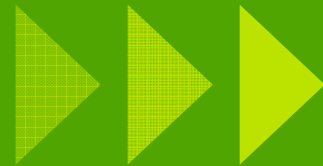




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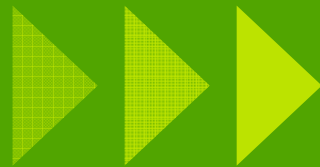
One vision.
Global competitiveness.

**NEW VALUE FOR A
CHANGING MARKETPLACE**



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Hardwood Products Market Trends: The Voice of the Customer

Hardwood Initiative Workshop
September 21, 2010
Fredericton, NB

Torsten Lihra

Group Leader, Value Added Products

Presentation plan

First part

- Trade trends of different industry sectors

Second part

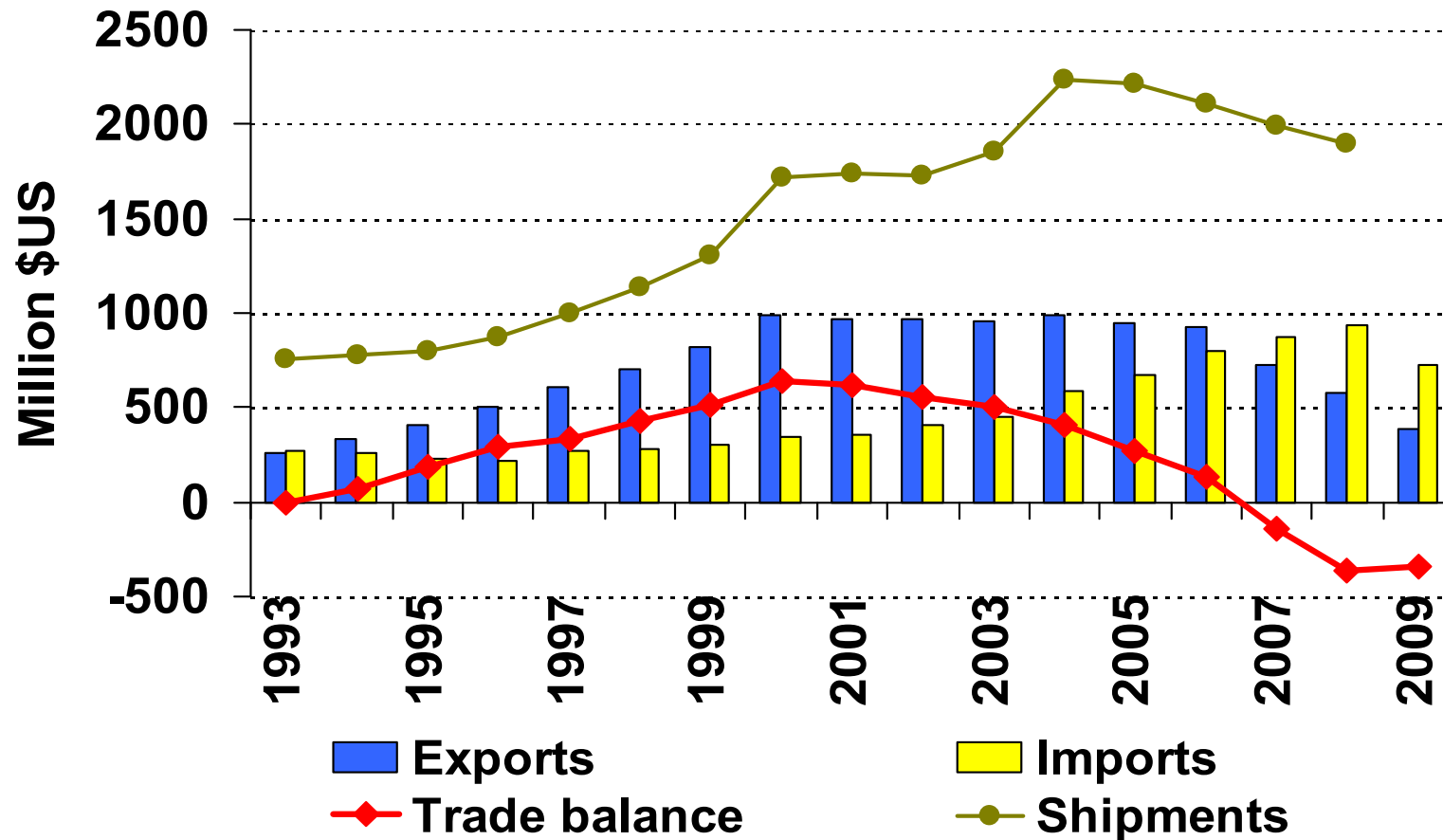
- The voice of the customer

Conclusion

Trade trends of different industry sectors

