Business Health in the Forestry and Wood Industries

Summary results of the 2007 Survey of Business Health in the Forestry and Wood Industries

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Forestry Commission

Prepared by:
Economics and Statistics
Corporate and Forestry Support
Forestry Commission
Silvan House
231 Corstorphine Road
Edinburgh EH12 7AT

Enquires:
Jennifer McVey: 0131 314 6177
jennifer.mcvey@forestry.gsi.gov.uk

Website:
http://www.forestry.gov.uk/statistics

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SURVEY OF BUSINESS HEALTH IN THE FORESTRY AND WOOD INDUSTRIES – SUMMARY REPORT

1. INTRODUCTION

1.1 Background
This report presents the results of the 2007 survey of business health in the forestry and wood industries. The survey was first carried out in 2000 and again in 2004 and it is planned to continue to run it every 3-4 years.

This survey has a similar scope to both the 2000 and the 2004 surveys. It covers private sector forestry businesses from nurseries to the manufacture of pulp and paper, including woodland establishment contracting and biomass supply. The results are disaggregated to sub-sector and national levels.

Since 2005, improvements have been made to the survey methodology. Therefore, some of the results from 2007 cannot be compared directly with the results from the 2005 survey.

1.2 Objectives
The aim of this survey was to obtain information on the recent past performance and expected future prospects for businesses in the forestry and wood industries in Britain.

Specific objectives were to:
- Develop indicators of the health of forestry and wood industry businesses, focusing on recent past performance and expected future prospects
- Monitor changes over time in the health of businesses in the forestry and wood industries
- Obtain feedback from forestry and wood industry businesses on their concerns and opportunities regarding business development and climate change.

It should be noted that the survey was carried out before the current economic downturn really began to take effect. This should be borne in mind when examining results relating to business performance and expectations.

2.METHODOLOGY

2.1 Sample Frame
The sampling frame for the 2007 survey was compiled from two sources:
- Forestry Commission sampling frames for surveys of the UK-grown timber industry, which covers businesses known to use UK-grown roundwood. This included harvesting companies and primary wood processors (sawmills, integrated pulp and paper mills, woodbased panel mills, round fencing manufacturers and shavings manufacturers). Any duplicate entries (for businesses with multiple activities or multiple mills) were deleted to avoid double counting.
- The Inter-Departmental Business Register (IDBR), which is compiled and maintained by the Office for National Statistics (ONS) and covers all businesses registered with HM Revenue and Customs for VAT or Pay As You Earn (PAYE).

The IDBR is updated regularly. It is the most comprehensive database of businesses in Britain. However, it does not include businesses that are not registered for VAT *and* do not operate a PAYE Scheme. At the moment, the VAT registration threshold is £67,000. Below the threshold, businesses may register voluntarily. Companies that have no employees are unlikely to operate a PAYE scheme. Therefore, the IDBR tends not to include businesses that have a turnover of under £67,000 *and* have no employees.

The IDBR identifies businesses by Standard Industrial Classification (SIC) code. The SIC codes were reviewed, in consultation with the Forestry Commission National Offices and forest industry associations to identify the sectors that could be considered part of the forestry and wood industries. The SIC codes that have been included in this survey are listed below[1].

Division	**Group**	**Description**
02	0201	Forestry and Logging
	0202	Forestry and Logging Related Service Activities
20 (Primary)	2010	Saw Milling and Planing of Wood
	2020	Manufacture of Wood Panels and Boards
20 (Other)	2030	Manufacture of Builders' Carpentry and Joinery
	2040	Manufacture of Wooden Containers
	2050	Manufacture of Other Products of Wood
21 (Primary)	2110	Manufacture of Pulp, Paper and Paperboard

In some respects, this survey takes a similar format to that reported on in 2005. As with the 2005 survey, forest owners have been excluded. The main reason for this is that woodlands may form only part of a larger enterprise or holding and owners may not be able to easily distinguish between the health of their forest business and the health of the rest of their business. Again, as in 2005, the potential for extending the scope of the survey to cover all secondary processors and businesses that may be indirectly dependent on forestry was explored. However, it was concluded that the main focus of this survey should remain on primary sector businesses, with a more limited sample of secondary sector businesses in SIC code 21 primary. There were three main reasons for this. Many businesses in the wider forestry and wood sectors are likely to have greater difficulty gauging the proportion of their activities that is related to forestry and wood and many would not consider themselves to be part of these sectors. They are also more likely to be subject to conditions across a range of different economic sectors. Further, most of the relevant businesses would be in other SIC codes that cover a range of different industry sectors. It would be difficult to identify which businesses within these SIC codes should be surveyed.

[1] It has been noted in the past that some forestry and wood businesses may not be assigned to a forestry or wood SIC code. This can occur if a business is involved in other activities outside the forestry and wood industries; for instance, some businesses may be involved in agriculture, transportation or business services. The number of businesses included in each SIC code is therefore unlikely to provide a completely robust indication of the total number of forestry and wood businesses in Britain.

This survey differs from the previous one by asking whether businesses use mainly UK-grown timber, imported timber or a broad mix. This was in response to requests to explore the viability of businesses that are based mainly on UK-grown timber.

