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## Packaging Corporation of America – A Strategic Analysis 2023

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### INTRODUCTION



Figure 1

<https://www.packagingcorp.com/our-company/history/>

Packaging Corporation of America (PCA) was formed in 1959 as part of a merger between Central Fiber Products Company, the American Box Board Company, and the Ohio Boxboard Company (PCA, 2023a). Throughout the years, PCA has expanded through organic growth and numerous acquisitions to become one of the largest manufacturing companies in multiple industries, all centered on the production of paper-based products (Ibid). Specifically, PCA's most significant footprints are in two industries: Paper Mills in the US (NAICS 32212) with a 23.7% market share, and Paperboard Mills in the US (NAICS 32213) with a 13% market share (Irigoyen, 2023; Le, 2023). Both industries source from similar suppliers but produce different products for different buyers.

In 1999, Chicago-based private equity firm Madison Dearborn Partners, LLC, reformed Packaging Corporation of America, intending to make it a public company. As planned, PCA became a publicly traded company in 2000 on the New York Stock Exchange (NYSE) under the ticker symbol "PKG" (PCA, 2023a). The capital

infusion spurred many new acquisitions and allowed PCA to expand quickly (Ibid). In 2009, PCA celebrated its 50<sup>th</sup> anniversary. In 2022, PCA was included in *Forbes* magazine as one of the “World’s Best Employers.” PCA was one of only 24 US manufacturing companies on the list (Ibid).



Figure 2

<https://www.packagingcorp.com/our-company/history/>

### MISSION, VISION AND OBJECTIVES

Packaging Corporation of America’s (PCA) corporate mission is “to serve the needs of our customers, today and tomorrow, with products and services that exceed expectations for performance and environmental responsibility” (Zippia, n.d., para 1). As one of the largest companies in its respective industry, PCA has embraced its leadership position, and the mission statement reflects this sentiment. PCA’s mission statement ties into its corporate vision of “doing the right things, utilizing the power of strong collaborative relationships, and delivering innovative packaging solutions with an outstanding service experience” (2023a).

Stemming from the mission and vision are PCA’s objectives. The company states that “PCA is committed to its people, customers, and communities” through its managed forestry, continuous recycling, innovative energy management, and product design. (Ibid). PCA’s values, as promoted through their mission, vision, and objective statements, are illustrated through the following company commitments (DCF, 2023):

- Delivering value to customers through customized solutions;
- Providing a safe and collaborative environment for employees;
- Engaging with communities in a socially responsible way and
- Supporting sustainable practices to minimize environmental impacts.

PCA reinforced these objectives in their 2022 annual report (2023b) and their 2022 responsibility report (2023c). Through sustainable and responsible growth, PCA benefits the interests of all stakeholders, including customers, employees, and communities. To remain a leader in the industry, PCA must continue to make these stakeholders the focus of their objectives.



Figure 3

<https://www.packagingcorp.com/sustainability/>

### THE FIRM'S GENERIC STRATEGY

The term “generic business strategy” refers to how companies obtain a competitive advantage in the marketplace, no matter what industry the firm is in, what country or region of the world the firm competes in, and what size or legal form the organization takes. Firms search for a competitive advantage by selecting a specific method of competition and then choosing how much of the total market they wish to compete in (the breadth of their competition). Firms create a competitive advantage by following one of two strategies: being the low cost producer or by differentiating themselves from their competitors through specialized products or marketing campaigns - then competing through either a broad or a narrow focus. More recently, certain firms have been very successful blending low cost and differentiation (i.e. Southwest Airlines, Amazon), a “best value” strategy (Parnell, 2021).

Packaging Corporation of America inhabits multiple industries with different product nuances, and it adheres to the generic strategy of low-cost differentiation (best value). PCA noted in their 2022 annual report, “Although price is the primary basis for competition in most of our paper grades, quality and service are important competitive determinants” (PCA, 2023b, p. 6). The commoditized paper market segment is highly competitive, and price is usually a buyer’s determining factor as long as minimum quality standards are consistently met. However, the cardboard box and laminated segments benefit from differentiation as buyers seek more customized product features.

The best value strategy makes sense because it aligns with the firm’s core and distinctive competencies. PCA, being one of the largest producers, benefits from economies of scale. Here, PCA adheres to its core competency of scale (cost) with its nationally demanded commoditized products. As such, they can generate revenue in lower-margin products. In times of economic expansion, this provides much-needed cash flow. Secondly, a strategic focus is placed on regional and local accounts since customers are centralized locally around production. Here, PCA manufactures to the customer’s specifications for the higher margin corrugated and laminated products to maintain a differentiated focus on quality, efficiency, and service (PCA, 2023b).



Figure 4

<https://www.packagingcorp.com/packaging-solutions/need/contain-products/>

### ENVIRONMENTAL/EXTERNAL ANALYSES (Opportunities/Threats)

All organizations and the industries they inhabit “exist within a complex network of external forces” (Parnell, 2021, p. 45). These forces comprise the macro environment, including political, legal, economic, social, and technological factors. PLEST analysis is the tool normally employed to analyze the macro environment (Ibid). These trends and driving forces occur outside of the boundaries of organization’s operations. Understanding the dynamics of the external environment is crucial to the firm since these dynamics represent major forces for change. These interactive forces in the external environment have the ability to support the operations of the firm or to detract from it; either they can create market opportunities or threaten the very existence of the firm

### PLEST ANALYSIS

The PLEST covers five factors: political, legal, economic, social, and technological. Figure 1 explores many issues related to each factor and whether they act as a threat or opportunity for the industry and, therefore, the organization.

