

Strategic Marketing in the Global Forest Industries

Third Edition



Strategic Marketing in the Global Forest Industries

Eric Hansen and Heikki Juslin

Ecampus Open Educational Resources





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Chapter 1 : The Context of the Forest Industry and its Markets

After reading Chapter 1 you should understand the following:

- Where global forests are located.
- Where production of major product categories takes place.
- Why societal concern about the environment is important for forest products marketers.
- How major societal trends are impacting the forest sector and forest products marketing.
- How the forest industry is changing to deal with major societal trends.

This chapter sets the stage and provides the context for the marketing of forest products. The forest industry is increasingly global and every marketer of forest products should have a global perspective. As a natural resource-based industry, the forest industry has an especially high profile role in environmental protection and is increasingly involved in climate change mitigation and management. Global forests are not only important because they provide a source of industrial raw material, but also because of the various other human needs they satisfy. A forest products marketer should have a basic understanding of the role that global forests play in society. Major societal trends are impacting the external environment within which the forest industry operates. We provide an overview of global forests and a brief description of the markets for the main categories of the forest industry. Following this we outline several important societal trends as well as how the industry is evolving over time and conclude with a brief description of what this means for business and marketing in the forest industry.

The Food and Agriculture Organization (FAO) of the United Nations follows the development of global forests and regularly provides information about forests and how they are changing. The world regions as used by FAO are generally: North and Central America, Europe, Asia, South America, Africa, and Oceania (Figure 1). Some documents by FAO may have slightly different regional groupings.

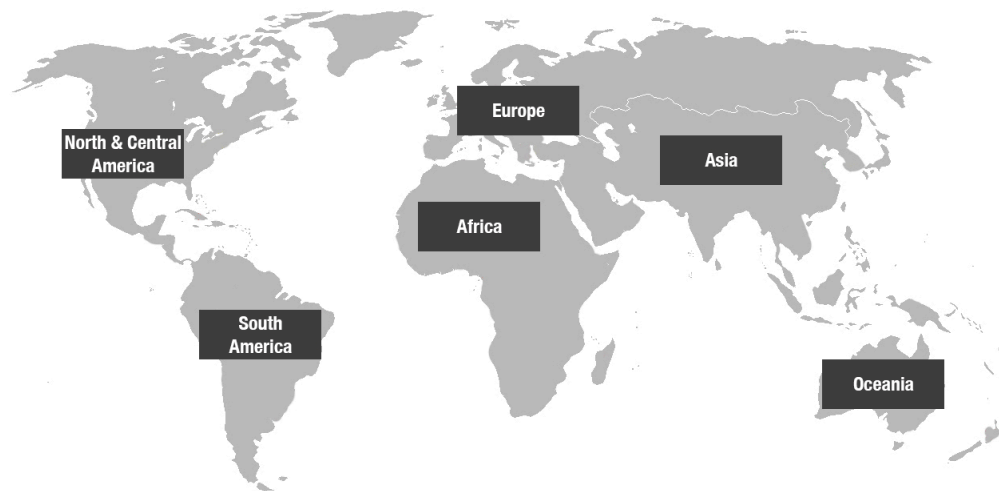


Figure 1-1: Global regions as used by FAO

1.1 GLOBAL FORESTS

In 2015 the world's forest cover was 3.99 billion hectares. Europe has the largest forest area (25%) as it includes the Russian Federation, which alone comprises 20% of the world's forest area, at nearly 900 million hectares. Because of its size, the Russian Federation dominates any analysis of forest resources. Brazil has the second largest forest area globally with over 494 million hectares. Africa contributes significantly to the world's forest resource with 624 million hectares of forest. The 18.8% of world forest cover found in North and Central America primarily lies in Canada and the U.S. The world's total growing stock is estimated to be 531 billion m³¹

Although in the context of this book forests are important for the wood they provide, it is important to recognize the myriad products and services that forests provide beyond wood. Much of the world's biodiversity is associated with forests, especially tropical forests. Many people around the world rely on forests for a wide range of non-wood forest products such as foods and medicines. Energy from wood is critical for about 2.4 billion people around the world and forests provide 40% of global renewable energy.²

Ownership of forests varies considerably among countries and regions. Public or state-owned forests are the only ownership type in the countries of the Commonwealth of Independent States (Russia, etc.). Canada is similar with over 90% of forestland owned by the government. On the other hand, in the US and much of Western Europe, private ownership is the norm. Family or individual ownership is often over 50% of the total forestland in countries such as Finland, Sweden and the US. Community ownership is important in many countries. For example, in Mexico community ownership represents 80% of total forestland.³

1.1.1 Plantations

In recent decades, establishment of plantations has taken place on a grand scale. Up-to-date statistics are hard to find, but as of 2000, about 80% of the area in plantations (111 million hectares) was dedicated to production of wood and paper products. The other 20% was largely established for protection functions.⁴ Asia contains the largest area with nearly half of the global total. Countries best known for production of industrial roundwood from plantations include Brazil, Chile, Uruguay, New Zealand, and South Africa.

Globally, plantations provide for approximately 33% of industrial roundwood. Another 54% come from natural

forests and 12% from semi-natural planted forests. South America boasts the largest global production of industrial roundwood from plantations at 193 million m³ (88% of production) followed by Asia with 151 million m³ (43% of production) and North and Central America with 104 million m³ (22% of production). Oceania is relatively low in total production (47 million m³), but 81% of its industrial roundwood comes from plantations.⁵

1.2 GLOBAL MARKETS

Below we describe the basic characteristics of global markets for several general categories of wood-based products. There are a large number of wood-based products that are not addressed here, but the categories below account for the main volumes of wood-based products. Traditionally, the US was the largest producer and consumer of most categories of wood products. Wood products markets are changing quickly and other countries, especially China, are playing a bigger role both in terms of production and consumption.

According to FAO⁶ there are five major drivers of change impacting the long-term demand for wood products:

- Growth of world population
- Growth of global GDP
- A significant shift in GDP share to developing countries
- Exclusion of more forests from production due to environmental policies and regulations
- Energy policies that encourage the use of biomass

According to FAO statistics, global production of roundwood in 2016 totaled 3.74 billion m³. Of this total, nearly 50% was used as wood fuel with the other half being industrial roundwood. The way wood is used is highly dependent upon the level of development in a country. A split can be seen between the predominant use of fuel wood by developing countries and industrial roundwood by developed nations.

The remaining information from this section comes from the 2015 Global Forest Products Facts and Figures from the Food and Agriculture Organization of the United Nations.⁷ Global production of industrial roundwood in 2015 totaled 1.85 billion m³ with Europe representing the largest proportion (because Russia is included in Europe) (Figure 1-2). Approximately seven percent of this volume entered international trade. Regionally Asia and the Pacific is a net importer, with all other regions being net exporters.

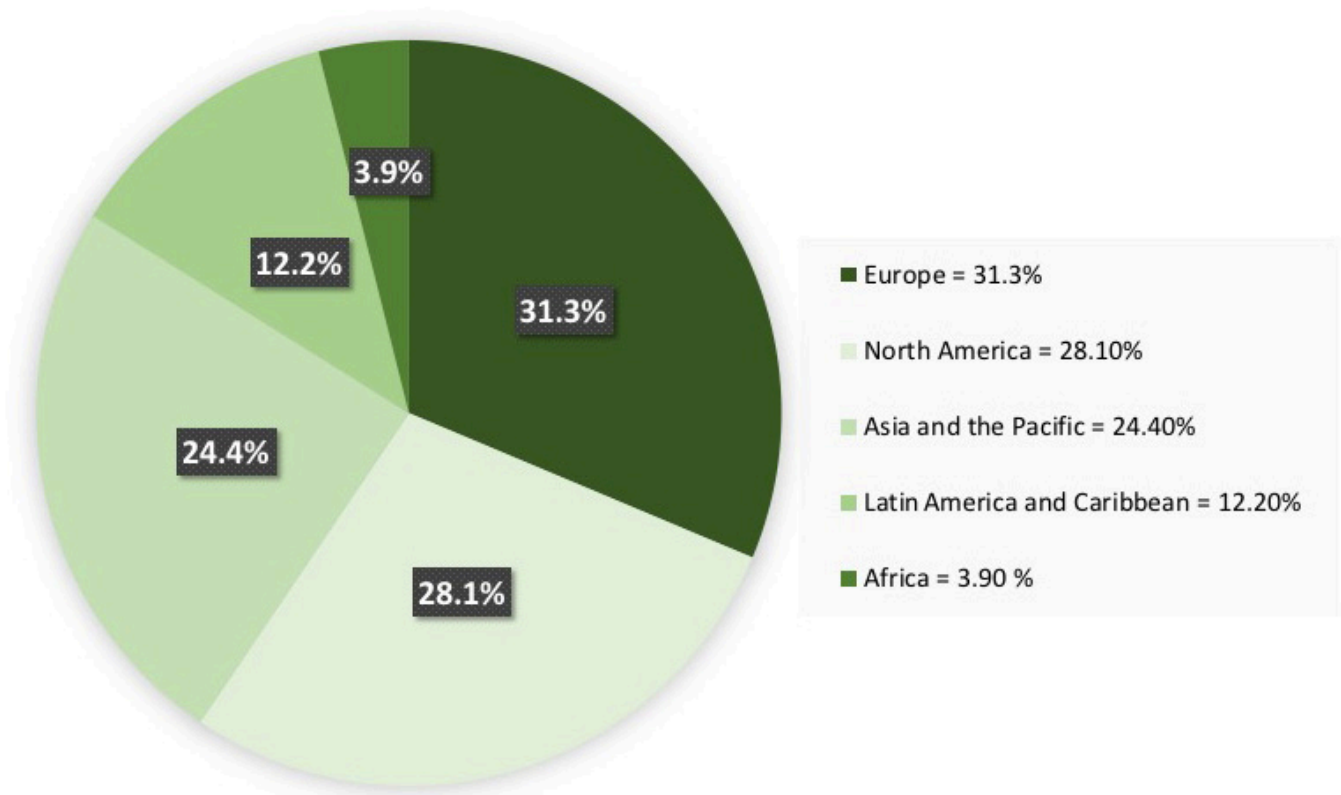


Figure 1-2: Global production of industrial roundwood, by region

Global production of sawnwood in 2015 totaled 452 million m³. Again, Europe was the largest producer followed by Asia and the Pacific and North America (Figure 1-3). Twenty-nine percent of sawnwood entered international trade, with Asia and the Pacific and Africa being net importers. Europe and North America were the largest exporters. The countries with the largest production of sawnwood are the US, China, Canada, the Russian Federation, and Germany.

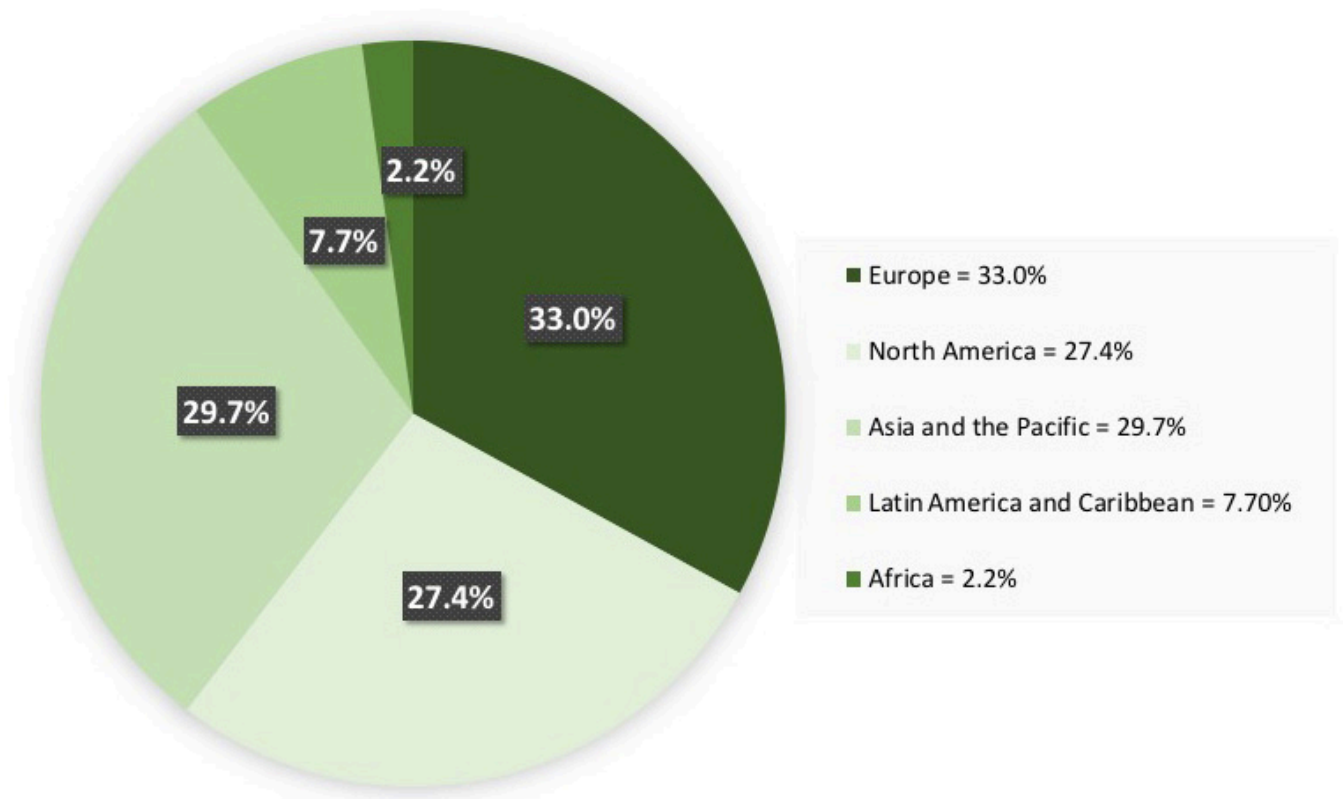


Figure 1-3: Global production of sawnwood, by region

Global production of wood-based panels totaled 399 million m³. Asia and the Pacific accounted for nearly two-thirds of global production (Figure 1-4). Global trade of wood-based panels amounted to 21% of total production. Europe and Asia and the Pacific accounted for most international trade in this product category. China, the US, the Russian Federation, Canada, and Germany make up the five top producers of wood-based panels.

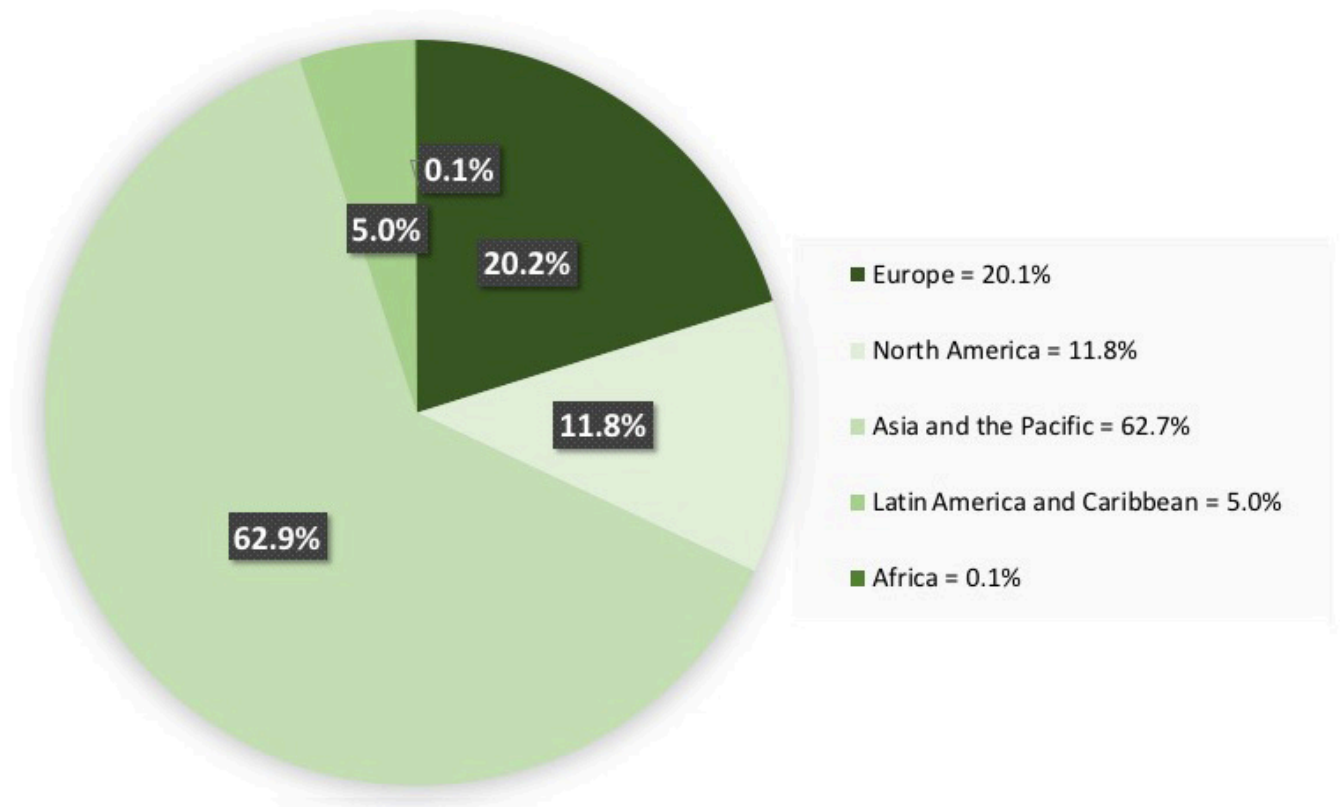


Figure 1-4: Global production of wood based panels, by region

Global production of fiber furnish totaled 407 million tons in 2015. Asia and the Pacific was the leading producer, followed by North America and Europe (Figure 1-5). Approximately one-quarter of fiber furnish entered global trade with Asia and the Pacific as the only net importing region and North America as the largest net exporter. The top five countries producing fiber furnish were the US, Canada, Brazil, the UK, and Japan. It is important to note that recovered paper is an important component of these statistics.

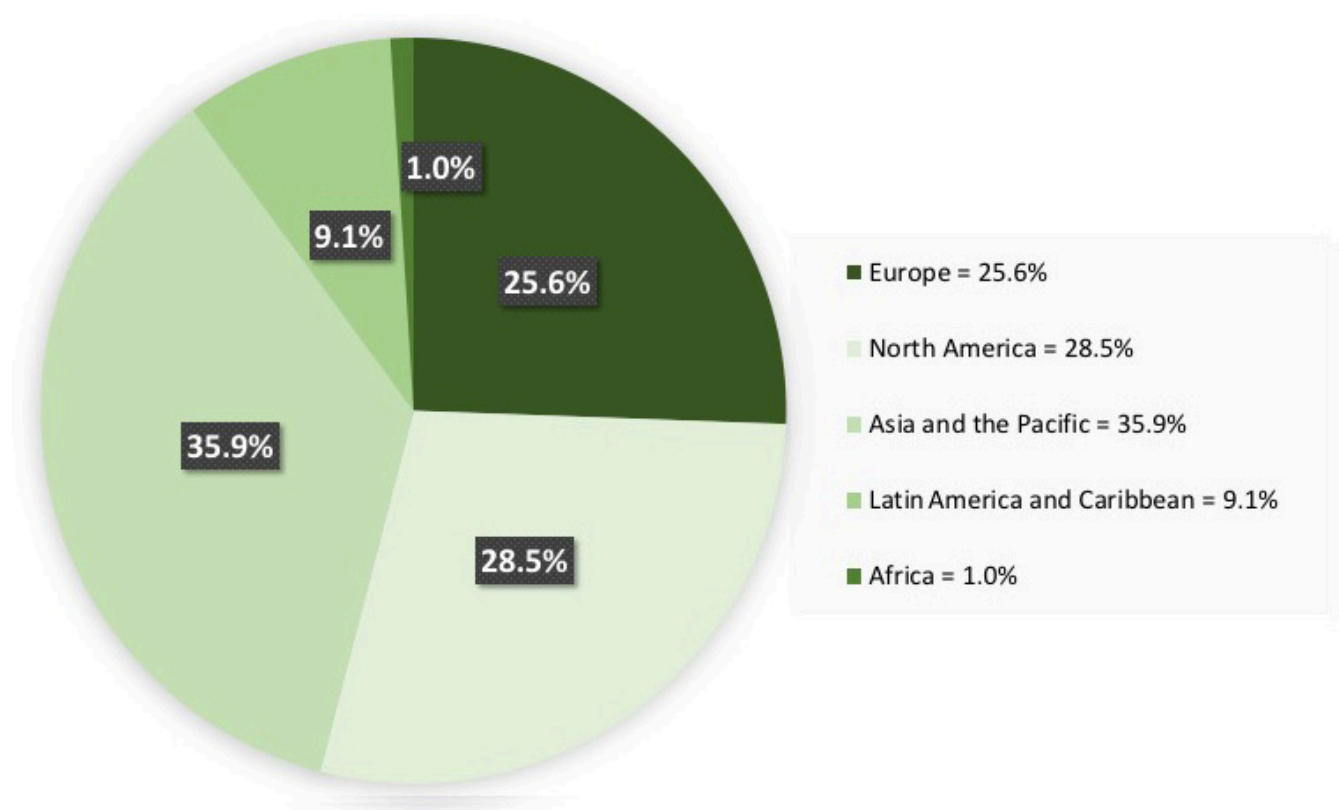


Figure 1-5: Global production of fiber furnish, by region

1.3 MAJOR SOCIETAL-LEVEL DEVELOPMENTS

There are many societal developments impacting forest products markets. Here we concentrate on: globalization, population growth, sustainable development, and growth of the circular bioeconomy.

1.3.1 Globalization

Globalization is not one issue or phenomenon, but a series of societal trends that together are driving the integration and interdependence of the world's markets and people. In a basic sense, globalization is the mobility of information, products, people, and investments.⁸ Today, globalization is a well-known phenomenon that has significant impacts on the individual consumer, including the availability of information, availability of products, exposure to other cultures, etc. People are extremely mobile and international travel is common. Mobility exposes people in all societies to the peculiarities and experiences of others. The flow of information and people has begun a process of homogenization that is causing societies and cultures to become more similar over time.

Global companies/brands illustrate the phenomenon of globalization well. Where have you been lately that you couldn't find a McDonalds? This is a simple example of the homogenization of societies; eating at McDonalds is a common experience for many people around the world. Global companies like McDonalds, along with the impact of television and the Web, result in a convergence of ideas and experiences.

In the not-so-distant past, people in developing countries had little understanding of the degree of affluence and consumption in other parts of the world. With information readily available via the Web, these people clearly know

what is happening in other countries and often wish to emulate the consumption-focused lifestyle. This desire has obvious political ramifications, but perhaps more important is the potential consumption of resources that will be needed to satisfy these desires. World population and per capita consumption will grow in the coming decades, resulting in important ramifications for governments and society as well as the forest industry.

1.3.2 Population and demand growth

Our current global population of 7.6 billion is expected to reach 8.6 billion in 2030, 9.8 billion in 2050, and 11.2 billion in 2100. China and India have the largest populations at 1.4 and 1.3 billion inhabitants, respectively. India is predicted to surpass China in 2024. Nigeria is the fastest growing country globally and is expected to become the third largest country in population around 2050.⁹ Adding nearly four billion people to the planet has major implications for both the supply and demand situation for forest industry companies. Fast-growing countries tend to have younger populations, especially compared to countries like Italy and Japan that have declining populations. These demographics have obvious implications for the products that forest industry companies target to various markets.

1.3.3 Sustainable development

As society has developed and the basic food and shelter needs of citizens have been met, the collective focus of society has evolved to rest on the need for a healthy environment. A key manifestation of this evolution has been a focus on sustainable development. The Brundtland Commission defined sustainable development as, "Development that meets the needs of the present without compromising the ability of future generations to meet their needs." A basic premise of sustainable development is that it applies to three realms, economic, social, and environmental. This three-part thinking has dramatically impacted developments in the forest industry. For example, forest certification standards have developed that require performance in each of these three areas before a forest area can be certified. Overall, the sustainable development issues facing the forest sector have been predominantly associated with the environment, but social issues have become more prominent in recent years, especially as large companies in developed countries have begun investing in developing countries.

An increase in attention by society on human-caused environmental impacts means consumers are increasingly focused on "green" products. It also means companies have a near constant effort to reduce environmental impacts in order to be seen positively within a society that has evolving demands regarding environmental performance.

1.3.3.1 The Greening of Markets

Consumers are increasingly interested in environmentally friendly, or green, products. A leading development in this area has been organic food. In the early 90s organic food was still a niche or even a fringe market. As market demand grew, mainstream grocery stores also began offering organic food. Today, organic food is quite common. Other food certification systems have been developed such as Fair Trade that focus more on the social aspects of the food source.

Other green products have also proliferated in the market. Early entrants were natural cleaning products. Today, a broad array of products make green claims and products designed for green consumer are common. Electric cars are an interesting example since cars, in general, have so many environmental impacts. However, cars such as Tesla are seen as highly environmentally friendly, to the point of becoming common in some marketplaces such

as Norway. Even oil companies have jumped on the green bandwagon, despite all the negative environmental implications of the exploration, extraction, and use of petroleum products.

A desire for a greener built environment by consumers, but especially by architects, is a positive development for wood products companies. Government procurement policies play an important role in creating demand for greener products and corporate buying policies also have a positive influence. Demand for certified wood and paper products has been significantly impacted by the buying policies of large companies such as The Home Depot. Specific to the built environment, wood is seen positively compared to concrete and steel. Various green building certification programs recognize wood as an environmentally preferable material, especially when it is sourced locally. There are efforts, for example, in Oregon to build on this local sentiment when it comes to wood products. [The Build Local Alliance](#) works to build local markets for locally grown wood products.

An environmentally conscious consumer creates opportunity for forest industry companies. Because wood is renewable and generally processing of wood is low energy intensive, companies are positioned to offer up environmentally preferred options and create sustainable competitive advantage.

1.3.3.2 Climate change mitigation

Despite the current US policy indifference to climate change and carbon issues, concerns over climate change are having major impacts on both supply and demand for forest industry companies. Many countries have agreed to reduce their carbon footprint (amount of CO₂ they release to the atmosphere). The Paris Agreement, a collaboration among many world governments is the most significant mechanism for this. Based on this and earlier commitments, major policy changes have been implemented in most countries. Still, response to climate change is a highly contentious issue and there is much disagreement in the international community regarding the right path forward. Policy uncertainty presents challenges to the forest sector, but also important opportunities since forests can play an important role in potentially mitigating climate change.

As with green products, a positive carbon story can differentiate forest industry companies and their products. Effectively communicating that story can provide an advantage in the market.

1.3.4 Advent of the Circular Bioeconomy

The circular bioeconomy represents a paradigm shift away from a fossil-based economy, helping society to exist within planetary boundaries.¹⁰ There is much yet to materialize with respect to how the forest industry will embrace the opportunity.¹¹ As purveyors of renewable materials, forest sector companies are positioned to capitalize on current marketplace trends. It has been suggested that companies “must” transform to enter these new markets.¹²

The development and growth of the circular bioeconomy presents an opportunity for forest sector firms to diversify product offerings and escape reliance on stagnant markets for mature products. Opportunities exist in traditional market spaces such as solid and engineered structural wood products for housing or non-residential construction as well as liquid fuels, chemicals, bioplastics, nanocellulose, etc.¹³ Coming from bio-based raw materials, these products are perceived to have a superior environmental profile compared to alternatives, especially products from petroleum. Arguably, all forest sector products are bioproducts and therefore the companies producing them are already at the heart of the circular bioeconomy. The social and political changes driving growth of the circular bioeconomy give forest industry products a new edge in traditional markets and forest industry companies new opportunities across a host of new products. Firms that fail to embrace the opportunity of the bioeconomy may find it increasingly difficult to maintain profitable operations.¹⁴

Any effort to make products more environmentally friendly is a step toward the circular bioeconomy. Non-formaldehyde-added adhesives, reduced density fiberboards, and cellulose-based insulations are examples. Developing new products with a design for environment philosophy, minimizing environmental impacts over the entire lifecycle of the product is a more direct way for forest sector companies to play a more significant role in a circular bioeconomy where products are actively re-used, repaired, refurbished and recycled. Improved marketing practices may be one aspect needed for companies to make the successful jump to the bioeconomy.

1.4 THE CONTEXT OF THE FOREST INDUSTRY

The forest industry has changed significantly in the last several decades and the pace of change shows no signs of abating. Many changes have been driven by a long span of poor profitability by many companies in the industry. This poor profitability played a part in consolidation of the industry as companies attempted to focus on specific product segments and internal core competencies. The Great Recession that began in 2007 had a dramatic impact on the industry such that many industry observers see it as a totally new landscape after recovery.¹⁵ Finally, the industry is improving its approach to customers and developing an increased level of marketing sophistication.

1.4.1 Profitability Woes

For many years the forest industry suffered from poor profitability performance. Generally, the industry targets a 12% return on capital employed, but the value was often closer to 5%, a level considered to be actually destroying value or capital.¹⁶ Many industry analysts attributed the poor performance to the fragmented nature of the industry. Fragmentation often results in overcapacity, lack of price discipline, and an overall inability to influence trends in the industry.¹⁷ Because of its fragmentation and capital intensity, there is a tendency for the paper side of the industry to be highly cyclical.

- When demand and prices are high, each company in the industry wants to be part of the growth to meet future demand. Accordingly, they choose to add capacity. Because paper production is highly capital intensive, capacity is added in large chunks.
- When the added capacity comes on line, supply outstrips demand and prices fall. Prices don't begin to climb until demand has caught up with the added capacity. Meanwhile, companies are faced with low prices and overcapacity along with the debt they incurred to create the capacity. With a production mentality they try to produce their way out of losses further exacerbating the overall industry's problem.
- In a basic sense, companies participating in this "vicious loop" are succeeding in maintaining market share at the expense of healthy profits. Companies that invest at the bottom of the cycle would be perfectly positioned to capitalize on high demand and prices, but few are able to pull this off.

Consolidation has resulted in significant market shares being held by one or a few companies. Today, companies often shut capacity down during the down cycle, resulting in better supply management across the industry and potential for evening out the cycle. Although the solid wood side of the industry does not face the same dynamics, it is even more fragmented than the paper side of the industry, and consequently, individual firms have very little influence on the overall marketplace.

One positive following the Great Recession (see below) has been a relatively long run of good prices and relatively stable demand growth on the wood products side of the industry. Slack resources available via positive prices creates a situation where companies are more able to invest in marketing and improve their marketing strategies, structures, and functions.

1.4.1.1 *The Great Recession*

The global recession that began in 2007 had a dramatic impact on the forest sector. The housing bubble in the US created market imbalances across the globe. For example, significant volumes of sawnwood were being imported from Europe in order to feed the housing frenzy. When US housing starts fell from over two million to less than a half million, it was not just the US producers and intermediaries that felt the impact. The world's largest export destination was relatively quickly off-line to international suppliers and they were scurrying to find new markets. Thousands of jobs were lost in the North American forest sector and hundreds of companies went out of business. As an example of the reduction in the marketplace, the ten largest US homebuilders produced nearly 300,000 homes during the peak year of 2006. By 2009 this value had fallen to about 85,000 homes.¹⁸ The collapse of the US housing market was also challenging for Canadian producers since the US is such a significant market. Sawn softwood consumption in North America fell by nearly half between 2005 and 2009. For the first nine months of 2008, operating rates for Canadian lumber mills averaged only 63% and OSB averaged 50%.¹⁹ One outcome of the housing collapse is that forest products companies have begun to focus on markets outside of residential housing. Commercial buildings and various industrial markets (vehicle bodies, packaging, etc.) are examples.

1.4.1.2 *Industry consolidation*

Globalization has had its impacts on the industries that serve as major customers of the forest industry. For example, the publishing industry has seen consolidation with the largest companies operating around the globe. Because these customers operate on a global basis, they are looking for suppliers that can meet their needs regardless of location. In other words, they are looking for their suppliers to become global along with them. The home building and do-it-yourself (DIY) retail sectors have also seen consolidation and the development of huge companies.

The logic of consolidation is to gain sufficient market share to effectively influence market forces, especially pricing. Because of the nature of the marketplace and the cost of building new capacity, it often is more economical to buy existing capacity. There is some evidence that in commodity industries with four or fewer competitors, pricing will be impacted even without overt collusion. On the other hand, in situations of more than six competitors, the market is characterized by perfect competition.²⁰

Consolidation has left three major paper producing companies in Finland, where only about 30 years ago there were more than 20 companies. Other countries have not progressed this far along the consolidation path, but mergers and acquisitions have been common during recent years. Much of the recent consolidation is not about getting bigger, but about growing in those sectors where the companies have core competencies. A narrower focus within specific sectors provides new options with respect to implementation of marketing both from the perspective of economies of scale and general ability to invest in market development.

1.4.2 **Increased environmental responsibility**

1.4.2.1 *Environmental management*

As ENGOs pressured the forest industry and sustainable development came to the forefront of the business agenda, companies looked for ways to manage their environmental impacts. During the 90s it became common for companies to implement environmental management systems. The basic goal of the implementation of these systems was to identify and manage impacts to the environment and to continually improve performance. By the end of the 90s, the International Organization for Standardization (ISO) 14000 series of standards had been

developed, and large companies in all regions of the world were actively engaged in implementing ISO 14001 for both their production and forestry operations. Developments in forest certification went hand-in-hand with developments in environmental management. The practical objective of forest certification is to guide forest management in a market-led manner in an economically, ecologically, socially, and culturally sustainable direction. In order to achieve that objective, there must be a close link to marketing. Thus, certification may act as:

- *A tool for promoting sustainable forest management*– For example, government authorities may use certification to support their forest or environmental policies.
- *A tool for satisfying the needs of customers*– For customers, certification indicates that the product comes from a well-managed forest. Certification helps consumers make choices and supports the attainment of sustainable development regarding consumption.
- *A tool for marketing* –Marketing adapts the company to its business environment, and turns prevailing trends and customer needs into business opportunities. If sustainable development is one of the values of an enterprise, it makes sense to integrate certification with marketing decisions.²¹

Environmental labeling is a mechanism to allow consumers to make product choices based on the environmental impact of a product. The premise is that an ecolabel or environmental label will provide an incentive for producers to minimize environmental impact, because they will receive some form of marketplace benefit. A range of environmental labels exists both inside and outside the forest industry. The Forest Stewardship Council label is quite common on catalogs, direct mail, and retail wood products. With respect to forest certification, an ecolabel communicates the nature of the forest management from which the wood product originated. However, forest certification ecolabels do not say anything about other parts of the life cycle. Environmental product declarations (EPDs), a sort of environmental impact documentation, is becoming more common for forest industry products. EPDs are described further in Chapter 2.

1.4.2.2 Corporate Responsibility

The role of business and the way it is perceived by society have undergone changes throughout history. Over time, awareness of the impact of business and its interplay with societal and environmental concerns has emerged, along with parallel growth of socio-regulatory pressures. This evolution of business and societal concern has led business to gradually assume increased responsibility and consideration for both social and environmental issues, typically beyond what is required by legislation. This response is commonly referred to as corporate social responsibility or corporate responsibility (CR).

CR has deep historical roots. For example in Finland, in the early days of industrialization, forest industry companies could take care of the versatile individual and social needs of their work force. Companies provided housing for their employees. A company also could have its own hospitals, kindergartens, schools and even church. Later, society began to take care of these services. Nowadays when the environmental consciousness has strengthened, environmental responsibility is one of the biggest demands placed on industry. Employment is another big issue.

The concept of sustainability has permeated society and because the forest sector is so closely tied to a highly recognized resource that is important to the average citizen, companies have been pushed to recognize that they are responsible for more than merely providing profit to shareholders. Several multilateral organizations have tied CR to sustainable development in that companies should contribute to the objective of securing sustainable development. Many advocate the pursuit of global CR standards, yet there is also recognition that a context-specific approach is likely to be both more feasible and farther reaching. An example of context specificity is that

U.S. companies generally place more emphasis on environmental issues while companies in countries such as Brazil may place more emphasis on social issues. Societal expectations of business vary from one country/location to another.

Globalization, advances in communication technologies, and the emergence of ethical investment opportunities all contribute to increased attention on CR. Easy access to detailed information on corporate activities has increased transparency and heightened public awareness regarding the varied impacts, both positive and negative, of companies worldwide. In turn, this awareness has aided citizens and activists seeking corporate change, and boosted global discussion about CR and its adoption by companies. To varying degrees, globalization is resisted by societies concerned with the social and environmental implications of global companies. Therefore, it becomes increasingly important for organizations to proactively respond to social and environmental issues in order to ameliorate societal concerns.

One area that forest industry companies are heavily focused is on climate change. As one CR activity, forest industry companies have begun to quantify their carbon balance and are working to reduce their greenhouse gas emissions. Some companies have committed to specific emission reduction targets. While forest certification was arguably the hottest issue facing the industry in the 90s, climate change strategies and the impact of climate change policies are at the top of the forest industry agenda for the foreseeable future.

1.4.3 Industry 4.0

It is said that industry is experiencing the fourth industrial revolution, when digital manufacturing, big data, robotics, etc. are changing the reality of the manufacturing industry. The Boston Consulting Group outlines nine technologies transforming industrial production: big data and analytics, autonomous robots, simulation, horizontal and vertical system integration, the industrial internet of things, cybersecurity, the cloud, additive manufacturing, and augmented reality.²² Employing Industry 4.0 technologies will enhance forest products manufacturing and, in turn, create new possibilities for effective forest products marketing. Improved utilization of Internet of Things can help assist improved supply chain operation, thus enhancing both the reliability and profitability of the entire supply chain.

1.4.4 An increased marketing sophistication

The forest industry has traditionally been production-oriented rather than customer-oriented, causing companies to maximize production even when inappropriate. By focusing on production rather than customers, the industry has failed to capitalize on the improved performance that can result. However, this approach to business is changing. Rhetoric in company annual reports indicates that companies are striving to become more customer-oriented rather than production-oriented. Other indicators of a move toward a customer focus include the following:

- A concentration on customer relationships and relationship marketing
- Increased use of branding
- Embracing new tools of management and marketing (supply chain management, e-business, etc.)
- Dealing with customers directly more often, rather than through intermediaries
- Organizational changes in production and marketing

1.4.4.1 Servitization

Provision of services is becoming an increasingly important component of what forest industry companies offer to their customers²³ (see Total Product in Chapter 4). To remain competitive, it is no longer sufficient to only provide a physical product. Customers require services ranging from in-depth design to basic add-ons such as vendor managed inventory. These services allow the customer to dedicate their resources to their own manufacturing operations rather than things like inventory management. RedBuilt, a US engineered wood products manufacturer, offers engineering services to help customer design projects using RedBuilt products. The company has also begun sourcing complementary products such as solid sawn lumber so that they can provide their customer a full package of wood products necessary for a given project.

1.4.4.2 Value added

As companies evolve away from a production and commodity mentality, they begin to work toward adding value to their products both through processing and marketing. For example, Finnish Sawmills have dramatically increased the proportion of specialty and custom-made products in their total production. Instead of making standard lumber they are making products that meet the specific needs of sectors, such as for the furniture industry or for individual customers. Branding, a marketing tactic designed to assure customer loyalty and increase product value, has grown significantly in the forest industry.

Along with the efforts of individual companies, governments have become interested in promoting the processing of raw materials within their borders, primarily for reasons of employment and economic development. Part of this attraction is a direct result of the loss of employment in the primary industries. Most countries are now processing more raw materials and adding more value domestically, rather than exporting logs or unprocessed raw materials. Governments of producing nations are providing incentives and exerting pressure to capture the value-added process within their domestic forest industry. In the US there is a complete ban on exportation of logs coming from Federal forestlands. In Indonesian, production of plywood increased from 107,000 m³ in 1975 to 9.3 million m³ in 1990 based largely on Indonesian government policy providing incentives and subsidies to develop this segment of the industry.²⁴

1.5 WHY ALL THIS MATTERS

Many of the major developments in society suggest a positive future for marketers of forest products. A growing global population means steady market growth for most products into the foreseeable future. There is an increased focus on transition to a circular bioeconomy. Because of the positive environmental profile of most forest products, the societal focus on sustainability should benefit wood products. For those companies still owning forests, carbon sequestration and sales of stored carbon may open up totally new markets and income streams. A globalized world means myriad markets available to the astute forest products marketer.

There are also a number of challenges presented by the changes taking place in society. Environmental concerns will likely further constrain supply of roundwood as additional forest area is removed from potential harvest. Although the growth in plantations will likely fill most of the potential gaps, supply constraints could definitely impact competitiveness. While globalization means enhanced access to markets, it also means exposure to a wider set of competitors. Industry sectors such as US furniture have already experienced the negative impacts of highly aggressive global competition. The push for sustainability and focus on climate change can result in perverse market forces that could have significant negative impacts for forest products marketers. Already in some regions the push to utilize biomass for energy is resulting in supply competition with pulp and paper as well

as composite board mills. In some cases, the biomass for energy market can pay higher prices for raw materials because of government incentives and subsidies. It is a very open question what the trade policies of the Trump Administration will do to forest products markets.

The effects of societal changes and an evolving forest sector will have very different impacts depending on the context within which an individual company operates. For example, globalization and consolidation of markets presents a positive scenario for largest global forest products companies. However, it also presents an opportunity for the smaller, regional companies because the global companies are so large that they may not bother themselves with smaller markets. Regional companies can thrive by serving the small “left over” markets and by offering specialized products.

So, the changes taking place in society have both direct and indirect impacts on the implementation of marketing and business practices. The remainder of this book addresses how the practice of marketing should and does take place in the forest sector, all within the context of the industry as described above.

1.6 CHAPTER QUESTIONS

- Where are global forests located?
- What regions of the world are major producers of each product category?
- How are major societal trends changing the world we live in?
- How is the forest industry evolving to deal with major societal changes?

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Chapter 2: Understanding Forest Products Marketing

After reading Chapter 2 you should understand the following:

- How marketing can be defined and the various roles it plays in an organization.
- How and why marketing has evolved over time.
- What environmental marketing means and how it differs from traditional marketing.
- What marketing planning is and why it is needed.
- The value of models in marketing planning.
- The **Integrated Model of Marketing Planning** (IMMP), its central role in the remainder of the textbook, its logic, and its use.
- How marketing may evolve in the future.

In free market economies, marketing is a tool for satisfying the needs of society. It provides the link between the production taking place in a company and the demand of the individual consumer. Marketing integrates the company's various functions to target specific markets in order to best meet the needs of customers. Marketing also helps to create relationships with those customers and other stakeholders.

Marketing clearly is more integral than most people think. It is more than advertising or personal selling, two of the most visible tools of marketing. It has also changed over time, and will continue to evolve and adapt to changes in the business environment. Many of these developments are documented in the pages and chapters that follow. We feel that understanding marketing is best accomplished by a planning and modeling approach.

This chapter explores models of marketing and develops the concept of the **Integrated Model of Marketing Planning**, which serves as the structure of this textbook. The concepts of social responsibility and environmental marketing are also explored in the context of the forest industry. We discuss the future of marketing and end the chapter with an explanation of how the remainder of the chapters are structured according to the Integrated Model of Marketing Planning.

2.1 MARKETING AND ITS FUNCTIONS

2.1.1 Possible Roles of Marketing

In modern society, production and consumption are separated, and marketing acts as a bridge, or integrator, between the two. Marketing can integrate the various functions of a company, connecting the company to its customers and its other stakeholders. Figure 2-1 describes marketing's role as a connector and relationship builder.

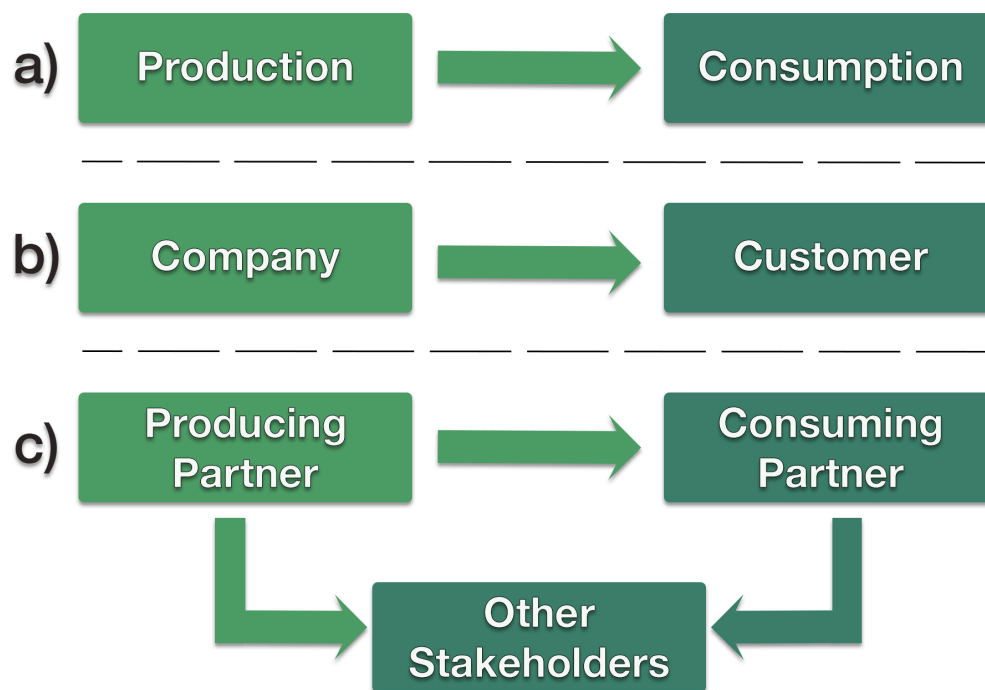


Figure 2-1: Marketing as a Connector and Relationship Builder

Marketing as a connector – Traditionally, marketing was the link between production and consumption, coordinating the integration of the two functions. At a company level, marketing connects the production of the company with the needs of the customer.

Marketing as a relationship builder – Marketing can serve to build and maintain relationships among the company, its customers, and other stakeholders. In modern marketing, this role is critical. “Relationship marketing,” a term popularized in the early 90s, suggests the importance of positive relationships with a range of stakeholders. The concept is an integral part of advanced marketing and successful business.

Marketing can have either a narrow, functional role in an organization (i.e., that of “selling”), or it can have a broad, integrating role. The difference between the two roles can be seen in Figure 2-2.

Marketing as one function of the company – The narrowest possible role for marketing is as one of the company’s functions between production and the marketplace. From this perspective, the role of marketing is to assure that products are efficiently transferred to the market. In this context, marketing is limited to selling.

Marketing as the integrator of company functions – In its more sophisticated implementation, marketing has

an integrative function focused on the entire value chain, from the forest to the end user. It allows an organization to align its various processes to offer products and services in a way that is beneficial to itself and its customers.

a) Marketing as a Function of a Company



b) Marketing as an Integrator

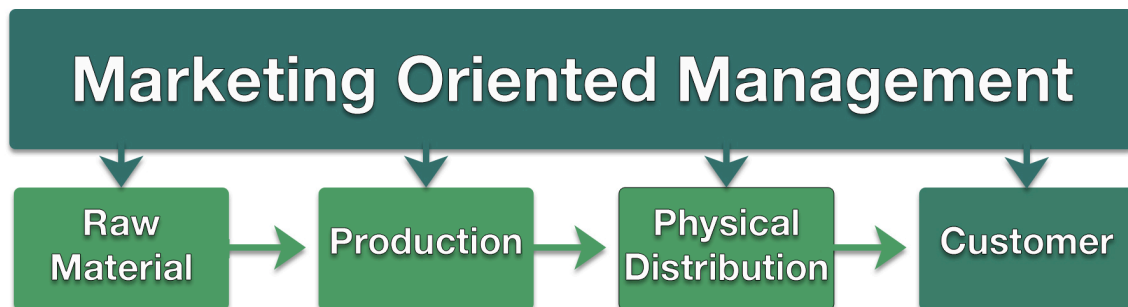


Figure 2-2: Marketing as a Function of the Company and as an Integrator

In practice, marketing can play all of the above-mentioned roles. In fact, marketing should serve to connect the company to its environment, allow it to develop a better understanding of markets and customer needs, and convert this understanding into business opportunities. Marketing should integrate the company's functions and divisions into a customer-serving entity, ensuring fluid transfer of products and services to end-users.

2.1.2 Defining Marketing

The science called marketing has evolved from a series of other behavioral sciences including psychology, social psychology, sociology, communications, and economics. While it may seem simple to define, the term "marketing" is both broad and complex, with many possible interpretations. As the field of marketing develops, so does its definition. Early definitions were centered on the concept of the **transaction**, while today, definitions of marketing typically involve **relationships**, and elements of social and environmental responsibility.

University students, industry managers and ordinary consumers often have a narrow understanding of the concept of marketing. Typically, marketing is associated with its most visible functions, such as advertising and selling. However, advertising and selling are merely tools of marketing. A simple definition of marketing is identifying and providing for the needs of customers in order to gain a profit. For the purpose of this book, we describe marketing in the context of a planning approach.

Marketing constantly produces information about the environment of the company (especially customer needs, market trends, and demand). Based on this information, marketing strategies, structures, and functions are

planned. **Marketing strategies** are composed of definitions of products to be produced, customers to be served, and core competencies to be pursued. **Marketing structures** (e.g., marketing organization, marketing channels and information systems) facilitate necessary relationships as well as the planning and implementation of marketing. **Marketing functions** are the tools and activities used to execute marketing strategies. After proper planning, marketing is simply execution of the strategic marketing plan.

2.2 THE EVOLUTION OF MARKETING

How marketing is executed and the role it plays in an organization depends on the marketing philosophy and culture of a company. An inappropriate or obsolete marketing philosophy often means inappropriate or obsolete marketing actions and weak performance for the company. When marketing is purely a selling function, the company is probably production-oriented. Marketing as an integrator or relationship-builder implies a sophisticated market orientation.

Marketing philosophies have changed in response to historical developments in society. During the early years of modern industries and mass production, demand for products was typically high and it was unnecessary to invest resources into developing demand. Marketing philosophy developed accordingly and was largely production-oriented. Recent developments in the marketplace have forced companies to increase their marketing sophistication by shifting from a production orientation to market orientation (Figure 2-3). With this shift comes a series of more sophisticated approaches to marketing, such as an emphasis on social – rather than just economic – responsibility. Today, a focus on the future bioeconomy has heightened interest in options to fossil fuel-based products. Accordingly, forest industry must respond to this customer interest through its production and marketing, thus potentially leading to an “environmental” orientation.

2.2.1 Production and Sales Orientation

Production-oriented companies concentrate on producing large volumes of commodities at low costs and rely on the sales department to move product into the marketplace. This approach to business works well when demand is high, needs of customers are simple, and competition is limited. The following aspects characterize a production, or sales, orientation:

- Technology and raw materials dominate business thinking
- Product development is concentrated on technological possibilities or better utilization of raw materials
- Planning engineers think they know best what customers need
- Products are commodities
- There are few marketing personnel
- Products are marketed through intermediaries
- Little is known about end-users and consumers
- The cure for demand problems is harder selling
- Salespeople are to blame if the product is not selling

A production-oriented company feels that a marketing department is only a cost-creator between the mill and the market. Under this model, low costs (and thus, low prices) are necessary for success.

Some argue that the marketing philosophy of an industry sector is tied to its particular characteristics (e.g., raw

material, production, product). An old saw miller may say, for instance, “only lumber can be sawn out of a log and this can’t be helped by any kind of marketing planning.” However, industry experience suggests that instead of being dependent upon the characteristics of the sector, an appropriate marketing philosophy is more dependent on the dynamics of the industry, the marketing environment, and the innovativeness of the marketers’ attitudes.



Figure 2-3: The Development of Marketing Philosophies

As the marketplace changes over time (especially with respect to customer needs and competitors) companies must become more sophisticated in their approach to marketing. A market orientation is seen as a response to ever increasing demands from the marketplace.

2.2.2 Market Orientation

The terms customer orientation and market orientation are similar, but not synonymous. A truly market-oriented business uses marketing as a leading, integrative function which drives all other activities in the organization toward the goal of creating customer satisfaction and value.

In a market oriented company, the customer is raised to a higher status – the “customer is king.” This change in status comes from a realization that profits are created through customers’ needs and buying behavior. In a market oriented company, relationships with end-users are strong and marketing research is conducted continuously. Product development is based on research and marketing operations are planned according to customers’ reactions. A market orientation must be present on all levels of the company and in all marketing planning decisions. In addition, markets and marketing strategies direct business planning, on all levels – investments, production, raw material procurement, etc. The following list overviews how the various aspects of marketing are impacted by a market orientation.

Products – Adopting a market orientation means moving from commodities to special and custom-made products. A paper mill is not producing paper, but rather **solutions** for different printing tasks and problems. A sawmill is not producing sawn wood, but **components** for industrial customers. **Customers** – A market orientation means selectivity in choosing customers. This means choosing the right customer for the company’s product, or choosing the right **product** for the company’s customer. **Market Areas** – Understanding markets and customers is a vital capability for a market oriented company. Because resources are limited, the necessary level of understanding can often be reached only for a limited number of market areas. **Core competencies** – A market oriented company should pay special attention to market intelligence, customer relationships and marketing skills. It should overcome its competitors when creating attractive solutions to the needs of the

customers. **Organization** – Every person in a market oriented company realizes that the company exists for its customers. The “voice” of the customer must be heard throughout the organization. **Information Systems** – Systems for gathering and analyzing information must be able to produce dedicated customer and market information. For example, each customer’s level of profitability to the company can be assessed using the right information system, and this knowledge can be valuable in allocating marketing resources. **Planning Systems** – An appropriate planning system is able to use market information in planning of marketing strategies and functions as well as in planning of production and raw material procurement. **Marketing Channels** – The marketing channels of a market oriented company must form connections to the customer, and information and influence should move freely in both directions. Although the forest industry has made great strides toward market orientation, research shows that there is considerable opportunity for increased marketing sophistication (Example 2-1).

Example 2-1: Marketing Sophistication in the Forest Sector

A study of hardwood and softwood sawmills in the US found that many companies are still tied to a production or sales orientation and that managers generally viewed marketing in the context of sales rather than the holistic concept outlined in this textbook. When asked to define marketing, most respondents tended to focus on sales or promotion revealing a narrow view of marketing. Some respondents referred to a customer or market focus suggesting a more sophisticated understanding of marketing. Respondents often relied heavily on distributors and brokers in order to move large product volumes and receive fast payment, a customer strategy that fits best with a commodity product strategy. The thinking regarding organization and implementation of marketing was also assessed to be underdeveloped. Still, the overall evaluation of the situation with sawmills identified movement toward more of a customer and market orientation, a more sophisticated approach to marketing.¹² The key to customer relationships is the creation of value. To attract customers, the company must provide superior value, and marketing measures are designed to create customer value. The market oriented company is successful by helping its customers to grow, to create value for their respective customer, and to be successful.

Maintaining a market orientation is clearly a challenge. Nowadays customers often have higher expectations of their suppliers. Demands may include:

- Cost savings
- Superior knowledge
- High product quality
- High levels of customer support
- Supply security

Being market orientated is a continuous improvement process. For example, information technology (IT) has become a critical tool for maintaining customer relationships, and companies must be prepared to invest in the solutions necessary to meet customer demands. Generally, research has shown that a market orientation is positively associated with profitability, so companies that coordinate all their functions in a concerted effort to understand customers and competitors will likely be the most successful.

2.2.3 Responsible Forest Industry – Responsible Marketing

The traditional responsibility of a firm is to maximize profits for the owners while operating within the laws of society. The opposing view is that companies have much wider responsibilities. Modern society expects companies to hold three kinds of responsibilities:

- Economic responsibility
- Social responsibility
- Environmental responsibility

It is often said that companies have a responsibility to satisfy a range of stakeholders. An example of internal stakeholders is company employees, while external stakeholders include the company's surrounding community. The World Business Council for Sustainable Development has developed the following list of stakeholders and the company's responsibility toward each.³

- Owners and investors – high profits
- Employees – consistent, fairly compensated employment
- Customers – high quality products and service
- Business partners – fair, ethical treatment as partners
- Suppliers – consistent customer upon which to base the supplier's business
- Competitors – maintain industry image
- Government regulators – meeting or exceeding regulations
- Non-governmental organizations – meeting or exceeding their expectations
- Communities – stable employment for community members

Meeting the myriad demands of multiple stakeholders can be an overwhelming task, especially for companies that operate in several regions or countries since stakeholder demands tend to vary based on geography, culture, and level of economic development and education. Even in one location the views on responsibility can differ significantly. Companies must adapt to meet the expectations and needs of stakeholders in each location, while also meeting the highest standards of any location across all operations.

Despite differing views on the extent of corporate responsibility, it is clear that businesses exist as a subsystem of society, and therefore have both an economic and social role in the community. Ultimately, society dictates the extent of this role and the level of responsibility expected of corporations. In the early 1900s, these expectations largely reflected the view of classical economics—that companies need only obey the law and provide profit—but the values of society have changed over time. Consequently, expectations of companies are changing as well. Often it is corporate actions negatively impacting the community or the environment that drive the public to become involved and to increase their demands of companies. Noteworthy environmental disasters such as the Exxon Valdez in Alaska and the BP oil spill in the Gulf of Mexico are good examples. In the early 2000s, factory conditions and human rights, especially in the apparel industry, were especially topical. At present, global warming is an issue highest on the radar screen for many companies. With a majority of countries in the world agreeing upon reducing the levels of carbon emissions for combating global warming and climate change, companies are expected to change their business operations and strategies in order to help meet emission targets.

In the forest industry, societal demands have primarily centered on sensitivity toward environmental impacts. These demands, and the way they've changed over time, can generally be summarized in the following manner:

- 1970s – emissions to water and air
- 1980s – recycling and chlorine bleaching
- 1990s – forest management and forest certification
- 21st Century – global climate change and the role of forests

An important aspect of society's changing values is the impact of globalization and the consolidation of industries. Companies are becoming so large and multi-national that it is increasingly difficult for any single government to enforce legislation to regulate their actions. The resulting shift in power from government to corporations leads society to demand greater responsibility from corporations. Society ultimately grants a company a "social license to operate," but if a company does not operate within society's values, it risks losing this license and ceasing to be competitive (Example 2-2).

Example 2-2: MacMillan Bloedel Ltd. And the Social License to Operate

MacMillan Bloedel Limited (MB) was a large western British Columbia company with significant operations on Vancouver Island, a place where ENGOs took an international stand against clear cutting and harvest of old-growth timber. ENGOs protested at harvest sites and at the sites of key customers, hoping to eliminate the company's markets. In part because of this "war" with ENGOs, MB was in poor shape by 1997 and had nearly lost its license to operate. The company had a terrible in-woods safety record, was losing money each time it harvested, and was constrained in its markets because of the protests by ENGOs. In 1997, the company undertook a study with the following objectives:

- No compromise of employee safety
- Achieve "outrageous" financial success
- Make MB the most respected forest company in North America

The company essentially chose to meet some of the demands of the ENGOs, making changes in order to maintain its license to operate. In an interesting twist, the company began to use the ENGO's as advisors, including them in the corporate decision-making process, rather than fighting against them. In 1998, the company announced three main commitments:

- Replace clearcutting with variable retention
- Increase old growth conservation above status quo rate
- Certify forest operations to meet market demand

According to MB the challenge was two-fold:

- To move from simplistic, adversarial relationships with ENGO's into more complex relationships capable of simultaneously involving cooperation and competition.
- To pursue environmental enterprise with the same level of creativity and passion previously devoted to battle, and frequently still devoted to competition.⁴

Corporate social responsibility (often referred to simply as "corporate responsibility") can be defined as "the

commitment of business to contribute to sustainable economic development [economic responsibility], working with employees, their families, the local community and society at large to improve quality of life.”⁵ Social responsibility means going beyond the legal, technical, and economic requirements of the company.⁶

Society's view of responsibility is clearly changing. Fears about globalization and the growing power of multinational companies have resulted in a backlash against big business such as the protests surrounding the 1999 World Trade Organization meeting in Seattle, Washington and the Occupy Wall Street movement. It is important to acknowledge the differences in perspective regarding social responsibility among various cultures. People in different countries have different views of responsibility based on their history, religious views, and other values. Accordingly, companies in different regions can have different approaches to managing responsibility.

Environmental Responsibility

Environmental issues are a strong part of the forest industry's market context. Much of the concentration on environmental issues is centered on the concept of sustainable development. In the late 1980s, the World Commission on Environment and Development defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”⁷ Since that time a series of international meetings, including the landmark 1992 UNCED meeting in Rio de Janeiro have increased the global focus on sustainable development. Most recently, the United Nations General Assembly adopted a resolution titled, “Transforming our world: the 2030 Agenda for Sustainable Development.” The agenda includes 17 Sustainable Development Goals and 169 targets. Multiple Sustainable Development Goals have direct connection to the forest industry. For example, the forest industry has a clear role in supporting the developing of sustainable cities and communities.

Few debate the merits of the concept of sustainable development or the desired outcomes of the Sustainable Development Goals. But how do companies find their role in moving in this direction? Environmental management systems help companies focus on these issues. Developing environmental management systems begins with instituting corporate environmental policies and embracing the concept of continuous improvement. A complementary tool to environmental management is lifecycle assessment. Lifecycle assessment is a way to quantify the overall life-cycle environmental burden of products. Producing companies can use lifecycle assessment to design products that minimize impact on the environment. Consuming industries and final consumers can use it as a decision aid when selecting among potential products to fulfill a particular need.

Since wood is a renewable raw material, the forest industry has long claimed environmental superiority over substitute products such as plastics and steel. Data regarding energy used in the manufacture of wood versus substitutes has been used to back this claim. With respect to the energy used in manufacturing, wood clearly has an advantage over its competition. However, manufacturing is just one of the many stages of the total lifecycle of a product. More holistic comparisons among various materials will become easier over time. Lifecycle assessment and the ability to quantify environmental impacts will be an important tool for increasing environmental responsibility among producers and consumers and communicating this with customers via environmental product declarations (EPD). These declarations are based on life cycle assessment data and are a mechanism to give customers systematic and consistent information about the environmental impact of a product. For an example of environmental product declarations see the following [site](#).

Environmental Marketing in the Forest Industry

Ethically sound marketing which integrates environmental principles is called “environmental,” “green,” or “ecological” marketing. Such marketing recognizes the broader environmental responsibility of a company and

helps the company adapt to new circumstances. The environmental marketing concept has received considerable attention in academic circles. Most authors consider it an extension of marketing to include the concept of minimizing damage to the environment while satisfying the wants and needs of consumers. According to Peattie,⁸ environmental marketing is made up of social responsibility, the pursuit of sustainability, and a holistic approach, which assumes that everything is inter-connected. Some go further to suggest that with environmental marketing companies should redirect consumer demand to environmentally preferable products and services.⁹ Sustainable consumption is becoming a more common theme in society with, for example, many people considering their impact on the planet using calculators like that from the [Global Footprint Network®](#). Leading global companies are beginning to recognize the potential around sustainable consumption (Example 2-3). A simple definition of environmental marketing used in this text is: **identifying and providing for the wants and needs of customers, while recognizing the necessity to minimize impacts to the environment and to gain a profit.**

Clearly, marketing is one mechanism for supporting sustainable development. It serves to build a bridge between companies and stakeholders, especially customers. The basic function of marketing is to analyze customer needs and transform them into business opportunities. If customers are environmentally conscious and want to make choices that support sustainable development, a company can transform these environmental requirements into business opportunities. Truly forward thinking companies will try to lead their customers toward more sustainable consumption. This means integrating environmental perspectives into all aspects of marketing planning, particularly in marketing strategies. Environmental marketing can also be a tool to promote socially and ecologically sustainable forestry. From the industry's point of view, environmental marketing is a tool for achieving company goals and gaining competitive advantage.

True environmental marketing originates in a strong company philosophy of responsibility toward society and the environment. This philosophy must be seen as a true commitment to environmental issues and improved performance – otherwise, a company may be accused of “greenwashing,” which is generally perceived as worse than doing nothing at all.

Example 2-3: The Growing Importance of Sustainable Consumption

According to the World Business Council for Sustainable Development, consumption patterns around the world are unsustainable and technological advances and efficiency gains will not be enough to bring consumption to a sustainable level. Therefore, changes will be necessary in consumer lifestyles and in the way they use products and services. Companies have a role in working with consumers to alter lifestyles. A more immediate role is focusing on procurement practices. The World Business Council for Sustainable Development and the World Resources Institute produced an extensive document for use by companies in evaluating their procurement procedures. The document, Sustainable Procurement of Wood and Paper-based Products, outlines 10 things that purchasers should know:

- Where do the products come from?
- Is information about the products credible?
- Have the products been legally produced?
- Have forests been sustainably managed?
- Have special places, including sensitive ecosystems, been protected?
- Have climate issues been addressed?
- Have appropriate environmental controls been applied?

- Has recycled fiber been used appropriately?
- Have other resources been used appropriately?
- Have the needs of local communities or indigenous peoples been addressed?

As companies use tools such as this in their purchasing practices, forest industry companies must have adequate answers to each of these. Accordingly, companies can use this question list to begin evaluating their many responsibilities and contribute to sustainable consumption.

An example is the following quote from the Chief Forester of Stora Forests in Sweden: "Commitment to sustainable forestry must be real. A media campaign to change attitudes will not work. They will find you out."¹⁰

Responsibility and Performance

The link between responsibility and positive company financial performance has seen considerable attention. Early research in pollution prevention found that companies practicing pollution prevention often benefit from lower costs.^{11,12} However, the link between environmental practices and financial performance is less clear in other areas, such as changing forest management practices to meet certification requirements. Overall, the literature provides evidence that being a good environmental steward results in enhanced financial performance, but growing evidence suggests the relation may not be tied to how proactive the firm is. On the other hand, small firms may benefit more than large. There is clearly much to be learned regarding the conditions that lead to "being green paying for itself."¹³ There are other benefits to acting responsibly that indirectly impact business performance. According to the World Business Council on Sustainable Development,¹⁴ these benefits include better alignment of company and societal goals, maintaining company reputation, assuring a continued license to operate, and reducing risks and their associated costs.

In the final analysis, not every action taken by companies to be socially and environmentally responsible will be reflected in reputation, profitability, or stock prices. However, it is clear that a certain level of responsibility is a prerequisite for operating in today's society. By adopting a responsibility focus and internalizing the concepts of environmental marketing, companies will be well-placed to capitalize on their positive environmental and social performance.

2.3 PLANNING AND MODELING APPROACH TO MARKETING

2.3.1 Scientific Approach to Marketing

The scientific method can be applied to the planning and modeling of marketing. The first step of this approach is to define the problem situation. As a pragmatic science, marketing aims at controlling the phenomena connected to it. For example, the salesperson tries to have an impact on the customer.

