



Key success factors for the value-added sector in BC

prepared for
**A Wealth of Opportunities:
Value Focused Forestry in British Columbia**
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Summary

1. Background
2. Methods & General Results
3. Results for BC
 - ★ Finished building products (FBP)
 - ★ Housing
 - ★ Cabinets
 - ★ Furniture
 - ★ Other sectors
4. Global competitive environment



Success Factors

Background and Overview (from the literature)

- ★ traditional comparative factors (**raw material costs, labour, cost of capital**, etc.) still important
- ★ as move up value chain basis of competitiveness moves from: tangible assets (e.g. material, equipment costs)
 - physical processes (e.g. production tech. & SCM)
 - intangible resources & customer- focussed factors
- ★ Creating & sharing **knowledge** now key success factor



Success Factors - Literature Review

★ 6 business factors:

- ✓ labour & operating costs
- ✓ cost of capital
- ✓ raw material supply
- ✓ infrastructure, stability
- ✓ government influence

★ 9 success factors:

- ✓ process innovation
- ✓ product innovation
- ✓ technology adoption
- ✓ value chain management
- ✓ clustering
- ✓ managerial expertise
- ✓ worker skills
- ✓ core competencies
- ✓ market orientation



Methods & Results

Survey on Canada's Secondary Industry

1. survey of Canadian secondary manufacturers 2004 (CFS)
2. interviews of BC value-added producers 2005 (BC Forum)

finished building products (FBP)

cabinets

furniture

engineered building products (EBP)

