



Play to Win

An Interview with John V. Faraci,
Chairman and Chief Executive Officer, International Paper

EDITORS' NOTE John Faraci has held his current post since November 2003. Earlier in 2003, he was elected President of International Paper, and he previously served as Executive Vice President and Chief Financial Officer from 2000 to 2003. From 1999 to 2000, he was Senior Vice President – Finance and Chief Financial Officer. From 1995 to 1999, he was Chief Executive Officer and Managing Director of Carter Holt Harvey Ltd. Faraci is a member of the Council on Foreign Relations and is a member of the board of directors of the National Fish and Wildlife Foundation, United Technologies Corporation, and PPG Industries, Inc. He also serves on the board of the Moscow School of Management and is a trustee of Denison University and the American Enterprise Institute.



John V. Faraci

COMPANY BRIEF International Paper (*internationalpaper.com*; IP) is a global leader in packaging and paper with manufacturing operations in North America, Europe, Latin America, Russia, Asia, and North Africa. Its businesses include industrial and consumer packaging and uncoated papers. Headquartered in Memphis, Tennessee, the company employs approximately 65,000 people and is strategically located in more than 24 countries serving customers worldwide.

What makes this company so special and how has it continued to evolve?

It's the ability of the company to embrace change and continuity. Any company that will succeed in any industry will need core values that they carry through from generation to generation, but also the ability to change in advance of trends and not behind the curve.

How do you maintain an innovative edge at this size and scale?

We don't live and die by innovation. The world has had paper for 2,000 years – fundamentally, it's made the same way.

However, having the competitive edge in the organization is called "Play to Win" where you're constantly benchmarking yourself against what the competition is doing, and setting a performance culture where you're always raising the bar.

It starts with me. We believe in setting stretch goals. Those goals tend to be more short-term, but having a play-to-win mentality along with setting stretch goals enables you to keep on pushing yourself in the organization to achieve things you haven't done before.

Is IP a product-focused company or a solutions-focused company?

We're more of a product-focused company. We're a manufacturing company and if we aren't world-class at that, we're not going to perform well.

But only being good at manufacturing doesn't distinguish you with customers and, eventually, shareholders. We also need to be good at the marketing/sales and customer side of the equation, and that's where we create solutions – it's not just bringing a product to a customer but coming up with a solution.

For example, in our food service business, we came up with the first compostable hot-drink cup for customers like Starbucks, McDonald's, Green Mountain Coffee, and Ritz-Carlton Hotels, all who have a deep interest in sustainability. This is a way of innovating.

We also came up with a corrugated package for a seafood processing company that used paper to replace Styrofoam as an insulating material, so they could pack fish with ice, ship it long distances, and then recycle the box.

We start with the product and then work at making it better for customers and, in many cases, it means using less packaging.

Will there always be a need for paper and packaging?

I would separate paper from packaging. Over 90 percent of goods that travel around North America within supply chains travel in a corrugated package, so it's pervasive in its use.

As countries like India industrialize and urbanize, and their GDP grows, more goods and services get produced, and more things get purchased as the number of people with discretionary income increases. The global demand for packaging will continue to grow because it's a very competitive and functional product.

Packaging growth is not at 10 percent, but it's in line with GDP growth in developing parts of the world, and it's a bit less than GDP growth in developed parts of the world.

Paper is a different story. In North America, it's declining at about 3 to 4 percent a year. It

won't decline to zero because it has so many uses. We manage the business differently in North America than in Latin America, where the market is growing at 3 to 4 percent per year. It won't grow forever at those rates but, in emerging markets, paper demand increases with economic growth.

Paper, in some ways, is also affected by electronic media. The model has shifted from print and distribute to distribute then print as you apply digital technology and digital printing.

If you look at any economies other than Western Europe and North America, the paper consumption per capita is very low. As economic activity rises, paper consumption rises, but it will probably never rise to the level that it rose to in North America.

Does the U.S. still offer growth opportunity and how concerned are you about emerging market challenges?

Developed markets like Europe and the U.S. are starting to grow at double their previous speed. The emerging markets have slowed to the point that it feels like they've stopped because they had been growing so rapidly.

If the U.S. grows at 2.5 percent and China keeps growing at 7, they're going to lap the U.S. pretty soon. The U.S., however, will still be the predominant economy in the world for a long time. This is not based on straight GDP numbers, because China will surpass it, but the U.S. will remain ahead in GDP per capita.

To compete in that environment, businesses need to understand the different strategies necessary to compete in markets that are growing as well as in markets that are large but have matured, and then adjust their business strategies to the cultures that they're operating in. We make the same product in India that we do in the U.S., but the go-to-market strategy is different because the cultures are different.

Is it hard to differentiate strictly on product?

