Our world, for the past several years, could only be described as one of great uncertainty in which the traditional economic relationships of our business have fundamentally changed. During that time we have experienced high volatility and low growth in some sectors or the economy and high volatility and high growth in other sectors. There has been low inflation and high growth: low inflation and low growth. Talk about fundamental change -- interest rates go down, housing starts go up, and lumber prices move marginally up or go down. Finally, world events are shaking the U.S. economy - a strong dollar, a weak dollar, an enormous trade deficit, and $10.00/bbl oil - just to name a few examples.

Some companies, specifically in our industry, have not done well over the past few years. They were plunged into an understandable panic as P&L's and balance sheets were thrown into disarray. Other companies, with a clear determination, proceeded to set their financial houses in order. Overhead was slashed, labor contracts were renegotiated to eliminate poor work practices and reestablish wage scales at more competitive levels, and unprofitable operations and products were abandoned. Some made it, some did not, and others are still fighting the battle. Perhaps those that did poorly were too preoccupied with failure. Others were not. The companies that did well were not thinking of survival, rather they were focusing on success.
There is not much sense in dwelling on failure. But the successes are something else again. Among those that did well are - Fort Howard Paper, James River, Consolidated. Scott Paper did well too. Beginning in 1982, amidst the turmoil described earlier, Scott began a turnaround that ended a decade long downhill slide. To determine the turnaround is real and thriving one need only look at the hard evidence.

Scott Paper Turnaround

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<tr>
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<th>1982</th>
<th>1985</th>
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<tr>
<td>Margin</td>
<td>5.5%</td>
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<tr>
<td>ROI</td>
<td>4.3%</td>
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<td>ROE</td>
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This is worth examining - understanding. What Scott did is probably not all that unique in the world of business. After all, other companies have been and are successful. Other companies have bootstrapped themselves to success. However, this exciting story is one I have watched unfold and have been privileged to play a small part in. I would like to share a bit of that experience with you. First we will talk very generally about Scott. Then we will get a little more specific about timberlands.

VISION AND STRATEGY

First of all, the company has a vision - a rock hard commitment and mission to create wealth. And not wealth strictly in a financial sense, although that is obviously important; not just increasing shareholder value, although that is obviously important as well. When we think about wealth we think in terms of an improved standard of living, wise use of our assets, being efficient so that our products are more available to more people. We want to create new products and new technology that will result in our customers being more comfortable, more hygienic, and more healthy.
Phil Lippincott, our chairman and CEO, summarized the vision very well at the 1986 Annual Meeting. He said, "We have a vision for Scott. That vision is our commitment to continually improve the health and value of the corporation by creating wealth for all key stakeholders -- shareholders, consumers, employees, suppliers, and the communities in which we operate."

With strong leadership and a vision to light the way, a strategic plan was implemented back in 1981. That plan, which has moved us so far, had only four objectives which follow in an abbreviated form:

- Concentrate on businesses we know best.
- Eliminate the drags and drains, those areas which were pulling down our performance and which did not fit our long term plans.
- Change the culture of Scott to support the changes required if we are to be successful.
- Significantly improve financial performance.

There are only four objectives, but there is enormous depth and substance to them. And, for the past five years Scott has pursued those objectives vigorously. We have tended our knitting, concentrating on the core business. Good parts of the business have been strengthened, weak parts have been shed, and we have added a few new, strong sources of volume and profit. The financial results speak for themselves. I’ve already shared a few key financial statistics with you. Here are a few more. In 1985, Scott’s sales, net income, and earnings per share all reached new record levels.

What a story! This was the highly charged, exciting environment that greeted me when I joined Scott Paper nearly four years ago. The timberlands story, which I am now going to share with you is, naturally enough,
not unlike the story of the company. The scale is not the same, the direction is.

SCOTT TIMBERLANDS

The rest of the time will be spent describing Scott's timberlands organization, operating philosophy, some key areas of focus, and some specific examples of how we have made some contributions to the corporate success story. Frankly, this is a story I am proud to share with you. First, to put things in perspective, I will give you some notion of the magnitude of Scott's timberlands operations.

