



Since 1928

The Standard

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Demand the Appalachian Standard

March 2005



Attendees Call '05 Annual Meeting "Great"

KIAWAH ISLAND, SC - The term "great" was heard repeatedly following the close of the 2005 Annual Meeting of Appalachian Hardwood Manufacturers, Inc.

"This truly was one of our best meetings in several years," said AHMI President Mark Barford. "We had one of the best crowds with a mix of new members and long-time friends. We had terrific speakers on timely subjects that were well-attended.

"And everyone was extremely pleased with The Sanctuary as a meeting location," he said. "Combine these three, it really made for a great meeting."

More than 245 people attended the meeting, a near record crowd. Several companies sent new representatives to the meeting to begin building relationships with AHMI members.

The business sessions offered participants details on a variety of topics from family business issues to hardwood lumber markets. Details from these sessions are explained in stories throughout this newsletter.

The AHMI Board of Trustees approved the plan for work for 2005 and highlights include an Oak Promotion, continuation of the "Yield Matters: Appalachian FAS" campaign, trade shows and exhibits across the U.S. and in key export markets, educational programs, and discussion of an Appalachian Forest Research program.

"The staff has its work cut out this year to accomplish many new programs and continue several existing efforts that have been successful," Barford said. "Our members should be excited to read about these in this newsletter and be on the lookout for more details in the coming weeks."

The meeting had its usual array of social and

Producers Talk About Oak

KIAWAH ISLAND, SC - The Producers Division of Appalachian Hardwood Manufacturers, Inc. agreed that a new strategy to promote oak will be an emphasis for 2005.

More than 50 members of the sawmill division discussed the recent decline in oak markets and strategies to address it. The dialogue offered AHMI staff excellent suggestions for a course of action.

"Appalachian producers are very aware of what has happened to the oak market and offered specific ideas for ways the association can continue to work for them," said AHMI President Mark Barford. "The staff and board of trustees discussed the suggestions and are developing plans that will be unveiled as soon as possible."

Annual Meeting Reports

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Family Issues Require Attention - page 6

sporting events. Winners were announced and prizes awarded at the meeting.

"We are truly looking forward to our summer meeting at The Nemaocolin in July where we will update the membership on these new programs and plan to have another opportunity to gather and share ideas," Barford said.

More details on that conference and registration materials will be available in the April newsletter.

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APPALACHIAN Future Meetings

2005 Summer Meeting - July 24-26

The Nemaocolin, Farmington, PA

2006 Annual Meeting - Feb. 23-26

The Registry Resort, Naples, FL

2006 Summer Family Conference July 22-24

The Homestead, Hot Springs, VA

Mark my words.....

**By Mark A. Barford, CAE, CF
President**

Wow, what a great Annual Convention we just completed. Great location, good crowd, on-topic speakers, and plenty of time to visit with each other in a relaxed setting. In case you missed it, I think the general consensus was to return as soon as possible so you may get your chance soon.

There were a couple of primary concerns that were repeated throughout the general meetings and in the hallways afterwards. The first topic was the declining demand for Oak. We know that one of the advantages found in the hardwood lumber industry is that we can offer our customers a wide variety of species, grades and cuttings. Final consumers seem to prefer having many options when they buy furniture/cabinets/flooring and with the over 80 commercial species that come from the American forest, we can pretty much meet their demands.

The problem is, that if consumers turn away from Oak, they are hitting such a large part of our production that it has a dramatic effect on our operations. The members gave AHMI staff a lot of suggestions for dealing with Oak and you will see our new promotional efforts rolled out in the next few weeks.

Another big topic of discussion was product labeling, or more correctly mislabeling. It is illegal for a company to mislabel a product regarding where it was made or what it is made from. That does not stop the confusion in the market place created by all the woods that are made to "look" like other woods.

Although there is a clear country requirement, how visible that mark is and where it is located is not clearly defined. Staff has been asked to look at this as an issue to see where we may be able to join with other manufacturing groups that are being effected by imports.

The year 2005 promises to be an exciting year for the Appalachian hardwood industry and AHMI. Please plan to attend our Summer Family Conference in southwestern Pennsylvania July 24-26 to become involved in guiding us to make a difference in issues that effect your operation.



Mark A. Barford

Cummings Joins AHMI Board

Roy W. Cummings was named to the AHMI Board of Trustees at the 2005 Annual Meeting. He will fill the seat vacated by Pat Kenny, Georgia-Pacific Corp.

