The Strategic Challenge
New Activities in the Paper Supply Chain

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Background

Due to the competitive situation in different market areas the paper industry is under the pressure of a need for improving the profitability by overhauling its purchasing and marketing activities. This is done in order to reduce costs and improve efficiency and supply chain management has become a new paradigm for the industry. Both mills and suppliers have responded to this paradigm by forging integrated and long-term relationships built on communication, commitment and mutual gain.

Traditionally paper companies have chosen their suppliers to a great extent on competitive pricing and service. While pricing and service remain important, the relationships between paper companies and suppliers have changed. Similar to the competition in other industries e.g. the situation in the automobile industry during the late 1980s and the early 1990s, today's business climate in the paper industry brings pressure for improved profitability, cost reductions and efficiency improvements.

At the same time paper companies have integrated forward by mergers and acquisitions in order to build up a market position on different markets and product areas in the local market structure. Due to structural changes and concentration within different industry's the paper companies have also come under the pressure from big buyers, especially from customers selling consumer products e.g. the food industry.

The research issue in this paper can therefore be emphasised by – *How can a paper company adjust its marketing strategy for this new competitive situation?* The intention is to use a qualitative study by interviewing management in a specified number of companies. The data collection will also be completed by secondary data from the same companies.

As a result of greater international competition changes are occurring more rapidly in most industries and companies are forced to be able to react to the current competitive situation either change is taking place in the supplier or customer side. Many factors are also influencing management expectations about the effects on the business goals. Expectations reflect the decision-makers present knowledge as well as the perception of future events.

The Changing Market Environment

Due to the increased globalisation there are many factors influencing the pulp and paper industry. The main emphasis in this paper is to discuss how external changes and different driving forces will challenge the strategic management within the pulp and paper industry. For Nordic companies Western Europe is still the home market in competition with local producers and an intensive competition from companies in North America and Canada. New actors from South Africa and Asia are also adding to that competition. At the same time Nordic companies are interested to expand their business into evolving market areas in Asia and into Latin America. The increased competition will focus the strategic issues in this business sector and require a higher market orientation.

Threats of substitute products

Some of the competition within the paper and especially the packaging industry is also coming from substitute products. Different solutions to packaging problems have been possible to solve by using plastic materials. In other areas plastic has been combined with paper or board to create new combinations, which have given customers new products with other properties.

Bargaining powers of suppliers

One important driving force within the paper industry is coming from new technology. The pulp and paper industry has during several years been driven by technology and a high product orientation. Due to structural changes within the networks on the supplier side the bargaining power has increased from the supplying side of technology.

> *Papermaking is the art of balancing many different technologies. Change one aspect of the papermaking process and others will have to change to (Rooks 2000, p.18).*

Bargaining powers of buyers

Due to concentration within many industries e.g. the food sector, but also on the retailing side the bargaining power has increased from different groups buying packaging material. This has also influenced the roles of the parties within the paper supply chain.

New entrants

The paper industry has also faced competition from new suppliers in other regions and parts of the world. These competitors have been able to base their production on lower costs for raw material and other manufacturing costs.

Other Market Factors

The consumption of paper and packaging materials (Mautssek, ed., 2000) is varying between different countries around the world and there are several reasons for the wide spread in this consumption. A customer orientation within the company is about planning for customers' needs and researching markets continuously so that the company's products reflect what the customers want. Customer orientation is also about the ability to create value for the target customers, which require a deep understanding of customer requirements. A market orientation also requires an understanding of the competitive situation within the particular industry where the products are sold. It is also necessary that a company is co-ordinating their resources to reach this level. Due to rapid changes in tastes and habits by end consumers but also depending on changes within sizes of households and other demographics it also necessary that the suppliers can track and analyse such important trends.

Other market factors will therefore have a great influence on the demand for different paper and packaging products. Despite the use of electronic media it has so far increased the consumption of paper in volume terms. However, the media habits for the coming generation might be different from now on. The development of e-commerce within the paper industry might also affect trade patterns in different industries as well as the consumption and stockholding of different paper and packaging products. Despite the rapid development of information technology within different industries there has been some hesitation about e-commerce within the pulp and paper industry.

> *One of the most obvious conclusions seems to be that the apparent hesitation of papermakers in Europe is not simply due to e-commerce being comparatively new here. In the USA too, the e-commerce revolution in the paper industry seems to be taking time to make major inroads (Thomson 2001, p.20).*

Research design

This paper is based on results from an ongoing research project about the strategic changes taking place in paper producing companies due to the rapidly changing business environment. In order to stay sustainable in the changing business environment a company must be able to not only manage the standard economic factors affecting the core business, but also environmental and social factors as well. In order to follow different changes in the market place as well as the different companies' strategic action a longitudinal approach has been applied, which will make it possible to follow the companies' actions over a longer period of time. At this stage of the research the interest has been concentrated on the three cases studies which represent companies with different strategic direction.

The research method is a triangulation based on official documents from the companies involved in the study e.g. annual reports but also internal documents and official material published by the company's e.g. on internet. However, the main information comes from interviews with managers in the companies at Division level in the company. In these interviews an interview guide has been used, but the managers has also been allowed to describe their perception about what they recognise as important factors affecting the business environment for their core business. The managers have also been asked to describe how their company will meet those challenges. At this stage the producers have been interviewed but the intention is to follow the supply chain in order to study how different members in this chain can create value for the end customer. Due to the increased fragmentation by the end consumer e.g. single household, an ageing population and an increased demand for consumption in developing countries this study is also concentrated to products based on paper packaging materials.

The aim of the study

With the points discussed above as a point of departure the aim of the study may be said to be an attempt to describe and analyse aspects of competitive strategy in relation to the different driving forces in the international market environment. Since most of the Swedish paper industry's products are sold to markets within Europe, the study will primarily consider these markets. The research question can therefore be formulated in the following way – ***How can a paper company develop a competitive strategy within the changing environment of the paper industry?***

Competitive Advantage in the Changing Market Environment

By understanding how the industry structure affects competition and profitability it is also possible to identify how a company can influence the structure in order to improve the balance of competitive forces and possibly enhance its profitability. In the pulp and paper industry one of the most intractable structural problems have arisen from excess capacity from time to time. Acquisitions and mergers has represented a direct an effective way eliminating over capacity, but also for getting access to the local market place by taking over existing sales and distribution channels.

