



APPROACHING X-EVENT IN THE FOREST INDUSTRY: A CASE STUDY

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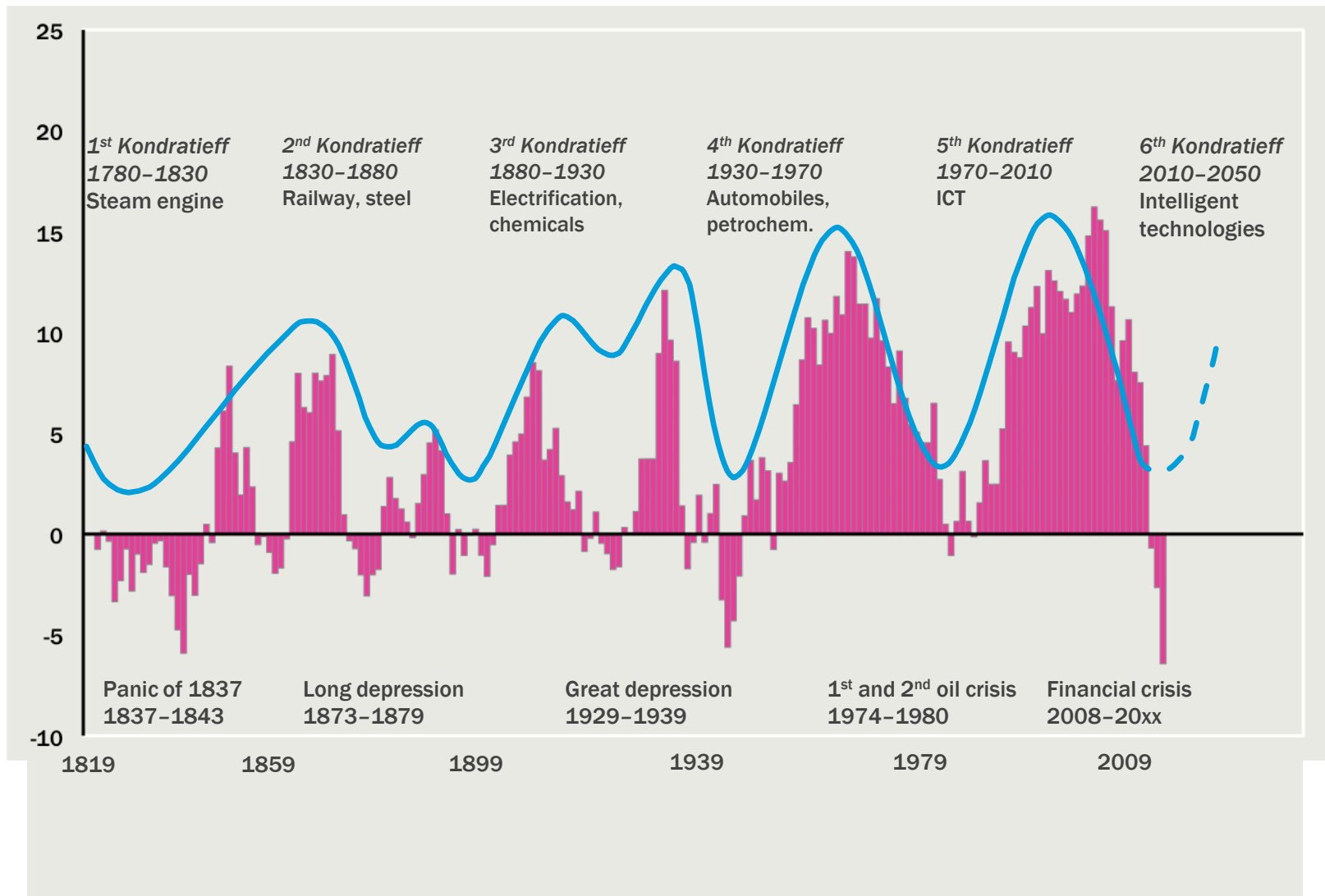
Started my work with Finnish forest companies in 2012...

