

Leadership in Commercial Forestry Management

Michael J. Andrews

*Presented at the New Zealand Institute of Forestry conference,
"Leadership in the New Zealand Forestry Sector",
May 3-4, 1999, in Wellington*

It is good to be back among many friends and colleagues and the people, and the type of industry that I grew up in. It was in the hills of the Bay of Plenty, living and working on the land, that I first developed my own direction and the outlook which has significantly shaped my business life and which, as you know, spans many years in the forestry sector. Of course much has changed over those years with the result that, like many industries, all forestry players have to rethink their very being in order to survive in the future. And as we well know, it's an exciting, but intensely challenging time for us all.

Given this change, I would like to look today at the macro picture for the industry and the issues we face in leading the future of commercial forestry management in New Zealand. My talk will explore five lead areas that I consider to be the critical issues in the revolution happening around us:

- First, that delivering value-based solutions to customers and understanding what customer value is truly about is fundamental to survival;
- Second the importance of innovation (not in a product development sense, but in how we live this out in every aspect of our business). For it is innovative thinking and innovative management that will shape our industry's future;
- Third, the rapid globalisation of markets and how this global push will in itself generate new industry players and partnerships;
- Fourth, the need to become a more knowledge intensive industry, and;
- Finally, what all of these changes mean in terms of the human competencies needed for the future.

In looking forward, I think it is useful to first step outside our industry and consider how others have reinvented themselves to keep pace with the global demands of consumers. Such reinvention is the outcome of the unprecedented change we continue to see around us, where consumer choice knows no boundaries.

It will come as no surprise that the real driver of this change is the fact that our world has become a global market. In this, I believe we can learn important lessons from how the food industry has evolved. Historically, our ancestors used to draw from about 200 species for food items in any given year. Today however, as a global industry, its output is rigidly focused around selective food production drawing upon a very narrow set of species.

Our world of 6 billion people now gets 70 percent of its food from nine species of plants, one species of bird, and two species of animals. This is despite a global access to about 50,000 edible plants as well as large numbers of

bird and animal species. And why the change? Because efforts to meet the world's food needs have had to become concentrated on those species which are the most desirable, the most convenient and the most productive – and most importantly, those which meet the required cost equation to survive in a global business environment. Thus, getting the cost equation right has become the critical issue for the global participant. Cost in time, in energy and in land-use, for example.

It was from my old friend Wink Sutton that I first learned how important this hypothesis is to the future of the forest industry. It is a fascinating issue which requires us as forest managers to step back from the almost 1,000 tree species used globally today, to envisioning a world which is increasingly serviced by a few tree species and a few key locations. That is, those species that best meet the major range of wood needs most cost effectively. As customers and competitors become more global, it is without question, a particularly important lesson for us in New Zealand as a small player operating in key global markets, seeking to compete with the best in the Pacific Rim, if not the world.

Given what I have said, what are the priorities in protecting our existing positions and taking up the global challenge?

What is Commercial Forestry Management?

A fundamental starting point is being absolutely clear on what we mean by commercial forest management in this global marketplace. Forest management does not stand-alone. It is all encompassing - one of a number of pieces in the supply chain to our end customer – and one of the many steps necessary to deliver a return on the investment made in providing a solution to our customers. Equally important are service, marketing, harvesting, transport, nursery production and research. So, at its core, commercial forest management is about defining and organising all that we do around customer need – and approaching every level of activity undertaken from the customer back, not from the resource base and products we have traditionally produced.

What does this mean in Fletcher Challenge Forests?

Overall then, forest management is about treating each of these elements as vital, interdependent links. And in managing that chain, meeting the demands of customers economically. This requires us to look beyond our traditional view of forest management – where much of the effort has focused on getting the mature tree to look its best, or have the highest growth characteristics. Rather, it is about looking at how consumer needs are changing, devising solutions to fit that changing demand – and also recognising that a wood based product may not be the best solution for some customers. Substitute products such as

Michael J. Andrews
Chief Executive Officer
Executive Director
Fletcher Challenge

steel framing, concrete floors, MDF furniture components, vinyl window frames, and moulded plastic doors are posing an increasing threat to solid wood demand. So we must accept that competition will continue to grow and consumer expectations will keep changing.

In our favour, is the fact that a major shift away from wood, and an increased use of wood-substitutes, is not in the environmental interests of our globe, particularly when the wood is plantation grown. However, ultimately it is customer value that will win out, and this being so, I believe leadership of the commercial forest industry in the next 20 years will lie in bringing new wood-based solutions which are superior to these products, to consumers who seek a value-based answer to their problem.

Good forest management is equally about recognising who it is we are providing a solution for today. Unlike the past, it is not the customers of our logs, for they are only intermediaries. It is those who open their wallets to pay for their home and their alterations. In short, the end-use customers. Overall, it is about providing direct customer solutions, which is a vastly different business proposition to that of the past. This has major implications for the way we approach our future.

