

# Wood Supply Research Institute

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## Supplier/Consumer Relationship Study Western 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 in all areas of the U.S. All segments of the forest industry have been stressed with the exception of the log export to Asia that is currently driving the Coastal logging business of Washington and Oregon.

The number one major issue expressed by the logging owner/operators impacting the relationships between logging businesses and consumer mills has been the wide use of bidding for contract cut & haul services during the economic downturn. Many of the logging owner/operators and trucking contractors stated that the bidding policies created more instability in their businesses at a time when a collaborative and well managed reduction in production would have been more appropriate. They all understand that all had to share in the pain of the economic downturn but instead being treated as stakeholders in working through a difficult time, they felt more alienated and of little value to the industry.

The number one major issue expressed by the consumer manufacturing is the concern about maintaining an adequate and healthy logging/trucking capacity that can supply the industry into the future. They have been in survival mode and understand that everything possible must be done to maintain the viability of the domestic forest products manufacturing.

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 logging capacity demand is increasing. Logging company morale and outlook has been very low but recently the consumer companies have moved toward more negotiations and planning longer term with the established logging companies. There is still 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.

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:

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

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## Supplier Perspective

The objective of this study is to provide a straightforward evaluation of the current state of the business working relationship between suppliers, large corporate landowners, and consumer mill procurement organizations. The following is a prioritized listing of the most prevalent and common thread issues that were consistently stated by the Western Suppliers (logging-trucking companies) including large landowners in the states of Washington, Oregon, Idaho, and Montana. No actual sample was taken in California but many of the issues are assumed to be common with southern Oregon.

- **Number one issue** cited by the Western Loggers/Truckers the broad practice of bidding for logging services over the past three years. During the economic downturn late 2008, 2009 and 2010, many of the consumer companies (along with some of the large private large landowning companies) implemented bidding policies to set cut & haul contract rates. At the same time in late 2008 and early 2009, many formerly negotiated longer term harvest unit commitments were terminated. This was related to the severe depression in the building products markets and timber sale extensions granted on some state stumpage sales. These actions sent a strong message to the logging/trucking community. The message may not have been intended but nevertheless received – that the business relationship is very fragile and how little value was placed on minimizing the impact on the logging/trucking businesses.

The bidding process has been practiced at various levels for many years in the Western States but the loggers generally feel it is not supportive to a sustainable business structure for the following reasons:

- Bidding places additional business instability on an already high risk business.
- Bidding practices tend to take away any economic rewards for efficiencies that is created by good management.
- Bidding tends to ignore long-term relationships critical to the day to day function of the logging operations for a large landowners and key consumer mills.
- Bidding tends to force logging companies in financial stress to bid below cost and sometimes exacerbate a financial problem.
- Bidding unit by unit does not provide any continuity of the business planning needed to qualify for equipment purchase financing.
- Bidding is a disincentive to new people to come in the business nor does it encourage business ownership succession of the more established logging companies.
- Bidding creates a de-motivation for logging business owners to provide any benefits for their employees and may even encourage them to operate without required coverage.

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- Bidding does not create an even playing field that fairly matches highly experienced and reputable operators with inexperienced operators in terms of merchandising and utilization.

Currently there has been a definite trend away from bidding to negotiations especially since logging capacity is in balance with the production demand. But without a doubt the practice has impacted the relationships deeply. The vast majority of the logging/trucking organizations interviewed expressed various levels of disappointment in the consumer and large land-owning companies for not working with them to manage through the severe economic situation in a collaborative way instead of hard-line bidding. They fully understood what had to be done and just wanted share in determining how to best steer through difficult times with their customer companies.

