

Successful Business Model

Ontario logging contractor Bruce Kropf has found a successful business model, using the services of a group of contractors to carry out the logging with their own skidders, while his company handles the trucking with an even halfdozen Western Star trucks equipped with Serco self-loaders.

By Paul MacDonald

Deeres, Timberjacks and Rangers—it sounds like quite a variety of equipment. But that's the range of skidders Bruce Kropf can have working for him at any point in time, with as many as eight crews contracted to B Kropf Forestry Services.

Kropf even has his own assortment of older skidders that serve as back-ups for the contractors: a Timberjack, a Deere and a vintage Tree Farmer. "We'll use those if someone gets in a jam," says Kropf. They act somewhat as courtesy skidders, in effect. On an ongoing basis, Kropf relies on his group of contactors with their varied pieces of equipment to bring in the timber. In turn, it's his job to make sure they're kept busy, by making sure they have timber to cut, and that he has a sawmill ready to buy that timber. Their base is around the Stratford area, in Southwestern Ontario

"From our start 18 years ago, the idea was to have people with their own equipment doing the harvesting," Kropf explains. "That way, I can focus on being on the road looking at and buying timber and selling the timber." The equipment operators run their own operations; and as long as the wood gets to roadside, Kropf is satisfied.

Even though contracting-out is the business model, Kropf knows first-hand how things are done in the bush. He ran chainsaws for close to 10 years in this area of Ontario, then moved on to timber buying before he set up his own company in 1989. In an average year, he's moving anywhere from 10 to 12 million board feet of hardwood in Southwestern Ontario, primarily supplying the needs of five mills with everything from cherry to maple. "We supply pretty much everything those operations are milling," he says. They also provide a few other customers with specialized species, such as butternut, walnut and red elm.

The business has grown considerably over that time, and it has also evolved. Initially, he started out with a single logging crew, and even the trucking side was contacted out.

"Things grew, we took on more crews, and we had too many logs sitting on the ground. I wanted the flexibility to be able to deliver the logs to a customer today or move our logs if a farmer needed access

Bruce Kropf - "Being involved on the trucking side gives us more control," says Kropf.



big hardwood areas. "If we get a 25 acre piece in this part of southern Ontario, that's considered a big bush," says Kropf. A farmer might have 10 or 12 acres of a 100-acre farm in trees. And, in good hardwood markets, that can generate a tidy sum. "Some of those cuts, if they are maple, could be worth \$30,000 to \$40,000," says Kropf. Logging is highly regulated by the counties, each with their own regulations on exactly what diameter trees can be harvested. That's been good for the industry, says Kropf. "It

helps to keep things going on a sustainable basis, and means you can go back to the same bush every 10 or 12 years, if you're doing it right."

Dealing with the varying locations of all these small woodlots and farm bushes is second nature to Kropf's contract crews. "We usually try to get into an area where we can line up several bushes within a reasonable distance, and then just move the equipment around from there.

"We're only moving skidders on the equipment side, and the guys who cut the trees down—we don't have equipment like feller bunchers. They're too big for the size of operations we are working in."

The logging crews seem to stay busy—there is always enough wood to keep his six trucks moving timber. Busy enough that regular maintenance on those trucks is usually carried out on weekends and evenings at the company's shop, though some maintenance is also done during the limited down times.

Fuel costs are a big expense with six trucks—and they are on the hook for that. "Highway truckers may be able to get a surcharge," Kropf notes. "But on the forestry side, the mill says you are getting this amount for the timber—period. There's no fuel surcharge there." He's doing what he can to keep the operation as efficient as possible. They try to market their logs to the closest mill, and drivers will operate out of areas closer to where they live, cutting down on travel time. While the industry in this part of Ontario has seen some boom years, the last couple of years have been more of a struggle. The returns on the logging side are now marginal, Kropf says, especially considering the money he has to invest in advance to buy timber. With issues such as high fuel costs and the high value of the Canadian dollar, the Canadian forest industry as a whole is currently facing significant challenges. But this area of southern Ontario has its own specific set of challenges.

