

INTERVIEW

Looking at tissue from a slightly different angle

Mats Berencreutz has had a long and fruitful career with SCA, spanning over 30 years since he joined the company in 1981 as a machine designer in what was then known as Mölnlycke, a division of SCA. His education includes a master's degree in mechanical engineering from Sweden, his native country. Through the years he has held a series of positions with ever-increasing responsibility in Sweden, the USA, the UK and Germany. He says he has had the "privilege" of experiencing both different cultures and also a variety of professions including machine design, product development, materials development, quality assurance, IT, supply chain and manufacturing, category management, marketing and sales, as well as a number of senior management positions. Most recently, during 2006-11, he had been President of the European Tissue Business for SCA, where he succeeded in turning around the results and launching a new growth phase.

Hugh O'Brian

In April 2011 he was named Chief Operating Officer for all of SCA's hygiene businesses, which means he is operationally leading about 60 percent of the Corporation. We recently caught up with him to get some insight on how he sees the tissue and hygiene businesses today, what he has learned in his career and where he might want to take the SCA hygiene businesses in the future.

PERINI JOURNAL (PJL): What do you think are the most important lessons you've learned in your career?

MATS BERENCREUTZ (MB): I think there are a couple of things that have served me well. One of the most important principles I have learned is to communicate very well about why we are doing something. I explain the overall what and why part of an initiative very clearly, but then try to stay out of how we are going to do. The why is the motivation and good people will figure out what to do and how to do it.

The second principle, very related to the first, is simply to select excellent people for your team and then trust them fully. I have used this all through my career. It might be called distributed leadership, meaning giving people the freedom to run their own part of the business with very little interference from above, provided things progress well. And I think the third key thing I've learned, having worked extensively in four different countries, is to learn about, respect and understand different cultures, both the national cultures as well as the business cultures. Cultures and the hierarchical systems for decision making are often very different from country to country. If you don't take the time to understand them well, it can easily lead to missteps and problems.

PJL: What was your impression in 2006 when you entered the tissue sector?

MB: When I became president of SCA Tissue Europe in 2006 it was really my entrance to the tissue business. Although I had been with SCA for 25 years then, it had essentially all been on the personal care side. Our Tissue Europe business was not doing so well when I took over and I knew it was a hot seat. I either had to move up, meaning get the business going, or move out. I was also told that tissue is a commodity and that you can't innovate. I didn't really agree with that.

So I shook up the organization with about 50% of the management people in new jobs within the first 100 days. We started looking at things from a different angle, much more from what the market wanted and needed, as opposed to what the mills could make. We invested very extensively in consumer research and insights. We also decided to

invest in brands as well, and we worked to understand the emotions behind the brands.

In 2007 we were presented with the possibility of buying Procter & Gamble's European tissue assets as well as the Tempo brand, and licenses to use the Bounty and Charmin brands. We got the Tempo brand outright, and the Bounty and Charmin brands in Europe for a certain time. This turned out to be a brilliant acquisition. We delivered more than SEK 700 million (USD 100 million approx.) in annual savings due to synergies over three years.

But from day one we knew we wanted to migrate Bounty and Charmin, which P&G was still using in the USA, to our own brands as soon as possible. We had no interest or incentive to invest in P&G's brands. The Bounty household towel in the UK was extremely successfully migrated to our new brand, Plenty. Normally you lose 15 to 20% on volumes when you migrate a brand but we actually gained market share, which is almost unheard of.

PJL: You were told you can't innovate in tissue. What do you think now?

MB: I certainly think we can and must innovate. Otherwise we are doomed to the commodity trap. But I firmly believe that innovation must be based on understanding of the customers and the consumers, and what they really want. I think we can justifiably claim that we are the only European tissue company today doing true research aimed at getting better insight into the consumers. We have cranked up our innovation pipeline and our aim is to launch something new every year in each category.

We make a very clear distinction between innovations and inventions. Innovations are something that have been launched in the market and then had repeat purchases to prove their success, while inventions are not yet commercialized.

To help our innovation efforts and focus, we have also made an important split of our consumer brands into two platforms: Personal Hygiene, meaning products that touch the body, and Object Hygiene, which are used for wiping, cleaning and polishing of objects. These two parts have separate requirements that need to be addressed separately, rather than the one-size-fits-all solution under an umbrella brand. Of course it requires a commitment and investment to make this kind of split in the organization but we see it as absolutely necessary to get the specific focus we want.

We are also using this improved insight strategy with Away-from-Home customers, deeply understanding their challenges and needs, with the goal to take out costs for them. I think the best proof of our success with this can be seen in 2009 when the entire AfH sector was dropping in Europe but we were actually gaining business.

Another aspect regarding innovation that I firmly believe in is collaboration with the materials and machinery suppliers, who are certainly experts in their own areas. If we supply our in-depth market insight on consumers' behavior and needs, as well as our own sales and marketing knowledge, and we cooperate with the material and machinery suppliers to provide something which meets those requirements, we all benefit. Of course we prefer to have some exclusivity on the use of the resulting solutions e.g., time limitation, but this is not an overriding condition of such collaboration. We are doing this now, successfully.

PJL: What are you doing to keep SCA's tissue business on an upward growth trend?

MB: Tork, our AfH tissue brand, continues to gain market share in both Europe and North America. This is truly a global AfH tissue brand which we will continue to invest in and build.

