

International Business Report

US Kitchen Cabinet Market Entry Analysis for Chinese Vendors



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Executive Summary

The purpose of this report is to analyze the kitchen cabinet industry and market in the United States and to provide a neutral assessment and strategic recommendations for Chinese manufactures and exporters who are interested in entering the US kitchen cabinet market and serving the American mass market. SWOT (Strengths, Weakness, Opportunities and Threats) analysis of Chinese vendors is also presented in this report to help Chinese players review and improve their strategies and capabilities in different stages.

Industry and Market Analysis

The US cabinet industry is distinguished by low levels of foreign trade. US imported cabinets represented only 5% of total domestic cabinet consumption in 2004. Foreign cabinet producers are limited by the high cost of shipping, different local cabinet style preferences and longer delivery time from oversea and upfront investment of local inventory stocking. The US kitchen cabinet market is also exceedingly fragmented with a high intensity of competition. More than 5,000 local, regional and national cabinet producers exist in the cabinet industry. Only less than 1% of them are considered major producers. Most of the producers are price takers not price setters. The current market demand is higher than supply due to the increasing growth in the residential market, new house kitchen cabinet purchases and old house kitchen remodels. The demand for cabinets is strongly correlated with growth in economic activities, demographic structure and consumer preference trends.

Chinese Vendors Analysis

China is the second largest import source for US cabinets besides Canada. The cost of finished product from Chinese vendors is much lower than from their American and Canadian rivals. Therefore, Chinese cabinet and furniture producers are rushing into the US cabinet market to take advantage of the huge price disparity. However, at present Chinese producers focus mainly on the low price niche segment by only supplying Ready to Assemble (RTA) and lower-end Stock cabinets with narrow



product lines and limited style selections. Product quality, customer services, production efficiency, technology innovation and brand image have not been taken into consideration sincerely by existing Chinese players.

Recommendations Summary

There are four recommendations shared in this report for Chinese vendors which are about to enter the US kitchen cabinet or have entered the market earlier but want to differentiate themselves and move up to the mainstream market. The four recommendations for Chinese players are the following:

1. Participate in industry associations and leverage the local market experts.
2. Select the target segment insightfully.
3. Attain sustainable competitive advantages.
4. Develop brand equity.

Additionally, this report also addresses some potential risks according to the impact of macroeconomic forces.

Industry Analysis

Kitchen Cabinet Industry Overview

The US cabinet industry is distinguished by low levels of foreign trade. Compared to other building material imports, US cabinet imports represented little more than 5% of total domestic cabinet consumption in 2004. US foreign trade in cabinets is limited by a number of factors: high cost of shipping fully assembled cabinets, variations in cabinet styling preferences in different countries, delivery lead time from overseas and up-front stocking inventory investment in US warehouses. Canada is the primary source of US cabinet imports, accounting for more than 80% of the total imports. China is the second largest import source for US cabinets, which has increased ten-fold in the past 10 years, and currently stands at approximately 0.6% of the total US cabinet market. However, the majority of kitchen cabinet importers from China still position themselves in the low-end market.



Kitchen cabinets represented more than 80% of the US cabinet market in 2003. In 2004, US cabinet sales reached \$16.8 billion and almost 30% growth from 2003. The residential market grew faster than any other market during 1998 - 2003. The cabinet market is projected to reach \$16 billion in 2008 and \$12.8 billion for kitchen cabinets¹. The demand for cabinets is strongly correlated with growth in economic activities, household disposable income, demographic structure, building construction trends, and consumer confidence and preference. Figures 1-1 to 1-4 show some industry and market data.

Figure 1-1

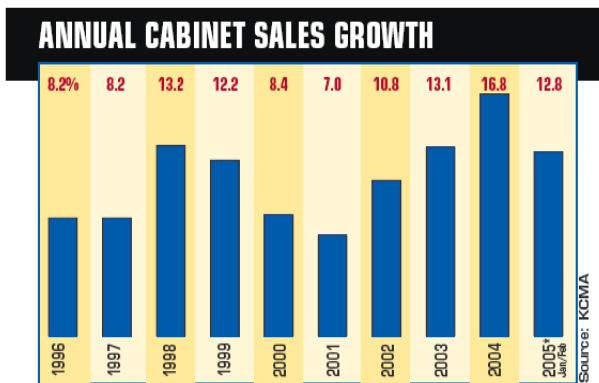


Figure 1-2

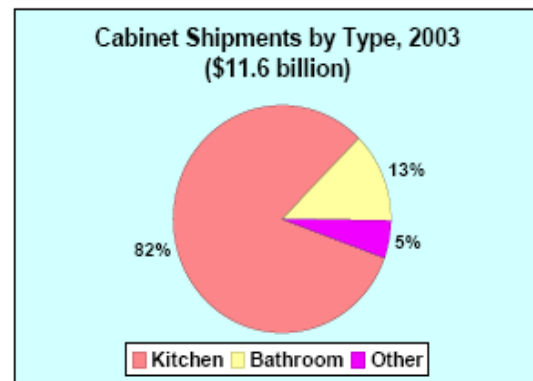


Figure 1-3

(in \$million)		
	IMPORTS	EXPORTS
2004	778.1	58.5
2003	663.2	61.3
2002	593.2	37.6
2001	539.7	29.7
2000	485.5	34.0
1999	403.2	25.2
1998	329.4	20.4
1997	284.0	30.2
1996	227.0	32.1
1995	172.8	19.2

Source: U.S. Dept. of Commerce

Figure 1-4

(in \$million)		
	2004	1995
CANADA	590.1	138.6
CHINA	99.6	5.7
ITALY	32.5	2.8
GERMANY	14.9	15.5
MEXICO	13.0	3.3
UNITED KINGDOM	9.0	3.6
ALL OTHER	19.0	3.3

Source: U.S. Dept. of Commerce

¹ The Freedonia Group, Inc



Figures 2-1 to 2-3 show the data of US GDP versus cabinet sales and housing market growth over the past 10 years. Figure 2-4 shows the trend of residential population growth over the next 10 years.