In the tables and analyses that follow, the sub sectors corresponding to each SIC code are assigned an abbreviated title for presentational purposes.

Standard Industrial Classification (SIC) Code	Abbreviated Title
02	Forestry
20 Primary	Primary Processing
20 Other	Secondary Processing
21 Primary	Pulp and Paper

2.2 Sampling

Sampling frames used by the FC for surveys of the UK-grown timber industry and the relevant SIC codes from the Inter-Departmental Business Register were compared. Any businesses covered by both sources were removed from the IDBR list to avoid double counting.

A stratified random sample was drawn from each source, with samples stratified to ensure adequate representation across geographical location[2], SIC code and size of business (by employment).

As with the 2005 survey, a smaller sampling fraction was used for small businesses. An aspect of statistical survey control good practice is to reduce the burden on smaller businesses. This enabled the sample to include all the large primary businesses in the forestry and primary processing sectors. A more limited sample of secondary wood processing businesses was used.

The sampling fractions for different types of businesses were:

- 100% of all ‘large’ businesses in SIC 02, SIC 20 (primary) and SIC 21 (primary)
- 20% of ‘large’ businesses in SIC 20 (secondary) in England and 50% of these businesses in Scotland and Wales
- 20% of ‘small’ businesses in SIC 02, SIC 20 (primary) and SIC 21 (primary)
- 20% of ‘small’ businesses in SIC 20 (other)
- 5% of all businesses with zero employees in England and 10% of these businesses in Scotland and Wales

In the sample design, ‘large’ businesses are defined as having 10 or more employees and small businesses have 1 to 9 employees. A key aim of the sample design was to obtain reasonable sample sizes in each of the SIC codes that would be able to provide statistically robust results.

The sample sizes for the survey are shown in Table 1.

[2] Business location has been estimated from the postcode information in the Inter-Departmental Business Register. However, there may be limitations to using postcode information for the geographical breakdown; for example, large businesses will be assigned to the country in which their head office is based.

Table 1: Sample Sizes

	Forestry	Primary Processing	Secondary Processing	Pulp & Paper	Total
Businesses with 10 or more employees:					
England	69	146	209	79	**504**
Scotland	22	23	55	7	**106**
Wales	3	9	28	3	**43**
Businesses with 1-9 employees:					
England	180	109	431	32	**752**
Scotland	179	52	72	5	**308**
Wales	42	17	44	3	**106**
Businesses with 0 employees:					
England	40	6	50	0	**96**
Scotland	39	2	7	0	**48**
Wales	11	1	8	0	**20**
All Businesses:					
England	289	261	690	111	**1351**
Scotland	240	77	134	12	**463**
Wales	56	27	80	6	**169**
Total GB Sample:	**585**	**365**	**904**	**129**	**1983**

A total of 1983 businesses were selected, from an identified population of 11,152 and a questionnaire was sent out to each by post in the middle of 2007. Reminders were sent to non-respondents. A total of 1351 surveys were sent to businesses in England; 463 were sent to businesses in Scotland and 169 were sent to Welsh businesses.

2.3 Questionnaire

The questionnaire used in the survey was developed in consultation with the Forestry Commission National Offices and with forestry industry associations. A copy of the questionnaire is in Appendix 1.

The questionnaire covers the following areas:

- Main business activity
- Type and source of wood used
- Change in business turnover in the last 3 years
- Expectations of economic conditions over the next 3 years
- Expectations of business performance over the next 3 years
- Main obstacles to business success
- Main opportunities for business development over the next few years
- Effects of climate change on the business now and expected future effects

2.4 Weighting

The results in Tables 6-8 have been weighted to be representative of the population under consideration.

All tables showing weighted results provide a base showing total unweighted counts. It should be noted that, in these tables, the results and bases cannot be used to calculate the number of respondents that gave a specific answer.

The percentage or number of respondents who returned a completed questionnaire but did not answer a specific question is given under the heading 'Missing' in the corresponding table.

2.5 Statistical Significance

As with the 2005 survey, the results need to be considered within the context of the total response rate and the number of responses by sector and size band. Because the figures are based on a sample of the population, a range of uncertainty (a confidence interval) is associated with the results. This should be taken into account when interpreting the results.

The confidence intervals associated with the survey results will vary for each question and for each sub-sample. The following table provides indicative 95% confidence intervals that might be expected for results by country and by sector (SIC code). These are expressed as percentage points; for example, a result of 40% for the forestry sector would have a 95% confidence interval of 40% +/- 8%, which means a range of 32% to 48%.

	Confidence Intervals
Country	
England	+/- 5%
Scotland	+/- 10%
Wales	+/- 18%
Total GB	+/- 5%
Sector (SIC code)	
02: Forestry	+/- 8%
20 (Primary): Primary Wood Processing	+/- 12%
20 (Secondary): Secondary Wood Processing	+/- 6%
21 (Primary): Pulp and Paper Manufacture	+/- 20%

In some cases, there are apparent differences between countries or sectors but, because of the small number of respondents, it is difficult to know if these results would hold for larger numbers of businesses. Whilst the response sizes might not be large enough for such results to be statistically significant, these results might provide an indication of possible differences.

