



# StepChange Consulting

*Driving Change to Deliver Results*

Merchant: Quo vadis?

Challenges and developments in the merchant industry

Oslo, May 20<sup>th</sup>, 2008

Paul Sheridan

# Change is the norm

**"Everybody has accepted by now that change is unavoidable. But that still implies that change is like death and taxes — it should be postponed as long as possible and no change would be vastly preferable. But in a period of upheaval, such as the one we are living in, change is the norm."**

**— Peter Drucker**

***Management Challenges for the 21st Century (1999)***

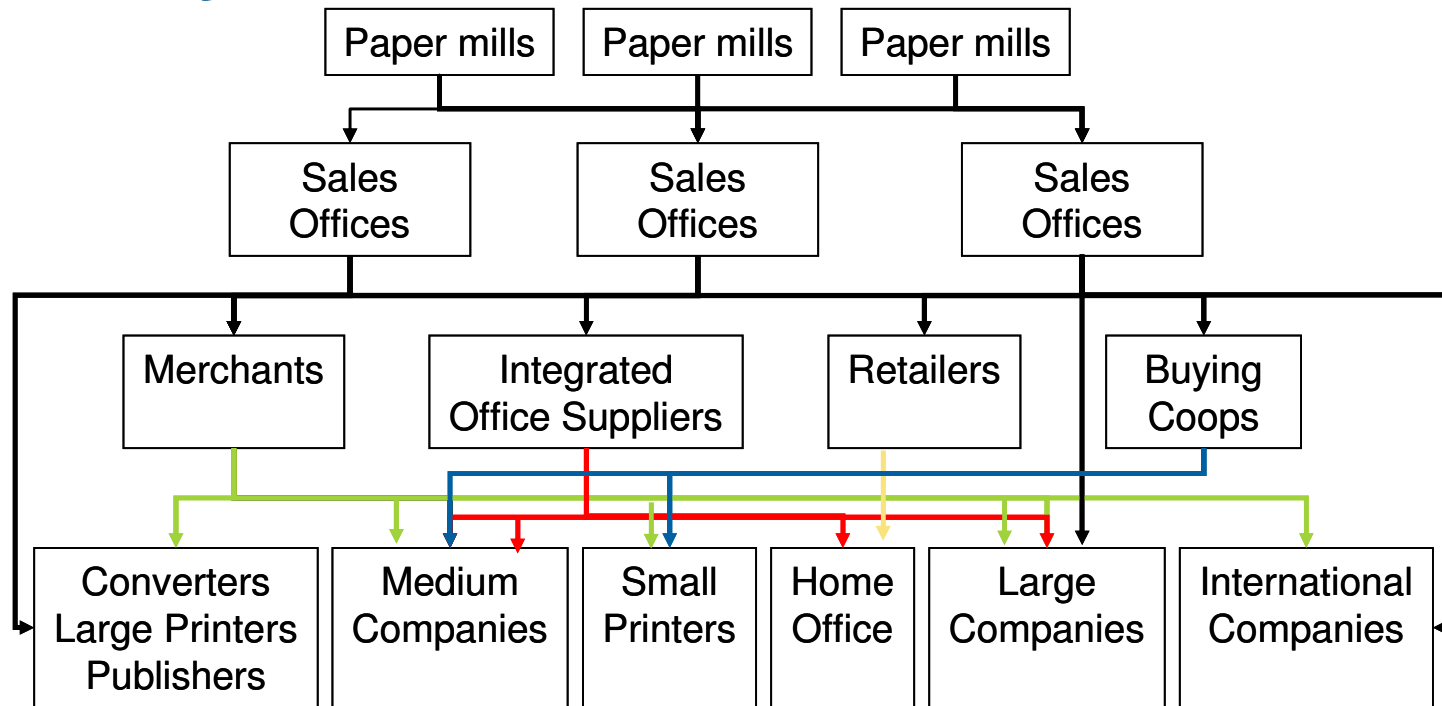
# If you fall into a puddle check your pockets for fish



# Balancing conflicting interests – the role of the paper merchant

Stakeholders	Role of the Merchant	Impact
Owners	<ul style="list-style-type: none"> <li>● ROCE</li> </ul>	<ul style="list-style-type: none"> <li>● High margins / low capital</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>● Sales channel</li> <li>● High volume / large lots</li> <li>● Long lead times</li> <li>● Demand visibility</li> <li>● Marketing support</li> <li>● Emerging markets</li> </ul>	<ul style="list-style-type: none"> <li>● High inventory</li> <li>● Local presence</li> </ul>
Customers	<ul style="list-style-type: none"> <li>● Prices &amp; product portfolio</li> <li>● Small lots with short lead times</li> <li>● Quality, consistency &amp; reliability</li> <li>● Technical support</li> <li>● Financing</li> </ul>	<ul style="list-style-type: none"> <li>● Complexity &amp; cost</li> <li>● High working capital</li> </ul>

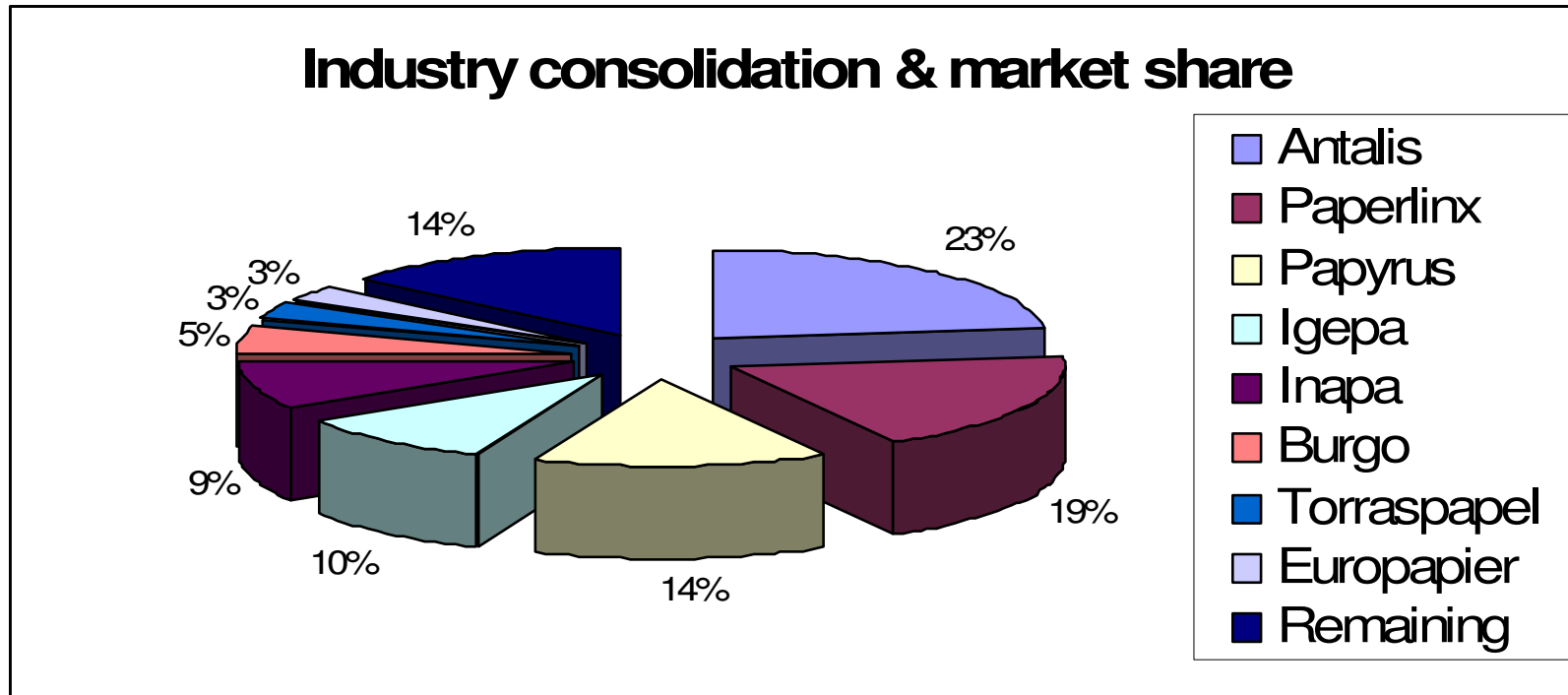
# Paper merchants do not have customer exclusivity



