Performance of the Value-added Wood Products Industry in British Columbia
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by

Price Waterhouse

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This study was prepared under the direction of the Working Group to the Opportunity Identification Program of the Canada-British Columbia Partnership Agreement on Forest Resource Development: FRDA II. The Working Group members are:

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The views expressed in this report are not necessarily those of Forestry Canada or of the British Columbia Ministry of Forests.
EXECUTIVE SUMMARY

Study Purpose

The purpose of this study was to determine the financial condition of the value-added wood products industry in 1991, and to identify strategic and other issues affecting industry viability. The study was conducted in two phases: a survey of the value-added industry and a series of strategic workshops.

Representativeness of Data

The financial and other data presented in this report represent the entire value-added wood products industry and are based on responses received from 153 of the 565 operations surveyed. At 27% of the total population, this response rate is too low for the data to be considered anything other than indicative.

Financial Results

The value-added industry had revenues of $1.3 billion in 1991, or 12% of the revenues of the entire British Columbia forest industry (see Figure A). The value-added industry lost $12 million in 1991, resulting in a negative return on assets of 1.7%. The aggregate forest products industry suffered a negative return on assets of 5.5%. Engineered building components was the only profitable sector, earning $5 million on sales of $260 million.

The average debt:equity ratio for the value-added industry was 1.1:1, ranging from a low of 0.7:1 for remanufactured products, to a high of 7.9:1 for Other wood products. Coupled with the lack of profitability, these ratios clearly indicate that much of the value-added wood products industry is in serious financial difficulty.

Markets

The largest market for all sectors was British Columbia. The second most important market was the United States, which consumed a significant portion of remanufactured products. The Pacific Rim and other Canadian destinations were also important markets to varying degrees, depending on the sector.

Employment

The industry employed between 9000 and 13 000 people in 1991, depending on the season. The average was about 11 000 people on a full-time equivalent basis (see Figure B). This was 12% of total direct employment in the British Columbia forest industry.

Hourly and salaried employees combined received an average of $27 300 in compensation in 1991. This is close to the average wage in British Columbia of $28 330. The inclusion of $5400 in benefits brings total compensation and benefits to $32 700 per person. This is 39% below the average compensation and benefits package of $53 779 in the forest products industry in British Columbia.

Wood Consumption

A total of 1.2 billion board feet of lumber was processed by the industry in 1991. Some double counting of volume could be included in this total, however, due to lumber that may be further manufactured between companies. Average consumption per employee amounted to 110 MFBM with the highest consumption in the remanufacturing sector, at about 300 MFBM per employee. This compares to production of about 500 MFBM per employee in the primary sawmilling sector.
Key Strategic Issues

The key success factors in the value-added industry are high product quality and good customer service.

The most pressing business problem in 1991 was a lack of profitability. Poor economic conditions and weak markets no doubt contributed to this situation, although data are not available to indicate profitability under "normal" economic conditions. In order to assist the industry in its development, financial and other information should be collected on a consistent and regular basis, and a study of the factors contributing to excellence in leading companies should be initiated.

Secondary wood products manufacturers are preoccupied with wood supply. Resolution of this issue depends on (1) improved industry margins enhancing the ability to compete for lumber with the export markets, and (2) maturation of the business relationships between primary and secondary producers to ensure a diversified and profitable industry overall. Establishment of an ongoing forum for communicating ideas and issues between companies and sectors is essential to this process.

Smaller companies in the industry may not be paying enough attention to management issues because of the pressures of day-to-day business activities and limited staff. Practical, cost-effective management training may generate significant benefits to this group.

Many companies indicated they could sell as much product as they could produce. Yet, profit margins clearly are not there. This suggests that a significant marketing and pricing issue remains.

There is widespread support for industry, government, and other stakeholders to work together on developing a clear industrial strategy for the primary and secondary forest products industries in British Columbia. Government and industry should exhibit leadership in this area.

Comments on the Bid Proposal Timber Sale program were generally favourable. Experience with Bid Proposal Timber Sales was not considered satisfactory by some, however, because performance of the successful bidders sometimes fell short of what was promised and monitoring was considered inadequate. Behind these comments are concerns that some manufacturing proposals create expectations of high revenues or employment, which in reality cannot be delivered.

Higher stumpage rates put pressure on the primary mills to seek higher value markets themselves to pay for such rates. This in turn puts a further squeeze on the availability and cost of lumber to remanufacturers.
FIGURE A. Sales and net earnings by sector.

FIGURE B. Employment by sector.
### BRITISH COLUMBIA VALUE-ADDED WOOD PRODUCTS INDUSTRY, 1991

<table>
<thead>
<tr>
<th>Financial</th>
<th>Combined Results</th>
<th>Remanufactured products</th>
<th>Engineered building components</th>
<th>Millwork</th>
<th>Other wood products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales ($ million)</td>
<td>$1 310</td>
<td>$590</td>
<td>$260</td>
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<tr>
<td>Net earnings ($ million)</td>
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<tr>
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<td>(12)</td>
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<td>140</td>
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</tr>
<tr>
<td>Return on assets (%)</td>
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<td>(1.4)</td>
<td>3.7</td>
<td>0.0</td>
<td>(8.5)</td>
</tr>
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<td>Debt equity</td>
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<td>0.7:1</td>
<td>1:0:1</td>
<td>1:4:1</td>
<td>7:9:1</td>
</tr>
<tr>
<td>Sales per operation ($ million)</td>
<td>2.3</td>
<td>3.9</td>
<td>2.4</td>
<td>1.5</td>
<td>1.5</td>
</tr>
</tbody>
</table>

| Markets                       |                  |                         |                                |          |                    |
| British Columbia              | N/A              | 33%                     | 66%                            | 93%      | 62%                |
| United States                 | N/A              | 26%                     | 12%                            | 2%       | 9%                 |
| Pacific Rim                   | N/A              | 14%                     | 11%                            | 1%       | 8%                 |
| Other                         | N/A              | 27%                     | 11%                            | 4%       | 21%                |

| Employment and compensation   |                  |                         |                                |          |                    |
| Number of employees           | 10 800           | 3 500                   | 2 100                          | 2 000    | 3 200              |
| Compensation per employee     | 27 300           | 26 500                  | 30 600                         | 29 000   | 24 800             |
| Benefits per employee         | 5 400            | 6 000                   | 6 200                          | 5 300    | 4 200              |
| Total compensation and benefits| $32 700          | $32 500                 | $37 000                        | $34 300  | $29 000            |

| Wood consumption              |                  |                         |                                |          |                    |
| Lumber consumption (MMFBM)    | 1 187            | 1012                    | 140                            | 35       | N/A                |
| MFBM consumed per employee    | 110              | 300                     | 70                             | 20       | N/A                |
| Most often used species       | N/A              | Cedar                   | SPF                            | Hardwoods | Other          |
| Most often used lumber grade  | N/A              | Std. & Btr.             | Other                          | Clear    | Other             |
| Capacity utilization          | N/A              | 67%                     | 73%                            | 77%      | 71%                |

| Strategic issues              |                  |                         |                                |          |                    |
| Key success factor            | Quality and service | Quality and service | Quality and service | Quality and service | Quality and service |
| Most pressing business problem| Lack of profitability, weak markets, unstable wood supply | Lack of profitability, unstable wood supply | Lack of profitability, weak markets | Lack of profitability, weak markets | Lack of profitability, weak markets |
ACKNOWLEDGEMENTS

We would like to thank the Working Group to the Opportunity Identification Program, members of the project Steering Committee, industry associations, and participating companies for their input and assistance during the course of the study. Their continued involvement and insight will be required in coming years to guide the development of this relatively new British Columbia industry.

Price Waterhouse
Vancouver, B.C.
September, 1992
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INTRODUCTION

The purpose of this study was to determine the financial condition of the value-added wood products industry in 1991, and to identify strategic and other issues affecting industry viability. Data on wood consumption, employment, and markets were also collected.

The “value-added” industry population was defined in an earlier FRDA II study titled, “Structure and Significance of the Value-Added Wood Products Industry in British Columbia”¹ (referred to after this as the “Structure report”).

The Structure report summarizes the results of a survey of British Columbia value-added wood product manufacturers. Included in the report is information on employment, sales, markets, wood used (species and volumes), plant equipment, product mix, and custom services provided. The structure of the value-added wood products industry is examined by disaggregating the information gathered into seven sub-sectors. The significance of the industry is examined in terms of its contribution to employment and sales. The companies included in the Structure report formed the survey population for this study.

One of the greatest challenges in analyzing the value-added sector is defining what products should be included. For the purposes of the Structure report, the value-added industry was defined as “…secondary wood products manufacturers that add value to commodity wood or wood based material by further processing into specialty finished or semi-finished products.” Where primary sawmills also produced specialty products, data were included only for the specialty departments.

This study was conducted in two phases. The first was a mail survey of the total value-added industry as defined in the Structure report. The survey was distributed to 565 companies in seven sectors: remanufactured products, engineered building components, millwork, cabinets, furniture, pallets and containers, and “other” wood products.

A 27% overall response rate was obtained from the survey. Of the 153 responding companies, 103 supplied financial information. A list of companies that responded is included in Appendix 1. The survey form is shown in Appendix 2.

