



StepChange Consulting

Driving Change to Deliver Results

Merchant: Quo vadis?

Challenges and developments in the merchant industry

Oslo, May 20th, 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)

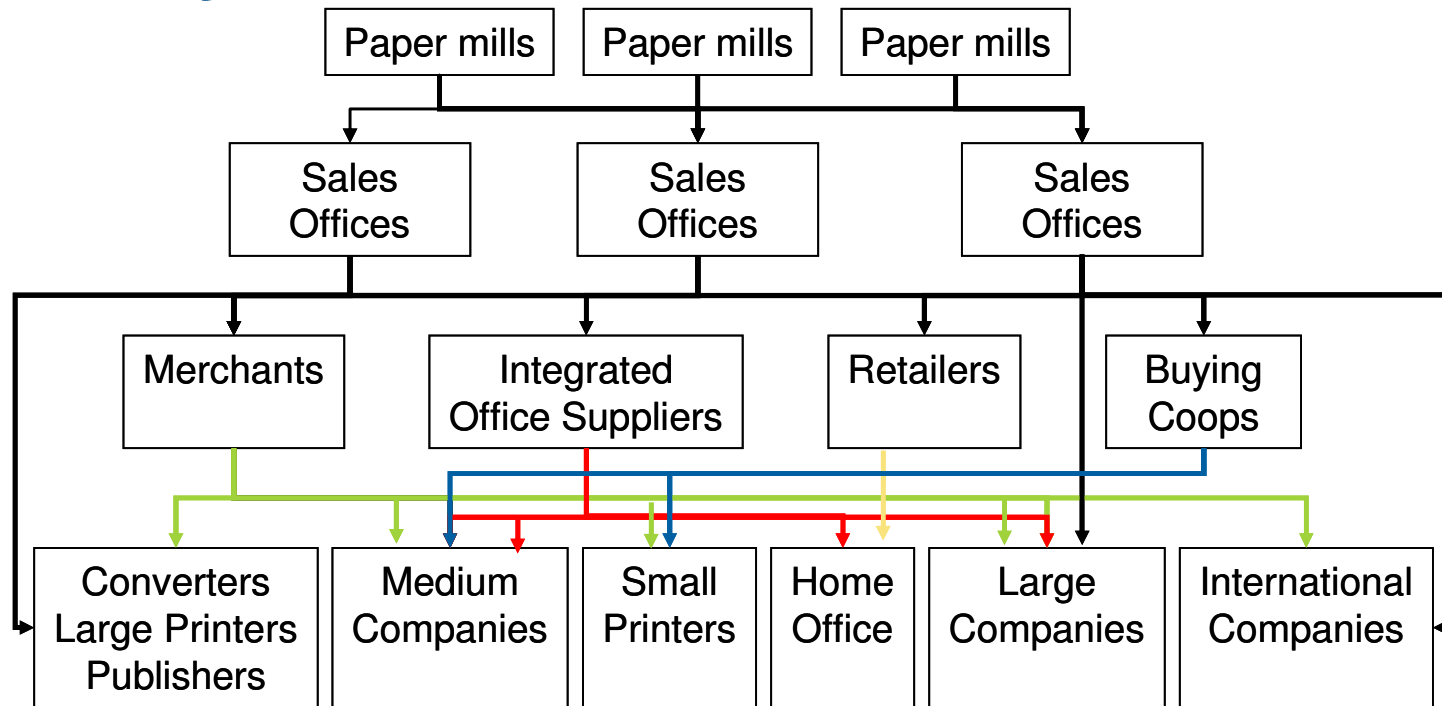
If you fall into a puddle check your pockets for fish



Balancing conflicting interests – the role of the paper merchant

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

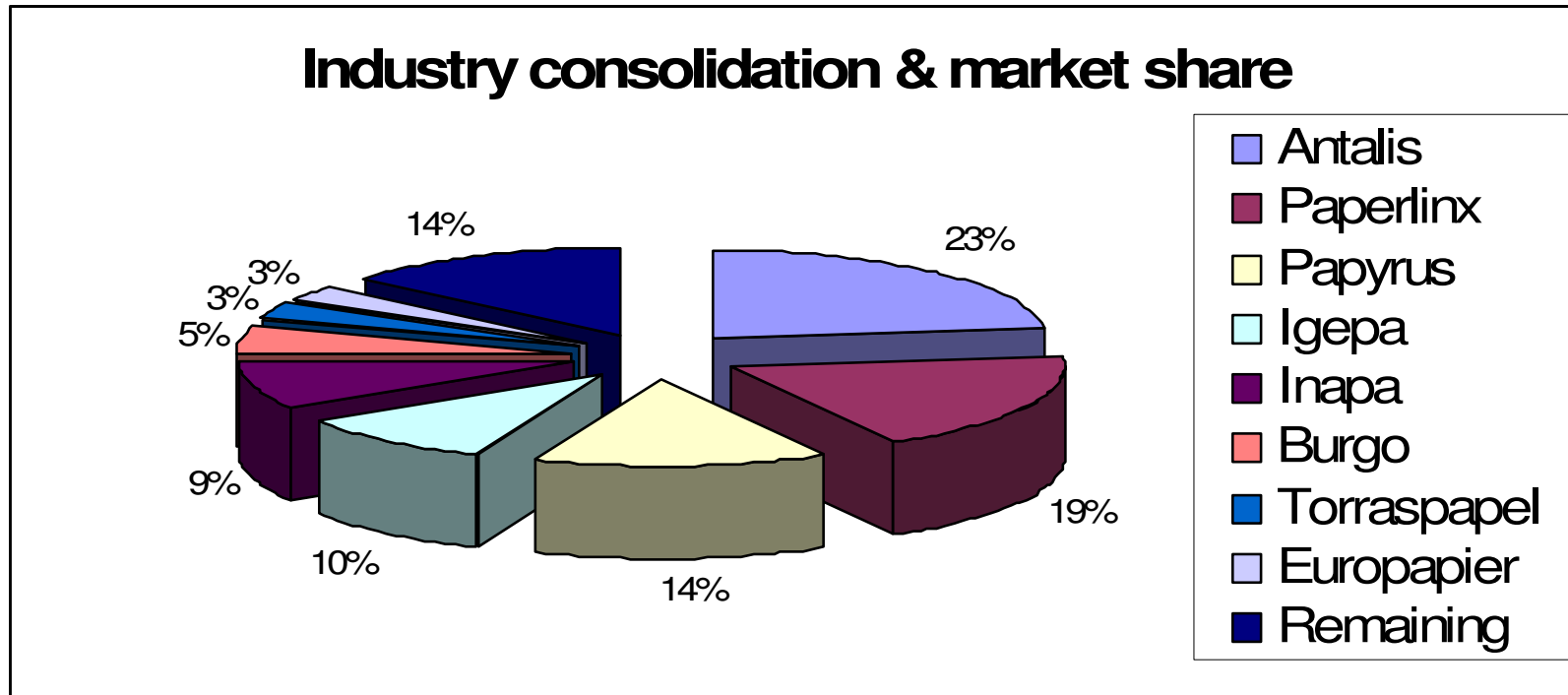
Paper merchants do not have customer exclusivity



