



### **THE NEW PACKAGE**

Delivering results is not optional and average performance is not acceptable, says Smurfit-Stone boss Patrick Moore.

## **Streamlining the Process to Make Packaging**

Smurfit-Stone Container is in the midst of a three-year program designed to drive costs down and profits up, while retooling the way it brings product to market. And anything less than the successful implementation of the plan, says chief executive Pat Moore, is unacceptable.

By John O'Brien, Managing Editor

**L**ong before he would find himself at the helm of Smurfit-Stone Container, one of the biggest challenges facing Pat Moore was figuring out how to get to college. For two years after high school, Moore worked laying brick until he decided to put aside the mortar and trowel and set his sights on a college education. Although finding a way to pay for school was an issue at the time, a job at a local bank gave him a taste of the world of finance. Better yet, the bank offered him a reimbursement deal to go to school.

Not missing the opportunity, Moore earned a Bachelor of Science degree in business administration, with a concentration in finance, from DePaul University and then went to work full-time back at the place that gave him the break in the first place—Continental Bank in Chicago.

During his 12-year tenure at the bank, Moore worked side-by-side with the former Jefferson Smurfit Corporation and liked the company. In 1987, JSC asked him if would be interested in the position of assistant treasurer. He said yes and never looked back.

Today, Moore is chairman and CEO of Smurfit-Stone Container, the world's largest manufacturer of corrugated containers. He says he's determined to make Smurfit-Stone the most profitable and safest company in the industry. And in November 2005 he put his money where his mouth is by launching an aggressive restructuring plan to cut costs, reduce debt, focus on what the company does best, and find people who can make the plan work.

*PaperAge* caught up with Pat Moore (no easy task) to learn more about the strategies in place at Smurfit-Stone Container and to get a peek at where the company is heading.

**You've got a financial background. What got you interested in money and finance?**

While I have always had an interest in finance, I grew up on the south side of Chicago in a modest neighborhood and didn't have the means to pursue my education. My dad was actually one of the few college graduates in our neighborhood. He owned a construction business and after high school I worked for him as an apprentice brick-layer for two years.

**So how did you manage to get to college?**

During that time, I became even more determined to go to college. I answered a "want ad" in the Sunday Chicago Tribune for an entry level position at Continental Bank and got the job. The Bank had an educational reimbursement program and I was able to go to school and earn my degree in finance.

**What brought you to Smurfit-Stone Container?**

While I was with Continental Bank, Jefferson Smurfit was one of our customers. I worked closely with their management team for several years and had always admired their entrepreneurial attitude, as well as their strategy and growth plans. When they asked me to join the company as assistant treasurer, I accepted and I am enjoying a great career here.

**You announced in November 2005 a Strategic Restructuring Program. What factors drove your team to develop the plan?**

The continuing commoditization of packaging, pricing pressures, and cost inflation led us to systematically reassess our business model. We recog-

nized that despite the company's capabilities, the structure we had in place could not take full advantage of our potential in today's new market environment. We clearly saw the need to focus our resources on three areas that would make the most impact on the business: improving the cost structure, realigning the organization, and establishing a more innovative and energized sales and marketing team.

Today, we are staying the course and we are continuing to develop business plans based on our strategic initiatives. Our business plans are much more



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aligned across the organization—all focused on doing what it takes to drive positive change across our organization and deliver exceptional results to customers and shareholders.

**You're a little over a year into the program. Fill us in on progress to date.**

I am encouraged by the progress we've made and believe that the best days are ahead of us here at Smurfit-Stone.

We exceeded our cost reduction goal and have aggressive plans to ensure that we meet our 2007 cost goal. Our sales and marketing teams are now established with dynamic new leadership and exciting plans to gain market share and profitable sales growth this year. The functional realignment of the organization has been completed and in 2006 we reduced headcount, eliminated redundancies and improved productivity.



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**How did the shake-up of personnel pan-out?**

Throughout the year, we worked hard to get the right people in the right roles. We cast a broad net, looking both internally and externally to fill key slots. We have been successful in attracting some top talent into our company and we have promoted high performing legacy Smurfit-Stone leaders. This blend of new and existing talent has energized our company and we are off and running.