- 3 million acres
- 4 million cords delivered.
- 4 Timberlands regions
- $300 million sales
- 983 employees - total!!

There is not much remarkable about any of this data. There are seven or eight companies that own more timberland. There are any number that deliver more wood. The sales figure, while sizeable, is not particularly remarkable either. But look at the number of folks that it takes to run the business. That is remarkable and should tell you something about our management and operating philosophy. More on this later. First let's talk about the origins of a vision and philosophy.

Earlier, I described a world of uncertainty and change. Also, I talked briefly about the panic-driven reactions of business. The rules governing the economics of our business have indeed fundamentally changed. The companies that survive in the new business world and succeed in the future will be the most cost competitive, the most aggressive marketers, and the most flexible. They will be the best at everything they do - strategic planning,
capital allocation, marketing, and operations. These are the companies that have developed a winning management philosophy. A philosophy that works just as well in a success mode as in a survival mode. These are companies that know what they are and where they are going.

RULES OF SURVIVAL AND SUCCESS

I have such a philosophy, at least it has worked in the past. It is a management philosophy that represents the sum total of my experience—past economic downturns, successes, failures, and associations with a lot of smart, capable people. The basic tenets of that philosophy, the rules, are simple and few:

- Organizations must be lean and flat.
- Good cost control is imperative—always.
- Never throw capital at your problems.
- Work to optimize the whole system.

Nothing very mysterious here. These rules, along with the strategic objectives discussed earlier, represent the hard stuff of the business. We need a mission to glue it all together and people to drive the engine.

First the mission:

THE TIMBERLANDS MISSION

There must always be a basic purpose or vision that keeps the focus that leads people toward the right goal. Scott's vision/mission is to create wealth. And, I explained what that means. What is important is that every unit in a business is fully aligned with the corporate vision and objectives. Everybody has to be dancing to the same tune. The mission of timberlands is simple, focused, and aligned: OUR MISSION IS TO SUPPORT AND PROTECT THE PRIMARY ASSETS OF THE CORPORATION—THE PULP AND PAPER MILLS.

What exactly does that mean? It means least cost raw material to the
mill. It means the right quality, the right volume, and the right species mix – all the time! Yes, we are interested in making a profit. And, yes we are interested in growing our business. With the solid wood markets we have experienced over the past few years and the fact that wood cost is 40 to 50 percent of pulp cost it isn’t terribly difficult to figure out where the leverage point is.

All other business objectives come last. The primary focus must always remain SUPPORT AND PROTECT. If you asked any of my people what we are about, I believe that is what they would tell you. If they are not working against It is people that make all these things work. And, they make things work by keeping focused on the mission, a few key objectives, and by applying the rules of success.

ORGANIZATION – LEAN AND FLAT

This is the first rule. The subject of organization design is not one to be covered in 30 minutes. To cover the subject properly one would have to discuss strategy and structure, function and skills, relationships and power. All of these are important. But, for success in an organization, the staff must be lean and the structure flat.

Always keep your organization lean and in the bad times you won’t be required to subject your people to the trauma of termination. The benefits for the people are numerous. Their jobs will generally be more exciting and rewarding. Development will be faster. Opportunities for growth flourish.

When we decided to take a close look at our forestry operations a few years ago, we didn’t go out and hire a new manager and staff. We fielded a strike force. This is a small group assembled to work on a single task, problem, or opportunity. The team leader is the forestry manager from the
Nova Scotian operations. In addition, a representative from each of the other regions took part in the main group. We also used a consultant, an experienced forester and woodlands manager, to help expedite and help lead the work. In addition, a similar group was established in each region with the strike force region representatives being the leaders. The region groups really provided the muscle. These people also visited other Scott regions, other company operations, nurseries, and orchards. When they got done they were aware of the state-of-the-art and were using that which fit in the specific forest regions.

