

Companies primarily focus internally to deal with the crisis

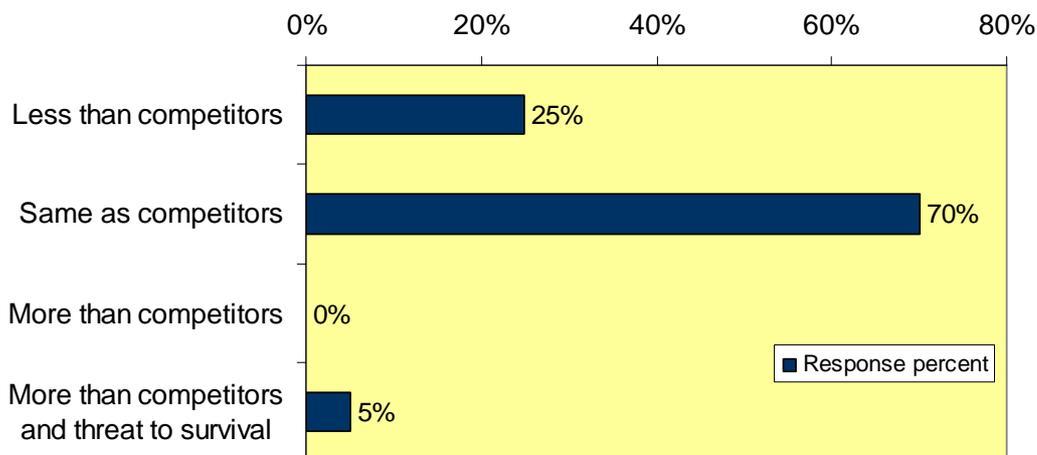
Survey results: "What is the impact of the crisis on you?"

StepChange Consulting conducted a survey about the impact of the crisis on the industry. The outcome showed some remarkable results with respect to expectations for the next years and the way companies are dealing with the crisis. These are:

- Respondents indicate that their respective companies are rather fit for survival
- Priority topics for dealing with the crisis are internally focused, i.e. cost reduction and liquidity
- Only a minority of the respondents give priority to external topics, such as marketing, customer service and retention, despite a very high consensus that volumes are down

The respondents demographics show representation from a wide spectrum of the industry, including producers of containerboard, uncoated fine and craft, coated woodfree, coated mechanical, coated paper and coated board, newsprint, publication paper and coated groundwood, merchants and distributors.

Question 1: How much is your company suffering as a result of the current economic crisis?



One quarter of respondents believe their companies are better positioned than their competitors to deal with the crisis. More than two thirds believe they are being impacted to the same extent as their competitors. Only 5% of the participants expect to be worse off than the competitors. Therefore it can be assumed that either the respondents belong to average or above average performing companies or there is an optimistic view prevailing in the industry.

Question 2: "How is the current crisis impacting your company?"

	up	down	no change
Sales prices	10%	63%	27%
Customer demand	2%	90%	8%
Required customer service level	21%	2%	77%
Customer complaints	21%	0%	79%
Late payments & bad debts	73%	7%	20%
Availability of financing	0	68%	32%

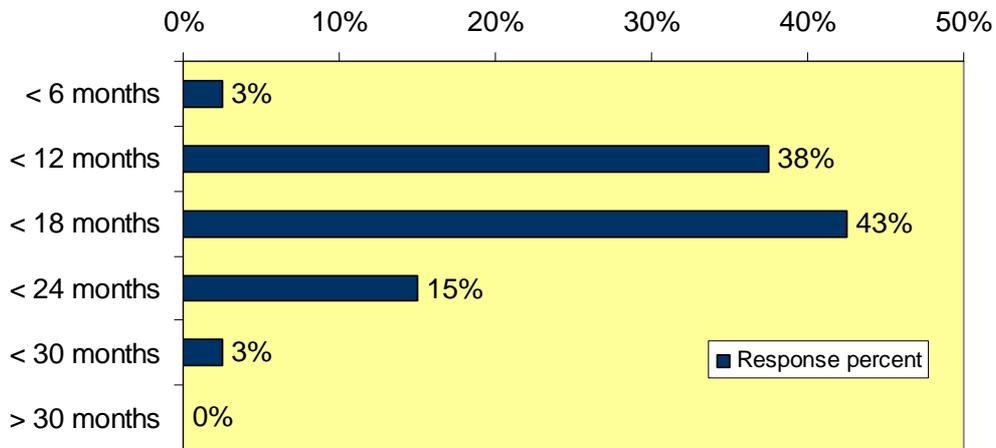
90% of participants report that the crisis has a negative impact on customer demand. 73% of respondents report a significant deterioration of payment behavior which displays a threat to the operative business of the companies.

