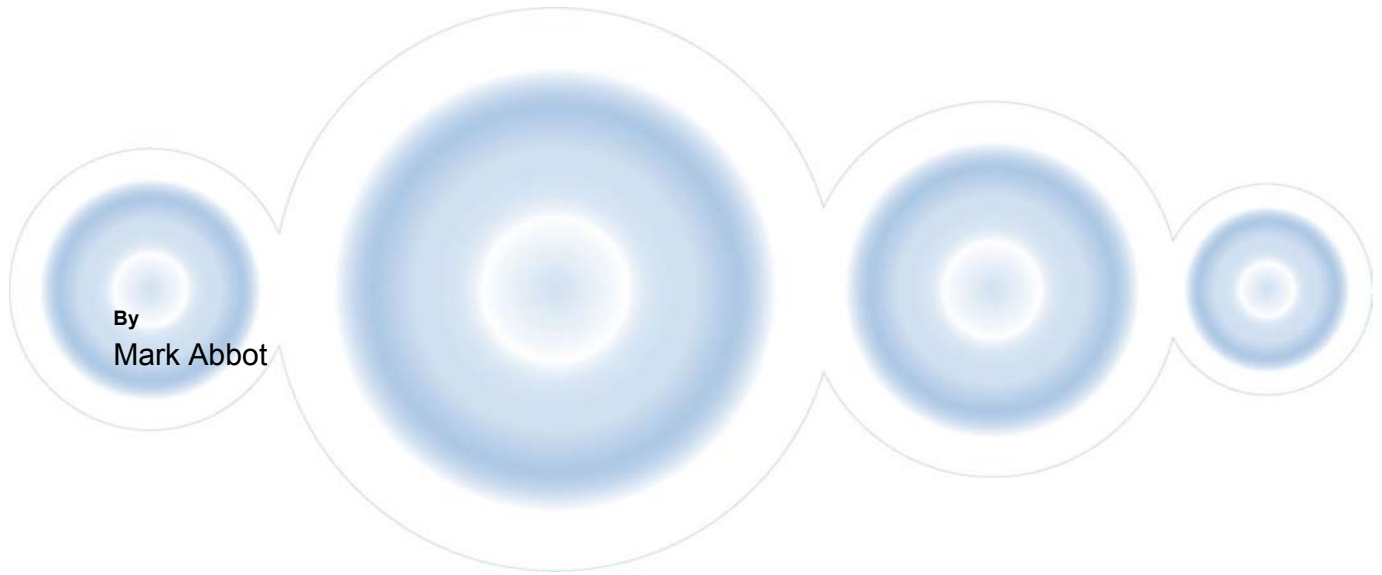


Branding Potential in New Zealand's Timber Industry - **differentiating commodities**

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Abstract

This paper explores the concept of branding. While generally regarded as a consumer marketing device there are potentials to use the philosophies around brand development and promotion throughout a number of industries, products and companies, and even as a means of developing segmentation within commodity markets.

The differences between commodity and differentiated market approaches are discussed, along with the promotion of a value-driver in New Zealand's forest products industry that has been advocated for more than a decade yet seems to remain largely unheeded.

One of the more positive and exciting aspects of branding within the forest products industry is outlined. The NZ Pine Manufacturers' Association's **Bodyguard**® project has achieved commercialisation after an incubation period of three years, highlighting the difficulties, issues and opportunities that are possible through a brand orientation.

Branding

What is it?

Brand is generally considered to be the visible sign of a company, a product, or a process. In the consumer world we are constantly bombarded by advertising logos and messages that attempt to attract us to purchase, consume, or favour one supplier's products or services over another. That millions of dollars are spent on developing, supporting, enhancing and projecting these images into our lives is some testament to the fact that there is very real value and benefit in "branding", certainly from a manufacturer's perspective.

Branding is an attempt to develop a relationship with a customer so that the positioning, or mental image, is strong enough to warrant a purchase decision. While our association with brands is greatly influenced by the consumer world, the concept of branding and brand development is not confined to this arena alone.

Successful companies can take the benefits and attributes that have been engineered, invested in and developed by others and cleverly incorporate all of these intangibles into their own product offering, even to the point of overtaking the owners of those brand identities. In spite of the power of branding, or perhaps more as a result of this power, several brands have become the victims of their own success.

