

**Marketing Strategies for Commercializing the Small Diameter Douglas-fir**

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By Echo Xiaoqian Yan

## **Abstract**

When considering the resources, we can find that the forestry is the most prominent mutual benefit between Canada and China. Canada, especially B.C., is abundant in wood resources and China is hungry for wood materials. So in this case, we may think of this huge market and find a new way to commercialize our small diameter Douglas-fir.

The first part is introducing the background of China's fast economy growth and booming furnishings market. Then we will reach our target market-urban middle class. After analyzing the consumers' conditions

and tastes, the third part starts the 4P's analysis. Combining with China's real situation, this part presents the concrete products, provides detailed information and makes feasible marketing strategies. Then the fourth part lays out some pros and cons and the fifth part gives recommendations on how to implement these strategies. Finally, the timetable will be suggested.

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## **I Background**

As the biggest developing country, China has been keeping growing since 25 years ago when the government set the open policy. The growth rate of gross domestic product (GDP) is incredibly high. It has kept the growth speed at the high level of 7% for latest successive eight years.

In 2002, China exceeded U.S.A. to be the country that attracted the most foreign investment capitals. No one can resist the attraction of the huge and potential market with 1.3 billion people. More and more industries are starting their fossicking adventures, including wood products industry.

Due to the economy prosperity, more and more people are becoming rich. They not only possess the houses of their own, but also want the houses to be more comfortable and modern. In the past twenty years, the furniture market has boomed 100 times. In 2001, the furniture industry's total production is CAD 25.6 billion and has been the largest furniture market of the world. At the same time, the interior decoration industry has been maintaining growing at the speed of 20%. The demands for decorative materials are estimated to break through CAD 130 billion. That means the furnishings market is in the absolutely expanding stage.

However, the local supply is shrinking because of the National Forest Protection Program. This leads to more dependence on import. In 2001,

the quantity of timber and wood products is 98 million cubic meters. Comparing with the proportion of 9% in 1991, the proportion in 2001 has raised to 32%. It is estimated optimistically that the proportion will keep rising in the future. The popular materials are natural and environmental friendly products.

At the same time, another important opportunity has come into being. China has been the formal member of World Trade Organization (WTO). Almost all the tariff relative to wood products will reduce. By 2005, the average tariff for basic wood products will reduce from 7.6% to 4.4%. As for the value-added products, the rate of ornaments and components will go down from 14% to 0%; the tariff of furniture will reduce from current 15% to 0%. This is good news for Canada's export wood products that are facing the biggest challenge of high cost.

On the other hand, Canada, especially B.C.'s industrial structure is not completely rational, which depends too much on U.S. market. When we view the proportions of lumber export markets, we can see that about 70% of B.C.'s lumber go to U.S.A., almost 15% go to Japan. The customers are clumped, not diversified. So when Japan's economy declined since ten years ago, the coastal sawmills closed quite a few; when U.S.A. enkindled the dispute of softwood, Canada was always in the passive position. We must open up more new markets. China is the proper one. What the China is starving for is just the Canada is abundant

in. Then when we have raw materials or new products, we'd better consider this huge market.

## **II Target Market**

China has a vast territory. Because of the geographic and historic reasons, the differentiation between the eastern coastal areas and western inlands are quite distinctive. The former is much richer than the latter. For the import products, the eastern areas have much more stronger purchase power. Several big cities in the west, however, are the exceptions.

Meanwhile, there exists big income gap between the urban and suburb areas. Although there are more than 800 million people in countryside, the richer farmers are the minority. So very few peasants can afford the import products except the peasants who live in eastern coastal areas.

So we must pay more attention to the urban people in the east. But which group we should focus on? Where is our target market for import wood products?

Due to the implement of planned economy, the average wage of Chinese people was at a terribly low level before 1979. After the reforms to market-oriented economy, the social structures began to. One of the most arrestive phenomena is the emergence of middle and rich classes in cities. The appellation of Middle Class is introduced to China only in recent years. Different countries have different definitions. According to

China's living standard, if the annual household income is more than CAD 12,000 and possessing housing of its own, the family will be in middle class. The emergence of middle class is a symbol of the maturity of Chinese economy. Due to the progress of openness, the gap between the rich and the poor is increasing quickly. The appearance of middle class makes the social classes be more stable. As estimated, the population of this class in urban areas finally can reach 300,750,000, equal to about 70-80 million families.

The people in middle class have high educational background and pursue life's high quality. They admire the western life style. The natural, elegant and modern products are their favorites. So they would prefer to the import wood products with famous brand, natural material and excellent design. In particular, because of the income limitation, they cannot afford the super luxurious furniture and decorations from the west. Some relevant products with simple, modern and special designs are more popular. The light and natural color is the new generation's most favorite.

Now we can get the conclusion that the middle class in urban areas is our target market.

### **III Marketing Strategies**

After deciding the target market, we can enter the stage of making

marketing strategies. In this stage, we will analyze the 4P's factors: Product, Place, Promotion and Price.

