

CONTRACTOR SUSTAINABILITY: A THIRD PARTY PERSPECTIVE ON A NATIONAL ISSUE

By Jim Girvan



We would like to thank Scott Jamieson of Canadian Forest Industries and WoodBusiness.ca for their support in allowing us to share the highlights of their recent 2016 Canadian Forest Industries Contractor Survey. For full results of the survey, see <http://www.woodbusiness.ca/harvesting/logging-profiles/a-breakdown-in-relations-3656>.

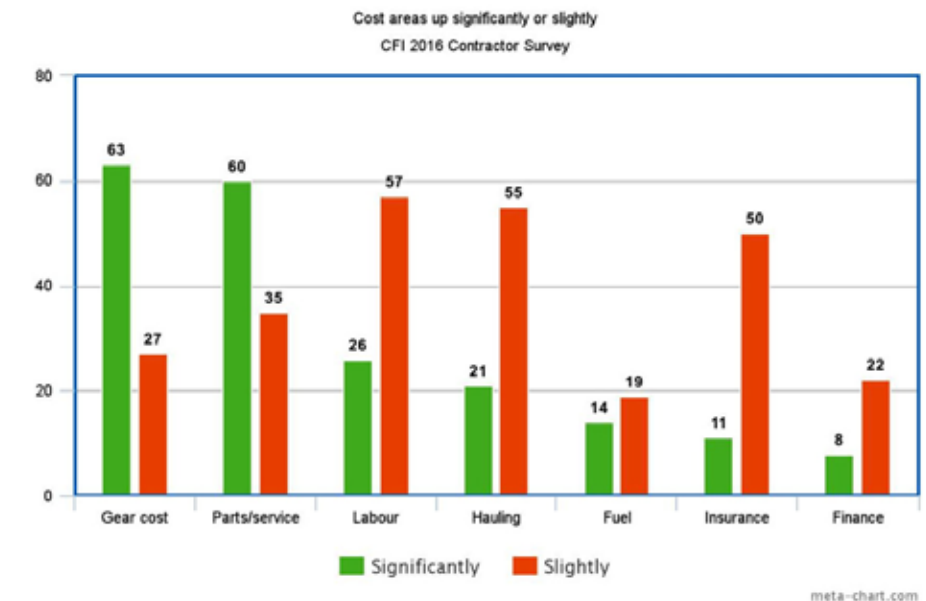
When we talk about contractor sustainability, what do we really mean?

Sustainability by definition concerns the specification of a set of actions to be taken by present persons that will not diminish the prospects of future persons. Let's think about that.

A set of actions taken by present persons (and in this case, it is the contractor community and the licensees they work for) that won't diminish prospects for future persons (in this case that is the same two groups).

It is fair to say that when it comes to contractor sustainability, the contractors themselves are trying to ensure that they remain viable and that in the future they can continue to operate their businesses, replace equipment, hire and train workers and deliver logs to licensees.

From the licensee perspective, one would think that they too would have the

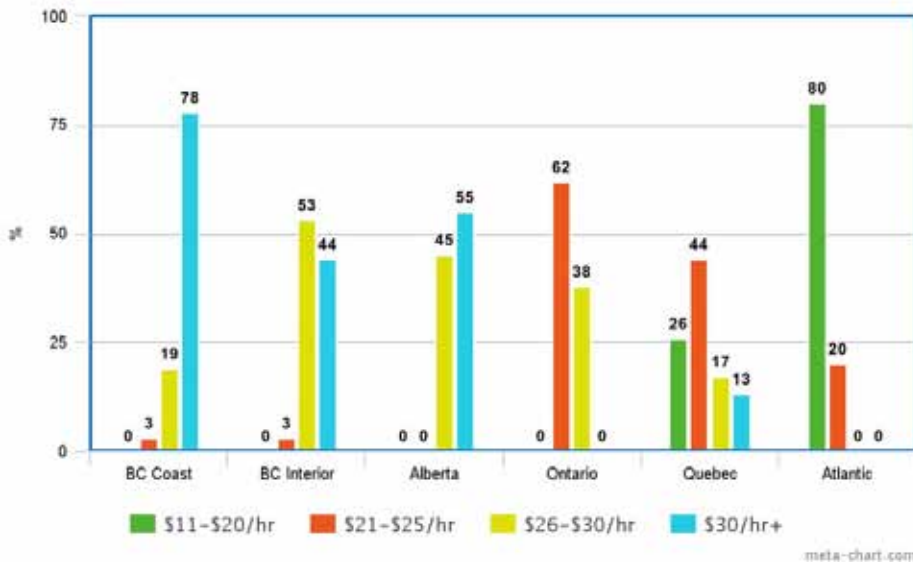


objective of ensuring that their contractors remain sustainable and that in the future they can continue to operate their

