

EXTERNAL MARKET PENETRATION FOR COMPANIES IN THE WOOD INDUSTRY

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Abstract:

We begin from an analysis of the worldwide wood market and focus upon several major European markets and Russia and present their specific traits, evolution and forecast for three main products targeted on these markets: wood panels, OSB and plywood.

The forecasts, both for the Romanian production of these goods and the external markets evolution were constructed using specific statistical methods and forecast tables provided by the United Nations Economic Commission for Europe.

Based upon the results of these analyses and the forecasts we provide several market penetration strategies for Romanian wood industry companies to employ in their potential future development.

Key words: *external markets; wood products; forecast; strategy.*

INTRODUCTION

1. Why do companies need to enter new external markets?

a. First of all: globalisation. Whether companies want it or not, globalisation is a present trend and it affects the entire economy. And it is certainly better to be a part of this trend, to control the way in which your company is perceived internationally rather than fight it and let others dictate the rules.

b. Maintaining competitiveness (on an internal level as well) which requires firstly competing against the best on other markets, where this companies hold the upper hand and the consumer traits and behaviour are different than those at home and secondly launching new products and associated services not only on known markets but on new ones as well (which involves high risks but also yields great rewards).

c. Market availability (on external markets) allows for the development, maintaining and growth of the brand name; at present, political competition is fierce (inside the EU as well), a brand name linked to a quality product which promotes itself in a proper manner makes a much better statement than any political declaration, both for the company and for the country of origin.

d. Competing with other companies in the field on different markets ensures that the company maintains a constant level of awareness and creates the need for constant learning, especially in the field of management (planning, organisation, strategies etc.).

And as far as business strategy is concerned, a company learns only by being faced with new challenges and receiving a positive or negative feedback on the way in which they were met.

e. When a company manages to enter an external market and maintain a healthy market share on it, the business risks involved are decreased.

Because you divide the risks between two or more markets, if one collapses it does not affect the company as severely as would be the case in a one market situation (a company focused on just one market is affected by any change that takes place there and becomes dependant on it). Therefore, in the unfortunate case that a market collapse occurs, a multi-market company can more easily recover and reclaim its turnover.

2. Previous researchers in the field have developed several theories regarding this important business strategy: market penetration. For companies in the wood industry there are several techniques to achieve this, such as: a competitive pricing strategy, aggressive promotion, diversification of distribution channels and product improvement.

3. This paper can not claim to touch all the issues involved in this matter but rather wishes to provide companies in the field with a powerful argument for penetrating external markets and at the same gives pertinent examples from previous situations to allow these companies to choose the best course of action regarding external market penetration strategies.

PAPER OBJECTIVES

1. Outlining the definitive aspects of external markets which are suitable for companies from the timber industry.

2. Analysing and defining the main external market penetration strategies for a distinctive market: one from Western Europe, a mature market, which is very difficult to penetrate.

METHOD AND INSTRUMENTS USED

▪ Market analysis (evolution, prices, trends, risks etc.) based on official statistics from the UNECE (United Nations Economic Commission for Europe) and relevant papers such as the *Forest Products Annual Market Review 2011-2012* (Published by the United Nations Economic Commission for Europe and the Food and Agriculture Organization of the United Nations) and *State of Europe's Forests 2011. Status and Trends in Sustainable Forest Management in Europe*, (Published by Ministerial Conference on the Protection of Forest in Europe, Oslo).

▪ Case studies on European and Russian markets and wood based products.

▪ Statistical instruments.

▪ Forecast regarding production/consumption/etc, according to the *European Forest Sector Forecast Study II 2012-2030* (Published by United Nations Economic Commission for Europe / Food and Agriculture Organisation of the United Nations).

