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**Corporate report**

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## **Sappi:**

**Eight decades of  
innovation, service  
and empowerment**

## MILESTONE

# When a plan comes together

**Hard work has finally paid off for the company, performance improvement on all counts**

● Sappi Group CEO Steve Binnie is justifiably pleased with the results for the 2016 financial year that were published in early November. Though performance has improved on all counts, the upward momentum is a reflection of the hard yards the diversified woodfibre group has put in over the past number of years.

For Binnie and his team the results are justification for the tough decisions that have been made and the action taken to turn this 80-year-old giant around.

“One of the big highlights for me is that the strong performance will enable us to pay a dividend for the first time since 2008,” he says.

“All our operations had a good year, and a major contributor has been our 2020Vision. In fact, we are ahead of the targets that we set ourselves, which is very satisfying. Obviously, one of the big achievements in line with this strategy is the reduction of our debt, which has allowed us to declare a dividend of US11c/share.”

### Improved performance

A glance at the numbers reported shows an overall improved performance throughout Sappi's operations. Earnings before interest, tax, depreciation & amortisation (Ebitda) is up 18% to US\$739m while profit jumped by 91% to \$319m.

The group's debt – which has been a bugbear for the business for some time – has been reduced by 20% to \$1.408m.

“The debt reduction is an important target for us that we've talked about for some time, so that



Growing: Sappi uses natural resources to produce its commodities and aid the economy

obviously gives us a lot of satisfaction. The importance of the numbers we've reported is that the debt reduction is not as a result of only one year's effort,” Binnie says.

“It has shown consistency in our focus and delivery to pay down over \$1bn over three or four years. Apart from improving our balance sheet, this effort underlines our emphasis on becoming more consistent from an earnings perspective.”

**That commitment will** take on an ever greater emphasis in the current financial year through the refinancing of its remaining expensive bonds.

Binnie says the extra cash flow that it has generated over the recent period allows it to do this in order to further eliminate this historical encumbrance. The significance of achieving this

milestone is that it provides the company with room to manoeuvre as it positions itself for future growth.

### Dissolving wood pulp

Some of that intent is evident in the increase in capex in the 2017 financial year to \$350m. The bulk of this will be to increase capacity and output at Sappi's dissolving wood pulp (DWP) plants, which has been identified as a strong growth area for the business.

Binnie and his executive team will therefore be investing to eliminate bottlenecks at the Ngodwana and Saiccor plants in SA that would allow it to grow their contribution to the DWP business.

In Europe, some of the capex will be used to convert capacity away from the declining graphic paper production to higher-margin speciality paper production.

This is in line with the 2020Vision targets of reducing the share of income from graphic paper to 25% while growing the contribution to group earnings by packaging and speciality paper (to 25%) and specialised cellulose from its DWP plants to 40%.

“The reallocation of capacity and investment in increased output of DWP will be an ongoing theme for us,” Binnie says. Another sign of Sappi's commitment to its long-term strategy of operational efficiency is the spike in profit that nearly doubled from \$167m in the previous year.

This strong performance is due partly to increased DWP prices, combined with a lower rand that helped push this number higher. More importantly, the profit is a direct result of cost saving initiatives introduced group-wide over the recent past.

Allied to this concerted focus on reducing costs is the group's One Sappi initiative, which aims to eliminate duplication and build a vision of a unified organisation.

“It comes back to moving into a different phase of our 2020Vision,” Binnie says. Our focus has been on costs and efficiencies but now we're moving into a growth phase in which we will look to grow the top line.

**This growth, based** on Sappi's strategy, will come from the continued repositioning of its business that places greater emphasis on its dissolved woodfibre pulp production. It exceeds demand, and therefore pricing, to continue the upward trend while the focus on higher-margin products such as packaging and specialised paper will further drive it towards its goals. ✕

OPERATIONS

# Evolving into the new future

The paper manufacturer has had to adapt to the changing business world and remain relevant after 80 years in operation

● If the Silicon Valley hype is to be believed, the age of the unicorn is upon us. This term is used to describe tech companies with billion dollar valuations, based on little more than speculation as few of these start-ups have profits or clearly discernible business models.

That kind of puff must be more than just a little galling for an organisation such as Sappi. Celebrating 80 years of glorious highs and extreme lows over its lifespan, the company – and many of its management – have seen it

**Under Binnie, Sappi has unveiled its 2020Vision, which is part of its “intentional evolution” strategy**

all. Trumpeting a billion dollar valuation – as has been the case with tech pioneers such as Instagram, Uber and Airbnb – within a mere few years of existence can therefore easily seem a little premature.

Mentioning Sappi and tech start-ups in the same breath may smack of click-bait on any of the less venerable online news titles. Such titles, as representatives of the digital revolution, have long been punted as the source of doom for companies like Sappi that

appear settled in *ye olde* economy.

Yet this *olde* organisation has just reported revenue of US\$5.14bn in the year to end-September, of which only less than half of Ebitda is derived from its traditional paper products.

## Evolution

To say that Sappi, the global diversified woodfibre company, is undergoing a metamorphosis, would be an understatement.

That company description alone – a woodfibre company – is a measure of the change that Sappi has undergone under Group CEO Steve Binnie. He took the helm in 2014 after the premature departure due to ill health of former chief Ralph Boëtter, and has since led the evolution of the business into the 21st century, and beyond.

And be assured that very little has been left to chance or misinterpretation in the company's choice of words or positioning.

Under Binnie, Sappi has unveiled its 2020Vision, which is part of its “intentional evolution” strategy, and the introduction of its One Sappi initiative.

As a numbers man, there should be little surprise in his focus on the finer details in these

**What it means: Using traditional strengths and new techniques to grow and evolve**

strategy documents and statements. Nor in his pursuit of simplicity and ease of comprehension.

