

The Carter Holt Harvey Forests Key Supplier Programme

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Abstract

This paper describes a major change programme undertaken within the Carter Holt Harvey Forests (CHHF) wood supply operations over the last two years. The objective of the programme was to change the relationship between the company and its contractors; moving from a large number of small closely managed contract production units, to a smaller number of Key Suppliers of services with full responsibility for managing their own operations.

From a contractor force over 200 independants two years ago, CHHF now has 40 key suppliers and a small number of other suppliers, carrying out its wood supply operations. The changes have produced significant reductions in unit costs of production, increased performance capability, and require less and different management.

The key supplier process has produced a more mature and healthy business climate for the future development of wood supply operations than would have been possible under the previous closely controlled, paternal environment.

Introduction

Wood supply operations at CHHF include engineering (harvest planning, road

construction and maintenance) harvesting and distribution (log delivery and storage). Annual harvest from the company's forests in the North and South Islands totals around 5 million cubic meters and a further 1.5 million cubic meters is purchased from other forest owners and suppliers. The logs are supplied to the company's solid wood processing and residue using mills, to other domestic customers, and to export log markets.

The forest engineering function maintains a road network of approximately 10,000kms of forest roads within New Zealand, ranging from light vehicle access roads to sealed arterial roads capable of carrying gross loads of over 100 tonnes. The harvesting activities include ground based systems using skidders and tractors to extract trees from flat to rolling ground and cable systems to extract trees from steep and broken topography. Each week 100 different harvesting operations within the forests produce approximately 100,000 tonnes of logs. From these sources, around 1,000 truck loads per day are transported to customers mills, log yards and to rail heads for on-transport.

Background

Until the mid 1980's these activities were carried out by a mixture of company owned equipment and staff, and independent contractors. In 1987 the

company completed a move to fully contract operations, with a number of former company employees setting up contract businesses.

Prior to the advent of Key Supplier, there were approximately 200 independent businesses carrying out the engineering, harvesting and transport activities, many of them single unit operators.

In the ten years since the move to fully contract operations, there has been a steady advancement in the capability, professionalism and performance of the contractors. In more recent years there have been significant developments in the capability of contractors to manage their own businesses as evident in the key areas of health and safety and quality management. Most contractors now have comprehensive health and safety management systems which are independently audited. Many contractors have implemented quality management systems and have either gained or are in the process of gaining independent accreditation for these systems.

However there was still a relatively high level of management influence and intervention by the company in its contractors' businesses and this often led to inefficient use of resources, some compromise to the independence of the contractors themselves and a lack of clarity in relative responsibilities for performance in key areas. Continued improvements in the areas of value recovery, quality, health and safety performance, environmental performance and cost efficiency required increased accountability and commitment by the suppliers of contract services themselves.

Looking outside of our industry, the associated fields of the civil engineering and construction sectors in New Zealand and in fact the forest industry in other parts of the world, had moved to higher levels of maturity, scale and professionalism.

Mechanisation of felling and processing of trees had advanced rapidly in the period from 1994 to 1996, significantly increasing capital investment. The engineering side saw increasing use of specialized civil engineering equipment and the need for a more sophisticated asset management approach to the road network.

The increasing scale, complexity and sheer capital investment of these operations now demands a different set of business management skills and the requirement for more specialised staff than was the case with smaller contractor enterprises in the past. Suppliers in the future will have specialist training, planning and service staff and will need to be able to transfer data electronically between their operations and the company's information systems.

Key Supplier Concept

In April 1997, the company began communicating with its current harvesting and engineering contractors its intention to reposition the relationship between the company and its suppliers of contract services. The objective of this fundamental change was to create an environment where the company and its suppliers could better concentrate on the roles and functions that they can each do best, and to allow the development of better business structures.

The company's objective was to select and retain Key Suppliers with the ability and professionalism to take on full responsibility for operations management, health and safety management, environmental performance management, quality assurance, sub-contracting, training and development, price negotiation and business planning and management. Suppliers would need to have the ability and motivation to achieve industry best practice and to aggressively pursue ongoing improvement.

