

Northeast Wood project

Assessment of Organizational Structure component

Report

to

Northeastern Vermont Development Association

from

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Executive Summary – *Northeast Wood*, *Assessment of Organizational Structure* Feasibility Study

The Northeastern Vermont Development Association (NVDA) decided it wanted to test an idea for a joint marketing and sales program for the woodworkers located in the Northeast Kingdom counties of Vermont (Orleans, Essex & Caledonia Counties). Specifically, NVDA hired Innovative Natural Resource Solutions LLC (INRS) to gather information directly from the wood workers of the Kingdom counties, largely through one-on-one interviews, to determine whether the idea was feasible as a business venture: to facilitate the organization of the woodworkers of the Kingdom counties into an association that owns and manages a joint sales facility or gallery in St. Johnsbury, Vermont to sell exclusively wood products made by these woodworkers. Further, the idea focuses on aggressive marketing of the products in this joint-sales facility to the southern New England market. For it to be successful, sales need to be focused on people from southern New England with disposable income that are looking for finely crafted wood products - furniture and other hand-crafted wood products - produced in the Kingdom area.

First, a database was developed since no single source database of woodworkers based in the three-county area existed. This database contains twenty-eight businesses, mostly single operator sole proprietorships. The vast majority produce finely crafted furniture from wood sourced from the forests of the northeastern Vermont. Many of these businesses have gross annual sales below what many would think is a reasonable living wage for such craftspeople. Others are multi-million dollar businesses with dozens of employees.

Second, one-on-one interviews were conducted to gather reaction to NVDA's idea. Over 70% of the database of workers responded to face-to-face interviews or a written survey.

The results of the interviews and surveys was mixed, depending on several factors, however, overall, there was substantial interest in the *Northeast Wood* idea. INRS recommends further work with the woodworkers of the Kingdom counties to move this idea forward.

Introduction

The *Northeast Wood* project is designed to provide assistance to the woodworkers of the Northeast Kingdom. This report is the results of a feasibility study commissioned by the Northeastern Vermont Development Association (NVDA) to determine the interest of the woodworkers of the Northeast Kingdom region in an idea for joint marketing and sales of the products coming from the woodworkers of the area.

The woodworkers in Orleans, Essex, and Caledonia counties are a diverse group of individuals and companies. They range from sole proprietorships producing fine wood furniture to others producing wood baskets and turnings and others still, with hundreds of employees, producing furniture and other products for markets world-wide.

The *Northeast Wood* approach is simple yet challenging. How can assistance be provided to these craftspeople – workers of wood from the Kingdom forests – so that their businesses/livelihoods improve and they are able to continue to do what they love – making beautiful things from wood? The hypothesis for the solution to this dilemma chosen by NVDA is this: facilitate the organization of the woodworkers of the Kingdom counties into an association that owns and manages a joint sales facility (a specialized or coop-like gallery) in St. Johnsbury to sell exclusively wood products made by these woodworkers. Further, the idea focuses on aggressive marketing of the products in this joint-sales facility to the southern New England market.

The focus of this feasibility study, then, has been to reach out to the workers of the Northeast Kingdom to learn who they are, what they produce, and what they think of this idea for improving their businesses.

The results of the study are not uniform but there is interest in this idea from the woodworkers of the region.

2. Study Methodology

This *Assessment of Organizational Structure* phase of the *Northeast Wood* project had two components:

- develop a database of the woodworkers of the Northeast Kingdom;
- determine their level of interest in the hypothesis of the project, i.e. a joint marketing and sales program.

2.1 Developing the database. Developing a database of woodworkers in the regions was not a simple task. No single dataset exists for woodworkers in the three-county area. The list was developed using several methods. First, existing databases such as those from the Vermont Wood Manufacturer's Association, WoodNet and the Guild of Vermont Furniture Makers were reviewed and those individuals or companies from the Kingdom were added to the database. Next, an exhaustive internet search was conducted. Third, phone calls were made to key individuals within the existing associations and, finally, woodworkers themselves were queried when interviews were conducted to determine if any colleagues had been left off the list. In the end, a database of 32 individuals and companies was compiled. The initial database was developed between February and May, 2007. It was added to and slightly adjusted during the interviews. This database can be found in the Appendix. It should be noted that four from the original database were deemed not suitable for the feasibility study due to size or product line. These are included in the dataset at the end as "other". The workable population for the study is 28.

