

**-- Outsourcing and Offshoring –
*The Future Configuration of Internal
Services to the Paper Industry***

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Overview

- Paper Industry Background Commentary
- Evolution of Internal Services Outsourcing and Offshoring in the Paper Industry
- Technology, IT & Business Planning Services
- Other Internal Services
- The Likely Path Forward

Paper Industry Background Commentary

- **Key Question = *When should a firm accept an outsourced or offshore supplier for any internal services support?***
 - ✓ **Process Technology Development**
 - ✓ **Design/Engineering**
 - ✓ **Maintenance**
 - ✓ **Information Technology (IT)**
 - ✓ **Communications & Marketing**
 - ✓ **Procurement and Inventory control**
 - ✓ **Legal Services**
 - ✓ **Business Planning**
- **Only one good answer = *do so only to enhance the firm's capability to create and capture value – both short and long term.***

Paper Industry Background Commentary

- Paper Industry Reality = *More of a focus on simply lowering costs due to investors' pressures – with the exception of selected value creation moves in --*
 - ✓ Process Technology Development
 - ✓ Design/Engineering
 - ✓ IT, and
 - ✓ Business Planning
- Opportunistic & largely outsourcing, focused

Evolution of Internal Services Outsourcing & Offshoring – *The Paper Industry*

- Understand the Global & Commodity Nature of the Industry – *Long Time Reality*
- Historically – Many Firms differentiated with unique in house technology – large systems
- Yet –
 - ✓ Need to have more robust technology base &
 - ✓ Major cost Pressures across time = cutting costs of in-house technology & Outsourcing – Exception = Tissue Makers

Technology Outsourcing

- Ultimately backfired
- Everyone shared/shares the same technology – there is no differentiation.
- And -- New low cost global entrants (low cost fiber, water, labor, energy, capital
 - ✓ Shared/outsourced technology accessed by low cost new global players
 - ✓ Changed the competitive nature of the global and domestic business
 - ✓ Outsourced technology providers = no technology Barriers to new global players

Technology Outsourcing

- Strong dollar, new low cost players pressured both domestic Paper Firms
- Led to cost cutting *pressures on their local technology partners*
- Domino Process = *Failure of domestic technology partners – bankruptcy or offshore acquisitions = unintended offshoring*
- Now accelerating in lower end engineering work to places like India and Mexico – with no major unique benefits to domestic Paper Companies

IT Outsourcing

- Paper Industry Has Long Outsourced Selected aspects of IT (*unique skill needs*) --
 - ✓ Process Control Systems
 - ✓ Software Technology Development
- Outsourcing of Vendor-based General IT Services Began in 1980s
- Reversed itself in early 1990s (control of IT)
- Reversed again & really picked up momentum in the “*cost cutting rashes of 1990s*”
- And with M&A = *Is Advancing today as well*

Business Planning

- **Large Consulting Firms -- *Always a Role in High End Tasks Outsourcing***
- **Past Five Years – *more basic business planning tasks being outsourced (not offshored)***
- **Drawbacks to High End Tasks Outsourcing = *Firms Behave Same Way – Little Differentiation.***
- **Except For *Tissue Makers* Again**
- **Just Not Seeming to Create Value – *Shift Costs Yes, But . . .***

Other Internal Services

- **Legal – *certain part long outsourced, but wide variance across firms***
 - ✓ **Now even some being offshored (domestic legal partners seeking lower costs to compete)**
- **Maintenance – *A very difficult area, some history of outsourcing, but union issue is real***
- **Finance, Accounting, Clerical . . . Little history – *Some Recent Outsourcing Moves – Again, to Cut Costs Not Create and Capture Value***

Path Forward

- **Internal Staff Levels (Relative) of Past --- *Never to Return to Paper Industry . . .***
- **Cost Cutting So Strong Via Outsourcing of Some Internal Services, *That Entire Service Concepts Have Changed . . .***
 - ✓ **Stimulated by Low Cost Offshore Producers and related loss of 10% of market share**
 - ✓ **Leading to lost production jobs = lost and offshored service jobs**
- **Value Creating and Capture is Still the Issue –*As is quality and kind of services provided***