

# Afera Annual Conference - Dubrovnik 2014

## Captains of Industry Panel Discussion

### “The Future of the European Adhesive Tape Industry: Technology, Trends and Markets”

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<b>When:</b>	Friday, 3 October 2014, 10.00-11.00 CET
<b>Where:</b>	Afera Annual Conference, Hotel Dubrovnik Palace, Croatia
<b>Participants:</b>	Carles Andreu, tesa Western Europe BV (NL) Harald Braun, Novamelt (Germany) Aric Getty, 3M IATD, Western Europe (Germany) Mike Punter, Parafix Tapes & Conversions Ltd. (UK) Luigi Rovellini, Guzzetti (Italy)
<b>Moderator:</b>	Bert van Loon – Independent Strategist (The Netherlands)

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### Transcript:

**Bert van Loon:** Good morning, ladies and gentlemen. My name is Bert van Loon. One of my roles today is to moderate the ‘Captains of Industry’ panel debate. I would like to invite the nominated ‘captains’ to take their seats. While they are making themselves comfortable, I will give you a brief introduction.

I saw this debate last year at Afera’s Annual Conference in Sicily. It was very exciting—one of the most exciting parts of the Conference actually. Here you have a few real business leaders representing different segments of the adhesive tape industry, different countries, different business worlds. So we’ve got real variety, real representation and real leaders.

Afera’s management team asked for questions and topics from Members and were met with a great response. We have divided this input into five or six main categories, and we drafted 13 discussion questions. I am glad our participants were sportsmen enough to accept our challenge. It is easier to sit in the audience and listen than to sit up here, vulnerable to answering honest questions about your business and the future in front of the camera.

I would like to begin by asking each captain to introduce himself briefly. We will conduct this discussion on a first-name basis.

**Harald Braun, Novamelt:** I am Harald Braun, and I am one of the founders and owners of Novamelt in Germany. We have specialised in the market for hot pressure sensitive adhesives for 25 years. When we started our company in 1990, there wasn’t really a focus in the adhesive industry on this specific area. Since then, we have developed the company into an international operating situation,

producing out of southern Germany and the United States, with a recently opened distribution centre in China. So we work around the world in label, tape, medical and more other PSA applications.

**Luigi Rovellini, Guzzetti:** I am Luigi Rovellini, Sales Director of Guzzetti, which is a producer of equipment for adhesive tape production. We have been in business for about 45 years, and I have been with the company for 27 of those.

**Mike Punter, Parafix:** I have been in the adhesive tape business for 36 years, initially as a distributor—and quite a large one—for 3M company, primarily to the auto industry. Then I ended up as sales and marketing director for a very large chemical distribution business with a job from hell. I hated it. So I retired from industry at the age of 50 but quickly became bored. I got involved in Parafix, and I liked it so much I bought it. It is a wonderful business, and it is just so creative. I do not know if I am exactly a ‘captain of industry’. We have a lot of fun.

**Carles Andreu, tesa:** Following Mike is always a challenge. My name is Carles Andreu, and I am originally from Barcelona. My latest assignment with tesa is as Head of Marketing and Sales for Western Europe. I have a degree in Economics and Business Administration from the University of Barcelona and a postgraduate degree in European Business that I did in Germany and France. I have been with tesa for 20 years, and I have done a lot of moving around: I started long ago in Barcelona, then moved to Hamburg with my German colleagues, then went to Milan where I learned a lot about the Italian industry and made lots of friends. My latest assignment is in Amsterdam with the Dutch, and I have been having a lot of fun. More than a hobby, I have a passion: I am a tremendous Barça fan.

**Bert:** You know there is a little football club in Amsterdam as well. (I want revenge for yesterday—I’m Dutch.)

**Aric Getty:** So my name is Aric Getty, and I have been with 3M for almost 15 years now. I have been in the tapes business for 15 years as well. I started selling in central Ohio. I am originally from Michigan, so I was very excited by central Ohio. I am currently responsible for 3M’s Industrial Adhesives and Tapes division in Europe. This includes, of course, pressure sensitive tapes—single-sided, double-sided—adhesives, etc. I went to school at Michigan State, and I am a big Spartan fan. Michigan college football is perhaps as serious as football is here in Europe. I went to business school in Minnesota, and I have been here in Europe now for four or five years. I started working in CEE and Middle East and Africa, and for two years I have had the business in Western Europe. I live in Dusseldorf and work out of our Neuss headquarters. Glad to be here.

