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fine furniture"  
— since 1978 —*

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# Wood Castle Times

Ron Loe  
President

[In three articles, Ron Loe, Wood Castle President, shares his thoughts regarding the current economic climate challenging us all. He leads off with "Investing in the Future," below. On a following page are the two other pieces, "Demand and Perception" and "Transitioning to the New Economy." Ron hopes readers will find these observations thought-provoking and he invites reader comments. —Ed.]



## Investing in the Future

### Boom to Bust

The past, the gurus say, is no predictor of the future. They got that right. Not so many months ago, it seemed like the world was on a wealth binge. While bulls stampeded on Wall Street, companies ramped up production and hired anyone with matching socks. Consumers, for their part, bought big and often, including homes, TVs, cars, and double lattes. Boom, boom.

Then came October 2008 and, ... well, bust, bust. Like a flipped switch, we've gone from sunny to dark. Markets are imploding. Manufacturing is taking body blows. Credible folks say we're headed into a depression — or we're in one already. Bust, bust, indeed.

### Good news ...

But all is not so gloomy, in my view. Despite the headlines, I'm optimistic about the future. Our economy will take its licks, for sure, but it will start growing again soon. In anticipation of this, Wood Castle is investing in the future with the installation of a state-of-the-art optimizing chop saw. It should be fully installed and operational as you read this.

The saw was custom-built to our specifications in Germany by Paul Saws, a world leader in circular saw machinery. We believe this new saw is the best-built and most efficient available in the world, promising to cut attendant labor costs by at least two percent while boosting yield by a similar percentage. While these numbers may seem modest, if not small, lumber and labor are the most significant costs in furniture manufacturing. Any reduction in these expenses helps my company stay competitive — and in business.

### ... and better news

But there's even better news: the saw's throughput is up to 50%

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## Economics

Some observations



A technician from Paul Saw/Germany fine-tunes the new installation. The optimizing chop saw was custom-built for Wood Castle and installed in December.



The new saw's sophisticated computer is linked remotely to production managers, facilitating quick and convenient updates to cut lists.

# TEAM Wood Castle



## Kim THE DYNAMO

She's never been accused of being shy. Or slow to find a quick and efficient solution to a problem. A quick study, Wood Castle's Kim Dippel is a cut-to-the-chase and take-charge woman who's funny, personable and focused — in short, a dynamo with a capital "D."

Kim was born in Detroit, Michigan, the youngest of three children. She met husband-to-be Jim Dippel while both attended Wayne State University. After marriage in 1974, they lived in the Detroit area until 1981, when his career as a chemist focusing in metallurgy took them first to Southern California and then to Groton/New London, Connecticut. While Jim advanced in his career, Kim took jobs in various areas, including home decorating, banking, and legal research, among others. While in Connecticut, Kim received a bachelor's degree in graphic design.

In 1995 Jim and Kim seized an opportunity to start a small titanium casting foundry in Sweet Home, Oregon. The start-up struggled, like so many entrepreneurial endeavors, but out of the experience emerged a company stronger today than ever. Kim helped administratively until she came to Wood Castle in December 2004.

She arrived at Wood Castle at the perfect time. Wood Castle was enjoying a rapid expansion, and keeping better track of inventory, orders and deliveries was a mounting concern. Kim hit the ground running and today, all but "owns" our customer service department. It's not too much of an exaggeration to say that if Kim doesn't have the answer to an inventory or shipping question, there just might not be an answer.

Kim's talents overflow to home. She's quite the chef, famous for her Timpano, an Italian Over-the-Top domed pasta fare that takes many hours to prepare and hungry hordes to devour. And those well-fed guests marvel at her interior decoration and design. The house is a gallery of taste and elegance. Examples abound: a harlequined-themed wine room, a Japanese-styled master bath, and a cozy, comfy sunroom, to name three.

Kim? Shy? You do the math.

## Contest Winner Chosen

Our Spring/Summer 2008 riddle asked, "If today is Thursday, what is the day after the day before the day before tomorrow?" Intelligent and clever people (all of you, as it turns out) sent in the correct answer, "**Thursday**." Our Official and Impartial Drawing Committee (that would be Kim) shuffled up the answers and randomly drew... (theatrical pause) ... **Finn Orvin, Store Manager at the West Los Angeles Plumbers** store. Congrats, Finn! Your good luck just earned you a \$250 credit toward anything Wood Castle manufacturers for retail sale.

## Kim's Faves

### Tea:

Tazo "Awake"

*"I can quit at any time."*

### Car:

1964 Studebaker Avanti

*"I'd like a red one, just like Dad had."*

### Music:

Kurt Elling, Jr., jazz vocalist

*"I like U-2, too. Really."*

### Hobby:

Interior designing

*"I'm just starting a 'tree mural' for my living room wall."*

### Author

John Irving

*"I've followed him through several novels."*

### Movie

*The Big Night*

*"This is a foodie movie about two Italian brothers and their struggle to keep their Italian restaurant open. If you like timpano and Louis Prima, you'll love The Big Night."*

**Note: Wood Castle's "Contest" is taking a vacation. Watch for the restart soon.**

faster than the old machine, which it replaces. Now, scanner and saw are separate stations, allowing uninterrupted material flow. After the saw station, an automated conveyor system sorts for up to six different lengths, significantly reducing material handling. This machine, I believe, will have the most positive impact on productivity of any machine Wood Castle has ever installed.