THE GLOBAL WOOD BASED PANEL MARKET SITUATION AND THE POTENTIAL MARKETS FOR ROMANIAN PRODUCTS

The Global wood panel market [1] is slowly recovering from the economic downturn caused by the crisis begun in 2008. The main drive in this upturn is fuelled by the rise of the construction sector. As we can see from the chart below, the overall level of wood exports has significantly decreased in the last two years, but the forecast for the following 15 years indicates a steady rise, especially for wood panels.

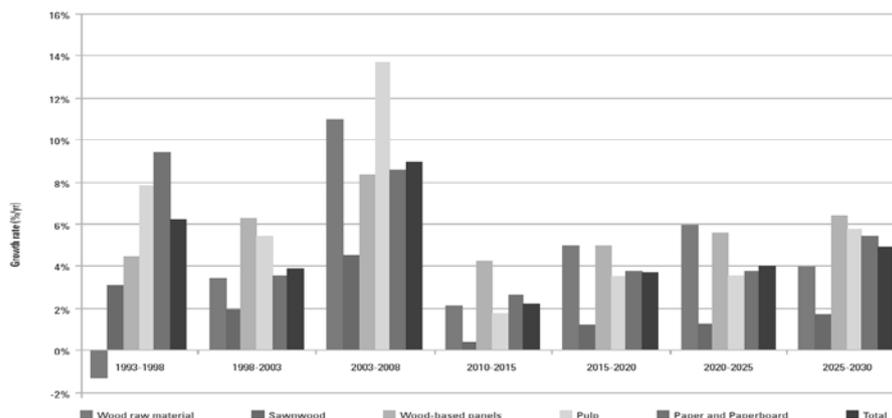


Fig. 1
Growth rates of world export value per 5-year period per commodity group
(Source: EFS (2011) pg. 34).

The main areas of growth for wood panels consumption are the CIS, especially Russia while North America maintains a steady pace and Europe is following the same trend, all be it with a slight increase in 2012.

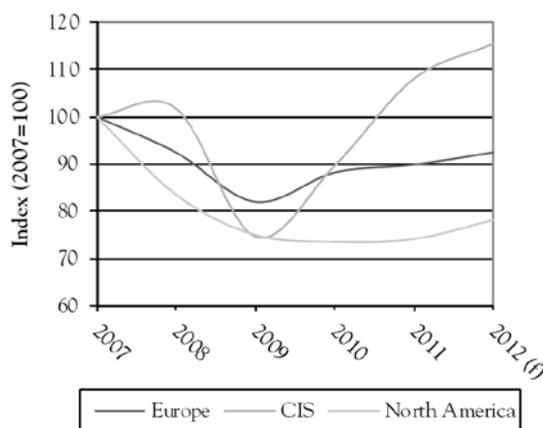


Fig. 2
Consumption of wood-based panels in three UNECE subregions, 2007-2012
(Source: FPM (2012) pg. 68).

The European wood products market.

The main drivers of the particle board industry in Europe are the construction sector and the furniture industry.

The former has shown some signs of recovery after the economic hit of 2008 while the latter has performed well constantly, even though it faces a strong competition from imports.

There has been a large decrease in both demand and production in Germany, Finland, Hungary and Ireland while Estonia and Romania have increased production. Nevertheless Germany has remained on top of the producers followed by Poland and France. The estimated consumption of particle boards has been around 35.6 million m³.

We have chosen to look on three specialised products from this area: particle board, OSB and plywood.

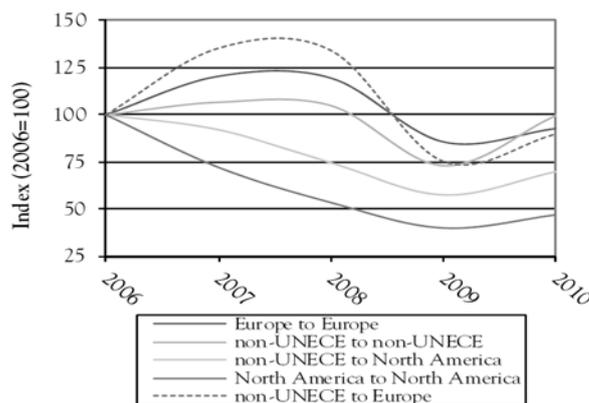
Particle board production in Europe has registered an upward trend, reaching an estimate of 14.4 million m³ in 2012 with the overall production capacity remaining stable (Germany has reduced its excess capacity while Poland opened new production centres). The largest producer remains Turkey with 3,6 million m³ followed by Poland and Germany. The overall production in 2011 in Europe reached over 37 million m³. The estimated consumption for 2012 is under 11.1 million m³ while exports increased to 10 million especially to the Middle East, Africa and the Americas.

