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TIMBER PROCESSING™

JULY/AUG. 2006

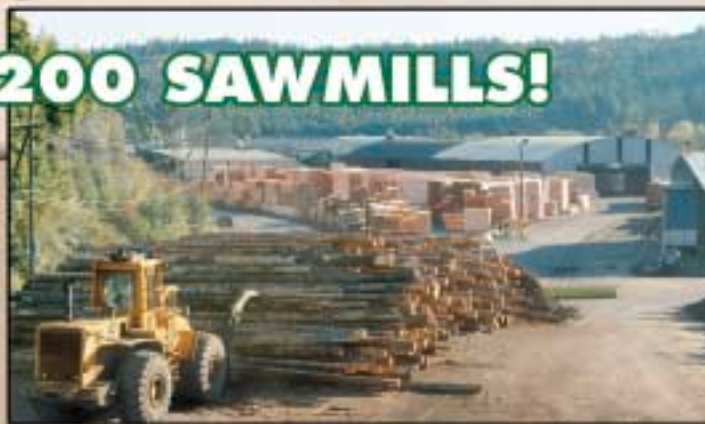
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POLLARD LUMBER'S NEW DRY KILN



TOP 200 SAWMILLS!



#1 Hampton-Willamina

DEFINING THE GAP



Understanding the “execution gap” is the first step toward reaping the rewards from closing it.

Log yard supervisor conducts a log quality check. Results are used to provide feedback to logging contractors.



Daily supervisors meeting at Tolleson Lumber's sawmill in Perry, Ga. KPI (key performance indicator) results are reviewed and action plans are developed to address performance variances.

Many organizations within the lumber industry have similar business strategies, fiber access, and assets, yet some consistently outperform others. Why? There are many reasons, but at the core, the better mills simply execute better.

This issue is not limited to sawmilling. According to Larry Bossidy and Ram Charan in their #1 New York Times Bestselling book titled "Execution: The Discipline of Getting Things Done": "Execution is *the* great unaddressed issue in the business world today...it is the 'Gap Nobody Knows.'"

The encouraging news for the sawmill industry is that some organizations are

"In today's markets, excellence in execution is the difference between making and losing money or in some cases the difference between running and shutting down."

recognizing the importance of good execution and are in the process of addressing this gap. Take for example, Swanson Group based in Glendale, Ore. Its COO, Pat Harris, says, "In our operations the importance of managing execution can be summed up in two ways. When times were good (2004-2005) excellence in execution added millions of dollars in bottom-line return to our shareholders. We produced more wood, at higher recovery than ever before. Given the market conditions at the time, the incremental success we had was directly attributable to the relentless focus of our people on day-to-day execution issues within our plants, in our woodland operations and at the sales desk. In today's markets, excellence in execution is the difference between making and losing money or in some cases the difference between running and shutting down. Over time I believe the gap separates the winning, long-term players in our business and those who will be shut down or acquired."

The term commonly applied to the potential that more disciplined execution holds is the "Execution Gap." What is this Execution Gap? How big is it? Why does it exist? How is it closed? In theory, these questions, and the answers, are quite simple. However, making it a reality within an organization is very challenging, yet so critically important for medium and long-term success.

So, what exactly is the Execution Gap? Simply put, it is the difference be-

tween current performance and what is possible with the strategy and assets that are currently in place. Specific examples can be found in every corner of a lumber operation. For illustration purposes, let's look at kiln production.

THE POSSIBILITIES

Imagine an operation that identifies itself as "kiln constrained" and is currently drying an average of 2.1MMBF per week. You might hear something like "2.3MMBF would be a banner week; more than that with our current capacity is just not possible." However, after some detailed analysis you discover that some charges are not totally full (it is not uncommon to see capacity utilization under 95%), changeover times range from 20 minutes to five hours, and to compensate for wide moisture variations, a significant portion of lumber is being over dried, therefore restricting capacity. Taking the analysis a step further shows that managing these controllable items tighter could yield additional throughput of 400MBF per week. In this specific case, additional fiber could be accessed and there is enough system wide capacity to handle the additional volume. At current margins, this represents an annualized, bottom-line opportunity of more than \$1,500,000. And this is just what's being left on the table with respect to production throughput!

Just how big is the Execution Gap? In softwood lumber operations (including log yard, sawmill, kilns, planer and maintenance) the opportunity associated with improved execution typically runs between \$20 and \$35 per MBF. Where it specifically lies depends on the operation; however, the main areas of opportunity are in production, quality, value and recovery. To be very clear, this is opportunity available by executing better with current strategy and assets. For a single mid-sized mill this represents \$2-\$5 million per year, and for organizations with multiple mills and a billion or more board feet of production, the opportunity is easily into the 10s of millions of dollars.

PROCESS/PEOPLE

Why does the Execution Gap exist? Execution gaps can be tied to incomplete or ineffective management process and/or people not having the knowledge, skills or attitude to get the job done. Basically, process and people.

First, let's look at the "management process." A management process is defined as the steps by which operational results are understood and improved. Accordingly, when looking at most businesses—lumber operations being no exception—one glaring deficiency is an over-reliance on "result indicators" – the basic measures of volume (MBF/hour or shift), recovery, grade out turn, etc. While these results are important, they are often not directly controllable. Was a high volume shift a result of minimizing log gaps or of large logs? Low downtime or working through breaks? Was good recovery a function of log diet, great size control, trimming accuracy, smart optimization, or a variety of other factors? In addition to being poor gauges of performance, results indicators are often reported too late to allow for timely redirection.