**Bert:** On this panel we have over a century of industry experience, so I guess we can pose any question and expect to get the right answer. The theme encompasses the future of the adhesive tape industry of course. There is technology, trends, markets. We have now seen some promising figures, so we thought we would start with a really easy question for Mike:

**What are the critical success factors in today’s market? Your thoughts on this, please.**

**Mike:** Always in business I have tried to identify the trends and chase the gazelles. We are a medium-sized firm, so we can be flexible. We do not draft big market plans. What was really interesting for me is what we did coming out of the recession a while back. The recession really frightened us, because when you are a medium-sized company, cash is king. That is the one thing

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that rules us every day. That is my first question when I get in: “How much money have we got?” Because it is so important. Because you can slip off that very easily, and you will be in trouble.

The recession was frightening, because I did not know how long it was going to last. We changed our strategy from growth to survival, and the whole team around me told me that we would grow out of this recession: “Don’t worry, Boss.” And I said, “Ballocks.” I went down and recast the numbers, reducing the sales forecast by 30% in order to create cash over a year to pay back the people we owed money to. My accountant worked out what we needed to do to cut the costs, and we did it.

The primary cost that I cut was the sales force. “What? You can’t cut the sales force, Boss.” “Well, Sales Manager, it is either them or you.” That is what we did, because in our particular industry, in the conversion business, you rarely work today for tomorrow’s income. It is always a year away. So we cut the costs, took the people out, and all of a sudden it dawned on us (because we are not that bright) that we have over 500 inquiries a month both in the UK and Hungary. Why don’t we just get smarter and convert those? So we turned our estimators, the guys who do the calculations, into inside sales engineers. That ended up working really well.

So we have emerged from the recession, and business is going great. We are looking around. Industry is moving around, so we have started chasing our strategic markets, ones that we believe we can offer true value, and that has been our success. And it is working really well.

**Bert:** So it sounds like focus, flexibility and taking decisions rapidly are key. And if we shift to a larger, more global company, such as yours, Carles? There are big differences. Mike is an SME in a local market. You are running a company in Western Europe that is part of a multinational, so there is a big variety in markets, regions.... How do you address this?

## **Growth out of a survival market varies by regions and countries. How do multinationals judge success where their markets are so varied?**

**Carles:** Actually for us in Western Europe it is a challenge, as we are not growing like Asia. If you are responsible for Western Europe, perhaps in terms of budget planning Europe does not look as attractive as the respective regions of your Asian or American colleagues. As we are a multinational company, however, you communicate with your headquarters about developing global strategies for the specific markets. Ultimately we evaluate our plans and success more globally than regionally at tesa. At the same time, we do consider differences. Asia and the US are different from Western Europe, so targets are set according to different growth projections.

We saw GDP forecast percentages in yesterday’s economic survey [[David Smith's presentation “Still an age of instability? Croatia and the global economy”](#)]. At the same time, ultimately we have to grow and to contribute to the sale and profit of tesa in order to keep our employees and structures in Western Europe. And we believe we can grow. Actually we know our results are quite good, and our forecast is to be better than the market, increasing our market share.

We like to think that we encourage the tape industry in Western Europe that we will make it. As Mike mentioned, we certainly have to get creative ourselves, especially in the area of speciality tapes. I would say we are pretty confident. You have seen the growth pattern however: if you go to market in Western Europe, it is not that brilliant, and if you go to market in Asia, it is already at 7% growth, isn’t it? This must be considered.

**Bert:** Is market share your key driver?

**Carles:** In every market in which we focus, we want to grow proportionally. That is our measurement.

**Bert:** Pushing out your neighbour.

**Carles:** Yes.

**Bert:** Okay, thanks for that. Aric, would you say a little bit on the more complex issues: in this industry, it is all about working together—and working with your partners of course—and you have your challenges inside your large company. But you have to work together with SMEs, your distributor partners. How do you address that as a challenge?

**Mike:** Aric, I'm really interested in this one.

### **Do multinationals appreciate the different challenges their distributor partners may be facing in an uncertain, upward curve?**

**Aric:** Of course we do. The challenge is to adjust your approach to the market and the challenge that service those markets in a way that is relevant to the trends of today. Every company has to take a look at itself and say, "What is it that I do well? What is it that gives us a competitive advantage?" And then we have to ask of our channel partners where they add value and how we can together really win in those markets. And when you try to take that approach, we look at whether it is a distributor that is trying to specify a product, whether it is a converter that is trying to laminate our product to another, to add value into an industry for a solution.