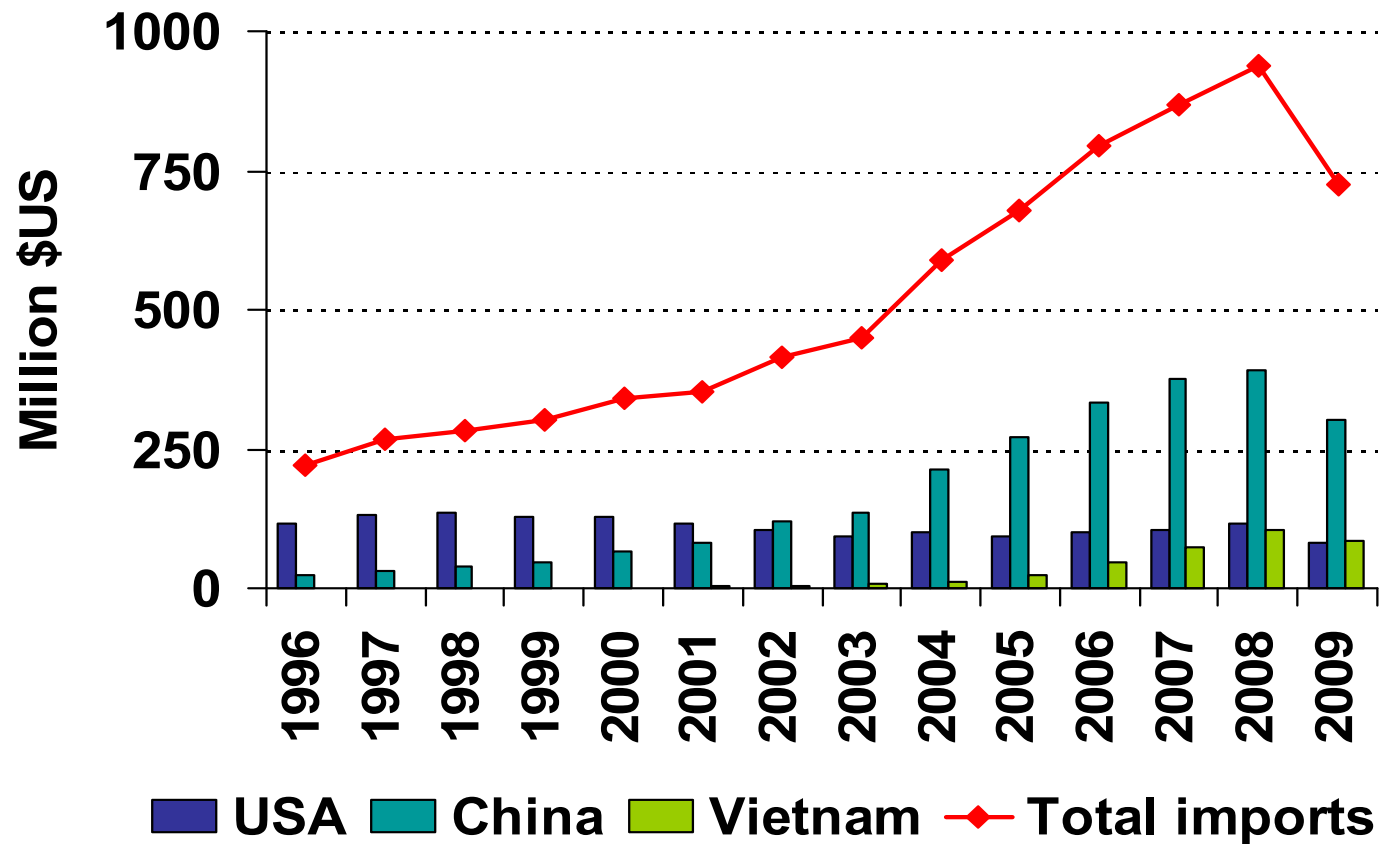


Trade balance of the Canadian household furniture industry



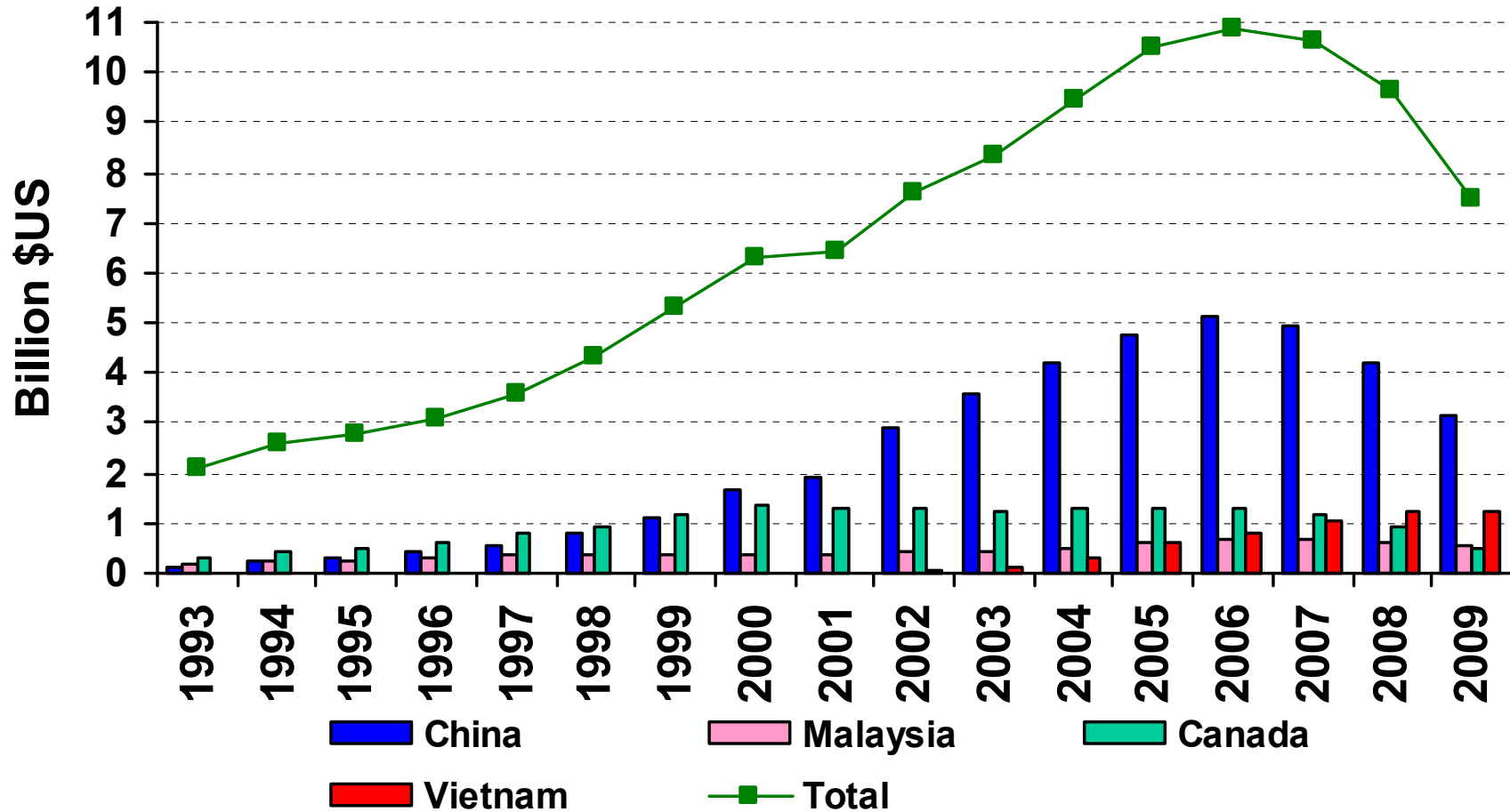
Source: Strategis 2010. NAICS 337123

Canadian household furniture imports



