FOREST SECTOR
SECONDARY INDUSTRY
DEVELOPMENT STUDY

1986

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DISCLAIMER

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THE PURPOSE OF THE STUDY

The purpose of this study is to identify specific business development opportunities in the province of Alberta for increased usage of provincial lumber and board products including aspen lumber, lodgepole pine lumber, oriented strandboard, medium density fibreboard and plywood. These business development opportunities lie in the primary manufacture and distribution of these products, and manufacturing in the secondary wood industry both locally and outside the province. Where feasible, particular attention would be paid to the potential product development of ready-to-assemble furniture in the province.

THE METHODOLOGY

The methodology that was used to develop this report was conducted in four separate phases. The thrust of our approach was to closely review a cross section of primary and secondary manufacturers of forest based products within the province in order to:

1. Identify specific opportunities that could be related to a particular industry or a company.

2. Establish general industry opportunities where government policy for economic improvement could be developed in support of various industry participants.

The four phases included:

1. A review of existing data and previous studies on the industry, supplied by Economic Development.

2. An investigation of the raw material producers and secondary industry manufacturers through a total of approximately 40 personal interviews.

3. The identification of market development opportunities in both primary and secondary manufacturing sectors.

4. The summarization of our findings and identification of strategic development options that would be open to the Department of Economic Development.

SUMMARY OF RESULTS

1. Each of the five primary product categories investigated offers specific opportunities for resource and/or product development. The report details these items.

2. The cross section of manufacturing operations that were reviewed resulted in a list of specific ideas for product development, either particular products or areas where growth potential exists. The study clearly uncovered a strong base of secondary manufacturing companies in the province.

3. Of the 40 investigations, over 90% yielded either ideas or specific market identification for product or material development. Most of these manufacturers are positive and interested in growth.

4. The overall conclusion with respect to the secondary manufacturer's ability to grow is that the production skill levels are in place, the product is generally good quality, and in many cases investment dollars exist. However, the strategic planning and ability to investigate opportunities outside the province on a longer term basis is lacking in many instances.

5. The overall conclusion with respect to the primary manufacturers of lumber and board products is that, with few exceptions, most producers wish to restrict their operations to construction lumber, plywood and boards.

6. Most of the raw materials supplies in Alberta are provided for construction projects and are construction grade. Most of the specific opportunities in the primary category relate to specialty products.

7. Generally speaking, secondary manufacturers of upholstered furniture, case goods, cabinets, etc. do not use local material. In some cases, they would if they could source it at a competitive price. However most of the suppliers are not interested in providing the raw materials necessary.

8. In the case of cabinet furniture, a lot of raw material is not common to the Alberta area. Such products as veneers, oak solids, etc. must be imported.

9. The province is a large importer of particleboard and the study concludes that many secondary producers would buy this product were it available locally. However, a particleboard mill in Alberta would have to sell product outside the province and the feasibility of this opportunity has not been evaluated. With a new pulp mill and a new MDF mill in the province, the availability of supply of cheap furnish has to be reviewed.

10. Regarding the ready-to-assemble furniture opportunities, there are a number of manufacturers who already produce some form of RTA product. Others in the province were identified as having the capability to manufacture this type of item.

11. It is our recommendation that the thrust of government effort should be directed to assisting those companies already established in the province or those who wish to develop the specific primary product opportunities identified within the study. The likelihood of serious investment by secondary manufacturers from outside the province at the present time is weak, essentially because of market conditions.

12. The specific actions that should be considered by Economic Development can be categorized as follows: a) direct assistance in planning for individual companies who wish to take advantage of opportunities to develop business, primarily outside the province. b) development of new general policies for economic development of the primary and secondary industries directed to making them more competitive in the international marketplace. c) the encouragement by the Economic Development Department for some specific new primary mills that could meet the demands both of local secondary manufacturing and certain export opportunities.

DETAILED FINDINGS BY INDUSTRY CATEGORY

PRIMARY MANUFACTURING PRODUCT REVIEW

Oriented Strandboard and Waferboard

Production in Alberta

Presently, there are two major mills producing these products, the Pelican Mill at Edson and Alberta Forest Products Mill at Slave Lake. Pelican's oriented strandboard mill is producing over 200 million square feet (3/8) of product annually and is currently working above capacity. The waferboard Slave Lake operation of Alberta Forest has a potential capacity of about 160 million but their present rate of production is only estimated at 80 million.

The O.S.B. product quality is number one grade, with all product having the APA stamp in order to compete with American plywood. The product is sold nationally in the United States where most of the distribution is achieved.

Alberta Forest's waferboard is sold through the Weldwood distributors across Canada. Whereas the O.S.B. plant is running at capacity and selling all it can produce, the waferboard product has not enjoyed the same sales results.

The Use of Local Material

Both operations are using local waste wood. Both operations provide an excellent use for aspen.

New Market Opportunities

Current plans call for modifications of the Alberta Forest operation so that the plant may produce an oriented product. Should these technical alterations be successful, then Weldwood would have a superior product to offer through their distribution network across Canada and presumably would be more competitive. At the present time there are insufficient markets in western Canada for the Alberta Forest waferboard product. In addition, the company is facing serious competition with MacMillan Bloedel whose Aspenite product from Saskatchewan is more efficiently produced and better distributed. Sales of waferboard would be much improved if the product could be sold to the Champion organization or through U.S. plywood in the United States.

Recognizing that waferboard and more particularly, oriented strandboard, are replacement products for plywood and the fact that waferboard and O.S.B. account for only an estimated 15% of the total plywood market, it is apparent that further development in new mills particularly for O.S.B. is certain to occur.

The Pelican operation will have a second O.S.B. facility on stream in 1987 and it will be this plant which has the capability of supplying the local Alberta market as well as the remaining part of western Canada and the east. The company plans to distribute this product themselves through their new distribution company - Marathon Forest Products with facilities in Edmonton, Winnipeg, Toronto and Fredericton.

Local usage of the new O.S.B. product in Alberta could easily result in displacement of plywood consumption for construction purposes. Additionally, the use of O.S.B. in secondary manufacturing is a market opportunity area yet to be adequately developed. Examples of uses could be exterior siding, back panels for furniture or kick boards for kitchen cabinets, outside storage sheds, and the possibly of it's use as a core stock for lamination purposes.

Specific lamination possibilities will be discussed in more detail under the plywood category.

Regarding total output of O.S.B. for the province, the new addition of Pelican's second mill and the modifications of Alberta Forest's waferboard operation will result in a total provincial capacity of 515 million square feet 3/8" basis annually of this product. This represents roughly 33% of the total Canadian capacity. Thus, based on simple market volumes and trends in this industry, it is conceivable that a fourth O.S.B. mill could be constructed in the province to address markets in the western portion of North America.

Current Restrictions or Concerns

There aren't any apparent major restrictions for the development of this product. Technology exists, raw materials are available and the markets are accessible. If there was one area of concern it would be transportation. However it is a problem that is faced by board producers alike throughout the west and the cost of moving product into major markets has not deterred competitive selling by any of the major producers of plywood or board items.

