

Tumultuous Times!



StepChange
CONSULTING

Positive outlook instantly dampened
Results from the 2022 StepChange Global Outlook Industry Study

Economic and industry outlook dampened by Ukraine war | Continued pressure expected from further increasing costs | Sustainability and digitalization among top priorities | Companies are driving digitalization forward | EU "Fit for 55" goals considered overly ambitious | Managing Covid not a priority anymore

As in previous years StepChange Consulting conducted an economic outlook study among industry decision makers and participants of the 24th Annual Fastmarkets / RISI European Conference. Over 70% of the respondents are top managers.

The first part of the survey focuses on market and economic developments in the industry and highlights current corporate priorities. The second part is dedicated to digitalization and sustainability.

The survey was conducted in the 2nd half of February 2022, during the beginning of the war in Ukraine. Changes in the outlook before and after the beginning of the war are highlighted in this study.

Highlights of the study

- Participants largely expect further industry growth. Market outlook worsened after the beginning of the war in Ukraine
- High share of respondents expects further increase of raw material, transportation, and energy costs
- Covid not considered a major factor for companies in the sector anymore
- Pricing and margin management, sustainability, and talent acquisition are top 3 corporate priorities
- Most companies implementing digitalization projects (only a fraction 5 years ago)
- Main benefits from digitalization expected to be cost reduction and increased productivity
- Companies are focusing their digitalization efforts on process improvement, less on machinery & products

- Most companies have a sustainability strategy and respondents believe it to be effective
- Technology and required funding considered main barriers to becoming more sustainable
- The EU "Fit for 55" goals are not considered realistic but accepted as "stretch targets"

Macroeconomic outlook deteriorated after the beginning of the war in Ukraine

The results of the 2022 Global Wood, Paper, Packaging & Tissue Outlook Study highlight a positive market sentiment. Most respondents expect the economy to develop upwards or at least sideways in the next 12 months [see Figure 1].

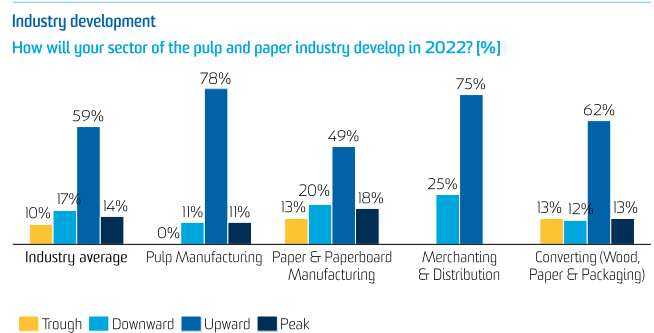


Figure 1: Industry development

However, the outlook weakened after the beginning of the war in the Ukraine [see Figure 2].



Figure 2: 2022 Market sentiment Before / After the start of the war in Ukraine (24th of Feb 2022) [Low: 0%; High: 100%]



One effect of the war in Ukraine is increasing pressure on energy prices. In March 2022, spot market gas prices were 5 times higher than the average in 2019 and 9 times the 2020 average¹. Energy prices are expected to increase further - especially considering the current geopolitical situation [see Figure 3].

Additionally, transportation and raw material costs are expected to further increase in the next 12 months compared to 2021.