When the economy goes cold, markets get shy and the bears displace the bulls. But that doesn't mean we should hibernate. In my view, to heck with bulls and bears: investing in the future is always prudent.



Once material is chopped to varying sizes as dictated by the computer's cut list, sort stations push the lengths automatically to sort tables.

## Demand and Perception

There's reality, and then there's the perception of reality. The consequences of this mismatch can be all too real.

Take this scenario: Joe and Mary watch the evening news and "learn" that the country is experiencing an "economic meltdown." That consumer confidence has tanked. That layoffs are happening everywhere. That business revenues are off 25-40%.

Much of this is true — as far as it goes. But ignored or not reported is that more than 90% of Americans, like Joe and Mary, still have their same jobs, same incomes, and same homes.

Reality is one thing. Mary and Joe's perception of reality unfortunately is too easily shaped by doom-and-gloom news. Fear often imprisons reason.

The result? A "ripple" effect emerges from this fear that can lead to a phenomenon some economists call, "demand destruction."

Back to Joe and Mary. Their fear and uncertainty causes changes in their buying behavior. "You know, dear," Mary might say, "let's hold off buying that [refrigerator/bed/computer] we need."

Lots of other Joes and Marys renege, too, and as a consequence, stores see an aggregate drop in sales approximating 25-40%. To protect cash, the retailer focuses on fulfilling orders mostly from inventory. This caution results in a much smaller upstream order to the manufacturer — dropping by perhaps 30-60%.

Demand destruction has begun. But it gets worse.

The mills that supply the manufacturer experience a 50-80% drop in orders. The same reasoning as above applies here too: to conserve operating cash, the manufacturer is slow to order anything until his inventories are as low as possible. Tragically, the ripple of demand destruction guarantees that some mills will fold. Very few businesses can survive an 80% hit.

The good news is that our economy will eventually turn around, perhaps beginning as early as mid-2009. When hope and confidence return, however, new challenges will emerge, as demand for a time will far outrun both supply and capacity.

The scenario continues. Mary and Joe sense better times: "Let's go ahead, Joe, and order that new bed now," Mary says. The retailer, in turn, sees more and more orders to justify bringing inventories back up to normal levels. Same with the manufacturer. But what was once a ripple effect is now sort of a whiplash effect, as mill capacity is seriously deficient. Those mills surviving the slump take months to restaff and begin fulfilling larger orders. For those that were shuttered, it takes years and significant capital to restart.

Individually, of course, Joe and Mary were not responsible for the ripples of demand destruction, which can happen quickly.

Nor will they individually be responsible for kick-starting the slow recovery. But the sooner they and others change their perceptions away from uncertainty and fear, the better our reality will soon be.

## Transitioning to the New Economy

As dark as the economy seems to be, we see points of light that are heartening. Some of these bright spots include:

**Transportation costs fall** Freight and fuel costs are falling, a good thing after so many steep increases in recent years. These transportation costs may rise again, but they are unlikely to ramp up so quickly and steeply as before. As transportation costs so broadly affect our economy, a drop should help slow price increases for all goods and services.

### **Renewed focus on home**

Many families are reconsidering how to budget both their quality time and their discretionary dollars. It's more likely now that families will forego family trips to expensive, exotic places. Instead, they will consider how to maximize time closer to home. The shifted focus toward home will likely lead to increased interest in home furnishings — another positive.

**Value over price** As individuals and families look more closely at their budgets, price naturally takes on increased importance.

Or, so you'd think. My belief is that at least some folks, given the option and encouragement by retailers, will consider value over price. "Why purchase a cheaper, lower quality item, when I know it won't last," they might reason. "I'll just be back in the store again and again to buy replacements. It's a waste of time and money."

Now may be an opportune time to help convince people that value is more important than price, since families will likely spend more time together at home.

**Energy** Even amidst this serious recession environmental concerns are not likely to fade. While energy demand has fallen significantly (note falling fuel costs), the long-term trend for energy demand is sloped up, both here and abroad. During the current lull, however, policy makers will have more time to consider shifts in state and national energy policies. So-called green options will have time to prove themselves. Improved pollution controls and costs for coal, oil and gas may emerge. Nuclear may be reconsidered.

