

INTERVIEW

A tour with Roberto Berardi around the world of Tissue

Since 2005 President of the ETS (European Tissue Symposium), Affiliate Professor of Marketing at the ESCP Europe Business School Turin Campus since the beginning of 2006, Roberto Berardi is a renowned expert in the Tissue field and an authoritative figure in the converting industry. His career as Product Manager of the Scottex Casa brand and subsequently as Sales, Logistics and Commercial Director of Scottex Italia, has afforded him a first-hand view of all the changes taking place in the tissue industry. With Kimberly-Clark's acquisition of the Scott brand, his professional career was enriched with the Vice Presidency of the European Family Care Division. His role as President of the ETS today gives him a 360° view of the industry and, in the pages that follow, he explains to the Perini Journal his point of view.

Maura Leonardi

Perini Journal (PJL): Based on your experience in the converting industry, how has the field changed? What are the pros and cons of its evolution?

ROBERTO BERARDI (RB): In the last few decades, the converting field has certainly witnessed more radical changes compared to those taking place in the paper field. My memories about company debates on the different types of winding processes - that I certainly passionately participated in - are now part of the past (who today thinks that it can possibly make sense to insert and remove logs from a long mandrel?) and of course today's data on market shares of the different converting machine suppliers clearly state the right direction to take.

In any case, there is no doubt that converting is playing an increasingly important role in a product's perceived quality and differentiation. High line and log transfer speeds, fast product changeovers, perfect winding control or concepts such as "quilted", that characterize high-segment products obtained starting with traditional paper technology, are all offspring of the enormous revolution in the converting field that sees Lucca and nearby areas as its "Silicon Valley" on a global scale. The same is true in the printing of decorative elements or the branding of the individual sheets. Today, converting is increasingly more often obtained on technologically advanced machines and offers two great opportunities: on the one hand, greater added value of the finished product with limited added costs, and on the other, the attainment of excellent optimization of production and energy efficiency.

But is there also the opportunity of having "independent" converting companies? Actually, with the partial exceptions of England, Italy and Greece, the European Tissue Industry was more commonly characterized by integrated producers.

But it is curious to observe that in the United States, a different business model is developing: "independent" converting operations have been established that obtain their parent rolls above all from Asia, whether it be from Indonesia or China.

In some cases, it is a first step - and not too masked, either - by Asian producers who in the short term aim at using up their capacity to then make local investments that will lead to new integrated producers. But in other cases, it could also be a formula that protracts in time. It is not difficult to foresee that after the USA and now Australia, something similar will happen also in Europe, i.e., new converting investments made or supported by Asian producers, maybe starting in Eastern Europe, where greater growth rates make the formula particularly appetizing for quick market penetration.

PJL: What are the main difficulties that converters face today?

RB: Anyone starting out in converting must be well aware that the different retailers, whether these be Hypermarkets or Hard Discounts, guarantee a high quality level as the condition to play the game. In some cases, their needs to personalize their private label go even beyond consumer demands, but are functional in reinforcing the identity of the individual retailer in the tough battle that is constantly being fought between the different chains.

In the more developed countries, converters have to deal with a clear polarization in consumption: some consumer segments demand the best, whether these be “Through dry” products or multi-ply “quilted” and deco-embossed products. They want “products that are demonstrably superior and pleasingly different” (as Ely Callaway, producer of the famous golf clubs, once stated). Instead, the “value for money”-oriented segment - the one to which medium-segment PLs are focused - must offer “essential, low-cost and reliable” products. From convenience products, too, the consumer also demands good basic performances and top reliability of use. Hence, the essential must be catered to: good product engineering, good engineering of the package, the external packing, logistics and then ask: what is really essential and what can be eliminated? Because in this segment, the producer who has the lowest costs wins. Also, in Eastern European countries, the priority is market growth, thanks to the growing penetration of the different product categories. Here, a fundamental role is played by having products with an acceptable quality at prices comparable with the local buying power.

In any case, anyone approaching the world of converting must realize that the choices he or she makes today in terms of geography, machinery, layout, etc., will accompany him for many years and are hence seen in a strategic and not in an opportunistic key. Companies who have always made strategic choices in high-performance machines are prospering; those that have acted in an opportunistic way by buying anything that's at hand... well, we all know what happened and what will continue to happen in this case. To win on the market today, only machines conferring high product quality, more efficient and more reliable machines are appropriate. Period!

PJL: The energy problem as seen by the converting industry: in your opinion, in what way can technology suppliers such as converting and packaging machine producers, but also PM producers, contribute to alleviating environmental and energy problems?

RB: I see three levels when speaking about energy costs in the realm of tissue and relative opportunities: production vs. converting, converting optimization, use of alternative energy sources. The first level is the historical and eternal battle between the strategy - inaugurated a while ago by P&G - to obtain the main characteristics of the product in the PM (see TAD/UCTAD technology and variants) and the other philosophy to instead use “low-energy-consuming” PMs and obtain bulk and other features at the converting phase (a road embarked by James River and Fabio Perini S.p.A. some time ago).