The prerequisites of control are a detailed knowledge of customers, markets, and marketing. To influence customers the salesperson must know buyer behavior and understand why people act the way they do. Exact descriptions and explanations of why things happen the way they do make predictions possible. If the salesperson understands customer behavior she can anticipate the customer's next move. Description, explanation, and prediction are prerequisites of control. This means the salesperson can influence the behavior of the customer. The aim of marketing planning is to increase the predictability of and control over marketing phenomena.

To summarize, solving marketing problems can follow the same steps as the scientific method:

- Description

- Explanation
- Prediction
- Control

The scientific approach is a matter of course in marketing research but is equally useful as a practical tool for everyday marketing work. The scientific approach is the competitive advantage of the highest-level marketing education and should be applied to everyday marketing work. What does the scientific approach in marketing mean? It is the ability to use theories and models to help solve practical marketing problems. Figure 2-4 illustrates how the solution to a marketing problem can be developed through moving back and forth between marketing reality and marketing abstraction.

The scientific approach applies scientific knowledge in the form of models and theories to marketing problem solving. The first step when applying the scientific approach is taking the marketing problem situation to a theoretical level. Concepts, models and theories of marketing science and/or mother sciences are used to do this. If we use research in problem solving, hypotheses are drawn from the theoretical/hypothetical constructs and tested with empirical data. Research produces a general description or explanation of the problem situation, which is then operationalized back to the marketing reality.

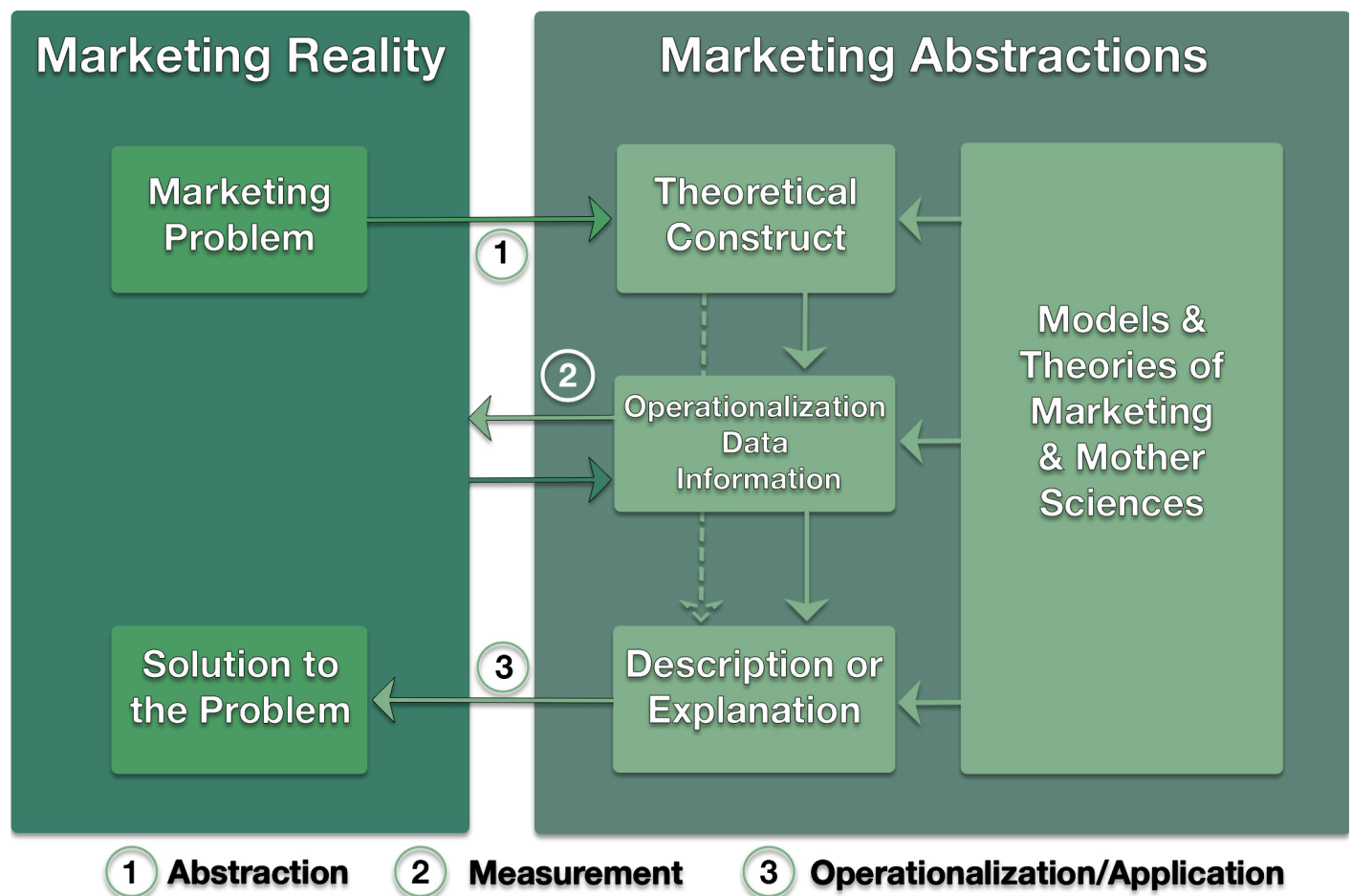


Figure 2-4: The Scientific Approach to Marketing

The scientific approach, however, can also be applied in everyday marketing planning and implementation without marketing research, as the dotted arrow (Figure 2-4) going directly from the Theoretical Construct to the

Description or Explanation demonstrates. When a marketing manager meets a problem, she converts it into a theoretical construct using all the experience, theoretical concepts, models and theories in her possession. From this theoretical construct, she can see the essential features of the problem situation. Scientific theories help the manager find explanations to problem situations. The last step is to apply the theoretical explanation to the practical marketing situation. It can be concluded that the essential point in the scientific approach is the ability to use:

- Concepts, models and theories
- Information based on scientific research or practical experience

2.3.2 Planning Approach to Marketing

Marketing planning is the basis for grounded decisions about future strategic actions. The most important aspect of this planning may actually be the learning and development that takes place among participants during the process. They may gain greater understanding of the challenges they face and the intricacies of their market. For a marketing manager, marketing is essentially the process of marketing planning. A marketing plan explains, adjusts, guides, and coordinates all that is happening in marketing. As such, it is a management instrument that can be used to communicate with all those parties in the company implementing marketing. In a modern, market oriented company, the network of parties implementing marketing is extensive.

Marketing planning is necessary for a number of reasons. As already mentioned, a critical aspect is the learning process that occurs during the planning process. At a conceptual level, marketing planning can be thought of as a run-through of the entire marketing process, a sort of conceptual simulation. At a practical level, it is a document that helps implement marketing on the ground and can be compared with actual outcomes.

In order to operate at the conceptual level, a marketing designer needs models that describe the functional environment as well as models that describe marketing functions, e.g., personal selling and advertising. Models are effective guides that show the decisions to be made during planning. The models should also show the information that is needed for decision-making. The main planning tools are models and information. The whole structure of this book follows a planning model and the necessary planning information is analyzed thoroughly.

2.3.3 Models of Marketing

A model is an abstract picture of the real world which describes some phenomenon. A marketing model can provide a structural framework for planning, guiding a company in decisions about how to adapt to its future environment. Although marketing models come in many different variations, most are organized around the traditional theme of the 4P's of marketing—price, promotion, product, and place (distribution). Figure 2-5 illustrates the 4P approach and how the “marketing mix” can be tailored to different market segments.

The marketing mix, or 4P's, has had a profound impact on the field of marketing, as evidenced by its dominant role in numerous models of marketing.¹⁵ However, there are shortcomings of this approach. For example, from a planning perspective, the 4P's do not provide a comprehensive picture of the decisions that must be made in marketing a product. In addition, there is no hierarchy in the 4P model so it appears, for example, that decisions regarding the communication channel are equally important to decisions regarding which products to produce. This text uses the Integrated Model of Marketing Planning which will be discussed in detail later (Section 2.4).

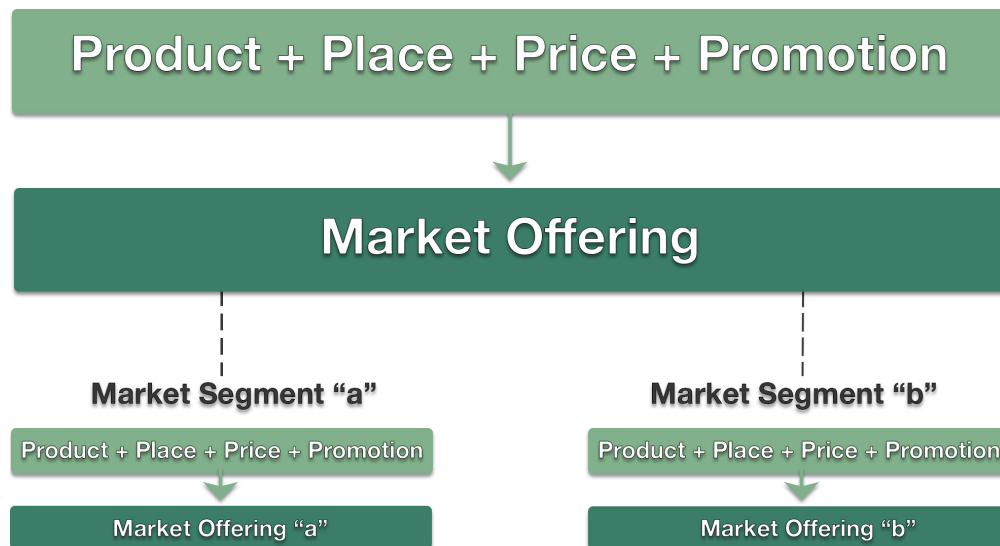


Figure 2-5: The Traditional 4Ps of Marketing

2.3.4 Modeling the Marketing Environment

The marketing environment is simply a company's context or external environment. A popular way of looking at the external environment is through PEST analysis, which considers the factors in the environment that are impacting the company in political/legal, economic, sociocultural, and technological realms (Figure 2-6).

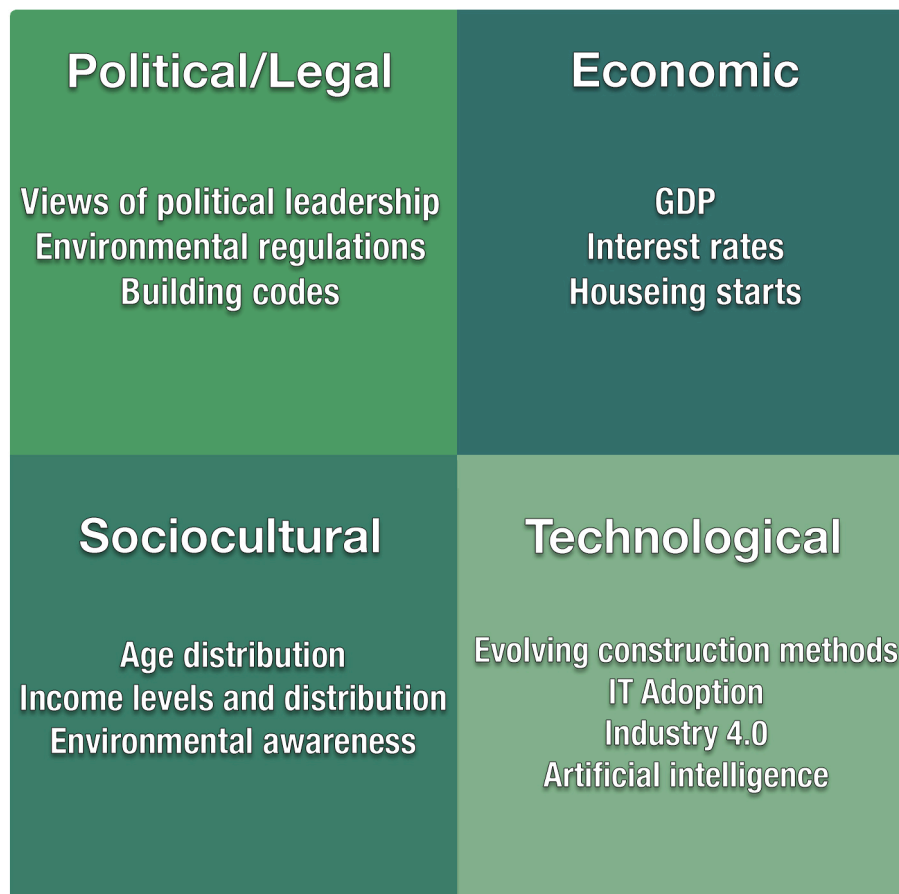


Figure 2-6: Traditional “PEST” Elements of the Marketing Environment

The Information Environment Model (Figure 2-7) used in this text divides the environment into macro and micro categories. The macro-environment contains demand, supply and “other” environments, which include the economic, technical, legal and social environments. In practice, economic indicators, demand, and supply are aggregated and analyzed with econometric research instruments. The information describing the macro-environment is critical to investment planning in the forest industry, and important on the highest strategic level of marketing planning. These analyses are also used in the policy planning of the whole forest sector.

The micro-environment contains information about the behavior of customers, competitors (size, structure, etc.), and distribution systems. Although marketing channels would seem to be part of a company’s own marketing system, these channels must conform to the existing distribution system of the markets, and are thus considered part of the marketing environment. As you will find in the next section, this model of the information environment becomes a key component of the Integrated Model of Marketing Planning. Chapter 3 provides an in-depth discussion of the use of information in marketing planning.

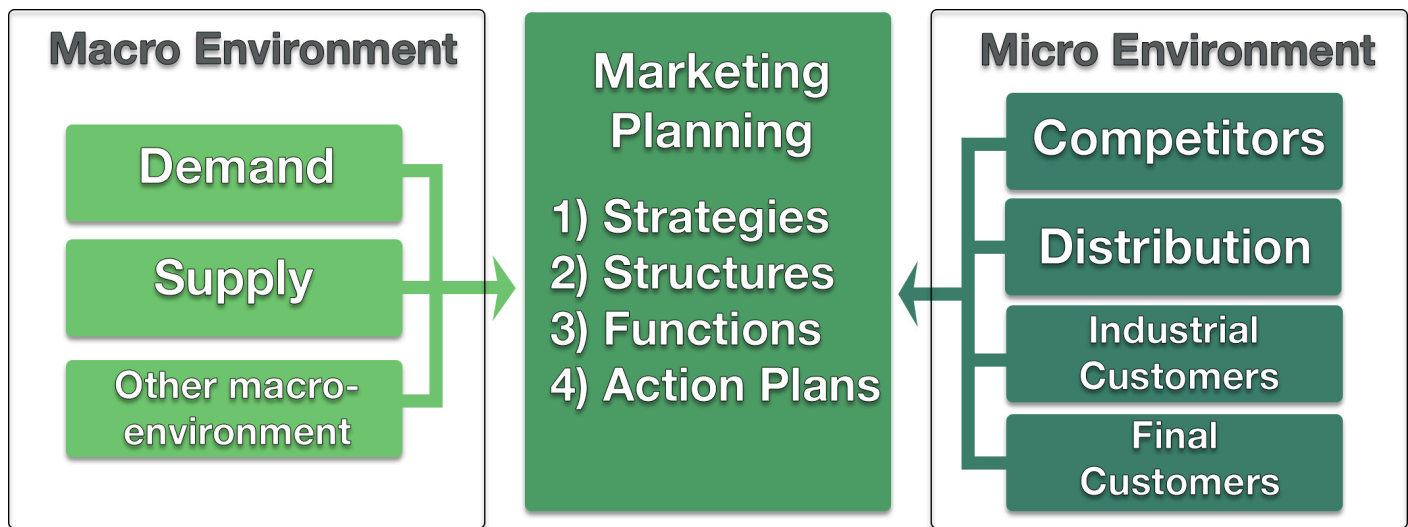


Figure 2-7: The Information Environment Model

2.4 INTEGRATED MODEL OF MARKETING PLANNING

2.4.1 The Origin and Development of the Model

Many researchers and authors have presented their own models of marketing planning. This book utilizes the Integrated Model of Marketing Planning (IMMP) (see Figure 2-8). The model and its operationalization were developed at the University of Helsinki in Finland, and has been particularly influenced by the work of Ansoff¹⁶ and Shirley et al.¹⁷ While the model contains the usual components of marketing planning presented in marketing textbooks, the central ideas differ notably. The differences in terms of the model's ideological background and hierarchical structure are most evident when the model is compared, for example, to the traditional 4P model described above.

The model contains four hierarchical levels: strategies, structures, functions and action plans. As one key activity of the business unit, marketing gets its objectives from the whole unit. Because of its central position in the model, most strategic decisions in marketing are also integral to the strategy of the business unit. This also means that decisions concerning marketing strategies are made on the highest hierarchical level in the business unit.

The hierarchy in the model signifies that the highest decisions must be made first, and objectives for the following levels must be subsequently established. Strategies come first and structures (and systems) follow. When there are changes in strategies, there should also be changes in structures.

The other relationship between strategies and structures illustrated in Figure 2-8 indicates that there can be institutional constraints in the structures. Structures can inhibit the realization of strategies, or – when properly established – can function as frames and tools for realizing strategies. For example, a structure which includes powerful intermediaries may make it difficult for a company to develop a detailed understanding of end-users, which in turn inhibits the ability to produce special or custom-made products for these customers.

Marketing functions allow a company to realize its strategies and satisfy the needs of its customers. By contrast, in many other models, these functions are seen only as tools for competing against other companies.

Strategies, structures, and functions form a strategic marketing plan that is implemented through action plans,

often called annual marketing plans or budgets. Strategies act as objectives that guide the annual planning of marketing. Plans related to marketing functions guide decisions concerning the marketing measures carried out during the planning period.

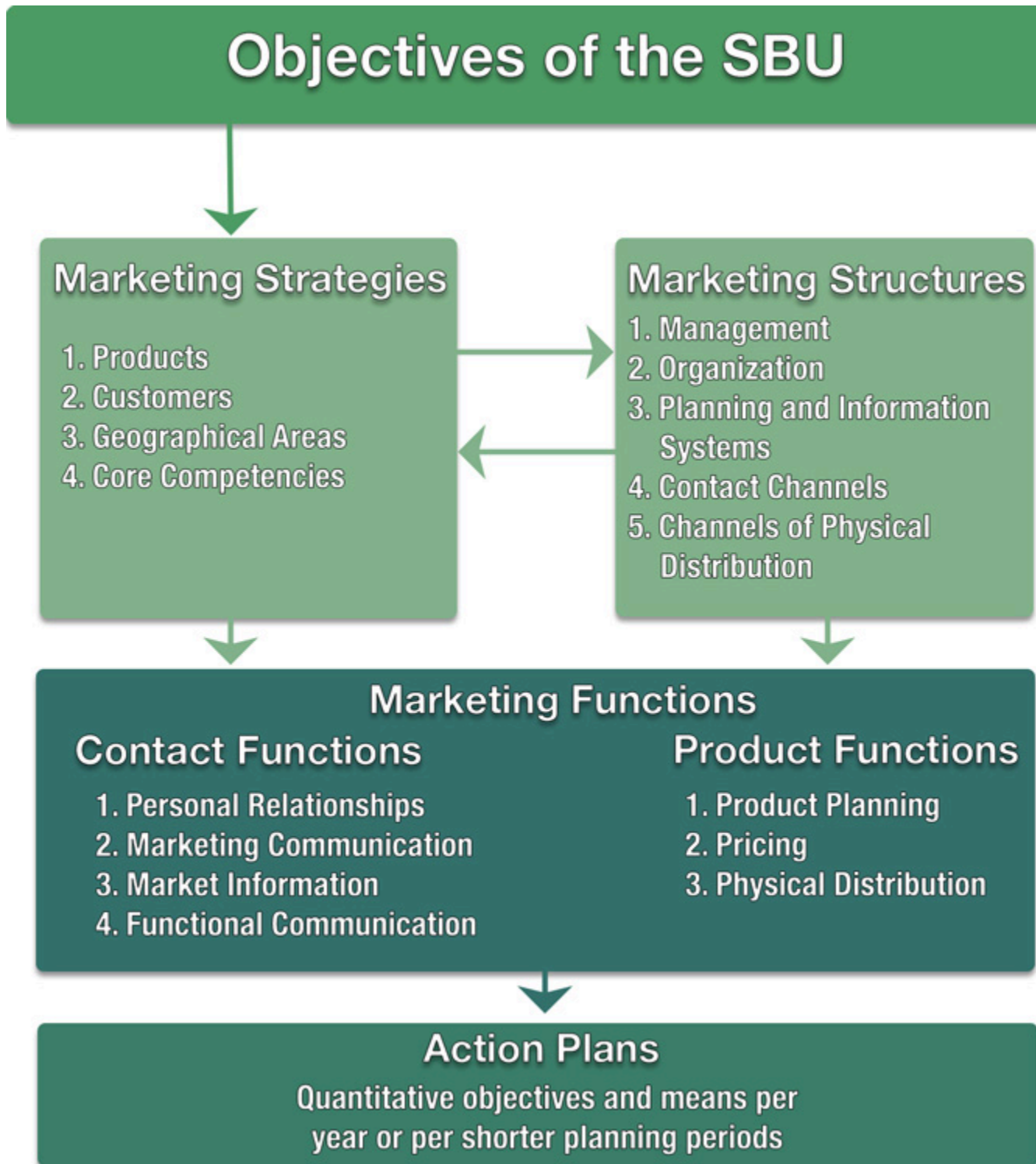


Figure 2-8: The Integrated Model of Marketing Planning

2.4.2 The Structural Elements of the Model

The core of the IMMP is organizational strategies, structures, functions, and action plans. These aspects can best be described by operationalizing the model, that is by developing practical measures for each aspect and by providing decision options for each of the elements, as explained below.

The company determines its strategy by making decisions concerning its products, target customer groups, the geographical limits of its market, and core competencies. Each one of these four strategic decisions can be divided into various alternatives, which are outlined broadly below. Product strategy can be divided into three alternatives:

- Emphasis on commodity products
- Emphasis on special products
- Emphasis on custom-made products

For an individual company, these must be more specific. For example, if a company chooses to produce special products, it must determine the specific product for a given market like components for the window industry or a special paper for a certain type of printer.

The customer strategy alternatives are:

- As many customer groups as possible
- Few well-specified segments
- Known end-users

At the company level, the choice for a sawmill might be the window industry or big box retailers. Market area strategy is described with two alternatives:

- As many regions/countries as possible
- Few well-specified regions/countries

At the company level, market area might be defined as Southern Germany or a particular region such as New England.

The following might be considered core competencies:

- Quality of the products
- Efficient marketing channels
- Customer relationships
- Efficient personal selling
- Technical and other services
- Marketing communication
- Advantageous price
- Well-known trade mark
- Efficient marketing
- Freedom in price policy

- Large market share

The combination of product, customer, and market area strategies, along with the appropriate core competencies, leads to the development of a competitive advantage. Pursuing a sustainable competitive advantage is the essential goal of strategic marketing planning. Marketing structures are the systems within a company which allow marketing to be implemented through its various functions (Figure 2-8). Examples include:

- The type of management system and organization used in the company
- The type of information and planning system that is used in the company
- The marketing channel structure used

Marketing functions are the on-the-ground techniques that a company uses in the practical marketing of products. There are basically two sets of functions. **Communication** functions are those that marketing controls directly, while **product** functions are those where marketing is a player along with other functional areas of the company. Examples of each include:

Communication Functions

- How the personal selling/personal relationships are implemented
- How advertising is designed and implemented

Product Functions

- How marketing participates in new product development processes
- How marketing participates in pricing decisions
- How physical distribution is conducted

Action plans include quantitative goals for the next planning period, specific steps for obtaining goals, and metrics to measure progress toward those goals. The process for creating action plans is often called budgeting.

2.4.3 The Decisions Needed for Marketing Execution

In many ways, marketing planning is decision-making, and implementation is putting those decisions into practice. Once the marketing designer has internalized the modeling approach to marketing planning, identifying the necessary decisions is straightforward.

Strategies

- What product(s) should the company produce?
- To what group(s) of customers are the products targeted?
- In what geographical region will the operations take place?
- Upon what core competencies will marketing be based?

Structures

- What management philosophy or system should be used?
- What is the most appropriate way to organize the marketing?

- Which planning and information systems will be used?
- Which marketing channels will be used?

Functions

- How will personal selling be implemented?
- How will other forms of communication be implemented?
- How will market information be collected?
- How will customer support be implemented?
- How will new product development be implemented?
- How will pricing be implemented?
- How will physical distribution be implemented?
- How will the daily marketing communication routines (customer service) be implemented?

Action Plans

- What are the marketing targets per planning period?
- What methods will be used?
- What amount of money will be used?
- What is the schedule of the marketing measures?

2.5 NEW MARKETING DESIGNS AND BUSINESS MODELS

Marketing science and practice are constantly creating new tools to develop marketing. New paradigms are responses to changing marketing environments and customer demands but also ways to make marketing more efficient and business more profitable. It is important to remember that the basic idea of marketing remains even though new ideas, e.g., for marketing structures, are created. In the same way it is important that the marketer sees the connection between old structures and new tools as well as understands the role of new paradigms in the comprehensive context of marketing.

In Chapter 5, when analyzing the evolution of marketing management, we describe, for example, customer relationship management (CRM), strategic account management (SAM), supply chain management (SCM) and E-commerce. Based on the IMMP, these new marketing paradigms can be seen as new ways to develop marketing structures.

The comprehensive construct containing new marketing paradigms and describing the conduct of business and marketing can be seen through a modified Integrated Model of Marketing Planning. The modification means that a new way of thinking is needed and various aspects of marketing must be emphasized a bit differently. A key for this new thinking is an innovative creation of knowledge based capabilities and customer benefit based value propositions. A modified IMMP describing the comprehensive evolution of marketing can be seen in Figure 2-9.

In Figure 2-9 the knowledge based capabilities are described through raw material, technology and other core competencies. An emphasized feature of New Marketing Design (NMD) is the close contact between producer and customer – the customer interface. Marketing activities are realized on the customer interface. To reconfigure the customer interface we use, for example, the above mentioned CRM, SAM and SCM. The marketing structures

and functions of the company are arranged according to these management philosophies or some other new management paradigms which may emerge.

New marketing approaches will only be successful if customers can directly see the benefits arising from them. If marketing is genuinely based on creating benefits and value to the customer, a profitable, long-term partnership can be created. The value proposition (i.e., the product offered, availability, enhanced services and marketing communication) is the most visible aspect of customer interface. The biggest difference between traditional thinking and NMD is how we see all marketing measures creating value for the customer. If optimized logistical systems have traditionally been the key points when planning distribution solutions, now according to NMD we emphasize availability for the customer. We aim at availability which is more beneficial for the customer and makes the value proposition more attractive. The same holds true with service and information planning. If traditionally the marketing communication messages tried to persuade the customer to buy, now according to NMD, more attention is paid to customer benefits and value when planning marketing communication.

The definition of served customers is also changing. In Figure 2-9 the change is made explicit when describing the customer as “a structure or network”. To take an example, the main end-use for wood products is in the construction industry. The buying process for this market includes decisions made by a number of actors, such as architects and designers, construction business owners, specifiers and purchasing managers, as well as people who use the product. This group of actors directly influences the demand for wood products and their decision-making process calls for a new understanding of customers. Communicating with this customer structure, gathering information about its needs and serving it, and promoting wood products are the functions carried out on the customer interface. Example 2-4 contains consequences of new thinking in the wood industry.

2.6 MAKING THE FUTURE OF MARKETING

Marketing has changed over time by responding to challenges which arise in the business environment. For example, mass production gave rise to the sales approach to marketing, while recent trends toward specialized products have prompted more tailored marketing strategies. Marketing must continue to evolve in order to effectively deal with fast-paced changes in the business environment. Although long-term predictions are inherently inaccurate, we can reasonably forecast the following trends in the market:

- Local markets will continue to grow global
- Customer needs will become more diverse
- Companies will continue to grow in size and global reach
- The information environment will be even more transparent, global, and fast changing
- Stakeholders will increasingly demand social and environmental responsibility
- Services will become a bigger proportion of forest industry revenue

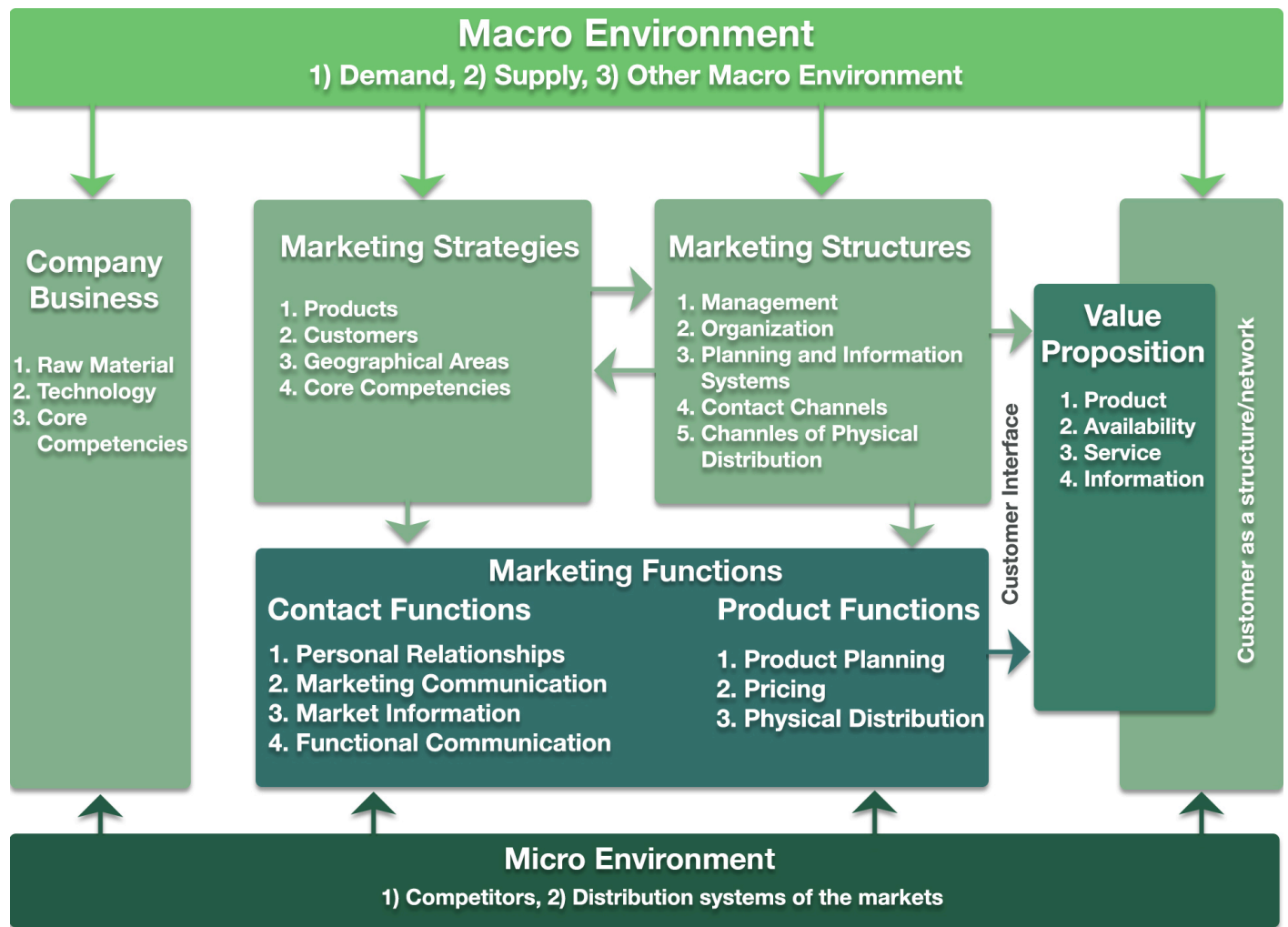


Figure 2-9: An Expanded Integrated Model of Marketing Planning

Given the current state of the business environment, appropriate marketing practices can play an increasingly important role in company success. The foundation of “Making the Future of Marketing” is the concept that success through marketing is based on the ability of the company to do the right thing, do things the right way, and utilize the best available technologies.

2.6.1 The Ability to Do the Right Thing

As our discussion of responsibility shows, companies will increasingly be judged not only on their profitability but also on their ability to do the right thing. A major challenge here is to take the needs of various stakeholders into account and to recognize how culture and other local characteristics influence those needs. Social and environmental responsibility are especially important because the forest industries are using a globally important natural resource – forests. The living conditions of people are heavily dependent upon forests on both local and global levels. Responsible use of forests is vital for the future of mankind and the challenge for the forest industry is to balance company profits, customer needs, community interests, and local and global environmental needs. In the future, those companies which can properly identify key responsibility issues and efficiently implement strategies to deal with those issues will reap a competitive advantage.

Example 2-4: Applications of New Marketing Designs and Business Models in the Wood industry

Based on New Marketing Designs it is possible to generate ideas for evolution of wood products marketing. In the future, there will be demand for new products, new ranges of services and opportunities to reconfigure the customer interface. Examples of these new business ideas can be seen below:

- Increasing requirements for product development and innovations, e.g., system solutions.
- Increasing requirements for sustainable development. Environmental Management Systems (EMS) and CSR are becoming more important in business operations.
- Move from simple product manufacturing to service and solution providers.
- Cost competitiveness achieved through shortening the value-added chain – forming relationships directly with customers.
- Business opportunities may exist in new positions in the value-added chain, which forest industry companies can fill, e.g., a potential role as project managers in the construction industry rather than just manufacturers of building products.
- Value management as a performance improvement tool.
- New management systems to operate closer to the customer, e.g., CRM, TQM (total quality management) and SAM are core issues of marketing development, enabled because of increased knowledge management and information sharing through IT.
- Simultaneous provision of bulk and customized products – Mass Customization.
- The development of E-business environment provides more new business solutions.¹⁸

2.6.2 The Ability to Do Things Right

Doing things right means choosing an appropriate approach to the problem, knowing the right tools to use, and efficiently implementing plans. Experience has shown that a marketing philosophy and a market orientation (in which customer demand guides production) produce the most efficient production system at both societal and company levels. Consequently, marketing thinking should drive all corporate strategies toward the goal of creating maximum value for the customer.

Developments in the field of information technology require and enable business partners to integrate their information systems. Current activities used by companies to improve the efficiency of the production system include supply chain management, customer relationship management, and e-business. Knowledge management and information sharing are clearly relevant to marketing development. Thus, in order to “do things right,” companies must have knowledge of the operating environment for marketing planning; provide value-oriented information to customers with regard to products and services; and maintain a high-level of information connected to business processes (e.g., transparency in the supply chain).

In this text, we stress a modeling approach to marketing. This modeling approach provides a structure around which marketing problems can be analyzed and appropriate analysis tools can be brought to bear. This in turn allows for efficient implementation of the developed marketing plans.

2.6.3 The Ability to Identify and Use the Best Available Tools

Information technology (IT) is altering the context within which firms operate, the role of marketing within those firms and is changing the nature of communication with customers. Essentially, IT is allowing marketers to develop better marketing information systems and better marketing planning systems, thereby increasing the sophistication of marketing. In the future, information will become ever more crucial as a basis for improved decision-making and more advanced marketing systems. Marketing planning and implementation must evolve as the company's ability to manage and use information improves. An essential question is whether applying IT in forest products marketing promises to create stronger, closer relationships among stakeholders since the most important benefits of IT will come from its potential for facilitating deeper customer relationships and greater sharing of information.

An example of an underutilized tool in the forest sector is innovation management. Forest industry companies are noted as being traditional in culture and tending to focus on low costs as a core competency. Accordingly, innovation efforts have generally been in the area of manufacturing process improvement. However, with increased sophistication of customers and the general trend toward market orientation described above, a low-cost, commodity mentality will not be sufficient to maintain competitiveness. Innovation in other areas, especially in new product development will be necessary. Accordingly, companies must invest in managing for innovation, something that in most cases will require a significant shift in corporate culture. This shift may be essential for companies to make the transition to the future bioeconomy.

2.7 THE STRUCTURE OF THE BOOK VERSUS THE IMMP

The remainder of the text follows the structure of the Integrated Model of Marketing Planning. As can be seen in Figure 2-10, Chapter 3 explores issues of the information environment, or the context within which a company operates and how one can obtain information about its various elements. Chapter 4 covers strategy, beginning with corporate strategy and moving on to the details of marketing strategy. Chapter 5 covers marketing structures and Chapter 6 marketing functions. Finally, Chapter 7 ties all the concepts together and addresses the creation of a strategic marketing plan.

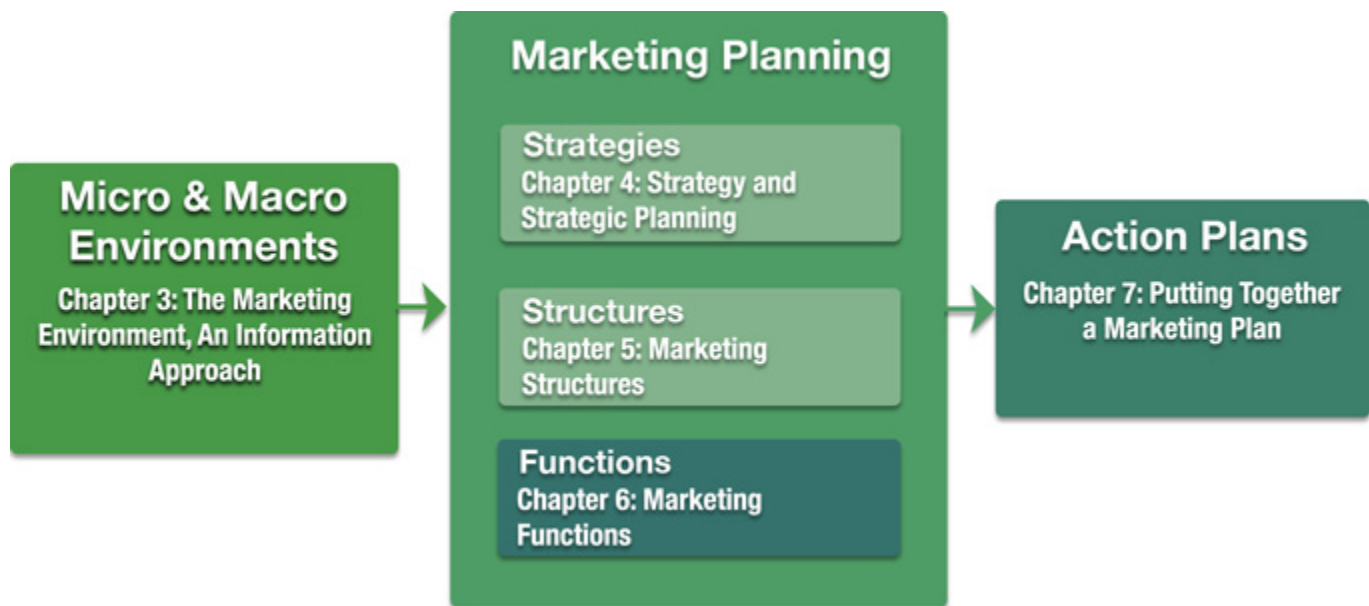


Figure 2-10: Book Structure Compared to the Integrated Model of Marketing Planning (IMMP)

2.8 CHAPTER QUESTIONS

- How can marketing be defined and what are its various potential roles?
- How and why has marketing evolved over time?
- What does environmental marketing mean, and how does it differ from traditional marketing?
- What is marketing planning and why is it needed?
- What is the value of models in marketing planning?
- What is the Integrated Model of Marketing Planning (IMMP), and what is its role in the remainder of the textbook?
- How may marketing evolve in the future?

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Chapter 3: The Marketing Environment, an Information Approach

After reading Chapter 3 you should understand the following:

- The important role of information in marketing and marketing planning.
- How changes in marketing practice influence the perceived importance of various types of information.
- Efficient management of information and knowledge can lead to enhanced performance and competitive advantage.
- The use of models in describing and measuring the information environment.
- The nature and content of the Information Environment Model and its relationship to the Integrated Model of Marketing Planning.
- The types and potential sources of information about the marketing environment.
- How market information may be actualized, based on the Information Environment Model, for analysis in marketing planning.

The previous chapter suggested that a valuable approach to understanding markets and customers is through modeling and planning. This chapter is a continuation of that approach, and adds a model that guides efficient gathering of information from both the external and internal environments. As we have learned, marketing helps a company adapt to its environment, and specifically the information environment in the case of marketing planning. Recall the various decisions necessary in marketing planning that were derived from the IMMP in Chapter 2. The Information Environment Model complements the IMMP by outlining where information needed for these decisions can be found.

This chapter provides some examples of market information sources that are especially relevant to the context of markets in the United States. The reader should remember that although the information sources will differ depending on sector and market area, the principles and concepts apply across the forest products industry.

3.1 INTEREST IN INFORMATION

In our current, information-rich society, the business environment is changing at an accelerating rate. Companies are growing larger and more global, serving more diverse geographical markets. Managers need more information and they need it quicker and more accessible. The type of information most critical in this dynamic environment is information about change – change in the environment, change among competitors, change in customer behavior, and so forth.

The level of interest in information within a company varies according to its marketing philosophy and marketing focus. When planning future strategies, the company is interested in market attractiveness, opportunities, and threats. Different categories and types of information may be emphasized depending on the focus of the company. For example, some companies may focus on their competition while drafting a strategic plan, while others may focus on customer information.

The need for information is intricately tied to the planning process. A company that sees information as a central resource must learn to efficiently manage that information and turn it into useable knowledge. Knowledge management turns both internal and external information into knowledge that serves the aims of the company.

3.1.1 Changing Focus of Marketing

A shift in marketing philosophy from a production orientation to a market orientation necessitates a new level of knowledge about markets and customers. It requires an ability to understand, predict, and satisfy the wants and needs of industrial customers and final consumers. To succeed in this, high quality information is needed.

One example of a critical type of information might be a given product's stage of development in the marketplace. Product demand is said to follow a saturation curve, created by slow initial demand and then a fast increase which creates a steep upward slope in the curve. Then, as the market becomes saturated, the curve begins to level off.

A construction material like engineered wood i-joists might follow the saturation curve. At the time of introduction there is low production abilities, minimal demand, and low demand growth. As the product diffuses through the marketplace, demand increases and the product gains market share. At some point, this level of growth is no longer possible and the product begins to reach saturation and the increase in demand slows (Figure 3-1).

The nature of marketing planning and the need for information follow the development of market demand. When demand is growing fast, companies may have little interest in customer or competitor behavior. Those conducting marketing planning are mainly interested in demand and supply figures. Strategic planning in this situation typically emphasizes product and market decisions. An example of this is the popularity of Ansoff's strategic thinking (see Chapter 4) in the 1960s and 1970s – as we can see from Ansoff's Window, product and market decisions are emphasized while competition and competitors have a minor role.

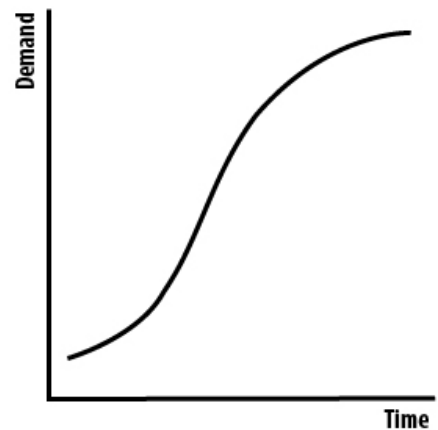


Figure 3-1: Demand Saturation Curve

When markets are saturating, however, companies can no longer depend on increasing demand, and must seek to take market share from competitors in order to grow. In this situation companies are interested in information about competition in the marketplace, the behavior of competitors, and competitive advantage. Porter's models of sustainable competitive advantage were so popular in the 1980s because they provided a framework for this kind of information.

Since the 1990s the importance of customer decisions in strategic planning has clearly increased. Concepts such as customer relationship marketing and strategic account management reflect a distinct focus on customer information.

3.1.2 SWOT Analysis

SWOT analysis (strengths, weaknesses, opportunities, threats) is a popular method used in strategic planning. Information about both the internal and external environment of the company is used in the SWOT analysis, allowing the company to assess its position in the market (strengths and weaknesses), as well as the market's attractiveness (opportunities and threats). Strengths and weaknesses are under the control of the company and reflect the company's position and potential. Opportunities and threats are part of the external environment and reflect market attractiveness. The information generated from a SWOT analysis can be useful in its own right, or as input into other tools for analyzing the portfolio.

Johnson and Scholes¹ suggest that a SWOT analysis is much more than creating a laundry list of strengths, weaknesses, opportunities, and threats. In fact, they recommend that the list should be limited to approximately eight key points. The first step is to identify the key changes in the external environment and then to do the same for company competencies. These can then be placed into a matrix showing where the company is strong and where it is weak in relation to the external issues. The matrix gives an indication of the key opportunities and threats. Further analysis of opportunities and threats can be done by comparing, for example, the attractiveness of an opportunity with the probability of success in exploiting that opportunity.² With this information the company can poise itself to capitalize on the opportunities and retrench against the threats.

The SWOT analysis illustrates how important it is for a company to be aware of its internal strengths and weaknesses, as well as its external opportunities and threats. However, the SWOT analysis is only as good as the information used in it. It is important to carefully evaluate the information upon which conclusions regarding opportunities and threats are made. The Information Environment Model (IEM) can be used in connection with SWOT analysis. The IEM guides the collection of market information. SWOT helps to draw the conclusions based

on that information. Results of SWOT analysis support strategic decisions made according to the Integrated Model of Marketing Planning (IMMP).

3.1.3 Special Interest in Competition Information

Marketing strategies can be resource, competitor, or customer oriented. Michael Porter is perhaps the most well known advocate of competition-oriented strategic planning. He has had a dramatic impact on the study and understanding of strategy during the last three decades. His concepts became popular after the post-World War II economic boom, when inflation in developed nations was a significant problem and economic growth was very low. This meant that companies accustomed to growing along with the market were suddenly faced with the need to gain a more in-depth understanding of their competitors. In a low-growth market, the only road to growth was to take markets away from the competition.

Porter³ claims that the environment within which a company operates can be viewed with respect to five forces (Figure 3-2):

- Threat of Entry
- Rivalry Among Existing Firms
- Pressure from Substitute Products
- Bargaining Power of Buyers
- Bargaining Power of Suppliers

By analyzing these five forces, a company can develop a better understanding of its key strengths and weaknesses, as well as the trends which present the biggest opportunities and threats.

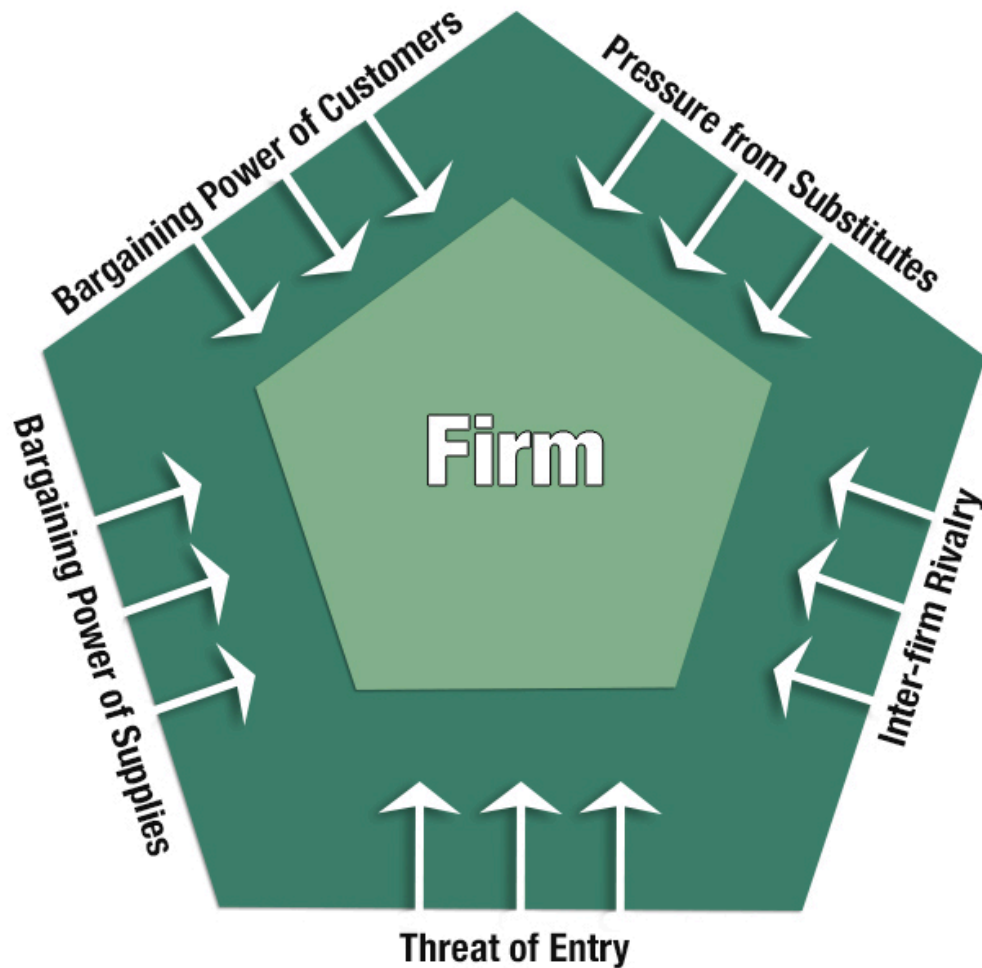


Figure 3-2: The Five Forces of Competition from Porter

Threat of Entry

The environment within which a company operates is heavily influenced by the ease with which competition can enter the market. Markets with high barriers to entry have a low threat of entry by competitors and vice versa. There are a number of factors that influence the relative threat of entry into an industry.

- Economies of Scale – where economies of scale exist potential entrants must either enter the market on a large scale, risking retaliation from existing firms, or enter on a smaller scale and suffer a cost disadvantage.
- Product Differentiation – strong brand and customer loyalty toward existing companies is difficult for a potential entrant to overcome. For instance, the Trus Joist Silent Floor System had this sort of brand recognition and loyalty from builders in some markets.
- Capital Requirements – high capital requirements make entry into a market more difficult. These capital requirements might be for items beyond plant and equipment, such as customer credit and inventories. For instance, a new paper mill costs in excess of \$1 billion; this level of investment means market entry is almost impossible for most companies. Historically in Scandinavia, it was so easy to enter the sawmilling industry that when markets were attractive, new sawmills were created. This relative ease of entry resulted in a highly competitive marketplace for sawmillers.

- **Switching Costs** – the one-time costs associated with switching from one supplier to another are typically low for commodity products, but increases as the product becomes more tailored to specific customers. For example, a home center that has developed a proprietary lumber grade with a specific supplier will face costs of training a new supplier on the details of its specific grade if it wishes to switch.
- **Access to Distribution Channels** – intermediaries may be hesitant to carry products from new entrants. The forest industry has seen a large move toward disintermediation. Those intermediaries that have been left out in the disintermediation process will be anxious to support new entrants. However, those that are serving large suppliers may not be accessible at all.
- **Cost Disadvantages Independent of Scale** – patents or other forms of proprietary technology, access to raw materials, and company location can all impact the relative advantage open to a potential entrant.

Rivalry among Existing Firms

Some industries are known to be more highly competitive than others. Most sectors of the forest industry are mature, with relatively low growth rates, which results in high levels of competition and rivalry. A long list of factors can impact the level of competition and rivalry among firms in an industry:

- **Many equally balanced competitors** – no one firm controls the dynamics of the marketplace, so competitors will be constantly looking for an edge against the others, resulting in intense rivalry.
- **Slow industry growth** – companies must steal market share from competitors rather than relying on overall market growth. Thus, softwood lumber manufacturers that wish to gain market share cannot rely on the growth of the marketplace, they must go and take share from the competition.
- **High fixed costs** – this creates pressure for companies to maintain full capacity, and cut prices when necessary; this characterizes the situation (historically) in many sectors of the paper industry.
- **Lack of differentiation or switching costs** – if products within a sector are similar, buyers are likely to make product choices based simply on low price; this naturally creates significant price competition among suppliers.
- **Capacity increases come in large increments** – capacity is often added in large increments, requiring a high level of investment and contributing to high fixed costs in the paper sector.
- **High exit barriers** – exit barriers exist when a high level of investment makes getting out of an industry or market costly for a company. This could result from specialized or high value assets such as those in the paper sector. It could also result from the need to carry a specific business as a compliment to another part of the company. This has been the case for many paper companies that see the lumber business as a necessary but not attractive component of their business portfolio.

Pressures from Substitute Products

Substitute products are products which serve the same function or meet the same need for the customer. For instance, engineered wood I-joists are substitutes for solid sawn 2x10s and 2x12s, just as plastic lumber is often a substitute for treated radius edge decking. In the paper industry, there has been significant concerns about electronic media and its potential for serving as a substitute for various types of paper. Thus far, however, while electronic media has reduced demand for newsprint, online shopping has increased demand for packaging and the move towards a paperless society anticipated by some has not materialized. In the final analysis, substitutes that should be of particular concern are those that are exhibiting trends of improved price performance, products which are produced by industries earning high profits, and those produced by industries with deep pockets.

Bargaining Power of Buyers

Where buyers are powerful, suppliers will be subject to high pressures to alter products and/or reduce prices. Buyers are especially powerful when the following conditions are present:

- There are few large buyers or the buyer purchases large volumes relative to the supplier's total sales. Paper companies supplying food packaging have customers who are gaining a worldwide presence, and the power that comes with increasing size. One way paper companies are trying to deal with buyer power is by becoming bigger themselves in order to effectively supply worldwide buyers. Large retailers (e.g., big box retailers) such as The Home Depot and Obi are examples from the mechanical forest industry.
- The product purchased represents a high proportion of the buyer's total costs. This situation provides a significant incentive for the buyer to look for low prices and to negotiate aggressively.
- The product being purchased is an undifferentiated commodity. In this situation, the buyer will likely buy from whichever supplier offers the lowest price.
- The buyer faces few switching costs. Conversely, the buyer's power is enhanced if the seller faces high switching costs.
- The buyer operates in a low-profit industry. This creates greater need to lower purchasing costs.
- The product being purchased has little importance in the quality of the final product.
- The buyer has full information about the supplier and the marketplace.

Bargaining Power of Suppliers

The bargaining power of suppliers largely parallels the power of the buyer, though in the opposite direction. Suppliers are more powerful when the following conditions exist:

- There are few suppliers and the supplying industry is more concentrated than the industry to which it sells.
- There are few competitive substitute products.
- The buying industry is not an important customer group.
- The supplier's product is a critical input for the buyer.
- The supplier's product is differentiated or the supplier has developed switching costs.
- The supplier has the ability to integrate forward.

3.1.4 Marketing Planning and Knowledge Management

Regardless of the size of a company, planning is essential for its business operations. Of course, if the environment were static, no changes in strategy would ever be necessary – the company could define a proper set of goals, objectives, and plans, and would not need to continually analyze and appraise these strategies. The environment does change continuously, however, as do the companies' capabilities. Hence, continuous monitoring of the environment is necessary in order to modify and update strategies.

According to Webster⁴ there are three distinct elements of the environment that are relevant for the marketing strategist:

- Those parts of the environment that cannot be influenced by the firm (economic, political, social and legal forces)
- Competition within the markets selected by the company. This includes direct competitors that have similar strategies and indirect competitors that offer substitute products
- Customer information, including the customer's markets and their strategic challenges

Intuitively, it is clear that a company that knows more about the market environment, its customers, and its competitors, will perform better. Therefore, the ability to acquire, store, share, integrate, and apply knowledge is considered the most important capability for creating competitive advantage.⁵ Still, knowing more is not enough; this knowledge must be managed so that it is an integral part of planning and everyday decision-making. When knowledge is emphasized as an important resource for a company, it is the role of marketing to assure that the company not only possesses sufficient information about the marketing environment, but also makes this information available in a user-friendly format. This is part of the integrative function of marketing.

Knowledge management has been defined in various ways in the literature, but most definitions contain several common factors, including:

- Managing information, knowledge, and company experiences
- Creating and capturing knowledge
- Using knowledge to enhance organizational performance^{6,7}

Information technology provides a pipeline and storage system for the exchange of knowledge.⁸ Enhanced market knowledge means better, real-time information regarding customers, competition, and the marketing environment, as well as a network of partners and resources upon which a company can draw when making decisions. However, knowledge management is not only about computers, connectivity, and databases. An equally important aspect is face-to-face interaction of employees and social relationships that result in the exchange of ideas and knowledge among members of the organization.⁹

We see that the starting point is to understand the environment as information and to be able to specify it so that collecting, analyzing and filing appropriate information for marketing planning and implementation is possible. That is our aim in the following sections.

3.2 THE INFORMATION ENVIRONMENT MODEL

Chapter 2 outlined the fundamental concepts of modeling the marketing environment. Traditionally, the external environment is analyzed using a PEST approach, which represents the political, economic, social, and technological aspects of the environment. Although our approach contains similar components as those in traditional textbooks, it goes into more depth and detail. Our Information Environment Model is portrayed in Figure 3-3, where it can be seen in the context of marketing planning. The model has been created, tested, and used in numerous market analyses, both at the University and company level. It has served as a frame of reference for market environment analyses supporting the marketing development projects of Finnish forest industry companies. In these projects market analyses have produced market and customer information to be used in marketing plans structured according to the IMMP.

The model is designed to fit different approaches and levels of marketing planning. Various information blocks in the model are emphasized depending on the planning situation. It is up to the user which blocks are included and how they are stressed. It is often difficult for the marketing researcher or planner, especially a beginner, to

know what sort of information should be collected. This leads us to the most important aspect of the model – measurement. To be able to use the model to produce information concerning markets and customers, we must find a way to measure the concepts of the model. For instance, it is too general to say that demand must be measured; we must define exactly what aspects of demand will be measured.

It is easier to understand theoretical concepts when one knows how they can be implemented and measured in practice. In the following sections, we provide an example of how the elements in the IEM can be measured. Note that there are numerous ways to measure the model, and the most appropriate method will depend on the context of the specific planning situation.

Recall that the information environment of forest products marketing can be divided into two major categories: the Macro and Micro Environments (Figure 3-3). The Macro Environment contains the categories “demand,” “supply,” and “other macro environment.” Demand and supply of company products are naturally very important factors in marketing planning. The “other macro environment” category contains those factors traditionally considered in a PEST analysis. Macro environment information is central in corporate planning of investments and acquisitions as well as at the highest levels of marketing planning. Analysis typically uses an econometric approach. This sort of information is also used in the policy planning of the whole forest sector.

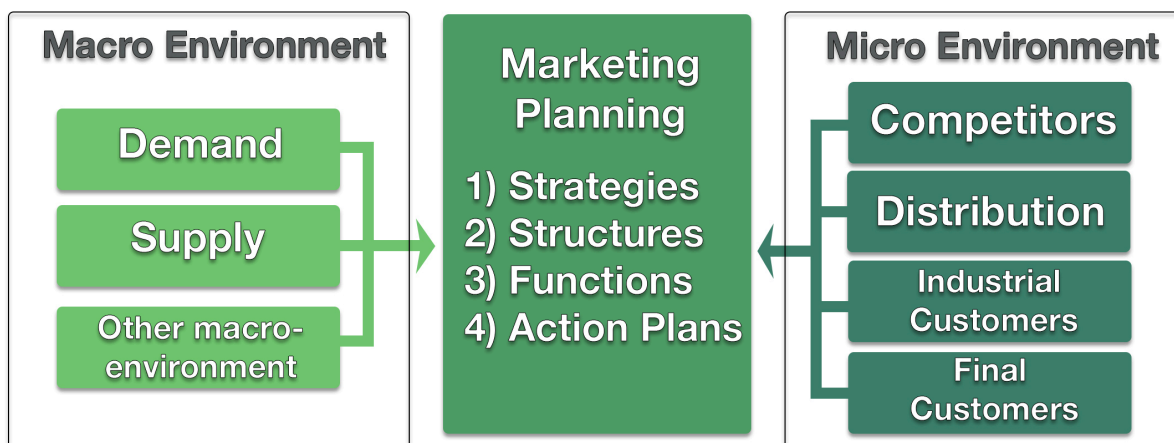


Figure 3-3: The Information Environmental Model

The Micro Environment contains information concerning the behavior of customers, competitors, and distribution systems. Although the marketing channels used by the company are a part of its own marketing system, the company must adjust to the general distribution structure of the markets. Thus, the distribution system is considered part of the marketing environment. Information regarding the marketing environment is acquired through marketing research, using secondary material and empirical surveys. Individual customers and competitors are the likely targets of the research. Gathering customer information for marketing planning typically involves conducting customer surveys and interviews. If the IEM is not sufficiently detailed for constructing customer surveys, a separate frame of reference appropriately describing customer behavior is necessary. The measures of this separate frame show exactly what information about customers will be produced. At the end of the chapter we present an example how to use the IEM and how a separate frame of customer behavior is connected to it. The more advanced the marketing planning, the more important the role of information about the Micro Environment. For example, customer-oriented marketing is needed when demand is slowing or when the needs of customers become more specialized. Intensifying competition also requires advanced marketing. Information dealing with both Macro and Micro Environments is needed for strategic marketing decisions. Information concerning the Micro Environment is a major factor when planning marketing structures, functions, and action plans.

Example 3-1: Importance of Information Sources in the Finnish Forest Industry.

In the earlier mentioned surveys targeting Finnish paper and wood industry companies, the importance of various types of information in marketing planning was investigated. The questions were based on operationalizations of various main blocks of the IEM. The following is a ranked list showing order of importance of various information areas in marketing planning.

- Future supply
- Future demand
- Industrial customers
- Competitors
- Distribution systems
- Other macro environment

The differences are small between supply and demand as well as between industrial customers and competitors. The importance of supply information and competitor information has increased since the late 1980's.

This is in accordance with what we outlined in section 3.1.1 regarding the changing focus of marketing. Especially in developed markets, the demand for some grades of paper has stagnated or decreased resulting in tightening of competition. Because of new investments there has been nearly permanent oversupply in the same markets. Because of the new situation producers must be more interested in future supply as well as the behavior of competitors. The only difference between paper and wood industries is that the information regarding distribution systems is more important for the wood industry.

As to the availability of information, the macro level information is more abundant and the biggest shortcomings are normally in the areas of competitor and customer information.

3.3 MACRO ENVIRONMENT

3.3.1 The Demand for Products

Concept of Demand and Demand Drivers

In economics, demand is the quantity of goods or services customers are willing to buy at a certain price, in a certain market at a certain time. The definition of demand includes the quantities of a good or service that a household or a firm would be willing and financially able to purchase at various prices, holding other things constant.¹⁰ Note that the need or desire to buy does not constitute demand – both willingness and ability to buy must be present.

Demand is directly dependent upon price. Demand for a product that has many substitutes is said to be elastic, since the consumer can easily purchase a different product if price increases (e.g., commodity softwood lumber). On the other hand, demand is said to be inelastic if there are no close substitutes or if the cost is minimal in comparison to the consumer's income. Inelastic demand allows greater pricing flexibility, since raising prices will have relatively small impacts on total demand.

Those factors having an impact on demand are called demand drivers. Key demand drivers for paper products in a certain market area include:

- Economic growth
- Population
- Number of households
- Growth of different GDP components
- Advertising trends
- Basis weight trends
- End-use and substitution trends
- Environmental issues¹¹

Demand Information in Marketing Planning

For marketing planning purposes, demand can be measured as follows:

- Future demand by end-uses
- Future demand in the medium term (1-3 years)
- Future demand in the long term (over 3 years)
- Future demand by customer groups
- Price prospects
- Future demand in the short term (under 1 year)
- Future demand by countries

Generally speaking, information concerning demand is very important in marketing planning for both paper and wood products. The order of importance is about the same in both industries except as to future demand by countries. In wood industries country bound information is considered more important.

The importance of medium-term demand based on a product's end-use has increased, while the relative importance of long-term demand information has decreased.

As marketing of forest products has become more customer-oriented, grades and end-uses of products have become more sophisticated. This emphasizes the importance of end-use information. The time horizon of strategic marketing planning has shortened, making medium-term demand information more important. The unit size, especially of paper companies, has increased dramatically and the number of players in the marketplace has decreased. Price discipline is better today, resulting in better predictability of prices.

3.3.2 The Supply of Products

Concept and Content of Supply

Supply is the quantity of goods or services producers are willing to sell at a certain price, in a certain market at a certain time. Like demand, supply is directly dependent upon the price that can be obtained in the marketplace. The natural dynamics of the marketplace result in an equilibrium price where supply roughly meets demand – buyers will drive prices higher if they are willing to buy more than is supplied, and will drive prices lower if they are willing to buy less than is available.

In practice, the supply situation is expected to change in the future when forest industry companies announce the construction of new mills or machines, re-builds of existing mills or machines, start-ups of a green-field mill, or shutdowns of old mills or machines.

Supply Information in Marketing Planning

The following list describes the order of importance of supply information according to the information specialists of the Finnish paper and paperboard industry:

- Future supply by product types (e.g. by paper grades)
- Future supply in the medium term (1-3 years)
- Future supply in the long term
- Future supply by countries or regions

According to results from the two Finnish studies (from 2000's), supply information is important in marketing planning, and about equally important as demand information. As with demand, specific product-type supply information is considered most important. Contrary to the paper industry, the wood industry emphasizes long term supply and supply by countries or regions more than future supply in the medium term. The rankings of supply information reflect the nature of the markets. In more sophisticated and fragmented markets, it is more important to know the future changes in supply of various product types than the general development of supply. The time horizons, especially of the paper business, have shortened resulting in an emphasis on medium-term supply information.

3.3.3 The Other Macro Environment

Concept and Content of Other Macro Environment

The other macro environment includes the economic, technological, legal, social and institutional environments. GDP and its development is an example of the economic environment. The technological environment includes technological norms, regulations, standards, etc. It may also include indicators of technological development, technological changes, and opportunities for innovation. Judicial regulation connected to a company's operations is called the legal environment. Environmental consciousness and public opinion in society as well as pressure groups that influence company operations are examples of the social environment. Trade policy, governmental agencies, etc. are examples of the institutional environment. Earlier, in Chapter 2 PEST analysis was mentioned. PEST stands for political, economic, social and technological. The other macro environment in IEM corresponds directly to PEST. To emphasize environmental issues an extra E is sometimes added, resulting in PESTE.

Other Macro Environment Information in Marketing Planning

The following list describes the order of importance of other macro environment information according to the information specialists of the Finnish paper and paperboard industry:

- Economic development of the market by industries
- General technical development of the markets
- Development of product norms, regulations, standards etc.
- General political and social development
- Development of market norms, regulations, standards etc.

The list above presents one general way to measure the concept, other macro environment. It must be remembered that appropriate measurement depends on the marketing planning situation. Measurement must be conducted with the aim of answering the questions raised in marketing planning.