Currently both suppliers and consumer procurement agree that rate negotiations have improved. Most of the suppliers interviewed had some level of dependence on large landowners to provide harvest units and the prevalent practices falls into the category of “conditionally negotiable”. In other words the negotiations are discussed with some give and take but the consumer procurement organizations still maintain tight parameters. Table 1 summarizes the responses from both sides to the question *“describe the nature of the price negotiations you have with consumer company procurement and large landowners?”*

**Table One**  
**Harvesting / Trucking Rates (Negotiations Methods Only)**

Answer Options	Supplier Response Percent	Consumer Response Percent
non-negotiable and may be changed without notice	6.9%	0.0%
non-negotiable but changed with sufficient	0.0%	14.3%
<b>conditionally negotiable - good faith discussions</b>	<b>72.4%</b>	<b>85.7%</b>
fully negotiable and changed only after mutual	20.7%	0.0%

Only a small number of logging contractors and procurement representatives responded that rates were non-negotiable (mostly in the inland area) but over 70% both suppliers and consumer interviewees agreed that rate negotiations were conditionally negotiable. The fully negotiable responses came primarily from large landowners that experience fully negotiable interactions with consumer companies based on prevailing log markets.

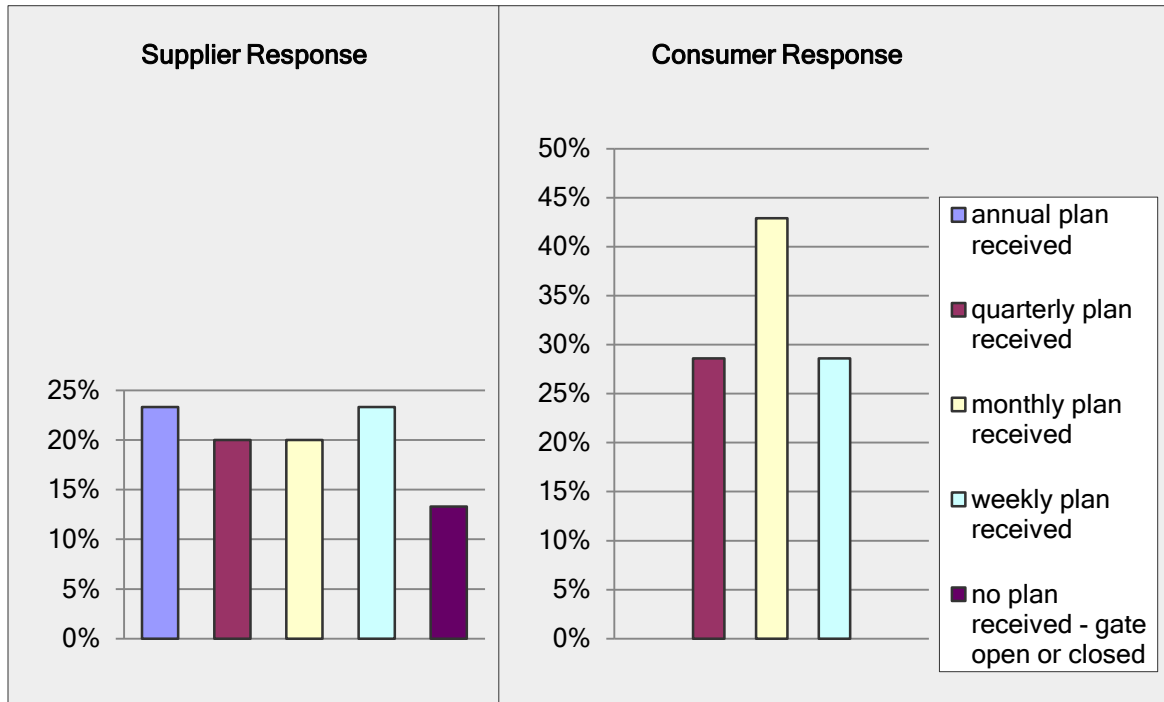
- **Number two Issue** for Western Loggers/Truckers falls into a broad category of “respect”. Many of the interviewees stated that consumer and large land-owning companies do not treat them in a way that respects their many years of experience and expertise. A frequent example provided was “one way communications” in that there was little joint planning that could have been beneficial to both parties. Logging company owners sense that they are considered as unqualified to participate in operational planning as professionals and businessmen. They provided examples of their contract administrators withholding critical information. The message they receive is that you don’t count. These responses were gathered primarily from open-ended comments from suppliers. However, the following responses to the questions about joint planning tend to indicate a more positive pattern, especially when compared to

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other regions.

