



Lessons from a Cup A Joe

Who would think that valuable lessons could flow from a cup of coffee? But we're not talking about any ordinary cup of java. We're talking about Starbucks.

In the early 80's Starbucks owned five stores in Seattle selling fresh coffee beans. On a trip to Italy, Howard Schultz, a Starbucks buyer, was transfixed by the idea that an Italian-style coffee bar could prosper in the U.S. Thinking they were not in the restaurant business his bosses turned thumbs down to his concept. Not to be denied, Schultz set about revolutionizing the way a simple product was offered to consumers. In 1986 he opened his first café and began proving that consumers would spend their valuable time drinking coffee at \$3 or more a cup.

Meanwhile Proctor & Gamble and General Foods, the coffee giants, were treating their product like a commodity, competing on price, and facing slow growth. Anytime in the years before Starbucks reached critical mass, P&G and GF could have stolen the upstart's business model. But like the original

Starbucks bosses the giants were hidebound by tradition.

Only 15 years after its founding Starbucks now has 5,688 stores around the world. Ten years after their initial public offering Schultz's idea has a market capitalization of \$8.5 billion. That's **real value creation**.

Starbucks is now attacking P&G and GF at the center of their radarscopes. Once Starbucks proved that the U.S. consumer would buy premium coffee, they extended their brand to the grocery store shelf and beyond. Many hotel chains and airlines serve Starbucks coffee. Their coffeeshouses are now located inside airports, supermarkets, and bookstores. New beverages are being introduced, and you can now buy a Starbucks coffeemaker for your home. Starbucks is truly the über-brand of coffee.

And what happened to Schultz's bosses? He bought them out in 1987 before the company went public.

Bottom Line – You can learn many valuable lessons from the Starbucks story:

1. Don't rely wholly on your experience unless you believe the future will be like the past – Similarly don't solve today's problems with yesterday's answers.
2. Don't count on your sales and marketing department to provide insight into the needs and frustrations of your customers – David Packard, a founder of Hewlett Packard said it best, "Marketing is far too important to leave to the marketing department."
3. You can compete on something other than price – Buyers will often trade their money for better service, experience or access.
4. Have the courage to experiment with new ideas.

Art Raymond
President



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Brains Over Brawn – Lowering Material Cost at Yorktowne Cabinetry

“For most wood products companies lumber is the single largest cost.”

While some manufacturers are trying to lower their manufacturing cost by squeezing every penny out of their work force, others have taken another tack – focusing on material costs.

For many wood products companies lumber is the single largest cost. Reducing that cost requires attention to one goal – **optimizing the cost per net board foot** in their product. To achieve that goal you must combine three initiatives:

- **Specifying the right lumber grade** – You must match your cutting requirements to the grade that generates the potential least cost.
- **Monitoring purchase cost** – A thorough inspection process will ensure that you get the grade(s) you ordered.
- **Training rough mill workers** – Sawyers and other operators must receive non-stop schooling in sound yield practices so that the potential is turned into reality.

Selecting the least cost grade mix is the key first step. The two methods of identifying that ‘best’ grade mix are:

1. Physical yield studies
2. Computer simulation

A physical yield study generates a real world result. However such an analysis requires you to saw real lumber and commit labor resources to track parts through the rough mill. In addition, holding other variables like the cutting order constant through the entire test is difficult.

To overcome these difficulties you can experiment with different grade mixes through the use of simulation. With this tool a company can model its rough mill process and hold all parameters constant while testing various lumber grade mixes. Likewise this alternative does not require the non-productive use of labor during the testing process.

Two tools for simulating a rough mill include ROMI-Rip for a rip first operation and ROMI-Cross for a cross cut first operation.

A. G. Raymond & Company used both physical testing and simulation to assist Yorktowne Cabinets in predicting the effect of a market-driven species change.

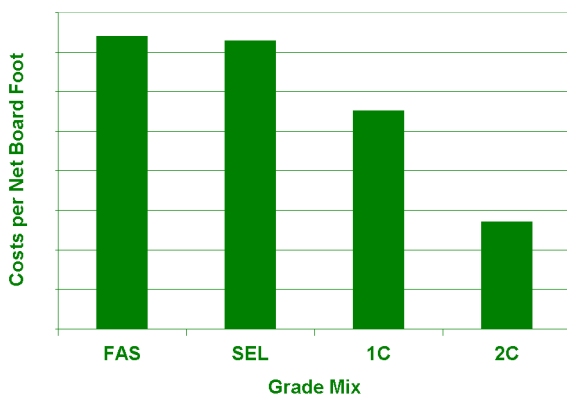
Before any testing took place, critical data was gathered on Yorktowne’s rough mill configuration and operating costs. ROMI-Rip was then used to simulate Yorktowne’s present grade mix. This step enabled comparison of the simulation results to the mill’s historic yield and confirmation of the baseline yield. Based on the validated model, an assortment of lumber grade mixes was then simulated. Using the output from this simulation, the grade mix with the lowest cost per net board foot, including labor and overhead, was calculated.

Yorktowne was also concerned with part color. Color is not a defect under NHLA grade rules and is not considered by the simulation software. Therefore a physical yield study was conducted to determine the effect of this internal quality requirement on actual yield.

At the conclusion of this testing Yorktowne reduced

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Typical Relationship of Grade Mix to Costs per Net Board Foot



Business Quote...



