“Changing Markets For Wood Components”

“Hardwood Component Workshop”
Princeton, W V: April 20, 2009

Steve Lawser

Executive Director
Wood Component Manufacturers Association
Marietta, Georgia
Typical wood component products
Profile of North American Wood Component Industry

- $ 5 Billion Annual Shipments
- 1,600 Companies
- Sales of $174,000 per Employee
- Variety of Wood Materials Used
- Trend Toward Custom Products
- Many Decorative, Non-Structural applications
Components Most Often Outsourced

1. Cabinet Doors
2. Mouldings & millwork
3. Cabinet parts – drawer boxes, drawer fronts & face frames
4. Cut-to-size blanks
5. Stair parts: treads, newel posts
6. Edge-glued panels
7. CNC machined parts
8. Turnings, rounds & dowels
9. Solid & laminated squares
10. Veneer & engineered wood parts

Source: WCMA 2006 Outsourcing Study
Major Markets for Components

- Building Products: 27%
- Furniture: 27%
- Cabinetry: 32%
- Specialty Products: 9%
- Industrial Products: 5%

Source: 2009 WCMA Market Study
## Changing Component Markets

<table>
<thead>
<tr>
<th>Product Type</th>
<th>1984</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture</td>
<td>65%</td>
<td>22%</td>
</tr>
<tr>
<td>Cabinetry</td>
<td>16%</td>
<td>27%</td>
</tr>
<tr>
<td>Building Products</td>
<td>10%</td>
<td>42%</td>
</tr>
<tr>
<td>Industrial Products</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Decorative Specialty</td>
<td>4%</td>
<td>7%</td>
</tr>
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Source: 2008 WCMA Market Study

Imports have devastated the HH furniture industry
### Changing Component Markets

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<td>Decorative Specialty</td>
<td>7%</td>
<td>9%</td>
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<td>Industrial Products</td>
<td>3%</td>
<td>5%</td>
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*Source: 2008 WCMA Market Study*

Housing decline has hurt the component industry.
2008 Component Trade Trends

- Imported Furniture Parts - $1.1 billion
- Exported Furniture Parts - $162.4 million
- Top Export Markets for U.S. Components

  - Canada - $107 million
  - Mexico - $13 million
  - United Kingdom - $4.8 million
  - Japan - $2.7 million
  - Bahamas - $2.2 million
  - China - $2 million
  - Saudi Arabia - $1.8 million
*These market shares are conservative because some imported components and finished furniture is included in the domestic shipments.
U.S. Trade Balance in Forest Products*

Imports $4.2 billion
Exports $1.1 billion
Deficit $3.1 billion
Total US Trade Deficit $670 billion in 2008
Represents 4.7% of GDP

Source: FAS

* Forest products include roundwood, sawnwood, wood based panels, pulp
The U.S. Trade Dilemma...

We are exporting raw materials and importing finished goods...
The U.S. is the major exporter of hardwood lumber and logs...
**BUT** we are the major importer of finished hardwood products like furniture, flooring, staircases, mouldings, and components...

This needs to change if our secondary wood processing industry is to survive.
12,000 employees

Every month:

Import 1,000 containers of US lumber & veneer
Export 4,000 containers of bedroom furniture to U.S.
Universal & Legacy Classic brands sold directly to retailers
Produce for U.S. furniture companies in Dongguan plant
U.S. Employment Trends
Decline of Manufacturing Employment

Employment (million)

Share

1960 - 30%

2007 - 10.4%

Importance of Manufacturing to U.S. Economy

- Represents 15% of GDP
- Highest rate of productivity growth
- Highest Wages – 23% higher than national average
- Supports $1.37 in other sectors for every $1.00 of manufactured goods
- Performs 71% of all R & D
- Accounts for 2/3 of all US exports

Source: NAM Facts About Modern Manufacturing
How to Save our Manufacturing Industries...

