

THE WOOD MONITOR

First Quarter 2003

Volume 7, Issue 1



How Do You Compete?

The U.S. wood products industry has lost game one in our competition with low labor cost foreign producers. U.S. plants are the low cost producer in few, if any, product categories. Why should you retain your U.S. plants? Maybe, just maybe, this competition is best 4 out of 7 – a match where victory eventually goes to the best and brightest.

A close look shows the rules of the game are shifting. Ocean container rates from the Far East have risen by 1/3. The world is beginning to clamor for a revaluation of the Chinese currency. As offshore producers sell directly to U.S. retailers, their businesses are getting more complicated and costly. Who knows the cost of lost sales incurred during last year's west coast dock strike? The economics of imports are changing.

And you can bet on one certainty. When an inference becomes a universally accepted truth, look out. Remember that people once thought the world was flat, and the stock market was going to 25,000. History has shown time and again

that change is inevitable and often out of our control.

Rather than give up, consider changing your game plan. Start by analyzing how you provide value to your customers. Value has a simple definition.

$$\text{Value} = \text{Benefits} \div \text{Price}$$

To create value you can either add benefits or lower the price. If you're not the low cost producer in your market, lowering prices means lower profits. Focus instead on adding benefits.

Everyday Americans prove a willingness to buy higher priced products that deliver more physical and/or psychological benefits. Amazon.com, for example, is not the cheapest source of books. Rather they compete by providing the benefits of convenience, ease of use, and reliability. Toyota (see story inside) focuses on great quality. If consumers bought only on price, how would Starbucks get \$3.50 for a

\$0.25 cup of coffee? Or why would consumers pay more for bottled water than for a gallon of gasoline? Buying decisions are multi-dimensional. Your job is to find out what dimensions or attributes are considered benefits by your customers. To do so, you must conduct great market research. Divide your market into segments. Determine the benefits valued by each segment. Talk with your customers' customers. As a manager you must understand what factors affect demand in your chosen marketplace.

Then you have to be courageous enough to act on your findings.

Bottom Line – If you give up the field, you can never win the game. If you compete on price alone, you're only as smart as your dumbest competitor.

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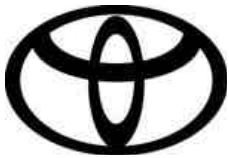
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“Not competing on price alone has its obvious benefits.”



Winning With Quality

You can build a sustainable advantage by providing value to your customers through benefits other than low price. By competing with its excellent quality, Toyota does just that.



Price is certainly a consideration in the motor vehicle market. But while General Motors and Ford were enticing buyers with zero % financing, Toyota did not give chase with deeper rebates and better financing deals. Rather they relied on their reputation among U.S. consumers for building a car that lasts. And their Lexus brand proves year in and year out that price does not deter buyers who value the physical and psychological benefits of owning a luxury car.



Competing on benefits like quality rather than price has yielded great results:

■ Toyota vehicles are ranked no. 1 in 9 out of the 16 categories tracked by the J.D. Power Initial Quality Survey. 2002 sales set a

seventh consecutive company record. Toyota is now the third most popular brand in the U.S. behind Ford and Chevrolet, and its Camry is America's best selling car.

employs over 32,000 Americans.

What counts for Toyota and the other Japanese companies making cars here is not where the vehicle is made



■ Lexus has been no. 1 in the J.D. Power Vehicle Dependability Index. In 2002 Lexus repeated as the best selling luxury brand in the U.S. for the third year and sold more cars than any year in the company's history.

■ Toyota's profits in 4Q2002 were \$1.8 billion. It took GM all of 2002 to earn as much.

Not competing on price alone has its obvious benefits.

And guess what? Toyota does it with great engineering and manufacturing proving that those skills can make you money.

And what else? They operate nine plants in the U.S., a new U.S. plant for pick-up trucks was just announced, and plans are developing to build the Lexus here. Toyota now

or what the labor costs are but how good the car is. Yes, the Japanese avoid import tariffs by building light trucks in the U.S. But you can bet that these companies would not build vehicles here if their costs were not competitive and their quality first rate.