Figure 2-1

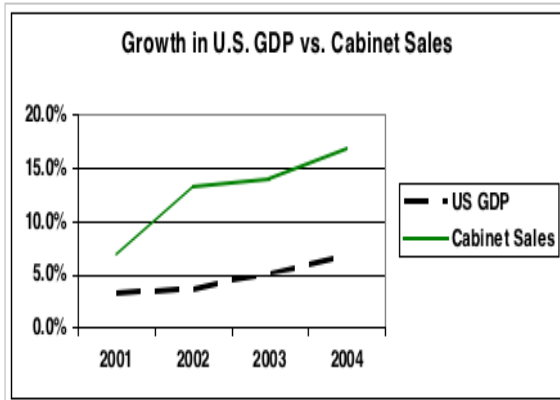


Figure 2-2

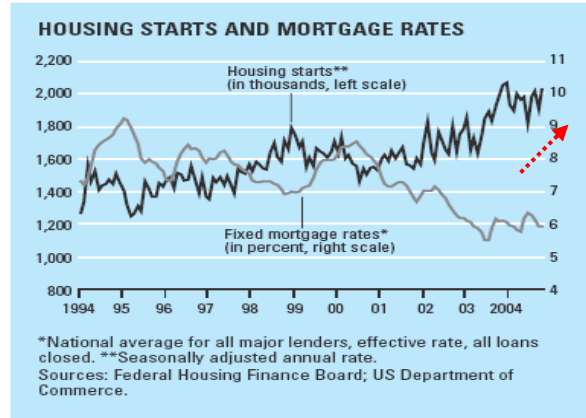


Figure 2-3

YEAR	TOTAL	1 FAMILY HOUSES	2-4 FAMILY HOUSES	5 OR MORE FAMILY
*2004	1,970.6	1,617.1	41.2	312.3
2003	1,847.7	1,499.1	33.5	315.1
2002	1,705.0	1,358.5	38.5	307.9
2001	1,602.9	1,273.2	36.6	292.8
2000	1,568.6	1,230.9	38.7	299.0
1999	1,641.2	1,302.5	31.9	306.7
1998	1,617.0	1,271.4	42.4	302.8
1997	1,474.0	1,133.6	44.6	295.8
1996	1,476.9	1,160.9	45.2	270.9
1995	1,354.2	1,076.3	33.5	244.1
1990	1,192.6	894.9	37.5	260.2
1980	1,292.2	852.1	109.6	330.5
1970	1,433.6	812.9	84.9	535.9

*12 months ending October.
Source: US Department of Commerce.

Figure 2-4

AGE GROUP	2005	2010	2015	% CHANGE	
				2005-10	2005-15
Under 5 yrs.	19,212	20,099	21,179	4.6	10.2
% of total	6.7	6.7	6.8		
5 to 14 yrs.	39,756	39,346	40,550	(1.0)	2.0
% of total	13.8	13.1	13.0		
15 to 19 yrs.	20,990	21,668	20,892	3.2	(0.5)
% of total	7.3	7.2	6.7		
20 to 24 yrs.	20,159	21,151	21,748	4.9	7.9
% of total	7.0	7.1	7.0		
25 to 34 yrs.	36,933	38,851	41,249	5.2	11.7
% of total	12.8	13.0	13.2		
35 to 44 yrs.	42,716	35,443	36,766	(7.7)	(9.2)
% of total	14.8	13.2	12.4		
45 to 64 yrs.	71,581	79,590	81,905	11.2	14.4
% of total	24.9	26.5	26.2		
65 yrs. & over	36,370	39,715	45,959	9.2	26.4
% of total	12.6	13.2	14.7		
Total population	287,716	299,862	312,268	4.2	8.5
Median age	36.7	37.4	37.6		

Sources: S & P Industry Survey, Home Building 2005 and the Cutting Edge, April 2005

