

Is your company ready for the current economy?

Survey results: Companies are focusing both externally and internally in response to the economy and market developments

StepChange Consulting conducted a survey among the participants of the 26th Annual RISI North American Forest Products Conference in October 2011 in San Diego.

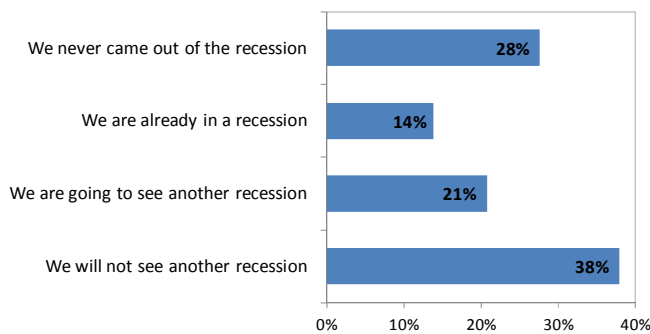
The outcome of the survey indicated where participants see the current economic and market developments heading and what their plans are to address the trends.

The interesting results are:

- Almost two thirds of respondents indicate that the economy is in a recession or will be within the next twelve months
- Likewise respondents believe their area of the industry is either in a trough or on a downward trend
- Most respondents believe that their companies are prepared for survival of a recession
- Pressures in the areas of increasing cost, increasing customer service requirements, lower demand and working capital are driving current priorities
- Company priorities to address the economy and market developments take both an external and internal view. Areas of focus are pricing & margin management, cost reduction, marketing, customer service and retention, and cash flow and working capital improvement
- Only a very small percentage of respondents indicated that M&A, restructuring & consolidation as well as workforce reduction are options

Respondent demographics represent a wide spectrum of the industry including Forestry & Wood Products, Pulp Manufacturing, Paper & Paperboard Manufacturing, Converting, Merchants & Distributors, Financial Services and Management Consulting.

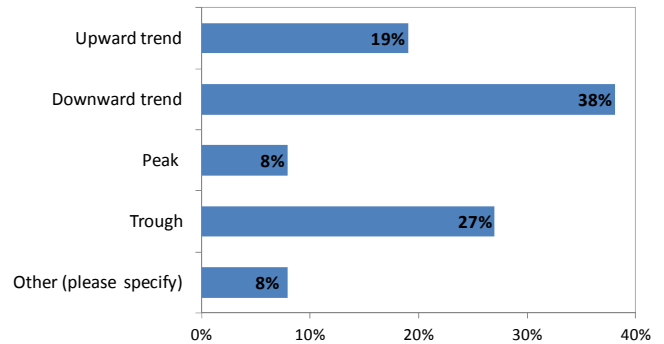
Question 1: Where do you see the economy heading in the next twelve months?



Almost two thirds of respondents see a recession in progress or believe one will occur within twelve months. Of those believing in a recession, roughly one fourth (28%) of respondents are of the opinion that the economy never recovered from the last recession, a minor percentage of respondents (14%) believe that we are already in a recession and 21% of respondents are sure that we are going to see another recession. A remarkable percentage of respondents (38%) stated that we will not see another recession.

Taking a closer look at the 38% respondents who answered that we will not see another recession, 40% are from the Forestry, Pulp, Paper or Converting industry and 60% are from Financial Services, Consulting or other industry sectors.

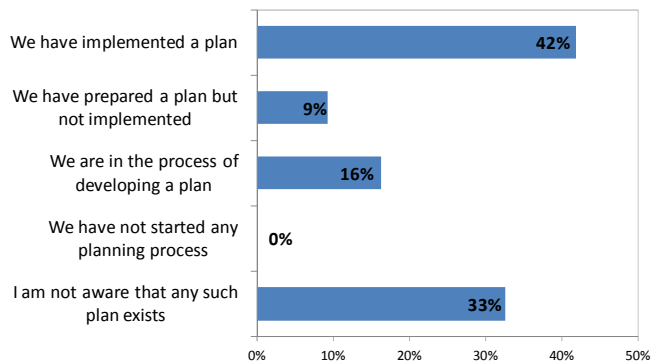
Question 2: In your opinion, currently where is your area of the industry in the economic cycle?



Two thirds of respondents believe their industry is in a trough or downward trend. One fourth (27%) of respondents had a positive outlook in believing their area of the industry is operating at a peak or in an upward trend. Some participants did not agree with any of the statements (8%) and are of the opinion that the economy is just slowing down a bit or is consistent at middle ground.

Further demographic analysis indicates that the forestry, pulp, paper, packaging and converting industry respondents (45% of total respondents for this question), held the same opinion as all survey respondents.