The respondents found the following to be significant challenges in the future:

- **maintaining competitiveness in the global markets**
 - **anticipating long-range changes**
 - **creating new infrastructure for the new products and services**
 - **agility in reacting to change**
1. assessing the significance of changes
 2. **anticipating short term changes**
 3. **anticipating long-range changes**
 4. **creating new infrastructure for the new products and services**
 5. **preserving the old business**
 6. **renewing the financing models for business**
 7. **fragmented societal decision-making**
 8. stiff regulation
 9. **agility in reacting to change**
 10. changing the corporate culture
 11. changing established practices of the field
 12. **maintaining competitiveness in the global markets**



This is our panoramic perspective: Modern economies fluctuate in a cycle of 40-60 years

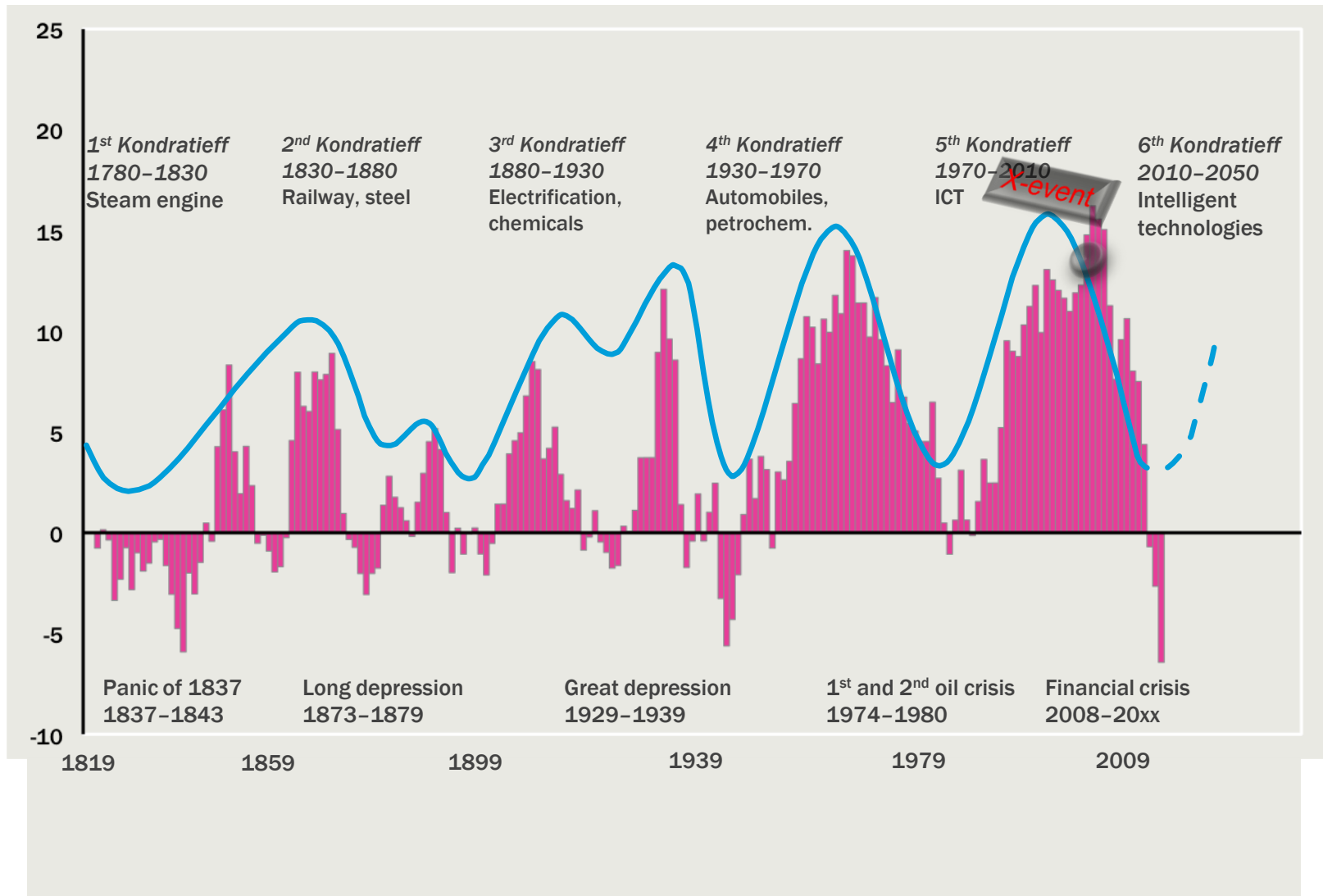


Rolling 10-year return on the S&P 500 since 1814 till March 2009 (in %, p. a.). Source: Datastream, Illustration: Allianz Global Investors Capital Market Analysis

The succession of development waves in industrial societies

K-Waves	1 Wave	2 Wave	3 Wave	4 Wave	5 Wave	6 Wave
Period	1780-1830	1830-1880	1880-1930	1930-1970	1970-2010	2010-2050
Drivers	Steam Machine	Railroad Steel	Electricity Chemicals	Auto-mobiles, Petro-chemicals	ICT	Intelligent, resource efficient technologies
Prime field of application	Clothing industry	Transport	Mass-production	Personal mobility	Production and communication of information	Materials and energy production and distribution

It was the year 2000 when this would-be X-event started to unfold...