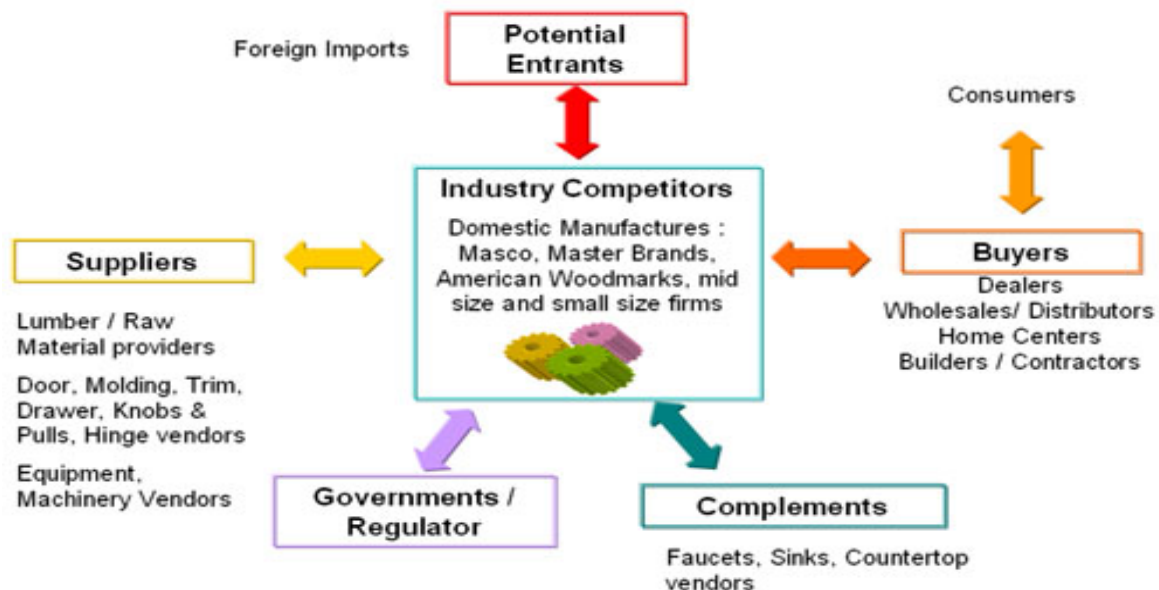
Industry Structure

The US kitchen cabinet market is exceedingly fragmented with a high intensity of competition. More than 5,000 local, regional and national producers exist in the cabinet industry, but only less than 1% of them are considered major producers in the market. Most of the producers are price takers, not the price setters. The price is usually determined by product quality, design, and variety of product offering and



flexibility of customization. The current market demand is larger than supply. Barrier to entry is medium. Some small and mid-sized manufacturers survive or make profits by building stronger relationships with local home builders and focusing on niche markets such as medium to high end homes, multi-family condos or vacation resorts. In recent years, the major players started consolidation to expand market segmentation, increase production capacity and save time and cost in new plant development to stay competitive. If we review the participants in this industry, there are seven forces making the industry increasingly attractiveness and challenge - raw material suppliers, complement suppliers, cabinet manufactures, foreign importers, dealer / wholesales / distributors / home centers, contractors / builders, consumer and government / trade regulators. Figure 3 illustrates the current US kitchen cabinet industry structure.

Figure 3



Key Success Factors

The cost of goods (COGS) such as hardwood also has an impact on manufacturers' performance. Since the market is highly competitive, the manufacturers have constraints in passing rising material cost to the buyers. Control of access to raw



material and price is an advantage for cabinet producers to meet orders in time and manage COGS. Labor wages are another large expense (26.1%) for US manufacturers because the industry is burdened by relatively high labor intensive work. Operational efficiency is another key factor to advance manufacturer performance. The capability to establish multiple links with market contacts including wholesalers, builders, contractors and retail outlets to create stable demands for the products can also lower the risks for cabinet containers.

Year: 2002	
Item	Cost
Depreciation	1.60%
Other	10.00%
Purchases	38.90%
Rent	1.70%
Returns	14.00%
Utilities	0.90%
Wages	26.10%

Data Sources : Wood Kitchen Cabinet and Counter Top Manufacturing in the US, IBISWorld

Market Analysis

Product and Market Overview

Kitchen cabinets are categorized based on the degree of customization. Stock cabinets are made in a fixed set of sizes and styles. Semi-Custom cabinets present wider selections of doors, drawer styles, sizes, finishes and accessories. Custom cabinets, characterized by flexible design and higher price, are built to fit the styling and dimensions of a given kitchen. According to a July 2004 industry survey from Kitchen & Bath Business, Stock and Semi-Custom cabinets made up 80% of total cabinet sales. Distribution channels, dealers, home centers and builders accounted for 80% of sales.

Distribution Channels	
Dealers	39%
Home Centers	21%
Distributors	19%
Builders	19%
Consumers	2%
Cabinet Types	
Stock	49%
Semi-Custom	32%
Custom	19%

Notes: Numbers do not include Masco

Competitors Analysis

Masco, Fortune Brands and American Woodmark are the top three major cabinet suppliers in the US market. In 2003, the three of them together accounted for 31.9%

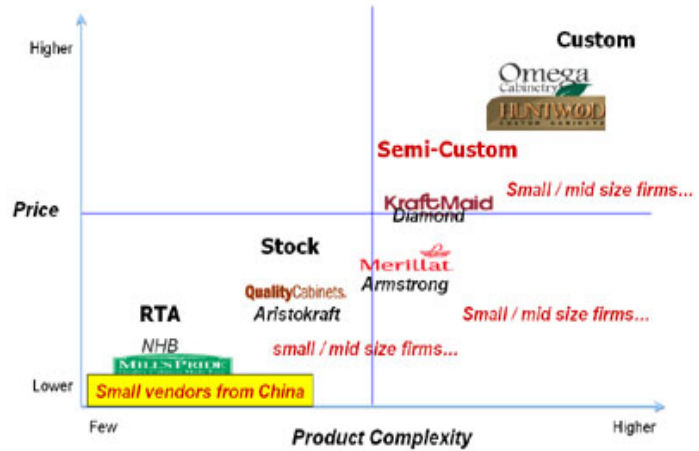


of the US market². Masco is the largest U.S. manufacturer of kitchen and bath cabinetry, offering Ready to Assemble (RTA), Stock, Semi-Custom and Custom cabinets, with approximately 300 styles in more than 20 lines.