2.2 Determining the level of interest. The focus of the feasibility study was to determine the level of interest by woodworkers of the joint marketing and sales facility idea. As was suggested in the original proposal to NVDA, Innovative Natural Resource Solutions LLC (INRS) felt that personal face-to-face interviews were the preferred method for gathering feasibility information. While time-consuming, based on the past experience of INRS in other projects, this method is deemed superior to other methods. All inquiries could not be accomplished using this method, however, since some woodworkers would not return phone calls and others who did refused to be interviewed or wished to do so in writing. As a result, a mail survey was also developed and sent to all those requesting it instead of a personnel interview. All woodworkers not responding to phone inquiries were also sent a mail survey. All interview results are kept confidential in terms of individual responses. Results are summarized. Interviews and surveys were conducted in May and June of 2007.

Face-to-face interviews were conducted with fourteen companies. Phone interviews were conducted with two more. Mailed interviews were received from an additional four. NVDA staff asked that four companies in the database not be queried because the products they produce may not be appropriate for the program or the company was too large and already had substantial marketing and sales facilities. The result was that the workable database totaled 28 companies.

Total responses from interviews and mailed surveys was 20, or a success rate of 71% - a substantial outcome to base conclusions on despite the fact that the population of woodworkers is not large.

2.3 The wood products – Anecdotally, INRS was very impressed with the quality and craftsmanship of the products from these business people. Substantial labor is evidenced in the fine wood products by these woodworkers and Vermont should be proud of these craftspeople. It is unlikely that finer hand-crafted wood products can be found anywhere.

3. Results

3.1 The woodworker population in the Northeast Kingdom - The majority of the companies/individuals included in the database are fine wood furniture makers or cabinet makers (or both). Fewer than 5% make wood turnings, baskets or other non-furniture products. Fully twenty-four of the twenty-eight fall into this furniture-making category. The furniture/cabinet makers are the most likely beneficiaries of the idea of joint marketing and sales. There are probably a few more hobby woodworkers in the Kingdom that do not show up in the database, but these people are not depending on woodworking for part or all of their livelihood like the ones in the database.

Woodworkers in the Kingdom are both male and female although a large majority are male. There are very young woodworkers (early twenties) while some are retired or semi-retired from full careers in other areas and are now pursuing woodworking for income and other personal interest purposes.

The individuals and companies are located throughout the three Kingdom Counties with no particular concentrations. Structures that serve as woodworking shops range from garages and converted barns to factory buildings. Some of the woodworking entities are structured as sole proprietorships (approximately half fit into this category), while others are limited liability companies or corporations.

3.2 Income and employment levels of wood workers in the Northeast Kingdom – Two of the twenty-eight companies on the list have gross revenue between one and four million dollars per year. Five of the woodworkers earn less than \$10,000 per year (some of these are full-time workers). More than 50% of this group has gross annual income from \$ 25,000 to \$ 100,000 per year.

Employment levels in these companies range from one to over forty. Nearly half are single employee companies. Only three companies responding have seven or more employees.

3.3 Sales methods used – This group of woodworkers use many different methods to sell their products. Just over a third use the internet in some way. Several of the larger companies use it along with a direct sales force to sell most of their product. Most do not. Approximately 15% produce over 90% of their product for architects or builders – where these business alliances account for nearly all of their demand. However, the methods used are more varied and complex than that.

Some of these companies work nearly exclusively on word-of-mouth. In these situations, their customers act as their sales personnel by showing friends, neighbors and relatives the wood products purchased. Galleries and open houses serve as a central sales method for about 5% of the surveyed companies.

