

## Supplier/Consumer Relationship Study Mid-South Region Report

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### Executive Summary:

The forest industry has just come through one of the most painful economic recessions within the last 50 years. The solid wood business continues in a trough and immediate relief in housing starts is not imminent. The country as a whole is in a lot of economic pain especially in the rural areas of the U.S. All segments of the forest industry have been stressed since the early 2009.

The four most important supplier issues found in this study are: (1) Reasonable level of return on investment, (2) Lack of joint planning, (3) Loss of trust, and (4) Impact on Productivity.

The four most important consumer issues found in this study are: (1) Concern about logging capacity, (2) Internal communications (procurement-mill-wood yard), and (3) Lack of communications from their suppliers.

In conclusion it is argued that the industry is at a **critical turning point**. What is known is that the general population of logging contractors has not been able to replace equipment for several years and each month more logging capacity demand is increasing. Logging company morale and outlook has been very low. There is an urgent need for the consumer companies and logging/trucking company organizations to stabilize the situation to create a more viable business environment so the forest based industry can avoid long-term damage to the supply chain. Rebuilding trust between suppliers and consumer organizations must be a priority. There needs to be basic cultural change on both sides in order to make a lasting structural change in the system. Contracts need to be of value to both the consumer companies and the suppliers. Contracts need to have credibility to the financial institutions and for business succession purposes to build a stable supply chain for the future

This paper provides a qualitative assessment of the current state of the relationship and offers recommended actions to improve the supply chain relationship and steps to strengthen logging/trucking capacity looking forward.

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## Methodology

The objective of this study was to evaluate the working relationship between suppliers and consumer mill procurement. The study was structured to obtain quantifiable data on how routine interactions actually function between suppliers and consumer procurement. Based on that evaluation, an inference can be developed as to the quality of the working relationship.

I conducted over 225 face to face interviews across the U.S. with suppliers and consumer procurement people over a seven month period beginning in late spring of 2011 through January of 2012. Each interview had three parts. The first part comprised of set of structured questions that participants selected a range of responses that best described the nature and quality of the interactions. The categories of the interactions were divided into four categories as follows

- 1. Negotiations**
- 2. Joint-Planning**
- 3. Feedback**
- 4. Problem solving/Communications**

Each category had a set of questions that were designed to measure the quality of those basic interactions. It is important to note that both suppliers and consumer procurement were asked mirrored questions. The rationale was to enable a comparison of perceptions and examine how the relationships were viewed from both sides. If a pattern of significantly different perceptions between suppliers and procurement organizations were detected then a follow-up analysis was conducted. The second part was to allow open-ended comments on how the supplier or consumer procurement participants viewed the working relationship. Comments that I perceived to have impact on the working relationship were recorded and analyzed on a qualitative basis.

In the event that a supplier or consumer procurement participant stated a pattern of dysfunctional interactions, a follow up discussion was conducted to explore if that pattern resulted in lost production and therefore caused inefficiencies that could be avoided. If the dysfunctional pattern was determined to be the cause of lost production, then an annual volume was calculated on a conservative basis. Examples had to be provided of the incidents that caused lost production within the last 12 months. Likewise, when best practices were stated and confirmed in actual examples, they were recorded and entered into the database.

All data was entered into a database and reports were generated for analyses. Dr. Brenden Kendall of Clemson University was engaged to provide assistance with the database and analysis of results. The reports were then prepared on a regional basis as follows:

- 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)
- Western Region (Oregon, Montana, Washington, California)

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The interviews were all confidential and entered into the database without names or company affiliations. Each participant was classified in the categories in the table below:

Suppliers	Consumers
Direct Contractor/Operator	Pulp-Paper
Dealer	Composite
Larger Landowner (TIMO, REIT, Private)	Solid Wood
Producer Indirect	Combination

## Supplier Perspective

The objective of this study is to provide a straightforward evaluation of the current state of the business working relationship between suppliers and procurement organizations. The following is a prioritized listing of the most prevalent and common thread issues that were consistently stated by the Mid-South suppliers in Mississippi, Arkansas, Louisiana, and East Texas:

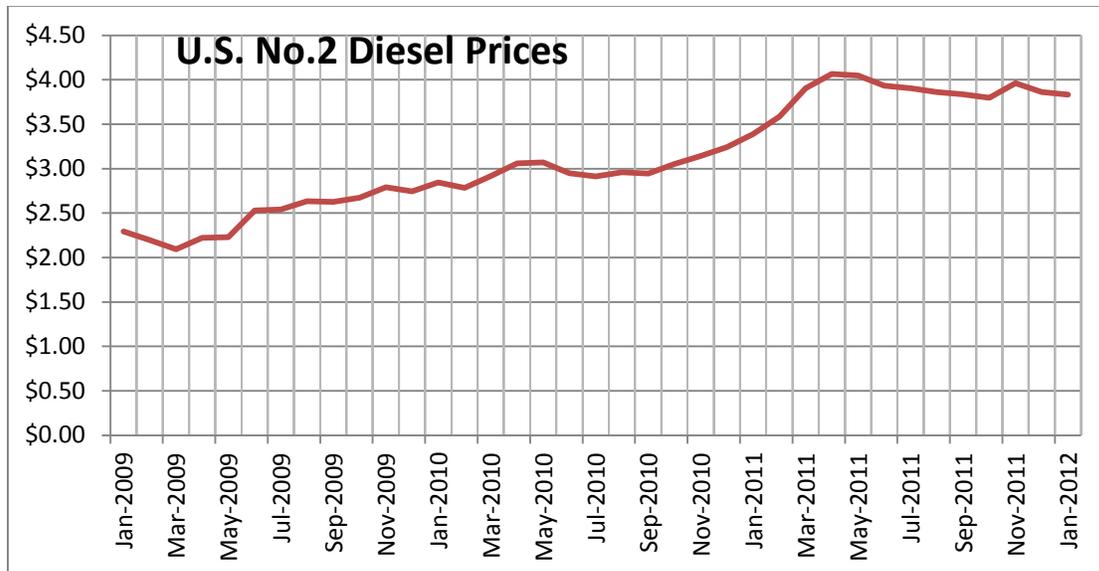
- **Number one issue** cited by the Mid-South Suppliers is the inability to obtain a consistent return on their investment under the current rate negotiation environment with consumer mills for delivered wood and harvesting/trucking services for large landowners. There is broad recognition from the suppliers that the forest products industry has been under severe economic pressure and that all had to suffer pain. Through anecdotal information, a significant number of suppliers have exited the business. However, the surviving suppliers know that there have been some sectors of the forest industry that have experienced some level of recovery but have not seen any significant easing in hard-line rate negotiations. Many of the procurement representatives offer tract specific rates to regular suppliers that purchase stumpage and that has really helped. However, the suppliers see rates as break-even at best or below costs. Suppliers and Consumers that have made it through the recession are close to being as efficient as they can get under the current market conditions but much of their equipment is well beyond the replacement cycle. This is hurting productivity and adding stress to the tight financial conditions. The structured response to this issue is illustrated in Table #1.

**Table One**

Harvesting / Trucking Rates (Negotiations Methods Only)		
Answer Options	Supplier Response	Consumer Response
non-negotiable and may be changed without notice	26.9%	0.0%
non-negotiable but changed with sufficient	34.6%	0.0%
conditionally negotiable - good faith discussions	34.6%	90.0%
fully negotiable and changed only after mutual	3.8%	10.0%
Other (please specify)		

The contrasting patterns of responses in Table 1 between suppliers and consumers from the question *“describe the nature of the rate negotiations with consumer procurement representatives or your contract administrator?”* are obvious. One has to conclude that there is a perception problem between the parties. Over 61% of the suppliers responded that rate negotiations are non-negotiable compared to 100% of the consumers response that rates were either conditionally or fully negotiable. It is true that consumer mill negotiations with large landowners for delivered rates tend to be more based on mutual or contractual agreements. But the majority of the suppliers who purchase their own timber describe their situation as non-negotiable. Logging and trucking contractors also stated that only a few major consumer companies provided any relief for spiking fuel prices over the last few years. If that is true then the economic impact continues to be problematic as illustrated in Table #2.

**Table Two**



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Professional logging/trucking company owner-operators have additional challenges. That is the steady increase in equipment, parts prices, tires, and insurance that has occurred over the last few years in spite of the recession. Many of the logging contractors cite similar examples tabulated in Table #3.

