U.S. stone consumption exceeds ceramic tile value in 2002

A comprehensive "Stone Product Industry Report" has been completed, and it paints a positive picture for the U.S. marketplace in the present and beyond

by Donato Pompo
Ceramic Tile and Stone Consultants

Unlike the ceramic tile industry, there has been very little statistical information available about the U.S. stone industry that would enable businesses to effectively plan and forecast their sales and marketing efforts, or to attract outside investors.

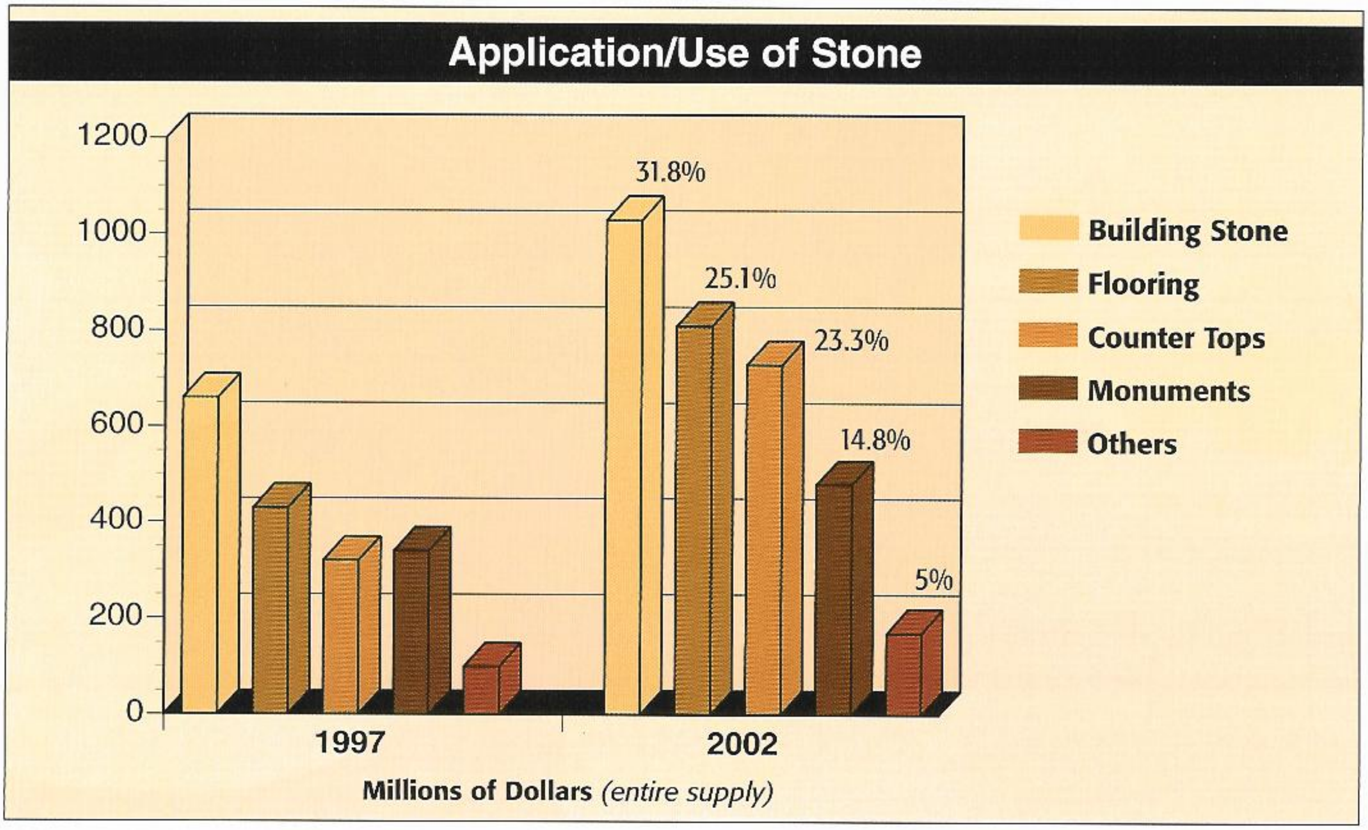
In September of this year, Catalina Research Inc., the same company that publishes the annual ceramic tile and floor covering statistical reports, published the first comprehensive study on the U.S. stone industry. Ceramic Tile and Stone Consultants (CTaSC) sponsored this report and was a major contributor on the project.

