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Remember Pareto

80/20

Pareto's law states that a minority of inputs, efforts, or causes normally lead to a majority of the outputs, rewards, or results. Also known as the 80/20 Rule, Pareto's imbalance hypothesizes that something like 80% of results are generated by 20% of the efforts.

In spite of Pareto's Law, we tend to believe that the world is linear – every input will result in equal output. Thus all customers are valued the same, all products receive equal investment, etc. As a consequence, we add products and customers willy-nilly instead of focusing on those that are already in the top fifth of the scale. But more products equal more processes. More processes bring more complexity. And complexity adds cost.

Industries that use product as a strategy, always introducing more and more SKUs in search of elusive profits, often see their product ranking fall below 80/20. Furniture companies typically require 35% of their products to achieve 65% of their revenues. This flattening of Pareto's curve means smaller average

order quantities especially when products lack standardization.

The advent of high tech, fast set-up machinery has improved our ability to make small lot sizes. However, nothing trumps high volume per SKU in the quest for the lowest manufacturing cost. It's a mathematical certainty: the unit set-up cost for a lot size of one is always ten times that for a lot of ten, a thousand times that for an order of 1,000 and so on. You should set the minimum order quantity for a SKU where additional order volume has little effect on unit set-up cost.

Chinese and other foreign competitors understand the relationship between volume and profit. Their minimum order sizes are relatively high. When combined with the obscenely low wage rates, these high volumes make their factories virtually impossible to beat.

Success requires getting a few products past the tipping point where the economics

are solid and the return on investment is superior. Following Pareto's logic leads you to conclude that most of your products plus the effort and money invested in them are virtually wasted.

What we're talking about here is improving productivity – **leveraging your available capital, labor, and time for maximum benefit.** And improving productivity is how you win the game of business and increase this nation's standard of living.

You have only two choices:

- Allocate your resources to the most productive uses.
- Create ways to make underutilized resources productive.

Everything else is a waste of your time.

Bottom Line – Ignore the meaning of Pareto's Law at your own risk.

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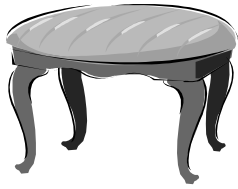
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Wood Use In Furniture

“The 751% growth in softwood plywood usage was the most significant change in all material types.”

Behind pallet making, the U.S. furniture industry is the country’s largest consumer of hardwood products. From yearend 1992 through 2002 wood furniture shipments by U.S. producers increased 26.4% while upholstery grew by 48.9% (adjusted for inflation). Due to the severe downturn in demand since 1999, the wood office furniture segment showed no net growth over those ten years.

During the 90’s two factors impacted the amount and composition of hardwood products consumed by domestic furniture producers:

- Substitution of composite materials like MDF and plywood for more traditional, solid wood components.
- Competition from foreign furniture makers primarily in wood categories.

How have these factors impacted the wood materials producers who compete in the furniture production supply chain? What other wood products have benefited from these factors?

Lumber & Dimension – Usage of these products mirrored the business cycle during the period as the good times of the mid- to late-90’s were followed by the downturn at the end of the century. The heavy exodus of casegoods production to foreign locations hurt hardwood consumption. Plus many upholstery

Estimated Wood Use by U.S. Furniture Makers				
Product	1992	2000	2001	1992 – 2001 Change
Lumber in MMBf	2,056	3,215	2,946	43%
Dimension Parts in MMBf	234	470	364	56%
Particleboard in MMSf	1,194	843	763	-36%
MDF in MMSf	319	609	572	79%
Softwood Plywood in MMSf	102	483	869	751%
Hardwood Plywood in MMSf	220	298	359	63%
Veneer in MMSf	1,361	1,519	1,309	-4%

producers have shifted away from solid wood for their frames. In spite of these changes, both lumber and dimension usage across the period grew significantly.

Oak accounted for about 23% of total lumber purchases in 2000 followed by poplar at 13%, soft maple at 11%, and both cherry and hard maple at 8%. Softwoods made up about 10% of usage.

Interestingly almost 50% of all lumber was purchased kiln-dried in 2000 vs. 17% in 1992.

The mix of hardwood lumber grades in 2000 was 20% FAS/Selects, 41% No. 1 Common, 23% No. 2 Common, with the balance in lower grades.

Panelboard – The 751% growth in softwood plywood usage was the most significant change in all material types. The popularity of plywood of all types was


driven by the shift of upholstery makers from solid wood frames. By machining plywood on large CNC routers upholstery producers have reduced the cycle time and cost of frame making. This fast response capability is enabling U.S. upholstery firms to hold off foreign competition at mid- and upper-price points.

Combined consumption of particleboard and MDF fell by about 12%.