Political	
Party polarization could stall legislative initiatives (S&P Global, 2022)	Opportunity & Threat
Threats of government shutdown (PRS Group, 2023)	Threat
Geopolitical risks exist (e.g., Russia, China, N Korea, Middle East) (PRS Group, 2023)	Threat
Government corruption scrutiny is heightened (S&P Global, 2022)	Neither Opportunity nor Threat
Legal	
Legal environment remains pro-business (S&P Global, 2022)	Opportunity
Corporate tax policy favors corporations (S&P Global, 2022)	Opportunity

The industry is subject to numerous waste and disposal regulations ( <b>Le, 2023</b> )	Threat
The industry spends a lot of effort and money to comply with EPA and laws ( <b>Le, 2023</b> )	Threat
Differentiation protection with patents and copyright laws ( <b>United States - Containers &amp; Packaging, 2023</b> )	Opportunity
<b>Economic</b>	
Rising production costs are expected to impact market growth. ( <b>United States - Containers &amp; Packaging, 2023</b> )	Threat
Global tightening of monetary policy could affect consumer demand ( <b>S&amp;P Global, 2022</b> )	Threat
Real GDP forecasted to slow down ( <b>PRS Group, 2023</b> )	Threat
Inflation remains high ( <b>S&amp;P Global, 2022</b> )	Threat
Potential economic recession ( <b>Irigoyen, 2023</b> )	Threat
<b>Social</b>	
Paper/cardboard-based packaging viewed as environmentally friendly vs. plastic alternatives ( <b>United States - Containers &amp; Packaging, 2023</b> )	Opportunity
Consumer shift from brick & mortar to home delivery ( <b>Irigoyen, 2023</b> )	Opportunity
Increased social responsibility on food order delivery as well ( <b>United States - Containers &amp; Packaging, 2023</b> )	Opportunity
Sustainable sourcing and recycling efforts improve social sentiment ( <b>Irigoyen, 2023</b> )	Opportunity
<b>TECHNOLOGICAL</b>	
New technology allows the production of recyclable, high-performance, all-paper packages ( <b>United States - Containers &amp; Packaging, 2023</b> )	Opportunity
Improved technology improves productivity and quality ( <b>United States - Containers &amp; Packaging, 2023</b> )	Opportunity
Technology benefits substitute producers (like plastic) as well ( <b>Irigoyen, 2023</b> )	Threat
Cybersecurity risks ( <b>S&amp;P Global, 2022</b> )	Threat
Innovation of new products ( <b>United States - Containers &amp; Packaging, 2023</b> )	Opportunity

*Figure 5*  
*PLEST Analysis: Packaging Corp of America (PKG)*

As shown in Figure 1, the external environment poses many opportunities and threats for companies in the Paperboard and Paper Mills industry, including Packaging Corporation of America. To be successful, PCA must take advantage of opportunities and manage threats. The following is an analysis of the individual forces listed in Figure 1 and whether opportunities outweigh threats or vice versa:

*Political T>O:* The political category presents more of a threat than an opportunity for the industry/firm. Some of the legislation that remains from the previous administration favors corporations. The current environment means significant new restrictive political efforts will unlikely be enacted.

*Legal O>T:* Legal forces present an opportunity. Unlike personal income tax rates that expire at the end of 2025, the corporate tax rate is scheduled to remain attractive for corporations (Cass, 2023). Also, with the legislative environment, we should expect no change to regulations and legal costs.

*Economic T>O:* The industry is cyclical. Therefore, the industry is threatened by the slowing economy, slower consumer demand, and possibly a recession. The industry/firms are capital-intensive and rely heavily on debt. The scenario favors larger companies with stronger balance sheets but also means lower expected profits (Irigoyen, 2023; Le, 2023).

*Social O>T:* The social force is a significant opportunity for the industry. Many consumers seek environmentally friendlier options than plastic, and moving to home delivery is expected to grow (United States - Containers & Packaging, 2023).

*Technological O>T:* Overall, technology offers an opportunity for the industry. Technological advances improve productivity and quality. Also, technology allows for the innovation of new products (United States - Containers & Packaging, 2023).

**Overall – all forces:  $T > O$**

While the overall numerical tally of the forces favors opportunities, the economy is the most significant force affecting the industry. Therefore, overall, the significance of the external threats outweighs the opportunities now. The industry is cyclical and is tied significantly to consumer demand. The tailwind consumers provide for a shift to delivery from brick and mortar cannot wholly overcome slowing demand experienced in a significant slowdown or a recession (United States - Containers & Packaging, 2023).



Figure 6  
<https://markorillo.com/2015/10/13/strategic-management-03-industry-analysis/>

**Industry Analysis - Five Forces Model**

Before a strategic direction can be determined, a firm must also understand its respective industry. A common way to accomplish this is using Porter’s five-force model, which is employed to determine the industry’s addressable competitive market and overall profitability. Parnell (2021, p. 27) noted these forces as follows: 1) The intensity of rivalry among incumbent firms, 2) The threat of new competitors entering the industry, 3) The

threat of substitute products or services, 4) The bargaining power of buyers and 5) The bargaining power of suppliers.

