Extension Note

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Lessons Learned from the Quesnel Hardwood Co-operative: Case Study

Steve Hilbert[1]

Abstract

A group of independent small businesses in the area of Quesnel, British Columbia—including logging contractors, sawmillers, and forest industry members—formed the Quesnel Hardwood Co-operative in 1999. The Co-operative's objectives were to utilize the region's neglected birch hardwood resource to create and sustain jobs in the forest industry, provide work for under-employed local people, and help stabilize the area's economy.

On behalf of its members, the Quesnel Hardwood Co-operative integrated wood supply and sales to create a larger forest enterprise, thereby making members' products more competitive in the marketplace. The Quesnel Hardwood Co-operative developed an action plan to add value to the hardwood lumber by doing more local processing.

While not ultimately successful, the Quesnel Hardwood Co-operative did stimulate individual members to develop or expand businesses, and it stimulated the valuation and utlization of birch. Small birch mills are now operating throughout the region, and birch is being utilized more than it was prior to the formation of the Co-operative.

Contact Information

1 Consultant, Box 4246, Quesnel, British Columbia, Canada, V2J 3J3.
E-mail: shilbert@syilx.org

Introduction

Regional Background

The town of Quesnel is located in central British Columbia, in the Cariboo Forest Region (Figure 1). Forestry-related activities form the backbone of the local economy. Spruce, pine, and fir are the major commercial tree species.

A sign on the highway coming into Quesnel boasts of a billion-dollar investment in the forest industry. Quesnel has two pulp mills, a medium-density fibreboard plant, a plywood mill, four large and highly mechanized sawmills, and a host of supporting enterprises. Commodity forestry is the name of the game, but several relatively small secondary wood manufacturers/processors have established operations in the community.

A generation ago it was possible, and very common, for young men to leave school around the age of sixteen and go to work in the forest industry, whether in the mills or the bush. These jobs paid well, were physically demanding, and allowed workers to develop a range of skills. However, the aging of this workforce, combined with the mechanization of the forest industry, has led to a growing number of trained, motivated, and productive workers being chronically under-employed. For many of these workers, the various government-supported retraining programs were simply not an option. They wanted to finish their careers doing the jobs that they knew.

FIGURE 1. The town of Quesnel is in the Cariboo region of British Columbia.

Although the allowable annual cut of spruce-pine-fir was committed to the area's three major Licensees and their mechanized systems, an allowable annual cut of about 40 000 m^3/y of birch and aspen was untapped in the Quesnel Forest District. During World War II, Quesnel birch was harvested to make propellers for Allied fighter planes. Subsequently, with little or no market, birch came to be seen as a nuisance wood. Licensees could not process it economically; therefore, it was generally burned in the bush as waste.

Economics of Birch

The stumpage for birch is low. Often, when clearing private land, operators remove birch as a service. Birch is relatively fast growing, and a new crop will grow without intensive silviculture. Around Quesnel, a rotation can be as short as 30–50 years.

At the time of the Co-operative's founding in early 1999, local mills were selling rough green birch for $550–600/thousand board feet. Dried and planed birch lumber, depending on grade and market, sold for between $1200 and $1600. Shipping is based on weight. Green birch is almost twice as heavy as kiln-dried birch. Therefore, even including the kiln-drying cost of $80/thousand board feet, it is significantly more profitable to ship kiln-dried birch because the volume per load is doubled.

High-end birch products, such as tongue-and-groove flooring, could fetch up to $5000/thousand board feet.

Factors Leading to the Development of the Quesnel Hardwood Co-operative

One of Quesnel's under-employed forest workers attempted to get a loan to purchase and operate a small sawmill to process some of the birch trees. In early 1998, he was not able to get a loan because the local Business Development Centre had already supported other similar business plans, with no record of success. He was referred to me in my role as a Forest Community Development Co-ordinator for the Cariboo Economic Action Forum, a non-government organization under contract to Forest Renewal BC (FRBC)[1].

