

OWN YOUR

GROWTH



VITAL STATS

PLAYERS:

Brothers David and Jonathan Sher, and father Barry Sher

COMPANY:

Universal Paper & Plastics

ESTABLISHED:

1950

REVENUE: R600 million, expected to reach R950 million by the end of 2017.

CLAIM TO FAME:

This decades-old family business has managed to reinvent itself and 10x its revenue over the last decade.

VISIT: www.upap.co.za

How to create a defensible position in a highly competitive market while increasing your margins

Start-ups aren't the only businesses that need to pivot. Large companies often need to do it as well. The difference, though, is that pivoting a large organisation is much more complex, and the stakes are much higher. Here's how brothers Jonathan and David Sher, together with their father Barry, have taken a R100 million family business and will reach R950 million by the end of 2017 — by manufacturing toilet paper. **BY GG VAN ROOYEN**

BLOGGER and technology evangelist Robert Scoble famously said: "Change is inevitable, and the disruption it causes often brings both inconvenience and opportunity."

All businesses need to keep up with the times and evolve — even those in very traditional industries. Take for example local manufacturing firm Universal Paper & Plastics (UPP). The company has a very long history, having been founded in 1950. It started off making things like envelopes and paper drinking straws. By 1955, however, it had found its niche when it started producing paper napkins. Over the years, UPP dabbled in other areas. As its name suggests, it also made things like plastic bags, but napkins were its core product.

By the mid-2000s, though, the market had shifted. "The company wasn't in financial trouble, but it was clear that the napkin business had reached its limit. Business was slowing down, sales were declining, and there was clearly no room for growth," says company director David Sher. "We wanted to grow the business and not let it stagnate, and that clearly meant reinventing it."

Together with their father Barry, brothers David and Jonathan Sher, who had joined the company in 2008, took a careful look at the business to determine where and how it could evolve. It was clear the business, which had already been run by the Sher family for three generations, had reached an inflection point. And therein lies the secret to growth. **Businesses that span only a few years will reach inflection points, and need to adapt or die. Many business do not survive decades, because they cannot navigate these points.** UPP has not only stood for 67 years, but it's entering an unprecedented period of growth because it's owners understand the need to adapt to changing markets, and find solutions that cater to those markets while bringing costs down and simultaneously improving quality. It's something that is much easier said than done.

ADAPT OR DIE

But let's step back to Scoble and his assertion that disruption brings both inconvenience and opportunity, for it's the businesses that spot the opportunity — and react accordingly — that benefit from real growth. Scoble (and his

KEY LEARNINGS

- » Find a new product you can sell to existing customers.
- » Don't be afraid to reinvent the company. Embrace change.
- » Even old and large companies can pivot successfully.
- » Own your own supply chain (as much as you can).
- » Find a niche. Every industry offers them.

blog scobleizer.com) first rose to prominence when he was employed at Microsoft. He was authentic and unpretentious in his writing, and accomplished the difficult task of making a gargantuan organisation like Microsoft seem, well, human.

Scoble made his statement about disruption in his 2006 book *Age of Context: Mobile, Sensors, Data and the Future of Privacy*, just as his tenure at Microsoft was ending. His words

would soon prove incredibly relevant to his old employer.

The very next year, Microsoft found its world upended. Until then, Microsoft had been a software company. The world was using desktop PCs, and the corporation's software was dominating that market. But in 2007, the world was changing. People were switching from desktop to mobile. Clunky computers were out, laptops and tablets were in.

The big reason for this change? The introduction of the first-generation iPhone. Apple, a company that had been created to build and sell personal computers, was suddenly in the cellphone business. Soon it was selling iPads and paper-thin MacBooks.

The late-2000s saw an incredible amount of disruption in the tech sphere. Both Microsoft and Apple only survived because they succeeded in reacting to this disruption. Where would Microsoft be if it was still just focusing on software? What would Apple look like if it was still only selling desktop Macs? Apple was the first to react — in many ways, it was a cause of the disruption — but Microsoft also responded before it was too late. It had some hits and some misses. It's tablets, for instance,

PHOTOS: MIKE TURNER

haven't caught on like those of Apple and Samsung, but it has had great success with its Azure cloud service. It also purchased Skype for an astonishing \$8.5 billion. Can Skype ever show Microsoft a decent ROI? Well, even if it doesn't, it shows a willingness on Microsoft's part to make bets on the future, instead of just depending on old strategies to keep paying off.