What is happening to usage by wood household furniture makers? From 2000 to 2001, hit by a poor economy and increased foreign competition, wood household furniture production in the U.S. declined by 12.5%. Drilling down into the available data shows the consequences in the table on the following page.

Given the closure of many domestic casegood plants, one can easily conclude that usage of all wood ma-

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Business Quote...
 “The secret to success in any human endeavor is total concentration.”
 Kurt Vonnegut

“A University of Michigan study concluded that a worker’s productivity declines by 20 to 40% every time he/she multitasks.”



Multitasking: It’s Counterproductive

Golf Quote...

“Golf is like a love affair. If you don’t take it seriously, it’s not fun; if you do take it seriously, it breaks your heart..”

Arnold Daly



Philosophy Quote...

“Even the most efficient business cannot survive, let alone succeed, if it is efficient in doing the wrong things.”

Peter Drucker



Checking your voice and e-mail, using your cell phone on the move, responding to unexpected visitors in the midst of your work day. We’re all guilty these days of multitasking. In fact many managers believe that rapidly switching from one activity to another is the essence of their jobs.

But management experts now advise that this constant interruption is eroding productivity. A University of Michigan study concluded that a worker’s productivity declines by 20 to 40% every time he/she multitasks. The cumulative effect of continuous interruption is now dubbed as **organizational attention deficit disorder**. Taken together across a company, this problem leads to less focus on company goals and more bad decisions. The end result may therefore go well beyond increased labor cost.

Every time you switch from one task to another, your brain must engage the new topic and refocus on the relevant issues. This warm-up period is required even after a 30-second distraction. Given the pressures to do more with less, it’s no wonder that many managers are on the edge of burn-out.

How do you change your working mode?

Make appointments with yourself – Block off time, cut off distractions, get your brain warmed up, and stay on a single task.

Use technology wisely – Email, voice mail, and cell phones are wonderful tools. Set aside regular period(s) during the day when you respond to calls and messages. If you have an assistant, route all phone calls to them with specific

screening instructions.

Delegate – No one has the time to do everything. Sort your to-do list and assign those tasks that can be done by others.

The last suggestion comes with another proviso: your to-do list must include only must-do items. Good managers identify those few activities that are absolutely part of their job.

Bottom Line - Recognize the limit to how many separate tasks you can handle effectively. Manage your time and remember Pareto’s Law – only 20% or so of your activities really matter.

Sources: *Harvard Management Update*, June 2002, and *Presentations*, October 2003

(Continued from page 2)

materials by that sector is in structural decline. And wood home furniture dwarfs

the wood office sector in total consumption of all materials except MDF.

Estimated Wood Usage By U.S. Wood Furniture Producers			
Product	2000	2001	Change
Lumber in MMBf	2,773	2,491	-10%
Dimension Parts in MMBf	375	288	-23%
Particleboard in MMSf	726	580	-20%
MDF in MMSf	262	217	-17%
Hardboard in MMSf	339	319	-6%
Hardwood Plywood in MMSf	350	382	9%
Veneer in MMSf	1,480	1,277	-14%

Bottom Line - While the economy is strengthening, most wood materials suppliers should look beyond the furniture business for future sales. But remember the successful application of softwood plywood in upholstery. Opportunities may exist where you least expect.

Sources: *Wood Materials use in the U.S. Furniture Industry*, Hansen, Bush, and Panches, Virginia Tech, 9/93
Change in Wood Use Patterns by the Furniture Industry, Seale, Garrard, and Leng, Mississippi State, 2003

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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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“The battle over the environment has not been won despite the power of green groups.”

Are Americans Green?

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<http://www.raymondnet.com>

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

Listening to the nightly TV news, one can easily conclude that Americans really care about protecting the environment. But a recent survey by *American Demographics* reveals several contradictions:

- While 80% of Americans report that their buying decisions are influenced by a product's impact on the environment, only 57% purchase recycled or environmentally safe products.
- Only 6% of Americans regularly research companies' environmental track records.
- Generation Y (ages 25-34) is the least likely age group to consider a product's impact or a company's green track record.
- Almost 25% of 18 to 34 year olds put the responsibility for a clean planet on big business and government, not themselves.

Older Americans (ages 55 and above) are most likely to practice environmentally conscious behavior. However this group heavily uses plastic dining products and mail-order services, two eco-unfriendly offerings.

The survey also found that:

- 33% of Americans are not convinced buying green products helps the environment.

Bottom Line - The battle over the environment has not been won despite the power of green groups. The forest and wood products industry should continue to take the high road by educating the public of our eco-friendly goals of pursuing sustainability and maximizing fiber recovery.

Source: *American Demographics*, October 2003