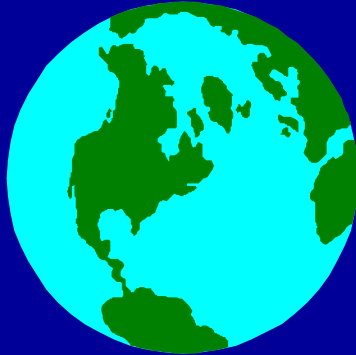


Management and Technical
Solutions for the Wood Products Industry

A. G. RAYMOND & COMPANY
Incorporated



The Furniture & Cabinet Universe
Import Explosion - Furniture Now,
Cabinets Next?

Penn York Lumbermen's Club 2001 Fall Meeting

Penn Wells Lodge
Wellsboro, PA
1 October 2001

The Macroeconomic Scorecard

The outlook for the U.S. furniture and cabinet industries for the remainder of 2001 is *mixed...*

	<u>1999</u>	<u>2001</u>
<i>Population Demographics</i>	✓	✓
<i>Furniture Expenditures</i>	✓	✗
<i>Consumer Confidence</i>	✓	✗
<i>Unemployment Rate</i>	✓	✗
<i>Housing Starts</i>	✓	✓
<i>New Home Sales</i>	✓	✓
<i>Existing Home Sales</i>	✓	✓
<i>Stock Market</i>	✓	✗
<i>Consumer Credit</i>	✓	✗
<i>Consumer Debt</i>	✗	✗

An Overview

The Household Furniture Universe

Furniture Demand

Retail demand for household furniture in the U.S. has grown from \$36.7 billion in 1990 to \$64.9 billion in 2000 for a compound annual growth rate of 5.3%...



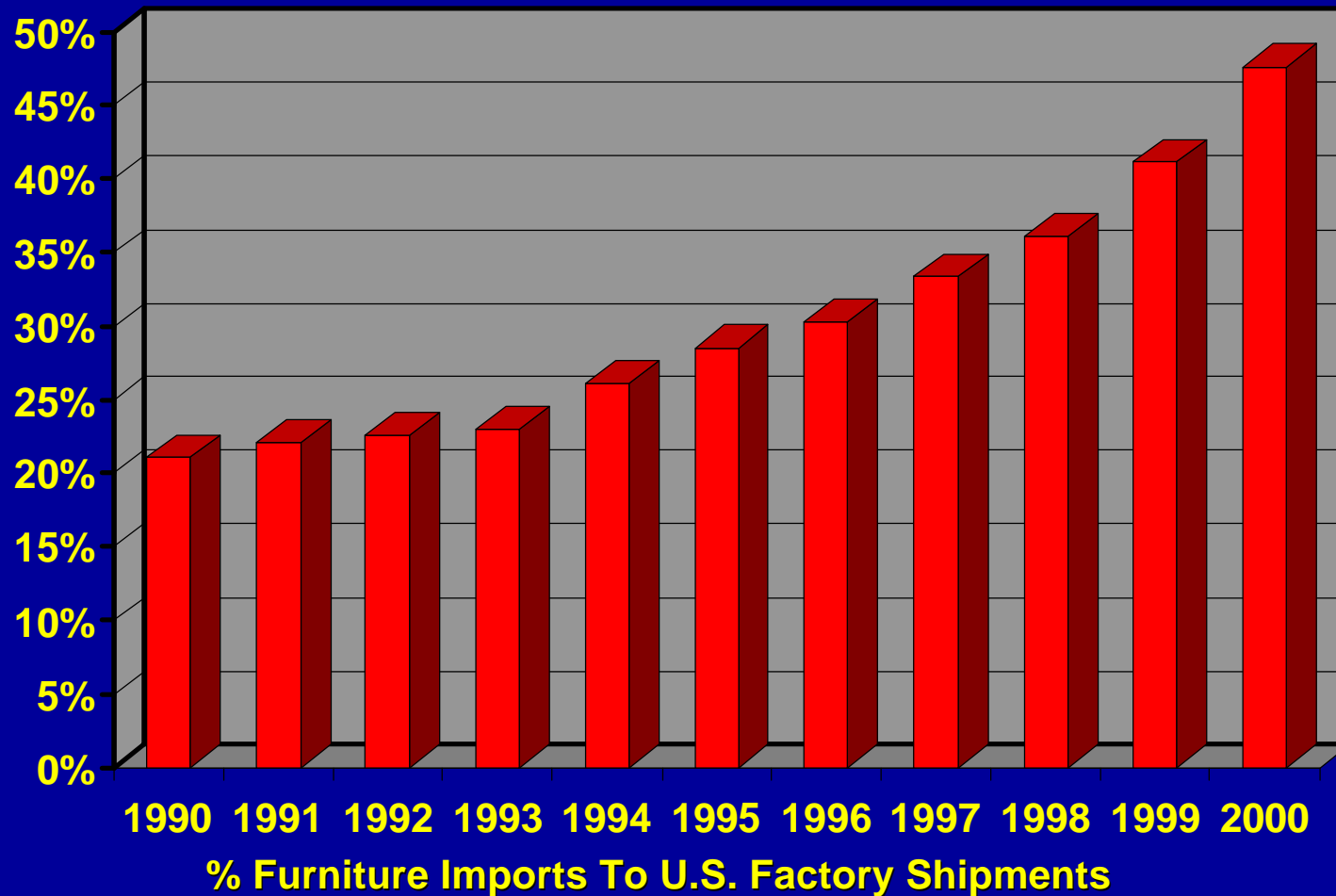
Key Industry Issues

U.S. furniture makers face two critical issues that are affecting their present and their futures...

- ***Imports***
- ***Distribution***

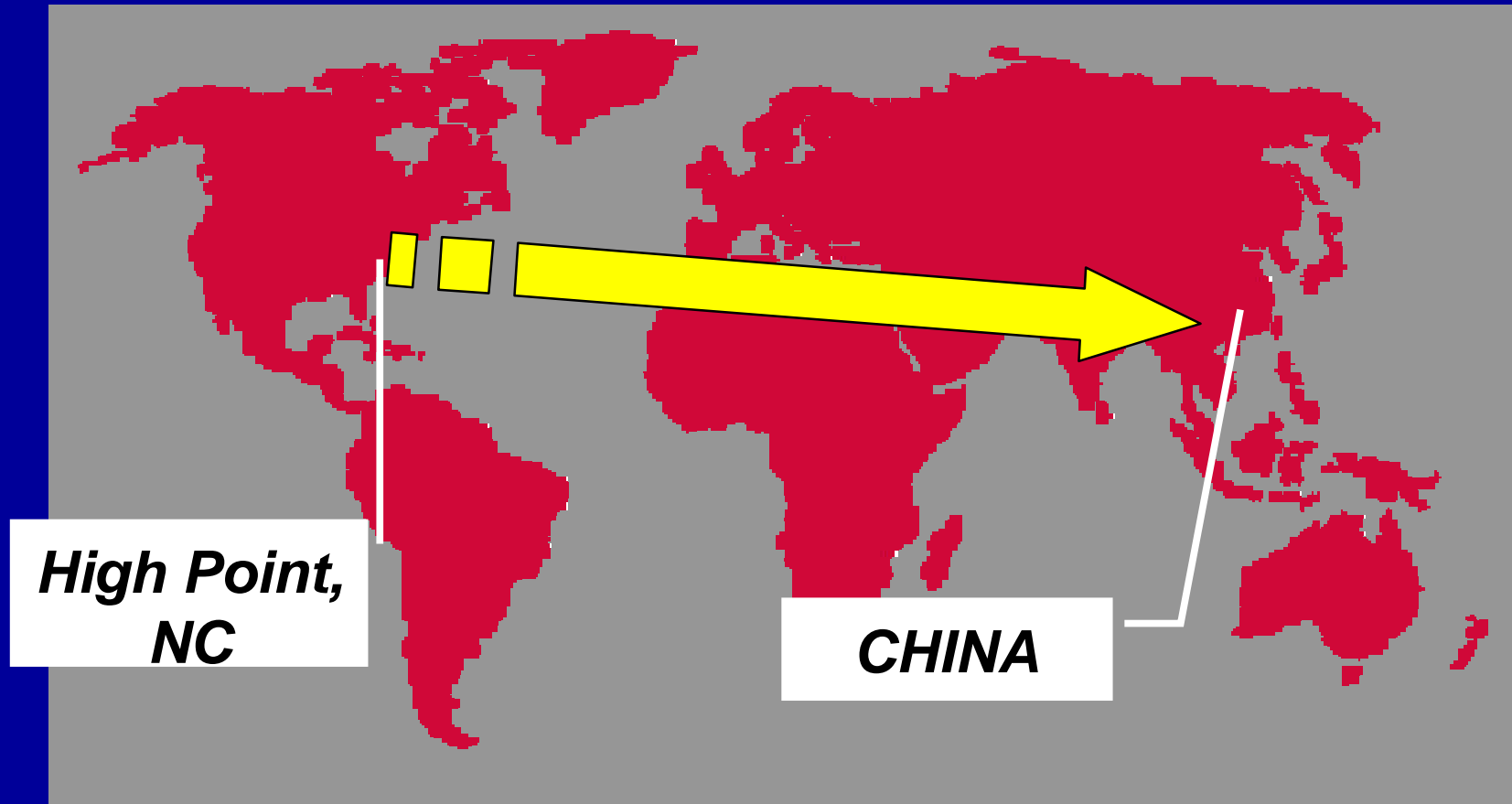
Furniture Imports

Offshore producers continue to capture market share...



