

Prospering In A Commodity Business

Every business cannot offer high-end, customized products to a select, narrow market. Like it or not, most companies produce what broadly can be called commodities. In commodity markets most managers aim to be the low cost producer through traditional cost reduction initiatives.

Business thought leader Michael Hammer believes another strategy exists. He calls that alternative *operational innovation*. OI is not about simply improving existing processes but rather developing revolutionary new ones that deliver substantial benefits to customers. Some examples:

- Wal-Mart's logistics system that moves goods cheaply and rapidly.
- Dell's build-to-order process that quickly delivers low-cost customized computers.
- Toyota's famed Production System that made lean manufacturing possible.

None of these companies deliver unique, leading edge designs. The goods on Wal-Mart's shelves, Dell's computers, and Toyota's cars are simply commodities. No product innovations are found there. Instead these

companies took market share from their competitors by achieving big cuts in cost that led to lower selling prices.

Many business gurus believe OI is not sustainable. They say innovative processes will be copied, and the benefits competed away. But look at our examples. No retailer has a logistics system like Wal-Mart's. Build-to-order has not swept the computer industry nor has lean manufacturing rejuvenated the motor car industry.

Why is that? OI is rare because it's hard work and certainly not glamorous. Management most often prefers to focus on new products as their strategy. But in many commodity businesses little product innovation is left to exploit.

OI requires an engineering-based skill set different than those needed in finance, marketing, and human resources. Real OI requires attention to details. Many senior executives view their operations as a black box

and have little understanding of how things get done in their companies.

To get OI going, managers must commit to it – create a job responsible for innovative thinking and support experiments in change. Importantly you must be in OI for the long haul and not fear short term failures. You can't stop. Continuous improvement will still be necessary.

For good OI ideas, just look around. Search for creative new processes outside your industry.

Bottom Line – In a commodity business, a revolutionary way of delivering a product or service can create real competitive advantage, a means to differentiate you from others in your space. Don't wait until your business is in dire straits to get innovative. Get cracking!

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IN THIS ISSUE

Another Man's Opinion On Jobs	2
California Proposes New Regs	3
Economic Factoid	3
First Step to Higher Productivity	4

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Another Man's Opinion On Jobs

Should government take action to restore lost manufacturing jobs?

Economist Dr. Walter E. Williams argues strongly against such intervention. Look, he says, at history. In 1900 41% of the U.S. labor force was employed in agriculture vs. less than 2% today. Is American agriculture a sick industry? Look too at telecommunications where 421,000 telephone operators were employed in 1970. Today that industry uses only 78,000 operators, a whopping 80% decline. The cost of a long distance call is also a fraction of what was paid 36 years ago.

The same story holds true in manufacturing where employment, at 14.2 million workers, is at its lowest level in 50 years. At the same time U.S. manufacturers are producing more goods than ever before.

What is the secret? Productivity, of course. Since 2001 U.S. manufacturing productivity – output per unit of labor – has increased by 24%. Our producers are making more with less. And this fact is true in Japan, Germany, Britain, France, Korea, Canada, and Mexico. Even China is losing manufacturing jobs.

These cases are what another economist, Joseph Schumpeter, called *creative destruction*, the constant

loss of some jobs at the hand of technology and innovation while new jobs are invented.

This job creation miracle fuels the U.S. economy. A quarter of all U.S. workers are employed in jobs that were not listed in the Census Bureau's 1967 occupation codes. Many were jobs that no one could imagine a few years earlier.

For at least 70 years people have predicted the disappearance of jobs and the death of the U.S. economy. In 1932 President Hoover called for “the speeding up of social invention or the slowing down of mechanical inventions” to prevent “grave maladjustments”. President Kennedy belied his faith in technology and the space program in the 1960's with his comment that automation “carries the dark menace of industrial dislocation, increases unemployment, and deepens poverty”. And of course we all remember Ross Perot's “giant sucking sound of jobs being pulled out of this country”. Yet since Hoover, employment and living standards have quadrupled. Will the future be any different?

Yes, this process is tough on those whose jobs are eliminated. But the U.S. is not running out of jobs. No doubt employment in this future will require new skill

sets comprised primarily of specialized knowledge rather than rote, sweat, and muscle. Relatively simple jobs that can be reduced to a series of decision rules are most likely to disappear overseas or be replaced with technology. Re-skilling the work force, therefore, should be our number one priority.

