George Mead focuses on Consolidated Papers' future

MATTHEW J. COLEMAN

EMPHASIS PLACED ON COATED PAPERS AND CLEAR FOCUS

EDITOR'S NOTE: GEORGE F. MEAD IS WHAT YOU WOULD *expect in a Chairman of the Board of a successful company. Thoughtful, decisive, and open, Mead didn't waste a lot of time talking about the past. He talked about the future of paper, the future of the industry, and the future of Consolidated Papers. He focused especially on the future of coated paper. Consolidated Papers manufactures more than just coated papers, but coated paper is where its core competencies are the strongest. Moving easily between the dismal rates of return and the hope of growing markets and improving technology, George Mead bridges the gap between those who knew the industry in its peak growth years and those who will manage it in its "rationalization" years. The need for product improvement and differentiation is as big a need, in his opinion, as the need for new manufacturing technology.*

His concern for the industry, and genuine caring for the people who are in it, came across more clearly than all the statistics an annual report could muster. The following interview was done at the Consolidated Papers headquarters in Wisconsin Rapids, WI.

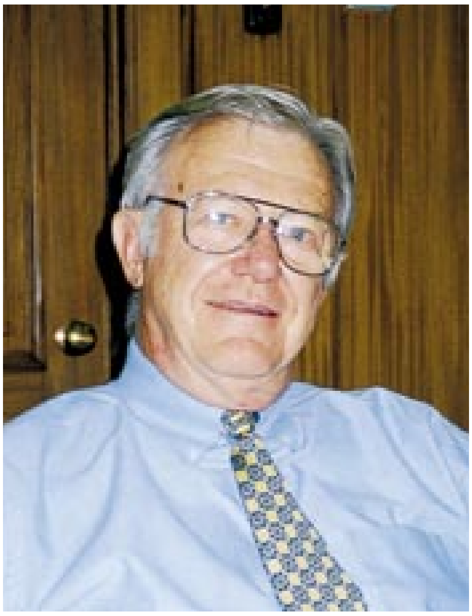
TAPPI JOURNAL: If you look realistically at the world paper industry and the North American paper industry, do you have any thoughts or comments about where we are and how we got there?

MEAD: I wish I knew how we got where we are. The fact is that for almost 10 years now, this industry seems to have lost its ability to earn enough money to keep itself going. Since the early 1990s, the earnings for this industry have been so low that we've been spending our capital to pay current expenses. I can't speak for Europe, but for the U. S. paper industry, debt has been climbing; earnings have been extremely low. This can't continue. I guess the very encouraging thing that I have seen in the last two or three years is the many companies which have made very serious policy determinations to be more profitable rather than simply be large.

I got the feeling in the early 1990s that size was all that mattered. We grew through the 1980s quite easily; the economy grew easily, the paper industry grew easily, the bottom line was pretty good, but suddenly size became more important than anything else. More recently, at least on the surface, we are saying, "Now we have to stop looking at size per se and we're going to have to start looking at that bottom line; we have to start getting back the earning power." What are the results going to be? Much lower capital expenditures? I think that's going to be the one issue which will be most important. Money will be used for other things than just building paper machines and pulp mills and that's the direction I hope we're taking.

TAPPI JOURNAL: Do you think we got that because we didn't really look at what we were spending on the equipment and the facilities compared to what we could get back out?

MEAD: Yes, I'm afraid what you're saying is there has been inadequate analysis and I do think that had to be



the case. People thought that the past forecast the future; we at Consolidated did it. Look at the 1980s. I made quite a presentation to our board in the late 1980s saying that free-sheet coated paper grows 6% per year, and it had for the past decade. Yet, now that growth has dried up in the United States and the vigorous expansion of consumption isn't there any more. We counted on the good times to continue to roll and they can't go on forever. It's requiring a lot more discipline to be in the paper business nowadays.

I think the most encouraging thing out of the whole business is that boards of directors today are saying to the bosses of the companies, the CEOs, that the personal reward---the compensation to the CEOs and senior executives---is going to be determined by profits rather than size of a company. It has been my feeling for some time that size was the most important thing to present in a meeting of a compensation committee; size was the first thing they looked at. Now earnings, return on assets, are the things they look at. That has gotten the attention of the managers; and we have a lot of fine new managers who recognize this need. In many cases they're cheering it on; they're putting it in place. So hopefully, the result is that there will be more careful attention to where the money is spent and more careful attention to the shareholder values that should be preserved and built on.

