

# C I N T R A F O R

## Working Paper 41

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## Exporting Value-added Wood Products to Europe: The Quality Imperative

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### Executive Summary

#### Highlights:

- U.S. manufacturers who wish to be more competitive in European markets should shift from traditional production-oriented manufacturing of industrial commodity products to more market-oriented production of specific products.
- Opportunities exist for increased U.S. export of value-added wood products to Europe, particularly components for furniture and windows
- U.S. wood manufacturers can improve their image as suppliers of higher value-added products in Europe by learning more about the market, meeting customers' specific demands, and understanding cultural differences dictating how business is conducted.
- German customers are very concerned about consistent dimensions, rapid delivery and consistency in pricing. Italians are particularly interested in long-term relationships with their suppliers, consistent supply, and close customer relations. Industrial end-users in the Netherlands value quality of wood drying, long-term commitments, and close contacts with their suppliers.

U.S. lumber suppliers who wish to be more competitive in European markets must understand the European definition of quality. Quality is much more than accurate grading. Other factors like dimension accuracy, consistent supply, and customer service are also very important. Customers in European countries do not have the same preferences as U.S. customers.

The objectives of this study have been 1) to investigate how industrial end-users of lumber, importers and agents in Germany, Italy and the Netherlands, define quality, and -2) to present factors that may contribute to the success of American lumber exporters in the European market.

#### U.S. Export of Wood Products to Europe

There was a slight increase in the export of wood products from the United States to Europe during the 1980's. The European Community (EC) is a very important export market for U.S. sawmills, having imported \$1.1 billion of wood products from the U.S. in 1991. Approximately 41 percent of U.S. hardwood lumber exports and 22 percent of softwood lumber exports were shipped to the European Community in 1991.

#### Distribution Channels -

The trend at many-European manufacturers of furniture, cabinets, windows and doors is for fewer, closer wood suppliers. This results in more direct sales and reduced involvement of -intermediaries. Today approximately 10 percent of softwood lumber and 30 percent of hardwood lumber is imported directly to the industrial end-users, who are primarily larger manufacturers of furniture and windows.

Even if direct sales are a preferred sales strategy, there may be advantages, particularly for small -and mid-size firms in the U.S., in contacting a European intermediary. Agents and importers have an understanding of the culture and the traditions dictating how business is done. They can also help small producers find customers, follow design trends, and deal with complaints.

#### The Swedish Sawmilling Industry

In this project, U.S. export strategies are compared to the strategies practiced by Swedish exporters. Sweden has for many years exported large quantities of lumber to the countries in the European

Community and therefore has extensive experience in trading in these markets. The European Community (EC) imports almost 22 percent of its softwood lumber from Sweden compared to four percent from the U.S.

Closeness to the market is an advantage Swedish lumber producers have over North American producers. In today's fast-changing market and with importers and end-users interested in minimizing their inventory, it is crucial to be able to meet orders with short notice, arrange fast shipments and offer just in-time deliveries. Knowledge of the market and a better understanding of the business culture are often mentioned as major differences between Swedish and North American exporters.

Perhaps the most important advantage the Swedes enjoy is the long-term relationship they have shared with many of their customers. These old relationships result in loyalty, reliable business relations, and relatively stable prices over business cycles.

### **Opportunities for U.S. Wood Exporters**

There is an increased interest in Europe for buying more finished wood products from the United States. European industrial end-users want to be less involved in the primary wood process and spend more time and effort on developing new products, marketing and distribution.

United States hardwood species like cherry, walnut, red alder, oak and ash can be promoted as substitutes for tropical hardwoods in furniture, cabinets, paneling and flooring. U.S. manufacturers also should promote some species and products that are unique to North America, for example, thick and wide dimensions with clear wood from species such as Douglas-fir, red cedar and hemlock. A preferred strategy is to promote products that are less sensitive to price and encourage end-user loyalty to suppliers.

#### Germany

The unification of East and West Germany has increased investment in the repair and remodeling sector. This has resulted in strong demand for wood products such as construction lumber, windows and doors. Although clear solid wood is preferred, glued and finger-jointed products are becoming increasingly accepted due to decline in the quality of lumber imported from both North America and Northern Europe. Preferred North American species are hemlock, Douglas-fir, lodge pole pine, spruce and oak.

