

**Submission to the
Forest Renewal BC Core Review
on the
Value Added Assessment Program**

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**Community Futures Development Association
of British Columbia**

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The Value Added Wood Manufacturing Industry

The breadth of products manufactured within the “value added” or secondary wood products manufacturing industry is astounding - almost anything imaginable. In some cases it is helpful to be able to categorize the sectors by their source of raw materials, while in other cases it helps to group them by the types of products that they produce. In all cases though, the issues, challenges and needs of the various sectors of the value added industry are almost as broad as their product range.

Large companies in the pulp, paper, sheet goods and primary sawmilling sectors dominate the BC Forest Industry. They produce most of the wealth, provide most of the jobs and consume most of the trees. This is to be expected in some ways, as many people estimate that only 20-30% of BC's wood fibre is suitable for value added wood manufacturing. The appeal of the value added sector is that it generally produces much more wealth and many more jobs for each cubic meter of wood utilized than does the primary forest industry!

Issues in the Value Added Wood Manufacturing Industry

Lack of a Mature Value Added Industry - There are so few role models for entrepreneurs to emulate that for each of them, it almost seems that they are breaking new ground. Although there are some real success stories of companies that manufacture high value secondary wood products, there are many more examples of companies and good ideas that have somehow foundered and failed to realize their potential for sustainability, growth and profitability. The possibility of business synergies increases exponentially as each of the sub-sectors develops in size and sophistication.

Product Manufacturing - One of the challenges has been the inability of entrepreneurs to make the transition from commodity to product manufacturing. Business disciplines like marketing, manufacturing and product development are quite significantly different in a product manufacturing environment.

Small Firm Size - Firms in the value added wood manufacturing industry are relatively small. This impacts their ability to raise money, provide quality management and conduct product development research, as well as it negatively impacting the companies' ability to withstand any significant downturn.

Economies of Scale - Few firms utilize the continuous manufacturing processes that provide the efficiencies and economies of scale to make products truly competitive in terms of costs. Many lack the knowledge or capital to make the transition from batch to continuous manufacturing processes.

Finance - The lack of a mature industry with which the financial industry is familiar leads to additional financing difficulties for small value added firms. Seemingly, few of our client companies have been able to capitalize themselves

well enough, or to be able to package themselves appropriately to attract the investment capital necessary to allow them to become “world class.”

Access to Fibre - Sometimes value added firms encounter difficulty in obtaining the right quality or species of fibre due to the additional sorting required, in some cases they may have insufficient cash or credit rating. If they are unable to secure a steady source of supply, it can prevent them making firm commitments to produce specified quantities of products, or commit to capital investments.

Entrants to the Value added Industry - Many entrants into the industry have been successful entrepreneurs in other industries and decide they can be successful in value added manufacturing. Others are familiar with wood and very talented with equipment. In still other cases it is the artisan who sees an opportunity to supply a bigger market. The point is that a large percentage of entrants into the value added wood manufacturing industry lack some of the key elements or experience needed for success.

Geographic Impacts - Almost totally dependent on the forest industry to provide the jobs and tax revenues needed, communities have watched with mounting concern the downsizing and vulnerability of the primary industry. They know they need to diversify their economies. However with few role models and insufficient expertise available, the new companies start well, stall and then go under. The community's diversification attempts falter along with the companies. New companies may not be different in rural British Columbia, but it certainly is more noticeable in the small communities!

The Needs of the Value added Industry

The needs of the value added industry are dictated by three general factors:

- an industry that is in the infancy of its life cycle
- attracting small, under-capitalized firms
- learning to become a market driven product manufacturer

If the Value added Wood Manufacturing Industry is considered to have economic potential and thus a future, then the needs of this industry must revolve around creating the conditions within which the entrants can succeed.

Product Development - Moving from commodity to product manufacturing requires a transition in the thought process. Understanding the market from the perspective of what consumers want, not from the perspective that this is what can be made. Manufacturers must live and die on satisfying consumer needs - determining what they want, finding out if their raw material can be made into an 'in-demand' product, and at a price the consumer is willing to pay.

Business Skills - Many entrants have most of the business skills needed to make a success of their business. The shortfall in skill level is precisely the area that is critical to success - understanding the product development and product manufacturing process. They need to be able to develop, utilize and understand comprehensive management information systems that will give them the data

and information to be able to refine, adapt and modify their manufacturing processes to maximize efficiency and profit. They need to be able to develop the planning tools that will enable them to control the complexities of their process so that they can replicate the best every time.

Market Research - Few firms have the knowledge or financial capacity to fully research the market to gain a complete understanding of its complexities, design the appropriate products and then manufacture them. It's a huge cost and it is not a one-time expense. Colours, fashion, style - all have the potential to change each year or even each season and the manufacturer must stay in touch and in tune with the marketplace. Unfortunately, many do not even know where to start.