The economic development of markets is always an important indicator for the market analyst. Economic issues have grown in importance in a globalizing world where economic ups and downs move from continent to continent, often led by the U.S. economy. Technical and market norms, regulations, standards etc. are especially important when a company plans a new market entry. In Finland, preparation for joining the EU in the 1990s made production, product and market norms, regulations and standards extremely important in marketing planning.

In early 2000's both product and market norms, regulations and standards were considered more important in the Finnish wood industry than in the paper industry. The reason for this may be that construction, which is the biggest end-use area of wood industry products, is heavily regulated in all developed markets.

3.3.4 Information Sources of Macro Environment

Marketing planning is based on secondary material (data) and/or primary material (data). Secondary data is not specifically produced for marketing planning, but can be useful nevertheless. The forms of secondary information sources vary from newspaper articles and on-line, up-to-date data to costly research reports conducted by private consulting companies. Some big forest industry companies have business intelligence units for scanning and analyzing information to aid company business decision making.

As an example of secondary information sources in paper and wood product marketing, we have classified the sources into the following five categories:

- **Statistics** include all kind of statistical material related to paper and wood industries as well as general economic development. Time series and forecasting are typical forms of statistics, which are taken advantage of in marketing planning.
- **Directories** include lists of companies as well as reference books on the paper and wood industries.
- **Research reports** include reports on the paper and wood industries by international and national research institutes, as well as private research and consulting organizations.
- **Marketing and trade journals** include trade journals on the paper and wood industries and forest industry in general. Common business and marketing journals and magazines are also relevant as are newsletters and newspapers.
- **Other sources** are those that cannot be categorized above.

Table 3-1 provides examples of information sources in each of the above categories.

Table 3-1: Examples of Information Sources for Marketing Planning of Wood Products

Source	Description
Statistics	
APA – the Engineered Wood Association	A range of production and consumption statistics for structural panels and engineered wood products.
Resource Information Systems, Inc.	Consulting company that provides a wide range of statistics as well as research reports on wood and paper markets.
UN Economic Commission for Europe	Annual publication titled Annual Market Review primarily documenting market conditions in North America, Europe, and Russia.
International Tropical Timber Organization	Various statistics regarding tropical hardwoods as well as a biennial review on the world timber situation.
Forest2Market	Consulting company that provides a range of statistics as well as research reports.
Directories	
The Big Book (Random Lengths)	A directory of sawmills, panel mills, some secondary wood products, and wholesalers
Association lists	Most associations include membership lists.
Oregon Forest Industries Directory	An online directory of forest sector value chain members in Oregon.
Miller Wood Trade Publications	Multiple directories – softwood producers, hardwood producers, exporters, etc.
Research Reports	
Resource Information Systems, Inc.	A wide range of reporting for producers, suppliers, buyers, and
Forest Economic Advisors (inactive link as of 05/24/2021)	Forecasting, capacity reports, multi-client studies, etc.
Forisk Consulting	Various studies including benchmarking, timber valuation, etc.
Journals	
Merchant Magazine	Focused on building products retailers in the west. A sister publication, Building Products Digest focuses on the eastern US
Miller Wood Trade Publications	Various journals such as: National Hardwood Magazine, Softwood Forest Products Buyer, and Import/Export Wood Purchasing News
Panel World	Covers structural and non-structural panels
Other	
Company reports	Publicly traded companies have an annual report and often a sustainability report.
Company press releases	Most companies have a historical list of their press releases on their web page
Company web pages	Company web pages include the reports and releases mentioned above as well as a host of other useful information
Center for International Trade in Forest Products (inactive link as of 05/24/2021)	Reports and analyses of various export markets
Pricing newsletters	Weekly newsletters documenting price trends. Examples include: Hardwood Market Report (inactive link as of 05/24/2021), Madison's , and Random Lengths

3.4 MICRO ENVIRONMENT OF MARKETING PLANNING

3.4.1 Competitors

Competition in Marketing

In market economies competition is a basic principle underlying markets and influencing all the operations of various marketplace players. Competition is considered to have a positive impact on the quality of products and services and guaranteeing the best possible price-quality relationship to customers.

Depending on their marketing philosophy, companies can emphasize competition and approach competitors in different ways. Sometimes 4P thinking is criticized because it views marketing as a tool for fighting competitors – that is, the 4P's are seen as tools of competition. It can also be criticized because it emphasizes beating the competition rather than satisfying customer needs. Earlier we explained how strategy approaches such as Porter¹² are based mainly on competitor information. Porter gives a long, detailed list of information to be collected in competitor analysis. However, in the marketplace companies are winning or losing through their customers. The ultimate goal should be to keep customers satisfied – the best competitive advantages are those appreciated by customers.

Companies can also be interested in competitors in order to learn from them. Benchmarking is when a company analyzes its competitors to find best business procedures leading to best performance. The Beck Group in Portland, Oregon is an example of a consultancy that does benchmarking for forest industry companies.

The following list is an example of the sort of information we might find useful about competitors. Depending on the planning situation, some of these aspects may be emphasized and specified, and others may be omitted. The list describes the order of importance of competitor information according to the business information specialists of the Finnish paper and paperboard industry¹³:

- Future investments of competitors
- Recognition of present competitors
- Competing products and materials
- Price competitiveness of competitors
- Strengths and weaknesses connected to competitor products
- Recognition of potential competitors
- Strengths and weaknesses connected to competitor marketing
- Strengths and weaknesses connected to competitor production
- Strengths and weaknesses connected to competitor raw-materials

Based on the opinions of those responsible for market information both in the Finnish paper and wood industries, competitor information is as important as demand and supply information. The marketing planner must know both competing companies and competing products and materials.

Information about future investments of competitors that increase supply is clearly more important for the paper

industry than for the wood industry. Instead information about price competitiveness of competitors is more important for the wood industry than for the paper industry.

3.4.2 Distribution Systems of the Markets

Concept of Distribution Systems

Each country (or market area) has its own typical internal distribution structure (or system), normally divided into wholesale and retail levels. Those distribution systems are tied to traditions, culture, legislation, economic development, etc. When choosing a market area, a company must fit its marketing channels to the distribution structures available in that market. Choosing the right channels and intermediaries is extremely important for market success. In strategic marketing planning, the market analyst must have information about the available distribution structure to make good marketing channel decisions. Similar issues also hold for transportation systems.

Information of Distribution Systems in Marketing Planning

Information about market distribution systems could be collected and analyzed according to the following categories. Again, more detailed measurements can be created by further dividing the four issues. The list describes the order of importance of distribution system information in the Finnish paper and paperboard industry (opinions of business/marketing information specialists).¹⁴

- Structure of distribution systems
- Operation of distribution systems
- Structure of transportation systems
- Operation of transportation systems

Business/marketing information specialists and planners, especially in the paper industry, may see marketing channels and transportation issues as a given, as they rated these issues to be much less important than all other information environment factors in this study. Decisions concerning marketing channel structure are often made at a corporate level to encompass the whole company, particularly where the company is creating its own sales network, including sales companies. Marketing channels of a business unit must be adjusted to the marketing channel structure of the whole company instead of making independent channel decisions.

In large forest industry (paper industry) companies, the logistics department takes care of all transportation issues in the company and marketing people have very little involvement. In this case marketing people feel that transportation issues are not under their control and that is why respondents did not see information about transportation systems as important in marketing planning. They did feel that information concerning structures and operations of distribution systems were more important than information concerning physical transportation.

In the wood industries information concerning distribution systems is considered clearly more important than in paper industries. People responsible for managing marketing and business information in wood industries considered information describing the operation of transportation systems most important.

3.4.3 Industrial Customers

Defining Industrial Markets and Customers

The industrial market (business-to-business, B2B) consists of all those organizations that acquire goods and services that are used to produce other products or services that are sold to others.¹⁵ When a paper company sells its products to a publisher or a board mill sells to a packaging company, the transaction involves B2B marketing. Most marketing in the forest industries is B2B marketing. Business markets have certain characteristics that contrast sharply with consumer markets. Kotler¹⁶ lists the following characteristics:

- Fewer buyers
- Larger buyers
- Close supplier-customer relationship
- Geographically concentrated buyers
- Derived demand
- Inelastic demand
- Fluctuating demand
- Professional purchasing
- Several buying influences

Information about Industrial Customers in Marketing Planning

The following list is an example how the concept “industrial buying” can be measured when we acquire information for marketing planning. The list is in order of importance according to the opinions of Finnish paper industry business information specialists.¹⁷

- Industrial customer requirements for the products
- Product requirements based on industrial end-uses
- Final customers of end products and their preferences
- Industrial end-uses of products
- Buying behavior of industrial customers
- The production technology of industrial customers
- Industrial customer requirements for distribution
- Industrial customer requirements for marketing communication
- Location of present industrial customers
- Location of potential industrial customers

The above list shows that in planning B2B marketing of paper, the end uses of the products and requirements of both industrial customers and final consumers are the most important pieces of information. The order of importance is nearly the same in the paper and wood industries. However industrial customers’ requirements for distribution are clearly more important in marketing planning of wood industry products.

The planning situation determines the level of detail required. In any case the measurements above must be specified. For example, if marketing planning were dealing with distribution issues, "Industrial customer requirements for distribution" could be further specified as follows:

- Requirements concerning reliability of deliveries
- Requirements concerning speed of deliveries
- Requirements concerning delivery time
- Requirements concerning size of consignment
- Requirements concerning delivery terms

3.5 FRAME OF REFERENCE AND ITS MEASUREMENT, GUIDING INFORMATION SCANNING

In this example the opportunities to develop marketing of sawn timber in the UK market are examined. Development of marketing strategies aims at more customized products and increasing added value. The project follows the procedures of strategic marketing presented earlier in this book. The example contains market analysis based on secondary material and industrial customer analysis based on a survey using personal interviews.

3.5.1 Market analysis Based on Secondary Data

This research uses the IEM as its frame of reference. In this case the model was measured as follows:

Macro Environment – Demand

- Total demand of sawn timber and its development by end use sectors in the UK
- Total demand of value added timber and its development by end use sectors in the UK
- More detailed demand of raw material in joinery sector (windows, doors, stairs) in the UK

Macro Environment – Supply

- Supply of sawn timber and its development (domestic production and imports) in the UK
- Supply of value added timber and its development (domestic production and imports) in the UK
- Suppliers for the joinery industry

Other Macro Environment

- Economic development of the market
- General technical development of the market
- Development of product norms and standards regarding joinery sector in the UK

Micro Environment – Competitors

- Competing suppliers of sawn timber and value added timber in the UK
- Competing raw materials in joinery sector in the UK (other wood species, PVC, MDF, aluminum)

Micro Environment – Distribution Systems

- Potential distributors of value added timber for joineries in the UK

Micro Environment – Customers

- Potential customers (joineries) in the UK (number, size, geographical location)

3.5.2 Customer Analysis Based on Primary Data

The market information mentioned above is produced in a market analysis based on secondary material. However, much more detailed information about potential customers is needed and is produced via a survey using personal interviews. The customer block in the IEM is developed into a detailed framework for the customer survey (Figure 3-4).

The frame of reference for the customer study is based on a marketing philosophy emphasizing that the producer is genuinely creating benefits and value to the customer. That value is offered in a form of value proposition composed of product, availability, enhanced services and marketing communication (see section 2.5). When planning the value proposition we are interested in customer's point of view, customer's needs and preferences. The customer's point of view regarding the value proposition is equal to the customer's perceived value (see Figure 3-4).

The industrial customer survey targets the buying center or the group of people that influences buying decisions. The blocks to the left from "Buying Center" in the frame of reference describe factors having an impact on decisions made by people in the buying center. How customers perceive the producer's value proposition is impacted by the needs and requirements of the operation process (raw material procurement and production). The customer's perceived value is also impacted by the production process of the next member of the value chain (the customer's customer). In this case we assume that the industrial customer is customer-oriented and has a good understanding of its customer requirements.

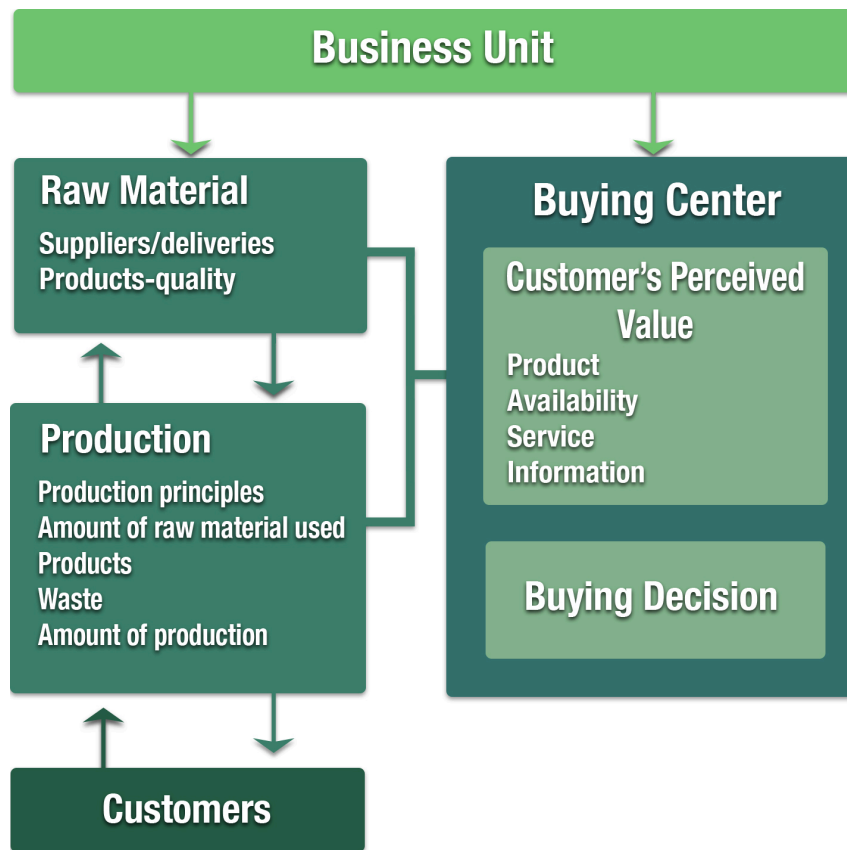


Figure 3-4: Frame of Reference for Customer Survey

Various blocks of the frame can be measured as follows¹⁸:

Business unit

- Name of the company
- Line of business
- Turnover
- Number of employees
- Location
- Respondent

Operation process

Raw material

- Amount of sawn softwood and timber components used in production
- Purchases by suppliers (timber merchants, agent, softwood producer's sales office)
- Quality, dimensions, lengths and moisture content of timber used in production

Production

- Amount of waste of used raw material
- Perception of the future production and demand of own products

Customers

- Company's impressions of their customers' product requirements

Buying center

- Who (organizational status) is responsible for buying decisions
- Choice criteria of timber purchased
- Choice criteria of suppliers
- Attitude towards changing to use timber components
- Satisfaction with the performance of present suppliers

Customers' perceived value**Product:**

- Willingness to use timber components
- Preferred dimensions of sawn softwood or timber components

Availability:

- Role of merchants in the future in the supply chain
- The importance of Just In Time deliveries
- Structure of a supply chain of standard and customized products

Information:

- Technical information
- Environment/certificate information
- Influence of norms and standards of the market area
- Chain of custody information

Service:

- Structure of service channels
- Online service
- After-sales services
- Education and guidance
- New technology creation

Once this detailed way of measuring has been created, the data collection phase is rather straight forward since measurement was designed to produce the specific information needed in the planning project.

3.6. CHAPTER QUESTIONS

- What is the role of information in marketing and marketing planning?
- How do changes in marketing practice change the relative importance of different types of information to the marketing manager?
- How can efficient management of information and knowledge lead to enhanced performance and competitive advantage?
- How can models be used to describe and measure the information environment?
- What is the relationship between the Information Environment Model and the Integrated Model of Marketing Planning?
- What are the types and typical sources of information about the marketing environment in the forest industries?
- How can the Information Environment Model be used to specify information necessary for marketing planning?

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Chapter 4: Strategy and Strategic Planning

After reading Chapter 4 you should understand the following:

- The meaning of strategy and how the approach to strategy has changed over time.
- The relationships and differences among corporate, business, and marketing strategy.
- The concept and process of corporate strategic planning.
- The role of the product in a marketing strategy and the many aspects of the product that can be used to tailor the strategy.
- The role of customer choice in marketing strategy and the logic of choosing customers.
- The role of market area choice in marketing strategy and ways to choose market areas.
- Core competencies as part of marketing strategy.
- The interrelationship among product, customer, market area, and core competency decisions.
- The logical connections among strategies, structures, and functions as outlined in the Integrated Model of Marketing Planning (IMMP).

The concept of strategy originates with the art of warfare. According to Webster's Dictionary, strategy can be defined as, "the science or art of combining and employing the means of war in planning and directing large military movements and operations" or "a plan, method, or series of maneuvers or stratagems for obtaining a specific goal or result." Companies use strategy and the process of strategic planning to reach their economic, social, and environmental goals.

4.1 THE CONCEPT OF STRATEGY

4.1.1 Historical Development of Strategic Planning

Strategic planning evolved from the process of annual budget planning in the 1950s. In the 1960s, fast-growing demand caused companies to extend their planning horizon beyond an annual basis, making *long-range planning* necessary. For example, when Rich¹ wrote his textbook on forest products marketing, he referred to long range planning and business strategy. In long range planning, the future is predicted through extrapolation of historical growth.²

Dramatic changes in the business environment, such as the oil shocks of the 70s, required more sophisticated approaches to systems of management. Next came *strategic planning* where predictions of the future were no

longer primarily based on the past.³ With this new approach, managers began looking for “vague signs” or potentially important trends that might impact their operations. When one of these vague signs was identified, its development was followed and its impact was considered in the continual process of strategic planning.

Prior to the the 1980s, most planning was done at the corporation’s executive level. During the 80s, strategy development shifted to operating managers, and *strategic management* became the common term.^{4,5} In the 1990s a common term was *strategic thinking*. Strategic thinking is discovering novel, imaginative strategies and envisioning potential futures very different from the present. In other words, strategic thinking is higher order thinking that should take place to explore potential directions for the company, and strategic planning is the operationalization of those ideas. These two concepts combine to form strategic management.⁶ Scenario planning is a tool for enhancing strategic thinking. Like much of strategy, its roots are in military applications but have more recently been applied in business settings. Scion in New Zealand has used scenario planning to envision the future of the built environment in Australasia (Example 4-1).

Example 4-1: Scenario Planning in Australasia

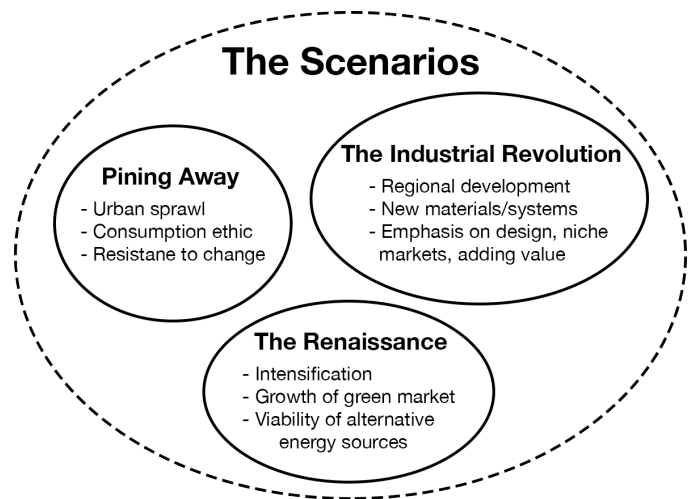
Scion (formerly Forest Research) in New Zealand has used scenario planning in several projects to help its wood industry envision potential futures of housing in the region. One project created three visions for the future urban built environment in Australasia. The project team used existing literature, personal interviews, and group interviews to gather information about the social, economic, environmental, and technological aspects of society. With this information the team created and described three different scenarios of the future: Pining Away, The Industrial Revolution, and The Renaissance. Each scenario is described through the story of an older woman who was a city planner, her husband who was a master carpenter, and her son, a chemical engineer. Using these characters, each scenario is described via a short story of the situation with the family in about the year 2015. The team suggests that the scenarios are not exactly predictions of the future, but should be used as a set when making strategic decisions. In other words, the scenarios are a way of taking complex, and extensive information and combining it in a way that can be digested by strategic planners and effectively utilized in planning processes. An example of one scenario, in its original text, is provided below.

The Renaissance

Jessie stepped out of her apartment building and smiled up at the sun. Taking a deep breath, she smelled the cool air that always resulted from a brisk southerly storm. She enjoyed these refreshing interludes in the increasingly warm and muggy weather. Feeling a rare wave of youthful energy, she headed off to the local shops with a spring in her shuffle.

Taking a short detour through the new sculpture garden, Jessie sat for a while on a park bench and marveled at the transformation. She remembered when this area had been a car park; now it was a pleasant oasis among a cluster of townhouses. Jessie had seen a major turning point in industrial history during her lifetime, and as a town planner she had helped to shape many of the changes. At the turn of the twenty-first century, she and her colleagues had expected consumers to follow green market trends, but nothing had prepared them for the rate at which public consciousness had changed.

In the past, consumers always had a remarkable ability to disregard most environmental problems. When Jessie was young, she remembered, there was concern about pollution, climate change, and resource depletion, but efforts to address these problems never seemed to get anywhere. Finally, a chain of events shifted public opinion to a critical mass and Government intervention was demanded. Hydro lakes slowly became depleted through drought, natural gas fields diminished, and oil prices fluctuated wildly due to supply difficulties. Climatic disasters became common and a crippling cyclone caused widespread blackouts to the city along with major disruptions to transportation. Graced with a mandate for radical change, Smart Growth planners such as Jessie seized the opportunity to rebuild a different type of community.



Other countries were experiencing similar events, but New Zealand and Australia were able to effect change more quickly due to relatively small populations. As a result, Australasia retained significant appeal as a “lifestyle frontier” to migrants and, although international tourism had declined due to rising oil prices, more people came here to live, making urban intensification had been achieved through strong local government leadership, including initiatives such as subsidised public transport systems and multi-unit development along transport corridors. Rural zoning limitations were also tightened to contain urban sprawl so that those wishing to live outside the major cities tended to favour satellite towns within the region. Jessie hadn’t forgotten all the difficulties and challenges they had faced, but tighter stronger communities eventually emerged.

Looking back, it was almost frightening to recall the economic risks they had taken. High transport costs, non-tariff barriers, and the implementation of carbon taxes gave rise to a major push towards self sufficiency, primary production, and a strong service industry. As the population had continued to grow, so did the need for more energy and this led to rapid advancement in sustainable energy technologies. Jessie’s son, Kevin, was currently working as a chemical engineer at the bio-fuel plant constructed near the city. As one of the largest and most productive of its type in the world, it had helped to set the standard for alternative energy supply.

The increased cost of transportation meant the price of imported consumer goods went up, so there was an upsurge in local processing. Manufacturers close to the market could suddenly compete with goods produced by large international producers, and this fostered the development of local businesses around a strong green economy. Within a relatively short time, certification and green branding had become compulsory, sustainable production was strictly enforced, and socially responsible businesses prospered.

While the mass media continued to entice consumers, it seemed to Jessie that people had become disillusioned by rampant materialism. As individuals sought to develop a sense of place and identity in the global context, there had been significant growth of religious, cultural, and community groups. Jessie thought this may have been a reaction to the dumbing-down effects of globalism. Or maybe, with ever-increasing numbers of elderly people in the population — like herself — society was just growing up.

As she stared across at a beautiful wooden sculpture, Jessie reflected on how the new society was built on a strong sense of tradition and creative expression. When it came to the crunch, people had turned to their roots for the answers and the economy found its strength in the land. The value of producing food and fibre in a

world of increasingly scarce resources had been realised and primary producers capitalised on their comparative advantage by building a strong knowledge economy around agriculture and forestry.

Jessie had experienced this trend most keenly through the work of her late husband, Jim. As a master builder he witnessed many changes after building standards were tightened to ensure higher energy efficiency. Much to Jim's approval, solid wood had provided the best solutions for construction. Not only did it have better thermal insulation properties than other materials, it was also more energy-efficient to produce. An oversupply of radiata pine resulted in timber being used in a variety of applications, and Jessie had been amazed at the range of ideas borne of necessity. One of Jim's favourite projects had been the construction of concept homes demonstrating energy efficient and stylish use of wood-based construction systems.

Diminishing landfill space also prompted more use of wood and other organic materials as local bodies pushed for zero-waste. Laws had made the cost of demolition almost prohibitive and so building systems evolved around durable low-maintenance exteriors and easily modified interiors to suit individual tastes. Jim had also been heavily involved in the refurbishment of existing housing stock to meet new energy codes. Jessie smiled to herself as she recalled how former State-housing tracts had become trendy suburbs. Their construction from native timber, combined with clever refitting, had made them desirable to an extent that would never have been believed 50 years ago.

Still, changes like these had been par for the course. Looking back, it amazed Jessie how well people had adapted when circumstances dictated it. A bird caught her eye as it flitted around the sculptures and she smiled when she noticed a nest tucked among the artistic curves. Humans may have been slow to learn the art of compromise, but they were getting there. How could they not, when nature provided such good role-models?⁷

It is important to note that individual companies also evolve through the stages listed above. As a first step, companies develop budget plans on an annual basis. As they gain experience in the marketplace, they begin to forecast beyond an annual basis and move toward long range planning. As the expertise of company personnel grows, the tools for true strategic planning and strategic management are developed.

4.1.2 Defining Strategy and Strategic Planning

Strategy is a nebulous concept with multiple definitions and little consensus regarding its makeup. One reason for this difficulty is that the term "strategy" often refers to different hierarchical levels, such as the corporation as a whole, the strategic business unit, and the product (note that for smaller companies, the corporate and strategic business unit levels may be the same). Strategy is also used in a variety of contexts such as marketing, distribution, or communication and ironically, marketing researchers often do not have a common understanding of strategy.⁸ Although it is a critical part of strategy research, the strategy concept has no universally accepted definition.⁹

A major difficulty in implementing marketing strategies is that the current definitions are exceedingly vague and provide no guidance for the strategic planning process or the decisions that must be made. Our approach is to view strategy in the context of the decisions a manager must make as well as the information needed to make those decisions. In this way, we begin to illustrate the practical steps that occur in a successful strategic planning process. In this text we emphasize the principle that *the strategy concept must tell what should be done when making plans and decisions concerning strategies*.

In addition to the varying definitions of strategy, there are many schools of thought regarding how the process of strategic planning actually occurs. Academic research has developed along a dichotomy of rational versus incremental planning.¹⁰ The rational school believes that a core group of company managers deliberately formulate strategy. The incremental school claims that strategy emerges within a company through its day-to-

day activities. Much of the work from the rational school originates from Ansoff¹¹, while Mintzberg¹² is commonly associated with the incremental school. Like Mintzberg, Ohmae¹³ suggests that “effective strategies do not result from specific analyses but from a particular state of mind, a state in which insight and consequent drive for achievement, often amounting to a sense of mission, fuel a thought process that is basically creative and intuitive rather than rational.” In practice, strategic planning will be unsuccessful unless both of these aspects are incorporated.¹⁴

When viewing strategy from outside the company, the distinction between these two concepts is not so critical. Even if strategies have not been developed through a logical process as described in the rational school, they can nevertheless be seen in the activities of a company. In other words, even if strategies have not been defined, company activities and their results can be used to characterize strategies.

4.1.3 The General Nature of Strategy

Although there are differences in definitions for strategic planning and strategy, some general features of strategy can be outlined. There are many classifications or definitions of strategy. For example, Niemelä¹⁵ identified the following approaches to strategy:

- Strategy as an atmosphere or a framework
- Strategy as a plan resulting from a formal planning process
- Strategy as a position
- Strategy as a pursuit of competitive advantage
- Strategy as a pattern of decisions and actions

The following review separates approaches to strategy into three simple categories from general to specific. The categories parallel historical development of the strategy concept.

Strategy as a Framework or Atmosphere

Particularly in the 1950s and 1960s, it was very common for firms to view strategy as an atmosphere or framework that influences all the activities of the company. Strategy directs all the decisions made in the company, but it does not define what kind of decisions are strategic. This approach does not define what to do when planning strategies. Instead, it more generally describes norms, attitudes and “the way of thinking” in the company. Thus, the term “strategic” came to be almost synonymous with “important.”

The idea of strategy as a framework can be seen in Figure 4-1, where it is referred to as a tool of management. The functioning of a company is based on its business idea (mission), and is aimed towards specific goals within a framework formed by strategy. Strategies are defined by top management and are based on analysis of internal and external conditions.

For example, in small companies management may not recognize the necessity of defining specific strategies, and may instead form strategies spontaneously as a sum of the targets and principles of action.¹⁶ On the other hand, when strategy develops over a long period, as if by itself, it forms a spirit or atmosphere. The existence of a spirit or atmosphere affects decisions and actions, developing into principles and guidelines by which the long-term goals of the company are to be achieved. The choices made in a company can be described by pairs of concepts like aggressive – defensive, active – passive, or innovator – follower. The atmosphere has also been described with expressions like “production-oriented strategy,” “business-minded strategy,” or “marketing-oriented strategy.”

Strategy can be described as laying the groundwork of general principles through which the company tries to secure its competitive advantage, customers, and fully utilize its resources.¹⁷ This demonstrates three cornerstones of strategic thinking: customer attraction, competitor consideration, and company resources development. However, when using a framework concept of strategy, the actual contents of the strategy often remain undefined. The definitions describing strategy as a framework or atmosphere are not operational. Making inferences and decisions concerning strategies require strategy concepts with clear ways of measuring them.

Strategy as an Adjuster Between a Company and its Environment

Kotler defined **market-oriented strategic planning** as “the managerial process of developing and maintaining a viable fit between the organization’s objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape the company’s businesses and products so that they yield target profits and growth”.¹⁸ Here he emphasizes a basic characteristic of strategy – as an adjuster between a company and its environment (Figure 4-2). This view of strategy has become common since the 1960s, but in most cases, *how* the adjustment takes place is left unspecified.

The pioneering work of Ansoff¹⁹ has had great significance as the precursor of nearly all analyses of strategy. The “adjuster” idea was evident in his early work. The “ecological model” of strategic planning presented by Thorelli and Becker²⁰ demonstrates well the close connection of a company and its environment and strategy as an adjuster. Their basic idea is that every company, like all biological organisms, is dependent upon its environment. The satisfaction of people’s needs is the only reason this environment needs companies. Customers, therefore, have a specific emphasis in this model.

According to Thorelli and Becker²¹, goals give direction for setting strategies. The results of everyday activities are the measures of the effectiveness of those strategies. If the results are unsatisfactory, the strategy is not functioning correctly as an adjuster between the company and its environment, indicating that the strategy must be further developed. Although the authors define strategy as an instrument in the adjustment process, they do not define strategy thoroughly. Strategy is said to be the approach or position that a company takes in order to succeed in its actions. Again, this definition is somewhat insufficient because it is not operational, it does not specify what must be done when making plans and decisions concerning strategies.

Strategic position is closely related to the relationship between a company and its environment. A strategy directs a company into a certain relationship or “strategic position” within its environment. A change in the company’s environment forces management to pay attention to its strategic position. Management must then evaluate the product/market combinations with which the company operates.



Figure 4-1: Strategy as a Framework

Traditional Definition:



Should be:

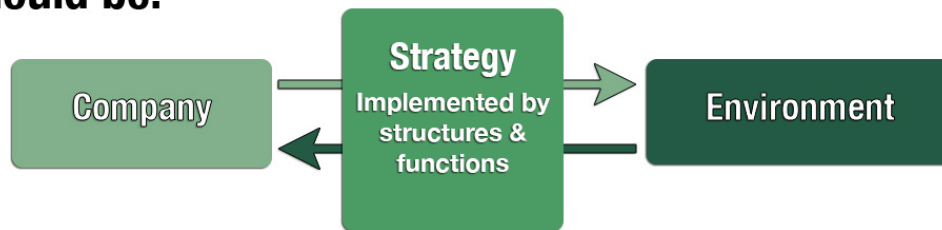


Figure 4-2: Strategy as an Adjuster Between a Company and its Environment

Strategic positions and ways of change are often described using “Ansoff’s Window,” presented in Figure 4-3.

A company can develop its strategic positioning in four ways:

- By developing current activities (market penetration) the company tries to strengthen the position that its products have in current markets.
- Market expansion (market development) is a way to develop strategic positioning where new markets are sought for current products, either by finding new customer groups or by finding new market areas.
- Product expansion (product development) is a way to develop strategic positioning by offering new products and/or significantly improved current products to current markets.
- Diversification means moving into new business areas, usually by buying companies from areas or fields with better growth possibilities.²²

	Current Products	New Products
Current Markets	Market Penetration Strategy	Product Development Strategy
New Markets	Market Development Strategy	Diversification Strategy

Figure 4-3: Ansoff’s Window for Strategic Positioning

Practical examples of these strategies are provided in Example 4-2. Typically, companies follow several at the same time. In fact, pursuing market penetration, market development, and product development at the same time is a sign of a progressive, well-run company.²³

Example 4-2: Strategic Options as Outlined by Ansoff's Window

Ansoff's Window describes the following four methods for developing strategic positioning:

Market Penetration – essentially, market penetration is gaining market share for an existing market. I-joist manufacturers have heavily targeted the Southern California residential floor joist market. Through market penetration, they now hold the dominant market share over the traditional product, solid sawn lumber.

Market Development – In North America after the advent of OSB, structural plywood producers (especially in the West) found themselves at a huge cost disadvantage. Consequently, OSB was quickly taking market share from the major traditional market for plywood, home construction. Because of the cost disadvantage, market penetration was not a viable option. Instead, many companies relied heavily on Market Development. This meant they went after new markets to find customers for their products, such as industrial uses like truck trailer bodies, furniture frames, and pallet decks.

Product Development – it is natural for companies to change their products according to the evolving needs of the customer base. Those companies that do this more efficiently will recognize an advantage. Following the plywood example, the industry also developed new products for new markets. The Big Bin, developed by companies and APA – The Engineered Wood Association is a good example. The Big Bin is an engineered, plywood substitute for 55 gallon plastic and steel drums. These are often used by food processors to transport liquid concentrates such as tomato paste or ketchup. The liquid is contained in a disposable plastic bag. Since the Big Bin is made from panels, it can be dismantled and reused. An additional bonus is that when it is empty, it can be shipped flat, reducing transportation costs.

Diversification – Related diversifications means staying within the broad confines of the industry. This could be, for example, forward integration of a paper company into converting operations for products such as boxes or paper bags. Unrelated diversification is moving beyond the confines of an industry. Diversification was a popular trend in all industries in the 1960s, and forest industry companies invested in a wide array of unrelated businesses. Boise Cascade Corporation invested in a power plant in Cuba and retail lumber yards in the US south; Enso Gutzeit purchased a ferry and started a shipping line. Real estate and housing construction were popular diversification targets. Most of these businesses have since been divested as companies moved to concentrate on core businesses and core competencies.^{24,25}

Ansoff's concepts of strategic positioning have inspired many followers. For example, portfolio analysis in connection with strategic planning is clearly based on Ansoff's preliminary work. How portfolio analysis can be used when choosing strategic business areas, products or markets will be described later in this chapter.

Precise and operational definitions of strategy were emphasized by Ansoff²⁶ when he defined it as a move or series of moves that a company makes. Thorelli and Becker²⁷ refer to the same idea when stating that the best strategies are those that are based on the use of relative advantage and aim at satisfying precisely defined customer needs. Efforts to precisely define strategy led to consideration of the components which constitute strategy. These components should be well-defined and measurable, as discussed in the next section.

Strategy as Strategic Decisions

Ansoff²⁸ provided a starting point for the analysis and development of strategy components and strategic decisions. In his opinion, the traditional definitions of the common thread of the company based on mission and the business concept of the firm are too loose and vague. As a replacement, he developed a strategy system composed of the following four components:

- Product/market scope
- Growth vector
- Competitive advantage
- Synergy

Product/market scope is the starting point for the definition of strategy. It defines the product area of the company and the markets to which the products are offered. The growth vector defines the direction of company development. The competitive advantage utilizes the finding of product and market areas, and determines which markets best match the characteristics and strengths of the company, giving it a strong, competitive market position. Synergy is produced by the proper combination of various resources and actions. A successful combination can give the company more possibilities and resources than any of its resources or actions used separately.

The marketing strategy definition we use takes a modular approach. In other words, marketing strategies are made up of several key components, as Ansoff's work suggests. Careful definition of the product/market area is an essential point of the modular approach. It is worth noting that three of Ansoff's four strategy components are primarily marketing oriented; product/market scope, growth vector, and competitive advantage. Only synergy refers to the internal use of research and production resources.

According to the concepts of Shirley et al.,²⁹ the five key decisions that make up a company's marketing strategy are:

- Customer mix
- Product mix
- Geographical limits of market area
- Competitive advantage
- Goals (evaluation criteria)

This approach stems from the same ideas that Ansoff puts forth, but adds aspects which make the strategic decisions more detailed and operational. When a company defines its strategy, it defines the products, customers, geographical limits of the markets, and competitive advantages on which the use of marketing tools will be planned. It also defines the goals which the company tries to achieve through its actions within these four parameters. All these decisions together put the company in a particular strategic position and define the company's relationship with its environment. It must be emphasized that although this relationship is defined by strategies and goals, the method for obtaining this relationship is not yet established. All five decisions are closely interrelated. Depending on the marketing ideology, each decision is given a certain weight. For example, when the marketing ideology is customer-oriented, the most important of these five decisions is the choice of customers.

The product can be tailored through its physical characteristics as well as through its service offerings which fit the requirements of the customer. According to Webster³⁰, the product and customer decisions a company makes are influenced most heavily by the company's competitive advantage and market area strategy. This suggests hierarchical differences between the strategy components mentioned above.

It is possible to show the meaning of Ansoff's concepts like market penetration, market development, and product development, using the five strategic decisions mentioned above and the concept of strategic position discussed earlier. The strategic decisions (1-5) define strategic position. If the company plans to move from one strategic

position to another, it requires, for example, market penetration, new market development, or new product development which Shirley et al.³¹ regard as marketing strategies. Strictly speaking, those concepts define the scope, direction, or nature of behavior carried out under a given strategy, but the **content** of that behavior must consist of functional factors. Various marketing functions are thus planned to carry out the chosen marketing strategies.

Even when company executives have not defined a specific and explicit strategy, it is possible to infer what the strategy is. Inferences can be made by examining the products, customers, and market areas of the company, as well as the marketing measures it is executing. How this concept of strategy as strategic decisions (product, customer, market area and core competencies) can be used in practice will be discussed broadly later in this chapter.

4.2 CORPORATE STRATEGY

As mentioned earlier, confusion has been created because strategic decisions on various hierarchical/organizational levels of the company have not been well differentiated. We speak of strategies at three levels: corporate, business unit, and marketing (functional). This is somewhat complicated because the number of organizational levels varies within companies, mainly dependent upon the size of the firm. Large forest industry companies consist of four levels – corporate, division, business unit, and functional. Small companies often consist of only corporate (business) and functional levels.

4.2.1 The Idea and Process of Corporate Strategic Planning

Large forest industry companies typically consist of several business units or several groups of business units (e.g., divisions) operating as one financial entity. Business units can be from the same or different branches. Economic and financial questions are generally handled by corporate management, and strategic planning is particularly important at this level.

To increase manageability, the corporation is often divided into *divisions*. For example, International Paper has the following structure:

- Industrial Packaging
- Papers
- Cellulose Fibers

And, Canfor has:

- Solid Wood
- Pulp and Paper
- Energy

We describe corporate and division-level strategies together because the same principles can be applied in both cases. Instead of speaking of functional level strategy, we adopt a marketing-centric approach and speak only of marketing strategies. Later we will show how business strategies and marketing strategies are interrelated. As a result, we have two different situations for strategic planning: 1) planning corporate strategies and 2) planning marketing strategies. The most important reason for separating the two is that, especially in large companies, corporate and marketing strategies are planned and implemented on totally different organizational

levels. Corporate strategy is the responsibility of top corporate management. Marketing strategies are planned and implemented on a business unit and product level. Of course, division of management responsibilities is closely related to company size. In small companies, the corporate strategy planning resembles business unit and marketing strategy planning. In this case, instead of using the term “corporate strategy,” it is more appropriate to speak of “company strategy” or “business strategy.”

Corporate strategy defines the scope of the firm with respect to the businesses, industries, and markets in which a company will compete. Overall, corporate strategy answers the question “Which industries should we be in?” and, therefore, competition is an essential element of corporate strategy. Corporate strategy should be planned so that resources are used most efficiently to convert distinctive competencies into competitive advantage.³² To define strategy on various organizational levels, strategic decisions on each level must be defined. This follows our leading principle that the definition of the strategy concept must tell us what we do when making plans and decisions concerning strategies.

The following summarizes the definition of corporate strategy and the differences between corporate and marketing strategy. According to Ansoff, careful definition of the product/market area is an essential component of strategic planning. He suggests that strategic decisions are those which define the business area in which the company chooses to operate. These two comments can be used to distinguish corporate from marketing strategies. At the corporate level, product/market decisions are made with respect to the business area or industry chosen. At the business unit level, product/market decisions are clearly made with respect to products to be produced and customers to be served. When the business unit or marketing manager is considering what kind of products to offer, the corporate CEO considers which divisions, industries, businesses, or strategic business units to invest in or divest.

This idea is illustrated in Figure 4-4. At the corporate level, the product is defined as structural panels and the customer as the construction sector. These definitions become much more precise at the marketing level.

General Strategy Components	Corporate SBA	Marketing SBA
Product	Structural Panels	Furniture Components
Customer	Construction Sector	Ready-to-assemble furniture sector
Market Area	Continent/Global	Eastern United States
Core Competencies	Synergy with sawmills & panel mills	High quality, low cost

Figure 4-4: Illustration of Differences Between Corporate and Marketing Strategies

With this background in mind, we can list the basic phases of corporate strategic planning:

- Corporate mission definition (4.2.2)
- Strategic business unit (SBU) or strategic business area (SBA) definition (4.2.3)

- Evaluating the current business portfolio and making strategic conclusions/decisions (4.2.4)

4.2.2 Mission, Visions and Values

At the corporate level, strategy primarily consists of decisions regarding the businesses that the company should be in and what resources should be allocated to those businesses. These allocation decisions are guided by the company's mission, vision, and values which provide overarching guidelines regarding the kind of organization the company wants to be and where it wants to go in the future. The concepts of mission, vision, and values are interrelated and their interaction should be the guiding light for the company's strategy development.

Mission – In a basic sense, the company mission answers the question, “why does the company exist?” Only with a clear definition of the mission and purpose can a business begin to make clear and reasonable objectives. The mission is the foundation for all that follows. Answering the question “what is our business?” seems simple, but the answer is typically less obvious, and may include answering other questions like “who is our customer?” Often, various executives within a company will give very different answers to this question. This is one reason why it is so important—the process of developing the mission brings management together towards a common purpose.³³

Companies within the forest industry often have very similar missions, but this actually violates one of the primary purposes of such mission statements. Companies should attempt to differentiate themselves from their competition. This differentiation is possible if each company considers its unique history, core competencies, and environment when developing its mission statement. Public relations should not be the primary purpose of a statement of mission. The mission should also be achievable, realistic, and motivating, so that it can provide guidance for both employees and managers.³⁴

The mission should focus on markets rather than products, which means that it should concentrate on the broad class of needs that the company is seeking to satisfy (Example 4-3). General mission statements and the difference between a product orientation and marketing orientation can be shown as follows.

Paper mill

- We make paper (product orientation)
- We serve magazine printers (marketing orientation)

Sawmill

- We make sawn timber (product orientation)
- We make wood components for joinery companies (marketing orientation)

Manufacturer of prefabricated houses

- We make wooden houses (product orientation)
- We create comfortable living places (marketing orientation)

Example 4-3: Company Mission Statements

Based on an extensive review of the literature, Pietiläinen³⁵ developed a definition and breakdown of a mission statement. She suggests that a mission statement expresses the organization's reason for existence and describes the nature of its business by answering the questions "what is our business?" and "what should it be?" Creating or updating a mission statement is an important part of corporate planning, as it motivates and inspires the members of the organization and guides resource allocation.

A mission statement can include the following issues:

- distinctive competencies
- purpose of the organization or philosophy
- business aims
- definitions of main stakeholders
- target customers and markets
- needs the organizations seeks to satisfy
- principal products and services
- geographical domain
- core technologies

A mission statement should be:

- inspirational
- short & easy to remember
- consistent with values
- clear and concise
- focused on markets rather than products
- distinctive from mission statements of competitors
- based on history, distinctive competencies, and the environment of the organization
- achievable, realistic, motivating, and focused on a limited number of goals
- same for all members of the organization³⁶

Vision – When a company is founded, it is based on the vision of the owners. The vision statement helps maintain the original concept of the company and its future development. The vision is almost an "impossible dream," yet it is simply a reality that has not yet come into being.³⁷ It provides a picture of what the future should look like, and guides the organization's leaders toward that future.³⁸

The vision statement must indicate a clear understanding of where a corporation is today and how it should proceed in the future. It should be seen as the primary corporate motivation, rather than profit.³⁹ Vision statements should be action-oriented, present- and future-based views of the dreams of executives. Unfortunately, these days vision statements are often no more than advertising slogans.⁴⁰

An example of a forest industry company vision comes from ATS Timber in New Zealand: “To ensure all stakeholders needs are considered for generously with a culture of continuous improvement and profitability.” This shows the stakeholder focus of the company is balanced against the profit motive.

A vision statement is a mental image or an assumption of the desirable future state of an organization. It is a motivating tool in founding the company and maintaining the development and framework that guides decision-making. It enables differentiation from other organizations and forms a point of comparison against which achievements, culture, and behavior can be evaluated⁴¹ (Example 4-4).

Example 4-4: Company Vision Statements

Pietiläinen looked at vision statements and developed perspectives on what a vision statement can and should include.

A vision can include the following issues:

- competitive position
- competitive advantages
- operating environment of the organization
- predicted economic trends
- changes in demand
- market focus
- position in the supply chain

A vision should be:

- realistic
- action-oriented
- concentrated on the future
- positive
- versatile (considering various stakeholders)
- interactive and dynamic
- believable
- attractive and clear
- harmonious with values
- stimulating
- creative
- practical
- concrete⁴²

Value – a value is “a belief in action,” which means a decision is made about what is good or bad, important or unimportant. Every organization has values, realized or not, and values guide the operations of organizations. The values of an organization are usually based on those of top management. Values should be documented, consistent, practiced and honored; otherwise, the organization is in danger of managers following only their

personal values.⁴³ Values can be said to reflect the sense of identity of an organization.⁴⁴ They should be clear, simple, direct and easy to understand.⁴⁵

Values of an organization can be divided into three groups: ethical values, responsive values, and profit values.⁴⁶ Ethical values concern the environment, society and employees, while responsive values emphasize the benefit to customers. Profit values stress the economic point of view and the benefit to owners. Values might include providing opportunities for employee development, creating a safe working environment, or maintaining environmental friendliness.⁴⁷ Roseburg Forest Products operates using three basic values: 1) Sawdust in the Veins, 2) Handshake Integrity, and 3) Driven to Win.

Business values are statements that specify common rules and set boundaries for an organization by defining what is right and wrong and what is important. Business values reflect the organization's sense of identity and define both internal and external behavior of the organization, making them vital to the organization's culture⁴⁸ (Examples 4-5).

While the mission and vision may seem like grandiose statements with little meaning or practical use, how a company defines itself can have a dramatic impact on its success. These statements communicate the values and intentions to all stakeholders. Levitt⁴⁹ provides examples of how companies or industries have defined themselves too narrowly. For example, he discusses the challenges facing the railroad industry in the U.S. in the late 1950s.

The railroads did not stop growing because the need for passenger and freight transportation declined. That grew. The railroads are in trouble today not because the need was filled by others (cars, trucks, airplanes, and even telephones), but because it was not filled by the railroads themselves. They let others take customers away from them because they assumed themselves to be in the railroad business rather than the transportation business. The reason they defined their industry wrong was because they were railroad-oriented instead of transportation oriented; they were product-oriented instead of customer-oriented.⁵⁰

In the mid-90s, Louisiana-Pacific Corporation went through a series of difficulties and changes in top management. The results of these changes brought about a significant shift in its corporate strategy. A decision was made to divest the paper side of the company's business and to concentrate on being a building products company. Similarly, Scandinavian companies that once produced magazine paper now produce "solutions" for their publisher customers. While this may seem like an insignificant issue, the difference in culture between these two world-views can have a dramatic impact on firm performance.

Example 4-5: Company Value Statements

Pietiläinen⁵¹ analyzed company values and identified what values might include and what companies should include in their values.

Values can include the following issues:

- ethical aspects: human rights, equality
- responsive aspects that emphasize the benefits to customers: service to others, humility, integrity, reliability, innovativeness
- relationship to owners: profitability, productivity
- relationship to employees: individual's self-determination, social appreciation and acceptance, safety, employees' development
- social responsibility: environmental friendliness Values should be:

- limited in number, not more than six statements
- known, consistent, practiced, honored
- purposely chosen & written down
- continuously discussed & checked regularly
- public
- lasting
- clear, simple, direct, and easy to understand
- attractive and capable of being respected
- suitable for different cultures
- effective – they should have a real influence on the organization
- consistent with each other
- feasible⁵²

4.2.3 Strategic Business Unit (SBU) or Strategic Business Area (SBA) Definition

A **business unit** is the basic unit for which business and marketing strategies are created. The term “profit unit” is used if independent responsibility for returns or profits is emphasized. In smaller companies there may be only one business unit, in which case the terms “company” and “business unit” are often used synonymously.

The terms SBU and SBA have been created for strategic planning purposes. A strategic business unit can be a single unit or collection of related businesses. The decisions in portfolio analysis are targeted to strategic business units. The SBA and SBU concepts are closely related. The strategic business unit is responsible for developing the strategic positioning on one or more SBAs. Abell⁵³ defines SBA in terms of three dimensions: (1) customer groups that will be served, (2) customer needs that will be met and (3) technology that will satisfy the needs. Ansoff⁵⁴ adds geographical location to the list.

The difference between an SBU and an SBA can be explained through the company philosophy: production-versus market-orientation. In corporate strategic planning, a production-oriented company emphasizes SBUs while a market-oriented company emphasizes SBAs.

Example:

SBU – wood component mill or wood industry division

SBA – wooden furniture material business or wood construction material business

Figure 4-6 shows that when an SBU defines its marketing strategy it defines its SBA at the same time. The business of a corporation is composed of the SBAs of its SBUs or groups of SBUs.

Since the 1990s the general direction in the forest industries has been to concentrate on core businesses. Many multi-industry corporations have renewed their strategies and now concentrate only on forest-based industries. In the late 1980s, a Finnish multi-industry corporation Rauma-Repola started developing its corporate strategy by listing its strategic business units (also referred to as industry groups or business areas):

- Forest machinery
- Industry valves
- Rock crushing equipment
- Machinery for forest-based industries
- Grain harvesting equipment
- Offshore oil drilling products
- Printing papers
- Special papers
- Special pulps
- Sawn timber and value added
- Trading of wood products
- Plastic packaging and foils

Strategic Business Area of a Sawmill (SBU)

Product

Sawn timber customized by customer dimensions and lengths

Customer

Window manufacturers with specific dimension and quality needs

Market Area

Southern Germany

Core Competencies

Drying, quality, customer relationships, service

Figure 4-6: Example of a Strategic Business Area

By the year 2000, after a series of mergers, acquisitions, and divestitures, Rauma-Repola was part of UPM-Kymmene corporation which primarily consisted of the following three groups of business units called **business areas**:

UPM-Kymmene Printing Papers

Magazine papers, newsprint and fine papers.

Converting Materials

Label, packaging and envelope papers and converting units

Wood Products

Sawmilling and joinery, plywood, and building suppliers trade

A fourth group, called Resources, included operations such as chemical pulp, wood procurement and energy. Reflecting changing times in the market, today UPM refers to itself as “The Biofore Company” and its operations are organized around three areas:

Energy & Pulp

Energy, Biofuels, pulp, forest & timber

Paper

Publishers, printers, merchants, converters

Engineered Materials

Label stock & RFID, plywood, wood plastics

This structure is a result of corporate strategic planning, including the definition of SBUs and SBAs.

Strategic Accounts – Restructuring Corporate Strategy

Strategic accounts are normally connected to customer choices in strategic marketing planning. If a company's customer choice is certain known end-users, these customers can be called strategic accounts or key customers. Strategic accounts are generally defined as those customers with the highest value to the company.

Strategic accounts are important at the corporate level of planning because of the size and power of the biggest customers. They might be global or multi-national companies using centralized and harmonized supply processes and preferring one-stop-shopping. Ongoing globalization and consolidation have increased the size of both forest industry companies and their major customers. Big paper users (printers and packagers) or big DIY chains can be larger than even the biggest paper or wood products producers. Very large customers are strategically valuable for the entire corporation and their needs should be taken into consideration in corporate planning.

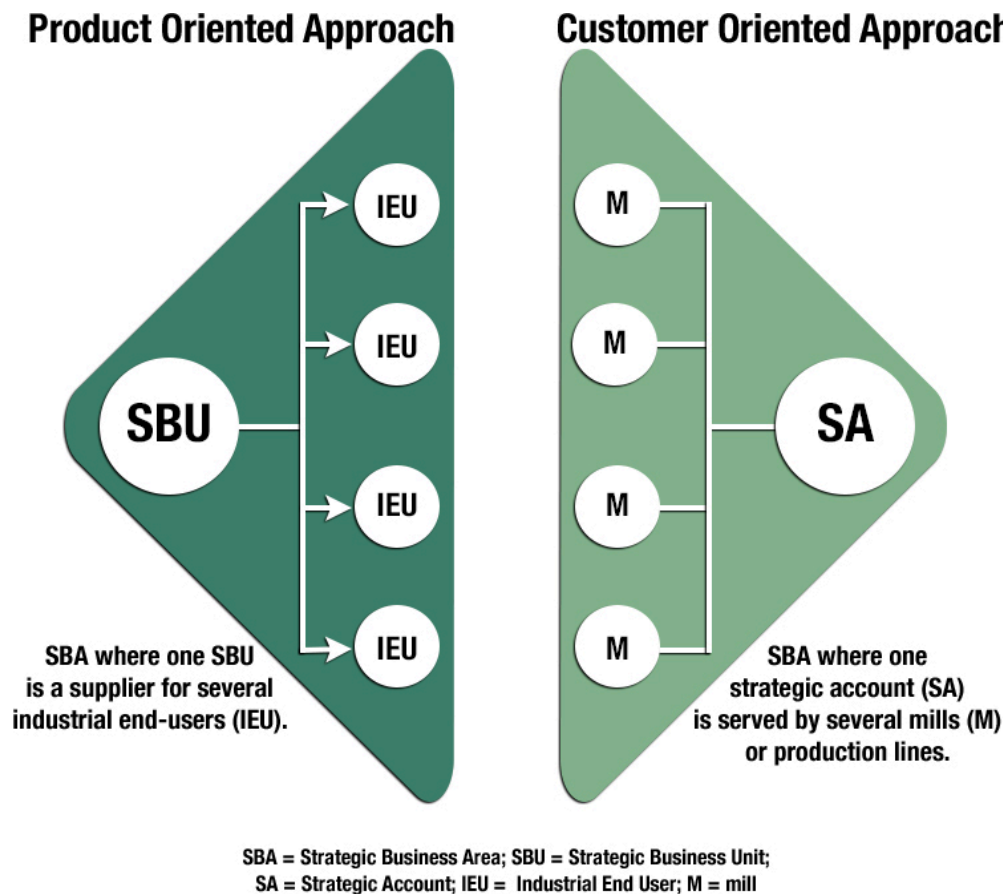


Figure 4-7: An SBU Versus Strategic Account Approach to the Marketplace

Strategic account management is a method for dealing with very large customers. Because some mills or divisions

may be too small to satisfy the multi-faceted demands of very large customers, the solution must be created at the corporate level. When a market-oriented corporation is making decisions concerning SBAs, the starting point could be a strategic account instead of a traditional end-use sector. In other words, a strategic account may mean that one key customer forms an SBA. Strategic account-based SBAs can actually impact the corporate organizational structure. This means that the whole corporate strategic planning must be market-oriented and more closely resembles strategic marketing planning.

Figure 4-7 depicts the difference between a traditional SBU-based SBA definition (left triangle) and a more modern SA-based SBA definition (right triangle).

In traditional production-oriented approaches, the SBU is the starting point and it serves several industrial end-users. SBU formation follows traditional production- or product-based borders. This kind of SBA definition means that one industrial end-user may belong to several SBAs of the supplying company. The customer may need to follow several business practices (of the various SBAs) even though it does business with only one supplier.

To simplify this situation for the customer (strategic account), the company can build the SBA around one (big) SA. Mills from various divisions serve the SA. The customer relationship is managed so that all the business procedures are harmonized and the concept of “one-stop” purchasing can be realized. In this way the company creates one “face” that is seen by the customer.

Strategic account-based corporate strategic planning limits the possibilities of marketing planning and coordination on lower company levels. Division level management must take accounts identified by corporate management into consideration in their marketing and production plans. Division level management may identify their own strategic accounts. At the mill or product level, planning the decisions of corporate and division managers must be taken into consideration before separate customer decisions can be made. Again at this level, managers may have their own strategic accounts.

Strategic account-based corporate strategy requires that the company and the customer share information and align many of their processes. Mutual trust and cooperation are needed to form a working, rewarding, and long-term partnership. The structures and functions of the company are planned so that they effectively implement the strategic account-based strategy.

4.2.4 Evaluation of the Current Business Portfolio and Making Strategic Conclusions/Decisions

Portfolio planning is the process of evaluating the current portfolio of business units. The results of the portfolio analysis give corporate managers the necessary information to appropriately allocate resources among the business units in the portfolio (Example 4-6). Two major portfolio tools discussed below are the Boston Consulting Group (BCG) Matrix and the General Electric (GE) Business Screen.

Example 4-6: Portfolio Planning

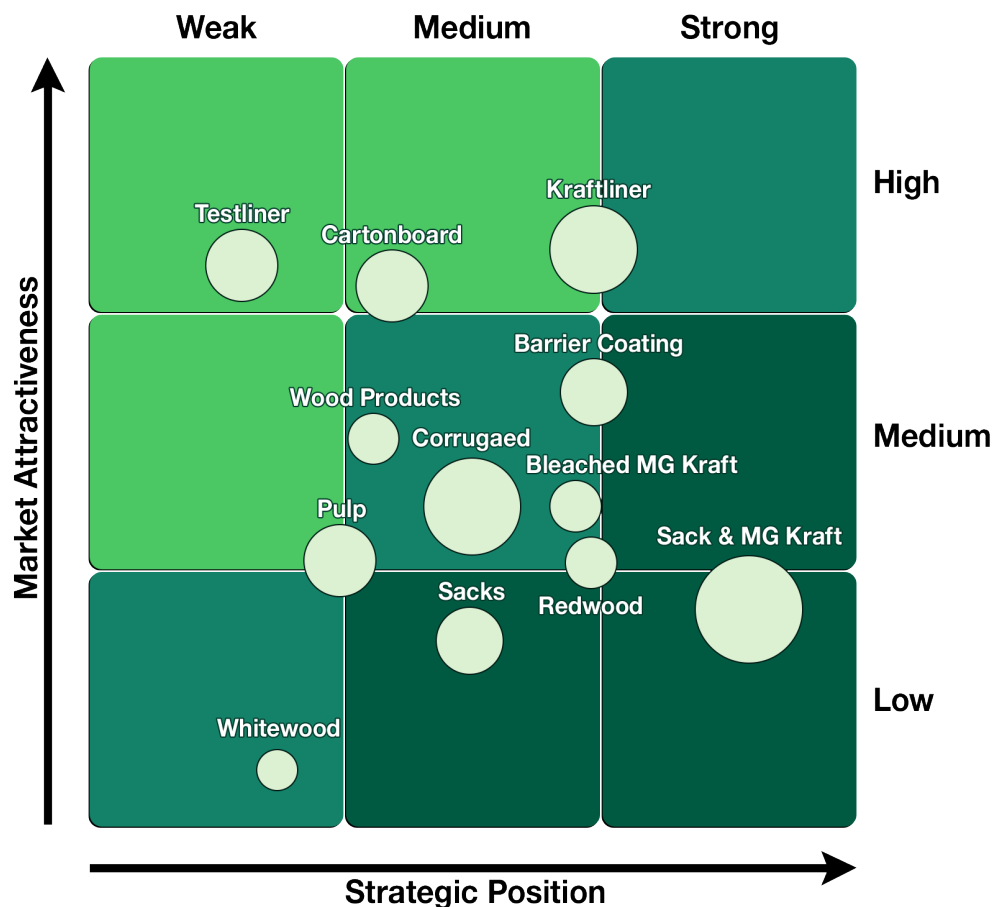
AssiDomän was once one of the largest forest industry companies in Sweden (total sales of over \$2.5 billion in 1999) and one of the largest private forestland owners in the world. In 1999 the company underwent a major change in management that brought with it a process of restructuring.

The new CEO at the time stated that “My key task and that of Group management has been to increase the tempo of the work of improving efficiency and profitability after the rapid expansion of recent years. It has also been important to strengthen the work of defining the future structure and strategy of the Group and

its units in order to find a clear direction and focus for our business.” He went on to say, “We must make strategic choices. We must focus and invest in operations and businesses where we have the opportunity to assume a leading position. In the long term it is not possible to build up and defend a leading position in too many areas without diluting resources. To survive in the long run, we must be truly competitive, both geographically and within selected product segments.”

With this mentality, the company undertook a process of analyzing itself and the marketplace in an effort to identify the right portfolio for the Group and the right strategies and actions for those units maintained in the portfolio. A study of the market size and growth, return, structure and trends in the industry, capital intensity, and financial history was conducted. At the business unit level, relative market share was determined with respect to the three largest competitors, achieved customer value was measured, and competence and capital efficiency were evaluated. With this information, each business unit was placed in a portfolio matrix representing market attractiveness and strategic position.

Based on the assembled data and resulting analysis, the company chose to divest some of its business units. Plans were made to sell the cartonboard business unit. The company felt that the unit was not large enough to provide long-term satisfactory development. The industry was fairly concentrated, making it difficult for AssiDomän to grow in this area.



The company felt that the kraft products market was stagnating and suffered from overcapacity. Sack conversion operations were seeing downstream consolidation with more consolidation on the horizon. Two kraft mills were kept, but the other two mills, as well as the sack plants and barrier coating, were sold. Barrier coating was seen as too small to effectively develop.

These changes resulted in a company that had three major divisions: Industry, Timber, and Forestry. The Industry division contained corrugated and containerboard as well as the two kraft mills producing bleached paper and bleached market pulp. Timber primarily consisted of sawn timber where the company was the largest producer in Sweden. Forestry was made up of 2.4 million hectares of forest land owned by the company.

Assi Domän. 1999. Annual Report.

Boston Consulting Group Matrix

One of the most famous portfolio matrices is the Boston Consulting Group Growth-Share Matrix. The matrix is made up of four quadrants based on market growth (a general measure of market attractiveness) and market share (company position). As can be seen in Figure 4-8, the quadrants are typically named Cash Cow, Dog, Question Mark, and Star, representing the potential of business units or product in that category. A “Star” is a business unit or product that demonstrates high growth and in which the company has a high market share – an ideal situation for the company. On the other hand, a “Dog” business unit or product is in a low growth market and the company has a low market share, a considerably less ideal situation for the company

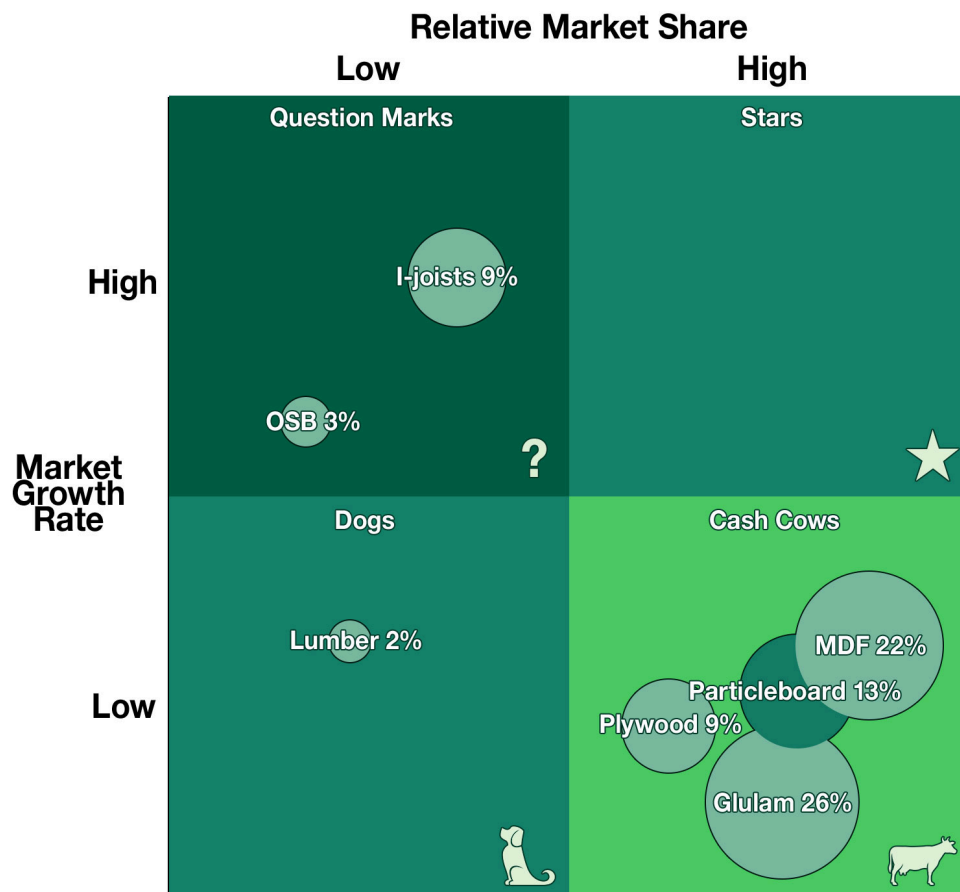


Figure 4-8: BCG Matrix with Wood Products Components.

Size of bubble represents total market share for each product.

Also in Figure 4-8 is an example of how this matrix might be used to evaluate a company's portfolio of business units. Lumber is low growth and the company in this example has a low percent market share, so it can be considered a “Dog.” Oriented strandboard and I-joists are both “Question Marks” since the company does not have a very large market share as compared to the competition and market growth is high. The company has several

business units it considers “Cash Cows.” This should mean the company is in a position to invest in the “Question Marks” to move them towards becoming “Stars.”

General Electric Business Screen

Instead of market growth and market share, the GE Business Screen uses market attractiveness versus SBU strength or position (Figure 4-9). The matrix can be divided into four or more cells depending on the level of detail deemed necessary. As shown in Figure 4-9, there are different recommendations for decisions regarding an SBU, depending on its position.

