TIMBER PRESERVATION 2006

THE BODYGUARD® INITIATIVE

PRESENTED BY:

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The Background...

New Zealand timber re-manufacturers have a long and demonstrated history of countering innovation and entrepreneurial initiatives with self-destruction often matched with both inter and intra-competitive activities. It is a surprise that many have survived given the obvious discomfort of balancing life-style businesses with global business demands, and perhaps not surprising that many have not, including a number of larger operators who should have known better.

For at least the past three decades the industry has talked about the need to add value and seek alternative market spaces that are less reliant on commodity cycles. Recognising that these are poorly suited to small players in large markets who do not have the structures, abilities or resources to sustain or withstand such volatility. For three decades there has been a lot of dialogue but not a lot of obvious action. That is not to say that there has been no action, it just may not have been on the radar. Perhaps it is fair to say, though, that if there had been much action, then thirty years should be enough time to see something of it, given the relative importance of this industry?

An initiative that has hit the radar of the industry, its target market, and other domestic and off-shore competitors is one that began in late 2000 as a venture by a cluster of members of the Pine Manufacturers’ Association to extend their market presence in a way that involved market consolidation through co-operation, rather than amalgamation and therefore loss of identity. This initiative has now resulted in the formation of a stand-alone commercial entity, Bodyguard Wood Products Ltd.

The Start of the Journey...

An exploratory visit to the USA in early 2001 was made to determine the potential for market development away from the traditionally cluttered markets of New Zealand and Australia. In these historic market places manufacturers were encountering increasing competition in both pricing and supply, mostly from their own home base. An attempt to contain this unnecessary competitive approach was factored in the development of an additional market, and one that provided a relatively easy access point.

A visit to the North American Home Builders’ Show highlighted an interesting trend in the increasing popularity and promotion of substitute and composite products into a market that was traditionally timber orientated.

Listening to fellow timber suppliers we could have been comforted that the market was simply “over-supplied” or “entering a period of recession” accounting for declining prices and reducing order availability.
Listening to our newly-noticed competitors we needed to be shocked that none of this was the case other than in those instances where we had allowed it to happen. In fact, the demand for plastic, ceramic and other substitutes was growing faster than these producers could add capacity, and all dominating our product territories.

That there was still a preference for timber, although fragmented, was encouraging but the work that the manufacturers and marketers of substitutes had done in developing solutions to ensure durability and performance was commendable and something that we need to learn from.

That the timber industries had allowed this to happen was disastrous, but seemingly typical of the industry’s introspective nature.

**The Challenge**

The challenge was to take our newly found, yet initially rudimentary, market research and test whether we could take our manufacturing competencies into a market place that was becoming more dominated by other seemingly more fashionable options.

And so a period of intense planning and speculating began for us that resulted in a decision to engage in a market entry exercise that needed to, in the long-term, provide a buffer against traditional market forces. Historical markets would be protected in terms of supply, but we needed options that would provide a means of consistent and sustainable return.

**Bodyguard® is**

The planning process resulted in Bodyguard®, which is a marketing and distribution effort to promote LOSP treated building products into the United States. For us the concentration on the term “marketing” is critical to the success of this project, even more so than our manufacturing operatives would ideally like, at times.

As a serious of definitions, we would describe Bodyguard® as

- a concept to build on our process capabilities
- a solution to challenge the growth in composite alternatives
- a brand to collect the value proposition and develop and create market credibility
- an opportunity to grow new markets at favourable returns
- a departure from the past to achieve or develop industry cohesion. The threat here is to depart from the past without being constantly and automatically drawn back to it either through internal pressures or external forces.
So Why the USA…

There were several reasons behind the choice of the USA as a preferred entry market.

- The USA was already a major trading partner with New Zealand in pine, so we believed there would be few issues with species acceptance.
- The size of the market, in population terms, provided a target that was large enough to ensure that price competition between similar manufacturers would be unlikely or at least unnecessary.
- There was a possibility to segment each State so that coverage and access could be controlled, or at best managed.
- Access to market is relatively short at approximately three weeks with relatively few other obvious entry barriers.
- On the surface there appeared to be very few apparent cultural differences which is always a bonus in market development.