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
Top 3	22	11	14	8	3	2	3	6			



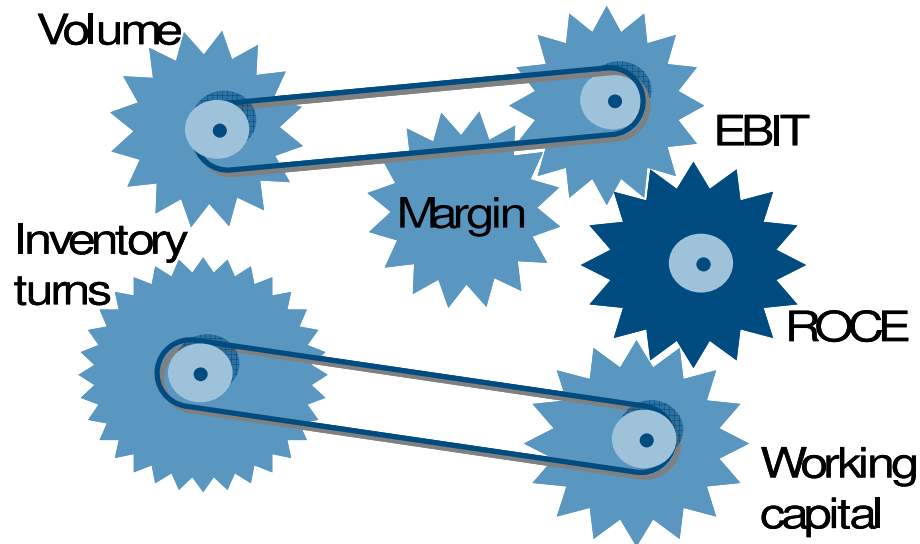
Top 3 market share



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

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-

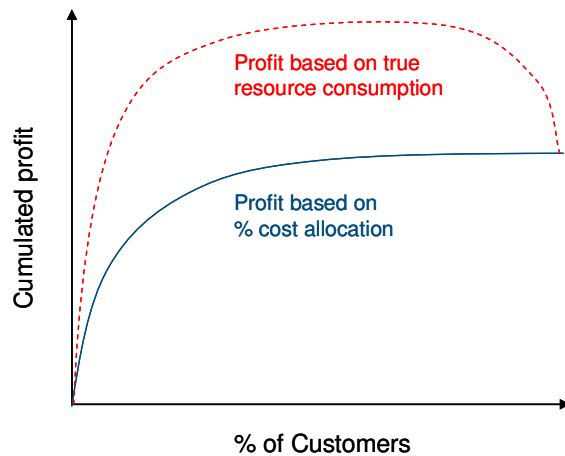
- Centralisation
- Payment terms
- Process & control
- Increased system support

-Integration-

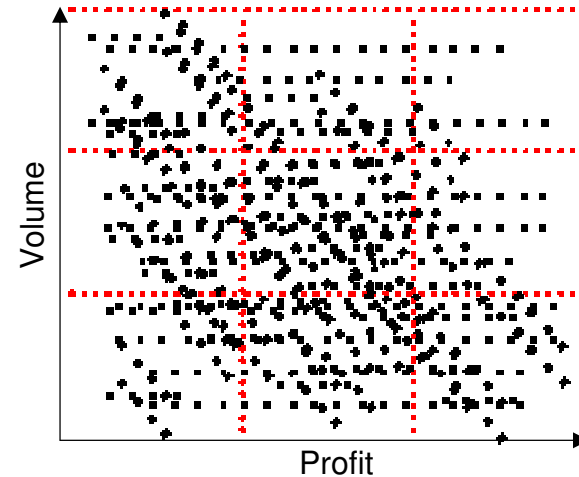
- Teams, targets & communication
- Alignment
- Mitigation plans
- Progress measurement

Customers pay for and deserve differentiated treatment

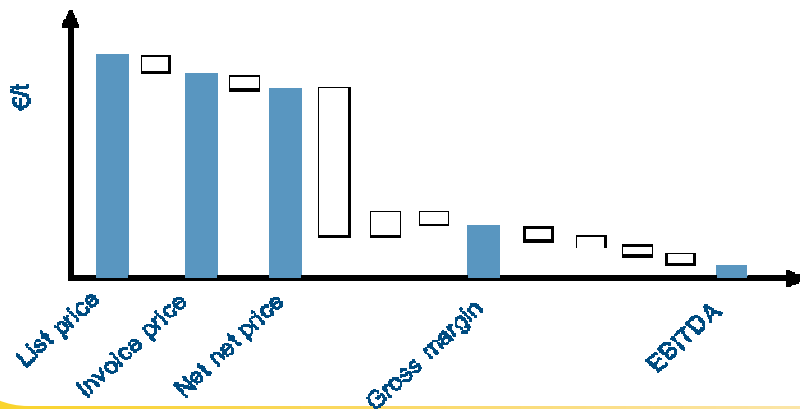
Misallocation of resources



Customers are not all equal.....