I think as we see times change—as we see information become more and more available across the industry—just having availability of a product is not good enough. We really have to be working throughout the value chain so that we can work with our channel partners to say, "This is what we believe this industry is doing. This is how we believe that 3M and you can add value to that industry." So I would say in the past it was, "Okay, what is it that 3M does really well? We make product and we have technology—

**Bert:** Product leadership.

**Aric:** Right, and now I think now we need to work more closely with our channels to say, "This is where we think this industry is going, and how we and you can add value to sell into and both make money in those applications."

**Bert:** You are saying, I suppose, that strategic trends are shifting away from product leadership towards to customer intimacy?

**Aric:** I think in the past, we were able to rely heavily on the fact that we have makers everywhere. And we have technology—we are able to invest more in R&D, and we still invest a lot in R&D. But I think the future is going to be a more collaborative effort between customers, value-added partners, and products and technology.

**Bert:** Recognise that, Carles? I see you nodding.

**Carles:** Yes, it is interesting that perhaps we at tesa share the same view as our main competitor. Furthermore, it is good to recognise that we have more or less the same strategy. I think the biggest

players focus more on added value—more on integrating and, again, listening to partners. It ultimately stimulates them within the value chain to deliver more value to the user. This is a good mentality which exists in the European industry, and maybe it serves as a low entry barrier to Asian competitors who are more price-driven. It is good that we have this commonality, because as market leaders we are responsible for driving the markets.

**Bert:** Later on in the debate, we will talk about innovation, and we will certainly talk about co-operation in the industry – vertical, lateral, etc.

In talking about competition, Carles, we also talk about the Asian competition. We have the European federation here with a few Americans helping us out. Is there real Asian competition? What does it mean? What is really happening in your opinion?

### **We like to talk about the ‘challenge of Asian competition’. What does this really mean? Is it really happening?**

**Carles:** I know what you are all feeling after Anurag’s lecture [[Anurag Yadav’s presentation “Market trends and statistics based on the Freedonia World Pressure Sensitive Tapes study issued May 2014”](#)]. Thanks, Anurag, by the way, for the great compilation of slides. We discussed in Afera’s Marketing Committee yesterday that the first impact could be quite frightening: More than 50% of the market is Asia, and it continues to grow.

A lot of polymers are produced in Asia, but my understanding is that this is concentrated in China. We also discussed yesterday that China has been moving at a rate of 7-8% over the last few years. Now it is only at 7%, which is a dream to us. But this growth is specific to China and is centred in commodities. My take on this is that ultimately this will not affect our business that much. As we have discussed, in terms of our strategy in Western Europe, we are more geared towards the speciality business, on added value, so we are not going to feel the pain of a boom in Asia.

On the other hand, if you have other competitors—other manufacturers more based in commodities, more pure pricing—I think they have a real challenge there. This goes for Western Europeans and especially my friends from Italy. But we at tesa have modified our strategy to focus more on added-value solutions—

**Bert:** Speciality, high-level, high-value—

**Carles:** Speciality, integrating the value chain.

**Bert:** Creating value.

**Carles:** Yes.

**Bert:** If we talk about Asia, production of commodity tapes is up, while sales of non-mass-produced tapes are up in Europe.

## Will Europe still have a role to play or will all production end up in Asia?

**Luigi:** We still have a future in Europe, for sure. Asians are not the leaders of innovation in our industry. They take something that has been made, duplicate it and try to make it cheaper. They strive to make the same product without innovating it. Through their lower production costs, they bring the product to market at a lower price. This will change. I think that their costs will increase as soon as social rights are addressed in their region. What will they do then? They will have to match their costs with ours.

I saw in [David Smith's presentation slides](#) yesterday that the GDP change in Asia from 14% to 7% in such a short time was much more marked than our reduction in GDP. Actually we are at zero, so there isn't as much range for movement, but it is decreasing at a much slower rate than in Asia, where I think change will be very fast.

**Bert:** Faster than we have seen in past years? Is it escalating?

**Luigi:** I think it will be faster than we have seen in the last year. Look at what is happening now in Hong Kong, where things are changing, moving. And they do not have the long history, structure and tradition that we have in Europe in the development of new products. All tape products have been developed here; I do not see any new products that are invented in Asia. Everything comes from here. So I do not believe that Asia is poised to take the industry away from us. We definitely have a future here in Europe. We just have to be confident.

**Bert:** I know that later on we will talk about workforce and talent issues as well. I think we are going to talk more about Asia as well.

