



Why and How to Market Wood Products

Table of Contents

Introduction	3
What is marketing?	3
Why should I market my wood products?	3
The Four P's of Marketing	3
Markets and Segmentation	4
Why reach customers through market segmentation?	4
How to reach customers through market segmentation	4
Marketing Strategy	5
Competition is derived from five factors	5
Product — The First "P"	6
Price — The Second "P"	6
Promotion — The Third "P"	7
Place — The Fourth "P"	8
Marketing channels	8
Channels of distribution of consumer and industrial products	9
Marketing Wood Furniture	9
Major Market Segments	9
Household Furniture Marketing	9
Other Secondary Wood Product Segments	10

Introduction

This publication is designed to educate small to medium size primary and secondary forest products industry personnel about why and how to market wood products. Hobbyists and producers of wooden arts and crafts will also benefit by learning the necessary marketing skills to increase revenue and make their part-time business or hobby less expensive.

The Louisiana forest products industry has a reputation as a leader in the quantity and quality of primary forest products (lumber, plywood, etc.) and secondary forest products (furniture, cabinets, millwork, etc). As the population of the state, country and world continue to grow, the demand for wood products will increase. In Louisiana, the competition for wood products customers increases each year as large and small primary mills open, dry kiln capacity increases and numerous secondary companies open or expand. Therefore, proper marketing skills are essential for the industry to grow and prosper.

We welcome your comments on this publication and look forward to hearing from you. Your first source of information on forest products marketing or forestry in general is your Louisiana Cooperative Extension Service county agent. Please stop by your parish office to learn more about the programs available to you.

What is marketing?

Marketing is defined differently by different people. Some business managers think marketing means selling, advertising, packaging or distribution. All of these ideas are important to marketing, but they don't define marketing properly. Marketing can be thought of as a total system of business activities designed to determine customers' needs and desires, then to plan and develop products and services to meet those needs and desires, and then to determine the best way to price, promote and distribute the products and services.

People often confuse marketing with other terms. For example, markets and marketing are not the same. Markets are the customers. Also, many people think marketing and selling are the same. A short explanation is that selling focuses on the product. A company sells what it can make. A company that markets what it can sell, however, focuses on the customer rather than the products. This difference is critical to a successful marketing plan.

Two important concepts about marketing are related to selling. First, the entire system of business activities should be customer-oriented. Consumers' wants must be recognized and satisfied. Second, marketing should start with an idea about a want-satisfying product and should not end until the customers' wants are completely satisfied, which may be some time after the exchange is made. The emphasis here is on the customer rather than the selling of the product.



Why should I market my wood products?

The Four P's of Marketing

The quick answer to "Why should I market my wood products?" is to make more money, but a better answer is more involved. It's important to understand the four P's of marketing to appreciate the different issues that marketing addresses.

Product - a package of benefits that includes the physical identified item, accessories, packaging, identification and services essential to using the product. In marketing, warranties, service, instructions, installation, availability of compatible or supplemental products are all part of the product. A quality product is important if you are to engage in marketing.

Price - reflects the value the customer places on the product. Unless you're producing a specialty or novelty item that is not readily available elsewhere, your price must be competitive with that of your competition.

Promotion - informs the market about the product and how it meets the market's needs. Sales promotion, personal selling, advertising and publicity are the four elements used to inform the target market about the product or service. You need to promote the merits of your product, or consumers will never hear about it and buy it.

Place - the product must be physically available to customers when and where they want it. Channels of distribution allow for many opportunities in marketing products. Not everybody will be interested in your product, so it's important to decide who your potential customers are (your market) and establish a distribution network to reach them.

Markets and Segmentation

The concept of product-market is a product or product line that satisfies particular customer needs or wants in a market. It is a set of products judged to be substitutes, within specific situations where similar patterns of benefits are sought by a group of customers. There are many types of market types and market segmentations. A wood products producer needs to examine his or her product and potential customers to determine what market type or segment is optimal. These are the traditional market types and segments.

A target market is a segment of the market toward which a firm or organization targets its products or services.

Mass marketing represents a single marketing program aimed at as broad a range of customers as possible.

Market segmentation, sometimes called niche marketing, focuses on a single, well-defined customer group.

Multiple segmentation represents a blend of niche and mass marketing.

Benefit segmentation - segmentation by customer benefits found in products or services.

