

Lumber Production and Distribution

by

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Lumber Merchandising

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Lumber is produced in sawmills where or near where trees grow. This lumber is used in homes, factories and farms wherever the need for these buildings exists. This has resulted in a somewhat complex system which operates to produce the lumber and get it into the hands of people who want it, no matter where the timber stands or where the people live.

The lumber industry is made up of three rather distinct classifications: manufacturers, wholesalers, and retailers. The manufacturers produce the lumber; the wholesalers help the manufacturers sell the lumber to retail yards or to industrial plants which use it as a raw material for their products; and the retail yards sell the lumber to the general public for construction and other purposes.

Naturally there is some overlapping of these three main functions. Some sawmills are in the wholesale and/or retail business. They may buy lumber from other mills and/or they may operate a retail yard or a chain of yards for which they must furnish or buy lumber as well as buying other materials handled in the retail yards. Many wholesalers have interests in sawmills and some are interested in retail yards. Occasionally retail dealers have a financial interest in a sawmill and may conduct some wholesale business in addition to their retail business. Notwithstanding this overlapping, nearly every lumberman can be basically classified as

a manufacturer, a wholesaler, or a retailer.

The three branches are dependent on each other and are usually ready to recognize this interdependence. Each branch has its own problems, however, and it works out these problems through its own organization and as a rule independently of the others. There is some co-operation, but there does not seem to be the close tie-up between manufacturers and distributors that is found in some industries.

Lumber Manufacturing

It cannot be said that one branch of the lumber industry is more important than another but it is readily seen that production is the foundation of the entire business and that the greatest investment is in this branch.

The distinguishing characteristic of lumber manufacturing is the operation of the sawmill; there are all sorts and conditions of sawmills. There are many little portable sawmills over the country which produce only a few thousand feet per day. On the other hand the Weyerhaeuser Timber Company's mill in Longview, Washington, can produce a million and a half feet of lumber in a day. All of these operators, regardless of size can claim the title of "lumber manufacturers" and all of them are important in this capacity. They all saw logs into lumber and that is what makes a lumber manufacturer.

The 1941 Census gave a total of 21, 233 saw-mills in the United States. Of these only 560 reported an annual output of ten million feet or more, furnishing about seventeen billion feet of lumber, a little more than half of the total produced in that year. The other 20,673 mills supplied the other half of the lumber production.

There are numerous characteristics which differentiate one sawmill operator from another. Probably the major classification is that which divides the lumber manufacturers into timber-owning mills and those which own no timber but buy their logs from outside sources.

The timber-owning mill operator has an assured source of supply of logs. He can plan into the future, being assured of a supply of logs of known variety and quality. He can adjust his production to his timber, knowing in advance what that timber will be. These are all very definite advantages to the timber-owning operator. On the other hand, there are some disadvantages involved. The timber-owning operator has a large investment tied up in a supply of raw material when he is not sure of a future profitable market. Connected with the owning of timber are problems of interest, taxation, forest fire protection, and various other difficulties.

The non-timber owning operator avoids these disadvantages but he has some of his own. He operates on a sort of hand-to-mouth basis as regards log supply.

This is not an entirely satisfactory arrangement and is definitely not conducive to any long-term planning. This type of operator may buy his logs on the open market, from National Forests, or from farmers or owners of small timber stands. On any of these bases, the non-timber owning operator faces elements of hazard and uncertainty which the timber-owning operator does not have to face.

For many, many years the lumber-manufacturing industry was a nomadic enterprise. The manufacturer acquired a tract of timber and set up a mill to cut all the timber there. When the supply was depleted, he moved on to another site. This type of migration can be traced from the Atlantic to the Pacific. However when the Pacific Coast was reached and the operators began to realize that they had reach the end of the line, so to speak, they began to think in terms of stabilizing their business through the pursuit of forestry practices. This meant attempting to perpetuate their timber supply in order to sustain the markets for lumber and other forest products. Manufacturers of today, for the most part, are not planning to cut out and move on; they are planning to stay where they are.

The Wholesaler

The average sawmill operator is essentially a manufacturer; he is not a merchandiser. This is probably due largely to the fact that for many years he did not need to think about merchandising. As the United States was growing, the demand for lumber was steady

and insistent. The sawmill operator had merely to make the lumber. There were plenty of people waiting to buy it. This condition changed several decades ago but it took the lumber manufacturers a long time to realize it. The manufacturers found it difficult to realize that lumber had to be sold is the true sense of the word. This is where the lumber merchandizing field began to come into the picture.