This approach is a far cry from the giant corporation that Sappi had become as previous leadership, up until a decade ago, took the business on the path of global expansion. Ambition is the one trait that the company's leadership has never had in short supply, which was evident in this march to global domination.

“However, the world changed in 2008,” Binnie reflects in an interview. “Ralph inherited a balance sheet that was heavily indebted and very focused on one particular segment (coated graphic paper). It was a global business, but nevertheless very narrow in its focus. Unfortunately because of that expansionary exercise, there was significant debt on the balance sheet.” This legacy of a high debt burden, in addition to being cemented in an industry that was predicted to be headed for extinction in the face of the digital revolution, posed a serious challenge to Sappi's management team.

Binnie says the changing global marketplace following the financial crisis of 2008 forced some of the changes that have been made →



Sappi CEO Steve Binnie

to the business since.

The very fact that these changes were imposed rather than being part of a planned, concerted business transformation gave management at that time little room to manoeuvre.

A process of shedding noncore or underperforming assets and consolidating the balance sheet followed.

It was during this time that Binnie stepped up to replace Boëttger, after being with Sappi for two years as chief financial officer. A clear understanding of the financials certainly helped, though he was still faced with the challenge of the huge debt burden.

"I took over at a time when clearly people were asking: what comes next? We'd had this huge expansion in the 1990s and early 2000s, then we spent the next five or six years paying for it," he says.

"In some ways that was easy because we could rally around reducing our debt. But now we were coming to a phase where we still had a little more of that to do while also trying to figure out what we were going to do next."

This soul-searching was an essential component in all that has followed in the short period since Binnie's appointment as group CEO in July 2014.

Recognising that improving the balance sheet could not happen in isolation from preparing for a new

future, he gathered the company's top leadership to map out a path that would enable them to achieve these goals.

**Transformation**

This process kick-started the transformation of Sappi from being a corporate giant of the coated paper industry into a business with diverse, yet focused business operations that aims to extract maximum value from the woodfibre value chain.

Sappi's ambitions are contained

**The company's new future is linked to an age in which caring for and about the environment is central to all decision-making**

in its 2020Vision strategy that draws on its "intentional evolution" mantra. The basis for this is that the business aims to drive its own change rather than being dictated to by circumstances.

At the heart of this vision is the goal to significantly increase profitability by 2020. Doing so demands some radical changes to the composition of Sappi's revenue streams, which have been demanding a lot from the organisation.

One of the most significant and emotional changes is the diminished focus on the essence of

what Sappi had previously been recognised for: high-quality graphic paper used in the production of high-value printed publications and materials.

There had been recognition for some time that this segment of the market was in decline: demand had fallen, margins were becoming increasingly thin and competition for market domination all the more intense.

"It's a declining business, but we're very good at it and it generates strong cash for us," Binnie says. "We have scale and size and have invested in customer service. We're pragmatic about that and we're realistic about where that business is going to be."

The SA operations were less reliant on the coated graphic paper business as it already had a fairly widespread exposure to other segments of the market, but the European and North American operations were feeling the pinch.

"Both Europe and North America are heavily based in coated graphic papers, which has been declining since 2007," Sappi North America president and CEO Mark Gardner says. "We had been restructuring our operations since the mid-1990s by shutting down machines and closing mills that were no longer globally competitive."

"So we were down to essentially one specialised mill that

makes a unique product, and two well-equipped and fairly large mills for the graphics business."

He says together with his European operations counterpart, Berry Wiersum, they could "see the writing on the wall" and that despite a centuries-long reputation and excellent machinery, they were doomed if their businesses continued to focus on what they'd always done.

**It was in** this context that they eagerly embraced the new future as spelt out in Sappi's 2020Vision.

The company's new future is inextricably linked to an age in which caring for and about the environment is central to all decision-making. Sustainability is no longer a buzzword or something that is nice to have: it is probably the biggest driver of business change around the globe, and Sappi is confident it can contribute to helping its customers embrace that change.

This positioning may seem contradictory, but only if one subscribes to the view that printed paper or material is not inherently sustainable.

But of course it is, as Sappi owns or manages hundreds of thousands of hectares of commercial plantations that are constantly repopulated, thereby ensuring that its renewable raw material is inherently sustainable.

"The world has moved into a low-carbon future, and our business is one of those that's perfectly positioned for that because we have a renewable crop that is hugely efficient at absorbing carbon and delivering fibre that can be used to make just about anything," Binnie says.

For the Sappi Group CEO these benefits cement the potential for the production of dissolving wood pulp and new technologies and opportunities such as sugars, lignins and nanofibres.

Such is the potential for lines such as the dissolving wood pulp from which products such as viscose staple fibre (VSF) is produced, that the 2020Vision calls for this product line to become the biggest contributor of earnings. The aim is to grow that contribution to 40% of the group's increased profitability by 2020.

This target is in recognition of the market position and expertise Sappi has developed in this line of business but, equally, an acknowledgment of a future in which fossil fuels will play an increasingly limited role.

"The dissolving wood pulp plant was never considered as core to the business. It always had good margins but it was seen as something on the side," he says. "We realised this was a little gem and invested more to convert two other mills in SA and the US. Over



High quality graphic paper: Sappi has a history of producing quality paper.

time we have shifted the emphasis, and this business is now recognised as our primary driving force."

The nurturing of this former "side business" into one of its primary drivers is indicative of Sappi's evolution and the manner in which this resulted in a more co-ordinated, cohesive approach to doing business.

It obviously makes sense to approach the global market as a

single entity, though this has not always been the case due to the large geographical spread of plants between SA, the US and Europe.