Market Distribution - Price is important, but for many distributors continuity of supply is even more important. Understanding the accepted practices and appropriate marketing channels is critical for a new manufacturer. Rarely are we talking about one product, rather an entire product line is needed. The costs are considerable and ongoing as relationships take time to build.

Technology - As companies move towards sophisticated batch or continuous production manufacturing régimes, technology requirements increase exponentially. Understanding the capability of different technologies in specific applications will be an essential ingredient to building an industry.

Finance - The value added industry is very much under-capitalized. While the primary industry was able to capitalize itself using its guaranteed access to fibre, it is unlikely that a similar program will be made available to the value added wood manufacturing industry. The business planning skills of the entrepreneur can be enhanced so that they can package their plan in order to secure the capital needed to put their value added business on a firm financial basis.

Solutions for the Value Added Wood Manufacturing Industry

The value added Industry needs an industry development program - a coordinated, focused approach addressing the critical needs facing the industry. This would not constitute a subsidy! Aimed at developing an industry, it would be available to all companies within some generally accepted eligibility requirements. Government would not be picking the recipients, nor choosing winners. Third party delivery of the essential components of the program would distance the recipients even further from government.

Many of the services provided would be non-financial in nature. The participating firms, although they receive the benefit of information and in some situations advice and recommendations, they do not receive a direct financial contribution.

Macro Industry Development - Issues dealing with forest policy, access to tenure, taxation, business climate and the U.S. countervailing duty to name but a few are critical issues, and addressing them successfully will very definitely aid the development of the industry.

Micro Industry Development - Industries grow and develop at the firm level, not at a macro level, precisely because that is where change happens. To be really effective, information and services need to be incorporated into an individual firm's business practices.

Each component of the program would be designed to help an industry grow to reach its potential. One key component is the:

Value Added Assessment Program

The Value Added Assessment Program is a unique program focused on industry development at the firm level. It helps existing value added wood manufacturing business address the specific challenges that are limiting those firms' growth or survival. The program has worked with companies to help them understand product manufacturing and how they need to recognize the specific needs of controlling and managing these processes. It has assisted with helping companies understand the need for good product design, comprehensive market research and detailed marketing strategies. Although the program provides no financial incentives, the program has assisted owners and managers of firms understand how they can package themselves and their businesses professionally in order to secure additional financing.

It is a training program for the owners and managers of value added wood manufacturing firms! Specifically the program assists in situations where the companies have grown faster than their management capacity, where they have demonstrable growth opportunities, where they need to re-structure to survive or where they have the opportunity to grow to another stage of development.

Assessment Phase - The 'grow, develop, plateau or stagnate' phenomenon has been identified in many businesses in many different industries across Canada. After showing great promise, businesses almost seem to hit a wall. They seem unable to move to the next level of their development. Within the value added industry in British Columbia there are examples of companies that started off well, but have failed to live up to their promise. What happened? What are the constraints limiting the ability of these firms to progress?

In some cases the readily apparent issue may be insufficient capital, yet when a thorough assessment is completed, the real issue may be that inefficiencies in the manufacturing processes were robbing the company of profitability. This is what the assessment does. It looks at the critical factors and issues that make up what the company is trying to do, the raw materials used, the manufacturing process employed, marketing, finance, product development, innovation and human resource issues. A specialist well versed in the industry, assesses the company, identifies the three most critical issues the company faces, and makes recommendations for the short to medium term. The report is reviewed with the owner carefully.

Analysis Phase - Working with the Assessment report and the company, a specialist retained by the program and the company conducts a more detailed

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analysis of one of the identified issues. A plan of action is prepared that will enhance the company's "in-house" knowledge of the issues and how to address them. The key has been to match the identified needs of the company with a specialist or several different specialists who have very detailed knowledge and experience in these issues in this sector of the industry. These specialists are not generalists and can involve marketing, finance, human resources, manufacturing processes, product development, productivity improvement and quality assurance among others. The company and the program cost share the services of the specialist 25% / 75% respectively.

Results - Provincially the Value Added Assessment Program began in the fall of 2000 when Forest Renewal BC contracted with the Community Futures Development Association of BC to deliver the program throughout the province. The program signed its first contracts in December. An amazing accomplishment - 72 contracts signed with 7 months and quite a tribute to the network that the Community Futures organizations have throughout the province.

Type of Contract	Complete by March 31, 2001	Active & completed by June 30, 2001	Total
Assessments	16	38	54
Analysis	4	14	18
Total	20	52	72

Its too early, to gain a real understanding of the detailed results achieved by this program. It takes time for a company to internalize a report and start to make the changes that will, ultimately, see it grow and prosper. Analysis contracts should lead to significant results as specialists work with the company to define the implementation plans and targets of what could be achieved. Assessment assignments, by their very nature do not always lead to 'measurable' results, although most would agree that the results are beneficial. Currently, preliminary results are being gathered and should be available by early September.