### **i Product**

**Size** Due to less fire in the forest, these small Douglas-firs gain more chances to grow. However, since living in the shadow of big trees, they cannot grow up to big size. Their diameter on the large end is up to 20 cm and down to the very tip of the trees. Most of the logs would be 67m long. The size seems in trimness.

**Density** These trees amount to 10 to 30 m<sup>3</sup>/ha, which is heavier than the normal Douglas fir and other softwood species.

**Grains** If we observe its tangential face, we will notice the fine and even grains of the growth rings. The dark brown bark is quite thick with scaling flower pattern. But both the sapwood and the heartwood are light yellow. The contrast of the colors is distinctive but well matched. Meanwhile, there are quite a few branched that leave some knots in the main stem. In some cases, the knots will be kept with intension. Because the scars of the knots make the features more natural, they might become good decorative veneers.

Because of the size limit, the small Douglas-firs destine not to be construction materials as normal Douglas firs. However, their density and feature give them the advantages to become the materials for furnishings, including softwood furniture and decorative veneers.



**Softwood furniture** This kind of small tree can be made to some small furniture. We can make use of the small diameter of the stem to make vessels, vases and plates. The components of some chairs are also considered. We'd better keep the light color and the even grain to highlight the character of the nature.

The following pictures are some samples of softwood furniture.



Coffee Table



Chair



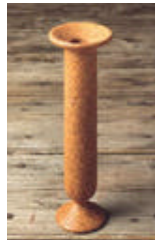
Chair



Chair



Vase



Vase



Vase



Plate

Source:[http://www.365f.com/sjs/mptk/ztcx.asp? name](http://www.365f.com/sjs/mptk/ztcx.asp?name)

**Decorative Veneers** Since the prosperity of the interior decoration market, there are very huge demands for the veneers with natural grain. Especially the new generation, they would prefer the natural and

environmental friendly style when they choose the decoration materials.

Due to the nicely matched color, we should keep the bark when we make the veneers for wall decoration, picture frame and so on. However, if the veneers are made for tabletop or cabinet, peeling the bark is a better choice.

Therefore, we can present two product lines: softwood furniture (including components) and decorative veneers.

## **ii Place**

Now there are four common distribution channels to enter China's furnishings market:

1. As full-owned multinational company, possessing the sale chains of your own.
2. Setting joint venture with local firms.
3. Looking for proper local agents to sell your products.
4. As a material supplier, dealing more with the Chinese importers and Canadian exporters.

If we can find some Canadian wood product companies that have the sale chain in China and would manufacture the product lines, the products will enter end-use market directly. However, there are not many these kinds of companies up to now.

So we can consider looking for some Canadian manufactories that

would accept the ideas. After they finish the products, they can look for Chinese agents to sale the products.

Finally, we can also introduce the ideas to lumber exporters and provide them with the raw materials.

### **iii Promotion**

As a newly developing market, there are quite a few factors we should consider more. First, the laws and rules are not complete. It means sometimes we will have to adopt some abnormal methods to promote. Second, we must pay enough attention to the culture differences of local consumers. Make use of the psychology of admiring western life style and the good reputation of Canada.

**1Advertising** It is the best effective way to promote products in China. Since the immaturity of Chinese consumers, advertising always plays a very important pole in the orientation. Once one product appears in media, including TV, Internet, radio, billboard, newspaper and magazine, the consumers may consider it to be a good product. The more authoritative of the media is, the higher reliability the product will be. In China, since the long-term planned economy and the empire history, people have got used to respect the higher organization. That means if the media belongs to the central government, it will be the most authoritative. And the levels go down from the nation to province to big city and finally to small city.

The advertising fees, however, will go up in the opposite direction. Generally speaking, the result will be the positive proportion to the advertising fees. There is a real example. Order Flooring, a flooring brand from Germany, spent much money in advertising on Chinese Central TV and Beijing TV. Only eight months later, it grew up from a quite unfamiliar brand to a very famous product and got the second place of best selling flooring in Beijing. Depending on the solid financial support, many multinational companies get returns from the high spending in advertisements.

Considering the high advertising cost, however, we cannot afford the big cost in current stage, especially for the low value-added products, although it is the best way to get brand cognition in short time.

**2. Publicity** In China, this is another popular methods are releasing the information relative to the products. Generally, they are some articles and news. Publishing the information is different from the pure advertising and has much lower fees. For the furniture products, it is the best way.

Normally, the contents of these articles are about introducing new products, describing new style and some news about the company. Though this way, the product or company can get more brand cognition. The luxurious furniture from France and Spain will focus its gorgeousness and elegance and the furniture from Scandinavia always highlight its simplicity and modern. Both of them have had clear images.

In particular, the people in middle class always concern the publication. They like pursuing fashion and touching new products. For some modern life style, they are particularly interested in. Currently, the trend is environmental friendly products. The natural and light-color softwood furniture and ornaments fit in. Then though propagating the concept and style, our products will get more cognition in a longer time but without spending too much money.