The facts are that in the USA, TAD tends to reap substantial success to the point of being requested by customers for their PLs, like Walmart for some of their “Great Value” products. In Europe, the situation is rather different due in part to high energy costs in several countries, and in part because Europeans are for the most part “folders” (they are satisfied with folding the sheet of toilet paper over two or three times), while Americans are more “bunchers” (they pull out a meter of toilet paper and then bunch it up). It is obvious that this has consequences for what concerns the most suitable product. I'm very curious to see what Georgia Pacific will come up with, with its new announced investments that promise fiber, energy and even water savings. But this is actually the trend: even in Metso's NTT process, the proposal is to produce high-bulk, highly soft tissue at reduced energy consumption. But will this “textured” tissue, once commercially produced at high speed and on a large scale, be more similar to a TAD or to a micro-embossed product?

The second level is energy optimization and waste reduction in converting operations. The use of efficient (high performance), intelligent machines that use energy only when needed and do not waste it, is becoming a necessity for all those companies who want to be defined as sustainable, i.e., to quote Kotler, all those companies who want to continue working in the long term. To sum it up, sustainability is no longer an optional. What today is “only” ethical, tomorrow will be required by law and so... good for those who understand this in time.

The third level is the use of alternative energy sources and here the opportunities are absolutely splendid: companies who own forests like SCA can make investments in windpower in windier zones, which may even be the areas most difficult to access for forestry operations; those who own vast covered areas can top them with solar panels; today, more than a competitive advantage, co-generation constitutes a disadvantage for those who do not have it. Even huge companies like General Electric are placing programs they call “Ecomagination” on the market, to give the idea of the enormous potential of a modern use of environmental resources. Even Walmart made a sharp turnaround two or three years and became “green”.

In conclusion, partly thanks to the diffusion of an environmental conscience that is totally different from that of the past (Obama is not Bush), and partly due to powerful economic factors (what will be the price of a barrel of oil in the medium term?) in a field like the tissue one, which in any case needs an abundant supply of energy, every producer must face this aspect. Those ones who are better at it are doing it first, and are also getting an important advantage in terms of image. Those who are procrastinating or who invest only if payback is to be seen two or three years from now, in the end will have to do it anyway and they will only be late in doing so.

PJL: Safety in the workplace: how is this perceived by companies working in converting? In your opinion, will there be adaptation to the different norms governing this issue established by EU, and what consequences will they have?

RB: I don't think that safety in the workplace is a luxury that not everyone can afford, like perhaps someone has declared recently. I think, instead, that it is a fundamental prerequisite, an imperative that is not only legal but also ethical and a condition for sustainability. There could be various aspects to underscore, but I would like to mention the one that seems most important to me, simplifying it for the sake of brevity. Catering to the creation of conditions of absolute safety, management sends a clear message to its employees: I don't want you to incur into problems, I care about your health and well-being. Since reciprocity is a feature that is much more rooted in human beings than economists such as Friedman may think, an employee who feels appreciated and respected in his or her place of work will exchange this feeling by giving his or her best not only on a manual level, but also on a motivational and intellectual one. The result is a virtuous circle for the company's prosperity. So I think companies who subordinate any management incentive to the attainment of optimal safety standards behave very well in doing so. And in the tissue field, there are many such companies, I think more than in any other field! Thinking about the main suppliers, too, I think that the plan undertaken by Fabio Perini S.p.A. to reduce any type of risk - economic, financial, technological, human, environmental - is perfectly in-line with these values and translates in practice into offering systems that guarantee safety standards par excellence.

PJL: In the next few years, what do you think will be the growth trends for tissue products? For toilet rolls and kitchen towels as well as industrial products.

RB: Kleenex's recent launch of hand towels in the USA is very interesting. It is a well-known fact that the Center for Disease Control and Prevention (CDC) supplies guidelines that, for maximum hygiene, recommend the use of disposable towels. Is there a potential for HAND-towels (besides KITCHEN-towels, of course) also within the home? We'll see.

In Europe, the ETS has carried out important studies with the University of Westminster (see: <http://www.europeantissue.com/facts-studies/research/hygiene/>) that confirm the net superiority of paper hand towels used in public places with respect to any other type of air drying system: paper absorbs bacteria; instead with air, the quantity of bacteria on the hands increases. And the study by Bradford University, even though sponsored by Dyson that produces air hand driers (see PJL n. 33) has had to admit that: "the use of paper towels consistently outperformed other drying techniques, especially with regard to bacteria left on the palms and fingertips". Personally, I feel that while it will take time to successfully bring paper hand towels into the bathrooms of European household, vice-versa in the AFH field, there are ample opportunities for growth even in the short term, thanks to collective actions within the field through the ETS as well as to focused actions by individual producers. In the other markets, growth axes are two-fold: in developed markets that already have a very high penetration (for example, toilet paper in Western Europe) the key is in quality improvement and maybe the addition of moist towels. Actually, high quality products yield important extensions of use: just think of rolled towels: as their quality improves, their use is no longer limited to the kitchen to absorb oil when frying, but everywhere in the home for uses where absorbency and strength are necessary. This is the key to growth in the high quality segment. In emerging markets with still partial penetrations, the key is an increase in penetration and in the quantities used - from kitchen towels to handkerchiefs - all the more so in Eastern European countries. Just think that, compared to an average Italian per capita consumption of around 14 Kg, in Russia this figure is 2 Kg. On a world scale, the forecast on the economic boom of many emerging countries, from China to South America, is so obvious that I will not even bother to talk about it.

