

# C I N T R A F O R

## Working Paper 30

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## Wood Products in Washington State: The Secondary Manufacturing Industries

John M. Dirks and David Briggs. 1991

### Executive Summary

This report provides a descriptive account of the secondary wood products manufacturing industries in Washington State. Secondary industries are defined as those adding value to standardized commodity wood or wood-based materials through the production of specialty finished or semi-finished products. This study focuses upon six major product groupings--engineered building components, mill work remanufactured lumber products, pallets, cabinets, and furniture--based upon the number and types of firms responding to the questionnaire. Primary data for this study were collected using a mail questionnaire, administered during the summer of 1989. Questionnaires were returned by 33% of the firms receiving them. Additional employment and business income information used in this report was obtained through published state agency data.

### The Secondary Industries

The industries assessed in this study contribute significantly to Washington State's economy, employing 13,200 people in the state and providing \$1.2 billion in gross business income to the over 630 firms operating in this sector in 1988. Approximately one in five jobs in wood products and associated industries in Washington, including the paper and paper sector, are found in the secondary solid wood products industries, while about 1 in 8 gross business dollars we generated by this sector. Excluding the pulp and paper and logging industries, .39% of the employment and 28% of the income in wood products processing was generated by the secondary manufacturing industries in 1988. This collection of industries produced nearly the same amount of business income as the logging sector during that year, but directly employed nearly 25% more people.

The firms in these industries are diverse, from small shops of highly skilled woodworkers crafting custom furniture or cabinetry, to larger facilities remanufacturing lumber into cutstock, resembling sawmills both in productive capacity and in size. Almost all of the secondary manufacturing firms produce specialty rather than standardized commodity products. Small business activity is critical in this sector. None of the firms returning questionnaires employed more than 500 people, and 86% of the business establishments in this sector have fewer than 50 employees. The secondary manufacturing industries are fragmented in terms of products manufactured and company size. Washington firms tend to be geographically concentrated, however, in or around the states urban areas. Ninety percent of the 150 largest secondary manufacturing companies are located in Washington's manufacturing and finance counties.

### Raw Materials

An evaluation was made of each manufacturing group's use of wood raw materials produced from Pacific Northwest tree species versus materials imported from other areas. Groups seemingly most dependent upon Pacific Northwest raw materials include, in decreasing order: pallet and container manufacturers, structural component manufacturers, remanufacturers, and millwork producers. Regional raw material supply problems were evident in the survey responses; of the 58 manufacturers responding from these four categories, one half of them (29 of 58) cited raw material supply or cost as a serious problem.

The other two groups delineated in the study, cabinet and furniture manufacturers, were more dependent on exogenous wood sources, including composite materials such as particleboard as well as eastern hardwood veneers and hardwood component stock. Less than one fifth (13 of 67) of firms in these two groups regarded raw material supply or cost as a serious problem affecting their business. Regional wood supply problems may not be affecting these groups as much as they do other manufacturers. The price premiums paid for higher value added products such as furniture and cabinetry may also result in raw materials being a lower relative variable cost compared to labor costs incurred in manufacture, and thus partially explain why raw material

supply or cost is generally considered a lesser problem in the cabinet and furniture industries. The furniture and cabinet producers reported the two lowest relative average monthly raw material costs of all manufacturing groups, while reporting the two highest relative labor costs.

### **Technology**

Technology was perceived to be changing at a moderate rate by 70% of the survey respondents. Major constraints to new investment were the availability or cost of capital, the high risk of capital investment, and availability or cost of skilled labor. Over 70 percent of the respondents listed at least one important piece of equipment they were planning to purchase over the next two years. A surprisingly large amount of used equipment is bought and sold by firms in the secondary manufacturing industries; used equipment comprised over 33% of the equipment purchased during the two years preceding the survey.

### **Marketing**

The customers targeted for sales by secondary wood products manufactures vary across the delineated groups. Remanufacturers of specialty lumber products tend to sell their products directly to other industrial manufacturers and to wholesalers or distributors who do not stock their products. Millwork manufacturers sell primarily to stocking wholesalers or distributors, and to a lesser extent to building contractors. The cabinet industry, in contrast, relies upon direct sales to building contractors for most of its sales volume, and also up direct sales to retail customers. Furniture manufacturers sell through wholesalers or distributors who do not stock their products, and also directly to retail customers. Pallet and container sales are primarily to retail customers and to other industrial manufacturers, while manufacturers of wood structural components sell directly to building contractors and to non-stocking wholesalers or distributors.

The secondary manufacturing industries in Washington can be described as relatively under-promoted. Personal selling efforts by sales staff and distribution channel members may be perceived as more important than direct promotional efforts, evidenced by the frequent use of business cards and word-of-mouth promotional tools. Product brochures, trade shows, and the efforts of industry associations are lesser used means of promotion. Only about one-fifth of the respondents reported using media advertising, advertising in trade journals, or direct customer mailings.

### **International Trade**

Fifty percent of the firms surveyed (81 firms) considered their principal target markets to be within the Pacific Northwest; 41% (67 firms) consider domestic US markets outside of the Northwest region to be important to them. International trade does not appear to be a key activity for many of the responding companies. While 38% of the survey respondents reported using imported wood raw materials and 24% exported products in 1988, only 14 firms, or 8%, considered export markets principal markets. No company exported more than half of its sales volume. Japan was the country purchasing products from the greatest number of companies in the sample; export volume and value levels were not measured in this study. Forty-seven firms (28%) purchased Canadian wood for production of their products, while only 12 firms (7%) reported 1988 exports to Canada.

### **Problems and Concerns**

Problems and concerns facing the secondary wood products industries in Washington were evaluated through survey responses and open ended questions. Problems rated as the most serious include government taxation, raw material supply or cost, the high cost or limited availability of capital, labor supply or cost, and government restrictions or policies. These problems may all be characterized as business environment factors existing outside of any one firm's control. Several company-internal factors such as quality control problem financial difficulties, the high cost of new product development, and possessing an outdated production facilities and sales and marketing problems were also rated relatively important, but by fewer respondents. Other company-internal problems rated as relatively unimportant by the majority of respondent companies include lack of computer skills, distribution problems, difficult labor relations, limited wood processing expertise, and being located too far from major markets.

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