

**An Analysis of the US Distribution System
in Secondary Manufactured Wood Products**

Working Paper 97.05

by

Pip White and Gianni Scaramella

Project Director

**Dr. Bill Wilson
Canadian Forest Service
Victoria, BC**

June, 1997

Funding Support

Completion of this report was supported by the Canadian Forest Service and the Opportunity Identification Program (Program 5) of the Canada-British Columbia Partnership Agreement on Forest Resource Development: FRDA II.

Authors

Pip White, Carpe Data Research, Victoria, BC and Gianni Scaramella, Scaramella & Associates, Vancouver, BC.

Disclaimer

The views expressed in this report do not necessarily represent those of the Canadian Forest Service or the BC Ministry of Forests.

This report is available from:

Publications
Pacific Forestry Centre
Canadian Forest Service
506 West Burnside Road
Victoria, BC V8Z 1M5

fax 250 363 0775

EXECUTIVE SUMMARY

This report is designed to give interested exporters of secondary wood products to the US market an understanding of the distribution and marketing of secondary wood products in the US. The report summarizes the results of a literature survey and interviews conducted with twelve existing BC exporters. The report assumes that a firm has already carried out the necessary market research and assessment of its internal operation and has made the decision to begin exporting to the US market. The insights presented by the existing exporters could give prospective exporters a reality check on their efforts and is intended to help shorten their export learning curve and reduce the inherent risk.

The literature survey identified a number of export strategies that firms could employ in entering the US market. These include direct exporting, indirect exporting, piggybacking, joint ventures and establishing a market presence in the target country. The recommendation of the literature was that firms use either a direct or indirect strategy in the initial stages of an export operation. These two strategies have the least capital cost while still providing a strong degree of management control.

The distribution process involves the two main components of marketing the product and the physical movement of the goods. The marketing side involves assessing the product line for the target market, identifying wholesaler/distributors who can get the product to the intended end-user, pricing the product and the promotion of the product. The physical movement of the product involves determining the most cost effective mode of transport, warehousing and inventory of goods for export, customs documentation, and production capacity to meet the demand of the export market.

The interview process confirmed that most exporters of secondary wood products use a direct export strategy and plan to continue using that strategy. The direct export strategy involves identifying wholesalers/distributors of the product and then shipping the product to them. The distributors take ownership of the product at that point and in many cases the manufacturer has little or no knowledge of who the distributor is selling to. The manufacturing firms work closely with their distributors in developing pricing and promotion strategies for their products. The interviews also revealed that successful firms spend a significant amount of time educating their distributors on various components of their product. Most of this education takes the form of helping the distributor understand the advantages of the product over the competition. Some products also require technical training in the correct use or assembly of the product and this service is provided by the manufacturing firm.

Both the literature and the interviews revealed that the US market must be viewed as a group of independent regional markets. These regional markets have their own characteristics. Most firms interviewed adopted a “roll-out” strategy, meaning they started in one region to gain some experience and then moved into adjacent regions.

Regional characteristics vary from species preferences to the style of packaging used. Pricing and promotion strategies can be quite different between regions, and success in one region does not necessarily lead to success in other regions.

While there are considerable regional differences in many aspects of the US market, one factor does seem to be universal, the market is largely driven by price. All the firms interviewed agreed that price was the number one priority in the US market even above quality at times. This finding was also consistent with the literature on wood product marketing and distribution. In an industry where margins are very small and most firms are price takers this puts a premium on reducing production costs and reducing market development risks.

Selection of the right distributor is probably the main factor in a successful export venture. The literature contains extensive information on the process for selecting a distributor. The interview stage of the project also confirmed the importance of selecting the right distributor, however the focus was somewhat different than the literature. Most of the firms interviewed for the project are owner-operated with the owner often taking personal responsibility for the export venture. The consequence of this is that the relationship established with the distributor is of critical importance. The distributor plays a key role in marketing and promoting the product and in providing local market intelligence. In addition, it is important to have a strong relationship with distributors of the product to help sort out problems that will inevitably arise.

Most of the firms interviewed viewed their distributors as partners in the venture. Many of the people interviewed had worked with several distributors before they found one that they were comfortable working with. Another outcome of establishing these relationships was that firms tended to seek out distributors that could match their capacity. By choosing smaller distributors, BC producers become the major client of a small firm rather than a small client of a big firm. This means a higher level of service from the distributor, the account is generally handled by a senior member of the distribution firm and it helps in cultivating a strong business relationship.

Governments on both sides of the border have a large influence on the ability of firms to export. The Free Trade Agreement (FTA) implemented in 1989 eliminated or reduced tariffs on a number of secondary wood products and created export opportunities for BC manufacturers. All tariffs on secondary wood products will be removed by January 1, 1998. While the FTA enhanced export activity into the US, the new Canada/US Softwood Lumber Agreement (SWLA) limits exports, particularly for new entrants. The Agreement has both direct and indirect effects for B.C. secondary wood manufacturers. For those firms producing products covered under the SWLA the introduction of quotas restricts the ability to expand their US export business. Indirectly, the quotas are also affecting the supply of raw material for manufacturers as primary producers adjust their value based export quotas. The largest effect of the SWLA is the barrier to entry. With low margins, the additional cost of exporting over the quota limits is too onerous to make

it profitable. This makes it extremely difficult for new Canadian entrants producing items covered by the SWLA.

It is argued that the SWLA has driven up the price of Canadian lumber in the US due to reduced lumber supply. This is, of course, the intent of the SWLA. In response to the Agreement, Canadian firms can be expected to start producing higher-end products not covered by the agreement and consequently ship less lower grade material to the US. The Agreement may also serve to encourage alternative sources of structural softwood imports. Scandinavia, Chile, and New Zealand are actively pursuing the US market.

The federal government runs a number of programs and provides a large amount of information designed to assist exporters. The literature identified two main types of government program: those that provide information and a limited number of that provide financial assistance. Most of the companies interviewed did not directly utilize any government programs, other than initiatives sponsored under the BC Wood Specialties Group. Those that had explored a number of programs found the cost of participating too high and the administrative process too time consuming. Some firms had used government statistical and market intelligence information.

During the interviews B.C. firms were asked how they thought the business would change in the future. For most firms the biggest future changes centred around fibre supply. The softwood lumber agreement probably will increase the supply of lower grades of lumber to the BC secondary industry, however other factors are also influencing supply. The new legislation creating more protected areas and reducing the size of the forest land base available for harvest, the timber supply review, the Forest Practices Code, and increased stumpage fees are expected to reduce the supply of lumber available to secondary manufacturers. In the longer term, the quality of fibre available is going to be reduced as less old-growth wood is available. Offsetting these negative factors, the companies talked favorably about the Small Business Forest Enterprise Program and about Forest Renewal BC programs which will serve to increase the supply of fiber to the secondary industry.

Some of the companies interviewed felt that information technology would eventually alter the nature of the business, but it would be an evolutionary change rather than a revolutionary one. Most of those interviewed felt that there was considerable inertia against using the available technology. This will likely change over time and most people agreed that change was inevitable. Some of the companies interviewed had already taken preliminary forays on the internet looking to source supplies and machinery. However, the general experience to date was that the critical mass required to make the internet effective for their needs was lacking.

TABLE OF CONTENTS

| | |
|--|---------------|
| EXECUTIVE SUMMARY..... | i |
| Table of Contents | iv |
| SECTION I - Literature Review | 1 |
| 1.0 Background | 1 |
| 2.0 Institutional Framework | 2 |
| 2.1 Government Programs | 3 |
| 2.2 Trade Barriers..... | 3 |
| 2.3 Standards | 5 |
| 3.0 Marketing And Distribution For Export..... | 5 |
| 3.1 Direct Exporting | 6 |
| 3.2 Indirect Exporting..... | 7 |
| 3.3 Types of Distribution Chain | 8 |
| 3.4 Selection of a Distributor and/or Agent | 8 |
| 3.5 Common Mistakes in Exporting..... | 9 |
| 4.0 Marketing and Distribution Of Wood Products..... | 10 |
| SECTION II - Interview Results | 12 |
| 5.0 Overview | 12 |
| 6.0 Market Characteristics..... | 12 |
| 6.1 Market Size..... | 12 |
| 6.2 Competition | 13 |
| 6.3 Quality | 14 |
| 6.4 JIT Delivery | 15 |
| 6.5 Distribution Channels Compressing..... | 15 |
| 7.0 Institutional Factors | 16 |
| 7.1 Softwood Lumber Agreement | 16 |
| 7.2 Use of Government , Industry Associations, or Consultants | 17 |
| 8.0 Marketing and Distribution | 18 |
| 8.1 Entry Strategies | 18 |
| 8.2 Relationships with Channel Members..... | 19 |
| 8.3 Promotion | 20 |
| 8.4 Service and Support..... | 21 |
| 8.5 Transporting the Product..... | 22 |
| 8.6 Information Technology..... | 22 |
| 9.0 Future Change and the Implications for BC Producers | 23 |
| 10.0 Summary and Conslusions..... | 24 |
| 11.0 Bibliography | 25 |
| APPENDIX A - The Interview Questionnaire | 26 |
| APPENDIX B - Company List for Interviews | 27 |
| APPENDIX C -Federal Government Programs for Exporters..... | 28 |
| APPENDIX D - Information Resources for New Exporters..... | 32 |
| APPENDIX E - The Canada - US Softwood Agreement..... | 37 |
| Standard Industrial Classification of Products Covered by the Agreement..... | 47 |
| APPENDIX F - Critical Success Factors for Exporting..... | 50 |

SECTION I - LITERATURE REVIEW

1.0 BACKGROUND

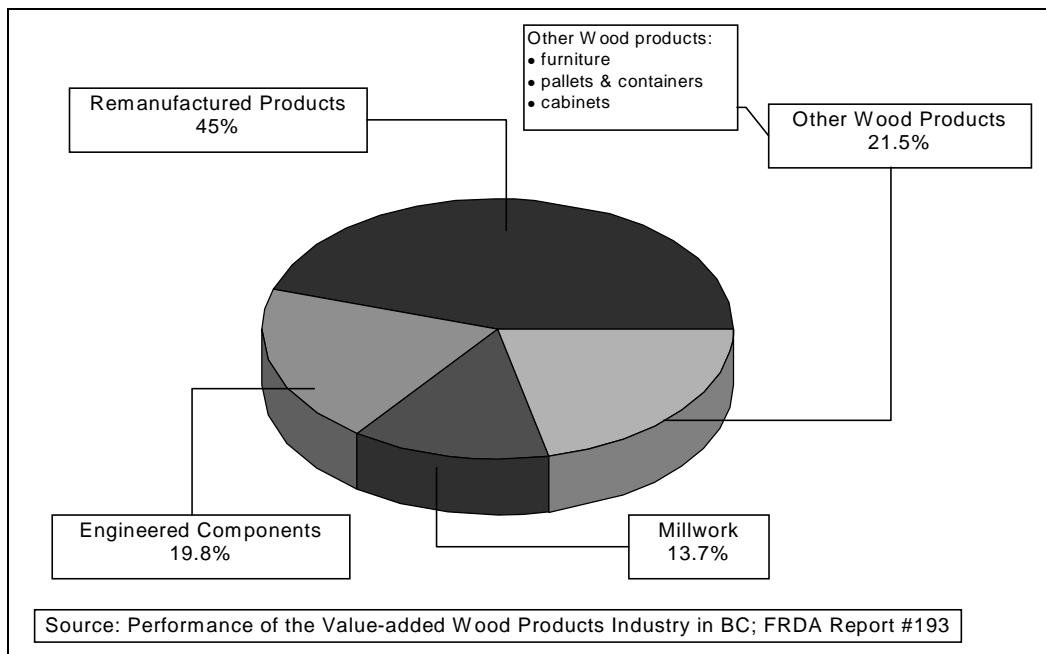
The purpose of this project is to produce a report designed to give interested exporters of secondary wood products to the US market an understanding of the distribution and marketing of secondary wood products in the US. The project includes two major components. The first is a review of the literature and institutional arrangements relating to the distribution of secondary wood products in the US. The second will involve a series of interviews with B.C. companies that have had some success in exporting to the US market. Prior to presenting the company interviews an interview guide will be developed based on the results of the literature review and in consultation with the project directors.

In an effort to focus the project, four specific questions were investigated. These are:

1. What is involved in the US distribution chain to the consumer?
2. What is the normal process for entering the chain?
3. What changes are expected in the normal process and why?
4. What are the implications of changes for BC producers?

In addition, the research focused on the following business types: re-manufacturing; millwork; furniture and furniture components. These sectors represent established and significant areas of the secondary manufacturing industry in BC (see Figure 1).

Figure 1. Sales Revenue by Sector - 1991



Preparing to enter an export market is a major step for most firms and requires a considerable amount of research and planning. A number of areas within a firm's operation need to be evaluated to determine if it is ready to embark on a successful export venture. These areas include:

- manufacturing and product development;
- warehousing and inventory control;
- distribution/transportation;
- marketing and sales;
- finance and risk management; and
- personnel and labour.

Gordon (1993) identifies a number of critical success factors within each of these areas that can help a firm assess its readiness (these are summarized in Appendix F). The discussion in this report focuses on the distribution aspect of an export operation. It is assumed that a firm has already carried out the necessary market research and assessment of its internal operation and has made the decision to pursue the US market.

The report is divided into two sections: Section I provides a literature review of the US distribution system and Section II details the interview results. Background information and a discussion of the institutional arrangements affecting distribution into the US are included in Section I. Also in Section I is a discussion of the marketing and distribution considerations for any export operation and some considerations of future changes that are likely to affect exporting to the US. Section II is a review of the interview results including comments and insights on market characteristics, institutional factors, marketing and distribution, and future changes and implications for BC producers. Several appendices are included containing the interview guide, the questionnaire used in the interviews, the sample of companies used to select interviewees and finally an appendix containing useful resource material.

