

Leveraging IT to Drive Growth in Mature Markets

As IT spending picks up again, paper companies should focus on well-defined projects with fast payback times that will strengthen their core value proposition.

By Frank Perkowski



U.S. Information Technology (IT) spending is once again starting to pick up steam after relatively low spending growth rates since 2001. Spending by U.S. companies grew in 2005 by about 6% and both the Gartner Group and Forrester Research forecast a similar increase for 2006.

As in high growth years during the 1990s, several new IT technologies are becoming popular that once again promise to streamline organization communication systems and increase productivity (see Table 1). And as in the 1990s, implementation of these new systems will require heavy investments in hardware, software, and support.

However, before jumping on the bandwagon, North American pulp and paper companies need to rethink their IT investment strategies. In fact, many have already done so as part of massive downsizings and staff restructuring programs in the past few years. But realistically speaking, few pulp and paper companies can afford to spend large amounts on broad-based IT programs that have questionable or undefined paybacks.

Because of slowing demand growth in most paper industry market segments and increased global competition, capital investment budgets are far lower today than they were a decade ago for most companies, discretionary spending is down, and staff cutbacks have reduced companies' capabilities to execute large enterprise-wide initiatives.

POOR IT TRACK RECORD

From a historical standpoint, most companies have positioned their IT departments as independent organizations that facilitate internal and external communications within and across business units. In this model, business unit managers provide direction to the IT department relative to business needs. Often, information flow is also in the opposite direction as IT representatives meet with business unit personnel to implement corporate information systems across the different business units.

In the 1990s and early 2000s, companies, including those in the paper industry, invested heavily in major enterprise-wide systems such as ERP, CRM, SCM, and MES to consoli-

Key Element	Scenario 1: Developing Company in Growth Market	Scenario 2: Established Company in Mature Market
Organization Role	Lead initiatives to develop and improve internal information systems	Lead initiatives that improve capabilities to leverage core competencies
Major Value to Organization	Ensuring best-in-class systems are installed and maintained	Strengthening business unit core competencies through more effective information systems
Primary Focus	Develop opportunities to improve effectiveness and quality of internal information systems	Support business unit needs by helping to solidify company's core value proposition
Major Challenge	Prioritizing projects while attempting to meet business unit needs	Maximizing ROI as defined by customer metrics
Short / long-term focus	Primary focus on longer term projects that ultimately improve business systems	Primary focus on short term projects with clear metrics based on ROI
Type of Projects	Major enterprise / consolidation projects	Projects that directly reduce cost and / or improve service

Table 1. Top 10 IT Projects Planned in 2006.

date business processes under one platform. Some of these companies had serious disadvantages in these areas and were able to demonstrate a reasonable return on investment.

However, most companies, including many in the paper industry, made significant investments with little evidence of a financial payout or improved business results. In retrospect, some of the major reasons for poor results included:

- Projects not fully executed within the business units due to time and budget constraints.
- Projects usually not implemented with the goal of developing a competitive advantage. Since many companies were implementing similar initiatives, they did not necessarily differentiate the company or its service capabilities
- Subsequent research has shown a frequent lack of effective coordination between IT departments and the business units. A recent Society of Information Management (SIM) survey of 300 senior IT leaders found that the lack of successful alignment between business units and IT department was a major issue limiting IT effectiveness.
- Research has also shown that as many as 80% of companies implementing these initiatives lacked the means to measure and optimize the benefits delivered from their IT programs. Even if an implementation was successful, it would be difficult to prove it.

These results indicate that even if funding was available and the implementation of enterprise systems was a true business need, a different implementation approach would be required to ensure an acceptable return on investment.

NEW BUSINESS REQUIREMENTS

Considering recent industry and marketplace developments, the needs of the North American paper industry are clearly different today than they were in the late 1990s (who said our industry is not dynamic?). Declining growth rates, high cost structures relative to offshore producers, uncompetitive technologies, and growing substitution threats have placed many companies in our industry in survival mode. This would suggest the need for a much more tailored, focused approach relative to IT development programs.