- Produce innovative, customized products
- Focus on product design, finishing, marketing & distribution
- Automate production to reduce labor
- Focus on cost reduction
- Adopt new production technologies & lean manufacturing techniques
- Invest more in education and R&D

Source: COSMU 2006 Furniture Conference
## Residential vs. Non-Residential Construction Forecast

*Percent change from 2007 to 2008*

<table>
<thead>
<tr>
<th>Source</th>
<th>Residential</th>
<th>Non-Residential structures</th>
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<tr>
<td>NAHB</td>
<td>-17.0</td>
<td></td>
</tr>
<tr>
<td>NAR</td>
<td>-15.8</td>
<td></td>
</tr>
<tr>
<td>Economy.com</td>
<td>-17.4</td>
<td>+14.4</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>-16.7</strong></td>
<td><strong>+14.4</strong></td>
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*Source: NAHB – National assoc. Homebuilders, NAR – National Assoc. of Realtors, Economy.com’s Dismal Scientist*
## Residential vs. Non-Residential Construction Forecast

**Percent change from 2008 to 2009**

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<td><strong>NAHB</strong></td>
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</tr>
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<td><strong>NAR</strong></td>
<td>-25.3</td>
<td></td>
</tr>
<tr>
<td><strong>Economy.com</strong></td>
<td>-18.3</td>
<td>-14.5</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>-22.9</td>
<td>-14.5</td>
</tr>
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## Moulding & Trim Demand

<table>
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<tr>
<th>Item</th>
<th>Million Dollars</th>
<th>% Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moulding &amp; Trim Demand</td>
<td>7,139</td>
<td>9,047</td>
</tr>
</tbody>
</table>

### BY PRODUCT

<table>
<thead>
<tr>
<th>Item</th>
<th>Million Dollars</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Moulding</td>
<td>3,349</td>
<td>4,348</td>
</tr>
<tr>
<td>Stairwork</td>
<td>1,863</td>
<td>2,352</td>
</tr>
<tr>
<td>Other</td>
<td>1,926</td>
<td>2,347</td>
</tr>
</tbody>
</table>

*Source: The Freedonia Group Inc.*
# U.S. Cabinet Demand

*(Million Dollars)*

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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabinet Demand</td>
<td>10,920</td>
<td>14,040</td>
<td>16,350</td>
<td>5.7%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Kitchen</td>
<td>9,065</td>
<td>11,760</td>
<td>13,650</td>
<td>5.9%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Bath</td>
<td>1,145</td>
<td>1,500</td>
<td>1,760</td>
<td>6.2%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Other</td>
<td>710</td>
<td>780</td>
<td>940</td>
<td>2.0%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

*Source: The Freedonia Group Inc.*
# U.S. Home Organization Product Demand

*(In million dollars)*

<table>
<thead>
<tr>
<th>Item</th>
<th>2001</th>
<th>2006</th>
<th>2011</th>
<th>% Annual Growth '01-'06</th>
<th>'06-'11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Organization Product Demand</td>
<td>5,945</td>
<td>6,920</td>
<td>8,640</td>
<td>3.1%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Bedrooms &amp; Closets</td>
<td>2,270</td>
<td>2,520</td>
<td>3,235</td>
<td>2.1%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Family Rooms</td>
<td>1,330</td>
<td>1,510</td>
<td>1,745</td>
<td>2.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Kitchens &amp; Pantries</td>
<td>785</td>
<td>962</td>
<td>1,040</td>
<td>4.2%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Bathrooms &amp; Utility Rooms</td>
<td>510</td>
<td>528</td>
<td>560</td>
<td>0.7%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

*Source: The Freedonia Group*
A “new” and growing market – smaller customers?

- “Yesterday, it was five loads to one customer; today, it is one load to five customers
  - and all five want something a little different!”

- Short lead times and on-time deliveries are more critical than ever!
Characteristics of Successful Component Manufacturers

- Access to quality & value-priced timber resources (materials more than 50% cost)
- A marketing advantage (close relationships and proximity to customers)
- A production advantage (optimization systems & lean manufacturing)
- Access to capital & adequate cash flow
- Active “hands on” management and technical expertise
Focus On Competitive Advantages

- Guaranteed delivery times
- Ability to ship small orders
- Ability to make last minute changes
- Consistent quality
- Flexible payment terms
- Close proximity to suppliers & customers
- Access to sustainable and renewable hardwood resources --- A Key North American advantage!
...And Some U.S. Manufacturers are Succeeding...

- “We do the tough commercial projects – high complexity, thin tolerances – where there can be no blips in the supply chain.”

- “Our business model is short run, quick turnaround, customized parts. We can’t compete on price with China, but this service can’t be provided by China so it doesn’t matter”
Contact Steve Lawser at WCMA

www.woodcomponents.org

steve@woodcomponents.org