Tactical and Strategic Market Planning in Principle and Practice

     

Forest Products Marketing Workshop
3-6 April 2006, Novi Sad, Serbia and Montenegro

Agenda

- Environment & participation
- Strategies
  - Products
  - Customers
  - Geographical area
  - Competitive advantages
- Structures (Facilitate necessary relationships & implementation)
  - Organization
  - Distribution
- Functions (On-the-ground activities needed for execution)
  - Marketing communication
  - Pricing
- Discussion

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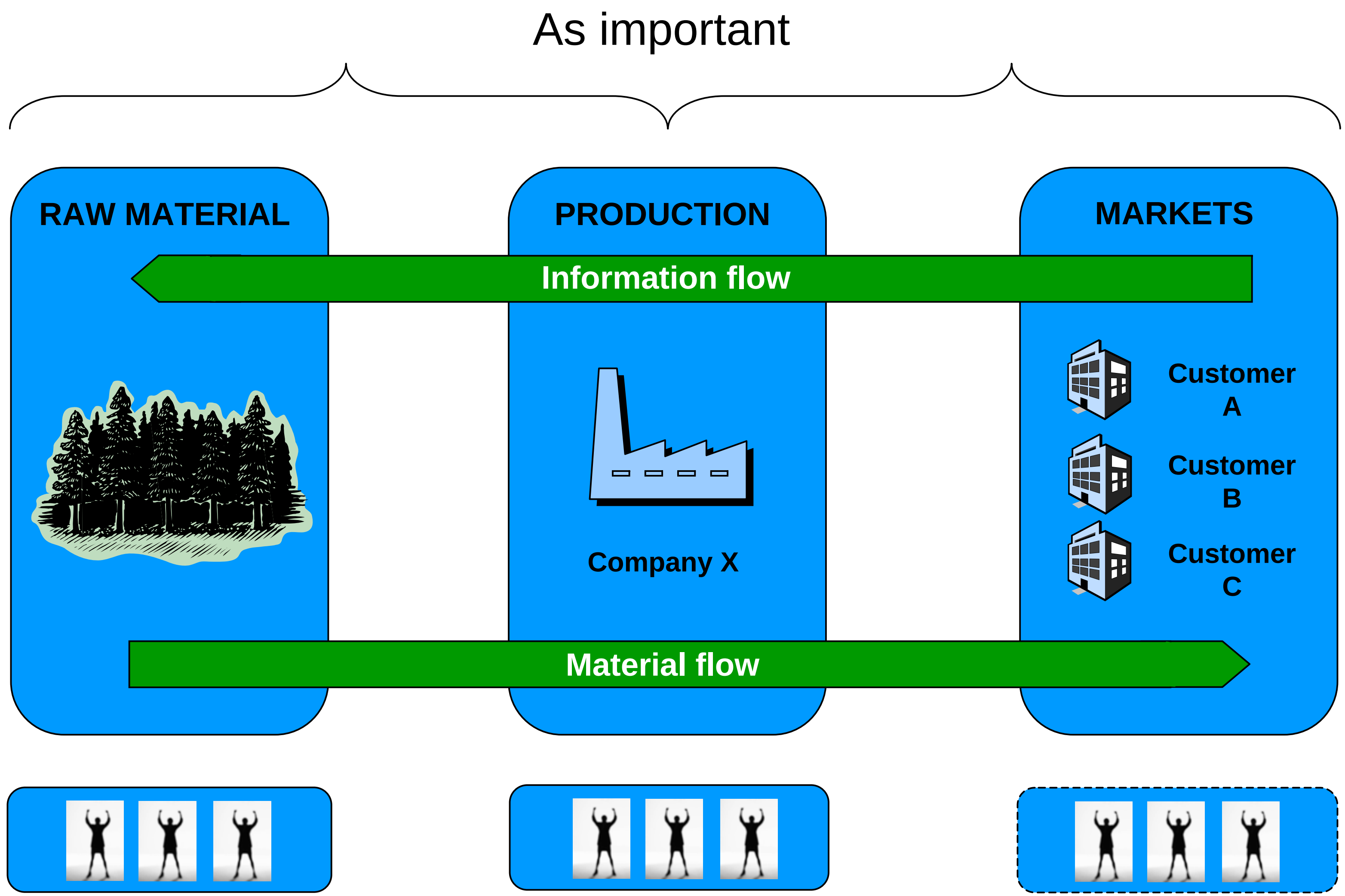
Market Planning Environment & Participation



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Strategies – Products in Principle

- Commodity, special or custom-made
- Characteristic
  - Quality
  - Dimensions
  - Lengths
- Realistic
  - Raw material
  - Production process
  - Sales

Strategies – Products in Practice

Particleboard – Product Description and Key Characteristics

- Particleboard is a wood-based panel made of small wood particles bonded together normally with an interior type resin (UF, urea formaldehyde). Small amounts of exterior grade particleboard bonded with phenolic resin are also being produced. The board is typically of three-layer construction where fine particles are on the surface and coarse particles in the core.
- The wood raw material can consist of small, low value round wood, and of various industrial wood residues such as chips, saw dust and planer shavings. Both softwoods and hardwoods can be used successfully.
- The density of the board is 600-800 kg/m^3 depending on the board thickness, end-use and the density of the wood raw material,. The width of the board is 1220-2750 mm and the length 2440-7300 mm. The thickness range is typically 6-40 mm.
- Overlaying, mainly with melamine film, is a standard feature in the European particleboard industry and in most cases mills overlay 60 – 75% of their output. The major companies have also their own melamine film impregnating lines.

Strategies – Products in Practice

	CONSTRUCTION		INDUSTRIAL END-USES			
	BOARDS, PAR	CONSTRUCTION SAWNWOOD*	FLOORING/ CLADDING	MOULDINGS	FURNITURE/EGP	WINDOWS/DOORS
Sawnwood Use	Pine: 450 000 Spruce: 150 000	Pine: 50 000 Spruce: 700 000	Pine: 215 000 Spruce: 135 000	Pine: 350 000 Spruce: 40 000	Pine: 230 000 Spruce: 200 000	Pine: 290 000 Spruce: 90 000
Main Dimensions (nominal size)	22x75/100/125/150/175 25x75/100/125/150/175/200 50x50/100/125/150/175/200	36x100/125/150/175 47x100/125/150/175/ 200/225/250	22x125/150/175 25x125/150/175	19x100/125 25x100/150 38/50x75-225 50x100/125/150	***Furniture:*** 50x100/115/125 25x50/75/100/150/175 ***EGP:*** 22x100/150/200 (planed)	***Windows:*** 50x125/150; 63x100/150/175; 75x100/150 ***Panel doors:*** 22/50X100 ***Door linings:*** 32x100-175
Lengths	Random 3.0 - 5.4	Random 3.0 - 5.4	Random 3.0 - 5.4	Random (3.0-5.4)	Random	***Windows:*** Random ***Panel doors:*** 2.1/2.4 ***Door linings:*** 4.2/5.1
Quality	U/S, VI	TR 26, for roof trusses MC 24, (C 24 can also be visual sorted)	VI and better	U/S, V, VI	***Furniture:*** "knotty pine" ***EGP:*** SF	***Windows:*** U/S, SF ***Panel doors:*** "knotty pine" ***Door linings:*** SF
Moisture	KD 18%	KD 18%	KD 16-18%	16-18% or further KD to 10-12%	10-12%	***Windows***: 16-18% ***Doors:*** 10-12% 14-16% (linings)

Strategies – Products in Practice

	Center-cut			Sideboards	Domestic GOST
	U/S	IV	V		
The UK	10 000 m^3	10 000 m^3	10 000 m^3	10 000 m^3	
France	5 000 m^3				
Spain	5 000 m^3	10 000 m^3	5 000 m^3		
Italy	5 000 m^3				
Other W-E	5 000 m^3	5 000 m^3	5 000 m^3	10 000 m^3	
N-Africa		25 000 m^3	25 000 m^3	30 000 m^3	15 000 m^3
M-East		25 000 m^3	15 000 m^3	20 000 m^3	15 000 m^3
Kazakhstan, China, Japan, The USA		5 000 m^3			
TOTAL	30 000 m^3	80 000 m^3	60 000 m^3	70 000 m^3	30 000 m^3

