Diversifying after the downturn

Veteran Alberta logging contractor Herman Derksen—having survived the downturn and made some investments in new logging equipment—is thinking diversification is part of the path to maintaining a sustainable business.

By Tony Kryzanowski

Northwest Harvesting owner Herman Derksen has learned from experience that finding—and keeping—quality equipment operators is the difference between making it or breaking it in today’s logging environment, with its tight profit margins.

Speaking about logging today vs. when he first started out as a logging contractor in northern Alberta in 1998, he says: “Fuel, expenses and employee wages are way higher, so the potential for failure is way higher. Your operators and your production are so key. Now, if you don’t have exceptional guys in all your machines, you’re not going to survive.”

Derksen, who compensates his employees based on their production, says it’s sad to have to operate that way, but that’s the reality based on the way he’s being paid. “The rates are not set up for you to be training people,” he says.

The challenge, particularly in the Slave Lake area of northern Alberta, where motel rooms are filled with men and women working in the oil patch, is to find those loyal and productive operators.

Northwest Harvesting is a stump-to-dump contractor that logs eight months a year, but hauls timber nearly year round. They are based in the community of Canyon Creek, on the south shore of Lesser Slave Lake, about 30 kilometres northwest of the town of Slave Lake. They now produce a total of about 330,000 cubic metres annually, which is the most volume the company has ever produced. About 230,000 cubic metres of that is for the Alberta Plywood plant, owned by West Fraser Timber, and Derksen recently took a 100,000 cubic metre contract with Tolko Forest Industries to supply its re-commissioned oriented strandboard (OSB) plant. Both the plywood plant and OSB plant are located about 10 kilometres east of Slave Lake.

The company’s wood diet is about 50/50 softwood/hardwood, with the average log diameter in the 16” to 40” range. It is handling fairly large diameter timber by Alberta standards because it is supplying a high volume of peeler logs to the plywood plant. Typically, their logging occurs about an hour from Slave Lake, with employees living in camp.

The geography they log in varies from rolling terrain to steep slopes in areas like Swan Hills. The ground also has a fair amount of muskeg, which means that a good frost is critical for them to access all their areas. Otherwise, they must sometimes log by taking a lighter footprint approach. Also, because of softer ground conditions, they are sometimes required to log those areas within very tight timelines. And they find that they are having to log farther away from home because of the growing scarcity of peeler logs.

“It’s kind of a double-edged sword, because if you want to work in good wood, you have to go further back,” says Derksen. “You may make more money back here because the wood is better, but your timeframe is also shorter. So you have to make sure that you are making hay when the sun shines.”
They tend to harvest more hardwood in summer in areas with more solid ground cover.

When it comes to finding the right employees, Derksen is not averse to searching far afield. For example, one of his skidder operators, 69-year-old Ellie Venn, has been coming from Quebec to work for Derksen since 2005. Derksen describes him as one of the hardest working and productive skidder operators he has ever seen. His grader operator makes the trip north from Mexico, and all told, he has about eight Mexican employees with connections to the Mennonite community.

“I have a very exceptional team of workers, and I am very proud of that group,” Derksen says. “That means everything in this business.”

Derksen knows how to measure production because he has spent considerable time operating equipment himself, beginning as a 15-year-old working for others, and then at various times throughout the ups and downs of the forest industry since he stepped out on his own.

In terms of volume, Northwest Harvesting has experienced considerable growth, starting out with only an annual 30,000 cubic metre cut and now harvesting more than 10 times that amount. Despite taking on that extra volume, it took considerable effort on the company’s part to survive the recent industry downturn resulting from the housing collapse in the United States. And as Derksen explains, it’s a struggle to try to make a profit from what forest companies have been offering for contract rates. But at least he has continued to work while others have been forced to shut down. The main reasons, he says, are that he had lower debt when the downturn hit hard and he was working as a contractor for a plywood plant, and not a sawmill producing dimension lumber.

“We went from a crew of 13 to a crew of six and I got into a machine myself for a couple of years,” he says, speaking of the impact the downturn had on the company. “We didn’t buy anything, and maintained low debt levels. We cut all the chaff. Having exceptional people is the only way you are going to survive a downturn. Average just ain’t going to cut it at a time like that.”

Having experienced employees also paid dividends in other ways, particularly because the company was operating older equipment. These veteran operators have a good feel for how the equipment performs, and when it might need some preventative maintenance. They also know how to handle the equipment to avoid mishaps, and what to do if a breakdown occurs.

The company reduced its volume to about 90,000 cubic metres during the downturn, but slowly built it back up, hiring the occasional quality employee along the way, and also learning how to operate as efficiently as possible with the tools at hand. They now have 28 employees to deliver their 330,000 cubic metres.

Among the challenges during the downturn was dealing with a lack of logging trucks because no one could afford to operate them. The lack of trucks resulted in wood being stockpiled in a satellite yard, since there weren’t enough logging trucks available to deliver them to the mill on a more timely basis. Since Northwest Harvesting owned six trucks of its own, and because there were so few contract logging trucks available for hire, it meant that their trucks could now operate year round and make money. Its log haul division is managed by Herman’s brother, Abe.
Northwest Harvesting logs both cut-to-length (CTL) and tree length logs. On a typical block, they will have about five softwood sorts, and a single hardwood sort. The desire to find quality peelers logs within the softwood pile, more than anything else, determines their softwood sorts.

With the opportunity to harvest more volume, Northwest Harvesting has purchased a considerable amount of new equipment recently. To harvest their logs, the company has a Tigercat 870C feller buncher, a Tigercat 860C feller buncher, and a Tigercat 845C feller buncher. To skid logs, they have two Tigercat 630D skidders, and one John Deere 748 GIII skidder.

To process logs, they use a Tigercat H855C carrier with a Waratah 624 processing head, as well as Caterpillar 325C and Caterpillar 325D carriers equipped with the same processing head.

To load logs, they use a Komatsu 270 loader, a John Deere 2554 loader, as well as a Hitachi 250 loader. Their truck fleet consists of six Kenworth trucks. Three have tri-drive axles.

The predominance of Tigercat equipment among his production machines is no accident as Derksen says they deliver the tonnes per hour that he needs. In addition to productive workers, it also takes the best tools available to help achieve the production targets necessary to maintain profitability. He has operated a variety of equipment brands over the years.

“The Tigercat’s cost per tonne of production delivered is better than anything else, in my opinion,” says Derksen.

Other factors that he considers in a purchasing decision are operator comfort and equipment uptime, since both of these considerations have a direct impact on production.

He feels that the timing was good to expand his fleet and take on more volume, based on what he sees happening primarily in the American housing market.

“My confidence in the forest industry has definitely gone up,” says Derksen. “I think there is pent-up demand in the U.S. I don’t think you could hold that market back now even if you wanted to—it has been held back so long, it is bursting.”

For that reason, he feels “a lot more comfortable” expanding his own operations and taking on more volume. Also, as a bigger contractor, Derksen believes this gives him a bit more negotiating power when it comes to discussing rates.

“As long as the business is profitable, I feel that I’ll be logging for a long time. But my goal is to build a sustainable business,” says Derksen, “a business that can run on its own, allowing me time to expand and diversify.”