

# 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  
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## **Director's Message**

Is it me, or is life just too busy. I find it hard to believe that it is mid-April already and I am trying to figure out where this semester has gone. Our students are interviewing for jobs and summer internships, the job fairs on campus are winding down, and everyone is discussing their plans for the summer already. I have had the opportunity to visit a number

of Center members at association meetings or classes I have taught this winter and everyone is in agreement that markets for wood products are changing and their companies are adapting to globalization. It doesn't seem to matter if you manufacture lumber, cabinets or plywood, everyone is talking about the impacts of the world market on their operations.

It is my belief that unlike economic slowdowns in the past, I feel that our industry is going through fundamental changes that will require long-range strategic thinking, instead of just waiting for the good times to roll again. Those companies that can become leaner, more service oriented and closer to the customer will have the competitive advantage for the 21<sup>st</sup> century. It is our goal to have students prepared to compete in this new age of lean manufacturing, just-in-time delivery and customer specific products. Many of our students will be spending the summer in a new course called the Wood Enterprise Institute where they will be designing, building and selling a product. They will have complete business level responsibility as they attempt to begin a wood manufacturing enterprise. We are also in the interviewing process of a manufacturing extension position which will allow us to bring these techniques to our clientele in Virginia.

Brian has some current news from the industry and a look at firm performance in the forest products industry in this issue. We will be focusing on the management issues of the industry in future discussions. It is our belief that this is the time to fine tune operations, as well as focusing more toward long-term marketing strategies for companies to be successful. As usual your comments and suggestions are always welcome. Please feel free to contact me at 540-231-9759 or email: [rsmith4@vt.edu](mailto:rsmith4@vt.edu) .

In closing, I would like to acknowledge that our industry lost a valuable leader and friend in Sue Regan, Executive Vice President of the Hardwood Manufacturers Association in her passing in March. Sue was a leader in promotion for our industry and the HMA was a founding member of the Center. Sue was on the planning committee for the Center during its infancy and was always there to discuss research or teaching issues for our students. She was a true marketer, always trying to identify the proper mix of a pull strategy from the consumer and a push strategy from the industry. Sue's input and passion for marketing will be missed by all who were involved with the hardwood lumber industry.

## *FOREST PRODUCTS BUSINESS NEWS*

- The merger of Abitibi and Bowater will create the third largest forest products company in North America according to an article in *CBC News*.
- The *China Daily* reported that China plans to plant trees on 13 million hectares for biofuel production by 2010.
- In a similar move, Indonesia plans to allocate 5.25 million hectares for biofuel feedstock. However, the *Jakarta Post* reported that the feedstock will be a mixture of oil palms, jatropha, sugarcane, and cassava.
- According to *Shipping Digest*, U.S. Customs & Border Protection has made imported hardwood flooring a “Priority Trade Initiative”. The article states that some importers have seen increased inspections and higher duties.
- Colored hardwood flooring has been introduced by Divine Hardwood flooring Ltd. according to the *Montreal Gazette*. The flooring is available in green, yellow, orange, blue, purple, and brown.
- Hooker Furniture will close its last remaining furniture plant located in Martinsville, VA. The plant closing will affect 280 employees. Source: *Roanoke Times*.
- The Sustainable Furniture Council, which has about 40 members, met with vendors in Las Vegas. The Council promotes using sustainable products in furniture production. Source: *Furniture Today*.
- According to *Business Wire*, Universal Forest Products and its Open Joist® brand will sponsor Kasey Kahne Racing’s No. 9 World of Outlaw Series Team.
- Pulaski Furniture will close its last remaining furniture plant in April located in Pulaski, VA. The closing will affect 260 employees. Source: *Roanoke Times*.
- Midwest Building Systems purchased Edward Hines Lumber Company, which is a roof and floor truss manufacturer, according to *The Daily Reporter*.
- Anthony Hardwood Composites produces a patented heavy equipment mat from low grade hardwood lumber. The mats are made from a single layer of boards that have been dried, finger jointed, glued and bolted together. Source: *The Arkansas Democrat Gazette*.
- *The Roanoke Times* reported that the bankrupt Rowe Furniture was sold to Lexington-Rowe Furniture. The new company will maintain its production facilities in Elliston and Salem, VA and it is expected to be profitable.

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](mailto:cf.editor@vt.edu)

## Center Focus



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## Firm Performance

The performance of organizations, specifically businesses, has been the interest of management researchers since the advent of the field. Business performance has traditionally meant profitability and financial measures such as return on investment, return on assets, and return on sales are prevalent. Companies often look at the profitability of individual customers and focus their attention on keeping the most profitable customers and attracting new customers that fit the profitable customer profile.

This task has become more difficult as the number to profitable customers has declined. According to statistics from the Internal Revenue Service, the number of corporations with net income in the forest products industry has declined as indicated by a declining number of returns. For example, the number of returns by wood products manufacturing companies has declined 40% from nearly 14,000 in 1997 to about 8,200 in 2003. Similar trends are evident in paper manufacturing (36% decline), forestry and logging (23% decline), and furniture manufacturing (18% decline). These statistics are most likely caused by the recent trends of consolidation, companies going out of business and decreased profitability.

