

FISHER INTERNATIONAL



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GROWTH OPPORTUNITY IN PACKAGING?

Growth opportunity is a daily challenge for all companies. Pulp investments are obvious, but there's a limit to how much more capacity can be absorbed each year. So, for more growth, Packaging, which is also growing, should be a good next-step, right?

At first glance at least, Packaging looks like a pretty good idea. After all, most companies have paper in their DNA. Figure 1 shows Brazil to be relatively low-cost globally, but very well-positioned. Considering total cash cost in its largely integrated mills, the country belongs to the first cost quartile, as one would expect.

With the huge gap between Brazil's volume and that of the world's biggest producers (Figure 2), investments in Packaging might seem like a good alternative to drive the country away from its *pulp-addiction* and bring more diversity to its trade balance. Simple, right? Well, not so fast.

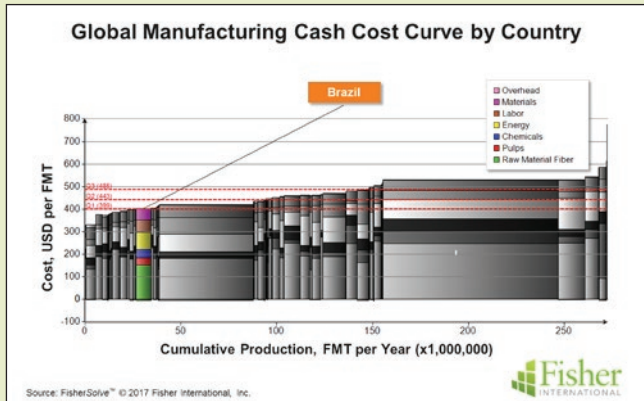


Figure 1

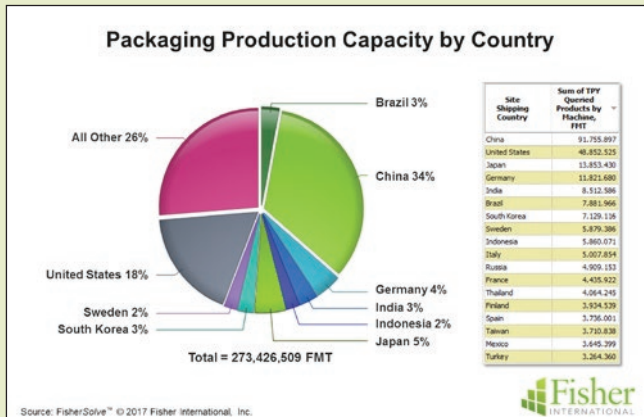


Figure 2

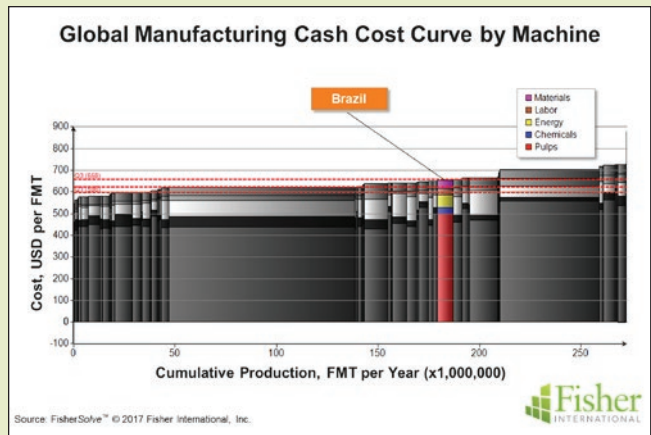


Figure 3

A closer look raises some concern. Would Brazil's advantage in Packaging come from competitiveness in Packaging or from low-cost fiber? If it's just from fiber, why invest in Packaging manufacturing when just selling fiber could earn the big returns? Is Brazil actually good at producing Packaging?

FisherSolve™ can answer this question by separating the cash costs of fiber production from that of making paper itself. This additional detail helps us avoid misleading first impressions. Looked at one way, the first chart (Figure 1) is wrong. While overall cash costs are low, they are entirely the result of low-cost fiber.

The country's paper machines, as shown in Figure 3, are not that competitive. To understand the real opportunity, we would be better advised to study how competitive Brazil is by looking at its paper-machine costs only, as if mills were buying fiber at market cost. Otherwise, we would be doing nothing more than transferring the fiber cost advantage into another 'business'.

The conclusion is clear: while there may be a major opportunity in Packaging to develop a new distribution channel for the country's fiber, there's considerable need for improving efficiency in this channel: today's competitiveness of paper machines is not world-class, a fact that low-fiber costs obscure.

With data, tools, and understanding, we can focus on what builds a truly competitive industry. I hope this small example inspires you to drive your use of analytics even further.