Masco's US cabinet brands include KraftMaid, Merillat, Mill's Pride, Texwood and Zenith. It provides

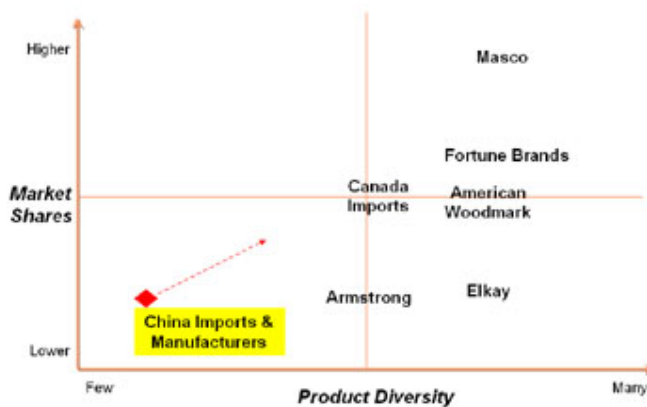
other related kitchen and bath utility products, entertainment centers, and storage products. Master Brand Cabinets is a Fortune Brand subsidiary. It also produces RTA, Stock, Semi-Custom and Custom cabinets. MasterBrand's cabinet brands include NHB, Aristokraft, Decora, Diamond, Kemper, Schrock and Omega. Its products are sold directly to homebuilders, wholesalers for distribution to dealers, home centers like Lowe's and Home Depot, remodelers and contractors. American Woodmark manufactures kitchen cabinets in the low to medium price range. Other leading suppliers include Elkay, Armstrong Holdings, Nocrast, and Cardell. Figure 4 shows US cabinet market segmentation. Appendix Table A1 provides US kitchen cabinet

Figure 4 - US Market Segmentation



industry leader's information.

Figure 5 - Competitor Landscape



Most of the Canadian manufacturers have been focusing on the Semi-Custom or Custom cabinet market. Increasingly, Chinese furniture manufacturers or exporters are shifting to the cabinet market after the US government imposed quotas to protect the

² Freedonia focus on Cabinets, Sept. 2004



declining US furniture industry. Figure 5 shows the current competitor landscape. Appendix Table A2 and Table A3 reveal US pricing information from Chinese cabinet producers and importers.

SWOT Analysis for Chinese Vendors

Current Status and Trend

The lower-end market (RTA and Stock cabinet product lines) is the main area where we observe the early impact from Asian imports, especially from China. The demographic segments that Chinese vendors (manufacturers or exporters) are serving typically include lower income families, immigrants and apartment rentals that are price sensitive and care less about color and design selections. Although Chinese cabinet imports have made relatively huge progress in the past few years, increasing cabinet imports more than 10 times, Chinese players still have very little impact and no brand awareness in the US mainstream market. One of the explanations of why the US kitchen cabinet market evades from Chinese competition is the highly customized nature of cabinet products. Another rationale is the need for quick delivery, which makes it difficult for foreign manufacturers to make more serious inroads into the US kitchen cabinet market. At this stage, Chinese cabinet suppliers appear to focus on the products at the price sensitive level or at the specialty furniture vanity level. Some American manufacturers such as Elkay outsource some of their components on an occasional basis to Chinese manufactures³. We might see American manufacturers outsource more of their components (doors, drawers etc.) and low-price cabinet product lines to Chinese vendors or try to set up their manufacturing centers in China in the near future to improve their cost structure and maintain competitive pricing.

³ Wood & Wood Product, April, 2005



Comparative Strengths

Competitive price and cheaper labor wage advantages. US cabinet manufacturers have much higher cost of finished products compared with Chinese manufacturers. The US cabinet products sold at 5 to 10 times the factory cost in China, or 3 to 6 times at retail prices. Labor wages are a large expense for US kitchen cabinet manufacturers. Chinese cabinet producers have a comparative advantage in their less expensive labor cost. China has 1.3 billion people and 500 million in rural areas. Though per capita income in the top city Shanghai reaches 28,000 RMB (\$3,500 US dollar), Yunuan only has a per capita income of only 1950 RMB (less than \$250 US dollar)⁴. The average labor wage in a Shenzhen factory is about 300 to 400 RMB per month (less than \$600 US dollar annually)⁵. Chinese producers really benefit from their huge labor pool and low-wage workers despite the fact they are less competitive in operation efficiency.

Access of Finance Resources. If the Chinese manufacturers are owned by the state (state-owned enterprise, also called SOE) or owned by provincial or local governments (urban collective firm) or even owned partially by township or village governments (ownership and village enterprise, also called TVE), they are often subsidized by the government or have certain priority or privileged access to capital, especially SOE firms. Although financing for enterprises has moved from state grants to bank loans after 1978, policy loans from state planning development still make up possibly 50% of the assets of China banks⁶. SOE owned cabinet makers could have more available financial resources to leverage for their foreign expansion.