- For a circular saw you will probably ask your *Ryobi*® or *Makita*® dealer for a Skil saw, which is actually the intellectual property of its owner, the *Skil*® Corporation. Yet the *Ryobi*® and *Makita*® brands are powerful in their own right.

- You are more likely to “do the hoovering” with a *Dyson*® or *Telus*® than with a *Hoover*® and yet there is still a very strong brand association with that company that is no longer reflected in its sales or previous market-leader status for that product line.
- Closer to the timber industry, *Tannalised*® had become a generic treatment name until its owners, Koppers-Arch, wrestled this back from the vague and meaningless to support their complete treatment product offering.

Even more successful companies can take the values that they have demonstrated and relate these to their products and continue to invest and develop them to the extent of considerable and sustainable corporate success. The great gap often comes from a lack of understanding as to how to harness these associations, and how to maintain momentum. Like a child, a brand will not reach its potential if it is left without attention. The iconic brand *McDonald's*® has learnt this lesson and is, even now, trying to find its way again.

To understand why, we need to consider the concept of branding from the brand owners' perspective, rather than the consumers.

“The brand” is the collection of all the attributes of the company that are represented by the product offering. All of the promises that are made to the market are signalled and contained within that image. All of the good things that the company does such as consistency of quality, delivery, packaging and presentation, value-for-money proposition, research and development investment, market representation, customer service, and then finally the actual product, is contained within that image or market position.

Equally, all of the negative connotations about a company and its reputation are reflected within a brand regardless of the quality of the product or service that is on offer.

Companies such as *Ryobi*®, *Dyson*®, *Komatsu*®, *Toyota*®, to name a few, have succeeded by capitalising on the brand strengths of their usually slumbering competitors and backing this up with value propositions from market and product offerings that have enabled them to build solid brand positions themselves. The result is often a surpassing of the market position of the former brand owner or leader.

Commodity and differentiated markets

Later we will focus on the actual and very exciting application of brand management in a commodity marketplace. Firstly, however, we need to understand how branding fits within a commodity environment. For all the talk about recognising the need to “add value” and looking at “niche” market opportunities, we need to remain conscious that the majority of players in the forest products industry do not have the infrastructure, distribution channel orientation or opportunities, or knowledge, to fully engage in differentiated market behaviour. By “differentiated behaviour” we suggest that supply surety or price premiums are possible by selecting a product and service bundling offer, or a channel to market, that contains a level of proposition whereby the ability of other suppliers to replicate it becomes difficult. Price becomes a much less important consideration in the purchase decision or is at least put into that category by a more comprehensive product / package offering. Commodity products are those that have the same constituents, applications and offerings from a

number of suppliers. Steel, coal, sugar, wheat, caustic soda, logs, pulp & paper, wood chips, kiwi fruit are examples of commodities.

For some manufacturers there is value is sitting within the commodity context. These are companies that are able to achieve least-cost process and market dominance due to critical mass. Considerable sums of money are possible in a movement of a mere percentage point in market share terms and therefore revenue and margin.

There are those industries and companies that do not have the luxury of being able to generate such a level of critical mass as to make their actions influential in the market. Here we have seen examples where players in the commodity arena have manipulated their position by exploiting product or process characteristics so as to achieve a differentiated market position and, in some instances, gained dominance in a commodity context.

- The Australian Wheat Board has selectively focused on product characteristics that enable their wheat sales to be regarded as a superior product in terms of baking characteristics, and on a global scale. They do not engage their sales totally in international wheat auctions such is the prestige now associated with this commodity product.
- For non-integrated mills, wood pulp trades on the commodity cycle market. Those mills capable of producing Elemental Chlorine Free (ECF) or Total Chlorine Free (TCF) pulps within a kraft pulping process have had a window of opportunity as a result of environmental pressures that have resulted in minor price premiums and continuity of supply contracts.
- By taking a brand approach to kiwi fruit, Zespri™ International has developed a market position for their produce that has lead to this company being the world's single biggest marketer of kiwifruit with projected sales revenues in two years time of over NZ\$1billion, and less than 20% of the product is grown in New Zealand.
- The rising demand for organic produce will result in significant price premiums for those companies with the ability to satisfy this specific product requirement. While the returns for organic against traditional will narrow over a period of time it signifies the opportunities that are possible within a commodity marketplace.
- Fonterra has, for now, successfully engaged in a differentiated international market approach by investing further down the value-chain and engaging in ventures and opportunities that take it much closer to the end customer. This approach will only remain viable while the returns to the many producer-shareholders are considered reasonable. As they begin to slide the pressure from these shareholders will undoubtedly spiral the company into an introverted producer-focused mass of conglomerates that will signal a return to production-orientated and commodity management.