Over to you, Harald. This business is about strategic issues, collaboration, working together, flexibility, technology.... We also see an economy of scale in the industry. It is about companies working together. So, do you think there is a consolidation wave coming up, especially from your perspective within a family business?

## What will be the real trigger of a consolidation wave of PSA speciality and packaging coating companies?

**Harald:** Yes. First of all, I cannot speak on the technical issues and various areas that all these gentlemen are working in. I can only reflect on what is happening in the adhesive industry of course.

The answer is yes. The consolidation will proceed, no doubt. That is very clear. And it may also happen in family-owned companies. (I just recently saw in a German magazine that there are 14,000 family-owned companies over various industries in Germany that have not created succession plans.) I think there are both internal and external reasons for consolidation. Externally, customers expect to have a local, flexible, logistically efficient supply. This we have in the label industry, because our customers have to have a supply of products within a 24-hour timeframe.

**Bert:** Close to the customer. You have to follow the customer. If the customer goes global, you have to go global.

**Harald:** Then of course you have international companies in the car or appliance industry. If you are working in that area, you see a lot of movement of production out of Europe, and then you are asked to follow them. Until 2004, I still believed that we, as a family-owned company, could remain primarily in Europe as an adhesive supplier. Then suddenly our customers said they were moving to the US, China, Mexico.... How do you react to that? That was a time when we were forced to move our productions in these different directions, making ourselves available globally to those customers that demanded it. This is a huge issue for family-owned companies, because unlike big companies such as 3M, where you have various financial and human resources, we do not have this.

**Bert:** Financial engineering is a challenge.

**Harald:** Yes, this is a huge challenge. So if you want to open something in China or the US, do not think that you can just go there to a bank and loan money—no way. You have to bring everything with you.

**Bert:** I almost forgot the phrase “bank roll” over the last few years.

**Harald:** You have to act as your own bank, so it is a little bit of a different situation.

Certainly what I see in the adhesive industry in the near future is that there will be consolidation at least in those cases where the adhesive company is forced to go international and the family agree to do so.

**Bert:** So you also see a shift from family-owned and managed companies where the culture of family becomes more corporate?

**Harald:** Yes, the issue lies in succession planning, and there is no clear solution to this. The succession process incorporating family members has a 50% success rate, just as organising foreign management does.

**Bert:** With one slight difference: If you fire your family, emotions make it dangerous.

**Harald:** That is the big difference. At least with foreign management, you leave emotions out of it.

**Bert:** Or you can produce more children. You have a choice.

**Harald:** That is the other way.

**Bert:** It is all about planning, isn't it?

Okay, is there anyone who would like to add to that? Consolidation in the industry? Mike, from your perspective?

**Mike:** We have had the gazelle theory work for us to a degree. We had customers of ours move out of the UK to Central Europe. As you all know, we have our business in Hungary that we are very proud of as it is very successful. Conversely, I thought, well, if I can do it there, I can do it anywhere. So we moved to Russia. Now that was just interesting. It was either a very expensive holiday or a very expensive training course. But it was bloody expensive. We are out of it now. I still cannot believe it. You have just got to be careful. And you are right. Cash is king.

**Bert:** Absolutely.

**Mike:** It really does not matter whether you are a large or small company. Cash is king. That is the most important thing. You must live within your resources.

**Bert:** That brings to mind a question: You all talk about 'financial engineering'. Do you see new financial engineering and financing models coming up if the banks do not work? Do you see that as an entrepreneur, Mike?

**Mike:** The banks work for me.

**Bert:** They do?

**Mike:** I mean that. All through the difficult period, we told the bank every day what was going on. We never lied; they stayed close. Even when I had to lay off 30% of my workforce, they provided the funds to allow me to get through it. So, I understand companies with banking challenges. In my personal opinion, generally those companies were not doing very well anyway and were not being honest with themselves or the banks.

**Harald:** I think starting up a company is different from having an established company with a track record such as ours. To date we have had no issues at all with establishing ourselves abroad and financing this with our banking partners, but if I remember what it is like to start a company, that is a different situation. And even 25 years ago, some banks took a certain blanket. Today, I think for young, innovative entrepreneurs, setting up an enterprise is much more difficult than back in my time.

**Bert:** You just celebrated the 25<sup>th</sup> anniversary of your company.

**Harald:** Yes, we just did.

**Bert:** Congratulations!

The shift in the balance between commodity and speciality tape you addressed, Carles. Luigi, maybe you could give us your perspective on this? Do you think future planning, future strategy—we are talking a lot about the future today—will differ for these types of businesses?