3.4 Memberships currently utilized – Over 60% of those who responded to interviews or surveys said that they were members of a woodworking or trade-related organization. Over half were members of the Vermont Wood Manufacturer’s Association, WoodNet or the Guild of Vermont Furniture Makers. Other memberships include the Vermont Crafts Council, and Artisans Gallery. Interestingly, very few of all those interviewed or surveyed felt strongly about the value of their memberships in these organizations. Those who did were the sole proprietorships belonging to the Guild of Vermont Furniture Makers. Values identified for the Guild were fellowship with furniture makers, information about technical issues and lastly – sales. WoodNet was discussed often by those who are involved with it (or by those who previously had been involved). The only woodworkers speaking favorably of WoodNet were two wood-turners who had made multiple sales through WoodNet’s Stowe gallery. None of the furniture woodworkers who had placed furniture in the WoodNet gallery said that the experience had been positive. Wood-turners also said that the Artisans Guild was useful to them as a marketing/sales vehicle.

Woodworkers in the Northeast Kingdom seem generally supportive of the trade organizations available to them, however, very few cited concrete sales or marketing results from these affiliations.

3.5 Level of Interest in the idea of a joint marketing effort and sales facility in St. Johnsbury - There was a wide range of interest in the idea of a joint marketing/sales effort for the woodworkers of the Kingdom counties. Results of these investigations must be categorized in two major categories: results from furniture-makers inquiries; results from wood-turners inquiries.

3.5.1 *Furniture makers* - While results ranged widely, generally furniture makers in the Kingdom counties felt that this joint marketing/sales idea had merit. Several makers felt that this was precisely what was needed to boost the businesses of the Kingdom counties. Specifically, these makers tended to be sole proprietorships with current orders and sales at levels that are less than the capacity of the business to produce wood furniture product. These individuals also said that they would be willing to pay dues (likely a commission on furniture sold in the sales facility) and/or serve on a board or committees for the organization that will need to be formed should this idea move forward. This very favorable group represented just over 50% of the woodworker database that responded.

A second group of furniture makers, representing about 40% of the database developed, was interested in the idea but more skeptical. Not surprisingly, this group tended to be businesses that the owner said was in good shape and with adequate sales based on the desires of the owner(s). This group thought that the idea was intriguing but questioned whether a marketing program could be developed to lure customers from southern New England to St. Johnsbury. These owners tended to think in more detail about the idea with a good deal of discussion occurring about what facility in St. Johnsbury should be used for sales (i.e. should an historical building be rehabilitated or a new structure be created for this) and what the budget would be for the organization. Another portion of these discussions centered on whether St. Johnsbury had enough of the other amenities

needed to make this idea a success (i.e. good hotels and restaurants, other activities for customers). Some of these individuals (owners) have served on trade association boards and committees and said they might be willing to serve on such a body for this effort if it looked like the idea was gaining momentum.

Most importantly, only a single furniture maker in the database thought this idea was meritless (at least for this business since it was thriving). Those others who voiced skepticism were most concerned about the commission rate that would be needed to run such a facility. The general feeling “I hate doing wholesale” was consistent among this group. This concern for commission rates was also articulated by the more favorable group described above.

As an exit metric, each respondent was asked to rate the overall idea from 1-10 where 1 meant that the idea had little merit while 10 meant this is a great idea that should be moved ahead as soon as possible and that this respondent would be willing to work on moving the idea forward. The range of response from the furniture makers was 4-9 with an average of 6.8 and a median of 6.25.

3.5.2 *Wood-turners* – There are probably many hobby wood-turners in the Kingdom counties. The database developed for this project included three turners who are in the business (just under 10% of the database population). All three are semi-retired individuals but all rely on the income for part of their monetary needs. This group was reasonably consistent in their thinking that this idea was not going to help their businesses. All three have all the demand for their product that they can handle. Two of the three focused only on that aspect of the idea – i.e. will it help my business. A third acknowledged that this idea would not likely help this business much but that it was an idea that had merit and, as such, and because solidarity with woodworkers from the region was important, this woodworker could possibly see volunteering on a board or committee towards the idea.

This small group’s individual metric response to the idea ranged from 0-9.

