



KNIFE CREEK VENEER

Business Plan

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For WOOD 465



KNIFE CREEK VENEER

Executive Summary

Knife Creek Veneer Ltd. (KCV) is dedicated to creating fine wood veneers for manufacturers and distributors of value added wood products. We will create a mixture of quality and unique veneer products. Initially, we will manufacture tight-grained Douglas-fir veneer. As we grow, we will produce veneer products from such species as western redcedar, spruce and birch.

The purpose of this business plan is to procure investment funds of CDN\$750,000, by showing that a market exists for our products and that KCV operations are economically viable over both the short and long terms.

The Market

High grade veneers, like our Douglas-fir veneer, demands a premium in the marketplace because they are rare and much sought after. The veneer market within B.C. is far from saturated and initial start up enterprises within the last 5 years have proved to succeed while demand has significantly increased (BC Stats 2004b).

The Team

The management team is highly motivated, experienced and well qualified. KCV is lead by a committed management team of five, who hold 60% of the equity and two board positions. Support will be provided by the University of British Columbia's (UBC) Alex Fraser Research Forest (AFRF), which will hold 10% equity and one seat on the board. The investor(s) will receive two seats on the board and an independent chairman will be appointed. With future input from our investor(s), our Board of Directors will consist of 5 people with extensive backgrounds in forestry and veneering operations, as shown in Table I.



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Table 1. Board of Directors

<i>Board Member</i>	<i>Background</i>	<i>Applicable Experience</i>
<i>Ken Day, (AFRF)</i>	<ul style="list-style-type: none"> • <i>Manager, Alex Fraser Research Forest,</i> • <i>M.F., R.P.F.</i> 	<ul style="list-style-type: none"> • <i>Extensive knowledge of AFRF ecology and operations</i>
<i>Kara Epp</i>	<ul style="list-style-type: none"> • <i>VP B.C. Associations' Co-operative of Small Wood Businesses</i> • <i>R.P.F., MBA</i> 	<ul style="list-style-type: none"> • <i>Forest operations management</i> • <i>15 years small business entrepreneur</i>
<i>Christopher Bowie</i>	<ul style="list-style-type: none"> • <i>Production Manager Weldwood Veneer Operations</i> • <i>R.P.F.</i> 	<ul style="list-style-type: none"> • <i>Wood structure and quality</i> • <i>Mill purchaser</i>
<i>TBA (KCV Investor)</i>		
<i>TBA (KCV Investor)</i>		

The Products

Douglas-fir Veneer. This is not your Ikea-grade veneer product. Our fir veneer is guaranteed to look like it did a hundred years ago when our great grandparents crafted furniture from ancient firs. Our Douglas-fir veneer has that same cherished slender grained pattern – yet it comes from trees that are, on average, only 50 years old. Our customers are guaranteed the look of old-world craftsmanship along with a guarantee that our veneer comes from sustainably managed forests.

The Offer

We seek CDN\$750,000 from an investor or group of investors with experience in wood veneers. For this investment the returns are:

- 30% equity in Knife Creek Veneer Ltd.



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- 2 positions on our Board of Directors

Finances

In order to set-up operations, we will require approximately \$1.1 million, as shown in Table 2 below.

Table 2. Set-up costs

Operating Costs	\$	
Fixed Costs	\$369,150	
Working Capital	\$642,471	
Contingency		
Money	\$63,379	
Total	\$1,075,000	

Investment Sources	\$	% of Total Investment
Government Loan	\$200,000	19%
Partners	\$250,000	23%
Investors	\$625,000	58%
Total	\$1,075,000	

The Future

Knife Creek Veneer Ltd will provide customers with unique, craftsmanship quality veneer products. We will expand production to include a variety of thicknesses in our fir veneer and will seek other fine veneer quality timbers from species such as western redcedar, spruce and birch.



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KNIFE CREEK VENEER

1.0 General Company Description

Knife Creek Veneer (KVC) will manufacturer of high quality, unique veneer products. Our aim will always be to produce veneer products of species and quality that are rare. KCV will begin as a small manufacturing firm and will expand into a medium sized venture over time.

1.1 Mission Statement

Knife Creek Veneer will produce valuable additions to the value added wood and wood furnishings industry. We will be an economically sustainable business while at the same time promoting and enhancing the quality of mule deer habitat within the province of British Columbia.

1.2 Legal Information

KCV was formed through a joint effort of 5 University of British Columbia (UBC) Forestry graduates and UBC's Alex Fraser Research Forest staff. It is an independently owned and operated Limited company that operates in Williams Lake and in Port Kells (Surrey).

1.3 Primary Products

Upon inception, the staple product KCV will manufacture is high quality, tight grained Douglas-fir veneer. As the company grows, we will produce fine veneer products from such species as western redcedar, spruce and birch.

Douglas-fir Veneer

Our Douglas-fir veneer has the appearance of old growth fir but does not come from ancient forests. Our customers will receive a quality product with the assurance that our wood comes from a sustainably managed forest.



