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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

Election primaries dominate the news programs, students are wearing shorts around campus and the tulips are popping up through the soil. Well, two out of three of these aren't too bad for signs of spring. As much as I enjoy the democratic process, for some reason the primaries have gone on forever with no end in sight. However you feel about our choices, there is strong indications they will impact our economy in the future. Most of the experts are suggesting it will be late this year before we see much of an improvement in the current housing market or confidence in consumer spending. They also feel that a \$600 to \$1200 rebate isn't going to set the economy on fire. It is an election year, where every decision by Congress or the White House could impact who sits in Wash-

ington after November. What that probably means is that not much will be done by those who could do something until after the elections.

Our industry is facing one of its most challenging times since the recession of the early 1980's. At recent association meetings, the sense of this being some of the toughest times in memory was quite common. Yet, individuals each had their own success stories of how being diversified in product lines, being smart with the purchasing or better management of their mills were allowing them to continue to operate. In fact, in some instances, I almost got the feeling that the owners and managers embraced these challenges with new enthusiasm. They get to practice and implement tough decisions that separate them from their competition across the street or across the world. During these times, the well managed organizations will survive and be stronger, and the weaker will go by the wayside. That is what the market place has continually proved throughout its 2,000+ years. I know that we will have demand for all of our products for the foreseeable future, so the forest products industry will survive and be stronger when times improve.

These are some of the concepts that we try to instill in our students during their time at Virginia Tech. It is the balance of correct marketing and management decisions that get you through difficult times. These are also some of the skills they learn from you as they do internships for the summer. If you need summer interns, please feel free to contact us for student interviews. In this issue, Brian shares the latest business news and thoughts on managing your company's energy needs. There is a list of upcoming programs by the Center and Department. We will again be offering our annual Marketing Short course in April for those who would like a refresher or if you have new marketing personnel. As usual, if you want to contact me, please do so at 540-231-7107.

Bob Smith

FOREST PRODUCTS BUSINESS NEWS

- Fiber Composites is now the second largest producer of wood plastic composite decking and railing in North America after it acquired the former LP Meridian, ID plant and the WeatherBest brand. Source: *Idaho Business Review*
- According to *PR Newswire*, American Woodmark Corporation announced a net income loss of \$2 million for their quarter that ended January 21, 2008.
- The *Prime Newswire* reported that Hooker Furniture reported a \$5.9 million net income on sales of \$83.8 million for the quarter that ended October 28, 2007. The company has also opened a warehouse in CA for importing furniture. Source: *The Roanoke Times*.
- Millwood Inc., a unit load and packaging supplier and service provider, will open a new facility in Nashville, TN that will make wood pallets and offer third party logistics warehousing operations. Source: *Market Wire*.
- The *Market Wire* also reported that Canadian based Stella Jones will acquire Burke-Parsons-Bowlby, a railway tie treating company for \$33 million.
- According to the *Dow Jones News Service*, Weyerhaeuser has decided to sell the European operations of its engineered wood products distribution unit, iLevel to Finnforest based in Finland. No terms were released.
- Wood Structures, a Maine based building products manufacturer and distributor has acquired Weyerhaeuser's Boston distribution center. Source: *PR Newswire*.
- The *Bangor Daily News* reported that the University of Maine's Advanced Engineered Wood Composites Center has patented a coating technology that enables a lightweight wood building to be blast-resistant.
- According to the Associated Press Newswire, a wood chip plant will be expanded to produce wood pellets and this new facility will employ 65 people in Louisa County, Virginia after its opening in July 2008.
- Financially troubled Canadian-based Tembec gained support for its \$1.2 billion recapitalization plan from the United Steelworkers Union. Source: *The Canadian Press*.
- The *Middle East Company News* reported that U. S. hardwood lumber exports increased to the Middle East and North Africa 32% from the first 3 quarters of 2006 to 2007.
- Shamrock Plank Flooring completed a hardwood flooring manufacturing facility in Memphis, TN. Source: *Market Wire*
- A number of companies have reported results from 2007. Profitable companies include Plum Creek, International Paper and Temple-Inland. Unprofitable include Norbord and Fraser Papers. Source: *Factiva*