## Importance of scale

Purchasing leverage	Cost synergies	International footprint
Financial strength	Inventory synergies	Reliability

# 75% of the European market is controlled by the 5 largest merchants



- Top three control 56% of the market
- Top five control 75% of the market
- Top eight control 86% of the market

Source: Antalis

# The three largest players compete with regional specialists

Country	Antalis	PPX	Papyrus	Igepa	Inapa	Burgo	Torras	Euro-papier	Merchant KT 2006	Stock	Indent
AUT	20-30%	20-30%	0-5%	5-10%				30-40%	217	118	98
BEN & LUX	30-40%	5-10%	10-20%	20-30%					395	168	227
BUL	10-20%										
CZE	30-40%	20-30%	10-20%	5-10%				10-20%	206	178	29
DEN	30-40%	5-10%	40-50%	10-20%					167	97	70
EST	50-60%		40-50%								
FIN	50-60%	0-5%	20-30%	0-5%					83	46	37
FRA	30-40%		10-20%	0-5%	20-30%		5-10%		1125	608	516
GER	5-10%	10-20%	30-40%	20-30%	10-20%				3074	1294	1780
HUN	10-20%	10-20%	10-20%					20-30%	117	98	19
IRE	20-30%	20-30%									
ITA		20-30%			0-5%	30-40%	5-10%		866	420	446
LAT	50-60%		20-30%	10-20%							
LIT	40-50%		30-40%	10-20%							
NED	10-20%	50-60%	20-30%	0-5%					458	253	204
NOR	30-40%		50-60%	10-20%					92	57	35
POL	40-50%	0-5%	5-10%	5-10%				10-20%	311	257	54
POR	10-20%	5-10%			40-50%		30-40%		127	89	39
ROM	30-40%							10-20%			
SVK	40-50%	10-20%						20-30%			
SLO	10-20%	10-20%									
ESP	20-30%	5-10%			5-10%	10-20%	20-30%		635	450	186
SWE	50-60%	5-10%	30-40%	5-10%					164	108	56
GBR	30-40%	30-40%							2044	1099	945
<b>Top 3</b>	22	11	14	8	3	2	3	6			



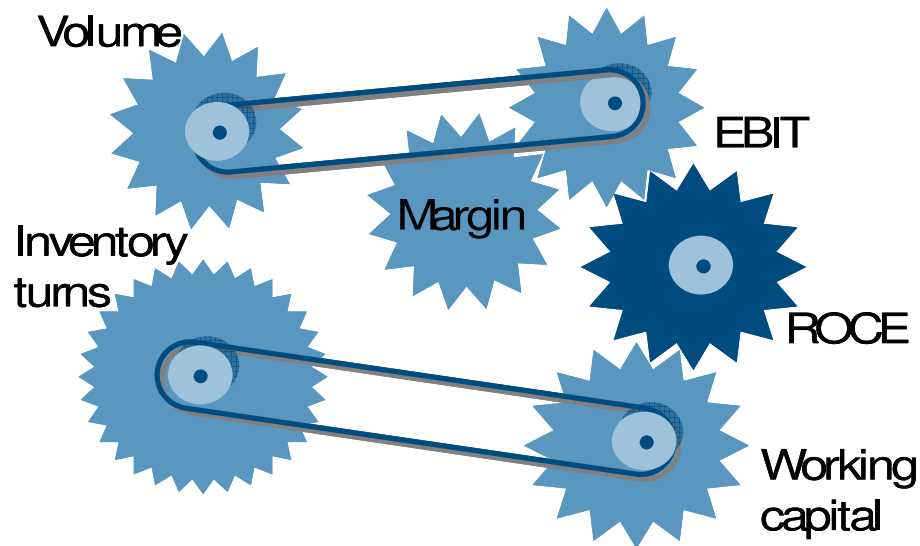
Top 3 market share



Top 3 markets

Source: European Commission, Eugropa, (association member figures only)

# Volume and fast turns are the secret to success



- Characteristics of successful merchants:
  - Margin
  - High volume
  - Fast turn-over of inventory & cash
- EBIT alone not a sufficient -> ROCE
- For paper merchants the main challenges are:
  - Sales volume (scale)
  - Customer profitability
  - Purchasing excellence
  - Flexible supply chains
  - Working capital optimisation (inventory and cash cycle)
  - Integration

	EBIT %	ROCE %
Paper merchants*	2-3%	10-12%
Media Markt & Saturn	3.6%	23.3%

- Largest players 2007
- \*[http://www.metrogroup.de/servlet/PB/menu/1003409\\_l1/index.html](http://www.metrogroup.de/servlet/PB/menu/1003409_l1/index.html)

# Strategic levers and projects keeping the merchants busy

## ***-Sales-***

- CTS, segmentation and differentiation
- Pricing consistency
- CRM, telesales, e-commerce
- Teaming & perf. man.

## ***-Logistics-***

- Product portfolio
- Service levels
- Inventory management & warehouse structure
- ERP system

## ***-New businesses-***

- New countries
- New products
- New service
- Production

## ***-Purchasing-***

- Commercial focus
- Supplier reduction
- Centralisation & scale
- Introduction of SRM

## ***-Finance, IT & Admin-***

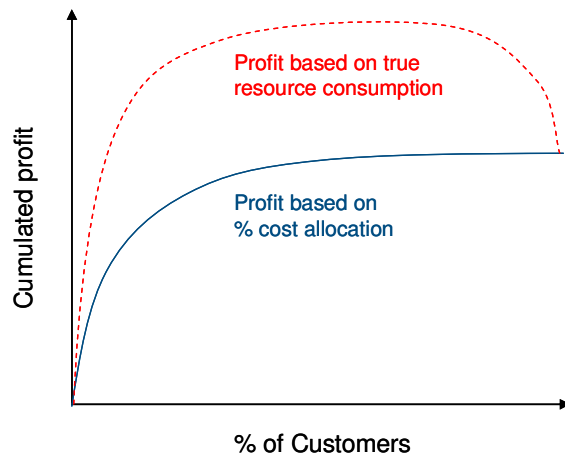
- Centralisation
- Payment terms
- Process & control
- Increased system support

## ***-Integration-***

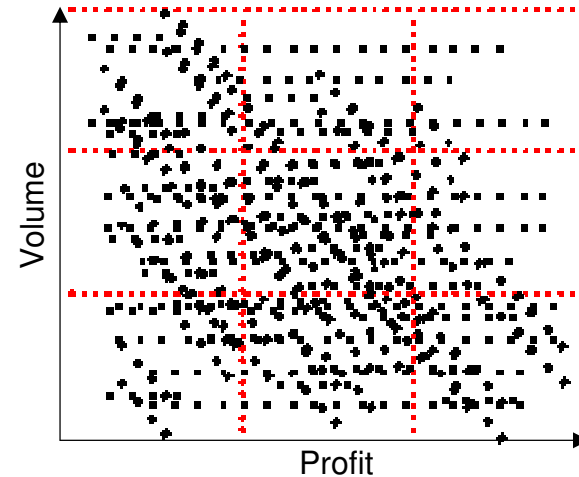
- Teams, targets & communication
- Alignment
- Mitigation plans
- Progress measurement

