

The logo for the Wood Supply Research Institute (WSRI) is displayed in large, white, serif capital letters on a black background. The background of the entire top banner features a photograph of a large pile of cut logs, with the WSRI text overlaid on the left side.

WSRI

Wood Supply Research Institute

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SUPPLIER-CONSUMER RELATIONS

Wood Supply Research Institute

Forest Resources Association Annual Conference

2012

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Research Hypothesis

This project is based on a simple hypothesis:

- *There are significant improvements in the “people part” of supply chain management in terms of relationships between suppliers and consumers that can be discovered, and if properly addressed and improved, will provide a more effective supply chain to the benefit all business structures involved.*

Research Hypothesis

- *Further, it is believed that one of the single most important ingredients of a successful supply chain is a **trusting relationship** between each segment where each party has confidence in the other member's capabilities and actions.*

Research Hypothesis

- *Effectiveness in a supply chain application is defined as:*

“The optimization of inputs and outputs and therefore eliminates waste of both human and material resources.”

What it is Not...

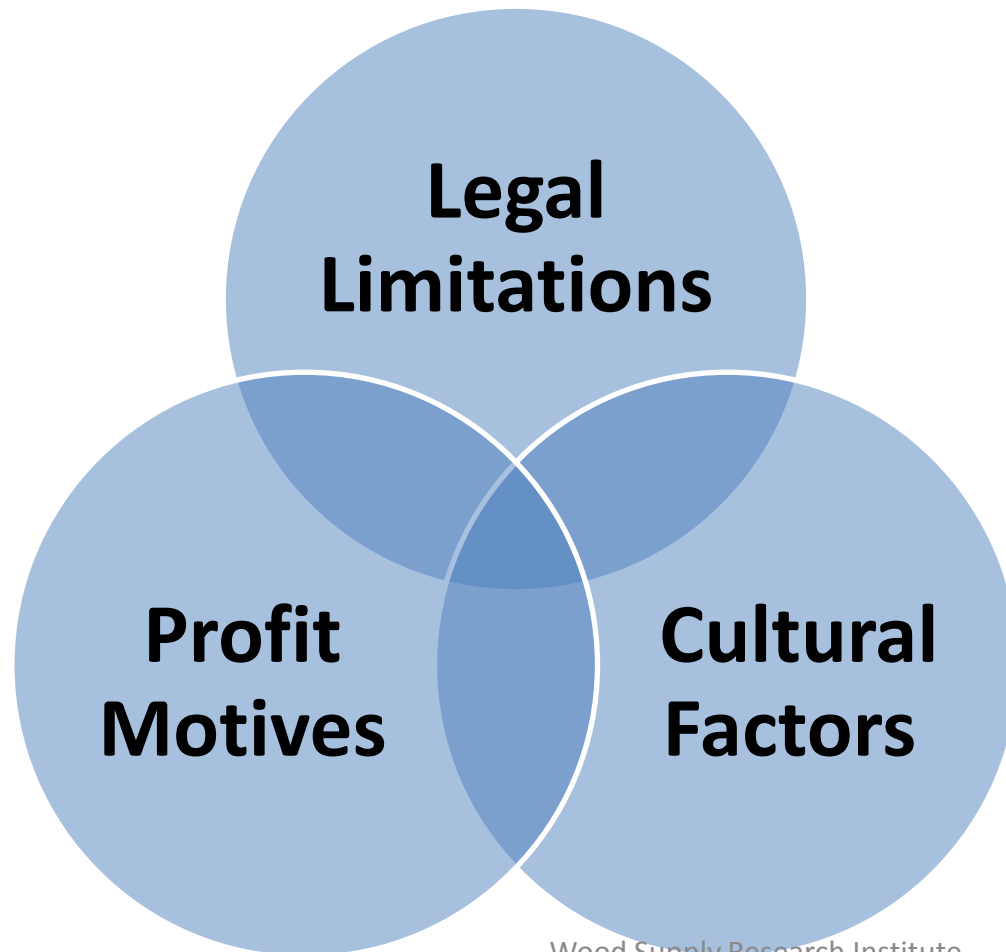
- ❑ It is not about “feeling good” about each other.

