eBusiness in the U.S. Hardwood Lumber Industry

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Outline

1) Overview Concepts and Comments
2) ebusiness in the Hardwood Lumber Industry
3) Comparisons to the U.S. Solid Wood Industry
Internet Growth

– No slow down in sight
– 115 million people in U.S. are on-line
– Growing faster outside the U.S.

1.58 million new users each month
365,000 every week
52,000 every day
2,166 every hour
36 every minute
one new user every 1.67 seconds

(Bakker 1999)
What is eBusiness?

- **eBusiness** is the application of Internet-based technologies for conducting business.

- It includes **eCommerce**, the actual transaction activities as well as other business oriented applications such as logistics, order entry, information sharing and transmission of information between exchange partners.
What is eBusiness?

- First and foremost about business, not technology.
- Technology facilitates eBusiness.
- Challenge is managing the changes in business strategies and internal corporate processes.
- Can include intra-company networks (intranets) and Internet linkages with customers or suppliers (extranets).
eBusiness Impacts the Whole Company

- Distribution
- Market Research
- Purchasing
- Operations
- Sales
eBusiness Can Impact the Whole Value Chain

Primary Activities

Support Activities

- Firm Infrastructure
- Human Resource Management
- Technology Development
- Procurement

Pre-Sale Activities
Inbound Logistics
Operations
Outbound Logistics
Marketing and Sales
Post-Sale Service
In 2000, eBusiness was studied in the context of the hardwood lumber industry in the United States.

185 hardwood lumber producers were surveyed as part of a larger study of the wood products industry.
Study Objectives

• Examine the current and future uses of eBusiness in the hardwood industry.

• Compare the hardwood lumber industry to the wood products industry in general.
Research Methodology

- Mail survey using the Total Design Method (Dillman 1978)
- Study conducted in summer of 2000
- Sample frame: sub-set of larger study
- Overall study response rate: 15%
Hardwood Lumber Producers
% of Respondents by Geographic Region
185 Companies

North/Central
28%

Northeast
14%

West
19%

South

West

Northeast
Respondent Size
1999 Sales

- $500K or less: 25%
- $500K-$1 Million: 7%
- $1-$5 Million: 29%
- $5-$10 Million: 14%
- $10-$50 Million: 20%
- $50-$100 Million: 3%
- >$100 Million: 2%
- $500K-$1 Million: 7%
- $500K or less: 25%
Respondent Sales Distribution Channels

- Has Implications for eBusiness Partnerships -

(Average Ranking: 1=Most important based on 1999 sales)

- Builders: 2.9
- Furniture mfrs.: 3.3
- Wholesalers: 3.4
- Distribution yards: 3.9
- Brokers: 4.1
- Retail chains: 4.6

1=Least Important
5=Most Important
Distance and Frequency of Shipments

(n=185)

Customers within 200 miles - 77% of Respondents

- >1/week: 74%
- 1/month or less: 9%
- 2/month: 6%
- 1/week: 11%
Distance and Frequency of Shipments

(n=185)

Customers over 1,000 miles- 5% of Respondents

- >1/week: 16%
- 1/week: 11%
- 1/month or less: 62%
- 2/month: 11%
- Customers over 1,000 miles: 5%
Does Your Company Have a Web Site?
Percent of Respondents
(n=185)

- Yes: 37%
- No: 63%
If Not, Does Your Company Plan to Develop a Web Site Within the Next 12 Months?

Percent of Respondents

(n=117)

Yes 37%

No 63%
When Web Site Was Developed
Percent of Respondents
(n=68)

- 1999-2000: 52%
- 1998: 27%
- 1997: 13%
- 1996: 5%
- 1995 or earlier: 3%
Investment Made to Date on Internet/Web Site
Percent of Respondents
(n=68)

- $10,000 or less: 76%
- $10,000-$49,999: 10%
- $50,000-$99,999: 7%
- $100,000-$249,999: 5%
- $250,000-$1 Million: 2%
- $50,000-$99,999: 7%
- $10,000-$49,999: 10%
Success of Web Site Meeting Objectives
(n=68)

- Not successful at all: 25.3%
- Somewhat unsuccessful: 33.3%
- Neither Successful nor Unsuccessful: 24.0%
- Somewhat successful: 10.7%
- Very successful: 6.7%
Respondent Web Site Functions