**Change of strategy**

Under Binnie's guidance, this is no longer the case, which has helped to strengthen the company's position as the specialised cellulose leader with about 60% of the global market share of viscose staple fibre. Sappi's strategy calls for this

position to be further strengthened through investments in more capacity and innovation.

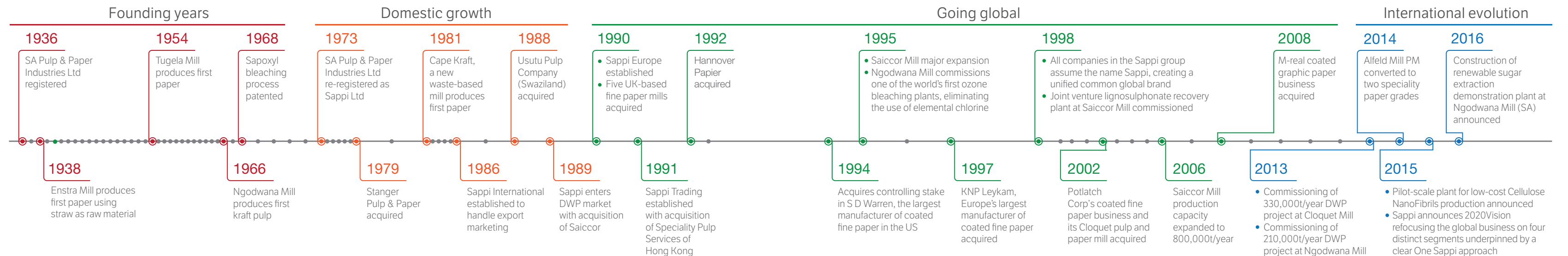
"We have plans to grow that business by 10% in SA in the next two years and by substantial increases in capacity over the next five to six years," says Sappi Southern Africa CEO Alex Thiel.

The case for such expansion is evident in the growing demand for nonfossil fuel-based raw materials from which a wide range of everyday products are produced. This list includes foodstuffs, pharmaceutical products, cellophane, viscose and rayon.

Despite refocusing priorities into these new revenue streams, Binnie says this does not devalue the contribution needed from Sappi's traditional strengths. The fact that the coated graphic paper business should still constitute 25% of profitability in 2020 will require significant focus on efficiency and costs. The business still generates significant cash for Sappi that can be utilised to expand into higher-growth segments.

Similar challenges await the packaging and special packaging business, which is expected to also grow to contribute a quarter of profitability by 2020. In Europe, the focus on speciality packaging began with the conversion of the Alfeld Mill in 2013 to focus on the high-growth and high-margin market

**SAPPI THROUGH THE AGES**



segments including flexible packaging, rigid coated board, labels, silicone base papers and premium topliners.

This move is being further entrenched through product developments and machine conversions at other mills, both in Europe and in North America.

As with the dissolving wood pulp business, the SA operations have something of a head start on the other two regions with regards to packaging.

The rationalisation focus has resulted in the company shedding low-margin product ranges in favour of the more niche, speciality packaging segments that deliver higher margins.

“We had to make tough decisions regarding the type of packaging paper segments in which we could be winners. Our Enstra and Cape Kraft operations were focused on recycled-grade products which were not our strength,” Thiel says.

“Our advantage is our use of virgin fibre, which has unique and exceptional strength properties for the boxes used by fruit exporters, especially going through the cold chain and long transport cycle – something that recycled paper just won’t do.

“We therefore chose to focus on where we really know we’ll be successful – Tugela and Ngodwana Mills – where we’re making a virgin product that’s serving an export market. From a qualitative perspective the business has become so much easier and much more focused. And if you look at it from a quantitative perspective, even though we’ve sold less volume, we’ve improved the revenue and return substantially because we’re now focusing on the right things.

“We are also working closely with our customers to expand that business, which is already growing at more than double GDP in SA.”

The final cog that is driving Sappi toward its 2020 goal is the “new business opportunities” segment. Current opportunities have been pulled together in the

new Sappi Biotech division.

**Binnie says that** this segment of the business will support the ongoing work in exploring new uses and by-products from waste streams and finding new ways to use raw materials to make value-added products.

“It’s a new segment and we’ve focused attention and clear objectives for the money that we will be investing there. We’ve opened some pilot plants looking into nanocellulose in the Netherlands and sugars in SA at Ngodwana Mill. We’re not throwing a lot of money at it yet, but we’re trying to find the next big growth area.

“There’s customer demand for products from a natural base. Theoretically, anything you can do with oil you can do with trees, so we need to figure out what uses there are and if we can make it on a cost-effective basis,” he says.

This exploration of new products and sources of revenue is also a reflection of Sappi’s continued investment in research and development.

From a point at which it was extremely difficult to make any firm commitments to business leaders on new investments or expansions, Binnie finally feels he has both the room to manoeuvre and support to take the business to the next level.

“But we still need to be careful,” he says. “We clearly have more money to spend and we want to grow the top line. My job is to paint that picture of what 2020 (and beyond) is going to look like, but at the same time be pragmatic about how we’re going to get there. We have to be realistic and implement this in a co-ordinated and careful manner.”

Careful and considered. These are most probably not terms used all too often around Silicon Valley by the so-called unicorns. But then, who knows what their chances are of being around 80 years from now?

Sometimes old school business basics really can deliver the goods. In fact, most times they will. ✕



Sappi's Alfeld Mill, Germany: Built in 1706, it recently converted to focus on speciality paper

## BUSINESS TRANSFORMATION

# New vision, new path

**A collective business review has helped the company put together a winning formula to take it to the next 80 years**

● Turning an organisation around takes some doing. Turning around a business that celebrates 80 years and that has almost 13,000 employees serving customers in 150 countries requires a monumental effort.