musical instruments

housing

millwork

components

boxes & pallets

remanufacturers

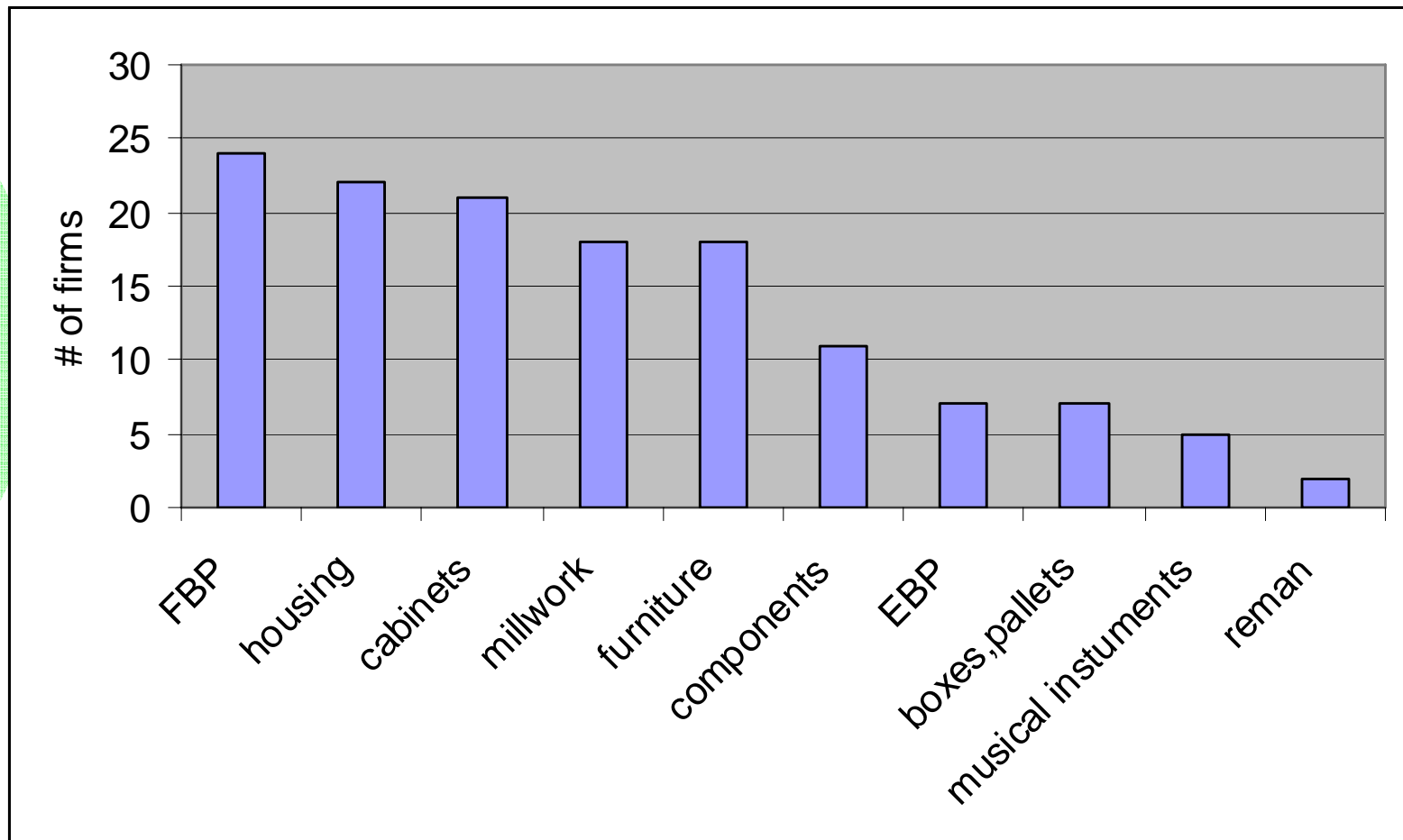


General Results

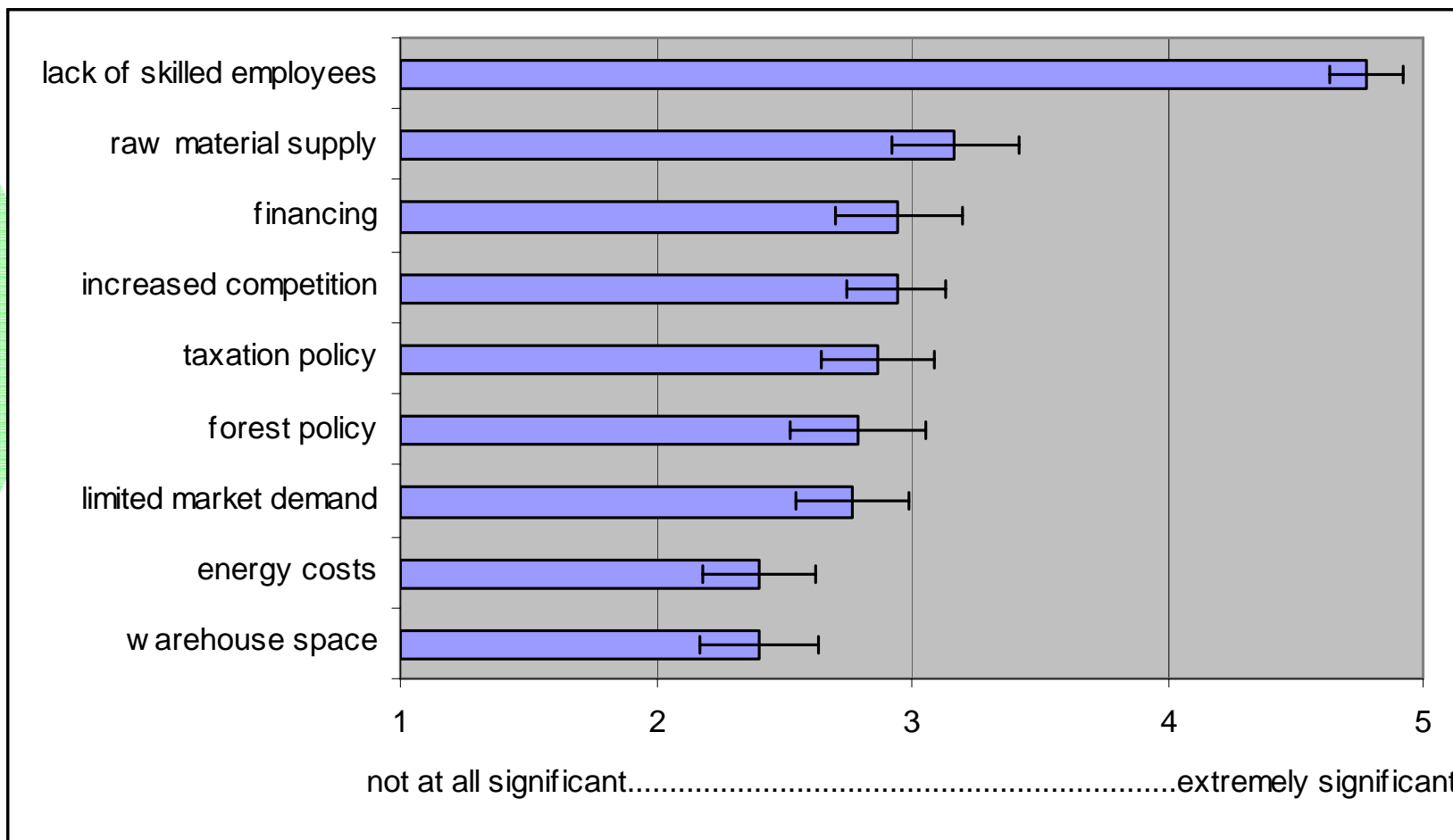
- ★ most respondents were small or medium sized enterprises (SMEs) employing <25 employees & sales < \$5million/year
 - ✓ **BC firms have 1 – 130 FTE's**
- ★ most markets are local followed by US with BC → Asia
