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## CASE STUDY: ENHANCING RELATIONS WITH BUSINESS PARTNERS - MAYR-MELNHOF, AUSTRIA

### Abstract

*The Mayr-Melnhof Cartonboard Group (MMK), headquartered in Vienna, is a leading producer of recycled cartonboard within Europe and world-wide. As a vital part of its strategy, the company lays emphasis on developing and maintaining lasting business relations with clients as well as suppliers. This case study shows how MMK uses ICT and e-business deliberately as instruments to support this strategic goal. The case focuses on a web-based workplace ("coMMunity"), which was mainly implemented as a service for smaller companies with whom MM is in business. It illustrates how online services of this type can support B2B trade processes in a win-win situation, with a high chance of creating value for both parties involved.*

### Case study fact sheet

- Full name of the company: Mayr-Melnhof Karton Gesellschaft m.b.H.  
Headquartered in Vienna, Mayr-Melnhof operates nine cartonboard mills in Austria, Germany, the Netherlands, Switzerland, Slovenia and Bulgaria. It has sales offices and agencies in more than 40 countries worldwide.
- Location (HQ / main branches):
- Sector (main business activity): Cartonboard production
- Year of foundation: 1950
- Number of employees: about 3,000
- Turnover in last financial year: 767 million euros (2005)
- Primary customers: Producers of collapsible cardboard boxes, mainly for the food industry, pharmaceuticals, healthcare products and cosmetics
- Most significant market area: Western Europe (about 60% of sales). Overseas exports account for 23%.
- Focus of case study: Use of ICT for supporting B2B trade processes
- Key words: Webbased workplace, online products catalogue, business process transparency, trade with SMEs

## Background and objectives

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The Mayr-Melnhof Cartonboard Group (MMK) is a leading producer<sup>1</sup> of recycled cartonboard within Europe and world-wide. It is part of the Mayr-Melnhof Group, which is listed on the Vienna Stock Exchange and consists of two divisions: the Cartonboard Group and the Packaging Group. In total, the MM Group employs about 7,300 people, 3,000 of whom work in the Cartonboard Group.

The cartonboard industry is part of the paper industry. It produces mainly millboard (but no corrugated board) from a grammage<sup>2</sup> starting from 180 g/m<sup>2</sup> for packaging. MMK is specialised on the production of recycled cartonboard, i.e. cartonboard containing a certain percentage of recycled fibre (the percentage can vary between products), mainly used for the production of collapsible cardboard boxes.

MMK sells its cartonboard mainly to companies from the 'converting' industries that produce these boxes; 15% of sales are within the Mayr-Melnhof Group (to the MM Packaging Division), 85% to other converting companies. Downstream in the value network, the main "users industries" of the packaging solutions produced from MM cartonboard are the food industry and producers of pharmaceuticals, healthcare products and cosmetics. In a few exceptional cases, MMK sells cartonboard directly to companies from these industries.

### Business goals and strategy

MMK has the declared operational goal to maintain and even expand its position as a market leader in an increasingly competitive environment. To this end, the company is committed to proactively seek and exploit opportunities for further growth in its core business, by acquisitions as well as a natural expansion of market shares in Europe and export markets outside Europe. To achieve these goals, the company pursues the ambitious strategy of combining cost leadership with service leadership.<sup>3</sup> Both are regarded as key to stay competitive in the marketplace, and for the pursuit of the ultimate goal of a market leader to be "best in business".

Maintaining excellent and longstanding relations with business partners is a vital part of the business strategy, as pinpointed and summarised in the mission statement: "*For Mayr-Melnhof Karton good co-operation is a must. We strive to build lasting relationships with our clients, as well as our suppliers. We act as a team and partner in mutual respect, trust and reliability.*"

The use of ICT and e-business by MMK is fully embedded within this strategy. Any investment into ICT systems is critically checked on its contribution to cost leadership or customer service.

