



Death of the cartels

Are the following views too radical, too polarised, or do they make futuristic common sense? *Bridget Thomas* interviewed Dr Wilhelm Schober on his recent visit to London

Dr Wilhelm Schober comes from the new generation of consultants. He believes in finding a synergy between industry and the environment, rather than exploiting the former at the expense of the latter.

"It's a question of finding partnerships", he says. "I build up a company's sales through finding a company which is prepared to admit its sales are not as good as they might be. Then I find a partner."

With degrees in chemistry and physics, Dr Schober formed Schoconsult, a marketing consultancy company. He has looked after some big companies in the raw material business and the paper field. He joined Brigl & Bergmeister in 1988 to support its reorganisation of marketing and sales. This year he has turned his attention to other paper companies which, having purchased new mills, are obliged to install a group marketing and sales organisation.

"Sales in paper, in Austria and elsewhere were traditionally done between friends over a good dinner. That is still seen in the UK. The image and behaviour of traditional merchants and agents is typically defined by Jaguar cars and the best hotels. But the picture is changing rapidly. The younger generation is hungry for success and has started "hard selling," using more facts and less lunch.

"Sales people have to realise that they must live by phone and fax and do with fewer meetings. They can reach across Europe from their offices, and if they have spent sufficient time doing their pricing and marketing homework they can get a good deal at best price, probably faster than they could deal with their old friend from down the road in the old days.

"Papermills' key accounts do not understand why they should be served via merchants or agents, when they could easily maintain direct contact with the producer. I expect the merchants are losing importance in the key-account business, ie indent business, as they have no function here now, but will continue to have a function when paper in quantities of less than one truck load is requested.

"The big printers want good runnability, consistent quality and technical support from their paper supplier. Paper is a highly technical product, whose physics must be understood by the salesman, as he has to give the feedback to R&D and production people at the mills. I can see agents functioning well here. As long as they see their function as mere mailboxes, they miss their chance. As they start to educate themselves and become technical experts, locally available for their customers, they continue to find their role in the distribution chain. If they miss this chance, it leads to direct sales by the mills, through their own staff.

"I watch merchants doing half their job, even when they belong to mills. In Austria we have only a few on the scene. As long as the "cartel" situation was around, life was comfortable and easy. Merging and acquisitions led to bigger groups, and the open market in 1993 will invite more new players. But I have the feeling that the established companies do not realise they have to sell with marketing strategies and skills now.

"Owing to the big investments and the

complexity of technology, technicians play a strong role in the business. They are more oriented at the machine than in marketing. Sales and administration follow this scheme, and are often also technically oriented. When companies merge, the new group continues in the old way, instead of creating synergies with common sales organisations and strategies, looking for a more competitive regional and/or market-segment-matrix for all mill locations."

Dr Schober believes transportation costs will increase significantly in the future. "National rail organisations must be put on their feet. This will be done through rationalisation and a better service. The bigger part of financial problem solving will come through increasing taxes for road traffic, which will be penalised. These measures will also be in conformity with ecological considerations. For this reason I expect a tremendous increase in transport costs within the next few years. This will support local suppliers. It is crazy for the Italians to sell coated paper to the UK, and Dutch paper to Italy etc. Shipping of commodities across Europe will be limited in the future. Higher industrial concentration will occur in regions of, say, Nord-Rhein-Westphalia, Benelux, Milan-Turin-Bologna, where new investment will take place. This will also favour efficient big volume logistics and new local production units. The chemicals industry has already learned to regionalise. The giants are all opening up quarries across Europe, to limit transport costs. It makes sense.

"Forget Canadian shipments long term. At present overseas freight to western Europe is cheap compared with freight charges within Europe. They will grow more and more expensive. The relevant vessel fleet has grown too old, as 30% exceeds 15 years of age and should be mothballed. Due to several accidents, deficiencies and subsequent environmental damage, reinvestment will be inevitable, which will lead to substantial price increases in the medium term. Additional higher wages and social costs for the workers as well as increased insurance costs for the huge vessels to cover environmental risks have to be absorbed. If shipping costs \$14/ton now, in five to ten years it will cost \$50/ton.

"At the end of this decade there will be only one tenth the number of pulp-

offering parties. The competition will lead to further concentrations. The new holdings will have strategically well placed pulp mills, working in regional synergies with huge papermills.

