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Paper – A Crisis of Confidence?

I spent my working life of 48 years as, variously, a packaging buyer, a packer filler, a salesman, a marketer and an environmental advocate. I worked in the perfumery/pharmaceutical/toiletry, carton and paperboard industries and was chairman of the world's largest forest certification scheme. My opinions are products of that experience.

Over the past 20 or so years, I have watched the paper industry go from a position of self confidence to one where it sees itself as a hapless victim, assailed by its customers and end-users, by civil society and by legislators. It is my thesis that many of its problems are very much of the industry's own making. The sector will continue to suffer unless and until it looks closely at the reasons for its discomfiture and faces them head on.

The Commodity Debate

The paper industry has long aspired to develop its products into brands. In reality very few companies in B2B markets have been able to achieve this.

There are many definitions of a "brand", but let us assume that branding is a process which aligns the promise of a product or service with customer expectations, thus creating the perception that the branded product or service has certain qualities or characteristics that make it special or unique. As a consequence a branded product is perceived as more desirable and having greater value than its competition. By differentiating its products in this way, the brand owner seeks to command price and/or margin advantage and to extend the products' profitable life cycles.

Individual paper makers have invested heavily to create products which offer users significantly improved performance, but have very rarely been able to translate these benefits into brand creation. "Invercote" and "Chromolux" prove that it can be done, but more typically the results have been the introduction of improved grades which have enhanced the product gene pool, but which have not yielded significant financial advantage for the mills nor, as importantly, for their customers.

Some years ago I was involved with a project to categorise the cartonboard market by product quality. The traditional approach was to classify grades by measurable product characteristics, coating, gloss, stiffness, bulk etc. We soon realised that quality can, in fact, only be defined in terms of fulfilling customer needs. What the technologist saw as a superior grade was not necessarily seen as such by the market.

We therefore tried to redefine quality in terms of customer needs, related to perceived transactional values; in other words, what basic drivers lay behind procurement decisions. In the

case of cartonboards, we profiled the market in 4 segments.

"**Price**" was characterised as the segment where the sole quality determinant was price. Therefore, any board, even those otherwise considered to be "top quality," could compete, providing the price was right.

"**Price/Performance**" was the segment where price remained the dominant criterion, but where there was a fairly simple, but essential performance requirement, for example runnability on low speed automatic packing and filling lines. By definition some grades would no longer qualify, but there would still be a very large number which did.

"**Performance/Price**" was the watershed where technical performance started to outweigh price as the key criterion. The board had to work and the costs of failure outweighed a cheap purchase price, perhaps for high speed automatic packing and filling lines, reliable tear strips, etc. Again, the supply pool was now getting progressively smaller.

"**Appearance/Performance/Price**" was the top of the quality pyramid, where the requirements for visual, conversion and packing performance were paramount. "Value" replaced price as the defining criterion. One classic example was the cigarette market, with absolute requirements for top gravure print values, tight print to emboss register, foil lamination, low/zero odour and taint and solvent retention values, automatic packing line performance at >600 cpm, absolute consistency etc. The number of competing mills necessarily was further, often radically, reduced.

Although price was used to describe quality, it was recognised that traditional market forces of supply and demand determined the actual price. Thus, if even just two mills were able to meet a specific performance standard, they could drive down the price by aggressive competition between themselves.

Importantly, the model attacked the old hierarchical quality pyramid assumptions that had recycled grades at the base, mechanical folding box boards in the middle and SBS at the top. This might be a tendency, but was not an absolute.

From this we suggested that the cartonboard market could be divided into "Commodities" ("Price and "Price/Performance"), what we termed "Added Value Commodities" ("Performance/Price") and "Brands" ("Appearance/Performance/Price").