Placement of SBUs on the BCG Matrix or the GE Business Screen allows company planners to evaluate where to invest and divest. To learn how strategic choices are made, we follow a GE-type portfolio analysis in a specialty paper and converting division of a forest industry company. The top management of the division uses the following criteria to evaluate the general business attractiveness and company position.

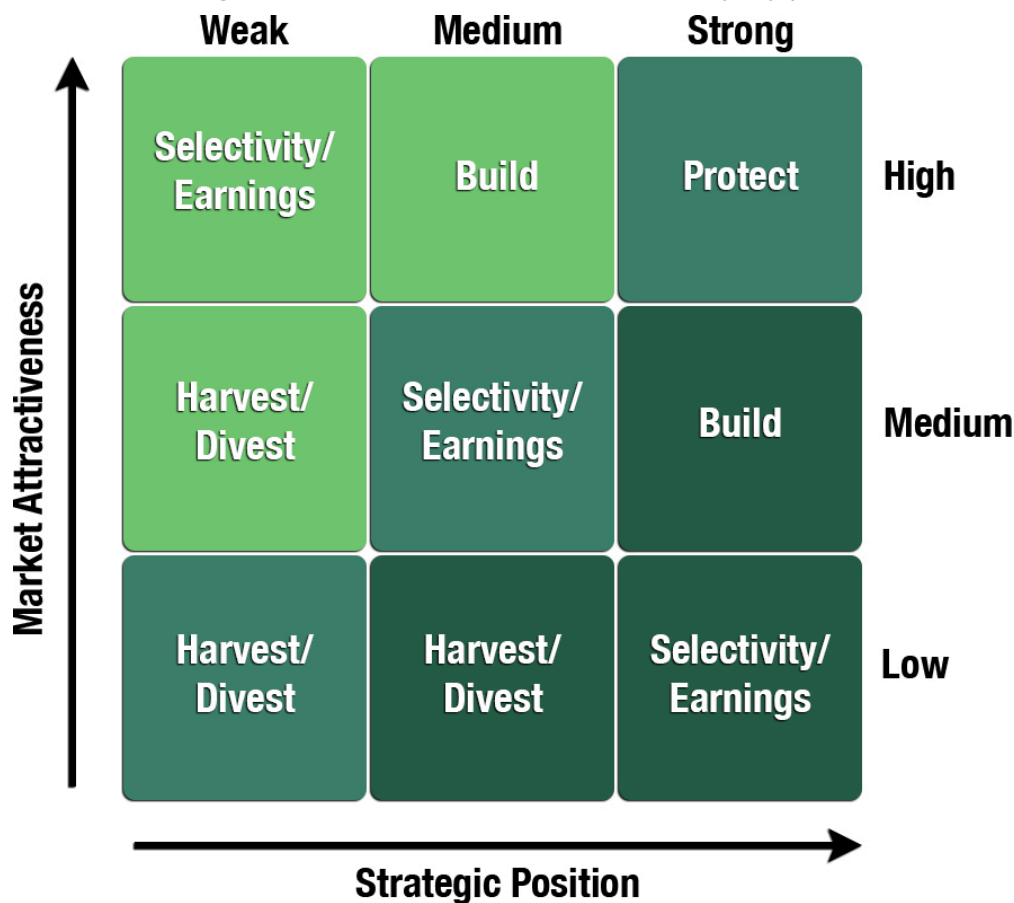


Figure 4-9: GE Portfolio Planning Matrix

Criteria for evaluating general business attractiveness:

- Market growth
- Market size
- Profitability
- Indispensability of the products

- Role of environmental issues
- Entrance threshold
- Degree of concentration of the competitors
- Geographical scope
- Negotiation power of the suppliers
- Degree of innovativeness

Criteria for evaluating relative position:

- Company's market share
- Company's technological level
- Quality of company's R&D function
- Company's cost structure
- Customer relationships
- Marketing know-how
- Organizational effectiveness
- Degree of integration
- Geographical location
- Effectiveness of distribution
- Profit

Using the above criteria, the current business units are located on the portfolio matrix and evaluated (Figure 4-10). The next step in the divisional strategic planning process is strategic conclusions or choices (Figure 4-11). In this case the following recommendations are made:

Divest (low market attractiveness and weak strategic position) – For products/businesses that clearly are losers or that the company has found it cannot effectively manage, divestment is the logical choice. This means selling the business unit. The company cannot make money with these products/businesses, and it is likely that the situation will not change in the future. These businesses deserve to be divested so that the company can concentrate on its core businesses. In this example the company chooses to divest the following SBUs:

- Stationary
- Sack kraft (paper + sacks)

Maximize cash generation, limited investment to extend lifetime (low market attractiveness and strong strategic position) – The basic idea with this option is to milk the SBU for resources that can be invested elsewhere. The company decides that in the long term, this product/business does not show promise and therefore deserves little or no investment. However, there is enough market for the product/business that it makes sense to continue to produce it, gaining whatever volume of sales will naturally occur. This option creates the risk that customers who rely on that product/business will not be happy to learn that the company plans to eliminate it. In our example the company chooses this approach for the following SBUs:

- Industrial wrapping paper

- Consumer packaging

Organic growth, minor acquisition to round off position (high market attractiveness and strong strategic position) – This option means maintaining the current position of the product/business. In our example, the following SBUs were seen to be in a maintenance or hold position.

- PE paperboard
- Self adhesives
- Standard packaging

Major acquisition or minority joint venture (high market attractiveness and weak strategic position) – For SBUs representing attractive markets but relatively weak position, the best decision may be to build a better position; that is, to increase market share and further improve the competitive position in that marketplace. In our example, the following two SBUs are considered to represent opportunities for building a better position.

- Paperboard
- Digital papers

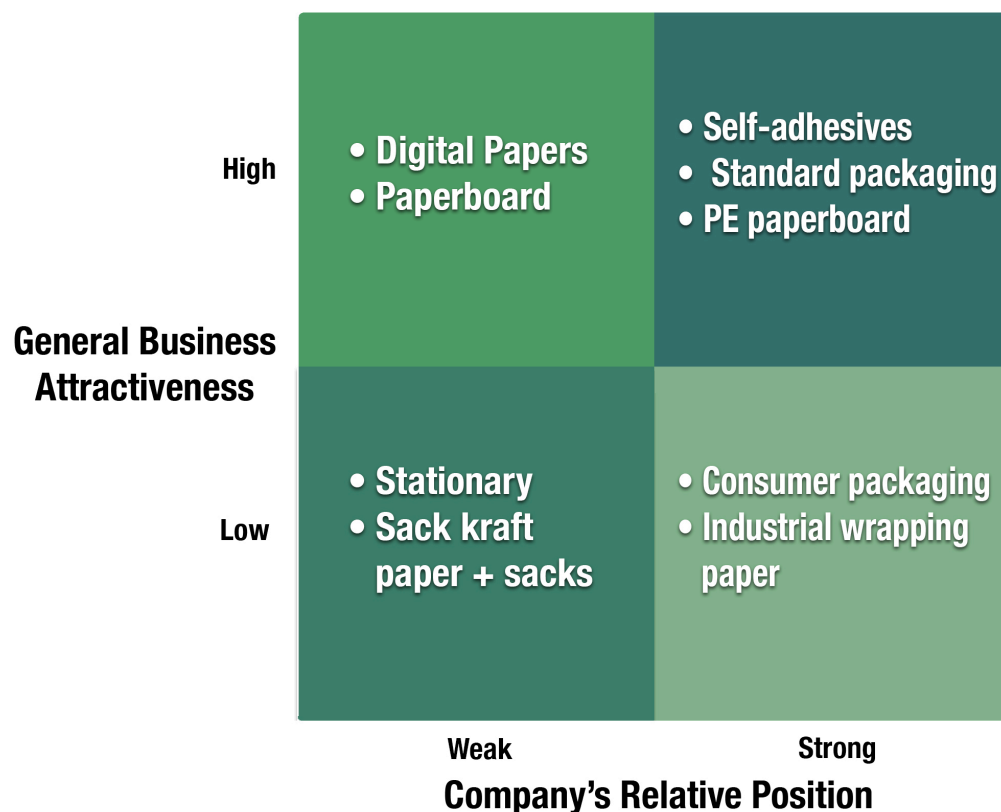


Figure 4-10: Portfolio Planning in Specialty and Converting Papers

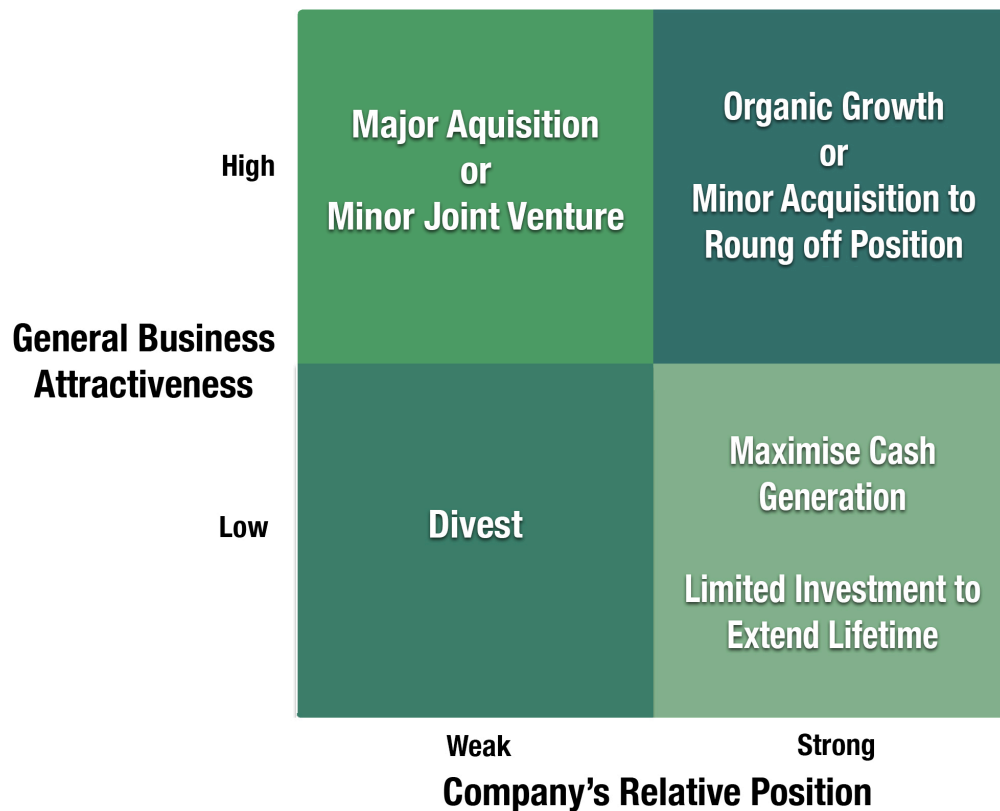


Figure 4-11: Key Strategic Options in Portfolio Planning

The forest industry recently underwent extensive consolidation and companies are carefully considering how consolidation will progress. If a company has a weak position in a sector where a large competitor is aggressively acquiring capacity, they have an additional reason to exit the business area. For those product areas in a strong position but where business attractiveness is weak, it is best to simply maintain the status quo and use the cash produced by these businesses to invest in others. For attractive business areas in which the company has a strong position, it should plan to maintain growth and watch for opportunities to add to the businesses to make a more complete package. In our example, digital papers and paperboard are attractive business areas in which the company has a weak position. In this case the company should look to jump-start its operations and production. This way the company aggressively builds markets for products that will be strong in the future.

It must be remembered that matrices such as these are only a generalization of reality, and the recommendations cannot always be implemented. For example, many companies would consider softwood lumber to have low attractiveness and since it is such a fragmented sector, few companies can claim to have a strong position. In this situation, placement on the matrix would suggest that the unit be divested. However, there are many reasons why a company may not want to exit the production of softwood lumber. Sawmills typically serve as an outlet for higher-grade logs purchased by the company and as a source of chips and other by-products for paper production. Limited resources may mean the company can only implement some of the recommendations. In the example in Figure 4-10, the company may not be able to deal effectively with building its paperboard and digital paper operations simultaneously. It may have to prioritize one or the other.

4.3 BUSINESS AND MARKETING STRATEGY

Business and marketing strategy are closely related. Business planning consists of two parts, marketing planning and production planning.

Marketing Planning:

- Strategies
- Structures
- Functions

Production Planning:

- Strategies
- Raw material procurement
- Production
- Finance
- Personnel

Because marketing is the link between a company and its customers and the company lives only through its customers, marketing planning dominates business planning. This means that in market oriented business planning, marketing strategies are directing the whole business planning process. Because of the dominating role of strategies, we can call it strategic business planning. In Figure 4-12 it can be seen how strategic business planning is composed of strategic marketing planning and (strategic) production planning. The same marketing strategies are directing both. In business planning of market oriented companies, marketing strategies are planned first and they are always a top management issue.

It is important to note that because the basic issues are very similar regardless of the hierarchical level of strategies, portfolio analysis is also applicable at the business and marketing strategy levels. Rather than evaluating an SBU, the tools are used to evaluate the situation with a specific product or product line.

4.3.1 Porter's Generic Competitive Strategies

One way to define the basic approach to business strategy is using Porter's⁵⁵ three generic strategies:

- **Cost Leadership** – a company pursuing this strategy will concentrate on reducing costs wherever possible and will practice tight cost controls. Typically, the company must also have highly efficient facilities and strong pursuit of experience-based cost reductions. Little would be spent on research and development, service, or advertising.
- **Differentiation** – a company pursuing this strategy strives to create a product that is perceived across the industry as being unique. Pursuing this strategy does not mean ignoring costs, but cost reduction is not the primary goal.
- **Focus** – with a focus strategy, a company concentrates on a specific buyer group or geographical market. The first two strategies aim towards industry-wide advantage, while focus is concentrating on a specific segment or niche. In this way, a company pursuing a focus strategy is able to essentially develop a low cost or differentiation strategy specific to its target segment.



Figure 4-12: Business Versus Marketing Planning

A company that isn't clearly pursuing one of these strategies is seen to be "stuck in the middle" and finds itself in a poor strategic situation. Implementing one of the generic strategies requires total commitment and appropriate organizational structures that become diluted if multiple targets are pursued. A number of researchers have looked at the forest industry from the perspective of these generic strategies (Example 4-7). A common finding is that many companies appear to be "stuck in the middle." More recent research suggests that the Porter view of strategy may not adequately describe the strategic actions taken by forest industry companies.

Example 4-7: Strategy Research in the Forest Industries

A number of researchers have investigated the generic business-level strategies used in the forest industry. Results suggest that companies are moving away from an Overall Cost Leadership strategy to a Differentiation strategy. However, some of the research suggests that firms lack a coherent approach to strategy. This led to Swedish researchers questioning the use Porter's generic business-level strategies in forest sector research. Their findings are shown at the end of this example and provide a contrast to some of the historical work.

Rich (1986)⁵⁶ looked at 36 of the top 50 forest industry companies in the U.S. during the 1976-79 period and in 1984. He found that there had been a significant shift away from Overall Cost Leadership as a strategy. In the period 1976-79, 50% of the companies were pursuing an Overall Cost Leadership strategy, 19% Differentiation, and 19% Focus with the remaining being mixed or no strategy. In 1984 he found many more mixed strategies (28%) with some more focus on differentiation and a clear move away from overall cost leadership (31%).

Bush (1989)⁵⁷ concentrated on the top 100 hardwood lumber producers in the U.S. Using cluster analysis, he divided respondents into five major groups. All the groups exhibited some characteristics of each generic business-level strategy. In this respect, interpretation of the orientation of each group was somewhat difficult. Generally, it can be said that two of the groups (the smallest firms) had no strong orientation along any of the generic business-level strategies. In other words, they were what Porter calls "stuck in the middle." One group was oriented towards Differentiation and Overall Cost Leadership while the two remaining groups were oriented towards Overall Cost Leadership and Differentiation, respectively. None of the groups had a strong Focus strategy. Finally, the study found that companies intended to move in the direction of a Differentiation strategy in the future.

Niemelä (1993)⁵⁸ did his work in the softwood sawmilling sectors of Finland, British Columbia, Canada, and the western U.S. Managers at a total of 102 sawmills were interviewed and asked to identify their own strategy. Depending on country, between 21 and 23% of respondents selected a mix of the generic strategies. Finnish sawmills were least Overall Cost Leadership oriented with only 11% of companies claiming this strategy. In the U.S., 29% of companies selected Overall Cost Leadership and in Canada 23%. Differentiation was selected by 32%, 38%, and 26% by Finnish, U.S. and Canadian companies, respectively. Finnish companies were the most Focus oriented with 35% of respondents while U.S. companies were least with 12%. Twenty-nine percent of Canadian companies selected a Focus strategy. Generally he found that companies concentrating on Overall Cost Leadership were large, integrated companies with multiple mills. Differentiation and Focus oriented companies were smaller and more export oriented.

Hugosson and McCluskey (2009)⁵⁹ focus on the Swedish sawmilling sector. In their view, the previous Porter-based strategy research was insufficient and that more than three generic strategies are needed to describe changes taking place in the industry. Their work relies heavily on concepts from Ansoff to describe three strategy transformations that took place in the Swedish industry between 1990 and 2005: 1) market channel, 2) product value adding, and 3) service value adding. The market channel transformation refers to disintermediation and a tendency to deal directly with end-users. Product value adding means companies became more active in meeting the precise product specifications demanded by end-users. Finally, service value adding is primarily associated with distribution logistics services. Based on their findings, the authors argue that sawmilling companies clearly have developed new strategic behaviors, just not those described by Porter.

Hansen, Nybakk, and Panwar (2015)⁶⁰ looked at the effectiveness of pure versus hybrid strategies across US wood and paper manufacturers. As in previous research, they identified a tendency of companies to focus

on overall cost leadership. Of their overall sample of 438 firms, they found 72 companies pursuing a pure differentiation strategy, 82 a pure cost leader strategy, 96 a hybrid strategy, and 188 were “strategically irresolute” or rated themselves low on both strategies. A differentiation strategy was most positively associated with firm financial performance.

Clear connections can be found between Porter’s strategy concept and the modular strategy concept applied in this book (Table 1). Empirical studies suggest that in many cases it is difficult for companies to separate between few, well-specified customer segments and known end-users. The basic issue is if the company is selective or not in its strategic choices. This is also connected to a company’s marketing philosophy. A commodity product strategy is associated with a production-orientation and marketing decisions are rarely selective. Special and custom-made strategies are expressions of a market-orientation and marketing strategy decisions are selective. This is similar to Porter’s thinking. Cost leadership clearly emphasizes a production-orientation, and marketing issues are of minor importance. Differentiation and Focus strategies require marketing expertise and reflect a market orientation and selectivity in marketing decisions.

Table 4-1: Relationship between Porter’s Strategy Concept and the Modular Strategy Concept

Modular Product Strategy	Porter’s Strategy Concept
Commodity Product Strategy Commodity products As many customer groups as possible As many countries or regions as possible Cost and production-based competitive advantage	Cost Leadership
Special Product Strategy Special products Few, well-specified customer segments Well-specified countries or regions Product and end-use based competitive advantage	Differentiation
Custom-made Product Strategy Custom-made products Known end-users Well-specified countries and regions Customer relationship-based competitive advantages	Focus

4.4 STRATEGIC PRODUCT DECISIONS – PRODUCTS TO PRODUCE

One of the most basic decisions facing a company is what product to produce. If a company decides that it will produce hardwood lumber, for example, there are still a huge number of decisions that must be made before it can determine exactly what the product will be and which services to offer.

4.4.1 The Concept of Product

The Total Product

Early in the evolution of marketing, the term “product” simply referred to the physical object a company manufactured. In today’s highly competitive environment, companies must have more than just a good physical product. They must also provide an array of services associated with it that combine to form what has become known as the total product.

To understand strategic product decisions (product differentiation) we can think of products ranging from the core product to the total product (Figure 4-13). This is similar in concept to the levels of product proposed by Levitt.⁶¹ The following list corresponds to Levitt’s categories and is based on Kalafatis et al.⁶²

- Core product (the basic product, such as sawn wood)
- Generic product (softwood sawn wood to be used for manufacturing moulding)
- Expected product (minimum purchase condition, sawn wood of certain dimensions and species, packaged and delivered to meet specifications)
- Augmented product (an enhanced product based on the addition of special services such as credit or special delivery).
- Potential Product (everything that one might do to add value to the product)

The concept in Figure 4-13 is a way of looking at the product emphasizing that it is not only the physical piece resulting from the production process. In other words, we can consider a product to be a bundle of benefits satisfying customer needs. At the most basic level, the core product is the unimproved physical product. Through additions of either physical improvements or services and information, the product can move toward being a total product. The total product concept implies that a product is not ready until it is at the disposal of the customer accompanied by necessary information and service.

Traditionally, quality has been considered a critical element of the total product concept and an important differentiator among producers. However, it has been suggested that in today's global business environment, where total quality management is virtually a given, product quality is also a given. This view suggests that product quality can no longer be used to differentiate among producers and ceases to be a source of competitive advantage. According to this notion, high product quality is simply a license to operate in the marketplace and provides no benefit to the producer.

While it is true that quality expectations are high in the modern marketplace, quality across the various aspects of a total product still present opportunities for competitive advantage. Achieving competitive advantage through quality requires an understanding of customer quality requirements, a method for measuring how well the company meets those requirements, and a strong commitment to do both.

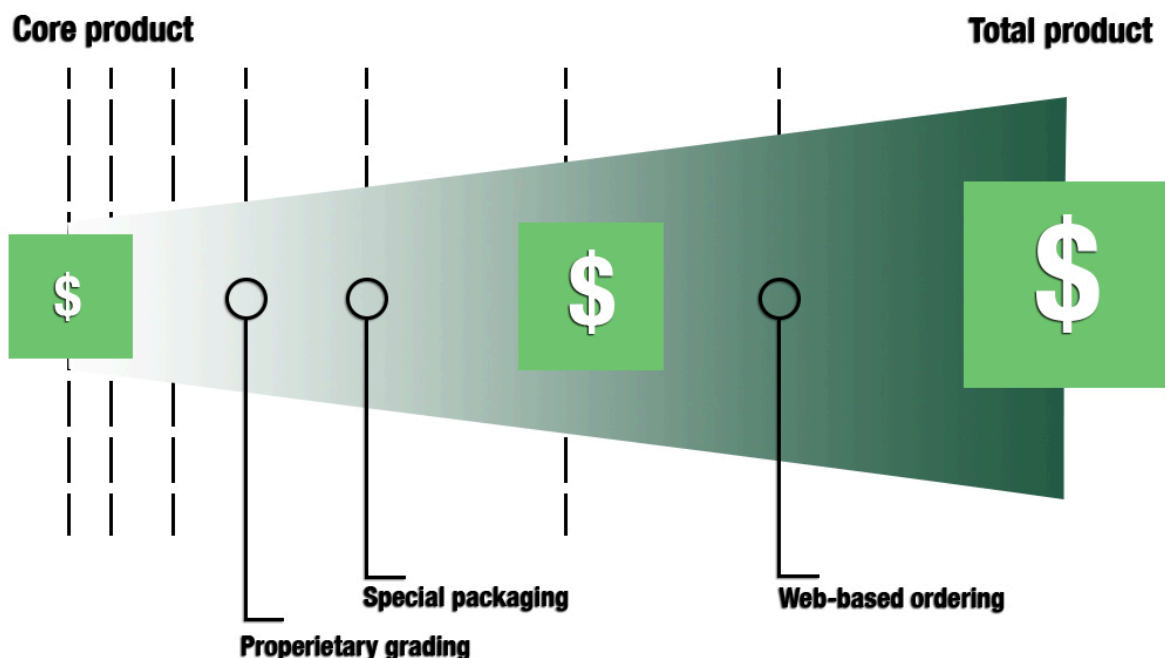


Figure 4-13: The Total Product Continuum

Forest industry companies seldom systematically measure customer perceptions of product and service quality. Those that go the extra mile can put themselves in a position, through high product and service quality, to differentiate their product from the competition. In other words, a minimum standard may get you in the market, but superior quality is the only means of achieving competitive advantage.

The product concept above emphasizes the idea that product planning should be a shared responsibility between production and marketing. Naturally, customer needs and preferences and company capabilities are the most important starting points in product planning.

The Product Life Cycle

The product life cycle phenomenon is important from both a market attractiveness perspective and from a company-strengths perspective. Products progress through a life cycle similar to biological organisms. A typical product life cycle would follow the pattern shown in Figure 4-14. At introduction, the profitability of a product is negative due to investment to bring the product to market. As growth in demand increases, early investments are covered and the product becomes profitable. During maturity, the product should be profitable enough to contribute to the development of new products. A company should have a balanced set of products with respect to their relative stages in the life cycle. If a company is loaded with mature products and none in the introduction or growth stage, it is not well positioned.

At each stage of the life cycle, certain competitive conditions can be expected. At Introduction, there are few or no competitors. As the market growth of the product begins, it attracts competitors into the marketplace and the fight for market share begins. By the time the product reaches maturity and growth slows or stops, companies fight to maintain their market share and will tend to emphasize efficiencies and maintaining low cost. During decline, some competitors will leave the marketplace and the remaining ones will be selective in where they attempt to sell the product.⁶³ One incentive for maintaining a product during the decline stage is the exit of competition and the potential to develop a small but dedicated market.

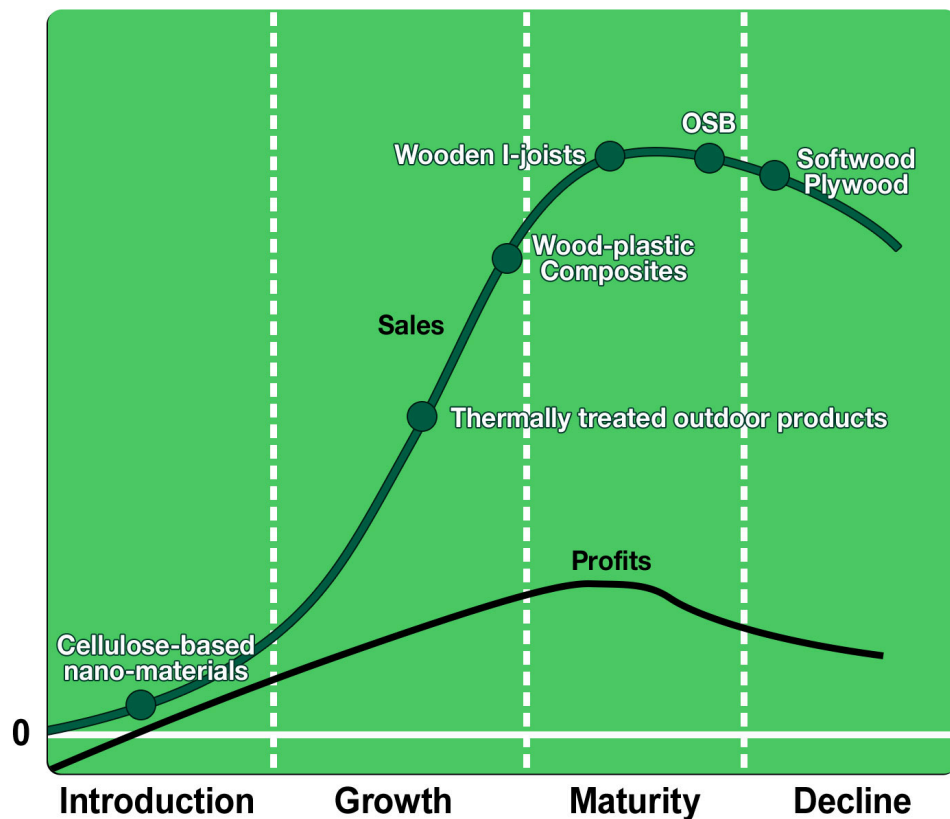


Figure 4-14: The Product Life Cycle

An example from the North American industry can illustrate where various products fit along the product lifecycle. Nanoscience is in its infancy but some products have been commercialized such as cellulose nano-crystals used as an additive to the paper-making process. These products are at the early introduction stage of the product life cycle. Thermally treated outdoor products and wood plastic composites are in the growth stage. Wood I-joists are nearing maturity in the US marketplace while OSB has fully entered maturity. Softwood plywood is generally in the decline stage of the life cycle.

The stage of the lifecycle of a product is one indication of market attractiveness. Generally a product in the growth stage would be more attractive than a product in decline. It must be noted that this evaluation must be kept in the context of the company in question and the specific market in question. A product might be declining when considered at a global or national level, but be in the growth stage in a specific country. A product in its decline stage may be very valuable to one company and not another, depending on each company's product mix and marketing abilities. The product lifecycle can also be used as a means for measuring company position. A company with a balanced portfolio with products in each of the stages is better positioned than a company with products only in maturity and decline. The latter company may face a bleak future.

Product Differentiation

Branding, product quality, and superior service are all ways of differentiating a product. Making the product somehow different from the competition, in a way valued by the customer, can create an advantage. Figure 4-15 illustrates the Product Differentiation Spectrum. Any product can be placed along the spectrum, depending on the extent to which it is differentiated from other products. One end of the spectrum is occupied by true commodity products. True commodity products do not differ among manufacturers. They are standardized, so if you buy 10

from one company and 10 from another, they will all be essentially the same. Thus, competition for commodity products is based solely on price, with no other differentiation among manufacturers' offerings.

At the other end of the Product Differentiation Spectrum reside specialty products. A true specialty product is unparalleled by any other manufacturer's offering. In reality, few products can be classified as either true commodities or true specialties. Most products fall somewhere between the two extremes. Products that compete primarily on price are considered less differentiated and will generally be referred to as commodities (many primary wood products fall into this classification). Products that cater to a specific market segment are considered more differentiated and are called specialties.

Competing on price alone is extremely difficult. Large, integrated companies are best suited to this strategy, as they can access considerable resources and develop significant economies of scale. They prosper by building significant market shares rather than achieving high profit margins on each unit sold. Small companies generally cannot successfully compete in mature commodity markets, so they are left with either playing initiating roles in market development and then exiting when competition increases, or differentiating their product offering to make price less of an issue.

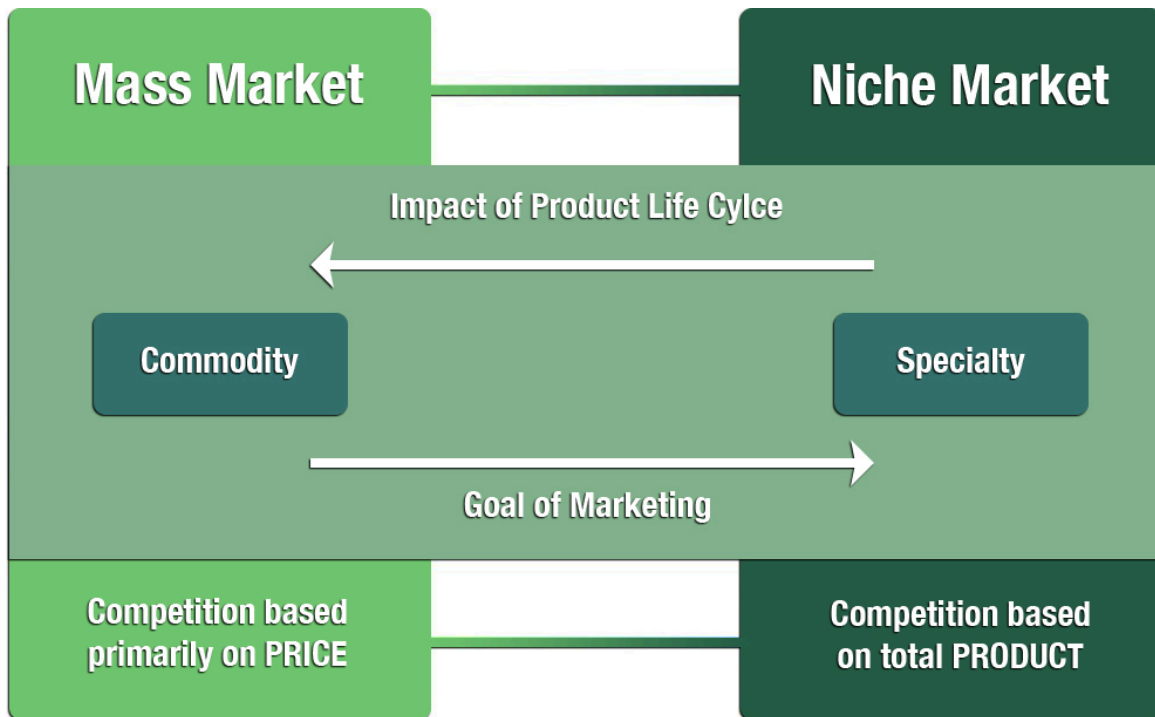


Figure 4-15: The Product Differentiation Spectrum

The product life cycle complicates product differentiation. Any truly new product introduced to the market will, by its very nature, be a specialty product. It will meet the needs of a specific group of customers and the lack of competition will mean price plays a lesser role in influencing customer preferences. As the product matures, competitors will introduce similar products and price will begin to play an increasingly important role in guiding customer purchase decisions. Thus, the product life cycle forces products to become less differentiated. Without action, the product may eventually become a commodity. To ward off this effect, companies must use marketing tools to further differentiate their products and move them back toward the specialty end of the product differentiation spectrum. As a general rule, the more successful the product, the more quickly competitors will invade and force a product toward commodity status. Thus, product differentiation must be a continuous process.

An example from the Finnish plywood industry illustrates this process. When plywood with a polyethylene film was first introduced, it was used as concrete forms and was considered a specialty product. As competitors entered the market, the product eventually moved down the continuum towards being a commodity. At this point, companies began to look for the next specialty application and found that the same product with a few extra features could be used in special applications in the ship building industry. Although it meant entering a new market entirely, marketing to ship building companies was a successful way to move the product back to a specialty.

Product differentiation and market segmentation (discussed below) are related concepts. Products are differentiated because there are different needs among various markets and customers. Markets are segmented to find homogenous customer groups for a differentiated product.

Branding

Forest industry companies have become increasingly focused on differentiation through the creation of product brands. For example, the CEO of Stora Enso Timber explained that their goal is not to be like all the others, but to gain competitive advantage through differentiation. At the time, the company was increasing its value-added production and slowly eliminating bulk sawn wood.⁶⁴

Differentiation through the physical product alone is becoming increasingly difficult. For example, in the paper industry large companies are often using the same paper machines and paper technologies. Because they are producing from a common base and strive to achieve very high physical product quality levels, it is rarely feasible to differentiate in this area. In this case, differentiation must be built on other features. Emphasis must be placed on various elements of the total product. The features of the total product must be combined under one coherent identity with an associated and identifiable name—a brand.

Traditionally, individual paper mills have named their products and in Europe, sawmills have used shipping marks. However, most of these product names or shipping marks have no value as brands. As the industry has consolidated, these names and marks have become more difficult to use since each company might have many to choose from. It can cause confusion for both the customers and the marketing personnel. Branding can be a solution to this problem. Thus far, forest industry brands are mostly regional and can't be compared to well-known global brands like Coca-Cola, IBM, or Nokia. The largest forest industry brands are for consumer products such as diapers, tissues and feminine hygiene products (Pampers/Always).

The word **brand** comes from an old Norse word **brandr**, meaning “to burn.” Brands were, and still are, the means by which owners of cattle mark their animals as their own. The American Marketing Association defines a brand as follows:

“A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is trademark. A brand may identify one item, a family of items, or all items of that seller. If used for the firm as a whole, the preferred term is trade name...”. <http://www.marketingpower.com/>.

A brand has multiple functions: to distinguish products from each other, to show the product origin, and to provide a guarantee of quality, value, and performance.⁶⁵ A brand represents a promise that the product will satisfy customer needs. Brands can provide value for the company as well as customers. Companies have realized that their real value lies outside the business itself, in the minds of present and potential customers.⁶⁶ For a modern, market oriented companies, it is more important to own markets than mills. Market ownership can be facilitated through brands.

4.4.2 Choosing the Product Strategy

Based on the concepts introduced above, there are several basic product strategies that a company can pursue. Companies can choose to emphasize commodity products, special products, or custom-made products (Example 4-8). Generally these can be defined in the following way.

Example 4-8: Strategy in Practice

Seppälä conducted a study of softwood sawmills on the west coast of North America. Data was collected via personal interviews from 52 softwood sawmills. Respondents provided information regarding their product, customer, and market area strategies. As outlined in the text, strategy theory suggests that companies should select logical combinations of the three strategy elements to develop an overall marketing strategy. In this case, Seppälä found that theory and practice are not well matched.

Companies in the study were quite often pursuing mixed strategies. For example, it was necessary to re-categorize companies into those pursuing a commodity product strategy, those pursuing a Special/Custom-Made strategy, and those with no clear emphasis. Similarly, with respect to customer strategies, companies were re-categorized into selective, unselective and no clear choices. Selective customer strategies are those that concentrate on a few end-user groups while unselective companies concentrate on as many customers as possible. With respect to market area strategies, it was necessary to add a “mixed” category.

Nearly 70% of companies claimed to be pursuing a commodity product strategy. Another 20% were pursuing a special/custom-made strategy with the remaining 8% having no clear emphasis. Just over 63% of the companies were selective in their customer strategy, with approximately 19% being unselective and 17% having no clear choices. Finally, only 13% of companies targeted as many regions as possible in their market area strategy. Most (69%) targeted few, well-defined regions and another 17% had a mixed market area strategy.

Contrary to theoretical logic, over half of those companies pursuing a commodity product strategy claimed to be selective in their customer strategy and were more likely to concentrate on few regions in their market area strategy. One would expect those companies with a commodity product strategy to target as many customers and market areas as possible. Of those companies pursuing a commodity product strategy and a selective customer strategy, on average, over half of their commodity production was marketed through wholesalers. This clearly does not correspond with the concept of selective customer strategy. Essentially, the wholesaler is not the customer but simply a member of the channel of distribution. It can be argued that utilizing a wholesaler is, in fact, just the opposite of customer selectivity, since the final destination of the product is typically unknown. Companies pursuing specialty and custom-made product strategies followed theory more closely by being highly selective in their customer strategy and concentrating on a few regions in their market area strategy. Results provide a clear indication that companies may benefit from more exact strategies and strategic decisions.⁶⁷

Commodity Products – products that meet basic overall industry standards and are not adapted or specialized in any way. The customer can move from one producer to another without difficulty.

Special Products – products that have been adapted to fit the specific needs of an individual sector. This might mean softwood lumber of the quality and sizes specifically needed in the window industry.

Custom-made Products – products that have been specifically developed to meet the individual needs of a customer. In this strategy a manufacturer produces a product to the mutually agreed upon specifications of an individual end-user.

It should be noted that division among commodity, special, and custom-made products is marketing based. From the same technical product, various strategic options can be developed through technical or marketing modifications in the same way as the total product is developed from the core product.

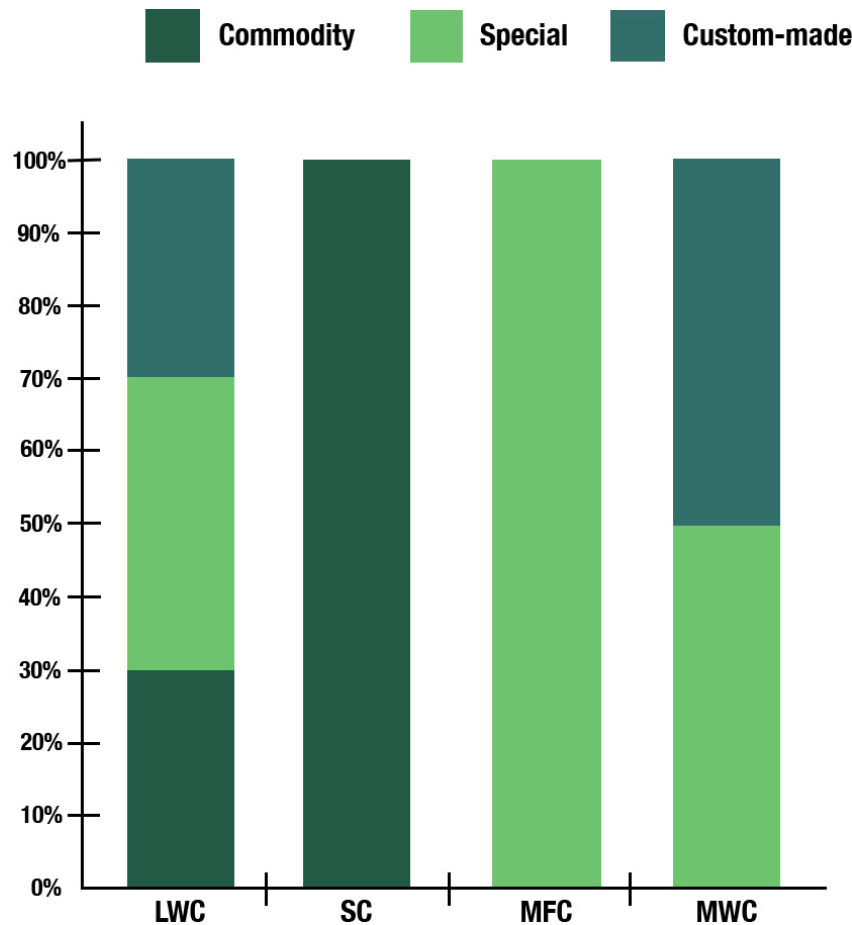


Figure 4-16: Strategic Product Options/Classes of Paper Grades

The following is an example of product strategies in the paper industry. A paper grade can represent various product strategies as was found in a study by Kiskonen⁶⁸ (Figure 4-16). Light weight coated (LWC) paper is produced as a commodity, special and custom-made product. Super-calendered (SC) paper is a commodity product. Machine finished coated (MFC) paper is a special product and medium weight coated (MWC) paper is produced both as a special and custom-made product.

The basis for the strategy classes can be explained in the following manner:

Light Weight Coated

- *Commodity product* when the product is produced with standard characteristics.
- *Special product* when the product has special grammage or special lightness with some grammages.
- *Custom-made products* take customer wishes into account like bulk, shade, opacity or shine.

Super-calendered

- *Commodity product* because the quality differences are small and the product is easily substituted by competitor products.

Machine Finished Coated

- *Special product* because of the following characteristics: very low grammage, expensive, difficult to produce, very good shine contrast/lightness, few producers, different from competitors' products.

Medium Weight Coated

- *Special product* because of characteristics like grammage, lightness, shine and opacity.
- *Custom-made product* because of tailor-made characteristics of the product, such as gloss and roughness.

The following is an example of product strategies in the sawmilling industry, where the emphasis of product strategy is gradually moving from commodity products to special and custom-made products. The prerequisites of this development are changes in production technologies and marketing philosophies and better knowledge of markets and customers. As a production philosophy, special and custom-made product strategies imply that the producer "gives up producing sawn timber." Instead, the sawmill produces raw material, semi-finished goods and components for industrial end-users (e.g., window manufacturers and furniture manufacturers). We use as an example of a sawmill producing blanks.

A **blank** can be defined as a piece of sawn timber meeting the requirements of industrial end-users such as dimensions, quality, drying and deliveries. The **blank** can be manufactured to an end product or its component without sawing.

If the end-users are known and the product requirements are mutually agreed, we call the product **custom-made**. Natural partners for sawmills are joineries and furniture manufacturers. Quality requirements are exactly specified and the blanks are compatible with the products and production processes of the partners.

It is a clear strategic choice when a sawmill invests in a blank producing mill. Figure 4-17 illustrates connections between traditional Scandinavian sawn timber grades and types of blanks. Blanks produced for known window and door manufacturers, furniture manufacturers, and edge-glued panel manufacturers are **custom-made products**. They are produced according to the dimension and quality requirements of the known customers (partners).

The high quality clear pieces and the low quality knotty pieces are marketed as **special products**. A special product is not tied to a known customer but, for example, to certain end-use sector. Users of clear decorative blanks could be manufacturers of moldings and high quality decorative panels. Knotty versatile blanks could be used for packaging or fences. The profitability of special products can vary significantly according to the market situation and the skills of the seller.

In market oriented marketing planning, the attractiveness of product choices is analyzed in connection with customers. We suggested earlier that customers and products are the most important components of SBAs. However, profitability is closely connected to all marketing decisions. Profitability of various products must be calculated and followed regularly. Today modern information systems make this monitoring possible.

Development/Progress of Product Strategies

Recall that the more selective a company is regarding its product strategy, the more likely it is to be producing custom-made products. A highly selective company must also be highly sophisticated in its marketing abilities. Over time, as a company builds its knowledge base and looks for increased financial returns per unit of output, it

will naturally become more selective or focused. A good example of this phenomenon has occurred in the Finnish sawn wood industry during the past two decades.

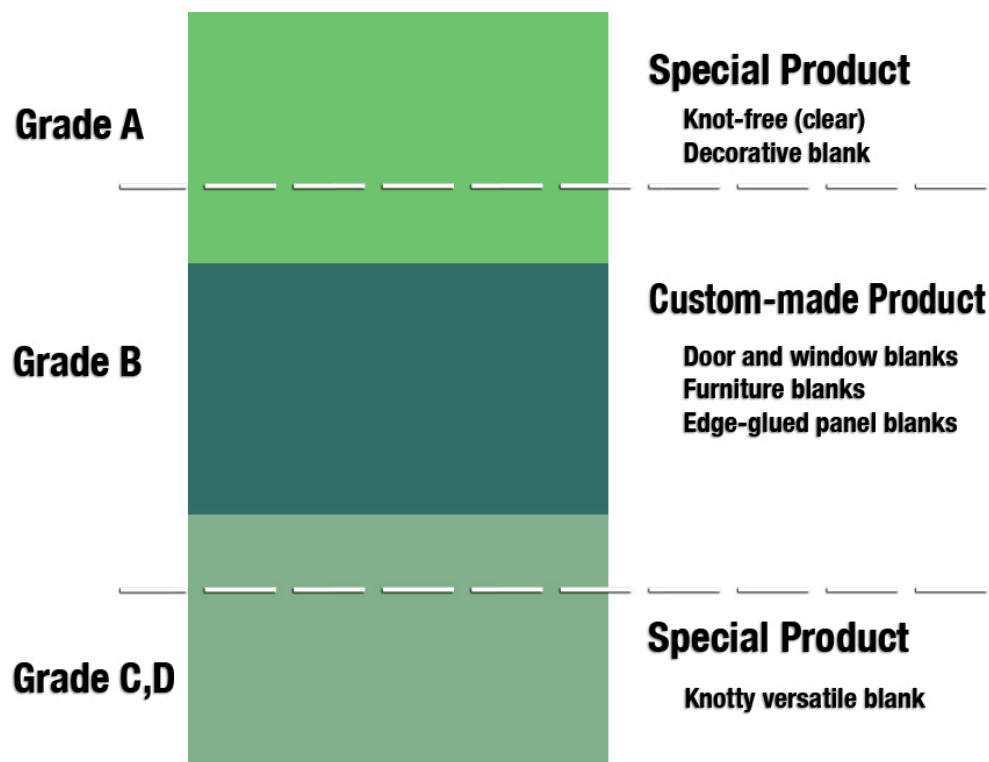


Figure 4-17: Scandinavian Lumber Grades and uses of Blanks

The shares of special and custom-made products in Finland increased dramatically during the 1980s and early 1990s. In the early 1980s, product strategies of softwood sawmills were nearly 90% commodity with the remainder being special products. By 1992, commodity products had dropped to 64% with special at 24% and custom-made at 13%. Product strategies and production respectively have developed steadily towards special and custom-made products, and this development continues today.

4.5 STRATEGIC CUSTOMER DECISIONS – WHAT CUSTOMERS TO SERVE

Every company has a broad range of potential customers. It is important to identify those customers that fit well with the competencies of the company or, in other words, that the company can serve well. This means that there are clearly customers that for one reason or another the company should choose not to serve.

4.5.1 Basic Customer Decisions

At the most basic level, the choice regarding customers can be placed in the following three categories. Once again, selectivity is key.

As Many Customer Groups as Possible – an unselective customer strategy is logically matched with a commodity product strategy. An MDF mill that sells its products through several wholesalers would fit this category. Although one could view the wholesalers as a few customers, they are not the real end-users and are simply an intermediary on the way to the product's final destination. In this example, the mill does not know the final users of its products.

Few, Well-specified Segments – a more selective customer strategy where a company has identified a few segments of the market that it will serve. For example, the MDF mill may choose to target the furniture, cabinet, or laminate industries.

Known End-users – the most selective strategy. In this case, the MDF mill knows the specific customers that it targets. It might have three key customers in each of the previously mentioned industry sectors. Logically, companies pursuing this customer strategy would also be producing custom-made products for those customers.

In production-oriented companies where marketing has been of minor importance and marketing skills are not well developed, an unselective customer strategy tends to be the natural choice. The marketer does not know the customers. However, increasing competition has forced companies to emphasize marketing and customers. Thus, market and customer knowledge has increased, the notion of total product has been strengthened, and genuine selective customer choices have been made. Companies have realized that the victor in competition is the one that best and most efficiently fulfills customer needs and requirements.

In some industry sectors conducting business-to-business marketing, known end-users has been a natural choice for a long time. However, the structural changes among industrial customers have made this customer strategy even more important. Through consolidation, the size and power of customers has increased and it has become more logical to choose individual companies as customers. If these known end-users are especially important to the company, they may be designated as key or strategic accounts.

The rationale of choosing known end-users is that concentrating on the most valuable customers makes good business sense. The customer interface and especially strategic accounts, which usually account for the majority of sales, are essential for the successful business in the long run. Building long-term customer relationships is the focus for market-oriented companies. Known end-users as a customer choice is also supported by the fact that retaining customers is less expensive than acquiring new ones. One of the main challenges companies face is retaining the chosen customers, creating loyalty, and assuring that the accounts are profitable. When identifying the most important customers, or strategic accounts, a number of criteria can be used:

- Economic value such as revenue or profit
- Future business potential
- Learning value (the customer demands and facilitates product and process development)
- Reference value (channel for new business)
- Strategic value (access to new markets, building barriers to entry, etc.)⁶⁹

It must be emphasized that strategic account management is not a separate part of strategic marketing. Strategic accounts are part of the strategic marketing plan and marketing structures and functions must be designed to implement this strategic option.

4.5.2 Basis and Methods for Choosing Customers

Segmentation

To choose which customers to serve, the marketer must be able to separate customers into appropriate groups. The basis for separation could be similar needs, similar behaviors, or other characteristics. Customers should be chosen so that the strengths and possibilities of the company fit the needs of the customer group as well as

possible. In marketing planning, we call this kind of grouping *market segmentation*. Market segmentation means dividing heterogeneous total markets into homogeneous parts or segments.

The characteristics of the groups used in segmentation are called segmentation criteria. Segmentation criteria must have significance in the choice or use of products. They must be easily recognizable and observable/measurable so that the segments can be separated. For example, in marketing children's playhouses, the segmentation criteria might distinguish families who live in detached houses from those in apartments; those with children ages 3-12 from those without children, and so forth.

In industrial marketing, segmentation is often done simply by following the lines of industry sectors. A softwood plywood producer might divide the markets into segments like concrete forms, transportation, and housing. For a hardwood plywood producer, those segments might be cabinets, furniture, store fixtures, and retail.

Segmentation can also occur within an industry sector. Furniture manufacturers, for example, have different product needs based on the type of furniture that they produce. This could be the type of products or components they buy or the species they use. By learning the differences among various manufacturers, a hardwood lumber producer can begin to specialize its product offerings to target various segments of furniture manufacturers.

Do-it-yourself home centers typically target two major segments, final consumers and contractors. They may offer special services and price discounts to contractors that are not available to final consumers. By offering a contractor desk and catering to the special needs of the contractor customer, they are able to increase the business they conduct with that segment while at the same time maintaining a separate set of services and benefits to the regular consumers entering their stores.

Profitability-Based Customer Analysis

Market segmentation often helps firms identify new customers. Historically, finding new customers has been the primary emphasis of marketers, but today the emphasis is often placed on keeping and growing current customers. This is easy to understand because the cost of attracting a new customer is much more than the cost of maintaining an existing one.

Often the customer base of a company is a result of historical development more or less by chance, and marketers are often reluctant to change that, especially if it means dropping some customers. This is understandable because of the personal relationships often developed with long-term customers. However, the customers must represent some level of profit to the company. A company should regularly follow the profitability of its customer base.

A clear motivation for following the customer base is the fact that all customers and customer segments are not bringing the same level of profit to the company. Management literature often cites the Pareto principle (80/20 rule) where 80% of profits come from 20% of the customer base. This implies that many of the 80% of companies in the customer base may actually represent losses to the supplier. For companies conducting customer profitability analyses, it has been a surprise to discover that as much as 80% of their customer base is actually unprofitable.⁷⁰ Companies must constantly monitor customer-based profitability. The customer base can be seen as a portfolio, which can be developed and optimized to increase its total value. In some cases, it may be necessary to drop a particular customer completely or begin a process to grow that customer to a profitable level. This process requires that the reasons for unprofitability can be identified and that, for example, reallocating marketing resources targeted toward that customer will be effective.

The essence of customer profitability analysis is the ability to describe the customers that are profitable and those that are not. This requires a significant amount of specific information. Advanced marketing-accounting

information systems are needed that can assign costs in an appropriate fashion. With the right systems and database, the profit performance can be determined by market segment, customers, products, and territories.⁷¹

When developing the profitability-based sales steering system for Stora Enso Varkaus mill, Keinänen⁷² analyzed the profitability of various basis weights, countries, customers and customer groups. She noticed that there were notable differences among the profitability of various basis weights. The target countries could be grouped into two segments with regard to their profitability. In addition, customer groups but especially individual customers varied remarkably as to their profitability.

An Example of Evaluating a Sawmill's Customer Segments

The strategic planning of a sawmilling company connects the strengths and abilities of the company to the needs of the customer. The strengths and abilities can also be connected to the raw material base or production technology of the mill. The needs of the industrial customer can be derived from the requirements the end product or production process place on the raw material. When planning product and customer strategies, marketers must know precisely their own strengths and weaknesses, products and production processes, and the needs of potential customers. The sawmill attempts to choose that kind of industrial customer that provides a total fit between the customer's products, production process and production philosophy and the sawmill's products and operation philosophy.

Earlier we considered planning of corporate strategies using portfolio matrices. In principle, choosing customers is a similar planning situation. With respect to strategic business areas, we examine end-use sectors with corresponding products. The end-use-sectors could be window manufacturers, furniture manufacturers, edge-glued panel manufacturers or planing mills. The criteria for the attractiveness of these sectors must be developed. Correspondingly, instead of relative position we consider the strengths and weaknesses connected to the products, production, and marketing of the company.

Criteria for Attractiveness	Product/Customer Options							
	1	2	3	4	5	6	7	8
The total consumption of sawn timber in the sector								
Development of demand								
Species								
Standardization								
Special/custom-made product orientation								
Price level of the sector								
Dimensional preferences								
Length preferences								
Quality preferences								
Moisture content preferences								
Delivery preferences								
Other								
Attractiveness								

Figure 4-18: Matrix for Assessing Attractiveness of Customer Sectors

A Finnish sawmill was developing its marketing to France. Based on pre-analysis, the following product/customer options were chosen for detailed analysis:

- Special sawn timber for window shutter manufacturers
- Special sawn timber for door manufacturers
- Custom-made planed timber for certain timber merchants or importers
- Special sawn timber for planing mills
- Custom-made sawn timber for certain glulam beam manufacturers
- Custom-made sawn timber for construction element manufacturers
- Custom-made sawn timber for pre-fabricated housing manufacturers
- Custom-made sawn timber for furniture manufacturers

Dimensions, lengths, quality and moisture content were the basis of development for special and custom-made products from commodity products. The attractiveness of the product/customer options as possible customer targets were analyzed as shown in Figure 4-18. In the matrix the scores vary between 1 and 5. If the total consumption of the product/customer option (e.g., special sawn timber for planing mills) was high, it received a rating of 5. If development of demand was moderate, it received a rating of 3. If it were not at all special/custom-made product oriented, it received a rating of 1. Every product/customer option was scored on each attractiveness criterion. By adding the scores, a total score for attractiveness was created. The abilities, strengths, and limitations of the company's own production processes were taken into consideration, and each criterion was

weighted accordingly. The information concerning French markets and possible target companies was acquired through market research. The research contained both analysis of secondary material (desk research) and analysis of primary material (interviews in France).

4.6 STRATEGIC MARKET AREA DECISIONS – WHERE DO WE OPERATE?

As in customer decisions, there is a wide range of possible geographical markets that a company can choose to target. However, the competencies of the company as well as issues such as distance and available distribution methods will dictate which areas are most attractive and feasible.

4.6.1 Basic Market Area Decisions

A company can choose to target as many regions or countries as possible or a few, well-specified countries or regions.

As Many Countries or Regions as Possible – an unselective company simply manufactures a product and sends it out to wherever there may be an interested buyer.

Few, Well-Specified Countries or Regions – a selective company concentrates on a few market areas where it can create an advantage.

Operating on a very broad market area is a questionable strategy even for companies applying a commodity product strategy. Successful marketing presupposes some kind of marketing efforts. If the resources are sprinkled over a broad market area, there is no possibility for effective marketing anywhere. The broadness of the market area is also connected to market information and market knowledge. Marketers must know their markets. If the marketer is operating in too many market areas, his or her knowledge will be insufficient in some and operations cannot be totally effective.

For example, a Nordic softwood lumber company could easily market its products in middle and southern Europe, Northern Africa, North America, and Japan. In fact, many companies have pursued all these markets at once. For most companies pursuing this sort of strategy, it means that about 80% of their production is going to two or three key countries and the rest is a mix of very small users. This is not a selective strategy. A company pursuing a selective strategy would see the investments made to market the 20% to multiple countries as inefficient. Instead, it would place its full concentration on a few specific market areas and work to develop its expertise there.

Globalization has had a major impact on market area choice. Global companies have a totally different situation when choosing market areas than local companies that only market domestically or even those that export. This is because the customer base has changed to also include global companies. This development has been fast among customers of the forest industry and will likely continue in the future. The business units of global corporations are not choosing their market areas independently and are not exporting in a traditional sense. They are part of the corporation's international business in which market area selection has a different frame of reference than traditional in-country or export marketing.

4.6.2 Basis and Methods for Choosing Market Areas

It is not enough to define market area strategy as, for example, “a few, well-specified countries or regions.” The marketer must further define the specific countries or regions the company will target. Segmentation can be used in conjunction with market area selection, sometimes called macro-segmentation. When evaluating and choosing market areas, we can use similar methods to those used in choosing SBAs in corporate strategic planning. The method outlined in Figure 4-18 may be used also when evaluating and choosing market areas. The central criteria describing the attractiveness of a market area are based on the macro-environment of markets: demand and supply of markets, and other macro-environment (economic and technological development etc.). The microenvironment of markets (competition, distribution systems and customers) also affect the attractiveness of a country or a region.

When making strategic decisions we must keep in mind the basic situation of strategic marketing planning described in Chapter 3. The information environment is always the starting point, and we must consider what kind of information is needed.

Generally speaking, countries with a high level of technological development and strong purchasing power are attractive targets for advanced industry. The more developed the markets, the better a company can apply advanced product and customer strategies, and the more likely it is that competitive advantages are based on knowledge, skills, and technology.

4.7 CORE COMPETENCIES – PURSUING COMPETITIVE ADVANTAGE

Strategic strengths, core competencies, and the competitive advantages connected to them are central issues in strategic thinking. To operate profitably in the long term, a company must have competitive advantages based on its own unique characteristics and conditions. Operations are then based on these competitive advantages. A core competency is a characteristic of the company, production process, product, or features of marketing based upon which the company is able to beat the competition (Example 4-9). When a core competency is identified or created, it can be exploited with effective marketing.

Example 4-9: The Nordic Sawmilling Industry: Strengths & Weaknesses

When valuing strategic strengths or core competencies, products are in a central position. It is important for the producer to know how customers see her products in comparison with competitors. In a marketing research project, industrial customers in the UK and Germany were asked what kind of experience or perception they have concerning Nordic timber products performance compared to Middle European wood products. The following list shows the result of comparison.

Nordic timber outperforms Middle European timber with respect to: Consistent quality, Stability characteristics, Visual properties, Strength characteristics

Nordic timber is better than Middle European timber with respect to: Performance in final end-use, Durability characteristics, Environmental friendliness, Processability/machining

Nordic Timber is neither worse nor better than Middle European timber with respect to: Ease of designing with, Ease of working on-site.

There are no big differences in the opinions of UK and German respondents except in case of environmental friendliness. The UK market has a more positive perception of Nordic timber's environmental performance while

in environmentally conscious German markets energy issues are perceived to be problematic because of the long transportation chain.

Nordic timber outperforms Middle European timber in characteristics which are mainly connected to the origin of raw material (Boreal zone). As to end-use characteristics, Nordic timber is only a bit better. When speaking about intangible product characteristics there are no differences. The more demanding the end-users are concerning the quality of wood the more positively they perceive Nordic timber. Joineries have more positive perceptions than timber frame manufacturers and the construction industry.

Based on these results it can be said that Middle European timber is currently not a substitute for Nordic timber as to performance. Nordic producers have a clear competitive advantage. However if the Nordic producers wanted to improve their value proposition they should pay attention to the intangible product characteristics.

Respondents' impressions of the innovativeness of Nordic sawmilling industry form an interesting background for the results above. Respondents were asked about the extent to which Nordic wood products industry suppliers have provided innovations that the respondent perceived as new solutions in the company's applications. The degree of innovativeness of Nordic wood products industry suppliers in all areas of marketing can be considered unsatisfactory. This means that the industry clearly lacks one of the most important success factors (innovativeness) and a source of the value proposition. If the German market found the degree of innovativeness somewhat below average, the UK respondents were even more skeptical asking sarcastically "What innovativeness?". So there is room for improved value propositions and core competencies (capabilities) which make advanced value propositions possible.⁷³

Customer needs and their satisfaction is the most important factor influencing strategic product decisions. When the demand for products is increasing quickly, marketers pay most attention to products and customers. When the increase of demand slows, the competition for market share tightens. Under these conditions, the importance of core competencies and competitive advantages increases. Core competencies have a special role among strategy components. Other strategy components combined with company resources are ingredients of sustainable competitive advantage. According to Ansoff's work, total fit between company resources, products, and customers create a sustainable competitive advantage (Figure 4-19).

A company must be better than competitors in some unique way that is relevant to marketing, particularly in customer decision-making and customer relationships to possess a competitive advantage. If the unique expertise of the firm is not important to the customer, it does not constitute a competitive advantage. The reality of competitive advantage is that it must fit the context of customer needs.

Figure 4-19 implies how company resources (mainly personnel) are important both in creating excellent products and in creation of strong customer relationships. The fit between products and customer relationships means sustainable competitive advantage through creating customer satisfaction—the main goal of marketing efforts. Because customer relationships are more difficult to copy than products, marketers place high importance on customer relationships.

Recent forest sector research has focused on the Resource-based View of the Firm (RBV). According to the RBV, firms are heterogeneous with respect to resources under their control and a competitive advantage results when a firm possesses a tangible or intangible resource that is rare, valuable, cannot be imitated, and is difficult to substitute. Example 4-10 outlines examples of tangible and intangible resources found in the forest industry.

4.8 STRATEGIC MARKETING PLANNING – MAKING THE PIECES FIT

4.8.1 Interrelationships of strategy components

The relationships among strategy components must follow a certain internal logic. The first component of Ansoffs⁷⁴ strategy concept is product/market scope. The component implies the vital link between product and customer decisions. Figure 4-20 demonstrates the principles of relationships between product and customer strategies.

Example 4-10: Resource-based View, Tangible and Intangible Resources

As mentioned in the text, the Resource-based View of the firm has grown in importance in the strategy literature. According to this theory, firms are heterogeneous with respect to resources under their control and a competitive advantage results when a firm possesses a tangible or intangible resource that is rare, valuable, cannot be imitated, and is difficult to substitute. Lähtinen et al. outline a broad suite of tangible and intangible resources held by the Finnish sawmilling industry. The most important resources according to sawmill manager respondents were as follows:

Tangible	Intangible
Moderate cost of raw material	Personnel Experience
Right species and dimensions of raw material	Process management skills
Raw material quality	Independence and flexibility of personnel
Income financing	Product tailoring
External capital	Human resource management skills

The most highly rated resource was the experience of personnel, a resource that clearly differs among firms, is rare, and is difficult to imitate or substitute. Therefore, the experience of personnel can be considered a competitive advantage. It is somewhat surprising that issues such as service offering and organization culture were seen as rather unimportant to respondents in the study. Results might be very different if data were to come from the customers of the sawmills since customers would have a very different perspective on what resources possessed by a sawmilling firm make a difference to them.⁷⁵

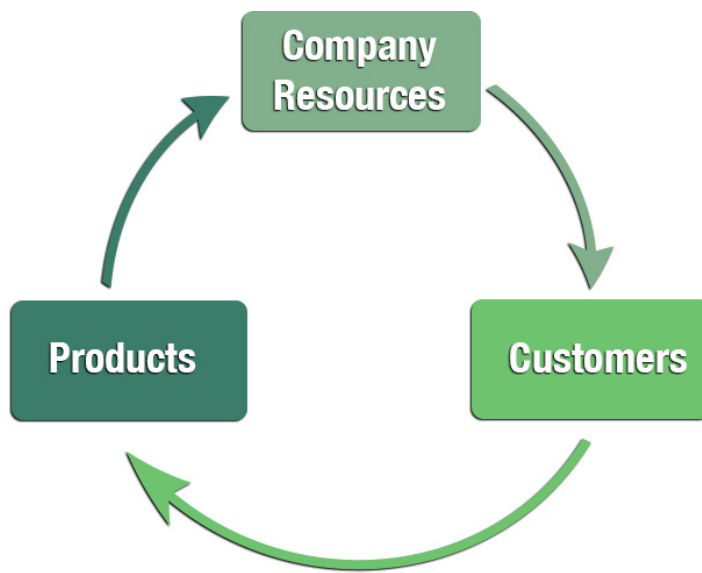


Figure 4-19: Ingredients of Sustainable Competitive Advantage

Clearly, it isn't logical to produce special products and market them to all possible customer groups. Special products are marketed to those customer groups for which they are planned (e.g., window components to window manufacturers). By definition, custom-made products are made for known customers.

Figure 4-21 describes how strategic market area decisions are connected to product strategies. Commodity products are marketed to as many countries as possible. Special and custom-made products are marketed to few, specified countries or regions. However, it could be that a company marketing custom-made or special products to known end-users or specified sectors could operate worldwide. An example of that kind of company might be a plywood mill producing special plywood for the shipbuilding industry. Customers might be all shipyards building a specific type of vessel.