Cummings is president of Cummings Lumber Corp., Troy, Pa. The company has a bandmill, planing mill, dry kilns and retail lumber facility.

"We are very pleased to have Roy join our board and look forward to his input," AHMI Chairman Ed Ramsey said at the announcement.

AHMI Thanks Sponsors

AHMI would like to thank the following companies for their sponsorship of events at the 2005 Annual Meeting:

Business session speaker: **Pennsylvania Lumbermen's Mutual Insurance; Southmark Consulting; Hardwood Market Report**

Friday reception: **Corley Manufacturing**

Saturday reception entertainment: **USNR**

Coffee breaks: **Forestry Systems Inc.; USNR**

Golf tournament prizes: **Aurora Timberlands Wholesale Hardwood Lumber**

Golf tournament refreshments: **SII Dry Kilns**

Tennis tournament: **U*C Coatings**

Sporting Clays Tournament: **Arch Wood Products**

AHMI Seeks Survey Help

HIGH POINT - Appalachian Hardwood Manufacturers, Inc. is asking members to help survey wood usage and design at the Spring International Home Furnishings Market.

The spring market is April 14-20, 2005. AHMI is seeking volunteers to walk through furniture showrooms and view all wood furniture on display. The participants tally the species, the design and its manufacturing origin on scoresheets.

AHMI compiles the data and publishes an annual report which is used by the media and the furniture industry to track trends.

The survey dates are April 18 and 19 beginning at 8 a.m. The survey dates precede Supplier Days at market when showrooms are open to suppliers to the industry. AHMI has a block of rooms available at an area hotel. To register, please contact Inman at the AHMI office at 336-885-8315 or e mail to tom@appalachianwood.org.

Cabinet Demand Driven By Fashion Of Wood

Cabinet design is following the fashion of furniture.

That was the report from Rick Lovorn, director of manufacturing for Masco Builder Cabinet Group. He spoke to attendees at the 2005 Appalachian Hardwood Manufacturers, Inc. Annual Meeting.

In 1998, Merillat was stock cabinet company producing primarily oak cabinets. Today, the company manufactures 50 percent stock and 50 percent more ornate designs with lots of mouldings.

"We are bringing our customers in and asking them what they like, what they would like to see and then working on the designers to meet those demands," Lovorn said.

While Merillat still produces about 40% of their cabinets in oak, 40% is maple and the remaining 20% other woods and surfaces.

Lovorn was asked about species selection for cabinets noting the recent increases for maple and reduction in oak. The attendee asked if there was a price point when one species can override fashion trends.

"It is difficult to understand that because we know that our raw material costs are rising so we in turn are increasing the cost of our cabinets," he responded. "We don't know where that point is."

Another question asked that oak represents about 30 percent of the available wood while maple and cherry make up 8-10 percent of the hardwoods available. How is Merillat preparing for the economics of using hardwoods that are in lower supply, the attendee asked.

"Fashion is such a fickle thing. Today's consumer, however, is willing to pay a premium, right now, for the product," Lovorn said.

The company has targeted lean manufacturing as the way to reduce costs. "We had to explain to our employees that change is job security. Look around you and all of the furniture companies have sent part or all of their manufacturing overseas. If we are going to survive, we had to do something. We have by becoming more efficient with emphasis on process."

Merillat has studied its business from the time that raw materials show up until the finished product leaves. The company has dramatically reduced processes and inventory handling and have found tremendous gains in production.

Merillat follows the homebuilding industry very closely. "Interest rates are still low so people continue to build like crazy," he said. "The key to home



**Merillat's
Rick Lovorn
(left)
and
AHMI
Chairman
Ed Ramsey**

building today is who controls the land. If you control the land, you control the building."

Big homebuilding companies are using market research and upgrades to market their homes to consumers. "At Merillat, we are working on these sorts of things in response to what is happening in the marketplace," he said.

The Masco Builder Cabinet Group and produces Merillat and Quality Cabinets brand cabinets. The company has researched how consumers act and react to model homes.

"That has never been done before in the cabinet industry," Lovorn said.

The research asked: What happens when a person walks into a model home? What do they look at in the kitchen? In the bathroom? Is it the vanity? The crown mouldings?