Results are presented by sector, based on data collected from 64 companies in the remanufactured products sector, 39 companies in the millwork sector, and 23 companies in the engineered building products sector. Because of a limited number of responses in the other sectors, the balance of results from 27 companies in the cabinets, furniture, pallets, and “other” sectors are combined under “other wood products.” The responses are summarized below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Total surveys sent</th>
<th>Total usable responses</th>
<th>Responses with financial data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>Remanufactured products</td>
<td>150</td>
<td>64</td>
<td>43</td>
</tr>
<tr>
<td>Engineered building components</td>
<td>108</td>
<td>23</td>
<td>21</td>
</tr>
<tr>
<td>Millwork</td>
<td>119</td>
<td>39</td>
<td>33</td>
</tr>
<tr>
<td>Other</td>
<td>188</td>
<td>27</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>565</td>
<td>153</td>
<td>27</td>
</tr>
</tbody>
</table>

Data were compiled in confidence by Price Waterhouse. Price Waterhouse independently reviewed the survey responses for reasonableness and consistency, but made no attempt to bring companies to a common basis of accounting.

¹ This study was at the direction of the Opportunity Identification Program, Canada-British Columbia Partnership Agreement on Forest Resource Development: FRDA II, December 1991.
Statistics such as percent of sales by market, lumber species and grades utilized, and sources of wood were calculated using a simple average of the percentage responses by company. Data were not weighted by sales values or lumber volumes. This method of analysis gives equal weight to company responses, regardless of size. Some companies did not provide the volume or sales information required to perform a weighted average analysis. Statistics such as financial results and average compensation and benefits were calculated from combined company data.

Information on the total value-added wood products industry in British Columbia, as defined in this study, is not available from official sources such as Statistics Canada. Employment data for 1991 were grossed up to estimated industry totals, based on aggregate employment estimates presented in the Structure report and adjusted for changes in employment between 1990 and 1991 for companies that provided data to both studies. Financial information was also grossed up to industry totals, based on average sales per employee data calculated for the respondents in each sector.

The data collected in Phase I of this report are therefore the best available data on which to estimate the performance of the total value-added industry in the province.

The combined results from the British Columbia value-added wood products industry in 1991 show sales of $1.3 billion, direct employment of almost 11,000, asset value of $680 million, and net losses of $12 million (see Figures 1 and 4). Appendix 6 provides an industry statement of earnings and a balance sheet.

The second phase of the study involved workshops held in Kamloops, Prince George, Surrey, and Parksville. The workshops provided a forum for more in-depth discussion of issues of strategic significance to the industry. They were conducted by Price Waterhouse and Jim McWilliams, Wood Products Consultant.

A Steering Committee made up of representatives of industry and government provided direction for the study. Committee members are listed in Appendix 3.
FIGURE 1. Sales and net earnings by sector.

FIGURE 2. Remanufactured products: operating costs.
Markets

The largest market for remanufactured products is British Columbia (33%), although the variability among companies was significant. The second most important market was the United States (26%), followed by the Pacific Rim (14%), Europe (12%), other parts of Canada (10%), and other markets (5%) (Figure 3).

The majority of revenues was from the sale of products (73%); the balance was from services and other activities. A significant number of companies in the remanufacturing sector processed wood exclusively for other companies on a custom or service basis (e.g., kiln drying, staining, and more complex processing activities).

Respondents operated at about 67% of capacity in 1991. About one-half of the companies estimated capacity on a one-shift basis, and the other half on a two- or three-shift basis. Reasons for operating at less than capacity were equally divided between poor market conditions for some companies and a shortage of suitable wood for others.

Employment

The sector employed 3500 people on a full-time equivalent basis in 1991 (Figure 4). Employment ranged from a low of 2800 to a high of 4100 because of business seasonality. The majority of responding companies (71%) reported a non-union workforce. This is considered representative of the sector.

Average compensation for employees (hourly and salaried) was $26,500 per year. When benefits of $6000 are added, annual total compensation and benefits averaged $32,500 per employee.

Wood Consumption

Most of the responding companies use lumber as a raw material input, although a few have sawmill facilities and use logs.

About 8% of the wood supply came from the Small Business Forest Enterprise Program. Several of the companies in this sector do not qualify for timber under the program as they already have significant timber quota.

![Figure 3. Remanufactured products: sales by market.](image-url)
FIGURE 4. Employment by sector.

Plants in the remanufacturing sector processed about 300 MFBM per employee in 1991, for a total volume processed of about 1 billion board feet. Some portion of the volume in this total may be double counted, however, as some remanufacturing facilities further process lumber from other remanufacturing operations.

Cedar was the most common species used (37%), followed by hemlock (20%), spruce-pine-fir (SPF) (19%), lodgepole pine (10%), Douglas-fir (6%), spruce (3%), and other softwood or hardwood species (5%) (Figure 5). The degree of species mix varied widely among companies, with some using only one species such as cedar.

Lumber grades used by remanufacturing companies were also widely distributed, with standard and better the most commonly used grade (23%), followed by utility (17%), clear (17%), No. 2 shop (15%), select (6%), factory fitch (4%), and other (18%). “Other” grades included economy, tight knot, ungraded mill run, and trim ends (Figure 6).

Strategic Issues

Companies were also asked to comment in general on the key success factors of their business, their most pressing business problems, and the most important thing that could be done to improve their business. These three subjects are discussed separately below. Percentages do not add to 100, as several companies mentioned more than one factor. These subjects were discussed in more detail at the strategic workshops, a summary of which is included later on in this report.

Most significant business issues

The top five factors rated as being “very or quite significant” were, in declining order: wood supply, wood quality, currency exchange rates, labour costs, and operating costs (Figure 7). Companies were asked to rank a number of factors in terms of their significance to the business, on a five-point scale ranging from very significant to not significant.
FIGURE 5. Remanufactured products: lumber species used.

FIGURE 6. Remanufactured products: lumber grades used.
Key success factors

Product quality and customer service were the most important business success factors in the opinion of respondents (mentioned by 37%). This was closely followed by wood supply (32%) and markets (31%). Other factors mentioned less frequently were a quality workforce, competitive product pricing, access to financing, and flexibility.

Most pressing business problems

By far the most pressing business problem reported by the companies (as distinct from strategic issues) was the lack of a stable wood supply (66% of respondents). The next most significant problem was weak markets and/or excessive price competition (22% of respondents). Other problems mentioned less frequently included high labour and production costs, financing problems, workforce quality, excessive government regulation, exchange rates, and high taxes.

It is surprising that lack of profitability was not mentioned, since remanufacturers in the aggregate experienced losses in 1991. However, it may have been considered by respondents as too obvious and general to mention. Similarly, while workforce quality was cited as a problem, respondents were virtually silent about training, which is typically one of the best solutions to workforce quality shortcomings.

Most important way to improve business

Echoing the business problems raised in the previous section, respondents felt that the most important potential improvement was in the area of wood supply (43% of respondents), followed by better market conditions (20%). Other improvements called for included reduced production costs, capital improvements, tax incentives, and clear, consistent government policy, particularly in the area of wood supply.
ENGINEERED BUILDING COMPONENTS

Sector Definition

This sector contains a diverse group of companies, including manufacturers of laminated beams, trusses, prefabricated buildings, log homes, and wood treating plants. While the wood used in most firms is lumber, firms in the log home sector primarily use logs. Some wood treating plants also process logs for products such as poles and pilings.

Financial Results

Sales totalled some $260 million. Net earnings amounted to $5 million in 1991, or 2.0% of sales. The sector generated a return on assets of 3.7%. Sales per operation averaged $2.4 million.

"Other" production costs (e.g., materials and supplies, energy, etc.) made up the largest component of operating costs at 41% of the total, followed by labour and benefits at 26% and wood cost at 16% (Figure 8).

The total debt to equity ratio was 1.0:1. Most companies obtain financing from standard commercial sources; 9% indicated some reliance on government financing.

Companies in the engineered products sector spent $13.5 million on capital expenditures in 1991, or 5% of sales. Projects primarily involved the improvement or replacement of equipment and facilities.

Markets

On average, 68% of sales were to customers in British Columbia, although this figure varied significantly between sub-sectors. For example, truss manufacturers sold virtually 100% of their products within the province, while log home producers exported a significant portion of their products. The next largest market served was the United States (12% of sales), followed by the Pacific Rim (11%), other Canadian destinations (10%), and Europe (1%) (Figure 9).

The majority of revenues (77%) was generated by the sale of products; the rest was from services such as custom processing or from other sources.

Employment

The sector employed 2100 people on average during 1991 on a full-time equivalent basis. Employment fluctuated with business seasonality from about 1600 persons in low season to 2800 in high season. The majority of companies (65%) reported a non-union workforce.

Compensation (salaried and hourly employees) averaged $30,800 per person in 1991, plus benefits of $6200 per person, for a total of $37,000 per person.

Wood Consumption

Wood inputs included logs as well as lumber and panels. Companies in the engineered building components sector consumed about 70 MFBM of lumber per employee, for a sector total of 140 MMBFM. Lumber consumption per employee varied significantly depending on the type of products being produced. For example, log home builders consume most of their wood in the form of logs, not lumber.

The plants also used a significant volume of panel products. Because of the variety of sizes and units of measurement, however, it is not possible to provide an estimate of total volume. Plants operated at an average of 73% of production capacity in 1991.

Most wood was purchased from suppliers unrelated to the component manufacturers (69%); 15% was obtained through the Small Business Forest Enterprise Program (primarily by log home and pole companies), 9% from other forest tenures, and 7% from other sources (such as related companies).

On average, companies reported that 30% of their wood supply was spruce-pine-fir (SPF), 23% lodgepole pine, 18% Douglas-fir, 17% spruce, 7% cedar, and 5% hemlock (Figure 10). The species mix varied widely by company, depending on the type of products manufactured.
FIGURE 8. Engineered building components: operating costs.