2.0 INSTITUTIONAL FRAMEWORK

The institutional arrangements in the export of secondary wood products to the US are largely affected by different levels of government and other non-governmental agencies such as industry associations and lobby groups. Governments play the largest role in setting the institutional framework for exporting and can affect the export market in three main areas:

- programs and support for export of wood products;
- trade barriers that limit the ability of firms to export; and
- standards.

In addition to governments, non-governmental organizations (NGO's) play a large role in providing information for exporters. The range of information available covers everything from developing business plans to providing information on product standards for manufacturing and packaging. Some of these agencies also provide trade leads and

offer services for matching buyers and sellers of products. These aspects will be discussed below and in Appendix D is included that provides information on some of the resource material available.

2.1 GOVERNMENT PROGRAMS

The Federal government offers exporters support in several different areas: information and market intelligence; financial support; and training programs. Most of the federal support comes from Industry Canada (IC), the Export Development Corporation (EDC) and the Department of Foreign Affairs and International Trade (DFAIT). The only agency providing financial help is EDC which offers loans, loan guarantees and insurance. The other two agencies provide information and training support to exporters. Contact information and a summary of the programs can be found in Appendix C.

The provincial government provides little in the way of financial programs that support exporters, although information is available through a variety of provincial ministries and agencies. For example, as a member of the Pacific Northwest Economic Region (PNWER) the governments of BC, Alberta, Washington, Oregon, Idaho, Montana and Alaska along with a number of private sector firms and academic institutions provide a database of trade leads called CATALIST®. CATALIST is a subscription service that supplies the trade leads via fax.

A number of industry associations exist on both sides of the border. These associations provide a certain amount of information and also sponsor trade shows. A number of other NGO's exist to provide information and networking help to exporters.

2.2 TRADE BARRIERS

Governments create trade barriers to protect new industries and those that are particularly sensitive to foreign competition. The General Agreement on Tariffs and Trade (GATT) provides the basis for trade between most countries around the world. GATT is now administered and expanded by the World Trade Organization (WTO). It is a requirement of GATT that any other bi-lateral or multi-lateral trade agreements respect the rules established under GATT.

Over the last decade a number of agreements have been reached to try and liberalize trade on a global scale. As the world's largest bi-lateral trading partnership, Canada and the US have a long history of trade agreements and trade barriers which have evolved to reflect respective domestic interests. The 1986 Canada-US Free Trade Agreement (FTA) liberalized trade between the two countries and in 1993 a new agreement was negotiated to include Mexico. Many of the bilateral arrangements made under the FTA were brought into the new North American Free Trade Agreement (NAFTA). Under the original FTA many wood products had tariffs and duties lifted immediately. Other wood products saw duty drop by 60 percent immediately and a scheduled phase out by January 1, 1998. Table 1 shows the tariff reduction schedules for selected wood products. The schedules

under the FTA were not affected by NAFTA and were simply included in NAFTA with their original timetable.

Table 1. Original (1989) Import Duties Under FTA

| Product | Canada Import Duty | US Import Duty |
|--|---------------------------|-----------------------|
| Flooring | 5.5 | 3.2 |
| Kitchen Cabinets | 15 | 2.5 |
| Doors | 11.3 | 7.5 |
| Windows | 9.2/12.5 ¹ | 5.1 ¹ |
| Manufactured Houses | 5.1 ¹ | 9.2 ¹ |
| Pallets & Containers | 9.2 ¹ | 16.6 ¹ |
| Source: The Canada-US Free Trade Agreement and the Forest Products Sector | | |
| ¹ Tariffs eliminated over a ten year period - all others removed over a five year period. | | |

While NAFTA works to remove tariff and duty, certain non-tariff barriers such as quotas continue to be imposed by the US to protect parts of their forest industry. The most recent agreement on the export of Canadian softwood lumber to the US was made in February 1996. The Canada/US Softwood Lumber Agreement has a large impact on the secondary wood products industry as the agreement covers certain types of products produced by the value added sector, mostly re-manufactured products.¹ The full text of the agreement and a detailed list of products covered is included in Appendix E.

The softwood lumber agreement does not cover all softwood products. The agreement specifies those products to be covered based on Standard Industrial Classification (SIC) codes. The source document for the products within the codes covered by the agreement is the Harmonized Tariff Schedule of the United States (1996). The complete list of SIC codes, and their descriptions, covered by the agreement can be found in Appendix E.

This agreement is likely to alter the structure of the industry as some firm's shipping volumes are reduced under the quota allocation thereby hindering a firm's ability to utilize scale economies. Firms will be forced to find alternative export markets, downsize or rely on domestic demand.

In the US, secondary manufacturers are experiencing higher prices due to a reduction in the available supply of softwood. Higher prices for softwood lumber in the US have also

¹ The softwood agreement establishes a quota for exports of Canadian softwoods into the US. The quota is based on 1995 volumes in terms of board feet and is set at 14.7 billion board feet. Once the quota is reached then an export tax is levied on the Canadian side of the border. The export tax works in stages with the first stage charging US \$50.00 for amounts over 14.7 billion board feet and less than or equal to 15.35 billion board feet. The tax for exports over 15.35 billion board feet is US \$100.00 per thousand board feet. The federal government split the quota between the four major softwood producing provinces (BC, Ontario, Quebec and Alberta) with BC receiving 59 percent of the total. This quota has been further divided among existing producing firms (by the federal government) within each province. New entrants to the US export market may have to pay the export tax. They will then earn a share of the quota for future years.

created opportunities for other countries such as Sweden, Chile and Mexico to increase their exports to the US.

2.3 STANDARDS

Depending on the nature of the product there are various standards that a product will have to meet before it can be distributed in the US. If the product is to be used in construction then it will need to have the structural integrity and manufacturing standards prescribed by the applicable building code. If a product is for sale in a retail outlet there may be packaging and labeling standards it has to meet. Information on standards is available from a variety of sources including government agencies and industry associations.

Both the FTA and NAFTA contain provisions for manufacturing and packaging standards for products covered by the agreements. Both trade agreements also prescribe customs procedures for goods crossing the border. These regulations are typically very detailed and the agreements should be studied carefully to ensure that the specifics to a given product are well understood in preparing the assessment of export potential. Additional information on product standards can be obtained from industry associations. Another excellent source for standards information is the American National Standards Institute (ANSI). They maintain a database of most of the product standards in the US including the name of the organization responsible for developing and maintaining the standard. Access to the database is on a subscription basis and is accessible on-line through the internet. Contact information for ANSI and other industry associations is in Appendix D.

3.0 MARKETING AND DISTRIBUTION FOR EXPORT

Similar to domestic distribution, the heart of exporting is to have a strong network through which the firm's products are distributed to the customers. There are several ways in which a firm can choose to enter a foreign market: direct or indirect exporting; product licensing or franchising; construction of production facilities in the target country; or to enter into a joint venture with a company in the target country (James and Weidenbaum 1993).

For the purposes of this project the primary focus will be on direct and indirect exporting. This is the most common method firms to enter into international markets. The capital requirements of the other methods, the associated risks and loss of management control are generally greater than a firm wants to take on in its first foray into an export market. The structure of the BC secondary wood industry is also such that most firms do not have a lot of capital to set up new production facilities abroad or enter into joint venture agreements.

Firms generally decide to pursue one of two export strategies, direct or indirect, in moving their product into an international market. The difference in the two strategies is

that under direct exporting, the firm retains a large measure of management control and responsibility for risk. In indirect exporting, the firm generally sells the product to a third party agent, sometimes within their own country, and the agent is then responsible for selling the product in the foreign market.

3.1 DIRECT EXPORTING

Direct exporting is one of the oldest strategies employed by firms entering into cross-border activity. Since most of the elements of the exporting operation remain under the control of the domestic firm, the firm is responsible for the selling price, promotion, inventory, sales and receivables policies, and management of the sales force. The firm is also in a position to manage the risks associated with exporting including items such as product service and repair, liability, transportation and payment.

The direct export strategy is the most common method adopted by firms entering the US market. The ease of access and similarity in business practices along with linguistic and cultural similarities make the US less formidable than other countries. That said, there are still regional differences in the US and exporting firms will find that different regions will require different strategies.

As with any business activity there are factors for and against a direct market strategy. These factors, adopted from Gordon (1993), are outlined in Table 2.

Table 2. Factors For and Against a Direct Export Strategy

| <i>For a Direct Export Strategy</i> | <i>Against a Direct Export Strategy</i> |
|---|---|
| <ul style="list-style-type: none"> • there is potential for greater profit; • firm retains control over the authority given to third parties; • the product is actively promoted in the selected markets; and • the firm has knowledge/measurement of performance by product segment and performance by sales and management personnel. | <ul style="list-style-type: none"> • a direct strategy places a large strain on a firm's resources; • requires a significant commitment of time and money to develop and maintain the market; • long lead times to develop the market may be needed; and • it may be difficult to control the representative in the target country. |

Source: Gordon 1993

The most critical factors opposing a direct export approach is the commitment of time and resources to make the export operation a success. This is especially important in the early stages where it may take some time to develop a market presence and realize any profit from exporting. Gordon (1993) also notes that the common mistakes made by exporters include insufficient commitment by senior management, assuming one product and strategy will work in all markets, failure to consider using an export management company or trading company, and insufficient care in selecting distributors.

The US market also brings some specific challenges for exporters as identified by Brooks, Patton and Rosson (1990). The US market is cost competitive which makes price the number one priority; sometimes price is even more important than quality. Distribution networks in the US are characterised by a low level of expertise with a high turnover.

Some useful advice offered by Brooks, Patton and Rosson (1990) was gathered from firms with successful track records in the US. First, they note that it is important to work hard at being cost competitive. Second, regional differences mean it can be advantageous to start in one region and then “roll out” from there. Third, it is essential to examine the credit worthiness of buyers and resellers. Fourth the “faddishness” of the market means that it is important to have good intelligence from the sales level about changing trends.

The selection of distribution channels is a key element in the success of the export venture. It is likely that an exporting firm will employ a variety of distribution strategies, particularly in a market like the US where regional variation will demand it. The most common form of distribution channels in a direct exporting operation are foreign sales representatives, end-user sales, state buying companies, agents or distributors. Of these distribution channels, the agent and distributor are the most common.

The essential difference between a distributor and an agent is the nature of the transaction. A distributor buys the product directly from the firm and plays a more active role in pricing and marketing the product to the end customer. Agents do not carry inventory and act on a commission basis. More control over pricing, marketing, servicing and repair is retained on the part of the producing firm in using an agent. The risk associated with using an agent is higher than a distributor as the agent will require financing by the producing firm and there is greater liability exposure.

3.2 INDIRECT EXPORTING

Indirect exporting is a safer means of entering a foreign market. The lower risk possibly means lower returns, however, it may be a prudent strategy for firms that want to gain experience in foreign markets, but do not have the resources for a direct export operation. Indirect exporting means products are sold to a third party domestically and the third party company then introduces the product to the foreign market. In Canada the third party is frequently a trading house. Other alternatives to a trading house include export management companies (EMCs), export merchants, country-controlled buying agents, commission agents, and piggy-backing. In dealing with the US market the most common third parties are trading houses, EMCs, export merchants, and piggy-backing.

Piggy-backing is a different arrangement from the others as it involves using an established firm that produces related products. These firms frequently have well developed in-house exporting expertise that can handle the extra volume of related products. Like other indirect exporting methods piggy-backing involves a substantial loss of control for the exporting firm. The distribution and shipping arrangements will be handled by the parent firm in the relationship.

All of these arrangements are characterised by the lower degree of control available to the producing firm. This carries a downside risk in that the producing firm is frequently unable to control warranty provisions and the service and repair of products. There is also less control over the way products are represented by the third party and the sales personnel. All of this can lead to dissatisfied customers and the product and firm having a bad name in the new market.

Despite the downside risk, the indirect strategy does present a technique to enter a cross-border market with limited capital requirements. The use of the third party firm enables the product to enter an existing distribution network. Over time as the product becomes more established the producing firm can begin to take more control and move to a direct exporting strategy. Following this other alternatives such as foreign production and joint venture arrangements can be considered.

3.3 TYPES OF DISTRIBUTION CHAIN

The nature of the product generally influences the type of distribution chain. Products can be broken into two broad categories consumer products and industrial use products. Consumer products tend to be commodity items that are sold in smaller lots to a large number of end-users. In many instances the producer may not know who the end-user is or even the outlet at which the end-user is purchasing the product. Distribution chains for these types of product tend to have more intermediaries as the manufacturer places the product with an export distributor or agent who then places it with a wholesaler in the destination market. From the wholesaler it is then placed in retail outlets where the consumer buys it. This type of chain is well suited for products that do not have a high degree of service required. In most cases the manufacturer will have to do some work with the wholesaler to ensure he understands the important features of the product. No service support for the retailer or consumer is usually required.

Industrial products generally have shorter distribution chains with the manufacturer often selling directly to the end-user. Industrial products generally have more exacting technical specifications and require a higher degree of service between the manufacturer and the end-user. Some specialty distributors and wholesalers do exist in different market segments, but it is usually easier for a manufacturer to be directly involved with the final consumer of this type of product.

3.4 SELECTION OF A DISTRIBUTOR AND/OR AGENT

The marketing literature contains methods for identifying and selecting distributors and/or agents. The objective in searching for the appropriate distributor is to find someone to build a professional relationship with. This is the key element in the search process and it may require several attempts to find the right representative.

There are a number of sources available for finding distributors in different regions of the US. Industry associations on both sides of the border maintain lists of names and there

are industry associations specifically for wholesalers. Attending trade shows is another common way of meeting distributors for different products. Trade missions organised by government and/or producer associations are another way to develop business contacts. Talking to businesses that produce complementary products is another source of information. Names provided from contacts with other businesses are also likely to come with some assessment as to the reliability of the distributor.

