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## OLD WORLD, NEW MARKET

Smead Manufacturing buys a Dutch office-products firm—and prepares to grow sales in Europe.

Smead Manufacturing CEO  
Sharon Hoffman Avent





Smead CEO Sharon Hoffman Avent says that as American office-products retailers expand their businesses to Europe, they're looking for suppliers who are willing to grow there, too.

# Going Dutch

Acquiring a firm in the Netherlands has given Smead Manufacturing a global reach. It's also positioned Smead for survival in the office-products industry.

By JOEL HOEKSTRA

She'd worn wooden shoes. She'd swilled Dutch gin. She'd drunk hundreds of cups of strong coffee. But nothing had prepared Sharon Hoffman Avent for *groene haringen*.

As president and CEO of Hastings-based Smead Manufacturing Company, Avent had encountered numerous cultural oddities in the eight months it took her company to complete an acquisition of the Atlanta Group, a Dutch office products firm. She'd learned to laugh at her misunderstandings, and taught herself to chat a bit before getting down to business. But even so, Avent wasn't ready for the Dutch treat offered to her following a groundbreaking ceremony for a new manufacturing facility in late 1998, just a few months after Smead sealed the deal absorbing Atlanta.

"I'll be honest with you," Avent says. "When they brought out the raw herring, I had a little bit of a problem. But I learned that I could do just about anything."

There's been no sour aftertaste to Smead's investment, however. Four years after the Dutch acquisition, the privately held Minnesota company is approaching \$500 million in annual revenue—nearly one-fifth of those sales generated by Atlanta. With three manufacturing facilities in eastern Holland and subsidiary offices in Belgium, France, Switzerland, Germany, Austria, Spain and the United Kingdom, the Atlanta Group has given Smead a substantial foothold in the European market. And that has helped Smead win or expand contracts with such major office-products retailers as Viking and Staples.

#### FROM PARTNERSHIP TO PURCHASING

Expansion abroad has proved vital for a company like Smead. In recent years, the American office-products market has seen a glut of competition among producers, even as the wholesale and retail network has consolidated. Big-box retailers, such as Office Depot and Corporate Express, now dominate sales. And as

smaller retailers are squeezed out, Smead has seen its network of wholesale distributors shrink from roughly 2,500 to 1,000 during the past decade. At the same time, Smead's sales have continued to grow, dropping off only in recent months. In April, workers at the Hastings plant opted for Fridays off with partial pay to avoid a layoff of several dozen employees.

Such sea changes in the market were foreseeable already in the mid-1990s, prompting Smead to take a hard look at its own future. "We could see the consolidation in the American market," Avent says. "And we could see that this market was overflowing with product, and we really didn't need to expand any more here. The opportunities were outside the United States."

**"We were going to be the Northwest Airlines-KLM of the office-products industry," says Smead's David Fasbender**

In particular, they were in Europe. Europe was where most of the established American retailers were making inroads. And once they'd jumped the pond, those retailers often preferred working with American suppliers that had European operations over hammering out new relationships with unfamiliar European suppliers. Established relationships were easier to manage, and at least one of Smead's American customers made it clear that its future business would likely go to a manufacturer with overseas capabilities.

So in 1997, Smead went looking for a European partner. Outright acquisition wasn't the aim. "We were going to be the Northwest Airlines-KLM of the office-products industry," says David Fasbender, Smead's senior vice president of sales and marketing and the executive charged with making a match. "We were going to form an association with someone overseas because that would get us into the market much quicker and, we felt, would serve our largest customers' needs."

Fasbender began with a trip to the U.K. But the English weren't much interested

in partnerships: Most companies he met with wanted to sell outright. And while they shared a common tongue that would facilitate business, none of the British firms has a presence outside of the U.K.—one of Smead's primary criteria.