“Live as if you are to die tomorrow, study as if you were to live forever.”

Thomas More

“...making products less expensive without making them cheaply.”

How Ikea Does It



Golf Quote...

“The real test of golf – like life – is not keeping out of the rough, but getting out after we are in.”
Henry Lash



Sweden-based Ikea is the world's largest furniture retailer - \$2.6 billion in sales in 2001 through 175 stores in 32 countries. The company pushes enough volume through its 24 U.S. stores to be our seventh largest furniture retailer. With 11 stores in the United Kingdom, Ikea is that country's biggest furniture reseller.

The reason for this success – **low price with meaning**. That statement translates into making products less expensive without making them cheaply.

How does Ikea do it?

1. Identify a Product, Set a Price – Like Henry Ford in the early days of motorcars, Ikea sets a price before designing a product. Every product fits into their matrix – a tic-tac-toe framework with three price points on one axis and four basic styles on the other. Every product fits into one of the resulting spaces on the matrix. Opportunities for new products appear when one of the spaces is unfilled.

2. Select a Producer –

Once a product/price combination is set, Ikea distributes a basic specification to its network of 1,800 suppliers in 55 countries. These suppliers know one key fact when competing for Ikea's business: the furniture giant will guarantee sufficient volume to operate its supplier plants three shifts per day. This promise enables its suppliers to invest in efficiency – new machines and systems that cut costs. As a result Ikea's prices have declined by 20% over the last four years.

3. Design the Product –

Designers, selected by competition, are briefed to provide the maximum utility with efficient use of materials. The challenge is to design a product that fits the price target.

4. Ship the Product –

Ikea has featured knocked down construction since 1956. The idea is to maximize the fill rate of a shipping container. Examples are vacuum packing pillows and reengineering a coffee mug

to increase quantity per pallet by 134%. Reducing freight costs is more critical now that China is their number one source country.

5. Sell the Product – Ikea has stripped the cost of salespeople and display out of its stores without sacrificing the shopping experience. Childcare, a restaurant, information kiosks, and multitudes of product choice encourage buyers to spend hours in their stores. The result in 2001- **260 million customers**.

Bottom Line – Ikea clearly aims to optimize its entire value chain from raw materials to the end user. Henry Ford's strategy in the early 20th century was “to reduce the price and improve the article.” Ford said that no costs were fixed and that setting a low price drives everyone to “the highest point of efficiency”. Seems Ikea learned an important lesson from that old industrialist.

Source: Business 2.0, 10/02

Philosophy Quote...

“It is by acts and not by ideas that people live.”

Anatole France



(Continued from page 2)
its lumber grade specification. **The net result reduced their cost per net board foot by \$0.16 for one specie.** Yield actually dropped, and more lumber was required. But the savings in material cost far outweighed the labor cost of processing the additional lower grade lumber.

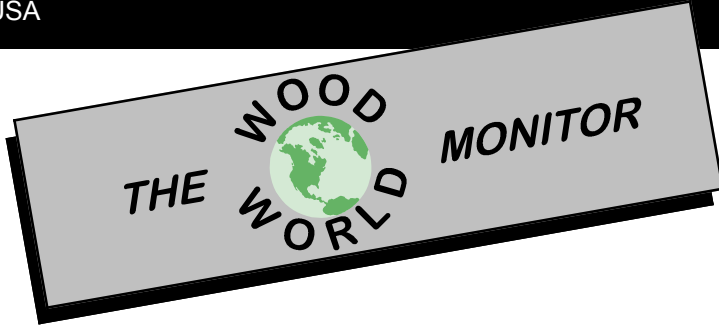
By holding the grade mix of lumber constant, the simulation enables no-cost testing of other “what if” scenarios. A company can evaluate the effect on yield if the number of different lengths cut at one time is increased or if the rip arbor configuration is modified. Any procedural changes taken as a result of the simulation can

further reduce the cost per net board foot.

Bottom Line – Materials are typically the largest element in your cost structure. Tight control over the purchase and usage of your key materials can drive substantial margin improvement.

- Brian Vetter

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"2002 is on course to be the largest forest fire season since the 1950's."

Time For Better Forest Management

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Any issue may be downloaded in Adobe PDF format for easy printing.

2002 is on course to be the largest forest fire season since the 1950's. By the end of June over 2.5 million acres had been lost to forest fires, three times the annual average. Most of the headline grabbing fires are on public land. Of the 192 million acres of forestland that are managed by the Forest Service, 73 million are considered severe fire risks. Many of these areas contain over 400 tons of dry fuel per acre, 10 times the manageable level. Millions of acres are dying from insects and disease.

During the 90's environmental activists had millions of Forest Service acres designated as off limits to commercial use. With timber harvesting cut by 80% little money is available for cleanup and road maintenance. And roads are critical to fighting fires.

To eliminate fuel for fires forests must be thinned and kept clean. But environmental groups often block the Forest Service's use of these tools. In the Six Rivers Forest 35,000 acres were damaged by a severe storm in 1995. Un-

der the Clinton administration, only 1,600 acres were cleaned up. A fire there in 1999 burned the initial area plus another 90,000 acres.

But as late as this summer the National Wildlife Federation was claiming "Fires Are Good" on their web site. If the environmentalists defined a healthy forest as one in which one in three acres are dead or dying, they have gotten their wish.

It's past time for Americans to treat their forests as the investments they are.