

COMPANY PROFILE

SCA's global reach: Up Over to Down Under

Based in Sweden at what might be called Up Over, SCA has gained a very important position in Australia and New Zealand through the acquisition of Carter Holt Harvey assets in 2004. We recently spoke with SCA Australasia to see how things are progressing.

Perini Journal

Paul Thompson is President of SCA Hygiene Australasia, an area which covers Australia, New Zealand and the Pacific Islands. A native of Melbourne, he has a long history with essentially the same company under four different names! Coming from the sales and marketing side he has worked with Bowater, Sancella, Carter Holt Harvey and SCA. SCA has long been involved in the Australian and New Zealand markets via the Sancella joint venture in hygiene products, which it owned 50/50 with CHH. In 2004, SCA bought the tissue operations of Carter Holt Harvey, as well as CHH's 50 percent share in Sancella, to become an important player in its own right Down Under. Today SCA Hygiene Australasia has five manufacturing sites in Australia and New Zealand, with tissue paper production taking place at Box Hill near Melbourne and Kawerau in New Zealand, 300 km south of Auckland. Tissue production amounts to about 120,000 tons per year from five paper machines.

HAS THE SCA ACQUISITION CHANGED THE WAY YOU ARE PERCEIVED IN YOUR MARKETS?

We are in a very fortunate position because SCA has been involved in the Australian market for more than 30 years through the successful Sancella JV. So SCA was fairly familiar to our customers and they still see us a local company, while at the same time we now are also part of a global hygiene products company which brings the benefits of size, innovation and product range. So we are truly global and local at the same time and I think our customers appreciate the positive aspects of both.

Another important aspect as far as our customers are concerned is the commitment that SCA has to the tissue and hygiene business. This was perhaps sometimes questioned under the previous CHH ownership, but for SCA these are its core businesses so there is no question about commitment. We ourselves can see the long-term thinking as well, with SCA taking a five year outlook for the business, while CHH tended to have a shorter horizon.

WHAT ADVANTAGES DOES SCA BRING? Clearly they can share very deep industry knowledge and experience that is extremely valuable to us. A good example is the very structured innovation and renovation programs that are in place. Before we were very much looking for new products via license agreements with other companies, or relations with other independent companies to gain technical knowledge and services. Of course we knew SCA because of the JV but there wasn't the depth of knowledge exchange that we have now, as tissue was not part of the JV. SCA's CEO Jan Johansson is personally pushing the innovation pipeline and business benchmarking to facilitate the transfer of the best ideas and practices to enable the entire organization to easily use them. Before SCA bought us it was more based on semi-formal relations, while now the systems make sure that everybody is learning from each other and using the combined knowledge in the best possible manner, as you would want in a successful multinational company.

So it makes a big difference now to have an open access on where the best practices are and the ability to talk to and visit with the key people to find out how they do it. Likewise, the rest of the SCA group can learn from us in areas where we are doing well.

In addition, we now have a much wider pool of talent and experience that we can bring into our organization here when needed and we also have the advantage of transferring our people to Europe or elsewhere for their development. So it's a broader, deeper and more complete organization.

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The result is that we are seeing steadily improving output and efficiencies. You think you are pretty good and efficient but then there is an 'ah-ha' moment when you see what other places are doing and you realize that you could be better. Coming from the sales and marketing side I personally am not an expert in the manufacturing operations and there is a tendency sometimes to make it sound like it is a magical art, but by benchmarking we can see where the centerline is and make sure we hit it.

HOW ARE AUSTRALIA AND NEW ZEALAND DIFFERENT FROM THE REST OF THE WORLD? In some ways we are similar to Europe and we sometimes joke that we are the UK with sun, but there are some very particular differences here in Australia and New Zealand that make these markets very challenging.

Just look at the geography. Australia is a country of about 22 million people on an area bigger than the USA. And New Zealand is about 4 million people on a couple of long, narrow, mountainous islands in the South Pacific. It's a lot of ground to cover. Of course we try to do as much as possible in terms of service and support using modern communication technology but you simply can't deliver products over the Internet.