OSB production felled in Europe by 5.2% in 2011 to 4.5 million m³. The largest producer was Germany followed by Poland and the Czech Republic. The largest increase in capacity was registered in Romania (with a large capacity plant of 300.000 m³ being opened in 2012).

There has been a significant decrease in demand within Europe, with most of this going into the building sector. Exports have claimed most of the overall production with Russia being one of the biggest importer of OSF. Nevertheless, exports to the Middle East and Africa also rose.

Plywood had undergone a long term decline in the last 18 years, from 15% of all wood based panels in 1994 to less than 12% in 2012.

Most of the consumption of this type of panel came from imports (88%) while 78% of the European production going to exports. In 2011 over 4 million m³ of plywood were produced in Europe and 3.6 million m³ were exported.



Note: Total value of imports for 2009-2010 was \$49.31 billion.

Fig. 3
Top five global trade flows of wood-based panels by value, 2006-2010
(Source: FPM (2012) pg. 68).

The trend in Europe to Europe trade flows, the ones in which Romanian companies are interested, have increase slightly and the forecasts assume a continuation of these trends.

Wood panel and plywood production in Romania and the situation in Western European Markets

Even though particle board production in Romania has increased significantly in the last three years, there are no exact reported data towards the UNECE/FAO Market review.

Nevertheless, the exports have recorded a clear upward trend, as can be seen in the following chart. Moreover, the forecast for the following three years back this growth pattern.

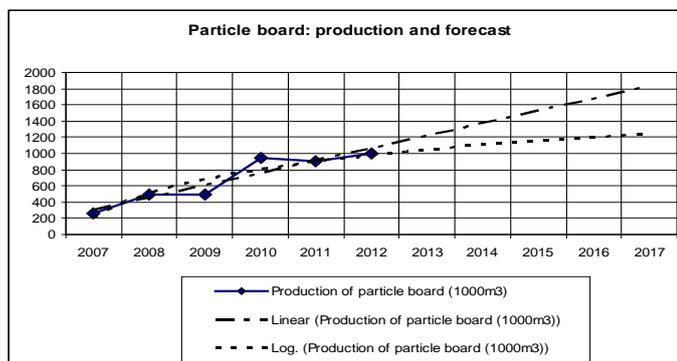


Fig. 4
Forecasted production of particle boards 2013-2015 in Romania
(linear: optimistic forecast; logarithmic: realistic forecast).

As far as the plywood production in Romania is concerned, the reported data show the same growth pattern as in the case of the particle boards.

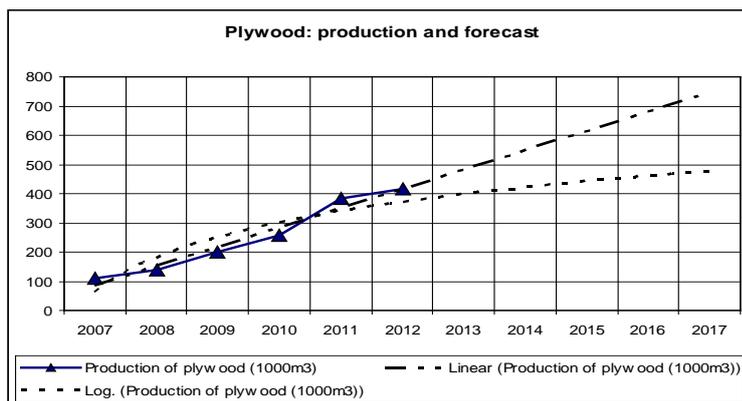


Fig. 5
Forecaster production of plywood, 2013-2016 (1,000m³) in Romania
(linear: optimistic forecast; logarithmic: realistic forecast).

