

The Softwood Lumber Check-Off

Executive Summary

This paper explores current compelling opportunities for the solid wood industry, and a new approach to tap their potential. The value proposition in the multi-family and low rise non-residential sectors is significant, but insufficiently communicated. Commercialization of innovative products like Cross Laminated Timber begs for a coordinated strategy, while opportunities in emerging, offshore markets are waiting to be tapped by North American industry. Meanwhile, erosion of market share in the residential sector in traditional applications such as siding, trim, decking and outdoor living applications has gone unchecked. Buyers are more demanding and have higher expectations, while competitors have improved the value proposition of their products through aggressive promotional programs that effectively differentiate their products. Simply relying on price to recapture market share will not succeed. Without an aggressive, coordinated approach to promotion that reflects the 21st century marketplace, the softwood lumber industry will continue on a downward trajectory. Wood will be left behind.

The status quo “strategy” has cost producers significant profits from both share erosion and lost opportunity. Continuing on this path cannot achieve the market gains that allow the industry to maximize the true value of its products. It’s time for a new approach—a new strategy focused on effectively promoting the value proposition for wood products.

The proposed softwood lumber check-off program is the new approach that can fill this gap. While the check-off does not meet everyone’s exact specifications, it does offer a unique funding vehicle that, if well managed, can help the wood products sector change its historic hands-off approach. The goal: building markets and effectively moving from a commodity-based sector to a value-based industry that offers compelling growth opportunities for structural and appearance products alike.

Based on conservative estimates, by Year Five *the programs funded by the softwood lumber check-off would increase U.S. consumption of softwood lumber by more than 3.5 billion board feet (Bbf) annually.* Economic modeling suggests that this new demand growth will boost *the average price of both structural and appearance grades by at least \$10/Mbf above normal cyclical movement over a multi-year period.* An investment in growing wood’s market share is an investment in the future of the industry that will deliver substantial returns.

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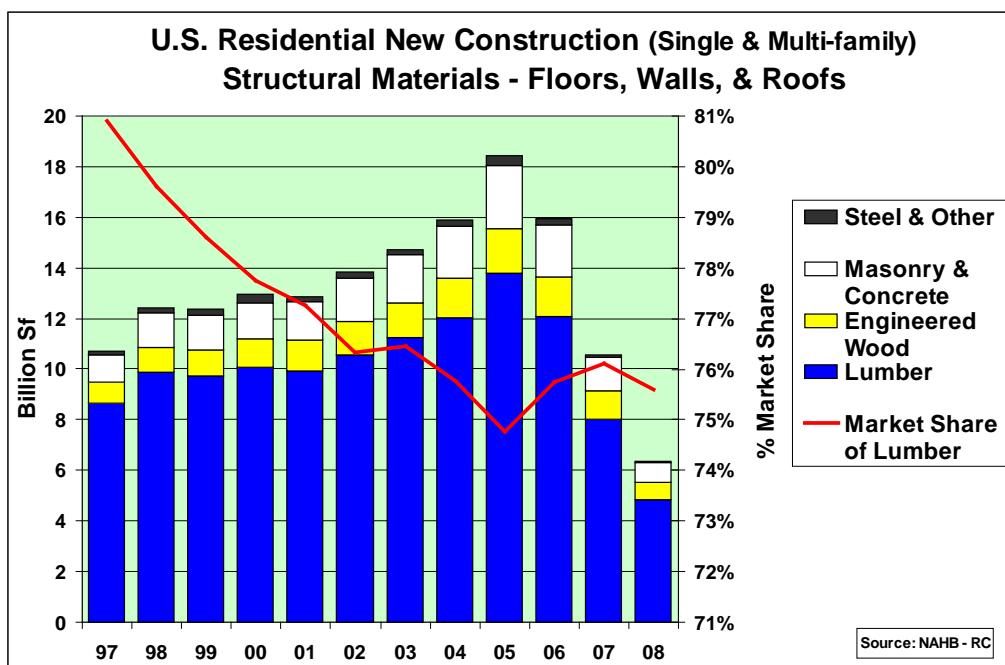
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Background

Market Share Erosion

From the 1990s through the first five years of the 21st century, lumber producers experienced healthy volume sales as demand for new, bigger homes expanded at an unprecedented rate. However, underneath the cover of solid volume sales, wood was experiencing erosion of market share to competing products, especially concrete, composites, steel and vinyl. This share erosion may have not been felt as acutely as it would have been in a flat market; nevertheless, estimates indicate the ***lost volume was worth hundreds of millions of dollars each year over the past decade.*** Traditional belief is that price is the sole driver of market share. Research proves otherwise—despite a considerable drop in product prices in recent years, lumber has not recaptured market share. Instead, the overall downward trend continues as competing products focus aggressive campaigns on capturing share from solid wood.