New Center of the Furniture Universe

The center of the universe is shifting...



Sources of Imports

What countries supplied furniture to the U.S. market?

U.S. Furniture Imports by Source Country in millions of US\$

	<u>1997</u>	<u>2000</u>	<u>%Growth</u>
China	\$1,289.1	\$3,686.8	186%
Canada	1,527.8	2,390.2	56
Italy	728.9	1,256.8	72
Mexico	634.9	880.0	39
Taiwan	802.7	813.8	1
Indonesia	275.0	486.0	77
Malaysia	406.8	467.7	15
Philippines	191.7	279.0	46
Thailand	159.1	276.5	74
United Kingdom	<u>107.4</u>	<u>160.3</u>	<u>49</u>
Top 10	\$6,123.4	\$10,697.1	75%
WORLD TOTAL	7,079.1	12,188.4	72%

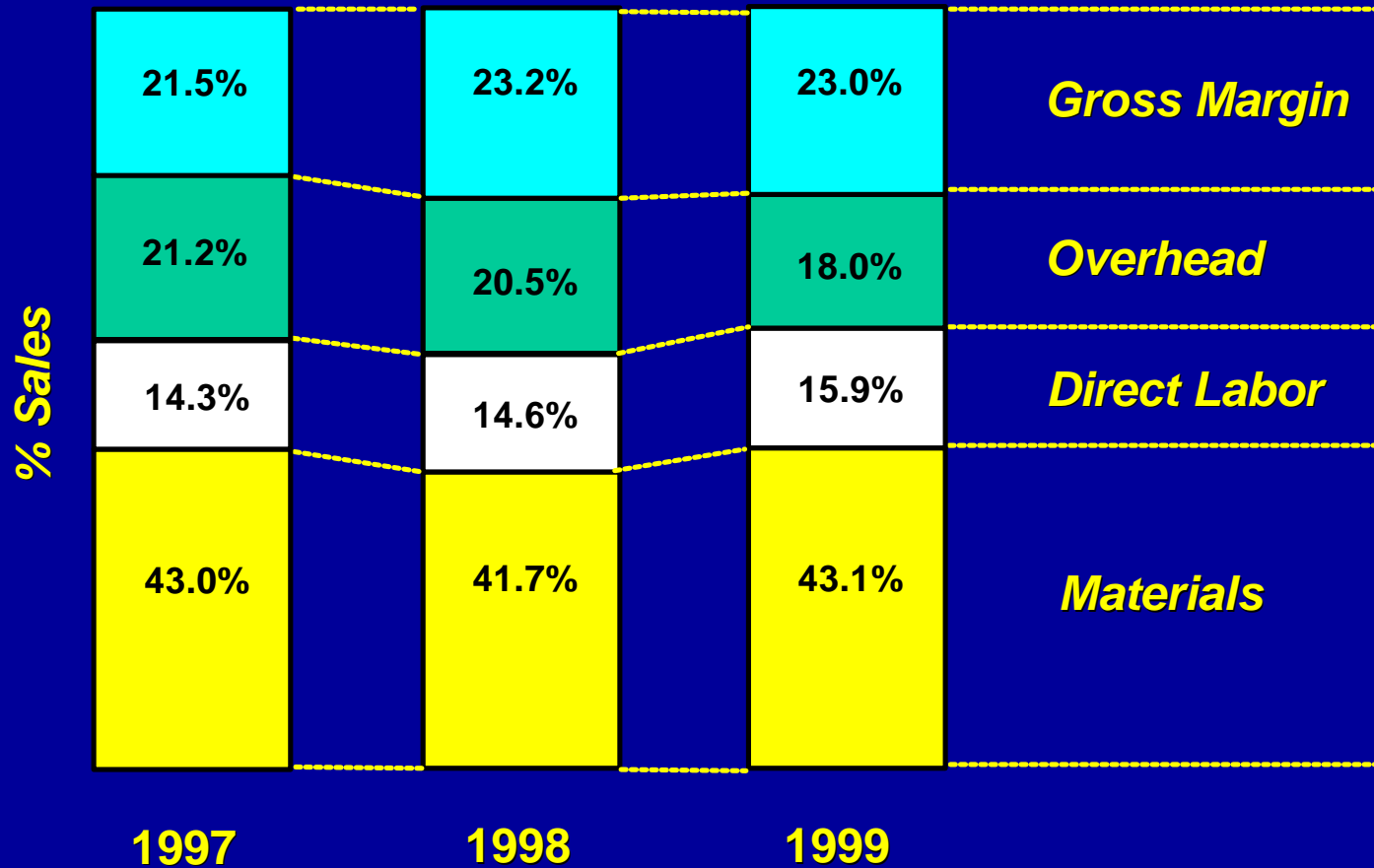
The Pacific Rim's Advantage

Obscenely low wages are being converted to great product values...



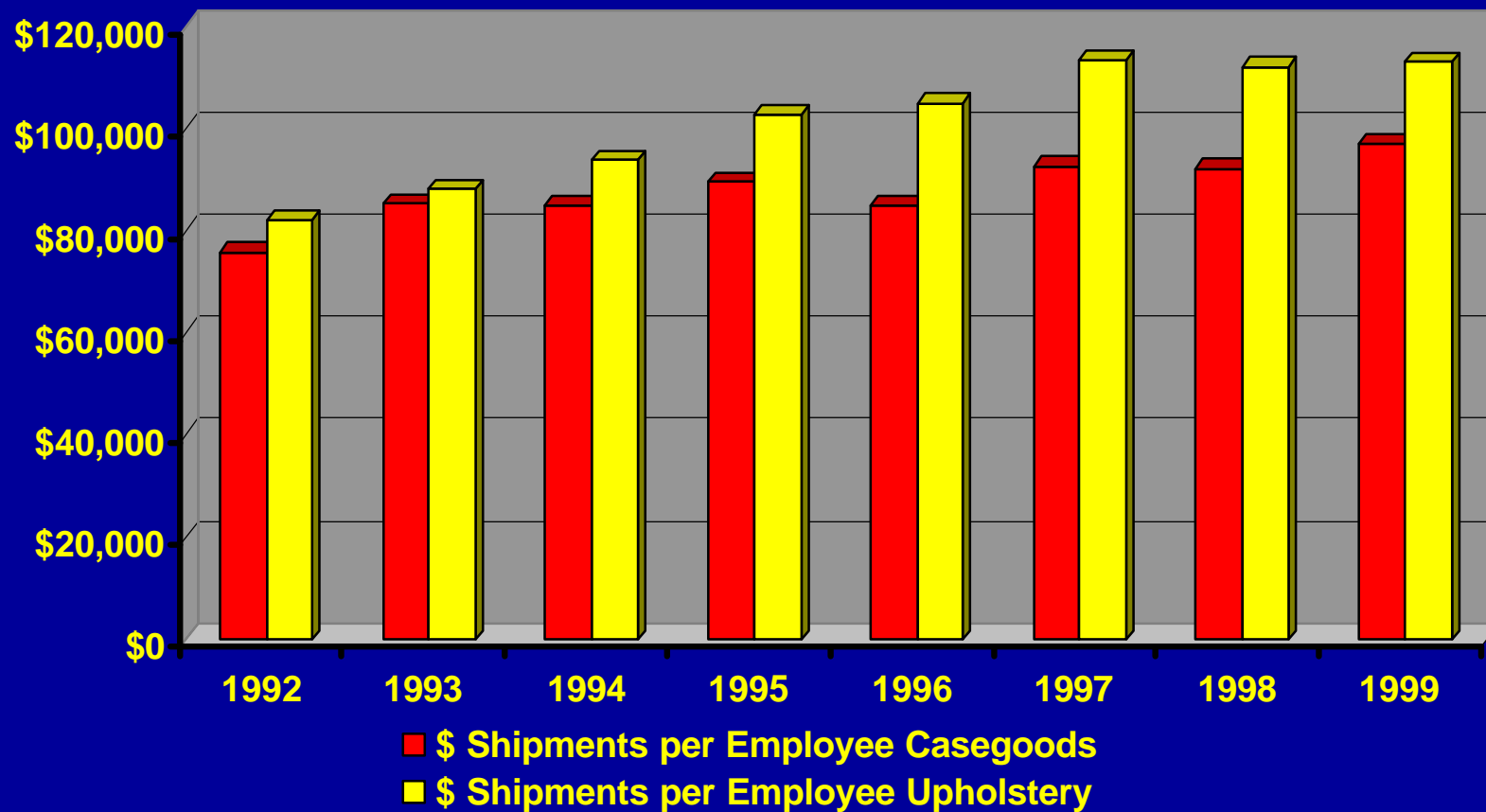
Wood Furniture Manufacturing Costs

Direct labor cost in U.S. plants runs about 14-15%...