The increase in production capacity is mainly due to massive foreign investment in the sector which has led to the construction of several new plants in Romania.

Table 1

Exports and imports of particle board (excluding OSB), 2007 - 2011 (1,000 m³)

	2007	2008	2009	2010	2011	Change 2010 to 2011		2007 to 2011
						Volume	%	%
Exports								
Romania	310	460	546	960	937	-23	-2.4	202.3
Imports								
Poland	878	943	741	892	808	-84	-9.5	-8.0
Italy	533	572	398	775	545	-230	-29.7	2.3
Sweden	538	439	364	530	617	88	16.5	14.7

Source: FPM (2012); ITSY (2011)

Table 2

Production of plywood, 2007 - 2011 (1,000 m³)

	Production of plywood, 2007 - 2011 (1,000 m³)					Change 2010 to 2011		2007 to 2011
	2007	2008	2009	2010	2011	Volume	%	%
Romania	107	152	212	266	377	111	41.6	252.0

Source: FPM (2012); ITSY (2011)

Table 3

Imports of plywood, 2007 - 2011 (1,000 m³)

	Imports of plywood, 2007 - 2011 (1,000 m³)					Change 2010 to 2011		2007 to 2011
	2007	2008	2009	2010	2011	Volume	%	%
Germany	1,516	1,459	1,066	1,288	1,406	117	9.1	-7.3
Netherlands	608	635	457	495	706	211	42.7	16.1
France	459	581	397	544	491	-53	-9.8	7.0

Source: FPM (2012); ITSY (2011)

The production of particle boards in Romania has increased by over 200% from 2007 to 2011. Nevertheless this increase in production has not been directed to external markets.

On the European markets there is a strong demand for particle boards, especially in Sweden and Italy. And even though Poland is one of the biggest manufacturers of particle boards in Europe, there is a constant demand for the imports of these products.

Although there is not sufficient data for over 250% since 2007.

The production volume will increase in the following years, as shown in the chart above.

And the import levels in certain European markets, such as the Netherlands and France has steadily increased and has created a good market opportunity for Romanian products.

Table 4

Imports of particle board (excluding OSB), 2007 - 2011 (1,000 m³)

	2007	2008	2009	2010	2011
Poland	219,623	238,460	153,464	197,107	199,330
Sweden	173,200	155,628	117,333	158,234	193,783
Italy	171,590	202,685	128,169	231,577	171,144

Source: FPM (2012); ITSY (2011)

The most suitable markets for Romanian particle boards are Sweden and Italy.

The total volume imported in 2011 was 617.000 m³ with a value of 193.783.000 \$ while in Italy the volume was 545.000 m³ with an estimated value of 171.144.000 \$.

The total Romanian exports for the same year were 937.000 m³ and is projected to grow to around 1.750.000 m³ in 2016.

Therefore the forecasted exports level can easily meet most of the demand for imported particle boards in these two countries.

If the prices remain at a fairly constant level, the possible turnover for the forecasted volume would reach over 340 million \$ a year.

Table 5

Imports of plywood, 2007 - 2011 (1,000 m³)

	2007	2008	2009	2010	2011
Netherlands	424,880	467,589	288,227	304,744	333,590
France	383,400	401,408	237,628	275,248	276,990

Source: FPM (2012); ITSY (2011)

As far as the export of plywood, at the moment, Romania is not a player on the market, but with the recent investments it can achieve great profits of the external markets. The best targets for Romanian Products are the Netherlands and France, which have constantly increased their imports of this product. The levels reached in 2011 were of 706.000 m³ in France and 491.000 m³ in Italy.

