

WHY SLOVENIAN WOOD PRODUCTS LOST GLOBAL MARKET: ENHANCING COMPETITIVENES OF SLOVENIAN TIMBER VALUE CHAIN*

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Abstract: Slovenia has always been among the most forested countries in Europe and even today has one of the fastest growing stocks of wood (Slovenia Forest Service, 2011a). Yet, just ten years ago Slovenia was among top 15 global exporters of wooden furniture (Kaplinsky et al., 2003), while today, production of wooden furniture – the main value added wooden product – barely reaches 40% of its 2008 production level (Ministry of Agriculture, Forestry and Food of the Republic of Slovenia, 2011). Some of this downturn is clearly attributed to the decline of the construction industry due to economic crisis. However, inefficiencies in wood supply chain management as well as overly fragmented forest property, combined with inadequate market awareness or even the lack of interest by 450,000 Slovenian private forest owners, bears most of the fault. It seems that the only way to improve competitiveness of Slovenian wooden products is to encourage market cooperation not only among forest owners, but also with other links of wood products value chain in order not only to develop new wood products, but also to market the existing ones properly. Related to the supply chain side of the story, associations of small forest property owners can assist forest owners in a joint appearance on the market and facilitate access to financial means for the forestry management. A joint ownership of sawmills and other wood-products facilities can improve market access, as it establishes a direct link between a forest owner and wood products manufacture. Such integration however requires financial resources not easily available in the current financial crisis. On the other hand, by employing relationship marketing to increase relationship commitment and trust forest owners can quickly benefit in terms of reduced relationship costs. Small forest properties will need to be certified for sustainable production too, since nowadays certification is seen as a ticket to enter and stay on the global timber market. Finally, linking Slovenian wood products to a country brand as well as employing

Strokovni članek

relationship marketing along the whole distribution channel might help improve competitiveness of Slovenian timber value chain.

Keywords: Slovenia, small scale forestry, value chain, timber production

ZAKAJ JE SLOVENSKA LESNOPREDELOVALNA INDUSTRIJA IZGUBILA SVETOVNI TRG: KAKO IZBOLJŠATI KONKURENČNOST SLOVENSKE LESNOPREDELOVALNE VERIGE

Povzetek: Slovenija je ena najbolj gozdnatih držav v Evropi z izjemno hitro rastjo zaloge lesa (Zavod za gozdove Slovenije, 2011a). Še pred desetimi leti je bila tudi med največjimi globalnimi izvozniki pohištva iz lesa (Kaplinsky idr., 2003), danes pa proizvodnja pohištva, kjer se dosega največja dodana vrednost med izdelki iz lesa, komaj doseže 40 odstotkov ravni iz leta 2008 (Ministrstvo za kmetijstvo, gozdarstvo in prehrano, 2011). Nekaj krivde za ta upad je vsekakor mogoče pripisati trenutni gospodarski in finančni krizi, glavni razlogi pa so neučinkovito upravljanje dobavne verige, razdrobljena lastnina gozdnih površin, pomanjkljivo trženjsko znanje 450.000 slovenskih lastnikov zasebnih gozdnih površin in celo njihova popolna brezbržnost za trženje lesa. Za povečanje konkurenčnosti slovenskih lesnih

proizvodov je zato nujno potrebno spodbuditi sodelovanje lastnikov gozdnih površin z drugimi deležniki v lesnopredelovalni verigi, pa ne samo zato, da bi razvili nove izdelke iz lesa, ampak tudi zaradi ustrežnejšega trženja obstoječih lesnih izdelkov. Združenja malih lastnikov gozdnih površin bi tako pomagala lastnikom s skupnim nastopom na trgu, pa tudi s finančno pomočjo za upravljanje malih površin gozdov. Malim lastnikom gozdnih površin lahko dostop do trga olajša tudi skupna lastnina žag in drugih lesnopredelovalnih obratov, saj vzpostavlja neposredno povezavo med lastnikom gozda in proizvajalcem izdelkov iz lesa, vendar taka integracija zahteva velika finančna sredstva, ki so v trenutnih kriznih razmerah težko dosegljiva. Po drugi strani pa bi lahko lastniki gozdov z uporabo trženja na podlagi odnosov (angl. relationship marketing) povečali medsebojno zaupanje in zvestobo ter tako znižali stroške odnosov s preostalimi deležniki v lesnopredelovalni verigi. Prav tako bodo tudi male gozdne posesti potrebovale certifikat za trajnostno proizvodnjo, saj je ta danes nujen za obstoj na globalnem lesnopredelovalnem trgu. Nenazadnje bi prav povezava znamke države s slovenskimi izdelki iz lesa kakor tudi uporaba trženja na podlagi odnosov vzdolž celotnega distribucijskega kanala povečala konkurenčnost slovenske lesnopredelovalne verige.

Ključne besede: Slovenija, malo gozdarstvo, veriga, lesnopredelovalna proizvodnja

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1. INTRODUCTION

Although the timber industry is not a 'traditional' marketing domain, concepts like *relationship marketing*, *supply and value chain management* and *branding* hold in this setting today more than ever. Even more specifically, Brodrechtova (2008, p. 450) on the example of export marketing strategies of the Slovak timber industry highlights the lack of holistic export-oriented marketing strategies in transition markets and emphasizes a balanced importance of both, "*physical and relational resources*", to accelerate access into the timber market, along not just the entire supply chain, but also the entire value chain to final customers.

