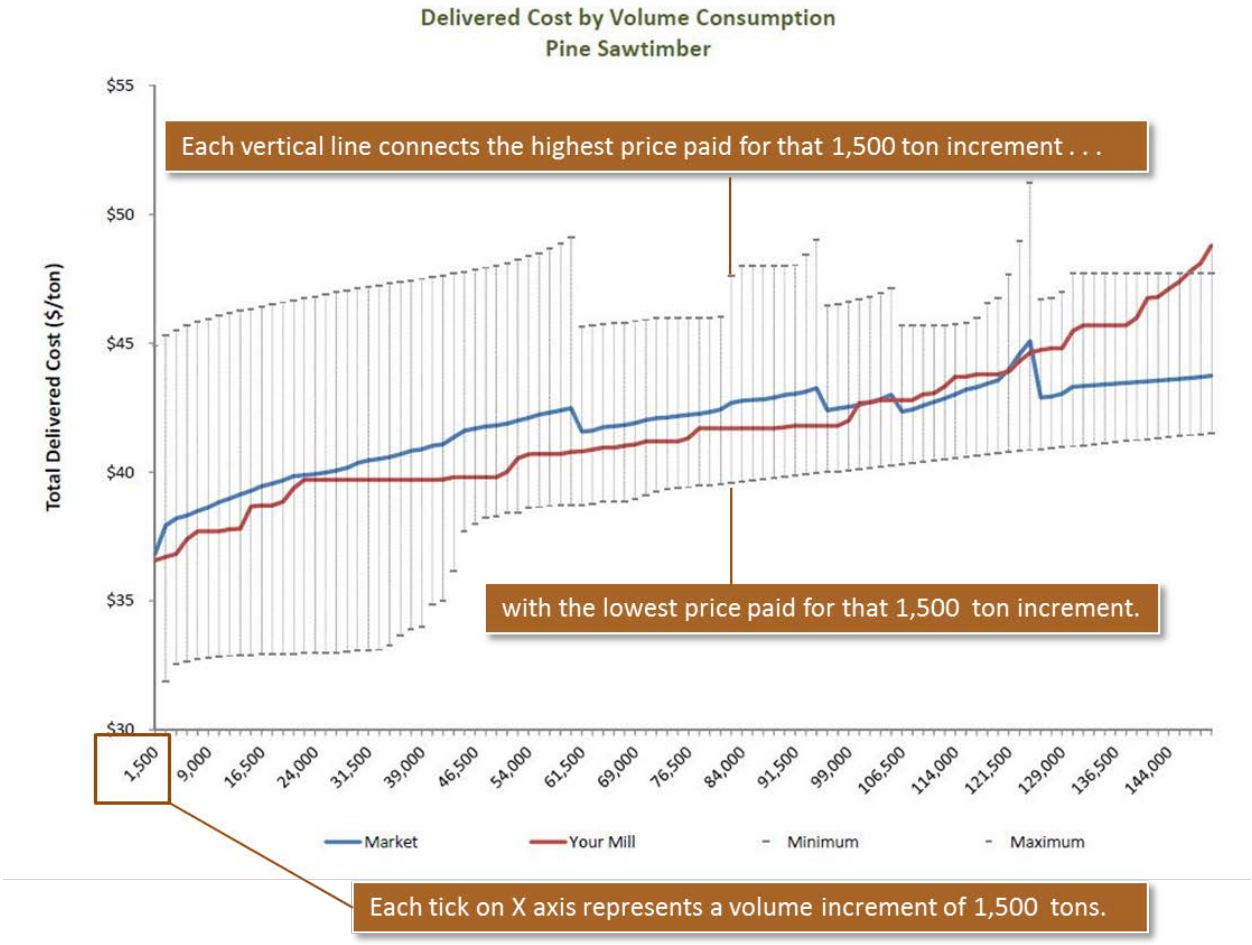
Cost Curves

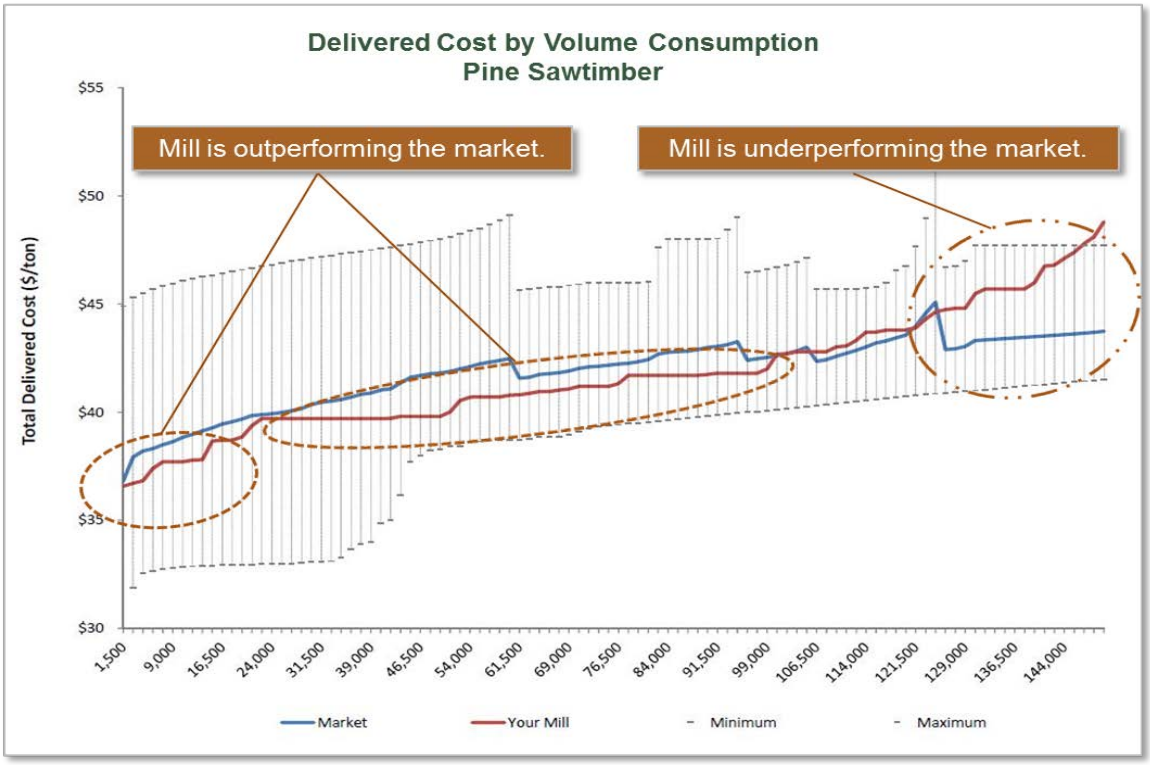
By comparing average mill costs to average market costs, competitive cost curves identify where a mill outperforms the market, and where it underperforms compared to the market.

How to read a cost curve:

- The first tick represents the lowest cost 1,500 tons consumed in the period by both the mill (red line) and the market (blue line).
- The last tick represents the highest cost 1,500 tons consumed in the period.
- The vertical lines on the chart connect the maximum and minimum prices paid for that 1,500 ton increment. The market average falls in between.



The following cost curve for pine sawtimber shows the volume increments where wood was purchased both above and below the market average. Because Forest2Market collects transaction (scale ticket) data from the majority of wood buyers in the markets we serve, we can identify exactly which loads contribute to each 1,500 unit increment.



1. Even when this mill is purchasing below market, there is considerable room for improvement. Whenever the market minimum is lower, there is potential for lowering costs. Lowering costs by $1/ton at both the lower and upper ends of the cost curve could save a mill $65,000.
2. The highest cost six increments (18,000 tons) are significantly above market. By understanding what loads make up these last six increments, the following actions can be taken to lower costs:
    - The last six increments were all delivered under the same supply agreement. This agreement can be renegotiated to bring it more in line with the market average. Supply agreements indexed to Forest2Market's benchmark ensure market rates.
    - Because the last three increments (9,000 tons) are significantly out of line with the rest of the market, the mill might benefit from avoiding the incremental production associated with those loads to save money.