

WORK TO BE DONE

CFI'S Second Contractor Survey

Unearths More Roadblocks

By Maria Church

Three years ago Canadian Forest Industries (CFI) and woodbusiness.ca shared results from our inaugural contractor survey that found Canadian logging contractors continue to struggle with logging rates, profitability and succession planning. To continue the conversation and record industry trends, last year we followed up with a second survey conducted in June 2018 by independent research firm Bramm & Associates.

The survey generated over 275 replies to a detailed list of questions. Respondents were distributed according to the geographic breakdown of the forest industry, with 40 per cent in Western Canada, 25 per cent in Quebec, and the rest found in Ontario, Atlantic Canada, and central Canada. Within BC responses were split between the BC Coast and Interior.

By comparing results from both surveys, it's clear Canada's contractors have roadblocks ahead of them if they are to have healthy, profitable futures in the industry.

In 2016 contractors in BC stood out as the area of Canada where mill relations had soured, rates were stagnant and profitability was in question. Shortly after CFI's 2016 survey research was published, the BC government launched a Logging Contractor Sustainability Review. The report, completed and published in the spring of 2018, outlines 13 proposals that aim to improve mill and contractor relations through best practices.

Our 2018 Contractor Survey was conducted in June, a month after the review was made public.

The most recent survey results show that while Coastal loggers continue to have concerns about the future of their industry, there have also been some positive trends to report in the region. It is possible the somewhat improved situation on the Coast is a response to the issues raised by the 2016 survey and the formal sustainability review.

And while there are some positive initial signs in the BC Interior, digging

through the 2018 survey results reveals significant discontent among loggers there. Rates may have increased, but so have operational costs, which has led to lower profits and unhappy contractors.

BC respondents, in general, reported the following:

Rates and profits

Across Canada logging rates are a mixed bag. Compared to 2016, more contractors report stagnant rates over the past five years however, fewer report a rate drop. There was a small bump in the percentage reporting a rate increase in 2018, and it's not unlikely the source of the increase is BC.

Unlike in 2016, Coastal contractors in 2018 fared better than the natural average. In total 44 per cent of Canadian contractors have seen a rate increase; on the coast that number jumps to 58 per cent and in the Interior 63 per cent. This situation is remarkably better than in Atlantic Canada where nearly half have seen no



rate increase, and just 28 per cent an increase of 5 per cent or less.

The BC Interior also takes the win for the largest percentage of loggers seeing increases of greater than 5 per cent (19% say they've increased more than 5% and another 7% report that rates have increased more than 10%). Just over a third of Interior loggers have seen their rates stagnate or decrease, well below the national average.

Yet it seems the rate increases are not offsetting costs for Interior contractors, who are among the most likely to report dismal profits last year. Thirty five per cent of companies say they made no profit in 2017, while another 43 per cent say their profit was 5 per cent or less. Just 20 per cent made 6 per cent or higher. This is a significant slide from our 2016 results, when Interior contractors were among the most profitable.

The BC Coast seems to be in the middle of the pack when it comes to profits, with 54 per cent of its loggers reporting

a profit between 1 and 5 per cent, 16 per cent reporting 6 per cent or higher, and 23 per cent claiming no profit. This is a major improvement from three years ago when the BC Coast fared poorly, besting only Ontario's profit margins.

It's unsurprising then to see that BC contractors are more likely to have seen cost centres increase significantly compared to the national average, particularly when it comes to machinery purchases, parts and service, and fuel costs. Labour, hauling, supervision and insurance costs were also above average.

Operator pay

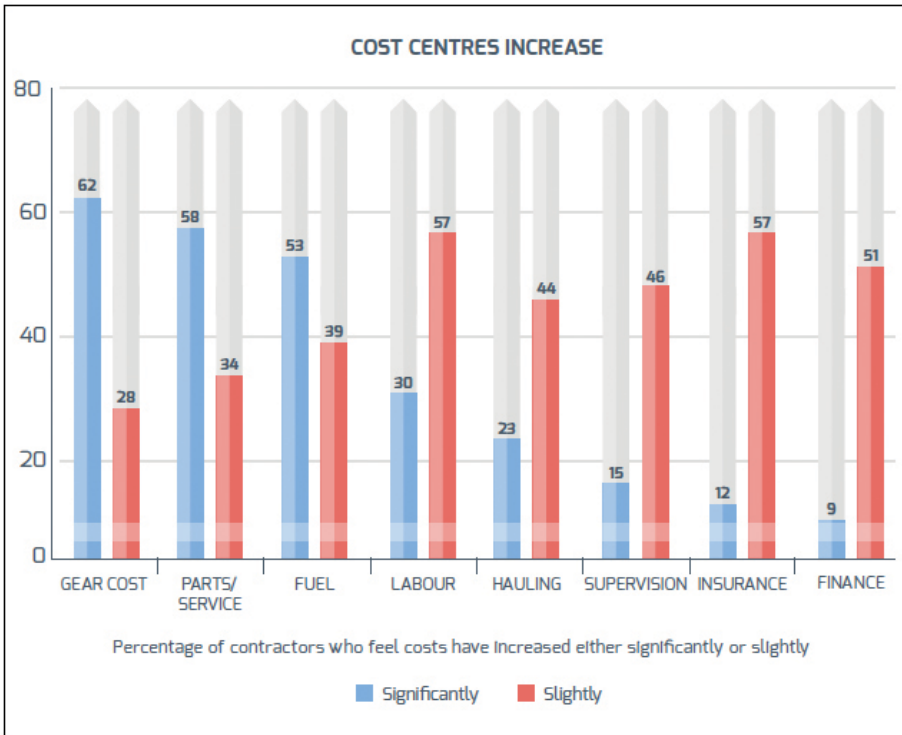
The competition for labour rages on in Western Canada, the results of which are reflected in our survey results. Coastal loggers continue to pay the highest operator rates in Canada, followed by the BC Interior and Alberta. While the average logging operator in Canada earns \$29 an hour, the average on the Coast is \$37 and the Interior is