The forest worker, an independent contractor possessing some under-used harvesting equipment, knew of others in Quesnel in the same situation. We decided to find out if there was a way for them to work together to

achieve individual goals. In November 1998, twenty people—fallers, machine operators, truckers, sawmillers, craftsmen, and forest industry managers—attended an informal meeting to discuss the birch source. They examined the pros and cons of creating partnerships, establishing a new business, or forming a co-operative model. After much discussion, the group decided to organize a co-operative of their existing businesses, to be named the Quesnel Hardwood Co-operative. Membership was set at a fifty-dollar share per individual member, with membership being limited to small businesses and individuals working in the Quesnel forest industry. Large companies were excluded.

Business Model

The members developed the following business model for the Co-operative (Figure 2):

1. The first addition of value would come from sorting hardwood logs at a log sort yard according to the specific needs of each mill (optimum profiling), and then shipping them to the mills. These tasks would be performed by the loggers and truckers in the Co-operative.
2. The mills in the Co-operative, through worker training and co-operation, would produce a greater volume of standard product, which could then be marketed through integrated sales.
3. Once the Co-operative was up and running, a collective value-added processing facility was to be built. Here, product from the local mills could be remanufactured into high-end products such as flooring and panelling, and then marketed outside the region.
4. Hardwood sawing produces a lot of waste wood. Waste wood from the milling processes was to be collected by other members of the Co-operative for firewood sales, craft use within the Co-operative, and for craft sales.

In addition to sustaining the livelihoods of the founding members, the Quesnel Hardwood Co-operative planned to provide many entry-level jobs and training opportunities for new workers.

Establishment, Support, Funding, and Finances

The first actions of the Co-operative were to formally incorporate, seek funding for a business plan, seek a timber supply from the British Columbia Ministry of Forests, and combine the output of several member sawmills to send full loads of rough green birch lumber to Greater Vancouver.

Regular meetings were held beginning in December 1999, and members attended conscientiously. The Co-operative was governed by a Board of Directors consisting of ten to twelve people from all facets of the operation.

Agency support was very strong in this formative stage. The provincial and federal governments were very proactive regarding community economic development. The Cariboo Economic Action Forum (CEAF)[2] had forged a coalition of regional interests in promoting economic initiatives, and expectations were high for this type of enterprise. Community Futures[3] in Quesnel had recently established the Wood Enterprise Centre (WEC)[4] whose prime mandate was to support local value-added wood industry development. The then-provincial Minister of Forests, who lived in the North Cariboo, was very interested in the potential of the Quesnel Hardwood Co-operative, and the mayor of Quesnel was a booster.

In its first two years of operation, the Co-operative received almost $140 000 in grants from various bodies for incorporation expenses, member training, business plan development, office space, staffing support, and marketing.

Public awareness of the Co-operative was very high and so was public scrutiny. The Co-operative developed under the microscope of local interest.

Sharing of Costs and Revenue

The Co-operative began by co-ordinating the harvest of various timber sources and trucking this wood to member mills. Mills shared their expertise so that collectively they could send a more uniform and quality product to facilities on the coast for further processing.

[1] In 1994 the provincial government established Forest Renewal BC (FRBC) as a Crown corporation to implement the newly developed Forest Renewal Plan. FRBC's broad mandate included: renewing the forest economy of British Columbia, enhancing the productive capacity and environmental value of forests lands, creating jobs, providing training for forest workers, and strengthening communities.

[2] The Cariboo Economic Action Forum is a defunct regional economic development society.

[3] The Community Futures Development Corporation of the North Cariboo is a non-profit organization that is committed to the development of a sustainable and diversified economy in the North Cariboo Region. See http://www.cfquesnel.com

[4] The Wood Enterprise Centre in Quesnel is a division of the Community Futures Development Corporation of the North Cariboo. It provides product development, production, and business assistance services to value-added businesses. See http://www.woodent.com/