Development Assistance Strategy

With the growth market available and a strong resource base in existence in Alberta, O.S.B. offers a strong solution for resource utilization and job creation.

With respect to specific assistance it is our view that the government strategy for development of this sector should be directed toward the possibly of acquiring a fourth mill. Certainly, companies who are presently operating within the province are well acquainted with government programmes and with the various government departments. Therefore, in our view, effort should be directed toward corporations with the capital and the experience base required to operate and possibly distribute the O.S.B. product. Other than local firms, particular companies who could conceivably be included in this category are present B.C. & Eastern Canadian board producers: Plum Creek Lumber Co., Columbia Falls, Montana, Potlatch Corp., Lewiston, Idaho, Weyerhauser, Tacama, Washington.

Plywood

Production in Alberta

The three plywood manufacturers in the province account for an annual production capacity of 230 million feet of standard quality sheeting. Raw materials are primarily spruce and fir sourced both in Alberta and British Columbia. At the present time the three mills are running at 85% of capacity.

The two northern mills operate veneering facilities while the southern mill has no veneering operation and is importing everything from British Columbia. Sales of product by Crestbrook go primarily to eastern Canada. Only 5% of the company's volume is sold in the province of Alberta. Production from Canfor is sold through company warehouses. Zeidler's production is distributed by independent distributors across Canada.

New Market Opportunities

Of the three operations there is really only one that has an interest in developing new areas of opportunity. Both Canfor and Zeidler are somewhat limited in their flexibility due to their veneering operations. By contrast, Crestbrook imports it's veneers and has the ability to buy wet or dry and in a variety of raw materials. This company has press time available but no capacity left in its drying facilities.

Although construction sheeting is the primary product, Crestbrook has produced a small amount of yellow birch and oak veneered plywood.

With the overall plywood market in long term decline, opportunities for the development of another plywood mill in the province are virtually non-existent. Therefore, the opportunity areas reflect the ability of the current producers to develop more sophisticated product than what they currently produce. It is unlikely that Canfor and Zeidler management are anxious to produce anything other than the current construction grade sheeting product. Conversely Crestbrook management is interested in development ideas. Specialty plywoods in hardwood such as yellow birch and oak are items that could be produced at the Crestbrook operation. Additionally company management expressed interest in a veneer mill and in specific secondary product development for items that included such things as finger jointing for moulding, three ply door skins, hockey sticks, laminated veneer lumber joists, a laminated particleboard or an MDF core produced plywood, and three ply white birch panels. Although some of the product opportunities identified require significant development of management skills, items such as the door skins, white birch panels and laminated veneers could all offer significant opportunities for the company.

The development of quality veneers in oak and birch using particleboard or MDF as core stock is an interesting concept that should be investigated. Although there are many mills that presently make this type of product in the United States, very few Canadian producers have developed this product, which is one that can offer a dollar saving to the marketplace while maintaining strength and workability for markets such as the furniture trade.

Products such as the white birch three ply panels have been actual sales requests from the U.S., but due to the uncertain supply of birch, the company has not been able to meet the demand.

Current Restrictions or Concerns

The major identifiable restrictions at this point would be a lack of proper veneer products such as yellow or white birch and possibly a lack of serious market planning by any of the companies that could be involved.

Development Assistance Strategy

Perhaps the best posture for the government to adopt at this point would be to encourage submissions by any one of the three companies for development of the particular opportunities that have been identified. There is no question that specialty plywood development could provide some significant business opportunities. However, the entrepreneurial, management and planning requirements are needed to develop the concepts

Medium Density Fibreboard

Production in Alberta

The Blue Ridge Lumber Company has constructed the first medium density fibreboard mill in Canada. Recently in startup, the mill will be capable of producing 65 million square feet of product annually on a 5/8 basis. The product will be called "Ranger Board" and will be nationally distributed in Canada by Weldwood. The company is presently appointing U.S. distributors.

There is no Canadian competition at all for this product presently, as all MDF board that is sold here is produced in the United States in one of the thirteen mills that presently exist in that country. The two major competitive mills for Blue Ridge will be Plum Creek in Montana and Medford in Oregon.

Use of Raw Materials

Up to 65% of the furnish will be sourced from Blue Ridge lumber with its facilities next door to the new mill. The company has a large raw material storage area in the plant which is capable of storing 500 tons of wood everyday. On an average day, Blue Ridge will use 400 tons of chips and other waste coming both from the lumber facility. The product will be industrial board with a sanded surface ranging from coarse to very fine and thicknesses from a quarter inch to one and a quarter inch. As with the O.S.B. and waferboard, this is another example of excellent use of waste raw materials generated locally in Alberta.

New Market Opportunities

Because this manufacturing facility is in startup, it is premature to estimate what opportunities there might be for development of the business. The company is expecting to produce at capacity as fast as possible using Weldwood as their sales arm here in Canada and similar distributors in the United States. The company does not expect to be developing any secondary manufacturing themselves. This could conceivably be another case where a basic board product is being shipped a considerable distance for value added work.

There will be significant opportunities for local industry to utilize the MDF product and many of the interviews conducted during the study reflected local manufacturing ignorance of what is available. At the moment, many of the Alberta manufacturers of cabinets and furniture are purchasing particleboard from the States. With the absence of local particleboard, there may be an opportunity for MDF to fill a portion of the need in the province for this product, although it is possible that in many cases, MDF will be too expensive.

Development Assistance Strategy

On the assumption that the sale of MDF will be highly successful for Blue Ridge, any development assistance would most probably be useful in attempting to improve the import substitution of product in the province and to develop local use for new items that have not been produced previously. Essentially this work should be done by the distributors (Weldwood). Where government could provide some positive assistance would be to encourage companies wishing to develop new product based on this raw material.

Aspen Lumber

Production in Alberta

There are no sawmill statistics that show the production of aspen in Alberta, nor are there sawmills that solely produce aspen lumber. Alberta has about 25% of Canada's estimated hardwood allowable cut and more than 40% of Canada's reserves of hardwood timber. Very little of this timber (which is practically all aspen) is utilized except in furnish for the waferboard mill at Slave Lake and the O.S.B. mill at Edson. An agreement signed in 1979-1980 to saw 5 MM bd. ft. of aspen a year between a large timber company and Alberta lasted only a year before it was scrapped for economic reasons.

New Market Opportunities

Three of our interviews showed utilization of aspen lumber far more advanced in furniture and pallet construction than we had seen in other parts of Canada. Specifically, in the American mid-west particularly Wisconsin and Minnesota, there are firms producing aspen lumber parts for the furniture industry. There has also been an attempt by the solid wood panelling industry to introduce aspen as a white show wood. Aspen is an excellent candidate as a wood for the manufacture of RTA furniture.

Current Restrictions or Concerns

The major restriction of aspen lumber is the lack of specialty sawmills to saw the product. To date there has been insufficient interest in erecting a sawmill devoted to aspen. This fact applies not only to Alberta but to other parts of Canada that have abundant aspen resources.

Previous studies have shown that the economics do not look good for a stand alone small aspen sawmill. The solution could be for the mill to be part of a integrated complex. Along side a pulp mill, O.S.B. or waferboard mill, a specialty aspen mill could conceivably be financially viable. Aspen saw logs on their way to a pulp mill or a board mill, could be sorted and directed to a sawmill.