Yet this is precisely what Steve Binnie, group CEO of global diversified woodfibre company Sappi, has managed to achieve in the 30-odd months that he’s been at the helm.

He assumed control in July 2014 at a time that the company was battling high levels of debt, declining sales in its traditional areas of strength – high-quality graphic paper – and staff were asking: what comes next? Though the restructuring of the balance sheet was already under way when he was appointed CEO, he recognised that more clarity was needed on how the business was going to move forward after restructuring.

This time of upheaval also unsettled staff, many of whom had been with the company for many

years and possessed desirable technical skills.

### Business review

His first step was to get the company leadership to take stock of where the business was and where it was going. They were then allocated different work streams to develop a way forward, and given six months to come up with ideas and turn them into concrete goals and plans.

The outcome from this process is what Sappi has called the 2020Vision: a blueprint for the company that everyone can understand, everyone can visualise and everyone can buy into.

Binnie says though this document outlines business goals and values, would fall flat without the vision of building one Sappi.

“We had been accused in the past of not having anything formally communicated to the business in terms of where we were going,” he says. “Sappi, as it was going through its growth phase, evolved into a federal

structure that in my opinion could have been more aligned and tightly managed.

### One Sappi

“A lot of strategic direction and communication in each of the regions was going off in different ways, using different language and focus. So we needed a rallying cry and various things came out of that process – like One Sappi, which is something that I wanted because of the federal structure that had caused this fragmentation.”

The concept has clearly been well received, with the CEOs of the regional operations central to the adoption of this rallying cry.

These three executives – Alex Thiel (Southern African operations), Mark Gardner (North American operations) and Berry Wiersum (European operations) – speak with one voice and exude the energy and confidence from knowing where they’re taking the business.



Three men, one voice: Sappi executives Berry Wiersum (European operations), Alex Thiel (Southern African) and Mark Gardner (North American)

### Road map

“One Sappi and our 2020Vision have been well received and in some ways it’s a breath of new life in the focus of where the company

**The essence of 2020Vision is to achieve an increase in profitability by 2020**

is going,” Gardner says. “People see it as a roadmap. We don’t have all the pieces figured out yet, but it’s encouraging and empowering in

would have seen three or four years ago. I think there are so many opportunities and the power of One Sappi and the ability to take our history and knowledge and pick a particular area in the forest products sector, I don’t think there is anything that can stop us from being a world power.”

The North America CEO says there have been numerous instances of increased co-operation and collaboration with both Europe and SA operations to maximise synergies and problem-solve common challenges.

“We had already been working with Thiel and his team in the specialised cellulose business, and realised we had a very good pulp mill that could be converted for reasonable dollars to be able to make both kraft pulp and dissolving wood pulp.

“In doing that it was clearly one of the first times Sappi globally had to integrate because we were sharing customers, technology and successes and problems. So, we figured out how to work together and truly became One Sappi in that segment.”

He remarks on similar collaboration with his European counterpart Wiersum on developing capabilities and markets for the speciality packaging business in light of the decline of the coated graphic paper business.

“This is an opportunity again for One Sappi because we can complement each other’s capabilities and have a product portfolio that is very competitive. There is far more sharing from a technology, customer, sales and positioning standpoint.”

That kind of synergy and buy-in would be music to any

that we can think about something else than just maintaining what we’ve always been doing.

“We’ve actually made very significant moves and investments in the past three or four years to move ourselves into some of these other markets. And there is nothing better than tangible changes. I feel there is a lot more momentum now that wasn’t there two years ago.

“I see a much brighter future for the next five to 10 years than I

## corporate report sappi

executive's ears in a business operating at full tilt. For Binnie, who was trying to engineer a turnaround and plan for the future, this level of support was indispensable.

"We deliberately went for something very tangible, with a date and target," he says. "It was important to get that rallying cry and co-ordination. Funnily enough, the thing that worried me the most, and the thing that was most well received, I think, was the One Sappi rallying cry.

"It has actually become part of the vocabulary in the business. You'll still get people who are protective of their turf, but the good news is they get shouted down because the simple response is: 'but we're One Sappi'."

The essence of Sappi's 2020Vision is its aim to achieve a significant increase in profitability by 2020, but this is only the financial goal. Central to achieving this goal is the company's commitment to intentional evolution, which is designed to avoid some of the errors of the past that had resulted in the great reshuffle since 2008.

"The world is changing and the question you have to ask is whether you're proactive or responsive to that? Clearly we wanted to be proactive," Binnie says.

Allied to this new approach to doing business, the 2020Vision plan also spells out a new set of values that reflect Binnie and his executive team's desire to avoid similar mistakes to those made in the past. In summary, the company's values are to act with integrity and courage, in making smart decisions, executed with speed. "It was well received and I think it's been successful because we were entering a new phase of the business, so there was a lot of uncertainty. In the past, I think this wasn't necessarily shared formally, so the business was screaming for change and communication of where we were going."

This path to future success is one that the business as a whole has embraced, led in a big part by



the buy-in and enthusiasm of the top leadership. Though they had all been involved in developing elements of the final strategy, regional CEOs were presented with the final document at a special gathering in June 2015.

"What became apparent to the European group was that a transformation needed to happen quickly as a result of the strategy and what was going on before just wasn't an option," Wiersum says.

**We're looking at all opportunities from woodfibre, whereas in the past we were described as just a paper company**

"We began to realise the transformation would have to be not only in terms of assets but also in terms of how we ran our business, and the number of projects that would probably have some outreach to another region.

"For us, the closest business is North America because our businesses are similar. And it became clear that the transformation we were envisioning and the problems we were facing were similar in both regions. We began to discuss these in a more constructive manner in terms of how we could help each other and make this a better business."