The Value Added Assessment Program is patterned on a very successful 'pilot' conducted in the Omineca Peace region of the province during 1999 and the first quarter of 2000. An independent audit confirmed that the program was highly effective in assisting firms to generate new sales and create jobs. Specifically, clients attributed the program with helping them to generate \$8.1 million in new sales and over 65 new jobs. When the survey was completed, eight of the sixteen participants could not report on sales and job changes due to the lack of elapsed time between project completion and the date of the survey.

Government's Assessment Criteria

The new government has asked that each of the stakeholders / proponents examine their program in light of three broad assessment criteria.

Government Priorities and Investments - Few industries have the potential of the value added wood industry - an abundance of natural resources and forest species with superior attributes for many uses. Yet the issues facing the value added wood manufacturing industry are many and varied: business skills, product design, manufacturing and processes, market research, intelligence and distribution, finance, technology and fibre access. These are precisely the issues that must be addressed if the government is going to achieve its ambitious and far-reaching objective for the forest industry in British Columbia. Namely to create a "...leading edge forest industry that is globally recognized for its productivity..." and further "...to have the leading economy in the country, with the highest levels of private sector investment anywhere."

An industry development program and specifically the Value Added Assessment Program will assist the government in achieving this goal for the value added wood industry. In this respect the Value Added Assessment Program could be considered analogous to the type of program envisioned in the government's statement that they will "Stimulate tourism with a plan to improve operators' ability to successfully compete for visitors from around the world."

One of the key benefits for government is that this industry can be developed, efficiently and effectively on a regional basis throughout the province. It can be the diversification engine for many communities.

Commitments Consistent with Revenue - Precisely because the value added wood industry has great potential to create sales, jobs and taxation revenue for the government throughout the province it can save the government significant social and financial expenditures due to unemployment or underemployment. With an expenditure of under \$1 million annually, the Value Added Assessment Program is a great investment in the development of the industry.

Effective Program Delivery - Community Futures has built its well-deserved reputation on the effective, efficient delivery of programs aimed at specific target audiences. Guided by volunteer boards of directors in thirty-three regional communities throughout the province, Community Futures organizations focus on assisting their communities to grow, develop and adapt to change effectively.

Each of these organizations responds at a community level to community needs. They do not compete with traditional sources of support, but rather serve a market niche for those that would not normally get any level of support or service. Beginning over fifteen years ago Community Futures has developed a very significant capital pool that is loaned at commercial (or above) rates to assist companies succeed. They have an enviable success rate.

The Value Added Assessment Program was developed by Community Futures to meet a specific need. As a result of an increased involvement in the value added wood industry stimulated by the creation of the Forest Community Business Loan Fund, Community Futures identified that many of their clients and many in the broader value added industry lacked some of the essential skills required to become successful.

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Frequently the skills or time required to assist these firms become successful was more than could be devoted. Ergo the Value Added Assessment Program was conceived.

The delivery of any program can be improved and this is true of the Value Added Assessment Program as well. Program staff is implementing mechanisms to measure and evaluate the results achieved, and additional efforts are being made to ensure that the specialists have the right skills. It is a lean program, with less than two full time equivalent staff to deliver the program province wide. This is possible only because of the Community Futures network, which ensures that the program retains a focused approach to industry development.

Conclusion

Industry development programs are not new and if the value added wood manufacturing industry is become a 'leading edge industry' creating jobs and wealth throughout the province, it is needed.

Appendices – Letters of Support

Renaissance Forest Products Ltd. Roger Keery, President
VA Wood Inc. – Gary Fillinger, President
Interior Joinery Ltd. – Bert Mast, President
Valleyview Lumber Sales – Norm Price
Time Lasting Craftsmanship - TLC Design Inc – J Edwards, CEO
Tomco Wood Products Ltd. – Brian Hayashi, President
Shuswap Millwork – Brian Washington, Owner
AJ Industries – Gary Aven, President
BC Log Stair & Rail – David Edgeley, Owner
L.K. Gaylor Enterprises - L.K. Gaylor, Owner
Renuable Resources Ltd. – Steve Morton, President
Blue Mountain Pine – Al & Denise Knowlton, Owners
Eagle River Forest Products Ltd. – Al Morgan, General Manager
Honey Hill Management Services – Patrick Olivier, Partner
Spiritwood Enterprises – R.W. Dumond, Owner
Northern Fibre Facilitator – Albert Smith
Interior Value Added Supply Facilitator – Bruno Geiger
Ron Sangster, Marketing Consultant – Ron Sangster, Consultant
Bob Christie Forest Consulting Ltd. – Bob Christie, President
John Wemyss Consulting – John Wemyss, Consultant
Cris Hemingway Consulting – Cris Hemingway, Consultant
PGBC Consulting Group Inc. – Paul Klotz
S.O.S. Business Centre – Larry Peeters, Owner
L.S. Sluggett & Associates Ltd. – Les Sluggett, President
James N. MacFarlane, Consulting Forester
B.A. McDougall & Associates – Barry McDougall, Consultant
Curtis Mann Consulting – Curtis Mann, Consultant