\$34. Just 8 per cent of Coastal contractors are paying \$30 an hour or less; in the BC Interior and Alberta where competition is similarly fierce, that number jumps to 41 and 43 per cent respectively. Any further east and you won't find any contractors paying over \$30 an hour.

Similar to our 2016 results, BC contractors are more likely to offer benefits than the national average, with an overwhelming 96 per cent of Interior contractors and 85 per cent of Coastal contractors offering some form of benefits to employees.

Company size

Compared to their Western regional counterparts, BC Coastal loggers are on the smaller side, although they run large next to contractors in Quebec and Atlantic Canada. The BC Interior sits in the middle of the pack among the western regions when it comes to company sizes, revenues and volumes.



The estimated average annual volume for Coastal companies is 163,000 m³, less than half of the estimated average output of Alberta contractors at 398,000 m³. The Interior sits comfortably in the middle at 237,000 m³. These numbers are not surprising given the unique species and challenges of Coastal logging. With more hand falling required on the Coast, it also helps explain why Coastal loggers require less than half the machines used by Interior and Alberta contractors where logging is entirely mechanized.

These factors add up to average revenues higher than the national average, but lower than their Western Canada counterparts. Coastal contractors make an estimated average annual revenue of \$5.3 million, whereas the Interior brings in \$7 million and Alberta \$6.9. The Canadian average is \$4.5 million.

Contractor age

BC is one of three regions where the average contractor age is over 50, joined by Atlantic Canada and Ontario. On the BC Coast, 44 per cent are 56 or older, while 52 per cent are between 36 and 55. Just 4 per cent are under 35, which is less than half that demographic reported in the 2016 survey. Twenty three per

cent of Interior contractors are over 65, which is well above the national average of 12 per cent. Another 18 per cent are 56 to 65, and another 30 per cent are 46 to 55. While the numbers are not surprising given the significant investment

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needed to take over a logging company, it is a problematic trend that fewer young people are working as contractors in BC than just three years ago.

Something needs to give if these established contractors are to continue operating in BC. Nearly half of BC contractors (46% on the Coast and 47% in the Interior) say they will be out of the industry in five years or less. Without a succession plan in place, these companies could be facing the same fate as W.D. Moore Logging, a 90-year-old Vancouver Island contractor that made news in 2017 after calling it quits.

Succession planning

Unfortunately, it appears more contractors than ever have no real plan for their business after they retire or quit the

industry. All told, 40 per cent of Canadian contractors admit they have no plan for the business, up 15 per cent from the same response in 2016.

The BC Coast is just below the national average for that response at 39 per cent. Another 15 per cent expect their children to take over; 23 per cent hope to sell to another contractor; and 15 per cent are resigned to auctioning their equipment and shutting down the business.

Just 23 per cent of Interior contractors have no plan for succession, which, when compared to the national average of 40 per cent, is a good sign. Interior loggers are the most likely to expect their children to assume control of the business, at 35 per cent. They also have the highest percentage of respondents who say managers are interested or planning to take over.

Future

In spite of the progress made since 2016 to aid communication between the licensees and contractors, and the relative improvements to profitability compared to the rest of Canada, BC contractors are still among the most concerned about improved co-operation with govern-

ment and forest companies. Close to 85 per cent of them rate this as the greatest opportunity to improve operations and/or profitability, compared to the 68 per cent national average. Improving logging rates, addressing the cost of machinery and attracting employees are also stand-out concerns.

These survey results show there is more work to be done by all parties—contractors, mills and governments—if we are to continue seeing healthy loggers in BC in five years.

For a copy of the 2018 *CFI Contractor Survey* report, please email mchurch@annexbusinessmedia.com.▲