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
Agenda

- Environment & participation
- Strategies
  - Products
  - Customers
  - Geographical area
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- Structures
  - Organization
  - Distribution
- Functions
  - Marketing communication
  - Pricing
- Discussion
Market Planning Environment & Participation

As important

RAW MATERIAL

PRODUCTION

Information flow

Company X

MARKETS

Customer A
Customer B
Customer C

Material flow
Agenda

- Environment & participation
- Strategies
  - Products
  - Customers
  - Geographical area
  - Competitive advantages
- Structures
  - Organization
  - Distribution
- Functions
  - Marketing communication
  - Pricing
- Discussion
Strategies – Products in Principle

- Commodity, special or custom-made
- Characteristic
  - Quality
  - Dimensions
  - Lengths
- Realistic
  - Raw material
  - Production process
  - Sales
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/m³ 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

<table>
<thead>
<tr>
<th>Sawnwood Use</th>
<th>CONSTRUCTION</th>
<th>INDUSTRIAL END-USES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pine: 450 000</td>
<td>Pine: 50 000</td>
<td>Pine: 215 000</td>
</tr>
<tr>
<td>Spruce: 150 000</td>
<td>Spruce: 700 000</td>
<td>Spruce: 40 000</td>
</tr>
<tr>
<td>Pine: 230 000</td>
<td>Spruce: 200 000</td>
<td>Pine: 290 000</td>
</tr>
<tr>
<td>Spruce: 90 000</td>
<td>Spruce: 200 000</td>
<td>Spruce: 90 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main Dimensions (nominal size)</th>
<th>FLOORING/CLADDING</th>
<th>MOULDINGS</th>
<th>FURNITURE/EGP</th>
<th>WINDOWS/DOORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>22x75/100/125/150/175</td>
<td>36x100/125/150/175</td>
<td>19x100/125</td>
<td>Furniture: 22x100/150/200 (planed)</td>
<td>Windows: 50x125/150; 63x100/150/175; 75x100/150</td>
</tr>
<tr>
<td>25x75/100/125/150/175/200</td>
<td>22x125/150/175</td>
<td>25x100/150</td>
<td></td>
<td>Panel doors: 22/50X100</td>
</tr>
<tr>
<td>50x50/100/125/150/175/200</td>
<td>25x125/150/175</td>
<td>38/50x75-225</td>
<td></td>
<td>Door linings: 32x100-175</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lengths</th>
<th>MOULDINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Random 3.0 - 5.4</td>
<td>Random 3.0 - 5.4</td>
</tr>
<tr>
<td>Random (3.0-5.4)</td>
<td>Random</td>
</tr>
<tr>
<td>Windows: Random</td>
<td></td>
</tr>
<tr>
<td>Panel doors: 2.1/2.4</td>
<td></td>
</tr>
<tr>
<td>Door linings: 4.2/5.1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality</th>
<th>CONSTRUCTION</th>
<th>INDUSTRIAL END-USES</th>
</tr>
</thead>
<tbody>
<tr>
<td>U/S, VI</td>
<td>TR 26, for roof trusses</td>
<td>Furniture: &quot;knotty pine&quot;</td>
</tr>
<tr>
<td>MC 24, (C 24 can also be visual sorted)</td>
<td>VI and better</td>
<td>EGP: SF</td>
</tr>
<tr>
<td>U/S, V, VI</td>
<td></td>
<td>Windows: U/S, SF</td>
</tr>
<tr>
<td>Furniture: &quot;knotty pine&quot;</td>
<td>Panel doors: &quot;knotty pine&quot;</td>
<td></td>
</tr>
<tr>
<td>EGP: SF</td>
<td>Door linings: SF</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Moisture</th>
<th>CONSTRUCTION</th>
<th>INDUSTRIAL END-USES</th>
</tr>
</thead>
<tbody>
<tr>
<td>KD 18%</td>
<td>KD 18%</td>
<td>KD 16-18% or further KD to 10-12%</td>
</tr>
<tr>
<td>KD 16-18%</td>
<td>10-12%</td>
<td>Windows: 16-18%</td>
</tr>
<tr>
<td>Doors: 10-12%</td>
<td>14-16% (linings)</td>
<td></td>
</tr>
</tbody>
</table>
## Strategies – Products in Practice

