

Value Change along the Timber Marketing Channel In Bangladesh

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Abstract

Timber marketing channel is a route of distribution through which the timber moves from the producer to the consumer or user. There are six levels of business units which constitute the marketing channel of timber in Bangladesh. Functional differential of each level and business operational cost are the two major factors for value addition along the timber marketing channel. Though there has been always an increase in product price at each level, the increment has not been uniform, rather unevenly distribute along the channel. The value addition is higher at the beginning and end of the marketing channel in relation to other intermediate levels. Again timber price is varied species to species depending on the quality of timber. Teak price has been the highest in timber market in Bangladesh. This study will provide an identification and in-depth analysis of timber marketing channel prevailing in Bangladesh.

Key Words: Marketing channel, Value change, Timber

Introduction

Forestry has been a major contributor to the National economy of Bangladesh. Timber, the major product from Bangladeshi forestry sector, is enjoying a major share in peoples' day to day use. National state forests, the village homestead forests and plantations are the sources of timber production in Bangladesh. Due to depletion of forest land, the supply of timber has been decreasing to the market whereas the demand for timber is increasing with the growth of population and economy. Composite materials are substituted for the wooden furniture in the market, although timber is being preferred for furniture, paneling and constructional purposes. This scenario of decreasing trend of supply is affecting the market price of timber and hence resulted in sharp increase in of price. Like other marketable goods timber also follows a path consisting of different enterprises or businesses before reaching the final consumer. In most of the developed country this marketing channel has been studied thoroughly to ensure better market governance. In case of timber marketing no thorough study on marketing channel and changes of value along the channel for Bangladesh has been conducted until today in Bangladesh.

Objectives

- Identification timber marketing channel in Bangladesh
- Identification of value change along the identified marketing channel of major timber species.
- Analysis of value change of major timber species

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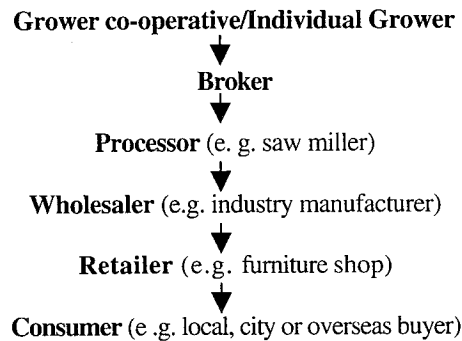
Theoretical Framework

Marketing of forest products and services is not identical with that of products from other business as Immobility of standing forest and bulky commodities are the peculiarities of forest production making the marketing of forest goods and services of special interest and quite distinct from other productive endeavors (FAO, 1989). After harvesting, timber goes through number business units along the marketing channel to reach the final consumer. Along this channel the unit price of timber changes due to several reasons at every level. Marketing channel is a route of distribution through which the commodities move from the producer to the consumer or user. All expenses incurred in necessary processing, transportation, handling, storage, tax, insurance, sales promotion, advertising etc., at all levels in the process of marketing have always made an impact on the product price. Again at each level of marketing channel this costs and a profit margin have been added to price for each unit of product which interns increases the product's prices at the end of the chain. Hence the value of the product has increased by the time it reaches the final consumer. This value adding chain is a complex process that takes into account raw resource, environmental issues, timber drying, processing, manufacturing, design and marketing (Herk, 2001; Blackman, 1979).

Adding value to timber by processing it after sawing and standard drying is one means for the timber business to increase market shares in competition with other materials, e.g. glass, steel, concrete, aluminium, and plastics (Cohen, 1992). Important dimensions of value adding processes are: extra drying and production of planks for doors/windows and for furniture; surface-treatment, mainly planing, which is sometimes associated with preservation and painting; length trimming and pallet production; extra drying and production of edge-glued panels and laminated beams; and stress grading and production of building components (Bush & Sinclair, 1991).

Factors like supply of products; seasonality either in production or in consumption; perishability, procuring, process and marketing services; lack of storage facilities; scientific lines; lack of standardization and grading; lack of communication facilities; etc affect the cost of marketing and subsequently influence the pricing of product at different points or level along the marketing channel (Dickerhoof, 1973).