(Percent of respondents with web sites)

- No Response: 50%
- Active Promotion/Advertising: 30%
- Customer Service: 9%
- Operational Functions: 6%
- eCommerce: 5%
eMarketplaces

• Integrated marketplace eIntermediaries
  – Business Exchange-Industry Sector, Value Chain Space
  – Virtual Trade Show
  – Product Showcase
  – Auction

• eMarketplace services
  - Tools (Web, Catalog, Buy/Sell, Offers, Discovery, Credit)

• Additional Marketplace Support Services
  – Industry Information, Links, News
  – Research, Dynamic Pricing
Marketplace Proliferation

New Business Models: Markets are Changing

Gartner expects 10,000 New Transactional “iMarkets” by 2001!

Gartner group predicts that 10,000 new iMarket companies will form by the end of 2002; CSC expects that many of these will be “agents” (such as AutobyTel or Carpoint) or neutral transaction mechanisms (such as eSteel), although a significant number of information providers will also emerge (e.g. Edmunds). This turmoil creates numerous opportunities to define new market roles and value propositions.
Forest Industry Exchanges
How willing would you be to purchase forest products through a secure third-party exchange Internet Web site?
(n=182)

- Not willing at all: 34%
- Somewhat unwilling: 18%
- Indifferent: 21%
- Somewhat willing: 12%
- Very Willing: 15%
Indicate your concerns about purchasing forest products on the Internet

Greatest Concern
* Loss of personal contact with customers
* A "price war", in which only the price is used to differentiate among companies
* Lack of security in Internet transactions
* Ability of competition to discover our pricing strategies
* There are not enough customers willing to use a Web site to buy wood products
* The services currently provided are too expensive
* Our company does not have enough personnel skilled in navigating the Web
* The process of selling on the Web is too slow

Least Concern
#1 Concerns about Using the Internet

U.S. Wood Products Industry

Customer relationships will suffer

Security

1995 2000
Trust is an Essential Lubricant in eRelationships

(Adapted from: John Kador, eAI Journal, 2000)
Comparisons

U.S. Wood Products Industry/
U.S. Hardwood Lumber Industry

(Both Studies Conducted in 2000)
Does Your Company Have a Web Site?

Percent of Respondents

<table>
<thead>
<tr>
<th></th>
<th>Wood Products Industry</th>
<th>Hardwood Lumber Producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27%</td>
<td>37%</td>
</tr>
<tr>
<td>No</td>
<td>73%</td>
<td>63%</td>
</tr>
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</table>

Wood Products Industry

Hardwood Lumber Producers
When Web Site Was Developed

Percent of Respondents

<table>
<thead>
<tr>
<th>Year</th>
<th>Wood Products Industry</th>
<th>Hardwood Lumber Producers</th>
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<tbody>
<tr>
<td>1999-2000</td>
<td>33%</td>
<td>53%</td>
</tr>
<tr>
<td>1998</td>
<td>33%</td>
<td>27%</td>
</tr>
<tr>
<td>1997</td>
<td>22%</td>
<td>13%</td>
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<td>7%</td>
<td>3%</td>
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Wood Products Industry
Hardwood Lumber Producers
Investment Made to Date on Internet/Web Site

Percent of Respondents

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<td>$10,000 or less</td>
<td>53%</td>
<td>76%</td>
</tr>
<tr>
<td>$10,000-$49,999</td>
<td>26%</td>
<td>10%</td>
</tr>
<tr>
<td>$50,000-$99,999</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>$100,000-$249,999</td>
<td>11%</td>
<td>5%</td>
</tr>
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<td>$250,000-$1 Million</td>
<td>3%</td>
<td>2%</td>
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Chart shows the percent of respondents in the Wood Products Industry and Hardwood Lumber Producers who have made investments of different amounts on their internet/web site.
Some Final Thoughts
Who is where in eBusiness Implementation?

Industries in General > Forest Products Industry

Canada Forest Products > U.S. Forest Products Industry

Pulp & Paper Industry > Solid Wood Products Industry

Composites (MDF, Particleboard) > Softwood Lumber

Softwood Lumber > Hardwood Lumber
Questions
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