

## Local timber firm looking forward to develop on medium term

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**Abstract:** *This article intends to outline the challenges faced by a local timber company in struggle to resist on medium-term on the market. There will be revealed the challenges the company is facing, and also the ways to adapt to the changing world of timber industry. There will be presented a short history of the founding and the evolution of the company on the local and international market, pointing out the relevant events which have marked the life of the company during the years. There will also be presented a short review of the competition on the market and the marketing strategy and policies which the company is using to be able to face the new challenges.*

**Key-words:** *timber, service, challenge, lease work, competition, selling, premium product*

### 1. Introduction

#### 1.1. About the company

The subject of our study is a local timber company called Premiumwood Ltd, acting in the field of timber production, wood processing and selling. The company was founded in 2011 by two local and one foreign business man. They have started with 6 employees. Nowadays the company has 24 employees and this year the company is celebrating 5 years of existence on the timber market. The company is acting in a premium niche of the timber industry. They are buying and processing only old wood resulting from demolition of old buildings and constructions. The main idea is to preserve the original-old-look of the wood and to have the same look also in the final products. These kinds of products have a rising market especially in countries like Germany, Austria and Switzerland. The products are very appreciated in the HORECA market segment, in the tourist visited areas and ski resorts of the mentioned countries.

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## **1.2. About the company's activity**

The company has three categories of activities: purchasing the raw material, wood processing and selling of the final products. The base activities of the company are the wood processing and the selling of the final products. The purchasing of the raw material was developed lately, because the owners have realised that the company has to develop, apart from the lease type work, their own full production. At the beginning, the company has worked in lease type work basely the raw material was provided/bought by the client and the company was giving only the manpower and machinery needed for processing the wood. In time, the owners have realised that if they buy the raw material themselves, and they sell a full price final product, the profit will be higher. In this way they started to buy old buildings in Romania in order to supply the needed raw material for the production process. Later, when the demand has increased they have bought old constructions also abroad and they are using also the raw material resulting from these buildings. This is a niche market in the timber industry and the success of the company is strongly connected with the quality of the final product. They have to preserve as much as possible the original old-look of the wood. Therefore the raw material is very carefully selected after dimensions and colour. After that, it is cleaned, washed, or treated in steamers to eliminate all insects and fungus. The next processing step is the sawing of the wood in 7 mm layers. After this 3 layers are glued together and this leads to the final product. The final product has one face covered with the old-looking layer and the other 2 layers are resulting from the middle of the processed wood, so they have no old looking effect. During the technological process an important amount of wood chips are generated. These are gathered and pressed in so called wood briquettes. The briquettes are sold as heating material for wooden boilers and for fireplaces.

## **2. Objectives**

### **2.1. Actual situation-Competition**

In the present market situation, the company is facing an accentuated competition both on the supply and on the selling market. The competitors are companies from Austria and Italy and also some small local companies are trying to enter this market. The local small companies have normally the same competitive advantages like the company part of our research, so the real threat, as discussed with the owners, comes from the bigger companies from Austria and Italy. All these foreign competitors are bigger companies than the one studied by us, and they have better / bigger financial possibilities than ours. This is causing a problem especially on the raw material supply market because foreign companies can afford to offer higher prices for the raw material. So, it often happens that they buy all the best quality raw

material from the market. In this way our company has to focus on the local supply market and to act quickly and purchase the good quality raw materials before the competition does it. Of course, the situation is better for our company when considering the operational costs, because here, in Romania, the work-force costs are lower if compared to Austria and Italy, so this is compensating the disadvantage the company has on the raw material supply market. Under these circumstances, the main challenge, in the medium-term life of the company, is to find a correct and suitable strategy to overcome all the mentioned problems.