Could Toyota also be following Henry Ford's philosophy of turning his workers into customers? At the end of the day enlightened multinational companies understand that their products will not sell if no one has a job.

Bottom Line – Think beyond price. First find out what the customer really values and then build your capabilities to supply those demands.

Business Quote...



“There is hardly anything in this world that some man cannot make a little worse and sell a little cheaper, and those who consider price only are this man's lawful prey.”

John Ruskin

“Another creative way to plan ahead is to ‘adopt’ students.”



Be Prepared

Golf Quote...

“Golf is so popular simply because it is the best game in the world at which to be bad.”

A. A. Milne



The Bureau of Labor Statistics projects that by 2010 the U.S. will have 167,754,000 positions available in the job market. The labor market from which those jobs must be filled will total only 157,721,000 people - a shortfall of 10,033,000 workers. If these data considered the skills required to fill these jobs, the outlook would be more discouraging.

If you still believe the U.S. is a viable production site, what are you doing about the future labor shortage? Here’s what The Herman Group, workforce consultants and futurists, recommends...

1. Identify under-performing employees – Make them productive through skills training or give them a

chance to pursue their careers elsewhere. Don’t let ‘C’ level workers hold back your company.

2. Recruit the best talent available – A weak economy is the best time to hire top-notch, ‘A’ level talent.

3. Build a talent pool – Develop a network of people that you may want to hire in the future. Also you should build bench strength by hiring successors for your senior positions well ahead of need.

Another creative way to plan ahead is to ‘adopt’ students. Such a program means interviewing, screening, and hiring high school and university students for internships and part time work during their school years. Often students

can use this on-the-job experience for academic credit toward graduation. Students who do well can be given more responsibility, more pay, and possibly tuition support for vocational or university studies. You can also advise them on selection of courses that will benefit them at your company. The idea is to prepare the best of these young people for critical positions while convincing them to join your company upon graduation.

Bottom Line – Aim to employ the best workers available. Then build a pool of future employees by shepherding school-age talent through a meaningful work and academic program.

The World’s Economic Engine

You know that the U.S. economy drives demand in the rest of the world. But just how big is our economy? The table below compares the gross domestic product of the largest countries with that of various U.S. states.

New York City ranks 13th. And the combined GDP’s of California, Texas, and New York (including the Big Apple) are larger than France and Germany combined.

Source: Investors Business Daily

Rank	Country/State	GDP in \$billions
1	Japan	4,149
2	Germany	1,847
3	United Kingdom	1,474
4	California	1,415
5	France	1,307
6	China	1,159
7	Italy	1,089
8	New York	825
9	Texas	770
10	Canada	700

Philosophy Quote...

“The farther backward you can look, the farther forward you are likely to see.”
Winston Churchill



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This newsletter is made possible by earnings from the world's forest products - the only renewable natural resource.

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“Identify those that are borderline profit generators.”

Firing Customers

All previous issues of The Wood World Monitor can be found at our web site:

<http://www.raymondnet.com>

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

The cost of capturing a new customer is five times that of servicing an existing one. In spite of that fact, some low profit customers are not worth the trouble. Why not fire an unprofitable customer just like you would discharge an underperforming employee?

The first step is analyzing each customer's profitability not just their sales volume. Identify those who are borderline profit generators. For them, you must then:

1. Review your discount policy – Are those borderline

customers abusing your price breaks? If so, change your discount structure.

2. Charge for special services like fast delivery or product customization – Your selling price must cover your costs plus a profit. Period.

3. Develop other methods of serving these low margin accounts – Often handling their products and services through more efficient, dedicated processes can lead to higher profits.

When these steps fail, face the problem head on. Call them up. Explain your situation – you value their business but it has to be profitable. If an equitable solution cannot be reached, say adios.

Bottom Line – Don't fall in love with your customers unless they are profitable. Setting the prices you charge different customers based on your costs can add real dollars to your profitability.

Source: *The Wall Street Journal*,
28 October 2002