Rolling 10-year return on the S&P 500 since 1814 till March 2009 (in %, p. a.). Source: Datastream, Illustration: Allianz Global Investors Capital Market Analysis

In the year 2000 Finnish forest companies decided invested total of close to 9 billion Euros to expand into international markets:

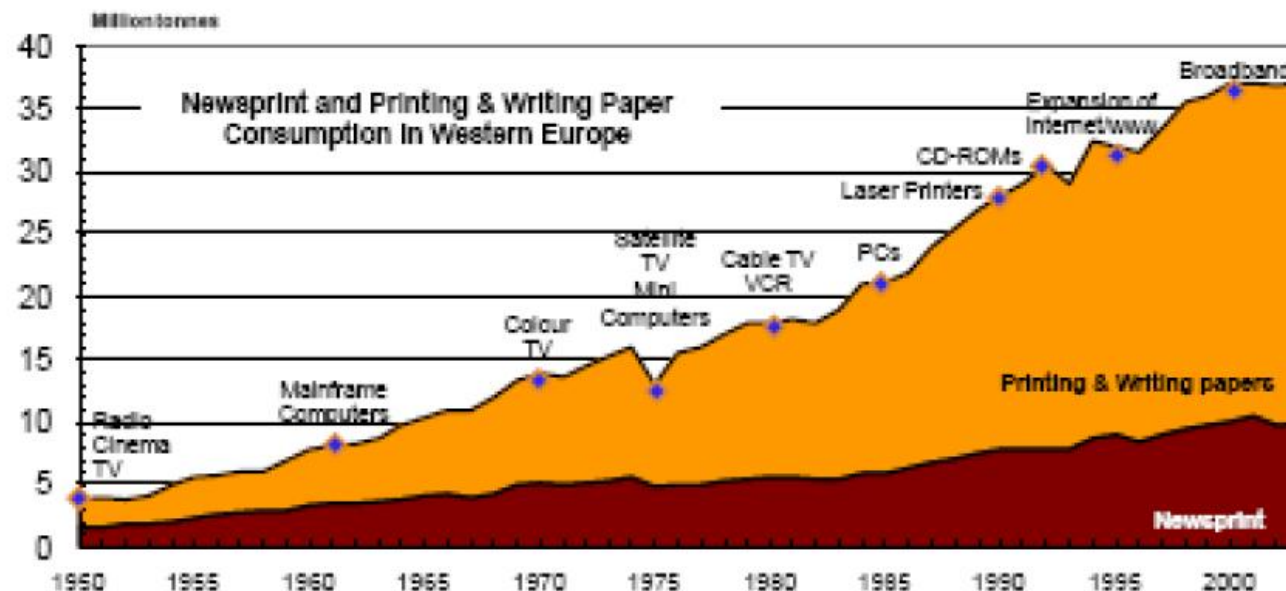
- Stora Enso purchased US Consolidated papers for €4.4 billion
- UPM purchased €1 billion pulp & paper factory from Miramichi (Canada)
- Metsä group purchased factories from MoDo (Sweden) and International paper (US) for about €3 billion

This is what they believed in...

