

## Nothing Lasts Forever

A business that employs a revolutionary method for delivering exceptional benefits to its customers is practicing *operational innovation*. Unfortunately, once achieved, OI's advantages are transitory.

Let's look at Dell Computer. Founded in 1984 the company built its success by supplying low-cost, customized personal computers direct to its customers. Dell quickly captured the largest share of the PC market. Historically its business model focused on selling vast quantities of desktops to the corporate market. Business buyers represented 85% of Dell's total revenues in FY2006.

This success powered Dell's stock price to \$58 in March 2000. While the company retains market leadership with 19% of PC sales, its recent history shows how fleeting OI can be.

What happened to Dell?

■ The market for desktops declined from nearly 79 percent of PC shipments in 2000 to 66 percent in 2005. Laptops, with the advent of wireless technology, became cheaper and more useful at

home and on the go. And the consumer, rather than businesses, became important buyers of laptops.

■ Laptop buyers, wanting to touch and feel the product, increased purchases in retail stores. No longer is Dell's build-to-order model providing the speed and buying experience the consumer now desires.

■ Competitors like H-P cut prices by concentrating on supply chain efficiency and improved their partnerships with key retailers.

■ With its focus on cost reduction Dell elected to replace its more expensive, full-time call center staffs with temporary workers. Turnover in this critical point of contact with the customer jumped to 300%.

As a result, in early 2006 Dell's sales growth fell below that of the U.S. PC market for the first time in a decade. The stock market took no prisoners. Dell's share price

has fallen by 60 percent in the last six years. Since last September the company's market capitalization has fallen over \$30 billion.

Dell is fighting back. The company is now selling through retailer Costco, has opened its own retail store, and now operates 170 kiosks in malls around the U.S. These outlets do not, however, allow a buyer to take a computer home. The company has hired over 1,300 full-time call center sales people. Time will tell whether these steps will enable Dell to regain its competitive position.

*Bottom Line* – Innovation is not a one-time event. You can never take your eye off the ball. Just ask Michael Dell.

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

Darkening Clouds	2
Reversing The Manufacturing Migration	2
Going Green	3
The 150/20 Rule	4



“Like the dot.com bubble of the late 1990’s, the housing market was ripe for a correction.”

## Darkening Clouds

As economist Jeff Thredgold says, “Market performance still comes down to two basic human emotions – fear and greed.” The popping sound you hear in housing is a result of the latter. Propelled by low interest rates and an adversity to the stock market, investment money poured into real estate over the past five years. Some areas saw house prices double. The average American home rose 57% in value since March 2006. Such returns drove demand for new houses and residential development to a frothy level. Like the dot.com bubble of the late 1990’s, the housing market was ripe for a correction.

Some economists predict a soft landing. After all, combined 2006 sales of new and existing houses will most likely be among the best years in history. Mortgage rates remain relatively low. Most of the pain will be felt by overly aggressive

investors and those who simply bought too much house.

Without doubt, however, the housing slowdown is resulting in falling demand for cabinets, flooring, and furniture – all primary users of hardwood lumber:

■ Cabinetmakers are seeing signs of declining sales for the first time in five years. Shorter work weeks, postponed expansion projects, and slashed capital budgets are reported by numerous industry participants. Market researcher Freedonia is now forecasting a 3.2 percent industry growth rate through 2010 vs. their 2005 prediction of 6.5 percent through 2008.

■ The U.S. flooring industry saw shipments decline by nine percent in July and 2006 sales have only increased by one percent over last year.

■ Retail furniture sales have flattened in 2006 as

consumer buying sentiment has dropped sharply. Even the growth of furniture imports looks to fall 10 percent below 2005. The combination of factory closures and weak retail demand will push hardwood consumption by this sector to its lowest point in ten years.

On the bright side, Home Depot recently noted that only 20% of its do-it-yourself spending is driven by housing turnover. Historically their sales to owners of existing homes for remodeling and repair tick up when turnover slows.

**Bottom Line** – It’s past time to plan for slower sales of cabinets, floors, windows, and furniture. The future will apparently test your skills in managing tougher times.

Sources: Kitchen Cabinet Manufacturers Association, National Oak Flooring Manufacturers Association, *Weekly Hardwood Review*, America’s Research Group



### Business Quote...

“They say the world has become too complex for simple answers. They are wrong.”

Ronald Reagan

## Reversing The Manufacturing Migration

Just when you think you’ve heard it all...

Chinese motor car maker Nanjing Automobile Group has announced a new plant in Oklahoma to build MG’s, the venerable English two-seater sports car. The company, which also owns a former MG Rover plant in the

U.K., will build 15,000 to 20,000 cars a year.

