

Center



Focus

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Center for Forest Products Marketing and Management
Department of Wood Science and Forest Products
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IN THIS ISSUE:

<i>FOREST PRODUCTS BUSINESS NEWS</i>	2
Globalization	3
<i>Calendar of Events</i>	5

Director's Message

At a recent trip to a big box home center for one of my many remodeling jobs (any good weekend warrior knows it takes 3 trips and a new tool to do the job right), I was amazed at the amount of people on a Saturday doing the same thing. The store was offering training for laying ceramic tile at 10 AM and putting down a hardwood floor at 2 PM. As usual, I walked through the lumber aisle, the tool aisle and treated wood area. This is a ritual of mine every time I visit a lumberyard. I like to listen to what folks are doing with their homes and how the salespeople attempt to help them. I also like to flip boards to see where they are coming from. It still amazes me that I live on the edge of the SYP producing area and we see very little SYP in our stores that isn't treated. The white lumber came from all over the globe (this visit included Canada, Finland, Russia and Chile to list just a few), but the treated SYP was mostly local. The moulding and millwork were from the mid-Atlantic states, but the composite and plastic moulding were from other areas. So what does this have to do with our challenging times, you ask? My summary of the visit is that most consumers do not look at the items I just mentioned. They are concerned on how the product will meet their needs at a fair value. They do not flip it over to see what the specie is or where it came from. Russian lumber meets their needs, just as well as Virginia lumber. Plastic moulding will meet their needs just as well as wood moulding. They don't care about the chemical used to treat the wood, but just want it to outlast their time in the home. In other words, the average consumer does not support a local industry, just because it is local. The market offers numerous choices and those products that are the best perceived value will survive, while others either have to change or go out of business and maybe that is what free enterprise is all about.

The good news is that we know the repair and remodeling market now just about equates to the amount of money spent on new housing. We know that there is a strong need for homes for the next 25 years (demographers estimate an average demand in excess of 1.8 million units a year), and we know that we have the wealthiest retirement population in history that will eventually pass on a lot of wealth to their children. We know that we fill our homes with all those secondary products from hardwoods which is also directly related to the R&R market. Our job in the U.S. is to figure out how our industry can capture this opportunity, and not watch it go to foreign producers or substitute products. Our job at the Center is to train students and industry personnel in how to deal with these changing market conditions. Brian will share with you a study we did on globalization and how companies are responding to it later in this issue. I hope you will mark September 7th on your calendar for our annual meeting. As usual, if you have any suggestions or comments please feel free to contact me at rsmith4@vt.edu.

Bob

FOREST PRODUCTS BUSINESS NEWS

- The U.S. Congress is considering legislation that would prohibit companies from importing illegally logged timber, which causes up to an estimated \$1 billion in lost sales for domestic companies. Source: *Reuters News*.
- The U.S. Senate Committee on Finance has initiated an investigation into the competitive conditions affecting the wood flooring and hardwood plywood industries. Source: *Federal Register*.
- According to the *Financial Post*, the London Court of International Arbitration would resolve any complaint from the U.S. regarding Canada's alleged failure to impose surge export duties on lumber from British Columbia.
- The *Canadian NewsWire* reported that Lignol was awarded a \$1 million grant from the Alberta government and the National Research Council to advance the conversion of softwoods into ethanol.
- According to *The Globe and Mail*, Nexterra Energy Corp. will build a combined heat and power wood waste plant as part of a mixed-use green building development in Victoria, British Columbia.
- The Tianjin Port exported composite wood flooring worth US\$ 42 million in Q1 2007, which was a 72% increase on Q1 2006. Source: *China Industry Daily News*.
- A new report by Research and Markets estimated that the household and office furniture industries employed 557,000 accounting for 4% of all U.S. manufacturing employment. Source: *Business Wire*.
- A report in *Market Wire* indicated that Vermont Wood Studios would be marketing and distributing FSC-certified outdoor furniture sourced from LaChonta of Santa Cruz, Bolivia in the U.S and Canada.
- Trussway will build a new multifamily truss manufacturing plant in Clinton, NC according to *PR Newswire*.
- The *Richmond Times-Dispatch* reported that Mead Westvaco's headquarters building is under construction and is expected to be completed in 2009.
- According to a press release from Celanese, it has entered into a strategic partnership with Accys Technologies and its subsidiary Titan Wood. Celanese will supply acetic anhydride and take an equity stake of US\$ 29.5 million.
- *The Press Democrat* reported that pallet manufacturer and heat treater Sonoma Pacific Company avoided a catastrophic fire by quickly extinguishing a fire that began in the heat treatment box.
- According to the Montreal Gazette, Stella-Jones Inc. expects more sales growth in treated wood utility poles and railway ties.

Forest Products Business News is a new feature in the *Center Focus*. It has been designed for educational and outreach purposes only. The intention is to report news that affects various business segments of the forest products industry. Any comments or questions should be referred to: cf.editor@vt.edu

Center Focus



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Globalization & Industry's Response

Globalization has been occurring for centuries. From its earliest beginning to present day, the desire to trade goods and services has been the driving force behind internationalization. The pace of globalization increased as boat building and navigation technology allowed early explorers to travel the world and exploit people and resources. The rate of global integration has also increased rapidly in the past 100 years and especially in the last 50 with ever more sophisticated technology.

