



Case Study: Bulkan Timber Works, Guyana

Bulkan Timber Works (BTW) was founded in 1997 by serial entrepreneur Howard Bulkan to provide house building materials throughout the Caribbean. Whereas most wood-related production and export in Guyana focuses on cutting and exporting raw material from Guyana's rich rain forests BTW has focused on developing sustainably harvested value-added export products. All of BTW's revenues are from exports.

Business Challenge

Guyana is blessed with an abundance of natural resources. Indeed, six commodities, including sugar, gold, bauxite, shrimp, rice and timber, currently account for 60% of Guyana's GDP. These commodities have proven to be a source of wealth for Guyana; however, it has also left the country exposed to highly volatile global commodity markets. To mediate this exposure, the government has introduced policies to diversify the economy. For example, in the timber sector, it has introduced a levy on raw wood exports to incentive firms to increase the level of value-addition. Therefore, the challenge confronting Bulkan Timber Works is whether it should make the necessary investments to develop the internal skills and technologies required to add value to raw wood.

Analysis of alternatives

Product:

- *Produce timber in its raw form* - Most wood-related Guyanese companies focus on cutting and exporting commodities in their raw form. Should BTW choose to pursue this path, it will benefit from the ability to start the business with little capital and realize profits more quickly and with less continued investment.
- *Produce value-added wood products* - Should Howard Bulkan decide to take a different path that required produced a more value-added product, he would need to invest time and strategic and financial resources. This could prove to be a riskier strategy that would require a significant amount of financial capital.

Market:

- *Target local Guyanese market* - Providing product to the local Guyanese market would require less initial investment and sourcing customers would potentially be easier based on the founder's networks within the country. The Guyanese market, however, was small and the housing growth rate may be slower than that of other markets.
- *Target export markets* - As the only English-speaking nation in South America, the company could also choose to export to the English-speaking Caribbean, where there may be cultural affinities. Traditionally, Guyana has identified strongly with the English-speaking Caribbean. In these markets, the company would face little competition, but be subject to higher transport costs, more difficulty in sourcing customers than in the local market and any one of these markets may be small and low-growth. The company could alternatively choose to focus on the largest markets in the region, including countries like the United States and Brazil. In these large markets, the company could potentially benefit from higher prices for its products, but would potentially face more competition from Brazilian and US companies. In addition, in this smaller, niche markets, it is able to benefit from little competition, as its larger, Brazilian competitors has focused on the larger US market for their exports.

Method of Production - The company also has to choose the manner in which it would source its products. The company could engage in selective felling of trees, which would be more environmentally sustainable, but could result in higher costs and a slower growth rate. Alternatively, engaging in "clear cut" felling would be lower-cost.

Action Taken

BTW chose to focus on adding value to raw timber. In order to implement this more complicated strategy, the founder spent a full year crafting his strategy, which included identifying appropriate products, suppliers and customers before launching the business. This significant investment in time was accompanied by a similar level of capital investment required. Without capital of his own to invest, Howard Bulkan sourced a \$30,000 loan to launch the business.

The company has chosen to focus on English-speaking Caribbean market for its products. This has enabled it to expand beyond the local market to realize some economies of scale, while not coming head to head with tough international competition in the larger markets such as the US and Brazil.

In order to ensure materials that are sourced via selective felling rather than clear-cut, the company has established a logging joint venture. Trees are not only felled but sawn in the forest, avoiding any heavy equipment, hauling and trucking. In addition, BTW provides financing to this joint venture to ensure continuity of supply.

Results

Guyana's rich rainforests have long provided timber for the export market, but BTW uniquely identified an opportunity to use these raw materials to create additional value in Guyana. BTW is an example of Guyanese company who has taken the country's rich natural resource endowment and moved further own the value chain. The company adds value to its products by kiln-drying the sawn lumber and shaping the wood into products including moldings (crowns, bases and chair-rails), house building materials (wall cladding, tongue & groove flooring, wall studs and rafters), decking, and staircase components and rails.

As is typical of companies dependent on the construction sector, however, BTW has seen significant revenue and margin volatility, mainly driven by the company's exposure to raw material costs. In addition, the company still has significant leverage due to its early investments, but has adequate cash flow to service this debt. Despite falling margins, however, BTW appears to have weathered the storm better than some larger global competitors. The company has been dealing with a backlog of work and has doubled its capacity to meet this increase in demand. In addition, it expects to drive significant revenue growth in the coming years through the introduction of additional value-added products such as doors and pre-fabricated housing, which have higher margins. Finally, the company's logging joint venture should provide improved pricing for raw materials driving margin improvement.

The COW-F Framework provides a means of assessing the sustainable growth potential of a firm.¹ Sustainable growth can only be achieved if a firm can satisfy all four of its stakeholders: customers, owners, workers, and future generations. The following table offers a summary of the value create for these four different stakeholder groups by Bulkan Timber Works.

Bulkan Timber Works and the COW-F Framework:

Stakeholder Community	Current Value Offering
Customers	Although BTW’s products are relatively unique in Guyana and the Caribbean, the products are similar to those produced in other parts of the world. The company’s focus on a well-defined customer segment (retailers and home builders in the English-speaking Caribbean) has provided a good source of growth for the firm.
Owners	The husband and wife team of owners have reinvested all profits back into the business and thus have not yet realized significant financial success from the venture.
Workers	Are paid significantly higher wages than government-mandated minimum wage and there are opportunities for advancement through an apprenticeship model.
Future Generations	The company is a key player in the sustainable logging industry in Guyana by only purchasing logs from suppliers that practice sustainable forestry and follow strict government guidelines. In addition, the company’s sawdust and wood waste is given away to local farmers who have created a market in reselling this material.

¹ The COW-F Model was developed by Michael Fairbanks. It first appeared in *The Natural Advantage of Nations*, Hargroves and Smith, 2005.