## **2.2. Market**

From the beginning of its existence the company has been present on the local raw material supply market. At the very beginning the company has just bought raw material and has sold it abroad without processing the wood. Later the owners have realized that they could earn more money if they process the raw material. Therefore they have looked for a strategic selling partner in Germany and they have started their first own production. In the early stages of the production they have worked with the material supplied by the German client and later they have produced from the raw material bought by themselves. Accordingly, at the beginning, all the products were sold to the German market. Later, the selling market was extended also in Austria, Northern Italy and Switzerland. Practically, the company has three kinds of clients: timber wholesale companies, carpenter and joiner companies and private buyers. Geographically, the clients are located mostly in southern Germany-Bayern, Northern Italy and south-west Austria-Tirol. In time, the company has developed a different activity of mounting the products at the clients. This means that the company has nowadays his own joiner and carpenter teams which are able to finish and comply all kind of demands of the clients. In this way the company has integrated also the last possible chain in processing and selling timber. This activity is bringing an added value for the company and it is very important for getting new clients and new business opportunities in this market niche.

## **3. Methods**

### **3.1. Market analysis**

The very first idea was to get an accurate image of the market and to adapt the selling and marketing policies, accordingly. After several discussions with the owners, it has been established that the most important category of customers are the joiner and carpenter companies. Nearby the owners would like to develop also the orders coming from customers which are demanding turnkey solutions meaning that the products should be mounted and finished at the customers' home. It was

established that there is a need to get more customers from these two categories. The main idea is that, if the company is also mounting and finishing the orders at the final customer, then they will get more and more clients of this kind because, if the customers are satisfied with the quality of the work performed by the company, they will recommend the company to relatives, friends, neighbours or other potential customers. It has also been noticed the need that the company should attract more and more the joiner and carpenter companies in order that they should buy their raw material directly from the company and not from the timber wholesale companies. Considering the above mentioned it has been concluded that all short and middle term marketing actions should target these two categories of customers.

### **3.2. Costs analysis**

From the beginning it was clear that the company is producing a premium quality product and, due to the product concept, the production costs and, accordingly, the selling prices are relatively high. The main reason for this is that the raw material supply is partly limited and it is hard to get good quality raw material resulting from old buildings. Therefore, the raw material prices are increasing year by year by 5-10%. Another cost intensive reason is the fact that, during the production process, the material loss is very high because, in order to obtain a good quality end-product the loss in raw material is of over 50%. This means that more than 50% of the incoming raw material can not be used in the three layer panel production because of colour, size or quality issues. As a conclusion to the cost analysis, there can be stated that - in the case of our company - the raw material supply costs and the quantitative loss in raw material during the production process are the most cost intensive factors in the final production costs. The main challenges here are to find the most effective solutions to optimize the raw material loss in the production process and to be active on the raw material supply market, in order to buy the available raw material at the most convenient prices.

### **3.3. Sells**

Along with the cost and market analysis, a sells analysis has been made in order to identify all the clients of the company and to see all details connected to the selling activities. The selling activity of the company is marked by the relatively high selling prices. The clients must know that they pay a higher amount of money for the product but they have practically unique products. Nobody else has exactly the same product, due to the particularities of the raw materials. Therefore, the clients are buying premium quality unique products and they have to pay a higher price for it. The clients have to know that all raw material consists of at least 60-70 years old wood, and no new cut three was used in the production process. So, we can also notice a very important environmental friendly attitude of the company, as it is using

exclusively wood resulted from demolition of old buildings or constructions. If we also take into consideration the fact that the company is processing in briquettes all the wood chips resulted from the production process, we can affirm that the company cares a lot about the environment and has an important social responsibility.

## **4. Results and discussions**

### **4.1. Results**

Based on the discussions with the owners and on the analyses made upon the number and structure of the company's clients it was determined that the middle-term objective of the company is to gain more customers from the joiner and carpenter firm category. It has been noticed that the owner wants to develop the latest activities of the company connected to their own carpenter and joiner teams in order to be able to accept turnkey orders from the customers. From the discussions was resulting also the need to be more active on the raw material supply market. Here the company is facing a tough competition from the foreign companies which have started to offer higher prices for the existing raw material on the market, which they are pushing up the prices. Partly connected to this aspect, there has been noticed that the company is having a low efficiency because of the processing of the raw material, as more than 50 % from the raw material is wasted due to colour, dimension or quality problems. There has also been noticed the possibility to optimize the activity of the company as regards the production of the wood briquettes for heating resulted from the wood chips remaining after the production process. This is an important aspect taking into consideration the rising prices of the heating materials like fire wood or natural gas or electric power. There is also worth mentioning the social responsibility of the company regarding the environment and the recycling of the old wood used in production. After all these findings, there was a meeting held with the owners on how the company should react to all the challenges.