The "Stone Product Industry Report" is a 186-page report containing current and historical data on U.S. production, shipments and imports of granite, marble, limestone, travertine and other rough and fabricated stone products. It also breaks down sales by market segment and application, and includes an extensive analysis of trends in manufacturing, imports, end-usage, installation and pricing. There are also sections on countertop use and on cultured stone products (cement imitation stone). Statistics for this study were obtained from U.S. government sources and independently conducted industry surveys. The report covers key areas such as consumption value and volumes, production and machinery costs and industry trends. It also includes forecasts and marketing trends, including Canadian stone industry trends. The report also provides economic factors affecting U.S. stone product demand, and lists major importers and their foreign suppliers, as well as leading U.S. mines and quarries.

The report results show that our stone industry is very fragmented, and project consolidation is on the horizon — evolving with accelerated growth. This will open the door to many opportunities for those within and outside our industry as we go forward.

The stone industry in the U.S. has many dimensions, applications and channels, and is somewhat complex in the route it takes from the quarry to end product. Stone is being imported into the U.S. from all over the world. There is also a substantial amount of stone being processed right here in the U.S. Whether the stone's final resting place is as a headstone in a cemetery or as a kitchen countertop in a home, it may have come from the same quarry, but traveled through separate hands, processes and channels.

It may seem to some like the Stone Age, but we are on the fringe of the frontier, preparing to leap into the future, consolidating our businesses and processes, and utilizing technology to maximize our economies of scale in purchasing as well as in manufacturing.



The opportunity is here and now for those who want to grow with the stone industry, and to take advantage of the high demand, value and growth rate we are experiencing in the U.S.

The results of this stone report were evaluated and compared to the recently published "Ceramic Tile and Floor Covering Industry Report" that appeared in Floor Covering Weekly (July 21-28, 2003 issue), and some interesting trends were noted. Here are a few key points that validate the importance of this information to the stone industry:

In 2002, \$2.37 billion of ceramic tile was consumed in the U.S., compared to \$3.30 billion of stone, giving stone a 41% lead over tile, a significantly larger dollar amount. It represents an 11.5% compound annual growth rate (CAGR) for stone between 1997 and 2002, while ceramic tile experienced only a 7.7% CAGR during the same period. Of course, stone comes in many shapes and sizes for many different uses. A total of 14.8% of the stone consumed was for monumental use such as headstones and trophies; 31.8% was for large building applications such as facades; flooring use represented 25.1%, countertop use represented 23.3% and 5% of the stone was for other uses. This tells us that 80.2% of the U.S. consumption value is construction related, and at \$2.65 billion, this figure still exceeds ceramic tile consumption with a higher growth rate.

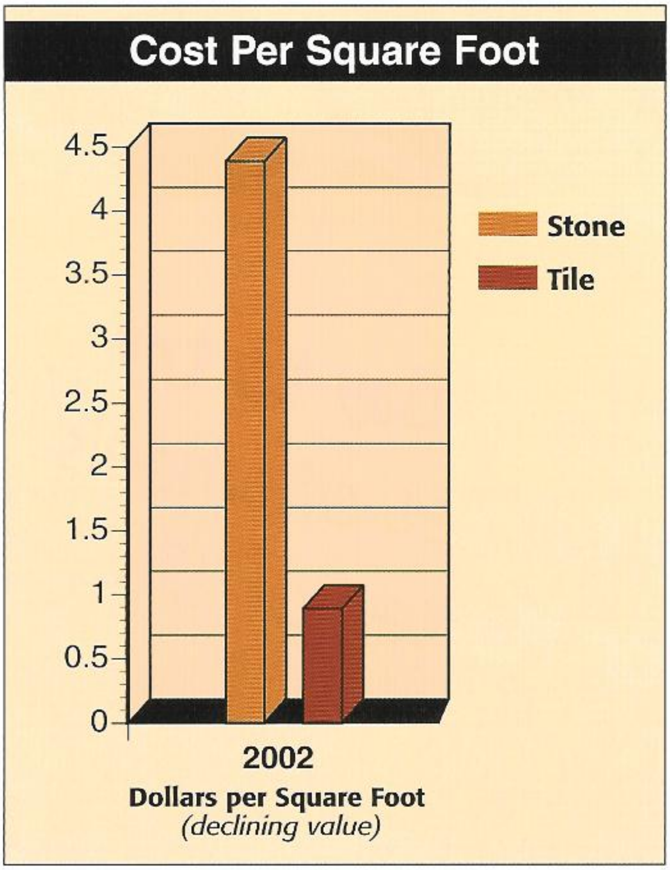
In 2002, stone imports grew to \$1.75 billion, representing 52.9% of U.S. stone consumption, beating ceramic tile's import value. which stands at \$1.55 billion, by 13%. However, ceramic tile imports represented a much greater share of U.S. ceramic tile consumption at 66.2%.

