

By MONICA SHAW, Editor

Planting deeper roots in Alabama

According to Joe Raccuia, CEO of SCA Tissue North America, the new Barton, AL, tissue machine reflects customer and corporate confidence, as well as a determination to lead the AfH market

When Joe Raccuia and his team dug into the Alabama red clay this March at SCA's Barton tissue mill, it was with a shovel much larger than met the eye. In breaking ground for a new \$145 million tissue machine at the site, the president of SCA Tissue North America was planting deep financial and strategic roots in the small northwestern Alabama town.

"The new paper machine will improve our logistical efficiency and our cost structure. It will strengthen our business in the southeast part of the US," said Raccuia at the groundbreaking. "This investment in our Barton facility is an endorsement of north-west Alabama as an excellent place to do business and it shows the confidence SCA has in this facility and the confidence our customers place in us. We are proud to be deepening our roots here."

The new 70,000 tpy No. 14 tissue machine will start up by the summer of 2008 and will supply the tonnage gap left by an expired

contract for parent rolls. The mill's No. 12 tissue machine, installed at the greenfield site in 2004, produces 100,000 tpy, and the converting plant capacity is 170,000 tpy. Located in the fast-growing southeastern market, the new tissue machine supports SCA's near- and long-term goals.

"We are positioning ourselves to be the leader in the away-from-home (AfH) market over the next five years. That's our goal," Raccuia told *Pulp & Paper Week* after the February announcement for the new project.

Recently, *Pulp & Paper* sat down with Raccuia to talk about current operations at the Barton facility, the new tissue machine and its strategic significance, customer demands, and the future for SCA Tissue. Raccuia, who was president of Encore Paper Co. in the Northeast when SCA purchased it in 2001, has been president of SCA Tissue North America since 2003.

New tissue machine at Barton

There was some thought from the startup of

the Barton facility that SCA would put a second tissue machine there. How was it decided that this was the time and place to do so?

We've been working on this plan for more than a year to make sure we were aligned properly and to convince people that this was the right location to place a paper machine. The site itself is 700 acres and was designed to accommodate up to four paper machines.

Another factor was the end of our parent roll supply agreement with G-P, which has now expired. We've been preparing for that expiration for quite some time. Additionally SCA Tissue North America's profits the last few years have been strong. Overall, we felt that the location, infrastructure, personnel capabilities and the impact it will leave on the business by removing costs combine to make Barton the logical place to add a paper machine.

SCA's first machine at Barton, the No. 12, was a 5.4 m, 100,000 ton/yr Voith Andritz wet crepe tissue machine. The new No. 14 paper machine will be a 70,000 ton/yr dry crepe machine from Andritz. Will you be optimizing them for specific products? What factors influenced your supplier choice?

The No. 12 paper machine is a wet crepe machine for manufacturing toweling and dispenser-type napkin. The new No. 14 machine will be a dry crepe machine that will primarily produce tissue and two-ply dinner napkins. We are currently short of tissue-based products, which were the main products that G-P was supplying.

There were four suppliers in the running for the second machine in Barton. In the end, we selected Andritz. Their overall proposal, attention to detail and cooperative spirit led us to choosing them for this project.

What sorts of auxiliary equipment do you plan on upgrading as part of the No. 14 tissue machine project?

We have one deink line sized at 140,000 tons/yr, which supplies the No.12 paper

Shown at the March 2007 groundbreaking are local officials and SCA representatives (starting second from left): James Haefele, Barton project site manager; Ron Thiry, vice president, manufacturing; Thomas Wulkan, president, SCA Americas; and Joe Raccuia, president, SCA Tissue North America.



machine, so we will be installing a second line at 100,000 tons/yr for the new machine. Our deink equipment will also be supplied by Andritz. As for water treatment, the plant handles 2.5 million gal/day of effluent, so we have enough capacity there.

