

Planning the 2020 Workforce: Growing Our Forest Contract Capacity

Sustain forest contract investment & workforce

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Associated Oregon Loggers, Inc.

Statewide trade group providing business services and government affairs to forest contract operators who manage Oregon's 30 million forestland acres

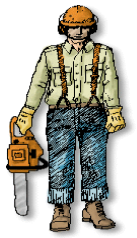


Council on Forest Engineering

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Eugene, OR – Jan. 17, 2019



Growing Forest Contract Capacity



Purchaser-contractor relations: focus on Oregon and West

TOPICS COVERED

- I. Current Situation: Contractors & Purchasers
- II. Weakened Contractor Sector
- III. Study Findings: Contracting Problems
- IV. Causes of Contractor Weakness: 30 Years
- V. 2020 Workforce: Growing Contract Capacity
- VI. Summary: Sustainable Contractors



Contractors & Purchasers

Current Situation



- **CONTRACTORS** (Suppliers) Producers are independent contract businesses who conduct forest operation services on a per-pay basis. Forest contractors grow, harvest, reforest, protect, construct, maintain, plan, implement, and transport products from forest to market
- **PURCHASERS** (Consumers) Purchasers of contract services; buyers are forest landowners and timber mills
- Sustainable purchaser-contractor relationships rely on successful and profitable arrangements between both



Contractors & Purchasers

Current Situation



WHY INDEPENDENT CONTRACTING ? "Value Elements"

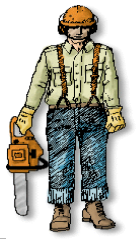
GEMS... Values contractor delivers *better* than purchaser:

1. Risk & liability managed
2. Labor allocation & output
3. Capital invested most effectively
4. Production results
5. Surge & recede capacity (just-in-time)
6. Entrepreneurship; innovation in methods & outcomes
7. Technology efficiently deployed
8. Relationships with subcontractors managed
9. ***Profit & equity incentives for independent contractor***



Contractors & Purchasers

Current Situation



- **Demand.** North American & global demand for structural wood continues to increase. Rising wood product demand continuing since 2010
- **Growth.** Annual forest growth in Oregon exceeds annual harvest. Oregon grows an available 6 to 7 billion bf/year
- **Harvest.** Oregon harvests just 4 billion bf/year. From 2013-'17, harvest declined from 4.2 to 3.8 billion/yr
- **Unprecedented market cycle.** Demand for Oregon wood exceeds capacity



