

Weyerhaeuser Company: The Next 100 Years

Teaching Note

For more than a decade, WRI's Sustainable Enterprise Program (SEP) has harnessed the power of business to create profitable solutions to environment and development challenges. BELL, a project of SEP, is focused on working with managers and academics to make companies more competitive by approaching social and environmental challenges as unmet market needs that provide business growth opportunities through entrepreneurship, innovation, and organizational change.

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Weyerhaeuser Company: The Next 100 Years focuses on the Weyerhaeuser Company's development since the turn of the century into a leading forest products company and the strategic challenges it faces as it tries to implement sustainable forestry. It can be used in either a strategy course (core course or elective) or in a specialized elective on strategic environmental management and sustainable development.

The case is designed to allow several discussion points to emerge. However, there are four primary discussion vehicles that provide substantial insight into the connections between the company's model of sustainable forestry and its competitive strategy. The four vehicles are (1) Weyerhaeuser's corporate strategy; (2) Weyerhaeuser's core competence and competitive advantage; (3) alternative views on sustainable forestry; and (4) key strategic issues for Weyerhaeuser as it enters the next century.

Teaching Plan

1. Distribution of case and discussion questions	Two to five days before class
2. Discussion: Corporate Strategy	10 minutes
3. Discussion: Core Competence and Competitive Advantage	20 minutes
4. Discussion: Views on Sustainable Forestry	10 minutes
5. Discussion: Strategic Issues for the Future	30 minutes
6. Conclusions and Update	10 minutes

Total time: 80 minutes

1. Distribution of Case and Discussion Questions

The case should be distributed to students a few days before class to allow ample time for reading and processing its contents. The following discussion questions are recommended to aid the students in preparation:

- What is your evaluation of Weyerhaeuser's corporate strategy?
- What is their core competence and competitive advantage?
- Does Weyerhaeuser practice sustainable forestry?
- Is the company well positioned to be competitive in the next century?

The instructor may choose to organize students into small groups to meet before the class session to consider the discussion questions. Meeting in small groups has been an effective means for ensuring that students are adequately primed before class, because each student enters the class with a common baseline understanding of the case.

2. Discussion: Corporate Strategy

Learning Objective: This discussion should clarify Weyerhaeuser's corporate strategy and compare it to other major players in the industry. The focus should be to evaluate critically Weyerhaeuser's model of competing in the forest products industry. By the end of the discussion, students should have a clear concept of the various elements that constitute Weyerhaeuser Company's strategy, as well as the elements that constitute traditional forest product industry strategy.

Teaching Strategy: It might be useful to lead off the discussion by asking someone to summarize his or her view of Weyerhaeuser's corporate strategy. This could be followed by questions such as:

- What is Weyerhaeuser's core strategy?
- How does the company compete?

Analysis: Weyerhaeuser's corporate strategy is premised on the idea that the highest returns in forest products are achieved through an emphasis on producing high-value softwood timber and wood products over producing fiber for pulp and paper. Thus, company lands are not managed to produce raw material targeted to the needs of the wood products, pulp, paper, and packaging businesses. This is reflected organizationally by the fact that Timberlands is operated as a profit center rather than a cost center (i.e., captive supplier) for the downstream product groups. Indeed, Weyerhaeuser's culture and core values center on the land and the forest, not the mill and the

production facility.

In contrast, strategies for the majority of other major forest products companies are built around downstream wood products or pulp and paper manufacturing. To this end, some companies, such as International Paper or Champion, concentrate on the production of strong, high-quality fiber for their paper mills. Other companies, such as Georgia Pacific and Louisiana Pacific have timber and wood products businesses but do not maintain the same focus on the forest resource base as Weyerhaeuser. Still others, such as Aracruz Celulose in Brazil, have specialized in forestry but have focused on pulp production for paper manufacture. Only a handful of smaller companies, such as Pope & Talbot and Rainier Timberlands in the Pacific Northwest, have centered their strategy on the growth of high-value grade timber (see Attachment 1).

Historically, Weyerhaeuser has not been an exemplary model of pulp and paper manufacturing. While some of its mills are modern and efficient, overall it lags behind the industry's best in productivity. In many ways, the company's Pulp, Paper and Packaging business seems to exist as an afterthought, as a method for disposing of excess raw materials after the production of high-quality softwood timber and wood products. It may be that the resources spent on the manufacturing sector (more than half the company's asset base) are distracting the company from its true expertise in forest and timberland management. This can be seen from the financial data in Exhibit 2 and graphic summary in Attachment 2: The company makes most of its money from its forest and timberlands operations, not from its downstream manufacturing (see Attachment 2). This leads to the next stage of the discussion.

3. Discussion: Core Competence and Competitive Advantage

Learning Objective: This discussion should seek to identify specifically Weyerhaeuser's core competence and competitive advantage. Students should realize that the company's unique skills are upstream, in forest management. Furthermore, it should be clear that Weyerhaeuser's forest management capabilities took a long time to develop and are therefore difficult to imitate quickly. Weyerhaeuser Forestry is complex because it involves competency not only in the production of trees, but also in genetics, ecosystem management, and stakeholder relations. It should also become increasingly clear that the learning curve associated with these competencies could become a source of sustainable competitive advantage for Weyerhaeuser Company as it moves into the future.