According to Elyakime & Cabanettes (2009, p. 169), who studied (domestic) marketing strategies of timber in France, the long-term oriented management of "*commercial relationships*", in particular between "*forest owners and wood industrialists*", is integral part of wood marketing. Their view directly relates to Morgan & Hunt's (1994) perspective on *long-term* and *value-adding* relationship orientation within marketing (e.g. relationship marketing), which is related not only to recent *strategic marketing* focus within supply chain management (Flint, 2004), but also to the tendencies towards a more balanced integration of logistic and marketing dimensions within supply chain management (Alvarado & Kotzab, 2001). Adding to these recent developments within the value and supply chain management's literature, Peppard & Rylander (2006, p. 128) point to the emergence of a "*network perspective*" within these fields, which have led to the transformation "*from a value chain to a value network*". This can be usefully applied when analysing the deficiencies of supply chain management and marketing strategies of highly fragmented value networks, like timber value chain in Slovenia, since poor market performance of Slovenian timber products originates at the supply side of the value chain and is further exacerbated by a lack of a holistic export marketing strategy.

This paper builds on Elyakime & Cabanettes's (2009) analysis of timber marketing strategies in the case of highly fragmented private forest estates (following Balkytė & Peleckis, 2010) and Brodrechtova's (2008) analysis of timber marketing strategies in transitional countries. In general, the paper focuses on the *value creating relationships* between forest owners and wood products manufacturers. Based on this supply chain perspective the main research proposition of this paper is that highly fragmented supply chain relationships within Slovenian timber industry is

the main cause for Slovenia's poor export performance in the international timber market and this is further exacerbated by the lack of marketing export strategy. Only by understanding deficiency of the existing supply chain can we explain why Slovenian timber industry does not have a unified and focused export marketing strategy.

This topic has been often analysed from a supply chain perspective only, however, nowadays it is unavoidable to view it in terms of network perspective as value creating relationships seems to be a corner stone of *market competitiveness*. Namely, in order for a supply chain, as defined by Menzer et al. (2001), to develop into the chain that delivers an added value to customers, every part of the chain should be strong and effectively connected to each other (Ross, 1998; Stevens, 1989; Tyndall et al. 1998; Ellram & Cooper, 1990). Especially related to forestry, Elyakime & Cabanettes (2009) point out that "*cooperation is rare [in timber industry] and the confrontation of conflicting interests is unavoidable*", which calls for "*integrated management of the marketing of timber*".

This paper is also motivated by the EU Forestry Strategy (2005); its main purpose is simultaneous improvement of global competitiveness of the European forestry and preservation of natural resources of the European Union. In order to achieve this goal, several measures are necessary, including ones aimed at increasing added value to all links in the forestry value chain and consequently improving the long-term competitiveness of wooden products.

The paper employs a *qualitative mapping approach* to the *Slovenian timber market* to identify key supply chain actors (forest owners, logging companies, sawmills and value added wood product manufacturers), their roles and goals, to determine the nature of relations among them and identify policy issues that influence their performance. The main purpose of the *timber market map* is to examine factors that have the greatest impact on the Slovenian wood-product value chain, and consequently on the competitiveness of wood products. In this regard and following Hellin et al. (2005), this paper, therefore, analyses *timber value chain* and the *environment* (e.g. infrastructure, institutions, policies, processes etc.), in which this value chain operates and is therefore integral part of such a market map. The paper pays special attention to connections between small forest property owners and logging companies (usually "forest concessionaires"), as this causes most concern when implement-

ing value creating relationship and consequently impacts competitiveness of the Slovenian forestry and related industries (see Ministry of Agriculture, Forestry and Food of the Republic of Slovenia, 2010; Chamber of Agriculture and Forestry of Slovenia, 2011; Slovenian Forest Service, 2011b; Schmithüsen & Hirsch, 2010).

This paper is mainly aimed at finding important implications for the marketing theory and practice based on the Slovenian timber industry, which is non-competitive on the global wood products' market despite the country's enormous natural resources of wood. Furthermore, its conclusions may not only stimulate a long-overdue research interest of marketers for this industry, but also help solve the following dilemma: *why Slovenia has not been able to adequately capitalize on its huge timber (export market) potential.*

The remainder of the paper is organized as follows. Section 2 gives a general overview of the environment, in which the Slovenian timber value chain operates. It briefly discusses Slovenian forests, their management and basic economic indicators of Slovenian forestry and wood products industries. Section 3 focuses on the Slovenian timber value chain, with particular emphasis on major market actors (private forest owners and forest concessionaires), and the nature of relations between them. Creating value added re-

lationships is a key to competitiveness, therefore, section 4 offers suggestions how to use relationship marketing to boost the value creating relationship not only between small forest property owners and timber buyers, but also among small forest owners themselves, and it proposes the use of country brand to improve the competitiveness on foreign markets. Section 5 is a summary of our conclusions.