In terms of square foot volume, there was much more ceramic tile sold than stone. A total of 2.63 billion square feet of ceramic tile was sold in 2002, compared to 754 million square feet of stone. Since stone is measured in metric tons for volume, it was necessary to extrapolate the square footage by averaging the weight of various stone configurations.

This resulted in an average value of \$4.39 per square foot for stone, compared to ceramic tile's continuing declining average value — reported at \$0.89 per square foot for 2002. These figures, combined with survey results from key U.S. importers, made it possible to approximate the U.S. consumption of modular stone tile (typically ⅜-or ½-inch-thick stone with a surface dimension between 12 x 12 and 24 x 24 inches) during 2002 to be 210 million square feet.

The "Stone Product Industry Report" determined that by category, stone represented 31.2% of the countertop market (in terms of value), a long second to plastic laminates, which held the first position at 49.6%. Stone countertops enjoyed a CAGR of 17.3% between 1997 and 2002. This clearly indicates a demand for stone countertops and is a good sign for fabricators that demand will continue to grow.

The majority of stone imports in the

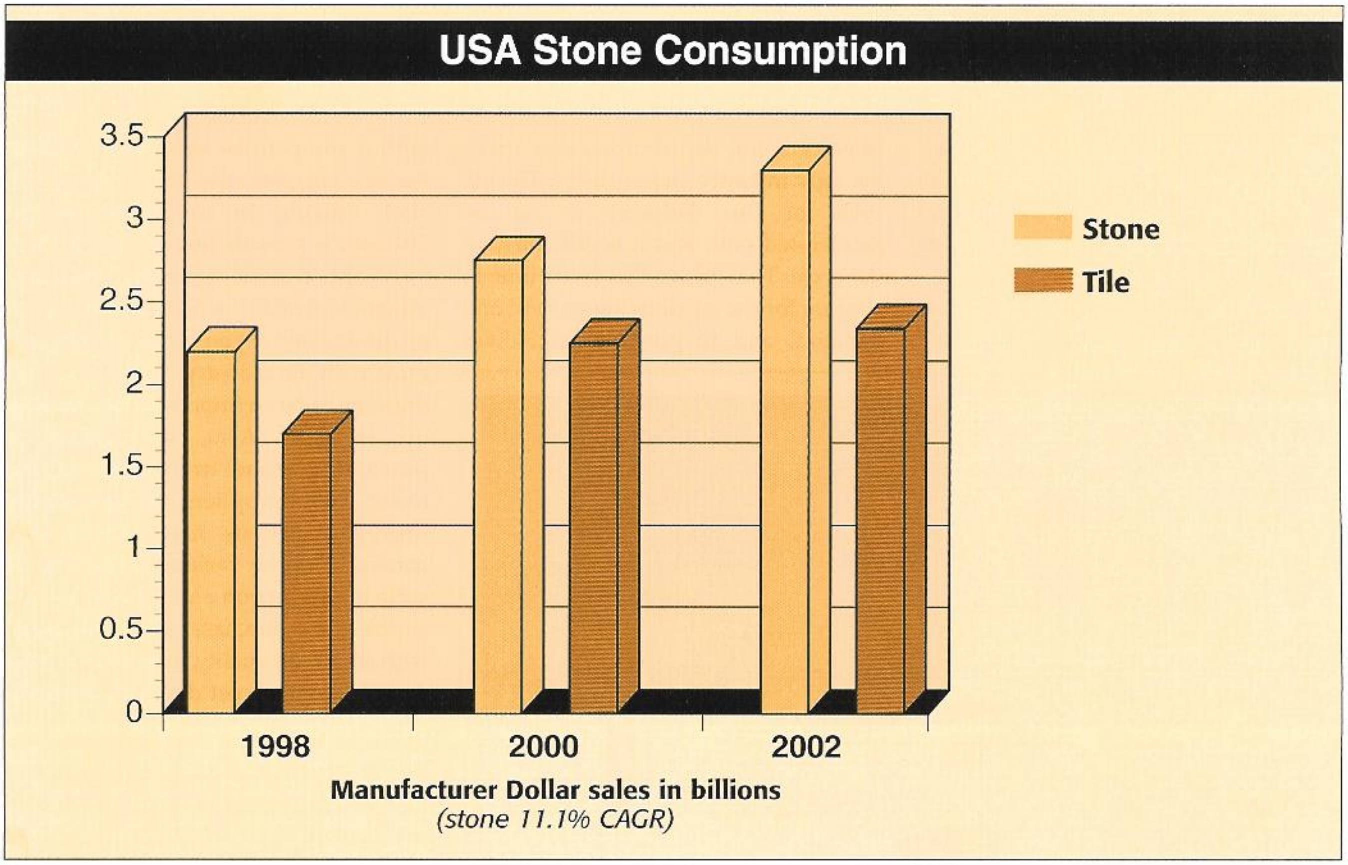


U.S. today comes from Italy, although its market share is rapidly declining due to significant competition from Brazil, China, India and Turkey. Italy, however, still represented 31.3% of all imports in 2002. It is important to note that many countries that are listed as the country of origin do no quarry the stone that they fabricate and export. For example, if a stone block is quarried in Finland and is then fabricated in Italy before being shipped to the U.S., it is registered as an "Italian" import by U.S. Customs. Italy is known for this more so than others, because of their technological advantages and high capacity. However, how much stone is actually quarried elsewhere cannot be quantified with the information that is available.