In the process of creating a competitive advantage (Asch & Bowman, 1994) a company needs to understand the key success factors in the particular industry (e.g. end-use of the product) but also have the resources and capabilities to fulfil them. A competitive advantage is the combination of these two components. A competitive strategy will be successful when a company can deploy the resources and capabilities to match the key success factors within the industry environment. As long as a firm adopts a competitive strategy where it utilises these resources and capabilities in a superior way of its competitors it should be possible for it to establish and keep a competitive advantage. The sustainability of the competitive advantage will depend on different factors eroding the advantages within different areas of the company's activities. The sustainability will depend on e.g. *durability (cost of raw material, product innovation, product brand), transferability (transfer of technology or knowledge) and replicability (complexity of capabilities).*

In the traditional Nordic paper-producing companies the competitive advantages has been built on a high technical vertical integration supplied by domestic raw materials in the form of wood and electrical power. The vertical integration has also been in the form of a commercial integration by mergers and acquisitions of converting plants or sales or distribution networks in the local market place in Western Europe.

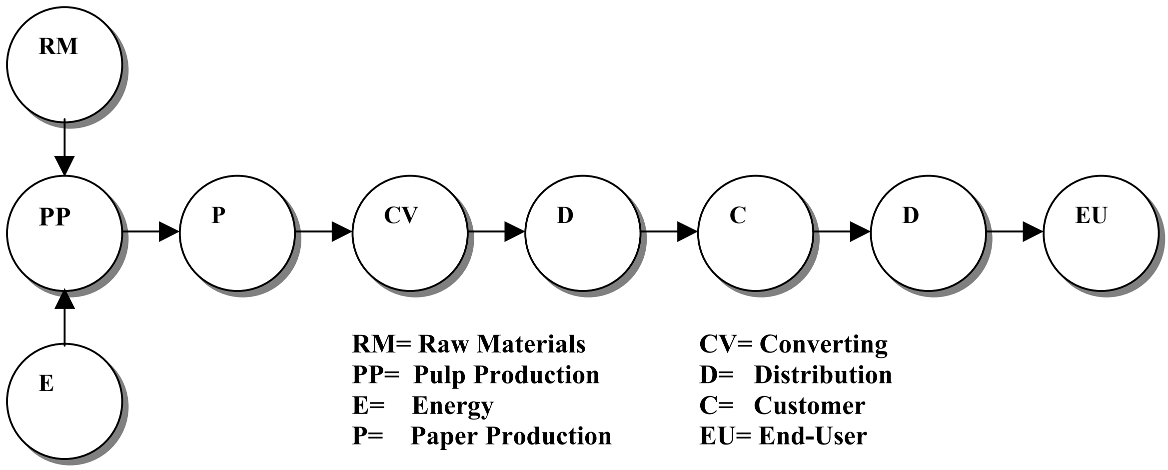

Figure 1: The Paper Supply Chain

Due to different disturbances within the market place (different driving forces) the paper producing companies have also come under pressure from stakeholders since the value of the stocks is below the development of the general index in the stock market place. To some extent the Swedish paper producing companies have chosen to concentrate on the core business by selling out activities which not are fitting to the core business but also in the form of outsourcing e.g. harvesting of wood (e.g. StoraEnso, Korsnäs). The traditional way of doing business will also be in focus due to the increased use of information technology e.g. the strategic challenge (Fraser et.al., 2000) of electronic commerce. In order to stay competitive the paper producing companies need to reconsider there competitive and marketing strategies.

The Strategic Challenge - An Industry in Change

Due to the increased globalisation there are many factors influencing the pulp and paper industry. The main emphasis in this paper is to discuss how external changes and different driving forces will challenge the strategic management within the pulp and paper industry. For Nordic companies Western Europe is still the home market in competition with local producers and an intensive competition from companies in North America and Canada. New actors from South Africa and Asia are also adding to that competition. At the same time Nordic companies are interested to expand their business into evolving market areas in Asia and into Latin America. The increased competition will focus the strategic issues in this business sector and require a higher market orientation.

According to Rainer Häggblom (2000) CEO of Jaakko Pöyry Consulting Oy the main challenges facing the paper industry are:

> *Emerging global consumer product giants, squeezing the margins of standard paper solutions.*
>
> *The trend is toward consolidation and globalisation requiring truly multicultural corporate management, a relatively new issue in the paper industry.*
>
> *How to supply paper to fast growing overseas regions? Paper producers have to determine their strategic segmentation.*
>
> *The e-world, which includes both media and e-business. So far electronic media have increased paper in volume terms. But the media habits of the next generation will be different from ours and media development in the non-European regions may favour the use of electronic media. However, the market is filled with uncertainty and paper producers and distributors have every opportunity to be active players and market shapers.*
>
> *Plastics are a true competitor to paper in packaging. In this area, most new product innovations such as stand- up pouches and packaging with distinctive shapes are based on plastics (pp.34).*

The Strategic Challenge

The business environment of the company consists of all the external influences that have an impact of the company's decisions and performance. The problem facing the management is tracking and analysing the vast number and range of external influences. The starting point is some kind of system or framework for organising and analysing different kinds of market information.

When sudden environmental changes occur they can trigger major developments in the marketplace. Some of the driving forces affecting the pulp and paper industry evolution have been discussed above. The strategic challenge for the management is the creation of a competitive and marketing strategy coping with those forces in the actual marketplace. Success in business is achieved when management develops a strategy and an organisation, which fit the environment within which the company operates. In a business market like the pulp and paper industry companies are dependent on their relationships with customers and suppliers, but also with other actors e.g. in the financial market and by activities from the end consumers.