## Will the future differ for commodity and speciality tape solutions?

**Luigi:** Well, this might be a better question for our customers than ourselves, but let me give it a try.

**Bert:** Know your customer.

**Luigi:** Let me try to answer it from our point of view. Yes, there are different futures for speciality and commodity tapes.

Commodity tape is mostly packaging tape. What will be its future? In order to reduce the cost of this tape, the thickness of the base material and the amount of adhesive per square metre has been constantly reduced. We are currently at 18 microns of BOPP. Are we going to change the size of the tape or come out with a better material? They used to make packaging tape with PVC that started at 45-50 microns of PVC tape with 32 grams of adhesive, so if you looked at a roll of tape, it was fat—it had a very wide diameter. They decreased to a limit of 32 microns. They tried to go lower by finding some embossing material which might make it easier to wind and produce thinner, but it did not work. Shortly after this, they found polypropylene and started with 38 microns. Currently we are at 20 and

are already seeing some of 18 microns on the market. Could this be the end like it was with PVC? Will we see a new product developed?

**Bert:** Product innovation?

**Luigi:** For an innovation of polypropylene to take place? So this is one challenge to the base material. Maybe more space can be found in the adhesive using different technology? Maybe they can figure out how to use less adhesive? But not another solution; it is already down to 13 grams of adhesive and 18 microns of film. Is this still a tape? Can it stick? Could this still be used? I do not think so, so I wonder what is in the future for this commodity tape.

Speciality tapes are totally different. As we saw in yesterday's lecture [[Mustafa Sezer's presentation "Adhesive tape application from the point of view of the appliance industry"](#)], customers are looking for new solutions to replace screws, bolts and welding. And there are still many bonding and joining solutions to be replaced by speciality tapes. The problem is that it is a niche market, and salespeople, marketeers and R&D personnel have to search out new applications, of which I believe there are many. Speciality tapes are not correlated with cost reduction but more with performance. So I think we will see more innovation in speciality tapes than in commodity tapes. For a while, commodity tapes will remain a game of cost reduction and cost production, not innovation.

**Bert:** We will go now to Aric about the balance of commodity versus speciality from the multinational perspective. How do you balance that? If you can talk about that of course.

## **How do you (or do you) intentionally balance commodity versus speciality in your organisation?**

**Aric:** Yes, sure. Of course this ties in with the last question, but it comes down to the business model that you have. When you look at commodity versus speciality, especially solutions need to be driven by the needs in the marketplace, as we heard about yesterday and as we have talked about I think over these two days. And so the needs in the marketplace require identification, and satisfying needs in the marketplace by our customers requires resources. Specialised resources which either we or our channels can provide. And that is really where we need to spend our time. Because that is where operating the company is generated: when through a speciality solution we can find a unique need in a marketplace, *that* is where we make money. And that is where we, when we talk about intentionally balancing commodity and speciality, need to focus our organisation—our people.

The commodity pieces need focus on two areas: 1) What is the right business model to put in place for a commodity? Whether it is carpet sealing tape, low-temperature masking tape, etc., you need to have a delivery method that is representative of the price that the market will pay. But you cannot focus your organisation on those things, because you will not get the return, and operating can come down. 2) What you also need to do with commodities is look into disruptive technologies.

**Bert:** That is further innovation: disruption.

**Aric:** Yes, right. It is further than innovation. It is disruptive technology that allows those commodities to move into the next era. Whether it is PVC to BOPP to renewable films, to whatever the case may be, right? But that is what I would say. How do you intentionally balance commodity versus speciality? Take all your people, put them on speciality, and make money. Just to be very straight.

**Bert:** That is good. If we have speciality tape, Mike, we need clients that know what value that tape can, once converted, bring to a product. How do we create awareness, visibility, interest in those markets? We have talked about this in the context of our social media initiative, but even more than what you said yesterday as Chairman of the Marketing Committee: how do we really convince markets about the possibilities?

## How do we convince our markets of the added value of tapes?

**Mike:** Markets are made up of companies. Companies are made up of individuals. Individuals have challenges or pain. And if you can actually get close to your companies, to your contacts, and identify their pain, you will then start to understand how they tick. And you will find potentially—not always—a solution for them. You will find an application that works, and you have not even spoken about the price. You must do it on an individual basis, because, and again I can only talk from my own experience, it is about the pain point. If you can drive the corrosion cost out of Jaguar cars, how much is that worth? It has nothing to do with the cost of the chemical. It is all to do with the cost of the pain. And that is the only way I can take it forward.

