TALKING TIMBER

TIMBER PRICES!

In the first instalment of a new regular Talking Timber column by the Wood Technology Society (WTS), board member ***Andrew True*** *looks at the question of pricing in the timber trade*

Recently I reminisced and looked through pricing sales ledgers of 1968 when the shipper's price for Western Canadian fresh sawn hemlock carcassing was under £25 per cubic metre, landed in the UK.

The 2016 equivalent price should be £405/m^3!! (more than twice today's actual price for kiln dr ied European spruce!!)

This got me thinking about price and trade.

What is price? The 19th century thinker John Ruskin commented the following...

"It's unwise to pay too much but it's worse to pay too little.

"When you pay too much, you lose a little money – that is all.

"When you pay too little, you sometimes lose everything because the thing you bought was incapable of doing the thing it was bought to do.

"The common law of business balance prohibits paying a little and getting a lot; it can't be done.

"If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that, you will have enough to pay for something better."

Doesn't this sound familiar, and how often have we come across all of these components! It is a philosophy still applicable in the 21st century, and the key to building long-term business relationships.

What determines price? The timber trade is, in economic terms, one of perfect competition, with many suppliers and many (though possibly decreasing in number) buyers.

Therefore the basic law of supply and demand applies – when demand increases then price increases, only to be brought back because supply increases to meet the demand. Unfortunately, in our trade supply does not seem to be curtailed as quickly as it came on to meet the increased demand, so stocks build up and the need to move wood on leads to lowering prices.

Price is important in trading, but so is yield, the amount of effort needed to convert the product, and the ability to re-sell. As Ruskin says it may have been bought at a bargain price, but the efforts to convert it into something fit for customers could outweigh the initial cheap price.

Also important is to acknowledge that everyone should come away from a deal feeling satisfied.

The primary sawmill needs to sell at a cost that, enables log replenishment, covers manufacturing and delivery costs, and includes a profit enabling future investments to improve yield and productivity. Therefore the objective of the sawmill sales manager is to maximise mill return.

Likewise for the buyer, who needs to buy at a price that permits re-sale (and possibly further conversion), without stocks sitting too long on the ground, and at a level to maintain the future health of his company.

Buyers and sellers who always extract extremes, without compromise, run the risk of losing support when markets become tough whereas long-term relationships built on compromises last the course.

Throw into the mix the landed stockist, who fulfils a valid function in the supply chain. But, the stockist also may be a supply sink for a partner sawmill, sitting on slow moving stocks, or maybe has misread the market. Then irrespective of real demand there is a threat of downward pressure on price.

Sudden currency fluctuations are totally out of the buyers and sellers control. For the buyers the pressure is to be close to the local market price, and for the seller sawmill there is a need to meet production costs.

Here, a compromise is often the best solution for a long-term business relationship.

Oh, and about my initial reminiscing, the simple conclusion is that today spruce is greatly under-priced, but that's a topic for another day. ■

(Andrew True will write further on timber pricing in next month's issue of TTJ)

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Below: Canadian sawn hemlock fetched £25 per m^3 back in 1968