The results to date have been terrific. In one region, survival improved by 12 percent and is still improving. Our site prep and planting cost have been significantly reduced. And the corporation will soon have a forest investment strategy that will have been developed and implemented by the people who will be governed by it.

The biggest plus is the enthusiasm and excitement you see in the people. They have tramped all over the place looking at forestry operations. Their skills have improved. They feel important and a part of the whole business. And, they are proud of what they have accomplished.

Over the past several years we have used the strike force concept to look at contract logging, maintenance, incentive systems, and asset divestment. If a particular woodlands manager has a problem he wants studied and doesn't have the skills in his organization, he gets help from the other regions. When people are assigned to a strike force their jobs are absorbed by others, mostly subordinates, who also benefit from the experience and training. When the strike force's work is completed everybody goes back to their old job. Or maybe there is a new job. At any rate there is no worry about job security. These are just some of benefits of a lean organization.
Another benefit, of course, is low overhead costs.

FLAT IS FAST

The flat part of organization design is likewise easy to understand. The flatter the organization the easier it is to communicate with your people and they with you. The fewer layers there are separating the top from the bottom, the easier it is to make decisions.

I have five people reporting to me and they are all line managers. There is one staff accountant working with me at corporate headquarters and a few division specialists whose expertise can be tapped as needed. There are no staff assistants to assign the tough jobs to. You either do them yourself or borrow someone who has the appropriate skills. For instance, when I was looking for someone to sell a sawmill we recently shut down, I borrowed Harry Sarantus, one of the operations managers from the Mobile Region. He put a team together and is managing the task. If a decision is necessary and he doesn't feel he should make it himself he gives me a call. I don't hear much from Harry.

The timberlands operations are pretty autonomous and make most of the decisions themselves. But if one of the timberlands managers assigns a man to do an important job it is understood that man can call me direct if he needs to. There are no analysts or staff assistants to work through. Nobody filters the news.

Our entire business is managed like this. For instance, the Northwest Timberlands operation manages 240,000 acres and a 100 to 130 MMBF stumpage sale program. It is done with 21 salaried and about 10 full time hourly people. - harvest planning, road layout and engineering, road maintenance, sales, contract administration, and all the other details that need to be looked after.
It wasn't always like this. In 1982, there were over 1500 people in timberlands. Now there are 983. Getting small is tough but even that, if managed with excellence, can be done with minimum disruption and pain to the employees.

In 1983, when we shut down the company logging operations in the Northwest, over three hundred people had to be released. We set up outplacement centers and job counseling for both the hourly and salaried people. It would be foolish to suggest that everybody was happy about this, but we tried to take care of the people. The outplacement center for our IWA employees, which by the way was managed by the union business agent, placed the majority of those people who took advantage of the service. And those people are all earning very competitive wages. Gary Weikle, the local president, testifying before a state legislative committee on proposed plant closure legislation, cited Scott as an example of how an operation should be shut down if it was necessary to do so.

COST CONTROL IS ALWAYS STYLISH

The first step in making an organization effective and efficient is dealing with the organization. Once you have done the job, if done properly, you will have the people needed to fill the functions as well as the necessary skills. The next requirement is excellent cost control.

Why concentrate on cost control? The recent climate has not been so good for the solid wood business. A tremendous effort nets only marginal improvement in profitability. But the wood bill runs into the hundreds of millions of dollars. A small improvement in cost can make an enormous impact there. Besides, our business is to support and protect—remember? Besides, cost control is one activity that can impact the P&L for both the preferred customers, the Scott mills and our external customers.
For most folks, cost control suggests budgeting and tracking reports, accountants and analysts. To a degree this perception is accurate. However, accounts and accountants, while and important part of a cost control system, are not what makes the system work per se. To be sure, they make an important contribution. But the success or failure of the system depends upon all the people. It depends upon people who had a part in setting the cost standards; who understand their business; who have the resources necessary to achieve the job in a cost effective manner; who have access to the information needed to exercise control; and who have the desire to do a good job. Small wonder that most cost control systems aren't very efficient.

