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Special for *O Papel*



## SMURFIT KAPPA BRAZIL ON THE PATH OF GROWTH

Smurfit Kappa marked its arrival in Brazil on January 26, 2016, following the acquisition of two paper packaging companies: Indústria de Embalagens Santana and Paema Embalagens. The transaction, valued at €186 million (R\$805 million), includes three containerboard plants with a total production capacity of 210 thousand tons and four corrugated paperboard units serving the Northeast of Brazil, through the states of Minas Gerais, Rio de Janeiro, Espírito Santo and São Paulo and the southern region of the country. Smurfit Kappa's main objective is to be the pan-regional leader in the supply of corrugated paperboard in The Americas, via acquisitions and strategic growth plans. To make this happen, Smurfit Kappa Brazil has a new CEO heading the operation. He is Manuel Alcalá, a civil engineer graduate with a 28-year career in the company. Manuel brought with him his experience as Vice-president of Pan-American Sales for The Americas, where he built the team, contributed to their sales expertise through training in insights and, with a strategic view of sales and innovation, grew account sales at an average rate of 8% YOY in the region. He was also Vice President of the Corrugated Paperboard Division in Argentina.

"We are aware of the fact that we entered a highly challenging market from a logistics perspective and we have proven that we're ready to master this challenge, as required by the market and our customers. We will continue applying our global capabilities and methodologies and applications such as SupplySmart and ShelfSmart," he said. Details about the company's perspectives for the packaging market in Brazil, as well as Smurfit Kappa Brazil's importance for the Group's global business, can be read in the exclusive interview below with Alcalá.

***What is your company's growth projection for the packaging segment in 2018 and also for Smurfit Kappa in Brazil?***

**Manuel Alcalá** – As we saw in the Brazilian Corrugated Board Association (ABPO) report, the packaging and containerboard market showed solid growth, so it's clear that the Brazilian economy has started to recover. Smurfit Kappa Brazil has been consolidating its position by making sure its four units in the country are aligned with our global culture. Our corporate model has proven to be a success here, so we are ready to continue growing in the country. In 2017, we saw a very stressed market in terms of the demand-supply balance and prices finally starting to recover. In 2018, we foresee the pricing trend to continue moving up but at a higher pace during the whole year with the respective margin improvement. In the end, this will contribute to recovering the margin losses during the crisis and will represent what the sector needs as a whole.

***Smurfit Kappa began operating in the country in 2016. How has the company performed so far?***

**Alcalá** – We have found amazing talent in Brazil! We have been working on transferring knowledge in and out and on developing our people in the Smurfit Kappa process. We have seen excellent results in terms of satisfying our customer needs quickly and in the context of their market strategies, and our results have been positive too. So, we will continue building on our expertise to bring our global Smurfit Kappa innovation tools, database and creativity to bear. Regarding our tools, we have brought to Brazil our more than 55,000 supply chains that have been analyzed with PackExpert; more than 7 thousand worldwide innovative designs on our Innobook and 22 thousand of the latest designs on our Paper to Box.

From the Brazilian market perspective, we have maintained and grown our customer portfolio and local talents in a very smooth transition. In this very challenging environment, we have maximized all our synergies, and we feel very satisfied with our accomplishments.

***What is Smurfit Kappa Brazil's relevance for the company's global business?***

**Alcalá** – Based on territorial extension, Brazil is the fifth largest country in the world! Smurfit Kappa is proud of the fact that we have set a footprint in Brazil after several years of searching for the right fit for us to acquire. This is a significant market and we knew we had to invest here.

We are conscious of the fact that we have entered a very challenging market from a logistics point of view and we have proven we are ready to manage this challenge, just as our customers and market require. Smurfit Kappa is aware that, in Brazil, there's a sea of opportunities and our expansion will be based on our commitment to better satisfy our local and global customer needs. The Group has 700 designers worldwide, far more people working in customer service and a huge

sales force identifying opportunities. The same global trend has been going on in our operations in Brazil for the past two years and we are proud to approach our customers across the country with our world-class offering.

***In heading Smurfit Kappa Brazil, what goals do you aspire for the company?***

**Alcalá** – We are working with our local talents in order to potentialize the local culture with the elements that have made us the leader in packaging solutions. To accomplish this, we are bringing specialists from different countries around the world with expertise in areas such as: performance packaging, shopper marketing, e-commerce, supply chain optimization, operational excellence and sustainability. This will contribute in transferring all our global knowledge to Brazil and add strength to our teams and to our customers' business. By enriching our employee pool with local people and others from many countries around the world, we create a more diverse workplace and also boost intellectual potential. We are the global leader in packaging solutions and our aspiration is to also lead in Brazil.