Having developed a list of distributors and gathered information about their firms the next step is to develop a shortlist. The shortlist is developed by reviewing the profiles of the companies on the list and choosing those that best fit the criteria established. Some of the criteria that can be used are as follows (Branch 1990):

- size of the distribution firm should be compatible to the size of the manufacturing firm;
- how long has the firm been in business;
- are the financial records of the firm available and what do they indicate about the business;
- who else does the distributor represent and are references available;
- are your products complementary to the existing product line of the distributor;
- how is inventory, shipping and stocking handled and what are the terms for payment, insurance and credit risk; and
- what are the arrangements covering sales not handled by the distributor.²

Once the short list has been developed the next step will be to meet with a representative from each firm and carry out an interview that will largely assess the ability to form a good working relationship with that firm. Once this process is completed the final selection can be made.

3.5 COMMON MISTAKES IN EXPORTING

In entering an export market, firms tend to make a number of common errors. The following list is selected from Gordon (1993) where a more complete list of errors and oversights can be found:

- failure to obtain proper export counseling from an export management firm, consultant and government;
- insufficient commitment to the export enterprise from senior management;
- insufficient care in selecting overseas distributors;
- assuming that one marketing strategy and product will work in all markets;
- failure to modify products to meet regulations or cultural preferences of other countries; and
- failure to provide quality local service for the product.

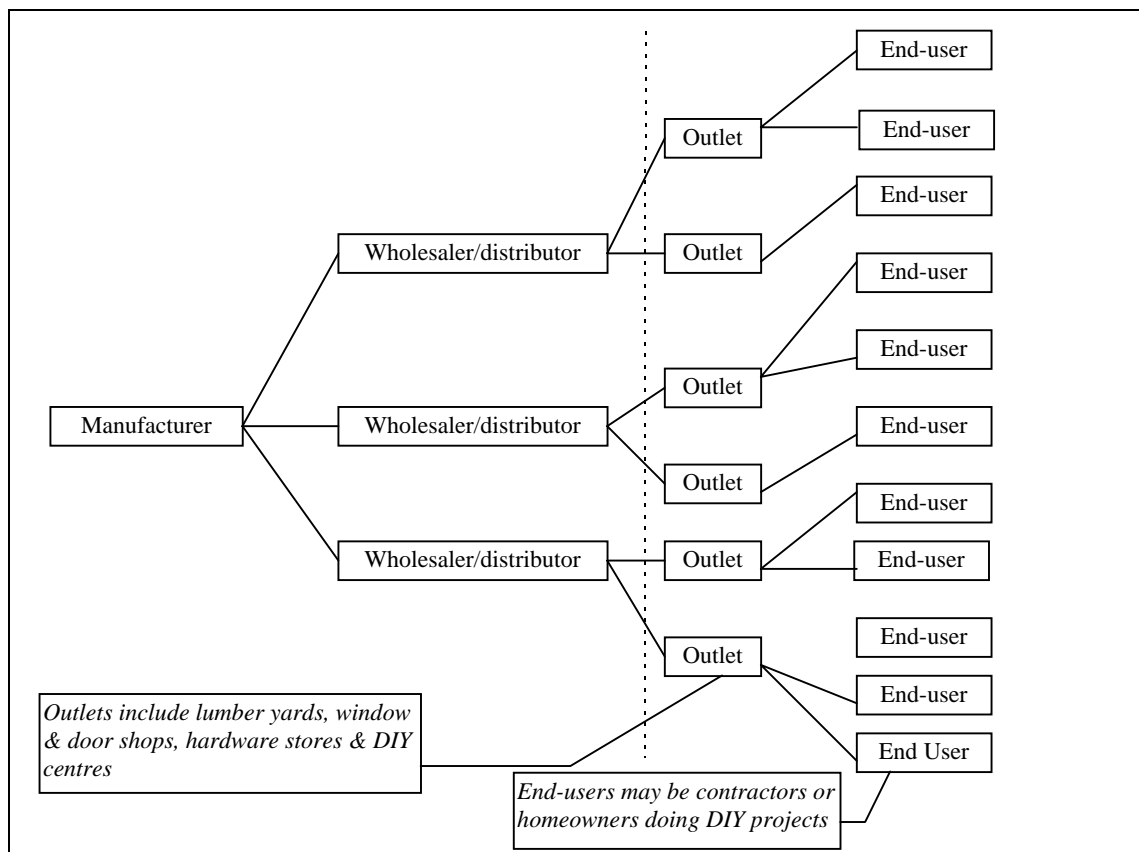
² Both Gordon (1993) and Branch (1990) contain a more detailed discussion of the selection process.

Several of these mistakes relate to the marketing and distribution of products. Care in selecting the right distributor or agent is particularly important as this is the person who will represent your product in the new market. In addition, the distributor or agent will also be in a position to advise on appropriate marketing strategies for the local market. It will also be important for the distributor or agent to understand the nature and specification of the product being sold to help provide end-users with the appropriate level of service.

4.0 MARKETING AND DISTRIBUTION OF WOOD PRODUCTS

Literature specific to the distribution of wood products in the US market is not readily available. The marketing books that are written specifically for wood products and reviewed for this study, simply reiterate much of what is in the general marketing literature. The majority of secondary wood products produced in BC can be characterised as commodity or semi-commodity items and this section of the report will focus primarily on marketing and distribution of these products.

Figure 2. Chart of Distribution Chain for Commodity Products



A distribution system involves the marketing of a product and the physical movement of the product from the manufacturer to the end-user. A distribution system is made up of

one or more channels that move the product. The nature of the distribution system will depend on the characteristics of the product. Commodity and semi-commodity items typically have more players involved than industrial products. Each channel is characterised by the nature of the product, the number of people involved, the mode of transportation used and the end-user. A typical distribution channel for commodity and semi-commodity items is shown in Figure 2. For industrial products the channel is typically one or two players shorter as many firms sell directly to the end-user or to a wholesaler and then an end-user.

Shrinking margins for many types of secondary wood products have shortened distribution channels in recent years. In the past, the product may have moved through several sets of hands between the wholesaler and the end-user. Improved technology and an effort to control costs have eliminated many of the intermediaries in distribution channels. The emergence of “big box” store such as Home Depot have also effected the nature of distribution channels for secondary wood products. These stores deal in large volumes and run their own distribution systems. Products are shipped directly from the manufacturer to the companies warehouse and then distributed to the retail outlets.

Typically secondary wood products are shipped to the US market by truck. Many wholesaler/distributors in the US rent space in public warehouses where loads are delivered and then broken up for transport to the various outlets. Movement of goods across the border requires special documentation which is typically handled by customs brokers who specialize in this area. In a direct exporting situation, which is the most common, it is usual for the manufacturer to be responsible for the shipping arrangements and associated documentation. The wholesaler assumes responsibility for the goods when accepting delivery and is responsible for transportation and documentation from that point.

In a large market such as the United States, no single wholesaler will cover the entire country and firms will have to find wholesalers in each region they want to sell in. This is also helpful to the manufacturer as locally based wholesalers are more likely to be able to provide marketing advice specific to the area.

The large retail chains target the do-it-yourself (DIY) customer with few professional contractors using these kind of outlets. Smaller retail chains still provide service for contractors and often stock specialty products that do not sell in large enough volumes for the larger chains. These outlets provide an important market segment for many secondary wood producers where the size of supply required better matches the capacity of the small to medium sized producer.

SECTION II - INTERVIEW RESULTS

5.0 OVERVIEW

A number of BC secondary manufacturers were interviewed and asked questions in regards to their US exporting experiences. No firms were asked to divulge confidential or firm critical information and all interviewees were guaranteed confidentiality. Where they provided information that was confidential in nature, the information has been generalized to protect the interests of those companies who participated in the interviews.³ A copy of the interview can be found in Appendix A.

Most of the companies interviewed were owner operated with the owner taking an active roll in developing and promoting the US marketing strategy. Many of the firms had less than five years of export experience although some firms had over thirty years of US marketing experience. None of the firms owned or controlled their distribution channels and all relied on channel intermediaries to contact their final end users.

Products ranged from pine furniture kits marketed to the end consumer via home pages on the World Wide Web, to dried s4s lumber sold into traditional commodity channels. Some companies had been exporting for decades, some had started after the implementation of the Free Trade Agreement while others had only exported for several years. A number of firms were started by individuals with considerable experience in marketing and sales whereas other companies were founded by individuals with considerable manufacturing but limited marketing experience.

6.0 MARKET CHARACTERISTICS

6.1 MARKET SIZE

All of the firms confirmed that the US market is not a single unified market, but is composed of many regional markets and segments. This comment applied whether the company was producing semi-commodity or specialty items. Each regional market has different end use patterns, different competitors, and different distribution, wholesaling, and/or retailing structures. Given the limited resources available to each firm, they have all implemented various forms of a roll out strategy (i.e., they focused initial efforts on a nearby region where end use patterns were similar to their home markets). For example, if the product was a cedar based outdoor product, the market focus was the Pacific North West, as people in the Pacific North West were familiar with cedar and appreciated its qualities. Once successful in the target region, the firms then rolled out the product to adjacent regions. A key component of this roll out strategy was a process of product adaptation. For example, a furniture manufacturer had to adapt its product styling slightly

³ Due to the low number of interviewees and to ensure confidentiality, response rates have been converted into the following groupings: “some” refers to less than 40% response, “many” refers to over 40% to 80% response, “most” refers to over 80% response and “all” refers o 100% response.

to meet the consumer tastes in an adjacent region. A semi-commodity producer shipped similar products but in different percentages to adjacent regions.

Most producers stated that they were price takers as the market could choose from a number of different producers and competing materials. In addition, most companies stated that their manufacturing facilities were small in relationship to many of their US based competitors. The combination of higher production costs and longer distances from the consuming markets meant that the firms were operating on tight margins. The ongoing downward pressure on margins had several implications for many of these firms. First, most firms deliberately avoided selling to national wholesalers, large buying groups, or the big box retailers. These end users wield considerable power, buy in large volumes, and generally pay the lowest prices in the market place. Many firms just could not afford to sell their products at the prices demanded by these buyers.

A few firms had briefly enjoyed higher than normal margins for some innovative products. However, the market responded quickly and reduced the margins by finding new supply sources. One firm stated: “the business is not as much fun as it was ten years ago. Today, you really have to work hard to get decent margins.” Another firm stated: “on one product we are deliberately keeping the price low so that we do not encourage competition.”

Some firms stated that it was very difficult to identify niches that valued quality. Many perceived that the US market was largely driven by price, with little, if any value, given to quality. Firms that had identified niches that valued and were willing to pay for quality felt that they had obtained a competitive advantage and would not divulge any details in the interview process.

Most firms articulated a strategy of dealing with smaller, regional based wholesalers/distributors that stocked inventory. These channel members, who are in competition with the larger retailers, must focus on smaller market segments that value the higher levels of service that they can provide.

A few firms stated that in some regions of the US, buyers reacted negatively to the fact that they were Canadian manufacturers. In certain regions, US buyers implement a policy of buying American. In these regions, the BC firms promoted their company as a North American supplier and not a Canadian supplier.

6.2 COMPETITION

All of those interviewed had modified their business as a result of competitive pressure in the US market⁴. At the current time, many saw new challenges emerging that threatened their businesses. These challenges can be grouped in the following general areas:

⁴ In one instance the threat of competition had been quite beneficial to the business as this firm pro-actively entered the US market as an offensive reaction to the Free Trade Agreement.

1. **Increasing offshore competition.**

The US market attracts competition from most emerging economies. One manufacturer stated that in the last fifteen years he has had to change his business three times. Offshore manufacturers from Korea and Thailand entered his market place and offered similar products at substantial discounts. He expressed amazement at his firms abilities to continually reduce the costs of manufacturing and squeeze out inefficiencies throughout the manufacturing and distribution system. He stated that: “we used to consider ourselves as manufacturers, we now think of ourselves as manufacturer-distributors.”

2. **Changes to the product line.**

Many of those interviewed talked about an ongoing refinement of products and product lines. Competition could erode margins in some areas to the point that certain products lost money. Other products could be moved into a higher margin segment by making simple changes to the appearance of the product.

3. **New technology.**

Engineered wood products are displacing many traditional solid wood products. Recent technologies such as the introduction of door skins dramatically changed the traditional door building industry. As these technologies enter the market and are adopted by the industry they dramatically change the types of products that manufacturers can ship to the US market.

4. **Raw Material Pressures.**

Some manufacturers stated that their sources of raw material supply would change dramatically. Sometimes their primary suppliers would vertically integrate and start producing similar products. Other times the primary producer would grade their material differently and this could have a dramatic impact on the profitability of certain lines.

5. **Flexible to Market Demands.**

One manufacturer has adopted a strategy of sourcing other products from BC producers that he can sell into his market place. Implementing this strategy means that he has to be prepared to ship smaller unit volumes as he assembles partial packets to comprise a full shipment.

6.3 QUALITY

As stated above, most of those interviewed believed that the US market is generally more price conscious than quality conscious. This confirmed facts that emerged from the literature review, however the following comments further clarified this issue.

One interviewee stated that he has found market niches that valued quality, but these niches are difficult to identify. Not only that, but once identified they can be difficult to hold as they are forever susceptible to attack from lower cost producers. This producer

believed that the value of producing a quality product, (i.e. a product that consistently attained a higher grade than most of the competition), was that he would receive the first phone call. In other words, the market would buy his product before they went to competing suppliers. As he summarized: “my quality may not be worth fifty dollars per thousand, but it keeps me busy when there is a downturn.”

One other interviewee stated that it was more important to consistently produce at a constant quality level than to one day produce a high quality item and the next day ship a low quality item. He believed that an inconsistent level of quality was viewed by the market place as poor quality.