Teaching Strategies: Questions that can move the discussion in this direction include:

- What is Weyerhaeuser's core competence?
- What sets this company apart from the rest of the industry?
- Does Weyerhaeuser's unique history give it any advantage in the marketplace?
- Is there any competitive advantage to being the "tree growing" company?

Analysis: Weyerhaeuser has spent almost 50 years developing a knowledge of its forestlands that enables it to evaluate site conditions that influence breeding programs so that tree varieties are matched to sites, ensuring high levels of productivity. Stocking control in the form of spacing, thinning, and fertilizing, help to produce straight, fast-growing trees with a maximum amount of clear wood for added value. The company's softwood genetics program is the key skill in driving its forest management competence. By moving early and remaining dedicated to continuous investment, Weyerhaeuser has erected substantial barriers to imitation and maintained first-mover advantages. Indeed, while some other companies have extensive skills in tree genetics (e.g.,

Stora, Fletcher Challenge, Mondi), most are focused on the genetics of hardwoods such as eucalyptus or have developed in very different ecological settings (e.g., tropics or subtropics). As such, they present little immediate threat to Weyerhaeuser's lead position in Douglas fir.¹

The tree improvement program is at the center of a "learning system" that includes deep knowledge of soil conditions, stocking control, thinning, and harvesting practices all matched to particular genetic types, particularly in the Pacific Northeastern United States (see Attachment 3). This knowledge has accumulated over time and constitutes a tacit capability that will be difficult for competitors to replicate quickly with Douglas fir and, to a lesser extent, Loblolly pine. This is evidenced by the fact that the company sells most of its seedlings externally, but only Weyerhaeuser people know exactly *where* to plant these seedlings and *how* to manage them to achieve maximum results.

These capabilities fulfill customers' needs while sustainable yields guarantee a reliable supply of product and an advanced infrastructure guarantees the product reaches the customer in a timely manner. Forestry initiatives that yield consistent, dependable results garner strong customer relationships and allow the company to enjoy premium prices on certain product lines where demand often exceeds supply. "The Weyerhaeuser name gets us in a lot of doors," noted one manager. This is particularly important to customers in the company's most important export market of Japan, where reputation and relationships are a prerequisite for continued success, and where the company enjoys a large market share (10 percent of company sales are to Japan alone). Thus, a cycle exists in which Weyerhaeuser Forestry helps to retain existing customers and attract new ones, thus legitimizing and driving the continuation of the forestry operations.

Weyerhaeuser's early investment in the land base enabled it to build a portfolio comprising some of the best forest sites in the world. The majority of the company's lands in the Northwest are moderately sloped, lower-elevation lands almost impossible to acquire today. Indeed, through almost 100 years of carefully planned acquisitions, the company has been able to accumulate a superior portfolio of forest lands.²

Through superior site quality and forest management methods, Weyerhaeuser has been able to boost forest productivity. The company estimates that its lands currently generate twice the wood per acre in the Pacific Northwest and four times as much in the Southeast compared to unmanaged (natural) forest land. For example, U.S. net annual tree growth in the 1990s is about 54 cubic feet per acre, twice the level of the 1950s. Average growth on Weyerhaeuser land, however, is over 108 cubic feet per acre, with the company's prime, intensively managed lands producing an annual tree growth of up to 240 cubic feet per acre.

Furthermore, by 2010 .20, as the genetically improved plantations reach maturity, the company estimates there will be an *additional* increase in yield on its lands in both the Pacific Northwest and the U.S. Southeast. These yield improvements should translate into an increased wood harvest per acre of 50 percent in the Northwest and 100 percent in the Southeast. The result is a reliable, high quality, and growing volume of softwood timber

Moderately sloped lands increase harvesting ease, reduce risks of landslides and accidents, make

¹ For example, Weyerhaeuser has now entered a second generation in its Douglas fir genetics program and a third generation in its Loblolly pine genetics program. The closest competitors appear to be a full generation behind in each of these species.

² Site quality and slope are particularly important in the Pacific Northwest where mountainous terrain is the norm.

pruning easier, etc. In the Southeast, much less emphasis has been placed on forest land holdings, since site quality varies less significantly in the predominantly flat terrain. (referred to internally as a Wall of Wood), which is expected to reach maximum yield in a time of constricting supply, beginning around the year 2005 (see Exhibit 3 in the case).

4. Views on Sustainable Forestry

Learning Objective: One of the biggest challenges facing the company in the coming years will be that of convincingly demonstrating that Weyerhaeuser Forestry constitutes a model of sustainable forestry. Given the lack of operational definitions of “sustainable development” and “sustainable forestry” it will be important that the company proactively make the case that its plantation-based model of high-yield, environmentally sensitive forest management constitutes a viable path toward sustainability. This discussion should place this issue in context and examine how the notion of sustainable development might become a strategy driver for Weyerhaeuser because its core competency relates directly to sustainable management of the land base.