**Table Three**

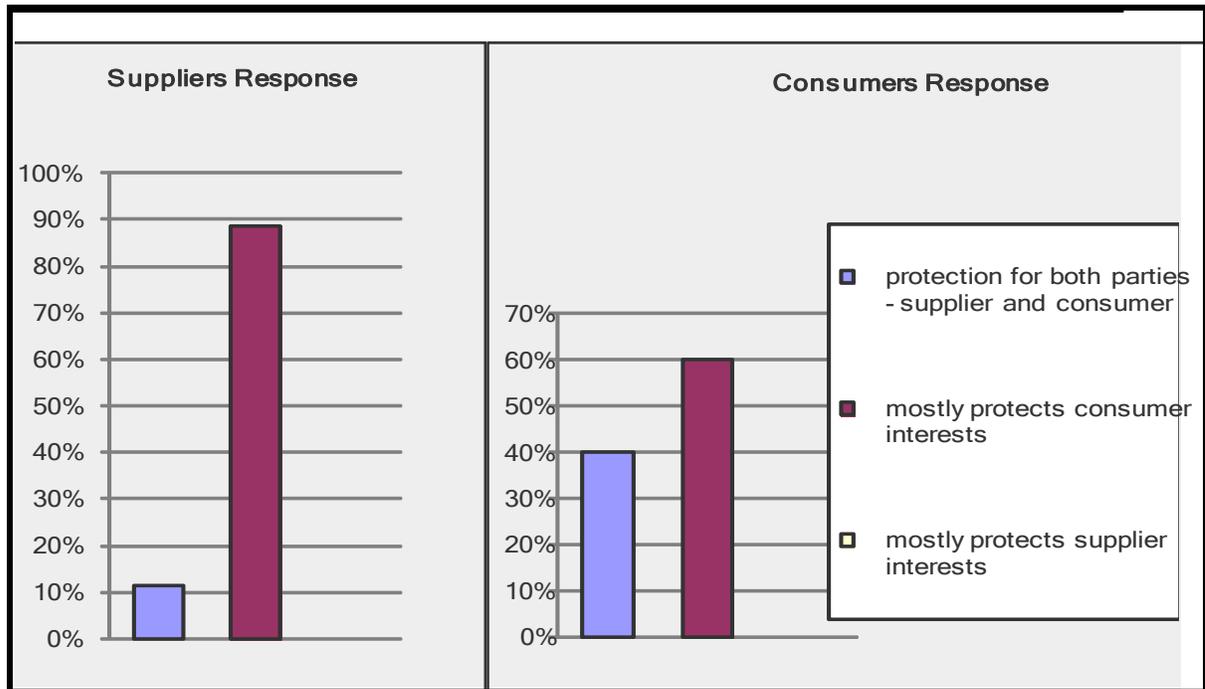
Item	Price in 2007	Price Now 2012	Total Increase
New Skidder	\$185,000	\$250,000	35%
New Loader	\$150,000	\$200,000	33%
New Truck	\$115,000	\$130,000	13%
Insurance	\$15,000	\$25,000	67%

Financial institutions in many of the areas across the country are requiring profit/loss statements from business owners before approving major loans regardless of past credit history. The implications are obvious. If the profit margins are not supporting the loan application then equipment replacements will not happen. Banks and financial institutions are now requiring higher down payments some stated as much as 20% to 30%.

The situation is not helped by the legal construct of the Master Contracts provided to the suppliers. It is universally agreed from both suppliers and consumers that the Master Contracts issued to the supplier or service contracts provided by large landowners favor the consumer's legal interests. Standard contracts are prepared by the consumer legal departments and are not negotiable except for volume targets which are not enforceable by either party. It is true that things like minimum insurance coverage and agreements to comply with all state and federal laws are beneficial to all parties. But from the viewpoint of bankers or financial institutions, there are basically no commitments for the suppliers. It was also noted that most of the contractors working under dealerships work with no contracts.

See Chart #1 that tabulates the responses to the question *“for any contracts received from your consumer customers, is it written in a way that protects both parties – supplier and consumer, mostly protects consumer interests, or mostly protects supplier interests?”*

## Chart One



Almost 90% of the suppliers responded that the contracts they receive mainly protect the consumer company's interests.

The bottom line for these issues expressed by many suppliers are (a) working relationship is becoming more and more strained as consumer mills continued a hard line for rate negotiations, and (b) there is no consideration for their business sustainability. Suppliers typically stated that procurement negotiation policies have significantly impacted their confidence in the future of their business. It is especially hard for suppliers that purchase their own stumpage and feel squeezed between the landowners who are holding back stumpage for higher prices and their customer mills attempting to reduce costs.

- **Number two Issue** is that suppliers cite a significant lack of joint planning that could be beneficial to both their business and the consumer companies. Suppliers point out that there is little planning offered by their consumer procurement except for week to week wood orders. Both suppliers and consumer mills tend to be in agreement with the system used across the Mid-South is short-term in nature as illustrated in the responses tabulated in Table #4 to the question; *“For planning delivery scheduling with your procurement representative, what is your planning window on which you base your operations?”*

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**Table Four**

<b>Joint Planning Interface</b>		
<b>Delivery Scheduling</b>		
<b>Answer Options</b>	<b>Supplier Response</b>	<b>Consumer Response</b>
annual plan received	15.4%	10.0%
quarterly plan received	7.7%	30.0%
monthly plan received	7.7%	0.0%
<b>weekly plan received</b>	<b>46.2%</b>	<b>50.0%</b>
<b>no plan received - gate open or closed</b>	<b>23.1%</b>	<b>10.0%</b>
Other (please specify)		

Almost 70% of the suppliers and 60% of the consumers responded that they provided weekly plans (or no plans) in delivery scheduling for the bulk of their suppliers. 10% of consumer procurement respondents indicated they provide suppliers with annual plans and 30% of their suppliers with a quarterly plan. Part of the difference can be explained by the fact that some 18% of the logging professionals interviewed work through dealerships or large landowners and may not have direct access to the planning process between the direct contract representatives and the consumer mills.