TAPPI JOURNAL: If you translate that two levels down from the executive offices, to the people that actually make the decisions, do you think that they understand? Does anyone at the senior engineering level or the VP of engineering level, or the VP of project management, understand that they need to be able to get the same level of production of productivity without spending as much money?

MEAD: I think they do and I think they will. I'm encouraged. I think in terms of the big picture, it is the senior executive who decides, for example, whether or not a pulp mill is going to get built. They're beginning to realize that it takes better margins than the economics of today to build a pulp mill. We've got all the international pressures on top of everything else, but the fact is that looking at the numbers in the United States, a new pulp mill doesn't make a lot of sense right now. But getting this concept down the line into the day-to-day world and getting the idea across that the results have to be attained at a more efficient use of capital, absolutely, this is what's going on. You see the pronouncements out of many companies, about the changes at top management levels and new structures, and especially the downsizing that has been so commonly espoused recently by major companies in our industry. They're going to stop doing things the old way, they're going to stop being as widely diversified and instead, to use the buzz word, to focus on core competencies.

TAPPI JOURNAL: Consolidated Papers is known to be a leader in coated paper. You have said, "That's what we're good at," but you have some other divisions and product lines. What is Consolidated doing to change itself as it looks toward the first decade of the 20th century?

MEAD: Well, I'm not going to forecast what's going to happen in any given segment of our company, but I think the strength of this company has been its focus and specialization and I think that's going to be the case in the future. What we have been able to do---and many other companies do the same I'm sure---is diversify in areas that will help us, not weaken us.

Certainly, if you're defining the core of Consolidated as just being coated printing papers, I would say that the coated specialty papers are equally part of that. The technology of these related two grades flows back and forth. In many cases we even share a few customers here and there, but more important is the fact that coated paper of both kinds come from the same well of competency. We are very successful, even more successful in some ways, in coated specialty than in coated enamel. Part of the reason is that we don't have the huge overhang of capacity in coated specialty papers as in coated free sheet.

Also, our acquisition of Lake Superior Paper Industries in Duluth, MN, diversified us into SCA and SCA+. We have a number of accounts shared between the SC and LWC grades, which works out well.

TAPPI JOURNAL: If we shift focus and look at the overseas markets, it is apparent that the domestic marketplace has been the primary driver for most North American paper companies. That is changing rapidly. How have the domestic marketplace variabilities, strengths and weaknesses affected, your view of overseas opportunities?

Considated's mill in Wisconsin Rapids, WI

MEAD: We're doing a little bit of overseas marketing, but let me make this more general comment first. Located as we are in the central part of the United States, it isn't logistically easy, or smart, for us to be overly aggressive in our exports. We do have some export business—we recently signed a trade agreement with a Swiss company to have it market some of our coated specialty papers in Europe. What's happening is more the opposite. Expansions in Europe and in Southeast Asia have caused a glut of some products in the worldwide market, which has had a negative influence on buying habits here in the United States. Some imported products have become very cheap and so the growth of imports, year over year, is particularly high. The strong dollar has created an umbrella. We don't have the pricing flexibility that we might have had under other circumstances. There was some thought earlier this year that there might be price increases in lightweight coated paper and they obviously haven't taken place. Free sheet grades are still very competitive since there is a big expansion in Austria and a lot of expansion in Southeast Asia.

TAPPI JOURNAL: Strategically, when you look at the world market and the North American market, where do you see yourself in relation to other paper companies?

MEAD: We start with a very fundamental resource base here, and that's a broad term. I don't mean just trees. We have a very strong human resource base as well. We have high-level technology, and we have a lot of well-educated people working for us in all areas of the company, all the way down. Almost everyone in the company needs to know how to run a computer. If you are working in the mill, you had better know how to run a computer, or you are not going to get anyplace, no matter who you are.

Trees are a wonderful resource base, and strategically, this is the resource we'll be drawing on. We have the ability to compete very vigorously. We have the assets in place; we have plants that are in great shape. We've kept them in great shape, and so the total is simply a well-positioned company which is doing better than average as a result.