Teaching Strategies: A range of questions might serve to move the discussion in this direction:

- Does Weyerhaeuser practice sustainable forestry?
- Is Weyerhaeuser’s strategy consistent with the aims of sustainable development?
- How might the challenge of sustainable development become an opportunity for Weyerhaeuser?

Analysis: Recognizing that there are many who believe that plantation-based models are unsustainable by definition (since they imply alteration of the composition and character of native forests) Weyerhaeuser will need to constructively engage a broad range of interests if the company is to gain general acceptance for its methods. This will probably necessitate the development of a strong argument as to how such intensive, plantation-based models fit into the big picture of the world’s native forests, biodiversity, and the need for sustainable development, especially in developing and emerging economies (see Attachment 4). A vision of how plantations, managed native forests, and preserved old-growth forests might sustainably coexist is probably essential if such intensive management practices are to gain broad acceptance.

The company believes Weyerhaeuser Forestry can achieve both environmental and economic goals, the latter through higher yields which reduce the need to cut or manage additional forestland; the former through initiatives such as HCPs and watershed analyses. Indeed, it has been estimated that high-yield plantations totaling an area smaller than the size of Texas could produce enough softwood timber to supply current global demand in perpetuity. Weyerhaeuser’s high-yield plantation model also facilitates cleaner air and offsets the production of greenhouse gases through the higher oxygen production and carbon dioxide fixing associated with forests comprising young, fast growing trees.

It may be that the company’s high-yield model can help fulfill society’s growing demand for wood products into the next century without shifting that demand onto the world’s remaining old-growth and native forests. By harvesting more wood on less acreage, potentially more forestland can be reserved on public lands for other nonwood purposes, including the development of nontimber forest resources, wilderness, wildlife habitat, and recreation. Indeed, the Weyerhaeuser Forestry model raises interesting possibilities for the preservation of public lands, parks, and reserves around the world.

With its heritage as a pioneer in forest management, Weyerhaeuser developed a deep sense of commitment to environmental stewardship compared to most of the other large industry players. During the 1970s and 1980s, as the public's concern over forest practices escalated and regulatory pressures upon the industry increased, Weyerhaeuser was not immune to criticism of the industry. At first reacting in a defensive manner, the company nevertheless took the initiative to open a dialogue with external stakeholder groups to improve communication and understanding.

Through its initiatives to establish a dialogue with communities, indigenous peoples, and environmental groups, the company has developed skill at cultivating stakeholder relationships. The company's experience with town-hall-style meetings to solicit stakeholder opinions has allowed it to develop an openness and willingness to accept outside views and an understanding of how best to engage in that kind of dialogue. Such constructive engagement has resulted in better experiences and relationships with both regulating agencies and the public through its open implementation of alternative regulatory initiatives such as Habitat Conservation Plans (HCPs) and watershed analyses.

Weyerhaeuser's orientation toward the land base combined with its willingness to cultivate stakeholder relationships position it well to capture the environmental high ground in the forest products industry. Indeed, environmentally driven constraints on timber harvests, particularly on public lands, provide a competitive advantage. Given its substantial reliance on well managed, company-owned lands, Weyerhaeuser is well positioned to provide a growing supply of high-quality softwood in a world of tightening environmental regulation and constricting supply. In contrast, if the competitive game shifts away from sustainable forestry toward timber mining (e.g., if the Russian Far East were to be logged at an accelerating pace to generate hard currency), then the Weyerhaeuser Forestry model would lose much of its basis for competitive advantage. In a very real sense, the environment can be a competitive ally for Weyerhaeuser.

5. Discussion: Strategic Issues for the Future

Learning Objective: The discussion should focus on the challenges Weyerhaeuser faces given its competitive strategy. Overall, the students should come to understand that while the company has developed and operationalized many pieces of sustainable forestry, it has failed to fully integrate them into a comprehensive strategy. Gaps still exist between intention and practice, offering the company an opportunity to forge ahead as an environmental leader and set the standard for the forest products industry.

Teaching Strategy: The instructor might begin this segment of the discussion by asking students to identify key unresolved strategic issues that might affect the company's position in the future. At a minimum, these issues should include vertical integration, environmental certification, chain of custody, Weyerhaeuser Canada, the Russian Far East, and leveraging core competence internationally. Additional issues might include biotechnology versus selective breeding, alternatives to wood fiber, use of recycled fiber, and the company's position on climate change. Specific questions to prompt discussion could be as follows:

- Are there opportunity costs to committing half of the asset base to mills?
- Should Weyerhaeuser seek product or forest certification? Should it remain as part of the

- AF&PA or separate from the pack given its strategy?
- How should Weyerhaeuser handle chain-of-custody issues for the wood it buys from outside suppliers?
- Is the company's current position in Canada consistent with the objectives of Weyerhaeuser Forestry?
- What should the company's posture be with regard to the Russian Far East?
- Will the Weyerhaeuser Forestry model transfer easily as the company looks to expand its operations internationally?