***In terms of business expansion, does the company have any interest or plans to expand its operations in Brazil?***

**Alcalá** – We think of ourselves as global leaders in packaging solutions, we want to grow, and that implies expanding our operations in Brazil through the acquisition of corrugated packaging companies that are a good cultural fit but, as always, at the right profitability, affordability and valuation. At Smurfit Kappa, our philosophy is to create value by satisfying customer needs and growing in a sustainable way. So, we will certainly grow, but not by chasing volume at any cost.

***What technologies does Smurfit Kappa currently utilize in its production lines and what will it invest in to modernize its industrial plants?***

**Alcalá** – We are applying our strong Smurfit Kappa Group PPT (Paper Process Technology) in order to modify the paper making process and achieve better performance with the use of less fiber. We are the global leader and trend setter in sustainability and we have achieved a 23% CO<sub>2</sub> emission reduction, and more than 90% of our products have chain of custody certification. This year, we will invest in state-of-the-art conversion technology to add capacity, but mainly to offer new possibilities to our customers. We also have the continuous upgrade of converting and corrugating process in our plants. In the past four years, Smurfit Kappa has established a network of more than 20 customer experience centers across the globe. We have three in The Americas (Dallas, Cali and Mexico City) and, in 2018, we will be opening a state-of-the-art performance lab and a new Experience Center in São Paulo.

In these areas, we focus not only on R&D, but also on facilitating the packaging experience for our customers, so that they discover hands-on all the different packaging solutions and possibilities a world-class company like Smurfit Kappa can deliver. With the network and technology we have, we can offer our customers a true global world of packaging solutions.

***The company recently announced the expansion of its recycled paper plants around the world, contemplating advanced technologies for collecting this material. In the meantime, in Brazil, the reality involves a chain with many players and highly dispersed collection. How do you envision the recycled paper segment from the perspective of your organization as well as the market, and what perspectives do you envision for this sector?***

**Alcalá** – For 10 years, we have worked on achieving sustainability in every fiber and we will continue doing so! Being the global leader in recycling paper, our ambition is to apply a similar strategy to the ones we apply globally, customized and enriched with the local needs and realities. We are collaborating with strategic suppliers and expanding our network throughout the country. In addition, we have been very successful using our global collection system and importing material very successfully. This year, we will also expand our collection capabilities and units.

***Product portfolio diversification has been a strategy of players and paper producers. How will Smurfit Kappa position itself in this market in relation to launching future bioproducts and packaging solutions?***

**Alcalá** – Smurfit Kappa Brazil has high quality and innovation as values, a standard set by the Smurfit Kappa Group. I'm excited to think about how it can benefit from all the innovation coming, like interactive packaging, biodegradable packaging, sensorial packaging, active packaging such as virtual reality, combined enhanced reality, eye tracking, neuro marketing, nano technologies, smart and digital printing, and a wide range of possibilities. We will go where our customer needs take us.

***What is your vision about future potential mergers and acquisitions in the pulp and paper market?***

**Alcalá** – In the US market, we have witnessed big-company values driving market consolidation, since the vast majority trade publicly. On the other hand, in Latin America and Europe, the decision to sell is not just a price factor, but also a decision related to family pride, succession and the prestige involved in owning and running a company. Whilst consolidation at the US level is a stretch, it's hard to tell how the market will behave facing all the factors involved in a merger decision.

## Executive Profile // //

**Full name:** Manuel Alcalá

**Hobbies:** Reading, running, rafting.

**Main personal achievement:** My two sons are my biggest pride in life!

**What would you still like to learn:** I never want to lose the feeling that every day we can find new opportunities to learn. My passion is to learn with every interaction.

**Main lesson learned in corporate management:** To be prepared for very volatile environments, dealing with changes, taking the best out of every single experience! Additionally, precise and strong execution through the right mentoring of teams.

**Message to the sector:** In my nearly 28 years at Smurfit Kappa, I have realized that the packaging industry is far from being a commodity. It brings customized value for every need, solving issues of great impact and value. Our paper-based packaging industry is a noble one as it's inserted in a virtuous, balanced and sustainable cycle, bringing jobs and opportunities to a large amount of people. We, at Smurfit Kappa, believe that we build a better future for everyone and I am very happy to be here and excited to see the innovations that our great team of colleagues will create for the Brazilian market's needs and the challenges that the future can bring us.

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We foresee growth through acquisitions as part of our strategy, but it will always depend on profitability, growth prospects, cultural fit, affordability and the right timing and value.

***What do you expect from Brazil's political-economic scenario this year that will favor business growth?***

**Alcalá** – We expect global containerboard demand to continue growing over the next few years. The general outlook for manufacturing is positive, even with issues in Europe, such as Brexit and its impact on the EU, or uncertainties in certain countries on our side of the Atlantic. There's a general note of optimism, which we see in the Brazilian market, considering labor and political reforms, structural reforms, infrastructure investments and local market optimism. ■