

FPS Smallwood Conference 2010

Hot Springs Ark Apr 20-22

Hardwood Market Realities: Strategic Overview



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Yale University &
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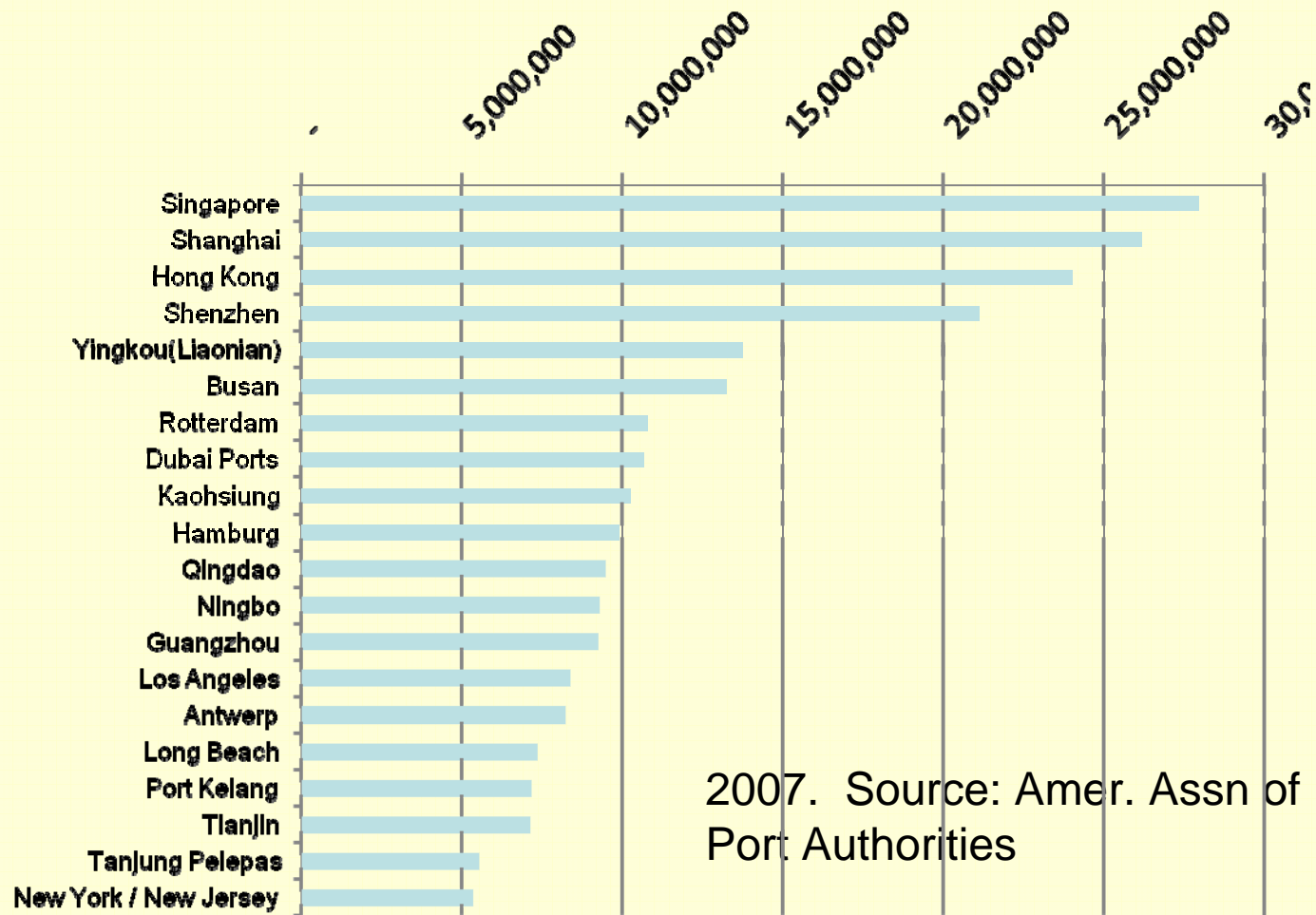


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- Competitiveness: The Dark Time
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Chip pile, RAPP mill,
(APRIL) 2 MMT/yr, 2006
Riau Province, Sumatra



