

A Value Creating Combination

The tidal wave of imports from China has generated lots of hand wringing about the death of the U.S. economy. Pundits argue that the resulting decline of our manufacturing base will mean a steady decline of U.S. standard of living. Without manufacturing, they say, we cannot create wealth.

Manufacturing is indeed a wealth creator when the cost of inputs is less than a product's selling price. Today's economy, however, shows us that other means exist to create wealth. One of those methods is combining U.S. innovation with low cost, foreign production.

Apple Computer's iPod is a great example. The iPod is a personal jukebox – a clever, portable hard drive on which its owner can download thousands of songs and photos. The concept of a portable digital music player was not new. But Apple commercialized the idea by designing a unit to enhance the user's experience and building it overseas using outsourced components – a Sony battery, a Toshiba hard drive, and a Pixo operating system.

After its introduction in October 2001, Apple set about adding new models and features. One of those features was content via its iTunes Music Store, an on-line source of legal downloads at \$.99 a song. Users could now customize their iPod simply and legally. By June 2003 Apple had shipped its millionth unit, and the product had reached the tipping point. By March 2005 worldwide sales totaled 15 million units.

The iPod combines Apple's U.S. based innovation with offshore, third party manufacturing in China and Taiwan. This strategy enables an affordable price that along with cheap content has driven Apple's revenues. The iPod now contributes one-third of Apple's \$11 billion sales.

So what has the iPod meant for Apple and the U.S. economy?

- Apple has generated \$1.2 billion in gross margin and

added 2,000 jobs since iPod's introduction.

- Retailers have generated another \$1.7 billion in gross margin through sales that supported thousands of jobs.
- Apple's stock price has quadrupled since 2002 adding \$23 billion to the company's market capitalization and to shareholder net worth.

That's real value creation!

Bottom Line – Real wealth is created when you build companies on profitable products and provide returns to company owners. Such a feat requires innovation in design and process – American specialties. As long as the U.S. maintains its creative edge, our economy will continue its miraculous run. Offshoring is not the end of the American dream.

Art Raymond
President



A. G. Raymond &
Company Inc.

Consultants to the
Wood & Forest
Products Industry

1033 Wade Avenue
Suite 102
Raleigh, NC 27605
USA

Telephone
919/831-0070

Fax
919/831-0072

Email
info@
raymondnet.com

Web Site
<http://www.raymondnet.com>

© A. G. Raymond &
Company Inc.

IN THIS ISSUE

Our Technology Deficit	2
The Outlook for North American Hardwoods	3
Build It Right Continued	3
Avoiding Employee Lawsuits	4



Our Technology Deficit

“Federal investments in science research as a percentage of GDP has fallen by half since 1970.”

Innovation that develops products like Apple's iPod requires the combination of technology and smart people. Major components in this formula are research and education in science and engineering. How is the U.S. doing in these key areas?

■ Federal funding for research has been flat for the last 20 years – Federal investments in science research as a percentage of GDP has fallen by half since 1970.

■ Graduate level enrollment in science and engineering is down by 20% since 1993 – Fewer foreigners are studying here given the improving educational opportunities in their home countries.

Our universities have always provided fertile ground for innovation. MIT alone has created 5,000 new companies in the last 50 years. Without adequate funding such development at our great institutions will decline to our disadvantage.

Already our competitors in Asia and Europe are gaining in research and education. In China R&D spending rose by 350% over ten years, and five times the number of science and engineering Ph.D.s were produced. South Korea cranked out 150% more Ph.D.s while spending 220% more on research.

The results are counted in U.S. patent applications and scientific journal articles. Between 1991 and 2001 the number of applications from China and South Korea jumped by 400%. The U.S. share of articles fell from 39% to 31% from 1986 to 2001.

Companies like IBM are increasingly concerned about undergraduate education. Enrollment in North American computer science and engineering programs has declined for four straight years, falling 10% in the last year alone. Yes, the bursting dot.com bubble hit these tech jobs hard. Plus many lower-level programming jobs are now in India and China. But a continuation of this enrollment decline will ironically lead to more offshoring as the pool of skilled developers/programmers tightens.

For its part IBM has stepped up its support of universities with donations of software and staff expertise. In a partnership with the University of Arkansas, the company is creating a program for students seeking tech jobs at Wal-Mart.

But the real job falls to government. Innovations like integrated circuits, lasers, the Web, GPS, and hybrid cars take years to perfect and commercialize. Only the government, under visionary leadership, has the perspective and risk toler-

ance for such long-winded research.

Plus you cannot forget primary and secondary education. Schools must recognize the requirements for a basic science education combined with skills in creativity and teamwork. Along with the basics, tomorrow's employees must be able to dream, see the big picture, work in teams, and question the status quo. Many experts contend that today's educational process is not the answer for tomorrow's challenges.