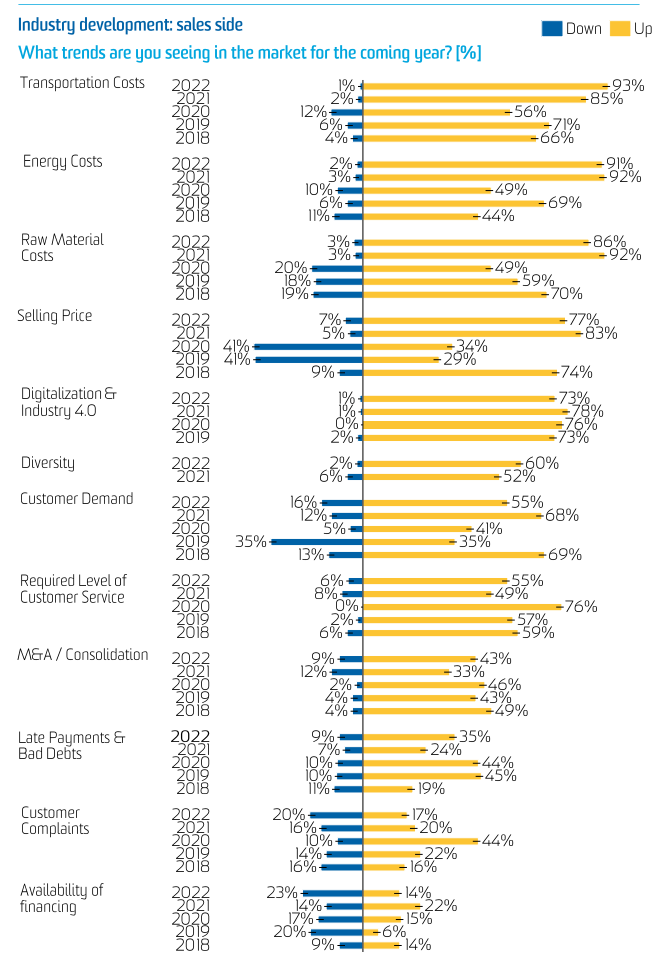


Figure 3: Historical comparison of customer related trends

2021 was characterized by Covid restrictions, supply chain bottlenecks and fully booked assets in many sectors. This led to increased prices and higher profitability in most industry segments. These trends have been confirmed by the latest StepChange B3NCH publication, a

biannual financial benchmarking of 80+ public companies in fiber value chain [see Figure 4].

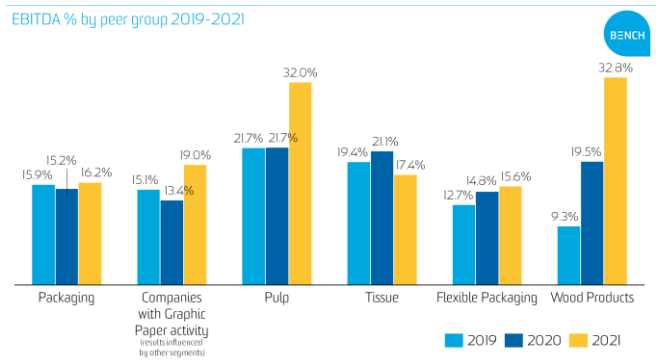


Figure 4: 2019-2021 EBITDA % by B3NCH peer group

Respondents seem determined to achieve similar profitability results also next year, as pricing & margin management is the top priority for most companies. Cost reduction is less of a priority compared to previous years. This contrasts the expectation of increasing raw material, energy and transport costs. However, cost reduction not being a priority might also be a result of the many other priority topics, the excellent market situation for most companies and because it may seem unavoidable. A dangerous situation selling prices should drop and input prices remain on current record levels.

Besides pricing & margin management, sustainability, talent acquisition, and digitalization are the top corporate priorities. Especially talent acquisition has increased significantly in importance [see Figure 5]. The share of respondents that identified talent acquisition as a top priority doubled since last year to 52%. This is the first time that talent acquisition has reached a top rank in our annual Outlook Study. It seems that after years of complaining about the lack of attractiveness of the industry and the shortage of skills and talent the industry is finally waking up. Worrying is that diversity management has a low priority and is declining again. In today's world a successful HR strategy needs to link talent development and acquisition needs to the topic of inclusion and diversity.

1 source: Investing.com - TTF Natural Gas Futures



Almost half of the participants indicate that Digitalization is a current priority, which manifests the topic on management agendas.

