Forest Industry Lecture No. 38

Managing Change
Strategies for Future Challenges in the Forest Industry

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Forest Industry Lecturer
Forest Industry Lecture Series

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THE FOREST INDUSTRY LECTURE SERIES

The forest industry in western Canada cooperates with the Canadian Forest Service and the Alberta Environmental Protection Agency to provide funds to sponsor noteworthy speakers. This initiative significantly enriches the Renewable Resources Program in the Faculty of Agriculture, Forestry and Home Economics at the University of Alberta.

The Forest Industry Lecture Series was started during the 1976-77 University term as a seminar course. The late Desmond I. Crossley and Maxwell T. MacLaggan presented the first series of lecturers. The contributions of these two noted Canadian foresters is greatly appreciated.

Subsequent speakers in the series have visited for periods of up to a week, with all visits highlighted by a major public address. Visitors have come from throughout North America, Europe, Africa and Asia. Their talks have dealt with a wide range of topics, such as: forest ecology, forest science, silviculture, wildlife management, forest management, ecosystem management, lumber and paper sales, labor, international trade, forest economics and forestry-related social issues. Speakers have been scientists, industry and business leaders, senior government officials, academics and forestry alumni. A complete list of the speakers and their topics is presented at the end of this pamphlet. Copies of most presentations are available from our Department Office upon request.

The following paper contains the text of the talk presented by George R. Richards, Chairman, President and Chief Executive Officer of Weldwood of Canada Limited, Vancouver, B.C. on 20 March 1997.

SPONSORS

We take this opportunity to thank again the sponsors of the 1997 program. We greatly appreciate their willing and sustained support, through which we have been able to provide the latest concepts and practices of forest management from around the world to the foresters and forestry students within Alberta. Also because of this Series, we have been able to showcase the excellent forest management practices in Alberta to foresters elsewhere. We are of course dedicated to the goal of understanding and teaching people about forestry in Alberta and elsewhere. This program allows us to do just that, and for that we are grateful.

We identify with pleasure the following companies and organizations, who sponsored this lecture. They are:

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George R. Richards

George Richards was appointed Weldwood's Chairman of the Board in April, 1996. He became President and Chief Executive Officer of Weldwood of Canada Limited one year prior. He is a graduate of the University of British Columbia with a Bachelor of Science degree in Forestry. Mr. Richards joined Weldwood in 1974, becoming General Manager of Babine Forest Products in 1975. He held several senior management positions in the Interior of B. C. and in corporate offices before becoming President.

Mr. Richards is a Registered Professional Forester, a member of the Canadian Institute of Forestry, a Director of Forintek Canada Corp., a Director of Canfor-Weldwood Distribution Ltd., a Director of Seaboard Shipping Co. Ltd., a member of the Board of Governors, Business Council of British Columbia, a Director of the Canadian Pulp and Paper Association, Co-Chair of the Western Wood Products Forum, a Past Chairman of the Council of Forest Industries of B.C. and the Cariboo Lumber Manufacturers' Association.

I am pleased to be here today. The University of Alberta's Forest Industry Lecture Series has become an excellent forum for communicating current perspectives on the forest industry.

I wish to congratulate Dean Morrison and Dr. Woodard for their efforts in continuing this valuable series, and to the program's 20th anniversary.

The University of Alberta is a key institution of higher learning in Canada, and certainly a key contributor to the forest industry, not to mention our company. Graduates from the University of Alberta can be found in our operations in this province as well as in British Columbia. They contribute significantly to making Weldwood a stronger company. There is a great deal of interaction between Weldwood and this university and I encourage this to continue.

The theme for my presentation is **"Managing Change"**. As I reflected on my career during the preparation of this presentation, I noted that the only constant throughout my business life, no matter what I was doing, has been managing change.

My presentation today will deal with:

- importance of the industry
- major challenges from our changing business environment
- Weldwood's strategy to meet these challenges, and
- skills required for the future

Before I begin, I thought I would spend a few moments on Weldwood and my career. Weldwood is a Canadian-based forest products company, headquartered in Vancouver. We are a wholly-owned subsidiary of Champion International Corporation, one of the world's largest paper manufacturers.

While you are probably familiar with our company through our pulp, sawmill and forest resources divisions in Hinton, we also operate in five British Columbian communities.