In evaluations of the Negotiations Interface category, the subject of volume commitments was explored and the suppliers and consumer interviewees responded as follows in Table #5 below. The question was *“How firm are the volume commitments from your customer mills?”*

**Table Five**

<b>Negotiations Interface</b>		
<b>Volumes</b>		
<b>Answer Options</b>	<b>Supplier Response</b>	<b>Consumer Response</b>
clearly committed and performed	11.5%	50.0%
generally committed and performed	30.8%	50.0%
<b>generally committed but not honored</b>	<b>23.1%</b>	<b>0.0%</b>
<b>no firm commitments - week to week</b>	<b>34.6%</b>	<b>0.0%</b>
Other (please specify)		

Table #5 shows a distinct pattern of disconnect between the perception of the consumer procurement response and the suppliers. The consumer interviewees responded that volumes were either clearly or generally committed to their suppliers. In contrast, over half of the suppliers indicated a general commitment (but not consistently honored) or no firm commitment.

Logging company operators state that the prevalence of the lack of firm verbal or contractual commitments and short-term weekly wood order system does not provide an adequate planning horizon to successfully operate their business or to purchase adequate stumpage inventories. In order to secure financing for equipment replacement, the logging-trucking contractors have nothing to comfort financial institutions that they have a stable business. There are notable best practices in this area where the consumer companies have provided documented volume and delivery

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scheduling commitments. However, at the current time it is very limited to some 20% to 30% of the total supplier base. This approach has been largely driven by the uncertainty in the building products markets which continue to be stressed with weak product demand.

- **Number Three Issue** from suppliers is classified as trust. One of the basic premises of this study was to test the level of trust that is so critical to the working business relationship between all parties in the supply chain. That trust can be described as a working environment in which each party has confidence in the other member’s capability and actions. In other words predictability.

In the evaluation of the interview responses in the “communications/problem-solving category, the suppliers gave high marks in the areas of “good response to them when they needed help with operational problems” or “how both parties handled disagreements (see appendix). However on the question “*are your general communications adequate and honest?*” the response was not as positive as the others in this category. In Table #6 below, the responses are tabulated as follows:

**Table Six**

<b>Problem Solving and Communication interactions</b>		
<b>Communications Interface</b>		
<b>Answer Options</b>	<b>Supplier Response</b>	<b>Consumer Response</b>
communications - adequate and honest	42.3%	40.0%
communications - usually adequate and honest	26.9%	60.0%
communications - seldom adequate and honest	19.2%	0.0%
communications - never adequate and honest	11.5%	0.0%

Almost 70% of the suppliers responded that communications were always (or usually) adequate and honest compared to procurement responses that were at 100% positive. What is significant about the supplier responses is that 30% stated that communications fell into negative category as seldom or never “adequate and honest”. A logical conclusion from that data is that trust is an issue for a third of the suppliers. Based on open-ended statements from suppliers, examples were given describing verbal commitment given by field procurement people that were not honored. Several incidents were mentioned when a procurement representative gave a commitment and then called the next day to say he/she had to take it back. Those incidents seriously impacted the suppliers and have a negative effect on trust. It is well known that the culture of the southern suppliers carries a very strong ethic that a verbal commitment is equally or more certain than one in writing. The value of trust in the culture of working relationships in the wood business cannot be over-stressed. The supply chain systems operate on relationships and therefore a trusting environment must be carefully nurtured.

Adequate communications are highly important to the supply chain efficiency according to the suppliers responding. The timeliness of communications is critical to the logging/trucking operations in order to avoid lost production. Based on the open-ended comments, suppliers stated a continued lack of timely communications to avoid delivery yard unloading disruptions. Some

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procurement organizations were cited by suppliers as doing an excellent job in communications. But it only took one mill that was poor on communications in the supplier’s operating area to disrupt production and delivery schedules.