6.4 JIT DELIVERY

Many companies confirmed that the market was quickly adopting a Just-In-Time ordering system and they had adapted their production strategy to meet this need. JIT delivery requirements meant that the manufacturer had to develop suitable inventory and manufacturing strategies. Some of those interviewed admitted that this has increased the cost of their working capital as they, the manufacturer, was forced to maintain higher inventory levels to service this need properly. Several following variations of holding inventory were implemented to meet this need:

- 1. Work in Process inventory.**

Certain manufacturers could maintain their inventory in a semi-finished state and quickly produce to order from the semi finished state. These companies essentially broke their manufacturing plants into two complementary processes. The first process built inventory to maintain the work in process at specific levels. For example, one manufacturer quickly processed all green lumber by drying, grading, sorting, and then stored his inventory in a dry shed. Another manufacturer processed all inbound lumber to a dried turning blank inventory which was maintained at specific levels. These work in process inventories can then be rapidly converted into a variety of finished products to meet JIT demands.

- 2. Finished product inventory.**

Other manufacturers had to inventory larger volumes of finished stock in order to be able to supply on a JIT basis. One interviewee stated that he felt it was important to have sufficient quantities of his most popular items so that he could hold any inquiries that came his way. As this interviewee stated: “If I can partially fill an order immediately, I have a better chance to hold on to the entire order. If I loose it, I give a competitor an opportunity.”

Many products are now routinely bar coded prior to shipment. The requirement for bar coding seemed to apply to semi-commodity items as well as custom finished products.

6.5 DISTRIBUTION CHANNELS COMPRESSING

The companies who had exported to the US for the longest time talked about the ‘dramatic changes’ that had occurred and are still occurring in the US distribution system.

The following changes have affected the business culture of dealing with channel intermediaries:

1. **Increasing rationalization of the distribution channels.**

The literature search highlighted the emerging dominance of big box retailers such as Home Depot. As these players enter the market, many smaller retailers disappear. The smaller area based channel members either have to focus on segments served poorly by the big box retailers or they have to join together in buying clubs to get the same price discounts. The search for lower priced products often jeopardizes the relationships developed by the BC manufacturers.

2. **Changing rules within the distribution system.**

One interviewee stated that ten years ago, the channel structure was well defined and fairly rigid. For example he stated that: “In the old days, the rules were well understood. The manufacturer sold to the wholesaler, who then sold to a distributor, who then sold to the retail outlet. If we attempted to bypass the wholesaler, we courted disaster. Today all the old rules have flown out the window.” Some channel intermediaries, e.g. office wholesalers⁵, have virtually disappeared. Competition, eroding margins, alternate supply sources, are all combining to squeeze all the inefficiencies out of the old system. Given this situation, the BC producer must be flexible when dealing with different regions.

3. **JIT Delivery.**

A strong demand for JIT delivery or as one interviewee described it to “move the inventory back to the producer” has a large impact on the BC producers inventory strategy. Previously producers manufactured to order, however they must now manufacture to internal inventory levels.

7.0 INSTITUTIONAL FACTORS

7.1 SOFTWOOD LUMBER AGREEMENT

While many items normally produced by value added manufacturers are exempt from this agreement, many items fall under the Agreement. Those manufacturers who produced items covered under this agreement, had to apply for quota. Quota was then issued based on a percentage of each firm’s historic shipment levels. Many of the companies had received their quota allocation just prior to the interview. For some companies, the impact was very large, yet for others, it was negligible. However, this agreement will be a critical factor for any person wanting to expand sales volumes into the US market or thinking of entering this market.

⁵ An office wholesaler acts as a contact between producer and channel member. He generally does not take ownership of the product but merely connects channel members together and takes a commission for this service.

Most existing firms were pleased that the softwood lumber agreement would inhibit other BC manufacturers from increasing shipments to the US market. Any new manufacturer whose product is covered under this agreement, would have to pay a duty of fifty or one hundred US dollars on every one thousand board feet of product entering the market⁶. Most of those interviewed believed that this would be uneconomic for any new entrant. **Clearly, new entrants into the US market place must manufacture products not covered by the quota agreement.** If they manufacture items falling under this agreement, they would be advised to look for markets in other geographic areas, such as South East Asia, Europe, or Pacific Rim countries.

There was some confusion as to what was covered and what was not covered by the agreement. For example, one person interviewed claimed that finished handrails would be exempted from quota because it was fully profiled. Another person stated that this item would be subject to quota if the handrail was manufactured from a solid piece of lumber or from finger jointed lumber. He insisted that the handrail would have to be manufactured from an edge glued assembly to gain quota free status. Any manufacturer would be advised to confirm his product's status under this agreement and formally apply for an exemption if appropriate. See Appendix E for a list of items covered under this agreement.

One person interviewed believed that there are provisions in the agreement for limited re-allocation of quota. Those manufacturers who do not ship their entire quota to the US will have future quota levels reduced. This quota can then be redistributed to those whose shipment levels exceed their allowance. However, for a manufacturer to obtain an increase in quota allowance, another manufacturer must lose allowance. This means that shipping additional volumes by itself, does not guarantee winning quota increases in the future.

Most manufacturers admitted that they could not absorb any significant portion of the penalty for over quota shipments to the US. At a minimum, this meant that they would have to remove lower valued products from the US market and try to find alternate markets for it. On the other hand, if they were successful in passing the penalty through to the customers, then the impact of the quota would be minimized.

7.2 USE OF GOVERNMENT, INDUSTRY ASSOCIATIONS, OR CONSULTANTS

A few of the interviewees had made use of a variety of government programs. Some were highly complimentary of the impact of various government programs in their marketing efforts, whereas, others were less positive. The following comments illustrate the different points of view:

- “Government money is expensive as we have to spend a lot of time getting it and a lot of time justifying how we spend it (the funds received).”

⁶ The exact amount depends on the volumes shipped. The initial penalty is fifty dollars which then jumps to one hundred dollars at specific threshold levels.

- “Cost sharing programs administered through the BC Wood Specialties have reduced our marketing costs.”
- “We qualified for a PEMDE grant (a federal government program) but elected not to use it as the actual cost of the grant would have been higher than we initially expected.”

No interviewee had used a private sector consultant to help develop their export strategy. Some had used Canadian government organizations like BC Trade (now largely dismantled), to help identify potential customers in specific regions. None had used any US-based government agency.

Most of those companies interviewed strongly believed that developing a market strategy was too important an activity to relegate to someone outside of the company. Some companies refused to participate with this project as they believed they had developed proprietary knowledge and sharing this knowledge would weaken their competitive position.

One interviewee had actively participated in a US-based industry association. While he acknowledged that this had required a considerable time commitment, it paid dividends in his marketing program. The association effectively promoted his name and his company’s name to its wide membership. After working actively in the association, this interviewee stated that he could gain access to virtually any prospective client that he wished.

8.0 MARKETING AND DISTRIBUTION

8.1 ENTRY STRATEGIES

Some owners had obtained significant market knowledge prior to starting their value added manufacturing facility. Having identified a market opportunity, these owners then became manufacturers to capitalize on this knowledge. However, most firms started as manufacturers and then had to develop their markets. These firms described an incremental marketing process based on trial and error. The development of the marketing strategy was characterized by one interviewee as “two steps forward, one step backward.” As stated earlier, the common strategy was a roll out strategy, where the company focused efforts on the nearest or most attractive region. After achieving a level of success with this market, the firm would then focus on the next region.

Most strategies incorporated some of the following generic elements:

1. Develop Market Awareness.

Many firms indicated that they initially had a great deal of difficulty in getting usable market information that related to their products. Many found that they could easily get broad measures of consumption and economic activity for a

region, however, they had difficulty relating this information to the demand for their particular products. Most firms had to attend trade conferences in various US regions to identify potential channel contacts, identify competitors, and identify approximate market prices for their products. Many attended these shows in collaboration with the BC Wood Specialties Group. The outcome of these shows for many firms was obtaining lists of potential contacts.

2. **Contact Channel Members.**

Firms then described a process of picking up the phone and contacting everyone on the list. Some firms suggested that it was sometime difficult to get the channel members attention. Key success ingredients are perseverance and telephone skills. The telephone contact will then set the stage for either an initial trial order or a personal visit.

3. **Commit resources until successful.**

One interviewee stated that his expectations for the first show were just too high. It took three years before the market took his firm seriously. A common comment was the patience and the persistence required in the US market. As firms marketing expertise matures, the principals would still attend the same trade shows, however, their objectives changed. Instead of finding new contacts, trade shows were now used as a cost effective way of targeting specific clients that attend the show.

4. **Develop Brand Awareness.**

Nearly everyone interviewed had developed a branding strategy for their products with prominent packaging reinforcing their names.

5. **Buy expertise.**

As some firms matured, they hired people that had useful market and industry contacts in order to bring this knowledge into the company. Some indicated success with this strategy, some indicated that this created its own unique set of problems as the person they hired could not fit into the firm's culture.

6. **Be Flexible.**

Most companies continued to adapt and modify their strategies as their export experience matured.

8.2 RELATIONSHIPS WITH CHANNEL MEMBERS

Many stated that the relationship they had with their channel partner was a critical success factor in the US market. When pressed to define a good relationship, these firms used terms such as: "acts more like a partner", "loyalty", "long term relationship", "enthusiastic and committed to my product", and "we do business with friends." When probed deeper, the following issues emerged.

- The exporting firm recognized that it would have to spend considerable time and effort dealing with and cultivating its channel member. One person stated that: "I know that I will have to spend considerable time with them, educating them about my product, my capabilities, and finding out what they need to be successful in their market."

- Many firms looked for a peer to peer relationship. One firm stated that they only wanted to deal with independent, small regional firms that were owner operated. These firms in turn placed a higher value on maintaining a good relationship with their suppliers. An important aspect of a good relationship was open communication and honest feedback on the market.
- When dealing with a smaller area based channel member, the BC firm would likely account for a larger percentage of their sales and consequently likely get the attention of senior staff members. If shipping the same volume to a national wholesaler, the BC exporting firm would never get the same level of attention.
- Some firms found it impossible to deal with large companies because these companies often have a high turnover with their personnel. High turnover rates jeopardized developing a relationship with the contact person.
- Most of those interviewed spoke enthusiastically about their products. They expected their channel partner to understand and show similar levels of excitement. This aspect was more important for those firms producing finished products that were sold into retail channels.
- Some firms required a channel partner that had considerable expertise with their product and could effectively promote unique characteristics of the products. These firms felt that the expertise was more likely to be found in the smaller firms that had to service niche markets rather than in the big box channel members that retailed everything.

8.3 PROMOTION

All those interviewed had developed some type of logo and product branding strategy as part of their promotional strategies. Manufacturers selling products aimed at DIY consumers, or products that had unique attributes had further refined their promotional strategies. The following are some of the promotional strategies adopted:

Logos and brand names: All those interviewed had developed distinctive logos and product packaging that displayed their logos. However, most were willing to package their products with other logos if required by the downstream channel member.

Brochures: All had developed brochures that described their products. Brochure strategies varied as some firms merely focused on the products, whereas other firms also included the firms history and descriptions of the manufacturing facilities.

Cooperative advertising: One firm had a strategy of sharing regional advertising costs with their channel partners. This firm had developed a series of articles that promoted their product at various times through the year. These articles were released to the Lifestyle editors of regional newspapers. The articles

would describe the different manufacturers who had similar products and rate the usefulness of these products. The firm would then run advertisements promoting its products and the availability of these products at its channel members outlets.

Display showrooms:

One company had invested in showrooms located at strategic points in Canada and the US. These showrooms not only displayed their products in appropriate settings but were also used as training centers.

8.4 SERVICE AND SUPPORT

All those interviewed described specific service and support programs that they had implemented to assist and enhance the success of their channel members. The following types of programs were discussed:

Cooperative Sales visits:

All manufacturers interviewed provided some type of sales assistance to their channel members. Most tried to visit their channel members on a routine basis and visit selected clients with their channel members.

Training:

Many manufacturers had implemented some type of training program. At the most basic level, the training was a structured seminar program for their channel members. The training educated the channel member about the inherent advantages of their product, how to best use the product, and how to promote it effectively. Some manufacturers trained their channel members to act as consultants that could advise their retail customers on display and merchandising strategies.

1-800 numbers:

Some manufacturers had employed a communication strategy to ensure that they received direct feedback from their clients. This strategy was used by firms producing DIY kits that retailed to consumers.

Videos:

Some manufacturers had commissioned videos describing their products. These videos could be used by channel members as sales aids for their products.

Point of Display Kits:

Some manufacturers had developed point of display sales kits that would inform the consumers how to install or use their products. These were supplied to the retail outlets at no cost.

Cooperative advertising: Some manufacturers had cost sharing programs in place with their channel partners to assist in promoting their products within specific regional areas.

Display areas: Some manufacturers rented and maintained display areas that could be used to promote their products.

Clearly these different strategies depend on the type of product. Manufacturers of more basic products like semi-commodity lumber products tended to implement a minimal support strategy. Those with more complex products aimed at consumers, or products that promoted certain life style choices, implemented higher levels of support and service.

8.5 TRANSPORTING THE PRODUCT

All those interviewed took responsibility for transporting the product to the channel member. Many responded that this was customary in the industry and that their channel members asked for a delivered cost. All manufacturers took responsibility for customs documents and brokerage fees for border crossings.

The deregulation of the transportation industry had generally benefited the manufacturers as they now had access to more options and better pricing than in the past. One manufacturer now shipped smaller unit volumes than he had in the past. Shipping smaller volumes meant that he could service smaller accounts and reach further down the distribution system.

One manufacturer was working collaboratively with a smaller manufacturer who produced a complementary product. When feasible, he would include the smaller manufacturer's product in his shipment which effectively eliminated transportation costs for the smaller manufacturer. This enabled the smaller manufacturer to send trial shipments in an effort to test market the products into the US.

8.6 INFORMATION TECHNOLOGY

Most of those interviewed did not see information technology having much impact on their approach to the North American market in the short term. Most felt that the prevailing culture of the industry would tend to resist advances and opportunities presented by new forms of information technology like the Internet.

