



THE NORDIC COMEBACK KIDS

Turnaround Stars and Their Stories



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INTRODUCTION

COMPANIES TODAY FACE UNRELENTING pressure to perform well: markets are unforgiving of the slightest dip in quarterly earnings, activists are perpetually on the prowl, and potent competitors can emerge seemingly out of nowhere. As disruption sweeps across industries, transformation has become an existential imperative. To survive and thrive, companies must continually reinvent themselves.

But the decision to transform is no guarantee of success: BCG research has found that more than 75% of corporate transformation programs fail to improve companies' short- or long-term ability to create value.

BCG recently examined the record of value creation achieved over the past several years by companies in Norway, Sweden, Denmark, and Finland. We looked across industries, analyzing the sources of total shareholder return and comparing the results of different strategies for value creation. Overall, these Nordic companies have delivered strong performance. More intriguingly, however, more than 40% of the companies that wound up in the top quartile of value creation had undergone a turnaround.

How did such a large percentage of the top value creators in this pool beat the dismal odds of making a successful transformation?

To answer this question, we first disaggregate the components of value creation among the top-quartile companies. Then we explore the stories of a cross section of companies in the Nordic region that achieved impressive turnarounds. These companies' efforts not only produced outstanding results, but also created a foundation for sustained growth. The experiences of these Comeback Kids may serve



More than 40% of the companies in the top quartile of value creation had undergone a turnaround.

as an object lesson to the roughly 20% of large Nordic companies that are currently struggling to grow their revenues or sustain long-term profitability.

Although the companies' turnaround strategies varied, certain actions were common to all. As performance began to falter, company leaders acted swiftly to stanch losses. They charted a multiphase course for recovery, focusing first on funding the journey by generating quick wins. After stabilizing business performance, they went on to achieve gains in the medium term by strategically repositioning the company for growth. Finally, they honed the strategic agenda and organized for sustained, long-term performance. We hope these stories instruct and inspire other companies facing major challenges or otherwise contemplating a turnaround journey.

VALUE CREATION SUCCESS IN THE NORDIC REGION

IN RECENT YEARS, LARGE-CAP Nordic companies have achieved a remarkable level of value creation. During the period from December 31, 2011, through December 31, 2016, the median total shareholder return (TSR) for Nasdaq OMX Nordic companies was 21.4%, compared with a median TSR for the S&P Global 1200 of 10.8%. (See Exhibit 1.)

Strong performance was fairly consistent across all industries, except technology, telecommunications, and media (TMT) and energy. It was also reasonably consistent throughout the Nordic countries. Denmark's companies led the pack (with a median TSR of 26%), while Norway lagged (17% median TSR), primarily because of the oil and gas industry's disproportionate representation in its economy. All but the largest market-capitalized companies—a bracket that is dominated by TMT and energy—achieved impressive TSRs.

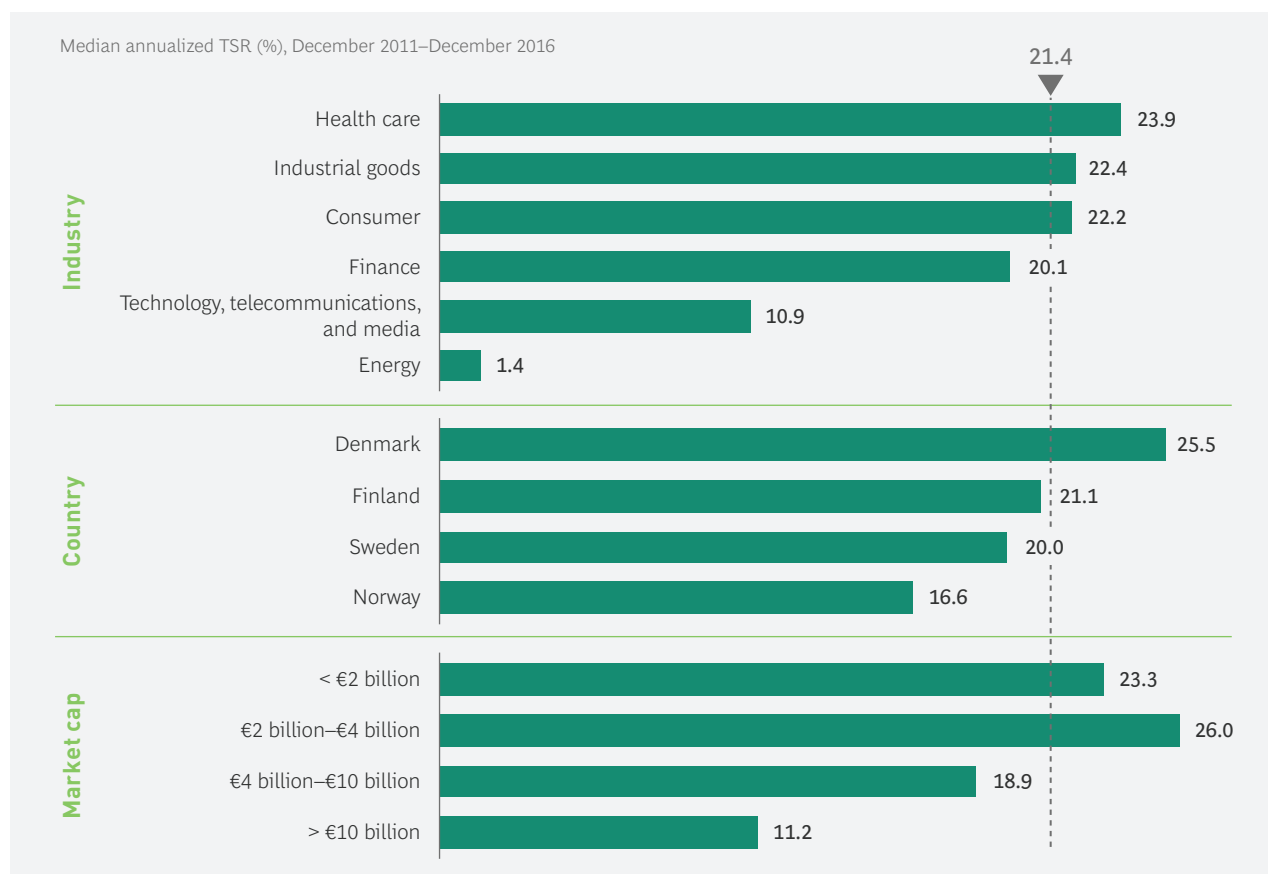
The top-quartile companies achieved a stunning average TSR of 41% during the five-year period—16 percentage points higher than the average TSR for companies in the second quartile, and 39 percentage points higher than the median figure for bottom performers. (See Exhibit 2.) Our analysis shows that strong fundamentals rule: robust top- and bottom-line performance is critical for achieving significant and sustainable value creation. Top-quartile performers distinguished themselves with faster sales growth and the ability to improve their margins. In contrast, companies in the third and fourth quartiles demonstrated little or no improvement on either metric.