Margins management – EBIT lever x 7

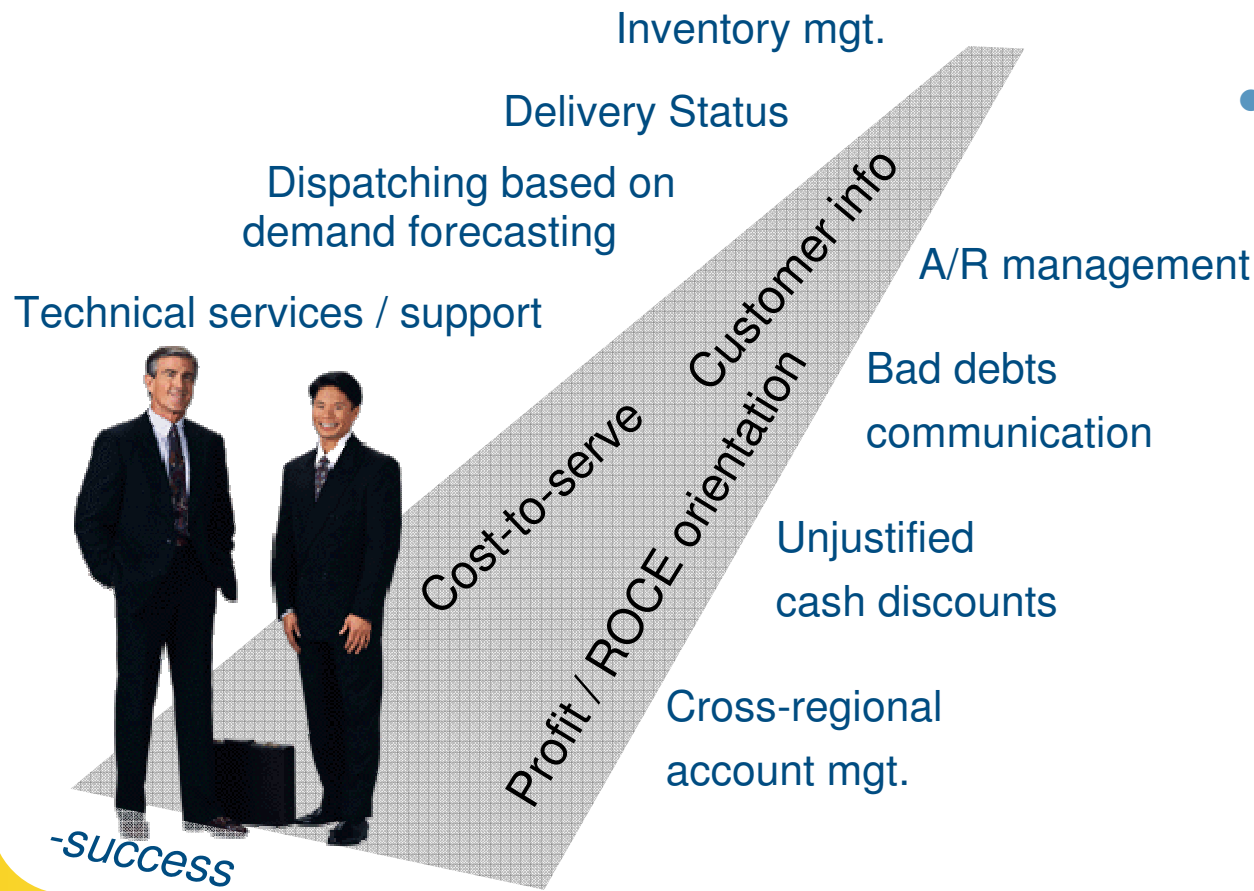


....and should be treated differently

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

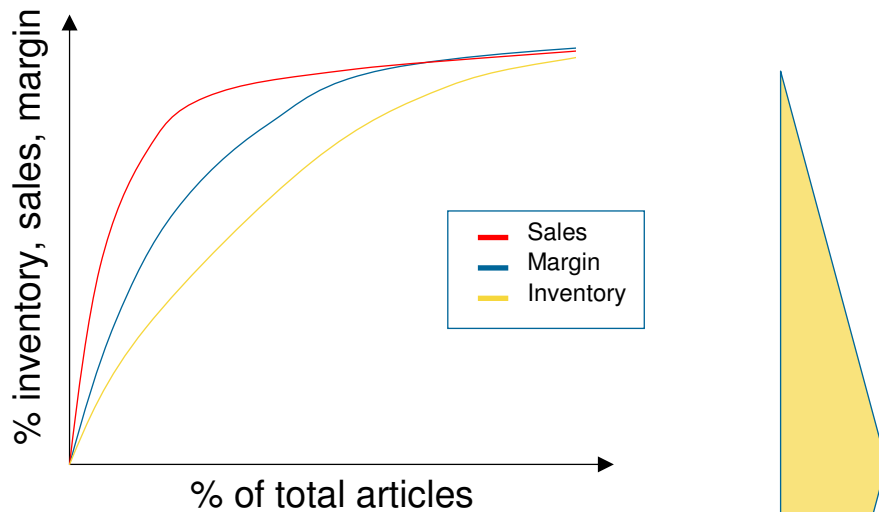
Departmental integration with a structured flow of information and open data access is key for an effective sales organization



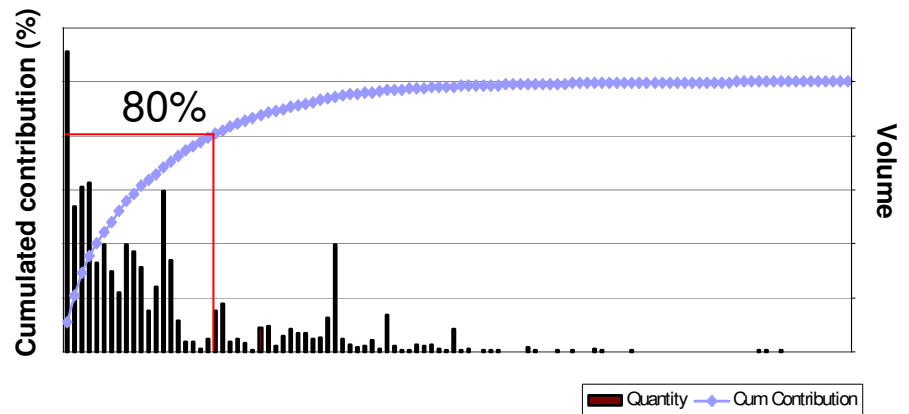
- Four key success factors for an effective sales organization are:
 - Understanding of the customers' requirements and processes
 - Centrally available customer data
 - Understanding the cost-to-serve
 - Teaming & ROCE driven sales people

Movement makes money

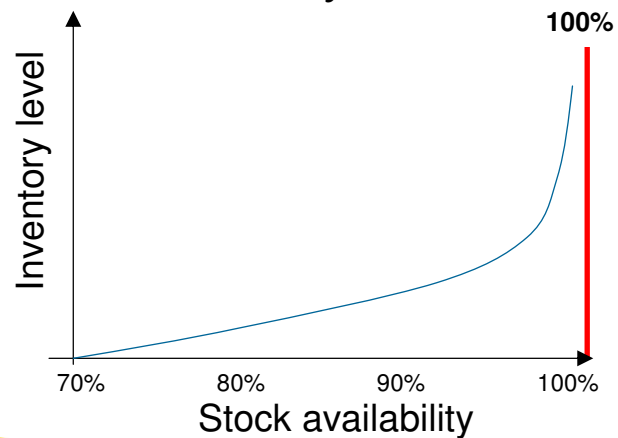
Excess articles cause complexity



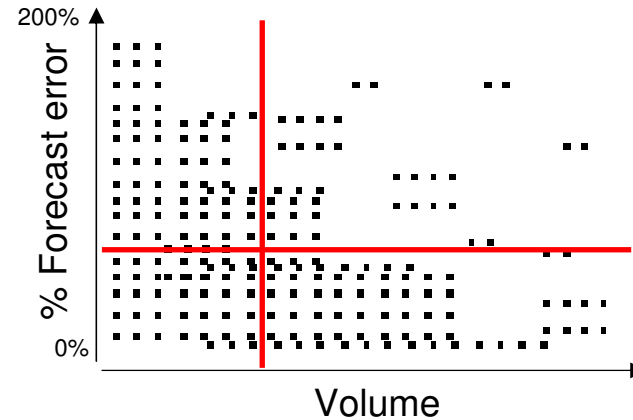
No volume / no turn → must go



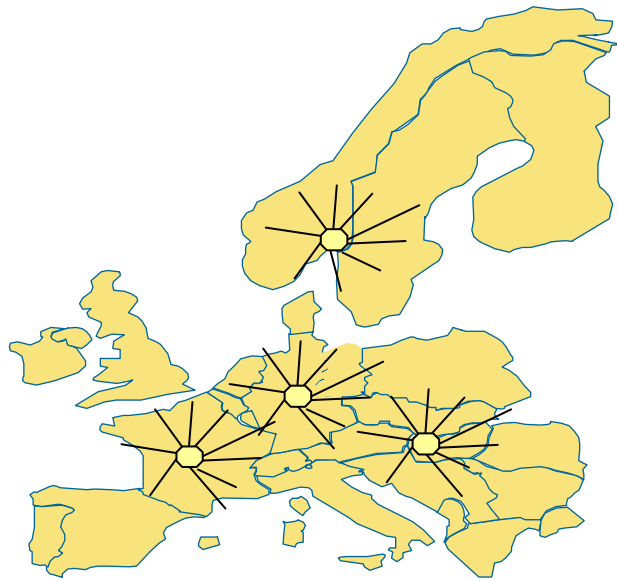
Availability at a cost



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.



