Assessment of Market Development Needs of Aboriginal Forest Products Companies

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NAFA

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INTRODUCTION

If First Nations across the country are to derive economic benefit from the forest resources that surround their communities – for many this is the only major development option – then they need to develop strategies encompassing new and different approaches to forest-based development. The downturn in the traditional forest products industries, i.e., commodity production of lumber, pulp and paper, has meant that First Nations must look beyond timber harvesting. The downsizing of large forest companies and their vacating of forest tenure and certain market niches is creating market space for smaller community-based enterprises. The forest sector is ripe for those First Nations that have acquired or are seeking forest tenures, or are managing forested land acquired through land claim settlements, treaty entitlement, or other means. However, opportunities in the forest sector will not be realized without a greater marketing orientation in terms of products produced and services offered.

Of the estimated 1200-1400 Aboriginal forest companies operating in the forest sector, the vast majority have operated as third party timber harvest contractors, or hold some form of forest tenure whereby they are locked into timber supply agreements with large forest companies. The broad trend in the forest sector is to introduce tenure systems more responsive to market prices and conditions, which will require a separation of wood processing from forest management and timber harvesting. Over time Aboriginal forest companies, with access to timber, will need to function within timber markets on a competitive basis. The need for a marketing orientation is more notably accentuated for those First Nations that produce, or intend to produce, value-added or semi-finished wood products, Non-Timber Forest Products (NTFP) or forest bio products.

This paper is a summary of the National Aboriginal Forestry Association (NAFA) preliminary and exploratory assessment of the market development needs of Aboriginal forest product companies. It is based on the assumption that Aboriginal forest companies can gain a competitive advantage through a differentiation of their forest products. If this is true, then there is a broad need for market development support specific to Aboriginal producers.

ACKNOWLEDGEMENTS

We would like to extend our sincere appreciation to the respondents that participated in the survey process by providing their unique and informative perspectives on various issues related to the Market Development Needs of Aboriginal Forest Product Companies. This project was made possible through funding obtained by the National Aboriginal Forestry Association (NAFA) from Indian and Northern Affairs Canada.

1.0 Study Objectives

This exploratory study will assess and describe the market development needs of Aboriginal forest product companies in recognition the distinct challenges faced by these companies. There currently exists a strong imperative for First Nations to develop a market presence in the forest products industry based on economic factors and institutional change within forest management regimes. Considering that First Nation companies are new entrants to the industry and that their potential markets may differ from those other producers, market development needs will not totally mirror those of other Canadian producers. The goal of most Aboriginal producers is to differentiate their forest products which calls for a set of initiatives that meet their distinct needs.

In assessing market development needs, this work examines the issues and factors driving First Nations towards a stronger link with the market place. In this regard, it is recognized that First Nation companies are part of regional economies and do not operate in isolation of other actors in the forest sector. Marketing is not a function that First Nation companies have performed as part of the forest industry supply chain. Because of the small size of Aboriginal forest product companies, undertaking the marketing function may require relationships and collaborative arrangements with other Aboriginal forest companies, service intermediaries, and with other members of the supply chain. To the extent that products will benefit from an Aboriginal identity should be a strong determining factor in the most appropriate marketing approach. Market development support services should be aligned accordingly.

2.0 Survey Approach

The Assessment of Market Development needs of Aboriginal Forest Products Companies has the primary objective of determining the type of services that would assist in better achieving marketing objectives. It will identify issues, research gaps, needs specific to Aboriginal Forest Product companies. To obtain perspectives of First Nation companies on their market development needs, NAFA developed a survey document (see attached).

NAFA selected personnel from specific companies to participate in the survey. These respondents were interviewed, primarily, over the telephone. After consideration of various interviewing strategies, this approach was deemed most suitable given the objectives of the assessment and resource constraints. The contact list was generated from NAFA's National Aboriginal Forest Sector Directory. A sample of 18 forest companies was selected based on the following criteria:

1) Minimum 51% First Nation owned
2) Active in the marketplace
3) Producer of Forest Product(s)

Of the companies contacted, 11 interviews were conducted between the period of January to April 2011. Information related to the respective interviewees and the First Nation communities they are affiliated with have played a pivotal role in the compilation of this information. However, due to the need to maintain strict confidentiality, the names and specific locations of the companies are not provided in this report.

A NAFA employee contacted and conducted the telephone interviews, as previously identified. During each interview, the interviewer entered the information received, directly onto the survey document. Alternatively, due to their time constraints, 4 respondents opted to forward their comments via email. At the completion of interviews, the responses were then compiled and the research findings were generated into this final report.