Of the 27 companies in the top quartile, 11 (more than 40%) created value through a turnaround, 15 created value through growth, and 1 depended primarily on cash flow (such as dividends) for its success. (See Exhibit 3.) Both the turnaround com-



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EXHIBIT 1 | Large-Cap Nordic Companies Delivered a Healthy Annualized Average TSR of 21.4%



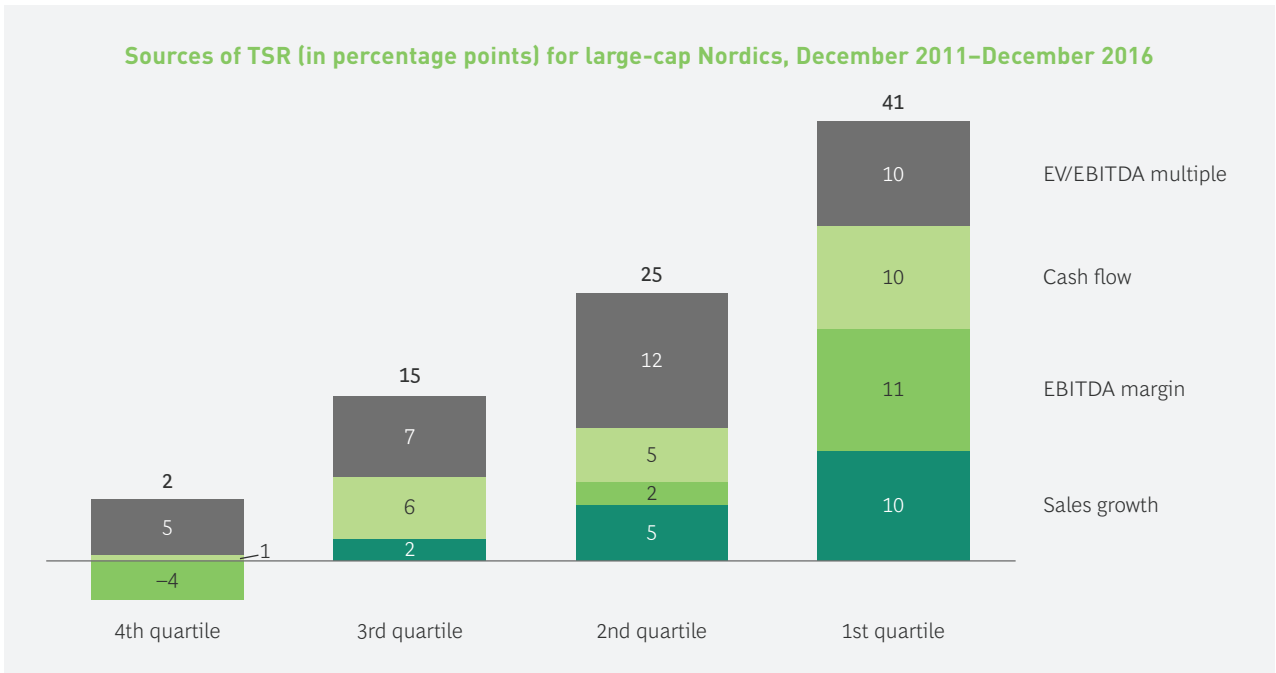
Sources: S&P Capital IQ; BCG ValueScience Center; BCG analysis.

Note: Analysis of 152 of the total 187 large-cap companies in the Nasdaq OMX Nordic index; 35 companies were excluded because of missing TSR or financial data. In country and market cap comparisons, 41 financial sector companies were excluded because of missing TSR data.

panies and the growth companies achieved average annualized long-term TSRs of 41%, while the cash-flow company managed an annualized TSR of 30%.

Collectively, the companies profiled in this report illustrate four basic turnaround strategies—accelerating growth, repositioning the strategy, boosting margin, and restructuring the portfolio. In many cases, companies combined two or more elements. Royal Unibrew mainly pursued accelerated growth; Nokia and BillerudKorsnäs strategically repositioned themselves; Metsä Board and UPM-Kymmene repositioned themselves and restructured their portfolios; and Danske Bank and Husqvarna focused on boosting margin. We offer a side-by-side comparison of BillerudKorsnäs and Metsä Board to highlight the contrasting approaches they took in the midst of a tectonic shift in their industry.

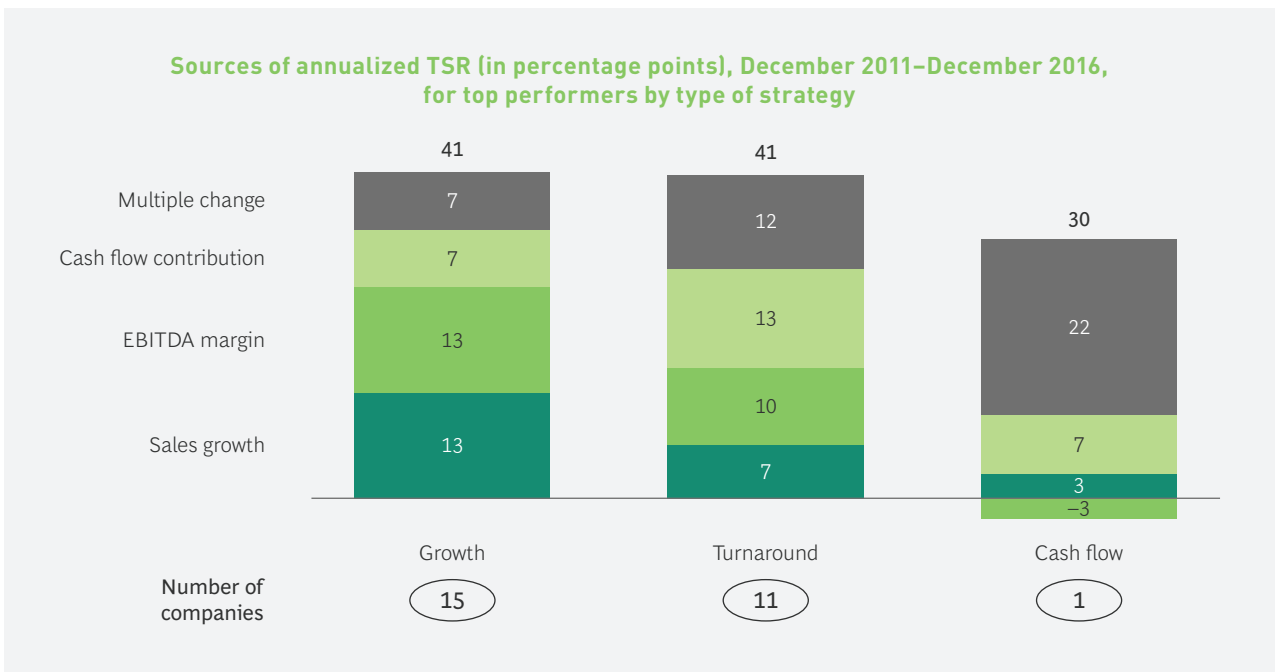
EXHIBIT 2 | The Top Performers Among Nordic Large-Cap Companies Excelled in Sales Growth and Margin



Sources: S&P Capital IQ; BCG ValueScience Center; BCG analysis.

Note: Change in annual TSR is based on averages over the sample, excluding financial sector companies. Because of rounding, not all percentages add up to the totals shown. Among fourth-quartile companies, sales growth effectively contributed 0% to TSR; similarly, among third-quartile companies, EBITDA margin improvement effectively contributed 0% to TSR.

EXHIBIT 3 | More than 40% of the Top Performers Created Value Through a Turnaround Strategy



Sources: S&P Capital IQ; BCG ValueScience Center; BCG analysis.

Note: Change in annual TSR is based on averages over the considered sample. Companies compared here are top-quartile only, excluding financial sector companies. Because of rounding, not all percentages add up to the totals shown.

DANSKE BANK

Rediscovering the Customer

IN THE COURSE OF its more than 145-year history, Danske Bank has weathered recessions, panics, and booms. But the 2008 financial crisis was a particular challenge. Like all European banks, Danske Bank found itself struggling with a stagnant economy, a weak lending environment, and a tougher regulatory climate. Leaders were also concerned about the solvency of Greece and other troubled EU economies. And as consumers were becoming increasingly digital, their expectations were changing markedly.

Compounding these external challenges were a number of internal issues. In its main markets, Danske Bank lagged behind competitors in customer satisfaction levels. Its operating costs were relatively high, too, and its balance sheet before the crisis struck had been weak relative to its peers'. In 2009 alone, Danske Bank had loan impairment charges totaling nearly DDK (Danish kroner) 26 billion, an amount equal to 43% of the bank's total income. On top of this, the bank's concentration of business in Denmark left it more exposed to local amplification of external shocks than its more geographically diversified competitors were.