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<sup>1</sup> The company states that it is "*the leading producer*" worldwide with the largest market share of all companies in the recycled fibre-based cartonboard production for collapsible boxes.

<sup>2</sup> "Grammage" is a measure of paper weight based on the same square meter sheet of paper, regardless of paper grade.

<sup>3</sup> Cf. Mayr-Melnhof Karton AG, Annual Report 2004, p. 9

### Overview of e-business strategy

As a large, internationally operating company, MMK makes intensive use of ICT for conducting business. Important application areas and activities include the following:

- **Paper-less exchanges via ERP systems** (mainly with other large companies): if a customer or supplier has an ERP system, data related to orders (received or placed) is typically exchanged in a paper-less way between the ERP systems of the two companies trading with each other. This enables the automated processing of data during all transaction phases (request for quotations / proposals, placing the order, order confirmation, invoicing process, dispatch confirmation). Data exchange between ERP systems represents the most sophisticated form of e-business.
- **B2B workplace "coMMunity"**: A service targeted in particular to smaller enterprises which do not have an ERP system, as a substitute; it is the focus of this case study.
- **Online products catalogue "Cartonette"**: An online products catalogue with detailed information about quality grades of cartonboard for specific user sectors and types of products to be packaged. The website front-end of the database is directly fed from the ERP system. Thus, the products catalogue is always up to date without requiring manually entering the data.
- **MM Sourcing**: As part of the MM Group, MMK participates in the e-sourcing platform that was developed by MM Group for its two main divisions. Current and prospective suppliers are invited to use the "eRFX" sourcing platform (at [www.mm-sourcing.com](http://www.mm-sourcing.com)) for requests for information or for participating in one of the following tender procedures:
  - **Requests for Quotation**, enabling single quotation requests for specific products and services. Since 2005, MM Sourcing includes a special module for logistics companies ("Interstar"), where they can log in and submit offers in response to the published RfQs. Logistics service providers are currently one of the key target groups of MM Sourcing.
  - **Requests for Tender** (multiple quotation request for specific products and services) and **Requests for Auction** (an online reverse auction module) are also possible via MM Sourcing, but used to a lesser extent.

One of the main challenges for further expanding its B2B e-business activity is that many of the **small customers and suppliers** do not have sophisticated e-business systems in place; in particular, if a business partner does not have an ERP system, the exchange of data in standardised, electronic format is hardly possible.

Although this dichotomy between large and small firms is typical of most of the manufacturing industries, many of the smaller companies in the pulp & paper industry, notably in the converting industries, can be characterised as being particularly conservative in their attitude towards ICT. According to Mr Pachta, Manager Electronic Solutions & Services, many of the small firms MMK is trading with were rather late in taking even the first steps in connecting to the internet, and – once connected – often had only one central e-mail address for the whole company to send messages to. Without

going into technical details, it is easy to imagine that this is not a favourable business environment for sophisticated B2B integration schemes for the whole value network.

## The B2B Workplace "coMMunity"

Confronted with this situation, MMK considered how it could be possible to bring at least some benefits of e-business to its smaller trading partners, even if they do not have the systems for enabling fully integrated B2B exchanges. The key objective was to create a service for trading partners which they could not afford or manage on their own, i.e. which has a clear value for them. At the same time, the system should enhance the transparency of business processes between MMK and its customers and thus support ordering and delivery processes in terms of quality assurance, reporting and follow-up activities.

These considerations resulted in the decision to set up a web-based workspace mainly for customers of MMK, which offers several functionalities that compare to the reporting function of an ERP system. The workspace was named "coMMunity". It was implemented in 2001, with development of the initial version taking about 6 months. The workspace was developed in cooperation with Freecom Internet Services GmbH, a company founded in 2000 as the IT arm of MMK.<sup>4</sup>

"coMMunity" can be regarded as an extension of the existing customer information system, with the objective to foster online B2B exchanges. The service is exclusively being offered to existing MMK customers, who do not have to pay any fee for using it. In order to enable not-yet-registered or prospective customers a preview of how the system works, anyone can log in as a guest member without a password. Guest users can then access and download test reports (with data being random numbers) which provides them with a good understanding of how the system operates.

