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Executive Director's Message


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"WTCA's Relationship to the Lumber Industry" by Kirk Grundahl

Recently, someone said to me that a large part of the problem that WTCA has with respect to its relations with supplier organizations and trade associations is the first word in our name—WOOD. Because of this word we are viewed by many in our industry and outside our industry as another WOOD (i.e. lumber) trade association and in effect parallel with, if not subservient (due to our being much smaller financially) to, the other wood trade associations like SFPA, CWC, AF&PA, WWPA, etc. The expectation of WTCA under this scenario is that we must be in the business of promoting wood. Therefore, if we wish to participate in wood promotion-related projects with the lumber trade associations, we must pay an equivalent amount to what the other associations pay to participate. For example, if there is a market research study undertaken to determine lumber use in the various framing applications of residential construction that is going to cost $50,000, the wood trade associations automatically assume that our portion of this study should be $10,000 or 1/5th of the total cost if 5 “wood associations” are funding the program, as they view WTCA as a wood association and advancing wood use is expected to be our purpose.

This begs the following questions:

- Are we a wood supplier or a wood buyer?
- Should our industry focus on and promote the raw material (wood) we buy or the product we manufacture (components)?
- Is our industry a wood manufacturing industry or a component manufacturing and distribution industry?
- What should our expectations be of our suppliers and the supplier’s associations?
  - Should they support us and help us build our markets so that we sell more of their products?
  - Or, should we financially support their associations that are in the business of promoting wood?

These are tough, matter-of-fact questions, not meant to be mean-spirited but rather challenge traditional thinking. How we address these will determine our industry’s future direction. It will help to determine whether we are treated the way customers should be treated when a supplying industry is truly listening to a buying industry’s needs and trying to help the buyer increase the amount of product or materials he/she buys. Industries that do this well understand that by serving their customers' needs in the best possible way, they more than advance their own sales interests.

WHERE DOES WTCA REALLY FIT IN THE VALUE CHAIN OF COMMERCE?

Figure 1 is a good visual representation of the market structure and where WTCA members (Component Manufacturers and Distributors) fit in the chain of commerce.

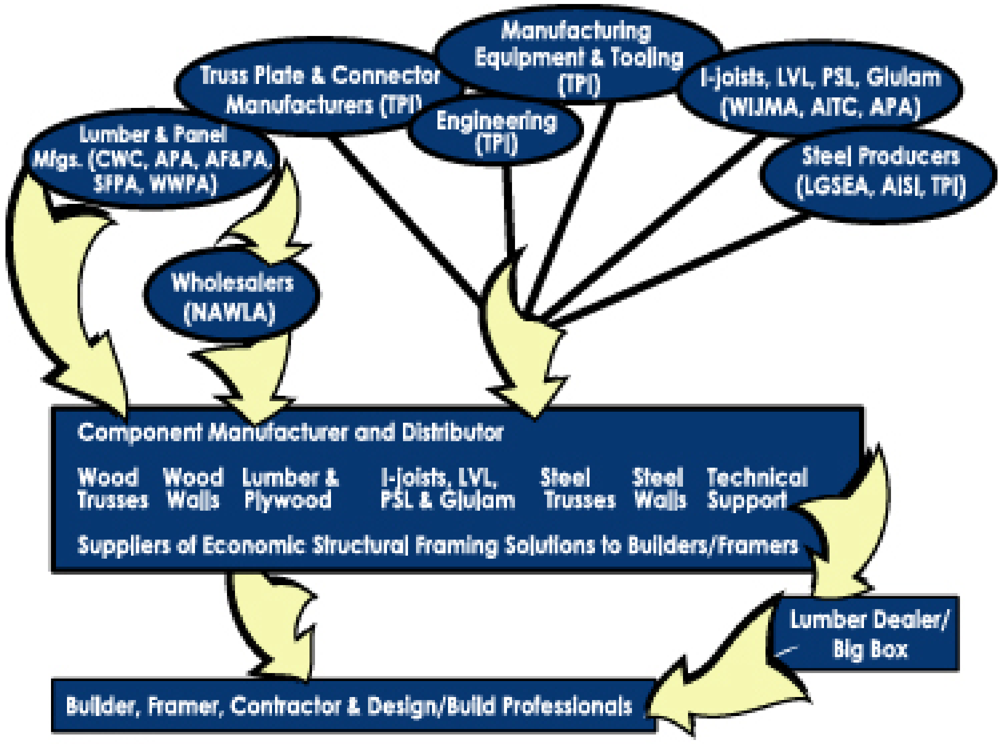

FIGURE 1

The conclusions are probably quite obvious, but for some reason it is often overlooked or just not thought about.

To put all of this in a more poignant perspective, we have had the following statements made to us this fall regarding the funding of our *Smart Components*™ *Testing and Research* project:

Perspective 1

"While we appreciate your efforts to undertake research for the *Smart Components Plan*, we supply very little product to the truss industry and, therefore, respectfully decline to participate," September 21, 1999, letter from lumber company chief executive officer.

	1998			1995		
Species	Volume (m3)	Vol. (MMbfm)	Share	Volume (m3)	Vol. (MMbfm)	Share
SPF	5,488,481	2,325.63	53.87%	1,729,035	732.64	31.68%
SYP	3,594,358	1,523.03	35.28%	2,996,570	1,269.73	54.91%
Dougfir	624,225	264.50	6.13%	633,075	268.25	11.60%
Hemfir	365,852	155.02	3.59%	71,760	30.41	1.31%
Other	115,771	49.06	1.14%	27,265	11.55	0.50%
Total	*10,188,687*	*4,317.24*	*100%*	*5,457,705*	*2,312.59*	*100%*
# of firms	509			414		

The data in Figure 2 is from a market survey of the amount of lumber our industry purchases based on a sample size of 414 companies in 1995 and 509 in 1998.