**Luigi:** That is a complex message to convey...long-term.

**Mike:** But it is the pain point. It is the cost. If you get a chance to get into any large company's warranty book, you will see how much it costs them. And analyse what drives those costs, and if you can overcome them, you can make a fortune. It is quite embarrassing for Jaguar to explain that they have a corrosion problem. It is like explaining to your sales manager that he has BO (which he does not).

**Bert:** The key question is do they even allow you into their discussion? Do they invite you? Do they accept that you are part of the discussion?

**Mike:** That is the intimacy you must to find. You must get all over that customer like a rash.

**Bert:** So that is a general theme then: Closer to the pie. It is wherever you are in vertical, wherever you are in the industry. It is working together.

Before we shift to innovation, we have one more question about raw materials. We will ask Harald to think about that. I heard many things yesterday—I am not a technical guy—about how there are fewer raw materials available: they are more expensive and harder to get, have longer delivery times. That is a challenge for your type of company, isn't it?

## How is your organisation dealing with macro raw material and supply fluctuations?

**Harald:** That is indeed the case. I always start the discussion with a simple example of ours. We have production layouts in the US and Europe. I remember years ago when we started to make hot melts, we had maybe three-weeks' raw materials to run a month's production. Today in Europe this is five to six weeks' raw materials, and in the US we are leading maybe 14 and 21 days. Why is this the case? Very simple. In the US, we can still buy 90% of the related raw materials which we request for our production within a short period of time.

On the different segments of raw materials in Europe: There is only one rubber production site left in Europe. The rest comes from the US (from a monopoly), Japan, Thailand and China. But almost nothing anymore out of Europe. We have a little bit of tackifier production as there are still some producers here in Europe. But who knows how long they will have that running knowing that they have to buy the feedstock primarily out of Asia or the US—and there even less with the decreasing naphtha volumes which are available (through fracking technology you have only 1% left)? So this has a big impact on us.

I think as an adhesive company, if you are running water-based adhesives, you have another option: you just look at the hot melt side, in which there are many possibilities. There is no doubt that as Europeans our biggest threat is raw materials availability in the future, and we will have to do something with Asia in order to overcome the situation. I have few concerns for the Americans.

**Bert:** You also answered the question about consolidation trends. These two relate.

**Harald:** Definitely. If you are not big enough—if you have no foreign production, meaning that you only produce in Germany or Switzerland—I think you will have a very difficult time in the long run. In the meantime, we have organised our purchasing globally, so there is a single purchasing manager who travels through Asia, the US and Europe to make the best deal in raw materials according to our demand. We are also happy today that as a family-owned company we took that step to have production outside of Europe. Otherwise we would be in trouble.

There is another threat for the European tape industry: REACH. In the past, we could easily laminate our products through production in the US. If there was a demand issue for raw materials, we could send a hot melt adhesive to Europe. We cannot do that anymore. All our raw materials are covered by European chemicals legislation, and there is a huge bureaucracy behind this.

**Bert:** Do you see that changing in the future? If you get more of a grip on this or politics get more realistic?

**Harald:** I think it will remain politically difficult to organise it.

**Bert:** Challenging.

**Harald:** At least for a small organisation.

**Bert:** We have two topics left: one about innovation and one about workforce changes. Speaking about innovation, Luigi, I have one for you. Aric discussed his strategic positioning—“innovation is all about working together with customers”—and Mike talked about the importance of “being close to customers”. We have mentioned that key phrase “open innovation” often at Afera events in the past, but I think we are increasingly talking about “working together” as a concept.

## **How do you include customers (vertically and laterally)—partners—into your innovation process?**

**Luigi:** Well, the main road for innovation in equipment production is combining the ideas of the R&D department (which I like to call ‘the relax and dream’ team) of our customers with our ideas. In our tradition and experience, we try to understand their needs and deliver an appropriate solution. The customer is our principle partner of innovation: he tells us what he wants and where to start, pushes

and dares us to try things. There is no way but to listen to him carefully, as he is the one in command in the process.

**Bert:** Then innovation becomes a sort of marketing and sales process, because those clients might ask your competitors as well to join them in exploring new possibilities. How do you deal with that and safeguard your interests at the same time?

**Luigi:** Of course the customer request is made to other competitors at the same time. I think that every competitor comes to the table with his solution—his idea—and then the customer chooses the one he thinks possesses better skills. It is basically a question of who comes up with the best idea and provides the best solution. It is certainly not easy.

