Fletcher Challenge Forests Focus on Consumers

Introduction

Fletcher Challenge Forests Ltd (FCF) made a decision two years to implement important changes in its forest management regimes. As a result of this, the company decided to stop pruning on all low quality sites. Pruning would continue to be carried out on high quality sites, however. The decision was part of an overall change in company philosophies, shifting from a production-oriented towards customer-based thinking. Ian Boyd, general manager New Zealand forests for FCF, discussed the changes and their impact on forest management with Journal publisher, Mike Smith, who prepared the following article.

Background

FCF is one of New Zealand's largest forest-owning and managing companies and is the partner in the Central North Island Forest Partnership, which successfully bid to purchase the government-owned Forestry Corporation of NZ Ltd. The company manages a resource totalling 287,000 stocked hectares. The resources combines the 120,877 hectares estate owned by FCF and the 166,407 hectare estate the company manages on behalf of the CNI Forest Partnership. The merging of the two estates under a single management is of particular importance in the current discussion on regimes in that it provides FCF with a sufficiently large, contiguous estate to achieve the quality levels and efficiencies required to make the resource competitive internationally.

Philosophy and Strategies

The business philosophies and strategies that guide FCF underpin the company's decisions on forest management. A fundamental change in the company's thinking came two years ago when it was decided to move from what it describes as a "production" to a "customer pull" philosophy. The terms are relatively self-descriptive, however the outcome has been a restructuring of the business to increase the focus on customer-based thinking. Intensive pruning started on a large scale in the early 1970s. The end result of the new structure is that forest management falls out of the strategies for managing the business.

Supply Chains and Efficiencies

There are other important developments in regards to the direction of forest management at FCF. As well as developing a "market pull" organisation, the company is trying to make the supply chain more efficient from the forest to the customer.

Forest management regimes

FCF recognised two years ago that advances in tree genetics and processing technology meant that previous views on silviculture needed to be reviewed. As a result of that review, it was decided to stop pruning on all low quality sites. However, FCF remains committed to pruning in the right places and for the right reasons, so it has continued to prune on the high quality sites specifically to produce long, clear mouldings and wide clear boards, which cannot be replaced (at this stage) by technology and where there is a significant premium in the market.

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The Kaingaroa Processing Plant.
The influence of markets & processing on silviculture

John Pearce

Introduction

The recent decision by CHH to quit pruning has re-opened discussion on what is the most appropriate silviculture for New Zealand foresters to pursue. I'd like to offer a perspective from a processor's view.

Context of silvicultural decisions

Historically, New Zealand has committed itself heavily to pruning, largely based on the early research work of FRI, and the enthusiasm of Dr. Sutton and the Conversion Planning Group for the potential of pruned clearwood. Based on the tree quality of that time, and the site and silvicultural interactions, the quality of wood expected was probably the lowest risk, best value option. Certainly, the potential export of framing products beyond Australia was unlikely to justify planting trees.

Subsequent changes in the industry in the 1990s have seen a declining quality of pruned clearwood, mainly as a result of the secondary effects of the focus on maximising volume per tree and per hectare, and the younger ages of clearfell. At the same time improvements in re-manufacturing, have swung the balance towards a more conservative stance - minimise costs early in the forest life.

Influences on value - Decision drivers

What factors have the most influence over the value of decisions to prune or not to prune? I would suggest that amongst the most important are the following.

Future relative prices and costs for pruned clearwood and finger-jointed clearwood

At the heart of the decision “To prune or not” is the expectation of the relative profit available from pruning, or growing unpruned stands. For the “prune” option, the revenue side is driven by price expectation for the pruned products targeted, and the revenue expectations of the falldown products. For the “not” option, the relative prices for finger-jointed products, and arisings are the focus. Clear lumber prices for New Zealand processors are currently influenced by U.S. Mouldings and Better prices. This market, with its large capacity, will probably establish a price indicator for some years. However, the price impact on New Zealand pruned logs (the value to the foresters) will reflect the costs and efficiencies of New Zealand processors in

Business Partnerships

Like much of the rest of the forest management operations at FCF, the CPYs are run on a contract basis. The concept here stems out of a plan to bring the company’s workforce closer to the business in what has been a move from traditional contracting relationships to a series of partnerships.

Whereas FCF previously had more than 200 contractors, it now has just 11 “partners” as follows: three in harvesting; two in log processing; and one each in transportation, forest management (thinning and pruning), mechanical land preparation, aerial work, technical (measurement), and security.

FCF believes that the benefit of partnering is that those partners selected are able to have a much greater volume of work and they can be more responsible for the management of it. The concept gives the groups involved greater certainty and ownership of the business, therefore an increased stake in productivity and profitability.

For FCF, there is the added advantage the administration and costs are reduced and “ownership” of the forest management is shared with the partners. This has required quite an adjustment for FCF, in that it must be more proactive in communication and give more responsibility to others in terms of aspects of forest management.

If FCF gets to where it wants to, its operations will be at the bottom of the international cost curve. However, the company recognises that the cost curve is continually moving to the left and therefore continues to look for further step changes to ensure it can remain competitive.

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