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Factors that Influenced the Export Success of Forest Products Companies in the Pacific Northwest during the 1997-1998 Japanese Economic Downturn

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Executive Summary

Japanese housing starts reached a high of 1.64 million in 1996 as homeowners rushed to beat the consumption tax increase scheduled for 1997. The Asian economic downturn and various other factors caused housing starts to fall to 1.2 million in 1998. The decline in housing starts, in conjunction with a Japanese recession, contributed to a dramatic decrease in imports of wooden building materials. Japan, the most important export destination for PNW solid wood products, accounts for almost 31% of PNW exports. During the economic downturn, Japanese imports of PNW primary wood products fell 30%, to $670 million in 1998 while exports of secondary wood products fell 36%, to less than $100 million.

Events that occurred before and during the recession have caused structural changes in the flow of wood products to Japan. During the downturn, the Japanese yen weakened against the US and Canadian dollar, effectively raising the price of US wood products in Japan. The consumption tax rate increase, strong US dollar, and the extended economic recession combined to heighten price sensitivity among Japanese consumers. These factors combined to reduce the competitiveness of US wood products in the Japanese market.

The majority of firms engaged in exporting wooden building materials to Japan were affected by the Japanese recession. While most firms reported a decline in export revenues from Japan, some firms experienced increases in their exports to Japan. This anomaly prompted an investigation into why some firms were successful in increasing their exports while other firms were not. The objectives of this study were to document the perceptions of PNW exporters and manufacturers on the importance of services offered to Japanese customer, to discover the key characteristics of successful exporters and to identify the impact of the marketing mix on export performance. A mail and fax survey was designed to elicit specific information on the demographic and operational characteristics of exporting firms in the Pacific Northwest.

The survey population included firms that exported or manufactured and exported wooden building materials to Japan. The survey was administered by fax with follow up faxes and letters. Of the 163 US and 71 Canadian firms, 44 US (27%) and 15 Canadian (21%) firms were judged to have gone out of business. Out of 173 viable firms, 72 returned completed surveys for a response rate of 41.6%. US firms returned 41 surveys from a population of 119 for a return rate of 34.5%; while 31 of the 54 Canadian firms returned surveys for a response rate of 57.4%.

An open-ended question prompted the respondents to identify the factor that had the greatest impact (positive or negative) on their business in Japan. The most frequently mentioned factors were the Japanese recession and the strong US dollar, while marketing factors, such as distribution and services were mentioned less frequently.

The survey data suggests that shorter channels were used more often than the traditional Japanese multi-layered channel. On average, 58% of the respondents export sales went directly to Japanese homebuilders, while an additional 7% went through a company sales office. Other distribution channels included Japanese distributors, Japanese wholesalers and other trade intermediaries. Respondents perceived a significant advantage to having a sales office and sales/technical representatives in Japan. They also perceived a

significant advantage to using a Japanese distributor to take control of product distribution. Overall, the survey data suggests that distribution channels for wooden building materials to Japan are becoming shorter.

Softwood lumber was the most commonly exported product (22%), followed by wooden doors (17%) and wooden windows (16%). The remaining products exported included prefabricated housing components (10%), structural panels (8%), cabinets (8%), and glulam beams (3%), while other products accounted for 16% of the export mix.

Survey respondents were asked several questions related to the importance of the offering specific services to their Japanese customers. In general, the importance of providing these services was perceived to be significantly more important by the firms that provide them relative to the firms that do not provide them. The services included in the survey were: warehousing spare parts in Japan, offering a product warranty, providing translated product information, providing translated installation instructions and providing translated maintenance instructions. Of 68 respondents, 53% reported that they provided translated product information, 46% provided translated installation instructions, and 36% supply translated maintenance instructions. An analysis of the data suggests that as the product becomes more technically complex, there is a lower likelihood that the exporter will provide translated technical information.

