

**COMPANY PROFILE**

## **Carta Fabril: thinking like a leader**

**Carta Fabril is born in December 1990, when José Carlos Coutinho, its current President, purchased the company situated in Tribobó/RJ, and which, at the time, was idle. In January 1991 the new company was already operational!**

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For Victor Coutinho, Industrial Director and son of José Carlos, it was his first real job. And it was no simple task. Taking on a company that was closed due to bankruptcy and start an activity with no experience whatsoever in the field was not easy. Many doubts and uncertainties prevailed: making paper was a novelty for them and they learned directly in their own paper mill. What characterizes the family heading Carta Fabril is surely their resoluteness to learn and to improve. Everyone pitched in, the parents together with their sons, in the mutual intent of growing their business with responsibility and never lose sight of their possibilities. Only after four years - once they had attained a certain financial stability - do the first positive results arrive. At the time, they produced on only one paper machine and they decided to expand their activity into converting with a Fabio Perini converting line. The purchase of the second line, together with process improvement and the enhancement of the finished product's quality level assured further growth.

ATTAINMENT OF THE OBJECTIVES, CONSEQUENT INVESTMENTS - CAUTIOUS AND THOROUGHLY PONDERED - AND THE RIGHT MOVES AT THE RIGHT TIME, HAVE ALWAYS BEEN THEIR GUIDING PRINCIPLES. The Anapel facilities in Anápolis/GO started up in 2000 in just 4 months and, with the purchase of the other PM in 2002, paper production increased. Carta Fabril thus went from having just one PM in the 1990s in just one facility, to having three of them in 2002 in two production sites located over 1300 kilometers one from the other. This modified their approach to business with new market strategies, diversified productions and other consequent changes that spurred important growth. In these last few years, a second PM has been started up in Tribobó/RJ and between 2002 and 2004, the increase in production volumes was very high, allowing for diversification of the finished product. From that moment on, investments have always been made with a focus towards increasing PM efficiency. But the real leap forward in quality for Carta Fabril was without a doubt the passage from semi-automatic to automatic machines for converting, which took place in 2004. Since then, a continuous innovation and improvement process has been under way also on the converting side.

CARTA FABRIL HAS GROWN IN PROPORTION TO BRAZIL, WHICH IN THE COURSE OF THESE LAST FEW YEARS - IN COUNTER-TREND WITH RESPECT TO THE REST OF THE AMERICAN MARKETS - HAS EVOLVED QUICKLY. Victor Coutinho confirmed to us that the Brazilian tissue market is rapidly expanding and that its consumption profile is greatly changing. At the base of it all is certainly the increase in economic possibilities. In the past, tissue had very low penetration but per capita earnings have grown, generating greater consumption. According to Victor, there are also other important social factors connected to training, education and also to the new family identity. "In the past, a housewife was a housewife. Today, that woman has a job outside the home and this changes her profile and that of her family. So there is actually a mix of elements: the increase in revenue, in training, in urban consumption; changes in the characteristics of the family, the role of women... Today's families are modifying their daily habits and this facilitates consumption of disposable items, among which, tissue products."

Today, the demands of the modern Brazilian consumer are different: he or she aspires to better products and this explains the growth also of two-ply toilet rolls. "High quality is a product that has totally different needs also at the production phase, so it must be known and understood. The consumer wants to be treated well, he/she wants a simple product, but one made of 100% cellulose, high quality. In this category FSAQ, (Folha Simples Alta Qualidade - a

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high quality ply) we are number one in quality! The FSBQ (Folha Simples Boa Qualidade – a good quality ply) is a product that can be defined as waste, with different color tones, and the consumer accepts this rather less willingly. Luxury 2/3-ply products, too, are witnessing great success and we intend answering this demand with a new machine for the production of 3-ply rolls next year.” The new consumer profile generates lots of opportunities that must be seized: the industrial product is one of these. “It is growing faster than the average rate for toilet tissue, table napkins and kitchen towels, creating strong opportunities in this segment.”