> *Many of the strategic choices that a company makes will be in response to the actions of these other companies. In turn, the outcome of a company's strategy will always depend on the actions of others and how they react to what the company does (Ford et.al. 1998, p.64)*

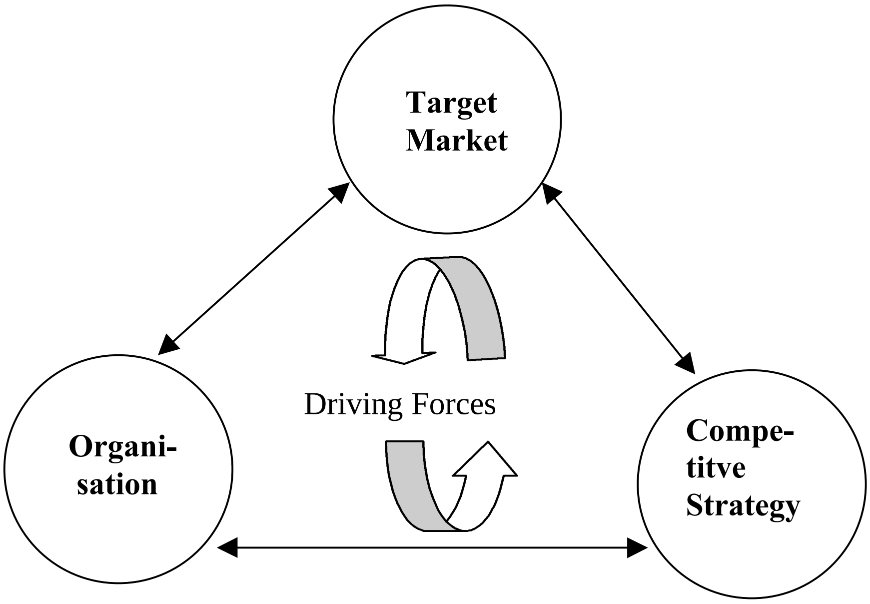

Figure 2: Driving Forces in the Market Place
Source: Rundh 2000

Strategy (Aaker, 1998; de Wit & Meyer, 1999) is concerned with matching a company's resources and capabilities to the opportunities that arise in an ever-changing external environment. The distinction between corporate level and business level strategy is relevant here. Corporate strategy (Grant, 1998) is concerned with deciding which industries the company should be engaged in and with the allocation of resources among them. The business or competitive strategy is concerned with establishing competitive advantage. Identifying the basis of and opportunities for competitive advantage requires an understanding of the competition within the industry.

It also requires that management understand customer needs and the means by which these needs are satisfied. A competitive or differential advantage can be created out of the company's strengths or distinctive competencies relative to the competition. The essential factors in choosing to create the advantage are that is must be on the basis of value to the customer (e.g. lower prices, superior quality and better service) and should be using a skill of the company that competitors will find hard to copy. However, markets are dynamic and virtually all products have a limited life, which expires, or are eroded when a new or better way of satisfying the underlying need is found or created by new technology or substitution.

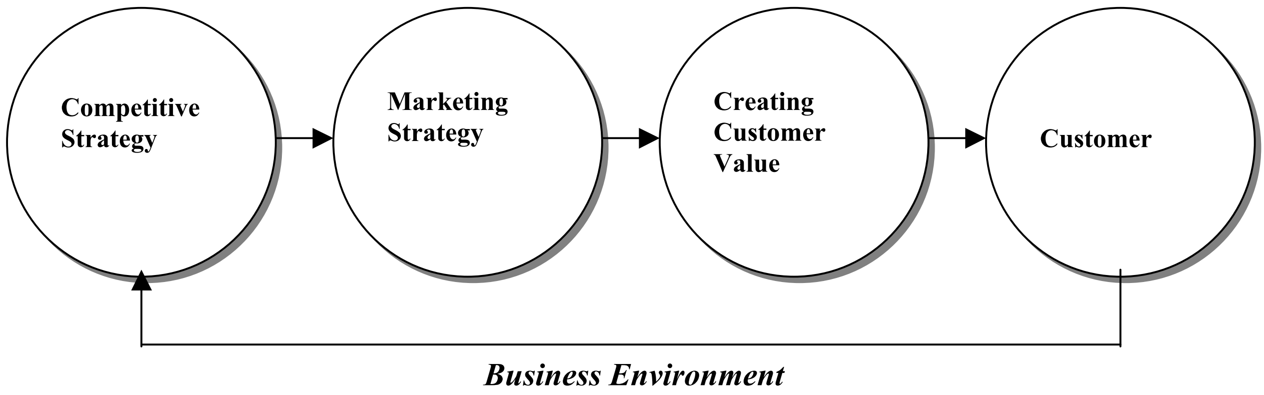

Figure: 3 The Marketing Strategy in a Changing Business Environment
Source: Rundh 2000

Competitive strategy

Developing an effective business or competitive strategy is vital for the company. According to the work of Porter (1979, 1980, 1985) there are three fundamental ways of achieving a sustainable competitive advantage for a company. This can be done by cost leadership, differentiation or focusing on a particular market segment. By cost leadership the company sets out to be the low cost producer within the industry. This assumes that cost can be reduced e.g. through economies of scale and that this is vital to the customer. The risks are that cost leadership cannot be sustained, competitors might imitate and technology changes or any other basis for the cost leadership might be eroded. With differentiation the firm sets out to be unique in the industry along some of the dimensions that are widely valued by customers. The risks associated with this are that the differentiation cannot be sustained as competitors imitate or the unique selling proposition becomes less important to customers.

By a focus strategy the company focuses on a narrow target market segment combined with either of the other strategies. The risks are that it can be imitated, the segment become unattractive, smaller segments start to appear or the basis for the segmentation disappears as the differences between segments disappears. It is therefore vital that the management understands the basis for its competitive advantage and that it is eroded over time by different driving forces in the market place.

A strategic market orientation requires that (Abell, 1978; Aaker 1998) the business firm focuses all of its resources on serving customers and market needs. Choices of target market segment will determine where the company will compete. Other companies will also be seeking to compete in these segments and the customer will choose whom to support. A key task for management in competitive markets is to create a (Day & Wensley, 1988; Slater, 1996) *sustainable differential advantage* to attract customers to these choices. At the same time it is important to build relationships that customers can be kept since (Reicheld, 1994) *loyal customers* are assets and winning new customers is costly.

