

FOUR SIDES

Modesty—Morals—Artistry—Confidentiality

TO SEE THE CHANGES

It is interesting to see how difficult it is for old and successful companies to cope with a changing world.

When uncoated fine paper started to deteriorate Modo (now Holmen) and SCA were the only two companies who realized this, so they sold their fine paper operations already in 2000.

It took until 2008-09 before the rest of the industry realized the situation and then it was basically too late which created big losses for most forest industries. The same goes for newsprint.

Another example is the electric car. It had to be an outsider like Tesla to revolutionize the industry and now we are convinced that the electric car, for the first time in history, will be the winner.

A third example is the oil and energy industries. In the 80s and 90s all oil companies should go “down-stream”. They bought the petrol stations from the entrepreneurs and invested in large service stations and designed new concepts like “Shell Select” etc.

Then when the oil prices went up the strategy changed and the focus became “up-stream” and the service stations have been sold, like Shell and Statoil. Now we can see, when oil prices are low again, the focus is again coming back towards “down-stream” – too late.

We have always said that it is always a good thing to “own the end user”. The power over retail is essential. H&M, Wal-Mart, Zara etc. are good examples and now we can see this pattern in almost all lines of businesses and the development continues.

We are proud to say that we have seen these trend shifts much earlier than the market and have had the privilege to work for a few who have listened to us with outstanding results. In large organizations you can almost always manage when it is “business as usual”, but when the tide turns and you do not see or at least see it too late then you are in big trouble.

We saw the downturn of fine paper already in the late 90s, of newsprint in the early 2000s, the downturn in energy prices in the mid-2000s. We hope that we will be able to continue to see coming shifts, which will be many and happen faster. This Four Sides issue wants to show some examples of our perception of the future.

” Change is the law of life. And those who look only to the past or present are certain to miss the future.

John F. Kennedy

” Interpretation is the intellect’s revenge on art.

Susan Sontag

” We learn from history that we do not learn from history.

Unknown



Magnus Lagerkvist
CEO

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PEOPLE AND A CLEAR STRATEGY MOST IMPORTANT

INTERVIEW WITH OVE MATTSSON



Ove Mattsson became the CEO of Casco, later called Casco Nobel, in 1978 and he was CEO until 1991. Then he became the CEO of Nobel Industries and from 1994 he was the COO of Akzo Nobel Coatings until he retired in 2000. He is now the chairman of Biotage and a couple of other companies and a member of Lagerkvist & Partners' Advisory Board.

Four Sides: When you became the CEO of Casco its turnover was around 250 M.SEK. When you left Akzo Nobel Coatings it had a turnover of close to 50 G.SEK with good profitability. What happened in between?

Ove Mattsson: We grew organically but also a lot through acquisitions. We acquired about 200 companies or parts of companies during my time.

FS: In the beginning at Casco you were focused on creating a larger company focusing on adhesives. Why did you expand into coatings?

OM: To be honest it was almost a coincidence. We spotted a lot of good family owned adhesive companies e.g. in Germany. But they were well off "Middle-Stand" companies, who did not want to sell. Suddenly in 1982 we got the opportunity to acquire one of the leading Swedish paint companies, Nordsjö, from Bayer and then it just rolled on. A new simple and clear strategy was soon formulated. Most paint companies at that time had about 50 percent in Deco (DIY and professional painters) and the rest in a mixed bag of industrial coatings. Our goal was to become a regional leader in Deco and a number of industrial niches where there was no leadership. Later the target became international, i.e. we changed the organization to very focused global business areas instead of geographic areas. And within the areas we divided the operations into B2B and B2C. Actually when I retired we were a global leader in many industrial niches, e.g. marine paint, powder, coil and wood coatings.

FS: You have been extremely successful acquiring companies. What is the key to success?

OM: A well defined strategy and people!! The companies you acquire quite often have good people who can strengthen the total management team. You have to find them and bring them on your side from day one or, even better, before you buy the company. They often become the key to a successful integration. I also tried to lean towards promoting more people in the acquired companies than in my own. You also need an integration plan where you deeply involve the acquired company. To get comments and commitment. You should not hesitate to take the burden and cost to integrate at an early stage when minds are open and flexible. An acquisition should not be judged too early. It is the long term that counts. If the strategy is right and the integration successful it does not really matter if you paid too much, although satisfaction is even higher if you feel that you made a good deal!