"The new conglomerates of pulp and paper mills ask for a group strategy. I can very often see that the former sales organisations continue with only some smaller adaptations. The top management promote 'internal competition' and limit their leadership to avoiding underquoting each other. They are losing a historic chance to change to an efficient and modern type of organisation where efficiency and market orientation have priority. Consequently, the mills would have a role as a production location only, and today many bosses of acquired mills concentrate on not losing their importance. On the other side, such a group policy must be worked out with high professionalism by marketing and strategic management experts; I assume that these capabilities are very rare in the paper field, which are more linked to technical expertise.

"So how do I improve a company's sales? It's so easy. First by having a common organisation with a clear strategy of the group member's markets and outlets, instead of competing within the group. Most old fashioned salesmen do not feel comfortable about giving up their old relationships and starting up again from scratch in new segments. They must be by-passed or change. The young are hungry, and if you find a hungry extrovert, you have a good salesman. In eastern Europe we have another problem. Only the young and the next generation will be successful in competing, because they were not brought up with the idea in their blood, and the older employees cannot be changed easily, it is too late."

Dr Schober considers himself a catalyst who enables partners to solve problems. "Management and support is needed to build up the strategic puzzle.

"We still have so much to do in developing and improving quality in paper making. In the 1980s, mills were adapted and designed for speed and huge output. The overcapacity led to top quality and niche marketing strategy. Recycled LWC and other coated paper will shortly be what everyone wants to try. But different pigments are needed, and they are causing headaches at the moment. I am working to find synergies

between the potential manufacturers of the paper and the raw materials suppliers - mainly from the mineral and chemicals side. So I make a first selection of the possible ways, consider trends in availability and costs, and arrange discussion partners. This enables an efficient project study, and avoids reinventing the wheel or paying dearly for known disasters."

The paper industry is of course notoriously reactionary, something Dr Schober, with his visionary outlook, has to overcome before he is employed as a consultant. He has published several "combative" papers; although his views on why precipitated carbonate won't work in Europe gave a radical view, he says he has been proved right now that



Dr Schober

the CO₂ tax is threatening. Publication of this paper has not pleased everyone, but Dr Schober insists he will lose his independence if he holds back from writing lest he cause ripples on the water.

Dr Schober believes firmly in circles rather than in parallels. "Recycling is very much something belonging to the new age", he declares. "We think of it as something rather strange, but soon young people will not consider throwing a glass bottle away, their entire consciousness will be imbued with the concept of recycling that glass, or that newspaper. Our definition of investment must also incorporate this concept. The



next quarter's result must be entirely forgotten by the non executive; any investment must be taken with the good of the company, not the dividend, in mind.

"Increased output is no longer our goal. What counts is quality of investment, of production, of service, and of the recycling process.

"Austria is a good country from which these ideas flow. We are so centralised, with so much happening around us, and perhaps because of that we have given the world lead free petrol and the compulsory installation of catalytic exhausts, phosphate free detergents, and an important pilot installation for chlorine-free bleaching. Maybe the next topic will be the CO₂ tax, where again we are the forerunners. Because the country is small with so much forest cover, we have to look after our heritage or suffer the consequences. The next generation also has a right to an environmental life. I look at every transaction I make with the thought 'how can this view be integrated and benefit the environment?'. The thought of the recycled car excites me. It is becoming a reality. We must look at everything we use with its recyclability in mind."

Dr Schober blames the over capacity now causing anguish to the industry on the outdated view that endless competition can work. "Many mills engage consultancy companies when they run new projects. Jaakko Pöyry is certainly the most important one in the paper field. But his feasibility studies ended too often with the conclusion that more capacity should be built. They laid the potential. We live with a 10 year investment cycle, but the consultants had an absolute misunderstanding of the market situation, with no idea of bringing down old capacities and concentrating on the process.

"There appeared to be a plan to what it was doing, but this has been proved to be mere hope. So more and more coated paper is being produced in Europe, and also sold to the Far East, eg the next disaster will come for the Europeans from the Pacific Rim. Meanwhile, the South-East Asians are putting in new coaters. The Pacific Rim cannot be used as a dumping ground for much longer, because many thousands of tons will disappear from the European export market. But still more capacity is coming on stream."