

A close-up photograph of a pine branch with vibrant green needles and several clear water droplets hanging from them. The background is a soft-focus forest scene.

Management of outsourced forest harvesting operations for better customer-contractor alignment

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FRST 

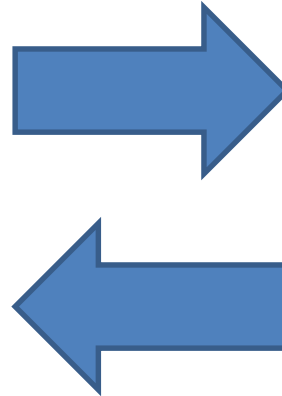
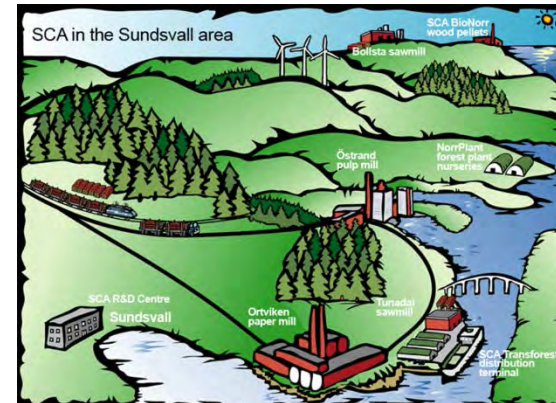