Other	115,771	49.06	1.14%	27,265	11.55	0.50%
Total	*10,188,687*	*4,317.24*	*100%*	*5,457,705*	*2,312.59*	*100%*
# of firms	509			414		
Trusses	473			401		
Wall Panels	76			59		
Other	16			21		
Vol./firm	*20,017*	*8.48*		*13,183*	*5.59*	

FIGURE 2

This data, along with SFPA, Freedonia and WTCA studies, indicate that the volume of lumber that the wood component industry consumes can be estimated to be seven billion board feet.

Using the percentages above for 1995 and 1998 respectively, this means that our industry used:

- • 2.21 (1995) and 3.77 (1998) billion board feet of SPF.
- • 3.48 (1995) and 2.469 (1998) billion board feet of SYP.
- • 0.90 (1995) and 0.68 (1998) billion board feet of Western Species.

If we assume, again conservatively, that the annual dues to each of the lumber trade associations (SFPA, CWC, WWPA) is $0.20 per 1000 board feet, the contribution truss industry members make when they buy lumber (assuming 43% SPF, 43% SYP, 10% Western Species) adds to these association's respective budgets: $602,000 for CWC, $602,000 for SFPA and $140,000 for WWPA.

What does this mean?

- We buy a good portion of the framing lumber sold (7 billion bd. ft. of a total of roughly 22 billion bd. ft. of total framing lumber consumed in the U.S.) even though some in the lumber industry may not recognize this fact
- We have provided a great deal of revenue to the lumber trade associations over the past 20 years through our purchases. If we assume that our industry's average lumber purchases are 60% of what they are today over that 20-year period and that the percentage use of SPF and SYP is fairly equivalent (at 43%), the amounts we have contributed to each of the individual trade
- associations is $7.22 million to SFPA, $7.22 million (USD) to CWC and $1.68 million to WWPA.
- Certainly one could reasonably ask the question, "What return on investment is reasonable for the truss industry to expect from these dues dollars?"

Perspective 2

"...I noticed in a recent issue of *Automated Builder* that a steel floor joist system has been developed by a company working with NAHB, HUD and the NAHB Research Center—seems an industry of our magnitude [the lumber industry] should certainly command as much, or more, interest and support from these groups." October 14, 1999, letter from lumber company officer.

This is an interesting statement. One that elicits the following thoughts:

- The statement presumes that the steel joist company is being funded and supported by the three organizations mentioned, two of which (NAHB & NAHB Research Center) are customer organizations. Does this make sense, or does it make more sense that the steel joist company is supporting, through significant monetary funding, the two customer organizations and getting some additional assistance from a government program inside HUD? The latter is the actual case.
- Does it really make sense for a supplier to request funding from
- a customer to make product improvements? How many times has that one worked for you? The customer would probably tell you to take a hike and find a different supplier—one that was dedicated to making their own investments to better serve their customers' needs.

CONCLUDING THOUGHTS

We would appreciate the thoughts any of you have on the following funding scenarios:

- Should WTCA fund the lumber industry association driven programs called WOOD Solutions Fairs? Currently, we have provided more than $45,000 of WTCA funds annually to support this lumber industry promotional effort. Or, should we ask the lumber industry to support our presence at these, much like a cooperative advertising program that many suppliers provide for their customers?
- Should WTCA fund any of the following lumber industry association driven projects? (The budget amounts are in parentheses.)
- Pro-Wood Initiative—"Wood is Good"—Consumer advertising campaign seeking to reduce consumer guilt over using wood ($15 million per year over three years).
  - Promoting Greater Wood Use Schools in Mountain States ($100,000 total).
  - Commercial Market Study—to determine current wood use in commercial applications and to look at expanding wood use opportunities. ($70,000 total).
  - Wood Products Council Web Page—Gateway creating links to all associations advancing the use of wood products. Without funding there will probably be no link to WTCA's site ($4,900 total).
  - Wood Products Council Help Desk—a call-in desk to provide assistance with wood based questions ($ unknown).
  - Industry Wood Use Forecasting ($ unknown).
  - Student Design Awards ($56,000 total).
  - Design Awards (Wood Design & Building) ($15,000 total).
  - ACSA Construction School ($8,500 total).

As stated earlier, if WTCA has an interest in any of the information in a given project, WTCA has been asked to contribute a significant portion of the budgeted amount, with the specific amount depending on how many groups are funding. In other words, the only way we can participate in a program and provide a customer point of view in helping the project be successful, is to contribute funds.

Take, for instance, the "promoting greater wood use in schools" project above. If we do not participate in funding we will not have a voice in how the program is structured and implemented. Yet to effectively implement greater wood use in schools it likely means using wood trusses. One would think that having wood truss industry involvement would be very valuable to this program and help it achieve its full potential for success, since we have a good feel for the market. Yet without paying to participate we will be denied a voice that could help the project achieve true marketplace success.

Am I crazy, or does it just make good business sense that listening to our needs as an industry and filling them should be considered to have great value to the lumber industry all by itself? And, that if by listening to the market and filling market needs we happen to sell more wood trusses, that would be in the lumber industry’s best interest as well?

I personally look forward to the day when the lumber industry completely recognizes this segment of the construction business as a valuable segment and begins to make significant investments in its success by providing the truss industry (WTCA members) with good information and support, financial and otherwise. All of us that operate small businesses day in and day out know that the company that is aware of its costs and understands the economic structure of the market will win, because the only solution that ultimately wins in the game of business is the economic solution that has the greatest value in solving the customer’s problem. It seems like there is still a great deal of work to be done on this problem, isn't there?

Here’s to the day when the hard work is done first by listening and then by investing in activities that help the truss industry provide valuable economic solutions for our customers.

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