What it is...

- ❑ It is about the cultivation of a mutually beneficial business environment that translates into operational cost efficiencies.
- ❑ It is about a dependable and sustainable supply chain.

The Concept

Consumer-Supplier Interaction Dynamics



**Poorly Managed
Supplier Relations
Leads To Conflict
of Purposes:**

- Frustration
- Trust Issues
- Miscommunications
- Inefficiency
- Economic Impact

Classification of Participants

Suppliers:

- **Direct Contractor/Operator**
- **Dealer**
- **Large Landowner (REIT, TIMO, or Private)**
- **Producer Indirect**
- **Other**

Consumers:

- **Pulp-Paper**
- **Composite**
- **Solid Wood**
- **Combination**
- **Other**

Methodology

- **Conducted 255 Face to Face Interviews in 6 Regions**
- **Interviews had both Structured and Open-Ended Components**
- **Quality of Basic Interactions = Relationship Quality**
- **Tested Four Interaction Areas:**
 - **Negotiations**
 - **Joint-Planning**
 - **Performance Feedback**
 - **Problem Solving-Communications**
- **Used Mirrored Questions to both Suppliers and Procurement**
- **Compared Responses between Suppliers and Procurement**

Forest Regions Visited

- **Mid-Atlantic Region** (North Carolina, Virginia, West Virginia)
- **North-East Region** (Maine, New Hampshire, Vermont, New York)
- **Lake States Region** (Michigan, Minnesota, Wisconsin)
- **South-East Region** (Georgia, South Carolina, Florida, Alabama)
- **South-Central Region** (Mississippi, Arkansas, Texas, Louisiana, Oklahoma)
- **Western Region** (Oregon, Montana, Washington, California)