Co-existence of Media

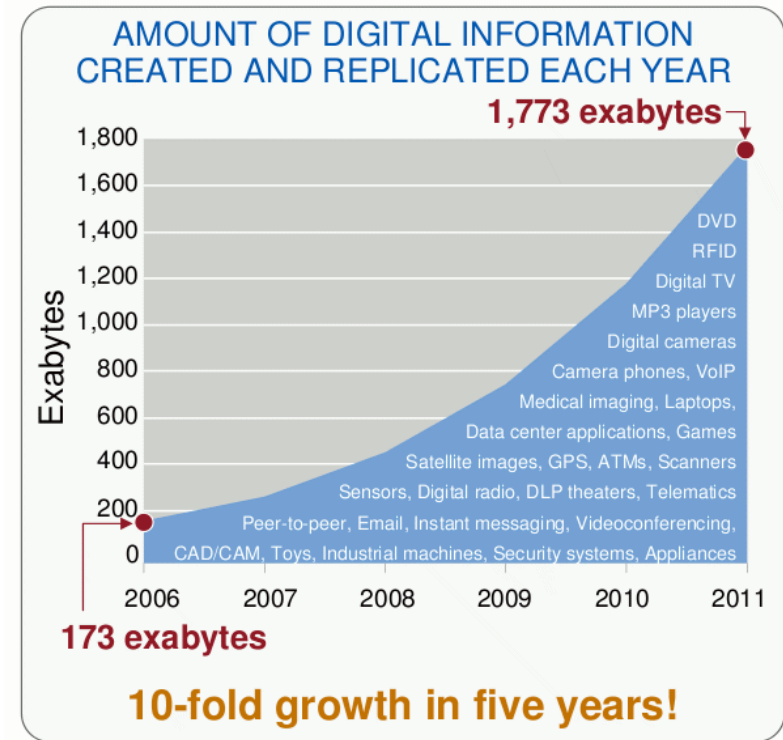


Historically, electronic media has not threatened the growth of paper based communication – in many cases the paper industry has benefited from it.



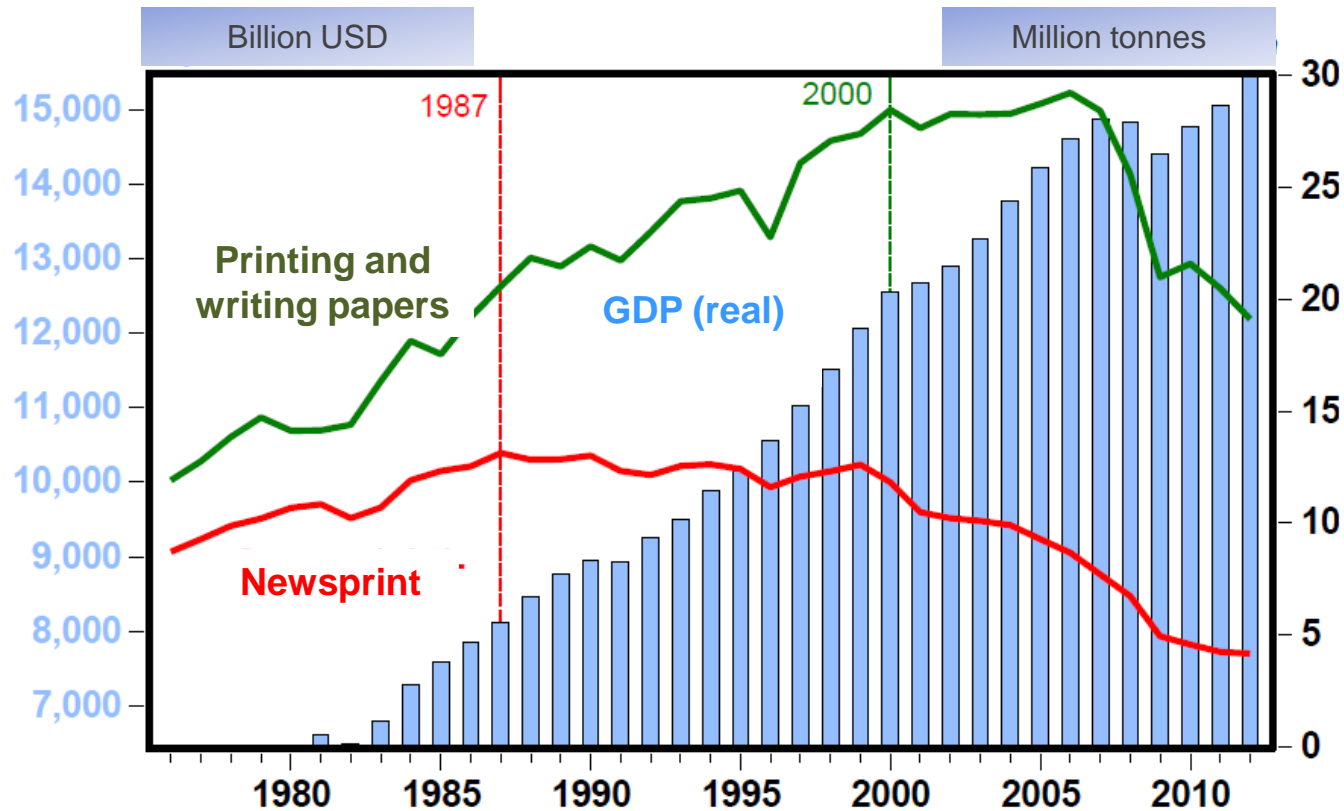
Source: Jaskko Pöyry

However that was much too rosy a picture...



