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Against the backdrop of unrelenting import growth, an exclusive survey of U.S. wood products manufacturers looks for answers.



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How Can the U.S. Wood Products Industry Compete?

As imported wood products steadily grab more market share from domestic producers, an exclusive study conducted by North Carolina State University, the U.S. Forest Service and Wood & Wood Products attempts to gauge the U.S. industry's response.

**BY URS BUEHLMANN, MATT BUMGARDNER,
AL SCHULER & RICH CHRISTIANSON**

Over the past few years, America's wood products industries and the residential home furniture industry in particular, have faced ever-increasing pressure from foreign competition.

It seems that many major U.S. manufacturers of residential furniture have lost their competitive edge and little indication exists that a turnaround is in the making. In fact, a leading trend has been for U.S. home furniture manufacturers to close domestic plants and substitute components or complete lines of their furniture programs with imported products.

Today, we estimate between 35 and 40 percent of all wood residential furniture sold in the United States is imported from foreign countries. Foreign manufacturers, led by China, Canada and Italy, have nearly doubled their share of the U.S. wood household furniture market since 1990.

While the impact on the U.S. wood home furniture market has been most pronounced, imports have also increased their share of market for wood office furniture, kitchen cabinets and upholstered furniture (Figure 1).

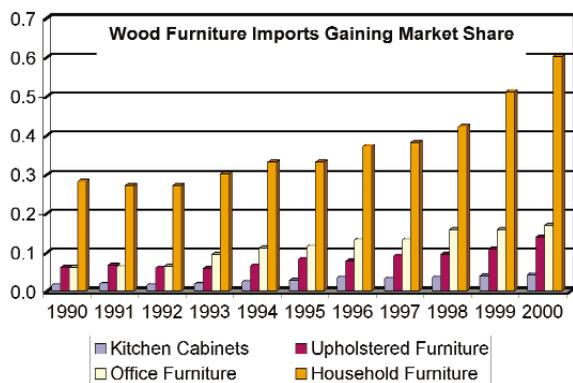


Figure 1: U.S. imports of selected products, 1990 to 2000 (Source: U.S. Department of Commerce, Bureau of the Census, International Trade Division, Washington, DC).

In view of this trend, is it any wonder that many industry executives and observers question whether America's secondary wood products industry will shrivel up and become a mere shell of itself in a few years time?

A comprehensive study conducted by North Carolina State University, the USDA Forest Service and *Wood & Wood Products* sought the input of industry executives to shed light

on the import situation and to better determine the U.S. wood product industry's prospects and plans for the future.

Good News, Bad News

The vast majority of the 341 executives responding to the "U.S. Wood Products Competitiveness Survey" are highly committed to maintaining a domestic manufacturing presence. Asked to rate their commitment to remaining a U.S.-based manufacturer on a scale from 1 to 7, where 1 indicates "no commitment" and 7 means "very committed," the average response was slightly above 6 (Figure 2).

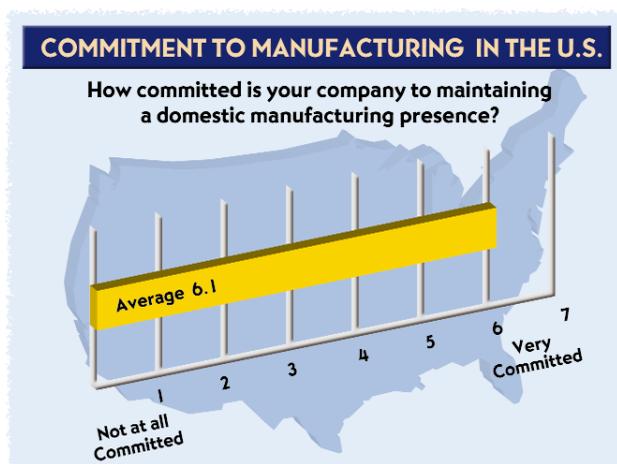


Figure 2

What's more, six out of 10 respondents indicated that more than 80% of their company's sales would come from domestically produced and/or sourced products in three years. Sixty-three percent of the companies reported that they had not increased the use of imported wood products in their product lines over the last five years (Figure 3).