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We will manufacture 1mm thick veneer, which will come in 3 widths:

- 165mm (3 x 55mm)
- 140mm (2 x 70mm)
- 180mm (2 x 90mm)

All of our veneer will be guaranteed to have a consistent tight grained appearance with a maximum diameter knot size of ½ inch and no more than 12 knots per 9 feet of veneer. Each width will be offered in 3 grades, as shown in Table 3.

Table 3. Douglas-fir veneer grades

<i>KCV</i>	<i>Grade description</i>
<i>Grade</i>	
<i>Rustic:</i>	This grade may have end cracks and sapwood and maximum knots as described above. It will not be sanded or finished.
<i>High:</i>	This grade will have no cracks or sapwood and maximum knots as described above. It will be sanded, and may be finished according to customer specifications.
<i>Highest:</i>	Our highest grade will have no cracks or sapwood and will be free of knots.

Maximum veneer lengths will depend on shipping requirements. We expect to manufacture 8 ½ to 9 foot boards on average. Lengths will be custom cut according to customer preference. A diagram of our milling process is contained within Appendix 11.2.

Price will increase as grade, lengths and finishing requirements increase.

1.4 Location

Our main office and veneering facility will be located in Port Kells, BC, which is within the Vancouver lower mainland area. Our raw logs will come from the University of British Columbia’s Alex Fraser Research Forest (AFRF) and therefore, we will have a primary breakdown facility in the Williams Lake area.



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1.5 History

Knife Creek Veneer will be closely associated with the AFRF. The AFRF is located outside of Williams Lake and has been run by UBC staff as a research and education facility for over 50 years. Harvesting operations support research and education goals. A portion of the harvesting operations occur in the Knife Creek Block, which has been identified as important mule deer habitat. The Knife Creek Block, because of fire suppression activities, is currently supporting dense stands of slow-growing Douglas-fir. These stands are not very suitable for mule deer habitat and therefore AFRF staff has been thinning these stands to improve habitat quality. These thinning operations provide an opportunity for our company to obtain high quality second growth Douglas-fir timber with the appearance of old growth timber.

The founding partners of KCV have all graduated from UBC's Faculty of Forestry. Two founding members have backgrounds in wood processing and the other three have backgrounds in forest resource management.



2.0 Industry Analysis

The supply and demand for veneer products throughout the Pacific Northwest market has been steadily increasing over the last 10 years. The wood manufacturers' industry in Canada, of which the veneer and plywood industry is one of 6 subgroups, has increased more than 75% over the decade from 1993 through 2002 (GAIN 2004). This increase in production of veneer product has been greatly fueled by the demand for value added wood products in both the Canadian and U.S. markets. (GAIN 2004, StatsCan 2005)

2.1 B.C. Veneer Production

The demand for fine woodwork finishing in B.C. has never been greater. BC Stats reports housing starts in B.C. have steadily risen over the last 5 years (BC Stats 2004a) and the veneer and plywood manufacturing sector has increased by 69% from 1997 to 2004 (BC Stats 2004b). This market demand has also been paralleled in Alberta and the Western U.S. The majority of B.C. veneer currently produced is exported to the U.S. The B.C. forest products industry has recently shifted towards a more business friendly environment with an emphasis on creating more community involvement into the value added sectors.

2.2 Veneer Industry Growth Potential

The short term strategy of Knife Creek Veneer is to establish a foothold in the veneer market within the province of B.C. with the production of high quality Douglas-fir veneer. KCV will establish market opportunities within Vancouver's Lower Mainland and move outwards within B.C. as the company grows. There is great potential to expand to other provinces, once established, as well as an opportunity to enter the huge export market of the United States. The AFRF currently harvest interior softwoods and hardwoods which can also be added to the veneer product line in the long term to create a species mix with increased growth and capacity.



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2.3 Economic Cycles

The B.C. forest industry has historically been cyclical in nature. Current provincial forest policy has established measures to reflect more of a market oriented system. KCV is in the unique position to buffer market fluctuations in lumber prices as all Douglas-fir is harvested via commercial thinning operations at a fixed cost of \$0.25 per cubic meter. The conversion of the interior stumpage appraisal system to a marked based pricing system will not affect the pricing of KCV products. The harvesting costs for the commercially thinned Douglas fir are more expensive than conventional harvesting operations (about 50%) but this price is predicted to be stable. This supply of Douglas-fir commercially thinned timber for veneer production will be sustainable over the long term.

2.4 The Veneer Market

The veneer market within B.C. is far from saturated and initial start up enterprises within the last 5 years have proved to succeed while demand has significantly increased (BC Stats 2004b). KCV target market establishment will be in itself strategic. Our target market is wood products manufacturers produce high quality furnishings. We are not intending to satisfy all veneer consumers but, rather, those who understand the benefits to using only the highest quality materials, in particular Douglas-fir veneer. We do not intend to target low quality wood products manufacturers who strive to produce products at the lowest cost possible. Our target customers will also be those wood products manufacturers who value environmentally responsible products. We are definitely out to address the needs of the high-end buyer, who is willing to pay a little more for quality. In our particular market, we also seek the buyer who appreciates two attributes: the quality of products and workmanship and the social responsibility of contributing the maintenance and enhancement of valuable wildlife habitat in the area.

