

DUKE Heights BIA Furniture Sector Strategy

Executive Summary

The DUKE Heights BIA commissioned this document to develop a strategy to encourage business activity in the furniture sector of the BIA. It is the continuation of a series of recommendations made by a consultancy report commissioned by the City of Toronto and the BIA in 2016 which identified 5 sectors that the BIA should focus on and encourage. The largest of these sectors is the furniture industry.

In the course of the development of the DUKE Furniture strategy, the following observations about the furniture industry in the BIA are made:

- 95% of the jobs in the BIA belong to the top ten employers in the area
- There are approximately 6,000 furniture manufacturing jobs in the BIA, constituting nearly 1/10th of all the furniture jobs in Canada and more than 1/5th of the furniture jobs in Ontario.
- Aside from the 4 biggest firms in the industry, the rest (~90%) have less than 50 employees and less than \$10 million dollars in annual sales
- DUKE Heights furniture industry is more productive than the average in the country: revenue per employee is nearly 40% higher than the national industry average
- Exports are important to the industry in Canada generally, and DUKE Heights specifically, where many firms are already internationalized

This document makes a series of recommendations for the furniture sector initiative. These are divided into Branding, Institutional Collaboration, Joint Purchasing, Internationalization and Export Promotion. Additionally, the report provides a summary of funding opportunities for the initiative, an implementation strategy for the initiative, and a proposed evaluation strategy.

The report's branding strategy constitutes the use of a sub-branding strategy placing DUKE's furniture sector under the greater DUKE brand as DUKE Furniture. It outlines a sector branding strategy known as "critical-mass positioning," which emphasizes the DUKE furniture sector's size, intense concentration of firms, and its considerably above average productivity.

The institutional collaboration strategy suggested by the report emphasizes working with educational institutions, especially York University's Schulich Business and Osgoode Hall Law Schools. These partnerships will encourage increased activity, productivity and perhaps most importantly, employment in the sector. This includes collaboration on the acquiring of better management practices by firms, internationalization strategies, and legal advice.

The export promotion and internationalization effort emphasizes using existing institutional resources to promote both DUKE furniture products to consumers and the area itself to prospective manufacturers. It also suggests using DUKE's existing connections with Schulich and Osgoode to aid DUKE Furniture firms in internationalizing their businesses, both from a strategic and legal perspective.

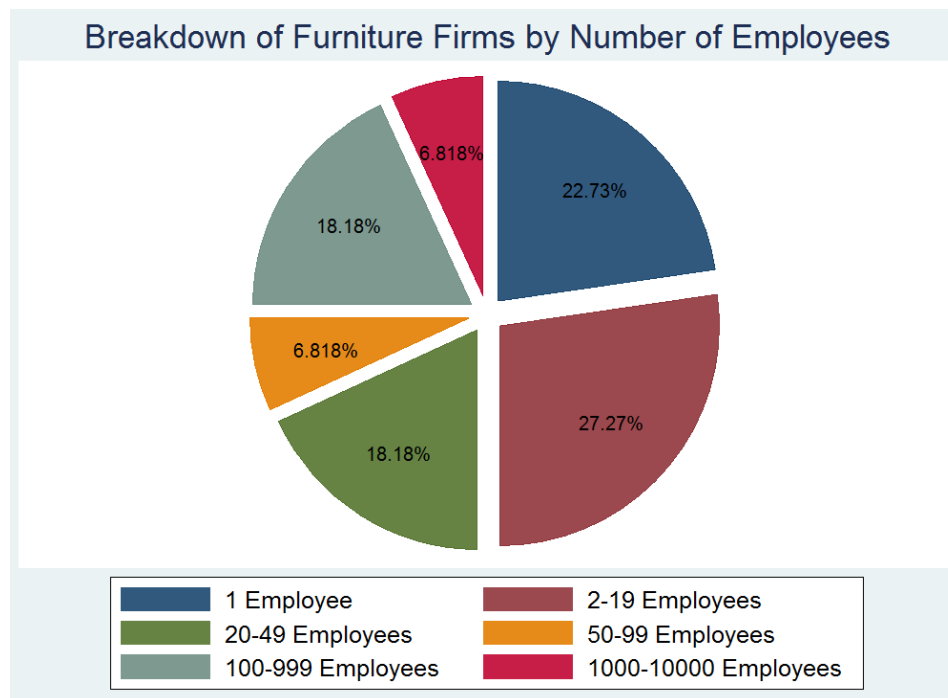
The report ends by suggesting a stage based implementation plan and an evaluation strategy combining quantitative and qualitative methods to ensure the viability and effectiveness of the sector strategy.

