

THE WOOD MONITOR

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Be Prepared

It's going to happen. Maybe not this year, but at some point in the future the housing boom will end. With it will go the engine of growth for the U.S. economy. Nearly 40% of all jobs created in the last two years are attributable to housing. Higher home prices have supported strong consumer spending through cash-out refinancing. Over the past four years this combination of consumer spending and residential construction has accounted for 90% of GDP growth.

What has driven this so-called housing bubble?

- Low interest rates and loose mortgage underwriting standards have enabled more buyers to qualify for mortgages.
- High price appreciation and beneficial treatment of profit from the sale of a home have shifted investment demands from stocks and bonds.
- Deductibility of mortgage interest has lowered the total cost of ownership.

Home ownership is part of the American dream. A home is the largest asset most of us own, and that

asset has been remarkably free of price declines. The average price of a house in the US has not fallen since the Great Depression.

But beware these danger signs:

- 25% of all home buyers in 2004 made no down payment.
- 23% of all houses were bought in 2004 for investment with another 13% purchased as second homes – These investors are more likely to sell than owner-occupiers.
- Sales of new and existing homes have set records for four straight years.
- Prices have appreciated since 2000 at three times the annual average over the prior 32 years.
- The ratio of home prices to rents is 35% above the 1975-2000 average. Rental yields therefore have fallen below current mortgage rates making it difficult for landlords to make money.

■ Home prices are rising much faster than other prices. Wages and salaries simply are not keeping up.

Like dot.com stocks in the last equity market boom, real estate values must revert to their mean rate of growth. Tightening liquidity or an economic bump like sustained high oil prices will disqualify first-time buyers. Investors whose rental incomes don't cover costs will lose patience and sell. To achieve market equilibrium, falling demand will necessitate falling supply.

Bottom Line – It's not a question of *if* the housing boom ends, it's *when*. If your company has prospered from the recent housing boom, it's time to think about what happens when fewer cabinets, wood floors, windows, and doors are needed. Like a good Boy Scout, a manager should always make a plan, like it or not.

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“...you should first complete a comprehensive study of your warehouse operations.”

Look At Your Warehouse

By ignoring their warehouse operations, many manufacturers and distributors are missing the chance to reap labor savings, reduce product damage, and improve customer service. Improving the physical layout of your warehouse is often a good place to start.

Warehouse engineer Maida Napolitano offers ten suggestions:

1. Deepen the dock area –

In many operations, lots of handling, sorting, and temporary storage occur at the receiving and shipping docks. To facilitate tasks like cross docking, docks that are 60 to 70 feet deep can prove beneficial.

2. Add more dock doors –

Today's warehouses often receive and ship numerous LTL loads. Such an operation needs more doors to reduce cycle time for trailer loading/unloading.

3. Expand your dock doors –

With today's 102 inch-wide trailers, 9 foot-wide doors are a must. Also ensure that you can access the full height of trailers by making the doors 10 feet high.

4. Add dock levelers –

Trailer floor heights range from 30 to 48 inches. A leveler is a must to enable use of mobile equipment for unloading/loading.

5. Conveyorize the

unload/load process –

An extendible conveyor at the dock will improve handling of inbound/outbound, floor loaded trailers. With faster handling you may need fewer dock doors.

6. Minimize inventory –

Handling efficiency requires short travel distances to/from docks to storage locations. By definition, huge inventories mean more travel time in a warehouse.

7. Locate fast-moving

items near the docks

and close to the floor – The aim is to keep travel distance and cycle times to the minimum.

8. Lay out storage aisles

perpendicular to the

docks – Again, the idea is to shorten travel distance into/out of storage bays.

9. Add cross aisles and

avoid dead ends –

Access between storage aisles reduces travel distances.

10. Widen aisles in high-

traffic areas –

Allowing passage of vehicles in aisles will reduce congestion and cycle times.

Remember too that you should design your warehouse to be 70-80% full depending on your storage method. Any higher utilization will result in a high damage rate and

excess stock transfers between storage locations.

Of course, the previous recommendations may require more space. For that reason you should first complete a comprehensive study of your warehouse operations:

1. Observe and measure

your operations – Track your products in the warehouse from receipt to shipment. Prepare an up-to-date warehouse layout. Use work sampling to document what your equipment and people are really doing.

2. Analyze your inventory

– Profile your rates of use/sale and inventory by SKU. Identify your fast-moving items and opportunities to minimize inventory levels.