"We have been able to give that data to the big builders to help them in designing their homes and the cabinets that are included," he said. "We want to be specific in the way that we meet the demands of the public and we believe that creates an advantage for us. It also allows us to create partnerships with these big builders for the future."

For the past three years, Masco has been committed to growth in brand awareness. The company has grown from a garage in 1946 to today \$1.2 billion in sales.

"To continue to grow, we have to do a better job in marketing our products," he said. "We try to market out cabinets as fashionable chic with a lot of upgrades in the cabinets.

We want to sell up in the marketplace the extras that are available in cabinets.

"We are taking marketshare with 8% growth in 2004 and predicted 8.5% growth in 2005," Lovorn said. "Our competitive advantage is 5-day delivery. You order your cabinets today and they are delivered to the homesite in five days. Big builders love that, distributors love that and no one else is even close to it."

Johnson Offers Report On Hardwood Markets

The hardwood lumber industry is based on the relationship between supply and demand but the fact is it is not simple at all, reported Judd Johnson, editor of the *Hardwood Market Report*.

Johnson spoke at the 2005 Annual Meeting of Appalachian Hardwood Lumber Manufacturers, inc. He said that lumber businesses are complex because they have multiple inputs and multiple outputs and much of what affects the industry comes from the outside.



Judd Johnson

and then Sept. 11 occurred and uncertainty in the world dramatically hit the lumber industry.

Production in 2002 was 10.7 billion board feet and the supply of logs was level. Markets for lumber continued to improve in housing, cabinet, flooring and moulding. After three consecutive years of decline production made gains in 2003.

Johnson explained that U.S. hardwood production for 2004 was 10.8 billion board feet, the highest number since 1999.

Demand for hardwoods had mixed results in 2003 with continued changes in a variety of markets. While railway tie consumption posted gains of 14% from 2002 to 2003, furniture and dimension components were down a combined 12%. All other wood industry consumption remained constant.

Over a four-year period from 1999-2003, flooring and cabinets posted modest gains for consumption of hardwoods while furniture and dimension were again declines.

Johnson detailed housing starts and remodels for the past decade. Spending in both categories continues to climb as interest rates remain low.

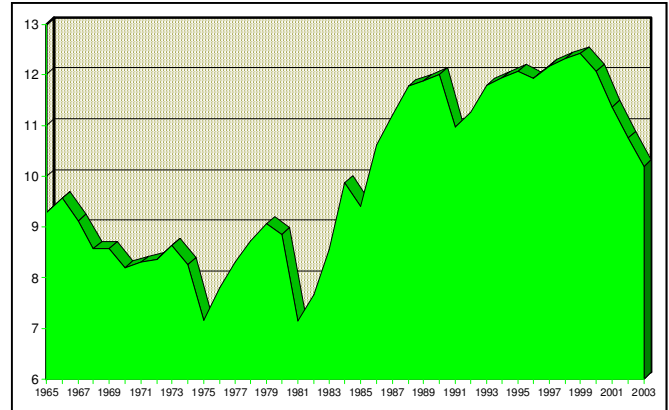
"We see more hardwoods in the home in cabinets, flooring, moulding and millwork," Johnson said. "The low interest rates are fueling the engine for our markets in construction."

Johnson said furniture imports to the U.S. con-

Eastern U.S. hardwood production crossed into the 10 billion board foot mark in 1986. It hit 12 billion board foot mark in 1990, a new record output total.

Production declined sharply in 1991 but was short-lived and back to 12 billion in the mid-1990s to a high of 12.4 billion board feet in 1999.

In 2000, the market hit oversupply through mid-2001



**Eastern U.S. Hardwood Production:
1965 to 2003 (In Billions of Board Feet)**

tinue to rise to \$3.5 billion in 2004. Other Asian countries contributed an additional \$1.5 billion in wood furnishings.

"The domestic wood furniture industry has declined dramatically from 1999 to 2003 and fashion has incorporated lower grades and international species," he said. "Consequently, less 1 common Red Oak is being used."

Johnson also explained that the species shift is on in the cabinet industry from Red Oak to Hard Maple and Birch. Citing figures from cabinets displayed at an international builders show, he said maple was the market leader with more than 40 percent, cherry was 25 percent and oak was just over 10 percent of the cabinets on display.