This needs assessment is part of a significant process which seeks to identify relevant Market Development Needs for Aboriginal Forest Products Companies. It is important to note that the respondents' level of knowledge related to market development needs for their companies varied considerably from a minimal to high level of insight. The spectrum was wide-ranging and it was evident that they had varying levels of understanding when providing their responses on the current marketing issues.

3.0 Market Development Services Within the Forest Sector

In Canada, industry trade associations are important to various sectors such as forestry, mining, energy, etc. These associations are typically founded and funded by businesses and/or governments that operate in a specific industry. An industry trade association participates in public relations activities such as advertising, education, political donations, lobbying and publishing, but its main focus is collaboration between companies to access markets.

Within the Canadian forest sector there are approximately 50-75 industry trade associations that represent industry sub-sectors or members within a geographic region. These organizations are membership based, established to serve the needs of their governmental and more specifically, their industrial members, most of whom are large integrated multi-national corporations. Areas of activity include but are not limited to forestry, lumber manufacturing, log security, and market development activities may include applied research, product development, market access (codes, standards, etc.) and product promotion in both established and emerging markets.

Through associations, governments provide financial and logistical support for market development. Forest innovation and market development programs, such as Canada's "Wood Export" and the "Wood First" programs are examples of national initiatives that provide the resources to associations to develop markets. Other programs of governments focus on specific markets such as British Columbia's Business Innovation Program which is focussed on key Asia Pacific countries. The

Canada Wood Export Program alone is a marketing effort totaling $25.4 million per year.

An example of a trade association is the Forest Product Association of Canada (FPAC) which represents Canada's wood, pulp, and paper producers both nationally and internationally in government, trade, and environmental affairs. FPAC represents 30 of the country's largest producers of pulp, paper and wood products, and its members have responsibility for over 75% of the working forests in Canada. They provide an active forum for advancing ideas and issues of importance to the Canadian forest products industry. With the help of member companies, FPAC develops programs to promote Canada's leadership in sustainable forest management and environmental stewardship, all of which is to suggest that Canadian forest products are market worthy.

In a province that has been recognized as leading in the forest sector, the British Columbia (BC) government had identified the need to add additional support services to the forest industry by creating a publicly owned, funded and operated trade development organization. Investment Forestry Innovation (IFI) was founded to specifically promote BC wood products. This Crown corporation works closely with industry associations and other levels of government in marketing forest products around the world. More than half of their budget supports programs delivered by industry trade associations and other partners. The programs are within four areas: market development, market outreach, business innovation and market development overseas. The federal government and industry also financially support these programs. In delivering IFI programs, trade associations respond to industry priorities. IFI does not duplicate the efforts of trade associations or provide business subsidies to individual firms.

4.0 Aboriginal Forest Sector

Currently, there are approximately 1200-1400 Aboriginal forest companies that exist in all sub-sectors, with the exception of pulp and paper manufacturing. The majority of these Aboriginal enterprises operate as third party timber harvest contractors, or hold some form of forest tenure whereby they are bound by their obligations as outlined in their respective timber supply agreements, to supply wood to pre-determined processors. This majority does not have market development as a priority as their market is the local mill.

However, within the Aboriginal forest sector, there are two broad types of businesses that require a market orientation and would benefit from market development support. First, there is an increasing number of First Nations that have forest tenure free from mill appurtenancy requirements and log export restrictions. This grouping of businesses are typically referred to as Log Marketers. Secondly, there are an increasing number of First Nation value-added mills and secondary processors producing finished or near-finished wood products. Typically these two types of businesses lack the resources to engage in-house marketing expertise and rely on established business relationships. Market development support has the potential to expand these types of businesses and the benefits to the community members.

4.1 Aboriginal Forest Products Companies

At the present time there are approximately 60–75 Aboriginal forest products companies in Canada, many of which are joint ventures, producing a range of different forest products including:

- Dimensional lumber, boards, studs, blocks
- Posts and beams
- Log homes and building logs
- Pre-fabricated housing components
- Specialty lumber
- Finger jointed lumber and window stock
- Firewood(s)
- Landscaping products and garden furniture
- Paneling, flooring and mouldings
- I-beam joists
- Pallets, crates
- Non-timber and specialty non-wood products

As these products are produced for regional niche markets and are often consumer ready, it is they that would benefit most from market development support. These are normally small companies that produce products in a competitive environment but have the advantage of establishing one-on-one relationships with distributors, wholesalers and often the end user.