Another concern after sawing the lumber is to get it dried. Aspen is difficult to dry particularly to furniture requirements of 8-9%. Whether mechanical kilns can be used or if the traditional air drying is the only way the wood can be treated, is a question that still creates controversy.

Solving the manufacturing problems still leave the problem of marketing the wood. Promoting a new species to end manufacturers will take an investment in time and money because the track record of aspen has been poor.

Development Assistance Strategy

The problem of future utilization of aspen lumber in Alberta has been studied extensively in the past 25 years. While all the studies have been well done hardly anyone has followed the recommendations. Therefore, there is very little utilization of aspen lumber in 1986. Al Owen would been the one major exception.

To further develop this species, assistance should be offered to the people already using aspen to determine whether or not a large enough manufacturer could impact the market. Alberta was successful in doing this with Pelican Sawmills Ltd. in the field of O.S.B.

A specialty type sawmill with good kiln capacity must be located in the vicinity of a pulp mill or a board mill.

Once the above is accomplished, then the present fabricators should be assisted with expanded marketing programs to get the aspen product to the market.
The assistance must be company specific because it is very evident that the general approach did not work over the last 25 years.

Lodgepole Pine Lumber

Production in Alberta

53% of the volume of trees in Alberta come under the SPF classification of species. 42% of the pine category in SPF is made up primarily of lodgepole pine. Over 450 MM FBM is sawn in Alberta annually and could be in the lodgepole pine category.

However since the start of the SPF category, little or no effort has been made to segregate the three species. The only mills really interested in separation have been the ones involved in the treating of lumber. The membership list of the Alberta Forest Products Association shows that only one member is separating lodgepole pine and selling it as a species.

New Market Opportunities

Lodgepole pine has been accepted as a furniture wood in a category where it is considered better than southern yellow or jack pine but not as good as eastern white pine. As a furniture or millwork species, it can do a good job. Another area in which the wood is used is the shrink wrapped eight foot solid panelling field. All of these market opportunities have been recognized by specialty type mills in British Columbia. Many items in the IKEA catalogue now are lodgepole pine products made in the Prince George area. A third opportunity area is in the treated wood category, a market that has been constantly growing for a decade and where consistent supplies of acceptable white wood are required.

Current Restrictions or Concerns

In order to get lodgepole pine into the secondary manufacturing industry there will have to be millers who will separate their SPF and provide the pine at a reasonable price to the fabricator.

Another concern is whether there is enough drying capacity in the province to handle the special drying that the pine will need to make it into a good furniture component.

Development Assistance Strategy

Our recommendation for an economic development strategy is two fold. First, there has to be specific support and planning toward separating the pine and the supply of it to a new specialty mill. Secondly, the government should turn some of its attention to the promotion of the species lodgepole pine. Pacific Coast Hemlock is being heavily promoted as the "Bright, White Wood, for the Eighties"; why not Alberta Lodgepole Pine as the "Feature Cabinet Wood for the Nineties."

SECONDARY MANUFACTURING PRODUCT REVIEW

Consumer Furniture

This category of product includes a wide variety of case goods, upholstered furniture, beds and some custom products that are sold both locally and in other parts of Canada and the United States. Some of these companies are high volume producers with efficient production lines that compare quite favorably with many of the major furniture producers in other parts of Canada. Interviews were conducted with two case good manufacturers, two manufacturers of upholstered furniture and a small company producing water bed frames. The interviews provided only a small cross-section of the industry but did give a good indication of the quality that is available, the entrepreneurial and management skills that exist within the province and the interest in developing opportunities by these firms.

Use of Local Materials

In the majority of companies interviewed (and presumably this applies to most furniture manufactures in the province) very limited use of local resources is being made. The reason for this is primarily that the type of solid wood and manufactured wood products that are required are simply not produced in Alberta! There are of course exceptions. The MDF product that is now available can be used by the case good manufactures and in fact, the startup board offered for sale at reduced prices by the mill is being used by two major case goods producers in place of particleboard. Presumably this usage could be increased providing the price was competitive for the MDF product.

Usage of solid hardwoods by upholstery manufacturers is not in large volume and most of these materials are sourced from the United States. For example, birch is shipped from Northern Minnesota, being cut to size in Winnipeg and shipped into the Calgary area. Aspen is also being sourced from the U.S. The plywood that was seen was being purchased from Tiawan. Only a small amount of spruce was being used. Off cuts from the Truss Joist company in Claresholme were being used by one company as chesterfield frame heads. These companies could buy spruce, birch and aspen if it were available but no sources have been found for furniture grade materials. One firm was purchasing ponderosa pine from Washington, Oregon and Idaho and the owner claimed that there was insufficient lodgepole pine that was dried or milled to his specifications sourced in Alberta. The company needs 2 x 10 product for which they currently pay $350 a thousand (FOB Calgary in Canadian money).

In summary, all of these firms could utilize some materials in limited quantities from Alberta. Present sources of supply are purchased in the States or from eastern Canada due to lack of local availabilities.

Potential Volumes

None of these companies are producing at capacity. In some cases lack of working capital was the reason, but in most cases the reason was lack of sales volume. In general, local sales for these firms have been relatively weak of late because of the economic slow down. In cases where companies were selling to large chains with significant volumes out-of-province, the local economy has not affected their sales significantly. Local upholstery products sales have not been strong. Alberta companies have a significant interest in being able to sell their product into the eastern Canadian marketplace. Most of the companies interviewed could increase their sales by at least 50%.

New Market Opportunities

Sales of furniture outside the province primarily into the United States and eastern Canada are the major opportunities that may be focused on by these firms. Of course, many of them could increase the size of their line and the variety of product offered, but the primary opportunity would be in developing sales of existing lines in other area. Despite concern for breakage and the cost of transportation, there is every reason to believe that all of these firms could sell product on a national basis and generally speaking, most of them would support this statement.

Current Restrictions and Concerns

Overall, the primary restriction facing any of these firms is what we would term to be a marketing problem. This is exemplified in poor distribution in some of the market areas that they wish to be in or a concern with the quality and/or cost of transportation. In all the interviews concern was expressed for transportation costs incurred. This cost is a major factor when one considers that over two thirds of furniture sales in this country are east of the Manitoba border. Comments by some people reflected serious thoughts of setting up a manufacturing facility in eastern Canada to take advantage of the larger marketplace. The other restriction for all of these firms is a lack of available local raw materials. All of them solve this by purchasing raw materials outside the province. The situation is indicative of an opportunity that has not been realized by some of the supply firms within the province, who could offer specialty wood supplies.

Development Assistance Strategy

There are a number of areas where government might be able to assist this group of firms, categorized as follows.

1. Assistance in the development of raw material sources within the province.

2. Assistance in the development of a transportation programme that would help these firms be more competitive with eastern Canada.

3. Assistance in helping these firms develop better marketing/distribution programmes to access some of the larger markets both here in Canada and in the United States. While it is safe to say that management in all of these firms recognizes the opportunities that exist outside of the immediate area, few if any of them appear to be well versed in the interpretation of market opportunities in the major urban areas in North America.