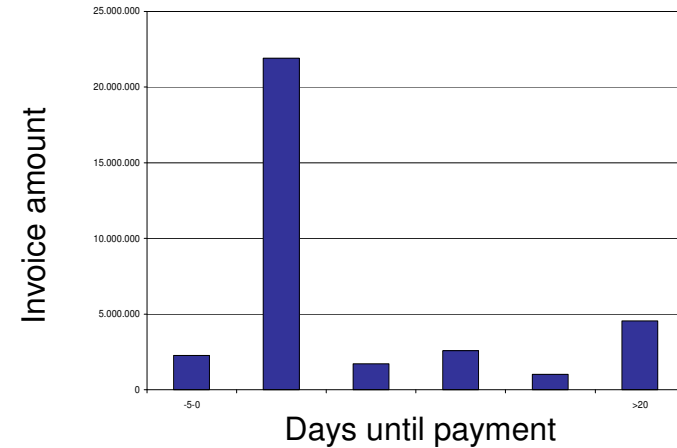
- Increased commercial focus:
 - Price
 - Discounts
 - Rebates
 - Service levels
- Global sourcing:
 - Asia
 - Latin America
 - North America
- Increased MOL:
 - Office
 - Print
 - Others

Slow in, fast out – harmony at a cost

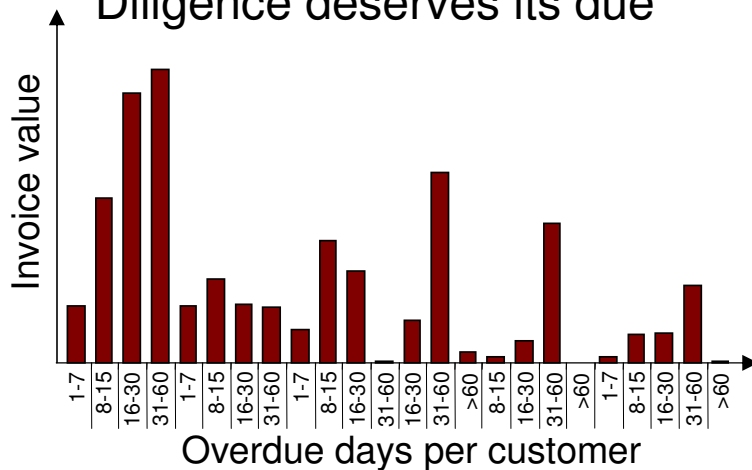
Financing at all cost



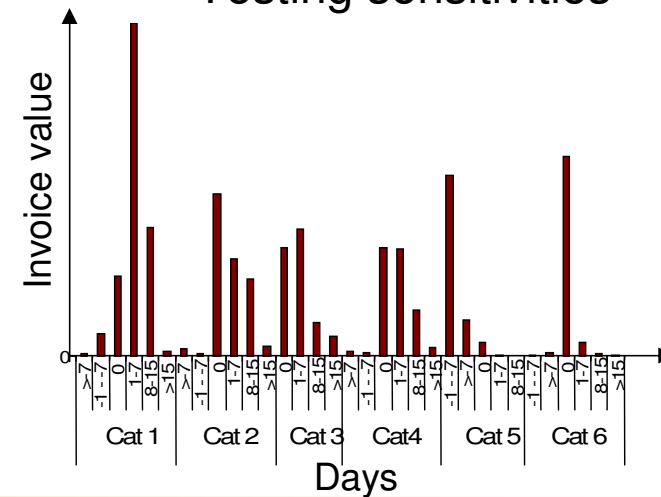
Is early payment virtue affordable?



Diligence deserves its due



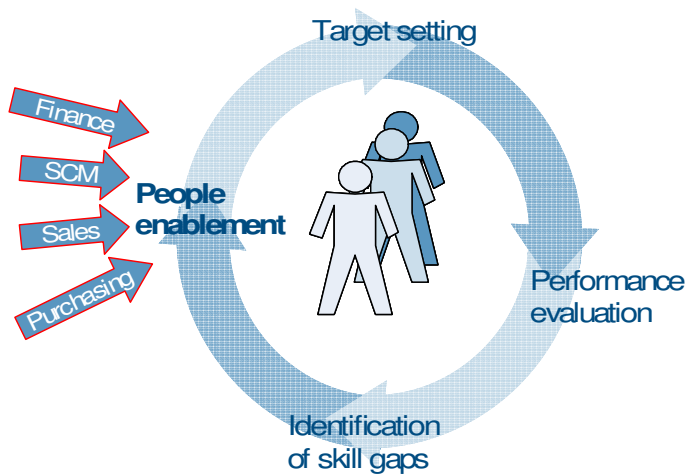
Testing sensitivities



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...