Marketing Strategy

The marketing concept requires more than being able to meet customer needs - it requires meeting them better than competitors. Customers choose those suppliers, which offer the best value. If a company does not have a competitive advantage it will lose market share or have to cut prices to retain the market share. Strategic market planning is concerned with adapting the organisation to a changing environment. Organisations succeed when they meet the need of customers more effectively than competitors. According to Greenley (1993) the framework for developing marketing strategy can be explained by the stages of strategic planning at three different levels (1) corporate mission, (2) corporate strategy and (3) the actual marketing strategy. The actual marketing strategy (Greenley, 1993; Sudharasam, 1995; Hooley, 1998) can be formulated in different ways, but usually it include the following dimensions (1) the product or service market where the company compete (2) the level of investment to maintain or grow the business (3) the product line, positioning, pricing and distribution strategies needed to compete in the selected market segments (4) the assets or skills to provide a sustainable competitive advantage.

Creating Customer Value

Creating superior value necessitates at least two different kinds of knowledge (1) first about what customers will value and (2) second about the skills necessary to provide such values. The core competencies of the company are the unique bundle of skills it possesses which

permit it to offer a sustainable competitive advantage in the market place. In the long run success depends upon creating core competencies in the areas in which the company operates.

In the pulp and paper business the customer value must also be built on a long-term relationship. By increasing the efforts to interact (Rundh 2000) with the key customers it might also be possible for the company to go from product driven to be a leading and market driving company.

According to Häggblom (2000) the success stories during the 1990s have been based on the basic human needs or shifts in demographic patterns.

> *Fabricated drinks have become extremely fashionable, not only in the Western world but also in developing countries.*
>
> *Even if the Japanese have suffered from a deep recession during the past few years, local demand for incontinence products has increased by almost 10 % per year.*
>
> *Newsprint consumption in Iberia has increased more than the European average during the 1990s. The reason is that the share of woman at work has increased and workingwoman buys their morning papers on the way to the office as men do*
>
> *The paper industry has to refocus from just producing paper grades and semi-finished products, to providing user-friendly solutions (pp. 34).*

In order to produce products, which create customer value it, might be necessary that management also focus their interest on the end customer. This can mean that the management within the industry has to refocus the interest from just producing paper grades and semi-finished products to user-friendly solutions. The paper industry also needs to ally it with converting and the possibilities to innovation created by the new information technology.

Case A- The Special Base Paper Mill or The Reborn Paper Mill

Actors

In November 2000 the parent company Alfa signed a final agreement concerning a 50/50 joint venture with the other parent company Beta. The Special Base Paper Mill was reborn and the new company started operations on January 1st 2001 after approval of the European Commission Merger Task Force in December. The paper mills Gamma (parent company Alfa) and Sigma and Kappa (from parent company Beta) formed the new company. The synergy effect in the new company is expected to reach MSEK 200. The intention is also that the shares will be listed on the OM Stockholm Exchange latest during 2002.

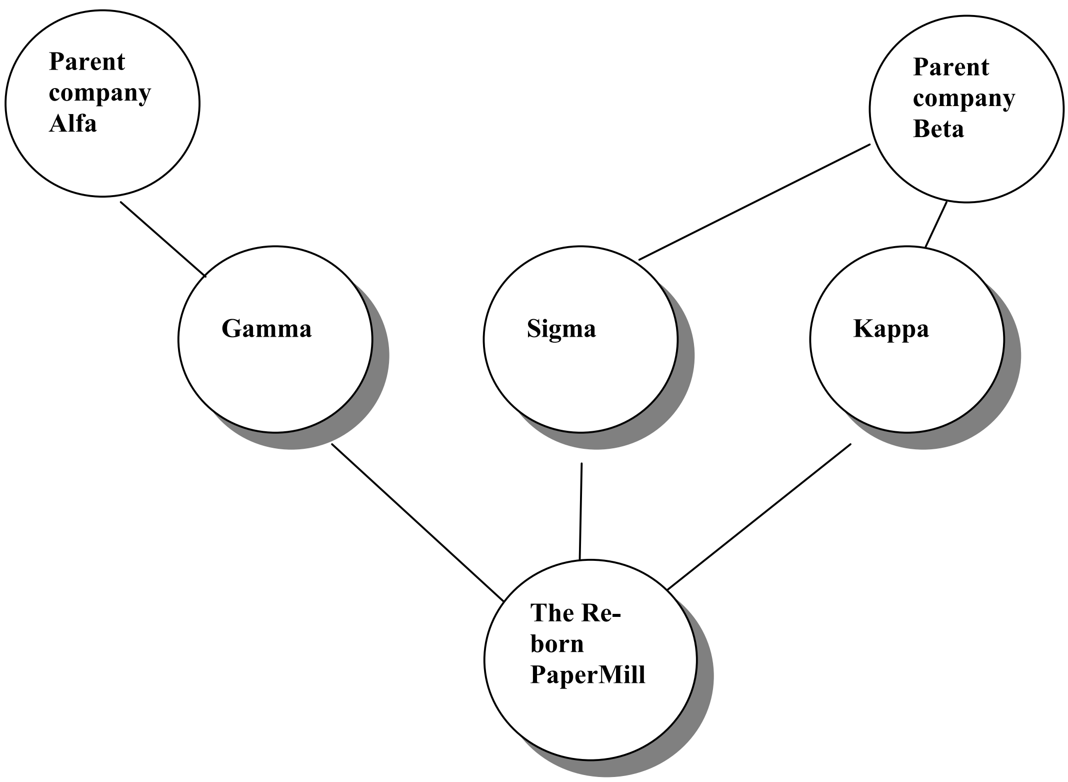

Figure 4: The Special Base Paper Mill

Resources

The Special Base Paper Mill manufactures packaging paper for building materials, chemicals, animal feed and food. The business unit also manufactures market pulp and liner. The Special Base Paper Mill's production capacity will total approximately 1 280 000 tonnes of paper and pulp. The company will manufacture white packaging paper, white and brown sack paper, semi-chemical fluting, white top liner and market pulp.