Lumber grades used averaged 74% "other." This included a mixture of grades, such as machine stress rated (MSR), Number 1 and 2, and other special grades used by producers of structural products. The balance was made up of 17% select, 8% standard and better, and 1% utility (Figure 11).

Strategic Issues

Most significant business issues

The companies ranked the following five factors in declining order of significance to their business: wood supply, wood price, operating costs, wood quality, and labour costs (Figure 12).

Key success factors

The majority of respondents (68%) reported that product quality and customer service were the key success factors for their business. This was followed by marketing and/or market strength (32%), as well as the need for a good quality wood supply (32%).

Most pressing business problems

The most commonly reported business problem was market weakness and excessive price competition (43% of respondents). The second most common problem was the lack of a stable, reasonably priced wood supply (38%). The third most commonly raised was the problem of high production and labour costs (14%). Other problems included financing concerns and inconsistent building codes (primarily affecting truss manufacturers).

Most important way to improve business

The two most commonly mentioned improvements included obtaining a more secure wood supply (25%) and better marketing (25%). Other suggestions included standardization of building codes (from truss producers) and tax incentives or tax relief on capital expenditures.
FIGURE 11. Engineered building components: lumber grades used.

FIGURE 12. Engineered building components: % respondents indicating the issues that are "very or quite significant."
MILLWORK

Sector Definition

This sector includes manufacturers of wood doors and windows, architectural woodwork (i.e., interior woodwork for commercial buildings), turned wood products (e.g., spindles), and other products such as wood flooring.

Financial Results

The millwork sector appeared to break even on revenues of $180 million in 1991. Sales per company averaged $1.5 million.

Wood costs were the largest component of operating costs (34% of total operating costs), followed by "other" production costs (23%) and labour and benefits (21%) (Figure 13).

The total debt to equity ratio was 1.4:1. Only 8% of respondents reported that they rely to some extent on government financing sources.

The responding companies spent $2.9 million on capital expenditures in 1991, or 1.6% of sales. Projects were primarily for equipment purchases, computer systems, and business expansion.

Markets

Most sales were to British Columbia markets (93%), with over half of the companies selling exclusively within the province. The balance of products went elsewhere in Canada (3%), the United States (2%), the Pacific Rim (1%), and various other markets (1%) such as Australia, Asia, and Africa (Figure 14). However, although the industry does send some products to Europe, none of the participants in this survey exported their products to that market.

The majority of sales revenue was generated from the sale of products (75%), with services and other activities accounting for the rest.

FIGURE 13. Millwork: operating costs.

Employment

The sector employed 2,000 people in 1991, with employment ranging between 1,800 and 2,300 during the year due to the seasonality of the business.

Compensation (salaried and hourly employees) averaged $29,000 per employee, plus benefits of $5,300, for total compensation and benefits of $34,300 per employee. The majority of responding companies reported a non-union workforce (89%).

Wood Consumption

Wood inputs to the millwork sector were primarily lumber and a variety of panel products, including softwood and hardwood plywood and composite panels. None of the millwork plants consumed logs directly. All of the companies reported that they purchased their wood supplies, instead of obtaining timber from forest tenures.

Plants in the millwork sector consumed about 20 MFBM per employee for a total of 35 MMFBM of lumber in 1991. The plants also used a significant volume of panel products. However, given the variety of sizes and units of measurement, it is not possible to provide a total volume figure. Plants operated at an average of 77% of capacity.

Softwoods made up 74% of the raw wood used by millwork plants. Of this, 18% was hemlock, 17% Douglas-fir, 16% cedar, 5% spruce-pine-fir (SPF) mix, and the balance (18%) a combination of other species. The remaining 26% of wood used was hardwood lumber. Most of this hardwood lumber came from outside the province (Figure 15).

A large proportion of the lumber used by the millwork sector is clear grade (68%), followed by select (9%), No. 2 shop (8%), standard and better (4%), utility (2%), factory flitch (1%), and "other" (8%) (Figure 16).
FIGURE 15. Millwork: lumber species used.

FIGURE 16. Millwork: lumber grades used.
Strategic Issues

Most significant business issues

The top five factors in terms of their significance to the business were, in declining order: wood quality, wood supply, wood price, labour costs, and operator skills/operating costs (Figure 17).

Key success factors

Quality and service were mentioned most by respondents (54%) as the key success factors, followed by marketing (or market strength) (27%) and product pricing (19%). Other factors mentioned included maintaining a quality workforce and good management controls.

Most pressing business problems

Weak markets and price competition were the most frequently reported business problems (34%), followed by cash flow and financing problems (29%) and stability and quality of the labour force (24%). Other concerns included rising production costs, high taxes, and business management.

Most important way to improve business

Business improvement in the millwork sector would come from better market conditions and improved market development activities (30%), followed by availability of financing for capital investment (27%), and workforce training and improvement of management skills (17%).

FIGURE 17. Millwork: % respondents indicating the issues that are "very or quite significant."
OTHER WOOD PRODUCTS

Sector Definition

This sector is made up of a variety of other product groups, including:

- Cabinets: firms primarily engaged in the manufacture of residential kitchen cabinets.
- Furniture: manufacturers of household furniture, Ready to Assemble (RTA) furniture, commercial furniture, and patio furniture.
- Pallets and Containers: companies making pallets, boxes, or other wood containers.
- Miscellaneous: firms manufacturing other products such as chopsticks, wood novelties, etc.

Financial Results

In aggregate, this sector earned $4 million before unusual items, on sales of $280 million in 1991. Unusual items, including losses from discontinued operations, resulted in a loss of $12 million for the sector. Sales per operation averaged $1.5 million. After unusual items the sector incurred a negative return on sales of 4.2% and a negative return on assets of 8.5%. The debt to equity ratio was very high at 7.9:1. Some companies reported negative shareholders equity. About 12% of respondents reported that they relied to some extent on government financing sources.

Other production costs were the largest component of operating costs (at 34% of total operating costs), followed by labour and benefits at 25%, and wood costs at 20%.

The sector spent about $5 million on capital expenditures in 1991, or 2% of sales. Expenditures were primarily on equipment, vehicles, and plant expansion.

Markets

On average, the primary market was British Columbia (62%); some sub-groups such as cabinet companies produced almost exclusively for the British Columbia market. Other Canadian destinations followed at 18%, the United States at 9%, and the Pacific Rim at 8%.

Employment

The “other wood products” sector employed 3200 people in 1991, ranging seasonally from a low of 2800 to a high of 3600.

Compensation averaged $24,800 per person, plus benefits of $4200, for a total of compensation and benefits of $29,000 per person. The majority of responding companies (83%) reported a non-union workforce.

Wood Inputs

The “other wood products” group used a variety of wood inputs, including lumber, plywood, and particleboard. Virtually all the wood was purchased in the form of lumber or panels, including some hardwoods from outside British Columbia, such as oak and black walnut.

The limited survey response and wide variety of input materials and finished products, make it impossible to provide a meaningful estimate of lumber consumption for the sector.

Wood species used were fairly evenly split between hardwoods and other wood obtained from outside British Columbia (49%) and domestic softwoods such as hemlock (17%), cedar (11%), lodgepole pine (8%), SPF (7%), and other softwoods (8%). Hardwoods and other imported species were most heavily used by the cabinet and furniture manufacturers.
Heavy use of economy grade by the pallet companies, and different grades of hardwoods by the cabinet companies placed the largest group of grades in the "other" category. Of the balance, the utility grade was the most commonly used (22%), followed by clear (19%), select (8%), No. 2 shop (7%), and standard and better (7%). The wide variation in grades reflects the mix of companies in this sector.

**Strategic Issues**

**Most significant business issues**

The factors ranked as having the greatest significance to companies in the "other wood products" sector were, in declining order: wood supply, taxes, labour costs, operating costs, and wood quality and price.

**Key success factors**

Product quality and customer service were the primary ingredients for success in the view of responding companies, followed by sensitivity to market needs, good product design, and reasonable production costs.

**Most pressing business problems**

As in other sectors, weak markets was the most critical problem faced by producers, followed by financing problems and the cost of wood supplies.

**Most important way to improve business**

The majority of companies would like to see improved markets, reduced production costs, and more capital investment.

**STRATEGIC WORKSHOPS**

Workshops were held in Kamloops, Prince George, Surrey, and Parksville in summer 1992. The workshops provided forums for discussion of the issues considered most important to the short- and long-term future of the industry.

Attendance at the workshops was by invitation. All survey respondents were invited to participate. The objective was to include representatives from the larger sectors of the secondary industry, government, some large primary producers, and Forintek. Attendance averaged about 19 people per workshop and each workshop lasted about 4 hours. (A list of those attending the workshops is included in Appendix 4.)

Analysis of the early responses to the strategic questions in the survey resulted in the selection of four topics for discussion: finance, workforce, markets, and wood supply. Time was also provided for the discussion of other issues raised by workshop participants.

Each workshop followed the same agenda, although the emphasis and content varied depending on the interests of individual participants. This section summarizes the key issues raised by workshop participants. Appendix 5 reports on each major topic in more detail.

**Finance**

- Several workshop participants expressed frustration about their attempts to obtain financing, whether for starting a new business or acquiring equipment.
- The lack of access to secure, long-term (i.e., >5 years) timber supply was commonly viewed as a distinct disadvantage when dealing with financial institutions.
- Government financing programs currently in place are limited to export guarantees through the Export Development Corporation, the British Columbia Trade Development Corporation, and the Federal Business Development Bank as an alternative to regular commercial financing, and some funding is from Western Diversification.