# Customers pay for and deserve differentiated treatment

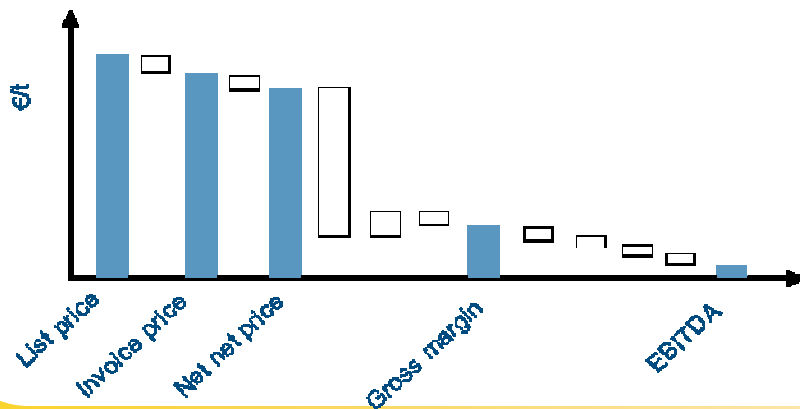
## Misallocation of resources



## Customers are not all equal.....



## Margins management – EBIT lever x 7

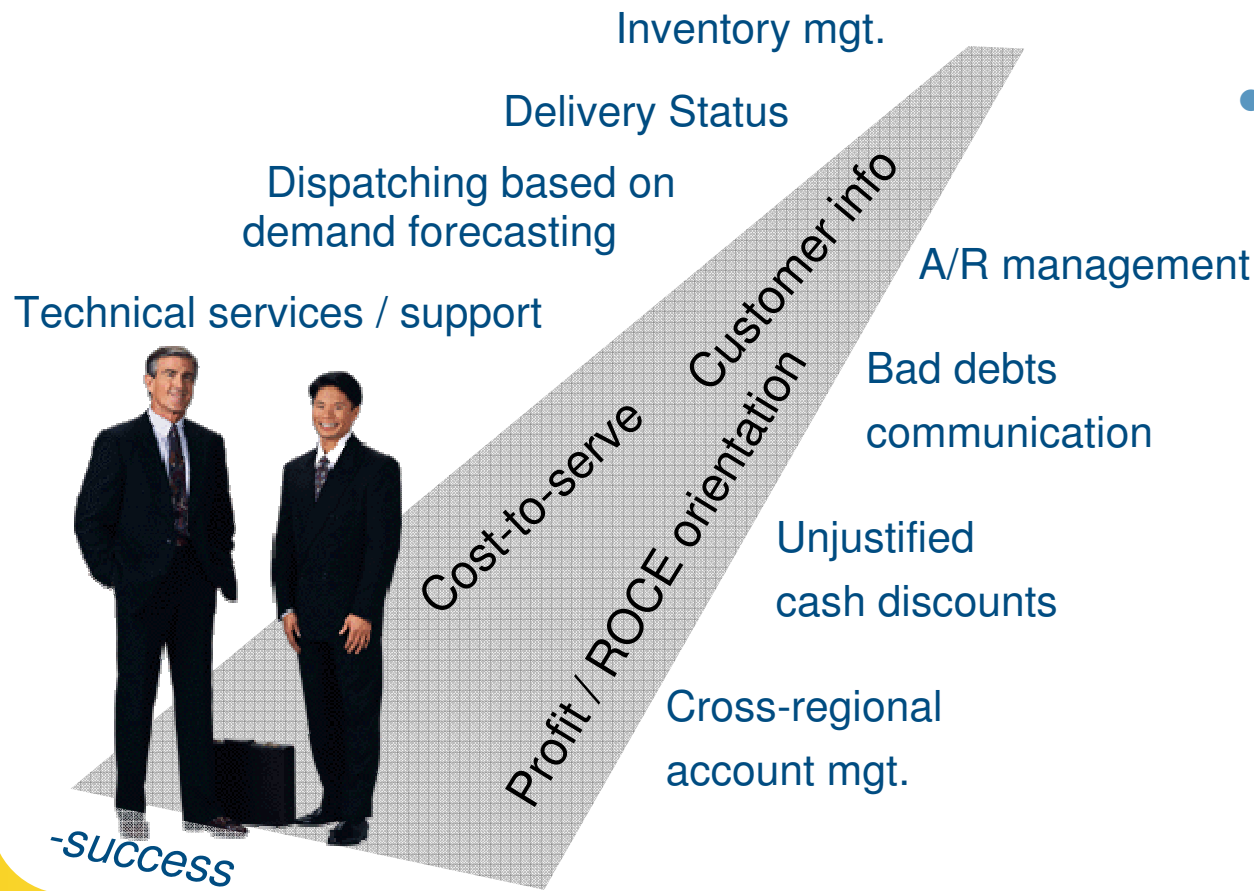


## ....and should be treated differently

Services	Seg. 1	Seg. 2	Seg. 3	Seg. X
Outdoor sales				
Indoor sales				
Technical support				
Lead time				
Availability				
Minimum order quantity				
Finance				
Discount & rebates				

# Know your customer, know your costs, incentivise desired behaviour

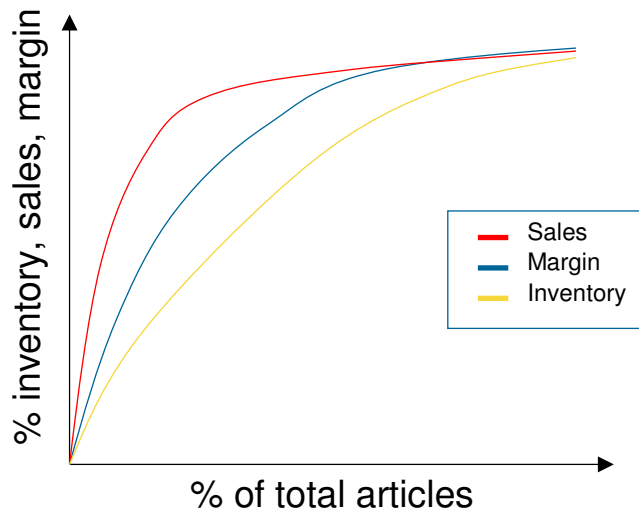
Departmental integration with a structured flow of information and open data access is key for an effective sales organization



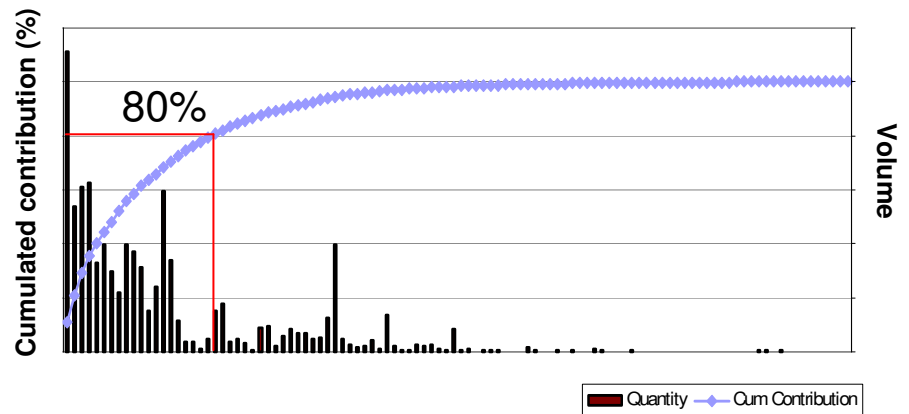
- Four key success factors for an effective sales organization are:
  - Understanding of the customers' requirements and processes
  - Centrally available customer data
  - Understanding the cost-to-serve
  - Teaming & ROCE driven sales people