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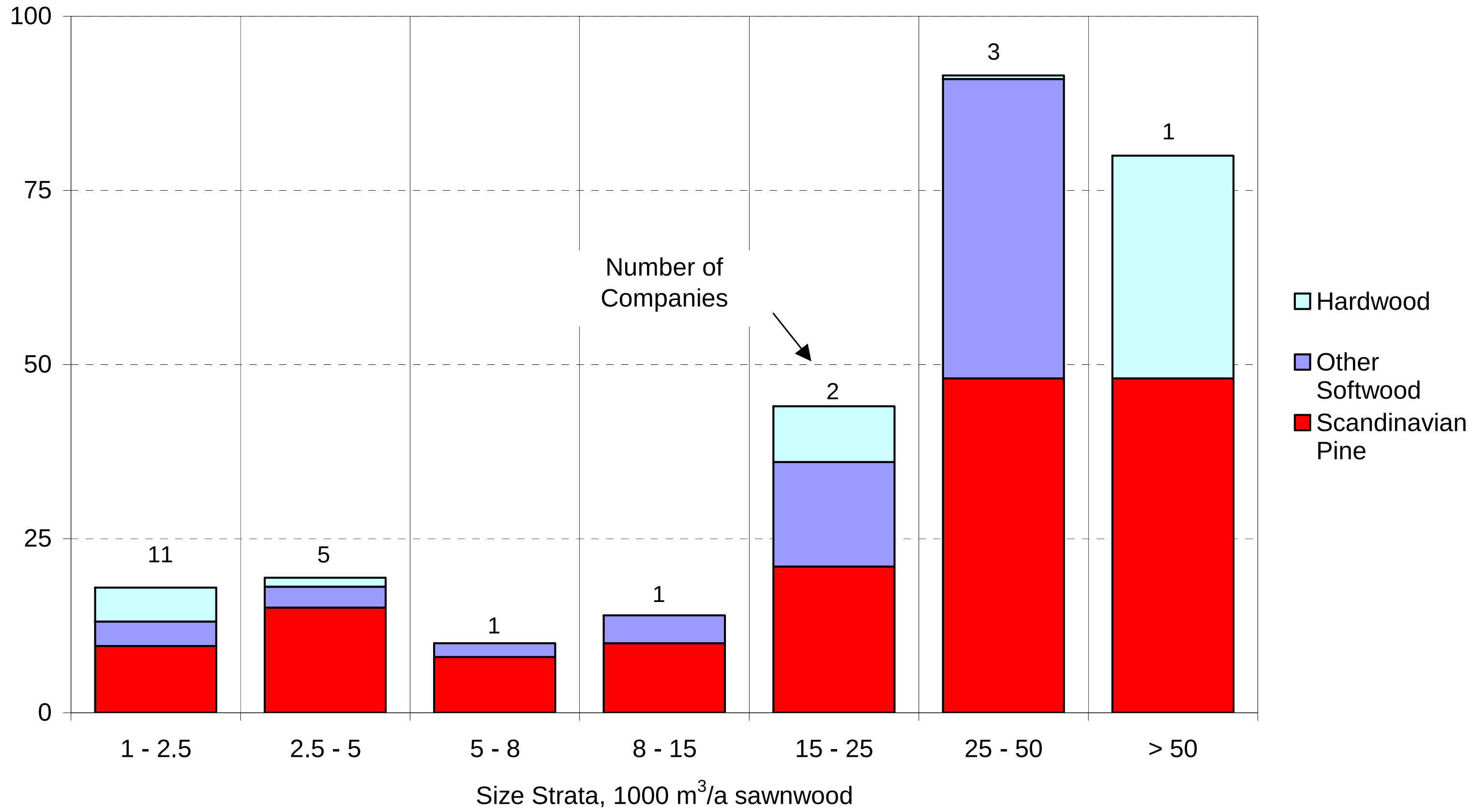
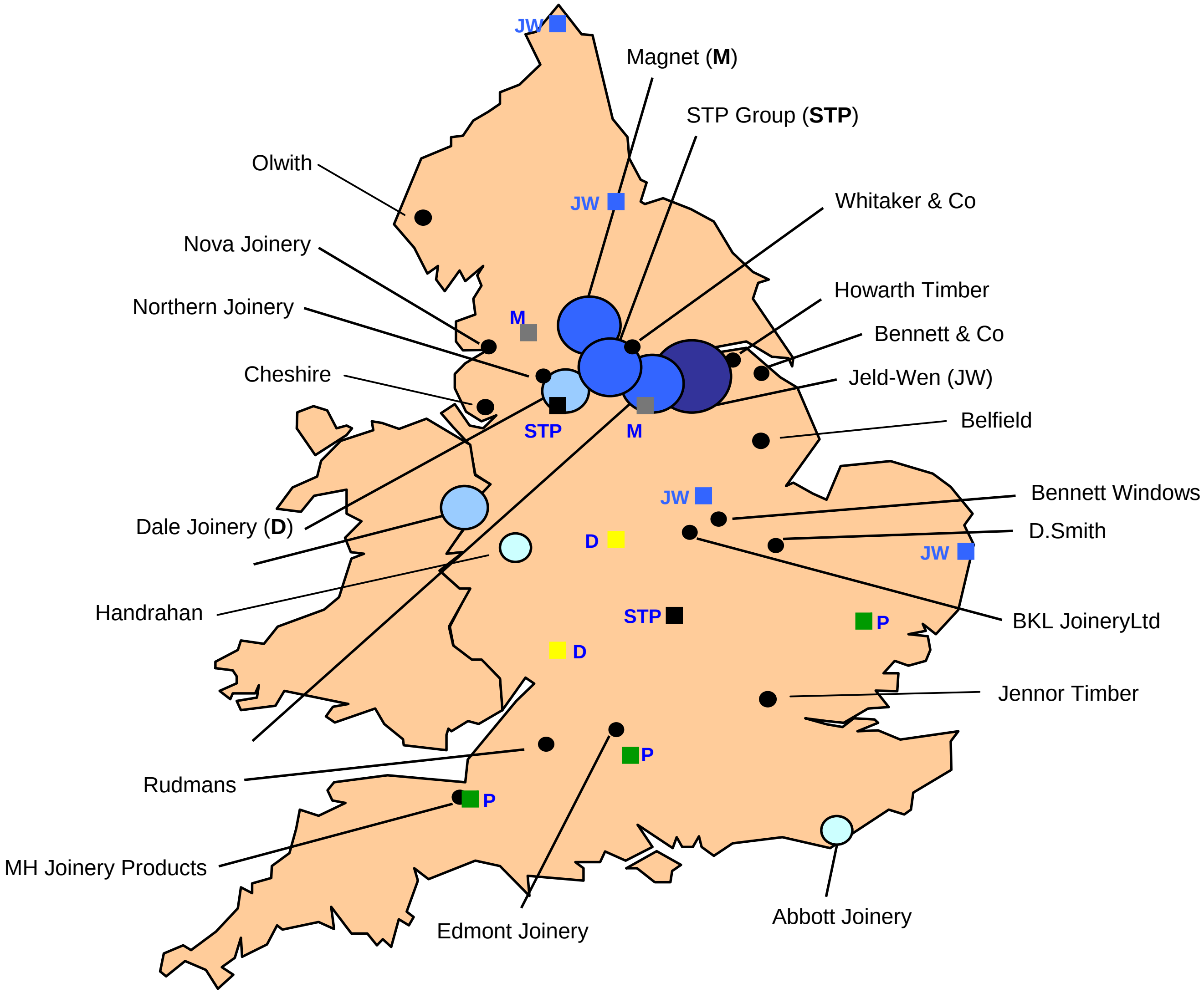
Strategies – Customers in Principle

- As many as possible, few well specified or known
- Middlemen vs. final end user
  - E.g. agent vs. furniture company
- Overall picture in the selected end use segment(s)
  - Industry structure
  - Size
  - Location
  - Key personnel (procurement & production)

Strategies – Customers in Practice



Strategies – Customers in Practice



Strategies – Customers in Practice

SECTOR	COMPANY	LOCATION	CONTACT INFO	WOOD USE (m^3/a)
Trader	KDM	The Havens	Contact Person: Mr Andrew Walsh	
Importers	Howa			
Distributors	Tsar			
Importers	Cove Builde			
Importers	Ridge			

SECTOR	COMPANY	LOCATION	CONTACT INFO	WOOD USE (m^3/a)
Furniture (Kitchens)	Hygena-MFI	MFI Furniture Group Southon House 333 The Hyde Edgware Road London, NW9 6TD	Tel: + 44 208 200 80 00 Fax: + 44 20 8200 8636 Website: www.mfigroup.co.uk	25 000-50 000
Furniture (Beds)	Silent Night Beds	Barnoldswick Lancashire BB18 6BL	Contact Person: Ian Nackie Tel: + 44 1282 81 58 88 Fax: + 44 1282 81 68 40 Website: www.silentnight.co.uk	25 000-50 000
Furniture (Beds)	Airsprung Beds	Canal Road Trowbridge Wiltshire BA14 8RQ	Contact Person: Mr Peter Mander Tel: + 44 1225 75 44 11 Fax: + 44 1225 77 74 23 Website: www.airsprungbeds.co.uk	15 000-25 000
Furniture (Components)	Peter Ramsey	Wellington Street Sawmills Sticker Lane Bradford BD4 8BW	Contact Person: Mr Mike Ramsey Tel: + 44 1274 65 65 63 Fax: + 44 1274 65 65 05 Website: www.ramsey-uk.com	25 000-50 000