Weakness

Insufficient distribution channel development, market intelligence, product design, and production discipline. The US mainstream cabinetry players have two primary distribution channels representing most of the market shares: home center

⁴ China International Trip, marketing lecture from CEIBS professor Lydia J. Price

⁵ Interviewed with Shenzhen kitchen cabinet factory owner

⁶ China International Trip, financial sector lecture from Columbia professor, Ronald Schramm



(Home Depot, Lowe's) and dealerships. Those distribution channels offer design, customized products, and installation and warranty services. Chinese vendors have not successfully tapped into the mainstream market due to lack of capability and knowledge to sell to the primary distribution channels. For Stock and Semi-Custom cabinetry, home centers and dealers require manufacturers to provide reliable quality, a variety of designs and color selections with rapid delivery (2 to 6 weeks) once a customer's order is received. American plants operate under a build-to-order model with advanced inventory management and efficient product delivery. Higher end custom cabinet delivery could tolerate 8 to 12 weeks but it does not have volume demands. Alternatively, some Chinese vendors pre-stock inventory to ease the waiting time from oversea shipment; however, it also compromises their selection offering since any large volume inventory involves upfront capital investment, efficient inventory management and market intelligence. In order to tap into the mass market successfully, effective brand strategy, marketing communication and sales promotion are essential. Currently Chinese cabinet suppliers are much weaker in those areas⁷.

Moreover, Chinese firms frequently concentrate on short-term financial benefits and ignore long-term growth and strategy. For example, instead of upgrading a facility or improving the operation process and production efficiency, they normally just deploy more labor to save short-term expenditure since labor is cheap and easy to obtain.

Opportunities

China has taken over the lead position in the worldwide manufacture of textile, furniture, computers, telephones and DVD players. We have seen US consumers benefit from many cheaper retail goods in past few years. Today, consumers still pay a high price for their kitchen cabinets. Home Centers and

US vs. China Kitchen Cabinet Price Ratio	
CA	3:1
TX / Mid West	4:1
HI	6:1
East Coast	4:1

⁷ Interviewed with Industry insiders



large national builders have not found overseas manufacturers that have the capability to meet standards of product quality, various design assortments with reliable large volume supply and on-time delivery. Appendix Picture A4 displays some Chinese vendors' products that meet the American mass market standard. As we also mentioned in the recent trend, American manufacturers increasingly outsource their product lines and components to Chinese vendors to maintain competitive pricing or improve their profit margin. The current US cabinet industry creates great opportunities for the Chinese vendors who have the vision and aptitude to fully take advantage of the existing market inefficiency and price disparity

Threats

There are a few potential threats Chinese vendors might encounter:

- **Price Competition.** The price disparity and high profit margin in the US kitchen cabinet market attract more and more vendors from China to enter into US market. We have seen this phenomenon in hardwood flooring industry. Fierce competition could lead to price wars among Chinese vendors, especially in the low-end product lines where most vendors lack product and service differentiation.
- **Tariffs, non-tariff barriers (NTB's) and RMB currency appreciation⁸.** At present, no specific tariff applies to US cabinet imports. If imports start creating serious competition and threatening domestic cabinet makers like the furniture industry, the US government might set up import taxes and quotas to protect domestic cabinet producers. In addition, if RMB appreciates further in the future, it will also impact the market price of Chinese imported cabinets and reduce the incentives of price disparity for Chinese vendors.
- **Perceptual bias and image indentation.** If most Chinese cabinet exporters or manufactures focus mainly on cut-throat price competition to win the business and ignore their services and product quality, it will create perception and association of low quality across the group. Other negative association could

⁸ International Trade Lecture, International Seminar , Prof. John Veith



include infringement or using unlicensed hardware supplies to reduce costs, which would also hinder the Chinese cabinet makers who want to provide high quality products or position their products in the mid-range or higher-end price market.

Strategic Recommendations for US Market Entry

Four recommendations are presented to help Chinese vendors enhance their capability, competitive advantages and market positioning in US kitchen cabinet market successfully. The first two recommendations apply to the early stage of the market entry. The third and fourth recommendations are more suitable for the firms that have stronger ambition to establish brand and occupy the American consumer mindshare.

1. Participate with industry associations and events and leverage the local market experts

As we learned Chinese vendors lacked insight of the US market and distribution channels. The recommendations to improve this weakness are the following:

- Actively participate in national and regional tradeshows and seminars to gain the insights of the industry and establish business networks. See Appendix Table 5 for related industry associations and publications.
- Recruit some local market experts as advisors from business networks. Learn the existing market nature and channel structure. Local market experts can also help to evaluate the requirements of customer segments and introduce the right sales representatives to setup the sales distribution channels.

For example, if a Chinese vendor wants to target the mass market and sell into the dealerships, it has to understand the product and service requirements from the current dealer channel, price discount level and sales compensation. If the Chinese vendor targets the homebuilder market, it has to identify which distribution channel



and relationships are required to sell to the national or regional builders. The distribution channel could be some building material wholesalers who have built trusted relationships with the national builders or individual sales representatives who have strong connections with regional builders.

