

NEW BUSINESS MODEL: WOOD PRODUCTS DISTRIBUTION CENTER¹

What is the Idea?

The Wood Products Distribution Center is a for-profit subsidiary of Sustainable Northwest (SNW) to be located in Portland, Oregon. The purpose of the Center is to establish a reliable supply of locally-sourced, sustainably-produced finish goods for the wholesale market and existing retailers. The ultimate goals of the Center are to:

1. Facilitate the incorporation of local materials into “green” building projects; and
2. Support rural wood products manufacturing businesses by expanding their sales opportunities.

To these ends, the Center will carry an inventory of mixed products, including trim, siding, decking, beams, flooring, and lumber. While many of the products are currently available, the Center will be the first to reliably offer these wood products from local (many from within 100 miles of Portland), well-managed forests, including FSC-certified, National Forest restoration projects, and rangeland juniper removals. The primary niche the Center seeks is the *combined* interest in sustainably-produced wood products that are locally sourced and manufactured.

What is the Opportunity?

While there has been a downturn in the number of new houses started across the nation, the decline within the region has been significantly less, with only a 13 percent decrease. At the same time, the number of remodeling permits filed has increased about 10 percent. Within the new starts and remodeling market, green building is capturing a larger share, with growth projections estimating that the number of “green” home starts and remodels will increase over 400 percent over the next five years.

The uses for Center products will be primarily in the residential remodel and new construction markets, with retailers being the target market. The retailers are able to adequately offer most commodity goods, such as dimensional lumber, plywood, and, to a lesser extent, beams. However, builders still express frustration with finding local, sustainably-produced finish goods, such as siding, decking, trim flooring, and molding. At the same time, rural manufacturing partners lack markets for their wood products. The Center will purchase and consolidate a

standing inventory of product, coordinate marketing support services, and create an economy of scale that small producers need in order to compete.

Rural producers lack the capital to be able to carry an adequate standing inventory of diverse product lines at the quantities needed and, as a result, tend to focus more on custom-order manufacturing. Working job-to-job not only is less efficient for the producer, but also results in sporadic and variable service and unstable pricing for the consumer. Sustainably-produced and locally-sourced wood products remain available only to the truly committed – those consumers willing to accommodate an often unpredictable product with a significant turn-around time. If rural manufacturers are to take advantage of the rapid growth in the green building sector, stimulate markets, and mainstream their products, they will have to meet the requirements of more professional services, reliable supply, stable pricing, consistent quality, and shorter turn-around time, yet continue to produce at a scope and scale that is in alignment with what the forest has to offer.

What is Revolutionary from Current Practice?

What is revolutionary isn't so much the idea of a distribution center, but rather who benefits, how they benefit, and who owns the center. The Center will make it possible for small, rural manufacturers to improve their cash flow by purchasing products from them and then carrying the standing inventory. This is critical to these producers who are generally unable to secure a commercial line of credit or other mechanism making it possible for them to carry inventory. Cash flow will be further improved through the terms offered by the Center. While the industry standard is to pay the producer for their products in 30 to 50 days, the Center will pay in five. With improved cash flow, manufacturers will be able to make needed capital improvements, may be able to leverage other resources, and some may be able to enter the market where it would have been impossible before. In some ways, the Center can be viewed as providing bridge financing that is not based on a grant or loan. Furthermore, the market security provided by guaranteed purchase orders can also be used to secure loans and other financing.

¹ This Profile is based on the Project Business Plan: Wood Products Distribution Center (February 2008) and on personal communication with Ryan Temple, Program Manager, Healthy Forests, Healthy Communities Partnership (HFHC) and the Wood Products Distribution Center at Sustainable Northwest, 7/29/08.

In addition, the Center will be owned by Sustainable Northwest as a for-profit subsidiary and will operate in line with its values, specifically balancing financial profitability with ecological and social objectives. Suppliers will be drawn from the existing Healthy Forests, Healthy Communities Partnership (HFHC). These businesses will continue to receive the full range of support services offered by HFHC, including workshops, peer learning, technical assistance networks, raw material sourcing, and financial support made possible through its association with the non-profit. Through HFHC, the Center will be able to nurture potential ventures, rather than only sourcing from high capacity producers. The non-profit will also continue its efforts to build the market and increase pull from consumers by supporting education activities, including tours for architects, media coverage, attending events, etc.

SNW will also strive to increase the stake that rural producers have in the Center by paying three percent of annual gross sales, prorated based on the value of goods each producer sells through the Center. This will ensure a return to

producers during the more difficult start-up years when it is most critical to engage all of the stakeholders.

What is the Promise for Success?

The success of the Center will be dependent on its ability to recruit reliable manufacturers and establish a regular supply of sustainably-produced wood products from these businesses. It will also be necessary to invest in a commercial customer base up-front, giving them a sense of partnership in the effort, including education so that the market understands the grade, size, and volume implications of sustainable forestry. Given the exponential growth in the green building market and past successes and lessons learned from HFHC, there is no reason to think the Center will not be successful. This approach offers a means to match the scale of rural sustainable forestry with that of urban green building markets and addresses the needs of both manufacturers and purchasers, while strengthening local community economies and distributing benefits beyond a few individuals.