There has been no shortage of success stories and joint initiatives in the past 18 months to demonstrate the traction that the new strategy has gained and how this has galvanised Sappi staff across all regions and businesses.

Binnie, for instance, recalls how a project to extract greater efficiency out of Sappi's



More than just a graphic paper company: Sappi has evolved into makers of a range of specialised paper products

procurement processes has gathered steam to the extent that the initiative's catch phrase has spread through the organisation like wildfire.

"We got Sir Ranulph Fiennes to address us when we unveiled our new strategy and vision to the executive team," he says. "It wasn't our intention going into it, but he spoke about achieving the impossible and being focused on a goal, and ensuring all efforts are put into attaining that goal. In our discussion we'd identified procurement as one of our biggest opportunities, and so after his speech we named this initiative Project Ranulph.

"And this phrase has also now become part of the vocabulary in the business when anyone talks of any cost-saving initiative. I'm also excited because it has helped people to think bigger. Previously they were trying to be super-efficient in their own small world, but Project Ranulph has allowed us to be super-efficient as One Sappi across regions and business units."

"It was also about a positive mindset. With Project Ranulph it wasn't about why you can't do something, it was about having a dream and goal and going for it," he says. The organisation also brought in McKinsey to help analyse other areas of improvement and cost savings. Binnie says this has extended to raising the focus on machine and operational efficiency, which has been elevated to a strategic level to ensure that it is pursued not for its own sake but as a driver for additional revenue.

Anecdotes such as these about the successful adoption of the new strategy belie the amount of care and attention to detail that went into formulating the contents of the strategy and how these were communicated with Sappi's global workforce.

### Better communication

Binnie acknowledges the painstaking effort put into choosing verbs and action-orientated wording in the strategy communications.



"Everything is action-orientated because we wanted to focus on transforming this business," he says. "We had to transform it from a business focused entirely on a declining, lower-margin business into growing for the future. There is nothing magical about the targets we've set, other than that they are rallying cries and easy to remember.

"We wanted to paint a clear picture for everyone so they could see where they fitted in. All the graphics, numbers and boxes are easy to visualise, so despite the language differences across our operations, everyone can understand them.

"I think by painting this picture, the actual numbers are not that important, but the underlying message is you're still going to have a graphic paper business, but you're going to focus on efficiency and cost. Your business will be leaner in terms of assets and mills, but they're going to be better assets, world-class assets."

This thinking has helped everyone in the organisation appreciate the role they play in driving the transformation of the company. Some of the so-called softer, people issues therefore received the same attention as the hard, bottom-line goals and commitments. On a broader scale,



it was also important to build a clear understanding of what Sappi's positioning meant for staff, customers, suppliers and shareholders.

"A big part of the strategy and vision was the woodfibre part of the positioning. People were asking

**We began to realise the transformation would have to be not only in terms of assets but also in terms of how we ran our business**

what business we're in, so we deliberately focused on 'a diversified woodfibre group', which says that we're going to look at all the opportunities that lie there from woodfibre, whereas in the past we were described as a paper company that does a few things on the side.

"That is one of the pieces of work in progress to change the perception that Sappi is just a paper company. When we have conversations with people who don't fully understand the breadth of where we're focusing for growth, they now realise it is much deeper and wider than they thought."

This positioning and building understanding is crucial to building

the breathing space Binnie needs to effect his strategy. He says he now has fewer conversations than he did initially about focusing only on cash flow. "Stakeholders have become more receptive to the message that we need to invest for growth. We've come such a long way, and it has paid dividends that we focused on our cash generation and improving our balance sheet," he says. "Subsequent developments have shown that that's been the right decision, as have been our investments into packaging and dissolving pulp.

"As we look forward and where the market realities are at the moment, if anything, the events of the past 18 months have further reinforced that our vision and strategy are the right thing. Graphic paper, for instance, is declining further than we expected at the time.

"We've been able to save costs, reallocate production, we've had Project Ranulph and have taken market share from competitors – but all of that is part of intentional evolution. In Europe, the market was under pressure and one of the big steps we took there was to take a large chunk of our business direct."

This change in customer relationships and acquisition is one that has paid enormous dividends, even though this practice was foreign to customers, business partners and competitors in that market.

"In the new strategy for graphic paper in Europe we bet the farm because we were 80% dependent on merchants, who we bypassed in the new strategy. And scary as that may have been, it came out of the thought that going on as we were was probably a bigger risk than changing it completely.

"Once that realisation had dawned and that it was absolutely aligned with our 2020Vision it was a matter of just doing it," says Berry Wiersum. These changes in marketing approach, asset utilisation and business philosophies are designed to place Sappi on a continued and sustainable growth path. ✕

NEW STRATEGY

# One: strength in a single number

The corporate giant has reinvented itself to bring a series of services into one key offering

● Simplicity and brevity are the two key ingredients contained in one of the pillars of Sappi's new corporate vision. What more needs to be said than One Sappi?

In these two simple words, the company has laid out a path and attitude that it lacked in many respects in its previous incarnation.

Far from being a judgment on past management, the One Sappi rallying cry is necessitated by the fundamental shift the business is undergoing.

"If you had to summarise Sappi's 80-year history, there are four distinct phases," group CEO Steve Binnie says. "You had the apartheid years in which Sappi was a local paper company with all kinds of product grades in the SA market. Then from 1990 to 2006 we undertook a global expansion drive to be the biggest and the best in a single segment. When the global financial crisis occurred we were paying for the past due to the debt that had been incurred to finance the expansion."

### Growth phase

"We are now in the fourth phase whereby we need to think about utilising our woodfibre for all its uses and finding new revenue streams and growing the business," he says.