# Movement makes money

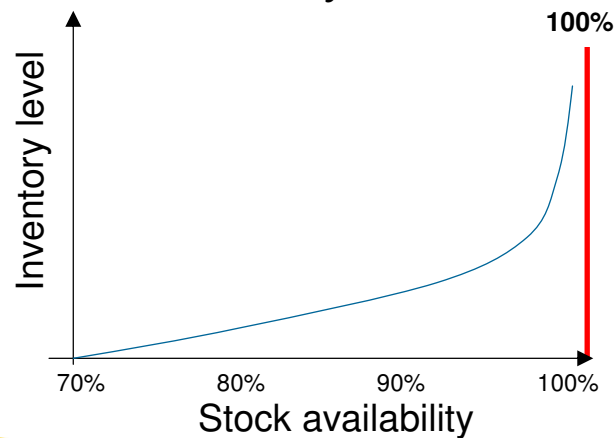
Excess articles cause complexity



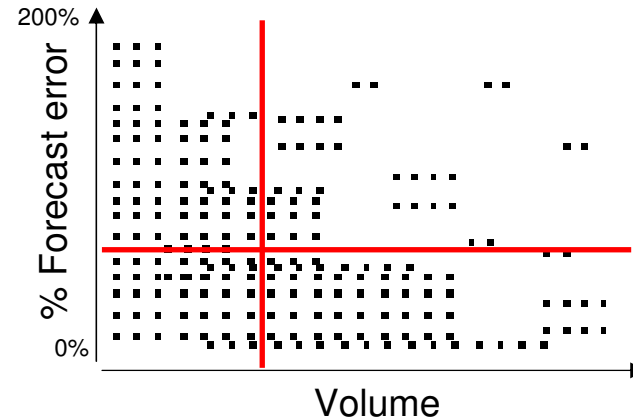
No volume / no turn → must go



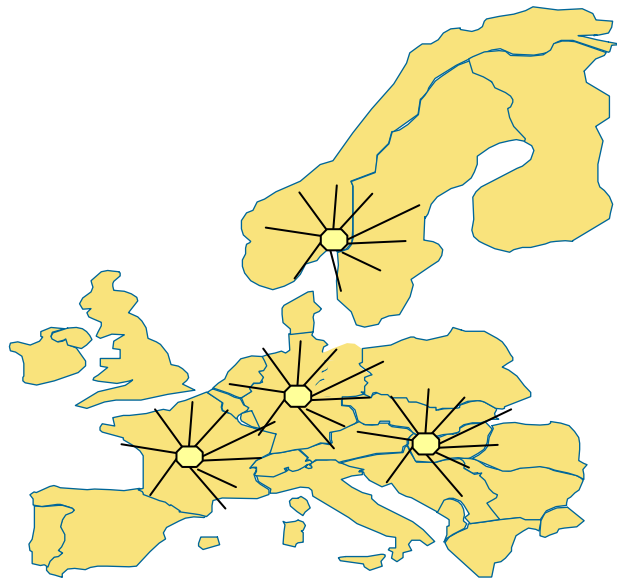
Availability at a cost



Forecast replace crystal balls



# Warehouse network redesign



- Historically grown warehouse network
- Successes are celebrated in terms of demonstrated cost reductions based on the status quo
- The status quo has changed, the opportunities lie in:
  - Reviewing the asset network based on customers, SLAs, delivery time and cost
  - Consolidation for higher availability with lower inventory and lower costs
  - Use of information technology for increased utilization and reduced express deliveries

# It's a buyers market for merchants

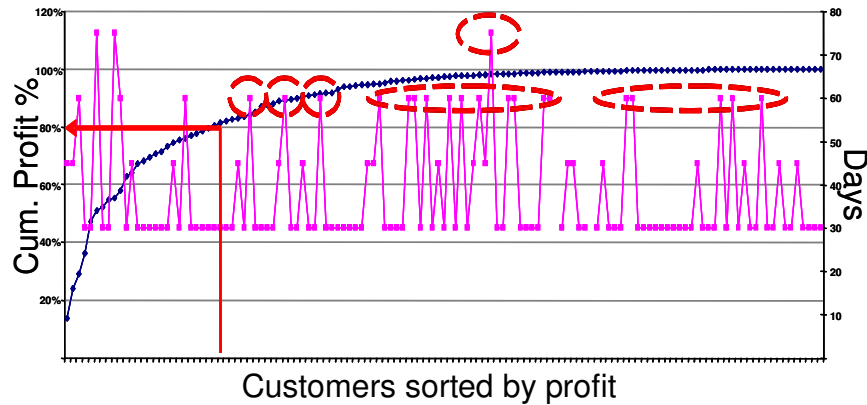
- Over-capacity in Europe
- +
- Producer divestment of merchants
- +
- Increasing institutional ownership
- +
- Merchant consolidation
- +
- Exchange rate
- +
- Capacity increase in Asia & L.A.



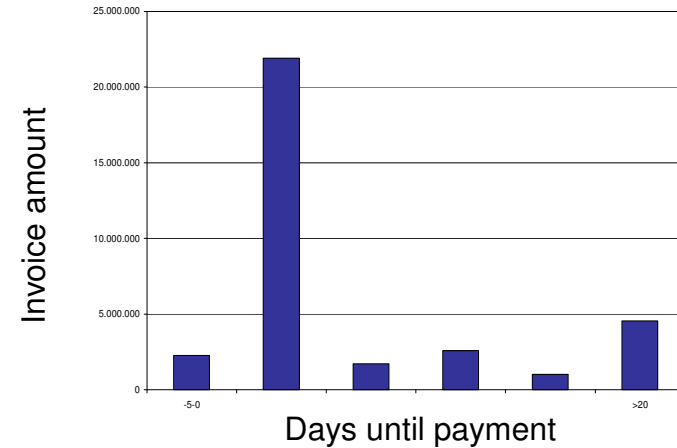
- Increased commercial focus:
  - Price
  - Discounts
  - Rebates
  - Service levels
- Global sourcing:
  - Asia
  - Latin America
  - North America
- Increased MOL:
  - Office
  - Print
  - Others

# Slow in, fast out – harmony at a cost

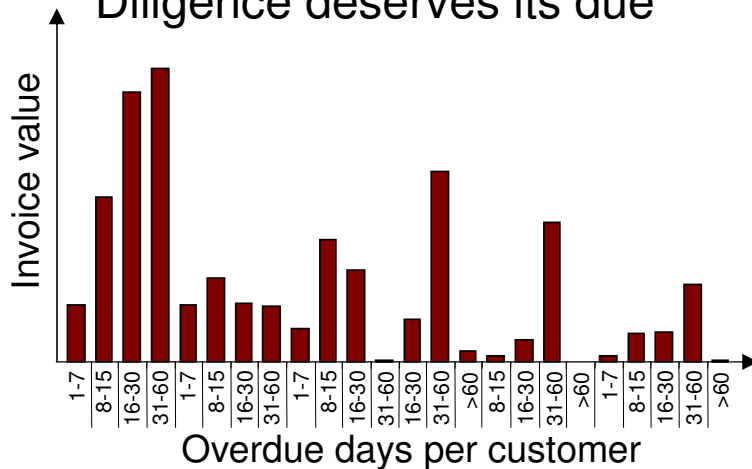
Financing at all cost



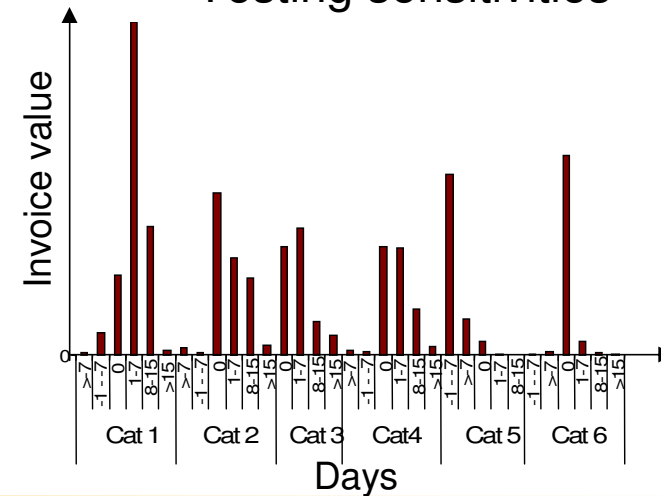
Is early payment virtue affordable?



Diligence deserves its due



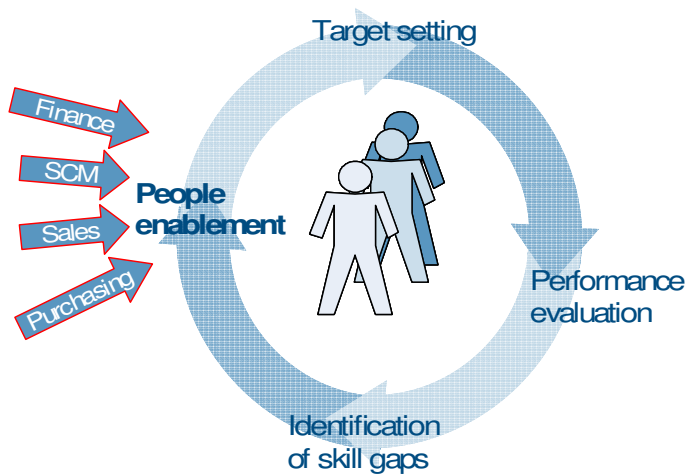
Testing sensitivities



# Giving direction and rewarding achievement



- 1) Goal break-down ensures alignment to strategy
- 2) Target achievement contributes to next level goals



- Definition & communication of strategy and priorities
- Balanced and compatible targets set across the organization
- Alignment of individual goals to targets
- Definition of performance measures and compensation systems to reward performance
- Ongoing loop consisting of target setting, performance evaluation, gap identification, training...