<table>
<thead>
<tr>
<th>Region</th>
<th>Center-cut</th>
<th>Sideboards</th>
<th>Domestic GOST</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U/S</td>
<td>IV</td>
<td>V</td>
</tr>
<tr>
<td><strong>The UK</strong></td>
<td>10 000 m³</td>
<td>10 000 m³</td>
<td>10 000 m³</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>5 000 m³</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>5 000 m³</td>
<td>10 000 m³</td>
<td>5 000 m³</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td>5 000 m³</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other W-E</strong></td>
<td>5 000 m³</td>
<td>5 000 m³</td>
<td>5 000 m³</td>
</tr>
<tr>
<td><strong>N-Africa</strong></td>
<td>25 000 m³</td>
<td>25 000 m³</td>
<td>30 000 m³</td>
</tr>
<tr>
<td><strong>M-East</strong></td>
<td>25 000 m³</td>
<td>15 000 m³</td>
<td>20 000 m³</td>
</tr>
<tr>
<td><strong>Kazakhstan</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>China</strong></td>
<td></td>
<td>5 000 m³</td>
<td></td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>The USA</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>30 000 m³</td>
<td>80 000 m³</td>
<td>60 000 m³</td>
</tr>
</tbody>
</table>
Agenda

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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

![Graph showing the number of companies in different size strata for sawnwood production.](image)

- **Number of Companies**
  - Size Strata, 1000 m³/a sawnwood:
    - 1 - 2.5: 11
    - 2.5 - 5: 5
    - 5 - 8: 1
    - 8 - 15: 3
    - 15 - 25: 2
    - 25 - 50: 1
    - > 50: 1

- **Categories**:
  - Hardwood
  - Other
  - Softwood
  - Scandinavian Pine
Strategies – Customers in Practice
## Strategies – Customers in Practice

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>COMPANY</th>
<th>LOCATION</th>
<th>CONTACT INFO</th>
<th>WOOD USE (m³/a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trader</td>
<td>KDM International</td>
<td>The Havens</td>
<td>Contact Person: Mr Andrew Walsh</td>
<td>50 000</td>
</tr>
<tr>
<td>Importers</td>
<td>Tsar Timber Distribution</td>
<td>Timber Terminal Normandy Way</td>
<td>Contact Person: Mr Lorweiy</td>
<td>+50 000</td>
</tr>
<tr>
<td>Distributors</td>
<td>Howarth Timber</td>
<td>Lincoln Castle</td>
<td>Contact Person: Mr Sampsa Auvinen</td>
<td>No website available</td>
</tr>
<tr>
<td>Importers</td>
<td>Covers Timber Importers</td>
<td>New Holland</td>
<td>Contact Person: Mr Tony Tanner</td>
<td>10 000-50 000</td>
</tr>
<tr>
<td>Importers</td>
<td>Peter Ramsey</td>
<td>Sticker Lane</td>
<td>Contact Person: Mr Clive Freeman</td>
<td>10 000-50 000</td>
</tr>
</tbody>
</table>

### WOOD USE (m³/a)

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>COMPANY</th>
<th>LOCATION</th>
<th>CONTACT INFO</th>
<th>WOOD USE (m³/a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importers</td>
<td>Hygena-MFI</td>
<td>MFI Furniture Group</td>
<td>Tel: + 44 208 200 80 00</td>
<td>25 000-50 000</td>
</tr>
<tr>
<td>Importers</td>
<td>Silent Night Beds</td>
<td>Barnoldswick</td>
<td>Contact Person: Ian Nackie</td>
<td>25 000-50 000</td>
</tr>
<tr>
<td>Importers</td>
<td>Airsprung Beds</td>
<td>Canal Road</td>
<td>Contact Person: Mr Peter Mander</td>
<td>15 000-25 000</td>
</tr>
<tr>
<td>Importers</td>
<td>Peter Ramsey</td>
<td>Wellington Street Sawmills</td>
<td>Contact Person: Mr Mike Ramsey</td>
<td>25 000-50 000</td>
</tr>
</tbody>
</table>
Agenda