The relative weights of each force depend on the industry being analyzed (Ibid). For example, in some instances, the barriers to entry for an industry are very low, which frequently invites new competitors. In other cases, buyers or suppliers could hold significant bargaining power, affecting pricing and margins significantly.

Porter's five-force model is a widely used tool to determine the potential profitability of a firm in their respective industry. Commonly referred to as the total addressable market, the industry's overall profitability is divided among the five forces (Parnell, 2021). The significant factors that affect each of the five forces in the Paperboard and Paper Mill industries are listed below:

### **1. Competitive Rivalry (Incumbent Firms)**

- a. A significant number of small manufacturers
- b. 81 Total Companies (Le, 2023)
  - i. Concentration of top 4 (Includes PCA) = 67.3%
  - ii. HHI Index  $\approx$  1800
- c. Final products are commoditized; most are not unique
- d. Differentiation is difficult, and switching costs are low
- e. Compete primarily on price, prompt delivery, and quality standards
- f. Slow industry growth
- g. High fixed costs
- h. High exit barriers (single-purpose machinery)

### **2. Barriers to Entry – Threat of New Competitors**

- a. Capital intensive
  - High cost of raw commodities
  - Volatility of commodity prices
  - High startup costs
- b. Constraints of access to distribution channels
- c. Legal obstacles from the federal government
- d. Most products are commoditized – differentiation is difficult
- e. Switching costs are low

### **3. Threat of Substitute Products or Services**

- a. Competition exists for substitutes like plastic, but core demand remains
- b. Cardboard and paper products are seen as environmentally friendly

### **4. Bargaining Power of Buyers**

- a. Buyer power is cyclical. As lockdowns are eased and shipments increase, buyers must meet the demand
- b. Lack of differentiation in most products
- c. Switching costs are low for buyers
- d. Buyers have information on products, costs, and competitors in the market
- e.

### **5. Bargaining Power of Suppliers**

- a. Long-term fixed contracts with suppliers are standard and benefit the larger firms.
- b. The industry is a significant customer of the suppliers
- c. Various types of suppliers exist

Overall, the competitive level of the Paper Mill Manufacturing industry in the United States is high. While only a few firms exist, they do not have the absolute size to dominate the entire market.

Margins are low, switching is easy, and differentiation is difficult. The main factors for competition include price, timely delivery, and standardized quality.

In further analysis, it is helpful to determine what factors lead to increased or decreased competition relative to their respective forces. The following is an analysis of these competitor factors:

○ **Competitive Rivalry (High overall competitiveness):**

These factors lead to increased competition. The industry competes significantly on price, differentiation is challenging, and most products are not unique. While Packaging Corp. of America can use its size as leverage (it's the second largest firm), it's easy for buyers to switch. Industry growth is slow and has high fixed costs and high exit barriers.

○ **Barriers to Entry (Medium overall competitiveness):**

The factors are neutral on competition but leaning toward decreased competition. While there are high capital requirements and some legal barriers imposed by the government, new firms could enter because switching costs are low and differentiation is difficult. In addition, low interest rates and easy money policy mitigated the high capital requirements. Undoubtedly, this is changing due to the tightening monetary policy in the US. Larger companies can weather storms better, and new firms might find it difficult to enter.

○ **Threat of Substitute Products or Services (Lower overall competitiveness):**

These factors lead to decreased competition. Substitutes like plastics and glass can draw away some business, but the core demand for the products remains. At this time, plastic and other materials cannot substitute many applications. In addition, cardboard is considered environmentally friendly.

○ **Bargaining Power of Buyers (High overall competitiveness):**

These factors lead to increased competition. Buyers must meet the cyclical demand, but the industry has little differentiation. Switching costs for buyers are low, and they are well informed.

○ **Bargaining Power of Suppliers (Medium overall competitiveness):**

These factors lead to slightly decreased competition. Long-term contracts with suppliers are standard and generally favor the larger firms, like Packaging Corp of America.

Since Packaging Corporation of America is one of the larger firms, it does have some advantage with its buyers and suppliers. In addition, it will be better suited than many smaller firms to weather the cyclical nature of the business, especially as we have entered a phase of monetary tightening. Smaller, struggling competitors could provide acquisition targets to expand the company during this part of the cycle.

## INTERNAL ANALYSES (S/W)

In addition to external environment analyses, internal analyses are integral tools necessary for a company to set corporate strategy. Examples of internal tools include VIRO, value chain, and functional analysis. Using these tools, Packaging Corporation of America can determine where to focus its resources for the best growth opportunities and highest returns on investment.

## VIRO Resource-based Approach

The VIRO framework comprises four tests a company can use to determine a firm's overall value based on its capability to leverage its resources. VIRO stands for Value, Imitability, Rareness, and Organization. (*The*



*resource-based approach, n.d.*). It is incumbent upon each decision-maker to determine whether the firm possesses the abovementioned characteristics. If so, the resource is an asset and should be cultivated and utilized. If not, then a different direction may need to be taken (Ibid).

