

Away-from-home segment will be the driver of tissue market growth

According to Kiril Rogal, Deputy General Director for Economics and Finance of Syassky Pulp and Paper Mill, the existing growth rates for tissue products will continue in the next two to three years. In public places, the consumption of paper towels will increase, and households will more often buy products of large footage and tight winding. Traditional fabric towels will be replaced by more eco-friendly - paper towels.

- Tell about the history of the plant.

- The history of Syassky pulp and paper mill is inextricably linked with the city of Syasstroy: on July 19, 1926, the laying of the future plant took place on the Syas river, and at the same time an urban settlement appeared. And two years later, on November 3, 1928, the first stage of the plant was put into operation and the first tons of unbleached sulfite pulp were produced. So in 2018, the plant turned 90 years old! In 1929, the plant became a pioneer of the USSR in paper production. And on November 3, 1969, the first toilet paper roll was produced on made in England production lines. The toilet paper was made of cellulose. In the country that launched the first man into space, toilet paper finally appeared, and Syassky PPM was the only manufacturer of this product in the entire Soviet Union. So the past 2019 was also partly anniversary for us.

During World War II, the workers of the plant heroically fought on all fronts. And the plant itself worked as a base for the repair of military equipment. In the spring of 1942, the Syasskaya shipyard was founded, on which lake barges were built to transport people and goods along Lake Ladoga during the blockade of Leningrad.

For today Syassky PPM is one of the leading manufacturers of tissue products in Russia. This is the only enterprise that implements the full cycle of production of toilet paper - from pulping to the production of finished paper. The plant is a city-forming enterprise, it employs 50% of the employed population of Syasstroy. The company employs about 2,000 people.

The main brands of the company are Soft Sign and Kleo, and at the end of 2018, we launched a line of professional products under the PROtissue brand.

- What is the product range?

- Syassky PPM produces market pulp, which is a raw material for the production of various types of paper products - sanitary and newsprint, cardboard, etc. We process about 80% of the pulp ourselves, and export 10–20%. The mill also produces 100 thousand tons of base paper per year, half of which we process into finished products, and 50% we export to the domestic market. In addition, we produce toilet paper, role towels and napkins. Each year, the plant produces about 850 million rolls of toilet paper. In addition, the mill produces various types of single-layer and multi-layer paper, as well as related products - yeast and lignosulfonates.

- What were plant's results in 2019?

- It cannot be said that 2019 was a year of records for the pulp and paper industry - in the second half of the year, the global pulp and paper industry entered a recession. Demand for cellulose in the global market has declined. Accordingly, prices fell. In Russia, in the first half of the year there were good results and the ratio of the euro to ruble rate favorable to exporters. The second half of the year was in gray tones. The ruble has strengthened significantly, prices on world pulp markets have declined. Competition intensified on the Russian market, as the new tissue plant was launched in Kaluga.

The market situation was reflected in the profit of the plant. If in 2018 it amounted to about 430 million rubles, then in 2019 the indicators were more modest - 150-160 million rubles. But the main task of production - maintaining full capacity utilization and market share - was completed. So we are pleased with the results.

- What is the plant's sales structure?

- About 98% of tissue products are supplied to the Russian market. The rest is exported to the Baltic countries, Belarus and other CIS countries. About 30% of the base paper goes to the countries of Eastern and Central Europe.

- Against the backdrop of the coronavirus pandemic, Syassky PPM increased the production of sanitary products by 50%. How was this achieved?

- Mainly - due to the optimization of production processes. We have reduced the time for equipment downtime, its maintenance and shift changes began to occur more intensively. We ruled out a complete shutdown of the equipment. Another factor is the competent distribution of the assortment. First of all, we had to fulfill orders of network retailers, since there are quite strict contracts. And also sacrifice the breadth of the assortment. This also gave a certain increase in output. In addition, we launched additional capacities that were not previously 100% loaded due to lack of demand. And we increased the speed of the equipment. Converting lines have several operating speeds — optimal, designed for continuous operation, and maximum, at which it is better not to operate them for more than a month and a half. At Syassky Pulp and Paper Mill, equipment was installed from the most advanced European manufacturers, so we had a reserve for increasing the speed of equipment without harming it.

- How pandemic will affect the tissue market?

- For the past 20 years the tissue market has been one of the growing in the world and in Russia. In general, its growth was from 3% to 10% per year, depending on the country. In Europe, recently it has been approximately 1–1.5%. Russia was moving at a more intense pace. A coronavirus pandemic will cause this growth to continue. Firstly, people began to think more about hygiene, washing their hands. And the most effective and safe way to dry your hands is with disposable paper towels, not electric dryers that drive air with germs. In hospitals you will not see such dryers, only dispensers with disposable towels. The consumption of paper towels will increase in various public places - gas stations, shopping centers, airports, etc. In addition,

almost all countries of the world will soon invest in medicine, namely in the construction and equipping of new hospitals, including equipping with paper products, in order to be ready for the second, and maybe the third wave of the epidemic.

In addition, tissue consumption is increasing in households. If before people used cloth towels, today many of them have begun to prefer paper towels. I think that in the near future we are expected to see what is already happening in Finland, where people are starting to purchase products for households that were previously used in the away-from-home segment.

Due to the long-term self-isolation, a large proportion of consumers went online. If you compare the period from April 13 to April 17 of this year and the past, this year online sales grew by 80%. And this trend will linger, because even after the cancellation of self-isolation, people will be careful to make purchases offline. Someone, in principle, just now discovered the possibilities of online stores.

- How long will this growth last?