With the three mills sharing similar product portfolios the deal will follow the trend in the global packaging industry and the parent companies expect that it will be well placed to grow and become a global market leader in bleached packaging paper. The merged company will also provide a good base for efforts to develop the product mix towards more added-value products.

> *The rationale behind the merger is the similarities in the product portfolio between the mills and the economies of scale that will arise. This will create a company that is able to meet the demands on capacity, size and quality being made by the ongoing consolidation of the global packaging industry (The Special Base Paper Mill).*

Activities

The production at the Gamma mill will be based on raw material supplied mainly from the parent company Alfa and consists of pulp and paper products for packaging purposes. The mill has 1150 employees and produces a wide range of packaging papers. The product mix consists of bleached Sack and Kraft papers (175 000 tonnes), Semi-Chemical Fluting (250 000 tonnes), White Kraft Liner (100 000 tonnes) and bleached Market Pulp (85 000 tonnes). The main market for the products is within Western Europe. Since the mill previously has withdrawn from the process of converting, the customers will be found among converters.

The Kappa mill has 460 employees and is located in the northern part of Sweden. The production is focused on environmental friendly white Pulp, Sack and Kraft paper. The production of Market Pulp is 160 000 tonnes and the production of paper is 110 000 tonnes. Some of the paper is also coated.

The Sigma mill is located in the eastern part of Sweden and has 710 employees. At this mill a wide range of packaging and kraft pulp is produced. The product mix consists of brown sack and kraft paper (135 000 tonnes), white MG kraft paper (85 000 tonnes), fluting (90 000 tonnes) and bleached Market Pulp (80 000 tonnes).

The merger between the mills is supposed to create such synergies and a position that the company can grow and become a leader within white packaging paper. The management for the new company also believes that through the merger, *a good basis is formed for efforts to develop the product mix towards more value-added products (The Special Base Paper Mill).* The brand name of the Special Base Paper Mill is also well known on the market since the parent company Alfa kept it as a trade mark (up to 1996) for certain products after the acquisition of the Gamma mill from Anders Walls investment company Tresor in 1984.

From previously has been a problem for the parent companies, the three mills are now a base for something that should be developed for the future. The new company is now a *giant in the small* since the company has a market position of number one within four product areas out of six. The new company is therefore not a candidate for acquisition at the moment.

Business Strategy

The basic idea behind the joint venture is the similarities in the product portfolio between the three mills, which are supposed to create synergies and to give economies of scale for the new company. Through the merger the management believes that there is a good basis for efforts to develop the product mix towards more value added products.
The business strategy is focused on the objective to keep the new company as the leading European producer of Speciality Packaging Paper. The prevailing product mix consists of Sack paper, Kraft paper, and Containerboard especially within the area of bleached qualities. The company is also delivering some Market pulp. To be able to follow this strategic direction the company intends to continue the research and development in close relationship with its primary customers, even if it no longer has the parent company's resources for development. Another key issue is to keep up with the environment requirements on packaging materials, but also in connection with the production of bleached qualities.

Case B – The Special Paper Mill

Actors

The special paper mill is a niche player with a concentrated selection of high value-added paper products and a market leading position in a range of specific product or geographic areas. The paper business area is based in Sweden but have also production units in Germany, Spain, Italy and USA. Some of the production in printing of plastic and paper materials is also taking place in a converting unit in Norway. More than half of the total Group Sales is coming from special papers.

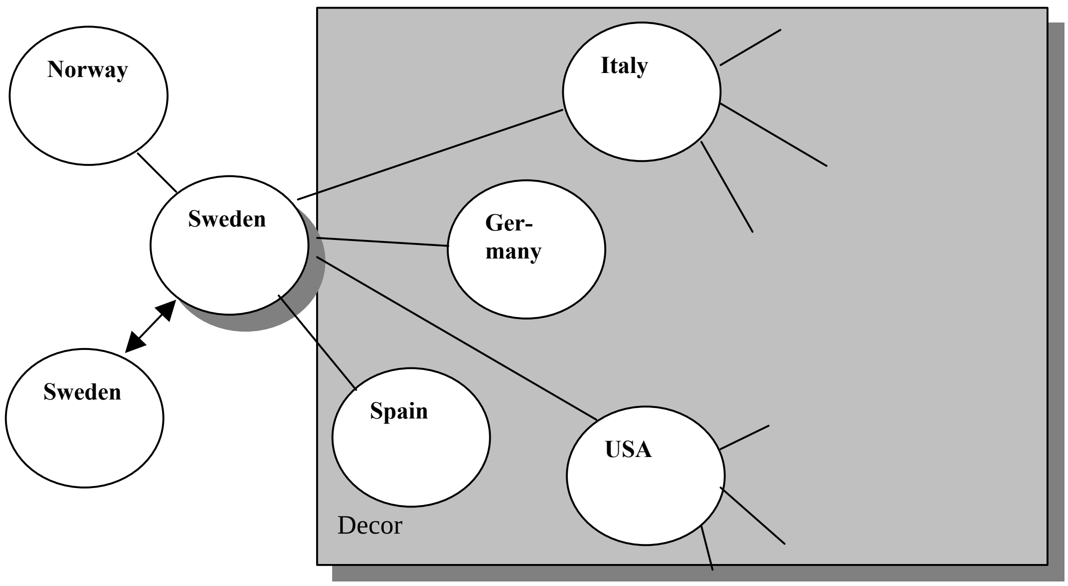

Figure 5: Production units in case B

Resources

Decor Paper

The manufacturing of decor base paper requires the highest quality of pulp in terms of whiteness, heat stability and absorbation capacity. Approximately 85 percent of the raw material used is short fibre eucalyptus pulp and the reminder ECF pulp.
Decor paper was originally developed as means of imitating and replacing expensive veneers and solid woods in the furniture industry. Subsequently there has been a continuos development of board products decor paper, printing techniques and the chemical composition of the surface treatments. The Spantex unit manufactures impregnated paper used as a foil in wood based materials and to some extent the end customers are the same as for decor materials. The difference is that the Spantex is impregnated in the paper machine and not in a separate process. The customers manufacture pack-flat furniture, interior panels and flooring. When manufacturing the final product, the foil is laminated to the board by applying heat and pressure.