**Bert:** Oh, I know it is not easy. I mean, we are paid to do the not-so-easy stuff, aren't we?

**Luigi:** We will survive, but we cannot rely on suppliers to give us support.

**Bert:** It is about trust as well.

**Luigi:** From suppliers we can only study what they market and find the best ways to use their existing resources. In our business, however, there is no one to come to us and tell us how to do things better. We have to learn how to make it with the resources available on the market.

**Bert:** Well, we know that Ford quote, "If I had asked my customers what they wanted, they would have said a faster horse." So, in a technical environment, do you always let the clients take the lead in determining what they want, or should part of your relationship also be your own creative exploration process—like Mike says—of "imagineering" (I love that word) new possibilities for your clients?

**Luigi:** Yes, it is all a big game. You have to reach a solution through imagination at a reasonable cost too. You cannot just dream without financial limits.

**Bert:** No, it is a balance between them.

**Luigi:** It is a balance between the idea, the final cost and the total investment.

**Bert:** Yes, it is a balance between great ideas and tomorrow's pay check.

**Bert:** Thank you. For any one of you, is innovation really key to going back to former growth figures in your home markets? If so, what type of innovation?

## **Can we return to former growth figures through innovation in our home markets? Through what kind of innovation?**

**Aric:** Well, just to comment on the last topic and to support what Luigi said, I think that in the tapes and adhesives space, it is very true that oftentimes we need to lead our customers. If we understand that customer pain, then that is one thing. But I think I talked about the example last year where we partnered with a customer, and we made exactly what they asked us to make, and by the time we delivered it to them, they had already commoditised it out. And so you do have to be ahead in this space, and say, "Here is what I can provide to meet the customer needs," as opposed to, "Here is what I can provide in terms of a substrate or adhesive or whatever." I think hiring the best and brightest development personnel is really key to keeping ahead of the customers in this regard.

**Bert:** Do you also see then, from an organisational perspective, changes like we see in the software world about agile (product) development with different processes? Is this how you approach it? How do you structure that process with a client talking about innovation? About the possibilities for the future? It is not easy.

**Aric:** That is not easy, no. It is a complex process of trying to understand megatrends, right? Let's take the move to composites, for example. What really are composites in special vehicles or automotive? What type of tape or adhesive needs will the auto industry have? We know today, but this does not matter today. It matters five years from now, and that requires investment. This requires real dollars spent today like you talked about. Real dollars spent today—are they going to pay tomorrow's salary? No. And so you must have some foresight and some guts to say, "Yeah, I think we can design the five-year model."

**Mike:** The interesting thing is 'five years', because I think the pace of change is faster.

**Aric:** Well, that is a great point.

**Mike:** You see the gadgets they are all playing with in their pockets and things.... They are changing. Somebody in this room has an iPhone 6, and I cannot believe it. We see these wonderful new cars arriving. With these things come great opportunities, and I think you are right. But I think the pace of change is much faster. I think we used to say ten years, five years. With some of these things, the timeframe is just six months. If you are not ahead of that, too late.

**Bert:** Then it is really about getting close to each other, all the partners in the industry.

**Mike:** That is the collaboration, and that is what I think we are seeing more and more of: The fuzzy lines between the entities in the supply channel.

**Bert:** But the key question: Will it give us former growth figures?

**Carles:** I think so. At least we work with this belief fully every day. This is not an easy job. You cannot find the answers in books. Producing tape solutions today requires a lot of creativity, imagination and patience. This is different from when I started in packaging tapes with tesa in Spain in '95. It was like working in the stock exchange: one euro cent more, one euro cent less. It was very exciting: I remember Emilio Angeli called to tell us to do something because raw materials were going up....

Today, what I see in my job is totally different. We think 'new'. In developing new applications, we work really closely with customers, with the key players. We also have to be very selective and understand the processes, as the customer does not often know the solution himself. We run audits, and it is up to us to show the customer where he can save money and where he can be more competitive in markets. This is a great process and a more complex process. It is not like it was in the past when we would show the customer a nice folder and demonstrate how we seal a box. Today's process involves more hunting, spec'ing and integrating the entire value chain: raw materials suppliers, machine suppliers, partners, converters, logistics.... It is the only way to play this game and to grow in Western Europe.

**Bert:** Did you say that your innovative scope is in reducing costs for your customers? Is that the focus or is it innovating flexible products?

**Carles:** Our customers suffer just as we do in the face of global competition. In the process of producing a tape product—for example, the anti-corrosion solution in the auto industry—you save them time with more efficient activity in the production line, and they get to deliver a better product. You both are even happier if you have saved money in the process. That is perfect, but it means the complete opposite of the sales model we had in the past.