Let's look at this a little more closely. North American paper companies are competing to a large degree in mature markets that require different business strategies than companies competing in growth markets. Some of the major implications of this fact relative to IT implementations include the following:

- All elements of the organization need to become much more focused on the core business of the company. Activities that are only loosely or not directly related to the core value proposition need to be eliminated. This would include many enterprise software initiatives, highly complex new systems, and systems with long lead times that are not clearly defined or linked to the business strategy.
- Large, complex, enterprise-level initiatives are not appropriate for an organization with limited resources and a strong need for focus and flexibility. While the potential long-term benefits can be significant, diverting critical resources away from basic business processes is a luxury that is hard to justify. In evaluating the benefits of broad-based initiatives, the short-term opportunity costs must also be considered.

- In light of sustainability concerns, emphasis needs to be placed on short-term projects that deliver immediate benefits. These benefits are more likely to translate to short-term revenue increases that will strengthen the company's ability to be more competitive today.
- Consistent with ongoing rationalization efforts, the focus now needs to be on simplifying and streamlining business processes rather than making them more robust and potentially more complex. Clearly, past and ongoing rationalization initiatives have reduced the available human resources and the organization's ability to implement non essential tasks.
- When an industry is in the process of restructuring, assets and business units can and do frequently change ownership and affiliations. Therefore, it makes more sense to focus on optimizing specific core assets and locations rather than groups of assets that may ultimately be split apart.

GAINING A COMPETITIVE EDGE

Exemplifying some of the new thinking relative to the role of IT, Nicholas Carr, in an HBR article entitled "Why IT Doesn't Matter," observes that IT has largely become a commodity that merely allows a company to be competitive instead of being superior or different. In his article, he makes the case that a viable way for a company to innovate and develop a competitive advantage is by spending more efficiently on IT versus competitors.

By spending only on those projects that help create a real competitive advantage and avoiding projects with questionable long-term paybacks, companies can improve their margins and be more successful. This eventually allows the better managed company to gain an advantage relative to its higher spending competitor. Not only is out of pocket spending reduced, but company personnel are more focused on the critical factors driving the business and the hidden costs associated with pursuing unproven, high-risk IT initiatives are minimized or eliminated.

Many highly successful companies such as Dell and Wal-Mart have in fact adopted a follower strategy when it comes to IT. These companies make a conscious effort to delay investment in new IT systems until standards and best practices are solidified. In this way, the better managed company allows its competitors to absorb the higher costs associated with implementation of new and unproven technologies. When the best solution emerges for a given application,

the more efficient follower is in a position to spend less and implement more effectively, often in less time.

Unfortunately, there are numerous examples within the pulp and paper industry where a company launched a new information system without ensuring that it directly addressed a critical business need or strengthened the company's competitive advantage. These efforts can have more of a negative impact on an overall basis, especially when all of the opportunity costs and focus issues are considered. A relatively simple, low cost system that allows the company to strengthen its basic value proposition can often be much more effective than a highly sophisticated system that is not in sync with the needs of the business.

IT NEEDS TO STRENGTHEN VALUE PROPOSITION

In a normal growth market environment, the IT department is involved in a broad range of projects. Some of these are short-term oriented and driven by business unit requests. But most are often related to broad enterprise initiatives driven and led by the IT department. These projects may reflect the latest trends in information technology and be designed to have the broadest possible effect across the entire organization.

As already discussed, the needs of a company in a mature market environment are very different from the needs of a company competing in a growth market. Among other things, the IT department needs to be much more focused on short-

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term projects that have a well-defined deliverable and short pay-back period. The projects must be directly related to business needs as opposed to being driven by technology trends or the latest information system designs. Projects must also directly leverage the business's competitive

advantage and result in the business being able to compete more effectively. A key element of this strategy involves focusing all of the organization's resources in critical areas in order to strengthen its core value proposition. This focus is what ultimately makes a competitive advantage difficult to duplicate by competition.