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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

Million m³ in 2004
- Production
- Consumption

North America
- Production: 118
- Consumption: 117

Latin America
- Production: 20
- Consumption: 17

Western Europe
- Production: 80
- Consumption: 78

Eastern Europe
- Production: 23
- Consumption: 14

Russian Federation
- Production: 18
- Consumption: 6

India & Rest of Asia
- Production: 5
- Consumption: 7

Oceania
- Production: 8
- Consumption: 7

Asia-Pacific
- Production: 38
- Consumption: 52

Africa
- Production: 3
- Consumption: 6

North America
- Production: 118
- Consumption: 117
Strategies – Geographical Area in Practice

- Increasing integration with Western Europe – driven by foreign ownership
- Rapid supply decrease from USA driven by weakening competitiveness
- An important outlet for Nordic suppliers of lower grades
- Increasing intra-regional trade driven by growing capacities
- Direction of exports has turned from Europe to North America
- Emerging supply source in sawnwood – expansion restricted by lack of processing capacity
- Increasing potential but prospects limited due to cost competitiveness and market acceptance

Major Trade Flows, in Million m³ –
Strategies – Geographical Area in Practice
Strategies – Geographical Area in Practice

Production Consumption

Volume Change, 1990-2004e
- Million m³ -

Domestic supply
+620,000 m³

Other Imports
-4.0 Mm³

Imports from Baltics
+2.3 Mm³

Imports from Russia
-480,000 m³

Production
+960,000 m³

Imports from Nordic Countries
+2.1 Mm³

Exports
+345,000 m³
Strategies – Geographical Area in Practice

Annual Demand Growth % 2004-2010

- Share of Global Demand
## Strategies – Geographical Area in Practice

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>The UK</td>
<td>45 000 m³</td>
<td>55 000 m³</td>
<td>65 000 m³</td>
<td>60 000 m³</td>
<td>55 000 m³</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>5 000 m³</td>
<td>7 000 m³</td>
<td>9 000 m³</td>
<td>8 000 m³</td>
<td>6 000 m³</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>20 000 m³</td>
<td>23 000 m³</td>
<td>26 000 m³</td>
<td>25 000 m³</td>
<td>24 000 m³</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>10 000 m³</td>
<td>15 000 m³</td>
<td>20 000 m³</td>
<td>20 000 m³</td>
<td>20 000 m³</td>
<td></td>
</tr>
<tr>
<td>Other W-E</td>
<td>30 000 m³</td>
<td>40 000 m³</td>
<td>50 000 m³</td>
<td>47 000 m³</td>
<td>45 000 m³</td>
<td></td>
</tr>
<tr>
<td>N-Africa</td>
<td>95 000 m³</td>
<td>100 000 m³</td>
<td>110 000 m³</td>
<td>100 000 m³</td>
<td>80 000 m³</td>
<td></td>
</tr>
<tr>
<td>M-East</td>
<td>75 000 m³</td>
<td>80 000 m³</td>
<td>90 000 m³</td>
<td>80 000 m³</td>
<td>70 000 m³</td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10 000 m³</td>
<td>40 000 m³</td>
<td>80 000 m³</td>
<td>110 000 m³</td>
<td>150 000 m³</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The USA</td>
<td>270 000 m³</td>
<td>360 000 m³</td>
<td>450 000 m³</td>
<td>450 000 m³</td>
<td>450 000 m³</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL**
Agenda

- Environment & participation
- Strategies
  - Products
  - Customers
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- Discussion
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