Today nearly all of the large lumber manufacturers maintain sales departments to dispose of their output. However a major part of the smaller units, unable to support a sales organization, depend entirely on the wholesale lumbermen to do their selling. Many of the big mills, with sales organizations of their own, depend on these wholesalers to some extent. It is estimated that approximately 70% of the total lumber output is sold through wholesalers. The wholesaler is not merely a useful link in the chain of distribution; he is essential.

Mr. Joseph E. Davies, now prominent in diplomatic circles, was the representative of the wholesale lumbermen's organization when he was practicing law in Washington. He expressed the wholesaler's place in the modern scheme of things:

"The middleman--whether he be wholesaler, jobber, commission man, manufacturer's agent or what not--came into existence to supply a definite need in our business system, and the fact that he is so important a factor in every industry under the most intense competition

indicates the great social value of the service he renders. When we analyze the functions performed by the wholesaler in a basic industry such as the lumber industry and measure the economic value of them it becomes evident that the competitive system has created in the wholesalers of the country a vast and highly efficient agency of distribution."

The wholesale lumber dealers of today may be grouped into two classes; the "yard" wholesalers and the "office" wholesalers. As the name implies the "yard" wholesaler maintains a lumber yard. It may be a concentration yard or a distribution yard. The "office" wholesaler maintains no yard but buys lumber from manufacturers to be sent to his customers.

The "yard" wholesalers use of the concentration yard is particularly valuable in regions where there are numerous small or portable mills. Most of these small operators manufacture only a limited line of lumber and as soon as they have manufactured a carload or a truckload they are anxious to convert it into cash. The "yard" wholesaler is in a position to buy up the output of these operators and store the lumber in his concentration yard. He can then put the output of the many small operators together to fill his orders for nearly any species or size. Oftentimes he operates a planing mill, some re-manufacturing equipment, and a dry kiln so that he can convert the various products of the small mills into a product for which he had a demand.

There are some wholesale concentration yards now which specialize in a particular wood. They buy up

quantities of the particular wood from numerous and scattered small operators. They are then in a position to assemble the purchases on their yards and serve buyers of carload lots of the particular type of lumber they are handling.

The operator of a wholesale distributing yard works on a somewhat different basis. This type of wholesaler usually operates in a city or near a center of lumber consumption. He buys carloads of seasoned, well-manufactured stock from recognized manufacturers and is able to offer this stock to his trade for immediate delivery.

The "office" or direct mill shipping wholesaler operates no yard at all. He is merely a lumber trader and sometimes a speculator. He is thoroughly familiar with lumber markets and market conditions as well as being acquainted with lumber buyers, their requirements and the various sources of supply.

The "office" wholesaler generally operates in a consuming territory. He takes orders for quantities of lumber to be delivered to a factory or retail yard at a fixed price. Then he, together with his staff of salesmen and buyers, set out to buy the required lumber from some mill or mills at a price low enough to insure a profit. Sometimes this type of wholesaler buys quantities of lumber from some manufacturer in the expectation of selling it for more than he paid. Occasionally the "office"

wholesaler finances a small manufacturer and handles all of the output. The wholesaler often contracts with one or more manufacturers to dispose of their output on a percentage basis as sales are made. Also some wholesalers merely solicit orders from lumber buyers and then turn them over, at the same price, to a manufacturer who has the stock. The wholesaler in this case collects a discount, normally eight percent, from the mill.

Another group of specialists in the wholesale lumber trade are the lumber exporters. These wholesalers have acquired by experience a knowledge of foreign markets, the kinds of lumber needed there, and the sources of supply of that particular type of lumber in this country. This is an intricate and complex business, involving familiarity with banking, shipping, insurance, and other factors besides lumber. Consequently the specialist----the lumber exporter----handles most of this type of business for the smaller manufacturers who are not able to support a group of export specialists.

Many small lumber manufacturers seem to be hopelessly underfinanced, and many of them could not operate at all if they were not provided with cash advances by the wholesaler. Even when the wholesaler does not make a cash advance, he may take the lumber on an f.o.b. basis, and pay cash for it when it is shipped, or at least pay a substantial part of the invoice and assume the credit risk. In this case, the wholesaler

provides a financial cushion between the shipper and the buyer, a service which is not merely helpful but frequently essential to the transaction.

The lumber wholesaler has fared best when conditions were fairly normal. During World War I he was almost driven out of existence when the War Industries board threatened to eliminate him as a nonessential factor in winning the war. The organization of the National Bureau of Wholesale Lumber Distributors successfully defended the wholesalers' rights and developed into the American Wholesale Lumber Association. This group later merged with the National Wholesale Lumber Dealers Association to form the National-American Wholesale Lumber Association. This latter organization now represents the wholesale lumber industry, with members in all parts of the country.