Over the past year and a half we've added additional converting equipment to Barton, some from other SCA facilities and some new equipment. While there was an expense involved in this, it allowed us to ramp up our converting production of cases to match those that will be generated by the No. 14 tissue machine — well before its startup. This will ensure that our customers' orders will be filled with the same level of service they have grown accustomed to from SCA.

The Barton mill's products are 100% recycled. What is the radius for obtaining waste paper currently? How will you source the waste paper for the new machine?

We source most of our waste paper from Atlanta and the larger Tennessee markets, and I would estimate the radius at up to 500 miles. We can't wake up in May 2008 and say we need 100,000 tons of waste paper, which is what is required to run the new machine, so we are already contracting tonnage for the new machine and either shipping it to our other facilities, which can be costly, or brokering it.

It is a very conscious effort to secure those tons well in advance of the startup so as not to upset the market. Actually, SCA Tissue North America purchases all the waste paper for SCA's Mexican plants as well as facilities in Latin America, so if we purchase excess waste paper in Texas, for example, we'll ship it to Mexico or Chile. We have outlets within our company first, and if there's a grade that we're not using, we'll sell it on the market.

Given the supply and quality issues with recovered paper, would you consider using virgin pulp? Specifically, would you consider eucalyptus?

Currently, all of our products are made from 100% recovered paper. We're building the capability within the new machine to run multi-layer tissue in the future, as well the ability to blend in other sources of fiber.

In October we will begin branding all of our products under the Tork name, SCA's global AfH brand. As part of this rebranding, we'll be adding additional premium products to our portfolio and we've not yet made a decision about using virgin pulp or eucalyptus in these.

How many people will you hire for the new tissue machine? Will you be pulling from the No. 12 paper machine to support the No. 14 and then back-filling?

We currently have about 400 employees at our Barton facility, and the infrastructure is extremely automated, so we're looking at adding about 30 people. By adding only 30 people, it's obvious that this is a very efficient project.

We will work with our United Steelworker partners to coordinate a move of half of our

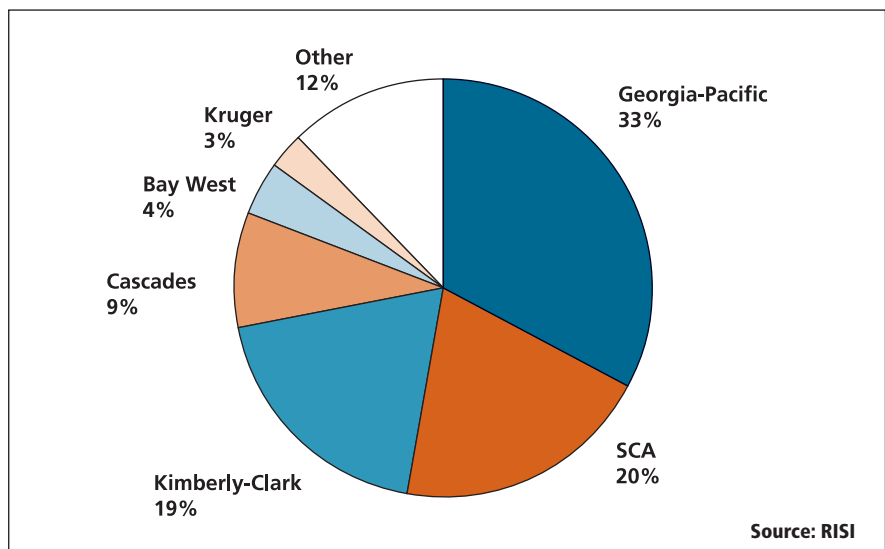
employees from the No. 12 paper machine to the new No. 14 paper machine during start-up. We assume that the startup of the No. 14

"We are positioning ourselves to be the leader in the away-from-home market," says Raccuia.



FIGURE 1.

SCA Tissue North America ranks second in market share by volume (tonnes) of production (parent rolls). When judging by finished product, shares should be similar except Bay West jumps to 6%.



machine will be smoother than that of the first machine because of the talent and experience we have developed.

