



New paths for the tissue paper segment

Companies installed in Brazil combine forces to make consumers become attracted to greater added value products. With this, new investments may be made in the country

By Marina Faleiros

Makers of tissue paper in Brazil perceive 2008 as a decisive year. While in mature markets, like the United States, technologies like True Air Dry – which dry paper with hot air jets – are a reality; down here the initial step is yet to be made: substituting single-ply for double-ply.

It seems like a simple change, but for Brazilian consumers price is still a critical factor when it comes to buying this product. According to Ricardo Tobera, Kimberly-Clark's Operations Director in Brazil, the domestic tissue pa-

per market is composed of 80% single-ply products. "Neighboring countries, like Colombia, consume 95% double-ply paper, as does Central America. In Europe and United States, double-ply paper is the basic paper, while three-ply is the reasonable and four-ply being the premium", he explains.

But this is not the way Brazilian consumers are used to thinking. Here, double-ply paper is considered top of the line, and the goal of manufacturers from now on is exactly to change this perception. Mauro Petri, Consumption Director at Santher - Fábrica de Papel Santa Therezinha S/A, says that this

transition is necessary. "The movement is precisely to have a higher added value product, with a more attractive margin for trade and industry."

According to figures obtained by Santher, the strategy of major producers is already beginning to take effect, since the substituting of single-ply for double-ply paper accelerated its pace last year. "While the volume of single-ply paper sold last year suffered a small drop, double-ply paper sales grew roughly 9% in 2007", says Petri.

One of the reasons for this bet to take on greater momentum among key players is the level of idleness at plants in the

sector. Today, the majority of industries sell pretty much everything they are able to produce. "Plants are operating at full capacity, prices have been rising and, with the lack of paper on the market, we want to optimize what we have, with products that add more value for consumers", explains Aldo Bergamasco, Marketing Director at Melhoramentos Papéis.

Additionally, according to Petri, paper plant margins are very tight since the price of pulp, despite being produced in Brazil, is at a high because it's a commodity with considerable demand in the external market. "Eucalyptus is even gaining strength in the United States and Europe. Companies there are adapting their machinery to operate with a blend of long and short fibers, and 80% of Brazil's pulp market is exported, creating a problem for the domestic tissue market."

According to Petri, the tissue paper market possesses competitors of all sorts – from large sized companies focusing on quality, to small plants that are not associated to any major organization and use refurbished equipment. "And the companies that possess a solid market cannot enter this war for prices, we no longer wish to compete for these consumers."

The work being done by big producers in the segment also began showing results in terms of price. According to data provided by Melhoramentos Papéis from consulting firm Nielsen, prices have already begun to go up. "While the general price increase last year amounted to 1%, toilet paper increased 3.8%", says Bergamasco.

CUSTOMIZED TECHNOLOGY

Brazilian consumers are traditional and like white and neutral color products, explained Petri. On account of this, investments in technology end up focusing on obtaining better levels of softness and absorption. Also according to Santher's Consumption Director, while the work done in this area is very strong, Brazil does not yet use True Air Dry (TAD) technology, which is common in the United States.

MARKET IN WAITING MODE

While the economy grows, more jobs are created and the population spends more on consumption. In 2007, Brazil's Gross Domestic Product (GDP) grew more than 5% as did income per capita. Elton Bicudo, a Pulp and Paper consultant at Tendências Consultoria Integrada, believes that this is the path for manufacturing companies in the country. "The main driver that defines paper consumption is income and Brazil's growth rate. As such, we expect paper consumption in Brazil and throughout South America to increase over the next few years", he says.

According to data from the consulting firm, overall sales of paper grew 2% in 2007. "In turn tissue paper posted an even bigger increase: 2.6%. In 2008, it should grow 3.5%", says Bicudo. With the increase in income, the tissue paper sector grows faster than the other segments and does not suffer the influence of imports like other types of paper.

But the situation has not always been of good perspectives. The executive recalls that between 2001 and 2005, expectations were much lower and only in 2006 did consumption in the sector begin to accelerate. For him, despite signs of better times, it is still not the time to expect seeing major investments in paper. Consumption is high on account of Brazil's large population, but it is not something that has grown in a sustainable manner over the years and, therefore, does not justify building new plants.

The much talked about machines that employ True Air Dry technology in the United States use air jets to dry the paper rather than using a press. This gives the tissue paper a special softness, which is not achievable using other means. However, this technology has one major weakness: it consumes a lot of energy and water. "It is very expensive and we need to pay close attention to the cost variable in our business, since the market is still going to take a long time to get out of the basic single-ply niche, and any changes puts a lot of pressure on price", says Petri.

In the executive's opinion, the best solution has been to invest in embossing-adhering technology, which is the most used in the country. "In comparison to other technologies available in the world, we are not all that behind, except when compared to TAD and those that are based on the use of long fibers". Additionally, he informs that issues such as providing softness on both sides of double-ply paper have already been resolved by the company.

MARKETING TO GROW

It is not just technology that the Brazilian market focuses on when the subject is tissue paper. Therefore, companies are trying to win market share particularly in the way they communicate with the market.

