# Are Microflute and Kraft Paperboard 'Like Goods' when used in beverage can multi packs?

## A Market Participant's Viewpoint
## Statement of Arthur Mitropoulos

**Background and Experience**

I am an experienced supply chain executive with considerable FMCG knowledge, having led large and sophisticated supply chains across Australia and New Zealand. I have particular expertise in supply chain strategy, procurement of materials and services, supplier negotiations, sustainability strategy, sales and operations planning, project management, engineering, quality systems, manufacturing, warehousing, logistics, business process re-engineering, continuous improvement, and M&A divestiture/ integrations.

Since 1986 I have held many management positions across multiple disciplines within beverage businesses. From 2002 and until my retirement as a permanent employee in 2017, I held senior executive positions with Cadbury Schweppes, Schweppes Australia and Asahi Beverages (referenced as Schweppes in the rest of the document), with accountabilities in Manufacturing, Logistics, Procurement, Engineering and QEH&S. As Supply Chain Director at Asahi Beverages I was responsible for managing total costs of $1.2 billion, spread across a network of 9 manufacturing facilities and 15 primary distribution centres.

More details of my professional experience are set out at Appendix A.

Major beverage companies are the primary customers of beverage can multi packs manufactured with either Visy microflute, or imported kraft paperboard. Given my experience I believe I am uniquely placed to provide an insight into how a key market player viewed the microflute and kraft paperboard alternatives.

I was the Operations Director at Schweppes in 2004 when that organisation switched from GPI manufactured kraft paperboard multi can beverage packs, to the Visy microflute alternative. As Operations Director I held the executive responsibility for the procurement function.

**Schweppes' general process of selecting a beverage can pack supplier:**

The selection of a beverage can multi pack supplier was a significant procurement decision for Schweppes. In 2004 our annual spend on beverage can multipacks (12 cans and above) was (from memory) circa [redacted], and Schweppes held around 40 to 45% of the Australian soft drink market. The sales volume grew during my tenure and by 2017 the Schweppes spend on 12 can and above beverage can multi packs was (from memory) in the order of [redacted]. [Deleted confidential monetary amounts].

With all major procurement activities an 8-step Strategic Sourcing Process (**SSP**) was managed by the Procurement team. This process was the key to making decisions which ultimately led to awarding any new procurement contracts, and ongoing management for the duration/renewal of those contracts.

[Deleted confidential information re SSP]

[redacted]

In regards to packaging procurement decisions such as selecting a beverage can pack supplier, there were a number of internal specialists that provided input in the different steps of the SSP. Once the opportunity was identified in step 1, which was mainly a financial opportunity, engagement within the wider business was sought. Of particular note, steps 2 to 5 required input and agreement from many specialists within the business. These were Marketing Managers, Packaging Specialists, Finance Managers, Engineering and Production personnel. This was to ensure there was input from the necessary stakeholders in the SSP.

**Schweppes' initial switch from GPI kraft paperboard to Visy microflute**

I believe that the initial switch from GPI paperboard to Visy microflute occurred in 2004, but the internal work on this switch would have been undertaken for 12 months or so beforehand, to confirm product suitability and ensure success of the transition once the decision was made to switch.

I was the Operations Director of Schweppes at the time and held the responsibility for the procurement functions of the business. I was involved in each stage of the review, and was responsible for signing off at key stages of the SSP.

The primary driver to look at the Visy microflute product was price. The offer that Visy tabled would result in significant financial benefit for the business. The attractive price was due to microflute being relatively new to the market place (Visy offered a low price to incentivise Schweppes as a major customer to switch), and the fact that it was manufactured locally also meant that Visy had a freight saving advantage.

There were a number of hurdles that had to be overcome before any serious consideration was given to steps 4 and 6 of the SSP:

- The incumbent at that time was GPI and really had the majority of the market due to the specialty of their offering, and a lack of alternatives available in the market. GPI also supplied the packaging machines on the production lines that were designed to pack cans into the paperboard, and glue the ends. I recall that GPI did not sell these machines, but we were able to have long term leases which were to a degree tied to the continuing supply of their paperboard. It was important for Schweppes to know that that the Visy product would run through those machines, and that we had a legal right to use a competitor's product through these machines.

- From a "Fit For Purpose" point of view there were also concerns as the two offerings were different (one was a paper board product established in the market, and the other was microflute which was relatively new to the market), and we needed to be comfortable that the wet-strength properties of the microflute was as good as the paperboard. Extensive testing was performed to ensure that the microflute packaging did not fall apart with the normal moisture experienced through the manufacturing, storage and customer use of the final packaged product. As a result of this testing some modifications were required and once these were implemented our business was comfortable that the microflute product would perform as needed in wet environments that our can pack might experience.

- Also, as a business we initially held some concerns that the print quality of the pack graphics may not be as sharp on the Visy offering. We therefore needed an internal marketing department review to satisfy our business that the end consumer would not see any material difference between the microflute and paperboard products. Again the decision to proceed was in part based on our conclusion that there was no material difference in print quality, and so consumer purchasing decisions would not be influenced by the change.

- Recyclability was a minor factor as well, we understood that with microflute there was better ability for mainstream recyclability, and the paperboard less recyclable. As our business was moving to a greater percentage of recycled content of its packaging, this was also a factor in the decision in the SSP.