Table 1



Complicating the situation, over several decades ENGOs have aggressively attacked wood as an environmentally inappropriate choice. These challenges increased the cost of doing business and caused significant distraction as softwood lumber producers and their associations worked to address anti-industry attacks instead of promoting the value proposition of using wood products in residential and non-residential construction.

Competitive threats continue to grow in the structural and appearance business segments. The steel and concrete industries, supported by significant funding, have increased direct attacks on wood products, seeking to expand their market share in the single family, multi-family and light commercial segments. Similarly, the specialty and appearance business for traditional end use markets such as siding, decking and trim have experienced dramatic market share erosion to non-wood producers of fiber cement siding, wood/plastic decking and PVC trim.

Why have these other products been so successful? The answer is simple: strategically marketed their products. They have taken control of product messaging (including environment and green building), changed the conversation through effective communication, marketing and educational programs, and systematically worked to raise negative images of wood and the wood products sector to deflect focus from their own issues.

Competitors are working on several fronts. They successfully leverage traditional promotional tools (tradeshows, advertising, point-of-sale promotions, earned media, sales incentives), and, recognizing the importance of the building codes on material selection, the steel and concrete industries in particular have deliberate strategies to influence key decisions in their favor. To further their influence through third parties, they actively support university and architect education programs. In addition, research shows that the most powerful tool that the wood product competitors have leveraged is peer-to-peer promotion. They have effectively convinced their target audience members (professionals, builders, architects etc.) to carry their message for them and are well ahead in utilizing social media tools such as Twitter, Facebook, and have created a current, relevant Internet presence. Any new effort by the wood products industry will need to learn and leverage these proven best practices.

Growth Opportunities

Overview

Despite the competitive pressures, shifting market dynamics provide the softwood lumber sector with an unprecedented opportunity to create volume growth opportunities:

- Softwood products from sustainably managed North American forests possess a unique value proposition. Sustainability on its own won't tip the tables in favour of wood, but when combined with the other elements, it represents a strong sales proposition.
- Pressure to deliver greater value to clients has opened an unprecedented window of opportunity with architects and builders to change building practices.

The following table offers a high level summary of the market opportunities for structural and appearance wood products and the respective market size, current share within that market, opportunity to gain share, ease of capture, and timing of returns on the efforts.

Table 2

Market Segment	Primary Wood Product*	Size of Market	Current Wood Share	Opportunity to Gain Share	Ease of Capture	Timing of Returns
Domestic						
Residential (Single family)	Structural & Appearance	Large	Large	Small	Relative Ease	Short term
Repair & Remodel	Structural & Appearance	Large	Large	Small	Relative Ease	Short term
DIY/Outdoor Living	Structural & Appearance	Medium	Large	Small/Medium	Relative Ease	Short term
Raised Floor	Structural & Appearance	Medium	Small	Small/Medium	Medium/Difficult	Short/Medium
Industrial	Appearance	Small	Small	Small	Medium/Difficult	Medium
Multi Family** (5 stories or less)	Structural & Appearance	Medium	Medium	Small/Medium	Medium/Difficult	Medium
Non-Residential (5 stories or less)	Structural & Appearance	Large	Small	Large	Medium/Difficult	Medium/Long
Mid – High Rise (Over 5 stories)	Structural	Small	Small	Medium	Difficult***	Long term
Offshore						
China	Structural	Large	Small	Large	Medium	Short/Medium
Europe	Structural	Medium	Small/Medium	Small/Medium	Difficult	Long term
India	Structural	Large	Small	Medium/Large	Difficult	Long term
Other Asia	Structural	Medium	Small	Medium	Difficult	Long term

* Appearance refers to such applications as siding, decking, trim, joinery etc.

