.

Retailers usually sell to three market segments: small contractors for small-scale building activities, small processors (furniture making, timber construction, finished and semi-finished items), and consumers. In most cases, your buyer - the importer - is selling to the retail market either directly or through its distributor.

Tip:

You can only sell directly to DIY retail markets when you can offer large volumes against low prices and when you have a very reliable timber supply in your own country.

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