In Chart 1, the first question related to delivery scheduling commitments. The question was *“in planning your operations what level of commitment does your consumer customer provide on which to base your production plans?”*

**Chart One**



The responses from suppliers in regard to delivery scheduling are varied. One way to look at the results are to combine “weekly” or “no plan” into one category that amounts to 36% of the suppliers. Those suppliers basically work week to week. Then some 40% of the suppliers enjoy monthly or quarterly volume commitments. Some of the annual commitments are large landowner suppliers. Several logging companies did say monthly commitments are non-binding verbal commitments and can be changed at anytime. Consumer procurement classified 71% of their volume commitments to be either quarterly or monthly plans.

Table 2 tabulates responses to the question; *“how dependable is your volume commitment from your consumer (or to your supplier) in your negotiations?”* Again, the responses are mixed.

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**Table Two**  
**Volumes**

Answer Options	Supplier Response Percent	Consumer Response Percent
clearly committed and performed	43.3%	28.6%
generally committed and performed	40.0%	42.9%
generally committed but not honored	10.0%	28.6%
no firm commitments - week to week	6.7%	0.0%

For this tabulation, the suppliers were positive in that 83% of the suppliers responded that they have clearly or generally firm commitments. Only a few suppliers said they had weak commitments or none. Likewise 71% of consumer companies said they provided firm or generally firm committed volumes to suppliers.

Another factor in joint planning is assignment of cut-blocks for logging companies that worked in cut/haul agreements on large landowners or company controlled lands. The question is about the proper matching of the logging operations to the logging operation equipment configuration and capabilities as follows; ***“In the assignment of cut blocks – do you always assign tracts (or receive tract assignments) that fit the logger’s operation?”*** Table 3 provides the responses.

**Table Three**  
**Tract Harvest Assignment (if applicable)**

Answer Options	Supplier Response Percent	Consumer Response Percent
always selected to fit operation	34.5%	57.1%
selected to fit operation most of the time	51.7%	0.0%
seldom selected to fit the operation	6.9%	0.0%
operation lay-out never considered	0.0%	0.0%
supplier purchases or provides all their own stumpage	3.4%	42.9%
not applicable	3.4%	0.0%

Supplier and consumer responses were generally positive with 86% of suppliers indicating good cut-block assignments most of the time and all of the consumer procurement indicating “always selected to fit the operation”. Only a few logging contractors said the assignments did not take their equipment into adequate consideration and placed them on ground not appropriate for their equipment, or too far away for their crews.

One has to conclude that in general, most of the consumer companies are providing some longer- term commitments, such as monthly-quarterly planning that are honored albeit verbal. Also the data shows tract assignments to logging contractors are done in a professional manner. The data does suggest more attention is needed for 36% of those logging companies that work on a week to week basis. The respect issue may have to do with how those plans are conducted

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and communicated. More attention is needed on the respect issue due to its impact on relations.