KCV will commit to targeting a diverse customer base in order to reduce the risk of targeting a market that relies solely on the home building industry. We intend to target several different value added manufacturers including:



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- Door and window manufacturers
- Cabinet manufacturers (Home, Marine and RV)
- Yacht and luxury boat refinishers and manufacturers
- Fine furniture manufacturers

Initial marketing strategies will concentrate on the B.C. market with a strategy to include U.S. markets within one year of production.

2.5 Market Trends

The demand for veneer products has not been solely tied to the new housing market. New markets and opportunities have been created through the booming home renovation and boat and RV building sectors. This diversification will create greater stability in the marketplace for the demand for high quality veneer and allow KCV to sustain a long term production goal.



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3.0 Competition

3.1 Competitors

Companies manufacturing veneer in BC generally supply raw veneer for the production of structural and visual panel products. The leading companies in direct competition with KCV are those producing and selling raw higher quality veneer and are as follows;

- BC Veneer Ltd.
- CIPA Lumber Co. Ltd.
- Coastland Wood Industries Ltd.
- Paul Creek Slicing Ltd.

A newly significant and expanding marketplace for the sale of high quality veneers is the internet. This newly chosen medium for business has increased the number of direct competitors present in the BC veneer market due to increased access. Some of the top sites dealing in sales of high quality sliced veneer are;

- certainlywood.com
- veneernet.com

3.2 Competitive Position

Although the raw material piece size is relatively small, there are benefits inherent in the dimensions, quality, harvesting and marketability of our product.

- The Douglas fir timber we harvest qualifies for a drastically lower stumpage rate when compared to other veneer producers utilizing conventional harvests. Stems qualifying at less than 20cm at the butt are subject to minimum stumpage (\$0.25/m³), which represents 100% of our raw material supply. This rate is significantly less than the average stumpage in the interior for fiscal year 2003/2004; \$14.07/m³. Although our commercially thinned timber extraction costs are 30 to 50% higher than conventional harvesting operations, our distinct advantage is the fixed stumpage level of



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0.25\$. This will provide fixed timber supply cost where competitors will need to shift to market fluctuations.

- Our timber is being obtained through an ecosystem enhancing intervention it is expected that the products yielded will have an increased marketability. Our supply of Douglas fir will be extracted in coordination with the enhancement of mule deer winter range and therefore should be deemed a more attractive alternative for the environmentally conscious consumer.
- We are producing a fine quality product that is rare in the veneer marketplace. The tight grain, coupled with the presence of small, tight knots is a unique look that we are supplying at a reasonable price. Our unique look and durability are normally only matched by high quality hardwood veneers. Customers located in BC currently utilizing exotic or domestic hardwoods for their appearance products can now find a quality local substitute for these applications.
- This final product has the old world visual characteristics of old growth timber, which has become increasingly rare and less socially desirable, from a 50 year old second growth forest.

3.3 Market Share Distribution

KCV will incrementally gain market share upon their inception. Many companies within BC, kitchen cabinet manufacturing companies' in particular, sell their product throughout the United States and Canada. As demand for our product grows over time we will re-evaluate our pricing strategy which is expected to change abruptly as our product differentiates itself from the competition. Also, due to our comparatively low production levels, it is not expected that our presence will be perceived as significantly threatening by our direct competitors in the first 2 years. Upon insertion of our product into the market, a price penetration strategy will be in place for the first year of release. Market share distribution will be evaluated during quarterly reviews and the pricing strategy will be re-evaluated at this time to reflect the market climate.



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3.4 Future Competition

Future competition will depend on the expansion markets and our distribution range. It can be expected that once we expand out of province, sales will be largely facilitated through e-commerce channels. Due to the number of competitors and the dynamic nature of the internet it is difficult to predict future competition. It is expected that Certainlywood.com and Veneernet.com will gain increasing significance to the veneer marketplace.

Expansion of KCV's product line will depend on harvestable timber from AFRF and species viability for veneer slicing. This expansion is also scheduled for discussion in quarterly review sessions. It is expected that Western redcedar and Paper birch will have good potential to be inserted into our product line up over time. By Adding a variety of species to our product line we will reduce demand uncertainty by targeting a wider range of markets; in essence pooling demand variance in order to stabilize production levels over time. This adaptation of product line will change the group of direct competitors with which KCV now competes. These new additions will not have the unique characteristics of our tight grained Douglas fir, but will be of high quality and are to complement the existing KCV products.

3.5 Barriers to Entry

The greatest barrier to implementing the KCV business plan will be to secure long term investment to raise financing for capital investment. The production of high quality veneer is a relatively high capital intensive operation with returns on investment expectations based on long term projections.