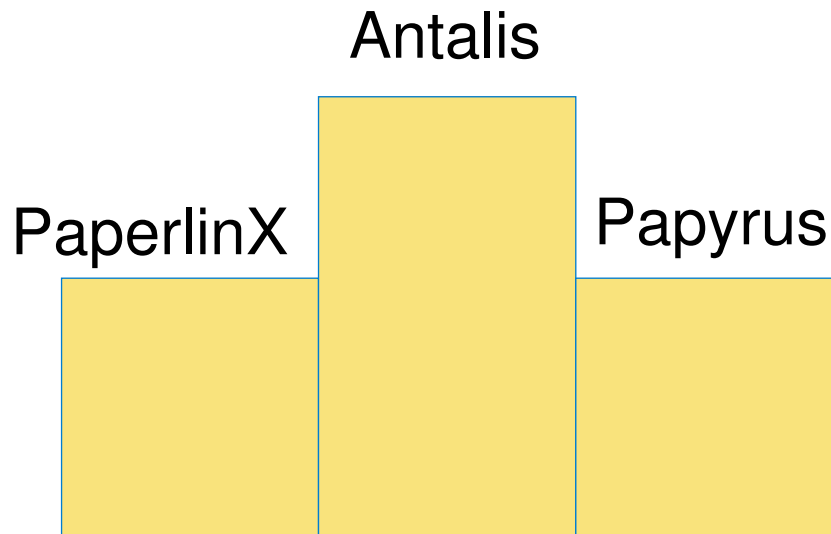
Quo vadis questionnaire

- 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

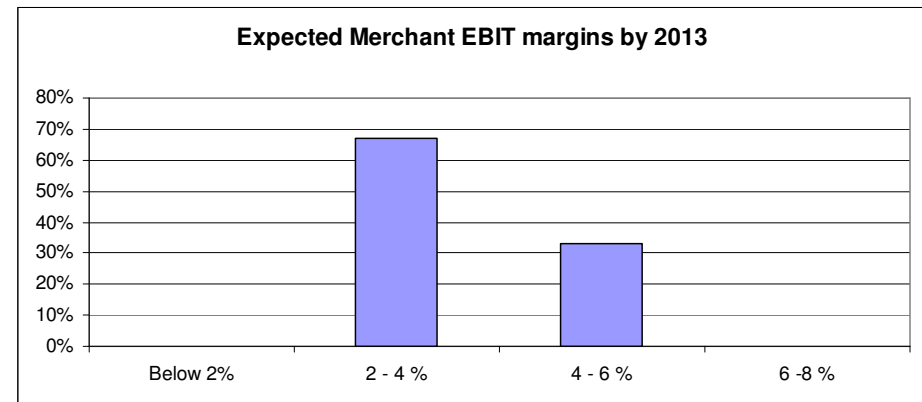
Reported financial results 2007:

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

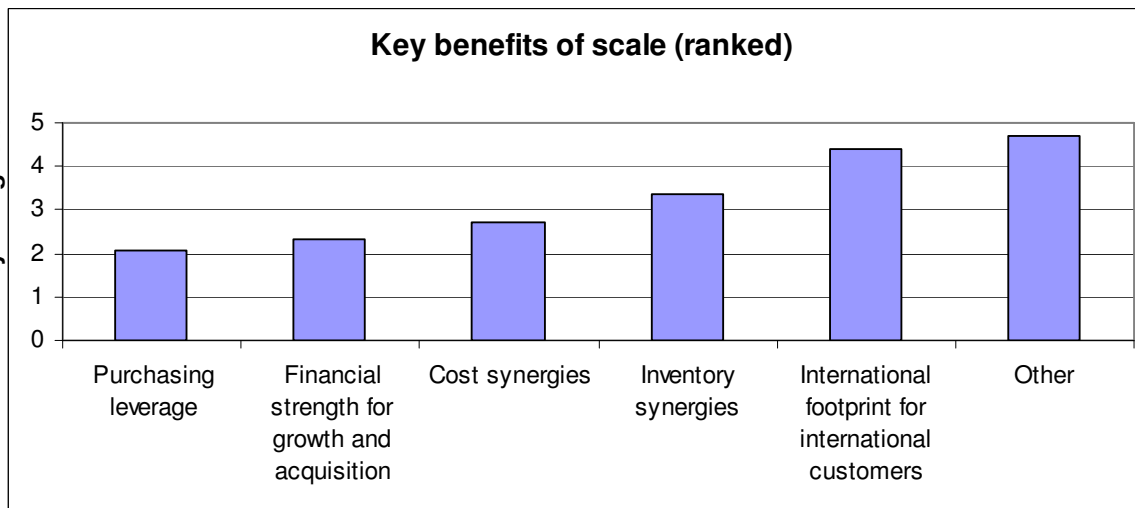
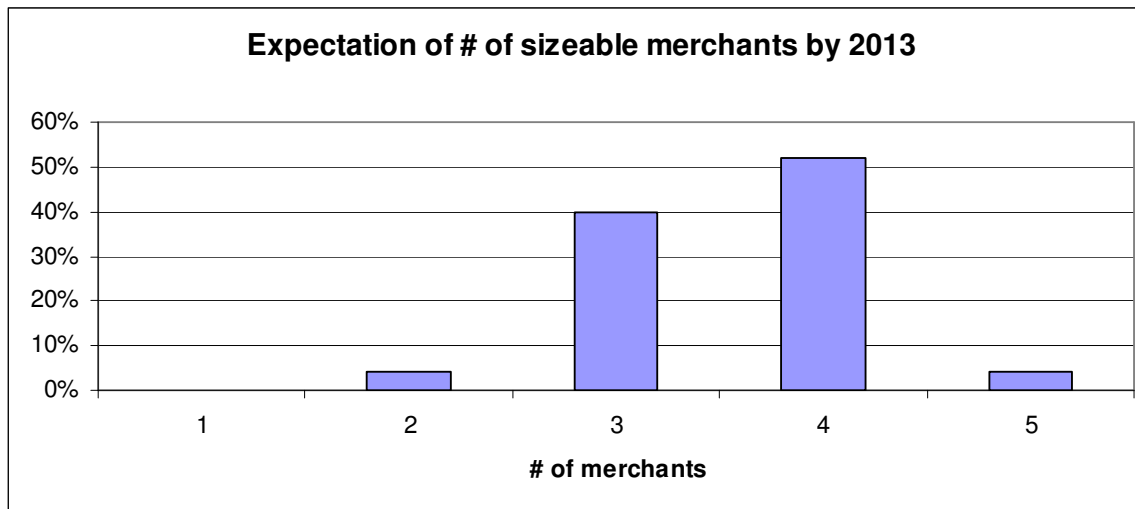
Source:
Sequana Capital
March 20th, 2008
Paperlinx Half Year
Financial Report 2008
StoraEnso annual
report 2007, pp 103

Quo vadis survey results:

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



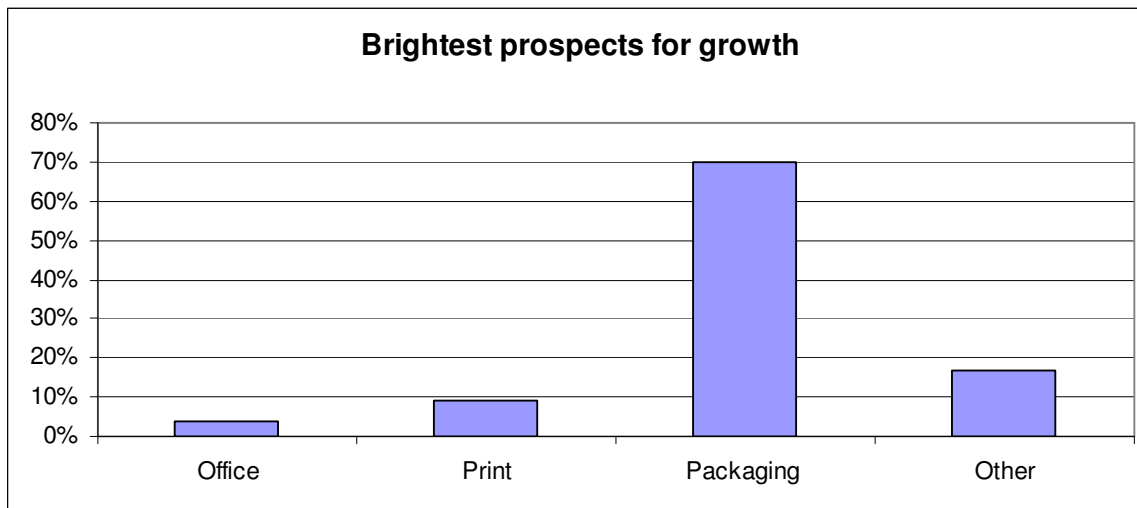
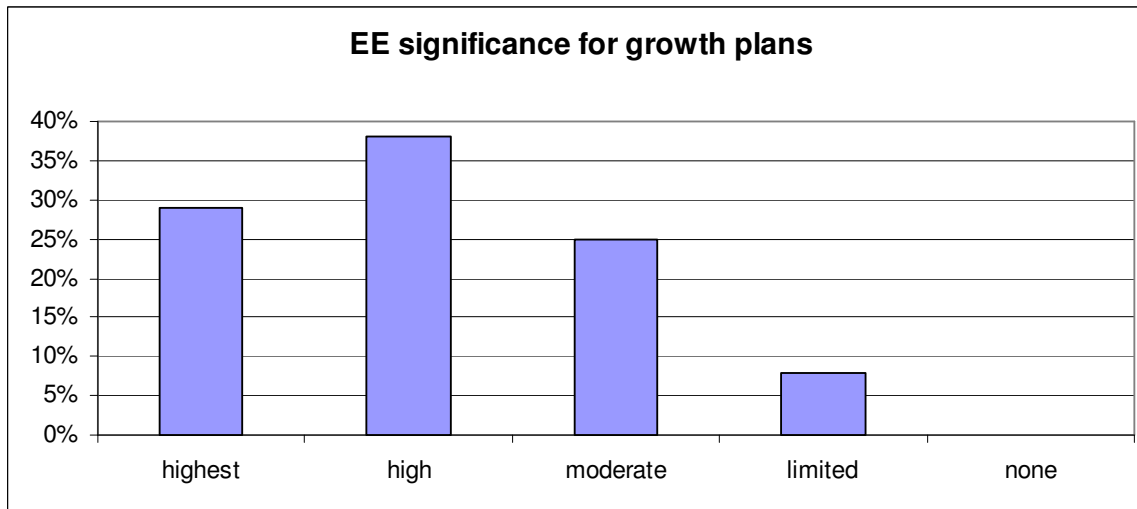
3-4 merchants benefiting from leverage, finance and synergies



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

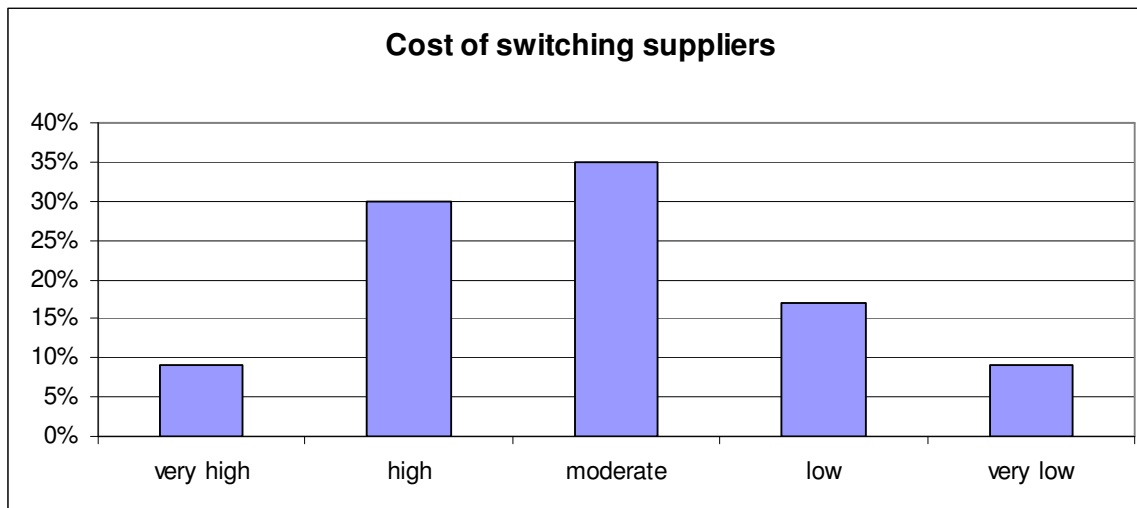
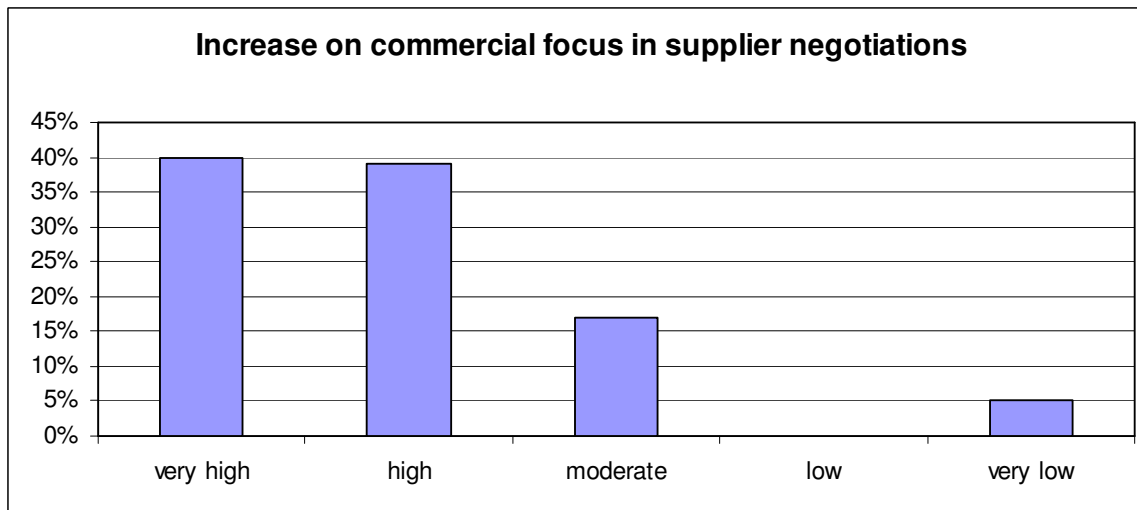
Growth driven by EE, packaging, new operating models and brands



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%)