Always remember: customers have tremendous influence over which products succeed and which fail, more than technology, capacity, material resources or any other factor. Marketing-oriented companies will seek to recognize their target markets and their distinct interests.



Why reach customers through market segmentation?

Reaching customers through market segmentation has many benefits. Many times a smaller company will find it more profitable to focus on a segment of the market. Here's a list of some of the advantages of such an approach.

- Segmentation helps a company benefit from change. Markets are dynamic and ever changing; segmentation tracks the changes.

- It enables a company to cash in on opportunities opened up by new technology.

- Segmenting markets helps meet or beat competition by uncovering the segments with the greatest market potential.

- Promotion, packaging and distribution dollars are spent more effectively with segmentation.

- Segmentation helps to identify additional markets for existing products.

- Segmentation helps confirm or refute hunches about markets.

- Segmenting makes an opportunity to observe factors that contribute to the success of competitors.

- Segmenting the market provides information on the product advantages that help a company's customers survive and compete.

- Gaps in serving certain markets may be discovered in segmenting; this gap can lead to finding a market niche.

A systematic deliberate process, segmentation helps gain a competitive edge.

How to reach customers through market segmentation

Typically, a market is segmented by demographic, geographic or psychological differences. These three attributes deal with the product. Market segmentation also can be accomplished by considering the product attributes or benefits.

Demographic differences - The size, distribution, density and other vital statistics of a market are important in determining how to market a product to a specific segment of that market. For example, products cannot usually be marketed successfully the same way in small towns and metropolitan areas.

Geographic differences - A marketing plan should identify a geographic region to target. A product can be marketed in these geographic areas: locally in a single parish, state or provincial markets, regional markets, national markets or international markets.

Psychological differences - These differences are related to the previous two items. Consumers from different cultural backgrounds, geographic locations, age groups, etc. will view products differently.

Product attributes/Product benefits - A product can be marketed to a market segmentation by promoting the positive qualities of the product. These attributes

include warranties, guarantees, environmental certification, etc.

A market can also be segmented by examining the four different types of customers that buy wood products. First, consumers buy wood products for personal use. Second, industries buy raw materials for use in the manufacture of products for resale. Third, construction contractors buy lumber and lumber products for use in construction or remodeling and repair. Fourth, home center retailers purchase lumber and wood products for resale to the public.

The forest products industrial market can be segmented by a number of criteria that account for product and consumer differences. These criteria are listed below.

Geographically - local, regional, domestic and export.

1. By the number of buyers
2. By wood species - softwoods, hardwoods, exotic woods and utility species
3. By product type - solid wood, panels, composites, fiber and chips
4. By size - sale volume, number of employees, plant capacity and similar characteristics
5. By product attributes - kiln-dried, green, price, quality, durability, construction and degree of processing
6. By method of distribution - direct sales, original equipment manufacturers, distribution channels, including retailers, wholesalers, jobbers and manufacturers' agents.
7. By industry affiliation - hardwood dimension, furniture, pallets, heavy industry, prefabricated housing and cabinets
8. By price
9. By country

Marketing Strategy

There are numerous marketing strategies, and the segmentation approach is only one of them. Another is termed the competitor-oriented strategy. In this approach, we look for weak points in competitors' positions, launch market attacks or develop strategies to take advantage of those weaknesses.

Business success depends on two main factors. Any marketing strategy needs to account for these two ideas.

Operating efficiencies - increase effectiveness of production process, lower production costs, economies of scale, production experience, vertical integration and stable manufacturing processes.

Competitive positioning - strategic marketing, appropriate market selection, new product development, product differentiation, alternative distribution channels, pricing structure.

Competitive advantage can be achieved by concentrating on market segments or market niches, product differentiation, choosing alternative channels of distribution and/or manufacturing processes and pricing structure. For the advantage to be real, it must be tangible, measurable and preservable for some period of time.

Quality may be the best way to differentiate a product from a seemingly homogeneous market. Quality is not necessarily more expensive to create; it may actually be cost efficient by reducing scrap, rework, additional labor, warranty and liability claims and inventory. There is debate whether it is possible to have high quality and high market share. There is not necessarily a tradeoff among cost, quality and service. Quality is considered highly important to consumers in regard to services.



Competition is derived from five factors.

Potential new entrants - their degree of threat is related to the barriers of entry. Barriers of entry can be developed in several areas: economies of scale, product differentiation, capital requirements, cost disadvantages independent of size, access to distribution channels and government policies.

