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Coming OWIC events:

December 8-11: [How to Dry Lumber for Quality and Profit](#)  
Corvallis, OR

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## Managing for Innovation: Improving Metrics

You've probably heard the saying "you are what you eat". You can apply a variation of that saying to innovation management - "you are what you measure". You can not overestimate the value of measuring company performance. Financial measures are essential to company success. However, there is more to innovation management than looking at the company's bottom line. In order to have a full understanding of how your company is performing it is essential that management determine the factors that are critical for the company to succeed, determine how to measure those factors, and develop a system to constantly measure and improve performance. Developing good performance measures is important for strategy formulation and the establishment of targets for employees, project teams and business units. Additionally, the measurement system chosen by a company can drive the innovative focus of the company.

The first step in establishing an effective system for measuring performance is to define the goals. These goals will serve as the basis for determining

how success will be measured. Company goals should be challenging while remaining achievable. Examples of goals include: penetrate a new market segment, develop a new product line, increase customer retention, increase market share, change a perception, increase overrun, and reduce customer complaints. It is important that the goals are specific and measurable. For example, by what percentage do you want to increase sales?

An effective performance measurement system includes both financial and non-financial measures.

Financial measures – Examples include gross profit, sales volume, sales price, sales from new products, return on equity, and cash flow.

Non-financial measures – Examples include production efficiency, new products introduced, new markets accessed, total production, market share, product quality, and customer satisfaction.

In many instances trade-offs exist between measures of

success and it is important that all employees of the company are aware of this. For example, when introducing a new product or shifting from a commodity product to a specialty product, production efficiency may decrease while sales price increases. Understanding that trade-offs exist and being able to understand the implications on overall company performance can make the difference between a highly successful company and one that struggles to remain competitive.

During a recent visit to a wood products manufacturer in the Pacific Northwest, OWIC faculty discussed these trade-offs with company management. The company had historically produced commodity products and overrun was their primary metric statistic. Management and employees took every step to maximize overrun. Recent market changes forced the company to rethink its strategy and shift to production of specialty products. This shift resulted in the company producing products that were completely new to the firm. However, the management and employees had focused on overrun for many

# Managing for Innovation cont.

years and had a difficult time adjusting to other measures of performance. Employees were concerned about a significant drop in overrun. What they were not factoring in was that they were simultaneously seeing a significant increase in sales price. Management alleviated the employee concerns by opening up the lines of communication and explaining to employees why the company had made the change and how this change positively affected the company's bottom line. The employees were relieved to learn that the increase in sales price was more

than enough to offset the reduction in overrun and actually resulted in higher profitability than the company had seen in years.

Recent OWIC research has shown that forest products companies have excelled at process innovation, but have not focused product and business systems innovation. Some of this discrepancy may be a direct result of the measurement systems commonly used by the industry. As with the example above, firms in the forest products industry have a tendency to place a heavy focus on

production measures at the expense of other measures. This is particularly the case for firms producing commodity products. Having goals to improve production is important and companies should constantly focus on improving production and reducing production costs. However, it is important that managers remember not to focus on production at the expense of other important performance measures. Having a balanced measurement portfolio will encourage firms to pursue all types of innovation while continuing to excel at process innovation.

# Lacey Act: How Will This Impact Forest Product Companies?

The Lacey Act was originally passed in 1900 with a purpose of eliminating illegal trade in wildlife. The Lacey Act has been amended via the June 2008 Farm Bill. This amendment expands the Act beyond wildlife making it illegal to import, export, transport, sell, receive, acquire, or purchase in interstate or foreign commerce any plant which was taken in violation of the laws of a US State, or any foreign law that protects plants. This amendment has the potential to increase the competitiveness of forest products produced in the United States as it will increase the reporting burden for importers.

The new law will require US importers of products originating from trees to declare (1) the genus and species of the woody material, (2) the country where the original tree was harvested, and (3) the quantity

and value of the woody material. Penalties for not declaring woody material may include stiff fines (up to \$500,000), possible seizure of goods, and criminal prosecution (up to 5 years imprisonment). Regulations for the declaration requirement are being developed by the US Department of Agriculture (USDA) and US Customs and Border Protection (CBP). These regulations are scheduled to become effective December 15, but may be delayed until next year. The regulation may also be implemented in phases, beginning with enforcement on obvious tree or wood products (e.g. lumber, panel products, flooring) with less obvious products (e.g., books and magazines, rayon fabric, products containing natural rubber) to be included at a later date. It is recommended that all companies importing products containing any amount of wood

material (including highly processed products such as particleboard, MDF, etc.) should work with suppliers to determine how to meet the requirements of this new law. Until regulations are finalized, importers are allowed to list all species or countries from which the product may have originated.

This new amendment to the Lacey Act has the potential to affect many products as it applies to all plants and plant products. The amendment specifically requires all trees to be subject to the new law and the law does not set a minimum level of plant content. Consequently, a declaration must be filed for any imported product that includes any amount of wood, paper, or chemicals derived from trees.

## Lacey Act cont.

You can find more information on the Lacey Act and its implications through the following sources.

The USDA Animal and Plant Health Inspection Service maintain a webpage with extensive information on the Lacey Act:

[http://www.aphis.usda.gov/plant\\_health/lacey\\_act/](http://www.aphis.usda.gov/plant_health/lacey_act/)

The Law Offices of Steptoe and Johnson, LLP have published an article which outlines the implications of the amendment to the broad forest products industry:

<http://www.step toe.com/publications-5608.html>

An article in Flooring Covering Weekly discusses the implications of this new amendment for the flooring

industry. You can find the article by clicking [here](#).

## Interested in Exporting?

Oregon furniture manufacturers that are interested in (or already are) exporting are encouraged to contact Alexa Hamilton, International Trade Officer, Oregon Economic & Community Development (OECDD).

The department has a few immediate trade show activities in Asia where these companies may be able to participate in low-cost promotional projects and receive assistance from Oregon foreign offices.

Tel: 503-229-6056 or [alexa.hamilton@state.or.us](mailto:alexa.hamilton@state.or.us)

Are you an employer looking to hire qualified students?

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To subscribe to this newsletter send an email to Chris Knowles with "subscribe to newsletter" in the subject line.

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