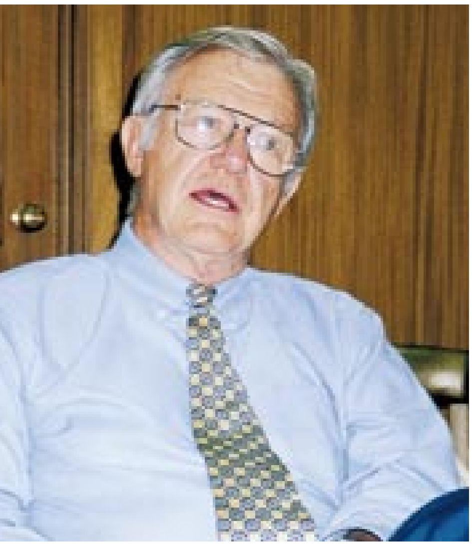
TAPPI JOURNAL: Your mention of trees is interesting. In the marketplace recently there have been some companies that have tried to shed their resource bases. In your opinion, are companies that maintain their forest assets better positioned in the long run for growth or profitability than those that have said, "We're going to depend on the market availability of fiber."?

MEAD: There doesn't seem to be a clear answer for that. Some of the companies that I've known and dealt with for years have very carefully not owned trees and made out quite well, even though they have major pulp operations. Others are the opposite. Our forests are kind of an insurance policy for us, so we look at them a little differently. We're drawing under 20% of our wood from our own land today, even though we do own quite a bit. Wood is an insurance policy and it's a good strategic asset.

As you look around at the companies that have made changes in their tree ownership, there are many instances where the owners have had to question why they bought the trees in the first place. As a result, they have set up all kinds of tree ownership structures. There are different ways of doing it, limited partnerships or corporations. For us the trees are a backup in case we can't get the wood in another location. It's been very valuable in that way.

TAPPI JOURNAL: When you look at Asia and the rapid changes in growth and expansion there, what's your view of what that market, both in terms of production capacity and consumption capacity, really represents for companies in the United States?

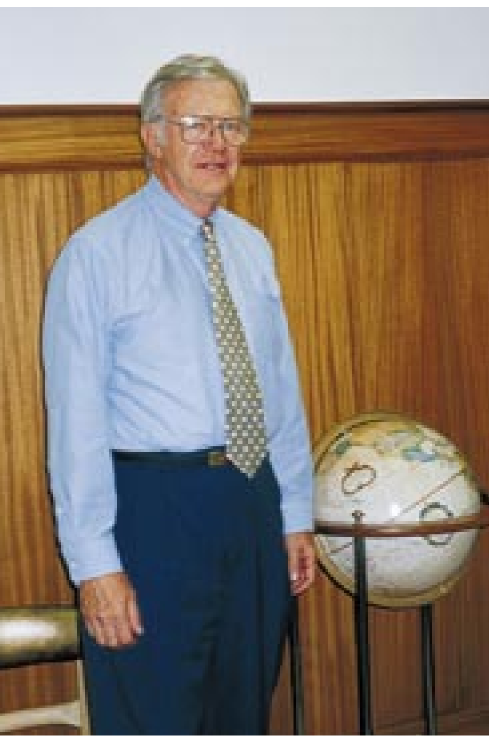
MEAD: Asia is where the action is; there is no question about that. When you have a situation that is as exciting and as growth-oriented as the Pacific Basin has been in the last few years, you're going to get excesses. We had money sloshing around Southeast Asia in huge quantities. Too much of that went running to some countries and to some companies and they got in trouble. That will happen every time under similar circumstances. The fundamental fact is that developing countries, with their growth in paper consumption and their large populations, are going to represent much of the future growth of this industry. We can worry a lot about the competitive factors of low-cost labor or, for example,



whether the preferred means of communication will still be the printed word. Nevertheless, it will be the growth in consumption on the part of people that are currently using only five or 10 pounds of paper per year that will drive the future growth in paper consumption. The fact is, while the economies of these countries have expanded a lot, they've gotten in trouble by expanding too much. Something will come out of it, I don't know what, but those companies will survive and they will be supplying paper in the future. Short-term, I think the good news is that they are not expanding as rapidly as they had been. Longer-term, they'll be back on track.