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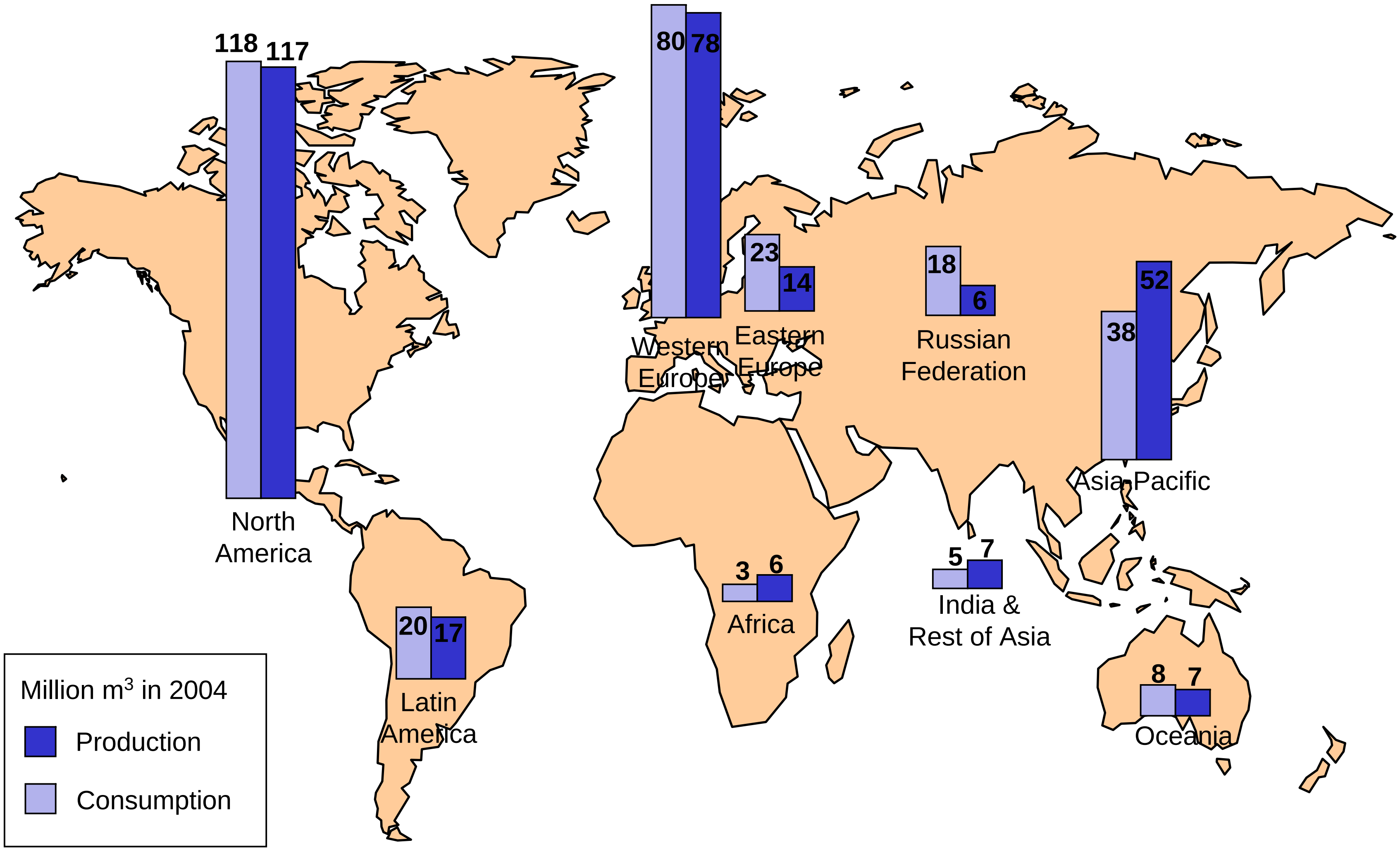
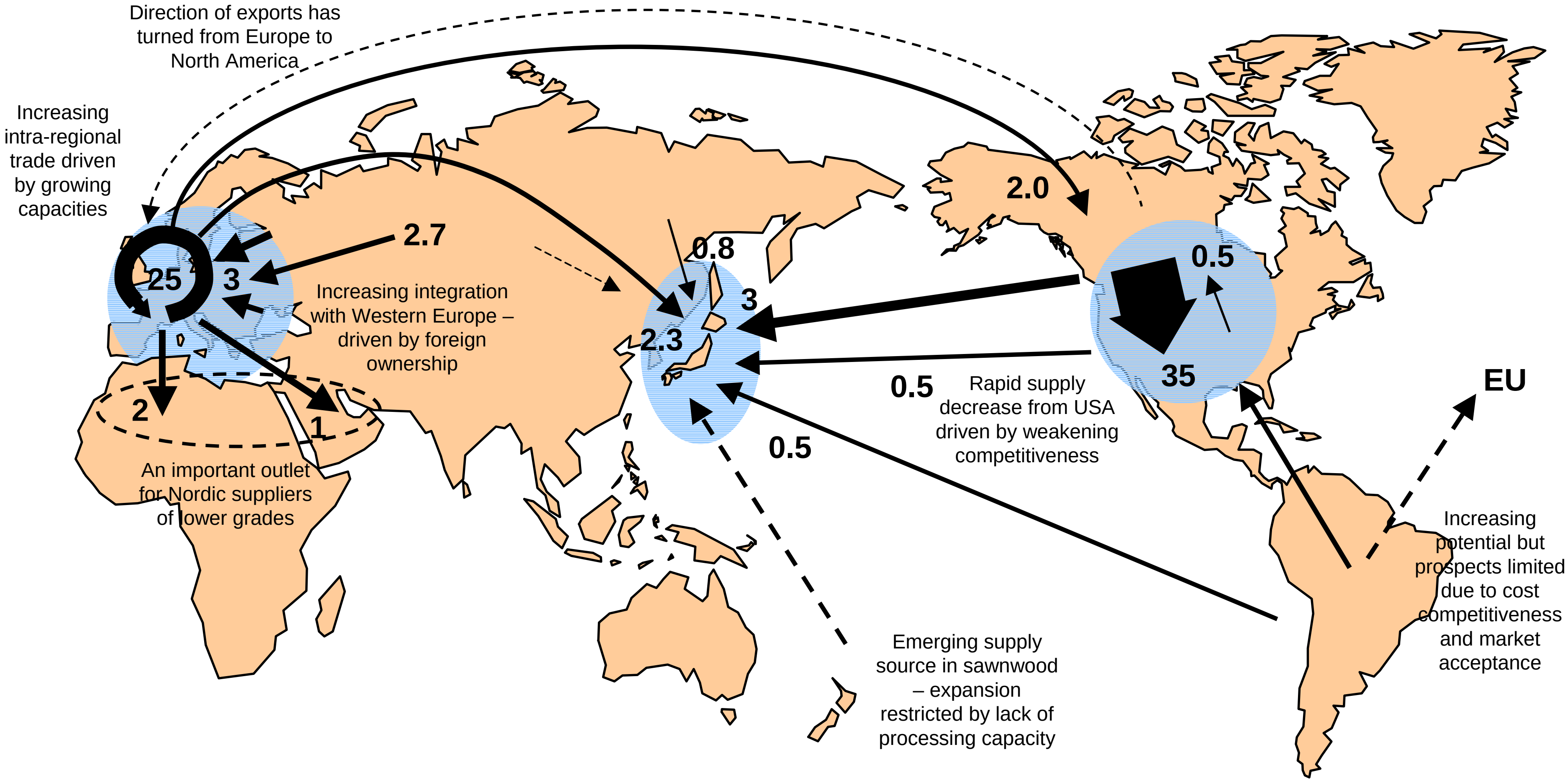
Strategies – Geographical Area in Principle

- As many as possible or few well specified
- Overall picture
  - Global or national
  - Competing suppliers
  - History and outlook

