

# When will things get better?

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The plantation forest industry is going through tough times at the moment. Harvest volumes have been reduced, people have lost their jobs, forest valuations have dropped significantly, the \$NZ:\$US exchange rate is still climbing, harvesting equipment has been repossessed, communities are feeling the pain, families are suffering.

And is the worst still to come?

All this sounds very familiar doesn't it? For many of us we know this all too well, we are living and breathing it day in, day out, having to deal with the issues, having to make the hard calls, having to figure out how to make ends meet. The media has been full of bad news stories, the industry has even been given a serve from Jim Anderton who is one of our greatest supporters. Where has it all gone wrong? What has happened to an industry that offers huge growth opportunities for the nation?

Conversely where are all the stories about the businesses that haven't laid off people, that are still operating as they were, the ones that are maybe not doing as well as they could be but are still performing well considering the circumstances. There are a number of these businesses out there, there must be because we are still harvesting a significant log volume.

So what is the difference? What are the underlying drivers that delineate those that are suffering and those who are still doing OK? Is it the difference in the value proposition<sup>1</sup> that each business has aligned itself with? Is it that some value propositions are simply better than others?

Where are we at as an industry? I'd like to put some of the issues into a simple strengths, weaknesses, opportunities and threats framework to try and paint a picture of the position that we are in and from this try to discuss some of the underlying drivers of where we are at and then try to suggest a way forward.

I am not an expert and I know that the issues can be far more complicated than I am portraying. I do like to keep things simple because the world is complex, however in saying that we have to deal with reality, confront

it and devise ways to thrive in an increasingly complex and competitive market. My categorisations are very general and I'm sure you will be able to find exceptions to the rule. This list is very summarised and I don't really want to create huge debates about each item, moreover I want to paint a general picture that gives you a flavour of the position that I think the industry is in.

## Industry strengths

- We are good at growing trees, up there with the best in the world.
- We are extremely knowledgeable about the properties of our primary resource and have chosen a versatile species.
- The New Zealand industry largely has its act together environmentally and if not supported by society it is at least accepted in this respect.
- Some businesses have very sound value propositions.

## Industry Weaknesses

- We have a small domestic market and have geographical disadvantages in serving our export markets.
- Freight is often the second largest component in the cost structure of getting a product to market.
- Our processing infrastructure is increasingly coming under competitive pressures.
- We are more production focused than market focused.
- We can improve our knowledge of the value proposition that we are trying to deliver or we have poor value propositions that don't deliver ongoing value to our customers or ourselves.
- Our industry is extremely diverse and lacks unity.
- Our focus tends to be very short term in an industry that is long term by nature.
- The financial structures of some businesses are not conducive to creating value in the long term.
- We can improve our lobbying and advocacy efforts, with local and central government.
- Our public image is poor.
- We can improve the promotion of the benefits of our versatile, environmentally friendly and sustainable product.
- We are heavily into commodity markets and our market bases are not very diverse, in addition our products are very exposed to currency fluctuations.
- Do we manage business risk effectively and build this into our strategies?

## Industry Opportunities

- We need to apply greater long term thinking and be more strategic in our approach to business.
- We need to create stronger value propositions that

<sup>1</sup> A Value Proposition is a clear simple statement, resulting from a set of very disciplined choices, that describes what a customer can expect from us in the way of goods and services (including quality, timeliness and innovation) and the price the customer is willing to pay.

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generate real value for ourselves and our customers in the long term.

- We need to get closer to our customers' customers, to move further down the value chain and get closer to the end consumer.
- We need to explore new products and new markets.
- We can improve our processing, marketing and distribution capability.
- We need to continue the push into creating greater market access for our products through the removal of tariff barriers and non-tariff barriers.
- We need to utilise the government support structures and systems to help us enhance our business. The Wood Processing Strategy is a start but does it go far enough?
- We need to convince Government to really get in behind us and support our industry.

### **Industry threats**

- Is the Government really supportive of the industry? If not how do we work with them to increase their support?
- Will the Wood Processing Strategy be pulled out from under our feet?
- The Resource Management Act is a two edged sword, it is great in theory but does it work in reality?
- Energy infrastructure has been found to be wanting and will continue to be problematic for a number of years yet.
- We have significant international competitors who are continually pushing the boundaries and are very aggressive in terms of processing infrastructure development, marketing and distribution.

### **The way forward**

So how do we pull all of these threads together and make sense of our strengths, weaknesses, opportunities and threats? Where do we want to go and what can we do to move ourselves forward? I believe the answer lies in clearly understanding the value propositions that we are able to deliver for ourselves and for our customers.

I consider that we have a very sound robust fibre resource which provides a strong foundation for our industry. We shouldn't lose sight of the primary resource we have, we need to keep up the excellent work we have been putting into growing a great resource, however we need some more arrows in our quiver. We need to be as proficient at processing, marketing and distribution as we are at growing trees.

### **Processing**

We have to invest in our processing facilities and continue to do so. We can't stand still - we have to improve our productivity and value creation opportunities. I believe we have slipped back relative to our competitors.

### **Marketing**

We are a long way from our markets, geographically, culturally and politically. Most importantly we are distanced from the market in terms of where we sit in the value chain. The final end users of our products are in many instances consumers who we don't know much about, we don't know what their preferences are, we don't know why they make the consumer choices they do, we don't know what key decisions drive their purchasing power, and we don't know what new innovations will satisfy their needs.

We have a lot of barriers to overcome and this reinforces the need for careful selection of our value propositions. Fundamentally we need to understand the value drivers and position ourselves to take advantage of these.

### **Distribution**

Distribution has changed significantly in the last 10 years let alone the last 100 years. The days of logging the forest, selling the logs to the sawmiller down the road who then sells the lumber to the builder or remanufacturer further down the road, who then sells to the carpenter or furniture maker further still down the road, are fast changing. This distribution model still exists but there are now many different variations which create greater complexity. For example, the remanufacturer can be in a different country now, components can be made in one country and assembled in others. We are capable of participating in distribution now more than we ever have. We need to be part of the distribution system so that we can pick up the distribution margin as well as the product margin, and at the same time get closer to the end consumer.

We need to focus on and improve in all of these areas. This will require commitment, courage, technical expertise, investment - all the things you have heard before. However the key requirements that will take us to where we have to go are the same as always - vision and leadership. At the end of the day it is the vision we have for ourselves as an industry and our leadership that must take us to this vision. We are the masters of our own destiny.

### **Summary**

If we want to change and break out of the commodity cycle we have to resource the areas that need improvement. We are good at growing trees so let's keep doing what we are doing here. I believe the key areas we need to resource to enable us to break the cycle are those that I have discussed above - we need to become significantly better at processing, marketing and distribution.

To move to a modified operating model we must have the vision and leadership from within the industry to get us there, we can't keep doing what we have been doing, we have to break the cycle and then things will get better...