Core competencies must be compatible with other strategy components. Applying certain product, customer or market area strategies may require certain strengths or core competencies. The combination of strategy components creates a synergistic effect. Figure 4-22 describes the kind of strengths required when a company is choosing among strategy options. Though it's a simple view, the principles illustrated here can be analyzed. A commodity product strategy requires strengths connected to products and production, in which case cost and price are the basis of competition. A special product strategy requires strengths connected to the products but also in marketing capability. Custom-made product strategies require special in-depth knowledge of individual customers but technical know-how is also important.

4.8.2 Connections Between Strategies, Structures and Functions

The Integrated Model of Marketing Planning introduced in Chapter 2 emphasizes that strategy is the basis of all business functions, particularly marketing. Structures and functions are tools to implement strategies. The logic of the model emphasizes that strategies drive the structures and functions of an organization, and that if there are changes in strategies, there must be corresponding changes in structures and functions.

Products	Customers		
	As many as possible	Few, specified segments	Known end-users
Commodity	● ● ●	● ●	●
Special	● ●	● ● ●	● ●
Custom-made	●	● ● ●	● ● ●

● ● ● Optimal ● ● Possible ● Illogical

Figure 4-20: Connection Between Product and Customer Strategies

Products	Market Areas	
	As many as possible	Few, specified segments
Commodity	● ● ●	● ●
Special	● ●	● ● ●
Custom-made	● ●	● ● ●

● ● ● Optimal ● ● Possible ● Illogical

Figure 4-21: Connection Between Products Strategies and Market Area Strategies

Strategic Decisions	Core Competencies		
	Product know-how	Marketing know-how	End-use know-how
Products			
Commodity	● ●	●	●
Special	● ● ●	● ●	● ●
Custom-made	● ●	● ●	● ● ●
Customers			
As many as possible	● ●	●	●
Few well-specified	● ● ●	● ●	● ●
Known end-users	● ●	● ●	● ● ●

● ● ● Optimal ● ● Possible ● Illogical

Figure 4-22: Core Competencies in Relationship to Strategies

The following list describes empirically observed relationships between strategies, structures and functions:

Marketing organization

- The more advanced the strategy, the more decentralized the organization.
- Companies applying custom-made product strategy tend to organize their marketing based on customer groups.

In a market-oriented company, decision-making must be nearer the customer. Those responsible for customer relationships must be able to make fast and locally applied marketing decisions.

Marketing channels

- Marketing channels for custom-made product strategies contain few intermediaries and aim at direct contact with customers.
- Companies applying a commodity product strategy have more intermediaries in their marketing channels.
- The more advanced the marketing strategy, the simpler the structure of marketing channels (shorter channel).

In a market-oriented company, connections to the customer must be close to enable a continuous flow of

information and influence between supplier and customer. An intermediary may hinder this flow. A commodity product strategy often means wider market areas and lighter organizations, requiring the use of intermediaries.

Personal contacts

- The more advanced the marketing strategy the more systematic and frequent are personal contacts.
- Marketing of special products requires direct contact with customers.
- In connection with a more advanced strategy, personal contacts are with industrial end-users. In connection with less advanced strategy (commodity product strategy), personal contacts are with channel intermediaries.

A market orientation emphasizes customer relationships and customer relationship management. This ultimately means relationships between people. In a production-oriented, commodity product strategy, marketers very often do not know the ultimate end-user and see channel intermediaries as their customers.

Marketing communication

- The more advanced the marketing strategy, the more direct and customer oriented is marketing communication. Accordingly, marketing communication is conducted by the company itself and the target in most cases is the industrial end-user. Communication is connected to product characteristics and use.
- When an unselective strategy is applied, communication is often conducted by channel intermediaries and targeted to other intermediaries. "Making products known" is the dominant objective of communication.

This can again be explained by the principles of market-orientation. A supplier with a market-orientation takes more responsibility for marketing and customer satisfaction. The market-oriented company concentrates on solving customer problems. A production-oriented company concentrates on solving its own production or marketing problems.

Product development

- The more advanced the marketing strategy, the more customer-oriented is product development.
- The more advanced the marketing strategy, the more systematic and regular is product development.
- The more unselective the marketing strategy, the more unsystematic, irregular and raw material oriented is product development.

Specializing and customizing products requires product development.

Pricing

- The more advanced the marketing strategy, the more flexible and customer oriented is pricing.

A differentiated product provides more freedom in pricing decisions, and price can be more dependent on the customer's idea of value.

Physical distribution

- Advanced marketing strategies are accompanied by terms of delivery emphasizing responsibility of the

seller. Terms of delivery emphasizing buyer's responsibility are connected to unselective marketing strategies.

- The more advanced and customer oriented the marketing strategy, the greater the role of the producer in physical distribution.
- Transportation by trucks is connected to custom-made product strategies. Transporting large volumes (rail, ship) is more typical in unselective marketing strategies.

A market orientation means more supplier responsibility, more emphasis on customer support, more concerns of customer need satisfaction, and more flexibility. This means that the supplier often provides products directly to the production facilities of the industrial end-user.

4.9 CHAPTER QUESTIONS

- What is the meaning of strategy, and how has the approach to strategy changed over time?
- What are the relationships and differences among corporate, business, and marketing strategies?
- What is the concept and process of corporate strategic planning?
- What is the role of the product in a marketing strategy and what are the aspects of the product that can be used to tailor the strategy?
- What is the role of customer choice in marketing strategy and the logic of choosing customers?
- What is the role of market area choice in marketing strategy, and what are the ways to choose market areas?
- How are core competencies a part of marketing strategy?
- What are the interrelationship among product, customer, market area, and core competency decisions?
- What are the logical connections among strategies, structures, and functions as outlined in the Integrated Model of Marketing Planning (IMMP)?

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Chapter 5: Marketing Structures

After reading Chapter 5 you should understand the following:

- The relationship between marketing strategies and marketing structures.
- The role of marketing structures in facilitating marketing functions.
- How business trends are changing the way companies are organized and how marketing is organized and implemented.
- The nature of trendy business concepts and how they relate to marketing.
- The role of information systems in marketing planning.
- The nature of marketing channels and how they function.
- How social relationships impact management of marketing channels.

Chapter 5 covers marketing structures—the element of the Integrated Model of Marketing Planning (IMMP) that falls between marketing strategies and marketing functions. Marketing structures are arranged in order to realize marketing strategies and to facilitate marketing functions. For example, if a company emphasizes product quality as a core competency in its marketing strategy, implementation of a total quality management system may be an appropriate approach to management.

Marketing structures include management and organizational structure as well as planning and information systems, and especially marketing channels. Marketing structures are created to facilitate marketing functions. In this chapter we discuss how business trends are impacting the way marketing is conducted. Customer relationship management, supply chain management, and planning and information systems are discussed and illustrated, and marketing channels are discussed with an emphasis on the marketing channel as a social system.

5.1 THE EVOLUTION OF MARKETING MANAGEMENT

General business management trends have a significant impact on the way marketing is managed and practiced. For example, moves toward lean thinking, total quality management, supply chain management, and customer relationship management all change in some way the manner in which marketing is conducted. These shifts in management practices have influenced the evolution of the marketing concept described in Chapter 2, and in turn the evolution of marketing management.

The evolution of marketing management can be described as a shift from viewing marketing as competition and discrete transactions to viewing it as cooperation and relationship building. Webster provides a comprehensive

description of the range (seven categories) of marketing relationships and suggests that marketing is clearly moving from “arm’s-length transactions and traditional hierarchical, bureaucratic forms of organization toward more flexible types of partnerships, alliances, and networks.”¹ The most basic marketing relationship is the **transaction**, and the most comprehensive relationship is **vertical integration**, where a company owns its upstream suppliers and downstream channel members. The forms of relationships and the idea of marketing have changed, and therefore marketing management approaches must change accordingly. The following outlines the general concept of the six relationship categories (Figure 5-1).

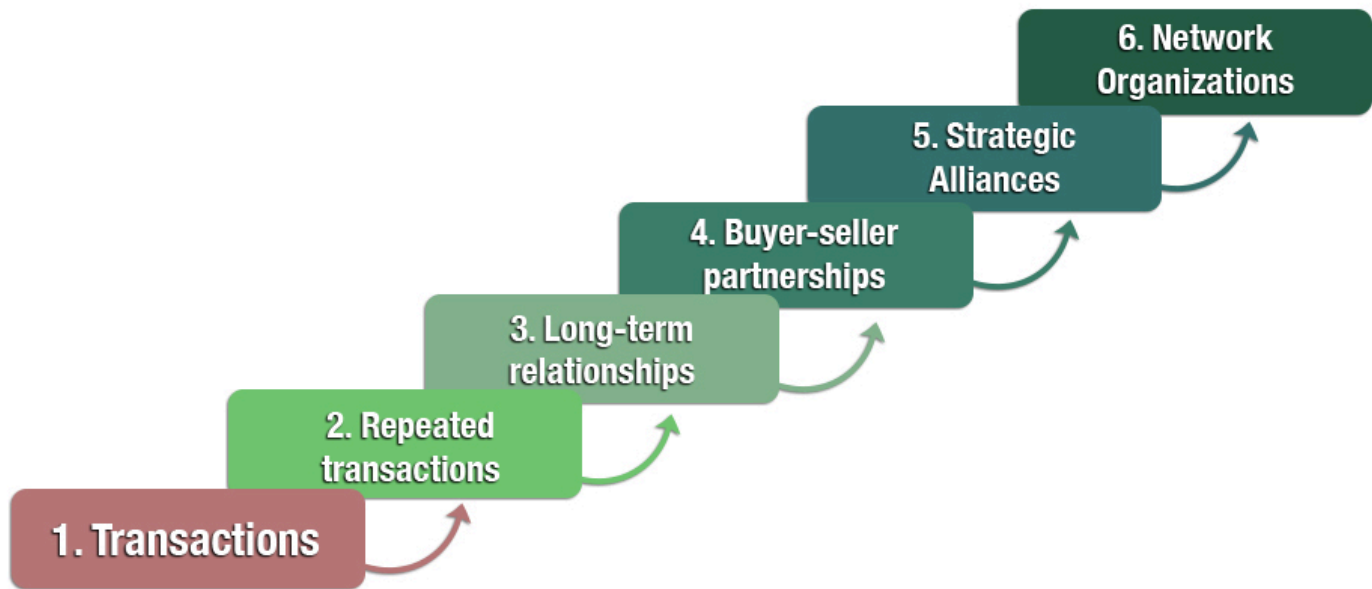


Figure 5-1: A Range of Marketing Relationships. Adapted from Webster

Transactions – At this lowest level there is no relationship between buyer and seller. In this traditional microeconomic approach to a transaction, price contains the necessary information and marketing is expected only to find buyers. When a pure transaction takes place, it is a one-time event with no interaction between the buyer and seller either before or after the transaction, a rare situation in industrial marketing.

Repeated Transactions – A more realistic view of exchange is repeated transactions between a buyer and seller that result in the formation of a relationship (though likely still distant and weak). Marketing is expected to develop differentiation in order to create preference and loyalty that will result in higher prices and profits.

Long Term Relationships – Industrial marketing has typically been based on long-term relationships through contracts, but relationships were often arm’s length and adversarial. Competitive bidding for contracts was a common practice and multiple suppliers were maintained in order to remind the main supplier of competitive options. Increased competition and the need to cooperate have caused firms to move away from the adversarial model to partnerships and interdependence.

Buyer-Seller Partnerships (mutual total dependence) – Strong partnerships became common during the move toward quality management. Japanese manufacturers found that producing high quality products is not only more attractive to customers, but also costs less. To produce high quality products, those Japanese companies also found that partnering with a small number of suppliers was much more successful than the adversarial supply approach. The success of these Japanese companies has caused companies in other parts of the world to follow suit.

Strategic Alliances (including joint ventures) – The basic characteristic of a strategic alliance is an intention to achieve a strategic goal. The partners may be working toward the development of a new product, new market, or new technology. A joint venture is one form of strategic alliance where the partners create a new firm.

Business Networks – Webster uses the term “network organizations” to refer to multiple strategic alliances, but we use the term “business networks” to describe the myriad relationships that exist among modern companies.

The basic evolution described above provides a meaningful context for discussing a variety of concepts and tools that have accompanied the evolution. The following discussion covers the topics of relationship marketing, information technology (IT) in service of marketing management, and supply chain management. Finally, the interaction of these elements, and the potential impact on future marketing management practices, is outlined.

5.1.1 Relationship Marketing

Traditionally, the study of marketing has been based on the transaction. This is because of marketing’s historical ties to economics. In a theoretical, discrete transaction, the buyer and seller do not interact before or after the sale, and price is the determining factor in making the transaction occur. A one-time purchase by a retail lumber yard from a wholesaler as a result of a cold call is basically a discrete transaction, but these sorts of transactions are uncommon in industrial marketing.

If we think of transactions between the buyer and the seller as a continuum, discrete transactions are at one end and relational transactions are at the other. In relational transactions, there are long-term relationships and high levels of cooperation between the buyer and seller.

Prior to industrialization, the exchange of goods and services was primarily local and based on long-term relationships between small-scale producers and final consumers. As industrialization pervaded society, production-oriented organizations were forced to find ways to sell the large quantities of goods that new technologies allowed them to produce. This situation resulted in the formation of a transactional approach and aggressive selling through marketing intermediaries, a situation in which marketers were more focused on sales and promotion than on building customer relationships.²

The post-industrial era is much more relationship-oriented. Firms now recognize the value of repeat purchases and brand loyalty and the nature and complexity of true transaction costs.³ Paying the lowest price is not always the best choice, because the supplier offering the lowest price might, for example, offer mediocre quality. Also, the process of finding suppliers and engaging in negotiation is costly. By relying on fewer, long-term suppliers, many transaction costs are minimized.

Rapid changes in technology and the competitive environment have forced companies to seek cooperative relationships.⁴ Customer demand for quality and performance have increased to the point that firms often must cooperate in order to access the necessary expertise to satisfy those demands. Even though it is somewhat paradoxical, cooperating to compete is becoming essential in today’s global marketplace.⁵

So what is relationship marketing? It has been seen as a rebirth of marketing practices from the pre-industrial age where marketing activities help establish, develop, and maintain relational exchanges.^{6,7} Instead of competition, the direction of relationship marketing is cooperation. Models for effective relationships are sought from social psychological group theory which emphasizes cooperation and social values. In other words, successful, long-lasting business relationships are based on mutual commitment and trust.⁸

It is clear that the day-to-day practice of marketing involves increased cooperation, and evidence suggests the

trend will continue (Example 5-1). This is not to say that strong relationships always exist between buyers and suppliers, or even that they should. In fact, companies should concentrate on key customers to develop strong relationships and invest less in minor customers.

Although fundamental aspects like cooperation instead of competition are emphasized here, we do not suggest that relationship marketing covers the whole area of marketing as it is defined in Chapter 2. Relationship marketing can be thought of as customer relationship management, which provides the principles and tools to establish, develop, and maintain successful business relationships. We emphasize that relationship marketing (customer relationship management) be seen in its strategic marketing context. As we will see later in this chapter, marketing strategies give direction to appropriate structures, including management systems.

In relationship marketing the primary idea is that the producer chooses the customers that best fit its resources. It is also important that the producer knows the value creation process of its customer. It is possible to develop value-added products and satisfying customer support if the relationships between producers and customers are close. This is the essence of relationship marketing.

Example 5-1: Great Recession Illustrates Importance of Relationships

The Great Recession decimated the North American forest industry, but its outcomes illustrate the importance of strong relationships – especially in tough times. Merchant Magazine interviewed lumber company managers in the western U.S. and concluded that relationships between mills and customers, “will take on even greater importance as sales start to recover” and that, “Many mill sales executives said fortifying those relationships are a priority.” Managers claimed that during the Recession they had been working to improve relationships by:

- Traveling more to meet customers
- Spending more time evaluating customer needs
- Fine-tuning product offerings
- Introduced new brands
- Becoming more flexible with long-standing customers

Merchant Magazine concludes by saying that buyers who stayed with mills through the difficult times of the Recession will be the ones that get supply when the market heats up. One manager was quoted as saying, “Our best customers are those who understand that we rise and fall together. Those are the people we want to do business with, in good times as well as bad.”⁹

5.1.2 Information Technologies in Marketing Management

Information technology (IT) covers a broad set of technologies used to document, process, utilize, and communicate information. The infrastructure allowing a company to do business and communicate with other companies can be called a commerce platform.¹⁰ The commerce platform has changed dramatically in recent years. Prior to computers, the commerce platform was based on the telephone and paperwork maintained by a company. If, for example, a buyer and seller negotiated a deal over the phone, the seller would typically prepare a bundle of papers outlining the deal that would then be mailed to the seller for a signature. The buyer would sign and return papers by mail (Example 5-2).

The advent of the fax machine increased the speed of this process. It was no longer necessary to mail paperwork to be signed; it could simply be faxed between the buyer and seller. Computerization has had a dramatic impact on the daily work-life in every industry. For example, efficiency in order processing and other paperwork is greatly enhanced by eliminating the need for manual typewriting. Many other simple changes have also occurred. Traditionally, salespeople carried files documenting information about their various clients, but today nearly anything is available via smart phones.

Both internal and external business operations based on IT can be referred to as e-commerce. E-commerce allows a company to better organize and utilize resources through the effective use of information. E-commerce can result in a variety of benefits including cost savings, rationalization and automation of operations, and more efficient use of resources. Enterprise resource planning software allows all departments in the company to use the same system based on a common database. With this integrated structure, other e-commerce functions can be added to the company's system (e.g., supply chain management or customer relationship management).

Example 5-2: Evolution of the Commerce Platform

In his 1970 textbook, Rich outlined the impact of Wide Area Telephone Service (WATS) on the marketing and distribution of wood products. At that point in time, WATS, which allowed a company to make unlimited calls within a certain geographical area for a fixed monthly charge, helped eliminate the practice of double wholesaling of West Coast lumber. Double wholesaling meant that local wholesalers in the West acted as finders of supply for local wholesalers in major Eastern markets. These Eastern wholesalers then resold the lumber in their market areas. The lower costs of communication meant a trend toward Western wholesalers dealing directly with players in the Eastern market areas, and Eastern wholesalers dealing directly with Western sawmills, thus eliminating one stage in the marketing channel.¹¹

5.1.3 Supply Chain Management

Supply chain management (SCM) illustrates well the increased importance of strong and close business relationships, as well as the role of e-commerce in a company's ability to manage its operations. Therefore, we have developed a deeper explanation of SCM as an illustration of a marketing structure. Supply chain management has its roots in logistics and is used in place of more traditional terms such as physical distribution. SCM has been defined as "the management of upstream and downstream relationships with suppliers and customers to deliver superior customer value at less cost to the supply chain as a whole".¹² A well-functioning supply chain has been described as a highly-trained relay team where the strongest relationships exist between the two parties that exchange the baton, but the whole team must be well coordinated in order to win.¹³

The basic concept of supply chain management means taking a systems viewpoint. This means, for example, that firms participating in SCM are not looking only at minimizing costs in their own situation, but also minimizing costs for the entire system. It is a long-term approach with continuous joint planning and widespread sharing of information.¹⁴

A supply chain can be viewed as shown in Figure 5-2. Between each member of the chain, and within any given member's organization, there is the potential for time delays and excess inventory, both of which equate to costs. The buildup of excess inventory between members of the chain has been described as snowdrifts against a fence. The more members of the chain, the more snowdrifts and more inventory in the system.¹⁵

Through close cooperation and efficient flow of information up and down the chain, costs can be minimized. If real-time information regarding demand, forecasts, orders, inventory levels, etc., can be communicated back through the chain, members of the chain can provide just the product and volume needed at exactly the right time. Without this information flow (communication), members of the chain are operating based on only their individual information. This may cause them (for example) to maintain inventory levels high enough to cover unexpected orders and shifts in demand, and again, high inventory levels equate to costs.

The two key components of successfully implementing SCM are the development of strong and close **relationships** among members of the chain that allows their **integration** into a fully linked and functional supply chain.

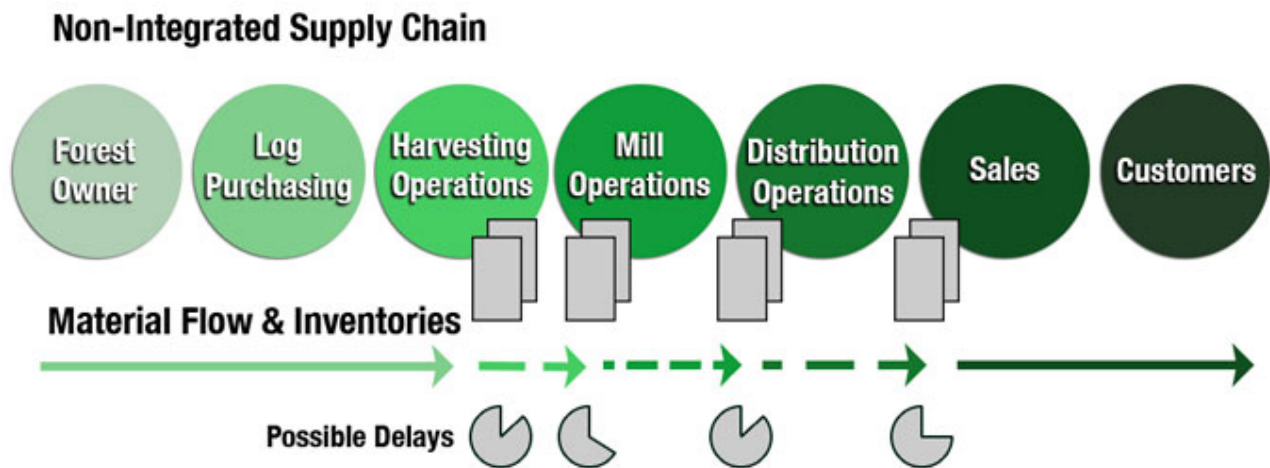


Figure 5-2: A Supply Chain. Adapted from Hill

SCM and Relationships

It is generally accepted that competition is moving away from company versus company and towards supply chain versus supply chain. A supply chain is made up of a variety of different channel members and these members must work closely together in order to bring about cost reductions and enhanced customer satisfaction. Accordingly, the quality of relationships among members is of paramount importance to successful implementation of SCM.¹⁶

Looking at the link between two successive members of a supply chain (dyads), Figure 5-3 provides a view of how the interaction of two companies must change in order to create the strong relationship needed to implement SCM. The interaction must change from only between sales and purchasing towards integrated interaction at multiple levels of the organizations so that the interface allows rich communication and strong cooperation.

A high degree of cooperation must exist among all the supply chain members to effectively share the information and duties necessary to optimize the whole supply chain from raw material producer to final consumer. A level of trust must exist among the members of the supply chain so that they are comfortable sharing proprietary information. This level of cooperation means that joint planning will be commonplace and members are likely to collaborate in other areas such as new product development. It is also important to note that the performance of the supply chain is not only dependent upon the cooperation of the firm with its partners, but also upon the cooperation of those partners with their partners.¹⁷ This leads to looking at the supply chain more as a network than as a chain, a concept further discussed below.

As in any relationship, when a firm commits to cooperation in a supply chain, it places itself at some risk. Examples

of this risk include poor performance by other members of the chain, other members sharing trade secrets with competitors, or members venturing into the business on their own.¹⁸

SCM and Integration

As mentioned in Chapter 2, integration has always been a key role of marketing. As one in a series of marketing structures, SCM is a way to integrate both internal and external supply chains, and this integration is the cornerstone of excellence.¹⁹ Integration must begin within the firm, but involves combining elements from inside and outside the company. Integration forces a company to consider management in a more holistic manner. Traditionally, companies have been organized along functional lines, a structure which leads managers to feel territorial and defensive about their individual areas. SCM, on the other hand, requires that these functions work more closely together.²⁰

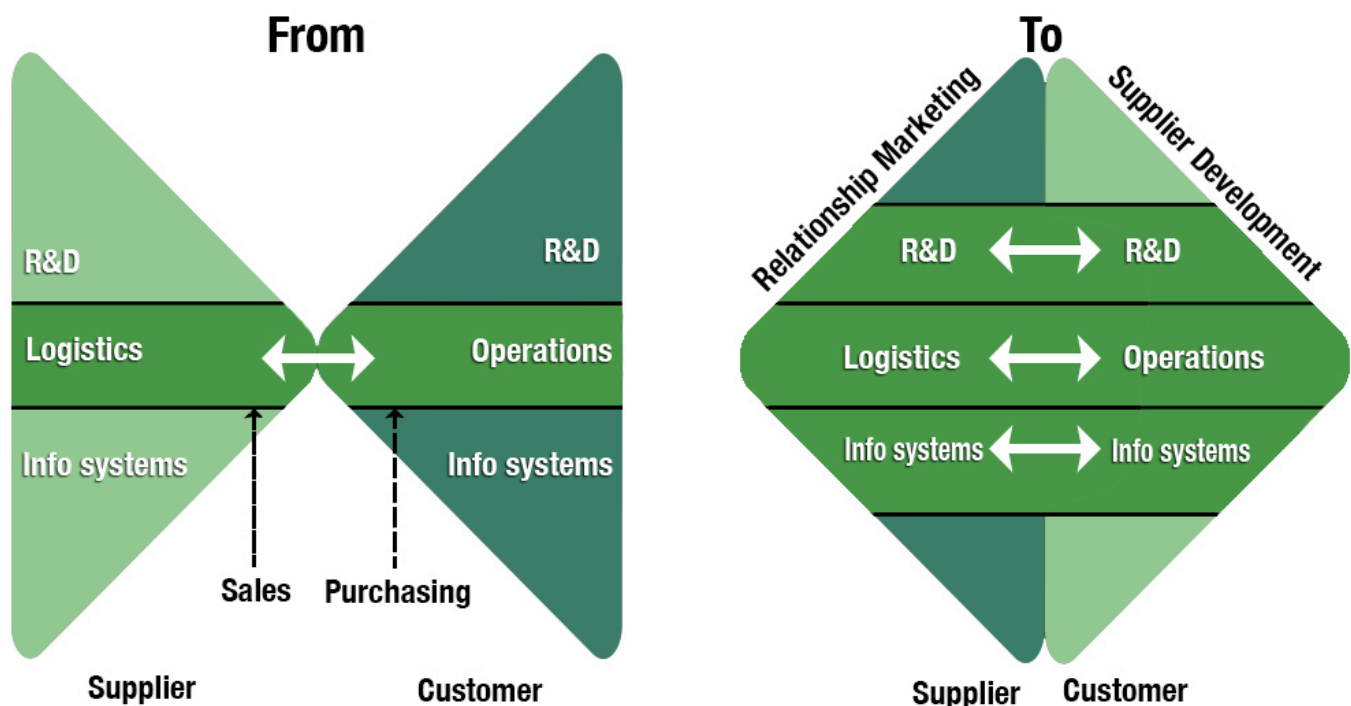


Figure 5-3: An Evolving Relationship Between Firms (Adapted from Christopher).

Christopher, M. 1998. *Logistics and Supply Chain Management*. Financial Times/Prentice Hall. London. 287 pp.

Close collaboration within a company may require a new form of business structure described as horizontal or market facing.²¹ In this structure, multifunctional teams are organized around processes (e.g., customer management) rather than traditional functions such as production or sales. Multifunctional teams have the knowledge and understanding of the entire business to help minimize those costs and delays that occur between steps internal to the company.

Once a company has succeeded in integrating its own operations, it can begin to consider integrating other channel members. Integration of channel members allows a firm to begin creating a truly linked supply chain with the ability to transfer information up and down the chain (Figure 5-4).

Evans and Danks suggest four forms of integration: information, decision, financial, and operational.²²

Information Integration – enables companies in the supply chain to share useful information among

themselves. For example, information sharing between producer and retailer can help in production scheduling and in maintaining stock. This could be especially important when just-in-time (JIT) delivery is required by the customer.

Decision Integration – allows the ability to manage planning and control functions across multiple firms. As in the team analogy, decisions are no longer made by individual firms within the supply chain, but instead are made jointly for the benefit of the whole.

Financial Integration – changes the payment terms and conditions across the supply chain. For example, a supplier might expect payment when the customer sells the product rather than when the customer buys the product.

Operational Integration – means sharing assets, both physical and human. A manufacturing company might supply office and floor space for a supplier within its own production facility so that it can better supply components or raw materials.

What is the difference between an integrated and a non-integrated supply chain? Figure 5-4 simply shows that in an integrated supply chain, the channel members are linked together as the word “chain” implies. Without integration, the channel members are independent links that do not benefit from close association with other members. This means that, for example, the likelihood of delays and excess inventory to exist between links is very high. As previously noted, a fully linked and functioning supply chain includes the efficient flow of information both up and down the chain.

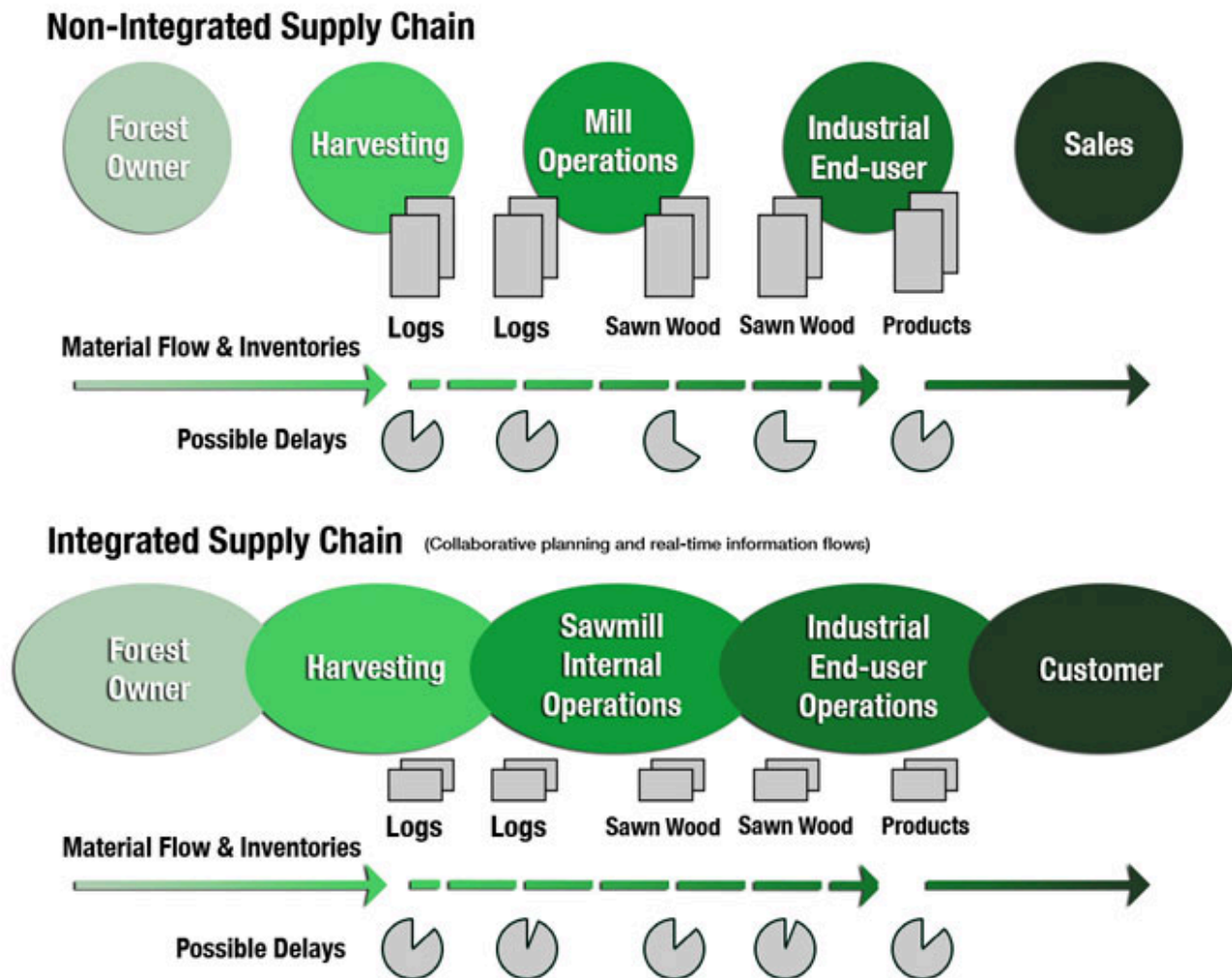


Figure 5-4: Difference Between Integrated and non-integrated Supply Chain (Adapted from Hill).

Hill, T. 2000. Operations Management: Strategic Context and Managerial Analysis. MacMillan Press Ltd. Great Britain. 704 pp.

Results of Successful SCM

Researchers have found that appropriate SCM practices result in superior financial performance.²³ A number of benefits can result from supply chain collaboration, a situation where members of the supply chain actively work together as one to achieve common objectives such as the following²⁴:

- Reduced inventory
- Improved customer service
- More efficient use of human resources
- Greater trust and interdependence
- Improved shareholder value

The basic goals of SCM, improved customer satisfaction at lower costs, are clearly evident in the items listed above. In the context of SCM, Coppe and Duffy outline the following potential benefits of the Internet.²⁵

- More cooperative and timely product development resulting from enhanced communication among departments, suppliers, customers, and even regulatory agencies
- Reduction of total inventory in the supply chain through closer links across the supply chain and better knowledge of demand
- Lower communication and customer support costs
- New abilities to reach different customers and better exploit current markets
- Ability to enhance products and relationships through customization via connectivity and interactivity

Supply chain management can also be used as a tool for enhanced environmental performance. Many companies in the forest industry have implemented environmental management systems such as ISO 14000. As the use of these systems matures, the integration with management tools such as SCM will allow companies to view the supply chain not only through the ideals of improved customer satisfaction and lower costs, but also through improved environmental performance. Climate change strategy is the area where companies are currently focusing with respect to environmental performance, including reverse logistics and ecorouteing.

Supply Chain Management in a Marketing Context

One way to see and use SCM is to equate it with logistics, in which case the objective is to economically optimize the physical product flows from producer to customer. The supply chain can be extended to cover the flow from raw material suppliers to the customer. Effective use of information is the main tool of economic optimization.

The broadest definitions of SCM cover the whole business. SCM is seen as a management tool for integrating and coordinating raw material procurement, manufacturing, and marketing. The goal is to achieve internal efficiency and customer satisfaction by being able to deliver a perfect order (i.e., giving to customers what they want, when they want it, in the right quantity, and at the right price).

We suggest that SCM should be seen in a strategic marketing context. It is a management tool to implement marketing strategies by seeking cost effective solutions and solving problems connected to material and information flows between supplier and customer. The final goal is value creation for the customer.

5.1.4 The Future of Marketing Management

As can be seen from the previous discussion, a range of factors is contributing to the changes in the way companies manage the marketing function. Technologies are opening up new possibilities for communication and business management. Globalization has forced companies to reconsider logistics as they source raw materials globally and market to global customers. Heightened competition is causing companies to reconsider the traditional adversarial approach to other channel members. Instead they are concentrating on becoming customer-focused. To do this, companies are working to eliminate functional boundaries, creating cross-functional teams, and seeking relationships and alliances with outside partners.²⁶ Each of these factors, in combination with the rate of change in the marketplace, is forcing companies to reconfigure their basic structure away from hierarchies towards the flexibility of networks.

Firms are beginning to view networks as a competitive necessity, since competition is increasingly based on a network-to-network paradigm, rather than firm-to-firm.²⁷ E-commerce and advanced IT capabilities are helping evolve the supply chain into what can readily be seen as a network. Figure 5-5 shows the evolution to an e-commerce-facilitated network. The idea is that e-commerce allows not only the connecting of firms, but the

coordinating of firms and their inter-firm processes. This creates a **coordinated** – rather than a merely **connected** – environment.

- **Connected environment** – a company creates a forecast and passes the information to its downstream partners. Information can become easily distorted because of multiple hand-offs down the chain.
- **Coordinated environment** – all members of the channel collaborate together to create a forecast. Each participant has good visibility into the same information base.²⁸

A network structure is inherently more flexible and more efficient in moving information, allowing the firm to continuously adapt to change and become superior in learning. In a network organization, there are task- or skill-specialized units that operate as an interdependent coalition without hierarchical control. The units (often cross-functional teams) are closely linked with other units in the company and share a value system that defines roles and responsibilities.²⁹ Just as marketing has generally evolved toward closer relationships, the units or departments in a company are moving toward closer interaction and cooperation. Key account management is a good illustration of this idea, where cross-functional teams manage important customer accounts. This is only possible through close cooperation among the various units of the firm.

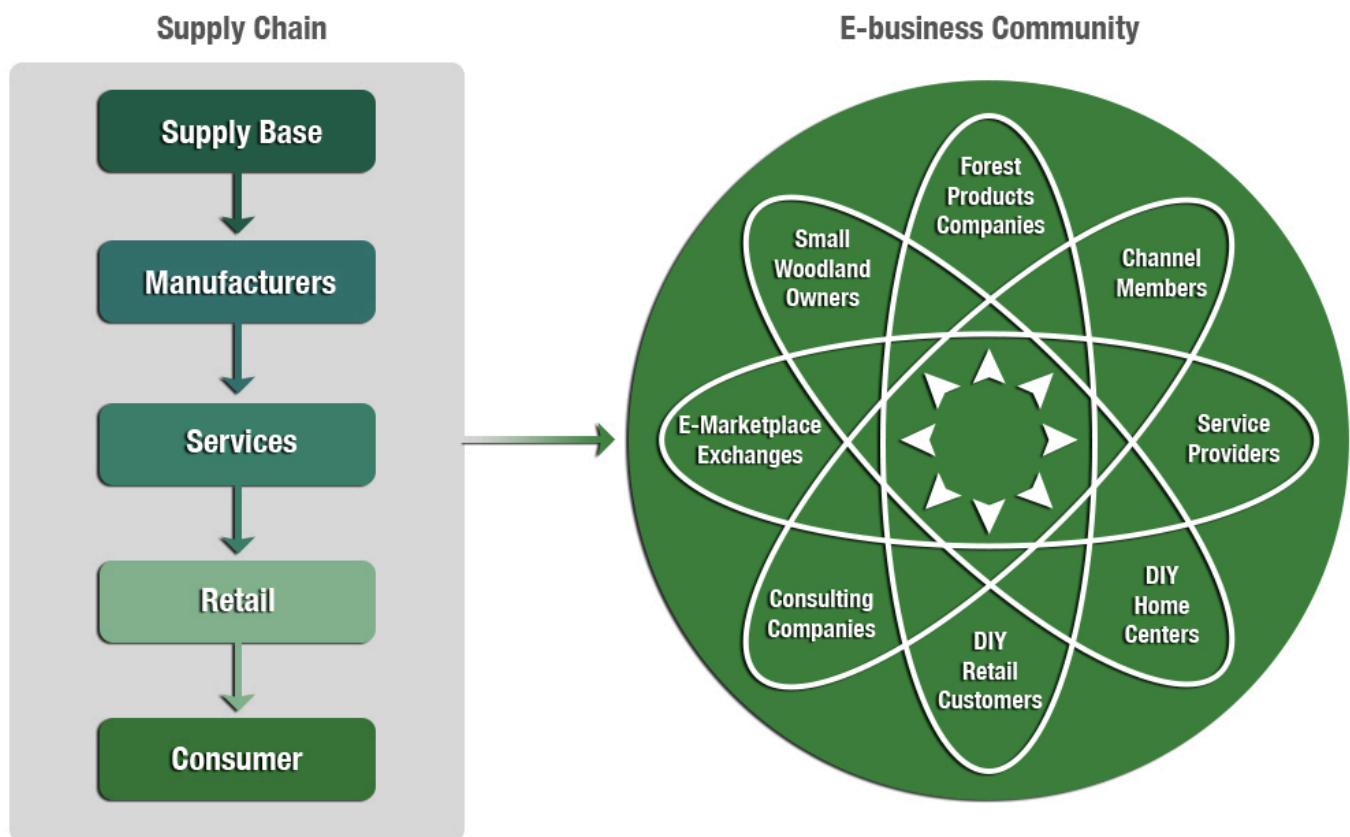


Figure 5-5: An E-commerce-facilitated Network. (Adapted from Kahl & Berquist)

As a result of these many changes, the significant role of marketing in the organization will continue to evolve. Marketing will be an expert on the customer and will keep the network organization informed about the customer. The marketing department will create knowledge from information. For example, marketing might create expert systems and decision models that can be used on an interactive basis by field personnel. Marketing has the potential to be the strategic core of the company by acting as the network integrator helping shape the company's

external network of partners. Marketing will also have the responsibility for managing team-based processes.^{30,31,32,33}

Even though marketing as a function will remain important, it will increasingly be seen as a philosophy or orientation that is present throughout the company. Marketing will not be the sole responsibility of specialists, but everyone in the firm will have the responsibility to understand customers and contribute to the delivery of value. Accordingly, a major role of the marketing specialists will be training and educating other members of the organization about marketing and the customer.^{34,35,36,37}

Marketing strategies and the management of structures and functions must change to meet an evolving business environment. Technology development will continue to provide potential enhancements to marketing in the forest industry. Business management structures in the industry will continue to change in order to take better advantage of technology and business management innovations.

5.1.5 Choice of the Management System

In previous sections we analyzed relationship marketing, supply chain management and the role of IT in connection with marketing management. In customer-oriented companies, marketing aspects are central to general management approaches. When choosing a marketing management system, we can consider a variety of approaches or combinations of approaches.

When new management systems or approaches (fads) are continually introduced to the business world, there is a danger that the basic principles and structures of marketing are forgotten. When adopting new, popular ideas, their connection to strategic marketing contexts must always be considered. Enthusiastic authors believing in their own ideas may indicate that a new system solves all marketing problems. They may even indicate that the new system can replace the principles of general marketing thinking. However, it is improbable that the whole marketing paradigm can be replaced. Recent popular management approaches have many valuable characteristics, but before considering implementation, they must be carefully evaluated in the context of the company's strategic marketing plan.

Modern marketing management approaches generally follow the principles of customer-oriented marketing – they fit special or custom-made product strategies and selective customer strategies. Our view is that in most cases, a company does not choose a management system per se, but combines those aspects of various systems which best implement the chosen strategies.

Relationship Marketing & Customer Relationship Management (CRM) – CRM is a general management approach following the philosophy of customer orientation. In a strategic marketing context, CRM is a natural choice when customers are known and products are custom-made. The company wants to emphasize long-standing customer relationships, with mutual commitment and trust.

Strategic or Key Account Management (SAM) – A company following selective marketing strategies (known end-users) may realize that some customers are clearly more important or profitable than others and should be prioritized in marketing. Appropriate ideas for managing these customers may be found in the principles of SAM. SAM gives guidelines for choosing strategic accounts, how to keep them, and how to increase the profitability of these customers to the company.

Supply Chain Management (SCM) – SCM emphasizes streamlining the chain between supplier and customer. Streamlining the supply chain means cost savings to all of the participants of the distribution structure. This should

motivate participants in the chain towards closer cooperation and integration. Transparency and effective use of information are the most powerful tools of SCM.

As a method for improving logistics, SCM could be connected to both selective and unselective marketing strategies. Theorists developing SCM argue that the final aim of SCM is increasing the value to the customer, and that this implies a customer-orientation. Streamlining the supply chain also means close cooperation and system integration between the supplier and customer, which is only possible between companies that have deeply internalized the idea of partnership. This also implies that SCM is connected to a customer-orientation and selective marketing strategies (known end-users).

Environmental Management & Environmental Management Systems (EMS) – If a company is responding to environmental issues in its marketing, this can be supported by environmental management and environmental management systems. The holistic view of environmental marketing demands that ecological issues must be integrated on each level of marketing decision-making, strategies, structures, and functions. Environmental management systems support environmental marketing by guaranteeing that environmental issues are taken into account at every stage of production. An EMS can be broadened to cover raw material procurement and product distribution. The main ingredients of an EMS are company environmental policy, mapping the environmental impacts, and a plan to reduce the harmful environmental effects of the company. Climate change strategies and carbon footprint reduction are areas of high focus among forest industry companies today.

A company can certify its EMS and use the certificate as a marketing tool to indicate that environmental issues are taken seriously by the company. All partners in the supply chain or network may need a certified EMS to prove environmental friendliness of the entire supply chain to the final customer.

IT in Marketing Management – IT applications are a part of all the above-mentioned management approaches. IT has had, and will continue to have, a profound effect on business. Because of its systematic nature, IT will deepen partnerships by forcing suppliers and customers to integrate their systems. All transactions that can be automated will be in electronic information networks in the future.

However, while IT can make business relationships closer, it can also make them more distant. Information sharing and integrated information systems are examples of closer relationships. Trading through e-marketplaces is an example of more distant business connections. The challenge for management is to choose the future direction of IT-supported business. The failure of most forest industry e-marketplaces in the early 2000s illustrates that closer, not more distant, relationships are necessary for business-to-business marketing (Example 5-3).

Example 5-3: The Development and Demise of Electronic Marketplaces

At the turn of the century there were major developments in electronic marketplaces in the forest sector. An electronic marketplace is a Web service provided by a third party and is basically a vertical portal including several suppliers. Typically the marketplaces were separate for chemical and mechanical forest industry products.

A marketplace allows customers to search available items from stock notes provided by sellers. It also allows customers to make enquiries to all or some of the sellers in the marketplace. It allows the customer to search the availabilities and receive quotations from a large number of suppliers in a convenient manner, on a single Website. On the other hand, relying on a random supplier making the cheapest offer can also cause problems in reliability and product and service quality.

It is difficult to describe the characteristics of a product or a producer in detail on a third-party Website. This means that the competitive situation is intense, and buying decisions are essentially dependent on availability and price. Obviously this is not a desirable situation for companies trying to establish competitive advantages beyond price leadership. Generally, third-party marketplaces counter the idea of special and custom-made products, which may explain why most of the marketplaces failed.

A marketplace that has survived since the early days of electronic marketplaces is FORDAQ, [The Timber Network](#). The company describes itself as a communication and information network tailored to the needs of the timber professional. With over 200,000 members in 186 countries, the company provides a mechanism for buyers and sellers to connect. Beyond the marketplace, the company offers a directory of members, daily industry news, and other services.

5.2 ORGANIZATION

Companies, associations, and most organizations are based on the idea of combining human resources. People are specialized to conduct various tasks, and the combined result is bigger or better than that which could be achieved through individual efforts. The goal behind the division of labor is to use human resources as effectively as possible and this is matter of organizing.

5.2.1 Basic Idea of Organizing and Organization

The term “organization” is often used to describe a whole company; however, in this case organization refers to the way tasks in a company are divided among people or groups of people. In an organization there is a stable division of roles that dictate who does what, who is responsible for what, and who controls what people. In other words, in a company the organization defines the internal division of power, responsibility, and communication. A simple idea of organizing can be seen in Figure 5-6.

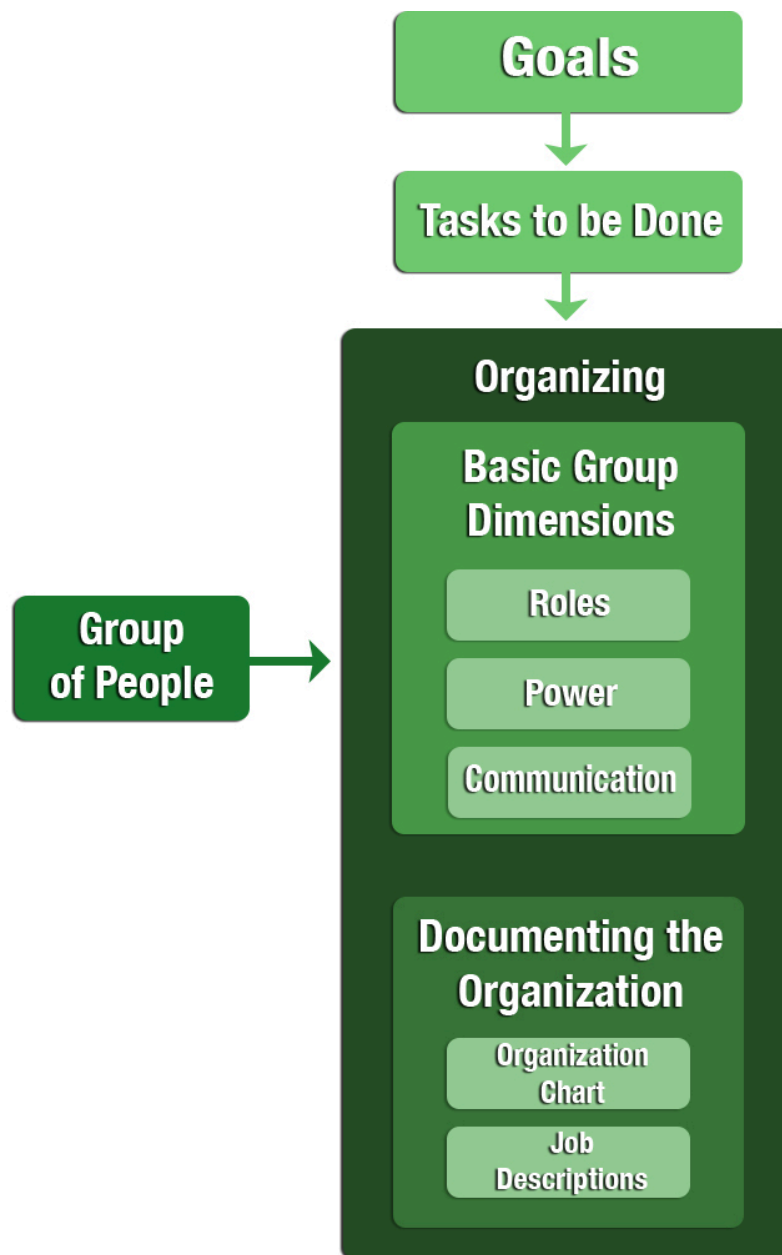


Figure 5-6: The Idea of Organizing

Goals – On a very general level the mission defines the goals of a company. According to the basic idea of strategic marketing, marketing strategies contain the goals of a company. The structural requirements of an organization are derived from the strategies. The organization must be planned so products are marketed as effectively as possible to defined customers in defined market areas, using the company's core competencies.

Tasks to be done – Marketing science and practice have created descriptions of the tasks included in marketing. The IMMP and its operationalization is one example of a systematic way to describe marketing tasks. Marketing philosophies and various marketing management approaches emphasize different tasks in marketing. For example, SCM emphasizes logistics, while CRM and SAM emphasize customer relations and customer support.

Group of people – Marketing tasks are conducted by a group of people. The challenge for the organizer is to structure the tasks in an appropriate way and to assign the best possible person to each job. An educated,

motivated, and skilled team is the best possible starting point for marketing success. A critical task for the manager is to collect a good team, keep it motivated, and continually improve its performance.

Organizing – A group of people and a list of tasks to be done is the starting point for organizing. Organizing requires understanding the basic dimensions of human organizations (groups) and knowledge of formal structures of organizations.

Basic group dimensions – Social psychology is a behavioral science that contributes to an understanding of organizations, because it studies how groups, such as companies, function. As to the performance of a group, the most important internal dimensions are: roles, power, and communication. The better the roles are defined, the power is balanced, and communication is arranged, the better the group performs.

Roles are positions in a group identified by certain tasks associated with positions. Group performance requires **power** relations between role positions. **Responsibilities** must be clearly defined. This leads to hierarchical, supervision-reporting relations. **Communication** is a tool that allows the group (organization) to function. Without proper communication, there is no group performance. The manager must regulate and balance the social processes in an organization.

Documenting the organization – Although it is often difficult to describe the roles, power, and communication in complicated relationships, organizational structures must be documented for various purposes. Often, if not always, detailed job descriptions are also documented. A simplified organizational chart is presented in Figure 5-7. Corresponding job descriptions are described below.

The marketing manager is the head of the marketing department. He or she may have a marketing assistant. The division of responsibility between the two salespersons could be based on products/product lines, markets or customers/end-use sectors. Each salesperson has a sales assistant.

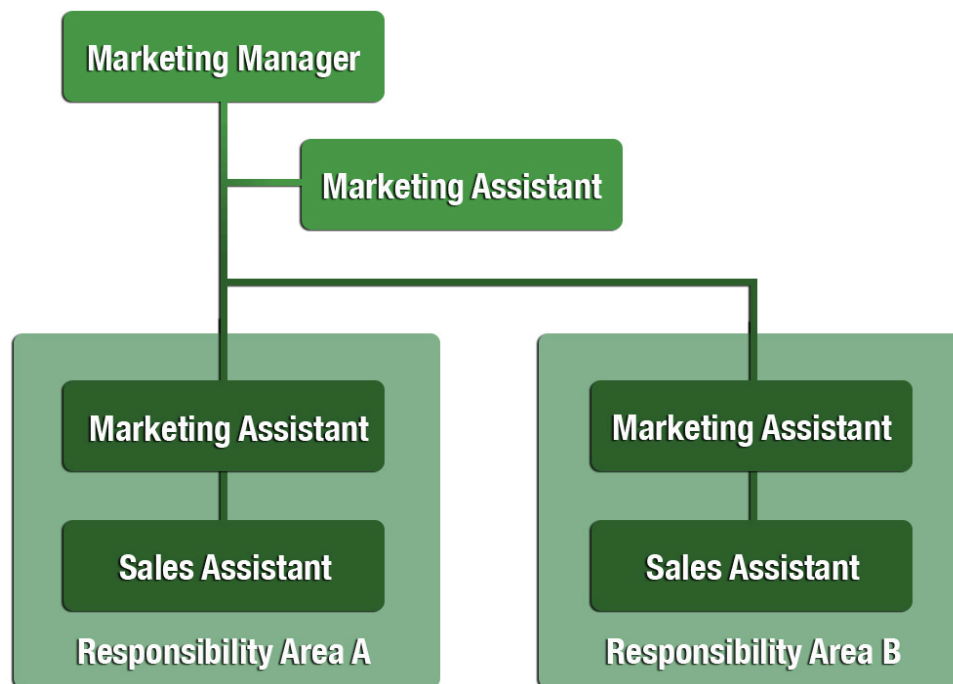


Figure 5-7: Example of Marketing Department Organization Chart

Examples of tasks and responsibilities in a marketing organization:

Responsibilities of the marketing manager

- Planning business strategies (together with the managing director of the company)
- Strategic marketing planning
- Planning marketing structures and functions
- Planning and implementing the annual budget and marketing operations
- Supervising sales managers
- Contacting important customers
- Gathering, synthesizing, and maintaining market intelligence
- Follow up and control of marketing operations
- Reporting to the managing director of the company

Responsibilities of the marketing manager's assistant

- Developing and updating marketing database
- Assisting marketing manager

Responsibilities of the salesperson

- Implementing marketing strategies by personal selling
- Planning of sales budget for area of responsibility (product, market, or customer segment)
- Search for new customers
- Contacts with customers
- After-sales customer support
- Handling claims
- Developing and updating customer database
- Reporting to marketing manager

Responsibilities of the sales assistants

- Handling sales documents
- Developing and updating end-user database
- Assisting salesperson

From these job descriptions, it is clear that the marketing manager is responsible for marketing planning, supervision, and control. His or her subordinates are responsible for individual marketing functions (personal selling in this case). The marketing manager is responsible for planning and the salespersons for executing the plans. The higher the organizational position, the more important it is to have total view of marketing and to be able to work with abstractions.

5.2.2 Basic Forms of Organizational Structures

When considering organizational structure, it is important to think of both its vertical and horizontal aspects. Vertical design refers to the hierarchy within an organization; a company might have six layers of managers, starting at the CEO then stepping to the Executive Vice Presidents, Vice Presidents, General Managers, Sales Managers and equivalents, and line employees. Horizontal refers to the way the organization chooses to group its functions and/or divisions.³⁸

Organizational behavior specialists speak of a continuum with mechanistic structures residing at one end and organic structures residing at the other (Figure 5-8).³⁹ In a sense, the mechanistic structure can also be labeled “traditional” and organic can be labeled “modern.” The mechanistic approach is hierarchical and bureaucratic; employees tend to specialize in their own thing and defend their turf from others. On the other hand, in an organic structure, there is a much stronger tendency to collaborate through teams based on shared authority.

The roles that marketing personnel play can vary greatly depending on the approach of the organization. A marketer working within a mechanistic structure might find him or herself in a corporate or division office with very little personal contact with production or sales. That individual would answer to one boss who would likely in turn report to the Vice President of Marketing. A marketer in an organic structure, however, would likely be in the field working with specialists from other areas of the company on specific projects. This individual might have two or more bosses depending on the number of projects.

Basic organizational structures are described below. It is important to remember that in real-world structures, there are often combinations of these theoretical types.

Functional Organizational Structure

A person in the marketing or engineering department is working within a functional area of a company. Companies can be structured around basic functions such as those shown in Figure 5-9, often referred to as **silos**, a reference to the vertical space they occupy in the organizational hierarchy.

Divisional Organizational Structure

A divisional structure is usually based on geography, products, or markets. A company in Brazil might have North American, Latin American, European, and Asian divisions. When based on products, the structure might include divisions associated with fine papers, packaging papers, and timber products. If a company is structured according to its markets or customers it might have publishing, packaging, and specialty paper divisions.

Matrix Organizational Structure

A matrix organization combines the concepts of functional and divisional structures. As shown in Figure 5-9, there is a vertical flow of functional responsibility and a horizontal flow of geographical areas. In practice each individual in the organization has two different bosses, one from the functional area and one from the product area.⁴⁰



A structure that is simultaneously mechanistic and organic is achieved when the organization balances these choices in a way that matches the contingencies it faces.

Figure 5-8: Mechanistic and Organic Structures

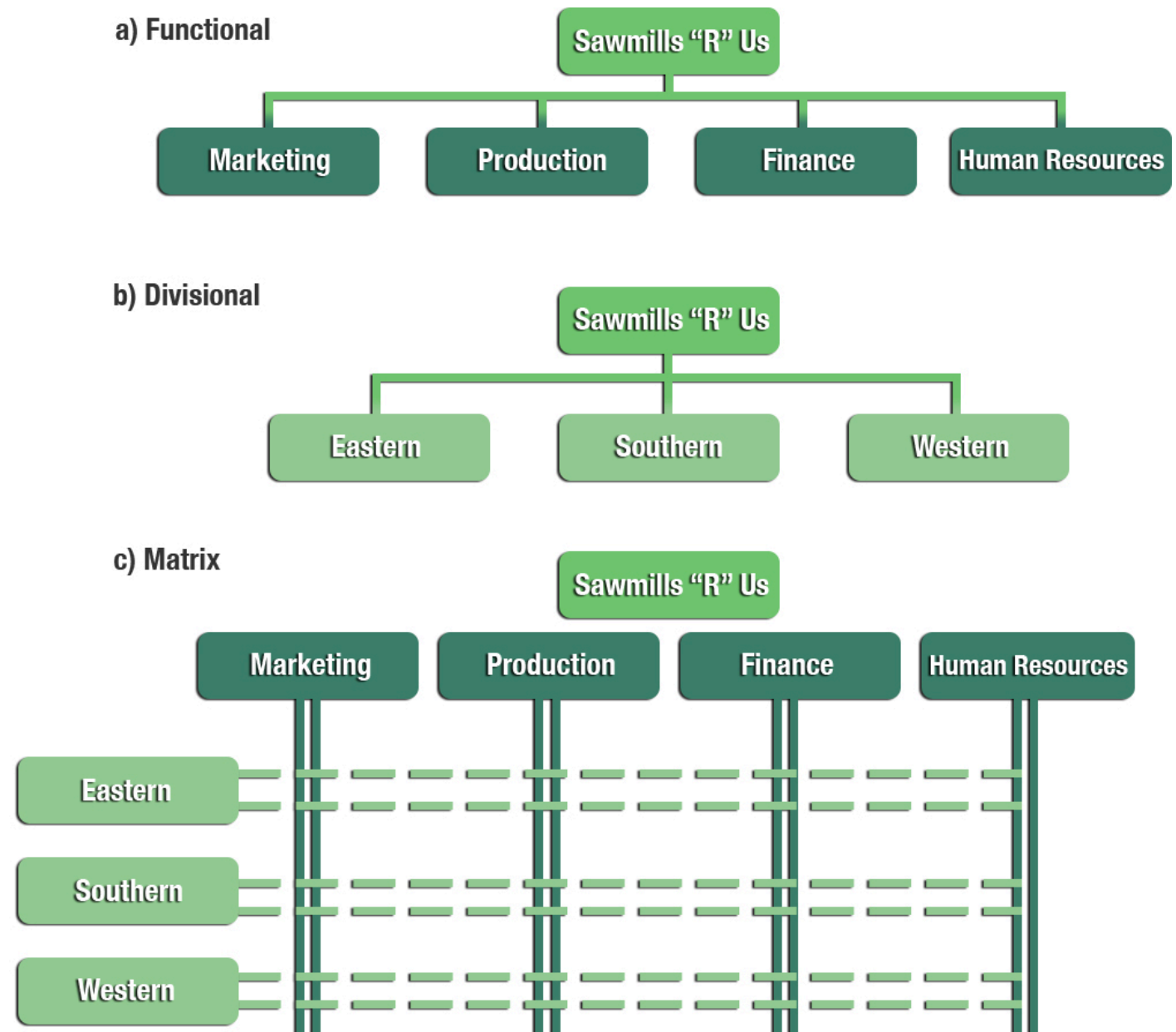


Figure 5-9: Organization Structures

5.2.3 Choice of Organizational Model

Recent research has shown that there has been a general shift by firms toward customer-focused organizational structures. This means that there is increased emphasis on key account managers and cross-functional teams led by customer segment managers. This doesn't necessarily mean that companies are always proactively working in this direction; rather, they are often pushed by customers who are becoming larger and more centralized in their purchasing decisions. This sort of evolution results in a more complex organizational structure. For example, individuals will report to more than one boss, as in a matrix structure.⁴¹

Large forest industry companies typically have divisional structures. The structure of the organization has a

significant impact on marketing. We expect that companies in the forest industry will continue to evolve toward network structures and away from traditional structures.

Choice of the organizational model or structure is a corporate level decision, and marketers are likely to have little influence over the choice. Marketing personnel can actively minimize the drawbacks of any structure by working to fully understand those drawbacks and learning the best possible way to function within its confines. Marketers can work to negate some of the drawbacks of mechanistic structures by actively forming and working in cross-functional teams. However when companies increase their customer orientation, the organizational structures will also become more market-oriented. This means that the organizational structures are planned to serve customers in the best possible way.

5.3 PLANNING AND INFORMATION SYSTEMS OF MARKETING

Management accounting and marketing research have traditionally been the main sources of internal and external information used in business and marketing planning. Although they have been computerized for decades, expanded and diversified computer applications that exist today lead us to speak of e-commerce. New systems make it possible to analyze and manage business processes more effectively than before. This means moving from data processing to knowledge management and problem solving systems.

The same systems carry information between business actors, register and analyze it, and may automatically create reports to be used in business planning. When electronic information systems support customer relationships, customer services, and channel intermediary relationships, they simultaneously register and analyze the behavior of all the actors. This information can then be used in marketing planning and customer relationship management.

The explosive growth in the information environment has created huge challenges for information systems. The danger of this technology is information overload – although information is abundant, it is often difficult to find useful and relevant information when needed. It is important that designers and users of marketing planning and information systems know and understand both the basic nature of marketing planning and the structure and content of the information environment. That is why we emphasize a scientific and planning approach to marketing planning.

IT has made it possible to develop a wide variety of management support systems for managers to cope in a complicated and demanding information environment.

Computer-based planning and information systems are built by IT-experts, but a marketing person must be able to cope in the IT-environment and use all possible systems and tools. IT will play a significant role in the future of marketing practice and will be both a challenge and an opportunity. Advanced tools are worthless if the user has not internalized the basic idea of marketing planning and the information needed. The next three sections aim to illustrate the context or framework where marketing plans are made and information is used.

5.3.1 Marketing Planning Systems

Based on the IMMP we know what must be done when planning marketing. The marketing planning system explains the context of marketing planning and how it is executed. Marketing planning and planning systems are different from one company to the next, but it is possible to list the main components of the systems. According to Figure 5-10, a marketing planning system is composed of a planning process, the people participating in planning, and the tools used in planning.

Planning Process

If planning follows the principles of the IMMP, the stages of planning might be as follows (terms may vary).

Strategic Marketing Plan

- Marketing strategies
- Marketing structures
- Marketing functions

The strategic marketing plan builds a basis for marketing across the company. Strategies are developed or changed as needed, and structures and functions are developed or changed accordingly. Chapter 7 offers a real-world example of strategic marketing planning.

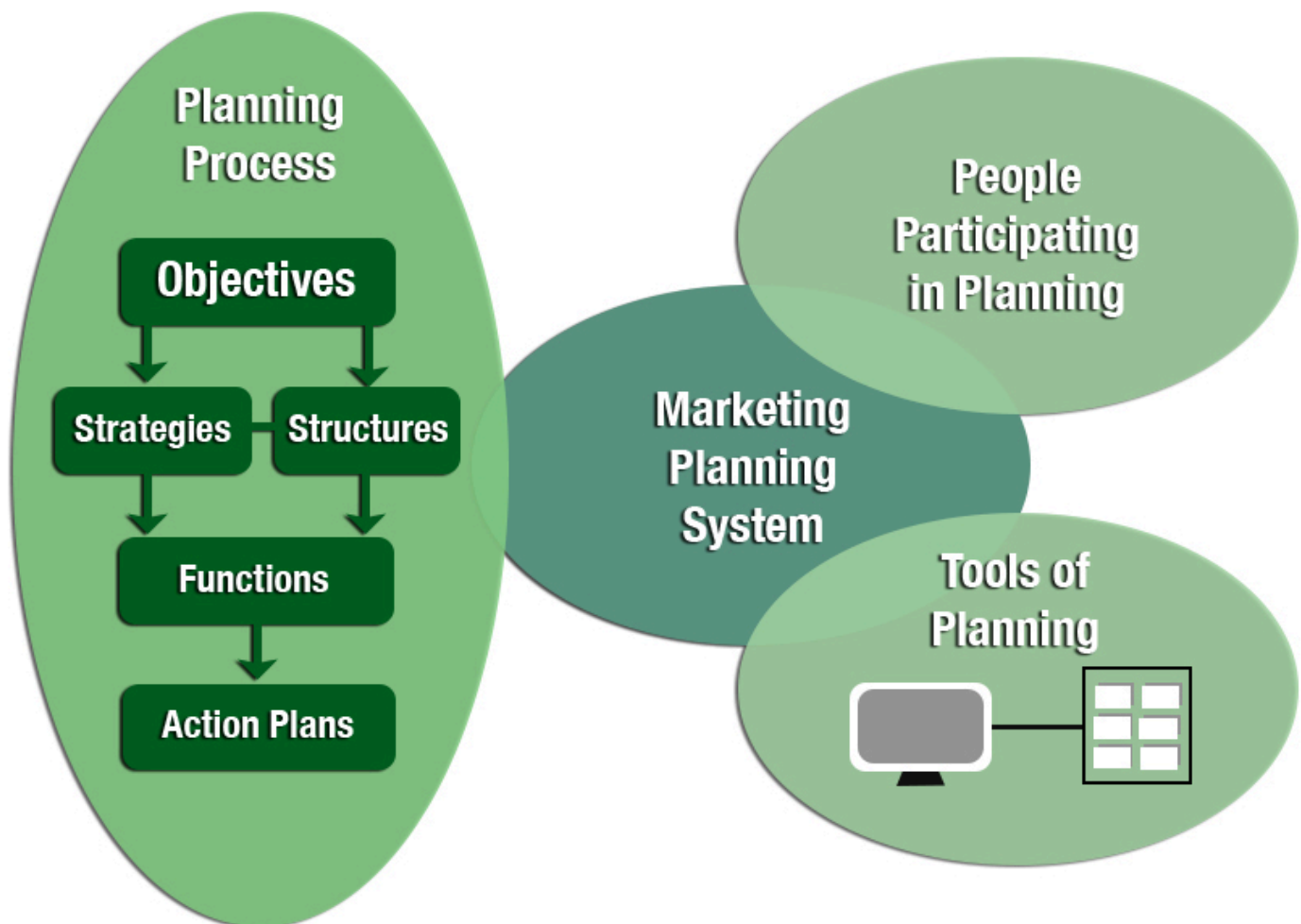


Figure 5-10: Marketing Planning System

Marketing Action Plans

Marketing action plans are often called annual plans, operational plans, or simply budgets. What is important to remember is that action plans implement the strategic marketing plan on an annual basis. Production is allocated

to customers and markets defined in the strategies. This allocation produces quantitative market and customer targets for the planning period. Financial targets can be created by adding price estimates to the plans.