When I started with Scott several years ago the management information systems really needed some work. I guess that gave rise to the first strike force. There was one exception to the philosophy described. In this case we hired a person to coordinate the development of a system. The controller, accountants, managers, and operating people in each region took part in that development. In short, the people who were going to work with the system and manage with the system, designed the system.

INCIDENTALLY, WHEN THE REGION DEVELOPMENT TEAMS WERE WELL ALONG IN DESIGN AND IMPLEMENTATION OF THE MANAGEMENT INFORMATION SYSTEM, THE COORDINATOR JOB WAS ELIMINATED. THE GUY WHO DID THAT JOB IS NOW A OPERATIONS MANAGER IN OUR SOUTHERN OPERATIONS. THAT IS HOW IT IS SUPPOSED TO WORK.

Those teams did a great job and we are now close to having the entire new system in place. Not only will cost and operating information be shared on a real time basis with corporate accounting and top management, but it will also shared with line management right down to the first line supervision. And then it will shared with individual workers and crews.
The intent is that everybody learns on a timely basis how the region is
doing period by period as well as how the individual work unit is doing.

Each manager does this now with the information available. In the
South, there is a monthly cost review meeting. All salaried employees
attend. Then the unit managers, the first line supervisors, carry the mes-
sage to the crew. Bill Goodfellow, up in Nova Scotia, has a meeting with
his staff, the members of which are then responsible for disseminating the
information down into the ranks. Each month the Division results are
shared with all the regions. Once per quarter, at a quarterly performance
review with all the members of my staff, corporate results are shared along
with division and timberlands results. This is the time we look at how we
are doing against our personal and business objectives. This is the time
we share how we are doing - our successes and failures. And, this is done
in an environment of trust and help, without personal risk.

Sharing is what it is all about. Information is power. When you share
information you are sharing power. But you are also sending an important
message. You are telling your people they are trusted and important. And
when you share you are helping them do a better job.

A properly designed and utilized cost control system is a means of
keeping score - measuring performance and giving feedback that will help
people do a better job. But for the system to work, the information must
be timely. Everybody likes to keep score, Everybody likes to know how they
are doing.

Our logging crews get weekly production data on their own operations.
And they expect it every week. They want to know how many loads they moved
and, if the information is not on time, they want to know why. Keeping
score. At the end of the month those same crews want to know if their
costs are at plan or better than plan. They are dissatisfied if costs are over plan, and take steps to do something about it.

With only an accounting statement nothing would happen. It is only when motivated people can be a part of setting the goals; understand the objectives; and share in the results (the tracking systems) that something happens. This is the exciting stuff. There are all sort of examples here.

In our Northwest operations a crew of hourly IWA workmen were asked look at a road construction job the company had received a bid on from an independent contractor. They looked at the job, determined they could do better than the contractor could, and saved $40,000 off the original bid price. How do you think they felt about their achievement?

In Canada a small group of men led by one of the operation managers was assigned the task of reducing our road construction costs. Using a combination of excavators and conventional equipment these men implemented a construction system that saved the company over a million dollars over a two year period. That is the result of creative dissatisfaction and participative problem solving. In the Southeast, efforts to improve cost resulted in building a linear program model we call the Least Cost Sourcing Model. A strike force involving both corporate and region people attacked the opportunity. They built the model, input the data, and implemented the system. The result was a $500,000 saving per year. It was a real team effort and a great improvement on an already successful new river system.

These are all good stories, here is a great story. Several years ago, in the Northeast operations, cost was out of control, the company was not sharing in the productivity gains resulting from capital investment owing to an antiquated piece work system, and our safety record was horrible. An interdisciplinary team was established to solve the problem. The team con-
sisted of an engineer, operations managers, an Industrial Relations person, and some hourly people. The charge was to design and implement a mecha-
nized system that would remedy all the problems.

They chose the equipment and designed the system. The hourly people, who were selectively chosen using a structured interview technique to
screen for motivation and capability, participated in designing their own
incentive system. The entire project was all theirs, the only thing com-
porate did was provide the capital.

