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FACT SHEET

Factors that Influenced the Export Success of Forest Products Companies in the Pacific Northwest (PNW) During the 1997-1998 Japanese Economic Downturn

Japanese housing starts reached a high of 1.64 million in 1996 as homeowners rushed to beat the consumption tax increase scheduled for 1997. The Asian economic crisis caused housing starts to fall to 1.2 million in 1998. The decline in housing starts contributed to a dramatic decrease in imports of wooden building materials. During the economic downturn, Japanese imports of PNW primary wood products fell 30% in 1998 while exports of secondary wood products fell 36%. Events that occurred before and during the Asian crisis have caused permanent structural changes in the flow of wood products to Japan. The consumption tax increase, strong US dollar, and the extended economic recession all combined to heighten price sensitivity among Japanese consumers and reduced the competitiveness of US wood products in the Japanese market. While most North American firms reported a decline in export revenues from Japan over the period 1997-1998, some firms experienced increases. This anomaly prompted an investigation into why some firms were successful in increasing their exports while other firms were not. The primary objective of this study was to identify the key characteristics of successful exporters.

Research Design

A survey was administered to US and Canadian firms that exported, or manufactured *and* exported, wooden building materials to Japan. The survey was administered by fax with follow up faxes and letters. Of the 163 US and 71 Canadian firms, 44 US (27%) and 15 Canadian (21%) firms were judged to have gone out of business. Out of 173 viable firms, 72 returned completed surveys for a response rate of 41.6%. US firms returned 41 surveys from a population of 119 for a return rate of 34.5% while 31 of the 54 Canadian firms returned surveys for a response rate of 57.4%.

Factors that Impact Business in Japan

The survey data was analyzed to determine how respondents' 1998 export sales had changed relative to their 1997 levels. The survey results show that 42 firms reported that their export sales dropped by more than 10% while an additional 15 firms reported that their change in export sales ranged from 9% to -9%. However, a small group of 15 firms reported that, despite the downturn in the Japanese market, their export sales had increased by ten percent or more. Survey respondents were then asked to identify the factor that had the greatest impact on their business in Japan. Over half of the respondents noted that economic factors had the greatest negative impact. The factors most often cited were the Japanese recession (cited by 30.6% of respondents), the strong US dollar (13.9%), and the Japanese banking crisis (8.3%). In contrast, 11.1% of respondents noted that a strong relationship with their Japanese customers had the greatest positive impact on their business in Japan.

Survey respondents were asked to rate the impact of offering specific services to their Japanese customers on their export performance in Japan, Table 1. In general, the positive impact of providing these services was rated significantly higher by the firms that provide them relative to the firms that did not provide them. Interestingly, even those firms that did not provide these services rated them as having a strong positive impact on export performance. For example, the three factors with the highest importance ratings were: providing translated product information, providing translated installation instructions, and providing translated maintenance instructions. The survey data clearly shows that even those firms that do not provide translated information to their customers in Japan rated these factors as having a significantly positive impact on export performance.

Product Mix and Distribution Channels that Support Export Success

The product mix and distribution channel of firms that successfully exported to Japan during the Asian downturn differed greatly from the less successful exporters. The firms that did well had export product mixes containing high amounts of wooden prefabricated building components and other value added products. Less successful exporters tended to focus more on lumber and structural panels. Successful exporters tended to report a higher use of short distribution channels, often exporting directly to a homebuilder.

Finally, successful exporters tended to supply a higher percentage of their products to post and beam builders and other non-2x4 segments of the construction industry. Market knowledge appeared to play a vital role in export success as less successful firms were over three times less likely to know in which market segment their products were used. This lack of market knowledge makes it difficult for exporters to understand how their products are being used and, more importantly, restricts their ability to develop effective marketing strategies that target specific market segments.

Firm Size and Relation to Export Success

Analysis of total sales by export success revealed some interesting patterns. The medium-sized firms (export sales revenues between $1 million and $5 million) performed better than both small firms (export sales revenues less than $1 million) and large firms (export sales revenues above $5 million). Fully two-thirds of the companies who reported an increase in export revenues were medium-sized firms. In contrast, the firms who reported a decline in export revenues were fairly evenly distributed, although almost forty percent of these firms were large firms while an additional 37% were small companies. As mentioned previously, exports tend to be a much higher percentage of the total sales revenue of the small- and medium-sized firms in contrast to the larger firms who tend to have a heavier focus on the US market with exports rarely comprising more than 10% of their total sales. Thus, it appears that the medium-sized firms are more committed to the export market and have developed a marketing strategy that provides them with a greater chance of succeeding in Japan even when the markets are poor. While smaller firms might also be more focused on the export market, it would appear that they did not have the financial and marketing resources to respond to the decline in the Japanese economy, as indicated by the fact that 83.3% of the small firms reported declines in export sales revenues in Japan.

Nearly all of the survey respondents reported that their Japanese customers had become more price sensitive. Most firms reported that this increased price sensitivity had a negative impact on their export performance. However, a small set of respondents indicated that their exports to Japan increased despite the increased price sensitivity of their Japanese customers, suggesting that they were able to remain competitive even as their customers were becoming more price sensitive.

Asian Economic Downturn Creates Opportunities for PNW Wood Product Exporters

This study has documented structural changes in the trade of PNW wooden building materials with Japan. It has also provided quantitative and qualitative insights into the impacts of the Asian downturn on the performance of exporters in the PNW. The Asian downturn may have served to accelerate the changes occurring in the distribution channels, product mix, and services offered to the Japanese housing market. Changes in the demands of the Japanese consumers have opened new areas and created new opportunities for firms to develop or increase their competitiveness. These changes include shortening the distribution channel and shifting the export mix to include more value-added products. Also, providing more after-sales support, primarily by offering translated product information, was also perceived to be important. This research suggests that the firms that were successful during the downturn exported more than twice the amount of products into other market segments (primarily post & beam, prefabricated homes and log homes) than did unsuccessful firms. These segments of the housing market may be less sensitive to changes in the overall economic conditions than are the larger post and beam and 2x4 housing segments. While each of these strategies may not be suitable for all firms, exporters should explore the potential of these factors to increase their competitiveness in Japan.

Table 1. Average importance of providing services in Japan.

		Do You Provide This Service?	
	Overall	Yes	No
Provide translated product information[b]	n = 68	36	32
	5.58[a]	6.11	5.19
Provide translated installation instructions[b]	n = 63	29	34
	5.60[a]	6.00	5.26
Provide translated maintenance instructions[b]	n = 55	20	35
	5.22[a]	5.80	4.89

a: Importance was rated using a Likert-like scale where 1= negative impact, 4=neutral, and 7=positive impact on export performance.

b: Statistically significant at .05 level.