Where results are presented as percentages, the figures might not sum to 100 due to rounding.

3. CHARACTERISTICS OF RESPONDENTS

This section provides information on the characteristics of the businesses that responded to the survey.

3.1 Completed Responses

Table 2, below, shows the number of completed responses by SIC code, country and size of business.

In Table 2, 'small' refers to businesses with 1 to 9 employees and 'large' refers to businesses with 10 or more employees. The employment data used was obtained from the Inter Departmental Business Register records.

Table 2: Number of Completed Responses by SIC Code, Country and Size of Business

Number of Employees	England	Scotland	Wales	Total (GB)
SIC = 02 (Forestry)				
Large	40	10	2	**52**
Small	61	84	14	**159**
No employees	15	10	7	**32**
Unknown	8	6	-	**14**
Total	124	110	23	**257**
SIC = 20 Primary (Primary Processing)				
Large	65	13	7	**85**
Small	24	11	1	**36**
No employees	4	4	-	**8**
Total	93	28	8	**129**
SIC = 20 Other (Secondary Processing)				
Large	73	21	14	**108**
Small	96	10	6	**112**
No employees	7	-	2	**9**
Total	176	31	22	**229**
SIC = 21 Primary (Pulp & Paper)				
Large	133	3	-	**16**
Small	1	-	-	**1**
No employees	-	-	-	**0**
Total	14	3	0	**17**
All SIC Codes				
Large	191	47	23	**261**
Small	182	105	21	**308**
No employees	26	14	9	**49**
Unknown	8	6	-	**14**
Total	**407**	**172**	**53**	**632**

Of the 1983 questionnaires that were sent out, 919 were returned, of which 632 were completed. This consists of 407 completed responses from England, 172 from Scotland and 53 from Wales. The overall completed response rate was 32%; broken down by country, the completed response rates were 30% for England, 37% for Scotland and 31% for Wales.

The overall completed response rate is likely to be higher than 32% for businesses that actually come within the scope of the survey. As with last year's survey, some businesses noted that the questionnaire was not relevant to their business; this highlights the possible limitations of using the Inter-Departmental Business Register for identifying the population of forestry and wood businesses.

The survey results presented in this report are based on the 632 questionnaires that were completed and returned.

3.2 Standard Industrial Classification Codes and Main Business Activity

Respondents were asked to state the percentage of their total turnover earned from specific business activities. The business activities listed in the questionnaire were:

- Woodland establishment and management
- Timber haulage and harvesting
- Manufacture of wood products
- Arboriculture
- Other
- Multiple
- Missing

Table 3 shows the number of businesses in each sector reporting that a particular business activity generates the highest proportion of their income.

Table 3: Number of Respondents by Business Activity[3]

Main Business Activity	Number of respondents – Sector				Total
	Forestry	**Primary Processing**	**Secondary Processing**	**Pulp & Paper**	
Woodland establishment and management	98	4	2	1	**105**
Timber haulage and harvesting	60	6	4	-	**70**
Manufacture of wood products	14	83	190	15	**302**
Arboriculture	14	-	-	-	**14**
Other	20	20	11	1	**52**
Multiple	49	14	10	-	**73**
Missing	2	2	12	-	**16**
Total	**257**	**129**	**229**	**17**	**632**
	Location of Business				
	England	**Scotland**	**Wales**		
Woodland establishment and management	44	50	11		**105**
Timber haulage and harvesting	27	34	9		**70**
Manufacture of wood products	226	53	23		**302**
Arboriculture	11	3	-		**14**
Other	40	9	3		**52**
Multiple	45	22	6		**73**
Missing	14	1	1		**16**
Total	**407**	**172**	**53**		**632**

In the forestry sector, over one-third (38%) of respondents stated that woodland establishment and management was their main business activity as a percentage of turnover and a further 23% were primarily involved in timber haulage and harvesting. In each of the remaining three sectors (primary processing, secondary processing and pulp and paper), the majority of respondents reported the manufacture of wood products to be their main activity - 64%, 83% and 88% respectively.

The majority of respondents located in England (56%) and just under half of those located in Wales (43%) were mainly involved in the manufacture of wood products. In Scotland, there was greater variance on the results as approximately one-third (31%) of respondents reported the manufacture of wood products to be their main business activity and a further third (29%) stated that their main activity was woodland establishment and management.

Overall, the results of the survey indicate that the SIC codes can be regarded as an adequate measure of main business activity. We would expect SIC 02 (Forestry) to comprise businesses primarily involved in woodland management and timber haulage and harvesting; whereas, the three other sectors should include businesses operating further down the supply chain, in the manufacture of wood products, for example. The results shown in Table 3 confirm that this is the case.

[3] Business Activity representing the largest proportion of turnover

4. CHARACTERISTICS OF FOREST AND WOOD INDUSTRY BUSINESSES

This section provides information on the characteristics of forest and wood industry businesses, focusing on the type and source of wood used.

4.1 Type of Timber Used

Respondents were asked to comment on the type of wood on which their business is based. The results are presented in Table 4.