<table>
<thead>
<tr>
<th></th>
<th>Western Europe</th>
<th>The USA</th>
<th>North Africa</th>
<th>Middle East</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grade</strong></td>
<td>Better qualities for appearance applications and construction. Lower grades for pallet &amp; packaging and garden &amp; fencing.</td>
<td>Own grading. In &quot;Dimension lumber&quot; graded (stamped). Generally lower grades, mostly VI.</td>
<td>Generally lower grades, mostly VI.</td>
<td>All grades, however</td>
<td>Generally lower grades, mostly VI.</td>
</tr>
<tr>
<td><strong>Dimensions &amp; Lengths</strong></td>
<td>Low level of standardized products between countries. Increasingly further processed (planing, FJ, CTL, etc.).</td>
<td>Importance varies among countries and end use segments. Usually more requirement for market access than premium. However, in some markets small premium paid.</td>
<td>Environmental certification has less importance vs. Europe but its increasing gradually.</td>
<td>No significance.</td>
<td>No significance.</td>
</tr>
<tr>
<td><strong>Certification</strong></td>
<td>Varies among countries &amp; end use segments. In general mouldings &amp; EGP 16-18%, joinery 12%-2 or 16-18% and furniture 10-12%.</td>
<td>From thousands of m³ to tens of thousands m³. From thousands of m³ to tens of thousands m³. From thousands of m³ to tens of thousands m³. Tens of containers (40-45 m³ per container) by shipment.</td>
<td>From thousands of m³ to tens of thousands m³.</td>
<td>From thousands of m³ to tens of thousands m³.</td>
<td>No significance.</td>
</tr>
<tr>
<td><strong>Size of Delivery</strong></td>
<td>Varies from tens of m³ among industrial end use segments to some hundreds m³ in DIY/BM sectors.</td>
<td>Usually 15-30 days minus 2% from the day of bill of lading.</td>
<td>Credit insurance recommended. Usually 30-90 days minus 2% from the day of bill of lading.</td>
<td>Credit insurance recommended. Usually 30 days minus 5% from the day of bill of lading.</td>
<td>Credit insurance recommended. Letter of credit. However, varies among customers.</td>
</tr>
<tr>
<td><strong>Moisture</strong></td>
<td>Varies among countries &amp; end use segments.</td>
<td>From 16-18% for industrial end use segments to 12%-2 or 16-18% in the furniture industry.</td>
<td>Environmentally certified to 12%±2 and 12%.</td>
<td>No significance.</td>
<td>No significance.</td>
</tr>
<tr>
<td><strong>Time of Delivery</strong></td>
<td>3-4 weeks.</td>
<td>About 2 months.</td>
<td>About 1-1,5 month.</td>
<td>About 1-1,5 month.</td>
<td>About 1-1,5 month.</td>
</tr>
<tr>
<td><strong>Packaging</strong></td>
<td>Not strictly defined, usually agreed with client. Often plastic wrapping on 5 sides.</td>
<td>Credit insurance recommended.</td>
<td>Credit insurance recommended.</td>
<td>Credit insurance recommended.</td>
<td>Credit insurance recommended.</td>
</tr>
<tr>
<td><strong>Payment</strong></td>
<td>30-90 days minus 2% from the day of bill of lading.</td>
<td>Credit insurance recommended. Usually 30-90 days minus 2% from the day of bill of lading.</td>
<td>Credit insurance recommended. Usually 30 days minus 5% from the day of bill of lading.</td>
<td>Credit insurance recommended. Letter of credit.</td>
<td>Credit insurance recommended. Letter of credit.</td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
<td>Letter of credit.</td>
<td>Credit insurance recommended.</td>
<td>Environmentally certified to 12%±2 and 12%.</td>
<td>No significance.</td>
<td>No significance.</td>
</tr>
<tr>
<td><strong>Certification</strong></td>
<td>Varies among countries &amp; end use segments.</td>
<td>From thousands of m³ to tens of thousands m³. From thousands of m³ to tens of thousands m³. From thousands of m³ to tens of thousands m³.</td>
<td>Environmental certification has less importance vs. Europe but its increasing gradually.</td>
<td>No significance.</td>
<td>No significance.</td>
</tr>
</tbody>
</table>
Strategies – Competitive Advantages in Practice