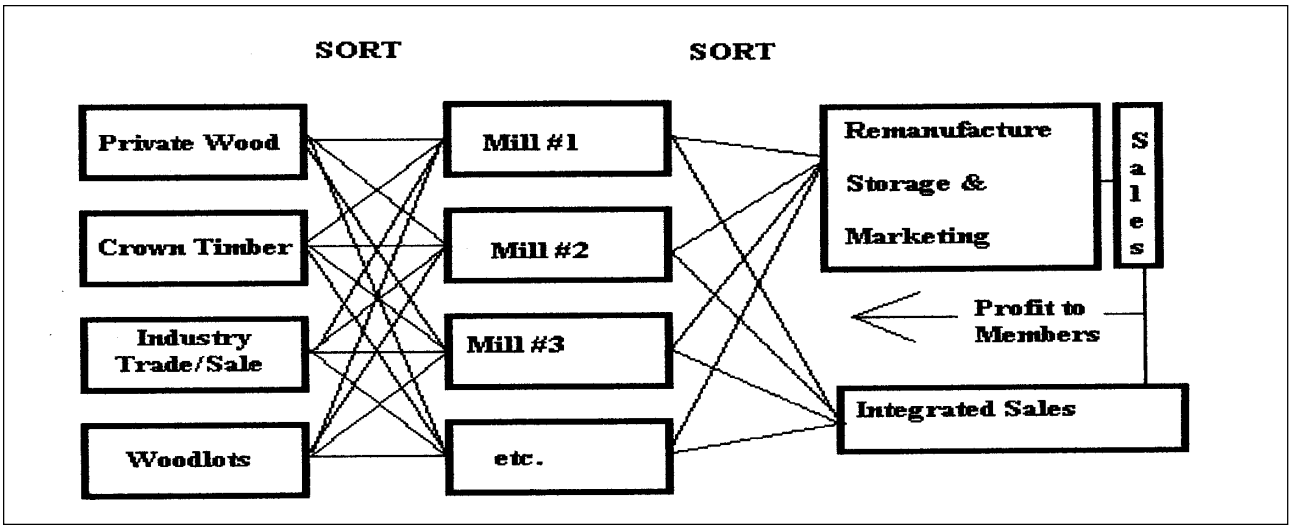

FIGURE 2. Business model for Quesnel Hardwood Co-operative, as developed by the members.

It was agreed that the Co-operative would receive $\$3/m^3$ for timber sources obtained. Also, the millers would pay the Co-operative $\$35/m^3$ for timber delivered, and mills would pay 10% of sales into new markets.

This scenario would provide some operating funds to the Co-operative, supply wood to its member mills, and create employment for other members in the harvesting and hauling of logs. This was considered by all to be a conservative way to build experience and credibility for the Co-operative while it researched a business plan, and to finance development of Co-operative-owned manufacturing facilities.

Early Successes of the Co-operative

Integrated Sales

Prior to formation of the Co-operative, those few small mills that were processing birch were selling their wood to a broker. The broker would send a truck around the region to pick up small lots (averaging 1500 board feet each) from a number of mills and haul it to Vancouver to be dried and planed for resale. The broker paid about $550–$600/thousand board feet and resold it for about $1200.

Eliminating this middleman was one of the prime, albeit longer term, goals of the Co-operative. In the meantime, with no drying and planing facilities yet available in Quesnel, the Co-operative was able to negotiate a better deal with the broker by providing a more uniform and reliable supply, and by arranging for the delivery of full rather than partial loads of lumber.

Hardwood License

The Quesnel Hardwood Co-operative obtained a direct sale of $2000/m^3$ of Crown timber from the Ministry of Forests, at $\$0.25/m^3$. The Quesnel Forest District undertook a re-inventory of hardwood to determine what was indeed available to the developing industry, and the Co-operative lobbied strongly as a community-based entity for a volume-based licence in hardwood.

Investment by Members

Individual members of the Co-operative invested in their own operations. One member built a drying facility (40 000 board feet capacity) at his sawmill that could dry green birch to 18% moisture content in 10 days. Another member constructed an industrial-sized portable planer that could process 300 lineal feet of dried birch per minute and plane a truckload of lumber in one or two days. Some members started up mills, added to mills, or moved their portable mills onto the sites of other mills.

Support from Major Licensees

The Co-operative had the support of the three major forest Licensees, who looked to the new entity for help in dealing with waste hardwood.

Training

Birch wood's value is greatly affected by how it is processed. The Co-operative, with the help of the Wood Enterprise Centre, offered courses in the proper drying of birch to prevent warping and checking, and it trained workers in the proper grading of birch lumber by bringing in a professional grader from Vancouver Island.

Local Use

The gymnasium floor at Quesnel's Nazko School was built with birch processed by Co-operative members.