2. Select the target segment insightfully

Different market segments have different requirements, imply different key success factors and require distinct market strategies. As a new player entering a new market, a Chinese vendor needs to carefully analyze segment requirements and determine what segments to serve according to the firm's stage, capability and available resources. If the key success factors are different across segments, the firm will need to decide its optimal segment range and deploy different market strategies. Figure 6 demonstrates the basic segmentation based on the characteristics of buyers and products. Appendix Table A6 summarizes some requirements and key success factors in different product segments.



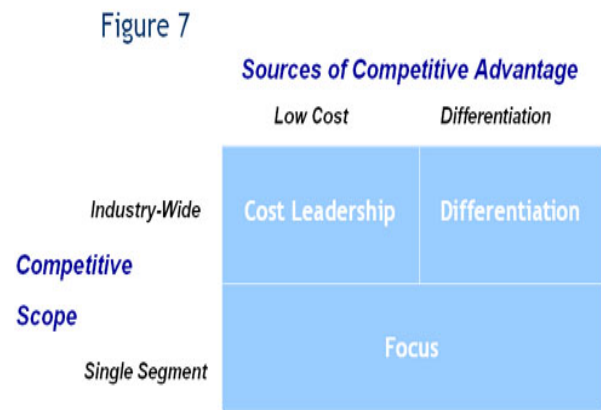
3. Attain sustainable competitive advantages

To achieve sustainable competitive advantages, a firm needs to appraise its strengths and weakness. If a Chinese manufacturer wants to enhance economics of



experience, it can take the OEM / White Label approach like the computer and semiconductor industries to improve product technology, production process, worker productivity and operation efficiency.

In addition, to achieve higher profits than competitors, the Chinese cabinet makers should also evaluate their sources of competitive advantage and make decisions about their market strategy - focus on cost leadership or product and service differentiation or a particular segment. Figure 7 summarizes Michael Porter's positioning strategies⁹.



Although a cost leadership positioning implies narrow-line, limited-feature and standardized offering, it does not necessarily imply that the product or service has to be a low quality or undifferentiated commodity. IKEA, Southwest and JetBlue present good examples, offering low-price mass-market products and fair services with their unique brand images¹⁰. Any Chinese vendor positioning itself as a cost leadership should understand the resources and organizational requirements such as access to capital, scale-efficient plants and control of overhead and input costs. The firm that selects a differentiation position will require marketing, creativity, research and product engineering abilities. In addition to provide the best services and product quality to exceed the customer expectation, building the reputation and strong relationships with the customers is extremely important since in the US cabinet industry, many sales leads come from long term relationship and referrals.

4. Develop Brand Equity

Most of Chinese manufactures are satisfied to sell their goods under a foreign firm's labels. Although more than a dozen Chinese firms in different industries are on the

⁹ Michael Porter, *Competitive Strategy*, 1980

¹⁰ Robert M. Grant, *Contemporary Strategy Analysis*, 5th Edition



Fortune 500 lists and start competing internationally, mostly they compete on price or niche markets rather than on brands or technology. Even the top Chinese PC maker, Lenovo (formerly called Legend in China) was not successful in turning its marquee into a global brand¹¹. Another example, the second largest Chinese home appliances manufacturer, Haier, is only capable of competing in US niche markets even after being in the US market many years. If the Chinese vendor has a grand vision and an ambition to create a strong brand to win American consumers' mindshare, it will need to actively invest and manage its brand equity to compete with its American rivals.

Brand awareness, perceived quality and value, brand association and brand loyalty are four major assets in brand equity¹². As our recommendation #2, a Chinese firm should first carefully pick its battlefield, target market segment and positioning. When a firm targets only one market segment, it is easier to focus on the brand marketing strategy. If a firm supports multiple segments with different product lines, the brand relationships become much more complex. The rule of thumb in the US cabinet market should be to adopt a "House of Brands" strategy¹³. Using industry leader, Masco as an example, its US cabinet brands include KraftMaid, Merillat, Mill's Pride, Texwood and Zenith. Consumers seldom connect KarftMaid with its parent brand "Masco" or with its other umbrella brand such as the low-end RTA product, Mill's Pride together. The house of brands strategy allows Masco to clearly position its brands on functional benefits or a target value proposition.

To create favorable and positive brand associations and optimal positioning, a Chinese vendor should focus on product and service qualities, customer perceived value and relative price benefit. David Aaker's "the frame of reference" technique, whether explicit or implicit, also can be used to powerfully communicate brand/image reference. Frequently, it is not important how good customers think you are but how they believe you are better than (or perhaps just as good as) a given

¹¹ China Champions, Economist.com, Jan. 2005

¹² Managing Brand Equity, David A. Aaker

¹³ The brand relationship spectrum, California Management Review, Summer 2000



competitor. To strengthen positioning strategy, Chinese vendors can create an association with respect to an American competitor and its product characteristics, especially in relative price-quality comparison. This strategy will also help the Chinese vendor disassociate with group / image perception early on and reestablish high perceived value and positive attitude from customers. Appendix Table A7 demonstrates an exercise of brand identity assessment for KraftMaid (Semi-Custom cabinetry). It gives an example to help Chinese vendors evaluate their own brand strategies and consider which brand platform and marketing communications they want to deliver to their target American customers.