These responses seem surprisingly positive but may reflect the respondents' personal attitudes and perceptions that their companies are in a good competitive position to "escape" the negative impact of imports. Also, the answers given were highly dependent on the industry segment to which respondents belong. For example, while only 45% of the large furniture manufacturers indicated that 81% to 100% of sales would come from domestically produced and/or sourced products in three years, this figure was 70% for both large and small cabinet manufacturers.

DO YOU IMPORT?

Over the past five years, have you increased use of wood imports in your product line?

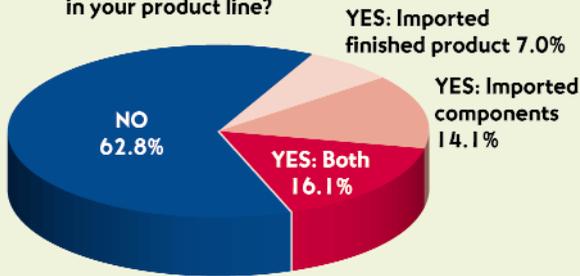


Figure 3

Not all of the survey's findings ring so positively. Perhaps most disturbing, 37% of respondents agreed with the statement that "...little will remain of domestic wood furniture and other wood products manufacturing in the United States" by 2010 (Figure 4). Another 13 percent of the respondents indicated they were not sure about the domestic situation in the future.

WILL THE INDUSTRY SURVIVE?

Many industry observers predict that by the end of the decade, little will remain of domestic wood furniture and other wood products manufacturing in the United States. Looking at trends in your company's market segment, do you

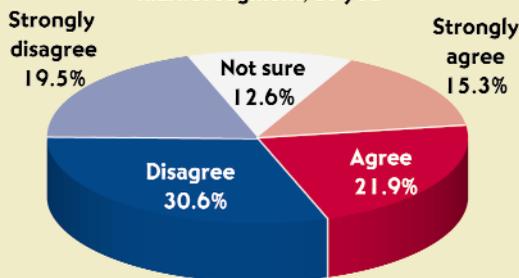


Figure 4

Not surprisingly, the highest level of agreement to the statement predicting the domestic industry's demise came from household furniture manufacturers that have 100 or more employees; 61% of them agreed. Conversely, only 17% of cabinet manufacturers employ-

ing 20 to 99 employees see the industry's end on the horizon.

“ The vast majority of the 341 executives responding to the “U.S. Wood Competitiveness Survey” are highly committed to maintaining a domestic manufacturing presence. ”

These findings might indicate that manufacturing sectors prone to selling commodity-type products without any value-added services, as many furniture producers do, have a less promising business model for the

future. Most small cabinet manufacturers offer not only cabinets, but other services as well, from design advice and installation to custom built-ins and maintenance programs.

As a group, 37% of small and large cabinet, home furniture and office furniture makers reported losing significant business due to imports over the last five years (Figure 5). Another 12% of respondents said they were “not sure” if they had lost business to imported products.

DO IMPORTS HURT YOUR BUSINESS?

Over the last five years, have you lost significant business due to imports?

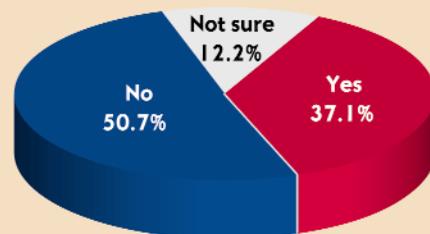


Figure 5

About the Survey

The “U.S. Wood Products Competitiveness Survey” was conducted to learn the extent to which U.S. companies are being affected by imported wood products, their role in importing products and their plans and needs to strengthen their domestic manufacturing operations.