Offshore Markets

Because it was not economical for mills to process the tops of stems smaller than seven inches, a market was sought for cants made from these small tops. Forest Renewal BC funded the cost of processing a container load of cants for a consortium of sawmills in India. The Indian mills paid for the shipping, and they showed an interest in receiving more shipments from the Co-operative.

Although no further shipments were made, much was learned about exporting wood. This knowledge could be shared with other individuals or groups interested in developing off-shore markets.

Extension

People from other areas of northern British Columbia heard of the Co-operative and came to visit the operations and attend meetings. A First Nations group from the Smithers area and a group of small business people from the Horsefly area took some ideas from the Co-operative back to their own communities.

Problems and Responses

Business Plan

A solid, comprehensive business plan was lacking. While attempts to write a business plan were made, both internally and by an external expert, a viable version was not produced.

Harvesting and Processing

Much of the local hardwood is intermixed with softwood stands. Selectively harvesting for birch without affecting the softwood stand is expensive. Yet, when birch is indiscriminately cut during the harvest of softwood trees, it is not removed with the same care as otherwise marketable wood. There would have to be a financial incentive for softwood harvesters to adjust their operations so that the birch stems would incur less damage.

Because birch does not grow as uniformly as do conifers, it cannot be mechanically processed at the landing. Birch stems are usually pushed to the side and piled as waste.

It takes, on average, 4 m^3 of spruce, pine, or fir to produce 1000 board feet of lumber. For birch, the average is 7 m^3/thousand board feet.

Cash Flow

Although the Co-operative had established a formula for funding its activities, cash flow was a primary problem.

The time between incurring harvesting expenses and receiving sales returns was over two months. To cover up-front costs, the Co-operative needed a cushion of $80 000[5]. However no individual member or worker had the wherewithal to provide that kind of loan, and attempts to establish lines of credit in the short term were not sufficient to maintain the flow. The fact that production costs must not exceed sale price was sometimes overlooked as each link in the production chain argued over the numbers for their specific activity.

Many efforts were made to finance the cash flow gap that existed between production and sales. The local credit union has a policy of not extending lines of credit within the first year of opening an account. Any long-term arrangement depended on the completion of a workable business plan. In the meantime, personal loans, a small loan from the Business Development Centre, and advances from member sawmills on future delivery were used as means to keep the flow of wood lurching along.

Major mills, from long practice, had policies of requiring pre-payment or immediate payment for timber delivered to smaller mills, and these policies were also applied to the Co-operative.

Cash flow was a "chicken and egg" problem. Beyond the abortive effort to create a pool of funds for log buying, there was no credit line available. The Co-operative often had problems in collecting the money owed to it for product, whether logs or lumber. In turn, individual

[5] Based on processing 4000 m^3/y, the Co-operative needed $20/$m^3$ to cover up-front costs.

Co-operative members had little or no cash reserves, so any delays in payment for goods or services rendered to the Co-operative had drastic personal effects.

Other Financial Issues

In some ways, the Co-operative was too successful in its campaign to obtain recognition and funding from various government-related granting agencies. There were differences of opinion about how effectively this money was spent. This caused some members to lose their sense of ownership, in part because they looked to the government to make the Co-operative work.

Other financial issues were late payments, disagreements over the amounts, and un-recoverable outlays for work not done satisfactorily.

A major issue with selling logs and timber outside the region is that the receiver determines the grade and pays accordingly. Unless the shipper can certify the grade of the product shipped, there is no recourse when the cheque comes back short. The Co-operative was not a big enough player to counter these decisions.

Members who had made investments had those costs to recover and were not prepared to put their own business interests on the line for the good of the Co-operative. Any value-added returns on investment stayed in the hands of the individual investors with no direct benefit to the Co-operative.

The failure to set up a sort yard is felt by some members to be the point at which the Co-operative really started to collapse.

Operational

Operational problems included spotty delivery to mills (which in turn caused temporary mill closures), mistakes in milling that lowered the value of the product, and delays in pick-up (resulting in further deterioration of the product due to prolonged exposure to weather).