Strategies – Geographical Area in Practice

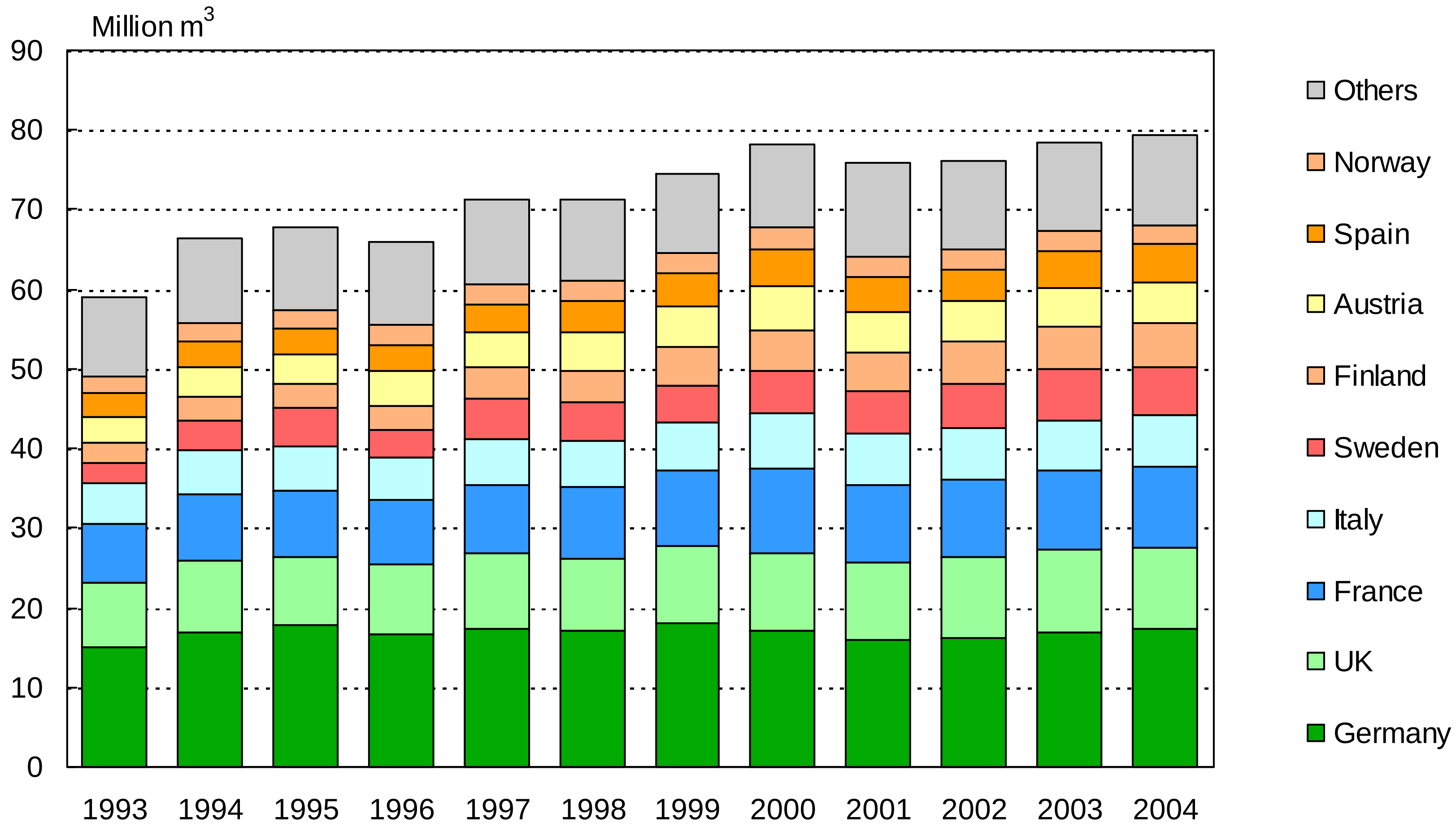


Strategies – Geographical Area in Practice

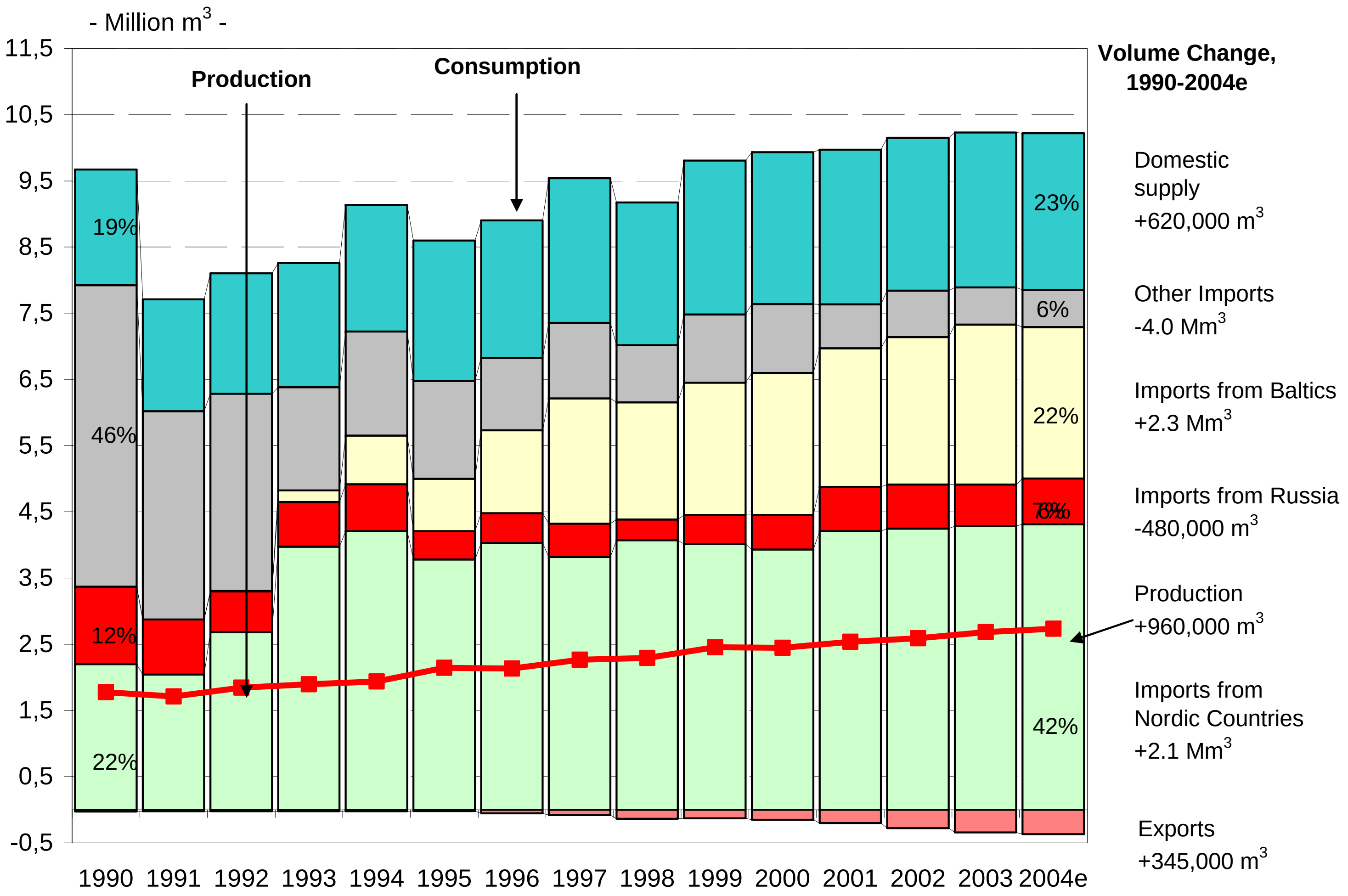


– Major Trade Flows, in Million m^3 –

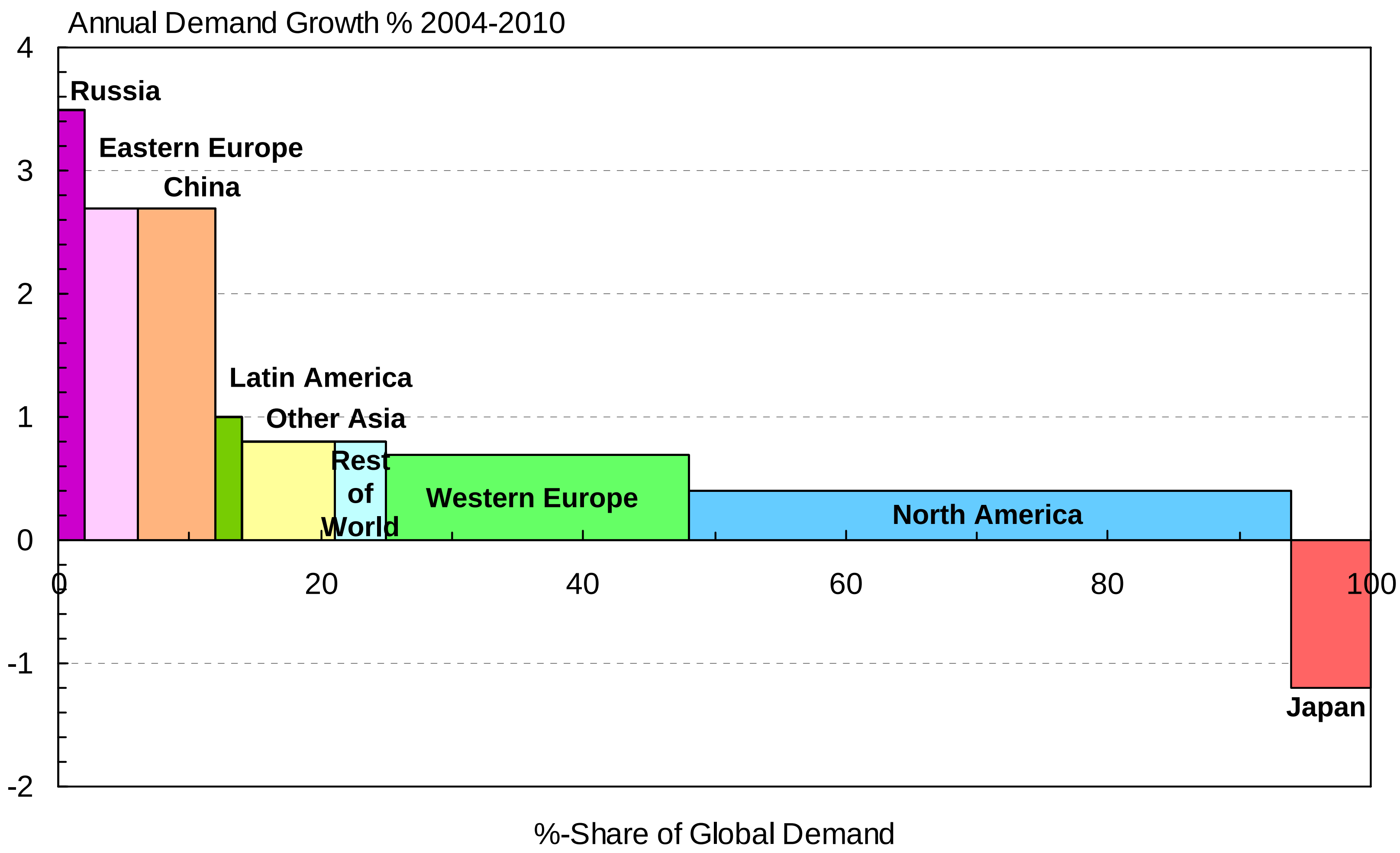
Strategies – Geographical Area in Practice



Strategies – Geographical Area in Practice



Strategies – Geographical Area in Practice



Strategies – Geographical Area in Practice

<table>
<tr><th></th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th></tr>
<tr><td>The UK</td><td></td><td>45 000 m^3</td><td>55 000 m^3</td><td>65 000 m^3</td><td>60 000 m^3</td><td>55 000 m^3</td></tr>
<tr><td>France</td><td></td><td>5 000 m^3</td><td>7 000 m^3</td><td>9 000 m^3</td><td>8 000 m^3</td><td>6 000 m^3</td></tr>
<tr><td>Spain</td><td></td><td>20 000 m^3</td><td>23 000 m^3</td><td>26 000 m^3</td><td>25 000 m^3</td><td>24 000 m^3</td></tr>
<tr><td>Italy</td><td></td><td>10 000 m^3</td><td>15 000 m^3</td><td>20 000 m^3</td><td>20 000 m^3</td><td>20 000 m^3</td></tr>
<tr><td>Other W-E</td><td></td><td>30 000 m^3</td><td>40 000 m^3</td><td>50 000 m^3</td><td>47 000 m^3</td><td>45 000 m^3</td></tr>
<tr><td>N-Africa</td><td></td><td>95 000 m^3</td><td>100 000 m^3</td><td>110 000 m^3</td><td>100 000 m^3</td><td>80 000 m^3</td></tr>
<tr><td>M-East</td><td></td><td>75 000 m^3</td><td>80 000 m^3</td><td>90 000 m^3</td><td>80 000 m^3</td><td>70 000 m^3</td></tr>
<tr><td>Kazakhstan</td><td rowspan="4"></td><td rowspan="4">10 000 m^3</td><td rowspan="4">40 000 m^3</td><td rowspan="4">80 000 m^3</td><td rowspan="4">110 000 m^3</td><td rowspan="4">150 000 m^3</td></tr>
<tr><td>China</td></tr>
<tr><td>Japan</td></tr>
<tr><td>The USA</td></tr>
<tr><td>TOTAL</td><td></td><td>270 000 m^3</td><td>360 000 m^3</td><td>450 000 m^3</td><td>450 000 m^3</td><td>450 000 m^3</td></tr>
</table>

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Strategies – Competitive Advantages in Principle

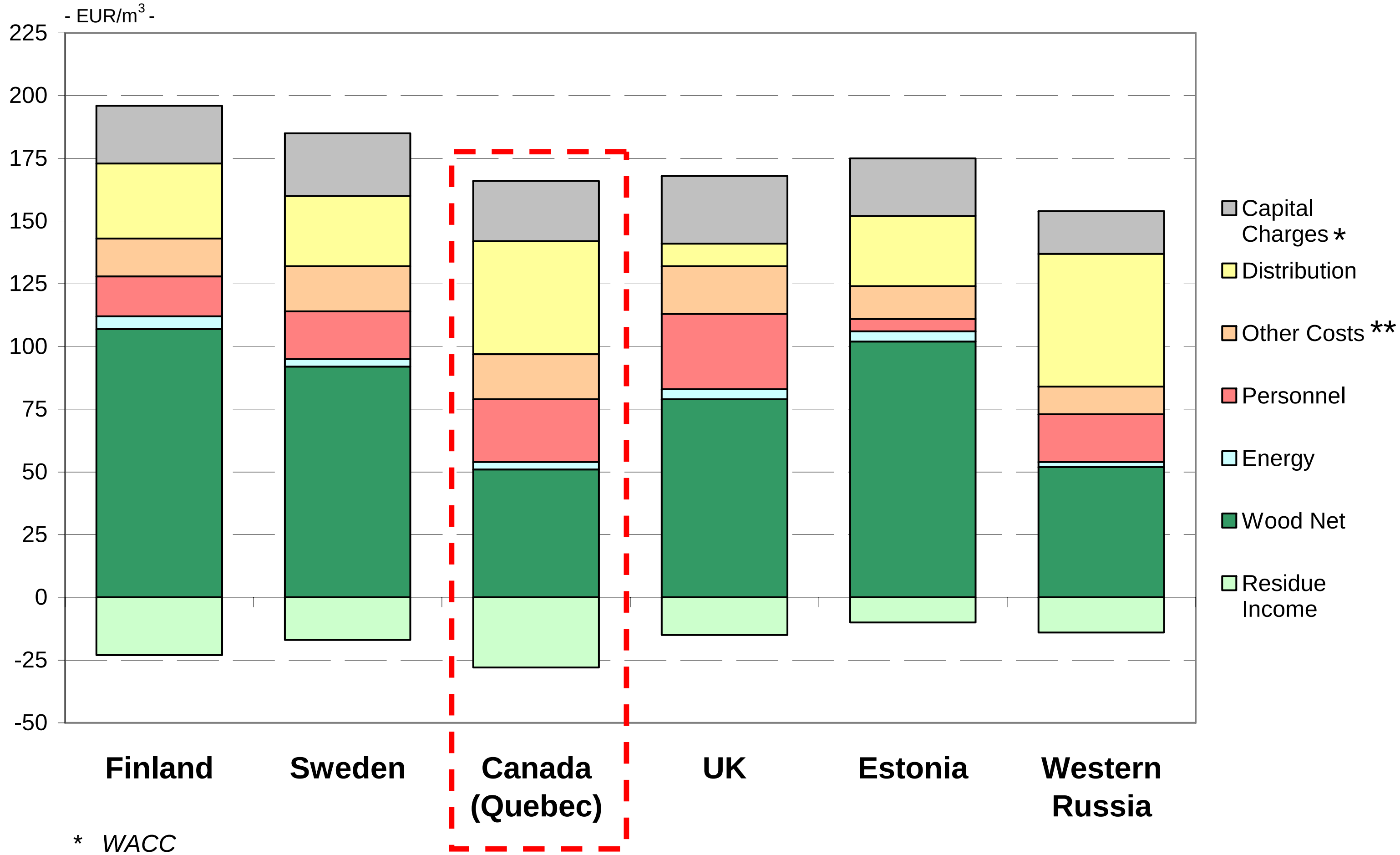
- Quantitative
  - Cost competitiveness
    - Raw material cost
    - Transport cost
    - Taxes and levies
- Qualitative
  - Raw material and product quality
  - Know how
  - Government policies