Defining customer value

As I have said, we have to meet customer needs at lowest cost. To do this, we must first understand what those end users want. This requires innovative thinking in how we manage our business. Not innovation in a product development sense (although that may be an outcome), but innovation in how we offer customer value. What will customers pay more for? And how can we develop and deliver that cost effectively? Ultimately it is about adding value to the customer (not the product). Industry must therefore chase the customer value curve, not the product value curve.

So providing customer value demands a step change in our research, development and marketing efforts. Commercial foresters have to be in touch with key international markets, understanding what it is that customers value, what they are prepared to pay for, and what they are indifferent to. In every aspect it means constantly thinking outside the box.

Innovation is of course vital to the search for a narrower set of tree species, and specifically to developing the specialist trees that have the growth characteristics to fit the required customer solution. With this goal we must develop specialist management, geared to providing 'designer trees' which grow a product closer to the customer's needs, every time, and at the right cost.

The search for the 'designer tree' is an important part of strategic activity at Fletcher Challenge Forests, where it is recognised that just a few species will provide 80 percent of the world's wood needs – growing in a sustainable manner via plantations. We have an idea of some of the key species and I'm pleased to say some of the key locations.

To complement our established biotechnology programmes the recently announced joint venture between



Michael Andrews

Fletcher Challenge Forests, International Paper, Monsanto Company and Westvaco Corporation has also been an important step. Through biotechnology, the partners will be working to improve world-wide forest productivity and health by developing trees with traits such as herbicide tolerance, faster growth rates, and improved wood quality. Such attributes will enable the forest products industry to meet demand for wood products while ensuring sustainably managed forests for our future generations. Most importantly, they strengthen our ability to provide that perfect customer solution.

Customers will be global, not local

The global, not local customer issue is undoubtedly one of our biggest drivers. Forest management in the coming century will have to deliver the right cost structure to enable us to sell our products into global markets - markets which are becoming increasingly demanding, and increasingly competitive. Growing 'good' trees will not be enough. We will have to be globally competitive in the way we raise and manage forests, and in the way we process the output and target that management towards customer value.

A good example is in the North American market, and Fletcher Challenge Forests' joint-venture partnership with American Wood Moulding, a significant distributor of solid lineal mouldings. AWM delivers into a major DIY chain, Home Depot. To maintain our business, competitive pricing is critical, and 100 percent in-stock must be guaranteed all the time. The service levels are absolute: we provide that service or we do not have the business. Not surprisingly, becoming a global provider direct to the end user has had vast implications for our operating strategies and the skill set needed to meet this demand.

Transforming processing and making it an interdependent link

We must as an industry lead significant change in our processing management, which has not historically as we know generated acceptable investment returns in New Zealand. It starts with recognition that growing of our

forests cannot be separated from processing and supply chain management. This means recognising the interdependent role of processing in the customer value chain. The result, will, I expect, lead to specialist change processes replacing generic breakdown activities.

Live examples are in the area of slicing and peeling, which are already influencing costs. And in our quest for customer value, laminating is providing different qualities for different solutions. An example at Fletcher Challenge Forests is in the development of specific laminated components for the Japanese housing industry. House builders want a wood-based solution. Cost is an issue, as is precision in dimension and stability. Engineered wood products can provide that solution, under tight Japanese standards, and enable radiata to provide value in this vast market.

And so, there are clear priorities, which we as foresters must earnestly grasp to make our industry truly sustainable:

- We will need to rapidly enhance the effect of nature - to keep pace with the world's need for wood, to deliver the solutions our customers demand and to keep costs realistic. In this, our biotechnology efforts will be critical.
- The complete supply chain concept is likely to mean bigger companies to make sure each step is closely linked. This does not mean conglomerates will do everything - many specialist suppliers will be required to implement the supply chain and its key service and product solutions. But scale will be important in managing costs, and in developing new solutions for those customers. Like many other industries, the inevitable outcome will be more global alliances. This requires all of us to have a different perspective on competitors of today, who may become partners of tomorrow. Best people are the pre-requisite - best forest management is their output.
- The skill set mix of our people will be vital. Many will be science trained; more will have general management skills. Some will have specialist logistics or finance skills. But all those skills will be focused on how to deliver to the customer what they need - rather than how to grow the best tree. Best trees will become redefined - best for what? best where? best solution?
- The academic framework for forestry may change. I can see forestry becoming a second degree of choice - a follow on to architecture or science or commerce, enabling people to focus on forest management as a means to an end - that of supply.
- In the same vein, a more rigorous programme for training and education will be needed at an operational level to deliver the customer value we aspire to. As you know, we have developed some excellent programmes to train foresters. But we have some way to go in developing the skills associated with transforming wood, and getting it to customers on time, in full, and within specification. As foresters, we have to help drive this move. Wood processing must take equal place with forestry in academic courses. Ability to read and interpret electronic output data, of being aware of the implications of supply chain management

in making or breaking adequate returns will be vital. Understanding competitive advantage right through the supply chain, and being able to pull the levers of that chain to ensure we can deliver, will be the skills of the future. Our challenge is to get these skills built into our industry's training groups, so that we are able to produce the forest industry skills of tomorrow and not just of yesterday. Failure to do this runs the risk of having a major skills gap as we move into next century. This change in pattern will require different allocation of resources. Customers will be the key assets, along with their trust and knowledge. So knowledge itself, of service delivery, of customer preferences, of doing things well and cost effectively, will be more important than in the past. We will also have to think about land differently - as a valuable resource, which has to achieve the best return. And that may mean more, shorter rotation plantings, or different silvicultural regimes to reduce long term costs while growing an effective solution. So investment will be different. We will have to invest to a much greater degree in the intangible assets - in people and in knowledge, as well as in physical assets. We must fundamentally change the way we think about assets and embrace the intellectual capital argument fully. And we will have to get that fine balance right in order to achieve a low-delivered cost position into global markets. Near enough will not be good enough.