Office Furniture

Production in Alberta

Because a major study of office furniture opportunities is currently being undertaken by the Province, limited comments will be made on these products. A variety of furniture types are produced throughout the province from solid wood using local aspen to imported oak for custom made furniture. Laminated particleboard products are used in the production of knock-down office furniture to major manufacturers. The product quality in the three production operations that we reviewed was excellent and all three had the capability or did offer a knock-down variety of product. In one case the company was producing solid aspen furniture for institutional educational use. In the other two, the R.T.A. office furniture was being sold in Alberta and exported. One of the companies was not in full operation and a sale was in the process of being negotiated. Whereas the institutional, educational furniture company was a small producer, the office furniture operations were capable of turning out 200 desks a day with relatively sophisticated operations.

Use of Local Materials

Very little local material is used in the laminated knock-down products where the base was MDF or particleboard. The veneers were sourced from wholesalers but most of this product was American. Metal slides and plastic pieces were sourced in California and Ontario. One institutional furniture company was making exclusive use of local aspen product which was being cut by a number of small saw mills in the area.

Potential Volume

Each of these companies has the potential to increase sales/production volume substantially and each of them have a product line that is capable of being sold outside the province. In fact much of the product from one of the firms was sold in the U.S. and in eastern Canada, and Alberta sales were limited to 20%. Given the weak business conditions in the province, the company was forced to search for sales opportunities in other areas. The small institutional furniture operator was somewhat limited by his working capital.

New Market Opportunities

Each of these companies is in a good position to search for new marketing opportunities, including the Croydon Furniture Company which presumably will shortly be under new management. All of them could provide knock-down furniture. The two major companies could supply Ikea with product. All of them have well designed lines that could sell nicely (and in one case in fact are) in other areas. The user of aspen has only had local exposure and with reasonable representation would certainly sell in other markets. The company also could be producing specialty wood items such as cutting boards or chopping blocks and this would be a consideration, if sales were to be limited to local distribution.

Current Restrictions or Concerns

There are a variety of restrictions for these companies however none of them are insurmountable. Any of these companies covered compete favorably with other operations in eastern Canada. Although one of them is well represented in the east, the other two require marketing assistance to develop new lines.

Development Assistance Strategy

It is our understanding that one of the companies (Croydon) has been investigated by an Alberta business group who has already approached Economic Development for assistance and possible purchase of the company. As for development assistance, the two key areas that are apparent (and are probably reflective of the industry in general) are a) a need for strategic marketing planning outside the province and b) need for assistance in sourcing local materials. Certainly consistent aspen supplies would help the one company and possibly others as would consistent pine supplies. Also, here is another instance where having local particleboard would be a benefit, but there is an opportunity to use the new MDF product.

Kitchen Cabinets

Production in Alberta

A large portion of the cabinet market is locally produced for the province of Alberta. The consultants interviewed six different manufacturers in seven locations. Of these, only one offered a product that was not produced in the province. These companies produce complete lines of good quality cabinets in European and traditional styling and construction. Some of these manufacturers are selling not only in Alberta but also into the United States and throughout western Canada. However, we were not able to find any who were selling into the eastern part of the country. Kitchen cabinetry production has obviously become a major factor in the wood manufacturing sector of the province.

Use of Raw Materials

While some of these producers are using a limited amount of MDF, the majority of the product is laminated particleboard that is bought from outside the province. For the traditional lines in oak, the doors and oak lumber are purchased from Quebec or the United States. Hardware is sourced from eastern Canada, the United States or in Europe.

Potential Volume

Most of these companies are running well below capacity and this varied from 50% to 80%. Regarding local sales, much of the business is reflective of housing starts and the renovation market so that the current "slow down" has had serious negative effects on the industry. Clearly, production facilities in the province are capable of producing not only product to meet total local market demand but also to export significant amounts of products in western Canada, the United States and into the eastern part of the country.

New Market Opportunities

The major market opportunities are export possibilities into the States and eastern Canada. This can be done either in knock-down fashion or in a ready-made state. At the present time Canac Kitchens of Thornhill, Ontario ship their product in a completed form into the Edmonton marketplace. It is reasonable to assume a similar activity could be undertaken by the various Alberta producers for the eastern markets. Alternatively, most of these lines could be produced in a ready-to-assemble fashion and shipped in flats to installers in eastern Canada. What is required is the distribution and marketing support needed in order to break into these large market areas. Other opportunities include oak door production for western Canada and possibly the distribution of cabinet parts to the local market.

Current Restrictions or Concerns

In a number of situations the major restrictions are lack of working capital. Increased awareness of the distribution and marketing requirements needed to access these new areas is also a need. Other than that, the only serious restriction is the current down turn in the local marketplace.

Development Assistance Strategy

More than any other group, these companies seem to require assistance from a financial point of view, according to their comments. While this may in fact be true (we did not look at or ask for financial statements), their lack of perception regarding what could be sold outside the province using knock-down technology, is evident. Most of the manufacturers are of an entrepreneurial nature without the supporting management structure to allow them to expand easily.

Any development support from the government's point of view should reflect support for those manufacturers who seriously want to develop their export opportunities and need marketing and possibly financial assistance. This support would not include those people who only assemble in the province.

Prefab Housing

Production in Alberta

A total of 16 companies are registered as being in this business in Alberta. The consultants conducted interviews with five of these companies and quickly reviewed a sixth operation. The industry is not only well based in the province but it is providing a significant amount of employment and a volume of prefabricated and factory built housing that supplies not only the

Alberta market, but also many markets around the country and offshore. In other words, the serious competition in this industry is from the Alberta companies as compared to outsiders entering the Alberta marketplace.

Use of Local Materials

All of these producers have the ability to use local lumber including items such as 2 x 4, 2 x 6, laminated beams, O.S.B. and plywood. In fact, only a relatively small portion of this product appears to be sourced from Alberta. This is basically due to purchasing through brokers and competitive pricing. There was no question in any of the interviews, that Alberta companies would purchase locally if the price was right.

Potential Volume

The range of volume potential varies from the huge Atco operation which produces four pre-fab units per day in their wood operation alone, to the smaller Regent or Travco operations who might be able to produce ten units a week.

New Market Opportunities

There is a variety of attitudes toward opportunities by specific producers depending on the size and outlook of the company management. For example, Atco Industries is a major international corporation whose attitude towards business expansion is to look for major housing development in the third world countries and in China. To this end, they have done most of the development work themselves and expect that activity in their field will come in these countries. At the same time they are well known suppliers of temporary construction housing across Canada and although the slow down in Alberta has hurt their volumes they are strong in other areas.

In pre-fabricated housing the market for Alberta product is relatively weak and companies such as Regent are looking outside the province to help boost their sales. Improved distribution in other provinces and in the United States would help and companies interviewed are taking a positive attitude toward developing these sales.

A third opportunity that exists relates to the potential development of *"granny flats", a market whose time may come during the next decade.

