

WOODWORKING & HOUSING: IMPACTS & ACTIONS



The woodworking industry

relies heavily on the construction-based markets, particularly those companies involved in cabinetry, furniture, millwork and components. Market conditions, trends and investments all have an impact.

It's against this backdrop, that the sixth annual housing market study was conducted in early 2015. A joint effort by Virginia Tech, the U.S. Forest Service, and *Woodworking Network*, the study examines the changes in the market and the outlook for the future. (See "About the Survey," page 72.)

As they have for the past three years, the construction-based markets continued an overall growth trend in 2014. U.S. Census Bureau figures show (**Fig. 1**) spending on single family housing, multi-family housing, and nonresidential construction increased but repair & remodeling declined.

The largest proportional increase was in multi-family housing, which grew by 38% from 2013 to 2014, while single family housing increased by 12%. Increased activity in multi-family housing construction likely reflects, in part, affordability factors for single-family homes, especially for potential first-time buyers.

Business Performance & Markets

An analysis of year-over-year sales performance over the past six years reveals continued gradual improvement for the companies surveyed.

In 2009, 81% of respondents reported losing sales volume; by 2014, this proportion had declined to 21%. Furthermore, the proportions of respondents in the Somewhat Better (sales up by 10%) and Much Better (sales up by 20% or more) categories have been increasing or holding steady each year, with nearly a

quarter responding that their sales rose 20% or more in 2014. This year's results also show an increasing number of firms with sales unchanged year-over-year, which suggests a stabilizing marketplace.

2014 also saw movement away from the residential housing market, toward other sectors. The proportion of respondents with one-fifth or more of their production volume in single-family construction declined from 58% in 2013 to 52%. There was no significant change for those companies heavily involved in residential repair & remodeling market (61%).

Conversely, the percentage of respondents indicating more than one-fifth of their production volume was in the non-residential construction market increased by 6 percentage-points in 2014, to 38%.

Actions to Increase Sales Volume

While sales growth was still viewed by

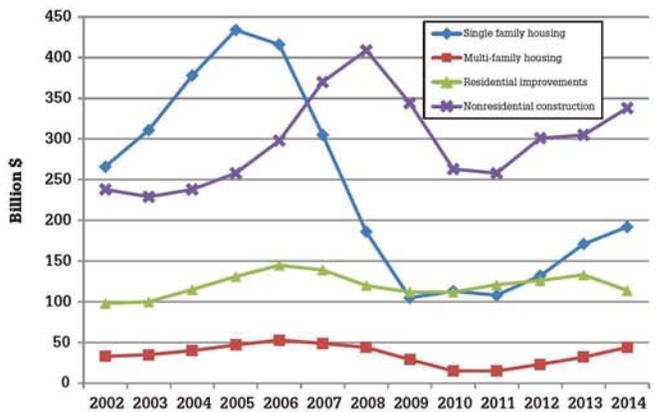
HOUSING STUDY continued

respondents as largely “economy dependent,” there was evidence of increased firm-specific activities, including offering new services, entering new markets with existing products, and seeking productivity improvements (**Fig. 2**). This trend might indicate the increased need firms have to generate new business and lower costs.

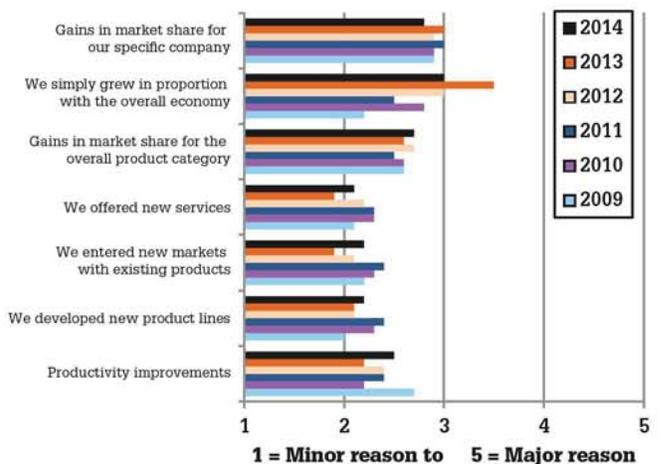
There was also a mix of factors for those reporting declines in sales, including economic and market downturns, offshore competition, domestic competition and non-wood substitutes.

So what are companies doing to grow their sales? In order of popularity, these methods include: marketing/advertising-based activities; improving productivity/lean manufacturing; development of new products and/or new distribution channels; new equipment purchases; development of e-commerce/use of social media/improved websites; sales force expansion; plant and/or showroom expansions; improving customer service; and increasing workforce training.

 **Figure 1. Value of private U.S. construction put in place, 2002-2014 (U.S. Census Bureau)**



 **Figure 2. Perceived reasons for sales volume increases by study year**



Planned Investments

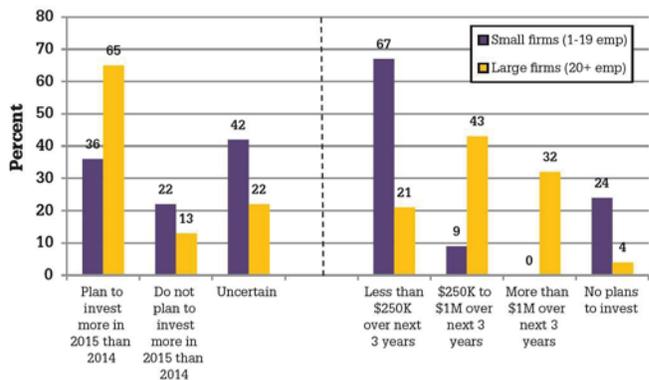
How much are companies willing to invest in improving their productivity and capabilities? The sample was divided into small firms (1-19 employees) and large firms (20 or more employees) for analysis.