Recognising that such a monumental shift required clarity of vision to pull everyone in the same direction, Binnie and his executive team committed upfront to keeping things simple. And it doesn't get much simpler than "One Sappi".

An important consideration in choosing the phrase was to ensure that it encapsulated more than a feeling of unity and teamwork. The philosophy behind it is to avoid

duplication, increase synergies, maximise the value of its global brand and engage customers and stakeholders in a consistent manner.

While the positive impact from these principles is beginning to appear in the financial performance, the renewed vigour and excitement of top leadership is immediately apparent.

"There is a new language on the ground," Sappi Southern Africa operations CEO Alex Thiel says. "That creates momentum and we have a story to tell. The numbers are better, our businesses are performing well compared with where they were and debt numbers are down."

He adds that the unified vision feeds throughout the organisation, from a clear understanding of manufacturing operations and which markets they will serve through to business development activities now able to sell across product segments and geographical regions.

The ability to grasp the new vision and implement the strategy, European operations chief Berry Wiersum says, is due in part to the clarity and simplicity of the five pillars of the strategy, the values and the numbers.

"They're very easy to understand and you can speak to anyone and say: we're here now, these are the numbers we need to get to, and what are the first steps," he says.

"These steps were worked out pretty fast, and they're big steps. Both North America and Europe are hoping to spend a serious amount of money to make a big step toward these aims. Steps that perhaps two or three years ago we wouldn't have had the courage to

take, but we do now."

### North American operations

CEO Mark Gardner points out that the alignment of business objectives and operations under the new strategy and vision underpin one of Sappi's key strength – its global view.

"I see that very much as a competitive advantage because if I look at the companies I compete with in North America they are focused mostly on that market, or if they're multinationals they may have an operation in Brazil or the Far East.

"So they don't have the broad intelligence and they don't see the trends to the same degree that we see and talk about on a weekly basis. So, if we see something that is working unusually well in one part of the world, I might be able to get a heads-up if that trend is coming here and vice versa."

He says the US market tends to lead industry trends by six to 12 months, which is a time lag that his counterpart in Europe, Wiersum, is able to use to his advantage.

"We may not know how deep it will be, but what happened in America in 2014 happened to us about 18 months later," Wiersum says. "At least then you're ready for it, and you also know that you're likely to come out of it because the Americans have been through a dip and come out of it. The patterns are similar, even though the symptoms may differ."

It is small but significant advantages such as this that have this layer of the organisation excited about the new energy and drive that Sappi's 2020Vision has delivered. Another simple way in which Binnie has used this new approach to galvanise action is by

Back to the future: Sappi's viscose products on the fashion ramps



increasing clarity and simplicity of capex budgets. This is an important subtlety for a business that had to hold back on expansionary investments for many years while it paid down its debt.

Binnie says: "How we manage our capital is extremely important. As a management team we know how much capital we have available and our job is to find the best way to spend it.

"We try to give guidance on how much money is available for spending and consult with the business on the best way to spend it. This is more co-ordinated, especially with our overall vision in mind."

This not only gives the executive team the leeway to do what's best for the business, but also to make vital decisions more rapidly.

### Fresh perspective

Perish the thought that an 80-year-old company starts acting like

a start-up, but that is exactly the type of thinking that this new manoeuvrability has inculcated.

"We have a defined process for exploring new ideas, and sometimes they work and sometimes they don't, but we take a chance because they may get us into a new business," Wiersum says. "We may have a strike-rate of three or four in 10, but those three or four are real good businesses. It would have been unheard of 10 years ago that we would adopt this kind of approach to growing the business."

Gardner says: "We're moving much faster now. And we're not afraid to fast-track a decision that was scheduled to be implemented three or four months from now if it's a good idea."

This new attitude is indicative of the scale of the change taking place at Sappi, including a new-found freedom in being able to pursue opportunities while leveraging the group's existing strengths.

Wiersum lauds the weight that is now lent to Sappi's sales efforts by being able to confidently sell its capacity and capabilities as a large, international packaging and speciality business with four mills in North America and Europe that can produce between 800,000t and 1 Mt annually.



"This provides customers with all the reliability, service, financial stability and R&D strength they can expect from a major integrated company. For them it's like music



Looking to the future: The market for biomaterials from woodfibre shows great potential

to their ears because, in Europe certainly, our competitors are relatively small players with only one mill," he says.

"We're passing the ultimate test – which is the share price. It has moved ahead significantly in the past 18 months and is moving quicker than our peers' share prices. So there appears to be an understanding in the analysts and shareholders' worlds that Sappi has changed and that it's a far better company than it was."

One area in which collaboration has been strengthened immeasurably is in the sharing of technical knowledge and expertise.

"The benefit we've derived in SA from the ability of our manufacturing director to phone his counterpart in Europe or North America has been enormous. If they can't help over the phone they can easily send technical personnel out for a week to solve the problem, and that is hugely

powerful," Thiel says.

"The two basic things Sappi has learnt over the past 10 years is that we used to say we should stick to our knitting, and that has changed completely. We now say there are lots of opportunities and we may not know exactly which is the right one, but we know it is there. Also, we're not afraid to share knowledge between operations to get new projects off the ground quickly."

This ability to fast-track new projects by sharing knowledge is an aspect of the global expertise that Wiersum applauds. "The purpose is to get going as fast as possible and to avoid traps you would otherwise get into. That kind of sharing saves a great deal of money," he says. The success of this vision is evident in attitudes and approaches. The next level of success will be measured in Sappi's future financial performance as it heads towards 2020. ✕

POSITIONING

# Into a brighter future

The company has repositioned itself to fit in and play a major role in the new technological space

● With hardly 18 months into Sappi's newly adopted strategy, positioning and vision, it is still early days in the company's transition to its envisioned future. That relatively brief period, however, has not been short of exciting new developments or a spark of new energy.