Bargaining power of suppliers - can influence pricing and quality of goods. Suppliers can have considerable power if they are large in relation to their buyers, have many buyers, produce an unusual product or if switching costs are high. They may become a direct competitor of their buyers if they choose to integrate forward.

Bargaining power of buyers - can be high if they are concentrated, buy a significant portion of a supplier's output, purchase in volume, if there are alternate sources of supplies and switching costs are low or if they have the ability to integrate backward.

Threat of substitutes - puts limits on the profit potential of an industry. As prices for product rises, substitutes become relatively more competitive.

Rivalry among existing firms - intense rivalry exists when there are numerous firms or they are of relatively equal size. The more homogeneous the products and the lower the switching costs, the easier it is to steal a competitor's customers.

Product — The First “P”

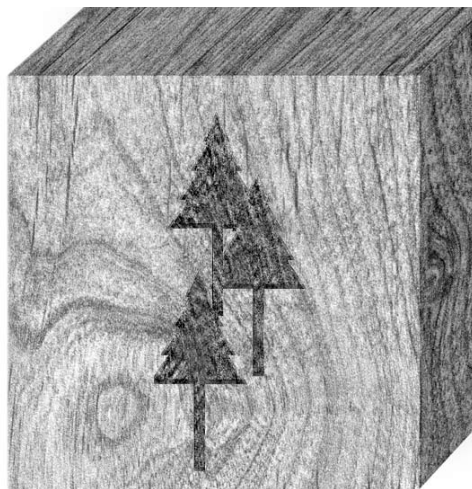
A product can be defined as a physical object, a service, a place, an organization, an idea or a personality that satisfies a customer's want or need. Notice that the focus is on customers' wants and needs. Many companies produce high-quality forest products, so it's important to understand product differentiation to be competitive in this market. The idea of product differentiation may not be of immediate interest to a company operating in a niche market with no competition. But, if that company plans to expand its distribution network, it may encounter competition. Also, it is possible that other companies may open in the future and compete with similar products in the same market.

The three broad categories of products are (1) Commodity Products - products manufactured more or less to a standard set of specifications. They are typically mass marketed. (2) Specialty Products - are developed and offered to a small group of customers or small market segment. (3) Differentiated Products - are produced with differences or variations to satisfy different market segments, but they are not marketed to as narrowly defined niche as specialty products.

The goal of product differentiation is to develop and promote differences between a given product and competing products. Product differentiation and market segmentation are closely related, especially in industrial markets for forest products.

Product shows its uniqueness in the industry by providing a distinctive advantage, distinctive product feature, styling, likable advertising, faster delivery, adequate service etc. to show the perception that the product is unique. The heart of a differentiation strategy is to create for the consumer value of a kind that is different or better than what competitors offer.

The question now is: How do I go about product differentiation? There are a few ways to differentiate products. Product branding can be a name, term, symbol, design or combination of these used to identify a product. These names or logos must be instantly recognized as pertaining to your product. Several antique furniture collectors in New Orleans still look for the specific logo



of furniture makers who died more than 50 years ago! Companies can also package their products distinctively. A special wrapping will set your product apart from others. Companies can offer an usual type and quality of service. Finally, product differentiation can be immediately recognized by different levels of technology or craftsmanship.

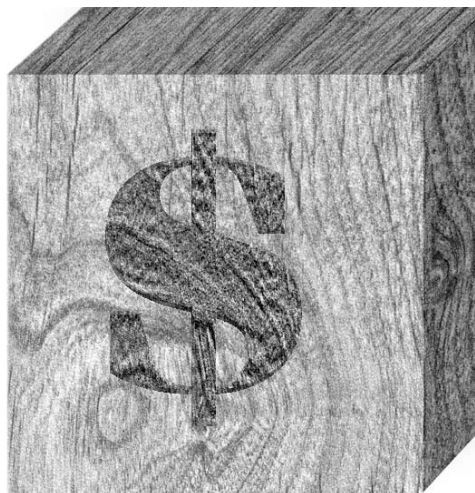
Price — The Second “P”

The objective of pricing is profit oriented. Price is set either to maximize profits or target rate of return on investment or sales. The price of something has many aspects. You need to price your product appropriately to be competitive in the market. Factors that are included in price are the cost of goods to manufacture the product, the cost to transport the product, cost to promote the product, distribution costs and last, but not least, profit.