Snapshot of sector

Furniture is a significant sector in the DUKE BIA. Out of approximately 61,000 furniture jobs in Canada, approximately 25,000 are in Ontario, 16,000 in Toronto, and 6,000 are in the BIA. This means that more than 20 percent of Ontario’s furniture jobs are in the BIA, and nearly 10 percent of all of Canada’s furniture jobs are in the BIA.

Canada has a domestic market of about \$ 13.5 billion; it imports \$ 7.216 billion worth of furniture and exports \$ 5.348 billion. This is a relatively export-oriented sector, with about 46 % of Canadian furniture sales deriving from exports (export orientation = 46%). The proportion of the BIA’s furniture sales which are derived from exports is not available, but the presence of large players like Teknion, which is extremely active in export markets, points to a likelihood that the export orientation of the sector in the BIA is at least the same as the larger Canadian industry (i.e. 46%)

The sector in the BIA is dominated by large players in terms of employment, with approximately 95% of sector jobs belonging to the top ten players (the dominance of large players is even more emphasized if one takes into account that 3 of the top 4 companies are interrelated and share ownership). Outside of the group of 4super large companies (of which 4 are part of the Global-Teknion family), all other companies in this sector have less than \$10 million in yearly sales and employ less than 50 employees. 4 companies have more than 50 employees, 11 companies have between 10 and 50 employees, and 18 have less than 10 employees, with a further 10 within the latter group only having one employee:



The furniture industry in DUKE generates approximately \$ 252,300 in revenue per employee (measured through the total revenues divided by the total revenues of the sector for the companies for which that information was available). This is opposed to the national industry which creates approximately \$ 181,500 in revenue per employee. Employees in DUKE, therefore, create approximately **39% more revenue per employee than the national average** (D&B Hoovers database). Revenue per employee is often used as a measure for productivity and efficient use of resources. This means that furniture manufacturing companies in DUKE are **on average considerably more productive** than the average furniture manufacturing company in Canada. Furthermore a simple linear regression analysis of the data shows that a furniture company in DUKE can expect to increase its revenues by \$ 259,310.70 on average for every employee it adds to its workforce.

DUKE's furniture sector is therefore extremely competitive and attractive to businesses. However, DUKE's furniture sector has not received the attention it deserves. Its size and importance to Canada's furniture industry are not well-known within the industry, policy circles, concerned institutions, or even among DUKE Furniture firms themselves. This lack of awareness prevents the furniture sector from: receiving public investment, gaining reputational benefits for its firms, coordinating within the different firms in the BIA for mutual benefit, and attracting private investment in the sector for growth. The DHBIA therefore has an opportunity to facilitate certain initiatives in the furniture sector to assure that the available resources in the sector (including the institutions in the surrounding areas) are efficiently and effectively used for the mutual benefit of the firms in the sector and for the BIA generally.

Branding Strategy

In order for Duke Heights' furniture sector strategy to be successful, it needs to effectively brand its furniture sector in a way which encourages greater growth and competitiveness of the sector. The following brand strategy is backed by research and best practices in sector initiative branding. It will describe how the DUKE Heights BIA will use a **sub-brand strategy** to brand the furniture sector as DUKE Furniture.

Objectives

- To allow the DUKE Heights BIA to effectively brand its furniture sector both to its stakeholders, prospective workers, and to relevant consumers domestically and abroad
- Highlight the unique strengths of the BIA: particularly, its unmatched concentration of furniture jobs and the presence of world-class firms
- To add value for all of the firms in the furniture sector of the BIA by allowing them to benefit from the brand and reputation of the BIA's furniture sector
- To attract consumers, skilled workers, businesses, and investment into the BIA through effective and realistic branding of the furniture sector
- To establish the DUKE Furniture Sector as the premier furniture centre in Canada

Branding Platform

The DUKE Furniture branding platform will take advantage of the work done on the DUKE brand – industrious, tough, hardworking, enterprising; new engine of growth between Dufferin and Keele; most connected BIA.