**IN A DYNAMIC MARKET WHERE THE SUBJECTS ARE AGILE AND QUICK, YOU MUST ALWAYS BE READY!** “If we develop something new, after a few months, a competitor does the same. This is the case of the space-saving squeezed toilet rolls, launched some months ago, and it was a boom. And, within the end of year, we’re going to have two packaging machines with the “squeeze” system, too, ready to immediately exploit this new trend!” The tissue market tends in the direction of a strong segmentation: we are speaking about sustainability, green products, FSC certification, the squeezed roll, printed paper, etc... Many are the aspects to be delved into and to work on, and it’s always stimulating. “The Group is in continuous evolution and leaves nothing to chance: those who do kill their business”, continues Victor. Ready to innovate and diversify also in the field of nonwovens with a new feminine hygiene pad born from the company’s research and christened with a captivating name, Diana Fashion, that is about to be launched with the aim of creating a niche in this segment.

Market surveys, research, discussion focuses are foundational for the company which has immediately realized the important role played by the consumer. This allows Carta Fabril to assess every strategic aspect before launching a new product and to have the necessary information at its disposal. “The consumers’ point of view offers suggestions not only for the product itself but also for the packaging; often, an opinion that may seem “silly” is, for us, extremely relevant. Some discussions must be assessed carefully... not always is everything obvious but it may certainly be very useful.” Many projects begin with an analysis and interaction with the consumer in order to assess relative placement on the market. “Knowing the positive or negative characteristics of products and the opinion of those using them allows always producing something different.”

**“WORKING TOGETHER WITH EXPERT SUPPLIERS, TOO, IS FOUNDATIONAL IN ORDER TO ATTAIN DESIRED PERFORMANCE.** For our high quality product we collaborated closely with Fabio Perini Brazil, developing a new P/P laminated product. The softness obtained allowed us to optimize the roll to the package, reducing its diameter so as to remain within the fixed length of 30 meters.” There was a time in which the market was decided by suppliers: today, instead, consumption sets the rules and Carta Fabril listens to that voice. “Companies have the responsibility of arousing consumers’ interest and consumers know what they want but they are not able to say what’s lacking. An example which has become a case-in-point in Brazil: the carpet for dogs. Five years ago, it was unfathomable and now it is sold everywhere. It’s a new need, a new habit and a new use. We should be able to do the same in the tissue field!”

Collaboration with Fabio Perini has allowed Carta Fabril to optimize the converting process and to face the commodities market with tranquility. Very often, the functional characteristics of absorbency, resistance, softness and the emotional and sensorial aspects guide the consumer towards a specific product and build loyalty in that consumer. All these features are obtained thanks to the technology connected to the production process of converting where “personalization” and characterization of a roll can be developed to the fullest. “Collaboration with an excellent supplier represents a potential to be exploited. Our Cotton eco-friendly high quality product made of 100% cellulose was developed together with Fabio Perini Brazil. We aimed for a product having the largest possible diameter, in-line with consumer demands. But not only. Imagining an even more demanding market than the real one, we added some extra criteria and worked on the product’s resistance to give it greater softness without giving up the necessary standards.

We had a lot of meetings and discussions with the Fabio Perini technicians; we wanted to differentiate ourselves through the embossing pattern and to have a practical and economical packaging. This relationship of mutual collaboration paid off.” Choosing the right partner for the development of new projects is crucial and reliability is what makes the difference in this choice. “Knowing you are working with “the expert” is extremely important. No one likes to roam around in the dark! Reliability is decisive in a partnership and you don’t change a good partner like Fabio Perini, who for fifteen years has been guiding and supporting our company’s growth. The camaraderie that is created, the loyalty, being in tune, the ease with which we can talk: all this makes even the most complex project extremely easy to realize”.

**DIFFERENTIATE:** tissue and nonwovens. Some lines such as Deluxe and Klass also include nonwoven products, in particular feminine hygiene pads and baby diapers. Sales and distribution channels are close to those of tissue and there is a natural synergy between these product categories. “This facilitates logistics. Trucks can transport tissue

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products and feminine pads and baby diapers. Activity at the sales point can focus on both categories. The seller can propose both one and the other." The two worlds are hence very close to one another and together they strengthen business by offering greater flexibility to the company that can thus compensate for the margin differences of one line of products with the one that is more profitable.