- **Number three issue** for Western Loggers/Truckers is the most common structure of the various contracts with consumer companies. Suppliers perceive that the legal construct of the contracts are basically “hold harmless” documents that clearly describe the requirements for the logging companies and assigns all risk to the contractors. Logging companies generally agree that what matters most is a trusting business relationship. But logging owner/operators do not think they are asking too much to have some firm commitments from the consumer companies in the form of contracts especially for obtaining financing. Chart 2 provides a summary of the perceptions from both suppliers and consumers to the question *“does the contract you receive from the consumer companies protect both supplier and consumer?”*

**Chart Two Legal Construct of the Contacts**

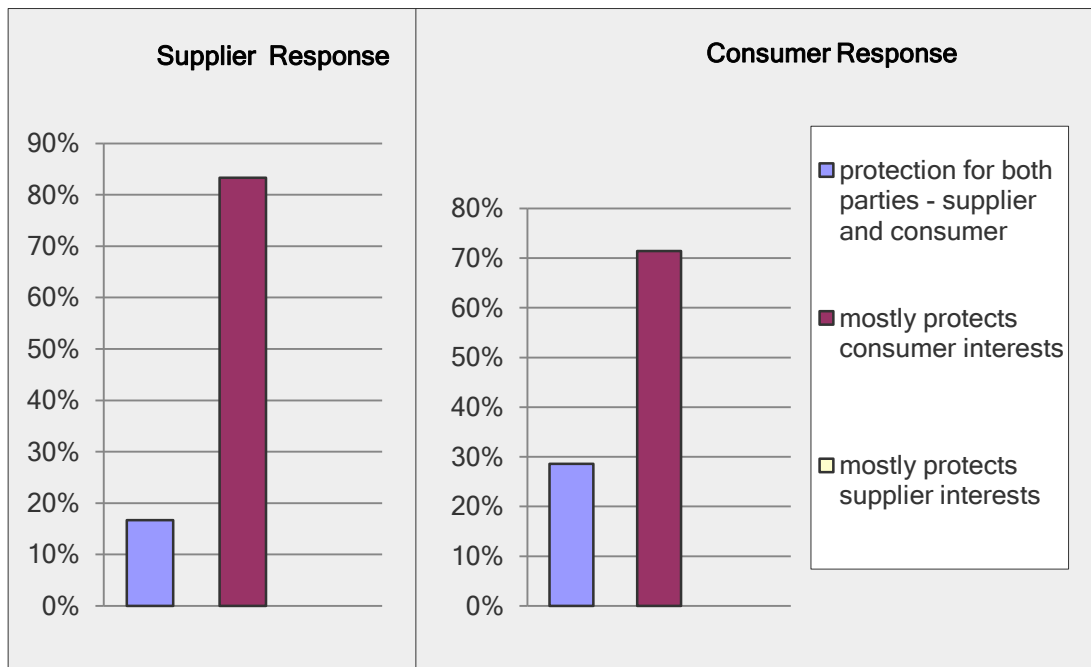


Chart 2 illustrates that there is essentially no disagreement between suppliers and consumer procurement that the contracts are written primarily to protect the consumer company and the form of the contracts are non-negotiable. Both parties understand that contracts provide a framework to do business. A case can be made that those requirements to some degree protect both parties but they do not provide clear security or firm commitments to suppliers.

- **Number four issue** is for the logging companies are categorized as “outlook for the future”. Several concerns were expressed summarized as follows:
  - Low operating margins are not supporting normal replacement of equipment. Some of the larger equipment dealerships were consulted about their sales history in the forestry sector. The sales executives confirmed a sharp reduction in new equipment



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sales in late 2008, 2009, until the last quarter of 2010. However, in 2011, there has been significant increase in sales in the coastal region due to pent-up replacement delays and the strengthened export demand.

- The wood products manufacturers are primarily dependent on private timberland ownerships and to a lesser extent on state timber sales for its future timber supply. The large federal ownership is not expected to provide an adequate share of timber sales into the future and therefore there is a concern for future timber supply.
- Uncertainty around additional domestic manufacturing capacity reductions that has been the trend over the last 10 years.
- Concern about the availability of trucking capacity. Trucking operators especially in the inland areas cite lack of equipment replacement investment combined with competitive demand in other industries as the primary cause.
- Availability of common parts for equipment repair has become a routine problem during the recession as parts are not being stocked for immediate delivery.
- Aging logging company owners (average of 53+) and aging employees is becoming a factor for future investments due to less than 40% of the logging company owners do not have a clear succession plan for their business (based on WSRI 2006 logging capacity study). Many of the logging company owners expressed difficulty in getting an adequate number of willing qualified and skilled employees to maintain full staffing.

