Current status of the U.S. hardwood industry

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The Study

Number sent = 4,980
Usable responses = 395
Not usable = 337 (several were primary mfrs.)
Adjusted response rate = 9%

State breakdown:
VA = 99, NC = 83, WI = 81, OH = 75,
WV = 21, TN = 12
Others = 12
Background – Product type

• 22% - Kitchen/bath cabinets
• 16% - Architectural millwork/store fixtures
• 14% - Furniture (household, upholstered, instit.)
• 10% - Components
•  6% - Flooring
•  3% - Wood windows/doors
• 29% - Other, or combination of above
Background – Respondent position

- 53% - Owner
- 32% - Corporate or operating management
- 4% - Production management/engineering
- 3% - Marketing & sales/design
- 8% - Other/more than one category
Background – Firm size

- 1-4 employees – 28%
- 5-19 employees – 35%
- 20-99 employees – 24%
- 100-249 employees – 5%
- 250+ employees – 8%

- 81% of responses were from single-facility companies
Background – 2010 Sales

- Less than $250K – 21%
- $250K - $1M – 31%
- $1 - $5M – 25%
- $5M - $10M – 8%
- $10M - $250M – 13%
- More than $250M – 2%
Background –
Regular business regions

- Midwest – 49%
- Mid-Atlantic – 47%
- Southeast – 47%
- Northeast – 37%
- South – 26%
- Southwest – 18%
- Northwest – 16%
- California – 16%

- On average, respondents marked 2-3 regions where regular business was conducted
Background – Product characteristics

• Low price-point – 4%
• Low-to-medium – 12%
• Medium – 32%
• Medium-to-high – 43%
• High – 9%

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• Mostly stock items – 16%
• Mostly semi-custom – 21%
• Mostly made-to-order – 61%
• (More than one type – 2%)
Made-to-order production as a percent of product mix

- 0% - 7%
- 1 to 20% - 15%
- 21 to 40% - 6%
- 41 to 60% - 7%
- 61 to 80% - 15%
- 81 to 100% - 50%

Compared to 5 years ago, this made-to-order production now is:

- Smaller – 17%
- About the same – 66%
- Larger – 17%
Percentage of total cost of wood materials from:

<table>
<thead>
<tr>
<th>Wood Material</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardwood lumber</td>
<td>45</td>
</tr>
<tr>
<td>Softwood lumber</td>
<td>17</td>
</tr>
<tr>
<td>Dimension and components (HW &amp; SW)</td>
<td>7</td>
</tr>
<tr>
<td>Composite &amp; engineered products</td>
<td>27</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
</tr>
</tbody>
</table>
Domestic Focus

Over the last 5 years, have you increased the use of imports in your product line?

- Finished products – 14%
- Components or lumber – 21%

Over the last 5 years, have you increased the export of your products (outside the U.S.)?

- Yes – 16%
- No – 81%
- Uncertain – 3%
Results
“Indicate the factors listed below (check four) that you perceive to be among the most important to the success of your business:”

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing capabilities (e.g., ability to make profitable products, quality control, efficiency)</td>
<td>63%</td>
</tr>
<tr>
<td>General economic conditions</td>
<td>57%</td>
</tr>
<tr>
<td>Cost of raw material and energy inputs</td>
<td>43%</td>
</tr>
<tr>
<td>Marketing activities (e.g., reaching new customers, good customer service, effective product promotion)</td>
<td>36%</td>
</tr>
<tr>
<td>Human resources management (e.g., organizational efficiency, ability to hire good people, employee morale)</td>
<td>32%</td>
</tr>
<tr>
<td>Individual characteristics of owners/managers (e.g., hard work, ethics, knowledge, dedication)</td>
<td>30%</td>
</tr>
</tbody>
</table>

E = external factors
### Most important success factors, cont.

<table>
<thead>
<tr>
<th>E</th>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Overall consumer expenditures in our company’s product class</td>
<td>25%</td>
</tr>
<tr>
<td>E</td>
<td>Product characteristics relative to competition</td>
<td>24%</td>
</tr>
<tr>
<td>E</td>
<td>Organizational efficiency (e.g., ability to make quick decisions, ease of implementation)</td>
<td>22%</td>
</tr>
<tr>
<td>E</td>
<td>Financing opportunities (e.g., loan availability)</td>
<td>13%</td>
</tr>
<tr>
<td>E</td>
<td>Regulatory conditions</td>
<td>9%</td>
</tr>
<tr>
<td>E</td>
<td>Upper management decision-making (e.g., investments, expansions)</td>
<td>7%</td>
</tr>
<tr>
<td>E</td>
<td>Competition-driven innovation</td>
<td>7%</td>
</tr>
<tr>
<td>E</td>
<td>Industry-wide technology advancements that improve efficiency/product capabilities</td>
<td>6%</td>
</tr>
</tbody>
</table>

*E = external factors*
Success factor comparisons
small firms vs. large firms

- Industry-wide technology
- Upper mgmt decision-making
- Competition-driven innovation
- Regulatory conditions
- Financing opportunities
- Organizational efficiency
- Product char. relative to competition
- Consumer expend. in product class
- Human resources management
- Owner/manager characteristics
- Marketing activities
- Costs of raw materials/energy
- General economic conditions
- Manufacturing capabilities

Percent

Legend:
- Orange: Large firms (20+ empl.)
- Blue: Small firms (1-19 empl.)
Small vs. large firms – success factors

• Manufacturing capabilities, economic conditions, and costs ranked as Top 3 for both groups

• For small firms, marketing activities and owner/manager characteristics were especially important

• For large firms, organizational efficiency and product characteristics relative to the competition were especially important
Planned investment areas for the next 5 years

- Decorative laminating/veneering
- Rough mill
- Component outsourcing
- Panel processing
- Inventory reduction
- Solid wood processing
- E-commerce
- Certification/green initiatives
- Assembly
- Design/manufacturing software
- Sales force expansion/development
- Finishing
- Employee training
- Advertising/marketing communications
Within the next 5 years, in which areas will your company invest significantly to improve productivity or capabilities?

- Decorative laminating/veneering
- Rough mill
- Component outsourcing
- Inventory reduction
- Panel processing
- Certification/green initiatives
- Solid wood processing
- E-commerce
- Assembly
- Design/manufacturing software
- Sales force expansion/development
- Employee training
- Finishing
- Advertising/marketing communications

Percent

Large firms
Small firms

* Indicates significant investment
Small vs. large firms - investments

• In general, large firms planned more investment activity

• Sales force expansion/development and employee training especially important to larger firms

• Advertising/marketing and e-commerce especially important to smaller firms

• Finishing important to both groups
Sources of hardwood lumber (by volume) - Large firms

- Direct from sawmills: 45%
- Distributors & concentration yards: 39%
- Brokers / Other: 16%

Sources of hardwood lumber (by volume) - Small firms

- Direct from sawmills: 28%
- Distributors & concentration yards: 59%
- Brokers / Other: 13%
Services requested from hardwood lumber suppliers

- Double-end trim
- Certified products
- Color sorting
- Just-in-time orders
- Special grading
- Imported species
- S4S
- Break bundles
- Width sorting
- S2S

Legend:
- Large firms
- Small firms

Percent
Summary

• Manufacturing capabilities, economic conditions, and input costs the most factors for success in the current environment
• Overall, internal factors viewed as most important for success
• Investments will focus on marketing communications, finishing, and employee training
• Conversations with customers particularly important to information gathering
• Distributors & concentration yards important to hardwood lumber sourcing
Acknowledgements

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Questions?