



Center Focus

Spring 2009



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Past, Present and Future: The Best Way to Serve the Forest Products Industry

During challenging times, we often reflect on how we could have done things differently, wonder how we got into this mess, and most importantly wonder how we will get out. I am the first to admit from my business background that the amount of recent government intervention bothers me. I am not saying it is not needed or that it may not work, but it goes against most of what I learned on the free market system. I can imagine Milton Friedman turning over in his grave. In the free market system, there are winners and losers and profit is the measure of success. Unfortunately, in recent years there were a few folks who decided to abuse the rules of the game for their own gain. I hope that more government will be good for a short period and that our leaders will have the sense to step to the side line when things improve.

University centers are groups of individuals who have a common interest in a certain area and know they can accomplish more together than apart. The Center for Forest Products Marketing and Management has always been a partnership among the private and public sector to produce well trained individuals to meet the business needs of the forest product industry. As the industry needs have changed, we have adapted our curriculum, research and student experiences to better prepare your future employees. We are in the process of merging our marketing option and manufacturing option into one option called forest products business management. We believe that this reflects more of what our industry needs in these business conditions. Our industry's future will be driven by employees with a comprehensive understanding of the "value creating" process and business management methods to best deliver value.

In 2004, the Department of Wood Science and Forest Products in the College of Natural Resources and the Department of Marketing in the Pamplin College of Business established the Sloan Forest Industries Center with support of the Alfred P. Sloan Foundation. This Center brought the expertise from the College of Business into applied research projects for the forest products industry. Since its inception, faculties from both centers have worked closely on research and training for industry personnel. In recent months, the leadership from the two centers has been planning on how to better meet your needs. Discussions have included continued joint research efforts, broadening our industry training programs, and developing on-line distance educational projects. The highlights of these discussions have centered around expanding the student experience so they can integrate what they learn to help successfully lead your business into the future. *The goal of both centers is to provide you with the best trained students for your business.*

In future months, you will be hearing more of our joint efforts and we will be asking some of you to help with our planning. We are excited about our future and the future of our industry. We know how you manage your company and its employees are the true determinant of your success. You have done a great job during very difficult times. This is quite evident since I don't see any of our industry asking for government handouts. As you see, future correspondence will come from both of our Centers and as always, if you have suggestions on how we can serve you better, please contact us.

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FOREST PRODUCTS BUSINESS NEWS

- Ikea opened up its 36th U.S. store in Charlotte, NC despite weak retail sales in the economy. Source: *The Wall Street Journal*.
- According to *Business Wire*, 2,000 tons of furniture has been saved from the landfill by a company called the The Refinishing Touch. The company re-finishes and re-upholsters furniture on-site saving the customers money.
- A division of J.T. Shannon Lumber Company has been producing plank hardwood flooring under the Shamrock Plank Flooring brand. Source: *The Commercial Appeal*.
- The Wood Truss Council of America's new Structural Building Components Research Institute in Madison, WI will test whole houses in its 30' x 90' x 32' high test facility. Source: *Machine Design*.
- The U.S. announced it will impose 10% duties on softwood lumber from Quebec, Ontario, Manitoba, and Saskatchewan until it has collected \$54.8 million that it is owed due to over shipments in 2007. Source: *The Globe & Mail*.
- According to *Business Wire*, GreenLight Pallet Co. will open a manufacturing facility in Portland, OR. The facility will manufacture a 100% recyclable patented corrugated pallet system.
- The National Association of State Foresters called on Congress to broaden the investment in state forestry programs by developing renewable wood energy systems, and by protecting, enhancing, and restoring forests. Source: *Market Wire*.
- According to the *Herald-Sun*, a new study by Duke University suggests that wood energy should be at the forefront of renewable energy initiatives due to advanced combustion technology and widespread potential in many forested regions of the U.S.
- American Carbon Registry, a non-profit organization, released its forestry carbon project standards which consists of eligibilities, methodologies, quantification tools and additionality determinations. Source: *Business Wire*.
- The National Association of Home Builders recognized structural wood products from iLevel by Weyerhaeuser as meeting their "Green Approved" product seal of approval. The seal of approval is needed for products used in the National Green Building Standard. Source: *Close-Up Media*.
- A wood catapult competition was held in Vancouver, BC in conjunction with BC Wood Works!. Students designed catapults out of wood in order to hit targets. Source: Canada Newswire.
- According to the *Globe and Mail*, an estimated 1 billion tons of beetle killed softwood trees in British Columbia are available for conversion into bioenergy. This could be done utilizing any number of processes.