4.2 First Nations as Log Marketers

One of the major issues driving tenure reform in provincial systems is the need to create market based pricing systems. The primary means of accomplishing this goal is to separate forest management and timber harvesting from wood processing. Separating the buyer (processor) from the seller of logs creates a market situation, whereby, over a certain period of time, and for a given geographic area, stumpage fees and the price of wood can be formulated and determined. In this situation, the timber harvester becomes a log marketer with the responsibility to develop markets based on conditions stipulated in the forest tenure arrangement. Trade agreements such as the Canada/USA Softwood Lumber Agreement, the North American Free Trade Agreement and the general rules of international trade as espoused by the World Trade Organization, are driving this broad direction.

As market based systems are being implemented, and the domestic demand for timber remains low, First Nations across Canada are gaining greater access to timber resources. Currently, First Nations across Canada have access to approximately 11 million cubic meters of wood annually, where 8-9 million cubic meters are available in BC alone. In 2009-2010 only approximately 17% of the available annual cut in BC was actually harvested by First Nation companies. In other provinces, First Nation companies such as Two Feathers and Mitigoog in Ontario, have or will acquire harvesting rights through tenure arrangements which will require the development of markets for their wood supply.

Five years ago within the Aboriginal forest industry it was unheard of to be responsible for the marketing of such large volumes. Today, there is First Nation owned companies that have access up to 500 thousand cubic meters of wood annually through various types of tenures. As the forest sector continues to evolve, First Nations are required to accomodate these changes and there is need for institutional support to access international log markets.

4.3 Differentiation of Aboriginal Forest Products

A potentially large market segment for Aboriginal Produced Forest Products (APFP's) are businesses and individuals, throughout the world, that prefer to utilize products produced in a sustainable manner by individuals that have maintained a unique relationship with the land and forest. Specifically, those that are environmentally conscientious about the products they purchase. The existence of such segments of consumers is evidenced by the growth of ethical mutual funds and corporate social responsibility, and the expanding markets for certified wood products. The fact that products are Aboriginal-produced, in itself, addresses a key element of sustainable development.

In the forest products industry, globalization has meant that larger is better. The mergers and acquisitions in the industry have caused the surviving companies to focus on increasing production and volume sales to established markets. These trends will create opportunity for new smaller producers in niche markets. The characteristics of Aboriginal forest product companies are appropriate for niche marketing initiatives as certain market segments are not conducive to the impersonal approach of the large volume producers. The marketing of APFP's will require a marketing strategy which differs from the established industry, and is innovative, attune to environmental considerations, and builds on the image of Aboriginal peoples as responsible stewards of the land.

The special relationship that Aboriginal people have with the land and their natural environment is a connection that cannot be reproduced and/or duplicated by non-Aboriginal companies. It is also important to recognize that Aboriginal peoples have their own internal, inherent mechanisms which are consistent with non-Aboriginal "certification" processes. These internal mechanisms include traditional protocols which determine when a forest has been harvested properly.

In light of this, an unresolved issue that many consumers may consider is whether these certified forest products are produced from a questionable sustainable forest are they truly sustainable? For example: when a non-Aboriginal company produces a product from a certified forest, the product immediately receives “proper certification”. The question then relates to an Aboriginal produced product, would this still be considered a certified forest or product and if not, how could this be addressed? This further illustrates the complex issues related to how a non-certified APFP’s could co-exist or even compete with certified products produced by non-Aboriginal companies. This interesting area would require further research and investigation which falls beyond the scope of this research document. However, the information could also assist in the development of a future marketing strategy. Is whether the certified forest products produced by a questionable, uncertified forest are truly sustainable?

A basic assumption that needs to be tested is that competitive advantage will be achieved through a differentiation of Aboriginal produced forest products. If this is true, then there is a need for market development services specific to Aboriginal producers.

5.0 Interview Results/Responses

5.1 Profile of Respondents

A contact list of 18 key personnel from numerous Aboriginal Forest Product Companies was generated from NAFA’s National Forest Sector Directory. The interviewees were selected based on the following criteria:

1) Minimum 51% First Nation owned
2) Active in the marketplace
3) Producer of Forest Product(s)

The overall objective of this project was to secure 18 interviews from across Canada; however, it was very difficult to find companies that had the time and/or interest to participate in the interviews. To this end, a total of eleven interviews were completed; four interviews were completed by companies in British Columbia, one company in Alberta, two companies in Saskatchewan, three companies in Ontario and one company in Quebec.