Some interesting commentary has been offered in respect to New Zealand's forestry position.

During the early 1990's we saw the academic assessment of New Zealand's competitive drivers lead by Harvard's Professor Michael Porter. This followed his international analysis of *The Competitive Advantage of Nations* during the mid-to-late 1980's. The result was a piece of work titled "*Upgrading New Zealand's Competitive Advantage*" where Porter (page 72) noted that there were similarities between New Zealand's forest products industry and other New Zealand industries, notably primary.

- Reliance is on natural advantage such as rapid tree growth.
- Government has exercised significant control over the industry.
- There is limited domestic rivalry.
- Relatively few related and supporting industries have developed around the forest-products industry.
- New Zealand still focuses on commodity products such as logs, pulp and commodity paper products.

In the study, the forestry sector was noted as being unusual in that inbound and outbound foreign direct investments are important in the development of the industry. Foreign investors, through direct ownership and joint ventures, play a larger role in the forest-product industry than in most others. Similarly New Zealand forest-products companies were major investors overseas.

The report continues to say, perhaps controversially in retrospect around the implications of sophistication, that

"...during the 1980's New Zealand firms became more sophisticated and important global competitors. However, they maintained a strong orientation toward factor-based cost competition in simpler commodities. Upgrading New Zealand's export mix to more sophisticated products and the development of a broad-based cluster of forest-products industries will require a different philosophy. Similarly, while international expansion is important, it does not compensate for a home base that lacks sophisticated demand, related and supporting industries, and active rivalry in the domestic market."

The issues and solutions offered came in the following:

"The principal issue for the New Zealand forest-products industry is the form in which its timber resources are exported. The question is whether the maximum value can be obtained from the resource. In recent years, the percentage of logs in our export has risen dramatically. This reflects New Zealand's underlying pattern of competitive advantage in forest products. In particular, it reflects the weaknesses of created advantages and the

historic reliance of the industry on its natural-factor endowment and government support.

...Building a more secure and profitable industry that can make a major contribution to the New Zealand economy will require a different approach. If New Zealand is to build this type of industry, the dependence on commodity markets for simply processed products must be reduced and sources of advantage upgraded. Firms must make the large investments necessary to build world-class plants, rather than simply making profits off past investments by government. Sustained investment in upgrading the skill base in the workforce and management must take place. Labour productivity must be significantly improved. Research and investment must be deployed strategically to build new advantages in processing to augment New Zealand's advantages in growing trees. International expansion of our forest-products firms is necessary, but does not compensate for a weak home base."

While not wanting to acknowledge that a USA based academic is right, I am of the opinion, as I was during the early 1990's when this work was published, that the sheer common sense of it all must provide a platform from which this industry, and many others, should move. Unfortunately for us, it has not. It is also somewhat telling that Porter's employer, Harvard University through their multi-billion dollar endowment fund, is actively buying New Zealand forest resources and demonstrating that there is much money to be made in commodity-based products. Not only do they understand commodity cycles, have the cash to withstand fluctuations, and take a suitable time period as their risk profile, but they also know how to manage, and that is a serious shortcoming of much of New Zealand's industries.

Today our leading industry advisors continue to sound this same message. Stephen Jacobi, CEO of the Forest Industries Council, commented recently in the New Zealand Herald (January 8th 2004) that

"The New Zealand forestry industry is going through one of the most challenging periods in its history, hit by a confluence of factors including an appreciating dollar, trade restrictions and low commodity prices.

Propelling the sector out of its current difficulties will require bold steps and a clever strategy. Fortunately, we already know where we want to go and how to get there. We have recognised that the answer to a robust, expanding sector is the ability to turn our "raw" material into higher-value products, create a market for those products and successfully sell into that market.

Valuable though they are in their own right, we can no longer rely on log shipments to ensure the industry's profitability. Instead, with the New Zealand wood harvest set to double by 2015, market and product development are increasingly important.

More processing, however, requires additional investment in such areas as research, plant and equipment, market development and promotion. We need another \$3 billion

in investment over the next 10 years or so to process just half of the expanding harvest.”