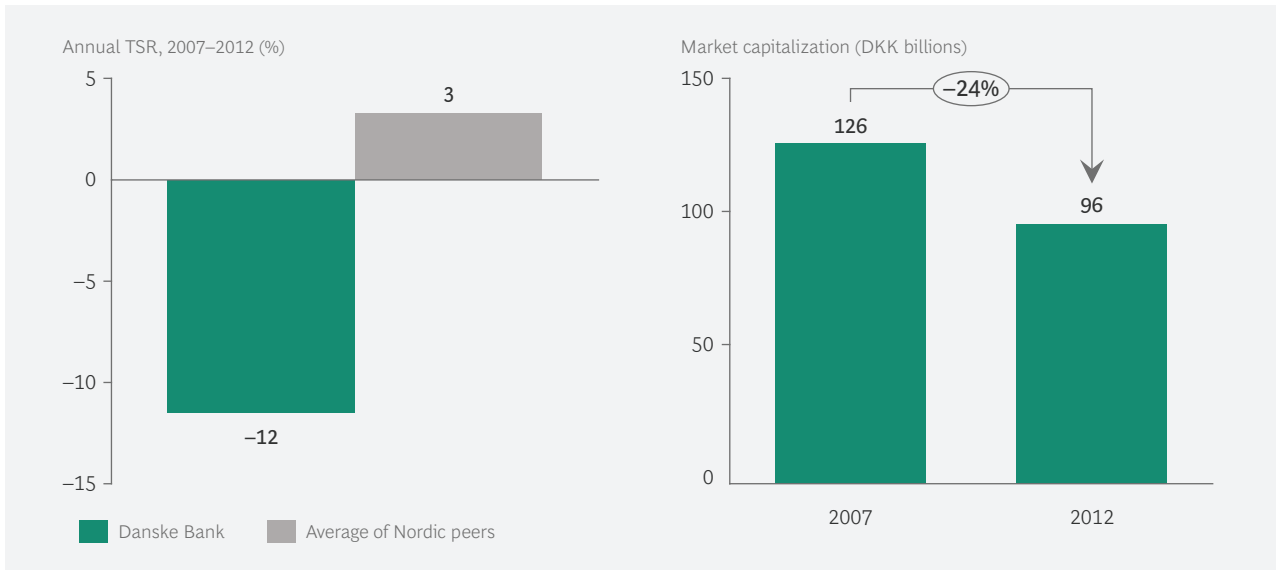
The financial crisis and these exacerbating factors took a dramatic toll on Danske Bank's overall performance. From 2007 to 2012, the bank's market capitalization fell by almost 25%, from DKK 126 billion to DKK 96 billion. (See Exhibit 4.) And while its Nordic banking peers produced an average annual TSR of 3%, Danske Bank's TSR was -12%.

In the wake of the financial crisis, the bank's leaders acted quickly to stabilize performance. To strengthen its balance sheet, Danske Bank issued new shares—resulting in an infusion of capital that boosted its credit rating—and withheld dividends for five years. Although loan impairment charges continued, they declined from their



By 2012, Danske Bank's leaders had restored it to a sound financial footing, ready for the next phase.

EXHIBIT 4 | The Financial Crisis Compounded Danske Bank's Performance Woes



Source: S&P Capital IQ.

once-critical level. Danske Bank also carried out a modest workforce reduction and raised its lending rates to offset the higher cost of funding resulting from the EU's increased capital requirements.

By 2012, its leaders had restored the bank to a sound financial footing. They were now ready to begin the next phase of their longer-term plan to make Danske Bank a top performer and to chart a path for future growth.

Crucial to this phase of the turnaround was the implementation of significant measures to improve profitability. The bank increased its non-interest income throughout its business lines by adjusting pricing, reducing fee discounts, and promoting cross-selling. It also streamlined its operations—including revamping its channel approach to make the branch network far more efficient—and replaced its country-centric structure with integrated business units. At the end of 2012, Danske Bank had 400 branches throughout Denmark, Finland, Sweden, and Norway; but by the end of 2016, only 217 remained. In 2013, the bank announced its intention to withdraw from the personal banking business in Ireland. Two years later, it announced plans to do the same in Latvia and Lithuania. These actions enabled Danske Bank to reduce its total full-time-equivalent staff by 1,000 from the end of the year in 2012 to the end of the year in 2016.

These measures quickly improved the bank's financial picture, but they also triggered an unexpected decline in customer satisfaction and company image across a broad set of stakeholders. Recognizing that a renewed focus on customers needed to be the cornerstone of future value creation, the bank's leaders launched significant efforts to improve the customer experience, deepen relationships with corporate and institutional investors, and reemphasize the customer perspective in its everyday decision making. As part of these efforts, the bank aimed to become a leader in digital services and the digital customer experience;

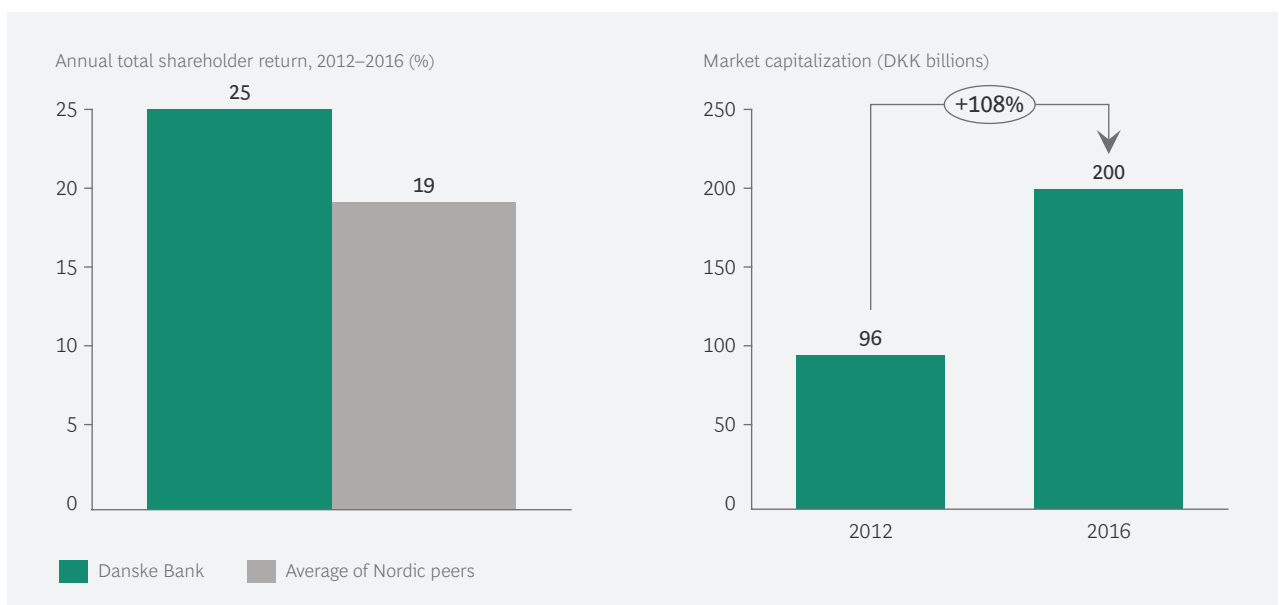
for example, it introduced MobilePay, a smartphone app for making money transfers, payments, and donations. MobilePay has been a big success, especially in Denmark, where more than 60% (3.6 million) of the country's population are now regular users.