3. Develop design

parameters – List the required handling volume, number of SKUs, receipts or shipments per day as the bases for the re-design.

4. Prepare layout alternatives

– Determine various layouts and their associated space, equipment, and labor requirements.

5. Evaluate the alternatives

– Compile the expected costs (capital and operating) and benefits of each choice. Look closely at the solutions that provide a one-year payback.

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Business Quote...

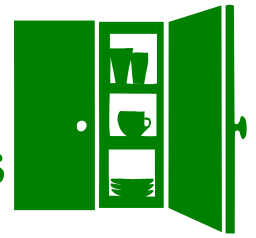


“You can't have a better tomorrow if you are thinking about yesterday all the time.”

Charles Kettering

“No matter how you cut it, the cabinet industry is booming.”

Cabinet Boom Continues



Golf Quote...

“A strong mind is one of the key components that separates the great from the good.”

Gary Player



Going to the Dogs...

“There is no psychiatrist in the world like a puppy licking your face.”

Ben Williams



No matter how you cut it, the cabinet industry is booming. The recent *Kitchen + Bath Business* survey estimated total 2004 industry sales of \$12.5 to 13 billion, up about 6% from last year.

Here are some details...

Trend Toward Concentration

The survey included responses from 102 cabinet-makers. Forty of those companies reported sales in excess of \$20 million. The top three combined for almost twice the sales of the other 99 firms. The top ten accounted for nearly 82% of sales or more than four times the total sales of the other 92 respondents.

Little Change Among Distribution Channels

In 2004 cabinet dealers lead the way in cabinet sales with 41% of the market, up two percentage points. Ranked second came home centers with 23%, also up two points

from the prior year, followed by distributors at 19%.

Stock Cabinets & Wood Take Share

Stock cabinets grew to nearly 52% of the market followed by semi-custom at 29%. Unsurprisingly, the large producers dominated in the stock category with few, if any, companies with sales below \$20 million making stock cabinets.

Wood now accounts for 87% of cabinet doors, up from 84% in 2003. Maple continued its rapid growth with over 43% of all wood doors. Oak, long the dominant specie, was down to just under 26% followed by Cherry at 16%.

Among the smaller cabinet-makers other materials find usage at above the industry rates. Laminates are 2.7%, high-gloss lacquer at 1.8%, and steel at 3.3%. Interestingly, Maple at 34% was less popular among the smaller producers whose

lines are heavily custom and semi-custom. Custom and semi-custom lines typically provide design leadership. Given the high price of Hard Maple lumber, perhaps its ascendancy is waning.

Light natural finishes account for nearly 42% of the market followed by medium stains at 29%.

Particleboard Interiors Lead

Printed particleboard is found in two-fifths of all cabinet interiors. Melamine follows at 22% with finished wood at 18% and vinyl at 14%.

All wood drawers account for 80% of sales with 59% of these having dovetail joints. Melamine drawers follow with 10%; metal, at 5%.

Source: *Kitchen + Bath Business*, July 2005 and July 2004

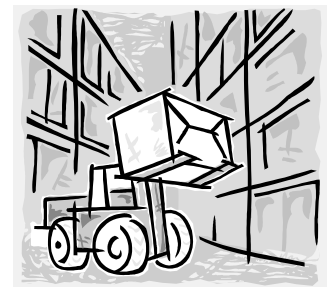
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6. Prepare to implement the best design – Develop a plan that minimizes disruption.

Last but not least, ensure that your warehouse is safe for your employees and your products.

Bottom Line – Today's demand for fast customer delivery places warehouse operations at a critical link in your value chain. Converting your warehouse to world class can give you a competitive advantage.

Source: *Logistics Management*



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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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“Five key action steps...”

Achieving World-Class Delivery Performance

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.

Five key action steps contribute to satisfy your customers' desire for fast delivery according to the Aberdeen Group:

Create customer-focused teams to shepherd orders through the fulfillment process.

Integrate suppliers into your process – It goes without saying that having key materials and products when needed is critical. You must

share demand forecasts with your key vendors.

Move toward a make-to-order process – Such a philosophy enables the customization in demand by today's consumers and utilizes your capacity effectively to make what you need when you need it.

Automate performance monitoring to enable real-time reporting – You can't drive shorter delivery times

by looking at your operations in a rear-view mirror.

Optimize transport – How you move your product to your customer is the final link.

Bottom Line – At the end of the day, make it fast and easy for your customers to do business with you.

Source: BDO Seidman *Furniture Insights*, June 2005