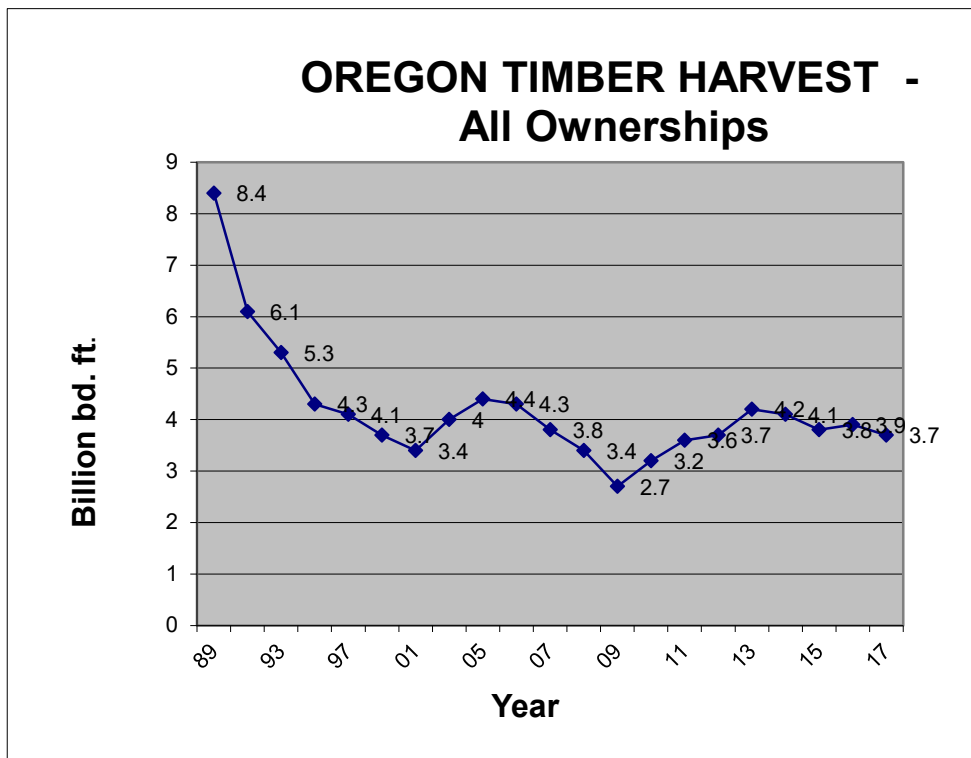
Contractors & Purchasers

Current Situation



Since 2013, OR statewide annual harvest *decreased by* 350 million bf/year (- 8.3%)

- Decreasing OR harvest contradicts the strong rising demand for structural wood
- Unprecedented market cycle
- **WHAT'S CAUSING DECREASED HARVEST ... WHILE DEMAND GROWS?**



Contractors & Purchasers

Current Situation



FACTORS contributing to unprecedented market cycle:

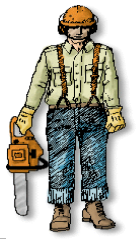
1. Public harvest declining; while public timber available
2. Family forest harvest under-performs growth
3. Forestry regulation and statutory limits
4. Employer & business regulation hurdles rise
5. Competitive labor arena
6. Purchaser-contractor relations/routines are stale
7. Weakened contract sector; waning capacity & workforce

Unprecedented: Demand exceeds contract capacity



Contractors & Purchasers

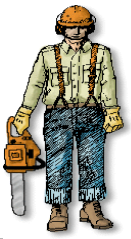
Current Situation



$$\text{DISSAPPOINTMENT} = \frac{\text{EXPECTATION}}{\text{REALITY}}$$

- Equation relevant to Oregon's contract capacity situation
- **Expectation:** Past up & down-cycles always self-resolved; idled contractors returned to work when demand rose
- **Reality:** Forest contract capacity shortfall worsens
- We aim to change *Expectations* and *Realities*
- **Working together – Contractors and Purchasers can reduce *Disappointment* about contractor capacity**

Weakened Contractor Sector



Weakened contract sector capacity *IS MORE THAN* a “LABOR SHORTAGE”...

- Short labor is a symptom of more comprehensive ailments
- Factors evolved over past 30 years to weaken contract capacity
- Strained purchaser-contractor relations are an obstacle
- Contract rates have become insufficient to sustain those important GEM qualities delivered by contractors
- For 30 years: Contractor capacity has been gradually disinvested. Forest contractors are under-invested



Weakened Contractor Sector



Many symptoms of a “weakened” contract sector:

- Purchasers unable to hire enough contractors
- Lack of up-cycle surge capacity; lack down-cycle equity to survive
- Can't reduce backlog after regulated weather shutdown (no rebound)
- Bottlenecks/short: trucks; cable; fallers; woodlot logging
- Retention low; turnover hi: Workers depart; better wages other trades; retiree
- Recruiting low: Young workers avoid forest for more lucrative jobs/careers
- Idled equipment; worn-out equipment; less iron investment
- Bemoan unprofitable rates; face rapidly-rising costs
- Business exits exceed start-ups; low margin not warrant expansion

Harvest production drops; while demand rises



Weakened Contractor Sector



Contractor production challenges:

- **Costs:** Rapid escalation
- **Labor:** Hi turnover; exodus of workers; unattractive work
- **Capital:** More expensive, difficult access for small business
- **Risk:** Increasing exposure; related change; uncompensated
- **Interruptions:** Frequent curtailment: regs, quota, changes
- **Contract favor purchaser:** Short-term, uncertain, unilateral
- **Rates:** Non-responsive to escalation; uncompensated costs
- **Profit:** Below need for investment in labor/capital/equity
- **Contractor capacity stifled:** Insufficient profit to re-invest