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4.0 Strategic Position and Risk Assessment

4.1 *The Knife Creek Veneer Difference*

Through the establishment of personal relationships created by the high quality sales and marketing staff, KVC will strategically fill a niche for customers who require a high end product at a competitive price, while enhancing the social responsibility of maintaining high levels of wildlife habitat in the province. There is an increasing awareness by consumers for environmental procurement policies throughout the marketplace for forest products (IBM 2002). KCV is in the unique position to promote environmental responsibility while not being held to the same standard of most other forest products companies within B.C. due to the nature of the U.B.C. Research Forest. KCV will produce high quality Douglas-fir veneer with company emphasis placed on personal relationships to monitor effectiveness of customer appreciation.

4.2 *Limitations*

KCV has no intention of becoming a mass distributor of veneer to large processing facilities. The company is structured to reflect the harvesting capabilities of the AFRF. KCV is interested in establishing a sustainable forest products company which will fulfill the economic and ecological needs of the research forest. This goal will best be achieved through marketing our product to small businesses designed to produce custom fine furnishings utilizing high quality Douglas-fir veneer from KCV.

4.3 *Risk Assessment*

KCV has recognized the risk of beginning this start up venture by utilizing the philosophy of starting from the ground up. KCV has developed this business plan to reflect this position. High quality used, but proven, equipment will be initially utilized by trained professional employees. Usage of this proven system will not only reduce the risk off operational setbacks but also lighten the initial capital financial burden of this start up venture. The board of directors will have ultimate authority in capacity building decisions once KCV has firmly established it sustainability within the marketplace.



5.0 Marketing Plan

5.1 Product

KCV will produce unique, high quality sliced veneers of unparalleled quality. Initially our veneers will be made from slow grown interior Douglas-fir; however, over time we will expand into other high quality local species. Due to the small diameters of our raw material we will produce pre-spliced sheets of veneer. The following sheet widths will be offered;

- 165mm (3 pieces x 55mm each)
- 140mm (2 pieces x 70mm each)
- 180mm (2 pieces x 90mm each)

In order to maximize the yield recovered from our raw material and the value of our product, we intend on offering a variety of grades. These grades will range from a standard, *Rustic* quality, *High* visual grade to a *Highest* quality appearance grade. *Rustic* grade veneer will contain both sap wood, larger knots and a looser grain structure. The *Rustic* grade product can be used for internal surfaces (less visible) and for standard appearance finished pieces. Approximately 85% of the recovered veneer will be classified as *High or Highest* grade. These two higher grades will have tighter, straighter grain, fewer knots and no sapwood. Our top end appearance grade product will be made of only the best material. It will be composed of slices of veneer that border the pith of the log, so the edge grain will be maximized and there will be low occurrence of knots. Each grade of veneer will be offered in every width sheet. The length of the sheet will vary depending on the specific needs of the customer; however, the majority of the product will be produced in 8' sections. All the veneer will be 1mm in thickness and dried to a 12% moisture content.

5.2 Place

Our final veneer product production facility will be located in Port Kells (Surrey) BC. This will put us in close proximity to a wide range of customers. We will be able offer



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same day delivery to our customers in the lower mainland area. Port Kells is also located adjacent to the both the Trans Canada Highway and Highway 15, a semi-direct rout to the United States.

Initially, we will primarily sell veneer directly to our customers, furniture manufacturers, door makers, boat builders, RV builders and board laminators. Possible intermediaries for our product include marketplaces such as veneernet.com and other veneer merchants.

5.3 Promotion

Promotion of KCV products will be targeted effort through,

- A commitment to personal sales and relationship building. A dedicated sales and marketing team with an extensive knowledge and training of the local veneer market will be assembled to introduce our product to our customers. The sales team will contact potential customers identified as our target market to get this new product the recognition it deserves. Successful sales will only be achieved through exceptional customer service and relationship building.
- On top of the local sales, efforts will be made to introduce our product to potential customers within the kitchen cabinet industry through displays at high profile value added trade shows by our sales and marketing staff.
- KCV will commit a portion of the advertising budget to advertisements in targeted industry magazines.
- A KCV website will be up and running within 1 month prior to production to facilitate online marketing and sales as well as to add customer service options and add appropriate KCV contact information.
- Web banner advertising will be sought out and implemented on targeted websites such as google.ca. This will allow for those using the internet for veneer related reasons to be subject to our advertising. Brochures outlining our product lineup



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will be placed in stores catering to our target markets, such as woodworking supply stores like Lee Valley.

5.4 Pricing Policy

KCV will enter the market through initially through a price penetration strategy and gradually move towards value priced strategy to as the demand for the product grows. This strategy is to expose our product to all potential consumers in a short time frame during the products introduction. Value based pricing will allow our company to remain profitable without relying on economies of scale. It will also prevent our product from being viewed as a lower quality substitute to hardwood veneer. Pricing of our various products will be scaled according to quality of the veneer and also the size of the sheets. Discounts will be offered on lengths of veneer shorter then 4' because a higher grade recovery is possible in shorter lengths. Initial prices for Douglas fir veneers are listed in Table 4.

Table 4. KCV Grade Pricing

Grade	Price (\$/Sq. ft.)
<i>Rustic</i>	\$0.50
<i>Standard</i>	\$0.90
<i>Appearance</i>	\$1.30

Our veneer cost is relatively lower compared to the average price of maple veneer at \$1.50/Sq.ft. This will allow us to increase the price of our veneer in the future in order to meet the perceived value of our product.