Given that Barton's two tissue machines will supply the entire 170,000 tons/yr

required by its converting facility, what advantage does this provide?

We hope to see a significant reduction in waste by having a supply of tissue and towel to convert that is consistent in quality. On the converting side, we are extremely proud of

what we've accomplished here. When this mill first started up, we hoped to attract people that had paper backgrounds, but that wasn't very easily found in the area. Frankly, when we looked at our startup curves, we thought our converting would be faster than papermaking, but it was actually just the opposite.

The challenge was that our converting employees were dealing with paper produced from many different paper machines due to

the outside source of parent rolls, so they couldn't just press a button and run the converting lines. Folks here have done a great job, but tweaking these lines based on paper variation is tricky. We've really challenged them these last few years,



SCA Tissue's popular Tork (left) and Xpressnap (below) brands



operations

Barton offers a lesson in efficiency

When touring SCA Tissue's facility in Barton, AL, what you don't see is just as significant as what you do. While the facility is filled with state-of-the-art technology, such as the 33 automated laser-guided vehicles (AGVs) roaming the aisles of the converting plant and distribution warehouse, those same aisles are conspicuous in their absence of people.

"Much thought and planning went into the design of the facility to insure a high level of labor efficiency," says Ron Thiry, vice president of manufacturing for SCA Tissue North America. "Specifically, we sought to minimize raw materials handling between different operations. At the point we couldn't eliminate movement, we implemented automation, such as automated roll handling from the mill to converting operations, delivery of parent rolls to converting and the warehouse with AGVs, and an automated storage and retrieval system in the warehouse."

The Barton facility employs 385 direct employees, and the converting plant provided the most potential for labor efficiency enhancements over traditional mill configurations, says Thiry, although the existing No. 12 paper machine is at "world-class levels in terms of staffing."

For the direct employees, hiring practices included several stages of interviews and training to make sure the candidate would fit into the high-performance work team environment at the mill.

"When starting the mill, we knew we were in an area that did not have a large paper industry talent pool, so we carefully screened for technical competencies, as well as for people who could to step into team leadership roles with autonomy and decision making responsibilities in areas like quality and safety," Thiry describes. "The Barton facility has continued with this screening process, and aspects of it have been adopted by other company locations."

Promotions at the unionized mill are based on skills developed as the person rotates and gains proficiency at multiple functions in his or her particular area, such as a variety of machines in the converting area. The employees must "demonstrate a significant gain in skills, proficiency and leadership," Thiry notes.

Flexibility is also key within the equipment itself. For example, machinery in the converting plant is configured in such a way that it can easily handle a variety of different roll sizes based on how the tissue machine is trimming.

and luckily we've been able to rely on a wealth of internal knowledge sharing and some staff relocations to assist our Barton team.

A changing customer landscape

Are you seeing that customers are demanding more brightness, higher quality AfH tissue and towel products?

Certainly, a focus on brightness has always been the case, more so in some markets than others. Because our two major competitors are consumer oriented, that's certainly impacted the issue a bit. However, with our deinking capabilities in Barton and our deinking strategy across the system, it's a non-issue for us. We're able to deliver our customers a very bright product.

We built our deinking line in Barton for flexibility and versatility, and we can use up to 100% mixed office waste if we choose, which is quite a statement in removing inks and dirt. When we saw the sheet from

the No. 12 paper machine its first year, we determined we would use the Barton deinking system as the model across the SCA Tissue system.

You have said that SCA "value engineers" its products. Can you provide examples of this?

Value engineering is another way we add value for our customers with our products and processes; it's about creating product specifications that meet our customer's quality and pricing needs and processes that deliver outstanding service levels. Our products have a distinct "good, better, best architecture" that makes it clear to customers what their options are.

Our move to the Tork brand gave us the impetus to reconsider how our current products fit into this architecture. Over the past year we have benchmarked well over 400 competitors' products, looking at basis weights and sizing, and we have consulted

with our customers to develop new product specifications for our Tork branded offerings. This benchmarking showed us that we needed to expand our premium offerings and you will see more of these products from SCA throughout 2007.