The survey was mailed out in August

2002 to 2,100 subscribers of *W&WP* of shops with at least 20 employees. A total of 341 usable responses were received, resulting in an adjusted response rate of 18%. Sixty-two percent of the respondents had less than 100 employees and 59% generated less than \$10 million in sales in 2001. Twenty-five percent of respondents were kitchen/bath

cabinet manufacturers, 32 percent were furniture manufacturers and 43 percent were office/hospitality/contract furniture manufacturers.

While future analysis will focus on comparisons by industry sector and company size, this report provides a summary of aggregated results from all responding companies.

Competitive Advantages

As shown in **Figure 6** U.S. wood product manufacturers rated “better product quality” and “more timely delivery to customers” as the two most important factors inherent to maintaining a strong domestic manufacturing presence.

“Better control over manufacturing,” “quality of the workforce,” “less shipping damage to product,” “closer interaction between marketing/design and manufacturing” and “closer to end markets” each earned an average rating of 5-plus on the 7-point scale of importance.

Each of these highly rated factors shares a common theme: control. This includes control over product quality, timeliness of delivery, manufacturing, transportation damage and departmental interaction. Indeed, loss of control is one of the major problems faced by companies involved in the importing business. Thus, domestic manufacturers should be keen on using their ability to better control things or events as a competitive weapon. Because the past has shown that importers learn as they go, the domestic industry has to make every effort to always be “ahead of the game.” Failure to do so can have devastating consequences, as U.S. automobile manufacturers have long since discovered.

Respondents rated “quality of the workforce” as one of the important factors to maintain production in this country, a factor that can be enhanced and maintained through ongoing education. Yet, they ranked “opportunities for workforce education” relatively low in importance. Any reluctance to investing in training may stem

from respondents thinking training is unimportant or because it is unavailable. A third possibility is that the workforce is perceived to be adequately trained already and that any deficiencies can be handled through in-house training programs. Still, another possibility is the fear of training a worker and losing him to a competitor.

What Companies Can Do to Compete

Figure 7 shows the results of another question that was asked to gauge the potential of actions domestic manufacturers might take to strengthen their competitive positions. Responses to this question seem to fall into two levels of importance.

The first group, which was rated as having higher potential, encompassed factors such as “realization of shorter lead times,” “technological innovations in the plant,” “production of customized products,” “innovations in product design,” and “greater use of lean manufacturing.” According to respondents, a wide variety of factors are important for maintaining a strong domestic manufacturing presence. Issues include offering superior customer service, shorter lead times, customized products and innovative product designs, as well as investing in more efficient manufacturing technologies.

This list encompasses multiple functions such as production, product design and marketing; it shows the importance of excelling in all areas relevant to the business. Factors such as “workforce training/education,” “greater