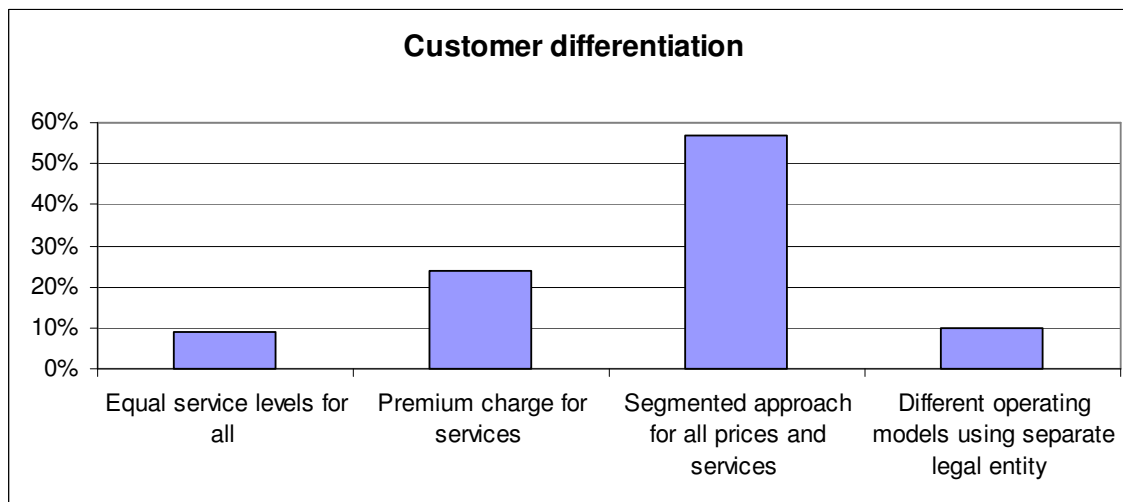
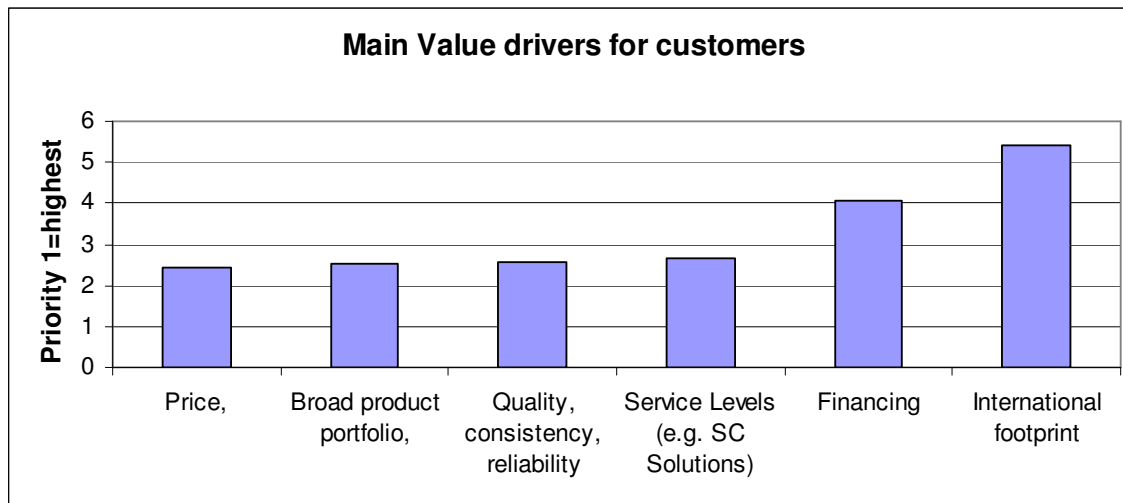
Increased commercial focus on supplier management



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%)

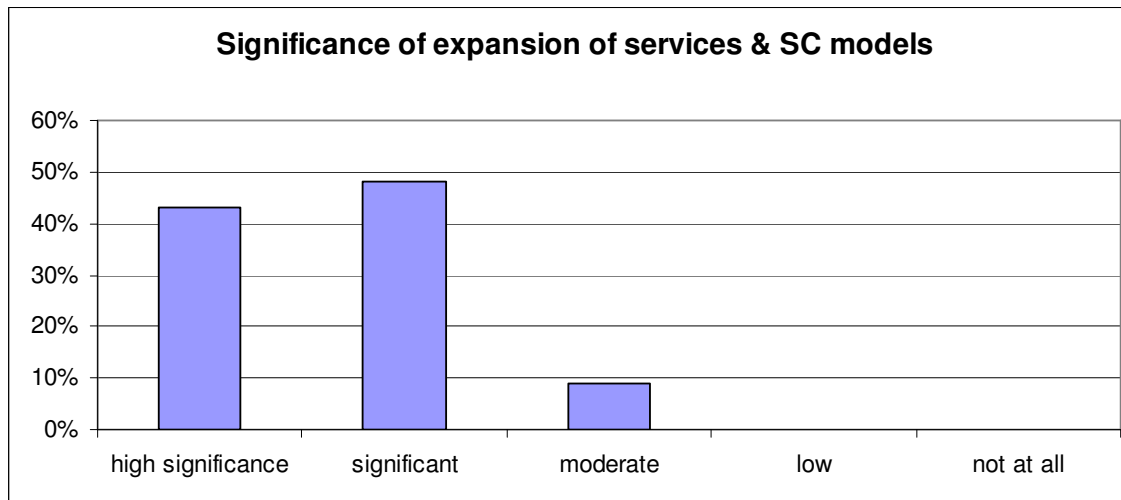
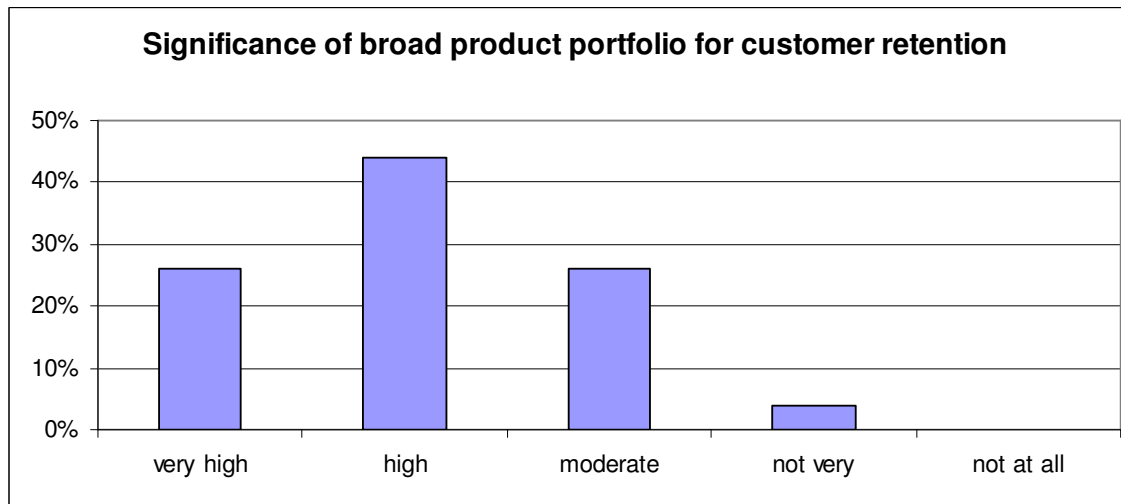
Fewer customer with increasing demands require segmentation and partnerships



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%)