Brand values: industrious, tough, hardworking, enterprising.

Brand positioning: Due to the very large size of the furniture sector in the BIA, DUKE Furniture will employ a “**critical-mass positioning**” strategy – emphasizing the large concentration of furniture jobs and firms in the area as its greatest asset: “DUKE Furniture is Canada’s largest and best-connected furniture hub. Consumers, businesses, and skilled workers in the furniture business should look at DUKE Furniture as their first choice.”

Brand promise: “Canada’s largest and best connected furniture hub, all in the heart of the GTA”

The following statistics and figures should be emphasized to demonstrate the DUKE Furniture’s critical mass:

- 20 percent of Ontario’s furniture jobs are in DUKE
- Nearly 10 percent of all of Canada’s furniture jobs are in DUKE
- Some of the world’s leading firms call DUKE home, including Teknion, Global, and Globe Spring and Cushion
- DUKE Furniture firms are nearly 40% more productive than the national average according to revenues per employee

Brand Architecture

A sub-brand architecture will be used, presenting DUKE Furniture under the greater DUKE brand. This allows the furniture sector to take advantage of the work that has been done on the DUKE brand, which includes DUKE Perks, DUKE News, DUKE Talks:

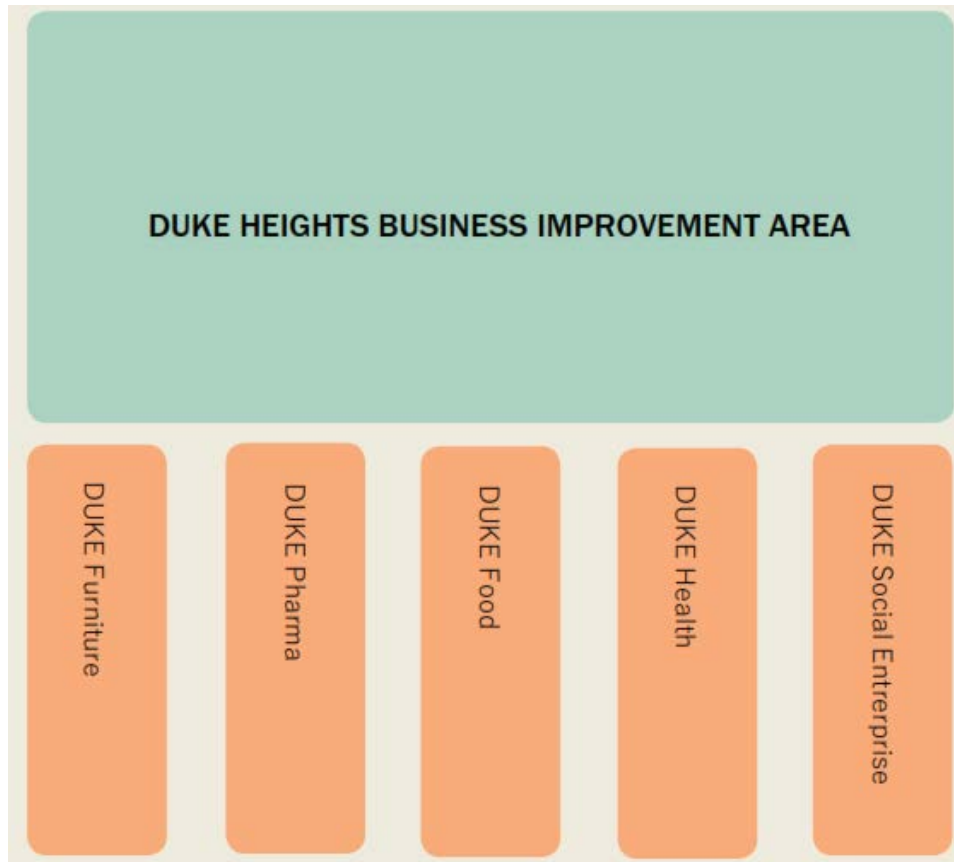


Figure 1. DUKE Sub-Brand Architecture

The advantages of a sub-brand architecture are that it allows the DUKE Furniture brand to benefit from the reputation that DUKE has already gained and also allows the greater DUKE brand to gain greater reputation from association with the DUKE Furniture brand in the future.