Top 20
Ports
globally
by TEU's

2007. Source: Amer. Assn of
Port Authorities



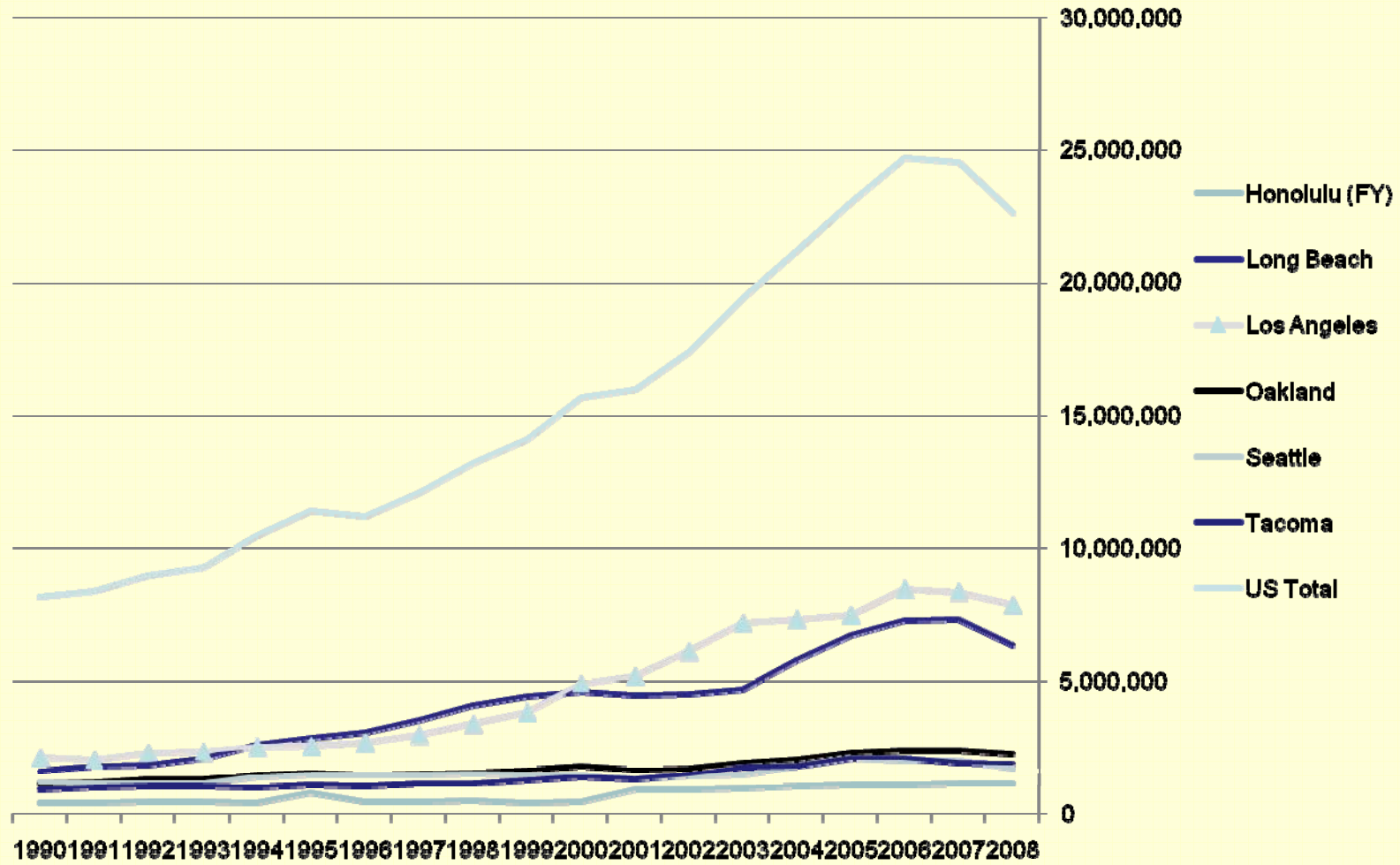
The Dark Time

4/27/2010

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Leading US Ports by Tonnage 1990-2008