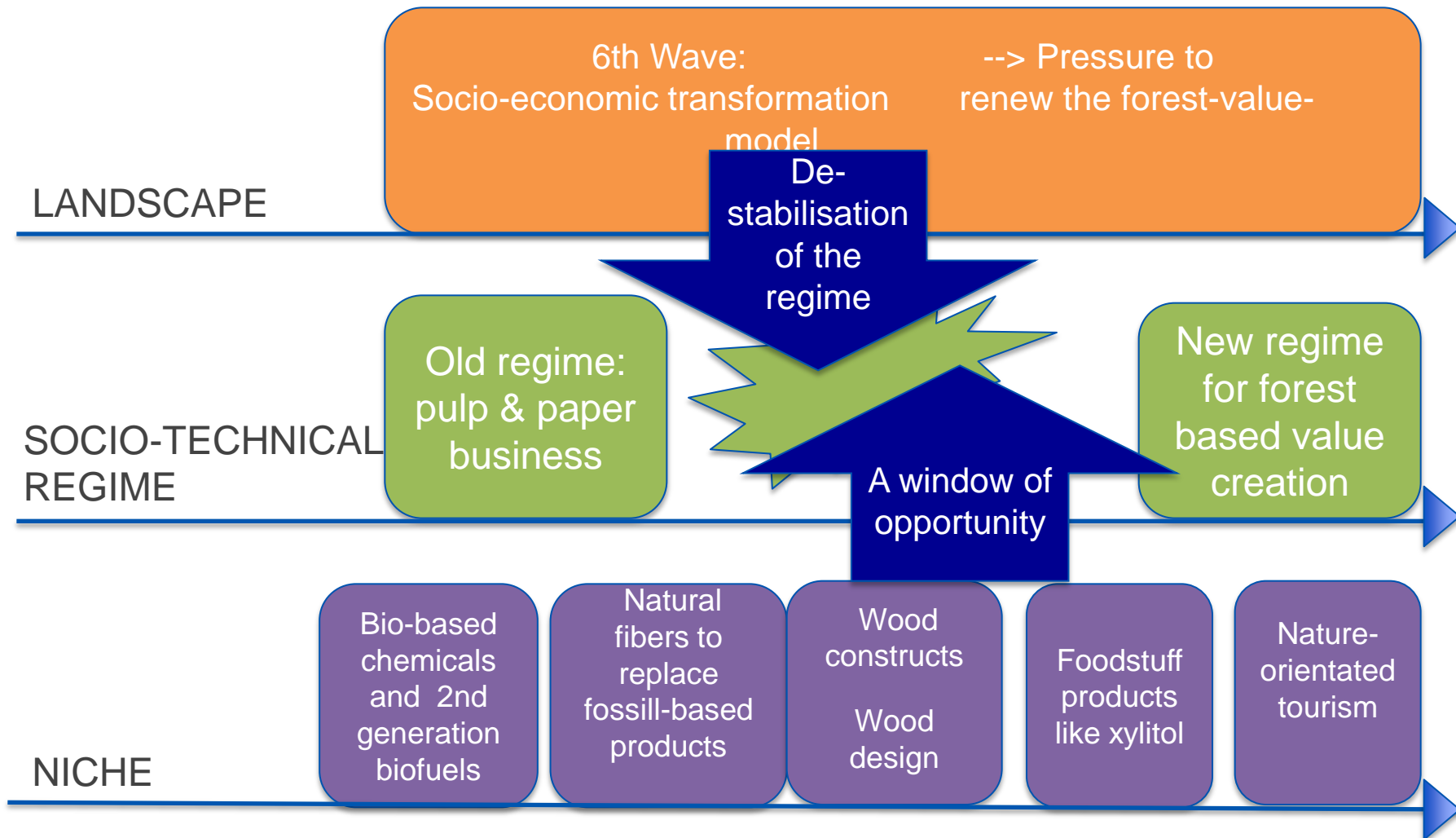
...since structural change in the market had
already taken place...