**In some jurisdictions codes permit wood construction up to 6 stories.

*** Opportunities require the introduction of new technologies such as CLT and code variance.

Taking account of overall market size, the opportunity to gain share and the ability to capture that share, the following market segments offer considerable growth potential:

1. Non Residential
2. Offshore
3. Mid – High Rise (assuming commercialization of new building technologies/systems)

That said, opportunities in the outdoor living and raised floor segments should not be ignored as they offer significant potential in the short to medium term.

Non-Residential

Comparing the volume of wood used in residential and commercial construction to the value of construction is the first indicator that the non-residential building market opportunity is sizable. In 2003, the value of total non-residential construction in North America was roughly the same as residential construction, but the volume of wood products used in non-residential construction was only a small fraction of the residential sector. Random Lengths recently estimated the current lumber use in these buildings to be less than 1.0 Bbf annually.

Research from the USDA Forest Service (USFS) and FPInnovations presents strong evidence that considerable growth in lumber usage in non-residential markets is achievable. Considering the incidence of school framing type by region shows potential gains by transferring building practices between regions. Wood-framed school construction is 10 times higher in the US-West than the rest of the country, for reasons unrelated to structural capabilities or needs.

Wood is particularly well received by specifiers for buildings that are two stories or less. Statistics show that by area constructed, two-story buildings make up 71% of the total area constructed and 91% of all buildings constructed. As such, these offer an immediate opportunity to capture increased market share for wood products. Aggressive educational efforts could encourage specifiers to expand their consideration of wood further in three- and four-story structures (and even higher with new building systems and code changes).

A 2006 USFS-led study determined that the potential annual wood volume in the non-residential market was 9.5 billion board feet of softwood lumber assuming all buildings, where currently permitted by code, were built with wood. Achieving 100% market share is not realistic, but the USFS' analysis indicates that with a properly designed and executed market development initiative, wood should be able to achieve an incremental volume, over and above normal cyclical market growth, of up to 6.0 Bbf of softwood lumber annually.

As illustrated in Table 3, the WoodWorks program forecasts that by 2016, 25% of the total realistic potential gain for lumber is achievable; this equates to an incremental annual increase of 1.5 billion board feet annually and a doubling of wood's market share from 16.5% to 33%, as measured by percent of floor area constructed (per McGraw-Hill).

