

FUTURE MARKETING DRIVERS FOR THE FOREST PRODUCTS INDUSTRY

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The forest products industry in North America is increasingly losing its share in its domestic markets. The pressure of low cost manufacturing combined with a slowing economy has painfully caused many mills to close and many workers to lose their jobs in recent years. We ask ourselves whether the forest products industry will be able to survive these gloomy times and what, if any are the factors that would drive the future of the forest products industry. Opening our minds to global markets beyond domestic consumption, targeting products towards changing demographic structure and resulting change in consumer tastes, developing and marketing products with the environmental conscious consumer in mind, product innovations, efficient management of the supply chain, and trade practices and policies will be some of the marketing drivers in the forest products industry in the new era.

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THE NEED FOR MARKETING

Why marketing, you might ask? Why not restrict the forest products manufacturing sector here to just North American based companies? Would this be possible in today's information technology rich world? The concept of a flat world is perhaps more relevant for this industry than any other. Basic economics indicates that no matter what, most manufacturing will continue to move towards efficient and lower-cost centers. Today it is China, but as manufacturing costs go up in China, many companies may move their operations to even cheaper centers in Vietnam, the Philippines, or other cheaper places. In addition to cheap labor and raw materials greater mobility of capital, technological innovations, and lower transportation costs on trade routes has shifted comparative advantage to developing countries. So, given that US producers may not be able to compete on manufacturing, what about targeting and marketing the products to the most appropriate customers? You might again ask, why marketing? How may it help? The primary objective of a firm is to make profits, but profitability can only be achieved by targeting and offering the right **products** to the right **customers** at the right **time** at the right **place**. This is marketing. Marketing is defined as discovery or identification of needs and the execution of those activities necessary to plan and provide need-satisfying products and services and to price, promote, distribute, and affect exchange of these products at an acceptable cost and in a socially responsible manner

(Semenik and Shaw1985). So, what are the drivers of marketing in the forest products industry today and as we look towards the future?

CHANGES IN THE MARKET

As was noted, **globalization and access to free markets** is perhaps one of the major drivers of what the industry will look like in the future, especially in relation to new markets (in fast-developing nations) that may require new communication strategies, new distribution channels, different pricing strategy, and a different strategic focus. The demands of the large and growing middle class with disposable income in Asia (~4 billion people) and other developing countries are increasing in the areas of newsprint, copy paper, specialty paper, toilet paper and packaging, wood products, housing, and the energy sector. These sectors are slated to grow at a much rapid rate in the coming decade. Just in India alone, a research study by AC Nielson predicts the furniture market to grow to 16.9 billion by 2010 (90% of which is wood furniture), which is double that of its market value of 2005. Many foreign governments have permitted 100 percent foreign direct investments in several sectors, including forest products industry, that domestic American firms need to take advantage of.

The globalized forest products industry will also look towards a **changing demographic structure** across the world. A case study commissioned by the National Institute of Aging finds that the world's population is aging faster than ever, and in two decades the number of people over 65 will double to 1.3 billion people by 2040 (506 million elderly around the world today.) Population aging will drive not only the economic and social factors of a country, but also the nature of products. Domestically, our population is growing older but also diverse at the same time. The large numbers of Baby Boomers retiring over the next decade have highly developed tastes with a need for services and products that have a luxury look or feel (Smith and Clurman in Generation Ageless, 2008). According to the Center for Public Education, although the population under eighteen will grow, it will constitute a smaller percent of the total population in years to come—dropping from 25.7 percent in 2000 to 23.6 percent in 2030. In addition, the Hispanic population and Asian population in the U.S. continue to grow at a rapid rate (E.g., Hispanic population has grown from 393.9 percent in North Carolina to 7.8 percent in Hawaii from 1990 to 2000). Segmenting the markets for forest products and developing customized and **innovative products** for each of the market segments based on the individualized tastes of the diverse population will be very important in the next few years.

Perhaps one of the most significant growth drivers for the forest products industry in this decade is the fact that being a renewable resource, the extraction and processing may have a relatively lower impact on the environment. The “energy star” labels that could be seen on products such as light bulbs and washer/dryers now extend to large residential structures using forest products, and this trend reflects an increased environmental consciousness. With wood being one of the most **environmentally friendly** building and manufacturing material on this planet, in conjunction with rapidly expanding global demand for small **environmental footprint** products that are made

from renewable natural resources, it would seem that the forest products industry is poised for significant growth in the future. The merchandizing of products manufactured from a recovered natural resource will help broaden markets and value-added opportunities as the global economy turns “GREEN.” The bio-energy area, which is creating new markets for woody biomass in the U.S. and beyond, is also looking at greener technologies. In addition, the demand for building materials that qualify for LEED and other green credits continues to expand. This brings with it the increasing need to create **innovative products** and new strategies to market these products to customers.

The domestic market in the U.S. is also changing with more of the customers looking to reduce their inventory costs and needing products to be delivered as quickly as possible (in many cases, in less than two weeks). This type of change requires customers and the suppliers to collaborate and work as partners in this system to improve the overall efficiencies in the supply chain. **Creating value in the supply chains** is a driver for the new marketing paradigm in the global world that requires replacement of inventories with information. Frequent and better communication and information structure between suppliers and their customers will be the key to establishing efficiency – where both these members have to move from a transactional- based relationship to a partnership. Both the partners have to organize their supply and distribution networks by locating near major markets and using information technologies in shipping, ordering, and delivery procedures (using GPS, inventory databases, information acquisition devices, etc.) to get the maximum efficiencies out of their transportation systems.

As the industry moves towards a more global arena, it will also be important for countries to review their **trade policies and tax practices** and make them as flexible as possible for improving the exchange of goods. Import taxes on wood and paper products have been reduced in several countries in Asia in the past 5 years, which has made export terms better from a US producer’s perspective. In addition, many developing countries in Asia (e.g., India) and Latin America are permitting 100% foreign equity in manufacturing, construction, and other affiliated industries that use forest products. Sustainable bilateral trade policies of countries in Asia (especially China, India, Indonesia, Philippines, Malaysia and Vietnam), Latin America (e.g., Chile and Brazil), and Russia will have a very important effect on the forest products industry supply, demand, and markets in the future.

Meeting the marketing drivers mentioned above, with improved products and processes, will benefit the overall state of the forest products industry by not only reinvigorating the small and larger forest products firms, but it will also help with the economic development in the rural communities of the U.S. that have been traditionally involved in forest-based operations. In addition, this will improve the overall management and utilization of the forests and promote forest health, have a positive influence on the carbon economy and promote energy independence, and improve the quality of life of the global population. These research needs could be targeted by increasing support for research and development in the above areas through a collaborative effort between the research institutions, the industry (companies and industry associations), and government organizations.

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