

Build It Right

The strength of the U.S. economy has created strong demand for new manufacturing and warehousing space. Across the country woodworkers are expanding - a new cabinet plant in Utah, a new furniture distribution center in California to name two examples. Business is good, and good businesses need more room.

If your company is bulging at the seams, consider this advice:

1. Lean your processes down - Take a close look at the space you now use. Most companies can rationalize their processes, get rid of unneeded equipment and materials, and tighten up their operating areas.

2. Calculate your space requirement - Put your process engineers to work developing a space budget. Have them detail the areas required for each function - machinery, transport, storage, support, etc. Back up these estimates with rough layouts of key process elements and talk with suppliers about space required for any new equipment.

3. Develop a conceptual layout - A key step in building design is determining

how the various elements in the space budget fit together. This effort requires a solid understanding of the process, what functions must be proximate, what functions must be isolated, etc. This step should result in a well-conceived departmental layout with an efficient material flow that defines the needed building shape and size.

4. Prepare a conceptual site plan - Don't forget the activities that take place outside the building shell. You will need room to maneuver trucks, park your employees, and position utilities like dust collectors.

Now you can talk to an architect and/or building contractor. A common mistake is to purchase property and begin construction before completing the above planning. Such a decision often sacrifices productivity *for the life of the operation*. Once erected, a new building is pretty inflexible. Moving walls, doors, and the like is costly. Inserting more space for a critical operation can be impossible. Giving your

process engineers a head start on the architects and contractors will pay huge dividends.

The lesson here is simple - start any major expansion project early. Allowing 18 months from the idea phase to start-up is about right. Jumping through environmental, zoning, and other regulatory hoops takes time.

One more suggestion - create a project budget as soon as possible. Owners/managers who otherwise are capable executives almost always underestimate the cost of major building projects. Double that back-of-the-envelope number you developed when the project was just an idea. The resulting number will be closer to reality.

Bottom Line - You're going to spend \$millions on a new building. You only get one chance to get it right. Plan your building, and build your plan.

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“Last year’s growth of 16.8% extends the trend of double-digit sales increases to three years.”

Thanks For Kitchens

With continued strong demand from new home starts and remodeling, cabinet sales in the U.S. reached nearly \$14 billion in 2004. Last year’s growth of 16.8% extends the trend of double-digit sales increases to three years. In fact, since 2000 cabinet volume has expanded by 61%.

With this performance the cabinet industry has replaced wood furniture as a major consumer of lumber, panelboard, coatings, and machinery. About 780 million board feet of North American hardwood lumber was sold directly to cabinetmakers. Another 600 million board feet was purchased in the form of components.

Other noteworthy cabinet statistics include:

■ About 91 million kitchen cabinets plus nearly 9 mil-

lion bathroom vanities will be consumed in 2005.

■ Remodeling accounts for 75% of all kitchen installation.

■ Spending on kitchen remodeling has increased by nearly 100% in the past five years.

To date cabinetmakers have avoided the import tidal wave that hammered the U.S. furniture industry. Imported cabinets accounted for less than 5% of domestic consumption. Of that amount Canadian producers accounted for about 75%. Many major cabinet companies are, however, sourcing materials and components like drawer sides and doors from suppliers in China and elsewhere. Imports of wood furniture parts, the statistical category that includes cabinet components, has

expanded by nearly 19% since 2002. Managing that lengthy supply chain has proved challenging.

Experts are predicting another banner year in 2005 with cabinet volume up by 12-15%. KraftMaid, Yorktowne, American Woodmark, and Huntwood have major new plants in various stages of development.

With the U.S. economy averaging 4.5% growth since 2000, can the industry sustain their recent double-digit advances? Many players in our industry have a vested interest in their success. Stay tuned.

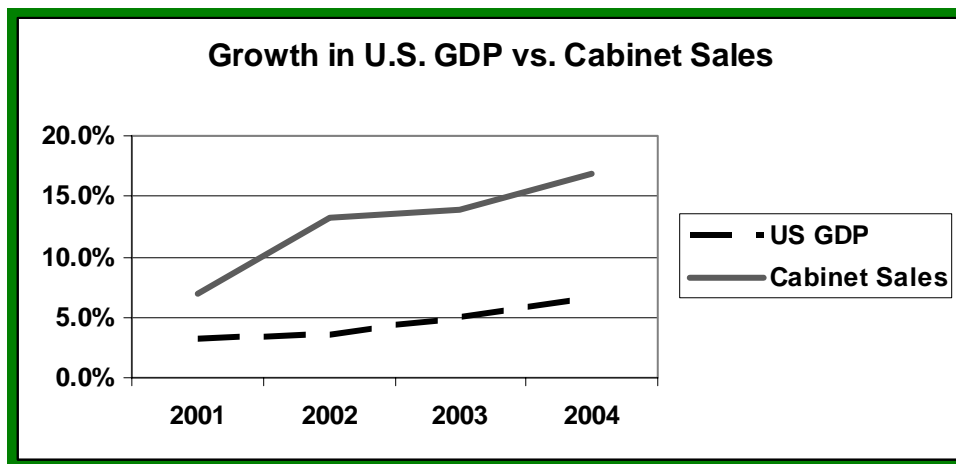
Sources: *Hardwood Review*, 4 March 2005, and *K+BB*, January 2005



Going to the Dogs...