Strategies – Competitive Advantages in Practice

	Western Europe	The USA	North Africa	Middle East	China
Grade	Better qualities for appearance applications and construction. L grades for palle packaging and garden & fencir	Own grading. In "Dimension lumber" graded (stamped)	Generally lower grades, mostly VI.	All grades, however	Generally lower grades, mostly VI.
Dimensions & Lengths	Low level of standardized products betwe countries. Increasingly fu processed (pla FJ, CTL, etc.).				
Moisture	Varies among countries & en segments. In g mouldings & E 16-18%, joiner 12%±2 or 16-1 and furniture 1 12%.				
Packaging	Not strictly defi usually agreed client. Often pl wrapping on 5				

	Western Europe	The USA	North Africa	Middle East	China
Certification	Importance varies among countries and end use segments. Usually more requirement for market access than premium. However, in some markets small premium paid.	Environmental certification has less importance vs. Europe but its increasing gradually.	No significance.	No significance.	No significance.
Size of Delivery	Varies from tens of m^3 among industrial end use segments to some hundreds m^3 in DIY/BM sectors.	From thousands of m^3 to tens of thousands m^3.	From thousands of m^3 to tens of thousands m^3.	From thousands of m^3 to tens of thousands m^3.	Tens of containers (40-45 m^3 per container) by shipment.
Time of Delivery	3-4 weeks.	About 2 months.	About 1-1,5 month.	About 1-1,5 month.	About 1-1,5 month.
Payment	Credit insurance recommended. Usually 15-30 days minus 2% from the day of bill of lading.	Credit insurance recommended. Usually 30-90 days minus 2% from the day of bill of lading.	Credit insurance recommended. Usually 30 days minus 5% from the day of bill of lading.	Credit insurance recommended. Letter of credit.	Credit insurance recommended. Letter of credit. However, varies among customers.

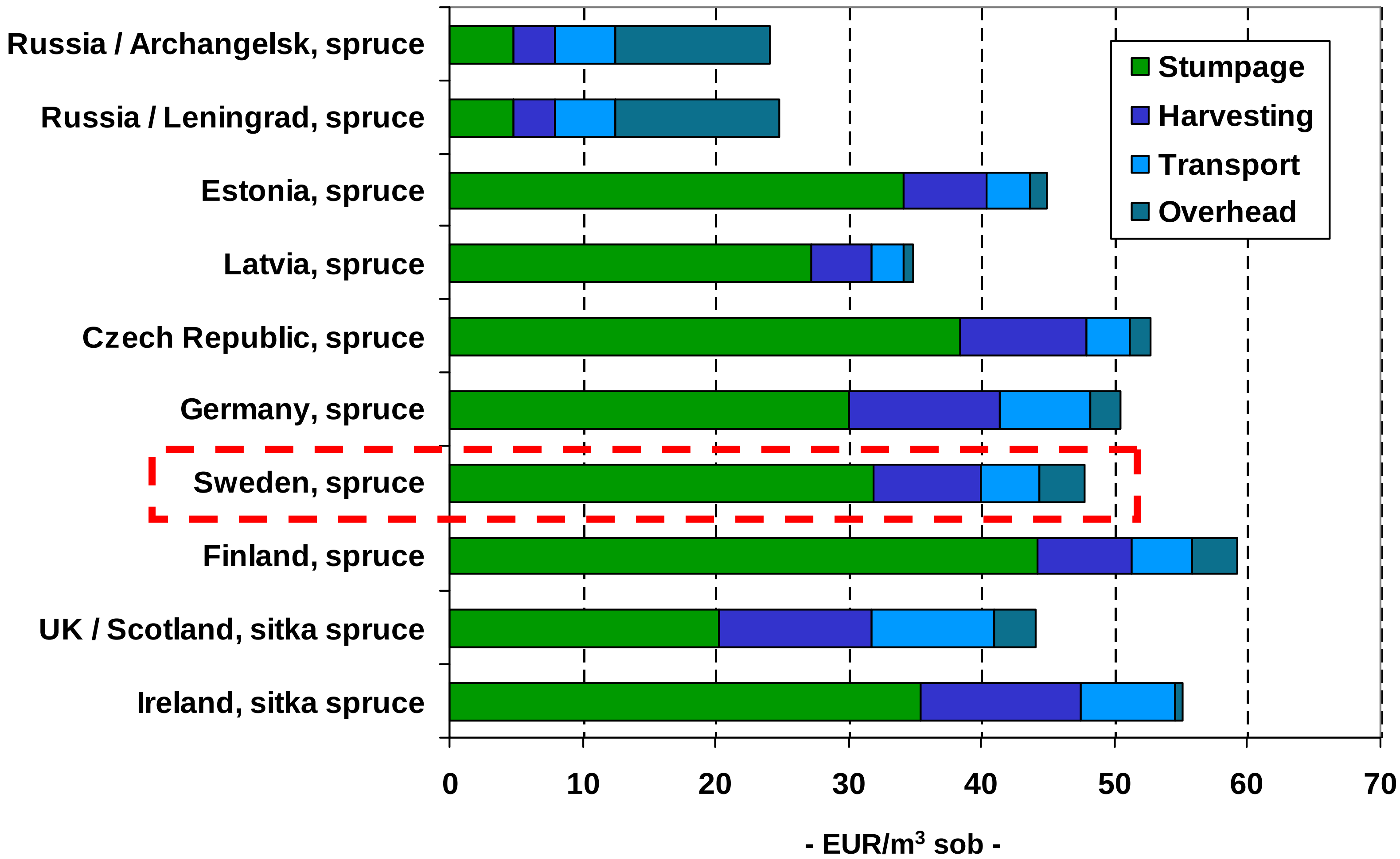
Strategies – Competitive Advantages in Practice



* *WACC*

** *Incl. Customs in Russia*

Strategies – Competitive Advantages in Practice



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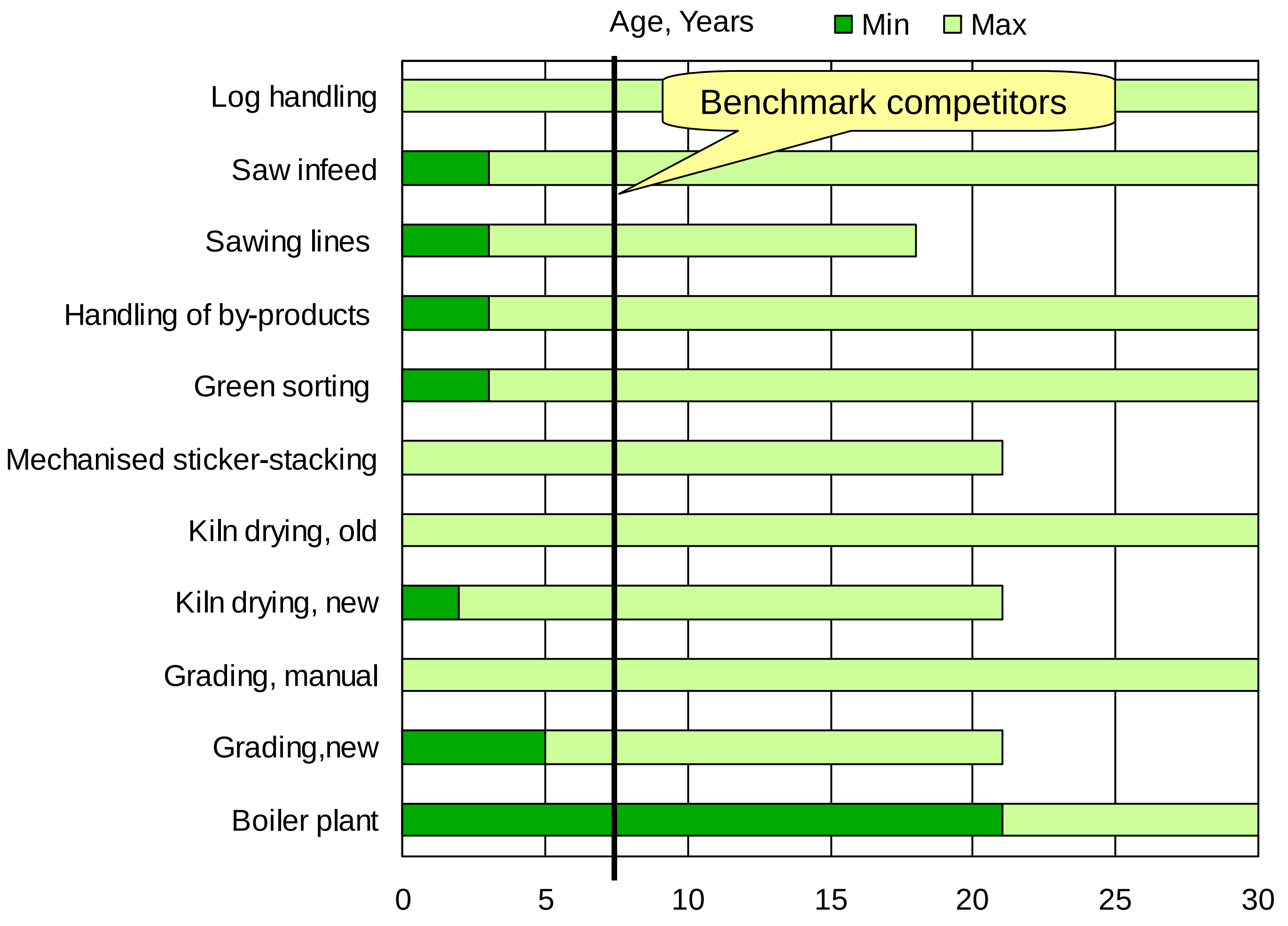

