STONE EXCEEDS U.S. CERAMIC TILE CONSUMPTION VALUE IN 2002

Stone trends reported for the first time...

by Donato Pompo CTC, CSI, CDT, MBA

The Ceramic Tile Industry has grown substantially over the years and is one of the highest growth products of all floor covering categories. Stone is becoming more and more important to ceramic tile installers and distributors. Stone costs more, on average, but that only increases the profit potential. The consumers are intrigued with stone and are asking for it more and more over ceramic tile. Unlike the ceramic tile industry, there has been very little statistical information available about the stone industry that would enable businesses to effectively plan and forecast their sales and marketing efforts, or to attract outside investors. If you want to take advantage of the Stone Industry trends and explosive growth, you need to purchase a copy of the new Stone Product Industry Report.

In September, 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. The report provides forecasts and marketing trends, including Canadian Stone Industry trends. It 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.

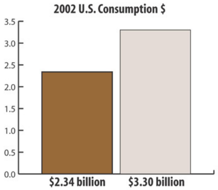
The report results show the stone industry as very fragmented, and project consolidation on the horizon evolving with the accelerated growth. This will open the door to many opportunities for those within and outside the industry as we go forward.

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 with ten countries topping the list as major suppliers. 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.

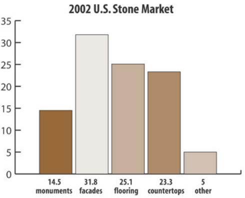
It may seem to some like the Stone Age, but we are on the fringe of the frontier preparing to leap into the future, consolidating our businesses and processes, and utilizing technology to maximize our economies of scale in purchasing as well as in manufacturing. The opportunity is here and now for those 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 (7/21–28/03) and some interesting trends were noted. Here are a few key points that validate the importance of this information to the ceramic tile and stone industries:

In 2002, $2.34 billion of ceramic



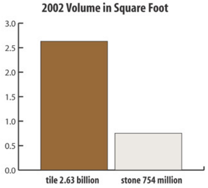
tile was consumed in the U.S., compared to $3.30 billion of stone, giving stone a 41% lead over tile, a significantly larger dollar amount. It represents an 11.5% compound annual growth rate (CAGR) for stone between 1997 and 2002, while ceramic tile experienced only a 7.7% CAGR during the same period. Of course stone comes in many shapes and sizes for many different uses. 14.5% 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 rep-



resented 25.1%, countertop use represented 23.3% and 5% of the stone was for other uses.

In 2002, stone imports grew to $1.75 billion, representing 52.9% of U.S. stone consumption, beating ceramic tile's import value by 13%, at $1.55 billion. 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. 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

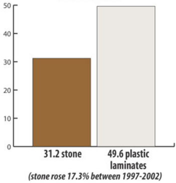


extrapolate the square footage by averaging the weight of various stone configurations.

This resulted in an average value of $4.39 per sq. ft for stone, compared to ceramic tile's continuing declining average value reported at $0.89 per sq. ft. 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 3/8″ or 1/2″ thick stone with a facial surface dimension between 12″x12″ and 24″x24″) during 2002 to be 210 million square feet.

The Stone Products Industry Report determined that by category, stone represented 31.2% of the countertop market (in terms of value), a long second to plastic laminates that held 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 those considering becoming fabricators, that demand will continue to grow.

U.S. Stone Countertop Market
(in terms of value)



(stone rose 17.3% between 1997-2002)

The majority of stone imports in the U.S. today come 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. 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.

The Stone Products Industry Report is good news for both the ceramic tile and stone industry, and it is fundamental information for those who want to grow their business by taking advantage of stone's demand and explosive growth. The economy will help or hinder overall growth, but it seems assured that those in the Stone Industry have a good ten years of robust stone business ahead.

For those in the ceramic tile industry as installers, importers, and distributors, you are in the right industry and business! Most of you are already installing or selling some stone, and it probably has become a much greater percentage of your business. With the increase in demand for stone, it would be in your best interest to not only offer stone, but to emphasize that you can provide stone. Just keep in mind that from selection to installation, the customer is looking for information and a large selection to help them make the best choice for their needs.

The life cycle of the stone industry is on an accelerated path and it is still early in the cycle. That means this is the time to prepare for the increased growth and demand, and to position your company competitively in a market that will undoubtedly draw newcomers. You have the advantage of having established relationships with customers who bought ceramic tile from you in the past and who prefer stone today. But your competitive advantage 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 and buying right from the glut of lower cost suppliers showing up from around the world will help ensure you benefit from the various economies of scale in production and in sourcing.

Of course, with the glut of product 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. Tile Council of America (TCA) reported that whereas ceramic tile consumption doubled from 1994 through 2001, the number of ceramic tile installers increased 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. So this opens the door to ceramic tile installers, whose installation methods are similar. It is still more important now than ever to invest in your employees and provide them with continuous training that 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 Products Industry Report will evolve and become even more meaningful as it collects more statistics and delves further into the data. As you can see, this report provides very important information on industry trends. It includes end-usage 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. This is the kind of information companies need to intelligently grow their business at a time of opportunity.

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.

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

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