V VALUABLE	R RARE	I INIMITABLE	O ORGANIZED	
NO				COMPETITIVE DISADVANTAGE
YES	NO			COMPETITIVE PARITY
YES	YES	NO		TEMPORARY COMPETITIVE ADVANTAGE
YES	YES	YES	NO	UNUSED COMPETITIVE ADVANTAGE
YES	YES	YES	YES	SUSTAINABLE COMPETITIVE ADVANTAGE

Figure 6

<https://www.business-to-you.com/vrio-from-firm-resources-to-competitive-advantage/>

**Value.** Packaging Corporation of America (PCA) is North America’s third largest producer of containerboard and corrugated products (PCA, 2023b). As such, it has many resources and a long history of utilizing them to develop core competencies within the firm. The core competencies developed from the resources are valuable to the firm, just as many of them are similarly valuable to competitors. Technical and managerial efficiencies provide value. PCA’s tangible resources include its manufacturing facilities, distribution network, inventory, and liquidity. Intangible resources include brand name, employee skills, customer and vendor relationships, company culture, and management capabilities (PCA, 2023b; PCA, 2023c). Because of these resources, PCA has a competitive advantage and should fully utilize them.

**Imitability.** Primarily, the containerboard and corrugated manufacturing industry produces commoditized products. Commoditized products can inherently be copied. Even so, management at PCA has successfully etained a small measure of unique production capabilities that is not easily copied. So, while we don’t expect industry-changing research & development projects from PCA, its efficient use of production technology and management systems makes it difficult for smaller competitors with fewer resources to imitate (PCA, 2023b). Even better for PCA is that it’s difficult to imitate superior management, production efficiency, and a winning culture. For these reasons, PCA exhibits a distinct competitive advantage.

**Rare.** PCA does have some valuable trademarks and trade names that are rare and unique to the industry. It’s worth noting that PCA understands that the value of these is not indefinite. Their 2022 annual report details how they amortize the value of their intangible assets. Among these assets are trademarks, goodwill, and relationships. PCA only enjoys a slight competitive advantage due to these resources.

**Organization.** One of the strengths of PCA, which is one of the largest companies in a mature industry, is its organization of resources (Le, 2023). The firm’s management team has developed efficient internal processes that have contributed to PCA’s leadership position in the industry (PCA, 2023b). In addition, leadership has aligned its culture with a renewed focus on employee safety, improved culture, and a commitment to all stakeholders (PCA, 2023c). However, PCA must show that this renewed focus can lead to measurable improvements. Otherwise, their organizational advantage could be in jeopardy.

**Value Chain**

Other than a VIRO analysis, another way to understand the internal environment of an organization is through a value chain analysis. In five stages, the value chain analysis illustrates how goods or services are altered from

their raw state to finished products in customers’ hands. The five steps are detailed in Figure 2 below, including inbound logistics, operations, outbound logistics, marketing and sales, and services (*value chain analysis*, n.d.; Perez & Sherman, 2023).

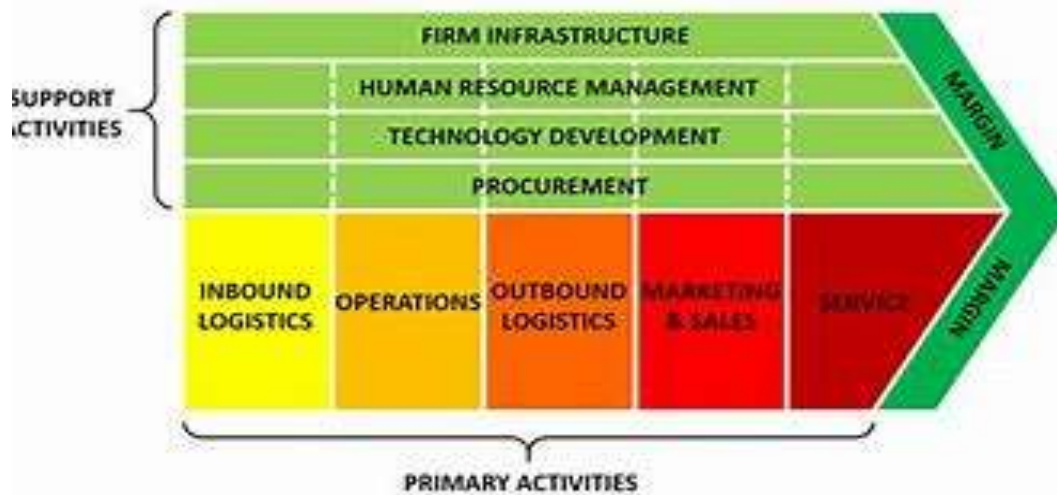


Figure 8

Value Chain - <https://www.business-to-you.com/value-chain/>

**Value Chain Analysis – Packaging Corporation of America (PCA)**

**Firm Infrastructure:** PCA owns and leases numerous facilities in North America, allowing PCA a broad reach and the ability to reduce supplier-shipping costs. Regional distribution networks cater to regionally located buyers and suppliers.

**Technology Development:** PCA maintains its procurement, manufacturing, and distribution through sophisticated, industry-specific technology. Cybersecurity remains a high priority, as it has emerged as a top threat. The technical center is located in Mundelein, IL.

**Human Resource Management:** HR is managed in-house with regional offices and on a centralized corporate level. The corporate headquarters is located in Lake Forest, IL. Additional administrative offices are located in Boise, ID, and HR representatives are located locally at mills and plants.