PJL: In your role as university professor, what are the teachings and the objectives for students taking your courses?

RB: I hold Marketing courses at different levels: third year of university, post-degree Master courses and courses on General Management, directed at quasi-directors or managers recently promoted to the position of director. I also hold more specialized "Branding" courses on the use of the Brand and on Private Labels. I teach mainly at the ESCP Europe, recently named the best university-level Business School in the world by the Financial Times. It has a central faculty in Paris but campuses also in London, Berlin, Madrid and Turin. I teach for the most part in Turin, but I've also taught in London and Paris.

I use the Harvard method mostly, which is based on discussion of case studies, mainly companies producing commodities, but also companies supplying services or technology. I am a supporter of the case study method because, above all when teaching people who are already working, more than sharing content material, it is fundamental to help participants develop capabilities, like the capability to make decisions. And you cannot learn this by memorizing a series of contents, but by experimenting the involvement - even the emotional one - that comes

with making decisions. In my teachings, I also try to illustrate to students that if it is true that in order to immediately make top earnings you should be a broker with JP Morgan in London, it may also well be that this is not the job that maximizes personal growth and wellness in the world (someone may still remember the sumptuously paid brokers at Lehman Brothers humbly leaving their offices holding boxes containing their personal belongings). In teaching Marketing, I hence also try to transmit values of social and environmental sustainability and the importance of adopting, both on a personal and on a company level, long-term prospects. Now these may not necessarily mean immediate top salary and maybe not even immediate top profit for companies, but the message I want to get through is that the main thing is to grow professionally, to widen one's horizons and capabilities; if possible, to work in different company departments (marketing, sales, logistics... all highly formative experiences!) and maybe also not to lose sight of the objective of contributing to the wellness of Society as a whole.

PJL: And what about Brands and Private Labels: what are today's scenarios and those of tomorrow?

RB: It is banal to note how today's economic scenario is bound to favor Private Labels. But it is not like this everywhere: for example, in the US market, Brands have answered with "Basic" versions of their leading brands, with "no-nonsense" brands like Scott and Angel Soft and with strong promotional activities and... they have fared rather well. Instead, in other markets such as England, a strong growth in Private Labels and Hard Discounts was witnessed.

Walmart's experiment is in any case interesting to note: they dramatically reduced the presence of Brands in some Sales Points, going for example, from 50 references in toilet tissue in some Super Stores, down to 26 and doing the same thing in other tissue categories. The idea was to cut management costs and at the same time to push its quality Super Value PL. But the result was a notable decrease in sales and complaints by customers, so Walmart had to largely make a U-turn by returning to the shelves several brands that it had eliminated. By the way, Walmart even revolutionized Retailing with its EDLP¹, and now - a giant in the very heart of the market - finds itself being successfully attacked not only from above (Target, Kroger), but above all from below (Dollar General, Aldi, etc.).

I make the following prospect: there are megatrends of consumption polarization, upwards or downwards, with different doses of the two components in the different categories. These megatrends lead to the growth of Hard Discounts and PLs in many countries where they are not yet well developed. But it is dangerous for retailing to force this trend by artificially reducing consumers' choices. In the end, consumers are always the ones who choose - today in more varied and polarized fashion than in the past - but the final decision is in their hands.

PJL: An exercise in style: a portrait of the roll of the future. It is true that the roll can never be square, but what could be the main innovations of the next few years?

RB: I would extend a series of best wishes to the field. A wish that the re-utilization techniques for paper become increasingly more refined so as to have fibers that are as soft, strong and absorbent as virgin fibers. Toilet paper is thrown away in the end, it is impossible to recycle it, so it wouldn't be a bad idea to use recycled fibers to produce it, but these will have to be of extremely high quality, something which today is true only in part.

A wish that nuclear fusion may give humanity unlimited quantities of low-cost energy ... low-cost energy would be very useful in producing soft, absorbent papers at contained costs. But until then, we have to instead try our best to limit energy waste, promote renewable sources, reduce the miles travelled by products.

A wish that paper production and converting technology unite top quality with top efficiency, maybe with sufficiently compact machines as to be placed near the final customers.

Now if we try and put these wishes together, the ideal roll emerges: soft, absorbent, resistant, very long, pleasantly de-corated and made with recycled fibers. At a price that is accessible to the large majority of people.

Well, humanity certainly possesses the ingenuity for this; the tissue field is used to working hard and, looking to the future, maybe the ideal roll is not so far away...•

[1] Every Day Low Prices is not simply a slogan for Walmart but an objective that the American retail chain has been successfully pursuing since 1962; a delivered promise to the consumer, who has made the company the biggest retailer in the world, with a 2005 turnover of 312.4 billion euro and 6,500 sales points in 14 Countries.