Lost Production due to Relationship Dysfunction

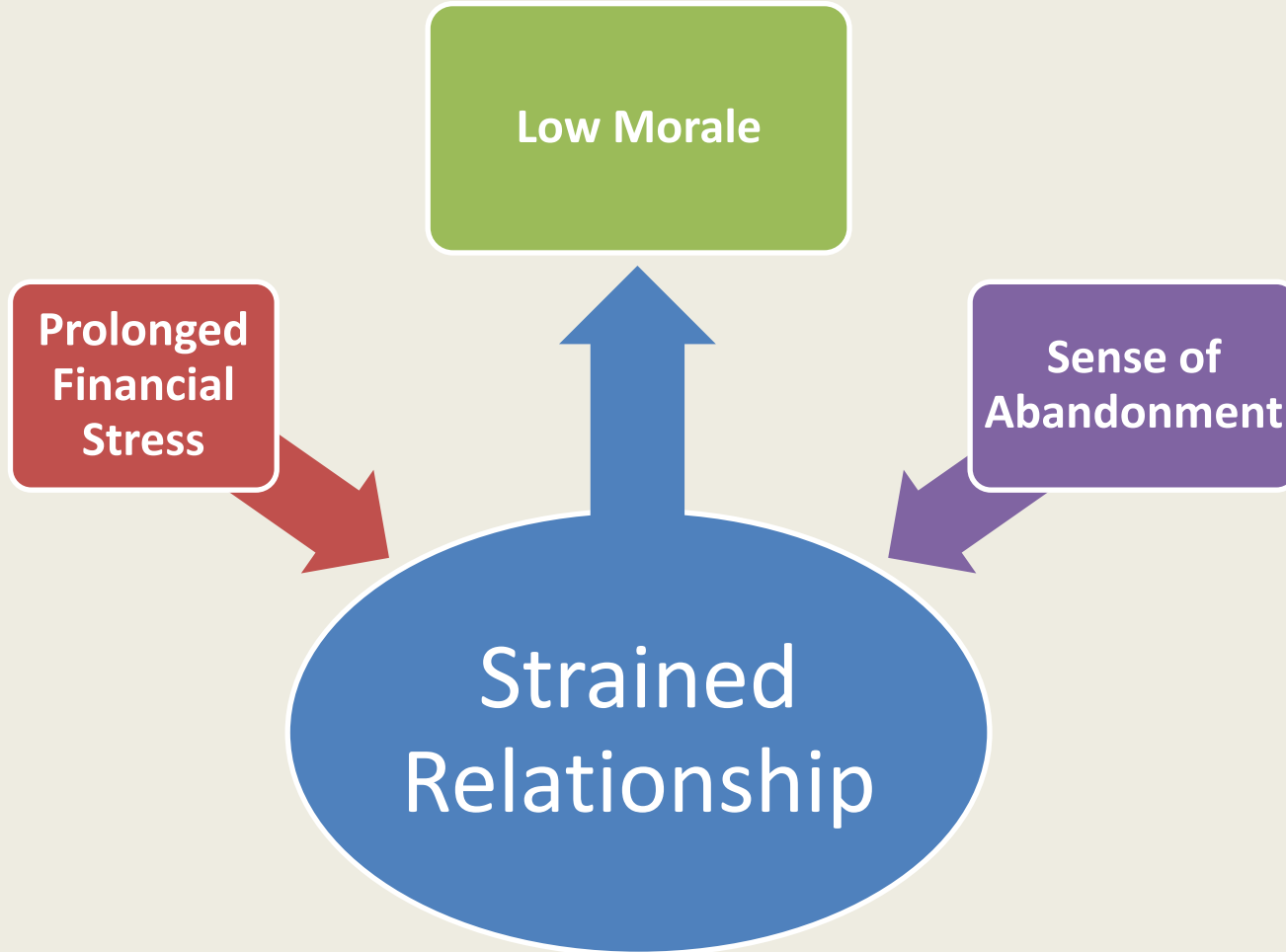
- **Identified Lost Production Related to Break-down in Relationship**
 - *Had to happen within last 12 months*
 - *Carefully determined Cause of lost production*
 - *Carefully and Conservatively determined frequency*
 - *Agreed on Number of Loads Lost Annually*
 - *Calculated Annual Loss of Tonnage and Recorded*

Results

- **Context of Study**
 - ✓ 3 years of worst recession since Great Depression
 - ✓ Forest Industry in Survival Mode
 - ✓ Solid Wood Products in Depression or Curtailed
 - ✓ Pulp-Paper Mixed – but strained
 - ✓ Suppliers in Economic Strain