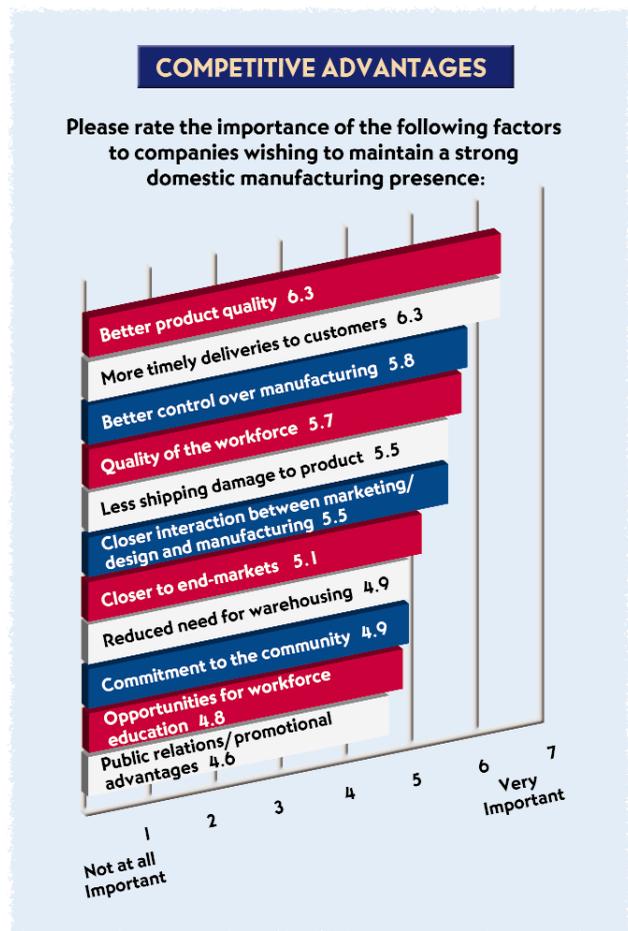


Figure 6

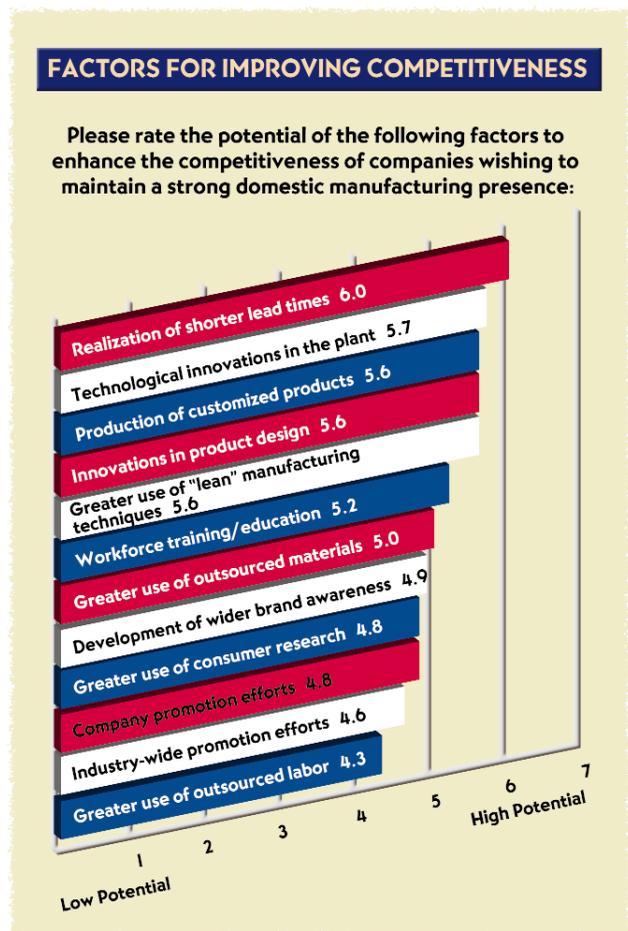


Figure 7

U.S. Competitiveness Survey

use of outsourced material,” “development of wider brand awareness,” “greater use of consumer research,” “company promotion efforts,” “industry-wide promotion efforts” and “greater use of outsourced labor” were ranked by respondents of the survey as having somewhat lower potential than the factors listed previously. However, differences in potential were rather small and entrepreneurs should always look at the total range of options available to find the best approach for their business.

Many activities of a company, from product design and manufacturing to marketing, sales and customer service need to be employed optimally by every company to remain successful. Successful entrepreneurs often are the ones that are open to change, have a deep understanding of their markets and can sense opportunity. This opportunity can be market-oriented, such as an extended warranty; product-oriented, such as a unique chair design; or process-oriented, such as a new manufacturing cell that increases productivity and efficiency.

It is vitally important for manufacturers to bear in mind that merely doing the same things that the competition does leads to the potential danger of entering the market of commodity products where margins tend to be low and imported products are likely to flourish.