Entry barriers were encountered…

Cultural differences were more subtle than pronounced. The concept of “imported” products appeared foreign, literally, to many customers.

Substitutes and composite manufacturers had taken a coordinated approach to market and were marketing aggressively with warranty assertions that were expensive to replicate and difficult to counter. That many of these promises may be meaningful and vague is irrelevant, what is important to the target audience is that they exist.

Any product promotion would have to target a point of difference and make a real value proposition, as the substitutes had done. In this case the product would require a guarantee of stability and durability and for a soft-wood species this would not be possible with an untreated product offer. The complications of this were that, at the time, the USA did not appear to be a treatment receptive market for appearance grade products.

Not to be deterred, the process began of modifying, evaluating and registering our selected treatment process through the USA regulatory channels.

Engaging in traditional transactional selling was never considered to be an appropriate way of realising full market potential. To overcome the negative connotations of pine’s poor durability, the increasing environmental concerns around treatment processes in general, and the ground-swell that plastic and ceramic systems were building, a branded
approach was deemed to offer the most appropriate delivery mechanism for the group. Bodyguard® was developed from the brief to position this product against the market attributes of competing products and at the same time engage a point of difference for those who retained a preference for timber.

The Challenges faced…

- **Increasing acceptance of composite products** driven by poor performance and uncertain durability of natural wood products in the market, coupled with the performance guarantees offered by these composite producers, was obvious. We needed to overcome this through a treated natural timber offering with a durability warranty.

  Compare plastic siding products that are sold with a “limited” 50 year warranty in both performance and colour and we begin to see the issues we are facing with wood.

  The consumer market continues to move further toward convenience and maintenance-free options. The durability issues of NZ pine, particularly factored against the demands of both a decay and insect-prone market, precluded any offering that is made on an un-treated basis.

- **Environmental issues around treatment processes** were evident as we began our market investigation in the midst of the great CCA debate. While LOSP provided a viable option we also needed to be conscious that our domestic LOSP formulations at the time were heavy-metal based and so our use of the azole formulation was accelerated.

  In taking both the emotive and legislative aspects of the treatment situation into consideration it has been essential to position the treatment offering in such a way as to remain distanced from the available “treated products” in the market.

  While we associate as a treated product, the approach that we have consciously taken is to position it under a brand where our target user is able to associate the benefits of the treatment and durability of the product without any of the negative connotations of harmful environmental impacts. Perhaps this is a contradiction, but a necessary reality.

  So, we are not positioning treated pine, rather durability.

- **Potential size of the market is daunting** and New Zealand’s manufacturing base would struggle to cope with the full demand from this market, hence our need to approach this collectively. The commoditisation approach taken by our
competitors has been dealt with through a branded and focused approach to the market.

While the total US market is a size that should daunt any single manufacturer, the reality is that even within our target sector there is a large potential volume of business; certainly larger than any single NZ producer could cope with. Bodyguard provides a mechanism to cope with these demands across a wide manufacturing base effectively and the concept behind Bodyguard as a marketing effort, rather than a manufacturing one, remains consistent with this approach.

More and more we are seeing the offerings from competing countries and regions, such as South America, with these manufacturers already demonstrating a strong-hold in the USA market and beginning to encroach on our traditional Australasian markets and establish credibility there. Our realisation is the difficulty we have competing with these manufacturers on a least-cost, volume orientation. Given the total size of the NZ resource we don’t have the critical mass to develop this market approach or strategy, and so our potential comes from a value-driven product development.

- **Focus needs to be on more than wood** and given our choice to approach this in a highly differentiated way through branding, this dictates a serious degree of uniformity in the presentation and packaging of the product and our approach to customer service generally.

The mind-set here is critically important; our ability to deal with the market conditions we will face is found in our ability to provide uniformity in all of the components that make up our value-chain or proposition including the quality of raw material; quality of production; specification and uniformity of, for example, packaging, presentation, shipment, delivery options, and lead-times.

Sadly I believe we are only just starting to look like the presentation standards of the South Americans so we have a long way to go.