Thin Paper

The production of thin paper is integrated with the pulp mill. Pulp is also supplied within the group to the production of Spantex and to the production of other special paper qualities (unintegrated). Thin paper is produced with surface layers of 13-50 gram and is used as intermediate layers in the steel, aluminium and glass industries but also to carry patterns for rotogravure on fabrics. Another special paper is greaseproof paper produced for food packaging and carbon paper.

Special Paper

The main products within the area of special papers consist of electro technical paper, raw abrasive paper and material for special packaging purposes (flat and crepe papers treated with chemicals for industrial purposes). Electro technical paper is used to insulate high tension cables for direct or alternating current and in transformers. The company is market leader within this segment with a market share of 35 percent. Even if the demand for cable paper has been weak lately, the market segment for transformer paper has been satisfactory and several new qualities has been launched in this niche area.

A paper machine has also been rebuilt during 2000 to enable the company to produce new paper qualities within this sector. This special paper business area has their three biggest competitors in Finland, UK and another producer in Sweden.

Another market segment for the company is raw abrasive paper, which is supplied in several dimensions and qualities to manufacturers of abrasive discs, belts and similar products for the use in furniture and motor industries.

Special packaging is a further business area consisting of flat and crepe paper for industrial purposes with a surface weight of 65-500 grams. The paper products are treated with wax or other chemicals to give them anti-corrosion or moisture resistant properties.

Activities

The Special Paper mill is a world market leader in a number of niche markets for speciality papers. These special paper qualities is characterised by customised products with high quality requirements from the customers, small order batches, considerable technical expertise and a high level of service.

> *This calls for efficient mills and continuous alignment of costs, while simultaneously achieving customer benefit as a result of high added value, product development close to the customer in a longstanding customer relationship based on trust, and production determined by customer orders.*

The company's activities have therefore been organised into four product areas where each area is responsible for its own development, production and sales operations. The head quarter is based in Sweden.

The production of decor paper is taking place in four different countries and the European mills have integrated the marketing organisation between the mills. The business area has also a staff with a high degree of specialist expertise in paper and printing technologies, impregnation and press techniques. The demand for decor base paper is increasing and there is a (1) growth in the demand for end products; (2) the use of laminates in new applications; (3) as substitutes for other materials; (4) the launching of laminated products in new geographical markets. The research and development is conducted internally and in co-operation with customers. The main market is Europe, which accounts for more than 70 percent of the sales and represents two thirds of the world market. The company is market leader for these products with a market share of 25 percent and the expected long-term growth is considered to be 8-10 percent.

The main market for Spantex is also Europe and agents mostly sell the products. However, within this market segment there is a considerable number of competitors within Europe but no single producer has a dominant market position. Within the thin paper sector there is one major competitor in North America.

Business Strategy

The Special Paper mill is a world market leader in a number of niche markets for different qualities of speciality paper. The special paper can be characterised by products with high quality requirements and normally small orders. This requires that the mill have the technical expertise and a high service level to the customers. The business strategy also require that the company has the necessary facilities for product development in close relationship with key customers and can benefit from the results of a higher added value in the long term.

> *The Special Paper mills business concept is to develop paper based products with priority for speciality products with international growth potential. The goal is superior value growth to the shareholders and a high level of dividends as a result of a focus on growth, profitability and cash flow.*
>
> *The business concept is to develop paper products with international growth potential.*

The business concept for paper is therefore to operate with clearly defined areas for speciality papers. The goal is market leadership. The overall market for each type of speciality paper is often limited in terms of tonnage volumes. The characteristic features of the product areas are:

- High added value
- Flexible production requirements
- Small order batches
- Marketing based on quality, technology and service
- A high degree of internationalisation

To be able to fulfil the business strategy the company need to expand by organic growth but also by acquisitions in existing and neighbouring areas.

Case C – The Packaging Company

The Packaging Company, which is a specific business area within the Group, has a production of kraftliner, testliner and fluting for the production of corrugated board packaging and containerboard materials. The production of containerboard is done in ten mills situated in seven European countries. This material is converted to corrugated board produced in 190 production units in 29 countries. The paper component in corrugated board is a global product, which is traded on the world market. Within this area the five largest European producers of containerboard hold 39 percent of the European market. The majority of the companies supply containerboard to their own packaging production units, but they also sell to external corrugated board producers. Within the business area there is also a packaging service for customers within the local markets.