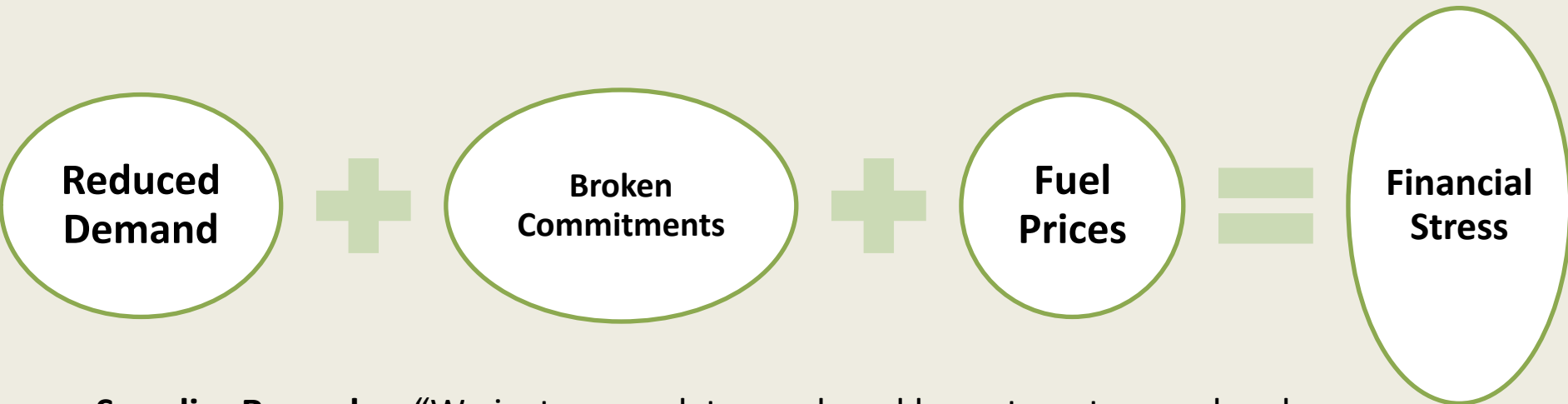
Results

Finding # One – Relationship Damage



Finding # 1

- **Prolonged Financial Stress of Suppliers**
 - 40% of Logging Contractors Interviewed provided evidence of “AT RISK” of Financial Failure



Supplier Remarks: “We just go week to week and hope to get enough volume in to pay our bills” “We cannot even think about equipment replacement in this unstable business situation. “

Finding # 1

Sense of Abandonment:

- At beginning of the recession – long-term relations and commitments were broken
- *“We know the mills had to survive and we needed them to keep running, but why couldn’t consumer mills and large corporate landowners just worked with us to minimize the damage?”*

Finding # 1

The Need for Managed Capacity Reduction During the Recession:

- Generally – there was little or none result = wide-spread uncertainty
 - South – large stumpage inventories by Dealers
 - West – re-introduced bidding = reduced stability
 - Lake States & Northeast – more positive approach
- Some notable “excellent” joint-planning examples

Finding # 1

**NEED TO REBUILD AN ACCEPTABLE
LEVEL OF CONFIDENCE IN SUPPLIERS**

- **Rebuild Trust**
- **Rebuild Relationship**

Results

Finding # Two - Logging Capacity Disinvestment

- **Disinvestment Happen in 3 Ways:**
 1. **Close Business – Sell Equipment**
 2. **Downsize to Adjust to Lower Market Demand**
 3. **Keep Running – but hold Normal Equipment Replacement (burn-up business equity)**

Finding # 2

August 2011

Equipment Regional Sales Managers Confirmed:

*“Forestry Equipment Sales Down 25% to 40% U.S.
Wide over last three years”*

Finding # 2

Logging Capacity Concern:

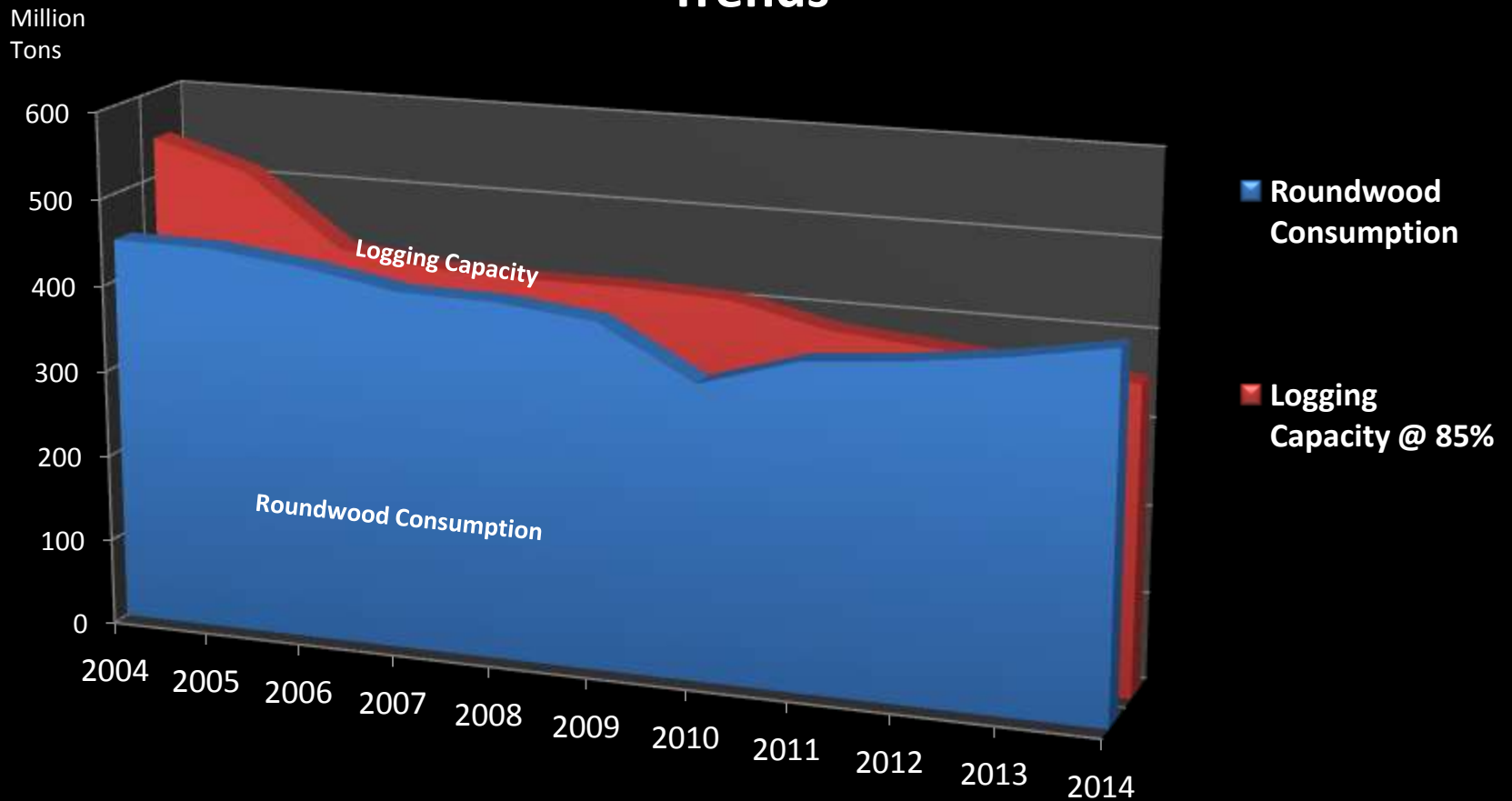
- Spot Shortages in the South & Mid-Atlantic Regions
- Tight in Western States – especially Inland
- Spot Shortages in Northeast and Lake States

Finding # 2

Barriers to Reinvestment:

- Financing – restrictive banking regulations
- High cost of New Equipment
- Doubts of Suppliers on Future Viability
- Aging Supplier Owners – More Risk-Averse
- Concern for Future Timber Supply
- Concern on Holding Reliable Labor
- Training Requirements for Certification

Logging Capacity vs. Roundwood Consumption Trends



Bottom Line

What Procurement People Told Me...

- Nation-wide Logging/Trucking Capacity is...
At Risk
- Traditional Bounce Back... Not Likely
- Supplier Business Confidence... All Time Low
- **Stable Business Relationship Must Be Re-built!**

Results

Finding # Three – **Productivity Leakage**

- **Two Principles:**

- Excellent Supplier-Consumer Relations Result in..Higher Supply Chain Efficiency

- Dysfunctional Supplier-Consumer Relations Result in ...Lower Supply Chain Efficiency

Finding # 3

Examples of Lost Production:

- Mill Outage - Not Communicated on Timely Basis – Trucks show up – Return to Woods to be Unloaded/Reloaded = lost loads for that week
- Procurement agrees to take wood from non-regular sources = Mill yard back-up =quotas = lost loads that week and weeks to come
- Impact on Supplier's Bottom Line and Supply Chain Efficiency → Ultimately to Forest Industry Costs