"Besides the species changes, the cabinet market has been nothing short of phenomenal for the hardwood industry," Johnson said. "Cabinet sales have increased for 105 consecutive months through December of 2004."

Hardwood flooring markets remain strong for flooring manufacturers, Johnson said. The industry completed 2004 with more than 667 million board feet of product shipped.

Johnson said hardwood lumber exports have remained constant in recent years. Shipments have hovered at 1.2 billion board feet from 1999-2004. For 2004, hardwood lumber shipments to Vietnam increased 130 percent, China rose 40 percent, Mexico was up 37 percent, Taiwan increased 32 percent and Malaysia was up 39 percent. Red Oak, White Oak and Maple were export leaders.

"There is one thing that is certain, Red Oak is critical to the North American hardwood industry and until we reach an equilibrium with supply and demand, there will continue to be some changes happening on the production side," Johnson said.

Imports Move From Lumber To Parts, Flooring

Change has been the mainstay of the lumber imports and more is in order, reports one veteran businessman.

Stewart Sexton, president of U.S. Operations for DLH Nordisk, spoke to participants in the 2005 Appalachian Hardwood Lumber Manufacturers, Inc. Annual Meeting. He has been in the lumber business since the 1970s and joined DLH Nordisk in 1987.



Stewart Sexton

"At the time, our company was 100 percent Brazilian mahogany lumber imports," Sexton said. "In 2004, the company imported less than 40% sawn lumber while decking and flooring made up 42% and machined products at 20%.

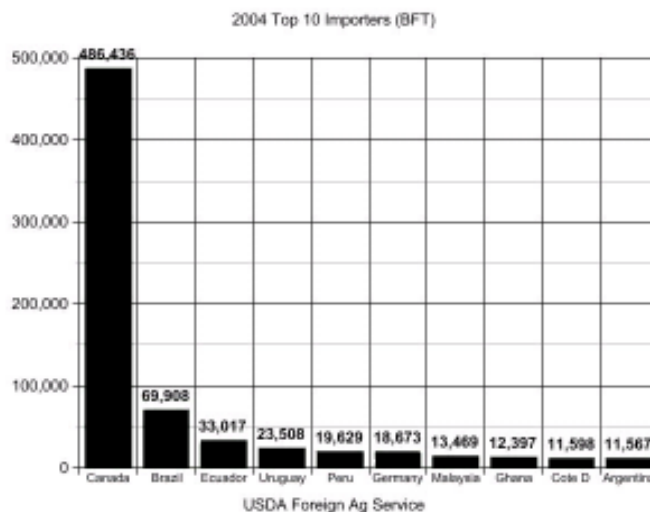
"What happened to mahogany? It started a downhill slide and has gotten worse," he said. Mahogany has lost favor

with many consumers, there are sanctions against the raw materials from South America and it has been replaced with lumber from Africa.

Sexton said lumber importers are tied closely to schedules and the weather. The rainy season varies in most lumber producing countries and purchases are made for delivery during the dry season.

"The time between placing orders and receiving orders is very tricky with many purchases made six months to one year in advance," he said.

Canada leads all countries in exports to the United States with . Brazil is second, then Ecuador and Uruguay.



Hardwood parts and mouldings imported into the U.S. come from 1-China; 2-Chile; 3-Malaysia; 4-Indonesia; 5-Brazil; and 6-Canada.

Hardwood flooring imports is the fastest growing segment of DLH's business, he said. Unfinished flooring has been dominant but is losing share to prefinished orders. Sexton cited an industry forecast that imported flooring is only expected to increase as fashion trends to imported pieces.

Sexton is a graduate of North Carolina State University with a degree in wood science and technology.

"The bottom line to all of this is that people are always looking for change. Things are changing and foreign lumber producers face more government regulation. But a lot of our business still comes down to costs," he said. "People are always interested in looking at new product but then they ask is it cheaper than poplar and we usually have to say no."

AHMI Show Schedule

Appalachian Hardwood Manufacturers, Inc. has prepared its trade show promotion schedule for 2005.

"As part of the Yield Matters and the newly proposed Oak Promotions, we will marketing Appalachian hardwood lumber and our members in new places this year," said AHMI President Mark Barford. "We expect big results from these shows."

AHMI will exhibit or participate by walking the floor and distributing literature at each show listed to the right. AHMI members are asked to review the list and contact the AHMI staff if there are additional shows we should consider.