Kropf says they are seeing more disease in the hardwoods, noting emerald ash borer and ash dieback are of growing concern. "There is a lot of ash being cut. People are trying to cash in on the value before the trees are dead or worthless, so the market is flooded with ash right now." This, in turn, has affected oak markets because of the similarity of the oak and ash grains in a finished product. There's also the hickory bark beetle, which has been spurred on by several years of dry weather.

Like the industry in other parts of Canada, the forest industry in Ontario has also seen some fallout from an increasing global economy. Globalization is often viewed as a positive for the forest industry, opening up markets for Canadian forest products around the world. But just as these markets have opened up for Canadian products, the Canadian market itself has also become more open, including finished wood products. As one industry expert pointed out recently at a conference, those thousands of steel cargo containers from China that are offloaded every day at the ports of Vancouver or Halifax don't just contain electronics or home

goods destined for the local Canadian Tire or Wal-Mart. They also have finished wood products. And to some degree, this is affecting Canadian mills and Canadian loggers.



Landowners in Southwestern Ontario, such as farmers, are now far more aware of the value of the timber on their land, says Kropf. They're also far more concerned about compacting on the fields, and area loggers have responded, making sure the work is carried out when ground conditions are right.

“It’s kind of mind boggling, but Chinese companies can buy hardwood logs here, take them back to China, process that timber into flooring, and send it back and sell it for less than we can produce in Canada,” notes Kropf. “It’s not rocket science—it’s all about labour costs,” he adds. “Someone in China might be getting \$5 a week compared to a wage of \$20 an hour in North America.” Finished wood products are also coming in from Africa and South America. This market pressure is affecting Canadian mills, including the mills Kropf supplies. While the quality of the product being imported from China may not be as good as that produced in Ontario, consumers can be very cost conscious. They often don’t care where a product is manufactured. That said, Kropf does not have any control over trade with China, nor do any of his crews, and they focus on the job at hand. Even though the business climate has become tough, Kropf is doing whatever he can to make sure his operation is as efficient as possible. He has responsibilities to supply his customers, and to the contracted crews. He has good customers that he wants to retain—and contractors and employees he wants to hang on to. “We’re a specialized industry, and it’s hard to find good people. If they leave the forest industry, they might not come back.”



Kropf sees things improving, especially once adjustments sink in on the timber supply side. Even though the hardwood market has changed, farmers and other land holders are still looking for top buck for their hardwood timber. “Timber prices still need to be adjusted,” says Kropf. “A farmer may know that a guy down the way got \$25,000 for his bush last year, or the year before. But his bush is only worth \$17,000

today—and he doesn’t like it one bit.”

In general, landowners are far more aware of the value of the timber on their land. They realize that it, like the corn they grow, is a commodity, and that they can make money if it is managed properly. And related to this, they are more interested in how timber on that land is harvested. They’re more concerned about rutting in the bush, and compaction on the fields, says Kropf.

The end result of this is loggers have to manage their operations more efficiently. “They’re planning it out more so they can be there when the ground conditions are right, working on the lighter soils in the spring and fall, and the heavier ground at other times of the year.” He adds that their crews understand that they are to leave as light a footprint in the forest as possible.

“We want them doing a good job because that’s the right thing to do.” But also, he adds,

because they want to work with these landowners again.

The weather has also become more of a factor in their work. During the summer months, instead of getting half an inch of rain a couple times a week, they seem to be getting two inches of rain—in one go—every several weeks. “The contractors have to plan around this, too, because they might be off the land for two or three days with a heavy rain. With the lighter rains, we’d be back to work the next day.”

The decline in timber prices has a direct impact on buyers like Kropf. Unlike other industries that can buy their raw material a week or a month in advance, timber buyers are sometimes buying as much as a year out. In rising markets, that can work in their favour. But in falling markets, they might have to work through some pretty high priced timber inventory. “It can be a hard spot to be in,” says Kropf.

They are working harder to get the most out of all of that timber, however. They are paying more attention to niche markets for some species. “We never worried too much about that before—it seemed like more aggravation than it was worth. But if we can get an extra \$1,000 for a couple of loads, it’s worth our while.”

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