Analysis: Weyerhaeuser appears to have successfully integrated environmental concerns into its core strategy and value proposition. Significantly, environmental concerns have been incorporated within a broader model of product quality and competitive advantage, offering the potential for long-term sustainability, both economically and environmentally. There are, however, several strategic challenges facing the company as it looks toward the next century.

Vertical Integration

While vertical integration may offer advantages in terms of full raw-material utilization, the capital-intensive nature of the pulp and paper segment makes it a difficult business to compete in. State-of-the-art pulp and paper mills cost in the range of \$1 billion each, and they quickly depreciate in value as new technology emerges at an accelerating rate. Gaining competitive advantage in the pulp and paper industry thus requires distinctive skills in manufacturing, a global commitment to technology leadership, and a strategic focus on pulp and paper.

While Weyerhaeuser is better than average in pulp and paper, and has invested extensively in this industry in recent years, it is probably not distinctively skilled in manufacturing compared to global leaders such as International Paper. Furthermore, the company has spent decades designing its structure and strategy around timberlands first, wood products second, and pulp fiber and paper manufacture last. Developing nations are investing heavily in the pulp and paper portion of the forest products industry. In a world of escalating capital requirements and manufacturing overcapacity, it may make sense in the long term for the company to focus more of its capital investment on its land base through Weyerhaeuser Forestry, where its core competencies reside. Indeed, spending the time and resources investing in the capital-intensive manufacturing operations of pulp and paper production, where the company is clearly not a global leader, may be constraining Weyerhaeuser in other ways as it seeks to expand internationally, acquire overseas land holdings, or pursue new business opportunities.

Environmental Certification

So far, demand for certified wood products has been limited to niche markets in Western Europe and North America: worldwide, buyers have consistently shown that they will not pay a premium for "environmental" wood products. However, should a large industry player break from the pack and seek third-party certification, the competitive dynamics of the industry may change as other large competitors feel compelled to follow. Such a move might be especially consequential in the environmentally sensitive European market and in developing countries where certification could establish barriers to entry in an otherwise under-regulated environment.

Third-party certification might make competitive sense for a large player able to integrate sustainable forestry and environmental performance into its core business strategy, i.e., for a firm

that could offer a quality product at competitive prices while satisfying the environmental criteria. Weyerhaeuser may be positioned to gain such an advantageous position. It may therefore make sense for the company to consider third-party certification, at least for several of its forest sites, if not for its products in general.

A related issue is whether or not Weyerhaeuser should remain as part of the industry association, the AF&PA. The industry association has adopted a “continuous improvement” (non-third-party) orientation to sustainable forestry that is not endorsed by the environmental community. Furthermore, the AF&PA must necessarily represent the industry’s least-common-denominator position in its dealings with regulators and policy makers. Given Weyerhaeuser’s capability and stance on forest issues, does it benefit the company to remain or should it break from the pack and seek to differentiate itself on environmental and sustainability grounds?

Chain of Custody

Even the best-intentioned companies can have only a limited impact on forestry through their own land holdings. Reliance on outside sources of wood and fiber from public lands and small, private landowners suggests that if a company is to engage in sustainable forestry, it may become increasingly important for the company to help manage the impacts of these suppliers’ practices. Despite high yields from its own well managed forest lands, Weyerhaeuser is not self-sufficient in wood. Both the Wood Products and the Pulp, Paper and Packaging businesses rely on non-Weyerhaeuser timber for roughly half of their wood and fiber needs. Working with small, private suppliers to improve their forest management practices could become a critical element in a company’s management system should product certification ever be seriously considered as an option. Chain-of-custody tracking might also become important should environmental concerns force large consumer-products companies (e.g., Procter & Gamble) into requiring first-tier suppliers to provide such data. Moving the supplier base toward sustainable forestry cannot happen overnight. There may be first-mover advantage for the large forest products player that can gain preferred access to the best (i.e., sustainable) outside wood suppliers in specific geographic regions.

Weyerhaeuser Canada Forestry

With 20 percent of its assets residing north of the border, Weyerhaeuser is a substantial player in the Canadian forest products industry. In contrast to the US, however, where only 39 percent of the forest lands are publicly owned, 94 percent of Canadian industrial forestlands are owned by the provincial governments. Crown ownership prevents private ownership of that country’s forestlands and undermines the company’s ability to apply Weyerhaeuser Forestry practices for the lands on which it operates. Given the opportunity to follow its best management practices, the company could derive substantially higher yields from less land in Canada. However, lack of land ownership makes it risky to establish high-yield plantations on the Crown concessions granted to the company, because there is no guarantee that the company will be able to maintain long-term control over these sites.

As a result, the company continues to log native forests on concessions covering more than 23 million acres granted to it by the provincial governments of British Columbia, Alberta, and Saskatchewan. And while the company avoids the controversial “ancient forests” of western British Columbia, the inconsistency between its U.S. and Canadian forest operations is evident. As environmental pressure mounts on the Canadian and provincial governments to alter their

current concession systems (which favor job creation through harvesting at the expense of long-term management), Weyerhaeuser's position will be improved. If sustainable forestry is to be a centerpiece of the company's competitive strategy, it is in Weyerhaeuser's self-interest to push for policy changes consistent with the principles of Weyerhaeuser Forestry in Canada and gradually move away from its practice of harvesting native forests in favor of long-term plantation forestry.