**Number five issue** is the impact on production due to break-downs of relationship. One of the investigation objectives of this project was to link the efficiency of the supply chain to malfunctions in the working relationship between suppliers and consumer procurement. As described in the “methodology” section at the beginning of this paper is the approach used to capture and estimated tonnage of lost production in the logging-trucking operations that were tied to break-downs in negotiations, joint-planning, feedback, and communications areas of interaction. Based on tabulations of lost production reported by suppliers for each interaction category a summary is presented in Table 4:

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**Table Four Lost Production Due to Break-Down in Relationship**

INTERACTION AREA	TOTAL TONNAGE REPORTED	AVG/SUPPLIER
<b>Negotiations</b>	144,100	4,803.33
<b>Planning</b>	314,000	10,466.67
<b>Feedback</b>	5,000	167
<b>Problem Solving and Communications</b>	5,000	400
<b>Annual Total Lost Prod.</b>	<b>468,100</b>	<b>15,837</b>
Total Sample Production	7,101,000	236,700.00
Loss Percent of Sample Tot.	6.6%	6.7%
Approx. Total Western Production (Green Tons)	81,000,000	

The total annual lost production estimated by suppliers in the Western Region totaled 468,000 tons. This represents 6.6% of the total sampled production including four TIMO/REIT organizations. This tabulation serves as an indication of the magnitude of production loss between the entities due to break-down in negotiations, joint planning, feedback, and communications. It is interesting that several consumer procurement interviewees provided lost volume due to relationship dysfunction that is not added into this table (tonnage may have been duplicated by the suppliers). All other regions did not report significant lost production due to break-down in relationships from the procurement perspective.

It is clear that improved supplier/consumer relation has the potential to improve throughput of the suppliers by several million tons. The potential to improve financial performance is apparent for logging operations and ultimately benefit supply chain efficiencies and therefore provide a tangible benefit to all participants.

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

The foregoing points are problem areas stated by a large majority of the logging/trucking contractors that represent the western region. However, it should be pointed out that there are some 30% of non large landowner contactors that were very positive about their working relationships with the consumer companies and their outlook for the future. Most of these contractors had long-term relationships with either one or several organizations. They tend to be highly flexible and able to move quickly toward opportunities to diversify. Others may be dependent on one organization and enjoy joint planning and longer-term contracts that are mutually beneficial. These cases will require some additional study that definitely represents some outstanding practices on both the supplier and consumer sides. The size of the logging-trucking companies did not appear to have any correlation with whether their relationship experiences were perceived to be positive or negative. Almost all suppliers said the people they work with were highly regarded and respected. Their examples of poor relations had more to do with the corporate systems the procurement people had to represent and not the individual contract administrators.

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## Consumer Mill Procurement Perspectives