Effective management processes need to focus on the activities that make up the results—the Key Performance Indicators (KPIs)—efficiencies, machine center and mill wide predictability, grade and trim accuracy, manufacturing defects, stacking quality, kiln fill rates, drying accuracy, and a host of others. Each KPI needs to have a target that is based on optimum performance that people doing the work understand and accept. Performance against this target needs to be tracked in real-time, by those doing the work. Finally, there needs to be a process that supports a bias for action and accountability. When KPI results are off track, what is being done about it?

Returning to the kilns example, here



Quality control personnel conducts "logs on length" checks. This is one of the "controllables" that is used to gauge performance at the buck saw.

is how effective management process may look:

You ask operators and supervisors how they are performing, and they know their volume throughput (MBF/week), but are more interested in discussing the things that contribute to this result, or put another way, the things that they actually control. Items like: changeover time, kiln fill rates, attainment to target moisture content, attainment to drying schedule and percent drying defects. There are performance graphs posted for operators to see and they show both result indicators and KPIs. They understand why they didn't hit their target, are digging into root causes, and are developing action plans to address them.

At the manager level, the size of the kilns' execution gap is known every week.



Pat Harris, COO, Swanson Group

Their operating report clearly shows the weekly variance on the kiln KPIs. In the weekly operations meeting, they are focused on reviewing KPIs and holding people accountable for developing action plans for all areas where variances exist. Action plans are written down, tracked and prioritized based on biggest to smallest opportunity.

When the vice president visits an operation, the discussion includes a focused review of KPIs, as well as on high-level financial results, new capital and strategic issues.

This is just one small piece of a rigorous management process that focuses on the controllable elements of performance. Management process like this is required in each area of the operation.

The "Execution Gap" is a \$20-\$35/MBF opportunity that is totally within your control. What is your plan to go get it?

Part two is people. Solid management process is critical for an organization that wants to execute effectively; however, it will prove impossible unless people have the right knowledge, skills and attitudes. It is people that make the process work.

No doubt, our industry contains a lot of dedicated, hard working, knowledgeable people who want to do a great job. However they are not always set up to succeed. Take a front line supervisor. Many are in their positions because they were outstanding operators who have been promoted, handed a radio and clipboard and told to go manage the crew. This might be a bit of an exaggeration,

but the management skills and management tools required to get the job done are often lacking.

It is very typical to see shift supervisors operating in a reactive or "firefighting" mode. Fixing the broken belt, un-jamming the feed chain, or locating the replacement part are examples of tasks that many supervisors are very comfortable doing. They have a great deal of experience doing these types of tasks and the immediate results of their work can be quite rewarding. "I saved the day" is undoubtedly a great feeling. These types of supervisory activities may very well help operating results today, but do very little to improve the situation for the future.

Moving a supervisor from "firefighter" to "manager" requires developing his/her ability to: detect variances, conduct root cause analysis, develop action plans, set priorities, lead, motivate, communicate, manage meetings, resolve conflict, understand the fundamentals of business and solve technical issues. Developing people so they can execute more effectively is a difficult but important task. With clear, personalized training plans it can be accomplished, and the impacts on operating results—and equally important—morale, will be profound.

Swanson's Harris agrees on the important role people play. "Gaps in operational excellence stem from management's failure to set proper expectations for our people. Too often we define expectations in terms of technical or functional responsibility rather than in terms of business objectives and goals. You may be a saw filer, a millwright, an operator or a clean up person, but your job is to help contribute to high recovery, low cost and optimal productivity. If you start by setting new expectations, then establish a process that drives people in that direction, you can make amazing progress in a short period of time. Investing the time in training people and in follow up is absolutely key to closing the execution gaps in any organization."

To summarize, the Execution Gap is a result of two underdeveloped things: process and people.

If you are still in business today, you are already a good operator. However, if you want to become a great operator, and ensure your long-term viability as a profitable business, you need to work on "Closing the Execution Gap." Sound strategy, quality fiber and solid assets are "table stakes"; it is effective execution that separates top performers from the rest of the pack.

Rusty Wood, President of Tolleson Lumber in Perry, Ga., agrees with the importance of execution. Having spent considerable time and resources on developing Tolleson's ability to execute and after seeing the associated operational improvements, he states, "Managing like this will be the price of admission for every sawmill operation in the future."

So, how do you close this Execution Gap? This is a question that needs to be examined in some more detail. What are the steps required to improve "process and people"? What roadblocks are typical? How are they dealt with? What does success look like? These questions and others will be answered in a future Timber Processing magazine article titled "Closing the Execution Gap."

Between now and when you read that article, think about the following: the Execution Gap is a \$20-\$35/MBF opportunity that is totally within your control. What is your plan to go get it? TP

This article was submitted by Perforex, which partners with forest products companies to significantly increase profits by implementing operating practices, systems and disciplines that drive results and create sustainable performance improvement. To date, Perforex reports it has "closed the execution gap" at more than 120 operations including 60 sawmills. Visit Perforex at www.perforex.com or contact it at info@perforex.com or 1-87-PERFOREX.

Closing the Execution Gap

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