The Russian Far East

Weyerhaeuser's initial venture into Siberia saw it partner with a local company in an effort to gain a timber concession. Following an experiment involving the planting of 1.2 million seedlings, the company withdrew from the venture citing problems of infrastructure and corruption which made the practice of Weyerhaeuser Forestry a virtual impossibility.

If the Russian Far East were to be logged at an accelerating pace to generate hard currency, then the Weyerhaeuser Forestry model would lose much of its basis for competitive advantage. The situation in the Russian Far East is, in many respects, similar to that in Canada. As in Canada, if Weyerhaeuser is serious about centering its strategy on sustainable forestry, it is in the company's self-interest to collaborate with environmental groups, nongovernmental organizations (NGOs), and governments to help prevent timber mining in Siberia and preserve as much of the Russian Far East old growth as possible. At the same time, the company should use relationships to help identify and secure access to a few sites with the highest potential for softwood production. The focus on quality over quantity would be in line with the goals of Weyerhaeuser Forestry. On the other hand, full-scale development of Russian Far East timber in the form of rampant cut-and-run operations would wreak environmental havoc in a sensitive region, flood the world market with softwood timber, and deal Weyerhaeuser a severe economic and strategic blow.

Transferring Weyerhaeuser Forestry Overseas

Because Weyerhaeuser currently produces exclusively in the United States and Canada, it has learned a great deal about producing timber under conditions of intensive regulation and environmental scrutiny. This should serve the company well as it seeks to expand its forest and production base off shore, where the growth markets of the future reside. Both Weyerhaeuser's forestry competence and its stakeholder-involvement skills should be transferable internationally. However, there will be necessary extensions and adjustments required for each. With regard to stakeholder involvement, expansion into less-developed and under-regulated countries will require the company to expand its model to address more difficult tests than it has dealt with so far (indigenous peoples, poverty, rural migration, energy generation, and a host of other issues related to sustainable development).

With regard to forestry competence, Weyerhaeuser will have to apply its core capabilities in selective breeding, tree improvement, and plantation management to species other than Douglas fir and Loblolly pine. This should be possible as long as the company sticks with its focus on softwoods. Particularly attractive are overseas lands that have already been converted to plantations or marginal farming and grazing uses with the soil potential for implementing Weyerhaeuser Forestry practices. Opportunities in the temperate tropics (e.g., Argentina, Chile, Brazil, Australia, and New Zealand) where it is possible to grow softwoods on a fast rotation basis are especially desirable. However, should Weyerhaeuser decide to move into fast-rotation hardwoods, a great deal of new learning and perhaps partnering would be required to counter the already strong positions held by substantial competitors such as Aracruz, Mondi, and others.

The company appears to have ruled out investment opportunities that preclude full utilization of Weyerhaeuser Forestry. For example, it has steered clear of tropical rainforests in part because of the controversial nature of these ecosystems, but also because of its comparative lack of competence with tropical hardwood forests and soils. Similarly, the company has avoided entering politically unstable regions where long-term land ownership and stewardship become high-risk propositions. As a case in point, political instability caused the company to back away from its venture in the Russian Far East.

6. Conclusions and Update

Weyerhaeuser has spent the past century developing expertise in the management of softwood forests. By committing to the continuous growth of the forests before its competitors, the company enjoys a 10- to 20-year lead on knowledge of softwood genetics, particularly of the Douglas fir. The result has been increased yields that require the use of fewer forests for industrial production. The company may be in an excellent financial position as its high-yield plantations reach peak levels of production during a time of rising demand and falling supply.

Weyerhaeuser may have the opportunity to further increase its competitive advantage by creating a seamless model of environmental management as it expands overseas. The company is in an excellent position to exemplify how an industry leader can take the initiative to operationalize sustainable development by extending Weyerhaeuser Forestry to all of its holdings, both domestic and international.

As of this writing (summer 1997), Weyerhaeuser had recently announced its intention to purchase the assets of a subsidiary of Fletcher Challenge Forests in New Zealand (see Attachment 5). The subsidiary, Tasman Forestry Ltd., owns 51 percent of an existing joint venture that holds 193,000 acres on the northern end of the South Island. Of that, 148,000 acres had Crown Forest License cutting rights and 45,000 acres is predominately freehold land. As a 51 percent partner in the joint venture, Weyerhaeuser would be responsible for management and marketing while the remaining 49 percent would be held by RII New Zealand Forests I, Inc., which is owned by institutional investors represented by UBS Resource Investments International. The property has an intensively managed mix of Radiata pine, Douglas fir, and minor species. There are no manufacturing facilities in the joint venture. President and CEO John W. Creighton, Jr., stated:

We're very pleased to become part of New Zealand's world class forest industry. This is an attractive opportunity, with a very competent management team and a well-run property. This is consistent with our long-term strategy to acquire timberlands and related assets outside North America.