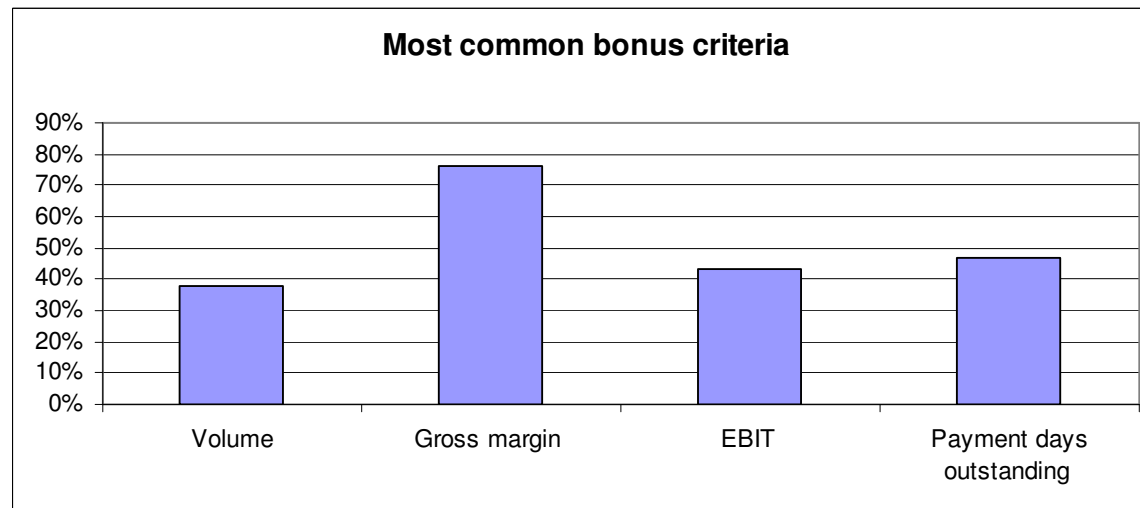
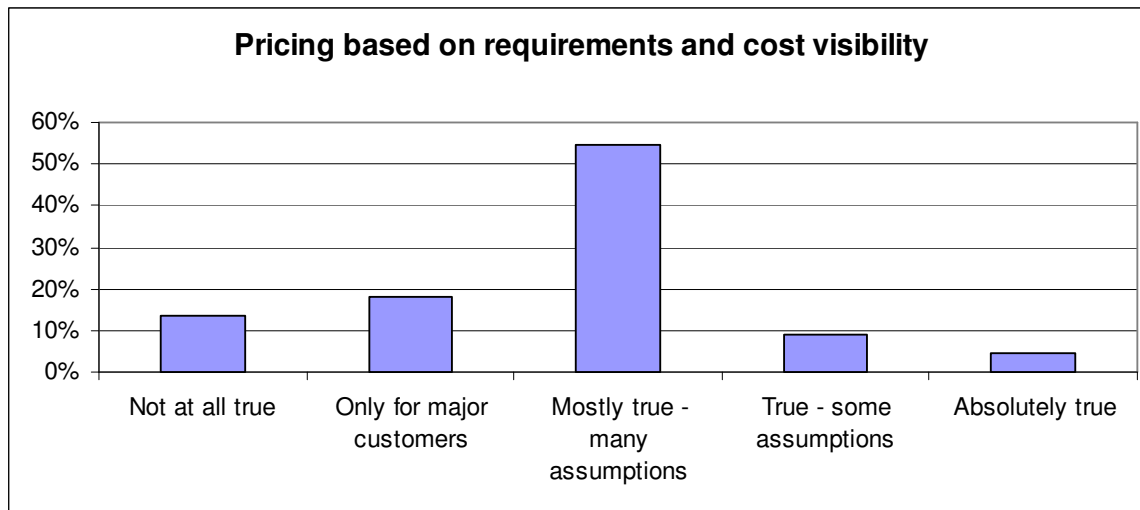
Supply Chain Management – optimising the cost-to-serve model



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%)

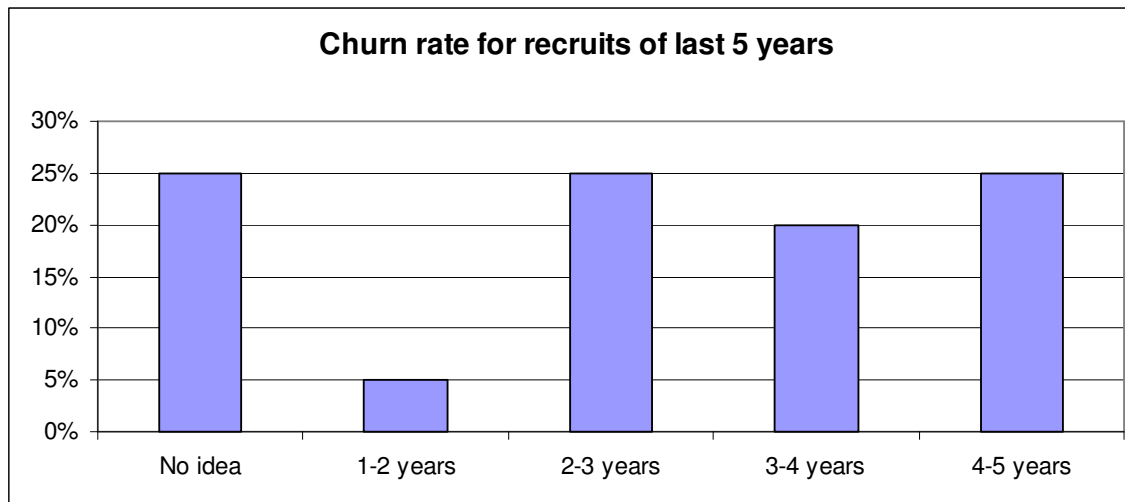
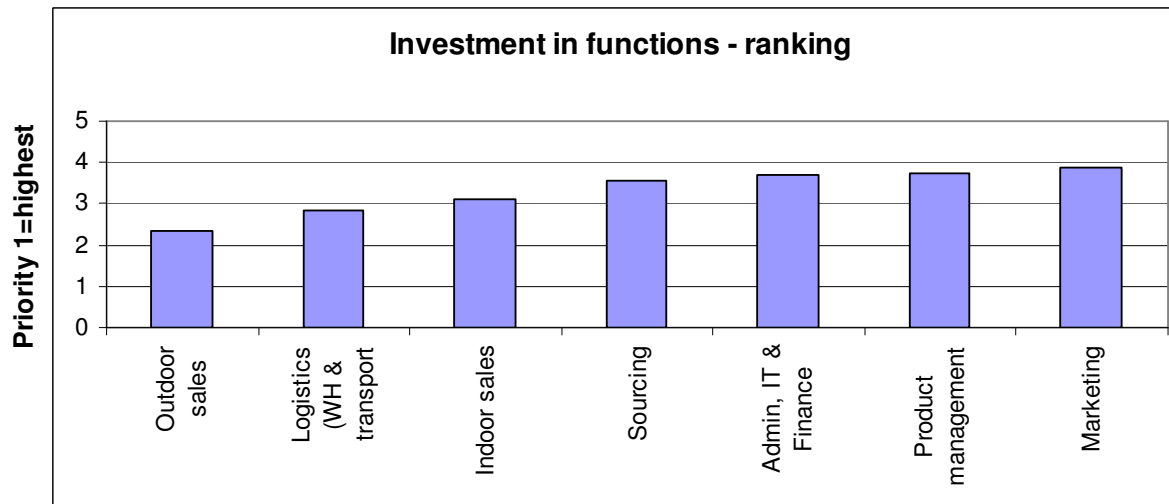
Prices still based on many assumptions around preferences and costs



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