**What can we expect from Smurfit-Stone in 2007?**

It's the year of execution at Smurfit-Stone. We are looking forward and are ready to embrace the opportunities that lie ahead. What a difference a year makes. Today, Smurfit-Stone is much better positioned for growth and our transformation is well underway. While 2006 was a very challenging year for us, we made enormous progress. But, in many respects, it's only the beginning. Our focus for 2007 is clear: we must deliver three critical goals...profitable sales growth, operational excellence and a world class safety record.

**Will things get a bit easier, operationally, through the remainder of the year?**

Not really. I expect 2007 will be a much harder year for us. Delivering results is not optional and average performance is not acceptable. We will continue to make the necessary bold changes to ensure our company's future success.

Speed of execution is critical. Consistency of execution has never been more important. Our plans for 2007 call for enormous energy and commitment, and a focused resolve to meet and exceed the expectations of our shareholders.

We are now more than one year into our restructuring efforts, and while I am pleased with our progress, I expect a more focused, intense effort for 2007. I expect us to work harder, to deliver better results and to truly unlock the value of our great company.

**The decision in May 2006 to sell the Consumer Packaging Business was a big one. What were the driving factors that led to the decision?**

A key element of our strategy includes investing significant capital into the company. We need to reduce debt in

order to gain the financial flexibility required to deliver the necessary reinvestment in our business.

In addition, while Smurfit-Stone is the market leader in containerboard manufacturing, corrugated container production, and recycling, we did not have a similar position in our consumer packaging businesses. As a result, we made the decision to unlock the value in the consumer packaging assets in order to reduce our debt.

*Editor's note: On June 30, 2006, Smurfit-Stone completed the sale of its Consumer Packaging division to Texas Pacific Group for approximately \$1.04 billion. The company is now known as Altiivity Packaging.*

**Is it safe to say that Smurfit-Stone has narrowed its focus to manufacturing containerboard and corrugated containers in North America? Or is it a wider scope than this?**

While a significant portion of our manufacturing focus is on containerboard and corrugated containers in North America, we know that our customers are global and our business model needs to readily adapt to their needs.

**How has Smurfit-Stone's market shifted over the past few years?**

I believe that two major events have influenced the trends in our market: the migration of off-shore manufacturing and the changing face of "big box" retail. We have adjusted our business model to reflect these changes and are always looking for opportunities to better serve our customer with both products and services.

**Has the Internet and online shopping had an impact on seasonal demand for packaging?**

Historically, companies ordered their packaging in October/November so



**Rolling out product.** Smurfit-Stone's Stevenson Mill in Alabama produces about 830,000 tons per year of corrugating medium.

they could ship their goods to the retailers in November and early December for the holiday season. As a result, fourth quarter packaging demand was typically lower than the third quarter.

However, the third and fourth quarters are about equal in packaging demand levels, primarily due to on-line shipping, which extends the buying window up to a few days before Christmas and the emergence of gift cards. And, gift cards have exceeded apparel as the number one holiday gift. Gift cards mean that holiday shopping is extended for a few weeks beyond Christmas, also helping to smooth out demand.

#### **How much has this trend grown?**

Recent data shows that holiday eCommerce levels grew by 26% in 2006 vs. 2005 levels to over \$100 billion in revenue (annual growth rates have remained consistent for years). If this is accurate, it suggests that over 20% of holiday purchases are made on-line. This is consistent with another survey that suggests 44% of shoppers buy a portion of their holiday purchases on-line.

#### **Turning to Europe, Smurfit-Stone in 2003 officially exited manufacturing in that region. Has anything changed in regards to the European markets that might renew your interest?**

While we are a North American-based company, we do have global interests. Right now our largest North American customers are doing business in Asia, and that's where we have established a footprint. The European packaging market is not on our radar right now.

#### **Tell us about Smurfit-Stone and Asia.**

Outside of our North American base, which includes the U.S., Canada, Mexico, and Puerto Rico, and as I mentioned, our focus right now is on Asia. We have two corrugated container plants in China and we have equity ownership in three corrugated container plants in Asia (two in China, one in Thailand), as well as two sheet plants and a lithographic printing plant in China. Again, this is a customer-driven and market-driven strategy. We'll continue to look for the right opportunities, when appropriate. Keep in mind

that, overall, our Asian footprint is very small compared to our North American base.

