AN ASSESSMENT OF THE GROWTH IN SCOTTISH HARDWOOD SECTOR BUSINESSES AND THEIR IMPACT ON THE UTILISATION OF SCOTTISH HARDWOODS AND THE ECONOMY OF RURAL SCOTLAND

A REPORT FOR

SCOTTISH HARDWOOD TIMBER MARKET DEVELOPMENT GROUP

PREPARED

BY

JOHN CLEGG CONSULTING LTD

JANUARY 2003

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John Clegg Consulting Ltd
1 Ravelston House Loan
Edinburgh
EH4 3LY

Tel : 0131 343 6821
Fax : 0131 343 6823
Email : consult@johncleggconsulting.co.uk

1. INTRODUCTION & BACKGROUND

BACKGROUND

1.1. The aim of the Scottish Hardwood Timber Market Development Group, set up by the Forestry Commission in 1996, is to identify, encourage and facilitate the development of markets for timber from broadleaved woodlands in Scotland. The Group consists of members representing all parts of the wood chain. The Group's aim is to stimulate a higher and more regular demand for lower quality hardwood timber, and to assist businesses to enter higher value end markets. This in turn should encourage woodland owners to manage their broadleaved woodlands more actively and positively through pruning, thinning, felling and replanting in a sustainable manner.

ASSESSMENT AIMS

1.2. At the October meeting of the Scottish Hardwood Timber Market Development Group, it was agreed by the members that it would be valuable strategically to have an assessment of the growth in the processing capacity within the small-scale hardwood sector from 1996, when the Group was first set up, until the present time. It was also felt that the opportunity should be taken to identify the development intentions of businesses in the coming year, since this would provide a further indication of the overall health, viability and immediate development potential of the sector. It should be noted that it was not the intention of the survey to assess the overall size, capacity, or economic impact of the sector, but only to assess its growth since 1996.

METHODOLOGY

1.3. John Clegg Consulting Ltd was commissioned by the Forestry Commission to undertake a short, voluntary, confidential telephone survey of all the suppliers of Scottish hardwood and hardwood products in Scotland. A copy of the structured telephone questionnaire that was developed and used is given in Annex 1. The businesses that were identified for inclusion in the telephone survey were taken from the Forestry Commission's list of 'Suppliers of Scottish Hardwood and Hardwood Products' produced in December 2002. This list does not include all businesses in Scotland that use Scottish hardwoods because there are many small craft-based industries that are not shown. It does, however, include all the users and suppliers of Scottish hardwoods that are likely to have any significant impact on the use of Scottish hardwoods. Twenty-four out of the twenty-five companies identified participated in the survey.

ACKNOWLEDGEMENTS

1.4. We would like to thank all the businesses that gave so willingly of their time to take part in this telephone survey. Their enthusiasm and contributions are much appreciated and are the basis of the findings of this report. We would also like to acknowledge the support and interest of Derek Nelson, the Secretary of the Scottish Hardwood Timber Market Development Group, throughout the survey and to thank him for his very helpful comments on an initial draft of this report.

2. GROWTH IN SCOTTISH HARDWOOD SECTOR BUSINESSES 1996 - 2002

2.1 This section summarises the answers to the questions in the confidential telephone survey relating to the growth in Scottish hardwood sector businesses between 1996 and the end of 2002.

BUSINESS START-UPS 1996 - 2002

2.2 Of the 24 rural based businesses who took part in the survey, 12 of them (50%) started up between the beginning of 1996 and the end of 2002. Although all are small and medium sized enterprises (SMEs), and most of these businesses could be described as micro-businesses, it is nevertheless a very significant figure given the overall small size of the hardwood sector in Scotland. The figures suggest that there has been a significant turn round in the prospects for this sector during the last six years.