Investing in the Future

Perhaps the most telling sign of a company’s commitment to the future is its intentions to invest in improv-

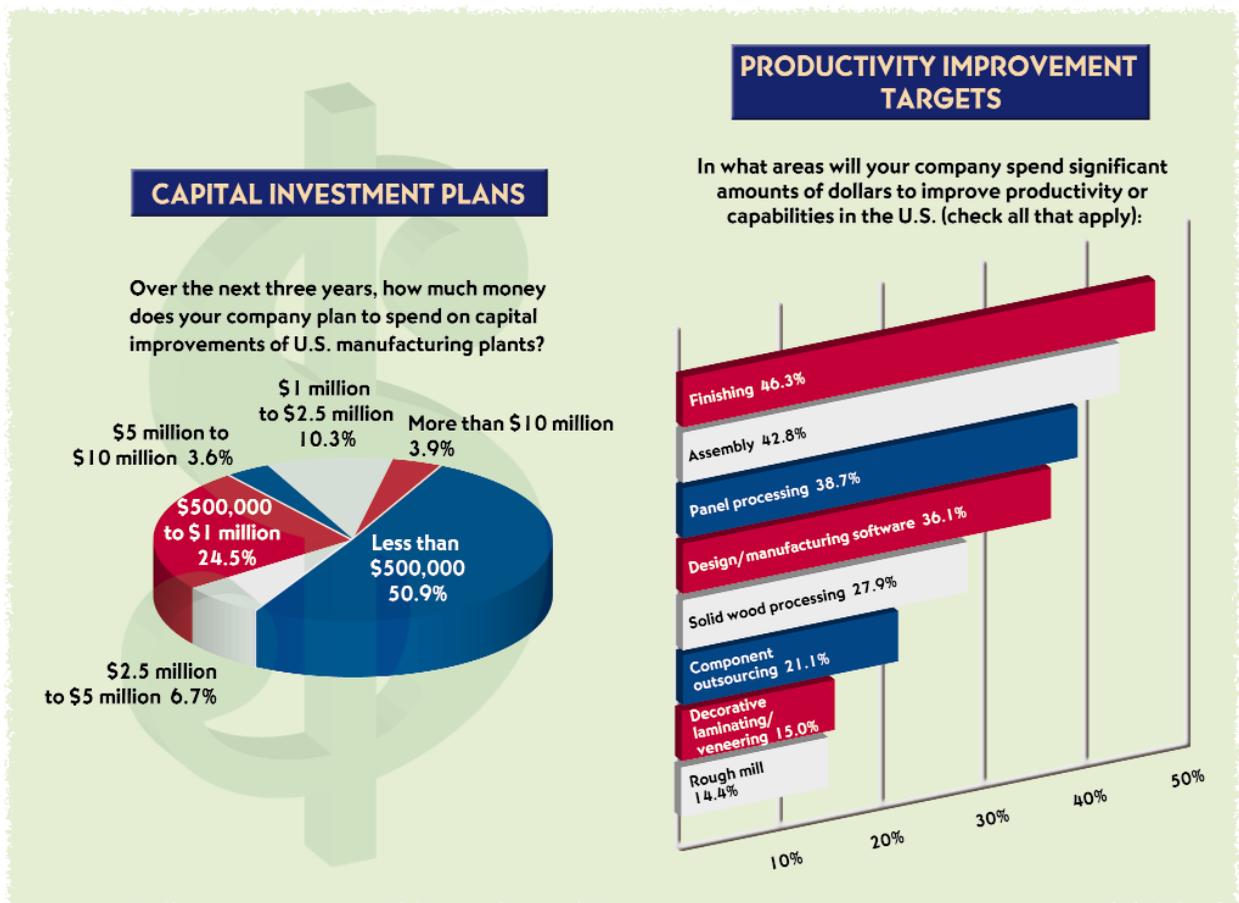
ing its manufacturing operations. Despite the current economic uncertainty, nearly half of the responding companies said they plan to spend \$500,000 or more on capital improvements over the next three years (**Figure 8**). Nearly 4% of them plan to spend more than \$10 million and an additional 10% plan to spend between \$2.5 million and \$10 million.

Respondents were also asked to indicate in which of several pre-specified areas they planned to make capital improvements in the next three years (**Figure 9**). Finishing was the area most frequently indicated, being cited by 46% of all respondents. Finishing was followed by assembly, 43%; panel processing, 39%; design and manufacturing software, 36%; and solid wood processing, 28%.

Interestingly, investments for improving the supply chain or component outsourcing was only mentioned by 21% of all respondents. Decorative laminating/veneering, 15%, and rough mills, 14%, rounded out the production areas included in the capital investment question.