Annual Tonnage Lost As Recorded From Interviews Nationwide

| INTERACTION AREA | TOTAL TONNAGE REPORTED | AVG/SUPPLIER |
|------------------------------------|------------------------|---------------|
| Negotiations | 1,707,900 | 11,090 |
| Planning | 1,963,100 | 12,831 |
| Feedback | 126,000 | 846 |
| Problem Solving and Communications | 806,300 | 5,485 |
| Annual Totals | 4,603,300 | 30,252 |
| Total Sample Production | 65,927,000 | 425,335.48 |
| Loss % of Total Sample | 7.0% | 7.1% |

Note: Data Contains Some Large Dealerships and Large Landowners (REIT's & TIMO's)

Finding # 3

Production Leakage – Causes:

Non-Controllable Factors =

1. Inoperable Ground Conditions due to Inclement Weather
2. Normal Equipment Failures
3. Minimum Moving Between Tracts

= Approximately 15% Production Loss

(As a Percent of Capacity Utilization)

Finding # 3

Production Leakage – Causes:

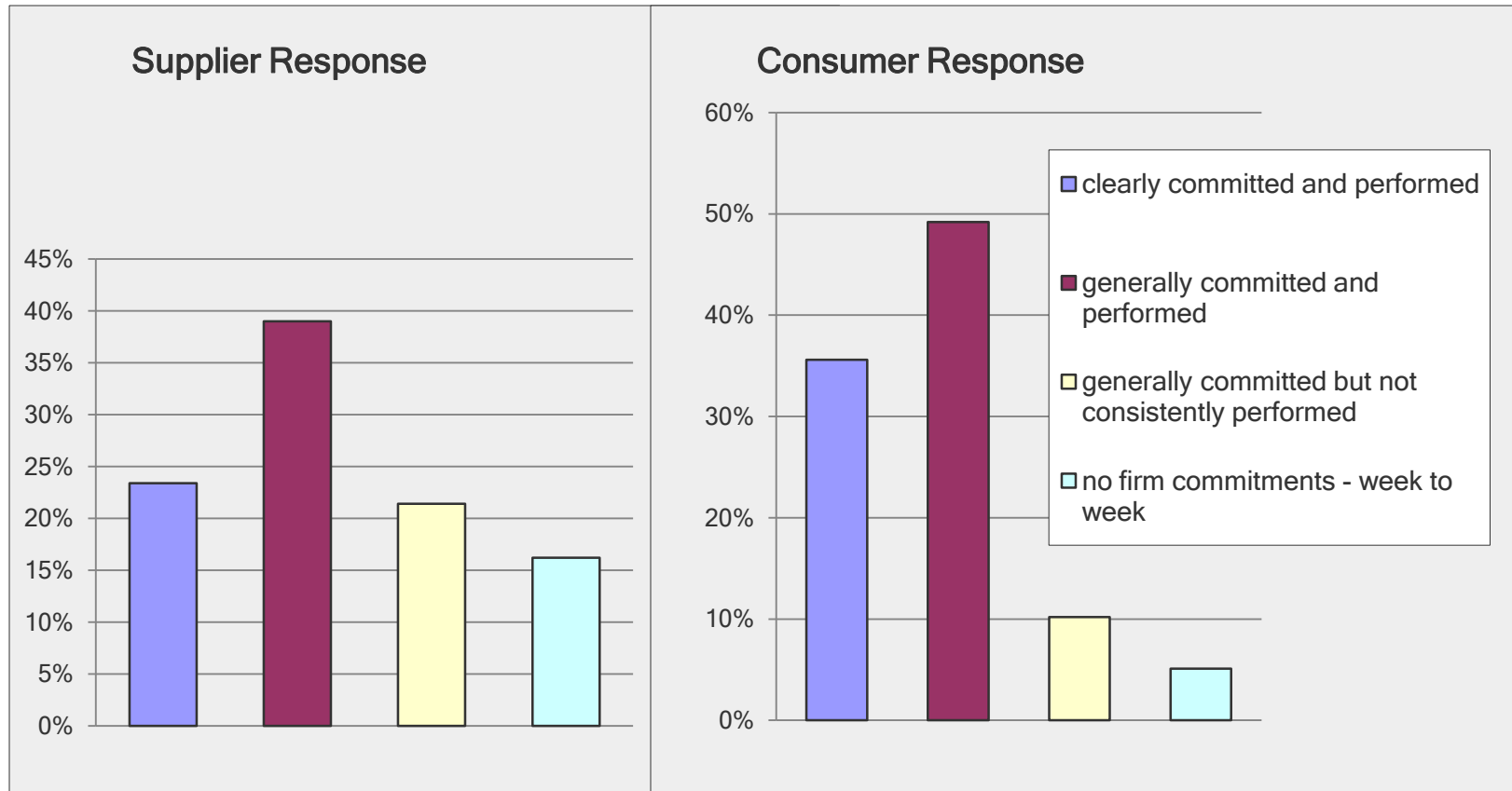
Controllable Factors

1. Frequent Variable Quotas
2. Truck Delays due to Poor Woodyard Management
3. Break-down in Communications
4. Lack of Planning

May Result in an Additional 5%-14% in Production Loss

****Any Avoidance of Controllable Losses Has Positive Economic Impact on Costs and Cash Flow**

WHAT KIND OF VOLUME COMMITMENTS DO YOU NEGOTIATE WITH YOUR CUSTOMER PROCUREMENT?



- 63% of the Suppliers stated they have verbal volume commitments that are dependable. The Other 37% classified their response as weak or no commitments.
- In Contrast – 85% of Consumer Procurement stated they provided dependable volume commitments

Finding # 3

Supply Chain is Needing Attention:

- Need Consistent Planning Horizon for their Business (Rather than just week to week)
- Need to Minimize “Controllable” Production Losses
- Need to Stabilize Financially