- **Number Four Issue** is the loss of production as a result of break-downs in the various aspects of the working relationship studied. During the interviews and at the end of each working relationship section (1. Negotiations, 2. Joint Planning, 3. Feed back, and 4. Problem-solving/Communications) there was a question as follows:

*“Can you estimate production volumes lost on an annual basis due to break-downs in the working relationship?”*

These annual volumes are obviously rough estimates but requested to err on the conservative side. Below in Table #7 is a tabulation of annual lost production attributed to business relationship failures in the eyes of the suppliers:

<b>Lost Production due to Relationship Breakdowns</b>		
<b>INTERACTION AREA</b>	<b>TOTAL TONNAGE REPORTED</b>	<b>AVG/SUPPLIER</b>
Negotiations	471,500	18,135
Planning	294,600	11,331
Feedback	80,000	3,077
Problem Solving and Communications	110,000	4,231
<b>Annual Totals</b>	<b>956,100</b>	<b>36,774</b>
Total Sample Production	7,825,500	300,980
Loss Percent of Sample To	12.2%	12%

The total production lost by suppliers interviewed in the Mid-South region represents around 12% of their annual estimated production. For the suppliers interviewed, the annual production impacted by failures of the working relationship was just below one million tons. The last column calculates an average annual loss of production of 36,000 tons for each supplier interviewed. These estimates are very subjective and cannot be statistically projected to the total population. Not all the suppliers credited any lost volume due to failure of the working relationship but a significant number readily cited lost loads per week and said the estimates were conservative. Volumes were recorded only if the supplier could provide specific examples over the last 12 months. There is a clear indication that inefficiencies are being injected into the supply chain due largely to various failures in the working business relationships around negotiations, planning, feedback, and communications. The largest impact is in the areas of Negotiations and Planning. The main causal factors are lack of ability to negotiate sustained volumes and lack of the opportunity to plan operations to any level of consistency. Getting the relationship right is not just about everyone feeling good. In fact the quality of the relationships has to do with how efficient the wood supply chain operates and therefore has real value to all parties.

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## **General Logging/Trucking Related Observations**

It is difficult to make a general statement on a summary level to properly characterize the state of the working relationships for this region. The major issues cited in the body of the supplier section above are generally negative. It is important to point out that the data also indicates some very good practices that are happening between the supplier-consumer relationships. They can be seen by perusing the open-ended comments in the attached appendix. However the tone of the suppliers is on balance to the negative side. That fact is not entirely unexpected when you consider what the industry as a whole has gone through during the most severe recessions since the great depression. Based on the data collected it can be said that the independent supplier system is in need of rebuilding. The continued recession in the building products business has resulted in mill capacity closures or curtailments. A significant loss of logging-trucking capacity has been experienced. What the suppliers expressed most often was that “we have a vested interest in making the mills successful but it would really help if we could be treated as valued stakeholders in managing through the tough economic landscape instead of slowly starving our operations until we have no equity left”.

Another major factor has been the shift of commercial timberland ownership by consumer companies to the investor based timberland ownerships. It is hard to overstate the impact on procurement strategies these developments have influenced. The advent of wood supply agreements has really changed the face of procurement strategies and had more impact on the logging community than most have realized. Another huge impact has been the down-sizing of procurement organizations and subsequent out-sourcing of the stumpage purchases to the suppliers. Suppliers and procurement had to go through all these adjustments along with the general economic stress in a survival mode.

Many of the operators that have survived have down-sized their operations to become as efficient as possible. In order for them to continue and perhaps even build back capacity, there will have to be some structural changes in procurement practices. Recommendations around that subject are in the section at the end of the report.

## Consumer (Wood Procurement) Perspective

Consumer is the general term provided to manufacturing company's procurement staffs for forest products industry. Consumers have been under high pressure especially over the last three years as the forest industry has struggled to through the recession. Prior to the recession in late 2008 all sectors of the forest products industry was operating at or near capacity. When the housing economy crashed along with a severe economic recession, all forest product companies were plunged into survival mode. That meant that all facets of their business had to be scrutinized for either severe cost reductions or possible closure. Based on anecdotal conversations with procurement managers, the pressure has been intense to reduce costs. Irrational request from non-forestry senior management was the norm. Many of the major companies went through some level of re-organization along with staff reductions.

The wood business operates largely on relationships and therefore most wood purchase commitments are verbal. As the recession lingered many of those commitments either were pushed out or just canceled. It was reported in some situations special commitments or preferred supplier programs were pulled back or canceled. Some procurement organizations took a very short-term stance and looking to cut costs anywhere they could as the markets weakened. Those actions placed a significant strain on the relationships between consumers and their suppliers.

