



**Marketing in forestry and wood industry**  
 Dubrovnik  
 December 7, 2006

**Marketing fundamentals - the 4 Ps  
 the essentials**

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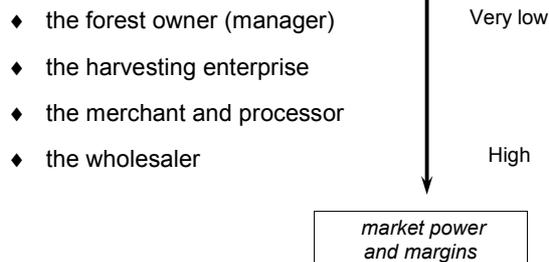
**Paper organisation**

**Introduction** - the objective: why we need to improve marketing techniques?

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|---|------|
| <ol style="list-style-type: none"> <li>1. Pricing methods</li> <li>2. Product development</li> <li>3. Promotion</li> <li>4. Place: distribution &amp; logistic</li> </ol> | 4 Ps |
|---|------|

**Final remarks:** from total marketing to social marketing

**Agents in the wood value chain/  
 market power**

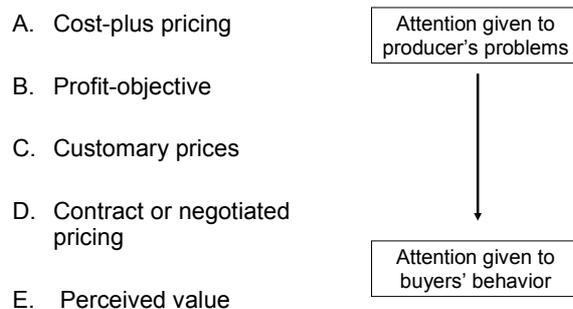


**Why do we need to improve marketing techniques?**

The objective:  
 increasing market power (=profit) of forest managers and harvesting enterprises:

- fair distribution of profits,
- active management of forests,
- stewardship of the resources: positive externalities on environmental and social conditions

**1. Pricing: five approaches**



**A. Cost-plus pricing**

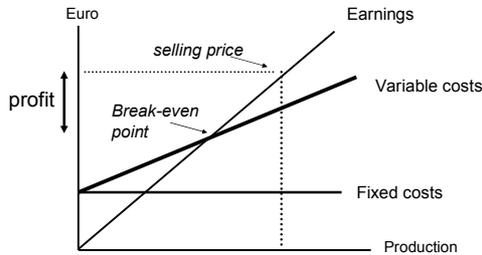
Pre-defined mark-up to be added to production cost:

Average management costs of the forest = 10,000 Euro Average annual sales = 250 cm (10,000/250=40) Stumpage price: 48 Euro/cm (←mark-up of 20%: 40 + 8 Euro)
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- Problems:
- No reference to competitors
  - No attention paid to market demand
  - Not always easy to link annual costs to annual production

### B. Profit-objective

- A minimum profit is pre-defined
- Prices are defined adding the profit to the break-even point



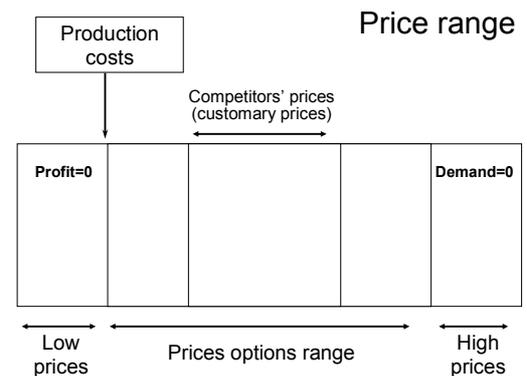
### Problems:

- No reference to competitors
- No attention paid to market demand
- Is profit in the long run covering fixed costs?

### C. Customary prices

- When product differentiation is low,
- When there are many competitors,
- When cost evaluation is difficult...

... prices may be defined looking at the competitors' prices to fix a *reasonable* price



### D. Contract or negotiated pricing

Prices set by pre-agreement or negotiation **before harvesting**

Frequent application when buyers are large companies

### An example

**Poplar** plantations in Italy sold immature (when they are 6-8 years old with rotation periods of 10 yr)

→ The buyer has a stock available for his needs

→ The forest owner reduces his risks



### D. Contract or negotiated pricing

Prices set by pre-agreement or negotiation **before harvesting**

Frequent application when buyers are large companies

Sometimes risky: see weather conditions, labor availability, site productivity

A variant: **formula pricing** = set on the basis of systematic use of external values or factors (international prices index, license costs, fuel costs, etc.)