Bottom Line – Opportunities for U.S. workers depend on creating new jobs, not protecting old ones. The foundation for such creation is research in science and engineering combined with the solid education of our citizens. To ensure that future new jobs reside in the U.S., you must kick start both our research and educational efforts. Get involved. It's your future too.

Sources: *Wall Street Journal*, 4 May 2005; *USA Today*, 23 May 2005; *Herman Trend Alert*, 20 April 2005

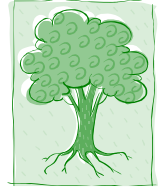


Business Quote...

“When sloppiness occurs, blame rests with you, the leader, not with your team.”
John Wooden

“Shipments to Europe and the Far East will be healthy for the remainder of 2005.”

The Outlook for



North American Hardwoods

Golf Quote...

“Golf is played as much with the mind as with the hand.”
Andra Kirkcaldy



Philosophy Quote...

“You can't see the future through a rearview mirror.”
Peter Lynch



Our friends at *Hardwood Review* are, on balance, optimistic about 2005. Here's a summary of their opinions...

■ **Flooring** – Healthy home building and remodeling will continue driving solid demand for hardwood flooring. Imports, engineered flooring, and non-wood floors are eroding domestic producers' market share. However, lower costs for Red Oak will enable these plants to price for volume and still regain profitability.

■ **Wood Furniture** – Shipments from domestic wood furniture plants grew 4.2% in 2004, the first gain since 2000. However, imports jumped by nearly 14%.

■ **Kitchen Cabinets** – Strong remodeling will help the cabinet industry weather a slight downturn in new homebuilding. Record prices for Hard Maple will force some cabinetmakers to substitute Soft Maple. Expect more importing of components.

■ **Moulding & Millwork** – Due to imports, usage of U.S. hardwoods in this sector will remain flat for the balance of 2005. Close-grained woods like Poplar and Soft Maple will outperform the Oaks.

■ **Wood Components** – Creative component producers are entering new markets to replace earlier de-

pendence on furniture. Plus the cabinet industry will maintain strong purchases from specialist door makers.

■ **Low-Grade User Markets** – A strong domestic economy will buoy demand for pallets and railroad ties.

■ **Exports** – Shipments to Europe and the Far East will be healthy for the remainder of 2005. North American hardwood exports to China are finding lots of competition. While China is the second ranked destination for U.S. hardwood lumber, Russia, Malaysia, and Indonesia along with Brazil, Burma, and Cambodia are big suppliers too.

The outlook for important species...

■ **Hard Maple** – Demand for this in-vogue species will

remain strong in spite of record prices.

■ **Cherry** – Prices will firm as users re-enter the market.

■ **Poplar** – Higher prices are expected in this wood due to demand across the grades from the moulding and millwork sector and export buyers.

■ **Oaks** – The bottom of the Red Oak market appears near. Demand for White Oak is lackluster.

■ **Hickory/Pecan** – Demand from the cabinet industry is keeping prices firm.

Source: *Hardwood Review*,
1 April, 15 April, 22 April, and
6 May 2005

Build It Right Continued

Some light-hearted, yet honest additions to our advice on project management in the last issue of TWWM...

- The person who says it will take the longest and cost the most is the only one with a clue how to do the job.
- There are no good project managers - only lucky ones. Remember, the more you plan, the luckier you get.
- If you don't know how to do a task, start it anyway. Afterwards ten people who know less than you will tell you how to do it.
- If everything is going exactly to plan, something somewhere is going massively wrong.

A. G. Raymond & Company Incorporated
1033 Wade Ave., Suite 102
Raleigh, North Carolina 27605
USA



Address Correction Requested

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

Printed on recycled paper

“Staying out of court requires attention to details...”

Avoiding Employee Lawsuits

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.

According to *Workforce Management* magazine, employee lawsuits most often result from anger over perceived mistreatment. Managers at every level from the corner office to the plant floor can unwittingly cause workers to feel misled or unfairly treated.

How can you avoid such a result?

1. Train your managers in handling difficult situations and conducting performance reviews.
2. Follow company policies that define management expectations and disciplinary actions – Always disci-

pline with a clear explanation for the action.

3. Don't reward underperformance – Such action actually reinforces poor performance and sets a precedent of inconsistency.

4. Be specific with criticism – Avoid using subjective adjectives like lazy or inexperienced. Use quantitative measurements where possible.

5. Address problems immediately – Don't accept poor performance. By doing so you are simply lowering your expectations.

6. Document any instances of unacceptable performance – Written reports are

powerful evidence.

7. Watch for unacceptable conduct – Permitting offensive jokes, emails, photos, and such can lead to charges of age, sexual, disability, or racial harassment.

8. Tell the truth – Honesty is always the best policy.

Bottom Line – Staying out of court requires attention to details like formal employment policies and timely, well-documented performance reviews and don't forget to set performance expectations and inform workers of their results.