

# Board Converting

Serving the North American Corrugated and Folding Carton Industries for 38 years

NEWS

## Converter Outlook 2022, Part 1: Obstacles, Yet Surging Demand

As is our annual tradition, *Board Converting News* solicits a representative sample of the continent's independent converters for a glimpse into their minds as they embark on another year in the ever-dynamic corrugated, folding carton and rigid box making industries.

The coronavirus pandemic and its variants continue to impact the global supply chain and has affected all facets of life, both globally and here in North America. As predicted and expected, the corrugated industry has not only survived, but thrived despite one challenge and obstacle after another. The converters here have shared their business strategies, political views and industry forecasts. They have also raised some questions and concerns for the year that will be 2022:

### ACME CORRUGATED BOX CO.

Hatboro, Pennsylvania: Bob Cohen reports, "After 50+ years of experience in our industry, I wish I could issue words of wisdom or be more prescient about what 2022 holds in store for us. Right now, the only constant is change. Rolling with the punches has become an art form.



Bob Cohen

"For the last 18 months, we have been dealing with the various iterations of the Covid virus, the uneven response to the pandemic, supply chain concerns, a tight paper market, labor shortages, wage inflation, rising energy costs, general inflation (which contrary to wishes of

the Federal Reserve Chairman Powell are not transitory), geopolitical threats, an inept administration (on all levels) and economic volatility.

"Despite all these obstacles, I don't think that independent producers have ever had a better year. It is only the second time in my career that box demand has exceeded the production capabilities of the market. I saw the same demand surge in the 1970's during the Oil embargo of 1973 and 1979. That was 40+ years ago. Normally, when Containerboard prices rise, the reasons are opaque to the ultimate customer. In fact, in the past, the customer only realized a tight paper market by reading about supply constraints in a purchasing magazine or in publications like the *Wall Street Journal*.

"What's unusual this time around is that most companies that convert boxes, whether integrated or independent, have huge backlogs and their lead times have never been longer. Demand has outstripped the ability to meet that demand. Clients have done away with the 'just in time' philosophy of inventory in favor of placing orders far in advance from when they might need those orders.

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## EPA Proposes \$1.1M Penalty Over New-Indy Odor Issue

The U.S. Environmental Protection Agency (EPA) has proposed to fine New-Indy Containerboard \$1.1 million over the odor dilemma in South Carolina that for several months generated thousands of complaints against the paper mill in Catawba, South Carolina.

The EPA lodged a proposed consent decree and says New-Indy has agreed to significant relief designed to prevent hydrogen sulfide (H<sub>2</sub>S) concentrations above levels that endanger people's health from the mill. New-Indy would pay a civil penalty of \$1,100,000.

This comes months after the EPA took legal action and issued an emergency order for New-Indy Containerboard to fix the prolonged odor that plagued multiple counties in South Carolina for more than four months.

The EPA received tens of thousands of complaints about the odors that reportedly sickened neighbors living near the plant. Area residents impacted by the odor and toxic emissions filed to intervene in the EPA's litigation against New-Indy to put an immediate end to pollution.

According to an EPA press release, the May 13 order was issued to prevent imminent

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## Converter Outlook: Part I (CONT'D FROM PAGE 1)

"Yesterday, I got a glowing email from a client who never gives out compliments. My suspicion is that even with our own backlog being significant we are still outperforming many of our competitors.

"The year 2022 will see increasing mill capacity in North America, in Europe and in South America. Most white paper producers see containerboard as a default position. Consequently, companies like Domtar and Cascades are in the process of converting formerly white paper machines to recycled containerboard. The market question is, do all these conversions have integration? If they don't, what will the impact of more paper availability mean? Will the additional tons be absorbed by increased demand or will the excess capacity lead to price erosion? What about capacity creep? It's reported that the amount of new capacity coming online in 2022 and early 2023, in North America, in Europe and in South America (specifically Brazil) will amount to 3.5 million tons. Will companies like Amazon make up the difference? Isn't the proposed packaging initiative that Amazon has embarked upon all about reducing fiber and, ultimately, consumption? Then, the question becomes, will we find ourselves in a market slow down, where consumption flattens? Will this signal a return to a cycle of price reductions based on new capacity that has no home? This is where my crystal ball falters.

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## Proprietary OEM electronics are expensive

OEM box machine suppliers like to use proprietary electronic designs. It keeps you locked in to them and only them at a price they find very profitable. IMC box has successfully retrofitted 31 different OEM FFG, RDC and PS box machines with a simple low cost non-proprietary design - **set yourself free**



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## Converter Outlook: Part I (CONT'D FROM PAGE 22)

"I do think that since our pricing model only increases or decreases with paper prices, that auxiliary costs may not be recaptured if prices eventually go down. That should be a real concern for everyone reading this article. With inflation affecting everything from wages to energy costs, we know that the lowering of paper prices may also hinder us in our efforts to recover inflationary input costs. That is why I am an advocate for changing the method of price movement. No business can absorb the inflated costs of ancillary material without inflicting harm on their margins. It should be something we all consider as the market changes -- as it surely will.

