REDOUTEY
LOGGING, LLC

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CHALLENGES OF OPERATING AND MANAGING A LOGGING BUSINESS IN TODAY'S BUSINESS CLIMATE

- **"The margin isn't there"** – Quite simply, the cost of doing business, and the revenue stream that is generated is closer than ever before.

Equipment costs have increased immensely in the last 15-20 years.

Example: 1999 John Deere 540G-II = $110,000.00
2014 John Deere 540 G-III = $185,000.00
That's an increase of $75,000.00 or roughly **68%**

The "tree run" average for logs sold has not significantly increased in that same time period. I compared two sales, one harvested in fall/winter of 2002, (tract A), the other is an active harvest within the last 24 months (tract B).

Example: Tract A average "tree run" price of logs sold = $520/1000mbf or $.52 per foot
Tract B average "tree run" price of logs sold = $580/1000mbf or $.58 per foot
That's an increase of $0.06 per foot or roughly **12%**
The glaring take away when comparing the two tracts was the price for prime Red Oak. The top price for Red Oak on tract A was $1400/1000mbf ($1.40per foot) while the top price for Red Oak on Tract B for the most part has been $800/1000mbf ($0.80 per foot)
Note: The difference in the pulpwood price from Tract A to Tract B is an increase of **36%**

The answer: Efficiency. You can only change what you can control, which isn't often how much the products you're selling are worth. When you can't raise the top line, you have to lower the bottom line to widen the margin. This can be done a number of ways within the operation.

- **"Speaking of Equipment…"** –changes in this side of the business has added even more challenges

Logging has gone through a massive transition in the last few years as far as equipment is concerned. The common theme is everything is "getting bigger". It's not so much that the bigger equipment increases production, although it certainly does in certain applications, but it's more due to the fact that the larger engine compartments are needed to house the new tier 4 emission conforming engines.

Along with that, comes the additional cost of using and maintaining DEF systems.

The answer: Not sure what the long term plan will be, but it seems a lot of companies are doing their best to avoid DEF systems when they can. This is done by trying to hang on to and maintain older equipment that pre-dates the requirements. As far as size goes, you have no other choice if you want to implement smaller skidders in your operation, but to utilize older units.

- **"Good help is hard to find"** –logging is a job, not a career

Difficulty finding skilled, reliable, clean employees is not a new problem, but is one that's certainly not changing for the better. To employ someone, pay them well, do it "right" as in withhold taxes, pay workers comp., etc. is costly. Conventional logging is hard work, and it's typical to find that most people willing to do it, have very limited options for other employment. There is usually an unfavorable reason for this. Mechanized logging is more appealing, as the work environment is often more comfortable, however, you need highly skilled operators to be successful. This means that you are often competing with other operator centric industries that can be union affiliated, which makes it hard to put together a competitive compensation package.

The answer: Good luck here. Until logging companies can afford to offer some quality benefits to their compensation package, this will continue to be an area of difficulty.

- **"Where will all the trees come from?"**-and how will I afford them?

Quality timber is hard to come by, and when it does come along, it's often hard to compete with other loggers, mills, or consultants that get involved.

It's undeniable that the average diameter of the timber that is out there has gone down, which makes sorting and marketing much more important than in the past.

The answer: This will vary with most all logging contractors. Myself, I try to avoid bid sales where lump sum payments are due up front. Instead, I try to stay in pay as cut arrangements whether it be procuring timber, or contract cutting for another entity. This way, I can keep what stumpage I have as a "variable expense" that flows along with my production and ability to work.

- **"Logistics"** – Trucks=necessary evil

One of the biggest challenges in the woods, is making the trucking portion of your business efficient. Unpredictable conditions such as hard to manage log roads and lulls in production make it hard to keep trucks running at capacity, not to mention the times when logging operations have to cease entirely because of weather.

The answer: I don't think there is one all-encompassing solution. A lot of companies have found success sub-contacting their trucking to outside trucking firms. With proper coordination, this can be a really good solution. Others prefer to own their own trucks. Trucking tends to cost 25-30% of the net revenue (after stumpage), so if you can figure out a way get that cost down, that's more money that stays to the harvesting side of your business.

- ## "Light at the end of the tunnel?"

We've seen a lot of attrition in the industry as whole, which from a logger's standpoint, hopefully results in a higher demand for the products and services we can provide.

Thank you