In addition, pricing decisions may be affected by other issues such as customer reaction to pricing, government actions, wholesaler and retailer needs, the competitive environment, and the costs of developing, manufacturing, distributing and marketing the product.

The target return objective is when the firm determines the price that would yield its target rate of return on investment (ROI). Pricing can also be done to maximize profit in the short-run as well as the long-run. Pricing should go along with the product's life cycle. When demand is elastic, or increases with lower prices, profit may be maximized at a lower price, and when the demand is inelastic, profit is maximized at higher price.

Let's run through a brief exercise on cost-based pricing strategy. The markup pricing is a dollar amount added to the cost of the product to get the selling price. We will add a standard markup to the cost of the product. To illustrate markup pricing, suppose a furniture manufacturer had the following costs and sales expectations. (See top of next page)



Costs and Sales Expectations

Variable cost _____ \$10 **Fixed cost** _____ \$300,000 **Expected unit sales** _____ 50,000

How do I compute the unit cost?

Unit Cost = Variable Cost + Fixed Cost/Unit Sales = \$10 + 300,000/50,000 = \$16

Assume the manufacturer wants to earn a 20% markup on sales. What is the markup price?

Markup Price = Unit Cost/(1-desired return on sales) = \$16.00/1-.20 = 16/.80 = \$20.

The manufacturer would charge retailers \$20 per chair and make a profit of \$4 (\$20 - \$16).

Another method of pricing is target return pricing. In this method the price is set so that the sale of the product results in a target level of return on investment or a specific dollar return given a predicted sales volume of product sales. The firm determines the price that would yield its target rate of return on investment (ROI). Price to achieve a x to y % return on investment (ROI).

Let's use another example. Suppose the furniture manufacturer above has invested \$1 million in the business and wants to set price to earn a 20 percent ROI, namely \$200,000. What will be the target return?

Target return price = Unit cost + desired return + invested capital/unit sales = \$16 + .20 + \$1,000,000/50,000 = \$ 20

The manufacturer will realize this 20% ROI provided its cost and estimated sales turn out to be accurate. If sales do not reach 50,000 units, a breakeven chart is needed.

Breakeven pricing is a simple method of pricing goods. Breakeven analysis evaluates the number of units required to be sold to break even (to cover all costs) given the price of an item. The total cost must equal the total return. The breakeven point is illustrated by this equation.

$$\text{Breakeven point} = \frac{\text{Total Fixed Cost}}{(\text{unit selling price}) - (\text{unit variable costs})}$$

Pricing is also done by demand-based strategies.

The perceived-value pricing method is used to set prices consistent with customers' perceptions and product positioning. The price/quality association method recognizes that increased quality is linked to lower overall costs, increased market share, and lower warranty and liability costs. The loss-leader and complementary pricing method will allow for the price to be set low, even below cost, to increase sales on other products. The competition based pricing method is common in many commodity product markets. Competition and the market are the main determinants of price.

Remember, there are various forms of discounts and allowances in forest products pricing such as price adjustments, reductions, trade discounts, cash discounts, promotional discounts, quantity discounts, seasonal discounts and other discounts.

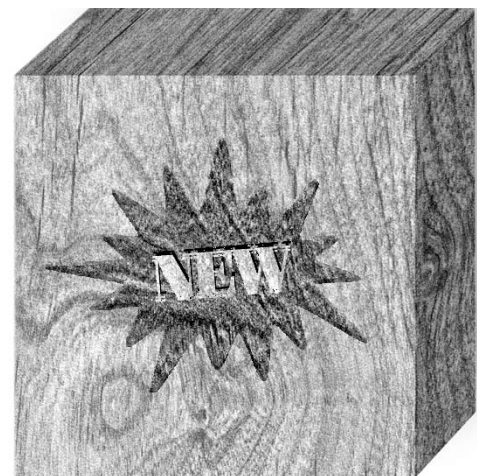
When pricing new products, there are two schools of thought. One method is to use the skimming price and use a high price in the introduction and growth stages of a product's life cycle. This allows the manufacturer to recoup investment and development costs of a new product early. Another approach is use penetration pricing and set the price low to capture a large market share.

Promotion — The Third “P”

Promotion is any communication used to inform, persuade and or remind people about an organization's or individual's goods, services, ideas, image, community involvement or impact on society. Promotion also can be viewed as a marketing function that creates a favorable disposition toward a good, service or idea in the mind of the recipient of the communication. The key objectives of promotion are to inform, persuade and remind. These objectives can be divided in two general categories.