- The existing growth rate will continue in the next two to three years. But overall, the market will grow. Although in some countries, for example, Europe, market saturation has already occurred and growth rates may decline to 1% or even 0.5%. Today, in the Scandinavian countries, paper consumption is 23 kg per capita per year, in Germany - 19 kg. In Russia, only 6-8 kg per capita. So, based on these indicators, the potential of our country has not yet been exhausted.

- What are the trends in the market of sanitary papers today?

- Most companies and public institutions have already strengthened hygiene measures, and therefore the demand for professional products - paper towels, dispensers - will grow. So the main driver for the development of the tissue market will be the away from home segment.

Another trend is eco-friendly packaging. Now toilet paper, towels are packed in polyethylene, which does not decompose and pollutes the environment. The demand for large-sized towels and tight winding will also grow, as the consumer does not want to buy a sleeve, but wound paper. Today in Italy, large rolls are already actively used in households. So the away from home segment will grow as such and partially go into households. As for the households, in principle, everything that could have been invented here has already been invented. Some new items are unlikely to appear.

- Syassky PPM recently launched a new line of paper towels Mr. Big Extra. What is their advantage?

- Indeed, the plant was one of the pioneers in the Russian market who produced large-sized paper towels. Consumers well perceived the new product type. Now it's time for the next step - a new roll is able to replace not three ordinary rolls, but five. We do not inflate rolls of towels, like some manufacturers, and do not mislead the buyer, but try to meet his expectations - there are really a lot of paper in our rolls. Moreover, they look like ordinary rolls and do not take up much space in the kitchen. So we are ready to release Mr. Big Extra and to increase the diameter and footage of rolls in the future. In addition, Mr. Big Extra is also an important environmental aspect. One Mr. Big Extra sleeve replaces five ordinary ones, which reduces cardboard

consumption by 80%. The packaging film for such a product takes up 56% less. Reduces logistics costs. Emissions from vehicles transporting products are reduced by 2.5 times. We plan to do the same in toilet paper. Although while our consumer is not yet accustomed to large rolls of toilet paper, as in some European countries. Italian manufacturers have four rolls of toilet paper can weigh 1 kg, and in Russia - about 250 grams.

- How much do you invest in developing new products and bringing them to market?

- It all depends on the needs of the market - the more saturated it is, the more difficult it is to launch a new product on it. We pay great attention to research aimed at identifying consumer preferences. This is a multi-factor system work. Three or five new items appear a year. Although in the years of shock, their number reached 10. Now we are launching a new product, Kleo Eco, whose packaging is made from recycled materials and sugarcane fibers. We came to this product through our own research and analysis of global trends.

In the away from home segment, we also conduct independent research to identify needs and decide on a new product. One of the latest studies was a survey of guests of Russian and foreign hotels in order to identify preferences related to paper hygiene products. It turned out that 72% of respondents pay attention to the quality of toilet paper and more than 70% noted the need for one or two spare rolls in the room, rolls, in paper packaging, not film. Thus, the hotel visitor will be sure that before him no one touched the paper roll. And after the pandemic, more attention will be paid to this.

It can take anywhere from six months to a year and a half to develop a new product. Updating the packaging or changing the winding parameters will take about six months. If the release of new products requires the purchase of equipment or the modernization of existing ones, then the terms are completely different - at least a year and a half. Investments in the development of new products are also different. Replacing the film or updating the packaging design does not require a lot of money. If we buy new equipment for the release of new products, investments can reach 3-5 million euros.

- Is there a shortage of raw materials?

- A shortage of raw materials was observed in 2018. In order to make toilet paper soft and well absorbed, not only softwood, but also hardwood pulp is used in its production. And if there are enough softwood pulp producers in Russia, there are only two producers of hardwood pulp. Their pricing policy is not always adequate to the market situation. Pulp deficiency in the Russian market can occur when export prices for it are more attractive than in the domestic market. Recently, prices have leveled off. And large Russian players are considering increasing the volume of hardwood pulp cooking. So, at present, manufacturers of sanitary-hygienic products have no problems with raw materials, despite the fact that additional large capacities are being introduced. In addition, Syassky PPM has little dependence on third-party suppliers. The production of tissue products is more than 50% of its own pulp. Thus, we cover more than half of our raw material needs.

The plant does not have its own timber, for us it is economically inefficient. For pulp production, we use pulpwood, which we buy from large and responsible loggers, as well as sawmill and woodworking residues. Syassky PPM is a certified company under the FSC scheme and purchases raw materials from companies that have a certificate of the Forest Stewardship Council.

- At what stage is the project on modernization of the plant's production facilities? What were the investments in this project?

- It is impossible to stop investment activity even in difficult conditions. At present, the plant is implementing an investment program worth about 5.5 billion rubles, designed for three years. Within the framework of this program, we will install another paper machine and increase the conversion capacity for processing base paper. We will also build storage facilities and invest in the automation of the production process in order to reduce the share of unproductive manual labor. In addition, every year we spend serious money on improving the ecology of production.

- What are your plans for the future?

- The main thing is an increase in pulp cooking by 20%. The stability of the entire enterprise depends on this. We also plan to increase the production of base paper to 170–200 thousand tons. We intend to increase the revenue of the plant by 30–50%. In the future, we plan to expand the range of products due to some types that are not related to the tissue market. We want to return to the release of a number of very interesting products that the plant produced earlier. We will also continue to improve the working conditions of our employees. We invest a lot in creating safe jobs, in ventilation and air purification. We will continue to work to increase the environmental friendliness of the enterprise so that it is more environmentally friendly. And of course, our main plan is to celebrate the 100th anniversary!