In eight years, by adhering faithfully to its performance improvement plan and its rediscovered customer-centric mindset, Danske Bank engineered an impressive comeback. It dramatically boosted its operational efficiency. It reduced operating expenses relative to total income by 20 percentage points, from 67% in 2008 to 47% in 2016—an accomplishment that, along with top-line growth and diminished loan impairment charges, returned Danske Bank to its precrisis profit level. From 2012 through 2016, Danske Bank soared past its Nordic peers in TSR: 25% versus an average of 19%. (See Exhibit 5.) And its market capitalization more than doubled during the period, from DKK 96 billion to DKK 200 billion.

Beyond its impressive financial results, Danske Bank has seen major improvements in customer satisfaction. By the end of 2016, it had reached two important goals: becoming one of the top two Nordic banks in customer satisfaction in business banking (in all four key markets) and becoming one of the top two in personal banking (in three out of four key markets).

Danske Bank now has a solid foundation on which to leverage its adaptive strategies for growth: focusing on the customer experience, driving digitalization, building up high-potential segments, and expanding business across its Nordic markets. With its newfound strength and resilience, Danske Bank is poised for enduring prosperity as it heads into the second half of its second century.

EXHIBIT 5 | Danske Bank's Turnaround Has Catapulted Its Performance Far Beyond Its Peers in TSR



Source: S&P Capital IQ.

HUSQVARNA

Honing a Competitive Edge

SINCE ITS FOUNDING IN 1689 as a firearms factory, Swedish-based Husqvarna has manufactured all manner of machines and tools, from motorbikes and meat grinders to sewing machines and stoves. Today, Husqvarna is a leading name in power tools and products for forest, park, and garden care, best known for its chainsaws, mowers, and gardening systems. The company also produces cutting equipment and diamond tools for the construction and stone industry markets.

Prior to 2007, Husqvarna had enjoyed a long period of growth and profitability. In 2000, it was a roughly SEK (Swedish kronor) 24 billion business within Electrolux; by 2007, the company was standing on its own as a listed company with sales of SEK 33 billion. But then revenues suffered across product lines, and profits weakened as consumers shifted to lower-priced products: from 2007 to 2011, Husqvarna's sales fell 9% and its EBIT plummeted from 11% to 5%. Although the general market slowdown—approximately 6% to 8%, depending on segment—certainly affected the company, Husqvarna's decline was even more the result of internal challenges. Its market capitalization contracted from SEK 25 billion to SEK 18 billion, and its TSR during the period averaged -15%, versus an average of 0% for other large-cap Nordic companies.

Facing a New Market Reality

Husqvarna's leaders realized that they must implement wide-ranging efficiencies and structural changes in order to stabilize the company. Achieving stability would be a particular challenge for a company whose businesses relied not just on economic growth but on largely seasonally driven and weather-dependent product sales.

Over the next few years, company leaders undertook a major reorganization, along with process improvements, focusing on manufacturing, sourcing, and the supply chain. For example, they lowered Husqvarna's factory capacity by 20%, moved production to low-cost countries (such as Poland), and reduced the supplier roster by 25%.



Husqvarna began the final phase of its turnaround in 2015: reorganizing divisions by end-user segments.

Gearing Up for Profitability

In 2013, with its newfound savings and efficiencies in hand, Husqvarna was ready to lay the foundation for a profitable future. Leaders launched the Accelerated Improvement Program to return the company to its precrisis profit levels. One of the most important aspects of the program was a renewed focus on Husqvarna's two core brands, Husqvarna and Gardena, and within them, a focus on the product areas with the greatest profit potential (such as professional handheld

equipment and robotic lawn mowers). In practice, this meant phasing out several low-volume, low-margin product categories. Among the program's other initiatives were an operational excellence effort and new, differentiated channel strategies for retailers and dealers.

In 2015, Husqvarna embarked on the final phase of its turnaround journey: reorganizing divisions by end-user segments to optimize growth. To complement the company's Husqvarna and Gardena brands, leaders created a consumer brands division and a construction division that also serves the stone industry. Despite being a lower-margin business, the consumer brands division has a distinct edge over many of its competitors, thanks to its access to technology innovations from the company's professional product units.

The Way Forward

By 2016, Husqvarna had made an impressive comeback. Its revenues in 2016 surged to record-high levels (SEK 36 billion) and its market capitalization more than doubled over five years, from SEK 18 billion in 2011 to SEK 41 billion in 2016. (See Exhibit 6.) Husqvarna also saw its profitability almost double, as its EBIT margin grew from 5% in 2011 to 9% in 2016.

EXHIBIT 6 | Husqvarna's New Focus Yielded Robust Sales, Market Cap, and Margin Growth



Source: S&P Capital IQ.

The future looks bright for the new Husqvarna. In emerging markets, mechanization is growing; in developed markets, ongoing productivity pressures give sophisticated, high-value machinery an edge; and in consumer and professional products, increasingly stringent emissions and noise-control regulations make the company's innovative products especially attractive. With its digital products and features, battery-powered equipment, and pioneering robotic mowers, Husqvarna is strategically positioned for success as new technologies and environmental challenges transform the company's industries worldwide.

BILLERUDKORSNÄS AND METSÄ BOARD

Two Paper Companies, Two Routes to Reinvention

THE ELECTRONIC ERA DEALT a huge and disruptive blow to the global paper industry. Beginning in the early 2000s, Europe's €30 billion graphic paper industry—including magazine, newsprint, and printing paper—began to feel the effects of eroding demand. The recession at the turn of the millennium and the global financial crisis in 2008 further accelerated the market's decline.

Billerud (of Sweden) and Metsä Board (of Finland) are companies whose forestry roots date back 150 years; but poor market conditions and the companies' own high exposure cost them dearly. In 2008, packaging paper accounted for 68% of Billerud's sales, and printing paper was responsible for more than 80% of Metsä Board's revenues. From 2001 through 2008, operating profits for both companies had nosedived, and their debt-to-equity ratios had soared. The two landed at the bottom of their peer group: Metsä Board had lost 90% of its market value, and Billerud had lost 70%, while their peers, on average, had lost 50%.

Leaders at both companies knew that dramatic changes were in order. Packaging was one of the few growing segments in the industry, fueled by rising global prosperity, changes in patterns of consumption, and the steady growth of online shopping. At the same time, demand for recycled raw materials and recycled packaging was increasing, thanks to consumers' heightened environmental awareness. Both Billerud and Metsä Board recognized that their survival depended on shifting their production from paper to packaging—primarily consumer board, paperboard, and corrugated products. But despite having the same ultimate goal in mind, the companies took completely different turnaround paths to reach it.

BillerudKorsnäs: Strategic Repositioning with M&A

Billerud's leaders saw great promise in packaging, especially renewable packaging. But in 2008, that segment accounted for barely one-third of



Both Billerud and Metsä Board knew they had to shift production from paper to packaging to survive.

the company's sales: corrugated products, at 29%, and consumer board, at 3%. Given that limited base, organic growth would take too long and be too risky. The company's best bet for achieving the scale and competence needed to strategically reposition itself, leaders determined, was through M&A.

Billerud set the stage for its transformation with a series of small acquisitions. In 2011, it bought Pac-access Packaging, primarily to gain a foothold in new customer segments in the North American and European markets and to expand its supplier base in Asia. In 2012, it acquired UPM's packaging paper business to further expand its capacity and to increase the company's overall sales by approximately 20%. (See "UPM-Kymmene: Evolving Beyond Declining Product Categories," page 18.)

The company's pivotal M&A move came in November 2012, when it acquired Korsnäs and became BillerudKorsnäs. Korsnäs's product strength—packaging materials for consumer goods—positioned the new entity to establish itself as a leader in primary fiber-based packaging products. Almost overnight, BillerudKorsnäs nearly doubled its revenues while beefing up its core competencies. The combined entity now had the scale and the resources to capitalize on two fast-growing sub-segments: liquid packaging board (chiefly for packaging milk and juices) and carton board. The successful postmerger integration unlocked SEK 530 million in synergies annually (a 3% margin improvement), by consolidating purchasing, procurement, and logistics, as well as through process improvements. Immediately following the acquisition, the company also lightened its debt load and strengthened its capital structure to bring its net gearing ratio, or debt-to-shareholder equity ratio, to less than 80%.