5.2 Survey Responses

During the survey, the information sought from the respondents was to identify their companies’ needs in the following areas:

- Operations
- Market Growth
- Marketing
- Market(s) Served

- Partnership(s) in Marketing
- Market Development support services
- Market Challenges
- Product Differentiation (current)
- Product Differentiation (future)
- Technology
- Changes to Market Strategy

5.3 Operations

The Aboriginal forest companies that provided data were both market loggers and value-added producers. One NTFP producer participated.

Products	FN Ownership	Size (# of employees)
Value-Added	100%	< 25
Value-Added	100%	< 25
Non-Timber	100%	< 25
Timber	100%	50 – 75
Timber	51%	25 – 50
Timber	50%	25 - 50
Timber	100%	25 – 50
Timber	100%	< 25
Value-Added	51%	< 25
Non-Timber	100%	< 25
Timber	51%	25 – 50

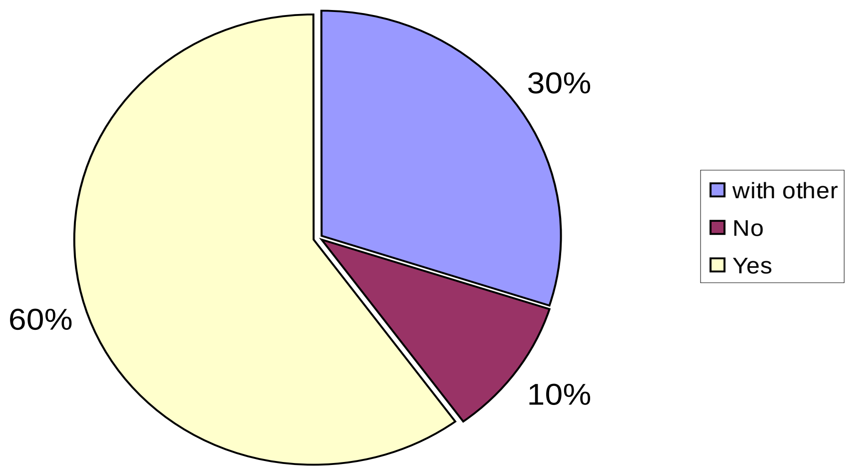
5.4 Market Growth

The interviewees were asked to identify the areas of potential market growth for their company. The most common responses were the United States and Asia.

Market growth	Number of responses
Asia	6
United States	5
Specialty	3
Other sector(s) i.e. Mining, renewable energy, etc.	1

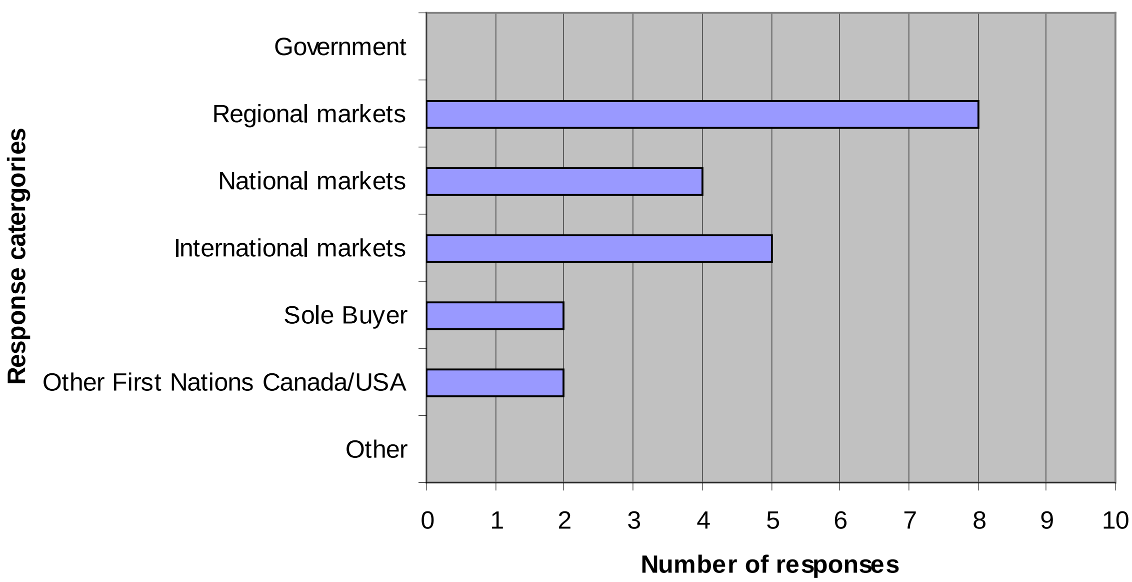
5.5 Marketing

For this area, interviewees were asked if their company(ies) directly undertook their own Marketing. A majority of companies, (60%) of the interviewees responded by affirming that they were conducting their own marketing. In addition to this, 30% affirmed that marketing was being conducted through others, and 10% responded no.