Marketing Communication Strategy

One part of the communication strategy would consist of internal communication which would inform the BIA's furniture firms of the DUKE Furniture initiative, allowing them to support and further publicize the initiative within their own networks. The value of the initiative will be presented to these stakeholders (refer to Section 2). DUKE Furniture will be incorporated into DUKE's website and networks, and aesthetic branding incorporating the DUKE logo will be incorporated. Newsletters, community papers, social media, and media coverage, methods with which DUKE is already familiar and experienced, will all be used as mediums for communicating the establishment of DUKE Furniture.

The DUKE Ambassadors Program will be used as part of the communication strategy to inform individuals and businesses in the industry of DUKE Furniture. These industry leaders will publicize the sector in the course of their business travels and attendance at conferences, thus

allowing DUKE to publicize itself within the industry with minimal cost. This will be addressed again in the export promotion section

A more specific PR strategy will be created by the BIA to market DUKE Furniture to the furniture industry outside of the BIA, including attendance at trade fairs, targeted advertising, and other communications methods.

Institutional Collaboration Strategy

Sector initiatives offer considerable opportunities for educational and research institutions. Sector initiatives can allow educational institutions to harmonize their curriculums and programs with the industries in which their students desire to work upon graduation. This enhances the appeal of the institutions in question to prospective students and delivers better value to their existing students. Educational collaboration is something which DUKE has already been involved with, launching a collaboration with Seneca college and the DUKE food industry in 2017. The Seneca initiative can be used as a model for collaboration with educational institutions.

York University is an institution with which the DUKE BIA has experience and an established working relationship. York is a premiere educational and research institution with a variety of leading schools in management (Schulich), engineering (Lassonde), and law (Osgoode), among others. These schools each offer a path for collaboration in the furniture industry, described below.

YEDI – the York Entrepreneurship Development Institute is dedicated to encouraging disruptive and innovative businesses and entrepreneurs by giving them access to world-class business education and access to funding. YEDI has expressed an interest in developing a furniture incubator with DUKE and is going to conduct a feasibility study in the Fall of 2017. DUKE can work with YEDI to assure that this incubator is successful and is harmonized with the rest of the DUKE Furniture initiatives. Furthermore, the incubator has the ability to collaborate with the Lassonde school of Engineering to introduce innovative products and facilitate the introduction and commercialization of new technologies and materials into the furniture industry.

Schulich– The Schulich business school can also facilitate sector-based workshops for the furniture industry with the aim of giving advice to furniture firms in DUKE. These would include giving specialized advice and information on the challenges and opportunities facing the furniture industry in DUKE. In this way, Schulich students and faculty can provide DUKE Furniture firms with knowledge and practices with which they would not have been familiar otherwise, encouraging success and greater competitiveness. These workshops can include best practices in management, strategies for internationalization/export competitiveness, and the innovation strategy (more below).

Osgoode – The Osgoode Hall Law School has demonstrated continued willingness to work with the DUKE BIA as part of their initiative to establish connections with the local community. Osgoode has already expressed interest in developing a program with local lawyers in DUKE to provide consultation and advice to businesses in the area.

The school could also help develop business law workshops geared to the furniture industry. One specific type of workshop relates to the export promotion initiative (discussed below). Internationalizing one's firm involves a variety of legal jurisdictions and complex legalities are in place, complexities which may comprise a considerable barrier for firms who may be considering entering export markets. In this way, Osgoode can help firms in DUKE take the next step in their business and open up new markets and sources of revenue and employment (more below)

Osgoode can also aid in the creation of the joint purchasing program (described below).