# California's Airborne Toxic Control Measure: Reducing formaldehyde emissions

## Background

California's Air Resources Board (C.A.R.B. for short) recently authorized an Air Toxic Control Measure (ATCT) aimed at significantly reducing or eliminating formaldehyde emissions from composite wood products, including particleboard, Medium-Density fiberboard (MDF), and hard-wood plywood. This regulation broadly covers manufacturing, assembly and retail sale of final products containing these materials. The first of two phases of the measure's implementation began January 1, 2009. All composite wood panels and finished/assembled furniture sold or transshipped within the borders of California must now comply with the measure. The regulation, among other things, dictates verification and certification of no (or very low) formaldehyde emissions. As well, the measure compels chain-of-custody documentation and labeling to demonstrate compliance. Legacy inventories of non-complying parts and products have a short time frame for sale or disposal.

## Impacts

The ATCM's monetary impact on fabricators, manufacturers and retailers is unclear. Third-party certification and mandatory labeling will doubtless increase costs, though by how much is not known and likely will vary with each affected party. The larger concern for many is that replacement options for legacy urea formaldehyde adhesives (the primary target of the ATCM) are unproven in the marketplace. Only time will sort out and establish reliable and cost-effective alternatives. An unfortunate and unintended consequence of the regulation, thus, may be that quality assurance will be shifted to real-world testing labs — consumers' homes and offices.

## Contrarian views

Some worry that the measure's total cost will strike a deeply damaging blow to California furniture makers and retailers, among others. These opponents to the rule compellingly question one of the measure's premises, which is that formaldehyde emissions are intolerable and carcinogenic and, thus, must be severely regulated and eliminated. No documented cases of human cancer death from formaldehyde exposure are publically known, according to this contingent. Thus all the state money diverted to this "cause" is money that could be spent elsewhere where immediate and measurable results might be enjoyed. Beyond the opportunity costs of the state money are the compliance costs that will burden furniture makers, retailers and consumers.

Despite these important objections, the measure is now in effect and its regulations reflect a new reality, where public and occupational and consumer health concerns increasingly will trump old ways of manufacturing. Despite the costs, we must adapt.

## No worries for Wood Castle

While some wood furniture manufacturers and retailing realms are confused and worried about the new C.A.R.B. formaldehyde regulation, Wood Castle is not.

Complying will be relatively easy for us. Wood Castle has always been focused on solid wood construction; we've never used particleboard (and never will). Our limited use of plywood in drawers and backers will change to using solid sycamore and zero-formaldehyde panels. Similarly, solid wood panels will replace large veneered panels.

Wood Castle's corporate focus has always been proactive: we continually seek ways to improve, both in our products and, necessarily, our bottom line. C.A.R.B.'s formaldehyde reducing regulations, we believe, will ultimately usher in a new era of crafting furniture for healthy homes and healthy people.

## Nobody's perfect Green washing

### Forget green; think green-er

A big buzzword these days is "green." But, what does it mean, being "green"? For many less scrupulous marketers, it means a broad opportunity to "greenwash." Simply stated, greenwashing refers to illuminating a product with a much more eco-friendly light than it deserves. In some cases, deceptive marketing hides behind the vagueness of current public perceptions. In fact, according to TerraChoice Environmental Marketing, Inc. ([www.terrachoice.com](http://www.terrachoice.com)), there is no reliable definition of "green." And there may never be. Products can only be green-er, and only in the context of current technologies, measurements and perceptions.

TerraChoice conducted a scientific study involving six "big-box" stores, looking across the marketing claims of over a thousand products. From this research TerraChoice compiled a list of "Six Sins of Greenwashing." The most prevalent was The Hidden Trade-Off, where claims trumpet a single attribute while conveniently ignoring others that would be difficult to "spin" in a positive, eco-friendly way. An example of Hidden Trade-Off: a car boasting high fuel efficiency but is poorly made, unsafe and polluting.

Other sins include: No Proof (claims are not or cannot be substantiated); Vagueness (poorly defined claims, such as "chemical-free" or "non-toxic"); Irrelevance (distracting red-herring claims); Lesser of Two Evils (an organic cigarette is still a cigarette); and Fibbing (false claims).

Bottom line: The important message for all marketers is the supremacy of transparency and honesty. In the end, the fuller the disclosure, the better. So, in this spirit...

### Wood Castle furniture: some facts

**Lumber sources:** Our woods are sourced from both domestic and North American forestlands, all of which are regulated by strict forestry practice legislation. We purchase no woods from endangered forest regions, such as Africa, Indonesia or Brazil. At any time, depending on price and availability, we may source some plywood from overseas. Our broad strategy: build relationships with suppliers who consistently and reliably deal with regulated forests.

**Finishes:** Wood Castle protects its products with a quick-curing lacquer seal and finish. Normal curing takes approximately 30 days. Off-gassing after that period is minimal. The lacquer is widely used in the industry.

**Energy consumption:** Our grid energy comes from Pacific Power, a local distributor in the northwest, where a large amount of power is generated through hydro-electric dams. Wood Castle's broad energy strategy is to maximize plant and equipment efficiency and, thereby, reduce demand from the grid. Additionally, Wood Castle provides heat to three of our buildings with high-efficiency wood burners, fed with cleaner-burning, kiln-dried mill ends that otherwise would be sold as waste.