Timber value chains analysis conceptualizes enterprises as parts of chains of different but linked production and exchange activities operating in different geographical areas. It focuses on analysing "chain governance" i.e. how timber value is distributed at different levels of the chain and the different interests and power relations which influence this distribution (Kaplinsky and Morris, 2000). There are numerous trade channels in timber marketing, one is direct channel and another is indirect channel and value is changed along the marketing channel. It consists generally of middlemen and buyers or sellers involved in the process of moving goods from producers to consumers (Dickerhoof, 1973). Timber marketing efficiency depends on technical efficiency; economic efficiency; educating the customers; research and marketing costs; standardization of prices; elimination of middlemen; co-operation; government control; increasing managerial ability, etc. (Dixon, 1979). Kaplinsky and Morris provided a typical example of marketing channel where timber is passing through five different levels to reach the final consumer is shown in figure 1.



(Kaplinsky and Morris, 2000).
Figure: 1 Timber Marketing Channel

The importance of timber marketing to an economy can be judged in several ways: cost of the commodity to the consumer; the number of people employed in the timber marketing process; the effect of the standard of living; the importance to the individual firm.

There are numerous trade channels present in timber marketing in Bangladesh where value is changed along the marketing channel. The key question is how different activities are affecting the price along the value chain. The aim of this study is to assess, and analyze value-adding dimensions of timber in Bangladesh. This paper presents a study of the structure and level of value-adding processes along with the amount of price increase at each level in timber marketing channel present in Bangladesh. The main objective of this research is to find out how much value is changing along the timber marketing channel in Bangladesh. In this regard most used and consumer preferred timber of forest and homestead forest species were analyzed.

Methodology

The research was descriptive in nature and based on a cross sectional survey. As the focus of this research was on marketing channel, first the existing business unities which are involved in marketing of timber in Bangladesh has been identified. The analysis was performed at enterprise level, not at the corporate level. Firstly information was collected from each of the business units or enterprise where timber is traded. This has given the result regarding the identification of timber marketing channel prevailed in Bangladesh. Then each identified business units of the marketing chain of timber such as producer i.e. plantation owner and Forest department, timber shops of local markets, processors i.e. sawmills, wholesalers, Retailers and furniture shops in different places of capital city and Khulna city for forming a questionnaires. The questionnaire was laid out with the questions fully specified to collect information about the buying and sale price of timber at each enterprise along with other expenditure and costs for running the business. Emphasis was also given to find out other factors related to the business but are not related with cost and profit.

Six timber species were selected on the basis consumers' demand. It has been done through open ended interviewing of 60 respondents who are qualified as consumer of timber. They were asked to rank their most preferred timber species for furniture manufacturing. Here widely used timber species were ranked by the consumers according to their preferential remark. Then depending on the informants' remark most widely used timber species were given a value from 2 to 0

according to their popularity. Three Most popular forest timber species and there homestead timber species were then selected for value change analysis.

Each of the selected timber species' sale value per unit i.e. taka per cft has been the unit of analysis for this study. Data were collected from randomly selected 30 units from each level of business units which were been identified as levels or business units in timber marketing channel previously. The list of entrepreneurs were collected from their associations and then were numbered separately for each level and by using the random table the sample units were selected. The selected samples were interviewed through a questionnaire survey to obtain the required information regarding their costs per unit of timber and their price for per unit of product. Data were collected over the time period of one year. Price of per cft timber for each of the selected timber species was then tabulated. The price of timber has varied at each level of the marketing channel seasonally. Because of this reason the average price per cft of timber of a single year was considered for analysis. Other information regarding running cost of the business at each level was also been tabulated.

Results

Identification Timber Marketing Channel in Bangladesh: The study revealed that the entire process of timber distribution starting from producer passing through six levels of enterprise such as local market enterprise, processor i.e. sawmills, wholesaler, retailer, production and manufacturing sector i.e. furnishers showroom to reach the final consumer i.e. the end users. Once the logs are grown by the grower and harvested they are sent to the local market and then to sawmill for conversion. In the next stage, timber from sawmill is transported to wholesalers where the seasoning of timber has been done. Afterward it reaches the Retailer. In very few cases the end users directly buy the product form here but for most often cases timber then brought to the furnishers showroom for manufacturing of different goods for the end users. Though another production chain starts at this manufacturing unit but in Bangladesh the price of the end product is being calculated separately for the timber itself that is price per cft of used timber and for the design and manufacturing of the product. Hence the marketing channel for timber in Bangladesh, furnishers shop or show room is the last level from where consumers buy the product. The marketing channel of timber in Bangladesh is then shown in the figure2.



