

THE CUTTING EDGE

WOOD MACHINERY MANUFACTURERS OF AMERICA

Volume XVI, No. 9

SEPTEMBER 2001

WMMA joins the entire world in offering prayers and condolences to all of the victim's of the September 11 attacks on America. Our thoughts and support are with the valiant rescue workers and with our country's leaders as they determine the best course of action during this difficult time.



Economic Stagnation - 2001

Dr. John M. Albertine

The economic boom of the '90's' is over. It has been replaced, not by the bust of 2001, but by the stagnation of the second year of the new century. The economy continues to drift along at a snail's pace, imperceptibly close to zero growth.

The Business Recession

The boom of the '90's' was caused largely by the incredible spurt in business investment in new equipment and new technologies. That investment led to an unprecedented growth in the rate of labor productivity. Economists were slow to recognize the sea change in the underlying fundamentals of the American economy. Once they grasped the historic shift to a higher productivity growth rate, they assumed that a business led economic boom would last for decades. They were wrong.

Why were most economists wrong, and what went wrong with the business investment boom? The economists were wrong because they usually are wrong, since like the generals, they have an unflinching tendency to fight the last war. The business investment boom ended for three reasons. First, business spent too much money on the non-existent Y2K software problem. Second, America's CEO's got caught up in the internet frenzy like the rest of America's population. Third, the consumer simply did not keep up with the soaring pace of America's production potential.

The Fed and The Stagnation Of Business Investment

The Federal Reserve Board has attempted to counteract the business investment slowdown with a series of interest rate reductions. Unfortunately, these policy moves have been completely unsuccessful in reversing the downward trend in business investment. While the cost of borrowing money has been declining, the availability of loanable funds from America's banks has also declined dramatically in the last year. America's banks are loaning American businesses one third less today than a year ago. The reason is Mr. John (Jerry) Hawke, the Controller of the Currency.

Who is "Jerry" Hawke? Mr. Hawke was appointed Controller of the Currency in 1999. He has a five-year term. The Controller of the Currency works for the Secretary of the Treasury. His job is to regulate the nation's banking system to assure its solvency and its stability. He has the power to audit banks and the power to regulate their portfolios. He has the power to force banks to reserve against loans that he may deem to become impaired in a tough economic environment.

In many ways subtle and in some ways not so subtle, Mr. Hawke has been encouraging lending institutions to "pull in their horns" with respect to the money they are willing to lend to small businesses, mid-size firms, and even big businesses for

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Economic Stagnation - 2001 *continued*

capital expansion and modernization projects. So, while the Federal Reserve on Washington's Constitution Avenue is reducing the cost of borrowing, the Controller of the Currency on Washington's Pennsylvania Avenue is causing the source of these loanable funds to dry up. Irrational, you argue; typical Washington behavior, I reply.

A Regulatory Recession

Is it possible that a regulatory agency of the federal government could induce a recession? You bet. Indeed, 41, better known as President George Walker Bush was defeated in 1992 because of the regulatory recession induced by the old RTC, misnamed the Resolution Trust Corporation. Could 43 suffer the same fate as 41? You bet. This is a point some of us have made to the President's political advisers.

The Consumer-Hanging In There

Interestingly, the American consumer continues to spend at a reasonable pace. Consumer confidence remains at a high level despite growing layoffs across U.S. industry. Obviously, if the business investment recession were to deepen, inevitably, the consumer will lose confidence as layoffs mount.

Our Forecast

We think that the economy will drift until the fourth quarter of 2001. The Fed will continue to cut rates into the fourth quarter without any apparent effect. We, however, do know that the political advisers to President Bush are alarmed by the length of the economic downturn. The political people at the White House do not want the economy to languish into 2002. A bad economy in early 2002 could well translate into Democratic victory in the 2002 fall election. Accordingly, we believe that the White House will force Treasury to put pressure on the Controller of the Currency's office to loosen his noose on the U.S. banking system.

Did You Know...

Editor's Note: This is the eighth in a series of articles discussing WMMA programs and services available to membership.

...that with very little (under 0.1%) of the 2000 WMMA expense activity, the Long Range Planning Committee led an industry-wide coalition of wood processing associations to better understand issues of common interest and synergy for the betterment of all the involved memberships? After hosting the first Peer Group Meeting for the Wood Processing Industry Associations in December 1997, the WMMA hosted all subsequent such gatherings in conjunction with the American Paper & Forestry Association's (AF&PA) annual D.C. events, IWF in Atlanta, and the Anaheim Show. From these meetings, industry trends are shared with the WMMA membership. Moreover, issues, such as worker availability and training, industry promotion, and workplace safety, were identified as opportunities for joint exploration, and work has gone forward in these challenging areas.