- ★ most competition was local or US, few aware of Chinese
- ★ most considered themselves part of manufacturing sector (not forest industry)
- ★ partnerships with customers was important concern
- ★ not very familiar with emergent business terms
 - ✓ e.g. value chain management, vendor-managed inventories and industry clusters



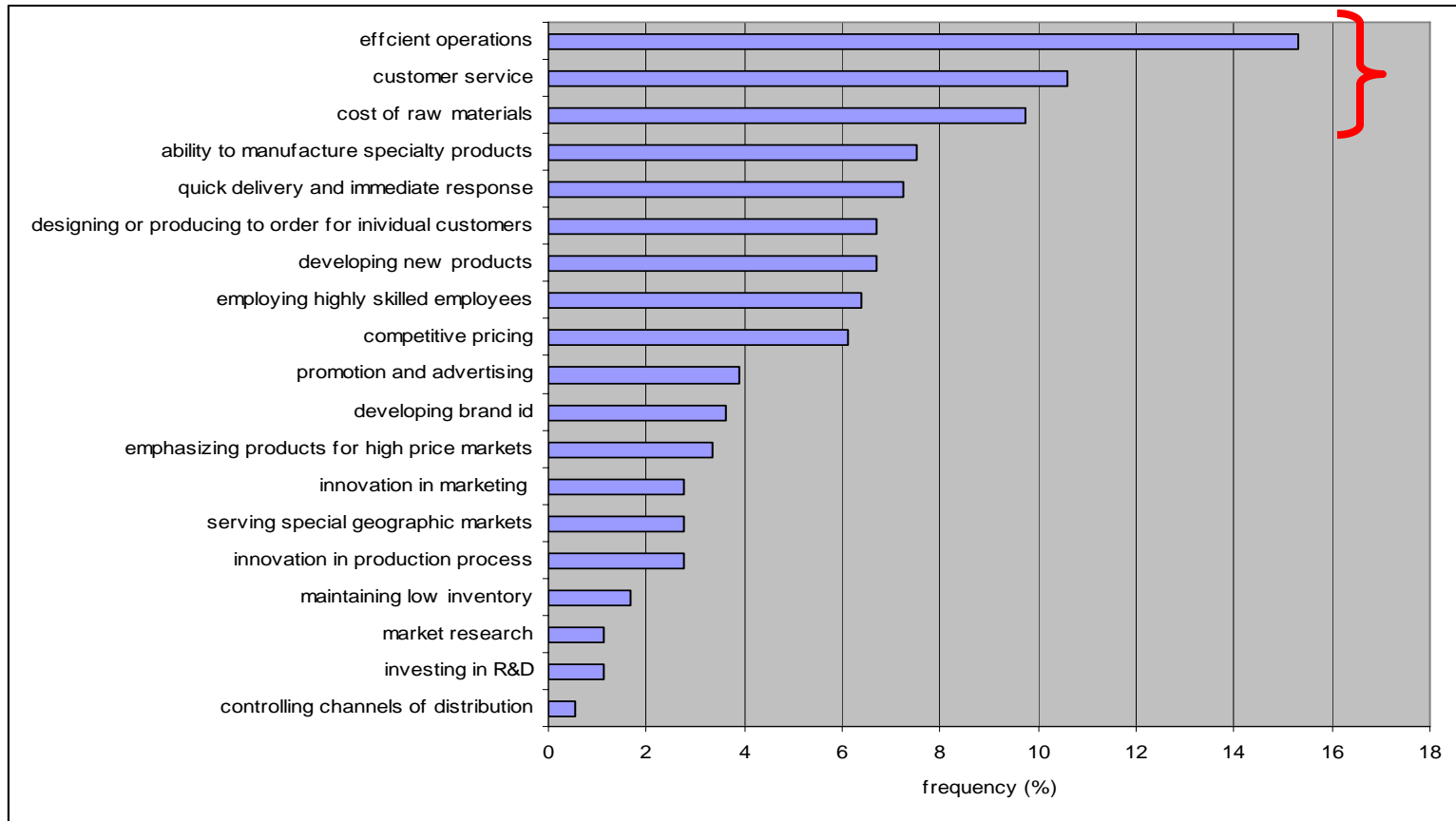
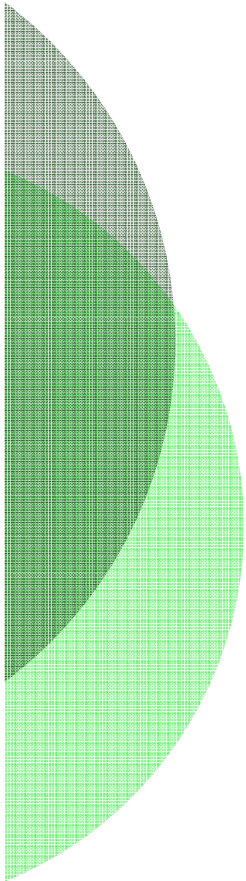
Number and Type of BC Firms Responding