Furniture Labor Productivity

A wood furniture worker produced an average of \$97,143 in annual shipments in 1999...

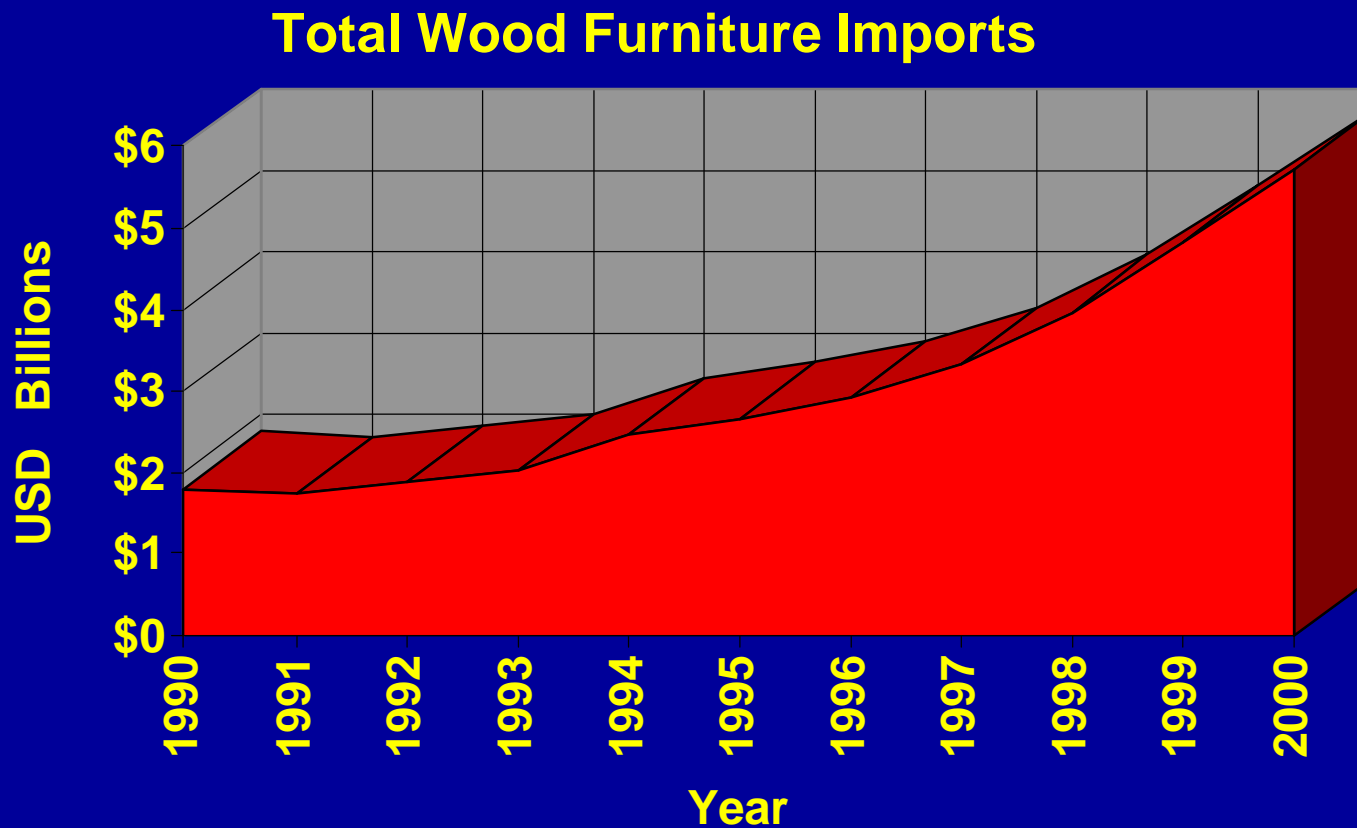


Source: BDO Seidman

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Total Wood Furniture Imports

Wood furniture imports have grown by 218% since 1990...

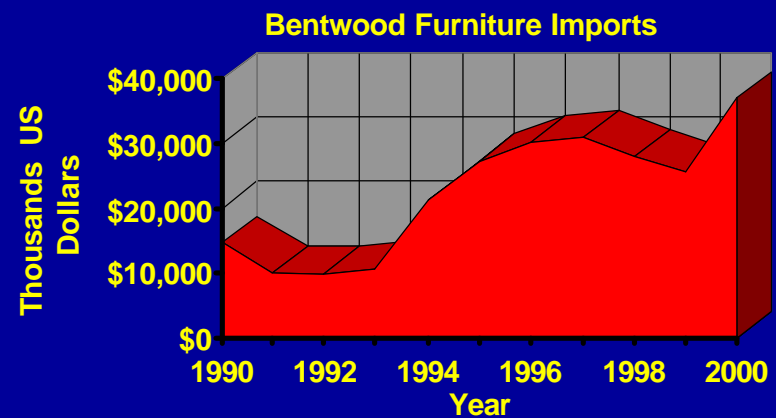
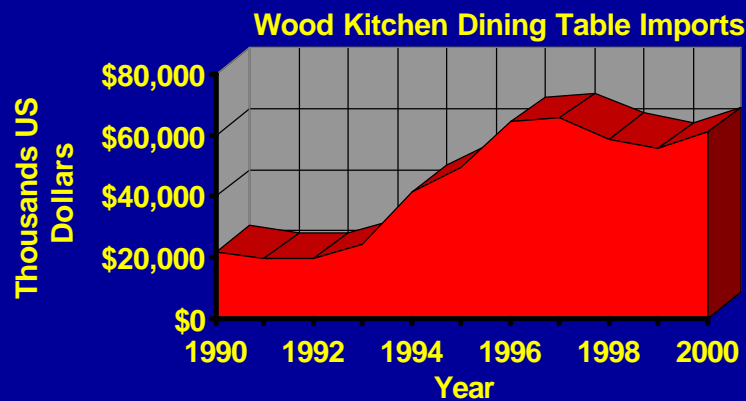
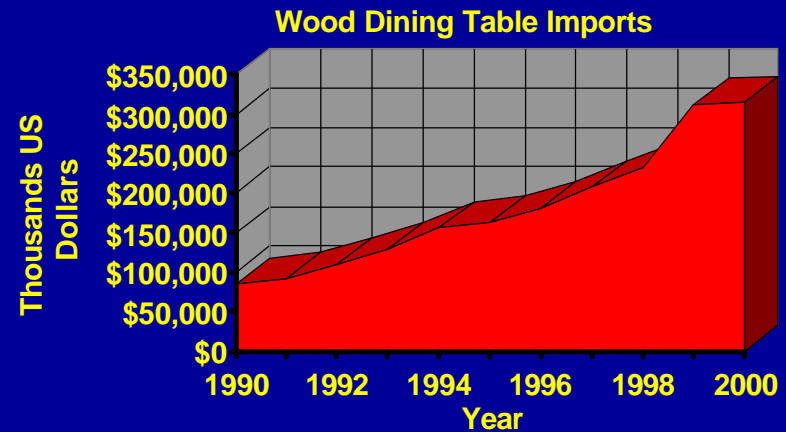
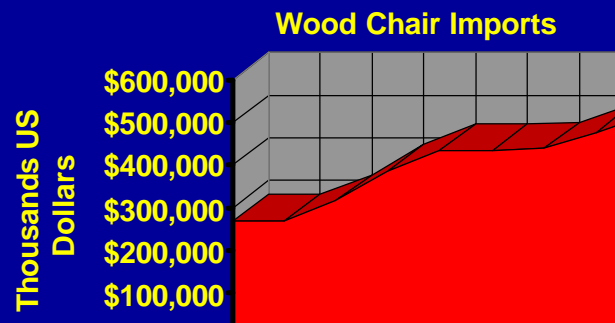


Source: Furniture Today

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Wood Chair & Dining Table Imports

