A.D. "PETE" CORRELL—EMPHASIZING SHAREHOLDER VALUE AT GEORGIA-PACIFIC

MATTHEW COLEMAN, CAE

RETURN ON INVESTMENT GIVEN PRIORITY AT FOREST PRODUCTS COMPANY.

Editor's Note: A.D. "Pete" Correll is a legend in the paper industry. After his appearance on the cover of several national magazines on a Harley-Davidson motorcycle, people had a person to identify with an industry that has often seemed remote and distant. Pete is an activist for change in Georgia-Pacific Corp. and has accomplished much in his tenure with the company. As a part of a new series in TAPPI JOURNAL, *this interview will give industry leaders an opportunity to address the industry they help shape. The following interview was done with Pete in his office on the 51st floor of the Georgia-Pacific building in Atlanta, GA, in November 1996.*

TAPPI JOURNAL: On your personal image: I've been in places such as the paper school at Gernsbach, Germany, and in St. Petersburg, Russia, and it seems that everywhere I go, people know who you are, and know which company you lead. Why have you been able to make such an impact in a rather conservative industry?

CORRELL: We've tried our best as a company to take stands on issues and I think that has been the key. People may not agree with us, but they've never wondered how we felt about something or what we believed. I believe that our most controversial stand was the TCF (totally chlorine free) issue. We made the statement that we were not going to make TCF products. We think it's a bad idea, and if you want it, please buy it from somebody else. We're going to make ECF (elemental chlorine free) paper and supply it to the world. That was the most controversial statement. I think in doing that we have been successful and we're helping the industry reach some rational conclusions about some complex issues because at least there was one party who had taken a stand, then they could work around that.

TAPPI JOURNAL: What do you see as the primary issues and challenges that Georgia- Pacific will face in the next five to 10 years? And, of course, what do you expect to do about them?

CORRELL: In my view, the number one issue in our industry is that we, as an industry, are a poor return for our shareholders. We don't earn our cost of capital; we all have grown at the expense of our shareholders. We've provided pulp and paper to the world but not returns to our shareholders, and I think what you're starting to see is consolidations. Our shareholders, who are the big institutional owners of all the major corporations in the world, are starting to say to managers, people with jobs like mine, 'enough is enough, I want a decent return on my investment.'

So I think by far the greatest challenge I face in the next five years and the industry faces is, how am I going to provide the Georgia-Pacific shareholder an acceptable return?

TAPPI JOURNAL: That is a fascinating answer because when I think of Georgia-Pacific, I think of a company that has effectively managed its resources so that it has grown rationally, been profitable when it was possible in the economy, and still kept a healthy balance sheet.

CORRELL: When you look at Georgia-Pacific's performance you can see that we are certainly in the upper 10% in the industry and proud of that. But if you look at the industry's performance compared with the S&P 400

over a period of time, we are underperforming, which says the industry provides a lower-return investment than the average company. If you look at the industry's return on its capital, we've not earned our cost of capital. That's why all our balance sheets are more leveraged than they were 10 years ago.

I think our number one challenge is to make more money. In other words, we must literally reverse the balance sheet if we can.

TAPPI JOURNAL: When you look outward from your domestic base, especially at the Pacific Rim and South America, what is your vision for Georgia-Pacific in terms of the growing markets overseas and how does it reflect in the fact that there is increased competition worldwide with plantations and new machines coming on line?

CORRELL: We've said that our strategy will be to manufacture in the United States and sell around the world. We're intrigued, like everybody else is, with the growth in the Pacific Rim, but there is also no shortage of capacity to satisfy that growth. If you look at the growth that Asian pulp and paper companies have already announced—and they've announced almost six million tons of capacity additions over the next three years—there might not be a need for us overseas. Georgia-Pacific makes eight million tons of paper per year and Asian companies have announced that they are going to build a company from ground up that will be three-quarters the size of Georgia-Pacific. So while there is demand growth, we have not been successful in finding value-adding opportunities from investing overseas ourselves.

TAPPI JOURNAL: That's an interesting perspective. When you look at producing domestically and supplying overseas, that's obviously the highest value-added you can get for your capital investment. Is that part of the reason that you choose that strategy?

CORRELL: I think companies have to decide where they have core skills or core pockets of excellence. We think we know as much as anybody in the world on how to extract value from a softwood tree—primarily a pine tree, but generically a softwood tree. We believe we know what part of it should be peeled, what part of it should be chipped, where the residuals should go, etc., which says we think we have unique skill capabilities in softwood forests. Most of the Pacific Rim is made up of hardwood forests. We don't bring the same core competency to a massive hardwood forest that we do to a massive softwood forest. Most of the commercial softwood forests are in the United States. It's only logical we'll probably stay here.

TAPPI JOURNAL: In terms of your forestry outlook, you seem to have put a large emphasis in areas such as genetic engineering of softwoods. Is that part of the same strategy?