Factors limiting firms ability to grow in BC



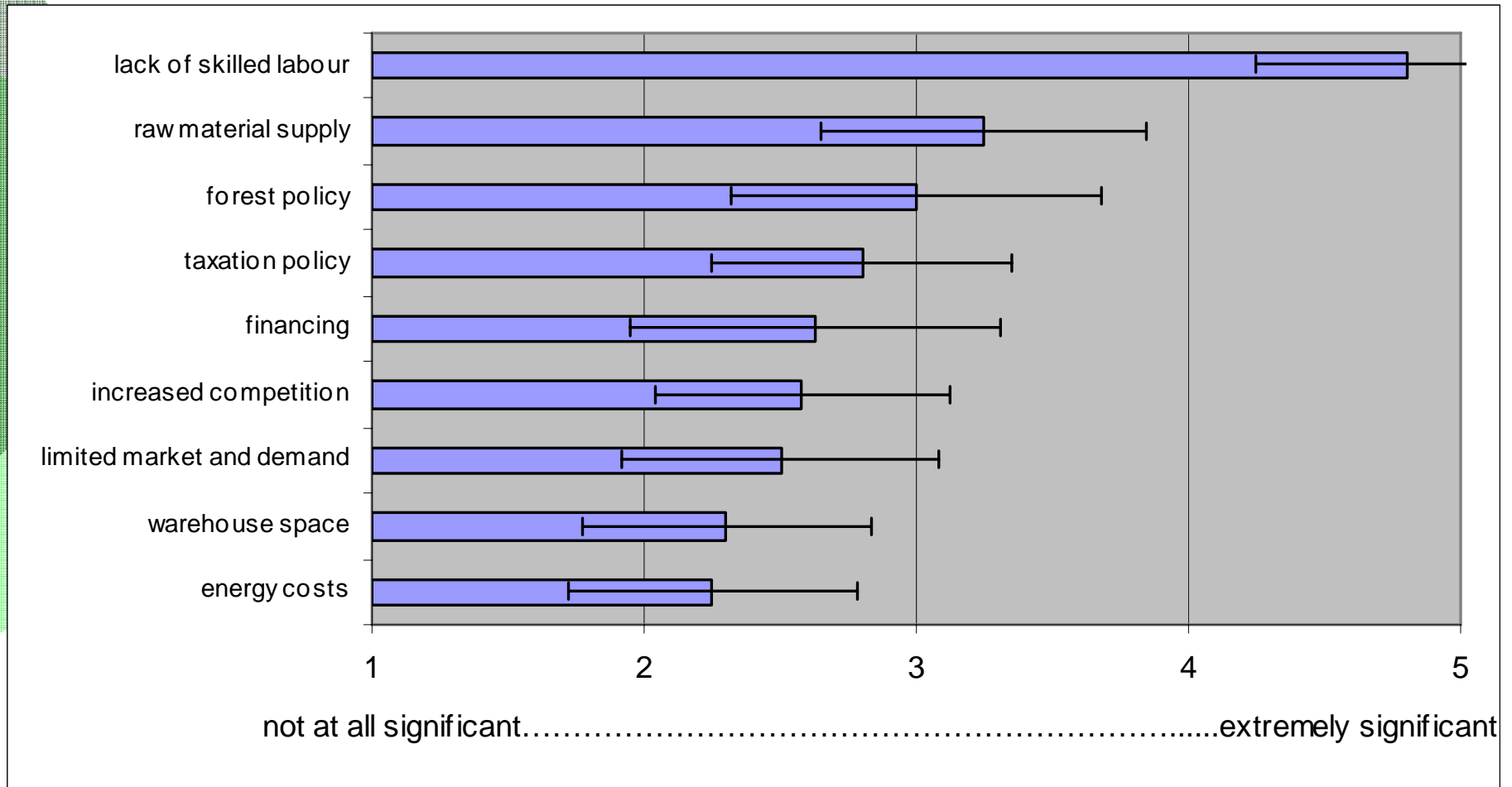
Future activities for BC value-added producers



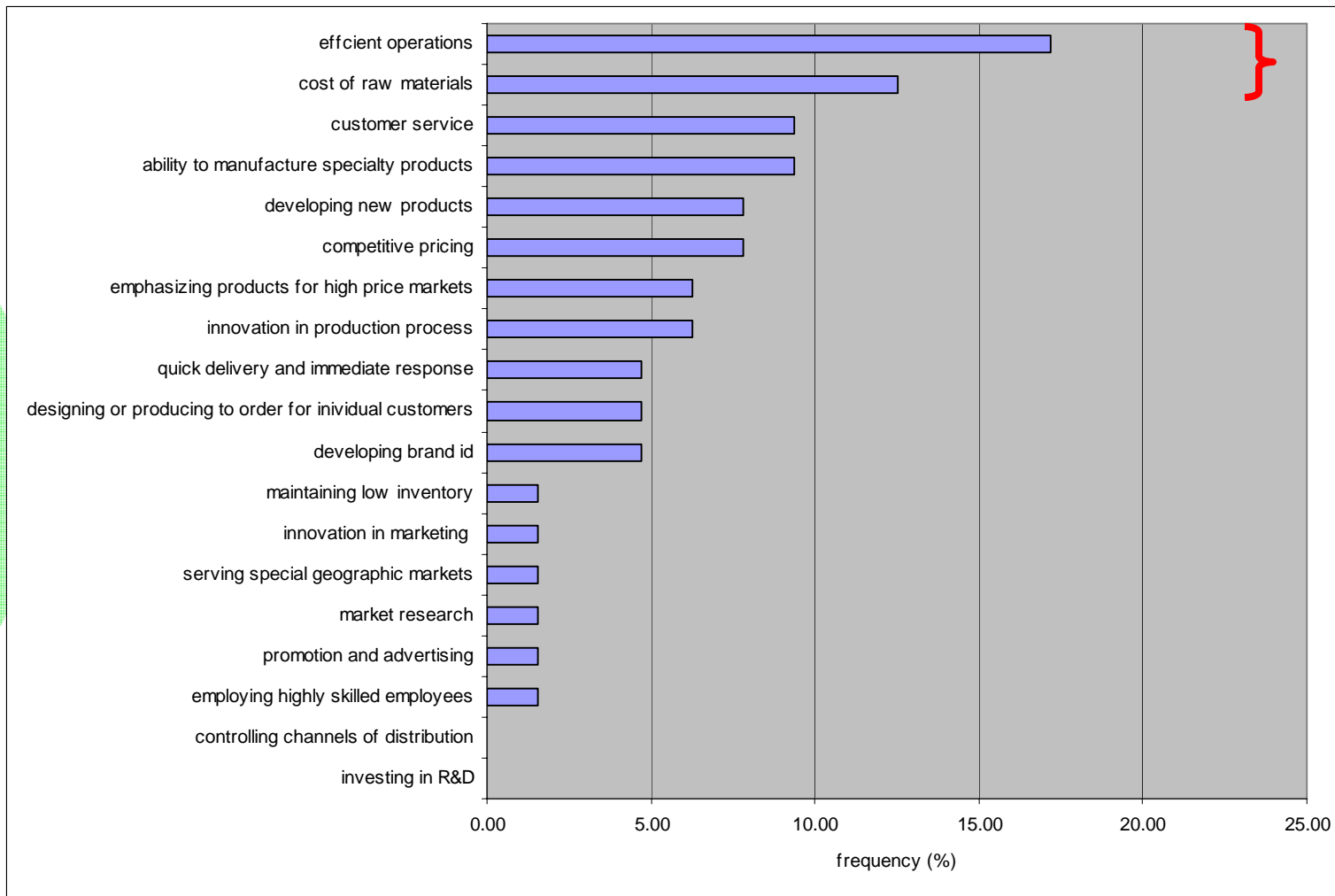
- ✓ efficient operations, customer service and the cost of raw materials most important in next 5 years