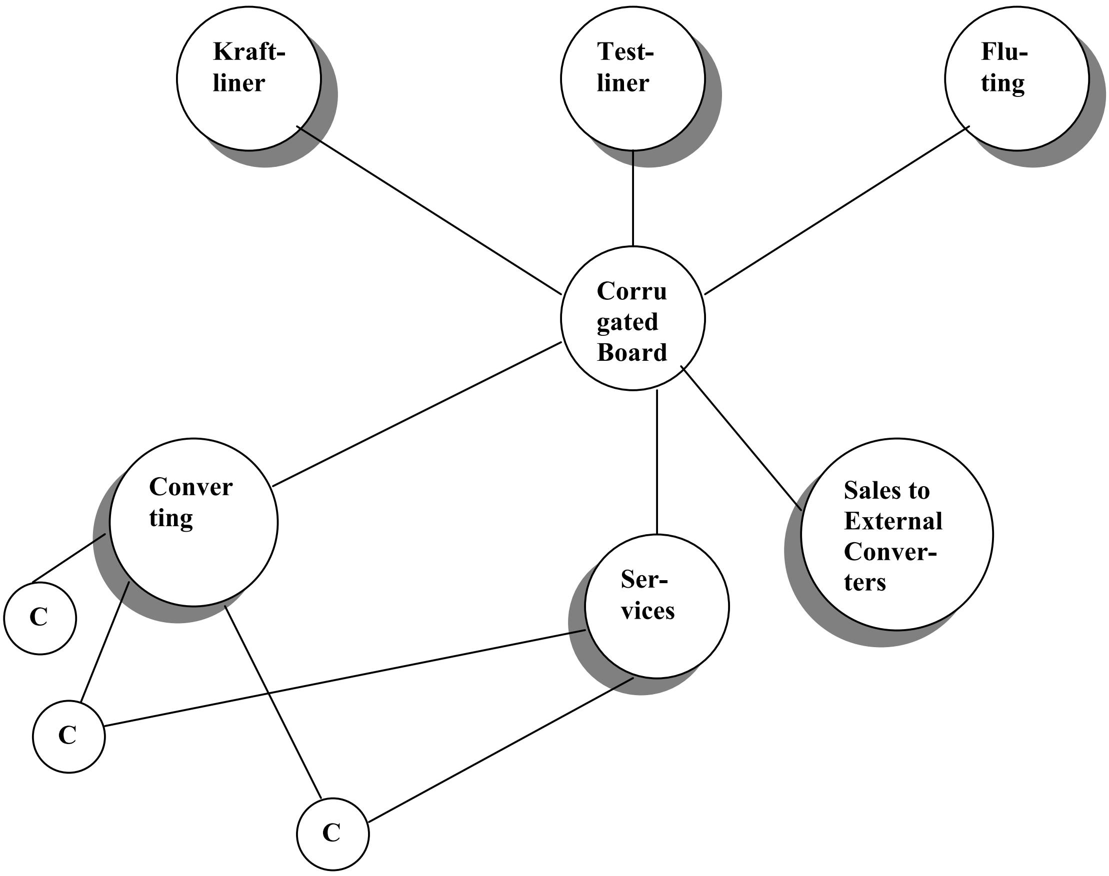

Figure 6: The Packaging Company

The Packaging Company has the ability to offer customised transport and packaging solutions to its customers in different export markets. The customers are primarily European food companies, producers of industrial products and consumer goods. Transport packaging is conceived to provide the customers with a solution for packaging, transporting, storing and protecting products along the entire supply chain.

Actors

The Packaging Company is one of four business areas within the Group. Market pulp was a dominant product in the Group's operation until the late 1950s when the integration with paper began by the investment in two new mills for production of newsprint and kraftliner. Until this period paper was previously only produced at one mill. The investments in the new mills were the beginning of the Group's large-scale integration of refined products with higher added value. In the 1960s another step was taken by the integration of the produced kraftliner into the production of corrugated board as the Group acquired and constructed mills in the south of Sweden, Denmark, France, Spain and Germany. During the 1970s the Group expanded its interests by acquiring part ownership of companies in West Germany, Great Britain and Ireland. A merger in Sweden also increased the production of kraftliner in the 1980s.

The market position was strengthened when the Packaging Company acquired a mill with large capacity in UK, which gave the Group a strong position as one of the leading European companies in transport packaging. At the same time the company gained access to technology for newsprint and became the second largest waste paper collector and user in Europe. In 1995 the Group also acquired a leading producer of paper and packaging materials in Germany. During the end of the 1990s the expansion continued into Central and Eastern Europe, Asia and North America through joint ventures and acquisitions of a great number of packaging companies. These strategic moves also covered acquisitions for paper products in other business areas for the Group.

The next stage in the supply chain is the corrugated board industry, which in Europe consists of more than 500 companies. The Packaging Company is one of the largest suppliers on the market with a market share of 15 percent. The structural changes have enhanced the possibilities to respond to customer development and increasing the profitability.

Activities

The market structure for corrugated board packaging is relatively fragmented within Europe, which gives the company an opportunity to acquire small and medium-seized companies. The market share for the Packaging Company has also grown for packaging in Western Europe from 12 to 15 percent since 1997 mainly through acquisitions. The company's objective is to increase the market share up to 20 to 25 percent. The growth is planned to be within market segments with more processed products such as heavy-duty packaging and high quality printing. The company is also interested to expand within the service intensive protective packaging and other solutions for the rapidly expanding subcontracting industry. The Packaging Company is therefore taking an active part in the consolidation of the corrugated board market, which the management consider can contribute in an improvement in profitability in these markets due to the concentration on products with a higher added value.

Resources

The production in the business area is primarily based on virgin fibre from own forest resources within the Group. A part of the production is also based on recycled fibre recovered by the paper collection facilities across Europe. Some of the raw material is also procured from external suppliers depending on the quality produced. The common fibre base constitutes an important resource for all the business areas in the Group. More than half of the consumed virgin fibre is supplied by own forest holdings. This situation also gives the company a more stable trend of raw material costs and makes an industrial process more efficient. Another important base of raw material comes from material recovered where the packaging business area accounts for 70 percent of the recovered material. Since the collecting, procurement and processing is done by a particular recycling company within the Group, substantial synergies are gained.

Research and development, joint procurement of energy and the coordination of logistics are other functions in which important synergies can be utilised.

Business Strategy

The business strategy within the Packaging Company is supposed to provide solutions to customers in different supply chains. The intention is therefore to continue to focus on productivity and cost efficiency. To reach these intentions the business strategy will be accomplished through increased integration of the corrugated board and containerboard operations by organic growth and by acquisitions. Based on the Group's knowledge of fibre the Packaging Company's intention is to develop its position as one of Europe's leading manufacturer of transport packaging of corrugated board and paper.

> *The packaging companies' business concept is to develop, manufacture and market corrugated board solutions to rationalise packaging and marketing for industry in Europe.*
>
> *The containerboard companies' business concept is to develop, manufacture and market paper for the European corrugated board industry.*

The Packaging Company offers its customers *more than the box.* By trying to understand the needs, requirements and trends of corrugated packaging throughout the supply chain the company is supposed to add value for manufacturers, retailers and consumers. The company is therefore focusing its expansion on two fast moving growing segments of the market, namely packaging for industrial goods and speciality products. The product lines have also been upgraded to include corrugated fittings, EPS and other carton fittings. Logistic service also includes packaging design and the total production logistics.

