

GURANDIANO LEADS ST. LAURENT TO NEW HOME WITH SMURFIT-STONE

DONALD G. MEADOWS

ST. LAURENT PAPERBOARD'S PRESIDENT AND CEO EARNED SUCCESS AS AN ENTREPRENEUR.

SINCE ITS INCEPTION IN JUNE 1994, ST. LAURENT Paperboard Inc., headquartered in Montreal, QC, Canada, has undergone a significant transformation, evolving from a relatively small company to a key player within the North American containerboard industry. This evolution was, in no small part, due to the leadership of the company's president and CEO, Jay J. Gurandiano. Prior to joining St. Laurent, Gurandiano was president, Paperboard Group, of Avenor.

In June 1999, St. Laurent's common stock began trading on the New York Stock Exchange. The company's shares were also listed on the Toronto and Montreal exchanges. By this time, St. Laurent had developed superior capabilities in specialty containerboard, such as white top linerboard and lightweight medium. The company had also reduced its costs and increased production at its white top mills.

St. Laurent was known for its innovation and clear management direction, and in February 2000, Smurfit-Stone Container Corp. agreed to acquire St. Laurent for US\$ 1.4 billion, subject to regulatory and shareholder approval. Commenting on the acquisition, Smurfit-Stone's executive management said, "This transaction has multiple benefits for investors. It will expand our capabilities to serve the fast-growing market for high-impact graphics packaging, and it presents an excellent business and geographic fit."

TAPPI JOURNAL interviewed Gurandiano in March 2000, before his role in the acquired company had been finalized. In April, Smurfit-Stone named him chief operating officer. In his new post, Gurandiano's primary responsibility is to oversee Smurfit-Stone's folding carton and boxboard, specialty packaging, and bag packaging divisions and the specialty packaging operations of St. Laurent Paperboard. In addition, he is responsible for managing the development and marketing of miniflute and protective packaging, and for Internet marketing. He will be based at Smurfit-Stone's Chicago, IL, headquarters.

The following discussion focuses on Gurandiano's role in building St. Laurent Paperboard. We also asked for his views on what lies ahead for St. Laurent following its acquisition by Smurfit-Stone Container.

The following discussion focuses on Gurandiano's role in building St. Laurent Paperboard. We also asked for his views on what lies ahead for St. Laurent following its acquisition by Smurfit-Stone Container.



TAPPI JOURNAL: Net sales for St. Laurent Paperboard in 1999

were roughly five times those reported in 1994, the year that the company was founded. How did you accomplish that? What strategic decisions and other factors were essential to that accomplishment?

Gurandiano: Right from the beginning, we wanted to become a company that was a little different. Going back to the inception of this company, we had some assets in terms of the two primary mills [La Tuque and Mantane in

Quebec]. We had a huge amount of pulp that was available to us, and we defined our mission statement in view of that pulp availability and the relatively cheap northern virgin fiber that we had. To be successful, we had to move forward very aggressively into the higher-value markets.

We also decided early on that unlike most companies, we didn't want to have a 100% integration level; we targeted 50%–70%. We felt we knew our acquisition strategy, and we have been consistently aggressive in this regard. If you read our IPO

prospectus and our recent annual report, you will see that we've been true to our four or five key strategic objectives. In that 5-year period, we made approximately 14 acquisitions and built a series of greenfield facilities.

TAPPI JOURNAL: *St. Laurent has been a very entrepreneurial company—as has Smurfit-Stone. What sort of marriage do you foresee for the two companies? How similar are their business cultures?*

Gurandiano: I have had various conversations with Ray Curran [president and CEO of Smurfit-Stone] and Michael Smurfit [chairman of Smurfit-Stone]. What interested Smurfit-Stone in making this acquisition was the fact that we were an entrepreneurial company that had done a lot of leading-edge work in high-end graphics and microfluting. We took what was a containerboard company and made it into a packaging company.

The strengths of some of the specialty businesses of Smurfit-Stone must be joined with the strengths of the St. Laurent enterprise to move forward. That's going to be the success of this company. If Smurfit-Stone can move forward in terms of dividing its rather huge containerboard and brown box business, and then focus on the specialty side, it will be very successful. We can bring to this organization a mindset in terms of where we think we need to go, and Smurfit certainly brings tremendous resources. So, if you match the two successful companies, they will end up being a terrific entity.