Santher, for example, held a major promotion in 2007 – that gave out R\$ 1 million in prize money – constituting an innovative marketing action in the sector. Melhoramentos Papéis, one of the few tissue paper companies in Brazil that also produces a part of the pulp it uses, is taking the path of offering new and practical products, which previously were only available through the company's corporate product line, and are now sold to end users. Example includes seat protectors and the high-end napkin line Lips, which before were only sold to restaurants and businesses. "And we are going after new business activities involving cosmetics, with the launching of our wet naps", says Bergamasco.

At Kimberly-Clark, work has focused on communicating the yield of double-ply paper. "When consumers use single-ply paper, they end up using much more paper. We are focusing on informing consumers that our double-ply Scott paper, for example, yields 50% more than single-ply paper", guarantees Tobera.

RESTRUCTURING IN EUROPE

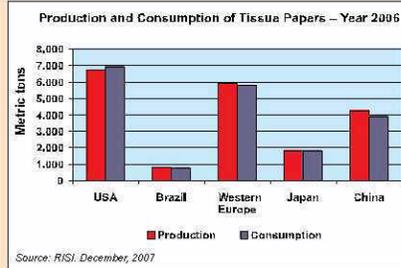
While the Brazilian paper market is engaged in a battle to change consumer mentality, and in the United States mass production of paper using True Air Dry technology is already a reality, when speaking about the European tissue



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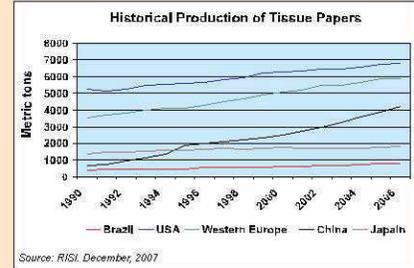
market, the first word that comes up should be restructuring.

According to Roberto Berardi, Chairman of ETS (European Tissue Symposium), tissue paper consumption growth in the continent has slowed



down. In 2006, it amounted to 2.5%. The main problem in the region, says the executive, is cost. "Companies are having problems with profitability, and the price of raw materials, a major part coming from Brazil, has increased significantly, while profitability has not been good in Europe."

One of the challenges resides in passing on this price increase. Berardi says that retail chains that use their own brands are on the rise and they fight to offer the lowest price possible to consumers. "For them it is fundamental that they maintain prices low." Additionally, the continent suffers with much higher logistics, electricity and gas



prices than the United States.

Within this scenario, some companies are closing down inefficient plants, while others are getting out of the market for good, as is the case of Procter & Gamble, which sold its plants in Europe.

To participate in this market in the future, Berardi believes that Brazil must be prepared, especially when the subject matter is social responsibility. "Some products in Europe already inform the level of carbonic gas emitted during production on the label. This will lead companies that wish to supply industries in the region to show a major concern towards environmental matters."

STANDARDS DEFINE RULES FOR TISSUE PAPER SEGMENTS

Terms like "Special", "Premium" and "First Class" tends to be stamped on the packaging of various products with the objective of showing consumers that they are buying something with better quality. However, when these classifications are done according to a company's taste, consumers many times end up getting confused and not being sure whether what is written on the packaging is actually true in terms of what is inside the package.

In the tissue sector, this is no different. As a result, some companies in the sector ordered several studies from IPT (Technological Research Institute of the State of São Paulo) with the objective of creating ABNT standards for the sector.

To complement this work, ABNT, ABTCP and Bracelpa created a mark of conformity. The process for obtaining the seal is conducted by ABNT's Certification area and is similar to an ISO 9001 type audit. Periodic process and product inspections are conducted and, if the company complies with the requisites, it receives the mark. "And the manufacturers that voluntarily wish to obtain the mark have the advantage of communicating with its customers with greater transparency", says Cristina Doria, ABTCP's Standardization Coordinator.

Eight standards were published in 2007 for purposes of regulating the sector, taking into account factors such as strength, softness, brightness and absorption capacity, among others. In defining the rules, Cristina explains that samples were collected from various brands and types of products on the market and then submitted to IPT, which performed the tests. In turn the Tissue Paper Study group analyzed the data and defined the standards and then submitted them to ABNT for National Consultation. The next step now is to give continuity to another eight standards: institutional inter-layered and roll toilet paper, paper towel in roll and hospital sheets, both single and double-ply. The table below shows the standards that can already be applied for classifying products:

ABNT NBR 15464-1:2007 – Paper products for sanitary purposes – Part 1: Single-ply toilet paper
ABNT NBR 15464-2:2007 – Paper products for sanitary purposes – Part 2: Double-ply toilet paper
ABNT NBR 15464-3:2007 – Paper products for sanitary purposes – Part 3: Single-ply napkins
ABNT NBR 15464-4:2007 – Paper products for sanitary purposes– Part 4: Double-ply napkins
ABNT NBR 15464-5:2007 – Paper products for sanitary purposes – Part 5: Double-ply paper towels – Home use
ABNT NBR 15464-6:2007 – Paper products for sanitary purposes – Part 6: Double-ply facial tissue paper
ABNT NBR 15464-7:2007 – Paper products for sanitary purposes – Part 7: Single-ply inter-layered institutional paper towel
ABNT NBR 15464-8:2007 – Paper products for sanitary purposes – Part 8: Double-ply inter-layered institutional paper towel

Companies interested in participating in this new phase may contact ABNT/CB29 – Brazilian Pulp and Paper Committee at (55-11) 3874-2729 and (55-11) 3874-2716 or send an e-mail to cb29@abnt.org.br.