Table 4: Type of Wood on Which Business is Based

Type of Wood	Sector				All
	Forestry	Primary Processing	Secondary Processing	Pulp & Paper	
Base	257	129	229	17	632
Largely softwood	38%	47%	31%	38%	35%
Largely hardwood	16%	18%	16%	4%	16%
Mixed	39%	34%	49%	55%	44%
Missing	7%	1%	4%	4%	4%
	Location of Business				
	England	**Scotland**	**Wales**		
Base	407	172	53		632
Largely softwood	29%	68%	51%		35%
Largely hardwood	17%	6%	22%		16%
Mixed	49%	23%	24%		44%
Missing	5%	3%	2%		4%

Table 4 shows that overall, over one-third (35%) of businesses were largely based on softwood while only 16% mainly used hardwood. 44% used a mix of both softwood and hardwood.

This trend was closely followed in both the forestry and secondary processing sectors. In the primary processing sector, businesses were more likely to use softwood (47%) and less likely to be based on a combination (34%). The pulp and paper sector was more likely to use a mix of soft and hardwood (55%), with far fewer businesses based mainly on hardwood (4%). This demonstrates a greater use of softwood in primary processing than in any other sector.

In Scotland and Wales, the majority of businesses were largely based on softwood (68% and 51% respectively), whereas, in England, approximately half (49%) used a combination of soft and hardwood. This illustrates a greater focus on softwood production in Scotland and Wales.

4.2 Source of Timber Used

Respondents were asked to comment on the source of the wood on which their business is based. The results are presented in Table 5.

Table 5: Source of Wood on Which Business is Based

Source of Wood	Sector				All
	Forestry	Primary Processing	Secondary Processing	Pulp & Paper	
Base	257	129	229	17	632
Largely UK grown	61%	45%	10%	16%	28%
Largely imported	2%	23%	57%	46%	38%
Mixed	6%	16%	21%	4%	16%
Missing	31%	16%	13%	32%	18%
	Location of Business				
	England	**Scotland**	**Wales**		
Base	407	172	53		632
Largely UK grown	22%	54%	57%		28%
Largely imported	44%	10%	19%		38%
Mixed	18%	11%	3%		16%
Missing	17%	25%	20%		18%

Table 5 shows that around 38% of businesses were largely based on imported wood while 28% mainly used domestic timber. 16% used a mix of UK grown and imported wood.

There are considerable discrepancies across the sub-sectors. Businesses in the forestry and primary processing sectors were more likely to be largely based on UK grown timber (61% and 45% respectively), whereas, a higher proportion of secondary processing and pulp and paper businesses mainly used imported wood (57% and 46% respectively). This suggests that businesses involved in earlier stages of the supply chain are more likely to use domestic wood; whereas, businesses at later stages are more inclined to use imported timber.

In Scotland and Wales, the majority of businesses (54% and 57% respectively) mainly used UK grown wood, whereas, in England, almost half (44%) were based on imported timber. This is likely to be due to the different compositions of businesses in the three countries. In Scotland and Wales, a higher proportion of businesses is involved in the forestry sector compared to England (64% and 43% respectively, compared to 30% in England), and the forestry sector tends to be based mainly on domestic timber.

5. RECENT BUSINESS PERFORMANCE

The main aim of this survey was to obtain information on the recent past performance and expected future prospects of businesses in the forestry and wood industries.

It should be noted that the results of the survey were collected in 2007, before the recent economic downturn really took hold.

The approach adopted in this survey has been widely used in similar surveys and involves asking respondents to assess how their business performance has changed over the last few years. The questions were set out in multiple choice format. This type of question should be relatively straightforward to respond to and does not require detailed analysis of business and financial data. The information obtained can be used as a baseline against which the results from future surveys on recent business performance can be compared.

In this section, respondents were asked to assess how business turnover had changed in recent years. The results have been analysed according to country, sub-sector and source of wood upon which business is based.

Respondents were asked to comment on how their annual business turnover had changed in the previous 3 years. The results are presented in Table 6.

Table 6: Change in Annual Business Turnover in Previous 3 Years (i.e. 2004-07)

Change in Business Turnover	Sector				All
	Forestry	Primary Processing	Secondary Processing	Pulp & Paper	
Base	257	129	229	17	362
Increased	43%	52%	47%	61%	47%
Stayed about the same	45%	34%	42%	23%	42%
Decreased	8%	13%	9%	16%	10%
Missing	2%	1%	1%	-	1%
	Location of Business				
	England	**Scotland**	**Wales**		
Base	407	172	53		632
Increased	46%	47%	63%		47%
Stayed about the same	43%	40%	33%		42%
Decreased	11%	8%	4%		10%
Missing	-	5%	-		1%
	Source of Wood				
	Largely UK grown	**Largely imported**	**Mixed**	**Missing**	
Base	242	181	86	123	632
Increased	50%	47%	49%	39%	47%
Stayed about the same	43%	39%	44%	46%	42%
Decreased	7%	12%	6%	12%	10%
Missing	1%	1%	-	3%	1%

Overall, turnover had increased for almost half (47%) of businesses in the forestry and wood industries over the last three years, and had stayed about the same for a further 42%. Only 10% of businesses experienced a fall in profits.