**Bert:** That brings us to the last topic, which is about workforce. In a fast-changing environment, how do we attract the brightest people—new skills—and organise them? Mike, your company?

## How do you attract, engage and manage new talent and young people in the industry?

**Mike:** We are clearly different from these big guys, but we have seen a big trend in the change. Parafix is hiring. We have taken on this year alone ten young people under the age of 25, and I am so proud. What we are finding in the UK is that people are beginning to resist going to university, instead adopting a more traditional vocational education. Under the apprentice scheme, people of 17 or 18, instead of going to university, come and work with us—go on day release. We will part-fund their education, and they will gain hands-on experience.

Why? Well, what does it cost? There is no doubt about it: to go to university today in the UK is very expensive, and some people simply cannot afford it. I know it comes with a loan, but eventually it must be paid back. When I speak to these youngsters, what they say is that they will learn more modern practices today within industry than they will at university. Now I am talking about engineering students here. I am not talking about accountants, lawyers. I am saying that the engineering workforce that we lacked in the UK is coming back through vocational education. So that is how it is working for us.

**Bert:** You could also say that in a technical environment, universities cannot keep up to speed with what is happening in reality.

**Mike:** Very true, yes. We have a collaborative innovation project with our local university called the Knowledge Transfer Programme. In fact, our marketing lady who put the slide presentation yesterday [[Mike Punter's presentation "World of converting: What happens to your tape"](#)] together for me—very creative young lady—was a university postgraduate and obviously had no experience in industry. So she came to work with us; the government pays one-third of the cost, we pay a third, and the university pays the last third. The university then has the right to all her input into her business plan so they can use it as a model. But this plan is two years out-of-date already.

**Bert:** Harald, you have a family-owned company in the adhesive industry. You hear this story on education and entering the technical workforce in the UK. You are in Germany. How do you look at this?

**Harald:** I think in Germany the situation is a little bit different from that in the UK. And different again from that in the US. I think a key issue in Germany is that nowadays people study—

**Bert:** Not technology, marketing. It's the easy job.

**Harald:** Most of them choose accounting, marketing, advertising, for MBAs. I think 70% go in that direction. Maybe only 10-20% want to study chemistry, mechanics or electronics.

**Bert:** Because that is hard work, Harald!

**Harald:** Hard work, I know. But I think mathematics or physics is even more difficult. In addition to this, when I worked in recent company engagements with chemists, they are all Chinese, Czech, etc. They are not German. That is a real issue we are encountering.

And then we have a specific issue where we live in our region, which is very close to the Swiss border: we are surrounded by all the big chemical companies, so there is a lot of competition for young talent.

**Bert:** And the fact that you can offer those people an international career, now that you are a global player. Is that key to your attracting talent?

**Harald:** I think so. If you ask people in our company if they would like to go over to the US for a couple of years? Definitely.

**Bert:** Attracting young people in a technical, corporate environment. Mike says it is sexy to start in an SME. Carles, how do you experience this?

**Carles:** I think this is one of the main challenges we have in tesa. Our company is German, 75 years old. Fritz is keeping a lot of sales in Germany—thanks for that—but the share of sales in Asia is increasing proportionally. Our workforce is mainly European and to get engineers and other suitable personnel possessing the values and culture of a German company is a real challenge.

In tesa I am an exception. I am an expert who, when in Hamburg for five years, somehow learned to blend the values of the company with my own southern European style. This is our goal at tesa: to attract young professionals early in their careers and have them work for a number of years in Hamburg. With this knowledge and training, they can apply to Asia or the Americas. It is about creating a pipeline of suitable talent. This seems easy, but it is a big challenge.

When I started my stint with tesa in Milan, I had to drive a succession plan exercise. I had a lot of great employees—the best salespeople in the world—but in terms of our company strategy, or spec'ing, they did not provide the right fit. When we hired new personnel, this was also challenging because they had many demands and we had to tell them to take it easy.

So all of this organisational development in Western Europe and on a global scale is the main challenge. Again, for example, we had to integrate the HR department as they have to understand the company strategy.

**Bert:** Be close to the business.

**Carles:** Yes, we have to have an HR for China here in Europe, but tesa has to think differently about this. So we have to take all these functions up in the strategy. This is one of our primary challenges.

**Bert:** I think “challenge” was the most commonly used word in this discussion. We are ready for the break. I really hope you enjoyed this panel exercise. I would like to have a standing ovation for these five gentlemen who shared their views with you today.

—End—