



# **Wood Industry Report**

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**Prosperity Region 3**  
**Wood Industry**  
**Proposed Five Year Action Plan**

## **Introduction**

The Wood Products Industries form a broad sector of business activity in Northern Michigan, and particularly in the eleven counties of Region 3. An MSU Extension study in 2012 described the forest industry as “Michigan’s third largest manufacturing sector,” supporting “about 136,000 jobs and adding \$17 billion to Michigan’s economy.” (MSUE, 2012) While timber harvests could increase somewhat above their current levels, the greatest opportunity for economic growth lies in the added value provided by manufacturing wood products.

Timber harvest, sawmill operations, and wood products manufacturing represent traditional industries for the people of this area of Michigan. The sector offers long-term sustainability, opportunities for positive environmental impact, and lifestyle compatibility.

The actions proposed in this section will work to stabilize and maintain the existing industry, as well as to promote the establishment and growth of new entrepreneurial businesses.

## **Overview of the Wood Products Industry Sector**

The “Wood Industry” sector includes a supply chain of related goods and services, ranging from harvesters to cut the trees to skilled crafts who create finished products. In addition, the sector supports large trucking operations, heavy equipment for harvesting and loading, maintenance services, and other support businesses.

### **Harvesters**

Harvesters comprise a number of small businesses with a large investment in capital equipment. They sometimes own “tree farm” land, but more often bid on contracts to cut timber, either in behalf of a sawmill, or to sell independently to a sawmill. Northern Michigan’s forest lands – including extensive Federal and State holdings – continue to experience net growth every year. Revenues from timber harvesting provide income for landowners and revenue to Federal and State governments, some of which benefits local communities.

The timber harvesting industry has come a long way in the past few decades, moving from the traditional image of lumberjacks walking off into the woods with chainsaws, to the modern reality of skilled crews operating expensive machines to deliver a steady stream of logs to the mills and chips to the residue markets.

The high cost of transporting timber makes a local harvesting industry vital to the survival of sawmills and other primary timber markets. In addition, harvesters provide

an important service to landowners, including those who manage Federal and State forests.

Harvesting operations in Northern Michigan have a number of strengths, as noted above: tradition, long term sustainability, an existing skill set, established businesses, supplier and market relationship, and relatively stable technology. Harvesting companies also face some threats in the near future. The work force has aged, and many express concerns about replacing the retiring skilled workers. Current technology requires a large investment for entry, as well as specialized training and skills.

### Sawmills

Sawmills negotiate with landowners or harvesters for their immediate and future supply of logs, and with truckers for transportation of logs in and lumber out. Many of the larger sawmill operations have their own logging crews, so they operate as harvesters as well as primary users of the raw materials.

Long term residents often have pictures of ancestors standing with a two-man saw next to a huge pile of logs, a workhorse ready to haul them to the mill, the river, or the railroad. Sawmills, logs, and lumber trucks form a part of the landscape in this area, as well as an important part of the economy. They provide entry-level jobs for young men (and a few women), plenty of firewood logs and slabs, and the usual multiplied impact of workers' wages.

Sawmills across Northern Michigan have the advantages of tradition, established companies, suppliers, and markets, and a solid skill set. Progress will inevitably mean more automation, high capital investment, and erosion of low skilled jobs.

By far the greatest challenge for sawmill businesses involves the supply of logs. Their operations depend on the activity of harvesters and the availability of timber from Federal, State, and private lands. They face competition from lower cost suppliers in the US and Canada; this drives the development of new automation technologies, and the need for an increasingly skilled work force.

### Wood Products Manufacturing

Subsequent manufacturing of wood products and other products containing wood can include a wide variety of products, processes, and markets. These products include items such as:

- construction materials like fiberboard and plywood
- industrial products like pallets
- components like interior structure for upholstered furniture
- rustic or fine furniture.

In addition to these, the industry utilizes all byproducts of the harvesting and sawmill operations, including pulp, bark, chips, and sawdust. While one would not consider these uses "added value," the proper management and optimal disposition of

byproducts can make a tremendous difference in the profitability of harvest and sawmill companies. Finding new markets for these byproducts and for less desirable species can make a significant difference in profitability.

A significant part of the regional sawmill production goes to industrial use in the Midwest: pallet stock, railroad ties, grade lumber for building, etc. Of course, the value of a fine table or chair lies in the craftsmanship; it uses only a few board feet of wood. Nevertheless, the tradition of wood products in this region, as well as the familiarity of the skill set, make wood products manufacturing a natural direction for significant economic growth, far surpassing the potential of increased timber harvesting or increased sawmill production. We have the added strength of location; Northern Michigan lies within 500 miles of ½ of the population of the USA and Canada.

