New South Companies

Lumber Industry Giant Survives Severe Downturn and Poises Itself for Record Earnings

Learning as Leadership Case Study

From 1999 to 2003, the lumber industry experienced one of its most severe downturns in history. Logs became more expensive to buy and lumber less profitable to sell. Between 2000 and 2002, more than 100 US sawmills went out of business. For New South Companies, Inc., the downturn caused profit margins to drop more than $25 million. How did this $200M industry player, with roots going back to the 1930s and 1940s, radically revise its way of doing business in order to survive, and even thrive, in this harsh business environment? What allowed the senior management team to tap into the courage to transform themselves and their organizational culture from victims to victors?

Change Starts at the Top

In 2000, even though senior management had reorganized the company and set specific and measurable goals for its business units, implementing these goals remained difficult. Although Mack Singleton had lead New South to $150M of growth in his 20-year tenure as CEO, it became clear to him that the existing company culture and his own leadership style might be a barrier to overcoming the new hurdles New South was facing. In the summer of 2001, Mack decided to attend a personal mastery seminar with Learning as Leadership (LaL), acting on the advice of company board member and recent LaL participant, Harold Stowe. At the seminar, he began to recognize personality tendencies that involuntarily prevented him from empowering his direct reports to meet the company's goals. For example, he had a competitive nature and a strong need to be in control and be right. Consequently, he often behaved like a one-man show, making all key decisions himself and directly involving himself in any problems that arose. His tendency to not listen very well and to define roles and assignments only in broad terms further exacerbated his struggle to fully maximize his senior management team's talent and horsepower.

As he began to uncover and explore these tendencies at LaL, Mack zeroed in on a growth opportunity for himself in delegating tasks, making difficult decisions, and holding people accountable. When he returned to New South, he immediately clarified the company's organizational structure and more clearly defined the roles of his direct reports to give them greater power to make decisions, allowing him to back off from being overly involved in operations. He also communicated more honestly and directly about performance issues and strove to be more open to feedback from his team.

Cascading Transformation

Mack's personal changes not only led to powerful organizational shifts at New South, it also inspired him to bring the entire senior management team to LaL's one-year 4-Mastery program starting in the fall of 2001. That group's learning experience played a pivotal role in the company's subsequent ability to make rapid changes and improvements in a difficult environment.

In the year-long course, the team members explored what prevented them from taking more effective action in this time of crisis. One key insight involved the degree to which they perceived themselves as victims of a constantly fluctuating commodities market. Once they realized how much this collective, unrecognized assumption paralyzed them from taking proactive action, they were able to reframe the situation. Although it was true that the company couldn't change the commodity market, the team could do more to improve what could be controlled, such as making the plants more efficient and productive. This change in mindset gave them the motivation and courage to step out of paralysis and make significant organizational changes.

New South
and the Environment

The team members also began to explore personal areas that contributed to overall difficulties in the company. For example, almost everyone recognized the tendency as individuals and as a team to avoid conflict, which inhibited their effectiveness as managers and cascaded down into the company culture. This tendency virtually paralyzed the entire organization: leaders set vague and comfortable goals, accountability to objectives was lax, and problems were allowed to fester. Ultimately, performance and productivity were adversely affected. With the threat of plant closures looming darkly on the horizon, the management team realized they could no longer afford to continue this behavior. They committed to doing the uncomfortable work of raising tough issues with each other.

One dramatic outcome was that Mack was finally able to address growing concerns about the performance of a senior manager promoted to a key position at New South that turned out to be beyond his capability. At LaL, this manager was able to explore his defensiveness and failure to take ownership for problems happening under his leadership. He and Mack then had several conversations in which they were able to put the interests of the company ahead of personal ego, and he was moved to a junior position that capitalized on his strengths as a manager.

Tightening the Reigns

Throughout the year, buoyed by LaL's ongoing coaching that kept them focused on these new practices, the group began to lead and work together more effectively. Business unit goals were clarified, measuring systems were improved, and new ways of sharing progress within the company were implemented, including requiring quarterly reports in formal management meetings. At the senior management level, means were structured to meet regularly and to raise contentious issues they had avoided discussing in the past. On several occasions, hard decisions were made regarding certain lines of business that had been languishing for years.