“The average dog is nicer than the average person.”

Andy Rooney



“Cargo volume is projected to double by 2010.”

Container Freight: A Critical Economic Ingredient

Golf Quote...



“Your skill with the long clubs determines how high your worst score will be. Your skill with the scoring clubs determines how low your best score will be.”

Bob Rotella

Philosophy Quote...



“What we must decide is how we are valuable, rather than how valuable we are.”

F. Scott Fitzgerald

The flow of imported furniture, cabinet parts, and other wood products from low-cost Asian producers relies on a tenuous, complex network of container ships, port facilities, railroads, and trucking companies. Labor stoppages, seasonal port congestion, and shortages in transport capacity have contributed to recent logistics problems. Cargo volume is projected to double by 2010.

Let's take a brief look at the present and future for this critical supply chain:

■ **Ocean Vessels** - Container capacity will increase by about 11% in 2005 and 14% in 2006. Shipping lines have ordered more than 150 vessels with capacity for at least 8,000 TEUs (20-foot equivalent units). Ships holding 9,000 to 10,000 TEUs are scheduled for 2008-09 delivery.

■ **U.S. Ports** - While more and larger ships expand transport capacity, these vessels also demand more port space, labor, and intermodal rail/truck capacity. Unloading these behemoths takes time especially in ports not set up for 24 x 7 operation. Plus these ships are too large to transit the Panama Canal and draw too much water to dock at most U.S. east coast ports. For the near future then, these vessels will call primarily on U.S. west coast ports. Los Angeles, Long Beach, Oak-

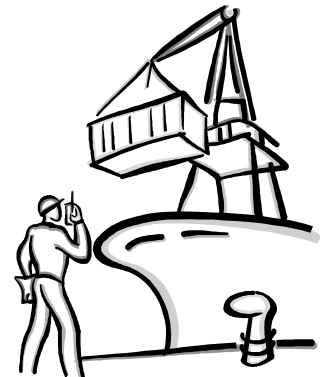
land, Portland, and Seattle are aggressively expanding. But marine terminal and transportation projects of this sort take five to ten years. For that reason, terminal operators are seeking operational changes and technology additions to increase throughput. Asian ports operate round the clock and are three to four times as productive as their U.S. counterparts.

■ **Intermodal Transport** - Simply adding more longshoremens on a 24 x 7 schedule is not a quick fix. More trucks, highways, trains, and rail lines are required. The Union Pacific and BNSF Railway are expanding their capacity by 10%, but the average speed of trains in the U.S. is falling. In addition round-the-clock port operations will require Southern California distribution centers that receive much of this cargo to work multiple shifts as well.

So west coast capacity problems will continue. Alternative all-water routings through the Panama or Suez Canals to the U.S. east coast are often faster than via the west coast during the peak third quarter. The Suez can handle the new wave of larger ships, but many east coast ports are not dredged for these vessels. Plus the Suez route is less efficient for cargo originating north of Hong Kong.

As for container costs, expect a rate hike of about \$350 per 40-foot container this spring.

Bottom Line - Selling low-cost goods from China and elsewhere in U.S. markets depends not only on their ex-factory price. Ensuring a reliable flow of these goods is a complicated, often intuitive game. As an importer, current or future, are you equipped to play that game successfully?



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“January marked the sixth consecutive month of order growth in the contract office furniture industry.”

Is The Office Furniture Industry Coming Back?

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.

January marked the sixth consecutive month of order growth in the contract office furniture industry. Orders are now running at an annual rate of over \$9 billion for the first time since July 2002. 2004 shipments grew by 5%, the first positive year since 1998.

This industry segment suffered breathtaking declines in sales following the boom times of the 1990's. From a rate of over \$13 billion in late 2001, shipments fell to nearly \$8.5 billion in mid-2003. Shipments are only

now exceeding the sales rate first achieved in early 1995. Since 1999 the big three office furniture makers - Steelcase, Haworth, and Herman Miller - have shuttered 16 plants. Industry-wide lay offs totaled 13,000 workers.

A backdrop of solid economic facts underlie the latest upturn:

- Continued GDP growth
- Rising unemployment
- Strong corporate profits

Analysts are cautiously projecting the industry's return

to more normal times when shipments grew in step with U.S. gross domestic product. Belying that prediction is Steelcase's recent announcement to shutter 2.6 million square feet of plant space and lay off 600 employees.

Bottom Line - To confirm the industry's recovery, keep your eyes on office furniture orders during the next few months.

Sources: BIFMA and Raymond James Industry Brief, 4 March 2005