SLU

Different objectives

Contractor



Customer

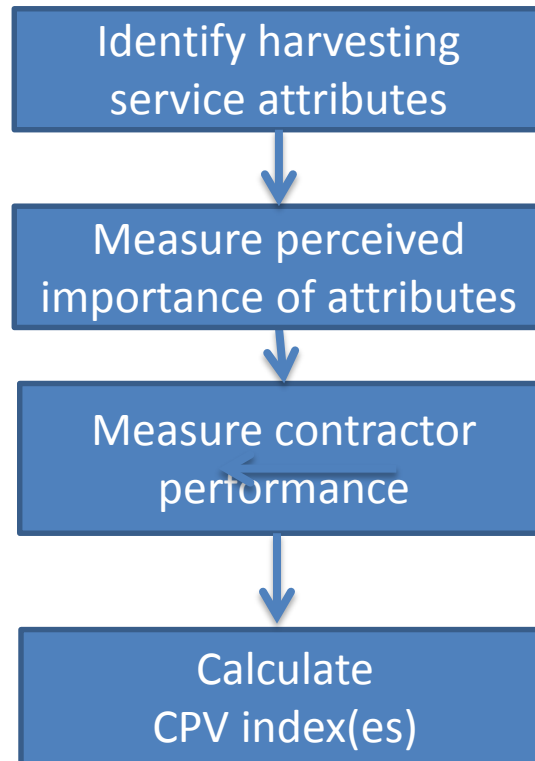


- Profitability
- Survival
- Customer retention

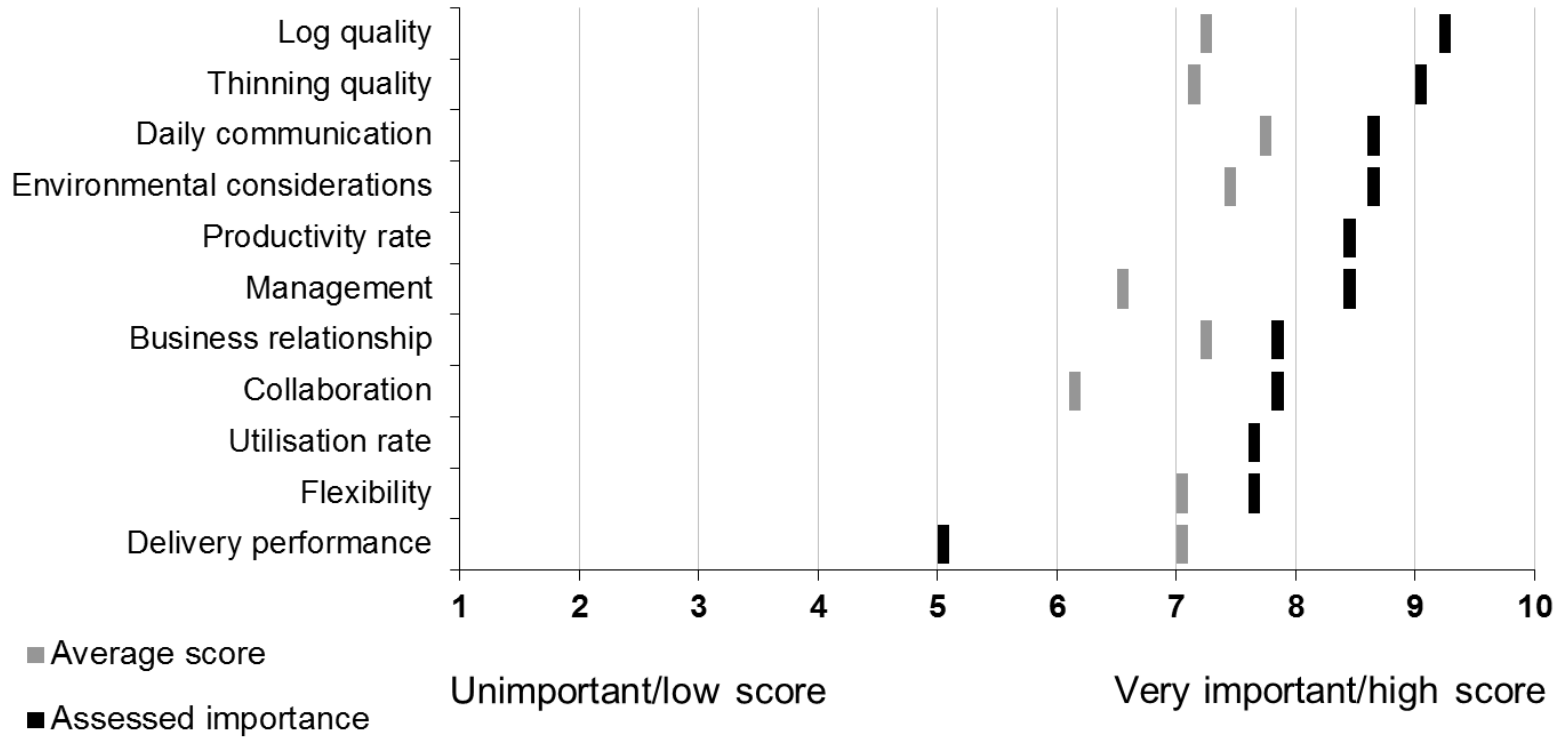
- Core solution
- Additional services
- Cost
- Relationship cost
- Contractor retention

Methods

Case study: 1 forest company and 74 of its contractors



Customer-perceived value of subcontracted harvesting operations



Cluster analysis*

| | "Owner-managers" (n=30) | "Owner-operators" (n=36) | Low performers (n=8) |
|-------------------------------------|----------------------------|-----------------------------|-------------------------|
| Log quality | 7,7 | 7,1 | 5,2 |
| Thinning quality | 7,5 | 7,2 | 5,6 |
| Environmental considerations | 7,7 | 7,2 | 6,5 |
| Flexibility | 7,6 | 6,8 | 4,3 |
| Delivery performance | 7,6 | 7,0 | 3,8 |
| Management | 7,9 | 5,5 | 4,2 |
| Collaboration | 7,7 | 5,1 | 2,7 |
| Daily communication | 8,6 | 7,3 | 5,1 |
| Business relationship | 7,8 | 6,9 | 4,9 |
| Harvester productivity rate | 1,09 | 1,04 | 0,88 |
| Forwarder productivity rate | 1,06 | 1,00 | 0,99 |
| Harvester capacity utilisation rate | 0,82 | 0,82 | 0,80 |
| Forwarder capacity utilisation rate | 0,84 | 0,85 | 0,84 |