Study Findings



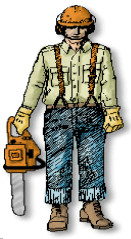
Seven studies of forest purchaser-contractor relations:

1. Contract Sector Metrics Survey, Associated OR Loggers, n=90, Oregon, 2018
2. Future of Our Industry Survey, Associated OR Loggers, n=125, Oregon, 2017
3. (Log)Trucking Survey, Timber Harvesting Magazine(TH), n=420, national, 2017
4. Logging Business Survey, TH, n=490, nationwide, 2016
5. Wood Supply Chain Analysis Study, Wood Supply Research Institute (WSRI), nationwide, 2013
6. Supplier-Consumer Relations Study, WSRI, n=225, nationwide, 2012
7. Logging Capacity Study, WSRI, 2009

Studies identified common findings: 1) weakened contract sector; 2) shrinking workforce; 3) costs rise faster than rates; 4) ailing purchaser-contractor relations



Study Findings



7 Studies: Common Findings: AILMENTS

- Unprecedented industry market cycle abated contract capacity
- Stifling contract practices—and short contract duration—
Purchaser market power can dictate inadequate compensation;
improvement of negotiated contracts needed
- Workforce turnover impedes production and safety
- Weakened contractor business; unprofitable to expand
- Contractor capacity declining; damaged ability to expand
- Barriers are rising; less contract business expansion & start-up
- GEM disinvestment; contractor business hover rather than soar
- Strained relations between purchasers-contractors



Study Findings



7 Studies; Findings: AILMENTS (continued)

- Lacking surge capacity; lacking assets to endure idle periods
- Low profits: Just 4 to 5% profit common in sector, versus comparable trade industries having 10-40% mean profit rate
- 100% of contractors difficulty filling vacancies; many un-filled
- 65% of contractors expect to downsize or remain same size
- 77% of truckers have or expect driver shortages
- 78% of truckers said underpaid or subsidized trucks with logging
- 73% of truckers said unprofitable, break-even, or exiting
- Aging workers & owners; extraordinary numbers of workers and businesses, with exits exceed entries



Study Findings



7 Studies; Findings: IMPACT ISSUES ON PRODUCTION

1. Workforce problems worsen; high labor turnover and rapidly rising costs
2. Insurance costs climbing, unavailability
3. Weather/regulation-related downtime
4. Transport regulation worsens
5. Unstable markets
6. Punitive purchaser-dictated quotas
7. Short contract duration
8. Cutthroat bid practices
9. Sub-par rates for logging/trucking
10. Unpredictable work or availability/volume under-run/poor layout
11. Uncompensated changes/malfunxions
12. Debt expense rising
13. Added costs of new regulation
14. Rising equipment/parts/service costs
15. Truck wait times at mills inefficient



Study Findings



7 Studies : Common Findings: REMEDIES

- Customary tactics will not succeed to re-route this unprecedented industry market cycle
- Individual purchasers and contractors must rebuild relations
- Making work more attractive for skilled employees, and affording family wage careers
- Massive capital investment to be required
- Innovative approaches must be developed to address challenges
- New industry-wide efforts may be possible for course-correction
- Not any one purchaser or contractor can resolve capacity alone

But... Each business can create its own improvement actions



Study Findings



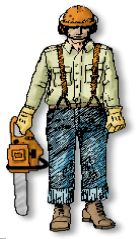
7 Studies : Common Findings: REMEDIES (continued)

- Re-invest in key labor and equipment, which has long been too under-invested for contractor business to thrive
- Negotiated longer-term contracts— would better address adequate compensation for necessary contractor costs, in a rapidly-changing business climate
- Lasting contract structural and cultural change would improve contractor re-investment in future capacity

Industry is at critical turning point!