One interviewee, however, experienced dramatic improvements from the adoption of fax technology in the last five years and expected the Internet to have a similar impact in the next five. The fax had the following impact on his business:

- **Dramatically reduced the cost of contacting his customers.** The fax is significantly less costly than either telex or telephone calls as they can be

scheduled for reduced rate periods. At the same time, the fax can improve the volume of information that can be transmitted to the customer.

- **Improved the quality of communication.** As he stated: “it was almost impossible to describe custom grades over the telephone. Now, I can fax a picture and this allows me to communicate much more effectively than in the past.”
- **Improved cash flow.** It is now routine to fax invoices whereas in the past the firm would have to courier them or mail them to the clients. The fax helped reduce accounts receivable levels and improved cash flows.

9.0 FUTURE CHANGE AND THE IMPLICATIONS FOR BC PRODUCERS

Forecasting the future is an exercise fraught with problems and as likely to be wrong as to be right. That said, there are certain factors that will have an impact on the industry and its ability to export to the US market.

Probably the most significant issues to face the industry over the medium-term will be trade relations with the US. It is unlikely that the quota-based SWLA will be abandoned by the US. The most likely outcome is that firms will have to manufacture products that are not included in the quota allocation. Existing firms will be impacted to varying degrees depending on the amount of quota they received under the terms of the agreement.

The continuing rationalization of distribution channels and the resulting squeeze on margins suggests that BC firms will have to continue to improve their efficiencies in an effort to continue to reduce manufacturing and delivery costs. If the economies of scale enjoyed by some of the larger US-based manufacturers and international competitors cannot be duplicated in BC, then BC producers will have to continue to identify and capture higher margin product opportunities. The industry should continue to talk to government in order to develop mutually beneficial marketing and training programs that will deal with these two concerns.

Finally, the BC industry continues to face fibre supply issues. The implementation of land use planning, the Forest Practices Code, the Protected Areas Strategy and the Timber Supply Review will all serve to reduce access to timber and to increase timber costs to the primary industry which in turn challenges the value-added sector. However, programs like the Small Business Forest Enterprise Program, worker training, international marketing initiatives, market access efforts, Forest Renewal BC and other government initiatives will serve to offset the impacts of this supply reduction. In addition to markets and labour costs, fibre supply, fibre costs and cost volatility are critical ingredients to the value added sector.

Information and communication technology will have an impact on the industry. As more firms on the commodity side move towards more direct selling, information technology will become an increasingly important management tool in managing and developing the export side of the business. While it may take some time for trading to take place electronically, databases can be developed to help manage existing clients and develop new ones. This information can be used to manage production and develop new products.

10.0 SUMMARY AND CONSLUSIONS

The exporter interviews confirmed that many BC companies follow strategies similar to those identified in the general marketing literature. Most firms focus on segments at a regional level, adopt a roll out strategy, and deal directly with smaller regional distributors. Their marketing strategies are flexible and incorporate lessons learned from experience. The market is largely affected by price, but quality niches can be found. However, these niches are continually subjected to price competition. The literature did not identify the importance of the personal relationship between manufacturer and distributor. BC firms clearly felt that the relationship with their channel member was a critical success factor in their exporting strategy.

A good relationship between manufacturer and distributor ensured a higher degree of loyalty and brought many operational benefits. The importance of the relationship meant that manufacturers often looked for owner operated distributors where they could establish a peer to peer relationship with the channel member. At the same time, the manufacturer tended to reject relationships with larger channel members where they could not guarantee continuity of contact and where they would not get the same level of attention.

The SWLA will have a fundamental impact on the types of firms that will be able to enter the US market in the future. Many value-added manufacturers who were able to ship products into the US will not be able to enter this market in the future. All firms interviewed could not absorb the financial penalty for shipping without quota. Firms that manufacture products that are exempt from this agreement are advised to obtain formal exemption to ensure clear access to the market.

BC firms are impacted by the consolidation of US channels and the movement to JIT ordering. The consolidation of channels means the types of firms that BC companies are best suited to in terms of size and ownership structure are in fact being eliminated. JIT ordering generally means that BC firms have to implement higher levels of inventory which will increase their investment in working capital. Most firms avoided serving large box retailers as they could not compete at the price levels demanded by these retailers.

Most BC firms do not think that future developments in technology will have an immediate impact on their operations. At the same time, there are no impending developments in the transportation infrastructure or competitor actions that were

mentioned in the survey. Perhaps the largest issues facing these firms are consistency of raw material supply and/or the threat of their raw material suppliers establishing similar manufacturing facilities and competing head to head.

11.0 BIBLIOGRAPHY

- Branch, Alan E. *Elements of Export Marketing and Management*, 2nd ed.. London: Chapman and Hill, 1990.
- Brooks, Mary R., Donald J. Patton, Philip J. Roson. *The Export Edge: advice from successful Canadian companies*. Ottawa: External Affairs and International Trade Canada, 1990.
- Canadian Forest Service. *The Canada-U.S. Free Trade Agreement and the Forest Products Sector: An Assessment*. Ottawa: Minister of Supply and Services, 1988.
- Cesa, Ed. *A Marketing Guide for Manufacturers and Entrepreneurs of Secondary-Processed Wood Products in the Northeastern United States*. Morgantown: USDA Forest Service, 1992.
- Gordon, John S. *Profitable Exporting a Complete Guide to marketing your Products Abroad*, 2nd ed.. New York: John Wiley & Sons, Inc, 1993.
- James, Harvey S. Jr., Murray Weidenbaum. *When Businesses Cross International Borders*. Westport: Praeger, 1993.
- Mater, Jean, M. Scott Mater, Catherine M. Mater. *Marketing Forest Products...Gaining the Competitive Advantage*. San Francisco: Miller Freeman Inc., 1992.
- Mukumoto & Associates. *Opportunities for Canadian Exporters of Value-Added Wood Products in the Southwestern United States Working Paper 96.13*. Victoria: Pacific Forestry Centre, 1996.
- Roberts, Don G. *A North American Free Trade Agreement: Background and Implications for Canada's Forest Sector*. Ottawa: Forestry Canada, 1991.
- United States International Trade Commission. *Harmonized Tariff Schedule of the United States (1996)* [USITC Pub. 2937, 19 U.S.C. 1202 (1988)]. Washington: United States International Trade Commission, 1996.
- Williston, Ed M. *Value-Added Wood Products Manufacturing and Marketing Strategies*. San Francisco: Miller Freeman Inc., 1991.

APPENDIX A - THE INTERVIEW QUESTIONNAIRE

Section 1: History

- 1.1 How long have you been exporting to the US?
- 1.2 Was the US the first export market you entered or did you have experience from other markets?
- 1.2a Did you export to other provinces in Canada prior to going into foreign markets? (if no then go to 1.3)
- 1.2b Did you gain any useful experience as a result of exporting to other parts of Canada?
- 1.3 Did you use a consultant or export management firm to help establish an export program?
- 1.4 Did you expand your product line as a result of exporting?

Section 2: Distribution

- 2.1 How did you initially get your product into the US market (agent, distributor, trading house, wholesaler, handled directly by the firm)?
- 2.2 Did you use industry associations on either side of the border, government agents or personal contacts to identify potential distributors?
- 2.3 What criteria did you use in selecting a distributor(s)?
- 2.4 Did you find you needed to use different approaches in different parts of the US?
- 2.5 Was the nature of your product a significant factor in the distribution channel?
- 2.6 Does your product require a high level of service to the distributors, retailers and end users? (if no go to question 2.7)
- 2.6a How far along the distribution chain do you supply the necessary service for your product?
- 2.7 How much of the distribution process do you handle in house and how much of the process do you rely on agents, distributors, brokers, etc. for?
- 2.8 Have you reached a point where you have taken more direct management control over your export operation from your broker or agent? (if no then go to question 2.9)
- 2.8a What factors influenced your decision to take a more direct role in exporting?
- 2.8b Has the decision to control more of your export program had a positive effect on the export side of your business? Why?
- 2.9 Are transportation arrangements for the product (including mode and scheduling of deliveries) generally negotiated in the export contract?
- 2.9a Who has the most influence over the shipping arrangements for the product?
- 2.9b What are the most common modes used for shipping your product to the US?

Section 3: the Future

- 3.1 How do you expect your business environment to change as a result of events such as the softwood agreement; the further reduction of tariffs through NAFTA; the softwood agreement, the advent of “big box retailers”; reduced construction of new homes to more renovation; the changing information technology?
- 3.2 What are the implications of these changes to BC manufacturers?

APPENDIX B - COMPANY LIST FOR INTERVIEWS

The companies from which the interview sample were drawn from were suggested by BC Wood Specialties Group based on their knowledge of the companies success in the US market. It must be stressed that the sample of companies interviewed is not statistically valid at any reasonable level of significance and the information gathered provides some insight into broad trends and problem areas rather than quantitatively driven results. That said an attempt was made to interview companies that were representative of the industry and geographic location given the constraints of the project budget for travel.

| | | |
|---|--|---|
| Abeda Wood Products, Kelowna | Greenwood Forest Products (1983) Ltd. Penticton | Surrey Renelle Furniture Surrey |
| Accra Wood Products, Burnaby | Haida Forest products Ltd. Burnaby | Sonax Furniture Osoyoos |
| Adwood Manufacturing, Crofton | Jackpine Forest Prodcuts Ltd. Williams Lake BC | Spindaleer Manufacturing Ltd. Chilliwack |
| BC Door Company Ltd. Vancouver | Loewen Windows (Clearbrook Window Industries) Abbotsford, BC | Trimlite Canada Ltd. Surrey |
| BW Creative Wood Industries Ltd. Maple Ridge | Mego Wood Products (1989) Ltd Princeton | Westwood Mouldings Chemainus |
| Bridgeside Higa Forest Industries Lillooet | Oakmont Industries Ltd. Surrey | |
| The California Shutter Company of Canada Ltd. North Vancouver | Old Country Wood Turning Ltd. Victoria | |
| Canwood Furniture Factory Inc. Penticton | Pacific Western Wood Works Ltd. Delta | |
| Cedarshed Industries (1992) Inc. Surrey | Paragon Wood Products Enderby | |
| Central Cedar Ltd. Surrey, BC | Pawood Manufacturing Inc. New Westminster | |
| Clearwood Industries Ltd. Port Moody | Pine Falls Furniture Co. Ltd. Maple Ridge | |
| | Premdor Inc. | |

APPENDIX C -FEDERAL GOVERNMENT PROGRAMS FOR EXPORTERS

INDUSTRY CANADA

Industry Canada (IC) is for industrial development and micro economic policy. A key activity of IC in the area of building products and manufactured housing is market access. The National Research Council is responsible for building code development, and the Standards Council of Canada which delivers Canada's voluntary building products standards writing, testing and certification system. This coordinated approach provides an entry point for the industry to Federal Government services and programs.

National Sector Teams (NSTs) and Canadas International Business Strategy for Building Products (CIBS)

A National Sector Team has been created to strengthen links among all private and public stakeholders within the building products sector. The Building Products NST pools expertise from the federal and provincial governments, industry associations and private sector companies, using a teamwork approach to pursue international business more effectively. The teams will focus international trade issues, disseminate information on market conditions and export opportunities and provide advice on issues of importance to the industry. This advisory role includes inputting into Canada's International Business Strategy (CIBS) for Building Products. This document which is published each year, serves as a means of seeking industry participation in setting government priorities and allocating resources to ensure that government strategies and initiatives reflect the real needs of Canadian industry. Each year Industry Canada and the Department of Foreign Affairs and International Trade organize missions to most leading international building products trade shows in which the Government of Canada has a presence.

Industry Canada is leading the government response to the concerns of the private sector for a more effective delivery of trade development programs, especially as regards focusing on the needs of SMEs and companies which are still gathering experience in export markets. Industry Canadas in-depth knowledge of domestic supply capabilities and of the product lines of individual companies places the department in a unique position to match this intelligence with foreign market opportunities by DFAIT.

For more information on the Building Products NST, the CIBS document or Trade Fairs and Missions, contact Murray Hardie at (613) 954-3037.

Electronic Information

The Federal government is moving rapidly towards providing more information and services to the public through electronic media. IC recently launched Strategis, the largest website of business information in Canada. On it, one can access a wide range of market intelligence, trade data, information on government programs and industry analysis

(including current and previous issues of this publication.) The Internet address for Strategis is: <http://strategis.ic.gc.ca>

One service available on Strategis is the Canadian Company Capability (CCC) system. By registering with CCC, this service can act on your behalf as an international broker and promotional vehicle free of charge to the 40 million Internet users around the world. CCC contains information on thousands of small and medium sized Canadian companies in a wide range of industry sectors. If you are already on-line, you can self-register for CCC through the Internet on the Strategis website (at the address above) under the Markets, Trade and Investment section. If you would like to register but do not have Internet access or would like more information, call (613) 954-5031.

Program for Export Market Development (PEMD)

PEMD is designed to increase Canadian export sales by reducing the risks involved in entering a foreign market by sharing risks. Through a partnership with business clients, the program will make a repayable contribution to cover up to 50 percent of eligible costs incurred in developing an export market strategy. Repayment of the contribution is based on incremental sales made by the recipient company or contracts obtained. The PEMD annual contribution per application is a minimum of \$5,000 and a maximum of \$50,000. For new-to-exporting companies, PEMD can assist in the development of an international marketing plan with a contribution of up to \$7,500 per application. Under PEMD, eligible costs include expenses like production of promotional material for the target market, participation in trade fairs, product testing by foreign standards agencies and return economy airfare to visit the target market.

Eligibility criteria include being established and operating in Canada, having an exportable product that meets Canadian content criteria of 50 percent and being registered in the WIN Exports database (see below). Preference is given to companies with annual sales greater than \$250,000 and less than \$10 million, and/or less than 100 employees.