Employment Ontario Service Providers – DUKE has 3 (4?) employment agencies within the BIA, in addition to those outside of the BIA but in close proximity. DUKE can work with these service providers to connect them with the furniture industry and create a mutually beneficial relationship where employment agencies can focus on recruiting furniture industry workers to fill short and long-term positions. Ideally, this would focus on creating long term career pathways into the furniture industry in DUKE, connecting the surrounding environment of marginalized community members to an important and highly competitive industry next door.

Joint Purchasing

Joint purchasing is also another opportunity for DUKE Furniture sector initiative. As a manufacturing industry, the furniture sector is highly dependent on the procurement of good quality and affordable materials. While larger companies can often procure quality materials at good prices, smaller and medium companies may find it difficult to purchase at the scale needed to secure a good price. The sector initiative can step in at this juncture and increase the buying power of its constituent businesses by allowing them to pool their resources and secure better prices. By increasing buying power significantly, the initiative could even attract larger companies who would see a benefit in reduced costs.

A joint purchasing initiative would require a strong legal framework to assure participants of fairness and proper representation. Osgoode's legal expertise could aid in this aspect by helping to draw up a contract which would assure propriety both between the participants themselves and between the joint purchasing consortium and the suppliers. Additionally, collaboration with the Schulich business school could help establish the basics of the program structure to maximize buying power and efficiency. Schulich could also offer students to help with the day to day operation of the joint purchasing initiative, allowing the students to gain real life experience in industry while minimizing the resources that SMEs would have to input into the program.

The development of this program should be based on best practices in joint purchasing initiatives. Usually, a procurement committee made up of participating businesses is established and meets regularly to discuss existing and new joint purchasing opportunities, review proposals, and encourage collaboration generally. The specificities of the program beyond this point should be decided according to the members' desires, their commitment and resources, and the BIA's assessment of the best interests of its constituent businesses.

Internationalization and Export Promotion Strategy

Export promotion is fundamental for a sector like furniture in the DUKE BIA. As mentioned above, nearly half of Canadian firms' furniture sales are a result of exports. Though information on the export orientation of DUKE Furniture firms is not currently available, we can assume that it is similarly oriented, with firms like Teknion heavily involved in markets across the world, including in the Middle East, Europe, Asia, South America, and Africa. Additionally there is evidence that many companies who should be exporting are not; one study of Canadian companies found that only 5% of companies who are able to export are actually exporting.

However, the act of exporting to foreign countries is one laced with logistical, strategic, and legal complications and barriers. There are ways in which the DUKE BIA can help businesses overcome these barriers. These methods differ based on the needs of these businesses and can be divided into internationalization, strategy, and export promotion.

Internationalization

Businesses who are beginning to explore the possibility of exporting or have begun to serve foreign markets are in need of both legal and strategic advice. In this respect, the BIA can help by mobilizing the legal and business knowledge that exists in its institutional partners, namely Osgoode Hall Law School and the Schulich Business School.

The DUKE BIA is already in partnership with Osgoode to create a business legal consultation and advice program. This program would involve allowing small and medium size businesses to get legal consultation and advice services, with the former being free of charge and the latter being offered by lawyers in the BIA. There would also be a database of frequently asked questions (FAQs), where general advice on common business questions would be answered on an online medium. The BIA could use this program to help firms internationalize by adding an internationalization aspect to both the advice and database aspects of the program. The database would allow businesses in the BIA who are exploring the possibility internationalizing to have a low cost and low commitment resource to get a sense of what that would entail, while the advice and consultation aspects would assure that internationalizing firms have a reliable source of legal information for internationalization. Osgoode also has a specialization in international business law, and so could possibly incorporate this effort into that program.

The second barrier to internationalization for many firms is the difficulty of entering a new and foreign market and the different strategic thinking required to attain success. One study has found that 1/4th of Canadian companies interested in exporting do not know where to begin. Here, the DUKE BIA can utilize the considerable expertise at the Schulich business school to aid businesses in the planning stage of their internationalization process. Schulich has a strong international orientation, with campuses in India (Hyderabad) and China (Beijing) and programs in international business. Schulich's MBA and BBA programs both have international business specializations that are ripe for collaboration. This could include using students in these programs to help businesses develop internationalization strategies, the creation of basic internationalization strategy content for distribution to businesses, and the conducting of workshops on internationalization (the latter may require heavier faculty involvement). Specifically, the MBA program has a 6-8 month field study requirement, where students must complete a consulting report on a company of their choice in order to graduate. Furniture firms in the BIA who are looking at internationalization offer a very interesting opportunity for these students.