This trend was broadly followed across the forestry, primary processing and secondary processing sectors. The notable exception was the pulp and paper sector where a higher proportion of businesses (61%) reported a rise in turnover and a higher proportion stated that turnover had decreased (16%); only 23% reported that turnover remained the same.

There was some national variance in the results. Changes in business turnover are closely aligned in England and Scotland, with just under half of businesses reporting an increase in profits (46% and 47% respectively) and around one-tenth reporting a fall in turnover (11% and 8% respectively). In Wales, a greater proportion of businesses stated that turnover had increased over the last three years (63%) and only 4% experienced a decline in profits. Therefore, in Wales, a higher fraction of respondents experienced a rise in turnover than in Scotland or England.

The results for businesses that mainly use UK grown timber were similar to the average; a slightly higher proportion found that profits had risen in recent years (50%) and a slightly lower proportion reported a fall in turnover (7%).

6. EXPECTED FUTURE CHANGES IN BUSINESS PROSPECTS

A key aim of the survey was to obtain information on the expectations of businesses within the forestry and wood industries regarding future changes to business prospects.

Again, it should be noted that the views recorded in this section preceded the current economic downturn.

As with the questions regarding recent past performance, this section focuses on changes to business performance, using multiple choice questions.

Expectations regarding future changes to business prospects depend upon the subjective assessments and perceptions of the respondents. Moreover, respondents' perceptions of future business prospects and the external-operating environment at the time of completing the questionnaire may differ from other peoples' perception of the situation. However, these perceptions may be important for guiding future business decisions regarding issues such as expansion and investment.

Information was collected on 2 issues relating to business prospects:

- Expected change in economic conditions over the next 3 years
- Expected business performance over the next 3 years.

The results have been analysed according to country, sub-sector and source of wood upon which business is based.

6.1 Expected Change in Economic Conditions in Next 3 Years

Respondents were asked to comment on how they expect economic conditions affecting the forestry and wood sector to change over the next 3 years. The results are presented in Table 7.

Table 7: Expected Change in Economic Conditions in Next 3 Years

Change in Business Turnover	Sector				All
	Forestry	Primary Processing	Secondary Processing	Pulp & Paper	
Base	257	129	229	17	632
Get better	35%	12%	13%	9%	19%
Stay about the same	38%	43%	27%	68%	32%
Get worse	14%	22%	27%	11%	23%
Don't know	13%	23%	32%	11%	25%
Missing	1%	-	1%	-	1%
	Location of Business				
	England	**Scotland**	**Wales**		
Base	407	172	53		632
Get better	18%	31%	13%		19%
Stay about the same	31%	35%	27%		32%
Get worse	24%	14%	27%		23%
Don't know	26%	19%	32%		25%
Missing	1%	1%	1%		1%
	Source of Wood				
	Largely UK grown	**Largely imported**	**Mixed**	**Missing**	
Base	242	181	86	123	632
Get better	30%	11%	17%	22%	19%
Stay about the same	39%	29%	30%	28%	32%
Get worse	16%	29%	23%	20%	23%
Don't know	15%	30%	30%	29%	25%
Missing	-	1%	-	2%	1%

Overall, approximately one-third (32%) of businesses expected economic conditions to remain about the same; almost one-quarter (23%) expected conditions to get worse and only 19% predicted an improvement.

There was considerable variation in opinion across the sub-sectors. Businesses in the forestry sector were more optimistic than the average, with over one-third (35%) predicting that the situation would improve and only 14% expected conditions to worsen. Expectations in the primary processing sector were more in line with the average, although relatively few businesses expected the economic climate to get better (12%) and a greater proportion of respondents predicted that conditions would stay about the same (43%). Responses from the secondary-processing sector were also broadly in line with the average, although, again, a relatively low number of firms expected the situation to improve (13%). Fewer businesses in the pulp and paper sector predicted that conditions would improve (9%) but few expected them to worsen (11%). These results indicate that a greater proportion of forestry sector businesses expected economic conditions to improve than in any other sector. It should be noted that a significant proportion of respondents (25% overall) replied 'don't know' to this question; this implies considerable uncertainty regarding the future economic environment.

Expectations in England were broadly in line with the general trend. Scottish businesses were more optimistic; almost one-third (31%) predicted an improvement in conditions and only 15% believed that the situation would worsen. In Wales, the mood was more pessimistic, with only 13% of businesses expecting conditions to get better and 27% expecting them to get worse. Businesses in Scotland were therefore the most optimistic, whilst Welsh firms were more pessimistic.

Businesses that largely use UK grown timber were relatively optimistic compared to the all-business average. Almost one-third (30%) stated that they expect economic conditions to get better and only 16% believed that they would worsen.

6.2 Expected Business Performance in Next 3 Years

Respondents were asked to comment on how well they expect their business to perform over the next 3 years (2008-11). The results are presented in Table 8.