For further information on the PEMD program, contact your Industry Canada regional office, International Trade Centre, or call the Foreign Affairs and International Trade InfoCentre at 1-800-267-8376.

Forum for International Trade Training (FITT)

FITT provides training using a series of integrated courses designed for business, especially small and medium sized firms. The focus of FITT programs is to assist exporters in assessing their export readiness, developing international business plans, and formulating financing and marketing plans. FITT offers both general international trade courses as well as workshops which focus on specific national and regional markets. These programs are offered at over two dozen universities and community colleges across Canada. While FITT has received funding from the federal government, it is a private organization administered by the business community through partnerships with groups like the Canadian Chamber of Commerce and the Canadian Exporters Association.

For more information, call 1-800-561-FITT.

World Information Network for Exports (WIN Exports)

Every day, Canadian embassies and consulates around the world receive hundreds of requests for export information from foreign buyers. WIN Exports is a computer database designed to help Canada's trade development officers abroad match foreign needs to Canadian capabilities. It provides users with information on the capabilities, experience and interests of more than 30,000 Canadian exporters. Essentially, it is the computer equivalent of having an endless supply of your company's marketing brochures on each trade officers desk around the world. To register, call 1-800-267-8376.

Trade Commissioner Service

Canadian Trade Commissioners operating from trade offices around the world can offer a range of services to companies seeking export markets. If you are assessing a new market, the Trade Commissioner can help with preliminary market research provided you supply the necessary information about your product. For more information on how Trade Commissioners abroad can help you or to obtain a copy of the Directory of Canadian Trade Commissioners, call 1-800-267-8376.

NEW EXPORTER PROGRAMS

New Exporters to Border States (NEBS)

NEBS is a crash course for small and medium sized businesses in the essentials of exporting to the United States. It provides practical information along with first-hand exposure to a nearby marketplace in a US border state. While NEBS missions vary between provinces, they always involve a pre-departure briefing in Canada and a 1-3 day visit to a nearby US market. NEBS missions often include such components as a briefing on border procedures by a US customs officer or customs broker; a talk by a US manufacturer, distributor or sales agent; a visit to local wholesalers or retailers; a briefing on the local market by staff from the Canadian consulate; one-on-one interviews with potential customers, agents or distributors and receipt of an exporters information kit from the Canadian consulate. This program is open to all Canadian businesses that are not already exporting to the US on a regular basis and costs \$100 per participant plus personal expenses.

New Exporters to Overseas (NEXOS)

The NEXOS program helps exporters gain familiarity with the market by participating in a trade mission. Each NEXOS mission focuses on a specific industry sector in a specific market and normally includes a visit to a major sectoral trade fair. In addition, a NEXOS mission will provide information on the exporters target markets with emphasis on such areas as customs procedures, market access, shipping, labeling, distribution and currency regulations.

International Trade Centres (ITCs)

International Trade Centres across Canada are a joint venture of Industry Canada and the Department of Foreign Affairs and International Trade. Among other things, they help companies determine whether or not they are ready to export; assist firms with market research and market planning; provide access to government programs designed to promote exports and provide a link between the Trade Commissioner Service at Canadian Embassies and High Commissions abroad. For the location and phone number of the ITC nearest you, call 1-800-267-8376.

CanadExport

CanadExport is a trade newsletter that provides information on key trade issues. It is published twice monthly in English and French by the Department of Foreign Affairs and International Trade. CanadExport provides information on export opportunities, government programs for exporters, information on trade fairs, missions and conferences, as well as special reports on trade-related issues. This publication is available free of charge. For more information, call 1-800- 267-8376.

The Export Development Corporation (EDC)

EDC is a financial services corporation that provides a wide range of flexible and innovative financial solutions to exporters across Canada and their customers around the world. For more than 50 years, the Corporations risk management services-including insurance, financing and guarantees- have become an integral part of the export strategies of many large and small Canadian companies. As a self-funding Crown corporation, EDC operates on commercial principles, charging fees and premiums for its products and interest on its loans. For more information on the products and services offered by EDC, contact their head office in Ottawa (613-598-2500) or one of their regional offices which are located in Vancouver, Calgary, Winnipeg, London, Toronto, Montreal and Halifax.

APPENDIX D - INFORMATION RESOURCES FOR NEW EXPORTERS

Listing of Industry Associations in the United States (this listing is not comprehensive, but covers the major associations and a number of others):

American Association of Woodturners (AAW) - United States
3200 Lexington Avenue
Shoreview, MN 55126
Phone: (612) 484-9094 Fax: (612) 484-1724
E-mail: 75037.2123@compuserve.com

American National Standards Institute (ANSI) - United States
11 West 42nd Street
New York, NY 10036
Phone: (212) 642-4900 Fax: (212) 398-0023

American Plywood Association (APA) - The Engineered Wood Association - United States
P.O. Box 11700
Tacoma, WA 98411
Phone: (206) 565-6600

[American Wood Council (AWC) - United States
1619 Massachusetts Avenue, NW, Suite 120
Washington, DC 20036

American Wood-Preservers' Association (AWPA) - United States
P.O. Box 286
Woodstock, MD 21163
Phone: (410) 465-3169 Fax: (410) 465-3195

American Wood Preservers Institute (AWPI) - United States
1945 Gallows Road, Suite 550
Vienna, VA 22182

Arizona Woodturners Association (AWA) - United States (Arizona)
P.O. Box 32429
Phoenix, AZ 85064

Business and Institutional Furniture Manufacturers Association (BIFMA) - United States
Based/International Organization
2335 Burton Street, SE
Grand Rapids, MI 49506

California Furniture Manufacturers Association (CFMA) - United States (California)
No address information available

Carolinas-Tennessee Building Materials Association, Inc. - United States (Tennessee and North Carolina)
P.O. Box 18667
Charlotte, NC 28218
Phone: (704) 376-1503/1-800-849-1503 Fax: (704) 331-9663
E-mail: ctbma@ctbma.org

Charlotte Woodworking Association (CWA) - United States (North Carolina)
6400 Old Reid Road
Charlotte, NC 28210

Eastern Building Material Dealers Association - United States (Northeastern States)
E-mail: Office@ebmda.org

Empire State Forest Products Association (ESFPA) -United States (New York)
E-mail: infoesfa@nyforest.edu

Florida Building Material Association (FBMA) - United States (Florida)
P.O. Box 65
Mount Dora, FL 32757-0065
Phone: (352) 383-0366 Fax: (352) 383-8756
E-mail: office@fbma.org

Florida Wood Council (FWC) - United States (Florida)
E-mail: fwc@woodsource.com

Forest Products Society (FPS) - United States Based/International Organization
2801 Marshall Court
Madison, WI 53705-2295
Phone: (608) 231-1361 Fax: (608) 2331-2152
E-mail: info@forestprod.org

Georgia Forestry Association (GFA) - United States (Georgia)
500 Pinnacle Court
Norcross, GA 30071-3662
Phone: 1-800-947-6942/(770) 416-7621 Fax: (770) 840-8961
E-mail: GFAGrowGA@aol.com

Illinois Lumber & Material Dealers Association (ILMDA) - United States (Illinois)
932 S. Spring Street
Springfield, IL 62704
Phone: (217) 544-5405 Fax: (217) 252-8641
E-mail: ILMDA@aol.com

Independent Forest Products Association (IFPA) - United States
1500 SW Taylor Street
Portland, OR 97205
Phone: (503) 224-5455 Fax: (503) 224-0592
E-mail: dford4wood@aol.com

Indiana Lumber and Builders' Supply Association (ILBSA) - United States (Indiana)
3600 Woodview Trace, Suite 305
Indianapolis, IN 46268
Phone: (317) 875-3737 Fax: (317) 875-3717
E-mail: offices@ilbsa.org

International Wood Products Association (IWPA) - International
4214 King Street, West, Alexandria, VA 22302
Phone: (703) 820-6696 Fax: (703) 820-8550
E-mail: info@ihpa.org

Kentucky Wood Products Competitiveness Corporation (KWPPCC) - United States (Kentucky)
501 Darby Creek Road, Unit 35
Lexington, KY 40509
Phone: (606) 263-3139 Fax: (606) 263-5191

Kitchen Cabinet Manufacturers Association (KCMA) - United States
1899 Preston White Drive
Reston, VA 22091
Phone: (703) 264-1690 Fax: (703) 620-6530

Laminating Materials Association (LMA) - United States
767 Park Avenue
Oradell, NJ 07649

Lumberman's Association of Texas (LAT) - United States (Texas)
2501 N Loma Boulevard
Austin, TX 78705
Phone: 1-800-749-5862 Fax: (512) 472-7378
E-mail: latadmin@lat.org

Maine Wood Products Association (MWPA) - United States (Maine)
P.O. Box 370
Newport, ME 04593
Phone: 1-800-524-9663/(207) 368-5969 Fax: (207) 368-5954
E-mail: info@mwpa.org

Michigan Forest Association (MFA) - United States (Michigan)
1558 Barrington
Ann Arbor, MI 48103
Phone: (313) 665-8279

Michigan Lumber and Building Materials Association
5815 Executive Drive
P.O. Box 27095
Lansing, MI 48911
Phone: (517) 394-5225 Fax: (517) 394-5228

National Association of Home Builders (NAHB) - United States
1201 15 Street, NW
Washington, DC 20005
Phone: (202) 822-0200 Fax: (202) 822-0377

National Lumber and Building Material Dealers Association (NLBMDA) - United States
40 Ivy Street, SE
Washington, DC 20003
Phone: (202) 547-2230 Fax: (202) 547-7640
E-mail: nlbmda@nlbmda.org

National Retail Hardware Association (NRHA) - United States
5822 W. 74th Street
Indianapolis, IN 46278
Phone: (317) 290-0338 Fax: (317) 328-43554
E-mail: nhra@iquest.net

National Wood Flooring Association (NWFA) - United States
233 Old Maramec Station Road
Manchester, MO 63021
Phone: (314) 391-5161 Fax: (314) 391-6137

National Wood Window and Door Association (NWWDA) - United States and Canada
1400 East Touhy Avenue, G-54
Des Plaines, IL 60018
Phone: 1-800-223-2301 Fax: (847) 299-1286

National Wooden Pallet & Container Association
1800 N. Kent, Suite 911
Arlington, VA 22209-2109

North American Building Material Distribution Association
401 N. Michigan Avenue
Chicago, IL 60611
Phone: (312) 321-6845 Fax: (312) 644-0310

North American Wholesale Lumber Association (NAWLA) - United States and Canada
3601 Algonquin Road, Suite 400
Rolling Meadows, IL 60008
Phone: (886) 870-7470 Fax: (886) 870-0201

Southern Forest Products Association (SFPA) - United States
P.O. Box 641700
Kenner, LA 70064
Phone: (504) 443-4464 Fax: (504) 443-6612
E-mail: info@sfpa.org

Western Wood Products Association (WWPA) - United States (Western States)
Yeon Building, 522 S.W. 5th Avenue
Portland, OR 97204
Phone: (503) 224-3930 Fax: (503) 224-3934
E-mail: info@wwpa.org

Wood Component Manufacturers Association
1000 Johnson Freeway Road, Suite A-130
Marietta, GA 30068
Phone: (770) 565-6660

Wood Moulding and Millwork Producers Association (WMMPA) - United States
507 First Street
Woodland, CA 95695
Phone: (916) 661-9591 Fax: (215) 963-9785

Wood Products Manufacturers Association
175 State Road East
Westminster, MA 01473
Phone: (508) 874-5445 Fax: (508) 874-9946

Wood Truss Council of America (WTCA) - United States
401 N. Michigan Avenue
Chicago, IL 60611-4212 Phone: (312) 644-6610

Useful Sites on the World Wide Web (WWW) (this list is not complete, but from these sites virtually all others can be found):

Forest Renewal BC - <http://www.forestrenewal.bc.ca/forestrenewal/>

Pacific Forestry Centre - <http://www.pfc.forestry.ca/>

ForestPro (network of companies includes trade leads for importers to US) -<http://www.forestpro.com/>

BC FibreNet - <http://www.woodfibrenet.com/>

Industry Related Information Service (forest products) - <http://www.cdc.net/~primus/IRIS/irisfp.html>

PNWER Catalist - <http://www.halcyon.com/pnwer/catalist/>

Industry Canada Strategis - http://strategis.ic.gc.ca/sc_indps/sectors/engdoc/

BC Ministry of Forests Value-added sector - <http://mofwww.for.gov.bc.ca/pab/publctns/value/>

Secondary Wood Products Consortium - <http://www.lbcc.cc.or.us/swpc/swpc.html>

CINTRAFOR - <http://weber.u.washington.edu/~blippke/cintrafor.html>

Steve Shook's links page (best index site to find information) - <http://weber.u.washington.edu/~esw/>

APPENDIX E - THE CANADA - US SOFTWOOD AGREEMENT

SOFTWOOD LUMBER AGREEMENT

THE GOVERNMENT OF CANADA

AND

THE GOVERNMENT OF THE UNITED STATES OF AMERICA

The Government of Canada and the Government of the United States of America (hereinafter referred to as the Parties):

HAVE AGREED AS FOLLOWS:

ARTICLE I

ACTIONS BY THE UNITED STATES

1. This Agreement is intended to ensure that there is no material injury or threat thereof to an industry in the United States from imports of softwood lumber from Canada. Domestic producers accounting for more than 60 percent of the total U.S. production of softwood lumber, within the meaning of 19 U.S.C 1671a(c)(4)(O)) and 1673a(c)(4)(W), have submitted the letters attached at Annex 1 and the Department of Commerce will rely on the representations contained in those letters. Title VII of the Tariff Act of 1930 sets out possible independent additional grounds on which the Department may dismiss a petition if the Department finds such grounds exist.
2. The United States shall not self-initiate an investigation under Title VII of the Tariff Act of 1930, as amended, or any successor law, with respect to imports of softwood lumber from Canada. If a petition is filed under Title VII of the Tariff Act of 1930, as amended, or any successor law, with respect to imports of softwood lumber from Canada, the Department of Commerce shall dismiss the petition.
3. The United States shall not take action under sections 201-204 of the Trade Act of 1974, as amended, or any successor law, with respect to imports of softwood lumber from Canada.
4. The United States shall not take action under section 204 of the Agricultural Act of 1956, as amended, or any successor law, with respect to imports of softwood lumber from Canada, except as required for the collection of permit numbers under Article IV(1)(1).
5. The United States shall not initiate an investigation or take action under sections 301-305 of the Trade Act of 1974, as amended, or any successor law, with respect to imports of softwood lumber from Canada.