Could the U.S. be on the cusp of a re-emergence in manufacturing? Several trends bear watching before an answer is apparent:

■ Increasing foreign investment in U.S. manufacturing

– Nanjing Automobile is simply following the strategy perfected by Toyota, Honda, and other foreign motorcar producers. Even Chinese furniture makers have invested in U.S. production facilities. These companies understand the advantages that a skilled

*(Continued on page 3)*

## “Could the U.S. finally be moving toward a Europe-like green economy?”

## Going Green

### Golf Quote...

“Achievement is largely the product of steadily raising one’s levels of aspiration and expectation.”

Jack Nicklaus



### Philosophy Quote...

“To resist change is like holding your breath. If you persist, you will die.”

Lao Tzu

When an all-American company like Wal-Mart takes on a major green initiative, all U.S. businesses better pay heed. The company has pledged \$500 million to reduce its ‘carbon footprint’ by increasing its truck fleet efficiency, reducing solid waste and energy use at its stores, and – most importantly – selling products that sustain the world’s resources and environment. With this retail giant leading the way, could the U.S. finally be moving toward a Europe-like green economy?

Preserving natural resources is nothing new for our wood products industry. For years forest products companies both large and small have patiently invested in their resource base often with 50+ year horizons. Billions have been invested in maximizing the transformation of wood fiber previously considered waste into useful products. More billions have been spent to clean up the effluent streams of our manufacturing processes. Undeniably the forests are our only

*(Continued from page 2)*  
work force and proximity to markets bring.

■ Higher costs in China – Foreign direct investment in China declined in the first half of 2006. Why? Much of the manufacturing that can profitably be shifted to China has already moved there.

renewable natural resource, and without it, the wood products industry will disappear. Our industry knows that well.

The Kitchen Cabinet Manufacturers Association is now championing an Environmental Stewardship Certification Program to encourage policies and practices that support sustainability of air quality and wood resources. The ESP seal will inform consumers, architects, and builders that the certified cabinetmaker is employing green practices.

Wood products firms are moving beyond raw material concerns in their green efforts. Technology that converts exhaust air laden with volatile organic compounds into energy won a coveted Challenger Award at the recent International Woodworking Fair. Columbia Forest Products now offers hardwood plywood featuring formaldehyde-free adhesive that complies with the California Air Resources Board’s proposed rules.

■ Competitive all-inclusive costs – Companies that closely monitor their tangible and intangible costs have found importing less cost efficient than originally assumed. The present slowdown in furniture sales, for example, is revealing that there is more than FOB China price to consider.

Builders who consume billions of dollars of wood products are increasingly going green. Many are following the LEED (Leadership in Energy and Environmental Design) rating system, a standard for developing high-performance, sustainable buildings.

The consumer too may be on the verge of a green epiphany. A recent survey by *InFurniture* found an increasing preference for eco-friendly furniture among U.S. consumers. Of those surveyed 54 percent were more likely to purchase furniture from wood certified as originating in sustainably managed forests.

**Bottom Line** – Those who ignore the emerging green trend do so at their own risk. Digging in your heels is not a solution. Read Lao Tzu’s quote in the margin.

**Bottom Line** – Where skilled, highly productive labor and fast delivery time are critical to a company’s mission, the U.S. will remain an important manufacturing location.

Sources: *The Wall Street Journal*; *Managing Automation*, September 2006; The Herman Group

A. G. Raymond & Company Inc.  
1033 Wade Avenue, 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*

**“...the top 20% of customers often account for 150% of profits.”**

## The 150/20 Rule

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.

We all know the 80/20 rule where 80 percent of results are attributable to 20 percent of the causes. But in the area of customer profitability, the top 20 percent of customers often account for 150% of profits. How can that happen? The answer is clear – the bottom 20 percent loses 100% of profits!

Is such a result happening to your business? In many companies product profitability and other high-level information can easily be

determined. But most lack hard data on **customer profitability**, and many managers tolerate this inadequacy.

A company can die without knowing which customers are critical and, more importantly, why. You can't simply rank your customers by revenue. Instead you must dig deeper into your numbers and identify the operating profit by customer ie, revenues less all costs attributable to each customer.

Then you must rank your customers by profitability top to bottom and divide that ranking into deciles each containing ten percent of your total customer base. Finally sum up the profitability of each decile. The result of this analysis will reveal which customers add the most value to your company. You might be surprised.

Source: *Advertising Age*, July/August 2006