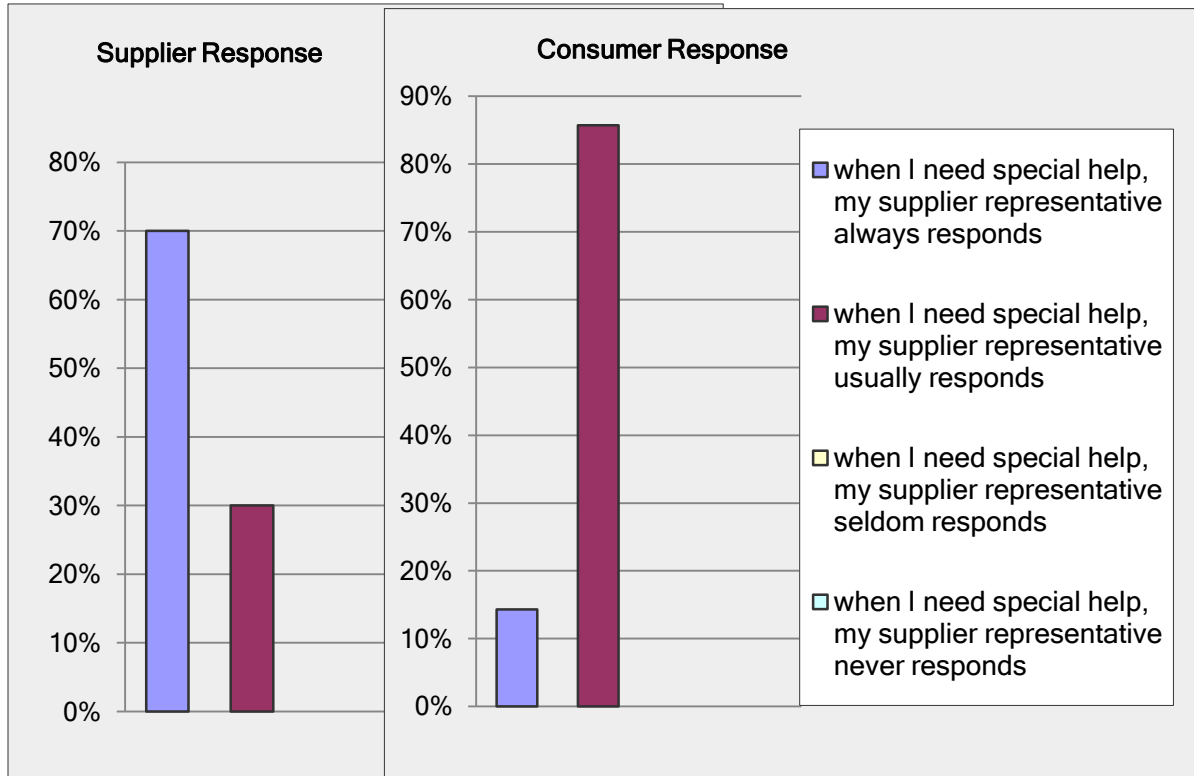
The following are some key points that directly impact the relationship with logging contractors based on interviews with procurement managers and logging administrators:

- **Number one issue** is a concern about future logging capacity. Almost every log procurement manager and/or contract administrator mentioned their concern about inadequate logging/trucking capacity. Although in the coastal areas logging capacity is marginally in balance, however if the domestic building products business experienced some level of recovery, logging capacity will be strained. Currently, the inland areas of Montana and Idaho are experiencing a shortage of high lead cable equipment and trucking capacity. Consumer interviewees are very aware that draconian cost reduction measures were necessary to survive at the beginning of the recession. They understand the impact on the logging capacity and they understand the need to build it back. However, the domestic manufacturing mills must have stronger prices for their products to enable any major changes. Stumpage prices are being held stable with the log export business.
- **Number two issue** is a longer-term concern about the age of the logging/trucking company owners along with the work force. Procurement managers are concerned about the question of succession of the businesses, and the future challenge of the logging company businesses in terms of obtaining and holding adequate skilled employees. In 2008, the WSRI reported an average age of logging business owners of 53 and only 38% of the suppliers had a succession plan for the business that had identified a son/daughter, near relative or trusted employee as a likely future owner.
- **Number three issue** is the longer-term survival of their manufacturing facilities while at the same time trying to take full advantage of the export log markets. Consumer companies realize that the domestic manufacturing must survive for the long-term health of their enterprise - but at the same time the export log and export semi-finished or finished products is holding the wood economy together while housing markets continue in depression. With the introduction of the Chinese and Korean markets taking more common log grades, the domestic mills have higher hurdles to reach to become profitable –especially in the coastal areas of the region.
- **Number four issue** is the shortage of trucking capacity. The western loggers to a large degree focus on running logging operations and sub-contract the transportation function to specialized trucking firms. Trucking is stretched on the west-side of the Cascades but in the areas of Idaho and Montana it is becoming critical. Trucks along with some labor have been drawn to the energy boom areas of North Dakota.
- **Number five issue** is related to communications with the contract logging firms. Consumer company contract administrators would like to have better communications and more timely communications from the logging contractors. Many stated that they frequently get surprised when the contractors may move to other tracts and fail to inform them of destination changes. It is interesting that some of the loggers feel that they get minimum communications from the consumer company side and would like to have more “one on one” communications with their contract administrators. Again, relationships are important and trust must be re-established.