CORRELL: Absolutely. We have to look at the forest as a factory. We own a six-million-acre factory and we have to raise its output. We have to get the same capital turnover in the forest that we're striving for in our mills. The way to do that is genetic improvement, cross-fertilization, forestry practices, etc. We spend a lot of time on it.

TAPPI JOURNAL: Your decision to add a tissue machine at your Crossett, AK, mill seems to emphasize Georgia-Pacific's commitment to a highly competitive market. What is your strategy for maintaining or increasing your market share and how do you anticipate the market will evolve in tissue and related products?

CORRELL: We're large in tissue; we're the fifth-largest tissue company in the United States. We think we're among the lowest cost and among the highest return. In 10 years we've gone from a company that sold 50% of our products under private brands and 50% under our own branded products to where we are 95% branded products. Our brands, Angel Soft™, Sparkle™, Coronet™, MD™ on the West Coast, are growing and we're going to put the capital in that business to support that brand growth. We're good at it and we make a good return.

TAPPI JOURNAL: When you look at tissue do you see Georgia-Pacific moving aggressively into the upper end of the high-value paper products?

CORRELL: We produce value tissue products. We're in the middle of the tissue segment. We don't produce the top end and we don't compete at the top; we produce value brands, which is consistent with our strategy for our other paper products and which is consistent with our strategy. We produce value brands at low cost and we grow based on our cost position. We developed that strategy in 1988 and we have stayed the course. We have very few branded items, but they are brands that people understand and know, and they deliver value to the consumer.

TAPPI JOURNAL: Georgia-Pacific seems to have entered a period of concerted cost and staff reductions. How will that affect aspects such as research, project development, and training?



Georgia-Pacific CEO A.D. "Pete" Correll with mementoes in his office, including a selection of ties from his father's store

CORRELL: It varies. We have a philosophical opposition to spending a lot of money on commodity products research, so we're a unique a company in that respect; we don't do any research. We do research in our chemical business and we do a little bit of engineered wood products research, but by and large we do not do research.

TAPPI JOURNAL: Didn't you develop OSB (oriented strand board)?

CORRELL: We did not. We developed southern pine plywood. We are committed to training. As we've gone through expense reductions and overhead reductions we have been careful to maintain effective training programs. We've been very consistent in training. While we don't do research, we have funded development, but very targeted development.

TAPPI JOURNAL: So, in that sense you are truly focused on manufacturing, looking at paper as a manufactured product.

CORRELL: We're focused on the cost side of the equation, in both building products and pulp and paper. I think we're different from most companies. We are a forest products company, not a pulp and paper company. We look at a forest and decide how to extract the most value out of it from building products and pulp and paper, and we're not driven solely by either. We're driven by value-added options from our forests.

We run a US$ 7-billion building products business and a US$ 7-billion pulp and paper business off of a 6-1/2-million-acre land base.

TAPPI JOURNAL: Do you foresee your forest base increasing or do you foresee that as being large enough now to support your activities?

CORRELL: I would suspect we will be net buyers of timberland in the future.

TAPPI JOURNAL: How do you measure the economic value-added of those sorts of activities? Given your concern about value to the shareholder, you must have to make some very tough choices on things like training, education, and research.

CORRELL: In terms of training and people development, we have an exploding technology base occurring in our industry in both building products and pulp and paper. We have generally an undereducated work force that needs to be upgraded to deal with the technology, so we have to invest a lot of money in training. We have to focus training on those we employ. Training and development is just a given. To get the kind of asset productivity we need and returns we need, we simply have to invest in people today.

On product development, we have a very rigorous analysis we go through before we commit development dollars. What are the odds of our success? Is it a real product? If we developed it, could we have a real strategic advantage, and then is that the kind of product Georgia-Pacific could extract value from even if we developed it? So, we go through a very rigorous analysis.

TAPPI JOURNAL: That almost answers the next question, which is, where do you anticipate you'll achieve the greatest improvements? Are you concerned about any-





thing you might sacrifice in terms of the choices you make?

CORRELL: No, because that is Georgia-Pacific. What we're ensuring is that we don't deviate from what and who we are. Our overhead has gotten too high and that can't continue in Georgia-Pacific because we are a cost-based forest products company, so we can't have too much overhead.

TAPPI JOURNAL: Pete, by your actions and decisions it is clear that you have brought a very different philosophy to Georgia-Pacific. Could you tell us what has been your guiding management philosophy and how have you incorporated that into your career here at Georgia-Pacific?

CORRELL: I've tried to never forget that we're in business to make money, not to make pulp and paper and building products. I also remember that I'm an employee of the shareholders, and my job is to invest somebody else's money and make a higher return on it than they could themselves or they wouldn't have given it to me. Now a lot of people have that philosophy, so it took a certain amount of luck for me to get to where I can implement that philosophy. So the real question would be for you to ask is, 'What has been the luckiest thing that's happened to you in your career?' As far as I am concerned, the luckiest thing that ever happened to me was to have worked in almost every job in this industry. So, I understand what the people in Georgia-Pacific are feeling because I've had their jobs. I've been a shift foreman and I've been a paper mill superintendent and I've run a plywood plant. I've been there and I think the thing I'm proudest of is the relationship I've established with the employees of this company. We like each other, I think they trust me, I certainly trust them, and we've been able to develop a common vision for what we want this company to do.