In one year, BillerudKorsnäs managed to flip the focus of its business, reducing the share of paper in its revenues to 37% and increasing the share of consumer board more than tenfold, to 36%—a healthy balance that the company has maintained to this day.

Metsä Board: Strategic Repositioning Through Portfolio Restructuring

Unlike BillerudKorsnäs, Metsä Board determined that an organic path was the right way to shift the business to a focus on packaging products. Leaders decided to restructure the company's portfolio by shedding unprofitable businesses and making strategic investments.

The company, part of the Metsä Group, laid the foundation for its turnaround with a two-year cost-savings initiative begun in 2004. The resulting profit improvement helped fund the journey. In 2006, Metsä Board launched a two-pronged divestment strategy: closing paper mills and selling its high-performing paper plants. Within one year, the company had reduced its mill capacity by 13%; within seven years, it had slashed capacity by 78%. A program of asset sales, begun in 2001 to alleviate

debt incurred during the company's late 1990s acquisition spree, generated €3 billion between 2005 and 2012. These divestments not only relieved the company's onerous debt burden but also were critical in advancing its exit from the paper market. The divestment of Metsä Board's graphic papers unit alone cut the company's debt by €630 million and hastened its portfolio restructuring.

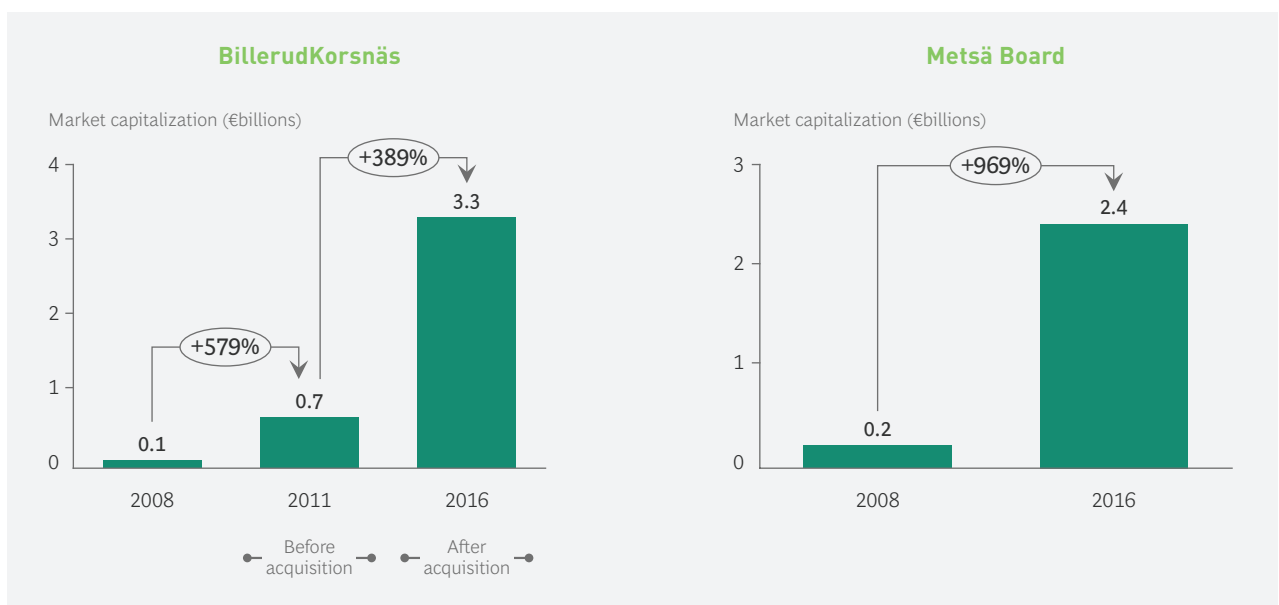
With its debt significantly reduced and its margins vastly improved, the company saw its debt-to-equity ratio fall dramatically. By 2011, Metsä Board had reduced the proportion of its sales from paper by almost half, from 84% to 47%. Meanwhile, its paperboard business grew from 16% to 53% of sales. By 2016, just five years later, the company was out of the paper business and squarely in the packaging business, earning 75% of its revenues from paperboard (the rest came from pulp sales).

By All Measures, a Springboard to Future Success for Both Companies

Now on solid ground, the two companies are poised for sustainable and profitable growth. BillerudKorsnäs has high hopes for its SEK 5.7 billion investment (one of the biggest in Sweden in recent years) in a new board machine. Metsä Board's new financial strength has allowed it to make the necessary investments in capacity to realize its ambitions in the paperboard market—such as expanding the company's flagship Husum mill, a project that began in 2014. This expansion has boosted the company's capacity in boxboard and linerboard by 40%.

Across all metrics, both companies have delivered dramatic performance improvements. Between 2012 and 2016, BillerudKorsnäs more than doubled its revenues, to SEK 21.8 billion. The company's operating profit jumped by 80% to SEK 2.0 billion, and its operating margin rose

EXHIBIT 7 | Each Company's Turnaround Strategy Sparked Explosive Market-Cap Growth



Sources: Bloomberg; S&P Capital IQ.

to 9% (from 5%). The company also slashed debt, restoring its debt-to-equity ratio to healthy levels.

Metsä Board, meanwhile, saw its profits explode during that same five-year period, as its EBITDA margin nearly quadrupled, to 13.4%. The company also slashed its debt from €2.4 billion in 2006 to €464 million in 2016.

From 2008 (at the beginning of their turnarounds) to 2016, the two companies experienced explosive growth in market capitalization. BillerudKorsnäs's market cap rose from €0.1 billion to €3.3 billion, while Metsä Board's jumped from €0.2 billion to €2.4 billion. (See Exhibit 7.)

Though their approaches differed, both BillerudKorsnäs and Metsä Board strategically repositioned themselves to remain vibrant, value-creating enterprises in an industry rocked by change. Their roots may be a century-and-a-half old, but they have used careful pruning and seeding to reinvent themselves to bear fruit for the long term.

UPM-KYMMENE

Evolving Beyond Declining Product Categories

WHAT DO YOU DO when you dominate a declining market? If you're Finnish forest conglomerate UPM-Kymmene, you launch a transformation program to diversify your business and boost profits. About half of UPM's revenue used to come from graphic paper. Yet demand has been steadily falling, especially for the magazine paper and newsprint that once made up largest share of UPM's sales.

Several forces have been behind the decline. Readers are increasingly consuming information digitally. And in the wake of the financial crisis, companies have scaled back their marketing budgets for print campaigns. Environmental concerns have been a factor as well, as consumers in many developed markets seek to limit their use of paper. From 2006 through 2012, demand in Europe and North America declined by an average of 5% each year. Worse, excess capacity across the entire paper industry pushed down prices. As a result, UPM's paper businesses were facing pressure.

To improve its performance, the company focused on both shifting to growth segments and increasing efficiency through numerous cost programs. From 2006 through 2009, the company closed about 14% of its paper production capacity. It bought a competing paper company and further consolidated those assets, leading to about \$240 million in annual cost synergies. In 2013, it launched another round of cost reductions, closing several more paper facilities, reducing head count, and selling some forest property.

UPM then restructured its organization into six businesses: paper in Europe and North America, specialty paper (still a growth market), pressure-sensitive labels, plywood, biorefining (including pulp, timber, and biofuels), and energy. In addition,



To improve its performance, UPM focused on shifting to growth segments and increasing efficiency.