"I have no doubt about the positive aspect of this synergy in terms of results, maximization of the operation and of business. The important thing is to work on both categories with the same focus. Among the six major tissue companies in Brazil, five have embarked on this policy. It is not just a coincidence, but the awareness that this strategy helps the two segments greatly. Those who have this possibility are one step ahead of the others." Like Carta Fabril! "In the last eight years, the baby diapers segment has grown due to the social changes we hinted at before, gaining strong market penetration." Analyzing the production volumes of these two worlds in terms of turnover, even if the bases are different, we can safely state that for Carta Fabril, the nonwovens segment represents 15% of production while tissue represents 85%.

**IN MAY 2011 A NEW CONVERTING LINE WAS INAUGURATED:** an important milestone as far as production quality and capacity are concerned that tells us exactly who Carta Fabril is in terms of numbers, machines and people. The Group produces almost 50,000 tons of tissue per year; it has four PMs and counts about 900 employees; ten converting lines, one diaper line and two lines for feminine pads. In the tissue segment, they cover a wide range: from one-ply hygiene products in different quality ranges, to the high level product, from hand towels to table napkins. The strategies are well defined and policies are dedicated to the continuous development of these markets. "We are working on the installation of a new PM in Goiás that will start up next year and are also busy with the project for the new facilities, which should yield several competitive advantages for us from the point of view of costs and logistics. A project that looks towards the evolution of the Brazilian market and that will be ready to answer to the scenario that will characterize the country for the next three decades", underscores Victor Coutinho.

**FAMILY AND PRIDE ARE THE DISTINGUISHING FACTORS.** Being a family-run business has made the company flexible and fast in the decision-making process, without giving up that "nationalism" that even the people working at Carta Fabril seem to appreciate and recognize as a plus. Involvement by all is indisputable. Victor's brothers, José Carlos Coutinho Junior and Caio Coutinho, and their mother and father have always had fundamental roles and full responsibility, and this has allowed them to learn the thousand aspects of the activity and to grow together with the company. They have never renounced the support of persons who were also capable of standing in for them. Misunderstandings, different points of view and moments of conflict - inevitable in any company, not only in a family-run establishment - have never been a reason for distraction from the common target of attaining positive results, always.

"We work for results and if we realize that we are not on the right road, we behave as a consequence. We work a lot based on numbers. What distinguishes our business administration system is an ever-attentive eye on financial indicators. But also the stimuli that we generate in our people makes us particularly strong! Everyone can propose ideas, suggest changes and have the power to decide. It is a management system that represents one of our pillars." A modern concept of 'open family' with an always vigil and protective eye on all those who are involved in their business. "We have a strong sense of responsibility and have integrated family values into our business."

**MARKETING, PACKAGING AND COMMUNICATION.** In a market that changes so quickly, marketing is foundational. With the brands Cotton, Soft Blanc, Deluxe and others, the company is taking the proper steps based on consumers' and competitors' moves. After the crisis in 2008 Carta Fabril experienced a moment of difficulty with substantial losses (such as the fire at the Annapolis / Goiás facilities). But they were able to rise from this negative event, too, and turn it into an opportunity. The old lines were replaced with automatic ones capable of producing the high quality toilet rolls, kitchen towels and the FSBQ product, hence making a double leap forward in quality in terms of production. "We have turned the crisis into strength and the outcome was very positive! We saw what was happening in the market and started off again, ready to adapt."

Working with an eye on the company and the other on the market is as important as continuous development and investments in innovation: from the PMs to converting to packaging, nothing is neglected. Confirmation of this comes from the four Casmatic model S8 bundlers implemented during the development phase of the most recent projects. "During the passage from semi-automatic to automatic converting, speed requirements have found an answer in this new bundler having a modern design." Packaging is very important for Carta Fabril: it is the first impression that the product transmits to the consumer. For this reason, they work with the best creative agencies of Brazil, investing a lot in communication. The packaging must be attractive but also "sober and reliable", never "frivolous". The development of the design for a new package lasts about six/eight months. "Packages bearing proper wording such as "take 12, pay 11" are the strongest communication instrument we have to reach out to the

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consumer! We as paper producers have always had great difficulties in bringing a discount to the consumer, supplying him/her with a concrete profit. Usually, in a pricing action, it is the retailer who enjoys the advantage and it is rarely transferred to the consumers. Multiple packages and this type of promotional activity can give the consumer a direct economic advantage with interesting results. For now, these operations and the activities at the sales point are the right levers to push. The point of sale transmits information regarding our product's positioning and the pricing strategies to be put into place and allows monitoring the other subjects. It would not make sense for a company such as ours to undertake a national media campaign but our promotional work is precise and very functional." Supporting the different activities at the sales point are some TV commercials oriented towards their main markets. "Presently, we have a Cotton commercial that is aired before the regional news. We invest in outdoor communication on transportation means and have a space on the Rio-Niterói Bridge." The right investments without dispersion of energy.