### **4.2. Discussions**

During the discussions it has been fixed that the owner wants to increase the number of customers represented by the joiner and carpenter companies. So the first question which has to be answered is how the number of this type of clients can be increased.

Concerning the developing of the own joiner and carpenter activities in order to be able to execute turnkey timber solutions for the customers the following

question has to be answered: how will the company be able to handle this demand on mid-term.

Connected with the more intense presence of the company on the raw material supply market the following question has to be answered: how can the company be more efficient in buying the raw materials.

Connected to the wood briquettes resulted as an environmental friendly solution to the wooden chips generated during the production process the following questions have to be answered: how can the company be more effective in selling these briquettes, and how can the company inform the clients about the social responsibility and environmental friendly production process it is using in realising the timber products.

## **5. Conclusions**

### **5.1. To do list**

After identifying the issues, as presented in chapter 4, possible solutions to the presented topics should be elaborated.

#### *5.1.1. The importance of joiner and carpenter companies as clients and how to increase this category of customers*

After studying the cost efficiency of the different categories of customers there has been discovered that the most cost efficient customers are the small and middle sized carpenter and joiner companies. Based on the good personal relations, the owner should attract new clients using the network of personal recommendations of the existing clients. There has been recommended the use of newsletters concerning the products and services offered by the company. There has also been recommended the attending of the specialized fairs dedicated to the furniture and timber industry where this kind of customers can get in touch with the products of the company. We have also recommended annual conventions with the existing and potential new clients where the company can present and explain the advantages of buying directly from the company and not from a timber wholesale company.

#### *5.1.2. Developing of the own joiner and carpenter activities for turnkey solutions*

***This demand is coming mostly from*** the existing clients and it has been recommended that this should be satisfied by the company even if, for the time being, there are only two teams available to perform this task. It has been suggested the use of outside specialists to overcome the peak periods because this activity can be partly outsourced by the company until it will be able to perform these tasks

itself. This activity is considered to be a future developing possibility for the company. The latest big challenge of this kind is the construction of a beer tent at the German Oktoberfest in Munich.

#### *5.1.3. Making the company more efficient on the raw material supply market*

It has been stated that the company is facing a strong competition on this market especially because of the foreign companies offering better prices for the raw material. It has been recommended that the company should use, in this case, the advantages of being a local actor on the market and it knows better the places and persons from whom the raw material can be bought. Thus, we have recommended that one person should work dedicated to the desired outcome, going around the villages discovering the old wooden constructions and making offers for the construction owners. It has also been recommended the building up of a so called security raw material stock, even if this is blocking part of the working capital of the company. There have been recommended changes in the production process to reduce the waste of raw material.

#### *5.1.4. Wood briquettes selling optimization*

It has been concluded that a side effect of a bigger production means bigger quantities of wood chips which have to be managed in a most environmentally friendly way. Therefore, the company has to optimize the wood briquettes production and selling process. It has been recommended the selling of the briquettes not only locally, but also in bigger nearby cities like Brasov, Sf.Gheorghe, Miercurea Ciuc, or Onesti because there are potential customers having fireplaces and the briquettes represent a more environmentally friendly and a far easier solution as compared to the using of fire wood. That is why there has been recommended online advertising in the social media and also newsletters about this product for bigger timber wholesale companies in the mentioned cities.

## **5.2. Final conclusions**

Summarizing all the facts presented above the following conclusions have been stated: ***The company will act in order to gain new customers using the personal connections of the owner, the recommendations of existing customers, will participate at fairs and will organize conventions with the existing and potential customers. The company will outsource in the peak demand periods the contracted joiner and carpenter work in order to deliver turnkey timber solutions.***

The owners will make changes in the production process in order to reduce the raw material waste. The owner will name one person dedicated for acting

on the raw material supply market. This person will be always in touch with the market and will react to any opportunity. The owner will also consider the building up of a security stock. The company will start selling wood briquettes in the nearby big towns and cities and an adequate online advertising campaign will be initiated to help this selling action.

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