Current Restrictions and Concerns

The most serious restriction at this point appears to be weak local market conditions. Management in most of these companies appear strong and the attitude toward business development is excellent. Other restrictions that would reduce some of these firms ability with the exception of Atco would be sufficient information on things like CSA approvals, and locals zoning requirements outside the province.

Development Assistance Strategy

Large companies such as Atco are not in need of major Alberta government support efforts. However, smaller companies such as Regent Homes, Travco and smaller similar companies could all use assistance in market development. With a weak local market but a reasonably well produced product, the need is to quickly develop the export sales opportunities. Government assistance here might come in the form of support in market analysis and distribution development.

Custom Wood Finishing

Production in Alberta

There are number of companies in this market, primarily headquartered in Calgary and Edmonton, all producing reasonably high quality custom mill work and interior finishes for offices and in some cases private residences. Some of these companies are also offering to do custom furniture, turning spindles and even milling-in-transit. The quality of skilled labour in all of the firms interviewed was quite high and the market in general, up until the present time, has been extremely good. These companies can compete most favourably with anything that might be offered from outside the province. The restriction is that none of them have any real management ability to go outside the province for sales development. Although some out-of-province business has

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* small prefabricated detached houses that can be placed in a backyard to house an elderly relative.

been served in a few cases, only one of the companies was seriously looking at any outside provincial work. With the current slow down, some of them are quite concerned about future business availabilities.

Use of Local Materials

These companies are using a wide variety of materials purchased through brokers. Much of the fine woods are not available in the province of Alberta and are imported from the United States. Construction products such as O.S.B. and 2 x 4 stud material is used from Alberta but again, the purchase decision is based on price through the wholesaler, not on source of supply.

New Market Opportunities

With few exceptions, the market opportunities for these companies would be to ensure that all government and local mill work jobs are done by them as opposed to "outsiders". Most of them claim to be on the bidders list for government work and this should be verified. Further, any of the corporate work that might be done in the province should certainly be offered to these companies, all of whom appear to be more than capable of doing the job. Because all of these firms are custom operators there really is little opportunity to develop a product line for any of them. The one exception we noted, involved the development of a special spindle by a local company who could certainly use some marketing and general management assistance.

Current Restrictions and Concerns

The major restrictions are of course the weak economic condition and the fact that these operators are locally oriented as far as their marketability is concerned.

Development Assistance Strategy

Ensuring that government work is offered to these types of firms would be a first priority. A second possible option would be assisting these firms in promoting their services to local business development throughout the province. In a down market, augmenting their ability to market their skills and thus maintain the local work force is important. What appeared to be happening in a few cases, was a forced reduction in their skilled labour work force due to lack of work. This resulted in the creation of small independent operators who have to compete directly with their original firm. The result is a fragmentation of competition which, while not a disadvantage from a competitive market view point, does restrict larger firm's ability to bid on jobs when they do appear.

Specialty Wood Products

Production in Alberta

This category covers a wide variety of product area including wooden doors, pallets, milling-in-transit, lumber wholesaling, etc. The market for these types of products is wide and offers a number of smaller companies some significant opportunities in particular product categories.

Use of Local Materials

Depending on the product in question, local materials are used if the price is right and availability exists. For example, in the case of doors most of the plywood would originate from Taiwan, the hardboard would be from the States or Brazil and the lumber would come from the United States. The restriction on buying lumber is simply that the specifications required are not available through Canadian manufacturers.

Regarding the laminated beam market, a number of companies have entered this area or some modification of it, and there is a definite growth opportunity here based on the limited availability of 2 x 10 and 2 x 12 lumber product. This situation will only increase in the future. In certain cases these types of companies could buy local product if machine stress rated lumber were available.

The pallet companies are servicing local industry using local raw material. The one restriction is being able to buy birch or aspen cants in the south in order to supply pallets to the brewing industry.

Potential Volume

All of these companies have the opportunity to create significant increases in their production volume. Product quality is acceptable. The problem is either source of supply or marketing abilities. In some situations some of these entrepreneurs are unwilling to risk sufficient amounts of money.

New Market Opportunities

Specific ideas depend on the category in question and must be dealt with on an individual basis. Examples include export development of doors and windows into the United States, export development of laminated beams and I beams to be promoted for the construction trade in western Canada and western United States, plywood pallet development for the Automotive Industry in Ontario, development of the wooden spool business for shipment into Saskatchewan and British Columbia, development of consumer furniture products based on spools.

Development Assistance Strategy

In our view, the economic development strategy that should be considered here would be reflective of market development or raw material development support for individual industry segments. Because of the individual and restrictive nature of some of these businesses, the most appropriate approach is to work directly with the companies in order to develop their market opportunities.

A general policy or a seminar session for a variety of these types of companies is unlikely to provide any particular incentive or useful assistance to most of them.

Ready-To Assemble Furniture

Production In Alberta

Technically speaking there are no bonafide producers of Ready-to-Assemble furniture in the province of Alberta. However, of the interviews conducted in this study, nine of the firms could qualify as either having the capability of producing this type of product or in two instances actually producing a form of R.T.A. furniture. Both Smed Manufacturing and Croydon Manufacturing are producing disassembled office furniture that is shipped flat and then reassembled in the distributor's warehouse or in some cases, right in the consumer's offices. Another manufacturer, H.P.C., produces some R.T.A. product, although he cannot be classed as ready-to-assemble manufacturer.

The nine companies who produce or have the capability of producing as included in our interviews:

J.D. Furniture - Consumer Case Goods
Wildrose Furniture - Consumer Case Goods
Smed Furniture - Office Furniture
Croydon Furniture - Office Furniture
Delton - Kitchen Cabinets
HPC - Kitchen Cabinets
HTH - Kitchen Cabinets
Zodiac - Kitchen Cabinets
Citation - Kitchen Cabinets

Based on existing equipment two of the nine above companies J.D. Furniture, and Croydon, could start producing R.T.A. furniture immediately. The facilities are laid out to produce in volume, and the machinery is advanced enough to maintain the efficiencies that are necessary.

Two others Wildrose and Smed, are capable of producing this form of furniture, but at the moment their machinery and layouts are not as efficient as they should be for low cost high volume production.

The other 5 manufacturers all have the ability to ship the cabinet products flat providing some redesign is undertaken. However none of them have factories capable of high volume output and will require capital investments in more efficient machinery.

Management capabilities in the nine firms are all entrepreneurial with a variety of experience bases. The only three operations with any direct experience in volume output are Croydon, J.D. Furniture and Smed. The management at Wildrose have some experience through J.D. but their own operation lacks maximum efficiency at the present time.

It is conceivable that there are other manufacturers with a potential to aspire to the demands of the R.T.A. market but we did not identify them within this study.

Apart from machinery, another area that would probably need upgrading is the design capability in each of the firms. While most of them are capable of modest design improvements, only two of the firms (Smed and HPC) appear to be capable of major innovative design. Although we may be incorrect in our assumptions here as to numbers of qualified designers, it is important to recognize that the mechanics and simplicity of design are key factors to success in the R.T.A. marketplace. Therefore there may well be a need for work to be done in this area in order to create competitive product.

