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Schvartsman: "A united and aligned group produces much better results than a fragmented high-quality team"

FABIO SCHVARTSMAN BOOSTS KLABIN'S RESULTS WITH A NEW MANAGEMENT MODEL

At the helm of Klabin for a little more than a year and a half, Fabio Schvartsman reveals that when he took over the company, his goal was to improve operational performance by reducing costs, optimizing processes and increasing production efficiency.

Figures show that the strategies put into practice have been successful: the company registered at the end of the second semester an EBITDA* of R\$281 million and a 27% margin – representing a 48% increase in relation to the same period last year, when the margin totaled 20%. Net revenues for the company in the first semester of 2012 totaled R\$2 billion, 5% more than the same period last year, despite a 3% reduction in volume - which fact attests the successful strategy adopted by Klabin to preserve its margin, improve product mix and seek diversified markets.

The results brought about other significant achievements for Schvartsman: in August, he was elected CEO of the Year in Latin America by consulting firm RISI. "I believe this recognition is due to the fact that Klabin presented improvements, while global markets felt effects of the European crisis and Brazil experienced a weak economy," said the executive regarding the reasons that led him to win this award.

In receiving *O Papel* for this month's Interview, the executive, who has already headed Duratex, Ultrapar, Telemar Participações and San Antonio, among other companies, told us what his day-to-day is like at Klabin, a company with a strong industrial culture and international recognition. "Few companies in the country have such a long history and considerable coherence in line of action. My role is to help Klabin hold and also maintain the place it deserves in Brazil and the global economic scenario," said Schvartsman referring to the goal he has ahead of him.

*EBTIDA – Earnings Before Taxes, Interest, Depreciation and Amortization"

O Papel – What was your perception about the pulp and paper industry before becoming Klabin's CEO and what peculiarities did you notice upon joining the sector?

Fabio Schwartsman – I believe that my initial perception was the same as that of most people outside the sector: a negative vision, associated to deforestation and bad environmental habits. I also perceived the pulp and paper industry as a mature sector, with no big things happening. Evidently, after joining the sector, I saw that the reality is the opposite of what I thought. I saw that the sector in general and Klabin particularly are very committed to sustainability and that the entire production chain respects the environment. Another misinterpretation I corrected after joining Klabin was the idea that this was a mature sector. Today, I see the exact opposite: an extremely vibrant sector, full of opportunities and constant changes. To eliminate these myths, which still surround the paper industry, Klabin carried out an institutional advertising campaign strictly related to environmental matters. We were absent in the media for many years, and this is just the first step to show the company's true conduct. We intend to intensify this type of action.

O Papel – In looking back at your administration so far, what was the first challenge you overcame?

Schwartsman – As soon as I took over as Klabin's CEO, my goal was to improve company performance. This was translated by me to the organization as an effort to reduce costs, since there was a clear opportunity at Klabin's main production unit, located in Telêmaco Borba, Paraná state. Upon identifying this opportunity, I shared my impressions with executives at the plant and received not only very clear transparency in the reasons for the situation to be like it was, as well as commitment to face the situation and improve it. It is important to point out that this was a process very different from those you imagine when talking about reducing costs. We contracted more professionals and we improved organizational climate, which led to very important gains. The project was accepted as being the natural path for the company's development.

O Papel – What practical changes led to conquering this major objective?

Schwartsman – I will begin mentioning a few symbolic changes but that had important results, such as the fact that today all company directors share the same work setting. We literally eliminated all walls that separated them so that they could work together and discuss matters more fluently, strengthening the idea that everyone is headed in the

same direction. A second important aspect: upon verifying the company's exaggeration in outsourcing activities, we reduced costs by eliminating some of these services. This led to the contracting of more company employees. At the same time that we executed these changes, we also altered the executive compensation system. Compensation became much more based on results. Upon the definition and fulfillment of goals, executives receive higher compensations, including shares – a practice that was not common at Klabin before I joined the company. All these initiatives produced important changes in company climate and were very favorable in modernizing the management system as a whole.

O Papel – Personally, what is your motto for assuming professional responsibilities at the helm of a century-old company?

