

Five forces analysis on paper industry essay sample



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The SIC code I use to discuss in the assignment is 2621 Paper Mill. As we learned in Module 3, there is a five forces analysis. Today, we are going to use five forces to analyze the paper industry. Current Competitors:

As we can see from the above diagram, we can know that paper industry is averagely in a low growth or even negative growth since 2009. IBISWorld states that the revenue of paper industry dropped dramatically in 2009 due to the global economic recession, which consumers decrease their spending. The other factor might be the increasing of using electronic products. In the report of " Paper Mill" which is from Encyclopedia of Global Industries, US paper company, International Paper Company (IP), expended to a global producer of paper and paper products via many acquisitions worldwide in 1980s and 1990s. Nowadays, International Paper company is the largest paper output company with 12, 901 thousand tons in the world.

The other companies in top five are Japan-based Oji Paper Co., Ltd with 10, 721 thousand tons, Finland based UPM-Kymmene Oyj with 10, 700 thousand tons, China-based Nine Dragons Paper Ltd. with 10, 450 and Finland-based Stora Enso Oyj with 10, 268 thousand tons. The data is ranked by the amount of output and retrieved from Gale Business Insights: Essentials 2015. We can know that the using amount of paper is increasing in Asia-Pacific region. The reason is that their economic scale is growing rapidly these years, so the demand of paper is increasing. As for Finland, the country's natural resource of forest is their advantageous point. So there are two Finland-based companies in top five. The other paper companies' output amount is not as much as the above companies, because there is high brand

identity in paper industry. So paper consumers, such as printers, publishers and so on usually will rely on certain firms. Suppliers:

To produce paper needs pulpwood and it is not the only one choice. There are other materials can be used in producing paper, such as recovered fiber and recycled fiber. Paper machines and chemicals are the other necessary parts in producing paper. According to the S&P's industry survey, 53% of paper is mad up by pulpwood in 2007 and 7% of recycled fiber is used to produce printing and writing papers. Traditional paper producers need a lot of labors. As the development of technology, the requirement of labors decrease, the requirement of high-tech paper machine increases. This situation improves the bargain power of mechanic suppliers. These necessary input materials will affect the profit of paper industry, and it is really hard to bargain with suppliers on the high reliance materials. Paper companies should put themselves in a right position to prevent the damage of profit from suppliers.

Customers or Buyers:

Consumers usually have strong power of bargain, because they are the one who pay money for products. In the report of Encyclopedia of Global Industries " Paper Mill", China is the largest paper consumer and producer in 2010s. It is also the second largest exporter of paper to USA. The report also points out an interesting point that thee consumption of paper is relevant to the living standards. For example, in Europe, the consumption of paper was 190kg per capita annually and 300kg per capita in USA. In contrast, the consumption of paper was only 17. 5kg in developing countries. As we discuss in the part of current competitors, Asian-Pacific region's economic <https://assignbuster.com/five-forces-analysis-on-paper-industry-essay-sample/>

develops better and better at the same time paper consumption grows rapidly.

Potential New Entrants:

Paper industry is a high capital-intensive manufacturer. It has high fixed cost which creates the barrier of entrants. They have to continuously invest in plants, newest and faster equipment to cost down their products. Also they have to pay maintain fee constantly to look after their machines. According to the above reasons, large paper companies dominate most of the papermaking in the world. To sum up, as a new entrant to paper industry, you have to invest a large amount of capital and keep invest till the end of company. Also, you need to build your brand identity in the market where consumers is used to buy products from the existing big companies. And the switching cost of consumers is not easy for new entrants to reduce. In other words, in paper industry, it is hard to have new entrants.

Potential Substitutes:

As time passes, technology changes our life style. We used to read a “ real” book before Amazon performs a new way of reading by Kindle. The reading app can install in many electronic devices, such as a PC, laptop and tablet. We used to see people reading in the train, now, what we can see is that passengers use their phone or tablet to read novels or magazines. Network system changes the way of turning papers, we don't have to print out papers anymore. We can turn in paper online. The point of “ online” reduces a large amount of using paper, not only for the environmental issue but also for the convenience.

These years, companies advocate the idea of paper less, we can pay bills online. In this case, imagine how many papers we can save. There are too many examples of reducing paper usage. The update of technology product is the biggest substitute of paper. The only irreplaceable business in paper industry I think is packaging business. We need boxes or bags to put food or stuffs inside to sell or to keep. And electronic products cannot achieve the purpose yet. Maybe one day will develop one devices to put all your things but it would take a really long time. The other point I want to mention is packaging business still has substitute, such as plastic or new materials. So papers still have to exist in some way but its position will be replaced by the substitute: technology, plastic or other materials, day by day.

References:

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