The fact that most companies are putting an emphasis on finishing could be because this is the most outdated part of their operations, because of recent coating innovations, or because customers are demanding higher quality and more selection in finishes.

The lower likelihood of capital investment for the rough mill could signal a move to more outsourcing, e.g. letting specialized companies take care of the business of drying, cutting up and shipping solid wood components. Part of the



answer could also be that solid wood is losing market share to laminated or veneered engineered wood products, a claim that could be supported by the relatively high level of interest of investment in panel processing.

In any event, it is heartening that a large portion of the industry plans to forge ahead with plant upgrades and investment in state-of-the-art technology.

Potential PR Campaigns

Respondents indicated that they do not prefer one single issue on which an industry-wide promotion campaign should focus (Figure 10). Instead, they rated several different topics rather highly.

Interestingly, the patriotic “Made in America” theme and logo” was ranked lower than the “quality of construction” theme, which was rated highest. Ranked immediately behind the “Made in America” theme was promoting “quality of materials used,” followed by “the tradition of American furniture manufacturing” and “use of familiar U.S. wood species.” Themes focusing on “the tradition of American furniture designs” and “use of environmentally certified wood” garnered lesser interest among the respondents.

One might think that domestic manufacturers would support a “Made in the USA” campaign considering that only 36% of respondents said they believe “the majority of consumers generally know where (i.e. in what country) their furniture or cabinets were made.”

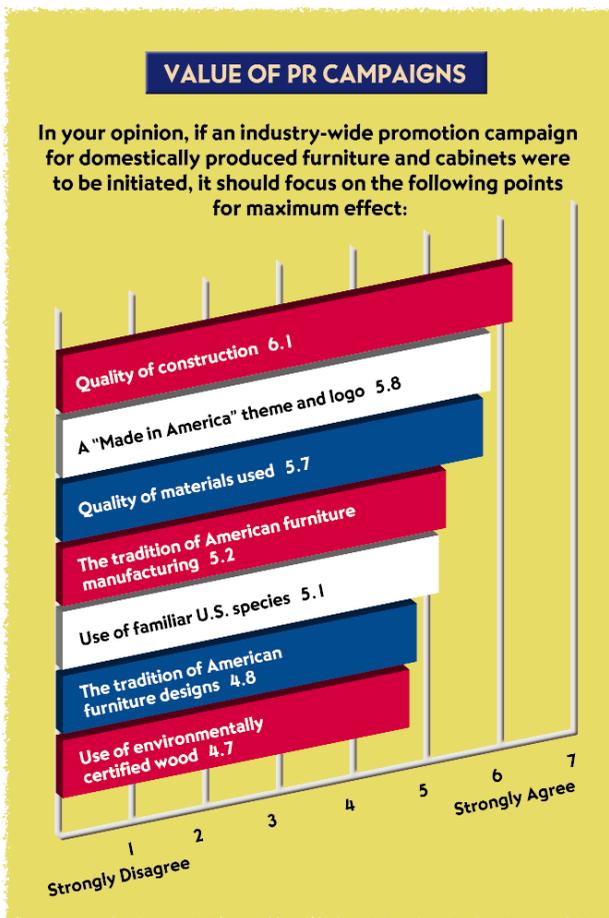


Figure 10

Public Sector Aid

“Better tax treatment for capital improvements” tops the industry’s wish list for assistance from the government and other public sector institutions (Figure 11). The potential availability of a “low interest loan program for capital improvements” was also ranked as very helpful by the respondents.

Other public sector assistance programs ranked by respondents, in descending order of helpfulness, were “more information on new manufacturing technologies and processes,” “more favorable exchange rates,” “more information on market trends,” “tariffs on imported products,” “import quotas,” and “more information on import/export statistics.”