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

Center Focus



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Energy in the Wood Products Industry

Energy is a critical component for sectors of the economy such as manufacturing. Energy represents both a threat to the forest products industry in the form of uncontrollable cost increases which squeeze the industry's ability to compete internationally and an opportunity for the industry in the form of a potential revenue source. As many of you know, the wood products industry generates about half of its energy needs from wood waste such as sawdust, chips, bark or spent pulping liquor in the paper industry. This energy is used in the form of steam for lumber, veneer, and flake drying operations, process heat for pressing operations or for cogeneration that produces both steam and electricity. In order to limit this scope of article, we will discuss only energy production for heat, steam or electricity and not discuss so called biofuels such as ethanol that can be produced from wood.

Those companies that rely on natural gas or fuel oil for a fuel source have seen a dramatic increase in their costs, not to mention the fuel surcharges from trucking companies, and the price of diesel used for heavy machinery. This has squeezed the profit margins of nearly all wood products manufacturers. How can companies deal with the increasing cost of energy? Well, a number of companies are switching from natural gas fired boilers to wood residue fired boilers. This conversion not only makes economic sense but also helps the environment by utilizing former waste streams.

In order to deal with fuel surcharges, there are a couple of tactics companies should try¹. First, companies can cope with fuel surcharges by trying to keep their base rates low and by negotiating the fuel surcharges. In order to do this, they need to track the fuel prices and surcharges that shippers pay nationwide. Companies should also investigate using other forms of transportation such as rail. Finally, companies need to utilize every bit of space that they are paying for.

Since the first energy crisis in the early 1970s, manufacturers have reduced the amount of energy needed to produce a given volume or value of products. Increasing the energy efficiency of manufacturing plants in order to reduce costs is becoming a requirement in order to remain globally competitive. Despite this only 40% of wood products manufacturers have participated in energy management activities². According to this government data, the most common energy efficiency improvement activities of wood products manufacturers are installing or retrofitting equipment for compressed air systems (20.1%), direct machine drives (16.4%), facility HVAC (14.9%), and facility lighting (14.7%).

(Continued on next page)

- 1 Shulz, J.D. 2006. Coming to terms with fuel surcharges. <http://www.logisticsmgmt.com/article/CA6389626.html>. Accessed February 27, 2008.
- 2 Energy Information Agency, U.S. Dept of Energy. Manufacturing Energy Consumption Survey 2002. <http://www.eia.doe.gov/emeu/mecs/mecs2002/data02/shelltables.html>. Accessed February 26, 2008.

Firms indicated that they also used energy audits (15.9%), direct electricity load control (13.9%), and power factor correction/improvement (12.0%) in order to manage their energy consumption. Firms facing intense competition both domestically and globally need to continuously improve their energy efficiency.

Wood products manufacturers that already have cogeneration facilities and whose state has good net-metering policies are well positioned to take advantage of the increased demand for renewable electricity. According to a report³, 25% of utilities with representing 70 million customers are offering a renewable energy option with a 2¢/kwh premium. This growing market offers wood products manufacturers a way to diversify their revenue streams.

Demand for wood residues such as chips, sawdust, and bark is likely to grow rapidly in the short term as secondary manufacturing declines, lumber producers reduce production, pulp prices remain high, and energy costs increase. This increase in wood residue demand has and will continue to increase selling prices of these residues and this will benefit primary forest products manufacturers who market these residues. The recent growth in the demand for composite wood energy products such as wood pellets and wood briquettes are an opportunity for manufacturers that have abundant supplies of dry wood chips or sawdust. The European market for wood energy in all exportable forms will continue to grow and this market is also a good opportunity given their demand and strong Euro. In summary, firms can no longer be complacent about energy. They must proactively manage their energy costs and seize opportunities for revenues in these difficult times.

3 Bird, Lori. and Marshall Kaiser. 2007 Trends in Utility Green Pricing Programs (2006). U.S. Department of Energy, Office of Energy Efficiency & Renewable Energy, National Renewable Energy Laboratory. NREL/TP-670-42287. October. 52 p.