Workforce
- Employee attitudes are a critical element of success in secondary manufacturing.
- Most participants agreed that while the majority of training was best conducted “in-house”, training facilities for highly skilled positions such as moulder or fingerjoint setup persons were lacking in British Columbia.

Markets
- Many of the workshop participants felt that markets were one of the issues of least concern from a strategic perspective. The general feeling was that if quality and service were high, sales would follow. A discussion of markets typically evolved into a discussion of wood supply. There may also have been some reluctance to discuss market issues openly for competitive reasons. Some participants may also have been resigned to the fact that not much could be done until the general economy improved.
- Some participants expressed the view that the lack of concern about marketing may result in missed opportunities or at least the underpricing of products, especially in export markets. The lack of emphasis on marketing may indicate an area of opportunity for industry development, perhaps through more focus by industry associations.

Wood Supply
- Workshop participants frequently mentioned the need to develop an industrial strategy to provide overall direction and the policy base necessary to encourage the development of the forest products industry.
- Much of the discussion focused on how lumber supplies could be directed to secondary manufacturers (non-tenure holders) through market forces, rather than government involvement in the allocation process.
- Several participants believed that there is a role for government in the short term to encourage the supply of wood to the value-added sector. Proposed solutions included government “encouragement” of primary sawmills to become more co-operative in providing lumber to secondary producers. A mechanism was not proposed.
- The Section 16.1 Bid Proposal Program arose frequently in discussions, and it was generally looked upon favourably by the smaller producers. Many of the improvements suggested by the industry, such as changes required in the timber allocation process, were apparently made by the Ministry of Forests in 1991. Monitoring of licensee performance was still considered inadequate, however, as some successful bidders have ended up unable to pay the stumpage, or have not constructed manufacturing facilities as promised.
- The primary benefit of the Section 16.1 Program was perceived to be an improvement in the bargaining position of smaller producers in dealing with primary mills for lumber supplies. Aside from the financing issue, several people voiced the opinion that the program would not be necessary if they could obtain adequate lumber supplies from the primary producers. This issue should be explored further to define the true extent of the problem, and to identify any other underlying issues.
Other Issues

- An issue of significant concern to some manufacturers, especially in the Okanagan region, was the stringent regulations and timetable for compliance being imposed on the burning of wood waste. While the Ministry of Environment has developed control regulations, cost-effective alternatives to burning have not yet been found.

- Another issue raised was the favourable investment climate in the U.S. Pacific Northwest region, where local governments are working hard to attract new business. Several companies indicated they had established or were considering establishing plants in the U.S. Pacific Northwest. One implication of this issue may be that municipalities in the province are not making sufficient effort to attract or even retain their existing industrial base.

CONCLUSIONS AND RECOMMENDATIONS

A wide diversity of companies come under the banner of "value-added" or "secondary" wood products manufacturers. Although there is a danger in generalizing about such a diverse group, there are issues of critical importance to the future of the value-added industry that apply to all sectors. These are summarized below.

Financial Performance

Overall, the secondary wood products sector was not profitable in 1991. A review of the performance of individual companies did not reveal any obvious reasons why some were profitable and some not, and size did not appear to be a factor. Some companies have very high debt, however, which makes it difficult to generate enough cash to do more than just service the debt load.

While 1991 was a dismal year for most companies in the forest products industry, it might be argued that poor times for the commodity sector should be beneficial to secondary producers. Their markets are generally more stable than commodity markets, and wood input prices should decline with lower commodity prices. A time series of financial data would help to answer the question of whether there is any cyclical relationship between the fortunes of the primary and secondary sectors. Unfortunately, such a time series of historical financial data is not available.

There was clearly a substantial underutilization of remanufacturing and value-added facilities in 1991. Because this study only covers 1 year, it is not possible to say whether this is simply due to the current economic recession or whether it is symptomatic of a larger structural problem. If it is the latter, improved industry performance over the long term will require restructuring, consolidation, or closure of the more inefficient facilities.

A useful analytical tool would be a study of companies generally recognized to be leaders in their sector, to identify the factors that lead to business excellence. In addition, it may be possible to compare these companies to leaders in other regions to determine the competitive position of the British Columbia industry in world markets. Tracking critical performance ratios between companies and exchanging mutually beneficial information could be powerful tools in the strategic development of the secondary industry.

Wood Supply

Many secondary producers, primarily those in the remanufactured products sector, are preoccupied with the issue of wood supply. The critical issue appears to be the need for a reliable supply of lumber, of the right size and quality, at an affordable price. At the same time, it is unrealistic to expect the government to subsidize the remanufacturer by providing wood at lower stumpage and reforestation rates than otherwise might be obtained from primary wood users. Similarly, primary wood users cannot be expected to provide wood to remanufacturers at prices lower than they can obtain elsewhere.
As the province increases stumpage rates and at the same time reduces the overall quantity of logs available through reductions in allowable annual cut (AAC), additional pressures are placed on primary sawmills to change their sawing practices, seek higher-value export markets, and consequently make even less wood available to the local remanufacturers.

If the industry has a structural overcapacity problem, as suggested earlier, wood supply issues might be eased by the closure of inefficient facilities that are currently competing for a limited wood supply. The likely solution is twofold:

1. The secondary industry must produce products that generate enough added value to more than offset the cost of specialized wood inputs at "market" prices.
2. The evolution of customer-supplier relationships between the primary and secondary sectors must progress toward mature industry relationships that foster a financially strong and diversified forest products industry. Enough examples of long-term relationships were identified during the study to suggest that this solution works (see examples in Appendix 5).

Communication among companies along the lines of the workshops and steering committee meetings held as part of this study is a step in the right direction. Establishment of an ongoing forum for the communication of ideas and resolution of issues between primary and secondary producers could accelerate the evolutionary process.

Marketing and Market Research

Many companies indicated that they could sell as much product as they could produce. Yet, profit margins clearly are not there. This suggests a problem with marketing and pricing. If more product could be sold at existing prices, why can prices not be raised to reduce demand to the product availability level? This thesis needs to be examined empirically, but individual manufacturers are typically loath to take the risk of alienating existing customers by raising prices.

The other way is to test the end markets to determine what prices are being charged by competing producers. However, this requires a marketing or sales organization, something which is beyond the resources of all but the largest companies involved in the value-added sector. Consequently, companies need to explore the feasibility of joint marketing and market research programs to maximize prices and market penetration. The B.C. Wood Specialties Group has some involvement with this, but it may be appropriate to expand its role.

There could also be a role for the provincial government here, for example:

- helping to identify products and related markets that generate enough added value to offset the high cost of wood.
- encouraging the formation and activities of industry associations and selling co-operatives to concentrate marketing, market research, and selling resources that would otherwise be beyond the range of most companies in the industry.

Business Management

Companies in the value-added sector range from the very large to the very small. Entrepreneurial drive, creativity, and flexibility are necessary ingredients for success in rapidly changing niche markets. Depending on how they are structured, both large and small companies have their own unique strengths in the areas of management, finance, marketing, and manufacturing.

One area where smaller companies may be suffering is in management depth and therefore management quality. It became evident during our review of the data and follow-up discussions with most responding and several non-responding companies that managers were working extremely hard just to keep up with day-to-day operational activities. They did not always have adequate time to devote to other matters such as financial information analysis, market development, or personnel development. Management education aimed at effective, practical business management techniques would benefit these individuals if it were available on a flexible, cost-effective basis.
Industrial Strategy

An issue that seemed to have widespread support was the recognition that industry, government, and other stakeholders must collaborate on the development of an industrial strategy for the forest products industry in British Columbia. Long-range planning in the industry is difficult at best, and a clear set of objectives, guidelines, and policies in the province would greatly assist the industry in planning for the future. Government and industry should exhibit leadership in this area.
APPENDIX 1. PARTICIPATING COMPANIES: VALUE-ADDED SURVEY

Remanufacturing
ADCO Forest Products
Aquila Cedar Products Ltd.
Arena Forest Products Ltd.
Bridgeside Wood Products Ltd.
Byrne Reman Ltd.
C & C Wood Products Ltd.
Canadian Forest Products – Clear Lake Division
Canadian Forest Products – Specialty Products Division
Carlwood Lumber Ltd.
Compwood Products Ltd.
Cooper Creek Cedar Ltd.
Delta Cedar Products Ltd.
Faulkener Wood Specialties Ltd.
Francois Lake Woodworking Ltd.
Goose Creek Lumber Ltd.
Gorman Bros. Lumber Ltd.
Greenwood Forest Products (1983) Ltd.
Haida Forest Products Ltd.
Hudson Mitchell & Sons Lumber
Imperial Lumber Ltd.
International Forest Products Ltd.
  – Hammond Division
Iviswood Products Ltd.
Jackpine Forest Products Ltd.
Kreykenbohm Corp.
Lyle Forest Products Ltd.
MacMillan Bloedel Limited – Somass Division
MacMillan Bloedel Limited – Custom Processing Division
MacMillan Bloedel Limited – Port Alberni
MacMillan Bloedel Limited – New Westminster
Meeker Lumber
Mid-Island Exteriors Ltd.
Milestone Wood Products Inc.
NMV Lumber Ltd.
Okanagan Lumber Services Ltd.
P & E Enterprises Ltd.
Pacific Custom Stain
Pacific Western Wood Works Ltd.
Paragon Ventures Ltd.
Pauican Enterprises Ltd.
Primex Forest Products – Specialty Division
Prince George Pre-Cut Ltd.
Quadra Wood Products
R.L. Palmer Manufacturing Ltd.
Riddle Manufacturing Inc.
Riverwood Industries Ltd.
San Lumber Co. Ltd.
Sawarne Lumber Co. Ltd.
Southwest Forest Products Ltd.
Summerland Forest Products Ltd.
Sylvanex Lumber Products Inc.
Terrace Pre-Cut Mill Ltd.
Timberland Supply Co. Ltd.
Torisumi Canada Ltd.
Tyee Timber Products Ltd.
Uneeda Wood Products Ltd.
Vanderhoof Specialty Wood Products
Vernon Kiln & Millwork Ltd.
Weldwood of Canada – Flavelle Cedar Division
West Wood Mouldings Ltd.
West Fraser Mills Ltd. – Quesnel Laminators Division
Western Lath Ltd.
Westlam Industries Ltd.
Wynndel Lumber Sales Ltd.
Yarrow Woodworking