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Chart 3 provides some insights to the consumer and supplier responses to the question *“when I have an operational problem, do my suppliers (or procurement representative) always respond?”*

## Chart Three Operational Issues – Need Special Help



The response in Chart 3 shows a sharp contrast. Although over 85% of the consumer procurement said that their suppliers “usually” respond compared to 70% of the suppliers stated they “always” responded. The “usually” response may seem inconsequential but when observing body language and listening to specific examples, the consumer personnel were being kind with their responses and really would like to see better effort. This provides insight to the relational perceptions of both sides. Either logging contractors may have lost a sense of loyalty to their consumer customers or they are responding to needs better than consumer mills are giving credit. Bottom line is that communications, loyalty, and basic trust must be rebuilt for the supply chain to be effective for all participants.

### General Consumer Company Observations

The responses from the interviews indicate some perception differences between the quality of the business relationship between logging company operators and consuming companies. This should not be surprising since there are wide differences in how each side views its situation. Part of the problem is that most procurement people have to function in large hierarchal organizations and highly structured cultures and policies. There is also a nation-wide pattern of down-sizing in procurement staff due to the

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economy in the larger companies. Therefore, consistency is a problem in dealing with their suppliers and having adequate face time that is very important to suppliers in general. In contrast, the suppliers operate in a more local or family business situation working long hours and have to deal with numerous daily aggravations that are all part of timber harvesting. It is hard for both suppliers and consumer procurement to communicate as much as they should.

Every individual manufacturing and landowning company determines their rate negotiations for harvesting and transportation services individually with a high degree of diversity. That is as it should be in a diverse market. Consumer companies that utilize the bidding process point out the benefits as follows:

- Bidding is the best way to determine current logging costs as opposed to developing internal models based on cost indexes and faulty calculations.
- Bidding is a fair way to provide opportunities to all the operators.
- Bidding does not necessarily mean that loggers with special skill sets will automatically be eliminated if they do not submit the low bid.
- Bidding tends to provide success to the more efficient operators.
- Bidding for harvesting services or stumpage sales invitations is sometimes necessary to establish fiduciary responsibility to share holders in REIT or TIMO organizations as a practice to establish fair market values.

In summation, there are a number of issues that are impacting the working relationship between suppliers and consumer mills. There is no doubt that the current state of the economy has driven a lot of organizational behaviors that in turn have impacted the relationships. It is hard to evaluate the impact of the shift in forest land ownership from integrated to non-integrated structures over the last decade, but it has been a factor. Another factor has been the shrinking market for logs in the western U.S. and the uncertainty of when or if that will stabilize. Add to that is the gradual consolidation of the large manufacturing firms and some degree of lost hope in ever getting substantial volumes of timber available on federal lands. Successful forest products companies will certainly need to position themselves for the next economic cycle that could be quite robust. Recoveries generally come rather suddenly and each company must be in position to take full advantage. Having a viable logging force that has the ability to expand is really a wise strategy. What must be addressed is the issue of future outlook from the logging-trucking company's perspective along with the reality of highly restrictive financial resources due to developments in the banking institutions. Addressing these issues in a collaborative manner seems to make a lot of business sense.