Within the business area of containerboard the business strategy is focused on to adapt containerboard in line with developments occurring in corrugated board, which means increased demand for paper with a high printability. As a consequence investment have been made at mills in Sweden, Denmark, Switzerland and UK. Another part in the strategy is recovering paper for materials that is not based on virgin fibrers.

Discussion

Due to the globalisation of many industries the pulp and paper industry have to continue the consolidation to keep up with the challenges facing the industry. This also accounts for their competitive strategies in order to meet the increasing power from buyers and suppliers in their networks. The industry also has to consider the competition that exists from substitute products and innovations made by new or combination of other materials. An innovation to different industries is e.g. smart labels consisting of integrated circuits and antennas, requiring no batteries. These inlays can be laminated between layers of paper, film or plastics to produce inexpensive consumable labels and tickets. Smart labels can e.g. identify genuine products and provide unalterable product information. The possibilities to integrate the new technology with paper products are numerous and require probably more innovation than paper technology science.

To be able to meet some of the challenges facing the paper industry a company can use different business or competitive strategies. The case studies presented in this paper also reflect the management's different strategies to meet the challenges within the particular business environment.

The three case studies presented in this paper – The Niche Player, The Joint Venture and the Integrator shows different solutions to the challenges in the market environment and has also come up with different business or competitive strategies.

Key Issues	**The Niche Player**	**The Joint Venture**	**The Integrator**
Core Business	Highly Specialised Products	Standardised Product Assortment	Highly Standardised Products
Marketing Focus	Customisation	Product Differentiation (bleached specialities)	Global Products for Local Converting (in order to create Packaging Solutions in the Supply Chain)
Substitutes	Plastics	Recycled Material Other Packaging Solutions	Recycled Material Other Packaging Solutions
Marketing Challenge	Specialisation by Focusing on Niche Market Segments	Concentration on Basic Packaging Qualities	Forward Integration by Mergers and Acquisitions
Generic Strategy	Focus	Differentiation	Cost Leadership

Table 1: Factors Affecting the Competitive Strategy

In the first case the Special Base Paper Mill (the Joint Venture) the business strategy is concentrated on the production of Speciality Packaging Paper with the goal to be the leading European producer within these product categories (bleached qualities). A business strategy coping with differentiation to these products require that the company can deliver something that is perceived industry wide as being unique. According to Porter (1980) achieving differentiation may sometimes preclude gaining a high market share, but also to have a strong capability in basic research and reputation for quality or technological leadership. This strategy can also be reinforced by a long tradition in the industry or unique combination of skills drawn from other businesses. It also requires a strong cooperation with the marketing channels.

In the second case the Special Paper Mill (the Niche Player) the company has concentrated on to develop paper products with priority to speciality end uses, which is supposed to give high added value. However, this also requires investments in a flexible production unit and leaves the company with rather small order batches. From a marketing point of view the organisation need to handle close relationships with customers in order to develop products with a suitable technology and a high service level. The focus strategy (Porter 1980) also implies some limitations on the overall market share achievable for the company.

In the third case the Packaging Company (the Integrator) the management has concentrated on to focus on to develop, manufacture and market corrugated board solutions for rationalisation of packaging and marketing within the industry in Europe. The focus has therefore been on productivity and cost efficiency. To reach these objectives the company has continued the forward integration within the corrugated industry by organic growth but also by a high degree of mergers and acquisitions within Europe. To follow a cost leadership strategy (Porter 1980) requires a low cost relative to competitors through the entire strategy, though quality, service and other areas cannot be ignored. It also requires sustained capital investment and access to capital. A cost leadership strategy also requires process engineering skills and products designed for ease to manufacture. In certain areas the Packaging Company can face heavy competition from recycled materials but also from other packaging solutions. In order to reach a low cost supply chain, the company has continued to integrate forward to different local markets. However, the buying power from certain big buyers (food industry) has also been increased during the recent years.

Conclusion

As discussed above the three case studies indicate that management has chosen different strategic directions to be able to meet the challenges from different driving forces and the competitive situation within the particular industry. According to Porter (1985) the essence of formulating a competitive strategy is a question of relating the strategy to its environment. The key aspect of the company's environment is the industry or industries in which the company compete. The structure of the particular industry will therefore have a great influence on the possibility to find a position in the actual industry. Even if it difficult for a company within the pulp and paper industry to change its generic or competitive strategy, it is necessary to adapt the marketing strategy to the marketplace.

Due to the ever changing market environment (e g the crisis in Asia) it is necessary that a company is trying to build an early market warning system to be able to change its marketing strategy. The impact of change is great due to different driving forces in the market place, which have been discussed in this paper. (1) In many industries where paper and packaging materials have been used the days of growth are gone and entrepreneurs create new ones. (2)

Change creates opportunities for innovative companies and possibilities for substitute products delivered by others e.g. plastics. (3) The speed of change is different but will lead to a greater complexity and added turbulence or discontinuity within certain industries. (4) Successful strategies erode over time and the company needs to continually evaluate its marketing strategy.

Even if the world paper consumption is expected to increase by 2.8 per year up to 2010 (Jaakko Pöyry) the focus of new paper capacity is expected to shift to regions of fast paper consumption growth such as Asia and Latin America. For companies within the capital intensive pulp and paper industry it is therefore necessary to find out competitive and marketing strategies that can match the competition from different actors in a particular market area. For some companies this can lead to a further specialisation in niche products (a focus strategy). For others it can mean becoming the biggest producer within a certain product area. Mergers and acquisitions has been one strategy to become a global player (cost leadership strategy) within a particular product area such as fine paper, packaging board and packaging materials by StoraEnso, SCA and for UPM-Kymmene. In other fields a merger within a particular product area (MoDo and SCA merged their fine paper units) between the companies can create a competitive company (a differentiation strategy). For other companies it might be necessary to create a strategy, which will give even better possibilities for differentiation and driving the market situation by using services and a higher interaction with the customers.

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