TAPPI JOURNAL: The next question I wanted to ask is what distinguishes Consolidated from all the other pulp and paper companies?

MEAD: There are two or three things. One is that we were fortunate enough to get into coated paper back in the 1930s and got a little bit ahead of the rush in that respect. Coated paper has proven to be a very, very fine product. If you know how to make it well, coated paper is a marvelous product. The second thing about this company has been its clear focus—its clear, narrow-minded attachment to its coated paper competence—and that has really meant a lot to us. The third thing has been our relatively conservative nature, our manner of doing things in a very careful manner.



When you combine all those things, you end up with a very high level of skill on what can be a rather risky, narrowly focused product. What we have done recently has been much more aggressive. We are making sure we understand our markets and making sure we are selling into those markets in a proper way. We were so manufacturing-oriented that we were missing out on opportunities. We do have a huge level of competency in the manufacture of coated paper that's recognized by the market. Once we can pull that down to a low-cost, high-quality situation and then layer on top a more aggressive marketing program, we will end up with some pretty dramatic results.

TAPPI JOURNAL: What do you think is the biggest limitation or concern that is going to face our industry in the next decade, outside of the financial issue?

MEAD: I think it's going to be the global pressures. There is very, very cheap fiber coming out of South America. Southeast Asia is going to be a very strong factor in North America. We're going to have to continue to do what we've been doing here in Wisconsin for far longer than I can personally remember, which is to continue to upgrade, moving into higher value-added products. We need to be moving up the value chain and utilizing the huge basic resource of knowledge that we have here---the skills of these people--rather than depending on low-cost raw material. We're going to get whipped on low-cost raw materials from outside this country. Therefore, we have to keep moving up into a breakthrough in terms of getting more value to the customer and making sure the customer wants it and knows that it's there and is willing to pay for it. The main limitation is going to be the resource of knowledge.

TAPPI JOURNAL: What do you consider to be your greatest achievement so far?

MEAD: That's a fairly easy one. It is, to put it simply, that this company is a very professionally managed company today in contrast to the 1950s. It's a little hard for me to put my finger on exactly what happened to make it change. We did a little recruiting of specific skills to make sure we had them, but more importantly, I encouraged the idea that we needed to push responsibility down the line while giving managers the backup support that's required. When I moved into management the first time, I was kind of on my own out there. So now we're providing our managers with backup support so they are not all on their own. Now, in our company, there are a lot of other folks helping out and as a consequence, there are a lot of better ideas available.

TAPPI JOURNAL: What has given you the most satisfaction?

MEAD: Seeing the tremendous confidence shown by the young people coming along. It's such a pleasant feeling to walk into a quality meeting and have a young person get up and say,"Well, we had a problem with this account a week ago and they were awfully upset, but we have it all taken care of and it's behind us." We didn't have that competency when I first came here.

TAPPI JOURNAL: What's been the biggest challenge or frustration?

MEAD: I suppose it's the idea of change in ways that I did not anticipate, change in the size and type of the company. It all works out in the end, apparently, but certainly there are times when I say,"Gosh, I wish we had done it the old way, but the new ways work pretty well too."

TAPPI JOURNAL: Lastly, what do you see as TAPPI's role in the industry? How can it better serve the industry?

MEAD: I have been with Consolidated for 46 years. I've been a TAPPI member for 48 years, so I hope that says something about my feeling towards TAPPI as an organization. Two or three things: the most obvious is to continue to provide the vehicle for dissemination of knowledge and encouragement of research which you do in so many ways, whether it be conferences, publications, or whatever. You do encourage people to share knowledge and to create knowledge and that's very important. But I think now you are also moving very clearly into some new age, new areas, things like beginning to develop competencies in non-technical areas and getting understanding in areas that are equally important. You have to learn how to think in broader terms and learn how to think in terms of "possibility" and "probability" when it comes to utilizing our resources. For instance, you have a conference coming up with the theme of capital effectiveness and efficiency (as part of TAPPI 99). That's exactly what should be done to show folks that they will have to be much more skillful and successful in the way they spend money TAPPI's going to do it. TJ

Coleman is publisher of TAPPI JOURNAL.