American Assn of Port Authorities

Dimensions of Competition

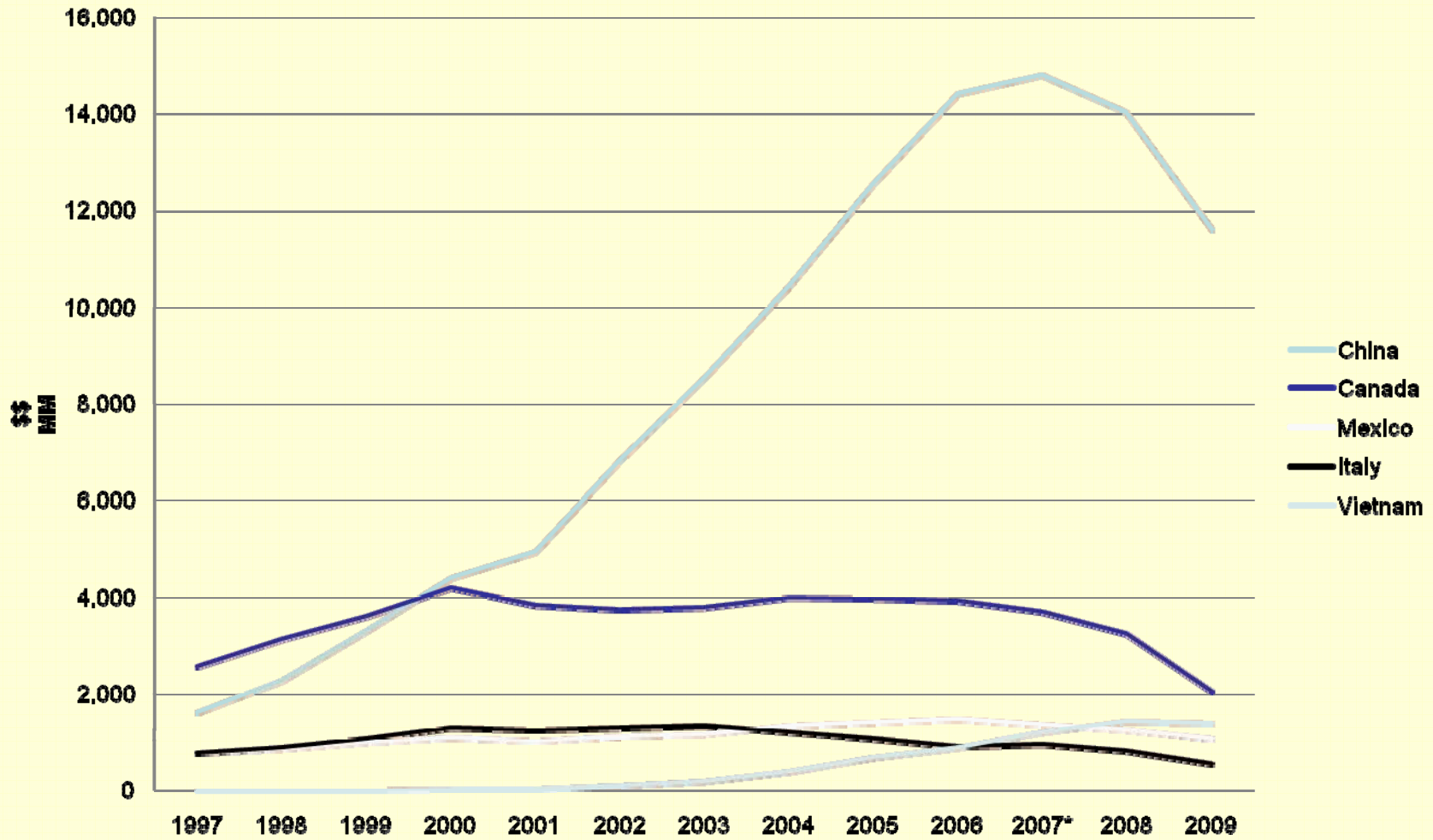
- New low cost **sources**
- Entirely new **products**
- Nonwood **materials**
- New, unfamiliar **species**