The increased activity in the renovation sector has resulted in a higher frequency of special orders and demand for custom-cut components. The do-it-yourself market, which is already the largest in Europe, has also seen an expansion, particularly in eastern Germany. Opportunities also exist for hardwood lumber and components for furniture and flooring.

#### Italy

Imports of semi-finished and customized wood products to Italy are expected to increase, particularly for use in windows and furniture. Italy is one of the largest producers of furniture in the world. Opportunities exist for lumber and components of red oak, red alder, yellow-poplar, walnut, white ash and black cherry.

Old-growth Douglas-fir is the species preferred by many window manufacturers in Italy. However, there is an increased interest in alternative species since the wood quality of Douglas-fir has declined and the price has increased in recent years. Two alternative species of interest are hemlock and red cedar. There is also an increased market for three-layer laminated window stock made from second-generation Douglas Fir and southern yellow pine.

#### The Netherlands

The Dutch Timber Information Centre promotes U.S. species such as Douglas-fir, hemlock, southern yellow pine, red oak and white oak for increased use in such areas as construction, furniture and windows. Because 0.1 bans on use of tropical hardwoods for certain products, U.S. ash, white oak and red oak are increasingly substituted.

With the increasing price for clear wood; acceptance of laminated window stock is growing. Opportunities exist for use of three-layer components from Douglas Fir, western red cedar and hemlock.

## **Quality in Europe**

"Quality" is a buzzword often used by marketers of forest products today, especially if there are plans for expanding sales to the European market. It is important to remember that customers in Europe do not have the same preferences as U.S. customers. Before spending too much time and effort on advertising and promotion overseas, it is crucial for U.S. wood suppliers to understand how Europeans define quality: For European wood users; quality stands for a synergism between wood quality, manufacturing quality and quality of service.

German customers of lumber and wood components are very concerned about consistent dimensions, rapid delivery and consistency in pricing. Germans also desire that imported wood originates from sustainably-managed forests. Italians are particularly interested in long-term relationships with their suppliers, consistent supply, and close customer relations; Industrial end-users in the Netherlands value quality of wood drying, long-term commitments, and close contacts with their suppliers. The large fluctuations in exchange rates between the guildler and the dollar are a major Dutch concern.

## **Advantages for Pacific Northwest Manufacturers**

Manufacturers in the U.S. have higher labor costs than many other countries now producing commodity lumber. In order to be more competitive, U.S. manufacturers should therefore concentrate on manufacturing value-added products of high quality. Low-quality products and bulk-type production can be made less expensively in other countries with lower salaries. Today, Pacific Northwest wood manufacturers have some advantages over their Scandinavian counterparts. These include lower labor costs, lower raw-material costs, larger logs, larger components of clear wood and a greater variety of species.

## **Entering the European Market**

U.S. wood manufacturers can change their image in Europe by learning more about the market, meeting the customers' specific demands, and understanding the cultural differences dictating how business is conducted. It will take some time and effort in traveling to meet the customers and determine their specific needs. It may also be necessary to invest in new equipment.

## **Some important key issues U.S. manufacturers should consider when exporting to Europe are:**

- Try to develop a strong relationship with the industrial end-user.
- Look to the European market as a long-term investment, not a market to turn to when the U.S. economy is down.
- Develop a long-term strategy to seek loyal customers rather than always trying to sell at highest price.
- Promote products that are less sensitive to price and encourage end-users to be loyal to their supplier.
- Concentrate on a few markets and customers, create a healthy niche then try to service them well.
- Ensure a high quality of drying, as this is very important to European customers.
- Sort the lumber according to customer demands. Better sorting requires relatively little extra effort.

## **Exporting to Europe**

Even though Europe will be a single market it would be a mistake to adhere to a single "European" marketing strategy. To be successful in this large market, it is necessary to have a country-specific marketing strategy. Each country will continue to have specific product demands, design trends, and cultural differences dictating how business is conducted. These differences will not be significantly altered by the European integration.

To be more successful in the European market, U.S. manufacturers can change strategy from traditional production-oriented manufacturing of industrial commodity products to more market oriented production of specific products. There will be a large demand for wood components in Europe in the future. Increased export opportunities exist for U.S. manufacturers if they can define quality and adjust to new market conditions.

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