The IT department should play a critical role in realizing this objective. It needs to link different parts of the organization together through simple but effective information systems. It must ensure that information systems are totally integrated and aligned with business and customer requirements.

While providing an important resource to take advantage of any new opportunities that can improve the business unit's

IT Project Description	Average Spending (\$)	% Mentioning
1. Voice-over-IP	\$11,112,000	16.3%
2. Outsourcing	\$11,112,000	6.0%
3. Data Networking	\$5,569,000	14.7%
4. CRM	\$5,177,000	17.3%
5. Collaboration	\$4,255,000	9.5%
6. Supply Chain Mgt.	\$3,310,000	7.1%
7. Desktop Upgrades	\$3,212,000	27.5%
8. Application Support	\$2,975,000	9.0%
9. Business Analytics	\$2,629,000	11.9%
10. Compliance Tracking	\$2,479,000	6.7%

Table 2. Role of Information Technology under Two Scenarios. Based on Baseline magazine survey of 1440 respondents. These projects were identified as the top IT projects planned for the year based on expected spending levels.

position, the clear priority is on leveraging the company's existing capabilities and strengths. In a constrained resource environment, leveraging existing capabilities and strengths has a higher probability of success than attempting to develop new opportunities or improve on areas of weakness.

IT PROJECTS IN MATURE MARKETS

As outlined in Table 2, the role of the IT department within companies competing in mature markets is very consistent. However, the project focus can be very different depending on the specific company circumstances, strengths, and strategic position within its target markets. To illustrate this, three typical pulp and paper companies are described below, along with examples of how the IT department could add the most value.

Case 1: Specialty Paper Company with a Strong Development Focus. This relatively small producer competes on the basis of effectively meeting complex product and service requirements for highly demanding and unique product applications. The company must continually develop and commercialize new, more effective paper grades. The IT department must therefore be focused on providing tools to improve process reliability and delivery performance and optimizing resources. Typical projects might therefore include:

- Improve equipment reliability and performance through better process control and reporting systems
- Increase customer /sales visibility into production schedules through EDI or similar programs
- Develop Manufacturing Execution Systems (MES) that allow a company to optimize all plant floor activities and scheduling.

Case 2: Low Cost, Multi-Facility Producer of High Volume Printing Papers. This producer competes on the basis of operational excellence by reliably and efficiently producing and shipping large paper volumes. The IT system must optimize system capabilities and resources for maximum effectiveness. The IT department would typically be focused on the following:

- Establish and maintain a data warehouse where production and shipping information can be consolidated and synchronized for easy access and manipulation
- Use the data warehouse to segment customers and consolidate initiatives across the enterprise
- Develop information systems designed to minimize WIP and machine downtime, maximize truck and warehouse utilization, and reduce logistics costs.

Case 3: Integrated Market Leader in Paperboard Packaging. This producer competes on the basis of providing a broad range of paperboard packaging products to large packaged goods companies. The supply system must be highly integrated, flexible, responsive, and be supported by technical services and support programs. Typical IT projects might include:

- Provide robust reports on customer, product, and order profitability that are tied to real time plant cost information and ABC cost system
- Develop tailored EDI programs for each major account to facilitate JIT deliveries and allow for efficient forecast/order management systems
- Develop a product cost system that effectively captures all supply chain costs for a large number of SKU's and products. Integrate costs and specifications through multiple supply chain levels (fiber-papermaking-coating-printing-converting) to optimize the total system and identify assets/processes that should be rationalized.

As these examples show, each company has different priorities and challenges to strengthen its unique value proposition. In each case, the IT department plays a critical role within the business unit and allows the company to most effectively implement its strategy and develop a stronger competitive advantage. In this way, IT is not a cost of doing business but a key capability that allows the company to not only solidify its market penetration but also grow its business over time by more effectively leveraging its core value proposition. ■

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