**Procurement:** PCA negotiates with numerous regional and national suppliers. Raw materials are sourced according to local and federal laws.

Inbound Logistics:	Operations:	Outbound Logistics:	Marketing & Sales:	Services:
Inbound logistics involves the procurement, storage, and internal movement of raw materials from suppliers. Raw materials make up the most considerable cost to the firm. As a low-cost differentiator, this step is crucial. Prices are managed through commodity contracts and hedging.	The operations step converts raw materials into products for customer consumption. There can be multiple stages of production before a final product stage is reached. Quality for the differentiated products and optimal efficiency for the commoditized products is critical. PCA ensures	PCA has a well-established distribution network. The network is incredibly refined for its higher-margin, more differentiated regional products. As a distinctive competency and a competitive advantage, the regional distribution channels	PCA attempts to distinguish itself from others with a well-established, respected sales (relationship) team. Except for some industrywide, trade sourced marketing for differentiated products, the focus is on the relationships with the buyers and the ability to fulfill orders consistently (see	At PCA, aftersales service is provided by in-house customer service representatives who are responsible for receiving, processing, and tracking orders. Quick and efficient client resolution improves satisfaction and can save costs in the long term by retaining essential

	standards are matched or exceeded based on government regulations and buyer specifications.	are where PCA has the most control over its bottom line performance targets. As with inbound logistics, facilities and distribution networks are regionally developed to deliver to higher margin customers with differentiated products while lowering costs.	Outbound Logistics). Marketing and sales for low-cost, commoditized items is done nationally. These groups are localized regionally for higher-margin, differentiated products.	customers.
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Figure 8  
PCA Value Chain Analysis

Source: Layout and outline adapted from Strategic analysis of Beyond Meat, inc.: 2021, by Perez, Juan and Herbert Sherman, Jan-Feb, 2023, *International Journal of Management Studies and Social Science Research*. Volume 5, Issue 1, 72-82. <https://ijmsssr.org/paper/IJMSSSR00865.pdf>

Additional Sources (Content): Packaging Corporation of America (PCA). (2023b). *Annual report 2022*. Ir.packagingcorp.com. <https://ir.packagingcorp.com/static-files/ae9db940-aa12-4715-ac16-58c9ec067200>; & Packaging Corporation of America (PCA). (2023c, June 30). *Responsibility report 2022*. Packagingcorp.com; Packaging Corporation of America. [https://www.packagingcorp.com/filebin/pdf/ResponsibilityReports/PCA\\_2022\\_Responsibility\\_Report.pdf](https://www.packagingcorp.com/filebin/pdf/ResponsibilityReports/PCA_2022_Responsibility_Report.pdf)

### Functional Analysis

In addition to the VIRO and the value chain, an internal analysis of a firm’s operational functions provides insight into the strengths and weaknesses of a firm. Five primary operational functions are financial, marketing, technology (R&D), HR management, and general or operations management (Parnell, 2021; Sherman, 2023). Figure 3 below presents a scorecard for PCA regarding their functional strategies and the corresponding functional areas. The assessment was created by analyzing information from PCA’s 2022 annual and 2022 responsibility reports.



Figure 9  
<https://content.aroq.com/defining-business-capabilities?>

Function	Strengths	Weaknesses	Score
<b>Financial</b>			
Planning/Forecasting	Forecasting accuracy is excellent	Planning/forecasting is sometimes reactive	8
Raising Capital	Low cost of financing acquisitions		6
Cash Management	Adequate liquidity	Borrowing more expensive but manageable	5
Investments	Capital investments for acquisitions	Expensive regulatory costs	4
Controls/Reporting	Reporting passes third-party audit.		7
<b>Financial Average:</b>			<b>6.0</b>
<b>Marketing</b>			
Price	Higher margins w/ differentiated products	Low margins on commoditized products	4
Promotion		Difficult with commoditized products	3
Product/Service	Regional differentiated products	Commodity paper traded internationally	3
Place	Efficient regional distribution networks	National distribution lags behind the largest competitors	5
People	Established long-term relationships	Stale relationship with buyers and sellers	5
<b>Marketing Average:</b>			<b>4.0</b>
<b>Technology</b>			
Product/Service R&D	Development to switch machines from paper to specialized products	Limited product innovation capabilities	6

Process R&D	Development of more efficient and cleaner processing methods	Significant material waste and adverse environmental effects and liabilities	5
Communications		Lack of communication between plants	4
Security	Attention is given to the improvement of security controls	Reactive approach to cybersecurity	4
<b>Technology Average:</b>			<b>4.8</b>
<b>HR Management</b>			
Recruitment & Hiring	On par with industry averages	High turnover with local competitors	5
Training/Development	Extensive training programs	Programs are often reactive in nature	5
Compensation	In line with industry standards		5
Workforce Mgmt.		Labor relations are “satisfactory.”	4
Analytics and Reports	Employee engagement surveys conducted regularly with a high level of participation	Employee engagement surveys appear to be required and are biased toward the company	3
<b>HR Management Average:</b>			<b>4.4</b>
<b>GM/Production/Operations Mgmt</b>			
Material Acquisition/Disposal	Management has established longterm procurement contracts	Some non-compliance with environmental regulations	7
Production/Inventory Management	Very good at anticipating changes due to market cyclicity and demand changes		9
Quality Control	PCA meets industry quality targets		8
Service Execution	Excellent regional delivery network	The risk of extreme weather events cannot be entirely prevented or accounted for.	7
Safety	New Occupational Health and Safety (OHS) initiatives promote safety.	Historically reactive approach to safety. Issues with injuries and even deaths.	3
<b>GM/Production/Operations Management Average:</b>			<b>6.8</b>
<b>Overall Average:</b>			<b>5.2</b>