Question 3: Is your company planning for a recession?

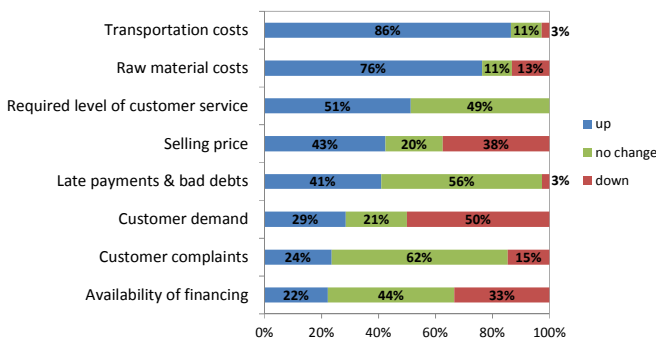


Results clearly demonstrate that two thirds of the companies are concerned about a recession and have implemented or developed plans to address a recession.

Of the two thirds who have planned for a recession, a large amount of respondents (42%) answered that their companies have already implemented a plan, 9% have prepared a plan but not implemented, and 16% are in the process of developing a plan. A remarkable one third (33%) of respondents are not aware that any such plan exists. Taking a closer look at the participants who answered that they are not aware of any plan, 65% are from the Forestry, Pulp and Paper sectors.

Question 4: What trends are you seeing in the market relative to last calendar year?

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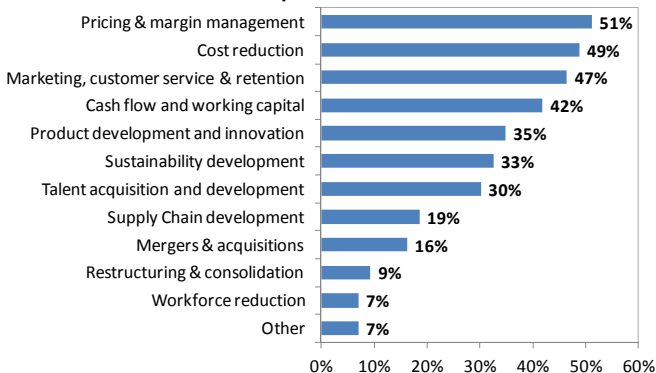


Costs have increased for the majority of the respondents during the last year. 86% of respondents said that transportation costs went up and 76% answered that raw material costs went up as well.

Customer service requirements have increased while demand is down. Half of the respondents said customer service requirements have increased while demand has decreased. Additionally, one fourth (24%) of the responses indicate that customer complaints have increased as well. Regarding selling price, respondents were polarized. 43% of respondents indicated that the selling price is up as compared to 38% who answered that it went down.

Working capital and cash flow pressure due to increasing late payments and bad debt and availability of financing is an issue for 41% and 33% of respondents, respectively.

Question 5: What are your company's current priorities?



Companies are taking both an internal and external viewpoint in setting priorities. With increasing cost pressures, half of the respondents identified pricing and margin management (51%) and cost reduction (49%) as top priorities for their company. These results were followed closely by marketing, customer service & retention (47% of respondents) in order to address increasing customer service requirements and decreasing customer demand. Of those responding that marketing, customer service & retention is a priority, 60% also indicated pricing and margin management is an area of focus.

Cash flow and working capital management is the 4th highest priority and is no doubt part of many company plans to address a recession. Even with cost and economic pressures, one third of respondents see investments in product development and innovation, sustainability and talent acquisition and development as enabling priorities in difficult times. Likewise, workforce reduction is not seen by respondents as a priority.

Summary

In summary, respondents see a recession in progress or looming on the horizon. Most respondents have the opinion that the best of their current industry cycle is past. Most companies are implementing plans, have planned or are developing plans to address a recession. The overall economy and pressures in the areas of increasing cost, increasing customer service requirements, decreasing demand and working capital are driving current priorities. Short to medium term strategies in the areas of pricing and margin management, cost reduction, customer service enhancement, marketing and retention, and working capital management are current priorities for companies. Renewed focus on product development, innovation, sustainability and talent are enabling priorities for some companies. Longer term strategic thinking in M&A and restructuring and consolidation are not current priorities in this economy.

About StepChange Consulting

StepChange is an industry focused and independent management consulting company with a proven track record in supporting clients to achieve sustainable value. StepChange provides support to top tier organizations in the industry from strategy development to implementation of operational improvements. With an international team of industry experts StepChange can hit the ground running. StepChange provides innovative and yet pragmatic solutions, placing an emphasis on delivering measurable business results.

For further inquiries and comments regarding this Point of View please contact us at leapfrog@stepchange.com