

Are You Benefiting From Globalization?

If you can build something overseas, ship it to the U.S., and profitably sell it for a lower price, the American consumer benefits. These economics are too compelling to ignore. Many products can no longer be manufactured in the U.S. at a price consumers are willing to pay.

Translating the supposed benefits of offshoring into profits is proving elusive for many. The reasons are increased complexity combined with lower visibility. Much of the supply chain is in the hands of independent manufacturers and third-party logistics providers used to move the goods around the world. Arms length relationships that exist between suppliers and customer often hide crucial information like production times and shipping dates. A supplier's capacity is simply not yours to schedule and control.

Intelligently managing the flow of orders from these suppliers depends on sound information. Anyone who has studied inventory management knows the importance of data such as replenishment time. Late orders translate into one of

two outcomes: higher inventory or lower customer service.

A recent survey by Deloitte Research found that only 7% of U.S. manufacturers have mastered the difficulty of working with foreign suppliers. As a result critical factors such as on-time delivery and inventory turnover are suffering. And the lost sales and higher costs stemming from these shortcomings are often difficult for most companies to measure.

Step one in gaining control over this situation is hiring the right people – those with skills required to solve today's problems.

Step two is the implementation of planning software. A global supply chain is beyond the capability of an Excel spreadsheet. Yet only 25% of U.S. firms working with foreign suppliers employ sophisticated computer tools. Capabilities for improving collaboration along the entire value chain will result in more

accurate demand planning as well as better supply of orders needed to fill that demand.

Step three is more face-to-face time with suppliers. Nothing tops having your people in the supplier's plant well before and during production of your order. More importantly, this effort enables moving from traditional, spot market transactions to a strategic "partnership". Truly collaborating with a supplier can make possible improved predictability, enhanced synchronization of efforts, and superior performance to plan.

Bottom Line – Achieving faster time to market for new products, low inventory, and exceptional customer order fulfillment takes a huge effort. But in today's world such accomplishments form the backbone of competitive advantage and the difference between success and failure. Get moving.

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“A new generation of potential buyers, many of whom slept in the company’s bunk beds as children, forms a sizable market.”

Up From The Ashes

A rebirth is underway at This End Up, the North Carolina-based producer of crate-style furniture that went bankrupt in 2000. Its revival may prove an important lesson for companies seeking to compete with cheap, foreign-made products.

In its previous life This End Up built a \$150 million business producing indestructible yellow pine beds, chests, and sofas. Customers seeking furniture for their children’s bedrooms or a vacation home shopped in the company’s chain of 240 retail stores. Plus nearly

one quarter of its sales were to institutional customers furnishing college dorms and halfway houses.

The company is focusing on reviving these consumer and institutional markets as well as replacing cushions sold years ago. A web site and telephone ordering system provide contact directly to customers. A new factory is planned for early 2005. And its first retail store just opened in Raleigh, NC.

A new generation of potential buyers, many of whom slept in the company’s bunk

beds as children, forms a sizeable market. These prospects are accustomed to value for their money and fast delivery. This type of furniture can be built to order and shipped quickly plus its low labor content and hefty size make foreign production unlikely.

Can This End Up leverage these competitive advantages and rise like a phoenix from the ashes of the U.S. furniture industry? Stay tuned.

Source: Associated Press, 10 November 2004

Avoiding A Big Mistake

The business press today is full of colossal even fatal mistakes by the likes of Enron, Martha Stewart, and Merck. According to educator Robert Mittelstaedt, these catastrophes and many smaller failures are not the result of a single bad decision. Rather a chain of smaller decisions finally adds up to a visible, critical mistake.

How do you avoid a mistake that causes economic damage or worse?

■ *Acknowledge mistakes early* – Know that burying bad decisions may simply

delay the inevitable. Investor Warren Buffett said it best, “Your objective should be...to get it out and get it over. Your problems won’t improve with age.”

■ *Learn lessons from mistakes* – Audit the process that led to the bad decision and teach what you learn to others in your organization.

■ *Be prepared to change* – Companies who fail often hang on too long to what made them great. IBM, for example, was blinded by its success in big computers and ignored the trend toward personal computers.

■ *Pay attention to your customers* – It is no surprise. Customers most often provide the first warning of a bad decision.

The goal of these steps is not to be mistake-free. Failing to take risks is the most dangerous mistake a business can make. Instead your objective is to lessen the impact a mistake can make on your business’ health.



Going to the Dogs...

“If there are no dogs in heaven, then when I die I want to go where they went.”

Will Rogers

“...the home-ownership rate will exceed 70 percent by 2013.”



The Health Of The Housing Industry

Golf Quote...

“Golf is like the game of life. No man will ever be its master.”

O.B. Keeler



Philosophy Quote...

“The scientist seeks to understand what is; the engineer seeks to create what never was.”

Theodore van Kármán



Buying bigger and bigger houses is now the investment strategy of choice for many Americans. On the heels of the stock market crash of 2000-01, many believe that houses are a better place to put their capital. That phenomenon has pushed demand for houses to record levels across the U.S. According to the Homeownership Alliance, the homeownership rate will exceed 70 percent by 2013. To reach that level the housing industry must erect about two million homes each year over the next decade. The group also predicted that home price appreciation will average five percent per year.

Will we see that level of new home construction? Will prices rise that rapidly?

Here are the factors that will determine the answers:

■ **Income Growth** – Home prices move with income growth. From 1980 to 2001 home prices rose by 136%. Median incomes increased by 138%. That is no coincidence. If prices rise faster than incomes, homes become unaffordable. Since 1996 incomes rose only 22% while home prices grew by 47%. For that reason some experts are saying the recent burst in home prices can't last.

■ **Interest Rates** – Believe it or not, in 1981 the 30-year

mortgage rate was 16%. Today it stands at around 5.5%. Only 436,000 new homes were built in 1981 vs. one million last year. No other factor has pushed demand for houses in recent years more than low mortgage rates. If rates rise with the rebounding economy, higher monthly payments will hurt demand by knocking some buyers out of the market. Those existing homeowners with adjustable rate mortgages will also see their payments rise. This effect will ripple through the economy as less disposable income is left for a myriad of products and services.

■ **Population Age** – The median age in the U.S. is 35.5 years vs. 27.9 in 1970. Historically an older population forms fewer households and thus demands fewer houses. But older Americans are now wealthier than previous generations and more likely to buy a second home.

■ **Immigration** – Offsetting the aging population is higher immigration. In the 90's nine million people immigrated to the U.S. vs. only three million per decade in the 50's, 60's and 70's. The American dream for this group is owning a home.

■ **Availability of Credit** – Credit is more available than ever. New homebuyers can now obtain a loan

when the payment is 50% of monthly income, up from the limit of 33% in earlier times. Offsetting easier money is the fact that household debt as a percentage of disposable personal income is now 119% vs. 87% in 1990. Many simply can not afford more debt.

■ **Availability of Land** – In some areas suitable land is simply not available for development. In others environmental issues have led to strict land use regulation. Less supply of homes tends to push prices higher.

The average price of a single-family home financed through Fannie Mae or Freddie Mac surged nearly 13% during the twelve months ended September 30. This surge in house prices has economists arguing about the impact of these factors and the prospects for a bubble. One thing is certain – homebuilding and remodeling are huge drivers of demand for wood products from lumber and panel-board to furniture and cabinets.

Bottom Line - Pay attention to the economics that determine housing demand.

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