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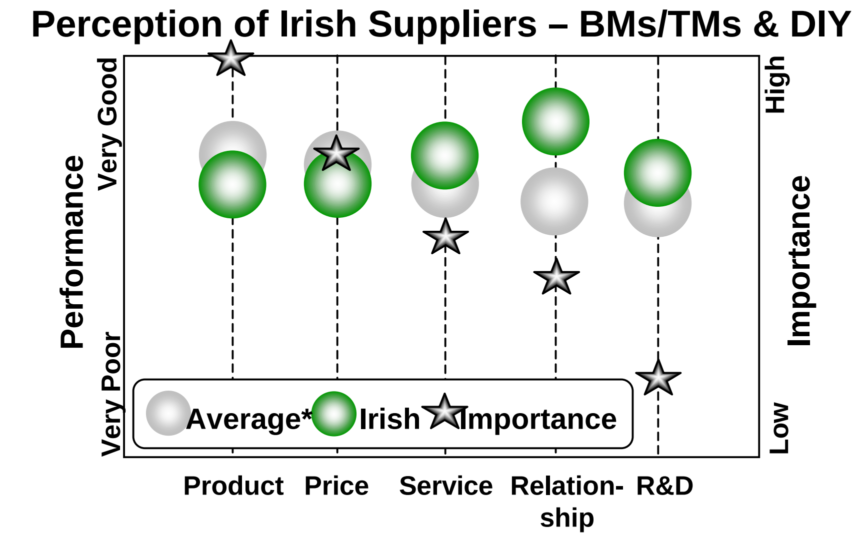

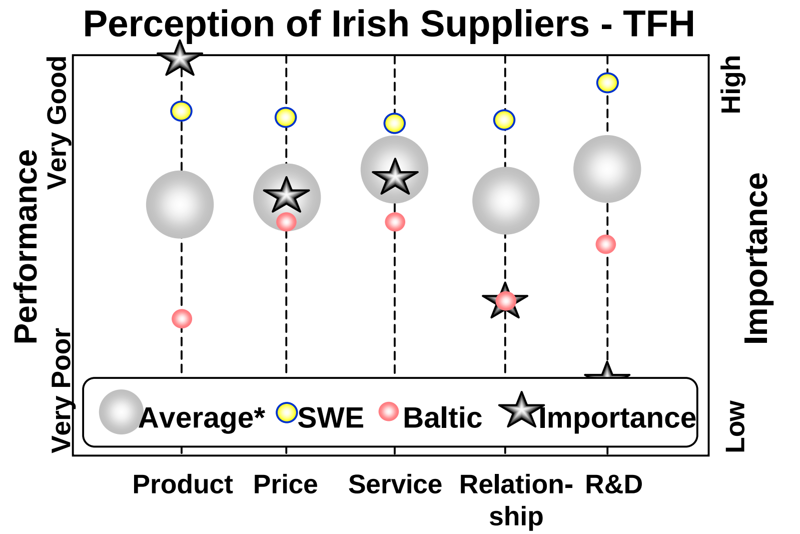

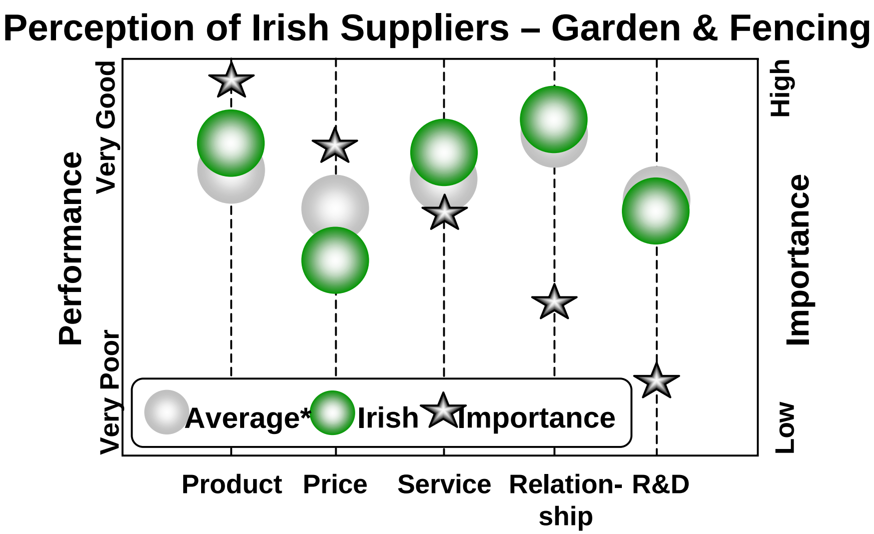

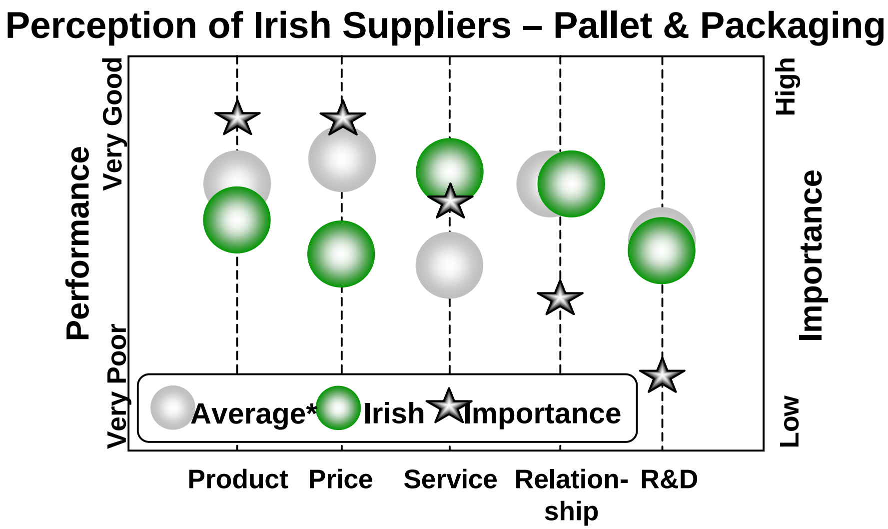

** Average score of all countries in scope*

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Structures – Organization in Principle

- All relevant parts of supply chain to participate
  - Raw material
  - Production process
  - Sales
- Applies to both internal & external
  - E.g. outsourced procurement or further processing

Structures – Organization in Practice

+ More specific communication aimed at the customers - thus high impact.

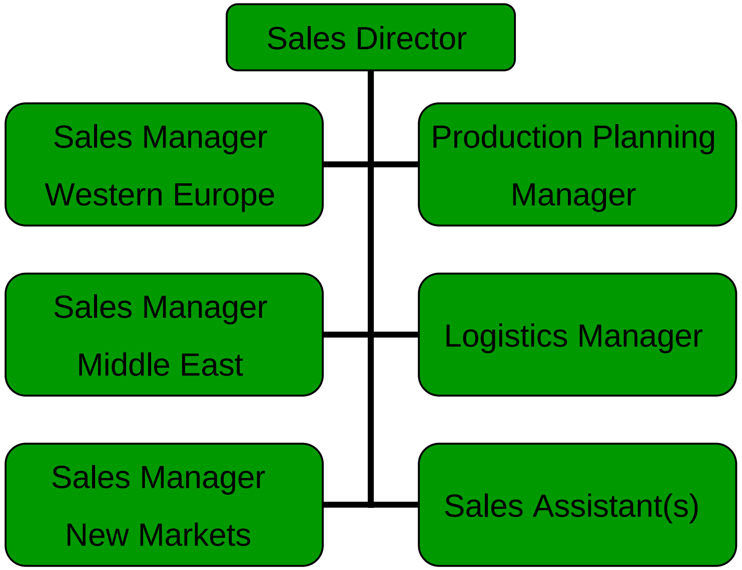
+ Effective at building buyers preferences, convictions and actions.

+ Provides immediate feedback – most valuable at the beginning of the promotion.

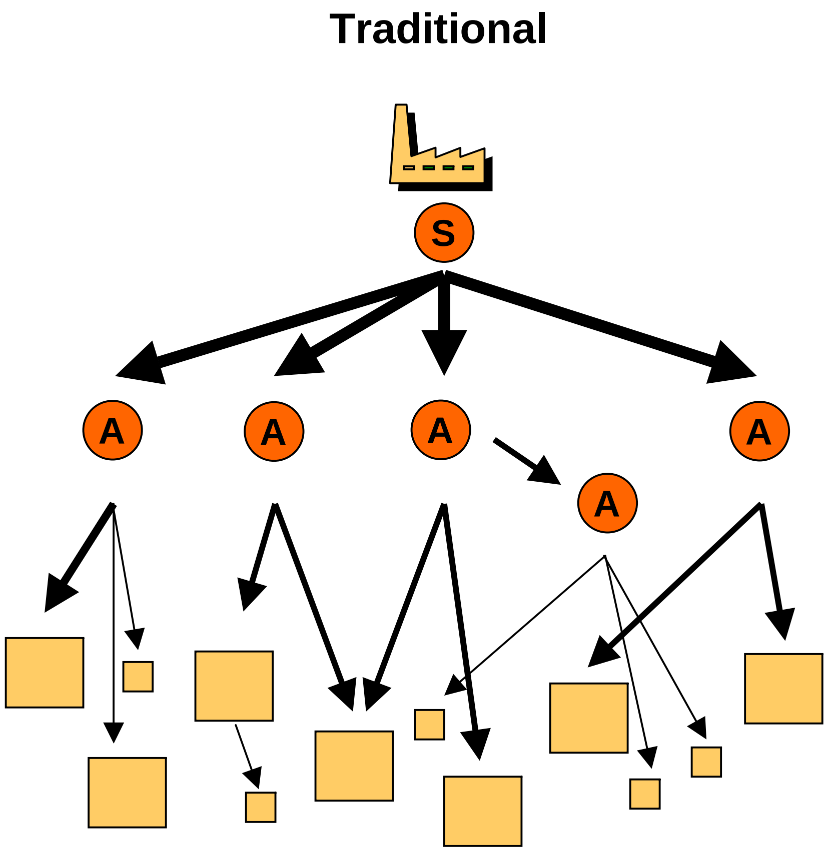
+ Allows the mills to adjust the message quickly.