5.5 Target Market Strategy

KCV target market establishment will be in itself strategic. We are not intending to satisfy all users of veneer furnishings but, rather, only those who are most demanding for personal customer satisfaction and high quality Douglas-fir veneer. The target market for Knife Creek Veneer is furnishing companies who require very fine furnishings with the



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highest quality grains, combined with an old fashioned sense of fine woods and fine woodworking. These customers will also have an appreciation for environmental responsibility through the awareness that KCV products are adding to the enhancement of wildlife habitat within the province of B.C. We are definitely out to address the needs of the high-end buyer, who is willing to pay a little more for quality. In our particular market, we also seek the buyer who appreciates two attributes: the quality of products and workmanship and the social responsibility of contributing the maintenance and enhancement of valuable wildlife habitat in the area.

KVC, through its dedicated sales staff, will commit to diversifying the customer base among potential value added manufacturers to minimize negative market fluctuations.

The target markets will include:

-
- Door and window manufacturers
 - Kitchen and cabinet manufacturers (Home, Marine and RV)
 - Yacht and luxury boat refinishers and manufacturers

Initial marketing strategies will concentrate on the B.C. market with a strategy to include U.S. markets within one year of production.

5.6 Market Research

KCV sales staff will be trained in market research data collection and analysis techniques to obtain clear, unbiased and reliable results outlining the current veneer market and consumer needs. The KCV market research strategy will include:

- Defining veneer market opportunities
- Setting market research objectives, budgets and timetables
- Collection of both primary and secondary research
- In depth analysis of market data collected
- Market research findings presented to the board of directors during quarterly reviews for implementation consideration



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Market research will be conducted on a continual year round basis as a commitment to continuous improvement for KCV to maintain a comprehensive understanding of the current veneer market.



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6.0 Operations

6.1 Location

Knife Creek Veneer will have two facilities, both of which will be located within BC. There will be a small primary breakdown mill located close to the AFRF in Williams Lake and a larger production facility and head office in Port Kells (Surrey).

The primary breakdown facility, located in Williams Lake, will receive raw logs directly from the AFRF and will produce square blanks that will be shipped to the main production facility. Williams Lake was chosen because of its proximity to both the raw material supply and the TransCanada Power biomass power plant. The biomass power plant uses approximately 600,000 tons of wood waste generated by local saw mills to produce a clean energy for the local community. The cost of shipping the raw material from the AFRF to the production facility will be offset by selling waste to the biomass power plant.

The main production facility and head office will be located in Port Kells, BC. We will require about 15,000 square feet (sqf), which will cost up to 100,000/year. Port Kells was chosen for several reasons including the availability of adequate facilities, the proximity to both suppliers, the proximity to customers and the work force availability. Due to the concentration of wood products manufacturers within Port Kells, several service companies have been established. They offer competitive rates on services including machine maintenance, saw sharpening and material transportation, all of which would be invaluable to a start-up company that wishes to outsource in order to reduce capital costs. Within Port Kells, there are suppliers of both raw panel products and resins. There are also several veneered panel wholesalers and secondary wood products manufactures located within the area, all of which are potential customers.

The breakdown facility in Williams Lake will have to be at least 1500sqf, with a log yard that is approximately 2500sqf. The approximate cost of this facility will be \$15,000/year.



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6.2 Labour Force

Both Williams Lake and Port Kells are excellent places for finding skilled laborers due to the active industries in the respective areas. In general, higher skilled and more reliable laborers will be targeted. In order to secure this labor force, we will offer competitive wages, benefit packages and job security. This wage structure works well with the horizontally integrated management structure of our company.

There are several lumber mills within Williams Lake and the surrounding area; therefore, there is a labor force that has experience with the sawmilling process. The breakdown process will require dedicated and knowledgeable individuals. In order to secure high skilled and reliable individuals, we will have to offer a wage that is comparable to the wages offered at the local mills.

As previously mentioned, Port Kells is one of the larger industrial areas in the lower main land; therefore, there is a relatively large labor force available in the area. There are no visual grade veneer producers in the area so it is unlikely that there are any workers who are familiar with the process, however, dedicated workers are available.

6.3 Supply Chain Breakdown

Our company will be in control of a large portion of the supply chain. Other than harvesting the logs, we will be responsible for all processes up until the veneer is ready for sale. A diagram outlining the entire supply chain is shown in Figure 1.



