

Subject:	<i>BiH Wood Cluster Business Results</i>
From:	USAID CCA Project
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I. Introduction

In June-July 2007 the USAID Bosnia & Herzegovina Cluster Competitiveness Activity (CCA) organized a survey of enterprises in the CCA-supported BiH wood processing and forestry cluster. The objective was to analyze the top-line business performance of cluster members, and gauge the extent to which the cluster is contributing to overall growth.

A questionnaire in the form of a simple table was distributed by email and fax to 127 cluster stakeholders, requesting information on employment, exports, total revenues, and capacity utilization in 2004-06, as well as a projection for full-year 2007. Thirty-five companies across a range of sizes and regions responded with complete information, representing approximately one-fourth of total BiH wood sector exports. For analysis, companies were broken into the following size ranges.

	<u>Annual Sales</u> <i>KM MM 2004</i>	<u>Number of</u> <u>Companies</u>	<u>Comment</u>
Small	< 1.0	21	Smallest 103,000 KM
Medium	1 – 10	10	Average 2.8 MM KM
Large	> 10	4	Largest 32 MM KM

II. Survey Results

1. Sales

Sales of the WP&F cluster are growing strongly, anchoring overall sector expansion.

<i>KM MM</i>	2004	2005	2006	2007 proj
Small	7.5	9.7	13.0	16.3
Medium	27.8	29.5	41.5	53.8
Large	90.7	91.8	105.7	103.3
Total Sales	126.0	131.0	160.2	173.3
<u><i>Growth Rates</i></u>				
Small		28.9%	34.3%	25.0%
Medium		6.4%	40.7%	29.5%
Large		1.2%	15.1%	-2.3%
Total Sales		4.0%	22.3%	8.2%
<u><i>Analytical</i></u>				
SME Sales	35.3	39.2	54.6	70.1
SME Sales Growth		11.2%	39.1%	28.4%
SMEs / Total	28.0%	29.9%	34.0%	40.4%

- Total sales of the cluster are growing firmly, in 2006-7 well above the growth rate of the total economy. Small and medium enterprises are the key drivers behind the growth of the cluster. Their sales have doubled over the past three years, and their share of the cluster's total revenues has grown markedly, from 28% in 2004 to 40% in 2007.

- The average size of SMEs in terms of annual revenues has grown from KM 1.3 million in 2004 to KM 2.4 million in 2007.
- The sample's overall growth is currently projected to slow somewhat in 2007. However, SMEs expect to continue to experience very strong sales growth.

2. Exports

Exports of cluster companies have taken off over the last two years.

<i>Table 2: Exports</i>				
<i>KM MM</i>	2004	2005	2006	2007 proj
Small	1.9	3.0	6.1	9.1
Medium	19.1	19.1	30.0	41.1
Large	19.8	20.8	21.1	23.3
Total Exports	40.7	42.9	57.2	73.5
<u><i>Growth Rates</i></u>				
Small		60.7%	104.3%	50.0%
Medium		0.1%	57.1%	36.8%
Large		5.0%	1.6%	10.2%
Total Exports		5.2%	33.5%	28.4%
Total Exports –Sector*		-6.5%	25.4%	24.7%
<u><i>Analytical</i></u>				
Total Exports / Total Sales	32.3%	32.7%	35.7%	42.4%
SME Exports Growth		5.5%	63.5%	39.1%
SME Exports / SME Sales	59.4%	56.3%	66.2%	71.7%
SME Exports / Total Exports	51.4%	51.6%	63.1%	68.4%

* Source: BiH Agency for Statistics

- Though the cluster's total sales are rising, its exports are growing even faster. The exports / total sales ratio of cluster companies has increased remarkably in three years – more than 10 percentage points, from 32% in 2004 to over 42% in 2007.
- SME exports are growing faster than those of larger companies – up 140% over the past three years – and the exports/sales ratio of SMEs is much higher than that of large companies, reaching over 70% of total SME sales in 2007.
- Though less than 30% of total cluster sales in 2004, SME exports were over half of total cluster exports. Though 40% of cluster sales in 2007, SME exports will rise to more than two-thirds of the cluster's total exports.
- Average SME company exports have risen from KM 750,000 in 2004 to KM 1.7 million in 2007.
- even though
- In 2006, based on government data, total value-added exports of the BiH wood processing sector were KM 248 million. Therefore, this cluster sample alone, at KM 57 million, accounted for about one-quarter of the BiH WP sector total. Exports of the cluster and especially of SMEs have been growing substantially faster than those of the entire BiH wood processing and forestry sector. The CCA-supported wood cluster probably accounts for well over half of BiH value-added wood products exports, strongly underpinning the overall sector's strong export performance over the past three years.

3. Employment, Productivity, and Capacity Utilization

Employment levels in the sampled cluster companies have risen steadily since 2004 and are likely to continue to grow in 2007.

<i>persons</i>	2004	2005	2006	2007 <i>proj</i>
Small	167	184	223	314
Medium	708	729	811	958
Large	2451	2482	2525	2629
Total Employment	3326	3395	3559	3901
<u>Growth Rates</u>				
Small		10.2%	21.2%	40.8%
Medium		3.0%	11.2%	18.1%
Large		1.3%	1.7%	4.1%
Total Employment		2.1%	4.8%	9.6%
<u>Analytical</u>				
SME Employment Growth		4.3%	13.3%	23.0%
SME / Total Employment	26.3%	26.9%	29.1%	32.6%
Total Productivity (<i>KM sales/employee</i>)	37870	38585	45019	44434
SME Productivity (<i>KM sales/employee</i>)	40317	42950	52755	55071
SME Productivity Growth		6.5%	22.8%	4.4%

- Wood cluster employment is expanding at a higher rate than the economy at large. Again, most of the increase is at SMEs, whose employment has grown by 45% in three years. SME employment accounts for $\frac{3}{4}$ of the total cluster employment increase, growing from roughly one-fourth to one-third of total cluster employment in just three years.
- Average SME company employment has grown from 31 in 2004 to 43 in 2007.
- Meanwhile, cluster productivity (measured by sales per employee) has grown strongly, by 17% over the past three years, again with SME productivity higher and growing even faster – up 37% over the three-year period.
- The employment of this sample represents about 1% of total employment in FBiH. Extrapolating, the entire CCA-supported wood processing and forestry cluster probably represents about 4% of total FBiH employment. Wood cluster employment is growing at least twice as fast as total economy employment, so its share will rise steadily.
- Capacity utilization grew from 56% in 2004 to 64% in 2006, with medium-sized enterprises leading the way. They expect to operate at 85% capacity utilization in 2007, and almost all are running two shifts per day. Small-sized companies expect to operate 1.3 shifts on average in 2007, up from only one shift in 2004.

III. Conclusions

The following conclusions can be drawn from these survey results.

- Beginning in the second year of the CCA project, the business results of companies in the CCA-initiated wood cluster in BiH have surged – sales, exports, productivity, and employment.

- The most important contributors to this strong performance improvement have been SMEs producing value-added wood products. Based on this sample, SMEs appear to be the primary drivers of growth in BiH.
- The remarkable performance of these SMEs is consistent with successful application of the cluster model, which encourages networking in product line development and joint action in promotion and marketing. By presenting a wider integrated product range and a large unified footprint at trade shows, clustering allows SMEs as a group successfully to respond to market trends toward increased buyer size, consolidated supply chains, and preferred supplier arrangements.