

Center



Focus

A Publication from the
Center for Forest Products Marketing and Management
Department of Wood Science and Forest Products
Virginia Polytechnic Institute and State University
<http://www.cfpmm.vt.edu>

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Director's Message

Much has happened since you last heard from us. Our annual Center meeting was held in early September as part of Wood Week at Virginia Tech. Approximately 35 company representatives, Center faculty and students participated in the one-half day event. That evening the Center gave away over \$19,000 in scholarships to students in our program at our annual department's awards banquet. This is always the highlight of our year! The training and support of our students remain one of the primary reasons the Center exists. As a result of the meeting and discussions with the faculty, the Center is in the process of endowing a scholarship which will guarantee a scholarship of approximately \$1500 to a student in need entering the marketing or management option. More is presented on the Center meeting later in this issue.

I enjoy the Center meeting because I get to talk to a lot of industry partners in a short time to update me on what is going on in the market and if our teaching efforts are meeting their needs. Discussions at the meeting indicate that the market may be improving on both sides of the fence. Although, not out of the woods, most participants were cautiously optimistic about the coming months. There appears to be increased interest in wood from sustainable, well-managed forests and export markets remain good, and in some cases prices are even moving in the correct direction. Companies are working smarter to capture value and not incurring additional costs. Some companies are looking at what product lines can be added or what needs to be eliminated. They are doing what needs to be done to remain competitive. They are responding to the marketplace. And the good news is that is what we are teaching our students.



Members develop issues that the Center should focus on in the coming year during the strategic planning session.

As most of you know by now, I have accepted a position in the Dean's office as the associate dean for engagement and will be stepping down as the Center director after 7 great years. I will still be an active faculty member in the Center and department, but will have different responsibilities. Dr. Winistorfer has already started the process to find someone to replace my departmental duties, including the Center directorship. It has been an honor to serve with the fine faculty in the department, the students, and our Center industry partners. I maintain that one of the greatest successes of the Center has been the relationships it has helped establish among all the partners. I want to thank you all for your support over the years and I look forward to continued growth and success for the Center. As always, if you have any comments or questions, please feel free to contact me at 540-231-7679 or rsmith4@vt.edu

FOREST PRODUCTS BUSINESS NEWS

- *Home Channel News* reported that Builders FirstSource acquired Bama Truss and Components who has annual sales of \$25 million and it also reported that Pro-Build will construct a new truss plant in the southeast that will utilize a robotic manufacturing system to cut, handle, fabricate and stack trusses.
- According to the *Detroit News*, hardwood flooring has become easier to install since the introduction of Lock & Fold hardwood flooring from Armstrong. The flooring is installed in a similar fashion to laminate flooring and is priced between \$6 and \$7 a square foot.
- An article in *The Financial Post* conveyed that Interfor, a medium sized softwood lumber company, has weathered the recent market downturn well as indicated by stock analysts' buy recommendations. Its western operations are geographically diversified: 1/3 on the coast, 1/3 in the interior and 1/3 in the U.S.
- Tembec has discontinued a second shift at its Huntsville, Ontario hardwood lumber mill due to adverse market conditions and the strong Canadian dollar. Source: *The Canadian Press*.
- American Woodmark's second quarter profits and revenues were down 62% and 25% from year ago levels. The company has attempted to gain market share by spending more on marketing and new product launches. Source: *Associated Press Newswires*.
- According to *Wood & Wood Products*, Columbia Forest Products has announced an exclusive agreement with Hercules, Inc who will sales and service its soy-based adhesive.
- *US Feed News* reported that Rep. Hodes' amendment to create the Community Wood Energy Program passed the U.S. House. The program will help communities purchase biomass heating systems.
- The *Superfund Report* stated that the EPA is being pressured by an environmental group to release a controversial agency funded report on the potential for children to track arsenic into homes.
- According to the *Virginian-Pilot*, CHEP has opened a 21,000 square foot pallet service facility in Suffolk, VA. The facility will employ up to 40 people who will repair and sort pallets.
- Wood-Mizer introduced a small log processing system that can saw logs between 4"-16" in diameter. The system was unveiled at the Linga trade fair in Hannover, Germany. Source: *Forestry & British Timber*.
- A wood industry business park is slated to open near Las Vegas, NM. The park would create up to 500 jobs and utilize locally available timber from thinnings.

Forest Products Business News has been designed for educational and engagement 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

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Business Strategy From Trees

Business strategy has been derived from military thinking, from industrial engineering, from computer networking and from biology¹. Being in the forest products industry, I like to think in terms of biology and trees are one of nature's most evolved and complex plants. Many people would agree that corporations are one of mankind's most complex forms of organization. The genesis of modern companies took many events over a long period of time and the similarities with trees doesn't end there. That we can derive business strategies from observing how trees compete with one another and with other plants and animals may seem outlandish, but it is not.

Picture a young hardwood forest 15–20 years old. This forest is one that was created by an event where each tree had an equal opportunity to compete with other trees. In order to compete with other trees, trees branch out in order to utilize untapped energy in the form of sunlight. This need to compete leads to new growth if the tree is better at using those untapped resources than its neighboring trees. The same is true for businesses: they must compete against each other, they strive for growth, and they look for new opportunities in untapped markets. By converting untapped resources businesses can carve out a growth market.