The first category is stimulating demand.

A company will stimulate demand by creating awareness, knowledge, liking, preference, conviction and purchase. It's



important to persuade and then to remind consumers about company offerings.

The second category is enhancing company image. A firm will engage in public relations efforts such as suitable advertising, publicity, personal selling and sales promotion.

Institutional advertising is used when the advertising goal is to enhance company image and not to sell goods or service.

In general, the solid wood products industry has relied on personal selling and sales promotion as major tools. The paper industry has used a great deal of national advertising.

A promotion mix is used by several forest products companies and geared to a target market. There are four main components.

Advertising - television, magazine, newspaper, radio, billboards and direct mail.

Personal Selling - face-to-face presentation of information relating to products or services.

Sales Promotion - includes free samples, coupons, cents-off approaches, point-of purchase displays, trade shows and contests.

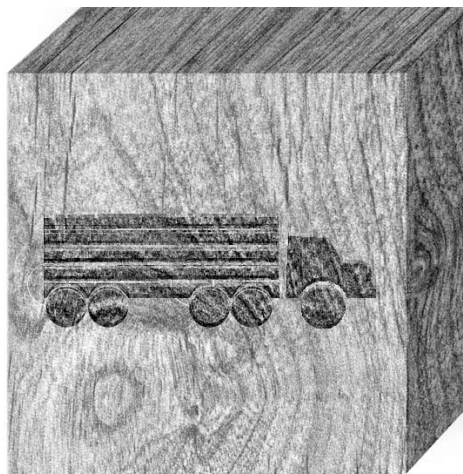
Publicity - information about a firm or product disseminated to the public at basically no direct cost to the firm.

Push-pull strategies also promote forest products. Pull strategies use a promotional mix aimed at final consumers to encourage them to “pull” the product off the retail store shelf. A push strategy occurs when the retail salesperson encourages the consumer to buy a particular product or brand.

Place — The Fourth “P”

Place is often referred to as distribution. Whatever the term, it’s important that strategies applicable to middlemen, such as wholesalers and retailers, be designed to market forest products effectively in the appropriate location. These strategies involve managing the channel(s) by which ownership of products is transferred from producer to customers. In short, place is critical because it refers to the system(s) by which goods are moved from where they are produced to where they are purchased by the final customer.

These middlemen (intermediaries) are people or



firms in a marketing channel that operate between the producer and the final buyer of a product. Channel intermediaries can be subdivided into broad categories:

Agents - typically take no title to the goods they handle, but rather concentrate on negotiating purchases or sales for another party, typically for commission.

Brokers - take no title to the goods; negotiate price between producer and seller for a commission, used typically for handling large quantities of bulk goods.

Manufacturers representatives - knowledgeable about product/service, typically handle complementary goods from several manufacturers under contractual arrangements in a specific geographical area.

Merchants - typically take title to the product they are selling.

Wholesalers - buy, inventory and resell goods to other wholesalers, manufacturers or retailers.

Industrial distributors - typically sell equipment, parts, electrical, plumbing, and other supplies.

Jobbers - normally obtain orders from customers and then buy goods from manufacturers to meet those orders. Goods are shipped directly from the manufacturer to the customer.

Cooperative or buying service - companies cooperatively buy goods and services together to get a better price or sometimes cooperatively sell goods for a better price through larger quantities.

Retailers - typically inventory, take title to goods and resell to consumers.

These merchants can perform numerous functions for your company. A few are listed below.

Selling function - act as extension of manufacturers’ sales forces. Seek out supply sources and reduce manufacturers’ needs for sales personnel.

Stocking - reduce manufacturers’ needs to carry large inventories and invest heavily in warehousing by dispersing inventories instead of concentrating them at factories.

Financing - reduce warehousing cost. Reduce manufacturers’ commitment of working capital to inventory. Screen credit applicants to reduce bad debts.

Gathering market information - reduce manufacturers’ need for marketing research because of closer contact with manufacturers’ final buyer.

Reducing risk - assume risk in credit sales; assume risk of owning title to products.

Marketing channels

The action of any channel member can greatly affect the performance of others and of the channel as a whole. It is important to realize that success is rooted in a community of interest or channel interdependency. The variety of channels of distribution is extensive. Channels are generally distinguished by the number of intermediaries they include. The more intermediaries, the longer the channel is said to be.