Weyerhaeuser Company: The Next 100 Years

**Stuart L. Hart
University of Michigan**

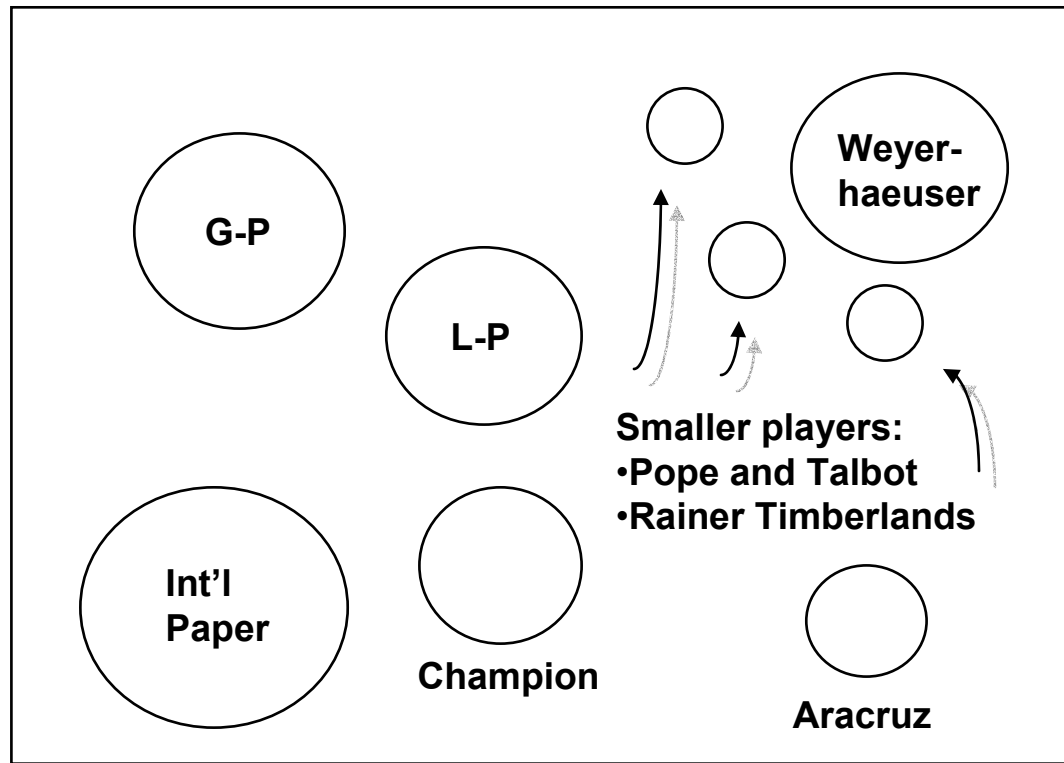
Weyerhaeuser: Discussion Questions

- **What is Weyerhaeuser's corporate strategy?**
- **What is their core competence and competitive advantage?**
- **Does Weyerhaeuser practice "sustainable forestry"?**
- **Are they well positioned to be competitive in the next century? What strategic issues regarding the environment and sustainability do you see that require attention?**