The following is a tabulation of the primary issues provided by the professional procurement staffs interviewed:

- **Number one Issue** is a concern about adequate logging capacity. Consumer procurement consistently expressed an awareness of logging operators that had gone out of business or significantly downsized. Consumer procurement interviewees also express concern on the lack of equipment replacement among the logging/trucking contractors. Equipment dealers in the Mid-South regions confirm that their sales for forestry sector equipment are around 25% of normal production levels prior to the recession. They are generally seeing some improvements in sales for late 2011 and early 2012.

When senior level procurement managers were asked the question "if you are concerned about the adequacy of logging capacity, what are your plans to do about it?" The response was varied but in general, senior managers in these firms are still in survival mode and are still operating under limited authority to make any structural changes to the wood cost structure. Other procurement managers expressed the need for the logging/trucking/stumpage markets must adjust to the new reality of the overall industry economy. There is a strong feeling in the building product sector that it may take years to return to the former cost structure and still be able to participate in domestic markets. A few managers said the log delivery system must get more efficient for the forest industry to survive and stay competitive.

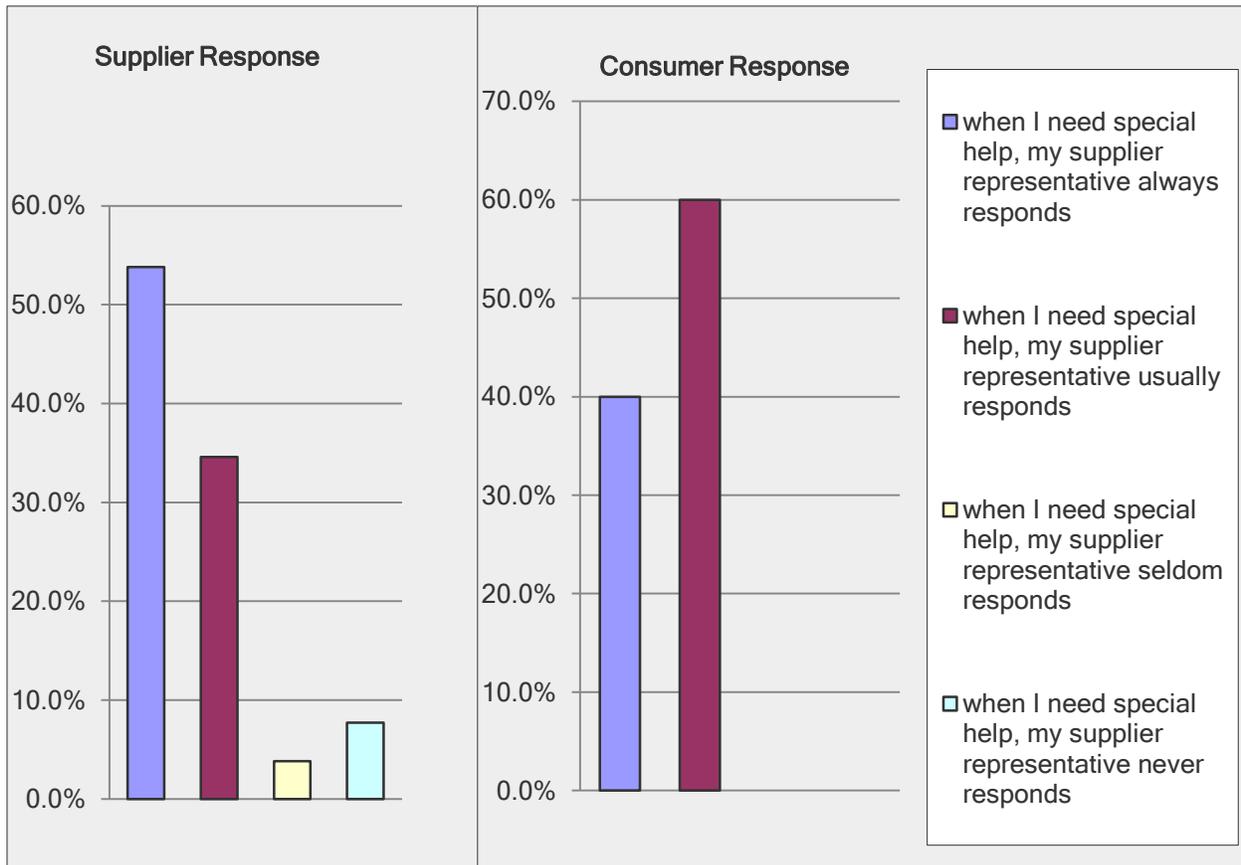
- **Number two Issue** is concern over internal communications within consumer procurement organizations and mill management and wood yard organizations. Most procurement organizations interviewed did not have integrated reporting lines with woodyard and mill management. Some of the procurement managers reported outstanding relationships with woodyard and mill management, but over half of the others reported communications are strained and inconsistent.