Figure 2: Marketing channel of timber prevailing in Bangladesh

When timber passing through these channel then extra value is added from producer to consumer and value changes depend on timber quality and species.

Tree Species wise Timber Demand at the Market: Analysis of the data reveals that Teak (Barma, CHT and local), Gamary, Garjan, Silkoroi, Teakchambol, Mahagoni, Kanthal and Sirish are preferred most among the consumers. However, timber species Kalikoroi, Deshichambol, Chapalish, Akashmoni, Amm, Ipil-ipil, Lohakath and Neem are also being preferred but not as the first choice. Demand for widely used timber species Bangladesh has been shown in the figure 3.

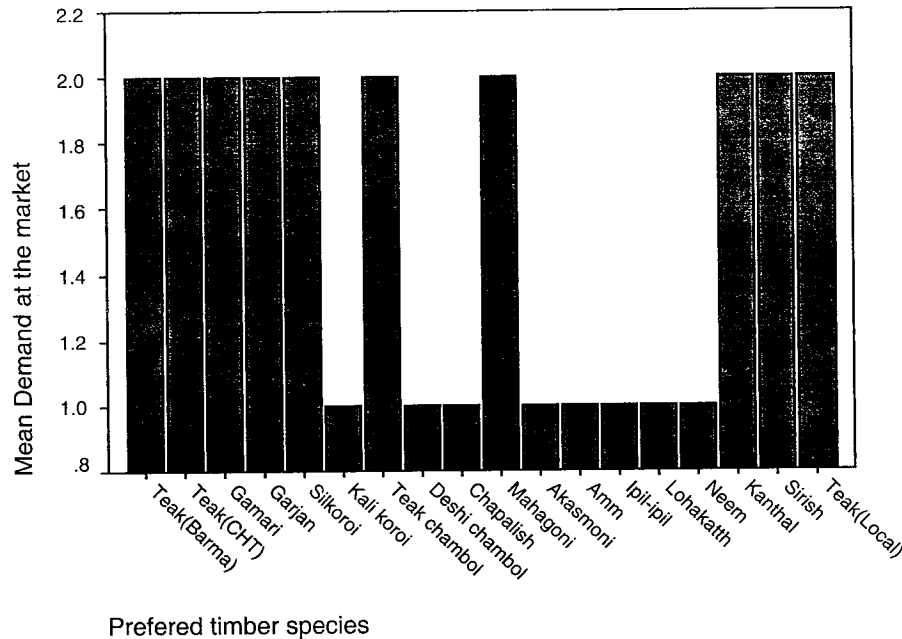


Figure: 3 Timber demand at the market

Identification of Value Change along Marketing Channel of Major Timber Species: Detail Value change analysis of most demanding three forest species Teak, Garjon and Shilkoroi has revealed that there is consistency in addition of value to each of the selected species. In the case of the three most demanding homestead or plantation species; Mahagoni, Kanthal and Shiris has also shown the same result as the forest species. However the addition of value at processor level and at the final consumer level is comparatively higher than the other nodes of the marketing channel. The analysis also revealed that the market price of teak (*Teakto grandis*) at each point of the marketing channel is much higher than other widely used timber in Bangladesh, this may be due to the quality and peoples liking. The decreasing supply trend of teak may also contributed to price increasing of teak. Figure 4 has given a clear picture of changing pattern of value of timber in terms price along the timber marketing channel of Bangladesh.