The results were terrific. Productivity improved 35 percent, and cost
decreased between 25 and 30 percent. Most remarkable was the safety per-
formance. Before the new system was in place we were experiencing one
reportable injury for every 650 cords of wood produced. After, we had one
reportable for every 10,000 cords produced.

Cost control is essential. But, it is also important to understand
that the system is much, much more than simply keeping track of the num-
bers. The people who ultimately produce the results the numbers describe
must be involved in setting the target, the goals. They must then be
allowed to become involved. Management has an obligation to share the
results - the cost statements and the P&L. Finally, those same employees
must be allowed to participate in the solution to problems suggested by the
financial results. They must be given the resources to get the job done -
the notion of empowerment. And don't forget - when the troops come up with
a neat idea that works you ought to tell them about it. Say it with
strokes. Let people know their efforts are appreciated.

INTEGRATE THE SYSTEM

Perhaps the greatest experience I've had during my relatively short
career with Scott began three years ago at Olive Branch, Mississippi. As a
group, I and the woods managers plus some of their key reports were attempting, among other things, to set some long term cost reduction and profit targets. We had had some problems with budgeting during the past two years and a little problem related to trust. The managers didn't believe when they were told that setting high goals could be done without risk. That is, if high goals were set and missed they were not going to be beat up over it. After three days working together in a sort of team-building session minimum cost reduction and profit targets were set for timberlands in general and the outcome was taken back to the region.

At their respective regions the individual managers engaged all of their salaried people in establishing specific goals for their own operations. In all, about 30 employee involvement teams were put in place to work on setting goals and identifying action steps necessary for accomplishing the goals. It was generally understood that if you are going to meet specific cost targets next year, the means of achieving the desired performance had to be in place in the current year. In the first two years the financial results were phenomenal — an incredible six percent real reduction in wood cost per year and nearly $10 million dollars in cost savings or profit making ideas.

EVERYBODY MARCH - IN THE SAME DIRECTION

The next story relates to achieving alignment with corporate objectives and involves Scott's mission which, as you know, is to create wealth. The story deals with improving shareholder value, and at the region level the linchpin is ROI. In addition, the annual incentive awards are partially based on division ROI. It seems logical that the managers ought to be very conversant in how RIO is calculated and what variables cause it to change. This might improve region performance as well as division and cor-
porate performance.

The approach to making the connections was quite simple. One of the corporate planners was asked to explain how results at the region level are translated into improved share value. We believe share value is one measure of successful wealth creation and certainly reflects excellent stakeholder alignment.

Starting with the woods managers and some key region staff, we explained how improved margins, derived from good management of the profit and loss statement, and turnover, which results from managing the balance sheet, results in an improved ROI. Improved RIO leads to higher return on equity, which leads a higher price earnings ratio, which leads to higher share value.

\[ \text{Margin} \times \text{Turnover} = \text{RIO} \rightarrow \text{ROE} \rightarrow \text{P/E} \rightarrow \text{Share Value} \]

This was done during a four hour general session which takes place each quarter at performance reviews. By the time we finished telling the story we had everybody's attention. But now there had to be a way to help the region managers make the connection positively. The answer was the Strategic Profit Model.

A dynamic profit model was built for PC application - a unique model for each region. Very simply, the model allows you to manipulate profit and loss items and balance sheet items in order to observe changes in both margin and turnover. (Margin is income divided by sales while turnover is sales divided by net assets. The product of the two is ROI.) It is possible that the new crane you are contemplating will actually erode RIO even though productivity and cost improves. This is particularly so if it is a cost reduction item and sales volume does not change. By the time you increase the asset base on the balance sheet and add depreciation to the
P&L the ROI improvements may disappear.

Well this is all well and good except most woods managers I know, and I was one myself, are not this sophisticated in managing their business. And, if we were to change the way people think, the concept would have to be pushed much deeper into the organization. We had another meeting. This was one was a hands-on school led by Tony Curley of Penn State. Tony was the gentleman from whom I learned about the model. The meeting was three days long and was attended by all woods managers, and the region controllers. Every region group had its own computer and learned, by doing, how to manipulate the model and how to understand the output.