The success of Bodyguard will come from continuing a structured approach to the business and identifying how we best manage the resource against the demand potential.

**Lessons learnt…**

From concept to commercialisation took approximately three years.
From commercialisation to credibility has taken much longer and that will always be a moving target.
Several key understandings we have taken from this process include:
- Understand where the offer fits in the value chain, and for that we need to understand the value chain.
Co-ordination and a common market approach have been critical to success; there are times when strength is found in numbers, even within a competitive environment. Take time to understand the market, and the issues peculiar to that market; same language does not necessarily mean same demand or requirements. Understand that you need to plan, and plan realistically and routinely; understand and plan for contingencies in distribution changes, technology changes, and taste changes.

We are already over-subscribed with price-orientated market offerings in practically all of the markets we choose to operate in. Bodyguard® gave us the opportunity to look further a-field. For this we needed to understand that competition is not possible based on price; least-cost, or a general commoditisation approach. The potential of brand ownership and development allow us to target our market and focus on those channels that provide realisable value.

**Opportunities presented…**

In realising and evaluating the challenges we continue to face we see many of these as market opportunities. The ability to rethink many of our business practices and markets that have been resource based, for instance and the need to think about opportunistic business differently.

The opportunities of business growth and sustainability as a result of market co-ordination continue to surprise us. Manufacturing alone, as a core competence, is limited. While it remains an important component of our ability to offer value, it contributes little more than that, at least in this exercise. We could potentially source Bodyguard product from anywhere, subject to quality validations. For us distribution and marketing are the keys.

Our value drivers will move away from operational imperatives and more toward the marketplace of customer orientation and response; distribution and supply chain initiatives; co-ordination and control.

Global opportunities will come through co-operation and cohesion; first, though, we need to satisfy ourselves that we have each market in order before spreading ourselves into others.

**And Finally…**

There will always be a place for a commodity-based approach – it just depends on what you are trying to achieve and what resources are available. For Bodyguard®, branding provides a means of achieving separation in a marketplace and we have taken this to extend beyond a treated product offer to one of durability and sustainability.
For us it is time to move on from the time-warp of subsidy, economic irrationality and resistance to change and start to invest in market development and support that doesn’t always follow the same path of another entrepreneurial supplier simply because that is always easiest to replicate.

There is a place for commodity products and commodity market approaches. In many cases they provide a means for highly competitive market offerings to be made while rewarding the manufacturer or supplier with defined cost structures and a rate of return that is understood against a fluctuating demand and supply cycle.

For too long, though, New Zealand industries have been engaging in commodity marketing, (selling, actually), while advocating the need for “value-adding” and “investment” and “change”. While these activities are not totally mutually exclusive against commodity rationale, there is enough evidence, industry recommendation, and research referral to suggest that for New Zealand’s timber industry, amongst others, to prosper requires a change to our commodity mindset and market approach.

For us branding provides a means of achieving separation in the marketplace, although branding alone will not guarantee success. Any brand must be supported with a culture, a promise and an identification of product and service that signifies a value proposition to a customer that is difficult for any competing product to match. Applying brand values and investment to a commodity product without supporting this through some form of differentiation adds cost, not value. Understanding what that difference is and supporting it by applying brand values and investment leads to required value.

We understand that the financial cost in providing this value through promotion, market support, and technical back-up is considerable and on-going; we also understand that these factors lead to demonstrated substrate substance and therefore a better position for us.

At the end of the day I am not convinced that our consumers are bothered whether or not our products are treated or otherwise; their priority and interest is that they want them to last. The mechanics of that are an internal issue.

The challenge for New Zealand’s forest products industries is to become remote from the historical demands and age-old issues surrounding market subsidies, production focus, universal product offers, industry fragmentation, intense internal rivalry, a focus on substrate, and often archaic management style and systems, to a market orientation where the value perceived by the consumer is translated into the value gained by the supplier – but that does come at a serious cost.

At Bodyguard Wood Products that’s what we have attempted to achieve through on-going market investment, promotion and distribution management. For us the excitement of the future is made possible from the lessons, but not the baggage, of the past.