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## TISSUE PRODUCTION COST *VERSUS* CONSUMER MARKET DRIVERS

**T**issue and Towel (T&T) belongs, as we know, to the pulp and paper industry. Together with Packaging, it is the prettiest girl in the ballroom. T&T could become the grade that replaces Printing & Writing's consumption of fiber, which is shrinking every day.

For all of us in the pulp and paper industry, the first concern in studying a conversion to T&T or a greenfield investment is the cost competitiveness of the new machine or site. Fiber will certainly be the largest cost, and probably by a lot. Since fiber cost represents 70% of a tissue sheet, integrating the tissue line with pulp production can make a lot of sense and result in a very low-cost producer. This is the case of the recent integrated investments made by Suzano (Figure 1).

However, I would like to challenge all of us to go one step further in this analysis.

Let's think about how tissue is sold, which is different from most other paper products. Around 35-40 years ago, a big tissue producer stopped thinking in terms of tons and started to price its end-products in terms of "cases." The impact of this was big. Suddenly, margins came not from how much fiber could be sold, but rather from how little fiber could be used to make the same number of cases. The winner of this new game was the company that created the new "rules" – P&G – which could produce more rolls with less fiber. How did P&G do it? With technology, namely through-air drying (TAD).

You can see the dramatic impact of P&G's strategy in Figures 2 and 3. They show that, even though the cash cost in terms of tons of some P&G's machines is not the best, they can be very profitable. Figure 2 shows P&G's position in cost-

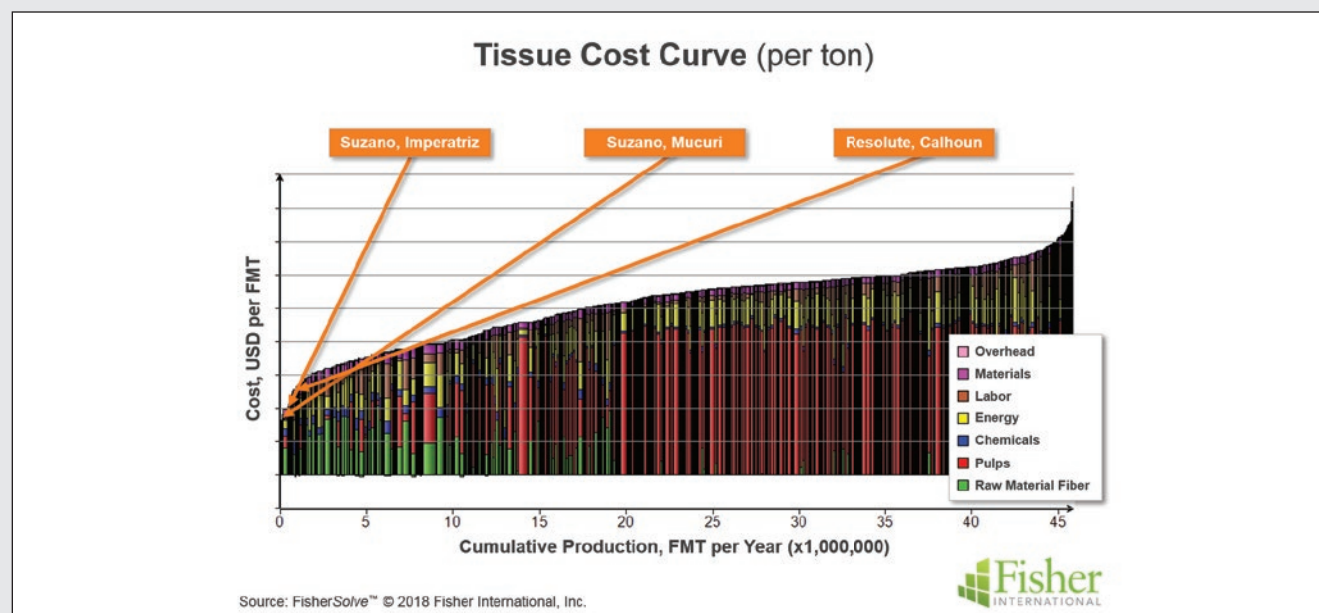
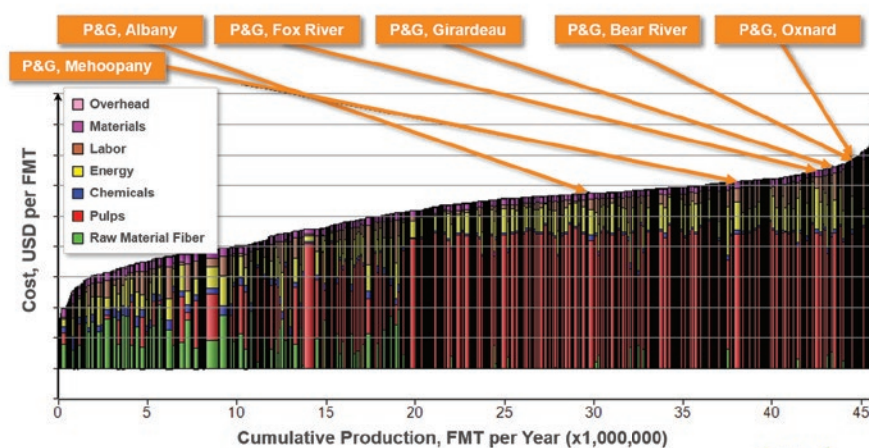


Figure 1

### Tissue Cost Curve (per ton)

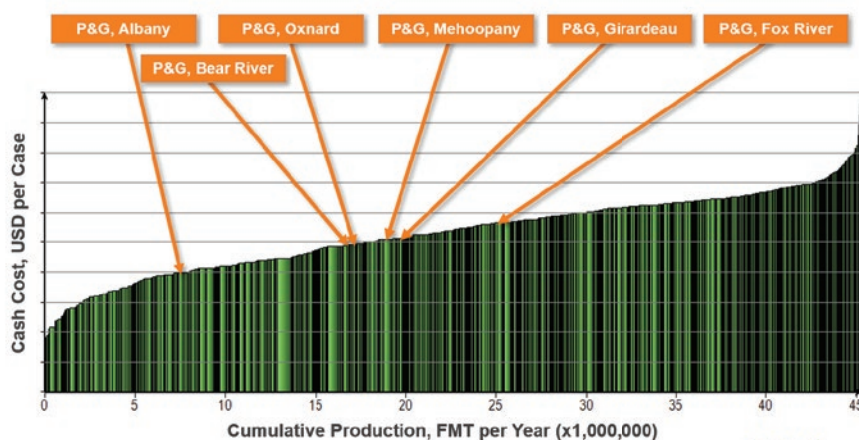


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Figure 2

### Tissue Cost Curve (per case)



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Figure 3

per-ton – you can see that P&G occupies the right-hand side of the cost curve. Now let's take a look at cost in terms of the industry-standard cost-per-case, which tells a very different story. In Figure 3, P&G's machines occupy the left-hand side of the cost curve despite the fact that they use expensive raw materials and produce an ultra-premium product.

While cost is hugely important, there are, of course, other factors that determine success in the T&T marketplace. A conversion or a greenfield in tissue must take in consideration not only the cost of the new product, but also variables like

machine technology, the consumer good (tissue) sales price, distribution strategy, etc. There's a lot to know.

Pulp and paper industry professionals constantly seek advantages for the companies that employ them. Since the cost of these investments is so high, it pays to understand the potential outcome of each investment fully in advance. We at Fisher believe that investments in business intelligence and analytics can have a higher return than nearly any other investment. We hope this article shows one way in which business intelligence and good analytics help understand the drivers for success. ■