WHAT IS THE FUTURE OPPORTUNITIES FOR CABINETS, FURNITURE AND MILLWORK

Tuesday, November 8th, 2011

Harry Watt
North Carolina State University
and
Assisting the US Forest Service’s Wood Education And Resource Center

Web www.cnr.ncsu.edu/woodworkshops
North Carolina State University
Wood Products Extension

Since 1950 has supported the wood products industry in North Carolina in the areas of wood education, training, troubleshooting problems, research and overall assistance in making a large variety of wood products.

It is the policy of the State of North Carolina to provide equality of opportunity in education and employment for all students and employees. Educational and employment decisions should be based on factors that are germane to academic abilities or job performance. Accordingly, the North Carolina State University (“NC State”) does not practice or condone unlawful discrimination in any form, as defined by this policy.
Wood Education and Resource Center

- Is the focus of the US Forest Service effort of support of the hardwood forest industry in the states east of the Great Plains
- WERC project’s websites = www.cnr.ncsu.edu/woodworkshops and www.cnr.ncsu.edu/usalocalwood

The work upon which this webcast is based was funded in whole or in part through a grant awarded by the Wood Education and Resource Center, Northeastern Area State and Private Forestry, U.S. Forest Service.

In accordance with Federal law and U.S. Department of Agriculture policy, this institution is prohibited from discriminating on the basis of race, color, national origin, sex, age, or disability. To file a complaint of discrimination, write USDA Director, Office of Civil Rights, Room 326-W, Whitten Building, 1400 Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice and TDD). USDA is an equal opportunity provider and employer.
Profitability is the Important Part of any Wood Products Business-Reminder

• Profit and Loss Statement is the focus of attention
  – Revenues – Expenses = Profits

• Concerned with the volume of sales and the margin of profit on each product, product line, job bid, etc.

• So our talks today will focus on business strategies that will grow revenues, manage expenses and grow profit margins

• We want all our business activities to be profitable
Trend Lines Show Less Production Due to Falling Demand = Current Poor Prospects

- Lots of lost sales and employment to imports

- Less sales due to a smuggest economy

- For an individual business there can be success given the leverage available from good management and a sound business strategy

- “SUCCESS = PREPARATION MEETS OPPORTUNITY”
Your Success Depends Upon Your Business Strategies and Their Implementation

• Opportunities always exist in the market

• Image having poor eyesight trying to aim a rifle

• Must be able to see the target to hit the target

• Question today is how to identify targets?
Good Targets Abound Because Most Don’t See the Opportunities

- New housing is in a slump with little construction-depressed spec market.
- See statistics on new versus existing housing-Harvard handout
  - Now at historic lows for starts
  - Vacancy's are at historic highs
  - 2010 Owners spending same as for builders
  - Buyer demographics shifting to older Americans
Potential Targets for Cabinets, Furniture and Millwork

• Look to grow your market at the expense of others—especially at imports!
• Look to replace work that owners are doing
• Look at non residential home projects
• Look at the early creation stage of projects—help create the project, not be the low bidder on work build on the specifications of others
• Be a leader in the creation of new styles that offer $ savings, being “Green”, energy savings, new images
Biggest Target = Current Import Furniture Market

- Now about 70% of US casegoods furniture sales

- Lots of ways to challenge
  - Use lower cost minor hardwood and softwoods
  - Faster delivery
  - Custom and modified designs
  - USA themes
  - Sustainability and “Green” issues
In the Past Speculation Builders Carried Many in Cabinets and Millwork

- Spec contractors built many of the homes in the USA
- Spec builders looked at simpler and cheaper designs
- Buyers of spec homes are more acceptable to quality than if being the ones to order
- Spec buyers were more financially constrained than buyers who specify products—would choose “good and better” instead of “best”
- Opportunity goes to the shop who can work with the buyer right at the start
World Situation in Manufacturing

- Overcapacity in manufacturing in most product categories
- Wood products = high level of competition except for foreign government support of their manufacturers
- China is changing from pushing exports to domestic
- Other Asian manufacturing countries ready to export more to replace China—we should challenge that
- Others not as well placed as China to export to the US
Key Concept—Understanding the Commodity Versus the Non-Commodity

Commodity = volume standard product at low cost

Theory of the Long Tail—by Chris Anderson
- High volume sellers = commodities—limited offerings
- Out in the Long Tail = large number of small unit sales
- Area under the curve = sales volume
- Long tail manufacturers can be profitable if able to manage the costs of low volume manufacturing
Theory of the Long Tail - Chris Anderson - created on music industry studies

Rhapsody music downloads (for number of titles equivalent to Wal-Mart inventory)

Downloads

Track rank
Theory of the Long Tail-Lessons to Learn

• High volume commodity items exist only for a few items

• The Long Tail goes out indefinitely when setup costs = 0

• If you can make money on an item why not sell it?

• The goal for a wood products manufacturer is to be the commodity manufacturer at high volume/low margin or be a low volume/high margin wood products manufacturer
Theory of the Long Tail-offer more stuff

Force 1: Democratize the tools of production

Result: More stuff, which 

\textit{lengthens} the Tail
Theory of the Long Tail-offer more stuff

• Create dynamic designs that grow or shrink automatically with changes in product dimensions so it’s easy to offer more products

• Offer the full gambit of options from a small set of raw materials

• Have a quick design system

• Follow a make-to-order business strategy-make what the customer wants when they want it
Theory of the Long Tail—enlarge your outreach efforts to add more customers

**Force 2: Democratize the tools of distribution**

**Result:** More access to niches, which *fattens* the Tail
Theory of the Long Tail - connect supply and demand - draw orders from commodity vendors to your Long Tail offerings.
Theory of the Long Tail - quality/satisfaction

Buyers of Commodity Products Often Would Prefer to Buy Products Closer to Their Needs

- Long Tail shoppers hold out for what they want
- Products on the left are closer to commodities while on the right are unique
Theory of the Long Tail - cut costs and gain sales in the Long Tail

Three steps to infinite variety

1. Physical Retailers
   Profit threshold for physical stores (like Tower Records)

2. Hybrid Retailers
   Profit threshold for stores with no retail overheads (like Amazon.com)

3. Pure Digital Retailers
   Profit threshold for stores with no physical goods (like Rhapsody)
Theory of the Long Tail-lessons learned

- Future belongs to those good at commodity products or low volume/high variety or Long Tail products
- Managing costs is the key to growing Long Tail sales
- Flexibility is the key to cost cutting in the office and shop
New Business Strategies-Cabinets

• Can look at commodities if you can reach high volume and control costs

• Think about what geographical region makes sense for you-local/regional/national/international

• Look at servicing multiple niches to grow sales volume for your product base (expand customer base without expanding the product base)

• Expand the product base with flexible design and manufacturing strategies
New Business Strategies-Furniture

• Lots of opportunity for contract manufacturers who can displace casegoods imports

• Think about what geographical region makes sense for you-local/regional/national/international

• Look at servicing multiple niches to grow sales volume for your product base (expand customer base without expanding the product base)

• Expand the product base with flexible design and manufacturing strategies
New Business Strategies-Millwork

- Lots of opportunity to supply contract furniture manufacturers components can displace imports
- Think about what geographical region makes sense-local/regional/national/international
- Look at servicing multiple niches to grow sales volume for your product base (expand customer base without expanding the geographic base)
- Expand the product base with flexible design and manufacturing strategies
The Future Can Be a Success

- A new industry of smaller more focused businesses
- Better management and business strategies
- Stronger business controls
- Lots more flexibility and ability to meet the needs of customers