

# C I N T R A F O R

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## **Marketing Strategy Effects on Contractor Perceptions of Residential Siding Materials**

**Steven R. Shook and Ivan L. Eastin. 1998**

### **Executive Summary**

The market for residential siding materials has become increasingly competitive over the past two decades. An increasing assortment of substitute materials, coupled with aggressive promotional and product-service campaigns of competitors, prompted the Western Red Cedar Lumber Association (WRCLA) to focus on marketing programs which would enhance the image and market share of western red cedar siding in the North American market. In 1995, the WRCLA commissioned the Center for International Trade in Forest Products (CINTRAFOR) to conduct an in-depth study of the Puget Sound residential siding market. The results of the 1995 CINTRAFOR study became a component for implementing the WRCLA's Puget Sound test market strategy in 1996.

The current study was commissioned by the WRCLA and reports the results of a mail survey conducted during the fourth quarter of 1996 examining the Puget Sound residential siding market. The fundamental purpose of this study was to assess the impact of the WRCLA's residential siding promotional strategy in the Puget Sound market over the period of November 1, 1995, to November 1, 1996. The results of this survey were combined with the results of the 1995 survey in order to assess (1) residential siding usage patterns over time, (2) consumer perceptions of residential siding materials before and after the WRCLA promotional campaign, and (3) consumer exposure to the WRCLA promotional campaign and the effects of exposure.

The survey results indicate significant instability in the Puget Sound residential siding market, with most of the instability being caused by a huge decline in the use of OSB siding and a considerable gain in the use of wood-fiber cement siding. OSB experienced a 32.6% decline in market share in the one year time period between the two surveys; this decline represents over 5.362 million square feet of siding material. Most of OSB siding's market share decline was compensated by wood-fiber cement, which increased its market share to 18.3% from 3.21%. The average number of different siding materials builders are utilizing from one year to the next also measures instability. Results from the first survey indicate that builders used an average of 2.66 siding materials in 1994. This average increased to 3.56 the following year.

Western red cedar's 1995 market share in the Puget Sound residential siding market was 6.05% as compared to 8.86% in 1994, representing a decline of 31.7%. We must stress that lower overall market share does not signify that the WRCLA promotional campaign was ineffective. Market share can always be "bought" through several means (e.g., selling high volumes of low quality and low priced cedar in the lower-end home market), but higher market share does not necessarily translate into higher margins and profitability. Additionally, we were not overly surprised to see a decline in western red cedar's market share since (1) cedar was being heavily utilized in the lower-end home market (while the promotional effort of the WRCLA was targeting the high-end market) and (2) there has been a steady rise in the price of western red cedar siding over the past year which has priced many low-end builders out of the cedar market. Note that the lack of price and shipment data from association membership has made analysis and interpretation of demand effects for western red cedar siding somewhat difficult.

Despite the decline in market share, several favorable changes were seen in western red cedar siding usage patterns. The 1995 survey results indicated that for every builder who increased use of cedar siding between 1990 to 1994, 15.3 builders decreased their use. Over the past year, however, this negative pattern

reversed; for every builder increasing use of western red cedar siding, only 0.7 builders decreased their use. Furthermore, survey results indicate that western red cedar siding use has been declining in the lower-end housing market while increasing in the upper end. Combined, the market share and usage pattern results suggest that western red cedar siding is beginning to hit an upswing. Unfortunately, the instability of the Puget Sound siding market has played havoc with estimating reliable market share trends. It is very likely that at least one or two years will have to pass before market shares for the various siding materials lose their volatility.

Survey results from the past two years clearly reveal that builder preferences for western red cedar on upper end homes have increased, while preferences for western red cedar siding on lower-end homes have declined. In other words, as the price of a new home increases, builders increasingly display a preference for western red cedar siding. These results are one indication that the WRCLA promotional strategy has been effective in changing builder perceptions.

The WRCLA promotional campaign was also successful in the level of exposure that it achieved among Puget Sound builders. Nearly 50% of all Puget Sound builders recalled having seen at least three WRCLA promotional advertisements over the past year. Furthermore, the survey results indicated that the purchasing decisions of approximately 12.5% of all builders in the Puget Sound market were influenced by the WRCLA promotional advertisements. This percentage of purchasing decision influence is very high for an industrial product; past market research for other industrial products indicates that advertising generally influences only 3 to 5% of all purchasing decisions within a given market.

Approximately 9% of all builders indicated that they perceived that western red cedar siding had decreased in overall quality over the time period covering the two surveys. Over 14% of all builders, however, indicated that they perceived an increase in overall western red cedar siding quality over the same time period; the remaining 77% of builders indicated that they perceived no change in western red cedar quality. These numbers are even more encouraging when the data is disaggregated and applied only to builders who have used western red cedar siding over the past two survey periods. Nearly 65% of actual users of western red cedar siding perceived that the overall quality of western red cedar siding material had increased and 12% perceived a decrease.

In sum, the results of the survey presented in this report suggest that the WRCLA promotional strategy was effective. Overall builder perceptions of western red cedar residential siding have improved significantly in less than a one-year time span, especially in the higher-end home market. These results bode well for manufacturers, wholesalers, and retailers of western red cedar siding since higher margins are typically achieved in the higher-end home market. It is expected that the improving builder perceptions of cedar siding will begin to pay off as high-end builders start to shift to a product that possesses an increasingly high-status image and reliable quality.

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