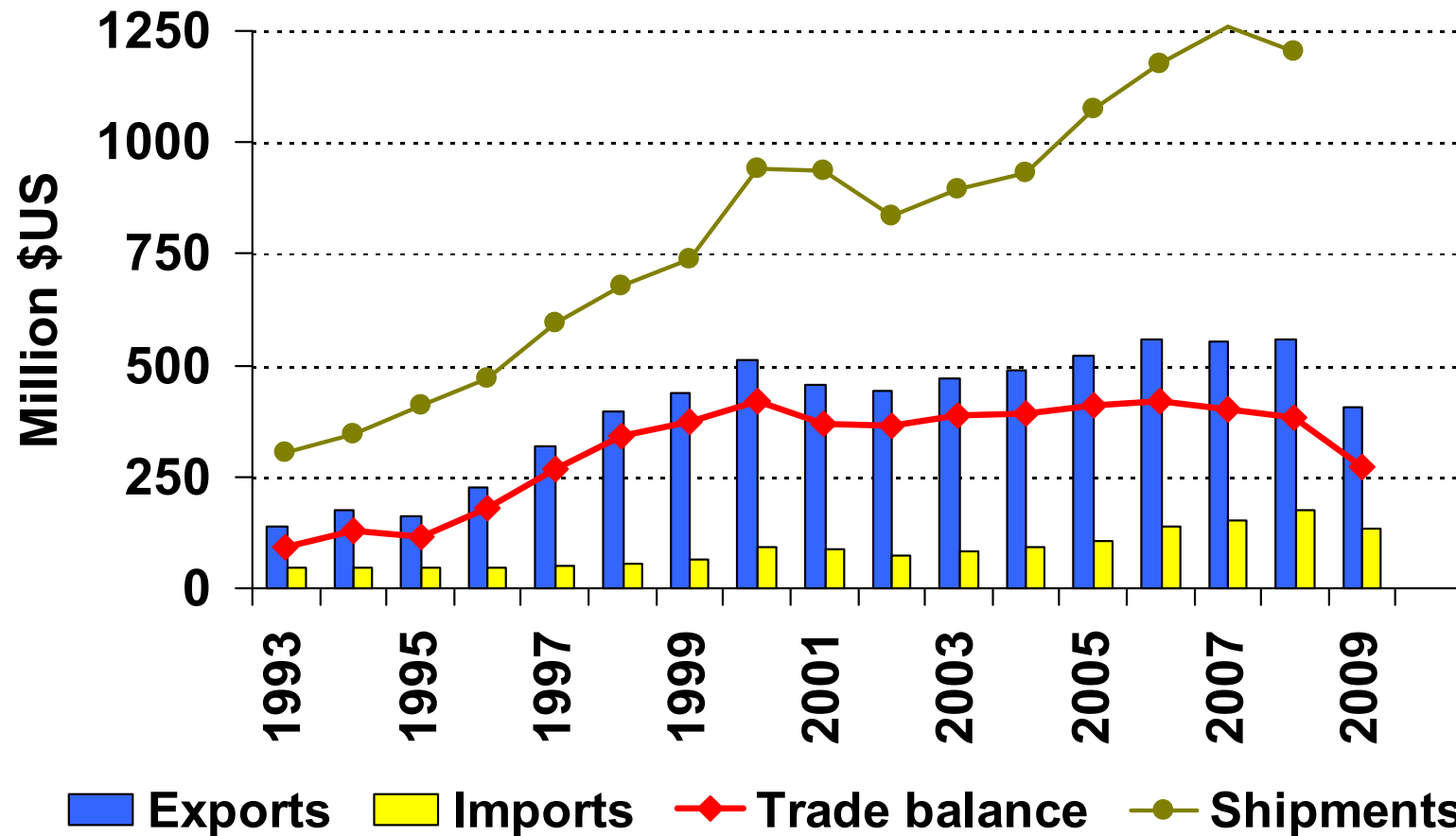
Source: Strategis 2010. NAICS 337123

U.S. household furniture imports



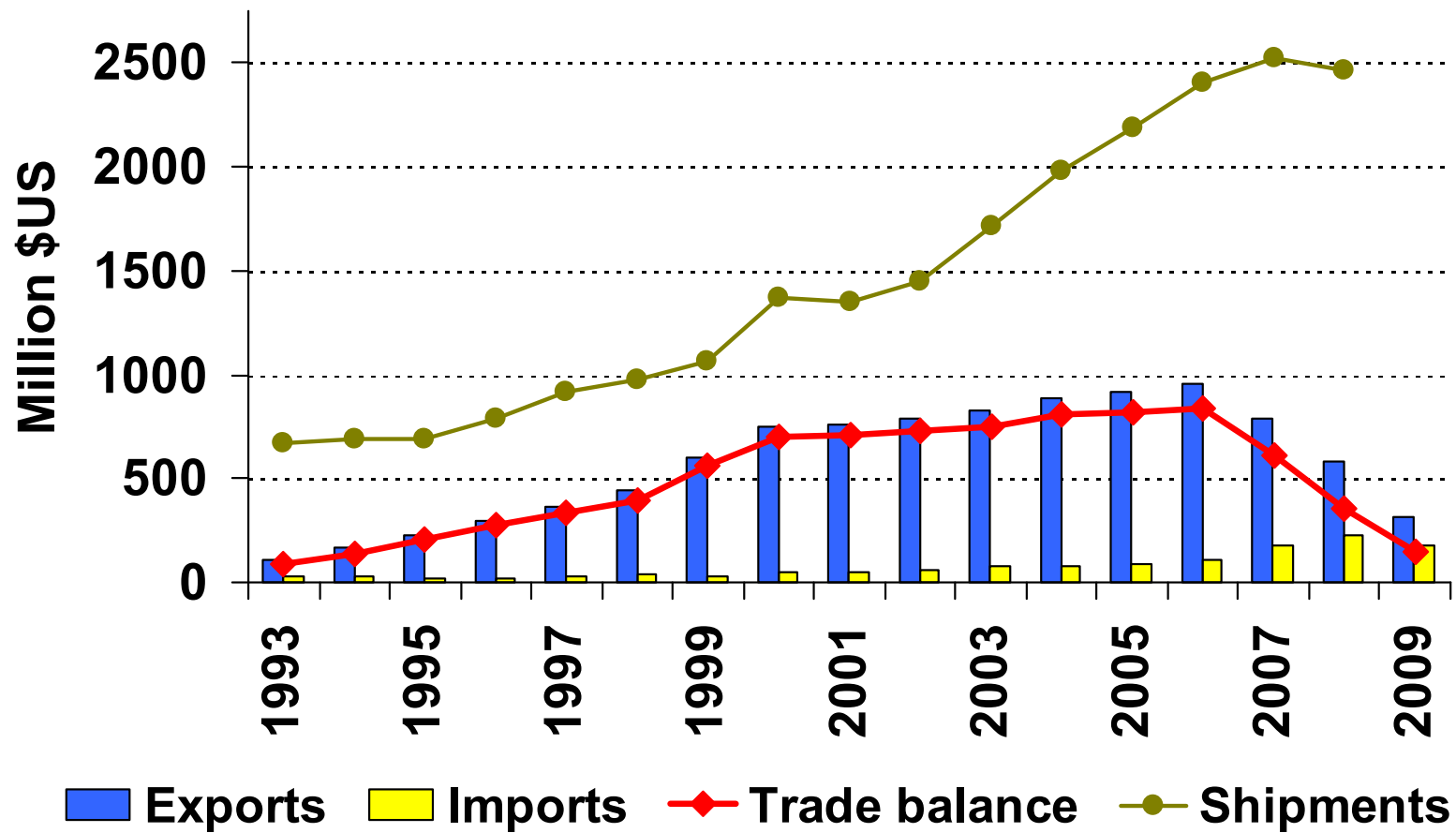
Source: U.S. Dept Commerce. Census Bureau 2010. NAICS 337122

