

THE ROLE OF E-BUSINESS IN THE PULP AND PAPER INDUSTRY

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THE INTERNET HAS BECOME A SIGNIFICANT TOOL FOR BUSINESS

IN THIS NEW ERA OF E-BUSINESS AND DOT-COMS, MANY industrial markets, including the pulp and paper industry, traditionally have lagged behind other arenas in embracing the Internet as a business tool. However, all of that is changing rapidly because, like it or not, electronic commerce is here to stay. By 2001, it is estimated that 71% of business buyers and sellers will at least try online marketplaces, and the value of transactions over e-marketplaces will soar to US\$ 1.4 trillion by 2004 from US\$ 54 billion this year (Forrester Research). E-commerce also is altering the linear appearance and functionality of the traditional supply chain, creating what resembles a supply web—an open marketplace readily available to new suppliers and customers, and with a much faster time-to-market. Several industry websites already have been launched to capitalize on this opportunity in specific niche areas, such as buying and selling paper. From the supplier's standpoint, these e-marketplaces, and e-commerce in general, are redefining their role from primarily sources of product to virtual industry hubs that offer everything from product auctions to market research to personnel recruiting.

E-COMMERCE: WHAT THE FUTURE HOLDS

It is important to first get an idea of the overall size and expected growth of e-business in general and, specifically, in the pulp and paper industry. There is no question that e-commerce represents the future of business. An April 2000 B2B Internet Commerce Report by Morgan Stanley Dean Witter included the following statistics:

- 88% of companies surveyed consider their e-commerce strategy important, with 63% saying it's a strategic priority.
- E-commerce as a percentage of GDP growth should exceed 100% within 5-10 years.
- A survey of CFOs suggests the number of U.S. companies selling their products over the Internet will jump from 24% in 1998 to 56% by the end of 2000.

Furthermore, a report by AMR Research this past May indicates that B2B e-commerce will be adopted at a more accelerated rate than many companies realize, reaching US\$ 5.7 trillion by 2004.

Currently, the pulp and paper industry utilizes the Internet, even commerce sites, primarily to find specific information such as current spot prices, rather than to execute transactions. However, 95% of paper industry managers report using the Internet in some capacity when conducting business. Given these circumstances it is probable that, at some point in the near future, the primary role of the Internet in the pulp and paper industry will shift from information source to actual marketplace, especially when you consider the following statistics from Goldman Sachs:

- E-commerce is expected to boost productivity to more than US\$ 1.5 billion in the pulp and paper industry over the next few years.
- E-commerce activity related to the paper industry is expected to reach US\$ 45 billion by 2004.
- E-commerce can reduce costs between 15%-25% in the forest products industry, the second-highest percentage among 17 industries studied.

THE SIGNIFICANCE OF E-COMMERCE

In a nutshell, e-commerce is altering the way the pulp and paper industry does business at every level of the supply chain. Ominous as this may sound, the change that is happening—and will continue to happen—is actually good for the industry because it fosters the development of new business models that reduce both the cost of and time needed to conduct exchanges. From distributors to papermakers to those involved in converting and printing, industry groups are developing ways to leverage the Internet and use e-marketplaces.

Suppliers are one of these groups facing a rapidly evolving role in the supply chain. Much of the alteration is a result of the sharp increase in information available

to customers through the Internet and their increasing reliance on the web for immediate answers to their questions, both industry-related and otherwise. Quite simply, many B2B customers today want what's available to them in the consumer online marketplace—and that's more than just product. They want pricing information, industry reports, the ability to request quotes and track their orders, and customer service backing it all up.

BUYING AND SELLING ONLINE

Many leading industry suppliers have turned to the Internet as a means of satisfying these growing demands from their customers. The early pulp and paper websites have tried to satisfy customer requirements, mainly by providing a buying and selling function online. However, it is rumored that the first paper exchange portal only did US\$ 100,000 in transactions last year, and is used by less than 1% of the pulp and paper industry.

Auctions were the earliest form of e-business in the industry and continue to be used today as the primary transactional model. On some commerce websites the buyer and seller remain anonymous until a commitment to buy is reached, and on other sites the identity of both are known from the beginning. Both auction models tend to drive down price, but the advantage of knowing

the identity of who you're doing business with is the ability to consider reputation and product quality in addition to price. There is a trend in industry auctions to give buyers and sellers access to only their current activity—not the auction history—which helps alleviate price pressure. In other words, someone bidding on a quantity of paper cannot view the previous bids or what price the supplier is asking. Price does not drive the transaction.