Jacobi is right, of course, but the challenge will be to find this investment in a climate that is not short of investors or investment opportunities, merely the desire of the active participants **to** invest. There may be some justification to challenge the commentary that the industry is going through one of the most challenging periods in its history when this challenge has been identified almost as far back as the government's need to invest and subsidise it in the first place. Perhaps one decade we might do something about it, unfortunately it may be too late. While we continue to complain about the perceived advantages that the likes of the Chileans have over the New Zealand industry, where very few actually exist, we delude ourselves into a state of reluctance to actually address the issues within our control.

The publication “*NZ Forest Industry Facts & Figures*” attempts a positive spin in terms of our ability to influence our global and market position.

New Zealand's forest industry supplies 1.1% of world and 8.8% of Asia Pacific's forest products trade. All from just 0.05% of the world's forest resource and an annual harvest area equivalent to 0.0009% of global forest cover.

While this may be postulating a position of high productivity and managed sustainability, it is more indicative of our extremely vulnerable position in engaging in our present commodity focus. With these statistics we are extremely unlikely to be able to influence any global pricing positions, nor control or limit supply channels to manipulate pricing, as one of our larger corporations discovered, to the disadvantage of their balance sheet and the career prospects of an executive, several years ago.

Bodyguard®

A Timber Industry Branding Success Story

In spite of the general reluctance to correct our industry's state of affairs, there are some very good and positive demonstrations of initiatives that are occurring in the timber industry.

One notable example of this is a project that has been underway for several years now by members of the New Zealand Pine Manufacturers' Association (PMA) under the brand “**Bodyguard®**”.

This brand evolved following a February 2001 visit to the USA to determine the potential for market development away from the traditionally cluttered markets of New Zealand and Australia. In these historic market places the PMA members were encountering increasing competition in both pricing and supply, mostly from their own home base. An attempt to contain this unnecessary competitive approach was factored in the development of an additional market, and one that provided a relatively easy access point.

A visit to the North American Home Builders' Show in Atlanta during the February 2001 assessment highlighted an interesting trend in the increasing popularity and promotion of substitute and composite products into a market that was traditionally timber orientated.

That there is still a preference for timber was encouraging but the work that the manufacturers and marketers of substitutes had done in developing solutions to ensure durability and performance was commendable. That the timber industries had allowed this to happen was disastrous.

Why the USA? There were several reasons behind the choice of the USA as a preferred entry market.

- Already a major trading partner in NZ pine there were considered to be few issues with species acceptance
- The size of the market, at 300million people, provided a target that was large enough to ensure that price competition between similar manufacturers would be unlikely
- There was a possibility to segment each State so that coverage and access could be controlled
- Access to market is relatively short at approximately three weeks with relatively few other entry barriers
- On the surface there appeared to be very few apparent cultural differences

Entry barriers were encountered, however.

- Cultural differences were more subtle than pronounced. The concept of "imported" products appeared foreign to many customers
- Substitutes and composite manufacturers had taken a coordinated approach to market and were marketing aggressively with warranty assertions that were expensive to replicate and difficult to counter
- Any product promotion would have to target a point of difference and make a real value proposition, as the substitutes had done. In this case the product would require a guarantee of stability and durability and, for a soft-wood species in a heavily termite and rot infested environment, this would not be possible with an untreated product. The complications of this were that the USA is not a treatment receptive market, and the treatment process that the PMA members are familiar with did not have EPA approval. So began the process of modifying, evaluating and registering the selected treatment process using non-heavy metal technology through the USA registration channels; a process involving approximately eighteen months of working and waiting.

Engaging in traditional transactional selling was never considered to be an appropriate way of realising full market potential. To overcome the negative connotations of pine's poor durability, the increasing environmental concerns around treatment processes in general accentuated by the growing CCA (Copper Chrome Arsenate) debate, and the ground-swell that plastic and ceramic systems were building, a branded approach was deemed to offer the most appropriate delivery mechanism for the group. **Bodyguard®** was developed from the

brief to position this product against the market attributes of competing products and at the same time engage a point of difference for those who retained a preference for timber.