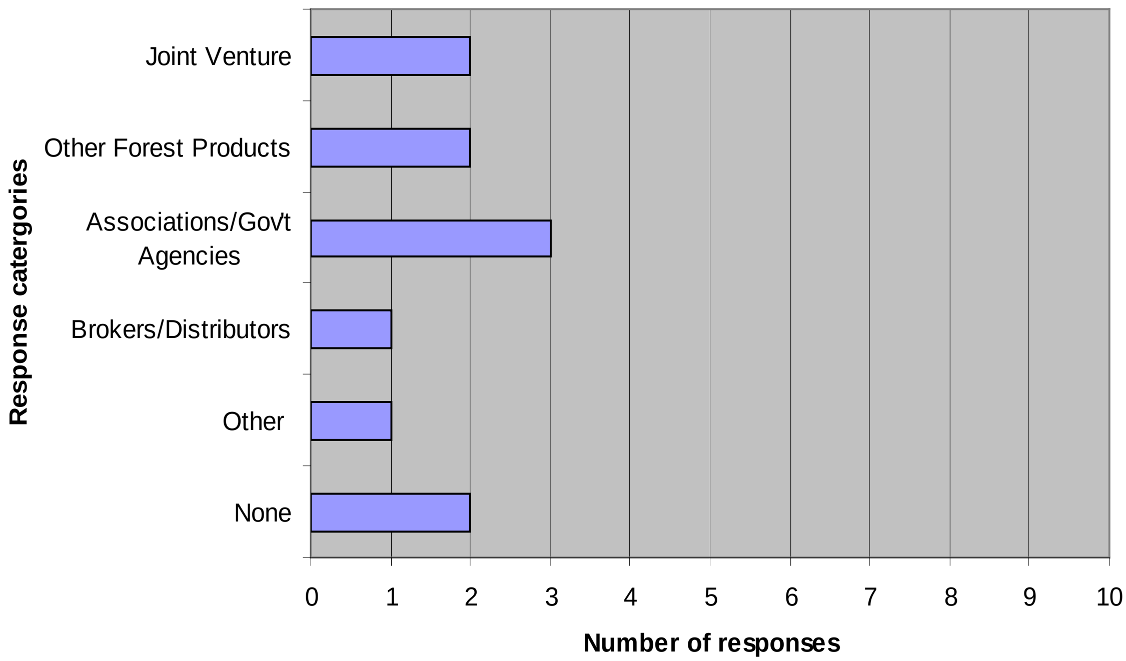
5.6 Market(s) Served

The interviewees were asked which of the following market(s) your company serves. They were provided with the following options: Government, regional markets, national markets, International markets, sole buyer, other First Nations in Canada/USA, other, or a combination of these markets. Based on the responses, the highest identifiable market was the Regional Markets. It is interesting to note that none of the interviewees identified Government as a market served regardless of the Aboriginal procurement strategy.