Engineered Building Components
ATCO Space Rentals
Canada Cedar Pole Preservers Ltd.
Canadian North Log Homes Inc.
Castlegar Truss Ltd.
Chaparral Ind. (86) Inc.
Cloverdale Truss Co.
Country Pine Log Homes
Domtar – Prince George
Domtar – New Westminster
Ed Campbell Log Homes Ltd.
Goode Industries Inc.
Hejo Industries Ltd.
Intercoast Lumber Inc.
Kootenay Wood Preservers Ltd.
Linwood Homes Ltd.
Lobo Log Crafters
M.W.Z. Log People Ltd.
Norse Log Homes Ltd.
Nortec Design Group Ltd.
Original Log Homes Ltd.
Pacific Builders’ Suppliers Ltd.
Princeton Wood Preservers Ltd.
Shelter Industries Inc.
Millwork

2M Design Productions Inc.
Aberdeen Wood Products Ltd.
Acorn Wood Designs Ltd.
ADANAC Millwork Mfg. Inc.
Apollo Industries Ltd.
Artex Vancouver
BCM Manufacturing Ltd.
Boardwalk Enterprises
British Columbia Door Co. Ltd.
Cana - T Wooden Products Inc.
Canadian Architectural Millwork
Cedarwood Windows Ltd.
Craftsman Panel Cutters Ltd.
Cranbrook Window Centre
Cranbrook Interior Woodwork Ltd.
Custom Glass Millwork
Decker Industries Inc.
Fair Glass Ltd.
Fraser Valley Ind. Ltd.
G.T.B. Millwork Ltd.
Glenmore Millwork
Hardwood Design Ltd.
Hart Industries
Heritage Millwork
Jim Stiven Woodturning
Okanagan Door & Window Sales
Pacific Woodworking
Pacific Cabinets Ltd.
Parwood Manufacturing Inc.
Ram's Custom Furniture & Millwork Inc.
Ray-Mar Industries Inc.
Seaguil Enterprises Ltd.
Valley Glass & Mirror Ltd.
Vintage Woodworks
Wanes Custom Woodworks Inc.
Westland Window World Ltd.
Woodrose Woodworking

Other Wood Products (Including Cabinets, Furniture, Pallets and Containers, and Miscellaneous)

Ahaus Design Ltd.
Allright Ladder Co. of Canada Ltd.
Armstrong Kitchen Cabinets
Burrard Wood Mfg. Ltd.
Canada Japan Chopstick Corporation
Canwood Furniture
Chase Hardwoods Ltd.
Cratex Industrial Packaging Ltd.
D&D Pallets and Lumber
Dale James Kitchens & Baths Ltd.
Modern Laminate Design Ltd.
Molchan Cabinets Ltd.
North Columbia Trading Co. Ltd.
Pacific Pallet Ltd.
Paletherpe & Dowling Ltd.
Popular Oak & Pine Craft Ltd.
Quality Box (1971) Ltd.
R.W. Cabinets Ltd.
Reneille Furniture Inc.
Scali Durante Furniture Mfrs. Ltd.
SONAX Acoustics Ltd.
Starline Cabinets Co. Ltd.
Sunrise Woodworks Canada Corp.
Superior Covetops
Surrey Rehabilitation Society
Verbeek Pallet Supply Co. Ltd.
Western Woodworking
The B.C. Value-Added Wood Industry

1991 Economic Study
Survey Guide

Confidentiality of your Information

All information provided to Price Waterhouse will be held in strict confidence. Questionnaire results will be summarized, tabulated and presented in a way which will not identify any individual companies. In circumstances where it appears that a company’s figures could be identified in a tabulation, that tabulation will not be released by Price Waterhouse without the consent of the company.

Any Problems or Questions?

Accuracy and timeliness are critical to the success of this survey. If you have any questions whatsoever regarding the completion of the questionnaire, please call Mike MacCallum or Bruce McIntyre at Price Waterhouse in Vancouver (604) 682-4711.

Overview

The questionnaire has been designed to obtain data from all companies in the industry on a consistent basis. Because companies have different accounting methods there may be problems in providing certain items of data. Each company should provide whatever information they can, using estimates where possible. An explanation of the data provided should be given where necessary, and all estimates should be noted.

Multiple Operations

Complete a questionnaire for each manufacturing location, if data is available.
Financial Statements to be Provided

Please submit financial statements (audited, if available) including statement of earnings, balance sheet, and cash flow statement for your company. The provision of financial statements assists greatly in the review and analysis of information contained in completed questionnaires. Draft financial statements should be submitted if audited statements are not yet available.

Timing

The compilation of industry data cannot be completed until the last questionnaire is received by Price Waterhouse. Therefore it is important that all companies complete the questionnaire promptly. All completed questionnaires should be submitted to Price Waterhouse by May 14, 1992.

Please contact Price Waterhouse if you foresee any difficulty in complying with this target date.

Completion and Return of your Questionnaire

1. Please retain a duplicate copy of your completed questionnaire to facilitate follow-up.

2. Unless otherwise indicated, financial data should be reported in thousands of dollars.

3. Unless otherwise indicated, all information should be reported for the company's fiscal year ending in 1991. If your year-end is not December 31 it is not necessary to adjust or allocate fiscal year data to comply with the calendar year.

4. Completed questionnaires should be marked *Personal and Confidential* and returned to:

   Bruce McIntyre
   Price Waterhouse
   601 West Hastings Street
   Vancouver, B.C.
   V6B 5A5
Definitions/Explanation of Terms Used

B. Compensation and Employment

Size of Workforce - Lines 110001 to 110003

The average number of company employees is calculated by totalling the number of working hourly and salaried employees on the payroll at the end of each pay period and dividing by the number of completed pay periods in the year. The high and low figures should be completed by operations which experience seasonal variations in the workforce.

Hours Worked - Lines 110004 to 110006

If actual hours worked are unavailable, provide an estimate. A salaried work year is assumed to be 2,080 hours for purposes of this questionnaire. Include hours worked by temporary employees and summer students. Do not include overtime hours worked by salaried employees.

Compensation (excluding benefits) - Lines 110007 to 110009

Includes shift differential, call time, premium time, overtime for hourly employees, and vacation pay for salaried employees. Vacation pay for hourly employees should be treated as a benefit. Exclude payments to employees on workers compensation or sick leave.

Employee Benefits - Lines 110010 to 110012

The total reported for employee benefits includes the employer’s portion of all employee benefit expenditures, including vacation pay for hourly employees but excluding severance pay. If actual costs are not easily available from financial records, calculate using the average percentage loading on wage costs.

Bonuses and Salaries Paid to Owner Managers - Line 110013

Bonuses and salaries paid to owner managers which are more in the nature of distributions of profit (e.g. amounts over $100,000 per annum) should be reported in the “Memo Information” and not included with wages and salaries.
D. Financial Information

By-Product Revenue Credit - Line 120002

Solid wood by-products include all chips and hog fuel sold in the year.

Labour and Benefits - Line 120004

Total remuneration and benefits paid to employees, including employer’s portion of company pensions, CPP, UIC, WCB, health and welfare plans, etc., but excluding severance pay which should be included with "Other expense (income)". Exclude payments to employees on workers compensation or sick leave. Include these costs with "Other expense (income)".

Interest Expense - Line 120008

Report actual interest only in this survey. Companies that allocate nominal interest to mills should make adjustments to present actual interest incurred. If companies have no formal method for allocating interest, allocate interest based on capital employed at the mill level.
### A. Company Background

<table>
<thead>
<tr>
<th>Company:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Person completing the survey:</td>
</tr>
<tr>
<td>Manufacturing location(s):</td>
</tr>
<tr>
<td>Date of Company fiscal year ending in 1991:</td>
</tr>
</tbody>
</table>

If data is also included for related companies (parent/subsidiaries) please list and indicate major ownership percentages.

#### Industry Sector

*(Please circle the category which represents the majority of your products)*

- **A. Remanufactured Products** (i.e. lumber specialties, fencing, panelboard, etc.)
- **B. Engineered Building Components** (i.e. beams, trusses, prefab. buildings, log homes, etc.)
- **C. Millwork** (i.e. doors, windows, architectural woodwork, turned wood products, etc.)
- **D. Cabinets** (i.e. kitchen and vanity cabinets, cabinet doors, countertops, etc.)
- **E. Furniture** (i.e. household furniture, RTA furniture, commercial and institutional, etc.)
- **F. Pallets and Containers** (i.e. pallets, boxes, bins and crates, precut components, etc.)
- **G. Other Wood Products** (chopsticks, ladders, wood novelties, etc.)