Export promotion

Related to the branding effort, the BIA should help furniture firms in DUKE to build brand awareness overseas and help them connect with foreign markets. There are a number of available strategies to accomplish this goal.

Firstly, a program which the BIA is already using to promote exports can be the first step in this effort. The DUKE Ambassadors program was started in early 2017 as a low resource yet effective way to create awareness of the BIA in international markets. The program recruited entrepreneurs and businesspeople from the BIA as DUKE ambassadors who are responsible for creating awareness about the BIA in foreign countries in the course of their regular business travels. The Ambassadors distribute BIA material in international conferences, establishing links with Canadian embassies in foreign countries to attract foreign investor class immigrants to DUKE, and creating connections with foreign retailers and suppliers. This initiative could be expanded to include an Ambassador program specifically for DUKE Furniture, with promotional material developed which advertises the sector's advantages in line with the marketing strategy outlined above. These Ambassadors would attend furniture and wood industry conferences and advertise DUKE Furniture, identify and create links with foreign furniture retailers, and encourage foreign furniture manufacturers to consider expanding operations to the DUKE area.

A second type of program is a formal DUKE Furniture presence at industry events in overseas markets. This kind of program would be aimed at small and medium sized businesses who do not necessarily have the resources, either in terms of manpower or monetary resources, to organize for a presence at an industry event. DUKE Furniture could gather resources from the sector's businesses, or use existing ones from grants and other sources, for a presence at these industry

events. DUKE Furniture's presence would be to promote the brand of DUKE both for employers and for consumers of furniture products.

DUKE could also try to grow the reputation of DUKE Furniture by attracting write-ups in international industry magazines and other publications. This could include the writing of op-eds by DUKE staff or the communication with publication writers to create content about DUKE Furniture. This should be relatively easy since DUKE's furniture industry is likely the biggest furniture hub in Canada, while this fact is not known in the industry.

Funding

The Government of Canada and the Provincial government have several programs to encourage cluster (i.e. sector) development in regions. As such, there are funds and grants that the BIA can apply for:

- Cluster Development Seed Fund and the newly introduced Innovation Superclusters Initiative (ISI)
- Funding for the initiative should be discussed and gathered, with a view that government funding such as the *Cluster Development Seed Fund*¹ exist (up to \$100,000 funding as a 1:1 initiative with private businesses)
- Expanding market opportunities grant²

The BIA should also look into gathering additional funds from furniture businesses in the area once the DUKE Furniture initiative has been launch and has displayed enough of a value proposition to its members. These funds could be used to launch larger projects than those outlined here, and which require greater resources.

What are the Benefits of a Sector Initiative?

Geographical clusters of sectors have been shown to be fundamental to employment, growth, and innovation. The concept of clusters as integral to economic development and collective regional and national competitiveness was first introduced in 1990 by Michael Porter. Since then, scores of initiatives have been introduced worldwide which have attempted to leverage existing sectors in defined local and regional areas to increase employment and competitiveness. These initiatives are the models for the sector initiative detailed here, and these initiatives have shown that they have myriad benefits for firms (SMEs and large firms), institutions, governments, and employees.

A sector's reputation is often one of the most important benefits that a sector can offer to its target businesses. SMEs (Small and Medium Enterprises) in an area with a strong sector reputation can attract consumers, investors, and workers who would otherwise be unlikely to

¹<http://www.occ.ca/programs/cluster-development-seed-fund/>

² <http://www.nrcan.gc.ca/forests/federal-programs/13133>

consider these SMEs. On the consumer side, a smaller firm can use its sector's reputation to gain market share without the costly marketing campaigns that smaller firms can rarely afford, especially in regards to foreign markets. Smaller firms in a sector with a good reputation can also attract workers who would usually consider working for a smaller firm too risky by allowing these workers to take comfort in the fact that other businesses in the sector offer employment opportunities in case the smaller firm closes. Large corporations often use sector clusters and sector reputations to demonstrate corporate responsibility and communicate with policy makers. By showing that they are working with the local community, large corporations can show that they are responsible citizens in the community and country at large. Equally importantly, corporations often use sector initiatives to communicate effectively with policymakers, advocating for greater public investments in industries that benefit not only themselves, but the rest of the sector as well.