"The year 2022 will be a year of transformation for Acme Corrugated Box Co., Inc. In November of 2020, we commenced an expansion of our facility and the purchase of a strategic set of new operational equipment. Even be-

fore the pandemic, we contemplated a growth strategy based on the near capacity issues we faced. We have already begun installing a new 110-inch Fosber corrugator and a racking system for WIP that will hold up to 10-million-square-feet of product. The project is immense and more difficult than a "greenfield" start-up due to the integration of our existing operation with the expanded space. Our plan has always been to continue operation as we move to the new machinery. We will actually be running the old 98-inch corrugator as we ramp up the new one. In fact, we will be running sheets under the old machine as we dismantle it. A challenge to be sure, but the planning has been extraordinary.

"A shout out to our vendors - Fosber America, WSA, Harmax, Warak, Esnova, Kober Conseveyo and to my son, Jeremy Cohen and to our Project Manager, Ryan Stashko. So far, given all the supply chain obstacles, they have done an admirable job. While wary of market changes, I do have faith in our operation and our people. So, whatever 2022 has instore for us, we will be prepared."

### BAY CITIES

Pico Rivera, California: Greg Tucker reports, "Coming off one of the most spectacular



Greg Tucker

and way out-of-control years, 2022 will be yet again a very promising one for business. I am certain records were set with regard to bottom-line perfor-

mance in the box business. Mills ran hard, and converters ran even harder to keep up with an imbalance of supply due to weather, labor, transportation, demand, inflation and of course, that pesky virus.

"We did a great job of passing on higher costs to our clients as we continued to miss deliveries which were beyond our control. What is remarkable about our industry is that we can move prices up where other industries couldn't do so and are fighting to gain price control. We still hold ourselves accountable to a publication that allows price fluctuations up or down when it gets around to publishing linerboard transacted prices. This last year many converters put a dent in the strength of our *Mad Magazine* of the paper industry and learned to raise prices according to market fluctuations in things other than just paper. This dent will continue to spread into 2022 and beyond. Someday our *Mad Magazine* will no longer have much relevance in setting prices

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as we all learn to move away from contracts and move to market pricing. Our business models all changed over the last three years due to Covid and we all (most of us) learned to price according to all the dynamics in the marketplace not just some pie in the sky guess of linerboard transactions. There are lots more to a price of a box than just raw material costs.

"What does this have to do with 2022? Tons! Okay, I really didn't mean tons, I meant those that have learned to pass on increases other than tonnage costs will do well in this next year and many years to come. It is the same in every other industry. Those industries that have pricing power will perform well next year from a bottom-line perspective and a stock value perspective. The low-cost producer will be left in the dust if they can only raise prices along the lines of linerboard escalations. This is one of the reasons why the term 'transitory inflation' was minimized politically and from our folks on Wall Street. When prices rise and fall, businesses and industries can move accordingly in a market driven world. This is something Covid did disrupt the box business with and we all kind of shrugged it off. It is very meaningful as we move our businesses into future.

"What else will be big in 2022? Labor costs will continue to increase. This is Covid-driven and generational-driven but accelerated by the Big C. Many folks will not come back into the workforce. Many Baby Boomers have retired

and the next two generational segments will push into the market. We hope! One of the issues that has been going on for years in this country is we took a break in popping out babies thus we have a population shortage right off the bat. Something we will begin to see next year is some of the Boomers coming back into the workforce as "for better and for worse but NOT for lunch" hits home and some of our wisdom kings will come back to work. Get these folks if you can and have them teach and train. Our wisdom base is getting sucked out of the workforce. Our founder Bill Hanan always hired young people. Now, of course this was somewhat self-serving to Bill, but he did know that backfilling his company with young people kept him young and his company flourishing with vibrancy and new ideas.

"We also need to consistently train everyone in our company, even if we are a small company. Technology is changing so fast we can't even see it. This is one of the most important aspects of moving companies forward. We have many resources to help us inclusive of online training and even the AICC has adapted towards the leader of relevant online training to keep our skills sharp and our eyes on the advancement of our workplace humans.

"A very smart friend of mine, Clay Shaw from Batavia Container, tells me that labor is the next Covid. Clay is a brilliant leader and is spot on. Omicron and the variants to come will always be around, however, our employees may

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## **Converter Outlook: Part I** (CONT'D FROM PAGE 26)

not be around to propel our companies forward. This will come from competitive poaching, retirements and burn-out with our employee base. Labor is the livelihood of our businesses. Do not overlook this one.