Use of Local Materials

None of the firms mentioned was using very much local material sourced in Alberta. Two of the case good manufacturers had been using some of the startup board from the MDF operation at Blue Ridge and HPC was the one and only major user of poplar in the cabinet area. Most R.T.A. furniture is constructed using particleboard with plastic and paper laminates, fibreboard, some MDF and a small amount of wood solids.

Thus usage of Alberta sourced materials would be limited to medium density fibreboard and aspen and pine solids (assuming they were to be made available in quantity). Other than these items it is likely that everything else would be sourced outside the province.

The Market for Ready-to-Assemble Furniture

We have estimated the factory shipment sales in Canada for R.T.A. furniture to be between $120-130 million in 1986. This is based on our sales estimates of the known companies who manufacture product that can be classed in this furniture category. It does not include imported product that is sold through retailers such as some of the IKEA or IDOMO products. The growth rate for the industry is substantial. In 1983, we estimated Canadian manufacturers' sales volume to be between $80-90 million. Based on these figures, the market has increased by approximately 50% during the three year time span.

The thrust of market growth has been promoted in two categories:

1. Consumer furniture through the IKEA retail chain, IDOMO and other smaller companies.

2. Through the retail stereo stores with the promotion of their ready-to-assemble television and stereo stands.

With Canadian head offices located in Vancouver, IKEA is an international Swedish based company who presently have 9 stores located across Canada. The company entered the Canadian market in 1975 with their first store in Halifax. The company is both an importer of furniture and a purchaser of product made to their design and construction specifications here in Canada. They are highly regarded in the industry and are known for their European design, quality control and strong merchandising efforts. From a manufacturers point of view they are also noted for demanding extremely low prices, which means tight margins, and the maintenance of strict quality controls.

It is estimated that the total Canadian market for R.T.A. now represents between 10-12% of total furniture sales in this country. The categories of furniture that are represented include entertainment centres, television and stereo stands, utility carts, office furniture including computer furniture, consumer wall units, book cases and consumer bedroom furniture.

The products are sold primarily through the following retail outlets:

1. Discount mass merchandisers, eg. K-Mart, Woolco, Zellers.
2. Electronic stores, eg. Radio Shack, Krazy, Krazy, etc.
3. Home Centres, eg. Beaver, Cashway, Revelstoke
4. Mass merchandisers, eg. IKEA, Idomo, Sears, Pascal, Leons, The Brick
5. Wholesale warehouses, eg. Super Store, Cosco,
6. Catalogue stores, eg. Consumers Distributing
7. Department stores, eg. Eatons, Simpsons, The Bay.

Generally speaking R.T.A. product is not sold through the full service furniture outlets that offer delivery and already assembled furniture, and although some of these outlets are looking at the possibility of entering this marketplace, the majority of them prefer to offer the traditional furniture styles with the higher price points.

The main Canadian R.T.A. furniture producers in 1986, at the present, are as follows:

Quebec	Bestar, Scanway, Ridgewood, and Ewing
Ontario	3H, Goldcrest, Easy Plan, Mylex, Rosedale, Swedfurn, Mass, Naiad, Canadiana, Du Barry
Manitoba	Fournier
British Columbia	Scana, Gregg

There are numerous other small producers around the country but these are the primary producers with volumes of any significance.

Examples of the types of products and price points that are being offered are showned in the following exhibit.

EXHIBIT I

Model	Size	Description	Retail Pricing
Storage Systems - Ikea			
Docent	79" high	White lacquered particleboard. Door frames made of solid wood, panels of birch veneered particleboard. Finished with plastic colour.	$120.00 - 140.00 per linear ft.
Falun	79" high	Frames clear lacquered pine veneered particleboard. Doors, drawer fronts, cube and shelf set white lacquered particleboard.	$102.00 - 113.00 per linear ft.
Timmerman	79" high	Clear lacquered solid knotty pine throughout except back of veneered particleboard.	$227.00 - 287.00 per linear ft.
Rektor	79" high	Natural or nut brown stained, pine veneered particleboard. Back panels of white or brown lacquered fibreboard.	$132.00 - 142.00 per linear ft.
Storage Systems - IDOMO			
Sectional Book Case	69" high	White melamine on particleboard. 3-30" units.	$209.85 27.95 per linear ft.
Wall Unit	76 1/2" high	Teak veneers on particleboard. 92 1/2" width - three piece.	$499.95 $ 66.00 per linear ft.

Model	Size	Description	Retail Pricing
Coffee Tables - IKEA			
Axamo	27 1/2" x 27 1/2" x 17 1/2" high	White lacquered particleboard with birch edges legs and borders of solid wood.	$54.00 each
Smedvik	29 1/2" x 29 1/2" x 18 3/4 " high	White lacquered fibreboard legs and edges of solid wood.	$92.00 each
Ingo	27 3/4" x 27 3/4" x 17 1/2" high	High quality solid pine. Unfinished.	$52.00 each
Ronneby	27 1/2" x 27 1/2" x 17 1/2" x	Table top of particleboard edges and legs of solid wood. Finished with plastic colour.	$65.00 each
Coffee Tables - IDOMO			
Table	31 1/2" x 47 1/2" x 28 1/4" high	Solid pine lacquered finish.	$139.95
Kitchen Cabinets - IKEA			
Standard		White textured melamine finish on 1/2" particleboard.	$107.00 per linear ft. top and bottom.
Kvadrat		White lacquered particleboard or clear lacquered solid birch.	$148.00 per linear ft. top and bottom.

Model	Size	Description	Retail Pricing
Allmoge		Pine veneered particleboard clear lacquered.	$134.00 per linear ft. top and bottom.
Struktur		Nut brown pine veneer on 1/2" particleboard.	$130.00 per linear ft. top and bottom
Kitchen Cabinets - IDOMO			
		Solid beech with white melamine frame.	$1,339.15 8 linear ft. or $169.95 per linear ft.
		Melamine white	$895.00 8 linear ft. or $112.00 per linear ft.
		Solid white	$1,342.00 8 linear ft. or $168.00 per linear ft.
Bedrooms - IKEA			
Rustik	Bed - 66 x 82 1/4	Solid pine, stained slightly golden and finished with clear lacquer.	Bed - $250 Chest with mirror - $310. 2 bedside tables - $220
Nattland	Bed - 66 x 82 1/4	White lacquered fibreboard and particleboard.	Bed - $256 Dressing table with Chest of Drawers - $260 Stool $83 2 bedside tables - $220

Model	Size	Description	Retail Pricing
Bedrooms - IDOMO			
Dome 5000		Lacquered particleboard in colours. Queen Bed, two night tables, 6 drawer section, high boy cabinet, low boy cabinet	$1,340.00
Bedrooms - Three H			
		20-25% higher than IKEA for melamine low pressure panels. 10-15% higher than IKEA for vinyl on particleboard.	
Stereo Cabinets	37" High 20-22 wide		
Bestar		Oak print on particleboard.	$83.88
Ridgewood		Hickory print on particleboard.	$69.95
Mars Audio		Rosewood print on particleboard.	$99.95

Generally speaking, the price points for this type of furniture are increasing as the quality improves and the break points for the average sale appear to be averaging around the $250 mark at the present time.