ACTIVITIES IN 2002

2.3 The businesses who took part in the survey are involved in a wide range of activities that include roundwood purchasing, sawmilling (both mobile and static), kilning, joinery, carpentry, interior and exterior furniture making. It is not possible to summarise the results in terms of turnover for all the businesses because it was beyond the scope of this survey to collect detailed turnover data from individual businesses, but the most interesting and salient features are given below:

- ❒ 2 businesses combine their hardwood activities with farming
- ❒ Trading of timber accounts for over 50% of the turnover for 4 of the businesses
- ❒ Sawmilling provides 50% of the turnover for 12 of the businesses
- ❒ Value adding activities provide over 50% of the turnover for 8 of the businesses
- ❒ 16 out of the 24 businesses (66.6%) are involved in some form of value adding activities at the present time

TURNOVER CHANGES 1996 – 2002

2.4 The key findings in relation to the changes in turnover that businesses have experienced are slightly different depending on whether they were established prior to 1996 or subsequently. Irrespective of when they were established, several businesses mentioned that they had experienced significant changes in their annual turnover, both upwards and downwards, over the period since 1996 and the answer they gave related to their turnover in 2002 relative to its size in 1996, or at the end of their first trading year.

2.4.1 Businesses Established Pre 1996

- ❒ 6 businesses (50%) have experienced an increase in turnover since 1996
- ❒ 4 businesses (33.3%) estimate that their turnover is about the same
- ❒ 2 businesses (16.7%) have experienced a drop in turnover

Of the two businesses that have experienced a drop in turnover, one had been so seriously affected by Foot & Mouth Disease that the owner has decided to significantly reduce the future size of his business. The other business made specific mention that they are experiencing price competition from imports and, as a result, is reducing its use of Scottish hardwoods.

2.4.2 **Businesses Established 1996 – 2002**

❒ 11 out of the 12 businesses (92%) established since 1996 said their turnover had continued to rise since they started their business.

❒ Only one business (8%) established since 1996 estimated their turnover was probably about the same, although it had been higher than it was currently.

2.5 Asked about changes in demand for their products and services between 1996 and 2002:

❒ 8 out of the 24 (33.3%) respondees said they experienced no change in demand, with one commenting that it was too early to tell, as they had only recently started up

❒ 16 out of the 24 (66.7%) respondees said they had experienced a change in demand. For only one business, the demand for their products and services was reduced, and this was due to Foot & Mouth Disease. For the other 15 businesses, it was due to increased orders, the identification by owners/managers of new business opportunities, or a combination of the two.

Of those experiencing a change in demand for their products and services, 4 referred specifically to the increased use of wood in housing, 3 to providing wood for flooring, and 3 referred to adding value, or moving to using better quality material, as they had perceived this would make their business more profitable. There appears to be no discernible differences in the experiences of businesses that existed before 1996 and those that started their businesses after that date.

2.6 Businesses were asked if their profitability had increased, decreased or stayed the same since 1996, or the year when they started their business. A summary of their responses is given below:

❒ 12 out of the 24 businesses (50%) had seen their profitability increase

❒ 9 out of the 24 businesses (37.5%) thought their profitability was almost the same

❒ 2 out of the 24 businesses (8.3%) had experienced a reduction in profitability

❒ 1 out of the 24 businesses (4.2%) felt the question was not applicable since they had only very recently started up.

Of the 12 businesses started pre 1996, 4 had experienced an increase in profitability, 6 had seen no change, and 2 had experienced a reduction. Nothing of wider significance can be drawn from the experiences of the businesses that have had a fall in their profitability other than all businesses experience unpredictable internal ownership changes and external events (Foot & Mouth Disease) from time to time.

2.7 At a time when businesses involved with the softwood sector have been experiencing severe financial pressures, the overall financial profitability of businesses in the hardwood sector appears to be a surprisingly positive one and is very encouraging.

CAPITAL INVESTMENT 1996 – 2002

2.8 Businesses were asked if they had invested additional capital since 1996, or in the years after they had started up, if it was after 1996. The summarised results are as follows:

❒ 15 out of the 24 businesses (62.5%) had invested capital

❒ 7 out of the 24 businesses (29.3%) had maintained their capital invested

❒ 1 out of the 24 businesses (4.1%) had reduced the capital in the business

❒ 1 business considered the question was not relevant as they were only just starting up.

With 62.5% of the businesses supplying Scottish hardwoods or hardwood products increasing their capital invested in the last six years, it suggests that businesses have been relatively confident about the future market prospects for their products or services.

2.9 Individual businesses were asked to provide an estimate of the amount of capital they had invested over the period. The total for all businesses amounts to £735,000 with one business unable to provide an estimate. The results of this survey would suggest that in excess of £750,000 of additional capital has been invested by businesses in the hardwood sector in Scotland between 1996 and the end of 2002. Given that micro-businesses predominate in Scotland, this is a significant investment.