The key elements to wood products manufacturing look very much like any other type of manufacturing: capital investment, skilled labor, and infrastructure for business operations, marketing, and transportation. The development of new entrepreneurial businesses will involve marketing, distribution, logistics, and management skills as well as the core technologies of woodworking. Many entrepreneurs will need assistance establishing supplier and market relationships, as well as help competing for capital investment.

A number of small manufacturers operate in Northeast Michigan, addressing targeted national markets for products like rustic and fine furniture, log home siding, interior paneling, window blinds, hide stretchers, and more.

MEDC, in cooperation with NEMCOG, Kendall College of Art and Design, and Michigan Pure Wood Works, Inc. initiated a program in 2013 to start a new furniture manufacturing operation in Northeast Michigan. Students at the college submitted designs for a competition, with cash prizes and ongoing production contracts. The winning designs featured primarily wood, but also glass and metal, targeting a specific price point and market. Judges included marketing specialists from the retail and wholesale trade as well as local wood products manufacturers. At this time, the developing venture includes companies from Mio, Hillman, and Atlanta, and has expanded to include other furniture lines.

Some of the challenges facing Northeast Michigan are common throughout this sector and, in fact, for any new manufacturing sector one might propose in this region.

- **Logistics:** Shipments tend to involve one way trips, with “dead head” runs on the return. This increases the marginal cost of transportation for Northeast Michigan products.
- **Infrastructure:** Large areas of Northeast Michigan do not have reliable broadband internet or wireless telephone service. Some areas do not have reliable landline service!
- **Management:** New ventures might have a difficult time attracting talent with skill sets in finance, information technology, project planning, and the like.

Salaries in this area tend to range lower than those downstate, and the region does not have a local large university close at hand. For decades, a relatively lower proportion of youth has chosen higher education (e.g., BA, BS, and more) and those have often relocated. To date, we have not had a strong effort – or a good reason – to draw them back to Northeast Michigan.

## **Proposed Strategies**

### **1. Vocational/Entrepreneurial Training**

Many leaders, including Michigan's Gov. Snyder, have noted that the educational system has moved away from vocational and technological training, instead emphasizing college preparation and more "academic" subjects. While this offers advantages for some students, it also has two major disadvantages: it leaves students less prepared for work if they do not continue on to college, and it leaves gaps in the workforce for jobs that require hands-on vocational skills rather than academic coursework.

The effects of these gaps in the workforce have become a threat to the wood products industries. Students have fewer opportunities in the K-12 school system to learn woodworking tools and equipment, heavy machinery operation, mechanical trades, and other manufacturing and maintenance skills needed by the harvesters, sawmills, and other local businesses.

In recent years, at least two projects have addressed this need, offering significant benefits to students and the manufacturing community:

- MiFair Achieves is a project of the Economic Development Alliance for Oscoda County, in cooperation with Fairview Schools, Mio AuSable Schools, and Kirtland Community College. Housed in a building with state-of-the-art woodworking equipment, MiFair offers students high school or college credit as they learn advanced woodworking skills.
- The Industrial Arts Institute, sponsored by Moran Iron Works, opens in Onaway this fall, offering training and certification in welding. Graduates of their 15-week course will fill important jobs in Northeast Michigan.

#### **Recommendations:**

- A. A team is working to expand and enhance the MiFair program to include broader areas of wood manufacturing and associated activities (e.g., machine maintenance, packaging, logistics, etc.) and more advanced techniques. This project should get immediate support and encouragement from MEDC and other state/regional agencies, particularly in finding market relationships that would help make the project economically sustainable.
- B. Survey wood industry and other manufacturers to identify additional areas for focused vocational training. In some cases, the workforce requirement is ongoing and sufficient in size to warrant a project like MiFair or Industrial Arts Institute.

- C. Where the workforce requirement is important, but not sufficient in size to warrant a project on this scale, we should provide coordination and project management services to facilitate one-time or periodic efforts to fill workforce gaps. As an example, a number of harvesters and sawmills expressed an interest in trained harvesters who will operate heavy equipment (e.g., harvesters, forwarders, etc.). Training would require equipment simulators and instructors from the major suppliers of the equipment, and normally would involve significant travel expenses. By consolidating the needs of a number of employers, we could make local classes feasible and affordable. We should do this in conjunction with local industry, local coordinating groups, and MichiganWorks! (which has already done a similar project described below.)
- D. We should work with the business community and the schools to expand and enhance cooperative and distributive education opportunities in important trades.

