Opportunities for Action in the Pulp and Paper Industry

Customer Relationship Management in the Paper Industry

THE BOSTON CONSULTING GROUP
Customer Relationship Management in the Paper Industry

“CRM in the paper industry is a waste of time and money.” We have heard this declaration repeatedly in the executive suites of paper companies. Admittedly, there are some grounds for this belief. Surveys conducted in Europe and the United States reveal that most customer relationship management (CRM) projects, across all industries, fail to deliver the value expected from them. The paper industry—suffering from overcapacity, price pressures, and narrowing gaps between the quality levels of competing products—hardly seems the most likely setting for successful CRM programs.

Nonetheless, The Boston Consulting Group’s experience working with industry leaders, together with our research, suggests that CRM can be worthwhile for paper companies. Indeed, CRM can help them overcome a problem that is endemic to the industry: lack of customer orientation. Properly applied, CRM is far more than an IT-based system for collecting customer data; it is a holistic approach for achieving sustainable competitive advantage through superior understanding of customers and more effective relationships with them. That understanding and those relationships are precisely what the paper industry needs.

Applying CRM to the Paper Industry

CRM offers paper companies sources of competitive advantage in four areas: strategic pricing; up-selling and cross-selling; development of new, tailored products; and cost reduction. A prerequisite for creating leverage in all four areas is strategic segmentation, implemented with unprecedented precision and
sophistication. Naturally, the magnitude of benefits to be gained from each of the four areas of leverage will vary by market segment.

**Strategic Pricing.** Sophisticated customer segmentation can help companies identify opportunities to raise prices on selected products and services—without losing customers. In one recent case, our client, a producer of corrugated materials, believed that its customers’ only concern was price. However, a survey of the company’s domestic customers revealed a far more complex picture. The surveyed customers ranked four critical elements—on-time delivery, product availability, product quality, and effective customer service—higher than price. Moreover, they perceived that our client and its competitors were performing very differently on these dimensions. For instance, our client had a particular strength in the area of short lead-times, which customers valued because they reduce inventory cost. Once our client understood the value of this strength, it was able to charge a premium for its superior product availability. Because the premium was based on delivering value that was evident to its customers, the company could introduce it without losing any of them.

Our client reaped another benefit from our analysis. The company had been incurring fairly high incremental costs for small orders, which customers did not seem to value very much. So the company introduced a fee for small orders. As a result, customers consolidated their orders, thus saving the company time and money.

Key to both measures—and to generating opportunities for strategic pricing—was achieving a superior understanding of customers’ needs and of the company’s influence on their cost structures. This understanding underlies all successful CRM efforts.
Up-Selling and Cross-Selling. Most of the paper companies we have talked to segment their customers according to distance (close or far), size (big or small), and business type (for example, printers, advertising agencies, or marketing departments). Companies make segmentations of this kind on the basis of information that is readily available or easily obtainable. With CRM, however, you need to go much further. For example, for one specialty-paper producer, we developed a segmentation based on customers’ individual business approaches, mapped against the impact that paper had on each customer’s position and differentiation. (See Exhibit 1.) To obtain the data for this kind of segmentation, you need to engage in deep discussions with a broad selection of your customers—and your competitors’ customers.

### Exhibit 1. Sophisticated Customer Segmentation Can Reveal Opportunities for Up-Selling

<table>
<thead>
<tr>
<th>Impact on customer's differentiation</th>
<th>Newcomer</th>
<th>Shaper</th>
<th>Generalist</th>
<th>Value seeker</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Financing</td>
<td>Product development</td>
<td>Business development support</td>
<td>No stock</td>
</tr>
<tr>
<td>Low</td>
<td>Low stock</td>
<td>Long-term relationships</td>
<td>Up-selling opportunity: inventory management</td>
<td>Cost savings in material flow</td>
</tr>
<tr>
<td>Narrow</td>
<td>Up-selling opportunity: logistics services</td>
<td>Up-selling opportunity: charges for application support</td>
<td>Up-selling opportunity: inventory management</td>
<td></td>
</tr>
<tr>
<td>Broad</td>
<td>Customer's business approach</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: BCG analysis.
The result for our client was an entirely new view of the market. Previously, the company had offered application support to all its customers. Although they had gladly accepted this assistance, very few had been willing to pay for it. As a result of our analysis, the company developed a much improved offering, which it provided only to the shapers, in the top right quadrant of the matrix in Exhibit 1. Because these customers take a broad approach to their business and believe in their ability to differentiate themselves from their competitors, they have been willing to pay for all the support they can get from the paper producer.