Potential Risks

Macroeconomics Impact. Many Americans may view China as the root cause of their country's trade deficit. Some economists say the China currency (RMB) is undervalued by at least 30% against the dollar. People claim the undervalued RMB gives China exports an unfair advantage. China has been under pressure to revalue its currency for a long time. On July, China authorities announced that the exchange rate peg will be replaced by a managed float against a basket of currencies, effectively revaluing RMB 2.1% against the dollar. Further revaluation is likely to be seen. Economists forecasted that China's domestic inflation might be moderate in the near future since currency revaluation balances inflationary pressures¹⁴. However, we should be aware that if the RMB appreciation or China's domestic inflation rate rises beyond the economists forecast, it will certainly impact the cost of kitchen cabinet exports and its comparative advantages in the long run.

Additionally, if the domestic industry struggles against fierce foreign competition, the US government could potentially set up a tariff or impose limit on the increase in cabinet imports from China to protect domestic cabinet producers.

¹⁴ The economist Intelligence Unit, China Country Report, June 2005



Conclusion

Chinese cabinet makers and exporters should cautiously determine their optimal target segments, participate in industry associations, develop business networks, and utilize customer and local market experts' knowledge when they enter the US market. Over time, establishing better product and service reputation, attaining sustainable competitive advantages and actively managing their brand equity will help Chinese vendors strengthen their position, and compete in the US kitchen cabinet market successfully.



Appendix

Table A1: US Kitchen Cabinet Industry Leaders Summary

Company	Summary
<p>Masco (MAS) www.masco.com</p>	<ul style="list-style-type: none"> ▪ The largest, 16.2% of market (2003) ▪ Organized as Masco Screw Products Company in 1921 and changed name to Masco Corporation in 1961 ▪ A house of brands includes KraftMaid, Danwood, Merillat, Mill's Pride, Textwood and Zenith. ▪ More than 20 product lines and 300 styles. ▪ HQ - MI ▪ Home Depot represented 20%+ of the company total sales (2003) ▪ Revenue :\$12.53B; Mkt Cap : \$12.72B; Gross Margin (GM) : 29.70%; Operation Margin (OPM) : 13.43%; Employees : 62,000; P/E : 13.56
<p>Fortune Brands (FO) www.fortunebrands.com</p>	<ul style="list-style-type: none"> ▪ The 2nd largest, 10.7% of market (2003) ▪ Incorporated in 1985 ▪ Cabinetry brand - MasterBrand ▪ A house of brands include Diamond, Omega, Lexington, Aristokraft, Schrock, Kitchen Craft, Capital Cabinet, Decora, Kemper and NHB ▪ Diamond product lines include Bayport Arch, Keystone Cathedral, Carlisle and Kane ▪ Omega include Dynasty and Dynasty II ▪ HQ - IN ▪ Revenue : \$7.29B; MKT Cap : \$11.53B; GM : 42.44% ; OPM :16.80%; Employees : 31,851; P/E: 14.23
<p>American WoodMark (AMWD) www.americanwoodmark.com</p>	<ul style="list-style-type: none"> ▪ The 3rd largest, 5% of market (2003) ▪ Formed in 1980 ▪ A house of brands - American Woodmark, Shenandoah and Timberlake ▪ Offer framed stock cabinets in approximately 320 cabinet lines in 80 door designs in 9 colors. ▪ Product lines under American Woodmark brand include Designer's choice, Designer Series and Value Line ▪ Product lines under Shenandoah include Breckenridge, Grove, Carlestone, Winchester, Orchard and Forest ▪ Home Depot sells Timeberlake brand and American Woodmark, Shenandoah are sold in Lowe's ▪ HQ - VA ▪ Home Centers represented 10%+ of the company's 2004 sales ▪ Revenue : \$805 M; MKT Cap : \$483M; GM : 18.68% ; OPM :6.79%; Employees : 6,370; P/E : 14.89

Sources: Freedonia Focus on Cabinets, Sept. 2004 and Yahoo Finance as 10.17.05



Table A2: Major Chinese Vendors in California

Company	Location	Product Org.	# of showroom	Type of Cabinet	10x10 KC Price Range	Customer Segaments	Invetory
BCM	S. CA	CN	3	Stock; Frame only	\$2,500	Contractors, Asia / Mexican consumers	Yes; 5000 boxes
Team Efforts	N. CA	CN	4	RTA; Frame only	\$2,000	Contractors, Asia / Mexican consumers	Yes
KWW	N. CA	CN	4	RTA; Frame only	\$2100-\$2300	Contractors, Asia / Mexican consumers	Yes