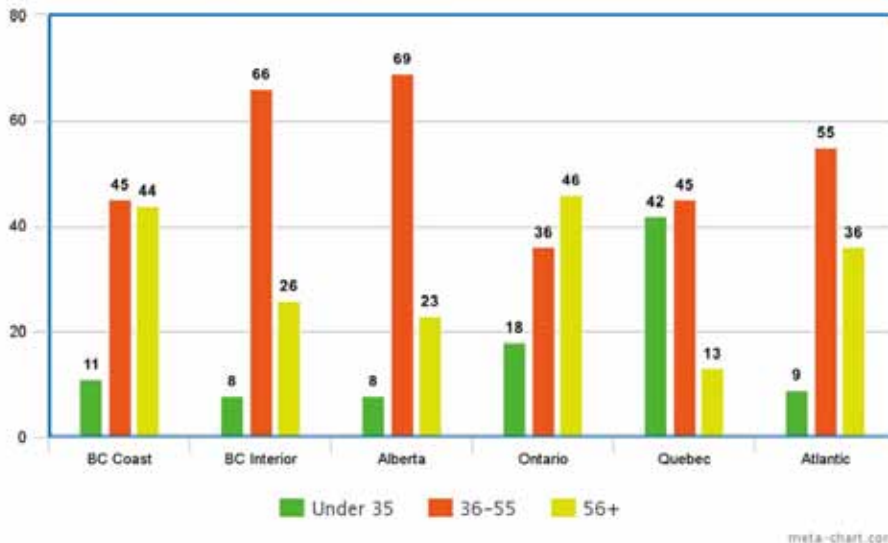
businesses, replace equipment, hire and train workers and deliver logs to them?

So why is it that contractor sustainabil-

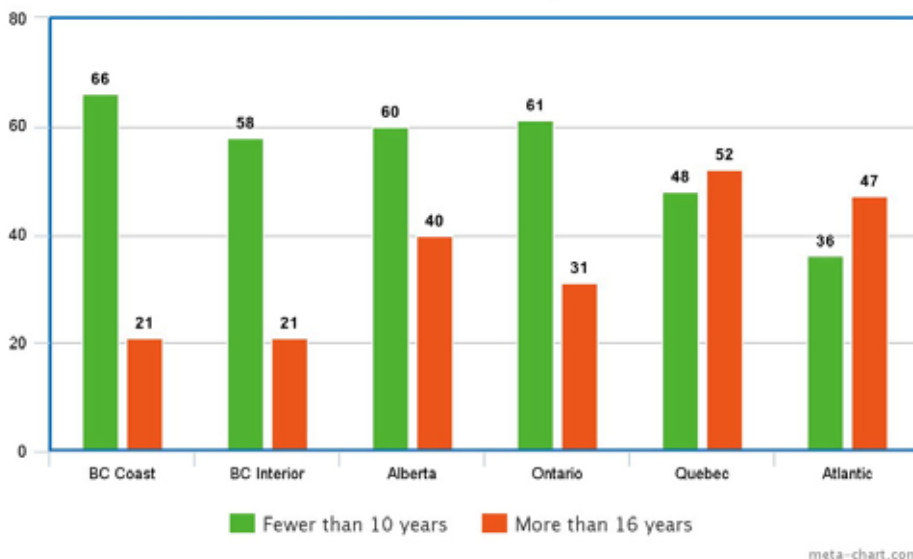
Operator rates by region
CFI 2016 Contractor Survey



Contractor age
CFI 2016 Contractor Survey



Expected retirement timeline
CFI 2016 Contractor Survey



ity has become such an issue in BC and what actions are being taken by the parties who are contributing so significantly to the lack of contractor sustainability?

The recent 2016 *Canadian Forest Industries Contractor Survey* found on www.WoodBusiness.ca sheds some light on the issue.