### E. Perceived value

*(the most popular in advanced markets)*

Key factor in pricing is the **willingness to pay** by the buyer for a differentiated product

The very serious problem: rough wood material is not easily differentiable

Logs from Serbia



Logs from Croatia



Logs from Romania



Some special pricing techniques (**price tactics**) can be used to differentiate wood products:

- Direct sales to individual buyers (i.e. processors and exporters, avoiding merchants)
- Group marketing
- Quantity discounts, cash discounts and special sale prices

... some other opportunities to increase the trust and the willingness to pay by the buyers are offered by the other 3 Ps

## 2. Product development: three types of innovations

- A. Absolute new products
- B. Incremental innovations
- C. Subjective differentiation

### A. Absolute new products

- Rough material
- Semi-finished products
- Final products

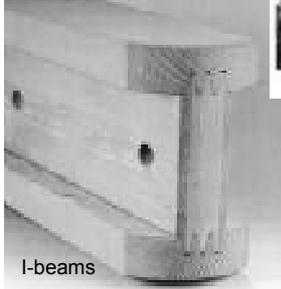


Very low

Relatively high

potentials for innovation

**Some examples**



I-beams



Gulam beams

EWPs  
(engineered wood products)



Laminated Veneer Lumber



Pellets

**B. Incremental innovations: improved products and services**

Products:

- Laminated boards
- Particleboard and MDF made with recycled post-consumers wood products



**B. Incremental innovations: improved products and services**

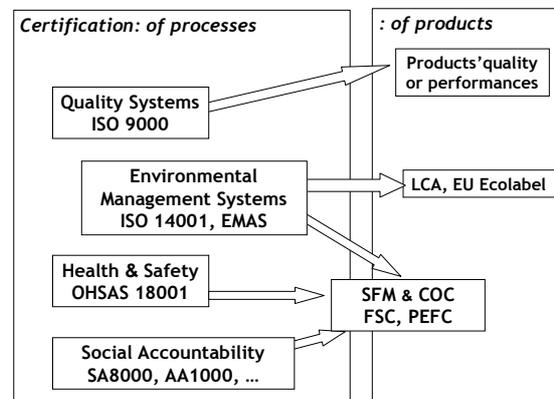
Products:

- Laminated boards
- Particleboard and MDF made with recycled post-consumers wood products

Services:

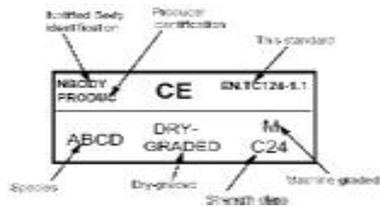
- Sorting and grading system
- Kiln drying
- Packaging
- Branding
- Certification and (eco)labelling

**Certification and labelling**



Certification and labelling: from a voluntary to a compulsory measure

Starting from 2007 compulsory CE mark on sawnwood used in construction



### C. Subjective differentiation

Not a new product or an improved product or services,

but an old product that is presented and perceived as a new one

→ Essential role of promotion

### 3. Promotion



Promotion by small forest owners



- SME in the forest sector are very weak in promoting their products,
- but they can take advantage from the use of “umbrella labels”

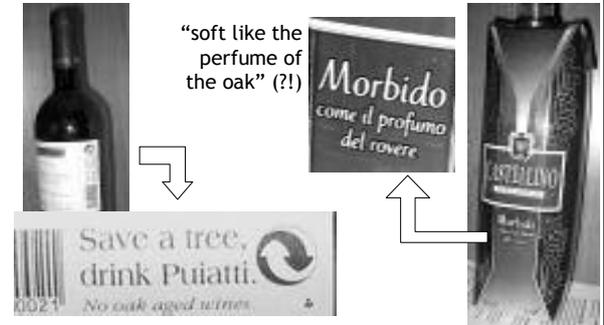
### Improved visibility of SME through web advertising



### Support by public authorities in wood products promotion



### A huge work to do to improve the image of wood (in Southern Europe)



## 4. Place: logistics

- Delivery time → on time delivery for all product lines
- Wood assortments handling: containerization and palletization
- Freight forwarding (i.e. several smaller shipments from different plants combined)
- Warehousing
- ...

Probably the most important aspect for the forest manager is

### Where (how and when) to sell its roundwood

- Standing
  - On the roadside
  - In the buyer's yard
- Very low  
High
- ↓                      ↓
- Profit potentials

Risks

## Final remarks

From total marketing (4 Ps)...

... to social marketing:

Company's decisions are taking into account the **long-term** interests not only of the internal but also of the **external stakeholders** → Corporate Social Responsibility

(Kotler, Armstrong, Saunders, Wong, 2001)

### CSR: marketing based on ethical principles:

- safety and health of workers, consumers, local population
- no discrimination, no social inequality
- right to information, transparency
- sustainable use of natural resources (precautionary principle)
- ...

There is no conflict (no trade-off) between ethics and economics (profit, value of the assets, ...)

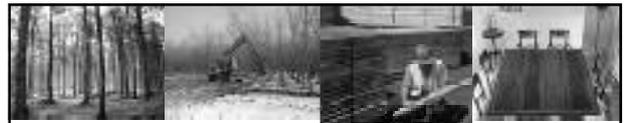
From total marketing (4 Ps)...

... to social marketing = 2 "new" Ps

- **P**olitical power

- **P**ublic relations

Civil society, in the Balkan region too, is playing an increasing role



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