Hardwood Lumber
Anders Fallt, Isabella Cheung, and Travis Heyda

Porter’s Five Forces
I. Entry Barriers

• Little to no economies of scale
• Little proprietary product differences
• Little brand identity
• Low capital amounts needed for RnD purposes, advertising costs
• Easy access to distribution but also a well established market
• Proprietary learning curve is diminishing

I. Entry Barriers

• Access to inputs is relatively high. Many producers of hardwood timber
• Government policies
• Historically high growth
II. Supplier Power

- Low differentiation among suppliers
- Relatively low switching costs
- Low supplier concentration
- About 60% of hardwood lumber production costs are from the cost of timber
- Threat of forward/backward integration higher with bigger companies

III. Industry Rivalry

- Volatile but steady historical growth
- Overcapacity can be an issue
- Increased competition due to low product differences
- Little to no brand identity
- Low switching costs
- Fragmented business
- Difficulty of informal collusion in industry
- Low exit barriers
IV. Buyer Power

- Many producers, many buyers
- Low buyer volume
- Switching costs increase buyer power
- Buyer information is fairly high
- Substitutes
- Low leverage for producers in product differences
- Again there is very little brand identity
Key Concerns

Determinants of Substitutes for Hardwood Lumber Industry

- Market Trend/Aesthetic Preference
- Relative Price Performance of Substitutes
- Hardwood Lumber Quality
- Forest Health Issue
- Switching Cost & Buyer Propensity to Substitute
Substitutes to Flooring and Cabinets due to Market Trend & Aesthetic preference

- Wooden Flooring vs Wall-to-wall Carpeting
- Oak Cabinet vs Maple, Poplar and Cherry Cabinet

Substitutes to Wooden Pallets due to Forest Health & Quality Concerns

- Recycled Wooden Pallet
- Rental Wooden Pallet
- Plastic Pallet
Substitutes to Construction and Remodeling Products (CRP) due to Quality, Performance and Forest Health Concerns

Engineer Wood and Hybrid Composites

- I Joist
- Oriented Strand Broad
- Wood Plastic Composite
- Fiber board

Moisture Pattern Comparison

Figure 3. — Comparison of moisture pattern of southern pine (S pine), white oak (W oak), wood plastic (WPC1) from initial MC (MC1), soaking (MC2), and at 99, 85, 78, 33 percent relative humidity.
Substitutes to CRP
Due to Performance and Market Trend Concerns

Other Existing and Future Substitutions

- Bamboo
  - Top-grade construction materials
- Steel
- Concrete

Substitutes to CRP
due to Switching Cost and Buyer Propensity to Substitute Concerns

Price, Durability, Aesthetic Preference, Performance,
Dimension, Environmental Concern, Handling Cost

- Engineered Wood Flooring - 52% market share in hardwood flooring
- I Joist - consistent, various dimensions, easy to handle, use less wood
- Wood Plastic Composite - Good decking materials
- Hardwood lumber - Low price, Longtime familiarity, Aesthetic preference.