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Forest Products News from . . . The Beck Group

"Don't find fault, find a remedy."

Henry Ford

Who is the Face of your Company and What Messages are They Sending?

To most employees, the face of their company is that of their immediate supervisor. Regardless of company policies and public relations initiatives, what an employee thinks of his or her employer is directly related to the relationship and interaction with the supervisor. This is true whether the company is big or small. It's an important consideration in workforce development because it has been said that in today's world, employees don't leave companies, they leave supervisors.

The "my way or the highway" drill sergeant approach might have worked with the baby boomer generation (you know who you are – look in the mirror). But in today's business environment with the new generation of workers, "Generation X" and particularly "Generation Y" or the "Millennials", this approach is no longer effective. Gen Y workers were born in the mid-1980s and beyond, so are in their twenties. With numbers in the 70 million range, they are the fastest growing segment of the workforce. Therefore, like it or not, employers will need to deal more effectively with this group. Their characteristics reportedly include being:



- **Tech-Savvy** – this is probably obvious to older folks since Gen Yers are the people we seek out for help with our cellphones, laptops, etc.
- **Concerned for Personal/Family Time** – unlike baby boomers, these persons are not as interested in working long hours, and they value workforce flexibility to achieve a better family/work balance.
- **Achievement Oriented** – these workers are ambitious and achievement-oriented. They have high expectations of their employers, want meaningful work and an opportunity to learn/grow.
- **Team-Oriented** – this group was raised on team sports and group activities. They want to be included and involved.
- **Attention-Seeking** – they need attention through feedback and guidance and appreciate being kept in the loop.

One of the wood products industry's more progressive companies is RoyOMartin, which is based in Alexandria, LA. They operate very large softwood plywood and OSB plants and a softwood sawmill. The company recognized the need to better deal with their changing workforce and instituted an innovative supervisory/management training program. The initial focus has been on the company's first-line supervisors – the face of their company.

They have embraced the concepts of Emotional Intelligence (EI) to help them recognize and develop their supervisory corps. To most of us, EI is not a household phrase, so for the remainder of this article we present some basic EI concepts. Much of the information discussed here was presented by Mr. Scott Poole, Executive Vice President of RoyOMartin, at the annual meeting of the APA-Engineered Wood Association in November, 2012.

EI has been defined as the ability to recognize, manage and utilize multiple emotions in positive ways in order to communicate effectively, empathize, defuse conflict and overcome challenges. Another way to think of it is as a capability comprised of four core skills. The first two fall into the category of personal competence, and they include: 1) **self-awareness** – the ability to accurately perceive your emotions and stay aware of them as they happen; 2) **self-management** - the ability to use awareness of your emotions to stay flexible and positively direct your behavior. The second two are under the concept of social competence and include: 3) **social awareness** – the ability to accurately pick up on emotions in other people and understand what is really going on; and 4) **relationship management** – the ability to use awareness of your emotions and the emotions of others to manage interactions successfully. Helping supervisors/bosses

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Who is the Face of your Company and What Messages are They Sending?

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develop these positive traits is worth the effort and will result in a more productive workforce. For example, in one recent study, a number of personality traits were measured among employees. Of all the data collected, EI was found to be the strongest predictor of excellent performance in the workplace and the strongest driver of leadership and personal excellence.

The good news is that while some people may be "born" with more EI than others, studies have shown that EI can be developed by focusing on five key skills. First, learn to quickly reduce stress so that one's emotional response to a situation is not limited to fight, flight, or freeze. Second, learn to be aware of your emotions from moment-to-moment. Rather than turning one's emotions off or down, it is better to pay attention to emotions and allow them to factor into decision making. Third, work to improve non-verbal communication skills. Often, what is said is less important than how it is said and what non-verbal cues are being revealed with the message. These might include your tone of voice, making eye contact, your posture, how close one is standing, etc. Fourth, do not be afraid to use humor to deal with challenges. When used correctly and tactfully, humor can lighten a difficult situation or allow a difficult message to be conveyed. Fifth, always try to resolve conflict positively. Disagreements are a part of life, and they are not necessarily a bad thing. If two people with a disagreement are able to resolve it in a healthy and constructive way, it can lead to increased trust between the two individuals.