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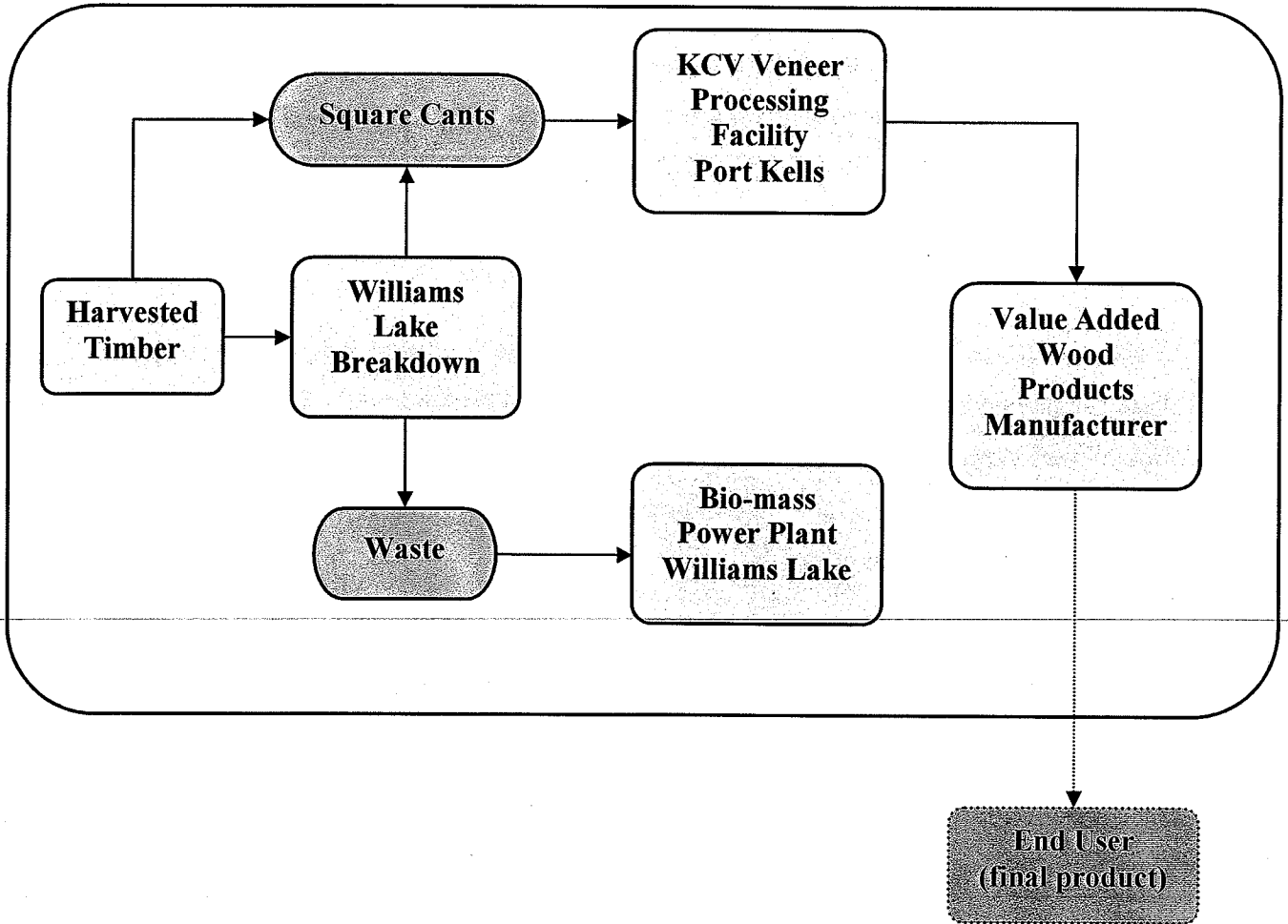


Figure 1. KVC Supply Chain

The trees will be harvested and loaded onto a logging truck by a contractor at the ARFR. The logs will then be transported to the primary breakdown facility in Williams Lake where they will be unloaded into the log yard. As the logs are being unloaded, a rough diameter sort will be conducted. Because harvesting logs in the middle of winter is difficult, the log yard will have to be large enough to store enough logs to maintain production throughout the year.

In Williams Lake, the logs will be cut down into 50mm to 100mm squares and packaged on pallets. The waste from this process will be sold to the Williams Lake Bio-Mass



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Power Plant. The 4'x9'x3' (approximate) packages will be loaded onto a truck and shipped down to the main production facility.

When the logs arrive in Port Kells, they will be unloaded from the truck and moved inside the facility. The blanks will then be planed on two sides. When enough blanks have been planed, flitches that are between 165mm and 180mm wide will be glued up. In order to facilitate proper adhesion and veneering, the flitches must be heated up to at least 30°C. This can be done using a radio frequency heater. After the flitches are heated, they will quickly be planed and then sliced into veneer using a Japanese veneer slicer. The resulting veneer sheets will then be graded depending on the quality and thickness variation of the veneer. Then the sheets of veneer will be run through a platen veneer dryer in order to both flatten and dry the veneer. Finally, the dried veneer will be packaged and ready for sale.

6.4 Production Schedule

Our production will be constrained only by the amount of veneer we can sell and the workforce we choose to employ. The plant will be operated in a manner that will consume a truckload of blanks from Williams Lake every six weeks. This equates to 0.6m³ of blanks each day. Assuming a 50% utilization rate, our veneer slicer alone can consume approximately 4m³ of planed lumber in a shift. Our machines have a capacity that greatly exceeds our daily production; therefore, we are able to concentrate our workforce in order to maximize the efficiency of the entire process.