While a majority of large firms (65%) planned to invest more in 2015 than 2014, just over a third of the small firms said they would do likewise (**Fig. 3**). And while 75% of the larger firms planned to spend \$250,000 or more over the next three years, only 9% of the smaller firms acknowledged the same, with 67% saying they would invest less than \$250,000.

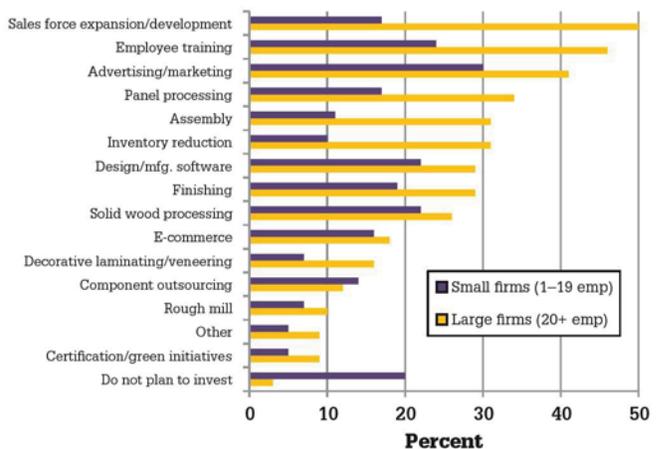
Also assessed were the general categories where investments were planned. In nearly every category except component outsourcing, a higher percentage of large firms indicated planned investments than did small firms (**Fig. 4**). This was especially true for inventory reduction, assembly, and sales force expansion.

This suggests that many large firms are expecting to expand

 **Figure 3. Investment plans to improve productivity or capabilities**



 **Figure 4. Areas for investment over the next 3 years**



sales in the next three years, and are looking to become leaner. For the 1-19 shops, the areas targeted for investment were advertising/marketing communications (30%), employee training (24%), solid wood processing (22%), and design or manufacturing software (22%). For

shops with 20 or more employees, the areas for activity were sales force expansion/development (50%), employee training (46%), and advertising/marketing communications (41%), followed by panel processing (34%), assembly and inventory/reduction (both 31%).

Batch One with Higher Price Points

Demand for batch one processing remains important to secondary wood processors; half of the respondents indicating that over 80% of their overall product mix could be classified as made-to-order. However, this number has shown some decline, down 10% from 2013, and 15-20% compared to prior years.

The industry also continues to target higher price-points, with 68% saying they operated at medium-to-high or high price-points, which is similar to previous years. And while green building products are another market where you would think secondary woodworkers might be able to leverage sales volume, this does not seem to be the case. Over the course of the study, there's actually been a declining trend in the number of respondents reporting "increased interest" by customers for sourcing these types of products.

On the source and supply front, the Made in America movement continues to gain ground. In this year's survey, 84% of the responding companies indicated that more than 60% of their 2015 sales would result from domestically produced and/or sourced products.

A much smaller amount, 24%, said they had increased the usage of wood imports in their lines over the past five years: 52% brought in components or lumber, 22% imported finished products, and 26% imported both finished products and lumber or components.

Survey at a Glance

This year's study continues the trend of more firms indicating year-over-year sales increases — and likewise more firms noting that sales were unchanged. Overall, a stable or improving market was perceived by most respondents.

However, we're seeing a shift in the primary driver of sales performance, from housing construction and remodeling markets specifically to the economy in general. Correspondingly, fewer firms

were directly involved with the single-family housing market in 2014, and more were involved with nonresidential construction.

This indicates that the secondary woodworking industry is diversifying its dependence on single-family housing as

recovery from the 2007–2008 crisis remains somewhat sluggish. The uptick in firm-specific activities to increase sales in 2014 also suggests that the economic environment remains somewhat challenging for many woodworkers, with fewer firms having indicated that a rising economy

alone was enough to improve sales.

Overall, 76% of small firms and 96% of large firms indicated they planned to invest to improve productivity or capabilities over the next three years.

About the Survey

This is the sixth consecutive year of the Housing Market survey. The 2015 study was conducted in February/April via e-mail to *Woodworking Network* subscribers. A total of 228 usable responses were received.

Similar to years past, kitchen/bath cabinetmakers comprised the largest percentage of the sample, representing 32% of respondents. Nearly 18% were household furniture producers, 12% were millwork manufacturers, 7% were architectural fixtures firms, 7% were producers of dimension or components, and 5% manufactured office/hospitality/contract furniture. While an additional 20% indicated their production was in “other” categories, most could reasonably be classified into one of the aforementioned categories (especially millwork); closets again were a somewhat common product area. Like past years, most responding firms were small, with 49% having sales of less than \$1 million in 2014, and another 28% having sales of \$1–\$10 million. Furthermore, 65% of respondents had 1–19 employees.

Almost half of the respondents (46%) held positions in corporate or operating management, and another 18% indicated they were the owners of their respective firms. Responses came from 40 states, with CA, NC, IN, PA, IL, MI, NY, TX, and OH each accounting for at least 4%.

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