ARTICLE 11

CANADIAN EXPORT PERMIT

1. Canada shall place softwood lumber on the Export Control List under the Export and Import Permits Act, as amended, and require a federal export permit for each exportation to the United States of softwood lumber first manufactured in the province of Ontario, Quebec, British Columbia or Alberta and shall require any person to which such a permit is issued to keep records relating to its issuance for

60 months after the date of issuance of the permit.

2. Canada shall collect a fee on issuance of a permit for export to the United States of softwood lumber first manufactured in the province of Ontario, Quebec, British Columbia or Alberta for quantities above the established base in a given year. The fee shall be determined in accordance with the following schedule:

Exports (Yearly)

| | Fee |
|--|---------------------------------|
| (a) 14.7 billion board feet (the established base) or less | Free |
| (b) More than 14.7 and less than or equal to 15.35 billion board feet (the lower fee base) | US\$50 per thousand board feet |
| (c) Amounts in excess of 15.35 billion board feet (the upper fee base) | US\$100 per thousand board feet |

3. The fees described in paragraph 2 shall be adjusted for inflation on April 1 each year, beginning in 1997, based on the annual percentage change in the simple average of the annual value in:

(a) the Consumer Price Index, All Urban Consumers, All items less food and energy, published by the U.S. Department of labor, Bureau of Labour Statistics; and

(b) the Consumer Price Index for Canada, All-Items, published by Statistics Canada, catalogue no. 62-010-XPB,

over the previous calendar year.

4. Prior to the beginning of each year, Canada shall allocate the established base and the lower fee base for that year among Canadian softwood lumber exporters, except that Canada shall make every effort to make the allocation for the first year of this Agreement by July 1, 1996, but in no event later than September 30, 1996.
5. Subject to paragraph 9, until Canada makes the first allocation referred to in paragraph 4, Canada shall collect the fee under subparagraph 2(b) during a calendar quarter from each exporter who exports softwood lumber first manufactured in the province of Ontario, Quebec, British Columbia or Alberta to the United States following the date on which exports from Canada in that quarter equal or exceed 28.75 percent of the established base (excluding any additional quantities of exports allowed under Article III-Trigger Price). For quantities in excess of 650,000,000 board feet that are subject to a fee under this paragraph, Canada shall collect the fee set out in subparagraph 2(c), in lieu of the fee set but in subparagraph 2(b).
6. Subject to paragraph 9, upon allocation by Canada of the established base and the lower fee base among Canadian Softwood lumber exporters, Canada shall collect the applicable fee under subparagraph 2(b) or (c), as determined in accordance with paragraph 7, during a calendar quarter from each exporter of softwood lumber first manufactured in the province of Ontario, Quebec, British Columbia or Alberta whose exports to the United States in that quarter exceed 28.75 percent of its yearly allocation of the established base (excluding any additional quantities of exports allowed under Article III Trigger Price). The fee shall apply with respect to the quantity of the exporter's exports of softwood lumber to the United States during the calendar quarter that exceeds 28.75 percent of the exporter's yearly allocation of the established base (fee quantity).
7. Exports within the lower fee base set out in subparagraph 2(b), except that if the sum of:

(a) the exporter's fee quantity for the then calendar quarter, and

(b) the exporter's fee quantities in previous calendar quarters of the same year

exceeds the exporter's lower fee base allocation, such exports, to the extent of the excess, shall be deemed to be exports within the upper fee base set out in subparagraph 2(c).

8. Canada may remit, following collection:

(a) at the end of a calendar quarter, fees collected under paragraph 6, to the extent that such fees were collected on exports of softwood lumber to the United States not in excess of 28.75 percent of the established base;

(b) at the end of the year, one half the amount of the fees collected under paragraph 2, if exports of softwood lumber to the United States did not exceed 28.75 percent of the established base in any calendar quarter of that year, to the extent that such fees were collected on exports not in excess of the established base;

(c) at the end of the year, one third the amount of the fees collected under paragraph 2, if exports of softwood lumber to the United States exceeded 28.75 percent of the established base in any calendar quarter of that year, to the extent that such fees were collected on exports not in excess of the established base.

The quantity of exports for which fees have been remitted under subparagraph (a) shall be counted against an exporter's allocation of the established base, up to the point that the exporter has used up its allocation of the established base, in which case all further quantities shall be counted against the exporter's lower fee base allocation.

9. Canada shall not be required to collect a fee under paragraph 5 or 6 at any time from an exporter:

(a) whose production of softwood lumber was less than 10 million board feet in the previous calendar year, or

(b) whose production of softwood lumber during the preceding calendar quarter was substantially disrupted (i.e., reduced by at least 25 percent by comparison to the same quarter of the previous year) due to a worker

strike, or a mill fire, forest fire or other force majeure, provided that Canada provides notice and documentation to United States within 60 days following the event.

10. The fees collected under this article shall be calculated based on the prevailing conversion rate of the Bank of Canada as published in the Bank of Canada Daily Memorandum of Exchange Rates.

11. Nothing in this Agreement shall prevent the transferability of allocations referred to in paragraph 4 between exporters of softwood lumber first manufactured in the province of Ontario, Quebec, British Columbia or Alberta.

ARTICLE III TRIGGER PRICE

1. For each calendar quarter that the average price per thousand board feet as published in Random Lengths for Spruce-Pine-Fir, Eastern, Kiln Dried, 2x4 random length, Standard & Better, Great Lakes delivered, equals or exceeds:

- (a) US \$405, in any calendar quarter during the period April 1, 1996 through March 31, 1998, or
- (b) US \$410, in any subsequent calendar quarter,

Canada may export to the United States, without a fee, 92 million additional board feet of softwood lumber first manufactured in the province of Ontario, Quebec, British Columbia or Alberta. The average U.S. price during a quarter shall be the simple average of the weekly price, as published in Random Lengths, for the weeks that end within the three months that comprise the quarter.

2. The 92 million board feet that results from the application of paragraph 1 to a particular quarter may be exported during the four quarters following that quarter.

ARTICLE IV INFORMATION COLLECTION AND COOPERATION

Collection of Information

1. Canada shall require exporters to the United States of softwood lumber first manufactured in the province of Ontario, Quebec, British Columbia or Alberta, in connection with the issuance of a permit under the Export and Import Permits Act, as amended, or any successor law, and the United States shall require importers of such softwood lumber in connection with the customs entry of the softwood lumber into the United States under section 484 of the Tariff Act of 1920, as amended, or any successor law, to furnish to it the:
 - (a) name of manufacturer/mill;
 - (b) name of exporter;
 - (c) province of first manufacture;
 - (d) 10 digit U.S. H.S. commodity Code and product description;
 - (e) quantity in board feet, cubic metres or square metres;
 - (f) value (US\$),
 - (g) US port of entry;
 - (h) U.S. customs entry number;
 - (i) U.S. entry date;
 - (j) name of importer (Canada to begin collection after July 1, 1996);
 - (k) mode of transportation (Canada to begin collection after July 1, 1996);
 - (l) export permit number (United States to begin collection as soon as practicable after the entry into force of this Agreement); and
 - (m) indication of whether the importation for which the permit has been issued pertains to quantities described in subparagraph (a), (b) or (c) of Article 11(2), or Article III (United States only - collection to begin as soon as practicable after the entry into force of this Agreement),

of the softwood lumber subject to the exportation or importation.

Cooperation

2. Unless the Parties otherwise agree, representatives of the Parties shall exchange, on a monthly basis, aggregated data collected pursuant to paragraph 1, for the purpose of reconciling quarterly their data covering the preceding calendar quarter and the year to date.
3. Canada shall provide to the United States, on a monthly basis, data on the total fees collected and remitted pursuant to Article 11 covering the preceding calendar month and the year to date, broken down by lower fee base and upper fee base.
4. If the Parties cannot reconcile their aggregated data, they shall exchange information regarding exports by specific exporters, importers or manufacturers, and if necessary, regarding specific exports and imports in order to achieve reconciliation.
5. The Parties shall cooperate for purposes of detection and prevention of false designations of province of first manufacture and quantities exported. where the U.S. Customs Service has reason to believe that an exporter has failed to obtain a permit as required or has made a false designation of province of first manufacture or quantities exported, it may request the Export and Import Controls Bureau of the Department of Foreign Affairs and International Trade (Bureau) to visit the premises of the exporter to review the records referred to in Article 11 (1) and the premises of the manufacturer of goods at issue, in order to ensure compliance with the Export and Import Permits Act, as amended, or any successor law. The Bureau will conduct the visit following consultations between the Parties to define the nature of the problem and to agree on the information required. Canada shall share information relating to any such visit with the U.S. Customs Service.
6. Nothing in this Agreement shall be construed to prevent a Party from imposing criminal, civil or administrative penalties for violations of its laws and regulations relating to the implementation of this article.
7. The aggregated data collected under subparagraphs 1(c) through (g), and the aggregated data pertaining to fees collected and remitted pursuant to Article II, need not be treated as confidential under Article VI.

ARTICLE V DISPUTE RESOLUTION

Consultations

1. Either Party may request in writing consultations with the other Party regarding any matter referred to in subparagraph 16(a) or (b) or that the Party considers may constitute a breach of this Agreement. Consultations shall commence within 20 days of the date following delivery of the request.
1. The Parties shall make every attempt to arrive at a mutually satisfactory resolution of the matter through consultations. To this end, the parties shall:
 - (a) provide sufficient information to enable a full examination of the issue;
 - (b) treat any confidential information exchanged in the course of consultations in accordance with the provisions of Article VI,

and may mutually agree to have the matter resolved through the assistance of an appropriate neutral third party

Referral to Arbitration

3. If, within 35 days following the delivery of a request for consultations, the parties fail to resolve a matter that the requesting Party considers to constitute a breach of this Agreement, other than the taking of an action by the United States inconsistent with Article I, the requesting Party may initiate arbitral proceedings by delivering written notice of arbitration to the other party. The notice shall specify the nature of the alleged breach. Arbitral proceedings may not be initiated or proceed with respect to any matter that has been referred to an auditor under paragraph 16, except where such matter has been referred to an arbitral panel under paragraph 17.

Appointment of Arbitral Panel

4. Arbitral panels shall be composed of three panelists who may be selected from any of the following:
 - (a) the WTO indicative list of governmental and non- governmental panelists;
 - (b) the roster established under Article 1124(4) of the NAFTA; and
 - (c) the roster established under Article 2009(1) of the NAFTA.
5. The Parties shall endeavor to agree on the panel chair within 15 days following the date of delivery of the notice of arbitration. If the parties fail to agree on the selection of a chair by that date, the Parties shall decide by lot which of them shall select the chair. That Party shall select the chair within five days thereafter among those roster members who are not citizens of that Party.
6. Within 10 days after the panel chair is selected, each Party shall select a panelist from among those roster members who are citizens of the other Party. If a party fails to select a panelist within the time periods specified, the panelist shall be selected by lot from among the roster members who are citizens of the other Party.
7. Panelists shall be independent of, and not be affiliated with or take instructions from, a Party; including a state or provincial government. Panelists shall be selected strictly on the basis of objectivity, reliability, sound judgment and to the extent possible, expertise appropriate to the substance of the matter in dispute. Panelists shall comply with the code of Conduct for Dispute Settlement Procedures under Chapters 19 and 20 of the North American Free Trade Agreement (*Code of Conduct*), and in particular shall be free of any conflict of interest or appearance of such a conflict.
8. If a Party believes that a panelist is in violation of the Code of Conduct, the Parties shall consult and, if they agree, the panelist shall be removed and a new panelist shall be selected in accordance with this article. If a member of the arbitral panel withdraws from the panel prior to completing his or her duties, a replacement panelist shall be appointed in the same manner as the panelist who has withdrawn from the panel.
9. The remuneration of panelists, their travel and lodging expenses and all general expenses of the panel shall be borne equally by the Parties. Panelists shall be remunerated and their expenses paid in accordance with the rates established by the NAFTA Commission for panelists appointed to dispute settlement panels under the NAFTA. Each panelist shall keep a record and render a final account of his or her time and expenses, and the panel shall keep a record and render a final account of all general expenses.

Submissions

10. Within 15 days following the appointment of the third panelist, the complaining party shall deliver to the panel and to the responding Party a written submission outlining its position and all documents

relied on in support of its claim, which may include information supplied to the party by industry representatives.

11. Within 20 days following the receipt of the submission, the responding party shall deliver to the panel and to the complaining Party a written counter-submission outlining its position and all documents relied on, which may include information supplied to the Party by industry representatives.
12. The arbitral panel shall conduct the arbitration in the manner it considers appropriate, including establishing procedures to ensure the protection of confidential information and relating to matters such as the participation of experts and whether oral hearings should be held.

Decision

13. No later than 30 days after it receives the counter-submission, the arbitral panel shall issue a written decision, together with its findings and reasons therefor, with regard to whether the matter complained of constitutes a breach of this Agreement. The decision shall contain no recommendation or instruction to the parties. A decision of the arbitral panel shall be by majority vote and based on the votes of all members of the panel.
14. Where the arbitral panel finds that the responding Party has breached this Agreement, the arbitral panel shall provide in its decision a reasonable period of time for that party to cure its breach. The period established shall be the shortest reasonable time period feasible. If the Parties have not agreed by the expiry of that period that the breach has been cured, the complaining Party may request the panel to decide whether the breach has been cured by delivering the request in writing to the panel chair and, concurrently, to the responding Party. The panel shall issue its decision within 15 days after the request is delivered. paragraph 12 shall apply to proceedings initiated under this paragraph.