It is presumed that on an annual basis, marketing structures are constant and follow the strategic plan. Marketing functions also follow the principles of the strategic plan, but specific annual plans are necessary in order to define how and when various marketing measures are used during the planning period, how much money is budgeted to marketing functions, and so forth.

Often, annual planning begins by updating strategies. If changes are needed, they are made, and structures and functions are then changed accordingly. Updating strategies is followed by other stages of marketing action plans. Chapter 7 offers an example of actual annual marketing planning.

Plans for Shorter Planning Periods and Follow-up

Shorter planning periods may mean quarterly, monthly, weekly, and daily planning. The market situation is dynamic – customers sometimes do not behave as expected, prices often fluctuate, and so forth. Reallocation of market and customer targets might be necessary. The better marketing can cope with its plans, the better possibilities there are for reasonable production plans. Regular follow-up is needed to determine how well plans have been carried out and if corrections are needed.

People Participating in Planning

Marketing planning is done in a team setting. All the people involved in executing the plans should be included in the planning processes, and several different teams may be needed. When strategies of an SBU are defined, they must be in accordance with divisional strategies. Division managers, SBU level managers, production managers, marketing managers, and sales managers must participate in the planning or updating of SBU-level strategies.

While it may not be necessary for division managers to participate in creating action plans on the SBU level, it is important that the SBU level manager, marketing manager, production manager, and sales manager all participate. Representatives of support functions may also be included. When quarterly, monthly, weekly, and daily planning is in question, people from lower organizational levels, especially from production facilities, are needed.

Tools of Planning

As mentioned above, planning and information systems have become increasingly integrated due to developments in IT. Planning systems cannot be described without information systems, and vice versa. As illustrated in Figure 5-10, tools of planning include information files, models, and methods to process information. Both external and internal information is used. In chapter 3 we broadly analyzed external information in marketing planning.

5.3.2 Information Systems

The first step in planning and decision-making is effective use of information and information systems. There is always room for improvement in the use of information. It may be that the manager has insufficient information, there is information that he or she does not know how to use, or that decisions are based on intuition even though the right amount and type of information was available.

In principle, every organization has some kind of information system, be it informal or formal. Broadly speaking, information systems can cover all the systematic processes that create the knowledge needed in business

planning or everyday decision-making. A narrow definition of information systems refers to electronic systems and processes for collecting, analyzing and filing information for decision making in the organization.

Figure 5-11 presents how an information system acquires, processes, and files both internal and external information. Based on this view we can briefly define a marketing information system as follows: **A system that acquires, processes, and files both internal and external information to be used in marketing.**

Acquisition and Processing of Internal Data

Traditionally, sales figures, manufacturing costs, operating costs, and inventories have been the key data incorporated in the information system. Today, in principle, all company processes can be continuously traced by electronic systems and described through key figures/metrics that can then be used to improve those processes.

Accounting systems also produce internal information to be used in marketing planning. Financial accounting gives an overview of the financial situation while management accounting is designed to help managers make decisions.

Profitability information should always be emphasized in information systems since it is central in all strategic decision-making. Information systems must be planned so that profitability of products, customers, and market areas can be followed, as well as the costs of marketing structures and functions (especially logistics).

Acquisition and Processing of External Data

Acquiring information in a company can be irregular or regular, unsystematic or systematic. Typically in smaller wood industry companies, information acquisition is irregular and unsystematic. As companies grow, their information functions clearly become more sophisticated. The intensity and type of external data acquisition may vary considerably.

- Information may be collected as a part-time job in conjunction with everyday operations. Sales people report their customer visits, marketing managers follow trade magazines, intermediaries send market reports, and marketing research projects are conducted periodically.
- There may be full time information officers, marketing researchers, or marketing intelligence services or departments.
- Information needs may be partly or totally outsourced. Information for everyday operations or marketing planning is purchased from information agencies or research and consulting firms

Information Files

Collecting, analyzing, and storing information demands very specific skills, knowledge, and systems. Outsourcing may seem a natural choice to acquire these necessities. However, information is a strategic resource that the company should control. For example, information can be a success factor and a source of competitive advantage only if the company learns effective information management.

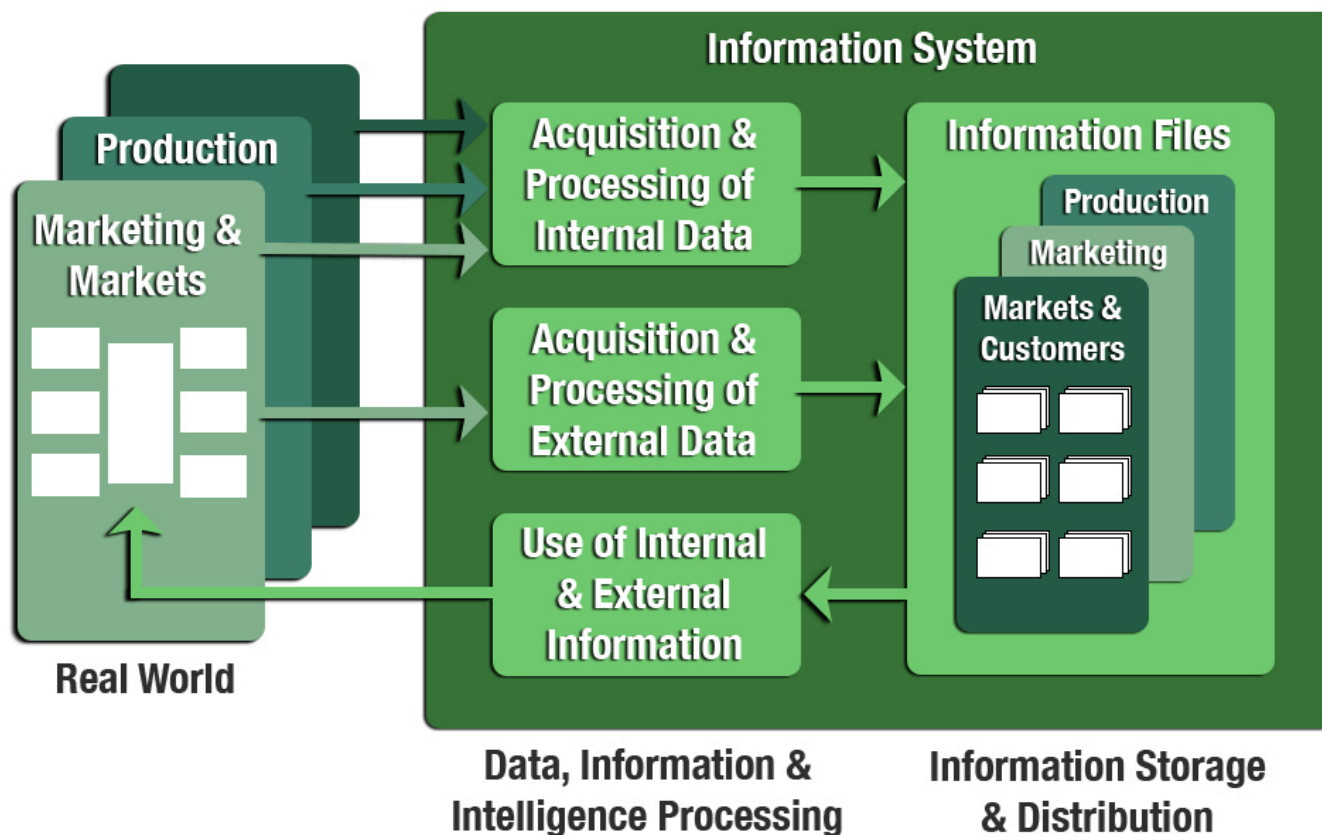


Figure 5-11: The Idea of Information Systems

In any case, information management has proved to be a problematic issue. If information acquisition is irregular and unsystematic, it may be that information files are totally lost. Market research reports may be unused and simply gathering dust on the shelf of a manager. If full-time information officers and/or separate departments are responsible for information files, it may happen that the information is not used by those for whom it is meant – marketing directors, managers, and salespeople.

The biggest challenge with information files is to assure that the structure, content, and user interface are appropriate and attractive. The information should be in a form to help with everyday decision making situations or planning processes. The technical possibilities to construct information files (databases) are nearly unlimited. The one responsible for information files must fully understand the idea of marketing, marketing planning, and information in order to construct appropriate and attractive systems.










Use of Internal and External Information

As mentioned earlier, information should be in an appropriate and attractive form to be used in everyday decision-making. This means that the information must be compiled into a form that is easy for managers to use, whether it comes through a decision support system, or even a simple research report. Earlier this sort of information was available only in the manager's office either in paper form or directly from a desktop computer. Today, information can be remotely accessed to assist decision-making in the field. As Figure 5-11 shows, marketing plans are implemented and feedback information is returned to the company's information system. In many cases a manager will have a "dashboard" on her computer that displays key metrics for her area of responsibility.

The dashboard will be tailored to her specifications so that she has precisely the information she wants at her fingertips.

5.3.3 Relationship between Marketing Strategies and Planning and Information Systems

Advanced decision-making demands sophisticated information. Specifically, special and custom-made product strategies require more advanced planning and information systems than commodity product strategies. Toivonen analyzed this relationship empirically and based on a broad literature review drew the hypotheses seen in Figure 5-12.⁴² Empirical data from the Finnish forest industry supports these hypotheses. The more selective the marketing strategy, the greater the emphasis on applications which support information services and consulting type of services in the marketing information system strategy.

Marketing Strategy	Marketing Information System Strategy		
	Routine Sales System	Information Service Systems	Consulting System
Commodity			
Special			
Custom-made			




 **Appropriate**
  **May fit**
  **Questionable**

Figure 5-12: Hypotheses of Connections Between Strategy and Information Systems

5.4 MARKETING CHANNELS

5.4.1 Concept and Nature of Marketing Channel

In most cases a forest company does not sell its products directly to the consumer. Products are transferred as a result of the cooperation of various companies and organizations. The marketing channel can be viewed as a link between the producer and the consumer. We define **marketing channel** as all the organizations, functions and flows that are needed to get the product or service from producer to customer. Sometimes the term marketing channel is confused with the **channel of physical distribution**. According to our definition, physical distribution is a part of the marketing functions in a marketing channel, but there are also many other functions. A **channel of physical distribution** contains all those organizations and functions that facilitate the physical flow of products. A channel containing buying and selling organizations, or those organizations facilitating buying and selling,

can be called a **contact channel**. Marketing communication and collecting market information are examples of marketing functions facilitating buying and selling. So a company's advertising and market research agencies are part of its marketing channel.

From a production point of view, the marketing channel might be seen as a buffer between the production unit and the environment. It should cushion the shocks and discontinuities coming from the market. This is especially important in capital-intensive, process industries like the paper industry since there must be a continuous flow of raw materials to the production core of the company and continuous flow of products from the production core to the markets. It is the responsibility of marketing and the marketing channel to assure this continuous flow. In some cases the speculative behavior of the marketing channel intermediaries strengthen the fluctuation of demand. This happens most frequently with commodity products like sawn timber and pulp, where the marketing channel can work against its original purpose and principles.

Because connecting the producer and the customer can be seen from many different perspectives which emphasize different issues, it is worth reviewing the following definitions:

Marketing Channel – creates a relationship between the producer and customer. Included in that relationship are all the measures needed to move products and/or services from producer to customer. The relationship can be direct or through intermediaries (merchants, agents or facilitators). The marketing channel concept emphasizes managing the relationships between marketing channel members to execute the marketing measures to the full satisfaction of the customer.

Channel of Physical Distribution – enables the transportation of products from mill to customer. It contains the organizations which facilitate the physical movement of products. The basic components of physical distribution are order processing, inventory control, material handling, transportation, and warehousing. Physical distribution emphasizes satisfying customers with the right product in the right place at the right time at a minimal cost with the desired service level.

Supply Chain – The supply chain begins earlier than the marketing channel and includes raw material supply and manufacturing. Supply chain management (SCM) can be defined as management of upstream and downstream flows of products and information between raw material suppliers and customers to deliver superior customer value at less cost to the supply chain as a whole.⁴³ SCM emphasizes optimized product flows and abundant and transparent information flows.

Value Chain – A supply chain can be interpreted as a value chain creating value for the customer all the way from the source of the raw material to the final end-use of the product. To gain competitive advantage over its rivals, a firm must promote value to its customers through performing activities more effectively than its competitors or by performing activities in a unique way that creates superior buyer value.⁴⁴ The value chain emphasizes optimal or differentiated accumulation of customer value.

Distribution System – Each market has its own structure of marketing channel intermediaries. This structure provides possibilities and limitations to the marketer in arranging marketing and choosing marketing channels in that particular market. We call the structure the “distribution system of the market.”

Because a marketing channel is a group of independent organizations that work together to make a product or service available to a customer, it can be seen as a network creating value for the customer. There are three basic kinds of organizations within the channel. First are intermediaries that buy and sell a product (take title). These **merchants** can be organizations such as wholesalers, stocking distributors, and retailers. Agents do not take title of the product, but negotiate a deal between the buyer and the seller and often make

transportation arrangements. A final set of organizations provides services that facilitate the activities of the marketing channel and are called **facilitators**.⁴⁵ Facilitators consist of companies involved in transportation, storage and warehousing, advertising, finance, insurance, and marketing research.⁴⁶

5.4.2 Objectives and Functions of Marketing Channels

Objectives for a company's marketing channel are dictated by product, customer, market area, and core competency strategies. For example, the marketing channel must move the product defined in the product strategy to the customers and markets defined in the customer and market area strategies and be supported by the company's core competencies.

The objectives of marketing channels can also be defined more precisely – if, for example, customers emphasize reliability of delivery, the company should also emphasize this aspect in its objectives. If the company is emphasizing special or custom-made products, the marketing channel must be able to carry information and create closer contacts with customers.

A number of different flows occur in a properly functioning marketing channel:

Product flow – physical flow from producer to customer

Negotiation flow – deal making among members of the channel

Ownership flow – movement of product title among the channel members

Information flow – both up and down the chain

Promotion flow – advertising, etc. used to communicate with customers⁴⁷

Merchants, agents, and facilitators perform a variety of functions to assist in delivering a product to the customer. A company can own or control major components of the marketing channel. Larger companies in the North American forest industry commonly developed their own distribution businesses in earlier times, but most have exited this business area. For example, Georgia Pacific was a major distributor of building products in the US, but chose to sell that business (now operates as BlueLinx). Global paper companies tend to operate their own marketing channels, at least for their largest customers. However, smaller companies are more reliant on other organizations to form the marketing channel. This is also true of larger companies, if they are serving a diverse set of small customers or final consumers. A final consumer usually wants to:

- Buy small quantities at a time
- Buy from a close-by location
- See the product before purchasing
- Buy other products at the same location
- Easily access service designed to his/her needs

Because consumer preferences are so specific, few companies have the resources necessary to provide all the functions of a full marketing channel. Even if a company has the resources to have its own captive marketing channel, it may not be in its best interest to do so. Instead, it may be more productive for the company to concentrate on its core operations.

Intermediaries in the marketing channel provide services that benefit both the producer and the customer. In

essence, they shorten the distance between the producer and the consumer in terms of time, culture, etc., and they move information in both directions. Below is a summary of some of the key functions of intermediaries.

Relationship maintenance with final consumer – With a product that is consumed by many people, it is difficult to maintain so many relationships. As the customer base in some sectors moves increasingly towards end-users, the number of contacts increases rapidly. An intermediary can take care of this. On the other hand, if a company's total customer base is few in number, it may make sense to have in-house sales and distribution.

Handling details of price and delivery with final consumer – Every time someone orders a product, a transaction cost is incurred. Once again, if there are many customers placing orders, it may be advantageous to let an intermediary handle much of the order taking. For sawn timber, the average importer may buy 1000-2000 m³ per shipment, whereas the average industrial end-user may need only 50-100 m³. Using an intermediary allows the company to process a few large orders from the intermediary rather than numerous small orders from final customers, effectively reducing total transaction costs.

Provide credit/collection – accounts payable can be a significant problem for the small business, as the delay in payment interrupts cash flow. Another significant problem is bad debt – those companies that buy a product but choose to never pay. Letting an intermediary handle credit and collection effectively lowers risks. In addition, changes in the global financial system as a result of the Great Recession has increased the difficulty for small companies to obtain debt financing or a line of credit.

Provide inventory/storage – Space constraints, inventory holding costs, demands for just-in-time delivery, and demand for large orders all may be good reasons to let an intermediary take care of inventory and storage. To the extent that the intermediary can provide these services more efficiently, the producing company's costs may decline and total product utility may increase.

The functions of marketing channel intermediaries can be derived by analyzing the basic task of marketing and can be classified according to the functions mentioned in the Integrated Model of Marketing Planning:

Personal contacts

- Maintain personal contacts with industrial end-users
- Maintain personal contacts with other intermediaries

Marketing communication

- Direct advertising to the end-user
- Produce newspaper/magazine advertisements
- Produce brochures and similar material
- Conduct product demonstrations or participate in trade shows
- Carry out public relations work

Market information

- Collect and transfer market information
- Carry out marketing research for marketing planning

Functional communication and service (routines of marketing/selling)

- Deal with all sales contacts
- Deal with contracts and agreements
- Transfer title
- Service the product and provide other services (e.g., maintaining displays)
- Provide customer service

Product planning

- Provide market and customer information for product planning (product development)
- Contribute/participate in new product development teams

Pricing

- Provide market and customer information for pricing

Physical distribution

- Arrange transportation
- Warehousing
- Provide bulk breaking service

5.4.3 Structure of Marketing Channels

Structural Alternatives

The concept of the marketing channel structure refers to different intermediary chains functioning in the marketing channel. In theory, almost any combination of intermediaries is possible; however, for any one industry sector, there will be only a few combinations that account for the majority of product flow. For example, the producer might use an in-country (domestic) agent in order to export products to another country. That agent might arrange for the product to be sold to an importer in the other country that in turn sells the product to an industrial end-user and, finally, the product arrives at the final consumer. Figure 5-13 provides examples of marketing channel structure alternatives.

A significant change over time in marketing channels has been disintermediation. In other words, intermediaries are being eliminated from the channels, in favor of more direct distribution. In the 70s, small sawmills might have utilized a channel that included export and import agents, an importer, and a distributor. However, by the 90s this had changed significantly, with larger companies using a more vertical structure with more steps under their immediate control (Figure 5-14).

Intermediaries in the Marketing Channels

The role of intermediaries can vary depending on market areas and the historical developments of trade and marketing channels in a country or region. In some countries big importers are dominating the majority of retail trade. In other countries, agents have an important position in the marketing channel. The same company can perform the jobs of several traditional intermediaries. Generally it can be said that there are fewer intermediaries

today than in the past. This is partially a result of larger customer or producer companies and the power they bring to the marketplace. However, equally important is a new preference by customers, especially industrial end-users, to deal directly with the producer rather than an intermediary. Often they want to deal with the person in the mill that can actually make decisions rather than filter the communication through different levels of intermediaries.

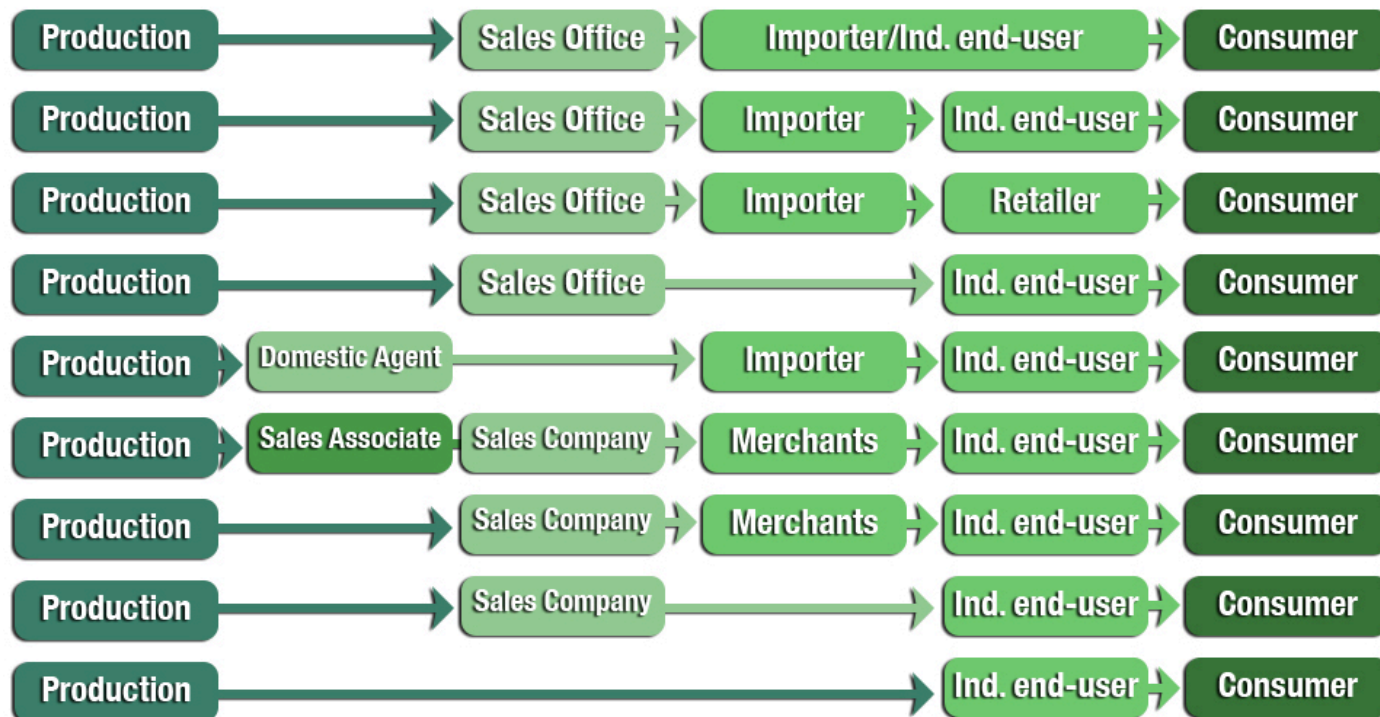


Figure 5-13: Important Marketing Channel Alternatives

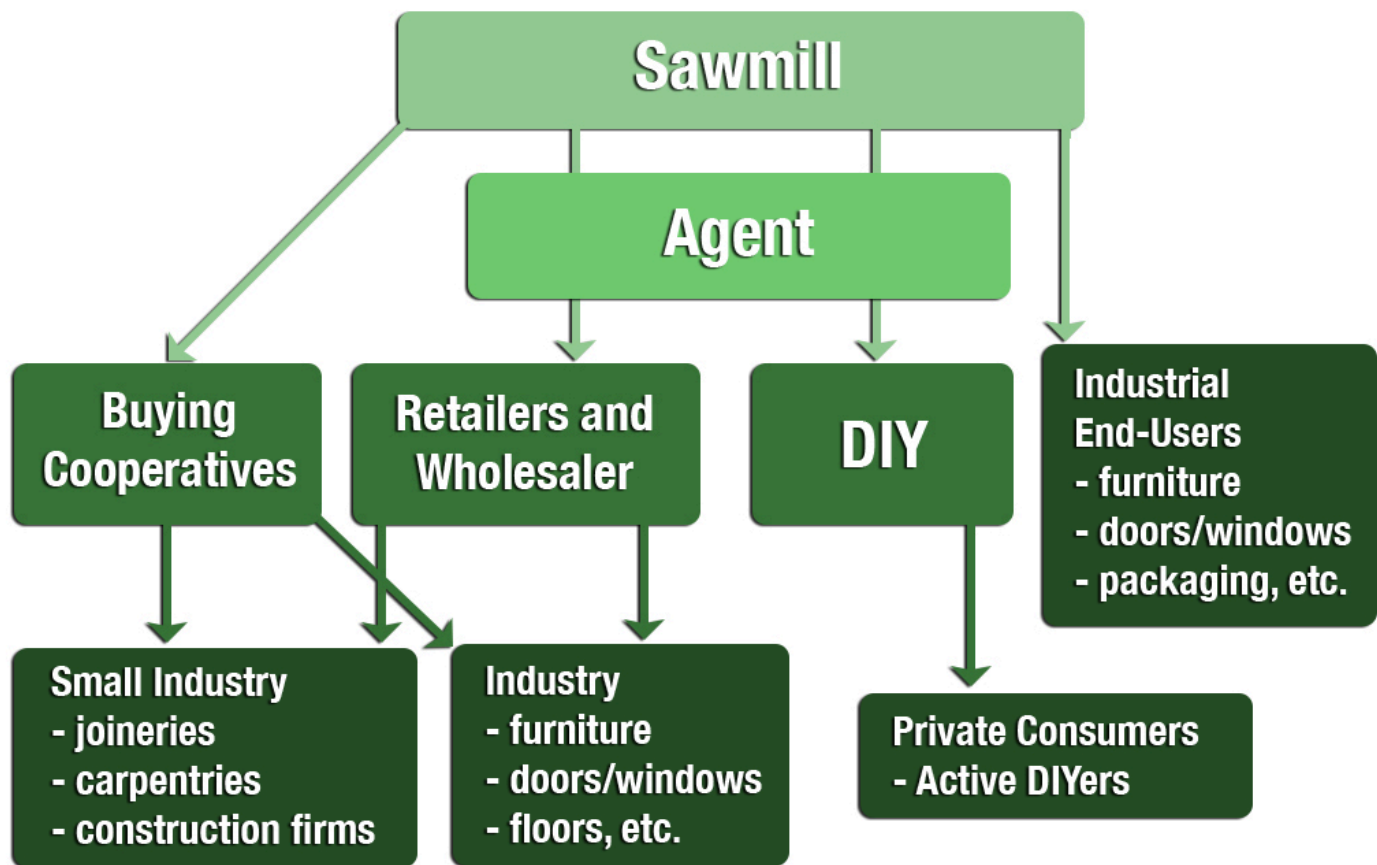


Figure 5-14: Example Channels from a Scandinavian Sawmill to the German Market

It is important to note that names for intermediaries differ from one country to another – and even sometimes within countries – even when they provide much the same service. For example, the US Census Bureau divides wholesalers into three different categories:⁴⁸

Those that sell goods on their own account – wholesale merchants, distributors, jobbers, drop shippers, import/export merchants.

Those that sell goods manufactured by the parent company – manufacturers sales branches and offices.

Those that arrange sales and purchases for others for a commission or fee – agents, brokers, commission merchants, import/export agents and brokers, auction companies, and manufacturers' agents.

While this categorization is useful, it does not fully describe the situation in the wood products industry. For example, in the first category above, the Census Bureau states that goods are generally sold without transformation. This is not always the case in the wood products industry, as is shown in the discussion of wholesalers below. In fact, one major category of wholesalers in the wood industry is those that re-manufacture and resell the product. In the following sections we give an overview of the major intermediaries in the forest industry marketing channels. Example 5-4 provides examples of each of the types of intermediaries outlined below.

Example 5-4: Examples of Intermediaries in the Value Chain

Agent – [Gratenau & Hesselbacher GmbH](#)

G&H is an international trading group located in Hamburg, Germany. The company was founded in 1874 and is involved with trading pulp, paper, and packaging products.

Sales Office – [Stora Enso](#) (France)

Stora Enso maintains a sales office in Lormont, France for its wood operations.

Importer – [Vanport International, Inc.](#)

Vanport International does both imports and exports via its head office in Boring, Oregon as well as through its representatives in Japan, Europe, South America, and throughout Asia.

Wholesaler – [Forest City Trading Group, LLC](#)

Forest City Trading Group, LLC was established in 1964 in Portland, Oregon. With 12 operating divisions and 305 traders, the company offers a wide range of lumber and panel products as well as other building materials.

Reload Center – [Westran Services Limited](#)

The Westran group of companies specializes in transloading services. Its roots are from 1985 when it was formed to provide British Columbian mills access to the Burlington Northern Railroad (now BNSF).

Industrial End-User – [9 Wood](#)

9Wood, Inc. is a manufacturer of suspended wood ceilings. Formed in 2004, the company is located in Springfield, Oregon. Their products utilize a variety of species and typically are used in high-end commercial applications.

Retail Store – [Kingfisher](#)

Kingfisher is a retail group that includes multiple store brands and employs nearly 80,000 people across 1,300 stores. One Kingfisher brand, B&Q, is a DIY retail chain similar to The Home Depot in the US. B&Q is the largest DIY chain in the UK with nearly 300 stores.

Agent

An agent is a general term for intermediaries that do not take title to a product but rather negotiate sales between buyer and seller. The two most common agents in North America are brokers and manufacturer's representatives. Brokers are common players in situations where large quantities of bulk goods are being handled. Manufacturer's representatives are like salespeople for hire; they substitute for a company's sales force. Manufacturer's representatives are still important in some parts of the building products marketplace in the Americas.

In countries that are more import- and export-oriented, export and import agents are common, ranging in size from very large organizations to one-person companies. The position of these agents has generally weakened in many market areas. For example the use of both export and import agents by Finnish companies has decreased because the number of small sawmills has decreased and the bigger companies have created their own sales offices in the main countries in middle Europe. In addition, even those companies without sales offices have developed the expertise to handle the services typically offered by an agent. Smaller agents who specialize in specific geographic areas and clearly identified end-use markets have more recently been formed. Today, large

companies typically use agents for smaller market areas and in countries that are not an important component of total sales.

Small companies still see agents as a cost-effective alternative when attempting to cover a wider market area.

With agents, the actual buy/sell agreement is made between the producer and the customer. For assisting in finding the customer and helping to negotiate the sale, the agent gets a commission (1-5% of the value of the trade minus delivery costs), which is paid by the seller. The commission is highly negotiable and varies depending on aspects such as risk, paying ability of the customer, delivery method, and volume. Some agents choose to shoulder some of the risks and may even provide financing for the customer. Agents can have several clients or may work exclusively for one company.

Advantages of Dealing with an Agent

- Have ready-made customer relationships and the ability to find new customers.
- Knows the market area (culture, language, business norms) and the end-user needs (particularly relative to an expatriate salesperson).
- Easier for customer to deal with native agent than expatriate salesperson.
- An easy and cheap way to start exporting; no need to deal with paperwork necessary for exporting.
- Can offer help in financing arrangements and payment collection.
- Often offer personal services (own person in the market).
- Is cheap compared to hiring a salesperson, especially for small volume market areas.

Challenges of Dealing with an Agent

- Typically have several clients and may make more money on one company's product and therefore concentrate efforts there.
- Usually does not provide deeper market information.
- Usually does not have deep knowledge of seller's production and are therefore unable to contribute to product development or even basic product choice.
- Knowledge of the buyer's needs can be vague since they often concentrate on day-to-day business.
- Can be difficult to direct.
- Can be unwilling to direct market information and feedback from the customers when they are afraid of the client making direct contact with the customers.

Sales Office/Sales Company

A sales office is a unit located in a foreign country that belongs to the producing company. A company may open a new sales office on its own, or it may purchase an existing business (e.g., an agent) and adapt it to its needs. Typically, big forest products companies have their own sales offices and/or sales companies in their most important export countries. The sales office takes care of selling the company's product in that specific market area and is responsible for every-day contacts with customers. It also provides feedback to the production sites and corporate headquarters regarding customer needs and market trends.

Advantages of a Sales Office

- The company's products receive the full attention of the staff.
- The company can better influence the marketing of its products and may form closer relationships with customers.
- Personnel in sales offices usually have good knowledge of the local area.
- Market information moves directly to the producer and is more exact.
- Staff understand the capabilities and possibilities of production facilities and has better capabilities for technical consultation.
- Direct contacts to industrial end-users can be created.
- Physical office and staff in-country creates trust among customers.

Challenges of Maintaining a Sales Office

- Maintaining a sales office is expensive and is beneficial only if the market area volumes are sufficiently large.
- Economic risks are higher.
- The company must commit more permanently to that market area, decreasing flexibility.
- The supplier's narrow product line may be insufficient for some customers.

Importer

Importers usually specialize in importing commodities. They may also have exclusive rights to import a company's products and to represent the company in certain market areas. In addition to storing and distributing the product, many importers also add value to the product through such activities as planing or drying. As with agents, import companies range in size, but importers are usually bigger than agent companies. Big importers sell most of their products to retailers like do-it-yourself retail chains and lumberyards or they may even own their own retail chain. Smaller importers usually specialize in serving specific end-use sectors with a more limited product selection.

Advantages of Dealing with an Importer

- Can provide quick and consistent payment.
- Arranges for storage and distribution, which is prohibitively expensive for many companies.
- Are professional buyers who understand the market area and the problems of the producer.
- Volume per transaction is typically large, which eases logistics and limits transaction costs.
- Products demanded are usually commodities and rather easy to produce.
- Less likely to make claims than an end-user because they have more possible outlets.

Challenges of Dealing with an Importer

- Can sell products under own brand, therefore not furthering the producer's brand recognition.

- Making connections to end-users and getting market information can be difficult.
- Importers speculate, which means they buy in large volume when prices are low, and do not buy when prices are high.
- May pay a lower price than an end-user.
- If a small company is dealing with a large importer, the importer is in a position of strength, and may make demands, such as for extra discounts, etc.

Wholesaler

A wholesaler is a specialist in matching seller products with buyer needs and can provide a number of functions that are of value to both buyer and seller. For example, in a marketplace where there are many small buyers of a commodity product, the wholesaler typically specializes in breaking down large shipments of product into delivery sizes appropriate for those small buyers. This function is typically difficult for the average manufacturer to do cost effectively. The wholesaler can also provide a wide array of other services such as re-manufacturing, packaging, grading, arranging transportation, and providing credit. Some specialty wholesalers may even provide services such as product demonstrations and training of retail salespeople. In North America, wholesalers of commodities can gross between three and six percent of the transaction value.

The roles of a wholesaler and an importer are in many ways the same. Both are buying, storing, and handling product in large quantities and selling in small quantities. The main difference is that an importer is buying from other countries, whereas a wholesaler is normally buying within the same country. In practice, the same company can serve as both an importer and a wholesaler. Wholesaling is usually specialized in certain product groups, just like the importer.

Wholesalers (i.e., paper merchants) are important in paper marketing. Even if the publishers and printing houses have the potential to buy directly from the mill, the mills are not always selling in small enough quantities or at the right times. Merchants distribute the large quantities of paper they have bought to publishers and printing houses in the quantities that they need. Many merchants are also buying straight from foreign mills which means that they are also functioning as importers.

Wholesalers are also important for solid wood products. As with agents, the role of wholesalers has declined somewhat, as the market has shifted towards direct marketing and distribution. This trend can be expected to continue in the future (Example 5-5).

Example 5-5: North American Lumber Wholesalers and the Great Recession

The Great Recession had a number of impacts on North American wholesalers. As the sawmill sector decreased production (by nearly half between 2007 and 2009), wholesalers faced limited product availability. Many wholesalers had developed niche markets based on species or market segment, limited supply was especially difficult for these specialty players. At the same time, buyers were changing their habits to deal with the recession and began buying smaller volumes and more highly mixed loads. Buyers tended not to take positions based on marketplace expectations, so large-volume orders became less common. Price volatility and judging market swings are important ingredients to the profitability of wholesalers. Price volatility changed dramatically during the recession. In 2006 the difference between the highest and lowest price for Douglas-fir standard and better

two by four was \$161/MBF, but by 2009 this spread had shrunk to \$31/MBF. Finding margin within such a narrow spread was especially challenging.⁴⁹

Advantages of Dealing with a Wholesaler

- Good knowledge of the markets and customers.
- Can more effectively serve industrial end-users like smaller printing houses that are demanding small, just-in-time deliveries.
- Can provide quick, consistent payment.
- Can act as a banking service by extending credit to customers.
- Can offer many other services such as transportation.

Challenges of Dealing with a Wholesaler

- Sells products from several producers and can favor one producer over another.
- Technical knowledge of the product is at times inadequate.
- Often buys product at the cheapest price from any producer; not committed to forming long-term relationships.
- Can label with own brand name rather than that of the producer.
- Tend to speculate on marketplace trends (Example 5-6).

Example 5-6: Speculation by Intermediaries

Historically office wholesalers (and other intermediaries) have speculated on the direction of the markets. If they feel the price is low, they might buy product without a customer in mind; conversely, they might sell product they don't yet own when the price is high. Typically this is done on a rail car or truckload basis. Speculating in this way can create high profits. Of course, there are also high risks of incorrect predictions. The following explains some of the terminology used in these situations:

Long Position: A speculative position when a shipment is purchased without being sold.

Short Position: A speculative position when a shipment is sold without being purchased.⁵⁰

Reload Centers

Reload centers or transloaders in North America have developed because of the complexities surrounding transportation of wood products. Essentially, reload centers are logistics specialists that receive and warehouse products, list them in inventory, mix products to meet final customer needs, and ship them when needed. One of the main factors speeding their development was the need for producers to connect short haul trucking to long haul railroad.⁵¹ Prior to many of the rail mergers in North America, reloads were used to transfer materials between a supplier served by one rail line and a customer served by another. Another major factor has been the increase of demands, especially by large retailers, for just-in-time deliveries. This demand by retailers has effectively moved the inventory maintenance role back to the reloader. Reloads have become a place for both suppliers and customers to keep inventory. For example, large retailers tend to keep consignment inventories at

reloads and Canadian lumber producers often use reloads in the US as extensions of their mill inventories. Car swapping is also an important function of some reloads in the upper Midwest. By unloading Canadian railcars and transferring the product to US-based company railcars, the overall freight costs are reduced. While this may seem illogical, the rates charged by the Canadian company are lower because the cars are returned more quickly.⁵²

Advantages of Dealing with a Reload Center

- Reload maintains inventory (for shipper or buyer).
- High level of logistics expertise.
- Can effectively serve small customers.
- Can effectively provide just-in-time delivery.
- By carrying inventories closer to target markets, delivery times are reduced.

Challenges of Dealing with a Reload Center

- May not offer services to the end-user beyond delivery.
- More difficult for marketer to control quality of service provided.
- Adds costs.

Industrial End-User

An industrial end-user acts both as a user of the product and an intermediary. All companies that further process a product fit this category. Planing companies, furniture manufacturers, homebuilders, window and door manufacturers, printing houses, and packaging producers are all industrial end-users. Even though publishing companies don't themselves process a product further (they have this done by the printing house), they can also be included in this group.

Industrial end-users can buy products from any other member of the marketing channel. The biggest end-users are buying their products directly from forest products companies. Though it is changing over time, much of the volume purchased by industrial end-users is from wholesalers and importers. Smaller industrial end-users such as homebuilders also buy from retailers.

Advantages of Dealing with an Industrial End-User

- Knows the needs of different end use targets.
- Doesn't speculate as much as those that are purely distributing.
- If the supplier can offer just the right product and good delivery terms, the customer relationship can be long-term.
- May pay a higher price.
- Usually makes long-term contracts (3-12 months) including regular deliveries.

Challenges of Dealing with an Industrial End-User

- Wants to receive goods in small quantities.

- Does not buy a broad selection of products – only specific products needed.
- Because of small storage abilities, they can have high delivery requirements.
- Often requires special or custom-made products that are challenging for production.
- High likelihood of making claims if product characteristics are not suitable for specific end-use

Retail Stores

The retail group is very heterogeneous and includes companies selling products ranging from rough lumber to furniture. The aim of all retail companies is similar – to serve consumers and the smallest industrial end-users with the product selection they want in the way they want to buy. Product selection offered by a retail company is usually quite broad.

Retailers can be independent, part of a chain, or part of a dealer-owned cooperative. The traditional retailer was small and independent. For example, small lumberyards were the traditional retailers of building materials. This has changed as small companies have found it difficult to compete with large chain-store retailers and the resources they command. There are basically two kinds of retailers for building products. Do-it-yourself (DIY) retailers who target final consumers, and other retailers (pro dealers) that target professional contractors. The mix of products offered by each is quite different and depends on the needs of the target customer group.

In many countries around the world, large, warehouse-style retailers are becoming dominant players in the wood and paper products marketing channels. Because of their size, large chains like The Home Depot, B&Q, and OBI possess considerable buying power and are able to access supply more cheaply than smaller retailers. In addition, they have the resources to manage their own distribution systems, develop brand name merchandise, and guarantee low prices to their customers. The growth of this type retailer has had a profound impact on the marketing channels of the forest industry (Example 5-7).

Cooperatives are an attempt to combine the good aspects of small, independent stores and the buying power that accompanies large purchases. Many small retailers form an organization to buy large volumes of product that can be divided appropriately among the members. They may also cooperate to create generic advertising and other marketing communications. An example from the US is Ace Hardware. This cooperative has over 4,500 members with stores in all 50 US states and 60 countries. Retail sales of member companies total approximately \$12 billion.⁵³

Example 5-7: DIY Retailers Change Forest Products Marketing Channels

According to the Joint Center for Housing Studies at Harvard University, Americans spend over \$300 billion per year on repair and remodeling. This demand explains the prevalence of “Big Box” DIY retailers such as The Home Depot and Lowes. The Home Depot sales were approximately \$15 billion in 1995, but had grown to approximately \$100 billion by 2017. These big box retailers have forced a major shift in distribution practices away from the use of intermediaries and toward dealing directly. The lines between manufacturers, wholesalers, and retailers have blurred, as large manufacturers have created their own distribution companies and retailers have developed their own major distribution centers, effectively integrating the functions of most intermediaries.⁵⁴

5.4.4 The Marketing Channel as a Social System

When establishing, developing, and managing a marketing channel, it should be seen as a whole – as a system or network or a set of organizations outside company borders. When analyzing a marketing channel, we are interested in its structure and functioning. The structural components of a marketing channel and channel intermediaries have already been described. With respect to the functioning of a marketing channel, it is important to analyze the relationships among intermediaries. After a marketing channel has been established, changes and corrective actions are mostly necessary when intermediaries are not performing as expected or when there are other conflicts in the relationships among intermediaries. We can gain a deeper understanding of the functioning of a marketing channel by considering it as a social system.

It is important to remember that a marketing channel is not only a rationally-managed economic system, but also a social system where most of the typical behavioral features of social systems are present. A social system results from the socio-cultural interaction of a person or group of people (organization).⁵⁵ Business-to-business marketing channels should especially be considered as social systems, because of the multifaceted relationships a firm has with its partners (suppliers and customers).

The most central relationships among members of a social system are:

- Power relationships
- Role relationships
- Communication relationships

These relationships have a significant impact on the functioning and performance of the whole system. Management of a marketing channel is all about regulating these relations. Problems in power relations, roles, and communication lead to channel conflict, which impacts the performance of the channel. Solving conflict requires management actions either in the structures or in the functions of the marketing channel. On the other hand, the ability of the producer (supplier) to influence the marketing channel structures or functions also depends on the social relationships in the marketing channel. The producer may not have sufficient power to influence the behavior of the other members of the system. These ideas are summarized in Figure 5-15.

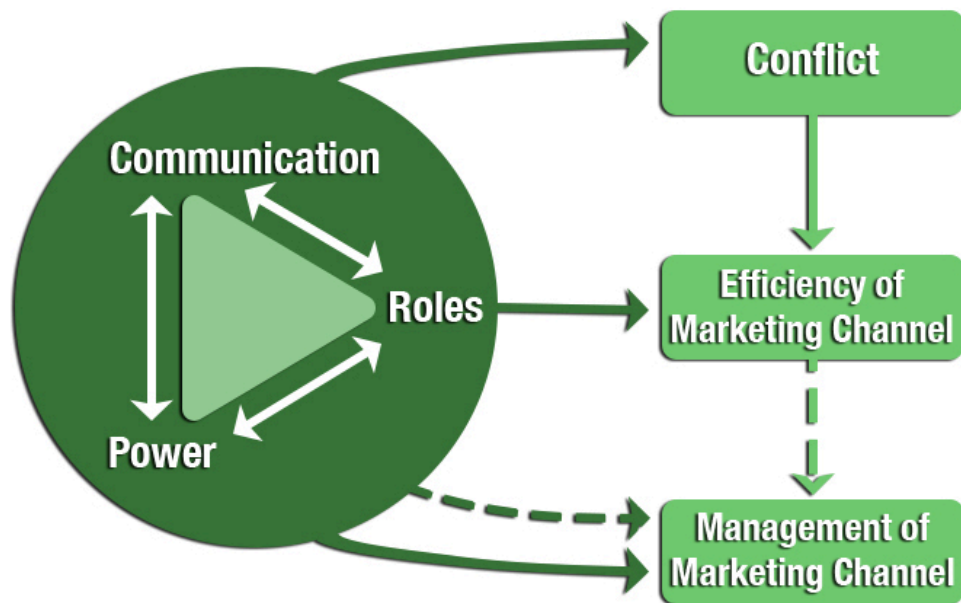


Figure 5-15: Basics Factors Affecting the Efficiency of the Marketing Channel

Power in Marketing Channels

As Figure 5-15 indicates, power has an impact both on role formation and communication.

Power in the marketing channel can be defined as a channel member's ability to get another member to do something it otherwise would not do^{56,57} For example, a producer's power over a merchant can be seen in how well it persuades the merchant to act in the way it desires.

Power is often seen as negative phenomenon; people do not want to acknowledge it in the relationships of individuals or organizations. Therefore, power must be used with care. A channel member that exerts too much overt power on other members of the chain creates enemies. Even cooperative relations also contain power aspects. Managing a marketing channel requires an understanding of power relations and the ability to influence them.

Power relations in a marketing channel are not always readily evident. The hierarchical structure typical in organizations is generally absent in marketing channels. However it is easy to see and understand that marketing intermediaries are mutually dependent upon each other. Dependency is an outcome of motivational investments to the relationship and the possibilities (options) outside the relationship.⁵⁸ For example, the power of an importer over a manufacturer is dependent upon how large a proportion of the manufacturer's production the importer sells and/or how big and important market the importer covers (producer's motivational investments). The power of the importer is also dependent upon the ability of the producer to pass the importer (to use other marketing channels, to sell to other markets etc.). Social psychological theory suggests the following five sources of power:

Coercive power – if an organization can force another to act in a certain way by threatening to terminate a relationship, it has coercive power.

Reward power – if an organization has benefits in its possession that are valued by the other, it has reward power.

Legitimate power – an organization has legitimate power over another if the other approves use of power because of tradition, norm, law, contract, etc.

Expert power – if an organization has specialized knowledge, skills, or other capabilities that are of value to other organizations, it has expert power.

Referent power – when an organization is so well respected that other organizations are proud to be associated with it, it has referent power.^{59,60}

So the sources of power are those resources possessed by one partner that are important to the other partner in reaching its goals. Accordingly, the sources of an agent's power could be:

- Knowledge of markets
- Steady clientele
- Long-term customer relationships
- Broad product range
- Sympathies of the customers

An agent's power may be strong over a supplier (producer) who doesn't have enough volume or capital to establish its own sales unit. Existence of an intermediary always reduces the producer's power over the customer.

Other channel intermediaries have similar potential sources of power. For example, an importer might have the same sources of power cited above for the agent plus the following:

- Good (broad) market coverage
- Possibilities for multifaceted customer support
- Good connections to end-users
- Big volumes of trade and steady economic basis

Roles in Marketing Channels

As in an organization, a social system is composed of positions (roles). The total structure is formed around the principle of division of labor, and labor is divided in such a way as to reach the goals of the system as effectively as possible. The functioning of the system is based on reciprocity and mutual expectations of the functioning of the system.

Each intermediary has its own role in the marketing channel structure. The performance of a marketing channel depends on how the functional roles in the system have been differentiated, whether the functions are appropriate from the whole systems point of view, and if reciprocity is working as it should.

The starting point for division of labor and role definition in a marketing channel system is the basic task of marketing – moving the products from production to consumption (right product, at right time, in right place, to right customer). Marketing channel managers must understand and be able to discern why a channel intermediary behaves as it does and where marketing channel conflicts originate.

The intermediary's objectives, perceptions of its role, and role qualifications (knowledge, skills and motivation) are the internal factors modifying role behavior. When choosing a sales representative (intermediary), the marketer should carefully analyze the objectives of the candidate, what the candidate sees as proper tasks and functions of a sales representative, and whether the candidate possesses the necessary qualifications.

External factors also influence the intermediary's behavior, according to its own interpretation of basic marketing tasks. Changes in the operating environment (distribution structures, business cultures etc.) have an impact on the behavior of the intermediary. According to theory, role partner expectations are the primary factors in modifying role behavior. Again it must be emphasized that role expectations are interpreted by the role position holder. In a marketing channel an intermediary must balance expectations from all its role partners and adjust the expectations to its perception of its own role.

In the following sections we cover the sorts of conflicts role behavior and different role perceptions and expectations can cause and how to manage the conflicts.

Communication in Marketing Channels

Communication in a marketing channel is different than power or roles. Information is a driving force of marketing, and information and communication are tools in the implementation of marketing measures. According to one definition, marketing is the creation of a communication relationship between producer and consumer. The longer the marketing channel, the more important are the communication issues and the more difficult it is to attend to them. Communication problems can be especially problematic in international marketing. Building and maintaining two-way channels of communication is one of the most important tasks of the international marketer.

Communication challenges in international marketing have created the need for several intermediaries between producer and customer. Communication problems have been one reason for the strong position of agents in international trade of forest products. As conditions have changed (i.e., globalization) and the skills of producers have developed, the need for intermediaries has diminished or almost disappeared. Nowadays it is often said that the existence of several intermediaries *causes* communication problems rather than removing them.

Information, communication, and power are closely related. Information can be a source of power. If an intermediary offers the only communication channel between producer and customer it has considerable power over the producer. Acting as a gatekeeper always creates a power advantage. In many cases an intermediary may attempt to keep a power advantage by not sharing information, or by sharing only the information that works to their favor.

Conflict in the Marketing Channel

We define conflict in a marketing channel as a situation where one channel member feels that reaching its objectives has become more difficult or has been totally prevented because of the behavior of another member. Conflicts in a marketing channel can be analyzed through the closely interrelated concepts of power, roles, and communication.

Power Conflicts

The root of conflict in the channel is the interdependence of channel members. This interdependence means, for example, that the individual objectives of the channel intermediaries should be parallel with the general objectives of the channel. If this is not the case, the general objectives should be clarified and individual objectives harmonized to be compatible with the general objectives. This requires an actor capable of defining the general objectives and making the individual objectives parallel. Sometimes this kind of actor is called a "channel captain."

It is inevitable that when managing a marketing channel, power relations emerge. If the power relations are not harmonious, we say there is a power conflict in the channel, making it very difficult to implement changes to

enhance channel efficiency. Diffuse power relations may also cause a power conflict, as an intermediary may not have made it clear for whom it is working.

Role Conflicts

Role conflicts that are harmful to the performance of a marketing channel are based either on role expectations or role behavior.⁶¹ There are three types of conflicts associated with **role expectations**:

- The objectives of the role holder and role partner can be conflicting. Example: The producer wants to sell value added products but the intermediary prefers commodity products and volume sales.
- The expectations of various role partners are conflicting. Example: The producer wants an agent to emphasize her own products. The importer wants an agent that has wide and multifaceted product assortment, which generally requires products from several producers.
- Simultaneous competing roles. Example: The intermediary has several principals, which means that the intermediary has a role in several marketing channels.

There are also three types of conflict situations associated with role behavior:

- The rights and responsibilities connected to a role are not balanced. Example: An intermediary considers that the commission is not enough for the marketing activities required by the supplier.
- Role qualifications are not adequate. Example: Resources of the intermediary are not sufficient to collect market information needed in the producer's marketing planning.
- Motivation for proper role behavior is missing. Example: An intermediary may be interested only in operations creating instant economic revenues, and the motivation for long-term marketing investments may be missing.

Role conflicts may make it necessary to restructure the channel by, for example, establishing a sales office, as we will see in the next section.

Communication Problems

Communication problems are the most frequently cited cause for ineffective organizations. In marketing channels it is typical that there is insufficient communication between the most distant channel members. For example, there may be frequent communication between an agent or sales office and the producer, but the producer may know nothing about the problems the retailer has with the products or service. As mentioned above, the longer the channel the more possibilities for communication problems.

The information transmitted in communication relations may also be inappropriate. An intermediary may supply lots of market information dealing with the general demand/supply situation, but this may be of little use to the producer, who needs exact descriptions of end-use and end-users for strategic marketing planning. A major communication conflict can be caused by an intermediary misusing its gatekeeper position by hiding information to maintain its power advantage.

Managing the Marketing Channel as a Social System

Based on the principles of social systems, it is easy to see that marketing channels should be managed as social systems. **Power relations** should be harmonized, should satisfy all participants, and should allow execution of necessary marketing tasks. According to the principles of strategic marketing, marketing channels should implement marketing strategies. The producer should have the power to define appropriate structures and

functions for its own marketing channels. If this is not the case, the producer should create measures to increase its relative power. In some cases, however, marketing channels may restrict execution of marketing strategies and the producer must adapt its strategies to the prevailing marketing structures.

Roles may be the most important area when managing the marketing channel as a social system:

- The roles of the various channel positions must be defined as precisely as possible.
- The role behavior of each participant should meet the role definition.
- Each participant should have a proper perception of its role.
- Each participant must have the appropriate expertise to carry out the role.

It is important that there is an appropriate amount and type of communication within the marketing channel. Efficient and sufficient communication is the glue that holds the marketing channel together, and at the same time, the lubricant that keeps it running smoothly. Example 5-8 demonstrates market channels as social systems through the context of the export marketing channels of the Finnish forest industry.

Example 5-8: Marketing Channel Evolution of Finnish Companies

Situation in the Marketing Channels in late 1970's

In late 1970's, a softwood purchasing manager of a UK importer was asked how he evaluates the marketing skills and operations of Finnish sawmills. Slightly surprised by the question, he answered, "No marketing is needed. It is enough that Finnish sawmills have the right volumes of the right kind of sawn timber when an importer, through an agent, asks for it." This is a good description of the marketing channel situation at that time. The importer considered itself as channel captain that defined what kind and amounts of sawn timber was needed, and when. Agents were important intermediaries and most sawn timber was marketed through channels containing both agent and importer. Although the establishment of sales offices by producing companies had begun, there were typically few contacts with industrial end-users.

Marketing Objectives of Sawmills and Panel Mills

Although value-added timber was a central topic of discussion, sawmills basically only produced commodity products. However, a genuine need to develop operations was recognized, and it created a demand to improve the efficiency of export marketing channels. Serious strategy discussions were started in the early 1980s to begin producing special and custom-made products. The panel industry had started specializing earlier and already had special and custom-made products and selective customer strategies. The clear strategic objective was to increase production and sales of value-added products. These strategic objectives were clearly reflected in the demands placed on the marketing channels. Different types of operations were needed and there was also much discussion about the need for structural changes. Marketing channels were in a state of transition, and channel conflicts were inevitable.

Power Relations in Marketing Channels

Both sawmills and panel mills felt they lacked power in marketing channels and needed more influence upon the operations of the channel. Structural changes in marketing channels appeared to be the only way of increasing

power, which meant establishing a sales office in important export market countries. Other sources of power could also be subsequently strengthened.

Channel intermediaries resisted this change and tried to maintain the power status quo. Consolidation restructured the distribution systems of the markets and made the established players in the markets even stronger. The resistance to change required producers to be active, systematic, and firm in order to execute the changes in the structures or functions of the marketing channels.

Roles in Marketing Channels

Role conflicts are typically connected to marketing development situations where a new type of behavior is expected from marketing channel intermediaries. The panel industry has experienced the strongest role conflicts because of changes in marketing strategies. According to the panel industry, agents were both unable and unwilling to sell value-added products. Traditionally, agents have not had the necessary expertise needed to conduct marketing measures connected to special and custom-made products. This has meant that sales offices replaced agents. The most active and advanced agents have developed special knowledge or skills of certain markets or products, and maintained their role in the marketing channel.

Because of their many competitive advantages, importers have maintained their role in the marketing channel for commodity products. On the other hand, their role has profoundly changed because (especially in some markets) most importers are also industrial end-users. This dual role makes them very strong in the marketing channel of sawn timber.

Communication in the Marketing Channel

Earlier we emphasized the importance of communication in marketing channels. Communication problems have been very evident in the marketing channels of both sawn timber and wood-based panels. Restructuring of marketing channels has been implemented to improve customer contacts. Information flows – especially from markets to producer, but also from producer to end-users – have been insufficient.

5.4.6 Design of Marketing Channels – Choice of Channel Structure

We see two different ways to approach the design of a marketing channel or to choose the channel structure. The design of a marketing channel can be seen as an independent business decision that takes place in an environment composed of the company and its products and markets, or it can be seen from the perspective of strategic marketing where the whole marketing planning context is considered. A company is free to choose its marketing channels for its products, but the environment places many limitations on this choice. Although many of the limitations in these two approaches are the same or similar, there are differences in the philosophy or basic principles in choosing the channel structure. Depending on a manager's philosophy, he or she may want to emphasize various aspects differently.

Choice Based on Characteristics of the Marketing Environment

It is popular to see the design of a marketing channel as an independent decision determined by various company and environmental factors. According to Kotler every producer sets channel objectives and chooses channel structures under certain constraints.⁶² These are customer and product factors, characteristics of intermediaries, competitive factors, characteristics of the company, and environmental factors.

According to Rosenbloom, there are six classes of determinants that influence the structure of a marketing channel⁶³:

- **Market variables** – Market geography, market size, market density and market behavior
- **Product variables** – Bulk and weight, perishability, unit value, degree of standardization, technical versus non-technical, newness
- **Company variables** – Size, financial capacity, managerial expertise, objectives and strategies
- **Intermediary variables** – Availability, cost, services
- **Environmental variables** – Economic, sociocultural, competitive, technological and legal
- **Behavioral variables** – Power, roles and communication

These factors are associated with both physical distribution and contact channels. Customers are mentioned on both lists. Kotler speaks about the customer's desired service output level and Rosenbloom refers to customers when mentioning market behavior under market factors.^{64,65} Whatever the approach is when designing marketing channels, the customer must be the first consideration. The chosen marketing channel structure should maximize total product utility for the customer.

Where does the customer want to purchase the product? – Some consumers like to shop in upscale stores with many amenities, while others like large discount centers with bare concrete floors and low prices. Still other consumers want the convenience of sitting at home and buying products online. Where the product is placed will contribute to or detract from the image that the company is trying to develop for itself and its product. For example, an up-scale image cannot be developed on the shelves of a discount store.

Who does the customer want to deal with? – Is the customer accustomed to dealing with a specific broker or wholesaler? If so, it may be imperative to involve that intermediary in the process. On the other hand, many buyers like to deal directly even with very small manufacturers.

In what form does the customer want to receive the product? – Is the customer a low volume or high volume user? Will the customer be purchasing one item, a case, a gross, or a truckload? Each of these scenarios potentially involves a different marketing channel structure. With some products it may be necessary to develop different structures for different target markets. Small manufacturers may face a situation where they cannot supply sufficient volume to satisfy many customers. This is an example of when a wholesaler can play a significant and valuable role. By purchasing from numerous manufacturers, the wholesaler can accumulate enough volume to cater to larger customers.

How often does the customer want to receive the product? – The type, location, and size of the customer, as well as a variety of other variables, will influence how often they want to receive shipment. This could range from yearly or monthly on down to just-in-time delivery based on their production schedule. Each of these different requirements has distinct implications for the structure of the marketing channel as well as production planning and inventory control.

Choice Based on Marketing Strategies

If marketing channels are designed in the context of strategic marketing planning, company strategies define clear objectives for the channels. When choosing the marketing channels, we ask what sort of channel is best for company products and customers in the market area where the company operates. We also ask if company core

competencies can be used effectively when using certain channels, so strategic position is always made explicit and present when channel decisions are made.

A detailed definition of strategy determines the marketing functions that the channel should enable. Those channel structures which best implement the needed functions can be regarded as ideal. Whether it is possible to use the ideal structures depends on the company and its environmental factors. In summary, strategies define the objectives and performance requirements of the marketing channel, and these requirements subsequently drive the design of the channel. Ultimately, company and environmental factors will dictate how perfectly the ideal channel structures can be implemented.

The marketing planning which is described on both theoretical and practical levels in chapter 7 demonstrates how marketing channels are defined in the context of strategic marketing planning.

Marketing channel design in a marketing planning process:

Market analysis as desk research with secondary data – The attractiveness of various markets, market segments, or customers are analyzed in order to define hypothetical (preliminary) marketing strategies. For channel design, all the secondary material that supports designing marketing channels is also produced. The descriptions of distribution systems in the potential market areas are needed. Information about the other macro environment is also needed in channel design. An example of the macro environment is the laws that regulate business. The channel designer must know the limits laws place on channel management. Information concerning competitor channel design and performance is also valuable.

Adding internal information to the planning process – Those strategies are chosen which fit the strengths and weaknesses of the company. Internal information needed in planning of marketing structures and functions is made explicit.

Defining preliminary strategy-structure-function combinations – At this stage appropriate structures and functions are generated to implement the hypothetical strategies. As to channel design both marketing theory and manager experience offer ideas on what sort of channel structures best implement the chosen strategies. Internal information dictates what is possible for the company. Market information produced at stage one dictates what is possible from the perspective of the market. As a result of this stage we have created a hypothetical marketing plan that contains marketing channel design based on information available this far.

Testing the preliminary marketing plan by customer survey – The hypothetical marketing plan must be tested in markets among customers. Markets and customers are those defined in the preliminary strategies. The customer survey is conducted to determine if the hypothetical marketing plan works in practice. To test the preliminary channel design, detailed information concerning customer needs, requirements, and purchasing behavior is produced. Based on this information, we know if the planned channel design is suitable for customers. The detailed marketing functions implementing the strategies, needed by the customers, and performed by the marketing channel are also defined at this stage.

After this planning process is complete, we have a channel design which implements strategies and contains necessary role and communication descriptions. What is important to notice is that it meets the requirements of the customers, because they could express their needs and requirements concerning both the structure and performance of the channel.

Examples of how marketing strategies relate to various channel structures:

Product strategies – When Finnish paper companies marketed their products through sales associations (long

channel), the channel structure prevented or impeded companies' abilities to develop their product strategies from commodities to special products. Companies seeking more advanced strategies left the sales associations and designed their own shorter channels. After the sales association system ended, paper companies concentrated on differentiating their products through branding, for example. In the Finnish sawmilling industry, special and custom-made products are often marketed straight to industrial end-users.

Customer strategies – The type of customer targeted has a clear impact on channel structure. The trend is toward more direct contacts that bypass intermediaries, but this is not always possible. For example, the Finnish newsprint and magazine paper business is a “reel business.” It is business-to-business trading where customers are few and orders are big. Paper in reels is sold mostly straight to the end-users (catalogers, publishers, printing houses). Only a small share of paper is sold through intermediaries (brokers or merchants). Fine paper is quite the opposite case. The fine paper business is referred to as a “sheet business,” where orders are small and the number of customers is considerably larger. Therefore the use of merchants is highly appropriate. Only a very small share of fine paper is marketed without merchants.

As mentioned earlier, the structure of the customer base is changing. Customers are growing bigger and more global. Growing and globalizing producers are developing their customer strategies to match with these large customers (their strategic accounts). Strategic account management presupposes very close connections and keen cooperation between supplier and customer. This development has had, and will continue to have, an effect on both the structures and functions of marketing channels.

Market area – Market area may influence channel structures in two ways. A strategic market area may need a special channel design. A market area may limit the possible design choices because of special characteristics of the distribution system of the market. If possible, strategically important market areas are covered by sales offices. Volumes are larger, channels are shorter and contacts are closer. More distant markets with minor importance are taken care of by intermediaries like agents or brokers. These are general principles regardless of the industry sector.

Both the distribution systems and the nature of various intermediaries in various markets may be different. For example, importers or wholesalers have much more powerful positions in some markets than in others. Intermediaries are used at times because of their powerful position in the market, even though customer and product strategies suggest direct contact with customers would be preferable.

Core competencies – Intangible resources as a basis for competitive advantage are becoming more important. Those resources are needed when increasing total product quality or the quality of customer relationships. Again, this means close contacts and keen cooperation with customers, factors to be considered in channel design.

5.5 CHAPTER QUESTIONS

- What is the relationship between marketing strategies and marketing structures?
- What is the role of marketing structures in facilitating marketing functions?
- What is the impact of information technology and e-commerce on the practice of marketing?
- How are business trends changing the way companies are organized and how marketing is organized and implemented?

- What is the nature of trendy business concepts and how do they relate to marketing?
- What is the role of marketing planning information systems and how are they utilized?
- What is the nature of marketing channels and how do they function?
- How can social relationships impact the management of marketing channels?

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Chapter 6: Marketing Functions

After reading Chapter 6 you should understand the following:

- The link between marketing functions, strategies, and structures.
- How the forest industry utilizes communication in marketing.
- The importance and practice of customer support in creating a total product.
- The challenges of pricing forest industry products and the potential impacts of moving toward special and custom-made products.
- The role of marketing in product development.
- The basic methods of transporting forest products.

Marketing functions are those mechanisms or tools that allow a company to carry out its strategies via its chosen marketing structures. For example, if a company is basing its competitive advantage on high quality products and service, the most important marketing functions might be product development and close contacts with customers. Marketing functions can be divided into those that are under the full control of marketing specialists, which are focused on communication (contact functions), and those functions in which marketers only participate as part of a team (product functions). Here are some of the functions in both categories, which are covered in this chapter:

Contact Functions

- Personal contacts (personal selling)
- Advertising
- Public Relations
- Trade Promotion
- Customer Support (customer service)

Product Functions

- Pricing
- Product Planning/Development
- Physical Distribution

Because much of marketing is about communication and the basic concepts of communication are an essential component of many of the marketing functions, we begin the chapter by providing a brief overview of communication, and specifically discuss communication with respect to marketing.