Schwartsman – I don't know if I can consider it a motto, but I believe that managing a company should be something extremely simple. This pursuit of simplification has worked well at Klabin. With a lot of analysis, observation and interaction with all company areas, I tried to discover what Klabin had that was valuable and what didn't work all that well. Upon identifying these aspects, I tried to preserve what the company had in terms of positive and improve what was not going so well. Throughout my professional career, I also learned that nobody works alone. A united and aligned group produces much better results than a fragmented high-quality team. So, I set out to build a homogenous and united group focused on the same objective: to make Klabin a bigger and better company. In my day-to-day routine, I try to avoid discussing plant problems only with industrial directors or commercial problems only with the commercial directors; I try to see that all matters are discussed as a group, so that everyone understands why things are being done in such a way – that is, shared management where I do nothing more than ensure that people are exchanging ideas the entire time. As I get everyone to discuss everything in front of each other, I, as leader, expose myself. The only way to make this method work is to be willing to expose myself and even be criticized - which normally is very difficult for a leader. I see it as an exercise of humbleness that helps adopt the right attitudes for the company and build this team spirit we seek.

O Papel – What are the next steps foreseen for the company? What is the status of projects announced?

Schwartsman – The only project approved at the moment is the paper bags machine in Santa Catarina, involving a R\$220 million investment. The project is at an advanced execution stage, and the machine, with a production capacity

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of 80 thousand tons, is expected to begin operating in the fourth quarter of 2013. Klabin is also developing a pulp project in Monte Alegre (Telêmaco Borba – PR). The proposal is utilize 100 thousand hectares of forest area with pine and eucalyptus trees already planted and not needed for current company activities. This is a forest ready to be used in an industrial expansion project. Therefore, we are developing this flexible mill project, which will produce both soft and hardwood pulps. In addition to producing two types of pulp, the project includes the sale of 150 MW of energy. Another relevant aspect of the project refers to corporate structure. Even though Klabin has the forest areas, it is seeking financial investors to contribute with capital, causing this enormous project to be done through a company independent from Klabin S.A. The idea is to avoid strangling the company with the demands of this project.

O Papel – Did the current global economic scenario influence in any way the company to adopt this strategy?

Schvartsman – Yes, the economic scenario led Klabin to be more cautious in looking at its projects. With the corporate structure proposed, we will make a major investment through a separate company, since the global economic situation increases the volatility of commodities. It is a bet that the effect of this volatility will not affect Klabin's operations. In other words, the company preferred to waive 49% of the project's profitability (and give it to investors) and, in exchange, reduce the risks directly absorbed. I would say that this investment is being made in the most conservative manner possible within the current context.

O Papel – What will be the destination of products manufactured at the new pulp mill and by the new paper machine for industrial bags?

Schvartsman – The production of hardwood kraft pulp will be earmarked for export. Over time, however, a portion of the pulp may go to the domestic market, especially if Klabin expands its production of packaging paper, following the acquisition of new machines. In this case, it's important to point out that Klabin will have to purchase the commodity at market prices, since we are talking about an independent company. In turn, softwood pulp is an aspect I call your attention to: the new complex will be the first to produce this type of raw material in Brazil and aims to satisfy the domestic market, which currently has to import this commodity. With regards to producing paper bags, the idea is to service the growing demand from Klabin's own bag division. At present, the company is working at the limit of its production capacity, making the new machine already begin operating at full capacity.

O Papel – What do you envision for the pulp and paper industry in the medium and long-term? Where do you see Klabin in this context?

Schvartsman – I still consider myself a beginner in this industry, but would like to point out that Klabin is my point of reference in this market. What I see is a company successfully producing at a low cost and with high quality. A good example of this is the fact that Klabin's entire production chain is currently FSC certified. Our vision is precisely to continue growing, maintaining the lowest production costs and always investing in differentiation through the quality of our products. Looking at the sector in a broader sense, I see two dimensions in Brazil: on one side, companies like Klabin, that do not intend to be producers of large volumes, but rather offer its products in high value-added markets; and on the other, the group of players that will produce large volumes at low cost, taking into account that our country is very competitive from a forestry activity point of view. The difference between these players and Klabin is volume. The company does not intend to dispute the volume market. Our projects show that we are taking advantage of a specific opportunity, which stems from the fact that we have had for many decades a marvelous and non-replicable forest in the state of Paraná. ■