#### Wood Inputs: Fiscal 1991

1. **Lumber**
   
   (a) **Volume Used (MBF - CLS)**
   
   (b) **Wood Species Used (approximate %)**

<table>
<thead>
<tr>
<th>HemFir</th>
<th>Douglas Fir</th>
<th>Lodgepole Pine</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Cedar</th>
<th>SPF</th>
<th>Spruce</th>
<th>Other Hardwoods</th>
<th>Non-B.C. Wood Species</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
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</table>

2. **Other Wood Raw Material Used (approximate volume)**
   
   |---------------------------|-----------------------------|-----------------------------|-----------------|--------|

3. **Lumber Grades Used (approximate %)**

<table>
<thead>
<tr>
<th>Clear</th>
<th>Std/Br.</th>
<th>No. 2 Shop &amp; Br.</th>
<th>Utility</th>
<th>Factory Fitch</th>
<th>Other</th>
<th>Select</th>
<th>(specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

#### Comments:

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4. Principal Sources of Wood (logs or lumber) in 1991 (approximate %)

<table>
<thead>
<tr>
<th>Source</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased</td>
<td></td>
</tr>
<tr>
<td>Small Business Forest Enterprise Program</td>
<td></td>
</tr>
<tr>
<td>Other tenures</td>
<td></td>
</tr>
<tr>
<td>Sources outside B.C.</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>(specify)</td>
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Sales By Region and Activity

1. 1991 Sales by Region (approximate % of Sales Revenue)

<table>
<thead>
<tr>
<th>Region</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>B.C.</td>
<td></td>
</tr>
<tr>
<td>Other Canada</td>
<td></td>
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<tr>
<td>U.S.A.</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td></td>
</tr>
<tr>
<td>Pacific Rim</td>
<td></td>
</tr>
<tr>
<td>Other (specify)</td>
<td></td>
</tr>
</tbody>
</table>

2. 1991 Revenues by Type of Activity (approximate %)

<table>
<thead>
<tr>
<th>Type of Activity</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of Products</td>
<td></td>
</tr>
<tr>
<td>Custom Services</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

B. Compensation and Employment - Fiscal Year ending in 1991

<table>
<thead>
<tr>
<th>Size of Workforce</th>
<th>Average</th>
<th>High</th>
<th>Low</th>
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</thead>
<tbody>
<tr>
<td>Hourly</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Salaried</td>
<td>110002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>110003</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Hours Worked and Paid For</th>
<th>Average</th>
<th>High</th>
<th>Low</th>
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</thead>
<tbody>
<tr>
<td>Hourly</td>
<td>110004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaried</td>
<td>110005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>110006</td>
<td></td>
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<table>
<thead>
<tr>
<th>Compensation (excluding benefits) ($000's)</th>
<th>Average</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly</td>
<td>110007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaried</td>
<td>110008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>110009</td>
<td></td>
<td></td>
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<table>
<thead>
<tr>
<th>Employee Benefits ($000's) (1)</th>
<th>Average</th>
<th>High</th>
<th>Low</th>
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<tbody>
<tr>
<td>Hourly</td>
<td>110010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaried</td>
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<tr>
<td>Total</td>
<td>110012</td>
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<table>
<thead>
<tr>
<th>Bonuses and salaries paid to Owners/Managers (2)</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>110013</td>
</tr>
</tbody>
</table>

Notes: (1) If precise information not available, calculate benefits using average percentage loading on employee compensation. (2) Amounts more in the nature of distribution of profit (i.e. >$100,000)

Is your operation unionized?  Yes ☐ No ☐
C. Strategic Issues

Please check the appropriate box indicating the significance of the following issues to your operation.

<table>
<thead>
<tr>
<th>Issues</th>
<th>Very Significant</th>
<th>Quite Significant</th>
<th>Less Significant</th>
<th>Not Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wood supply</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Wood quality</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>3. Wood price</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>4. Operator skills</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5. The availability of training facilities</td>
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<td></td>
<td></td>
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<tr>
<td>6. The availability of financing for working capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. The availability of financing for business expansion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Labour costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Operating costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. The availability of information on market and trade issues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Tariff and non-tariff barriers</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>13. The availability of price information for domestic markets</td>
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<td>14. The availability of price information for export markets</td>
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<td></td>
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<tr>
<td>15. The level of international competition</td>
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<td></td>
<td></td>
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<tr>
<td>16. Industry business cycles</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. Currency exchange rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. The relationship between the primary and secondary producers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

General Questions

1. What are the key success factors for your business? __________________________

2. What are your most pressing business problems? __________________________

3. What do you feel is the most important thing that could be done to improve your business? __________________________

4. Do you rely on government financing sources (FBDB, low interest loans, etc.)? No □ Yes □ (indicate %) ______

5. What level of production capacity was your operation running at in 1991? ______%  

6. How do you measure capacity: 1 shift basis □ 2 shift basis □ Other □ ______________

7. If your plant did not operate at capacity in 1991, what were the primary reasons? (describe) __________________________

8. Free workshops will be held at select locations in the Province to explore the above issues and areas where either industry or government might take action. Would you be interested in participating in a one-day workshop? Yes □ No □

9. What other issues would you like to see discussed at the workshops? __________________________
### D. Financial Information: 1991

1. **Statement of Earnings ($000's)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Fiscal Year Ending in 1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales - FOB mill (net of selling expenses)</td>
<td>120001</td>
</tr>
<tr>
<td>By-product revenue credit</td>
<td>120002</td>
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<tr>
<td>Cost of products sold:</td>
<td></td>
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<tr>
<td>Wood</td>
<td>120003</td>
</tr>
<tr>
<td>Labour and benefits</td>
<td>120004</td>
</tr>
<tr>
<td>Other production costs</td>
<td>120005</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>120006</td>
</tr>
<tr>
<td>Other expense (income)</td>
<td>120007</td>
</tr>
<tr>
<td>Interest expense</td>
<td>120008</td>
</tr>
<tr>
<td>Earnings before income taxes</td>
<td>120009</td>
</tr>
<tr>
<td>Income taxes</td>
<td>120010</td>
</tr>
<tr>
<td>Extraordinary items</td>
<td>120011</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>120012</td>
</tr>
</tbody>
</table>

2. **Balance Sheet ($000's)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Fiscal Year Ending in 1991</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>130001</td>
</tr>
<tr>
<td>Net fixed assets</td>
<td>130002</td>
</tr>
<tr>
<td>Other assets</td>
<td>130003</td>
</tr>
<tr>
<td>Total assets</td>
<td>130004</td>
</tr>
<tr>
<td><strong>Liabilities and Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td></td>
</tr>
<tr>
<td>Current liabilities (non-interest bearing, i.e. accounts payable)</td>
<td>130005</td>
</tr>
<tr>
<td>Current liabilities (interest bearing)</td>
<td>130006</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td></td>
</tr>
<tr>
<td>Shareholder loans</td>
<td>130007</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>130009</td>
</tr>
<tr>
<td>Other</td>
<td>130010</td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td>130011</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td></td>
</tr>
<tr>
<td>(Line 130004 = Line 130012)</td>
<td></td>
</tr>
</tbody>
</table>

3. **Capital Expenditures ($000's) - 1991**

Brief description and cost of major capital projects in 1991

* * * *

Would you like to receive a copy of the report "Structure and Significance of Value Added Wood Products in B.C." (at no charge)?

Yes ☐  No ☐
APPENDIX 3. STEERING COMMITTEE MEMBERS

Robert Sandve (Committee Chairman)
Production Manager
Haida Forest Products Ltd.
President, Independent Lumber
    Remanufacturers' Association

Gerry Canuel
President
Aquila Cedar Products Ltd.
President, Vancouver Island Wood
    Producers' Association

Brian S. Corrall
Controller, Nanaimo Region Office
MacMillan Bloedel Limited

Roger Ennis
Director, Forest Sector Development
British Columbia Trade Development
    Corporation

Peter Fisher
Economics and Trade Branch
British Columbia Ministry of Forests

Bob Holm
General Manager
B.C. Wood Specialties Group

Ken McClelland
General Manager
Western Red Cedar Lumber Association

Ron Nielson
Acting Manager
Lumber Manufacturing Department
Forintek Canada Corp.