Company priorities

What are your company's current priorities? [%]

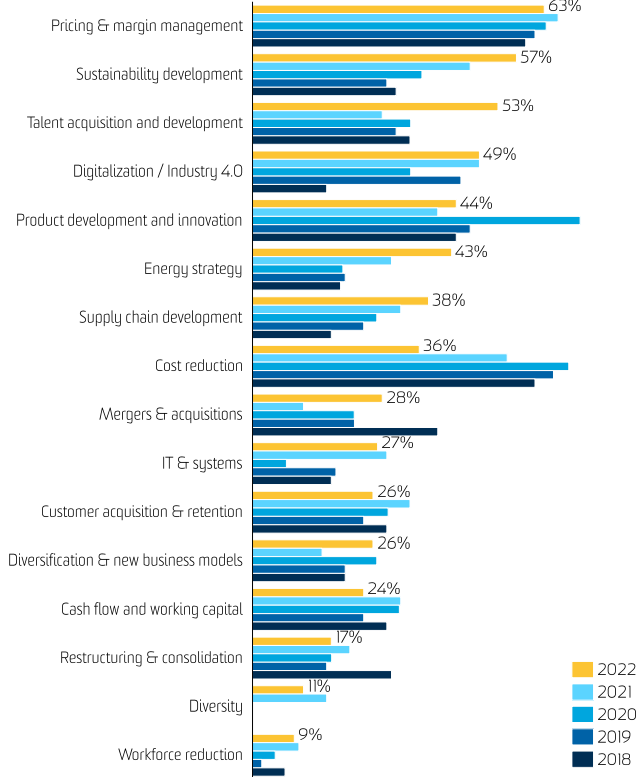


Figure 5: Historical comparison of current priorities

Digitalization to drive productivity and profitability

The majority of respondents indicated that their companies are implementing digital projects [see Figure 6].

Digitalization

What is the status of digitalization in your company?

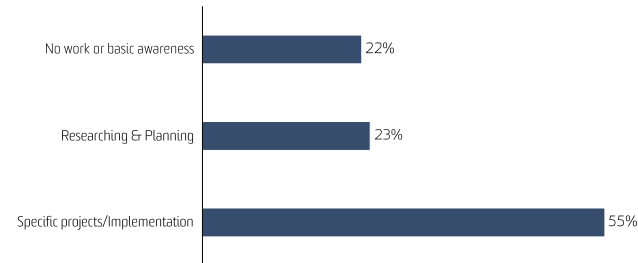


Figure 6: Stages of digitalization progress

The primary focus areas of digitalization efforts are process digitalization and predictive analytics. Machinery

and products are significantly less emphasized [see Figure 7].

Digitalization

What projects concerning Digitalization / Industry 4.0 is your company currently engaged with?

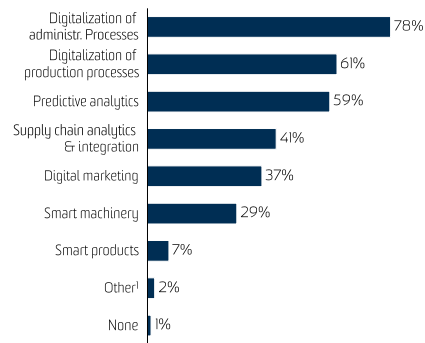


Figure 7: Digitalization projects

Respondents expect digitalization primarily to reduce costs and increase productivity. Top line improvements, such as sales growth, development of new business models and products are targeted significantly less. This could become a lost opportunity for the industry [see Figure 8].

Digitalization

Please select the areas where you expect the highest benefits from Digitalization / Industry 4.0 for your business?

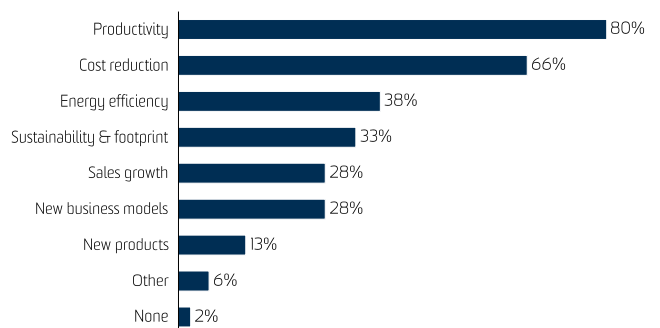


Figure 8: Expected benefits from digitalization

Like in previous studies, identifying specific opportunities for digitalization and determining potential returns, managing organizational change and IT systems & infrastructure continue to be the main barriers for digitalization [see Figure 9].