Sappi roup CEO Steve Binnie is not shy of proclaiming the turnaround strategy a success, based on events and measures put in place to overcome Sappi's weaknesses.

One of the biggest of these weaknesses has been the company's debt that stemmed from its global expansion drive. This has been addressed mainly through the sale of noncore and underperforming assets over the past eight years, but also a focus on cash flow and operational efficiencies.

The meticulous development of Sappi's 2020Vision, which centres on intentional evolution and One Sappi, takes into consideration these types of pressures but places far greater emphasis on what lies ahead.

This forward-looking view is a luxury that the company has not had for some time due to the introspection needed to right the balance sheet.

**Vision**

With much of the hard work now done, Binnie and his executive team – including his three regional CEOs – have their eyes set firmly on what is yet to come. The 2020Vision has set the target of achieving a significant increase in profitability by 2020 (the exact number is not made public) through an expanded product portfolio with increased margins.

The key distinction in the vision statement is the diversified product

portfolio. Whereas Sappi had previously been seen as, and promoted itself as, a paper and pulp business, its new positioning is as a diversified woodfibre group.

Some of the rationale for this repositioning has been forced onto the company by virtue of the declining market for its traditional strength – high-quality graphic paper.

The new positioning statement, however, is also an acknowledgment that the raw material that feeds its production lines contains a plethora of known, and perhaps unknown, qualities and properties that can be extracted to add value into the future.

The story of Sappi's specialised cellulose business is an example of exactly this kind of value.

Its Saiccor Mill in KwaZulu Natal which produces dissolving wood pulp, or specialised cellulose, has been described by Binnie as "a little gem" that for many years turned good profit but was seen more as a side business than a generator of future growth.

**Less carbon**

With the world moving to a less carbon-intensive future, cellulose produced from a natural, eminently renewable source is now in high demand, and Sappi's new strategy acknowledges that.

Not only has Sappi reconfigured some of its production line at its Ngodwana Mill in Mpumalanga to produce dissolving wood pulp, but it has done the same at its Cloquet Mill in North America. Drawing on the skills and expertise built up in SA, the US operation was set up and brought to production in record time.

These types of synergies point to the potential for the business as it continues to cross-pollinate



Research projects: At the heart of Sappi's future success

technical and market knowledge to further entrench its position.

Head of Sappi European operations Berry Wiersum says this type of collaboration to maximise value across the business is evident in the benefits he saw in the SA operation's Project Blueprint, which aimed to improve manufacturing processes.

"This project was run by a manufacturing analyst who was able to find a way to use assets far more profitably, in totally different ways than they'd been used before" he says. "When we, in Europe, saw this we immediately said we want exactly the same."

"He came over for nine months and though we have not yet implemented all of it, it follows the same rules and thinking about making these assets far more profitable doing something

completely different to what they had been doing. That was something that maybe in prior years we would never have considered."

**He adds that** the European business has undergone a substantive transformation in a short period to refocus its energies on the speciality and packaging business in response to the decline in the graphic paper segment.

"This is in line with achieving the targets in the 2020Vision plans, and means we will have a smaller but much more profitable coated graphic paper business due to us having the lowest-cost technology in the region.

"That kind of transformation reflects the management philosophy that we've changed, and how we're going to use

technology in the future. These are all things that increase the speed at which the company is transforming, and the European business will look very different in three years from what it looked like a year ago. Very, very different."

The significance of this new mindset is the manner in which it positions Sappi to undertake the changes its strategy, and market conditions, dictate. Having said it wants to be a diversified woodfibre business, the only way it can give effect to this desire is to transform its business.

One aspect of the 2020Vision document is the aim to have 10% of its earnings in 2020 generated from new business opportunities in biomaterials and bio-energy.

For Sappi's top leadership, this means investing in and exploring new technologies.

"The future opportunity lies in the by-products from all our mills that are currently burnt for energy," Alex Thiel, head of SA operations says. "We're looking at how we can extract the sugars and lignins that are natural green binders compared to oil-based binders. And we see exciting opportunities in that."

"The exciting thing is that we have the strong dissolving wood pulp base with Saiccor from where we were able to mobilise the technical knowledge and train the Cloquet and Ngodwana teams very quickly and make sure we had the same skill set there to make the product."

"I think it reflects in our start-up curve. We started making a completely different product, and within a couple of weeks we were at target production and quality. And this is something that many companies really struggle with for months and months."

The need for greater agility also reflects the state of the global economy and the priorities that have swung undeniably towards a more environmentally conscious and interconnected world.

**One global customer**

Mark Gardner, head of Sappi's North American operations, comments on the latter point and the way in which customer

demands have changed over the past five years to become more integrated and universal.

"The needs and wants of customers is not that much different around the world today," he says.

"Five years ago, what people in Asia wanted was maybe different to what Europeans, Americans or South Africans wanted, but today it is far more homogenised.

So if you're just focusing on one particular customer group you might be missing what is happening in the rest of the world, which is one of the advantages of why we communicate."

The environmental consciousness is another aspect that bodes well for Sappi's long-term future.

On the one hand its industry is inherently sustainable as the source material is constantly replenished. More importantly, though, is the growing demand for products and inputs from sustainable sources.

It is for this reason that Sappi's continued investment in research and development is critical to its future success.

Gardner considers this capability as one of the company's core strengths, particularly as many of its competitors have cut expenditure on such activities.



A natural and renewable resource: Securing tomorrow's woodfibre through world class silviculture



New technologies: Sappi has adapted its operations to the new technological innovations

"We are one of the few pulp and paper companies that maintains significant assets in technology and people who are focused on research and development," he says.