Figure 10

Analyzing Packaging Corporation of America’s Operational Functions with a Scorecard

**Sources:** Derived from information from Packaging Corporation of America (PCA). (2023b). *Annual report 2022*. Ir.packingcorp.com. <https://ir.packingcorp.com/static-files/ae9db940-aa12-4715-ac16-58c9ec067200>; & Packaging Corporation of America (PCA). (2023c, June 30). *Responsibility report 2022*. Packagingcorp.com; Packaging Corporation of America.

[https://www.packingcorp.com/filebin/pdf/ResponsibilityReports/PCA\\_2022\\_Responsibility\\_Report.pdf](https://www.packingcorp.com/filebin/pdf/ResponsibilityReports/PCA_2022_Responsibility_Report.pdf)

With an overall score of 5.2, Packaging Corporation of America (PCA) is average regarding functional strength. Highlighting its strengths, PCA’s composite scores in the financial and operations functions are above average. Financial planning and controls have been bright spots in an industry significantly affected by the cyclicity of the economy. The company’s management is accustomed to the ebbs and flows of a contracting and expanding market. Thus, its financial function has effectively forecasted market changes, which has resulted in consistently

sound planning efforts (Lieberman, 2023). In addition, PCA has excelled in operations and production through careful inventory management and quality control. An example includes the ability to pivot production levels based on customer demand, which it did successfully throughout 2022 (PCA, 2023b).

In contrast, the composite scores of marketing, technology, and human resources are below average. While many areas could use improvement, PCA should focus on the few key initiatives that would prove most effective. In a mature industry, it is easy for a company to become stagnant. After reviewing the scorecard, some might point to the low scores in the marketing sub functions of promotion and product/service as areas of focus. However, those scores are as much a product of a heavily commoditized industry. Instead, PCA should focus on specific areas within its HR function and continue to capitalize on its planning and production efficiencies.

Regarding HR, the labor market is cooling, but overall supply is still tight. In this scenario, PCA should incorporate better analytics and reporting of employee productivity and morale. Employee satisfaction is described as adequate. Even a modest improvement in this sentiment could yield significant returns. In addition, morale is contagious and especially important in a tight labor market (Horsley, 2023). Better morale would lead to better word of mouth, literally and through websites like Glassdoor, for better recruitment.

Regarding operational efficiency, PCA has already undertaken planned steps for improvements in production and delivery. Tying HR and Operations together is the issue of safety. Previous safety lapses have caused production disruption and lower morale (Johnson, 2018). In 2022, PCA announced a new Occupational Health and Safety (OHS) initiative to remedy this situation (PCA, 2023c). Improvements in this area are most warranted, and they are finally getting the attention they deserve.

## **RESULT OF SWOT ANALYSES (IS S>W; O>T)**

After a company has completed comprehensive external and internal analyses, a logical next step is to engage in a SWOT analysis. With a SWOT analysis, a company reviews its internal strengths and weaknesses (S&W). As Parnell explains, the “strengths and weaknesses represent internal firm attributes and are evaluated *relative* to key competitors in the industry (2021, p. 226). Conversely, forces outside of the organization determine a company’s opportunities and threats (O&T). They are more closely aligned with the elements of a PLEST analysis. A SWOT analysis has been conducted for Packaging Corporation of America in Figure 4 below. Ultimately, the purpose of this is to determine if strengths are greater than weaknesses (S>W) and opportunities are greater than threats (O>T).