Industry consolidation and company failure are well-known trends widely publicized in the news media. As a researcher, you have to dig a little deeper to get profitability measures. However, the IRS's statistics do provide an industry wide balance sheet and income statement from which return on assets and return on sales measures can be calculated. The return on sales for the four industry segments are shown in Figure 1.

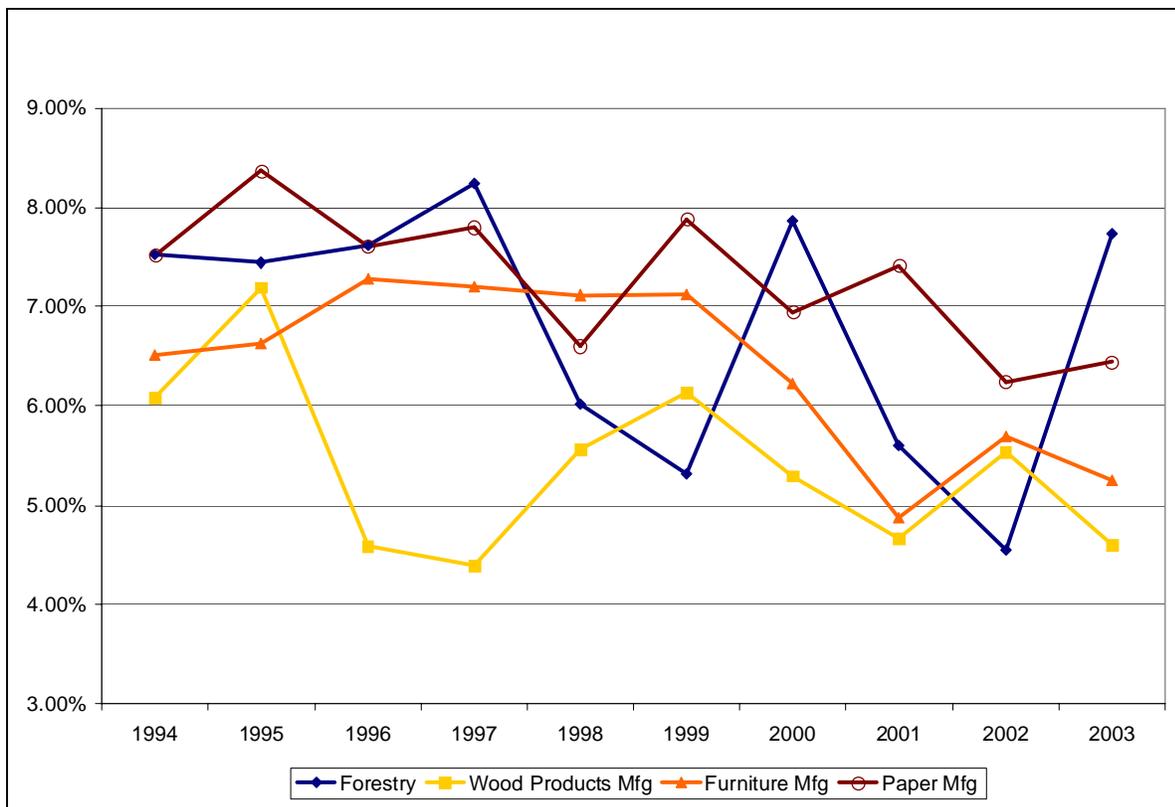


Figure 1. Return on Sales

(Continued on next page)

## Firm Performance (continued)

Despite the considerable variability from year to year, the overall trend is toward declining profitability as indicated by return on sales. With companies traditionally focusing on financial measures of business performance and the recent trends of business failure, decreased profitability and consolidation, one might ask if financial measures are good measures of business performance. Financial measures have been criticized as being lagging indicators of performance. A more holistic approach to business performance was developed by Kaplan and Norton from the Harvard Business School.

The balanced scorecard developed by Kaplan and Norton focuses performance measurement from four distinct perspectives of a business: financial, internal, customer and innovation/learning. The financial perspective includes the traditional measures of business performance. The internal perspective measures business processes needed to fulfill their mission and the customer perspective metrics focuses on how well the company is satisfying their customers. Finally, the innovation/learning perspective measures knowledge growth through employee training and retention.

## *Calendar of Events* *Center for Forest Products Marketing & Management*

*April 26-27, 2007*

### *Drying Lumber with a Solar Dry Kiln*

This intensive workshop introduces all the principles of drying hardwood and softwood lumber in a solar kiln. The course also contains information on the design and operation of solar kilns. Emphasis will be placed on the solar kiln design at Virginia Tech ([www.woodscience.vt.edu/about/extension/vtsolar\\_kiln/](http://www.woodscience.vt.edu/about/extension/vtsolar_kiln/)). Our solar kiln is onsite and will be used in the course. Whether you are considering building a solar kiln or are currently operating one, this short course will provide you information that will improve your lumber drying skills.

*May 7-9, 2007*

### *Lean Manufacturing Workshop for Wood Products Manufacturers*

This workshop is the 5th joint offering of the Forest Industries Center's and the University of Minnesota Duluth's Lean Manufacturing Workshop Series for the wood products industry updated with learning simulations and industry examples applied to primary and secondary wood products manufacturers. Location: Wood Education and Resource Center in Princeton, WV.