FS: You started with a small company and grew with the company to a large global corporation. How did you managed to govern?

OM: In the coatings industry, especially Deco, you have to start from a decentralized perspective. That is where most of the work is done and where you are close to the customers. The local bosses need a clear understanding of their authority and responsibility. However, you also have to have central control and obviously you need to centralize a lot of activities over both national and regional borders. Business reporting needs to be uniform almost from day one. Purchasing of raw material is another obvious area for centralizing. Factories need to be closed or modified. Actually the key to success is to find a good balance between centralization and decentralization which also means a small staff and head office. In my opinion companies with a history in heavy chemicals, such as BASF and Akzo, have a tendency to centralize too much when it comes to coatings.

FS: Any other factor for a successful integration?

OM: Management by travelling around, talking to people

and customers. If you know your business, which I think I did, then you almost immediately see if something is going wrong and you can correct it at an early stage. Also to divest activities that is not within the strategy.

FS: When Akzo acquired Nobel the head office moved to Holland. Is it important where the head office is located?

OM: Very, very important. Not immediately but after a while more and more of the leadership moves out of the country where you were located – and in particular to the country the head office moved to. It is normally not good for the business and not for Sweden. It is a pity that the politicians do not seem to understand this. In the case of Nobel Industries, Nordbanken, i.e. the state was the majority owner, and the order to me as a CEO was clear, no long term ownership. Of course, it is not easy for a government, funds or private shareholders when a foreign company comes with a golden offer. Astra,

Pharmacia, Scania and also Nobel Industries are some examples to regret from a Swedish perspective.

FS: As a business leader and as a global business leader, being on the stock exchange, you become a very public figure. How do you handle that?

OM: I have tried to avoid to become a public person. If you make a mistake, in most cases there is no interest from the media to write about it if they cannot connect it to an individual.

FS: You are not so young any longer but still very active in business life and as a farmer. Do we force people to retire to soon?.

OM: Yes! If you are healthy, have energy, interest and can contribute, of course, you shall go on. It keeps you vital and curious!

THE ECONOMY OF THE REFUGEE CRISIS

The recent debate about the refugee policies is centered on moral issues and nationalism. Politicians and the media hide/forget to mention that the main challenge is purely economic. Focus must be on costs and economic benefits with immigration and reforms for integration.

According to UNHCR, in 2014 there were 59,5 million refugees in the World. 14,4 million were under UNHCR mandate. UNHCR's budget for 2014 was 3 355 M.USD which means that the agency spent 233 USD per refugee. Due to the turmoil in the Middle East and Afghanistan, the countries with the largest populations of refugees are Turkey (1,6 million), Pakistan (1,5 million) and Lebanon (1,2 million).

” The journey is everything, the goal is nothing.

Willa Cather

” It is expensive to be poor.

Lars Stålhös

No. of Asylum Seekers in Sweden



Figure 1 : Source: Swedish Migration Office 2015-12-14

Sweden has been very open to immigration. This has led to Sweden having the highest refugee concentration among developed economies (15 refugees per 1000 inhabitants). Immigration has proven economically successful many times in history, such as in the U.S. in the late 19th century. However, in order to be economically viable, the labor market must be free. In Sweden, the labor market is highly regulated and the minimum wages

” Failure is not fatal, but failure to change might be.

John Wooden

” Communism is opium for intellectuals.

Svetlana Aleksijevitj

are too high. The housing market is dysfunctional in the cities where most jobs can be found making it hard for immigrants to integrate. The result is that immigrants are forced to live in housing financed by the state and also become dependent on welfare due to joblessness. This is costly.