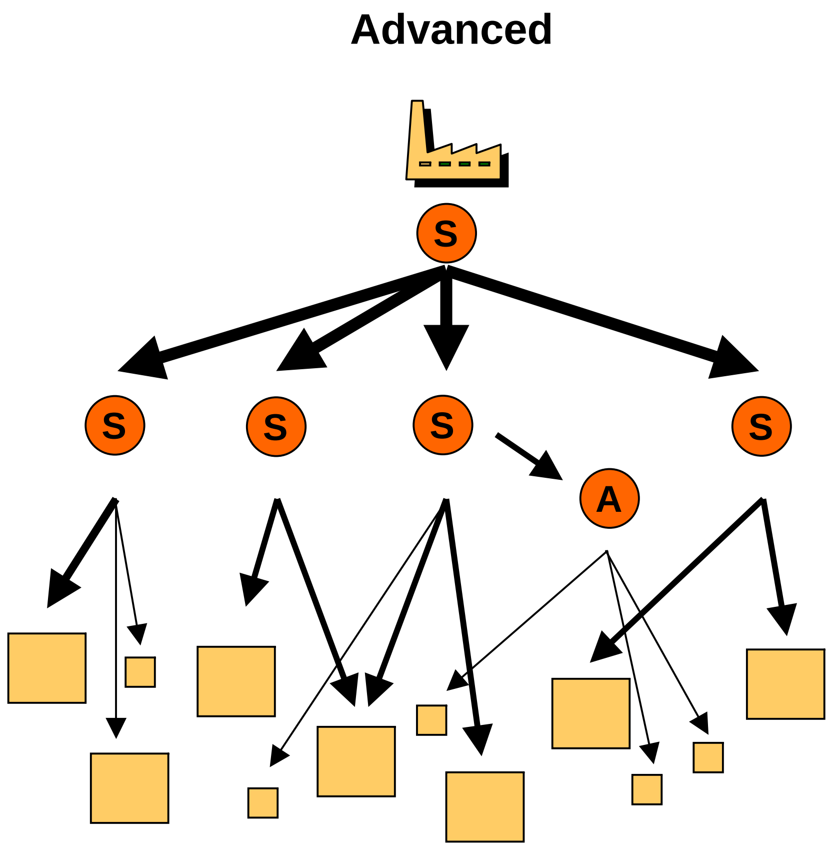
+ Buyer feels a need to listen and respond – creates mutual trust.

- Cost per person is high, most expensive promotional tool.



Structures – Organization in Practice





S = Salesman
A = Agent

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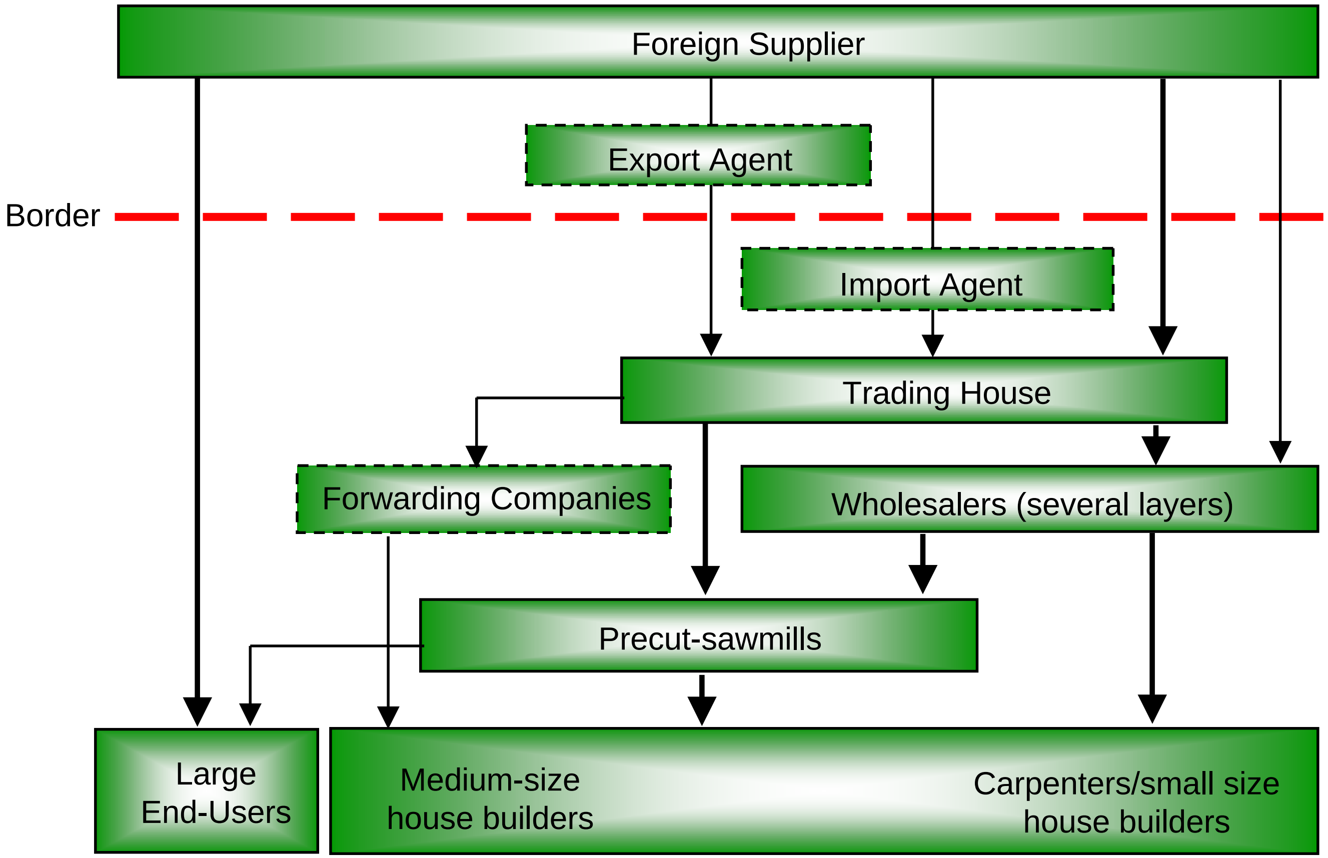
Structures – Distribution in Principle

- Overall picture of ”routes to markets”
  - Product
  - Country
  - End use sectors
- Direct sales vs. middlemen
- Service

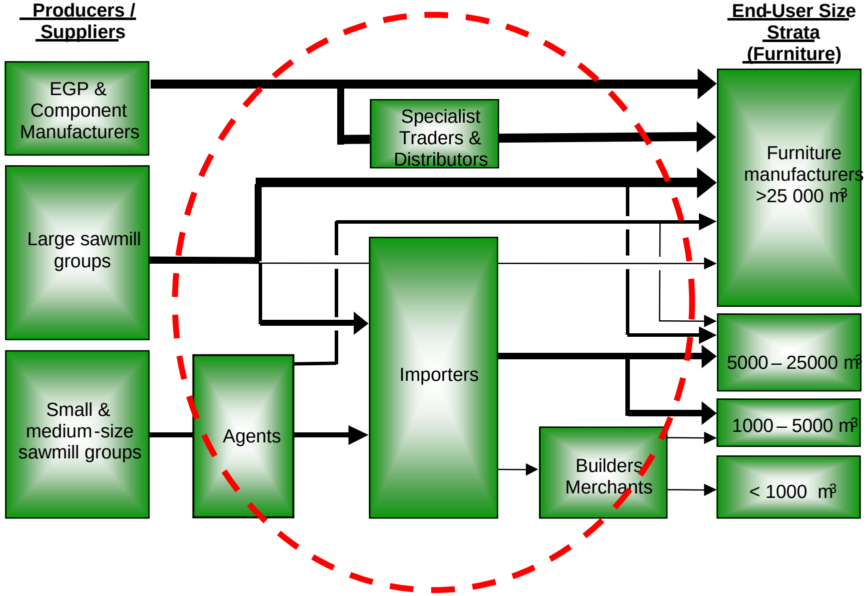
Structures – Distribution in Practice



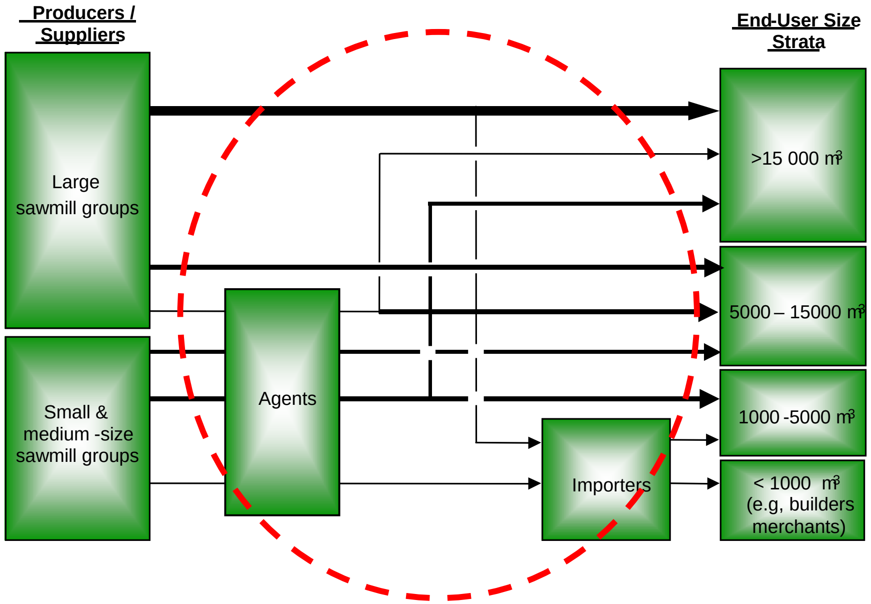
- Fewer
- Larger
- Broader
- Deeper

Structures – Distribution in Practice

Furniture



Mouldings



Structures – Distribution in Practice

	Deliveries	Service	Marketing channel
Importers	Bigger lots CIF/FAS Flexible schedule Bulk products	Communication frequency: abt. once every second week Capability for wide specifications	Direct sales or agent.
Builders Merchants	Medium size lots CIF/CIP/FOB Bulk products	Communication frequency: once a week Repeating pattern of operations, some variation	Through an importer or agent. Later on possibly direct sales.
Do-It-Yourself	Small lots CIP Machined bulk but whole product range Demanding packaging	Communication frequency: once every second week Repeating pattern of operations	Through an importer or agent. Later on possibly direct sales.
Industrial End Users	Small lots CIP - Just On Time Specialities	Communication frequency: twice a week Close contact, fast feedback Reliability Product development	Through an importer or agent. Direct sales requires presence (sales man and/or landed stock) in the market.

Structures – Distribution in Practice

	Segment	Products	Distribution	Actions & Investments
2006 - 2007	100% importers and agents -> Construction -> DIY / BMs -> Joinery -> Mouldings -> Furniture & EGP -> Garden & fencing	Rough KD sawn softwood Pine and larch Standard sizes, lengths Standard qualities	To be agreed with buyers, however, vessel loads from St. Petersburg. 6-8 shipments per year. Preferably CIF/C&F.	Extensive personal selling, promotion, and improvement of understanding of the market. Performance according to promises (stability of product characteristics and reliable deliveries). Certification. Match mills' technical and operational capabilities up to market requirements.
2008 - 2010	>50% via importers and agents as above. <50% direct sales to -> Construction -> DIY/BMs -> Joinery -> Mouldings -> Furniture & EGP -> Garden & Fencing	Rough KD sawn softwood Special KD sawn softwood (tailored sizes, lengths, moisture) Planed KD sawn softwood (PAR and profiled) Pine and larch	Vessel loads from St. Petersburg. 10-12 shipments per year. Distribution co-operation with selected partners. CIP buyers yard for industrial end users.	Close co-operation with direct customers. Investments needed - Special kilning - Planing operation - Raw material procurement to support customer needs (e.g. lengths).