The model was never offered as a perfect analysis, but it was proposed as a tool to drive product development and consequent investment decision making, and as a step in moving the paperboard industry from production to market orientation. We drew much from Unilever's launch in the 1980's of Carton Excel from their new machine at Workington. Faced with replacing existing recycled grades (GD) with virgin based FBB

(GC), the pricing and positioning of the new grade was an object lesson in industrial marketing, balancing a price premium per tonne with greatly enhanced weight for weight performance. Overall value replaced price per tonne. Excel opened the door for a new generation of high bulk grades, but 25 years later the lessons are still only slowly being translated into industry practice.

What constrained the industry?

- The culture of vertical integration and “swap deals” within the overall paperboard industry, inhibiting product differentiation.
- The perception that products from different suppliers all had to conform to standard specification and pricing models, thus crushing the benefits of innovation.
- The disconnect between procurement and marketing along the supply chain, with procurement focused on delivering price, not value.
- Adversarial relations between board makers and carton makers, which inhibited them working together to develop value and margins.
- The belief of packaging manufacturers that their customers had to be quarantined from board suppliers, again inhibiting innovation and mutual value creation.
- Production orientation in both the paperboard and carton industries.
- The lack of investment symmetry between board and packaging manufacture.

In summary, a total absence of real marketing input, to the mutual disadvantage of the whole chain.

Corporate Social Responsibility and Sustainability

CSR and sustainability are core, embedded consumer issues, and, where consumers go, politicians are close behind.

Paper perceives itself to be under prejudiced and unfair attack from ENGOs and legislators, who are felt to portray paper as damaging to the environment. The criticisms are felt to be wrong, misinformed, biased and even propagandist. The criticisms effectively advantaged other, much more environmentally destructive products.

Many criticisms are unfair, but paper has conspicuously failed to make a case of its own. The industry seems to believe that the facts are so obvious that they do not need to be argued. It has failed to observe Einstein’s dictum that: “Facts are facts, perception is reality.”

The current environmental agenda is being set by the ENGOs (Environmental Non-Governmental Organisations). We need to recognise a number of things about the ENGO movement:

- They play an essential role in today’s society, focusing attention on serious abuses of human and environmental rights and are a trusted part of the policy making infrastructure.
- They are totally committed to their beliefs and their idealism contrasts with the perceived cynicism of politicians and industrialists.
- They are perceived as consumer champions.
- They will focus on single issues where there are quick wins.
- They do not pretend to offer holistic solutions to broad issues, such as “packaging”.
- Their facts are often self generated, or used out of direct

context, but are rarely challenged and are invariably believed. Perception is reality.

To constructively engage with the ENGO movement, the industry must recognise that each party comes from an entirely different culture. The radical campaigning ENGOs are successful in driving consumer perceptions because they start with a clear objective, find facts to support the argument and deliver the message simply, without caveats and circumlocutions.

The paper and paperboard packaging industries fight the arguments on a fragmented fact by fact basis. The consequent perception is a sector on the defensive. The reality is that it is an industry without a common purpose.

Forestry has been targeted by the ENGO movement because its issues are easy to understand, can be related to negative environmental images and embrace a wide range of environmental and social issues. Negative stories from the tropical rain forests, embracing indigenous peoples’ rights, environmental disaster and climate change impact, make good copy for the ENGOs, with heavy collateral damage to the entire forest cluster.

It is natural that many packaging specifiers seeking “green” credentials will turn to the ENGO campaigns. Thus, the industry sees sustainable packaging procurement policies based on forest and water management and fossil fuel reduction. Where are policies on non-renewables, extractive industries or recyclability? No campaign, no policy, but then, equally, no credible sustainability policy!

When a company such as Unilever publicly tells CEPI that it is unable to build a strong case for paperboard as a sustainable packaging material, as it cannot get credible data, most notably from the corrugated sector, the scale of the problem becomes clear.

As with our products, our environmental positioning is “production led”. To alter perceptions, you have to have a credible product, whether you are selling paper or environmental credentials, but then you have to market it. We have to show the campaigners that we have a credible story which competes with theirs and that whilst they may never totally endorse us, they can recognise that we have listened to them and that there are now other causes for them to pursue.