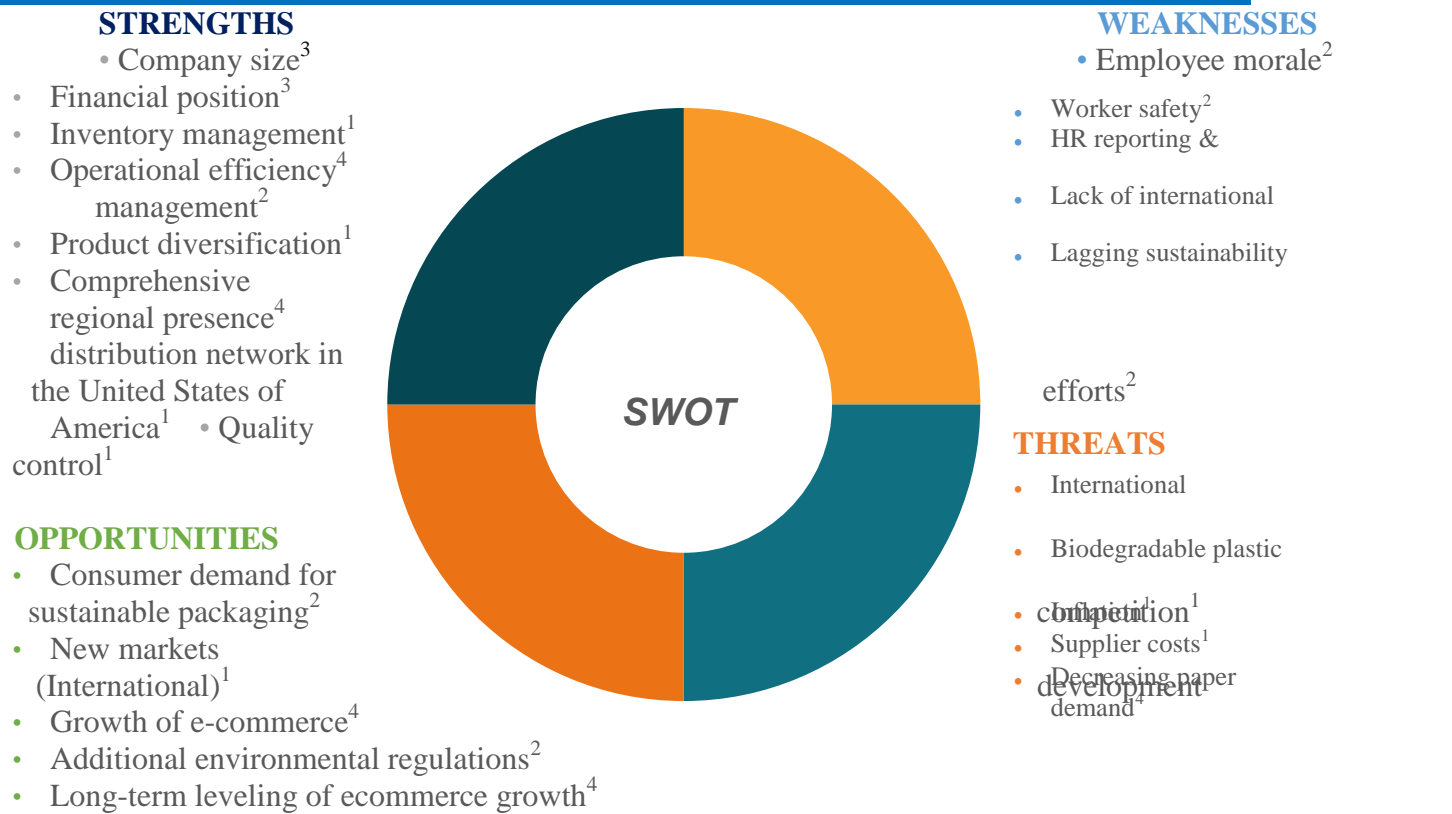


Figure 11  
SWOT Analysis of Packaging Corporation of America

Sources: Data for SWOT analysis in Figure 4 from the following:

<sup>1</sup> Annual Report 2022. Packaging Corp of America. (PCA) (2023).

<https://ir.packagingcorp.com/static-files/ae9db940-aa124715-ac16-58c9ec067200>

<sup>2</sup> Responsibility Report. Packaging Corp of America. (2023, June 30). Retrieved October 1, 2023, from

[https://www.packagingcorp.com/filebin/pdf/ResponsibilityReports/PCA\\_2022\\_Responsibility\\_Report.pdf](https://www.packagingcorp.com/filebin/pdf/ResponsibilityReports/PCA_2022_Responsibility_Report.pdf)

<sup>3</sup> Irigoyen, F. (2023, March). Paperboard Mills in the US. my-ibisworld.com.remote.baruch.cuny.edu. [https://my-](https://my-ibisworld.com.remote.baruch.cuny.edu/download/us/en/industry/409/1/0/pdf)

[ibisworld.com.remote.baruch.cuny.edu/download/us/en/industry/409/1/0/pdf](https://my-ibisworld.com.remote.baruch.cuny.edu/download/us/en/industry/409/1/0/pdf)

<sup>4</sup> Liberman, S. (2023, July 25). Packaging Corp of America pkg analysis. Morningstar, Inc. <https://www.morningstar.com/stocks/xnys/pkg/analysis>

$S > W$  (strengths outweigh weaknesses). Packaging Corporation of America (PCA) inhabits the mature paper and paperboard mill manufacturing industry in the United States of America. The industry is marked by slow growth in the paperboard production areas and declining demand for traditional paper products (Le, 2023). In this setting, the firm's overall strengths outweigh its weaknesses. PCA maintains a strong market position due to its size, financial position, and overall operational effectiveness. Its diversified product lineup and transition from traditional paper products to more in-demand corrugated offerings have allowed it to remain one of the largest producers. While low barriers to entry enable new competitors to enter the market, the relative strengths of PCA have resulted in minor, incremental gains in market share (PCA, 2023b).

Even with its dominant industry position, PCA exhibits notable weaknesses. Among the significant weaknesses are employee morale resulting from safety issues and poor HR management. In addition, PCA's lack of international presence limits its growth potential. Implications are that competitors with a global footprint and international firms entering the domestic US space could exploit these weaknesses. Nevertheless, in terms of internal criteria, PCA's strengths outweigh its weaknesses.

