



Marketing in forestry and wood industry
 Dubrovnik
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**Marketing fundamentals - the 4 Ps
 the essentials**

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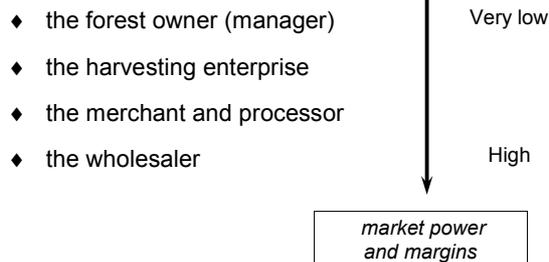
Paper organisation

Introduction - the objective: why we need to improve marketing techniques?

- | | |
|---|------|
| <ol style="list-style-type: none"> 1. Pricing methods 2. Product development 3. Promotion 4. Place: distribution & logistic | 4 Ps |
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Final remarks: from total marketing to social marketing

**Agents in the wood value chain/
 market power**

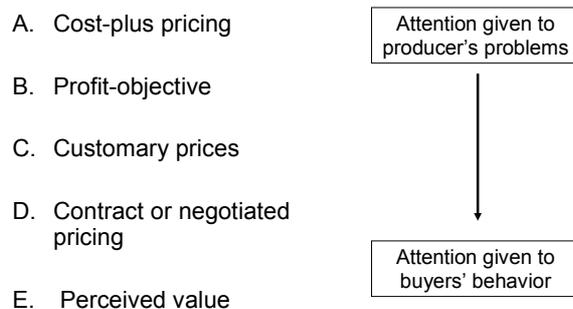


Why do we need to improve marketing techniques?

The objective:
 increasing market power (=profit) of forest managers and harvesting enterprises:

- fair distribution of profits,
- active management of forests,
- stewardship of the resources: positive externalities on environmental and social conditions

1. Pricing: five approaches



A. Cost-plus pricing

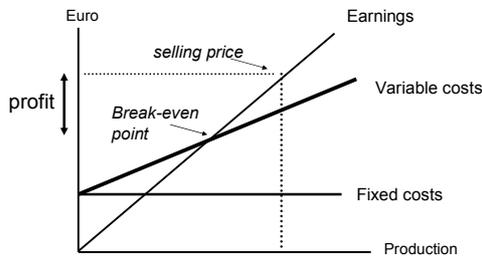
Pre-defined mark-up to be added to production cost:

Average management costs of the forest = 10,000 Euro Average annual sales = 250 cm (10,000/250=40) Stumpage price: 48 Euro/cm (←mark-up of 20%: 40 + 8 Euro)
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- Problems:
- No reference to competitors
 - No attention paid to market demand
 - Not always easy to link annual costs to annual production

B. Profit-objective

- A minimum profit is pre-defined
- Prices are defined adding the profit to the break-even point



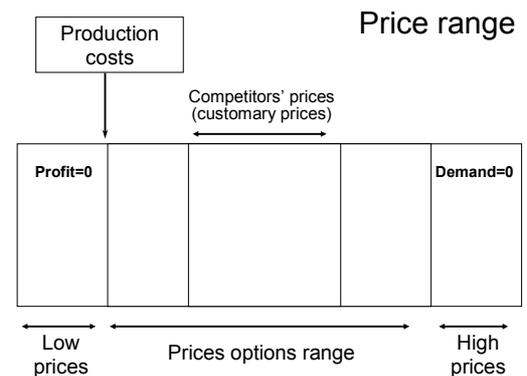
Problems:

- No reference to competitors
- No attention paid to market demand
- Is profit in the long run covering fixed costs?

C. Customary prices

- When product differentiation is low,
- When there are many competitors,
- When cost evaluation is difficult...

... prices may be defined looking at the competitors' prices to fix a *reasonable* price



D. Contract or negotiated pricing

Prices set by pre-agreement or negotiation **before harvesting**

Frequent application when buyers are large companies

An example

Poplar plantations in Italy sold immature (when they are 6-8 years old with rotation periods of 10 yr)

→ The buyer has a stock available for his needs

→ The forest owner reduces his risks



D. Contract or negotiated pricing

Prices set by pre-agreement or negotiation **before harvesting**

Frequent application when buyers are large companies

Sometimes risky: see weather conditions, labor availability, site productivity

A variant: **formula pricing** = set on the basis of systematic use of external values or factors (international prices index, license costs, fuel costs, etc.)