Our business is close to a commodity business. There are small specialty niches in the paper business where product differentiation is the competitive advantage, but we don't compete in those.

We need to have a cost advantage, but we also need to work to figure out ways to compete on something other than price, so we don't end up a price-taker in the market every day.

With corrugated boxes, for example, very few customers in North America buy exactly the

same box. That results in a number of ways that you can differentiate yourself. But, fundamentally, all of us who compete can make the same product with the same equipment. It's a question of who can create the best cost structure because they do it better, and then who has a go-to-market strategy and a sales organization that can sell effectively.

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Has the U.S. lost its edge in the manufacturing sector and can it compete globally in that area over the long term?

We have recently seen a sea change in the competitiveness of U.S. industry, principally driven by what is happening in energy.

Some of our customers realize that outsourcing to places like China worked for a while, but as Chinese labor costs go up and the costs of the supply chain remains fixed, locations like Mexico, and even the U.S., look better. This has led to an onshoring phenomenon taking place.

We have a great example in IP. We spent \$100 million on a factory in Virginia that used to make paper. We had to close it during the recession and have since reopened it as a factory that now makes an absorbent product for baby diapers and adult incontinence products. One hundred percent of this production is exported to Asia or Europe, and we're a low-cost producer.

How critical is it to build a diverse and inclusive workforce?

If you have any desire to be a successful global company, you have to build a diverse workforce. You have to be able to compete in the war for talent. It's not a discretionary choice but a must-do to ensure our success.

The most difficult part is not recruiting global talent; it's retaining it. For us, this has to

be based on creating job opportunities for people, providing a work environment that makes them feel they're appreciated and recognized, and ensuring the reputation of the company is one they're proud of.

When we ask employees not why they came to IP but why they stay, the feedback is reputation, job opportunities, and work environment.

Our culture is performance-oriented. We set goals, but we value and appreciate what people do so we listen to them and, when people do a good job, we recognize them.

How critical is corporate responsibility to the culture and do those areas of focus align with the business?

Community involvement has evolved over time but, for us, it starts with the fact that our facilities are based in small towns. Our factories have to be where the trees are in rural areas of places like Alabama, Mississippi, Louisiana, and Siberia, Russia, as opposed to being in urban cities. This leads to an automatic connection to communities and, since we used to be the largest private landowner in the United States and still are the largest fiber user, we can't be in business unless we're wanted by the communities in which we operate.

We're right at the center of sustainability – we use fiber, energy, and water, which are three things everyone on the planet is always talking about. We have no choice but to be involved in the discussion and show stakeholders that it's something we care about.

Our community involvement activities tend to be centered around environmental education, literacy, and supporting communities where we operate and employees who volunteer for various activities within those communities.

You're based in Memphis, Tennessee. What are some of the merits that the state provides for businesses?

Tennessee is pro-business. It's a great place for International Paper to be headquartered since 75 percent of our revenues come from the U.S. It's centrally located, and we can move people in and out easily. It also has a competitive cost of living. One challenge in Memphis is that air service in and out is difficult. But in terms of being a great place to live and where we can bring employees from around the world, it's excellent. Memphis and the Tennessee community want business. There is also no state income tax in Tennessee, which is a plus.

Is the message understood about the opportunities that a career in this industry can provide?

It could be better understood; we have to create a set of job opportunities and work experiences that get people excited about joining a company like International Paper. Our work is heavy manufacturing that runs 24/7 and working in factories in the summertime can certainly get warm. But we're proud that we're now bringing more women into manufacturing; we consider ourselves a leader in that space.

You have personally experienced moving through different roles at IP on your

road to this role. How critical was that experience for you? How do you define the key traits of a successful CEO today?

Career development is critical. At International Paper, we talk about learning agility. The way you develop leaders is to put them in situations they have never been in before and see how they figure it out.

We have a simple talent assessment model at IP, which says that your potential gets defined by three things: Can you get results? Can you be a leader? Do you have a big gas tank, which means capacity?

There were times in my own career when I thought I wasn't moving up, but I was getting the chance to learn things I wouldn't have if I remained in one function and one business.

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The CEO today has to set the tone at the top. It's important to realize you're the face of the company, but it's not about you – it's about the company. You have to create a culture that develops people, and the CEO has to set performance expectations and priorities. Beyond that, you have to look to your leadership team to give you a lot of input and you have to listen to what they're saying, and let them execute.

Do you ever take time to reflect on your successes or are you always looking toward the next challenge?

You have to do both. You have to be realistic and when you're not winning, you need to admit it. You need mechanisms to let people know how they're doing and that the leadership appreciates them. Then you need an incentive system that recognizes them for their work through a pay-for-performance and talent development process that reinforces that the people who get results succeed, and those that don't get results don't succeed. ●