In addition to our Alberta facilities, our thirty-two hundred employees produce pulp at our Cariboo Mill in Quesnel, softwood plywood in Williams Lake and Quesnel, lumber in Houston, Burns Lake, Quesnel and 100 Mile House, as well as remanufactured lumber in Burns Lake. Weldwood also holds a 50 per cent interest in Can-Wel, a building materials distribution business with a network across Canada.

We market our products around the world. Last year our net sales were roughly a billion dollars. That's Weldwood in a nutshell. Now, I want to spend a minute on my background.

After graduating from the University of British Columbia with a degree in forestry in 1959, I began working in the woods in B.C. In those days the major focus was developing and supplying the plants with wood. I worked in this area for the first ten years of my career. In 1970 I became involved in my first sawmill and within the next five years, I was responsible for the construction and operation of three large sawmills.

By this time I had joined Weldwood, and I was soon introduced to plywood. About two years ago I became responsible for all of Weldwood operations including the pulp mills.

Importance of the Industry:

Before getting into the challenges facing the industry, I would like to emphasize the importance of the forest industry to Canada. One in every fifteen Canadians is employed in forestry, or about 370,000 direct jobs and about 510,000 indirect jobs. This translated into $10 billion in industry salaries and wages in 1993. Canada is the largest exporter of forest products in the world, accounting for roughly 15 per cent of total forest products. Forestry is Canada's largest industry with more than $53 billion in sales in 1995. Forestry also contributed $28 billion to Canada's net balance of trade in 1994.

Without forestry, Canada's net balance of trade would be close to a $4 billion deficit. This is an important point because our balance of trade is critical to maintaining our country's wealth. A healthy economy also translates into a healthy environment, healthy balance sheets and tax revenues that support our social programs. It is worthy of note that Alberta's forest industry has been the country's largest growth area during the past eight years. Industry sales have increased from $800 million in 1988 to over $4 billion in 1996. Forestry is now the province's third largest primary industry.

These statistics illustrate that the consequences of our industry <u>not</u> being successful are dire for our country. As a Canadian, I am concerned for our country's standard of living, our ability to maintain our impressive social services net, and our position among the world's leading industrial nations.

Changing Business Environment:

There are a number of major challenges that we face from our changing business environment. They include:

- Society's expectations for forest practices have changed significantly over the last ten years, and continue to be a major challenge. No matter how good this industry thinks it is, the public and our customers' **perceptions** about our industry, our environmental performance and contribution to society are the key issues. The industry must deal with perceptions and confront society's concerns face to face.

- The competitive threat from lower cost regions of the world is a second major challenge. While our fibre costs are increasing, pulp capacity in Indonesia and Brazil, which is based on low cost eucalyptus, pine and acacia plantations, presents serious competition. A five or six year crop rotation is simply mind-boggling! In addition, fibre costs at Champion's pulp and paper facility in Brazil are approximately $120 per metric tonne of pulp, compared to approximately $200 here in Alberta. Total cash manufacturing costs for pulp in Brazil are estimated to be less than $300 per metric tonne, roughly two-thirds the cost of producing pulp in Canada.
- Increasing costs from bureaucratic regulatory processes have become a significant issue in British Columbia. Ultimately, high costs jeopardize investment and the future of our industry. The co-operative relationship between industry and government in Alberta provides greater opportunities, from dealing with everything from the environment through to global marketing.
- We are reaching the limits of forest expansion in North America. This factor is driving the tremendous volatility in prices for our products. In a number of regions the industrial forest landbase is shrinking due to land use decisions such as preservation and right-of-ways. These withdrawals threaten the forested land base that currently supports our industry. However, these resource constraints have driven the industry to become more innovative and develop new products from wood fibre such as OSB and I-beams.
- Currency volatility has been a critical factor in our industry's competitive position. Only a few years ago when our dollar was worth 89 cents (U.S.) most of the industry was not competitive. Today our concern is not only a rising Canadian dollar relative the U.S. dollar,

but also the rise of the U.S. dollar compared to world currencies. The threat of a strengthening dollar together with rising wood costs jeopardizes our competitive position.

- The U.S. trade action against Canadian softwood lumber has consistently reared its head since the early 1980s. The latest agreement restricting lumber shipments to the U.S. is a major intrusion in North American markets and impacts lumber prices, volatility, and our competitiveness. The result has been to invite duty-free Scandinavian lumber as well as substitute products such as steel and plastic.

All of these challenges from our changing business environment relate to two fundamental issues, **environmental stewardship** and **global competitiveness**. .

It could be argued that environmental stewardship is part of being competitive. In certain markets stewardship is one criterion customers use when making the purchasing decision. However, I believe it is a broader issue than that.