Table 3

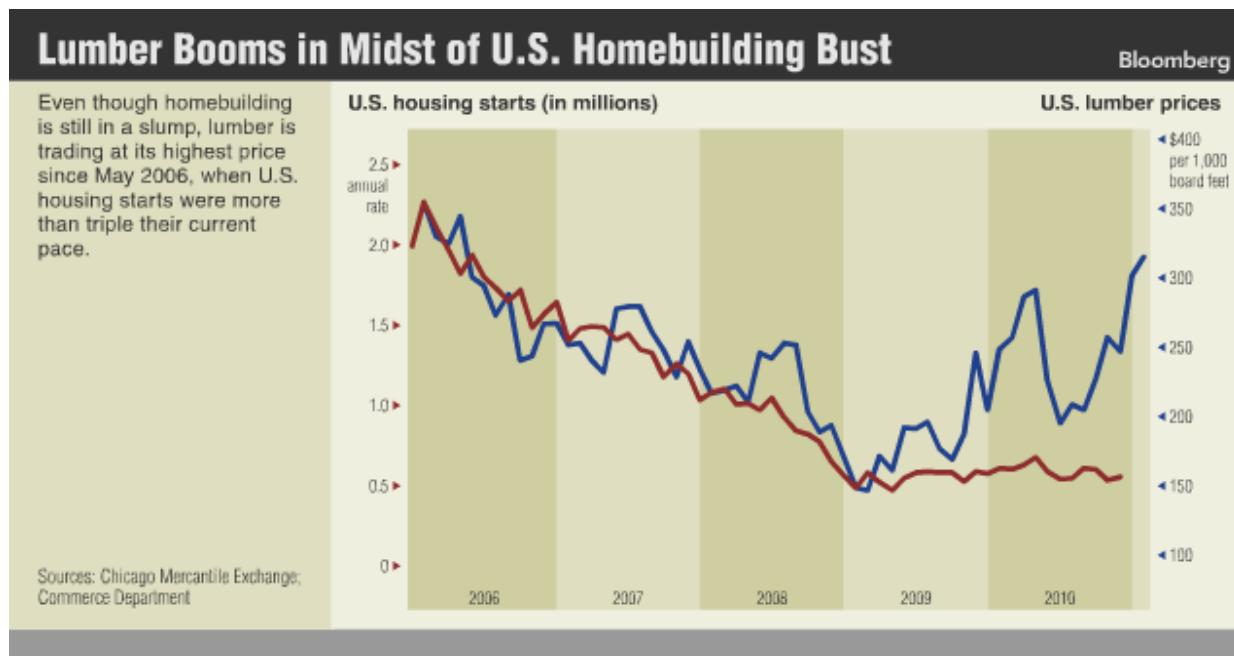


Offshore

The Canadian industry has been a pioneer in developing demand for softwood lumber in offshore markets, in order to diversify demand for softwood lumber away from the North American market in light of the economic downturn. The results have been significant: 2010 offshore shipments are estimated at over 3.5 Bbf. From virtually no market, China has increased rapidly to 45-50% of the total export volume. Although this volume is considerable, it is a small fraction of the lumber demand in emerging markets such as China and India.

This degree of diversification in softwood lumber markets has dramatically impacted price. Historically softwood lumber prices tracked housing starts; but as a result of this diversification, prices have risen dramatically even while the housing market remained stagnant. In fact, prices have risen by \$150/Mbf since the lows of late 2008/early 2009. While not all of the price increase can be attributed to volume shift, diversification has undeniably been a key influence, and this trend is expected to continue. According to Peter Ruschmeier, an analyst at Barclay's Capital “A multi-year upturn in demand and prices is likely for logs, lumber and other wood products” as China increasingly turns to Canada and the US for imports.

Table 4



The International Wood Markets Group echo Mr. Ruschmeier's comments in "The China Book Outlook to 2015": "A key driver to improved lumber prices is not only improving U.S. housing starts, but also the rapidly rising demand in China for both logs and lumber. Although U.S. housing starts will increase by only 8% in 2010, it is important to note that lumber prices (W-SPF 2 x 4 #2 & Better) have increased by 40% in 2010 to average of US\$255/Mbf as compared to the average price achieved in 2009."

The Canadian industry, for the most part, has gone it alone in offshore markets, supported largely by provincial and federal governments. These market development efforts have achieved measurable results and, with modest supplemental funding from check-off as leverage, will be able to achieve the scale and consistency necessary to capture the bulk of the potential demand in these markets over the long-term, even in the face of competition from other building products counting on China and emerging markets to boost sales.

A fraction of the check-off budget could be allocated to leverage substantial funds through the US Foreign Agriculture Service, which could, in turn, leverage support and partnerships with the Canadian provincial and federal governments. The creation of a sizeable marketing budget under a collaborative umbrella would be a powerful tool to enable all North American producers to benefit from the diversification effort. Some will benefit directly via sales to the offshore markets while others will benefit from price increases in North America resulting from the diversification. This opportunity could not come at a better time for the North American

industry and must not be ignored. What's more, as the offshore market opportunity is likely to provide short- to medium-term results, it is a logical and necessary complement to the medium- to long-term non-residential opportunity.

Mid-High Rise Construction

As highlighted in Table 2, to achieve increased market share for softwood lumber products in buildings greater than 5 stories, new building systems/technologies are required (in addition to amendments to the building codes in many jurisdictions).

Cross Laminated Timber (CLT) technology is currently being used in the UK, Scandinavia and Austria to construct commercial and multi-family residential structures up to 9 stories high. The technology meets or exceeds all safety standards and current construction thresholds for performance in Europe. CLT construction, based on solid wood laminated panels, replaces traditional concrete and masonry construction for mid-high rise buildings in Europe.

This new technology is a game changer for the North American market, with the potential for 2.5 Bbf annually (assuming a 15% market penetration). But this volume is incremental to the potential represented by the low-rise non-residential sector. To accelerate the commercialization and market acceptance of CLT systems, industry must invest in a number of tactics such as structural and fire research, code acceptance, demonstration projects, and training in end use applications. Yet there are currently no industry mechanisms or funding to facilitate such coordination. The governance structure and funding of the softwood lumber check-off are ideally suited to this effort, to the benefit of the entire North American industry.