Dr Doom's Globalization Alphabet Soup Test

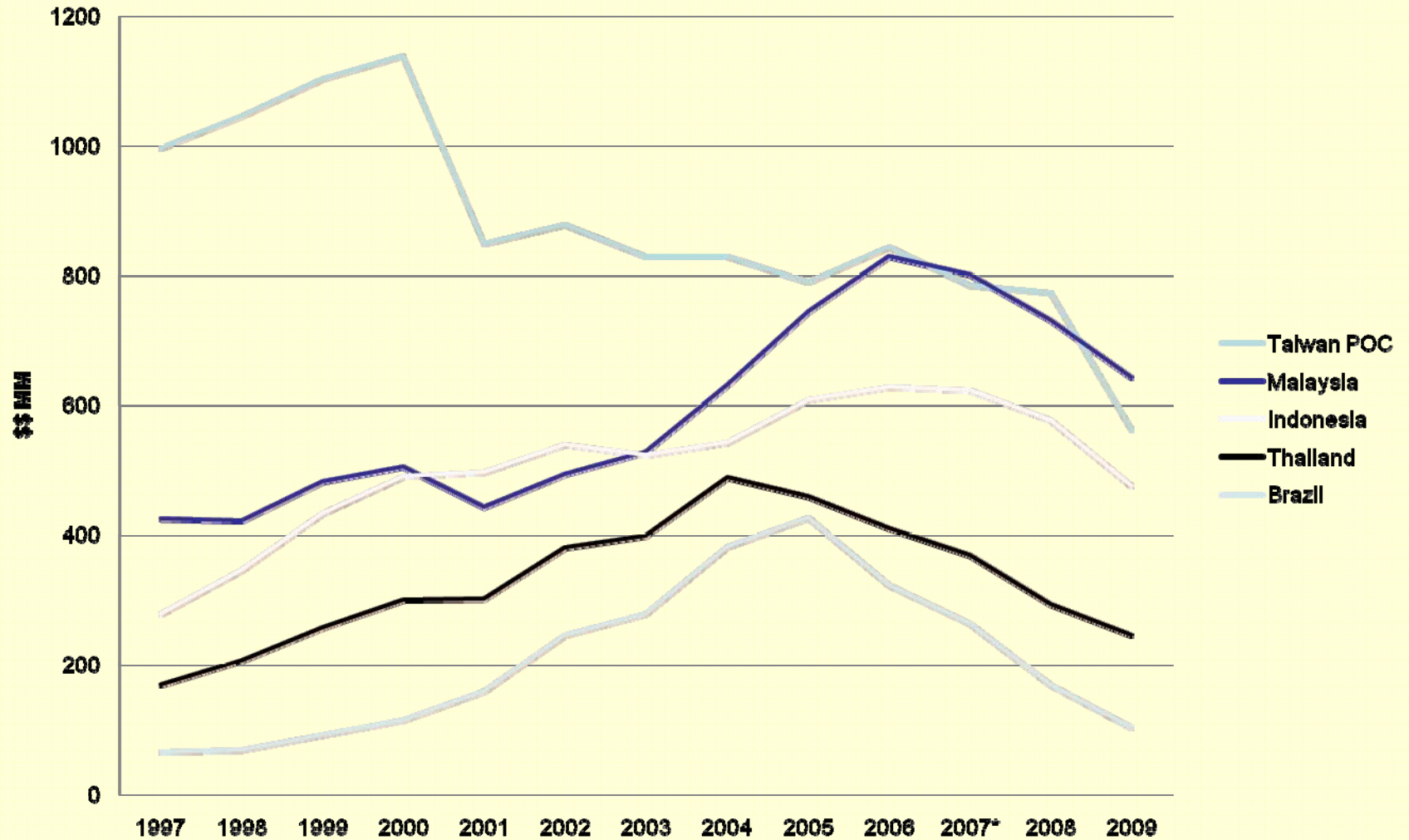
- BEK
- BRICs
- FLEG
- RMB
- RFE
- REDD
- TEU
- Find the ports in top 20 chart on a map