Table 8: Expected Business Performance in Next 3 Years

Expected Business Performance	Sector				All
	Forestry	Primary Processing	Secondary Processing	Pulp & Paper	
Base	257	129	229	17	632
Very well	14%	18%	20%	9%	18%
Reasonably	58%	50%	57%	61%	56%
Have some significant problems	8%	6%	4%	23%	5%
Concern about survival of business	10%	8%	4%	4%	6%
Don't know	9%	19%	13%	4%	12%
Missing	2%	-	2%	-	2%
	Location of Business				
	England	**Scotland**	**Wales**		
Base	407	172	53		632
Very well	19%	14%	16%		18%
Reasonably	56%	62%	53%		56%
Have some significant problems	5%	8%	6%		5%
Concern about survival of business	6%	6%	9%		6%
Don't know	13%	9%	16%		12%
Missing	2%	1%	-		2%
	Source of Wood				
	Largely UK grown	**Largely imported**	**Mixed**	**Missing**	
Base	242	181	86	123	632
Very well	15%	19%	23%	16%	18%
Reasonably	61%	56%	60%	47%	56%
Have some significant problems	6%	5%	2%	6%	5%
Concern about survival of business	6%	6%	4%	9%	6%
Don't know	11%	11%	11%	17%	12%
Missing	-	2%	-	5%	2%

Overall the results were fairly optimistic; the majority of respondents (56%) expected their business to perform reasonably over the next 3 years and 18% predicted their business to do very well. Only 5% of firms were expecting some significant problems and 6% were concerned about survival. It should be noted that

12% of respondents replied ‘don’t know’ to this question, which implies some uncertainty regarding future business performance.

This pattern was broadly followed across most of the sub-sectors. The only exception was the pulp and paper sector where a relatively low proportion of businesses (9%) expected to perform very well and a relatively high proportion (23%) were predicting significant problems. This indicates that businesses in the pulp and paper sector were generally more pessimistic regarding expected future business performance than businesses in any other sector.

Nationally, there was little variance in the results, although it should be noted that in Scotland, a slightly higher than average proportion of businesses (62%) expected to do reasonably well over the next 3 years.

Whether businesses used UK-grown or imported timber had little impact on expectations; of the businesses that mainly use domestic wood, slightly fewer expected to perform very well (15%) and slightly more stated that they are likely to do reasonably well (61%).

7. OBSTACLES AND OPPORTUNITIES FOR BUSINESS DEVELOPMENT

A further aim of this survey was to obtain information on current obstacles to business success and opportunities for business development.

7.1 Biggest Obstacle to Success of Business

Respondents were asked to indicate the biggest obstacle to the success of their business at present. An open-ended question was used to obtain this information; a summary of the most common responses is included in Table 9:

Table 9: Main Obstacles to Business Success (Includes Multiple Responses)

Main Obstacles to Business Success	% of Responses
Costs	21%
Availability of suitably skilled staff	13%
Availability of raw materials excluding staff	11%
Competition	10%
Red tape / regulation	8%
Funding	6%
Lack of demand	4%
Legislation	4%
Cash flow	4%
Missing	10%

Table 9 does not show every response to this question; only the most common obstacles to success are included so the percentage column does not sum to 100.

The most commonly stated obstacle to business success was *costs*, with 21% of respondents highlighting this as their main complaint. Of these, the cost of raw materials and particularly timber was the most significant obstacle, followed by energy and fuel costs and the cost of staff wages.

The second most widely reported barrier to business prosperity was the *availability of suitably skilled staff*, closely followed by the *availability of other raw materials.*

Competition was another major concern; 10% of respondents replied that this was their main obstacle to success. Over half of these firms were explicitly worried about competition from abroad.

As far as government policy is concerned, 8% of respondents reported *red tape*, *bureaucracy and government regulations* to be the biggest impediment to success. A further 4% replied that *government legislation* was their main complaint, especially since new health and safety legislation has been introduced that has increased training costs for many firms.

Funding was another major obstacle. In particular, many firms were concerned about the lack of and uncertainty surrounding the provision of government funding, and more specifically grants, for the forestry and wood industries – around 6% of businesses stated that funding was the main problem facing their business.

Lack of demand for finished goods and *cash flow problems* were also given as obstacles to business success.

7.2 Future Opportunities for Development

The survey also gathered information on the main opportunities open to forestry businesses over the coming years. An open-ended question was again used to obtain this information and the results are set out in Table 10:

Table 10: Main Opportunities for Future Development (includes Multiple Responses)

Main Opportunities for Future Development	% of Responses
Biomass / Biofuels	11%
None / Few	7%
Expansion / Increased sales of core product	6%
Constant / Increased demand for wood / wood-based products	6%
Capitalising of ‘green’ credentials of timber	3%
Diversification into services	3%
Diversification into production of different goods	3%
Don’t know	3%
Increased funding	2%
Missing	30%

Again, Table 10 does not include every response to this question; only the most common opportunities for future development are shown, so the percentage column does not sum to 100.

The replies were extremely wide-ranging.

The most popular response was *investment in biomass and biofuels* just over one-tenth of businesses stating that this was their main opportunity for development in the coming years.

6% of firms were confident that their strongest prospects for growth and development lay in *expanding the customer base for core products and increasing sales*.

