

Xerium Asia Pacific Region: Independent, yet not alone

Interview with Xerium's Global President and CEO Harold Bevis

by Yang Chenming

Harold Bevis became the new CEO of the 203-year-old Xerium in 2012. When he unveiled the world map for this transnational corporation, he immediately set his eyes to the east, where the Asia Pacific region lies, and where a huge population guarantees a consecutively growing economy. Most importantly, it has half the world's paper-making production lines and China produces and consumes the most paper and paperboard, which make it a hot battleground of global paper products suppliers.

When turning to look at Xerium's financial reports, Harold Bevis might well frown, however. The Asia Pacific region, which accounts for half of the global paper-making industry, contributed less than 20% of Xerium's business, far less than its business in Europe or America. Xerium operated machine clothing and roll covers businesses there for several decades, but most of the business involved imports. When most of Xerium's competitors delivered products from their China plants directly to customers, products from Xerium's world-famous Huyck.Wangner machine clothing plant had to travel from overseas. Stowe Woodward roll covers, which took the biggest global market share, began to be produced in China only five years ago. Moreover, while Xerium's competitors had made their brands very popular, many Chinese clients did not even know that Stowe Woodard and Huyck.Wangner were sub-brands of Xerium. Even to a few who did, the pronunciation of Xerium is difficult. When many transnational corporations are well localized, Xerium was barely on its way.

"This has to be changed!" Harold Bevis and senior management from the Board of Directors established a brand new strategy for Asia and began to implement it. He appeared in an interview with China PPI, and said assertively: "China will be Xerium's core theme of investment." He was serious. The Board soon decided to adjust the global business structure. In the following two years, Mr. Bevis made many more business trips to China, making Xerium well on its way to localization.

In 2013, Xerium closed several plants in Europe and U.S. and began to expand business and production scale in the Asia Pacific region, especially in China. They would move new processing equipment to this region, promote technology and apparatus of its Changzhou plant, and invest 60 million dollars to establish its machine clothing plant in Kunshan—its first one in China.

In 2014, Xerium started construction of the Kunshan plant, completed Changzhou plant's first polyurethane roll covers production line and declared its Chinese name: Zhirui (we could finally write the name in Chinese). At the same time, Xerium employed an Asian senior leader, the first one in its 203 year history. Mr. Wang Wenlin, a management veteran from International Paper, took the position as the new President of the Asia Pacific region.

In 2015, the Kunshan plant went into production. As Mr. Bevis recounted, the new plant adopted brand new technology and equipment, with raw materials, technology and manufacturing processes all from Europe. It became Xerium's best plant in the world and would attract most of Xerium's felt production here. When establishing the Kunshan plant, Xerium also redesigned its China-centered business structure in this region: a new Asia Pacific headquarters relocated to the China (Shanghai) Free Trade Zone, an adjustment of capital structure was made, local trade with RMB began, and cooperation with ICBC. With the headquarters being relocated, key positions were also relocated — the region's President, Vice President of Finance, Vice President of Sales and Marketing, and some senior technology positions — from U.S., Europe and Australia to Shanghai, a total localization of the financial department, and a relocation of network and data center assets from Europe to Shanghai. A modern supply chain in Asia was being deployed — supply chain, storage and warehouse operations moved from internal control to Xerium's new partner Panalpina, creating a seamless digital supply chain for customers

Mr. Bevis said: "Our business structure has long been designed as an import company, after moving into the Shanghai Free Trade Zone, our Asia Pacific branch will generally control all Asian business as an independent Chinese enterprise."

However, Mr. Bevis stressed: “Meanwhile, our sales team and technology and application engineers in Asia will not be a secluded team, but will collaborate with our teams in other plants throughout the world. We want to share the most modern product applications and use cases that occur everywhere in the world.”

He is right by saying “independent yet not alone.” Maybe this is best for a localized transnational corporation.

[Interview]

“Another two plants will be established in China”

China PPI: Hello Mr. Harold Bevis! Thank you for talking with “China Pulp & Paper Industry” again. Congratulations on the successful opening of Xerium Kunshan plant. This is the third consecutive year that China PPI has interviewed Xerium. In the 2013 interview, you mentioned that “China is the core investment theme”. Two years later, we noticed that the series of investment plans are accomplished. What is your view of China’s position within Xerium and its contribution to Xerium?