Table A3: Price Samples of Chinese Vendors

	Retail Store with Show Room/ Contractors and dealers price						On Line / List Price		Retail Store / List Price	
	30%	30%	33%							
RTA, OAK All Wood, Plywood Construction, Builder Grade	TSG 70% off Dealer price (Oak)	Shining 70% off Dealer price (Oak)	BCM 67% off Dealer price (Oak)	Team Efforts Contractor & retail price (Oak)	KWW Contractors & retail price (Oak)	Kirkland Canibetary Contractor price (Birch)	Cabinet Depot (Oak) on-line listed price	Modular (Oak) on-line listed price	TSG listed price	Shining listed price
Store Location	Edision, NJ	Commerce, CA	LA, CA	Oakland, CA	Oakland, CA	Honolulu, HI	E-commerce	E-commerce		
Vendor from	China	China	China	Shanghai, China	China	Gong Dong, China				
ITEM	FOB LA	FOB Dalian	FOB LA	Retail	Retail	Retail	on line RTA	on line RTA	Retail	Retail
Wall Cabinet										
W0930	29	24	36	31	39	100/LF	65	102	97	79
W1230	32	26	43	36	49	"	67	109	107	86
W1530	35	29	46	39	49	"	74	124	117	97
W1830	39	31	49	43	59	"	90	215	130	104
W2130	47	34	53	48	65	"	94	243	157	112
W2430	50	42	57	55	75	"	120	180	168	140
W2730	55	44	61	61	85	"	129	187	183	148
W3030	57	47	64	62	85	"	135	194	190	155
W3330	n/a	50	68	73	95	"	141	217	n/a	166
W3630	65	53	71	68	99	"	157	228	217	176
Base Cabinet			0							
B9	44	36	50	43		120/LF	96		145	119
B12	50	39	55	48	59	"	106	148	166	130
B15	52	42	59	51	59	"	112	155	174	140
B18	55	45	63	54	69	"	123	174	184	151
B21	63	49	69	61	79	"	135	204	209	162
B24	68	55	75	66	89	"	153	219	225	184
B27	74	58	83	75	99	"	167	260	245	194
B30	82	62	86	80	109	"	172	264	273	205
B33	86	68	92	87	115	"	186	286	287	227
B36	90	72	96	88	119	"	202	293	300	241
Sink Base										
SB30	74	52	n/a	76	99	"	149		246	173
SB33	77	n/a	85	80	105	"	157		255	n/a
SB36	79	57	90	82	105	"	163		264	191

Prices for Cabinets (wall or base units):

Custom cabinets from \$125 per lineal foot.

Simi custom cabinets from \$110 per lineal foot.

Imported cabinets from \$80 per lineal foot.

*All prices are calculated per lineal foot. For example, most kitchens have two units of cabinets: the base unit (directly below countertops) and the wall unit (above countertop). Each unit made up of cabinet doors, drawer fronts and plywood interior construction, per one-foot section, measured horizontally.

Prices include:

Top molding

Customer choice of finishing;

Customer choice of cabinet style and panel detail

Five-year warranty.

Sources: Interviewed Chinese vendors with BNK International LLC (Chinese Hardwood Flooring Importer) together on July, 2005



Picture A4 - Kitchen Cabinet Samples from Chinese Vendors



Sources: BNK International LLC; pictures were taken in a Chinese vendor’s showroom at LA, CA and a factory at Shenzhen, China

Table A5 - US Kitchen Cabinet Related Industry Associations and Publications

Associations
National Kitchen and Bath Association - www.nkba.org
Kitchen Cabinet Manufacturers Association - www.kcma.org
National Association of Home Builder - www.nahb.org
National Association for the Remodeling Industry - www.nari.org
Marble Institute of America - www.marble-institute.com
Laminating Materials Association - www.ima.org
Tile Council of America - www.tileusa.com
International Solid Surface Fabricators Association - www.issfa.net
International Cast Polymers Association - www.icpa-hq.com
Publications
Kitchen & Bath Design News - www.kitchenbathdesign.com
Builder - www.builderonline.com
Professional Builder - www.housingzone.com/pb/index.asp
Wood & Wood Products - www.iswonline.com/index-wwp.html
Remodeling - www.remodeling.hw.net



Table A6 - Requirements and Key Successful Factors in different kitchen cabinet product segments

Product Segments	Requirements	Key Success Factors
RTA / Stock	Lower Price	Cost leadership
	Rapid Delivery Time	Relatively better quality and enough selection
	Limited design, material and color choices	Rapid delivery time
	Brand Association Level -	Production efficiency and capacity utilization
		Relatively enough choices
Semi-Custom	Medium Price	Good services and quality
	4 - 6 weeks delivery time	Shorter delivery time
	Product, color, dimension and filling diversity	Relatively better design, functionality and styles availability
		Relatively better price
		Build to order and production efficiency
		Higher perceived value
		Some brand awareness
Custom	Perceived high value and high quality	High-end quality
	8-12 weeks delivery time	Great design, flexible choices and customization
	Flexible design, color and material choices	Reasonable delivery time
		Strong brand image - Emotional / Esteem / Cult branding approach
		High perceived value

Table A7 - KraftMaid Brand Identity Assessment Exercise

KraftMaid Brand Valuation	
Essence	Quality, Style, Function
Vision	Just make for you
Persona	Friendly, Available, High Standard, Stylish and Affordable
Value Proposition	<ul style="list-style-type: none"> Offers the widest selection available in built-to-order cabinetry Empower customers to personalize their kitchens with a custom look, without the custom price
Positioning	<ul style="list-style-type: none"> Mass Market (mid range price) Custom Look and Board Selections w/o Custom Price
Proof of Points	<ul style="list-style-type: none"> Array of Designs and Selections Competitive Pricing Attention to detail, fine craftsmanship and quality construction High Perceived Value
Brand Hierarchy Needs	Belonging, Esteem Needs and Fulfillment

Note: Brand identity framework from XMBA 296 - Brand Management and Strategy Marketing class lecture.