Trade balance of the Canadian office furniture industry



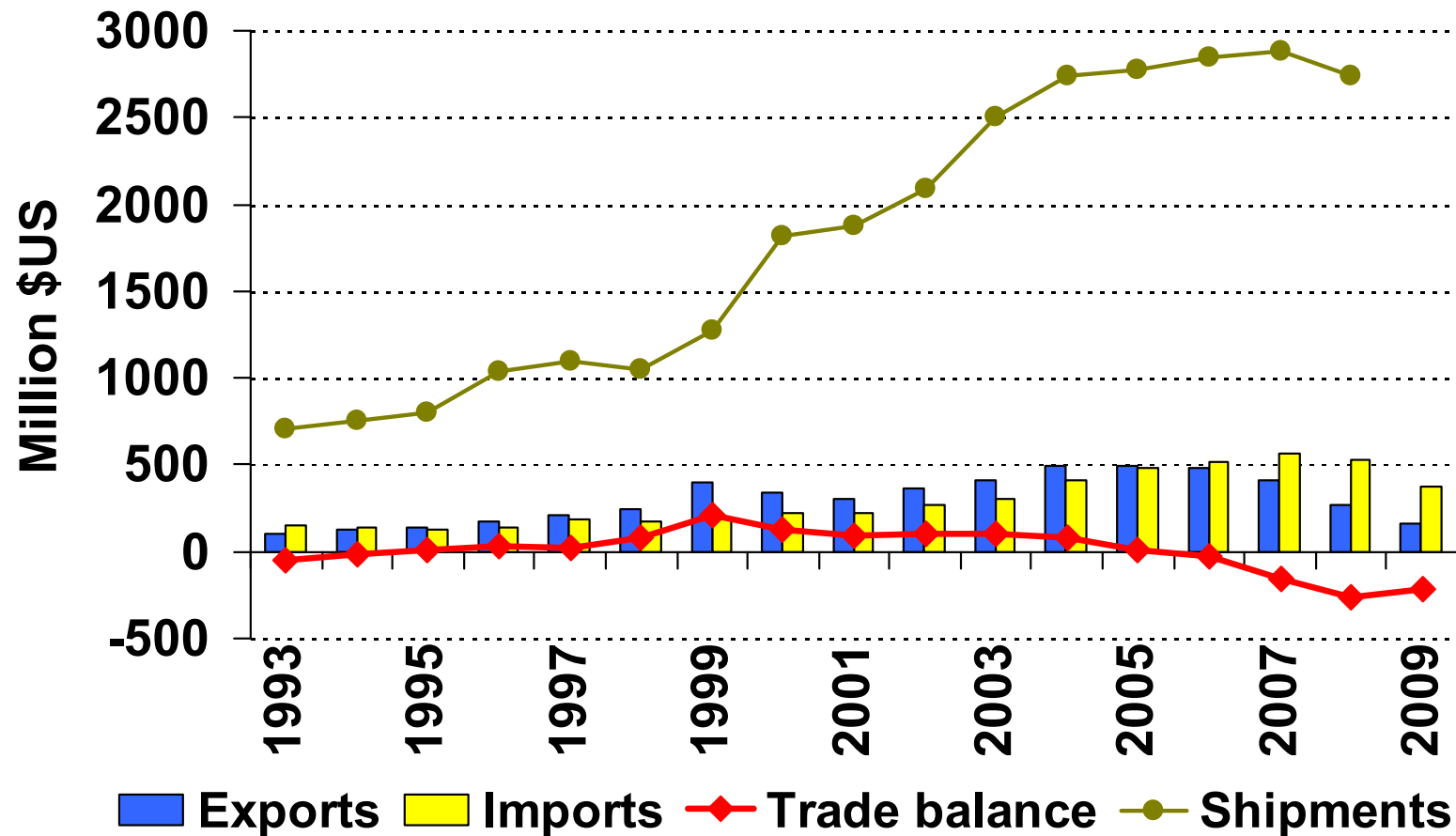
Source: Strategis 2010. NAICS 337213

Trade balance of the Canadian kitchen cabinet industry



Source: Strategis 2010. NAICS 337110

Trade balance of the Canadian millwork industry (flooring, stairways)



Source: Strategis 2010. NAICS 321919

Russian Log Export Tax

Products	Rate or minimum amount	Jul 1. 2007	Apr 1. 2008	Jan 1. 2009
Softwood logs (>15cm)	% Euro/m3	20% 10	25% 15	25% 50
Hardwood logs (>15cm)	% Euro/m3	20% 24	20% 24	100% 50
Poplar	% Euro/m3	10% 5	10% 5	80% 50
Industrial Birch	% Euro/m3			10% 5

Source: Russ Taylor. wood Markets monthly. Vancouver. Canada
December 2009

The arrival of new industry sectors:

Bio Energy



Bio Energy

Resource constraints + climate change policies + shifting consumer values

- **Energy Independence and Security Act of 2008** - sets targets for cellulosic biofuels production through 2022 – 36 billion gallons renewable fuels by 2022 – 21 of the 36 must be “advanced biofuels such as cellulosic ethanol
- **American Clean Energy and Security Act of 2009** - establish targets to obtain a certain percent of electricity (17%) from “renewable sources” fuels including biomass by 2018