The problem is predicting with certainty what the future holds for individual workers and firms. Forecasting the training and education needs for jobs yet defined is difficult at best. The future is uncertain. This uncertainty naturally brings concern especially for those caught in the transition from today's economy to tomorrow's.

Bottom Line – Low-paid jobs move offshore, other jobs are replaced with computers and machinery, and new jobs are born. This cycle is the result of innovation and the rewards that come from success. The U.S. economy is a miracle. Government should approach this job creating machine with care.



Business Quote...

“Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.”

Ronald Reagan

“Ironically, composite panels like particleboard, MDF, and plywood are environmentally friendly.”

California Proposes New Regs

Golf Quote...

“Reading a green is like reading the small type in a contract. If you don’t read it with painstaking care, you are likely to be in trouble.”

Claude Hamilton



Philosophy Quote...

“What we can easily see is only a small percentage of what is possible. Imagination is having the vision to see what is just below the surface.”

Unknown

If your plant is located in California or your company sells products there, beware. The California Air Resources Board (ARB) has released proposed regulations that are likely to double the cost of particleboard, MDF, and hardwood plywood used by manufacturers who produce or sell products in California. Any manufacturer who falls into those categories needs to react.

The key elements of this debate are threefold:

- The aim of this regulation is to reduce formaldehyde emissions to levels below what is found in nature. The ARB’s draft regulations call for emission limits of 0.05 parts per million (ppm) for particleboard and MDF and 0.03 ppm for hardwood plywood. Currently the voluntary industry emission standard for these materials is 0.3 ppm. Human blood contains 2 ppm of formaldehyde. Some wood species, without chemical additives, contain in excess of the 0.03 ppm limit set by the ARB.

- Industry experts report that adhesives with ultra low formaldehyde levels suffer from poor physical properties and much higher cost. The ARB claims that readily available, alternative resins are cost competitive and are “technologically suitable”.

- The new regs will require board manufacturers to certify their products and downstream users to provide chain of custody documentation. Yet the enforcement mechanics for compliance with these regs is unspecified. How, for instance, will the ARB police certification and chain of custody in foreign-made products? Will these rules lead to additional plant closures and job loss in the U.S.?

Ironically, composite panels like particleboard, MDF, and plywood are environmentally friendly. Their manufacture employs millions of tons of wood fiber that have no other use except as fuel. The use of this fiber enables the recov-

ery of 95%+ of harvested trees into valuable products. The use of panelboards as substrates for valuable veneers reduces the harvest of less abundant species. The industry has already reduced formaldehyde emissions by 80% over the last 20 years. More importantly, the industry is continuing its environmental stewardship by promulgating voluntary limits one-third lower than the current standard.

Bottom Line – If this issue impacts your business, contact the ARB and California Governor Schwarzenegger. More information is available at www.awfs.org or contact the Kitchen Cabinet Manufacturers Association, the American Home Furnishings Alliance, the American Forest & Paper Association, or the Hardwood Plywood & Veneer Association.

Economic Factoid

How good were the ‘good old days’ in the U.S.? At the turn of the 20th century, the average wage was 22¢ per hour. Few could afford what we now call essentials. Only 8% of the nation’s homes had electricity. That measure is now 99.8%. Less than 10% had telephones. Only 200 miles of paved roads existed for 8,000 cars. Less than 8% of Americans had finished high school; only 2% had attended college. Life expectancy was 47 years for men. It’s now 74 and rising. Paying homage to the past is reasonable. Longing for the past is indeed crazy.

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“...if you don't know where you are, you can't know if your efforts to increase efficiency are paying off .”

First Step To Higher Productivity

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.

Every company seeks higher productivity from their employees, plant, and equipment. Yet few know what their current productivity is. Needless to say, if you don't know where you are, you can't know if your efforts to increase efficiency are paying off.

So the first step in any improvement program is to determine your baseline performance ie, your current productivity. For labor a

good productivity metric is *dollars of production per man hour*. This number can easily be calculated by dividing the value of production in a period by the number of hours clocked by your work force. If you are trying to squeeze more from your existing plant, try measuring *dollars of production per square foot*. To do so, divide the value of production per period by the total square feet in your plant.

With a little thought you can develop a similar metric for every situation. Whatever you measure, however, you should report performance regularly to your employees.

Bottom Line – You get what you measure. Measuring and publicizing your plant's performance alone may be enough to jump start your productivity.