The consumption of printing papers and newsprint in
US markets 1976-2012



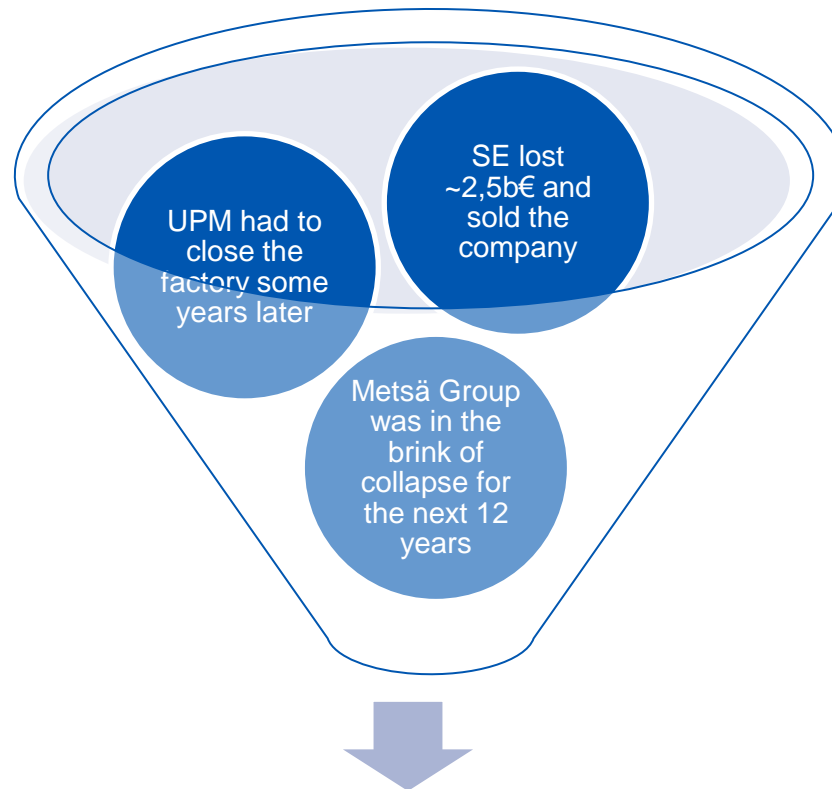
Source: Hetemäki 2014

...so they did not see this coming...



(Adapted from Geels 2002)

As a result all these investments failed miserably...



The whole sector lost its position and self-confidence

The real cause for these X-events were certain fallacies of the top management...

Assumption	Dimension	Outcome	
Enso's previous experiences in NA were different and mistakes irrelevant here	Company competencies	Yes, problems with SENA did not have to do with location nor trade unions	Did hold
Having one paper mill in the US is useless	Company business structure	Yes, the Port Hawkesbury mill would not have succeeded on its own due to poor location	Did not hold
US magazine and fine paper markets are still growing, although growth is slowing down	Demand	Growth stopped to a large extent when the IT bubble burst	Unquantifiable
The development of the IT industry has a positive effect on paper demand	Demand	Technological development has started to reduce paper consumption	
LWC and CWF prices will remain at good levels for at least two years	Prices	Prices fell strongly beginning in 2001	
The US competitive situation will not change markedly	Supply	Asian players entered the market, disrupting the balances between demand and supply	
Listing in the US provides access to a more efficient debt capital market	Financial markets	Yes, Stora Enso was readily offered credit	
Pulp and paper companies listed in the United States are worth more than their European counterparts	Financial markets	The valuation gap diminished during the 2000s	
STE's biggest customers are American, and STE will benefit from being in their home market	Demand	Benefit difficult to quantify, but market share did grow in the beginning	
The dollar-euro rate will continue to fluctuate and local manufacturing presence will provide natural hedge	Financial markets	Yes, dollar-euro fluctuated, and strong Euro made American production competitive from 2005 onwards	
US govt will continue to set up trade barriers	Government officials	Yes, strong Euro caused no need against Europe, but antidumping suits against Asians have been seen	
With a local mfg footprint, STE can optimize its deliveries from Europe	Company business structure	Customers were used to receiving CPI paper, and did not want European paper	
STE could not expand through M&A in Europe due to antitrust regulation	Government officials	True, EU commission has limited M&A action in the industry	

Source:
Koulumies 2010

What really went wrong:

- Forest company management and the experts used shared the same worldview
- Forest companies had a good 1990's and they thought it will continue the way it has happened in the past
- They did not listen to diverse opinions as they thought they know the answers to all questions...

X-event may occur when you have...

- ...lost the *agility* to recognize the changes in the environment
- ...lost capability to *adapt* to those changed circumstances
- ...lost to capability to *assimilate* shocks and surprises so as not to be destroyed by them

Reasons for X-event to occur