Stemming the Crisis of Confidence

I worked for a paperboard company which embraced, albeit sometimes falteringly, the challenges outlined above. It has invested in long-term product differentiation, it has accepted the need to be market led, it has been a leader in CSR reporting, it has recognised the need to support its CSR policy with transparency, credibility and openness, it has been proactive in addressing issues such as carbon footprinting. It recognised that it had to have “joined-up thinking”. Most importantly, it has dared to be different, even when it was misunderstood and misinterpreted, and has been prepared to commit resource to work on industry bodies.

There are other companies who have shown equal or greater commitment, but not many.

When PIMO (the Paper Industry Materials Organisation) was first established to represent the paper industries in the development of the UK Packaging Waste Regulations, it was cohesive, focused and dynamic. The creation of Paperpak as a paper specific waste recovery scheme was indicative of the energy PIMO generated. However, as specific milestones were achieved and individual sectors felt that their particular ambitions had been achieved, they tended to withdraw from

proactive participation, leaving others to sort themselves out. The clear single focus and, more importantly, the single industry voice were lost.

I also had the privilege of chairing Pro Carton, the Association of European Cartonboard and Carton Manufacturers. Its great value and potential were diminished by exactly the same tensions as bedevilled PIMO. The enemies within proved stronger than the enemies at the gate.

The paper industry must accept that the external generic perception of paper is more important than individual sector or company advantage. What is bad for paper is bad for users and end-users of paper, and what is bad for the users and end-users is bad for paper.

We need to see the supply chain not as a traditional transactional straight line of independent procurement decisions. To deliver market driven innovation, we need to envision the supply chain as a number of interdependent links, clustered around the final consumer. The issue of forest certification

illustrates what I mean. The forest products sector was in direct dialogue with major brand owners at least 10 years before it became an actual specification or procurement issue. This was a direct consequence of the reality that certain global brand owners had common interests with the paper industry as major agricultural commodity buyers and often as plantation owners.

We have a brilliant story to tell: global availability, technical excellence, innovation, sustainability, renewability, recyclability and cost efficiency. That we have failed to deliver that story is self evident and equally so is that we must change.

Market focus means standing in the market, looking back at the mills, not standing at the mills, looking out through distorting lenses to the market. We must follow the market leaders, not gather around the laggards. We must develop clear objectives and generate strong, simple messages based on credible, transparent facts. We have to engage positively with our detractors and with our mutually dependent allies.

PITA Training & Conferences

The PITA Library

The PITA Office now stocks some of the most respected reference books covering nearly every aspect of the pulp & paper making process from forest to final destination, including PITA's "Essential Guide to Aqueous Coating". These books are now available to all members at advantageous prices. The list of available publications is extensive and includes titles from:



Angus Wilde Publications:

Angus Wilde Publications Inc is a small family-owned publisher aiming to provide the Pulp & Paper Industry with high-quality, reasonably-priced technical books written by single authors. The most notable of these are the text books prepared by Gary Smook (Author of the 'Handbook for Pulp & Paper Technologists', frequently used in training courses throughout the Paper Industry).

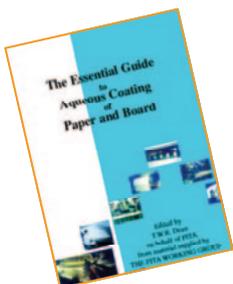
Paperi-insinöörit:

The Finnish Paper Engineers' Association (PI) was founded in 1914 and publishes a wide range of 19 handbooks covering the entire paper manufacturing process from wood raw material to end product, providing a basis for university-level education, for updating training courses and as handbooks for the industry. The work for updating the book series into its second edition is currently in progress.



Paper Industry Technical Association:

PITA's own publication list includes many worldwide reference books including the World Renowned 'Essential Guide to Aqueous Coating' and 'Paper & Board Manufacture'.



Recent additions to the list of available publications include the COST publications 'Improving Energy Efficiency in Papermaking' and the recently published 'The Future of Paper Recycling in Europe'.



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