US Imports of Furniture, top 5 of 2006

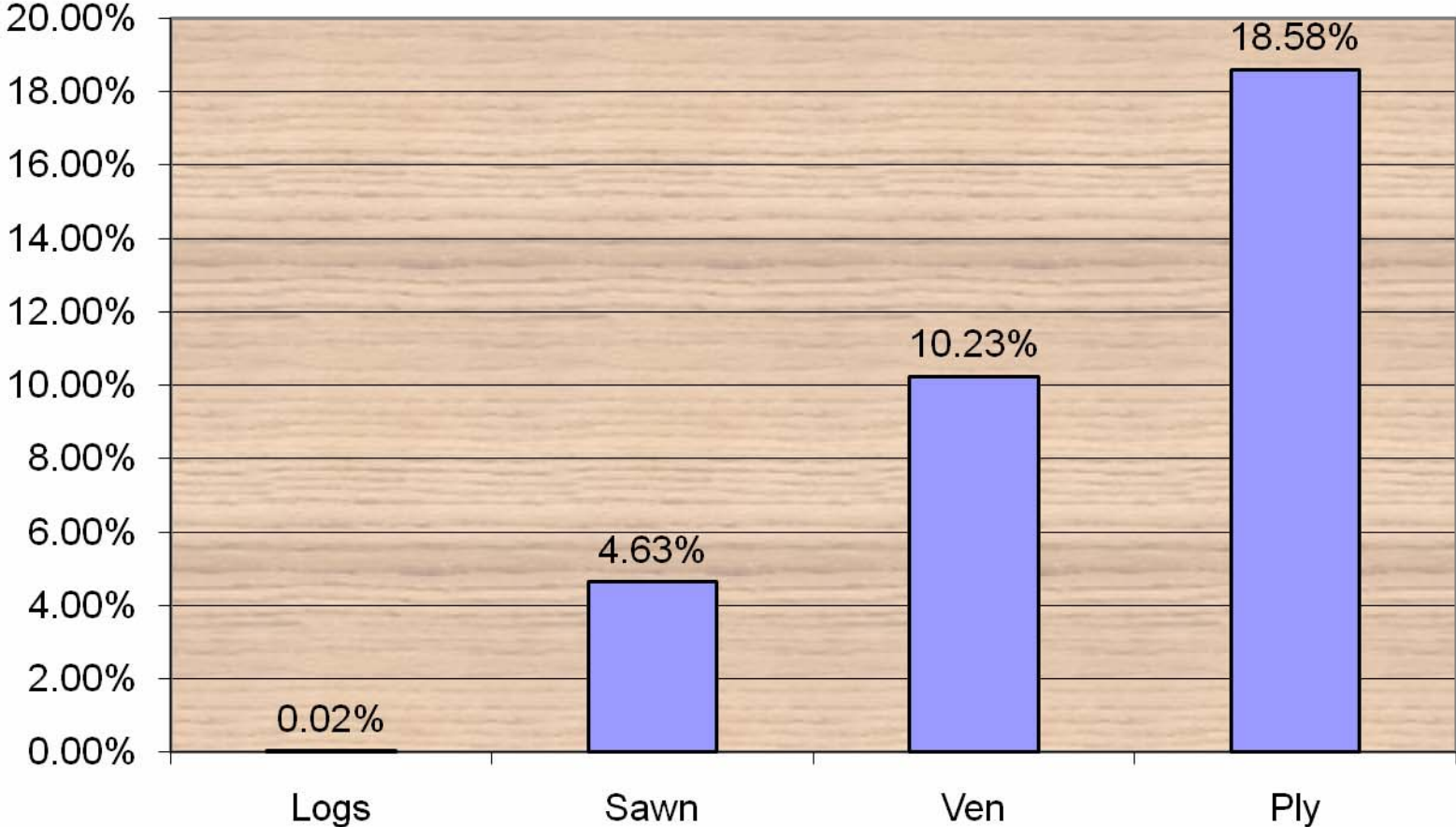


US Imports of Furniture Second 5 in 2006



The New World of Tropical Hardwoods

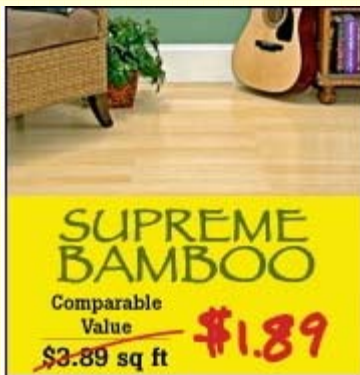
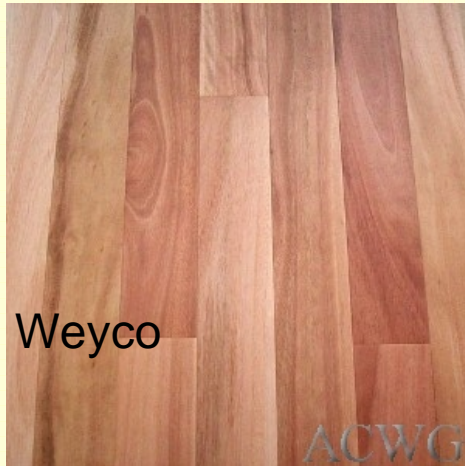
US Imports of Tropical Items as % of ITTO Consumer Nation Imports, 2005