Industry Efforts to Date

To date, the wood products industry response to competing products has been tepid, too limited in scope and duration, and too uncoordinated, to have a significant and sustained impact. Efforts that have been started, failed due to limited funding and commitment. The most obvious example of this is the Wood Promotion Network (WPN), which had strong initial support. The WPN failed relatively quickly because funding support decreased in its second year and it was not able to maintain its original plan. Because funding support diminished rapidly, the program was unable to deliver on its original objectives, further weakening support. Other efforts implemented recently to develop new opportunities or defend against direct competition are making progress, but lack the overall scale and funding consistency to ensure long-term success.

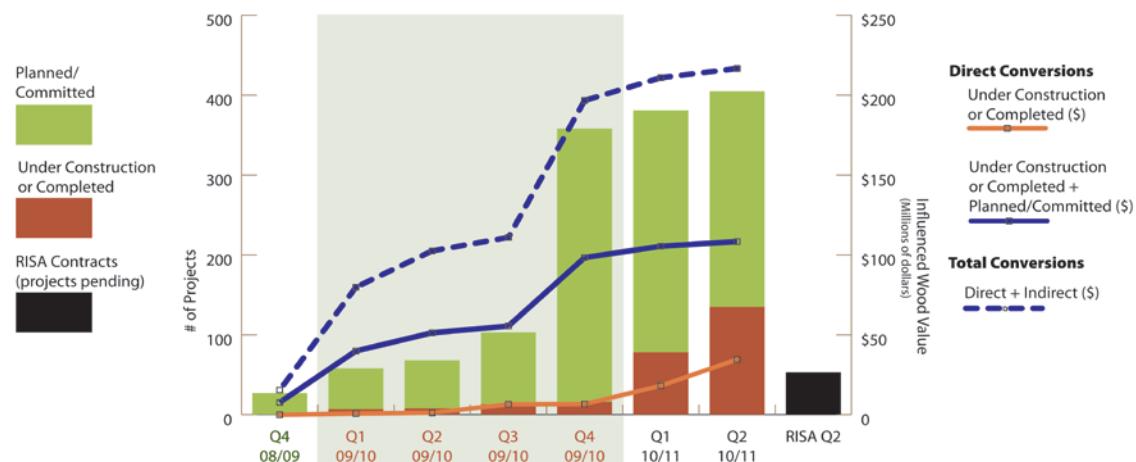
Several programs in offshore (non – North American) markets have been very successful in establishing positive awareness and increased use for wood products. Examples include the

Austrian industry's Proholz campaign and the Australian Timber Development Association. Both of these programs are similar in scope to the proposed check-off program. In fact, the Australian program is funded through a similar mechanism.

Current successful examples of North American programs designed to exploit market opportunities include:

- **WPC/US Wood Works** to develop the demand for softwood lumber in non-residential construction. In the start-up phase the WoodWorks program is already generating positive results. The program has achieved more than 400 project conversions (including 200 McDonald's restaurants) with incremental lumber sales valued at \$217 million.

Table 5



- **SFPA/APA Raised Floor Initiative** in residential construction. Industry research has identified significant growth potential for softwood lumber products for raised floor construction systems in the Gulf States. This market represents over 700 Mmbf of incremental demand for softwood lumber. The Raised Floor program is still in the start-up phase, but is already responsible for converting more than 1,500 homes from slab on grade to raised floor construction, equating to more than \$3 million. The program has identified another 16,000 prospective conversions for the short term.
- **SLMA Outdoor Living Program** focuses on end-use applications such as decks, porches and other outdoor structures built either as part of new construction or as additions to homes in the repair and remodelling market sectors. The overall decking market consumes 6.6 Bbf, but faces significant competition from non-wood alternatives. The Outdoor Living program's goal is to recapture lost market share in this segment.

- The **green/sustainable building** program is developing a proactive strategy focused on increasing awareness of the many environmental benefits of softwood lumber products, and leverages Canadian provincial and federal government funding.
- **Growing demand through innovation.** A main barrier to developing new products and building systems has been the lack of risk capital available within the industry. In the current economic environment, individual companies, (particularly public ones) are reluctant to risk budgets to pursue and develop new products or systems. Consequently, promising products or building systems – such as Cross Laminated Timber technology (see page 8) -- are not properly evaluated and developed for the North American market. Funding from Canadian provincial and federal governments has been leveraged to develop strategies to facilitate the commercialization of CLT.