When the shipment of lumber comes in, the entire workforce will be dedicated to unloading the truck and planing the lumber. After the lumber is planed and stacked, the veneering process will begin. Glue will be applied to the lumber and the flitches will then be clamped and heated. The flitch press will shutdown before the slicer, and the individuals running the flitch press will be responsible for packaging the veneer produced during the day. Every tenth day will be used for maintenance on the machines.



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6.5 Short Range Plan

The first month and a half of business will be dedicated to purchasing and installing the machinery and hiring laborers in both Williams Lake and Port Kells. The facility in Williams Lake will be set up first. It should take no longer than two weeks to set up the machinery. Before our management team leaves Williams Lake, a test run will be conducted.

When our team arrives in Port Kells, the office supplies will be purchased and the search for employees will begin. The third through to the sixth week will be used to set up the machines in the main facility and purchase of the required inventory, such as glue and packaging material. During the last week and a half of set-up, the Williams Lake Production Manager will drive back to the primary breakdown facility and begin the production of blanks. The first truckload of blanks will be shipped down to Port Kells for the beginning of the seventh week. For the remainder of the month, the production in both facilities will be low; however, harvesting will run at full capacity in order to build up an inventory buffer in Williams Lake.

During the following four months of production, we will double our weekly production from approximately $0.3\text{m}^3/\text{week}$ to $0.6\text{m}^3/\text{week}$. During this time, quality control and maintenance programs will also be developed.

6.6 Long Range Plan

In the second and third year of production, we plan on using our retained earnings to purchase replacement machinery that will allow us to increase the quality of our products. These new machines will also open up more capacity, which will allow us to expand our product line to include other local species, such as western redcedar. We may also look into purchasing either a laminate press or a machine that will allow us to manufacture thicker veneer. Selling pre-laminated boards and/or thicker veneer will allow us to further increase our profit margin because these products sell for more on the open market. We will have enough space in our facility to hold these machines and the inventory that is associated with operating them.



7.0 Management and Organization

KCV will operate using a horizontal management structure. This infrastructure will increase the ease of communication throughout the company. Figure 2 outlines the hierarchy of the company.

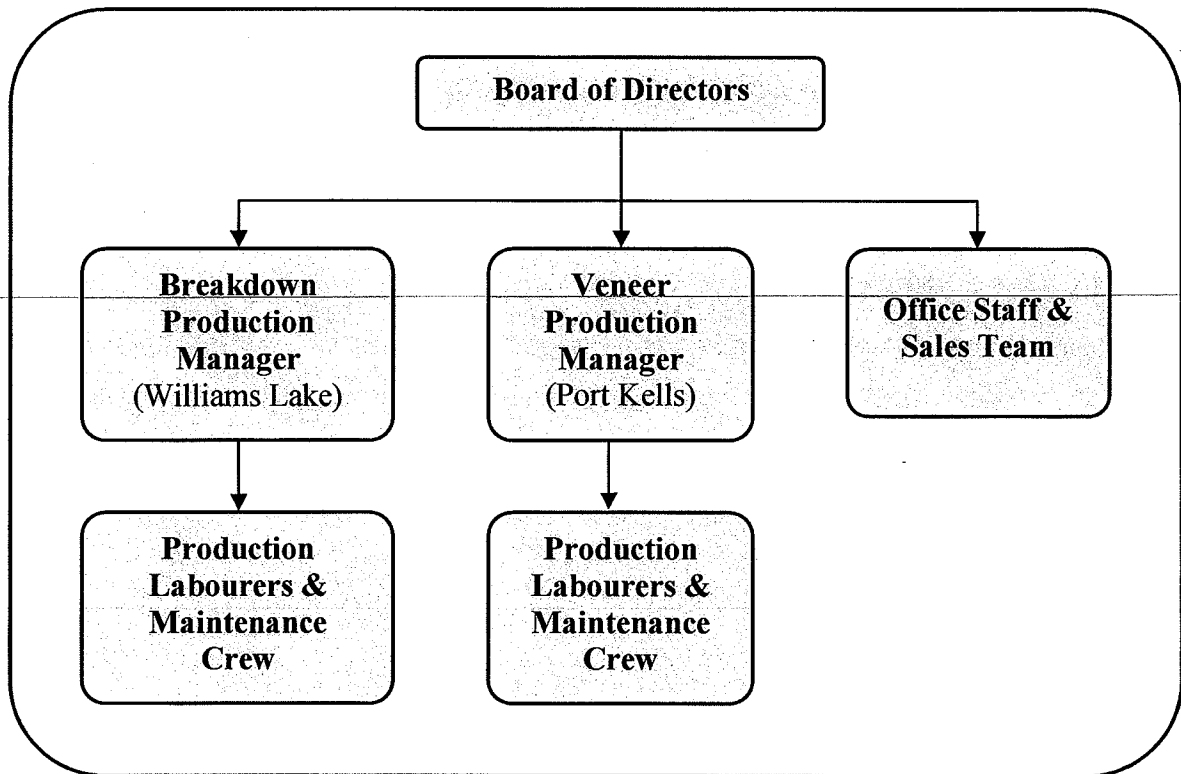


Figure 2. Management flow-chart

7.1 Board of Directors and Production Managers

The Board of Directors will work directly with the Production Managers in order to ensure that the company is making the correct strategic decisions. The Board of Directors will include 2 investors, Ken Day, manager of the UBC Alex Fraser Research Forest, Kara Epp and Christopher Bowie. During the first 6 months, the Production Managers will provide the Board of Directors with weekly updates as well as hold monthly meetings in order to ensure that the goals listed in the short term management plan are met.



