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# Global or Local – Does the Paper Mill Location Really Make a Difference?

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In my years working in various sales and marketing functions in the European pulp and paper industry, I've always wondered if the geographical location of the producing mill makes an impact or difference in adding or reducing revenue/profits and market share to the producing company. Additionally, how do the sales and marketing people see this insight impacting their daily jobs? Can Business Intelligence (BI) help them put this into practical use?

We tend to know our customers far better than we really know our competition, whether directly or indirectly. Understanding direct and indirect competition will help us better understand the customers by helping us address unserved needs, thus allowing us to better serve the market. Understanding the implications of the physical locations in comparison to the market can provide producers and suppliers insights to inform their sales and marketing initiatives.

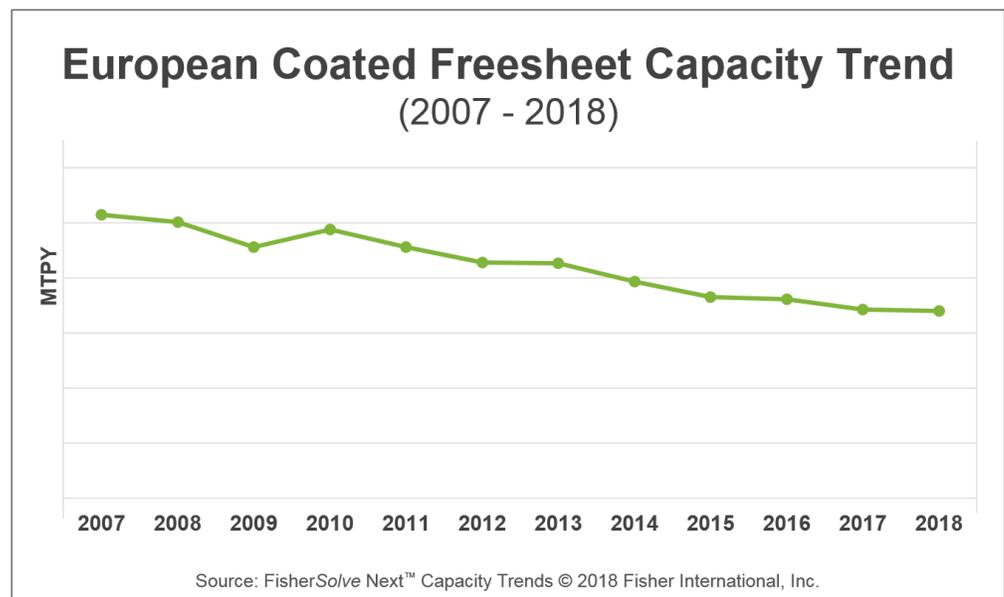
The geographical location of the mill is perhaps less important to bulky mass products such as pulp, newsprint and other paper products as these are shipped in larger quantities, which offsets the costs of distribution. The advances made in logistical solutions throughout the years have brought costs effective ways to operate in markets which are relatively speaking far away.

However, the impact of the physical location of the producing paper mill can be significant when looking at commodity products such as graphical printing and writing papers when there has been an oversupply for a long time and market pricing has been under pressure providing low profit margins to the producers. Specialty paper producers and packaging papers usually fall someplace in between these two.

We can look at various paper products within the pulp and paper industry but for this example, let's focus on the coated freesheet paper producers in Europe.

It is a fact that the coated freesheet paper market has declined during the past years due to substitution from electronic media, oversupply, changes in consumption patterns, as well as many, recent paper machine conversions around the world.

Many companies have seen their profit margins decrease to levels where they have been forced to rethink whether to continue focusing in this business area, or to develop new products to try to differentiate themselves from the competition. Some have had partial success, but others were forced out of the market. We can see in Figure 1 that the general trend in capacity between 2007 and 2018 has been negative.



**Figure 1**

Product differentiation among the coated freesheet products has almost disappeared with investments in past years and improvements in quality which has led to easy product substitution from one supplier to another. In other words, the paper customer or printer has had an easy time changing from one quality or supplier to another without the need to make significant adjustments to their own production processes.

These facts have contributed to the trend in coated freesheet papers in Europe toward finding new business models where the trend has been towards a direct relationship between the paper manufacturer and the end customer. The main driving factor for this development has been the decreasing profit margins of coated freesheet papers during the past 10-15 years.

Traditionally, a large portion of the coated freesheet paper, especially in sheets, has been serviced through merchants in Europe. In some countries this has been over 70% and in some, far less. The trend has been that the paper manufacturers themselves have looked at different options and strategies where they have found solutions in dealing directly with their customers (e.g., printers), taking over many of the primary functions of the paper merchants.

These functions consist basically of physical warehousing, deliveries, small quantity availability, marketing, as well as, credit control and invoicing to the local customer base. The trend has gone towards higher service levels including quick deliveries for example, within one week max and small single order sizes. The decrease in demand has been accompanied by a diminishing number of prints per object, meaning that larger printed runs such as for catalogs, magazines and other printed materials have decreased, or in many cases have disappeared altogether. Changing consumer patterns and the evolution of electronic media has had a significant impact on this trend.