Source: ITTO Assessment data for 2005

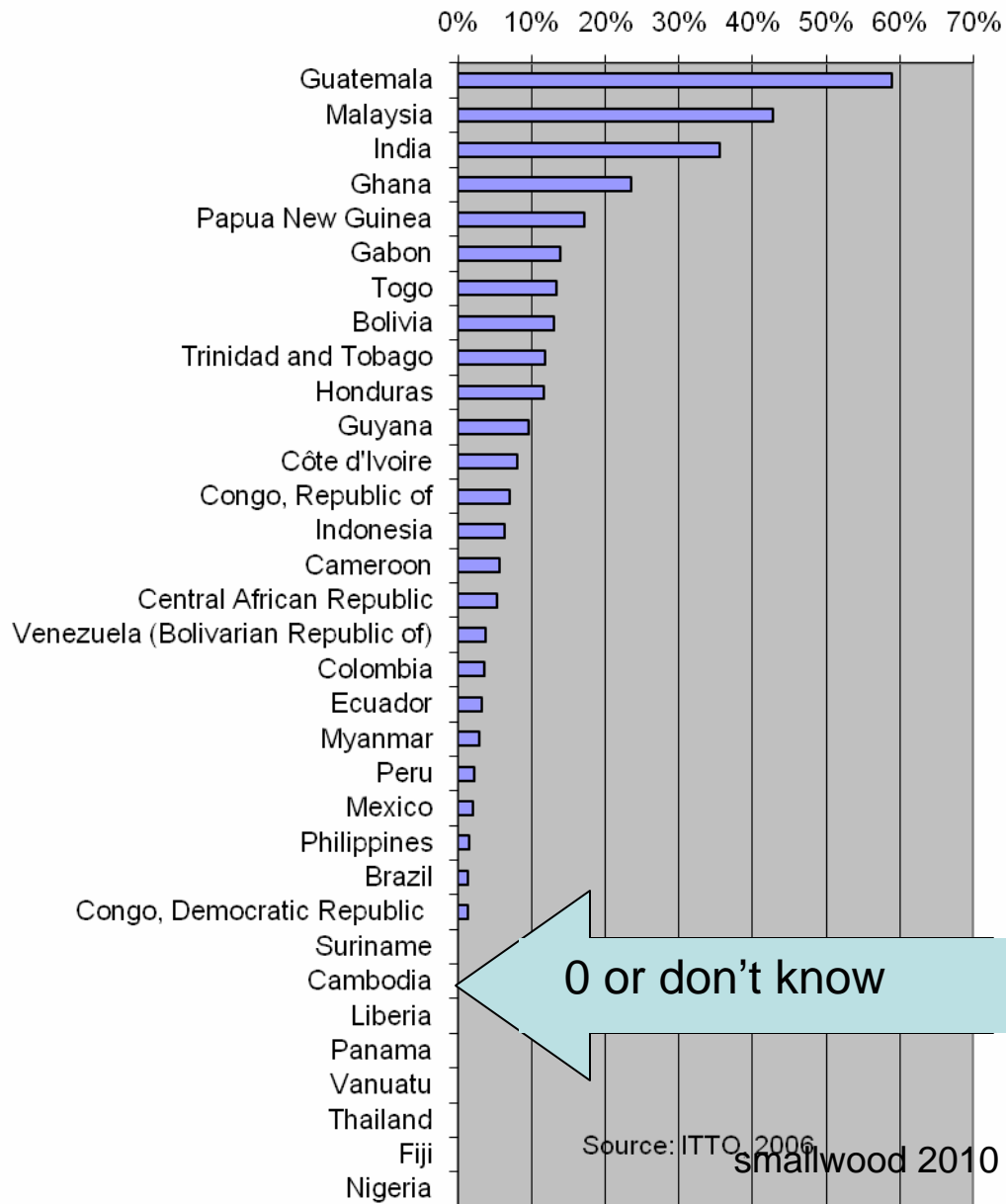
Import products – plantation wood

Lyptus, Weyco



http://www.bamboohardwoods.com/downloads/BHWcatalog_2009.pdf

