



Is there Money on the Table?

Costs and value as the causes

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Intelligent Design or Evolution

- If you know the problem to be solved and the processes for solutions, you can design an engineering solution.
 - Though it is often not a good solution in terms of motivation.

BUT

- if the problem to be solved keeps on changing, evolution may be much more efficient.
- Evolution gives many intelligent designs and with the best sorted out by competition.

Which better describes UK forestry?

Lean Production or Markets?

- Fanatical pursuit of removal of waste
 - Defined as anything that does not create consumer value (e.g. necessary Timber transport!)
- Smooth production
 - Smooth demand
 - One-touch handling
 - JIT delivery & no inventory
 - Easy work
 - GEMBA
- Easier within firm
 - Vertical integration
- But would need a lean network
- Maximise profits
 - Higher (prices – costs) → move in!
 - Search for value opportunities
 - ‘Minimise costs’
- Obstructed by:
 - Costs of market search
 - *Who do we get to do....?*
 - *That's not the way we do it!*
 - *You have no right to ask me to do that.*
 - Single companies dominating too much of the supply (FC?)
 - Government regulations aiming to minimise some aspect... not maximise social value.

When did you last encounter an example of timber travelling extra distances?

- Today!
- markets work efficiently?
- Shipping wood for board-mill to Inverness 80+ miles rather than to pier (3 miles).
- Why? Supplies to mill interrupted by weather, but needed to keep production going.
- Market wins: higher value use!

Empty Wagons – Efficient?

- No transport from hills = no value created
- No other uses in the hills that would allow backhaul = 50% load factor.
- 50% Lf raises transport cost, so independent hauliers desperately seeking loads.
- In some cases, timber co. can guarantee two way loads – sets up own haulage, and buys rest from market.
 - Benefit: ease of control of own trucks – lower control costs
 - Risk: lose control of costs due to lack of competition
- Hauliers who consistently fail to get loads, exit
 - (Wrong pricing strategy? Wrong search strategy?)

Cranes off trucks?

Direct loading of trailers?

- Cranes off = 3 tonnes extra load = 11% free transport
 - Cost cranes at both ends – space and costs?
- One touch loading by harvesters?
 - Empty trailer left to load (a 'Lean approach')
 - Full trailer taken
 - Free transport time (Hours directive), but one spare trailer and more space at road required.

How does this work in market?

- Excessive bids for timber from Mills = net loss of profit
- OR same bid, but excessive cost
 - Higher haulage costs ➔ takes off price you can pay
 - But exceptional shortages raises price
 - Some 'cross-hauls' expected
 - Regular cross hauls = money on table = market opportunity
 - Mean trick bids = loss of profits = costly revenge = rare revenge? - or suicide.

Queues of trucks at mills?

- Pure waste according to Lean thinking
- Raises haulage costs.
- Market opportunity; so expect a solution, or ridiculous loss of profits.
 - Every bit of pure waste = net loss of profits

Dangers of Lean

- Costly to study and tough to install
- How much leaner could you get?
 - You are Not in large bureaucratic companies
- Would vertical integration actually improve cost control?
 - Small company has to keep efficient or go bust
 - Once in a company, choose the easy life over the constant search for profit – “not my problem any more thank you!”
 - What if conditions change and facilities no longer needed?: company’s problem; write off capital.
 - try to avoid writing off capital, leads to inertia.

Problems in the market solution

➤ Getting a flow of timber through time

- Planting may be the result of government initiatives and not intelligent design or market stimuli.
- But even planning or market stimuli may not work
- Long lag from planting to harvest = strong potential for change of circumstances that make the stimuli out of date.

Problems in the market solution

- Failure to see the potential cross-company value and costs
 - “That’s not my problem”
 - Example: “Sweetie wrappers”: cost per unit purchased optimised, instead of cost per wrapper used.
 - Transport improvements
 - *unlikely to be significant and*
 - *may lead to no overall lowering of costs: the bottleneck problem.*
 - Lean approaches would insist on looking at the whole value net, from extraction to delivery of product

Extractive Industries

- face global competition
- fluctuations in demand
 - through both world prices,
 - global transport costs, and
 - shifts in foreign exchange.
- Lean might make you more responsive and able to adapt – or the market may have led you there.