

Wood Can Still Be Good

In U.S. homes wood has been the material of choice for years. But look around a job site today, and you will find fewer and fewer solid wood products. Hardie Plank fiber cement siding, Trex wood/plastic decking, aluminum studs, and plastic railings are only a few of the new products that have replaced solid wood in homebuilding.

But with the green focus of consumers intensifying, wood has a real opportunity to become a fashionable material once again. You see, wood has very low embodied energy – the energy required to extract, manufacture, and transport a material. Compared to other commonly used construction materials, wood is the greenest. Brick uses four times the energy; concrete, five times; plastic, six times; and aluminum, a staggering 126 times.

With buildings now more energy efficient in operation, the energy required to erect them is proportionately more significant. The energy consumed in creating a material is every bit as important to the environment as its sustainability. And don't forget that most production processes also emit greenhouse

gases, pollute the ground and water, and generate unusable waste.

Truly energy efficient building design must consider these factors. Simply awarding a building a green label based on the energy required to operate it is near-sighted.

One challenge for our industry is to improve wood's durability. Wood's track record of frequent maintenance has contributed to the success of many substitute materials like Hardie Plank. We all know that wood's cellular structure provides a ready mechanism for treatment. Past exploitation of that anatomy has focused on preservation. One product now on the market uses impregnation to increase hardness. Can we develop environmentally-safe treatments that improve other important properties? Or do other processes exist that enhance wood's usefulness?

Another challenge is to develop efficient building systems. Stick building houses

consumes lots of labor and results in tons of unusable solid waste. Bringing industrial techniques to what is now a craft business holds the promise of better use of our resources.

Our industry needs more research aimed at improving solid wood's properties. All stakeholders – universities, wood products companies, and timberland owners – must never forget that the value of solid wood is many times that of chips and other by-products. This group must engage in basic research, brainstorming, prototyping, and ultimately capital investment to ensure a healthy market for the vast U.S. timber resource. Thousands of jobs and millions in capital investment depend on the development of innovative new wood products.

Bottom Line - Don't give up on solid wood. It can still be a smart raw material.

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Toyota Speaks

“Problems that are revealed to everyone will be solved.”

How a company confronts problems is a critical indicator of its culture. Do failures bring a positive immediate reaction? Or do managers sweep them under the carpet?

Let’s look at how one of the world’s greatest companies has handled a bump in their road. World no. 2 motorcar maker Toyota, long an icon of manufacturing excellence, has seen its pre-eminence slip over the past two years:

- The recall of 2.38 million vehicles in the U.S., slightly more than it sold, in 2005 has tarnished its vaunted quality record.
- Excess production capacity has resulted in higher costs and incentives such as zero percent financing, a ploy introduced by its poorly managed U.S. rivals like GM.
- Its far-flung network of U.S. plants has complicated logistics and increased the cost of doing business.
- The lack of flexibility built into its North American plants has made adjusting to demand swings more difficult.
- The labor costs in its U.S. plants now approach that of its more unionized rivals like Ford.

Toyota’s first response – surfacing its problems for

everyone to see – set the stage for improvement. According to Katsuaki Watanabe, the company’s president, hidden problems are the ones that become serious threats. Problems that are revealed to everyone will be solved.

Those solutions led to a range of initiatives:

- 1. Setting clear objectives** - Senior management has reiterated three simple-to-understand goals: improving product quality, reducing costs, and developing human resources.
- 2. Slowing product development** - To await needed quality fixes the company has lengthened its new product development process.
- 3. Balancing incremental improvements with radical reform** - The company founded the concept of *kaizen*, increasing efficiency through small, con-

tinuous improvements. Top management now also champions *kaikaku* – the need for drastic change. This concept is driving the development of its newest facility where a simple/slim/speedy production system is the objective.

4. Linking plants’ capabilities - Production competencies in an offshore plant are being duplicated at a Japanese sister facility. The foreign plant can be level loaded with spikes in demand satisfied from Japan.

For the longer term Toyota has set a more ambitious goal – to build a car that leaves the air cleaner, prevents accidents, and excites both driver and passenger.

Bottom Line - Sitting idly while your reputation slides is not an alternative for great companies. Keep your eye on how great companies handle adversity.



Business Quote...
“You cannot reason a man out of something that he did not reason his way into.”
Jonathan Swift

“China is discouraging manufacture of labor intensive goods like furniture that require low cost labor.”

China Reduces Export Competitiveness

Golf Quote...

“Practice doesn’t make perfect. Perfect practice makes perfect.”

Ben Hogan



Philosophy Quote...

“It is never too late to be what you might have been.”

George Eliot

In recent months the Chinese government has taken two significant steps toward slowing their export economy:

- Permitting their currency - the yuan - to fluctuate up to 0.5 percent per day vs. the U.S. dollar – For the decade prior to July 21, 2005, the yuan was pegged at 8.28 per U.S. dollar. On that date the peg was broken and the yuan allowed to move up 0.3 percent per day. The dollar now buys only 7.53 yuan, a 9 percent decline in purchasing power.

- Reducing or cancelling the rebate of value-added taxes (VAT) – Prior to July 1 exporters of most products received full refund of a 17 percent VAT. The rebate has fallen to 5 percent on plywood and 9 percent on furniture. The rebate was cancelled for wood flooring.

Historically VAT refunds have encouraged Chinese producers to export by increasing the profitability of selling to foreign customers.

By manipulating the size of the rebate, the government can encourage or discourage the export production of certain products. Presently China is using this tool to shift more production toward domestic consumption and to increase production of higher value products.

In pursuing the latter goal China is discouraging manufacture of labor intensive goods like furniture that require low cost labor. As Taiwan moved toward production of high technology products in the late 1980s, wage rates rose and made its furniture producers uncompetitive. These producers moved their plants to China in search of lower cost labor, and the Chinese furniture export machine was born. A similar shift is possible from China to countries offering low cost yet productive workers. More likely is a slowing of Chinese export growth especially in furniture, flooring, and other low value wood products.

For U.S. wood products exporters these policy changes improve their competitiveness in Chinese markets. China lacks raw materials for its wood products industries. The lower dollar makes our lumber, veneer, and the like cheaper for Chinese users. Our forests are viewed as sustainable thus eliminating any environmental concerns.

The key to success is developing sales to Chinese producers who focus on their domestic market. While everyone knows about China’s massive furniture exports, few know that their domestic consumption is growing more rapidly.

Bottom Line - With our domestic production of wood products declining, exporting should be a critical goal for every U.S. wood producer. China’s markets beckon to those mills and plants who exploit this opportunity.

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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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“...the best solution is to develop your own talent pool.”

Close Your Talent Gap

All previous issues of *The Wood World Monitor* can be found at our web site:

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A common complaint of senior managers is the shortage of talented people. To provide a seamless supply, the best solution is to develop your own talent pool. Here are some key suggestions:

- 1. Make people a critical element in your business plan** - You cannot execute your plan without the right people with the right skills. Identify your human resource requirements.
- 2. Match your talent to your plan** - As your business plan changes, build the

capabilities required to support required new competencies among your employees.

- 3. Remember that talent management is everyone's job** - Don't rely only on your HR department for this crucial task.

- 4. Encourage learning and development** - The cream will not rise to the top without your support.

- 5. Measure your progress** - Establish a set of metrics to monitor your turnover in key positions, your

spending on continued education, and your sources of people.

Bottom Line - Never forget that a primary management responsibility is to populate your organization with the best people.

Source: MIT Sloan Management Review