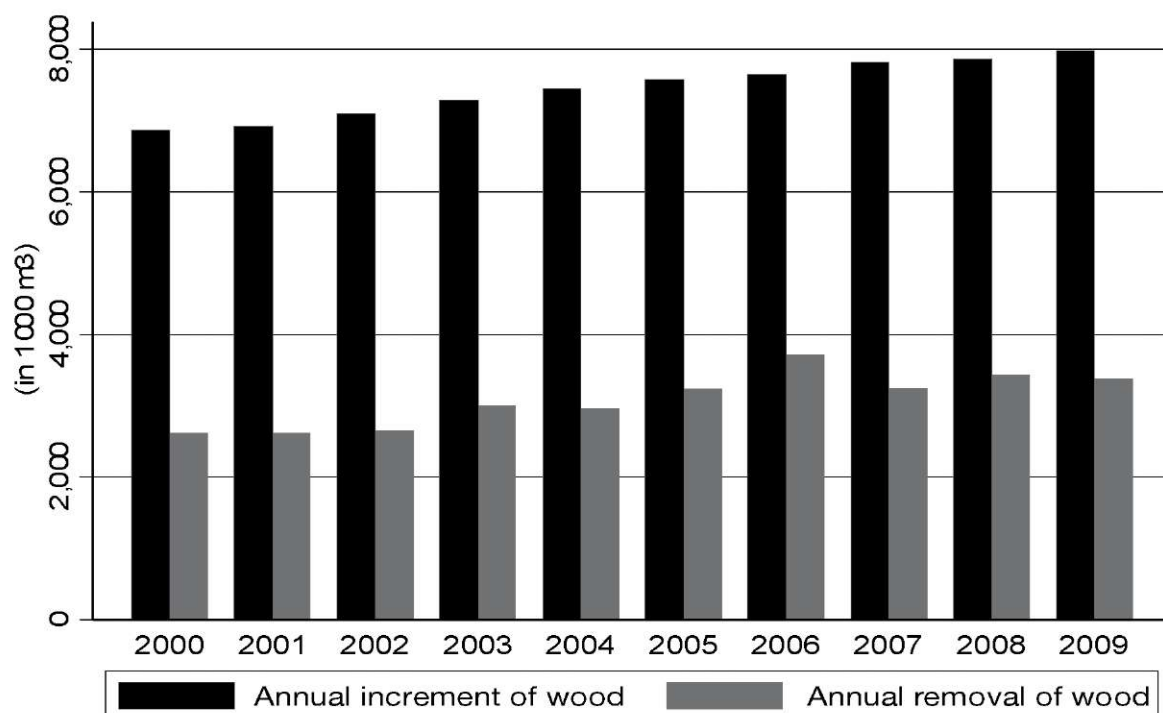
2. THE ENVIRONMENT OF SLOVENIAN TIMBER VALUE CHAIN

2.1 SLOVENIAN FORESTS AS A NATURAL RESOURCE FOR TIMBER INDUSTRY

Slovenia is, after Finland and Sweden, the third most densely forested country in Europe; almost 60 per cent (1,185,145 ha) of its entire territory is covered with forests (Slovenia Forest Service, 2011a).

In order to protect ecosystems and biodiversity Slovenia encourages "close-to-nature" forestry, thus approximately 90 per cent of Slovenian forests regenerate naturally (European average is 40%), the rest is regenerated by planting and seeding (MCPFE, 2007). As a result, Slovenia is dominated by mixed forests: 70 per cent of forests are covered with beech, fir-beech and beech-oak, which have a high production and market

Figure 1: Slovenian wood increment compared to wood extraction from 2000 until 2009



Data source: Slovenia Forest Service (2010).

capacity and can be used as a source for a wide variety of wood products¹.

With over 270 m³ of wood per hectare of forest (Gale, Lešić & Kutin Slatnar, 2011) Slovenia also has one of the fastest growing stocks of wood in Europe, preceded only by Austria, Switzerland, Luxemburg and the Czech Republic. A main cause for this growth can be attributed to the fact that annual wood increment in Slovenian forests goes far beyond annual wood removal as indicated in Figure 1. Mirko Medved, director of the Slovenian Forestry Institute, warns how long-standing insufficient timber extraction leads to forest aging (Šoštarčič, 2011), which yet again reduces forest productivity and timber value (Murty, McMurtrie & Ryan, 1996).

2.2 SLOVENIA'S FORESTS MANAGEMENT

Almost 75 per cent of Slovenian forests are privately owned, the remainder are public and owned by the state and local communities (Slovenia Forest Service, 2011a). Austria, France, Sweden and Norway have a similar share of private forests (Schmithüsen & Hirsch, 2010). However, Slovenia is different in terms of the size of average private forest property. Due to more than 450,000 private forest owners more than 40 per cent of Slovenian forest properties are smaller than 6 ha, usually split in different locations (Schmithüsen & Hirsch, 2010), which precludes cost efficient production and marketing of timber on the individual private forest property basis. Not surprisingly, only public forests (roughly 25 per cent of all forests) are considered to be systematically managed (e.g. maintained and utilized).

Slovenia public forests' management is based on a strict separation of collective and commercial activities (Matjašič, 2006). Collective activities are carried out by publicly financed Slovenia Forest Service – SFS (*Zavod za gozdove Slovenije*). Commercial activities are carried out by forestry companies, which have acquired forest concessions (so called "forest concessionaires"). Therefore, in Slovenia three actors are involved in public forest management (Matjašič, 2006):

- Farmland and Forest Fund of the Republic of Slovenia (*Sklad kmetijskih zemljišč in gozdov Republike Slovenije*) manages publicly owned farmland, farms and forests.
- Slovenia Forest Service is responsible for sustainable management of Slovenian forests regardless of their ownership.
- Forest concessionaires carry out forestry work

¹ For an overview of commercial usability of each wood type see Wiemann (2010).

in public and privately owned forests (in agreement with private owners only).