Because of limited space we have only been able to address the basic concepts associated with emotional intelligence. Hopefully, you agree that it is a concept worth learning more about and applying in your own lives and businesses. At RoyOMartin, they have found the reward well worth the effort.

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BECK Strengthens its Business Appraisal Capabilities!

Many of our forest products industry clients are faced with the question: How much is my business worth? Or, in other words, what is its "Fair Market Value"?

One common method of determining Fair Market Value is the Going Concern approach. And within the Going Concern approach, valuation can be calculated using the *cost approach*, the *income approach* and the *market data approach*.

The cost approach is based on the assumption that a prudent buyer will pay no more for a property/operation than the cost to build a similar property/operation having the same utility. It involves valuing the land, plus the replacement cost (new) of improvements with deductions for accrued depreciation (i.e., the loss of value from all causes). The sum of these two provides an indication of the value under the cost approach.

In contrast, the income approach is an appraisal technique that measures the present value of future benefits (i.e., revenues) derived from ownership and economic use of a property or business. This approach is by far the most widely accepted method that business management uses to evaluate potential investments and acquisitions.

Finally, the market data approach involves a comparison of the subject property/operation to other "comparable" properties/operations that have recently sold. This is normally accomplished by analyzing the sales price of the comparable property/operation in comparison to a number of measures of performance (e.g., annual sales, annual capacity, various measures of profitability, historic growth, etc.), then relating these measures to the subject property/operation and developing an estimated market value.

The process for determining value of closely held businesses is complicated. However, being the leader in forest products industry cost and financial performance benchmarking and having worked with over 200 forest products companies at hundreds of locations around the world since 1980, The Beck Group is in a unique position to offer detailed and comprehensive business appraisals to the forest industry sector. In addition, we now have staff with a background in accounting and finance that have completed specialized training in appraisals. With our renewed focus on this area – should you need this service – we can offer you the most in-depth analysis available anywhere.

Mill Manager Training Workshop to be Offered by The Beck Group

One recent trend being seen in the forest products industry is the large number of mill managers nearing retirement. Many of our long-term clients have noticed the same thing and have expressed concern about the readiness of the next generation of managers. One common problem seems to be that mid-level managers may have a good understanding of their specific part of the operation, but when given responsibility for managing a broader operation, they show limited understanding of how all the pieces fit together.

In response, The Beck Group has decided to develop a mill manager training workshop designed to provide current and potential mill managers with the tools and information they will need to do their jobs well. Although we plan to expand to other sectors, our first workshop will be focused on softwood lumber producers. The topics we expect to cover include: a general overview of the North American softwood lumber industry, characteristics of top quartile operations, "levers" of profitability, metrics for measuring profitability, how to read and understand common financial reports, other common reports and information systems, capital project planning, log procurement, lumber quality control, lumber sales, product mix considerations, lumber recovery, productivity, staffing and operating schedules, lumber drying, maintenance planning, by-products and bioenergy, and getting the most out of optimizers.

As you can see, a lot of information needs to be covered, so, in addition to our own staff, we will bring in experts on some of the topics. The workshop will be held this fall in Portland, so look for more details in our next newsletter, on our website and in a marketing flier for the event.

Beck Staff Member Recent Presentations

Roy Anderson – Presentation about [asbestos in forests](#) at the Society of American Foresters National Convention last October in Spokane, WA.

Bryan Beck – Presentation about [mill survivability](#) at the Timber Measurement Society meeting this spring in Bellingham, WA.

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BECK Projects Update

BECK staffers have been busy completing a variety of projects; a few highlights are described here:

Beck Group Competitive Assessment Update

The list below summarizes BECK staff member recent activity on competitive assessment and benchmarking studies for different segments of the forest products industry. If you are interested in learning more about any of these studies, please let us know.

