



# Center for Paper Business and Industry Studies

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*Newsletter of the Center for Paper Business and Industry Studies*  
*A Sloan Foundation Industry Center ♦500 Tenth Street ♦Atlanta, GA 30332 ♦<http://cpbis.gatech.edu/>*

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## **B2B for Fiber Procurement**

In the last issue of the Newsletter we reported on the research of Philip Unger, a Ph.D. candidate in Georgia Tech's School of History, Technology and Society. Phil had been named a 2003 CPBIS Research Fellow. These appointments are made available to highly qualified graduate students pursuing research that is relevant to the Center's mission.

Also successful in a bid to become a 2003 CPBIS research Fellow was Kendra Taylor, a candidate for the Ph.D. degree in the Georgia Tech School of Industrial and Systems Engineering. Kendra supplied the following description of her research.



Taylor

“Paper and forest products companies operate in a highly cyclical environment in which pricing is controlled to a large extent by external factors. Consequently, effective cost structure management is crucial for their continued competitiveness. In this light, it is understandable that an inability to control raw material costs is a growing source of frustration among North American mill managers.

One of the key cost drivers in the industry is the cost of wood fiber. It represents the highest variable cost in pulp and paper production. In spite of this, almost none of the 44% of mill managers reporting Internet use for purchases [*Pulp & Paper* 77(12):34(2003)] indicated that those purchases included wood fiber. Whether this represents a missed opportunity is an

open question that will be addressed by the current research.

For some time now, the relationship idea used in securing long-term contracts has also been used to secure sudden spot market timber transactions between timber companies and mills. It is reasonable for long-term contracts to be relationship-driven for purposes of information sharing, customized pricing, and price adhesion where price changes trail supply or demand shocks. However, when there is variability in demand and a short-term or spot market contract is under consideration, cost tends to be the main factor. The appeal of B2B exchanges that enable price discovery and efficient matching of supply and demand lies in these short-term procurement situations.

Internet auctions offer benefits that include lower costs of organizing an auction and participating as a bidder, increased convenience, aggregated markets, and lower transaction costs. They also provide efficient allocation of goods. With lower costs for the auctioneer and increased convenience for participants, it is less difficult to hold an auction. This idea is important in the context of commodity spot markets in industries affected by seasonal supply cycles. This is because either a buyer or supplier might have the opportunity to hold an auction.

The ability to hold an auction does not directly imply that one *should* hold an auction. One question that this research explores is whether it is better for suppliers and buyers having the ability to hold an auction in a given period of the sequence to do so or to wait to bid in a subsequent auction period. We

are also interested in the market rules that prevail when the option to initiate an auction is present.

Currently, it seems that the procurement auctioneer, the mill, has the market power and ability to aggregate bidders to compete. However, in commodity spot markets affected by seasonal cycles like the timber spot market, the market power and ability to aggregate bidders may be subject to temporary shifts. This leads to possible periodic role reversals of auctioneer and bidder.”

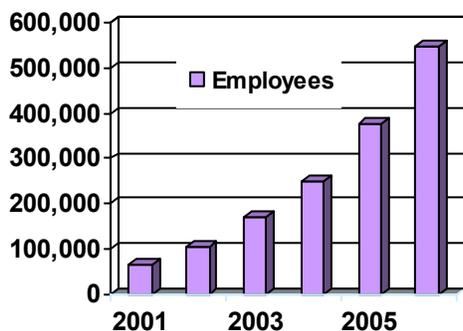
Through further investigation of these and related issues, this research will shed much-needed light on how mill managers and timber companies may use the Internet to transact timber.

For sources and further information, contact Kendra by e-mail at [KTaylor@isye.gatech.edu](mailto:KTaylor@isye.gatech.edu).

### **Four Powerful Presentations**

The current CPBIS Distinguished Lecture Series concluded last week with an extremely topical presentation by Martin Kenney, a professor at the University of California, Davis, and a Senior Project Director at the Berkeley Roundtable on the International Economy. Prof. Kenney’s talk was entitled, “Lift and Shift – Offshoring and Outsourcing of Services.” He presented a penetrating analysis of the characteristics, costs, and benefits of the rapidly escalating trend (see figure below) toward outsourcing and offshoring.

**Business Process Employment in India**



On March 26, Mr. Frank Dottori, President & CEO of Tembec, presented “How Pulp & Paper Professionals Attain Successful Outcomes,” a talk rich in recipes for professional success, illustrated by anecdotes based on the birth and rapid growth of Tembec, as well as on Mr. Dottori’s own personal experiences.

Dr. Richard Phillips, International Paper’s Senior Vice President, Technology, presented “Ten Imperatives for Manufacturing Success in the U.S. Paper Industry” on February 27. In this talk, he

examined critical issues facing the U.S. industry, and prescribed courses of action for dealing with them.

In the first lecture of the series, on January 23, Mr. Ladd Hall, Vice President and General Manager of Nucor Steel, presented “Bestmarking Performance in the Steel Industry - Why Success Occurs.” Nucor’s success in an otherwise troubled industry can be attributed to its determined pursuit of a portfolio of directed goals. Mr. Hall laid these out in detail, demonstrating the truth of the assertion that pulp and paper can learn much from other industries.

All four presentations can be seen and heard in the form of recorded Webcasts via the links at: <http://www.cpbis.gatech.edu/dls2004>

### **CPBIS Hosts Industry Centers**

CPBIS played host to an eminently successful Sloan Industry Centers Annual Meeting last week, April 19-21, at the Georgia Tech Hotel and Conference Center, located in Tech’s recently completed Technology Square complex. Plenary sessions and breakouts explored aspects of the meeting’s overarching theme, “Factors of Success in the New Competitive Environment.” The family of 22 Industry Centers, as well as many of their affiliates, was well represented among the delegates.

A highlight was the keynote address by Nobel Prize-winning economist Dr. Robert M. Solow, in which he critiqued politically motivated outcries against offshoring, pointing out that we simply do not yet know enough about the phenomenon to pass broad judgments. He issued a challenge to the Industry Centers to remedy the situation through suitable deployment of their unparalleled research capabilities.

### **Upcoming Events**

“**Management Development for Enhanced Performance,**” A unique paper industry continuing education opportunity, Atlanta, May 10-14, 2004. See: <http://www.cpbis.gatech.edu/mgtdev>

“**Revitalizing the Industry,**” Mon. May 3, 10:00 a.m. – noon, and “**VIP Management Track,**” Tue. May 4, 8:00 a.m. – noon, CPBIS-sponsored sessions at TAPPI Paper Summit, Georgia World Congress Center, Atlanta, Georgia. For details, see <http://www.papersummit.org/spring.asp>

“**How to Do a Root Cause Analysis,**” Webcast, 11:00 a.m., May 5. For further information, see <http://www.pimaweb.org/training/spring04seminar.html> ■