Corporate Strategy: Strategic Groups

Grow for
High Value
Timber

Grow for
Pulp

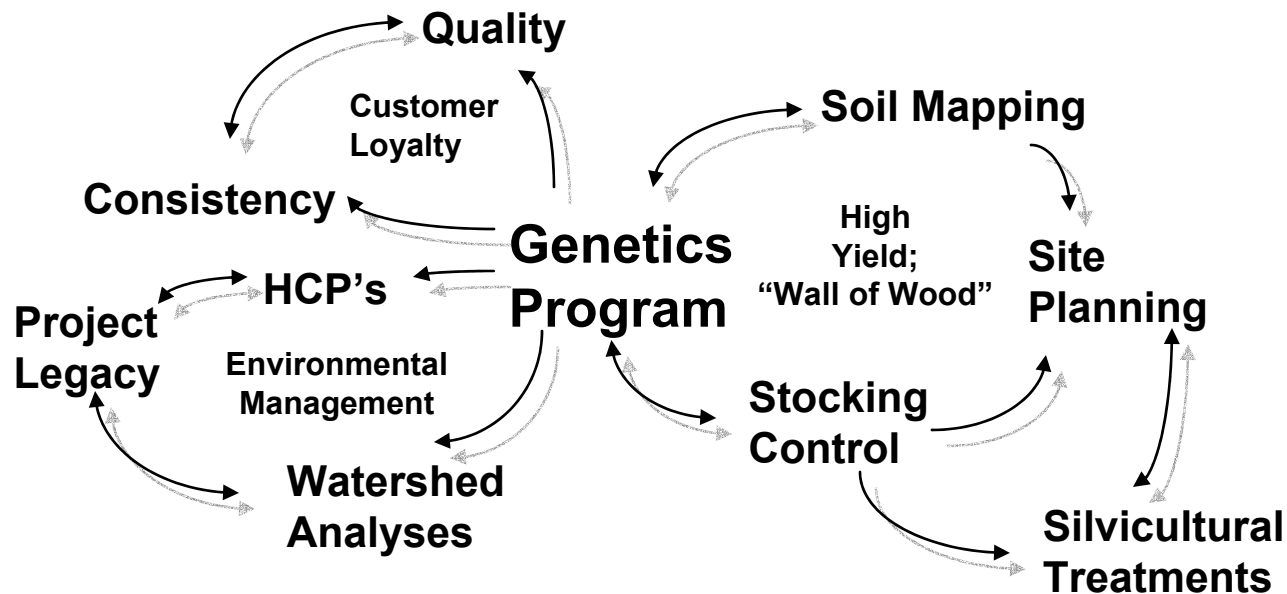


Manufacturing
Focus

Forestry
Focus

Core Competence and Competitive Advantage:

Forest-Based Learning System



- first mover advantage
- tacit and complex capability
- barriers to imitation

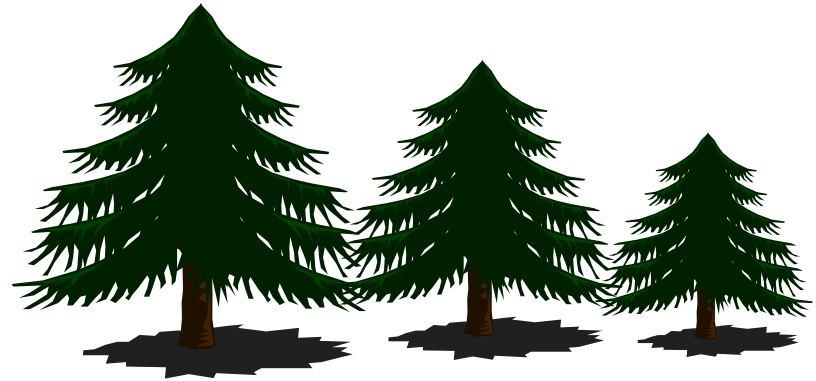
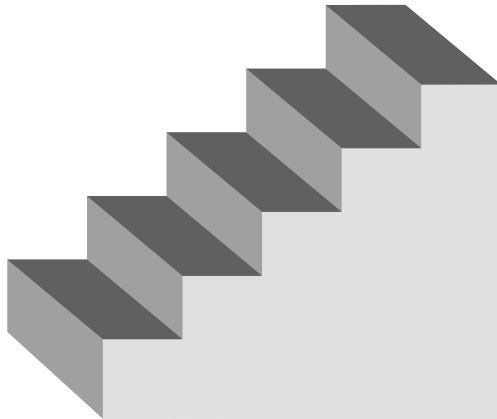
Sustainable Forestry? Avoiding the Collision Course

Demand Growth:

- *population growth*
- *urbanization*
- *rising standard of living*



*Stable or Declining
Physical Basis of
Supply (e.g. food,
fiber, water, waste)*



- Higher yields on less land enable native forest preservation
- Land area the size of Texas could supply global softwood demand
- Fast growing trees fix more carbon dioxide
- Seize the environmental “high ground”