Granite makes up over 38% of stone imports, with marble at 16.2%, which continues to decline in volume as travertine, limestone and other stones gain popularity.

The outlook for stone is reported as robust. The study projects double digit growth through 2008, with imports taking an even larger role. Total volume consumption could double by 2008. Besides the historical trends leading to this growth prediction, the potential is even rosier when you consider that prices are likely to decline further as competition increases from new foreign-sourced products. Greater awareness and affordability will further perpetuate consumer demand, fulfilling per capital consumption potential, as the U.S. is still considered a low-consumption country compared to European nations.

The "Stone Product Industry Report" is good news for the industry, and it is fundamental information for


USA Stone Consumption
3.5
3
2.5
2
1.5
1
0.5
0
Stone
Tile
1998
2000
2002
Manufacturer Dollar sales in billions
(stone 11.1% CAGR)

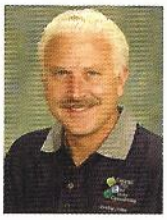
those who want to grow their business. The economy will help or hinder overall growth, but it seems assured that we have a good 10 years of robust stone business ahead of us.

For those in the stone industry as producers, fabricators, installers, importers and distributors, you are in the right industry and business. The life cycle of this industry is on an accelerated path and it is still early in the cycle. That means this is the time to prepare for the accelerating growth and demand, and to position yourselves with a competitive advantage against the new entrants who undoubtedly will start flowing in to invest in the industry's growth opportunities. You have the benefit of experience and established relationships, but these can be diminished if you do not adjust and grow with the industry. Technology will continue to be an important tool to keep up to date. Also, the option of purchasing stone from some of the lower cost suppliers in previously untapped nations may ensure you benefit from the various economies of scale in production and in sourcing. Of course, these purchases should be made with an eye on quality, as quality should not go down as cost declines. With the glut of products becoming available, it is critical that you implement quality control processes to ensure you meet — and preferably exceed — industry standards

Lack of skilled labor is another challenge that exists today, and it will get worse. The Tile Council of America (TCA) reported that whereas ceramic tile consumption doubled from 1994 through 2001, the number of ceramic tile installers increased by only 25%. The stone industry has also doubled in consumption, and its workforce is in as bad, if not worse, condition in terms of not having enough adequate skilled labor. It is more important now than ever to invest in your employees and provide them with quality and continuous training. This will allow your business to grow with the industry and provide the kind of quality work that will perpetuate and compound your success.

In the coming years, the "Stone Product Industry Report" will evolve and become even more meaningful as it collects more statistics and delves further into the data. This report provides very important information on industry trends and end-usage data of stone products from countertops to cultured stone. It also includes results from a survey of the largest U.S. importers of stone that reveal average margins, average inventories, product mix, and uses and applications of the products they sell. Plus, the report provides a list of the top importers and exporters to U.S., and leading U.S. producers.

CTaSC will continue to provide the necessary technology and support for conducting surveys, and as more industry members participate, the results garnered from those surveys will prove a vital tool for businesses. I encourage everyone to participate in these surveys, which will not only benefit your industry, but will give you the kind of foresight to maximize the growth of your business in this fast-growing stone industry. ❑



Ceramic Tile Consultant, Donato Pompo, CTC, CSI, CDT, MBA, is the founder of Ceramic Tile and Stone Con-sultants (CTaSC). Pompo has over 25 years experience in the ceramic tile and stone industry, from installation to distribution to manufacturing of installation pro-ducts. CTaSC provides job problem investigations; quality control services for products and installation methods; architectural specification writing; training programs that include on-site training; and online courses from the new University of Ceramic Tile and Stone (U of CTS) campus. Market research and outsourcing services and business planning services are also available.

Copies of the "Stone Product Industry Report" can be purchased and are available at a discount at www.CTaSC.com, along with other floor covering industry reports on ceramic tile, wood flooring and laminate flooring. Or, you can contact Donato Pompo at Ceramic Tile And Stone Consultants at 619-669-2967, or email him at dvpompo@CTaSC.com.