Forest Products Business News has been designed for educational and engagement purposes only. The intention is to report news that affects various business segments of the forest products industry. Any comments or questions should be referred to: cf.editor@vt.edu

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Needed Research in Forest Products Marketing

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A meeting on determining the research needs in the forest products marketing discipline was conducted after the 2008 Forest Products Society meeting held in St. Louis, MO. The goal of the meeting was to understand different needs related to marketing in the forest products industry in order to improve business competitiveness of the industry. Approximately 10 marketing/management faculty from numerous forest products universities across the United States were involved in identifying and examining various drivers and research issues related to marketing in the forest products industry.

Marketing drivers for the forest products industry

The right marketing strategy will help a firm to target the most appropriate customers for a profit. The forest products industry has been undergoing numerous changes in the past decade that requires new approaches to reach the consumers and identify opportunities. The concept of a flat world is perhaps most relevant for this industry than any other. More than 50% of the U.S. forest products manufacturing has either closed or has moved to outside of the U.S. where cheaper labor and raw materials dominate the manufacturing sector. Additionally, greater mobility of capital, technological innovations, and lower transportation costs on trade routes has shifted comparative advantage to developing countries. **Globalization** is therefore, one of the major drivers of how the industry will look in the future especially in relation to new markets (in emerging nations) that may require new communication strategies, new distribution channels, different pricing strategy and a different strategic focus to meet the needs of the new markets. The domestic market in the U.S. is also changing with more consumers looking for cheaper products, better quality and services, and increased customization. The present generation **customers** are looking to reduce their inventory costs and need products to be delivered as quickly as possible (in many cases, in less than two weeks). This type of change requires customers and the suppliers to collaborate and work as partners in this system to improve the overall efficiencies in the supply chain. **Creating value in the supply chains** is another driver for the new marketing paradigm in the global world that requires replacement of inventories with information. Frequent and better communication and information structure between suppliers and their customers will be the key to establishing efficiency – where both these members have to move from a transactional-based relationship to a partnership. Both the partners have to organize their supply and distribution networks by locating near major markets and **using information technologies** in shipping, ordering and delivery procedures (using GPS, inventory databases, information acquisition devices, etc.) to get the maximum efficiencies out of their transportation systems.

The globalized forest products industry will also look towards a **changing demographic structure** across the world. As emerging markets in Asia and Latin America open their markets to international investments, the economy in that part of the world is improving with the middle class population increasingly being able to spend their disposable income on wood and wood products both in the residential sector as well as in the commercial sector. Domestically, the population is growing older and more diverse at the same time. The large numbers of Baby Boomers retiring over the next decade have highly developed tastes with a need for services and products that have a luxury look or feel. Although the population under eighteen will grow, it will constitute a smaller percent of the total population in years to come—dropping from 25.7 percent in 2000 to 23.6 percent in 2030. In addition, the Hispanic population and Asian population

in the U.S. continue to grow at a rapid rate (E.g., Hispanic population has grown from 393.9 percent in North Carolina to 7.8 percent in Hawaii from 1990 to 2000). Segmenting the markets for the forest products based on the individualized tastes for the diverse population will be very important in the next few years. As the industry moves towards a more global arena, it will also be important for countries to review their *trade policies and tax practices* and make them as flexible as possible for improving the exchange of goods. Trade policies of some countries in Asia (especially China, India, Indonesia, Philippines, Malaysia and Vietnam), Latin America (e.g., Chile and Brazil), and Russia will have a very important affect on the forest products industry supply, demand and markets in the future.

Perhaps one of the most significant growth drivers for the forest products industry in this decade is its small effect on the environment as a renewable resource. The “energy star” labels on products ranging from a single light bulb to large residential structures shows the movement towards more environmental consciousness. With wood being the most *environmentally friendly* building and manufacturing material on this planet in conjunction with rapidly expanding global demand for small *environmental footprint* products that are made from renewable natural resources, it would seem that the forest products industry is poised for significant growth in the future. The merchandizing of products manufactured from a recovered natural resource will help broaden markets and the value added opportunities as the global economy turns GREEN. New and green bioenergy and biofuels are already creating new markets for woody biomass in the U.S. and beyond. As the demand for building materials that qualify for LEED and other green credits continues to expand, there will be an increasing need to create *innovative products* and new strategies to market these products to the “GREEN” customers.