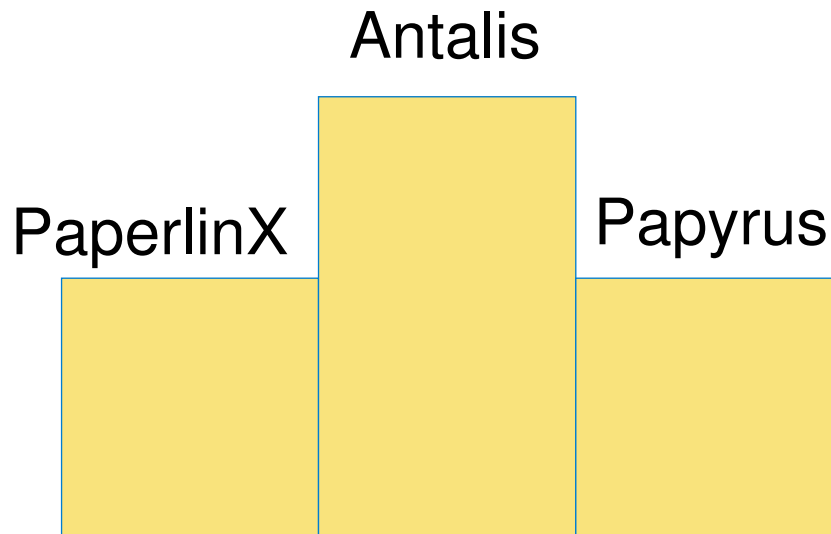
## Quo vadis questionnaire

- Survey on the merchant industry
- > 40 participants
- 75% of participants were paper merchants
- Replies were from the following professional level:
  - Regional responsibility and above (50%)
  - Country managing directors (35%)
  - Functional managers (25%)
- All European regions were represented

# Who is considered most successful? (merchants evaluation of merchants)

## Quo vadis survey results:

“Who do consider to be the three most successful merchants”



## Additional nominations:

- Europapier
- Igepa
- Inapa

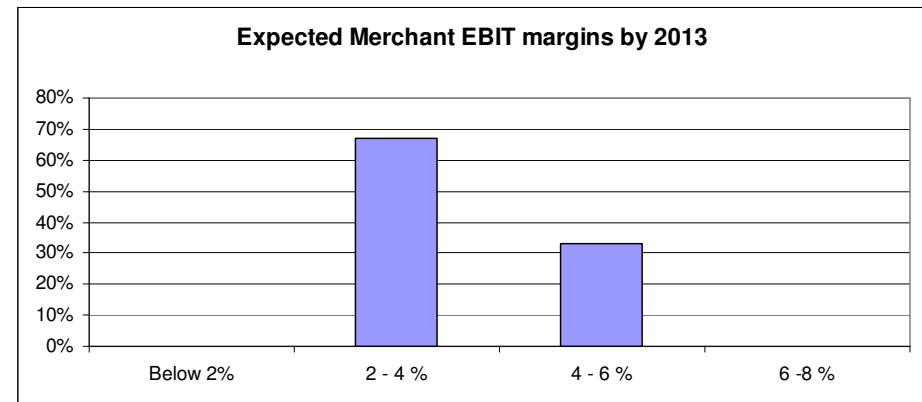
## Reported financial results 2007:

Merchant	EBIT %	Return %
Antalis	2.8%	11.6
PaperlinX	2.8%	11.4
Papyrus	2.2%	9.8

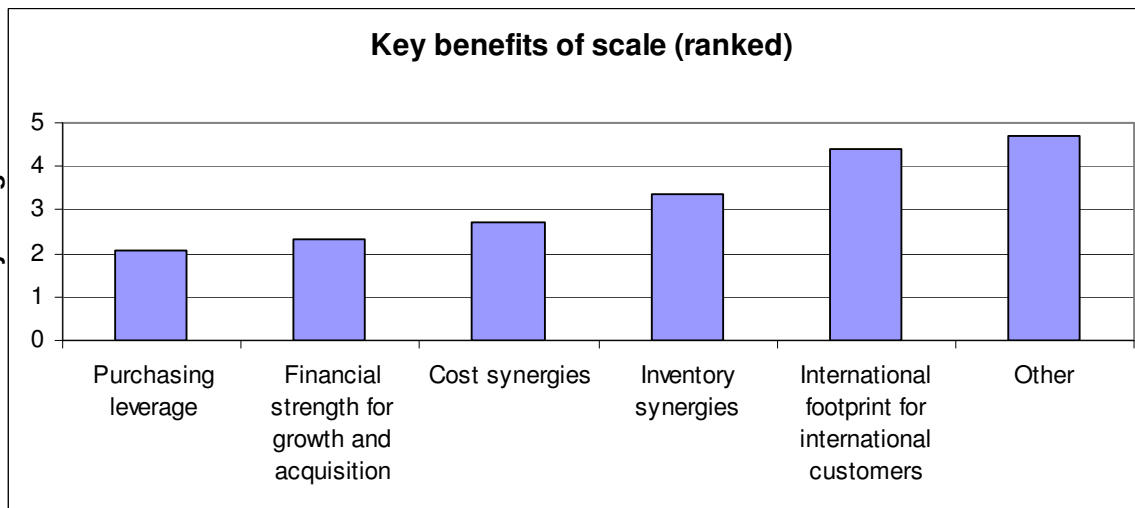
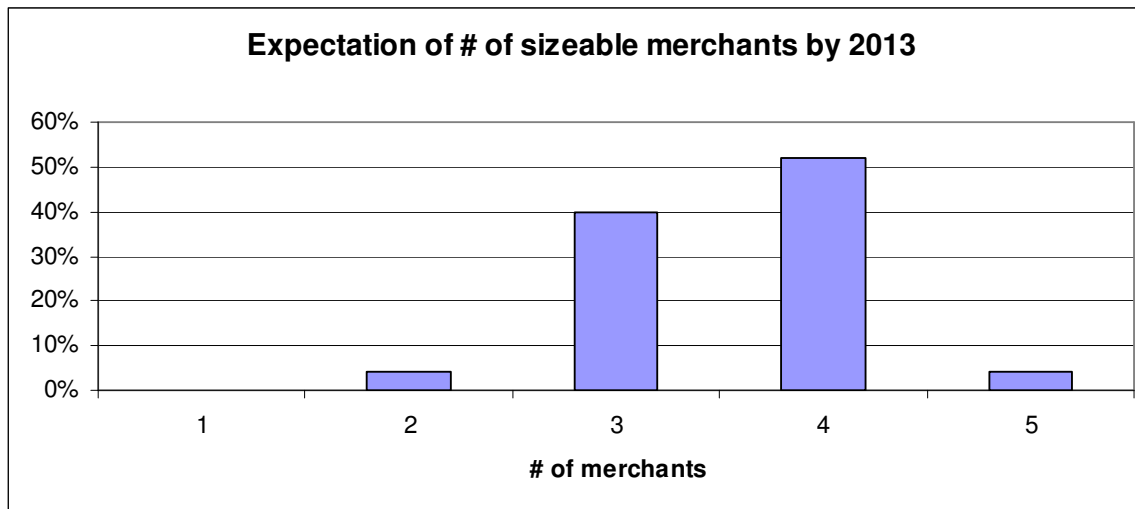
Source:  
Sequana Capital  
March 20<sup>th</sup>, 2008  
Paperlinx Half Year  
Financial Report 2008  
StoraEnso annual  
report 2007, pp 103

## Quo vadis survey results:

“Expectation of average EBIT margins for merchants to be in 2013?”