According to the Swedish Government's budget for 2015, the budgeted costs for migration are 33,6 G.SEK (4,0 G.USD). In 2014, Sweden gave asylum to 35 642 refugees. That means 112 K.USD per refugee and year. Compared to the amount UNHCR spends on refugees, this is highly inefficient and expensive. According to the Swedish Migration Agency, up to 190 000 refugees are expected to come to Sweden in 2015. If nothing is done, the figure is probably the same in 2016. Including all in-

direct costs, the total cost for this immigration can be estimated to 150 G.SEK (17,8 G.USD) per year.

Given the strain this level of immigration exert on the welfare state, the debate must now focus on the eventual collapse of the system. The Government is weak and the Swedish society is slowly realizing the real issue. The increasing support for the Sweden Democrats is hence not surprising. The question is now if this crisis will lead to political reform or a complete change of the political landscape in Sweden. The key is no minimum wages, no housing regulations.

” ” **It's the economy, stupid!**

Bill Clinton

SWITZERLAND BEATS SWEDEN THROUGH BETTER POLITICS



Sweden is among the richest countries in the world, but it is outperformed by Switzerland. The Swiss unemployment is lower and—while the Swedish industry has declined—industry productivity has improved in Switzerland, whose success story stems from its smaller public sector and lower tax burden.

Sweden and Switzerland are oftentimes mistaken for one another by non-Europeans. However, the difference between the countries is bigger than casual observation reveals. Switzerland's gross domestic product (GDP) at purchasing power parity (PPP) per capita is 25 percent higher than Sweden's PPP-adjusted GDP per capita.

Switzerland exhibits a substantially lower unemployment rate. As of this writing, the Swiss unemployment rate is 3,3 percent, which it has also averaged over the last year. The Swedish unemployment rate is 6,7 percent, and it has averaged 7,5 percent during the last year. Youth unemployment figures convey the same picture. Switzerland's youth unemployment rate was 6,4 percent in the second quarter of 2015; the Swedish figure was 20,7 percent.

Both the Swedish and the Swiss manufacturing industry amounted to approximately one-fifth of total GDP in 1995, but the Swiss manufacturing industry has since then managed to keep its 20-percent share of GDP whereas its Swedish counterpart has dropped to only 15 percent of total GDP. Accordingly, the productivity index for the Swedish manufacturing industry has declined from 105 to 95 since 2004, whereas the corresponding Swiss index has increased from 75 to 110.

Clearly, Switzerland's low unemployment rate and improvements in industry productivity must have come at the expense of a poorer wage development? Not quite. In fact, the development of the Swedish and Swiss wage level has been virtually identical since the early 1980s.

Instead, the reason for Switzerland emerging with the upper hand is their choice of policy. Goods and services constitute approximately 80 percent of Switzerland's total GDP; the public sector amounts to less than 15 percent. The corresponding Swedish figures are a public sector making up around 30 percent whereas goods and services constitute less than 70 percent. Similarly, the Swedish tax

” ” **The problem with socialism is that you eventually run out of other people's money.**

Margaret Thatcher

” ” **Laws are like sausages, it is better not to see them being made.**

Otto von Bismarck

burden is among the highest in the world at approximately 43 percent of total GDP, whereas the corresponding Swiss figure is some 27 percent.

All in all, Switzerland's lower tax burden and substantially smaller public sector makes it possible for the country to reach a higher PPP-adjusted GDP per capita and a lower unemployment rate while maintaining the same wage level as in Sweden. This policy choice is not only what makes Switzerland—and, in particular, the coun-

try's manufacturing industry—competitive, but also an important case in point for politicians feverishly eager to raise income and company taxes.

” **No nation has ever taxed itself into prosperity.**

Rush Limbaugh

LESS POOR, MORE FAT

Poverty has always been one of the main issues of society. What people sometimes forget is that the exceptional economic development during the last 30 years, thanks to economic liberalization and free trade, has contributed to a steady decrease of the number of poor people in the world. Now, the emerging world issue is a side-effect of prosperity – obesity.

According to the UN, in 2012 there were 896 million poor people living on less than 2 USD per day. That is a considerable decrease compared to 2000 when it was close to 2 billion. Capitalism is the main reason why so many have been able to leave poverty. People at all levels of income have benefited from capitalism. An example is the fast growing middle class in countries like Mexico, Brazil, China and India.