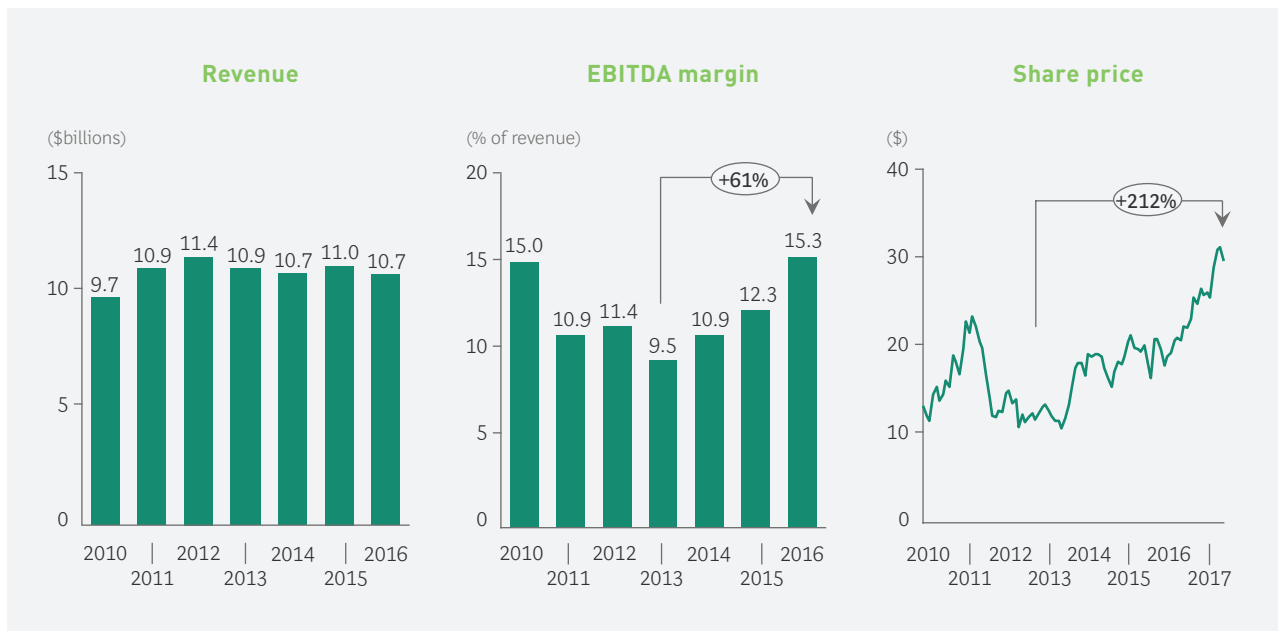
it shifted resources away from mature businesses and markets toward faster-growth businesses. Specifically, UPM invested about \$730 million in a set of growth-oriented projects. These included a new specialty paper plant in China and a biofuels facility in Finland, the world's first refinery capable of producing a wood-based renewable diesel fuel.

As a result of the portfolio transformation and restructuring, the portion of revenue from declining paper markets has declined from about 70% in 2006 to below 50% in 2016, and the company is continuing to reshape its portfolio. To ensure that it can lead these markets, UPM has made a big push for innovation, increasing the number of annual patent applications by 280% since 2008. And management has pushed more decision-making authority down to the business units, allowing them to set and execute their own strategy. As a result, the units are more nimble and better able to capitalize on fast-moving opportunities.

Most impressive, UPM focused on developing its employees and organizing for sustained performance throughout the turnaround, through measures such as a new performance management system, a commitment to leadership by people in individual markets, and an improved safety culture. From 2008 through 2016, employee engagement increased by 20 percentage points, even as productivity soared (sales per employee are up 34% over the same period, and time lost because of accidents declined 83%).

Sustainability measures are in place as well: all wood is sustainably sourced (forest owners now use digital apps to better manage UPM's properties), wastewater is down significantly, and the company has been named on several prestigious lists and indices for sustainability.

EXHIBIT 8 | UPM-Kymmene Stabilized Revenue While Improving Margins and Share Price



Sources: S&P Capital IQ; Thomson Reuters.
 Note: Based on exchange rate as of December 31, 2016.

The transformation has dramatically improved UPM's performance. Despite scaling back from its former core business, the company has maintained consistent revenue, even as its profit margins and share price have soared. (See Exhibit 8.)

UPM's story shows what's possible when management accurately recognizes structural challenges in its industry and launches a bold transformation to address them. By remaking its portfolio, the company has pivoted away from a declining industry and invested in high-growth adjacencies, and rewarded shareholders along the way.

NOKIA

Reprogramming for Growth

NOKIA HAS TRANSFORMED ITSELF many times in its 150-year history, starting as a paper mill in Finland in 1865 and then moving into other industries and other countries. It didn't settle on phones and networking equipment until the 1980s, when mobile technology took off. In 2007, the company was a dominant player in mobile phones, with a 40% global market share thanks to superior technology and enormous scale advantages. Just five years later, however, Nokia was in a severe crisis: its market capitalization had dropped 96%. (See Exhibit 9.) The company was burning cash, and operating losses were more than \$2 billion in the first six months of 2012 alone.

In response, Nokia launched a dramatic, bet-the-company turnaround. The first big strategic question was the fate of the mobile-phone business. In the war of the mobile ecosystems, Apple's iOS and Google's Android were rapidly capturing larger and larger chunks of the market, and it started to seem unlikely that Nokia's Windows Phone strategy would save the company. Instead, Nokia decided to sell its mobile-phone business to Microsoft, announcing the divestment as part of a \$7.2 billion deal in September 2013.

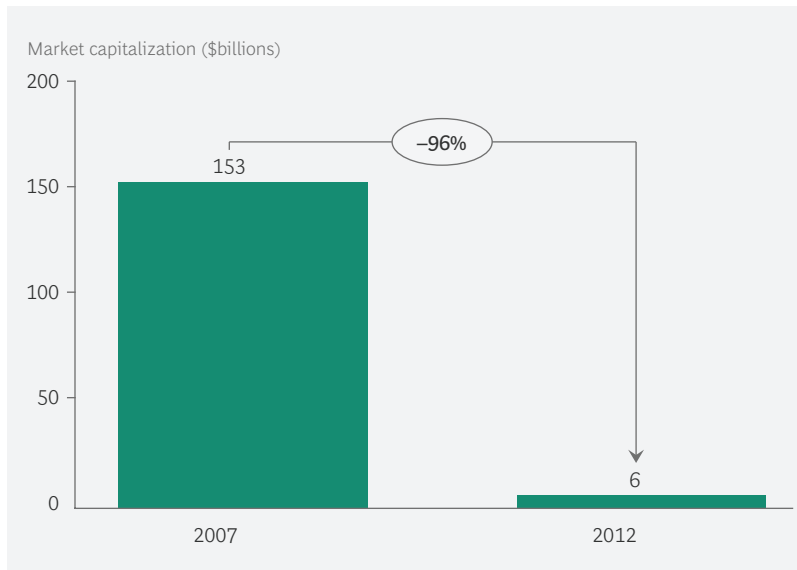
After the divestment, Nokia was a portfolio of three fairly different businesses: network infrastructure, mapping services, and technology and patent licensing. This brought the company to its next big strategic decision: Should Nokia develop itself as a portfolio company, or should it focus its activities?

The network infrastructure business was Nokia's largest. But from 2007 onward, Nokia had been operating it as a 50-50 joint venture with Siemens and had planned to *reduce* its involvement by preparing the unit for a full spinoff and IPO.



Nokia's next big decision: Should it develop itself as a portfolio company, or should it focus its activities?

EXHIBIT 9 | Nokia's Market Capitalization Fell Dramatically as the Market for Mobile Phones Shifted



Source: S&P Capital IQ.