## 2. Lifelong Learning

School systems spend significant resources in support of “at risk” students, ensuring that they stay in school through graduation. No similar program support students who have already passed the “at risk” point – i.e., they have already dropped out, or they made it through graduation but have no employable skills. In addition, every person in the workforce remains at risk of becoming unemployable with the advent of the next wave of technology. They may not have an interest in a new degree or course credit; they want to remain employable. Throughout his or her working life, everyone needs the resources and the opportunity to learn new skills and adapt to new technologies.

In 2014, MichiganWorks! in cooperation with a number of companies in the wood industry, undertook the project of offering a lumber grading class. Similar to the situation described above, training and certification for lumber grading involved a high cost for the class and for travel. Through their efforts, working with a number of businesses and local groups, classes were offered in Grayling.

In this case, the need does not involve students entering the workforce, but people already in the workforce needing advanced training and certification to move up, and companies needing skilled employees, willing to invest in their best workers.

We need to affirm the importance of lifelong learning, and survey regional businesses (as a part of item 1B above) to identify more opportunities to upgrade the skills of workers in the workforce.



### 3. Cooperative Ventures

In 2013, a number of sawmills formed a cooperative, Michigan Pure Wood Works, Inc. to work together on timber procurement and lumber marketing. For a number of reasons, they abandoned the cooperative after a few months, but the general value of cooperation, at least in some areas, remains. In addition, the cooperative during its short life worked with MEDC and NEMCOG to facilitate the furniture venture, described above.

Cooperative ventures can form new legal entities or use simple agreements to accomplish the same effect. One approach involves horizontal cooperation – doing the same thing in larger volume. Another involves vertical cooperation – linking material suppliers, manufacturers, and end user markets to streamline a longer process. To the extent that we can do this regionally, we can retain more of the added value in Northeast Michigan, and simplify the logistics and cost of transportation.

MSU extension provided important help in the sawmill cooperative, and would serve as an important resource for any other formal or informal cooperative efforts.

We should explore areas of cooperation, and facilitate efforts at local sourcing, group training, and team efforts in logistics and other services.

### 4. Promotion and Marketing – local, regional, statewide, national

Most harvesters and sawmills have established market relationships, and have some reluctance about making significant changes. Some notable exceptions involve species and products less in demand (e.g., pine pulp and lower grades), and disposition of byproducts.

In 2013 we compiled a directory of Northern Michigan forest products companies. We should expand that list to include important suppliers of equipment, parts, services, and indirect materials. This directory, in combination with our survey of businesses (see 1B above) can identify gaps in the supply chain. We should then develop a program to promote this region as an excellent place to locate a specific kind of business.

In general, we need a continuing effort to brand Northeast Michigan as a source and a destination. This will help us to attract entrepreneurs and workers with important skills, and will also assist in developing markets for new manufactured products.

## 5. Technological Infrastructure

Provide basic technological infrastructure throughout the region to support the needs of a modern business, tools for training and education, and essential lifestyle needs and residents and tourists. Every developable area within the region must have the basic technologies to compete with other areas of the state. This includes reliable high speed internet service and wireless telephone access along all of the major routes and in all business and population centers.

We may accomplish this with persuasion and jawboning of private internet service providers, or it may require a combination of public and private grants. In any case, this investment in technological infrastructure must occur in order for any of the other plans and programs to be viable.

## 6. Business Facilitation – Simplify, Streamline

One of the roadblocks to doing business in rural areas involves the patchwork of rules and regulations that may vary greatly from township to township and from county to county. For this reason, many companies will prefer to locate in an urban region like Grand Rapids in Kent County where the offices are staffed full time, and the rules are published. They may choose one of our (relatively) urban areas, even if they do make a commitment to Northeast Michigan.

Stable and sustainable economic growth requires a distribution of opportunity throughout the region. Thriving in this economic climate often requires a second income in the family, or a part time job for a student. Some jobs may require a one-hour commute, but at least some of them must be local to the population.

We should undertake a study of rules and regulations for businesses throughout the region, and produce a handbook for businesses that will identify all of the agencies and offices involved. In addition, we should create a system of hotlines and ombudsmen to help new and existing businesses deal with questions and problems in the regulatory system. Our goal: Northeast Michigan should have a reputation as an exceptionally good place to do business.

## 7. Investment

Almost every opportunity for maintenance and growth of existing business or establishment of new business – that is, anything that will increase employment – involves significant capital expenditure. The direct injection of public funds into new ventures seems unlikely in today's economic and political environment, and violates the sensibilities of most of the residents of this area. Unlike some other areas of the state, Northeast Michigan does not have philanthropic deep

pockets on the scale of a Wege, DeVos, Van Andel, or Prince. We need to explore creative new ways of bringing investment dollars into this region.

Crowdfunding presents a new opportunity, particularly with Michigan's new laws about intrastate equity financing. We need to develop resources for doing that well, which will require some study and expertise.