The Problem and Need for a New Approach

Each of the programs discussed above has received substantial funding from the Binational Softwood Lumber Council (Council). Over the past three years, the Council has leveraged an incremental \$20 million of funding to support its initiatives. Council's investment in these efforts is crucial; without it none of these programs would continue at their current levels—if at all. The funding the Council uses to invest in these programs is a lump sum that will not be replenished. If a check-off program is not implemented, these promising programs will be left without adequate support to achieve their goals and fulfill the true market potential of the softwood products they promote.

Decision

The first decision facing the wood products industry is not whether to support the check-off funding model. Rather, the first decision is whether the status quo, characterized by the absence of an industry-wide strategy and a laissez-faire, association-by-association approach, is the right approach. The evidence provides a clear answer: No. The logic and sense of a broad based, industry-funded vehicle to protect market share and expand demand is self-evident. Other models have been tried and have failed. It's time for a new approach.

A New Approach

The industry needs a long-term strategic program to market softwood lumber products, increase softwood lumber sales, and drive market share gains and returns in several important markets. A North American softwood lumber check-off program is the best way to do this. A check-off addresses the deficiencies of past programs and provides the most fair and equitable way to raise sufficient funding for a long enough period of time to realize meaningful market growth. A check-off funded promotion program would be built around the following principles.

Goals and Objectives

The goal of the check-off program is to grow softwood lumber profitability in key North American and global markets. The first priority is to leverage existing programs to take advantage of current opportunities (as outlined). Specific objectives include:

1. Increase wood use in the light commercial/non-residential and multi-family markets.
2. Grow demand in residential and mid-high rise construction through building system improvements and innovation.
3. Defend and rebuild share in the outdoor living market.
4. Explore and pursue new opportunities in offshore markets.

Collectively, these markets offer the greatest immediate opportunity for softwood lumber products, based on past programs, current research and the results to date of the Binational Softwood Lumber Council. Successful execution of targeted programs will generate incremental annual growth in softwood lumber consumption of at least 3.5 Bbf by Year 5 of the program.

Target Audience

At least 80% of the promotional program will target the design and building trades, and key building code influencers, rather than consumers. Specific market segments, like outdoor living, are the exception.

Pro-Wood Messaging

The check-off will establish clear and consistent brand positioning for wood products as the most practical, affordable and sustainable choice for use in all these markets to provide support across all promotional programs. This will be accomplished through a blend of over-arching communications targeted at markets and audiences most critical to success, along with extensive, on-the-ground programs of trade relations, events, and education targeted to key influencers whose decisions will result in more specification of wood.

The goal would be to ensure that wood is understood to be the most logical, cost-effective and environmentally friendly choice, especially for construction professionals or corporate executives who want to blend practicality, affordability and sustainability.

Leveraging/Co-op

As the Binational Softwood Lumber Council has shown, the wood industry has the potential to leverage funding from allies, customers, and related businesses. The check-off program will aim to secure financial support from U.S. and Canadian government agencies and organizations that rely on a thriving wood products sector, such as wholesalers, retailers, customers, transportation companies, tool and fastener companies, and labour unions.

The check-off should also leverage communications support to extend the reach, frequency and impact of the program. This would include co-op materials for use by, and creating alignment among, industry members, all related associations, and--for delivery into retail markets--commercial and residential builders, architects, designers, retailers and related trade press.

Rationalization

The solid wood industry invests considerable funds into market initiatives delivered through industry associations or organizations. While the goals of many are valid, they typically lack the scale necessary to have a true and lasting impact on the demand for solid wood lumber, and they often lack coordination and collaboration, leading to duplication and inefficient use of funds. In contrast, the softwood lumber check-off will increase coordination, collaboration and effectiveness through a unified promotion strategy, led by a senior industry board, resulting in direct cost savings for industry. Other programs that deliver services to the softwood lumber industry as a whole, such as the code, engineering and technology transfer work of the American Wood Council (AWC), will also be eligible for funding under the check-off, offsetting the need for separate softwood industry funding.

Governance

The prerequisites for a successful softwood lumber initiative include:

- A program designed to run as a virtual, entrepreneurial initiative, rather than as a new association. It is an investment in institutionalized category marketing, rather than in an institution to do category marketing.
- High level, long-term commitment from industry members to ensure continuous alignment of campaign strategy with industry business objectives.
- Measurement of progress and the efficacy and efficiency of strategy and tactics against clear benchmarks. Evaluations are a critical component of good governance and

exceptional marketing communications and inform adaptive management practices. This initiative must be supported with solid metrics and measurement tools.