On the final day of the session each region group was asked to apply the model to some real problems from their own operations. It was like watching a light come on. One woods manager was commanding his controller, "Do this, change that." Another was working the computer himself and thinking about things he could do to improve the business. The important thing was the managers were understanding why I always raised cane about high receivables - not only does it reduce your cash flow, but it also reduces turnover. What you want, if possible is high turnover, not low. Likewise they discovered what impact high inventory has on cash flow, on turnover, and on ROI.

This was great, Now I had a bunch of managers who were managing the whole business - P&L and Balance Sheet. But we were a long ways from being there yet. When you are trying to drive decision making down into the organization a lot more people had to be exposed to the concept. That is exactly what happened. There was no mandate and no corporate change agent involved to see to it things happened. Here is an example.

Tom Kelly and his guys invited Dr. Curley to Alabama where he conducted
the course for every manager and supervisor in the region. Now the shop supervisor gives a little more consideration to his parts inventory. The construction superintendent thinks about how much culvert pipe is enough. Appropriate attention is given to receivables, log inventories, and equipment purchases.

A new viewing point has been achieved. In the process of trying to connect division objectives with corporate objectives we have exposed our people to new concepts, we shared information with them, gave them new tools to solve problems with. They were given proper training and their jobs were expanded with the new knowledge. No wonder people get excited.

Early this year, when Mr. Kelly made his annual State-of-the-Region address to all region employees, he shared a lot of information. He shared one piece of information in particular. He told his people that their contribution was worth .50 of share value. That usually is not the type of statistic used to give feedback and recognition to your people but it works. They understood the relationship.

Later on two employees were overheard talking. One was complaining about their workplace condition (which did need to be changed). The second person simple told the first that she was worth .50/share and didn't have time to worry about such things. What is it worth to have people that think like that on the payroll?

JUDICIOUS USE OF CAPITAL

So far in this paper we have visited lean organizations, cost control, and alignment. We have also touched on the use of systems and how people work to achieve the objectives. It should be obvious from some of the examples that some accomplishments result simply from people being informed, participating in the objective setting, and being well motivated.
It is also apparent that sometimes it takes more than excellent management, it may also require capital. So let's talk about capital for a while.

Capital is a scarce resource and should always be used judiciously in accordance with a well understood plan or strategy. In other words, never throw capital at a problem. It is likely you will spend the money and the problem will still be there. Always assume there is an alternative to capital. Even when there is what appears to be a "good" project make sure that project fits with the plans and objectives. Finally, when all the right questions are asked and the numbers have been crunched, make a decision, don't keep worrying it like a dog worrying an old bone. There are all kinds of little truisms such as those mentioned above, in any discipline. Undoubtedly, if pressed I could summon up a few more. However, these should be enough for a start.

The philosophy of keeping a tight rein on capital is no different than keeping a lean organization or focusing cost control. It causes managers to ask questions and keeps the business healthy. If the first solution is buy a new one rather than fix the old one, you are in trouble.

A classic example occurred in one of our woodland operations when a request was made for a new log stacker. The rationale was maintenance on the old machine was too high and, because of that and the high downtime that resulted, a new machine was needed. As it turned out, the old machine was rebuilt for less than half the cost of a new machine. In this case, the job was capitalized, but the cost was much lower.

Another case of reactive buying involves two departments in the same company. One department was in the process of buying a new, standby log stacker when another department had a near new machine, the result of a permanent operations curtailment. Fortunately, that potential waste was
avoided when a manager in the department with the excess machine discovered
the situation and made the machine available. There are always a few extra
machines laying around, especially when you are dealing with an operation
the size of Scott's. When there is excess equipment is available the fact
should be communicated.

