

Co+operate for growth

Growing Scotland's forest industries



Why co-operate?

Co-operative business models allow small forest-based operators to pool resources and achieve scale without having to increase staffing, property or investment. They are frequently used to:

- + Grow income and reduce costs by collectively purchasing, processing and selling
- + Access new markets and tender for bigger contracts
- + Safeguard the future of the business and its employees
- + Increase productivity and innovation through employee involvement

Forest Industries is worth around £2.4bn to the Scottish economy, with the potential to grow to at least £4bn by 2020. The Scottish Forestry Strategy includes the action to realise economic potential by promoting local co-operation and clusters to secure new markets (including woodfuel/biomass energy and timber for sustainable construction) and increase the business potential of woodland related activity.¹ Achieving this will require significantly increased collaboration between the large number of small businesses that make up the industry. These are critical to the supply chain as well as other key sectors such as construction and renewable energy.

By collaborating formally through co-operative business models, operators can widen their reach, improve productivity and achieve critical economies of scale.

What are co-operatives?

Co-operative businesses are owned and controlled by their members, who may be employees, businesses or consumers. They are set up to meet shared needs and are run on a democratic basis. Employee ownership is a particular form of co-operative working in which the employees own some or all of the company's shares and influence the running of the business.

Fact:

In Sweden, around 88,000 forest owners co-operate in five regional associations organized as producers' co-operatives. The largest, Södra Skogsägarna, has a turnover of \$3.7bn and represents 50% of the privately held forest in Southern Sweden.²

“Our members are able to achieve more working together than they would on their own.”

Andrew Nicol,
DWP Harvesting

Are co-operatives an effective way of working?

A combination of shared ownership and employee participation delivers superior business performance and sustainability. Decisions are taken in the long-term interests of the members, rather than external stakeholders. Agreeing formal processes/systems at the outset minimises governance requirements. Employee owned businesses usually have traditional management structures, complemented by enhanced levels of employee engagement through employee-elected directors and forums.

How do I identify the right partners?

Co-operative businesses thrive where the members have:

- + Similar or complementary products or services which can benefit from economies of scale
- + Shared interests and values, such as ethical trading
- + Common goals, such as growing revenues or enhancing profile to win new business or secure favourable supply terms

Proven business models

Co-operative models with most relevance to forest industries are:

Co-operative consortium – a collaboration of businesses who want to buy, produce and sell more effectively, while retaining their individual brands, independence and control. Often the consortium model is used to reduce costs, share risks, access new opportunities or introduce new processes requiring scale.

Employee owned businesses – are businesses in which the employees, rather than external shareholders, hold the majority of the shares and control. Employee buyouts allow exiting business owners to receive a fair price while securing the future of the business and its employees. The business is usually acquired on behalf of the employees by an employee benefits trust. A special category of employee ownership is the **Worker co-operative** that operates on a democratic basis, often with an emphasis on sharing information and strong ethical standards.

Community co-operatives – are owned, controlled and run for the benefit of those living in an area or having a common interest. For example, community co-operatives that enable collective investment in, and ownership of, renewable energy assets such as biomass plants.

Co-operative opportunities

Research³ commissioned by Co-operative Development Scotland (CDS) highlights opportunities for the formation of new forest based co-operatives in five key areas:

Woodfuel supply – establishing co-operatives to collectively supply wood pellets and chips to the woodfuels market. Scottish Enterprise and CDS are working together to promote the formation of woodfuel producers as recognised co-operatives.

Sector marketing – forming co-operative marketing boards to promote and brand Scottish timber. Focusing on niche timber products such as hardwood could help establish a competitive advantage.

Supply chain scale – encouraging smaller firms to create subcontractor co-operatives. These would tender to supply services to main contractors, such as planting and harvesting.

Skills and training – using the collective purchasing power of consortium co-operatives to invest in skills and training that members may not have been able to afford independently.

Employee ownership – supporting the growth of existing employee owned businesses in the forestry industry and using this knowledge to help guide new employee buyouts and start-ups.

² CDS: A comparative analysis of co-operative sectors in Scotland, Finland, Sweden and Switzerland, Johnston Birchall, November 2009

³ CDS: Size and Scale of Opportunity for Co-operative Development Scotland, ekosgen, January 2010

CASE STUDY: Employee Ownership

Scottish Woodlands

Scottish Woodlands is one of the UK's biggest forest management companies. Originally established as a co-operative, it is now 90% owned by its staff and directors. The company delivers over 750,000 tonnes of timber a year into UK sawmillers, and plants more than a quarter of private sector new woodland expansion. Annual sales in 2008 grew 12% and exceeded £45m. Alongside the core business of forest management and timber harvesting, Scottish Woodlands has a growing presence in utilities, landscaping and renewable energy. It operates from a network of 16 offices throughout the UK and has 120 staff.

CASE STUDY: Employee Ownership

Tullis Russell

Tullis Russell Group is an employee owned papermaking, coating and converting company based in Markinch, Fife. It supplies 50 export markets and became majority employee owned in 1994. The transfer of ownership to staff unlocked capital for the family that had owned most of the business since 1809. Geoff Miller, Tullis Russell Group Finance Director, says: "Employee ownership gives us the opportunity to fulfil our plans and not have to react to short-term performance issues in the way that public companies do."



Fact:

In Québec, forest based co-operatives with 3,000 members generated revenues of more than \$225m in 2008 and created around 3,700 jobs.⁴

“ The co-operative model provides scope for establishing new businesses and growing existing, indigenous businesses in the Scottish forest industry. ”

ekosgen

CASE STUDY: Consortium

DWP Harvesting

DWP Harvesting is a consortium co-operative of 36 forest owners across the North and North East of Scotland from Perthshire to Morayshire. Established in 1987, the members produce 25,000 tonnes a year of wood products. These include saw logs, pallet logs, chipwood and biomass for the UK market and pulpwood for export to papermills in Sweden and Finland. The co-operative itself has no employees, but Andrew Nicol, a chartered forester, is retained as DWP's managing and marketing agent on a commission basis. He says: "Our members are able to achieve more working together than they would on their own. The benefits include economies of scale and the ability to build long-term relationships with harvesting contractors and hauliers. The co-operative also benefits our customers and suppliers because we provide continuity of supply and work."

INTERNATIONAL CASE STUDY: Consortium

Metsäliitto

Finnish producer co-operative Metsäliitto is owned by 130,000 Finnish forest owners. It is Europe's largest wood producer and has diversified into a range of paper, packaging, wood processing and biofuels markets. It turns over €8.4 billion and employs 30,000 people. Metsäliitto was established during the 1930s following land reforms which saw 51% of the country's forest area pass to individual land owners. More recently, many small forest related co-operatives have been formed to exploit the waste products of the industry, turning residues from sawmills into wood chips. These are sold to local authorities for use in heating plants.

⁴ The Québec Federation of Forestry Co-operatives

How can we help?

CDS's role is to provide specialist advice to new and growing co-operative and employee owned businesses to complement the mainstream support provided by Scottish Enterprise, Highlands & Islands Enterprise and the Business Gateway. CDS support includes:

- + Exploring the options
- + Structuring the company
- + Financing the business
- + Developing member participation

Co+operative Development Scotland operates across Scotland and is a subsidiary of Scottish Enterprise. CDS works in collaboration with SAOS, Scotland's development organisation for farmers' co-operatives.

Contact us today on 0141 951 3055

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