The combined values of the imports on these two markets were over 600.000.000 \$ in the same year.

The production level in 2011 was over 370.000 m³ and is forecasted to increase to over 650.000 m³ in 2016. If we assume that the internal consumption level remains the same (as the main buyer for plywood is the construction sector, which is forecasted to stagnate) the difference of 300.000 m³ can be directed to the more profitable exports market.

The forecasted potential turnover would be over 150 million \$ a year.

The Russian OSB Market

In 2011 Russia imported over 390.000 m³. For the better part of the 21st century, the country relied solely on imports for the consumption of OSB. But since 2011 several companies have announced their intentions to open plants in the country to fill this demand.

Nevertheless, these investments will take time, and the full production capacity will not be reached until 2017-2018. Until that moment, the OSB market in Russia remains a very lucrative one.

This market is divided between several large players and a few small ones:

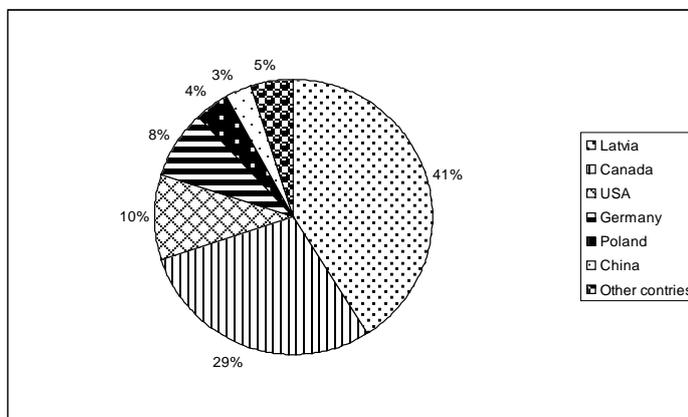


Fig. 6

Shares of countries in total exports of OSB to the Russian Federation in 2011 (Source: LES (2012)).

Even though at the moment Romania is not a major player on the OSB market, recent foreign investments in the field (such as Kronospan) have significantly increased the production capacity.

Moreover, according to unofficial data, the projected production costs of the OSB produced in Romania is lower than that in Russia, and therefore could be a competitive product on that market.

Market penetration strategies

As far as market penetration strategies are concerned, most of them focus on gaining a larger share of a particular market as possible.

From what we have analysed before there are five target markets for Romanian products: the Netherlands and France for plywood, Sweden and Italy for particle boards and Russia for OSB.

The first four are similar stable markets from the West of Europe, with similar traits, while Russia is a exports market on the verge of disappearance due to the increase in national production.

Therefore we must approach these markets differently:

- For the Swedish, Italian, French and Dutch markets Romanian companies should adopt a strategy based on *the increase of distribution channels* and *product improvement*, to obtain a steady and sustainable growth rate for a long term presence on the market. The increase in distribution channels targets the presence of Romanian products both in retail and wholesale distributors as well as directly to construction and furniture companies. Product improvement is aimed at providing a quality product, which would generate brand loyalty and continuous trade.

- As far as the Russian market is concerned, a more aggressive strategy is required to penetrate the market and gain a significant piece of it before it disappears or is taken over by cheaper national products. Therefore, Romanian companies should focus on a price *adjustment strategy* and *increased promotion*. More exactly, our product should be sold at the lowest possible price (maintaining profitability, nevertheless) accompanied by an aggressive promotional campaign, to ensure maximum market exposure.

In conclusion, there are several possibilities for Romanian companies to expand their businesses on external European and Russian markets, especially for particle boards, plywood and OSB. The markets analysed (Sweden, Netherlands, Italy, France) in this paper are some of the best suited for this kind of expansion and if the current trend in investments and production capacity increase continue, the prospects for future external market endeavours is favourable as is the possibility for higher profit margins.

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