- EUR/m³ -

-250 -200 -150 -100 -50 0 50 100 150 200 225

Finland Sweden Canada (Quebec) UK Estonia Western Russia

- Capital Charges *
- Distribution
- Other Costs **
- Personnel
- Energy
- Wood Net
- Residue Income

* WACC
** Incl. Customs in Russia
Strategies – Competitive Advantages in Practice

- EUR/m³ sob -

- Stumpage
- Harvesting
- Transport
- Overhead

Russia / Archangelsk, spruce
Russia / Leningrad, spruce
Estonia, spruce
Latvia, spruce
Czech Republic, spruce
Germany, spruce
Sweden, spruce
Finland, spruce
UK / Scotland, sitka spruce
Ireland, sitka spruce
Strategies – Competitive Advantages in Practice

Benchmark competitors

Log handling
Saw infeed
Sawing lines
Handling of by-products
Green sorting
Mechanised sticker-stacking
Kiln drying, old
Kiln drying, new
Grading, manual
Grading, new
Boiler plant
Strategies – Competitive Advantages in Practice

Perception of Irish Suppliers – BMs/TMs & DIY

Perception of Irish Suppliers – Garden & Fencing

Perception of Irish Suppliers – TFH

Perception of Irish Suppliers – Pallet & Packaging

* 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

Traditional

Advanced

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

- Foreign Supplier
  - Export Agent
  - Import Agent
  - Trading House
    - Forwarding Companies
    - Wholesalers (several layers)
      - Precut-sawmills
        - Large End-Users
        - Medium-size house builders
        - Carpenters/small size house builders

- Fewer
- Larger
- Broader
- Deeper
Structures – Distribution in Practice

**Furniture**

- Producers / Suppliers
  - EGP & Component Manufacturers
  - Large sawmill groups
  - Small & medium-size sawmill groups
  - Agents

- End-User Size Strata (Furniture)
  - Importers
  - Builders Merchants

**Mouldings**

- Producers / Suppliers
  - Large sawmill groups
  - Small & medium-size sawmill groups

- End-User Size Strata
  - Importers
  - Agents
  - < 1000 m³ (e.g., builders merchants)
# Structures – Distribution in Practice

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

<table>
<thead>
<tr>
<th>Segment</th>
<th>Products</th>
<th>Distribution</th>
<th>Actions &amp; Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2006 - 2007</strong></td>
<td>100% importers and agents</td>
<td>Rough KD sawn softwood, Pine and larch, Standard sizes, lengths, Standard qualities</td>
<td>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.</td>
</tr>
<tr>
<td>-&gt; Construction</td>
<td>To be agreed with buyers, however, vessel loads from St. Petersburg. 6-8 shipments per year. Preferably CIF/C&amp;F.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-&gt; DIY/BMs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-&gt; Joinery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-&gt; Mouldings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-&gt; Furniture &amp; EGP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-&gt; Garden &amp; fencing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2008 - 2010</strong></td>
<td>&gt;50% via importers and agents as above.</td>
<td>Rough KD sawn softwood, Special KD sawn softwood (tailored sizes, lengths, moisture), Planed KD sawn softwood (PAR and profiled), Pine and larch</td>
<td>Close co-operation with direct customers. Investments needed - Special kilning - Planing operation - Raw material procurement to support customer needs (e.g. lengths).</td>
</tr>
<tr>
<td>&lt;50% direct sales to</td>
<td>Vessel loads from St. Petersburg. 10-12 shipments per year. Distribution co-operation with selected partners. CIP buyers yard for industrial end users.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-&gt; Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-&gt; DIY/BMs</td>
<td></td>
<td></td>
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<tr>
<td>-&gt; Joinery</td>
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</tr>
<tr>
<td>-&gt; Garden &amp; Fencing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Agenda