Strategic Issues for the Future

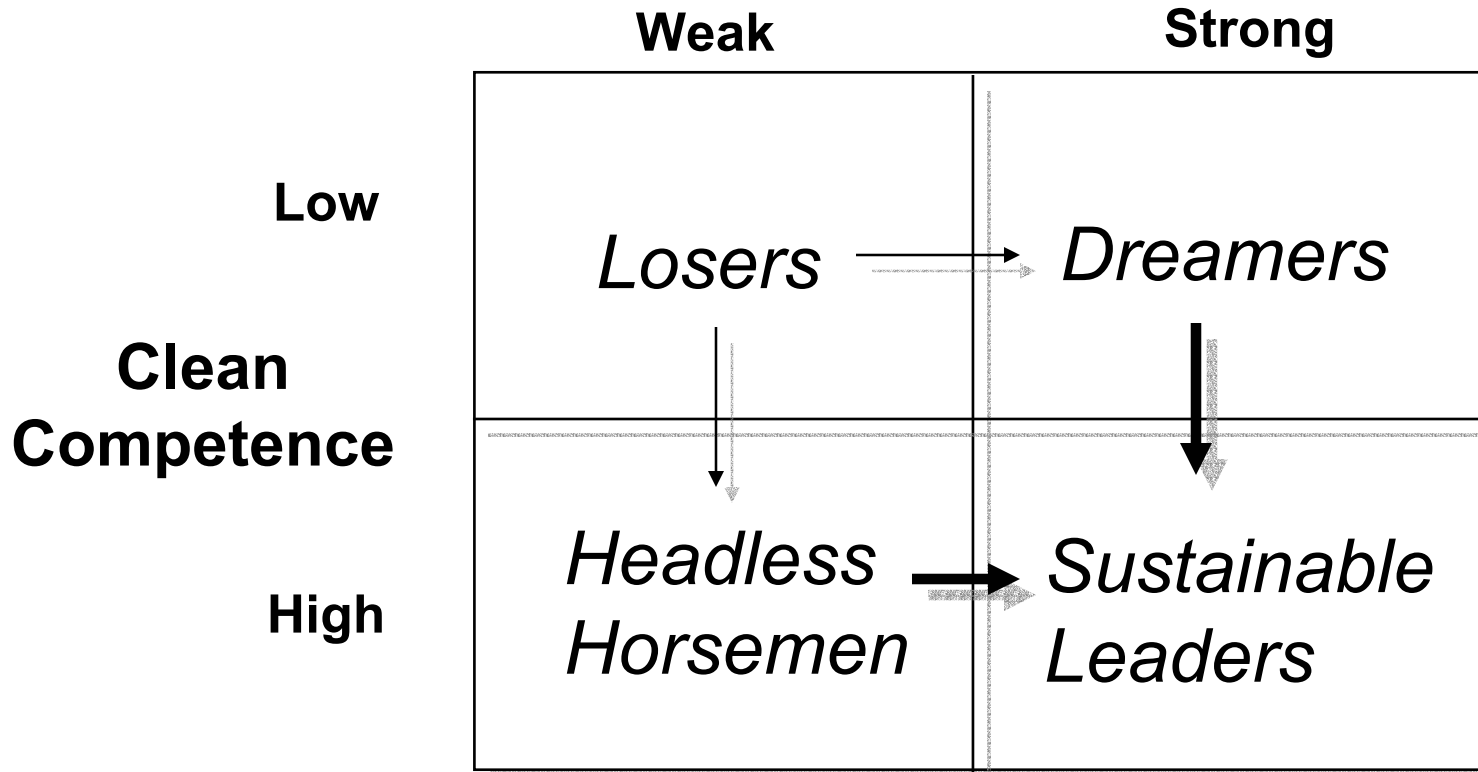
- **Vertical Integration**
 - opportunity cost of mills?
- **Environmental Certification**
 - separate from the pack?
- **Chain of Custody**
 - preferred access for first mover?
- **Canada**
 - push for policy changes?
- **Russian Far East**
 - preserve the old growth?
- **Transfer of Forestry Skills**
 - complexity of challenges? different species?

Update

- **Weyerhaeuser has the opportunity to create a seamless model of corporate sustainability as it expands overseas, but must address the issues discussed.**
- **In 1996, Weyerhaeuser lost a bid to acquire a stake in Aracruz Celulose-- a Brazilian eucalyptus pulp manufacturer well known for its forestry skills and commitment to sustainable development.**
- **In 1997, Weyerhaeuser announced the intention to purchase a subsidiary of Fletcher Challenge Forests in New Zealand**
 - **Tasman Forestry Ltd. owns 51% of a joint venture that holds 193,000 acres on the South Island, 148,000 of which are Crown License cutting rights**
 - **The property has an intensively managed mix of Radiata Pine and Douglas-fir**
 - **There are no manufacturing facilities in the joint venture**

The Challenge

Sustainability Vision



Conclusions: Market Context

- **There will be a shortfall of softwood timber beginning in the early part of the next century**
 - overharvesting on non-industrial forest lands in the US and Canada
 - stricter regulations on public lands in US and Canada
 - lack of infrastructure to harvest Russian Far East
 - gradual development of plantations in the South (Brazil, Chile, Australia, New Zealand)
- **Weyerhaeuser Forestry will result in dramatic increases in softwood yields about the same time resulting in a “wall of wood”**
 - Northwest: 2x wood per acre compared to unmanaged land; 50% increase in yield over plantation land
 - Southeast: 4x wood per acre compared to unmanaged land; 100% increase in yield over plantation land

Conclusions: Competitive Context

- **Weyerhaeuser has spent fifty years developing a knowledge base of its softwood forestlands and soils.**
 - It has effectively locked up a rare resource-- the most productive, least fragile timberlands in the Northwest and Southeast US (about 6 million acres)
- **Through investment in genetics, siting, planting, spacing, and silviculture, the company is able to realize substantial gains in value and return over competitors.**
 - These skills are systemic and tacit and can not be quickly or easily duplicated
 - Weyerhaeuser has a 20 year lead on its nearest competitor in Douglas Fir and Loblolly Pine

Conclusions: Ecological/Social Context

- **Weyerhaeuser Forestry can achieve both economic and environmental goals by combining high yield forestry with stakeholder involvement and environmental stewardship**
 - High yield plantations covering an area smaller than Texas could produce enough softwood to supply current global demand in perpetuity
 - By growing more wood on less acreage, more forestland remains for other non-wood purposes, including wilderness, wildlife habitat, and recreation
 - High yield forestry may also take the pressure off remaining tropical and virgin forests in developing countries

Financial Performance

- **Weyerhaeuser has succeeded in integrating “sustainability” into its core value proposition**
 - higher yields and consistent quality
 - environmental and stakeholder management.
- **Weyerhaeuser estimates its returns to acre to be significantly better than those of its competitors.**
- **The company has become a top quartile market performer in the forest products industry**
- **Through the increased yields of Weyerhaeuser Forestry, significant additional increases in cash flow should be realized over the next 25 years.**