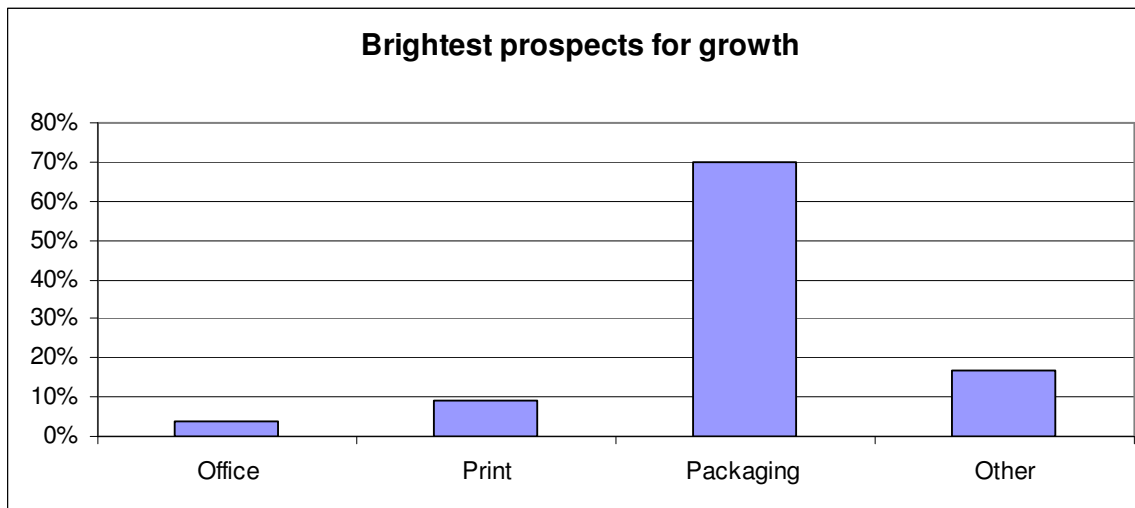
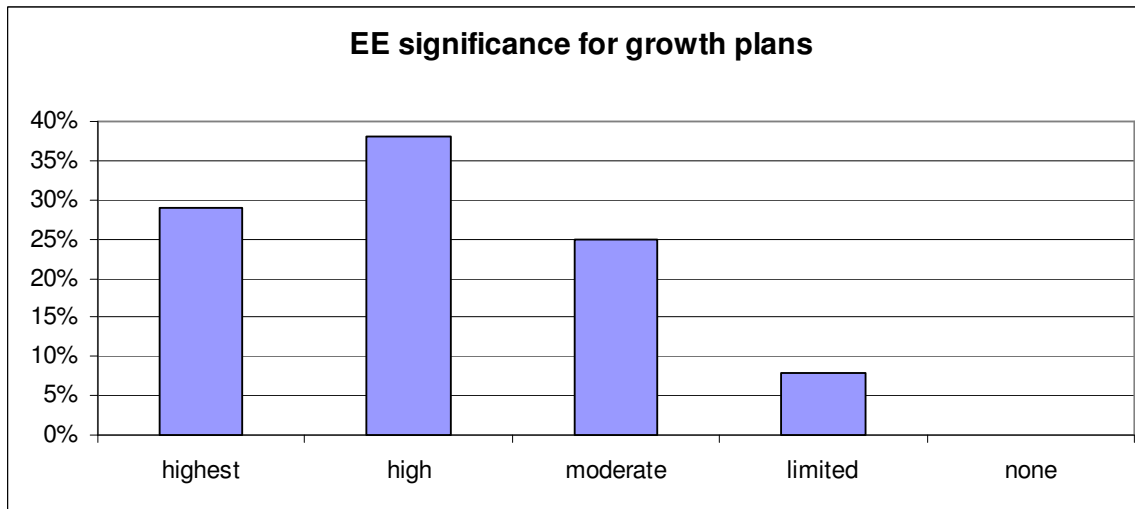
# 3-4 merchants benefiting from leverage, finance and synergies



## Quo vadis survey result - 2013

- 4 or fewer sizeable merchants (96%)
- Top 2 in each market (75%)
- Consolidation positive impact on market price (76%)
- Major benefits of scale considered to be purchasing leverage, financial strengths for growth and cost synergies
- Other benefits include SC integration, best practises and people development
- Higher commercial focus on suppliers (80%)
- Ongoing M&As and integration activities until 2013

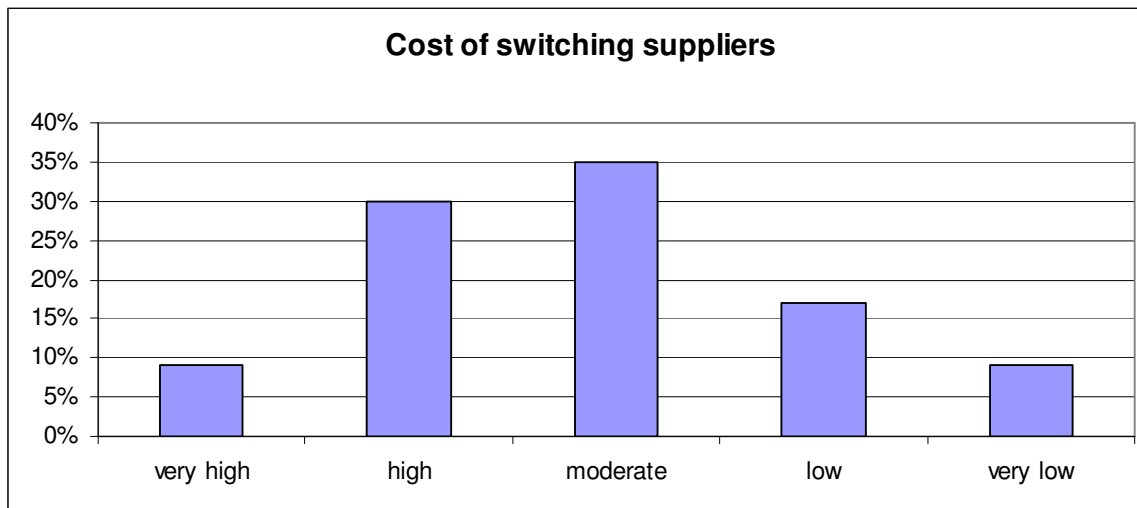
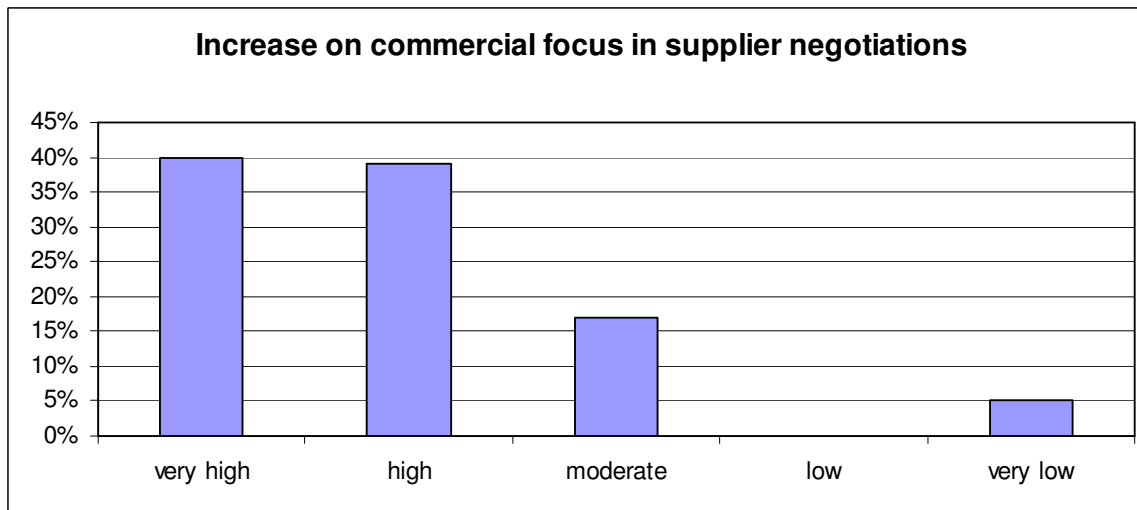
# Growth driven by EE, packaging, new operating models and brands



## Quo vadis survey result - 2013

- EBIT at 2-4% (67%) or 4-6% (33%)
- Increased international presence (92%)
- Packaging highest growth (70%)
- Segments:
  - Office decline (54%)
  - Print stable (58%)
  - Packaging grow (96%)
  - Others grow (57%)
- No consensus on indent business
- Consideration of new operating models (products, services, production) (90%)
- Merchant own label to grow with higher marketing expenditure on MOLs (68%)