TAPPI JOURNAL: The phrase that was told to me was, 'In the 1980s Georgia-Pacific made the best intuitive decisions in the industry.' It was a superb intuitive decision maker, and you brought in an analytical side, having the company make more analytical decisions. Do you see it that way?

CORRELL: No. That's probably kudos for Marshall Hahn. Marshall Hahn is one of the most brilliant persons I have ever had the pleasure to work with or for in my life. And you're right, Marshall made a lot of very good intuitive decisions.

In defense of our current intelligence level, the world has gotten more complicated and we had a strategy to grow the pulp and paper business so that we could balance the company and be better at having options for value extractions from the forest. We've done that. With the acquisition of Great Northern Nekoosa in 1990, that mission is over. That was the real turning point. Then we began a mission of, 'Now let's earn a good return on the investments in assets we have made and start adding more value for our shareholders.' While I think we've done a lot of good things, the market has certainly taken many of them away from us, so we've got to just keep pressing on.

TAPPI JOURNAL: I would like to ask a couple of questions of Pete Correll, the person. What do you consider

your greatest accomplishments so far in business and in your personal life?

CORRELL: Probably learning to ride a motorcycle at age 50! Seriously, I don't know the answer to that question. I guess you would have to say that it's kind of astounding that a poor little boy from Brunswick, GA, went to the University of Georgia and got a business degree to start off with and has been able to get the number of breaks that I've had and do as well as I have in this industry. Without a doubt, the thing that I'm proudest of is what we're building here at Georgia-Pacific. I don't think the world yet understands what we've done, but we've built a heck of a company that really can add a lot of value for our shareholders and provide a good place for our employees to work.

TAPPI JOURNAL: I'd say that's pretty good. You mention starting out in Brunswick, GA. Did you start in the paper industry?

CORRELL: My father died when I was 12 years old and I was an only child. My mother and I had inherited nothing except Correll's Men's Shop in Brunswick, GA, so we ran it until I graduated from undergraduate school. So I guess that's where I learned the importance of making money, because we didn't have any money. We needed to have more money in the cash drawer at the end of the day than we did at the beginning or we couldn't have dinner.

TAPPI JOURNAL: Could you tell me about the framed ties above your desk?

CORRELL: One day a lady came to see me. I was here at Georgia-Pacific and she said, 'My husband recently passed away and here are three ties he bought at Correll's Men's Shop on opening day that he never took out of the box. They've still got the $1.50 price tag on them at Correll's Men's Shop.' So I had them mounted and framed just as a reminder of where I started. Oddly enough, those ties would be in style today except they are too short for today's styles. They are the right width and design.

TAPPI JOURNAL: I've noticed that during your answers you've never once talked about the competition. You have only talked about the shareholder and serving the shareholder. I find that unique.

CORRELL: This industry is so fragmented that you can't worry about your competition. There are too many of us and in many ways we're all the same. We all need to do better. We have tried our best and I have tried my best to operate with the philosophy of 'just remember who you work for and do what they ask you to do.' If I keep that in mind, I will do my job and let my managers do theirs. When you get down to running our tissue business, or any of our businesses, you have to watch the competition, but that's not my job any more.

TAPPI JOURNAL: When you view the position of Georgia-Pacific in terms of corporate America and the corporate world, what do you think is the unique part of Georgia-Pacific that sets it apart, that makes it competitive, that makes it the engine that it is, that keeps it driving forward, because you're clearly not floundering?

CORRELL: Long before I came here, some people made some wonderful business decisions that have clearly made a dramatic difference. Perhaps the biggest one was developing and building the southern-pine plywood industry. We have 17 of the finest plywood plants in the world; they have generated a lot of cash for this company and combined with our timber base, that business has been the engine that really has driven this company for a long time. Marshall Hahn had the vision to see that with all that was coming, with OSB, and other products, that while the engine was going to be good for a long time, it wasn't going to be as good as it had been and we had to develop a strong pulp and paper business. I think the big key to Georgia- Pacific is we've got good assets. We have some of the finest world-class assets in the business and we have a very focused vision of what we want to do with them and we try our best not to deviate from that.

TAPPI JOURNAL: Is there anything that I failed to ask that's really important?

CORRELL: In response to that question I would say, this is a different company and, as you know, I had worked for Weyerhaeuser for 10 years and Mead for 10 years, so I think I had a pretty good feel for traditional companies. Georgia-Pacific is a different company. It's on a different mission and I think it all goes back to the fact that we are committed to be a forest products company more than anything else.

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