Hardwood Market Realities: Strategic Overview

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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
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
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

Grim results

ITTO 2005 Assessment

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
Food, Fuel or Forest?

Source: FAPRI, 2009 Outlook
Building Material of the Future

Pallet of the Future—Plastic?

“Bamboo Sea”, Fujian Province, PRC

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

4/27/2010  smallwood 2010
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