We also used a value engineering strategy in the creation of our SmartFit initiative — a program to optimize shipping efficiencies while reducing damage. This has led to fewer truckloads for customers to manage, lower fuel consumption, and a reduced impact on the environment.

The benefit of our value added approach is increased service levels. For instance, as a result of SmartFit, customer fill rates were 99.7% in 2006, up from 98% in 2003. And thus far for 2007, fill rates are approaching 99.9%. We feel so strongly about service excellence and adding value to our customers that we reward each SCA employee based on factors such as fill rates.

This rendering shows the layout of SCA Barton operations after the 2008 startup of the new tissue machine.



How has the consolidation among large distributors impacted SCA Tissue? Is this consolidation a factor when you seek price increases?

It's fair to assume that due to consolidation these fewer, larger customers would use their size to put pricing pressure on us. However, distributors today are in tune with waste paper and transportation increases and understand our business costs are significantly affected by these factors.

Although pricing will always be a factor in customer decisions, SCA has responded by focusing on becoming a world-class supplier to our customers. Everyone from our customer service department to our sales representatives to our supply chain team is tasked with fully understanding our distributor partners' business from a consultative perspective.

Our fill rates are second to none and our many introductions of innovative, customer-driven products and services enable SCA to stand apart from our competitors. In fact, we regularly win awards from our customers — 30 in 2006 alone — because our service is best in class. It's important to note that these awards are not limited to rankings among paper suppliers, but across all of the many suppliers our distributors work with. For example, this year SYSCO ranked SCA Tissue 6th out of their 2,500 suppliers. We were chosen supplier of the year by Afflink, Dairy Queen and Quiznos, to name a few. Clearly, our focus on service excellence is being recognized by our customers.

Does SCA have an advantage in the AfH segment in that this is its sole focus?

Yes, I believe we have a distinct advantage. We are the largest tissue manufacturer in North America focused solely on the AfH business. Our business decisions and practices are driven by our AfH customers. We don't need to factor in the complexity of managing the demands of the consumer

John Bunda (far right), strategic accounts director, and Don Lewis (second from left), senior vice president, sales and marketing, receive an award on behalf of SCA Tissue for ranking sixth out of SYSCO's 2,500 suppliers. Also shown are SYSCO CEO Richard Schnieders (left) and executive vice president Larry Pulliam (second from right).



market, whose needs are different from the AfH market.

SCA Tissue and the future

What's next for SCA in North America after the new Barton tissue machine? What are your challenges from a regional perspective? Would you consider a bigger presence in the West or the Pacific Northwest?

We do look at our business from a regional supply chain and logistics perspective but we also have to also look at new technology, such as TAD and Atmos. With the Barton expansion, we certainly will be balanced in the Southeast, which represents our largest region, but the Southeast is growing rapidly. As we continue to work through our customer assignment model, the Barton facility will service the large footprint of the region, which reaches as far north as Virginia and as far west as Texas.

In the Northeast, which is a strong market for us as well, we're continuing to look at the supply chain. And in the Midwest, we continue to upgrade at Neenah and Menasha, our largest facilities.

We update our five-year plan on an annual basis, and we do consider the Northwest a void in our supply chain. Our business in the Northwest can be serviced very well from either our Bellemont, AZ, or Neenah, WI, converting facilities, and we're okay with that for now. Beyond this project, however, we are evaluating our entire western supply chain.

SCA has a large presence in consumer tissue in other parts of the world, especially given its recent purchase of P&G's European tissue operations. Would SCA Tissue North America consider entering the consumer tissue market?

Not in the near term, although it is true that SCA is very strong in consumer tissue in many parts of the world, including Mexico and Latin America.

Consumer tissue is a very different, very consolidated market. In the last five years, SCA Tissue North America has gone through a tremendous transformation, building world-class operations, world-class innovation. Right now, however, our eyes are completely focused on the AfH business. **P&P**