On the other side, securing funding for digital projects is much less of an obstacle than in previous years. It appears the industry has become more willing to invest in



digitalization. Moreover, placing more emphasis on increasing awareness about digitalization and educating people – currently still two significant barriers – will further support the digital journey in the industry.

Digitalization

In your opinion, from a company perspective, what are the 3 greatest challenges / barriers to implementing Digitalization / Industry 4.0?

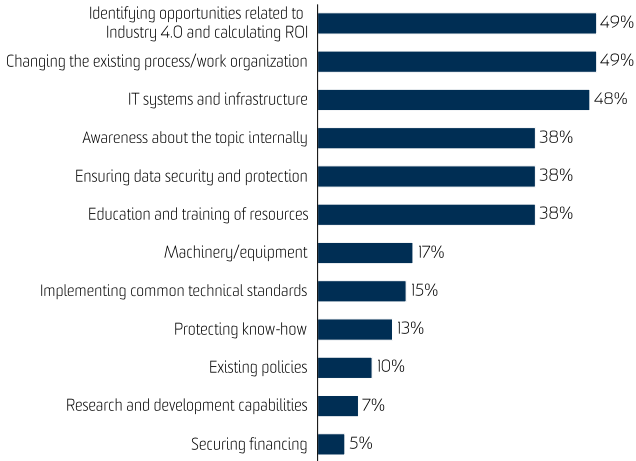


Figure 9: Barriers to digitalization

Digitalization can also support companies in their efforts to becoming more sustainable. For example, digital tools can provide integrated and automated measurement of sustainability performance. However, only ~50% of respondents say that they already use such tools [see Figure 10]. Since sustainability is a key priority for many companies, having precise tools in place to measure sustainability progress is crucial.

Sustainability or green washing?

The industry is paying increasing attention to sustainability. Companies have already started to put concrete actions in place to become fully sustainable. According to the StepChange study, most respondents state that their companies have a sustainability strategy that is expected to clearly reduce their footprint [see Figure 10]. While all responses are more than 50% in agreement, the % of affirmative responses decline with the level of detail regarding sustainability actions. Only 2/3 of respondents state their customers evaluate their sustainability performance and only 60% of suppliers are measured on sustainability.

Sustainability

Please indicate if you agree to the following statements concerning sustainability and footprint in your organization



Figure 10: Sustainability strategy perception

With regards to fuel sources there still remains a long road ahead in becoming carbon neutral. On average the industry sees itself only slightly above the middle between 100% fossils and 100% regenerative. As the question is forward looking it shows that fossil fuels will still play a significant role in the future [see Figure 11].

Sustainability

Our Energy strategy is based on...



Figure 11: Energy strategy [% of Renewable energy planned to be used]

Technology is perceived to be the main barrier to becoming even more sustainable. Financial & profit requirements rank second [see Figure 12].

Sustainability

What are barriers to being fully sustainable? (multiple answers allowed)

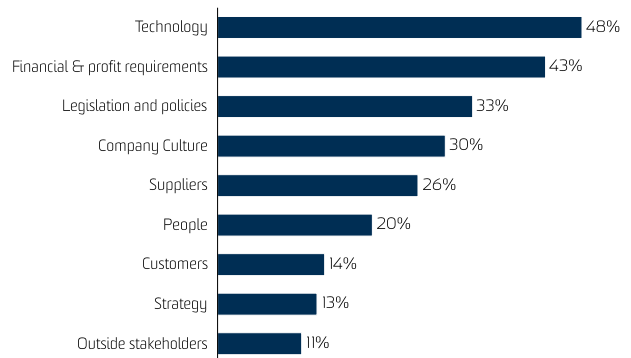


Figure 12: Barriers to becoming fully sustainable



It appears that large parts of the industry believe that sustainability and profitability are not complementary. This view is confirmed by the expected benefits of sustainability strategies.

