

FINANCING IN TIMES OF CHANGE

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Nothing stands still. Business is dynamic. Financing with confidence during times of intense change is about being in the market, being consistent and doing business on the basis of relationship and business partnership.

The Forestry industry over the last 18 months is no exception and there is no question that the change taking place is enormous.

Consistency is critical to business. When a business needs to borrow considerable money they need to demonstrate consistency for both their own sake and the financiers.

Firstly they need surety of work secondly they need the right gear and finally they need finance. Of these three things, the Contractor has reasonable control over the choice of gear, limited only by the funds he has available to spend and reasonable control of who supplies finance.

However in recent times the contractor, has come unstuck because of inconsistency with workloads.

This is nothing new. For years there have been target volume cuts set by the forestry companies. However every year the market will dictate either, reduced cuts, cuts above targets and even stand down periods. Since the Asian crisis this situation has become a major business risk to logging Contractors, log Cartage firms, and of course financiers.

Finance has been relatively easy to obtain in these industries over the years, but through good and bad times it is imperative the Contractor trusts his source of funds and it is just as important for the financier to be consistent and to stick with a market that through its business cycle may appear unattractive in the short term.

Knowledge - let me talk about that for a moment.

Before you look at change you must know about the industry. Rapport and knowledge assist the financier to understand core industry issues. Relationships are the key.

The impact on the financial equation varies significantly depending on factors such as whether you are operating on heavy ground, pumas, sand or gravelly soil and whether the ground is steep or subject to heavy rain. If a logger is being payed by the cube and/or has a hauler then piece size is also important

These are all issues that assist a financiers decision. Given that different locations, cost the contractor varying amounts to log.

Surety of work:

Surety of work is however the key! Past performance is important, a fixed cut contract fantastic but without the latter what does the future bring.....

These are all issues that are now vital to the viability of the contractor and

confidence of the financier to support the industry.

Facing the Challenges:

It has been well known for some time that rationalisation in some areas would occur.

Gone are the days when you could just buy a bulldozer and call yourself a logging contractor.

Occupational safety and health issues, training, man management skills, financial management and utilisation issues are all vital factors to the success of any operation going forward.

The critical skills that need to be understood during times of intense change are gear utilisation management, man management and financial management.

- The contractor with 10 trucks and only 5 working on average has a problem.
- Log cartage by its very nature means considerable empty running.

Balance is the key and often it is best to have slightly less gear and keep it working than have enough for every situation.

Financial Management has become more critical, understanding costs, how to tender, pricing, and even how a balance sheet should be structured.

Moving forward there will be a new breed of forestry contractors. There will be integrated approaches where trucking and harvesting contractors put in one tender. The tenderer will purchase wood (stumpage), organise the harvesting and the transport. All issues in the middle will be the responsibility of the contractor or the partnership.

Man Management is important.

The Accountant can crunch numbers but a successful committed team on the ground will be dependant on staff selection, knowledge and motivation. The modern Contractor must have a partnership attitude with staff, Forestry companies, Financiers and regulatory bodies.

Financing change is about understanding all the issues, integrating them and making a decision. A financiers job is not to advise a contractor. In short it is to see what is proposed and approve or decline a loan. But developing the business partnership is the best way to arrive at an informed decision.

What do we see happening??

- The equipment to be financed will get bigger and more expensive.
- It will become more difficult for a smaller Contractor to work direct for a forest company. The best opportunity for the small player will be as a subcontractor.

That opens up a whole raft of questions for the financier. Has the lead Contractor got the ability to pay on time? Has the lead Contractor got enough forward work? What happens to the demand and value of ground based gear? All these new questions plus all the old ones, like ability to pay? Compliant with OSH training etc? and general management ability.

The Industry Impact:

We are right in the middle of the industry downside now with some contractors losing all or part of their work.

Has our industry learnt any lessons? My biggest fear is that the answer is no. Forestry will get down to a critical

mass level, where the net numbers in the industry can only increase.

What happens when the cycle turns and more logging and tracking contractors are required? The short term fix might be to employ more contractors, but the long term solution is not to employ more contractors, who will struggle again as the cycle changes.

However in the future with tendering and a significant focus on costs we all face reduce margins for essentially performing the same services.

When considering the finance requirements the contractor needs to ensure they are not chasing just the best interest rate rather that they are maintaining a consistent relationship with a financier who can adjust and grow with their changing financial needs.

Success will be based on partnering to achieve appropriate business and finance structures that will support the future viability of the business through all its industry cycles.

Industry responsibilities:

Surety of Work:

The contractor has been let down in this area. The stories like "I was encouraged to buy this new and expensive gear, just last year by the forestry owner and now I have no work".

The industry's part to play is moving to a regime where the level of certainty in processing volumes is managed and provides increased surety of work. Only through this form of management will business confidence support the reduction in the risk premium currently attached to investment in this industry by contractors and financiers alike.

Industry bodies should work to achieve stronger contracts or arrangements for their members. This will assist in providing surety and some protection by law.

The winners:

Moving forward there will be contractors and business people who emerge as major winners. The ability to grasp opportunity and accurately pick a business strategy will become more critical than ever before.

The interesting question is, will these successful operators own gear? The answer is probably yes, but in my opinion they will require more sub contractors as opposed to owning all the gear themselves.

There won't be numerous people leading the way and if I were to offer any advice to the numerous smaller contractors out there it is to have a relationship with the right people. The two most critical will be the **lead contractor and the financier**. Work with these people and ensure they work with you.