The Long Range Planning Committee has examined the fundamental marketplace issues impacting the Association; these are available on the website along with the mission of the Association. This examination might lay the groundwork for some modified form of a Member Needs Analysis, last performed in 1992, as well as a survey to identify "who we are" in terms of size, geographical location, and organizational structure. These efforts will help insure that future Association programs and services match members' needs.

The Committee's functions have been made part of the Executive Committee's on-going agenda.

If you have questions on the Association's direction or ideas for new projects and services, please contact Past President Todd Herzog at (931) 668-7127 or [email at todd@accu-router.com](mailto:todd@accu-router.com), or staff liaison Ken Hutton at (215) 564-3484 x215 or [email at khutton@fernley.com](mailto:khutton@fernley.com).

WMMA EDUCATION & SCHOLARSHIP PROGRAM

*Michael Burdis, James L. Taylor Manufacturing
WMMA Education/Scholarship Chair*

The WMMA Scholarship Program is a key service that the Association can provide its membership. It fits the criteria for the type of service an association is best qualified to provide in that it tenders a service few, if any, of its members could afford to provide for themselves. It places the Association firmly in the position of being concerned about its members and the industry's future. It uses the vast resources of the Association in providing the bulk of funds to supply a source of talent needed in our industry. Lastly, this program is directed at assuring the future success of Association member companies and the advancement of the industry as technological innovators among world competitors.



In past years, the WMMA Scholarship Program has partnered with three universities—NC State, Pittsburg State, and Oregon State—to develop a program of study designed to build student skills around the needs of the woodworking equipment and cutting tool industry. Now the Program takes its next step to increase participation by involving more member companies locally and giving them more ownership in the final outcome.

A summary of the Revised Scholarship Program for WMMA Members follows:

- Each WMMA member company can identify and select a regionally accredited junior, community or technical college in its geographic area that offer two-year manufacturing-technology related degree programs or a 4-year university that offers a bonafide Co-Op in a field related to the WMMA member's business. After briefing the college or university on the scholarship procedures, the member company representative will work with a designated official of the college or university to identify students. The amount of each scholarship is up to \$3,000 per academic year with a maximum of \$6,000 for the two-year period that the scholarship is in effect.
- The student candidate should have an interest in a manufacturing technology related career. When appropriate, the student candidate should have the endorsement and recommendation of their junior college or their university's co-op program administrator.
- Students applying for the scholarships are to do so through their member sponsor or participating two-year college, or university. The student must meet all entrance and matriculation requirement of the school for enrollment in a manufacturing-technology related two-year degree program or the university's co-op program.
- The WMMA member company scholarship representative, will select the most deserving candidate. After it is determined that the candidate is fully admissible and acceptable, the completed application package is forwarded to the Scholarship Committee at WMMA for review.
- Upon WMMA's review and concurrence in the selection, the company scholarship representative will be asked to notify the school and make arrangements to contact the student with the final offer of the scholarship.

Upon notice of acceptance by the student, WMMA's Scholarship Committee will notify the school in writing of the scholarship award and will work with the school's financial office to formalize payment arrangements through 3rd party billing. Upon receipt of an invoice from the school, payments will be made by check directly to the school for tuition, required and/or related academic fees and textbooks for the first academic period. Additional payments will be made to the school upon receipt of subsequent invoices subject to the student remaining in good standing and review by WMMA. Other payment schedules may be established if required and agreed upon by the school and WMMA.

For further information on the new direction of the WMMA Scholarship Program, please either contact Committee Chair, Michael Burdis of James L. Taylor Manufacturing, at (845) 452-0764 or email him at michael@jamestaylor.com or Staff Liaison, Ken Hutton at (215) 564-3484 or email him at khutton@fernley.com.

Export Development

To Export Development Committee Members:



After four years as Chairman of the Export Development Committee, Tom Onsrud has decided to step down. Guiding CR Onsrud, Inc. is increasingly time consuming and he feels that he can no longer provide the time to also effectively lead the Export Development Committee. He plans to remain on the committee and remain active, however. Tim Brown, Vice Chairman of the committee, has agreed to take over as Chairman.

Through Tom's leadership the committee has become increasingly committed to providing support to WMMA members interested in exporting. Tom has been an exemplary active member, giving time and effort to committee activities and championing its cause to the Board and other members. Tom always felt that the committee had to try new things to get members involved. While chairperson, the committee redirected its trade fair objectives to organizing pavilions in which members could exhibit at a

discount and receive support at site and in advance of the event. It also developed a new and well-received activity under his leadership, the Foreign Buyer Program.

I know I join all committee members in thanking Tom for his efforts. I look forward to his continued input.

