

Beyond "Efficiency": Today's and Tomorrow's Wood Supply Chain

Jim McNutt

At the Center for Paper Business and Industry Studies, we are concerned with understanding the position of the forest products (and paper) industry and the challenges our industry faces, in view of global competition, product substitution, and other forces that compel us to look at our current practices and to introduce value-added change.

The forest products industry isn't the only industry sector that has been forced to face such challenges, especially after waking up from the stock market meltdown at the end of the 1990s. Such re-examinations of industry sectors—airlines, automobiles, communications, and I'm sure you can think of many others—have spurred many mandates for change.

Before I discuss how "change" might play out in the wood supply sector, let me discuss some of the lessons learned in the broader picture for basic industries, following the emergence of those hard realities.

Our industry, which focuses on wood fiber-based products, is truly blessed in ways that we often fail to comprehend. Although largely taken for granted in today's high-tech world, paper and wood products—such as packaging and communications and construction and decorative materials—permeate the social fabric of modern civilization. We find these products in almost every walk of life—books and photocopies, tissue and sanitary products, newspapers and magazines, containers, catalogs, wallpaper and food packaging and gift-wrap, houses and furniture, panels and kitchen cabinets—and many other staples of everyday life. I'm sure I need not prolong the list to you.

Yet within the backdrop of being able to meet this wonderful cornucopia of mankind's needs, what is the baggage the forest industry brings with it? Here are some issues—whether real or perceived—that affect stakeholders' views of the forest industry's position in the larger economy.

- It is capital-intensive, fragmented, technology-based, monolithic, and slow to adapt.
- It has been and seems still to be largely focusing on doing what it does better, instead of figuring out what it should be doing in the first place.
- It has focused for many years on lowering costs, achieving economies of scale, enhancing operating efficiencies, growing market share, improving marginal returns, and retaining independence—rather than focusing on the impacts these goals can and will have on value structures of the stakeholders themselves.

In a phrase, our industry has developed a highly insular character. It looks within, instead of looking elsewhere. As such, we tend to react to internal forces rather than proactively engaging outside needs and influences. For example, in the area of social and environmental mandates, our industry has often reacted to pressures brought by others—such as, in the 1980s and 1990s, the dioxin issue in chlorine bleached papermaking and, in the 1990s and 2000s, arsenic controversy in the wood panels arena. In the wood procurement and logger interfaces we have failed to look at

social and environmental mandates as a part of holistic supply chain, as other industries have, that impacts the cost and value of the products we produce at both paper and wood products facilities.

Change Enables Breakthroughs

Certainly, when the wind changes in a boat race, your tactics and style must change or you lose—maybe even capsize and drown. The wind has shifted from our backs to the side and is now moving to our faces. Our real test here, then, is *to accept the fact of the wind change*, and quickly and together alter our race tactics—or fail.

- First: know that without change, there can be no breakthroughs—and without breakthroughs there is no value-laden future—for you personally or for the industry.
- Excellence is a constantly moving target, only retained by change—by being adaptable—and in this regard, change is an absolute necessity for sustained personal and organizational success in any industry, including the forest products industry.
- Change is not a simple buzzword or a single concept—change is a mixture of bold strokes, and long marches with a goal of “coping with a new, constantly more challenging market environment—by changing how we conduct business while we simultaneously continue to conduct business.”

In his paper on *Forward to Basics*, the well-read business author Dr. Michael Hammer¹ noted “Operational Innovation isn’t glamorous. It doesn’t come up at cocktail parties. But it’s the only way to win in the post-new economy reality.” Dr. Hammer also points out that the thing we called that “blissful business dream of the 1990s” is dead—the 1990s are not just over, they are SO over it is as if they never happened. He is referring not just to the crashed stock market, but to other core tenets of 1990s business theology, such as the hyping of the Internet, the over-reliance on new technologies as cores of the world’s economic growth, and the notion that successful business is about “hot new concepts or being cool.”

TIMOs: “Cool,” Efficient, or ?

Successful business is—still—really about being able to organize *work to meet real human needs, and to do that is both highly technical and highly demanding.*

So is it back to the 1950s? If business is no longer cool, then is it dull? Has Dilbert's boss finally won? On this point, Dr. Hammer and I agree: “Not a chance!”

For example, does the creation of Timber Investment Management Organizations (TIMOs) in our industry solve the basic problems of cost and value creation from carrying land and fiber resources on our collective books differently and then delivering cost-effective, high-value raw material to consuming mills and plants? Well, as noted, *not a chance*. Regardless of the ownership structures for timberlands and fiber and how they are carried on anyone’s books, we must still pay *new*

¹The author recommends Dr. Hammer’s text *The Agenda* (269 pages), Crown Business, 2001: Chapter 1: “Get Serious About Business Again—Welcome to the Customer Economy,” for additional insights on some of the topics of this article.

attention to the heavy lifting of basic operational concepts tied to growing, harvesting, hauling, and delivering fiber in a cost effective way that adds value throughout the value chain.

The emergence of TIMOs may be *cool* to some so to speak, but their pure creation does not add efficiencies and value to the supply chain. The creation of TIMOs may create new opportunities of doing business differently, to be sure, but those new ways must still embrace creative thinking about efficiencies and adding value across the whole supply chain, or their creation will just be *cool*, not a difference maker. Here we might see a more open way of employing higher efficiency, higher-chip-quality-producing tree-length, horizontal chipping facilities that break from the old mold of high cost (capital, maintenance, and day-to-day operating costs), quality-impairing, shortwood, drop-feed chipping systems that still dominate our industry's landscape.