FBP - Factors limiting ability to grow



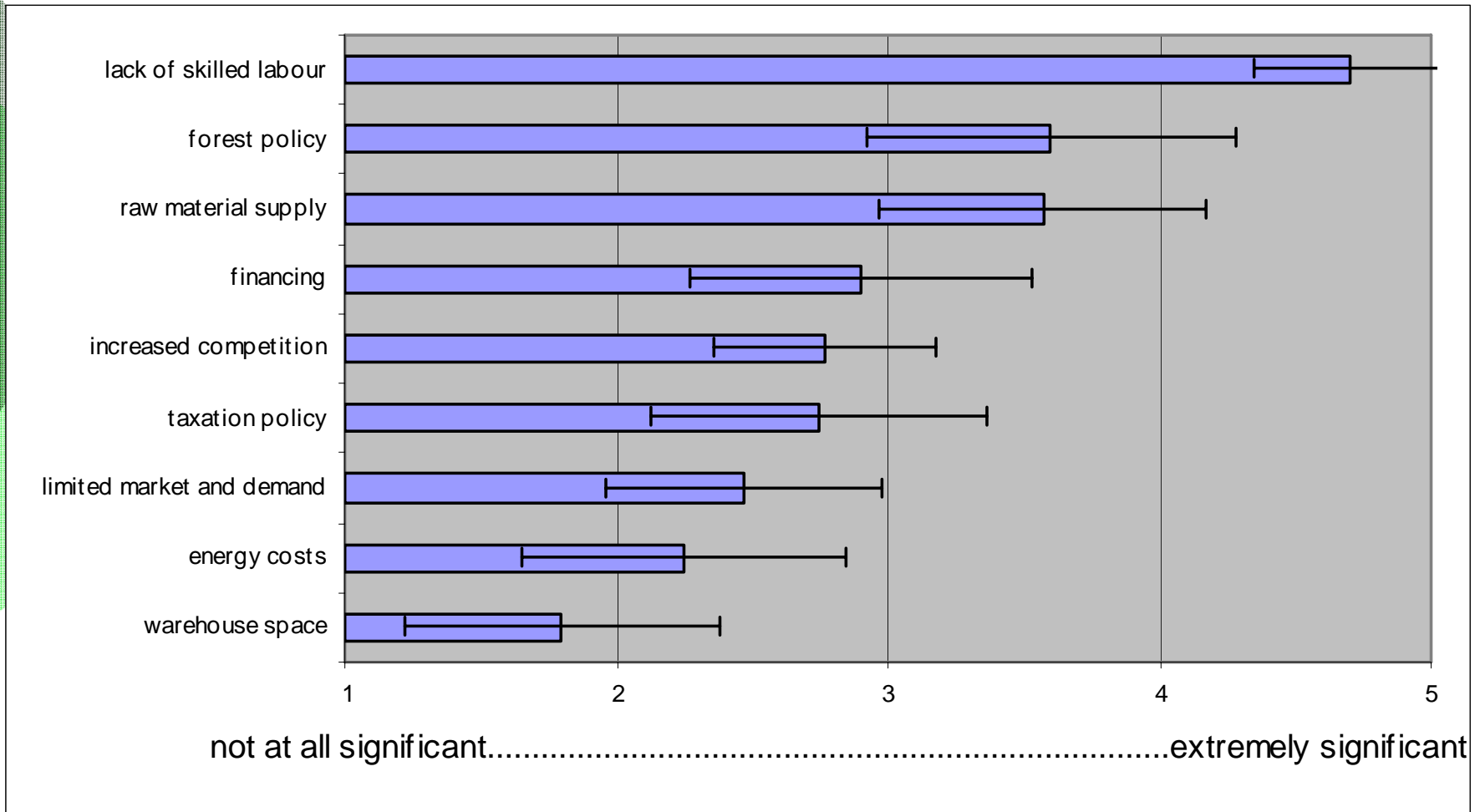
FBP - Future activities



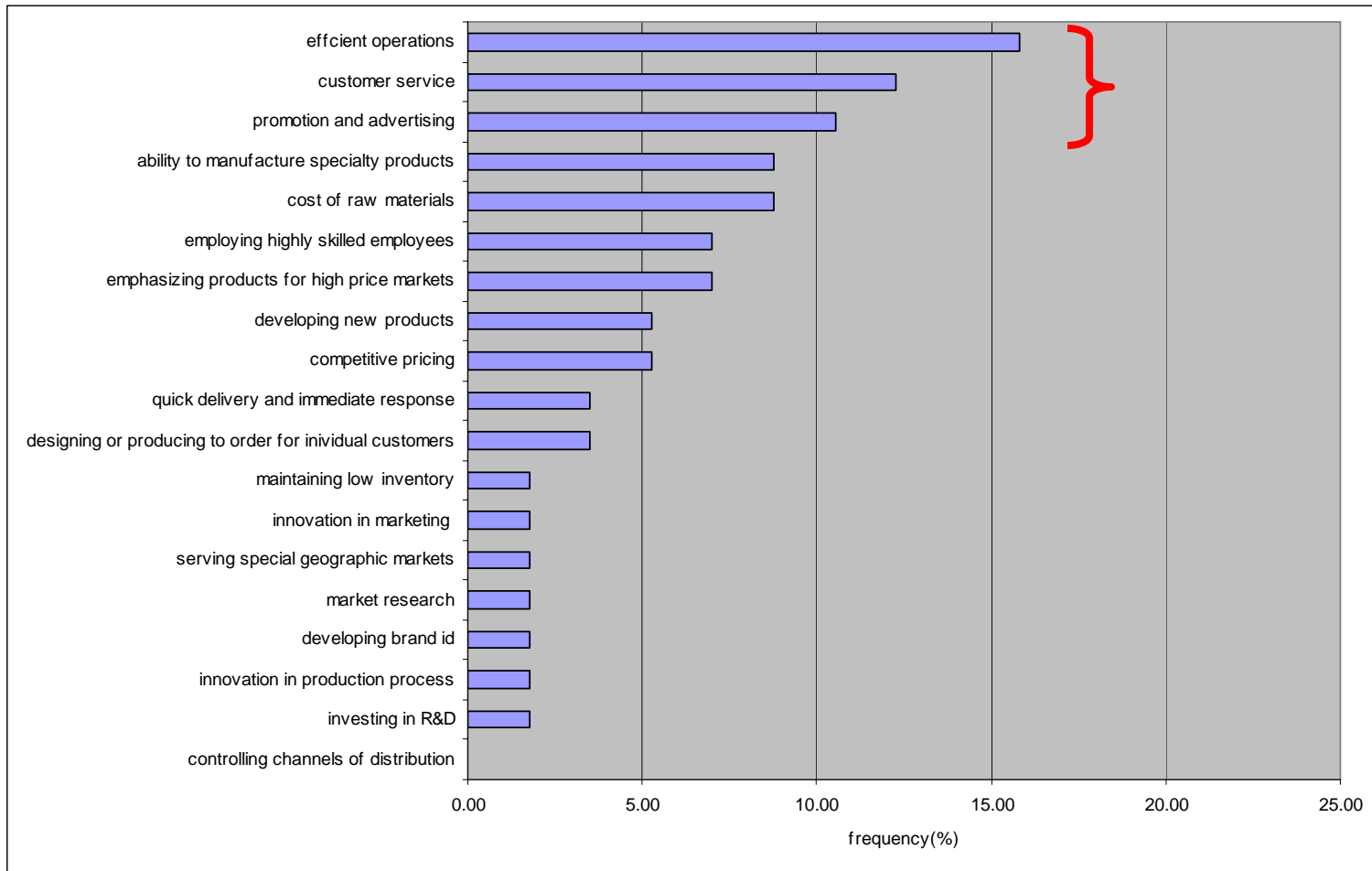
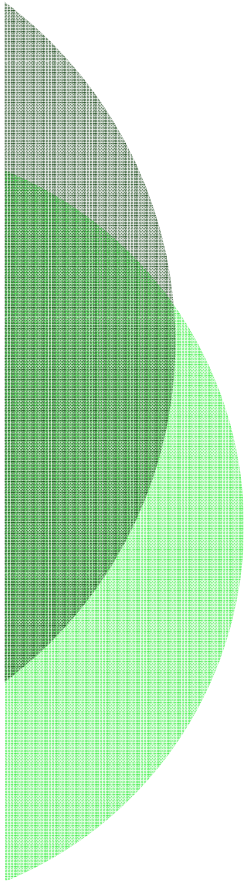
- ✓ efficient operations & cost of raw materials most important followed by customer service & mnfctr. of specialty products