Based on the 2016 survey, logging contractors across Canada continue to struggle with stagnant logging rates, climbing machine costs and staffing challenges. Each of these issues is having a negative impact as contractors struggle to remain sustainable. In fact, those on the coast feel they have seen their margins and mill relationships increasingly strained in recent years, perspectives that have them questioning logging as a career for themselves and their families.

Across Canada, only 41 per cent of contractors saw a rate increase in the past three years. While not great, that's still marginally better than the BC coast, where just 39 per cent of contractors say they've seen a rate increase in the past three years. That compares harshly to the BC Interior, where 63 per cent of loggers have seen a rate increase in the past three years.

For the rest, rates were either stagnant (28%) or had declined somewhat (23%). Just over eight per cent were either too new to have a trend or preferred not to say.

On the cost side of the equation, the cost of gear (equipment) is way up and climbing. The culprit behind the rising cost of equipment is almost as clear—the strength of the US dollar.

In the 2016 survey, loggers were asked how much their main cost centres changed in 2015. As the results show far left, the cost of machinery and parts/service have increased, with almost two-thirds of respondents reporting that these costs have increased significantly. Labour was a distant third, with only a quarter reporting a significant increase in this area.

Loggers on the BC coast also pay the highest operator rates in Canada. Regardless of company size, rates above \$30/hour are a western phenomenon, with 76 per cent of BC coast contractors paying those rates.

As for profits, it is no surprise that BC coastal loggers fare poorly compared to the rest of Canada given these factors. More than one in five (21%) claim to have made no profit last year. That

said, the BC coast sits in the middle of the pack for trends in logger profitability across Canada, where 44 per cent of loggers say profits were lower last year than three years ago.

When asked to define a fair profit margin range for established logging contractors, the results were not surprising. Profit margin was defined as the per cent of EBITDA (earnings before income tax, debt and amortization) versus total revenue.

Country-wide, 44 per cent of contractors felt that in 2016 a fair profit range lay between 11 to 15 per cent. This senti-

ment varied slightly with company size. 54 per cent of the largest contractors, those with over \$5 million in revenue, felt this range was fair whereas a quarter (23 per cent) of all contractors felt a profit between 16 to 20 per cent was fair.

When mill woodlands staff were asked the same question, the majority (55 per cent) felt that a margin above 11 per cent was fair, however, another 33 per cent feeling only six to 10 per cent was a fair profit margin for an established contractor.

If we use profitability as a proxy for contractor sustainability, then the over-

all issue becomes clear when looking at BC coastal contractors. As reported by Aaron Sinclair of PNL Consulting in Prince George in the Summer 2016 issue of *Truck LoggerBC* in his article, "Contractor Sustainability: Understanding the Numbers," coastal contractor profits in the 4 to 6 per cent range are the norm, levels which are well below expectations in the CFI survey and well below the level Aaron suggests are needed to remain sustainable operating on the BC coast.

The life/work balance may be better on the coast than their counterparts in the Interior or Alberta (at least while they run), but it is still nothing to brag about when trying to attract the next generation of loggers. Seventy-seven per cent of contractors on the coast are working over 46 hours per week for the better part of the year.

Demographics of the coastal workforce are also challenging. Given the company size and equipment investment, it is not surprising that contractors on the BC coast also skew older than the Canadian average. Two thirds (67%) of coastal loggers are 46 years or older. That compares to 56 per cent across Canada, signs of a national workforce in general in bad need of renewal. Only 11 per cent of coastal contractors are under 35.

That urgency is all the more apparent when the retirement and succession planning of coastal loggers are considered. A whopping 50 per cent say it is very unlikely they will still be working as loggers in five years' time, and they are actively looking at alternatives. (No surprise given their level of profitability and growing recruitment challenges.) In both BC regions, the sentiment that logging is not a fit career for their children is at least twice as prevalent as it is in other regions in Canada.

From Jamieson's perspective and based on the results of their survey, contractors in all regions feel things are getting worse in the industry. But for BC coastal contractors, that feeling is much stronger for a few key reasons.

Despite BC sawmill profitability having recovered somewhat from the depths of the 2009 recession and to a greater degree than many other regions of Canada, the same cannot be said for BC's contractors. These contractors are large with a very specialized skill set needed to address the unique logging



MNP Forestry Services

We're with you for the long haul.

At MNP, we believe in being your partner in business. That means offering industry-specific services and expertise that go beyond traditional accounting and tax. Our forestry business advisors look at your operation from all angles and develop personalized strategies to help you succeed for the long term.