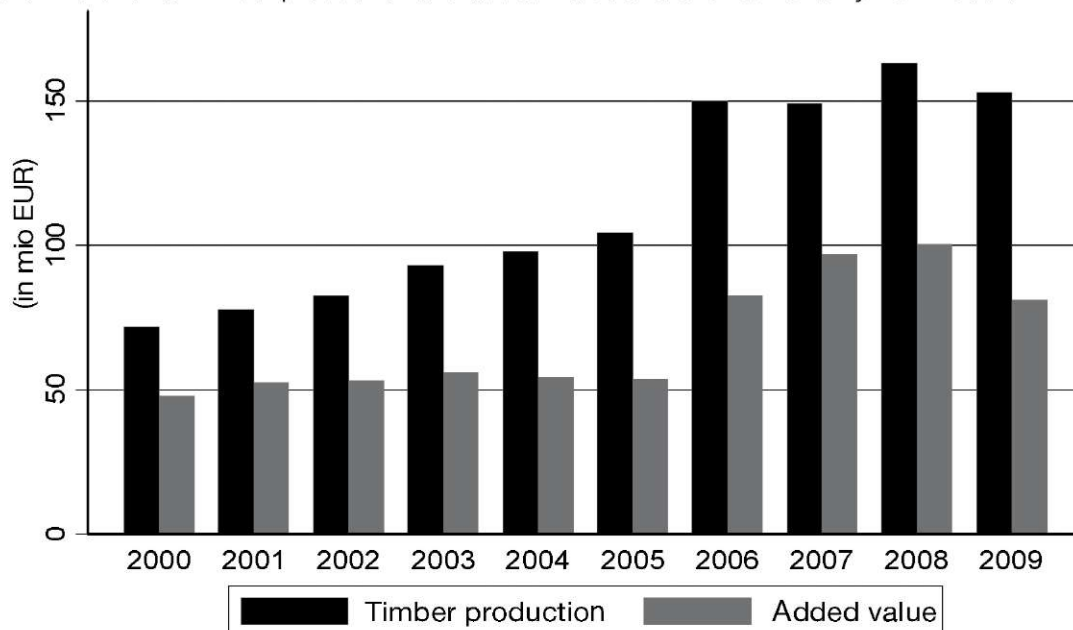
Slovenia started granting concessions for public forests' management in 1996. A concession, awarded without public tender by Farmland and Forest Fund of the Republic of Slovenia on behalf of the state to forest companies for 20 years, includes logging and harvesting of timber, timber sales, restoration, conservation and silvicultural work, as well as the construction and maintenance of the forest infrastructure (National Farm Land and Forest Fund Act, article 10a). A concessionaire may only be an individual or a legal entity that is registered to practice forestry in Slovenia (National Farm Land and Forest Fund Act, Article 2). The concessionaire exploits public forest according to the annual program set by Farmland and Forest Fund of the Republic of Slovenia.

Forest concessionaire's overall financial performance is therefore determined by a concession fee for use of public forests (prescribed by National Farm Land and Forest Fund Act, Article 10a), standard costs of public forest exploitation (defined by Ministry of Agriculture, Forestry and Food), its technical and cost efficiency (Li, 2006) and revenue generated from other non-regulated activities, including logging in private forests. According to Kavčič & Slapničar (2008), the majority of forest concessionaires generate more than 60 per cent of revenue from other activities (data for 2005); therefore their financial performance may be closely related to added value generated by logging in private forests.

In 2009, the cut in Slovenian forests amounted to 3,374,191 m³ (a decline of 1.6 per cent compared to 2008): 1,853,772 m³ coniferous and 1,520,419 m³ deciduous trees (Slovenia Forest Service, 2010). The cut in public forests was carried out according to forest management plans; however cut in private forests fell well behind, hence the total cut in 2008 fell 34 per cent short of plans. In 2009 (as in 2008), logging was carried out by over 70 forest companies, however majority of work was done by 14 forest concessionaires (AJ PES database, 2010). Overall financial performance of concessionaires is the key to success of Slovenian forestry in both, the economic and ecological terms.

2.3 ECONOMIC INDICATORS OF SLOVENIAN FORESTRY AND WOOD PRODUCTS INDUSTRIES

Given the high volume and quality of Slovenian forests, Slovenian forestry and wood products industries should be a vital driver of Slovenian economy, although vast majority of logging is

Figure 2: Slovenian timber production and added value of Slovenian forestry from 2000 until 2009

Data source: Statistical office of the Republic of Slovenia (2011a).

done in public forests (less than 25 per cent of all forests). However, contribution of forestry to Slovenia's gross national product is barely around 0.2 per cent, same as in neighbouring Croatia, which has half as much forests (The World Bank, 2010). Moreover, as Figure 2 indicates, even though wood removal remained at the approximately same level from 2007 until 2009, added value of Slovenian forestry declined heavily. Given the fact the number of the employees decreased by more than 10 per cent during the same period (Statistical Office of the Republic of Slovenia, 2011a), the decline in added value is directly attributed to lost value in the eyes of a timber customer.