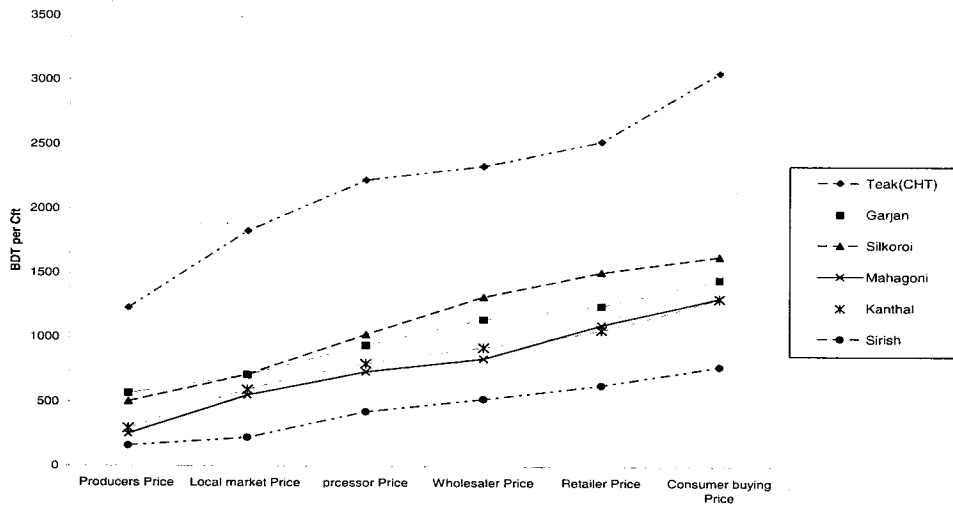


Figure 4: Value change in terms of price of six major timber species along the marketing channel prevailed in Bangladesh

Analysis of Value Change of Major Timber Species: Analysis of the data (between producer selling price and consumer buying price) reveals that mahagoni shows higher percentage of timber value change along the timber marketing channel than other timber and then Sirish, Kanthal and Silkoroi, Teak(CHT and Local) and Garjan gradually, the percentage price change has been elaborated in the figure 5.

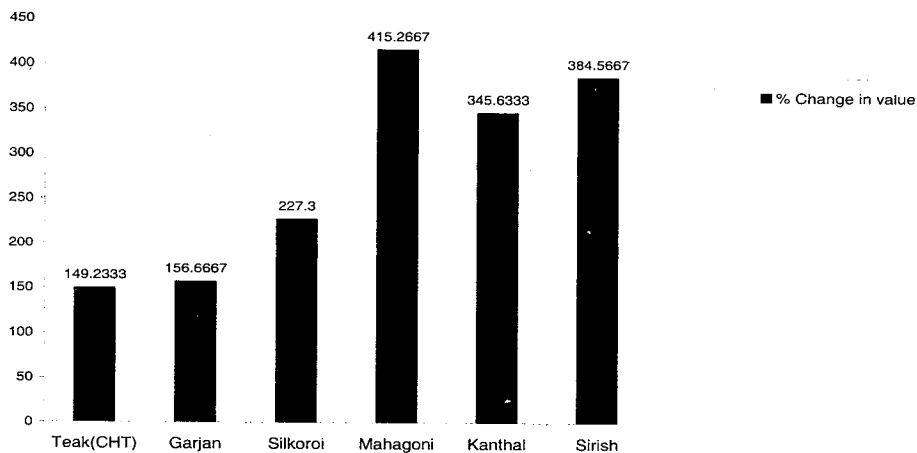


Figure 5: Percentage of timber value change along the timber marketing channel

This study also revealed that shop maintenance cost/month is higher for furniture shop and lower maintenance cost/month for wholesalers. The maintenance cost is higher for sawmill than wholesalers but lesser than furniture shop. This phenomenon has an impact on the value addition to the product. For all the species there is a significant jump in price at the consumers' buying price. However, as the maintenance cost at the processor level is higher than rest of the other levels, the price jump is also quite higher than other levels like the wholesalers and local market. Figure 6 has shown a comparison of maintenance or operational cost among the three major units of timber marketing channel where there is higher value change has occurred.