Center Calendar of Events

April 10-11, 2008

Forest Products Marketing Short Course

Those attending this workshop learn about the products of wood based industries, marketing as it relates to small forest products businesses and how to gain a competitive advantage in the industry. It is designed for the small forest products business owner or manager and new sales and marketing personnel. For additional information, contact Bob Smith at 540/231-7679 or email rsmith4@vt.edu.

September 17, 2008

Center for Forest Products Marketing & Management Annual Meeting

The 17th annual meeting will be held on Wednesday morning during Wood Week and the scholarship reception will be held in the evening.



Announcements

Wood Week 2008 Dates Set

The Department of Wood Science and Forest Products has set the dates for its annual Wood Week. Wood Week 2008 will be held September 15-18, 2008 on the Virginia Tech campus in Blacksburg. The week will begin on Monday with a student welcome back picnic and keynote public lecture by Patrick Calello, founder and designer of Automoblox (www.automoblox.com). The award-winning Wood Magic Show will be held for 4th and 5th grade students and teachers on Tuesday. Wednesday the Advisory Board for the Center for Forest Products Marketing and Management will be held, followed by an evening scholarship reception and recognition reception. Thursday is the wood industry career fair under a big-top tent in the center of the Virginia Tech campus. Up to 75 wood industry companies are invited to participate in the largest wood industry career fair on any U.S. campus. The department seeks to promote the U.S. wood industry to the 27,000 students enrolled at Virginia Tech. Registration for the Wood Week Career Fair will open April 1, 2008 and close when capacity is reached at 75 companies. See the department homepage at www.woodscience.vt.edu for Wood Week 2008 details.

Department Develops Student and Industry Placement Center

The Department of Wood Science and Forest Products has launched a new web-based student placement and industry job posting site. The new site was active as of March 1, 2008. Students in the program, and students from other majors at Virginia Tech can post their resumes to the site. As well, industry can post position announcements to the site for viewing. Student resumes will be categorized into several categories, including students looking for summer jobs and internships, permanent employment, graduate students looking for permanent employment and post doctoral research scientists looking for permanent employment. Those in the industry will be required to register for use of the system. See the department homepage for more information about this new service offered by the department at www.woodscience.vt.edu.



Workshop Announcements

Managing and Understanding the Hispanic Workforce

The Sloan Foundation Forest Industries Center at Virginia Tech, in collaboration with the USDA Forest Service's Wood Education and Resource Center, will be offering a workforce diversity management workshop focusing on the Hispanic workforce on March 17, 2008 in Princeton, WV. More details can be found at: <http://www.forestindustries.vt.edu/workshops/mainpagehispanic.html>. For additional information, contact Marina Cogo at (540) 231-2161 or e-mail cogom@vt.edu.

Total Productive Maintenance Workshop

Total Productive Maintenance (TPM) is a method of increasing the effectiveness of production machinery and the reliability of production processes, while simultaneously involving production workers in the care of the machines they operate to more effectively utilizing the expertise of maintenance personnel. The TPM approach strives to minimize so called reactive maintenance in moving toward an environment of preventive and ultimately predictive maintenance. The TPM concept grew from the broader “continuous improvement” philosophy, which has recently been exemplified in lean manufacturing. TPM is often the first place to begin in the journey of continuous improvement because it creates a manufacturing infrastructure of stability, reliability, and capability. A stable infrastructure is a critical foundation that must be built before more advanced lean improvement technologies can be successfully introduced and sustained.

The goals of TPM include: 1) reducing unnecessary downtime due to breakdowns, minor stoppages and quality problems, 2) developing a sense of ownership among machine operators, 3) systematically learning from machinery related problems so that root causes can be identified and addressed and 4) fostering productive dialogue between production managers, employees and maintenance staff.

This one-day workshop will introduce key TPM concepts, machinery audit protocols, root cause analysis and tips for successful implementation of TPM. The workshop will be held on May 15, 2008 at EXPO Richmond 2008 in Richmond, VA. For more information, please contact : Dr. Brian Bond (bbond@vt.edu) or Dr. Earl Kline (kline@vt.edu), Department of Wood Science & Forest Products, Virginia Tech, Phone: 540-231-7107.