Certainly, part of the problems of Slovenian forestry can be attributed to current economic crisis. Yet, Figure 2 shows how growth of added value in Slovenian forestry severely dropped in 2009, when Slovenian construction industry was still reasonably active². Since 2010 performance of the wood processing industry was negative again and Slovenian furniture manufacturers' profits dropped too, it is not surprising that Ministry of Agriculture, Forestry and Food of Republic of Slovenia (2011) finds that Slovenian forestry and forestry-related industries are still in deep crisis.

Despite of huge stock of wood and the urgency to increase logging to preserve quality of wood, timber customers are frequently rejected in Slovenia. Anica Zavrl Bogataj, director of the Forestry,

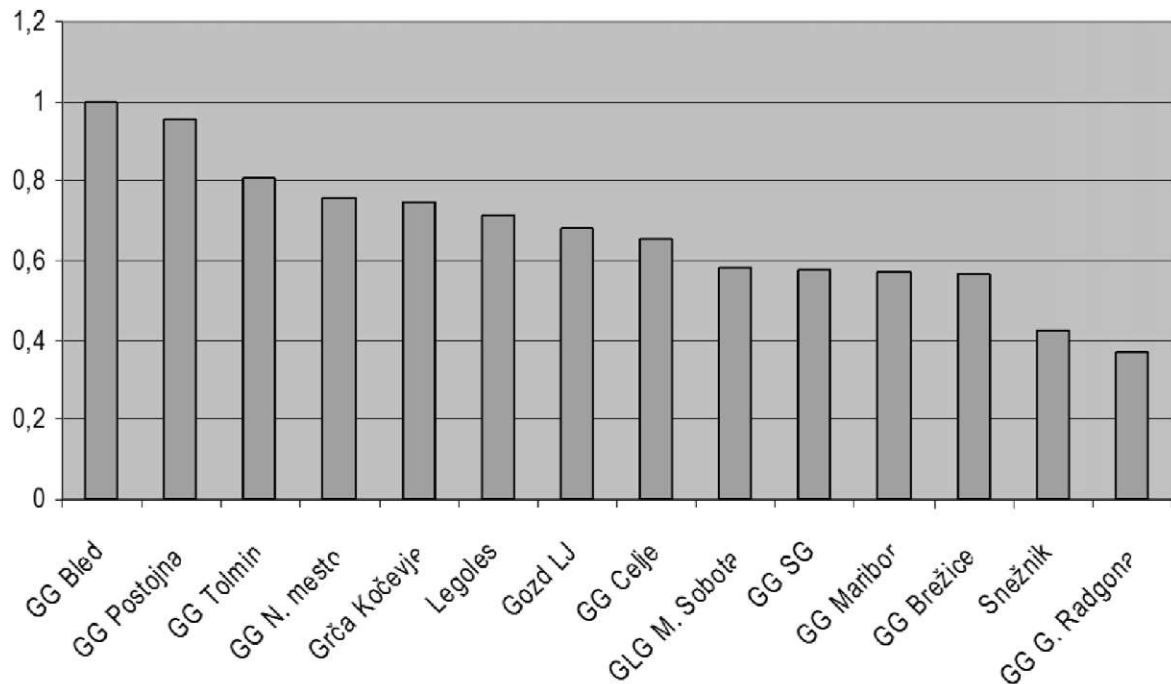
Hunting and Fishing Directorate within Slovenian Ministry of Agriculture, Forestry and Food, points out a case of IKEA-Austria; the company was willing to invest in Slovenian timber industry "if Slovenia can provide at least several hundred thousand cubic meters of wood per year" (Šoštarčič, 2011). Regrettably, as noted by Zavrl Bogataj, Slovenia is currently unable to comply with such requests due to "discontinuities in wood-products production chain" (Šoštarčič, 2011).

Nevertheless, Slovenian timber exports are increasing: 26 per cent of round wood was exported in 2009 (Statistical Office of the Republic of Slovenia, 2011a). Majority of exports go to Austria and Italy due to their higher purchase prices compared to domestic market (Kmetijski inštitut Slovenije, 2011). Austria has regionally highly competitive sawmill industry with large and modern sawmills, which enables them to offer higher purchase prices. Exports to Austria follow timber price growth: since 2004, when export was negligible, the share of exported round wood grew to 17.2 per cent of Slovenian annual wood harvest in 2009 (Piškur, 2010). Current financial crisis may be another reason for export to Austria: namely, Austrian buyers are more regular payers compared to domestic buyers.

3. THE SLOVENIAN TIMBER VALUE CHAIN

The flow of various wood products can be plotted as a modified Porter's value chain (1985). Figure 3 gives an insight into the flow of Slovenian wood

² For detailed data on added value in Slovenian construction see Statistical Office of the Republic of Slovenia (2011a).

Figure 4: Relative cost efficiency of Slovenian concessionaires

Source: Mörec & Jeromel, 2011.

Note: vertical axis indicates a relative degree of cost efficiency: in the analysis most cost efficient concessionaire has a cost efficiency of 1; efficiency of others is shown in relation to the most cost efficient concessionaire.

of small forestry harvesting equipment is today commercially available³. According to the Chamber of Agriculture and Forestry of Slovenia (2011), the return on Slovenian private forests is continually deteriorating and the consequences are (and will be) felt not only by the owners and wood processing companies, but also by residents as well as, since properly managed forests improve ecological function.