*T > O (threats outweigh opportunities).* Threats outweigh the opportunities in the external environment for paperboard mills and corrugated manufacturing in the United States. As noted in the previous section, the industry is mature in some areas and declining in others. External threats include inflation, increasing supplier costs due to supply chain constraints, and either a decreasing demand for traditional paper products or a slowing growth of corrugated products due to the eventual leveling of e-commerce (Irigoyen, 2023; Le, 2023; Liberman, 2023). You'll notice that we included e-commerce in opportunities as well as threats. In one of the few areas with growth, e-commerce demand could provide an opportunity if PCA can innovate and differentiate its corrugated lineup.

One of the other growth opportunities is consumer demand for sustainable packaging. While paper demand is dwindling due to the consumer shift to digital communication, containerboard and corrugated shipping products represent an opportunity. Paperboard products are considered more environmentally friendly than their plastic counterparts in this area (Irigoyen, 2023; Le, 2023). Of course, this rare opportunity could become a complete threat if biodegradable plastic production wins the public sentiment.

### **DOES THE FIRM'S STRATEGY SEEM TO WORK?**

Overall, PCA would be considered a successful organization. It has been in business for many years and has established itself as one of the largest companies in the industry. In addition, it generates positive cash flow and significant earnings. Its net income in 2022 was \$1.03 billion. (PCA, 2023b). Overall, the company would exhibit a minimal fit in terms of strategy, structure, and process. Minimal fit is not as negative as it sounds. Miles and Snow (1984) explain that although minimal fit does not guarantee excellence, it "is required for survival in competitive environments" (p. 14). Therefore, PCA would be considered successful because it has not only survived but has also exhibited some growth in a highly competitive industry.

PCA's fit is appropriately aligned regarding its generic strategy and organizational structure. As one of the largest manufacturing companies in its market oligopoly, PCA's generic differentiation strategy allows it to take advantage of its position (Horty, 2023). PCA's division structure is unavoidable, considering the many individual production plants in different areas around the United States. In addition, PCA's focus on a task and results-oriented leadership style is aligned well with the internal arrangements and the market environment (PCA, 2023b; PCA, 2023c).

PCA's mission and vision statements present a culture of responsibility and values where all stakeholders are considered. Historically, it's in this area that PCA has been misaligned. Although PCA has recently taken significant measures to address its shortcomings in terms of responsibility, as detailed in its 2022 responsibility report, it remains a work in progress with results to be determined, particularly regarding the environment and employee safety (PCA, 2023c; Johnson, 2018). Additional information regarding the realignment initiatives will be discussed in the section below.

### **Misalignments and Misfits**

PCA has some significant misalignments that must be addressed, or the company could experience a deteriorating fit. It would be in PCA's best interest to mimic the early fit aspirations of companies located in more modern, innovative industries. A manufacturing company must always have a core of task-oriented



leaders, but embracing the new focus on safety issues and employee motivation would benefit the company. PCA has become somewhat affected by organizational misfits because it has enjoyed a “benign environment... for lengthy periods of time” (Miles & Snow, 1984, p. 14). The benign environment allowed PCA to get by even though there have been some issues with culture and leadership.

PCA recently introduced new safety, sustainability, and ESG initiatives. In addition, they created a new department focused on their implementation, the Corporate Sustainability and ESG department (PCA, 2023c). Aside from appeasing the sentiment of specific groups like investors and the public, PCA should take its newfound commitment seriously, especially regarding employee safety and morale. Employees have grown accustomed to being told one thing by management and corporate, only to experience something different in their daily work experience (Johnson, 2018).

Miles & Snow (1984) were keenly aware of the potential for a misfit situation when “organizations voluntarily change their strategies but fail to follow through with appropriate structural and managerial adjustments” (p. 23). Executive management should become directly involved in employee safety and morale initiatives to boost employee morale and produce a better fit of culture and leadership. Introducing a new Occupational Health and Safety initiative in 2022 was a good start in the short term (PCA, 2023c). However, management should prioritize these new initiatives and regularly evaluate progress with measurable goals to demonstrate a long-term commitment.

### **First Steps Toward Realignment**

As noted above, PCA has recently instituted a Corporate Sustainability and ESG department. Together, they established a Sustainability Committee Charter and an Occupational Health & Safety initiative (PCA, 2023c). Occupational health and safety are significant components of ESG. Due to historical safety issues and demanding manufacturing jobs, PCA has had high employee turnover (Johnson, 2018). Therefore, PCA would benefit from quantitative goals for reducing employee turnover. A 25% reduction in five years would be a good starting point, maybe with a tiered approach of a 5% decrease per year.

Improving morale and reducing employee turnover are critical because they lower hiring and onboarding costs. Better morale also results in improved productivity. Productivity improvements can provide significant strategic benefits in a highly competitive and commoditized industry (Le, 2023).

### **CONCLUSIONS**

It's not a mistake that PCA has been in business for well over fifty years. They have weathered the decades-long exodus of manufacturing companies leaving the United States. During that time, PCA has established itself as a preeminent manufacturing company. The industries it inhabits are mature, with some parts exhibiting a slow decline and other parts exhibiting slow growth. If PCA continues to make the necessary adjustments, it should be around for many more years.

I learned from this exercise that crafting a successful corporate strategy is a complex endeavor that requires diligent research, sound planning, and precise execution. Also, the best-laid plans cannot prepare for every unknown, but a poorly prepared plan will likely fail. If and when I decide to start a business, I plan to follow a similar research and planning template to develop a strategy.

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