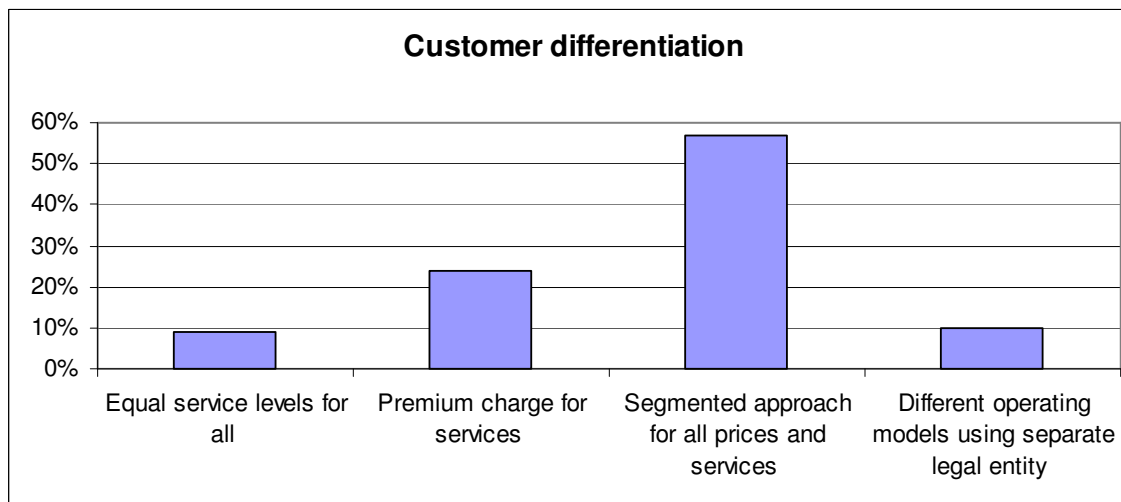
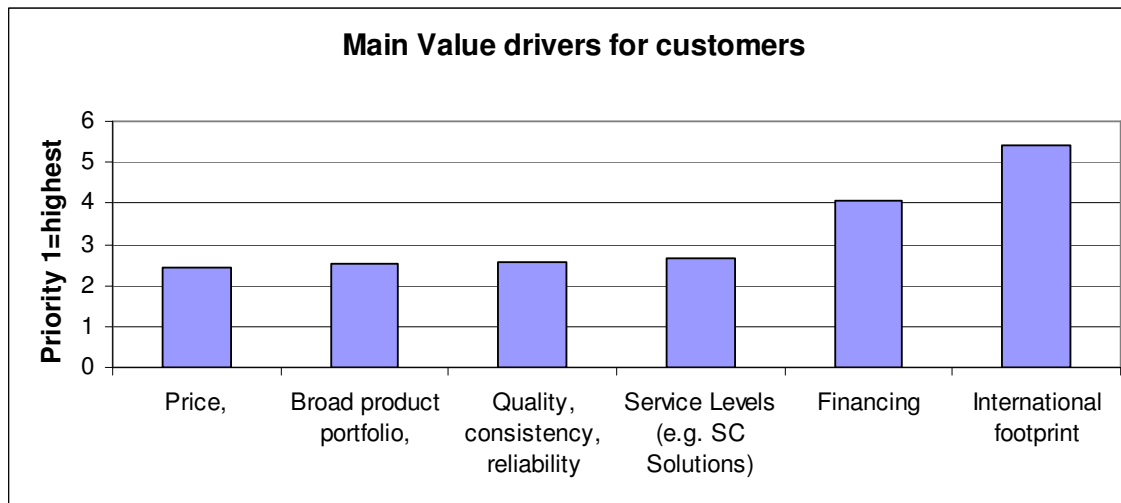
# Increased commercial focus on supplier management



## Quo vadis survey result - 2013

- Increased commercial focus on supplier negotiations (96%)
- Increase in supply from other continents ( 91%)
- Rationalisation of number of paper suppliers (70%)
- Supplier switching costs to remain stable
- Office lowest switching cost (76%)
- Excessive redundancy in the value chain between supplier and merchant (77%)
- Expecting suppliers to capture more direct business (70%)
- Volume growth for MOLs (91%)

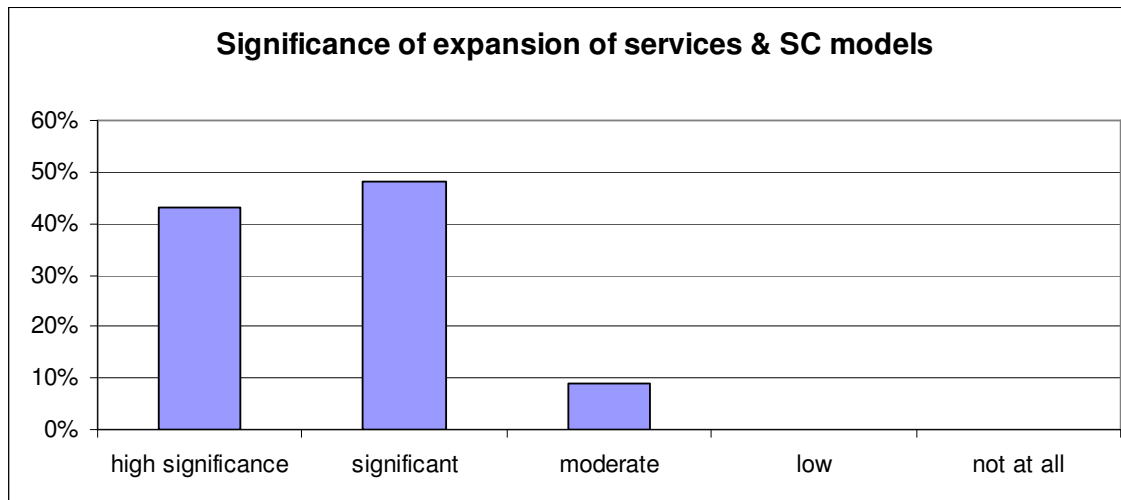
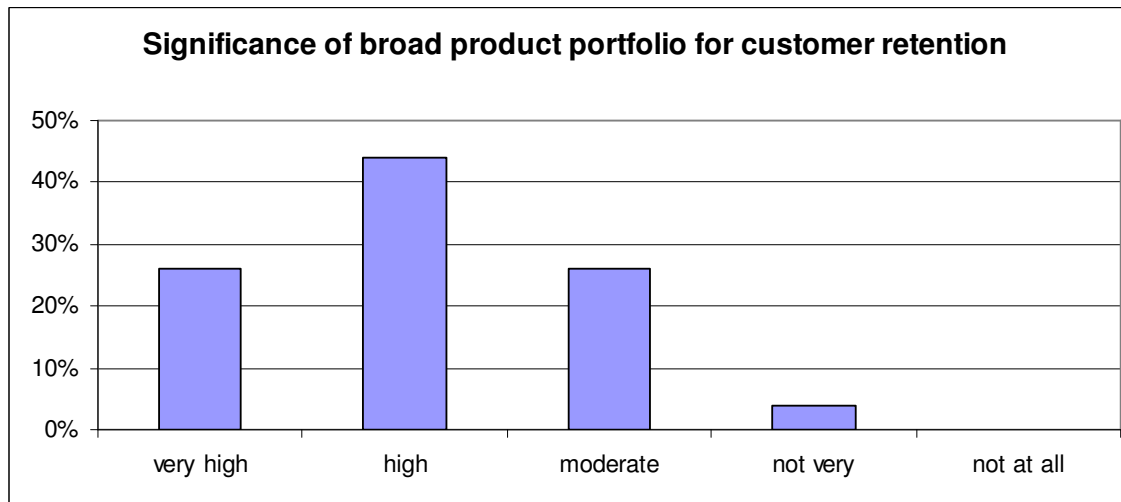
# Fewer customer with increasing demands require segmentation and partnerships



## Quo vadis survey result - 2013

- Customers value:
  - price
  - portfolio
  - quality
  - service
- A segmented approach is taken to customer management
- Increase in the requirements of customers (94%)
- Increase in requirement for cross-border service ( 100%)
- Increase in customer consolidation (100%)
- Increase in partnerships with customers (82%)
- Fewer customers will account for 80% of volume (52%)