The “Productivity” Ultimatum

In fact, our business life in the forest products industry and in other industries is not simpler. It is not easier. In reality, it is much more complex and much, much harder than it has ever been—which, as Dr. Hammer says, is why there is no going back to the simpler days of the 1950s. In fact, business today—including that in the forest products industry—is under a relentless assault.

What's surprising is the cause: increased productivity—not just for our industry, but also for all basic industries.

We have learned that higher productivity does not always create a lower overall cost structure and true greater system-wide efficiencies—*marginal is not total!*

Well then—how should the forest products industry step up and meet its stakeholders' aspirations in today's more complex and topsy turvey business environment? Dr. Hammer's advice is through pursuing what he has called *operational innovation*. Examining our economy's leaders in operational innovation—companies like Wal-Mart, Southwest Airlines, and Toyota—he finds that these companies do not depend on a “clever plan” or “hot concept”—such as the creation of TIMOs—alone. Their success relies on how regular; mundane, basic work is carried out—which is how to look at TIMOs. In essence, relentless operational innovation is the only way to establish a lasting advantage.

In this context, we can look to our colleagues in Finland for their practical and innovative adoption of procurement and harvesting practices that generate the fresh wood (less than 7-10 days from cutting) *absolutely required* to successfully produce SC A+ paper products that now compete very successfully with the much higher cost Light Weight Coated (LWD) groundwood grades used in such broad applications as magazine publication. Without the supply-chain-generated *fresh wood*, the SC A+ paper grade would not be possible—period.

Marketing—“Paying Attention”

Turning to a different point, consumer-goods companies are now calculating the real cost of serving a customer—and they're learning that large customers may not be profitable customers if they demand extraordinary degrees of service.

Dr. Hammer's insights might also be the stimulus for the forest industry to take a new look at marketing.

Marketing, as a term, was coined some 60 years ago, to emphasize that the essential purpose and results of a business *lie entirely outside that business*. As a business tool, marketing was used to gain an understanding of the outside—society, economics, demographics, *and the customer*—to bring it inside the firm. Yet, marketing in the forest industry rarely performs this grand task. Instead, it is most often simply a tool to support selling. Have we really done all we can—as wood fiber supply chain participants—to inquire deeply into what the next link in the chain really needs from us?

The reason it is important to ask this key question now is that the situation of oversupply—a function of all those productivity gains—has created what Dr. Hammer calls the “Customer Economy.” As he explains, that doesn’t mean the supplier should become the customer’s lapdog; some of the leading businesses in today’s economy—think Southwest Airlines—have simply walked away from customer segments whose service demands they have determined they cannot serve profitably. It means that before serving any customer, the supplier should understand, in some depth, what the customer’s needs and expectations are.

In this light a *few* chemical suppliers to the paper industry, and even a few smaller producers, have begun to drop customers who are too demanding, too focused on “their own” cost cutting, and the like—where these pressures can no longer be absorbed while still creating value for the supplier, the manufacturer, or both. This is simple math; it is good understanding of marketing; but it is not a path taken all that often, because the view that *any sale is better than no sale* seems to still persist and to drive both paper and wood products producers alike.

Dr. Hammer points out, “What is required is reflecting the reality of customer power in all the ways in which a company is operated and managed, from how its work is done through how its people are rewarded to how it is organized.” When you understand that, you will know when your customer is (1) simply pushing for lower costs and more concessions, or (2) is pushing you to be a more effective part of your customer’s overall supply chain.

In our industry, there are some excellent examples of this kind of behavior—but all too few of them. Some chipping companies have entered into very efficient and valued-added (to both parties) chipping contracts. Some large domestic paper and wood products producers have taken a page out of the lessons learned in Finland, where most of the wood fiber is provided from private, non-industrial forest owners, to put in place very forward-thinking fiber supply contracts that create cost-effective, low-cost, and fresh wood supplies, instead of just a supply at a negotiated low cost.

It is also worth remembering that doing something really well is not enough. You must do things better than your competitors. This is the real challenge facing our industry. We have entered the Customer Economy in full bloom, and the question is, are we prepared? Just “doing technology” better is really not enough. Have our collective successes in technology application helped create sustainable values for the firms and the stakeholders? How is “doing things well enough” not enough?

To find the answer here, we must look outside technology to the way we use all our scarce and valuable resources—the human resource, the raw material resource, the capital resource, and right on down the line.

Few in our industry can differentiate themselves by technology alone today; however, opportunities to differentiate by means of innovative uses of people, trees, chemicals, financial resources, and the like offer great untapped potentials. In essence, better technology used to produce lower average cost per volume of product will not alone make our industry healthy and wealthy. The only way to achieve that is to change the way we do basic work across the entire supply chain, from the forest to the end consumer, not just in the production facility (narrowly defined) itself.

This is not rocket science; it is really just being practical. However, it does require a substantial change from the model of “more volume from better technology, produced at a lower average cost in any market condition.”

Stated another way: we need to begin to pay attention to the entire supply chain, from the woods to the end consumer, and we need to discover the true value-adding operating efficiencies possible at *each* juncture in the supply chain with the lowest long-term investment of scarce human, capital, and raw material resources *all* along the way—regardless of who owns or controls what part of that supply chain. Success of the whole is the recipe for success of the stakeholders—regardless of where they reside along the supply chain.

SIDE BAR

The Center for Paper Business and Industry Studies

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The Author

Jim McNutt has nearly 30 years' experience in the Forest Products Industry, serving as President and CEO of Jaakko Pöyry Consulting North America in the 1990s. He currently serves as Executive Director of the Center for Paper Business and Industry Studies and is President of his own management consulting firm, *Degrees of Excellence*.