**3. Handout** To propagate the products, we also can provide the consumers with the handouts with pictures and notes. These handouts are free and put in the chains or shopping centers. Mailing the handouts to the target consumers is another common way. IKEA is doing a good job and gaining returns through this method. Their handouts are well-printed and have special designs. This is one reason leading to its big success in China's big cities.

Through this way, we can provide the consumers with images of the products and attract their eyesight. The cost will be fine but may not appeal enough attention.

**4. Internet** As a new tool, Internet not only can present advertisements and publicities, but also may provide supply and demand information, which will allow the B-to-B or B-to-C E-commerce.

So far, there are comprehensive web sites in China. The releasing fees are much lower than the traditional media. The consumers of middle class

always look for information on Internet since their high educational background. It is an effective way too. Whereas lacking of authority, the Internet has some limitation in real situation.

**5. Tradeshow** To introduce new materials and products to the industry, tradeshow is the most common way. Since the vast territory and crowded people, there are quite a few tradeshows in big and medium cities in China. A large quantity of furniture and decoration corporations will join to find commercial opportunities.

Whatever to find the agents for the finished products (softwood furniture and ornaments), or the manufactories for the components and raw materials, participating variable tradeshow is a fast way to get touch with the local industry. But the shortcoming is the high transportation fees and the uncertainty of success.

**6. Network Economy** Since the long-term planned economy and the incomplete laws and rules, there exists the special network economy in China. If you have relatives or friends in the government, you will get relevant permission more easily; if you know the leaders of state-owned corporations, you can sell more products. At the same time, there is more or less corruption in variable industries. So the personal selling is somewhat different from the west. Although some of them will be abnormal, it is the real situation of local market. So if we want to provide the raw materials to manufactories, we'd better adapt local business

environment and hire more local sales to do the work of personal selling. \_

## **v Price**

Because harvesting these small Douglas-firs is commercial thinning, the cost is lower than the normal that must pay for the tenure. The selling price for the saw logs is CAD 50 and the logging cost is from \$46 to \$69/M3. The average Cost, Insurance and Freight (CIF) of lumber from North America is So the exporting small Douglas-fir is estimate to be around CAD120/m3. For Canadian exporting wood product, which often suffers from the high cost, this small Douglas-fir will have the advantage on price to export to China.

Another advantageous situation is China's entry to WTO. The tariff rates for basic log and sawn wood have cut to 0% up to now; the veneer sheets now is 4% (previous 8%), plywood 11% (previous 15%). Under WTO tariff reduction, the average of basic items will go down from 7.6% to 4.4% by 2005.

For value-added wood products, the rate of shaped wood (previous 15%), particleboard (previous 16-18%) and fiberboard (previous 11-18%) will reduce to 4-8% by 2004; the rate of tableware, kitchen, ornament and component will cut from 14% to 0% by 2005; the rate for furniture will have a tremendous reduction from 15% to 0% by 2005. According to the following formula, we can estimate the gross price.

$$\text{Value-added tax} = (\text{CIF} + \text{Tariff} + \text{Consuming tax}) * \text{Value-added Tax Rate}$$

(Note: there is no consuming tax in China)

In China, the price of import products is higher than local ones. But since the special design and good quality, the richer people will prefer the import stuffs. For our target market, the people in middle class, the consumers can afford the more expensive items. For example, IKEA 's one series of softwood chairs price at CAD 200 and sell well. So there do exist the profit spaces for our products with the lower cost.

#### **IV Pros and Cons**

For Chinese market, the advantages are obvious: it is new and huge. Since the continuous growth of the economy, the middle class will expand. That means our target market will grow in a long time. The demands will keep enlarging. That is just the most important reason why we should open up this potential market.

However, big challenges exist too. The first thing is the cost, which is the biggest problem for Canadian wood products. The second one is brand cognition. Because the companies ignored China in the past time, Canadian wood product has much lower cognition than the Europe, even U.S.A. Finally, the competition is keen in Chinese market, especially the raw materials from Russia and New Zealand.



As for pros and cons for the promotion methods, we should pay more attention.

### **V Recommendations**

- Look for the log exporters who are engaging in Chinese market and sell the logs directly to China.

- Look for the furniture, component and veneer manufactories who are exporting the relevant products to China. Provide them with the ideas and materials.

- Consider the Chinese log importers who have business with Canada. Provide them with raw materials.

- Seek help from some organizations who involve the business relationship between Canada and China.

- Make use of the Canadian associations' Chinese offices. Ask them to present the relative information to Chinese market.

- Publish the information of the small trees on Chinese Internet.

### **VI Program and Timetable**

Depending on the analysis above, we can get the conclusion that for this new market, the program and timetable will be variable according to different contents.

For the program of looking for Canadian companies or associations, the time will be half year to one year. At the same time, we can look for

some Chinese cooperators, it will be a longer progress. The time should be one to two years. As for publishing on Internet, it will be the fastest. Three months of preparing the relevant information is enough.

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