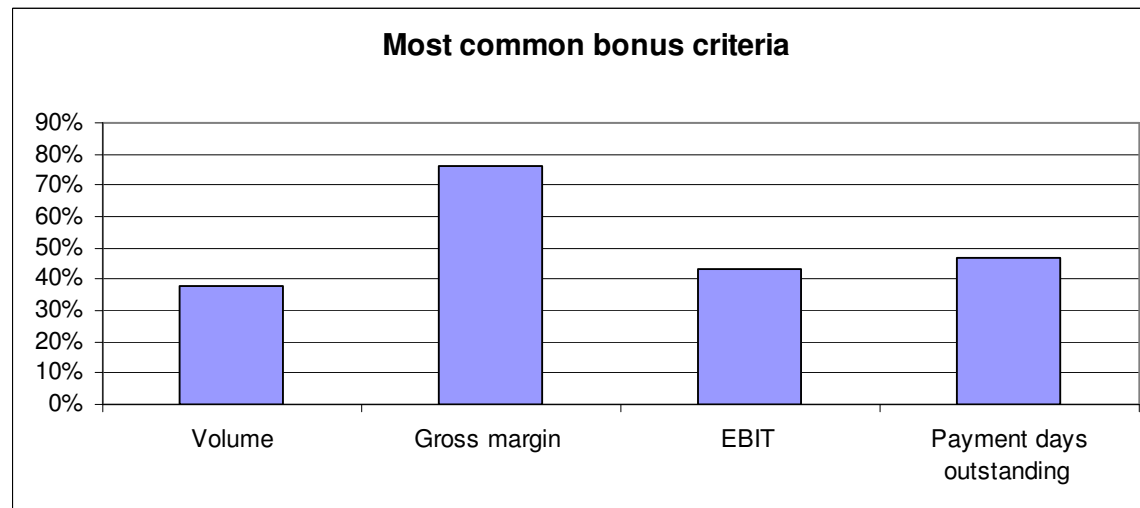
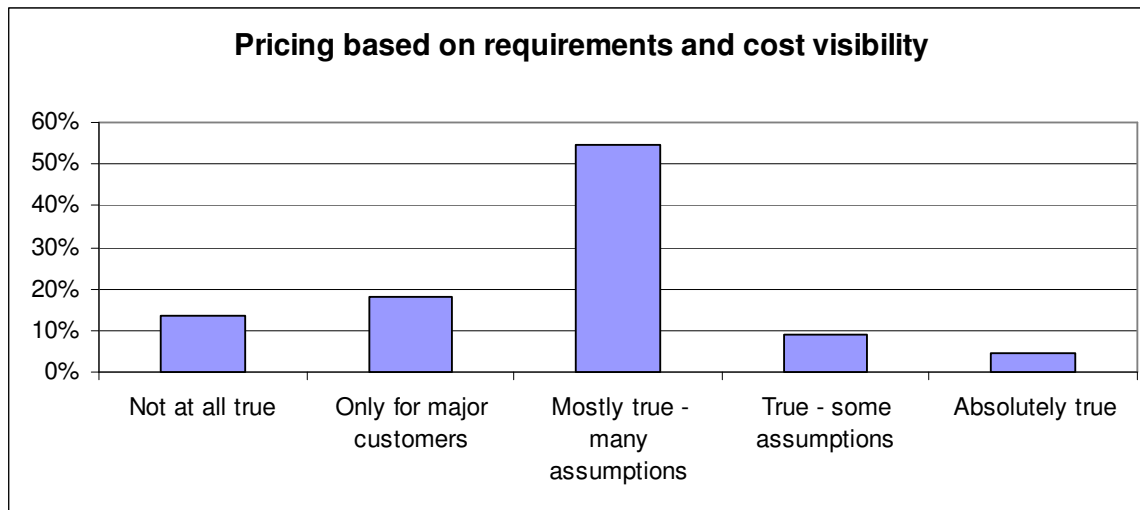
# Supply Chain Management – optimising the cost-to-serve model



## Quo vadis survey result - 2013

- Log. network rationalisation (88%)
- Fewer products required (58%)
- Inventory turns high priority (78%)
- Turns a KPI for bonus (77%)
- Non-standard product portfolio across all countries (74%)
- Expansion of services and advanced supply chain models are significant to growth plans (89%)
- Cross border deliveries from regional warehouses to increase (89%)
- No consensus on drop distances
- Drop sizes to be smaller or the same as today (76%)

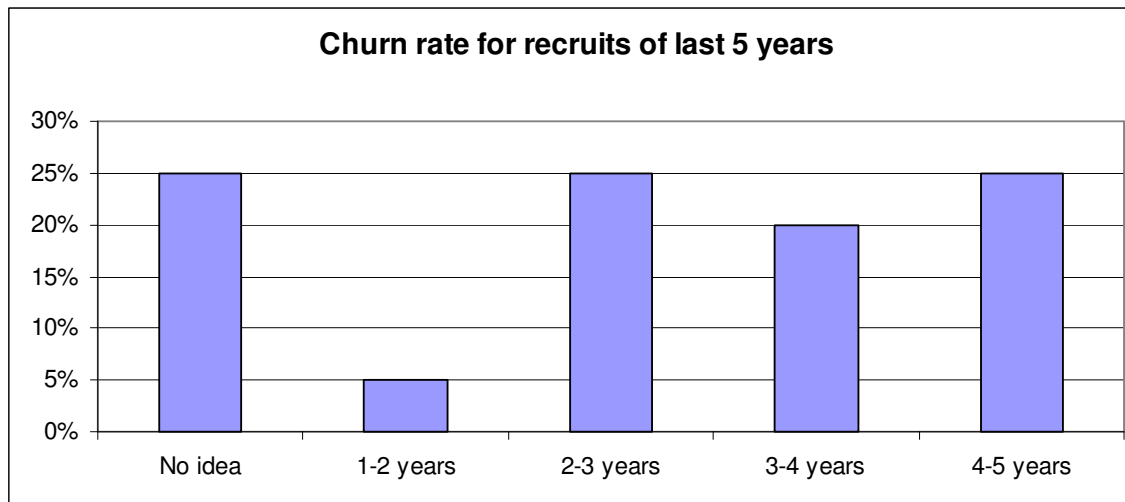
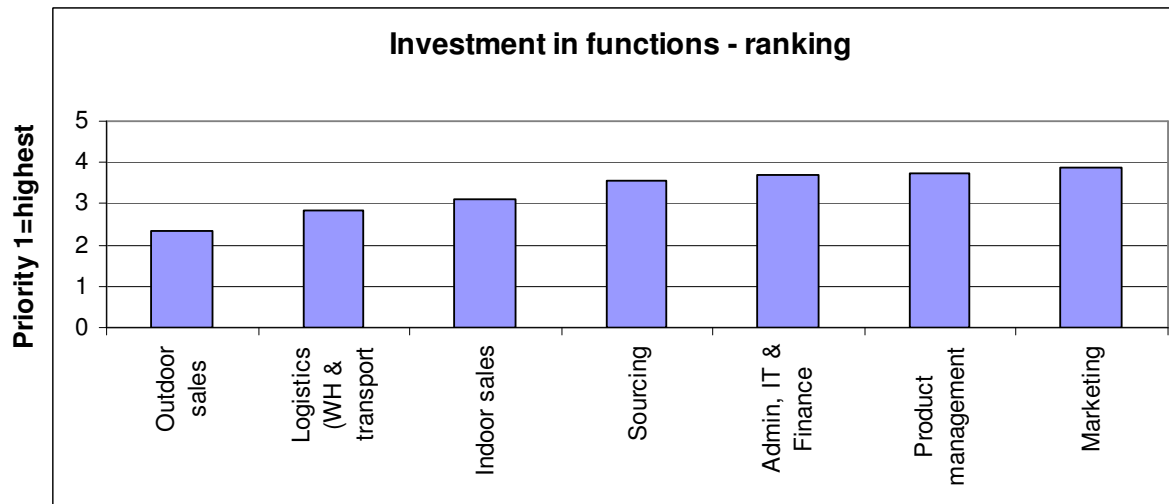
# Prices still based on many assumptions around preferences and costs



## Quo vadis survey result - 2013

- Pricing presently still based on many assumptions (86%)
- Outdoor sales bonus currently 10-30% (56%) on no occasion higher than 50%
- Gross margin still highest and most common bonus criteria
- Outdoor sales highest training investment
- Increasing indoor to outdoor sales ratio (64%)
- Indoor sales bonus currently 1-10% (71%)

# Human Resources



## Quo vadis survey result - 2013

- Highest investment priority in sales and logistics
- Monetary incentives only prevalent for outdoor & indoor sales and logistics functions
- Average churn rates for recruits in last 5 years vary strongly across the merchants

# Summary - merchant 2013

## Continues

- Customer relations and proximity
- Increased international presence
- Customer segmentation & differentiation
- Brands
- Supply chain capability
- Integration experience

## Reduces

- Full functions at national level
- Article & suppliers proliferation
- Historically grown logistics networks
- Non forecast driven inventory management
- Working capital tied up in payment terms
- Relationship sales for commodity products

## Starts

- Effective use of CRM & SRM tools
- Transaction data driven decision making
- Telesales & eCommerce at scale
- Leveraging size -> focus on suppliers
- Global sourcing
- New businesses

## Stops

- Gross margin based pricing
- Non-commercially selective transactions
- Presence in low market share territories
- Non-aligned performance targets