2.10 The way in which the capital has been invested is an important guide as to how the sector is developing. Businesses were therefore asked to broadly indicate in what areas of their business they had invested their capital. A summary of their responses is given below. Numbers do not total 24 since businesses could, for example, have invested in both kilns and replacement buildings:

- ❒ 2 businesses had invested in replacement sawmilling equipment
- ❒ 4 businesses specifically referred to an investment in kilns
- ❒ 4 businesses had put up new or replacement buildings
- ❒ 12 businesses had purchased new or additional machinery for adding value
- ❒ 3 businesses specifically referred to using the capital to increase the stock of hardwoods they held.

This indicates that businesses are gearing up their activities and are seeking to add value to their products and services.

CHANGES IN NUMBER OF EMPLOYEES

2.11 Businesses were asked how their number of employees had changed since 1996, or from when they started their business.

- ❒ 6 out of the 24 businesses (25.5%) reported increasing their number of employees, with the total number of additional jobs provided by these businesses totalling 23.5.
- ❒ 11 out of the 24 businesses (45.8%) had the same number of employees.
- ❒ 4 out of the 24 businesses (16.7%) had reduced their number of employees. The total number of jobs lost over the period has been 14. One of the sawmills who had reduced their number of employees was located near Carlisle, but was included in the survey because it sources much of its timber in Scotland, and one mill, due to the reduction in the size of the chock market, was responsible for just over half the total number of jobs lost in the period.
- ❒ 2 out of the 24 businesses (8.3%) reported that they were providing additional part-time and casual jobs (6 people)
- ❒ For 1 out of the 24 businesses (4.2%) this question was not applicable, as it had only recently been started.

Overall, there has been a net gain of 9.5 jobs and, in addition, two businesses are using a small number (6) of part-time and casual workers. As these businesses are located in rural areas, the provision of these additional jobs is an important contribution to the rural economy at a time when many jobs are being lost.

INCREASED USE OF BROADLEAVED ROUNDWOOD

2.12 Each business was asked how much extra volume of hardwood sawlogs they were now using compared with 1996, or from the time when they started their business. They were not asked to estimate their present consumption, although this was often the starting point for assessing any changes. The responses to this question are summarised below:

- 20 businesses (83.3%) have increased their consumption of broadleaved sawlogs
- 2 businesses (8.3%) have unchanged consumption
- 2 businesses (8.3%) have reduced their consumption of sawlogs

The overall position in terms of the number of businesses that have increased their consumption of sawlogs is therefore a very positive one.

2.13 The results in terms of the total tonnage of hardwood sawlogs actually consumed in Scotland are slightly disappointing and are as follows:

- Total annual consumption of hardwood sawlogs of the 20 businesses is estimated to have risen by 4,335 tonnes/annum between the beginning of 1996 and the end of 2002.
- The total reduction in consumption of Scottish hardwood sawlogs of the 2 businesses that have reduced their purchases is estimated to be 6,100 tonnes/annum. (The majority of this fall in consumption is accounted for by the loss of the chock market, which is thought to have fallen from about 13,000 m^3/annum at the beginning of the period to about 8,0000 m^3/annum now).

Overall, there has been a net reduction in the volume of hardwood sawlogs sourced in Scotland and converted into sawn timber over the period since 1996 of approximately 1,765 tonnes/annum. This overall reduction in consumption is largely accounted for, and dominated by, one mill that had been a major supplier of chock wood, but due to the closure of most of the deep mines this market was now rapidly declining. If this is excluded, then the situation, although the tonnage is comparatively small, is a very positive one.

2.14 In assessing these figures, it should be noted that they only relate to sawlogs and do not include hardwood logs that are used locally for firewood; those that are used by the small roundwood using industries; or the better quality logs that are often exported as logs to England.

