



WOOD COMPONENT OUTSOURCING STUDY

Project: 1371WWP

May 2006

WOOD & WOOD PRODUCTS



cwbb
CUSTOM WOODWORKING BUSINESS

Background

Wood Components Manufacturing Association (WCMA) and the management of *Wood & Wood Products* (WWP) & *Custom Woodworking Business* (CWB) magazines commissioned Vance Research Services to conduct this study among WWP & CWB subscribers to discover trends in outsourcing wood components.

The results of this study will be released in *Wood & Wood Products* magazine and presented at the IWF Technical Conference Seminar.



Research Objectives

The specific objectives of this research investigation were to survey recipients of WWP and CWB to examine outsourcing from both a domestic and global perspective and discover current trends in outsourcing. Topics included:

- Percentage of wood component parts outsourced from U.S./Canadian manufacturers, foreign manufacturers and manufactured in-house.
- Expected percentage of wood component parts to be outsourced in 2 years.
- Countries outsourcing from
- Products currently outsourced
- Reasons for outsourcing from U.S./Canadian and foreign manufacturers
- Most important factors when selecting U.S./Canadian and foreign manufacturers of wood component parts
- Value of wood component parts outsourced
- Whether have a rough mill



Research Methodology - Survey Overview

A total of 304 WWP and CWB readers completed the survey.

- 188 WWP subscribers
- 116 CWB subscribers

- Vance Research Services (VRS) handled all the fieldwork for this project.
- E-mail sent on March 20, 2006.
- Net mailing of 3,953 woodworking professionals.
- A reminder e-mail was sent on March 22, 2006 and March 28, 2006 to non-respondents.
- By final closing date of April 3, 2006, a total of 304 readers had responded, a 9% response.
- The following report is based upon this response.



Executive Summary

Outsourcing Components - Pages 11-14

- 62% of woodworking professionals currently outsource components, primarily from the U.S. and Canada.
- Woodworking professionals estimate the dollar value of wood component parts they purchased in the past 12 months as \$901,069, on average.
- Half of woodworking professionals indicate the top reason preventing them from outsourcing more/any components is because they want control over production.

In-House Manufacturing - Pages 16-18

- On average, woodworking professionals manufacture 58% of their wood component parts in-house.
- In 2 years, woodworking professionals estimate 68% of their wood component parts will be manufactured in-house.
- Drawer fronts (53%), plywood parts (49%), cabinet doors (47%) and drawer boxes (47%) are the top 4 wood component parts that woodworking professionals manufacture in-house.



Executive Summary

U.S./Canadian Suppliers - Pages 20-25

- On average, woodworking professionals purchase 34% of their wood component parts from U.S./Canadian suppliers.
- In 2 years, woodworking professionals estimate 37% of their wood components will be from U.S./Canadian suppliers.
- Cabinet doors (53%), mouldings & millwork (53%) and drawer boxes (42%) are the top 3 wood component parts outsourced from U.S./Canadian manufacturers.
- Consistent quality (49%), good relationship with suppliers (49%) and better control over costs (48%) are woodworking professionals top reasons for buying component parts from U.S./Canadian manufacturers.
- Product quality and price are most important to woodworking professionals when selecting a U.S./Canadian supplier of wood components.
- Internet/websites (75%), trade journals (68%) and trade shows (68%) are the top sources woodworking professionals are likely to use when locating potential U.S./Canadian suppliers of wood.



Executive Summary

Foreign Suppliers - Pages 27-32

- On average, woodworking professionals purchase 7% of their wood component parts from foreign suppliers.
- In 2 years, woodworking professionals estimate that 30% of their wood component parts will be supplied by foreign manufacturers.
- Mouldings & millwork (23%), solid rounds & dowels (21%) and plywood parts (19%) are the top 3 wood component parts outsourced from foreign manufacturers.
- Price (37%), better control over costs (28%) and ability to add new products (19%) are the top reasons woodworking professionals buy component parts from foreign suppliers.
- Product quality and price are most important to woodworking professionals when selecting a foreign supplier of wood components.
- Internet/websites (42%), agents & brokers (37%), trade journals (37%) and trade shows (37%) are the top sources woodworking professionals are likely to use when locating potential foreign suppliers of wood.



Executive Summary

Rough Mill - Pages 34-37

- Slightly less than one-quarter (24%) of woodworking professionals' companies have their own rough mill.
- Among those who currently have a rough mill or plan to add one in the next 12 months, 56% would consider purchasing components from outside suppliers if their rough mill reached full capacity.
- Among those who would consider purchasing components from outside suppliers if their rough mill reached full capacity, 94% would most likely purchase from U.S./Canadian manufacturers.
- Slightly over three-quarters of woodworking professionals do not anticipate expanding their rough mill capacity within the next two years.



Executive Summary

Financials - Pages 39-40

- On average, woodworking professionals indicate that their companies' gross margin is 21%.
- Woodworking professionals indicate an average 12% return on equity for their company.

Demographics - Pages 42-45

- One-quarter of woodworking professionals primarily manufacture residential cabinets.
- Nearly three-quarters of woodworking professionals work in companies with less than 50 employees.
- 62% of respondents are WWP subscribers and 38% are CWB subscribers.
- All geographic regions are represented in this study.



Outsourcing Components

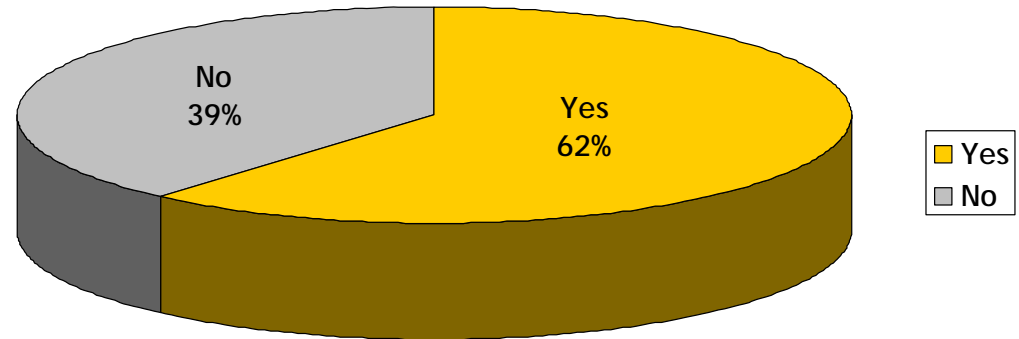


Nearly two-thirds of woodworking professionals currently outsource components.

62% of woodworking professionals currently outsource components.

Woodworking professionals who work in companies with more than 200 employees are significantly more likely to outsource components.

Q: Does your company currently outsource components?



Due to rounding, pie equals more than 100%.

Base - 304

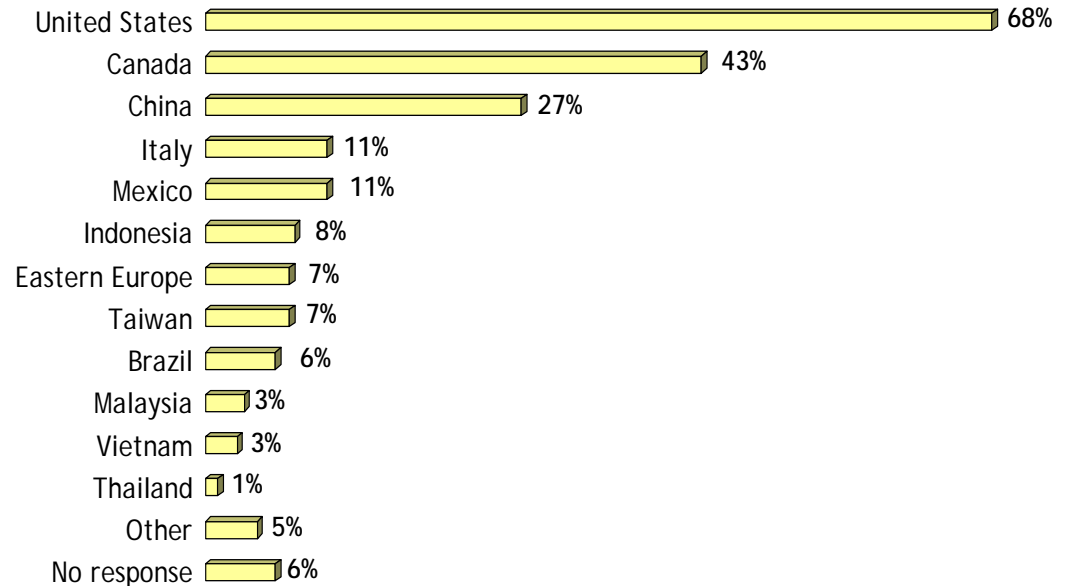
Among those who outsource component parts, the U.S. and Canada are the top countries woodworking professionals are currently outsourcing from.