As a foundation for this change, the company held a series of seminars with all of its contractors through the period from April to August 1997, to clearly identify its vision and requirements in the key value areas of health and safety, environment and product quality.

In August 1997, the company invited all of its existing contractors and some external engineering providers to submit business proposals for consideration as future Key Suppliers. Then followed a lengthy process of evaluation, interview and discussion leading to the selection of Key Suppliers in Engineering and Harvesting. As part of the interview process, contenders were required to make verbal presentations of their proposals. This was a new challenge for many of the suppliers and allowed a close examination of their own understanding of their proposals, especially where external advisers had been used in the preparation of proposals.

During the Key Supplier process, the company held briefings for external interested parties, such as the major finance providers to the industry, regulatory authorities, and some local authorities. Not surprisingly, a consistent message from the finance providers concerned the need to introduce more stability into forward work programmes and more security of cashflow than had been the case in the past.

Draft contract documents were prepared for discussion and submission by the suppliers and their advisers. Resulting from this was a two-tier system of documentation for harvesting suppliers. The first is a longer term document which describes the key supplier relationship and goes out three to five years. Included in this document is a process for ongoing procurement of work by key suppliers which is designed to provide a balance of reasonable security and market exposure for key suppliers. The second document refers to specific work blocks contracted for around two years ahead. Key suppliers

were also able to negotiate minimum production guarantees, which would give them a stable base cashflow.

Total value of the contracts on offer was around \$160 million per annum.

Key Supplier Contracts

From April 1998, all engineering road construction and maintenance work was awarded to four key suppliers. In the South Island, the successful key supplier also has responsibility for overall management of the supplier contracts.

Conclusion of the harvesting contracts took two rounds. The first group of fourteen key suppliers, covering 60% of the harvest volume, started work in June 1998. In October another 30% was contracted, adding one further key supplier and providing additional volume and operations to some of the first round key suppliers. The remaining 10% is currently committed to existing suppliers under various agreements. Key supplier contracts range in size from 50,000 tonnes per annum to over 600,000 tonnes.

The transport operations have moved on a different timeframe. The first phase started in the Tokoroa based operations two years ago and was mainly aimed at consolidating the numbers of separate contracts and trucks into better scale, more efficient businesses. This process was extended to the rest of the transport fleet through 1997 and brought the number of independent contracts down from just on seventy to twenty key suppliers. However the real gain opportunities in log transport lie in redesigning the overall delivery system, including truck dispatch and inventory management, and this process is currently under way. The outcome by mid 1999 is likely to be two delivery systems, one in each of the islands, and more integration of log and other product cartage.

Staff Role Changes

As the role of the contractor changes to that of a more self sufficient key supplier business, so does the role of the operational management/supervision staff within the company. From the previous mode of directing and supervising, the company's role is now one of coaching and compliance and of more strategic than tactical planning. The focus is shifting from production of tonnes and dollars, to assessment of how well the broader requirements of health and safety, environmental care, customer service and log value recovery, are being met. The new key supplier contracts have much more specific job and product specifications included, which aids compliance monitoring. A new environmental management system is also being rolled out.

Results

From a contractor force over 200 independants two years ago, CHHF now has 40 key suppliers and a small number of other suppliers, carrying out its wood supply operations. The increased self sufficiency of the key suppliers and reduced administration has allowed a 20% reduction in company staff numbers and better focus on overall performance of the operations. Unit cost of harvest has been reduced by 15 to 18% to date.

Log value recovery and quality, and health and safety results plateaued during the changes, but are now resuming their previous improvement trends. We expect that these performance areas will move on to new levels of achievement in the key supplier businesses.

The key supplier process has produced a more mature and healthy business climate for the future development of wood supply operations than would have been possible under the previous closely controlled, paternal environment. Results from the changes to date have exceeded initial

expectations and have illustrated the latent capability within the suppliers, given the opportunity.

(Footnote)

John Galbraith is General Manager, Whakatane Mill, with Carter Holt Harvey Pulp & Paper. He was previously General Manager, Wood Supply, with Carter Holt Harvey Forests.)