- Environment & participation
- Strategies
  - Products
  - Customers
  - Geographical area
  - Competitive advantages
- Structures
  - Organization
  - Distribution
- Functions
  - Marketing communication
  - Pricing
- Discussion
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
Agenda

- Environment & participation
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  - Products
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- Functions
  - Marketing communication
    - Pricing
- Discussion
Functions – Pricing in Principle

- Overall picture
  - Spot prices
  - History and outlook (real vs. nominal)
- Fundamentals
- Policy
### Functions – Pricing in Practice

- **USD/m³, Free at Large Wholesaler at the Target Market** -

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>N.A. Hemlock, Unseasoned, 4 1/8&quot;, 8/20'</td>
<td>107</td>
</tr>
<tr>
<td></td>
<td>N.A. SPF, Economy, KD, 2x4'</td>
<td>99</td>
</tr>
<tr>
<td>China</td>
<td>Russian Red Pine, rough, green</td>
<td>193</td>
</tr>
<tr>
<td></td>
<td>Russian White Pine, rough, green</td>
<td>139</td>
</tr>
<tr>
<td></td>
<td>Russian Larch, rough, green</td>
<td>135</td>
</tr>
<tr>
<td></td>
<td>N.A. SPF/Hemlock/Fir, Green 60% #2 &amp; Btr</td>
<td>109</td>
</tr>
<tr>
<td>Japan</td>
<td>Japanese Redwood Taruki, 30x39mm</td>
<td>310</td>
</tr>
<tr>
<td></td>
<td>Japanese Whitewood Taruki, 30-40mm</td>
<td>287</td>
</tr>
<tr>
<td></td>
<td>Japanese Radiata Pine, Board</td>
<td>215</td>
</tr>
<tr>
<td></td>
<td>Chilean Radiata Pine, Board</td>
<td>195</td>
</tr>
<tr>
<td></td>
<td>New Zealand Radiata Pine, Flitches 8&quot;-12&quot;</td>
<td>167</td>
</tr>
<tr>
<td></td>
<td>Finnish Whitewood, #5&amp;Btr, 42x150-220 mm</td>
<td>239</td>
</tr>
<tr>
<td></td>
<td>Canadian SPF 2&quot;x4&quot;-8 KD</td>
<td>287</td>
</tr>
<tr>
<td></td>
<td>Japanese Hemlock Taruki, 36x45mm, 4 mtr</td>
<td>318</td>
</tr>
<tr>
<td></td>
<td>US Douglas Fir, 4-1/8&quot;x6&amp;wdr</td>
<td>318</td>
</tr>
<tr>
<td></td>
<td>Canadian Hemlock, 4-1/8&quot; sq. S4S</td>
<td>271</td>
</tr>
<tr>
<td></td>
<td>US Hemlock, 4-1/8&quot; sq. S4S</td>
<td>255</td>
</tr>
</tbody>
</table>
Functions – Pricing in Practice

Graph showing the price per cubic meter (EUR/m³) of different types of wood from 1998 to 2005. The wood types include:
- NA, E-SPF, merch. KD 1-7/8x3" & wider 8/16'
- Swedish Carcassing, KD, C16, 47 x 100 mm, R/L
- Baltic Red Pine, 47 mm, structural ungraded
- Finnish Red Pine, fifths, 50x175 mm, R/L

The x-axis represents the years from 1998 to 2005, and the y-axis represents the price in EUR/m³, ranging from 0 to 250.
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.

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

Traditional pricing of Nordic spruce in the UK

<table>
<thead>
<tr>
<th></th>
<th>Base price (150/175 mm)</th>
<th>200 mm</th>
<th>225 mm</th>
</tr>
</thead>
<tbody>
<tr>
<td>U/S 50/63/75 mm</td>
<td>190 €</td>
<td>+ 3 €</td>
<td>+ 6 €</td>
</tr>
<tr>
<td>32/38 mm</td>
<td>+ 9-11 €</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V</td>
<td>The meaning of the scale is lower and supply/demand sets the exact price</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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.
Agenda

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Contact Details and Further Information

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