5. Make strategic marketing decisions

Too often in recent years marketing decisions have been driven by the need of companies for cash. We have seen situations where companies have responded to prices going down by increasing harvest volumes in order to maintain revenues. We have also seen many examples of New Zealand companies undercutting each other in markets.

The current forest ownership changes should assist in removing cash-driven marketing decisions. Greater cooperation in marketing is still needed to avoid New Zealand companies being individually picked off by customers and to improve our credibility in the market place.

We need a profitable forest industry

These actions, together with realising short-term log export opportunities into China, will help to return profitability into forestry so that investment can be attracted. There are opportunities for value-added products in the medium to long term. The challenge in the short term is to get profitability back into the forest industry.

A Golden Goose has planted the trees and the trees continue to grow, yet what are we doing as an industry to ensure the trees are golden?

Reference

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When will things get better? Never and soon – it will just be more of the same but in a different way

Phil Taylor*

The first question is, "How does one measure better"? Is it greater financial return, less risk, fewer compliance costs? Or is it a greater acceptance of the forest industry by the community, a more responsible attitude towards the environment and a greater commitment from the industry for its people? The list could go on *ad infinitum*. So, do these "betterisms" which are often seen as being mutually exclusive need to be? This really is the nub of the question posed in the rhetoric. So, before we can answer the question, "When will things get better?" we must first ask the questions, "Better in what way?" and "Better at what cost?"

A Question of Context

On the surface, the answer to the question, "When will things get better?" is a simple one (although not an easy one to achieve). I am sure there are other commentators in this series of articles who will talk in depth about international freight rates, exchange rates, market demand, costs structure, competitive forces etc. But, when we talk about these "economic factors", we talk about "better" in terms of the current construct, i.e. an acceptable financial return from forestry as an investment.

If one were to ask this same question of a recently laid off harvesting contractor, he or she may well repeat those issues identified above, but would also conclude that things will get better when the company really cares, when company vision moves beyond the next reporting cycle to the shareholder, and when the social consequences of decisions made on the basis of short-term economic performance are truly recognised. Alternatively, put the question to an NGO concerned with environmental issues, and a different response again might be expected.

So we can see, the answer to the question is dependent on the context within which it is constructed and ultimately asked.

A Question of Change

There is an age-old saying, "The more things change, the more they remain the same" and there is nothing to suggest that the focus on economic performance will change in the short-term (and this is economic reality); businesses need to pay their way. There will always be a tension between cost efficiency and a commitment to social and environmental matters.

However, perhaps, just perhaps, there is a better way.

Our industry is dominated, and in many cases led, by corporations who have a need to focus on the bottom line. Shareholders expect it and therefore this way of thinking tends to dominate both their and our ways of thinking. But should it? I would suggest that this approach is slowly changing. We have seen the fashionable (if you are a cynic) or inevitable (if you have a broader world view) shift towards recognising the importance of both the community and the environment for the long-term economic well being of our organisations. We have to accept that this recognition is likely to come at some cost to the short-term bottom line. But, is this a bad thing if it encourages long-term benefits?

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Economic cycles change regularly, with some analyses proposing that return periods between "better and worse" last three to five years. Fashions undoubtedly change, and without question corporate strategies, their proponents and those who implement them are constantly changing. Perhaps it is this latter feature of our industry that is the root of our "problem", and until we can get "rid of this continual change" things will not get better.

Is stability really a bad thing? Chaos theory suggests that progress arises from conflict and disruption. However, my own observation of the New Zealand forest industry is that this "emergent progress" more often results in an organisation moving backwards than progressing forward. We really need to take a hard look at how we manage our businesses if we want to see how things will get better in the long-term, rather than focussing the blame on short-term economic indicators. Dare I say it, but part of this adjustment might entail accepting lower financial returns in the short-term in favour of consistent returns in the long-term.

A Question of Strategy

I am not a great fan of the "Americanisation" of our businesses, which often manifests in an organisation's "corporate strategy" – too many MBAs perhaps? Recent history has shown that most attempts to maximise returns on shareholders funds - the targeted outcome of most corporate strategy - have been glaring failures.

Corporate strategy, aimed at making an organisation leaner and meaner (and by assumption more efficient and profitable), continually changes, and this confuses both us and those working in and for the organisation. How many times have we heard the statement "the new CEO wants to put his stamp on the organisation and add value to the shareholder", with the resultant major restructuring, and paradoxically, as history has shown us all too often, the almost inevitable loss of shareholder value. However, perhaps we point the borax at the wrong individual. To a large degree, the consequence of failed corporate strategy should lie squarely at the feet of that ultimate company authority, the board. Or perhaps (could I suggest very quietly), even the shareholders themselves?

One problem of course is that the equity market is a very critical judge of company performance, and shareholders become very twitchy when financial performance is perceived as substandard. Equity investors vote with their feet, and because of this boards and senior executives pander to their needs by taking actions designed to promote short-term wealth generation – not a great idea for a long-term investment like forestry. This raises the question as to what is the most appropriate vehicle for a forestry investment? I don't intend to get into that discussion here other than to say that it needs to take some form where the owners have a longer-term approach. Things will only get better when we take a more balanced view of what our expectations of forestry as an investment are, and over what time period those expectations are realised. Only then will we be consistently rewarded for our investment of capital, time and effort.

