

by MICHAEL GUO

US hardwood lumber market in China: Outlook in 2009

This article takes a look at the current and future American hardwood lumber market in China for the year ahead, and gives suggestions on where potential growth spots are.

As a whole, China's exporting industry – which has been based on cheap labour costs – will probably be maintained to some extent in the year 2009, though they may continue the slow decline as seen in 2008. There are factors that will lead to some hard times ahead:

- A strong Chinese Yuan exchange rate, which has been rising at about 10% annually in the past two years as China partially opens its foreign exchange regulations in 2005.
- Not only is the US housing market in a downturn, even the European market is showing signs of the same. These are the two biggest markets that the China woodworking industry exports to, with the US alone accounting for more than 50% of total furniture exports in 2006.
- While domestic inflation rate lowered in 2008Q3, it is still not likely go down to the level that enterprises want, given increasing pressure from rising labour, power and material costs.

However there are also some good news for both the Chinese woodworking and US hardwood industries.

First, the Chinese government has already begun to stimulate the domestic economy as the too-quick tightening strategies of 2008 caused many export-oriented factories to shut down in Southern and Eastern China.

Positive policies include the increase of an export tax rebate, lowering of bank interest rates and approving loans to small and medium enterprises, implementing of new labour laws that will slow down the sharply rising labour costs across the

board, and encouraging and supporting technical innovations in the traditionally low-profit manufacturing industry.

Second, while the Russian log export tariff of 80% did not happen from Jan 1, 2009 as scheduled – this means that the expected dramatic shrinkage of supply and price rise will not happen – many Russian wood users have already been seeking new sources since 2007, either from North America or Europe. Russian imports account for more than 60% of China's annual log import (Ash log accounts for 99% while Oak makes up 78% for same species imported in 2008H1). As such, there is still a big opportunity and challenge at the same time in the Chinese woodworking market.

Some market trends

Domestic-oriented factories are growing relatively faster even as the export market declines. In China's woodworking industry, the domestic- and export-focussed businesses are different in staff requirements, production sizes, style and design demands, quality standards and marketing strategies. With these as two differing markets, it is very seldom a company handles both markets at the same time. In the booming domestic market however, American Red Oak, Alder and Ash are getting popular among Chinese consumers.

Other observations in the domestic woodworking industry are:

- Northern and woodworking industries located inland are growing faster as they have much better developing prospects than

in the Eastern and Southern regions. In these areas, where the local economy has already developed to such an extent that traditional manufacturing industries do not have any advantage in acquiring resources (land, labour, fund) when competing with new high-tech and high-profit industries. In other developing regions however, local employees prefer being employed by factories.

- Smaller sized factories grow faster, as they are more flexible to change and in plugging into the market gap to survive, while industry giants' massive production capabilities make them slower to change radically.

- An industry knowledge transfer is currently taking place from mainland China to Vietnam, Thailand, Indonesia, India, although it is on a trial basis in many factories. This is what happened before from Europe to Taiwan, then from Taiwan to mainland China.

- Local hardwood distributors are growing fast. There are already a few household names such as A.M, Honghong, Tianrn and Senhuan. While they have only been in business for 5-6 years, they have gained great success not only in riding on the hardwood demanding curve, but also in their ability to offer

more convenience and customised supplies than the US suppliers.

How to perform better

- Back to basics. There are always some fundamental elements that will decide to a large extent the standards that the company can achieve in terms of accurate quality controls, management, customer service satisfaction, just to name a few. Every company knows these aspects well but nobody

has been able to reach these standards consistently and well enough. In the lumber industry, I have seldom seen a supplier who can *always* ship the right grade, the right color, at the right time,

to the right port, with all correct documents to the right address. It's also not easy to find a sales person who is professional and diligent enough, and with the initiative to take this business as personal career achievement, instead of doing it for financial gain.

- The sales channel should be as close and convenient to the customer as possible. Other than having its own sales staff, having a close distributor as a partner will help greatly. Besides the available stock they can offer, they can also do

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Most of the woodworking capability in the country is export-oriented

many things that a US company may not be able to, in terms of tax issues, domestic logistics, collection policies, customised specifications, and the ability to be available 24/7.

- Regarding new emerging markets, do pay attention and give some new markets a shot other than looking to traditional Eastern and Southern China ones, as competition there are already fierce! New markets that have much less competition are Chongqing, Wuhan, Zhengzhou, and additionally, US hardwoods are getting more attention there. Southeast Asia is also the next emerging market, hence the earlier one can get in, the better a position one can take up.

- Other than promoting and building on a brand name, aim to be a top household supplier. Reputation may be slow to build up but it will pay off in the long run and cannot be easily overtaken by competitors. Other than participating in trade shows, advertising in magazines and visiting customers – which is what all lumber companies are doing – do try some other promotional activities that allow customers to understand the company in more detail and in an impressive way, such as publishing articles that introduce the company's ideology, quality and history.

- A comprehensive seminar that not only explains hardwood uses but also other materials which customers have a strong interest in (such as new machinery and technology, design training, etc), is another way. We can do more than what our competitors are doing if only we are willing to shift our perspectives.

- Learn to keep up on the market's latest fashion trends. Red Oak is likely to keep increasing in popularity and uses in the coming years, mostly in engineered flooring, in random widths or cut-to-sizes. Very few US suppliers can do this directly, and have left these opportunities to local distributors in selling customised specifications. Many industry insiders are convinced that the random widths market (now in Red Oak, and maybe in other species later on), will be the next hot spot even as domestic consumption of US hardwoods grows in China. **PFA**

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Random-width lumber produced in China

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