Increasing levels of income changes the consumer's behavior. An example is that Mexico has surpassed the

United States as the country with the highest per capita soft drink consumption in the world. In 2012, the average Mexican drank 179 liters of soft drink per year compared with 96 in the U.S.. Modern food contains high levels of carbohydrates and fat leading to general weight gain in the population. As a consequence, obesity is spreading in epidemic proportions around the world. The latest estimate is that there are 2,9 billion obese people with a BMI higher than 25 in the world. That is 3,2 times more obese people than extremely poor people in the world.

We will probably see radical changes in society during the coming decades. Diabetes and heart disorders will increase leading to soaring healthcare costs and decreasing productivity due to higher levels of sick leave. As a consequence, governments around the world will take measures to change this development. Probable measures are sugar tax, information campaigns, caloric regulations and healthy food incentives. Today, the countries with the most obese population are found in the Pacific and the Gulf. A practical example of what could happen in the future is the new policy of Samoa Air. The airline is the first in the World to charge its customers for body weight. For the record, 74% of Samoa's population is obese.

BOOKING SUMMARY

From	To	Date	Time	Fare
Faleolo (Upolu)	Pago Pago	10 April 2013	13:00 - 1240	2.12 Tala

CUSTOMER

Gender	Firstname	Lastname	Weight	Baggage Weight
Adult				
Male				
Firstname:	Arnie			
Lastname:	Smith			

Example from Samoa Air's booking system

MEDIA UNDER TRANSFORMATION

The digitalization of industries continues ever faster. Several industries have been transformed like the music record industry. Newspapers are currently undergoing a period of transformation. The challenge is to adjust to lower levels of income. Several players are expected to succumb. Next segment to be transformed is TV. Media houses are now facing the biggest crisis, maybe since the birth of mass media.

Newspapers have been struggling due to the digitalization for many years now. Digital revenues are less than traditional ones. Media houses try to emphasize their presence online, but the hard figures are not encouraging. Sanoma in Finland and Bonniers in Sweden have around 8% of their revenues coming from digital channels. Stampen in Gothenburg 11%. Stampen's financial situation is precarious and there is a high risk that it will fail to survive. Bonniers is also a question mark. On the other hand there are media houses that have managed to digitalize. Schibsted is an example. Their digital income is over 60%. This strong position is the result of hard work for over 20 years, e.g. the launch of aftenbladet.se in 1995.

It is apparent that the digital transformation is now coming to the TV market. In Sweden, traditional TV is rapidly losing market share among young and middle aged people. The only group where TV watching is increasing is the 65+ generation. There are two main trends that are transforming the industry; the will to consume content at convenient time and the replacement of the TV as the main media for content consumption. Globally, people spend 34 minutes more per day using their smartphone than watching TV.

Our Four Sides:

MODESTY

- in the Company's approach to an assignment and with respect to the client's own expertise.

MORALS

- in the form of loyalty to the client and strict focus on the client's long-term development and profitability.

ARTISTRY

- through efforts to provide innovative solutions, that give the client a position of leadership.

CONFIDENTIALITY

- all assignments are carried out in strictest confidence and remain confidential.

Content-wise, YouTube, Netflix and Omni are rapidly growing. In Sweden, YouTube has 26% of the streamed market and Netflix has a 14% market share. A good technological solution is a competitive advantage, but the content is key. In the case of Netflix, they invest in producing exclusive TV-series like House of Cards. In the case of YouTube, self-made celebrities create their own channels like PewDiePie and become global players. Until now, PewDiePie has 10,7 billion views.

As in the case of newspapers, traditional TV channels must adapt to the changing environment. Some will manage, but many will fail due to the inability to cut costs and adapt to lower levels of income. The natural boundaries will also disintegrate. Future media will be consumed in a Global market and only players with a Global perspective will survive.

” ” **The technology keeps moving forward, which makes it easier for the artists to tell their stories and paint the pictures they want.**

George Lucas

” ” **Everyone thinks of changing the World, but no one thinks of changing himself.**

Leo Tolstoy

” ” **You cannot escape the responsibility of tomorrow by evading it today.**

Abraham Lincoln

E-COMMERCE GROWS, BUT WHO WILL PROSPER?