Trees create value (wood, wildlife habitat, oxygen, food, etc.) from abundant free raw materials (carbon dioxide, water, sunlight, soil) through the process of photosynthesis. Companies must seek to do the same. Of course, raw materials are hardly free or abundant. But if we examine a tree's inputs more closely we see a pattern: tangible and intangible. The water and soil are tangible while carbon dioxide and sunlight are largely intangible. Firms need access to both resources; the intangible ones such as human ideas and knowledge along with seemingly endless consumer desires and the tangible ones we are used to thinking of such as raw materials. Firms must combine these resources in a manner more efficient and effective than other firms in order to compete successfully.



The combination of these two resources starts at the leaves: the interface between the two. The leaves are the workhorse of the tree. The leaves are akin to employees and customers. This interaction is where value is created. This is where growth occurs. This is where opportunities to replicate occur. Much like a leaf, the interaction between employees and customers transforms those tangible and intangible resources into something more valuable than the sum of their parts. The leaves that are the most efficient and effective supplant older leaves and branches lower on the tree stem. Resources must continually be sent to the most promising growth areas while other areas are pruned off or assimilated into the tree. The pruned branches eventually fall to the ground where the detritivores turn that limb back into resources usable by the tree (i.e. carbon dioxide and soil). These detritivores can be thought of as Adam Smith's "invisible hand of the market."

¹ <http://www.journalofbusinessstrategy.com/articles/whatisstrategy.shtml>

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Business Strategy From Trees

Unproductive assets are converted into resources (i.e. capital) that can be reused. In the business world, this is when parts of companies or whole companies are liquidated. Firms could be deemed successful if they only succumb a part of themselves to this process.

Some firms do go out of business, however, and these may be liquidated or consolidated into other companies. We see a similar process occurring in our hardwood forest. As the forest matures, the number of trees per acre decreases. Trees that aren't dominant or co-dominant get squeezed out of the canopy and eventually die and decay. In the forest products industry, a consolidation trend has been occurring as the industry matures. Companies and managers must respond to this intrinsic characteristic of the marketplace. Firms must continually compete against each other for new customers, new products, new ideas, new resources and new people or they will eventually lack the vigor to survive.

As mentioned previously, trees create value (wood, wildlife habitat, oxygen, food, etc.). The amazing thing is that they create these products (and more) for multiple customers (humans, wildlife, detritovores, other plants, etc.) at the same time using one process! How efficient and effective is that? VERY!! Businesses can learn from this model. Managers must examine their processes to see how value can be created for multiple customers at the same time. There is no waste in nature and nor should there be any in your company.

In summary, companies must look for untapped resources and markets in order to grow. Intangible assets are just as important as tangible ones and firms must fully utilize their employees and completely understand their customers in order to create value. The value created by this process must be distributed to all who helped to create it, otherwise those leaves will wither and die. Finally, businesses must make difficult decisions about unproductive assets, the market will recycle them with impunity.

Annual Meeting Summary

The Center's 16th annual meeting was well attended this year. Presentations on the department, the Wood Enterprise Institute, globalization, and India were given by Center faculty and students. As is customary the past couple of years, there was a work session at the end where feedback was solicited from attendees. Participants were asked if the Center's mission was current and relevant to the industry and everyone agreed that it was. Individuals were split into four groups where each was given one part of a SWOT analysis and they were asked to list three driving factors in the industry today that the Center could address by helping prepare students to meet these challenges. The top 3 strengths cited were outreach, research, and students. The top three weaknesses were low student awareness of the Center, inadequate staffing, and declining industry support. Opportunities identified included increased collaboration and closer ties with companies. Threats mentioned included a decrease in members and lack of resources. The Center needs to do a better job marketing itself but as all companies know marketing takes money, resources and time. (continued on next page)

Calendar of Events

September 24-25, 2007

Managing & Understanding the Hispanic Workforce: A Workshop for Managers in the Forest Industries

The USDA Forest Service's Wood Education and Resource Center and Virginia Tech's Sloan Foundation Forest Industries Center are pleased to co-sponsor a diversity management workshop designed to improve your management skills in working with the growing Hispanic workforce. The two-day interactive workshop will focus on meeting the cultural, communication, and legal challenges associated with hiring and managing this multicultural workforce. For program agenda and registration information please visit <http://www.forestindustries.vt.edu/workshops/index.html> or contact Anne Collins Albimino (540) 231-3095, aalbimin@vt.edu.

October 15-16, 2007

Managing & Leading Change: A Workshop for the Wood Products and Forest Industries

The USDA Forest Service's Wood Education and Resource Center and the Sloan Foundation Forest Industries Center will be co-sponsoring this dynamic, interactive workshop where leading experts in the field of change management will be present to discuss success strategies for leading and managing organizational change, how to develop the strategic agility needed to respond to external change, and how to create an entrepreneurial culture that encourages innovation throughout your organization. For program agenda and registration information please visit <http://www.forestindustries.vt.edu/workshops/index.html> or contact Earl Kline at 540-231-8841, kline@vt.edu.

Annual Meeting Summary

One way to take advantage of the identified strengths and opportunities is to increase collaboration in outreach, research, and education. The three factors driving the industry that were cited most frequently included globalization, understanding customer/markets, and human resource issues. Firms need good people who understand customers and the global marketplace.

Each group then discussed the first three questions and suggested one action that the Center could take in the next year and what the Center should look like in 3 years. Suggestions for the first item included researching sustainability issues; more communication with members, increasing WEI involvement, and becoming an industry link. Suggestions for what the Center should look like in 3 years included more faculty and staff and becoming a clearinghouse of industry information. Thanks to all who attended and for the valuable input you provided!