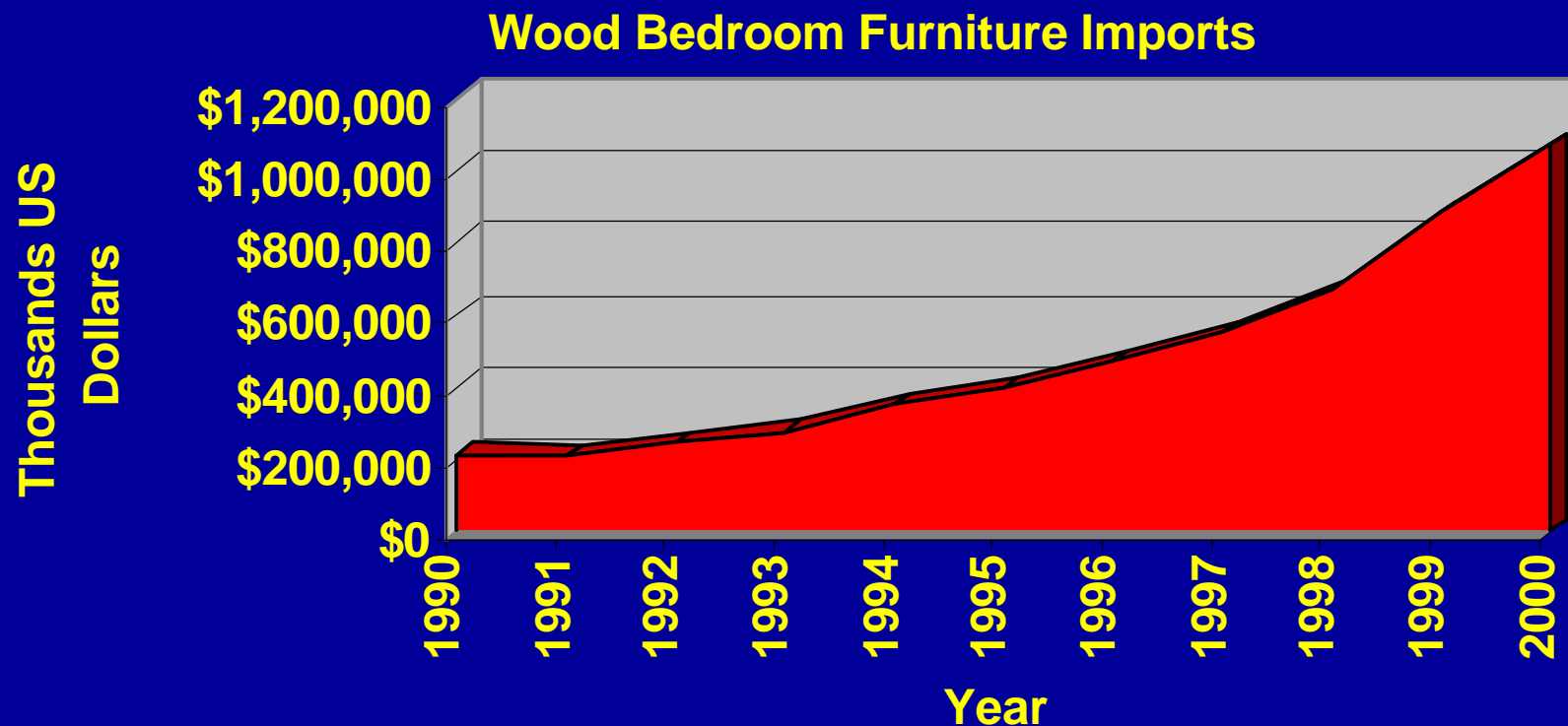
Chair and dining table imports have grown significantly over the past 10 years...



Source: Furniture Today

Wood Bedroom Furniture Imports

Bedroom imports have grown by 408% since 1990 in spite of shipping inefficiency...