Respondents believe that their strategies will improve the world for everyone. However, despite an expected increase in competitiveness, increased financial returns are not anticipated [see Figure 13]. Less than one quarter of respondents believe sustainability will yield financial returns.

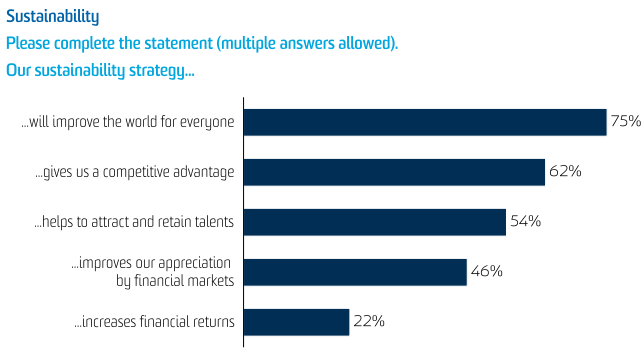


Figure 13: Benefits of increasing sustainability

The third largest barrier to becoming more sustainable is legislation. This relates, among other items, also to the 'Fit for 55' package adopted by the European Commission in July 2021. Fit for 55 adapts existing climate and energy legislation to meet the new EU objective of a minimum 55% reduction in greenhouse gas (GHG) emissions by 2030 vs. 1990. However, European respondents believe that the goal cannot be achieved in its full extent, [see Figure 14] as a comment from a paper manufacturer shows: "Very ambitious, perhaps a bit exaggerated but necessary and a good approach, even to reduce cost in the (very) long run".



Figure 14: % of goals from Fit for 55 to be achieved

Respondents believe that the forest products industry is more likely to achieve the Fit for 55 targets than other

industries. Still, only 21% of respondents consider Fit for 55 as overall realistic and achievable [see Figure 15].

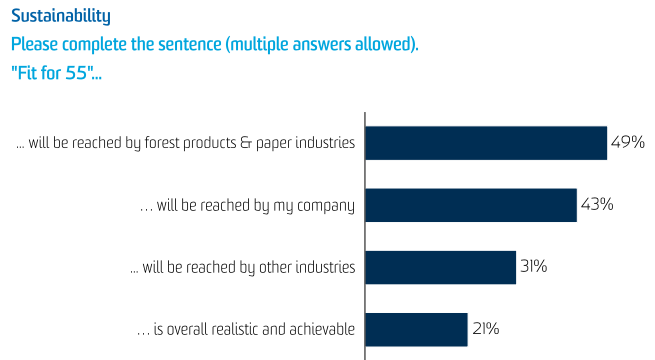


Figure 15: View on Fit for 55 targets

Summary & outlook: Challenges & opportunities ahead

This study started in times of peace and continued as the war started. While the economic outlook declined it has remained overall positive. However, given the current circumstances no one can predict the future.

The future will remain challenging for the industry. All key input prices are expected to increase. The sector feels well equipped to pass on higher costs but is potentially neglecting cost management. Survey participants also believe that there will be positive influencers and new opportunities related to digitalization and sustainability. It is clear from this study that these will be two key drivers for the industry. Companies will continue to invest in these areas to remain competitive and to become fully sustainable.

Talent acquisition and development as a priority has finally arrived where it belongs – at the top of the agenda of industry leaders.

[Note: At the time of writing this article one can only hope that independently of the impact on business – which seems very trivial in these times - human suffering and human tragedy will be minimized and peace will ultimately prevail].





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.

StepChange is further an industry thought leader in digital strategy on the forefront of bringing digital transformation to the fiber value chain.

With an international team of industry experts StepChange will 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 publication, please contact us at office@stepchange.com