Referral to Auditor

15. At the request of either Party, the Parties shall appoint an independent accounting firm ("auditor") to examine data furnished by the Parties regarding exports from Canada to the United States of softwood lumber pursuant to a request under paragraph 16. The parties shall ensure that the auditor is free from any conflict of interest, or appearance of conflict of interest, and shall require the auditor to protect any confidential information furnished to the auditor by the Parties. The costs of the auditor shall be borne equally by the Parties.
16. At any time after a Party requests consultations under paragraph 1, a Party may request in writing that the auditor provide an opinion
 - (a) regarding whether Canada has failed to comply with its obligation to collect fees with respect to exports of softwood lumber first manufactured in the province of Ontario, Quebec, British Columbia or Alberta, as provided under Article II; or
 - (b) where both Parties agree, regarding whether a Party has failed to comply with the Agreement in some other respect.

The requesting Party shall concurrently provide a copy of the request to the other Party.

17. Within 10 days after delivery of the request, each Party shall furnish to the auditor any data that the Party considers relevant, which may include information supplied to the party by industry representatives, and shall provide to the auditor any further information or assistance that it may require. Within 20 days after receiving the request, the auditor shall render an opinion to the Parties on the matter. If, in considering the data, and having made every effort to resolve the issue, the auditor determines that there are questions of interpretation of this Agreement that are essential for its decision

and that it considers it is not competent to resolve, it shall so advise the Parties. In any such case, the auditor shall make such findings as are practicable regarding the matter. A Party may refer any such question of interpretation to an arbitral panel pursuant to this article, and in its decision the panel shall apply the findings of the auditor to the extent that the panel considers them applicable.

18. In the event the Parties agree pursuant to consultations that Canada has failed to collect fees as provided under Article II, or the auditor determines that Canada has failed to collect such fees or that a Party has failed to comply with the Agreement in some other respect, the Party not in compliance shall:

- (a) with respect to a matter referred to in subparagraph 16(a), collect the foregone fees within 65 days following the start of consultations;
- (b) with respect to a matter referred to in subparagraph 16(b), take action to remedy the non compliance within 65 days following the start of consultations or such other period of time as the Parties may agree; or
- (c) with respect to matters referred to in subparagraphs 16(a) and 16(b), take such other action as the Parties may agree within such period of time as the Parties may agree.

19. Beginning as soon as practicable after the date on which the collection or action is initiated under paragraph 18, the auditor shall monitor such collection or action, as the case may be. Within 25 days after the deadline for returning to compliance, the auditor shall provide an opinion to the Parties on whether the Party not in compliance is in compliance with paragraph 18.

Action Following Breach or Auditor Determination

20. if,

- (a) an arbitral panel finds that Canada has breached this Agreement, and the panel decides under paragraph 14, or the Parties agree by the expiry of the time period for cure of the breach, that the breach has not been cured; or

- (b) the auditor determines, under paragraph 19, that Canada has not complied with paragraph 18,

the United States may suspend its obligations under Articles I and IV. The United States shall endeavor to avoid any suspension that is manifestly excessive.

21. If,

- (a) an arbitral panel finds that the United States has breached this Agreement, and the panel decides under paragraph 14, or the Parties agree by the expiry of the time period for cure of the breach, that the breach has not been cured;

- (b) the auditor determines, under paragraph 19, that the United States has not complied with paragraph 18; or

- (c) the United States takes action inconsistent with Article I, other than pursuant to paragraph 20,

Canada may suspend its obligations under Articles I and IV. Canada shall endeavor to avoid any suspension that is manifestly excessive.

Other Procedures

22. The Parties may agree to modify the procedures set out in this article for the purpose of expediting, enhancing or facilitating the resolution of controversies, including with respect to a particular

proceeding or mater.

ARTICLE VI CONFIDENTIALITY

1. Each Party shall treat as confidential, in accordance with its law, business proprietary information, and any information designated as confidential by the Party providing it, that is not otherwise available, provided under this Agreement or during the consultative process or negotiation of this Agreement.
2. Information referred to in paragraph 1:
 - (a) may be used by and disclosed to government officials solely in connection with the implementation or operation of this Agreement, except as compelled under law;
 - (b) shall not, without the permission of the Party or person providing it, be used or disclosed in any trade action or investigation of the type referred to in Article I; and
 - (c) shall be returned by the Party who has received it to the Party or person who provided it on termination of this Agreement.

ARTICLE VII GENERAL PROVISIONS

1. This Agreement is without prejudice to the position of either Party as to whether the programs and practices of either Party in respect of forest management constitute countervailable subsidies under domestic or international law.
2. Neither Party shall take action to circumvent or offset the commitments set out in this Agreement, including action having the effect of reducing or offsetting the export fees provided for in Article II (2) or undermining the commitments set out in Article I.
3. Canada shall provide to the United States notice of any new, or amendment to a federal or Ontario, Quebec, British Columbia or Alberta law, regulation or order-in-council governing stumpage charges or forest management systems related to softwood lumber, within 45 days after such law, regulation or Order-in-Council or amendment thereto, is adopted, or as soon thereafter as practicable. Each Party shall endeavor to respond to requests from the other Party for other information that is relevant to the operation of this Agreement.
4. Canada shall, based on sufficient information that it obtains, certify to the United States each quarter that it has no basis to believe that:
 - (a) the timber pricing and forest management Systems of the provinces of Ontario, Quebec, British Columbia and Alberta have been modified other than as notified under paragraph 3; and
 - (b) these provinces are collecting revenues at levels lower than called for under those systems.

The sufficiency of the information that Canada obtains shall not be subject to disputed solution under Article V, nor shall requests under paragraph 3 be used for the purpose of obtaining the information on which Canada renders its certifications.

5. In October of each year, Canada shall provide the United States with yearly province-by-province aggregations of the volume of Crown softwood timber harvested and revenue collected for that timber in the provinces of Ontario, Quebec, British Columbia and Alberta.
6. Annexes 1 and 2 are incorporated as an integral part of this Agreement.

ARTICLE VIII AMENDMENT

The Parties may amend this Agreement by mutual agreement in writing.

ARTICLE IX DEFINITIONS

For purposes of this Agreement and the Annexes:

aggregated data means data compiled in a manner that is not associated with, and could not be used to identify operations of a particular person;

board feet means a unit of measurement equal to 12" x 12" x 1", One thousand board feet = 2.36 cubic metres of lumber. One thousand board feet = 92.91 square metres of lumber. For the purposes of this Agreement all conversions of board feet to cubic metres or to square metres, as the case may be, shall be made on a nominal measurement basis and shall not be rounded up to the nearest cubic metre or square metre;

day means a calendar day;

person includes a natural person, sole proprietorship, partnership, corporation and association;

province of first manufacture means the province where the mill, at which the softwood lumber product was first manufactured into such a product, is situated, whether or not that product was further processed (for example, planing or kiln drying) or was transformed from one softwood lumber product into another such product (for example, a remanufactured product) in another province;

softwood lumber means articles classified under:

- (1) tariff item 4407.10.00 of the Harmonized Tariff-Schedule of the United States (1996) (United States International Trade Commission Pub. 2937, 19 U.S.C. 1202 (1988)); (for purposes of description only, coniferous wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 mm);
 - (2) tariff items 4409.10.10, 4409.10.20 and 4409.10.90 of the Harmonized Tariff Schedule of the United States (1996) (United States International Trade Commission Pub. 2937, 19 U.S.C. 1202 (1988)); (for purposes of description only, coniferous wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rebated, chamfered, V-jointed, beaded, moulded, rounded or the like) along any of its edges or faces (other than wood mouldings and wood dowel rods), whether or not planed, sanded or finger-jointed); and
- year** means a twelve month period beginning April 1 and ending the following March 31.

ARTICLE X ENTRY INTO FORCE

This Agreement shall enter into force on the date of signature, with effect from April 1, 1996, and shall remain in force for a period of five years after the effective date. It may be extended for a further period on written agreement of the Parties.

IN WITNESS WHEREOF the undersigned, being duly authorized for this purpose by their respective governments, have signed this Agreement

DONE in duplicate at Washington, this 29th day of May 1996, in the English and French languages,

each text being equally authentic.

STANDARD INDUSTRIAL CLASSIFICATION OF PRODUCTS COVERED BY THE AGREEMENT

4407 Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 mm:

4407.10.00 Coniferous

05 Treated with paint, stain, creosote, or other preservative

Not treated:

06 Mixtures of spruce, pine, and fir ("S-P-F")

07 Mixtures of western hemlock and amabilis fir ("hem-fir")

Other:

Sitka spruce (Picea sitchensis):

08 Rough

09 Other

Other spruce:

12 Rough

13 Other

Eastern white pine (Pinus Strobus) and red pine (Pinus resinosa):

21 Rough

22 Other

Lodgepole pine (Pinus contorta):

23 Rough

24 Other

Southern yellow pine (Loblolly pine (Pinus taeda)), long leaf pine (Pinus palustris), pitch pine (Pinus rigida), short leaf pine (Pinus echinada), slash pine (Pinus elliottii) and Virginia pine (Pinus virginiana):

25 Rough

26 Other

Ponderosa pine (Pinus ponderosa):

27 Rough

28 Other

Other pine:

29 Rough

30 Other

4407 Wood sawn or chipped lengthwise, sliced or (con.) peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 mm (con.):

4407.10.00 Coniferous (con.)

Not treated (con.):

Douglas-fir (Pseudotsuga menziesii):

Rough:

31 Having a minimum dimension less than 5.1 cm

32 Having a minimum dimension 5.1 cm or more but less than 12.7 cm

33 Having a minimum dimension 12.7 cm or more

34 Other

Fir (Abies spp.):

35 Rough

36 Other

Hemlock (Tsuga spp.):

40 Rough

41 Other

Larch (Larix spp.)

50 Rough

51 Other

Western red cedar:

60 Rough

61 Other

Yellow cedar (Chamaecyparis nootkanensis):

62 Rough

63 Other

Other cedar (Thuja spp., Juniperus spp., Chamaecyparis spp., Cupressus spp. and Libocedrus spp.):

72 Rough

73 Other

Redwood (Sequoia sempervirens):

80 Rough

81 Other

Other:

90 Rough

91 Other

4409 Wood (including strips and friezes for parquet flooring, not assembled)
 continuously shaped (tongued, grooved, rebated, chamfered, V-jointed, beaded,
 molded, rounded or the like) along any of its edges or faces, whether or not
 planed, sanded or finger-jointed:

4409.10 Coniferous:

4409.10.10 Wood siding
 Resawn bevel siding:
 20 Western Red Cedar
 40 Other

 Other:
 60 Western Red Cedar
 80 Other
4409.10.20 00 Wood flooring

4409.10.90 Other
 20 Western Red Cedar
 40 Other

APPENDIX F - CRITICAL SUCCESS FACTORS FOR EXPORTING

In Section 1 of this paper reference was made to a number of critical success factors identified by Gordon (1993). The critical success factors relate to evaluating a firm's readiness to begin and export operation. This Appendix provides a summary of the critical success factors for each of the areas of Section 1.

1. Manufacturing and Product Development

Assessing manufacturing and product development means looking at the ability of the firm to produce goods for the foreign market. Issues in this area that need to be reviewed include:

- measurement system in the target country;
- size and colour of product packaging;
- number of pieces in a package;
- language requirements;
- is additional production capacity required to meet the demands of the target market; and
- is redesign required to cut costs.

2. Warehousing and Inventory Control

The flow of inventory may be affected by an export venture as seasonal patterns in the target market vary with existing markets. This could require adjustments to the inventory and warehouse processes currently used. Issues in this area that need to be reviewed include:

- is additional warehouse capacity required;
- is a warehousing facility in a Free Trade Zone required;
- is a separate inventory system for tracking exports required; and
- what special handling requirements are needed for export.

3. Distribution/Transportation

Distribution and transportation is the part of the process that moves the goods from the point of manufacture to the distributor or buyer. This area of the business can be one of the most challenging, but is essential to a successful venture. Issues that need to be addressed in this area include:

- handling of document preparation;
- qualifications and training of personnel handling documents;
- mode of transport to move goods from point of manufacture to point of export;
- licensing and permit requirements to export into the target country; and
- sizing of shipments to find the most efficient size for mode of transport used.

4. Marketing and Sales

The marketing program is another critical element of a successful export operation. A good marketing program presents the buyer with a well thought out, consistent view of your product and your business. Issues for review in this function include:

- point of sale packaging of the product;
- the colours and style of packaging and labeling;
- the use of media and advertising to assist your buyer;
- pricing the product in the target market; and
- the handling of buyer relations.

5. Finance and Risk Management

The ability of a firm to manage risk and to finance an export operation has an influence over broad areas of the organization. Issues to be reviewed in assessing finance and risk operations include:

- manufacturing and labour costs, capacity utilisation;
- financing of inventory levels;
- transportation costs as a component of export pricing;
- demands on cash flow resulting from export sales arrangements;
- risk management of export inventory, export accounts receivable and goods in transport;
- buyer finance and the risk associated with different options;
- how do the costs of the export operation fit in the overall company finance program; and
- assistance from your bank for accounts receivable and financing export inventory.

6. Personnel and Labour

The personnel of the firm must be made aware of and supportive of the export initiative. This is particularly important in providing customer service for the products being exported. The success of an export operation means a more profitable company with greater job security and opportunities for growth. Issues to be considered include:

- longer production runs providing economies of scale and greater profitability;
- broader markets creating greater stability of demand and less seasonal variation and layoffs; and
- greater potential for personal growth of employees in the firm.