A further 6% predicted that *demand for wood and wood-based products*, particularly from the construction industry would remain constant or increase and this would offer future opportunities for development.

Other opportunities highlighted by respondents included: *capitalising on the ‘green’ credentials of timber* as opposed to other materials; *diversification into the service sector*, particularly recreation and consultancy and *diversification into the production of alternative products*, including wood-based products and non-wood based goods such as machines.

On a less positive note, 7% of businesses did not see any major opportunities for future development and 3% replied '*don't know*'.

A significant number of respondents (30%) did not reply to this question.

8. EFFECTS OF CLIMATE CHANGE ON BUSINESS

A new aspect of this survey was to obtain information on the current and expected future effect of climate change on businesses in the forestry and wood industries.

8.1 Current Effects of Climate Change

Respondents were asked to comment on the effect that climate change was having on their business. An open-ended question was used to obtain this information and a summary of the responses is included in Table 11:

Table 11: Effects of Climate Change Now (Includes Multiple Responses)

Effects of Climate Change (Now)	% of Responses[4]
None / Very little	30%
Extreme weather adversely affecting crops / working conditions	7%
Rising cost of inputs	4%
Problems with supply of inputs	4%
More pests / diseases	3%
Increased demand / investment in biomass and biofuels	4%
Business attempting to reduce carbon footprint	2%
Greater awareness of forests' role in combating climate change	2%
Increasing timber prices	2%
Don't know	4%
Missing	27%

The results were mixed as firms identified the various threats and opportunities that they believe climate change currently presents.

Approximately one-third of respondents stated that climate change is having a zero or negligible effect on business activity at the moment.

As far as threats are concerned, 7% of businesses reported that *extreme weather* was having an adverse impact on crops and/or working conditions. Of particular concern was the increase in storm damage and drought risk and the harsher working conditions due to very wet weather. 4% of firms stated that the *prices of inputs* (especially wood and fuel) were rising and a further 4% were experiencing *supply problems*. 3% noted that an *increasing number of pests and diseases* are surviving through milder winters.

Regarding opportunities, 4% of respondents stated that *demand for and investment in biofuels and biomass* is increasing as a direct result of climate change. 2% of businesses replied that they have already taken successful steps to reduce their *carbon footprint* and a further 2% noted that *public awareness of forests' role in*

[4] Table 11 only includes the most common responses to this question so the percentage column does not sum to 100.

mitigating climate change is rising and this could present new opportunities to the forestry and wood industries.

2% noted that *timber prices* are continuing to rise.

From the table, 18% of the responses were clearly negative and only 8% were positive; therefore, the balance of expectations amongst respondents was that climate change is having a negative effect on their business.

It should be noted that a significant number of respondents (27%) did not reply to this question.

8.2 Expected Future Effects of Climate Change

Respondents were asked to comment on the effects that they expect climate change to have on their business in the future. An open-ended question was again used to obtain this information and the results are presented in Table 12 below:

Table 12: Effects of Climate Change Future (Includes Multiple Responses)

Effects of Climate Change (Future)	% of Responses[5]
Don't Know	9%
None / Very little	7%
Problems with supply of inputs	8%
Extreme weather adversely affecting crops / working conditions	5%
Change of tree species mix	5%
More pests / diseases	3%
Increased demand for / investment in biomass and biofuels	7%
Increased demand for wood / wood-based products	3%
Increasing timber prices	3%
Missing	34%

A wide variety of responses, both negative and positive were returned.

9% of respondents stated that they did not know what the future effects of climate change would be and a further 7% replied that they expected the effects to be zero or minimal.

As far as threats of climate change are concerned, the most common complaint was expected problems with the *supply of key inputs*, with 8% of respondents highlighting this concern. A further 5% of firms expected *extreme weather* to have an adverse impact on crops and business operations in the coming years. As in Table 11, businesses were particularly concerned about the potential increase in storm damage to crops and harsher working conditions due to very wet weather. An additional 5% of respondents noted that the *mix of tree species* in Britain is likely to change in the future due to changing weather patterns. Finally, 3% were worried

[5] Table 12 only includes the most common responses to this question so the percentage column does not sum to 100

that the number and variety of *pests and diseases* affecting Britain's trees would increase due to the milder winters.

On a more positive note, 7% of respondents predicted *that demand for and investment in biofuels and biomass* would increase, presenting new business opportunities, as companies and individuals would be penalised for using fossil fuels. However, some firms did note that this could have the adverse impact of pushing up the prices of raw materials, as new biomass/biofuel companies would use many of the same inputs as traditional forestry and wood businesses. 3% of respondents believed that climate change would create *increased demand for wood and wood-based products*, which are more sustainable than other materials.
34% of businesses did not provide a response to this question.

9. OTHER COMMENTS

Respondents were offered the opportunity to make any other comments; the results are summarised in Table 13 below:

Table 13: Other Comments

Main Issues	**% of Responses**[6]
Problems with supply of quality inputs	4%
Industry needs more government support	3%
More afforestation / reforestation is necessary	2%
Missing	73%

A wide variety of points were raised with few respondents commenting on the same issue. It should be noted that 73% of businesses did not reply to this question.