Lack of optimal utilization of small forest properties already has its consequences: in 2009, logging in private forests fell well behind plans (Slovenia forest Service, 2010). One reason is obvious: small forest owners are not interested in an economic activity, since removal of small quantities of logs is not profitable or can even cause loss (costs of removal frequently exceeds a log's selling price). In addition, 75 per cent of Slovenian small forest owners (compared to 33 per cent in Austria (Weiss et al., 2006)) are not employed in agriculture or forestry and are therefore not economically dependent on forest (Schmithüsen & Hirsch, 2010). Consequently they might not even be interested in entering the wood market, since forests represent only a small fraction of their assets. And even if they wish to enter the market,

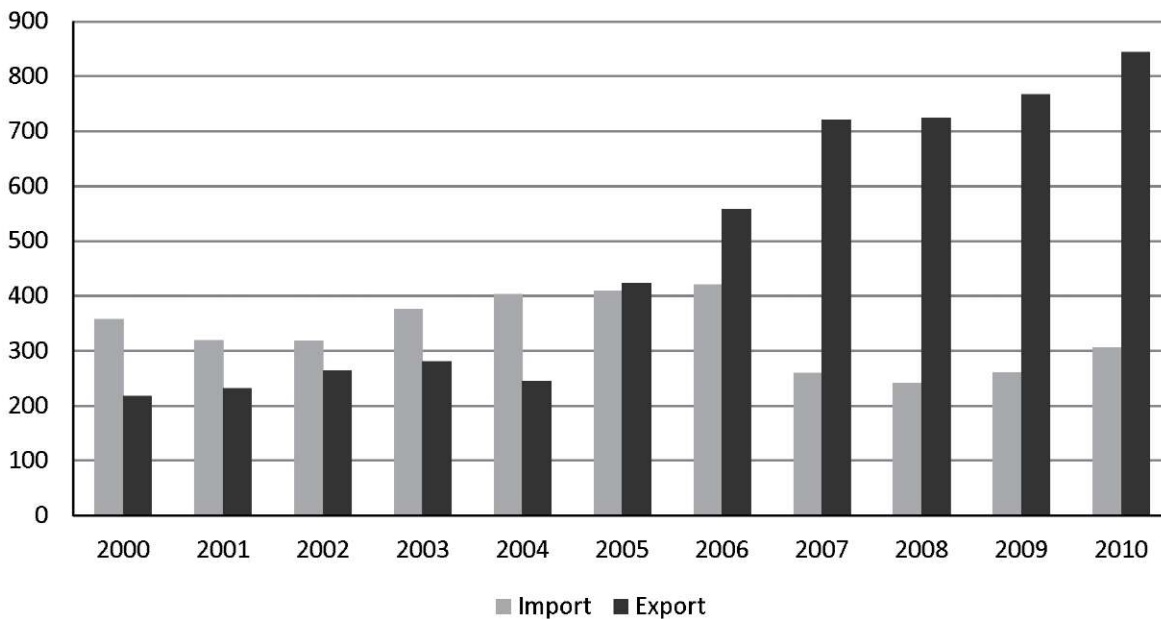
they have inadequate market information and therefore miss many business opportunities.

Excluding small forest owners from the wood market leads to undesired consequences for wood buyers: lower supply of wood means less choice of wood at higher prices, since important part of high quality wood never comes to the market.

3.2 FOREST CONCESSIONAIRES AS LOGGING COMPANIES AND SAWMILL OPERATORS

In Slovenia, logging is carried out by over 70 forest companies (AJ PES database, 2010). However the majority of forest work is performed only by 14 companies with a concession for public forest management (forest concessionaires). Their primary responsibility is to perform logging on public and private forest properties. Additionally, they have to meet the annual plan for cultivation works in public forests and forest infrastructure maintenance set by Slovenian Forest Service. The plan is more comprehensive for concessionaires who cover greater area of public forests or areas, which require large scale restoration after natural disasters (fire, heavy wind or snow). Not surprisingly, forest concessionaires covering terrain with low share of forestation (like GG Gornja Radgona) or rugged terrain (like Snežnik) are cost inefficient (see Figure 4) and consequen-

³ Among others, Slovenian producer of forestry equipment »Tajfun«, one of the biggest producers of forestry equipment in the world, has a special line for small forestry harvesting equipment (see www.tajfun.com).

Figure 5: Slovenian export-import timber flows in the period from 2000 until 2010 (in 1000s m³)

Data source: Statistical Office of the Republic of Slovenia (2011a).

tly less competitive on the timber market (Mörec & Jeromel, 2011). Namely, Slovenian Ministry of Agriculture, Forestry and Food, who set standard costs of forest exploitation, does not take into account differences in quality of forests and difficulty of terrain. As these costs are part of concession fee calculation, they negatively affect concessionaire's overall financial performance. To increase efficiency and consequently competitiveness of the concessionaires it would be reasonable to consider reducing a number of concessions and increase the area, covered by one concession.