We have all seen graphic projections of the earth's population growth and the corresponding demand for forest products. Currently, we are experiencing exponential population growth; and society as a whole is justifiably calling for sustainability and stewardship. The forest industry is fortunate to be based on a resource that is renewable and sustainable. However, responding to growing societal concerns and achieving high levels of environmental performance, requires commitment and management. I believe the forest industry is responding by developing environmental management systems. A second response, driven by the concern for sustainability and market access, is the Canadian industry's efforts to establish a CSA standard for stewardship and sustainability. This standard will be further developed to the international standards organization for an ISO standard.

The environmental movement has been a plus for the forest industry from the perspective that it has resulted in improved management of our forest resources. There was a need to gather sound ecological data on which good management decisions can be based.

Now, I would like to turn to the second fundamental challenge from our dynamic business environment --- that is achieving global competitiveness. The only guarantee export-dependent forest products countries have regarding jobs, taxation and social programs, is that they are globally competitive. The majority of the Canadian industry's products, pulp, paper, lumber and structural panelboard, are predominantly commodities which are driven by cost, quality, and service.

Governments at the community and provincial levels play an important role. There is a need to work together to develop a common understanding and sense of direction. Alberta is on the right track in this regard. To benchmark, however, we must remember our global competitors such as the U.S. South, Eastern Canada, Scandinavia, Brazil, Chile, and Indonesia.

Technology is an important tool to achieve competitive costs. Investing in technology is one component. However, equally important is the skill of employees at applying this technology. Training and development, and the ability of a workforce to work as a team are critical to success in this area.

It has been said that the nineties is the decade of the customer. There is no question that customers are demanding more quality and service. High performance in these areas requires understanding the customer's needs both at the manufacturing unit and throughout the "supply chain". As an industry, we have focused our attention on performance within our manufacturing units. I believe there are significant opportunities to be gained by placing the same intense scrutiny on the supply chain. The starting point in this process is to learn more about what the customer values.

Global competitiveness also comes from creating more value from our forest resources. Marketing is a key factor in identifying the highest value products that match the particular fibre characteristics of the resource. Once the products are identified the process to create value is one of continuous improvement. Creating an atmosphere that fosters employee innovation and working together is important to achieving competitiveness and high performance.

Many industry analysts say that size plays an important role in global competitiveness. Forest products companies are becoming more global and consolidating. Most of the examples come from Europe, the U.S., and Japan. Recent examples are Abitibi and Stone Consolidated, and Avenor and Repap.

As an illustration, International Paper had sales of $4 billion in 1985 and $20 billion in 1995. A growth of five times over the period. Canadian companies are dwarfed by these giant global companies. Canada's largest forest products company was twenty-sixth in the world in 1995.

Largest Public Forest Companies (U.S. $ millions)

1995	Company	Country	1995 Sales $
1	International Paper	USA	19,797
2	Georgia Pacific	USA	14,292
3	Kimberly-Clark	USA	13,789
12	Champion International	USA	6,972
26	MacMillan Bloedel	Canada	3,837

Factors Driving Consolidation:

The primary factor driving consolidation is the financial resources required to make huge capital investments. It now takes $2 billion to build a pulp and paper facility. Size is also important to finance global marketing and R&D programs.

The fact that our customers are consolidating is driving producers to do the same. The advantage here is marketing strength. The growth in huge retail operations such as Home Depot and Lowes on the wood products side, and Kimberly-Clark or Stora on the paper side, are good examples of customer consolidation.

Weldwood's Approach:

I have dealt with the more generic approaches to environmental stewardship and achieving global competitiveness. Now I would like to tell you how Weldwood is approaching these challenges.

Weldwood's efforts in environmental stewardship have been significant. In the past ten years we have invested almost $200 million in our pulp mills in Hinton and Quesnel to reduce AOX, increase oxygen levels in effluent and decrease air pollutants. Other industry representatives here today have also made significant investments in a cleaner environment.

Weldwood is in its sixth year of mill site environmental audits and fifth year of forest stewardship audits. The latter of which are carried out by independent audit teams. This spring Weldwood's Hinton division achieved Alberta's Forest Care Certification.

A great deal of effort is made to inventory and understand our forest resources. We are using GIS technology to handle the data base and assist us with forest management. Our foresters travel throughout North America, Europe, and Brazil to assess stewardship practices. It is interesting to note that our Hinton operation has attracted a number of the world's leading companies to view our technology in forest practices and research.