While 77% do not see a change in required service levels, 21% see requirements increase, only 2% decrease. An opportunity exists for trading of price against high service levels. This requires a collaborative review of service level needs and associated costs between customers and suppliers.

The majority of survey participants see both prices and customer demand declining. Only 10%, of survey participants report sales prices to go up and only 2% of the participants even see customer demand increasing.

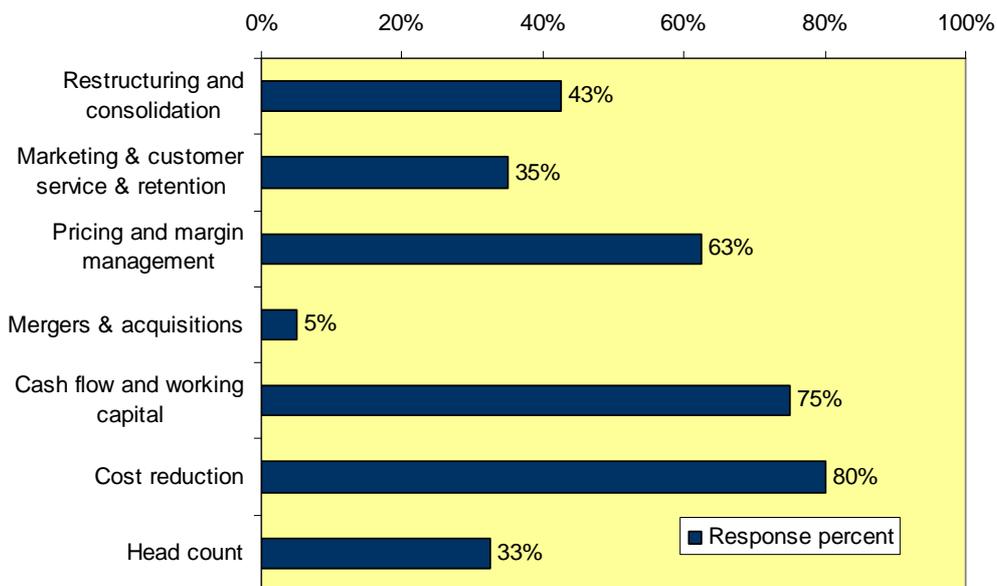
Around two thirds of the respondents see availability of financing declining, while a third does not see a change of conditions. Availability of credit insurance has dropped as a result of deteriorating credit ratings and a general reassessment of financial risk by the insurance companies which was mentioned in some of the comments of the participants.

Question 3: When do you expect the end of the economic downturn?



The majority of respondents expect the end of the downturn to arrive within 12 to 18 months. Only 3% of respondents expect the end of the downturn to arrive in less than 6 months whereas only 3 % expect it to last more than two years. This estimate is roughly in line with the latest IMF (International Monetary Fund) forecast, which expects global economy to contract with a slower rate from the second quarter 2009 onwards while world output is projected to decline by 1.3 percent in 2009 as a whole and to recover only gradually in 2010, growing by 1.9 percent (Source: IMF, World Economic Outlook, April 2009). The European Commission also anticipates a slowdown in decline in the middle of 2009 before expecting growth to return in mid 2010 (Spring forecasts 2009-2010, issued on May 4th, 2009).

Question 4: Which are your company's priority areas for dealing with the current crisis? (multiple answers allowed)



The top priority for survey participants is cost reduction, while only 40% of respondents who mark cost reduction also mark headcount as a priority. This could indicate that the emphasis is on variable costs and service contracts. The 2nd highest response count is cash flow and working capital.

Pricing & margin management also have high priorities, while mergers and acquisitions was only mentioned by 5% of the participants.

One of the conclusions is that the internal focus areas seem to be of higher priority than external focus areas such as Marketing, customer services and retention and mergers & acquisition. While 90% of respondents report customer demand to be down, only 35% act on customer retention, marketing and services directly.

Remarkably only one of the five respondents who indicated a single area to have priority put his check mark at marketing & customer service & retention and reported an increase in sales activities and customer visits.

It can be concluded that activities with short term impact seem to be of higher importance than those with tactical or long term impact such as restructuring and consolidation and mergers & acquisitions.

Overall 35 % of respondents marked more than three areas listed which shows that companies are trying to improve in many areas at the same time to deal with the recession.

The majority of respondents feel that their companies are generally fit for surviving the economic downturn as only a few see a threat to survival. All are acting to mitigate the identified risks and market tendencies.

Nevertheless there appears to be a lack of confidence or financing to take advantage of the low market capitalization to complete acquisitions. Just one of the survey participants from the paper industry indicated mergers and acquisitions to have a priority.

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