Percent of Natural Forest known to be sustainably Managed



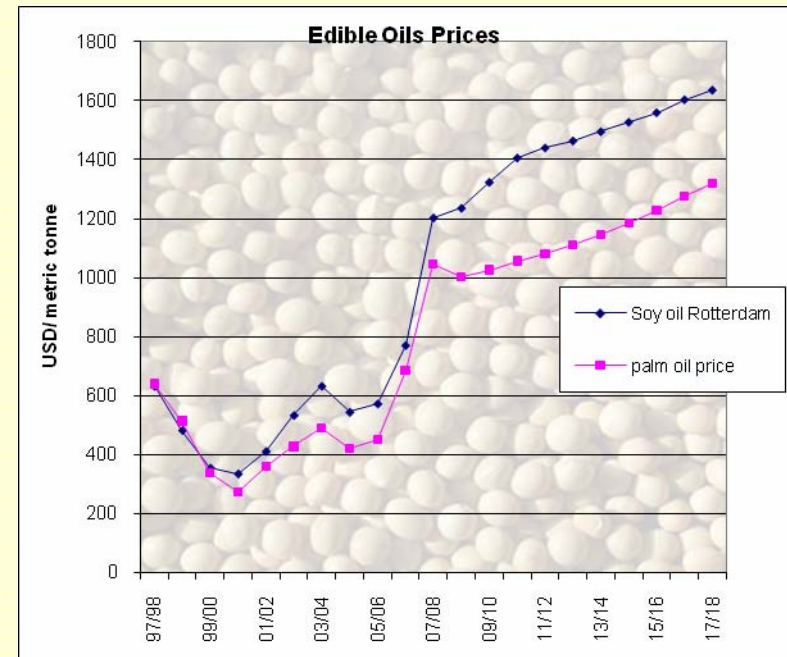
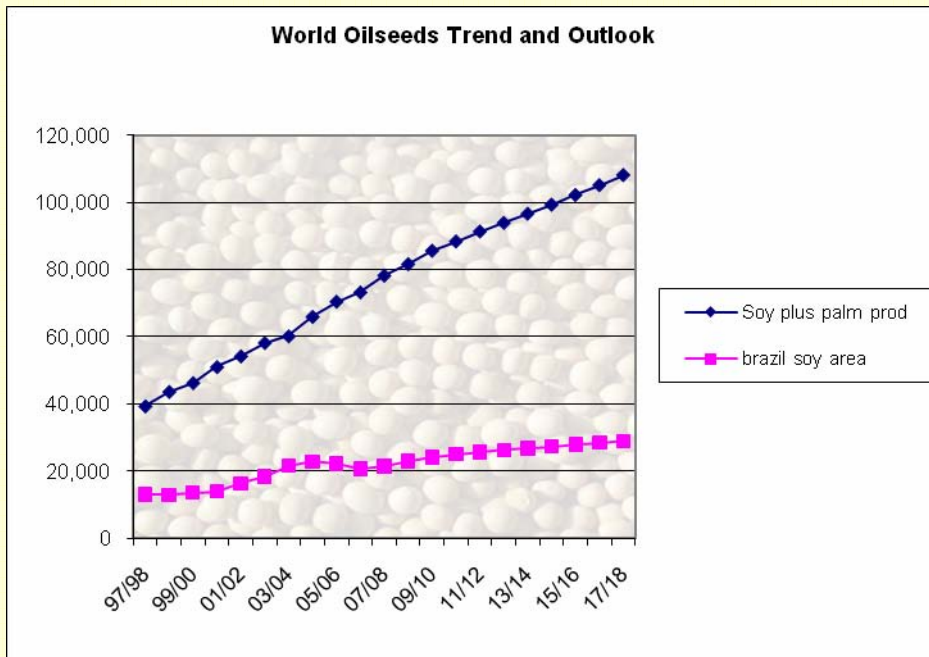
Source: ITTO, 2006
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ITTO 2005 Assessment Grim results