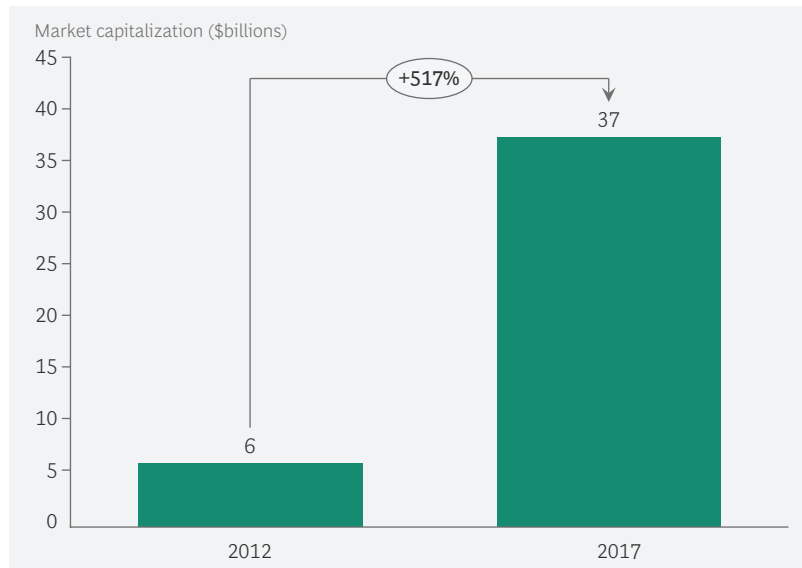
But in 2013, sensing opportunity, Nokia decided to take full control of this unit by buying out Siemens. Why? The joint venture agreement was coming to an end, and one of the parties would need to assume full ownership, with all the risks and rewards associated with it. Nokia's move proved to be a success—over the next two years, Nokia turned the networks unit into the new core of the company, creating several billions of dollars in shareholder value.

The full extent of Nokia's grand plan for the network infrastructure business was revealed in 2015, when Nokia announced its intent to acquire Alcatel-Lucent. With this industry-shaping \$16.6 billion acquisition, Nokia expanded from a mobile-network provider to a full-service network infrastructure provider (including such services as IP routing and optical networks), and it strengthened its presence in North America. During the same year, Nokia further sharpened its focus by selling its mapping business to a group of German car companies (including Audi, BMW, and Daimler) for \$3 billion.

Despite the repositioning to a full-fledged network infrastructure provider, Nokia decided to retain its patent and technology licensing business in order to continue its legacy of innovation and reinvention. In addition to housing the majority of Nokia's patents, the unit focuses on innovating in areas such as virtual reality and digital health. Although the unit accounted for less than 5% of Nokia's revenue in 2016, it generated 22% of the operating profits and, according to analysts, accounts for an even higher share of the company's valuation.

To illustrate how drastically Nokia has changed in this journey, one can look at Nokia's workforce: from the start of the turnaround through early 2017, the company turned over 99% of the employee base, 80% of the board, and all but one member of the executive team. Chair of the board Risto Siilasmaa, who took over in May 2012, at the height of

EXHIBIT 10 | Since the Turnaround, Nokia's Market Cap Has Grown More Than 500%



Source: S&P Capital IQ.

Nokia's troubles, described the journey as follows: "It has been a complete removal of engines, the cabin, and the wings of an airplane and reassembling the airplane to look very different."

Rajeev Suri, a long-time Nokia Networks employee who took over as president and CEO in mid-2014 to execute the strategic plan of the newly formed Nokia, described the effort to analysts: "We launched a new strategy, made all of the key product transition decisions and aligned those with customers, fostered the common culture, and more. All of which underlines the point that when you know which direction you should be heading, you can move faster and more effectively, and we have done that."

Nokia transformed itself from a nearly bankrupt mobile-device manufacturer to one of the world's leading network infrastructure and technology players. Its market capitalization in July 2017 had increased more than 500% since the low point in July 2012. (See Exhibit 10.)

This transformation—from walking dead to thriving in a new core business—is unlikely to be Nokia's last. But this success shows that the company is able to navigate massive disruptions, reorient itself, and come back even stronger. Today, Nokia is again the pride of Finland and the most valuable company in the country. It is well positioned for the next chapter in its long history.

ROYAL UNIBREW

Crafting a Turnaround from a Winning M&A Move

WHAT DO YOU DO when your M&A-driven growth plan brings your company to the brink of bankruptcy? If you're Royal Unibrew, you heed the lessons, regroup, and try again—only this time, you do it right.

Formed in 1989 through the merger of Jyske Bryggerier and Faxe Bryggeri, Royal Unibrew (then, Danish Brewery Group) is one of the largest beer makers in the Nordics and Baltics, with brands such as Royal Beer, Ceres, and Lapin Kulta. The company, which sells throughout Europe, Africa, Central America, and the Caribbean, also produces soft drinks and malt beverages.

In the early 2000s, buoyed by strong earnings, Royal Unibrew embarked on an ambitious, acquisition-based growth strategy. It took the name Royal Unibrew in 2005 to establish a more global identity, and set a revenue target of 50% growth for the next three years. The company staked a big bet on two Polish breweries that it acquired in 2005 and 2007. It also banked on earning steady returns from four Caribbean breweries in which it had bought a controlling interest in 2007.

The Poland acquisitions proved to be ill fated. With just a 3% market share in Poland, Royal Unibrew had started out at a disadvantage. The breweries turned out to be in poor condition, and the distances between plants made achieving the hoped-for synergies difficult. When the global financial crisis hit, it became clear that the Poland ventures were disastrous. The company responded by swallowing DKK 385 million (\$73 million at the 2008 exchange rate) in impairment losses, an amount roughly 1.5 times its EBITDA.

As the recession set in, demand throughout Royal Unibrew's core markets waned, and the company could no longer maintain its debt levels. As 2008 wore on, external financing sources dried up. The



Brandt and his team ushered in a four-year program of restructuring and operational improvements.

company had no choice but to refinance its debt. From 2006 to 2008, Royal Unibrew’s market cap declined from DKK 3.1 billion to DKK 0.5 billion.

Rallying for Action

Royal Unibrew’s senior executives signaled a turnaround with the appointment of Henrik Brandt as the company’s new CEO in 2008. Brandt and his team ushered in a four-year program of restructuring and operational improvements. To slash debt, they carried out a DKK 400 million share issuance and sold the Poland and Caribbean assets.

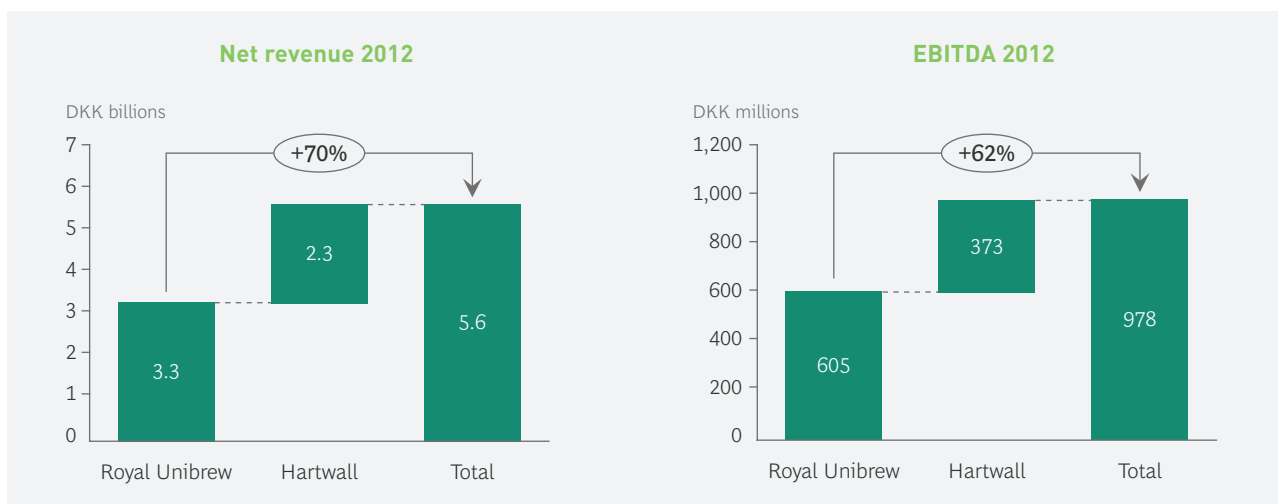
Leaders relentlessly sought operational efficiencies: consolidating manufacturing plants, introducing production efficiencies (such as reducing water and energy consumption), and investing in new packing line equipment and new packaging. They modernized distribution, too; in Denmark, for example, they established a call center, implemented dynamic route planning, and integrated the entire outbound supply chain. They also streamlined the company’s administration and staff.