Gary Nikolai
Nikolai Manufacturing Inc.
President, Architectural Woodwork Manufacturers
    Association of Canada

Dennis Powell
President
Abeda Wood Products
President, Interior Value Added Wood Association

Dave Shaw
Senior Advisor, Forest Industries
British Columbia Ministry of Economic
    Development, Small Business and Trade

Bill Wilson
Manager, Industry and Trade
Forestry Canada
Pacific and Yukon Region

Mike MacCallum*
Partner
Price Waterhouse Management Consultants

Bruce McIntyre *
Director
Price Waterhouse Management Consultants

Jim McWilliams*
Wood Products Consultant

* Ex-officio
### APPENDIX 4. VALUE-ADDED STRATEGIC WORKSHOP PARTICIPANTS

#### Kelowna

<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bob Bird</td>
<td>Canwood Furniture</td>
</tr>
<tr>
<td>Elwin Brown</td>
<td>Hart Industries</td>
</tr>
<tr>
<td>Dan Butford</td>
<td>Ministry of Economic Development, Small Business and Trade</td>
</tr>
<tr>
<td>Howard Fenton</td>
<td>Gorman Bros. Lumber Ltd.</td>
</tr>
<tr>
<td>Ross Gorman</td>
<td>Gorman Bros. Lumber Ltd.</td>
</tr>
<tr>
<td>David Jenkins</td>
<td>Norelco Cabinets</td>
</tr>
<tr>
<td>Bruce McIntyre</td>
<td>Price Waterhouse (Co-chairman)</td>
</tr>
<tr>
<td>Jim McWilliams</td>
<td>Wood Products Consultant (Co-chairman)</td>
</tr>
<tr>
<td>Ron Pond</td>
<td>Weyerhaeuser Canada Limited</td>
</tr>
<tr>
<td>Dennis Powell</td>
<td>Abeda Wood Products</td>
</tr>
<tr>
<td>Bryan Pugle</td>
<td>Chase Hardwoods Ltd.</td>
</tr>
<tr>
<td>Archie Rafter</td>
<td>MacMillan Bloedel Limited</td>
</tr>
<tr>
<td>Barry Schick</td>
<td>Acutruce Industries (Kelowna) Ltd.</td>
</tr>
<tr>
<td>Dave Shaw</td>
<td>Ministry of Economic Development, Small Business and Trade</td>
</tr>
<tr>
<td>John Thorlakson</td>
<td>Tolko Industries Ltd.</td>
</tr>
<tr>
<td>Herb Treat</td>
<td>Paragon Wood Products</td>
</tr>
<tr>
<td>Bruce Turnbull</td>
<td>Summerland Forest Products</td>
</tr>
<tr>
<td>Derek Williams</td>
<td>Forintek Canada Corp.</td>
</tr>
<tr>
<td>Bill Wilson</td>
<td>Forestry Canada</td>
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#### Prince George

<table>
<thead>
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<tbody>
<tr>
<td>Fred Ahrens</td>
<td>Francois Lake Woodworking Ltd.</td>
</tr>
<tr>
<td>John Byl</td>
<td>Woodland/Windows/Scana Industries</td>
</tr>
<tr>
<td>Peter Byl</td>
<td>Woodland/Windows/Scana Industries</td>
</tr>
<tr>
<td>Anders Eriksson</td>
<td>Quesnel Laminators</td>
</tr>
<tr>
<td>Peter Fisher</td>
<td>Ministry of Forests</td>
</tr>
<tr>
<td>Mark Hinchcliff</td>
<td>Northwood Pulp and Timber Ltd.</td>
</tr>
<tr>
<td>Terry Irwin</td>
<td>Ministry of Forests</td>
</tr>
<tr>
<td>Greg Jadrzyk</td>
<td>COFI-NILS</td>
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<tr>
<td>Rick Jones</td>
<td>Jack Pine Forest Products</td>
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<tr>
<td>Bruce McIntyre</td>
<td>Price Waterhouse (Co-chairman)</td>
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<tr>
<td>Peter McLoughlin</td>
<td>C &amp; C Wood Products</td>
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<tr>
<td>Jim McWilliams</td>
<td>Wood Products Consultant (Co-chairman)</td>
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<tr>
<td>Richard Morgan</td>
<td>P.G. Precut Ltd.</td>
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<td>Ron Nielson</td>
<td>Forintek Canada Corp.</td>
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<td>Len Ostberg</td>
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<td>Roy Pritchard</td>
<td>Pacific Precision Wood Products</td>
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<tr>
<td>Dave Shaw</td>
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<tr>
<td>Arne Skuggedal</td>
<td>Nordic Woodwork</td>
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<tr>
<td>Keith Spencer</td>
<td>Vanderhoof Specialty Wood Products</td>
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<tr>
<td>Roger Stanyer</td>
<td>Ministry of Forests</td>
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<tr>
<td>June Stinson</td>
<td>Ministry of Economic Development, Small Business and Trade</td>
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<tr>
<td>Arnold Zwiers</td>
<td>Canadian Woodworks</td>
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<tr>
<td>Tom Zwiers</td>
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</table>
### Surrey

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<tr>
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<tbody>
<tr>
<td>Trev Buddo</td>
<td>Tyee Timber Products</td>
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<tr>
<td>Jim Chisholm</td>
<td>MacMillan Bloedel Limited</td>
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<tr>
<td>Mo Cyr</td>
<td>MacMillan Bloedel Limited</td>
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<tr>
<td>Roger Ennis</td>
<td>British Columbia Trade Development Corporation</td>
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<tr>
<td>Peter Graff</td>
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<tr>
<td>Colin Harte</td>
<td>Uneeda Wood Products</td>
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<tr>
<td>Brian Hawrysh</td>
<td>BC Wood Specialties Group</td>
</tr>
<tr>
<td>Bob Holm</td>
<td>BC Wood Specialties Group</td>
</tr>
<tr>
<td>Abe Krahn</td>
<td>Fraser Valley Industries</td>
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<tr>
<td>James W. Kung</td>
<td>Cloverdale Truss</td>
</tr>
<tr>
<td>Denis MacAree</td>
<td>Ministry of Economic Development, Small Business and Trade</td>
</tr>
<tr>
<td>Mike MacCallum</td>
<td>Price Waterhouse</td>
</tr>
<tr>
<td>Bruce McIntyre</td>
<td>Price Waterhouse (Chairman)</td>
</tr>
<tr>
<td>Brian Middleton</td>
<td>BCM Manufacturing</td>
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<tr>
<td>Ron Nielson</td>
<td>Forintek Canada Corp.</td>
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<tr>
<td>Rowland Price</td>
<td>Delta Cedar Products</td>
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<td>Robert Sandve</td>
<td>Independent Lumber Remanufacturers' Association</td>
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### Parksville

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<thead>
<tr>
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<tbody>
<tr>
<td>Bob Askew</td>
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<td>Doug Brubaker</td>
<td>Forest Lumber Co.</td>
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<tr>
<td>Gerry Canuel</td>
<td>Aquila Cedar Products</td>
</tr>
<tr>
<td>Jim Chisholm</td>
<td>MacMillan Bloedel Limited</td>
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<tr>
<td>Mo Cyr</td>
<td>MacMillan Bloedel Limited</td>
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<td>Peter Fisher</td>
<td>Ministry of Forests</td>
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<tr>
<td>Arnold Harasymchuk</td>
<td>Ministry of Economic Development, Small Business and Trade</td>
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<tr>
<td>Brian Hawrysh</td>
<td>BC Wood Specialties Group</td>
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<tr>
<td>Ken Lott</td>
<td>Barkley Sound Marine</td>
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<tr>
<td>Bruce McIntyre</td>
<td>Price Waterhouse (Co-chairman)</td>
</tr>
<tr>
<td>Ken McKinnon</td>
<td>Pacific Group</td>
</tr>
<tr>
<td>Jim McWilliams</td>
<td>Wood Products Consultant (Co-chairman)</td>
</tr>
<tr>
<td>Archie Rafter</td>
<td>MacMillan Bloedel Limited</td>
</tr>
<tr>
<td>John Stephen</td>
<td>Ministry of Forests</td>
</tr>
<tr>
<td>Roy Summerhays</td>
<td>Coombs County Services</td>
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<tr>
<td>Merv Walker</td>
<td>Molchan Cabinets</td>
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<tr>
<td>Derek Williams</td>
<td>Forintek Canada Corp.</td>
</tr>
<tr>
<td>Keith Wyton</td>
<td>Sarita Furniture</td>
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APPENDIX 5. WORKSHOP DISCUSSION

Finance

This topic focused on the ability of smaller manufacturers to obtain financing for the start-up, maintenance, or expansion of a business.

Sources discussed were:

- commercial banks
- Federal Business Development Bank
- Western Diversification Fund
- Export Development Corporation
- provincial programs
- British Columbia Trade Development Corporation

There are currently no provincial financial assistance programs available except export loan guarantees available from the British Columbia Trade Development Corporation. Some funds are available from Western Diversification for select projects, and alternative financing is available from the Federal Business Development Bank.

Several difficulties were mentioned:

- A high degree of security is required. A lending institution will usually look favourably on a long-term timber supply. A timber sale acquired under Section 16.1 is not usually considered because it is not transferable or renewable, and the term is usually limited to 5 years.
- Many companies found it difficult to obtain small commercial loans (e.g., $200 000).
- Lenders are not knowledgeable about the secondary manufacturing business.
- Onerous administration procedures and time delays were reported (particularly with government loan programs, most of which have been discontinued).
- Government loan guarantees (if available) often have a high up-front charge.
- There is no central source of advice about where and how to obtain financing.

Solutions suggested by participants:

- A provincial agency that could wholly or partially guarantee loans made by commercial banks was discussed. Some of the participants thought loan guarantees were preferable to outright grants as they would have less disruption in the marketplace for other companies. Those with experience with loan guarantees thought they were useful but expensive, and the approval process was slow.
- Financial incentives for new businesses, such as low-interest loans and tax incentives similar to those available in Washington State, should be considered for British Columbia.
- Government assistance programs, if developed, should be available to existing businesses as well as to new businesses.
Workforce

Product quality and customer service were perceived, by companies responding to the mail survey, to be the most important factors affecting business success. The skills and attitude of employees have a significant impact on quality and service. Training and workplace environment have a large impact on employee turnover and attitudes.

Skills training

The consensus indicated that training was conducted most effectively “in-house.” However, the need for external training was identified for highly skilled positions such as moulder or finger-joint operators. Several external sources of training were identified:

- B.C. Wood Specialties Group
  - Members can receive financial assistance for bringing in a technician from an equipment supplier.
  - Members can obtain course material from North Carolina State University or receive financial assistance to send a person to that university.
- Forintek Canada Corp.
  - Forintek offers both a kiln-drying course at their facility in Vancouver and an interactive computer course for home study.
  - Forintek holds courses on sawing technology and seminars on moulding and gluing.
- Conestoga College in Kitchener, Ontario offers diploma programs in woodworking, specifically in the furniture and millwork sectors.
- Individual consultants also offer in-plant training on moulders, finger-jointers, etc.
- BCIT has a millwork pre-apprentice program.