FACTORS INFLUENCING THE GROWTH OF THE SECTOR

2.15 Businesses were asked what were the main factors that had influenced how their businesses had developed since 1996, or from when they had started their business. The responses revealed there to be a complex number of factors; many of which are common to most small businesses. These include availability of capital; cash flow; owner's interest, drive and attitude's to risk; family commitments, etc. Hardwood sector issues that were specifically identified included:

- **Location of Business**: 3 businesses felt that their remote location placed them at a competitive disadvantage both in restricting their local availability of suitable hardwood supplies, and in accessing markets.
- **Foot & Mouth Disease**: The outbreak of Foot & Mouth disease has been a significant factor in hindering the development of 2 of the businesses who were involved in mobile sawmilling as they had to stop all their activities while the outbreak was on.
- **Markets**: 18 businesses felt that the major influence on their business has been the improved market prospects for their products or services. 16 businesses felt that

markets had improved due to what might be summarised as the public's greater awareness of, and interest in, green issues. This had manifested itself in increased demand for flooring and house building material. Businesses in the West of Scotland referred to more opportunities for supplying house building materials because of planners' more positive attitude to the use of timber in buildings. 2 of the businesses felt that the markets had deteriorated due to increased competition from hardwood imports from Eastern Europe and France.

- **Diversifying into Conifers**: Several mills referred to the fact that they also cut Douglas fir and European larch if they can get suitable quality material as there was good demand for this material.

2.16 The most significant factor that appeared to have influenced the growth of the hardwood businesses had been the improved market prospects, although competition from imports remains a constant threat for businesses in the sector. This highlights the continual need for businesses to focus on developing niche products, and the delivery of high quality products and services. There must also be awareness, as one business pointed out, that some of the increased use of hardwoods may be put down to fashion and that fashions could again change.

3. FORECAST GROWTH OF HARDWOOD SECTOR BUSINESSES 2003

3.1 Each business was asked about their plans for 2003 and this section summarises the results of the questions that were asked:

FORECAST SCOTTISH HARDWOOD BUSINESS TURNOVER IN 2003

3.2 The responses to the question as to how they expected their turnover in relation to Scottish hardwoods, (as some also dealt in softwoods), to change in the coming year were as follows:

- ❒ 16 businesses (66.6%) expected their turnover to increase
- ❒ 2 businesses (8.3%) anticipated only a slight increase in turnover
- ❒ 5 businesses (20.8%) thought their turnover would stay the same
- ❒ 1 business expected its turnover to fall because of their increased use of imported hardwoods, which were continuing to undercut Scottish hardwood both in prices, as well as in quality.

With two-thirds of the hardwood businesses in the survey expecting to increase their turnover in the coming year, the overall prospects for the sector appear very encouraging compared with those of the softwood sector.

ANTICIPATED CAPITAL INVESTMENT 2003

3.3 Interviewees were asked if they intended to invest any more capital in the business over the coming year. Their responses are summarised below:

- ❒ 16 were planning further capital investment
- ❒ 1 thought some minor capital investment would be necessary
- ❒ 7 were not anticipating any further investment

3.4 The businesses were asked to indicate how much capital they were planning to invest during the coming year. The total amount of new anticipated investment is £552,000, which is fairly evenly spread across all the businesses, rather than being accounted for by one or two large investments. If this investment is made in the coming year, it will represent over 70% of the investment that these businesses made during the previous 6 years, and provides a clear indication of the new-found confidence and market prospects for the hardwood industry in Scotland.

3.5 The nature of this new investment is varied and includes:

- ❒ Kilns – 5 businesses are planning to invest in a kiln (with one company investing in two)
- ❒ Sawmill replacement – 2 businesses
- ❒ Marketing & stock holding – 3 businesses
- ❒ Buildings for holding stock – 2 businesses
- ❒ Machinery/equipment – 7 businesses

A number of the businesses also included vehicles.

CREATION OF ADDITIONAL JOBS IN 2003

3.6 Businesses were asked if they expected to take on any additional employees during 2003. A summary of their answers is given below:

- 15 businesses (62.5%) said they were
- 9 businesses (37.5%) said they were not

Overall, of those 15 businesses expecting to take on more employees, the total comes to a further 15–17 full-time employees, 2 part-time employees, and in one case to make greater use of prison labour. As this survey is not an employment census, we did not ask how many people are employed by each of these businesses at the present time, so we are unable to assess the significance of the increase. It is also possible that, in the event, these jobs may not be created, but the overall expected increase is extremely positive and encouraging, and is in line with responses to earlier questions on expected turnover increases and additional capital investment. This would be particularly significant for the rural economy where many of these businesses are located.

EXPECTED INCREASED USE OF SCOTTISH HARDWOODS 2003

3.7 The responses as to whether these businesses were expecting to use more Scottish hardwoods in the coming year were as follows:

- 14 businesses expect to increase their use
- 8 businesses anticipate their usage will stay the same
- 1 business was uncertain
- 1 business expected a reduction because of making greater use of imported hardwoods.