Harold Bevis : First, China has a well-developed market in the paper industry. Many paper mills have been equipped with the most advanced production lines, on which machine clothing, roll covers and chemicals from top suppliers have been put to use. Most of these international suppliers have already set up factories in China.

Markets in Asia Pacific, especially in China has attracted most of our attention, and it leaves no doubt that we should enter into this competition and try to stand out. Our investment in China aims to satisfy the market and introduce technologies above the current industrial standard, as well as the most advanced processing equipment, to produce the most sophisticated products for customers and to help them with machine efficiency, power-saving, and product quality. We are doing all these to build up a dominant position in this market.

In the past three years, we have updated technology and equipment in the Changzhou roll cover plants and have established a brand new Kunshan machine clothing plant. In total, we now have more than 500 patented technologies, which are a 200-year treasure of our company. We have also sent our Chinese staff to the most competitive plants overseas for the best training. Our Chinese plants follow the top global standards and have the best machines and systematically trained employees. It is the top manufacturing base of our group.

For instance, one of the major machines in the Kunshan plant has a 15-metre width, being able to serve the largest papermaking machine. Its total weight—including its pedestal—is as much as a million pounds, one of the biggest of its type in the world. For certain types of felts, we can produce three at the same time. Additionally, the Kunshan plant has the most advanced information technology systems and best supply chain interface with real-time data system.

In our Changzhou roll cover plant, we have transferred all of most modern technology here, including the SMART® roll production unit, spreader roll production unit, polyurethane roll covers and suction box refurbishment capability. We have also updated cover grooving and drilling equipment. This plant can produce all of Xerium’s roll cover designs.

Our commercial goal is to combine the best technologies in the world to provide solutions that promote machine efficiency and optimize our cost structure while shortening delivery cycles. Our customers will soon be benefited with lower costs, quicker delivery and better service. In terms of Xerium’s investment strategy to adapt itself with the global market, the steps taken in our Chinese plants are key to the re-design of our global business model and plant allocation.

China PPI: How will Xerium adjust the layout of the global division? What will be the development plan for Xerium Asia Pacific? What specific goals do you have for the development of Xerium in the Asia Pacific region?

Harold Bevis : One of our five Asia Pacific plants is in Japan, another one in Australia, with the other three in Xi’an, Changzhou and Kunshan. By our plan, we will invest in setting up another three plants, one for machine clothing and two for roll covers. So the updating of the Changzhou plant and setting a new one in Kunshan serve as only the first step, and the bigger plan is to become Asia Pacific region’s most substantial

supplier of machine clothing and roll covers. Of course, it will take another few years, and we want to take careful but sure steps to realize the goal.

China PPI: Where would you locate these three new plants?

Harold Bevis : Apart from the consideration of cost, we also want to be closer to our customers to provide better service. Two of our three new plants in the Asia Pacific region will be in China, one for machine clothing and one for roll covers. We are considering building another roll covers plant in Southeast Asia, which is also a very promising emerging market.

China PPI: Where would the two China's plants be located?

Harold Bevis : In deciding to set up the Kunshan plant, two plans came into our consideration: to invest in a brand new plant or to take over a local clothing plant. The second plan required the need to update its technology infrastructure to meet our group's standard in order to make top quality products. After comprehensive evaluation, we decided to go by the first plan, to invest in a brand new plant.

We will still choose from these two plans in making policies to set up the two new plants in China. Talking about the location, we have a ten-year cooperation—from 2013 to 2023— with Kunshan Government, and we have set up a new plant in the past two years. Now we can see that the two new plants have a big chance to be part of the ten-year plan.

“Optimization and upgrade of paper industry will bring more opportunities.”

China PPI: Chinese government raised the “New Normal” theory, at the same time, the growth of China's paper and paperboard production has slowed down to a near-stop. What is your view of this phenomenon? Under such macro economic and industrial situation, Xerium still sticks to big investment plan. How would you estimate the risk?

Harold Bevis : I know the “New Normal” theory. My understanding is that policies will put more force in motivating terminal consumption, which is closely related to the papermaking industry. Therefore, this industry will be bolstered along with consumption. Moreover, as China has such a considerable volume in paper making and consumption, a very slow growth, even as slow as less than one percent, means a substantial increase in demand.

