

Center



Focus

A Publication from the
Center for Forest Products Marketing and Management
Department of Wood Science and Forest Products
Virginia Polytechnic Institute and State University
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Director's Message

For some reason, I always get sentimental during this time of the year. It could be the students getting ready to go home to families, the holiday spirit that betters most individuals' moods or the Christmas decorations that pop up everywhere that remind me of growing up in Michigan. It is also a time to count our many blessings. I believe we in the United States are so fortunate to have

so much. We are fortunate because of our strong work ethic, our compassion for others, and we believe that each individual can make a difference.

As I reflect on the year for the Center, I believe that this is what we try to impart in our students. We challenge students to work hard in their classes. Not only with the books, but real life experiences that allow them to see what you face on a regular basis. In my business management class this fall, students developed a business plan for a potential new product for the wine industry. By working with companies they learn how to give their time to potentially help others and we hope they will carry that throughout their lives. Finally, we try to impart the innovative spirit in them that they each can make a difference for the companies that will potentially hire them. I also believe that your companies reflect this as you support the Center. Your donations assist in our research efforts and support our student scholarships. The internships you offer provide students with the challenges they need to grow. By working with our students throughout the year, you demonstrate that everyone can make a difference. So again, I thank you for this great partnership among Center members.

As we look forward to 2008, I feel that we have a great opportunity for growth. A new faculty member was hired in November to focus in the area of secondary wood processing. He is Dr. Urs Buehlmann and he can be reached at 540-231-9759. The department is currently seeking a replacement for my faculty position and hopefully we will have someone by early spring. We are currently updating our marketing short course and it will be offered in April. Graduate students are studying changing strategies in the hardwood lumber industry, international trade, and distribution patterns in the industry. Our goal is to keep you informed with research that can make a difference for your companies. In this issue, Brian has shared with you some of Porter's work on competitive strategy. Through our marketing program, we try to assist the industry to differentiate or focus their efforts and avoid the price leadership strategy.

Finally, we want to wish you a very Merry Christmas and Happy New Year. We hope you will take time to spend with friends and family to count the many things we have to be thankful for. One of mine is your friendship and the relationships you have with our students and faculty. Please feel free to contact me at 540-231-7679 or rsmith4@vt.edu if you have any questions or suggestions for the Center.

Merry Christmas,
Bob Smith

FOREST PRODUCTS BUSINESS NEWS

- The *Arkansas Democrat-Gazette* reported that 5 out of 22 major pine mills have suspended production since October 2006. The article highlighted the impacts of the housing downturn on the forest products industry in Arkansas.
- American Hardwood Industries was formed from the “simultaneous recapitalization” of Rossi American Hardwoods and Hardwood Lumber Manufacturing. Ted Rossi and David Marshall will be CEO and COO, respectively. Source: *Canada NewsWire*.
- According to the *States News Service*, and Minnesota Rep. Jim Oberstar, the USDA Forest Service will allow loggers an additional year to pay off contracts to harvest timber on public lands.
- An article in the *Vancouver Sun* described what softwood lumber producers and Canada policymakers need to do in order to remain competitive in low-cost, global commodity markets. Among the recommendations: privatize forestland, decrease labor costs and invest in new plants and equipment.
- Koppers announced that it will open another joint venture in China with Kailun Clean Coal. The new facility will distill tar and start-up in 2008. Source: *China Knowledge Press*.
- Despite a 2.2% projected annual increase in decking demand in the U.S., wood decking will continue to lose market share to wood-plastic composite lumber and other plastic substitutes. Source: *C & D Recycler*.
- According to *Rocky Mountain Construction*, Cabelas retail stores have a unique appeal to customers by “bringing the outdoors in.” One element of the stores is the glulam beams and the benefits associated with them including: aesthetics, cost competitiveness, faster construction, and long spans.
- *Business Wire* reported on the last engineered wood manufacturing industry report from www.researchandmarkets.com. The industry’s revenue in 2006 was estimated at \$3 billion dollars and gross profit was 19%. Imports were \$1.56 billion and exports were \$176 million.
- An article in the *Bangor Daily News* stated that the University of Maine’s Advanced Engineered Wood Composites Center recently won two awards from the American Composite Manufacturers Association.
- The Russian Timber Group seeks to raise £100 million in an IPO on the London Stock Exchange, AIM. The company is seeking to become the leading vertically integrated forest product company in Russia. Source: *Dow Jones International News*.
- According to the *Monthly Energy Review*, energy consumed in 2006 which was derived from wood totaled 2.1 Quadrillion BTUs (approximately 2% of all energy consumed).

Forest Products Business News has been designed for educational and engagement purposes only. The intention is to report news that affects various business segments of the forest products industry. Any comments or questions should be referred to: cf.editor@vt.edu

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Business Strategy according to Porter

Perhaps no other author or management thinker has had the influence that Michael Porter has had. His seminal work, *Competitive Strategy*, has been used in research, applied in industry and after 27 years has withstood the test of time. Indeed, Porter tops lists of the most influential business researchers. In this work, Porter developed three generic strategies from observations on business. These strategies (Figure 1) act as a defense against the five forces of competition that he also described in this book. We take an in-depth look at each generic strategy.