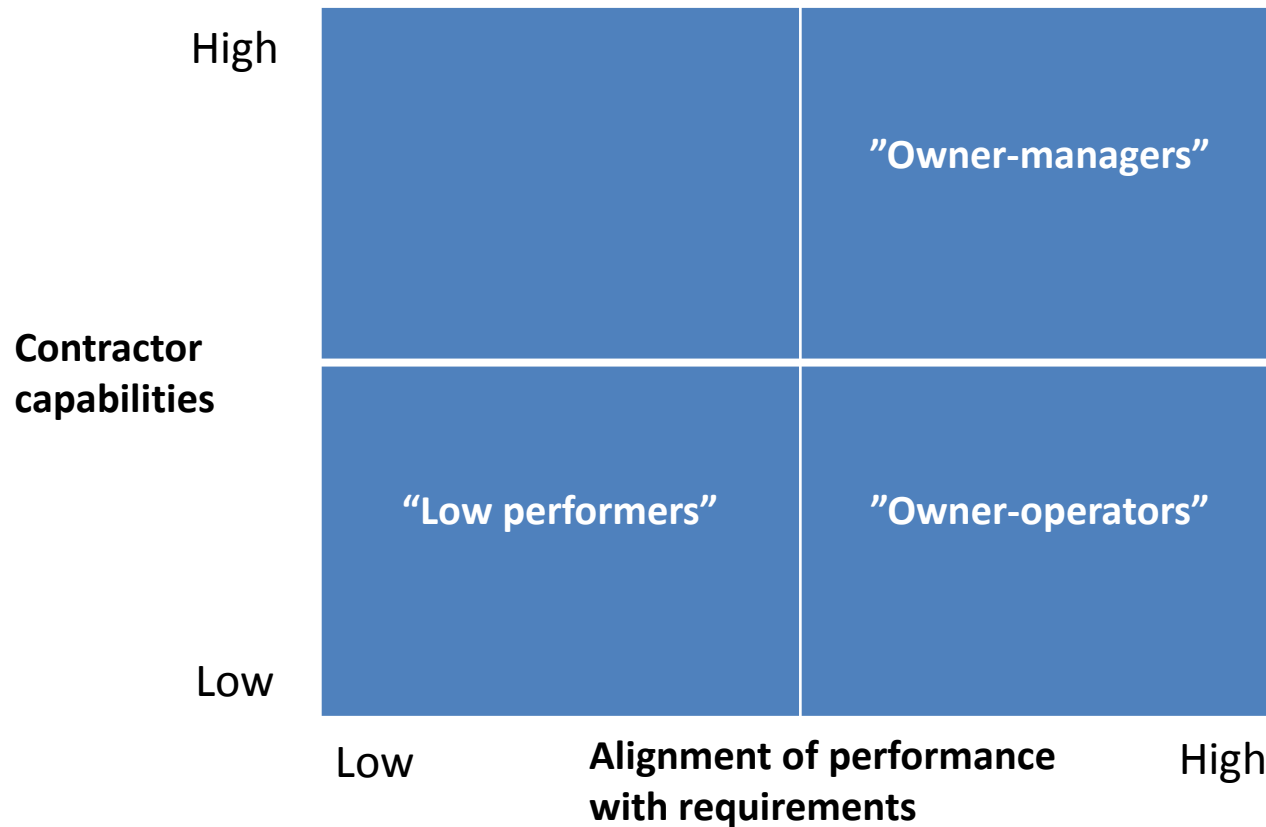
*K-means clustering

How about the contactors?

| | "Owner-managers" | "Owner-operators" | Low performers |
|------------------------|------------------|-------------------|----------------|
| Contractors (n) | 30 | 36 | 8 |
| Operating margin | 8,9 % | 3,4 % | 1,7 % |
| Net margin | 6,1 % | 0,6 % | -1,9 % |
| Quit after three years | 3,3 % | 41,7 % | 62,5 % |
| - of which "fired" | 0 % | 2,8 % | 37,5 % |
| - of which bankrupt* | 0 % | 8,3 % | 0 % |

* Differences between groups are not significant

Framework for positioning

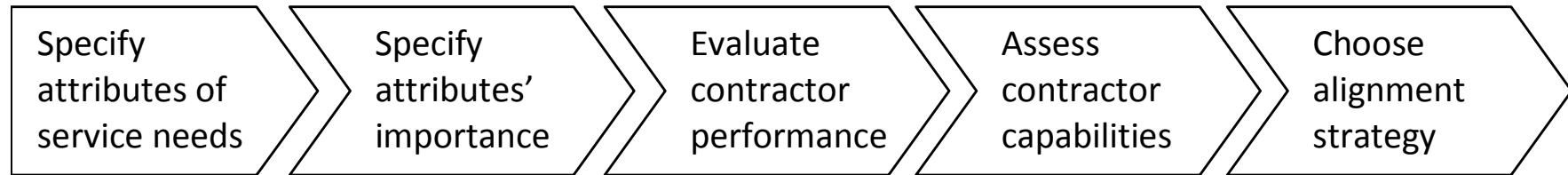


Response depending on position

| | | | |
|-------------------------|------|--|--|
| Contractor capabilities | High | Align performance or find alternatives to contractor Incentives and/or use of power | Increase contract Incentives |
| | Low | Find alternatives to contractor | Sustain relationship Supplier development |
| | | Low | High |

Alignment of performance with requirements

Process for improved effectiveness



- Incentives
- Use of power
- Supplier development
- Active sourcing
- Make or buy

But: What are the contracting organization's capabilities?

Conclusions

- Contractor performance is a complex issue
- Contractor performance is moderated by the relationship to the customer
- Traditional piece rates and arms-length relations may not be that good
- A diversified approach to contracting may be effective to improve overall performance

References

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