We can help you:

- Finance your equipment
- Grow your business and profits
- Pay less tax
- Hire a controller or key manager
- Partner with First Nations
- Understand your true costs
- Select a new software system
- Sell or transition your business

Contact Chris Duncan, Business Advisor, Forestry & Forest Products at 250.748.3761 or chris.duncan@mnp.ca or visit www.MNP.ca/trucklogger

ACCOUNTING > CONSULTING > TAX

MNP.ca

Wherever business takes you.



experience on the BC coast. The size of these contractors is only comparable to that seen in Ontario. As a result, for those looking to exit, free capital is hard to find and for those who have it, investing in logging, given the pitiful profit expectations, is virtually impossible. This hamstring coastal contractor succession and puts the entire industry at risk.

The unique skill sets needed to work on the coast are also preventing any meaningful recruitment from other areas of Canada. As a result, even worker succession is a problem.

The bottom line is that “being a logging contractor anywhere in Canada is not a good business model today,” laments Jamieson. “That said, sawmilling is not particularly great either, but in BC (like many places in Canada), contractors are on the short end of the stick because they have no leverage against large forest managers. And with no motivation to improve efficiency for fear of counterbalancing rate reductions, there has been “a slow death of innovation” in the sector across Canada.

This sentiment was echoed often in the comments section of the survey, where contractors across the BC coast echoed these thoughts on mill/logger relations.

“The adversarial relationship between contractors and licensees is a major distraction for both parties. It is preventing both from collectively working on improving efficiencies in the supply chain. Failure to change this will continue the trend of the coastal forest industry becoming increasingly uncompetitive in the global market.”

(Continued from page 38)

such as requests for proposal that allow for the consideration of variables that ultimately drive sustainable success and win-win opportunities. In these examples, there is acknowledgement that cheapest is not necessarily the best value nor the best path to achieving long-term success. **Yes, cost matters...but value matters more.**

When contractors are derided or punished for having invested in their people, equipment and facilities rather than objectively evaluated for their strengths in important areas like Mike Ward described, we do our entire industry a disservice and set it on a self-destructive path.

In my experience, it’s those contractors (and licensees) who live in our rural communities, invest in their people and businesses, and create positive relationships far more robust than just rate schedules and contracts, who have shown they are in it for the long term. They are the ones who will work with licensees, government and First Nations to create an industry that is more about transformation than transaction.

We shouldn’t resent companies who invest in their people, their equipment, their businesses and their communities—we should champion them. Like

many of you, I believe that the future of BC forestry is worth investing in and I’m in it for the long run.▲

Jonathan Lok, RFT is a Managing Partner with Strategic Natural Resource Consultants, one of Western Canada’s largest professional forestry planning firms. Jon is a past president of the Association of BC Forest Professionals, the Canadian Institute of Forestry and the Consulting Foresters of BC and lives in Port McNeill, on northern Vancouver Island.

The advertisement is a vertical layout. At the top, a basketball player in a red jersey is jumping high to shoot a ball, with a young child reaching up towards him. To the right is the Pierce logo, a stylized 'P' in a square with the word 'PIERCE' below it. Below the basketball player is the text 'THEIR REACH.' in large, bold, black letters. In the middle of the ad is a horizontal line. Below the line, a logging machine with dual arms is shown. To the right is the Pierce GP logo, a stylized 'P' in a square with 'GP' below it. Below the logging machine is the text 'EXTENDED DUAL ARMS.' in large, bold, black letters. Underneath that is a paragraph of text describing the machine's capabilities. Below the paragraph is another paragraph of text. At the bottom left is contact information for Mark Shukla. At the bottom right is the company website and toll-free number, along with office locations in Portland, Oregon, Edmonton, Alberta, and Jackson, Mississippi.

THEIR REACH.

OUR REACH.

EXTENDED DUAL ARMS.

With unique dual arms and superior loading ability, the Pierce GP is able to grab and neatly bundle multiple stems, which has redefined loading efficiencies. And since those arms extend well past the wheels, digging into decks is easier and more efficient.

That’s the difference between cranking out a “me too” product and designing with a purpose.

MARK SHUKLA
250.826.5218
mshukla@piercepacific.com

WWW.PIERCEPACIFIC.COM
TOLL FREE: 800.760.3270

PORTLAND, OREGON
EDMONTON, ALBERTA
JACKSON, MISSISSIPPI