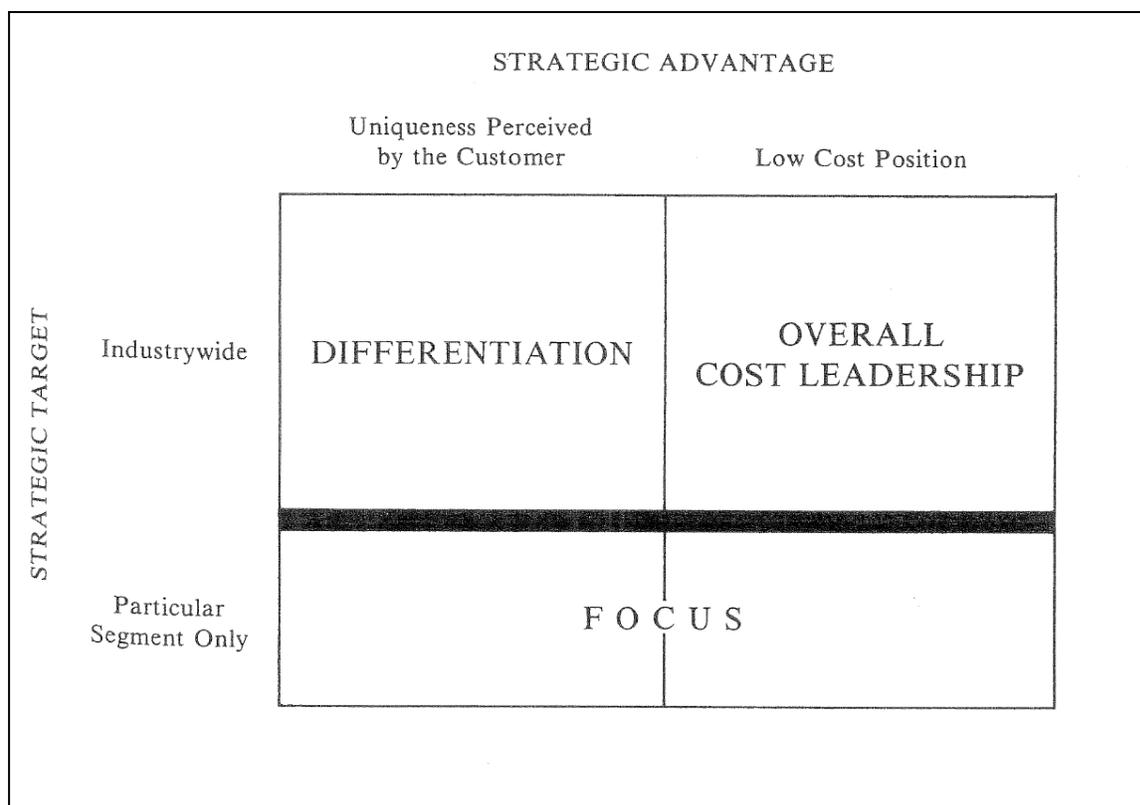


Figure 1. Porter's Generic Strategies

The cost leadership strategy is characterized by a focus on reducing costs, gaining market share, maintaining efficient economies of scale; having favorable access to raw materials; and avoiding marginal customers. This strategy acts as a defense against competition by providing flexibility to absorb cost increases from suppliers; having a favorable position relative to substitutes; erecting entry barriers with economies of scale; and buyers can only exert price pressures to levels of the next low cost competitor. Some of the risks inherent to the cost leadership strategy are: technological change that disrupts firms; imitation by industry entrants; inability to foresee industry change due to focus on cost controls; and inflation of costs that lessen the ability of price to be the most important product attribute.

(Continued on next page)

The differentiation strategy is characterized by a focus on the customer's wants and needs; differentiating the product or service; high levels of customer service; developing brand loyalty and a perception of exclusivity. This strategy acts as a defense against competition in the following ways: brand loyalty lowers price sensitivity; customer loyalty and uniqueness create an entry barrier; buyer power is reduced due to decreased substitutability; and higher margins help control supplier power. Some of the risks of the differentiation strategy include: price differential is too high to create brand loyalty; customers need for differentiation decreases; and imitation of products and services narrows perceived differentiation.

The focus strategy is achieved by applying either (or both) the cost leadership or differentiation strategy to a particular market segment, geographic area or customer group. By definition, the focus strategy will have a low market share. A company that is following a focus strategy will have the low cost position and/or high differentiation position in its target market. Some of the risks of the focus strategy include: cost advantages of the narrow target decrease and specialization of products required for niche market decreases.

So what does all of this mean for a company operating in the forest products industry? As globalization continues to push prices lower for commodity products, firms must try to compete by planning and operating strategically. Firms would do well to study how to use Porter's advice to obtain a defensible position in the industry. This may mean reducing costs and avoiding marginal customers for a cost leadership strategy, producing a custom, exclusive product for a differentiation strategy, or focusing on a particular market segment.

Calendar of Events

April 10-11, 2008

Forest Products Marketing Short Course

Those attending this workshop learn about the products of wood based industries, marketing as it relates to small forest products businesses and how to gain a competitive advantage in the industry. It is designed for the small forest products business owner or manager and new sales and marketing personnel. For additional information, contact Bob Smith at 540/231-7679 or email rsmith4@vt.edu.