3.6 Other - A few additional issues and information sets resulted from the interviews and mailed responses. These included: use of locally produced wood; competition with other cooperative efforts; role of NVDA in the effort; and next steps in this project.

All woodworkers were asked of their use of locally produced wood as their raw material source. Over 75% said that they tried to use as much locally produced wood as possible. Several used 100% locally produced wood in their products. Several others used some local wood but also incorporated tropical and other woods into their products. These companies tended to purchase their raw materials from wood wholesalers or brokers and felt that it was too much effort to seek out local woods. Others go to great lengths to get locally produced woods. Some have direct purchase relationships with sawmills or, for those who seek unique “character woods”, loggers and foresters.

Another issue heard from multiple companies was concern for this new idea competing with existing cooperative efforts, particularly the Artisans Guild store in St. Johnsbury and the WoodNet efforts and store in Stowe. Those voicing strong concern for the Artisans Guild store were some of the wood-turners since this store sells these kinds of smaller wood products well. As previously stated, there was a great deal of discussion about the WoodNet efforts and, particularly, the gallery store in Stowe. Very few respondents experienced much sales or success with the WoodNet efforts but most said this effort had merit. Further, several wondered whether that effort (and particularly the store in Stowe) and this new idea should be combined if the effort of this feasibility study moves forward.

A number of respondents wondered what NVDA's role would be in this effort, beyond the feasibility study role it is playing. When INRS shared the idea that came from NVDA staff about the organization possibly playing a strong role in the development of the organization, and even securing a grant and/or financing to get a sales facility up and running – there was very strong support. While woodworkers acknowledged that the business people themselves would have to ultimately play a leading role in the organization and marketing/sales effort, they also felt it would be very important for NVDA or some other entity to play a strong background/facilitating role in getting the idea off the ground.

Lastly, nearly all of the woodworkers who responded to the inquiries in this feasibility stage of the project were very interested in knowing what the results of this study were. Most hope to hear from NVDA about the results and next steps, if any are contemplated.

4. Conclusions and Recommendations

4.1 Interest and feasibility of the idea – The level of interest showed by woodworkers of the Northeast Kingdom in the NVDA idea for a joint marketing and sales effort was high. Based on the interest demonstrated by many woodworkers, INRS recommends that NVDA further investigate the possibility of whether this idea can be made a reality. While this group of businessmen are busy people, there was sufficient interest to further inquire and invite these people to a meeting or series of meetings where joint discussions of the idea could take place. It is important to note that all the interviews and inquiries made for this study were done one-on-one except for several businesses where multiple managers chose to take part in the interview process. The logical next step to this process would be to invite these people to a meeting where the energy and ideas can be discussed in a group setting – likely to result in a whole new set of dynamics. The biggest unknowns about the idea centers on how the idea would be financed. No budget or notion of finances was discussed in this feasibility stage and the reality of what it would take to get this business idea started must be explored in a business-plan format.

4.2 Woodworker type and the idea – One clear finding for the next step of this project, should NVDA pursue it, is that the core business type that this idea would benefit most is the sole proprietorship fine furniture maker. Generally, these businesses employ between less than one (part-time) to up to 5 or 10 employees. Furniture makers much larger than this have their own marketing and sales staffs and would be unlikely or much less likely be part of the volunteer effort that would be necessary to make the business work. Woodworkers that focus on wood turning tend to have more options for sales since their products are smaller and much less expensive than furniture or cabinet makers. While these people should be kept informed of the effort, they are much less likely to participate or benefit from the effort. If this effort is to be feasible, it will be with the focus of fine wood furniture.

4.3 Scale and geographic scope – Although it was not a formal question in the interview process, many woodworkers brought up the issue of whether the Northeast Kingdom should be the geographic scope of this idea if it should move forward. Not a single woodworker queried had an issue with including northern New Hampshire woodworkers in the idea. In fact, several woodworkers named fine wood furniture makers in Coos or Grafton County, New Hampshire that they felt should be part of the effort. Strong concern was voiced by several woodworkers that colleagues from western or southern Vermont should not be included in this effort. It appears that a kinship of the hardships and challenges of working in the northern part of northern New England was a more self-defining attribute for these woodworkers than what state they are from.