Implementation Plan

Stages and Timeline

Above, individual projects of the DUKE Furniture sector initiative were outlined and opportunities for using the considerable resources of the BIA were described. Below, a proposed timeline and stages for the establishment and monitoring of the success of the BIA will be detailed. The planning stages emphasize consultation with the BIA's constituents.

Consultation should be undertaken before the initiative is implemented both in order to get ideas from the constituent businesses and to begin building a awareness within the furniture industry of both the initiative and the cluster itself. More is given on consultation processes below.

At the same time that a short consultation period is being completed, and perhaps in the same venues and events, networking/lecture events should be held. This will allow the furniture industry to build connections between its actors and to encourage organic cooperation and knowledge sharing. It will also create awareness in the furniture industry of the size and importance of the sector within firms themselves. More information is given on the proposed networking events below.

Implementation of the initiative itself will consist mostly of concomitant programs. Specifically, the branding strategy should be begun as soon as possible, communicating the existence and importance of DUKE's furniture industry to both stakeholders and consumers. The other programs largely require close cooperation with institutional partners, especially those in York University. Below is a Gantt chart outlining a proposed plan of the timelines of these projects and how they should work together in view of the general initiative.

Consultation

Before the initiative is officially launched, the BIA will conduct a series of interviews and tests regarding the state of the sector in the area and, especially, the perceived needs of the firms in the sector, in order to assure that the initiative's objectives are in line with the needs of the firms in question. Ideally, this would be completed within 2-3 weeks *, and the BIA can streamline the process by relying on online methods to reach out to relevant industry stakeholders.

The goals of this consultation process should take care to communicate the importance and goals of the sector initiative to the members of the sector so as to maximize participation and cooperation. The initiative should determine and make clear its overall objectives and vision: **growth and investment** and **joint purchasing** are objectives connected with growth, and **export promotion** and **innovation and R&D** are connected to increased competitiveness, and so these objectives should be a part of the initiative's objectives and should be communicated with initiative participants and branding.

Networking

In addition, a series of networking events should be held, in order to create/strengthen connections between the players in the sector and create awareness of the existence and strength of the furniture sector in the area. These networking events should be ongoing (i.e. past the research stage) and as frequent as demand allows, since networking and the facilitation of the sharing of information ("knowledge spillover") is a crucial part of a successful sector strategy according to the available statistical data. Lectures and talks by industry figures and professors of management/business (here, Schulich can be approached) can be used as a draw to attract individuals in the furniture industry to attend. The BIA already has similar networking/lecture events called DUKE Talks, which can be used and expanded to include a Talk for the Furniture industry.

Efforts should be made to invite relevant research and education institutions to these networking events, to create connections with a view to further collaboration – this will be expanded upon in the institutional collaboration strategy section. Especially invested or interested businesses should be identified for possible inclusion into a sector initiative advisory committee.

Evaluation

Evaluations of the cluster's success should be planned to be undertaken yearly; these include quantitative methods such as job growth in the sector, revenue growth for the sector as a whole, and number of new businesses opened in the sector, and qualitative methods such as satisfaction of a sample of firms in the sector and their perception of the success of the initiative. The purpose of evaluation is to assure that the sector initiative is sensitive to the unforeseen realities and changes on the ground and to the desires and needs of the members as the initiative proceeds.

On the quantitative side, the BIA can use the business database to which it is already subscribed to track the expansion of employment, number of firms, and revenue. The D&B Hoovers database is a sales based database which is regularly updated that includes information on number of employees, revenues, and NAICS data. This information can be used, with appropriate statistical methods to assure quality of data and the inferences that derive from them, to determine the success of the sector initiative.

Qualitative evaluation techniques should also be used to determine the views of the sector businesses on the initiative, especially where they feel the initiative is most effective and/or needed. In this way, the BIA can determine where to pay more attention and how to achieve greatest success and value for its businesses.