This means big challenges with logistics and we use all sorts of transport modes such as trucks, trains and boats for deliveries. For example we ship by boat from here to Perth in Western Australia because it is more efficient than rail and we use rail to reach Darwin in the North, which takes several days each way.

When you have few people on a big geography, distribution becomes a doubly important cost component. We have invested a lot in our distribution network, closed a lot of facilities and aligned ourselves extremely closely with our transport suppliers to get utilization efficiency up. We have found some innovative solutions like slightly reducing pallets heights to be able to stack several pallets high in the trucks to squeeze more costs out.

WHAT ABOUT MARKET CHARACTERISTICS? WHAT'S SPECIAL HERE? The Australian market has got its own peculiarities such as being dominated by four chains, Woolworths, Coles, the Independents IGA and now ALDI while the tissue products business is supplied by three main companies: SCA, Kimberly-Clark and ABC. It's a premium market, with only about 10% private label by value. All the customers want slight differentiations in the products such as printing or pack counts. But it is not easy to position yourself differently and still be economic.

Given our geography with no other countries nearby, there is no logical, significant economic second market on our doorstep if we have some lower grade product or make a wrong call. Everywhere they say the customer is king but here we only have Kings and no Princes like in the rest of the world. So we have to be very efficient and smart in all of our processes and operations, especially the changeovers, or our margins take a hit.

We also have special challenges here in Box Hill like making the three different grades, toilet tissue, facial tissue and household towels, on the same TAD paper machine which of course means grade changes and costs associated with changeovers, both in papermaking and converting.

WHAT ARE YOU DOING WITH THE TORK BRAND? The Tork brand has been a great addition to our range as it broadens us considerably and lets us enter market sectors that we weren't in before, without having to start from scratch. Wherever there is a need for wiping, drying, cleaning or polishing Tork has an efficient, established solution. Based on the knowledge and the market support that already exists within SCA, we can simply take that know-how and apply it here.

We have migrated some of our AFH brands to the Tork brand, with our former Washroom Hygenex brand and our Deeko food service napkin brands now becoming Tork. So that strengthens the Tork brand and gives us a more focused portfolio in the AFH sector. Tork also brings a great range of dispensers and go-to-market support material that we can customize for local markets.

So Tork is really a global brand and we are now globalizing it even more, while it helps us increase market penetration and focus our portfolio.

WHAT ABOUT SUSTAINABILITY WORK HERE?

SCA is known as one of the world's most sustainable and environmentally friendly companies, regularly getting awards for their actions. So sustainability is clearly part of our mandate here as well. We closed down our pulp mill in New Zealand due to environmental considerations and have to spend several million dollars per annum more for purchased pulp but we feel it was the right decision. And in our Box Hill Paper Mills, we are using 50% less water compared with 10 years ago. Looking to the future, we have recently decided to switch from natural gas to locally produced geothermal steam at the Kawerau mill. This will reduce its carbon emissions significantly and follows SCA's sustainability target to reduce emissions from fossil fuels by 20% from 2005. The pipeline and steam processing equipment in Kawerau will be constructed by September 2010.

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HOW HAVE YOU, AND YOUR MARKETS, WEATHERED THE GLOBAL ECONOMIC DOWNTURN? Thankfully, we have not seen a major demand impact like other markets. Of course from a financial perspective we are being extremely careful with working capital, as you would expect in current conditions. We have also had to make some layoffs but fortunately they have not been very widespread. In our markets, we are starting to see some downtrading where some customers have moved to mid brands from premium.

From a broader finance perspective, the Australian banks in general have not been very exposed since the financial regulations did not allow them to extend themselves to the degree that banks did in other countries like the USA. This means credit has been tight, but most of our customer payments have been rock solid.

FINALLY, WHAT ROOM DO YOU SEE FOR GROWTH IN YOUR MARKETS? Well, you're talking to a guy who regularly goes to meetings with colleagues from other parts of Asia where they have 20-30% growth rates. I sit here and shrug my shoulders and say that's not what we have! We're a mature market with high penetration rates, so we can grow but it won't be anything like the Asian countries. Instead we are reliant on bringing ideas and innovations to the Australian and New Zealand markets to improve our shares, of course making sure we treat our customers like Kings. o