Channels of distribution of consumer and industrial products

The direct channel - neighborhood furniture producer sells to customers via the direct channel.

The manufacturer-retailer-consumer channel - channel commonly most used.

The direct channel in business-to-business marketing - The very name business-to-business suggests the importance of the direct channel in the field. The direct channel is one of the most commonly encountered in the marketing of organizational products/forest products.

A common question is: how do I know if distribution costs too much? To answer this, consider if the middlemen are removed, will the functions of the middlemen remain to be performed less effectively and efficiently by a non-specialist? In some cases, total cost might very well rise, not fall, if middlemen are eliminated.

Marketing Wood Furniture

The furniture industry in America dates to the earliest colonists when furniture was handmade from local woods. Jamestown, N.Y., was probably the first center of high quality furniture. Furniture manufacturing shifted from region to region as forest resources were depleted. The factors influencing furniture demand include disposable personal income, interest rates, housing starts, movement of the population and demographics.

Major Market Segments

Wood household furniture
Upholstered household furniture
Metal household furniture
Wood TV and radio cabinets
Wood office furniture
Metal office furniture
Wood household furniture
(not already classified)

Household Furniture Marketing

Most household furniture is sold directly from the manufacturer to the retailer. The furniture market or show is the primary vehicle used by manufacturers to exhibit their products to retailers. These markets allow the manufacturers to meet their major customers, display their furniture in room-like settings and test market their products. The disadvantages of the market is that it encourages strong, direct competition, promotes pirating of furniture designs and puts pressure on the manufacturer to generate new designs at each market.

Pricing for each product line has three levels: high, medium and low, generally correlated with quality. Prices are generally set in response to the acceptance of the product.

RTA - ready-to-assemble furniture is designed and manufactured to be sold in a flat package for consumer convenience in transporting home. Shipping costs are reduced, as is labor of assembly, so cost savings are passed on to the consumer. This may be the fastest growing segment of the furniture market.

RTA furniture marketing - varies from traditional furniture marketing. Most RTA producers' sales are through manufacturers' representatives

to retailers. Retail outlets that dominate the sale of RTA are the discount mass merchants, small specialty furniture/lifestyle stores and home improvement centers.

Positioning RTA - critical to the marketing of RTA. Usually products are positioned on value, quality, style or price. Rarely is RTA positioned against assembled furniture. Some RTA producers are positioning themselves toward the expected demand for high quality furniture. The acceptance of RTA and its growth will change the raw material mix produced for the overall furniture industry.



Figure 1. This classic wooden chair is a typical example of the fine furniture manufactured in Louisiana.

Other Secondary Wood Product Segments

Wood Pallets - the largest consumer of U.S. hard-wood lumber. Most pallet-producing firms are small. Marketing is handled by the firms producing the pallets. Brokers and wholesalers are typically used only when the pallet buyer is too far from the manufacturer to receive adequate service. The industry is mostly located near the industrial and farming centers because most pallets are sold within 100 miles from the point of manufacture. There is strong price competition. There is little or no branding nor are there standards. Pallet Design System is the newest technology in the industry. It uses microcomputers to custom design pallets for their intended uses.

Millwork industry - comprised of firms primarily producing windows, window parts, doors, door parts and wood moldings. Mostly higher grades of lumber are bought and used. Major competitors are export and furniture markets for materials. Substitutes of softwood lumber and the use of other wood-based and nonwood materials are a major threat to the use of hardwood lumber in millwork production.

Cabinets - the kitchen cabinet industry has grown dramatically. Demand for cabinets is closely linked to housing starts and residential repair and remodeling activity. The use of substitutes and fewer housing starts are threats to this industry.



Figure 2. Improved engineering design has produced wooden pallets that have a life span of 8.7 years. (Photo: American Plywood Association, The Engineered Wood Association)

Todd F. Shupe, Ph.D., Professor
Forest Products

Richard P. Vlosky, Ph.D., Professor
Forest Products Marketing

Louisiana Forest Products Development Center
School of Renewable Natural Resources



Visit our website: www.LSUAgCenter.com

Louisiana State University Agricultural Center

William B. Richardson, Chancellor

Louisiana Agricultural Experiment Station

David J. Boethel, Vice Chancellor and Director

Louisiana Cooperative Extension Service

Paul D. Coreil, Vice Chancellor and Director

Pub #2702 Online only 12/10

The LSU AgCenter is a statewide campus of the LSU System and provides equal opportunities in programs and employment.