**Schweppes' contract renewals with Visy microflute**

After the first contract with the Visy microflute contract expired, subsequent contract renewals with Visy were made in 2007, 2010 and 2012. Whilst the Australian Beverages division of Cadbury Schweppes was sold to Asahi in 2009, it was fundamentally the same ongoing Schweppes business and I was the Supply Chain Director at the time of these contract renewals.

There were some fairly minor initial issues (noted in more detail below) associated with the transition to the Visy microflute product. However, by the time that the supply contract came up for its first renewal in 2007 these had been resolved, and so from a quality and functionality perspective we remained comfortable to stay with the microflute product. As such, at the point of each contract renewal our business did not go through the same 8-step SSP. We felt that our initial conclusions (prior to the initial switch) regarding wet strength capability and print quality (no material difference between the two offerings) had been validated in the market. At that stage we viewed the two offerings as completely interchangeable, so the key driver in terms of choosing between a microflute or paperboard solution was cost.

**Production process and constitutional differences**

At the SSP stage referred to above our team was well aware of the differences between paperboard and microflute. Naturally we knew paperboard is solid fibre, whereas microflute has 3 layers and the middle layer has minute fluting. We were aware there may be small differences between the physical widths and thickness of the products. These technical physical differences would not matter to our business, provided they did not impact on consumer preference or create operational issues.

From an operational perspective we found that the two products could not be interchanged instantly on the packing machine within the production line. There were some initial teething issues when we introduced the microflute product on our production line (however this was not unexpected, and could occur even if we were switching one paperboard supplier for another). Our experience was that with some minor changes made to the same packaging machine, our business could easily change over from the paperboard product to the microflute product and vice versa, if required. The machines noted above that were provided by GPI comfortably handled the Visy microflute product for many years after that initial switch. I believe that there were no other material changes required to the rest of the beverage production line, to switch between the two options. Once a bedding down period of adjustments had passed, using either option we were able to run our production lines at a suitable speed, and with minimal downtime.

There was also an initial problem with the strength integrity of the microflute pack handle, which was prone to tearing. I believe strengthening the handle through redesign was achieved, and so this issue was resolved.

From my perspective at that time and for subsequent contract renewals, I believed that the two products were interchangeable and that contract renewals were primarily based on financial considerations. In that regard, each time a tender came up for renewal and up until the 2012 renewal, the Visy offering as a local manufacturer held the advantage.

**Are they like goods?**

From my experience in procuring both paperboard and microflute based products for beverage packaging within the Schweppes/Asahi business, I believe that microflute and paperboard products are 'like' goods for beverage can multi packs (12 can packs and above).

In my view:
- they are 'like goods' in terms of physical appearance – both are fibre based and are generally indistinguishable in appearance to the lay observer.
- they are 'like goods' in terms of functional performance – both products had the required strength and integrity, and performed appropriately in both the dry and wet environments that they were routinely subjected to.
- they are 'like goods' in terms of consumer preference and do not impact consumer purchasing behaviour. Once strengthening of the handle through redesign was achieved, I cannot recall any consumer complaints preferring one format over the other, and if there were any consumer complaints, they were very minimal.

As Schweppes primarily viewed two products as substitutable in the market, I believed that the two products were interchangeable and, as a consequence, contract renewals were primarily based on financial considerations.

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**Arthur Mitropoulos**

**Date:** 20/10/2020

## Appendix A

**Arthur Mitropoulos**
**Experienced Supply Chain Professional at Executive Level.**
**Independent Consultant & Board Director**

A very experienced and performance driven Supply Chain Executive with vast FMCG knowledge, having led large and sophisticated Supply Chains across Australia and New Zealand. Proven success in devising and implementing strategies that have delivered step-change improvements in quality, cost, service, safety and operational capability. Proven ability in leading major transformation initiatives, such as strategic planning, operational excellence, productivity effectiveness, procurement, business process re-engineering, out-sourcing, M&A divestiture/integrations and manufacturing network re-configurations.

Led a large Supply Chain for a $2.0B Multi-National Beverage Company within the ANZ region. Reported to CEO and responsible for managing total costs of $1.2B. Oversaw a network of 9 manufacturing facilities and 15 primary distribution centres. Led a QEHS agenda and development of business continuity plans/risk management strategies.

Specialties: Supply Chain and General Management experience, with expertise in supply chain strategy, procurement of materials & services, supplier negotiations, sustainability strategy, sales & operations planning, project management, engineering, quality systems, manufacturing, warehousing, logistics, business process re-engineering, continuous improvement (Lean/Six Sigma), and M&A divestiture/ integrations.

Arthur has held senior executive positions with Cadbury Schweppes, Schweppes Australia and Asahi Beverages since 2002 and up until his retirement as a permanent employee in 2017, with accountabilities in Manufacturing, Logistics, Procurement, Engineering and QEH&S. Between 1986 and 2002 he has held many management positions across multiple disciplines within beverage businesses.

Arthur has held a number of external director roles and was a long-time member of the Australian Beverage Association including representation in the South Australian and Victorian Beverage Associations.

Now providing independent consulting services to businesses, from small start-ups to large organisations.

**Qualifications**

Graduate Diploma - Australian Institute of Company Directors
Bachelor's Degree in Management (Operations & Logistics) – University of South Australia
Associate Diploma in Business (Industrial Engineering) - University of South Australia.