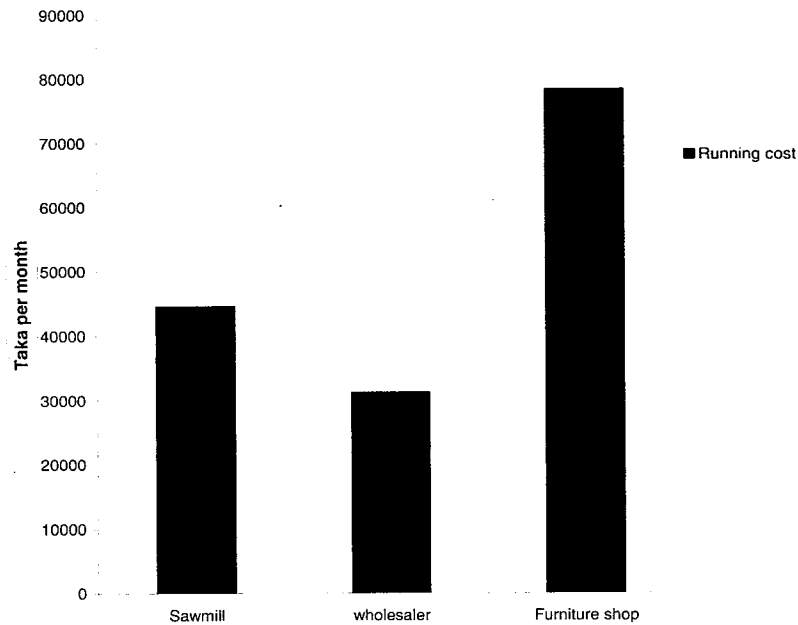


Figure 6: Running or maintenance cost/month

Discussion

Timber processing, extra drying and production of planks for furniture, surface-treatment with preservation and painting, length trimming and pallet production, extra drying and production of edge-glued panels and laminated beams and stress grading and production of building components are the important dimensions of value adding processes along the marketing channel of timber. There are also some other factors which affect the cost of marketing, such as supply of products, seasonality either in production or in consumption, perishability, procuring, process and marketing services, lack of storage facilities on scientific lines, lack of standardization and grading, lack of communication facilities; etc. also affect in the marketing channels (Dickerhoof, 1973). This study also finds that for Bangladesh, processing of log in timber and seasoning i.e. drying are the two most used technique to increase quality of the final product which is contributing in value addition to timber.

Timber value is distributed at different levels of the chain from producer to consumer and this is due to different interests and function of different levels of marketing channel (Kaplinsky and Morris, 2000). This study shows that in the case of value-added products the channels of distribution, both marketing and delivery are changing. Product characteristics: size, shape,

colour, volume, quality and packaging of various products for timber markets is the main factors for considering value added at all the levels of timber marketing where value has changed along the marketing channel. In the process of moving goods from producers to consumers value changed is occurred increasingly. Timber trading takes place in various ways (auctions, competitive trade, volumetric sale, sales on the basis of estimating the value and black market) with the purpose of transferring the appropriate share of the proceeds from the purchaser to the owner.

In this study it was observed that for transportation costs has been a major factor for addition of value to the product. Different transportation mode has been used for timber transportation among those trucks (for long distance), rickshaw van (short distance) and trolly (for water ways) are being the most used mode of transportation.

Price of timber varies species to species due to the physical properties like figure, luster and durability. For furniture making on the basis of timber quality Teak is the most preferred one and then Mahagoni, Silkrooi, Shirish Kanthal and Garjan respectively. Timber quality and degree consumer preference or affection to certain timber species has an impact on value change and as well as on the timber price. As teak is the most durable timber having great figurative and lustrous value the value or price to teak is quit higher than other good quality timber at every level of timber marketing channel.

Business operating cost depend on the function like producer is liable only for the plantation maintenance cost where as the local market seller is liable for harvesting and short distance transportation subsequently processors main function is to convert the timber into planks. However this study shows that the operating cost at end of the channel is much higher at the furnishes' show room. At this lever there are many other costs like decoration, salary of permanent employees and show room maintenance cost. The value addition to the timber has been varied at different level of the marketing channel as a result of this different operational cost of each level. This study found that consumer buying price per Cft timber the highest i.e. highest value addition has been occurred at the furnishes' show room as the operational cost is also highest there. Value addition has happened at every level of timber marketing channel in Bangladesh. quality of the timber, functions of each level and business operational cost of each level are being major factors for differential increase of value long the marketing channel.

Conclusion

From the study it can be concluded product characteristics like size, shape, color, volume, quality and packaging of various products for timber markets are the main factors for considering value addition at all the levels along the timber marketing channel. In the process of moving timber from producers to consumers timber value change occurs increasingly. Tree species like teak that is providing higher graded timber for furniture making on the basis of timber quality is enjoying very higher price at the market in relation to other timber species. Highest value change of timber has been occurred at the point of final consumption. Due to the reason of business operational cost the percentage increment of value is differential at different level of the timber marketing channel.

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