Nearly all of the survey respondents reported that their Japanese customers had become more price sensitive. Most firms reported that this increased price sensitivity had a negative impact on their export performance. However, a small set of respondents indicated that their exports to Japan increased despite the increased price sensitivity of their Japanese customers.

A comparison of US and Canadian firms revealed some basic differences in the products and distribution channels used to service the Japanese market. Canadian firms shipped 71% of their total exports to Japan, while the US only shipped 53%, a significant difference. Canadian firms also tended to ship a larger volume of primary wood products through shorter channels than their US counterparts. US firms were more likely to ship value-added products through longer distribution channels. Finally, Canadian firms were more likely to know the segment of the residential construction industry in which their products were used.

The distribution channel and product mix of firms that successfully exported to Japan during the Asian downturn differs greatly from the unsuccessful exporters. The firms that did well had export product mixes containing high amounts of wooden prefabricated building components and other value added products. Unsuccessful exporters tended to focus more on lumber, structural panels and doors. Successful exporters tended to report a higher use of short distribution channels, often exporting directly to the homebuilder or to a company sales office. Finally, successful exporters tended to supply a higher percentage of their products to post and beam builders and into other (non 2x4) segments of the construction industry.

Market knowledge appeared to play a vital role in export success as unsuccessful firms were over three times more likely not to know how their products were used. This lack of market knowledge makes offering after market sales support difficult and successful promotion within those market segments almost impossible. This research suggests that the firms that were successful during the downturn exported more than twice the amount of products into other market segments (primarily post & beam, prefabricated homes and log homes) than did unsuccessful firms. These segments of the housing market may be less sensitive to changes in the overall economic conditions than are the larger post and beam and 2x4 housing segments.

Analysis of total sales by export success reveals some interesting patterns. The medium-sized firms (export sales revenues between $1 million and $5 million) appear to have done much better than both small firms (export sales revenues less than $1 million) and large firms (export sales revenues above $5 million) (Figure 5.5.7). It is interesting to note that a much higher percentage of the medium-sized firms reported an increase in export revenues. Fully two-thirds of the companies who reported an increase in export revenues were medium-sized firms. In contrast, the firms who reported a decline in export revenues were fairly evenly distributed, although almost forty percent of these firms were large firms while just 13% of the successful firms were large companies. As mentioned previously, exports tend to be a much higher percentage of the total sales revenue of the small- and medium-sized firms in contrast to the larger firms who tend to have a heavy focus on the domestic market with exports rarely comprising more than 10% of their total sales. Thus, we might conclude that the medium-sized firms are more committed to the export market and have developed a marketing strategy that provides them with a greater chance of succeeding in Japan even when the markets are poor. While smaller firms are also more focused on their export markets it would appear that they do not have the financial and marketing resources to withstand a significant decline in the export market, as indicated by the fact that 83.3% of the small firms reported declines in export sales revenues in Japan.

A factor analysis reduced the larger number of eleven marketing factors into just three factors. The average importance ratings for each factor clearly show that not all of the factors were perceived to be equally important in marketing wood products in Japan. The factor with the highest average importance rating was "Providing translated product information to Japanese customers" which received an average importance rating of 5.52. The second factor, "Providing customized in-country services", was considered to be somewhat important with an average importance rating of 3.94. The third factor related to the use of specific distribution strategies in Japan, was perceived to be the least important of the three factors with an average importance rating of 3.42.

This study has documented structural changes in the trade of PNW wooden building materials with Japan. It has also provided quantitative and qualitative insights into the impacts of the Asian downturn on the performance of exporters in the PNW. The Asian downturn may have served to accelerate the changes occurring in the distribution channels, product mix, and services offered to the Japanese housing market. Changes in the demands of the Japanese consumers have opened new areas and created new opportunities for firms to develop or increase their competitiveness. These changes include shortening the distribution channel and shifting the export mix to include more value-added products. Also, providing more after-sales support, primarily translated product information was also perceived to be important. While some of these strategies may not be suitable for all firms, exporters should realize the need for increasing their competitiveness in the expanding global economy.

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