Sort Yard

There were several attempts to set up a sort yard where the major Licensees could deliver their wood. Millers contributed to a pool of money to cover the purchase of a small amount of wood from the majors, but a site could not be agreed on. The failure to set up a sort yard is felt by some members to be the point at which the Co-operative really started to collapse.

Peeler Logs

Another issue was the sale of high-grade "peeler" logs to the veneer industry in eastern Canada. Such logs make up a very small fraction of the birch harvest, but their high value could have helped to underwrite the cost of the sort yard. However, some millers were adamant that no logs leave the area, even if the Co-operative could not use them to their full potential.

Management

The large size of the Co-operative's Board of Directors led to long and divisive meetings. At one point a volunteer Management Committee met weekly to try to handle the day-to-day affairs of the Co-operative. Better management was required, so funding was obtained to hire a short-term, professional manager to get the Co-operative on a business-like footing.

The new manager, hired by unanimous agreement of the hiring committee, had a thorough grounding in the local forest industry. He tried to smooth out the flow of timber to the member mills, although some members saw these arrangements as counter to the interests of members involved with timber harvesting. The manager also worked out the beginnings of a deal with a major forest company in the south Cariboo to jointly apply for a large hardwood tenure in the Quesnel area. This tenure would have given member mills long-term access to quality sawlogs. And, the logs that were not presently being utilized by the local mills would have provided a long-term supply of birch chips to the major mill for making oriented strand board. Some Co-operative members saw this initiative as a sell-out of the local resource.

Consultants who were specialists in co-operative development were brought in to help the members deal with the problems in the organization. As a multi-stakeholder entity, the Co-operative was a mixture of three different types of co-operatives. It was a consumer co-operative for the member mills as well as a workers' co-operative for loggers, and it had the potential to be a producer-marketing co-operative for value-added hardwood products. The consultants noted that the split of the Co-operative into two entities that might continue to work together was not only practicable but was inevitable.

Several attempts to restructure the Co-operative were made, but they had the effect of merely changing which faction had the upper hand at any given time.

Break-up of the Co-operative

Various factions developing in the Co-operative hardened their positions around issues like those described above. Meanwhile, other Co-operative members whose interests were being neglected, such as artisans and craftsmen, and those who were getting tired of the constant wrangling inside and outside of meetings, voted with their feet and dropped away from the Co-operative.

The spotty operational record of the Co-operative was having an effect on the Co-operative's credibility among the local people and businesses; as in-fighting became more public, community support for the Co-operative declined. The reputations of some members suffered by association with the Co-operative, or alternately the Co-operative suffered by its association with individual members. When the Co-operative was unable to rise to expectations, the once highly supportive attitude in the community turned to one of scepticism.

Conflicts-of-interest were alleged more and more frequently as the Co-operative faltered. Some members were accused of using information obtained through the Co-operative for the benefit of their individual businesses. An undercurrent of secrecy developed; side deals, alliances, and boycotts ended up pitting member against member.

The vision of the Co-operative that had first brought the members together had become fractured. What had once been the Co-operative's strength—a membership made up of independent, determined, and entrepreneurial people—had become its handicap.

The point of actual break-up of the Co-operative occurred in the spring of 2000 over a vote on whether or not to enter into the joint venture with the major forest company. Even though the motion passed, there was so much frustration at the meeting that many supporters of the motion tendered their resignations. While meetings of remaining members continued, by the fall of 2000 the venture of the Quesnel Hardwood Co-operative ended.

Lessons Learned

First steps determine the rest—people bought into the idea of a co-operative without any real appreciation of the roles and responsibilities entailed by membership. Most were coming from a culture of free enterprise and individual entrepreneurship—this energy was a driving force behind the creation of the Co-operative. But without a clearly defined and accepted decision-making process, the multi-stakeholder nature of the membership created conflicts that the organization could not resolve. A more homogeneous group, perhaps consisting of just one sector of the birch industry, might have had a better chance of success.

Today, many people that were part of the Quesnel Hardwood Co-operative are still involved in the local birch industry. While it is beyond the scope of this case study to interview them all, casual contact indicates that many see their involvement in the Co-operative as a valuable learning experience which they are applying in their present endeavours. Small birch mills are operating throughout the Cariboo, and the resource is being utilized to a greater extent than it was prior to the rise and fall of the Co-operative.

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