"We will also provide members with their own booth any AHMI literature if they wish," Barford said.

Jan. 26-27 IHLA, Indianapolis, IN

Feb. 17-18 Carolinas Woodworking Expo, Greensboro, NC

April 14-20 Intl. Home Furnishings Market, High Point, NC

April 24-27 Western Wood Products Convention, Maui, HI

May 10-13 AHEC Seminars and Trade Show, Caribbean

June 5-8 Kitchen Cabinet Manufacturers, Denver, CO

June 9-12 NOFMA, San Diego, CA

July 25-29 World Furniture Market, Las Vegas, NV

July 27-30 Association of Woodworking & Furniture Suppliers, Las Vegas, NV

Sept. 14-17 NHLA Convention, New Orleans, LA

Oct. 20-26 Intl. Home Furnishings Market, High Point, NC

Oct. 28-30 Woodworking Machinery & Supply Expo, Toronto

Nov. 3-4 Midwest Woodworking Expo, Grand Rapids, MI

Dec. 8-9 Florida Woodworking Expo, Orlando, FL

Family Business Author Details Succession

Family businesses often place too much emphasis on the family or on the business and neither is good, a family business consultant said at the 2005 AHMI Annual Meeting.



Ernie Doud

Ernie Doud, of DoudHausnerVistar of Glendale, CA, spoke on "Breaking the Barriers of Family Owned Business." Families in business often want prosperity, harmony and personal well-being. They often get underperforming businesses, unresolved conflict and ambiguity.

"The key to families in business is balance," Doud said and illustrating with a triangle. "Goals for any

family only business can be achieved when there is balance of both the family and the business."

The business owner and often the founder must make plans for passing the company on to the next generation. The owner must be willing to transfer the power and move on.

Many families struggle with the concept of people over business or people over business. Doud said it does not have to be one or the other and successful transitions include a combination.

The program was followed by a breakout session sponsored by AHMI-member Southmark Consulting, Charlotte, NC, on Successful Family Succession. Alex Shumate lead the group in a discussion of financial planning to prepare a family business for transition.

Fuel Costs, Regulations Drive Trucking

Higher costs continue to drive major concerns in the trucking industry, said the president of the South Carolina Timber Producers Association.

Crad Jaynes is a graduate forester of Clemson University and has been working in the forest products and timber harvesting segments for 28 years. He has been with the SCTPA since 1999.

The association represents logging contractors, timber dealers and timber truckers and is a charter member of the American Loggers Council.

Jaynes talked about timber resources and the costs associated with timber harvesting. The focus of his remarks, however, were on transportation issues for the forest products industry.

Roundwood whether it is pulpwood or logs, or in-woods chips and woody residues must be moved from harvesting sites to processing points and trucking is the most used component. Transportation is often the second largest cost for raw materials in the forest products industry, he said.

Higher diesel fuel costs have caused a great amount of stress for loggers. Diesel fuel costs are nearly \$2 per gallon today, with about 25% going to fuel taxes.

The IRS proposed the elimination of the exemption for mobile machinery from federal excise and highway use taxes about two years ago. The industry, led by FRA & ALC, helped maintain the exemption that was included in the Jumpstart Our Business Strength (JOBS) bill passed last October, Jaynes

said. The exemption, if eliminated, would have levied as much as \$200 million in added taxes annually.

An unintended consequence of the new law is the change in the way tire excise taxes are calculated for over-the-road trucks & trailers, something that industry did not notice until after the bill was signed into law, he said. The old method figured the tax on the weight of the tire; the new tax uses the maximum rated load capacity. The impact of this new method on tire taxes for the industry has not yet been determined.

At the beginning of 2004, the Federal Motor Carrier Safety Administration (FMCSA) began enforcing new regulations for the hours of service that truck drivers can work each day and week. Before long, safety groups like Public Citizen filed a lawsuit in federal court challenging the new rules saying they do not go far enough to prevent driver fatigue. The Court agreed and rejected the new rules last July.

Congress, however, passed a one-year extension of the highway bill that retains the current regulations until new rules are adopted, or September 30, 2005, whichever comes first.

"Can we continue our course? Sure we can and watch our forest products industry continue to erode here on our own soil," Jaynes said. "But if we come together in a mutually respectful and beneficial partnership, we can sustain our industry, and that industry is all of us, for the betterment of our businesses, industry and economy."