In a consumer brand area we have streamlined our previously complicated brand portfolio to focus on a few which we consider potential consumer-relevant mega-brands like Tempo, Zewa, Edet, Velvet and Plenty. Today there is still no Pan-European consumer tissue brand from any manufacturer. However, we aim to create one or more and have already started the process.

The long-term trend, if we are successful with innovations based on our work with customer and consumer insight, is that we will see a stronger development of our brand business. Today we have more private-label than brands in the consumer business but the brand proportion is growing faster.

We are presently making major investments in new tissue machines in both Russia, primarily for consumer tissue, and Germany, primarily for AfH. Russia is a great emerging brand-dominated tissue market for us. We are already the market leader there with our Zewa brand and we continue to grow faster than the market is growing, meaning our market share is growing.

We are selling as much as we can make in Russia and although we built one 30,000 ton per year tissue machine at our new Sovetsk mill in 2010, we already need more tonnage so we can reduce imports. Thus the second machine will be added for startup in 2013 at Sovetsk. This will be a double machine making 60,000 tons per year.

PJL: Looking at sustainability, what is SCA doing and what initiatives are you undertaking?

MB: SCA has a great story to tell from many perspectives. To start with, our business is based on an incredible renewable resource: trees. Young and growing trees are the biggest binder and absorber of CO₂ in the global atmosphere. SCA is Europe's largest private owner of forests, amounting to 2.6 million hectares, which is approximately the size of the country of Belgium, or the state of Maryland in the USA. We harvest trees on this land and for every one tree we take out we plant three new seedlings. So SCA's net increase of standing timber binds essentially the same amount of CO₂ that we emit on an annual basis from all of the Group's production facilities worldwide. With this background in the forests, we can honestly say that sustainability and care for the environment are truly in our roots. We are committed to reducing carbon emissions, obtaining our wood raw material from certified non-controversial sources, and improving water and energy use efficiency.

Through numerous programs and initiatives we continue to give sustainability an extremely high priority in the company. As an example, we have been involved since 2008 in the AMATA project in Brazil which has planted over 2 million trees to date for the re-forestation of degraded land in tropical regions. We originally had a three year agreement with them and have just now renewed that for 11 years more.

Also as part of the International Year of Forests 2011 which has been declared by the United Nations, SCA has started an initiative called the Tree Pool where employees are encouraged to plant seedlings which we will provide them with. So they actively become ambassadors to demonstrate our commitment to sustainability.

Looking at our operations, we have also made enormous gains in our energy consumption. We have a program called E-Save that over recent years has involved more than 1,300 projects, big and small, that have added up to big energy savings.

Transportation, as well, is an area where we are working hard to get better environmental efficiency. Through our Eco-sound transport mix program we are succeeding to increase the fill rate of trucks, both for finished tissue products as well as raw materials such as timber logs. When you reduce the number of transports of course you save energy and reduce carbon emissions.

A key point is that these types of initiatives are good for our world and good for our business. Customers value a well demonstrated sustainability record and it can certainly work as a competitive tool. For example, we have won business thanks to our green credentials at prestige accounts such as Starbucks, Wembley Stadium and McDonalds. I can only see this becoming more important in the future and SCA certainly has a good head start.

PJL: In your new role as COO for SCA's Hygiene Business, what would you like to accomplish?

MB: Simply put, we want to grow and we want to make more money. The hygiene business, where we have invested a lot of time and money, is very strategic for us. This includes Personal Care and Tissue worldwide, meaning here in Europe, in the Americas and Asia-Pacific. We are looking to find more synergies, globally, between the businesses to get better performance. We want to realize the untapped potential.

This is a new position where the business group presidents will report operationally to me but from the financial side they will still report to our CEO Jan Johansson.

So we will have a leadership team of seven people for the hygiene operations and I will now be the chairman. I will coordinate this from a global perspective, with a very small staff.

We know there are opportunities, there always are, and my job is to find them and implement methods to get the value out. I have a plan how to go about this, but that's for me to know at this point. I'm very confident we can find lots of synergies and tap them.

But I want to be clear that this is not the start of just another restructuring program and not done in a crisis mentality. It is really "To perform, To grow". We will focus in our Hygiene Leadership Team to find out what it takes to reach our objectives. I just see it as a positive sign for the company that we recognize that there is this potential and have created this COO Hygiene position to unlock it.

PJL: What is SCA doing with its own Corporate brand?

MB: We want SCA to become more well known as a company. Overall we have been pretty introverted in the past. We ourselves know we are a good company and have an excellent story to tell. Now we need to be a bit more public with it.

SCA will never be a consumer brand like BMW or Coca Cola but I think we can position the SCA brand in terms of our excellent values like sustainability, ethics, good employer, etc. So we would like to get these messages out more widely to gain the advantages that a good reputation offers.

We are building strong synergies with our products as well. If we can unify and connect our product brands with the corporate brand, both sides will gain. A strong, widely-recognized corporate brand will help us communicate our overall positions in areas such as sustainability, rather than every SCA product brand trying to communicate it

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individually. We simply get more bang for the buck.

About a year ago we came out with our “c/o life” concept which we feel summarizes the SCA brand. This is our way of expressing SCA’s unique values, personality and direction. This is a start and now we are moving to a different phase to put more professional resources behind this concept and fill it with deeper meaning.

We would like to communicate to all our stakeholders that SCA is a true caring partner with the drive to add value for them. Responsible operations, caring for people and nature together with our sustainable solutions, we play an essential role in improving the quality of everyday life – we care. •