68% of woodworking professionals who are outsourcing component parts are doing so from U.S. manufacturers.

43% are outsourcing from Canada.

Over one-quarter (27%) are currently outsourcing from China.

Q: Please indicate which of the following countries you are currently outsourcing.



** Based on those who currently use component parts manufactured by U.S./Canadian suppliers and/or foreign suppliers (179).*

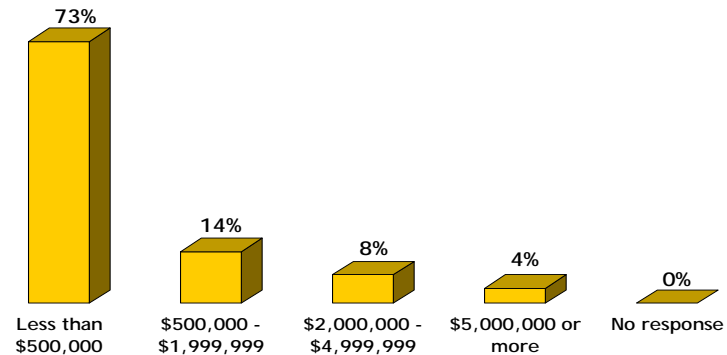


Nearly three-quarters (73%) of woodworking professionals estimate the dollar value of wood component parts they purchased from outside sources in the past 12 months as less than \$500,000.

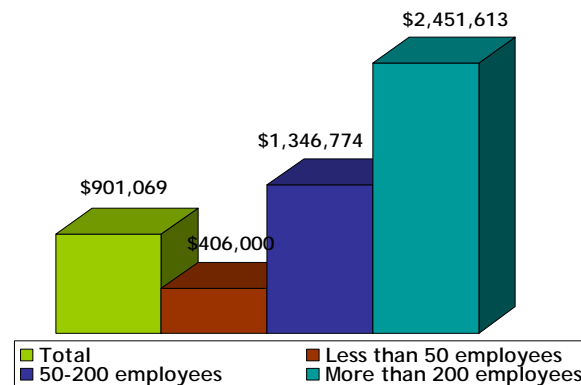
Among those who outsource components, 73% estimate the dollar value of wood components parts they purchased in the past 12 months as less than \$500,000.

Companies with more than 50 employees have spent significantly more on wood component parts in the past 12 months.

Q: Please estimate the total dollar value of wood component parts purchased by your company from outside sources in the past 12 months?



Mean Summary



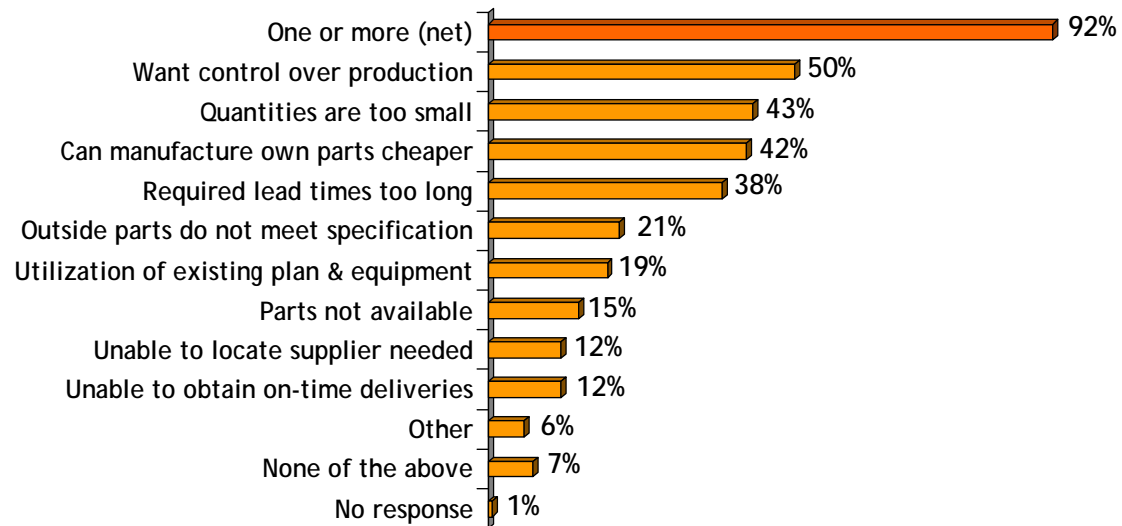
* Based on those who currently outsource components (187).

The top reason preventing woodworking professionals from outsourcing more/any components is because they want control over production.

Half of woodworking professionals indicate the top reason preventing them from outsourcing more/any components is because they want control over production.

43% don't outsource more/any components because the quantities are too small and 42% say they can manufacture their own parts cheaper.

Q: Which of the following reasons, if any, are preventing you from outsourcing more/any components?



Base - 304



In-House Manufacturing



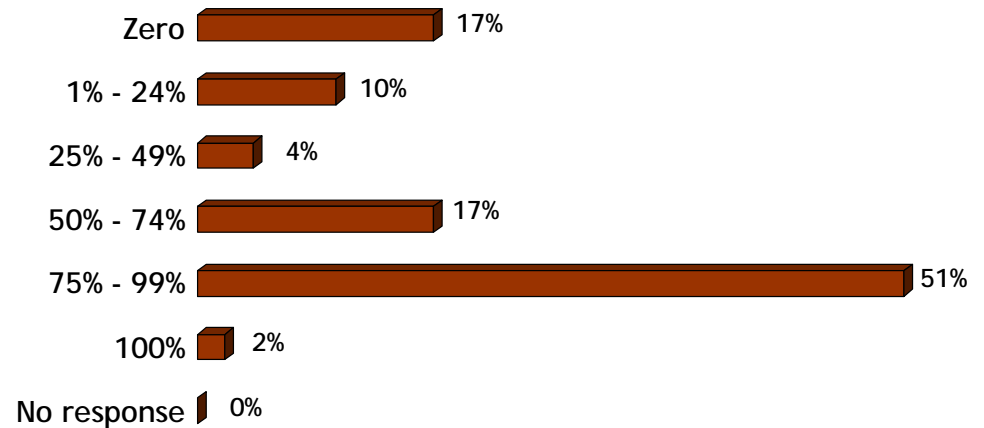
On average, woodworking professionals manufacture 58% of their wood component parts in-house.

On average, woodworking professionals manufacture 58% of their wood component parts in-house.

Q: Considering the wood component parts that your company currently uses, what percentage are:

Manufactured In-House

Average - 58%



** Based on those who currently outsource components and answered the question (186).*

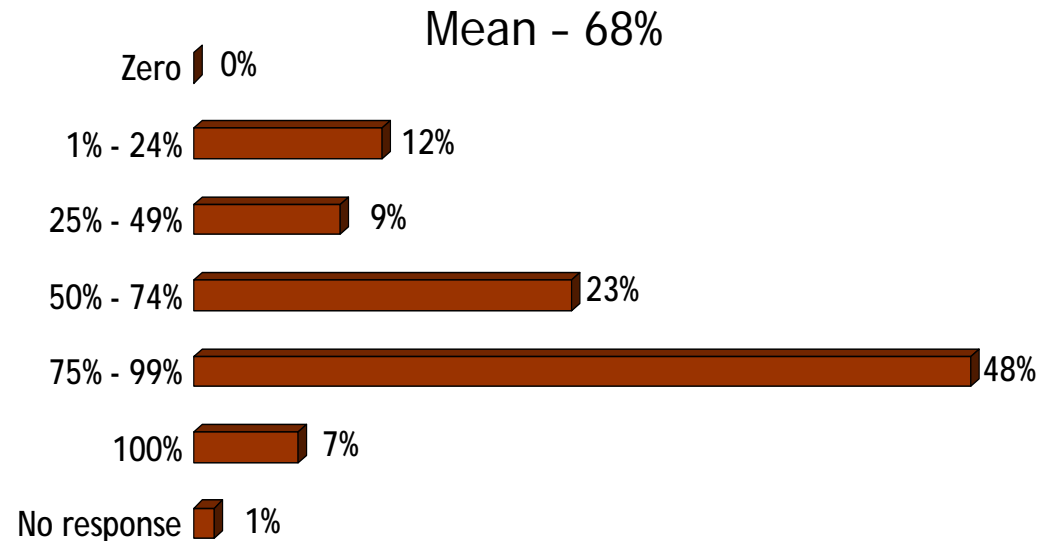
In 2 years, woodworking professionals who currently manufacture component parts in-house estimate that 68% of their wood component parts will be manufactured in-house in 2 years.