By contrast, the value seekers, in the bottom right quadrant of the matrix, believe in competing primarily on price. Our client has been able to help these customers realize savings by offering new logistics services and combining previously separate deliveries.

In both cases, it was possible to sell something new or additional to existing clients only when the offering was based on a solid understanding of each customer group’s distinct needs—an understanding that went far beyond traditional demographic characteristics.

We believe that opportunities for differentiation through services are far from exhausted in the paper industry. Still largely untapped areas for service offerings include problem solving, system solutions, after-sales service, inventory carrying, performance guarantees, uptime responsibility, financing, and training.

**Development of New, Tailored Products.** Areas of opportunity for creating new, tailored paper products include new grades, such as superimproved newsprint; new raw materials, such as certified traced pulp; new processes, such as through-air drying; new colors, such as the pink used by the Financial Times; and new features, such as radio-frequency identification tags.
We believe that in the future there will be at least as much customer-driven innovation (for example, different sizes, colors, features, packaging, and brands) as there is technology-driven innovation (such as processes and raw materials). To develop such new, tailored products, it is essential to work with your customers to understand their business propositions, competitive positions, and cost structures. In industry segments where relationships between paper companies and their customers are still based on fiercely adversarial negotiations and power plays, doing so will be an uphill battle.

**Cost Reduction.** The prevailing level of mistrust between paper companies and their customers is costly to both sides. In particular, this attitude prevents paper companies from realizing potentially significant savings on their marketing and sales costs. The key to achieving these savings lies in substantially enhancing cooperation with key customers. The necessary level of trust cannot be commanded; it needs to be built over time, starting with small signals.

For example, for one producer of fine paper and its key merchant, the first signal was a mutual commitment to sharing some stock data. (See Exhibit 2.) This exchange contributed to joint insights about stock levels and enabled both companies to carry less of the costly insecurity stock. Subsequently, as their respective value-chain costs fell, both companies were able to win more support within their respective organizations to allow wider sharing of stock data, which generated larger returns and resulted in much closer integration—eventually leading to electronic exchanges of stock movements and reordering information.

Collaboration of this kind is possible not only in relationships between mills and merchants (which often resemble distribution partnerships more than cus-
Customer relationships) but also in paper companies’ traditionally cost-sensitive relationships with printers and publishers. Here CRM can mean identifying how small behavioral changes on the customer side—such as more standardization, demand forecasting, and volume bundling—can reduce paper producers’ costs significantly. The companies can then share the generated savings with their customers. Naturally, this lever has the same prerequisite as the other ones: you must understand how you can influence your customers’ cost structures—and how they can influence yours.

Making It Work

While gaining a solid understanding of different customer segments is an essential prerequisite for successful CRM, it is not sufficient in itself. Because CRM affects many functions in a company and requires cross-organizational cooperation, management must often overcome significant barriers to make it work.
We have found three actions to be key to successful implementation: prioritizing opportunities thoroughly; initiating a continuous learning process; and making a strong commitment to CRM and leading it from the top.

**Prioritizing Opportunities Thoroughly.** Once organizations start to collect customer information systematically—whether manually or with IT support—they are often overwhelmed by the sheer volume of data generated and unclear about what to do with all that information. From the very beginning of a CRM initiative, you need to be explicit about your priorities, what data you want to collect, and what you need the data for. The potential savings to be achieved from each of the four areas of opportunity will vary significantly from company to company. Early in the process, do a general assessment of each lever, and then start with those that hold the most value for you and are the easiest to implement.

**Initiating a Continuous Learning Process.** CRM is not a one-time project with a fixed end date; it is a long-lasting effort to improve customer relationships continuously. Your competitors will soon catch up with whatever steps you take initially. The key to sustainable competitive advantage lies in continuous organizational learning, leading to ongoing innovation across the customer interface.

**Making a Strong Commitment to CRM and Leading It from the Top.** CRM is not an IT initiative but a fundamental change process. As such, it must be led by the company’s senior management. Directing CRM at this level means not only requesting frequent progress reports but also making tough decisions when necessary—and having the stamina to generate sustained
support from critical stakeholders, channels, and functions over the long haul.

* * *

The fundamental idea behind CRM is not new. The key to its successful realization—developing highly refined, strategic customer segmentation—is more a traditional management skill than a fashionable new concept. But properly understood—and supported, not initiated, by modern IT systems—CRM can lift your company to new levels of competitive advantage.

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