"Attracting, retraining and training our workforce is key. So, how do we retain these humans that are pulled in every direction based on supply and demand and market temptation? I believe 1000 percent that it is our culture that helps one to attract and retain our employees. Culture is the most critical keys in attracting and retaining your existing and future employees. If your culture sucks, so will your employees by performance of getting pulled out the door by your competitors.

"Culture starts with the values of your company. These are not just words on a sheet of paper or banners hanging on walls. These are actionable descriptions of how your operation exists and behaves. Knowing me, how can I be an expert with this one? It's easy, we must attract and retain employees that believe in these values and we actually run our company with these in mind. We make every decision with these guiding values. This is very critical. As an example, at Bay Cities, FUN is one of our values. We take our work very seriously but not so much ourselves. Let's face it, we work more than we spend time with our families and friends outside of work. Thus, we have to have

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FUN to just keep our sanity. Keeping our culture through Covid was not an easy task and I contend it was the most important thing we had to accomplish with most of our employees working remotely. To win with employee attraction and retention, the prospective and employed have to fit. Values allow you to build that fitment equation. Culture and leading culture with demonstrative values is the ultimate key towards attracting and retaining employees.

"The next or biggest challenge we will see in 2022 will be customer retention. Supply chains will still be messed and labor issues will abound, as will this pesky virus. As we all know, we were not the greatest suppliers to our hungry clients. With Covid, labor shortages, transportation issues, skyrocketing costs of just about everything and paper issues to name a few, we were not that Johnny-on-the-spot solution for our clients during the last few years. I believe we lost our Customer Service edge.

"Yep, if we were to take a step backwards and put ourselves in the shoes of our clients, just how well did we do with the lifeblood of our companies? Certainly, they were just delighted to get the shipment from us that we told them three times it may show up and finally did a day later! In reality, we actually sucked. Yes, they should be so grateful that we delivered something as they missed their deliveries to their clients. Not a real good spot to be in. Okay, some of you wonders of America can say without a

doubt you made every delivery and your doodoo does not stink, but truly how many of you are there out there?

"The year 2022 needs to be the year where we get in tune with our clients and relearn just how to deliver Ultimate Customer Satisfaction. It starts with simply first saying thanks. When was the last time you actually called up one of your clients and told them thank you? Remember to share those same gestures with your suppliers during this next year.

"To sum up, for 2022 we need to continue to drive pricing power with market shifts and not just what *Mad Magazine* tells us. This is super important to the livelihood of your company and our industry. It's not only about linerboard movements, it's about labor, transportation costs, supply chain issues and price escalation in just about everything we buy.

"Remember, the best way to attract and retain employees is to build YOUR culture based on a set of values that are akin to YOUR company. Only those that FIT with YOUR culture will thrive in your organization. Begin to train and retrain everyone in your company. If you think you do good job in this area, make 2022 the year to be the best-in-class. Your employees are thirsty for development, not only in their skilled position but in other areas of your company and in their personal development. Get focused on customer retention. We need to become much better than we have during the last few years. Don't you think

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## Converter Outlook: Part I (CONT'D FROM PAGE 30)

your clients deserve better? Lastly, write a big fat check to the ICPF for the continued development of youth in trade schools, high schools and colleges. This organization has been warping the minds of young people into believing YOUR industry is a great place to work and develop."

### **CAL BOX GROUP**

Santa Fe Springs, California: John Widera and Chris Widera report, "High-flying California faces an obscene \$31 billion discretionary budget surplus, plus a \$1.3 trillion debt



**John Widera**

from state and local governments. It's sheer volume, pace and precarious economic impact on people and manufacturing facilities in 2022 will have smooth sailing, others will not (especially emerging markets).

"The current M&A integration of suppliers and distributors is chartering a logistic course to provide better insight and control of their supply chains. At the core, all supply chain facets are economic issues. Sourcing, delivering materials (from Asia), with forecast risk should determine how many widgets will arrive on time. Washington's ivory towers, of course, employ plenty of economists but practically nobody understands business, let alone how the nation's supply chain works. So instead of leadership, we get glib platitudes. Instead of some semblance of progress, we get endless recycling of the same position statements, more lawsuits and new legislation to drive up the cost of living.



**Chris Widera**

"These opinions are a lot like fashion when deciding what states and their economic strategies are hot and which ones are not. The impact of markets is by no means uniform across the nation. One area where there is a gulf between superficial appearance and reality is in the Golden State's \$38 billion fraudulent unemployment payments, \$100 billion railroad to nowhere, about 1,400 businesses a year leave California, unfunded \$120 billion state, local pension of public employee obligations, help wanted signs, etc. These have turned our ship of state into the highest state income, sales and gas taxes in U.S.