Finally, our people will need different competencies, so competency management will be critical. We must determine today what competencies will be needed for a different business of tomorrow. In this, people skills will be crucial. Commercial skills and knowledge must be in abundance. Flair and innovation will need to be encouraged to develop new solutions. With supply chain management so critical, logistics expertise to understand that service and delivery and getting it done right are critical will be pre-requisites of the successful business. Of course, some knowledge of trees too - but mixed with other skills. The question for all of us in this room is have we embraced this new human factor? And if so, what programmes are we as leaders putting in place to identify and develop these competencies; and to retain and attract the top talent that will be necessary for our industry to grow? In this we must be acutely aware that increasingly the best of the employee market are seeking out dynamic positions and turning away from industrial employers to the 'new economy' of media, communication and technology businesses. How does our industry attract its share of the internationally measured top talent?

Conclusions

In closing then, the New Zealand radiata harvest of the next 20 years is very visible already - it is in the ground. We know that almost all the incremental volume will have to be sold in international markets. Much will have to be transformed before it leaves our shores, through a range of processes.

And those processes, some of which are not yet in place, such as slicing technology, will be dependent on

knowing what customers will value. The challenge will be to get that research in place before the necessary capital is expended to achieve the transformation of a very large portion of our future harvest.

We can and do grow radiata and some other species, very well. We can produce quantities of wood faster than many other places. What we have to do is to capture those advantages, and turn them into commercial effectiveness. To achieve this, we will have to have skilled, competent people, who can work back from the customer 'problem' to develop the commercial solution. We must become a knowledge intensive industry. Attitude, education,

training and understanding the customer will be key.

The Institute has a proud history in championing and developing innovation and education within the forest industry of the past. My challenge is: can we also foster the innovation required to enable New Zealand's commercial forest management, as I have defined it, to take a leading role in the global economy of the future. I believe we can – but we have to move now, and move decisively.

I hope I have been able to paint a picture of the opportunities before us.

conference 2000

Risk Management to Forestry the theme of NZIF Conference 2000

The programme has been set for the first NZIF conference of the new millennium. The conference will explore the assessment and management of risks associated with commercial forestry in New Zealand. Speakers will address issues surrounding marketing, socio-political and biophysical risks. The conference is launched with a re-union on Sunday 16 April - be sure to be there to catch-up with your acquaintances. The conference starts on the University of Canterbury campus from Monday 17 to Wednesday 19 April 2000.

For further information about the contact, contact Russell Coker (phone/fax 03-358 711 or email RJCoker_HQ@xtra.co.nz

Conference Programme



Sunday 16 April

Registration, Icebreaker and Re-union

Monday 17 April

Keynote address, **Bill Studholme**.

What is all the wind about? Assessment and Management of Biophysical Risks

Bill Dyck.

Biophysical risks-NZ compared to the rest of the world

Rowly Burdon.

Genetic aspects of risk. - species diversification, genetic management and genetic engineering

Gordon Hosking.

New Zealand's biosecurity risk position - Keeping those foreign pathogens at bay

Assessment and Management of Socio-Economic Risks

Mark Prain.

Indicator programme -feeling the social pulse of the investment environment.

Dennis Neilson.

Country versus country assessment of business and political risk

John Fairweather.

Community risk - the forest at risk from the community vs the community at risk from the forest
Regulation risk - anticipating regulatory changes, a means of risk minimisation.

Annual Dinner at Christchurch Antarctic Centre

Tuesday 18 April

Assessment and Management of Financial and Marketing Risks

Rob de Fagely.

Wood supply and Demand Issues in the Pacific Rim - background situation

Devon Maclean.

An assessment of market risk facing the New Zealand wood industry

Gerald Hunt.

Wood products and Markets- development of international markets, opportunities and risks

Eric Hansen.

Risk and opportunity in relationship to environmental certification

Andy Wiltshire.

The institutional investors perspective on risk in the New Zealand wood industry

Bill Liley.

Treatment of Risk in Forest valuation- tools and techniques

Frank Pearson.

Forestry investment risk for the small investor

Panel Discussion. Case Study of Investment decision making

Nick Roberts (Chair); Andy Wiltshire; Bruce Manley; Bill Liley; Frank Pearson

Wednesday 19 April

Morning

NZIF Annual General Meeting

Afternoon

Field trip to local innovative processing firms