The overall objective to promote B2B exchanges online was broken down into **two main goals** and development phases: the establishment of an online information system as the first phase, and the expansion of the functionality.

### Phase I: The coMMunity online information system

The first level goal / phase was to offer registered users access to an innovative **online information system**, providing them with individualised data for analysis and decision making processes. This phase has mainly been completed; the workspace offers a wide range of information and reporting tools. Trading partners that register for the portal can access practically all information regarding the status of their current orders, as well as the record of previous orders. A broad range of reports can be downloaded with information about the following areas:

- **Production preview.** The production preview shows an overview of the current production programme and its completion date. This is the most frequently used service.
- **Stock tracking and monitoring ("my inventory").** Reports in this category provide a precise overview of your actual stock level. They help both customers and MMK to optimise the stock turnover of specific grades, by showing orders where the confirmed delivery date has already passed including today.

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<sup>4</sup> MMK owns 65% of Freecom Internet Services GmbH. For information about services, see [www.freecom.at](http://www.freecom.at).

- **Order monitoring.** Information about the status of orders, including current orders and monthly statistics of orders completed (by customer, enabling customers to analyse data).
- **Dispatch tracking.** Detailed logistics information enabling customers to track the delivery status of their orders (in form of a detailed table with lines for each product ordered, showing when and from where the product was dispatched, with order numbers and the planned dispatch dates of their orders).

Some examples of specific reports in these areas available are: The "**Pending Orders**" Report, the second most popular report next to the production preview report, shows the status of a customer's orders (packed, called off, dispatched, invoiced). The "**Monthly Development**" Report provides customers with a quick overview of cumulative figures for their orders on a monthly basis. The "**Sales Statistics**" Report supports customers in their analysis and controlling, by enabling a flexible and customised analysis of all invoiced orders. Similar reports are available for inventory and logistics.

Most of these customer-specific reports can be downloaded in **different formats**, for example as Microsoft Excel spreadsheets or (for further data analysis), or in Microsoft Access format. In addition, the portal informs about products, company news and production plans. Technically, the reports are directly **generated from the TietoEnator<sup>5</sup> ERP system** of MMK via an Oracle interface.

As of August 2006, the coMMunity portal had **1284 registered users**. About a quarter of these (**330**) **are frequent users**. The number of registered users has doubled since 2003 and increased by about 10% since 2005. The main users of the portal are printing companies and export companies, i.e. the main customers of MMK. Logistics companies and other suppliers have also access to specific services.

Since 2003, users can not only download reports ("pull"), but also issue subscriptions for specific reports ("push"). Subscribers receive the requested reports in a specified interval automatically by e-mail. As of August 2006, about **870 subscriptions** had been placed via the portal.

### **Phase II: Online ordering**

The second goal and phase for the coMMunity portal will consist in the conversion of the paper-based documentation between MMK and its key customers (e.g. for order confirmation and invoicing) to a **paperless e-system** connecting computer networks via the internet. This phase has not yet been realised. It is planned to complete it until end of 2007. By then, customers will be able to place orders with MMK online via the workplace. Thus, it is planned to enhance the platform from an information space (with reporting functions related to current and past exchanges) into an e-commerce trading platform for placing new orders.

MMK expects that these services – both the online information system and the e-ordering – will raise the awareness for the benefits of e-business among its customers. By creating a concrete value for companies that use the system, it will help them understand the strategic role of e-business trends in advancing their own business objectives. MMK is committed to actively promote and accelerate e-business uptake in its industry by

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<sup>5</sup> TietoEnator ([www.tietoerator.com](http://www.tietoerator.com)) is one of the largest IT services providers in Europe. IT services for the forest and energy industries, including the P&P industry, is one of its main business fields. MMK implemented an ERP system from TietoEnator in 1999.

continuing to develop new tools, services and applications, because the company believes that it can realise a **win-win situation**. "*We are convinced that coMMunity helps both partners – our customers and MM Cartonboard Group, as it enhances the quality of data exchange and communication,*" says Erasmus Pachta.