Key parameters for program structure and governance include:

1. **Board of industry leaders** for governance, coordination with industry, strategy and program development.
2. **Executive committee** to oversee the operation of the program and its staff.
3. **Lean organization** enforced by an 8 percent cap on staffing, administration and overhead expenses which require all program activities to be outsourced.
4. **Renewal mechanism** to allow industry to vote whether or to continue after five years.

Board

The Softwood Lumber Board would consist of 18-19 members balanced among large and small, independent and integrated producers, representing all regions of North America proportionally by production. It will consist of owners, CEOs or heads of business, or other manufacturing company employees with strong experience in generic industry promotion and a demonstrated commitment to cross-industry functions, allocated as follows:

U.S. South	6
U.S. West	5
U.S. Northeast/Lake States	1
Western Canada	4
Eastern Canada	2
Overseas (optional, based on market share)	1
Total	19

Primary **Board duties** are to establish and oversee the:

- 1) Organization
- 2) Strategic plan
- 3) Marketing and program plans and budgets
- 4) Financial performance and controls
- 5) Program evaluation and membership
- 6) Compliance functions of the check-off

The Board will nominate an **executive committee** of 5 directors to provide operational oversight of the program and its staff. The executive will consist of the board Chair along with four other directors elected by the full board.

Administration

The softwood lumber check-off will be run as a virtual, entrepreneurial initiative, rather than as a new association. Overall administrative expenses are limited by the Check-off Order to no more than 8% of total revenues. To achieve this, the program will be run as an investment fund that outsources the bulk of delivery to experts, programs, and associations best suited to deliver program objectives. Importantly, the check-off will structure most costs as **variable costs** rather than fixed costs, further assuring lean and cost-efficient program administration.

Unlike comparable check-offs with larger staffs, with solid resources dedicated to delivering results, and a mandate to act as an investment program, the softwood lumber check-off program will maintain a lean organization, with a total of 5 FTEs anticipated, as follows:

- **CEO/President (1 FTE)**: Reports directly to the Board; responsible for successful program operations. The CEO, with proven expertise in softwood lumber markets and promotion, will oversee market research, lead promotion planning and supervise staff/contractors.
- **Accounting & Compliance (2 FTE)** Responsible for financial management, billing of assessment payers, industry statistics, compliance (including USDA regulations).
- **Member Outreach & Communications (1 FTE)** Responsible for program evaluation and ongoing outreach and communication to assessment payers (check-off “membership”).
- **Administrative Support (1 FTE)** Provides overall administrative and clerical support.

For the first 18 months, the program can be managed with 3 positions: CEO/President, one Accounting & Compliance, and Member Outreach & Communications. Others will follow later.

The Softwood Lumber Check-off will leverage established service providers when possible, including accounting back office (i.e. accounts payable, receivable etc.), event planning/coordination, and some administrative functions. Similarly, the program will not establish a dedicated bricks and mortar office. Rather it will use on-demand facilities and services available on a temporary costs basis to ensure no capital outlay to bricks and mortar or long-term commitment while still having access to a range of functions, including mail handling, reception services, and office space and meeting rooms (when required). The program administration team may not need to be together regularly to ensure service delivery. A central location such as Chicago will be utilized to accommodate meetings and other organizational requirements.

Budget

An optimum funding level of \$20 million (before leveraging) is needed to create the desired volume and share growth. This following table shows funding by assessment level, factoring in the 15Mmbf exemption, under different market conditions. Clearly it will take time to reach the optimum level. Transitional support from the Council could speed the ramp up.

Assessment	Shipments		
	35Bbf	45Bbf	55Bbf
\$0.35/Mbf	\$11.0 million	\$14.0 million	\$17.5 million
\$0.50/Mbf	\$15.5 million	\$20.0 million	\$25.0 million

The following budget outlines possible investment decisions in the key program areas.