At one workshop, the need was expressed to have one central source of information about the training opportunities that are available. Rosenheim, the woodworking institute in Germany, was referred to as an example.

The participants felt that while the training needs of secondary manufacturers deserve more attention, current training programs meet most of the industry’s training needs. This conclusion is interesting since it conflicts with the perceived workforce quality problem identified in the questionnaire responses.

Workplace environment

Some of the initiatives companies were taking to improve the quality of work and maintain a reliable workforce included:

- effective deployment of employees to areas where they are best suited;
- job rotation;
- incentive compensation programs (i.e., gain-sharing); and
- job sharing, particularly for women with children.

There was some discussion that, for small manufacturers, the rigidity of a unionized workforce could be detrimental to operations, especially where job flexibility is required.
Marketing

Of the four main topics discussed, marketing appeared to be of the least concern. Sales were apparently not a problem compared with the lack of a steady wood supply from which to make products. This attitude appears to conflict with the survey results, which illustrate the poor financial performance of the industry. A marketing and pricing issue seems to be facing the industry. If demand currently exceeds supply, then prices should be raised to reduce demand to the supplies available. This issue should be pursued further.

In the area of general market development, it was felt that industry associations or Crown agencies could help by exploring markets for product opportunities or promoting British Columbia products. However, a one-on-one company/customer relationship is required to actually conduct business.

Assistance with export markets is available to members of the B.C. Wood Specialties Group. The group conducts trade missions and attends trade shows in Europe and Japan. The British Columbia Trade Development Corporation co-ordinates product inquiries with manufacturers and the B.C. Wood Specialties Group is active in this area. They can also assist with export credit arrangements.

Manufacturers have difficulty selling the second-grade, or fall-down, from their main product line. Manufacturers appeared to be less certain of pricing and whether they were capturing full product value. This apparent need for information could also be addressed by industry associations, assuming a willingness to share information.

Tariff and non-tariff barriers were also of some concern. Truss manufacturers face production complexities because of different building codes in each municipality. If these different code specifications could be rationalized, truss manufacturers may be able to reduce production costs.

Wood Supply

The raw material for non-integrated (independent), secondary manufacturers is usually lumber, or panel products such as plywood or particle board. There is a limited amount of wood fibre in British Columbia that is suitable for remanufacture into value-added products.

Larger companies typically obtain wood from their own primary sawmills. Smaller producers usually purchase their raw material directly from the primary producers or through brokers, although some also have sawmill facilities. The allocation of this limited resource between competing companies is an important issue. Before a solution can be developed, an inventory of the amount of resource suitable for remanufacturing should be made.

The smaller producers are concerned that they cannot obtain the raw material they want from the large companies. This did not appear to be as significant an issue in the Lower Mainland as it was in the Interior and on Vancouver Island. This may be due to the longer period over which the industry has been established in the Lower Mainland and to better development of supply relationships between producers. Three critical aspects of wood supply were identified: volume, specification, and price. Comments include:

- A limited supply of wood is available in the required specifications. Most specialties require the higher grades of lumber and plywood. The amount available from logs cut in British Columbia is limited. Most of the higher grade lumber is now exported.

- The standard specifications of commodity products were often not suitable in terms of size, grade, and moisture content.

- The volatility of commodity pricing presented problems for secondary manufacturers. Prices changed too frequently, and changes were too severe. This is a dilemma at the interface of two different industries, one that operates in the volatile world of international commodity markets and one in which prices are set less frequently.

The principal advantage of obtaining a timber supply was an improvement in the negotiating position of a secondary manufacturer relative to a primary producer. For many of the Bid Proposal Timber Sales, secondary and primary producers have formed joint ventures. The secondary manufacturer was then able to trade timber cutting rights for a contracted supply of lumber of the desired species, size, and quality.
However, many secondary producers felt that managing such timber supplies created business complications that they did not need, such as forest management and log conversion issues. Where possible, they would prefer to purchase lumber.

Others said that their actual experience with Bid Proposal Timber Sales was not satisfactory. For example, they claimed that: the allocation process did not adequately recognize the value of existing operations versus new proposals, proposal development was costly and time consuming, performance of the successful bidders often fell short of what was promised, and monitoring was inadequate. Representatives of the Ministry of Forests in attendance at the workshops indicated that many of the problems mentioned were rectified with new procedures implemented in 1991.

Most of the discussion at the workshops was about the extent to which wood supply to secondary manufacturers could be satisfactorily determined by market forces and to what extent there is a role for government, particularly in the area of fibre allocation.

Because most of the timber cutting rights in British Columbia have been obtained by large companies, they are potentially the largest source of supply. Independent manufacturers who have established a relationship with one or more large primary producers have a more assured supply than those who have not. Some examples of successful primary/secondary relationships were:

- In the southern Okanagan, Weyerhaeuser and Canwood Furniture have built up a supply arrangement over a 5-year period. The two companies have come to a mutually satisfactory arrangement on specifications, quantity, and an annual pricing agreement.
- On Vancouver Island, Raven Lumber (a primary sawmill) and Tyee Timber Products (a remanufacturing company) have negotiated a supply arrangement. Raven’s manufacturing focus is small pieces of common grade lumber for the Japanese market. The higher grade lumber (Shop and Better), is sold to Tyee for remanufacture. The price Raven receives is adjusted by the actual product out-turn at Tyee.

A thorough understanding of the respective manufacturing operations and a mutual appreciation of business issues were a prerequisite to these relationships. There was often lively discussion around the issue of whether lumber was available if secondary producers were willing (or able) to pay “market” prices, with examples raised of “not available even at a premium” to “can buy B.C. wood cheaper in the U.S.” Representatives of larger companies doubted these claims.

In many cases, the success of large commodity sawmills is due to high-volume, low-cost manufacturing processes, which are not conducive to short runs of different sizes or separate sorts by species and grade. This difference in business processes often creates difficulties in the supply relationship between primary and secondary producers. Despite these constraints, a co-operative, market-driven approach to resolving the supply issues was generally seen as the best solution in the long term, although many secondary producers were also pressing for a resolution of the problem in the short term as well.

**Government role**

There was considerable discussion about the advantages and disadvantages of the Ministry of Forests Small Business Forest Enterprise Program and, in particular, the Bid Proposal Timber Sales (Section 16.1).

Although the term “consensus” may be too strong, the general tone of the workshop discussions seemed to indicate that there is a role for government in this area. It was felt that government, industry, and other stakeholders should get together to develop a clear industrial strategy on the forest products industry, including primary and secondary wood products manufacturing.

Government encouragement of supply relationships to benefit the independent producers was another role. As discussed earlier, relationships between primary and secondary producers are beginning to develop. It should be recognized that the secondary industry is still in its infancy relative to
the primary sector, and business relationships should mature over time. This is already shown by what appears to be a greater degree of primary/secondary co-operation in the Lower Mainland, where the secondary industry has been established for a longer time than in other parts of the province.

Other Issues

An issue of significant concern to some manufacturers, especially in the Okanagan region, was the stringent regulations and timetable for compliance being imposed on the burning of wood waste. While the Ministry of Environment has developed control regulations, cost-effective alternatives to burning have not yet been found.

Another issue that surfaced at the workshops was the ease of establishing operations in the U.S. Pacific Northwest region. Local governments, in co-operation with financial institutions, were offering very attractive financing packages to attract businesses generating new employment opportunities.
### APPENDIX 6. COMBINED FINANCIAL STATEMENTS FOR THE VALUE-ADDED WOOD PRODUCTS INDUSTRY IN BRITISH COLUMBIA

#### Combined Statement of Earnings ($ millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Fiscal Year</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td>$1312.3</td>
</tr>
<tr>
<td>Cost of products sold:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wood (net of by-product revenues)</td>
<td></td>
<td>504.1</td>
</tr>
<tr>
<td>Labour and benefits</td>
<td></td>
<td>283.7</td>
</tr>
<tr>
<td>Other production costs</td>
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</tr>
<tr>
<td>Gross margin</td>
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</tr>
<tr>
<td>Depreciation and amortization</td>
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<td>27.6</td>
</tr>
<tr>
<td>Other expense (income)</td>
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<td>156.1</td>
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<tr>
<td>Interest expense</td>
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<td>21.8</td>
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<tr>
<td>Earnings before income taxes and unusual items</td>
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<td>13.6</td>
</tr>
<tr>
<td>Income taxes</td>
<td></td>
<td>6.8</td>
</tr>
<tr>
<td>Earnings before unusual items</td>
<td></td>
<td>6.7</td>
</tr>
<tr>
<td>Unusual items</td>
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<td>18.4</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td></td>
<td>$(11.6)</td>
</tr>
</tbody>
</table>

#### Combined Balance Sheet ($ millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Fiscal Year</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
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<td>$682.5</td>
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<tr>
<td>Liabilities and Equity</td>
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<tr>
<td>Short-term liabilities</td>
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<td>Long-term liabilities</td>
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<tr>
<td>Shareholders' equity</td>
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<td>239.4</td>
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<tr>
<td>Total liabilities and equity</td>
<td></td>
<td>$682.5</td>
</tr>
</tbody>
</table>