E. Perceived value

(the most popular in advanced markets)

Key factor in pricing is the **willingness to pay** by the buyer for a differentiated product

The very serious problem: rough wood material is not easily differentiable

Logs from Serbia



Logs from Croathia



Logs from Romania



Some special pricing techniques (**price tactics**) can be used to differentiate wood products:

- Direct sales to individual buyers (i.e. processors and exporters, avoiding merchants)
- Group marketing
- Quantity discounts, cash discounts and special sale prices

... some other opportunities to increase the trust and the willingness to pay by the buyers are offered by the other 3 Ps

2. Product development: three types of innovations

- A. Absolute new products
- B. Incremental innovations
- C. Subjective differentiation

A. Absolute new products

- Rough material
- Semi-finished products
- Final products

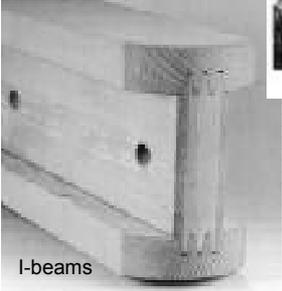


Very low

Relatively high

potentials for innovation

Some examples



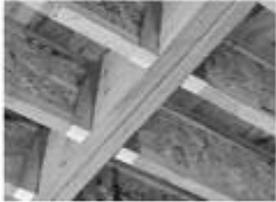
I-beams



Gulam beams

EWPs
(engineered wood products)

Laminated Veneer Lumber



Pellets



**B. Incremental innovations:
improved products and services**

Products:

- Laminated boards
- Particleboard and MDF made with recycled post-consumers wood products



Salviamo advertisement featuring various certification logos including FSC, PEFC, ISO 9000, and others.

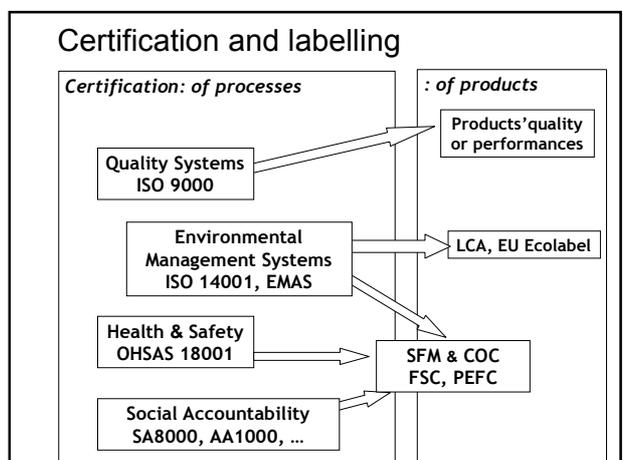
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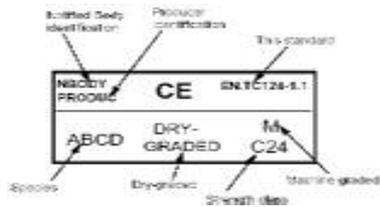
Services:

- Sorting and grading system
- Kiln drying
- Packaging
- Branding
- Certification and (eco)labelling



Certification and labelling: from a voluntary to a compulsory measure

Starting from 2007 compulsory CE mark on sawnwood used in construction



C. Subjective differentiation

Not a new product or an improved product or services,

but an old product that is presented and perceived as a new one

→ Essential role of promotion

3. Promotion



Promotion by small forest owners



- SME in the forest sector are very weak in promoting their products,
- but they can take advantage from the use of “umbrella labels”



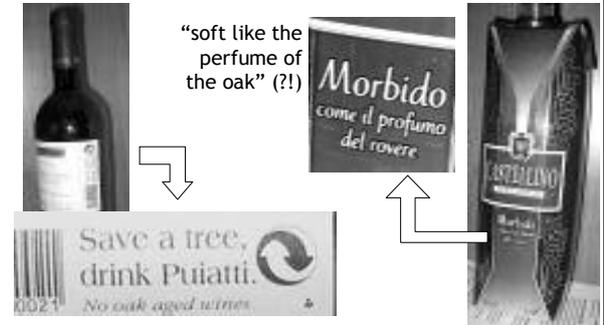
Improved visibility of SME through web advertising



Support by public authorities in wood products promotion



A huge work to do to improve the image of wood (in Southern Europe)



4. Place: logistics

- Delivery time → on time delivery for all product lines
- Wood assortments handling: containerization and palletization
- Freight forwarding (i.e. several smaller shipments from different plants combined)
- Warehousing
- ...

Probably the most important aspect for the forest manager is

Where (how and when) to sell its roundwood

- Standing
 - On the roadside
 - In the buyer's yard
- Very low
↓
High
- Profit potentials Risks

Final remarks

From total marketing (4 Ps)...

... to social marketing:

Company's decisions are taking into account the **long-term** interests not only of the internal but also of the **external stakeholders** → Corporate Social Responsibility

(Kotler, Armstrong, Saunders, Wong, 2001)

CSR: marketing based on ethical principles:

- safety and health of workers, consumers, local population
- no discrimination, no social inequality
- right to information, transparency
- sustainable use of natural resources (precautionary principle)
- ...

There is no conflict (no trade-off) between ethics and economics (profit, value of the assets, ...)

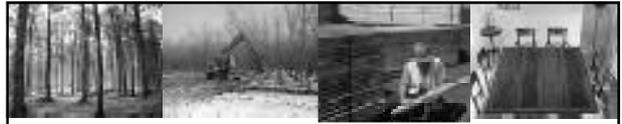
From total marketing (4 Ps)...

... to social marketing = 2 "new" Ps

- **P**olitical power

- **P**ublic relations

Civil society, in the Balkan region too, is playing an increasing role



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www.tesaf.unipd.it/pettenella/index.html