Thiel adds that it is not only the act of doing R&D (research & development) that is important to Sappi, but also the breadth of research it conducts.

This is provided by experts in different areas of the business as well as different geographical locations who are researching different aspects of production, products or the raw material.

"The true strength of the opportunities are that we don't have to go build brand new plants

to extract this, so we're very well positioned to benefit from that."

Judging by recent changes in the market, however, not all of Sappi's growth will be dependent on new inventions or innovations.

Gardner notes that the US and European book markets have shown an uptick after an initial decline, followed by a stabilisation two years ago.

"Books are coming back as the preferred way to read a story," he says.

There is also the reality that quality brands will continue to use premium printed products to market their goods.

The higher return on investment from printed materials than digital marketing is another reason that this market is expected to retain its sheen. The volumes may be lower, but with a dominant position in the market Sappi is banking on using that penetration to achieve above-par returns.

"Graphic paper won't disappear completely, and what is left of that market is there for a reason, so you better be very good at it and make good money out of it," says Wiersum.

"This business is not dying, it is going to stabilise at a certain point and then be very effective and we are determined that we will have a business that will be very profitable."

It is clear to all within the business that they cannot continue as before. With the path to a new future clearly laid out in the 2020Vision and strategy, making strides in that direction is far easier. ✕





If the hat fits: People make up the key resources and skills that drive Sappi's vision

## HUMAN RESOURCES

# People central to driving change

**Investing in its human resources and giving back is at the heart of the company's success**

● It is no secret that it is the people within an organisation who make it tick. This is the truth that Sappi Group CEO Steve Binnie has come to appreciate as the reality of the company's new strategy and vision.

The quality of the staff and their willingness to embrace change has been tested to the full by the unprecedented transformation brought on by this new direction. It is understandable that the communication of new goals and values has reinvigorated staff across the global regions and given them a sense of direction.

This common goal and vision is something that Binnie feels had been lost, but even he is pleasantly surprised at the extent to which initiatives such as One Sappi have gained traction.

He says phrases such as One Sappi and Project Ranulph have become entrenched in the daily interactions of management and staff, and the manner in which they have been owned by the organisation in such a short period of time.

"Overriding everything is One Sappi, which has been well received," he says. "And the traction has been phenomenal in areas that we hadn't specifically focused on, such as procurement, shared services and even in technical meetings."

Gaining this level of buy-in to

new initiatives is a lot easier, of course, when you have a fairly stable workforce. And with a staff turnover rate of less than 2%, Sappi staff are nothing if not stable.

This becomes even more important when operating in an industry so reliant on technical skills that are often of a highly specialised nature.

For this reason Sappi CEO of European operations Berry Wiersum is right to be proud of the fact that some people in his plants have been with the company for about 50 years. North America CEO Mark Gardner also acknowledges the value this adds to the business.

### Vital resources

"You can have the best equipment and mills, but if you don't have good people you won't win," he says. "And I think that is one of the reasons we do win, because of the quality of the people and the dedication they have."

For Alex Thiel who heads the Sappi Southern Africa operations, the question of having the right staff is also a matter of looking to attract the next generation of talent who possess skills and aptitudes that closely match where Sappi is going. The increased focus on specialised cellulose and nanofibres is expected to place increased pressure on the company to attract people

specialised in biotechnology and sustainable materials and processes.

"If I compare the number of CVs I've seen over the past 18 months with what we were seeing five years ago, the interest has been phenomenal," he says.

Wiersum agrees that the company is definitely seen to be on a success track with many exciting opportunities.

When Sappi talks of people, it also has to consider its commitments to those outside of its structures but who supply it with crucial raw materials.

This is an added dimension for the SA operations, compared to the North American business that has never owned its plantations.

"We buy about 5 Mt of wood a year in North America," Gardner

says. "We own no land and buy it from private landowners, though we now have our own foresters who manage plantations for some of the small land lot owners. Apart from that we also sell their saw logs, buy their pulp wood and provide them with a long-term plan for the management and development of their lot.

"It's really about connecting with communities as a service that Sappi provides and no-one else is doing that. If we didn't do that, we wouldn't be able to get the volume at the cost that we do."

This type of external view takes on a whole different hue in SA where issues such as community-owned land and rural development are key considerations for the local

operation as far as social responsibility is concerned.

**Local development** on this scale is also more than simply paying lip service. As the executives point out, the very nature of its business dictates that Sappi is in it for the long haul.

Short term, in the life cycle of its raw materials, is upwards of 10 years. And that is a resource that is renewed soon after it has been consumed to ensure it has the resources it needs in the next cycle.



Skills: Staff receive the necessary support

### Giving back

The SA operations have taken the care of rural communities a step further with its 30-year Project Grow initiative, through which over R1bn has been paid to more than 10,000 farmers and contractors who have delivered over 2 Mt of timber to Sappi.

In addition to Project Grow, Sappi also supports land claim communities to manage their plantations and Sappi ensures that the younger generations are schooled and certified in forestry so they can bring those skills to make these plantations sustainable over the long term. ✕

Special Report by Johann Barnard  
Advertising executive: Nigel Twidale





Strong roots have enabled us to grow far and wide

Eight decades ago a pulp and paper company started out in Johannesburg. Today, Sappi is a diversified business with woodfibre at our core. A global leader in printing papers, packaging and speciality papers, dissolving wood pulp and biomaterials. A progressive enterprise with production facilities

situated in seven countries on three continents, and customers in 150 countries. An innovative and responsible company with an exciting and sustainable future. Much has changed since 1936, with one exception. Our global home has remained close to our roots – right here in South Africa. [www.sappi.com](http://www.sappi.com)



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