Woodworking professionals estimate that in 2 years, 68% of their wood component parts will be manufactured in house.

This represents a 17% increase over the current 58% that is manufactured in-house.

Q: Considering the wood component parts that your company currently uses, what percentage of each do you expect your company will use 2 years from now:

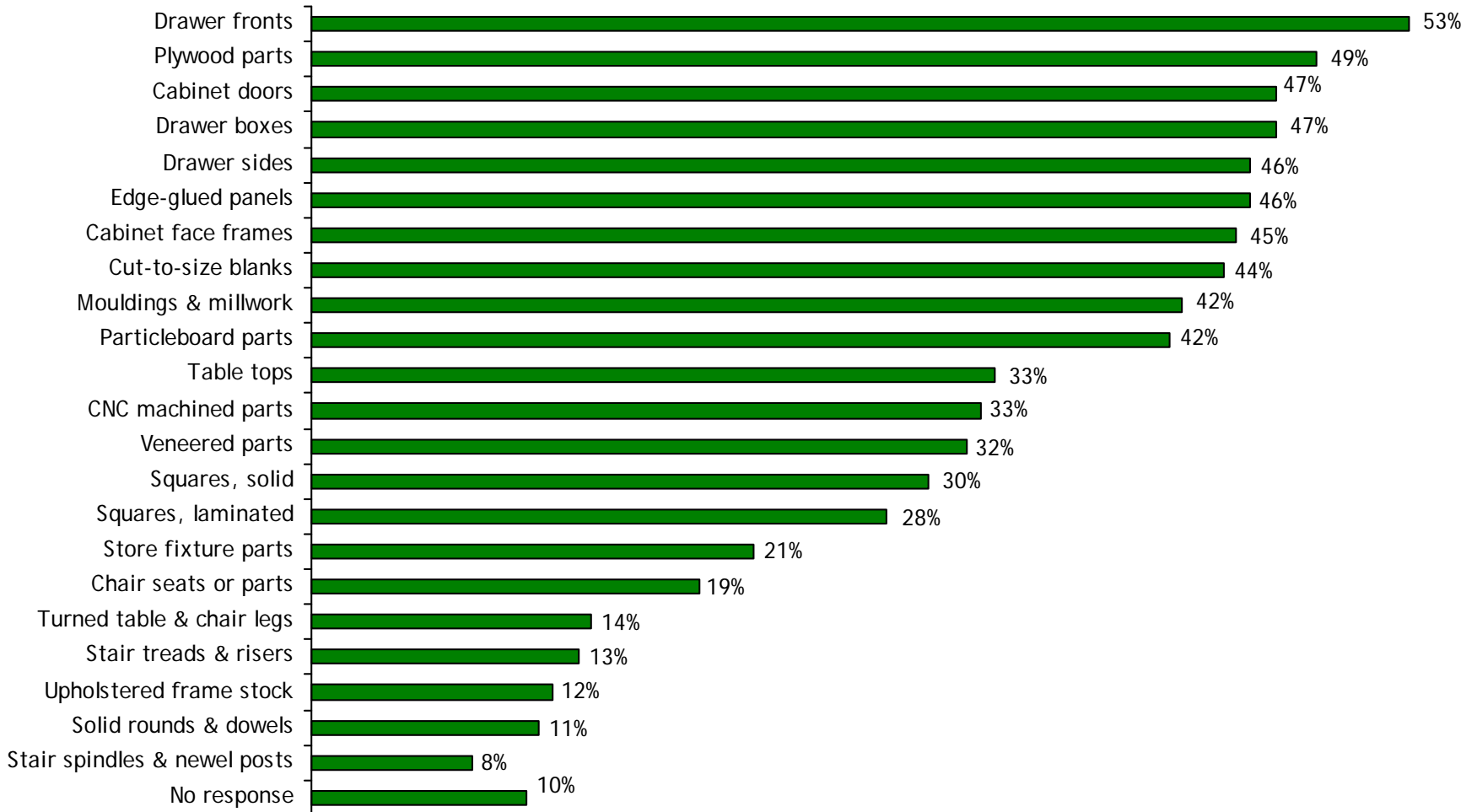
Manufactured In-House - 2 Year Outlook



** Based on those who currently outsource components and answered the question (186).*



Drawer fronts (53%), plywood parts (49%), cabinet doors (47%) and drawer boxes (47%) are the top 4 wood components parts that woodworking professionals manufacture in-house.



** Based on those who currently use component parts manufactured in-house (154).*



U.S./Canadian Suppliers



On average, woodworking professionals purchase 34% of their wood component parts from U.S./Canadian suppliers.

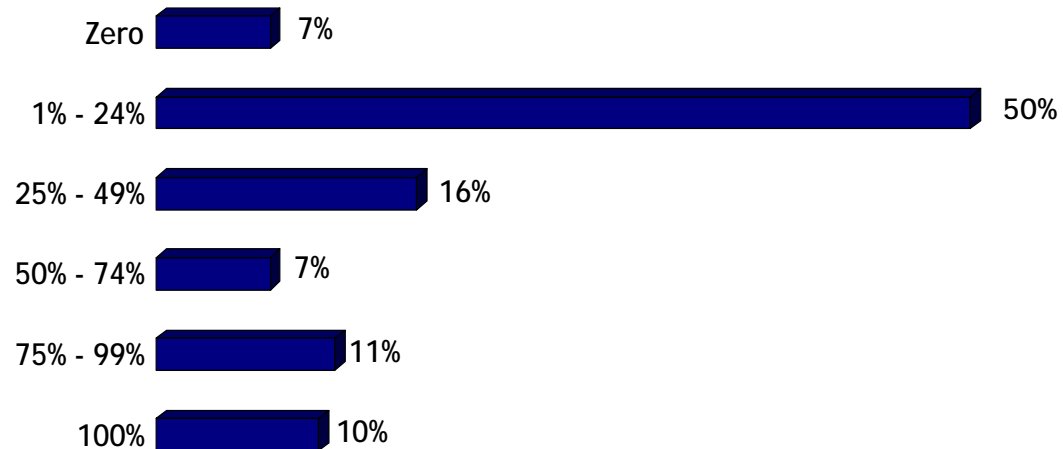
On average, woodworking professionals purchase 34% of their wood component parts from U.S./Canadian suppliers.

Woodworking professionals who work in companies with less than 50 employees purchase a significantly higher percentage (41%) of wood component parts from U.S./Canadian suppliers.

Q: Considering the wood component parts that your company currently uses, what percentage are:

Manufactured by U.S./Canadian Suppliers

Average - 34%



** Based on those who currently outsource components and answered the question (186).*



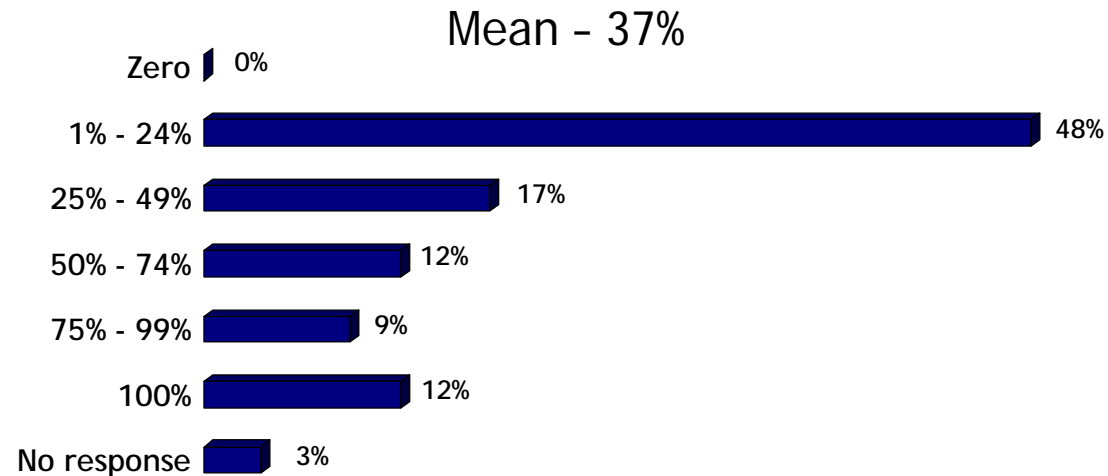
In 2 years, woodworking professionals estimate 37% of their wood component parts will be from U.S./Canadian suppliers.