"A NATUREZA É NA VERDADE PARTE DE NOSSA VIDA". (President, José Carlos Pires Coutinho). Carta Fabril group is indeed attentive to environmental themes and sees sustainability as an element for development and growth. The sense of responsibility that characterizes them could not disregard environmental and social themes. "Our company has one of the best environmental management policies in the world of tissue. We try to reduce our impact in terms of liquid and solid waste, effluents and CO2 emission to a minimum. Efficiency and duty: an obligation and not a merit!" For this reason in the Carta Fabril facilities every boiler has been replaced with modern, less polluting versions. A new drying process has been implemented, developed within the company. And in the production process, waste has been routed and today it is directed to another company. "We looked for a company with a process similarity: someone who could do something useful with our waste. This company is perhaps the largest industrial group in Brazil in their field. Today, 70% of the waste produced at the Anapolis facility is routed and reused in their production process without going into landfills." Soon Carta Fabril will receive the ISO certification and it is constantly subjected to audits and controls which it always passes brilliantly. The trust placed in the company by Disney, for Carta Fabril has a license for one of their products, confirms their positive work in this realm. José Carlos Coutinho personally worked on the recovery of a degraded area, the Parco Monte Santos in Rio de Janeiro, a Private Natural Protection Reserve: a useful project socially speaking. "He did it for the community and not for himself. The Park is just 50 km from our facility and with this intervention, the entire surrounding area came back to life. Everyone loves greenery, and my father, my family and the company are no exception." Carta Fabril is strongly committed also to a reforestation intervention in the Mata Atlantica reserve. Many are the projects dedicated to the environment and to people. For example, partnerships are being undertaken with SENAI (Serviço Nacional de Aprendizagem Industrial - National Service of Industrial Learning) and with the public school system to bring the community closer to education and training. "The idea is to work with the schools and train young people through specific courses so that one day they will be able to work in our company, too. We want to show that we have a complete vision, a heart, values and that we are not just an economic activity looking for profits."

TODAY, THE CARTA FABRIL GROUP CAN RANK SIXTH AMONG THE MAJOR BRAZILIAN TISSUE COMPANIES. It works in capillary fashion in specific regions and nationally in the areas of Rio Grande do Sul, of Manaus and the internal north-east area. In particular Rio de Janeiro and the Grande Rio area represent almost 35% of sales, with great potential for growth. "The central west is perhaps the largest market for Carta Fabril and represents only 4% of our total sales." The intention is to grow further, starting up an export process to neighboring countries. "Six or seven years ago, Brazil exported 60,000 tons of tissue a year, maybe 7/8% of production, and now we are importers. So there are lots of opportunities to sell jumbo rolls and I think that for neighboring markets such as Argentina, Uruguay or the MERCOSUR it is also possible to sell the finished product."

This explains the project for the new facility in Espirito Santo, in Barra do Riacho. "A harbor-front location will give us the possibility to export a portion of our production directly." This project will assure growth for the next 30 years, changing the company's perspectives and forcing it to think like a leader. "In an emerging market such as the Brazilian one, there are two worlds side-by-side. Many companies with rudimental, low-capacity lines that work hard and impose themselves on a regional level, and the large enterprises, with higher levels of technology (similar to European and US levels) present throughout national territory. Of course there's a difference. The USA and Europe are mature markets where answering to their productivity and competitiveness with obsolete lines would be unthinkable, whereas this is something that is feasible here in Brazil right now. To make the difference in these mature markets, it is necessary to invest a "minimum" in technology, but this minimum is much higher compared to the level necessary here in Brazil. Here, we really succeed in playing our game".

Carta Fabril is a great Brazilian reality, realizing simple, useful and profitable projects, and ready to think like a leader! •