TAPPI JOURNAL: *What do you anticipate for the future of the corrugated industry—technologically, financially, and competitively. How are companies going to react to some of the changes that are coming?*

Gurandiano: I don't think we've seen the end of the consolidation wave that's taking place. It will continue to rationalize its high-cost mills. Research will center on different substrates, surface formation, and high strength-lower basis weight combinations. The industry is going to react to the marketplace and e-commerce. I expect to see the various companies use differing strategies and move in different directions as the market and e-commerce dictate.

TAPPI JOURNAL: *Considering the e-commerce aspect, more people are shopping over the Internet, and they're not necessarily going to care what the box looks like. How do you respond?*

Gurandiano: I think that may be a misconception. We've started our own Internet company. We've deliberately not laid out our strategy as an early mover in this area. However, we have worked with analysts and consultants and did some research. We've done a lot of up-front work, surveying Internet shoppers about what drives them in terms of packaging. We've gone as far as doing 20,000-person surveys and have really tried to home in on the packaging experience. That kind of methodology and the feedback that we've received have allowed us to knock on a number of e-tailers' doors.

The commerce in an e-business-to-consumer basis and an e-business-to-business basis are two different elements. In terms of packaging, what's going to take place is very similar to what happened in the mid- to late 1980s, where the consumer was heavily drawn to the multi-category stores, such as Wal-Mart. As a result, packaging with high-end graphics saw substantial growth. I think what will take place in e-commerce will be similar to that phenomenon.

One of the major concerns of a new e-tailer [or e-tailer] is the fact that he spends huge amounts of money on advertising and marketing—and that's just to bring you to his Web site. We think that most e-commerce sites are currently losing money on that basis.

The data tells us that retention is a major concern of an e-tailer. Because he has spent so much to get you to his site, the e-tailer wants and needs your repeat business. We believe we can help him in that respect with the packaging that we provide to him.



TAPPI JOURNAL: Do you anticipate the need for increased production of corrugated and finished boxes?

Gurandiano: The numbers that we are seeing in some of the high-end graphic fluted grades demonstrate 8%–9% growth. That's the direction in which we're heading, to capitalize on that growth. We look at our current product line and the range of products that are currently offered to the marketplace and try to take advantage of that evolution in high-end graphics. We invest a lot of capital to make sure that we can deliver product that our customers helped design.

TAPPI JOURNAL: Are there areas where plastic is or might be a threat to the industry?

Gurandiano: Plastics can't be underestimated in terms of containers such as milk cartons, etc. They have been used for years to transport certain products. However, we believe that corrugated can be superior to plastic because it is used not only to transport the product but also to carry a message from the retailer to the customer.

TAPPI JOURNAL: How does research fit into your overall company strategy?

Gurandiano: We've hired some very strong technical people, but more importantly, we've developed a system of an alliance concept; for example, IPST [Institute of Paper Science & Technology] works very closely with us. We have allocated our dollars wisely in terms of not duplicating some of the things that these organizations can do. We will never get the resources that IPST has or that Paprican has in Canada.

We've identified very specific research and alliance partners. We signed agreements and allocated funding to pay for their services. Although the term is overused, we've built a "virtual research organization," where we use people as we need them. At the same time, we back up this research internally, and we have very specific goals to define what the customer wants in terms of substrates, etc.

We developed a point of view in which we're going to supply our customers with a lot of technical data. We're planning to send a newsletter to our customers on a regular basis. It tells them about a full range of technical issues. In the past, a containerboard company would never bother to let its customers know about some of the technical issues that are taking place.

TAPPI JOURNAL: How well do your customers recognize that, in that sometimes price is such a big factor in purchasing?

Gurandiano: The answer to that lies in our research and development; our customers recognize that, and they call upon us. Questions may come from a problem with a corrugator or a printing press. They call us for expertise and ask if we can help them get through their current problem, perhaps with a competitor's substrate they're using. We have the expertise to guide them through these problems.