Bio Energy

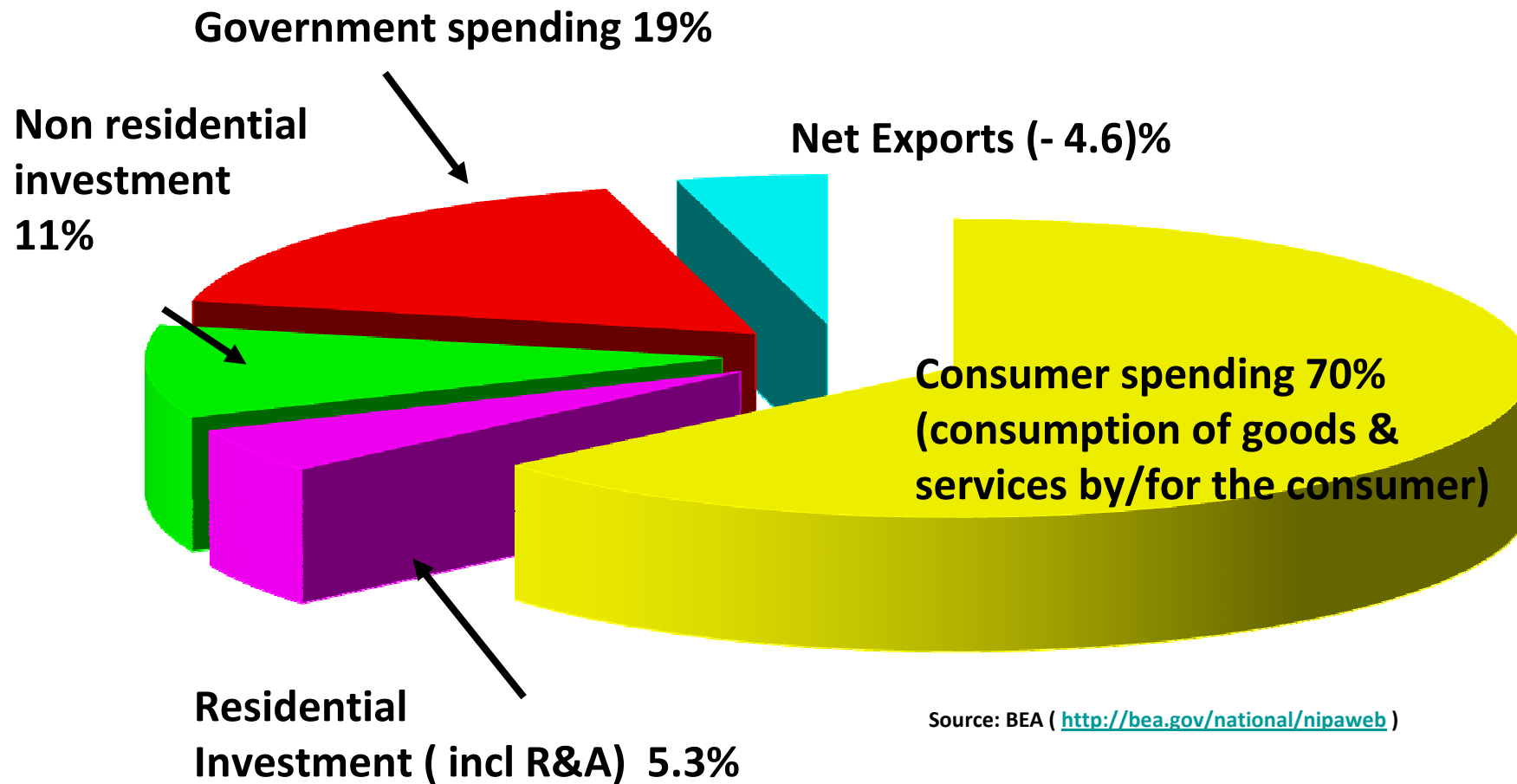
Impacts on wood products industry

- New revenue streams and markets for forest products and services
 - (1) carbon storage and sequestration – “being paid to grow trees”
 - (2) biomass and biofuels for heating, transport fuels and electricity
- Competitive advantages in a low carbon economy
 - carbon neutral/carbon negative products
 - there will be incentives to reduce green house gas emissions via carbon tax or similar systems
- Green preferences will increase with increasing awareness of climate change benefits of sustainable forest products.
- More competition for residues and virgin fiber – higher prices

The voice of the customer



U.S. economy 2000 - 2009



Product customization

FPInnovations study for the furniture industry

Conjoint analysis of product attributes

- Product customization
- Time needed by the consumer to customize the product
- Shipment delay
- Price

Product customization

FPIinnovations study for the furniture industry

Question:

What is the weight of each attribute in the consumers' buying decision?

Methodology: Conjoint Analysis



Product customization

FPInnovations study for the furniture industry

Results

- Cluster analysis of attribute importance reveals three groups of respondents:
 1. Customization lovers
 2. Impatiens
 3. Price buyers
- Socio demographics do not characterize the groups.

Product customization

FPInnovations study for the furniture industry

Customization lovers (n=436)

Attribute	Main (%)	St.Dev.
Customization	35.2	9.8
Customization time	11.0	6.3
Shipment delay	16.7	7.0
Price	37.1	10.7

Product customization

FPInnovations study for the furniture industry

Impatiens (n=367)

Attribute	Main (%)	Std. Dev.
Customization	15.4	6.7
Customization time	9.5	5.5
Shipment delay	36.4	10.1
Price	38.7	11.3

Product customization

FPInnovations study for the furniture industry

Price buyers (n=398)

Attribute	Main (%)	Std.Dev.
Customization	12.2	6.9
Customization time	6.3	3.5
Shipment delay	14.9	7.4
Price	66.6	11.3

Product customization

FPInnovations study for the furniture industry

Conclusion

- We are in a good position to offer customized products and services
- Mass customization requires production to order
- Mass customization requires value chain integration
- Production and order batch sizes decrease



Buying perception of Canadian furniture retailers

FPIinnovations study

Objectif:

Determine the perception and attitudes of Canadian household furniture retailers in regard to Chinese, Canadian and U.S. American manufacturers.

Method: Survey of 220 furniture retailers in Canada.