We can ask ourselves once more whether the issue of being “local” has an advantage in serving the customers in each separate market. What if we are considering buying or merging with another coated freesheet mill? Will the mill location have an impact?

So, let’s start with location. Where is our main competition located? Have we really understood where all the mills producing similar qualities are, and which could be a threat to us? How close are they to our customer base?



Figure 2

Looking at our various competitive mill sites in Figure 2 and their physical location, we can find out whether these mills are located geographically along the main transport routes or not. If they are, there is a high probability that they have a far better leverage in finding transportation solutions quicker and at a more competitive cost. Today's customers do require a high degree of (logistical) service starting with flexible deliveries to a problem free flow of materials to satisfy their needs. This applies also to any claims where goods need to be delivered back to the respective mills.

Perhaps the most important questions to answer are:

- Where are our customers located?
- Where are our direct and indirect competitors physically located?
- What logistical resources we have?
- What level of service are we prepared to give?
- How much flexibility in absorbing the various costs do we have?

Ideally, if our customers are located in a region or area within 200-300 km from the mill site, then the cost to provide a high level of service for logistics and handling is relatively speaking, probably reasonable and far less costly.

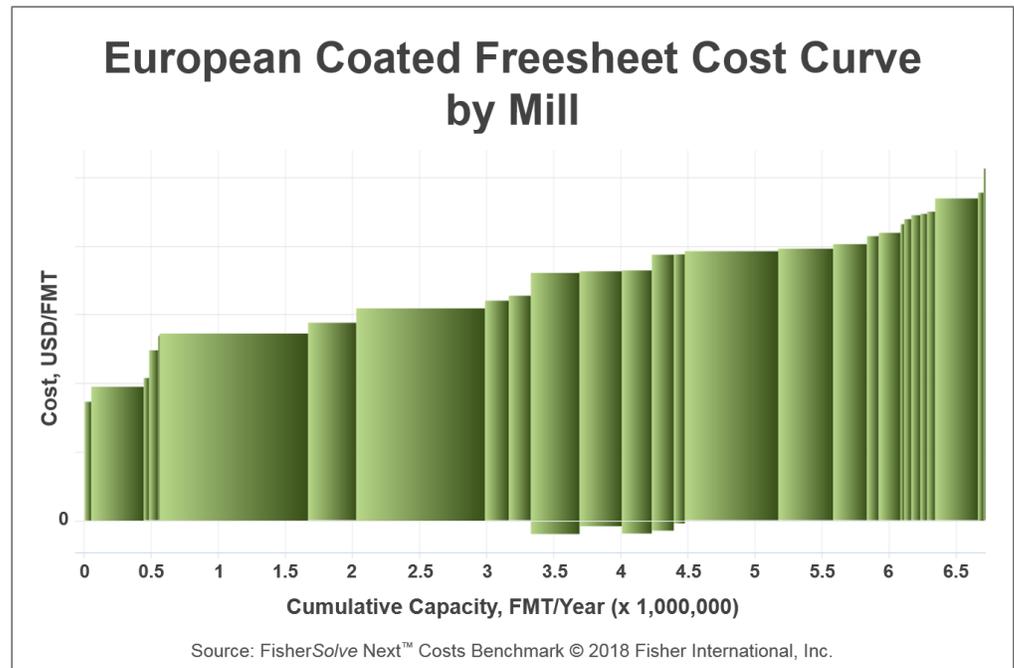
As we all know, in most cases this is not the situation, and considerable effort must be taken to build up a logistic and service system at a reasonable and affordable cost to the supplying mill or company. Usually we do know our customer base reasonably well and especially their location.

The printing and writing market customers in Europe are concentrated in a few main areas in Central Europe, being mainly around the large cosmopolitan regions. We can also find paper mills especially in Southern Europe or Central Europe that are more successful in selling to their local markets compared to similar mills from Northern Europe.

The next questions for us to answer are: what are the logistical resources available, and what level of service is required? This of course is different with each customer and their needs. But the development has been towards a high quality of delivery and service in the past years which made the logistical issues even more challenging to all suppliers.

All in all, we must ask ourselves whether it make sense to deliver from a faraway location or not? Or is it better to stay local to maximizing the sales and profit? Some companies having several mills serve strategically different regions or markets due to this fact.

Looking at the cost curve of the various coated freesheet mills in Europe we can say that the low-cost mills are in a better position to deliver to places further away meaning that they can absorb higher logistical expenses in their total product mix (Figure 3).



**Figure 3**

Mills with a high cost base, however, cannot absorb for long expensive logistical costs before starting to lose profit margins or even as in some cases in the past selling at a loss. Probably understanding this more clearly from the marketing and sales perspective, one would tend to focus efforts into being more local instead global.

As we know in the industry, market pricing modeling has many factors which contribute to creating a market price for a product. The smaller and medium sized mills have relatively little influence on how the pricing structure is at a given time. Therefore, perhaps one important aspect is to analyze the cost structure of the industry and compare it to ours. High cost manufacturers have more difficulty absorbing higher logistical costs. In these cases, one can assume that their focus would be more on regional markets. On the other hand, lower cost manufacturers can expand beyond their traditional regional or local markets.