About 30 percent of the total retail sales revenue occurs online in the United States. The corresponding figure in Sweden is six percent. Swedish e-commerce is forecast to catch up in ten years, but not every sector is feasible for e-commerce. Retailers combining an online and offline offering will be the winners.

Just as Santa's workshop, retailers have hectic days as they typically earn more than ten percent of their annual revenue in December. In the U.S., the starting point of the Christmas shopping is Black Friday, when Americans spend between 50 and 60 G.USD during a single day.

This year was no exception, but it also brought about a more surprising figure. During the Thanksgiving weekend, 102 million people shopped in stores whereas 103 million shopped online. In Sweden, online shopping increased by 60 percent compared to a regular Friday.

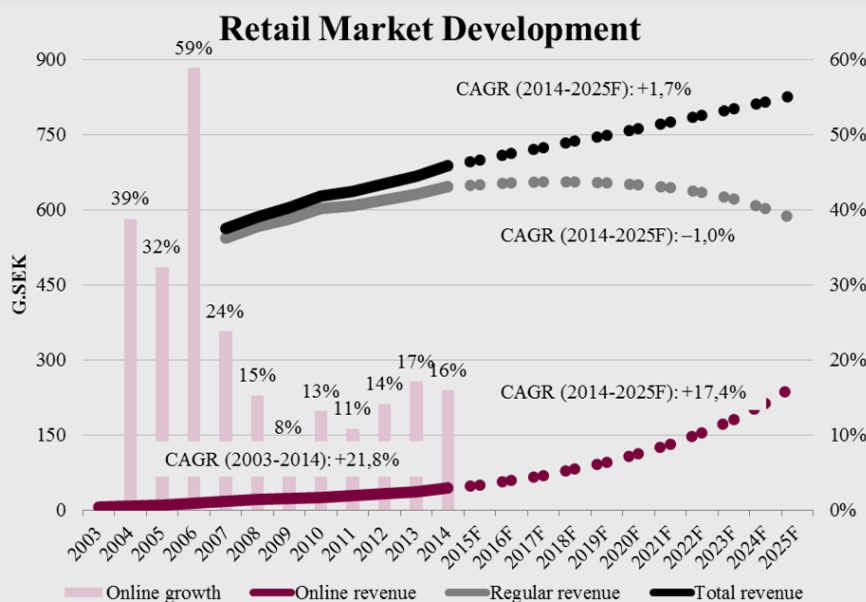
In the U.S., the number of retail store visits in November and December halved from 35,0 billion in 2010 to 17,6 billion in 2013. Of the total retail sales revenue, 30 percent stem from e-commerce. In Sweden, the online share of total retail sales revenue is six percent, but e-commerce has grown by more than 20 percent per annum over the last ten years and the high growth is expected to continue. Accordingly, Swedish retail will see substantial changes over the coming years and e-commerce is forecast to contribute 30 percent of the total retail revenue in 2025.

Still, certain sectors and product characteristics are more feasible for e-commerce than others. Books and other media have been sold online for a long time and have an online share exceeding 50 percent. Conversely, clothes and shoes have an online share of only 12 percent.

Books are well-defined and standardized, and the consumer knows what she gets. Conversely, clothes and shoes are far from standardized in terms of size and color. Accordingly, the propensity to return a product is low for books and other media but high for clothes and shoes. Hence, clothes and shoes companies offer free delivery and returns to make consumers willing to take the risk of having to return the products, which limits profitability.

In the longer run, the online share of the total clothes and shoes retail sales revenue may lag the online share of total retail, or even decline. Alternatively, online clothes and shoes companies might have to establish multichannel solutions allowing consumers to test and pick up their clothes in stores; the same will be seen in, for instance, building supplies and groceries.

To summarize, niche operations or large retailers offering branded products with clear product specifications are the winners when retail moves online, especially if they operate in a market where consumers are prepared to pay for delivery and returns. In addition, using multichannel solutions offering both online and offline shopping will be an important part of a successful retail business.



“ Nothing is impossible, the word itself says “I’m possible”

Audrey Hepburn