According to Ministry of Agriculture, Forestry and Food of the Republic of Slovenia (2011), in 2010 purchase prices for conifer logs (from private forest owners) were 25 per cent lower compared to the prices offered by foreign buyers, mostly from Austria and Italy (€61/m³ compared to €83/m³). As a result export of wood has been rising ever since 2004 and has been particularly high the last four years (see Figure 5).

On the top of it and precisely because of a favourable selling price offered by foreign timber buyers, the use of timber in Slovenia has been sharply decreasing since 2007. Consequently, share of exports of wooden furniture (high value added products) in total export of Slovenia decreased by more than half in the period from 2000 to 2010 (Statistical Office of the Republic of Slovenia, 2011b). The reason is that Slovenian logs are leaving Slovenian supply chain when they should be sawn at Slovenian sawmills. Namely, Slove-

nian sawmills (major ones are again in operation by forest concessionaires) cannot offer a competitive price to private forest owner, because of inefficiencies within their operations, arising from both, improper determination of public forest management costs (calculated as fee calculation) and lack of economy of scale due to an overly fragmented sawmill capacity. Thus in 2010 all Slovenian sawmills produced only 0.7 million m³ of lumber (Ministry of Agriculture, Forestry and Food of the Republic of Slovenia, 2011). During the same year, Austria – the fifth biggest exporter of lumber (sawn wood) in the world – produced 9.6 million m³ of lumber, of which 65 per cent was produced by Austrian eight biggest sawmills (Federal Ministry of Agriculture, Forestry, Environment and Water Management Forestry Department of Austria, 2011). To fill such enormous capacities (and also because they can afford it due to economies of scale), Austrian sawmills offer premiums on large quantities and for speedy delivery of logs. It is no surprise that Ministry of Agriculture, Forestry and Food of Republic of Slovenia (2011) estimate that export of Slovenian timber will further increase and that production of lumber will continue to decline in Slovenia.

4. VALUE CREATING RELATIONSHIP AS A MARKETING STRATEGY

Even though relations among buyers and sellers are generally viewed in economic terms, commitment and trust are becoming increasingly important particularly in industrial relationships. As Berhäll (2004) points out, if a common marketing

objective is how to differentiate one product from another, in forestry “*familiarity and easiness of approaching the round-wood buyer seems to provide the clues to beneficial long-term outcomes*”. Specifically in the environment with prevailing small scale forestry, *value-chain constellations* (Poirier & Reiter, 1996), networks of business entities, who are sharing resources and knowledge in order to be more competitive on target market, seems to be increasingly important for business success (Schmithüsen & Hirsch, 2010; Šoštarič, 2011).

Relations between small forest property owners and logging companies (mostly operated by forest concessionaires) seem to cause most concern. A main reason is that small forest property owners lack motivation for participating on the timber market. An obvious solution to this problem could be property consolidation or reduction of ownership rights. However, Mirko Medved, director of Slovenia Forestry Institute, has already rejected this option (Šoštarič, 2011).

On the other hand, studies have shown the log’s selling price is the main driver in motivating forest owners, regardless of estate size (Weiss et al., 2010). Considering current conditions in Austria, potential additional wood supply boosted by higher offered price will most likely flow to Austrian buyers. This can be prevented only if domestic sawmills offer an even higher price or if they offer value in some other form, not necessarily in the form of higher purchase price. Whereas latter requires vastly improved efficiency of domestic sawmills, this pricing strategy does not seem very likely to happen in the near future. Since Slovenian sawmills are extremely small compared to Austrian ones, they will need to integrate horizontally to achieve economies of scale in order to improve their cost efficiency and consequently be able to offer a more competitive price to forest owners.

However, a connection between private forest owners and forest concessionaires could be established also by a joint ownership of sawmills and other wood product facilities. Slovenian forest concessionaires are providing services for small forest owners too and for this purpose they use large scale equipment. Schmithüsen & Hirsch (2010) suggest small forest property owners to enter into the joint ownership of large scale facilities and thus benefit from economies scale. Additionally, joint ownership of sawmills and other wood product facilities can improve market access as it establishes a direct link between forest owners, timber and lumber production. Given that economic crisis has severely affected Slovenian forestry, this solution is a great opportunity to

acquire an abandoned production facility in a less costly manner. Such a project, however, is still not feasible without substantial external funding.

Because there is not enough funds to carry out vertical integration, the only solution is to increase commitment and trust (e.g. the “*degree to which the person involved [in the business relationship] feel emotionally secure*”; Berghäll, 2004) among trading partners (forest owners and sawmills) by employing *relationship marketing*. According to Dwyer and Tanner (2002) trust leads to relationship commitment and is therefore directly related to competitive advantage (Ratnasingam & Pavlou, 2003). Since Slovenian sawmills cannot afford, because of cost inefficiency, to offer more competitive (higher) prices to forest owners, they should offer them benefits in terms of reduced *relationship costs* (e.g. reduced impression of unfair treatment by a buyer (sawmill) or reduced complexity of interaction to a sawmill).

Slovenia could also follow the Austrian example by encouraging cooperation between forest owners within associations of small forest property owners. Such associations can assist small forest owners in joint appearance on the market and facilitate access to financial means for management. The study on Austrian forest owners shows that such associations are of particular importance to those small scale forest owners with no agricultural background (Weiss et al., 2010). Since 75 per cent of Slovenian small forest owners are not employed in agriculture or forestry, those associations can be a valuable source of forestry, including marketing knowledge. Furthermore, the Austrian example shows forest owners associations can negotiate selling prices, which are normally (to an individual forest owner) considered as set.