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The lack of timely communications/coordination from the woodyard or disruptions in manufacturing schedules creates the “whip lash” effect into the supply chain. Needed capital infusion into wood yard efficiencies has been very limited. Therefore, frequent breakdowns and prolonged maintenance is commonplace.

- **Number three issue** is the lack of communications and responses from their suppliers. When consumer procurement staff was posed the question **“when they needed special help from their suppliers, do they always respond?”** procurement officials were somewhat hesitant to say that they always responded. This issue can be best illustrated with the graphics in Chart #2 illustration.

### Chart Two



From the chart above it can be seen that suppliers were generally positive in terms of their procurement representatives from the viewpoint of getting response from procurement. However, the consumer procurement majority (60%) answered that suppliers usually responded. This may appear to be a small point but the hesitation to say “always” and a generally more positive stance from supplier responses indicates some level of disappointment in receiving help from suppliers in problematic situations.

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Table #7 shows the same trend in responses from consumer procurement responses based on the question ***“do you receive adequate and honest communications from your suppliers to carry out your responsibilities?”*** Again, consumer interviewees were hesitant to say that problem solving communications were always adequate and honest. The response data shows that 60% of the Consumer Procurement responded that communications are usually adequate and honest. On the other side suppliers were asked ***“do you receive adequate and honest communications from your procurement representatives to run your business?”*** 42% of the suppliers responded that communications were “always” adequate and honest to carry out their operations. However some 30% of suppliers responded that communications with procurement were either “seldom” or “never” adequate or honest.

**Table Seven**

<b>Problem Solving and Communication interactions</b>		
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<b>Answer Options</b>	<b>Supplier Response</b>	<b>Consumer Response</b>
communications - adequate and honest	42.3%	40.0%
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## Is There a Problem?

It has been previously stated that the general attitude of a large number of suppliers is generally negative about the quality of the working relationships. The scatter graph below illustrates both the patterns of how suppliers and consumer procurement participants believed the overall relationship could be rated in a simplistic rating. The last question asked all participants was *“how would you rate the working relationship you have with your (suppliers-consumer mills) today on a scale of 1-10. One being “broken-down in the ditch” and ten –“It doesn’t get any better”*. The pattern in Chart #3 is interesting:

Chart Three



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The tabulations of the relationship ratings provide a good summary level evaluation of the current state. The supplier ratings exhibit a wide range with a low rating of 1 to a high of 10 with a mid-point of around 5. That leaves a lot of room for improvement and at the same time illustrates that around one third of the suppliers indicated a good relationship of 8 or better. That leaves two thirds of the suppliers below that level with several indicating a rating of 2 or less. On the other hand, the consumer responses fell in the 7 or better range averaging close to 8. The gap in perception provides some insights and illustrates the problem. The question must be asked – is it OK that around 60% of my suppliers say that the working relationship and thus the business environment are not very healthy? This is especially important when almost all the consumer procurement respondents think that logging capacity is not sufficient to supply the needs of the industry in a normal economic climate.

Based on observations of the individual responses, there was no apparent correlation of supplier size in terms of the quality of the relationship. Some very large dealerships expressed the need for improvements as strongly as smaller volume operators. What is clear is there is a significantly different approach to about one third of the contactors compared to the general population. It is obvious that the preferred supplier approach is influencing this pattern to a certain degree. There are also certain consumer companies and large landowner organizations that are more collaborative in nature and work hard at building those relationships. There are some suppliers that have an independent “play the markets” business strategy. The bottom line is that through an intentional improvement in the business relations, efficiencies in the supply chain could be improved. A larger sector of suppliers is in dire need of some degree of security to continue to invest in their businesses for the future.

## POSSIBLE SOLUTIONS:

Assuming that the Mid-South supplier/consumer relationship assessment presented in this paper is generally accurate, below are some recommendations offered to begin to stabilize the wood supply situation:

- **It is strongly recommended that the first step is for the senior procurement managers to clearly communicate a factual account of the state of the independent wood supply situation to the company's top management.** This is a business strategy, not a feel good mission. The suppliers do not need charity or risk-free protection from the economic environment that all businesses have to experience. They need a chance to work together collaboratively with their customer companies toward raw material supply security for the consumer plants. The operating mills are the future of all the stakeholders and must stay viable. Viability in the logging and transportation operations is a necessary part for that to happen. Senior management for the forest industry must have a true assessment of the supply chain situation and actions needed to begin to rebuild the system.