6.1 BASICS OF MARKETING COMMUNICATION

Communication and communication planning can best be understood through the use of a model (Figure 6-1). Planning marketing communication begins with the Integrated Model of Marketing Planning (IMMP), from which marketing planning targets are derived, and is then integrated with a general communication model. We emphasize that planning and executing marketing communication measures require special expertise.

6.1.1 Basic Communication Model and Concepts

Communication is transmission of information by sending and receiving messages. Traditionally, the elements of communication have been considered to be:

Who	(Sender)
Says what	(Message)
Through what method	(Channel)
To whom	(Receiver)
With what effect	(sender's objective/resulting effect)

The last element suggests the fundamental issue of communication – what is its effect? How does communication influence knowledge or change opinions, attitudes or behavior? These are also the basic questions of marketing communication.

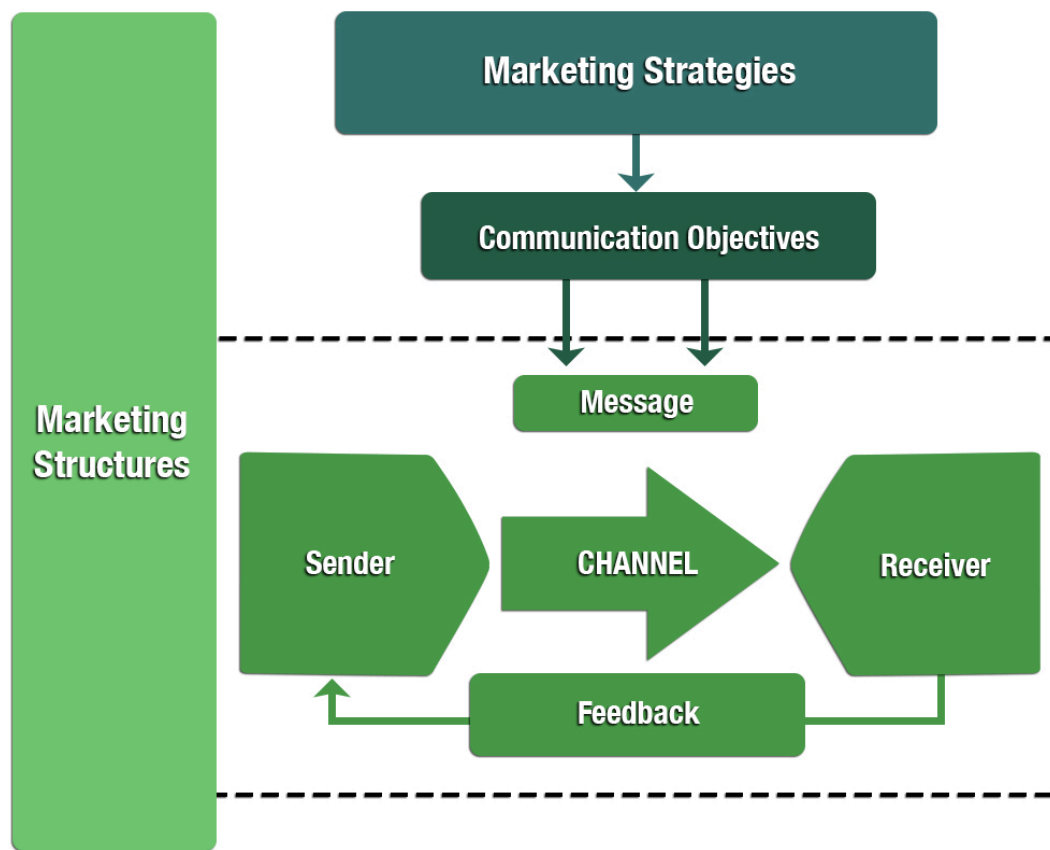


Figure 6-1: Framework of Marketing Communication Planning

The basic components of communication – sender, channel, message, receiver and feedback – can be referred to as “the Basic Model of Communication,” and form the core of Figure 6-1. For our purposes, the core is surrounded by certain elements of marketing planning (IMMP), and together, the figure contains the principles of marketing communication planning which will be discussed more thoroughly in this section. “The Basic Model of Communication” is a simplified version of more complex communication models.¹

Message – When a salesperson makes a phone call, or an advertisement is created, or an executive gives a presentation, a message is presented. The message might be that a new product is launched, or that a special price is available, or that a product has a certain level of quality, or that a company has a responsible environmental policy. The message is the knowledge that the sender wants the receiver to gain. Throughout its communication activities, a company must exercise great care to communicate a cohesive and focused message. Conflicting messages will be unproductive at best and, at worst, will disrupt and weaken the image a company has worked to create.

Sender – We can think about the sender as the company, the salesperson, or the corporate executive. Sometimes distinguishing between sender and channel may be difficult. When a company uses an expert to promote its products, the receiver may find it difficult to determine if the sender is that expert or the company behind the promotion campaign. We interpret the sender as the individual or organization that initiates the message.

Receiver – The receiver is the company, individual, institution, or stakeholder group to which the message is targeted.

Channel – The medium through which the message is sent is the channel. On a basic level, the channel is

either personal or non-personal. The division is sometimes referred to as natural and artificial. For instance, an advertisement might be in print form, on the radio, or online; all non-personal forms of communication. A salesperson, however, might provide a verbal (personal) message face-to-face with a client or over the phone. Successful communication depends on choosing an appropriate channel that fits the needs of the receiver.

Feedback – The model of communication planning provides for a feedback loop, with communication traveling in both directions. In some forms of marketing communication, there is little likelihood of direct feedback. For example, an advertisement may not result in direct feedback, though an inquiry or product purchase would constitute indirect feedback. Internet communication provides for easy feedback.

Earlier, “effect” was mentioned as a basic issue of communication. Traditional communication research has focused on identifying the circumstances under which communication can influence knowledge, opinions, attitudes and behavior. Example 6-1 illustrates issues inherent in communication, according to a wide base of research.

Example 6-1: The Basics of Communication

Psycho-Dynamic Model



Socio-Cultural Model



Before designing the communication mix (sender, message, channel and receiver), the communication planner must choose the basic approach or philosophy of influence. DeFleur (1966) presents two basic models of influence outlined in the figure: 1) Psycho-Dynamic Model and 2) Socio-Cultural Model.

According to the Psycho-Dynamic Model, the persuasive message has an effect on a person's psychological structure and processes like attitudes. Change in attitudes creates change in behavior. Principles of motivation, perception and learning theory are central when planning channels and messages that influence attitudes and behavior. The Psycho-Dynamic Model emphasizes the individual motivators of human behavior. For example, by promoting wood as an environmentally friendly material, we present product comparisons to the customer, suggesting its renewability and other healthy aspects of wood. The communication attempts to create positive attitudes leading to corresponding behavior.

The Socio-Cultural Model emphasizes the social motivators of behavior. This model is based on the idea that cultural norms have effects on human behavior. When using the principles of the Socio-Cultural Model, the receiver of the message is made to believe that the behavior promoted is socially sanctioned. For example, when promoting wood as an environmentally friendly material, we emphasize that modern societies take care of their environment and it is a good deed to use an environmentally friendly product that helps preserve the environment for future generations.

Once the basic approach has been chosen, the communication planner must design the communication mix. Extensive research has been conducted to determine the basic concepts in using each of the elements of communication (Secord and Backman 1964). Below are some examples regarding the sender, message, and receiver. However, communication planning is an area of specialty that cannot be thoroughly covered in a marketing textbook.

Sender – Effectiveness of the sender in persuasion depends on how the receiver perceives the expertise, reliability and intentions of the sender. A person perceived as reliable or as an expert is more influential than a person

without these characteristics. Among Central European consumers, environmental organizations (ENGOS) are a very important source of environmental information, most likely because consumers trust the intentions of ENGOS more than those of industry.

Message and Receiver – The message must fit the personality, intelligence, cognition, and attitude of the receiver. Communication research has carefully considered the following aspects of the message:

- How much information should the message contain?
- Should the information be one-sided or many-sided?
- What should be the order of positive and negative arguments?
- Should negative aspects like fear be used in persuasive messages?

The effectiveness of both quantity and the use of one or many-sided information depends on the knowledge level of the receiver. The lower the knowledge level, the less information should be used. The higher the knowledge level, the more information is needed, and this information should be many-sided. As to the order of information, results are better if positive arguments are presented first. Positive arguments reinforce positive attitudes that resist negative arguments. Fear as an argument may cause fast behavioral changes, but fear-based arguments may backfire if targets react negatively to the message. With respect to how social structures can be employed when planning communication, opinion leaders are often the targets of communication because of their role in disseminating information to others in their social groups.²

6.1.2 Principles of Marketing Communication Planning

Marketing communication can be broadly defined as managing company information flows to the market, in the market, and from the market (some of which is outside the control of the company). A narrower definition might be that **marketing communication** is the communication effort designed to create demand or other market reactions, such as perceptions of company image which can have a long-lasting effect on future demand (Example 6-2).

Example 6-2: The Power of Image

All companies attempt to portray a specific image to their customers. The most obvious examples are global consumer/service products companies such as Alphabet, McDonalds, or Adidas. For most people, these names instantly conjure up an image. Sony might mean highly reliable electronics, McDonalds as fast hamburgers and fries, and Adidas as the brand with “three stripes.” These images are not accidental. Each company has staked out market territory and used a variety of communication techniques to record that claim in the customer’s mind. This effort is called image creation or positioning, and both are important communication concepts. Sometimes companies stumble and the result can be very negative for their image. Volkswagen’s image suffered greatly in 2015 based on a scandal around using a “defeat device” in its diesel cars that engaged when pollution testing was being conducted (but otherwise the vehicles were polluting above accepted levels). This strain on the reputation provided inroads for competitors. Similarly, if a spokesperson for a brand has personal problems, it can have a negative impact on brand image. Several sponsors dropped Tiger Woods as a spokesperson after his personal debacle in late 2009.

When speaking about marketing communication, one should specify point of view because appropriate characteristics of channel and message depend on the objectives of the marketer (sender) and customer (receiver). According to the definition of marketing, the marketer should choose channels and messages to steer purchasing decisions towards the company’s products. The customer, in turn, is searching for information in order

to make relevant product choices. It is important that the marketer realizes the possibility of conflict between the two views, and plans the communication portfolio accordingly.

The planning situation of marketing communication can be analyzed through Figure 6-1, which shows the connections between communication and marketing strategies and structures. Marketing communication planning can be seen as having two stages:

- Deriving communication objectives from marketing strategies and outlining the company's communication portfolio based on strategic marketing context.
- Creating detailed plans for communication targets (receiver), messages and channels.

Stage one is clearly the task of the marketer who must also be able to brief the advertising agency about the company's strategic marketing situation and needs. Stage two is the task of an advertising agency that has knowledge and skills to plan and execute marketing communication campaigns. We detail the cooperation between the marketer and advertising agency later in this chapter.

When a marketer begins to contemplate how marketing communication should be developed, the company has already settled on its marketing strategies and marketing structures. From the marketing strategies (especially products and core competencies) flow communication objectives, which in turn influence the message. When customer strategies are identified, they in turn define the receiver shown in the model. Customers, by their unique characteristics, in turn define the possible channels. The model of marketing communication planning should be used to guide decisions integrating various aspects of the communications portfolio (see section 6.2).

The marketing communication plan is a compatible combination of the concepts seen in the communication model. The success of the plan depends on how well the planner understands the various concepts of communication and their interdependence. In the following section, we explore the connections among the basic concepts of communication.

Receiver Considerations

A prerequisite to success in marketing communication is a receiver with a need. The receiver must be motivated to seek and use the information in the message – marketers should never assume the customer is a passive information receiver. It is useful to see the customer as an active information seeker, and the marketer as someone who can make finding beneficial information as easy as possible. If a marketing channel intermediary is the target of the marketing communication, for example, the marketer is seeking to assure that the intermediary is motivated to promote the supplier's products.

Communication efforts can be designed to pull or push a product to the consumer. By focusing its communication efforts on the final consumer, a company positions its products to be **pulled** through the marketing channel. For example, the Hardwood Manufacturers Association maintains the [American Hardwood Information Center](#) that focuses on final consumers. A push strategy is more common among forest product companies; here, a company might focus its efforts on the members of the marketing channel and attempt to get those companies to **push** the product through to the final consumer. Still, both push and pull communication tactics have their place in a company's marketing functions, and they can be combined to suit the specific situation. A pull strategy offers more direct control over the product and company image, while a push strategy allows the company to benefit from the intermediary's promotional skills. The push strategy is most effective if intermediaries are fully motivated to increase the demand of a company's products.

Communication efforts must be targeted toward individuals making decisions concerning purchases or end-

uses of products. Alternatively, communication can be targeted toward others who influence those decisions. In push tactics the intermediaries have a clear economic motive to promote the products. Experts and opinion leaders often have a direct influence on customer decisions. The marketer must know where customers acquire information and on whom they rely. This information is then used when choosing the targets and channels of marketing communication.

In many cases, industrial buying decisions are made by a group of individuals, and consumer decisions are often made by families, where roles are clearly differentiated. For example, certain decisions regarding the selection of materials for single-family homes are made by the wife, while others are made by the husband, and still others are made collaboratively. When the marketer targets communication to families or other groups, the roles and communication behavior in the group must be taken into consideration (e.g., Who is the right target – initiators, gatekeepers, influencers, deciders, buyers and users). Marketers must be especially aware of cultural differences and how they influence the buying process (Example 6-3).

Channel Considerations

Customers receive information through all types of channels. Communication channels are frequently divided into personal and non-personal channels. The other important division, commercial and noncommercial channels, is based on control of the marketer, and is sometimes referred to as formal and informal channels. It is the challenge of the marketer to manage or control marketing information through these channels.

Example 6-3: The Impacts of Culture on Business Transactions

Latin America

When doing business in other countries it must be remembered that cultural differences are sometimes subtle, sometimes very apparent, but always important and key for the success of any international venture. For example:

- Even though all over the world a personal relationship between buyer and seller is key, customer loyalty differs widely among countries and regions. It may sound surprising, but US customers are among the least loyal of all the regions. One issue that hints at this characteristic is that in the USA it is common that buyer-seller relations are over the phone only (they have never met in person) – even if the business relation has gone on for years. On the contrary, Latin American and European relations tend to be closer, with buyer and seller visiting each other quite often (and distances are not smaller than in the USA!). In these later cases, relationships are typically stronger, which allows to ride the ups and downs of the markets quite better.
- For some countries, tradition and longevity in the market are crucial. In the middle of a product offering between a Latin American producer and a UK customer, the latter mentioned that his company existed before the foundation of the Latin American countries. This argument intended to support his need for a certain product in a certain fashion and not another.
- Terms of payment differ among countries and regions. North and South American wood products companies typically do not dare to sell into Asia with anything but a Letter of Credit (LC). This is true even though those same companies do not like LCs, as they involve banks and documents, where small mistakes or discrepancies may cause payment delays or even not payment at all. Strong cultural differences and sometimes a language barrier (customer or supplier visits involving a translator) explain this behavior. On the other hand, those same companies are willing to sell on CAD terms or even offer credit to companies in North America, South America or Europe. **(Ernesto Wagner, General Manager, Santiago Chile)**

Middle East

In Iran and the Middle East region, decisions for selection of materials for single-family homes, such as furniture, floorings, etc. are mainly made by the wife, while husbands are mostly controlling costs. If the family has young girls, these young and new generation girls are acting in their mother's role in many cases, for decision making. Of course, in middle and high class families, decisions are made collaboratively but the role of wife and children of the family is much more than husbands.

In Iran and some countries of the Persian Gulf region, within high level and rich families, individual designers or designing offices/companies are highly influencing decisions for selecting home furnishing material and furniture. This is also the case for private offices. In poor families and in urban areas, the decision maker is only the husband.

In industrial purchase decisions, if the purchasing company is private, normally the decision maker is the owner/manager or one person on behalf of the owner. For example, for purchasing raw material for a furniture producing company, the seller may discuss with employees inside the buyer company, but the owner of the company is the final decision maker, especially for big purchases. In government organizations and some (very limited number of) private companies, decision makers are a group of employees that follow complicated purchasing regulations. Working with such companies is difficult for sellers and marketers. In such cases, normally one member of the decision making group has more power or effecting role on other group members. Marketers normally try to find this person. **(Amin Arian, Industry Manager, Tehran, Iran)**

The choice of channel depends on characteristics of the receiver but also the sender, the message, and the communication objective(s). Customers are selective as to the sources and channels they use for information acquisition. This selectivity has both psychological and sociological backgrounds. Customer communication behavior is not accidental or random but a result of experiences and lifelong learning. Generally, selectivity is based on needs and the receiver concentrates on those sources or channels that have historically been helpful. On the other hand, communication behavior has social roots. An individual's exposure to communication is a direct result of what can be called their communication behavior. This means that different groups of people have unique tendencies regarding sources and use of information. This idea should be well understood by the marketer.

Although the final objective of most marketing communication is increasing demand by influencing purchasing decisions, there are other types of communication objectives as well, such as enhancing company image. Generally, the marketing objective is to take the receiver through a process from awareness to purchase. Different models of this process have been developed, the most basic of which is the AIDA model that describes the process in terms of Attention, Interest, Desire, and Action.³ Different forms of communication are appropriate for various steps in the process.

Figure 6-2 illustrates the connection between forms of communication and response steps. Advertising, for example, is commonly used in an attempt to create awareness, while personal selling is more appropriate for later steps in the process. Communication which conveys a positive company image pervades the entire process.

As this text is written, the Internet is dramatically changing the communications channels utilized by forest industry companies. Companies are experimenting with social media. As electronic communication continues to evolve, the future may mean that we speak of the Internet as a communication "space" rather than a communication "channel". While we can't predict how communication via the Internet will look in the future, we can say with confidence that it will be different than what we see today.

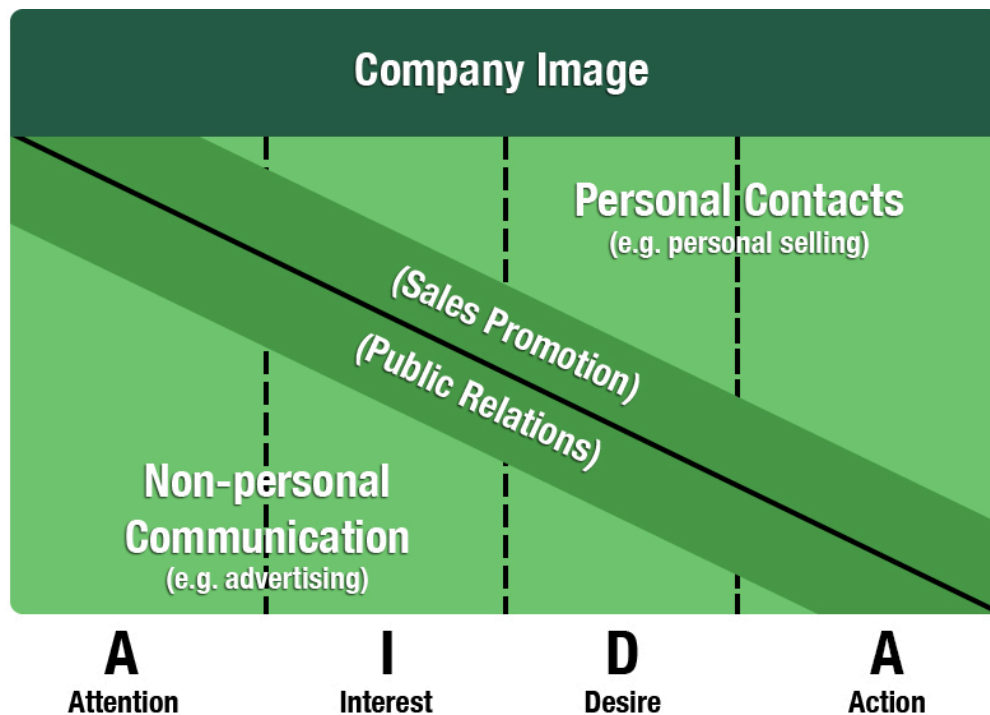


Figure 6-2: Communication Mix at Different Response Steps (AIDA)

Message Considerations

Message content must be directly connected to customer needs. Only information with value to the receiver is effective. Information must benefit the customer and satisfy some need – be it economic, psychological, or social. For instance, reducing economic risk is a typical customer need, which might lead to a quest for information.

The content and form of a message are complicated issues without absolute rules. Messages are often created by a communications specialist in an advertising agency. The following lists some basic requirements for an effective message in marketing communication:

- The message must fit communication objectives and the chosen marketing strategies behind them.
- A sender must have credibility with the receiver before a message will be received and absorbed.
- The receiver must be exposed to the message and must notice it.
- The message must be designed to meet the emotional and intellectual capabilities of the receiver.
- The receiver must be ready and willing to accept the message; it must be compatible with receiver and attitudes.
- The receiver must have a need for the content of the message.

6.2 THE COMMUNICATIONS PORTFOLIO IN THE FOREST INDUSTRY

Companies maintain a communications portfolio that is used to relay messages to a variety of stakeholders. Generally this portfolio will include the following types of communication:

- Personal selling

- Advertising
- Public relations
- Sales promotion
- Direct marketing communication

Although, personal selling is the most utilized type of marketing communication in the forest industry, advertising is the most visible part of marketing – so visible, in fact, that some people think that marketing is nothing **but** advertising. Although advertising and other forms of marketing communication are integral parts of strategic marketing, the work of advertising is generally outsourced to an advertising agency. Cooperation between a company and its advertising agency, however, must be close, in order to avoid communicating a disconnected message.

An agency can assist in managing the communications portfolio considering both the overall marketing strategies of the firm as well as specific communication objectives. The whole package must be integrated and well-balanced in order to achieve the stated objectives. Suppose a hardwood plywood firm developed a new panel using formaldehyde free adhesive, this major new initiative would necessitate an integrated introduction with the company's communications efforts. The target audience and objectives for the communication efforts would come from the marketing strategies developed for the new product. The panels are targeted to North American architects designing high-end, LEED certified (green building standard) commercial projects. The primary objective is to create 50% awareness in the first six months of the campaign. The following are the planned actions and activities:

- Print ads will be placed in journals such as *Green Building & Design* and *Construction and Architectural Record*.
- Product brochures will be created that provide an overview of the product, its specifications, its environmental attributes, and face veneer options.
- Product samples will be sent to all qualified customers, distributors, and architects.
- The company Web site will provide:
 - Links from the main page to additional pages which highlight the product
 - On-line product training for salespeople and intermediaries
 - Press releases will be created for both the popular and trade press and will be shared through social media.
 - Introduction will coincide with the annual convention of the American Institute of Architects.
 - Salespeople will introduce the product just prior to the show and begin actively selling after the show. Customers will be referred to the company Web site, and product brochures will be distributed on personal visits.

The plan outlined above integrates the various forms of communication and links appropriately back to the company's overall marketing strategies.

Much of the communication conducted by companies is directed toward customers and potential customers. In this case the communication is most often about specific products or services. However, some communication is likely targeted toward other stakeholders than direct customers. News about new products may be especially relevant for investors (i.e., Wall Street). Developments in environmental performance may be relevant for

investors, regulators, community members, NGOs, and customers. The point is that the communication portfolio should address all relevant stakeholders.

Of course, there is often direct personal communication with stakeholders on a regular basis as well. Although all stakeholders are important, customers are the key audience for marketing communication. In the forest industry, personal contacts have always been the most important part of the communication portfolio. Because of the importance placed on personal selling we speak of personal contacts and “other marketing communication” as the two major components of the communication portfolio.

6.2.1 Personal Contacts

The forest industry relies heavily on personal contacts with the customer, but tends to work closely with industrial customers rather than end-users. This means that their customers are typically large volume buyers and that they do not have large numbers of customers. In addition, a small number of big customers likely account for a large percentage of sales. In this setting personal selling is the most efficient means through which to market or promote a product. Although we speak here predominantly of personal selling, personal contacts includes a variety of relationship building or maintaining activities that occur between buyer and seller. Playing golf and going fishing with a client are good examples of relationship building activities that are part of personal contacts.

As mentioned in Chapter 5, companies have been changing their organizational structures in order to become more customer-focused. In larger firms, the role of the salesperson is changing toward dealing primarily with a few large customers. Even in smaller companies the interaction between salesperson and client is where relationship marketing really takes shape. When dealing with the same company and buyers over years, it is natural that friendships and relationships develop.

Salespeople should understand who their customers serve and what production processes they use. This knowledge allows the salesperson to help trouble-shoot production problems at the customer's site, and perhaps even help the buyer specify different products/grades that will better fit their needs. As the customer develops new products, the salesperson can make sure the customer designs the product in such a way that raw materials/components can be feasibly produced by the supplier. This is just one aspect of the large role the salesperson plays in taking market information and market demand back to the production unit. In many ways the salesperson becomes a consultant to the customer (Example 6-4).

Example 6-4: Typical Sales Positions in the North American Forest Industry

Sales positions can be categorized in a variety of ways. For example:

Sales assistant – Sales assistants support the work of inside or outside salespeople, taking care of most of the paperwork for the salesperson that is interacting directly with customers. They typically spend most of the time in the office and interact with customers only via phone/fax/internet.

Inside sales – Inside salespeople typically do very little traveling and conduct their business primarily through the phone/fax/internet. In some situations inside salespeople can be described as order-takers and their main role is caring for routine, repeat purchases. This could be the situation for a long-established mill producing commodity products. Wholesalers are companies made up almost entirely of inside salespeople, usually referred to as traders. Traders typically work on large sales floors (open rooms with many desks where the salespeople can see each other) and may do both buying and selling.

Outside sales – Outside salespeople have the traditional role of the traveling salesperson, and most likely have responsibility for a designated geographical territory. Regular customers are visited on a consistent basis, and prospective customers are typically contacted as well. Travel is a significant part of the job and some people find themselves away from home more than half the time. Time in the office is typically spent catching up with paperwork and arranging the next week's travel.

Strategic account management – Strategic account managers are different than traditional salespeople in that they typically deal closely with one or a few large customers. Close interaction means that these individuals spend most of their time in a support role rather than a traditional sales role. Essentially they become part of the customer's team, helping the customer to succeed with the products supplied by his/her company.

Technical sales representatives – For some products, the salesperson takes on the role of a technical support person. For example, glue/resin companies have salespeople with a strong technical background. Their primary role is not so much to generate sales as to be a problem solver for the customer. Equipment manufacturers that supply the forest industry typically are organized this way as well.

Although the role of the salesperson is changing, cold calls (phone calls to unknown potential customers), trade shows, and golf games are still part of a typical salesperson's life. The roles and responsibilities of a salesperson vary and include such aspects as:

- Increasing revenue
- Attracting new customers
- Retaining current customers
- Analyzing the competition
- Market analysis
- Coordinating sales activities
- Working with manufacturing locations⁴

Given these roles, it should be apparent that salespeople are the eyes and ears of the company in the marketplace. Salespeople possess a vast array of market, customer, and competitor information that should be incorporated into company knowledge management systems.

Personal Selling

Although personal selling – where a sales negotiation process containing a clear beginning and closing and viewed as a short-term transaction takes place – is rare in forest product marketing, it is nevertheless important to examine. Sales negotiation skills and other capabilities required in the selling process are important for forest product marketers.

The Selling Process

The sales process has been studied extensively. Although several specialized approaches have been developed, the sales process can essentially be reduced to the following sequence:

- Prospecting and qualifying
- The opening
- Need and problem identification
- Presentation and demonstration
- Dealing with objections
- Closing the sale
- Follow-up

The negotiation stage is often seen as taking place between dealing with objections and closing the sale.^{5,6}

Prospecting and qualifying is a process of identifying potential customers and evaluating their interest and financial health. Potential customers can come from a wide variety of sources ranging from the internet to commercial industry directories. Qualifying information can come from credit rating agencies such as Blue Book Online Services.

The **opening** or introduction should be designed to assure that the salesperson gets off on the right foot with the potential customer, and includes important details such as the appearance and timeliness of the salesperson, how they introduce themselves, and how they present their reason for setting up an appointment.

A good salesperson understands the art of listening. **Need and problem identification** is about listening to the prospective customer and learning exactly what their needs are in order to assess the product's ability to meet those needs. By listening closely, the salesperson can formulate the appropriate approach to meeting both the expressed and latent needs of the customer.

After developing a good understanding of the need or problem that the customer faces, the salesperson typically has a chance to **present and/or demonstrate** their product or service. This is the chance to show the benefits the supplier can offer that directly address the needs of the potential customer. This might take place one-on-one or in a formal presentation. Public speaking skills can be a valuable asset for salespeople.

Objections are statements or questions from the prospect such as "it's too expensive," "I'm not ready to buy yet," or "The last time I used your company I had problems." In some ways these questions are signals from the prospect that they want more information. A salesperson should be prepared for objections and have a strategy for dealing with them. With experience, the salesperson will be able to anticipate most objections and develop an appropriate approach for dealing with the objections depending on the type of customer they are dealing with.⁷

Closing the sale is about asking the prospect for the order. Different strategies and tactics have been developed

to help salespeople be more successful in closing a sale.⁸ Each salesperson develops their own approach that works for them. Again, the approach may be different depending on the type of customer that is being targeted.

Follow-up can be as simple as calling the customer to make sure that the product arrived on time and in good condition. A salesperson may also follow the use of the product in order to anticipate future needs and orders. More extensive follow-up can be part of a customer service program, discussed in detail below.

While some derivation of the above process can be found in most personal selling textbooks, the process is becoming less applicable over time. There clearly are times when the model holds true, especially in commodity markets where salespeople are prospecting for new clients. However, for more advanced marketing settings where special or custom-made product strategies are used, the salesperson's role is focused on developing a relationship, rather than following the traditional stages described above. For instance, the salesperson might be responsible for involving the client in joint product development projects.

As the role of the salesperson changes, companies are seeking different characteristics in industrial salespeople. Research indicates that critical thinking, reasoning skills, and communication skills (oral and written) are critical characteristics in the new sales environment. Companies also see ongoing or emerging trends that will require salespeople to be able to work with vast amounts of information, solve problems for the customer, maintain long-term partnerships with customers, and embrace change readily.⁹ It is clear that modern sales jobs are becoming highly skilled positions in which personal selling is only one component.

Salespeople have a potentially significant role in marketing planning. As the eyes and ears of the company, they have the best insight into the wants and needs of the customer, which allows them to make an important contribution to marketing strategies and structures. For example, a salesperson might be the most likely member of the company to see opportunities for the development of specialty or custom-made products. Salespeople will also likely have an intimate knowledge of the competition, and the company's competitive advantage in the market place. They might have perspective on where the company is vulnerable and upon which core competencies it can best compete. Unfortunately, companies often fail to take full advantage of the knowledge and expertise of the sales force.

Personal Contacts as Relationships

At its essence, the job of a salesperson is to initiate and maintain strong and productive business relationships with clients. In many cases these business relationships also become personal friendships. These ties between individual buyers and sellers can have a dramatic impact on the success of a company. It is easy to see why personal contacts can be considered from a relationship point of view. In practice, personal contacts are where relationship marketing is implemented. In today's marketplace, relationship building and relationship maintenance is fast becoming synonymous with strategic account management. Companies are prioritizing their key customers and assigning additional resources to those strategic accounts. This may mean that a salesperson is dealing with fewer and fewer customers, but that those they deal with are critical to the company.

6.2.2 Other Marketing Communication

Advertising

Advertising is paid non-personal presentation and promotion of ideas, goods, or services.¹⁰ For the purposes of our discussion, advertising can happen via radio, television, online, and print, but also includes tools such as product brochures, catalogs, and postcards. Although we use several categories of "other marketing

communication” later in this textbook, some communication methods fall into more than one category. For example, brochures can be considered advertising and a form of direct marketing communication.

Advertising is generally a specialist’s task. The marketing manager/planner should be able to recognize a “good” ad and should have a clear understanding of the information needed by the advertising agency. Generally the marketer must have a solid understanding of the connections between the selected marketing strategies and structures and the message that should be communicated. With that understanding, it becomes clear what must be communicated to the advertising agency as it begins developing a communication plan or advertising campaign.

Advertising is most appropriate for creating awareness about the company or the company’s product. Hutt and Speh suggest that the following are appropriate objectives for advertising¹¹:

- Creating awareness
- Providing information
- Influencing attitudes
- Reminding buyers of the company and product existence

Though television is not the main means of advertising for most of the forest industry, those that produce consumer products use television extensively. This advertising is almost always brand-based rather than company-based so consumers seldom associate the products with a forest industry company. For example, Kleenex brand comes from Kimberly Clark. Radio is used even less by the forest industry and when used it is nearly always in local markets.

Print advertising is very common among even the smallest forest industry companies, because placing ads in trade journals targets specific industry sectors and is therefore both efficient and economical. An MDF or particleboard manufacturer might advertise in *Surface & Panel* which targets industries using high-end decorative panels. Many trade journals are sent free of charge to their target audience, resulting in large circulation among perspective customers. These journals are sent to specifically qualified individuals who must provide information about themselves. Comprehensive information about its subscription base allows the journal to position itself as a valuable outlet for potential advertisers. Results of third-party circulation audits are generally available for trade journals. This allows the advertiser to more carefully select the appropriate outlet for the message.

Considerable research has been done regarding the content and appearance of print advertisements. Lohtia et al. identify ten criteria which can be used to identify successful business-to-business ads.¹²

- Has a high degree of visual magnetism
- Selects the right audience
- Invites the reader into the scene
- Promises a reward
- Backs up the promise
- Presents the selling proposition in a logical sequence
- Talks “person-to-person”
- Is easy to read
- Emphasizes the service, not the source

- Reflects the company character

Although most companies will have their advertisements created by outside experts, criteria such as these should be considered when evaluating proposed ads.

Product brochures are another form of advertising that is used extensively in the forest industry. Brochures are important because they can communicate technical information to end-users, such as construction companies. Engineering properties such as grade or strength can be captured in brochures to ensure proper use. Even those products that don't need detailed supporting technical information usually have some form of promotional brochure. Product brochures are used in direct marketing communication as outlined below and by salespeople when making client visits, and extensively at trade shows.

Public Relations

Early in the 1900s, public relations was about creating publicity. Modern public relations, however, has evolved toward managing relationships with all stakeholders.¹³ Some feel that public relations is about helping the company and its stakeholders adapt to each other.¹⁴ The following are common forms of PR:

Press releases – used to announce introduction of new products, announce changes in personnel, or any number of important company events or developments. Press releases are used extensively for informing the investment community of financial results.

Trade journals and books – often used to profile the special expertise of a company. Trade journals are continuously searching for good stories. It may not be difficult to convince the Editor to write a story about process improvements at a company mill or some other significant development. The key from the Editor's perspective is that the development be of interest to the journal's readership. Companies can also benefit when employees publish articles in trade journals and scientific magazines. Having their employees recognized as experts in their fields enhances perceptions of the company's inherent expertise. Companies often encourage this activity among employees, especially those in research and development positions. Companies sometimes even publish books written by their employees. For example, Columbia Forest Products published a book titled *A Hardwood Plywood Manual*.¹⁵ The book is designed to be an indispensable reference book for companies using hardwood plywood.

Conferences – are a forum for current industry issues. Industry members are often asked to speak at conferences and by offering their knowledge and expertise to the audience they are in turn providing important exposure for the company.

Sponsorships – companies sponsor athletic teams, community events, and a wide range of other activities. The sponsorship requires financial support from the company and an indirect benefit is being acknowledged as a sponsor of the team or event. Roseburg Forest Products is a significant sponsor of Oregon State University athletics.

Sales Promotion

In consumer markets, typical sales promotion tools include coupons, rebates and contests. Since most forest industry companies operate in a B2B environment, these tools are relatively uncommon. The most common sales promotion tool seen in the industry is the trade show. Companies invest significant time, effort, and money to create an innovative booth that will attract attendees. In larger companies one or more people at corporate

headquarters may be responsible for booth design and set-up at various shows, and in smaller companies, salespeople will hold this responsibility.

The timing and venue for trade shows are known well in advance. During annual planning, companies typically identify and budget for the trade shows they plan to exhibit in during that year. See Example 6-5 for an overview of important global forest industry trade shows. Typically, companies go to the same shows on a continuing basis. In fact, once they establish their presence at a show, customers expect to see them and their absence might create questions in their customers' minds. For larger companies, national or international shows will likely be planned at the corporate level while regional shows will be planned at the division or even mill level.

Example 6-5: Major Forest Industry Trade Shows

International Builders' Show

Sponsored by the National Association of Homebuilders, this show is held annually and is the largest annual construction industry show in United States. Accompanying the show is a broad offering of educational programs targeting homebuilders and affiliated industries. In 2018, attendance was over 60,000 from 100 countries with approximately 1500 exhibitors covering around 53,000 square meters

Japan Home and Building Show

Japan Home and Building Show is largest show related to the home and building industry in Japan. The show claims nearly 40,000 participants and over 500 exhibitors.

Interzum

Interzum is a major trade fair for the furniture and wood interiors industries held in Köln, Germany every two years. Typically the fair consists of around 69,000 visitors and over 1,700 exhibitors covering approximately 180,000 square meters.

The design and production of a trade show booth is a critical part of planning for a trade show. It is important to plan for the show with specific objectives in mind. Objectives might include the following:

- Direct sales at the show
- New product introduction
- Identify new prospects/generate sales leads
- Meet with existing customers
- Enhance corporate image
- Assess competition¹⁶

As we noted earlier, trade shows are one communication method which should be carefully integrated with other communications efforts. Accordingly, a variety of methods should be used to announce to customers and potential customers that the company will be at the show and where they can be found. This is often done through print advertising in magazines that have special "show" issues. Postcards are often used to notify contacts of the details of a tradeshow, and social media is actively employed. In some cases, show organizers provide lists of registered attendees, which are used to mail promotional materials prior to the show. The final steps of trade show exhibition occur after returning home: evaluation and follow-up. A significant number of leads should

have been gathered at the exhibit. These have no value if the individuals are not contacted; thus, these potential customers should be contacted to assess potential for future business. Each show should be evaluated based on the return on time and money invested. Exhibiting at a trade show is an expensive venture and success should be carefully weighed against the objectives established prior to the show.

Although there is often little actual business conducted during a trade show, it is an important event for salespeople in a company. The following are some of the most important aspects of a trade show:

- Likely the most important customers for the company will be in attendance. With this in mind, companies often plan separate functions for these customers, this might include formal business meetings and informal social events like receptions, dinners, and other entertainment. Trade shows should be viewed as an opportunity to build customer relationships. Salespeople are the heart of this endeavor.
- Trade shows attract a wide range of attendees and potential customers. Salespeople are responsible for running the booth and interacting with as many potential customers as possible. Usually, companies have some sort of gifts to give away and salespeople use these to attract people to the booth.
- Having a booth at a trade show is also about portraying and promoting the company's image. Customers expect to see their suppliers at major shows and if a supplier is absent they will question the commitment of their supplier to that marketplace. In this respect, simply having a presence at major shows is important for maintaining company image.
- Tradeshow are one of the few times when major competitors will be concentrated in one location and will be showing off their best products and services. This is a great opportunity to learn more about their offerings, as well as their strengths and weaknesses. Although this aspect of tradeshow is often overlooked, it is a significant opportunity for salespeople to improve their knowledge and value to their customers.

Direct Marketing Communication

Many forms of communication can be sent directly to the customer or potential customer via mail, fax, or email. The product brochures discussed above are a common example. Other potential direct items include catalogs, price lists, product samples, postcards, and customer magazines or newsletters.

6.2.3 Organization of Communication in the Forest Industry

There are many common interests among companies in the forest sector which present opportunities for collaboration. Sector, and industry, level associations have been founded to capitalize on these opportunities, and to facilitate cooperation on tasks, projects, or publicity campaigns. Communication is clearly critical in this type of cooperation. Although most marketing communication is done by individual companies, there is considerable opportunity for synergistic communication campaigns. Promoting sustainable forestry, increased use of wood, or enhancing the image of wood as environmentally friendly material are examples of possible collaborative campaigns.

Shared campaigns dealing with topics of mutual interest have been launched in order to pool resources and make an impact on markets. Forest sector-level campaigns act as an umbrella for industry and company level campaigns which, in turn, act as an umbrella for company-level campaigns. Planning each level in a cooperative setting could create a remarkable synergistic effect. Sustainability, renewability and recyclability might be common themes for all levels.

Forest Sector Level Communication

Countries and national organizations often communicate with a wide range of stakeholders regarding the importance and environmental performance in the field of forestry. Here we speak of very broad efforts to promote the entire forest sector. Forest certification is a recent example of communications activity on a forest sector level. Various countries developed their own systems of forest certification and other systems have been developed on a regional basis. In each case the systems developed by forest industry and/or forest owners have as a primary goal improved communication regarding the sustainability of forest management practices. To communicate their message to various stakeholders, certification systems maintain Web sites and newsletters. However, from a marketing communication perspective, the most important element of their communication efforts is labeling of certified products. These ecolabels are what the potential customer or consumer see on the product. Wood. [Naturally Better™](#) from Australia is a good example of this level of communication.

Forest Industry Level Communication

A bit narrower context for communication is the forest industry itself. Here communication is typically centered on industry sectors, such as building products. Companies maintain membership in groups, such as associations that play a critical role in promotion of the industry, its companies, and its products. Industry associations often take on the role of developing generic technical brochures for various product classes. Many associations have technical staff available to answer questions from professional users as well as from the general public. Other organizations have been formed to address critical issues faced by the industry. [WoodWorks™](#) is a good example of this level of communication.

Company Level Communication

Most of the chapter thus far has discussed communication on a company-level, so we will only add here that companies should try to exploit opportunities for synergy with any forest sector level and industry level efforts.

6.3 CUSTOMER SUPPORT

Customer support is often difficult to separate from other marketing activities. For example, when a paper company develops a new, more efficient transportation solution, the development might be seen as customer support (if it creates benefits for the customer's business), even though it is also part of the paper company's internal development process. Furthermore, customer support and customer service are often used interchangeably, which may lead to confusion with terminology.

6.3.1 Need for Customer Support

In its most basic sense, customer support creates value for the customer. When a company improves its customer support, it often serves to streamline its own business processes. Making business processes quicker and less labour intensive has positive implications for both the buyer and seller.

Customer support adds an important dimension to the physical product by adding value for the customer and thereby differentiating the product from its competition (particularly important with commodity-based products). By providing superior customer support or offering unique service, the company not only differentiates itself, but also strengthens the customer relationship, and creates a competitive advantage. This reduces the likelihood that the customer will change suppliers and may even reduce price sensitivity.

The nature of customer support changes with developments in both the internal and external environment.

Current developments in the external environment which are having a significant impact on customer support include:

- Developing information technologies
- Intensifying competition
- Developing distribution systems

The shift from the age of fax and telephone to the Internet and e-mail creates possibilities as well as new challenges. The ability to efficiently seek and distribute information in real time enables companies to create new types of support for their customers based on automated data transfer or on-line information. It is possible to create added value for customers by enabling them to seek the needed information themselves through a service provided by the supplier. The company can enhance both the efficiency and the perceived value of the service, especially in routine transactions like tracking deliveries, with no need for personal interaction.

E-commerce can also lead to unexpected problems. When a customer can easily contact multiple suppliers or even automatically search offers from their suppliers, the likelihood that a customer switches suppliers may increase. Consequently, companies must make a more concerted effort to foster customer relationships, maintain personal interaction, and understand customer needs. While new technologies allow a company to make basic customer support more efficient, it also poses challenges that can only be met by more traditional, personal service.

As competition becomes more intense, companies must focus on their competitive advantages in order to defend their market share. The production technologies and raw materials used for forest industry products are essentially available to anyone. Thus, access to technology is seldom a competitive advantage. Instead, the total product must be differentiated by providing customers with superior services. Customer support can serve to convert a commodity product into a custom-made product. By offering a tailor-made service for the customer, such as special delivery arrangements, the product will be suitable (and preferable) for a specific customer. This means that customer support can be a critically important part of a company's marketing functions.

6.3.2 Strategic Importance of Customer Support

Customer Support Connected to Product and Customer Strategies

Decisions made about product strategy have implications for a suitable customer strategy, and the reverse is also true. Chosen strategies affect the forms of customer support that should be developed. The relationship between product and customer strategies and their implications for customer support are considered in Figure 6-3.

If a company pursues a commodity product strategy, it most likely sells to many unspecified customers. The main customers may be wholesalers, importers, and other large volume buyers. In this case, customer support should be concentrated on making functional communication between the buyer and seller as efficient as possible. This means enhancing the flow of information and documents especially regarding shipments, specifications, and invoices. With large customers, an important goal of customer support is to minimize transaction costs. The ordering and delivery of goods must create minimum effort (and cost) for the customer. One way to improve the flow of information during the business process and reduce costs.

Customer support should also serve to minimize the cost of transportation, creating a benefit for both the buyer and the seller. The flexibility a company has in arranging transportation is dependent upon the demands of the customer. If a customer demands JIT delivery, there may be very little flexibility.

However, other customers may care less about delivery time and more about transportation costs. For example, importers generally place a higher priority on minimizing transportation costs than on accuracy of delivery time. If a company can create low-cost alternatives for transportation by arranging special freight rates with shipping companies or by combining cargoes with other producers, significant benefits may be created for the customer.

Although customer support is vitally important, most companies are limited in the amount of resources they can dedicate to it. If the customer base is wide and unspecified, the company should focus its resources on making the support as widely appealing as possible and try to automate routine activities and serve all customers with a single system.

Customers who demand special and custom-made products are usually industrial end-users. Meeting special demands requires a concentration on specific services targeted to each customer segment or even to an individual customer. Because industrial end-users generally use very few or only one type of product, requiring the supplier to adapt its product to its needs, customer support in the form of joint product development projects is especially important. Special delivery options may also be critical for industrial end-users.

Industrial end-users often have no dedicated purchasing manager, so the buyer in these organizations is generally trying to minimize this effort. The supplier should make the purchasing process as easy as possible. Customer support in this case is bound to be on a very personal level. The supplier must provide the buyer with technical information about product properties, understand the buyer's business process, make suggestions about suitable products, and place resources into developing such products and delivery arrangements that create the most benefit for the customer.

Strategy Definition	Product/Customer Strategy	Role of Customer Support
Commodity Product Strategy	Product: Commodity Customers: Many unspecified	Customer support concentrates on: - enhancing flow of information - minimising transportation costs
Special Product Strategy	Product: Specialty Customers: Few customer segments	Customer support concentrates on: - Joint product development - Special transportation services - Enabling an easy buying process
Custom-made Product Strategy	Product: Custom-made Customers: Few known end-users	

Figure 6-3: Relationship Between Product and Customer Strategies and Customer Support

For many industrial end-users, the timing of delivery is more important than minimizing transportation costs. Precise delivery times are necessary in order to adequately meet the needs of their production process, while maintaining low inventory. The supplier must concentrate on identifying transportation solutions that are reliable and fast, with minimal risk of delay. This usually means the supplier maintains warehoused inventory ready for immediate shipment.

6.3.3 Customer Support in Practice

Pre-Sales Customer Support

Pre-sales customer support is important for initiating or maintaining a business relationship. By giving a high level of support at this stage, the company can ensure the realization of new business opportunities and strengthen the relationship with the customer. The most important forms of pre-sales customer support include:

- Joint product development
- Technical product support
- Logistics support
- Training
- Communicating production and delivery possibilities

Product development is typically (especially in the mechanical forest industry) conducted in cooperation with the customer. Because the needs of industrial end-users vary greatly, there is a higher demand for product adaptation. Product development in the sawmilling industry concentrates on the optimization of grading (e.g., defining the number and size of knots, amount of wane and heartwood content), developing special lengths or dimensions for the sawn timber pieces, and creating new sawing techniques (e.g., special heart free cutting). In the paper industry, joint product development may mean arranging test runs for different grades of paper on the buyer's printing line and subsequent adjustments to the composition of the paper. Technical product support is designed to inform customers about technical product characteristics. The customer is able to better plan her own activities when possessing good knowledge of the available product range.

To provide effective technical support the seller must understand both her own products and the production processes of the customer. The technical capacity and limitations of the customer's production line, and the requirements placed on the end product, produce the framework for finding an optimal solution. With the right knowledge, the supplier is able to make proposals about cost effective, functional solutions.

Often, even before making a sale, the supplier must advise the customer about the most efficient methods of transportation. Warehousing near the customer and finding ways to provide smaller deliveries with increased frequency might be important services for many industrial end-users.

In further processed products, training may be an important form of customer support. Particularly in the case of introducing products with new features, the supplier must possess sufficient resources to communicate the vital features of the product to the customer. For example, when introducing a new paper grade, it is critically important to train the paper wholesalers so they understand the characteristics of the paper and its best uses.

In the mechanical forest industry, an especially important form of customer support is keeping customers updated on current stock availabilities and production possibilities. This information can be given by sending the customers a stock note indicating free items and by advising them regarding short-term production plans. Because transportation may not be available for rapid delivery, it is also important for the customer to know which delivery possibilities exist at a given time and when the goods can potentially be delivered to their final destination.

Post-Sales Customer Support

Signing a contract with the customer means delivering the right products in good condition and at the right time. Typically customer support in the production and delivery phase comes in the following forms:

- Providing information about the stage of production and delivery
- Making changes to order contents and delivery details
- Following-up on delivered goods
- Handling claims

Because of variation in production and transportation, it is often difficult to determine an exact delivery date at the time that the contract is signed. Water transportation can be especially problematic in predicting a precise delivery date. Because industrial end-users depend on accurate information about incoming deliveries, the supplier must keep the buyer abreast of all changes and delays, even those caused by external factors. Changes in the buyer's production can also require changes in the delivery schedule. Here the supplier must assist the buyer by allowing flexible deliveries. The customer may even need to change their order completely, such as the case of a furniture mill which suddenly requires a different timber dimension due to a rush order from a retailer. These kinds of requests become more common as the customer type changes from wholesalers to industrial end-users.

Online options can implemented for routine issues such as the following:

- Current order status
- Estimated or confirmed date of shipment and/or arrival
- Estimated or confirmed specification of goods to be loaded
- Follow-up of contract balances
- A variety of searches based on product data such as average quality or length specification of sawn goods or technical specification of paper grades

The supplier and the end-user must work together to monitor quality in order to maintain appropriate quality levels. Regular monitoring of delivered goods and their performance in further processing is needed. This adds both to the perceived credibility of the supplier and ensures that the buyer is receiving the appropriate product quality. If the product or the delivery process does not adhere to the standards set in the agreement, the customer has the right to make a claim. In the lumber industry, claims are usually about not meeting the agreed upon grade. Examples include too high moisture content, excessive number of knots, and bad quality of knots. Problems in the delivery process may also result in claims, for instance cargo may get wet during shipment or may have been stored improperly in the warehouse, impacting quality.

If a claim is received, the supplier must respond to it rapidly and amicably in order to preserve the customer relationship. The source of the problem must be identified, corrective actions taken to avoid new claims, and a settlement reached to ensure the buyer's satisfaction. Compensation is often monetary, but can also consist of a replacement load or additional load. Use of digital pictures is customary for documenting claims.

When a claim exists, close interaction between production (or transportation) personnel and the buyer is required, so that all parties understand the reason for the problem. Many claims are the direct result of an insufficiently precise definition of the quality ordered by the buyer, particularly in cases which involve new customers. It is imperative that both parties understand the buyer's needs and the supplier's capabilities. A properly handled claim may not be the end of a relationship, but a foundation for stronger cooperation in the future.

6.4 FUNCTIONAL COMMUNICATION IN THE FOREST INDUSTRY

6.4.1 Functional Communication in Marketing

Functional communication refers to the routine flow of information through the marketing channel, including both verbal communication and documents necessary for business transactions. This process begins with an enquiry and ends with payment for delivered goods. A large part of the day-to-day business in the forest industry consists of repeat purchases and accompanying functional communication. When the buyer and the seller know each other and have defined mutually acceptable terms for business, repeating an order is very much a routine action. However, this does not diminish the importance of well-conducted functional communication; on the contrary, it makes this communication one of the key elements in providing good customer support. If a supplier does not reply promptly to enquiries, if the issuing of shipping documents is delayed, or if invoices regularly contain errors, the buyer's business becomes less efficient. Unnecessary work is caused, time is wasted, and the supplier's image deteriorates in the eyes of the customer.

Efficient flow of information within the company is as critical as that which is exchanged with customers. If the sales team does not inform the production manager about a projected delay in a customer order, significant economic losses may result due to excessive and spoiled stock.

6.5 PRICING

To understand pricing as a marketing tool, the difference between price and value must be recognized. **Price** is the amount of money that the supplier asks for a product or service and the amount which the customer provides. On the other hand, **value** is the amount of money the customer would potentially pay for that product or service. A price can be set without any consideration of the customer, but the value is defined by the customer. Value is based on the customer's perception of the total product's utility. The distinction between price and value is important. Pricing without consideration for value can result in a price that is so high that sales are lost or so low that revenue is lost. The only way to optimize price is to understand value from the customer's perspective, which demands detailed customer knowledge.

The ability of a company to control price is partially dependent upon the characteristics of the product and the marketplace. In general, the price of commodity products (like construction lumber), is highly dependent upon the market. On the other hand, a very unique product can provide a company with significant control over price. The nature of the channel of distribution also has an impact on pricing flexibility. Short channels (i.e., near-direct sales) allow a company to price based on its own objectives. Longer channels with intermediaries require that decisions are based on the objectives of several channel members and the manufacturer must consider the needs of the channel members when it decides on its price. Trends in the marketplace, reactions of competitors, and changes in raw material supplies are all potential causes of change in established price. The dynamic nature of the setting in which companies strive to establish prices means that managers must carefully weigh what might happen as a result of pricing decisions, both in the short and long term. When creating a product's price, the following questions should be considered:

- What is the value to the customer?
- What are the total costs of making and delivering the product to the customer?
- What influence will the distribution system have?
- How will direct competitors react to the price?
- Will the price need to be higher or lower in the future?
- How does the price fit into the overall scheme for discounts or allowances?
- How does the price fit with pricing of the product line?

Differentiation increases pricing freedom. A product that is more differentiated does a better job of meeting the needs (or wants) of its intended customers. Thus, the value of that product will be effectively maximized, and a higher value product supports a higher price. Nagle and Holden outline a number of factors that influence how price sensitive a customer might be. Those most relevant to the forest industry are¹⁷:

- Perceived substitutes effect – what alternatives does the customer recognize and how aware is he/she of the price of those alternatives? For a product like lumber, the customer is going to know very well what else is available in the market and what its price is. These alternatives make the customer more price-sensitive.
- Unique value effect – is the product truly unique and are the unique characteristics of value to the customer? Customers will be less price sensitive when the supplier offers a level of quality that makes their production process more efficient. A truss manufacturer may value one lumber supplier over another because she knows that the percentage of unusable pieces will be much lower.
- Switching cost effect – does switching from one supplier to another have accompanying expenses? A publisher that has a long time relationship with a paper producer may be hesitant to switch because of the investments it has made in the relationship. It would be expensive for the customer to establish new contacts and new routines so it will be slightly less price-sensitive.
- Difficult comparison effect – is it difficult for the customer to evaluate offers from other suppliers? Can a printer effectively evaluate the runability of a competitor's offering without conducting a test run? If it is difficult to evaluate other possible products, the customer will be less price sensitive.
- Price-quality effect – sometimes price can be an indicator of quality. If the customer sees a higher price, will they associate it with higher quality or will they automatically reject it. This effect is more often associated with consumer goods, but also has some application in industrial products.
- Expenditure effect – how much does this product cost as a percentage of the customer's final product? An alder lumber producer with two customers, a furniture manufacturer and a picture frame manufacturer, will find that the furniture manufacturer is more price-sensitive than the picture frame manufacturer. This is because the alder lumber represents a much larger proportion of the final value of furniture than of picture frames.
- Inventory effect – what inventory levels does the customer maintain and what do they expect about future price fluctuations? When the customer has low levels of inventory, he may be less price sensitive. In commodity sectors of the forest industry, prices fluctuate a great deal and intermediaries tend to be speculative. If the customer expects prices to climb, he will be less price sensitive than if he expects them to fall.

6.5.1 Pricing Objectives and Methods

There are a number of objectives that a company may strive to achieve through its pricing decisions. A company may price to obtain short or long term profits, to increase market share, or simply to meet the price of the competition. While each of these objectives may be appropriate in a given situation, a company must consider how its pricing objectives fit with the overall marketing strategy. For instance, pricing may vary throughout the product cycle, depending on whether the company is trying to stimulate market growth or gain market share, or has achieved its target market level and is seeking to maximize returns.

Traditionally, prices have been developed by considering the costs of producing the product or service and then adding some level of profit to that value. However, pricing decisions should begin by assessing the need in the marketplace and the value of satisfying that need. Based on this information, the company can develop a product or service with a cost structure that will allow a price at that level of value. In other words, costs should be determined based on the possible price, not vice versa.¹⁸ Cost-based methods have been used because they are relatively simple to apply. However, their major weakness is that they are dependent upon accurate cost accounting, information that is not readily available within many companies because of the complexity of assigning fixed costs across a product line.

More advanced than cost-based approaches, value-based methods of pricing tend to better reflect the value of the product as assessed by the customer. These methods are seldom used, however, because of the difficulty of predicting customer behavior. Many forest products are sold in large quantities in national or international marketplaces that reflect near-pure economic competition. In this situation, pricing strategies are still available, but it becomes much more difficult for an individual company to impact price. Instead, prices are largely determined by the market.

Market-Based Pricing

For many commodity-like forest products, price is heavily governed by the marketplace. This does not mean that a company cannot influence the price of its products in relation to its competitors. Higher levels of quality or service will allow a company to charge higher prices than the market average. However, the market fluctuates and often the impact of individual companies is minimal.

Example 6-6: Wood Products Pricing Information

In North America there is a strong tradition of commercial service providers offering pricing information regarding lumber and panel products, generally referred to as pricing newsletters. The newsletters cover a number of individual products, but also typically provide composite prices for product groups (i.e., lumber). For example, Random Lengths collects price information about Douglas-fir, green, 2×4-8' PET, Stud Grade (Prices Net f.o.b. Mill, Portland Rate) and they also provide a Framing Lumber composite. The companies offering the newsletters are constantly monitoring the market and collecting data from players across the industry to develop "market" prices. This type of pricing information is a critical component of wood products trade in North America and essentially all lumber and panel salespeople subscribe to and utilize one or more newsletters and utilize them on a daily basis. There are also some information providers that monitor log pricing. Examples of the various services are listed below.

Hardwood Review

[Hardwood Market Report](#) (inactive link as of 05/24/2021)

[Crows Weekly Market Report](#) and [Random Lengths](#)

[Madison's Lumber Reporter & Forest2Market partnership.](#)

[FOEX Indexes Ltd \(Pulp, Paper, & Bioenergy\)](#)

In North America, pricing newsletters play a significant role in the pricing of lumber and panels. For example, Random Lengths provides a number of different services providing information on prices for softwood lumber and structural panels (Example 6-6). Companies providing these newsletters gather data from industry sources on an ongoing basis, summarize the information and provide it to their subscribers. In practice this means they provide average historical prices (typically the previous week) for a range of products. It is safe to say that every salesperson and manager in the lumber and panel industry has close access to one or more pricing newsletters, making these newsletters so prevalent in the industry that they are often used as a basis for setting prices. For example, a lumber mill that has a contract supply agreement with a customer may make the agreement based on the prevailing market price according to a given pricing newsletter.¹⁹

Although newsletters provide a starting point for pricing, a variety of other factors also influence price. Sales managers and their teams consider their daily pricing plan and based on their group consensus, attempt to sell accordingly. The sales team will closely follow market developments during the day and will alter their pricing plan based on the overall health and direction of the market. The pricing plan is also dependent upon the current production and inventory situation of the supplier. If inventory levels are low and the market is down, the supplier can afford to price aggressively and hope for improved market conditions. If inventory levels are high, the supplier may be forced to alter the plan in order to move product. The sales team will know if because of a higher quality product, better service, or some other factor they may consistently price higher than prevailing market conditions or those prices provided in pricing newsletters. The team may know, and its customers recognize, that its product is consistently worth, say, \$5 per thousand board feet more than the prevailing market price.

In markets where there are few suppliers (oligopoly markets), pricing takes on a different nature. Many sectors of the paper industry could be characterized this way. Oligopolistic markets are characterized by a dominant company that is recognized as the price leader, and by price uniformity across suppliers in the sector.²⁰ By carefully monitoring the market, the price leader attempts to determine when prices should be raised or lowered to maintain reasonable balance between supply and demand. If demand begins to outstrip supply, the price leader will announce a price increase. Prices remain uniform across suppliers because companies that attempt to increase prices above competitors end up losing sales and having to lower prices. On the other hand, if one company drops prices, others will likely follow and the result will be a loss of revenue for all firms in the sector. Therefore, it is in the best interest of all firms in the sector for prices to remain at the "equilibrium" level.²¹ Price leaders have an important role in this setting and tend to have the following characteristics²²:

- Large productive capacity
- Large market share
- Strong commitment to the grade of paper in question
- Cost-efficient mills
- Strong distribution system
- Effective market information system
- Sensitive to price and profit needs of other industry members

- Good timing
- Sound management organization for pricing
- Effective product-line financial controls
- Attention to potential legal issues

For those products that are more unique, are not traded in such large volumes, and do not have the sort of classic commodity character, pricing is naturally different. A variety of techniques can be used to guide development of price, some of which are outlined below.

Cost-Based Pricing

After market-based methods, the most common methods of setting prices are cost-based. In their most simple form, these strategies assess the total cost of producing the product and then add profit. These methods can be straight forward, but they require sophisticated and detailed accounting procedures which may not exist in some companies. Failure to appropriately allocate overhead (fixed) costs among the products in a line is one of many potential cost accounting difficulties. Use of cost-based methods that fail to capture the full cost of a product will result in an underpriced product. In addition, because cost-based methods do not consider customer perceptions of value, it is unlikely that the resulting price will optimize profit.

There are two common cost-based methods: target return (or cost-plus) pricing and markup pricing. Target-return pricing is merely the producer's cost plus a percentage of that cost added as a profit margin. Paper companies have traditionally used this method during periods of strong market demand.

After determining a satisfactory rate of return, a price is set that will provide the target rate of return based on a given plant utilization rate (maybe a bit over 90%).²³

Markup pricing uses a different approach – it is based on total selling price rather than on cost. Thus, a 50% markup means that 50% of the selling price would be margin and 50% cost. Markup pricing often involves standard, industry accepted, percentage markups

Break-even analysis may be used productively in price planning regardless of pricing strategy. The analysis is used to calculate the number of units (at any particular price) that must be sold to cover both variable and fixed costs. The procedure sets a price, subtracts the variable cost, and divides the result into fixed costs. This results in the number of units that must be sold at the given price in order to cover costs. Various price levels will give different breakeven points and the marketer can consider forecasted demand against price to help in making pricing decisions. Once a break-even level is reached, additional sales will contribute profit.

$$\text{Break-even Point} = \text{Fixed Costs} \div (\text{Unit Selling Price} - \text{Unit Variable Costs})$$

If using cost-based methods, it is essential that a company have a solid understanding of costs and that overall (e.g., overhead) costs are logically allocated among products in a product line. Costs will differ based on a variety of actions/decisions such as small production runs versus large production runs. With adequate and accurate information it may become clear to managers that certain customers or certain types of orders are simply not profitable and should be avoided whenever possible.

Value-Based Pricing

Value-based pricing offers a marketer the highest possible level of price optimization. It demands detailed knowledge of the customer's perception of the total product. Since price is a component of that total product,

and because the customer uses price as a reference point for determining value, value-based pricing is inherently complex. Value-based pricing relies heavily on the marketer's ability to anticipate customer perceptions.

A general tendency is for people to associate higher prices with better quality. Generally, high quality can differentiate a product from competition and can lead to superior business performance. Anything that can be done to create the perception and the reality of higher quality will make it more appealing to the consumer. The reverse of this situation is true as well – a product which is priced below what customers expect may be interpreted as evidence of low quality. In this case, the actual qualities of the product may be overshadowed by the customer's expectation that it is substandard, possibly in a way they can't see.

Value-based pricing does not eliminate the need for accurate cost accounting. A company must generate profit from its product (or at least from its product line), and an assessment of value-based pricing potential may reveal that a product simply cannot be made at a price customers are willing to pay.

Pricing a New Product

Determining the price for a new product should be part of the overall product development, and should be considered at the very beginning of the process. Through informal or formal market research, managers should determine a viable price for a package of benefits (product or service) in the marketplace. Based on this figure, the company can eliminate those ideas which will be too costly for that price point.²⁴

There are two very different strategies which can be used for determining the price of a new product offering: penetration or skimming pricing. Penetration pricing refers to the strategy of setting a low price to rapidly build market demand for the product. The company's objective may be to build a new market for a truly new product, or to take market share away from competitors with an evolved or imitative product. The strategy serves to draw customers to the product, and serves as one component of the promotion program. The penetration strategy may be very effective if the sales volume it generates allows the producer to move quickly through the production learning curve to achieve significant economies of scale. The company may begin with a low (even below cost) price, knowing that soon-to-come production efficiencies will reduce costs and allow profitability. The strategy also discourages direct competition, since competitors would have to enter the market at the low price, while struggling through their own learning curves, and would then face the job of convincing consumers to switch from the known product to the newcomer.

Skimming pricing is nearly the opposite of penetration pricing. The goal with a skimming strategy is to price very high and try to make as much initial profit as possible even if the company knows prices will have to be reduced later in the product life cycle. This may be done in an attempt to recoup significant investments quickly. Skimming, however, tends to attract the attention of competitors. High price is a considerable incentive for competitors to enter the market. A skimming strategy almost necessitates a lowering of prices later as a reaction to competition entering the market.

Lowering Prices

Why would a company ever choose to lower its price? There are many valid reasons which can be divided into **reactive** reasons and **pro-active** reasons. Reactive reasons are basically a response to competitive actions. If the competition comes down \$10/MBF or 5¢/lineal foot, then a company may need to follow suit to avoid losing sales. Pro-active price reductions are an offensive move, or market development strategy. They may be employed to discourage or drive away competition, gain access to a new segment of consumers, enhance production efficiencies, or entice distributors to carry or promote the product.