There are about 8500 papermaking machines in the world, of which more than 4000 are located in Asia. Papermaking machines have a productive life of 45 years, while in Asia, especially in China, papermaking production lines have been used for only 10 years in average, thus have many years before obsolescence. Over time, papermaking plants will increasingly focus on the the overall efficiency of production lines, with stable quality, and they will need to optimize their equipment even more. Xerium will then come into play, with our cutting-edge technology, we will help them with better efficiency and better quality. So even with a zero grow in China's paperboard production, we still have a huge market opportunity here.

In the meantime, globally speaking, we have seen an increase of new pulp making production lines in South America, which helps Chinese papermaking plants to get cheaper and better market pulp. Export of Chinese papermaking plants will be motivated by policies of “going global” and the depreciation of RMB, and become more competitive in the global market. These are all good signals. Moreover, China's papermaking industry is experiencing a storm of updating and transition, during which time many old machines are about to be scrapped and discarded. Novel technologies are urgently needed to fill in the gap and the more advanced papermaking production lines could be our clients too. We are quite optimistic about our future clients.

China PPI: As we know, many enterprises are facing some common difficulties. On the one hand, the enterprises are facing high cost pressure and low profit; on the other hand, the enterprises are trying to be innovative to provide new value for profit. As the Global CEO, have you ever felt a similar pressure? What suggestions will you give to Xerium's customers and how will Xerium help customers to solve these problems?

Harold Bevis: We understand these difficulties— that capacities of almost all types of paper productions are more or less excessive— making the competition even harsher. Relatively speaking, small or outdated machines cannot guarantee stable quality, they will face bigger pressure with less competitiveness. Competitiveness in this industry can be summarized into two words: volume and quality. In manufacturing,

competitiveness depends on the handling of raw materials such as pulp and waste paper and the technologies of those processes. Both will have an effect on the cost and the profit.

Let's take clothing and roll covers as an example. Costs on these two account for about 3% of the general cost in papermaking, a very small fraction, while the two materials have a considerable effect on machine efficiency. In fact, when cost pressure is low, decision makers tend not to take risk by buying from new suppliers out of concerns about stability of paper products. Yet with fierce competition nowadays, the refusal of new technology or advanced products will be a huge risk in itself. In this way, it has become a new challenge for managers in papermaking plants to innovate and to find more trustworthy suppliers.

Xerium never builds "standard" products. All of our products are engineered according to each order, whether it is machine clothing or roll covers. Every single product needs to meet the client's real demands, and every demonstration of our products has two goals: to improve our clients' products; or to lower their cost. In other words, our goal is to create new value.

"Xerium will be independent yet not alone."

China PPI: We understand that Xerium's investment in China is not only reflected in the construction of the Kunshan plant and renovation of the Changzhou plant, but also include the adjustment of Xerium organization, management team, as well as capital structure, which means the adjustment will be for both software and hardware facilities. What are the reasons for Xerium to make the series of big adjustment in Asia, and what is the strategic objective of it?

Harold Bevis: Localization is very important in the papermaking industry. China has the most advanced machines in the world, which means it needs staff with complete technology. As for our products, clothing and roll covers are industrial consumer products and need quicker, more professional full range of services, and we need to arrange manufacturing case-by-case to meet the urgent delivery. All these require a general localization. The cost of our products are roughly the same in any plant in the world, but being local can bring us nearer to the clients, be more familiar with them and provide local supply and service. Our operational goal is to set up plants near every important papermaking region, to provide quick service.

Our Kunshan plant is not only a new factory but also a structural change of the Asia Pacific region. Our headquarters of the region is located in the China (Shanghai) Free Trade Zone, we have reached a Bank & Enterprise cooperation with ICBC, and our financial team in this region has been fully localized. In the past 40 years, our major business in Asia, especially that in clothing, was based on import, and our enterprise structure was designed in line with an import company. From now on, Xerium's Asia Pacific region will carry out its business as a localized and independently-operated enterprise.

Meanwhile, our staff in Asia, including sales, engineers and manufacturing staff, will not operate unconnected, but will cooperate on a platform for this region. We will be able to share product applications and successful references that have occurred anywhere in the world.

According to our plan, we are very honored to have Mr. Wang Wenlin as our new president of our Asia Pacific region. With an educated background in both eastern and western countries, Mr. Wang is familiar with corporate governance in both cultures and has good sense for the industry around the world. With his great leadership, Xerium will surely bloom in this region.