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7.2 Main Work Force

The main work force consists of the Production Managers, sales team and mill employees. All these people are highly skilled and are needed to carry out the company operations, meeting the company's goals and making the company profitable. There will be three people that make up the sales team and these people are solely responsible for advertising, dealing with customers and ensuring that our product reaches its final destination. The sales team will also try to introduce the product into new markets and help the company capture shares from various different markets. The Production Managers will be in charge of the mills and will ensure that only top quality veneers will be produced.

7.3 Out Sourcing

The company will out source all of its transportation services and machine maintenance.



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8.0 Exit Plan

We will offer our investors a flexible exit plan. Investors will receive 30% ownership and net profit of KCV. In addition, investors will have the opportunity to place 2 individuals on the Board of Directors.

Each year, the investor(s) will receive 30% of KVC's net profits. We expect that net profits will increase at an average of 7% each year. Based on an interest rate of prime plus one (5.25%), an investor may expect a return on investment from net profit share in just under 10 years. Table below indicates the investors' return on investment over a 10 year period.

Table 5. Investors' return on investment

Year	Projected Profit	Projected Growth (%)	Investor's Portion (30%)	Net Present Value of Investor's Portion	Cumulative Net Present Value
1	269,386.00	7.00%	\$80,815.80	\$76,784.61	
2	288,243.02	7.00%	\$86,472.91	\$78,061.31	\$154,845.92
3	308,420.03	7.00%	\$92,526.01	\$79,359.24	\$234,205.16
4	330,009.43	7.00%	\$99,002.83	\$80,678.76	\$314,883.92
5	353,110.09	7.00%	\$105,933.03	\$82,020.21	\$396,904.13
6	377,827.80	7.00%	\$113,348.34	\$83,383.96	\$480,288.09
7	404,275.75	7.00%	\$121,282.72	\$84,770.40	\$565,058.49
8	432,575.05	7.00%	\$129,772.51	\$86,179.88	\$651,238.37
9	462,855.30	7.00%	\$138,856.59	\$87,612.80	\$738,851.17
10	495,255.17	7.00%	\$148,576.55	\$89,069.54	\$827,920.71
Total			\$1,116,587.30	\$827,920.71	

Investors may choose to exit the company at any time. Upon exit, the remaining shareholders will offer the shareholder a buyout of 30% of the total net profit on the year of exit in addition to yearly net profit. Table 6 shows the total return on investment an investor may expect in years 5, 7 and 10.

Table 6. Investor buyout schedule

Year	Buyout (30% of Total Profit)	Net Present Value of Buyout (\$)	Net Present Value of Total Accumulation (\$)	Total Return on Investment in Present Value (\$)
5	\$105,933.03	\$82,020.21	\$396,904.13	\$478,924.33
7	\$113,348.34	\$79,224.67	\$565,058.49	\$644,283.16
10	\$121,282.72	\$72,707.28	\$827,920.71	\$900,627.99



9.0 Financial Plan

9.1 Capital Requirements

The capital requirements for Knife Creek Veneer Ltd. are listed in Table 7 below.

Table 7. Working capital

Fixed Capital

Machinery / Installation	349,150
Office supplies	2,000
Total	369,150

Working Capital (1 year)

Salary / Wages	401,400
Rent	115,000
Transportation	5,042
Packaging	14,535
Log Cost	17,675
Glue Cost	1,927
Interest on Loan	5,291
Advertisement	10,000
Power Cost	15,600
Maintenance Cost	50,000
Travel Cost	6,000
Contingency Money	63,379
Total	705,850

Total Capital Requirement **1,075,000**



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9.2 Financing Plan

The initial 5 shareholders are going to invest a total of \$250,000. A government grant has been secured that will provide an additional \$200,000, repaid monthly over 5 years at an annual interest rate of 5%. The remainder of the funds \$625,000 (58%) will be borne by private investors. The cash flow statement is given in Appendix 11.1.

9.3 Beginning Balance Sheet

The beginning balance sheet is as follows.

Table 8. Beginning balance sheet

Assets	\$
Current Assets	
Cash	705,850
Long-term Assets	
Machinery	349,150
Office Supplies	2,000
Total Assets	1,075,000
Liabilities	\$
Current Liabilities	
Bank Loan (due 1 st year)	40,000
Long-term Liabilities	
Bank Loan (remainder)	160,000
Owners' Equity	875,000
Total Liabilities and Owners' Equity	1,075,000



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11.0 Appendices



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11.2 Veneer Quality Breakdown