"In that context, fiscal prudence is still the best course of action. However, CEO's and politicians offer compelling visions of power over stimulus policy in a surveillance world that's us versus them. Facebook for example, has not been transparent or truthful with investors and advertising clients. Thus there are more accusations of prioritizing profits over user safety and security.

"Social media has our personal likes and history to mar-

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## Converter Outlook: Part I (CONT'D FROM PAGE 32)

ket us into oblivion. New apps make platforms disseminated content more restricted by passwords, credit questions, and background information, but does not protect us. And as value is being created and captured in 2022, the deep dive into big data and click baits along with intrusive progressive censors will get more skewed and concentrated.

"To hinder the economy from sputtering, short-sighted politicians can't lower taxes when they're giving empire builders tax breaks with questionable accountability. Such incentives are complex. So, big businesses with plenty of tax accountants and lobbyists are pitted against small business in the community. Now you're asking people to pay more of their tax dollars in order for new competitors hub firm to succeed. For consumers, what really matters in 2022 is their pocketbook expectation about stability of prices.

"The flames of inflation are causing sticker shock with a dizzying array of deal-hungry products such as energy, starch, medium liner; labor, food, cars, real estate, etc. The volatile conditions were started by setbacks at overseas factories from a lingering pandemic crisis. They contributed to the log jam at Los Angeles ports. The resulting supply chain chaos reignited by soaring prices feeding a six

*"Inflation is a quiet but effective way for the government to transfer resources from the people to itself without raising taxes."*

*-Thomas Sowell, Economist*

percent inflation, due in large measure, to more benefits and subsidies with extra cash that increases consumer and commercial demand driven by government's policies and a surge in spending.

"Inflation is a quiet but effective way for the government to transfer resources from the people to itself without raising taxes,' wrote economist Thomas Sowell. The U.S. government has nearly \$29 trillion in debt. When it churns the monetary printing presses to soften the economic down turn, it reduces the value of the money that already is in circulation. To many, it's like throwing fuel on the inflation fire. To others it's like a 'confidence game' where trusting businesses will eventually end up with expanding centralized government powers that can lead to perpetual crises. Or as Ted Lasso said, 'It's like a instruction manual why they are nuts.'

"To meet or exceed our 2022 goals, Cal Box Group. entrepreneurs are emboldened to:

- Lead with empathy while working with top quality and reliable suppliers.
- Expand our local niche market leadership by "choosing our battles wisely."

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## Converter Outlook: Part I (CONT'D FROM PAGE 34)

- Remain a provider of high value at competitive prices with no late or mistakes over ½ of one percent of sales.
- Remain sales service champion teams with aid from apps.

"At the end of the day, it all depends on how serious are our health and economic aftershocks. If 2022 is a garden variety recession, or something more severe and long-lasting, we'll just have to determine the correction and adjust as we did in 2021.

"In spite of expected higher interest rates, we have a guarded optimistic focus on our future cash flow and courage to continue to invest in the growth of graphics, 2022 will be another year when Cal Box Group associates run with the foxes and hunt with the hounds."

### LAWRENCE PAPER CO.

Lawrence, Kansas: Justin Hill reports, "We are not quite sure what 2022 will bring because we can't recall similar



Justin Hill

industry conditions. Statistics and pundits say that industry box production is going the wrong way, yet our plants remain exceptionally busy, especially because we are responding to requests for help from competitors who cannot meet demand due to a shortage of

labor. We have lots of numbers to tell us if there is enough paper to meet box demand, but I am unaware of any numbers that tell us how close we are to labor force capacity. If we posit that our industry is currently at the limit of what it can produce with the existing labor force, that might explain why box production numbers appear to be falling off during an economy of shortages.

"If this is the case then 2022 could prove to be a very unusual year. We might likely experience adequate supplies of paper (especially in the second half of the year with more capacity coming on stream), but with fewer players able to try to gain market share due to lack of labor. While individual plants with adequate labor might be running at capacity, we do not believe there is a converting equipment constraint in place.

"The current surge in Covid cases must surely be exacerbating the industry's lack of ability to man machines to their capacity. Federal government policies that have paid people to stay home and out of the workforce have greatly impacted the labor supply. We have little confidence that the current administration will pursue policies to fix the labor supply issue. Unfortunately we think that a recession will likely be what ultimately fixes the labor problem. While none of us want a recession, we know that one will happen as we recover from all of the excess spending. We are not smart enough to predict when that might happen. In the meantime we expect to remain busy at least into the first half of 2022."