Woodworking professionals estimate that in 2 years, 37% of their wood component parts will be supplied from U.S./Canadian manufacturers.

That represents a 9% increase over the current 34% supplied from U.S./Canadian manufactures.

Q: Considering the wood component parts that your company currently uses, what percentage of each do you expect your company will use 2 years from now:

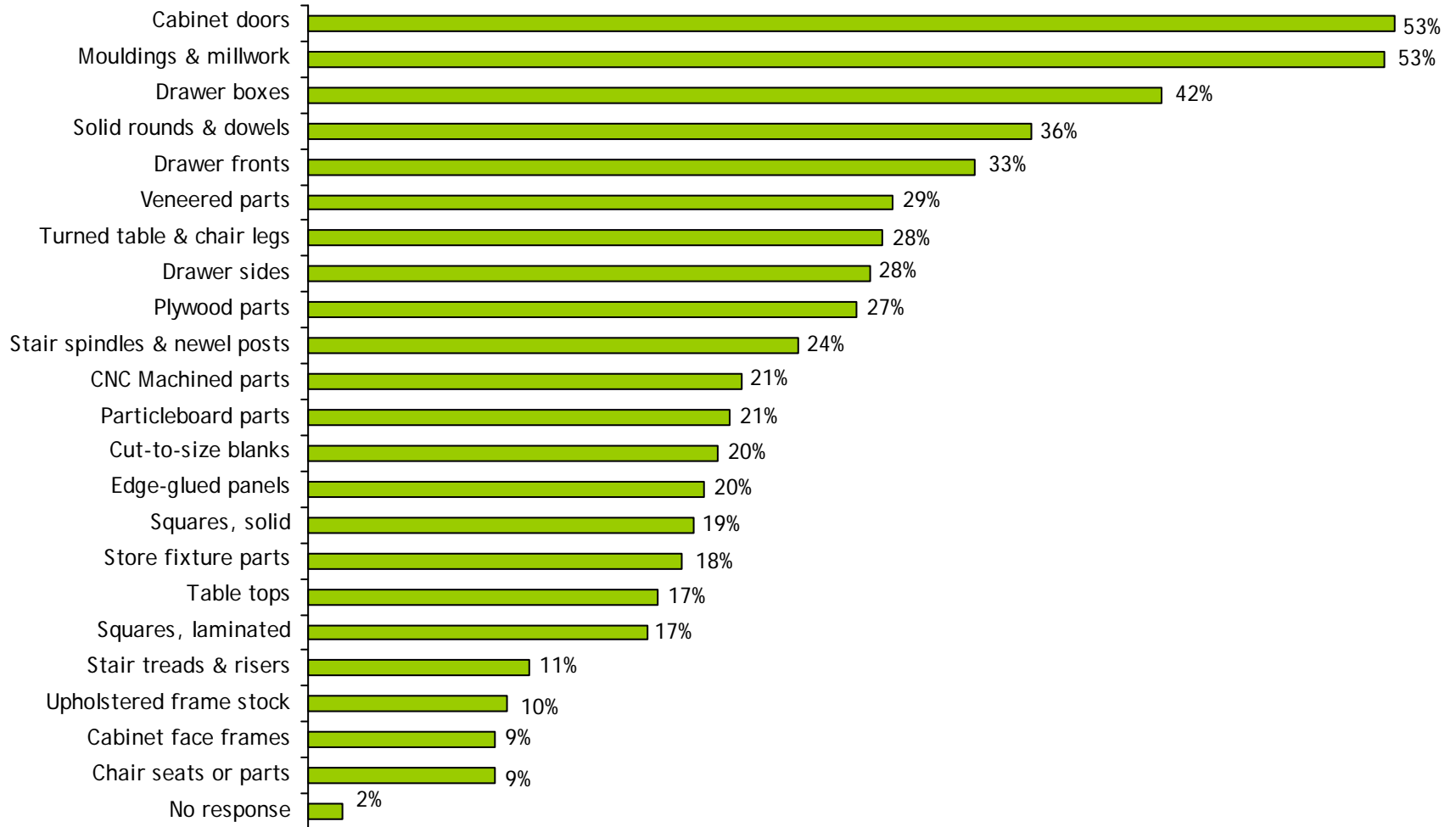
Manufactured by U.S./Canadian Suppliers



** Based on those who currently use component parts manufactured by U.S./Canadian suppliers (174).*



Cabinet doors (53%), mouldings & millwork (53%), and drawer boxes (42%) are the top 3 wood component parts outsourced from U.S./Canadian manufacturers.



* Based on those who currently use component parts manufactured by U.S./Canadian suppliers (174).



Consistent quality (49%), good relationship with suppliers (49%) and better control over costs (48%) are woodworking professionals' top reasons for buying component parts from U.S./Canadian manufacturers.

Woodworking professionals who outsource wood component parts consider consistent quality (49%), having a good relationship with suppliers (49%), having better control over costs (48%), price (41%) and lack of equipment (40%) their top 5 reasons for purchasing from U.S./Canadian suppliers.

Price is significantly more important to woodworking professionals who work for companies with less than 50 employees.

Q: Please select your top 5 reasons for buying components from U.S./Canadian manufacturers and foreign manufacturers?

U.S./Canadian Manufacturers



**Based on those who currently outsource components (187).*



Product quality, price and dependability of the supplier are most important to woodworking professionals when selecting a U.S./Canadian supplier of wood components.

Q: Please indicate the 5 most important factors when/if selecting a supplier of wood components from U.S./Canadian manufacturers in order of importance, with 1 being the most important and 5 being the 5th most important.

	1	2	3	4	5	No picks
Product quality	54	25	12	9	11	76
Price	20	30	23	24	13	77
Dependability of supplier	32	20	11	12	18	94
On-time delivery	10	19	30	11	13	104
Lead time required	8	18	20	19	10	112
Small quantity orders	7	10	11	20	15	124
Species of wood available	6	4	9	8	13	147
Technical expertise	13	10	7	8	7	142
Location of supplier	5	7	11	11	10	143
Past relationship with supplier	5	6	12	9	12	143
Type of machinery used	4	19	13	5	11	135
Supplier's reputation	5	5	4	7	4	162
Plant size or capacity	1	1	6	5	12	162



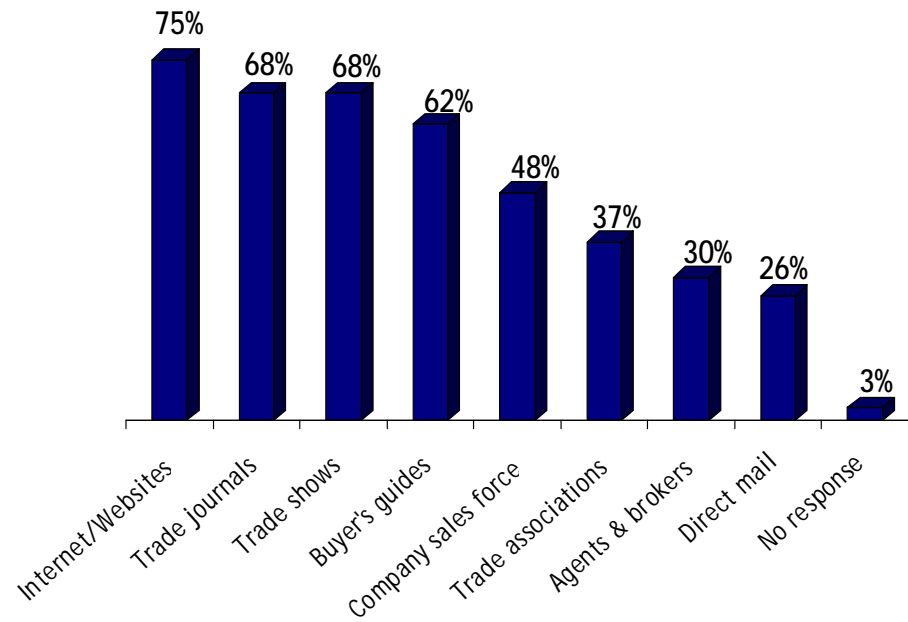
**Based on those who currently outsource components (187).*

Internet/websites (75%), trade journals (68%) and trade shows (68%) are the top sources woodworking professionals are likely to use when locating potential U.S./Canadian suppliers of wood.

Woodworking professionals who are trying to locate potential U.S./Canadian suppliers of wood are most likely to use Internet/websites (75%), trade journals (68%), trade shows (68%), buyer's guides (62%) and the company sales force (48%) as sources.