However, e-business in the pulp and paper industry is quickly moving beyond simply matching buyers with sellers. Many of the new commerce websites that have appeared during the first half of this year are a combination of auction house and freeform information hub, or e-marketplaces. The move toward this model began when suppliers realized it was no longer adequate to have a website that looked really good and performed one function well, but came up short in providing customers with value-added services. All websites need to offer something valuable that turns browsers into users and keeps them coming back. Therefore, community and content have become the drivers for liquidity in e-marketplaces. E-commerce platforms must give users direct access to an extended universe of customers and suppliers to buy from and sell to, as well as a robust suite of products and services that provide useful information.

A BRIEF VIEW OF PAPERLOOP.COM

Established in March 2000 as a joint venture between Miller Freeman, Inc. and Pegasus Capital Advisors L.P., paperloop.com was created to set a new standard for e-commerce portals in the pulp and paper industry, and improve the way business is conducted throughout the paper chain. Paper manufacturers, converters, printers, suppliers, logistics providers, end-users, and the financial community can use the site as their link to the Internet and a more streamlined, efficient way of doing business.

Paperloop.com accomplishes this by assuming community and content are the drivers for liquidity in e-markets as technology increasingly becomes a commodity. The result is an e-commerce platform—an "Information Hub"—that gives users direct access to an extended universe of customers and suppliers to buy from and sell to, as well as a suite of products and services.

The company also has formed a number of key strategic alliances with a mix of dot-com and traditional companies to address the needs of its diversified customers:

- ABB—one of the world's largest supplier of automation to the pulp and paper industry

- E-Fibre.com—a leading auction site for off-grade and direct pulp substitutes
- PrintMarket.com—the foremost print buyer and seller marketplace
- Fibre Management Company (FMC)—a waste paper trading company and developer of fully integrated fibre procurement, brokerage and logistics operating systems.
- Resources Information Systems, Inc. (RISI)—experts in forecasting, analysis and consulting
- Schneider Logistics—North America's largest truck-load transportation and logistics company

Paperloop's top management team includes several industry experts. David I.J. Wang, former executive vice president and director of International Paper Co., is chairman, and Roger Hoffman, president of the Hoffman Group Ltd. and former COO of Green Bay Packaging, Inc., is vice chairman. The advisory board includes Claude "Chum" Van Hefty, past-president and CEO of Badger Paper Mills, Inc., and founder and president of CVH Enterprises, Inc., an industry consulting firm. Paperloop's president and CEO, Tim Fazio, joined the company from Pegasus Capital Advisors where he was a partner in charge of the pulp and paper division.

The newest e-commerce model no longer limits its purpose to serving a single niche. These are true e-marketplaces with multiple functions, an emphasis on value-added content and the ability to unify fragmented industries—like pulp and paper—by providing the customer with “one stop” for everything needed to conduct business. The e-marketplace model compresses the supply chain and streamlines the buying process by allowing buyers to find suppliers and deal with them directly. It also tends to lower the cost of doing business and shorten transaction time because buyers and sellers can find each other and communicate more quickly.

Buyers also visit e-marketplaces to find relevant information about their industry that ultimately will help them make better business decisions. While customers may not be naïve enough to expect suppliers to provide every piece of information or every value-added service they want, they do expect the e-marketplace experience to be seamless. Therefore, even if there are several different companies supplying the website content and services, because the desire to purchase product generally drives e-marketplace visits, the ultimate responsibility belongs to the supplier to offer the most robust content their customers need and want.

The best pulp and paper industry e-marketplaces offer a wide range of value-added products and services, as well as targeted industry information focusing on the full supply chain for paper and forest products. Some examples include:

- 24-hour breaking news updates
- Customized research & information
- Interactive business tools
- 24/7 live customer service
- Robust transaction applications
- Fulfillment and financial services
- Daily industry news e-mail service
- Interactive buyer's guides

It is clear that the role of the pulp and paper industry supplier has transcended simply providing quality product in a timely manner. There is also the challenge of actually delivering these value-added products and services to customers through the e-marketplace. The key here is not trying to do it all, rather forming strategic partnerships with companies that specialize in delivery services, producing e-catalogs, financial advice or whatever else is necessary. This is the only way to survive.

OUTLOOK FOR PULP AND PAPER E-BUSINESS

Industry e-marketplaces, and all e-commerce sites for that matter, will face continuous challenges as Internet and wireless technology develops. Some of the challenges already being addressed by leading pulp and paper e-marketplaces include:

- How to maximize customer value, or retain existing customers even as the site changes to include new services and product offerings.
- A related challenge is how to make websites “stickier”; in other words, keeping customers on the site longer.
- Making the necessary trade-offs between existing offerings and new revenue streams.
- How to accommodate the growing demand for wireless access and transaction support.
- Providing a complete suite of services that gives customers a strategic advantage.

The key to successfully meeting these challenges is the one constant between online and offline marketplaces—knowing your customers. By keeping their business customer-focused, suppliers should be successful in adapting to their new role in the e-marketplace. TJ

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