Housing - Factors limiting ability to grow



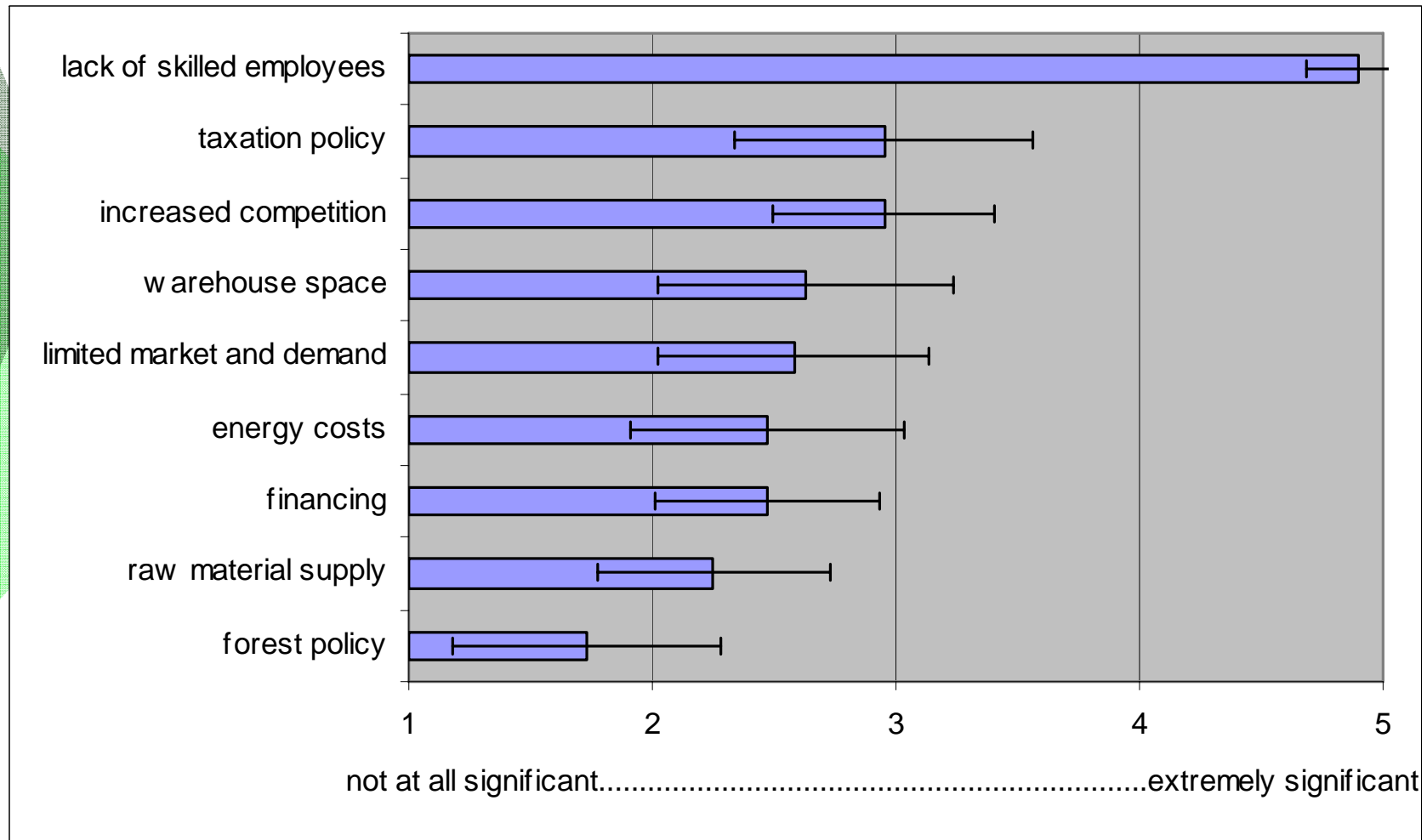
Housing - Future activities



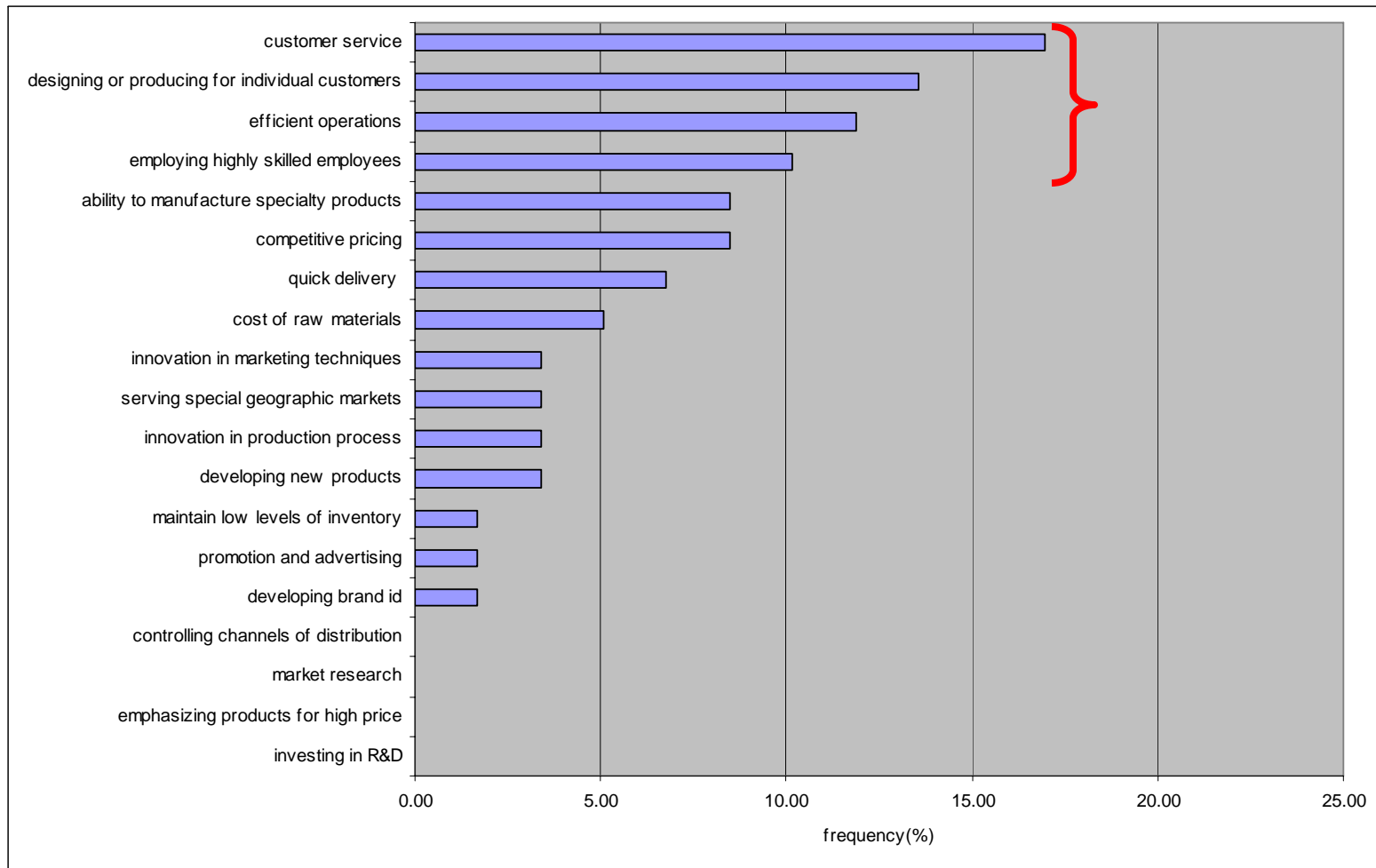
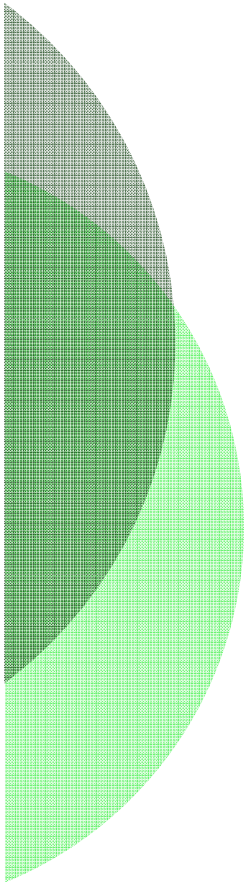
- ✓ efficient operations, customer service and promotion and advertising as the most important activities