Recently Completed

North American OSB – A total of 8 companies and 10 plants participated in the study, which covered the first 6 months of 2012. A few key findings were that on average the plants in the study were operating profitably in 2012. Since 1996, average plant size has increased about 40 percent, and production per man hour has increased by over 60 percent. Since 2002, manufacturing costs (excluding raw material) have increased by 50 percent. The increase is primarily due to higher resin costs.

Under Development

North American Studs – BECK is in the early stages of recruiting participants for a North America-wide stud producer benchmarking study. We have received preliminary interest from producers in Eastern and Western Canada, the Western United States, as well as from a couple of stud producers in the South.

Underway

Western Softwood Plywood – A benchmarking study of the Western softwood plywood industry is currently underway. The current study marks the first time we have completed a study for this sector and region since 2006. The early results show that the 2012 financial performance among the participants was strong.

Southern Pine Lumber – Another study currently underway, but soon to be completed, covers the southern pine lumber industry for the calendar year 2012. Like western plywood, the preliminary results show very strong financial performance during 2012 among the participants in the study.



Other Beck Group Project Activities

Appraisal of Tribal Sawmill and Timber Cutting Rights – BECK staff members recently assisted the White Mountain Apache Tribe (WMAT) by completing appraisals of reservation timber and the Tribal sawmill operations. The appraisals were completed as one of the requirements of the New Market Tax Credit financing WMAT has been pursuing to allow re-opening of their sawmill operations. Valuations of the sawmill facilities included plant and equipment appraisals (i.e., orderly liquidation and auction values), as well as appraising the value of the sawmill operation as a going concern. WMAT expects to be able to begin operations by the fall of 2013.

Western US Chip Supply and Demand – Rising lumber (and chip) production, combined with pulp mill closures and weakening paper demand, means chips are abundant. BECK has been involved in two recent projects aimed at identifying the current supply and demand balance for pulp chips in the Western US, as well as identifying strategic alternatives for utilizing chips.

Capital Project Planning for Elliott Sawmilling Company – Elliott Sawmilling, an independent Southern Pine lumber manufacturer and a long-time client of The Beck Group, retained BECK to assist with planning for major changes to the company's small log sawmill operation. As a part of the assignment, an economic analysis of the project was developed and a report was prepared to assist the company in securing financing for the modernization. The changes to the mill, which will be completed in the spring of 2013, include the addition of a saw section to the primary breakdown system, installation of a new optimized trimmer system, lumber sorter and automated lumber stacker, and associated support equipment. The equipment additions will provide substantial financial benefits resulting from improvements in product flexibility, lumber recovery, and sawmill production – as well as reducing staffing requirements and unit manufacturing costs.

Merger and Acquisition (M&A) Assistance – In recent months BECK staff members have assisted several companies in their efforts to acquire North American forest products businesses. Both foreign and domestic companies have been assisted, and the targeted businesses have included softwood and hardwood lumber manufacturers, structural and non-structural panel producers, specialty value-added wood products businesses, and timberlands.

One of our recent M&A tasks was assisting the private equity firm **Kelso & Company** with their acquisition of the Eastern Canadian operations of **EACOM Timber**, a company with 8 sawmills and two value-added operations in Ontario and Quebec. BECK staff completed a review of operations (including planned capital improvements); benchmarked the sawmill operations against other North American softwood lumber producers (as both current operations and with planned improvements in place); evaluated the forest license agreements and other timber supply opportunities related to the sawmills; and assisted Kelso staff in their financial evaluation of the assets to be acquired. The \$182 million acquisition, announced in March 2013, is expected to close in June. Congratulations to Kelso & Company!

Biomass Heat and Power – Despite low natural gas prices and relatively weak current markets for renewable power, there is still considerable interest in biomass heat and power projects in anticipation of higher future natural gas prices and stronger markets for renewable power. For example, we are currently assisting Southern Oregon University in Ashland, Oregon with assessing the feasibility of a biomass heat and power system for their campus.