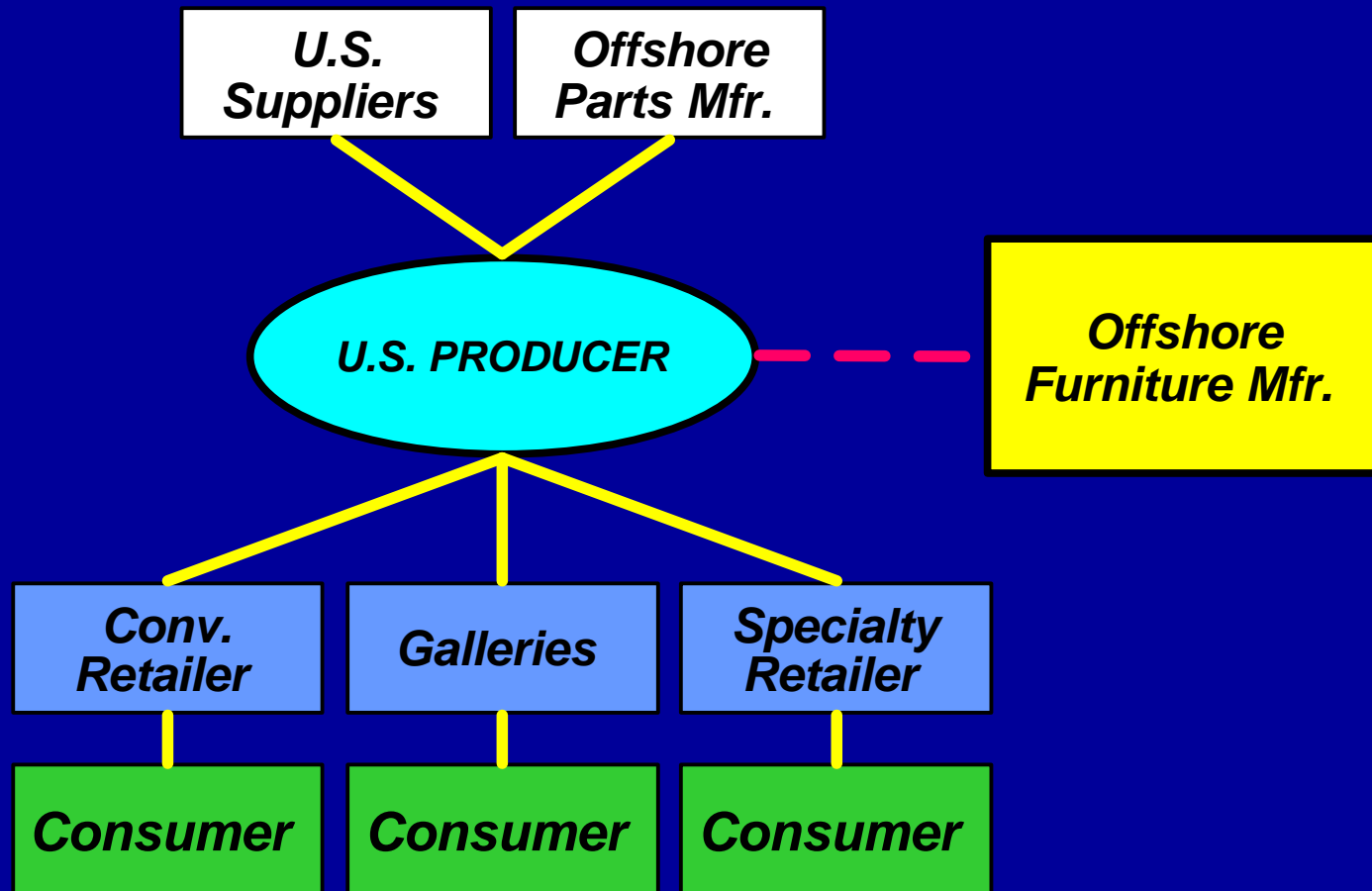
Source: *Furniture Today*

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13

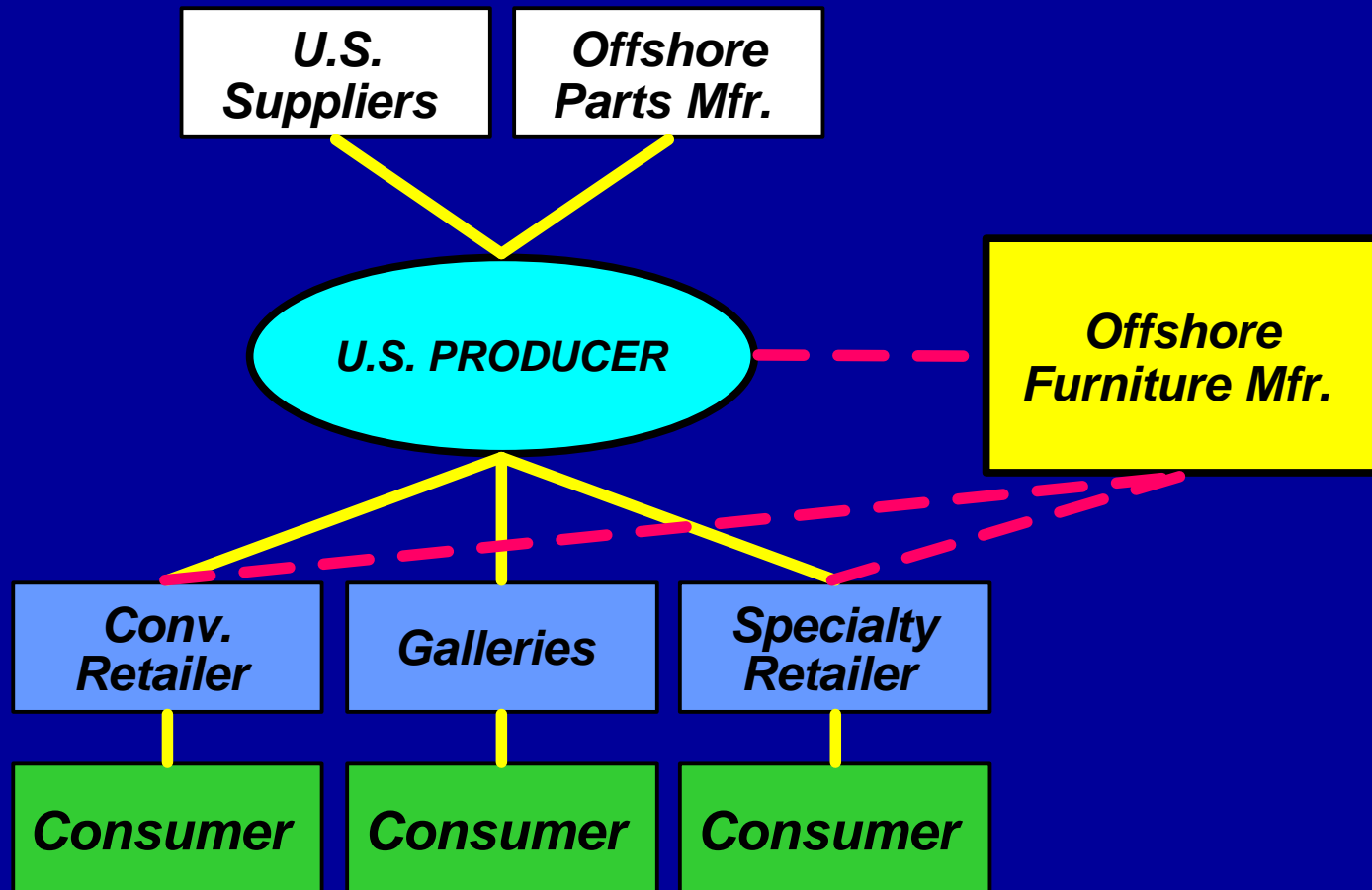
Furniture Value Chain

Most U.S. producers import furniture from offshore plants for resale down their distribution channels...



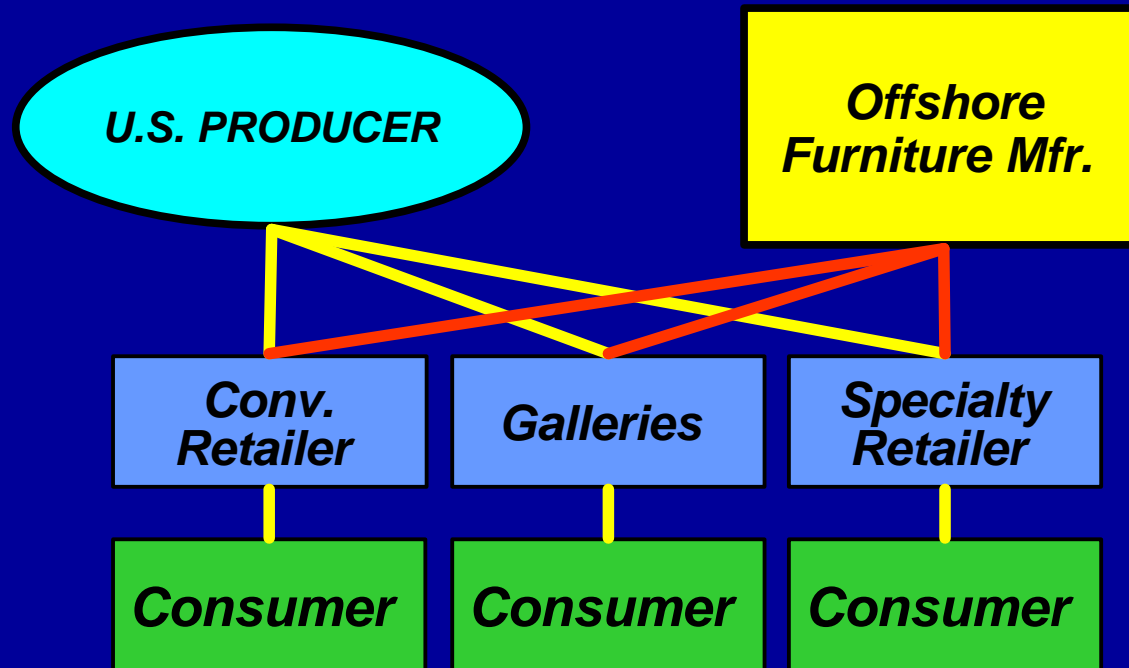
Furniture Value Chain

Retailers are now importing directly from foreign manufacturers...



Furniture Value Chain

The next step is “disintermediation” – elimination of the U.S. producer in the import product flow – unless real value is added...



Alternative Responses

How can U.S. furniture producers meet the competitive challenge?...

	<u>U.S.</u>	<u>Global</u>
<i>Optimize the Supply Chain</i>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Re-Tool Existing Plants</i>	<input checked="" type="checkbox"/>	
<i>Build New Plants</i>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Acquire Capacity/Capabilities</i>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Partner with Other Producers</i>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Close Plants</i>	<input checked="" type="checkbox"/>	
<i>Exit the Business</i>	<input checked="" type="checkbox"/>	

But time is of the essence!!

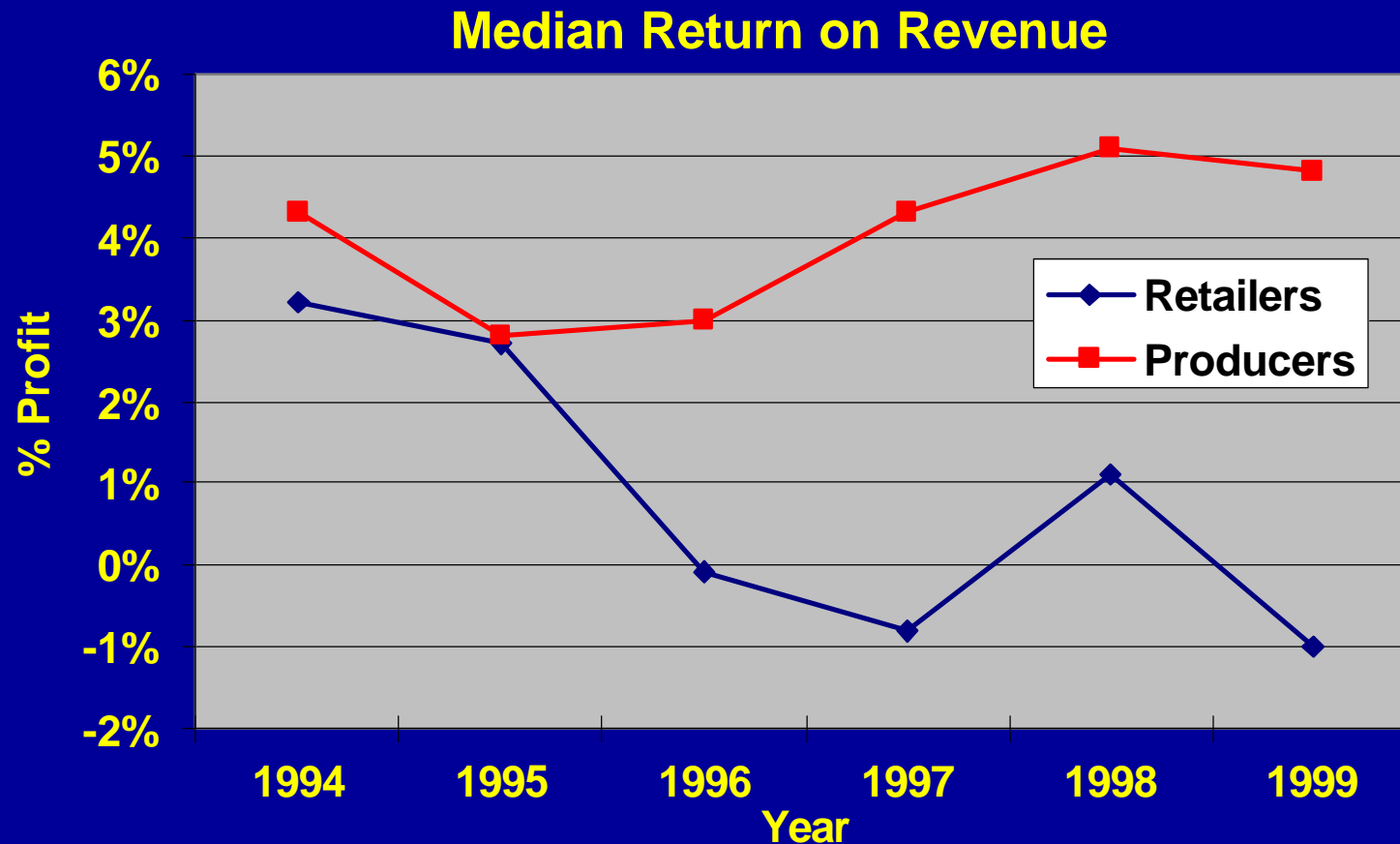
The Future for U.S. Furniture Producers?