Cabinets - Factors limiting ability to grow



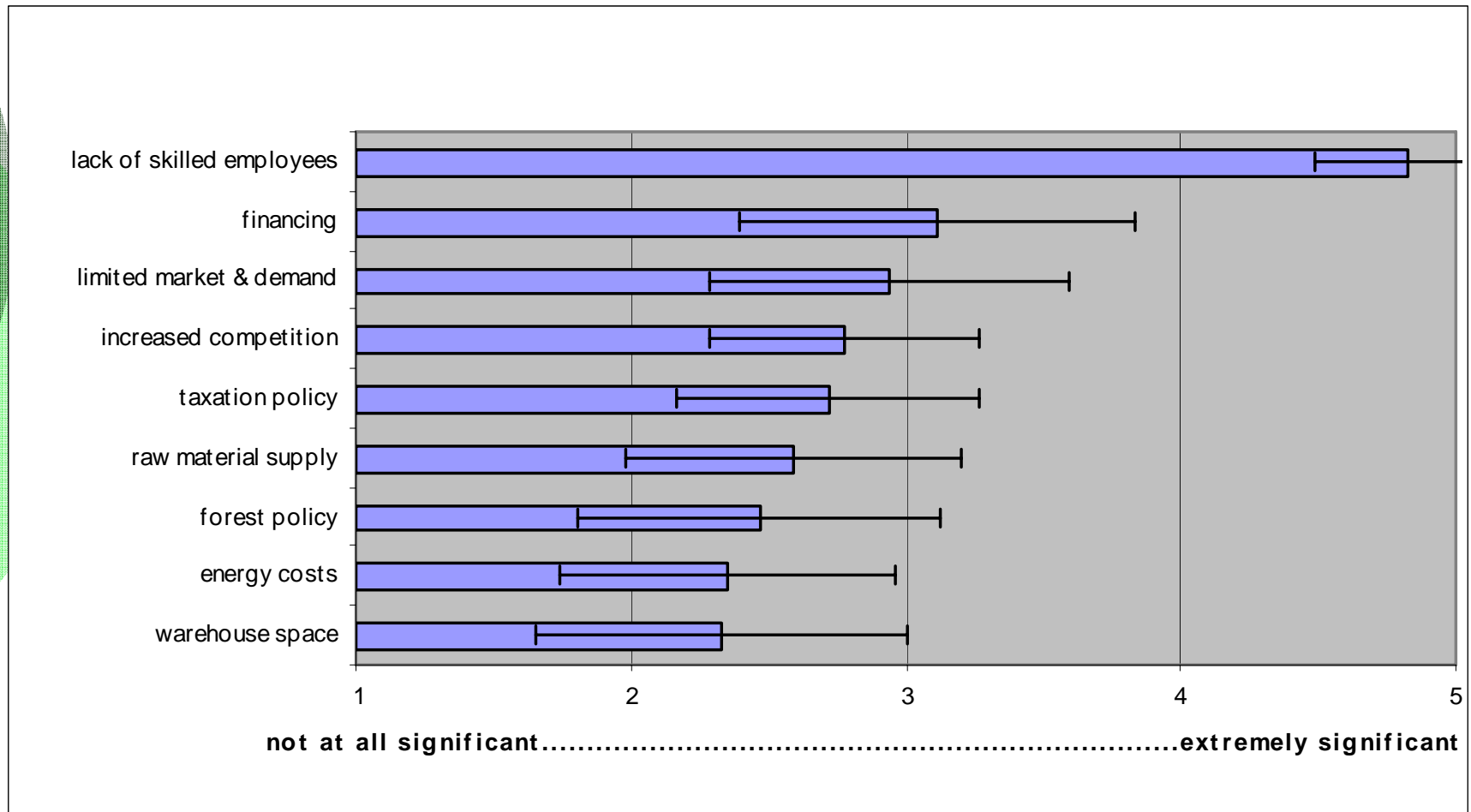
Cabinets - Future activities



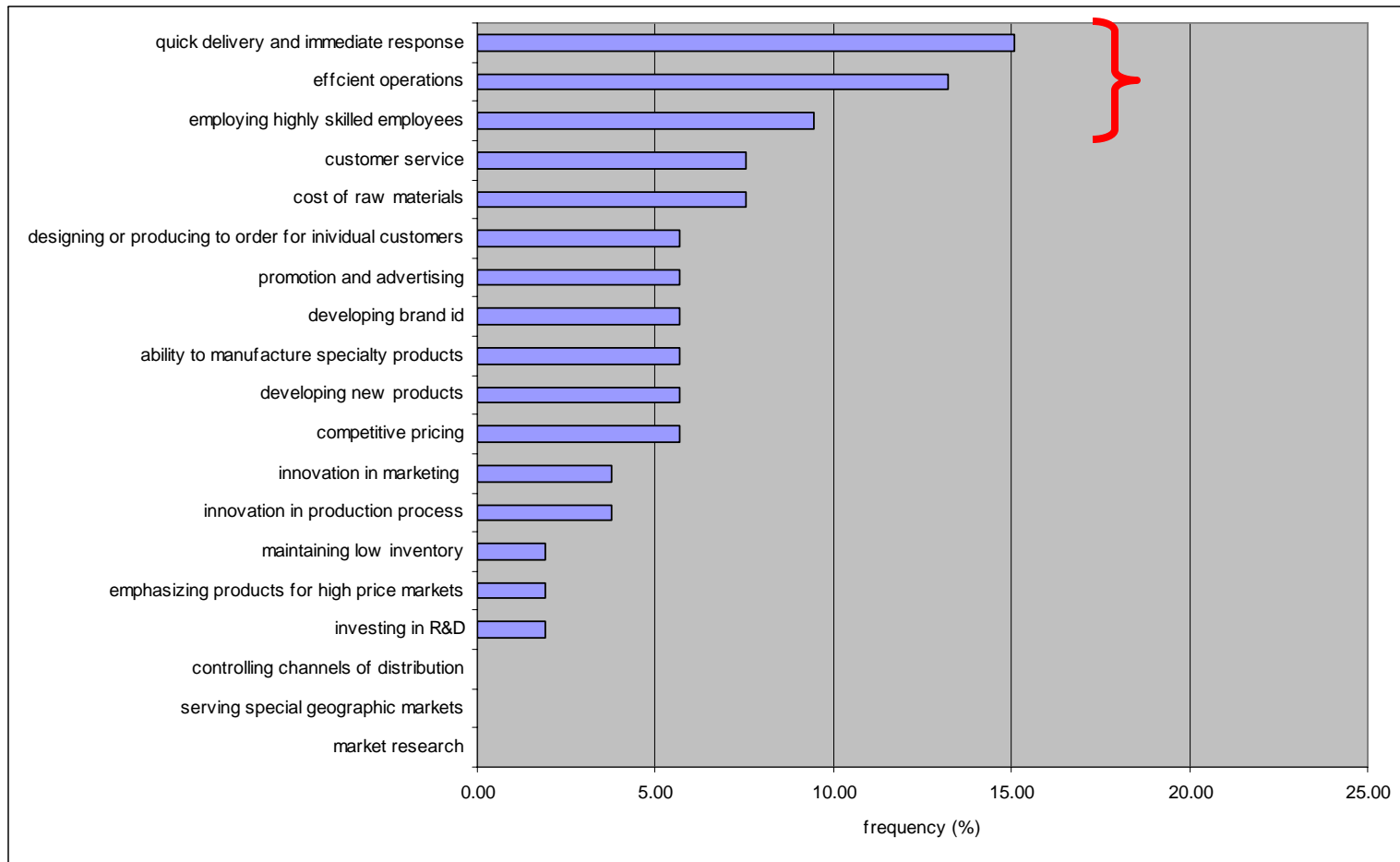
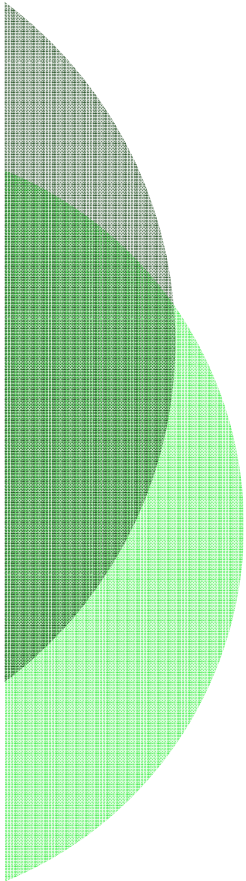
- ✓ customer service, custom design & production, efficient production & skilled employees are most important activities



Furniture - Factors limiting ability to grow



Furniture - - Future activities



- ✓ quick delivery, efficient operations and highly skilled labour most important activities



Other Sectors

★ Millwork

- ✓ lack of skilled employees limited growth
- ✓ focusing on efficient operations, customer service & employing highly skilled employees most important over the next 5 years
- ✓ Interviews - keys to success were new products & markets, marketing was important but lacked skills/resources for success

★ Components

- ✓ financing & raw material supply limited growth
- ✓ focusing on running efficient operations & cost of raw materials most important over the next 5 years

★ EBP

- ✓ raw material supply limited growth
- ✓ focusing on running efficient operations, product & process innovation & cost of raw materials most important for next 5 years





Guides of Success Within the Firm

- ★ initial niche recognition and continued differentiation
 - ✓ identify new product or unfilled niche foundation of success
 - ✓ differentiate based on quality requiring skilled craftsmanship for higher valued products
 - ✓ differentiate based on costs for lower value added products
- ★ future success depends on
 - ✓ running efficient operations and customer service

Industry Wide Activities for SMEs:

- ★ problem analysis of the current training streams for wood workers (crafts people) in BC
- ★ provide more linkages between the primary and secondary wood industries (e.g. buyers groups)
- ★ link local designers with producers and distributors



Global Competitive Environment

- ★ US main export market
- ★ China main competitor
- ★ Product categories examined were:
 - ✓ windows & doors
 - ✓ cabinets
 - ✓ commodity furniture
 - ✓ custom furniture
 - ✓ cabinets
 - ✓ flooring
 - ✓ housing (log, panelized & timber frame)
 - ✓ engineered building products