8 Causes of Contractor Weakness



1. Industry compression and recession

Compression

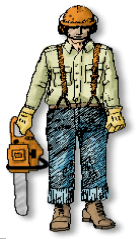
- 1989-2002: Decline of federal timber program HALVED Oregon's statewide harvest production (common across western US)
- Volume drop created contractor surplus, and a decade of rate compression, as the prior capacity winnowed toward a market equilibrium; weakened contractors

Recessions x 2

- 2001-02 & 2007-12: Added impact to already weakened contractor conditions; contractor disinvestment is chronic



Causes of Contractor Weakness

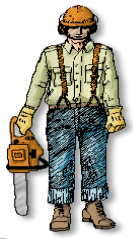


2. Market power imbalance expands to favor purchasers; disadvantages contractors

- Moral hazard of recurring & expanded purchaser power
- Consolidation & closure of both mill and industrial landowner ownership – translates into fewer, larger purchasers
- The many contractors increasingly become disadvantaged under bid practices within a near-monopoly marketplace
- Purchasers gain greater success at pressing for lowest cost of goods delivered—at times *below-cost* to contractor
- Purchasers become “victims of their own success”... as low rates contribute to contractor weakness and subsequent less contractor capacity



Causes of Contractor Weakness

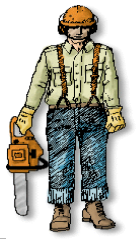


3. Contractor profits shrink over time... problems arise

- Relatively low contract rates contribute to contractor weakness... and less contractor capacity emerges
- Contractor's real costs escalate greater than rate adjustments tendered by purchasers
- Purchaser's specified terms elevate contractor costs, often uncompensated, which escalate greater than rates
- Under "survival condition," contractors restrain investment in their fundamentals: a) labor, b) equipment, and c) equity
- Disinvestment occurs in the contractor's equipment & equity
- **Forest labor rates fail to pace compensation in competing trade industries/cities—creates unintended workforce loss**



Causes of Contractor Weakness

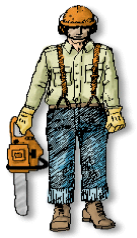


4. Purchaser norms are static; now counter-productive in unprecedented new industry market cycle

- Short-term contracts fail to provide fiscal certainty to contractor to invest amply in labor, equipment, equity
- Purchaser-dictated rates (unilateral) fail to compensate for escalating costs, for added requirements, or for necessary business investment that would sustain future contractor capacity
- Low-bid contract terms devolve into a low capacity future
- Contractors not inclined to re-invest when their profits low



Causes of Contractor Weakness

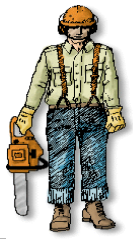


5. Contractor business norms are static; now counter-productive in unprecedented new industry market cycle

- Traditional workplace and job structure have not evolved to attract young workers, nor retain mid-career workers
 - Compensation and worker development incompatible with contemporary workforce expectations; periodic layoffs bad
 - Contractor compensation uncompetitive with other trades
 - Career pathways & workplace traditions exclude major segments of potential workforce
 - Recruiting & retention means antiquated
- Employees not inclined to work for sub-par compensation



Causes of Contractor Weakness



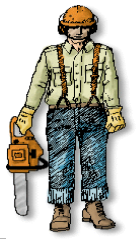
6. Demographics of today's workforce has changed!!

- To motivate/recruit/retain Gen X-Y-Z workers -- demands alternative programs (majority of today's available pool)
- Generational career expectations of today's workforce different than outdated norms still in-use by forest sector
- Cannot afford to overlook women and non-traditional workers from pool of today's available workforce
- Traditional work must be altered to fit today's workers
- Contractors lack access to workers; mismatch/no-match; need new matching services between available workers & employers

Young workers "will work in the woods, but, not for \$20/hour"



Causes of Contractor Weakness



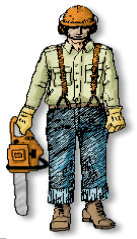
7. K-12 primary education (& community college) system does not equip students to work, nor be successful in trades careers

- Many young workers lack necessary skills or self-discipline to enter trade careers
- K-12 fails to instill trade career readiness, capability or motivation
- Unrealistic expectations of young job candidates
- Generational avoidance of young people from considering trades as a viable career path

Absence of school counseling for great trades/rural careers



Causes of Contractor Weakness



8. Ease/prevalence of avoiding work in rural trades

- Fewer young Gen folks want to live and work in rural towns; or few outsiders have any exposure to benefits of rural life
- Government entitlements availability make work less necessary
- More Americans under-employed by choice, than ever before
- Public sector jobs compensate better; short 30-year career; 50-year olds exit workforce
- Anti-forestry/anti-rural moral persuasion prevails in media, entertainment, sports, public education
- Forest sector commonly wrongly indicted in public arena as a declining industry with diminishing career opportunity