On the commercial side, Royal Unibrew concentrated on marketing and selling its core brands and developing innovative marketing campaigns. At the same time, the company ventured into new energy drink and juice segments. By the end of 2012, Royal Unibrew had increased its market capitalization to DKK 5.0 billion, from a low of DKK 0.5 billion in 2008.

Igniting Growth

By 2013, Royal Unibrew had stabilized and was ready to accelerate growth—this time, with the acquisition of Hartwall, the number-two beer producer in Finland. The Hartwall acquisition was nothing like the doomed Polish ones. Although Hartwall had seen minor market share decline in recent years, it was a strong company in its own right, founded in the early 19th century and independently owned until 2002. Its

EXHIBIT 11 | Royal Unibrew’s Acquisition of Hartwall Was Pivotal to Its Turnaround



Source: Royal Unibrew’s presentation on the Hartwall acquisition, July 11, 2013.

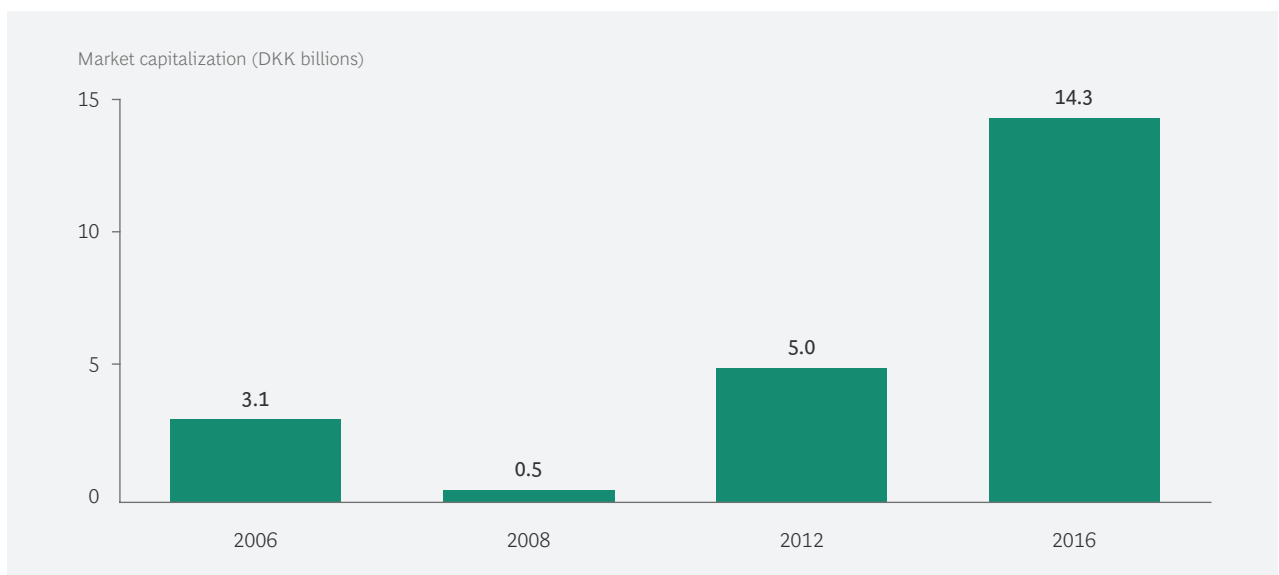
Original Long Drink, introduced in 1952 at the Helsinki Olympics, remains Finland’s most popular bottled mixed drink. Formerly owned by Heineken Group, Hartwall was also Finland’s top seller of mineral water, cider, and ready-to-drink beverages (including “alcopops”) and the country’s number-two seller of soft drinks and energy drinks. The Hartwall acquisition gave Royal Unibrew an immediate lift, increasing the company’s revenues in one year by 70% and its EBITDA by more than 60%. (See Exhibit 11.)

Hartwall’s varied portfolio added much-needed diversity to Royal Unibrew’s product lineup (beer represented only 36% of Hartwell’s sales). Hartwall also had licensing agreements with PepsiCo, fortifying Royal Unibrew’s relationship with PepsiCo and Heineken.

Despite its still-solid condition, Hartwall had room for improvement, and Royal Unibrew’s leaders moved quickly to bolster and integrate the new acquisition. The company implemented an efficiency program that, among other things, cut waste and excess inventory and increased utilization rates. Leaders reorganized administrative functions to reduce complexity and integrated the enterprise IT system. On the commercial side, they introduced changes to the product mix to align it more closely with market trends.

Royal Unibrew’s performance results clearly suggest the staying power of its turnaround strategy. By 2016, its market cap hit DKK 14.3 billion, almost triple the figure for 2012 and almost 30 times that for 2008. (See Exhibit 12.) With its new operational efficiencies, financial strength, and strategic flexibility, Royal Unibrew is brewing up big plans: expanding its market presence, seeking greater share for key brands, strengthening partnerships (including the PepsiCo relationship), and pursuing new investments.

EXHIBIT 12 | Royal Unibrew’s Market Cap Has Increased Almost Thirtyfold Since 2008



Source: S&P Capital IQ.

THREE STEPS TO SUSTAINABLE SUCCESS

THE TURNAROUND STORIES HIGHLIGHTED in this report illustrate a number of strategic variations—portfolio (and product) repositioning, acquisition and divestiture, even customer repositioning. But all seven companies shared the same fundamental approach. Their leaders quickly recognized signs of decline and acted dispassionately and decisively—in some cases, changing top management. Beyond that, they understood the three essential elements of a successful turnaround.

First, they recognized the need to fund the long-term journey. This entailed pulling the short-term levers at their disposal to create momentum and fuel new growth—moves such as selling poor-performing assets, cutting debt, consolidating for efficiencies, and making critical acquisitions. Second, they positioned themselves for medium-term wins by redesigning their operating and business models to boost competitive advantage—streamlining product lines, reinforcing core brands, and modernizing distribution systems, for example. Third, though not necessarily last, they focused on putting in place the right team, organization, and culture. Fortifying the people element helped position their organizations for enduring high performance.

The world loves to attribute blazing turnaround success stories to rock star CEOs. But the truth is that enduring turnaround success takes far more than charismatic leadership. It takes a disciplined three-pronged approach—one that we have seen yield success for the seven Nordic Comeback Kids highlighted in this report and, time and time again, for companies around the world.

FOR FURTHER READING

The Boston Consulting Group has published other articles and reports on the topic of transformation and turnarounds. Examples include the following.

The Comeback Kids: Lessons from Successful Turnarounds

A report by The Boston Consulting Group, November 2017

The Transformations That Work—and Why

A report by The Boston Consulting Group, November 2017

Transformation: Delivering and Sustaining Breakthrough Performance

An e-book by The Boston Consulting Group, November 2016

Desperate Times Call for Effective Turnarounds

An article by The Boston Consulting Group, November 2016

A Leader's Guide to "Always-On" Transformation

A Focus by The Boston Consulting Group, November 2015

The New CEO's Guide to Transformation

A Focus by The Boston Consulting Group, May 2015

Transformation: The Imperative to Change

A report by The Boston Consulting Group, November 2014

NOTE TO THE READER

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