## **Is There a Problem?**

In general, most of the logging/trucking interviews in the west expressed a high regard for the individuals with whom they interact with daily. It was exactly the same from the consumer or landowner attitudes toward the logging-trucking contractors. The relationships became strained when corporate level management in survival mode forced some hard decisions on local procurement organizations. Some degree of damage to the relationship was definitely inflicted.

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After all the questions and comments were collected during the interviews, a final summary level question was asked as follows *“If you had to rate the relationship with your consumer procurement (or your suppliers) on a scale of 1 to 10, one being broken down in the ditch and ten being it doesn’t get any better, how would you rate it?”* Chart 3 is a scatter-gram showing individual responses:

**Chart Three**



Suppliers exhibited a wide range of ratings from 3.5 to 9 for a mid-point of 6.75. Consumer procurement was somewhat more positive with a mid-point of 8. In other regions the gap is significantly wider and therefore it may be speculated that the damage in the relationship is not too severe if reasonable attention is provided to the issues.

Yes there is a problem when the issues raised and the comments are read in the attached Appendix are considered. It will be very important going forward for both sides to restore the confidence and trust to make the supply chain more functional. It is clear that strong efforts on both sides will be required to create a business environment that will stabilize and expand the logging capacity to meet current demand and to provide for a surge in domestic manufacturing as it develops. It is also clear that the logging capacity will be strained over the months ahead if the export demand holds. When the domestic wood products markets start to revive then adequate log supply may be at risk.

Can a severe logging capacity situation be avoided? The interviews with the consumer companies did indicate a high awareness of the situation and saw some actions that the consumer companies and large landowner companies were beginning to take to begin to turn the situation.

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## POSSIBLE SOLUTIONS:

Assuming that the Western supplier/consumer relationship assessment presented in this paper is generally accepted, 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 the real situation to the company's top management.** This is a business strategy, not a feel good mission. The suppliers need a chance to work with their customer companies toward raw material supply security for the consuming plants and export demand. The operating mills are the future of all the stakeholders and must stay viable. Obviously viability in the logging operations are necessary part for that to happen.
  
- **What seems to be missing is the awareness in the senior levels of many consumer companies is that the independent professional logging/trucking contract system is an essential asset to the forest industry that contributes clearly to the industry's global competitiveness.**
  - The continuation and value of ethical and professional loggers 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 and cannot recover, then there is a huge price to pay to replace it. These 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 logging/trucking owner/operators who are willing to make a career in the business. Don't forget that the contract suppliers have critical skills to maintain credibility with landowners, provide certifiable logging systems, and manage efficient operations. 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. It is true that the independent professional loggers in the West are producing a commodity of raw logs, but the complex function and organization to extract maximum value from the forest resource and managing compliant harvesting/trucking systems is a very specialized and critical skill sets not easily replaced. These competencies are not a commodity and must be treated accordingly.

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**Provide a more stable operating environment to your key suppliers.** It is absolutely amazing that the suppliers work with little security, no firm volumes (except weekly or monthly), 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 constantly changing weather conditions. . Included in establishing a more stable operating environment is alliances with key suppliers be effected in terms of strategic harvest blocks ahead, careful maximized log yard storage plans, and a focused effort to revive the economic health of the suppliers as soon as possible. There are signs over the west that some consumer companies are working in that direction.

**For the logging/trucking community, you need to make sure you have a positive attitude.** Yes it has been hard times for all but not having a positive supportive attitude will only make any initiatives from your customers that much harder. 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 company and supplier capacity that have survived the last few difficult years have all gained tremendous efficiencies. It is time for each consuming company to take a fresh approach to their wood and fiber supply system on how it can be stabilized and in an intentional look forward. That will involve moving away from the current reactive stance to one of well thought out strategy 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 WSRI to bring straightforward issues to the table that is in the interest of the Wood Supply System. It is not the intent to offend anyone but rather provide real data that can aid in developing intelligent approaches in working toward 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

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