Regards,

Harold Zassenhaus

Export Director

Export Pricing

Harold Zassenhaus, Export Director



Suppliers to the woodworking industry are facing huge challenges:

- U.S. economic slowdown that may last for more than 18 months.
- Relocation of major customers (for example: furniture producers) to lower production cost countries (for example: China).
- Historically high U.S. dollar (some 28% higher than 18 months ago).
- Significant price competition from foreign producers of similar, like kind or substitute products.

The results of the above have meant lower sales, loss of market share in the U.S. to imported products, fewer export orders and/or loss of market share in foreign markets.

Many members do not export or export sporadically with the vast majority deriving less than 10% of total revenues from exporting. Only a few have an active export marketing

strategy in place. Even fewer pay close attention to their export product pricing. When it comes time to quote for an export order more often than not our member company jacks up the domestic price to cover such things as extra documentation, export packaging, additional bank charges and the almighty "unknown."

I would like to suggest an alternative strategy: develop an export pricing strategy. I state this knowing that price per se is not the sole determinant for a customer buying product or a dealer deciding to take on a member's line. Nonetheless, it is important. So, with this in mind I offer the following and solicit constructive criticism (which I will share) and alternative strategies for the benefit of all readers.

Segregating domestic and export related product costs may provide you with options, which in turn gives you the flexibility of adopting a product pricing strategy for foreign markets that reflects your short as well as long-term objectives.

For most members, the international market is not only small but has unique costs associated with it. Selling overseas usually means added costs for shipment, payment, and overhead. Anyone selling overseas knows the lengthy process and seemingly endless communications each sale takes. In addition, many markets require product modifications.

Similarly, there are costs in making products to be sold in the U.S. that are unique to the U.S. marketplace. Technical service support costs, in-house customer service, advertising in domestic trade journals, domestic trade fair participation (especially in regional shows) and even product liability insurance are costs incurred in making products for the U.S. market. They should not be included in calculating costs of production of foreign sales. If you purchased a product from Germany, would you want to pay the costs that the German manufacturer incurs in its domestic marketing activities? Probably not.

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Export Development

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Furthermore, if export sales are a marginal activity (let's say accounting for less than 10% of product revenues) why should production costs be averaged in making up the price sheet? Why not include only the marginal or direct costs of producing items for export sale? In other words, treat the export sale for what it is: a marginal activity.

By separating costs for domestic and foreign sales, export sales costs may be lower than those of domestic sales. Market characteristics, long-term market development strategy, etc. would then dictate whether your margins, prices or both would change to meet market demand and address competition. It is possible that even with sporadic export marketing efforts members could see their export revenues increase; some might become steady exporters.

This is not a new concept. It is one being used by many active exporters and multinational firms. And I know some members have international price sheets. Some have different price sheets for different countries and regions. It may not be practical for some members, but it is a worthwhile exercise for most.

Below is a hypothetical cost price under four scenarios. It assumes that the product price before discount is \$10,000:

- Standard ex-works price. For all practical purposes this is the domestic price sheet;
- Standard ex-works price plus costs for exporting (the way many U.S. firms derive their export prices);
- Export Pricing utilizing average production costs. The price derived by adding direct and indirect production costs to exporting costs. All sales, marketing and O&A costs attributable to products for the U.S. market are eliminated.
- Export Pricing, using marginal production costs. The same as Export Pricing but using only direct production costs.
- Many of the attributed production, marketing and sales costs are hypothetical but bear some resemblance to a smaller machinery manufacturers who has a small domestic sales force and sells through non or minimal stocking dealers. In developing the chart I have further assumed the following:
 - Standard domestic pricing term is based on ex-works (ex-factory).
 - Standard commission for domestic and international dealers is 20% of the price sheet (ex-works).
 - Added costs for export are \$1,000 made up of additional packing, bank fees and minor product modifications.
 - Finally, it assumes time and effort in selling abroad is minimal. Outside of an international price sheet or sheets, some product literature translations and assigning international sales to a person or persons as a part time assignment, there are minimal expenses. However, to make things less controversial I have assumed that marketing and sales staff costs per unit are the same whether selling domestically or internationally. The rationale being that someone still must answer the phone, fax or email and "sell" the product.