Therefore, MMK has a strong interest in **assisting its customers** with the implementation of this new instrument into their day to day business. The company employs professionals that are well experienced in the areas of web design and programming, process redesign and project management. This know-how is – to the extent possible – made available to SME customers as a service.

## Impact

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It is hardly possible to quantify the impact of "coMMunity" in any way. Since the workspace is a tool that it is used by many trading partners, benefits are not only realised by MM Cartonboard Group itself, but to a large extent by the target group for whom the service was implemented.

According to Mr Pachta, an important effect is that the portal paves the way for **testing new business models**, such as Vendor Managed Inventory (VMI) or Supplier Managed Inventory (SMI). In VMI, the manufacturer is responsible for maintaining the distributors inventory levels. The manufacturer has access to the distributors inventory data and is responsible for generating purchase orders. By contrast, in the traditional business model, distributors place an order against a manufacturer when they need it; thus, the distributor is in total control of the timing and size of the order.<sup>6</sup> Users of the coMMunity portal can gain experience how these models work. They can test them without facing any risks or costs for technology implementation. "*This is an important step leading towards real e-business in our industry*", says Mr Pachta.

Besides paving the way for new (e-)business models, MMK reports that the workspace has had effects on B2B exchanges in the following areas:

- It facilitates and **speeds up communication** by actively encouraging the use of online communication.
- It **reduces total transaction costs** in comparison to a comparable transaction (with a similar type of customer) that would be accomplished without the use of community. However, MMK says that they do not have any figures on absolute savings nor do they want to publish estimates of the percentage of cost reductions.
- It strengthens **customer service**, as it provides small companies access to a flexible tool for analysis, based on e-business instruments they do not have available on their own.
- It enhances **paperless office management**, enabling HTML, XML, MS Excel and Adobe Acrobat Reader download of all reports generated.

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<sup>6</sup> For more information about VMI, see for example [www.vendormanagedinventory.com](http://www.vendormanagedinventory.com).

## Lessons learned

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The single most important critical success factor for operating an e-business portal such as coMMunity, according to MMK, is that the underlying ICT system(s) from which the portal is fed – typically the ERP system – is perfectly organised. *"A company has to make sure it has a well organised system in place where all the relevant business data are seamlessly linked, before it can build applications and services upon this basis. If you don't have such a system in place, it will inevitably be a nightmare"*, says Mr Pachta. He says that it is possible to create interfaces between different business areas, e.g. between ICT systems for resources planning and financial systems; however, it will not work to have two or three different ICT systems within one functional area. This can be a big issue and challenge in the case of mergers, when different legacy systems for resources planning have to be integrated.

MMK accomplished the main step towards an ICT-based integration of business data in 1999, when the company introduced a comprehensive ERP solution from TietoEnator. The decision to take this step was taken in 1996; it took three years to complete it. With regard to e-business, 1999 constitutes "the beginning of time": there is only a time before ERP and after. All other subsequent steps since have been comparatively uncomplicated to manage, once the ERP implementation had been successfully completed.

Although the coMMunity workspace is intended to pave the way for new business models between MMK and its customers in the long run, MMK states that it is very important not to impose any limitations on current or future customer relationships that are developed and maintained outside of this e-environment. Thus, the workspace is not perceived as a substitute for traditional ways of conducting business, but a beneficial addition to them. The goal is clearly to facilitate and enhance relationships without disrupting them.

## References

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*Research for this case study was conducted by Hannes Selhofer, empirica GmbH, on behalf of e-Business W@tch. Sources and references used:*

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