For many U.S. plants, time has run out...



Furniture Industry Economics

During the 90's producer profits rose while retailer profits fell...



The Critical Strategic Issue

Over 5% of furniture retail 'capacity' is gone or going...

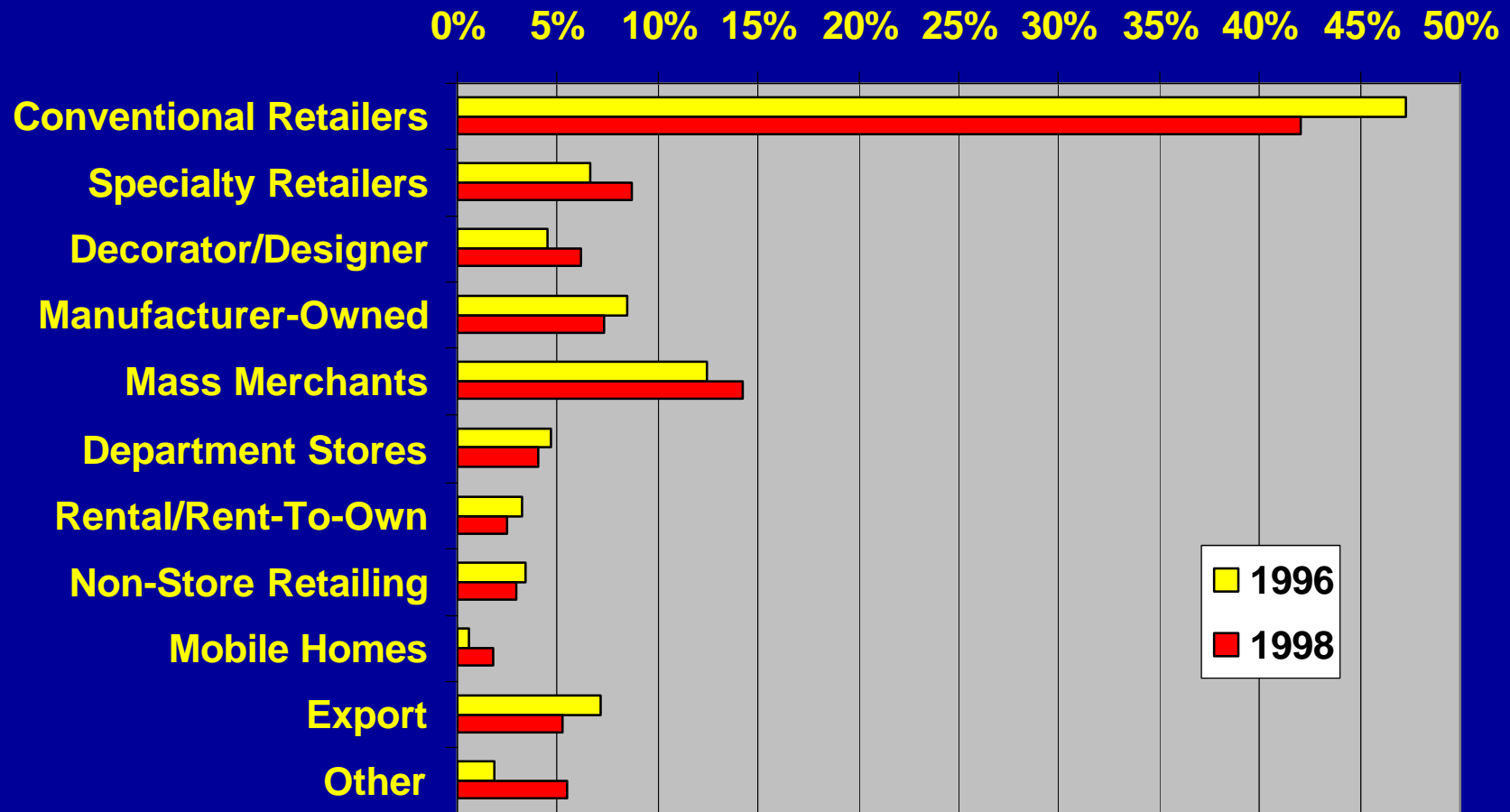
Retail Furniture Bankruptcies

Retailer	Filing Date	Peak Volume (\$ millions)	Peak Year	Furniture Today Rank*	No. of Stores
Roberd's	1/00	\$342	1997	19	24
This End Up	2/00	152	1997	20	152
Heilig-Meyers	8/00	1,729	1999	1	1,253
Wards	12/00	506	1999	18	252
Krause's	7/01	155	2000	40	101
Homelife	7/01	680	2000	8	133
Bedroom Superstore	7/01	60	2000	88	19
Total		\$3,624			1,934

* Wards rank from Furniture Today Top 25 Furniture Retailers. All others from Furniture Today Top 100 Furniture Stores

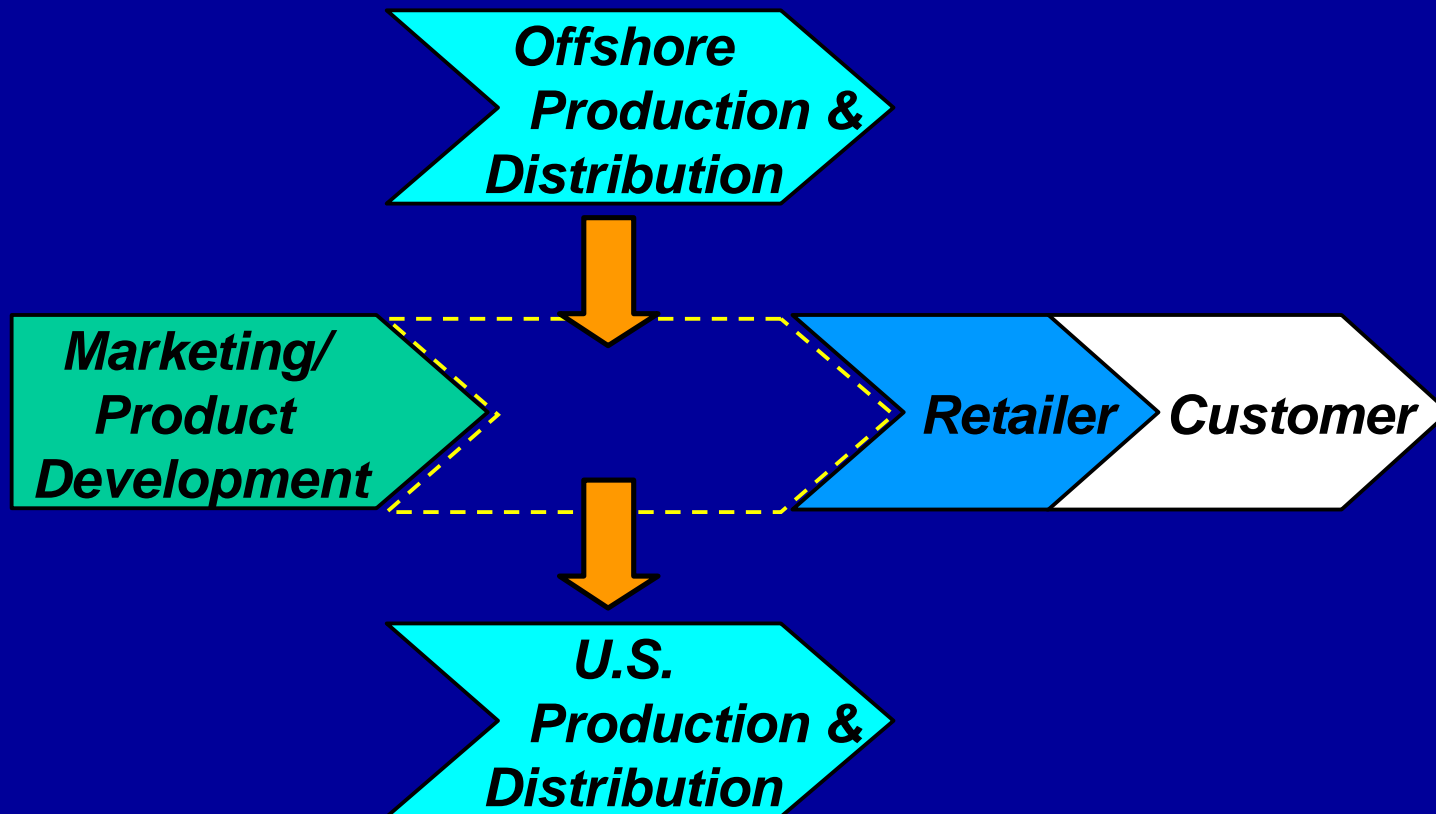
Retail Distribution of Furniture in the U.S.

