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Putnam Lumber makes inroads into China

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JACKSONVILLE -- Ellis Crosby's family has been exporting lumber for nearly 60 years, but in that time their company has never had the chance to grow like the one that it's working to capitalize on in China.

"This is the biggest opportunity that any American business ever had," Crosby said, referring to the growing Chinese consumer market. "How would you like to get into a 1.3 billion-person market where they don't know who you are but they want to buy your stuff?"

For the people at **Putnam Lumber**, the Jacksonville-based company Crosby's father founded in 1945, the answer is they would like it very much.

Putnam has begun sending wood to China, mostly yellow Southern pine already cut in long pieces, tapping into the country's growing appetite for building materials. But the company doesn't want to stop at China's doorstep, merely dropping off raw materials for someone else to sell within the country. As part of a joint venture with Chinese partners, Putnam has set up the Changchun New Sunlight Wooden Preservation Co. with a lumber pressure treatment plant in Changchun, a city of about 7 million people about 530 miles northeast of Beijing. The plant is set up to treat and further cut the wood to meet customers' needs.

And there are plenty of customers.

"We're seeing a growing market for pressure-treated lumber in China," said Reese Blanton, Putnam's marketing manager. Blanton attributes much of that rising demand to "one of the fastest emerging middle classes" in the world.

Even if only 20 percent of China's 1.3 billion people are able to afford a home, that's still about as many people as there are in the United States, notes **Jim Valenti, founder and CEO of World Trade Group**, a Jacksonville-based consulting group that specializes in helping companies such as Putnam Lumber do business in China. WTG assisted Putnam in setting up its China joint venture.

It's not merely the sheer size of China's population that makes it a ripe market for Putnam, but also the newness of a consumer-driven economy that has only recently opened the door to home ownership.

"It's the fastest-growing housing market in the world," Valenti said, "growing at an annual rate of 35 percent for the last four years."

It wasn't so much that homeownership was prohibited as much as it was unavailable in a state-managed economy, Valenti said, resulting in "a lot of pent-up capital to buy homes."

By exporting non-pressure-treated lumber, Putnam can send more lumber because it weighs less, and the company can control the costs of treating the wood by doing so at its own plant with Chinese workers, said Russell Crosby, Putnam's general manager and son of Ellis Crosby.

In fact, a company seeking to sell anything in China requiring any degree of manufacturing will find it difficult to make such a venture economically feasible without making the product there, Valenti said.

"You can't afford to do it here and sell it there," Valenti said.

The biggest reason is the cost of labor. The average cost of labor in China is 61 cents an hour, less than in Mexico at \$3.52 an hour and significantly less than in the United States at \$21.53 an hour, according to the World Trade Group.

And in many cases, Valenti said, U.S. companies of all sizes are finding that making goods in China and bringing them back to the United States yields an average savings of 30 percent to 50 percent, even after accounting for the cost of shipping.

"All of these multinationals are going there to manufacture there and bring it out," Valenti said. "You'd be hard-pressed to find 25 percent of Fortune 500 companies not manufacturing there."

Labor in China is not only cheap, it's also abundant. And so far Putnam Lumber has found it to be high-quality, said Blanton, who has been to China with Russell Crosby several times to check on their treatment plant's progress.

Blanton said the work force is highly educated because "everyone goes to [post-secondary] school" and is motivated to work -- Putnam hired a chemist who couldn't find a job. Unemployment averages about 10 percent, not including the 150 million workers living in rural areas who are considered to be even more underemployed. With new workers outpacing new jobs by a margin of 12 million to 8 million, according to the World Trade Group, employee retention tends to be high.

"Once they get a job, they keep it," Blanton said.

Putnam has invested about \$400,000 in creating its pressure treatment plant in China, Blanton said. He said the plant is the exporter's first foray into manufacturing, a venture the company would never have attempted at home.

"There are too many liabilities," said Blanton, adding that setting up the plant in this country would likely have cost about \$2 million because of a multitude of environmental regulations and higher costs. "We definitely wouldn't have a pressure-treated lumber plant in the United States."

While Putnam Lumber is learning the ins and outs of manufacturing, it's also learning that the cultural and political differences in China can make doing business there challenging because little can be taken for granted. For example, Ellis Crosby said, the country's long history with communism has left its people with a limited understanding of a basic capitalistic skill.

"They don't know how to sell," he said. "They know how to trade but not how to market."

Valenti said that's attributable to having an economy planned from the top down -- the opposite of a market economy where consumer choice dictates.

"The Chinese always look to the Western partner to do the marketing and sales," Valenti said. "They don't have a clue about marketing their products outside their country. For 50 years they've been told there's no need to do so."

Russell Crosby and Blanton recently returned from a trip to China meant primarily for sales staff recruiting, but their plans were frustrated because the people they had hoped to meet turned out to be on holiday the first week in May. Crosby said such setbacks can often result from not knowing certain cultural norms and that anyone trying to do business in China should expect and learn from them.

The trip was not a total loss because they were able to check on the treatment plant, but Crosby said they would likely go back in October or November to find salespeople.

In the meantime, Russell Crosby said, Putnam's Chinese joint venture partners, who manage the plant's day-to-day operations, will also work to establish customers.

Experts say the key to any joint venture in China is having the right partners and good governmental relationships. But finding and nurturing such partnerships takes patience.

"Don't be surprised to spend a lot of time developing trust, talking about food and family before getting to business," Bill Cronin of Enterprise Florida said during a recent seminar on trade with China held at the University of North Florida. "Plan for it. Budget for it. It's a long-term relationship."

Putnam was fortunate to be able to find its Chinese partners through a mutual acquaintance, but such groups as Enterprise Florida and the U.S. Commercial Service have programs designed to introduce U.S. companies to potential partners.

However they choose to make inroads in China, Valenti said plenty of Northeast Florida enterprises are making the effort.

"It's growing very rapidly, everything from consumer goods to industrial products," Valenti said. "We are a microcosm of what's happening all over the United States."

And with that in mind, Ellis Crosby said, Putnam determined that given the competitive nature of the lumber export business moving quickly on its Chinese ambitions -- "getting there first before others think about it" -- was critical.

"Putnam has about a 20-yard lead in a 100-yard dash," he said.

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