Africa 6.1%
Asia-Pacific 15.0%
Latin America 3.5%

Tropics: Shift to Plantations

- How long can traditional hi-value supplies last ---
- Half of region's wood from plantations already (Tomaselli)
- 36 MM ha = area of forest in entire NE US
- Will they by-pass the “secondaries”?
- Plantations are accessible and uniform



Source: FAPRI, 2009 Outlook

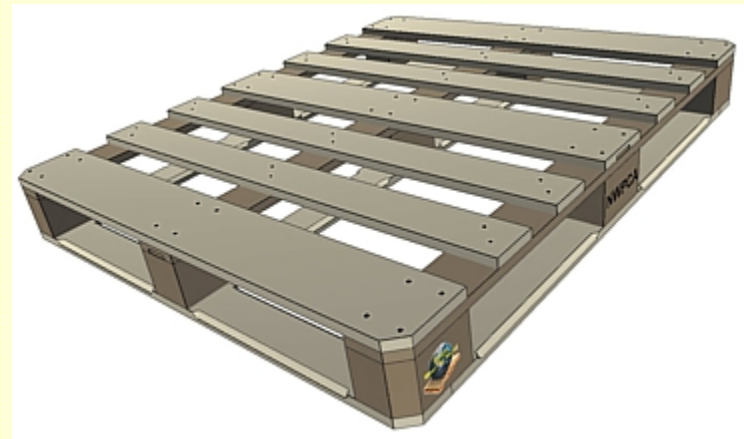
Food, Fuel or Forest?



“Bamboo Sea”,
Fujian Province,
PRC

Building Material of the Future

Pallet of the Future-- Plastic?



NWPCA

“Defecting” model is broken

- Cutting out defects – works technically but too expensive in the New World
- East US: low grade logs
- Inland west: fuel mgt treatments yield small, knotty wood
- Character wood – knots a positive feature
- Poles, dowels, log forms -- knots not a problem



Bottom Line

- Must be **Profit** Adding,
- Not only **Value** adding
- Seek a **sustainable** advantage

Collapse of our Market

- ... is taking our equipment/machine tool industry with it
- Increasingly we will be using imported machinery
- Or, will have to find niches where older machinery can compete

Dark Time: How Long?

- US Economic Recovery not enough
- Prosperity in BRICs critical
 - build own home market
 - Higher wage levels
- Shifts in above forces slow
- No one decisive moment
- But could be 10-20 yr (hope not)

Recovery: What are Constraints?



Skilled and Reliable Workforce

Much of HW industry in past built
in low income regions, low cost
labor

Outmigration, Oxycontin, social
programs, expectations or
benefits,

Cultural changes –

Are safety practices up to par?

Result: workforce a constraint



Groff Lbr,
Albuquerque

Key Scarce Resource: The Entrepreneurs

Where have they gone?

Sold out in time!

Closed/washed out

Retirement

Where will Next Gen Come from?

Downsized managers?

Hometown returnees?

New faces?

Other?



Randy Nicoll,
Springerville, Az

Business Implications

- Must build entirely NEW businesses
- Imports: get out of the way
- Footloose: service oriented with rural production
- Distribution: Many options – hire it
 - Will cost money
 - Worth it if done right
 - Distribute for the imports
- Find defensible niches

Who wants Industrial Development Anymore?

- Constituency for Economic Development smaller than you might think
- Retirees in rural areas
- Traffic; too many existing plants look like junkyards
- Appeal of the status quo –BANANA
- Tough to site plants exc in existing locations

Can “Greenery” Save us?

- Local purchasing (Locavores)
- Certification
 - Ck labels in “The Depot”
- Problem: competitors catching on.
- Some of this is flim-flam
- Not well adapted to the small firm
- Raise cost of tropical Imports? Maybe...
 - (Lacey Act)

What is **the** scarce resource?

- Not Technology
- Not wood, exc in local areas
- Not capital
- Not industrial space
- In many areas, workers!
- Who will rebuild this industry? Are there entrepreneurs?

Strategic Summary

- Dark Time – some years to go
- More change to come
- Economic recovery will benefit our competition too
- Must build a very new industry
- Constraints/challenges different than in past
- Entrepreneurship the key