Where do consumers buy furniture in the U.S.?



A Strategic Move?

Is moving production and distribution from the U.S. to China a sustainable cure for the broken furniture value chain?



The No Profit Zone

What are the attributes of a No Profit Zone?...

- *All players have the same business model.*
- *Technology is not proprietary.*
- *Products are differentiated only by price.*
- *Competition has become global.*
- *Major customers are no profit zones.*
- *Survival requires a high ratio of 'good' years.*

An Overview

The Kitchen Cabinet Universe

Cabinet Demand

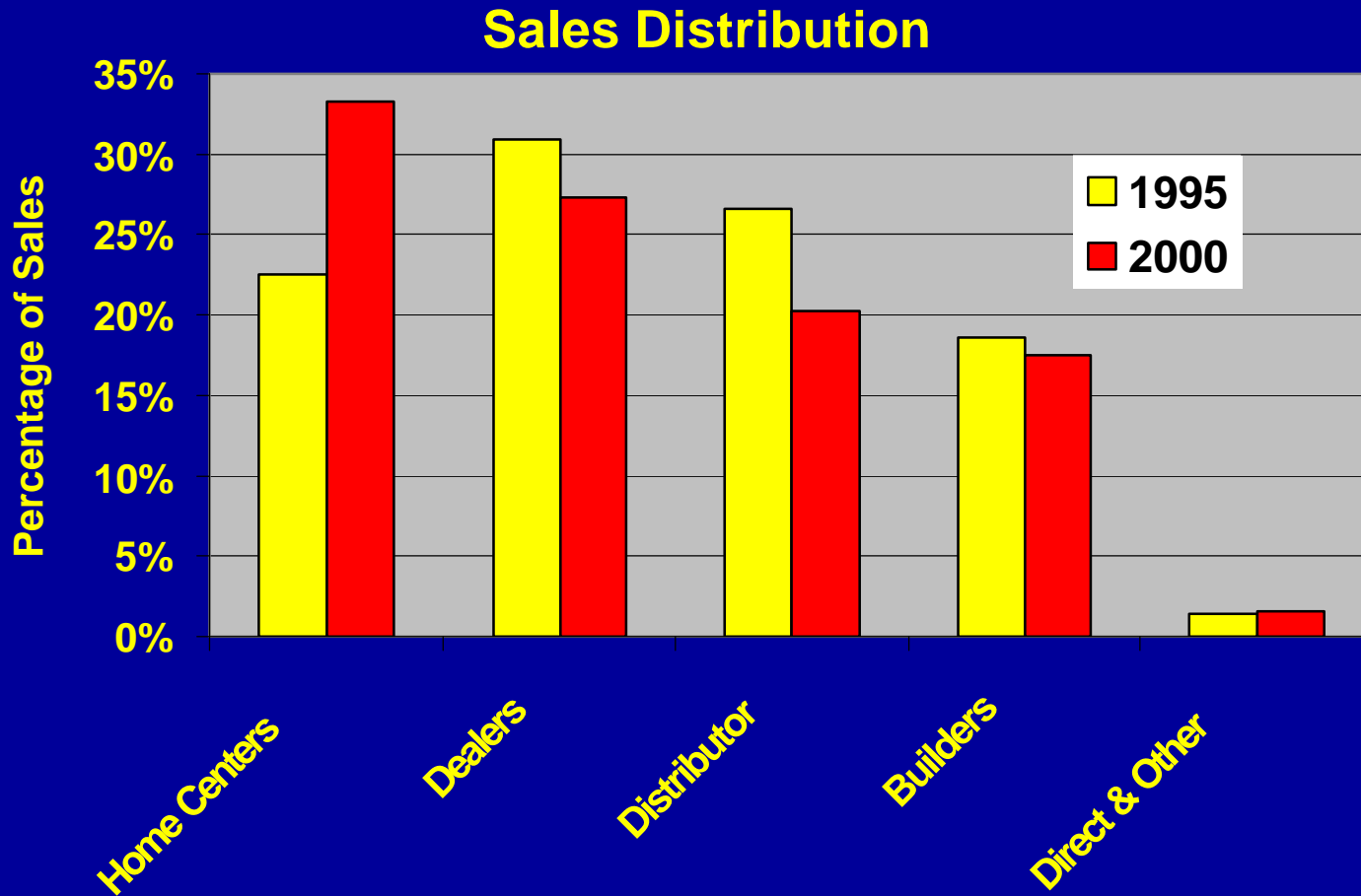
Demand for cabinets from U.S. factories is now over \$6.5 billion...



Source: U.S. Dept. of Commerce, KBB 2000 Cabinet Industry Report

Retail Distribution of Cabinets in the U.S.

Where do consumers buy kitchen cabinets in the U.S.?