Q: Please indicate 5 sources you are most likely to use when/if locating potential suppliers of wood components for U.S. Canadian manufacturers and foreign manufacturers?

U.S./Canadian Manufacturers



* Based on those who currently outsource components (187).



Foreign Suppliers



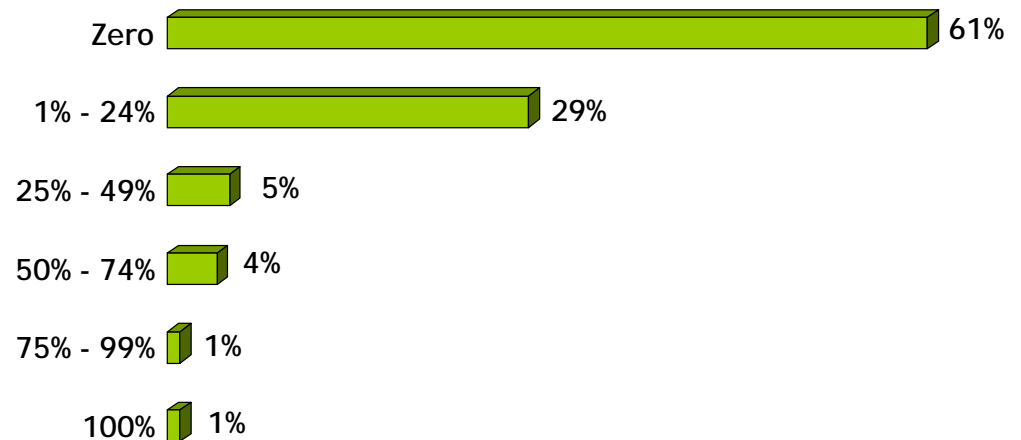
On average, woodworking professionals purchase 7% of their wood component parts from foreign suppliers.

Woodworking professionals purchase 7% of their wood component parts from Foreign suppliers, on average.

Q: Considering the wood component parts that your company currently uses, what percentage are:

Manufactured by Foreign Suppliers

Average - 7%



Based on those who currently outsource components and answered the question (186).

In 2 years, woodworking professionals estimate that 30% of their wood component parts will be supplied by foreign manufacturers.

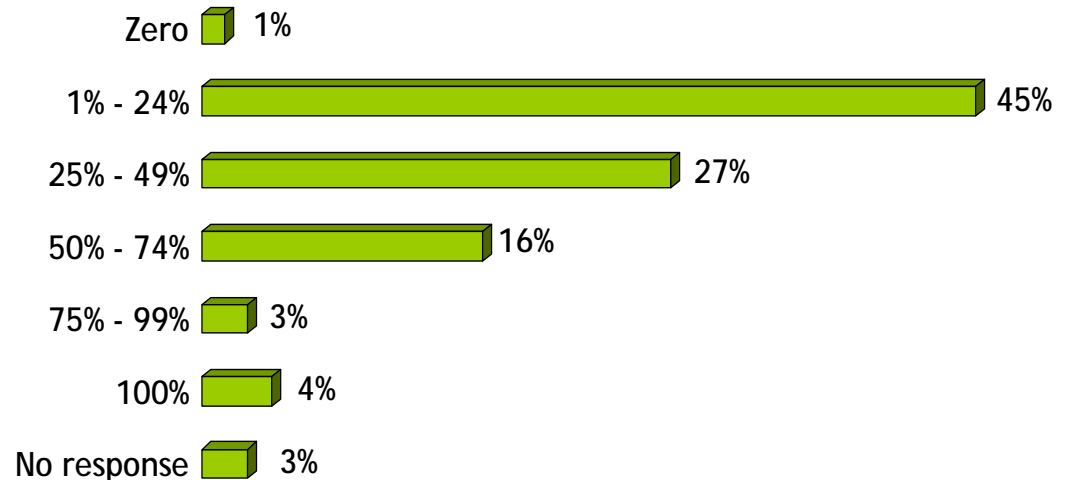
Woodworking professionals estimate that in 2 years, 30% of their wood components will be supplied by foreign manufacturers.

That represents a 329% increase over the current 7% that is supplied by foreign suppliers!

Q: Considering the wood component parts that your company currently uses, what percentage of each do you expect your company will use 2 years from now:

Manufactured by Foreign Suppliers

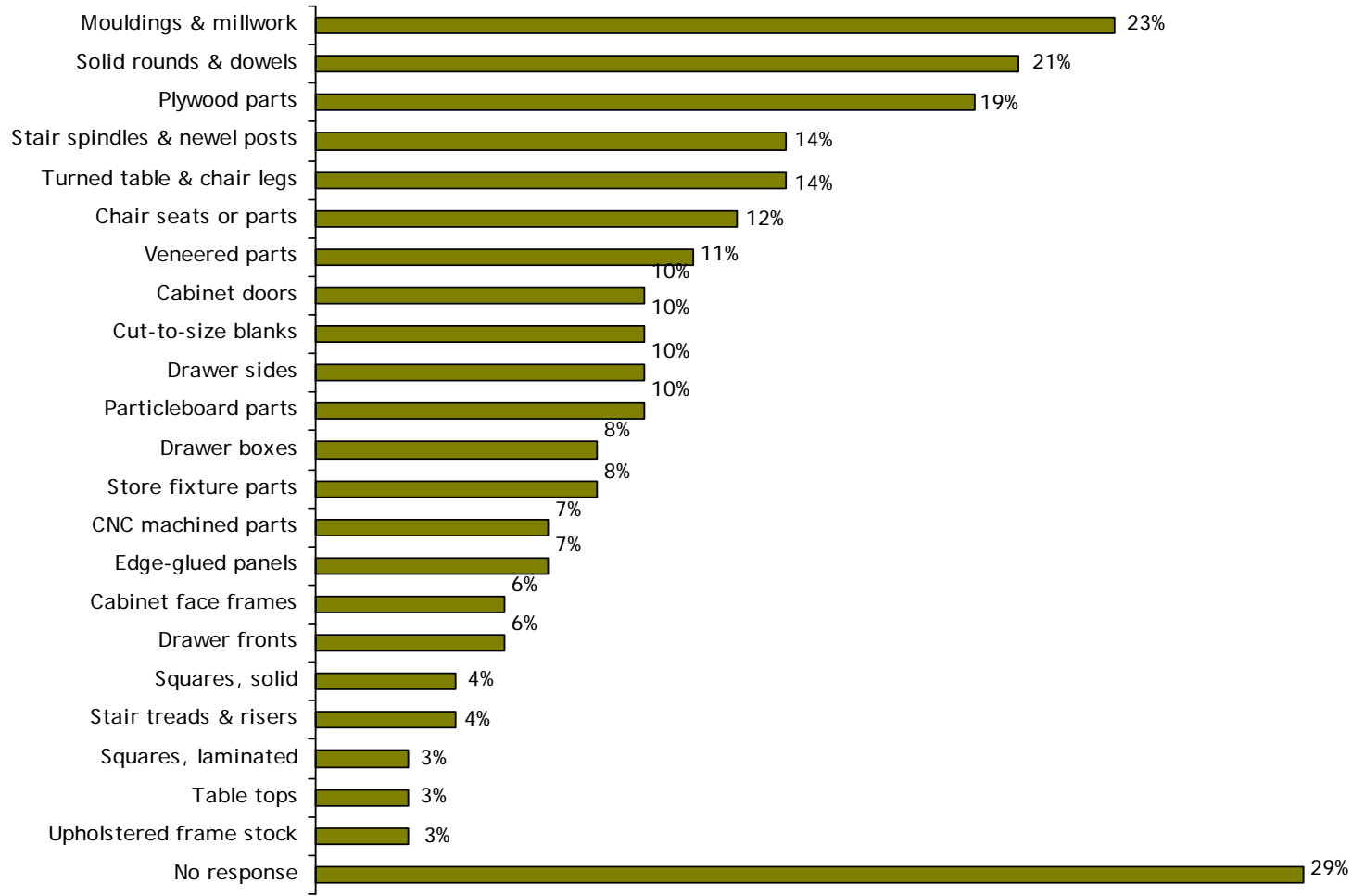
Average - 30%



* Based on those who currently use component parts manufactured by foreign suppliers (73).



Mouldings & millwork (23%), solid rounds & dowels (21%), and plywood parts (19%) are the top 3 wood component parts outsourced from foreign manufacturers.