Always look for an alternative - sometimes it will be infinitely better
than your original idea. Earlier this year, one of our Southern managers
was considering some replacement capital for logging equipment in one of
the more remote areas. Three crews were working in the area. He looked for
an alternative and found one. He decided to contract log the area. Some of
the employees were transferred, others were given a termination package.
Usable equipment was transferred elsewhere in the region. The replacement
capital obviously was not needed. The avoided capital cost alone exceeded
nearly two million dollars. Tough decision? You bet! Right decision? You
bet!

There are times when you look at a capital decision, examine all the
alternatives, and decide it is a go. Payback period is great, IRR is bet-
ter than cost of capital, NPV is ok. That is the problem with the methods
we use to make decision. You look at the expected cash flows and make a
decision. Unfortunately, the decision is sometimes wrong for the
entire business. That is why you should insist on looking at total systems
impact. If there is no integrative benefit the project is questionable. If
the P&L impact is negative or neutral, look for another project.

This is one more area where the profit model is very useful. It allows
a manager to look at total systems impact. It forces you to look at finan-
cial returns in terms of margin and the balance sheet. If you happen to
have an integrated model, you can look at an entire region. If region RIO
doesn't improve you know a bad decision is in the making.

In Scott's Canadian operations such a model exists. You can look at the woods, the sawmill, the pulp mill, or the entire integrated system. Recently, the sawmill was contemplating the purchase of a new edger from another mill. It was a good deal and offered to improve mill performance. The decision was almost made. Then the manager looked at integrative benefits and region impact. The model clearly indicated system ROI would not improve. Under some conditions the buy decision would have been made without looking at all the right data. If you have good managers and the right analytical tools you can save some money.

Capital spending must be controlled. Even a foreman should have some idea of what the criteria for an investment are - and why. We try to train our people so they can help us. In many instances, the investment never gets past the first line supervisor. When these people are involved in the decision making they act just like I do. Once a decision is made there can be no recriminations and no blame placed. No manager can expect his people to make the right decision 100% of the time. Once a bad decision is made have a discussion about what happened and what would be done differently next time - then go about your business. If you handle the situation any other way the next time no decision will be made. And that is worse than making a wrong decision.

A final word on capital - money doesn't make equipment work. There are few capital decisions made that do not rely on people to achieve the maximum return available. A few years ago Scott put in place a river transportation system to combat increasing rail rates. We now have one of the most cost competitive wood delivery systems in existence. The cost savings to date are at least double what the original investment was based on. We
would never have achieved such excellent results on the river system without our people. Highly motivated and skilled people will always help you achieve the highest degree of asset utilization. The following are further concrete examples:

In Maine we spent $120,000 each for new equipment to replace some of our old pieceworker sides. The job request was based on being able to produce 260 cords per week, per side. Last week one side produced over 300 cords. This was the result of the commitment of the hourly crew to better utilize the equipment.

Several years ago we shut down all the company logging in our Northwest operations. Not only were our operating costs significantly reduced, but millions of dollars of capital requirements were eliminated. This was accomplished because some excellent people had the courage to take a hard look and choose another alternative.

One could get the impression that Scott is opposed to spending capital and is in favor of milking the system. This is not the case. We spend what is needed to achieve and maintain a high level of performance. But, we make sure that spending is necessary first. Then we try to get all the people involved committed to optimizing the return on the assets.

Let’s sum up. We have been talking about a philosophy of success. And earlier I listed a few simple rules that define that philosophy. They were:

- Lean, flat organizations
- Excellent cost control
- A integrated system
- Judicious use of capital
Now I'll add one more rule - DO IT WITH YOUR PEOPLE. People make the
difference between a survival mentality and a howling success. People are
the competitive edge.

We don't do everything right in Scott timberlands. If we did it
wouldn't any fun. There would be no challenge. We have a long way to go
to achieve our goal of excellence. But we have done a lot of things right.
Let me quote you a few additional statistics just to emphasize this final
point.

- Every year for the past three years our wood
cost bill have been less than the previous year.
- Over the past four years operating margins have
improved by a factor of two.
- Our OSHA incident rate is less than half that of
all camp and contract logging in the U.S.

Last, and most important, we have done it with 983 motivated, capable,
and dedicated people.