DEATH BY ATTRITION

The point is this: When they realised that the world was changing, both Apple and Microsoft did something. They embraced change. When you're an old and well-established company, this can be very hard to do. Many great companies have gone under simply because they were too slow to react to change.

In a sense, being disrupted can be a good thing, since it forces you to take action. Few things can focus your attention like an existential threat. But what happens when your market is slowly eroded, perhaps over a decade or two? If you're lucky, the business will stagnate and you'll hit a plateau. If you're unlucky, the business model will become so shaky that it eventually collapses.

The great disruptions and tragic failures are well documented, but for most companies, death by attrition is more likely. If you're around long enough, you will eventually see your core product or service become obsolete. It's inevitable. All companies are always being disrupted, but when it happens slowly, we simply call it 'progress'. You either move with the times, or you get left behind.

PIVOTING THE BUSINESS

Of course, the above is not only true for tech companies. UPP is an excellent case in point. "Our dad got the process started just before we joined the business," says Jonathan. "He wanted to shift the company's product offering, but he didn't want to venture into areas that the company knew nothing about.



“WE KNEW THAT IF WE WERE GOING TO TAKE ON STRONG COMPETITORS, WE HAD TO RELY ON OUR EXISTING CUSTOMERS, AT LEAST INITIALLY. YOU NEED TO LEVERAGE YOUR EXISTING RELATIONSHIPS IF YOU WANT TO GROW YOUR BUSINESS.”

He wanted something that UPP could sell to existing customers, and that was still within the scope of the company.”

An obvious answer was rolled paper products. The market for rolled paper was massive, but there was a problem: It was dominated by some very strong and entrenched competitors. As a new player in this particular field, how could Universal Paper & Plastics compete with strong international brand names? It wasn't easy, but the Sher family employed some smart strategies that eventually saw UPP grow exponentially over the next decade. In fact, the company's revenue is set to grow almost tenfold by the end of 2017, going from around R100 million to closer to R1 billion. Rolled paper is now its biggest product by far. Here's what they've done to implement 10x scale in the business.

1. SELL TO EXISTING CUSTOMERS

It's both more time consuming and costly to pitch to and win new customers. Selling to existing customers is far more cost efficient, and an excellent way to grow a business and increase revenues.

“We'd been around for a long

time and we had established strong relationships with many of the large retail chains. Instead of trying to sell to new customers, we focused on the relationships we already had. You need to leverage your existing relationships first if you want to grow your business,” says David. In line with this strategy, UPP diversified its product range and increased its sales volumes with its existing customers.

2. OWN THE SUPPLY CHAIN

While existing customers might be willing to give your new product a try, one thing still remains very important: Price. When it comes to fast-moving consumer goods, margins are small, and customers — even loyal ones — are unlikely to sign a contract if you can't offer them a great product at a competitive price.

Universal Paper & Plastics realised that it could only be competitive if it owned its entire supply chain. If it didn't make its own raw materials, there was no way it could be competitive.

“For a while, we got our paper from a supplier, but there were some issues. Firstly, buying paper from someone else ate into our margins. Secondly, when

this new side of the business really took off, we suddenly couldn't get hold of enough paper from the supplier. Finally, we weren't terribly happy with the quality. We knew that we needed to provide a superior product, and we could only do that if we had complete control over it.”

So, the company invested in a paper plant. Taking control of the manufacture of two of its key raw materials, ink in 2002 and paper in 2008, meant that UPP could reduce its costs and improve its efficiencies.

“Making paper is difficult and expensive, so it was a risk,” says Jonathan. “Funding it wasn't easy, but it was worth it. It gave us the competitive edge we needed.”

3. FIND A NICHE

Don't assume there's no new niche to explore, even in commoditised products.

Toilet paper is toilet paper, right? Well, no. Early on, Universal Paper & Plastics identified a surprising niche in the market. It decided to print on its rolled paper, something not a lot of companies could do.

“It added more complexity. We had the knowledge of flexographic printing but had to master the art of printing on such thin paper at high speeds. There was surprising demand for printed products. At first, it was purely decorative, then we moved towards design with a purpose — things that are interactive and educational. For example, we have an educational range of toilet paper for kids that provides information on topics like multiplication, biology, dinosaurs, planets and road signs,” says David.

When combined with the facts that its products are both high in quality and competitive in price, it's clear that UPP has created an impressively defensible position for itself in a very competitive market. It's a great example of how just about any company in any industry can rescue itself from irrelevance, as long as it's willing to adapt and take some risks. **EM**