However, perceived value in the eyes of a customer is not only added by market price reduction, but by responding to customer needs, too. For example, Kaplinsky et al. (2003) found buyers of wood products are increasingly focused on quality (ISO9000), labour (SA8000) and environmental standards. Some customers – especially in the UK, Germany, and Switzerland (Ministry of Agriculture, Forestry and Food of the Republic of Slovenia, 2011) – already require certification wood products are produced in sustainable manner. In Slovenia, only public forests are certified to be sustainably managed (Širca, 2009). Namely, certification is too expensive for small forest property owners. Puškur (in Širca, 2009) notes the certificate is a prerequisite to enter and remain on the market. As requirements for certified

wood have also expanded into public procurements, small forests will probably need certification as well. Small forest owners associations could be seen as a means of achieving economies of scale in the process of certification.

This certification process may also be systematically linked to the country brand "I Feel Slovenia", since it aligns with a country brand's mission "*going forward with nature*" (Republic of Slovenia Government Communication Office, 2011). The essence of the brand of Slovenia are forests: according to Government Communication Office (2011), the brand resembles feeling of Slovenia "*through the smell of the forest, the rushing of a creek, the fresh taste of water and the softness of wood*"⁴. Following De Chernatony & Virgo (2006) country brand design model, it should be wise to align the brand of Slovenia not only with marketing of tourist products, but also with Slovenian wood products. This alignment would not only be particularly fruitful for Slovenian forestry, but it could also be beneficial to the Slovenian tourist industry, as wooden products can act as a promotional tool.

However, Slovenian timber value chain doesn't exist without high value added wood products. Many believe Slovenia needs new high value added wooden products to improve competitiveness on foreign markets and consequently save Slovenian wood value chain. This is definitely true, nonetheless, frequently high value added products with high market potential already exist, but are not positioned or promoted properly. For example, new EU Directive on energy performance of buildings no. 2010/31/EU is an additional market opportunity for wooden houses, since they commonly meet new low energy requirements. Slovenian wood product industry should take advantage of this regulation change and of the green country brand, especially because almost half of eco-conscious buyers nowadays prefer wooden houses (Ministry of Agriculture, Forestry and Food of the Republic of Slovenia, 2011) and Slovenian wood is truly sustainably produced.

Studies on impact of specially designed export marketing strategies on a firm's overall performance give mixed results (e.g. Thirkell and Dau (1998) found evidence that an export marketing strategy affects a firm's export performance, whereas Julian (2003) could not find any direct influence). Nonetheless, this strategy is particularly important for Slovenian high value added wood products industry as it is heavily dependent on

4 For detailed description of the country brand development see Konečnik-Ruzzier & De Chernatony (2012).

foreign markets. Since Slovenian wood products (lumber and furniture) cannot be competitive in terms of prices due to higher production costs, employing relationship marketing along the whole distribution channel (as suggested by Brodrechtova, 2008), linking Slovenian wood products to the country brand, utilisation of certification as a proof of sustainable production as well as proper placement and promotion of existing wooden products could improve competitiveness of the Slovenian wood products in foreign markets.

5. CONCLUSION

Slovenian forestry prospects do not paint a rosy picture. Added value of Slovenian forests is declining. Despite of one of the fastest growing stocks of wood in Europe, timber buyers are frequently rejected. Long-standing insufficient timber removal leads to forest aging, which yet again reduces forest productivity and timber value.

High quality stock of wood is clearly important, however, Slovenian forestry is a sad case of an industry in decline due to broken links in a timber value chain: discontinuities of small forest property owners to the logging companies (forest concessionaires). Required economies of scale to justify investment in forest equipment and lack of motivation and knowledge by small forest property owners seem to be the biggest hurdle to efficiently participate on the timber market.

As property consolidation and reduction of ownership rights are not acceptable in Slovenia, cooperation between small forest property owners is a key to an improved timber value chain. An association of small forest property owners could enhance timber removal efficiency by providing cheaper access to forestry equipment and enhance bargaining power on the timber market. As a result, a leaner value chain could benefit small forest property owners in a form of higher profitability of their assets. A good example is neighbouring Austria, where small forest property owners have increased their bargaining power (and prices) through close cooperative networks.

Although final returns on forest property depend on management of every individual forest owner, a leaner wood product value chain, better utilisation of country brand as well as proper promotion of existing high value wood products could improve competitiveness of the entire Slovenian forestry, increase its added value and facilitate preservation of natural resources, just as the EU forest strategy (2005) requires. The only question is, whether Slovenian small forest property owners have become too small to even care.

All these internal issues do not only hinder profitability and effectiveness of the Slovenian timber industry as a whole, but also mirror themselves in inefficient export marketing strategies of the Slovenian timber industry. While this has manifested itself in an increasing number of small forest owners selling their timber to higher Austrian bidders (which consequently collect high margins on selling Slovenian timber to foreign markets), the issue of a more efficient value chain or network management reflects itself not only in purchase prices, but in all elements of the international marketing mix, which could increase the bargaining power of the small Slovenian forest owner and enable the whole industry to capitalize on this huge international market potential.

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