4% of respondents were concerned about the *continuity of supply of quality inputs*, particularly timber. A further 3% suggested that there should be *more government support* for forestry and forestry-related industries. An additional 2% stated that there should be more emphasis placed on *afforestation and replanting* (particularly of oak trees).

Other respondents were concerned about the *high cost of inputs* (particularly timber) and some suggested that the government should do more to protect *domestic industry*.

[6] Table 13 only contains the most common responses so the percentage column does not sum to 100.

10. CONCLUSION

It is important to note that the results included in this report were collected in 2007 before the current economic downturn really began to take hold. As a result, the views expressed may appear more optimistic than would be expected.

Overall, the results indicate that business performance was reasonably strong over the three-year period (2004-07) in the forestry and wood industries, with almost half of firms reporting an increase in turnover and only 10% recording a decline. At a sub-sector level, the results followed the same pattern, with the only exception being the pulp and paper sector, where the percentage of firms reporting rises and falls in turnover were both relatively high. At a country level, businesses in Wales recorded the strongest performance, although are subject to larger confidence intervals. The results for businesses that mainly use UK-grown timber were similar to the average.

Expectations of future performance were fairly positive, with 74% of firms expecting their business to perform either ‘very well’ or ‘reasonably’ over the next 3 years. Again, this trend was broadly followed in most sub-sectors, with the only exception being the pulp and paper sector where a relatively low proportion expected to perform ‘very well’ and a higher proportion predicted significant problems. On a national basis there was no major variance in the results. Whether businesses predominantly used UK-grown or imported timber had little impact on expectations.

Overall, expectations of future economic conditions were rather pessimistic: 23% of businesses predicted that the situation would worsen and only 19% foresaw any improvement. Opinions varied across sub-sectors and countries and a significant number of respondents (25%) replied ‘don’t know’, which implies considerable uncertainty regarding the future economic environment. Businesses that primarily use domestic timber were more optimistic than the average.

Respondents were asked to comment on the obstacles and opportunities that they expect to encounter in the coming years. The high cost of quality inputs (including timber, staff and fuel) was identified as the biggest obstacle to future success and biomass and biofuels were believed to present the greatest opportunities.

Information was also gathered on the current and expected future effects of climate change on businesses in the forestry and wood industries. Almost one-third of firms stated that climate change was currently having zero or very little effect on business activity; a further 7% reported that changing weather patterns were currently having an adverse impact on crops and working conditions. Looking at future effects, the main concern was that climate change would restrict the supply of key inputs. There appeared to be relatively little awareness of the potential benefits, in terms of increased market opportunities for example, that climate change could bring to the sector.

This survey has generated a substantial amount of data and information regarding forest and wood businesses. The results obtained by this survey provide baseline information for a number of indicators of business health in the forestry and wood industry. Future surveys will be in a position to monitor the direction and extent to which these indicators have changed over time.

Annex 1

SURVEY OF BUSINESS HEALTH IN THE FORESTRY AND WOOD INDUSTRIES

The questions relate only to forestry and wood-related activities as set out in Question 1. If your business does not concern these activities, please do not fill out the questionnaire but return it to the address given at the end.

Thank you for your co-operation.

1. Which of the following activities is your business involved in (if more than one please rank in importance)?

Woodland establishment contracting	☐	Timber Harvesting	☐
Forest Nurseries	☐	Manufacture of Pulp / Paper	☐
Tree and Woodland Management and Consultancy	☐	Manufacture of Primary Wood Products (i.e. sawmilling, panels)	☐
Timber Haulage	☐	Biomass supply	☐
Other forestry/wood-related activities	*please specify:*		

2. Which of the following best describes the type and source of wood on which your business is based? *(Tick one in each column)*

Type of wood		Source of wood	
Largely softwood	☐	Largely UK grown	☐
Largely hardwood	☐	Largely imported	☐
Mixed	☐	Mixed	☐

3. How has your annual business turnover changed in the last three years? *(Tick one)*

Increased	☐	Reasons:
Stayed about the same	☐	
Decreased	☐	

4. How do you expect economic conditions affecting the forestry and wood sector to change in the next three years? *(Tick one)*

Get better	☐	Stay about the same	☐
Get worse	☐	Don’t know	☐

CONTINUES OVERLEAF – PLEASE TURN OVER

5. **How well do you expect your business will do over the next three years?** *(Tick one)*

Very well	☐	Reasonably	☐	Have some significant problems	☐
Concern about survival of business	☐	Don't know	☐		

6. **What is the biggest obstacle to the success of your business at present?**

7. **Climate change may have important implications for businesses in the forestry and wood sector - for example, it may bring about changes in forest management practices (including different tree species), new pests and diseases, and more demand for biomass.**

Please indicate if and how you think climate change is having or will have an effect on your business:

(a) at the moment

(b) in the future

8. **What are the main opportunities for development of your business in the forestry and wood sector over the next few years?**

9. **Any other comments that you wish to make would be welcome.**

Thank you for completing this questionnaire.
Please return this form in the FREEPOST envelope provided to:
Statistics Branch, Forestry Commission, FREEPOST, Edinburgh, EH12 0PD.
No stamp is required.