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Functions – Marketing Communication

- Branding / Image
  - To get customers easily remember the products and services of company X over the competitors
  - Shipping marks, company logo - still strong tools in international trade

- Advertising
  - Advertisements in local trade magazines in the main markets
  - Direct mail to strategic customers - existing but especially potential
  - Internet home page with detailed information of the products and services of company X

- Trade fairs and exhibitions
  - Presence at main fairs and exhibitions in the main markets. This does not necessarily mean own stands. However exhibitions can be used for arranging meetings with customers

- Personal selling

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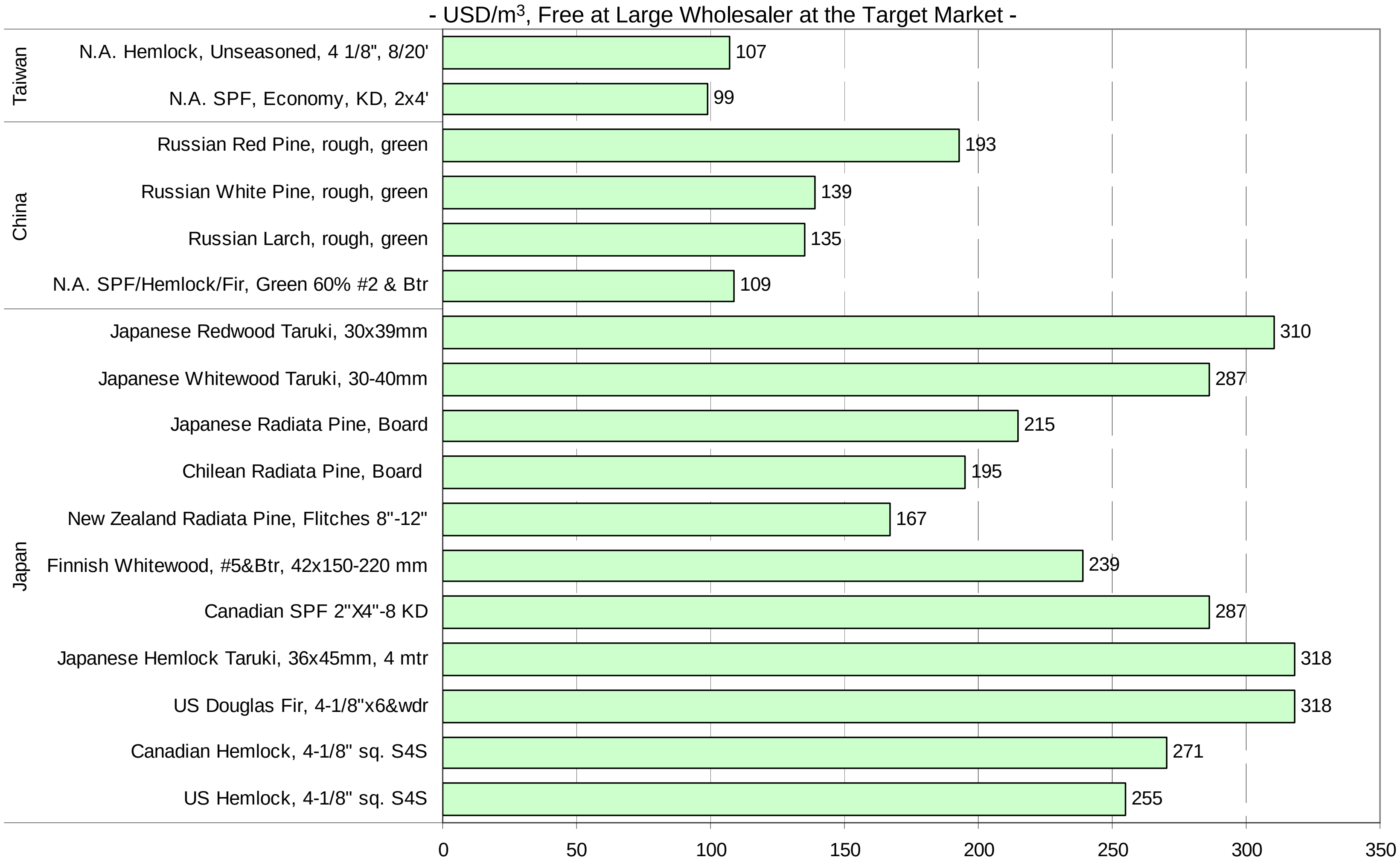
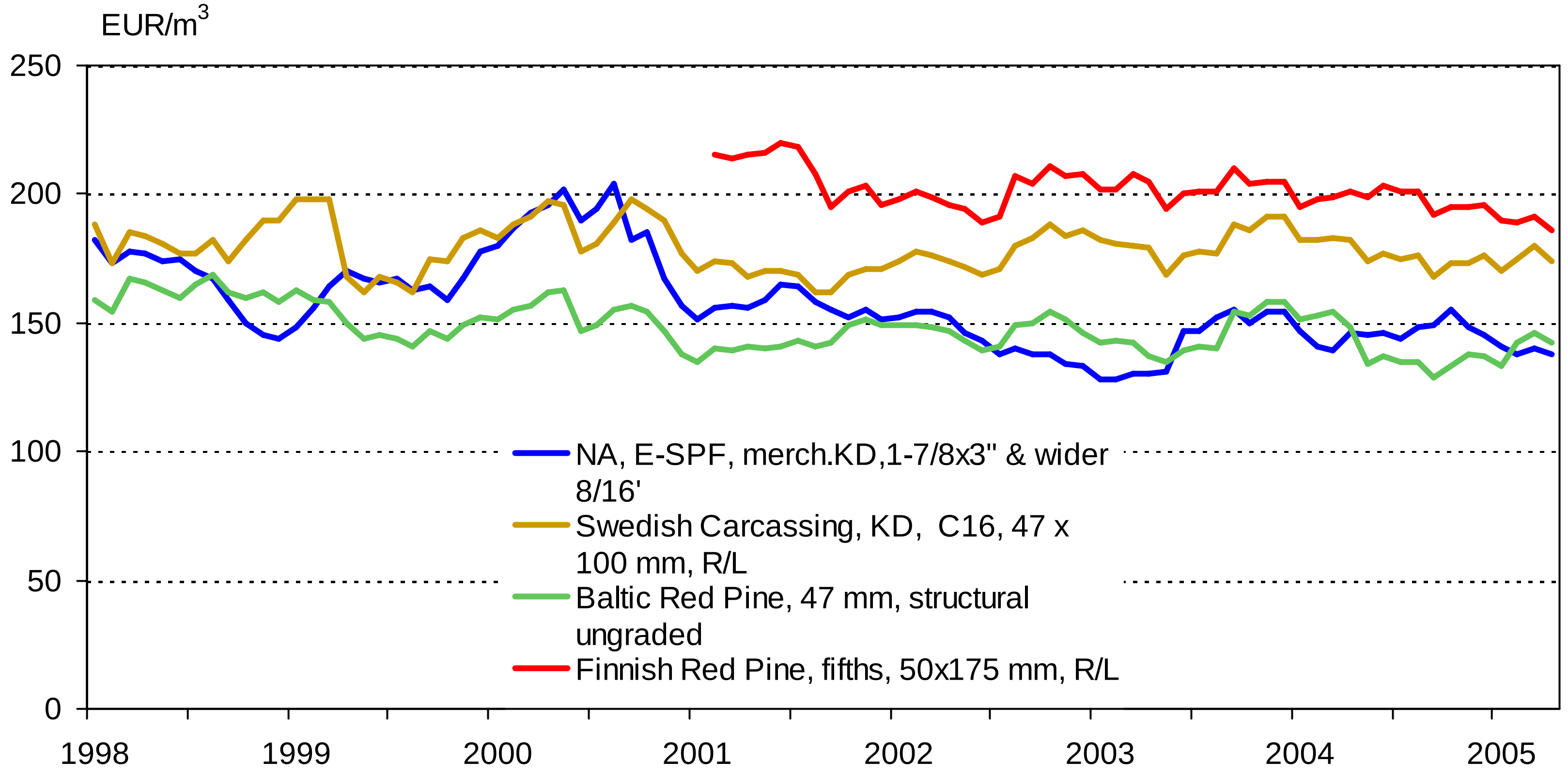
Functions – Pricing in Principle

- Overall picture
  - Spot prices
  - History and outlook (real vs. nominal)
- Fundamentals
- Policy

Functions – Pricing in Practice



Functions – Pricing in Practice



Functions – Pricing in Practice

Traditional pricing of Nordic pine in the UK. The Russian pricing is traditionally based on similar principles. However, exlog is usually not guaranteed, and carries no premium. Russian IV:s are in principle priced as Nordic V:s. However 25x100/125 boards are usually sold at base price. In practice, pricing varies a lot between different mills and depends on supply/demand balance of individual items. Also average pricing is being used. Average pricing, however usually leads to worse result than item based pricing.

		Base price (150/175 mm)	**200 mm**	**225 mm**
U/S	50/63/75 mm	210 £	+ 7-9 £	+14-20 £
	32/38 4 exlog mm	+ 20-25 £	+ 7-9 £	+14-20 £
	32/38 2 exlog mm	+ 8-10 £		
	25 mm	usually market driven depending on supply/demand		
V	50/63/75	160 £	+ 3 £	+ 6 £
	32/38 mm	+ 7-8 £	+ 3 £	+ 6 £
	25 mm	+ 20-30 £		

Traditional pricing of Nordic spruce in the UK

		Base price (150/175 mm)	**200 mm**	**225 mm**
U/S	50/63/75 mm	190 €	+ 3 €	+ 6 €
	32/38 mm	+ 9-11 €		
V	The meaning of the scale is lower and supply/demand sets the exact price			

Functions – Pricing in Practice

1. Stage (max 1 year)

– Penetration pricing – start offering at the market price, gather detailed information from different customers.

– Accept slightly lower prices

– Create credibility by performing according to promises.

2. Stage (1-3 years)

– Economy pricing (for bulk products)

– Keep costs low and sell slightly below market price. This guarantees the basic volume – thus reduces costs.

3. Stage (3 years +)

– Differentiate bulk and special products

– Permanent economy pricing for bulk

– Contract pricing according to the market. Volume related incentive system to be created for each customer to guarantee required volumes.

– Premium pricing for special products

– For special products, which give advantages for the customers.

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Contact Details and Further Information

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