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Marketing fundamentals - the 4 Ps: Pricing, Promotion, Product, Place

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

1. Pricing methods
2. Product development
3. Promotion
4. Place: logistic

Final remarks: from total marketing to social marketing
Agents in the wood value chain/market power

- the forest owner (manager)  
- the harvesting enterprise  
- the merchant and processor  
- the wholesaler

market power and margins

Very low  
High
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

B. Profit-objective

C. Customary prices

D. Contract or negotiated pricing

E. Perceived value

Attention given to producer’s problems

Attention given to buyers’ behavior
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
Stumpage price: 45 Euro/cm (mark-up of 20%: 40 + 8 Euro)

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
Price range

Production costs

Competitors’ prices (customary prices)

Profit=0

Demand=0

Low prices

Prices options range

High prices
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, site productivity, labor availability

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
- Off-season selling
- 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

potentials for innovation

Very low
Relatively high
Some examples

- I-beams
- EWPs (engineered wood products)
- Gulam beams

Glulam beams used in a residential building

Laminated Veneer Lumber

Pellets

B. Incremental innovations: improved products and services

Products:
- Laminated boards
- Particleboard and MDF made with recycled post-consumers wood products
ONE MAKES THE DIFFERENCE

Il marchio Pannello Ecologico arriva in Cina.

Kebab & Boloni e Humphrey's hanno deciso di convenzionarsi al Consorzio Pannello Ecologico.
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: of processes**

- Quality Systems ISO 9000
- Environmental Management Systems ISO 14001, EMAS
- Health & Safety OHSAS 18001
- Social Accountability SA8000, AA1000, ...

**: of products**

- Products’ quality or performances
- Origins - typical products
- LCA, EU Ecolabel
- Organic farming IFOAM, EU rules
- SFM & COC FSC, PEFC
- Fairtrade Transfair
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

Environmental and Social Responsibility Policy

Responsible Business
Stora Enso is committed to developing its business towards ecological, social and economic sustainability. These tasks are recognised as shared responsibilities within Stora Enso enabling a continuous improvement of our operations.

Eco-perspective
Stora Enso’s objective is to supply customers with products and services that satisfy various needs related to printed communication, packaging and construction purposes. These products are mainly produced from renewable raw materials, are recyclable and safe to use. The concept of product life cycle is considered guiding our environmental activities and provides the framework for our efforts. We expect the same commitment from our suppliers and partners so that at every stage, from raw material to the end product, the impact on the environment will be minimised.

Social Respect
As an international company, Stora Enso acknowledges its role as a model company in the global, national and local society. Our attitude shall be characterised by respect for the cultures, customs and values of individuals and groups in countries where we operate. When developing our business to earn credibility, we will comply to and when necessary go beyond the requirements of national standards and legislation.

Transparency
In order to continuously strengthen our operations and develop environmental and social issues in a sustainable way, Stora Enso considers an open discussion and interaction with all stakeholders, both governmental and non-governmental, as fundamental.
SME in the forest sector are very week in promoting their products,
but they can take advantage from the use of “umbrella labels”
Improved visibility of SME through web advertising
A strong conflict between wood and plastic, concrete, metal products

PLASTICS ARE AN ENDANGERED SPECIES.
NOT TIMBER.

Plastics come from oil. Known oil reserves may only last another 40 years, at current consumption, while managed forests can go on growing timber for ever.
So support conservation. Specify timber.

Think Wood
… but also a strong internal fight

between, for examples:

- wood packaging and paperboard packaging,
- plywood and OSB,
- chips and pellets,
- …
... with opposite view of the role of wood as an environmentally friendly product

“soft like the perfume of the oak” (?!)

Save a tree, drink Puiatti. No oak aged wines.
4. Place: logistics

- Delivery time,
- 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 roundowood

- Standing
- On the roadside
- In the buyer’s yard

Profit potentials
- Very low
- High

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

ƒ P o l i t i c a l power ƒ P u b l i c relations

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

Hvala!