A Question of Stability

All we are seeing at the moment is change, and we will continue to see it in the future if we maintain the current doctrine that change is good and maximising profitability is the only objective. But what we really need is stability. Our strategies and business decisions should be targeted at trying to maintain stability. I would put it to you, that removing volatility will ultimately contribute to stronger performance in all aspects of our business. We need to be responsive to change for sure, but reactive? Experience that comes with experienced people will reduce the tendency to overreact to situations of uncertainty.

So how then, do we get stability? In my view it is all about building relationships with customers, suppliers and staff, where the parties to the relationship share the pain (pain similar to that which many are experiencing at the moment), and the gain when times are good. All too often these are allocated disproportionately, and we have seen this manifested in several ways. For example, when times get tough, the forest owner, being at the end of the value chain, is expected to "cop the lot". Or, the harvesting contractor is dropped like a lead balloon when production is scaled down. In the long run we all need each other to remain viable. Where for example, will the harvest contractor be when we want to ramp up production?

Because of the cyclical nature of the commodity we trade in, the industry will always be characterised by good and bad times. The secret is to accept lower returns in the good times in return for better returns in the bad times. Herein lies the difference between maximising (short-term) and optimising (medium to long-term) financial returns.

A Question of Vision

Strategists, particularly those who purport to make decisions that maximise shareholder value (the holy grail of corporate thinking), generally fail to recognise that the "short-termism" of their strategies ultimately contribute to long-term institutional failure. It is important to recognise that the ultimate well-being and survival of an organisation is fundamentally based on its ability to deliver value over the longer-term – in this particular instance measured in terms of economic return. This raises the spectre of what constitutes a fair return.

I expect a minority of readers would argue that expectations of financial returns are far too high and that we have been beguiled in the past by returns from highly speculative investments, or by macroeconomic factors that make high returns essential. Unfortunately, such magical returns have now assumed an almost sacrosanct status, against which all other investments must be

Knowledge is of little use without the experience to know how to use it. (Pic: TMS Ltd)

judged – we have to meet these returns or the axe will fall. One wonders in reality how many investments of any type consistently reward shareholders so richly? What can we learn, for example, from the experience of the "dot.coms"? So, perhaps the words "balance", "realism" and "sustainable" need greater attention.

Anybody who invests in forests for the short-term is in for a rocky ride. Lets face it, as forest growers we really should be in the business for the long run, and this means accepting the inevitability of cycles. Things will get worse, but plan to be in business when things get better. In the meantime survival is the key challenge, and perhaps, just perhaps, we are better off doing this with the people we need alongside us rather than discarded along the road.

A Question of Scale – Not!

We set our sights too high, and continue to measure the wrong outcomes. Economic wealth is not the only wealth we can or should expect from our forests. Companies like City Forests and the myriad of small forest owners and private forest companies that hold a significant proportion of the New Zealand forest estate are sometimes considered to be "inefficient". Some argue that they don't have the discipline of public companies that are subject to the whim of their public investors. Hogwash! In fact it is the publicly held forest companies in New Zealand that have been involved in the greatest destruction of shareholder value in recent years. Unfortunately they seem to be promulgating their dismal failure. Their "big is beautiful" mantra ignores the dark underbelly of corporate inefficiency, dysfunctional relationships and an inability to react quickly to changing conditions – amongst others!

It is interesting how many companies, having tried short-term strategies to increase profitability, and having failed, abandon ship and sell their forests quoting better returns elsewhere. I wonder how long it will be before these "fashionable" new investments are consigned to the recycle bin themselves, with investors creating an inexorable momentum towards failure as they desert such companies in droves.

A Question of Experience

Aldus Huxley once said that "Experience isn't what you learn, its what you do with what you learn". Let us hope that as an industry we accept this challenge and recognise that measuring performance solely in terms of bottom line has not been a particularly successful approach. Things will only get better when we recognise that as forest managers we need to work with our shareholders to educate and inform them, to convince them there is a better way and to manage their expectations and to sell our vision of long-term value generation. This job will be made much easier once we commit to our people rather than paying convenient lip service to their importance.

Realistically however, I don't anticipate a mad rush of investors when a public company announces its new strategy to protect its harvesting capacity, thus ensuring the generation of wealth at some future time when markets improve – as they inevitably will. This is the sad fact. It is ironic then that such a noble aim may well ensure the very survival of the company, and generate good long-term returns for shareholders - for the real threats to our industry are not exchange rate, freight rate etc., but rapidly changing corporate strategies and the abandonment of our people.

Things can always get better – but remember, they can also get a hell of a lot worse - and when they get worse you will need experienced people on your team, confident and proud of their corporate (yes, corporate) identity as an organisation to help you out.