

# Black, Green, Red and Orange



For the first time in 30 years the tissue market in Europe is starting to falter, especially at the consumer level. So European tissue makers, in an effort to win back market share, are looking at innovative ways to entice consumers, even to the extent of producing pricey toilet tissue in a variety of colors.

By David Price

**In the January/February issue of this magazine,** Harold Cody wrote how well the U.S. tissue market was performing. Over here (Europe) things are changing. The Away-From-Home (AFH) market is sound due to corporate and public purchasing policies, but consumer grades are not. What's more, the European tissue market is losing its U.S. players. P&G has sold or licensed its European operations to SCA for EUR 500 million, and Koch is planning to sell GP's businesses in the region. I tried calling Koch but no one would take my calls. K-C is still here and doing well at present, but is worried by the local competition. It means that SCA and the Italians now dominate this market.

Breaking down the 6.8 million tonne tissue market in Europe, SCA now holds 24% (after purchase of P&G Europe); GP holds 13% (but this would change when/if Koch sells GP's European operations); K-C holds 11%; and the Italians have the rest.

P&G entered the European market in 1994, and now, 13 years later has exited. The company left because its businesses over here generated a low 12% margin—way below the company's 23.5% benchmark. In contrast, SCA is happy with a margin of 12%, but would prefer to notch it up to 14%.

P&G in a corporate press release blamed “...slow growth and fierce competition from private labels.” The company has stated that its future will be in higher margin businesses like health care and beauty. But Citigroup analyst, Wendy Nicholson, wonders what this decision will mean for the remainder of P&G's tissue and towel business.

The market is tough due to the usual suspects: high input costs, high energy prices, retailer competition and customer

preference. The last two suspects are critical. Retail chains like WalMart, Carrefour (France), Metro and Lidl (Germany), Tesco (UK), and Costco, impose relentless price pressure on every supplier. As a result, the consumer is now happy with the multi-roll, discounted pack of various tissue products even though they may be a notch lower in quality than the luxury segment. Yet, the price is right.

However, the tissue makers are taking on the challenges. SCA is responding to consumer demands by getting closer to them with value-added products. These include the EasyBag, a disposable

changing table and the EasyMeal, a disposable bib. The most exotic response is an up-market toilet tissue by Renova of Portugal, who has produced an embossed black tissue roll, to



***That special feeling.***  
**Portuguese tissue maker**  
**Renova produces toilet paper rolls**  
**in four colors, which are said to**  
**be soft and silky, and cost enough**  
**to make you feel special.**

be followed by orange, green and red brands.

P&G's partial withdrawal from Europe is also accompanied by its willingness to work with private equity (PE) firms. Clayt Daley, P&G's CFO, told the Times of London (8 March '07) the company could team up with PE to complete what he calls a "standalone" acquisition. "If a company had four product lines and we only want to buy one or two, it doesn't make sense to acquire the whole company. So we could get into something small like that with private equity," he said. I'm not quite sure what P&G means by that. It's probably more to do with its North American strategy than Europe.

A few days later, Thomas Falk, CEO of K-C, also spoke to the Times (11 March '07). Falk made the point that K-C has three global brands with a billion dollar status: Huggies, Andrex and Kleenex. He said the company is moving into toiletries—right onto P&G's lawn. But like all tissue makers, K-C is locked into a desperate drive for innovation as commodity suppliers nibble at its margins and profits dip. "I don't sleep well at nights unless I see the next three generations of our products. We are trying to bring innovation to all our categories," Falk said.

The manager of K-C's European operations, Alberto Cappellini, was more specific. He said, "Consumers' needs in Europe are getting more complex as demographics rapidly change and people take increasing personal control of their lives." In plain language European consumers are prepared to go for lower quality if the Euro goes further. But the retailers

are steadily raising quality as their suppliers invest in TAD (through-air-drying) technology.

So, as well as cutting costs and innovating, where do European tissue makers go next? It's no surprise; to Eastern Europe, Russia and China.

Esko Uutela of EU Consulting (Munich) predicts that between 2005-2015, growth rates for tissue

demand in E. Europe and Russia will reach 7%, while China will see 8%. Western Europe will be a modest 3% and North America a sluggish 1%.

Admittedly, these emerging markets start from a low base rate, but as expectations and living standards rise, growth will be impressive. ■

---

*David Price is a contributing writer for PaperAge. He can be reached at DPrice1439@aol.com.*

---

**"Consumers' needs in Europe are getting more complex as demographics rapidly change and people take increasing personal control of their lives."**

*— Alberto Cappellini,  
Kimberly-Clark, Europe*

---