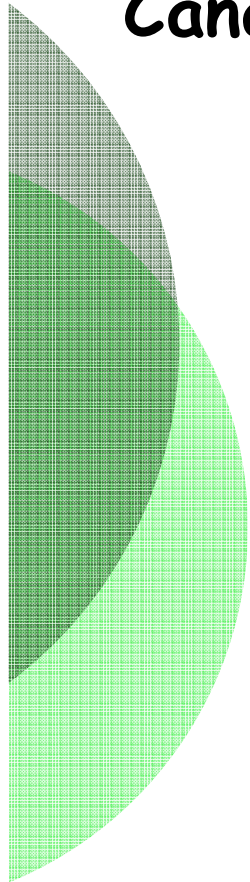
Annual increase of imports from China 2000-05 compounded annually

Item	EC (15)	USA
doors	30%	105%
moulding	46%	41%
furniture	34%	28%
flooring	46%	61%

Source: Global Trade Atlas



Canada's Global Competitiveness - Summary



Prefabricated Buildings	8	globally competitive
Wood Windows	7	
Engineered Products & System	7	
Wood Cabinets	6	
Designer Furniture	6	
Wood Doors	3	not globally competitive
Commodity Wood Furniture	2	
Wood Flooring	2	



Competitive Policy Recommendations

Recommendations for All Sectors

- ✦ redirect export promotion programs or initiate new programs with greater emphasis on secondary / value-added
 - ✓ focus on the US market (Home market for primary sector)
 - ✓ develop independent support for marketing secondary products in the US
- ✦ re-evaluate current policies based on the increased competitiveness of newly emerging economies
- ✦ develop policies for specific sectors that can be globally competitive
- ✦ education & training that links design/processing/marketing



Competitive Policy Recommendations

Sectors Not Globally Competitive

- ✦ support firms that need to outsource manufacturing, while supply chain management, quality assurance, marketing, customer service, and marketing are retained in Canada
 - ✓ role for government in management education
 - ✓ education and training needed in business innovation
- ✦ encourage a shift from product/process/manufacturing to a design/service/market focus (shift in competitive advantage)
- ✦ expand knowledge of business practices & competition
 - ✓ e.g. supply chain management (SCM), vendor managed inventories (VMI), point of purchase displays (POP), etc.
 - ✓ e.g. China – furniture and flooring, Vietnam – furniture etc.



Competitive Policy Recommendations

Sectors Globally Competitive

- ★ target support to five sectors that can be globally competitive
- ★ support the five sectors with best potential (buildings, windows, EWP, cabinets and designer furniture) in the US
- ★ recognize the importance of the US market
- ★ expand “Canada Wood” promotion concept for secondary to major US cities
 - ✓ travel to trade shows to understand design trends, develop relationships and link with distributors
 - ✓ encourage associations across Canada (regional linked with national council) to play a strong role in initiatives that is distinct from primaries



Summary

Tremendous opportunities BUT with lots of problems and even a few challenges.

Must be smarter, faster, more dedicated.

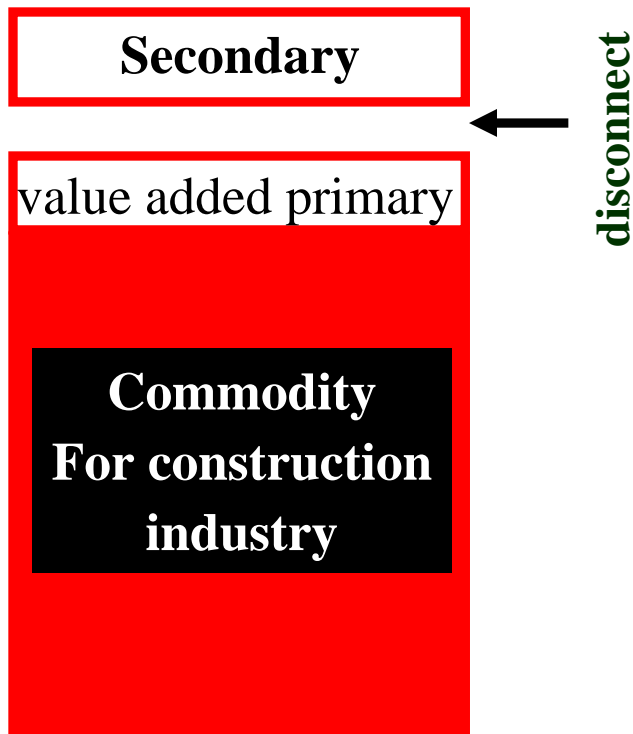
Human resource is far more important than wood resource.

Renew government support for BC value added sector

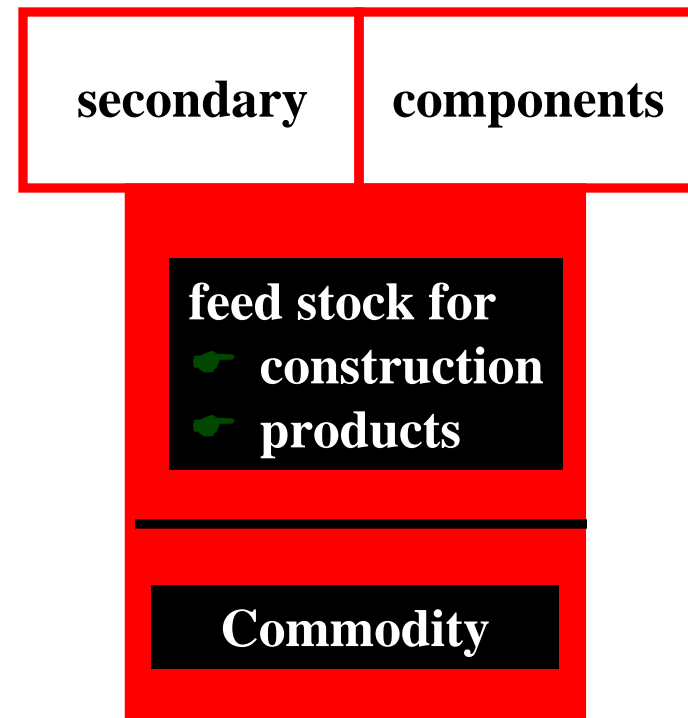


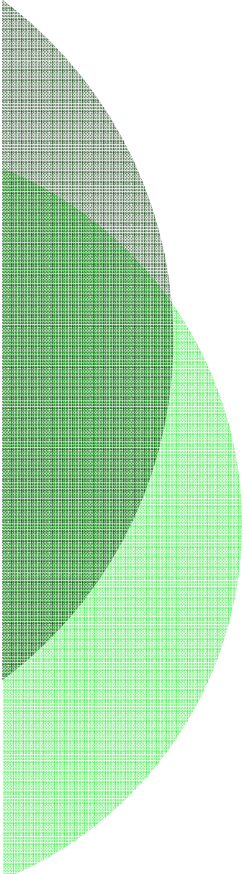
Future BC Industry Structure

Leaner Low Cost Producer



Changing Mindset & Direction





*Now is the time
for ACTION*