The trade of forest products has increased steadily if not drastically at times since data was first collected by the Food & Agriculture Organization of the United Nations in 1961. The data indicated increasing volumes of sawnwood, paper, and wood based panels are imported and exported every year. In the United States, the volume of forest products imports and exports were roughly equal in 1990 according to data from the USDA Foreign Agricultural Service. However, in 2006 the forest products import volume was approximately four times greater than the forest products export volume. This data reinforces what companies have been experiencing in the business world: increasing competition from imported forest products. This import surge coincides with a strengthening dollar during this time period. One would expect an increase in exports when the dollar is weakening relative to other currencies.

Globalization is not new to large forest products companies who have been doing business and investing overseas for decades. According to statistics from the USDT Internal Revenue Service, 8% of paper-manufacturing companies' net income is derived from foreign income based on the 1993-2004 period. Wood product manufacturers and manufacturing in general average 1% and 5%, respectively. Clearly, wood product manufacturers have plenty of scope for expansion of overseas business. For smaller forest products companies, globalization has seemingly come out of nowhere during the past 10 years with the loss of domestic manufacturing, and increased competition from imports.

It is within this context that a brief study on globalization was initiated at the Center. The study consisted of a seven-question internet survey, which was sent to the email distribution list for the *Center Focus*. This email list consists of 700 forest products industry people who have been active with the Center over the years, taken one of the Center's short courses, or otherwise communicated with the Center. The questionnaire consisted of two demographics questions, three multiple-choice questions about globalization and two open ended questions about companies' responses to globalization. The internet survey was open for 2 1/2 weeks with one email reminder sent during the second week. A total of 76 responses were received for a response rate of 11%.

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Nearly every respondent, 92%, indicated that their company had been affected by globalization. Not surprisingly, a broad spectrum of the forest products industry participated in the survey. Participants ranging from hardwood companies to softwood companies to integrated companies along with others responded to the survey. The majority (56%) of firms had sales of greater than \$20 million. When asked about the aspect of globalization that caused their company to change, respondents indicated that loss of domestic manufacturing, increase in U.S. imports and foreign competition were the three most frequently cited. Approximately 60% of respondents cited multiple globalization effects that created change in their firms.

Companies were asked to rate the importance of ten factors in their response to globalization. The factors (Table 1) were developed from previous research and intuitive, logical reasoning. Table 1 shows the importance rating broken down by industry segments: hardwood lumber (HL), hardwood lumber & secondary (HS), softwood lumber (SL), softwood lumber and secondary (SS), and vertically integrated forest products companies (VIFPC) and the overall importance rating average. The attitudes of decision makers and knowledge of foreign markets were rated most important followed by increased cost controls and export market development. Increased foreign investment and alternative transportation methods were rated the least important of all factors. There was no statistically significant difference between the groups.

Response Factors	HL	HS	SL	SS	VIFPCs	All
Attitudes of decision makers	4.4	4.5	4.3	4.8	4.5	4.5
Knowledge of foreign markets	4.7	4.3	4.4	4.3	4.5	4.4
Increased cost controls	4.4	4.5	4.0	4.4	4.5	4.3
Export market development	4.7	4.2	4.3	4.2	4.3	4.3
Changes in production processes	4.1	4.3	4.1	4.1	4.3	4.2
Changes in sales structure	4.6	4.3	4.0	4.0	4.0	4.1
Changes in product features	4.1	4.0	4.3	4.4	4.0	4.1
Increased domestic investment	3.8	3.9	3.9	3.8	3.9	3.8
Alternative transportation methods	3.8	3.5	3.6	4.0	4.1	3.8
Increased foreign investment	3.5	3.7	3.3	3.7	3.4	3.5
Average	4.2	4.1	4.0	4.2	4.1	

Table 1. Importance of Response Factors

Respondents indicated in the open-ended questions that their company had reduced lead times, changed products, increased travel, reduced costs and explored export markets to address globalization. The results of these efforts ranged from positive (30%), neutral (31%), not yet known (21%), to not applicable (18%). Companies are making changes in response to the challenges of globalization and the majority of them (61%) report positive or neutral results. For a company who has yet to change in response to globalization, the results of this research give a glimpse of what their peers are doing. Depending on the segment a company is in some factors will be more important than others and there may be others that are not on our list. Companies must continue to innovate and add more value than competitors because economic globalization will only continue.

Calendar of Events

Center for Forest Products Marketing & Management

- September 3-8, 2007* *Wood Week at Virginia Tech*
Wood Week is a series of department activities held during a single week on the Virginia Tech campus to celebrate what we do and to bring focus to the importance of wood and renewable materials in society. Activities for 2007 will include: Wood Week Keynote Kick-Off Speaker Tuesday September 4th, Wood Magic, and Career Awareness Fair on September 6th . Contact Paul Winistorfer (pstorfer@vt.edu) for more information.
- September 7, 2007* *Center for Forest Products Marketing & Management 16th Annual Meeting*
Join us for our annual meeting to be held in conjunction with Wood Week at Virginia Tech. The annual meeting will be held in the morning and the student scholarship awards banquet will be held on Friday night. Contact Bob Smith (rsmith4@vt.edu) for more information.
- September 7-8, 2007* *Virginia Forest Products Association Meeting*
The meeting will be held at the Inn at Virginia Tech in Blacksburg, VA. For more information contact the VFPA at (804) 737-5625 or on the web: www.vfpa.net
- October 21-27, 2007* *National Forest Products Week*
This week is a time to observe and promote the contribution and importance of the forest products to our society.
- November 14-15, 2006* *Forest Products Marketing Short Course*
The course will introduce forest products, marketing basics, marketing strategy and research to new marketing and sales personnel.