Buying perception of Canadian furniture retailers

FPIinnovations study

Important attributes	Average importance* (e _i)	Average possession** (b _i)		
		China	Canada	USA
Delivery accuracy	4.43	4.01	4.28	4.29
Finish quality	4.40	4.04	4.31	4.34
Consistent product quality	4.33	4.02	4.31	4.17
On-time delivery	4.30	3.86	4.26	4.18
Design	4.29	4.08	4.40	4.17
Availability of replacement parts	4.29	3.92	4.28	4.20
Competent sales representatifs	4.24	3.91	4.18	4.19
Ease in returning damaged merchandise	4.20	3.77	4.22	3.81
Speed of order delivery	4.05	3.83	4.02	4.03

* On a scale of 1= not at all important to 5= very important

** On a scale of 1= very weak to 5= very strong

Buying perception of Canadian furniture retailers

FPIinnovations study

Less important attributes	Average importance* (e _i)	Average possession** (b _i)		
		China	Canada	USA
Broad range of styles	3.96	3.78	4.03	3.87
Low wholesale price	3.94	4.07	3.93	4.12
Broad range of finishes	3.91	3.57	4.08	3.84
Flexibility in terms of quantities ordered	3.85	3.73	4.01	3.81
Attractive payment terms and conditions	3.81	3.60	3.82	3.74
Provision of promotional materials	3.69	3.59	3.73	3.79
Brand strength	3.36	3.08	3.68	3.41
Total country score $\Sigma b_i e_i$		248.30	267.30	261.00

* On a scale of 1= not at all important to 5= very important

** On a scale of 1= very weak to 5= very strong

Buying perception of Canadian furniture retailers

FPIinnovations study

Conclusion:

- Respondents prefer Canada as a furniture source country – ahead of the USA and China.
- On-time delivery is more important than delivery delay.
- Strength of Canada: Design. Quality. Ease in returning damaged merchandise.
- Weakness of Canada: Price.

« Green products »



FPInnovations
Sustainable
Value
to
Wood

Selling Wood Products to the Green Building Market

A Guide for Wood Product Manufacturers:
Understanding Green Programs (LEED and Green Globes)

Version 4.0 - February 2009

Patrice Tardif
Minister of Canada
FPInnovations - Forêt Québec
Energy and Environment Group

Financial Acknowledgement
Provinciales - Forêt Québec 8 ans
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Forêt Québec for their financial support

« Green products »

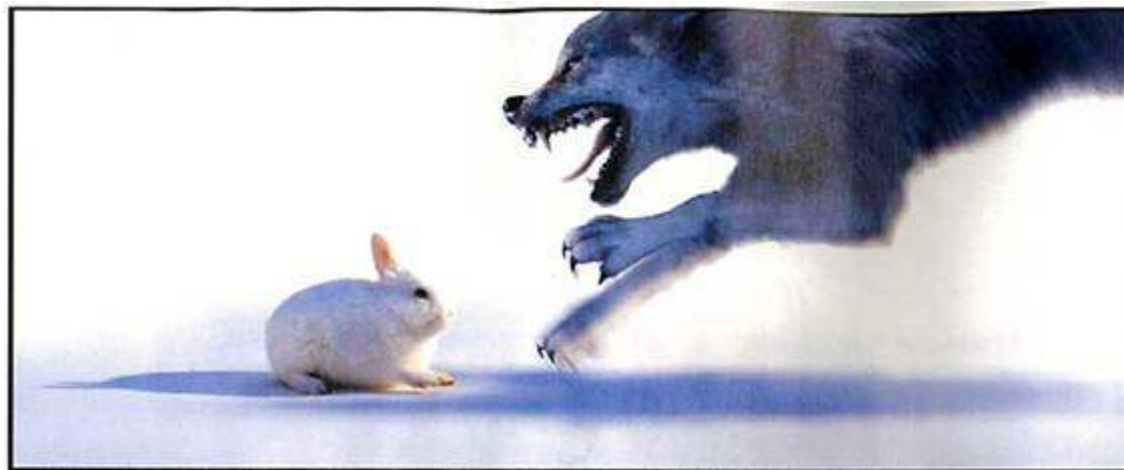
How to make a wood product green?

- Wood sourced from a sustainable managed forest
- Composite products that contain recycled wood
- Composite products without formaldehyde
- Wood coatings with minimal VOC emissions
- Products that are sourced locally



Conclusion

- The U.S. economic recovery is slow.
- Bio energy comes in as a new player competing for resources.
- The consumer is the driving force of the economy.
- Listening to consumers is essential to survive.
- **If you are not already offering customizable products, you are running late!**



***There are always
surprises!***

Thank you!



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