### Understanding Our Competition

Are there also other factors hindering our sales and marketing efforts overall? Do the sales and marketing people understand fully their competition? Too often I have heard the phrase “it’s impossible for us to sell there.”

Yes, sometimes it is true, but I believe that in the majority of the cases one has not had the right tools or correct information to work with, in order to make such a statement. This applies both to market size and development as well as fully understanding our competition and our competitiveness in general.

In many occasions, we lack information about our competitors and their capabilities. We are often in the situation where we tend to believe certain market information which sometimes are based solely on subjective information. When talking with customers, we tend to discuss only issues relating to our products we are selling and not very often do we offer objective leadership thoughts and information about markets, products and competition.

One way to understand our competition is to understand their production and manufacturing capabilities together with their physical location and their viability compared to the rest of the industry. Does the competition have certain technological advantages that make them better? Is there a threat from indirect competition which we are not aware of? Where are the potential threats located?

Of course, there is no 100% way of finding out all the information. But having a good idea and the general overview will make us understand them better and improve our understanding of our own business.

Understanding better our competition, the products that threaten us, and the physical location of the mill, perhaps we can conclude that there is hardly any differentiation between them and us. Could there still be something that could give us a certain advantage?

Yes, there is. Understanding the viability of each mill as a competitor would give us the tools to make better long-term marketing and sales strategies. A near location of a mill which has a poor viability does not guarantee that they will be successful in the future. By using FisherSolve Next's Viability Benchmark, we can produce a comparison chart which shows all the main coated freesheet mills in Europe and their viability ranking in 2018 (Figure 4).

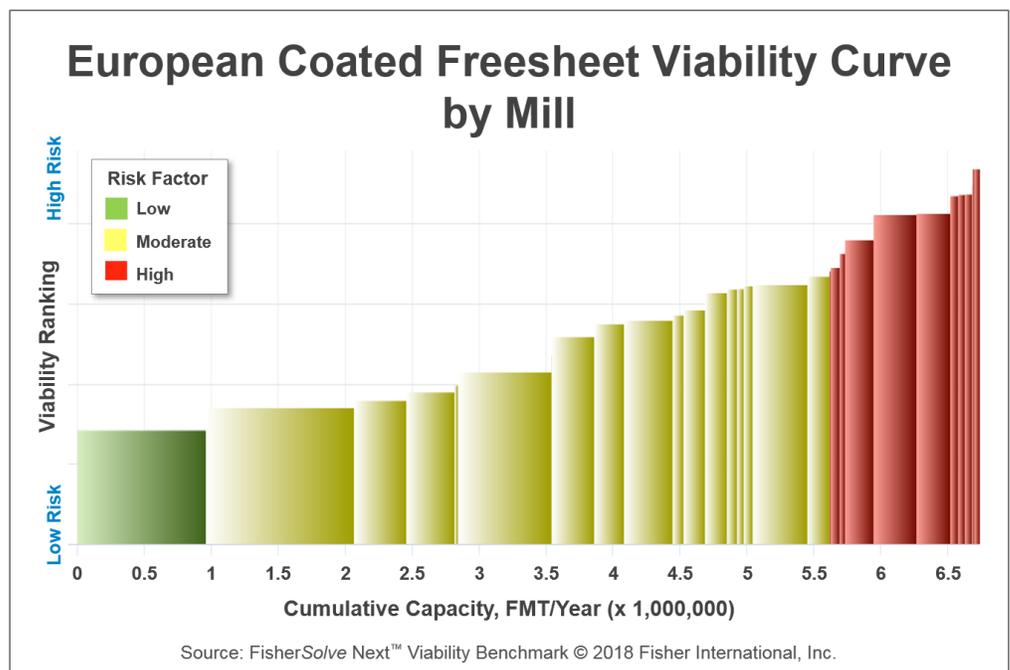


Figure 4

Looking at the viability comparison, location and cost curve of the various coated freesheet mills, one can develop the best possible strategies where to sell, to which markets, and to which customers one should put one's focus and efforts on.

So, to answer my original question whether geographical location has an impact the answer is both yes and no. Perhaps the better question is - how well do we understand the business to make the right decisions for today and for the future?

Some considerations for your business:

- What is being produced and are there any thoughts to convert lines in the future?
- How much do you know/need to know about the competitive market in terms of location, production volumes and type? What about your customers?
- And how do you stay on top of this to ensure your strategies are playing out as planned?

We at Fisher specialize in helping you to answer the questions that impact your and your company's long term success. Give us a call if you'd like to talk.

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#### **About Fisher International, Inc.**

Fisher International, by virtue of its deep expertise in the pulp and paper industry, provides insights, intelligence, benchmarking, and modeling across myriad scenarios. By arming companies with the knowledge that will help them gain a better understanding of their strengths and help identify weaknesses, Fisher is helping businesses stave off challenges and better position themselves for long-term growth.

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