At the end of the day, you've provided your customer with a reason why he wants to continue working with you, and he's less price sensitive at that point in time.

TAPPI JOURNAL: Have you hired a significant number of engineers that are technical service people.

Gurandiano: Absolutely. We've hired technical service people, product managers, and technical product managers. So our organization is unlike most containerboard companies in terms of technical support. This is not original science, but it is original in terms of taking the plunge and doing it in a containerboard organization.

We do a lot of benchmarking, and we spend more technical support dollars per ton of product. That's how we get our value, and that's how we're going to get our return. Our technical service spending is more like that of a fine paper company. We may not be able to compete on size, but we can compete on quality and customer service.

TAPPI JOURNAL: How do you attract new employees and retain qualified employees, and what might the industry as a whole need to do in that area?

Gurandiano: There has to be a direct relationship in terms of an effort to value your employees and make sure the place in which they work is a good one, throughout the organization. All things being equal, I think the rest falls into place. What we try to do at St. Laurent is to run an entrepreneurial company, where people have room to be able to do many things with minimal bureaucracy. Decision-making can occur in a short time frame.





The company will then attract a certain type of person. It will probably also make certain people uncomfortable, because we give individuals considerable responsibility and expect results.

TAPPI JOURNAL: *What about continual technical training? Is there a role for TAPPI in that area?*

Gurandiano: You have to build a knowledge company. By that I mean we are going to have to constantly put into the equation an ability to refresh our people to make sure there is ongoing educa-

tional training. We try to do that; we have a very active program at the La Tuque mill, which is 300 miles north of Montreal.

We are rather fortunate in Canada, and Quebec has a tremendous incentive to train its people. One percent of your payroll taxes can be put back into training, so for tax purposes, there is no reason for you not to do that. We monitor that situation and constantly encourage people to participate in continuing education programs.

TAPPI JOURNAL: *What's new in product development? Where has St. Laurent been focusing its efforts?*

Gurandiano: I'm excited about the launch of our new coated product. Although it's not a unique product, I believe it's a launching pad for a series of other products that we're developing. We can build off that coated product; it's the first one that's going to compete head-to-head with some products that have traditionally been bought in Scandinavia. I think it's going to end up redefining service. We have very carefully looked at what the service requirements are going to be.

TAPPI JOURNAL: *What markets would this new coated product go to?*

Gurandiano: Look at how the packaging markets have evolved to the point-of-purchase displays. The white tops have become so good that they've taken away some of the bleached liner business. Now we have the entrance of this lightly coated product to enhance the graphics. We're also looking at opportunities in the publishing side of the business.

TAPPI JOURNAL: *What do you personally consider as your major accomplishments as CEO of St. Laurent, and what do you consider your major accomplishments before joining the company?*

Gurandiano: I think the major accomplishment at St. Laurent is building a viable company and establishing shareholder value. The direction I was originally given when I became president on March 17, 1994, was to sell the company for CAD 1 and all its environmental liabilities. We ended up with an IPO price of CAD 335 million, and 5 years later, we're selling it for US\$ 1.4 billion. I think I've returned some value and I've created some value.

We've built an organization that's going to survive; the employees are going to be in place and in a place of value. We're very well regarded throughout the industry. Our employees are going to do well within this new organization as well.

Prior to St. Laurent, I spent 10 years doing a lot of fire-fighting for our previous organization [Avenor]. My role was to take over those parts of the organization that were having problems, so I had tremendous opportunities to see and work in many different areas. I spent a few years on the West Coast, and I had the good fortune to run mills, run financial treasury departments, and run corporate groups. I was able to turn most of them around; that was pretty satisfying.

TAPPI JOURNAL: *What is your future? Do you have a new goal?*

Gurandiano: I want to stay in the industry. I'm 53 years old, and I would like to continue some of the work I've done, the work of continuing to move this company forward. I'm truly excited about packaging opportunities in terms of what's happening with retailing. I believe this is really going to be the beginning of very interesting times for packaging companies, and I'd like to play a role in that area. TJ

Meadows is editor of TAPPI JOURNAL; email: dmeadows@tappi.org.