China PPI: Can you introduce Xerium's goals in different phases under Wang's leadership?

Harold Bevis: The Asia-Pacific team's goal is as follows: currently, nearly half of the global paper products are manufactured in Asia. According to this proportion, we are expecting roughly the same percentage of sales and profit, yet the current number is 18%. Thus, we have a two-step goal: first, make Asia the biggest share in the global business; second, to be a dominant technological leader in Asia.

"Be the winner with dedication and patience"

China PPI: Personally, I think the first goal will be realized sooner or later, yet isn't there a major obstacle in front of the second goal? In recent years, Chinese equipment suppliers made great progress, and other international suppliers also focused on the Chinese market. Do you feel the intense market competition? How will Xerium face this pressure? How will Xerium build up its own advantage?

Harold Bevis: I understand your point that the competition is intense. According to our statistics, we have 35 competitors in the Chinese market, and we also face fierce global competition. Now we have the second

largest market share of machine clothing, as for roll covers market, we are tied for first place. These achievements have been made step-by-step in our 203-year development. It means we are very powerful and competitive, and our efforts have been recognized by our clients. In the Asian market, we cannot push too hard. We have to earn our position step-by-step and achieve the goal gradually.

In fact, every supplier wants to be a winner. As for competitiveness, I think Xerium stands out as an innovation-specialized enterprise. As I often mention, Xerium is a team of engineers, specializing in technological design. We have also built a very stable research team, focusing on customers' needs. In Xerium's 203-year history, we have accumulated well over 500 patents, and more on the way in every coming year.

Compared to our competitors, another advantage of ours is our in-depth industry knowledge. Although we don't manufacture papermaking machines, we have a deep understanding in all components that are involved with our products and how they need to perform on our customers' machines. Actually, papermaking plants always need suggestions and solutions from all sides. We confidently believe that, in our realm, Xerium can provide unique solutions with the best technology. Some of our current clients will consult with us on specific solutions for clothing and rolls before buying paper-machines.

China PPI: Specifically, what are Xerium's core competitive advantages?

Harold Bevis: The first one involves designing and research of certain core raw materials. We put significant effort into estimating, designing and research into our core materials. We carefully evaluate chemical types, brands and formulae of fibers, synthetic rubber and polyamide. From the very first stage, we begin to consider what we can do to help with the papermaking machines' efficiency. This is a fundamental advantage.

Regarding products, our advantage lies in unique patented technologies and software systems.

For instance, as for the retention in the forming section phase, which is critical to paper quality, we design with 3D or 4D technology according to pulp types adopted by our customers; and to lower cost to make each ton of paper products, we will optimize dewatering by designing several weaving patterns to create the best drainage channel; in the press section we will use software simulation and sophisticated base structures and batt technology to insure the ideal combination of water removal and sheet quality, in the drying section, we use the optimum dryer fabric structures to control air flow and lower energy consumption. These are all part of our unique technologies which many are patented.

As for roll covers, we can guarantee peak performance and stable quality with our formulae and unique technology.

China PPI: This would be the last question. Xerium did not make big investment during the fastest-growing years of paper-making industry. Yet after you became Xerium's CEO, we see a dramatic acceleration in China. How would you comment on this? Does this reflect a management style under your leadership? What are your prospective of Chinese markets?

Harold Bevis: My style is like this. First we need patience. To get each client is to win a war of technology, and we cannot win by destroying the market and undermining our brand, but to be patient in achieving our financial goal. Second, we should employ those who are able to understand the market and put them in the right position.

You were right about us not making a big investment when the market was growing at its fastest. But our business in Asia did make great progress then, and we have an even greater opportunity for the future...now is the right time for Xerium we believe. Moreover, although we were not the first to enter into China, we do have the late-mover advantage to learn from others' mistakes and make sure our new plants are technologically the most advanced.

To conclude, I want to mention that Asia is the biggest region and the world needs Asia to lead the papermaking industry. As the market grows, Asia, especially China will be more focused on technology, power saving and efficiency, and become the world's best-developed region in this industry. We are confident we can contribute to this growth with our technology, products, and teams of experts to help Asia and China move to a new stage. It is our pleasure and we believe we can make it happen.