The consumers who are purchasing this type of product are primarily young families with limited money to spend on furniture and a need to furnish their relatively new homes. They are willing to take the product home in their car, have the ability to assemble the product in their home and appreciate the clean designs that much of this furniture offers. They also seem to be less concerned with the "wood content" of the product and are therefore more likely to accept paper and plastic laminates. With the improved wood grain designs and clean European looking solid colours that are being offered, the R.T.A. product is finding increasing acceptance by even the more discriminating buyers.

The U.S. market has been estimated to be roughly only six times the size of the Canadian market, but it is growing at a considerable rate. Estimates vary as to the actual figure but a 20% growth rate is reported as being minimal in 1986 by many of the American producers.

The market size in the U.S. is currently estimated to be in the 3/4 of a billion dollar range with expectations that the market will exceed $1 billion shortly and be closer to $1 1/2 billion by 1990. This market was estimated to be approximately $300 million in 1980.

EXHIBIT II

U.S. R.T.A. FURNITURE

ESTIMATED MANUFACTURERS SALES

($000,000)

1980	1983	1986	1990
$300	550	750	1,500

Even with these large sales figures, the market still only represents between 3-4% of the total U.S. furniture market, so the opportunity for expansion is significant. By comparison, European market is estimated to account for 25-30% of volume in R.T.A. products.

Five major manufacturers account for well over half of the estimated sales in the U.S. as shown in the following exhibit.

EXHIBIT III

MAJOR U.S. R.T.A. MANUFACTURERS

Company	Location	Product Categories	Key Range Price Point
For-Craft	Archbold, Ohio	Entertainment centres, TV, stereo stands, utility carts office furniture, wall units, bookcases bedroom furniture	$49.95 to $59.95
O'Sullivan	Lamar, Mo.	Electronic furniture TV and VCR stands computer tables, wall units, entertainment centres, desks and office furniture	$89.00 to $189.00
Charleswood	St. Louis, Mo	electronic furniture wall systems, office furniture, bedroom furniture	$50.00 to $150.00
Bush	James Town, New York	Electronic furniture, entertainment centres utility carts, office furniture	$199.00 to $299.00
Gusdorf	St. Louis, Mo.	Computer furniture, televisions, stereo and VCR stands, utility carts, and tables and office furniture	$100.00 to $200.00

SOURCE: Estimates from surveys conducted by Furniture Today.

Price points in the U.S. for this wide variety of furniture may be grouped by volume as follows:

EXHIBIT IV

Percentage of The Market	Average Price Range
25%	$ 50-100
40%	100-200
25%	200-300
10%	over 300

Opportunities for Alberta

Given the market growth patterns that are occurring in this product category and the number of current producers who do or could have the ability to manufacture a product in Alberta, the market could be seriously considered for business development.

There are two basic directions. Firstly a company could produce to "spec", to supply some of the major retailers such as IKEA or Sears, etc. Secondly, the manufacture could produce his own line of product for sale here in Canada and the U.S. markets. Any of the products that have been listed are possibilities. One positive factor is that Alberta companies will be able to ship product flat and therefore reduce transportation costs. On the average, manufacturers should be able to ship between three to eight times the number of units in a trailer load of R.T.A product versus conventional furniture.

Regarding use of local materials, medium density fibreboard could be considered for book cases or audio units. The only restriction is that weight is a factor and MDF would have to be evaluated versus particleboard. For solid products, aspen and lodgepole pine could be used for items such as occasional tables, solid consumer furniture, institutional furniture. However it is important to note that a large portion of the raw material is likely to be particleboard which would need to be sourced outside the province.

Current Restrictions & Limitations

Limiting factors are only the various companies' ability to develop these business opportunities. In certain cases some of them will need more automated equipment than they presently own. There will be also requirements for working capital. The other major requirement is for a proper analysis of specific business opportunities and markets to target for these companies.

Development Assistance Strategy

We suggest that the government could assist in the development of this industry by entertaining proposals from various individual manufacturers to help them enter this marketplace. Primarily there would be a need on the part of each of these companies to investigate the markets in order to determine:

1. the specific products sold here in Canada, in the U.S. and probably in Europe

2. the type of quality being offered and the price points that are acceptable

3. the apparent "holes" or "opportunities" in the marketplace

4. the machinery and production layout that would be required in order to produce these items

5. the design of the specific products to be produced

6. sourcing of raw materials (in the case where local materials are desired)

7. the identification of particular stores or chains interested in buying the product

The other major requirement would be the assessment of capital needs and to determine whether the company was sufficiently funded in order to proceed to develop the product.

SUMMARY OF RESOURCE & MANUFACTURING DEVELOPMENT OPPORTUNITIES

In the following two charts we have summarized the development opportunities within the two major categories of the study, namely, resource development and manufacturing. These summary charts are reflective of specific ideas, products or industry development that could be undertaken. They do not include the general policy development options that have been identified in the following section of the report.

RESOURCE DEVELOPMENT OPPORTUNITIES

	Products	Specific Opportunities	Markets
<u>Lumber Mills</u>			
Lodgepole Pine	Pine Lumber	Treated lumber. Furniture production. Panelling.	All Canada. Local and Eastern Canada. Local and Eastern Canada.
Aspen	Aspen Lumber Panelling	Furniture production.	Local and all Canada. U.S.
Birch	Birch cants	Supplies to southern Alberta pallet operation.	food industry market specifically the brewing industry.
<u>Board Mills</u>			
O.S.B.	Secondary wood product manufacturing.	A base product for plywood laminates. A laminated base product for cabinet manufacturing. Storage unit manufacturing. Component manufacturing. Truss manufacturing.	The Alberta local market and export opportunities to other provinces in Canada and to the United States.
MDF	Secondary manufacturing.	Case goods and cabinets manufacturing and as a base for laminates.	Local furniture manufacturing.
Particleboard	The development of a new mill.	Primary particleboard product.	Supply to local furniture, case goods and cabinet manufacturing in Alberta and export into the United States and eastern Canada.
Plywood	Oak and poplar laminates, paper laminates, multi-ply products.	Panelling, hockey sticks, furniture, and cabinet supplies, food industry packaging supplies.	Eastern United States markets, local furniture supply markets, eastern Canada furniture supply markets.

MANUFACTURING DEVELOPMENT OPPORTUNITIES

	Product	Specific Opportunities	Markets
Kitchen Cabinets	Knock-Down and assembled product for export.	Sales of kitchen cabinets into the American central western marketplace. Sale of pre-assembled and knock-down product through distributors in eastern Canada. Import replacement of pre-assembled from Toronto.	Eastern Canada and Central U.S.A.
Consumer Furniture			
Upholstered Furniture	Sofas	Sales of sofas, and other upholstered goods through major chain stores.	Eastern Canada and local Alberta market.
Case Goods	Waterbed frames, bedroom suites, wall dividers and wall units.	Improved distribution of these products into the U.S. and into eastern Canada.	Major chains in the U.S. and in eastern Canada and western Canada
	Solid Spool coffee tables.	Development of unique tables for recreation rooms.	All Canada and the United States.
	Ready-to-Assemble furniture	Supply of knock-down consumer furniture to IKEA and other distributors both in Canada and the United States.	Canadian and American distributors.