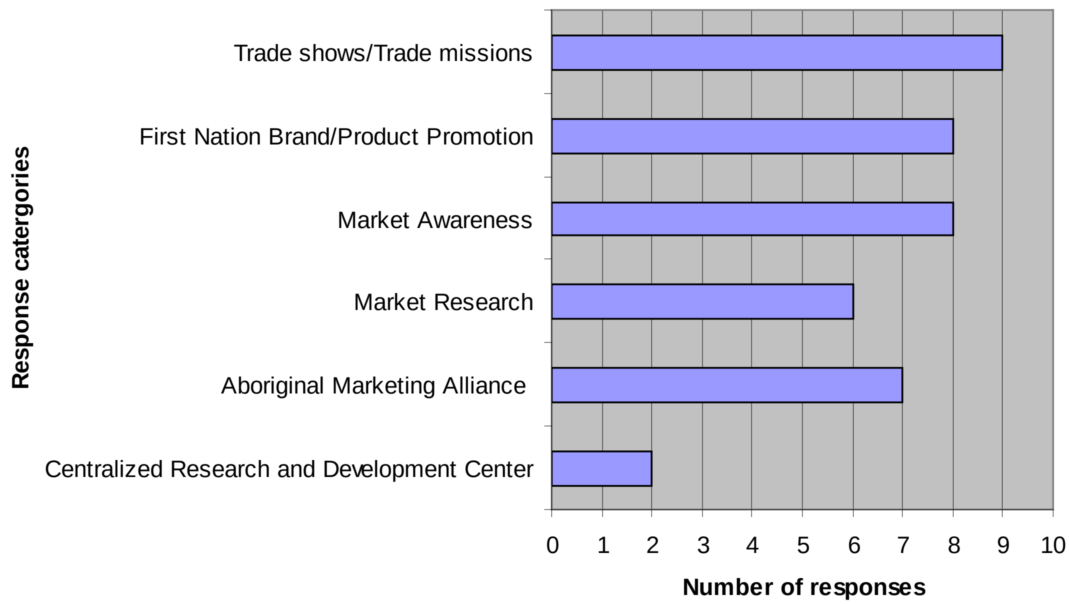
5.7 Partnership(s) in Marketing

The interviewees were asked which of the following Partnership(s) in Marketing does their company currently utilize. They were provided with the following options: with Joint Venture, with other Forest Product Companies, with Associations or Government Agencies, Brokers, other or a combination of these partnerships.



5.8 Market Development Support Services

The interviewees were asked which of the following marketing development support services would be of value to their company(ies). They were provided with the following options: Trade shows/Trade missions, First Nation Brand/Product Promotion, Market Awareness, Market Research, Aboriginal Marketing Alliance, Centralized Research and Development Center or a combination of these categories. The top responses identified were Trade shows/Trade missions, First Nation Brand/Product Promotion and Market Awareness.



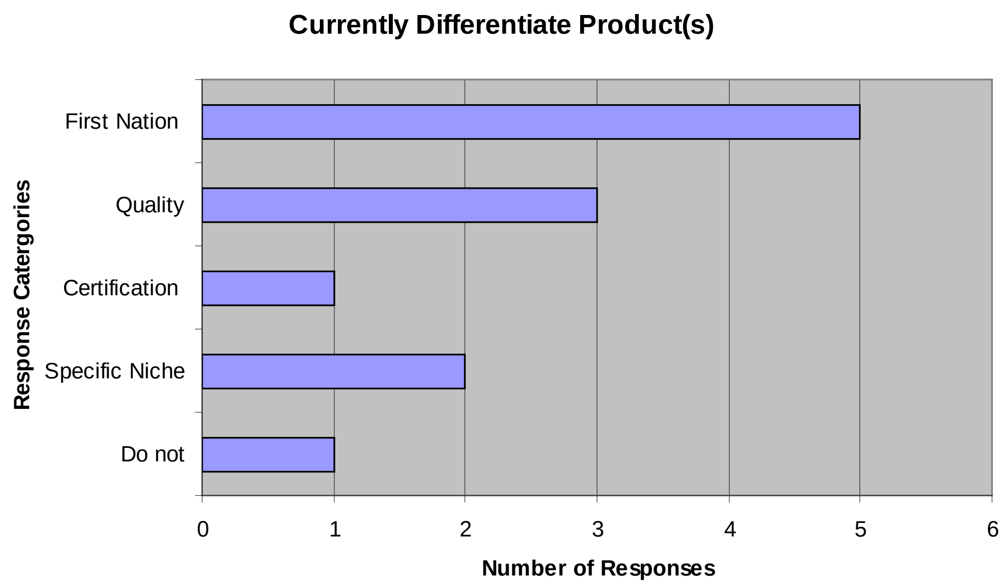
5.9 Market Challenges

The interviewees were asked what market challenges are experienced by their companies. The challenges that were provided are as follows:

Challenges	Number of responses
Need to increase sales or market share of existing product(s)	7
Need guidance in developing a new product or entering a new market	5
Competition is making inroads into our business	5
Need to improve effectiveness of distribution channels	6
Need more or better information on customer needs, product requirements and purchase requirements/preferences	5
Need help in evaluating a merger, acquisition, or strategic partnership	2
Need help in planning a new products introduction	4
Other	6