Program	Target Audience	Key Elements	Annual Budget
Non Residential	Architects/Engineers	Education	\$3.0 million
		Codes & Standards (e.g. AWC - lumber)	
		Market Development (e.g. WoodWorks)	
		Green Building/Pro-Wood	
Mid-High Rise	Architects/Trade/ Engineers	Research	\$2.5 million
		Codes & Standards (e.g. AWC - lumber)	
		Commercialization	
Offshore Markets	Various	Market Development	\$2.5 million
Residential	Builders	Education	\$2.5 million
		Builder Promotion (e.g. Raised Floor Living)	
		Codes & Standards (e.g. AWC - lumber)	
		Green Building/Pro-Wood	
Appearance	Consumer/Trade	Education	\$2.0 million
		Retail Strategy (e.g. Real Outdoor Living)	
		Consumer Promotion	
		Green Building/Pro-Wood	
Market Statistics	Industry	Statistical reporting	\$0.3 million
		Program Administration	\$1.2 million
			\$14.0 million

Duration

Lessons learned from past programs, like the Wood Promotion Network, indicate that to ensure optimum results a program must be backed by predictable, appropriate funding for a minimum initial period of 5 years, and program focus and strategies should remain largely consistent throughout that period. After the initial 5-year period, progress and market dynamics will be analyzed and the overall strategy revised as needed. The softwood lumber check-off Order stipulates that after five years, a formal vote will determine whether to continue the program.

Impact: ROI

Calculating the softwood lumber check-off's return on investment (ROI) is important as it provides a quantitative basis for assessing relative success and future investment decisions. Two types of ROIs are used:

- **Program ROIs**—which are simple estimates of the value of the benefits generated versus the costs incurred—are useful for assessing general program value and efficiency compared to similar programs. Program ROIs are often used by government, and are required by USDA at least every five years to assess check-off program efficiency.
- **Investment ROIs**—which include consideration for the opportunity cost of capital, time value of money, elasticity of supply and demand, etc.—are suited to determining the profitability of an investment. Investment ROIs are often used by corporations to justify and/or ration their capital expenditures.

Although we will not be able to evaluate the check-off's ROI until it has operated for several years, we do know that the sales volumes of programs supported by the Binational Softwood Lumber Council, such as WoodWorks, are exceeding target volumes several-fold (Beyond the WoodWorks Pilot, Wood Products Council, January 2011).

Based on industry research and experience with programs like WoodWorks, investment in a softwood lumber check-off will generate significant return on investment by increasing both sales volume and sales price for softwood lumber products. This return will not only pay for the program itself, but generate significant returns across all industry sectors.

Volume Increase

Market research suggests a softwood lumber check-off will lead to considerable incremental volume by Year 5, resulting in the following incremental demand from the top three market segments over and above annual cyclical fluctuations:

Sector	Incremental Increase (per year)	Sales Value (average 10 year value of \$315/Mbf)
Non-residential	1.5 billion board feet	
Mid-High Rise	1.0 billion board feet	
Offshore	1.0 billion board feet	
TOTAL	3.5 billion board feet	\$1.1 billion

Using the above results, the total investments at the end of year five of the program would be the range of \$100 million, generating volume increases of \$1.1 billion, with the resulting program ROI of about 10:1, or \$10 in increased sales for every dollar invested.

Using the above results to calculate an investment ROI is more complicated. Lumber markets have relatively “inelastic” demand and supply relationships. This means that when demand increases or falls, industry is not able to adjust supply easily and prices rise or fall disproportionately. This is not news to any commodity product producer and, for wood products, is evidenced in the price volatility that has become standard over many decades.

Although elasticity calculations are imprecise, most studies use lumber as the proxy for all wood products. The gains estimated in this analysis are based on calculations by forest products economist Henry Spelter of Wood Futures Insights and Forest Economic Advisors, and are intended to reflect conservative annual revenue impacts over a four year period of time. Assuming lumber prices approximating \$315/Mbf and a 40 Bbf market, an 8.75% increase in lumber demand (the annual increment generated by the check-off in year five) would result in a price increase of at least \$10.00/Mbf, although incremental production from idle capacity would eventually mitigate some of the revenue gains achieved. Applied to the 40+ Bbf consumed, this would represent incremental sector-wide revenues of over \$400 million per year.

It is important to note that the price increases experienced with increases in demand are applicable to all production and thus even small increases in demand will result in significant revenues for the sector as a whole. These ROI calculations indicate that the revenues gained will more than offset the program costs and provide a significant ROI, even in the short term. An investment in growing wood’s market share is an investment in the future of the industry that will deliver substantial returns.