- **Need to Rethink Supply Chain Strategy**



Supplier Consumer Relationships

WSRI

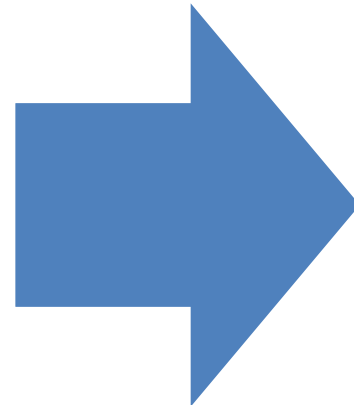
SUMMARY AND RECOMMENDATIONS

Summary

1. Relationship Damage
2. Logging Capacity Disinvestment
3. Productivity Leakage

Convergence of Vectors:

- Hard Line Inventory and Cost Controls
- Prolonged Recession
- Equipment Replacement Delays
- Lack of Surge Capacity
- Supplier – Low Stumpage Inventory
- Prolonged Southern Drought
- Lack of Firm Commitments
- Financing Restrictions
- Weakening Logging-Trucking Infrastructure



Road Map to Success

- **Build Recognition at Senior Levels That The Independent Wood Suppliers in U.S. = Valuable Asset**
 - Highly Professional and Ethical
 - Have Critical Skills Not Easily Replaced
 - Entry Requirements Are High – Financial and Competency for Regulatory Constraints
 - Supplier Companies Are Not A Commodity
 - Must Be Nurtured

Road Map to Success

- **Provide a More Stable Operating Environment**
 - Alliance Approach Within Independent Contract Structure
 - Face to Face Joint Operational Planning
 - Minimize Production Disruptions
 - Maximize Longer-Term Commitments to Established Logging Firms
 - Build on Best Practices

Road Map to Success

- **Supplier's Attitudes Need Adjusting**
 - Logging/Trucking Contractors Need to be More Positive – Your Customer is Not the Enemy
 - Consumer Procurement Need More Sensitivity to Relationships With Suppliers
 - Put the Past in Rear-View Mirror

Closing

- Industry at **Critical Turning Point**
- Strained Last Three Years – Hard but Has Gained Efficiencies for Survivors
- Time for Fresh Approach (trash tradition)
 - Rebuild Logging-Trucking Capacity
 - Rebuild Business Relationships – Together
 - **REBUILD TRUST**



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