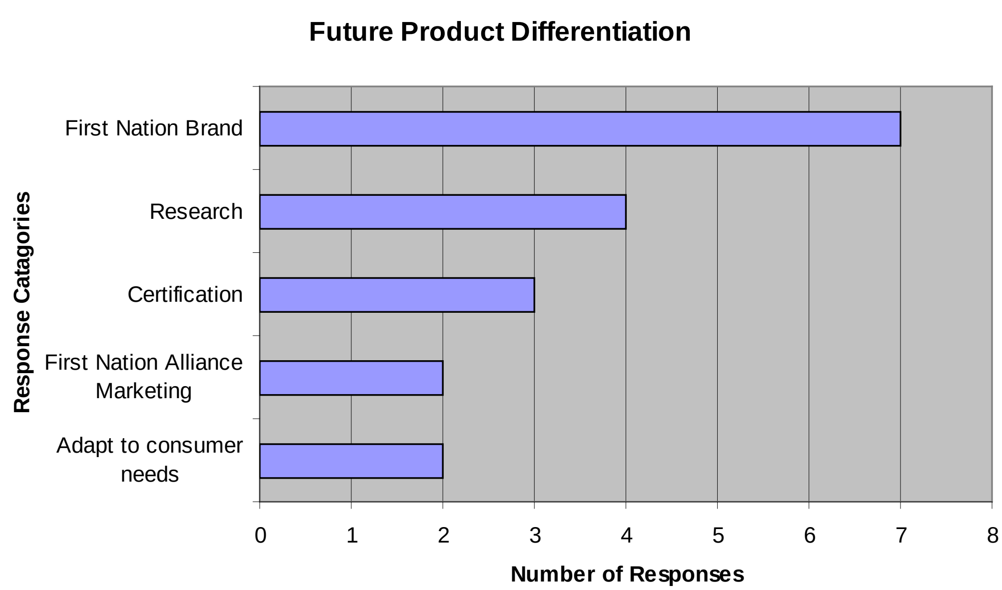
5.10 Product Differentiation (current)

The interviewees were asked how do they currently differentiate their product(s) from a competitor's product. The most common answers were First Nation, Quality and Specific Niche.



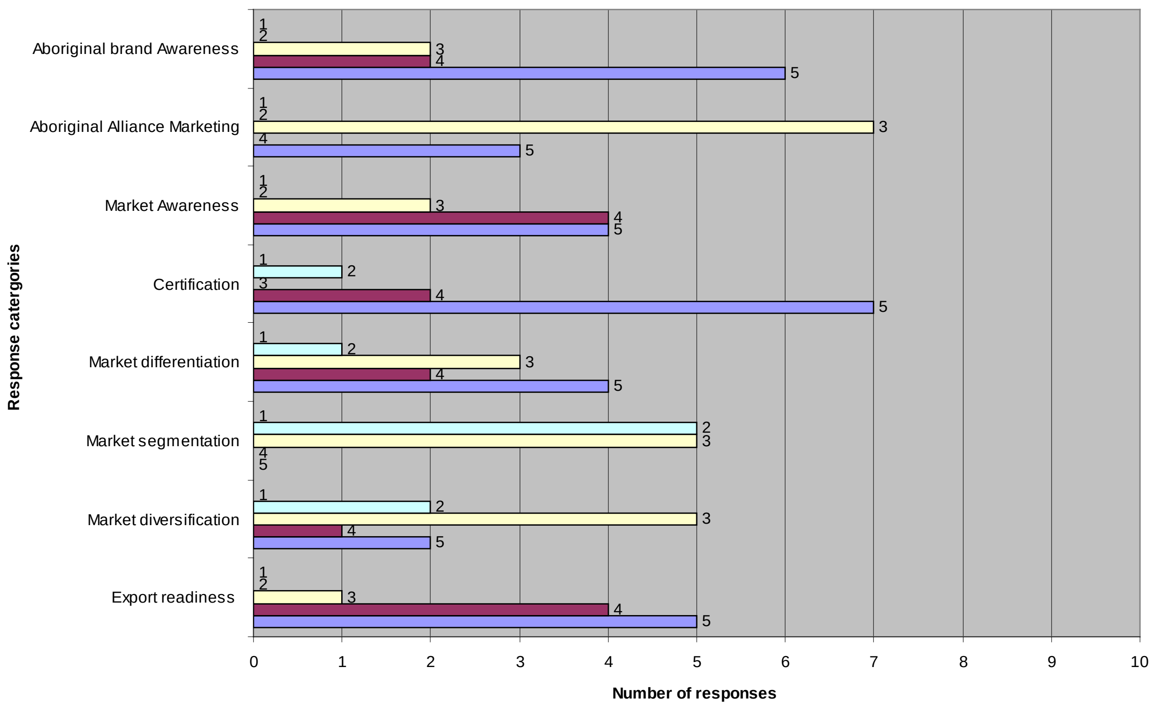
5.11 Future Product Differentiation

The interviewees were asked what can be done to differentiate your product or define/create niche.



5.12 Importance to individual Companies

The interviewees were asked to rank the importance of the following topics, as categorized in the chart below. The spectrum of responses were ranked on a scale of 1 to 5, 1 illustrated the least important and 5 illustrated the most important.