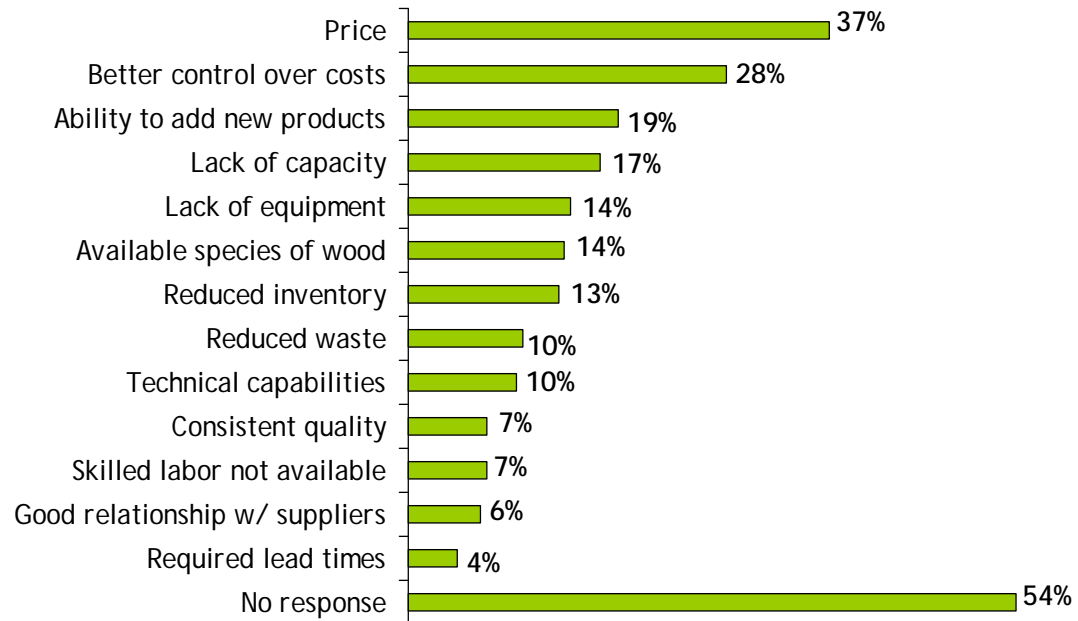
* Based on those who currently use component parts manufactured by foreign suppliers (73).



Price (37%), better control over costs (28%) and ability to add new products (19%) are the top reasons woodworking professionals buy component parts from foreign suppliers.

Woodworking professionals who outsource wood component parts consider price (37%), having better control over costs (28%), having the ability to add new products (19%), lack of capacity (17%) and lack of equipment (14%) their top 5 reasons for purchasing from foreign suppliers.

Q: Please select your top 5 reasons for buying components from U.S./Canadian manufacturers and foreign manufacturers?



**Based on those who currently outsource components (187).*

Product quality and price are most important to woodworking professionals when selecting a foreign supplier of wood components.

Q: Please indicate the 5 most important factors when/if selecting a supplier of wood components from foreign manufacturers in order of importance, with 1 being the most important and 5 being the 5th most important.

	1	2	3	4	5	No picks
Price	25	20	14	12	12	104
Product quality	34	21	10	11	4	107
On-time delivery	8	15	20	19	11	114
Dependability of supplier	20	9	9	16	18	115
Lead time required	4	11	15	13	15	129
Species of wood available	6	6	8	5	9	153
Technical expertise	10	7	3	8	6	153
Small quantity orders	1	8	12	4	7	155
Type of machinery used	1	11	9	5	4	157
Location of supplier	2	0	3	8	6	168
Supplier's reputation	4	3	5	3	3	169
Past relationship with supplier	5	3	5	2	2	170
Plant size or capacity	1	2	3	1	6	174



**Based on those who currently outsource components (187).*

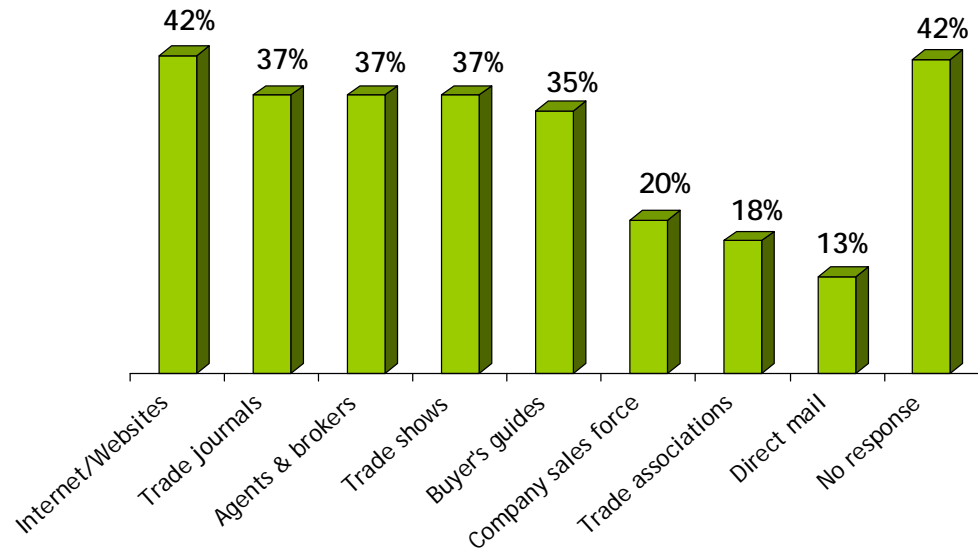
Internet/websites (42%), trade journals (37%), agents & brokers (37%) and trade shows (37%) are the top sources woodworking professionals are likely to use when locating potential foreign suppliers of wood.

Woodworking professionals who are trying to locate potential foreign suppliers of wood are most likely to use Internet/websites (42%), trade journals (37%), agents & brokers (37%), trade shows (37%) and buyer's guides (35%) as sources.

Companies with more than 50 employees are significantly more likely to use Internet/websites, agents & brokers and trade shows as sources for locating potential foreign suppliers of wood.

Q: Please indicate 5 sources you are most likely to use when/if locating potential suppliers of wood components for U.S. Canadian manufacturers and foreign manufacturers?

Foreign Manufacturers



* Based on those who currently outsource components (187).

Rough Mill



Slightly less than one-quarter (24%) of woodworking professionals' companies have their own rough mill.

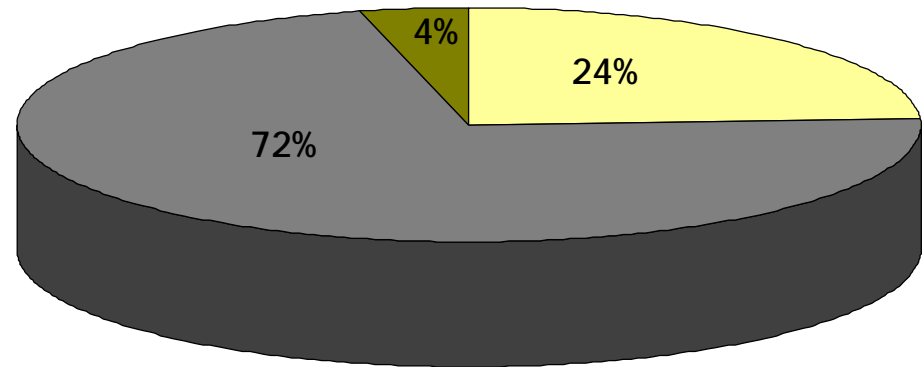
24% of woodworking professionals' companies have their own rough mill.

4% do not currently have a rough mill but plan to add one in the next 12 months.

Woodworking professionals located in the Northeast are significantly more likely to have their own rough mill than all other regions.

Q: Does your company have its own rough mill?

- Yes
- No
- No, but planning to add one in the next 12 months



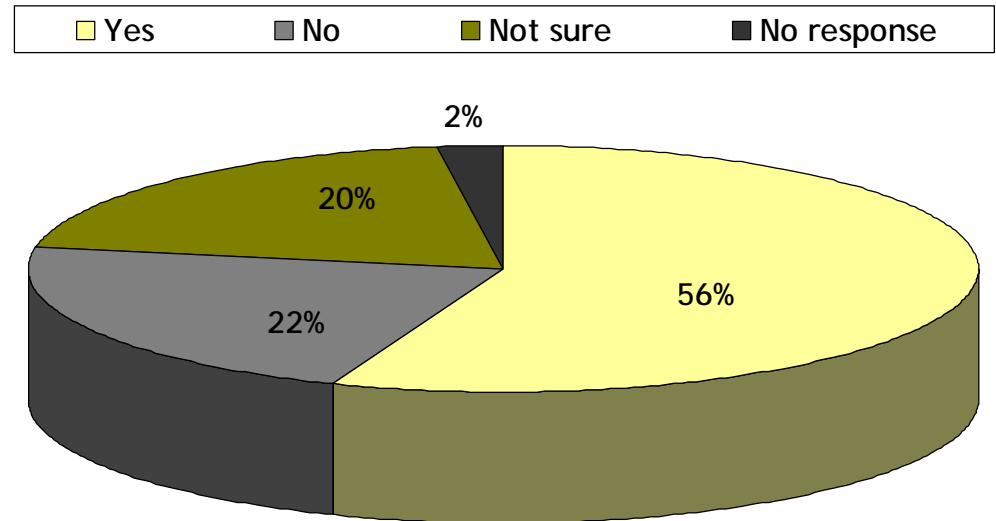
Base - 304

Among those who currently have a rough mill, 56% would consider purchasing components from outside suppliers if their rough mill reached full capacity.