The lumber wholesaler again had a hard time during the days of the NRA Lumber Code. He almost faded out of existence while waiting for the Washington brass hats to draft an official definition of "lumber wholesaler" so that they could recognize him.

During the recent war emergency and the current post war mixup, the wholesaler has had a tough time. The lumber situation reverted to the situation as it was fifty years ago when no merchandising was needed to effect distribution. The Government has been buying nearly all of the lumber output and of this, only about 25% of the bus-

iness has gone to the wholesalers. The other 75% has gone directly to the manufacturers. The lumber manufacturers today cannot produce enough to meet the demand and consequently they are cutting out the wholesaler by selling direct to consumers. This is particularly true in the Northwest where, by O.P.A. directive, the wholesalers' commission comes out of the mill price of the lumber. Hence by selling direct to the consumers, the manufacturers pocket the wholesalers commission.

Another group of lumber merchandising agents are the commission salesmen. They perform services halfway between the wholesaler and the salaried sales force. Through the commission salesmen the manufacturer may definitely maintain customer contact by direct invoicing, thus keeping the mill's identity before the customer. This is an advantage not offered by the regular lumber wholesaler who conceals the identity of the manufacturer.

The commission salesmen sell lumber for the manufacturer on a predetermined sales-cost basis, for which they are paid a commission, generally five percent, but only on business acceptable to the manufacturer.

The commission salesmen generally operate in a consuming area, making occasional trips to the mills to acquaint themselves with the facilities of

the manufacturers and stocks available. The standard practice is for the commission salesman to keep in close contact with his regular buying trade, offering the stock available from his mill or mills at the prices fixed by the manufacturer. The commission man is then recognized in the transaction as the representative of the manufacturer.

Today, due largely to the work of the National Association of Commission Lumber Salesmen, the commission salesman is regarded for his highly valuable service to buyers and sellers alike. Many mills depend largely or entirely on such salesmen for the merchandising of their output.

Retail Lumbermen

The retail lumberman is the contact man between the general public and the lumber industry. The man who wants to build a flower box and the man who wants to build a number of houses goes to the retail lumber yard for his material. The retailer is the last and vital link in the chain of distribution of lumber.

There are two rather well defined classes of retail establishments: the single-yard type of operation, and the so-called "line" yard type.

The single yard is, almost without exception, a local enterprise owned and operated by a local man or by local men. This type of retail yard looks to supplying the needs of the particular community or area in which it

is operating, with no attempt to supply out of its immediate territory.

The "line" yard is the chain-store type of retail lumber yard. As a matter of fact the "line" yard was a pioneer in the chain-store merchandising. These yards have local managers, but are controlled by a central office which not only establishes their policies and prices but also does the buying for them. This centralized buying is beneficial both to the owner of the chain of yards and to the manufacturers who have these large-scale buyers as customers. Some of the chains are very small, operating only two or three yards within a small area; some are made up of a hundred or more yards scattered over a fairly large territory.

Originally the retail lumber yard was simply a yard selling its stock of lumber to the general public. Most of the early yards had a shed in which to store the finished lumber which needed to be protected from the weather, while its stock of rough lumber was stacked in the open air. If you wanted to buy lumber, you went to a retail lumber yard. If you wanted to buy some other type of building material you went elsewhere.

The present-day retail yard is much more than this. Retail yards have gradually added to their stocks until they are now construction material yards. They now handle such items as composition roofing, paint, hardware, fence wire, and many other such materials in

addition to the so-called substitute materials such as wallboard, plasterboard, plywood, etc. Some retail yards have diversified their stocks to the extent of handling gravel, cement, coal, and many other such items related to the construction, maintenance, and operation of buildings and homes.

Many up-to-date retail lumber yards are equipped with some form of planing-mill equipment, and perhaps also a resaw, to remanufacture stock to the customers requirements. Some of these plants are equipped to make window sash and doors, although generally such items are made on a large scale in centrally located factories and sold through jobbers.

The retail lumber yard is due for some very definite changes in the near future too. Prefabrication appears to be advancing more and more and it will be up to the retailer to handle more complex prefabricated units than he has been handling in the past. Then too, some yards will recognize the superiority of some materials other than lumber in construction work. When this superiority is recognized the wise retail lumberman will stock these materials rather than beating his head against a wall in an attempt to sell inferior products.

Some of the long-visioned experts in the building material trades see an entirely new type of dealer in the near future. They see a multiple-function man who will handle everything the home builder wants, from the

vacant lot through the house furnishings, and will carry in stock all materials having to do with the erection and repair of houses. This is possible. On the other hand, the retail lumberman might operate pretty much as he has in the past. There will still be a demand for lumber and there will still be lumber to supply the demand. The retail lumber yard is the natural link between the supply and the demand.

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