6.0 Summary of Observations/Recommendations

Federal and provincial governments recognize the importance of market development support for the Canadian forest products industries. The level of financial assistance to industry associations to enable the provision of services in accessing markets is reflective of the importance of the forest industry to the Canadian economy. This cannot be said of the Aboriginal forest sector as no national program exists to address the market development needs of Aboriginal forest product companies despite the observation that the vast majority of Aboriginal producers wish to differentiate their products.

The survey was designed to identify issues, research gaps, needs specific to Canadian Aboriginal forest product companies and to determine the most critical issues and (or) needs from the perspective of a range of NAFA members. Fundamental observations were that:

- Asia and US identified as areas of potential market growth
- Majority (60%) of companies affirmed they conduct their own marketing

- Highest identifiable market was regional market and it's important to point out that none of the interviewees identified government as a market served regardless of the Aboriginal procurement strategy.
- Aboriginal forest product companies do utilize various partnerships with respect to marketing.

The survey results indicated that Aboriginal forest product companies see a need for a specialized range of market development services. Currently, product differentiation is a priority. On this matter, the survey observed:

- Current product differentiation is primarily achieved by affiliating the product with First Nation origin.
- First Nation brand was unanimously identified as an option for future product differentiation.

First Nation approaches to market development will differ from those of other actors in the forest industries and we believe that First Nation forest product companies can gain competitive advantage through alliance and niche marketing. The extent to which First Nations will utilize the services of non-Aboriginal industry/trade associations will be limited, and by doing so, they will lose their distinctiveness. With that in mind, the federal government should fund a First Nations forest marketing agency to assist in promoting access to international log markets, and niche markets for finished products, as it has done with the marketing support for major non-Aboriginal forest companies that manufacture forest products.

APPENDIX 1

Sample Interview Questions

Company:____
Contact name:____
Title: ____
Email: ____
Address: ____
Phone(s): ____
Fax: ____

Operations:
Products/Product Lines: ____
Ownership (FN, %): ____
What is the size of your Company?
___< 25 employees ___25 – 50 employees ___50 – 75 employees
___75 – 100 employees ___100 + employees

1) Where do you see market growth for your Company?

2) Does your Company do its own Marketing?

3) Which of the following Market(s) does your company serve?
- ☐ Government
- ☐ Regional Markets
- ☐ National Markets
- ☐ International Markets
- ☐ Sole Buyer
- ☐ Other First Nations Canada/USA
- ☐ Other:____________________________

4) Which of the following Partnership(s) in Marketing does your company currently utilize?
- ☐ with Joint Venture
- ☐ with other Forest Product Companies
- ☐ with Associations or Government Agencies
- ☐ Brokers
- ☐ Other:_____________________________

5) Which association and/or organization do you currently receive market development support services from?

6) Which of the following marketing development support services would be of value to your company?

- ☐ Trade shows/trade missions
- ☐ First Nation Brand/Product Promotion
- ☐ Market awareness via seminars, networking, educational programs
- ☐ Market research/Intelligence reports
- ☐ Aboriginal Marketing Alliance (FNs working together)
- ☐ Centralized research and development center (aboriginal products development)

7) What market challenges are your company facing? (check all that apply)

- ☐ Need to increase sales or market share of existing product(s)
- ☐ Need guidance in developing a new product or entering a new market
- ☐ Competition is making inroads into our business
- ☐ Need to improve effectiveness of distribution channels
- ☐ Need more or better information on customer needs, product requirements and purchase requirements/preferences
- ☐ Need help in evaluating a merger, acquisition, or strategic partnership
- ☐ Need help in planning a new products introduction
- ☐ Other: ____

8) How do you currently differentiate your product(s) from a competitor's product?

9) What can be done to differentiate your product or define/create niche?

10) How has technology affected your company and how can technology benefit your company in the future?

11) What changes have occurred in the market place in recent years that has altered your marketing strategy for your product(s)? i.e. - introduction or removal of competitive products, development of new markets, etc.

12) Please circle the number that indicates how important each is to your organization, on a scale of 1 to 5 (5 = Very Important, 1 = Less Important)

Aboriginal Brand Awareness	5	4	3	2	1
Aboriginal Alliance Marketing	5	4	3	2	1
Market Awareness	5	4	3	2	1
Certification (FSC, etc.)	5	4	3	2	1
Market differentiation	5	4	3	2	1
Market segmentation	5	4	3	2	1
Market diversification	5	4	3	2	1
Export Readiness	5	4	3	2	1