In summary, the main market and marketing drivers for the forest product industry currently and in the future are identified as the following:

- Globalization and free markets
- Changing consumer tastes
- Changing demographic structure
- Supply chain management
- Trade policies and tax practices
- Environmental awareness and carbon footprint
- Communication and use of information technologies
- Product innovation

Research Needs in Marketing of Forest Products

Based on the drivers identified in the above section, the following research needs were identified that would be helpful to improve the business competitiveness of the forest products industry as a whole:

- Identify new market opportunities and efficiency in marketing through an educated workforce;
- Develop sustainable wood products from the forest to support local economies (reinvigorating the local economy of many states that have been dependent on wood products manufacturing);
- Create market-based mechanisms to match the forest resource to the changing needs of the global economy through more efficient supply chain management;

- Examine new promotional strategies to help improve the perception of the consumers about the forest products industry;
- Develop strategies to improve the awareness of the importance of forest products to the global consumer as well as to the GREEN consumer (may include the use of Life Cycle Analysis, Environmental and Carbon Footprint and other means).

Meeting the above research needs will benefit the overall state of the forest products industry by helping economic development in the rural communities of the US that have been traditionally involved in forest-based operations, improve the management and utilization of the forests and promote forest health, have a positive influence on the carbon economy and promote energy independence, and improve the quality of life of the global population. These research needs could be targeted by increasing support for research and development in the above areas through a collaborative effort between the research institutions, the industry (companies and industry associations) and government organizations.

Introducing Dr. Henry Quesada



Dr. Henry Quesada has been working in business and innovation process management for the last 8 years. From 2000 to 2004, an analysis of the wood solid furniture industry was performed to discover the main factors affecting the competitiveness of this industry in the United States. Results of this research project were delivered in the form of more than 25 different presentations in the United States, Australia, and Costa Rica. Also, five peer-reviewed papers from this research were published in journals such as Business Process Management, Benchmarking: An International Journal, Journal of Forest Products Business Research, and Journal of Forest Products.

From 2005 to 2008, Dr. Quesada conducted a business and innovation process improvement research program funded by the Costa Rica Institute of Technology with a \$124,800 grant. This program initiated research and extension activities in core business and innovation process management areas such as supply chain management (SCM), innovation in technology parks, business models for small and medium enterprises (SME), and manufacturing process improvement. Outputs from this research were multiple presentations made in Costa Rica, United States, El Salvador, and Argentina, and four peer-reviewed papers that were published in journals and conference proceedings (four more papers are in the review process). Another important outcome of this research program was the realization that in Central America there is no university innovation and technology undergraduate or graduate university program offered. Therefore, from 2006 to 2008, Dr. Quesada developed (with a ~ \$25,000 seed grant) a regional master's degree program in innovation and technology management. The program is being hosted by the Costa Rica Institute of Technology, and is coordinated with the Institute of Innovation and Technology Management (INGENIO) located at the Valencia Polytechnic Institute in Valencia, Spain.

Dr. Henry Quesada started his tenure at Virginia Polytechnic Institute and State University (Virginia Tech) in August 2008. Work in progress is focused on developing empirical and analytical models in business and innovation process management to support the competitiveness of the wood products industry in Virginia and the U.S. Current efforts are oriented at understanding the relationship between business process management (focus on value-added processes), sustainable process and product innovation, IT, and market opportunities in this industry sector.

Calendar of Events

April 20 & 21, 2009

Remaining competitive in hardwood components manufacturing.

<http://www.woodscience.vt.edu/woodcomponents/>

WERC Princeton, WV

April 30, 2009

Pallet recycling workshop for users, recyclers, pallet manufacturers, and administrators.

<http://www.woodscience.vt.edu/palletrecycling/>

Abingdon, VA

May 5, 2009

Pallet recycling workshop for users, recyclers, pallet manufacturers, and administrators.

<http://www.woodscience.vt.edu/palletrecycling/>

Front Royal, VA

May 7, 2009

Lean thinking for managers, supervisors, and entrepreneurs.

<http://www.woodscience.vt.edu/leanthinking/>

Virginia Beach, VA

May 14, 2009

Lean thinking for managers, supervisors, and entrepreneurs.

<http://www.woodscience.vt.edu/leanthinking/>

Danville, VA