So Fasbender shifted his focus to the continent, where his partnership proposals were warmly received by a company about which he knew little. The Atlanta Group, a 350-employee business with roughly \$70 million in annual sales, had much in common with Smead: Both had begun as family-owned businesses (Smead remains one; Atlanta was sold to investment bankers in 1989) and both marketed their products to wholesalers. What's more, Atlanta had seven satellite

offices outside of the Netherlands and distribution points in more than 50 countries. It also had products that complemented Smead's: Atlanta's headquarters plant in Hoogezand produced suspension files, folders, and business forms; a factory in Coevorden made metal products, such as office trolleys, sorting racks, drawer cabinets, and wastepaper bins; and a plastic injection-molding facility in Reuver churned out stacking units and diskette storage boxes. Smead's output, by contrast, was limited to paper products.

The pair seemed headed toward partnership, then found themselves warming to the idea of a sale. Hiring a consultant from KPMG, they set about gathering material from all of the eight countries where Atlanta does business. Translating documents, gathering figures, and putting a price tag Atlanta's various facilities took eight months, but in August 1998, Smead purchased Atlanta's operation for an undisclosed price. (Smead financed the deal with cash and a loan that has since been repaid.)

## UNIFYING EUROPE

Nothing in Atlanta's operations changed right away. "Initially we wanted Atlanta to remain profitable and to be able to grow it incrementally, just as we have our own business," Fasbender says. "There was no grand plan that 'business is going to double in so many years.'"

Smead wanted to give its European employees wide berth. "We realized it would be a big mistake to disrupt what was going on there until we understood it better," Avent says. But questions did arise over time: Why, for example, did Atlanta offer 12,000 items for sale, when the company actually manufactured only one-tenth of those products? Smead featured just 2,000 items in its catalog, none of them made by other manufacturers.

Within the past year, Smead has dramatically repositioned Atlanta, reducing the number of items in its catalogue and upping the production of certain items that Atlanta makes in house. And under the direction of a new Dutch general manager, Smead has reorganized Atlanta's operations, moving some jobs and eliminating others—a step that, under Dutch law, required cooperation with local work councils. (Workers in the Netherlands can legally challenge employers' decisions in such matters.)

But some reductions simply made sense in a European community that increasingly is unfettered by borders.

"If you have an operation in France, then they have their own auditors, their own lawyers, their own stuff," Avent explains. "And we're saying to ourselves, 'This is craziness. The borders have really kind of disappeared. Let's get on the bandwagon: We're now Smead Europe, and we want to consolidate and have everyone feel like they're working for the Smead Team—not Atlanta France or Atlanta Germany.'"

But Europeans have long resisted a unified identity, and cultural differences aren't likely to disappear overnight. For example, office organizing products—Smead's niche—vary



**Different market, different products: CEO Sharon Hoffman Avent and marketing executives David Fasbender (left) and Al Arends with Smead's European storage line.**

significantly in popularity according to country. And unlike, say, writing instruments, filing systems don't adhere to recognized global standards. So Atlanta produces suspension folders peculiar to Germany, France and the United Kingdom. "The German one is built like a Sherman tank," Fasbender explains. "The one that goes to France is a lateral file that hangs differently. The one in the U.K., the size is different." Worse, almost no one in Europe uses manila folders, one of Smead's most in-demand products among American consumers.

But the world is getting smaller every day. Smead supplies manila folders and other "U.S. style" products to American countries doing business in Europe, and Avent anticipates that, in time, Smead will be able to introduce products that appeal jointly to both markets.

More importantly, Smead is well positioned to serve the large retailers that are beginning to dominate in Europe. Fasbender estimates that the

European office-products industry is roughly 10 to 15 years behind the American market in terms of competitive trends: When consolidation reaches Europe, Smead will have the capacity to serve the bigger players that emerge.

Consolidation might seem as unpalatable to some in Europe as raw herring does in America, but Avent is convinced that doubters will be left in the dust. "There's a perception with our customers that if you're not willing to grow and not willing to look beyond borders here, then maybe you're not the vendor they need within the States [either]," she says. "They're trying to work with vendors who they think have a forward focus."

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*For more information on Smead, call 651-437-4111 or visit [www.smead.com](http://www.smead.com)*