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- **It is highly important for procurement organizations to build awareness throughout the corporations that the independent wood supply contract system is an essential asset to the forest industry and contributes to the industry's global competitiveness.**
  - The continuation and value of ethical and competent suppliers that have good management skills is as much a part of viable manufacturing as having experienced/competent employees and state-of-the art manufacturing equipment. If the raw-material supply chain asset is seriously damaged or killed off, then there is a huge price to pay to replace it. The remaining suppliers who have survived one of the worst downturns in our history have had to become as efficient as possible.
  - In addition, there are few younger supplier owner/operators who are willing to make a career in the business. Don't forget that the independent suppliers have critical skills to purchase stumpage, maintain credibility with landowners, and provide certifiable logging systems. These attributes are not replaced without years of careful development and capital investment.
  - The quality of the people in the business is still very high and these calibers of people need a healthy working relationship with their customers. The independent wood suppliers in the Mid-South are producing a commodity in raw wood, but the complex function and organization of procuring stumpage and managing compliant harvesting/trucking systems is a very specialized function and is not a commodity. It is an asset to the industry and should be treated accordingly.

**Provide a more stable operating environment to your key suppliers.** It is absolutely amazing that the bulk of the suppliers work with no security, no firm volumes (except week to week), and arbitrary decisions made from on high, under increasingly restrictive regulations, and huge risky capital investments of standing timber and equipment. That is not to mention the huge impact of changing weather conditions. It is strongly recommended that alliances with key suppliers could be established in terms of strategic planning for stumpage purchases, careful maximized wood yard storage plans, and a focused effort to revive the economic health of a significantly larger sector of capable suppliers.

**Evaluate dealerships to insure that they are functioning in a way that sustains the logging contractors.** In the course of conducting interviews with both dealerships and logging contractors working within those organizations it became apparent that there are some basic services that the dealerships should provide that is positive to the logging contractors and wood transportation. Procurement needs to make sure that dealership suppliers and their contract loggers are being a positive force in developing and maintaining logging capacity. Below is a short list that would serve to evaluate the function of value-added dealerships:

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- Dealer has solid knowledge of logging costs and works with logging contractors to assure that they are economically viable and successful.
- Dealer provides stumpage on a consistent basis that is compatible with the logging contractor's equipment configuration.
- Dealer maintains solid relationships as a valued supplier with multiple consumer customers to insure a steady market for harvest tracts that his logging contractors are operating.
- Dealer coaches and advises logging contractors on good business practices.
- Dealer provides administrative services for the logging contractors and required monitoring to ensure quality harvesting and conformance to wood specifications and certification requirements for its consumer customer mills.
- Logging contractor is able to stay on site and manage the operation for high efficiency.
- Logging contractor is able to have stumpage assigned in advance and schedule road preparation and operational lay-out.
- Logging contractor makes sure that he has dependable and trained crew members.

**For the supplier community, you need to move toward more positive attitudes.** Yes it has been a very tough period of time for all businesses and there have been some procurement policies that have not been supportive. But there is a strong need for a positive supportive attitude so any initiatives from your consumer customers to improve the working relationships can be successful. Your customers are not the enemy. They have pressures on them from stockholders and other business forces through the recession that have dominated the business environment. Maintaining the surviving manufacturing and moving them back to profitability has been an essential focus. A positive non-threatening approach will be critical to a successful rebuilding of the relationships. Put the past behind you and focus on the future.

**The industry is at a turning point and must respond to the reality of the situation or face some severe cost pressures.** The manufacturing companies and suppliers that have survived the last few difficult years have all gained tremendous efficiencies. It is time for each consumer company to take a fresh approach to their wood and fiber supply system on how it can be stabilized and take an intentional look forward. That will involve moving away from the current reactive stance to one of well planned strategies of working with its suppliers to nurture the system by planning ahead.

**Rebuilding trust** between suppliers and consumer organizations must be a priority. There needs to be basic cultural change on both sides in order to make a lasting structural change in the system. Contracts need to be of value to both the consumer companies and the suppliers. Contracts need to have credibility to the financial institutions and for business succession purposes to build a stable supply chain for the future. Suppliers of all sizes and all business structures need to adjust their attitudes to let the past go and focus on building a positive working relationship to do everything they can to make their customers successful.

## **In Closing:**

This is a great industry and it is the focus of the Wood Supply Research Institute to bring straightforward issues to the table that is in the interest of a healthy and sustainable Wood Supply System. It is not the

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intent to offend anyone but rather provide real data that can aid in developing intelligent approaches in working toward how the supply chain optimization. We will continue to face real and current issues that are important to all the stakeholders. Then each individual participant can develop sound business strategies based on the best data available.

Don R. Taylor

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**2-13-12**