Among those who currently have a rough mill or plan to add one in the next 12 months, 56% would consider purchasing components from outside suppliers if their rough mill reached full capacity.

20% are not sure.

Q: If your rough mill were to reach full capacity, would you consider purchasing components from outside suppliers?



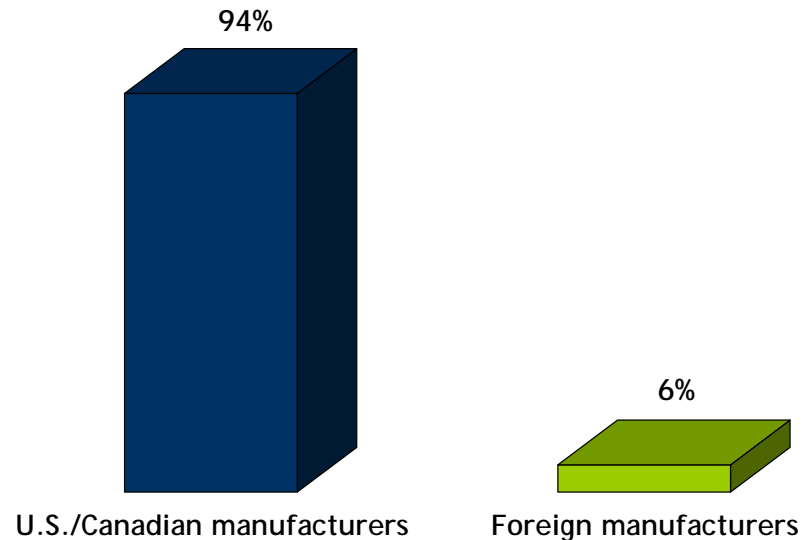
** Based on those who currently have their own rough mill or plan to add one in the next 12 month (86).*

Among those who would consider purchasing components from outside suppliers if their rough mill reached full capacity, 94% would most likely purchase from U.S./Canadian manufacturers.

Among those who would consider purchasing components from outside suppliers if their rough mill reached full capacity, 94% would most likely purchase from U.S./Canadian manufacturers.

Just 6% would most likely purchase from foreign manufacturers.

Q: Assuming your rough mill reaches full capacity, are you more likely to choose U.S./Canadian manufacturers or foreign manufacturers for outsourcing?



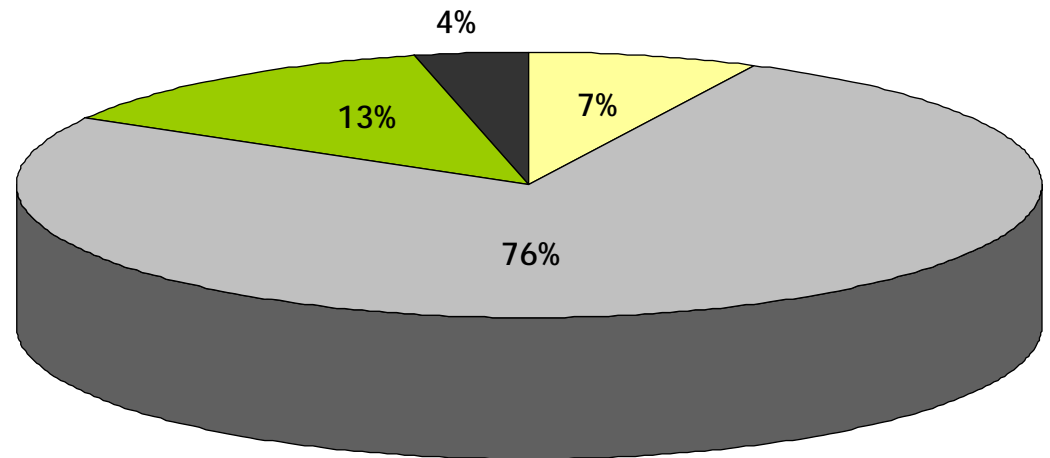
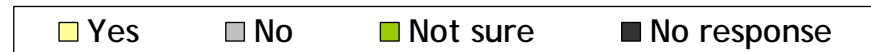
** Based on those who would consider purchasing components from outside suppliers (48).*

Slightly over three-quarters of woodworking professionals do not anticipate expanding their rough mill capacity within the next two years.

The majority (76%) of woodworking professionals do not anticipate expanding their rough mill capacity within the next two years.

Companies with more than 200 employees are significantly more likely than companies with less than 50 employees to indicate that they do anticipate expanding their rough mill capacity.

Q: Do you anticipate expanding your rough mill capacity within the next two years?



Base - 304

Financials

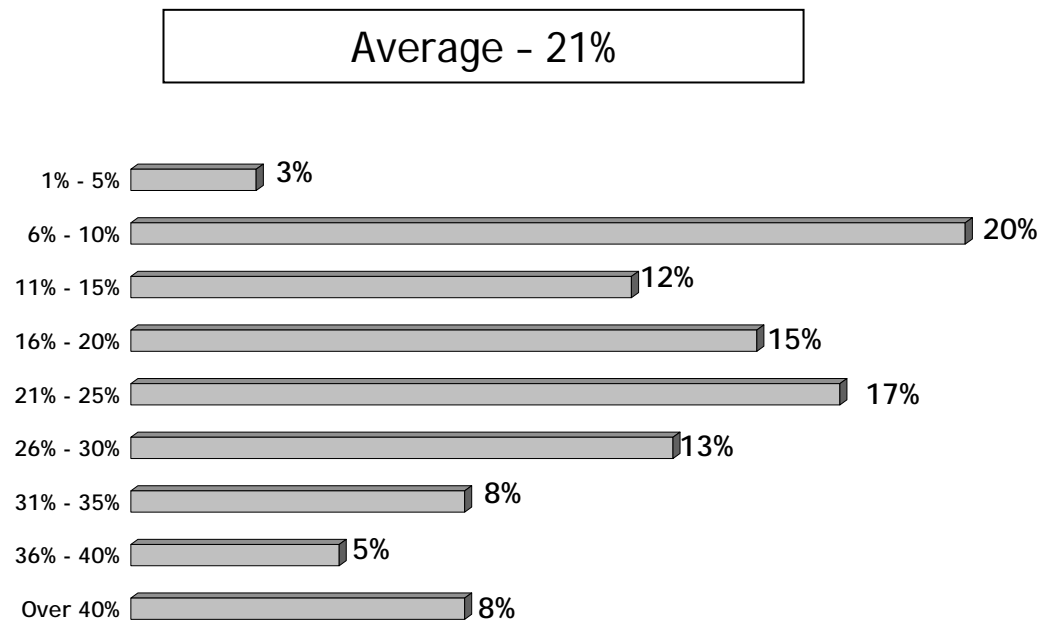


Woodworking professionals indicate their companies' gross margin is 21%, on average.

On average, woodworking professionals indicate that their companies' gross margin is 21%.