2020 Workforce: Growing Forest Contract Capacity

'Planning the 2020 Workforce for OR/WA Forest Contractors'

4-Part Web TV Series – Jan. to April 2019

- ❑ Four x 2-hour events: 1/24, 2/13, 3/13, 4/10
- ❑ Single \$200 registration buys 3 seats/logons
- ❑ Identify actionable improvements to address forest contracting workforce & capacity challenges
- ❑ **View on computer; any time; all 4 events; even after live showing – Can register NOW or later**
- ❑ Register online: **<https://bit.ly/2URT1Ld>**



2020 Workforce: Growing Forest Contract Capacity

Forest sector together craft unified forest industry “growth strategy”

- ❑ Consider an industrywide initiative/campaign that advocates Oregon forest sector growth, careers, and economic development
- ❑ Together: associations, businesses, agencies
- ❑ Lobby for increased public timber sale
- ❑ Work to foster/assist more woodlot harvest
- ❑ Promote forest sector as a “growth industry”
- ❑ **Make the forest and our entire forest sector a “great place to work!”**



2020 Workforce: Growing Forest Contract Capacity

Purchasers explore contemporary, improved relations with contractors

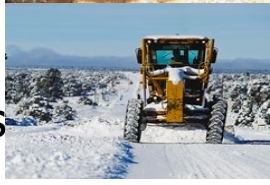
- ❑ Each purchaser can improve its own future
- ❑ Long-term agreements sustain contractor capacity
- ❑ Better understand contractor costs & tradeoffs
- ❑ Listen/negotiate contractor value/costs
- ❑ Convey contract capacity needs to top managers
- ❑ Assess factors that hinder contractors
- ❑ Improve rates/terms to strengthen contract pool
- ❑ **Empower independent contractors to do what they do best — efficient production (GEMS)**



2020 Workforce: Growing Forest Contract Capacity

Contractors develop new business models for modern business cycle

- ❑ Redesign compensation AND work methods to be competitive AND contemporary for workforce
- ❑ AOL and Web TV Series to help identify workplace methods/designs that attract & retain workers
- ❑ Negotiate rates for sustainable profit, risk, equity
- ❑ Better calculate & understand costs
- ❑ Identify career pathways to attract & retain workers
- ❑ Make new connections: match workers to employers
- ❑ **Make the forest a great place to work!**



2020 Workforce: Growing Forest Contract Capacity

Education engagement by forest sector organizations– create strategy

- ❑ Forest sector together elevate its engagement with education providers--expanding student preparation for rural forest & farm trade careers/opportunities
- ❑ Industry implore K-12 to reboot skills-based, trades, and rural life programs
- ❑ Industry ask community colleges and tech schools to expand trades & rural work programs
- ❑ Develop curriculum that advances rural forest career opportunity and growth



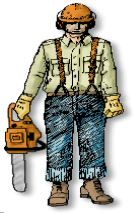
2020 Workforce: Growing Forest Contract Capacity

Rural community opportunity for trades, careers, living (forest & farm rural career promotion)

- ❑ Join with other rural industries to develop a campaign to encourage rural living, careers, jobs, and enhanced economic development
- ❑ Enhance forest sector career promotion information/campaign



Summary: Sustainable Contractors



- A. *Meaningful corrections that begin today--*** would help vanquish contract capacity weakness & shortages!
- B. *Each purchaser & each contractor--*** can act to improve their own business; improved contract-purchaser relations
- C. *Market economy will prevail--*** capacity shortage will foster responsive contract rate increases and essential reinvestment... *A great way to sustain forests!*



Summary: Sustainable Contractors



- D. *Workforce capacity reinvestment is an urgently important starting-point***, where in the forest sector together can rally around improvement strategies that would “make the forest a great place to work!”
- E. *Forest sector together campaign for industry growth***, begin to coordinate new programs at growing careers, state education, rural forest-farm jobs, and forest production!



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