#### **You have emphasized that Smurfit-Stone must continue to improve its cost structure, in part through the supply chain to its customers. How is the progress in this area?**

We have made great progress in improving Smurfit-Stone's cost structure, but we still have a lot of work ahead of us. Supply chain management is just one area where we are making cost structure improvements.

Our cost reduction goal last year was \$240 million, and even though we beat that goal by \$3 million, these savings barely offset the significant inflation we saw in labor, benefits, freight, energy, fiber and chemicals.

#### **Looking ahead, what is your cost reduction goal in 2007 and where will the reductions come from?**

Our cost reduction goal is \$180 million in 2007 and we expect most of that to come from the benefits of implementing our strategic initiatives and our operational excellence effort.

#### **What is Smurfit-Stone's operational excellence philosophy all about?**

Although we've made significant progress over the past year, we must continue to raise the bar and strive for excellence. Moving forward, standardization and consistency are critical as we focus on attaining and maintaining excellence in the basics – safety, quality, waste and productivity.

Operational Excellence (OpX) is designed to focus on improving the entire manufacturing process and making it easier for our customers to do business with us.

The elements of the operational excellence program demand consistency and will drive both quality and efficiency improvements at Smurfit-Stone. With consistent execution, OpX ensures that we are delivering the highest quality products to our customers at the lowest possible cost.

**What does “OpX” involve?**

The OpX “playbook” includes technical, management and cultural components. This playbook is an outline to guide employees through the day-to-day operations of our manufacturing facilities and provides standardized policies, procedures and processes along with associated metrics, training and talent assessment plans.



**On display.** Smurfit-Stone offers new products like EnviroShell, which Moore says is an environmentally-friendly alternative to blister packaging. The product incorporates RPET plastic and corrugated components that separate for disposal and recycling.

Consistent implementation of our operational excellence initiatives is important to achieving sustainable productivity gains in our container division. This will ensure that we become more profitable.

**In 2006, Smurfit-Stone reduced its debt by \$937 million to \$3,634 million. Will you continue to reduce debt in 2007?**

We are on track with our goal to improve our financial flexibility and we will continue to apply free cash flow to debt reduction.

**You’ve said that Smurfit-Stone plans to re-invest some \$400 million in the next three years. What are your re-investment priorities?**

We will reinvest approximately \$400 million dollars to modernize our manufacturing base by upgrading equipment such as corrugators, conveyors, flexo folder gluers and rotary die cutters. This will allow us to eliminate a sizable base of our existing operational footprint, while growing our volume at the same time.

**Has RFID grown as much as the industry expected?**

RFID implementation has not yet taken hold at a scale that some people thought it might, largely due to the cost to implement and the technology and hardware requirements. We continue to look for ways to effectively and efficiently implement RFID technology in ways that benefit our customers and Smurfit-Stone.

**I’ve read that Smurfit-Stone is considered the safest company in the industry.**

I am extremely proud that Smurfit-Stone has led our industry in safety every year since 2001. Our Smurfit-Stone Accident Free Environment, or

SAFE process, has been key to developing a safety mindset. Simply put, we believe everyone has a right to work safely, and we believe it’s everyone’s responsibility to work safely.

**How do you develop that kind of mindset with the workers?**

It requires constant focus and attention to detail. Our plants conduct regular safety meetings at all levels, we share best practices across all our operations, and we really focus on safety training for all our employees.

**You’ve placed heavy emphasis on having the right people in place. Do you feel comfortable that this is now the case at Smurfit-Stone Container?**

Since we launched our strategic initiatives, we have changed nearly half of our senior management group. We have been successful in attracting top talent from other great companies, and we have promoted top performers from within our company. This balance of new and experienced talent brings fresh thinking and an energized focus on driving change and delivering results at Smurfit-Stone.

Most recently, we have reorganized our sales and marketing function to provide even better service to our customers. We have built a centralized marketing, product development and product management group. This team, along with our national and local sales forces and network of creative resources, will allow Smurfit-Stone to unlock the value of our manufacturing and service expertise, as well as our award winning innovative products.

Combined with our reorganized manufacturing structure, I believe Smurfit-Stone is now on course to become the safest and most profitable company in our industry. ■