Q: Please estimate your company's gross margin. For purposes of this survey, use the following equation:

$$\text{Gross margin} = (\text{net sales} - \text{cost of goods sold}) / \text{net sales}$$



Based on those who answered the question and indicated a percentage. (195)

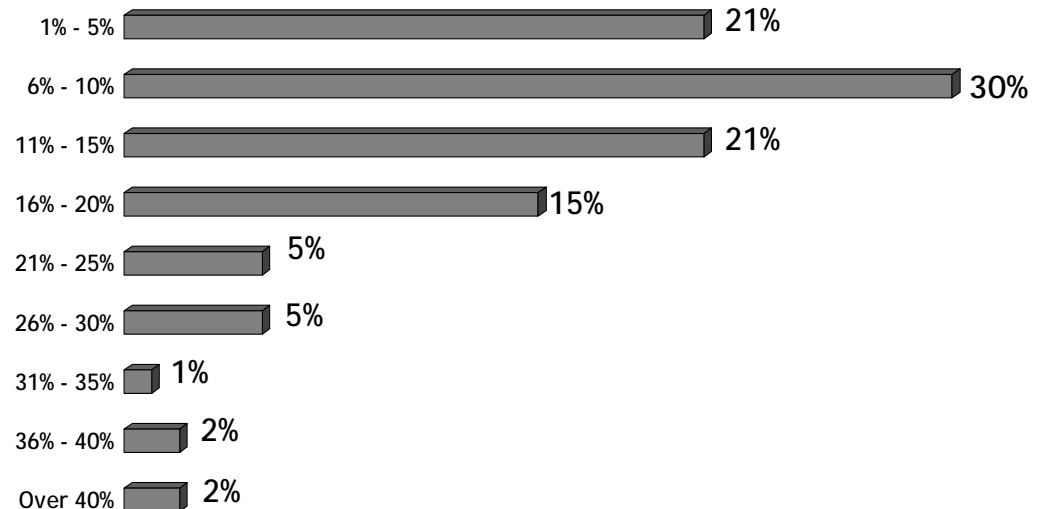
On average, woodworking professionals indicate a 12% return on equity.

Woodworking professionals indicate an average 12% return on equity for their company.

Q: Please estimate your company's average return on equity. For purposes of this survey, use the following equation:

$$\text{Return on equity} = \frac{\text{profit after tax}}{\text{equity (total asset - total liabilities)}}$$

Average - 12%



Based on those who answered the question and indicated a percentage. (132)



Demographics

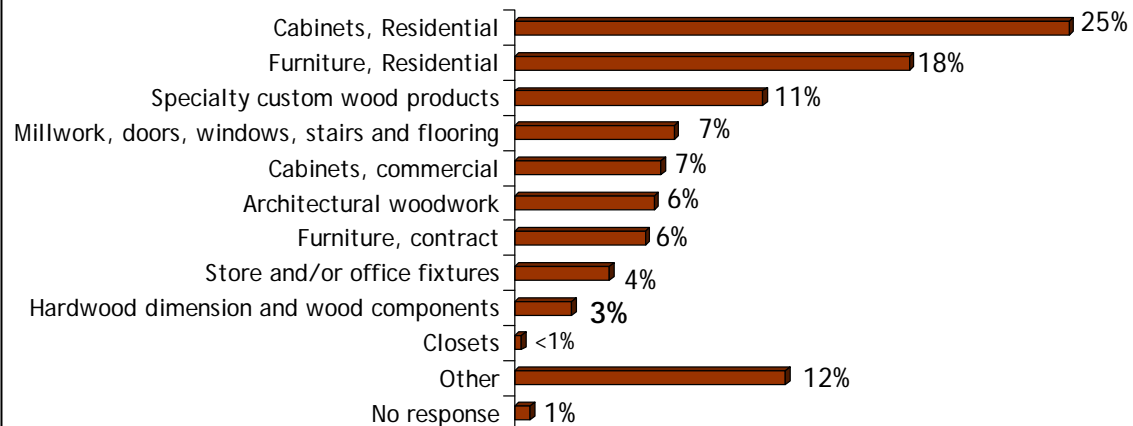


One-quarter of woodworking professionals primarily manufacture residential cabinets.

25% of woodworking professionals primarily manufacture residential cabinets.

18% manufacture residential furniture and 11% specialty custom wood products.

Q: What is the primary product that your company manufactures?



See verbatim comments for "other" responses.

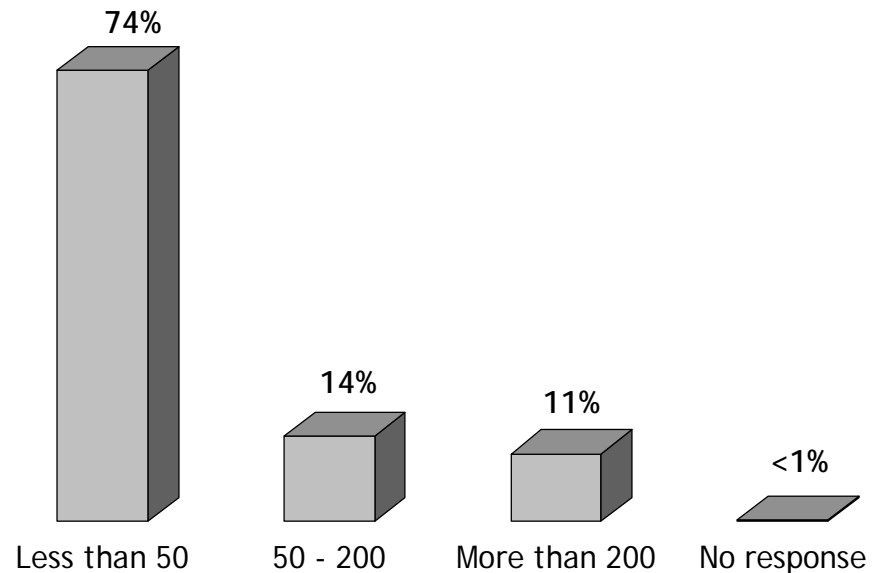
Base - 304



Nearly three-quarters of woodworking professionals work in companies with less than 50 employees.

74% of woodworking professionals work in companies with less than 50 employees.

Q: How many, including you, are currently employed at your company?



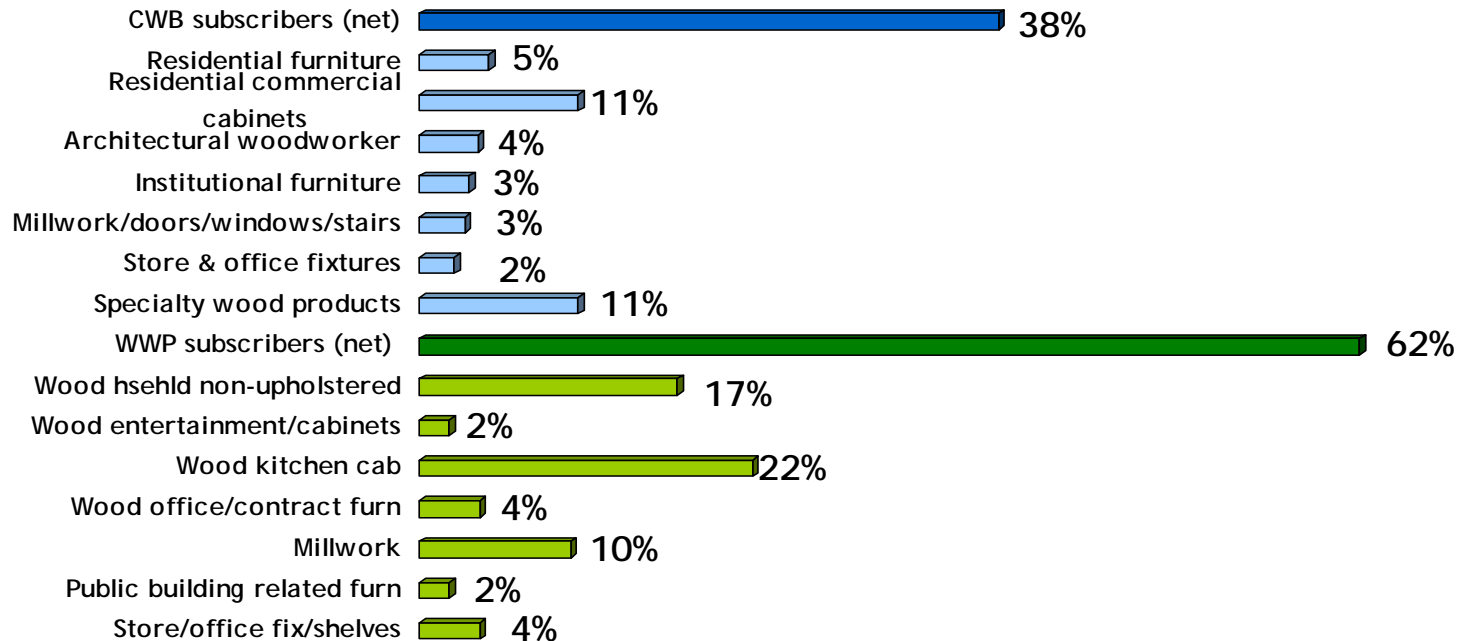
Base - 304



62% of respondents are WWP subscribers and 38% are CWB subscribers.

CWB & WWP Subscribers

Base: 304



Based on circulation data.



All geographic regions are represented in this study.