While always considered a pine product **Bodyguard®** has little to do with the substrate with its call to action being “*immunity for pine*”. It does signifies

- A brand to collect the value proposition and develop and create market opportunities
- A collective marketing effort to promote treated building products into the USA
- A concept to build on existing process capabilities
- A solution to challenge the growth in composite alternatives
- An opportunity to grow new markets at favourable returns
- A departure from the past in achieving or developing industry cohesion

As a result it attempts to move the product away from the traditional commodity cycle and mindset into a differentiated market space. While the window of opportunity for this market space may be limited based on the growing awareness of many competing companies and countries to replicate this system, it does demonstrate a viable base from which short-to-medium term profitability is possible while medium-to-long term analysis is conducted to fill the potential competitive gap that will ultimately exist again.

If the decline in consumer acceptance of timber products in the USA is considered within the life-cycle dynamics of most markets, then good contingency planning will enable strategies to be implemented that minimise any negative impact of such a decline and, at the same time, build possibilities to address market issues in imaginative and novel ways.

The encouraging result of the **Bodyguard®** project has been market acceptance and sales outcome. The first shipments of this brand have been achieved in late March with promises that this is just the beginning of a supply journey that will provide a worthwhile revenue stream in spite of exchange volatility. While this journey has taken three years following initial market exploration it is indicative of the market development work that is needed and demanded by our consumers to ensure business sustainability. Commodity markets are quick and easy to deal in, assuming there is desire and energy to maintain a viable presence; differentiated markets are somewhat more difficult to engage, but ultimately more profitable to engage in.

Issues

Certainly the potential for a product such as **Bodyguard®** is immense and one that is not confined to the USA market alone. However it highlights a number of issues that need to be considered and addressed.

- The “investigation to acceptance” time lapse. The **Bodyguard®** example has taken three years to reach a state of commercialisation. As trees grow quicker than our ability to consume them we are possibly faced with fixed-term tenure in a commodity environment.

- The PMA, as a value-added collective, contributes less than 20% of our export revenue within the “forestry and logging” statistics, and less than 8% of the total forestry fibre export revenues. Assuming the “value-adding” component to be disproportionate to volume, then the volume contribution is further reduced from these figures. The ability to influence saw-millers to provide an appropriate resource in terms of cut, availability, quality and consistency of product and volume, is not great when considering the market split against their mass off-shore commodity markets. Recognition of these needs is required throughout the value-chain so that each contributor shares in the knowledge and understanding required to meet the needs of the market, and then shares in the resultant marginal contribution.
- Investment in markets, and the infrastructure to support them, to develop matches to the capabilities of other entrants such as South American manufacturers. These suppliers have done very well at placing quality product into commodity markets and therefore causing a process of selective differentiation through their consistency offering.
- The process of substitution provides an opportunity with which to take stock of our market potential. There are many lessons to be learned from a well-focused product positioning approach where the needs of the end-user are factored more heavily than the capabilities and constraints of the producing unit.
- Industry fragmentation will always show in presentation to market. While success is not always attributed to total integration of the production side of a supply-chain it does require integration of a marketing one. Failure to contain and direct the activities of all proponents of this industry will make market development difficult.
- The conflict between life-style industries, that are so prevalent in New Zealand, and the corporate philosophies required to ensure investment and generate success will ultimately be a mechanism for continued compliance to a “me too” environment.

Conclusion

There is a place for commodity products and commodity market approaches. In many cases they provide a means for highly competitive market offerings to be made while rewarding the manufacturer or supplier with defined cost structures and a rate of return that is understood against a fluctuating demand and supply cycle.

For too long, though, New Zealand industries have been engaging in commodity marketing, “selling” actually, while advocating the need for “value-adding” and “investment” and “change”. While these activities are not totally mutually exclusive against commodity rationale, there is enough evidence, industry recommendation, and academic referral to suggest that for New Zealand to prosper requires a change to our commodity mindset.

Branding provides a means of achieving separation in the marketplace, although branding alone will not guarantee success. Branding is also equally applied to product and company where the single point of difference, where all else is equal, is the reputation and history of the supply company. Any brand must be supported with a culture, a promise and an

identification of product and service that signifies a value proposition to a customer that is difficult for any competing product to match. Applying brand values and investment to a commodity product without supporting this through some form of differentiation adds cost, not value. Understanding what that difference is and supporting it by applying brand values and investment leads to value.

The challenge for New Zealand's forest products industries is to remove themselves from the time warp surrounding subsidy, production focus, universal product offers, industry fragmentation, intense internal rivalry, and often archaic management style and systems to a market orientation where the value perceived by the consumer is translated into the value gained by the supplier, and a carefully constructed brand and market exercise can assist.

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