	Products	Specific Opportunities	Markets
Office Furniture	Ready-to Assemble furniture.	Development of the line of Croydon furniture and expanded distribution for Smed.	Eastern Canada and U distributors
Pre-fabricated Buildings	Housing, portable construction accommodation and granny flats.	Development of granny flats for western consumption for test market purposes. Development of pre-fabricated housing for offshore development.	Western Canada, United States and Oriental opportunities.
Custom Wood Products	Cable industry spools.	Sales to Northern Telecom.	Saskatchewan
	Pallets	Poplar and plywood.	Southern Alberta and Eastern Canada for the food and automotive industries respectively.
	I-beam studs.	Construction of pre-formed wall units.	All Canada.
Custom Finshing - Millwork	Double-spiral spindles.	A new improve spindle for mass merchandising and custom finishing sales.	Distribution across Canada.
Ready-to-Assemble Furniture	Tables, chairs, case goods sofas, beds.	Products in solid pine, aspen, MDF	Local. Sales ?? distribution through Eastern Cains and into the U.S. market.

STRATEGIC PLANNING OPTIONS

The new Forestry Division of Alberta's Economic Development Department has a mission to assist the forest industry in its pursuit to achieve full ulitization of available woodland resources, in order to maximize the sector's economical benefits to the province.

Within this direction and given the specific and general opportunities that have been identified in this market analysis, we are recommending that strategic plans be formulated for business development in the forest sector which would involve a three directional approach to overall improvement of the economic impact of this industry. The three approaches are as follows:

1. The department should consider developing and implementing some key policies which are aimed at increasing the competitive capabilities of Alberta companies within the north American marketplace.

2. The department should consider supporting or assisting in the business development for certain specific new mill operations.

3. The department should consider formulating policies and procedures that will allow the division to assist directly and react quickly to individual Alberta based forest sector business demands on a company by company or industry by industry basis.

As an explanation in support of this three positioned policy we offer the following comments:

1. Policies designed to increase the competitive capability of some of the Alberta companies relate partly to the markets they are facing and partly to the location they're in. For example, a number of these companies could take advantage of some form of marketing or sales agency that might allow them to improve their ability to sell the product in eastern Canada or possibly in the central United States. This agency would offer advice, do some of the leg work and possibly even offer showroom facilities in

certain instances for companies who wish to make a major effort to access these markets but who do not have sufficient funds to do this on their own. This might not apply to the larger firms but it would offer a stepping stone base for the smaller companies.

Another example of competitive assistance would be a variety of types of funding assistance that would go toward <u>sales and business planning</u> as well as <u>market identification</u>. In many instances, the firms interviewed had the product to meet market opportunities in other areas. However they lack the ability and the time to actually develop the business plans or to identify the specific markets. Even though some funding is provided for sales trips outside and some companies have taken advantage of this program, the detailed work that needs to go into market identification and business planning is much harder to achieve in a medium or smaller sized firm. It therefore becomes very difficult for this size of operation to expand and as a result, the attitude is to restrict sales to local efforts. Funding assistance by the province to support these types of activities would be of significant benefits to some firms.

A third recommendation for improvement in competitive positioning would reflect some form of transportation support programme which would be designed to offset the higher costs of doing business in the east and the south. For example, a rebate on energy consumption in transportation costs might be considered. Our rationale in suggesting this assistance approach is that transportation is a larger portion of companies' overall costs in Alberta than it is for companies operating in central and eastern Canada and the United States. The reason is that the <u>major</u> markets for these products are so far away from Alberta's location. For example, if 40% of the furniture industry is located in Ontario, a company such as JD Furniture incures a far greater percentage of costs to sell his bedroom suites in the Toronto area than a similar company in Toronto accessing the Calgary market. This comparison can be made with many of the major manufactured products in the marketplace. Since the province is a major supplier of energy, a rebate on transportation energy might be feasible.

2. In support of the second of the three directions for the strategic plan

(development of certain key new mills) we would recommend that the programme be directed at key opportunity areas where obvious voids in the production facilities exist in Alberta.

For example, there is an obvious need for at least one if not more specialty mill operations for pine and aspen to meet specific market demands. Therefore, some form of specific government plan designed to encourage the location of these mills is going to be in the best interests not only of local producers who could use the products, but also for export opportunities. These ideas have already been suggested in the text of the report and in fact, a number of potential investors are identified as well as those people who could operate the mill.

Another recommendation in this area would be a strategy in support of the development of a particleboard mill. Obviously investigation would need to be undertaken to ensure that a mill in Alberta would be financially viable, given that markets would have to be sourced outside the province. Nevertheless, if inexpensive furnish is available and the plant could be efficiently, run there is an already <u>large market</u> within the province for this product.

A third suggestion in this area would be a business development programme in support of lodgepole pine separation to supply, first of all, the specialty mill that we suggested earlier in this section, and also to supply treating operations in Alberta and in eastern Canada. Both these markets offer growth opportunities.

3. The third direction of our recommended strategy involves developing policies and procedures that could <u>quickly</u> assist individual Alberta based forest sector businesses.

This would be a plan that could help individual existing Alberta based companies and could react to a wide variety of opportunities, many of which have been identified in this report. For example:

The B & L Lumber wholesale operation has an interest in operating a specialty mill but had a significant amount of trouble in trying to put the deal together. Some of the problems were of their own doing but nevertheless, with some assistance through government channels this group could be given the direction that would help the mill come to fruition.

The Alberta Pallet operation needs some help in sourcing birch cants at a reasonable price. The small operation simply is unable to do a reasonable search.

The Crestbrook Plywood operation has received some help with government assistance in upgrading their manufacturing operation. However, they're also in need of marketing and business plan assistance in developing a number of new products. The company management has a definite interest in these growth opportunities particularly a specialty plywood operation. The ability of Economic Development to react quickly and specifically to this request would be of great benefit to all concerned.

The R & R Company in Blairmore needs some help in identifying market opportunities and help in formulating a marketing plan for spool coffee tables. They also require some political advice and support to help them obtain some Saskatchewan spool business.

Each of the above suggestions is different and thus requires a policy for economic development that has a great deal of flexibility and can react to these kinds of needs. The common factors in these situations exampled here are:

- the companies are all medium to small firms with limited management capability

- most of the firms are in a day-to-day operational planning mode - that is to say, they do not do long term strategic planning because in fact, they can't

- in many cases they are in need of some form of resource supply assistance

- they are all interested in business development, have an optimistic outlook and would react positively to a more direct assistance plan where market opportunities could be clearly identified and where the company management could be shown how to take advantage of them.

While this type of help does not apply to the larger organizations such as Atco who have the management capabilities and experience base, it would be supportive to these medium sized and smaller firms who do not.

Finally, the strategy recommendations we are suggesting should, in our opinion, be created as a management assistance and policy direction rather than another programme that people will see as some form of financial "handout". Although money is certainly an issue and is a need factor for a number of firms, the overriding requirement is how to get into and take advantage of the opportunities that have been identified.