



The Transfer of Technology

The mills lost control of new technology some time ago. It has now shifted to the suppliers. How did it happen? ...and is it a good thing?

By David Price

Eugene Van As, former CEO of SAPPI, is on record, deploring forcefully, the transfer of new technology from the mills to the suppliers. More recently, the new report “CEO Perspectives” by Pricewaterhouse-Coopers (PWC), reports the views of some executives on this transfer. Their comments are worth quoting at length:

“We notice the impact of the increasing concentration of suppliers. This shift makes it difficult for any one industry player to move in isolation and adds to the challenge individual companies face in trying to differentiate their products and services.”

“Industry best practices are now widely available, driven by the major equipment suppliers. Global equipment manufacturers are effectively leveling the playing field by providing players in the emerging markets with state-of-the-art technology and advice informed by earlier projects.”

This is harsh criticism and I’m not sure it’s justified.

Everyone knows that paper machine builders Metso (Finland) and Voith (Germany) have established facilities in developing regions around the world, and will continue to do so in areas where demand for their equipment and service is growing. This same trend has been happening with the paper chemical producers and machine clothing suppliers, along with others who cater to the paper industry. Getting close to your customers to provide better service and learning about business cultures in emerging markets makes perfect sense.



Should paper manufacturers cry foul if non-proprietary technology gained by an industry supplier through field work at a mill is carried forward by the supplier and applied to technological developments of that supplier’s products and/or services?

So, should paper manufacturers cry foul if non-proprietary technology gained by an industry supplier through field work at a mill is carried forward by the supplier and applied to technological developments of that supplier’s products and/or services? Obviously, down the road, one papermaker will benefit from supplier technology that has roots to another papermaker. But if papermakers heap the burden of R&D on the suppliers, why shouldn’t this transfer of knowledge be put to work by the supplier?

Was It Inevitable?

But looking back at the unimaginable changes the papermakers have had to face—and resolve—over the last 15 years, I don’t

think they had much choice. Starting in the mid-1990s, the industry faced: environmental challenges from forests to landfill, legislation on recovery and recycling, struggles with conservative management, the pressure of electronic publishing, just-in-time deliveries, shrinking markets, obsolete grades, aging machinery, new players in emerging markets, private equity’s ruthless cost controls, steep wood and fiber costs, rising energy prices, and lately, competition from energy companies looking for fiber for biofuel feedstock.

The industry’s response was versatile and innovative. It is now one of the most environmentally responsible of all industries. It has designed new grades and added value to existing ones. And it was a necessary evil that did the damage in the shape of job losses.

There were, and continue to be, mill closures and steady job cuts, which shed valuable people such as skilled engineers, chemists, “out-of-the-box” R&D wonks, and uncountable, university-trained researchers. Yet many were quickly hired by grateful suppliers.

I’ve observed that when any company cuts back, the first bit to go is the R&D program and papermakers were no exception. R&D is a long-term investment, pay-back is not always assured or quantifiable and it does not always deliver to the bottom line each quarter.

When all this in-house skill is stripped out, what’s left? According to the new financial managers now at work in the industry, the mill is simply a production unit, making a commodity the customer wants, in time and at an affordable price.

Necessity

So the culture of pilot plant technology and other knowledge banks has passed to the suppliers out of necessity. The mills couldn’t afford pilot plants because they were too distracted by the changing times. In my view, it made sense to transfer technical innovation to the suppliers. It’s what they do and they’re good at it.

The suppliers, faced with a contracting industry in North America and Western Europe were, at one point in the mid 1990s, selling very few new machines and mainly servicing existing plants. Risto Hutamaki, then CEO of Valmet (now Metso Paper), told me that the industry, at that time, was not planning where it wanted to be in 10-years’ time. His planners conducted regular forecasts of markets and sent engineers—“computers in boots”—into the field on mill visits. Then China and Latin America “happened,” and are still happening. Western mills couldn’t move, but the suppliers could and did.

My conclusion is that the mills were overtaken by developments other than technology, things like markets, raw materials, costs, legislation and e-commerce. The suppliers were less constrained because of what they are and do. They are engineers who are a global community.

In short, the technical drift from the mills to the suppliers was only a matter of time and was inevitable. A good thing? ...a bad thing? You tell me. ■

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