A concrete example of how their changed behavior drove greater financial performance was in the procurement department, where their log costs were greater than the industry average. Senior leaders down to yard managers began to more aggressively challenge the numbers presented to them by vendors, gaining more accurate counts of log length, diameter and quality. No longer accepting that "this is the way it's done," they created a systemic and cultural shift that was unsettling to their comfortable "good ol' boy" network, but lead to a significant improvement in yield and increased profitability.

As the economic crisis continued in to the summer of 2002, New South was able to capitalize on these changes plus its clear plan for increasing efficiency and cutting costs, to attract a new lender, fully restructuring and refinancing its debt at a crucial moment. In the spring of 2003, faced with continued industry pressure, senior management had to make further and tougher decisions around cost-cutting and personnel, including freezing all salaries and wages, suspending incentive plans unless profits supported a payout, terminating a defined benefit plan, and modifying vacation policy. Despite having to take these difficult measures, the team's new candid and direct approach to communication minimized the fallout and negative feelings among employees. While all workers were adversely affected, many supported such changes given the conditions the company was facing.

By the end of 2003, the company was able to show quantifiable savings in several areas:

- A reduction in labor and overhead costs of 17% per unit, for a total bottom line savings of approximately $6.2 million annually attributable to productivity improvements and cost control.
- An improvement in yield (tons of log to produce 1,000 board feet of lumber) of 3.8% for an annual savings of $2.3 million.
- An exit from unprofitable business lines and the elimination of a second shift at one of the company's business units (which had not been profitable in 10 years and is now operating in the black) for an approximate annual savings of $1.7 million.
- Bottom line financial performance improved from a $10 million loss in 2000 to a $1 million dollar profit in 2003, in similarly severe industry conditions.
- A quality of life shift for senior management from stress and discouragement to excitement and innovation. CEO Mack Singleton said it simply: "We're having fun with all this."

The Next Level of Innovation

While recognizing the value of these improvements, senior leaders knew that New South was still in the survival stage and had to continue cultivating new business opportunities. As part of their strategy, in the fall of 2002, the next level of management was sent to Learning as Leadership's 4-Mastery program. During the first seminar, the VP of Human Resources came up with an innovative idea that then catalyzed New South to a new level of growth and development.

A creative thinker, the VP of HR often kept his ideas to himself and would never have suggested the initiative before attending LaL. Even though New South's culture did not readily encourage new approaches to conducting business operations, he drew on his coaching support to take the risk of being potentially criticized by upper management and bring the idea to the table. Similarly, CEO Mack Singleton had historically not been receptive to suggestions regarding the company's direction if they differed from what he himself had put forth, particularly from the lower ranks. His coaching helped him to overcome his reflex to reject it and recenter on his goal of recognizing his staff as a precious resource and tapping into their creativity more. By overcoming his need to be in control, and recognizing the need for more improvements, he was able to support the idea and empower the next level of leadership to have a greater role and stake in the direction and progress of the company.

The "New Horizons" group was subsequently formed, consisting of multifunctional teams with different levels of personnel to help candidly assess opportunities in key business areas such as procurement, sales, new products, operations, and corporate vision. This cross-functional think tank not only generated key ideas for organizational improvements and new business opportunities, but also dramatically improved vertical communication in the organizational hierarchy. It also succeeded in deepening the "victim to victor" shift to more layers of management struggling with fear and powerlessness regarding the gloomy market place. More and more, they too felt that they were part of the solution.

Some key initiatives that came from the New Horizons group include:

- Improvements in sales and marketing. The sales department had historically focused more on taking orders than on acquiring new business. They instituted goals and training that drove greater proactivity in identifying new opportunities.

- Innovative operational improvements. Initiatives in procurement, communications and "right sizing" plants were part of an expanded long-term plan.

Record Earnings

2004 at last provided a boom in the lumber industry, and thanks to the personal commitment of senior management to transform themselves and the company, New South was poised to make the most of it. Having thrived while others went out of business during the four previous austere years, 2004 proved to be its most profitable year since the company's inception:

- Total 2004 revenue stood at $408 million (up from $196 million in 2000) and net profit was an unprecedented $16.5 million.
- 2005 led to even greater performance: over $510 million in revenue and $18 million in profit.
- New South Companies was purchased in January 2006 for $205 million, more than sevenfold its appraised value in 2001!

Now, regardless of the up and down years, Mack Singleton and senior management, now part of a larger, Canadian lumber manufacturing company, stand ready to face the new challenges and opportunities of an ever-changing commodity marketplace.

Contact:
Mack Singleton: mac@newsouthcompanies.com

Collaboration with LaL:
from 2001 to 2007