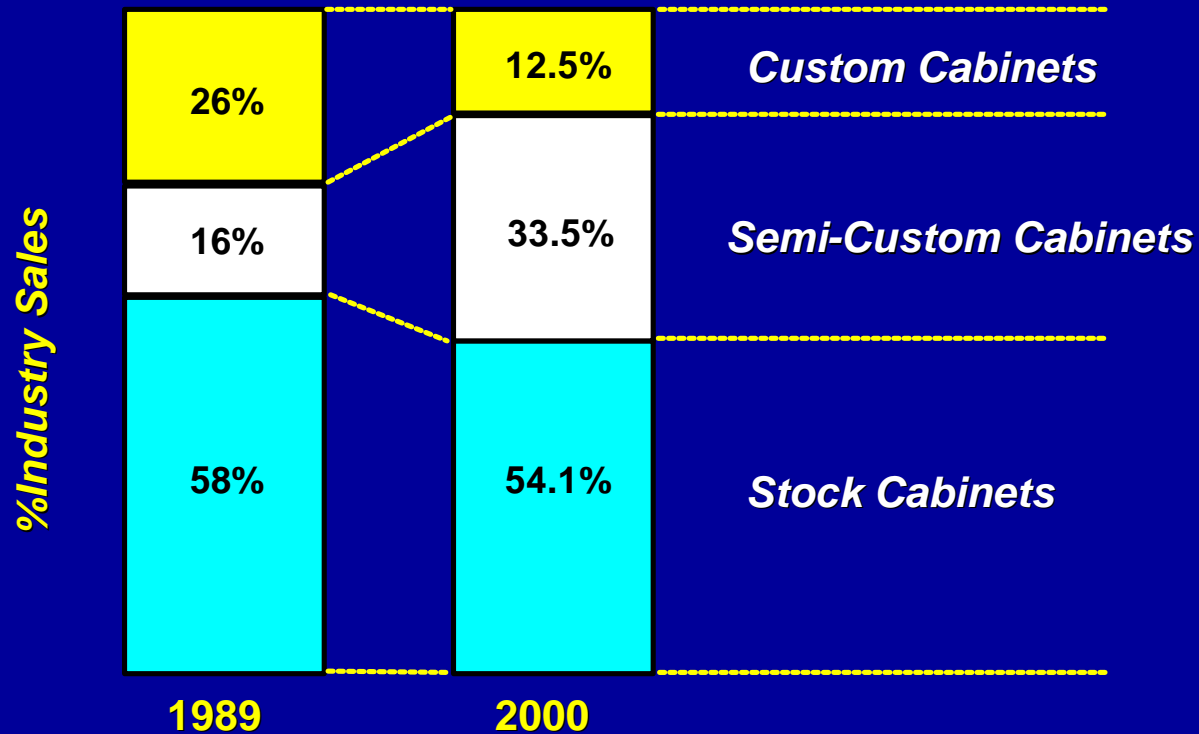


Source: *Kitchen and Bath Business 2000 Cabinet Industry Report*

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Cabinet Product Mix

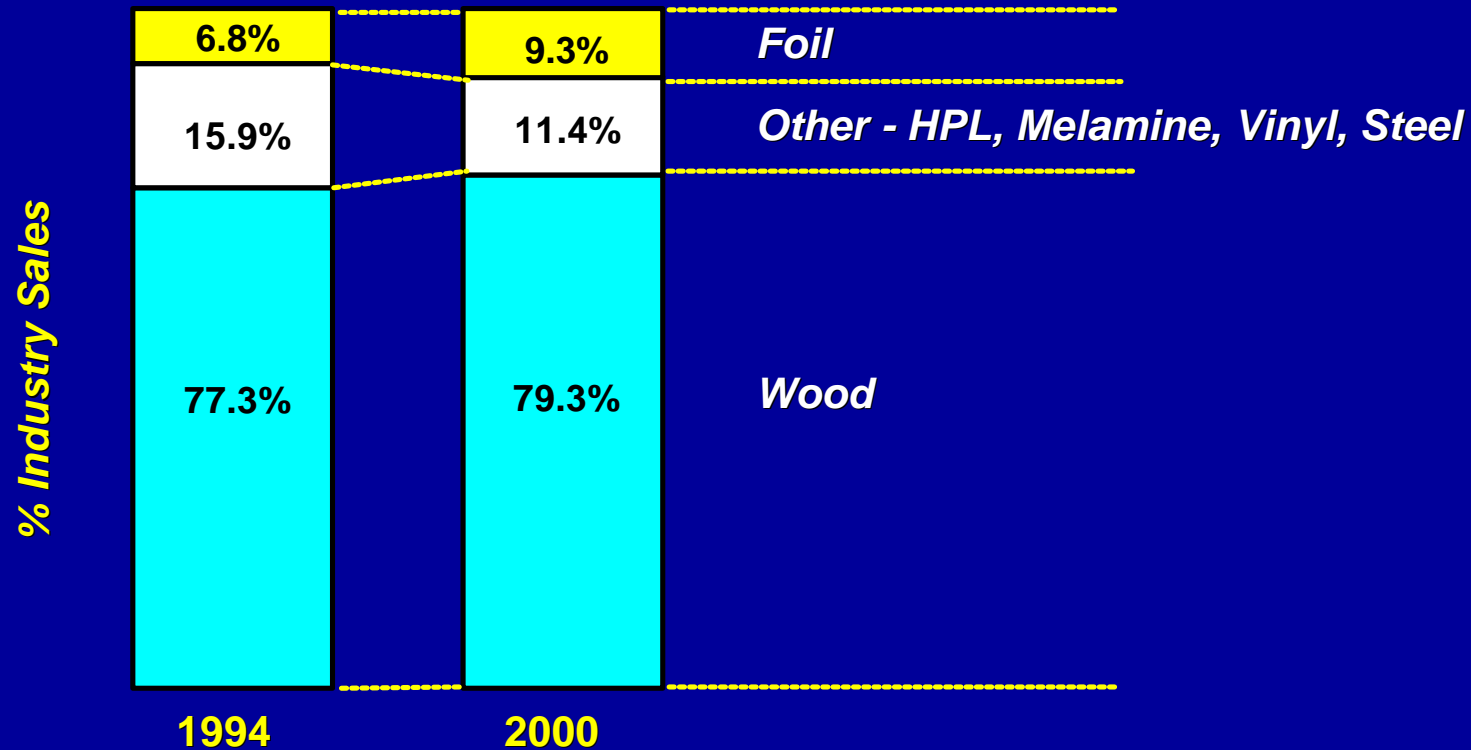
Higher-priced custom cabinets are losing market share...



As customization migrates to the middle price band.

Cabinet Material Mix

Producers are using more wood for doors...



And more foil responding to demand for lower-priced cabinets.

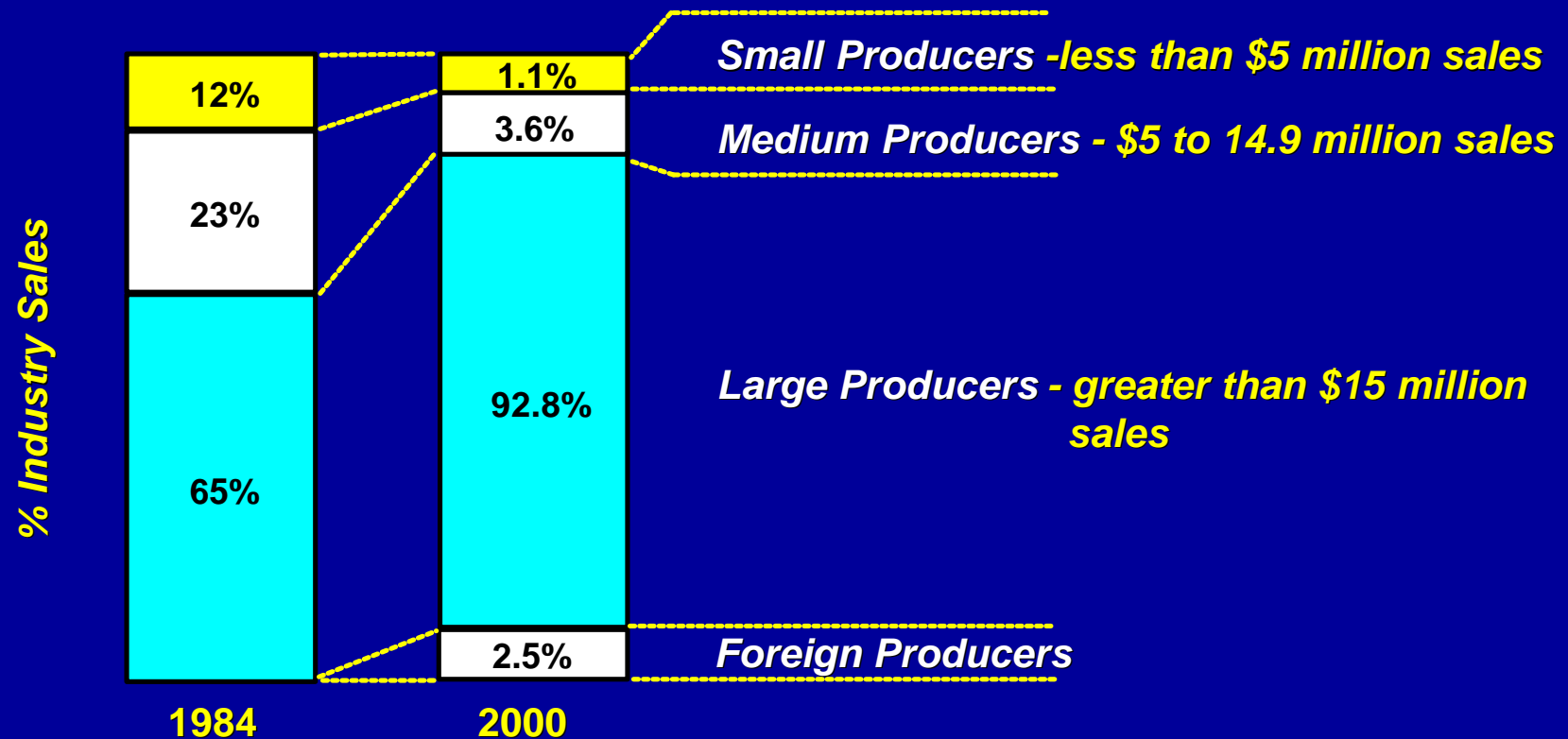
Cabinet Labor Productivity

A cabinet worker produced an average of \$147,000 in annual shipments in 2000...



Cabinet Manufacturers Mix

Cabinet industry consolidation has increased...



responding to the importance of superstore cabinet distribution.

Responding to the Market

The shift in distribution and resulting changes in consumer demands have required...

- ***Longer Product Lines***
 - ***More Door Styles & Materials***
 - ***More Cabinet Configurations & Accessories***
- ***Faster Delivery***
- ***Higher Customization***

How have these needs been accomplished?

Industry Comparison

How is the cabinet industry staying out of the No Profit Zone?

- ***Product Rationalization***
 - > **Modularity**
 - > **Component Standardization**
 - > **Focus on Price, Cost & Value**
- ***Reliance on Supply Chain Support***
- ***Focused Capital Investment***
 - > **Process Technology**
 - > **Information Systems**

Industry Comparison

And most importantly...

- ***Bias for Change***
 - > **Distribution Channels**
 - > **Process Models**
 - **Mass Customization**
 - **Speed of Delivery**

Your Strategic Plan?

It's 2001. You're a saw miller. The world continues changing...

What Is Your Next Move?

- ***Which Customers Matter Most To You?***
- ***What Are The Priorities of Those Customers?***
- ***How Can You Satisfy Their Priorities?***

Your Future

Do you have a strategic plan that keeps your company from suffering the furniture industry's No Profit Zone and capitalizes on the cabinet industry's health?

***If you don't plan your future,
someone else will.***

The Opportunity of a Lifetime

Winston Churchill once said,

“An optimist sees an opportunity in every calamity; a pessimist sees calamity in every opportunity.”

Are you an optimist or a pessimist?