The total expected extra usage of Scottish hardwoods in the coming year by the businesses in the survey is 2,150 tonnes. The business expecting a reduction in usage estimates that it might be about 180 tonnes, so the net increased consumption could be 1,970 tonnes in 2003. Although a relatively small volume compared with softwood usage, it is a significant volume for the hardwood sector in Scotland.

MAIN FACTORS INFLUENCING GROWTH

3.8 The factors influencing the growth of the businesses in 2003 are very similar to those that have influenced their development up to now: the availability of capital and cash flow; remoteness of location; their own business decisions; the way each business markets itself, and the way markets develop. Another business, in addition to the two that identified this as a factor influencing their past development, referred to the threat from imported hardwoods. 4 out of the 8 businesses that said they were not intending to expand in the coming year said their businesses had now reached the size where they did not wish to expand any further at present. Two businesses referred to the lack of availability of suitable quality wood as being a factor and two said that finding suitably reliable and knowledgeable people could be a problem. I business referred to labour costs as being an issue. 5 businesses again referred to the critical part that markets had on their future development with two stating that they would be concentrating very hard on marketing their own business during the coming year. The move towards local authorities positively seeking to source local hardwoods was noticed as an important factor helping to develop the market for Scottish hardwoods, and trade shows have also helped to promote the flooring market.

4. Summary & Conclusions

4.1 The hardwood sector in Scotland is very small and comprises micro businesses located predominantly in rural areas. They are therefore able to make a contribution to Scotland's rural economy and to the sustainable management of Scotland's broadleaved woodlands. This contribution is often larger than might first appear because of the fragile nature of the rural economy.

4.2 This survey has shown that the number of businesses that supply Scottish hardwoods and hardwood products has increased by 50% since 1996. Many are already involved in adding value activities. Over half the businesses have experienced an increase in turnover and profitability in the last 6 years, and 15 have invested over £750,000 during this period in such items as kilns, machinery, buildings and stock. Although there has been a loss of 14 jobs from some businesses, this has been more than compensated by the 23.5 jobs created by others, which gives a net increase of 9.5 jobs, excluding other casual and part time work that is offered. 20 businesses have increased their consumption of broadleaved sawlogs by an estimated 4,335 tonnes/annum over the period, but unfortunately this has not been sufficient to compensate for the loss of the chock wood market that is estimated to have dropped by about 6,000 tonnes/annum during the period.

4.3 Asked about their business development prospects in the coming year, 16 said they expected to increase their turnover, with a further 2 anticipating only a slight increase; 16 plan to make further investments amounting in total to about £550,000 in kilns, machinery, storage areas, stock, and in marketing; 15 businesses anticipate taking on a total of up to 17 more employees in addition to using more local casual labour, with none of the businesses planning to shed any labour. 14 businesses plan to increase their use of hardwoods in total by some 2,150 tonnes in the coming year with only an expected reduction in consumption of less than 200 tonnes due to increased competition from imports.

4.4 The hardwood sector in Scotland is small, but the overall picture of the sector, obtained from this survey, is one in which most of the businesses have grown significantly in turnover and profitability since 1996, and have invested capital, due in large part to the increasing, and widening, demand for their products and services relating to Scottish hardwoods. In the coming year, many of these businesses expect to expand their businesses further and this will make further contributions to the sustainable management of Scotland's woodlands and to its rural economy.

John Clegg Consulting Ltd
January 2003

ANNEX 1 - TELEPHONE QUESTIONNAIRE

Annex 2 – Survey Participants

A A Timbers

Ardslignish Scotwood

Argyll Green Woodworkers Association

Bechtel On-site Sawmilling

Cromartie Timber

E G Johnstone & Co

Fairlie Sawmill

Falkirk Wood

Frank Gamwell

Galloway Timber

Gavin Munro / T & G Norman

Gilmour & Aitken Ltd

Ian McIntosh

James Carr & Sons (Sawmillers) Ltd

Lothian Trees & Timber

McConnel Wood Products

Nor Build Timber Fabrication & Fine Carpentry Ltd

Out of Wood

Russwood Ltd

Scottish Wood

Stobo Sawmill

Stornoway Trust

Treewrights

Woodschool

W S Muir