It appears that the types of potentially beneficial public sector assistance programs can be classified into three groups based on perceived helpfulness. The first and most helpful group involves financial forms of assistance, including “better tax treatment for capital improvements,” a “low interest loan program for capital improvements” and “more favorable exchange rates.” The second group focuses on information assistance and encompasses “more information on new manufacturing technologies and processes,” “more information on market trends” and “more information on import/export statistics.” The third and least perceived helpful group consists of protectionist policies, including the establishment of “tariffs on imported products” and “import quotas.”

Though there are some industry practitioners who believe the government needs to take protectionist meas-

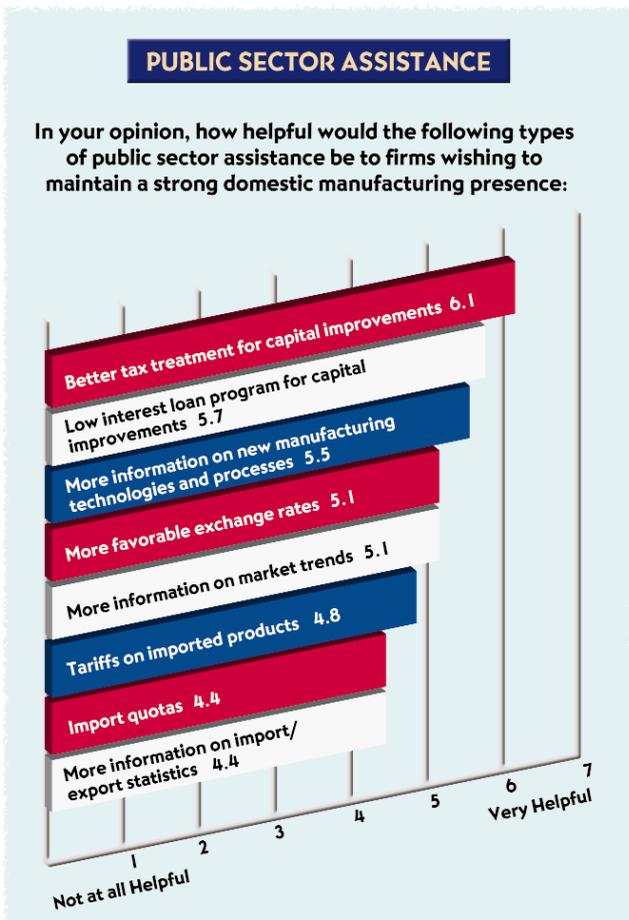


Figure 11

U.S. Competitiveness Survey

ures to turn the tide on imports, quotas and tariffs are generally viewed as being counterproductive. When an industry is sheltered from global competition, it tends to lose its international competitive edge altogether and collapses as soon as the protection is removed.

Research organizations, trade associations, universities and other agencies can play an important role in satisfying the industry's need for information about market trends and manufacturing technologies.

Survey Implications

Given trends in imported products and continued comparative advantages held by foreign competitors, domestic wood product manufacturers can continue to expect a challenging business environment for the foreseeable future.

U.S. companies that are able to develop and implement a viable business model, find the right mix between equity and debt, are able to retain or hire skilled, motivated workers, and execute all this flawlessly have the best chance to succeed. In addition, domestic manufacturers need to fully exploit several key advantages: quality, control, proximity to the market and innovation.

As confirmed by this study, maintaining quality at levels expected by customers and maintaining the "good quality" image with customers is of critical importance. The same thing applies to control. For example, one measure of quality for consumers — timely delivery — can only be

achieved through good management and control over all stages of marketing, manufacturing and shipping.

Being close to their market allows domestic companies to offer more than the physical goods themselves. For example, manufacturers can offer services from product design and installation to maintenance and upgrade programs. In addition, manufacturers need current, reliable market information to better understand and service their customers' needs.

Innovation is something that is hard to come by and difficult to protect once the competition realizes its merit and market potential. Yet, having a clear strategy for continually innovating a company's products, services and organization — and how to turn innovation into a distinctive competitive advantage — can go a long way to assuring long-term success.

While many U.S. woodworking executives fret about the deluge of imports, as this study shows, there are many who remain optimistic that their companies can rise to the challenge and succeed. ◀▶

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