Price reductions don't have to be direct. They can be accomplished through a number of mechanisms that allow varying levels of control. Some common price reduction mechanisms include:

- **Trade Discounts** – A trade discount is given to channel members for the purpose of compensating them for services rendered. Services could include stocking the product or the actual sales function.
- **Package Discounts** – One way to encourage purchases is to provide a package of different products in the same product line which can be used together. Home centers do this quite often with products like decks or outside storage buildings. If the customer were to buy all the parts separately it would cost them significantly more than the package deal.
- **Cash Discounts** – This is typically a percent-off based on early payment. For example, in the 1990s an invoice might offer 2/10 net 30. This means the customer can take a 2% discount if the bill is paid in 10 days, otherwise the total amount is due in 30 days. For North American traders the norm today is closer to 1/10 net 11 ADF (after deducting freight). Suppliers offer this to increase cash flow and reduce accounts receivable.
- **Promotional Discounts** – This can be done in a variety of ways, ranging from an actual cash reduction to sharing the cost of advertising. If the supplier provides brochures or other display materials to a channel member who supports the product, the supplier is effectively reducing the cost or price of the total product.
- **Quantity Discounts** – These achieve economies of scale. Dealing with 100 invoices for 1000 units each during the year (for total sales of 100,000 units during the year) is less expensive than processing 10,000 invoices for 10 units each. Transaction costs can be a significant part of the total cost of the product. This type of discount also effectively transfers inventory costs to the customer.
- **Seasonal Discounts** – If demand for a product is seasonal, a supplier may offer discounts during the lower demand season in order to try and even out demand over the year.
- **Coupons and Rebates** – These are typically used when dealing with final consumers rather than industrial customers, but can be used for both. Coupons and rebates effectively attract price sensitive customers. If the price sensitive customer will buy with the coupon, the supplier has succeeded in lowering the price to that customer while maintaining it for other, less price-sensitive customers.

Loss-leader pricing is another reason to lower the price of a product. Supermarkets often use this strategy by pricing something (like a name brand soda) at cost or below cost in order to lure people into the store. Once they have a person in the store, they count on the customer's additional purchases to offset the store's investment in the loss-leader. Home centers often use a landscaping product like treated plywood peeler cores as a loss leader to attract customers. Although most common at the retail level, loss-leader pricing may prove useful elsewhere. With the right sales support, low price for one product may result in sales of complementary items from the product line. It is a way to get the customer's attention and expose them to the company's product and promotional activities.

In some cases, it may be necessary to produce a product that loses money. If a product is an integral part of the product line it may be necessary to maintain it even though individually it loses money. Another common issue in the wood products industry is low-grade products that result from many production processes. With products like lumber and plywood there is a certain proportion of the production that is simply low grade and may not, as an individual item, contribute to company profit. Obviously the company can't simply stop producing these items or they will not have the high-grade products that are money-makers.

6.6 PRODUCT DEVELOPMENT

In discussions of development or profitability improvement in forest industry companies, new product development is often suggested. Although product development investments in the forest industries cannot be compared to those of other industries like information technology, the importance of product development in both the wood and paper sectors has increased (Example 6-7). Still, R&D investment as a percent of sales is not high compared to other sectors.

Example 6-7: New Product Development in the Nordic Sawmilling Industry

A recent project in Sweden investigated new product development in the Swedish and Finnish sawmilling industries. Findings are provided in three categories:

1) Drivers, strategic objectives, outcomes and antecedents of product development

Industry managers perceived that changing market and customer needs was an important factor driving product development. Companies typically started development projects to increase the competitiveness of product portfolios. Organizational size and white-collar worker educational level had a significant influence on product development activity.

2) The product development process and its key success factors

New product development processes were described by managers as informal and flexible. Success was associated with factors such as promotion of entrepreneurship and market orientation among employees and the creation of rapid, informal and complete development projects by a strong leader. Also identified were, possessing competent personnel, access to flexible and versatile equipment and creating sharpness of product concept definition before entering development work was also identified.

3) Barriers to product development

Barriers included production uncertainties, resource constraints, weaknesses of the wood material, and shortcomings in the supply chain, insufficient time to dedicate to development work, lack of skills/competences of employees and a low need to innovate.²⁵

Treating new product development as a separate issue from strategic marketing thinking is ill-advised. Strategic product decisions dictate the objectives of product development. As we have learned earlier, product strategies are moving in the direction of special and custom-made products, requiring improved product development. There are many phenomena in the operating environment of the forest industries that suggest an emphasized need for more advanced strategies and intensified product development:

- Market demand has fragmented and the growth of demand of commodity products has slowed.
- Customer requirements have increased and customer needs have become more varied.
- The raw material requirements of end uses and end-user production processes have tightened.
- Competition, especially in commodity product markets, has increased.
- Non-wood materials are heavily targeting traditional wood markets (plastic, steel, concrete, etc.)
- Costs of raw materials, labor, and transportation have increased.

- Green values often influence the decisions of consumers, industrial customers, and marketing channel intermediaries.

Coping with the changing environment and increasing competition requires that:

- Costs of all operations and product prices must be competitive.
- Customers must recognize a high product and service value (customers think that our products are worth the price or more).
- Environmental concerns and values must be taken into consideration

New product development is one tool to cope with the changing environment and increasing competition.

6.6.1 Concept and Context of Product Development

Product development is a tool for a company to implement its marketing strategies. It encompasses all of the work aimed at developing a new or improved product and covers the whole process from idea generation to initiating full-scale production and marketing. In the forest industry, new-to-the-world products are rare. Generally, the outcome of product development in the forest industry is product modification or improvement.

There are several ways product modifications and improvements are created in connection with everyday operations. For example, small modifications to products are often necessitated by the process of streamlining production processes. Both marketing and production people are cooperating more with customers to create ideas about how products can better fit production processes and end uses. This cooperation creates product modifications and improvements. From a strategy point of view, the results of cooperation are custom-made, or in some cases, special products.

The following list describes the general goals of the product development process in the Finnish forest industries, primarily connected to product improvements:

- More effective use of raw materials
- Substituting expensive raw material with inexpensive
- Increased product quality
- Decreased environmental impacts
- Decreased energy consumption
- Better fit in customer end uses and processes.²⁶

The strategic context of product development can be seen in Ansoff's ideas. Earlier in Chapter 4 we used Ansoff's window to illustrate how a company can develop its strategic positioning, and discovered that one option is "product expansion," offering new products or significantly improved products to present markets. Product development is clearly a tool to implement strategies and to reach a new strategic position.

In the IMMP, product development is one marketing function, a tool to implement strategies. This implies that when a company pursues advanced marketing strategies, it will likely need to improve its product development as well. An emphasis on custom-made and special products should include continuous and systematic product development. Empirical observations support this idea. When analyzing marketing strategies of Finnish, Western US, and BC sawmills, Niemelä noticed that in each case, more continuous and systematic product development

was carried out in the sawmills emphasizing custom-made and special products than in sawmills emphasizing commodities.²⁷

Product development should begin by first considering strategies. Forest industry companies applying a commodity product strategy regard raw material issues as the most important starting point for product development. Accordingly, companies tend to want to utilize readily available raw materials rather than identify specific demands from the marketplace.²⁸ However, companies applying special or custom-made product strategies emphasize customer needs as the most important starting point.^{29,30}

The pulp and paper sector of the forest industry is arguably the most active and customer oriented in its approach to product development. Company-owned research and development centers carry the main responsibility for product development. More people are involved in R&D than in other sectors of the industry and the number of product ideas and improvements which are handled and products brought to market are higher.^{31,32}

In the panel sector the importance of product development has increased in part due to the strengthened resource base of larger companies. Along with satisfying customer needs, companies have searched for new end uses and developed special products for those end uses. The need to find new end uses has partly been influenced by the emergence of new competing products (MDF, OSB, tropical plywood).

The sawmilling industry has traditionally been less active than other sectors in product development. This is due in part to the small average size of companies and the fact that the smallest companies generally do not have product development departments or budgets. As the size of companies has increased through mergers and acquisitions, conditions for product development have become more favorable. Larger companies have more financial and human resources to dedicate to product development. Grading, dimensions, lengths, and moisture content have been traditional targets of product development in the sawn timber sector. The aim has been to create products that fit specific end uses. Sawmills have also created value-added products (secondary production) to better satisfy the needs of customers.

One future direction is cross-sector, joint product development where multiple product types are integrated in the creation of large projects such as wooden bridges, football stadiums and concert halls. The idea is integration of many product types to create a functional product whole where components exploit the best characteristics of each product type.

6.6.2 Process of Product Development

Although they vary, the following stages are typically included in product development process models:

Idea generation – The starting point must be a need that could be satisfied by a new product or a product improvement (cost reduction, better satisfaction of customer needs, etc.). The aim is to find alternative ideas from which a product can be developed. Both internal and external sources of ideas are used. Several organizational settings and group work tools can also be used.

Screening ideas or preliminary assessment – Inappropriate or impossible ideas are screened out and the best ones are chosen for further analysis. Screening should be conducted early enough to avoid unnecessary investments in ideas which are not feasible. The first screening criterion is whether the proposed product is compatible with company resources and strategies.

Concept definition, concept testing and economic analyses – The ideas that survive idea screening are developed into product concepts, which requires both technical and marketing expertise. Concept testing is

conducted with appropriate customer groups using a product prototype, or visual or verbal description. The following types of questions might be asked:

- Are the benefits of the product clear?
- Is the product clearly solving some problem or satisfying some need?
- Are some other products satisfying the same need (even better)?
- Is the price reasonable and would customers buy the product?
- Who would use the product and in what quantities?

The aim of economic analysis is to estimate the profitability of the product. Both revenues and costs (production and marketing) are considered.

Technical development of the product and marketing planning – The product concept and the results of concept testing are used to develop a physical product. This is the most expensive and often the longest stage of product development processes. Once it is completed, the product's functional quality is tested.

At the end of the production line, the product is only half-ready...it must be marketed! Product development processes must also include marketing planning for the product, which may require as much time and resources as the technical development of the product. It is important to start marketing planning at the early stages of the process. Naming the product is one important contribution by marketing.

Test marketing – In this stage the real demand and the functionality of marketing structures and functions are tested. With forest industry products, test marketing is rare because customers have generally participated in earlier stages of the development process. Still, a test run may be conducted to see how the product works in its end use.

Market launch of the product – At this stage full-scale production and marketing begin. The timing and successful use of marketing measures are critical for product success.

It is important to remember that process models like the one described above are simplified representations of product development. Sequential models do not illustrate the interaction between the various stages. They also assume that each stage is completed before the next stage starts. In practice, product development is not so rational and linear.³³ However, the model helps to create a mental picture of the sort of activities included in product development.

As we have emphasized above, success in product development depends on reliable information. The most common cause of failure is a lack of information in the following areas:

- Customer needs are not well enough known. Though customers seldom give suggestions for new products, it is possible to gather valuable information concerning the deficiencies and weaknesses of current products.
- Market potential or price level are over-estimated.
- Marketing fails and the timing of market launch is wrong.
- Competition is underestimated.
- The product is too different from company's product line and strategies. This means entering an area that is not well enough known.³⁴

Cooperation inside the company is central to product development. In bigger companies a crossfunctional project team may be the best way to organize product development. A project team enables cooperation among R&D, production, and marketing. Product ideas are considered from a marketing point of view, and marketers should be involved through the whole new product development process. Recall that forest industries have often been blamed for maintaining a production-orientation. Product development is an area where the roles of production and marketing should be balanced.

6.6.3 Role of Marketing in Product Development

Marketing should play a significant role in product development efforts. The following are key areas where marketing can contribute.

Recognition of Unsatisfied Need – Marketing should continuously monitor the development of customer values, attitudes and needs. By doing so, the company can maintain a good feel for how customers are changing and how products may need to be adapted accordingly.

From Unsatisfied Need to Product Idea – Based mainly on secondary material and company know-how, marketing experts should continuously analyze customer needs. Technology experts should analyze technical changes in the product/market environment because it provides for product ideas. The concrete product idea is generated and put on paper by joint efforts of marketing and technology experts.

From Product Idea to Product Concept – The aim of this stage is to create detailed technical specifications for a product. Marketing is also responsible for creating, based on technical specifications, a detailed but understandable product concept for market testing.

From Product Concept to Tested Product Concept – Marketing plays the central role at this stage. Market analysis is conducted to estimate market potential. The product concept is tested to measure customer acceptance and to find possible improvements. A representative sample of the population of potential customers is used for concept testing. The importance of the philosophy of the product to the customers is assessed and their willingness to buy the product is gauged. In connection with concept testing, information concerning buying behavior should be collected for use in planning full-scale marketing. While marketing experts are analyzing the markets and testing the product concept, technology experts are analyzing its technological feasibility of various technical solutions.

From Tested Product to Finished Product and Marketing Plan – At this stage, the plan for the technical product is finished, it is tested, and the necessary adaptations in production systems are made. The level of technical development and adaptation depend on how much the product differs from the current product line. Marketing experts use information collected during previous stages of the process as a basis for a full-scale marketing plan. Additional information, especially with respect to distribution systems, may be needed.

From Finished Product and Marketing Plan to Full Scale Production and Marketing – Before full-scale marketing, both test marketing and test production are conducted. The last stage of the development process is to begin full-scale production and marketing according to the created plans. Marketing gathers and analyzes market and customer information, and through these contacts, it is able to represent the interests of the customer during the product development process.

6.7 PHYSICAL DISTRIBUTION

6.7.1 Physical Distribution in Context of Marketing Planning

Planning and controlling the physical flow of products to the customer is referred to with a variety of terms – distribution, physical distribution, logistics, and market logistics. Regardless of the terminology, the process is a critical part of marketing. Strategic decisions regarding product, customer, market area and competitive advantages define how physical distribution should be arranged. To choose among the best distribution alternatives, the company must collect information regarding possible modes, routes, costs, and timetables. By balancing the available alternatives with the planned strategies it is possible to define an optimal distribution solution for each case.

Generally, when a company is pursuing a commodity product strategy, its distribution is one of large volumes with regular but infrequent shipments (likely by rail or ship). The primary emphasis is on low cost. At the other end of the spectrum, a company pursuing a custom-made product strategy usually emphasizes rapid transport and costs are only a secondary consideration.

An optimal distribution system is usually reached by maintaining as much control as possible. This allows the company to maintain its product quality levels and to develop the overall quality of transportation services. In addition, the company may be able to recognize sizeable cost savings.

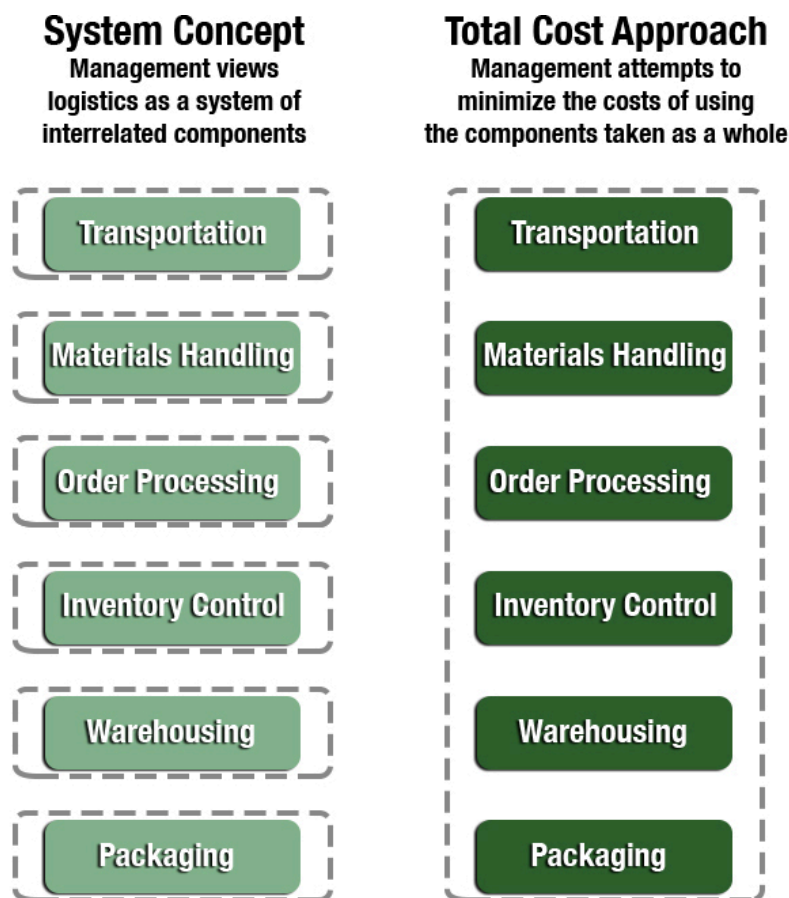


Figure 6-4: A Systems View of Physical Distribution

6.7.2 Marketing Logistics

The distribution or traffic manager takes a systems-view of the physical distribution system and attempts to minimize total costs through the management of freight consolidation, carrier rates, carrier selection, documentation, tracking and expediting, etc.(Figure 6-4).³⁵ Minimizing costs in one aspect of distribution may not necessarily lower costs for the entire system. For example, suppose a West Coast lumber company has its own small distribution facility in Los Angeles. The company has the option of rail or truck to deliver lumber to the distribution facility. Rail is the cheaper option. However, a recent rail merger has resulted in low reliability of delivery times. Using the rail option will require maintenance of larger than normal inventories to cover the risk of stock-outs. By evaluating the entire system, managers may determine that while using trucks is a bit more expensive, it may be the optimal (least expensive) solution because it saves inventory costs.

Rosenbloom divides physical distribution into the following components³⁶:

- **Transportation** – A product is almost always consumed in a different location than where it is produced. Because of bulk and weight, the cost of physically moving forest products is significant and can account for up to 30% of the sales price. When evaluating transportation options, a whole host of questions should be considered, the first of which is how the customer wants to receive the product.
- **Materials Handling** – Throughout the process of distribution, the product is moved from place to place. Even at the production site, the product might be moved several times. The product might go from the production process to be placed in inventory in some sort of storage and back and forth from storage to transportation to storage. Every time the product is moved, there are costs and risk of damage. An efficient materials handling system will move the product as few times as possible and the least possible distance.
- **Order Processing** – The main aspect of order processing is order cycle time, the time between when the order is placed and when the customer receives the product. This is part of the customer support function, which has been referred to as the output of a physical distribution system.
- **Inventory Control** – Holding inventory costs money in a variety of ways, including the cost of capital and, for some products, the loss of quality over time. On the other hand, not holding inventory – and needing to reorder – costs money as well. Managers must balance the cost of holding inventory with those associated with ordering. The price of softwood lumber tends to have great fluctuations. Companies in this sector must have inventory control systems designed to take these fluctuations into account. Vendor managed inventory is increasingly common, especially for serving retailers. The supplier is then responsible for assuring that inventory is maintained at agreed upon levels. In many cases it can mean that the supplier is paid when the product is purchased by a final consumer, rather than when delivered.
- **Warehousing** – When considering where and how to store a product the following questions should be considered. Should the product be stored in a company owned warehouse or should storage be contracted to another company? What sort of material handling systems should be designed into the warehouse? Should the storage function take place closer to the production facility or closer to the customer? Some large forest products companies have integrated forward and are owners of captive distribution systems.
- **Packaging** – Packaging is dependent upon the mode of transportation used and the preferences of the customer. Packaging also raises environmental issues that must be considered. Packaging can be used to protect the product, facilitate transportation, and develop brand image for the product. Packaging can also have an impact on the customer's perception of a commodity product. Simple actions like

protecting the four pieces of lumber on the outside corners from being damaged by the metal bands used in packaging can improve the presentation of the product. Furthermore, the wrap often used around the pack of lumber normally carries the company (brand) name. Even if the pack isn't wrapped, most companies paint the company name or logo on the side of the pack using a stencil.

Consideration must be given to the product type, its delivery location, and appropriate packaging. Wrapping a pack of green Douglas-fir and sending it to Los Angeles in the middle of summer can result in the pack arriving overgrown with black mold. On the other hand, further processed products with a low moisture content must be carefully paper- or shrink-wrapped. Especially important for finished products is that they are designed and manufactured to the moisture content of the eventual place of use.

Some of the most important aspects of market logistics are discussed in the following sections.

Reverse Logistics

Returning packaging and products to the industry of manufacture or even the original manufacturer is becoming more common. Companies have often become involved in recycling because of legislative requirements. The paper industry now recycles a large percentage of the paper produced each year.

Countries in Europe like Germany have created legislation to require that manufacturers reclaim packaging and products after they have been used. For example, car companies have been forced to take back their cars after they have been used. This in turn means that companies are designing their products to be more easily recycled. Forest industry companies have also had to deal with these issues.

Recycling and returning product requires that companies consider the means by which to return the products back to their facilities – reverse logistics. Using pallets is an example of the logistical challenges of moving product (or packaging in this case) after delivery. Back hauling empty pallets isn't economically optimal. On the other hand, high-quality wooden pallets are costly. This issue has led some companies to rely on third-party providers for their pallet requirements. In some industries, pallet size has been standardized so pallets can be used throughout the distribution system. Even with these efforts, the return of pallets to manufacturing sites is a significant reverse logistics challenge.

6.7.3. Transportation of Forest Products

Products typically are delivered to the final consumer through a variety of transportation methods. IKEA furniture may leave a mill in eastern Europe on a rail car headed for a German port. From there it would go by ship to an eastern US port, by truck to an IKEA distribution site, and then by truck to an IKEA store. Because IKEA designs everything for home assembly, the final consumer transports the furniture by car to their home.

Transportation of forest products primarily takes place by water, rail, or truck, and possibly by air for high-value specialty products. Each mode has advantages and disadvantages. For example, water transport is the cheapest mode but is not always an option and also tends to be slow in comparison to the other methods. Figure 6-5 provides a ranking of the various transportation modes.

The use of containers has become common in international transport of forest products. A container is a metal box that is 8 feet wide, 8.5 feet high and can range in length from 10 to 53 ft.³⁷ Containers create significant efficiencies because they are designed to be used by rail, water, and truck transport modes. A container can be “stuffed” in Guangzhou, China and make its way to a distributor in Canada without the product inside ever being

handled. In this way, containerization not only makes transport more efficient, but it also helps eliminate product damage from handling along the distribution route, and reduces risk of pilferage.

Selection Determinants	Rail	Truck	Water	Air
Cost	2	3	1	4
Transit Time	3	2	4	1
Reliability	2	1	4	3
Capability	1	2	4	3
Accessibility	2	1	4	3
Security	3	2	4	1

Figure 6-5: Ranking of Transportation Modes (adapted from Coyle, J.J., E.J. Bardi, and C.J. Langley, Jr. 1996. *The Management of Business Logistics*, Sixth Edition. West Publishing Company, St. Paul, Minnesota. 631 pp.)

Water

Water transport includes ocean going ships and barges as well as barges used in canals and rivers. Historically, large volumes of logs were transported by water in huge rafts made up of the logs themselves. For a variety of reasons, both economic and environmental, this is uncommon in most parts of the world today.

The biggest strength of water transport is its low cost. However, it is also the slowest transport method. It is slow from point-to-point as well as with respect to vessel rotation. This means that for some ports there may only be one shipping opportunity every week or month. Water transport can also mean additional handling of the products, increasing the risk of sustaining damage. Given the nature of forest products and the fact that water separates so many parts of the world, water transport is typically a critical component of exporting. The UK, in particular, can be reached almost exclusively by water, as transport via the Eurotunnel connecting France and the UK is very costly. Even transporting by truck means that the truck will make part of the journey by ship.

The following are several alternatives for arranging water transportation:

- **Liner traffic** – shipping companies maintain regular shipments to certain ports with a fixed timetable. Liner shipments are useful when deliveries of goods are regular. The delivery of small parcels is easy.
- **Charter traffic** – the ship visits the ports of call where the best freight possibilities exist. This means that the party chartering the vessel needs to transport large quantities in order to get the vessel to the desired port. The unit cost may be high. Charter traffic is a viable alternative if large quantities are to be transported with irregular intervals.
- **Contract traffic** – the shipping company and the party arranging transportation make a long-term contract for transporting a certain amount of goods during several shipments. This kind of contract is

preferable if the quantities to be transported are known in advance and the ports with liner traffic are not suitable for these deliveries.

General cargo ships used to be called “breakbulk” and loaded on a piece-by-piece basis by stevedores. Palletization and containerization have had a dramatic impact on the shipping industry, converting it from labor intensive to capital intensive.

Rail

Rail transport is common for most bulk commodity-type products. In the US in 2012, rail transport accounted for nearly 20% of the ton-miles of transportation of wood products and nearly 30% of paper products.³⁸

Deregulation of the US rail industry in 1980 through the Staggers Act created real changes in the transportation and distribution of forest products. Prior to deregulation, railroads all charged the same blanket rates. With deregulation companies were allowed to create their own rate structures. This increased competition in the industry and resulted in larger companies dropping unprofitable lines. It also meant producers of forest products were faced with more complexity of rates among the various rail companies. Deregulation increased the importance of trucking industry for forest products producers as well as increasing the importance of reloaders (transloaders) and stocking distributors.³⁹

After water, rail is the next most economical form of transport. Rail is best suited for large volumes of heavy products. In Europe it is possible, for example, to deliver 100 m³ of sawn wood in one rail car, whereas road weight limitations only allow a load of 45-50 m³ on a truck. In some cases this creates clear benefits for rail transportation, especially when transporting heavy goods such as green lumber. One significant drawback of rail transport, however, is accessibility. Mills without a rail spur are at a shipping disadvantage since they must get their product to the rail line by some other means of transportation, typically by truck. Another drawback is the overall time of transport. It takes time to consolidate cars through a switching yard into “train long” units.

One of the first intermodal forms of transport was placing truck trailers on railroad flat cars, a practice called “piggybacking”. Today it is common to see double stacked containers being transported by rail. This practice saw significant demand when political unrest in Panama forced companies to create a “land bridge” across the US. Rather than shipping through the Panama Canal, companies shipped to the West Coast of the US and loaded containers onto rail cars. These cars were then moved to ports on the East Coast of the US where they continued their journey via ship.⁴⁰

Truck

Although they represent one of the more expensive forms of transportation, trucks are commonly used because of their flexibility and time efficiency. In the US in 2012, truck transport accounted for nearly 64% of the ton-miles of transportation of wood products and 58% of paper products.⁴¹ Modern highway systems allow trucks to access almost any location.

Truck transportation is typically priced based on the loaded miles traveled or the weight of cargo transferred between two locations. Typically trucking companies have a minimum weight that will be charged that is fairly close to the maximum total weight that is possible for the truck to transport.⁴² In Europe the costs are usually defined as a total cost for transporting one trailer to a given destination, regardless of the amount of goods loaded. The freight is heavily affected by the transportation company's ability to find return freight or haulback so that the truck is not empty on its return trip. For locations situated far away from major economic areas, transportation is bound to be costly and the availability of trucks may be lower.

In the US, trucking is a continual challenge for forest industry companies. There is an ongoing shortage of truck drivers as this graying workforce is not receiving sufficient replacement. Also, it is often the case that truck drivers can find more lucrative hauls than forest products.

Air

Transport by air is expensive in comparison to other methods of transport. Accordingly, only the highest value products are transported with this method. Manufacturers of high-value specialty wood products might choose to deliver their product to individual final consumers through this method. Because they are shipping individual items, the manufacturer will necessarily use an outside service such as FedEx, UPS, or even the post office. At times companies may ship product samples via air freight. Rush orders may require shipment by air, but these would be very expensive and uncommon. Beyond these examples, air freight is uncommon in the forest industry.

Intermodal Transport

Intermodal transportation is the terminology used to describe transport using a variety of different methods. Containerization has moved the transportation industry towards increased use of intermodal options. A common shipment method from Finland to middle Europe is called RailShip. The rail gauge differs between Finland and middle Europe, so a product arriving at a Finnish port is transferred from one gauge of undercarriage to another. In the next step, the rail car is loaded onto a ship by rolling onto the tracks in place on the ship. Once arriving at the destination port, the car is unloaded and is ready for immediate departure via the European rail network.

6.7.4 Terms of Delivery (INCOTERMS)

Terms of delivery for domestic sales differ among countries and even among sectors within the forest industry. For example, in the US, the term F.O.B. has evolved from meaning free of transport charges to the ship, “free on board”, to specify the responsibilities of buyer and seller in a transaction. F.O.B. terms show who incurs transportation charges, who controls the movement of the shipment, and where the title to the goods passes to the shipper. At the most basic level, “F.O.B. delivered” means that the buyer receives the product to its site, pays no direct transport charges, and takes title upon delivery.⁴³ In North America, terms are generally simple (in part because countries share a common language), fewer alternatives to the terms exist, financing arrangements are well-understood, and information about alternatives is relatively available. The International Chamber of Commerce has worked to develop an internationally standard set of trading terms called INCOTERMS. These can be accessed via the link in the above heading.

6.7.6 Physical Distribution in Practice

Ensuring Quality of Distribution

Proper management of the whole distribution process allows a company to reduce its expenses and improve its customer satisfaction. Quality of the distribution process begins in the production process when goods are packaged. The discussion below focuses on sawn timber and further processed products from the point of view of preventing deterioration of quality during the distribution process. The key issues to be considered are:

- Proper packaging
- Good storage conditions
- Proper mode of transportation

- Careful loading and unloading
- Quick and careful transportation

Packaging must be tight to prevent pieces from moving during transportation. Loose packs may cause considerable damage, particularly if several are transported on top of each other. Especially for further processed goods, proper protection of package edges and under steel straps is essential to prevent mechanical damage.

Nowadays, most timber products are wrapped in paper or plastic. Depending on the quality and moisture content of goods, packaging might consist of one sheet on top of the package (in lower quality sawn timber) or each piece individually wrapped in shrink foil (e.g. laminated beams for retailing). A range of alternatives between these two are possible. The intended mode of transportation affects how goods are packed. If goods are transported directly from the seller's warehouse to the buyer's production facility via a covered truck, no packaging may be needed. The supplier must be well aware of the conditions at the buyer's end to be able to choose the correct packaging alternative. In some countries packaging is an undesirable and problematic waste and its use may be limited.

Proper storage of finished goods has a vital role in ensuring that the product stays in good condition. In principle, all products should be stored in covered warehouses. This is especially true for higher grade products since they can quickly deteriorate if stored outside. The goods must also be kept clean and, depending on their end use, may require storage in air-conditioned warehouses where relative humidity is controlled. The most effective way to prevent damage during storage is to time production and delivery so that the duration of storage is minimized.

Damage can be prevented by minimizing handling during transport and the overall transport time. From this perspective, truck or rail transportation is preferable over other modes. In the case of ship or combined transportation, the products may be transported in containers to minimize the risk of damage. Overseas container shipments may occasionally be stored for a long period of time at port waiting for ship connections, and climate conditions such as heat and humidity can cause considerable damage to goods. Even when products are stored in containers, the time spent in shipment is an important consideration.

Poor quality handling during loading and unloading are a major cause of damage. Forklifts may cause severe mechanical damage by dropping packages or running into them with the forks. During loading, a final quality check must be done to prevent the delivery of damaged goods or errors in the order.

To ease unloading in container shipments, goods should be loaded on pallets. Trucks and rail cars should be covered. In ship transportation, high quality items or products with no protection must always be loaded in the hold to prevent damage in case of bad weather conditions. After the goods are loaded, the packs must be carefully strapped to the vehicle so that the goods do not move during transportation. In combined transportation, loading of goods must be well planned so that the goods can be easily transferred to other forms of transportation. This applies to those cases where goods are not transported in a container but are loaded and unloaded several times.

When transportation has commenced, its status must be followed by the supplier to prevent delays. For example, rail cars may in some countries be left standing at stations for a long time. The supplier must also inform the customer about possible changes in the estimated delivery time. This may be especially important for some industrial end-users that have only limited hours for receiving goods at their warehouse.

6.8 CHAPTER QUESTIONS

- What are the links between marketing functions and strategies and structures?
- What is the role of communication in marketing forest industry products?
- How does the forest industry utilize communication in marketing?
- What is the importance and practice of customer support in creating a total product?
- What are the challenges of pricing forest industry products and the potential impacts of moving toward special and custom-made product strategies?
- What is the role of marketing in product development?
- What are the basic methods of transporting forest products and how does one make appropriate transportation choices?

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Chapter 7: Putting together a Marketing Plan

After reading Chapter 7 you should understand the following:

- How marketing planning works in practice.
- How a scientific approach can be used in developing a marketing plan.
- How theory can be a tool in marketing planning.
- The major steps in marketing planning and the information that is included in each.

The market analyst must fully understand general theories and principles of marketing and be able to link those with personal experience to efficiently create a marketing plan. Below we outline the process of marketing planning and provide a real-world example to illustrate how the process works in practice.

7.1 PLANNING STAGES AND APPROACHES

7.1.1 What, When, and How to Plan

When planning marketing strategies a company relates its resources (strengths and weaknesses) to the opportunities and threats of the market environment (especially demand and competition) and tries to seek customers (business partners) whose needs best fit the company offerings (products and services). The combination of marketing strategy components, results in marketing strategy. It is important to remember the logic of how strategy components are combined. The following steps include planning marketing structures and functions. **Strategies, structures, and functions together form a strategic marketing plan.** The next stage of planning, the marketing action plan, helps implement the strategic marketing plan on an annual basis. Marketing action plans are often called annual plans, operational plans, or simply budgets.

Full scale strategic marketing planning, in conjunction with investment planning, is necessary when new products, new customer, or new customers needs require starting from the very beginning. Alternatively, the prevailing marketing plan may need profound development because of changes within the company (e.g., acquisitions), changes in customer needs (special or custom-made products), or changes in technology (product innovations). It may also simply be that the present marketing plan does not work, and a strategic planning project must be started in order to determine what is wrong.

Although big changes in strategic marketing plans take place rather seldom, they are often reviewed annually in connection with annual planning. In annual marketing planning, quantitative market and customer targets are

defined and marketing measures for the next planning period are specified. It must be emphasized that all the outlines for annual planning come from the strategic marketing plan.

7.1.2 Information Input

The Information Environment Model (Figure 7-1) implies that information is present and influences marketing and marketing planning all the time. The environment is changing and it must be monitored continuously. The information and intelligence systems of a company follow all aspects of the environment that could have an impact on strategies. Especially important is to monitor the weak (vague) signs of strategically important issues. This makes it possible for the company to operate *proactively* in situations where reactive responses would mean falling behind competitors.

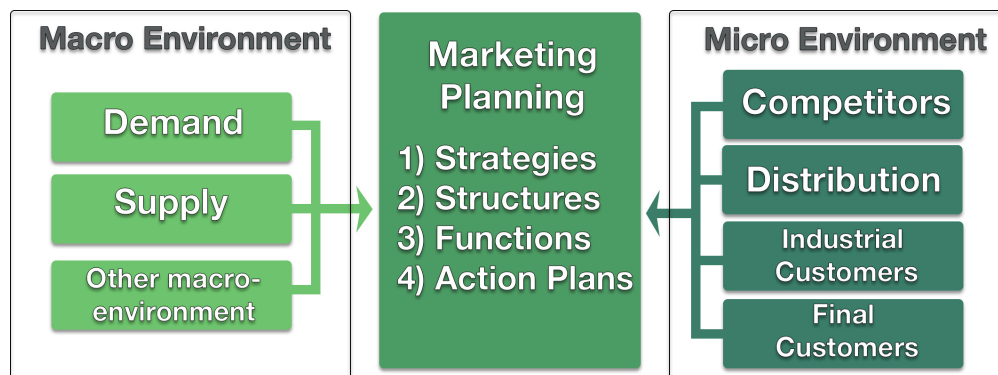


Figure 7-1: Information Environment Model

7.1.3 Revealing the Planning Gap

For a marketing planner it may sometimes be difficult to recognize and justify when, how, or why marketing practices (structures or functions) should be developed. Marketing theory can help in this process. Identifying the need for further development of marketing strategies and practices can be done by using an "ideal model" of marketing as a benchmark. Marketing theories are the most typical form of ideal models of marketing. The Integrated Model of Marketing Planning (IMMP) is one example of an "ideal model" that can be used when identifying needs for further development. Figure 2 shows how the accuracy of marketing strategies, structures and functions is evaluated against marketing theory.

Analysis of market opportunities and threats and company strengths and weaknesses helps identify appropriate strategies for the company in its present situation. According to theory, marketing structures and functions should flow logically from the chosen strategies. Thus, when we know the strategies of a company, we should also know what sort of marketing structures and marketing functions it should utilize. Based on SWOT analysis and theoretical reasoning, we conclude which strategies, structures, and functions the company *should* have, in theory. Comparing the "should be" with the *real* marketing strategies, structures, and functions reveals the need for development in these areas.

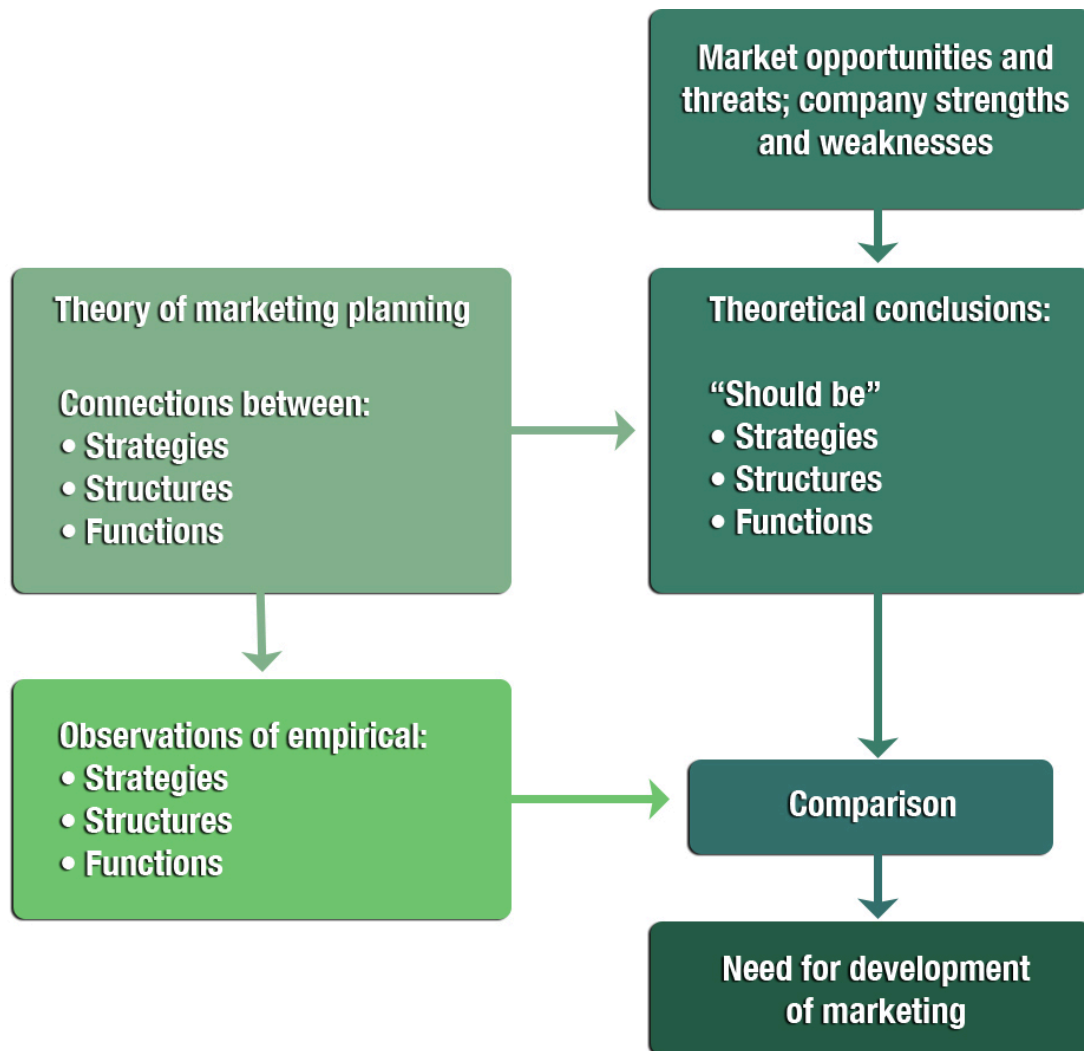


Figure 7-2: Identifying Research and Development Gaps

An example could illustrate the use of the principles mentioned above. Based on competitor analysis, customer demands, and company capabilities, SWOT analysis might indicate the need for special or custom-made product strategies. Theory (regarding the relationships between strategy components) tells what sort of customer groups and market areas the company should serve and what sort of core competencies it should exploit. Also, according to theory, we might expect that a company moving from a commodity product strategy to a special or custom-made product strategy should change its marketing structures and functions accordingly. Customer contacts must be closer, marketing channels shorter, planning and information systems more sophisticated, product planning more active, etc. Identifying the research and development gap is based on a comparison between "should be" marketing (based on theory) and actual marketing practice. If a company's marketing structures and functions don't meet the theoretical requirements described above, they must be developed. This reasoning leads us to initial marketing planning.

7.1.4 Initial Marketing Planning

In industrial marketing, the various markets and end-use sectors are so vast, and the individual end-users so numerous, that it is nearly impossible (and far too expensive) to produce detailed information on all possible markets. Even if an attempt were made to study all possible markets and end-use sectors, it would probably provide a description that is too general for a detailed strategic marketing plan. On the other hand, a partial, more detailed analysis might omit some prospective customer groups. One solution to this problem is to analyze the markets in two phases. The first phase can be referred to as initial marketing planning and refers to using existing knowledge and secondary information to formulate initial or proposed marketing strategies.

The first step in the marketing planning process is the market analysis, which is carried out as desk research with secondary data. This can be done at a reasonable level of cost and effort. The market analysis is structured according to the Model of the Information Environment. Only secondary information is used to produce a marketing strategy. Marketing theory and planning experience provide ideas concerning which criteria are useful for evaluating the attractiveness of various industry sectors.

Results from an internal company (business unit) analysis are then combined with initial marketing strategies. Those strategies are chosen which fit the strengths and weaknesses of the company. Marketing theory and manager experience provides ideas about appropriate structures and functions for the chosen strategies. As a result of this phase, there are **proposed marketing strategy-structure-function combinations**.

The proposed strategy-structure-function combinations must be tested in markets among customers. This test is conducted via a survey among the customer sectors defined in the initial marketing plan. The test reveals if the planned products, marketing channels, and marketing communications fit with the needs and behaviors of the chosen customers or customer groups. The survey also produces detailed information needed to complete a strategic marketing plan. The necessary corrections are made and as a result, there is a strategic marketing plan for the business unit.

7.2 STRATEGIC MARKETING PLAN

7.2.1 Planning Process of Strategic Marketing

Marketing planning means decision-making. The IMMP describes strategic marketing and acts as a blueprint for the market planning decisions that must be made. In strategic marketing it is essential that marketing strategies form a core for marketing and a basis for planning structures and functions. Structures form an “optimal” environment within which to execute strategies. Strategies and structures are followed by marketing functions, which define the practical actions needed to carry out the strategies. The strategic marketing plan is executed through an “annual marketing plan,” which defines the detailed annual marketing targets and the actions necessary to reach those targets.

While a *strategic marketing plan* for the market analyst means logical strategy-structure-function combinations, where the chosen structures and functions are used to execute the chosen strategies, a *strategic marketing plan* for the customer means a bundle of benefits. Strategies, structures and functions form a unified entity where each part contributes to a total package of benefits for the customer.

Decisions must be based on appropriate information. When strategic marketing planning is defined as information collection and decision making, the whole planning process can be understood as a research

process where marketing decisions are conclusions based on analysis and interpretation of market data. The steps illustrate the planning and implementation of a scientific research process. They also illustrate how a strategic marketing planning process can be planned and executed. The core idea of this model is that planning is a sequential process: each step affects the following ones.

1. Identifying the problem (Problem identification)
2. Stating the purpose (Purpose statement)
3. Designing the framework for analysis and measurement (Framework for analysis and measurement)
4. Collecting and analyzing data (Data collection and analysis)
5. Conclusions (Marketing strategies, structures, and functions)

The following text describes how the step-by-step process of scientific research can be used in strategic marketing planning. It also describes the general contents of a strategic marketing plan. The text does not provide the details of marketing research, but outlines the actions that must be taken to conduct it. "How" questions can be answered by referencing books which specialize in research or marketing research (especially research methods).

1. Problem Identification

The purpose of the planning process cannot be properly defined if the planner doesn't fully understand the problem to be solved. The conditions out of which the need for new strategies emerges must be made explicit. Problem identification allows the marketing planner to become familiar with the problem, and is also important for those who will ultimately use the plan.

The content of problem identification depends on the situation:

- The marketing environment may have changed, and the company must adjust its marketing strategies to the new environment. In this case the problem analysis describes the environmental change and its drivers.
- There may be weaknesses or shortcomings in the present marketing strategies, structures, and functions of the company. These must be thoroughly analyzed and described before defining the purpose of the planning process. If the planner is not familiar with the shortcomings, he/she is not able to plan a project that will fix the situation.
- The strategic marketing plan may be part of an investment project launched by corporate management. In this case the problem analysis explains the background of the investment plan and its justification in the corporate context. Market knowledge has naturally been part of the investment decision, but in the beginning of a strategic marketing planning process, the corporate context must be made explicit.
- In some cases technological improvements or inventions make it possible for the company to produce new, more developed products that can better satisfy customer needs. In this case the problem identification describes the technological possibilities with respect to customer needs.

After analyzing the problem, the planner is ready to determine how research and development/planning might help the company. Problem identification, which describes the context from which the need for the strategic marketing plan emerges, drives the whole planning process. After careful problem identification, the planner is ready to define the purpose of the project in the most appropriate way.

2. Purpose Statement

A prerequisite for a proper strategic marketing plan is that the planner knows precisely the sort of information that is needed and the types of decisions that must be made. It is good to list both the information that must be gathered and the decisions that must be made based on the gathered and analyzed information.

In various phases of the planning project, the planner must communicate with various project stakeholders. The purpose statement allows outsiders to quickly get the most precise picture of the project. The purpose statement is also the standard by which the results and conclusions of the project are assessed in several phases of the project.

The following example illustrates the purpose statement of a strategic marketing plan. A sawmilling company noticed that both the technological possibilities of its sawmill and the customer demands of the UK market had changed. The changes had invalidated the marketing methods formerly used by the sawmill. The sawmill started a strategic marketing development project with the purpose statement defined as follows:

The general objective of the project is to support the development of the company's sawnwood marketing targeting the UK. The key decisions in marketing development concern strategies, structures, and functions. Through these decisions the company is aiming to adapt its technological possibilities and strengths to the market opportunities. The market study will produce the necessary information for a strategic marketing decision-making process. An important objective is to produce new information about the macro- and micro-environment of UK sawnwood markets. Further objectives of the study are to identify the needs and buying behavior of potential customers. Based on market information, company management will formulate marketing strategies, structures, and functions for the UK market. When making these decisions, market information and internal company information will be taken into consideration.

The purpose statement was followed by a more detailed set of study questions, which were proposed by the marketing planner and approved by company managers responsible for strategic plans. The first group of questions deals with the market environment and the second is connected to customers.

What are the present and future characteristics of UK sawnwood markets?

- softwood sawnwood demand and its development in the UK
- softwood sawnwood supply and its development in the UK
- current economic and technical environment conditions in the UK
- overview of the main competing producers of softwood sawnwood
- overview of products that compete with softwood sawnwood in the UK
- a description of the change in the structure of physical distribution and how it is currently functioning
- summary of the most promising customer segments and insights into future segments

What are the needs and buying behavior of potential customer companies?

- the present and future use of sawnwood
- the price paid for raw material
- who makes the buying decisions in a company
- how suppliers are chosen
- what attitudes are towards direct trade

- what preferences are held regarding the raw material
- what kind of attitudes are held toward special and custom-made sawnwood and their use
- which loading ports are favored and which are not
- which delivery terms are most favored
- what kind of information and service needs exist
- how well are shipping marks known
- what are the impressions of the sawmill's shipping marks, provided that the (possible) customer has some experience with them

The data collected should provide answers to the following questions concerning development of strategies, structures, and functions of the sawmilling company.

1.) Marketing strategies in the UK

- which products should the company produce for the UK market
- which sectors or companies should be chosen as customers
- in what geographic region of the UK should marketing be concentrated
- which core competencies should be used

2.) Marketing structures in the UK market

- how should marketing be organized
- which marketing channels should be used
- which channels of physical distribution should be used

3.) Marketing functions in the UK

- how should personal selling be implemented
- how should marketing communication be implemented
- how should physical distribution be implemented
- how should other communication take place

In the example above, the objectives of the project are explained in a very detailed manner. The reader can easily see the kind of information that will be produced and the kind of decisions that will be made. It is easy for the reader to provide feedback on this sort of detailed purpose statement.

3) Framework(s) for analysis and measurement

To understand and conceptualize the operating environment and the strategic marketing planning decision-making situation, models can be useful. Models are used as frameworks for the planning process. As background for a marketing planning process, SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis is often used. It is up to the analyst to determine how best to measure the various elements of the model utilized. For example, the Information Environment Model has a block titled "demand". In the context of the marketing planning project, how should demand be measured?

The marketing planner should see the whole marketing environment as information structured in a certain way. Here we assume that information relevant to the planning process is structured according to the Information Environment Model (Figure 7-1). In marketing planning, the model guides information collection, and how the model is used, what type of information is emphasized, and so forth, will all depend on the planning situation. Measurement of elements of the model also depends upon the marketing planning situation.

Typically, a strategic marketing planning process includes both a market analysis and a detailed customer study. A deeper customer analysis requires a framework of its own. The framework illustrates the significant aspects of customer behavior that should be considered in the study.

4) Data collection and analysis

Secondary data is information that can be used in the study, but has not been collected for that specific purpose. *Primary data* is data collected specifically for the purpose of the study. The type and content of the data is based on the purpose of the study. The purpose directs data collection through the framework and measurement of its elements. Details regarding data collection and analysis can be found in books specializing in research or marketing research.

Besides “scientific” issues, practical things like timetables, budgets, and so forth must be considered.

5) Conclusions

The “conclusions” part contains the actual marketing plan. It can be structured according to the organization of the IMMP. The following example gives a general structure for a marketing-planning project report. It illustrates how easy forming a list of contents for the report can be if the planner has used models to guide the planning and execution of the project.

7.2.2 Real World Strategic Marketing Plan – Sawing Solutions Ltd.

Adapted from original text by: Heikki Juslin, Miikka Pesonen, and Jari Kärnä

Background – Problem Statement

Sawing Solutions Ltd. is one SBU in an integrated forest industry company having both paper and sawnwood production. From the corporate point of view, sawmilling is not the most attractive sector, but is important in the raw material procurement for the corporation. To get pulpwood, the company must also buy saw logs and these must be manufactured in the most profitable way. This raw material context and market success influence the profitability of the sawmilling SBU. There has been a change in the strategic thinking at the corporate level. Business success at the sawmilling SBU is now more important and the SBU is accordingly being given more independence.

Corporate management has decided to allocate more low-quality logs to pulping. This means that the sawmill will be getting higher quality logs than in the past. This new raw material base makes it possible to develop new strategies (products, customers, market areas, and core competencies). These changes may also mean a need for new production facilities.

Preliminary market analyses have been conducted for corporate strategic planning. Although these market analyses have been conducted mainly for corporate strategic planning, they have produced considerable background information for strategic marketing plans of the sawmilling SBU.

Based on the prospects of improved quality logs and market opportunities discovered during the preliminary market analysis, corporate management has initiated an investment project for a new sawmill. The new mill will specialize in only a few products targeted to specific customer groups. The production will be market driven and the raw material base may create a core competency for the company. Applying the concept would require new business models and a detailed strategic marketing plan.

The following sawmill concept was chosen for deeper analysis:

- A spruce sawmill focused on a few dimensions and special and custom-made products
- Production capacity of about 250,000 m³/year

The aim is to target market segments where the competitive advantages of the sawmill can best be utilized. The raw material base for the product strategies is high quality, sound-knotted spruce, suitable for special and custom-made products. Based on preliminary analyses the company chose manufacturers of edge-glued panels in Germany and Austria.

Purpose Statement

The strategic marketing plan shall answer the following questions:

1.) Marketing strategies of the planned sawmill:

- What products will be produced?
- Which customers or customer groups within the chosen segments will be targeted?
- Which geographical areas within Germany and Austria will be targeted?
- What competitive advantages will form the basis for marketing?

2.) Marketing structures of the planned spruce sawmill:

- How is marketing organized?
- What are the marketing channels?
- What are the channels of physical distribution?

3.) Marketing activities to be undertaken:

- How should personal selling be organized and implemented?
- How should marketing communication be organized and implemented?
- How should customer support be organized and implemented?
- How is the customer and market information continuously gathered and used?
- What are the requirements for marketing routines (functional communication)?

Market analysis of sawnwood, and edge-glued panels shall provide answers to the following questions:

- What is the situation with supply and demand and how will they develop within the chosen target market?
- How will the factors that influence demand (e.g., economy and building) develop in the respective regions?

- How will the technology, norms, and standards of the chosen segments develop?
- What is the competition like and how will it develop in the chosen target market in the chosen regions?
- How is the industry in the chosen target market structured and located (who, what kind, and where)

Customer analysis shall provide answers to the following questions:

- What are the future needs of the chosen target groups related to the product (sawnwood)?
 - Volume of sawnwood consumption
 - Dimensions
 - Quality
 - Special needs
- What are the needs of the chosen target group related to the availability of the product?
 - Distribution channel
 - Delivery time
 - Lot sizes
 - Prompt deliveries, etc.
- What is the buying behavior of the targeted companies? (where, who...)
- What are the information needs of the targeted companies?
- What are the customer support needs of the targeted companies?

Information from market or customer analysis is needed when testing or supplementing the initial marketing plan. This is based on the preliminary market analysis and the experience of company management. The purpose statement of the project is closely related to the way the planning process is implemented. Implementation of the project is described below.

Framework for Analysis and Measurement

The principles of creating an initial, proposed marketing plan are used when executing the project. According to those principles, the hypothetical (preliminary) marketing plan will be prepared first. In this case it is based on the preliminary market analysis conducted in connection with corporate strategic planning. This data can be considered as secondary material, since it has not been collected for this particular purpose (strategic marketing plan).

The initial marketing plan contains proposed strategy-structure-function-combinations. In other words, it includes decisions concerning strategies, structures, and functions based on the secondary material available to the planner. All the necessary decisions cannot be made because of missing information.

The proposed plan will be tested by empirical marketing research. As shown, close cooperation between the marketing planner and researcher is a precondition for implementation

Framework for Data Collection

The Model of the Information Environment is used to analyze the market environment. The elements of the macro environment – demand, supply, and other macro environment—can be specified (measured) as follows:

- Demand
 - Development in the short, medium, and long run
 - Development by customer groups
 - Development by end-use
 - Development of prices
- Supply
 - Development in the short, medium, and long run
 - Development by product categories
- Other macro environment
 - Economic development of the markets
 - Technical development of the target sectors
 - Development of product norms and standards

Elements of the microenvironment – competitors, distribution channels, and customers – can be specified (measured) as follows:

- Competitors
 - Present competitors
 - Potential competitors
 - Competing products
 - Competitors strengths and weaknesses
- Distribution channels
 - Structure of distribution channels in the respective region
 - Functions of the distribution channels in the respective region
 - Special features of the distribution channels
- Customers
 - Present and potential customers
 - Who
 - How many
 - What kind
 - Where

At this stage, the emphasis is on the structure of the customer groups. The frame of reference for the analysis of individual customers will be drawn in connection with the preparation of the questionnaire.

Framework for Marketing Decisions

The decisions of the strategic marketing plan are made according to the IMMP (Figure 7-3). The list of decisions follows the principles of a modeling approach to marketing planning.



Figure 7-3: Integrated Model of Marketing and Planning

Proposed (Preliminary) Strategy-Structure-Function Combinations

Based on preliminary market analysis, the following initial strategy-structure-function combinations are proposed. Information for initial marketing decisions is not available based on the preliminary market analysis (unknown).

Product	Edge-glued panel material with sound knots
Dimensions	50×100/115/125/150
Lengths	4.2/4.5/5.1 m
Grade	-SF/Sound knots -Not allowed: C-grade, wane, discoloration, rot, compression wood and dead knots
Moisture content	10 +/-2 and 16 +/-2 %
Special requests	(unknown)
Customer Group	Producers of edge-glued panels
Market Area	Germany and Austria
Core Competencies	-good quality of wood: slow-growing, small/sound knots, color -respect for the Scandinavian raw material -grading stability and special seasoning -other – (unknown)
Marketing Channel	Direct contact
Physical Distribution	Wagon/trailer deliveries
Personal Contacts	Frequency – (unknown) Contents – (unknown)
Service Offered	unknown
Other Marketing Communication	unknown
Market and Customer Information	unknown

For their part, the initial strategies-structures-functions direct the empirical analysis of markets and customers. The aim of information collection and analysis is to verify the initial ideas about strategy-structure-function combinations. On the other hand, data collection from markets and customers brings new detailed information which is needed to fill the missing information of the initial strategy-structure-function combinations.

Data for the Strategic Marketing Plan

Secondary Data

Market analysis is based mainly on secondary material. The following lists describe the sources of secondary data used in market analysis.

Types and Sources of Information for the Macro Market Environment

Demand and Supply of Sawnwood	
Economic Conditions and Forecasts	Various economic journals and reviews published by banks, research institutes, and economic organizations
Development and Forecasts of Construction	<ul style="list-style-type: none"> -EUWID Holz (closely follows construction in Germany), Holz-Zentralblatt -Baustatistisches Jahrbuch (contains basic information of construction in Germany) -Euroconstruct (contains basic data and short-term forecasts of construction in Europe)
Markets of Sawnwood	<ul style="list-style-type: none"> -General demand and supply: FAO/UNECE Timber Committee, International Softwood Conference, trade press (e.g., EUWID Holz, Holz-Zentralblatt, Holz-Kurier) -Competitors: trade press (e.g., EUWID Holz, Holz-Zentralblatt, Holz-Kurier) -Imports and exports of sawnwood: EUWID Holz, Holz-Kurier, Finnish Customs Statistics, Svenska Trävarueksportförning
Other Macro Environment	
Norms and Standards	<ul style="list-style-type: none"> -Most central sources were professional newspapers Holz-Kurier and Holz-Zentralblatt; several articles in these papers dealt with standardization and norms -Useful sources were also notices published by Informationdienst Holz

Types and Sources of Information for the Micro Market Environment

Customers	<ul style="list-style-type: none"> -Company interviews produced the majority of customer information for the study -Company profiles in trade press provided supplementary information -A visit to the Leipzig Bau exhibition resulted in further company contacts.
Competitors	Interviews were the main source of competitor information. Some information concerning product and company competition was found in professional newspaper and magazine articles. Most popular theme was substitution between wood species
Distribution Systems of the Markets	Very little information was found from secondary sources

Primary Data – Companies Interviewed

The population of the study consists of producers of softwood edge-glued panels in Germany and Austria. The listings of the population was based on various sources:

1. Previous market studies
2. Company catalogues
3. Trade press articles

The general criteria used in sampling were that the company be large enough to buy a truckload of sawnwood per order. In practice there was no need to use this limitation because the most significant (biggest) companies were targeted for interviews. This made it possible to cover as big a share of the production capacity of the sector as possible.

The following setting describes the number of interviewed companies and their share of the total production of the sector in the respective country.

		Interviewed	Share of production (%)
Germany	Edge-glued panels	17	49
Austria	Edge-glued panels	6	86
Total		23	67

Results of the Market and Customer Analysis

The following “List of Contents” implies the type of information reported in connection with the strategic marketing plan. The information is based on the results of market and customer analyses.

- 1. *Market Analysis*
 - 1.1. *German Markets for Sawnwood*
 - 1.1.1. *Economic Situation and Forecasts*
 - 1.1.2. *Development of the Building Activities*
 - 1.1.3. *Markets for Sawnwood*
 - 1.2. *Austrian Markets for Sawnwood*
 - 1.2.1. *Economic Situation and Forecasts*
 - 1.2.2. *Development of the Building Activities*
 - 1.2.3. *Markets for Sawnwood*
 - 1.3. *Structure of Edge-Glued Panel Industry in Germany and Austria*
 - 1.3.1. *Production Volume and Producers (including location)*
 - 1.3.2. *Production, Products and Standards*
 - 1.3.3. *Use of Edge-Glued Panels*
 - 1.3.4. *Competition of Suppliers*
- 2. *Customer Analysis of Edge-Glued Panel Industry*
 - 2.1. *Consumption, Specifications and Prices of Sawnwood*
 - 2.1.1. *Consumption*
 - 2.1.2. *Specifications*
 - 2.1.3. *Prices*
 - 2.2. *Needs Related to the Use of Sawnwood*
 - 2.2.1. *Quality*
 - 2.2.2. *Dimensions*
 - 2.2.3. *Lengths*
 - 2.2.4. *Degree of Seasoning (Moisture Content)*
 - 2.2.5. *General Product Preferences*
 - 2.3. *Needs Related to Deliveries, Service and Information*
 - 2.3.1. *Purchase Channels*
 - 2.3.2. *Needs Related to Deliveries*
 - 2.3.3. *Needs Related to Service*
 - 2.3.4. *Needs Related to Information*

Information reported as described above will be used in the final strategic marketing plan. The structure of the plan follows the IMMP.

The Strategic Marketing Plan for Producers of Spruce Edge-Glued Panels in Germany and Austria

The chosen marketing strategy is a special product strategy, specializing the offer (customer’s benefit package). It is specialized through product properties, availability, and service benefits.

Quantitative Targets in Germany			Quantitative Targets in Austria		
Scenario	Estimated Volume	Proportion Nordic spruce	Scenario	Estimated Volume	Proportion Nordic Spruce
Maximum	130 000 m ³	appr. 50 %	Maximum	35 000 m ³	appr. 30 %
Biggest in the Field	105 000 m ³	appr. 40 %	Biggest in the Field	25 000 m ³	appr. 22 %
Feet on the ground	50-70 000 m ³	appr. 20-25 %	Feet on the ground	10 000 m ³	appr. 13 %

Product

Tree species	Spruce
	U/S or U/S V (fifths or better) Criteria:
Grade	-Sound, small knots (max 25 mm) -Densely grained (max 2.5 mm) <i>Not allowed:</i> Wane, blue stain, rot, resin wood, wood stored in water, insect damages, fissures (small drying checks allowed)
Dimensions	50×100/115/125/150 mm, main emphasis on 50×100/115 mm
Lengths	Main length 5.1 m (for DIY panels also 4.1 and 4.6 m)
Moisture	Final moisture content 8-10 % (for part of producers shipping dry 16-18 content %)

Customers and Market Areas

Germany	10 biggest producers of the field (wood consumption 10-30,000 m ³ /year) accustomed to direct contacts with suppliers of sawnwood. Interesting opportunities are also offered by the middle-sized producers of the field (wood consumption 5-10,000 m ³ /year) that have some interest in new suppliers. The main group of customers is in Southern Germany (Baden-Württemberg, Bayern); some bigger customers are also in Nordrhein-Westfalen.
Austria	7 biggest producers of the field (wood consumption 15-50,000 m ³ /a). Customers are not geographically concentrated.

Core Competencies/Competitive Advantages

Competitive advantage can be created for the entire benefit package (product, availability, service).

Product	<p>Good quality of the raw material emphasized by grading (densely grained, sound knots) and good and stable quality of sawnwood form the basis for the competition of a Nordic sawmill against the Middle and East-European suppliers. In the competition among Nordic sawmills, these factors are, however, more or less prerequisites to keep up with the competition. Additional product value can be gained by:</p> <ul style="list-style-type: none"> -Special seasoning/drying 8-10% (good quality, no fissures, good package) -Ability to supply 5.1 m lengths -Closer consideration of customer quality specifications -Development of customer grades (e.g., Leimholz GmbH Qualität)
Availability	<p>Reliable, prompt, and quick deliveries (2-5 days) are the main competitive advantages of Middle-European suppliers. Deliveries are the area where a Nordic sawmill can achieve proportionally the largest improvements in customer satisfaction. Competitive advantages can be developed in the following areas:</p> <ul style="list-style-type: none"> -Reliability and punctuality of deliveries (development of control, "automatic alarm systems," immediate information of problems to customers) -Also quick deliveries (5-10 days if allowed by the logistic system); however quickness is not an intrinsic value; reliability in keeping agreed times is more important -Immediate responses to customer inquiries/claims
Service	<p>"Softer" factors may have a big potential influence in customer satisfaction and loyalty. These are:</p> <ul style="list-style-type: none"> -Flexible service in own language -Commitment to customer relationship: -reasonable pricing policy -understanding customer's position in its own markets (end- use of customers products and its development) -true interest in customer problems (Product Manager) -Immediate reaction to customer contacts -Proactivity instead of reactivity in information ("We tell them before they ask us.")

Marketing Structures

It is the task of the marketing organization to secure the maximum benefit for the customer, in an economically profitable way.

Organization	<p>Direct contact to the end-user allows service, information flow Marketing and influence. Serving big industrial end-users forms the basis for Channel organizational design. Product manager organization would seem to offer the best opportunities.</p> <p>Advantages are:</p> <ul style="list-style-type: none"> -Total responsibility for the product from sawmill to customer -Good knowledge of both the production possibilities and restrictions of the sawmill and customer production and buying needs -Ability to be independent and quickly solve customer technical problems on-site <p>Potential problems:</p> <ul style="list-style-type: none"> -Deciding the location (sawmill vs. market) -Vulnerability of the organization (dependence on 1-2 key persons)
Planning/ Information System	<p>On-line data connection to the production planning of the sawmill. Systems for continuous up-dating the database of customers (containing also qualitative records concerning customer operations, development, personnel and buying behavior). The database minimizes operating risks caused by the loss of key persons. Systems and database for following the operations of customers' customers (demand development, market structure etc.)</p>
Distribution	<p>Direct deliveries from mill via trailer/wagon. Desired service level for deliveries is 14-21 days (8-14 days for supplementary lots). Terminal is possible and improves customer satisfaction if it does not cause any pressure on product prices. However quick deliveries do not bring any additional gains. Reliability of deliveries may be improved with smaller costs by other activities.</p>

Marketing Functions

Personal Contacts	Service and personal selling emphasize: -Concentration of service on one person (one contact that gives all services) -Quick reaction to customer inquiries -Changing over from "mere" customer service to customer consulting -Tightening requirements regarding flexibility of the sawmill (customer grades)
Communication	Up-dated presentation material about sawmill production possibilities must be available at all times. It must also be prepared for the rise of environmental issues in this sector.
Information	Basic prerequisite for the competitiveness of a sawmill specializing in a certain end-use is continuously collecting and analyzing of information. This project can form a framework or a "check list" of those areas of information which the saw mill must update regularly. The field work is connected closely to the information systems and databases which were mentioned in connection with marketing structures.

Conclusions

The case example above shows that the research process analogy and development of initial strategies-structures-functions can be effective when applied to strategic marketing planning. They also show that the modeling approach works well in an industry context in strategic marketing planning. We also learned that information is critical in marketing planning. There is a lot of secondary material dealing with the macro market environment. However, it is difficult to find information describing the micro market environment. Information about customers is normally acquired through primary data collection.

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- Kerouac, Jack. *The Dharma Bums*. New York: Viking Press, 1958.

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