Externally, we are working with associations such as the Canadian Pulp and Paper Association (CPPA) and the Alberta Forest Products Association (AFPA) and other groups on environmental stewardship. The Foothills Model Forest which includes Hinton is a good example. This working model for sustainable development is a partnership between our company, the Canadian Forest Service, the Alberta Department of Environmental Protection, Jasper National Park and about 70 other participants which includes the University of Alberta. Together we research a variety of harvesting, wildlife, ecological and other initiatives to improve our forest stewardship practices. As a company, it is one thing to be proactive with environmental stewardship activities, but it is equally important to communicate our story to the public and our customers. We take this challenge very seriously.

Weldwood's effort to achieve global competitiveness is characterized by our search for continuous improvement. We have had a successful record of business performance based on the industry benchmark of return on capital employed. Recently, we developed and implemented strategies that we believe will maintain our record and help to address the global competitiveness issue.

Three strategies make up what we call "our commitment".

- applying technology
- working together
- creating maximum value

It is not a coincidence that these three strategies are closely aligned to the generic strategies I talked about a few moments ago.

Applying technology means both acquiring competitive technology and working together with our employees and suppliers to get the most from it. Activities include training programs and involving our operators and tradespeople in equipment selection. The results are lower unit costs, reduced downtime, improved equipment selection and faster start-ups. Other benefits include enhanced employee skills, and employee pride and ownership in the business.

Our second strategy is creating maximum value. The principles I spoke about earlier are being applied at Weldwood. A good example of a significant investment to create value is our $125 million new sawmill and plywood mill upgrade at Quesnel. The products from these mills will be targeted at the Japanese traditional home market. Our plywood will be sized to three by six feet rather than four by eight feet. This strategy helps us expand our customer and geographic base while enhancing our profit margins. Creating value starts in the woods with improved utilization and log manufacturing. Today there is more emphasis on log sorting, log allocation, and log trading to get the log to the mill that can extract the highest value.

Our third strategy is working together. As simple as this sounds, many companies do not do this well. Within Weldwood, our approach is to provide training and development, business education, and to use organizational processes that will improve how we work together. We believe our employees will find work more rewarding as they become more involved in the business, and their ideas are encouraged. Working together also includes working with our unions and other stakeholders such as our operations' communities, governments, suppliers, and universities.

The last point I covered on global competitiveness was company size. Weldwood is part of a large forest products company, Champion International. Champion has had operations in the U.S., Canada and Brazil for over thirty years. From our experience we know that size enhances opportunities in areas such as research, marketing, and best practices at our forestry and mill operations. One example is Champion's large pulp and paper research facility in West Nyack, New York that has helped to improve the quality of our pulp.

Each part of a global company can contribute a variety of strengths to the business. For example, our foresters recently visited Champion's forestry centre to talk about our forest audit process and other technical issues. Champion's expertise in forest genetics on southern pine in the U.S. South and on eucalyptus in Brazil offers opportunities to exchange ideas.

We believe these strategies will place us in good stead to continually improve in all areas of our operations, and to be successful over the long term.

I would like to conclude with a few of my ideas about the skills that will be required for graduating students, our future "change masters".

Students should expect to function in a multitude of areas outside of the realm of forestry. You should also expect to be judged on how well you manage change in all of these areas.

You will undoubtedly be part of a team expected to assist in stickhandling through environmental demands, better environmental management systems, communications, negotiations with a variety of stakeholders, cost control, research and innovation. You will also be required to act as strategists in maintaining profitable and acceptable operations. No small task!

Three issues will follow you throughout your career. Given the impact each could have on your business, you can be assured that you will be expected to deal with them. They include:

- working with land base pressures.
- increasing the productivity of the landbase.
- ensuring your business is competitive in a global environment.

The magnitude of any one of these issues is enormous. Together, they present a major challenge and opportunity for your personal growth. Your talents and innovation in these areas will be critical in maintaining Canada's leadership in forestry.

I don't want to leave you with the impression that being a generalist is the only alternative. There is also a need for the specialist whether it is in logistics, wildlife management or research. Innovative minds, strong technical skills, excellent people skills, and people who are not afraid of taking a chance will be highly valued.

While our world is a lot more complex than it was 40 years ago, I believe our youth is better educated to deal with these complexities. As future change masters, you are in for an exciting, challenging and rewarding career. I wish I were 40 years younger. I would do it all over again!

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