4.4 A look at the economics of moving ahead with the idea – At the beginning of the study, INRS developed its own hypothesis about the outcome of this feasibility work:

“There are not enough woodworkers in the three-county Northeast Kingdom area of Vermont to support the idea of joint marketing and sales of wood products produced in the Kingdom with a focus on the southern New England market.”

This hypothesis was not shared with NVDA and simply stood as the benchmark from which INRS would measure the actual feasibility of the idea based on actual inquiries with those business people that would benefit from this idea, should it be successful. In one strong sense, INRS was wrong in its hypothesis. There was reasonably strong interest in this idea from the people and businesses that could potentially benefit from it. On the other hand, INRS thought that the database would include 40 to 50 woodworkers in the Kingdom counties. The useable database of 28 is smaller than anticipated and includes a class of woodworkers not likely to benefit from this idea (turners) as well as a number of part-time and/or retired or semi-retired business owners who do wood working as much as a hobby as a business.

Discounting the large capital costs associated with the development, purchase and/or rehabilitation of a facility in St. Johnsbury¹, a very rough one-year operating expense budget for this facility, (understanding that it is based on many assumptions from INRS), shows the scale of the challenge ahead:

<u>Expense Item</u>	<u>Cost</u>
Sales staff salaries	100,000
Facility utilities	2,000
Facility expenses	1,000
Taxes	4,000
Marketing planning	30,000
Advertising	50,000
Other	3,000
TOTAL	\$ 190,000

¹ As stated above, it is assumed that NVDA would play a lead role in development of a facility and that the organization that would be needed to run this marketing and sales effort would need to focus more on the marketing and operating efforts and budgets – i.e. the ongoing operations.

This rough budget assumes 2.5 full-time equivalents for sales staff. Marketing and planning assumes hiring marketing consultants (at least in early years) and development and maintenance of a top-notch website while the advertising budget is an essential component to the success of the effort. While the assumptions made for the budget are many and, admittedly, the actual budget might look very different for many reasons, the major components are present.

If we assume that 15 woodworkers fully participate in the effort, and product commissions are used as a means to fund operations, then, at even the very low commission rate of 10% of sale price, this requires a year's sales to total \$ 1.9 million. Spread among 15 producers, this amounts to average sales of \$ 380,000 per woodworker. This represents an unlikely situation. Clearly, careful discussions about budgets and operations will be necessary in building a successful business plan.

Despite this sobering financial analysis, there is substantial interest in this idea from the woodworkers of the Northeast Kingdom and it should be pursued, at least in a phase II of feasibility.

4.5 Conclusion – The woodworkers of the Northeast Kingdom of Vermont produce world-class fine furniture and other wood products, a substantial percentage of which come from native woods from local sources and the forests of the region. While some of these craftspeople enjoy strong business sales and growth, some do not. Most of the woodworkers, especially the fine furniture makers of the Kingdom counties, could benefit from the development of this idea. The development and financial challenges of making this idea a reality are substantial and careful business planning needs to be undertaken should NVDA wish to move this idea forward.

References

Membership list, Vermont Wood Products Association

Membership list, Guild of Vermont Furniture Makers

Multiple business databases for the Kingdom region accessed through web searches

Woodworkers in the Northeast Kingdom of Vermont

Northeastern Vermont Development Association – several leads on other woodworkers for database

5. Have you ever been part of joint marketing or joint sales? If so, describe and what worked/what didn't?

6. Could you see getting involved in the joint marketing and sales idea described on the first page?

7. If you might be interested, would you be willing to:

- serve on a committee or a board for the effort?

-Pay dues and/or fees to keep to group together and operating? How much?

-Further thoughts...

8. Overall level of interest in this idea (1-10 scale with 10 being very interested)?

Is the contact information (mailing information) accurate?

Other woodworkers not on the database?

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Wood worker database

See attached Excel spreadsheet