Item	Ex-Works Price Sheet	Ex-works Price plus Export Costs	Export Pricing Average Production Costs	Export Pricing Marginal Production Costs
Price	10,000	11,000	9,100	7,100
Dealer Discount -20% of sales price	2,000	2,200	1,820	1,420
Net Sales Price	8,000	8,800	7,280	5,680
Direct Production Costs (material and labor) – 45% of net domestic sales price	3,600	3,600	3,600	3,600
Indirect Production Costs- 20% of net domestic sales price	1,600	1,600	1,600	
Selling, General & Administrative Costs – 25% of net domestic sales price:	2,000	2,000		
Sales/Marketing staff -6% of net domestic sales price	480	480	480	480
Advertising/promotion - 2% of net domestic sales price	160	160		

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Item	Ex-Works Price Sheet	Ex-works Price plus Export Costs	Export Pricing Average Production Costs	Export Pricing Marginal Production Costs
Exhibitions –2% of net domestic sales price	160	160		
Customer Service - 4% of net domestic sales price	320	320		
Technical Service – 4 % of net domestic sales price	320	320		
Warranty & Product Liability Insurance - 2% of net domestic sales	160	160		
Engineering Expense 2% of net domestic sales	160	160		
Other S, G & A - 3% of net domestic sales	240	240		
Profit Margin -10% of net domestic sales price	800	800	800	800
Incremental Costs to Export:		800	800	800
Miscellaneous *		200	200	200
Export Packaging		300	300	300
Banking Charges (Letter of Credit)		300	300	300

* Minor product modifications like electricals, etc.

You will notice that even though the dollar value of profit margins remains the same (\$800), the product price is reduced by 29% by using a marginal pricing strategy. If packing costs are minimal and there are no added costs in modifying the product, the exporter can reduce prices or further increase margins.

The above only serves to illustrate that members should seriously evaluate the benefits of adopting an international price sheet as a part of their export marketing strategy. Going through the exercise will give you a pretty good idea about your costs and potential margins. And this will help you in establishing a marketing strategy for overseas markets.

If you have something to add to the above discussion of pricing strategies and would like to share with the membership, call, fax or email you comments to Harold Zassenhaus, 7768 Woodmont Ave., Suite 214, Bethesda, MD 20814, tel.: 301 652 0693; fax: 301 986 1389; email zeng@erols.com.

• Welcome New Members •

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Winston Salem, NC 27105
Phone: (336) 723-1846
Fax: (336) 724-7138

Key Contact: Robert Carpenter

The Woodworker's Choice Inc.
3231 Kilmer Drive
Plant City, FL 33567
Phone: (813) 719-3566
Fax: (813) 719-3567

Key Contact: Glen R. Moon

Keytrix Data Systems
4709 Norht Star Way
Modesta, CA 95356
(800) 596-4970
(209) 577-1602

Key Contact: Alan Fenstermacher

Laminate Technologies Inc.
161 Mauler Road
Tiffin, OH 44883
(419) 448-0812
(419) 448-0811

Key Contact: Fred Zoeller

Knape & Vogt Mfg. Co.
2700 Oak Industrial Drive, NE
Grand Rapids, MI 49505
Phone: (616) 459-3311
Fax: (616) 459-0249

Key Contact: Pat Miller

Member News

Carter Products Company, Inc.



Carter Products Company has moved manufacturing and administration operations to a new 15,700 sq. ft. building in the Grand Rapids suburb of Walker that equips them with more than double the previous space.

"We're delighted with the new facility," company president Peter Perez noted. "With our business tripling over the last decade and the trend continuing, it was clear we had surpassed the capability of the building we'd occupied since 1984. We needed more room to respond to the opportunities of the future for our 800+ dealers. Designed and built specifically to meet our needs, the new quarters will enable us to double our capacity," he continued. "What's more, there's sufficient acreage to allow a subsequent increase of 50 percent in the future as required." The new location also accommodates a showroom to display and demonstrate the company's wide product line.

Delmhorst Instrument Company



Delmhorst Instrument Co. introduces Accuscan - a Pin-less Moisture Meter for the flooring professional, home inspector, restoration contractor and woodworker.

Available October 2001

Outstanding features include:

- Easy to read analog readout
- Measures %MC on wood over the range of 6-40/%
- 0-100 color-coded reference scale for non-wood building materials
- Built-in battery and calibration checks
- 3/4" penetration
- Comprehensive species adjustment chart
- 1-year warranty
- Rugged carrying case

Some helpful hints for maximizing your WMMA website

- ☞ Keep your audience in mind when preparing your WMMA webpage
- ☞ Customers refer to the Machine/Tooling index when looking for a specific type of machinery. Make sure your index listing is accurate
- ☞ Customers, particularly international customers, are interested in a photo of your product
- ☞ Copy should be to the point and can refer to your site for further information
- ☞ Offer customers someone to contact

Take advantage of this free marketing opportunity! Contact WMMA with any questions.

Member Benefit tip of the Month

One of the benefits of WMMA membership is a free web page for your company. Let us help link domestic and international customers from the WMMA site to your company website.

Take the time to ensure that your WMMA webpage is correct, up to date and informative. Details for updating and/or preparing your WMMA webpage are attached and are located on the WMMA website, Members Only section.
<http://www.wmma.org/members/bgupdate.htm>



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